



State of Wisconsin
Department of Financial Institutions

Tony Evers, **Governor**

Kathy Blumenfeld, **Secretary**

COLLEGE SAVINGS PROGRAM

REGULAR COLLEGE SAVINGS PROGRAM BOARD MEETING
WEDNESDAY, DECEMBER 9, 2020

MINUTES

A meeting was held virtually via Cisco Webex conference call on Wednesday, December 9, 2020 at 9:00 a.m.

1. Call to Order and Roll Call

Chairman Bill Oemichen called the regular meeting of the College Savings Plan Board to order at 9:00 a.m., with a quorum present.

Board Members Present Via Conference Call

Secretary Kathy Blumenfeld, Board Chairman William "Bill" Oemichen, Senator Alberta Darling, Derek Drummond, Susie Bauer, Cassandra Krause representing Dr. Rolf Wegenke, James Zylstra, Sean Nelson, Ashleigh Edgeron, Kimberly Shaul, Linda Lambert, and Jessica Fandrich.

Others Present Via Conference Call

Steve DiGirolamo, Felicia Bennett, Paul Zemsky, Paula Smith, Halvard Kvalle, Shirley Yang, Glenn Friedman, Catherine Burdick, Vivian Tsai, Matt Lynch, Douglas Harrison, Cheryl Olson-Collins, Cody Kastorff, and Lucien Adams.

2. Approval of Agenda

The agenda was received, and staff reported that the meeting notice and agenda have been properly posted. Motion by Susie Bauer, second by Derek Drummond to approve the agenda.
Motion carried.

3. Approval of the minutes of the September 16, 2020 Board Meeting

Motion by Sean Nelson, second by Kimberly Shaul to approve the September 16, 2020 College Savings Program Board meeting minutes.
Motion carried.

4. Administrative Reports

- a. **Board Chair Comments** – Board Chairman Bill Oemichen discussed that the Edvest Plan reached \$4 Billion in assets under management (AUM) resulting in a decrease in program management fees by one basis point (bps) to 7bps.
- b. **DFI Secretary Blumenfeld Comments** – Secretary Blumenfeld reported on the Morningstar rankings for the Edvest and Tomorrow's Scholar programs. Morningstar took a hard look at the Advisor-sold plans which resulted in many downgrades. Despite their revised approach, we are taking this seriously and actively working toward improving our rankings.
 - Edvest retained a Bronze ranking and its Best-in-Class category ranking

- Tomorrow's Scholar was downgraded to a negative ranking
 - No plans were rated Silver or Gold

She also reported on the third quarter Saving for College Rankings. Although we understand these rankings are different than Morningstar, we are very proud of our accomplishments this year.

- Edvest increased in both the 3-year and 5-year quarterly performance categories
 - 3-year moved from 27th to 21st
 - 5-year moved from 20th to 15th
- The Advisor-sold plan show consistently strong results in the 3-year and 5-year quarterly performance categories
 - 3-year increased from 5th to 3rd
 - 5-year slipped slightly from 5th to 6th

Secretary Blumenfeld commented that the Legislative tax bill on SECURE Act - is still pending which allows Wisconsin to adopt Federal changes permitting for the following:

- Use of 529 plan funds for apprenticeships
- A one-time use of 529 funds to pay up to \$10k in student loan debt

5. Program Director Comments

Linda Lambert, Program Financial Capability Officer –

- Commented that she has been working with Program Managers to implement corrective action steps for 2021 to improve the Morningstar rankings
- Reported that she has been notified by the DOR of the change in tax-deductible contribution limit for 2021 – increasing to \$3,380 and \$1,690
- Discussed a summary of the key topics and educational opportunities planned for the 2021 quarterly Board meetings and requested feedback to help improve them. Will have Andrea Feirstein of AKF Consulting speak at the Q1 meeting in 2021
- Introduced the newest College Savings Plan staff member, Lucien Adams

Lucien Adams, College Investment Program Financial Officer - Lucien shared comments on his background and his excitement to be part of the College Savings Program.

6. Investment Consultant Comments

- Q3 2020 market activity and investment performance** - Felicia Bennett, Wilshire Consulting, reviewed 3rd quarter and YTD 2020 Asset class returns. U.S. Equity class returns were strong for the quarter and YTD, primarily led by U.S. Large Growth. U.S. Small Value has experienced headwinds throughout the year but has recently shown positive progress. Unprecedented events (pandemic, employment, catastrophes, social justice) have led to high volatility in the markets throughout the year. Felicia highlighted the recent shift from Growth to Value, as well as the shift from Large to Small Cap, since the third quarter ended. Non-U.S. Equity Markets have experienced a similar dynamic as the U.S. Markets. The U.S. Treasury Yield Curve remained nearly unchanged from the prior quarter as the Fed continued its low-rate policy. High yield fixed income experienced a positive quarter as the option adjusted spread tightened and benefited riskier assets within this class.

