

# Minutes of the Meeting Of the College Savings Program Board

Held at the State of Wisconsin Department of Administration Building  
101 E. Wilson Street, St. Croix Room; Madison, Wisconsin

May 19, 2014  
1:00 p.m.

MEMBERS PRESENT: *Doug Hoerr, Ken Johnson, Bill Oemichen (by phone), Kim Shaul, Wendy Wink, Jim Zylstra.*

OTHERS PRESENT: *Annoesjka West, Callan Associates; Catherine Burdick, Kerry Alexander, Daniel Morris, all with TIAA-CREF; Paula Smith, Andy Schlueter (by phone), with Voya Investment; and Jim DiUlio.*

At 1:00 p.m. some Members were present, while others were on the way. There was not a sufficient number for a quorum at that point.

In the interim, those present heard a brief summary by *Dan Morris* of his earlier remarks to the Investment Advisory Committee to those present. *Morris* is a TIAA-CREF Managing Director and Global Investment Strategist. He opened by saying the U.S. recovery is improving slowly, without disruptions. People are coming out of negative equity which is good news for housing and jobs. In Europe, the crisis is past and now China is an area to watch. As all this relates to investment outlook, *Morris* said equities are benefitting from favorable conditions and will continue to grow. The fixed income area experienced some challenges, but should return toward normal soon. He concluded that if/when interest rates rise in 2015, it will not hurt equities; it was not a typical recession and the recovery may not be typical either.

**I. Call to Order and Roll Call** –Chair *Oemichen* called the meeting to order at 1:32 p.m. with a quorum present. (See above for attendance.) Since he was attending by phone, he handed the gavel for the remainder of the meeting to Board Secretary *Jim DiUlio*.

**II. Approval of Agenda** – Motion by *Wink*, second by *Zylstra* to approve the agenda. Motion carried. Staff reported that the meeting agenda has been properly posted.

**III. Approval of Minutes of February 24, 2014** Draft minutes were not available, but will be considered at the next meeting.

**IV. Public Presentations** [if requested in advance] – *Dan Morris*' informal remarks were delivered before today's meeting.

## **V. Administrative Reports**

**A. Board Chair Comments** – none today

**B. Department of Administration** and  
**C. Program Director Comments** –

*DiUlio* reported that *Michael Wolff*, whose tenure dates back to the original Board and has been the DOA liaison at these meetings, is taking time away from state service as the Finance Program Administrator. *Johnson* added that he has been a valuable resource for contracts, investments, and federal regulations over the years. He has asked *Wolff* to remain on the Investment Advisory Committee for his expertise and knowledge of the program.

Referring to the program budget materials, some invoices and expenses lag at the nine-month point as we show only about half of the budget spent. The numbers will catch up in the remaining months of the year.

A folder of thank you notes and children's artwork was passed around. These were from Edvest sponsorship and helping with the cost of books for the recent "Big Read" events at public and school libraries in April as part of national Money Smart Week. The reading event was in partnership with the Department of Financial Institutions and the libraries, and Money Smart Week in partnership with the Federal Reserve Bank of Chicago.

The program also received a letter from the Governor's Council on Financial Literacy with thanks for support of these events.

Since the last meeting, there has been one shareholder proxy vote. Northern Trust Small Cap Value fund, just added to Tomorrow's Scholar, and other Northern funds nominated trustees and recommended a new management agreement for their company. There will be no change to our relationships or fees and we voted shares in support.

From last week's College Savings Plan Network's (CSPN) annual conference, *DiUlio* reported that more states are providing incentives to start saving. Nevada's Kickstart program matches \$50 on new accounts, and the Alford Foundation \$500 scholarship for newborns is now automatic in Maine. Previously, parents had to apply before age one and many did not. More news from CSPN to come later.

State and federal news: Act 227 is now in effect, except for the state income tax recapture which starts June 1. Little response so far from the tax professionals, but we anticipate good reaction to the contribution carry-forward and clarification of bankruptcy protection in the legislation. In Congress, H.R. 4333 (adding computers as an expense, rollovers to Roth IRAs after time) had gained co-sponsors. The Roth IRA provision would be popular, *Catherine Burdick* added, as non-college withdrawals are a common question with the public. The Higher Education Reauthorization Bill may include exempting \$35,000 of 529 savings for financial aid purposes, and to allow grandparent/noncustodial parent accounts to count at the lower parent asset rate. The ABLE bill (creating 529-like accounts for disabled children) has come in with a \$19 billion cost, and will need to be trimmed to be considered.

