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 September 23, 2014
Albuquerque Marriott – Main Floor – Carlsbad Room
2101 Louisiana Blvd. NE, Albuquerque, NM 87110-5401

APPROVED
Angela Gallegos 12-11-14
Board Secretary

Board Members in Attendance
Dr. José Garcia - Chairman
Mark Jarmie - Member
Robert Desiderio - Vice Chairman
Trevor Serrao - Member

Staff in Attendance
Kevin Deiters - Executive Director
Angela Gallegos - Board Secretary
David Mathews - HED Attorney

Members of the Public
Helen Atkeson - Partner, Hogan Lovells US LLP
Kay Ceserani and Eric White - Pension Consulting Alliance
Andrea Feirstein and Soohyang Lee - AKF Consulting
Michelle Nelson - Court Reporter
Cari Kaup and Jay Steinacher - Union Bank and Trust
Leah Emkin and Mannik Dhillon - Wilshire Associates
Bryan Burke, Tom Territ, John Fisher, Cathie Applegate, and Hans Lange - Federated Investments
Daniel Reyes, Tom Hewitt, and Michael Corr - Vanguard Investments
Suzanne Fetky, Jeff Howkins, Sandy Madden, Chris Reimer, Peg Creonte, and Derek DeLorenzo - Ascensus College Savings
Kenneth Henry, Patrick Hurley, Theresa Yau, Robin Dey, Steve Dombrower, and Bill Raynor - OppenheimerFunds
Del Esparza - Esparza Advertising

AGENDA

1) **CALL TO ORDER**

   Chairman Garcia called the meeting to order at 8:30 a.m. Board Secretary Angela Gallegos called the roll and announced that all 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 Vice Chairman Desiderio and seconded by Mr. Serrao. The Board approved the motion by unanimous consent.

4) **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 Vice Chairman Desiderio and seconded by Mr. Serrao. A roll call vote was taken and all four members voted to move into closed session.

   [The Board moved into closed session at 8:32 a.m.]

   Chairman Garcia called for a motion for the Board to return to open session and said that no action was taken in closed session.

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

   Mr. Jarmie stated for the record that the only matters discussed during the closed session were those that were consistent with NMSA 10-15-1(H) (6).

5) REQUEST FOR PROPOSALS FOR PROGRAM MANAGER SERVICES

Chairman Garcia made opening remarks and he called upon Union Bank & Trust (UBT) to present their proposal to the Board.

The UBT proposal was presented to the Board by the following representatives:

- Ms. Cari Kaup, Vice President of Client Services, Union Bank &Trust;
- Mr. Jay Steinacher, UBT 529 College Savings Manager, Union Bank &Trust;
- Ms. Leah Emkin, Vice-President, Wilshire Associates; and
- Mr. Mannik Dhillon, Managing Director, Wilshire Associates.

A handout from UBT entitled *State of New Mexico 529 Program* was distributed to the Board.

Ms. Kaup introduced Mr. Steinacher; Ms. Emkin; and Mr. Dhillon to the Board and she said that they would be responsible for the New Mexico relationship.

Ms. Kaup said that their presentation would highlight the key points of their proposal and demonstrate to the Board why UBT was the ideal partner for the State of New Mexico. She described the key differentiators within the UBT's proposal as its commitment to customer service and the open architecture structure of its investment programs.

Ms. Kaup explained that UBT is a $16-billion family-owned organization headquartered in Lincoln, Nebraska and that it has been in the 529 college savings business for fourteen years. She described the commitment of the Dunlap family to maintain private ownership of UBT and their intent to transition the ownership of UBT to the next generation of the Dunlap family.

Mr. Steinacher begin his presentation by directing the Board to page 5 of the handout for a description of the investment structure for UBT. He pointed out that UBT offers a completely open approach to the selection of underlying funds because they are not affiliated with a single-fund family.

In his discussion of the proposed investment structure for The Education Plan (TEP), Mr. Steinacher said that UBT liked the Board's existing approach of having an indexed strategy and a multi-manager strategy but that they would supplement the investment lineup by adding a less aggressive growth strategy and by adding several individual funds to give additional choices to more sophisticated investors. He stated that UBT was proposing very low-cost funds – only 21 basis pts (bps) for indexed funds and 32bps for multi-manager funds (not including any state administrative fees).

