

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, CHAIRMAN
ROBERT J. DESIDERIO, VICE-CHAIR
MARK JARMIE
TREVOR SERRAO

Meeting Minutes of April 22, 2015

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

Board Members in Attendance

Dr. Barbara Damron - Chairman
Robert Desiderio - Vice Chairman
Mark Jarmie – Member

Other Individuals in Attendance

Theodore Miller – Executive Director
David Mathews - HED Attorney
Helen Atkeson - Partner, Hogan Lovells US LLP
Kay Ceserani - Pension Consulting Alliance (by telephone)
Steve Dombrower - OppenheimerFunds
Bill Raynor - OppenheimerFunds
Ken Henry – OppenheimerFunds
Del Esparza – Esparza Agency
Emily Griebel – Esparza Agency
Andrea Feirstein- AKF Consulting (be telephone)
Michele Nelson- Court Reporter

APPROVED

Vera Lyons
Board Secretary
6-25-15

AGENDA

1) CALL TO ORDER

Chairman Damron called the meeting to order at 1:01 p.m. Board Executive Director Theodore Miller called the roll and announced that three of four Board members were present and that a quorum existed.

2) PUBLIC COMMENT

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

3) APPROVAL OF AGENDA

Chairman Damron called for a motion to approve the agenda after the removal of Agenda item 7. The motion was made by Vice-Chairman Desiderio and seconded by Mr. Jarmie. The motion was approved by unanimous consent.

4) FY 2016 BUDGET APPROVAL – discussion and possible action – Ted Miller, Executive Director.

Mr. Miller noted that the administrative fund had a balance of approximately \$5.7 million as of the end of March, 2015. He noted that it was his goal to keep approximately 2-years' worth of operating expenses in the fund to protect against unexpected liabilities and against deep market downturns.

Dr. Damron asked if it was necessary to formally approve this, and Mr. Mathews responded that it was a discretionary matter and no Board action was necessary.

Mr. Miller went on to note that the FY2016 proposal was \$2,371,000. Dr. Damron asked about the budget amount for contractual services of \$1.1 million. Mr. Miller noted that this was an increase of about \$400,000 from the previous year and included all professional services currently rendered to the Board as well as provision for fiduciary services and marketing services approved at the February, 2015 Board meeting.

Mr. Jarmie remarked upon the budget amount for ETB staff. He noted that the budget appeared to show only 1.5 employees. Mr. Miller noted that that was the historical number for previous years and that FY2016 made provision for 2 full time employees.

Mr. Jarmie asked if Mr. Mathew's time was part of the staffing request. Mr. Miller stated that it was not. Dr. Damron stated that she would like to allocate a portion of Mr. Mathew's time to the ETB budget.

Mr. Jarmie also expressed concern about the compensation of the Executive Director. Dr. Damron observed that compensation is a matter involving the state personnel office, and not solely within her discretion. Mr. Jarmie offered a motion to explore with the state personnel office the matter of the adequacy of Executive Director's compensation. Mr. Desiderio seconded the motion. The vote to approve was unanimous.

With the understanding that inquiry would be made as to the Executive Director's compensation, and that a portion of Mr. Mathew's compensation be paid for from the fund, Dr. Damron asked for a motion to approve the budget for FY2016. Mr. Desiderio so moved. Mr. Jarmie seconded the motion. The vote to approve the budget was unanimous.

5) INVESTMENT POLICY STATEMENT AND MONITORING GUIDELINES – discussion and possible action, Kay Ceserani, Pension Consulting Alliance, Inc. (by phone), Ted Miller, Executive Director.

The meeting then turned to the presentation of the revised Investment Policy Statement and the associated Monitoring Guidelines. Mr. Miller noted that the revisions to the Investment Policy Statement were made primarily streamline and better organize the language of the existing Investment Policy, to align the terms in the Policy with the new Program Management Agreement, and to more clearly separate policy from procedure. He noted that he had worked closely with PCA on the revisions, and that counsel for the ETB and for Oppenheimer had reviewed the document.

Ms. Ceserani noted that the Investment Policy now had a section on derivatives and that tables were moved from the Investment Policy to the Monitoring Guidelines. Moving to the Monitoring Guidelines, Ms. Ceserani noted that the tables were updated to reflect the changes to the underlying funds and the Portfolios. A new paragraph was added to provide for readmission of a fund after

removal from the Program. In addition provision was made for the monitoring of a balanced fund as well as mid- and small-cap funds.

