

The Education Trust Board of New Mexico

THE HONORABLE MICHELLE LUJAN-GRISHAM
GOVERNOR OF NEW MEXICO

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



BOARD MEMBERS
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DAVID JANSEN
MARK JARMIE
EXECUTIVE DIRECTOR
THEODORE MILLER

APPROVED
Vera Lyons
Board Secretary
11/17/19

Meeting Minutes of August 1, 2019

1121 Fourth Street NW, Albuquerque NM 87102

Board Members in Attendance

Sandra Liggett – Chair

Robert Desiderio – Vice Chair

Dr. Jose Garcia – Member

David Jansen -- Member

Mark Jarmie – Member

Board Staff

Theodore Miller -- Executive Director ETB

Vera Lyons – Board Secretary ETB

Jocelyn Hodes – Marketing Director

Other Individuals in Attendance

Helen Atkeson -- Hogan Lovells US LLP (by telephone)

Kurt Sommer – Sommer Udall

Janet Pacheco-Morton – Morton

Accounting Services

Eve Wakeland – Esparza

Advertising

Del Esparza – Esparza Advertising

Jamie Rushad Gros – Esparza

Advertising

Kay Ceserani -- Meketa

Eric White -- Meketa

Chris Werner – OppenheimerFunds

Keith Hyland – OppenheimerFunds

Heather Holliday – OppenheimerFunds

Chris Cyr – Ascensus

Tom Lowe Ascensus

Kris Goeden – Principal

Randy Welch – Principal

James Fennessey – Principal

Tim Hill – Principal

Farnaz Maters -- Principal

Michele Nelson -- Court Reporter

1) CALL TO ORDER

Chairwoman Liggett called the meeting to order at 8:37 AM. The roll was called and four board members were present, Dr. Damron, Dr. Garcia, and Mr. Jarmie. A quorum existed.

2) APPROVAL OF AGENDA

Ms. Liggett noted the agenda as presented to the Board. She called for a motion to approve the agenda. Dr. Garcia so moved. Mr. Jansen seconded the motion. The motion was approved unanimously.

3) APPROVAL OF MINUTES

Ms. Liggett referenced the minutes of the meetings of 5-02-2019, 5-31-2019, 6-18-2019, 6-28-2019, 7-12-2019 as presented to the Board and asked for any comments. There being none, she called for separate motions to approve each of them.

Mr. Jarmie so moved that the minutes be approved for 05-02-2019. Dr. Garcia seconded the motion. The vote to approve the minutes was unanimous.

Dr. Garcia moved to approve the minutes of the meeting of 06-18-2019. Mr. Jarmie seconded the motion. The vote to approve the minutes was unanimous.

Dr. Garcia moved to approve the minutes of 06-28-2019. Mr. Jansen seconded the motion. The vote to approve the minutes was unanimous.

Mr. Jansen moved to accept the minutes of 07-12-2019. Mr. Jarmie seconded the motion. The vote to approve the minutes was unanimous.

4) PUBLIC COMMENT

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

5) EXECUTIVE DIRECTOR'S REPORT

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

Ms. Pacheco-Morton reviewed the administrative fund. The net position of the fund at quarter end was about \$10.1 million. The change in net position of the fund was positive for the year by about \$720,000.

Ms. Pacheco-Morton then reviewed budget to actual revenue and expenses. There was revenue of about \$2.4 million for the year compared to the annual budget estimate for the full year of \$2.7 million. This was due to a shortfall against budget of \$300,000 in program management revenue. Mr. Miller noted that this was the effect of the market downturn during the year.

For expenses she observed that the fund was still within budget for the year. Ms. Pacheco-Morton also pointed out some adjustments in the contractual services portion of the budget. About \$220,000 had been taken from marketing services to cover other acquisition-related contractual expenses. Ms. Pacheco-Morton advised the staff on the matter and it is appropriate under state budget rules.

She then reviewed other program costs. Overall expenses for the year came in under

budget by \$80,000.

Mr. Jarmie expressed his satisfaction with the effective administration of the program during a time of transition. Mr. Miller noted the efforts of Ms. Pacheco–Morton and Ms. Lyons in maintaining budget discipline for the program.

Ms. Pacheco-Morton then moved on to the trust financials. For the year. She noted that the trust had assets of about \$2.5 billion at year end. She then turned to the statement of changes and fiduciary net position. She observed that the plans continue in net distribution. For the year there were \$108 million in redemptions.

Mr. Jarmie expressed his concern about the continued net redemptions as well as the decrease in new subscriptions.