Mr. Steinacher directed the Board to page 7 of the handout for a description of UBT's proposed lineup of underlying funds for TEP. He described how low-cost Vanguard indexed funds would be the heart of the lineup and that they would also offer quality funds from T. Row Price; Dimensional Funds; and Dodge and Cox.

In his discussion of the proposed investment structure for Scholars Edge (SE), Mr. Steinacher stated that UBT would add a less aggressive age-based track with more of a growth strategy. He indicated that the cost of Class-A shares would decrease by over 10 percent and that Class-C shares would decrease by over 35 percent. Mr. Steinacher directed the Board to page 9 of his handout for a description of the lineup of 15 fund families that UBT would use for SE.

Mr. Steinacher concluded his presentation by discussing UBT's relationship with the investment consultant firm of Wilshire Associates (Wilshire). He said that UBT made the decision ten years ago to partner with Wilshire because it is a globally-recognized investment consultant firm that could improve UBT's collaboration with state partners while also providing due diligence and investment monitoring services.

Mr. Steinacher concluded this part of his presentation to enable the representatives of Wilshire to describe their role in the investment process.

Ms. Emkin began the Wilshire presentation by providing an overview of the firm and its history and Mr. Dhillon described the four step investment process that is followed by Wilshire's investment manager research team to find the best-in-class funds and active managers.

Mr. Steinacher directed the Board to page 15 of the handout for a summary of the advantages offered to the State by the UBT proposal. He cited the completely open platform for investments; the ongoing due diligence and investment monitoring; and the experience of their 529 team. He said that he was proud of their partnerships with the State of Illinois and the State of Alabama and their success in growing those programs faster than the industry averages.

Mr. Steinacher described the key elements to the success of the New Mexico program as being the state tax benefit; solid plan design; best-in-class service; low-cost options; and good investment options. He identified the key elements to expanding participation by New Mexico families as being plan promotion, traditional marketing, and outreach.

Chairman Garcia called for questions.

Mr. Serrao asked Mr. Steinacher to explain the larger allocation to TEP in UBT's proposed marketing budget considering that SE is a much larger program.

Mr. Steinacher responded that an advisor-sold plan like SE was dependent upon support by field representatives meeting one-on-one with advisors; whereas, they would have to rely upon paid media to reach customers in TEP.

Chairman Garcia asked Mr. Steinacher to describe UBT's out-of-state marketing efforts for SE.

Mr. Steinacher responded that UBT field representatives would call on advisors in the Los Angeles, Boston, Houston, and Dallas markets and target those areas with pockets of assets and large accounts.

Mr. Jarmie asked UBT to describe the advantages to the Board of hiring the Dunlap family and its values as opposed to a Board with more traditional corporate values.

Ms. Kaup stated that UBT is set apart from its competitors by its commitment to the customer service and its community. Mr. Steinacher responded by saying that the Board would be a very important client and that UBT is looking to partner with someone, not simply be a vendor.

Vice Chairman Desiderio asked UBT to explain its process for replacing underperforming funds.

Mr. Dhillon responded that Wilshire's ongoing monitoring process could lead to a recommendation to replace a fund and he described the need for dialogue with the Board, its staff, and PCA about the watch list process. He said that when a decision is made to replace a fund, that Wilshire would review the portfolio and have discussions with their portfolio manager and asset class subcommittees to identify several replacement funds that would be appropriate for the portfolio.

Mr. Jarmie directed UBT to page 11 of their proposal regarding a promise made by UBT to the State of Alabama regarding the growth of new accounts. He asked the UBT representatives if they would provide the Board with a similar promise to grow the number of accounts in New Mexico to over 40,000 over the next five years.

Mr. Steinacher said that UBT would work with the Board to draft similar contractual language providing additional marketing efforts in the event certain benchmarks are not met.

Mr. Jarmie pointed out the importance of the revenue produced by out-of-state investors and he asked UBT to describe their efforts to retain and increase the number of out-of-state accounts.