Dr. Damron asked for a motion to approve the revised Investment Policy Statement and Monitoring Guidelines in the form presented to the Board effective upon the re-launch of the Program. Mr. Desiderio made such a motion, which was seconded by Mr. Jarmie. The vote to approve the revised Investment Policy Statement and Monitoring Guidelines was unanimous.

6) LEGAL MATTERS – discussion and possible action- Helen Atkeson, Hogan Lovells, US, LLP and David Mathews, Chief Counsel HED/ETB.

a) Proposed Revision to Maximum Contribution Amount

Ms. Atkeson made reference to a memo from a tax partner at her firm giving the background with regard to the maximum contribution amount to 529 Plans. She also referred to a current list of 529 maximum contribution amounts for 529 Plans nationwide. She noted that, while many plans are at or below a limit of \$400,000, most are above the current New Mexico limit of \$294,000. Mr. Desiderio stated that he thought the New Mexico limit should be raised to \$400,000.

Ms. Atkeson observed that the tax memo showed that it would not be imprudent to raise the limit to seven years at the highest cost institution in the country. Mr. Miller noted that the Chronicle of Higher Education listed Sarah Lawrence as that institution with an annual cost of \$65,480. He also noted that he would be comfortable with the \$400,000 limit suggested by Mr. Desiderio. Mr. Jarmie asked for Oppenheimer's view on the matter. Mr. Raynor noted that a meaningful increase would be appropriate so as not to dissuade potential investors, but that he would not want to be the plan with the highest limit. He stated that Oppenheimer and its counsel would be comfortable with the proposed \$400,000 limit.

Mr. Desiderio made a motion to approve an increase in the maximum contribution amount to \$400,000. Mr. Jarmie seconded the motion. The motion was approved unanimously.

b) Program Management Contract First Amendment

Ms. Atkeson reminded to Board of its previous decision to remove unnecessary DFA boilerplate provisions from Section 28 of the Program Management Agreement, as well as removing a provision permitting the payment of additional monies to the Contractor. The Amendment was now ready for Board approval.

Dr. Damron called for a motion to approve the First Amendment to the Program Management Agreement in the form presented to the Board. Mr. Desiderio made the motion. Mr. Jarmie seconded the motion. The vote to approve the First Amendment to the Program Management Agreement was unanimous.

c) College Savings Plan Rules and Bylaws

Mr. Mathews noted that the original rules had been adopted in the early days of the Program, and that they mirrored the IRS Code and the state statute. He saw no reason to retain these rules since the state statute in its present form provided the necessary framework for operation of the Program. He explained that technically the rules would be amended in the form of a rescission. He explained the process for this to occur.

Dr. Damron asked if the Board action should be to amend the rules as Mr. Mathews had presented. He answered in the affirmative. Dr. Damron called for a motion. Mr. Desiderio made the motion, and Mr. Jarmie seconded it. The vote to amend the rules in the form of a rescission was unanimously approved.

Mr. Mathews then advised the Board that he saw no reason for the Board to retain a set of Bylaws. The Board is not an adjudicatory board. He recommended that the Bylaws be repealed.

Mr. Desiderio made a motion to repeal the Bylaws. Mr. Jarmie seconded the motion. The vote to repeal the Bylaws was unanimous.

d) Oppenheimer Parent Guaranty

Ms. Atkeson informed the Board that OppenheimerFunds, Inc. the parent company of the two Oppenheimer companies that together serve as the Program Manager had delivered a Guaranty of the obligations of the two companies under the Program Management Agreement. The Board did not need to approve the Guaranty, but it did call for a signature by the Board to acknowledge receipt. Ms. Atkeson stated that she had reviewed the guaranty and that, while there was some cutback in the original language by Oppenheimer counsel, it was in a form that satisfied the conditions under the Program Management Agreement.

e) Investment Consultant Contract Assignment

Ms. Atkeson reminded the Board of the discussion at the last Board meeting of the change in legal form of Pension Consulting Alliance, Inc. to Pension Consulting Alliance LLC. She noted that the Board had agreed to the assignment of the Board's contract with the original entity to the new entity. She noted that Mr. Mathew's had suggested a change to the signature line of the original assignment letter. That change had been made and the new letter was ready for signature by the Board Chair and the Executive Director.

f) Custody Contract

Ms. Atkeson reminded the Board that, under the new Program Management Agreement, Oppenheimer was required to submit any subcontracts to the Board for approval. This was a condition that needed to be satisfied prior to the effectiveness of the Program Management Agreement on July 1, 2015.

