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Wisconsin College Savings Program Board

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College Savings Program Board Investment Advisory Committee Meeting

State of Wisconsin Department of Administration Building
101 E Wilson Street; Madison, Wisconsin

December 7, 2015 -- 10:00 a.m.

Minutes

I. Call to Order and Roll Call at 10:00 a.m. (Rob Kieckhefer, Chair)

Present: Rob Kieckhefer, Michael Wolff, Bill Oemichen, Annoesjka West, Paula Smith, Jeremy Thiessen, Shirley Yang and Jim DiUlio; on the phone: Paul Zemske, Brian Griggs, and Josh Denin.

II. Agenda Approval and Public Posting Report (Chair, staff) Meeting has been posted properly. The Committee decided to address the New Business items (2016 plan adjustments) before the Old Business (3rd Quarter Review). Motion by Oemichen, second by Wolff, to approve agenda. Approved by voice vote.

III. Approval of Committee Meeting Minutes for August 17, 2015

[Following this committee's meeting on August 17, a quorum was not present at the full Board's meeting later that day due to vacancies. The Board could not accept the committee's report.] Present were Chair Ken Johnson, Kieckhefer, Oemichen, Wolff, West, Yang, Thiessen and DiUlio. At that meeting, the committee approved its earlier minutes, also noting Oemichen and Kieckhefer were present on May 18. West reviewed the Second Quarter performance numbers and did not have any recommendation for Watch List candidates at this time. Thiessen previewed some of the suggested changes for the Edvest plan. The bank CD portfolio continues to have difficulty placing certificates; about 40% is held at banks, less than the 80% goal, affected by low interest rates and loan demand. The situation will continue to be monitored. The committee received an update on the national state of ABLE 529A accounts for children with disabilities. Federal agencies are working on final rules. This summary will be incorporated into the minutes of the next meeting.

IV. Public Presentations: none requested in advance, none present at meeting

V. Old Business (to follow New Business)

VI. New Business

A. Proposed 2016 adjustments to asset allocations and underlying funds.

Jeremy Thiessen reviewed the annual process TIAA performs on their 529 plans. For Edvest at this time, they are not recommending any changes to the multifund allocations or their glidepaths for 2016, and also no changes to the single fund or balanced portfolios. From this group's previous discussions, however, both the five active and five passive risk-based portfolios could be reduced to three choices each. And the US Equity Index could be absorbed into the large cap stock index (SP 500). The Social Choice option could also be merged into the large cap if desired.

The 50:50 Moderate risk-based choices would remain unchanged, and the 90:10 and 70:30 accounts would move to a new 80:20 option, as well as the 30:70 and 10:90 accounts to a new 20:80 option. The move would be initiated by the plan and not count as one of two allowed annual owner changes. Fees would remain relatively the same, plus or minus one or two basis points. Anticipated action would be early April, following disclosures and notices.

Discussion then moved to the Social Choice option. The category is relatively new to 529 plans, only about 8 states currently offer them. But some have been mentioned in Morningstar ratings reports as an attractive choice. The consensus of the committee was to keep and watch the option for another year.

A brief explanation of mathematical modeling processes followed.

Motion by *Oemichen*, second by *Wolff*, for the Edvest plan to reduce each of the risk-based multifund portfolios from 5 to 3 and to merge the US Equity Index into the Large Cap Stock Index portfolio. Approved by voice vote.

Paula Smith and *Paul Zemske* then began Voya's recommendations for Tomorrow's Scholar plan. They have four main recommendations: reducing the risk-based options from 9 to 5 for simplicity and to reduce operational costs; some internal strategic changes within the glidepath; adding a mid cap value option, and removing the Templeton Foreign Equity option and merging it into Voya Multi-Manager International Equity.

West was concerned about the Templeton move, in light of its distinct category and larger amount of assets than in the multi-manager option. Streamlining she said is good, but maybe not here. Some thoughts were discussed about having both growth and value foreign options for advisors. *Kieckhefer* suggested we table the Templeton action now and ask Callan and Voya to come up with another recommendation.

Zemske then introduced the proposed mapping of the 9 risk-based options to 5. The resulting options would be: 95% and 85% equities, continuing unchanged from before; a renamed 65% Balanced option, to also receive the current 70% Growth accounts; the existing Conservative Plus at 35% equities, to receive the current 55% and 45% options; and the 10% Ultra Conservative option to receive the 25% option. All moves would result in equal or lower exposure to equities for existing accounts. Discussion continued regarding two of the planned moves: moving a 55% equities investor to a 35% option, and a 25% to 10%--a greater change than adjusting the exposure up 10%. The consensus of the group was to instead map the 55% accounts to the 65% option and the 25% account to the 35% option, both moves closer to the investors' original intent.

Within the strategic asset allocations, the recommendation is to slightly increase US large cap allocation from US mid cap, decrease allocation to emerging market equities, and to reduce duration with senior loans. The equity/fixed income ratios in

the glidepath stay the same, but the allocation some underlying funds change from 0.5 to 6% within each portfolio.

Question to Callan, is there a concern that one plan is reducing exposure to high yield and the other is not? *West* replied that based on each group's market expectation, their recommendations are different but reasonable.

Zemske then explained the impact of the proposed adjustments on return expectations and duration. Impact on participant fees will be minimal, up a basis point at the upper ages and down one or two at the younger ages. Stress tests indicate the model keeps pace with tuition inflation estimates. A short discussion followed regarding college costs, inflation variables, and student financial aid. *Voya* is developing additional college cost forecasting tools.

Motion by *Oemichen*, second by *Wolff*, for the Tomorrow's Scholar plan to reduce the 9 risk-based multifund portfolios to 5, adjust underlying funds for the multi-portfolios, and to add a multi-manager mid cap value option to the plan. Approved by voice vote. The moves could be implemented in late January.

Bank CD Portfolio – *DiUlio* reported that we currently have \$9.8 million in certificates of the approximately \$26 million portfolio. The good news is that recent purchases are at 80 to 90 points.

VII. Old Business

- A. **Third Quarter 2015 Investment Review** *Annoesjka West* made a few comments on the markets before reviewing the Tomorrow's Scholar plan. Some of the portfolios have struggled for the quarter, while others are leading most peers. *Callan* recommends that the Columbia Limited Duration Credit portfolio be placed on the Watch List, due to underperformance relative to its peers. Discussion then moved to the *Voya* Global Real Estate portfolio...close to Watch status, for similar reasons. She then reviewed the *Edvest* plan performance, noting that most portfolios are following their benchmark and none have triggered concerns at this time.

Motion by *Wolff*, second by *Oemichen*, to recommend placing two Tomorrow's Scholar funds on the Watch List: Columbia Limited Duration Credit and *Voya* Global Real Estate, both for underperformance relative to their peers. Approved by voice vote. [Note: due to lack of quorum at the later Board meeting, this recommendation was not enacted.]

VIII. Discussion Items for Future Committee Meetings

- IX. **Announcements** The February meeting date will be scheduled to accommodate attendance by other state staff, and those traveling to Madison.
- X. **Adjournment** Motion by *Wolff*, second by *Oemichen* to adjourn at 12:02 p.m. Carried.