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

At that point Mr. Sommer noted that the Board at the July 12 meeting had tried to approve the replacement of the Oppenheimer Institutional Government Money Market Fund with the Invesco Government and Agency Fund. At that meeting Dr. Garcia's phone connection had been lost just prior to the vote on the matter. Mr. Sommer observed that his advice at the time that the remaining two members could vote to approve the replacement was incorrect. He recommended that the board ratify the action they attempted to take at the last meeting. Mr. Jarmie made a motion to that effect. Mr. Jansen seconded the motion. The motion was approved unanimously.

Mr. Miller then summarized for the Board the small contracts that had been entered into for the new fiscal year. He noted that the Board had delegated him the authority to enter into contract of \$60,000 or less, but that he report to the Board on any contracts so entered. He then reviewed these contracts for the Board and noted the purpose for each contract.

6) PROGRAM MANAGER'S QUARTERLY INVESTMENT REPORT

Mr. Werner first reviewed a number of personnel changes involving Oppenheimer Funds in the program, including the Total Return Bond Fund, the Value Fund, the Senior Floating Rate Fund, the Capital Income Fund, as well as the Global Asset Allocation team. Mr. Miller noted that these changes would be discussed in the Investment Consultant's quarterly report and watch list recommendations.

Mr. Werner then gave the quarterly investment report. The US equity markets performed well during the quarter. Growth outperformed value. Bonds also performed well. The one exception was the small cap index. TEP portfolios all improved, both index and blended, in line with the markets and their benchmarks or somewhat above in the case of actively managed funds.

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

Mr. Miller noted that the accounts and assets in Scholar'sEdge continue to decline. The

assets and accounts in TEP increased slightly year over year, but the assets were in net distribution. In addition Scholar'sEdge treaded water on assets for the year, but lost 5% of its accounts. He asked Mr. Werner what he thought of this continuing decline. Mr. Werner pointed out that the brokers were becoming more aware of the Invesco acquisition, and of the termination of OppenheimerFunds as the program manager.

Mr. Miller noted that he was starting to see increasing rollover activity in the biweekly asset and account reports. Mr. Jarmie asked him how long this trend might continue. Mr. Miller said that it could continue up through the conversion slated for December, and possibly longer. Brokers generally don't focus a lot of time on 529 plans unless they are forced by changes to the programs. This can cause them to review their 529 investments and make a move to another program.

Mr. Werner agreed. He noted that his sales team was attempting to answer brokers' questions and keep them calm, but that more effort would be needed as the conversion date approached.

Mr. Jarmie complimented the OppenheimerFunds team present in the room while noting the larger changes at the firm. Mr. Miller concurred in his assessment of the OppenheimerFunds team involved with the day-to-day operations of the program.

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

Mr. White began by speaking about the economy. The Federal Reserve Board appears to be moving to a more combative stance on interest rates. The economic news appears mixed in the US. There appears to be a lack of clarity on the direction of the economy, but in general it has been slowing compared to recent quarters. International growth has been weak, and the US has held up in the face of that, but ultimately has begun to feel the effects.

It is an interesting time for investors, especially fixed income investors. Us rate cuts are being driven by the extraordinarily low rates internationally. There is now over \$14 trillion of negative yielding debt. International yields are very low even in countries with severe economic problems like Italy and Greece. High yield stocks in Europe yield 2%.

The US yield curve has been flattened by demand for safe US debt at similar yields to risky international debt.

Earnings of US companies show a divide. Companies that get 50% or more of earnings domestically are doing better than companies that get 50% or more of their earnings internationally.

Dr. Garcia asked if this meant that an inverted US yield curve would not necessarily indicate a recession. Mr. White noted that an inverted yield curve is not necessarily a signal for a recession. What appears to be happening is that the market, which can affect longer term rates, is moving faster than the Federal Reserve, which controls short term rates. Mr. White thought that a recession in the next year was unlikely, unless the current negative headwinds became worse.

At this point Vice Chair Desiderio joined the meeting.

Ms. Ceserani asked Mr. White about the balance in a portfolio between US and international stocks. Investors have been told for years that a significant exposure to international stocks was a positive thing.

Mr. White noted that the choice is between a safe 10 year treasury security yielding 2% and US stocks that priced at around 25 times earnings or higher. If interest rates remain this low, then stocks actually look favorably priced, despite their volatility.

The calculation that investors are making is that stocks yielding 4.5%-6% currently with projected growth of 2.5%-5% are a better investment than safe treasuries at 2%.

