The Education Trust Board of New Mexico

THE HONORABLE Michelle Lujan-Grisham
GOVERNOR OF NEW MEXICO

DR. Kate O'Neal, CABINET SECRETARY
NEW MEXICO HIGHER EDUCATION DEPARTMENT

Meeting Minutes of May 1, 2019
1121 4th Street, NW
Albuquerque, NM 87102

Board Members in Attendance

Sandra Liggett – 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
Helen Atkeson -- Hogan Lovells US LLP
Kurt Sommer – Sommer Udall
Soohyang Lee – AKF Consulting
Kay Ceserani -- Pension Consulting Alliance
Eric White – Pension Consulting Alliance
Michelle Nelson -- Court Reporter

APPROVED
Vera Lyons
Board Secretary
9/9/19

1) CALL TO ORDER

Ms. Liggett called the meeting to order at 9:00 AM. The roll was called and all five board members were present. A quorum existed.

2) APPROVAL OF AGENDA

Ms. Liggett noted the agenda as presented to the Board. She asked if there was a motion to approve the agenda. Dr. Garcia so moved. Vice-Chair Desiderio seconded the motion. The motion was passed unanimously.

3) PRESENTATION BY SUMDAY AND RUSSELL INVESTMENTS

Ms. Liggett observed that the purpose of the meeting was to receive presentations from the finalists selected for the Request for Proposals for Program Manager Services. The first group to present represented Sumday, a subsidiary of Bank of New York/Mellon, and Russell Investments.

Mr. Olson of Sumday noted the challenge of saving for college and the burden of student. He observed that Sumday possessed expertise in record keeping, administration, call center operations and marketing. He noted the distinction between the direct –sold 529 plan and the advisor-sold 529 plan.

He stated that Bank of New York/Mellon is the world's largest custodian with $34 trillion under custody. He noted that the Bank had over 165 million in retirement, health savings and college savings accounts. He also noted that it was regarded as a Global Systematically Important Financial Institution. It was regarded as too big to fail, and had special regulatory requirements imposed on it. He noted that this made the Bank sometimes a little slow to do things because of the extra compliance and regulatory burden. He thought this was good for the Bank's clients.

Mr. Spina of Russell Investments then turned the Board's attention to a presentation slide entitled "Our Investment Strength and Experience". He noted that Russell Investments had over $250 billion under management and over $2.5 Trillion under advisement. He stated that assets under advisement meant that the firm consulted to clients who managed money, but did not manage the money itself.

He noted that the firm was founded in the 1930s and had gone through several ownership changes. He also noted that the firm expected to bring in $15 billion in new assets in the first half of the year. Also the firm was expanding its relationships with financial intermediaries such as LPL and Ameriprise.

Ms. Ceserani asked what kind of business was being brought in. Mr. Spina said that it was largely OCIO business or Outsourced Chief Investment Officer business.

He also noted the challenges of working with financial advisors, and educating them on the benefits of a 529 program for college savings.

Mr. Murray then addressed the firm's investment approach. He noted the short accumulation period for 529 college saving. He recommended that an enrollment date asset allocation structure be developed for the 529 program. This would be based on one year increments from birth out to the college years. The glidepath for the investments becomes more conservative as the beneficiary gets closer to enrollment. The approach would be similar for both The Education Plan and Scholar'sEdge.

He then described the manager of managers approach taken by Russell. The firm has more than 40 analysts who review other investment management firms for incorporation into Russell's offerings. This structure allows the best managers in certain areas to be selected, with Russell controlling the money available to each manager and being able to replace a manager if needed.

Mr. Uricchio of Russell Investments observed that there were several things that would help grow the advisor-sold plan nationwide. The first is the experience of the firm's sales and marketing leadership. He noted the 529 sales team's previous experience with Wisconsin and Iowa. He pointed out the experience of the Russell in dealing with intermediaries and financial advisors generally going back to the 1970s.

He also mentioned the reputation of Russell for multi-manager strategies.

He noted that the firm did not currently have omnibus relationships with brokers, but that the relationship with Sumday leads to access to Pershing for an omnibus relationship.

Mr. Magnolia of Sumday gave a demonstration of a participant dashboard used by Sumday. It has single sign on for multiple accounts and the dashboard is responsive for different types of devices like laptops and phones. There is also a live chat feature. The call center rep can also take over the account owner's screen and show how to do things. The sight is also ADA compliant. The site is also going to be modified in the future to use behavioral economics to trigger contribution activity, particularly automated contributions.

At this point the presentation limit had been reached, and the question and answer period began. Ms. Atkeson noted that the contract is not with the large bank but with a small subsidiary, Sumday. She asked how the board would be protected in the event of a large loss in the program. Mr. Magnolia said that a parent company guarantee could not be provided. Mr. Magnolia said that Sumday had contracted with the Bank for record keeping and administrative services, and that Sumday had recourse to the Bank in the event of errors. She asked if there would be third party beneficiary rights for the program and he confirmed that there would be.

Ms. Atkeson then addressed the issue of a parent company guaranty from Russell. Mr. Spina observed that protection could be afforded not through a guarantee but through insurance. Mr. Desiderio asked if the board could see the policies. Mr. Spina said that it could.