7) PROPOSED ADVISOR FEE REDUCTION FOR CAPITAL PRESERVATION PORTFOLIO– discussion and possible action – Steve Dombrower, OppenheimerFunds

Mr. Dombrower presented an overview of the current Capital Preservation Portfolio in the Scholar's Edge Plan. The Portfolio has a New York Life guaranteed investment contract as the underlying fund. This contract is unusual in that it does not prevent the Program from having competing Portfolios – typically any fixed income product with a duration of three years or less. This makes it a desirable product.

Due to low interest rates, the crediting rates on the contract are in danger of being exceeded by the fees associated with the Portfolio for the B share and C share versions of the Portfolio. He recommended that the fees paid to advisors for selling these versions of the Portfolio be reduced from 1% to 50 basis points. This reduction will benefit B share and C share investors by increasing the yield on these versions of the Portfolio.

Mr. Desiderio made a motion to reduce the advisor fees as presented to the Board. Mr. Jarmie seconded the motion. The vote to approve was unanimous.

8) PROGRAM MANAGER MARKETING PLAN FOR FY 2016 – Bill Raynor, Steve Dombrower, OppenheimerFunds and Del Esparza, Emily Griebel, Esparza

Mr. Esparza began by stating the main objectives of the Program for FY2016. The first objective is five percent year-over-year account growth from a baseline of 6,048 accounts to a target of 6,350 new accounts. The second is five percent year-over-year aggregate sales growth from a baseline of \$177,263,063 to a target of \$186,126,216. He noted that Oppenheimer had committed \$1.5 million to the marketing effort. He then turned to Ms. Griebel to describe the strategy for achieving these objectives.

She noted that the strategy was to build on previous successes and to create a seamless program. The goal is for the consumer to be surrounded by similar brand messaging regardless of the tactic or channel used to deliver the message. Ms. Griebel said that KPIs or Key Platform Indicators would be used to measure results for each advertising and marketing technique employed.

The marketing program is designed to address three levels of activity. The first is to build awareness of the College Savings Plans. That leads to the second level of further interest in the Plans. The third level is to lead consumers to open college savings accounts. KPIs are used at each of these levels.

Ms. Griebel then went into the specifics of the Marketing Plan for The Education Plan (TEP) and for Scholar's Edge.

For TEP she noted that this was the first time marketing would be addressed to not only New Mexico, but also Texas and California. Also a new look would be given to the logo. The concept of the "aha moment" with regard to a child's future college education would be a focus. The PACE (Plan Ahead for College Education) website would be added to the online platform. In addition the Oppenheimer brand would be utilized. Oppenheimer is once again going to advertise its brand nationally. Ms. Griebel mentioned the importance of TV advertising for TEP. TV is a "high recall" medium.

Ms. Griebel also discussed changes to the grassroots efforts in New Mexico, especially the enhancements to the on-site capabilities to sign up new accounts.

For Scholar's Edge the target would be financial advisors and consumers in "tax parity" states where there is no tax advantage for using the state's own 529 plan. Ms. Griebel stressed the importance of digital media for the Scholar's Edge plan. Advisors would be reached not only by Oppenheimer's traditional sales force, but also be a website dedicated to advisors. They would also be reached through a LinkedIn campaign.

9) MARKETING PLAN DISCUSSION AND POSSIBLE ACTION

After the presentation of the Marketing Plan for FY2016, Dr. Damron noted the Board's concern about reaching the different populations in New Mexico, especially the Native American and Hispanic populations. She called for a motion to approve the plan as presented to the Board. Mr. Desiderio made such a motion. The motion was seconded by Mr. Jarmie. The motion was unanimously approved.

10) ADJOURNMENT

Dr. Damron called for a motion to adjourn the meeting. Mr. Desiderio so moved. The motion was seconded by Mr. Jarmie. The vote was unanimous to adjourn. The meeting was adjourned at 4:10 PM.
