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

Meeting Minutes of November 18, 2016

New Mexico Higher Education Department, 5201 Eagle Rock Rd. Suite 1A Albuquerque, NM

APPROVED
Board Secretary
Vera Lyons
1/26/17

Board Members in Attendance

Dr. Barbara Damron -- Chair
Dr. Jose Garcia -- Member
David Jansen -- Member
Mark Jarmie -- Member

Other Individuals in Attendance

Theodore Miller -- Executive Director ETB
Vera Lyons – Board Secretary
Helen Atkeson -- Partner, Hogan Lovells US LLP
Del Esparza – Esparza Advertising
Emily Howard -- Esparza Advertising
Mikaela Roos – Esparza Advertising
Hannah Hand – Esparza Advertising
Eric White -- Pension Consulting Alliance
Raquel Granahan -- OppenheimerFunds
Chris Werner – OppenheimerFunds
Heather Holliday – OppenheimerFunds
Leslie Ann Bednar -- OppenheimerFunds
Andrea Feirstein – AKF Consulting (by telephone)
Mr. Paul Lee -- Member of the public
Michele Nelson -- Court Reporter

1) CALL TO ORDER

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

2) PUBLIC COMMENT

The Chair called for public comment. Mr. Lee, a member of the public with two NM college savings plans, addressed the Board. He has two accounts in The Education Plan. Mr. Lee made suggestions as to the elimination of "wrap fees" around non-Oppenheimer funds, the replacement of the TIACREF International Equity Fund with the Vanguard Total International Equity Index and the elimination of the Dreyfus Basic S&P 500 Stock Index Fund. He also suggested that the Vanguard Total Stock Market Index Fund be made a stand-alone offering.

Dr. Damron thanked him for his comments, and noted that the Program Manager, the Executive Director and the plan's consultants would take his comments under consideration.

Mr. Miller noted that the Board staff was already working on revisions to the plan to make it more competitive.

3) APPROVAL OF AGENDA

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

4) APPROVAL OF MINUTES

Dr. Damron then turned to the minutes of the board meetings of November 18, 2016. There being no comments or questions regarding these minutes they were put to a vote. The vote to approve the minutes was unanimous.

5) INTRODUCTION OF ADDITIONAL OPPENHEIMER 529 TEAM MEMBERS

Dr. Damron then asked Raquel Granahan of OppenheimerFunds to introduce additional members of the OppenheimerFunds team.

She introduced Heather Holliday as head of 529 Operations and Leslie Bednar from the Marketing staff.

Dr. Garcia asked if it would be appropriate for individual members of the Board to contact Oppenheimer staff directly if they had questions. Mr. Miller asked that Board questions be funneled through the ETB staff so that staff was aware of ant board member concerns. Dr. Damron noted that Board member questions should be answered but that any questions be directed through ETB staff. Ms. Granahan stated

that direct Board member inquiries might not come to the attention of the 529 group as a whole, and that the left hand needed to know what the right hand was doing. Therefore, she also requested that requests to Oppenheimer go through the ETB Executive Director.

Dr. Garcia agreed that protocols for communication were necessary, but still thought that Board members should be able to contact Oppenheimer staff directly.

Dr. Damron stated that such conversations could be held, but that Board senior staff should be made aware of them. Dr. Garcia stated that he thought there were many circumstances where it is appropriate for Board members to interface directly with Oppenheimer staff.

Dr. Damron noted that Board member questions of Oppenheimer staff should not be precluded, but that the Board had hired an Executive Director who was in effect the CEO of the program. Unless a Board member had a problem with the CEO, in which case it should be brought to the attention of the Board Chair, communications with the Oppenheimer staff from Board members should be directed through ETB staff.

Dr. Garcia stated that lines of communication should remain open. Dr. Damron agreed. She noted that annual due diligence meetings are held on location with Oppenheimer where Board members get to discuss matters directly. She stated that otherwise questions should be directed to Oppenheimer with the knowledge of Board staff. If Board members think that ETB staff is interfering with those communications then the matter should be brought to the attention of the Board Chair.

