

# 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 August 20, 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)

### Board Members Absent

Robert Desiderio - Vice Chairman

### 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  
Eric White - Pension Consulting Alliance  
Bill Raynor - OppenheimerFunds  
Ken Henry - OppenheimerFunds  
Michelle Nelson - Court Reporter

**APPROVED**

*Angela M. Gallegos  
Board Secretary - 9-2-11-14*

## AGENDA

### 1) CALL TO ORDER

Chairman Garcia called the meeting to order at 1:16 p.m. Board Secretary Angela Gallegos called the roll and announced that three of four Board members were present and that a quorum existed.

Chairman Garcia introduced and welcomed Mr. Jarmie to the Board.

### 2) PUBLIC COMMENT

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

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**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 APRIL 23, 2014 BOARD MEETING – discussion and possible action**

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

The motion was made by Mr. Serrao and seconded by Chairman Garcia. The motion was approved with one abstention. Mr. Jarmie abstained from the vote because he was not at the April 23, 2014 meeting.

**5) CLOSED SESSION TO DISCUSS THE COMPETITIVE SEALED PROPOSALS FOR THE FUND PROGRAM MANAGER AND THE NEGOTIATION PROCESS FOR THE FUND PROGRAM MANAGER CONTRACT – discussion and possible action, Kevin Deiters, Executive Director**

Chairman Garcia called for a motion to move into closed session to discuss the competitive sealed proposals for the fund program manager and the negotiation process for the fund program manager contract.

The motion was made by Mr. Jarmie and seconded by Mr. Serrao. A roll call vote was taken and all three members voted to move into closed session at 1:21 p.m.

*[The Board met in closed session between 1:21 p.m. and 3:45 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 3:45 p.m.

At the request of Mr. Jarmie, Mr. Matthews affirmed for the record that the only matters discussed during the closed session were those that were consistent with NMSA 10-15-1(H)(6) regarding the discussion of the competitive sealed proposals for the fund program manager.

**6) REQUEST FOR PROPOSALS FOR PROGRAM MANAGER SERVICES – EVALUATION COMMITTEE REPORT ON SUBMITTED PROPOSALS – discussion and possible action, Kevin Deiters, Executive Director**

Mr. Jarmie made a motion to invite Union Bank, Ascensus and Oppenheimer to make presentations to the Board at the next meeting and to answer any questions that the Board may have.

Mr. Serrao seconded the motion. The motion was approved by unanimous consent.

Mr. Jarmie made a motion for the Board to authorize the ETB staff to clarify and negotiate any key terms regarding the RFP and the proposed contract.

Mr. Serrao seconded the motion. The motion was approved by unanimous consent.

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## 7) 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 second 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 June 30, 2014*.

Mr. Raynor reported that OppenheimerFunds (OFI) issued refunds of approximately \$150,000 to New Mexico account holders for state administrative fees paid during the first six months of 2014.

Mr. Raynor provided an overview about the marketing strategy for Native Americans and he described how OFI planned to develop Navajo language advertisements. He also discussed their efforts to market the college savings program as a potential employee-benefit program for large employers in New Mexico.

Mr. Jarmie commended OFI for its efforts on behalf of the Navajo population and he asked Mr. Raynor about OFI's outreach to the other 21 pueblos and tribes that do not share a common language with the Navajo. Mr. Dombrower responded that Navajo was the start of the marketing campaign. Mr. Deiters stated that he asked OFI to focus on casinos as a part of their employer based marketing effort.

Chairman Garcia provided an overview of the Native American College Readiness Initiative and he said that he was pleased with the efforts to reach native populations. He acknowledged that marketing to the remaining pueblos and tribes would be more difficult and expensive because they do not share the same language. Mr. Mathews contributed to the discussion by reminding the Board that it would have to rely upon radio advertising to reach the pueblos because they do not have written languages.

Mr. Raynor responded to Chairman Garcia's comments about the need to market to Spanish-speaking families by citing Mr. Esparza's outreach to the Hispanic Chamber of Commerce.

### 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 June 30, 2014*.

In his overview of the capital markets for the second quarter, Mr. Henry said that a pullback occurred during the end of the July and early August but that it never reached the level of ten-percent market correction. He stated that it was the opinion of OFI's chief economist that the capital markets were not in a bubble because the price-equity ratio was only slightly higher than the long-term average. Mr. Henry also cited improvements in housing and car sales; a drop in the unemployment rate; and low-inflation.