Mr. Miller then turned to the credit rating of Russell. He noted that the rating agency had given it a negative outlook. Mr. Spina explained that this was the result of the company issuing a dividend to investors without having clearly communicated that the ratings agencies. He noted that the firm generates over $1 billion in revenue and is profitable.

Mr. White asked if the dividends were from cash flow or from recapitalizations. Mr. Spina thought it was a combination of both. He noted that the firm's debt level was fairly stable over time.

Mr. Miller noted that the firm was not licensed to sell municipal securities. Mr. Spina noted that they understood the requirements and could be registered in time to meet the board's requirements.

Mr. Jarmie asked who would be handling the New Mexico account. Mr. Magnolia and Mr. Olson said it would be Sumday.

Mr. Miller noted that as executive director he had to have access to key decision makers in the all areas of the business from record keeping to marketing to investments. Both firms agreed that he would have that.

Mr. Miller then turned to the form of contract and the markups that had been done by Sumday. He said that he was shocked by the extent of the revisions. Ms. Atkeson noted that there were six initial show-stopper issues and asked if those were being revised to the board's satisfaction. Mr. Magnolia said that they were. She also noted that she had negotiated with the Bank in the past and that the process very slow. She noted that there were numerous other provisions to be negotiated, and she wanted some assurance that this process could be completed quickly since the board had a short time frame for conversion.

Mr. Magnolia noted that they have a Bank counsel that works on the business for them. He also noted that the tri-party nature of the agreement was something new for them, and caused a lot of the redrafting of the form agreement.

Mr. Magnolia stated that the legal process would be addressed fairly and flexibly.

Mr. Miller then noted that a couple of the references from current clients had referenced Sumday's newness to the business and a sense that the firm was learning on the job. Mr. Magnolia noted that they had taken on quite a bit of new business and had operated without a lawyer for a period of time, so that could explain some of the comments.

Mr. Miller then asked about the security of personal information about account owners and beneficiaries. Mr. Magnolia observed that the Bank had significant data security protections. Mr. Miller then asked about Russell's access to such information. Both Mr. Magnolia and Mr. Spina confirmed that Russell did not have access to such information.

Mr. Miller also asked about the Sumday's willingness to make system modifications. Mr. Magnolia said that system modifications could be made, but that larger activities would be subject to cost negotiations.

Mr. Miller then asked Mr. Magnolia about the ability to subaccount for a significant number of childhood development grant accounts in the event the state developed such a program. Mr. Magnolia affirmed that sub-accounting for the individual accounts was possible through Sumday.

Mr. Miller then turned to investments. He noted that five risk based static asset allocation options were proposed. He asked if it would be possible to include a stable value option in the static asset allocations. Mr. Miller noted that in his view a bank account option was not particularly popular. Mr. Olson said that in their experience it had been a good option. Mr. Magnolia said that they were open to adding a stable value option.

Mr. Miller then asked about the enrollment date opens. He confirmed with Mr. Murry that these were annual sleeves with Russell Investments manager-of-manager mutual funds as the underlying investments. He also noted that the options were all actively managed on the advisor-sold plan.

Ms. Ceserani asked why costs could not be reduced by adding some passive options for asset classes like US large cap stocks. Mr. Murry noted that the goal was to come in at slightly less than the current cost of the options. Mr. Murray and Mr. Spina noted a willingness to discuss the matter further.

Mr. White asked why Sumday was partnering with Russell Investments when Bank of New York/Mellon already had a large investment management business. Mr. Magnolia noted that they regarded 529 programs more of a retail business, and the BNY/Mellon investment management business was largely institutional.

Mr. White then asked about the asset allocation process. He noted that the accumulation period for 529 assets was often fairly short – perhaps seven to ten years depending upon when the savings first started. Mr. Murray acknowledged this, but added that account owners may not reach the goals they had hoped, but at least they had some assurance that the money saved was more conservatively invested, and would not be subject to large losses.

Mr. White then asked about the manager of managers structure of the portfolios. He noted that it is very difficult to outperform index returns with active management in efficient asset classes. How could Russell justify the higher fees for such a design? Russell did not directly answer the question.

Ms. Ceserani noted that Morningstar did not currently rate the Russell funds recommended for the program. She asked how that problem would be addressed. Mr. Spina noted that Russell was actively engaged with Morningstar, and he believed that the firm was close to getting ratings for some of the funds.

Mr. Miller then raised the amount of the marketing commitment from Sumday/Russell. He noted that the commitment was substantial, but that it was heavily weighted to the direct-sold plan. Given the much larger size of the advisor-sold plan, he asked if the marketing spend could be reallocated. Mr. Uricchio said that it could.

For the direct-sold plan Mr. Miller also asked if the marketing money could be paid directly to the board for its discretionary use. Mr. Magnolia acknowledged that it could.

Mr. Miller then turned to the marketing goals presented to the board. He noted that they were very aggressive. He asked if Sumday/Russell was open to including other distribution channels in the arrangement if the promised growth didn't occur. Mr. Uricchio indicated a willingness to approach broker-dealers about white label products.

