The Education Trust Board of New Mexico

THE HONORABLE MICHELLE LUJAN GRISHAM
GOVERNOR OF NEW MEXICO

DR. KATE O'NEILL, CABINET SECRETARY
NEW MEXICO HIGHER EDUCATION DEPARTMENT

BOARD MEMBERS
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THEODORE MILLER
EXECUTIVE DIRECTOR

APPROVED
Vera Lyons
Board Secretary
8/6/20

Meeting Minutes June 4, 2020 8:30 a.m.

Board Members
Sandra Liggett, Chair
Robert Desiderio, Vice-Chair (remotely)
Lawton Davis, Member
Mont Green, Member

ETB Staff
Ted Miller, Executive Director
Carolyn Fittipaldi, Marketing Director
Vera Lyons, Board Secretary (remotely)

Meketa Investment Group
Kay Ceserani, Managing Director (remotely)
Eric White, Principal (remotely)

HoganLovells
Helen Atkeson, Partner (remotely)

SommerUdall
Kurt Sommer, Partner (remotely)

Morton Accounting Services
Janet Pacheco-Morton, CPA (remotely)

Ascensus
Tom Hewitt, VP Relationship Management (remotely)
Tom Lowe, VP Investment Management (remotely)

Principal
Paul Schieber, Managing Director, 529 Distribution (remotely)
Randy Welch, Managing Director, Portfolio Manager (remotely)
James Fennessey, Portfolio Manager, Director of Research (remotely)
Jori Horn, 529 Marketing Director (remotely)

1) **CALL TO ORDER**
The meeting was called to order at 8:30. There was a quorum and four board members were present.

2) **APPROVAL OF AGENDA**
Ms. Liggett called for a motion to review the agenda. Mr. Green so moved. Vice-Chair Desiderio seconded the motion. The vote to approve the motion was unanimous.

3) **APPROVAL OF MINUTES**

Ms. Liggett called for a motion to approve the meeting minutes of 02/022020, 04/03/2020 and 04/30/2020. Mr. Green so moved. Mr. Desiderio seconded the motion. The vote to approve the motion was unanimous.

4) PUBLIC COMMENT

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

5) PROGRAM MANAGER'S QUARTERLY REPORT

The Chair asked representatives of the Program Manager to deliver the quarterly report. Mr. Hewitt began by noting that the Ascensus operations had continued to operate smoothly during the shutdown. There was no increase in phone calls to the call center, and little apparent panic among account owners.

He observed that across the client base at Ascensus contributions had continued to be made, but the trend was for smaller contribution amounts. He also noted that recurring contribution amounts had dropped somewhat, although the number of such contribution did not change much. During the first quarter withdrawals had been somewhat lower as some account owners held back on paying tuition. In the second quarter so far withdrawals appeared to return to slightly below levels. Overall account flows in the business were positive but a somewhat lower level than normal.
He noted that additional data such as switches among investment options would be reported in the next couple of months.

Mr. Hewitt then reviewed several matters related to each of the New Mexico plans. With regard to TEP, he noted that a project to provide online access to quarterly performance of the underlying funds in the Portfolios had been completed. He also noted the continuing work to support the upcoming Sandia Labs rollout of the plan to its employees.

He stated that "pulse reports" delving more deeply into account owner behavior would be coming in the next several months.

He also noted that certain efficiencies had been put in place with Morgan Stanley, and were also being implemented with UBS as both firms sought to adjust their business practices as a result of Reg BI.
He then told the board that the replacement of the SystematEX Fund with the Diversified International fund in Scholar'sEdge was scheduled to take place at the close of business on June 5. It was expected to go smoothly.

He finished his remarks by noting that TEP assets rebounded in the second quarter to date up to about \$570 million after the first quarter market drop. Net contribution, however, were negative by about \$2 million. There was account growth during the first quarter consisting of new sales as well as signups by winners of the National Junior Honor Society awards.