Mr. Sommer asked if Mr. White saw inflation or deflation in the economy. He said that the bigger problem is deflation.

Mr. Sommer then asked about Brexit. Mr. White saw a no-deal Brexit with a lot of volatility in markets, but no long lasting effect for the US or US-based companies.

Mr. White noted that institutional investors had hundreds of billions of dollars on the sidelines waiting to invest. They believe there are no good options at this point.

Ms. Ceserani then turned to the investment report for the 529 program. She noted that for the actively managed funds in the program 90% met or outperformed their benchmarks. That is unusual. She then noted that using the Watch Criteria 70% of the funds were either "positive" or "acceptable".

Turning to the Watch Memo she noted six funds that were on watch from the last quarter – the Capital Income Fund, the Main Street Fund, the Total Return Bond Fund and the International Small/Mid Cap Fund, the International Growth Fund and the American Century Diversified Bond Fund. She recommended that the first five funds remain on watch and that the International Small/Mid Cap fund be removed from watch. The fund was placed on watch as a result of manager changes. But the fund has done well under the new management. She recommended its removal from watch.

She then noted that a four new funds qualified for watch status due to organizational or performance reasons. These are the Value Fund (team change), Main Street Mid Cap Fund (performance), the Global Opportunity Fund (performance), and the Dividend Opportunity Fund (team change).

Mr. Miller observed that the current fund lineup would be completely changed as a result of the conversion to a new program manager in early December. Mr. White noted that Meketa would continue to monitor the funds and there investment allocations to make sure that no dramatic changes occur in the remaining time.

Ms. Ceserani noted that in the case of team changes the new people coming in to the teams were all experienced.

Mr. Jansen asked what would prompt concern about the funds. Ms. Ceserani said that significant changes in the investment portfolio or investment process would be concerning.

Mr. Jansen made a motion to that effect. Mr. Jarmie seconded the motion. The vote to approve the motion was unanimous. He also asked when the Board should take action if

such changes were noted by Meketa. Ms. Ceserani stated that the Board would be notified quickly, and that one typical measure would be to liquidate the fund and place the assets in a suitable index fund.

Mr. Jarmie asked if the Board should consider doing that now. Ms. Ceserani noted that she did not think significant changes would occur in the time prior to the conversion, but that even if the Board decided to make a change now to an index fund it would take time to accomplish the change. Ms. Holliday and Mr. Werner estimated six to eight weeks.

Mr. White observed that making a change without evidence of significant changes to the funds could be disruptive to the program.

Mr. Jarmie said that he and Mr. Jansen were concerned as to the fiduciary duty of the Board. He noted that the matter was of concern to the Board, and that the Board was relying on Meketa for advice as to the proper course.

Ms. Ceserani said that Meketa already provides monthly updates to the Board via email, and that they communicate weekly with Board staff.

Mr. Jansen stated that if the level of concern increased prior to the conversion, Meketa would communicate with the Board and the Board could act. Ms. Ceserani confirmed this.

Mr. Jarmie noted that funds with about 40 % of program assets were now on watch. The Board needed to rely on Meketa to inform it of significant adverse changes as soon as possible.

Mr. Jarmie made a motion to retain the Capital Income Fund, the Main Street Fund, the Total Return Bond Fund and the International Growth Fund and the American Century Diversified Bond Fund on watch, to remove the International Small/Mid Cap Fund from watch status, and to place the Value Fund, Main Street Mid Cap Fund, the Global Opportunity Fund and the Dividend Opportunity Fund on watch status.

Mr. Jansen seconded the motion. The motion was approved unanimously.

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8) QUARTERLY MARKETING REPORT

Mr. Esparza led off the presentation by noting that it would be different than previous presentations. He noted the Board's concern from previous meetings about metrics. The presentation would consist of the measurement of the goals achieved in the past year plus the goals for the next quarter, and how Esparza would hold himself accountable for meeting these goals.

He introduced Jamie Gros, Esparza director of digital strategy, to the Board. Mr. Gros reviewed highlights from the previous quarter, including revisions to the Investments section of the TEP website that increased page views by 32%. There was a 1% increase in total website sessions and a 24% increase in new users. 36% of site visits were from users typing in the website URL.

He also discussed the creation of a new "dashboard" to monitor metrics, and to model

what it would look like to grow TEP accounts at various rates. This led to monthly goals based on a 7% growth rate or 136 new accounts per month.

He reviewed a number of metrics associated with this goal, including total website sessions, total page views, total users, total new users, bounces rate and pages consumed per session. Metrics for each of these have been established to support the 7% new account growth plan.

