



State of Wisconsin
Department of Financial Institutions

Scott Walker, **Governor**

Jay Risch, **Secretary**

**MINUTES OF COLLEGE SAVINGS PROGRAM BOARD'S
INVESTMENT ADVISORY COMMITTEE**

A meeting was held at the Department of Financial Institutions, 201 West Washington Avenue, Madison, Wisconsin, on Wednesday, November 29, 2017 at 10:00 a.m.

November 29, 2017 -- 10:00 a.m.

Minutes

I. Call to Order and Roll Call at 10:09 a.m. (Rob Kieckhefer, Chair)

MEMBERS PRESENT: *Rob Kieckhefer, Bill Oemichen, Michael Wolff, and Derek Drummond.*

OTHERS PRESENT: *Annoesjka West, Paula Smith, Halvard Kvaale, Paul Zemsky, Adrianna Alvarez, Glenn Friedman, Jeremy Thiessen, Shirley Yang, Vivian Tsai, Catherine Burdick, Greg Reiman, Dan Conti, Jessica Fandrigh, and Jim DiUlio.*

II. Agenda Approval and Public Posting Report Motion to approve agenda by *Oemichen*, second by *Wolff*. Motion carried. Staff reported that the meeting has been posted properly.

III. Approval of Minutes for August 22, 2017 Correction to reflect that TIAA's Pam McNulty was present, not Vivian Tsai. Motion to approve minutes as corrected by *Wolff*, second by *Drummond*. Motion carried.

IV. Old Business Information only – The current Statement of Investment Policy and Objectives is dated April 2017. Since that time, the program has been moved from the Department of Administration to the Department of Financial Institutions, along with some other editorial changes. An updated version will be available for approval at the February or May meetings.

V. New Business – with the consent of members present, items will be taken as d., c., a., and then b.

d. Proposed investment allocation and other changes to the Tomorrow's Scholar plan
- *Paula Smith* led the discussion of proposed 2018 changes to the investment lineup and mix for Tomorrow's Scholar plan. (See Voya's deck as a reference). *Paul Zemsky* reviewed the first part of the deck, mentioning that their multi-asset team investment process remains the same, a few additions but no major changes to the team, and no changes to the glide path assumptions. *Halvard Kvaale* discussed the manager selection process, also commenting on the complexities with making comparisons of our nine-step glidepath to the simplified Morningstar 529 peer group, just high, medium, and low. Voya proposes no major changes in asset allocations, other than some percentage adjustments to add small

cap and emerging markets equity and core fixed income in some of the mixes. No options will be added or dropped. Recommendations based on their capital market research, to be published before the end of the year.

Callan's *Annoesjka West* asked are any of the managers were on Voya's internal watch list. The Clarion Global Real Estate fund is the only one affecting this plan, they responded, and they continue to work very closely with them. Voya team members have met at Clarion a number of times and have been impressed with the improvements they have made, especially the last quarter. It is Voya's opinion that it is worthwhile to wait for them to come around, as Clarion has changed its process, and discipline tools, showing significant improvement.

Kieckhefer asked for comment about the Fed doing 5 increases in the next 15 months. *Drummond* said that SWIB is aligned, and *Zemsky* responded that there were both upside and downside risks. *West* asked about the decrease in the limited maturity part of some portfolios, *Zemsky* replied that was to help duration after their earlier calculations.

Motion to approve Voya's proposed lineup adjustments for Tomorrow's Scholar to be effective in January 2018, as presented, by *Wolff*. Second by *Drummond*. Motion carried.

c. Proposed investment allocation and other changes to the Edvest plan – *Jeremy Thiessen* stated that TIAA's recommendation for Edvest for 2018 is to remain with the existing structure and recommendations as in 2017. (See TIAA deck as a reference). TIAA has been focused on the bond side of the portfolio, it is a robust bond portfolio, he added, and they want to provide broad exposure for the direct program while keeping a balance.

Thiessen also mentioned that Templeton Global Bond was on TIAA's internal watch list. Also, Frank Van Etten, formerly of Voya's multi-asset team will be joining Nuveen heading up a new team there. *West* asked his thoughts on the TIAA Bond Plus fund. *Thiessen* said at his time he recommended status quo, leaving the investments unchanged. *Oemichen* reminded TIAA not to be reluctant to bring recommendations to the Board; we have a tradition of being active in our management and would like to see recommendations.

a. Third Quarter 2017 Investment Review – *Annoesjka West* of Callan Associates reviewed the third quarter returns, as it continued to a be strong 2017 market activity, GDP growth was up 3.0%, and even with the results from the hurricane in Florida, results were strong. (See Investment Advisor Report and Executive Summary). Consumer spending is driving GDP growth, however inflation continues to be low. Valuations are high and there has been a strong run up in the market. The Russell 2000 is up over 20%, and the S&P 500 is up over 18%. Emerging markets are coming back very strong and are up over 22% for the year. Valuations abroad are more attractive than valuations here. The S& P 500 has 13 new all-time highs for the quarter. Commodities were positive, gold is up, oil is up, China, Russia, and Brazil, did very well because they are commodity driven countries. Facebook is up 48% YTD, Apple 34.7% YTD. On the small-cap side healthcare was one of the best performing sectors.

b. Investment Watch List – Callan recommends no changes to existing watch list. *Kieckhefer* started the discussion that three funds have been on the watch list for some time we should make decisions on their future and include the Board in the discussion. He asked Voya to propose alternatives for the three—Columbia Limited Duration, Voya Large

Cap Value, and Voya Clarion Global Real Estate—and the Committee would submit them to Callan for review and recommendations. If Callan decided there was nothing better at this time, we would accept that. That will be reported out the Board meeting later today. Motion by *Oemichen*, second by *Wolff* to start the analysis the existing position of these three funds, explore alternatives, and make a final analysis. Motion carried.

VI. Announcements - The next meeting of the College Savings Program Board and the Investment Advisory Committee meeting will be held on February 28, 2018. *Oemichen* asked for Board photos to be taken at this meeting.

VII. Adjournment Motion by *Oemichen*, second by *Drummond* to adjourn at 11:42 a.m. Carried.

If you require an interpreter, material in alternate formats, or other accommodations to access this meeting, please contact the Department of Financial Institutions, College Savings Program at (608) 261-7899.

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