College Savings Program Board
Investment Advisory Committee Meeting

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

May 31, 2017 -- 10:00 a.m.

Minutes

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

Present or on the phone: Bill Oemichen, Rob Kieckhefer, Michael Wolff, Derek Drummond, Annoesjka West, Shirley Yang, Paula Smith, Vivian Tsai, Jeremy Thiessen, Halvard Kvaale, Catherine Burdick, Jay Risch, Greg Reiman, Dave Erdman, Jessica Fandrich, Jim DiUlio, Dave Mancl, and Derek Jorgensen.

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

III. Approval of Minutes for February 21, 2017 Motion to approve minutes by *Kieckhefer*, second by *Oemichen*, carried.

IV. Public Presentations – None requested, none present

V. Old Business

Agenda order was modified. Annoesjka West of Callan will be arriving shortly due to flight delays; the Committee took up item *'D. Update on proposed changes to Edvest plan, from previous meeting'*

D. Discussion resumed on the committee's postponed action from February on TIAA's proposal to include Principal Plus in the multi-fund portfolios, replacing some mutual fund allocations. Initial question has anything in the last three months changed the recommendation? *Thiessen* responded no, that TIAA's recommended mix of the insurance funding agreement and mutual funds are valid to manage duration. He said further information on the Fed's measured pace on interest rates shows much of that has been priced into the market. The key points for the suggestion are reduced duration, along with a stable and attractive yield.

Question from *Wolff* regarding other states with renewals or resets of the TIAA Life funding agreement. *Thiessen* responded that three states were reset on April 1, with increases of 30 to 50 basis points, depending on expense factors; one of the smallest states had the largest increase. He said he could get some estimates if the plan decided to take the recommendation. Comments by *Oemichen* that varying rates among the contracted states were an issue discussed at the last meeting, with transparency in the rate setting process an issue. He expressed his concern about Edvest accounts owners being treated equitably when compared to other states. *Thiessen* responded that the TIAA states without the funding agreement were not as well off, considering the money market outlook and the volatility of short term bond funds.

DiUlio said he has been collecting information on similar investment products for reference and noted that some require only a 30 or 60-day period if the contract is not underwater, instead of a four-year tail as proposed. *Wolff* asked if the timeframe of the contract is negotiable. *Thiessen* said that would be an issue with state insurance boards, both New York and Wisconsin.

Drummond asked what would be the cost of a five-year credit default swap on TIAA versus the insurance product, what would be the better deal for our participants. Thiessen will follow up. *Wolff* asked about how the insurance contract is stratified, are we senior insured parties. The state would have priority over creditors.

At this point *West* arrived and the agenda went back to item '*A. Quarterly investment review*'

A. First Quarter 2017 Investment Review. Callan's *West* reviewed the first quarter 2017 market activity, there are very strong markets across the board even with a lot of uncertainty with issues going on in North Korea, Syria, the French elections. GDP was down and disappointing, however Japan and Europe saw positive GDP growth. Inflation has started to pick up. Investors are looking more for safety in the high performing technical stocks, (see the Executive Summary). She then went into the details of the Tomorrow's Scholar and Edvest plan portfolios, their underlying investments, and performance to benchmarks.

The Watch List discussion will come after the following report on an underlying fund

C. CBRE Global Bond Fund. *Halvard Kvaale* of Voya began his report stating that they spent a significant amount of time evaluating and meeting with them in their offices last month, concerned with disappointing performance, the strategy has performed outside the band of expectations given their investment process and philosophy, and has underperformed the index. Clarion had instituted changes to the strategy as a result of the underperformance and Voya's inquiries, initiating a very active system of risk monitoring, and created a tool to place into their process to monitor performance. Another major concern with Clarion is the significant outflows of this strategy over the last few years, warranting a very close watch on the strategy to be sure that they maintain the assets, and the resources to maintain their team, and infrastructure. He related that Voya usually outlines a 9 month period for a manager on watch where certain things improve. The things they will monitor at Clarion are: improved index, peer relative performance, fewer smaller active weights, along with better conviction on their stockholdings and reduced small positions, and evidence that the improved risk management process that they are putting in place is yielding better results, and better risk factor exposure.

Response started with *West* asking if this is the only REIT on their platform. Yes replied *Kvaale.* Questions then moved to mutual fund and institutional outflows, even though the fund is in the $3 to 4 billion range, large in the REIT space. Currently Tomorrow's Scholar assets are about $30 million. *Kieckhefer* expressed concern about the outflows in real estate in a rising interest environment. *Kvaale* responded that there are still substantial assets in the fund and the tight peer group in this sector shows little difference between the good and poor performers in any period. Clarion has a stable organization which is a positive. *Oemichen* commented that while our watch process measured over time, but sometimes the tension could shorten the time to act. *Wolff* added that REITS and A-level malls are a concern as retail has struggled over the last year. *Kieckhefer* felt it better to act now than wait until the December review.

Motion by *Kieckhefer*, second by *Wolff* to move out of the Clarion Global Real Estate Portfolio. All aye, carried. *Smith* will come back with some recommendations for alternative funds, adding that to comply with the required notices to participants and considerable expense of doing so will require some thought about the effective date of change.

D. Investment Watch List – No changes to the list from the last quarter, with the exception of the Templeton Foreign Fund in Tomorrow's Scholar, which was eliminated from the plan lineup in the recent allocation changes. The five remaining Watch List funds are; the Columbia Limited Duration Fund, Voya Large Cap Value Fund, Voya Clarion Global Real Estate Fund, BlackRock Global Allocation Fund, Voya Multi-Manager Emerging Markets Equity Fund. *West* recommends no changes.

VI. New Business

Fee Review – Wisconsin College Savings Plans, prepared by Callan Associates
West took the committee through their research of 529 plans regarding Administrative Fees and Investment Management Fees (see the report). In summary, the plans fare well against their peers.

The Wisconsin plans do not charge residents account fees, while 41% of other plans do. Another highlight of both plans is lower administrative fees; Edvest is of 8 bps compared to direct plan average of 25 bps and median of 20 bps. Tomorrow's Scholar 18 bps all in (management fee and state fee) is less than the 22-25 bps. The permitted Edvest state fee on assets has been waived for many years, *Wolff* said, with the Tomorrow's Scholar state fee covering the expenses of both plans. Kieckhefer asked how large the surplus was for the fees collected over the years. *DiUlio* replied that is about $14 million, in a fund that does not lapse. *Kieckhefer* then asked if some of that could be used for participant fee reduction. *DiUlio* responded that the balance is a reserve fund since the 529 program is self-supporting, and in the event of legal defense or catastrophic event it is an available source. However, some projection could be done this summer to see what would be available while still maintaining adequate reserves. Periodically we have checked with legislators who have said the balance is appropriate for the large amount of assets we manage and the hundreds of thousands of account owners.

VII. Adjournment Motion by *Oemichen* second by *Wolff* to adjourn at 11:53 a.m. Carried.