He explained the use of heat mapping to monitor site behavior. He discussed some metrics in this regard such as that 70% of site visitors click on “log in” and 30% click on “enroll now”. This type of information allows customization of the user experience.

He also reviewed this metric approach with regard to the Scholar’sEdge website activity.

Mr. Gros noted that number of impressions is often quoted, but that the more important numbers are the metrics of how users are engaging with the site. Important metrics include the number of clicks on advertising, the number of pager views, total sessions, page depth, time on site, clicks on the “enroll now” button.

He then reviewed the specific metric goals for TEP as well as Scholar’sEdge.

Mr. Miller noted that Esparza had wanted to expend more marketing dollars on the Q3 initiatives, but that it had been decided that some of those dollars should be spent on the new marketing campaigns post-conversion. Mr. Hylind stated that approximately \$476,000 would be available in marketing rollover money to support the new campaigns.

Mr. Jarmie thanked the marketing team for a very informative presentation.

Mr. Miller noted that two RFPs had been issued from the new marketing effort. The first was for traditional media with a focus on New Mexico. The second was for digital marketing that would encompass both New Mexico and other states.

He also noted that Morningstar had requested a good deal of information from New Mexico and other 529 states in the form of a request for information. He noted the repeated visits to Morningstar that had been made by the state in the past. On August 28, New Mexico would again visit Morningstar, along with Meketa, Ascensus and Principal.

(At this point a break was taken from 10:38 AM – 10:53 AM)

9) PROGRAM MANAGEMENT AND CONVERSION PLAN REVIEW

Mr. Cyr from Ascensus, the new program manager, discussed the experience of the company with conversions. He noted that Ascensus had done more 529 plan conversions than any other provider, and had done the largest plan conversion to date with the Rhode Island 529 program.

He observed that the conversion would be from the Envision system, and that underlying the Ascensus platform was also the Envision system. Ascensus was familiar with Envision to Envision conversions.

Ms. Holliday from OppenheimerFunds noted that this would be the third conversion out from the firm in three years, so that OppenheimerFunds had become very familiar with conversions. The firm had worked successfully with Ascensus on the State Farm 529 plan conversion.

Mr. Cyr noted that a draft of a conversion agreement was in process at Ascensus, and would soon be sent to Principal for review. Mr. Miller reminded Mr. Cyr that the Board had review and approval rights over that agreement, and hoped to see it soon.

Mr. Cyr then brought up the project timeline and observed that all tasks were on schedule to date. He then reviewed the major conversion milestones for the Board. He noted that the conversion date was December 9, 2019.

Mr. Miller reminded the Board that at the May 2 meeting he had noted that the original conversion date of November 1 could very well slip. It is better to get the conversion right than to adhere to a date.

Mr. Jarmie asked Mr. Cyr if the December 9 date was a hard date. He confirmed that it was.

Mr. Cyr then reviewed the communications timeline to account owners in both TEP and Scholar'sEdge. In the case of SE he noted that additional communications had to go to brokerage firms and financial advisors.

Ms. Ceserani asked how 1099Q forms for 2019 would be handled. Mr. Cyr said that withdrawals prior to December 9 would generate a 1099Q from OppenheimerFunds, and withdrawals after that date would generate a 1099Q from Ascensus.

Ms. Ceserani asked if account owners could look up past account history on line. Mr. Cyr said that they could not, but that they could get the information from the call center. A separate database of that information was available to call center reps.

Mr. Cyr noted that OppenheimerFunds would produce a final statement showing a zero balance, and that Ascensus would follow with an opening statement showing the new account balance.

(At this point 11:28 AM, Mr. Werner and Ms. Holliday left the meeting.)

10) SCHOLAR'SEDGE PROPOSED INVESTMENT LINEUP AND MAPPING PROPOSAL

Mr. Welch and Mr. Fennessey then addressed Scholar'sEdge investment matters. Mr. Welch noted that he and Mr. Fennessey were portfolio managers for Principal's target date strategies. The proposed year of enrollment portfolios are similar to target dates portfolios for retirement plans. Principal designed portfolios that would be attractive investments both to New Mexico and out-of-state investors, while also appealing to ratings agencies such as Morningstar.

He then outlined the approach to the glidepath for the year of enrollment portfolios. The glidepath becomes more conservative as the year of enrollment approaches. He noted that in addition to risk and return assumptions the average cost of college, the

savings rate, and contribution and withdrawal behavior were considered.