Mr. Steinacher responded that UBT wanted New Mexico to have one of the best direct-sold programs in the nation and that he would suggest to the Board that it reduce its administrative fee to compete nationally against other low-cost direct-sold plans. For the advisor-sold plan, they would continue to call upon advisors and build upon relationships.

In response to Mr. Jarmie's questions about the number of in-state and out-of-state accounts, Mr. Steinacher said that UBT wanted to see 40,000 accounts in New Mexico but that damage-control was needed to stem the flow of assets out of SE and to grow the number of accounts.

Chairman Garcia asked UBT to describe the qualifications for its field representatives in New Mexico.

Mr. Steinacher said they would want college graduates that were from New Mexico who knew the state and that each field representative would need to complete a robust training program lasting 8 to 12 weeks.

Vice Chairman Desiderio asked UBT to explain how it would address minority and other underserved populations.

Mr. Steinacher responded that UBT was proposing to commit $200,000 for scholarship and matching programs and that its grassroots marketing efforts would extend into every corner of the state. He also indicated that UBT would use an in-state marketing firm.

Mr. Deiters asked UBT to explain the statement in its proposal about the unintended risk and exposures that clients may be taking within their portfolios. He also asked for a description of the types of financial instruments that concerned UBT and to describe the process it would use to determine the appropriateness of an investment.

Mr. Dhillon described how an investor might perceive portfolio risk and how they might expect down-side protection when a portfolio has a fixed-income component while expecting their equity portfolio to outperform in upward markets. He cautioned that these investors might not recognize the amount of interest rate risk that exists in fixed-income portfolios.

Mr. Dhillon expressed his concern about the use of derivatives and over-the-counter swaps in mutual funds. He explained that the use of derivatives was not necessarily bad and that it depends on how those derivatives are being used. He cited the need for on-going due diligence to determine if a fund manager is capable of managing those risks.

Ms. Feirstein asked UBT to explain the relationship between Illinois, Alabama, and New Mexico and how an advisor might decide which plan to promote.

Mr. Steinacher stated that they would not convert advisors from one plan to another. If an advisor is using SE, then UBT will promote SE. If the advisor is using the Illinois Bright Directions program, then UBT will promote Bright Directions.

Mr. Deiters asked for a clarification regarding how UBT would market the programs to an advisor that is not committed to any of the programs.

Mr. Steinacher responded that they were going to promote the programs equally; however, they might give preference to one program based upon its relative strength in a geographic area. He pointed out that many money managers have left the industry over the past 10 to 15 years and that advisors have developed relationships with state plans. He explained that UBT's field representatives use a targeted approach whereas a field representative for a national wholesaler might have fifteen different products to sell to an advisor.

Ms. Atkeson asked Mr. Steinacher if UBT had any contractual limitations that would require it to give preference to one of its other plans over New Mexico.

Mr. Steinacher agreed that they would give preference in specific states, but that each plan would need to stand on its own merits nationally.

Chairman Garcia thanked UBT for their presentation.

[The Board took a brief break]

Chairman Garcia made opening remarks and he called upon Ascensus College Savings (Ascensus) to present their proposal.

The Ascensus proposal was presented to the Board by the following representatives:

- Jeff Howkins, CEO of Ascensus College Savings.
- Dan Reyes, Principal, Vanguard.
- Suzanne Fetky, Director of Marketing, Ascensus College Savings.
- John Fisher, President of Federated Advisor Companies.
- Tom Territ, President of Federated Securities Corp.
- Peg Creonte, Business Development, Ascensus College Savings.

Mr. Howkins thanked the Board for giving Ascensus the opportunity to present their proposal. He said that Ascensus was excited to have the opportunity to reenergize the existing base while introducing the program to a new base composed of 51,000 Promise Rewards and 53,000 Vanguard clients in New Mexico and Federated investors nationwide.

Mr. Howkins explained that Ascensus was a coalition-based organization and that their value proposition was based upon bringing the right partners to the right channel at the right time with the right plan. Not only would they include Vanguard funds in the plan, but they would also have access to Vanguard's investment strategies and portfolio managers. Federated Investments would be the exclusive distributor of the advisor-sold plan and its 200 sales associates would not distribute any other plan. In addition, Ascensus will market the direct-sold plan and provide two field representatives in New Mexico who would be dedicated to helping the Board grow the plan among employers and socioeconomically disadvantaged groups with the state.