- b. **Watchlist Discussion** – Steve DiGirolamo reviewed the score cards with the Board. Within the Edvest Direct Sold plan, 67% of the total funds ranked in the top half of their respective peer universe over the trailing five-year period for performance. All fund options within the plan reported positive returns for the quarter. There are currently no funds on the Watchlist within the Edvest Plan. Within the Tomorrow’s Scholar Advisor Sold plan, 65% of the total funds ranked in the top half of their respective peer universe over the trailing five-year period for performance. The age-based fund options had positive returns for the quarter. All but one of the risk-based and individual fund options reported positive returns for the quarter. There are currently two funds on the Watchlist within the Tomorrow’s Scholars Plan. A full review of these funds is planned for the next board meeting
- i. Voya Large Cap Value – Has underperformed relative to its benchmark for the quarter but has significantly improved since quarter end and is now outperforming its peers.
 - ii. BlackRock Global Allocation Fund – Current quarter performance has been good but long-term performance results lagged its peers due to higher equity weightings.
- c. **Tomorrow’s Scholar State fee suspension discussion** - Steve DiGirolamo described the work that has been done with DFI staff to develop a revenue forecasting model. He discussed the imbalance between the fixed nature of expenses relative to the variable revenue generated from two sources. The State’s admin fee, which is asset based, is the largest source of revenue generated for the plan. Projected revenue from the Tomorrow’s Scholar plan is based on forecasted market values. They utilize Wilshire’s long-term market assumptions for the different asset classes and current participant investments to forecast a long-term market return for the plan’s assets. He explained that by utilizing a Monte Carlo type of simulation model they can account for different variables impacting the potential revenue streams from the fund.

Senator Alberta Darling commented on how she was impressed with the meeting today and the focus on performance, outcomes, and the evaluation of methodologies. She appreciated the solid approach they were taking to reach the plan’s goals of increasing the affordability for college while maintaining lower plan fees.

7. Program Manager comments (Voya Investment)

Paul Zemsky provided a brief update on the Voya Investment Management business and team. He noted one personnel change within the Asset Allocation group with the retirement and subsequent addition of a new member.

He indicated that they continue their aggressive equity positioning as part of their glide path philosophy, particularly in the early stages. Paul provided a brief market update indicating they are increasing exposure to global equities and cyclical stocks.

- a. **Propose investment allocation adjustments and other suggested changes to the Tomorrow’s Scholar Plan line-up for 2021 (Voya) (Vote)** – Paul discussed their proposed strategic asset allocation changes to the age-based plans for 2021. He noted their move to zero allocation for global real estate because of the pandemic and uncertainties surrounding this asset class going forward. They propose reducing Large Cap Value as a funding source to increase exposure to US Mid Cap, US Small Cap, International, and Emerging Markets where they see better

opportunities. They propose increasing the allocation to High Yield Bonds and International Bonds by reducing exposure to Core Fixed Income and Global Real Estate.

Derek Drummond questioned if there was concern about default risk associated with their positioning in the high yield market, particularly as COVID-19 fears begin to subside. Paul indicated he believes this risk has been incorporated into the bonds' pricing. He also believes the current economic environment will allow these companies to pay their obligations or refinance them.

Paul further discussed the proposed strategic allocation changes for the Risk-Based Funds. No major changes are planned between the Equity and Fixed income allocation. However, they propose decreasing exposure to Large Value and Real Estate while increasing Large Cap Value and International Bonds.

Halvard Kvaale provided an overview of the proposed 2021 Manager allocation changes for the age-based plans which are primarily driven by the proposed changes in asset allocation. They will be adding a new fund manager, VY JPMorgan Small Cap Core Equity, to meet the increased exposure to this asset class while eliminating the Brookfield Global Listed Real Estate Fund Class Y.

Paul Zemsky went on to discuss how despite the proposed asset allocation and fund manager changes, investment fees will decline on average for the age-based plans by 2bps. He went on to discuss tuition inflation, indicating their model suggests they expect fund returns to exceed expected tuition inflation.

