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

Board Secretary
Vera Lyons
8/1/19

APPROVED

Meeting Minutes of May 2, 2019
1121 Fourth 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
Janet Pacheco-Morton – Morton Accounting Services
Andrea Feirstein – AKF Consulting
Soohyang Lee – AKF Consulting
Del Esparza – Esparza Advertising
Eve Wakeland – Esparza Advertising
Kay Ceserani -- Meketa Consulting
Eric White -- Meketa
Chris Werner – OppenheimerFunds
Keith Hyland – OppenheimerFunds
Heather Holliday -- OppenheimerFunds
Leslie Bednar – OppenheimerFunds
Michele Nelson -- Court Reporter

1) **CALL TO ORDER**

Chairwoman Liggett called the meeting to order at 9:00 AM. The roll was called and four board members were present, Dr. Damron, Vice Chair Desiderio, Dr. Garcia, and Mr. Jarmie. A quorum existed.

2) **APPROVAL OF AGENDA**

Ms. Liggett noted the agenda as presented to the Board. She asked Mr. Miller to explain why he was recommending a change to the order of the agenda. Mr. Miller noted that board member Jansen would not be able to join the meeting until around 10:00 AM. He recommended that agenda items 5 and 6 and 7 be moved to that time and that agenda items 8 and 9 be moved ahead in their place. He also recommended that certain agenda items be moved as a result of that change in order to allow vendors to catch flights out of town. After agendas items 5, 6 and 7 he recommended that agenda items in order should be items 11 and 12 then item 10 and finally item 13.

Ms. Liggett called for a motion to so adjust the order of agenda items. Mr. Jarmie so moved. Vice-Chair Desiderio seconded the motion. The motion was passed unanimously.

3) APPROVAL OF MINUTES

Ms. Liggett referenced the minutes of the meetings as presented to the Board and asked for any comments. There being none, she called for a motion to approve them. Mr. Jarmie so moved that the minutes be approved. Dr. Garcia seconded the motion. The vote to approve the minutes was unanimous.

4) PUBLIC COMMENT

Ms. Liggett asked if there was any public comment. There being none, she moved to the next item.

5) EXECUTIVE DIRECTOR'S REPORT

Mr. Miller asked Ms. Pacheco-Morton to review the quarterly financial reports for the trust and for the administrative fund.

Ms. Pacheco-Morton noted that the trust was in a positive position since the fair value of investments and the net assets in the trust are greater than cost. She then turned to the statement of changes and fiduciary net position. She observed that the plans continue in net distribution. For the quarter there were $103 million in redemptions.

Due to positive market movement the net position of the trust declined by $59 million. It has a total value at quarter-end of about $2.4 billion.

Compared to the same quarter last year there was a significant decrease in subscriptions and redemptions due to the fact that last year the program investments were restructured. She finished by observing that the program is in a negative change in net position largely due to redemptions.

She then reviewed the administrative fund. The net position of the fund at quarter end was about $10.3 million. On the income statement she noted program fees of about $1.3 million plus $650,000 of marketing and outreach income from the Oppenheimer contractual commitment to the board. There was also interest income of $136,000. Administrative expenses totaled about $1.2 million, so the change in net position of the fund is positive by about $866,000.

Ms. Pacheco-Morton then reviewed budget to actual revenue and expenses. There was revenue of about $2.1 million for the first three quarters compared to the annual budget estimate for the full year of $2.7 million. For expenses the fund is still within budget with three months left in the year. Ms. Pacheco-Morton also pointed out some adjustments in the contractual services portion of the budget.

Mr. Miller explained that there was a need for increased legal expense due to the acquisition of OppenheimerFunds by Invesco and the resulting early termination of the program manager contract and the need to go to RFP for program manager services.

The board approved an additional $150,000 for such expenses at the October meeting. He also estimated that an additional $60,000 would be needed for legal fees through the end of the fiscal year. These adjustments appear in the financial statement. This was accomplished by reducing the marketing services amount to accommodate the other expenses in the same contractual services category. Ms. Pacheco-Morton advised the staff on the matter and it is appropriate under state budget rules.

Dr. Garcia asked why the marketing services budget was large enough to accommodate this. Mr. Miller pointed out that OppenheimerFunds and Esparza were asked to address that question in the presentation they will give today.

