The Education Trust Board of New Mexico

APPROVED
Board Secretary
Vera Lyons
7/26/18

Meeting Minutes of May 3, 2018
5201 Eagle Rock NE, Suite 1A, Albuquerque NM 87113

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
Del Esparza – Esparza Advertising
Eve Wakeland – Esparza Advertising
Kay Ceserani -- Pension Consulting Alliance
Ryan Lobdell – Pension Consulting Alliance
Chris Werner – OppenheimerFunds
Patrick Hurley – OppenheimerFunds
Keith Hyland -- OppenheimerFunds
Leslie Ann Bednar – OppenheimerFunds
Matt McGee – OppenheimerFunds
Andrea Feirstein – AKF Consulting (by telephone)
Michele Nelson -- Court Reporter

1) CALL TO ORDER

Dr. Damron, the Chair, called the meeting to order at 9:00 AM. The roll was called and all Board Members were present.

2) PUBLIC COMMENT

The Chair called for public comment. There being none, the Chair moved on to the next agenda item.

3) APPROVAL OF AGENDA

Dr. Damron noted the agenda as presented to the Board and asked if there was any comment on the agenda. There being none, she called for a motion to approve the agenda as presented. Dr. Garcia so moved, and Mr. Jansen seconded the motion. The motion passed unanimously.

4) APPROVAL OF MINUTES

Dr. Damron referenced the minutes of the January 25th meeting of the Board. Mr. Jansen moved that the minutes be approved. Mr. Jarmie seconded the motion. The vote to approve the minutes of the meeting of January 25th was unanimous.

5) EXECUTIVE DIRECTOR'S REPORT

Mr. Miller then began the Executive Director's Report with a discussion of an enterprise fund designation for the board's program administration fund. He noted that the classification of the program administration fund as general funds for state government accounting purposes. He observed that both the board's accounting firm and the independent auditor for the board were of the opinion that this fund should be designated as an enterprise fund for state government accounting purposes.

An enterprise fund is a fund that by statute receives no state general funds and must be funded entirely from fees and other income generated from its activities. Mr. Miller referred to the proposal made by board staff, with the assistance of the board's accounting firm and comments from the independent auditor, to the Department of Finance and Administration in this regard.

Mr. Miller than asked Dr. Damron to update the board on efforts to amend the board's enabling legislation to accommodate the recent changes to the federal tax law governing 529 plans.

Dr. Damron noted that the proposed legislation was in two separate bills. The first was a bill to make it clear that any change to federal 529 law would be automatically accommodated by the enabling statute in New Mexico. The second was a proposal to clarify the tax treatment in New Mexico of distributions made from the state's 529 plan for K-12 tuition as well as for transfer to an ABLE account for a disabled beneficiary.

She noted that with regard to the first bill it became a contest between those supporting private K-12 education and those opposed to such support. With regard to the second bill, the same contest emerged. As a result both bills were removed from consideration at the legislative session.

She observed that the tax bill was designed to clarify the New Mexico tax treatment of certain distributions permitted under the new federal law. Since that bill was withdrawn, the decision was made to seek an advisory opinion on the current tax law as to the proper treatment of these distributions.

Mr. Miller also noted that an opinion of New Mexico counsel has been obtained that the current enabling act permitted the New Mexico 529 program to comport with the recent changes to federal law.

Mr. Jarmie asked when a response from the New Mexico tax authorities was expected. Mr. Sommer noted that he usually hears from the tax department within two months of a request.

Mr. Miller then addressed the creation of a privacy policy for the new marketing "front end" website for The Education Plan. He said that he was working with Hogan Lovells, SilverTech and Esparza to craft a website privacy policy that would be submitted to the board for approval at a future date.

Mr. Jarmie then asked if Oppenheimer could give the board a presentation as to how it ensures that account owners' information is secure. Mr. Werner said that he would be glad to arrange the presentation for a future board meeting.

