

The Education Trust Board of New Mexico

THE HONORABLE SUSANA MARTINEZ
GOVERNOR OF NEW MEXICO

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



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

APPROVED

Vera Lyons
Board Secretary
8/28/18

Meeting Minutes of July 26, 2018
1121 4th St. NW, Albuquerque NM 87102

Board Members in Attendance

Dr. Barbara Damron – Chair
Dr. Jose Garcia – Member (by telephone)
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
Del Esparza – Esparza Advertising
Eve Wakeland – Esparza Advertising
Kay Ceserani -- Pension Consulting Alliance
Chris Werner – OppenheimerFunds
Leslie Bednar – OppenheimerFunds (telephonically)
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 three board members were present, Dr. Damron, Mr. Jarmie and Mr. Jansen. A quorum existed.

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. Mr. Jansen so moved, and Mr. Jarmie seconded the motion. The motion passed unanimously.

4) APPROVAL OF MINUTES

Dr. Damron referenced the minutes of the May 3rd meeting of the Board. Mr. Jarmie moved that the minutes be approved. Mr. Jansen seconded the motion. The vote to approve the minutes of the meeting of May 3rd was unanimous.

5) ETB EXECUTIVE DIRECTOR POSITION UPDATE

Dr. Damron reported that all the necessary approvals and paperwork had been completed, and that Mr. Miller had been appointed to the new exempt position of Executive Director.

Mr. Jarmie congratulated Dr. Damron on her leadership in the matter both for himself and the other members of the board.

6) EXECUTIVE DIRECTOR'S REPORT

Dr. Damron then asked Mr. Miller to give the Executive Director's report. Mr. Miller asked Ms. Pacheco-Morton financial report for both the trust funds and the administrative fund for the 4th quarter of fiscal 2018. She began with the report on the administrative fund.

She noted that for FY2018 and future years the administrative fund would be reported according to the accounting rules governing enterprise funds. This meant that the financial statements were now on the full accrual method of accounting.

Dr. Damron noted that it had taken several months of discussion with the Department of Finance and Administration to get this change approved. Mr. Jarmie asked what value there was to this change.

Mr. Miller noted that the board's accountant as well as the outside auditor had stated that the board's only revenue came from fees charged on the assets of the trust funds, and that by government accounting standards the administrative fund should be characterized as an enterprise fund.

Dr. Damron noted that the enabling statute for the board also had to provide for this result. It was proven to the satisfaction of DFA after much discussion that such language existed in the enabling legislation.

Mr. Jarmie asked if this provided more protection of the administrative fund from being swept by the legislature. Mr. Miller noted that the legislature had the ultimate power to amend the board's enabling legislation, but that under the current statute the fund was as secure as it could be.

Ms. Pacheco-Morton then reviewed the Statement of Net Position, the Statement of Activities and the review of the Budget to Actual Report. She noted that overall operating revenue was about \$2.62 million and expenses were about \$1.96 million, leaving operating income of about \$660,000. Added to that income was investment income on the fund's cash position of about \$104,000. This resulted in a net increase of about \$765,000 to the fund's assets. Spending in all major budget categories was within budget for the year. Legal expenses were over budget for the year due primarily to the legislative initiative regarding federal 529 changes, the web hosting contract negotiation

and the drafting of an amended and restated program manager agreement. Nonetheless contractual services overall came in under budget for the year.

She then moved on to the fiduciary funds. The net position of the two funds at year end was almost \$2.5 billion.

She also noted the significant subscription and redemption activity for the year, primarily associated with the restructuring of the investment program in November and January. ETB has been working with OppenheimerFunds to get more underlying detail on the subscription and redemption activity, particularly to understand what constitutes true new investment money and true distribution money versus exchanges between funds. This was an ongoing project with OppenheimerFunds and BBH. The goal in the future is to have the underlying detail on these activities.

She also referenced the significant swings in the capital gain and loss figures. This also appears to be in part the gains and losses associated with the restructuring of the investments. There was, however, a significant increase in investment losses compared to last year. Additional analysis showed that most of this increase was associated with the Scholar'sEdge portfolios and some of their underlying investments. (At this point Dr. Garcia joined the meeting by telephone.) She identified five OppenheimerFunds that were responsible for the majority of the losses – the SteelPath Select 40 fund, the Main Street fund, the Main Street Mid Cap fund, the Real Estate fund and the International Bond fund.

