The Education Trust Board of New Mexico

THE HONORABLE SUSANA MARTINEZ
GOVERNOR OF NEW MEXICO

DR. BARBARA DAMRON, CABINET SECRETARY
NEW MEXICO HIGHER EDUCATION DEPARTMENT

BOARD MEMBERS
DR. BARBARA DAMRON, CHAIR
ROBERT J. DESIDERIO, VICE-CHAIR
DR. JOSE Z. GARCIA
DAVID JANSEN
MARK JARMIE
EXECUTIVE DIRECTOR
THEODORE MILLER

APPROVED
Vera Lyons
Board Secretary

Meeting Minutes of January 25, 2018
Hilton Historic Plaza Hotel
100 Sandoval Street, Santa Fe NM 87501

Board Members in Attendance
Dr. Barbara Damron – Chair
Robert Desiderio – Vice Chair
Dr. Jose Garcia -- Member
David Jansen -- Member
Mark Jarmie -- Member

Other Individuals in Attendance
Theodore Miller -- Executive Director ETB
Vera Lyons – Board Secretary ETB
Mikaela Roos – Outreach Director ETB
Helen Atkeson -- Hogan Lovells US LLP
Kurt Sommer – Sommer Udall
Janet Pacheco-Morton – Morton Accounting Services
Matt Bone – Clifton Larsen Allen LLP
Elizabeth Nunez – Clifton Larsen Allen
Del Esparza – Esparza Advertising LLP
Eve Wakeland -- Esparza Advertising
Craig Berry – Esparza Advertising
Kay Ceserani -- Pension Consulting Alliance
Ryan Lobdell – Pension Consulting Alliance
Andrea Feirstein – AKF Consulting (by telephone)
Chris Werner – OppenheimerFunds
Rocky Granahan -- OppenheimerFunds
Heather Holliday – OppenheimerFunds
Leslie Ann Bednar – OppenheimerFunds
Michele Nelson -- Court Reporter

1) CALL TO ORDER

Dr. Damron, the Chair, called the meeting to order at 9:02 AM. The roll was called and all Board Members were present with the exception of Vice Chair Desiderio and Dr. Garcia.

2) APPROVAL OF AGENDA

Dr. Damron noted the agenda as presented to the Board. In order to accommodate a tight time schedule for Ms. Feirstein, she asked for a motion to switch the order of items 4 and 5 on the agenda. Mr. Jarmie made the motion. Mr. Jansen seconded the motion. The vote to approve the motion was unanimous.

3) APPROVAL OF MINUTES

Dr. Damron referenced the minutes of the October 26, 2017 and December 28, 2017 meetings of the Board. Mr. Jansen noted a typo in the minutes of the meeting of October 26th. The word "Investment" was misspelled in the title of item 9. Mr. Miller stated that he would correct the spelling. Dr. Damron called for a motion to approve the minutes of the two meetings with the necessary correction. Mr. Jansen so moved. Mr. Jarmie seconded the motion. The vote to approve the minutes of the meetings of October 26th and December 28th was unanimous.

4) 529 LEGISLATION AT THE STATE AND FEDERAL LEVEL

Dr. Damron noted that the state was in a short legislative session and that there had been a couple of important changes to 529 federal tax provisions that had an impact on many 529 plans, including New Mexico's plan. The current goal was to introduce legislation to harmonize New Mexico law with federal law.

Mr. Miller then addressed the two issues. The first was a new federal provision that permits tuition costs up the $10,000 per year for K-12 education to be treated as a "qualified higher education expense" for federal tax purposes. The second issue is the ability to transfer up to $15,000 per year from a 529 account to a 529A ABLE account for a disabled person. He then refereed to a report on the matter prepared by AKF consulting, and asked M<s. Feirstein to give the report.

Ms. Feirstein noted the high degree of uncertainty in the 529 industry over the federal changes, especially the K-12 provision. Referring to her report, she noted that only three states had unequivocally stated that a state tax benefit was preserved for K-12 withdrawals. She noted that 529 plans had now been drawn into the political issue of school choice. There is also the tricky issue of investors using the 529 plan to secure a tax benefit, but immediately withdrawing the contributed amount to pay for K-12 tuition.

