

The Education Trust Board of New Mexico



THE HONORABLE SUSANA MARTINEZ
GOVERNOR OF NEW MEXICO

DR. JOSÉ Z. GARCIA, CABINET SECRETARY
NEW MEXICO HIGHER EDUCATION DEPARTMENT

BOARD MEMBERS
DR. JOSÉ Z. GARCIA, CHAIRMAN
ROBERT J. DESIDERIO, VICE-CHAIR
MARK JARMIE
TREVOR SERRAO

Meeting Minutes of December 11, 2014

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

Board Members in Attendance

Dr. José Garcia - Chairman
Mark Jarmie – Member
Trevor Serrao – Member (By Phone)
Robert Desiderio - Vice Chairman (By Phone)

APPROVED

Angela M. Gallegos 2-20-15
Board Secretary

Other Individuals in Attendance

Kevin Deiters - Executive Director
Angela Gallegos - Board Secretary
David Mathews - HED Attorney
Helen Atkeson - Partner, Hogan Lovells US LLP
Kay Ceserani - Pension Consulting Alliance
Bill Raynor - OppenheimerFunds
Ken Henry – OppenheimerFunds
Steve Dombrower - OppenheimerFunds
Michelle Nelson - Court Reporter

AGENDA

1) CALL TO ORDER

Chairman Garcia called the meeting to order at 1:08 p.m. Board Secretary Angela Gallegos called the roll and announced that four of four Board members were present and that a quorum existed.

2) PUBLIC COMMENT

Chairman Garcia called for public comment. There was no public comment.

3) APPROVAL OF AGENDA

Chairman Garcia called for a motion to approve the agenda.

The motion was made by Mr. Jarmie and seconded by Mr. Serrao. The motion was approved by unanimous consent.

4) MEETING MINUTES OF THE AUGUST 20, 2014 BOARD MEETING – discussion and possible action

Chairman Garcia called for a motion to approve the minutes of the meeting of August 20, 2014.

The motion was made by Vice Chairman Desiderio and seconded by Mr. Serrao. The motion was approved by unanimous consent.

5) MEETING MINUTES OF THE SEPTEMBER 23, 2014 BOARD MEETING – discussion and possible action

Chairman Garcia called for a motion to approve the minutes of the meeting of September 23, 2014.

The motion was made by Vice Chairman Desiderio and seconded by Mr. Serrao. The motion was approved by unanimous consent.

6) MEETING MINUTES OF THE OCTOBER 15, 2014 BOARD MEETING – discussion and possible action

Chairman Garcia called for a motion to approve the minutes of the meeting of October 15, 2014.

The motion was made by Mr. Serrao and seconded by Vice Chairman Desiderio. The motion was approved by unanimous consent.

7) MEETING MINUTES OF THE NOVEMBER 7, 2014 BOARD MEETING – discussion and possible action

Chairman Garcia called for a motion to approve the minutes of the meeting of November 7, 2014.

The motion was made by Vice Chairman Desiderio and seconded by Mr. Serrao. The motion was approved by unanimous consent.

8) MEETING MINUTES OF THE NOVEMBER 12, 2014 BOARD MEETING – discussion and possible action

Chairman Garcia called for a motion to approve the minutes of the meeting of November 12, 2014.

The motion was made by Mr. Jarmie and seconded by Mr. Serrao. The motion was approved by unanimous consent.

9) CLOSED SESSION PURSUANT TO NMSA 10-15-1(H) TO DISCUSS THE COMPETITIVE SEALED PROPOSALS FOR THE FUND PROGRAM MANAGER AND THE NEGOTIATION PROCESS FOR THE COLLEGE SAVINGS PLAN PROGRAM MANAGEMENT AGREEMENT AND LIMITED PERSONNEL MATTERS

Chairman Garcia called for a motion to move into closed session

Mr. Jarmie made a motion to allow the Board to move into close session pursuant to NMSA 10-15-1(H)6 to discuss the competitive sealed proposals for the fund program manager and the negotiation process for the College Savings Plan Program Management Agreement.

The motion seconded by Vice Chairman Desiderio. A roll call vote was taken and all four members voted to move into closed session.

Chairman Garcia announced that the Board was moving into closed session at 1:14 p.m.

[The Board met in closed session between 1:14 p.m. – 2:34 p.m.]

Chairman Garcia called for a motion to end the closed session and to return to open session.