Mr. Jarmie asked why OppenheimerFunds was not paying for the legal fees due to the situation. Mr. Miller pointed out that it was the board's decision, upon staff recommendation, to terminate the program manager contract early. It was in his view far riskier to remain with OppenheimerFunds after the acquisition by a much larger firm that competes against the New Mexico program in the 529 market. Ms. Atkeson commented that the board had taken action to initiate a termination.

Mr. Miller also noted that OppenheimerFunds was prepared to deliver to the board the entire $500,000 commitment under the program manager agreement for FY2020.

Ms. Liggett asked when Mr. Miller expected the conversion to occur. He said that November 1 was the target, but that he had been involved in many conversions in private business and they usually slip by some amount. He thought that would likely happen, perhaps by a month or so.

Mr. Jarmie moved to approve the FY2019 Q3 financial report. Mr. Desiderio seconded the motion. The vote to approve the motion was unanimous.

Mr. Miller then turned to the HoganLovells legal contract. He noted that the extraordinary volume of legal work resulting from the early termination and RFP process required an increase in the compensation under the HoganLovells contract. He had worked with Ms. Atkeson, and his best estimate was that an additional $60,000 should be added to compensation. In addition he praised the work done by Ms. Atkeson on the matter. He recommended that the board also approve a one year extension of the HoganLovells contract.

Vice-Chair Desiderio asked if the extension was permissible under state law. Mr. Sommer stated that it was. There is an exemption under the Procurement Code for professional services contracts for the Education Trust Board.

Mr. Desiderio moved that an additional $60,000 be approved for the current HoganLovells contract for FY2019, and that the contract be extended for one year. Mr. Jarmie seconded the motion. The motion was approved unanimously.

Mr. Miller then turned to the request for the issuance of an RFP for marketing services. He noted that marketing services were currently being provided by Esparza Advertising pursuant to a contract with OppenheimerFunds. Since OppenheimerFunds would soon cease to be the program manager, it was necessary for the board to contract directly with a marketing services firm.

Mr. Jarmie moved that a request for proposal be issued by the board for marketing services. Vice-Chair Desiderio seconded the motion. He asked if Esparza would be entitled to respond to the RFP. Mr. Miller said that it was an open RFP and anyone would be entitled to bid.

Mr. Miller stated that it would be in the best interests of the board to contract with a marketing firm directly especially for the direct-sold plan. The money that would be used for this contract would be paid to the board by the new program manager, preferably in full at the beginning of each year. That point had yet to be negotiated, but it was his preferred approach. It would add certainty to the budget process for each year.

Ms. Liggett called for a vote on the motion. The vote to approve the motion was unanimous.

Mr. Miller then turned to the FY2020 budget request. He noted that there was a high degree of uncertainty surrounding the FY2020 budget, especially from the revenue side. There is a probability of an asset and account drain from the program, especially Scholar'sEdge due to the change in program manager and investment firm. Also California, where about 15% of the program's assets are located, is considering a tax deduction for contributions to that state's 529 program. This would certainly cause a significant departure of California assets and accounts over time.

He also noted that the New Mexico program would have a large rollover of marketing dollars from FY2019. He noted that it is fair to ask our marketing vendors why this is the case. In addition OppenheimerFunds is committing the full amount of marketing dollars to ETB for FY2020 as called for under the contract -- $500,000. In addition the new program manager would contribute significant marketing dollars to the program. The dollars allocated to TEP would also appear in the budget for FY2020.

Dr. Garcia noted that it would be appropriate to allocate a large amount of marketing dollars to FY2020. Mr. Miller agreed. He also asked if it would be fair to ask about the number of accounts generated from the expenditure of marketing dollars. Mr. Miller agreed, and noted that the board should raise that question in the marketing presentation later in the meeting.

Mr. Miller then asked Ms. Pacheco-Morton to review the proposed budget for FY2020. She noted that the revenue estimates look fairly similar to the past few years. Expenditures are somewhat higher, and as a result the net change in fund balance is lower than in past years. She reviewed the fee revenue, interest revenue and marketing revenue for estimates for FY2020. New marketing dollars are estimated at about $942,000 – not including rollover money.