She noted that ETB was getting more reporting from OppenheimerFunds that will permit more detailed analysis of the fiduciary funds. She thought that there was now a group of reports that will be requested on a quarterly basis which will enable more detailed analysis of the information contained in the financial statements for the fiduciary funds.

Mr. Jarmie asked if the financial reports could be changed to include prior year information for comparison purposes. Ms. Pacheco-Morton stated that it could, and it would be provided in future reports.

Mr. Miller then gave his report on the executive director's execution of small contracts on behalf of ETB. This authority was delegated to the executive director by the board at the last quarterly board meeting. He noted the execution of a small contract for IT services with Abba Technologies, a small contract with Esparza Advertising, a small contract with Morton Accounting Services and two small contracts for grassroots outreach services.

He also mentioned a new small contract with the firm Research and Polling to do some consumer telephone research in New Mexico. He asked Mr. Esparza to briefly outline the purpose of this research. Mr. Esparza stated that a series of questions was being created to address the awareness and use of the 529 program among New Mexico residents. Various demographic, geographic and income groups would be surveyed. One goal is to see what changes to messaging would be useful, as well as to establish

benchmarks for future advertising effectiveness. Mr. Jarmie stated that this was an excellent idea.

Mr. Miller then noted that SavingforCollege.com had listed The Education Plan as among the top 25 plans in the country in the categories of Best Plan, Low Cost Plan and 5-year Performance.

Mr. Miller also noted that a small contract was under negotiation with a New Mexico public relations firm. It had not yet been signed.

Finally he referenced the relationship of ETB with the National Association of Secondary School Principals (NASSP) and the National Junior Honor Society (NJHS). He noted that this was the third year for the Outstanding Achievement Award scholarship program of NJHS. Of the initial 1000 winners of the awards, nearly 95% still maintained 529 accounts in The Education Plan. The families of these winners had also added about \$140,000 in new contributions over and above the initial awards. The third year awards had been announced, and would be funded in August. Already 466 out of potential 500 accounts had been opened by the families of the winners.

Mr. Miller also noted that he had been invited to speak to the board and executive leadership of NASSP at the NASSP national conference earlier in July. He reviewed the success of the NJHS scholarship program. NASSP was extremely pleased with the results and the relationship with the New Mexico 529 program.

7) PROGRAM MANAGER'S OPERATIONS REPORT

Dr. Damron then asked Mr. Werner to give the operations report. Mr. Werner turned to a project that he had been working on with Mr. Miller and Ms. Bednar to determine whether or not the New Mexico 529 program could eliminate minimum initial and ongoing contribution amounts for account owners. This could serve as an incentive for lower income families to establish 529 accounts.

It had been determined that OppenheimerFunds had never enforced the minimum contribution amount on either initial or continuing contributions in any event. The operations team at OppenheimerFunds had confirmed that the removal of initial and continuing contribution amounts could be accommodated.

The concern would be that very large numbers of very small accounts would be established. This has the potential to increase program expenses, and would have to be monitored over time.

Mr. Jarmie asked if it might be possible to incent small contributors with an additional amount of money in order to bring the minimum account size up to \$25. Mr. Sommer stated that it was not possible under current New Mexico law for ETB to provide such an incentive from administrative funds.

Ms. Bednar observed that the messaging for removal of the minimum could be tested in New Mexico. For the rest of the country there could be a "soft launch" of the change.

She hoped that more New Mexico families would engage with the 529 program as a result. Follow up messaging could be directed to these new small account owners to encourage further saving.

Mr. Miller stated that there is always a tension between removing minimums and the added costs of large numbers of small accounts. He asked the board to approve removal of the minimums for both initial and ongoing contributions. The removal would be widely messaged in New Mexico as a test of its effectiveness in encouraging account formation and ongoing contributions. If successful in New Mexico the messaging would be expanded to the rest of the country.

Mr. Miller noted the appeal of such a change in a low income state like New Mexico. It should also have appeal to those in state government.

