

## 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, CHAIR  
ROBERT J. DESIDERIO, VICE-CHAIR  
DR. JOSE Z. GARCIA  
DAVID JANSEN  
MARK JARMIE  
EXECUTIVE DIRECTOR  
THEODORE MILLER

### Meeting Minutes of January 26, 2017

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

#### Board Members in Attendance

Dr. Barbara Damron – Chair  
Robert Desiderio – Vice Chair  
Dr. Jose Garcia -- Member  
David Jansen -- Member  
Mark Jarmie -- Member

#### Other Individuals in Attendance

Theodore Miller -- Executive Director ETB  
Vera Lyons – Board Secretary ETB  
Helen Atkeson -- Partner, Hogan Lovells US LLP  
Kurt Sommer – Partner Sommer Udall  
Del Esparza – Esparza Advertising  
Emily Howard -- Esparza Advertising  
Mikaela Roos – Esparza Advertising  
Kay Ceserani -- Pension Consulting Alliance  
Raquel Granahan -- OppenheimerFunds  
Chris Werner – OppenheimerFunds  
Keith Hylind -- OppenheimerFunds  
Heather Holliday – OppenheimerFunds  
Leslie Ann Bednar – OppenheimerFunds  
Michele Nelson -- Court Reporter

**APPROVED**  
*Vera Lyons*  
Board Secretary

**1) CALL TO ORDER**

Dr. Damron, the Chair, called the meeting to order at 9:00 AM. The roll was called and all Board Members were present.

**2) PUBLIC COMMENT**

The Chair called for public comment. There being none, the Chair moved on to the next agenda item.

**3) APPROVAL OF AGENDA**

Dr. Damron noted the agenda as presented to the Board and asked if there was any comment on the agenda. There being none, she called for a motion to approve the agenda as presented. Dr. Garcia so moved, and Mr. Jansen seconded the motion. The motion passed unanimously.

**4) APPROVAL OF MINUTES**

Dr. Damron then turned to the minutes of the board meeting of January 26, 2017. There being no comments or questions regarding these minutes, Dr. Garcia moved to accept the minutes. Vice Chair Desiderio seconded the motion. The vote to approve the minutes was unanimous.

**5) INTRODUCTION OF NEW MEXICO COUNSEL**

Dr. Damron introduced Kurt Sommer of the Sommer Udall law firm. She noted that David Mathews, former HED and ETB counsel, had moved to the Economic Development Department. The new HED counsel was working full time on HED matters, and Mr. Sommer had been asked to serve as New Mexico counsel to the Board.

**6) OPEN MEETINGS RESOLUTION FOR 2017**

Dr. Damron then turned to the Open Meetings Resolution for 2017. Mr. Miller noted that Mr. Sommer had reviewed and updated the resolution for 2017. Dr. Damron called for a motion to approve the resolution as presented to the Board. Vice Chair Desiderio made the motion. It was seconded by Dr. Garcia. The vote to adopt the resolution was unanimous.

**7) EXECUTIVE DIRECTOR'S REPORT**

Mr. Miller then gave the Executive Director's report.

Mr. Miller then reported on the program administration fund. He noted that the fund had a balance of about \$7.3 million at the end of October.

Mr. Miller then turned to the ongoing investment and fee restructuring project with OppenheimerFunds. He noted the process has taken longer than expected due to the 529 business management changes at Oppenheimer, as well as some misunderstanding

of the role of the asset allocation team at OppenheimerFunds. In addition there are issues still under discussion regarding fees.

Mr. Miller thought that within about six weeks these matters would be resolved and a proposal would be brought to the Board.

He then addressed the initiation of an annual Asset Allocation Review. PCA had recommended that it was a best practice to have the Program Manager present a formal annual review of the asset allocation structure of the 529 program, and an asset allocation proposal for the following year. PCA will review this on behalf of the Board and the Board will have the opportunity to question the Program Manager and the Investment Consultant prior to voting on the recommendations for the coming year.

Mr. Werner noted that because of the investment and fee restructuring project, the Board will get to see an example of the type of report that will be presented on an annual basis.