She noted the increase in personnel expenses due to the addition of a marketing director and marketing assistant. She also noted an increase in contractual services expenses largely due to the proposed heavy expenditure for marketing. Finally she noted an increase in community outreach and PR expense, mainly due to adding the current outreach personnel as contractors directly to ETB for the fiscal year, rather than a contractors working for Esparza.

Ms. Liggett asked about the rental expense item. Ms. Pacheco-Morton observed that this was the rent for the space at 1516 Paseo de Peralta where the Board's office is located. Ms. Lyons also noted that DFA requires marketing space at conferences, conventions and other public space to be classified as rent, even though the expense is really for marketing.

Mr. Jarmie moved that the proposed budget for FY2020 be approved. Vice-Chair Desiderio seconded the motion. The vote to approve the motion was unanimous.

6) CLOSED SESSION PURSUANT TO NMSA 10-15-1(H)(6) AND (7) TO DISCUSS CONTRACT MATTERS

At this point Mr. Jansen and Ms. Feirstein joined the meeting. Dr. Garcia made a motion to go into closed session to discuss contract matters. Mr. Jarmie seconded the motion. Chairwoman Liggett called for individual voice votes from the board members. All members voted to go into closed session at 9:58 AM.

7) PROGRAM MANAGER CONTRACT PROPOSALS

Mr. Jarmie made a motion to return to open session. Dr. Garcia seconded the motion. Ms. Liggett called for individual voice votes to return to open session. All members voted to move into open session. The board moved into open session at 12:17 PM. At this point Ms. Feirstein left the meeting.

Mr. Sommer noted that only contractual matters were discussed in closed session and that no decisions were taken.

Mr. Jarmie moved to commend the efforts of the evaluation committee and the executive director for their work on behalf of the board. Mr. Jansen seconded the motion. The vote to approve the motion was unanimous.

Mr. Jarmie then made a motion to authorize the executive director to continue negotiations with the three finalists for program manager for a maximum of four weeks. Mr. Jansen seconded the motion. The vote to approve the motion was unanimous.

8) PROGRAM MANAGER'S ACQUISITION REPORT

Mr. Miller then reviewed a document provided by OppenheimerFunds and Invesco that graphically portrayed the changes in organizational structure that would take place after the acquisition. Both OFIPI and OFDI would remain in legal existence until the conversion was complete. OFDI would be housed within the Invesco transfer agent business, but with certain security provisions put in place via a confidentiality agreement to prevent Invesco personnel, particularly marketing and distribution personnel, from accessing data with regard to the New Mexico program. There is a 30 person unit of OppenheimerFunds personnel based in Denver that will operate the New Mexico 529 program until conversion.

Mr. Miller then asked Ms. Holliday to describe the status of the effort to incorporate OppenheimerFunds systems into Invesco systems. Ms. Holliday referred to a chart that she had provided to the board that described these efforts and their status on a high level. Ms. Holliday noted that the largest effort was to transfer from the OppenheimerFunds transfer agency system to the Invesco transfer agency system. She noted that there was an internal task list of some 130 tasks that were already tested successfully. She said that there were no current delays or concerns as to the progress of the effort, and that she expected the transfer would be successfully completed over the weekend of May 25th and 26th.

Mr. Miller asked Mr. Werner to describe how the sales effort would be handled after the acquisition. Mr. Werner noted that John McDonough, head of sales and distribution at OppenheimerFunds, would become head of US distribution and marketing for Invesco. The New Mexico 529 program will be under the control of Peter Gallagher who will head of retirement and third party. The Invesco 529 plan from Rhode Island and the New Mexico 529 plan will reside there, but will be segregated from one another.

He noted that the New Mexico 529 sales team will report to Melissa Rogers. The Rhode Island 529 plan reports to a different executive. The New Mexico sales team will be intact for the duration of the conversion. The new CRM system into which sales data in logged will be configured to prevent access to the New Mexico data by Invesco personnel. Likewise the New Mexico team cannot access Rhode Island data.

Mr. Miller stated that he had asked OppenheimerFunds to prepare a biweekly sales and rollover report to see if there was a significant decline in sales or outsized rollover activity. In his view there had not been to date. Mr. Werner noted that Scholar'sEdge was still experiencing net distributions and a decline accounts consistent with the last few years.

Ms. Atkeson asked who would be managing the conversion process for OppenheimerFunds. Ms. Holliday stated that she would. She also noted that key personnel to effect the conversion had been secured through the end of 2019. At this point Ms. Lee left the meeting.