Mr. Werner noted that the primary effect would be on the direct sold plan. The brokers that sell the advisor product have minimum account thresholds at their firms. It would, however, make it easier to attract gifting contributions of small amounts into established accounts.

Ms. Atkeson asked if the change was being proposed for both plans. Mr. Werner affirmed that it was.

Dr. Damron called for a motion to remove the initial and ongoing contribution minimums from the New Mexico 529 program. Dr. Garcia so moved. Mr. Jansen seconded the motion.

Both Mr. Esparza and Mr. Miller noted that OppenheimerFunds should be congratulated for being willing to take the financial risk of removing the contribution minimums.

The vote to approve the motion was unanimous.

Mr. Werner then continued with a discussion of OppenheimerFunds current business. He noted that total assets under management had been roughly flat for the year at about \$246 billion. He stated that the firm was profitable.

He observed that the firm was obtaining business from different sources, both in terms of areas of the world and in terms of new products. International distribution was now a focus for the firm. The ETF business was adding new funds. OppenheimerFunds was now the 15 largest ETF distributor with about \$3 billion under management. The firm has 26 ETFs. The firm is also adding ESG (environmental, social and governance) funds as ETFs, and may put forward a proposal to add an ESG component to the 529 program.

He noted that several new funds had been added that used subadvisors. This was a new area for OppenheimerFunds. He mentioned MacQuarie, Pictet and the Carlyle Group as examples.

He also noted that the Global Value Fund had changed its name to the Global Focus Fund.

He also noted OppenheimerFunds leadership in the area of diversity and inclusion in the workplace. The firm was on several lists, including 2018 Best Companies for Multi-Cultural Women, 2018 Best Places to Work for Dads, 2018 Best Places to Work for Disability Inclusion and 2018 Diversity best Practice Inclusion Index.

The firm was also listed as Number 3 on the Pension& Investments list of DCIO providers.

Dr. Damron commended OppenheimerFunds on its diversity and inclusion efforts.

Mr. Miller then asked Mr. Werner to address the conversion of the firm to a new transfer agency system provided by DST. Mr. Miller noted that even though the 529 program would not be going through a conversion to the Ascensus recordkeeping platform, the 529 program would be impacted by the transfer agency conversion taking place at OppenheimerFunds.

It will be necessary to remove the old connections to the OppenheimerFunds transfer agency system, and establish new connections to the transfer agency system maintained by DST.

Mr. Werner agreed with Mr. Miller's description, and observed that the firm established a 529 working group and had begun the process of identifying all the considerations in making the move to the new transfer agency system. He assured the board that there would be no meaningful impact to ETB, the trust or the account owners as a result of the conversion.

Mr. Miller asked Mr. Werner to keep the board informed of the process, and to provide useful information about the conversion to people who are not operations and system experts. In particular, he asked that graphic representations be prepared that were useful to non-experts.

Ms. Bednar stated that the working group had already reached to her to determine any issues that might arise with regard to the marketing side – especially with regard to the new front end marketing website.

Mr. Jarmie told Mr. Werner that he appreciated his willingness to go the extra mile for the 529 program. He also noted that he was concerned that the transfer agency conversion not cause disruption of the 529 program, and resulting concerns for the fiduciaries. He hoped that the relationship with OppenheimerFunds would not be disrupted.

Mr. Werner noted that OppenheimerFunds had come to the board with the Ascensus outsourcing recommendation, but that the ultimate decision rested with the board on that matter. The board's decision in no way reduced the commitment of OppenheimerFunds and its management to the 529 program.

Mr. Jarmie noted again the importance of this matter to the board, and the need to avoid disruption of the 529 program. He advised Mr., Werner to provide the board with as much information as possible about the transfer agency conversion and its effects on the 529 program. Mr. Werner agreed.

8) STRATEGIC ASSET ALLOCATION PROJECT

Dr. Damron asked Ms. Ceserani to address the strategic asset allocation project. Ms. Ceserani asked Mr. Miller if he had anything to say before she began. Mr. Miller reviewed the history and purpose of the project – which began more than a year ago. He noted that a trend had emerged in the last few years of investment boards documenting the underlying beliefs of the board members regarding the structure and the investment policy of their investment programs. These so-called Statements of Investment Beliefs articulate the underlying understandings of the boards over time. They are meant to demonstrate that the boards, acting as fiduciaries, are driving the investment process. Their investment advisors and program providers are responding with advice and recommendations derived from the Statements of Investment Beliefs.

