

The Education Trust Board of New Mexico

APPROVED



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
ROBBIE HEYMAN, ESQ.
TREVOR SERRAO

This is the APPROVED March 12, 2014 ETB
meeting minutes and are the official minutes.

Meeting Minutes of March 12, 2014 1:00 p.m.
New Mexico State Capitol, Room 321 - Santa Fe, NM

Board Members in Attendance

Dr. José Garcia - Chairman
Robert Desiderio – Vice Chairman (via telephone)
Trevor Serrao - Member
Robbie Heyman - Member

Other Individuals in Attendance

Kevin Deiters - Executive Director
Angela Gallegos - Board Secretary
David Mathews - HED Attorney
Helen Atkeson - Partner, Hogan Lovells US LLP
Jeremy Thiessen - Pension Consulting Alliance
Bill Raynor - OppenheimerFunds
Ken Henry - OppenheimerFunds
Theresa Yau - OppenheimerFunds
Jeremy Thiessen - Pension Consulting Alliance
Del Esparza - Esparza Advertising
Michelle Tange - Esparza Advertising
Brooke Vigil - Esparza Advertising
Michele Nelson - Court Reporter

AGENDA

1) **CALL TO ORDER**

Chairman Garcia called the meeting to order at 1:17 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.

Chairman Garcia announced to the Board that Governor Martinez signed House Bill 215 amending the Education Trust Act and that the Board would soon have five members.

3) APPROVAL OF AGENDA

Vice Chairman Desiderio asked the Board to move the action items up in the agenda because he needed to leave before the end of the meeting.

After discussion, Mr. Heyman moved to amend the order of the agenda by moving agenda items 12, 13, 14, and 15 immediately after agenda item 8. Mr. Serrao seconded the motion and it was approved by unanimous consent.

4) MEETING MINUTES OF THE DECEMBER 11, 2013 BOARD MEETING

Chairman Garcia called for a motion to approve the minutes of the meeting of December 11, 2013. The motion was made by Mr. Heyman and seconded by Vice Chairman Desiderio. The motion was approved with one abstention.

Mr. Serrao announced for the record that he abstained from the vote because he was not present at the December 11, 2013 ETB meeting.

5) MEETING MINUTES OF THE JANUARY 24, 2014 BOARD MEETING

Chairman Garcia called for a motion to approve the minutes of the meeting of January 24, 2014. The motion was made by Mr. Heyman and seconded by Vice Chairman Desiderio. The motion was approved by unanimous consent.

6) OPEN MEETINGS RESOLUTION – discussion and possible action , David Mathews, General Counsel

Chairman Garcia called on David Mathews to present the 2014 Open Meetings Resolution.

Mr. Mathews presented to the Board the annual Open Meetings Resolution for 2014. He explained that he modified the 2013 resolution by adding a sentence to paragraph 5 about telephone attendance. Mr. Mathews also requested that the Board strike the second sentence in paragraph 2, page 1, because it did not make sense.

Chairman Garcia called for a motion to adopt the 2014 Open Meetings Resolution. Mr. Heyman made a motion to adopt the 2014 Open Meetings Resolution as presented and revised by Mr. Mathews. Mr. Serrao seconded the motion. The motion was approved by unanimous consent.

7) OUTSIDE COUNSEL REPORT – Helen Atkeson, Hogan Lovells US LLP

Chairman Garcia called on Ms. Atkeson to give the Outside Counsel Report.

Ms. Atkeson provided the Board with a brief update of the matters that her firm addressed since the last Board meeting. She advised that the bulk of her time was spent on updating plan disclosure statements; marketing materials; the investment policy; and the monitoring guidelines to reflect recent changes in investments.

Ms. Atkeson reported that she also reviewed various documents related to the settlement of the Ping Lu case; provided assistance in support of legislation; and assisted the Executive Director prepare a request for proposal for program manager services.

8) **PROGRAM ADVERTISING** – Bill Raynor, Oppenheimer Funds and Del Esparza, President, Esparza Advertising

Chairman Garcia reminded the Board about the marketing presentation made by Esparza Advertising at the December meeting and how the marketing budget did not support television and radio advertising. He called upon Mr. Raynor and Mr. Esparza to report on several options for the marketing program.

Mr. Esparza began his presentation by explaining the need for stronger brand recognition and by proposing three options for increasing the marketing budget to fund television and radio advertisements.

