



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, 4822 Madison Yards Way, Madison, Wisconsin, on Wednesday, November 28, 2018 at 10:00 a.m.

November 28, 2018 -- 10:00 a.m.

Minutes

I. Call to Order and Roll Call at 10:05 a.m. (Rob Kieckhefer, Chair)

MEMBERS PRESENT: *Rob Kieckhefer, Michael Wolff, Bill Oemichen* was delayed by travel and joins the meeting at 10:40 a.m.

OTHERS PRESENT: *Paula Smith, Shirley Yang, Jeremy Thiessen, Glenn Friedman, Vivian Tsai, Catherine Burdick, Felicia Bennett, Steve DiGirolamo, Greg Reiman, Jessica Fandrich, Halvard Kvaale (phone), Paul Zemsky (phone), and Jim DiUlio.*

II. Agenda Approval and Public Posting Report Staff reported that the meeting has been posted properly.

Chair *Kieckhefer* noted that *Oemichen* will be delayed. While waiting, those present welcomed *Felicia Bennett* and *Steve DiGirolamo* of Wilshire Associates to the group. They recently started their four-year investment advisory consulting contract for DFI and the Board. Conversation then moved to history of the program, current roles of those at the meeting, format of the performance report prepared by Wilshire, and Morningstar's current investment class categories.

Oemichen joined the meeting establishing a quorum at 10:40 a.m.

III. Approval of Minutes for August 22, 2018. Motion to approve minutes by *Wolff* second by *Kieckhefer*. All aye.

IV. Old Business Portfolio and other Details of Principal Plus funding agreement.

Shirley Yang and *Jeremy Thiessen* delivered a report requested by the Committee at its February meeting. Included in the report was an overview of stable value and related investment products, and also the TIAA Life Funding Agreement used by both plans in the program. Further data was shared of stable investments used in many 529 plans. Discussion also included concerns raised by an earlier legal opinion regarding 529s using

stable value funds as an investment portfolio. The structure of the funding agreement was reviewed, along with its role in the design of the plans. *Theissen* then outlined some future considerations for the stable value component that TFI is researching. When asked for a preliminary opinion, *Bennett* added that more details about the underlying portfolios and opacity would be helpful. (see the presentation deck)

V. New Business

a. Third quarter 2018 Investment Review

The third quarter continues the five-year run, *Bennett* reported as she reviewed the capital market activity. She then referred to tables and graphs in the Wilshire executive summary, offering comment regarding employment, GDP, consumer confidence, interest rates, and others measures of the domestic economy. She then reported on a variety of non-US market and economic activity. (refer to the Wilshire report) Discussion with the committee then moved to interest rates, performance of equity sectors, commodities, recent tariffs, and fixed income world.

Due to the time remaining for other presentations and action today, the committee will pass on the individual portfolio investment review. All the data is contained in the meeting materials.

b. Watch List update, recommendations to Board Staff and Wilshire are recommending no changes at this time; a review of watch triggers will be done and reported to the committee at the next meeting.

c. Proposed investment allocation and other changes to the Tomorrow's Scholar Plan line-up for 2019 (Voya) *Paul Zemsky* and *Halvard Kvaale* presented their annual review and recommendation for 2019. In sum, they propose a slight reduction of equities in most risk based portfolios. They will do this by increasing large cap and international positions by reducing mid cap and emerging market equity, adjusting fixed income for duration, eliminating high yield in all portfolios and adding global bonds in some. Further, they propose eliminating some underlying and standalone funds for simplicity and other factors. *Kieckhefer* asked if Wilshire agreed with the proposed adjustments; *DiGirolamo* replied that they have had multiple conversations with Voya and are comfortable with their reasoning and decisions.

Single funds to be removed, with their assets mapped to related investment portfolios include: Columbia Limited Duration Credit, Voya GNMA Income, TIAA-CREF Bond Index, Voya Global Perspectives, and Voya Global Real Estate. Within the multi-asset portfolios, replace Voya Global Real Estate with Brookfield Global Listed Real Estate I in the corresponding portfolios.

Voya also asks that the four funds on watch be removed, due to improvements in performance, management, and other evaluations that would suggest removal.

Question by *Wolff* as to expenses as a result of these suggestions. *Smith* replied that the intention is keep fees flat, but some portfolios will raise or decrease the underlying fee by a few basis points. Over time however, she added, the plan's fees have generally decreased.

Kieckhefer asked *Wilshire's* thoughts the watch list request; *DiGirolamo* replied if the watch triggers change as a result of the upcoming review, these fund may be seen in a different perspective. *Bennett* added that the quantitative review can be affected by relationship with peers and forward-looking confidence. Underperformance in some situations may still allow for removal from watch. In some situations, headwinds or style may affect how a fund is viewed, and whether the investment is within a strategy or is a separate option.

Motion by *Wolff*, second by *Kieckhefer* to replace the Voya Global Real Estate Fund with the Brookfield Global Listed Real Estate I Fund. All aye, carried.

Motion by *Wolff*, second by *Kieckhefer* to accept the broader recommendations from Voya on asset allocation adjustments and elimination of some portfolio choices, all to take place in January 2019. All aye, carried.

d. Proposed investment allocation and other changes to the Edvest Plan line-up for 2019 (TIAA)

Glenn Friedman presented the research and conclusions from TFI regarding the Edvest plan. He outlined the testing and analysis underlying the recommendation to continue with the existing asset allocations for the age based, risk based, and individual option in 2019. The current choices and glidepaths are consistent with their projections of tuition inflation, and are in line with best practices for asset allocation and diversification.

For information, *Thiessen* reported to the committee that TFI is considering ways to smooth the age based glidepaths and to also accommodate changes in the 529 marketplace. Transition to an enrollment based progression is being studied.

VI. Announcements

- a. Education, conference, and training opportunities for Board and Committee members. A 2019 schedule of events is being assembled; staff will send later.

VII. Adjournment

Motion by *Wolff*, second by *Kieckhefer* to adjourn at 12:25 p.m. Carried.