He noted that the board members and senior staff had completed a detailed questionnaire designed to elicit areas of substantial agreement, and disagreement, with regard to design and operation of the investment program.

The initial draft Statement of Investment Beliefs contains five statements upon which there is general consensus among the board members.

Ms. Ceserani noted that the purpose of the exercise is to make clear the underlying and often unstated beliefs that drive the investment decision making process for the program. She noted the timeline of the various board meetings where discussion on these matters had occurred. PCA had given a presentation in August of last year regarding the idea of strategic asset allocation, which looks at asset allocation through the lens of risk as opposed to types of assets classes. This meeting was followed by the creation of a questionnaire with over 60 questions broken into ten different categories that probed the beliefs of the board members and senior staff as to a number of important topics, including the overall program design, the types on investments that were appropriate for the program and views as to diversification and risk.

The results were reviewed at the January meeting, and a set of statements upon which there was general consensus was developed by PCA in consultation with senior staff. The draft Investment Beliefs Statement was presented to the board at the May meeting, and further revisions were made based on comments from the board at that meeting. She then reviewed areas where there was general board consensus as well as the investment belief statements that were presented to the board for consideration.

Mr. Miller noted that the investment beliefs statement was created to incorporate at a high level the consensus view of the board on topics that were useful in terms of formulating investment policy. As time goes on and these initial investment beliefs are reviewed, the board may wish to expand the Investment Beliefs Statement.

Ms. Ceserani then reviewed each of the investment beliefs. The first belief is that ETB should monitor 529 industry best practices regarding investment program design and underlying investment offerings. Mr. Miller noted that the board staff regularly reviews these matters, and that the board hears from PCA, AKF and OppenheimerFunds on these matters.

The second belief statement is that when analyzing and communicating regarding plan investments, the board should focus on long-term performance (3 to 5 years) rather than on short-term results. Mr. Miller noted that the board already utilizes this approach. He observed that something very unusual would need to occur for short-term results to trigger a change of investment.

The next belief statement outlines the board's approach to the classification of investors in the program as either conservative, moderate or aggressive in relation to risk and return.

Mr. Jansen asked if there were information on the plan website for TEP that helps investors understand the risk levels of the various investment options. Ms. Ceserani noted that the Investment Beliefs Statement is geared toward the creation of an Investment Policy. It informs the program manager and the investment consultant as to the design of investment portfolios in the future.

She observed that the plan websites contain information about the various investment options and the risk factors for these options. The goal is to provide investors with information, but not to provide investment advice on the websites. Mr. Miller noted that the board had specifically backed away from any investment belief statement regarding individual investment advice.

Dr. Damron stated that the board had a presentation in October to the Investments and Pensions Oversight Committee of the state legislature, and that short discussion of the investment beliefs statement would be useful.

Ms. Cesarani then moved to the fourth investment belief regarding the fact that investment costs matter, and can significantly impact investment returns over time.

The fifth investment belief concerns diversification. It states that investment portfolios are less volatile when risks are spread over many small factors rather than one large factor.

The sixth investment belief is that portfolios are generally driven by growth risk. Ms. Ceserani referred to the initial presentation by Mr. Lobdell where he showed that the asset class designation of an investment is not always indicative of how the investment will perform overtime. For example, high yield bonds respond to the market environment more like equities than like bonds. Mr. Miller noted that this type of analysis provides a more sophisticated way to view asset allocation decisions when structuring portfolios.

Dr. Damron noted that this was an important exercise for the board. It helps the board to inform its decision about the structure of the investments for the program. Ms. Ceserani stated that from PCA's perspective, this was the most important on the investment beliefs for the future design of the program's investments.

Ms. Atkeson asked how the growth risk investment belief would play itself out in the design of the investment portfolios. Ms. Ceserani explained that the usual asset classes used to construct investment portfolios would still be present, but that the weighting of

various asset classes might be different depending upon the evaluation of growth risk in the particular portfolio.