He acknowledged the comments made by Chairman Garcia at the December 2013 meeting about the need to market the college savings program to Navajo and Spanish language communities. Mr. Esparza assured the Board that the Native American and Latino market in New Mexico would be reached in the options being considered.

Option One would increase the marketing budget by \$150,000 and would add statewide cable television and radio to the marketing program. Mr. Esparza estimated that this would result in over 6.8 million impressions on television and over 363,000 impressions on radio.

Option Two would increase the marketing budget by \$300,000 and would build on the efforts in Option 1 by adding network television and expanding outreach to Hispanic and Native American Communities. Mr. Esparza estimated that this would result in over 10 million impressions on television and over 368,000 impressions on radio.

Option Three would increase the marketing budget by \$450,000 and would expand the efforts proposed in Options One and Two. Mr. Esparza estimated that this would result in over 14 million impressions on television and over 379,000 impressions on radio.

Mr. Serrao suggested that if the Board wanted to see if television works that it shouldn't immediately implement Option Three. Vice Chairman Desiderio commented that the difference between Option Two and Option Three is the number of impressions from network TV. He asked if the Board should spend the additional \$150,000 for 4 million impressions or does the Board want to select Option Two and then see what the results are.

Mr. Esparza responded that his firm recommended Option Three because it is just a one year funding recommendation and would not be ongoing. He said that they were looking at a one year “splash” and a residual benefit thereafter.

Mr. Heyman asked Mr. Deiters if the Board had the resources to support the proposal and if we would use reserve funds that are not needed for other purposes. Mr. Deiters responded that the proposal would need to be funded with reserve funds.

Vice Chairman Desiderio stated his support for Option Three based upon his understanding that this is a one-time effort and that we would not be continuously using reserve funds to fund the marketing effort.

Chairman Garcia called for a motion. Vice Chairman Desiderio made a motion to adopt Option Three. Mr. Heyman seconded the motion. The motion was approved by unanimous consent.

9) **OUTSIDE COUNSEL AGREEMENT AMENDMENT** - discussion and possible action – Kevin Deiters, Executive Director

Chairman Garcia called on Mr. Deiters to discuss the proposed amendment to the Outside Counsel Agreement.

Mr. Deiters recommended to the Board that it extend the term of the Outside Counsel Agreement with Hogan Lovells by an additional year to maintain the continuity of legal advice provided to the Board during the first year of the new program manager agreement. The proposed amendment also increases Ms. Atkeson’s hourly rate from \$525 to \$550 for FY 2016 and increases the maximum payable under the contract from \$450,000 to \$700,000.

Vice-Chairman Desiderio asked Mr. Deiters to explain the number of years covered by the \$700,000. Mr. Deiters responded that amendment increases the maximum payable under the agreement from \$450,000 to \$700,000 for the period of July 1, 2012 through June 30, 2016.

Mr. Heyman asked if the increase in the maximum amount was necessary because of the additional work associated with the RFP. Mr. Deiters agreed and included the cost of the transition as an additional factor.

Chairman Garcia called for a motion to extend the term of outside counsel contract with Hogan Lovells US LLP from June 30, 2015 until June 30, 2016 and to increase the maximum payable during the life of the contract from \$450,000 to \$700,000. The motion was made by Mr. Heyman and seconded by Mr. Serrao. The motion was approved by unanimous consent.

- 10) **PROGRAM MANAGER AGREEMENT AMENDMENT** – discussion and possible action, Kevin Deiters, Executive Director

Chairman Garcia called on Mr. Deiters to discuss the proposed amendment to the program manager agreement.

Mr. Deiters recommended to the Board that it extend the term of the program management agreement with OppenheimerFunds, Inc. from May 25, 2015 until June 30, 2015. This change will enable the agreement to end on the last day of the state fiscal year and simplify the preparation of annual financial statements.

Chairman Garcia called for a motion to extend the term of the program manager agreement with OppenheimerFunds, Inc. from May 25, 2015 to June 30, 2015. The motion was made by Mr. Heyman and seconded by Mr. Serrao. The motion was approved by unanimous consent.

- 11) **REQUEST FOR PROPOSAL FOR PROGRAM MANAGER SERVICES** - discussion and possible action, Kevin Deiters, Executive Director

Chairman Garcia called on Mr. Deiters to discuss the request for proposal for program manager services.