Mr. Miller then asked the Board for approval to enter into several "small" contracts for professional services for FY2018. These included contracts for accounting services, IT services, New Mexico legal services, and marketing services. In addition he also requested approval in the current fiscal year and separately for FY 2018 of a small contract for community outreach services. Responding to an inquiry from Dr. Garcia, Mr. Miller noted that these contracts would all be in the standard form of the state professional services contract with the appropriate scope of work for each vendor. Responding to an inquiry from Dr. Damron he also noted that they would all be reviewed by counsel and any applicable provisions of the Procurement Code would be observed.

Dr. Garcia moved that the Executive Director be given the authority to enter into the contracts as described. Mr. Jansen seconded the motion. The motion was approved unanimously.

Mr. Miller then asked to Board for authority to issue an RFP for an Independent Public Accountant to conduct the Education Trust Board's required annual financial audit. Dr. Garcia made a motion to grant the Executive Director this authority. Mr. Jansen seconded the motion. The vote to approve the motion was unanimous.

Finally, Mr. Miller asked the Board for the authority to enter into a Memorandum of Understanding with the National Association of Secondary School Principals with regard to the National Junior Honor Society Outstanding Achievement Awards and the state summit to be held at the UNM campus in Albuquerque. Mr. Jarmie moved to grant the Executive Director this authority. Vice Chair Desiderio seconded the motion. The motion was approved unanimously.

## **8) LEGAL MATTERS**

Ms. Atkeson then turned to the system review memo from Oppenheimer. She reminded the Board that this memo arose from an error in systems settings that was discovered by Oppenheimer. The firm agreed to implement additional procedures and controls with regard to systems settings, and to maintain them going forward.

Mr. Miller asked Ms. Holliday to explain the matter further to the Board. Ms. Holliday noted that the review encompasses both a comparison of system setting with the requirements of the plan documents, as well as the involvement of Envision, the record keeping software provider. Quarterly meetings have been set up with Envision and that firm has hired additional quality control personnel.

As to the so-called cost basis issue, Ms. Holliday stated that letters had gone out to affected account owners at the end of December. Mr. Miller noted that these had been reviewed by Ms. Atkeson and himself. At this point no comments have been received from account owners.

Mr. Jarmie asked Ms. Holliday what steps had been taken to ensure that the Board is promptly informed of similar matters in the future. She stated that the transfer agent, which is the plan record keeping unit, has been instructed to inform Ms. Holliday or her boss, Lori Taylor, as soon as a problem is encountered. The matter is then brought to the attention of Ms. Granahan and communicated to ETB staff in a timely manner.

Mr. Jarmie asked what a "timely manner" means.

Ms. Granahan stated that the matter would be communicated to her, and as soon as she got the information she would communicate to ETB staff – even if the scope of the matter was not yet clear. ETB staff would then be informed again as to the scope of the matter, and any corrective action as these became known.

Dr. Damron asked how Oppenheimer management would know if the transfer agent had a problem. Ms. Holliday responded that there are now weekly meetings between 529 management and the transfer agent, and that she is confident that the transfer agent is forthcoming on these matters.

Mr. Miller stated that in the past the relationship manager would delay notice until a solution could be offered. He stated that Oppenheimer had been told to inform him of any problems right away. He had been in a business like Oppenheimer's and he was aware that processing errors occur. He felt confident that Oppenheimer would notify him promptly in the future.

Mr. Jarmie commented that it was important to advise ETB staff immediately about operational problems. Ms. Holliday stated that she agreed, and staff would be informed right away.

Dr. Damron reinforced to Oppenheimer the need for immediate notice of operational issues going forward.

Ms. Atkeson then addressed the so-called rate of return issue. For a number of years account owners had been presented on their account statements with a "rate of return" on their accounts. This is not the same as the investment performance of the funds.

Rather it includes both contributions and withdrawals from the account as well as investment performance.

Oppenheimer had come to ETB staff to discuss changing the rate of return calculation. Mr. Miller had reviewed the matter with Ms. Atkeson, and they both agreed that the method should be changed.