She observed that New Mexico is in the same position as many states in that the new federal provisions can be accommodated by the plan, but that the state tax consequences would probably need to be addressed by further legislation. The ability of the plan to be sold nationally is preserved, but the in-state tax benefit may be lost unless legislation is changed.

Dr. Damron then stated that legislation was prepared for the short 30-day legislative session to address these matters, but that there is opposition to the tax benefit for K-12 withdrawals from some quarters. There are two pieces of legislation. One to make it clear that the New Mexico plan will follow federal 529 law as it exists from time to time. The second to deal with the in-state tax consequences of the new federal legislation.

Mr. Miller then described in some detail the proposed tax legislation for the board. (At this point Mr. Desiderio joined the meeting.)

Mr. Jarmie asked if the legislation would put the New Mexico plans in the best competitive position. Ms. Feirstein noted that New Mexico would remain competitive nationally, but the issue was primarily one affecting New Mexico account owners. Mr. Miller advised the board that an opinion of New Mexico counsel had been obtained that stated that the current New Mexico 529 statue supported the inclusion of all federal tax benefits. In the event that both bills failed, the program would remain competitive nationally.

Mr. Sommer then briefly outlined the relevant sections of the New Mexico statute. Ms. Atkeson observed that a legal opinion could be legally challenged by the Attorney General or in private litigation. Mr. Miller noted that this was a major reason for moving forward the legislation.

At this point Ms. Feirstein left the meeting.

Dr. Damron then asked Mr. Miller to begin the executive director's report.

5) EXECUTIVE DIRECTOR'S REPORT

Mr. Miller turned to financial reporting matters. He made reference to the two quarterly financial statements in the meeting materials. He asked Ms. Pacheco-Morton to give an overview of these documents to the board.

Ms. Pacheco-Morton reviewed the quarterly financials prepared for the administrative fund and for the investment trust funds.

First she referenced the administrative fund. She noted that spending was well in line with the budgeted amounts for the year. She also noted that fee revenue was slightly below budget for the year. Mr. Miller reminded the board that the mid-year administrative fee reductions were responsible for the shortfall, and that the shortfall was consistent with the expected effect of the fee reductions presented at that time.

Dr. Damron then referred to the current size of the administrative fund, $9 million, and reminded the board that this amount is considered state funds by the legislature. She noted that she had had to defend the administrative fund with state legislators and legislative staff on a number of occasions during her term as Cabinet Secretary.

Mr. Miller then observed that the board wants to put a portion of the fund to use in a grant program for low to moderate income New Mexicans to save for college, but that a favorable opinion from the Attorney General was required. To date the AG's Office had not replied to the board's request for an opinion.

Ms. Pacheco-Morton then continued with her review of the administrative fund.

After concluding the administrative fund review she turned to the fiduciary funds financial review. She noted that the ETB staff receives monthly trial balance information from OppenheimerFunds, reviews that information for significant variances and notes any discrepancies. These are then explained or resolved with OppenheimerFunds and the fiduciary fund information is entered into the SHARE accounting system. She also noted that ETB staff would be implementing periodic testing of certain items in the financial statements as a check on the OppenheimerFunds numbers.

Ms. Pacheco-Morton noted the large numbers in the financial report for subscriptions and redemptions. Mr. Miller pointed out that OppenheimerFunds does not distinguish between subscriptions and redemptions where money enters and leaves the program and Inter-fund transfers of money. Thus the inter-fund transfers boost the subscription and redemption amounts. He noted that contributions to and redemptions from the program are tracked through the transfer agency system, and are being reported to the board quarterly. At this point Ms. Pacheco-Morton concluded her remarks.

Mr. Miller addressed the NASSP relationship. He reminded the board that The Education Plan had been chosen by the National Honor Society (an NASSP program) as the repository of the National Junior Honor Society Outstanding Achievement Awards. He also noted that NASSP had held two annual state summits in New Mexico for state-wide National Honor Society Chapters. At these two events the Outstanding Achievement Award recipients had received their awards.

Based on the success of the state summits in New Mexico, other states had requested state summits in their states. These summits are quite costly (~$75,000 each), and NASSP cannot satisfy the demand. This means that the state summits in New Mexico may not return on a regular basis.