Mr. Miller then asked what would be Sumday/Russell's openness to including other money management firms in the mix if the performance was not good over time. Mr. Uricchio indicated a willingness to engage in those discussions. Mr. Miller noted that it might be placed in the contract.

Ms. Ceserani asked what the firms intended to do to retain current account owners during the transition. Mr. Uricchio described a pre-market marketing campaign that would be available before launch. Mr. Spina said that there would be intense coverage of the installed broker base, followed by aggressive marketing to other brokers after launch.

Mr. Miller then asked about the estimated six-month conversion period. He asked in Sumday had any experience with converting a 529 plan from the Envision system to the Sumday platform. He said they did not. Mr. Magnolia then noted that data conversion can cause delays, both for systems data and imaged document conversion.

Ms. Atkeson asked what his reasonable guess was as to conversion time. He noted that a recent conversion had taken six months, followed by another four months of "cleaning up the mess."

Mr. Miller then turned to asset and account fees. He noted a program manager fee of 12 basis points for Scholar's Edge and 5 basis points for TEP. He then asked about the hard dollar fee of $18 for small accounts under $25,000. He asked if the fee would be waived for New Mexico accounts and automatic investment plan accounts. Mr. Magnolia and Mr. Uricchio agreed that the current waivers would be applied. Ms. Lee noted that the matter had not been clear in the written proposal.

Mr. Jarmie asked how Sumday/Russell would reach out to New Mexico residents. He noted that many people in the state did not just save too little for education, but they didn't save at all. Mr. Magnolia observed that it is largely a ground game, and that Sumday/Russell would be contributing funds to support community outreach by ETB personnel in New Mexico.

Mr. Jarmie then asked if Sumday's relationships with other states would interfere with the requirement of exclusively distributing Scholar'sEdge nationally. Mr. Miller noted that in the proposal Sumday/Russell had committed to making Scholar'sEdge the sole 529 plan being distributed nationally by Russell. Mr. Uricchio confirmed that commitment.

Ms. Lee asked why Sumday would not commit to marketing only the New Mexico program inside the state. Mr. Magnolia stated that Russell was the marketing firm. Russell confirmed that it would not market any other state's plan in New Mexico. Mr. Magnolia made the same commitment for Sumday.

At this point the presentation of Sumday/Russell ended.

4) ASCENSUS/PRINCIPAL GROUP PRESENTATION

After a short break, the Ascensus/Principal Group team presented. The team members introduced themselves to the board.

Ms. Creonte of Ascensus began the presentation by noting that the goals for the two plans were to construct high-quality plans for the investors that are each plan's target. They wanted to offer a broad range of high-quality investment options to help savers meet their goals. They wanted to provide a budget and marketing expertise and high industry rankings that would help drive further growth.

The Education Plan would be focused on an open architecture, with a best-of-breed line up. The current line up would be simplified to make it easier for investors to understand. A strong commitment to marketing dollars would be made to support state marketing efforts. Finally, the Unite platform would bring high quality self-service to investors.

For Scholar'sEdge, which is a mature plan, the focus would be on a strong distribution partner. In addition, the goal was to bring a best-in-class line up to the investments as well as a strong national marketing program.

Ascensus would be the program manager for New Mexico. Ascensus would also design the investments for the direct-sold program. Principal Global Investors would oversee investments and asset allocation for the advisor-sold plan, and would provide a world class marketing organization.

She also noted that Ascensus was the most experienced conversion manager in the industry. It is the nation's largest independent record keeper. Sher then turned to Mr. Hill of Principal.

Mr. Hill reviewed the history of the Principal Financial group of companies. He noted the firm's strong commitment to the retirement business. He thought that the focus on the employer would be a great enhancement to the traditional sales effort directed at broker-dealers and their clients. Principal has relationships with 56,000 employers. Principal would focus initially on retention of existing business. Then the focus would be on growth and development. He reviewed the US client group at the firm. He noted that a dedicated 529 specialist team would be put into place.

He noted the advanced retirement team and the "Knowledge Hub". Both of these groups have access to advisors.

Principal has a relationship with Morningstar, and two people dedicated to the effort.

He turned to the Wealth Advisory Service. This is a group of 45 external and 45 internal wholesalers that service the same advisors that Oppenheimer does.

Next he described the Principal Advisor Network. It consists of over 1200 advisors with $42 billion in total assets. Principal would move to sell the 529 plan into this group.

The Principal Connection Group tries to capture rollover money from plan participants leaving retirement plans. It has captured over $14 billion in rollovers and other products for Principal. He then turned to Ms. Maters to describe the Principal marketing effort.

Ms. Maters told the board that she had worked on the New York advisor-sold 529 plan while at JP Morgan.

She said that three things would drive the success of the effort. The first was a focused and experienced marketing team. She told the board that a 529 marketing director would be hired, and that a potential candidate had been identified. She noted that her department served as an internal marketing agency at Principal, with staff and resources dedicated solely to marketing Principal businesses. This staff would work on the 529 business. This staff would be augmented by outside providers when necessary.