Scholar'sEdge assets also increased to about $1.8 billion after dropping in the first quarter. Net contributions were a negative $25 million. This continues the pattern of net distributions from Scholar'sEdge. New account sales were also down for the quarter.
He then turned to Mr. Welch to discuss the investment performance of the Scholar'sEdge Portfolios.

Mr. Welch started by noting the negative performance suffered by the Portfolios during the first quarter. He observed that the second quarter so far had regained much of the loss from the first quarter in a roughly v-shaped fashion. He thought that the markets were focused on a forward looking return to normalcy.

He then reviewed the performance numbers for the first quarter. The Year of Enrollment Portfolios underperformed the relevant benchmarks net of fees anywhere from 12 to 150 basis points. The Static Asset Allocation Portfolios also underperformed the relevant benchmarks from 50 to 150 basis points.

He noted that for the more conservative Year of Enrollment Portfolios peer rankings were relatively good, but that for the more aggressive Portfolios as well as for the Static Asset Allocation Portfolios the peer rankings were not as good. He attributed this to the performance of the SystematEX fund, which is being replaced, as well as to underperformance of the Core Fixed Income fund. The primary reasons for the underperformance of the Core Fixed Income fund was underweighting of agencies, treasuries and cash, and the negative performance of the slightly over weighted REITS, utilities and energy. That fund began to recover during the second quarter.

Mr. Fennessey then reviewed the internal scoring system used by Principal to evaluate funds, and how the funds in Scholar'sEdge ranked using that system. The system focuses primarily on three year and five year results. He showed the other metrics that factored into the score for a fund. The one fund that scored low on this system was the SystematEX fund which is being replaced. The Core Fixed Income fund has improved its score during the second quarter.

Mr. Lowe from Ascensus then reviewed the performance of the TEP Portfolios. He began with the Year of Enrollment Portfolios. He noted that the Portfolios were made up of index funds, and that the Portfolios with more equity funds underperformed the most. The Portfolios did perform in line with the benchmarks net of fees.

He then turned to the Static Allocation Portfolios. The passive Portfolios performed in line with their benchmarks net of fees. These were mostly negative for the quarter due to the equity components in each Portfolio.

The active Portfolios as might be expected underperformed the most relative to their benchmarks. These Portfolios are actively managed. Both the equity and bond components of theses Portfolios underperformed both absolutely and relative to their benchmarks.

He then turned to the individual fund Portfolios. He noted that these are primarily index products that track well to their benchmarks. He noted the Capital Preservation Portfolio with a current 2.50% yield. He noted that the yield is reset every six months and that he expected it to decline when reset on July

1st. He also noted the Social Choice Portfolio which declined in value, but beat its benchmark. This was due largely to an underweight to energy.

He then reviewed the performance of the underlying funds in the Portfolios. The index funds, which comprise most of the underlying funds, performed in line with their benchmarks net of fees. The active funds all underperformed. The American Funds Fundamental Investors Fund underperformed its benchmark. The REIT fund was negative but outperformed its benchmark. The DFA funds have a value orientation, which has been out of favor. The bond funds have an underweight to treasuries, and so performance was negatively affected.

Mr. Lowe then reviewed the Year of Enrollment Portfolios against the Morningstar rankings. He noted that even though there were a number of yellow and red rankings indicating performance below peers. With regard to active funds the DFA funds significantly underperformed.

Mr. Lowe then reviewed the funds based on the internal coring system utilized by Ascensus. The methodology is based on a 5 year time frame.

6) INVESTMENT CONSULTANT'S QUARTERLY REPORT

Ms. Liggett then asked Meketa to begin its presentation. Mr. White led off with a market update. He first noted the current high level of unemployment. Even if unemployment comes down relatively quickly he thought that it would take two years to return to pre-pandemic levels. In terms of the world economy his view was that an initial v-spike upward would soon moderate into a slow grind higher over several years. Europe in particular appeared headed for a period of slow growth. He noted that the IMF thought that the global economy would recoup its losses by next year.