Mr. Miller then presented the idea of a local state summit sponsored by NASSP chapters in New Mexico, with assistance from the board. He asked the board to approve the sum of $50,000 for this purpose. Mr. Jarmie asked if it would be possible to have a national event in New Mexico. Mr. Miller responded that the awards ceremony for the Outstanding Achievement Awards could take place in New Mexico as part of the local summit. Mr. Jarmie urged Mr. Miller to come back to the board after discussions with NASSP in the event that further financial support were need to ensure the continuance of the relationship.

Mr. Jarmie moved to approve the sum of $50,000 to support sponsorship of a statewide event similar to the NASSP state summit in New Mexico. Mr. Jansen seconded the motion. The vote to approve was unanimous.

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6) INDEPENDENT AUDITOR'S REPORT FOR FY2017 AUDIT

Matt Bone of CliftonLarsenAllen (CLA) addressed the board. He noted that it was always a challenge for management to work with a new independent auditor. He told the board that ETB management, the board's outside account and OppenheimerFunds had been very cooperative and easy to work with. He also noted the challenge of completing the audit with one less month to do so than in prior years.

He noted that CLA produces two reports. The first is the audit opinion. The audit opinion for ETB was unmodified. This is the highest level of opinion and means that the financial statements of the board are fairly stated in all material respects and in accordance with generally accepted accounting principles.

He noted that there was one material finding regarding the administrative fund. An amount of $700,000 was incorrectly characterized on the prior year's financial statement as a liability. This required a restatement to the opening fund balance in the administrative fund.

He noted that this was a somewhat isolated financial reporting matter, and he did not have any concern about pervasive issues.

He noted that the financial statements are the responsibility of the board, and that board management took full responsibility for them throughout the process. He noted the responsiveness of management with regard to suggestions for improvement.

He noted that a finding from FY2016 had been satisfactorily resolved with appropriate corrective action by management.

Dr. Damron noted her satisfaction with the good working relationship with CLA. She also noted the efforts of Mr. Miller to clear up audit issues and provide the board with a good audit report.

Dr. Damron called for a motion to accept the independent auditor's report. Mr. Jansen so moved. Vice Chair Desiderio seconded the motion. The motion passed unanimously.

7) PROGRAM MANAGER'S OPERATIONS REPORT

Dr. Damron then asked OppenheimerFunds to give the operations report. Ms. Granahan made some opening remarks regarding the state of the investment management industry and OppenheimerFunds as a firm. She noted the search continued for a new head of Risk Management. The former head was promoted to head of Risk Management at OppenheimerFunds' parent firm, Mass Mutual. OppenheimerFunds had also appointed a head of Sustainability who is the chair of the board for Amnesty International.

In terms of products a new multifactor ETF was launched as well as several single factor ETFs.

The brokerage houses continue to reduce the number of funds that they carry. One recently went from 3500 funds to 1700 funds. The challenge is to provide either a broad array of offerings, both active and passive or to occupy a niche very well.

She noted that OppenheimerFunds did sign an agreement with DST to outsource the transfer agency function. DST itself was acquired in the meantime by a larger financial service software firm. She noted that the DST system might not be the best fit for the 529 program for recordkeeping and administration. She said she would keep the board advised on this development. She was unsure as to how the outsourcing would affect the staffing at OppenheimerFunds. At least some of the staffing functions would be moved to the new vendor.

Ms. Holliday then discussed the progress of Phase 2 of the Fee and Investment Project. She said that the project was on schedule. A mock conversion was held, and overall the exercise went well. A couple of items were identified and the technology group was working on resolving them.

Mr. Werner then discussed the issue of C share to A share conversion. As well as the new issue of the reduction of commissions on A shares.

The recommended C to A share conversion will be on a 5-year schedule, which is competitive in the industry, and the recommended load on A shares will be reduced from 4.75% to 3.5%.

Mr. Werner and Mr. Miller then went over in detail how brokerage firms charge commissions to their clients, as well as the concept of a deferred sales charges and also the use of "trails".

Mr. Jansen made a motion to reduce the A share load to 3.5% and to impose a 5-year conversion time frame for C share to A share conversions. Vice Chair Desiderio seconded the motion. The vote to approve the motion was unanimous.