**D. Manager Comments** *Paula Smith* of Voya, formerly ING, began with the Tomorrow's Scholar report. Account owners received a number of communications regarding the corporate name change—nothing else changed. Plan assets are now at \$1.4 billion, an increase of 13% since the October 2012 inception. New accounts have come principally from Edward Jones, Ameriprise, Morgan Stanley, LPL, and RW Baird. At

the wholesale level, operational enhancements and advisor training are continuing to support the advisor and planner network. Group 529 has 26 plans in the pipeline, and there is custom support for employers. Again this year, the plan produced the popular 'March Madness' flier, with the college basketball brackets and the cost of a degree at each of the schools. Investor and advisor materials are now in circulation throughout Wisconsin, highlighting the tax enhancements with the recent legislation. Webinars and mailings will be part of the plan's 5-29 Day activities.

*Kerry Alexander* led off the Edvest report. Total assets have increased 17.9% since first quarter last year, now just over \$2 billion. He then pointed out some of the quarter's detail of flows, account, and portfolio details. Incoming calls were lower than last year, and online transactions and delivery are up. The account penetration rate by county is showing increases in 67%, while only two counties lost net accounts, reported *Catherine Burdick*. Edvest had three marketing campaigns during the quarter: New Years' Resolution, Tax Time, and the Big Apple Giveaway in partnership with the Green Bay Packers. Each used multiple media channels, including online advertising, email blasts, Facebook, Twitter and webpages. Results so far are good: Big Apple drew 8,520 entries statewide, with 2,318 hard leads. Additional media mentions totaled 2.37 million impressions. She then reviewed the new Account Owner Newsletter and upcoming direct mail campaigns.

## **VI. Old Business** none today

## **VII. New Business**

A. **Investment Committee Report** Ken Johnson said there would be one action item for the Board to consider later.

- i. **Review of First Quarter investments** *Annoesjka West* said that it was a rough first quarter with the harsh winter weather and the situation in Ukraine. As expected, the utilities sector did well but discretionary income suffered as people likely stayed home. She then reviewed performance of the broad investment classes. At the plan level, Tomorrow's Scholar is now well past \$1.5 billion, with about 85% in the asset allocation options. The portfolios slightly lagged their benchmarks; performance in the conservative options did better. Overall, nothing to be concerned about. Manager turnover at Columbia is behind them. The Edvest plan is now over \$2 billion, with about 62% in asset allocation options. As with the other plan, some portfolios were slightly behind their benchmarks. The DFA funds all beat their benchmarks for the quarter.

The PIMCO Total Return fund for the quarter was behind their benchmark by more than 100 basis points, at the 97th percentile, while other active managers did much better for the quarter. Internal management changes at PIMCO are highlighted in a Callan report. While there was a hiccup in performance, the management situation was noted. *Johnson* continued with detail of the discussion in this morning's Investment Advisory committee meeting. The closeness of Bill Gross to the fund and his future raises concern, he added. The fund's numbers do not trigger watch status, but the situation deserves attention. The TIAA-CREF investment analyst on this morning's call agreed, saying that some retirement plans have put the company on watch.

The committee felt it was prudent to place PIMCO on watch, *Johnson* said, adding that there is a provision for the committee to take action aside from quantitative triggers. While not closing the fund to new money, it does begin a process to be used if needed. Current exposure in Tomorrow's Scholar is about \$80 million and \$9 million in Edvest, a small amount relative to the \$3.5 billion program. *Johnson* added that the vote was unanimous in committee to recommend Watch Status.

Motion by *Johnson*, second by *Wink* to place the PIMCO underlying funds in the Edvest and Tomorrow's Scholar plan on formal Watch Status due to investment performance and other circumstances. Motion carried, unanimous vote.

- ii. **2013 Fee Study** *West* then presented a report prepared by Callan for their 529 plan clients, comparing fees among the universe of 88 plans—both participant and advisor directed. Benchmarks were matched to fees for: account origination, account maintenance, program management, state charges, and investment management. Some Wisconsin portfolios were higher than median, but combined with the low program management fees, many were lower than median overall. *Alexander* and *Smith* provided additional details. *Johnson* said both TIAA-CREF and Voya will be responding to the data presented in the Callan report.

B. **“CE” opportunities for Board members** The CFA Society Madison will have an investment conference next month, and there is still room available. A Callan regional workshop is scheduled in Chicago in October, details and speakers to be announced.

**IX. Announcements** – The next meeting will be August 18

**X. Adjournment** — Motion by *Wink*, second by *Zylstra* to adjourn. Carried. The meeting was adjourned at 3:05 p.m.