Mr. White observed that the S&P was within 2and1/2 % of its high for the year, and that over one year it was up 16%. He viewed this a possibly untenable in the future. Risk assets were at very high prices. Mr. Green as about the effect of a recurrence of the virus on the markets. Mr. White said that he was concerned about an increase in the virus over the summer due to the relaxation of controls, as well as an outbreak later in the year during the flu season. He noted that the massive federal stimulus response had propped up the markets, but that being cautious in terms of investments was the wisest course.

Mr. Davis asked Mr. White about his views on the reopening of various states from virus constraints. Mr. White said that he thought this would result in a significant increase in virus cases.

Ms. Ceserani then began her presentation on the role of the investment consultant to the plan. She noted that the board had received the document some time ago for review, and that she would just note a few highlights. She then outlined the role of the investment advisor in advising the board on the creation the investment line up for the plan and on the subsequent performance of the investments in the plan.

She went through the steps involved in the watch list process. With regard to investment performance they try to understand why a fund is underperforming. She went through several reasons why a fund might underperform. She noted that the investment consultant also reviews any changes in the team that manages the fund, as well as the effect of any mergers or acquisitions of fund the current fund manager. She noted the processes for evaluating both qualitative and quantitative breaches of the watch criteria.

She then briefly update the board on Meketa's response to the virus crisis and the work environment. There is a strict no-travel policy, and staff are working remotely. Meeting of staff and of staff with clients are held via Zoom or other internet technologies.

Mr. Davis asked if the virus had impacted the ability to do the firm's work. Ms. Ceserani said that in general it had not. They were still able to interact with one another and with clients and investment managers effectively.

She then moved onto the quarterly investment report. She reviewed both the Morningstar star and medal ratings for each fund with the board. She covered both plans, and reminded the board of the different purposes of the two ratings.

She noted that the new portfolio lineups have a very short history. The index funds in the program performed as expected during the first quarter – although most were down in line with the markets. The active funds struggled, with few exceptions.

She then reviewed the funds against the quantitative and qualitative measures she had discussed earlier. She noted that a couple of TEP funds moved down a notch, and the Scholar'sEdge funds had no status changes. In total 90% of the TEP funds were either positive or acceptable and 95% of the Scholar'sEdge funds were positive or acceptable.

She noted that this was a big improvement over the previous fund line up, and better than most of the programs she covers – where 67% of the funds are either positive or acceptable in rating.

She then explained some of the charts contained in the report. She reviewed charts rated to performance over the short, medium and longer term. She explained the VRR or Value Relative return. She reviewed peer group rankings, and risk-return charts, upside-downside capture charts, and tracking error charts.

Finally she reviewed the Capital Preservation Portfolios in each plan. She noted that the criteria were somewhat different for this type of investment contract. Financial strength of the insurance company issuing the contract was important, as well as the credit quality and diversification of the company's general account portfolios.

7) SCHOLAR'S EDGE STAFFING AND DISTRIBUTION UPDATE

Mr. Schieber gave the Scholar'sEdge staffing and distribution report. He noted that the challenge for SE was to overcome the loss of about 9,500 accounts per year for the next three years. He stated that Principal has an aggressive growth plan that should get the monthly account growth for Se up to 800 accounts within the next three years. He stressed Principal's corporate commitment to the 529 business. He noted his own addition to the team to head distribution, the work of Jori Horn in marketing, Kris Goeden's role in relationship management with brokers, and the addition of Tracy Bollin on business support.

He noted the hiring of two 529 sales specialists and the involvement of three specialists from the Advisor Consulting Team. These individuals have been licensed to talk about the 529 plan to brokers. One of these individuals will have responsibility for the state of New Mexico.