She then focused on the necessity of building differentiated, easy to understand and actionable content for advisors and their clients. This was important for both retention of existing accounts and growth of new accounts.

The final step is to amplify the message with an integrated marketing campaign that leveraged all the tactics available from Principal, including social media, digital advertising, events, sponsorships, and distribution partners.

Mr. Welch then turned to the proposed Scholar'sEdge investment line up. He mentioned that Principal has $675 billion in assets under management. The asset allocation team he directed was responsible for managing $120 billion of that.

He noted that while Principal was good in a number of asset classes, they brought in other managers, both passive and active, to complement their own investment management. This helps to produce better performing and lower cost portfolios. He then reviewed the enrollment date funds recommended for the program. By targeting a date when the money would begin to be used the choice of investment is made simpler, and can be used both by traditional college savers, K-12 and other types of savers. In creating these portfolios he noted that they had started with the typical capital market assumptions, tuitions costs from public and private institutions, and the actual savings behavior of investors as provided by Ascensus. He then turned to Mr. Fennessey to go into more detail.

Mr. Fennessey described the glide path for the enrollment date portfolios and how it differed from the typical retirement glidepath, the asset classes the firm proposed, and the use of outside managers. He noted how passive management can reduce costs and stabilize portfolios. He then showed how 70% of the underlying options were either 4- or 5- star rated by Morningstar. The remainder have a 3-star rating.

He then introduced Mr. Lowe from Ascensus Investment Advisors to pre sent the proposed investment line up for TEP. Mr. Lowe began by explaining the goals of the proposed line up. The first goal was simplification to reduce cost and improve the investor experience. Ascensus believes that many investors are intimidated by complex choices of investments. The key is to get investors into an appropriate portfolio as soon as possible.

The second goal was to select best-in-breed funds. Ascensus does not sponsor mutual funds. They can select among the universe of mutual funds and ETFs.

The third goal was to convert the age-based funds to enrollment date funds. This provides a smoother glide path for the portfolios.

The final goal was investment flexibility. Even though the number of portfolios would be reduced, active static and passive static portfolios would be introduced, as well as year of enrollment funds and several individual fund portfolios. This allows investors with different goals and risk tolerances to build portfolios themselves.

He then went on to discuss the structure of the enrollment date and static asset allocation portfolios in some detail. He also discussed the proposed mapping of the existing plan portfolios into the new portfolios. He noted that account owners would be mapped to portfolios that did not increase their equity exposure from the previous mix.

He also proposed several individual portfolio options including US equity index, bond index and capital preservation portfolios. He proposed New York Life as the stable value provider for the plan.

He noted that international bonds and high yield had been added to the fund mix because they are good diversifiers and there are index funds that can track these assets classes at low cost.

Ms. Creonte from Ascensus then addressed the cost proposal. For The Education Plan the program management fee plus the lower cost of investment make the plan one of the lowest cost in the country. For Scholar'sEdge the program management fee and the reduced cost of investments significantly reduce the overall cost of the plan. In addition the small account fee would be reduced from $25 to $20.

Ascensus was also proposing Class A shares and Class C shares and a low cost Class R share for use by fee-based financial advisors. The Class C share would continue the current practice of converting to Class A shares after 5 years.

She then reviewed a slide that compared the overall costs of the old plan designs and the new plan designs, as well as pointing out the revamped investment structures.

With that she concluded the presentation and asked for any questions.

Dr. Garcia opened by reviewing the diversity of New Mexico and the lack of a tradition of going to college. He observed that there was a need for skills based education. He pointed out the need to reach out to these diverse populations effectively so that New Mexico would have the kind of educated work force needed for the future.

Mr. Jarmie asked how Ascensus would help New Mexico in the enrollment of its people in the college savings plan. Ms. Creonte noted that even states like New York have trouble attracting low to moderate income account owners to the 529 plan. The first objective is to raise awareness of the plan among that segment of the population. She referred to the partnership that Ascensus has with the Brown School of Social Work at Washington St. Louis University to deal with this issue. The school has been a leader in championing grant programs in the form of childhood savings accounts.

Ascensus has a technology platform that allows states and others to implement grant programs for low to moderate income families that allow the families to see that money is in an account for the child's benefit.

Mr. Hill from Principal mentioned that a focus on the employer channel could help raise awareness of the benefit of 529 plans among low-to-moderate income families. Ms. Maters also noted that Principal addresses its message in different ways to different groups.

Mr. Jarmie noted that Ascensus serviced a number of 529 plans for various states. He asked how New Mexico would be special within that group. Ms. Creonte noted that the large client base and the exclusive focus on the 529 business meant that New Mexico would benefit from all the infrastructure put into place by Ascensus. She encouraged Mr. Jarmie to ask any of their states if they felt they were not getting appropriate attention from Ascensus.

Mr. Jarmie asked how many national plans were administered by Ascensus. Ms. Creonte said there were two direct-sold plans – Nevada/Vanguard and Nevada/USAA. On the advisor-sold side there were also two plans – New York/JP Morgan and Rhode Island/Invesco.

