



PO Box 7864
Madison WI 53707-7864

Wisconsin College Savings Program Board

T 608-264-7899
F 608-266-7645
edvest@ost.state.wi.us

College Savings Program Board Investment Advisory Committee Meeting

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

February 24, 2017 -- 10:00 a.m.

Minutes

I. Call to Order and Roll Call at 10:08 a.m. (Rob Kieckhefer, Chair)

Present on the phone: Rob Kieckhefer, Michael Wolff, Derek Drummond, Annoesjka West, Shirley Yang, Paula Smith, Josh Dennin, Mike DeFeo, Paul Zemske, Adriana Alvarez, Chris Lynch, Jeremy Thiessen, Catherine Burdick, Glenn Friedman, Traci Mitchell, Dave Erdman, Jessica Fandrich, and Jim DiUlio.

II. Agenda Approval and Public Posting Report Meeting has been posted properly.

III. Approval of Minutes for September 20 & 28, 2016, and February 21, 2017 Motion to approve minutes by Wolff, second by Drummond, carried

IV. Public Presentations – None requested, none present

V. Old Business

- A.** Agenda adjusted to move item C. up to this time, to accommodate the schedule of Traci Mitchell of TIAA Life Insurance to speak about the elements of their Principal Protection portfolio. Shirley Yang and Jeremy Thiessen then reviewed TIAA's latest proposal to replace part or all of bond mutual funds in the age-based portfolios with the funding agreement from TIAA Life. Thiessen took the committee through the rationale for the recommendation. Committee discussion then moved to current issues, for example does TIAA expect 3 more increases from the Fed this year?

Questions then were directed to Mitchell regarding how the funding agreement's crediting rates were set for Wisconsin and the other TFI-managed programs. She said the effective yield, portfolio quality, and other factors set a base for the total portfolio—not separated into each state. When questioned why Wisconsin's applied rate was lower than most of the others, she acknowledge that a 40 bps difference between states. Chris Lynch added that contract and reset dates and other factors such as marketing expenses figure into the rates.

Concerns were raised by committee members regarding the opacity of the rate process, along with the multi-year run-off if the contract was to be terminated. Could that run-off be a negotiated item if we decided to change? Lynch said that in some cases that has happened. Discussion then moved to the minimum crediting rate and TIAA's graph showing rate history at other states, both increases and decreases in the same years.

At this point, Bill Oemichen joined the meeting.

Annoesjka West then reviewed her earlier analysis of pros and cons of the proposal, including other fixed income options with higher returns, levels of volatility, and transparency of the underlying investments. The 40-50 bps premium seems high compared to other stable value products, along with the crediting rate. She also mentioned the loss of liquidity and flexibility with the 4-year lockup, and tied to a single insurance company.

Asked for a recommendation, West said it is more of what the group sees as a balance between all the factors—not a simple decision.

DiUlio mentioned the points discussed at the earlier meetings, regarding open architecture, active vs. passive management, and effect of contract terms for the next program manager.

Wolff requested a brief closed session at the end of this meeting for the Committee to discuss this matter further.

Drummond asked if there is flexibility in the rate, or the terms of the contract—would there be a difference in 5-year financing vs. 2 or 3 years. Lynch replied that the New York Insurance Board may not allow different terms.

- B.** Callan's West reviewed the fourth quarter 2016 market activity, following the elections and the tax change possibilities (see the executive summary). She then went into the details of each plan's portfolio, underlying investments, and performance to benchmarks.
- C.** Investment Watch List – there are no changes to the six Tomorrow's Scholar underlying funds currently on watch. However the Templeton Foreign fund on the list may be eliminated with the plan's proposed lineup changes to be considered later today.
- D.** Paul Zemsky of Voya again reviewed the proposed 2017 changes to the Tomorrow's Scholar plan, highlighting three themes: removing International bonds, adding commodities as an underlying investment, and managing credit exposure. He answered questions regarding the addition of a bond index along with managed bond funds, and the committee held a short discussion on the addition of commodities to the mix.

Motion by Oemichen, second by Wolff to accept the Tomorrow's Scholar lineup adjustments as proposed. Trades to occur after notice at the close of business April 28. All aye, carried.

Closed session: The Chair called the Committee into closed session at 11:40 a.m. to discuss the investment of public funds, as allowed by statute. Program staff invited to remain with committee. Roll call: Kieckhefer, aye; Oemichen, aye; Wolff, aye; Drummond, aye.

At 12:05 motion by Wolff, second by Oemichen to return to open session. Roll call: Kieckhefer, aye; Oemichen, aye; Wolff, aye; Drummond, aye. No public announcement following closed session.

VI. New Business - none

VII. Adjournment Motion by Oemichen second by Wolff to adjourn at 12:10 p.m. Carried.