Mr. Miller then asked Ms. Pacheco-Morton to present the quarterly financials for the fiduciary funds as well as the program administration fund. Ms. Pacheco-Morton began with the fiduciary funds. She noted that there was significant restructuring activity reflected in the fiduciary funds because of the recent investment project. Mr. Miller noted that this would be discussed further at a later point in the meeting.

She then reviewed the financials for the program administration fund and the current budget. She noted that the program was on budget for the first three quarters of the fiscal year.

Mr. Miller then had Ms. Pacheco-Morton present the budget proposal for FY 2019. She reviewed the various items of revenue and expense for the next fiscal year – noting that the budget proposed additional staffing for ETB staff.

At the conclusion of her presentation Dr. Damron asked for a motion to approve the FY 2019 budget as presented to the board. Mr. Jansen so moved. Mr. Jarmie seconded the motion.

Mr. Jarmie asked Ms. Atkeson if she thought that the amount budgeted for her legal costs was sufficient. She said that is was. He also noted that there was considerable money, about $500,000, so far unspent in the marketing budget for FY 2018. He asked Mr. Esparza to discuss this. Mr. Esparza noted that a considerable portion of that would be consumed by the website development and that during the marketing presentation the board would see the details of how the money would be spent.

Mr. Jarmie excused himself briefly from the meeting to attend to a client matter, and he gave the proxy for his vote to Dr. Damron. Vice Chair Desiderio asked if there had been any action on a deputy director or a marketing director. Dr. Damron said that there had not been, but that the matter would be addressed shortly in the agenda.

The vote to approve the FY 2019 budget was unanimous.

Dr. Damron then addressed the next agenda item – the approval of an exempt director of marketing position for ETB. She noted that this is only the first step in the process. The board would need to review and approve the appointment of any candidate for the position at a later time.

Dr. Garcia expressed his concern that this position was proposed as an exempt position and not as a classified position. Dr. Damron noted that the board has the authority to hire and fire, but that the governor would have important input into any such decision.

Dr. Damron also noted that the board had considered this matter in the context of the executive director position, and concluded that only an exempt position would permit the board to hire and compensate a person with the necessary expertise.

Vice Chair Desiderio concurred in this assessment and observed that he thought the same rationale applied to the marketing position. Since this was a first step in ultimately hiring not only a marketing director, but also a deputy executive director in the future he asked for an explanation of the need for these positons.

Mr. Miller stated that the goal was to professionalize the ETB staff so that it could add value to the 529 program, and not rely solely on the expertise of its vendors. The ETB needs to attract and retain staff with the expertise necessary to move the program forward.

In addition he noted the changes already implemented in the program, such as the investment and fee project, that would not have occurred if the necessary expertise were not present in the ETB staff. He also noted that he was nearly 72 years old, and that having a properly trained successor capable of administering the program until a new executive director were appointed was necessary for the program's continuity.

Mr. Miller noted that due to the large number of tasks assigned to the executive director, he needed help on the marketing side first. This would allow him to focus on the program design and on the upcoming rebid for a program manager. He noted that he had consulted Mr. Esparza as to the compensation necessary to attract and retain a competent marketing director, and that the position required a salary higher than could be readily obtained for a classified employee.

Vice Chair Desiderio said that he understood the need for the marketing director, but he was not certain that it was necessary to hire a deputy executive director at this time. Dr. Damron noted that this second position was not being pursued at this time. Vice Chair Desiderio noted that there was provision in the budget for the position. Dr. Damron agreed, but noted that provision in the budget did not mean that the money needed to be spent this year. Mr. Miller concurred.

Dr. Garcia again raised his concern that an exempt position was vulnerable to political pressure to replace the person with a change of administration.

After an extended discussion of this matter, Vice Chair Desiderio noted that in his experience the ability to alter classified employee positions was very difficult if not impossible. In his view he knew of no other way to properly staff the position except through the exempt route. At this point he moved to approve the creation of the marketing director position. Mr. Jansen seconded the motion. Mr. Jarmie abstained from voting on the motion because he had not been in the room for the discussion. The rest of the board members voted to approve the motion.

Mr. Miller then addressed two contract matters. The first was a request to extend the Hogan Lovells contract for one more year on the same terms and conditions. He noted that he would be returning to the board to authorize the issuance of an RFP for legal services in the near future.