Mr. Fennessey noted that the portfolios were a mixture of active and passive funds. Passive funds were used to lower costs, and in situations where the efficiency of markets is high. A focus also was on funds that are highly rated by Morningstar. 75% of the funds are rated four or five star..

Mr. Miller noted that currently the most aggressive portfolio in the A share class starts at 116 basis points. Under the Principal proposal it would start at 92 basis points.

Mr. Fennessey then reviewed the static asset allocation portfolios as well as the individual fund portfolios.

Mr. Jarmie observed that a couple of the Principal funds did not have Morningstar ratings. Mr. Fennessey explained that this was due to the short time period that each of the funds had been in existence. Performance of both funds was good. Ms. Ceserani also observed that Morningstar rates programs on the basis of weighted assets in each portfolio. The unrated funds are a small percentage of assets.

Dr. Garcia asked about the difference between the Morningstar star ratings and medal ratings. Mr. Welch noted that the star rating focuses on past performance, while the medal rating focuses on several other factors, including people, process, and parent.

Mr. White observed that the medal rating of a fund had not proven to be a good indicator of future performance. Dr. Garcia asked why the medal rating is given. Mr. Welch stated that many funds do not have medal ratings, but that medal ratings might be used as a toll by advisors that do not have a lot of their own research resources as well as individual investors. He also observed that an investment consulting firm like Meketa would do a deeper dive on the investments, but would look at some of the same topics covered in the medal rating analysis.

At this point Mr. Jarmie asked if Meketa was comfortable with the fund lineup. Ms. Ceserani then reviewed the Meketa memo to the Board. Ms. Ceserani noted that for both plans the biggest change was the switch from age-based structure to a year of enrollment structure.

Scholar'sEdge also removed the money market fund as a component of a number of portfolios and replaced it with a stable value offering. Since the initial proposal was made, through negotiations with the Board, advised by Meketa, five funds had been changed. In all cases there was a fee improvement, in some cases there was a move from active to passive, and in some cases there were improvements in performance.

She also noted the significant overall fee reductions for the plan.

Mr. Jarmie then repeated his question as to Meketa's view of the proposal. Ms. Ceserani stated that Meketa was comfortable with the overall structure as originally proposed, as well as with the five new funds that had replaced funds in the original proposal.

Mr. Jarmie then asked if there were any funds in the current proposal that would be placed on watch today. Ms. Ceserani said that there were not.

Mr. Miller then turned to the detailed listing of fees for Scholar'sEdge. He noted that

Principal would pay a 10 bps fee to Ascensus on four Principal funds listed. He noted the 20 bps program management fee for Ascensus.

He then pointed out the \$20 annual account fee on accounts less than \$25,000. He noted that the fee is waived for New Mexico accounts as well as accounts on an automatic investment plan. He told the Board that Ascensus was well aware of the goal of reducing or eliminating that fee over time.

He then mentioned the income from the "float" on clearing account cash. He observed that many providers do not disclose this source of revenue, but that Ascensus had done so voluntarily from the initial proposal and in the contract. The Board will be made aware of the amount of this compensation periodically.

He then reviewed the fees for one-time items such as express mailings and a few others.

Finally he reviewed the commission schedule for the plan, including the portion of the commission retained by Principal, as well as the fees associated with the A, C and R shares.

After this discussion, Mr. Miller reviewed the Principal funding agreement. It would become the underlying contract in the Capital Preservation Portfolio for Scholar'sEdge. Vice-Chair Desiderio asked if the agreement had been reviewed by counsel. Ms. Atkeson stated that these types of agreements have to be approved by state insurance regulators, so many terms cannot be negotiated. However, Principal proved willing to negotiate some terms that she and Mr. Miller thought would be beneficial to the Board. In her view she and Mr. Miller were able to get a fair amount of accommodation of Board comments in the document. She said the agreement was in good shape for approval.

Dr. Garcia made a motion to approve the Principal funding agreement. Mr. Jansen seconded the motion. The vote to approve the motion was unanimous.

The next vote was to approve the investment structure of the Scholar'sEdge plan as well as the fees and costs associated with the plan, including the commission schedule. Mr. Jansen made a motion to approve the investment structure and fees. Mr. Jarmie seconded the motion. The vote to approve the motion was unanimous.

(At this point a break was taken from 12:20 PM- 1:05 PM.)

11) SE PROPOSED MARKETING & DISTRIBUTION PLAN REVIEW

Farnaz Maters introduced herself as the head of marketing for Principal. She began by reviewing what she considers the keys to success for the plan. The first is content. The first aspect of this is to build awareness of the plan and the second is consideration to get people interested in joining the plan. The marketing plan will be integrated and designed to move people down through the sales funnel.