Ms. Atkeson asked if the current portfolio descriptions used in the disclosure materials would have to be revised to reflect this new approach to portfolio construction. Mr. Werner observed that any changes to portfolio structures would be reviewed to see if the descriptions needed revision. His is done on a regular basis in any event for the program. Ms. Ceserani also noted that the Investment Policy Statement and the Monitoring Procedures and Criteria would also be reviewed.

Mr. Sommer asked how investors would be made aware this new asset correlation structure. Ms. Ceserani stated that investors are not aware of the underlying mechanisms for asset allocation now. This is just a different way of constructing the portfolios.

Mr. Miller observed that PCA has portfolio modeling tool that utilizes the various investment used in the program, as well as some potential new investments to create portfolios designed to satisfy the needs of conservative, moderate and aggressive investors as described in the Investment Beliefs Statement. These portfolios would have probabilities associated with them of achieving the investment goals outlined in the Statement. These would be presented to the board for approval.

Dr. Damron asked how the board could measure whether or not the new design was better for the program's investments. Ms. Ceserani noted that the board does not currently use the growth risk method to construct its portfolios.

Mr. Miller noted that the design exercise will target portfolios that have the statistical probability to either keep up with general inflation, keep up with tuition inflation or exceed tuition inflation, and will show the growth risk required to meet these goals.

Ms. Ceserani noted next belief statement also concerned diversification, but from a global orientation. It states that investment options should have a global orientation. She noted that, while the current portfolios have international investments in them, they also have a home (U.S.) bias. PCA and Oppenheimer are comfortable with a home bias.

The final belief statement is that asset allocation has a larger impact on performance over time than individual fund selection. Mr. Miller noted that the board had already seen in the PCA investment reports that nearly all the return in the portfolios was attributable to asset allocation, and hardly any to fund selection.

Ms. Ceserani then stated that the Investment Beliefs Statement has PCA's recommendation, and that PCA thinks the board should adopt them subject to any changes that the board may request.

Mr. Jansen asked how often the Investment Beliefs Statement should be reviewed. Ms. Ceserani stated that it should be reviewed at least biannually, and the asset allocation of the program should be reviewed annually.

Dr. Damron asked for a motion to approve the Investment Beliefs Statement. Mr. Jansen so moved. Dr. Garcia seconded the motion.

Ms. Atkeson asked if the board would make the document available to the public. Mr. Miller noted that it is a public document, and Dr. Damron agreed. Ms. Atkeson noted that the document does not say that it is not intended to advise account owners.

Dr. Damron observed that counsel should advise the board on the matter.

Mr. Miller noted that it might raise a flag. Dr. Damron observed that it might. Mr. Miller observed that the Investment Beliefs Statement and the Investment Policy Statement are not designed to sell investments. They are documents that guide the board and its advisors. They are not designed to guide the public with regard to their own investment decisions.

Dr. Damron stated again that the board could defer to counsel on the matter. Mr. Miller noted that counsel should decide whether or not additional wording ought to be included. He noted again his concern that the documents not take on the character of sales literature.

Mr. Jarmie noted that he was generally in favor of some sort of disclaimer.

He then asked Ms. Ceserani if the phrasing of the belief regarding global investment should be reworded to soften the phrase "should be" contained in the draft. After some general discussion upon the wording it was decided that the belief statement be modified to say "Investment options, where appropriate, may be globally oriented."

Mr. Jansen agreed that the revised wording was acceptable to him, and he revised his motion to include it.

Dr. Damron noted that the final motion on the floor was to approve the Investment Beliefs Statement as reworded, subject to further legal review and input at a separate meeting.

Mr. Jarmie seconded the revised motion. The motion was passed unanimously.

9) PROGRAM MANAGER'S QUARTERLY INVESTMENT REPORT

Mr. Werner then gave the quarterly investment report. He began with the Supplemental Investment Summary. He noted continuing volatility in the markets, but also noted that markets in the U.S. were generally positive for the quarter although international equities, particularly emerging markets, were down. In addition value continues to underperform growth as it has for some time.