The plan is to reach out to existing SE brokers as well as the Principal Advisors Network. The two new sales specialists will also reach out to their previous broker relationships. The Advisor Consulting Team will also reach out to the insurance segment of the industry to agents who are also advisors. . The firm will also seek ways to approach employers in its retirement plan business.

Principal will attempt to increase its technological capabilities with selected brokerage firms. He highlighted firms where either the omnibus or omnibus lite form of integration should be helpful.

He mentioned the importance of virtual selling capabilities in the current crisis. He also spoke of this use of an outside consultant to enhance the skills of the five members of the specialist team.

Mr. Green asked if there was a way to track the progress or lack of progress in achieving the three-year goal of increasing sales to 800 accounts per month. Mr. Schieber said that the macro challenges in the next few years made it difficult to project with certainty, but that metrics would be in place to measure progress toward the goal.

Mr. Miller reminded the board that he and Kay Ceserani from Meketa had done a study in 2017 that showed the SE had been in net distribution of assets and accounts since 2012. The bull market had sustained the plan over those years. He noted that forward account projections had been made, and that without a bull market to sustain assets the revenue decline would adversely affect the activities of the board. The plan had to grow sufficiently so that it did not live or die as a result of market action.

Mr. Schieber noted that this was the reason the three additional specialists from the Advanced Consulting Team were added.

Mr. Davis thought that the rollover incentives and the enhanced rights of accumulation should help.

Mr. Miller observed that a person like Mr. Schieber, with long experience in the industry and at Principal, can move across the corporate silos in a way that can help the 529 plan.

8) SCHOLAR'S EDGE QUARTERLY MARKETING UPDATE AND FY21 MARKETING PLAN

At this point Ms. Horn gave the SE quarterly update and proposed marketing plan for FY21. She reviewed the first quarter marketing efforts, including the January launch campaign. She noted that the campaign, since it was a launch, was scheduled to run for about six months. The target for the campaigns were the current SE advisors and the Principal Advisor Network (PAN). The theme was "The

Power to Change the World". The goal was to drive awareness of the new program, highlight differentiators and competitive advantages and lead to increased enrollment.
She then reviewed the digital media efforts and the results from the various channels – both to advisors and to consumers. She also discussed paid email efforts.

Ms. Horn also noted the focused mailing to 3,000 top producing advisors, including a small plastic Lego bank. She also reviewed in detail the website metrics for the program.

Mr. Green asked if website users could be tracked leaving the site to see if they went to the enrollment page for the plan. Mr. Hewitt confirmed that Ascensus could provide information on the site from which such a visit was made.

For the second quarter she said that a lot of the first quarter efforts carried over. New initiatives include a value added presentation called "Dream, Learn, Save". This large presentation is designed to assist advisors in talking with clients and prospects about college saving.

A campaign also was launched for National 529 Day. It focused on advisors supporting the clients and community. Each advisor that received the email got a code to redeem at the Scholastic Store for $10 worth of educational materials.

Ms. Horn then discussed efforts with Saving for College, Investment News, Asset TV, Think Advisor, and the Investing Channel.

She noted that Principal was on track to spend the entire amount contractually committed for the fiscal year.

Ms. Horn then presented the SE marketing plan for FY21. Ms. Horn divided the presentation into four major parts -- creative development, campaigns, digital assets and enrollment and promotional materials. She presented the budget for each.

Creative development will focus on tools for advisors and consumers. For advisors these include webinars, an advisor toolkit, timely topics and conversation starters as well as a "Building your own 529 Presentation tool. For consumers there will be the development of a "Literacy Library" aimed at parents for talks with their children.

Campaigns will include Back to School, Holiday giving, National 529 Day, and a campaign TBD.

Digital Assets will be enhanced including the customer journey, new resources and calculators.

Mr. Green asked Ms. Horn how often she was in contact with ETB staff. She noted that she was in weekly contact with Mr. Miller and Ms. Fittipaldi as well as biweekly contact with Mr. Miller, Ms. Fittipaldi and Esparza.