Mr. Miller noted that the calculation is one that appears in other state plans. The concern is that words like "rate of return" or "performance" have connotations of investment performance. In Mr. Miller's view, they should not be used to describe a calculation that includes contributions and redemptions.

Ms. Atkeson noted that there had been no complaints but that people had inquired how the calculation tied back to investment performance.

Dr. Damron noted that even if this was a method used by the industry, ETB should strive to do better.

Ms. Atkeson then updated the Board on the trademark application for the phrase "When they're 5 to 9 it's time for a 529". The review process has been completed. It will be approved for publication in February. If there is no opposition, the registration could be approved as early as May.

Mr. Sommer then addressed the grant program. He noted that he had written a letter to the Attorney General's office and that he and Mr. Miller had met with three AG staff members. He viewed the meeting as favorable.

There are two issues to address. The first is the anti-donation clause in the state constitution and the second is the lack of express statutory authority for ETB to issue grants or scholarships. One way to address these issues is to have a not-for-profit private foundation formed to promote the 529 program. This foundation would, as part of its mandate, sponsor the grant program.

The AG's staff suggested drafting a letter from Dr. Damron, an appointed government official, to the AG's Office requesting an opinion on the matter.

Dr. Garcia asked why the legislation for ETB could not be changed to give the Board the express authority to issue grants. Dr. Damron noted that in the current fiscal climate an attempt to get legislative changes could have unanticipated consequences.

Mr., Sommer noted that the private foundation approach would not require legislative changes to the statute.

Dr. Garcia was of the opinion that the votes would be there for such a change. Dr. Damron agreed that the votes might be there, but that there were others in the legislature that might not look favorably on the matter. In a difficult fiscal environment this could have adverse consequences.

Vice Chair Desiderio agreed that legislation could probably be passed, but that he was concerned about the possibility that the program administration fund might be adversely affected. Dr. Garcia stated that the fund was from fees and not from

legislative appropriations. Dr. Damron noted that the legislature views all funds held by state entities as appropriations, and could attempt to sweep the funds. Dr. Garcia agreed that if this is the case it is a tangible danger to seek legislative changes to the statute. Vice Chair Desiderio also thought that statutory amendment was not possible until next year at the earliest, and possibly even two years from now.

Vice Chair Desiderio noted that a favorable opinion from the AG's Office could allow the program to move forward much more quickly. A foundation could be formed and approved by the IRS in three months.

Mr. Sommer noted that the AG staff was concerned that the foundation's board be independent from the ETB. The ETB would contract with the foundation for marketing services, including the grant program.

Mr. Miller noted that the anti-donation issue would be aided if the program were limited to low to moderate income recipients. Mr. Sommer agreed.

Mr. Sommer also noted that a prior attorney general, Tom Udall, had issued a broad opinion letter about the ability to provide aid for educational purposes. The opinion is out there and has not been modified by later opinions or addressed by the courts. Mr. Sommer thought that creating a pilot grant program, and testing what happens was a good way to proceed. Dr. Damron agreed.

Mr. Jarmie asked Dr. Damron if she would like Board approval to submit the opinion request. She agreed. Mr. Jarmie moved that the Board grant the Chair and the Executive Director the authority to continue to pursue the pilot grant program, including the sending of an opinion request from the Chair to the Attorney General. Dr. Garcia seconded the motion. The motion was approved by unanimous vote.

#### **9) NM 529 BY THE NUMBERS**

Mr. Miller then asked Ms. Granahan to update the Board on the state of the investment management industry. She began by referencing the year-end 2008. At that time active managers controlled 82% of industry assets and passive managers controlled 18%. Smart beta, low-volatility strategies were at 1%.

By the year-end 2015 active management was at 70%, passive at 26% and smart beta at 4%. At year-end 2016 these numbers were active management 66%, passive 29% and smart beta 5%.

OppenheimerFunds ended 2008 with \$145 billion in assets. In both 2015 and 2016 OppenheimerFunds closed the year at \$216 billion.