Dr. Garcia stated that he would do what he felt was necessary as a Board member regardless of what Mr. Miller might think and might want him to do. He stated that he had contacted Esparza, the program's advertising firm, and had conversations that were useful. He didn't think it was appropriate for him to have called the Executive Director and asked permission to go there.

Dr. Damron stated that it was not a question of having to ask for permission, but that the Executive Director should be aware that such a conversation is taking place. Dr. Garcia stated that he would maintain that protocol, but that as a Board member he would act in a way that was compatible with open communication with the Oppenheimer team.

Dr. Damron noted that the rest of the Board might have similar questions to those from Dr. Garcia and would benefit from awareness of his discussions.

Dr. Garcia said that he had experience in terms of accusations that were made against the Board and its due diligence, and that perhaps certain legal problems could have been avoided with more open lines of communication.

Dr. Damron noted that she was still carrying some of the weight for the due diligence that didn't occur before she became Board Chair, and that was why the Board is now very aggressive with on-site visits, the use of consultants and multiple layers of eyes looking at the program. She noted that better communication in the past would have

been helpful, and that Dr. Garcia's guidance on that from the past has informed the Board's practices today.

Dr. Garcia stated that he had no problem observing protocols of communication, but that it was very important to have a sense of open communication. He stated that Board members can talk to whomever they want, whenever they want to, and that it was important for them to feel not shut down in the way that they communicate.

Dr. Damron stated that nothing is being done to shut down communication. Board members can talk to whomever they want. She asked that the Executive Director be looped in because in her view this facilitated communication and prevented miscommunication. She thought that the Board had more communication now that it had ever had, and that nothing should be a barrier to that.

6) EXECUTIVE DIRECTOR'S REPORT

Mr. Miller then gave the Executive Director's report.

Mr. Miller then reported on the program administration fund. He noted that the fund had a balance of about $7.1 million at the end of October.

He observed that these funds would be critical going forward to the success of a grant program. Since the last meeting the Governor's Office had given its approval for seeking the Attorney General's review of the structure of the grant program. A letter was prepared and a request has been made to the AG's Office for a meeting to discuss the matter.

Mr. Miller then turned to the ongoing investment and fee restructuring project with OppenheimerFunds. He noted the process has taken longer than expected due to the 529 business management changes at Oppenheimer.

There are six goals for the project:

1. Make The Education Plan index offering a top five plan in terms of pricing and diversification with Vanguard or other low-cost funds;
2. Make the Blended offering more price competitive with more diversification;
3. Make Scholar'sEdge a compelling choice for broker-dealers;
4. Eliminate wrap fees around third-party funds in both programs;
5. Eliminate to the extent possible third-party sub-TA or recordkeeping fees on the funds in both plans, and
6. Reduce or eliminate small account fees in both plans.

Mr. Werner stated that he expected to come back to ETB staff with a proposal in a couple of weeks.

Finally Mr. Miller drew the Board's attention to the chart depicting the number of accounts by the age of the beneficiary. He noted that the age had increased from age 7 in 2009 to age 15 in 2016. He noted that the program needed to be more competitive and creative in order to grow.

Mr. Werner stated that in his view this was the result of a large number of accounts from New York Life that had been in the program for a long time. He noted that for other accounts the largest number of accounts is at age 10. The problem is that accounts are aging and being redeemed faster than they are being added. He thought the program was moving in the right direction.

Dr. Damron disagreed. She noted that the only way the program can grow is to bring in large numbers of new accounts, and that that was not happening. The current level of new versus redeemed accounts cannot be maintained without the program coming to an end.

Mr. Miller noted that there were two important things going on in the industry. The first is that the 529 landscape is much more competitive, and that the New Mexico plans were in the middle of the pack in terms of design and pricing. Plans that are not competitive will contract over time.