8) CLOSED SESSION PURSUANT TO NMSA 10-15-1.H. (2) TO DISCUSS PERSONNEL MATTERS

Dr. Damron then called for a roll call vote to enter into closed session regarding personnel matters. Mr. Jarmie voted yes. Vice Chair Desiderio voted yes. Mr. Jansen voted yes. Dr. Damron voted yes. The board was in closed session from 10:25-10:55.

At that point the board returned to open session. The motion to return to open session was made and seconded and a roll call vote was taken. Mr. Jarmie, Vice Chair Desiderio, Mr. Jansen and Dr. Damron individually voted to return to open session. Dr. Damron noted that the only matters discussed were personnel matters. No other matters were discussed, and no action was taken.

9) STRATEGIC ASSET ALLOCATION PROJECT

Dr. Damron then asked Mr. Lobdell and Ms. Ceserani to address the Strategic Asset Allocation Project. Mr. Lobdell referenced the survey questionnaire that had been completed by board members and executive staff of ETB. The goal of the survey questionnaire was to clarify the ETB's beliefs regarding program design and investments. He noted that there are no wrong or right answers to such a survey. He also noted that the survey results, after review and discussion with the board, represent the beliefs of ETB at a point in time. They will form the basis of a living document that will likely change over time as the 529 market evolves and investment models change. The document forms a basis for understanding why certain decisions regarding program design and plan investment were made.

Mr. Lobdell noted that certain questions elicited a broad consensus. ETB clearly wants to monitor developments in the 529 industry and adopt best practices both with regard to program design and investments.

The next series of questions dealt with measuring account owners' success toward achieving their goals. On these questions the board was more divided. Dr. Damron and Mr. Jarmie noted that they were not certain if the questions meant success for each account owner individually or for account owners as a group. In addition there was doubt as to whether the board was in a position to ascertain individual goals.

Ms. Ceserani noted that there are many questions that ETB might ask with regard to the 529 program, but in the end there will be a relatively short series of belief statements. Certain questions will be pursued now, and others addressed later or not at all.

Mr. Lobdell then noted that there was consensus that investment success should be measured by long-term results (3 to 5 year time frames) rather than short term results.

(At this point Dr. Garcia joined the meeting.)

On investment costs Mr. Lobdell noted that there was agreement that ETB should offer a variety of different portfolio options, including age-based, custom choice and even individual fund options. The goal would be to meet the risk profiles and skill level of different groups of investors. There was less consensus regarding the matching of investment offerings across both plans.

Ms. Atkeson asked whether or not direct-sold plans were moving to individual fund options. Ms. Ceserani noted that the Illinois plan had just done that. Mr. Miller observed that in the case of direct-sold plans, where a financial advisor is not involved, there had typically been some "paternalism" regarding the ability of investors to make single fund investment choices.

Mr. Jarmie was of the view that investors should be offered as much freedom and responsibility over their own investments as possible. Mr. Miller noted that this is precisely why the questions are being asked. Perhaps at some point the board may wish to offer individual fund options in the direct-sold plan. Especially if the 529 industry is moving in that direction.

Mr. Lobdell then noted the next question where there was strong agreement that investors should be responsible for their own investment decisions. Dr. Damron observed that the response could be driven either by fear of litigation or by the belief that investors should have the freedom to make their own decisions on investments.

Mr. Jansen observed that ETB does have fiduciary responsibilities. Ms. Atkeson agreed. Mr. Miller noted that ETB relies upon the advice of its advisors such as PCA and OppenheimerFunds as well as counsel to the board. The board could make a decision that in hindsight turned out to be wrong, but the board had a fully documented process in reaching that decision.

Mr. Sommer observed that not only did the board need a process, but that it had to be followed.

Dr. Damron noted that on one hand she wanted investors to have access to a broad range of investments, even individual funds. On the other hand, she was concerned whether or not such a design was a best practice. Mr. Miller noted that it was early in the process of offering individual options in 529 direct-sold plans. The board had time to consider such matters, and how to create a process for deciding them, in order to remain competitive.

Mr. Lobdell noted that there was a consensus that ETB should provide educational materials to investors. There was disagreement, however, on how detailed the education should be. Should educational materials be descriptive and general in nature, or more directed towards individual participants needs?