Despite the pullback, he reported that the indices for domestic and international equities were up over five percent for the quarter. The all country World ex-U.S. was up a little over five percent and emerging market equities were up over six and a half percent; whereas, interest rates had a slight decrease.

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Mr. Henry commented that our college savings plans had done quite well over the last three years in comparison to its peer group and he distributed a report from SavingforCollege.Com that TEP was ranked 8<sup>th</sup> of 48 plans and SE was ranked 9<sup>th</sup> of 28 plans compared the risk-adjusted performance of college savings plans for the three year period ending June 30, 2014. In that report, TEP was ranked 8<sup>th</sup> of 48 plans and SE was ranked 9<sup>th</sup> of 28 plans.

Mr. Henry provided a summary of the performance of several underlying funds.

He reported that the Oppenheimer Value-Fund, a fund currently on the Watch List, has outperformed its benchmark by 21 basis points (bps) in the year since a new portfolio manager was hired. The Main Street Mid Cap Fund, which was recently removed from the Watch List, has outperformed its benchmark over the year-to-date by 100 bps points and is in the 17<sup>th</sup> percentile of its peer group.

Mr. Henry discussed the disappointing results for the Oppenheimer International Growth Fund. He reported that this fund has typically been one of the best performing funds in our program and that it has typically outperformed its benchmark for four or five consecutive years; however, it has underperformed its benchmark by about 300 bps for the year-to-date. Mr. Henry cited stock selection as the cause of the under-performance.

Mr. Henry also commented on the investment changes made by the Board in December 2012 to address interest rate risk when it reallocated assets from the Barclay's Aggregate Index to the Senior Floating Rate Fund. This decision paid off during 2013 when the Senior Floating Rate Fund outperformed the Barclay's Aggregate Index by 800 bps; however, the Senior Floating Rare Fund has under-formed by 100 bps during 2014.

Mr. Henry directed the Board's attention to page 40 of his report for a discussion about the performance of TEP Age-Based portfolios. The portfolios had strong positive returns during the quarter despite modest underperformance against their benchmarks. The Indexed Portfolios also performed in-line with expectations for the quarter.

Mr. Henry directed the Board's attention to page 57 of his report for a discussion of performance of SE portfolios and he responded to a question from Mr. Deiters about the underperformance of the Thornburg International Value fund by pointing out that it underperformed its benchmark by 215 bps during the quarter and 1,000 bps during the one-year period. Mr. Henry attributed the under-performance to stock selection. He reminded the Board that it removed the Thornburg Fund from TEP and reduced its allocation in SE when it reallocated the portfolios in 2012 during the removal of the Oppenheimer Capital Appreciation Fund.

Mr. Jarmie asked Mr. Henry to make a recommendation to the Board about the Thornburg Fund. Mr. Henry responded that his recommendation at this point was to stay with the Fund because it was still providing positive returns and because the investment line-up of all of the portfolios would change with the new program manager contract that begins on July 1, 2015.

Mr. Jarmie asked Mr. Henry to discuss the underperformance of the Oppenheimer Discovery Fund and to clarify if it was on the Watch List.

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Ms. Ceserani responded that the Discovery Fund was not on the Watch List and Mr. White explained that it needed to underperform for a 12-month and 36-month trailing time periods before being included on the Watch List.

Mr. Raynor responded to Mr. Jarmie's question about underperformance by explaining that the Discovery Fund is an aggressive small-cap growth fund that is very volatile and that it is the nature of the fund to outperform during up-markets and underperform during down markets. As a result, the Discovery Fund is not appropriate for every 529 client and is only offered as an SE individual fund for advisors wanting to create a custom portfolio for their 529 clients.

Mr. Henry concluded his presentation with a summary of the SE Age-Based Portfolios which had solid positive returns for the quarter while modestly underperforming their benchmarks due primarily to the underperformance of the Oppenheimer International Growth Fund and to a lesser extent to the Thornburg International Value Fund.

**8) CAPITAL PRESERVATION PORTFOLIO UPDATE – Ken Henry, Vice President, OppenheimerFunds**

Chairman Garcia called on Mr. Henry to provide an update on the Capital Preservation Portfolio.