Vice Chair Desiderio moved to approve contract extension as proposed. Mr. Jarmie seconded the motion. The contract extension was approved unanimously.

He then addressed the second contract. He noted that Dr. Damron had be very active on behalf of the board in getting approval from the General Services Department of a new lease for the board space at 1516 Paseo de Peralta. He asked Mr. Sommer to comment on the lease. Mr. Sommer noted that the lease was a typical state lease, with an early termination provision running in favor of the state. He also noted that the lease rate was typical of a Santa Fe lease.

Mr. Jansen moved to approve the new lease. Mr. Jarmie seconded the motion. The new lease was approved by unanimous vote.

Dr. Damron then noted that Mr. Miller comes to the board on a regular basis for approval of so-called "small contracts". These are either contracts for professional services valued at $50,000 or less as well as contracts for other goods and services valued at $60,000 or less. She observed that it would be more efficient to grant Mr. Miller the authority to execute such contracts at his own discretion, with subsequent notice to the board.

Mr. Miller also observed that the resolution before the board would not require such notice if the contract amount was $20,000 or less. In these cases the goods or services can be procured through a purchase order and do not require a full contracting process.

Vice Chair Desiderio asked if the term "small contract" was a term of art. Mr. Sommer replied that the term is defined in the Procurement Code. Mr. Jansen asked if the resolution was position specific, meaning a delegation to the executive director generally and not specifically to Mr. Miller individually. Mr. Sommer noted that the term executive director limited the authority to the person serving in that position.

Mr. Jarmie asked if there was a way to prevent the authority from being used to enter into a large dollar volume of contracts. Mr. Sommer noted that the resolution could be amended to provide that any contracts executed must be consistent with the then current budget.

With this modification and with the insertion of the May 3rd date, Mr. Jansen made a motion to approve the delegation of authority to the executive director for small contracts. Mr. Jarmie seconded the motion. The vote to approve the resolution was unanimous.

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

Dr. Damron then called for a motion to go into closed session regarding personnel matters. Vice Chair Desiderio so moved. Mr. Jansen seconded the motion. Dr. Damron then called for a roll call vote to enter into closed session regarding personnel matters. Mr. Jarmie voted yes. Dr. Garcia voted yes. Vice Chair Desiderio voted yes. Dr. Damron voted yes. Mr. Jansen voted yes. The board was in closed session from 10:10-10:30.

At that point the board returned to open session. Dr. Damron called for as motion to come out of closed session. Mr. Jarmie so moved. Mr. Jansen seconded the motion. Dr. Damron called for a roll call vote on the motion. Mr. Jarmie voted yes. Dr. Garcia voted yes. Vice Chair Desiderio voted yes. Dr. Damron voted yes. Mr. Jansen voted yes. Dr. Damron noted that the only matters discussed in closed session were those listed in the agenda, and that the board took no action in the closed session.

7) EXECUTIVE DIRECTOR POSITION

Dr. Damron then turned to the matter of the executive director position. She observed that the current position occupied by Mr. Miller is actually a classified position subject to the policies and procedures of the State Personnel Office. In discussions with the head of SPO, it became apparent to her that a classified position is not a good fit for the duties and responsibilities of the executive director of ETB.

She noted that the new HED in-house counsel had taken the procedural rules approved by the board some time ago and completed the rule making process. The new procedural rules describe the executive director position, and provide for the board to appoint and establish the compensation for the position.

Dr. Damron referred to the document which she had previously provided to the board that outlined both the qualifications, duties and compensation range for the position, as well as a copy of the new procedural rules previously approved by the board and now printed in Section 5.7.30.8 of the New Mexico Administrative Code.

She noted that the new position is a governor exempt position. She also noted that Ms. Feirstein had reviewed other states that were willing to share compensation on the equivalent position. She noted that Mr. Miller's current compensation was low by those standards. Some states paid $200,000 or more for the equivalent position.