Ms. Atkeson observed that the exclusive national plan for New Mexico would be Scholar'sEdge, which would be distributed by Principal. Ms. Creonte and Mr. Hill concurred.

Mr. Jansen asked how Ascensus and Principal would deal with the net distribution of assets problem found in older 529 plans. Mr. Hill replied that Principal has a similar experience with retirement plans. He observed that Principle has a history of providing outcome-oriented solutions to investors, a strong distribution network and management focused on making the 529 plan successful.

Mr. Jansen asked if both firms had enough information about the plans so that they understood the selling requirements necessary to grow the plans. Ms. Creonte said that they were, and they looked for a distribution partner that could address that need. Principal had a strong asset allocation investment team and 1200 advisors in its propriety network. In addition she has had conversations with national distribution firms that confirm the strength of Principal.

She also noted that Ascensus had given much thought to the direct-sold program. The RFP requested that Ascensus allocate marketing dollars to the direct-sold effort that would be under the control of the Board.

Chairwoman Liggett as for more specific information about the conversion process. Ms. Creonte said that Ascensus had mapped out a conversion process that starts with an all-day conversion planning session involving all the parties. Ascensus would assign a project manager to take direct responsibility for the conversion. These are specialists that do conversions do a living. Weekly meeting would take place on a variety of topics critical to a successful conversion.

Ascensus has done multiple conversions from the envision system used by Oppenheimer. Data dumps from Oppenheimer would begin very early in the process. Twice weekly calls would be held to deal with any operational or data issues that arise.

There is a process for creating marketing and communications materials, and a timetable for communication with account owners and advisors.

She then described the three mock conversions that would take place. She noted that Ascensus had successfully completed the Rhode Island conversion of both a direct-sold plan and an advisor-sold plan during the season when account owners were making withdrawals to pay school expenses.

Ms. Atkeson asked Ms. Creonte if Ascensus would be prepared to accept the full costs of conversion from Oppenheimer. In the proposal a cap had been proposed. Ms. Creonte stated that Ascensus would agree to remove the cap.

Ms. Atkeson asked Ms. Creonte if Ascensus would accept contractual responsibility for the actions of their subcontractor Principal. Ms. Created started that they would. Also she agreed that the parent company guaranty from Ascensus would cover the acts of subcontractors such as Principal. Ms. Creonte agreed.

Ms. Atkeson then asked about the contract provision that would permit the board to establish other 529 programs. Ms. Creonte observed that some other states had asked similar questions, and had agreed that Ascensus would have a right of first refusal to act as the program manager for any new plans.

Mr. Miller noted that Ascensus had come in with some realistic estimates on account growth. He expressed his concern that a few years into the contract it has become apparent that the numbers are very poor. The board might come to Ascensus and propose an additional distribution channel. He asked Ms. Creonte if that would be something that Ascensus would consider. She said that it was.

Mr. Miller then turned to the proposal that in Scholar'sEdge Principal would have 75% of the assets under management. He thought the percentage was high. He asked if Ascensus would agree if there were underperformance that the percentage managed by Principal. Mr. Goeden stated that perhaps a reduction to 70% might be possible.

Mr. Miller then asked Ascensus if they would be willing to increase the rather modest commitment to marketing dollars in the proposal. He asked if Ascensus would commit to increasing the commitment. Ms. Creonte stated that they would agree to increase the direct-sold plan commitment as well as the advisor-sold commitment from about $11.5 million to slightly over $16 million for the life of the contract.

Mr. Miller then turned to Meketa to ask further questions. Ms. Ceserani asked how many other states served by Ascensus had adopted an enrollment date structure. Mr. Welch started that there were three.

Ms. Ceserani then asked if the asset allocations were the same across all the states. He said that it was. Ms. Ceserani asked how New Mexico would be differentiated if that was the case. Ms. Creonte noted that New Mexico would be the least expensive for New Mexico residents.

Ms. Atkeson observed that half the account owners were out of state. Mr. Miller stated that the direct-sold plan was very price competitive – especially for the index component. Ms. Creonte observed that under the proposal New Mexico would be very close in price to the New York plan with over $22 billion in assets.

Mr. White of Meketa then asked about the Ascensus ownership structure. Ms. Creonte noted that Ascensus is owned by a private equity partnership of Aquiline, Genstar and recently Atlas. She noted that a number of ownership structures had been involved over the years, but the core management at Ascensus had remained the same. She noted that all Ascensus does is provide record keeping and administration services.

Mr. Miller noted that the credit outlook on Ascensus was stable and that the credit ratings seemed appropriate for a firm owned by private equity.

Ms. Atkeson asked how the transition was going to Kevin Cox as head of the governmental plans business. Ms. Creonte noted that Mr. Cox had been with the company for 15 years and that he had been the COO of the business for 6 years.

Mr. Miller then asked about the $20 small account fee for ScholarsEdge. Ms. Creonte noted that it applied in the same manner as the current small account fee, but had been reduced to $20 from the current $25. Mr. Miller noted that some in the market were critical of such fees, including Morningstar. Ms. Creonte observed that the fees are a direct result of the size of the assets in the plan.