Secondly, the brokerage industry is under tremendous pressure from the trends toward lower fees and the rapid growth of index products. Advisor-sold plan growth has slowed to one or two per cent a year compared to direct-sold growth of three to six per cent.

7) MORNINGSTAR REPORT

Dr. Damron then asked Ms. Feirstein for her report on the recent Morningstar ratings. Ms. Feirstein gave some high-level perspective on the Morningstar ratings.

She noted that there was more movement into and out of the Neutral and Bronze ratings than the Silver and Gold ratings. She also noted that only about two-thirds of the plans in the country are rated by Morningstar. She also noted that more plans are achieving medal status. Just over half the rated plans have a medal rating.

She also observed that direct-sold plans are receiving upgrades, mostly for fee reductions. In addition Morningstar is focused on a progressive glide path for age-based or target date funds. Morningstar is particularly concerned with large equity step downs in the range of 20% or more.

Finally Morningstar has come out in support of stable value options as an alternative to money market and short term cash funds.

She noted that the medal ratings are driven by the five Morningstar pillar ratings. For example the Process Pillar focuses on the design of investment options. Are the people designing the investments experienced in asset allocation and the design of target date funds like those used in retirement plans? T. Rowe Price is credited for its progressive glide path.

She noted that of the six upgrades for plans this year, all were direct-sold plans. For downgrades, three of the six plans were advisor-sold plans. The T. Rowe Price Alaska and Maryland plans were downgraded from Gold to Silver due to Morningstar's concerns as to fees and fund performance. She observed that it is not enough to maintain the status quo as to fees and funds.

Ms. Feirstein noted that The Education Plans was noted rated again by Morningstar. Generally Morningstar does not rate smaller plans unless such a plan has interesting or different features.

Ms. Feirstein then presented a summary of the Morningstar Neutral rating for Scholar'sEdge. She reviewed the five pillars of parent, process, people, price, performance. While Morningstar acknowledged improvement in state oversight of the plan, it still had concerns as to pricing, performance, people and process.

Mr. Jansen asked if improvement in these areas would give New Mexico a medal rating. Ms. Feirstein said that it could take some years. Also the process is not completely objective. She was aware of a plan with five positive pillars that was not rated as highly as a plan with two or three positive pillars. There is no guarantee of a medal rating.

Dr. Damron noted that the goals for the program were not just to chase medals but to implement best practices and attract new accounts.

Ms. Feirstein noted that Scholar'sEdge was rated Neutral on all five pillars, and that the plan had a long way to go to get a medal rating.

Ms. Feirstein then reviewed the differences between the ratings by Morningstar and the ratings by Saving for College. She was of the opinion that Morningstar was used more by the financial press and Saving for College more by financial advisors. She noted that Saving for College ranks on the basis of "Caps" and that many plans get 41/2 to 5 Caps. The most important information in Saving for College is the performance rankings for the plans. Performance is affected by the quality of the funds and by pricing.

Mr. Jarmie noted to Oppenheimer that a Neutral rating for New Mexico was not good enough. Being in the middle of the pack is not sufficient. He was looking for progress on New Mexico's ratings.

Dr. Garcia stated that there seemed to be a high degree of subjectivity in the ratings. In his view Ms. Feirstein and said that New Mexico was making progress but it was not being reflected in the ratings. He was not sure that there was more that we could be doing. Was there more that the board could be doing not only to improve the rating but to make a better plan? Was the goal to get better ratings or to get more accounts?

Dr. Damron responded that the goal was to grow accounts and assets in the plans. Morningstar provides a guide on industry standards and illustrates why some plans are having success.

Dr. Garcia asked if it would be acceptable for New Mexico to get a Gold rating but to not have the plans grow.

Mr. Jansen observed that a medal rating would help New Mexico to grow accounts. He thought that improved plan design would improve sales.

Dr. Garcia asked Oppenheimer if they were concerned about a Neutral rating. Was a better rating a guiding path for them?

