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, February 27, 2019 at 10:00 a.m.

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Minutes

I. Call to Order and Roll Call at 10:00 a.m. by Bill Oemichen for Chair Rob Kieckhefer, who is delayed in traffic.

MEMBERS PRESENT: *Bill Oemichen Michael Wolff, and Derek Drummond. Rob Kieckhefer* arrives at 10:10 a.m.

OTHERS PRESENT: *Shirley Yang, Glenn Friedman, Secretary Kathy Blumenfeld, Paula Smith, Paul Zemsky, Jessica Fandrich, Catherine Haberland, Vivian Tsai, Catherine Burdick, Matt Lynch, Steve DiGirolamo (phone), and Jim DiUlio. Treasurer Sarah Godlewski* arrives at 10:15 a.m.

II. Agenda Approval and Public Posting Report Staff reported that the meeting has been posted properly. The Committee agreed to take up item V. New Business before item IV. Old Business to accommodate schedules of presenters.

III. Approval of Minutes for November 28, 2018. Motion to approve minutes by *Wolff* second by *Drummond*. All aye.

V. New Business

a. Fourth quarter 2018 Investment Review

Rob Kieckhefer arrives at 10:10 and takes the chair. *Steve DiGirolamo* of Wilshire Associates began his report outlining the format of the Executive Report, with economic indicators, events and other data. CPI during the quarter tracked as expected, while unemployment remains low. The Wilshire 5000 domestic equities were down 14% for the quarter, 5% for 2018 and the first negative year since the global crisis in 2008. Large caps beat small caps, but growth underperformed value styles for the quarter. Volatility returned to more normal levels in 2018 for equities, following very low deviation in 2017—

the lowest in 39 years. We should expect volatility to continue in the coming months. On the fixed income side, most active managers underperformed the indices for the quarter and year.

Fast forward to this week in February, many sectors gained back most of what we lost in the fourth quarter. This volatility will continue to be a challenge for active management.

The committee asked a number of questions and *DiGirolamo* responded that the Fed may have one more raise coming in 2019. Regarding international markets, he said many say that a 50:50 mix of domestic and developed international equities makes sense while Brexit continues to be an issue. Retail investors may be returning to the markets—into passive investments—following some fearful behavior last year. Cash flows seem to be positive.

European markets remain a current concern, but China presents multiple long-term stories such as sustainable growth, trade issues, and other activities that may be disruptive due to its large size. The current outbreak of storms and severe weather will affect energy markets, which will in turn affect many other asset classes.

b. Watch List update, recommendations to Board

Due to a family emergency, *DiGirolamo* was unable to be at the meeting. In his absence, *DiUlio* presented his suggested reporting format from Wilshire for the program's investment, using a color-coded dashboard for peer comparisons. He also shared some earlier formats from two earlier investment consultants for comparison. At the end of 2017, six underlying investments fell into watch list consideration, triggered by trailing 5-year performance. Since then, two have been removed from the list, the emerging market fund due to rebounding performance, and the underperforming real estate fund was replaced with another fund in the lineup. However, with the recent market volatility, performance alone may not be the best measurement for watch consideration, he said. Risk measures, relationships with peers and other share classes provide a better picture. As an example, he showed that based on performance alone, a number of underlying investments and current portfolios could fall into watch status 'in error.'

Oemichen added that he and *Drummond* had seen other plan presentation formats that are easier to understand and could be used in our final version. *DiGirolamo* added that clarity would be important. *Shirley Yang* added that passive styles should reflect the difference monitoring active investments with regard to following benchmarks.

DiGirolamo was then asked if Wilshire had any current concerns with funds in either plan. He responded that there is nothing in the plans' investments regarding management or performance outside of reasonability to raise flags. Negative performance in some classes is as expected, in terms of markets for the quarter and year. Their recommendation is to not add anything to the three funds current watch list, and continue to monitor.

As the Watch List remains unchanged, no action is necessary.

Point was raised that the current three funds on watch have been there for some time and replacements should be considered.

Motion by *Oemichen*, second by *Kieckhefer* to ask program management and investment consultant to consider replacements, and report back to the Board at its next meeting. All aye, carried.

Wolff reminded staff and Wilshire of the statutory requirement of 'substantially similar' investments if changes are made.

c. **Bank CDs reporting at Bankers Bank**

Yang reviewed for the new attendees the history of the bank portfolio since the early days of Edvest and also the use of FDIC accounts in other 529 plans. Some plans are structured so the FDIC insurance passes through to the individual account owner; in Edvest, the insurance is made to the plan.

The current Bank CD portfolio holds about $51 million, but less than $10 million is placed in certificates at interested Wisconsin banks. As we are currently organized, each participating bank is limited to the $250,000 guarantee, although many could handle more. *Oemichen* added that a similar situation faced the credit union share draft portfolio before that was temporarily closed a few years ago. Finding a solution to do greater amounts at participating banks could increase placement to $40 million, *Yang* said. Finding a way to do the pass through insurance with the Edvest arrangement.

Blumenfeld asked if using that same model, could credit unions also return to the Edvest lineup. *Yang* replied that it could be possible, depending on the regulators. *Wolff* added that at the initial startup, Bankers Bank spent many meetings and letters with FDIC to get the current arrangement approved. Both FDIC and NCUA were concerned with making precedents at the time, although retirement system trusts were given exceptions, he added.

At present, Bankers Bank manages a CD portfolio at SWIB, but not attached to individual accounts. *Yang* added that one score ranking institutions serves as a risk guideline as to soundness if exceeding insured amounts. There are other savings plans, but not CDs used in other state 529 plans.

Motion by *Oemichen*, second by *Wolff* for staff to research other CD programs and enhancements at 529 plans using guaranteed investment and banks and credit unions and report back. All aye, carried.

IV. Old Business

The continuing discussion regarding Wilshire's suggestions regarding reporting formats and watch criteria were included in the New Business item.

VI. Announcements

a. Education, conference, and training opportunities for Board and Committee members: The SWIB Annual Investment Conference is coming up June 11. *Drummond* will pass along invitations for Board members. The Madison CFA Society conference is May 29. The Financial Planning Association of Wisconsin fall conference will be October 28.

VII. Adjournment

Motion by *Wolff*, second by *Oemichen* to adjourn at 11:40 p.m. Carried.