The firm uses AB testing to determine the effectiveness of its campaigns. The firm will establish Key Performance Indicators and look at industry best practices.

She noted that she had experience with the New York 529 program, but that the firm

would be hiring a dedicated head of 529 marketing.

She noted that Principal reaches not only advisors, but also directly reaches consumers through its business lines. It will be launching a campaign this fall dedicated to education. She then presented a commercial that Principal had developed as part of this campaign. She noted that it would be tied in with Scholar'sEdge.

She observed that the firm had done much work, called segmentation studies, to determine when consumers start working with advisors. This work is funded by Principal from its own marketing budget, and would be additive to the marketing commitment to the plan. She noted that saving for education aligns with what Principal stands for – which is having enough, saving enough and protecting enough.

With advisors she noted that they are interested in growing their business with new clients and deepening existing relationships – including expanding the relationship to other family members.

Principal will develop content that addresses these concerns for advisors – both for the advisors themselves and to use with their clients.

Ms. Hodes noted that a number of people she has spoken with were interested in continuing education later in life. Ms. Maters noted that broadening out the message to include that concept could be done. Mr. Hill observed that many advisors would not think of that, and that it would be an easier conversation to have rather than going directly after the client's retirement portfolio.

From the consumer side Ms. Maters noted that they would direct efforts to media, including digital media, which attract certain demographic groups. Ms. Liggett noted a reference to a landing page. Ms. Maters explained that specific pages would be developed on the website that were geared toward the interests of the consumer.

Ms. Maters noted that the new Scholar'sEdge website would be consolidated for use by both consumers and their advisors. The site would be designed for each stage of the sales process, from awareness to enrollment.

Mr. Jarmie asked if it might be worthwhile to have a button on the TEP website for people who work with a financial advisor to go to Scholar'sEdge. Also, he noted that many people in New Mexico do not have high incomes. Would Scholar'sEdge be primarily for higher income people?

Ms. Maters noted that the typical profile of someone that works with a financial advisor is someone that has a higher income. Mr. Miller noted that about half the accounts in New Mexico are in Scholar'sEdge and half are in TEP. Mr. Jarmie asked if the marketing is different for each plan. Mr. Miller noted that that TEP is direct sold, and many of the people in that plan would not be candidates for working with a financial advisor.

Mr. Jarmie observed that that would make the marketing different for each plan. Mr. Miller agreed and noted that ETB controls the marketing for TEP, and is in the process of hiring marketing firms for that plan. Dr. Garcia asked how that effort was going.

Mr. Miller noted that the RFP for traditional media marketing for TEP had been completed, and that he would be seeking board approval of a recommended candidate at the meeting. The second for digital both in state and nationally has been issued and responses received. He noted that the TEP digital marketing forms would probably be chosen by sometime in September.

Ms. Maters then returned to her presentation. She reviewed what an activation plan would look like. She noted the two factors of awareness and consideration and how each would be approached with regard to digital, PR, content marketing, social media and searches on the web. Each aspect of such a campaign would be detailed.

As best practice they usually do campaigns for around 90 days and then evaluate it. Then another campaign is done building on that learning.

She then reviewed some of the next steps including conversion communications and competitive analysis of other 529 programs. Scholar'sEdge differentiators would be identified and used in the campaigns. Value added content also would be produced to help that advisors with their practices.

Principal would come back to the board at the next meeting with more detail on campaign messages, go to market strategy and media buys.

Mr. Goeden noted that the overall, marketing commitment for SE during the remainder of the fiscal year was \$950,000.

Mr. Miller asked the board to approve the marketing plan as presented to the board. Ms. Liggett called for a motion. Mr. Jarmie moved approval of the marketing plan for SE. Dr. Garcia seconded the motion. The motion was approved unanimously.

Mr. Hill spoke next. He is the head of the US client group for Principal, with responsibility for both institutional and retail distribution. He observed that the firm needed to accomplish three things for the 529 plan. The first is to identify an individual to head the 529 distribution effort. SE would become another group under Mr. Hill. He noted that he had met Mr. Werner, and was impressed with his depth of ownership and responsibility towards the plan, as well as his experience. Mr. Hill indicated that he might discuss a 529 leadership role with Mr. Werner.

The second component is alignment. Principal will make 529 plan sales a priority for the field wholesalers. Compensation will be aligned so that 529 sales are encouraged.