Ms. Granahan stated that Oppenheimer always wanted to be highly rated. She noted that the firm had several funds that were medal rated by Morningstar. She noted that the firm had heard the Board's concerns and it understood the importance of the six goals mentioned by the Executive Director.

8) LEGAL MATTERS

In the interest of time, Dr. Damron moved on to the next topic. Ms. Atkeson noted there were four items for review. The first issue was the custody issue that had been raised in the previous meeting. An amendment to the program management agreement had been created to address the actual state of affairs with regard to custody of the assets of the program. She noted that Oppenheimer was obligated under the agreement to abide by all laws and regulations applicable to the program. She noted that she was comfortable that the Board was legally protected on the issue and could move forward with approving the amendment to the contract.

Mr. Jarmie made a motion to approve the contract amendment. Mr. Jansen seconded the motion. Mr. Jansen then asked if the amendment reflected the way that assets of the plans would be held. Ms. Atkeson stated that the original contract language did not accurately reflect the way assets were held in custody, and that the new language corrected that defect.

Dr. Damron asked the Executive Director if he had anything to add. Mr. Miller observed that there were other plans where a bank did not custody all the program's assets. From a business perspective he was comfortable that the assets of the program were protected.

At this point Dr. Damron called for a vote. The vote to approve the amendment was unanimous.

Ms. Atkeson then turned to the system review memo from Oppenheimer. She reminded the Board that this memo arose from an error in systems settings that was discovered by Oppenheimer. The firm agreed to implement additional procedures and controls with regard to systems settings, and to maintain them going forward.

Mr. Miller noted that this issue arose as a result of an error in the calculation of Contingent Deferred Sales Charges in the advisor-sold plan. The internal review is for system settings generally, not for just this one issue. When Oppenheimer returns in January for the next Board meeting, there will be an update as to where they stand on the implementation of the review.

Ms. Atkeson then turned to the third item which also involved an Oppenheimer error. This was the so-called cost basis issue. From 2007-2015 when the issue was discovered, several account owners had received incorrect 1099Q forms from Oppenheimer. It is possible to send corrected 1099Q forms to account owners for the tax years 2013-2015, but not for prior years. There may be some financial losses for account owners based on their individual tax situations. Oppenheimer has committed to contacting all affected account owners, to providing corrected 1099Q forms where it could, and offering to take corrective active for losses attributable to the error. Oppenheimer also commits to indemnifying the Board against losses resulting from the error.

As of the day of the Board meeting Oppenheimer announced that several other affected account owners had been discovered. Ms. Holliday from Oppenheimer stated that there were nine additional affected owners with thirteen incorrect 1099Q forms that were issued during the period in question.

Dr. Damron observed that the memo before the Board was now inaccurate as to the affected account owners. Ms. Holliday concurred.

Dr. Damron expressed the Board's concern as to the sloppiness of procedures and the credibility of Oppenheimer going forward.

Mr. Jarmie asked Ms. Atkeson how long it was before ETB was informed of the problem. She responded that the problem was identified in February but ETB was not notified until the following June. Mr. Jarmie then asked if that was consistent with best practices. Ms. Atkeson responded that in her view it was not.

Ms. Granahan acknowledged the delay and stated that this kind of delay would not occur in the future.

Dr. Damron expressed the Board's concern that operational problems keep occurring.

Mr. Jarmie noted that it was unfair to the account owners who potentially may have to redo past tax returns.

Dr. Damron again expressed the Board's concern about sloppiness and continued operational problems. She observed that in the end it affects the success of the program.

Ms. Atkeson then updated the Board on the filing of a trademark application for the phrase "When they're 5 to 9 it's time for a 529." The application was filed in September and there should be an update by mid-January of 2017.