Mr. Davis asked if the budget was sufficient to accomplish the goals of the program. Ms. Horn stated that it was. Mr. Davis noted the Lego promotion and said that in his experience this was an effective motivator of sales people. Ms. Horn agreed and noted the low cost for such a promotion.

At this point Ms. Liggett called for a motion to approve the Scholar'sEdge marketing plan for FY21. Mr. Green so moved. Mr. Davis seconded the motion. The vote to approve the motion was unanimous.

9) THE EDUCATION PLAN QUARTERLY MARKETING UPDATE AND FY2021 MARKETING PLAN
Ms. Fittipaldi then addressed the board. She noted that during the COVID crisis TEP had continued to pursue a combination of traditional media, digital media and PR. Normal outreach activities were curtailed, but outreach continued in the form of social media, emails and web-based meetings and presentations.

She also noted the significant win in the agreement of Sandia to offer TEP to its nearly 15,000 employees in several states. She also mentioned efforts with smaller, less automated employers such as Dona Ana County.

She observed that the goal was to sign up 10 more employers during the new fiscal year. She asked the board members to get directly involved in that effort by engage their contacts in community to open the door for employer engagement.

She then introduced Ms. Griffin of Sunny505. Ms. Griffin noted that there is a correlation between the amount spent on marketing and advertising and the business results that are produced. The business goal is to produce new accounts for TEP. That goal is an average of 145 new accounts monthly for the next fiscal year.

She noted that her firm was tasked with both traditional media efforts and PR. She stated that PR generates "earned media", and in the COVID environment the value of earned media has never been higher. Because earned media is a firm of third-party validation, it has a greater impact on prospective investors.

Sunny works with the board's digital media firm, Esparza, so that the press releases, news clips add to TEP's ranking on search engines such as Google. She then reviewed a number of the items from the previous quarter with regard to PR activities. The goals for FY21 are to increase the number of accounts and contributions to TEP. This the end there will be PR directed at employers, an effort to educate the public on the importance of saving for college and the creation of at least a dozen positive news stories in New Mexico and other targeted states.

She observed that PR can be monitored using special software that can trace access to the releases and news clips around the country. That information is also fed to Esparza to assist them in targeting digital media.

Outreach to employers will be made to place articles in their newsletters and internal communications. Board staff and outreach contractors will be used to present at meetings, both virtually and physically once the restrictions are lifted

She noted that monthly PR reports are prepared giving the details on the PR efforts and their advertising value.

She then turned to Mr. Matthews to discuss traditional media efforts. Mr. Matthews noted that recent research had shown that locally people were focusing on rebuilding savings including college savings. This presents a good opportunity for TEP.

He noted that during the first four months after the conversion 785 new accounts were added – with 87% from New Mexico.

He observed that the move to advertise in the El Paso market, which includes Las Cruces, had generated a 300% increase in web traffic from that area. Also, direct website traffic generally is up 23%, Google organic search is up 49%.

He noted the goals for FY21 of an average 145 new accounts per month and the addition of 10 new employers to the program. The target audiences for the plan are parents aged 25-44 with household income of $45,000 and up, as well as grandparents and employers.

He noted that recent market research showed that for the 529 plan, the median age of the account owner is 46, 36% fall between 35 and 44, 25% between 45 and 54, and the group skews slightly male. They are married, often with a dual income and well educated. About 34% have teenage children, 24% have children 3 to 12. Between April 2018 and June 2019 there were about 32,000 adults with 529 plans in New Mexico. The median plan value for the Albuquerque area was $27,000.

He then turned the presentation over to Ms. Vega-Garcia. She noted that the firm identified two personas for the campaign. She stated that the key message would be the reduction of student, the tax advantages of a 529 plan and the ability to increase account assets through gifting by other family members and friends.