Mr. Sommer asked if some sort of self-assessment questionnaire should be provided with regard to investment risk. Mr. Lobdell observed that the default investment option was created to assist those with little investment knowledge, but who still wanted to invest in the 529 program.

Moving on to risk profiles, Mr. Lobdell Noted strong agreement that conservative, moderate and aggressive encompassed the range of potential participants in the program. Both Dr. Damron and Mr. Desiderio stated that they held this view.

Ma. Atkeson asked PCA if they saw any other potential profiles as to risk. Ms. Ceserani noted that perhaps an ultra-conservative investor might want an option where the risk of any capital loss was very small – such as a stable value fund.

Dr. Damron also raised the question of investors who might want to save for K-12 tuition. They might also desire a conservative investment option.

Ms. Ceserani summed up this part of the discussion by raising the question of whether or not the current investment offerings in the plans fit the three risk based profiles.

Mr. Miller reviewed briefly the portfolios and age-based tracks that had been approved last summer for roll out in January. He noted that the increased number of portfolios offered investors much more choice in terms of the risk they may want to accept.

Mr. Lobdell then dealt with the questions related to active versus passive management. He noted that there was general agreement that there was a place for both kinds of activity. He noted that in general the idea that active management is more effective in markets that are less efficient (such as emerging markets). In these markets an astute manager may have access to information that is not widely available and outperform as a result. In more efficient markets (such as USD large cap stocks) almost all investment information is readily available to investors. This makes it much less likely that an active manager will outperform the relevant index.

Vice Chair Desiderio noted that he had been confused by the use of the word "inefficient". Dr. Damron also noted that certain common terms had special meaning in the investment context.

Mr. Lobdell said that based on how the passive versus active questions were answered, there appeared to be a consensus that the program should contain elements of both passive and active management. Mr. Desiderio noted how over the years more passive investments had been added to the program. In his view that showed that the board preferred a mix of the two.

Mr. Miller observed that the questions were drafted in part to elicit whether or not the board was clear on certain investment matters. It was perfectly appropriate for board members to be somewhat annoyed, and to ask what a question might mean. As a result of the comments, PCA would come back to the board with more refined questions based on a common understanding of terms. The process is an evolutionary one.

Mr. Lobdell then moved on to question regarding diversification. He noted that there was a consensus that excess volatility in portfolios could cause investors to buy or sell investments at the wrong times. There was also a consensus that diversification of investments was a way of damping portfolio volatility.

He noted that the board considered fixed income investments to be a good diversifier for equity investments, but that there was a recognition that some fixed income investment, like high yield bonds, behave more like equity investments, especially in times of crisis.

Mr. Lobdell noted that the board was more divided on the issue of globally oriented investments, versus investments with a US bias. Ms. Ceserani noted that the current portfolio structure has a home (US) bias. Mr. Werner confirmed that the structure was 75% home biased.

Mr. Miller noted that a point of confusion might be the term "global". In the investment world "global" means all countries including the US. A typical global portfolio for a US investor is 50% foreign and 50% US. In the investment business a foreign portfolio is termed "international", meaning outside the home country.

Mr. Werner observed that the new investment changes would make the portfolios about 35% international. Still a US bias. Ms. Ceserani stated that PCA regarded the 35% allocation to international as appropriate.

Mr. Lobdell then moved on to risk management questions. He observed that the board agreed that risks should be analyzed by the nature of the underlying risks and not necessarily by the stated asset class. There was agreement that both the board and the investors should be educated as to the underlying risks.

There was also agreement that risk had a number of characteristics, such as the probability of not meeting a long-term goal and the risk of losing money during the college years. He noted that if investor profiles included the goals of meeting or exceeding tuition inflation, then the element of growth risk can't be eliminated.

The discussion then turned to alternative investments. Mr. Lobdell explained that this simply means investments that are not the usual stock and bond investments. Hedge funds are an example. The board appeared comfortable with the idea of alternative investments. Mr. Miller noted that alternative investments aren't necessarily riskier than typical investments, they are just different kinds of investments that can add to the diversification of the portfolios. There was no agreement with regard to illiquid investments.

Mr. Miller asked Ms. Ceserani if PCA could draft a document that summarized the areas of agreement that arose from the survey.

