

**Savings Board of Directors Board Meeting
November 17, 2021
MINUTES**

Board Present:

Chair Young Boozer
Ms. Heidi Lee
Dr. Ken Tucker
Ms. Sara Calhoun for Mr. Jimmy Baker by Zoom
Mr. Jack Knight by Zoom
Ms. Judy Miller for Lt. Gov. Ainsworth by Zoom
Mr. Daniel Hughes by Zoom
Mr. Ronald Stokes by Zoom

Board Absent:

Ms. Susan Tully
Mr. Edward Reifenberg
Dr. Jim Purcell

Others Present:

Ms. Daria Story, Assistant Treasurer
Ms. Glenda Allred, Deputy Treasurer
Ms. Anita Kelley, Program Director
Ms. Brittany Matthews, Treasury
Mr. Chad Wright, Unclaimed Property Director
Mr. Jay Steinacher, Union Bank & Trust
Ms. Cari Kaup, Union Bank & Trust
Ms. Annoesjka West, Callan
Ms. Paola Juarez, Callan
Mr. Rob Noe, Wilshire Associates
Mr. John Nagle, Wilshire Associates
Ms. Ali Cataldo, Sunday

Pursuant to written and public notice, the meeting of the Savings Board of Directors was held on November 17, 2021. As permitted by §16-33C-4 (f), Code of Alabama, as amended, the meeting was held by video conference with access posted on the Secretary of State's meeting notice in order to allow members of the public the opportunity to simultaneously listen to or observe the meeting. The meeting was held in the Treasurer's Office conference room in the RSA Union Building in Montgomery, AL.

The meeting was called to order by Chair Boozer at 9:00 a.m.

Roll was taken with a quorum present.

Chair Boozer presented the minutes of the August 18, 2021 Board meeting. A motion for approval was made by Dr. Tucker, seconded by Mr. Stokes, with unanimous approval.

Chair Boozer called on Ali Cataldo to present the quarterly ABLE report. Ms. Cataldo stated that as of 9/30/21 there were \$669,724 assets under management, 158 funded accounts, and \$55,667 in rollover contributions for this quarter. She discussed demographic information regarding the beneficiaries and reported on call center operations and statistics. Ms. Kelley provided investment information for the Program and gave an update on marketing efforts and activities from the past quarter. She also presented the 2022 Marketing Strategy for the Board's review. The report was received as informational.

Chair Boozer called on Anita Kelley to give the program report for CollegeCounts. She provided information on the 2021 EOY budget as well as the 2022 FY budget. She discussed a spreadsheet showing the Statement of Cash Flows for the scholarship program that showed the balance in the account was \$16,085,845 as of 9/30/21. Ms. Kelley stated the application period for this year's scholarship period will begin on 12/1/21 through 2/28/21. The written report was received as informational.

Chair Boozer called on Jay Steinacher and Cari Kaup with Union Bank and Trust for the quarterly program report. Mr. Steinacher stated there were 107,476 active accounts with total assets in the plan of \$2.392 billion. This represents a -1.3% decrease for the quarter and a 20% increase for the year. He stated the number of Alabama account holders is 67,793 with \$1.53 billion in plan assets. This is a -.2% decrease for the quarter and 25.9% increase for the year. Mr. Steinacher said YTD contributions were \$161.97 million of which rollover contributions were \$18.86 million. Ms. Kaup also provided additional information on contribution, withdrawal, and investment change activity. She discussed call center statistics and the most common topics account holders and advisors are contacting the call center. The written report was received as informational.

Chair Boozer called on Rob Noe and John Nagle of Wilshire Associates to review the investment performance report. Mr. Noe provided commentary on the economy including the U.S. and international equity markets, as well as the fixed income, real estate, and commodity markets as of 9/30/2021. He provided the quarterly performance summary of individual fund portfolios for both the Direct and Advisor Plans and discussed fund performance. He stated that the target portfolios for the Direct Plan performed in line with their benchmarks with modestly negative absolute returns for the more equity heavy portfolios. Fixed income managers had modestly positive results, active U.S. equity managers saw mixed performance, and active international equities managers modestly underperformed. He highlighted outperformers Vanguard Explorer and DFA Small Cap Value and underperformers T. Rowe Price Large Cap Growth and Dodge & Cox International Stock. Regarding the Advisor Plan, he stated that target portfolios performed in-line with their benchmarks, active fixed income managers had modestly positive results, active U.S. large cap equity managers saw mixed performance, and active U.S. small cap equity managers underperformed, and active international equity managers had positive results. He highlighted outperformer T. Rowe Price QM Small Cap Growth fund and discussed Vanguard Emerging Markets Select Stock and T. Rowe Price Large Cap Growth underperformance. The written report was received as informational.