Mr. Deiters stated that he was seeking Board authority to issue a request for proposal for program manager services because this Board's contract with OppenheimerFunds will expire under its own terms next year.

Chairman Garcia called for a motion to issue a request for proposal for program manager services.

Mr. Heyman asked Mr. Deiters if he was proposing to work with outside counsel and others to prepare the RFP and if the RFP would not be brought back to the Board for approval.

Mr. Deiters responded that an evaluation team would prepare the RFP with the advice of the outside counsel and general counsel, but that the Board would not be involved in preparing or approving the RFP. Mr. Deiters agreed to share the draft of the RFP with individual Board members before it is issued.

Mr. Heyman moved to issue a request for proposal for program manager services. The motion was seconded by Mr. Serrao and approved by unanimous consent.

- 12) **EDUCATION TRUST BOARD SCHOLARSHIPS** – discussion and possible action, Kevin Deiters, Executive Director

Mr. Deiters stated that his presentation was a follow-up to his scholarship presentation at the December 2013 meeting. He pointed out that the recent amendment to the Education Trust Act did

not authorize the use of the administrative fees for scholarships. Mr. Deiters also acknowledged Vice Chairman Desiderio's concern that scholarship funds be available for the fall semester.

Mr. Deiters stated that the Board would have \$1 million in funding from Oppenheimer Funds available for award for the 2014-2015 academic year and that he was proposing several changes to the scholarship program that would provide financial aid departments with additional flexibility in meeting student need.

Mr. Deiters proposed expanding the eligibility provisions by allowing financial aid departments to award scholarships to students with a 3.0 college grade point average (GPA). He also proposed an expansion to residency requirement that would allow students with a high school equivalency certificate to participate in the program.

He explained that this GPA change would allow financial aid departments to make awards to students other than first semester freshman students. Currently, the ETB scholarship program requires a student to have high school GPA of 3.25; however, financial aid departments at many community colleges are unable to make awards because they do not require their students to submit a high school transcript upon admission.

Mr. Heyman asked how a student with a high-school equivalency would meet the required high school GPA of 3.25. Mr. Deiters responded that they would qualify for the scholarship based upon the college GPA requirements.

Chairman Garcia asked Mr. Deiters to review the proposed changes with the financial directors and to bring back the proposal to the Board at the next meeting.

Chairman Garcia made a motion to table further discussion. Mr. Heyman seconded the motion and it passed with unanimous consent.

13) INVESTMENT CONSULTANT QUARTERLY REVIEW AND WATCH LIST - discussion and possible action – Jeremy Thiessen, Pension Consulting Alliance, Inc.

Mr. Thiessen provided the Board with an overview of his February 26, 2014, memorandum entitled "*Watch Status*" Update. He recommended to the Board that it remove the MainStay High Yield Corporate Bond Fund (MHYIX) from the Watch List due to acceptable short- and medium-term performance. He also pointed out that the Capital Appreciation Fund was no longer on the Watch List because it was removed from the program in December 2013

Mr. Thiessen provided the Board with an overview of the funds on the Watch List and he recommended that the following underlying funds remain on the Watch List:

1. Oppenheimer Value Fund (CGRYX);
 2. MainStay MAP Fund (MUBFX);
 3. Oppenheimer Main Street Small & Mid-Cap Fund (OPMYX);
 4. Oppenheimer Rising Dividends Fund (OYRDX); and
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5. Thornburg International Value Fund (TGVIX).

Mr. Thiessen directed the Board's attention to Thornburg International Value Fund (TGVIX) and he reported that the fund has under-performed its benchmark by 5.9% over the 12-month period due in large part to its consistent exposure to emerging markets. He pointed out that the performance difference between emerging and developed markets were significant during the period. Emerging markets suffered a negative return during the period whereas the developed markets had positive double-digit returns.

Mr. Thiessen reported that he and Mr. Henry had discussed whether the MSCI EAFE Index was an appropriate benchmark for TGVIX considering its significant exposure to emerging markets. Mr. Thiessen indicated that they were reviewing the MSCI ACWI ex-US Growth Index as a possible benchmark and that he would report back to the Board.

Ms. Atkeson asked Mr. Thiessen about the funds that have been on the Watch List for a period longer than 12-18 months. Mr. Thiessen stated that the monitoring guidelines direct the investment consultant to make a recommendation to the Board; however, the Board is not required to remove or replace the fund.