Mr. Miller observed that the current program manager in his view had reached the limit of its ability to increase account and assets. He hoped that any new provider selected would have the power to go well beyond the ability of the current program manager to grow the program.

Ms. Lee of AKF then asked about the $3 billion breakpoint target in the proposal for lowering fees. She asked if that was only for Scholar'sEdge assets. Ms. Creonte confirmed that it was.

Mr. White then asked about the design of the enrollment date portfolios. Were they just a shrunken version of a retirement plan target date portfolio? He noted that Meketa's research on 529 account owner behavior indicated that the typical time period for exposure to growth assets is about 5 years. This is a very short time in which to grow assets.

Mr. Lowe from Ascensus agreed that this is a problem for 529 plans. He noted that in most cases families are not entirely funding college through 529 plans. Loans and scholarships still play a big part. He also noted a concern about keeping volatility in check. He admitted that the portfolios were designed somewhat conservatively.

Mr. White asked if Ascensus was open to new ideas about the design of these portfolios. Mr. Lowe said that they were. Mr. White mentioned the idea of an "equity hump" to address the issue. Mr. Lowe acknowledged that there is research that supports that approach, but that it also was necessary to confront the reality that account owners could suffer large losses close to the college years using such a strategy. He expressed the willingness to work with the Board and its consultants on other approaches.

Mr. Miller asked about the ability of Ascensus and Principal establishing omnibus relationships with brokers. Mr. Hill from Principal said he thought that Principal had the relationship size with various brokers to establish omnibus relationships. Ms. Creonte stated that the ability of the record keeper to do omnibus relationships was important. Ascensus has significant experience with the technology needed to go omnibus.

Mr. Miller noted that the direct-sold plan had an enrollment date product with three-year sleeves whereas the advisor-sold product had two-year sleeves. He asked if Ascensus was open to also providing two-year sleeves in the direct-sold plan. Mr. Welch of Ascensus affirmed that they could.

Ms. Ceserani asked about the 80/20 active/passive glidepath allocation. She asked of Ascensus had looked at making this more dynamic across the glidepath. Mr. Lowe said that they look at this matter every year. It is also necessary to take into account the costs of running the program when designing investment structures. They have to balance three factors. The efficiency of the portfolios, the returns from active versus passive funds for each asset class and the plan costs.

At this point the presentation ended. (There was a break from 12:53 PM to 1:05 PM)

4. NORTHSTAR PRESENTATION

The next presenters were from the Northstar Financial. Mr. Reiners, Mr. Vanneman, Mr. Martin and Ms. Yockey introduced themselves.

Mr. Reiners opened with an overview of the firm and of the presentation. He then turned to Mr. Vanneman to discuss investments. His 14 person group (CLS) manages $10 billion in assets, mainly for financial advisors and institutions. He described CLS as a global multi-asset manager. The firm uses a risk budgeting approach as opposed to a traditional asset allocation approach to constructing portfolios. He noted that the fund line up is not proprietary. A major criterion for manager selection is cost. They believe in simplifying the investment options offered to investors. As previously mentioned the portfolios are constructed using a risk budgeting approach. Portfolios are rebalanced daily. The investment team is engaged. They will assist with educational efforts, commentary, quarterly meetings or whatever is required.

He then went on to describe the proposed investment line ups. He proposed age-based portfolios and some static asset allocation portfolios for TEP. He proposed the same for Scholar'sEdge, but with the addition of some individual fund standalone portfolios.

Mr. Martin then addressed the ownership of the Gemini companies and Northern Lights Distributor. They are owned by the Ultimus Group. They focus on record keeping and distribution. They are separate legally from Northstar. He reviewed the experience, longevity and performance levels of the service personnel.

The firm uses a SunGard FIS fund accounting system and the Envision record keeping system. He observed that the use of the Envision system should ease conversion issues. He noted that Northstar had converted the Texas plan from OppenheimerFunds. He then turned to Ms. Yockey.

Ms. Yockey noted that the conversion teams work directly with the compliance department to ensure that all transition plans and communications are fully compliant. They work closely with the state and the outgoing program manager to make sure participants are handled properly. Transition communications, call center scripting and transition web page are utilized.

Mr. Reiners then reviewed marketing strategy and capabilities. For TEP he recommended retaining a marketing firm and creating a marketing plan with the marketing firm, the State and Northstar. He recommended holding a weekly marketing call. He also recommended "rebranding the creative" every two to three years – especially the website.

For Scholar'sEdge he noted that Northstar does not have a nationally sold advisor plan. This would be the first. He said the firm would hire three dedicated wholesalers. He noted that the firm has 600 broker/dealer relationships. It works with about 1800 RIAs. It also has 18 external wholesalers and 16 internal wholesalers. The firm has a 25 person marketing staff that can assist the advisor-sold effort.

He then turned to the investment structure. He recommended simplifying it, as well as simplifying the account opening process. He noted that the firm has a film studio where videos can be made. They can be added to the websites for the plans or even embedded in online statements.

He then reviewed the marketing budget. He proposed $1.6 million per year, increasing by $50,000 annually. This was the total for both plans.