Finally she noted the salary for the new position was proposed at $140,000 per year plus the usual state fringe benefits. There is no provision for bonus compensation. She then asked for a motion to approve the appointment of Mr. Miller to the positon.

Mr. Jansen made the motion. Dr. Garcia seconded the motion. She asked if the board members had any further comments. Mr. Jarmie commended Mr. Miller's efforts on behalf of the board, and expressed the wish that the compensation could have been more.

Dr. Damron expressed her appreciation for the work that Mr. Miller had done and continues to do for the board. She also noted that she would like the motion to be clear on the point that the compensation was $140,000 plus fringe benefits to remove any doubt as to the board's intent. Mr. Jansen modified his motion accordingly.

The vote to approve the resolution was unanimous.

Mr. Miller thanked the board. He noted that this was the start of an overall improvement in the professionalization of the staff, and that he looked forward to working with the board in the future.

8) PROGRAM MANAGER'S OPERATIONS REPORT

Dr. Damron then asked OppenheimerFunds to give the operations report.

Mr. Werner led off by referring back to the financial report from Ms. Pacheco-Morton. He noted that he would request more detail from the OppenheimerFunds accounting group to give Ms. Pacheco-Morton and the board more confidence in the reported swings in the value of net unrealized losses in the trust funds. He observed that there had been a great deal of exchange activity and transfer activity both as a result of the restructuring of portfolios and the addition of or replacement of underlying funds in the program. He remained confident that the accounting was accurate. Mr. Miller asked when the detailed reporting would be available. Mr. Werner stated that he hoped to have it available by the end following week. Mr. Miller noted that the financial reports were part of the financial accounting responsibility of the board, and that any unusual changes in amounts in any category required explanation. He stressed the need to get the underlying detail on the numbers presented in the report. He also requested that the board consider giving him the authority to initiate an audit of the trust financials on an emergency basis if there appeared to be a significant discrepancy between the reported numbers the underlying detail. Mr. Werner noted that there had never been any findings in previous annual audits. Mr. Miller agreed, but noted that year end was only two months away. The board, after extensive discussion, deferred action on the request pending the OppenheimerFunds response to Mr. Miller's inquiries.

Mr. Werner then discussed the retirement of a senior portfolio manager for the Global Fund. He will be succeeded by another experienced portfolio manager on the fund. Mr. Werner also noted that the search a chief risk officer concluded with the hiring of a managing director and senior risk officer from Goldman Sachs. He also announced the hiring of a sustainable investments manager for OppenheimerFunds future endeavors in sustainable investment. Mr. Miller then asked Mr. Werner to discuss the departure of both Mark Hamilton and Dok Yung Lee from the Global Multi-Asset Group. Mr. Werner noted that the rest of the group remains in place, and the Multi-Asset strategies will still be pursued by OppenheimerFunds. Mr. Jarmie asked about the effect on the 529 program. Mr. Werner noted that one of the Group's funds was a standalone option in Scholar'sEdge. He also noted that the only other work done by the group for the 529 Program was to review that asset allocations of the Program. That work will continue since the people who do that work have remained with the firm.

Mr. Hylind then spoke about the departure of Vince Grogan from the Marketing group at OppenheimerFunds. Mr. Hylind now reports to Jessica Fernandez. He noted that all marketing functions at the firm now report to Erik Schneberger, a senior vice president who in turn reports directly to the head of distribution, John McDonough.

Mr. Werner then concluded the report by noting that the outsourcing project at OppenheimerFunds had resulted in the selection of DST for transfer agency services. However, the 529 services outsourcing had been changed to a recommendation to use Ascensus. He noted that certain features desirable for the 529 Program were currently not available on the DST system, and that designing them would be costly and cause further delay.

He introduced Patrick Hurley of OppenheimerFunds. Patrick is from the transfer agency side of the business and part of the team working on 529 outsourcing. He noted that Ascensus is already on a version of the Envision platform, which is also used by OppenheimerFunds to record keep 529 plans. Ascensus also has an in-house system called Unique, which provides additional 529 capabilities. In this regard he mentioned recurring gifting and omnibus accounting with broker-dealers. As requested by ETB, Mr. Hurley noted that they would return on May 18 with Ascensus to give a detailed presentation to the board. He also noted that the proposal was to outsource the entire 529 operation to Ascensus. The only in-house function remaining at OppenheimerFunds would be oversight of Ascensus. He also mentioned that usernames and passwords would change as well as the mailing address for the 529 Program.