He turned to the list of largest funds in the program. He noted that the list is usually pretty static, but that, due to the growth of TEP, some of the Vanguard funds were beginning to appear on the list.

He then turned to fund performance. In TEP the index age based portfolios slightly underperformed after fees with the exception of the age based 100 portfolio. Without fees the funds all performed as expected. He noted the decline in the international

stock index fund as well as declines in some of the bond portfolios. He did not regard any of the index portfolios as a cause for concern.

With regard to the TEP blended portfolios, he noted that the portfolios performed in line with their benchmarks net of fees. The principal underperformer was the Oppenheimer International Growth Fund. In discussion with the portfolio manager, Mr. Werner was advised that the tariff concerns, particularly for automobiles weighed on the performance.

He then turned to Scholar'sEdge. He noted Portfolios 100 through 60 outperformed their benchmarks net of fees. Below that the Portfolios somewhat underperformed net of fees.

The Oppenheimer Global Fund outperformed for the quarter. The Main Street Fund had a better quarter, but underperformed the benchmark by 12 basis points. The International Fund underperformed as previously noted, but the Global Focus Fund (formerly the Global Value Fund) outperformed. The well-rated Emerging Markets Fund was down four percent.

He noted that the T. Rowe Price Blue Chip Fund outperformed again.

10) INVESTMENT CONSULTANT QUARTERLY REVIEW AND WATCH LIST RECOMMENDATION

Dr. Damron then asked Ms. Ceserani to give the quarterly consultant's report. She led off with the Watch List Memo. She noted that no new funds qualified for watch status. Of the three funds on watch status from last quarter, two of them no longer qualified for watch status, but PCA recommended keeping them on watch for another quarter since they were in the caution area with regard to performance. These were the Oppenheimer Capital Income Fund and the Main Street Mid-Cap Fund. She noted that the Oppenheimer Main Street Fund was placed on watch last quarter. She recommended that it remain on watch status as well.

Mr. Miller noted that at the recent New York due diligence the fund manager, Manny Govil, had noted that the fund have never been in the bottom quartile of performance before, and that he was making some changes to the strategy to improve performance. Mr. Werner noted that Mr. Govil has sold the FANG stocks too early. He believed that they were fully valued at the time. Ms. Ceserani noted that second quarter performance had improved.

She then turned to the PCA economic and market overview report for 2Q 2018. She noted the continued positive performance of US markets, the declines in international markets, especially emerging markets, and weak fixed income returns.

She then referenced the performance summary for the 529 plans. She observed that for most 529 plans that PCA reviews about 1/3 of the investments have positive performance, 1/3 have acceptable performance and 1/3 are on caution or watch. With

regard to TEP 78% are acceptable or positive and for Scholar'sEdge 86% are positive or acceptable for the quarter.

With regard to the benchmarks for the investments, 75% of the funds in the 529 program performed positively or in line with the benchmarks for the quarter.

Dr. Damron asked for a motion with regard to PCA's watch status recommendations that the Oppenheimer Capital Income, Main Street Mid-Cap and Main Street Funds remain on watch.

Mr. Jarmie so moved. Dr. Garcia seconded the motion. The vote to leave these three funds on watch status was approved unanimously.

11) LEGAL MATTERS

Dr. Damron then turned to legal counsel for their updates. Mr. Sommer advised the board that he had received an advisory letter from the New Mexico Department of Taxation and Revenue regarding the New Mexico income tax treatment of distributions from the state's 529 plans to pay for K-12 tuition or to transfer to an ABLE account. He noted that the Department had advised that any amounts so distributed for which a New Mexico state income tax deduction had been taken would be subject to recapture when distributed.

Ms. Atkeson noted that the website and plan materials should be updated to reflect this advisory letter. Mr. Miller and Ms. Bednar stated that steps were already being taken to identify and update the necessary website and plan materials sections.

Mr. Sommer then addressed the opinion request to the Attorney General's Office regarding the proposed grant program. He noted that discussions with the AG's Office indicated that the current ETB statute did not appear to provide the necessary authority for such a program. Dr. Damron noted that the request for an opinion would not be further pursued in light of these conversations.