The motion was made by Mr. Jarmie and seconded by Mr. Serrao. The motion was approved by unanimous consent and the Board move back into open session at 2:34 p.m.

Mr. Jarmie noted for the record that the only matters discussed by the Board during the closed session were solely pursuant to the agenda item and consistent with NMSA 10-15-1(H)(6).

10) College Savings Pan Program Management Agreement – discussion and possible action, Helen Atkeson, Hogan Lovells US LLP

Ms. Atkeson advised the Board that its program management agreement with OppenheimerFunds expires on June 30th, 2015 and that the agreement would automatically renew for five years unless the Board notifies OppenheimerFunds of its intent not to renew the agreement.

After discussion, Chairman Garcia called for a motion to give notice to OppenheimerFunds Distributor, Inc. and OppenheimerFunds, Inc. of the termination of the of program management agreement on its expiration date of June 30, 2015.

The motion was made by Mr. Jarmie and seconded by Vice-Chairman Desiderio.

Chairman Garcia called for a record vote and all four members voted to approve the motion.

Vice-Chairman Desiderio announced that he was leaving the meeting.

11) PROGRAM MANAGER REPORT

Chairman Garcia called on Mr. Raynor to provide an overview of the marketing report and Mr. Henry to provide the investment performance report for the third quarter of 2014.

a. Marketing Report – Bill Raynor, OppenheimerFunds

Mr. Raynor summarized account and marketing information from the *OFI Private Investments – New Mexico 529 Quarterly Report for the Period Ending September 30, 2014*.

Mr. Raynor reported that sales for The Education Plan and Scholar's Edge were up by 7 percent and 4 percent respectively when compared to the same period during 2013. The total number of accounts in The Education Plan increased by 1 percent over the past year whereas the number of Scholar's Edge accounts dropped by 3 percent.

Mr. Dombrower provided an overview of his report entitled *New Mexico Additional Marketing Investment Recap* regarding the Board's 2014 marketing efforts to increase brand awareness. He described how the Board's \$450,000 marketing budget was distributed across four different types of media (television, radio, print and online) that included cable and broadcast television purchases throughout the state. Advertisements were also purchased in the Navajo Times, Isleta Pueblo Mission Bulletins, and Sandia Pueblo Bulletins.

In response to Mr. Jarmie's question about the yield of the campaign, Mr. Dombrower reported that website traffic to the TEP websites increased by 80 percent, 60 percent, and 58 percent respectively during September, October, and December. He also reported the number of new accounts increased by 17 percent in October and 13 percent in November.

Mr. Dombrower concluded his presentation with an overview of Oppenheimer's direct marketing efforts with advisors and broker dealers through social media (Linked In and SavingforCollege.com) and with financial services firms such as Raymond James and LPL Financial.

Ms. Atkeson asked Mr. Dombrower if these direct marketing efforts included their Illinois plans. Mr. Dombrower responded that these marketing efforts were for both New Mexico and Illinois.

Mr. Deiters asked Mr. Dombrower if OppenheimerFunds was now able to advertise using El Paso media outlets since it was no longer the program manager for Texas. Mr. Dombrower replied that they could advertise in El Paso.

b. Quarterly Investment Performance Report – Ken Henry, OppenheimerFunds

Mr. Ken Henry provided the Board with a summary of his report entitled *OFI Private Investments – The Education Plan & Scholar’s Edge Portfolio Performance Report for the Period Ending September 30, 2014*.

Mr. Henry began his presentation by advising the Board that OppenheimerFunds changed the benchmark for the Senior Floating Rate Fund from the Credit Suisse Loan Index to the JP Morgan Leveraged Loan Index because it is priced on a daily basis instead of a monthly basis.

Mr. Henry provided an overview of the capital markets and he reported that most of the indices, with the exception of the U.S. S&P 500 index, were down during the quarter. As a result, all of the investment portfolios were down on an absolute basis for the quarter.

Mr. Henry provided a summary of the performance of several underlying funds: He reported that the Oppenheimer Global Fund outperformed its benchmark for the quarter by 34 basis points while the Oppenheimer International Growth Fund underperformed its benchmark by 289 basis points. He commented that this was only the third period of meaningful underperformance in the fund’s history and that it was the result of its exposure to underperforming mid cap and small cap stocks.