9) VALUE FUND INVESTMENT REVIEW AND EQUITY INCOME FUND REPLACEMENT

Dr. Damron then asked Mr. Spahr to address the Board. Mr. Spahr began by addressing the performance of the Oppenheimer Value Fund for the period September, 2015

through June, 2016. During these three quarters the Value Fund dramatically underperformed the benchmark Russell 1000 Value index.

Mr. Spahr then reviewed the concept of "factor analysis" and the impact on returns of this type of analysis. In recent years up to 90%-95% of returns are attributable to market risk factors as opposed to the fundamental analysis of individual stocks.

Generally there are six factors that are pretty well proven out. Examples include market cap, value versus growth, momentum, volatility and dividend yield.

Since the crash of 2008 inflation and interest rates have been very low. This has led to a general reduction in the market of returns. Also in that time period there has been a substantial shift from active to passive investment. The market risk factors have been controlling returns as opposed to individual stock analysis.

The effect on the performance of the Value Fund began to be noticed in mid-2014. The Value Fund process is primarily one of fundamental stock analysis. Factor analysis is only one of three major analyses done to select stocks.

The factor analysis forecast models began to break down. About half the underperformance in the June, 2015-September, 2016 timeframe was from factors. The other half was from stock selection.

The stock selection underperformance was primarily attributable to an overweight in healthcare, particularly drug stocks, and an underweight in utilities, telecom and consumer staples.

The market factors of volatility, dividend yield, momentum and interest rates all converged to move in the same direction. This was a 150 basis point negative impact on the portfolio versus the benchmark. In January and February, anything emerging market related, credit related or interest rate sensitive saw outflows into utilities, telecom, staples and low-volatility ETFs.

In June, however, after the Brexit vote, the equity markets ripped higher. No one expected it. The same thing occurred in November after the US election. This meant that all the defensive sectors previously in favor saw large outflows.

The break down in the predictability of the risk exposure models caused much of the underperformance of the Value Fund. The decision was made to create new in-house risk models instead of relying on the Barra models that had been used in the past. In addition data sets used to builds the models have been purchased from a different provider – Thomson Reuters. The work is ongoing.

The good news is that since June the Value Fund has outperformed by about 200 basis points – almost all of the outperformance is from stock selection.

Mr. Jarmie asked Mr. Spahr what degree of confidence he had in the ability to continue to outperform the benchmark. Mr. Spahr replied that he believed that the response to the problem has been appropriate, but that it had yet to be proven.

Mr. Jarmie then expressed his concern that the industry appears to be moving away from active management. He asked how the Board could fulfill its fiduciary responsibility to the investors by employing an active manager who is not performing as well as passively managed funds.

Mr. Spahr replied that he saw the duty of an investment fiduciary to do due diligence on investment managers and the funds that were selected for the program. What was the reason that the investment was chosen for the program? Was the portfolio manager doing what was expected from a process standpoint? Processes and outcomes can deviate from one another. Why is the investment performing the way that it is? In his view as long as the fiduciary is doing due diligence and the methods employed by the portfolio manager have validity then the fiduciary requirements are fulfilled.

The fiduciary can always terminate the investment manager if performance is unacceptably low.

Mr. Jarmie then mentioned the process by which Morningstar rates funds that had been discussed earlier in the meeting. How did Mr. Spahr's fund going to meet those goals?

Mr. Spahr noted that the performance pillar is a quantifiable one. Performance has to be consistently good and with lower risk than the peer group over a market cycle of 5 years. Since he had taken over the fund it has been slightly below median. He thought that two more good years would add a star to the funds ratings. Three good years could add two more stars.

Mr. Jarmie opined that the poor performance for three had then put the fund 1/12 or 2 years behind with respect to adding more stars. Mr. Spahr agreed.

Dr. Damron, noting the time, asked that Mr. Spahr move on to the discussion of the Dividend Opportunity Fund as a replacement for the Equity Income Fund.