9) PROGRAM MANAGER'S QUARTERLY INVESTMENT REPORT

Mr. Werner then gave the quarterly investment report. He noted the v-shaped behavior of the S&P 500. Down over 13% in the last quarter of 2018 and up over 13% in the first quarter of 2019. The markets improved in the first quarter. The TEP portfolios all improved, both index and blended, in line with the markets and their benchmarks.

Scholar'sEdge portfolios also improved for the quarter. Both the aged-based portfolios and the individual portfolios outperformed their benchmarks. Generally good performance across the board for the quarter.

Mr. Miller noted that the accounts and assets in Scholar'sEdge continue to decline. The accounts in TEP increased slightly, but contribution were down and the assets were in net distribution. He asked Mr. Werner what he thought of this continuing decline. Mr. Werner pointed to the large amount of plan assets in the older group of beneficiaries. This money was being put to use for education, and there were not sufficient new accounts of a smaller dollar amount to make up the shortfall.

10) INVESTMENT CONSULTANT'S QUARTERLY REPORT AND WATCH LIST RECOMMENDATIONS

Mr. White began by speaking about the economy. He noted the overall economy was still good, although not experiencing the growth rates of the recent past. Still growth appeared to be in the 2 1/2 to 3% range. First quarter GDP came in at 3.2% and a number of leading indicators look good. The Federal Reserve Board appears to be moving to a more neutral or dovish stance on interest rates. Unknowns include the effect of Brexit and the trade dispute with China.

Generally he saw the environment as being decent for investment in risk-based assets like stocks.

Ms. Ceserani then turned to the investment report for the 529 program. For TEP she noted that about 2/3 of the funds in the portfolios were in the positive or acceptable range. A couple of funds moved down to caution statue, including the Oppenheimer Value Fund and the Main Street Mid-Cap fund.

For Scholar'sEdge three funds improved and eight funds moved down with three falling to acceptable and three to caution. Two funds qualified for watch status – the International Growth Fund and the American Century Diversified Growth Fund.

Turning to the Watch Memo she noted four funds that were on watch from the last quarter – the Capital Income Fund, the Main Street Fund, the Total Return Bond Fund and the International Small/Mid Cap Fund. Two new funds qualify for watch – the International Growth Fund and the American Century Diversified Bond Fund. She recommended that the first four funds remain on watch and the last to be added to the watch list.

Mr. Jansen made a motion to that effect. Mr. Jarmie seconded the motion. The vote to approve the motion was unanimous.

11) PROPOSED MARKETING PLAN AND BUDGET FOR JULY-DECEMBER 2020

Mr. Miller noted that the marketing plan was only through the end of calendar 2019 due to the impending conversion to a new program manager. He then turned to Mr. Hylind.

Mr. Hylind noted that the goal of the plan is to grow sales and to establish a roadmap for the successor program manager. The target audiences remain the same. For TEP its New Mexico residents as well as the higher income national demographic. Appropriate messaging needs to be addressed for each. The employer group is also a target in New Mexico.

For Scholar'sEdge there are traditional financial advisors and registered investment advisors and their clients. Actionable educational materials are key for these groups.

With regard to brand messaging there is a focus on reducing student debt for TEP and the message that 529 plans are for other forms of post-secondary education than just traditional 4-year college.

Scholar'sEdge is about advisor education and helping the sales team grow assets and accounts. How can 529 plans be used as portfolio and risk management tools? At this point Mr. Werner and Ms. Holliday left the meeting.

Mr. Esparza then addressed the TEP plan. He noted that there was a focus on five pillars – website and digital, expansion into other platforms such as social media like Facebook as well as Pandora and Spotify. Public relations will also be a focus with an editorial calendar and strategy. Employer outreach will be a focus as well. There has been good recent success. Finally there is a focus on sponsorship of events and community outreach.

For Scholar'sEdge the five pillars include an ad campaign that includes web banners and LinkedIn posts. Similar to the research done for TEP, research will be done for Scholar'sEdge. Mr. Jarmie interjected and asked when this research was going to move the needle.

Dr. Garcia asked about the various regions of New Mexico and where the money was located. This led to an extended discussion of regions where uptake of the 529 program was smaller than it should be, such as the oil patch in southeastern New Mexico. It also led to a discussion of the importance of saving for other forms of post-secondary education like two-year colleges, trade schools and certificate programs.