Ms. Atkeson asked about the conversion process. Mr. Hurley noted that he and Ascensus believed that it could be completed by year-end 2018. He also noted that the target for the transfer agency conversion to the DST system was May of 2019. Ms. Atkeson also noted that, if the conversion occurred to Ascensus, Ascensus could not have an expectation that the relationship would be continued beyond the end of the OppenheimerFunds contract with the board in mid-2020. Mr. Hurley confirmed that statement. The new relationship that OppenheimerFunds proposed with Ascensus would have no effect on the contract with the board.

Mr. Miller then summarized some of the issues that had occurred at OppenheimerFunds since the initiation of the new contract with the board in mid-2015. First, it became apparent that despite assurances to the contrary, the investment design for Scholar'sEdge was not appropriate for omnibus accounting with broker-dealers. Then, in the next 18 months OppenheimerFunds had three changes of senior management with regard to the 529 business. Essentially no progress was made on initiatives to enhance the 529 Program for those 18 months, despite repeated requests from the board and board staff.

Finally, just as the deferred initiatives on investments and fees were starting to move forward, OppenheimerFunds announced its plans to outsource both the transfer agency system and the entire 529 system and operations. At that point all work on further initiatives such as omnibus accounting and recurrent gifting went dead in the water.

He then observed that OppenheimerFunds was now proposing a conversion to a new 529 system and operations provider that in effect would require a conversion to occur 18 months or less before the end of the current contract.

Mr. Werner stated that he hoped that the enhancements proposed as part of the Ascensus conversion would move the board to extend the current contract.

Dr. Damron then noted that the benefits of any such conversion would not even be known for another year.

Mr. Miller noted that the current contract had been in place for since mid-2015 and that it had already been over 30 months, and now a conversion was being proposed. It might have been a different story if there had been an opportunity 30 months ago to pursue omnibus accounting and other program enhancements that were now being discussed.

Mr. Miller observed that the board is being asked to authorize a conversion within 18 months of the end of the contract. The marketplace is going to note this and account owners are going to know it. It is really concerning that internal upheavals at OppenheimerFunds have kept pushing program enhancements further and future. He noted that he appreciated the efforts of the middle level people at OppenheimerFunds such as Mr. Werner, but that he lacked confidence in the senior level management at the firm. He noted the constant turmoil and changes in the 529 business. The firm had been late in embracing ETFs and late to court fee-based advisors. The firm had abandoned asset allocation funds in 2012, and now was trying to get back into that business, but had lost the leaders of the multi-asset group. This was all in addition to blowing up the Core Bond Fund in 2008.

Mr. Miller noted that the board was receiving legal advice as to its rights and obligation under the current contract, and would be going into executive session to discuss contract matters at the next meeting scheduled for later in the month.

At this point (11:31 AM) Dr. Damron left the meeting. Vice Chair Desiderio took over as chair in her absence.

Ms. Ceserani asked Mr. Hurley if the omnibus accounting and recurring gifting capabilities would be available at the start of the proposed new arrangement. He noted that omnibus accounting was a matter of negotiating agreements with broker-dealers individually.

Ms. Feirstein asked Mr. Hurley what broker-dealers were in omnibus relationships with Ascensus for 529 business. She observed that her firm had updated its list of omnibus relationships for the 529 business and she did not see any Ascensus plans on the list.

Mr. Hurley committed to providing the information at the presentation scheduled for the next board meeting. Ms. Feirstein also asked when a presentation would be ready for review. Mr. Werner noted that he had committed to distributing a presentation book 10 days prior to the next meeting.

Ms. Atkeson asked how far along OppenheimerFunds and Ascensus were toward a contract. Mr. Hurley stated that the contract process was not far along. He hoped a contract would be ready by mid-summer.