For employers the key messages would be that the plan is free to employers and easy to setup, and is a good way to attract and retain key employees as well as provide for a stronger New Mexico workforce.

Mr. Matthews then outlined the timing of the campaign. He identified September as a back-to-school campaign, the holiday season as a gifting campaign and tax season as a discussion of the tax advantages of a 529.

He then went through the details of the budget for traditional media. He noted that more than half would be spent on TV and the push would continue into rural radio. Print ads would run across the state, and outdoor would be used in high traffic areas. He observed that market data shows that a high percentage of people buying financial service act after having seen a TV ad.

The presentation was then turned over to Esparza to discuss digital media. Mr. Esparza introduced Mr. Rushad-Gros as a co-presenter for Esparza. Mr. Esparza noted that in the first quarter of 2021 new account goals were exceeded by 14%. The trend continued in April. Given the impact of the virus crisis the results were noteworthy. He also observed that account owners are hungry for content. Emails sent to them by the plan had an open rate in excess of 50%.

Mr. Rushad-Gros reviewed the Q1 digital marketing activity. He noted updates and improvements to the TEP website as well as a beefed up media page. A blogging module has also been added to the site. With regard to search, full Google analytics web tracking has been implemented from the front end website trough to enrollment. This helps with retargeting users that do not complete the enrollment process. Improvements were made to the Investment pages of the website including amore interactive glidepath chart, as well as the addition of quarterly fund fact sheets for the underlying funds in the program.

He also mentioned the work being done for the Sandia Labs relationship, including a branded landing page for Sandia employees, management and employee presentations, an informational print brochure and digital signage for display within the workplace.

He then reviewed the digital marketing statistics, noting a large increase in website visits and a good conversion rate for account openings. He then reviewed social media activities and Google paid search activity. These were all up significantly for the quarter. He noted that Google has noticed a 67% increase in queries for wealth management and financial advisors during the quarter. He noted that 57% of total website sessions are coming from advertising and advertising is driving 68% of new user activity on the site. The other 32% is reflective of traditional media such as TV. Advertising is driving an average of 1,000 sessions per day. Mr. Esparza noted that digital marketing activities were tracking to budget for the quarter.

Mr. Rushad-Gros then reviewed the TEP marketing plan forFY21. He began by noting that, unlike many business sectors, the financial sector has seena30% increase in web traffic during the quarter. The marketing plan has the main goal of driving account growth accounts, reducing the average age of account beneficiaries and increasing contributions to existing accounts. The employer channel is important in this regard. It can add accounts to the program in bulk.

The marketing mix is diverse, including content, search engine optimization, email marketing, native advertising, display network ads and social media. Reporting and analytics will be used to move resources to the best forum based on user activity. Developing personas and localizing the web experience will be important to the marketing effort.

Mr. Esparza noted that the primary target is an increase of 9% new account growth over last year or 1734 accounts. Another target is to bring down the cost of acquisition. Cost per acquisition have been reduced by more than half in the last two years.

At this point Ms. Liggett called for a motion to approve the FY21 marketing plan for TEP. Mr. Davis so moved. Mr. Green seconded the motion. The vote to approve the motion was unanimous.
(At this point the board took a break from 12:50 PM-1:17 PM.)

10) INFORMATIONAL PRESENTATION ON ETB BUDGET RULES AND POLICY

The board next received an informational presentation from Ms. Pacheco-Morton outlining the policies and procedures followed by board staff with regard to budget matters. This session had been requested by the board Chair.

The review covered the following topics:

- Authorizing Legislation including the Accountability in Government Act and the State Budget Act;
- An Overview of the Appropriations Request Process
- The NMETB Budget Process;
- Budget Adjustment Requests; and
- State Oversight of Contracts and Spending.

11) ADJOURNMENT

At this point Ms. Liggett called for a motion to adjourn. Mr. Davis so moved, seconded by Mr. Green. The meeting adjourned at 2:02 PM.