Mr. Miller then asked the board if it had any questions. Dr. Garcia asked the firm what were its greatest challenges and accomplishments in running the 529 program for the state of Texas.

Mr. Reiners noted that Texas has no state income tax, and thus no state tax deduction to help boost interest in the plans. He also noted that Texas has a successful prepaid tuition plan. This is where most of the 529 money goes.

Dr. Garcia noted that Texas is 25%-30% Hispanic. He asked how the firm reached out to that population.

Mr. Reiners noted that much advertising is directed toward the general population such as billboards and even on shopping carts. There are also grassroots efforts with a team of people that travel around the state. Ms. Yockey noted that one of the grassroots staff is bilingual and appears on Spanish language TV as well as interviewing with Spanish language publications and speaking at meetings. Ms. Yockey noted that there are Spanish language marketing pieces.

Mr. Jarmie then asked how the firm would increase the number of accounts, especially in a relatively poor state like New Mexico.

Mr. Reiners said that there were no specific steps he could recommend now, but he offered to work with the state to develop a marketing plan to reach the lower income demographic.

Mr. Jarmie then asked about the firm's success in reaching people in Texas.

Mr. Reiners said that in 3 years they have added 10,000 accounts to the direct-sold plan and 2,000 accounts to the newly started in-state advisor-sold plan. The bulk of the growth is in the prepaid tuition plan.

Mr. Jarmie asked what the percentage growth rate was. Mr. Reiners said about 7%.

Mr. Jarmie noted that the same growth rate was proposed for New Mexico. He asked how the firm intended to get there.

Mr. Reiners confirmed the 7% goal for both plans, and said that a creative marketing strategy would reach those goals.

Mr. Jarmie asked what would happen if the goals weren't reached. Mr. Reiners said that the marketing strategy would be revised based on that underperformance.

Mr. Jarmie told Mr. Reiners that several board members believed that growth in account numbers was important even if the accounts were small.

Mr. Reiners said that he understood.

Mr. Jansen then observed that the program had been in net distribution for the last several years. Many of the larger accounts with older beneficiaries are being drawn down for college expenses. He noted that this impacts the receipt of fees by the board to operate the program, and has been a source of stress during the last few years.

Mr. Reiners said that he recognized that issue. Ms. Yockey noted that the simplification of plan design would help the situation. They had done this in Texas with good results. She also mentioned that prior to the firm taking on the plan, the program manager had run it with a heavy hand. Northstar had a more collaborative approach with the state.

Mr. Miller asked if he could have the contact information for the Texas plan. Ms. Yockey said that she would provide it to him. She noted that Texas does not give written references, so that explains why the board did not receive one.

Mr. Jarmie reminded the firm that the new accounts metric was of critical importance to the board.

Ms. Atkeson asked the firm to clarify the contracting party with the state. Mr. Reiners said that it would be Northstar. She noted that the proposal listed six separate entities that would provide services to the plan, and she asked if they would be subcontractors. Mr. Reiners noted that all the firms described, except Ultimus, are wholly-owned subsidiaries of Northstar. Ms. Atkeson asked about Northern Lights Distributors. Mr. Reiners said that it was owned by Ultimus. He noted that Northstar would contract with Gemini and Northern Lights for services.

Mr. Miller asked about CLS, the trust company. Was it an active company and what was the size of the company? Mr. Reiners said that it was active, but that he would need to report back on its asset size.

Ms. Atkeson asked if Northstar was owned by anyone. Mr. Reiners replied that Northstar LLC, the parent of Northstar Financial was owned by a private equity firm, TA Associates.

Ms. Atkeson asked about a legal matter involving Gemini that had resulted in a regulatory order with the SEC. Mr. Reiners acknowledged that there had been a legal dispute involving pricing of a fund administered by Gemini for a third party. Ms. Yockey noted that the matter had been settled and that had been documented legally with the SEC.

Ms. Atkeson asked about the reservation of rights in the RFP by Northstar as to negotiation of contract matters. Ms. Yockey stated that she did not that there was anything in the contract that was a major sticking point for Northstar.

On references Mr. Miller mentioned the Swan Global commenting on some dissatisfaction with technology matters. He noted that information on pricing and performance had to be delivered daily to the plan websites. Mr. Martin conformed that information could be delivered via API. Ms. Yockey noted that the Swan matter related to getting underlying data on individual accounts from an omnibus relationship. This is a challenge for many firms.

He then mentioned a comment from another reference, Valmark, about changes in technology, staff and leadership at Northstar. She noted that there were some relationship management changes and a senior leadership change with regard to the Valmark relationship.

Mr. Miller then asked about the depositary relationship with First National Bank of Omaha. Mr. Reiners affirmed that that was the relationship, but that Northstar would be open to working with another bank if the state preferred.

Mr. Miller then asked about the commitment of Northstar to make system changes as requested by the board, such as changes to the enrollment process online. Ms. Yockey indicated that they would be willing to do the things as part of the normal course of business, as long as the requested changes where not a major expense.