The third component is execution. Principal has a strategic client group that interacts with major firm relationships. Mr. Hill asked Mr. Goeden to elaborate on this group. Mr. Goeden noted that the firm has a relationship with New York Life. This firm reached out to Principal after the announcement of the relationship. Similarly firms such as UBS, Merrill, Morgan Stanley, RBC, Raymond James and several others reached out. He noted that a major goal would be to execute selling agreements with as many current sellers as possible.

Mr. Hill then referenced the "Knowledge Hub" which focuses on support of the field

teams on topics of interest to advisors such as Social Security, Medicare, tax planning and other advanced topics. This group will have a dedicated 529 specialist.

There is also a great opportunity with the Principal broker/dealer with roughly 2,000 Principal advisors.

Mr. Goeden noted the large presence of Principal in the retirement plan market, and the opportunity to discuss college savings as part of an employer's value proposition.

12) TEP PROPOSED INVESTMENT LINEUP & MAPPING PROPOSAL

Mr. Lowe, head of investment management at Ascensus Investment Advisors, then began the Ascensus presentation. He noted that the proposal for TEP was to reduce the number of investment portfolios from 65 down to 24. For a direct-sold program Ascensus thinks that a simpler investment lineup is best. He also noted that the proposed lineup would have reduced fees from the current lineup.

Ascensus does not sponsor mutual funds so it is free to pick from a broad universe of funds. The goal is to get the highest quality funds at the lowest prices.

Ascensus recommends a year of enrollment structure for the target date portfolios to replace the current age based portfolios. Year of enrollment portfolios are more flexible than age based portfolios, because the portfolio selection is based on the first year when the funds would be needed for education. Also, year of enrollment portfolios provide for a smoother glidepath than age based portfolios.

He then reviewed the underlying fund fees for the lineup. He noted that the year of enrollment portfolios would utilize passive or index funds to keep costs down. Passive investment would also be used in the proposed static passive portfolios. Active funds would be used in the static active portfolios. All the proposed structures would feature underlying fund expenses that are lower than the fund expenses of the current plan lineup.

Mr. Lowe noted that 11 of the 17 funds are analyst rated by Morningstar. All of these are rated gold, silver or bronze. Many of the funds are rated from three to five stars by Morningstar. There is a two star fund but it has a gold medal rating.

He observed that the year of enrollment portfolios are price competitive with some of the largest plans in the country.

In addition to the year of enrollment, static passive and static active portfolios, the proposal also includes five individual fund portfolios. One of these is an ESG fund, the TIAA-CREF Social Equity Fund.

There was a discussion begun by Ms. Hodes as to whether or not investors in the static portfolios or the individual portfolios should be reminded to check their investments from time to time. Mr. Goeden from Principal noted that there is a fine line between giving advice and making a recommendation. Mr. Miller agreed. The Board should not be put in the position of making investment recommendations.

Ms. Ceserani observed that automatic investment account owners could be reminded

that they might want to increase their contribution amount. At that same time they could be reminded to check their investment selections.

Mr. Jarmie asked whether or not a social choice fund could be considered as a recommendation. Ms. Ceserani said that she did not think so. Other 529 plans make the option available.

Mr. Jarmie asked if politically conservative investors might object. Ms. Ceserani said that she did not think it would be a problem. No one is required to invest in the fund. Mr. Jarmie wondered if a politically conservative should be offered.

Vice Chair Desiderio said that as a fiduciary the board should offer funds that people want. He also thought that many politically conservative people would support ESG issues despite their politics. Finally he said that he thought traditional investment funds already provided the politically conservative investor with adequate choices.

Ms. Ceserani observed that eliminating all funds except ESG funds might raise that objection, but having a single ESG fund would not.

Mr. Miller noted that having the board engage in these discussions was a good example of the board exercising its fiduciary role. He asked board counsel if this was not so. Mr. Sommer and Ms. Atkeson agreed.

Mr. Miller then led the board through a detailed discussion of all the fees applicable to the plan as presented in the Ascensus materials.

Ms. Ceserani then addressed Meketa's review of the investment proposal for TEP. She noted that a significant changes from the original proposal was the reduction from three years to two years for the year of enrollment portfolios. This corresponds TEP to SE. Mr. Miller noted that Morningstar appeared more ready to review program with a consistent investment structure across the direct and advisor plans. Ms. Ceserani also thought that it was better for consumers.

Ms. Ceserani pointed out that some of the funds changed since the original proposal, primarily to further lower fees. She noted that all funds proposed would not be placed on watch at the current time.