Mr. Howkins concluded his introductory remarks and turned the presentation over to Mr. Reyes to discuss the role of Vanguard Investments in TEP.

Mr. Reyes described Vanguard's core principles and its long-standing relationship with approximately 53,000 New Mexico residents who have invested over $17.5 billion dollars in Vanguard funds. He pointed out that over $60 million in Vanguard funds are currently in TEP and that they could bring additional benefits to participants.

Mr. Reyes said that as an Investment-Only-Plus client, the Board would have access to Vanguard's investment strategy group for investment recommendations and to Vanguard's strategic asset allocation committee for investment oversight.

Mr. Reyes described how seven other states have experienced consistent asset growth between 2009 and 2013 using the Investment-Only-Plus model. He reported that on average, assets in Vanguard's Investment-Only-Plus model have grown by 23 percent a year versus the industry average of 15 percent and he stressed that the growth was based upon a balance of net cash flow and market appreciation.

Mr. Reyes concluded his presentation with a description of how the proposed investment lineup for TEP was grounded in Vanguard's investment principles of having clear investment goals; investing with balance; being mindful of costs; and maintaining discipline with a long-term perspective. Additionally, he stressed that the lineup should be simple to understand, transparent, and flexible.

Ms. Fetky began her presentation by discussing the strengths of the marketing program offered by Ascensus. She explained that Ascensus only markets 529 plans and that the seven plans they work for have experienced year-over-year contribution growth of over 10 percent.

Ms. Fetky described how Ascensus would conduct an awareness survey during the plan conversion to check the plan's health and she gave an example of how they completely rebranded the Hawaii 529 after a survey showed that the plan was not resonating with residents.

Ms. Fetky also described the importance of advertising on websites such as Savingforcollege.com and offering 51,000 New Mexico residents in the Upromise Rewards program the ability to sweep their earnings into their college savings account. She said that Ascensus would also use its proprietary channels and websites to drive traffic to the program and host public events promoting college savings. Ms. Fetky concluded her presentation by discussing the $500,000 scholarship contribution.

Mr. Fisher directed the Board's attention to page 18 of the handout for his presentation about Federated Investors. He explained that he is the President of the advisory company of Federated and that all of the investment personnel in the company report to him.

Mr. Fisher reported that Federated's asset allocation group developed models based upon the Board's investment policy statement and that it was recommending six age-based portfolios and 17 different stand-alone options. He explained that Federated would manage seven of those 17 options and that the remaining ten options would come from six other fund families.

Mr. Fisher began his discussion about risk-management by expressing his confidence to Federated's ability to manage money and its ability to select appropriate fund groups; however, they would employ Centurion Asset Management to provide third-party validation of the funds in the portfolio. He also described the role of Federated's stand-alone enterprise-wide risk management group that provides oversight separately to the investment group.

Mr. Territ directed the Board's attention to page 21 of Ascensus handout for a summary of Federated's distribution strength, marketing capabilities, and success with similar campaigns. He confirmed Federated's commitment to exclusively distribute SE and he described the distribution strength of Federated (200 sales agents and 9 agents exclusively in NM).

Mr. Howkins concluded the Ascensus presentation by introducing Chris Reimer from Ascensus College Savings, Tom Hewitt from Vanguard, and relationship manager Cathie Applegate. He said that they planned to reenergize the base and promote the plans to the participants in the New Promise Rewards program and through the client base of Vanguard mutual funds and Federated Investors.

Chairman Garcia called for questions.

Mr. Serrao pointed out the lack of an actively-managed option in the Ascensus proposal for TEP and he asked Ascensus how it would handle these existing accounts.

Mr. Reyes said that they would have to communicate with account owners to help them understand that indexed-funds offer lower fees, provide market diversification, and are easier to understand.

Mr. Jarmie asked Ms. Applegate to discuss their goal for the number of accounts in New Mexico in five years.