Mr. Spahr noted that the Dividend Opportunity Fund uses the same alpha generation model as the Value Fund, but other characteristics are different. The fund always looks for high dividend yield stocks. It targets lower standard deviation that the market, and it is an all cap portfolio. It is also 30%-35% invested in non-US securities. The non-Us component helps reduce risk.

The dividend Opportunity Fund has had fewer ups and downs than the Equity Income Fund. The Equity Income Fund is a more concentrated portfolio focused on deep value stocks. It is more of as feast of famine portfolio.

Mr. Werner noted that after discussion with Mr. Spahr it had been decided that the recommendation was to move the assets of the Equity income Fund into the Dividend Opportunity Fund rather than the Value Fund.

Mr. White noted that the two funds have similar holdings. They are relatively close to one another on the style map. The Dividend Opportunity Fund acts more like a dividend fund. The alpha is close to the benchmark and the beta is .86. The standard deviation significantly less than the other funds and the benchmark. The up-down capture ration is what was to be expected. Some upside is lost in exchange for capturing less of the

downside. Overall it is a smoother ride for investors than either the fund it is replacing or the Value Fund. PCA fully supported moving to the Dividend Opportunity Fund. Given ongoing concerns with the Value Fund, the move to the Dividend Opportunity Fund is better.

Dr. Garcia made a motion to replace the Equity Income Fund with the Dividend Opportunity Fund as a standalone portfolio in Scholar'sEdge. Mr. Jansen seconded the motion. The vote to approve the change was unanimous.

10) PROGRAM MANAGER'S QUARTERLY INVESTMENT REPORT

Dr. Damron asked Mr. Werner to give the report. He referred the Board to the Executive Summary. He noted that the format had been revised to focus on the funds which held the largest amount of program dollars (>$25 million). These are the funds where the Board's fiduciary responsibility is greatest. He reviewed the blended and the index portfolios in The Education Plan and the portfolios in Scholar'sEdge as well.

For The Education Plan Mr. Werner noted that the funds in the index portfolios were across the board performing as expected. Moving to the blended portfolios, he noted that five of the eight portfolios had outperformed and three had underperformed. The level of underperformance was modest, about the level of fees.

In the blended portfolios he called out the Value Fund for its positive quarterly performance. The Main Street Opportunity Fund underperformed primarily because of the presence of some healthcare stocks that had failures in late-stage drug tests as well as the change in sentiment to a more "risk on" mode. The fund is generally conservatively managed. The Oppenheimer Global Fund significantly outperformed for the quarter after some previous poor performance.

In Scholar'sEdge seven of the eight multi-fund portfolios outperformed their benchmarks. The Value Fund and the Senior Floating Rate fund outperformed their benchmarks. The International Growth fund underperformed due mainly to an underweight in banks and an overweight to British pound denominated securities.

Mr. Miller noted that the executive summary focused on the larger funds in the program, and that supporting detail for all investments was in the quarterly report.

11) INVESTMENT CONSULTANT QUARTERLY REVIEW AND WATCH LIST RECOMMENDATION

Mr. White then gave the investment consultant's report. He noted that 15 of the active funds outperformed for the quarter and 6 others are underperforming by less than 1%. Five funds underperformed by more than 1%. For the year 9 funds outperformed, 2 underperformed by less than 1% and 15 underperformed by more than 1%. Mr. White noted that this was concerning.

Mr. Miller noted that rankings by rating services reflected the poor performance. Saving for College ranked The Education Plan 49th.

Mr. White confirmed Mr. Werner's observations on the quarterly performance of the funds in The Education Plan.

With regard to Scholar'sEdge Mr. White noted that the presence of a large number of underperforming individual funds with relatively few assets gave the impression of poor performance. The larger funds, however, did perform somewhat better.

Mr. Miller observed that the presence of a number of poorly performing funds affects the ratings of entities such as Morningstar. It is the absence of medal-rated funds. Mr. White agreed.

Mr. White then described the use of style boxes for the funds in the program as well as the charting of returns versus risk for the funds as compared to the benchmarks and the peer groups of other managers.