Mr. Henry concluded his presentation by pointed out that the Oppenheimer International Bond Fund outperformed its benchmark by 300 basis points during the quarter. He cited the fund’s underweight exposure to the Yen and the Euro as the reason for the outperformance.

12. INVESTMENT CONSULTANT QUARTERLY REVIEW AND WATCH LIST RECOMMENDATION – discussion and possible action, Kay Ceserani, Pension Consulting Alliance, Inc.

Chairman Garcia called upon Kay Ceserani with Pension Consulting Alliance, Inc. to give the investment consultant report and watch list recommendation.

Ms. Ceserani provided the Board with a summary of the *3Q 2014 Investment Monitoring Status Report* and the “*Watch*” *Status Update*” memorandum dated December 1, 2014.

Ms. Ceserani provided the Board with an overview of the funds on the Watch List and she recommended that the following underlying funds remain on the Watch List:

1. Oppenheimer Value Fund (CGRYX);
 2. MainStay MAP Fund (MUBFX);
 3. Oppenheimer Rising Dividends Fund (OIRD);
 4. Thornburg International Value Fund (TGVIX);
 5. Oppenheimer Equity Income Fund (OEIIX);
 6. Vanguard Intermediate-Term Bond Index Fund (VIBSX);
 7. Oppenheimer International Bond Fund (OIBIX); and
-

8. Oppenheimer Gold and Special Minerals Fund (OGMIX)

She also recommended that the Board add the Oppenheimer Discovery Fund (ODIIX) to the Watch List because of underperformance.

Mr. Jarmie asked Ms. Ceserani to identify any funds on the Watch List over six months.

Ms. Ceserani responded by naming the Oppenheimer Value Fund (30 months), the MainStay Map Fund (24 Months), the Rising Dividend Fund (15 months) and the Thornburg International Value Fund (12 months) as the funds on the Watch List over six-months.

Mr. Jarmie asked if it was time to replace those funds. Ms. Ceserani responded that each fund had a different scenario.

Ms. Ceserani pointed out that the Oppenheimer Value Fund had been on the watch list for 30 months and that the Fund replaced its portfolio manager about 18 months ago. As a result of that change, it was her opinion that the watch period needed to be reset to see how the Fund performed under the new portfolio manager.

Mr. Jarmie asked Ms. Ceserani if a year-and-a-half was long enough to reach a decision.

Ms. Ceserani stated that PCA was not recommending a change at this time because the new management team has not been losing money and their performance was above the median for their peer group. She indicated that PCA would consider recommending a change if the trend doesn't continue.

Mr. Jarmie said that he would be looking for reports and additional action on these funds at the next meeting.

Ms. Ceserani continued her presentation by discussing the due diligence visit to Thornburg Funds. She explained that PCA met with Thornburg International Value Fund man several times over the past few months to discuss the underperformance of the Fund and that she due-diligence visit to the Thornburg's office during September to interview management.

Ms. Ceserani reported that Thornburg restructured the management of the Fund by assigning two portfolio managers to the institutional side of the fund and one portfolio manager to the retail side. One of the institutional managers has since announced her resignation but that the current staff is very qualified and moral is very good. The turnover of the portfolio has since increased from 30 percent to 70 percent and performance has improved.

Ms. Ceserani concluded her presentation on Thornburg by commenting that she did not find anything alarming and it was her opinion that performance will continue to improve.

Chairman Garcia called for a motion to accept the Investment Consultant's Watch List recommendation.

The motion was made by Mr. Serrao, seconded by Mr. Jarmie and approved by unanimous consent.

Chairman Garcia called for a second motion to accept the Investment Consultant's recommendation to add the Oppenheimer Discovery Fund to the Watch List for performance reasons.

The motion was made by Mr. Serrao, seconded by Mr. Jarmie and approved by unanimous consent.

13. EXECUTIVE DIRECTOR'S REPORT – Kevin Deiters, Executive Director

Chairman Garcia called on Mr. Deiters to give an update of the Executive Director's Report.

Mr. Deiters reported that the administrative fund had a balance of \$5,067,648.85 as of November 30, 2014 and that 748 students received ETB Pathways scholarships during the fall semester.

11) ADJOURNMENT

Chairman Garcia called for a motion to adjourn the meeting.

The motion was made by Mr. Jarmie and seconded by Mr. Serrao. The motion was approved by unanimous consent.

Chairman Garcia adjourned the meeting at 3:34 p.m.