Ms. Applegate referred the question to Bryan Burke, the head of the distribution program for Federated Investors. Mr. Burke responded by saying they could perhaps increase the number of accounts in New Mexico by 20 percent a year.

Mr. Jarmie asked for an explanation of how existing account owners will be able to keep up with their account.

Mr. Howkins said that account owners in the direct-sold plan could review account information online or by speaking to a call center representative and that account owners in the advisor-sold plan would work directly with their advisors. He explained that Ascensus employs over 100 people in their call centers in Kansas City, Missouri, and Newton, Massachusetts. Ms. Applegate responded that account owners in the advisor-sold plan could also speak to a client representative in Federated's call center.

Chairman Garcia expressed concern that Ascensus might ignore TEP while it was providing services to 30 other states and he requested an assurance that New Mexico would not be left behind.

Mr. Howkins said that Ascensus would dedicate a full team of relationship managers to the account; assign dedicated field representatives in New Mexico; and develop a customized website. He also indicated that call center representatives would also know the details of the program.

In response to Vice Chairman Desiderio's question about the costs for the plan, Mr. Howkins said that all-in cost to an investor in the direct sold plan would be 21 bps. Mr. Burke responded that the cost for the advisor-sold program would range from 36 bps for the most conservative option to 69 bps for the most aggressive option. Mr. Howkins said that they would work with the Board to establish a FDIC protected bank product.

Vice Chairman Desiderio asked if Ascensus anticipated any problems in the transition from the present plan.

Mr. Howkins replied that they have seamlessly converted 31 plans to the penny. Ms. Creonate provided an overview of the conversion process and she said that Ascensus would provide a dedicated transition manager to ensure a smooth transition for all account holders.

Chairman Garcia called upon Mr. Reyes to comment about the ability of Ascensus to tailor a marketing strategy for New Mexico.

Mr. Reyes acknowledged that New Mexico is different from their other plans and that it would be necessary to conduct market research to better understand New Mexicans. Ms. Fetky said that they would work closely with the Board to determine the unique needs of the state before they develop a marketing plan. She indicated they would also work with their field representatives to develop a message of college savings that resonates with different demographic groups.

Vice Chairman Desiderio asked Ascensus if they had any experience marketing to Native Americans. Ms. Fetky replied that they had not done any direct marketing to Native Americans; however, Mr. Howkins indicated that Ascensus was working with North Dakota and Idaho to develop marketing strategies for local tribes.

Ms. Creonate commented that many states are struggling with developing the proper approach to extend college savings to different socioeconomic groups and she described their efforts to collaborate with the School of Social Work in Washington University in Saint Louis to research the impact of college savings accounts on children.

Mr. White asked Ascensus to speak about its ownership structure and to discuss any anticipated organizational changes over the next five years.

Mr. Howkins replied that Ascensus acquired Upromise in December 2013 and that it is owned by J. C. Flowers, a private equity firm that specializes in financial institutions and technology. He explained that all of the officers, applications, and operations of Upromise would remain in place and that the transition had been seamless. Mr. Howkins acknowledged that J. C. Flowers will eventually exit and that the goal is position the company for an initial public offering.

Mr. White asked Mr. Reyes if Vanguard would work with the Board to customize its glide path.

Mr. Reyes expressed confidence in the ability of Vanguard's glide path to serve the New Mexico residents but that it was open to a discussion with the Board about the glide path.

Mr. White commented about the Federated's reputation in the investment industry as a provider of liquidity products and he asked Federated to provide a breakdown of its assets under management.

Mr. Fisher answered that Federated's liquidity business was $250 billion; $50 billion in equities; and $59 billion in fixed income.

Mr. Jarmie asked Mr. Fisher if Federated was associated with Federated Insurance. Mr. Fisher responded that the firms were not associated.

Ms. Feirstein asked Federated to discuss the challenges of launching a brand-new advisor-sold plan and to explain how it would motivate advisors currently selling other plans to sell SE instead.

Mr. Territ responded that they have not created any incentive structures that would benefit from their existing relationships with advisors. Mr. Burke responded that one benefit of being a new entrant in the market is that it offers new ideas and that opportunities exist because many advisors have never been contacted about 529 products.