Mr. Miller also reviewed the proposed New York Life funding agreement. He noted that this would be the underlying investment in the stand alone Capital Preservation Portfolio, as well as a substitute for a money market fund in both the year of enrollment portfolios and the static active asset allocation portfolios. He noted that the agreement had a 1% floor on the yield. This was protection against continued low interest rates.

Ms. Liggett called for a motion to approve the TEP investment proposal and the fee structure. Mr. Jansen so moved. Dr. Garcia seconded the motion. The vote to approve the motion was unanimous.

Ms. Liggett then asked for a motion to approve the New York Life funding agreement. Vice Chair Desiderio asked whether or not the agreement was similar in its terms to the current New York Life funding agreement in Scholar'sEdge Capital Preservation Portfolio.

Ms. Atkeson noted that the new agreement is substantially better for the board. She

stated that Mr. Miller had negotiated some very good terms compared to the agreement that has been in place in Scholar'sEdge.

Vice Chair Desiderio moved to give the executive director authority to execute the funding agreement in substantially the form presented at the meeting. Dr. Garcia seconded the motion.

The vote to approve the motion was unanimous.

(At this point the Ascensus and Principal attendees left the meeting.)

13) TEP MARKETING UPDATE

Mr. Miller led off by reminding the board that it had to bid out marketing for TEP because the current marketing contract was between OppenheimerFunds and Esparza. That contract would end at conversion. He noted that marketing had been broken into two Requests for Proposal. One for New Mexico based traditional media like print, radio and TV, and another for digital marketing both in state and nationwide.

He noted that the traditional media RFP had been issued first. It had been designed in a similar fashion to a Department of Tourism marketing RFP. The proposals received were scored by the Evaluation Committee, and finalists were selected for oral presentations. The oral presentations were separately scored and served as the basis for identifying the winner.

Four firms submitted proposals, and three were selected as finalists to present orally to the Committee. The finalists were Sunny505, 3Advertising and Esparza Advertising.

These three firms gave oral presentations to the Committee, and Sunny505 received the highest score for that presentation.

Mr. Jarmie asked if the members of the Committee all had the same ranking of the three firms both on the proposals and on the oral presentations. Ms. Hodes noted that the Committee members scored each proposal and oral presentation independently and the rankings were the same for all Committee members in each case.

Mr. Miller noted that the Sunny505 team impressed the Committee with their maturity, experience and commitment to the business. Senior members of the firm stated that they would have direct involvement with the account.

He also noted that the firm showed a great deal of creativity in their proposal and in the oral presentation. He noted that the board had expressed its concern about the effectiveness of some of the more recent creative materials that had been produced, a concern which he shared.

Ms. Hodes noted that with regard to media strategy and planning the firm had the most passion and commitment in the Committee's view.

Dr. Garcia noted his concern about the lack of post-secondary educational achievement in New Mexico. Mr. Miller noted that the firm had three Spanish language translators on staff that understood the differences in the language from north to south in the state.

Dr. Garcia stated that very few people understood those differences.

Ms. Hodes then pointed out that outreach to Native American and Hispanic communities was important to raise awareness of the program, but that getting employers to implement payroll direct deposit into the plan was critical to getting lower income people to enroll in the program. She noted that Sunny505 on its own raised this as a critical part of the marketing of the plan in New Mexico.

Ms. Hodes observed that the combination of more outreach to raise awareness had to be coupled with an effort to engage employers in offering the plan to their employees.

Dr. Garcia agreed that wider employer adoption was a good way to reach those who most need to participate.

Mr. Jarmie asked about the split of the marketing into traditional media and digital. Mr. Miller stated that the goal was to get the best creative traditional marketing firm that in turn could feed content into the best digital marketing firm.

Mr. Miller then noted to the board the success that Ms. Hodes has had in actually signing up firms to implement payroll deduction. Ms. Hodes noted that she had been working on reviving older relationships that had been allowed to stagnate, but she had also engaged with new employers. She listed CNM, Sandia Labs and the City of Albuquerque as examples. She also noted a favorable meeting with state officials regarding state employees.

At this point Ms. Liggett noted that the time was approaching 3:00 PM. She asked for a motion to approve the Committee's recommendation to award the traditional media marketing contract to Sunny505. Vice Chair Desiderio so moved. Mr. Jansen seconded the motion. The vote to approve the motion was unanimous.

14) ADJOURNMENT

At this point Ms. Liggett called for a motion to adjourn. Mr. Jarmie so moved. Vice Chair Desiderio seconded the motion. The vote to adjourn was unanimous.

(The meeting concluded at 2:59 PM.)