Mr. White then turned to the analysis of the age-based portfolios in the program versus the industry competition. These portfolios are important because they contain a significant portion of the assets in the program and they are funds where Oppenheimer selects both the underlying funds and makes the asset allocation decisions. He considered them the most important pages in the presentation.

The charts compared the age-based portfolios in the plans against the age-based portfolios for Morningstar medal-rated plans. He noted that on average the New Mexico portfolios were either at or below median performance, particularly for portfolios with equity exposure.

The Board took a break from 12:46 PM- 12:56 PM and then reconvened. Mr. White gave the watch status report. He noted that the Rising Dividend Fund, the Equity Income Fund and the Capital Income Fund were on watch status. The first two funds are being removed and replaced in the program.

He then discussed the Capital Income Fund in some detail because of its unusual structure. He noted that despite its watch status the fund had produced a 5.2% return over the last three years with relatively little volatility. The fund is hard to benchmark, and a custom benchmark was created, but even the benchmark is not as good a measure as it could be. He concluded that since it is a standalone fund in the advisor-sold plan, he was not too concerned about it. It is a decent fund and plays a role for advisors.

He then moved on to other funds which he recommended be put on watch. He recommended that the Value Fund be put on watch status. He noted that traditional investment management is not working and has not worked for the last 10 years. The traditional method is to buy undervalued securities and maintain a relatively large number of them in a portfolio. The managers that are succeeding in the current market environment – quantitative management and concentrated portfolios. Factor analysis dominates the market and Mr. White believed it would continue to do so.

Dr. Damron then asked Mr. White what the Board should be looking at as investment strategies in going forward. How could the Board be more thoughtful? Mr. White

noted that the largest clients that PCA dealt with were primarily selecting "smart beta", also known as "true quant", strategies where managers are looking at a large number of factors – as many as 40 factors. These are managers with advanced degrees in mathematics and physics.

Mr. White then recommended that the Monetta Young Investor Fund be put on watch status. He thought that there was no rational investment basis for the fund. Half the fund consists of exchange traded funds that track the S&P 500 Index and the other half invests in large cap growth stocks. The fund is expensive and charges 1.2% management fee. Performance is lackluster and he stated that he could not find a good investment case for the fund.

Mr. Werner stated that the fund was chosen because of the goal of the fund to provide financial literacy to the children of investors. Dr. Damron stated that she was not in favor of decisions being made on the basis of inputs and not outcomes. Mr. Miller noted that he considered the fund a failure similar to the PACE program. Dr. Garcia asked how much money was in the fund. Mr. White replied $58,000. Mr. Werner again noted that the purpose of the fund was to teach financial literacy.

Mr. Miller opined that the idea was noble but that the execution was not there. The program was not in a position to support efforts that were not working.

Dr. Garcia asked how the investment worked. Mr. Werner noted that half the portfolio was S&P 500 exchange traded funds and half was brand name stocks that kids would know, like McDonalds and Pepsi. Once invested, the account owner can register online and Monetta provides information aimed at educating children about money.

Dr. Garcia asked how many people used it. Mr. Werner answered that a handful used it.

Dr. Damron asked if Mr. Werner knew if it was improving financial literacy. Mr. Werner said that he did not. Dr. Damron opined that it may be a good awareness campaign but not a good investment option.

Dr. Damron asked what the Board was doing to improve financial literacy in New Mexico. Dr. Damron replied that nothing active was being done at this point, but that anything that was done would need to have good metrics to prove it was having an effect. Dr. Garcia asked Oppenheimer what it was doing with regard to financial literacy. Mr. Werner added that it is a difficult area with many levels of what constitutes financial literacy. He agreed that the Monetta product was not attracting attention based on the slow sales.

Dr. Garcia asked if there was any written material or a website page with financial literacy materials. Mr., Miller noted that part of the website redesign would include some financial literacy information. Dr. Damron cautioned that there were already many financial literacy programs in existence, and that the Board did not have the resources to create one from scratch.