Chairman Garcia thanked the representatives from Ascensus for their presentation and he called for a brief break at 11:05 a.m.

The Board returned at 11:18 a.m.

Chairman Garcia made opening remarks and he called upon OppenheimerFunds (OFI) to present their proposal for the program manager services contract to the Board.

The OFI proposal was presented to the Board by the following representatives:

- Kenneth Henry, Vice President, OppenheimerFunds
- Patrick Hurley, Vice President, OppenheimerFunds
- Theresa Yau, 529 Marketing & Investments Manager, OppenheimerFunds
- Robin Dey, Director of Risk Management, OppenheimerFunds
- Steve Dombrower, Vice President, OppenheimerFunds
- Bill Raynor, Vice President , OppenheimerFunds
- Del Esparza, President, Esparza Advertising

Mr. Raynor thanked the Board for the opportunity to present its proposal. He introduced the other presenters and provided a brief overview of the growth of the program since OppenheimerFunds became the program manager in 2005.

Mr. Raynor spoke about the importance to the Board of having a partner with a national basis and the ability to service the accounts. He reflected on how OFI took responsibility for their mistakes during the financial crisis of 2008-2009 and how they made changes to their organization to prevent them from happening again.

Mr. Dombrower began his presentation about the proposed investment lineup by stating their objective of having the most investment options available for the widest array of risk and return objectives. He said that OFI wanted to expand the number of age-based options from one to three by adding a moderate option and a conservative option. For the custom choice portfolios, OFI was proposing to expand from seven to nine options by adding two additional fixed-income allocations.

Mr. Dombrower concluded his presentation on the investment lineup by describing the success of the Portfolio Allocator option and by indicating that OFI wanted to expand the number of underlying fund options available to advisors from 23 to 30.

Mr. Dey provided an overview of OFI's risk management organization. He described how OFI moved the risk management function from its investment section and made it an independent team that reports directly to the CEO. Additionally, OFI hired Geoff Craddock to serve as its risk officer and he expanded the risk management team to a staff of 22 professionals.

Mr. Dey summarized the operations of the risk management team by stating that every fund has an analyst assigned to it and that every fund has risk limits that it must operate under. Finally, an independent risk management committee that is charged with making sure that the funds stay within their risk limits.

Mr. Dombrower resumed his presentation by providing an overview of OFI's marketing proposal by indicating that it was proposing to increase its marketing budget by 67 percent and then index it for inflation by 5 percent per year.

Mr. Dombrower said that OFI was going to focus on underserved communities; build on the concepts of college readiness; promote gifting; and market to employers. He described their intentions to continue to advertise on television, radio, and in print while expanding their efforts on the web. He also described their efforts to market in the Navajo language.

Mr. Dombrower provided the Board with an overview of the distribution of account owners throughout the United States and how critical OFI's national distribution force was to the New Mexico plans. He also described the development of a customized college planning web portal that will be available to TEP and SE account owners to engage families in preparing for their children for college. Mr. Dombrower concluded his presentation by describing OFI's grassroots marketing efforts in New Mexico.

Mr. Raynor concluded OFI's presentation by summarizing the key points of the OFI proposal. He cited the OFI's experience with the program for the past 14 years and its understanding of the needs of New Mexico residents. He referred to OFI's $8.2 million marketing commitment and scholarship proposal that will allow the Board to better serve underserved communities. He also described the benefits of their proposed expansion of the investment options; best-in-class investments; competitive pricing; and the ability of OFI to support a national program.

Chairman Garcia called for questions.

Mr. Serrao asked OFI if it was concerned that additional age-based portfolio options would overwhelm people opening a new account.

Mr. Dombrower responded that OFI was not concerned that the additional age-based portfolios would overwhelming new customers because this has not been a problem for other programs offering multiple age-based options. In the event that it does become a problem, OFI would be willing to work with PCA to develop a risk questionnaire to assist new account owners to select the best option for their risk tolerance.

Vice Chairman Desiderio asked OFI to explain how it determined the asset allocation of the additional age-based portfolios.