Ms. Atkeson asked if that would pose a problem for a year-end conversion. Mr. Hurley stated the timing would be very tight.

Mr. Miller advised the board that a special meeting had been called to allow OppenheimerFunds and Ascensus to present to the board, and for the board to go into closed session to discuss contractual issues. He noted that the board would not make a determination at that meeting on the proposal.

9) ASSET ALLOCATION PROJECT

Dr. Damron asked Ms. Ceserani to speak. She noted that the board, with the assistance of ETB staff and PCA, had embarked upon the creation of an Investment Beliefs Statement. This is really the first step in going through an asset allocation review. The goal is to put down in writing some investment tenants that the board agreed upon.

The board and staff had answered a series of survey questions designed to elicit the views of individuals with regard to a numb of investment topics related to the 529 Program. The survey covered 10 different topics and involved 64 different questions. The survey results were reviewed and discussed at the board meeting in January.

Based on the survey and the discussion, PCA and board staff had distilled a set of investment beliefs on which there was general agreement. The statement of beliefs covers the topics of program design and investments.

From a design perspective the focus was on monitoring 529 industry trends, focusing on long term results and recognizing the need to have an investment program that accommodated the needs of different types of investors.

From the investment side there were five different concepts considered. They were cost, diversification, the understanding of the economic risks inherent in different types of investments, global investment and asset allocation.

Ms. Ceserani then presented the draft statement of investment beliefs to the board.

Mr. Miller observed that the usual process is for the program manager makes investment recommendations to the board. The investment consultant to the board then advises the board as to whether or not the recommendations are reasonable. In the end the board in its fiduciary capacity makes the decision whether or not to approve the investment structure – both at the portfolio level and the underlying fund level.

Implicit in that process are the investment beliefs that each board member holds. For example, Mr. Jarmie favors the broadest possible range of investment choices for account owners. Mr. Desiderio is more cautious, and favors diversified portfolios organized into age-based tracks.

Mr. Miller noted that the board is a lay board, not a group of investment experts, and must rely on expert advice in making investment decisions. The statement of investment beliefs is designed to provide the board with a framework to evaluate investment proposals. It also gives the board's advisors valuable information to help inform their decisions when it comes to making recommendations to the board.

The statement of investment beliefs is in the background of why and how an investment policy is created. It is a set of basic statements, which ultimately drives the creation and maintenance of the investment program.

The statement of beliefs is not carved in stone. It is a living document that can be changed over time.

Dr. Garcia noted his approval of agreeing on a set of investment beliefs. He thought they were worthy of further discussion with the board, so that a common set of beliefs could be agreed upon.

Mr. Lobdell reminded the board of the value of looking at investments from the perspective of either driving growth or providing diversification. Growth assets can be further subdivided into traditional growth such as traditional equity securities, and stabilized growth such as high-yield securities and bank loans. They behave like equity securities, but tend to be less volatile.

Investments that provide diversification can be further subdivided into anchor and offset. Anchor represents such investments as money market, short term bonds, stable value investments and TIPS. These investments tend to be liquid and remain relatively stable as growth assets move up and down. Offset represents more volatile investments such as commodities and long term government bonds. These tend to move in the opposite direction relative to growth assets.

He then outlined the existing funds in the 529 Program to show the board where they fell in this type of classification.

Mr. Lobdell then reviewed the next steps that PCA would be taken pending approval of the statement of investment beliefs.

First, five major functional classes of assets would be included. These are traditional growth, stabilized growth, principal protection, inflation protection and crisis risk offset.

Second, each of the 529 Program's underlying funds would be mapped to one of these five functional classes.

Third, analyze other potential classes not yet in the 529 Program (crisis risk offset).

Fourth, analyze the ability of the current 529 Program portfolio construction to meet account owner goals – focusing on the probability of meeting those goals.

Fifth, review alternative portfolios to meet account owner goals.

At this point the board took a short break from 12:10 PM to 12:20 PM.