Mr. Henry provided the Board with a summary of his letter of August 13, 2014 about the Capital Preservation Portfolio. He explained that the Portfolio was a guaranteed investment contract with New York Life. Unlike other portfolios, the Board does not keep a pool of securities. Instead, the assets are given to New York Life and it guarantees the principal and provides a fixed return. He explained how the yield of the portfolio is calculated and that it had a current yield of 1.27 percent before fees. He also described how investors in Class B or Class C shares could see a negative return if long-term rates drop.

Mr. Henry stated that OFI would waive as much of its program management fee needed to maintain a positive return for the Capital Preservation Portfolio. Ms. Ceserani advised the Board that this was not unique to Oppenheimer and that several of her other clients were taking similar action.

**9) PROGRAM MANAGER TRANSITION MANAGEMENT REPORT – Bill Raynor, OFIPI and Steven D. Dombrower, CFA, Vice President, OppenheimerFunds**

Chairman Garcia called on Mr. Raynor and Mr. Dombrower to give their report on the Program Manager transition from OppenheimerFunds.

Mr. Raynor provided a summary of the August 12, 2014 letter from Julie Libby regarding the transition management plan. He advised the Board that OppenheimerFunds is required by contract to provide this Board with a transition plan document in advance of a potential end of contract.

Mr. Raynor and Mr. Dombrower explained in detail the complex process involved to transition from one program manager to another and the risks involved and how a detailed transition plan could not be developed until a new program manager had been selected.

Ms. Atkeson explained to the Board that Oppenheimer was complying with our current program manager contract that requires OppenheimerFunds to develop a transition plan nine months before

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the end of the contract; whereas, the contract only requires the Board to give six months' notice of a contract renewal or expiration.

Mr. Dombrower concluded his presentation by stating that Oppenheimer Funds will do everything in its power to make sure that any transition is as smooth as possible.

**10) INVESTMENT CONSULTANT QUARTERLY REVIEW AND WATCH LIST RECOMMENDATION** – discussion and possible action, Kay Ceserani and Eric White, Pension Consulting Alliance, Inc.

Chairman Garcia introduced and welcomed Kay Ceserani and Eric White and he informed the Board that they will serve as the Board's investment consultant following the resignation of Jeremy Thiessen from Pension Consulting Alliance.

Ms. Ceserani provided the Board with a summary of the *2Q 2014 Investment Status Monitoring Report* and the "Watch" Status Update" memorandum dated August 12, 2014.

Ms. Ceserani's presentation focused on the underlying funds on the Watch List. She advised the Board that six funds remained on the Watch List at the end of the second quarter and that two additional funds qualified for Watch List status. Ms. Cesarani 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 (OIRDY);
4. Thornburg International Value Fund (TGVIX);
5. Oppenheimer Equity Income Fund (OEIIX); and
6. Vanguard Intermediate-Term Bond Index Fund (VIBSX)

She also recommended that the Board add the Oppenheimer International Bond Fund (OIBIX) and the Oppenheimer Gold & Special Minerals (OGMIX) to the Watch List because of underperformance.

Chairman Garcia called for a motion to accept the investment consultant's Watch List recommendation to keep the Oppenheimer Value Fund (CGRYX), MainStay Map Fund (MUBFX), Oppenheimer Rising Dividends Fund (OIRDY), Oppenheimer Equity Income Fund OEIIX), and the Vanguard Intermediate-Term Bond Index Fund VIBSX), on the Watch List.

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 International Bond Fund (OIBIX) and the Oppenheimer Gold and Special Minerals (OGMIX) to the Watch List for performance reasons.

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

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**11) ASSET ALLOCATION AND PORTFOLIO ANNUAL REVIEW** – discussion and possible action, Ken Henry, OppenheimerFunds and Kay Ceserani, Pension Consulting Alliance, Inc.

Chairman Garcia called on Mr. Henry and Ms. Ceserani to update the Board on the asset allocation and portfolio annual review.

Mr. Henry provided a summary of the July 31, 2014 letter from Julie Libby regarding the NM 529 Annual Asset Allocation Review.

Mr. Henry stated that OFI conducted a review of the asset allocation glide path of the age-based portfolios to determine how they compared against the 529 industry averages as reported by Morningstar. He explained that all three of the age-based portfolios offered by the program share the same asset allocation and that the equity allocations in the early years of these portfolios were above the industry average. He expressed his opinion that these equity allocations were appropriate and would enable investor to accumulate equity assets.