Chairman Garcia called for a motion to accept the investment consultant's recommendation to remove the MainStay High Yield Corporate Bond Fund from the Watch List. The motion was made by Mr. Serrao and seconded by Mr. Heyman. The motion was approved by unanimous consent.

Chairman Garcia called for a second motion to accept the investment consultant's recommendation to maintain the Oppenheimer Value Fund; the MainStay MAP Fund; the Oppenheimer Main Street Small & Mid-Cap Fund; the Oppenheimer Rising Dividends Fund; and the Thornburg International Value Fund on the Watch List. The motion was made by Mr. Serrao and seconded by Mr. Heyman. The motion was approved by unanimous consent.

14) PROGRAM MANAGER REPORT

Chairman Garcia called on Mr. Raynor to provide a brief overview of the Plans' marketing report.

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 December 31, 2013*.

Mr. Raynor reported that account growth in The Education Plan (TEP) was flat during 2013 but that sales during January and February were 12 percent higher than the same period of 2013. He reported that Scholars Edge (SE) sales for 2013 were down four percent but that sales during January and February were 13 percent higher than the same period of 2013.

Mr. Raynor reported that the gifting feature was becoming more popular and that both TEP and SE experienced significant growth during 2013. Gift contributions during 2013 increased by 62 percent in TEP and 160 percent in SE.

b. Quarterly Investment Performance Report – Ken Henry, OppenheimerFunds

Mr. Ken Henry of OppenheimerFunds 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 December 31, 2013*.

Mr. Henry reported that the asset allocation changes adopted by the Board on October 2, 2013, were executed during December.

Mr. Henry reported that TEP and SE were recognized by SavingsforCollege.Com for their three-year performance as of the fourth quarter of 2013. TEP was ranked as the 8th out of 48 direct-sold plans and SE was ranked 8th out of 28 advisor-sold plans. Mr. Henry cited the higher allocation to equities in TEP and SE as the reason for primary reason for the rankings.

Mr. Thiessen agreed with Mr. Henry’s statement that the plans more aggressive allocation to equities as the primary reason for the positive relative performance; however, he also pointed out the Board’s fixed income allocation was also yielding positive results.

Mr. Henry cited the Board’s decision in December 2012 to replace an underlying fixed income fund tied to the Barclay’s Aggregate Index with a senior floating rate fund. During 2013, the Barclay’s Aggregate had a return of negative 2 percent whereas the Oppenheimer Senior Floating Rate Fund had a positive return of 6.7 percent. This is a net performance increase of 8.7 percent for \$120 million in plan assets.

In summary, Mr. Henry reported that 2013 was a very good year and he cited the 30 percent annual return for the Newborn to Age Five portfolio as an example. He also provided an overview of the performance for the Oppenheimer Value Fund during the quarter.

Mr. Serrao asked Mr. Thiessen and Mr. Henry about the impact on the plan’s rankings when the equity bull run ends. Mr. Henry responded that the relative performance of those portfolios with a higher equity allocation than the industry average would be hurt.

15) EXECUTIVE DIRECTOR’S REPORT – discussion – Kevin Deiters, Executive Director

Chairman Garcia called on Mr. Deiters to give the Executive Director’s report.

Mr. Deiters provided the Board with a brief overview of his *Executive Director’s Report of March 12, 2014*. He stated that the enactment of the Education Trust Fund amendments was the major event of the quarter.

Mr. Deiters also reported that the RFP for Audit Services was issued on February 13th and that proposals were due on March 13.

Mr. Heyman asked if the members of the evaluation committee were experienced in reviewing audit proposals. Mr. Deiters advised that the evaluation team was approved by the State Auditor and that each member has the experience necessary to review the proposals.

Mr. Deiters advised the Board that its administrative fund was moved to the Local Government Investment Pool as of January 24, 2014 and that the fund had a balance of \$4.4 million dollars.

16) ADJOURNMENT

Chairman Garcia called for a motion to adjourn the meeting. Mr. Serrao moved to adjourn the meeting. Mr. Heyman seconded the motion. The motion was approved by unanimous consent.

Chairman Garcia adjourned the meeting at 4:05 p.m.

Approved by the Education Trust Board

on this 23rd day of April 2014



Angela M. Gallegos, Board Secretary