Ms. Atkeson then directed the board's attention to a draft form of amended and restated program manager contract. She noted that there had been a number of changes to the 529 program that should be incorporated into the written contract. All parties agreed that the contract should be revised to reflect these recent changes to the program.

Mr. Miller noted that the draft contract was an informational item for the board, and that the board would be asked to approve a final draft after business and legal review of the current draft by OppenheimerFunds. Mr. Werner asked if approval from OppenheimerFunds was expected by the end of August. Mr. Miller confirmed that timeline for approval of the contract amendment. The goal is to have the contract form approved at about the time that the new front end marketing site is launched.

(At this point the board took a short break from 11:38 –11:50 AM.)

12) QUARTERLY MARKETING REPORT

Dr. Damron turned to Mr. Esparza to give the marketing report. Mr. Esparza noted that it had been a very busy three months. He noted that the website project was on track to launch at the end of August. He also observed that the program is currently active on a number of media. The current focus is on back-to-school. Mr. Esparza then asked Ms. Wakeland.

She noted that the 529 business is seasonal in nature, and that marketing activities and spending were less in Q2 than in Q1 due to that seasonality. The main focus during the quarter was on social media and account owner emails. Both of these categories showed increased impressions. She noted the increase in the number of impressions as well as the increase in new accounts and contributions.

Year over year total sales dollars and new accounts were up, although TEP sales dollars were slightly below last year. She observed that the decrease in TEP sales dollars despite an increase in new accounts could be the result of more advertising in New Mexico targeting lower income savers. Mr. Esparza noted that further efforts would be made to encourage repeat investment saving by these investors.

She then turned to the new TEP marketing website development. She showed the design of the new homepage for TEP to the board. She noted that a great deal of progress had been made on the design and development of the site. She was hopeful of a late August to early September launch. She noted that an internal email campaign to current account owners would be coupled with an increased media spend in Q3 and Q4 designed to drive people to the new website.

Dr. Damron noted the emphasis on the new homepage of the "conquer student debt" theme. Mr. Esparza observed that the data showed that fear of placing a debt burden on their children was a strong motivator for many people to save. Mr. Jarmie asked if the phrase "conquer student loan debt with a 529" should be modified to say "conquer student loan debt with a college savings plan. Mr. Esparza noted that visitors to the homepage already are looking for 529 plan information, so they would know what 529 means. Ms. Wakeland also observed that the top of the home page contained references to the use of 529 plans for college savings. In addition she observed that the web pages were designed to change from time to time and that different messaging could be added.

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. She noted that very few 529 plans utilize this more personal approach.

The open rate on the emails is 38%, which is very high by industry standards. The typical rate is 14%.

For the people that opened the email (about 44,000 account owners), total contributions for the quarter were about \$7.8 million. Of this same group about 88%

made contributions during the quarter. After accounting for automatic contributions, there remained about \$2.6 million in ad hoc contributions. Ms. Bednar thought that a significant portion of the ad hoc money came in as a result of the email campaign.

Ms. Bednar then turned to the marketing budget review. She noted that about \$479,000 rolled over from FY18 to FY19. Mr. Esparza observed that at the last board meeting plans were discussed as to how these rollover moneys would be spent, including the back to school campaign, further website development and additional creative work for both Scholar'sEdge and TEP. The entire amount is budgeted to be spent.

Mr. Miller then reviewed some of the improvements to the program manager's quarterly report. He had worked with OppenheimerFunds on this project. He noted the improvement in reporting regarding contributions, redemptions and account growth both quarter over quarter and year over year.

He also noted that more information is now provided on the underlying investment options in the program.

Ms. Atkeson asked about the increase in demographic data. Mr. Miller noted that when the Illinois 529 program was rebid, the reporting provided by the program manager was disclosed as part of the process. Working with OppenheimerFunds he then asked for similar reporting for the New Mexico plans.

Dr. Damron thought that the demographic data on New Mexico accounts could be useful in reporting to the legislature, and should be provided to board members in the chart form for handy reference.

ADJOURNMENT

Dr. Damron called for a motion to adjourn. Mr. Jansen made the motion. Mr. Jarmie seconded the motion. The vote to adjourn was unanimous. The meeting adjourned at 12:20 PM.