Chair Boozer called on Annoesjka West and Paola Juarez with Callan to present the consultant's report. Ms. West presented the Watch List and stated Callan recommends the Northern Trust Small Cap Value Fund (Advisor Plan-Underlying Fund), the DFA U.S. Small

Cap Value fund (Direct Plan), the Dodge & Cox International Stock Fund (Direct Plan), and the William Blair Small Cap Value fund (Advisor Plan), remain on the Watch List. A motion to approve the Watch List was made by Dr. Tucker, seconded by Mr. Stokes, with unanimous approval.

Chair Boozer called on Wilshire and Callan to present and discuss the Glide Path Review for the Age Based Portfolios. Mr. Noe presented several slides comparing the currently used stepped glide path versus a progressive glide path. Mr. Noe highlighted several reasons that Wilshire recommends the Board stay with the current stepped glide path structure. He said that while a stepped glide path structure has more sequence of return risk than a pure progressive glide path structure, the risk is minimal with equity step-downs of 10% less. The stepped approach, with portfolios spaced apart by 10% increments from 100% equity to 100% fixed income, better facilitates the use of multiple glide paths to meet the needs of investors with different risk tolerances. Chair Boozer called on Ms. West for Callan's recommendations. She stated that Callan is comfortable remaining with the stepped glide path structure and the 10% equity intervals between the portfolios. The existing 10% equity increments allow for meaningful time periods in each tier, significant changes to the sub-components of equity and fixed income, and distinct differences in expected returns and risks between increments. The Board agreed to remain with the stepped glide path structure.

Chair Boozer asked Wilshire and Callan to discuss recommendations for changes to the asset allocation. Mr. Noe discussed Wilshire's recommendation to add the Union Bank/Nelnet Bank Savings option to the conservative target and late-stage age-based portfolios at a 50% weight of the Money Market allocation due to a more attractive yield and FDIC insurance coverage up to \$250,000 per person. Wilshire also recommends adding the Vanguard High Yield and Vanguard Emerging Markets Bond funds to the Direct Plan portfolios due to diversification benefits and higher yields for the fixed income allocation. Wilshire additionally recommended reducing the allocation to the short-term bonds in the more equity-heavy portfolios and reducing the allocation to the mid-cap stock index in the more equity-heavy portfolios in the Advisor Plan. Ms. West discussed Wilshire's recommendations and stated that Callan is not in favor of replacing a portion of the money market allocation with the UBT/NNI Bank Savings option. The Bank Savings option currently has a more favorable yield; however, it does not have the same level of transparency and security as the money market mutual fund. She said Callan is supportive of the addition of high yield and emerging markets debt in the Direct Plan to offer opportunities for additional yield from the fixed-income portfolio as well as the proposed changes to the fixed-income allocation for the aggressive portfolios in the Advisor Plan given the improved diversification benefits and to the domestic equity allocation in the aggressive portfolios to achieve a more market neutral position. Ms. West discussed two additional areas to highlight for additional discussion regarding the Advisor Plan. She questioned the necessity of commodities due to the high volatility and lower long-term expected returns and higher fees. She also questioned the significant allocation to passive fixed-income and the lack of Core/Core plus fixed-income due to their preference of 100% active approach. Additionally, Callan requested that Wilshire provide the expected long-term risk/return for each of the portfolios before and after the proposed changes and to show the current fee structures and fee structures should the proposed changes be

accepted. It was agreed to gather additional information for discussion during the February 2022 Board meeting.

Chair Boozer presented the 2021 Morningstar Report. The Direct Plan remains with a bronze rating and the Advisor Plan remains neutral rated.

Chair Boozer presented the 2022 Board meeting dates

There being no further business, a motion to adjourn was made by Dr. Tucker, seconded by Mr. Knight, with unanimous approval. The meeting adjourned at 10:51 a.m.

Anita Kelley, Director

Young Boozer, Chair