(A lunch break was taken from 11:56-12:10.) (Ms. Atkeson left the meeting at 12:10.)

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10) QUARTERLY MARKETING REPORT

Mr. Esparza then introduced Ms. Wakeland, the new Director of Accounts for Esparza Advertising. She gave a brief overview of the marketing presentation, and then discussed the quarterly marketing comparison. She noted a 200% growth in media impressions and a 50% increase in site users. Ad driven visits were up 291%. Total emails delivered increased as well. One number that was down was total new accounts, but total sales dollars was up.

Mr. Berry then reviewed the new TEP logo design, which incorporates the shape of the state of New Mexico in the mortar board top, as well as some differences in color saturation that makes things easier to read against a white background.

Then Ms. Bednar reviewed the Phase 1 fee and investment changes. She noted that the changes had launched successfully during November. The TEP website was modified to include a banner highlighting the changes to the plan.

The discussion then turned to the new TEP marketing website. Ms. Wakeland reviewed the work that had been done to date to create the new site. She noted that a June launch was contemplated.

Next Ms. Roos reviewed the employer and community outreach efforts in New Mexico during the quarter. She noted that three employers, DPS, the Waldorf School of Santa Fe and HB Construction, had adopted payroll deduction for employee contributions to the 529 program. She also spoke of her efforts to reinvigorate efforts with existing employers that had not been contacted in some time regarding the 529 program. She mentioned employers such as Presbyterian Health Care and UNM.

She also noted that CNM was close to implementing 529 contributions from payroll. The college has over 2,000 employees.

She also noted efforts to get employers that did not want to offer payroll deduction to allow the 529 program entry into the company for informational sessions with employees. These employees can then sign up and contribute directly to the plan through their own accounts.

She noted the ongoing effort to get LANL to allow 529 payroll deduction, as well as the relationships with several New Mexico county governments, including Dona Ana, Luna and Taos counties.

She then ran through a number of family-oriented events around the state where TEP representatives were present, such as the Girl Scout Cookie Palooza event. TEP has also established a relationship with the GEAR UP program. The goal was to do a "train the trainer" program with GEAR UP personnel.

She also noted the need to increase staffing in order to more effectively cover a very large state. Mr. Miller noted that not only would the ETB management be looking at supplementing the staff, it was also looking at the creation of a Marketing Director position. The marketing efforts both in-state and nationally require an additional senior resource to support them.

Mr. Berry then reviewed the new financial advisor campaign for Scholar'sEdge. The campaign is designed to appeal to financial advisors as genie's who grant wishes. In this case the gift of education. The campaign was designed based on research showing that many financial advisors feel under pressure from the rapid changes in their industry.

The second campaign came from the idea of a balanced portfolio. Having a 529 plan is like having a balanced breakfast. Since many financial advisors grew up watching the cereal commercials on TV, the campaign is designed to be a fun way to play off of that experience. The campaigns are scheduled to go live in mid-February.

Mr. Hylind then addressed a client education piece that has been developed for financial advisors to use with clients. The piece is the ABC's of 529 plans. It is designed to be modular and to have a high graphic content.

Mr. Hylind also thought that some of the content in the piece could be carved out and used for TEP.

Finally Ms. Bednar updated the board with regard to the marketing budget. She noted that the year was half over but the remaining budget was still over $2 million. Mr. Miller also noted that the marketing spend tended to be lumpy, depending on the timing of various campaigns.

Mr. Jarmie asked why more of the budget wasn't spent during the October through December timeframe, which is a big period for 529 sales. Ms. Bednar explained that spending was earmarked for various parts of the year and critical projects such as the new TEP website. Also some amounts had to be kept in reserve for one off items such as document mailings to investors. A single mailing can cost $70,000.

Mr. Jarmie was of the opinion that there should be no rollover dollars in the marketing budget.

(Dr. Damron left the meeting at 12:21 PM)

11) PROGRAM MANAGER'S QUARTERLY INVESTMENT REPORT

Next Mr. Werner gave the Program Manager's Investment Report. He referred the Board to the Executive Summary. He began with a brief review of the quarter and the year-to-date in terms of the economy and markets. He noted that 4th quarter performance continued the positive performance for the year although there was a slight pullback at year end. International and emerging markets outperformed domestic markets, but domestic markets were also positive. Emerging markets were the highest performers. Large cap outperformed small cap and growth outperformed value. The market environment has been ideal for stocks, and valuations are high.