Mr. Henry explained that the new portfolios use the same underlying funds as the existing age-based portfolios and that the initial allocations to equity in the moderate glide path was reduced by 20 percent and the allocation to conservative was reduced by 40 percent. He said that these options provide more conservative options and would be very efficient to support from an operational standpoint.

Vice Chairman Desiderio commented about the lack of growth in TEP and he asked OFI to explain how it intended to address the problem.

Mr. Raynor commented that the demographics in New Mexico were very challenging and that a different approach was needed to reach out to residents. He referred to OFI's grassroots efforts; its attempts to recruit employers to offer payroll deduction to employees saving for college; and its marketing efforts to families with newborns. Mr. Raynor expressed optimism that these efforts will lead to more account owners in New Mexico.

Mr. Dombrower reminded the Board that 92 percent of SE account owners and 50 percent or more of TEP account owners do not live in New Mexico. He indicated that they wanted to expand their marketing efforts in California and Texas.

Mr. Jarmie asked OFI to provide their goal for the number of accounts in New Mexico in five years and to describe how they plan to achieve that goal. Mr. Dombrower stated that OFI's goal was to take flat account growth and grow it by 10 percent in the first year.

Mr. Jarmie asked OFI if they were prepared to increase its marketing efforts in the event they are falling short. Mr. Raynor would not commit to increasing their marketing expenditures and said that he would be happy to have a follow-up discussion.

Mr. Deiters commented about the growing trend of open architecture investment programs and he asked OFI to comment about the advantages to OFI's multi-manager approach.

Mr. Dombrower responded that the reality in the 529 world is that it is almost impossible to build a best of breed investment lineup because of the operational issues that come into play and because many best-of-breed managers have no interest in participating in the 529 space.

Ms. Feirstein asked OFI if it was willing to commit additional people on the ground in New Mexico.

Mr. Esparza provided an overview of the grass-roots marketing effort and Mr. Raynor responded that they would allocate some of their marketing budget to in-state personnel if that was a priority to the Board.

Chairman Garcia asked Mr. Raynor to confirm that the current grass-roots marketing campaign was being funded by the Board's annual $200,000 marketing commitment. Mr. Raynor agreed that the Board was funding the current grass-roots marketing campaign.

Ms. Feirstein pointed out that other program managers are absorbing the cost of additional in-state marketing staff as a cost of doing business and they are not charging their marketing budget for the expenses of hiring an in-state person.

Mr. Deiters asked OFI to discuss its role in the risk management of non-affiliated funds.

Mr. Henry said that he visits with each of the outside management firms on an annual basis to review their funds and that he reviews performance metrics each quarter. He also sends out a quarterly due-diligence questionnaire asking each non-affiliated fund manager about changes to their investment team; processes; volatility; and performance relative to their benchmarks. Each questionnaire is signed and certified by the fund manager and returned to OFI for review.

Mr. Deiters asked if there is an ongoing review of derivatives and compliance with the Board's investment policies. Mr. Dombrower responded in the affirmative.

Chairman Garcia ended the OFI presentation and a brief recess was taken.

6) **CLOSED SESSION TO DISCUSS THE COMPETITIVE SEALED PROPOSALS FOR THE FUND PROGRAM MANAGER AND THE NEGOTIATION PROCESS FOR THE FUND PROGRAM MANAGER CONTRACT.**

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.

Vice Chairman Desiderio made a motion for the Board to move into closed session. Mr. Serrao seconded the motion. A roll call vote was taken and all four members voted to move into closed session.

The Board moved into closed session at 12:27 p.m.

Mr. Mathews reported for the record that Mr. Jarmie made a motion for the Board to move back into open session. Vice Chairman Desiderio seconded the motion.

The motion was approved unanimously and the Board moved into open session at 2:28.

Mr. Jarmie stated for the record that the only matters discussed during the closed session were those that were consistent with the Request for Proposal.

Mr. Mathews announced that Mr. Serrao left the meeting at 2:20 p.m.; however, the Board still had a quorum.

7) **ADJOURNMENT**

Vice Chairman Desiderio moved to adjourn the meeting. Mr. Jarmie seconded the motion. The motion was approved by unanimous consent.

The meeting was adjourned at 2:30 p.m.