10) PROGRAM MANAGER"S QUARTERLY INVESTMENT REPORT

Vice Chair Desiderio asked Mr. Werner to deliver the quarterly investment report. He referred the Board to the Executive Summary. He noted that despite strong year-over-year performance, 1st quarter performance was generally down. U.S. and international markets were generally down, with some growth in developing markets. Bonds were generally down with increasing short-term interest rates. One exception was floating rate bonds, which adjust the rate of return as interests rates change.

For The Education Plan Mr. Werner noted that the funds in the index portfolios were across the board down but performing as expected. Moving to the blended portfolios, he noted that the portfolios were down for the quarter, but had outperformed relative to their benchmarks.

With regard to underlying funds the Oppenheimer International Growth Fund was up slightly, and outperformed its benchmark.

Turning to Scholar'sEdge he noted that the Custom Choice and Age-Based Portfolios were generally down, but not as much as their benchmarks. The portfolios heavily weighted towards bonds underperformed.

With regard to underlying funds, he noted the outperformance of the International Growth Fund and the T. Rowe Price Blue Chip Fund. The Value Fund also outperformed its benchmark. The Global Value Fund outperformed its benchmark by 4.79%. The developing Markets Fund outperformed the benchmark as well. The Main Street Fund had another disappointing quarter.

Mr. Werner noted that 1,008 accounts were opened in Scholar'sEdge compared to 986 in the same quarter last year. Closed accounts, however, were at 2,224. Net accounts year-over-year were down 4.5%. For The Education Plan 472 accounts were opened compared to 327 in the first quarter of last year. Closed accounts were at 320 for the quarter. Net accounts in The Education Plan were up 3.6% year-over-year.

Gross contributions to Scholar'sEdge were up 7.34% over last year at $33,400,000, but redemptions were up 8.1% at $42,800,000 For TEP contributions were up 25.6% at $12,000,000, but redemptions were up 14.3$ at $13,000,000.

Mr. Miller noted that the overall all trend in net accounts was still negative, but that the change in the trend was positive. Mr. Jarmie observed that most of the accounts that were closed were being used for the intended purpose – to pay for college expenses.

11) INVESTMENT CONSULTANT QUARTERLY REVIEW AND WATCH LIST RECOMMENDATION

Vice Chair Desiderio asked Ms. Ceserani to give the investment consultant's quarterly report.

Ms. Ceserani noted that most funds in the 529 Program have performed well relative to their benchmarks for the quarter and for the year. For TEP 15 of 19 funds were rated as either positive or acceptable. For Scholar'sEdge 24 of 27 funds were rated either positive or acceptable.

Turning to the watch list recommendations, she recommended that the Oppenheimer Capital Income Fund has improved performance for the quarter, but recommended that it remain on watch due to the previous nine months of underperformance. She noted the Main Street Mid Cap Fund was put on watch last quarter. Its performance had improved, but she recommended it remain on watch. She also noted the underperformance of the Main Street Fund. It now qualified for watch status.

Mr. Jarmie made a motion to accept the recommendations of PCA with regard to the watch list. Mr. Jansen seconded the motion. The vote to accept the watch list recommendations was unanimous.

Mr. Werner offered to arrange a call between PCA and the Main Street team. Mr. Miller noted that an investment management due diligence was to take place in June. The board and PCA would be at OppenheimerFunds' New York headquarters. He suggested that the Main Street team be one of the groups to be interviewed.

12) QUARTERLY MARKETING REPORT, WEBSITE DEVELOPMENT UPDATE AND APPROVAL OF ANNUAL MARKETING PLAN

Ms. Bednar then turned to the proposed marketing plan and budget for the coming fiscal year. She noted that the budget reflected the contractual commitment made by OppenheimerFunds to the board with regard to amount. The proposal was to spend nearly $2.4 million in fiscal 2019. In addition, there is a rollover of marketing dollars from fiscal 2018 that will be spent through the end of FY18 and into the first quarter of FY19. She reviewed the various categories of spending for the coming year.

She noted that the creation of the new marketing front end website had redirected some spending, primarily from print materials, to the digital space.