For The Education Plan Mr. Werner noted that the funds in the new Vanguard index portfolios were across the board performing as expected. Moving to the blended portfolios, he noted that some of the active funds gave back some gains. The International Growth Fund and Global Growth Fund underperformed slightly. The Main Street Fund underperformed as did the Main Street Small Cap Fund.

Turning to Scholar'sEdge he noted that five of the Age-Based Portfolios performed in line with benchmarks net of fees. The underperforming funds mentioned previously cause the others to underperform.

With regard to underlying funds, he noted the outperformance of the Global Fund. The Main Street Fund underperformed by 4.5%. Three large fund positions were the main cause – PG&E, Celgene and Merck. This was a very significant underperformance, The International Growth Fund slightly underperformed.

In terms of sales, Mr. Werner noted year over year growth of contributions was 2%, but net contributions were still negative. He noted that assets (10.4%) and accounts (2.1%) were up for TEP, but that SE accounts were down nearly 9.8 and assets up (6.4%) % year over year.

Mr. Werner thought that the fee and investment project changes made the plan more competitive, and that the move to omnibus accounting would help. Ms. Ceserani asked when that would occur. Mr. Werner said that it would not be this year. He stated that the design of the program did not allow for omnibus accounting, and that the changes being made would allow for it.

Mr. Jarmie noted his dissatisfaction with the loss of accounts in SE and the failure to grow new accounts. He said that there had not been a single quarter since he had been on the board where account growth was positive.

Mr. Miller noted that over the years the 529 industry became more competitive. The leaders got better. By contrast the New Mexico program was in the middle of the pack at best, and became uncompetitive.

He noted that the changes to TEP would make it more competitive, but that much more work remained to be done on Scholar'sEdge.

Dr. Garcia asked for an update on Morningstar. Mr. Miller noted that TEP was not rated again, and that SE was rated Neutral overall and Negative as to fees. He observed that in the past Oppenheimer discounted the Morningstar relationship, but that current management was trying to reinvigorate that. This does not happen immediately.

As for recent changes to the program, Morningstar waits to see that the board has approved the changes, and that they are actually implemented. Mr. Miller noted that any program changes are communicated to Morningstar.

Ms. Ceserani noted that she is baffled, as is Mr. Miller, by Morningstar's refusal to rate TEP. Mr. Miller noted that he and PCA had visited Morningstar for the last three years, but that TEP was still unrated.

Dr. Garcia asked what might happen if TEP were rated by Morningstar. Mr. Miller and Ms. Ceserani were both of the opinion that it would help the program be better recognized within the financial industry, especially by independent financial advisors. It would be less helpful for retail investors.

Ms. Ceserani stated that the most important factor in gaining new accounts would be to go to omnibus accounting for Scholar'sEdge. Mr. Werner agreed, as did Mr. Miller.

Dr. Garcia and Mr. Jarmie both reiterated that the educational situation in New Mexico demanded that the program generate more New Mexico accounts. The demographics in the state as to post-secondary education remain very challenging.

12) INVESTMENT CONSULTANT QUARTERLY REVIEW AND WATCH LIST RECOMMENDATION

Vice Chair Desiderio noted that he had to leave the meeting shortly. In the interest of time, Ms. Ceserani addressed the watch list recommendations. She recommended that the Dreyfus Research Growth Fund remain on watch as well as the Oppenheimer Capital Income Fund. She noted the continued underperformance of the Mid Cap Fund, and recommended that it be placed on watch. She noted that the Dreyfus Fund would be removed from the program in any event in February.

Mr. Jarmie moved that the Dreyfus Research Growth Fund and the Oppenheimer Capital Income Fund remain on watch, and that the Oppenheimer Main Street Mid-Cap Fund be added to the watch list. Dr. Garcia seconded the motion. The vote to approve the motion was unanimous.

13) PUBLIC COMMENT

There was no public comment.

ADJOURNMENT

Vice Chair Desiderio left the meeting at 1:34 PM. The meeting adjourned for lack of a quorum.