Motion by Derek Drummond, second by Kimberly Shaul to approve Voya 2021 Strategic Asset Allocation and Investment Manager proposals (add VY JPMorgan Small Cap Core Equity, Voya High Yield Bond and Voya Global Bond Fund while eliminating the Brookfield Global Listed Real Estate Fund and Voya Floating Rate Fund) changes as of January 1, 2021.

Motion carried.

Q3 2020 Activity and Metrics – Paula Smith reviewed the growth in sales, as well as the source of that growth, by state. Since October 2019, AUM is up 7% in Wisconsin and 4% Nationwide. She indicated they continue to meet with home offices as they pursue omnibus relationships. Paula shared that they have seen a heightened interest in 529 webinar topics for advisors. She reviewed improvements to the program including college savings planner calculator enhancements. Paula reviewed the 4th quarter 2020 marketing highlights including their work on Northwestern Mutual and 529 year-end gifting campaigns.

Susie Baur commented positively on how the plan is one of the only ones that offers a microsite for the group 529 plans which she believes is a value-added service.

8. Program Manager comments (TIAA/TFI)

Q3 2020 activity and metrics – Shirley Yang opened by discussing that they would typically propose asset allocation changes at this board meeting, however considering the changes implemented in March, they did not believe any changes were warranted at this time. She also mentioned that on November 10, 2020 the Plan exceeded \$4B in AUM which resulted in a fee

reduction of 1bps to 7bps. She discussed that AUM, contributions, and account openings were positive year-over-year and for the 3rd quarter. Average contributions are down slightly year-over-year due to the higher number of contributing accounts. Withdrawals were down, possibly due to remote learning or individuals and more students taking a gap year. Rollover contributions into the plan outpaced those out of the plan.

Shirley discussed telephone services and indicated that the phone call abandonment rate has improved significantly. Ashleigh Edgerson asked if translation services were available within the call center. Shirley responded that they do utilize a translation service and are able to translate into several languages.

Glen Friedman provided the board an information update on the Cash Equivalents and Bank CD Portfolio, a \$90 Million portfolio that accounts for about 2.4% of Edvest Plan assets. The portfolio consists of CDs offered from Wisconsin Banks and the TIAA-CREF Money Market Fund. Given the low interest rate environment, managers for both programs have agreed to lower their fees to prevent negative returns for this portfolio. In addition, he indicated that investable CDs are limited due to the low interest rate environment and Federal support banks are receiving. Only 18 banks are now participating in the program, down from 37 in 2013.

- a. **Marketing and Outreach report** – TIAA – Catherine Burdick shared they've seen significant improvement in performance over the October 2019 Saving for College campaign with a 23% increase in contributions and 29% increase in new accounts. She notified the Board that they are wrapping up the year with their annual holiday gift giving & matching campaigns.

9. Old business

- a. **Propose extension and further reduction of the State fee reduction first adopted in the fall of 2018**

Matt Lynch reviewed with the Board its authority to establish administrative fees related to the Tomorrow's Scholar Plan and its history of setting those fees.

10. New business

- a. **Recommend lowering the State fee for the Tomorrow's Scholar College Savings Plan. (Vote)**

Linda Lambert reviewed the proposal to lower the State Administration fees for the Tomorrow's Scholar Plan from 7bps to 6bps through December 31, 2022. She provided an explanation of the current fee structure for both plans as a reference.

Bill Oemichen noted the large balance the SIF Account is holding in cash reserves is the result of previously collected fees. This reduction in fees will help with preventing further build-up of reserves.

Motion by Secretary Blumenfeld, second by Kimberly Shaul to lower the State Administration fees for the Tomorrow's Scholar Plan from 7bps to 6bps through December 31, 2022
Motion carried.

- b. **Review College's Board's Trends in College Pricing 2020 and recommend adjusting the current \$505,000 maximum contribution per beneficiary. (Vote)**

Linda Lambert reviewed the proposal to Adjust the Maximum Account Balance per Beneficiary from \$505,000 to \$516,000. Based on a review of college tuition inflation forecasts from the College Board.

Motion by Susie Bauer, second by Kimberly Shaul to Adjust the Maximum Account Balance per Beneficiary from \$505,000 to \$516,000.

Motion carried.

11. Announcements

- a. The next meeting of the Board will be held virtually on Wednesday March 17, 2021, at 9:00 a.m. and will include investment and program management reports for the Fourth Quarter 2020, plus an educational presentation by Andrea Feirstein.

12. Adjournment

- a. Motion to adjourn the meeting by Secretary Blumenfeld, second by Kim Shaul to adjourn at 11:34 a.m.
Motion Carried.