Dr. Garcia opined that financial literacy should be on the Board's agenda. Dr. Damron agreed, but noted that the most critical item was to stay focused on the need to generate new accounts.

Mr. Esparza noted that the proposed grant program would have elements of financial literacy in an effort to engage both parents and children in the importance of saving.

Ms. Bednar noted that efforts were already underway to refresh the website to address the concern around helping people get more comfortable and fluent in financial planning for college.

Mr. Miller noted that there are a lot of great ideas about how to approach financial literacy, but that getting people to participate is an issue. He asked Ms. Bednar to recount her experience with the Honor Society.

Ms. Bednar then provided some color on the efforts of Oppenheimer to engage in financial literacy training for the Honor Society scholarship awardees and their parents. At the request of the NASSP Oppenheimer prepared a webinar, but that out of 500 awardees and their families only 2 people attended.

The seminar will remain available to view, but the effort in general needs a new approach to get people engaged.

Dr. Damron then asked Mr. White to continue his presentation. Mr. White discussed the Global Strategic Income Fund. He observed that it was a difficult fund to benchmark because of the great leeway given to the manager. PCA recommended that the fund be placed on short-term watch status because of performance issues.

After some discussion Mr. Jansen moved that the Board to keep the Oppenheimer Rising Dividends, Capital Income, and Equity Income Funds on watch, and to add the Oppenheimer Value Fund, Global Strategic Income Fund and Monetta Young Investor Fund to the watch list.

Dr. Garcia seconded the motion. The vote to approve the watch list recommendations was unanimous.

12) MARKETING AND SALES UPDATE

Ms. Howard then began the marketing and sales update. She noted the addition of a statewide outdoor billboard campaign to supplement radio and TV advertising.

Ms. Bednar then addressed chart outlining the various advertising statistics and new account and contribution data for the quarter. She then remarked on the delay in certain advertising initiatives related to FINRA approval of ad materials. For an extra fee, FINRA will give ad copy expedited review. That process is now being followed by Oppenheimer.

Dr. Damron and Ms. Atkeson both noted that this appeared to be something that Oppenheimer should have been aware of, and that the program's advertising was not

deployed with optimal timing during a critical sales quarter. Ms. Bednar acknowledged that this was a fair criticism.

Ms. Bednar then reviewed the integrated advertising approach for The Education Plan, including in New Mexico and in several other states.

Ms. Howard noted that ads were on cable TV, network TV, radios spots, outdoor advertising, in theaters, newspapers, and on the web and social media.

She also reviewed the advertising pieces created for the employer market, and mentioned the web landing page dedicated to the employer market.

Mr. Miller then introduced Ms. Roos. She outlined her duties with regard to the employer market, as well as the outreach to professional and trade organizations as well as attendance at conferences.

At this point, 12:52 PM, Dr. Damron left the meeting.

Ms. Bednar then outlined a number of the marketing activities for Scholar'sEdge, including web-based activities and creation of collateral materials.

Mr. Werner then reviewed the sales activity for the quarter. New accounts were at 22% of goal and new contributions were at 19% of goal. Mr. Werner was optimistic as to meeting goals since the 3rd quarter is a slow quarter and the 4th quarter an active quarter for sales and contributions.

He also reviewed the top ten brokerage firms in terms of new sales.

He then reviewed the sales and marketing efforts of his 529 team during the quarter, both inside Oppenheimer and with brokers.

At the end of Mr. Werner's remarks, Ms. Atkeson asked about the meeting schedule for calendar 2017. Mr. Miller responded that the meetings would be held on the last Thursday of January, April, July and October from 9:00 AM-1:00 PM.

13) ADJOURNMENT

Dr. Garcia asked if there was any other business to come before the Board. There being none, Mr. Jansen made a motion to adjourn. The meeting adjourned at 1:15 PM.