Mr. Miller noted that in his view the increased use of digital advertising was primarily responsible for the uptick in TEP accounts. Mr. Esparza agreed.

Vice Chair Desiderio called for a motion to approve the marketing plan and budget for fiscal 2019. Mr. Jansen so moved. Dr. Garcia seconded the motion. The vote to approve was unanimous.

Mr. Esparza then asked Ms. Wakeland to give the marketing report for the quarter. She reviewed the digital marketing efforts for the quarter compared to the same quarter last year. She noted the increase in the number of impressions as well as the increase in new accounts and contributions.

She then turned to the new TEP marketing website development. She noted that a great deal of progress had been made on the design and development of the site. She was hopeful of a July launch. Mr. Miller noted that the need to create a new privacy policy for the site would probably delay the launch by a couple of weeks. The overall goal is to get the site up in time for the back to school season.

Mr. Miller noted that the decision had been made to seek regulatory approval from FINRA for the new site. This was done both to give comfort to OppenheimerFunds and to add an extra layer of protection for the board. He noted that the board is not regulated by FINRA, and such a review was not legally required. It was done out of caution.

Ms. Wakeland then asked Ms. Roos to review the community outreach and payroll deduction efforts for the quarter. Ms. Roos stated that CNM was now offering TEP through payroll deduction. Ms. Roos and Mr. Miller both noted that the initiative with CNM had resulted in the review improvement of the various forms associated with the employer channel.

She then reviewed some new initiatives including the Santa Fe Youth Symphony, the New Mexico Association of School Business Officers, the Society of Human Resource Managers and Sandia Labs.

Events attended included those sponsored by the FFA, the New Mexico Association of Counties, the Main Street event in Las Cruces, and the Girls Scouts.

Mr. Sommer noted the economic activity in the southeast portion of the state, and recommended a number of potential areas for outreach to explore.

At this point (1:10 PM) Mr. Jansen left the meeting.

Ms. Bednar then reviewed the quarterly email campaign from the executive director to account owners in both plans. The goal was to create softer, more personal emails to create a relationship with account owners.

Overall the campaign appears successful. The open rate on the emails is 35%, which is very high by industry standards. The typical rate is 15%.

An analysis is done of contributions to the plans for the 30 days after the email is delivered. So for the people that opened the email, automatic contributions, including payroll contributions, are removed. The remaining contributions are considered "ad hoc". These contributions in the 30 days after the email was delivered totaled $2.7 million. Total contributions for the period were $6.4 million. Ms. Bednar thought that a significant portion of the money came in as a result of the email campaign.

Mr. Jarmie asked if this meant that the figures were just for account owners that opened the email. Ms. Bednar confirmed that they were.

Ms. Wakeland and Ms. Bednar then reviewed the new creative material for Scholar'sEdge. New banner ads were launched in February and had a click through rate of .41% which is well above the financial industry standard of.3%.

Ms. Bednar then described the new "ABCs of 529 Plans" create3d as an educational tool for advisors to use with their clients. It was based on a similar concept used for defined contribution retirement plans. Advisors perceive this tool as value added material.

Discussions are also underway to sponsor a session at the Strategic Insight 529 Conference in September. In addition a webinar will be created. One of the advantages of this sponsorship is the ability to access a list of industry contacts.

She then turned to the remaining advertising budget as well as the $200,000 remediation amount. She and Ms. Wakeland described the plans to use that money through the end of the fiscal and in early fiscal 2019.

Mr. Jarmie noted the importance of expending the available marketing dollars.

Mr. Miller noted that the plan was to hit the late summer and early fall very hard, both through traditional means and on the web.

Mr. Sommer asked if anything would be done on the web if a ruling came down from Taxation and Revenue regarding the New Mexico deductibility of contributions to the plans used to pay for K-12 tuition or to transfer to an ABLE account. Mr. Miller confirmed that there would be an update placed on the website.

ADJOURNMENT

Vice Chair Desiderio called for a motion to adjourn. Dr. Garcia made the motion. Mr. Jarmie seconded the motion. The vote to adjourn was unanimous. The meeting adjourned at 1:34 PM.