Mr. Miller then asked about the capability of Northstar to finance the system enhancements necessary to go omnibus with brokerage firms. Ms. Yockey said that the Northstar system could accommodate omnibus relationships, but that they would not want to pay several hundred thousand dollars to a brokerage firm to finance the broker's systems changes.

Mr. Miller then asked if the firm had enough clout with major brokerage firms to get into omnibus relationships with them. Mr. Martin started that they were not in omnibus relationships yet.

Mr. Miller then asked about recurring gifting capability. Ms. Yockey said that the firm did not have it yet but would be willing to look into adding it as a feature.

Mr. Miller then asked about the firm's reaction to the $0 initial and ongoing contribution amounts for TEP. Ms. Yockey indicated that the firm would be willing to honor that requirement.

He noted that the same rules apply to employer payroll deduction. Mr. Martin stated that the firm could accommodate that as well.

Mr. Miller then asked about the capability of the Northstar system to permit financial advisors to see their client accounts. The firm stated that all accounts could be viewed by a single login, and that different levels of account permission where available.

Mr. Miller then asked Meketa to ask any questions they might have as to investments. Mr. White observed that the exposure to risk assets in a 529 plan is very short and that often the account owners are opening accounts when the beneficiary is already several years old. This means that a 529 glidepath should not necessarily look like a shrunken 401(k) glidepath. Perhaps there ought to be some sub-asset classes or changes to the glidepath to acknowledge this fact.

Mr. Vanneman agreed, and noted that the proposed glidepath structure has more asset classes than most. Mr. White asked if the firm would be open to working with the board to optimize the glidepath for 529 plans. He said that the firm led with what it believes to be a good investment structure, but that it would be open to listening to the board's ideas.

Ms. Ceserani asked why the firm proposed an age-based structure as opposed to an enrollment date structure. Mr. Reiner asked for a definition of enrollment date funds. Ms. Ceserani referred to the American Funds model. Mr. Reiners said that they would consider the enrollment date model, but expressed uncertainty as to the costs involved.

The discussion then moved on to the recommendations for the Scholar'sEdge plan. Mr. Miller noted that he liked the diversification of the offerings. Mr. White agreed. Ms.

Ceserani noted the presence of an ESG option.

Mr. Vanneman then described the fund selection process. He noted that chasing performance was not on the list. The firm looks for reliability of returns, and recognizes that from time to time asset classes go out of favor.

Ms. Lee then turned to the marketing commitment from Northstar. She asked the firm to clarify that in addition to the $500,000 marketing commitment to the direct-sold plan, there was a $200,000 commitment for grassroots outreach. He confirmed that there was. Mr. Reiners confirmed in answer to Mr. Miller's question that the $500,000 would be committed at the beginning of each year.

Mr. Miller asked if the state numbers were in addition to the initial $600,000 commitment for the direct-sold plan. Mr. Reiners said that it was.

Mr. Miller then turned to Scholar'sEdge. He noted the larger commitment to the advisor-sold plan but thought that made sense. Mr. Miller asked if the firm would consider front-loading some of the marketing commitment into the first year as a way to jump start the marketing effort. He said that he thought it was a good idea and would consult with his financial people about doing that.

Mr. Miller then turned to the projected growth rate in the proposal. He said that he thought it was very aggressive. He asked what would happen if in a few years the goals weren't met. Would the firm be open to imposing some performance standards in the contract if goals were not me? Mr. Jarmie observed that the current contract has financial penalties for failure to meet goals. Mr. Reiners said that he couldn't commit of such penalties without seeing the actual proposal. Mr. Jarmie noted that the penalty was an increase in marketing dollars.

Mr. Miller then turned to the question of the firm's willingness to pay for the expense of a conversion manager to assist the board during the conversion activities. Mr. Reiners agreed to the request.

Ms. Lee asked about the timeframe for conversion. Ms. Yockey sated about 6 months as long as the conversion agreement was in place quickly.

The discussion then turned to plan fees. Mr. Miller noted that the firm wanted to increase the program management fees for both TEP and Scholar'sEdge considerably above where they are now. . Mr. Reiners pointed out that the open architecture line ups proposed by Northstar meant that the firm generated no revenue from the funds themselves. Mr. Reiners then outlined a somewhat better fee proposal for Scholar'sEdge at an average program management fee of 38.6 basis points on today's assets. The $25 small account fee would be maintained with the usual exclusions for New Mexico residents and AIP investors.

Mr. Miller noted the proposal included both A share and C share classes. Mr. Miller asked about a share class for fee-based advisors as well as a rollover class to encourage rollovers from a foreign 529 plan to Scholar'sEdge. Mr. Reiners said that they would be willing to look at additional share classes, but mentioned TEP as an alternative for fee-based advisors.

Ms. Lee then asked if there was any flexibility on the $25 annual small account fee. Mr. Reiners said that any fee cut there would need to be compensated for by an increase in the program manager basis points fee.

At this point the presentation ended.

6. ADJOURNMENT

Ms. Liggett called for a motion to adjourn. Dr. Garcia so moved. Vice Chair Desiderio seconded the motion. The motion to adjourn was unanimous. The meeting concluded at 3:00 PM.