Ms. Ceserani commented that PCA agrees with OppenheimerFunds analysis of the asset allocation.

Chairman Garcia called for a motion to accept the recommendation of the program manager to make no changes to the existing asset allocations and portfolios of the Education Plan and Scholar's Edge programs.

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

**12) INVESTMENT POLICY STATEMENT AND MONITORING GUIDELINES** - discussion and possible action – Kay Ceserani, Pension Consulting Alliance, Inc.

Chairman Garcia called on Ms. Ceserani to update the Board on the Investment Policy Statement and Monitoring Guidelines.

Ms. Ceserani provided the Board with an overview of her August 8, 2014, memorandum entitled *Investment Policy Statement and Monitoring Guideline Updates*.

She reported that Pension Consulting Alliance updated the investment policy to reflect name and benchmark changes for Oppenheimer Main Street Mid-Cap Fund (previously known as Oppenheimer Main Street Small- & Mid-Cap Fund).

Mr. Deiters pointed out that the words "*and portfolio*" needed to be deleted from the introductory sentence of "Watch Status Monitoring" on page 5 because only underlying investments are placed on the Watch List. He also called the Board's attention to the second paragraph to strike the word "*Generally*" and replace it with "*Once*."

Chairman Garcia called for a motion to adopt the Investment Policy Statement and Monitoring Guidelines as presented today and to authorize the staff to make the changes as outlined.

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

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

Chairman Garcia called on Mr. Deiters to discuss the Education Trust Board Scholarships.

Mr. Deiters provided the Board with an overview of his August 14, 2014, memorandum entitled “*ETB Funded College Savings Accounts for Native American Students.*”

He reminded the Board that it approved an allocation of \$750,000 in scholarship funds from OppenheimerFunds for scholarships for students attending universities and colleges at the Board meeting of April 23rd and that it tabled discussion on the award of the remaining \$250,000.

Mr. Deiters explained that he was proposing to allocate \$200,000 in scholarship funding from OppenheimerFunds to establish \$1,000 college savings accounts for Native American students between the ages of 12 and 14.

The funds would be allocated among the tribes and pueblos based upon middle school enrollment. Each of the 14 tribes or pueblos with at least 100 middle school students would be able to nominate students meeting certain educational requirements established by the Higher Education Department. Students belonging to the remaining eight tribes or pueblos would apply for the award directly to the Higher Education Department.

Mr. Deiters advised that the Board would establish the account and designate the student as the beneficiary. He said that the Board would need to develop administrative procedures for authorizing distributions from the account.

Chairman Garcia addressed the Board about his Native American College Readiness Initiative. He described his interchange of ideas with tribal leaders at the annual tribal summit to improve the relationship between the state of New Mexico and the tribes and pueblos. He also wanted to strengthen the relationship between the colleges and universities and the tribes.

Chairman Garcia said that one of the things that came out of that tribal summit was there was a great concept that the Navajo Nation has a concept of nation-building as one of the things that they were engaged in all the way and that they are trying to build the Navajo Nation.

Chairman Garcia called for a motion to accept the recommendation of the executive director to allocate \$200,000 for scholarships in support of the Native American College-Readiness Initiative.

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

Mr. Deiters said that the second part of his proposal would allocate \$50,000 for scholarships to graduates of the New Mexico GEAR UP Program. GEAR UP is a federally-funded program administered by HED that provides aid to the poorest high schools in the state. The GEAR-UP students would need to meet the same academic and financial requirement used by the universities and colleges for qualifying students for ETB Pathways Scholarships; however, the Higher Education Department would administer the application and award process.

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Chairman Garcia called for a motion to authorize the Higher Education Department GEAR UP Program to award \$50,000 in scholarships to GEAR UP graduating students.

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

**14) 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 informed the Board that the administrative fund had a balance of \$5.7 million dollars as of July 8, 2014. He said the Board issued refunds of \$154,595 to New Mexico accounts for the first six months of 2014 and that the ETB received \$2.2 million dollars in fee revenue during FY 2014.

**15) ADJOURNMENT**

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

Chairman Garcia adjourned the meeting at 5:42 p.m.

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