Mr. Jarmie asked if there was any way to measure the impact of advertising spending for the program. Mr. Esparza noted that in terms of conversion, that could be done on the website. Mr. Jarmie asked if the board authorized an increase in the marketing budget what would Esparza and Oppenheimer do with it, and what would be the impact?

Mr. Hylind noted that in the digital realm this type of information was trackable. Ms. Bednar then gave a brief description of the use of "pixels" to track activity on the web.

The discussion about alternatives to four-year schools continued with Dr. Garcia asking further questions of Mr. Esparza n\and Ms. Bednar.

At this point Ms. Bednar turned to the marketing budget proposal. She noted the $500,000 marketing commitment for FY2010 to be paid in full, as well as $12,500 per month for grassroots activities and the $200,000 remedial amount for failure to meet FY2019 targets. Added to these are the Oppenheimer direct commitments for marketing for TEP and SE prorated for 5 months. The total is about $1.5 million. Whatever is not spent will be given to ETB at conversion. In addition to this amount is the rollover of money not spent in FY2019. Ms. Bednar could not estimate the exact amount of the rollover other than to say it would be quite large. Dr. Garcia again expressed his concern as to how the money would be spent and how the results could be measured. Mr. Esparza said that that was noted in more detail in the marketing plan. Chairwoman Liggett stated that the board was looking for measurable outcomes.

Mr. Jarmie noted that the vendors had been allocated a large amount of money by the board, and had not been able to spend it. Mr. Miller noted that this was a financial services product and needed financial services metrics applied to it. He noted that most new accounts are small dollars, and that this required a very large number of new accounts to grow and sustain the program as the older accounts are spent down.

Mr. Miller stated that the marketing plan needed to cover the time until conversion, even if conversion were to slip later in the year than November 1. Ms. Bednar acknowledged that an estimate had been included in the budget for November marketing. She asserted that as long as OppenheimerFunds was the program manager the money for marketing would be spent.

Ms. Atkeson asked Ms. Bednar to confirm that the changes needed to the program and any mailings as a result of the Invesco acquisition would be spent by Invesco and not come from the New Mexico marketing budget. Ms. Bednar confirmed this.

Mr. Miller asked if the board was ready to approve the marketing plan and budget. Mr. Jarmie expressed reservations on the budget. He did not feel comfortable that he knew well enough how the money would be spent.

Ms. Bednar noted that the marketing plan and budget had been presented in this way for a number of years, but that another level of detail could be provided.

Mr. Miller noted that the board's request for more detail and particularly metrics as to the impact of the marketing on the plans needed to be provided. At the same time he observed that a marketing plan and budget needed to be put into place for the coming year. He told the board that he would work with the vendors to develop more detailed levels of reporting and results and share them with the board.

Mr. Jarmie said that he would move to approve the marketing plan and budget with the understanding that more detail would be provided. Mr. Jansen seconded the motion. The vote to approve the marketing plan and budget was unanimous.

Ms. Bednar then described in more detail the potential rollover amount from FY2019. It clearly would be several hundred thousand dollars. The size varying on what the marketing spend was for the last quarter of FY2019.

Mr. Miller reminded the vendors that the board had seen a series of rollover amounts for marketing, and that the board also saw the deterioration in accounts, without a clear view of how the marketing program was having any impact. The impression was that a large amount of money was being spent and another large amount of money was left idle, without real metrics to evaluate results.

Mr. Hylind then gave a brief acquisition update. He noted that he would be with the company through the conversion of the New Mexico plan. Leslie had been assigned a new role within Invesco, in effect a promotion from her current position. Mr. Hylind also noted that OFDI would remain in existence through the conversion. He also noted that continuity for the websites would be provided with the appropriate level of expertise remaining in Denver through the conversion.

12) QUARTERLY MARKETING REPORT

The rest of the presentation was taken up with more details on the current marketing initiatives including the LinkedIn initiative, the Facebook initiative and traditional media.

Chairwoman Liggett called for a motion to adjourn. Dr. Garcia so moved. Mr. Jarmie seconded the motion. The vote to approve the motion was unanimous. The meeting adjourned at 3:00 PM.