In 2016 active managers lost \$280 billion in assets. This outpaced 2015 as the worst year for outflows. Passive management gained over \$400 billion in assets in 2016. Smart beta management brought in \$63 billion.

At year-end 2016 OppenheimerFunds was the 13<sup>th</sup> largest mutual fund manager.

She noted that both active management and the commission-based brokerage business were under pressure. This channel is the dominant method by which OppenheimerFunds sells its products.

She noted that there was relaunch of the New Mexico 529 program in 2015. Mr. Hyland and Ms. Bednar have been working with Esparza to analyze the direct-sold website and to link visits to the website with the advertising been done. There is also more interaction with account owners.

Operationally there have been some errors, but these have been addressed and new processes put in place to avoid such errors in the future. Ms. Holliday was involved in the relaunch in 2015, and it went through with very few problems. She also worked with the National Junior Honor Society to establish a microsite for that program. The operational and administrative benchmarks in the new contract have been met. The website is now responsive to mobile devices.

Wholesale changes are in the works for plan investments, including asset allocation, underlying funds and the relationship with outside funds. The goal is to make the program more competitive.

OppenheimerFunds is a healthy firm and wants to remain in the 529 business. She is not satisfied with the pace of growth, but she thought that there were changes being put in place that made her optimistic for the future.

Dr. Damron noted that ETB staff had initiated the changes taking place in the program, although OppenheimerFunds was cooperating. She wished that the company had been more proactive. She also expressed concern about OppenheimerFunds' commitment to the 529 business. Finally she acknowledged that new assets and new sales benchmarks under the new contract were set quite low- and that OppenheimerFunds had been able to approach them as a result.

Dr. Garcia asked MS. Granahan why the firm had not bid on the Illinois 529 business. He asked how committed Oppenheimer Funds was to the 529 business going forward. There were still several years left on the contract. Will OppenheimerFunds be bidding when the contract expires?

Ms. Granahan stated that the rebid of the New Mexico contract was made because the firm thought that it could successfully bid. The Illinois program was not rebid because the state wanted a program design that OppenheimerFunds could not financially provide. The direct-sold plan in Illinois is growing faster than the advisor-sold program, and the direct-sold program has very low fees. This creates an imbalance that OppenheimerFunds could not afford to finance from the advisor-sold program.

By contrast, OppenheimerFunds still thought that the New Mexico program could be financially successful for the firm. To the extent that the firm can support an advisor-sold plan it makes sense to be in the business. If the business evolves in such a way that the direct-sold plan grows and the advisor-sold plan does not, then the situation

changes. OppenheimerFunds will rebid if the business still makes financial sense for the firm.

Dr. Garcia noted that Ms. Granahan's comments implied that the Board should begin thinking now about how the program should look at the end of the contract term. Ms. Granahan agreed. Dr. Garcia thought that the Board should begin this process soon. Dr. Damron agreed.

Mr. Miller observed that ETB staff and its consultants were already beginning the process of reviewing strategic options for the Board. He asked that the Board allow them to complete this process and come to the Board with options and recommendations.

Dr. Garcia stated that the Board also needed to consider where higher education in New Mexico was going in the future. He noted that for the first time in New Mexico history the younger generations were going to be less educated than the older generations. Dr. Damron agreed, and she noted that the state is working on a master plan to address the future of education in New Mexico. This effort should include all stakeholders.

Mr. Miller then turned to the first of two reports, called "New Mexico 529 by the Numbers". This report provides data with regard to net accounts and net assets (contributions less redemptions) for the fiscal years 2009-2016 for the program as a whole as well as for the two plans separately.

He noted that the program has lost accounts in that time period, and that most of the loss had been in Scholar'sEdge - the advisor-sold plan. He then turned to net contributions. He observed that redemptions have exceeded contributions since 2012. In fact for the first half of FY2017 redemptions have exceeded contributions by a greater amount than for all of FY2016.

He noted again that Scholar'sEdge was responsible for most of the losses. The Education Plan was basically static over the period as to net accounts and net contributions. For the last year, however, The Education Plan had gone negative on net contributions, and the trend had continued in FY2017.

Mr. Miller then turned to the second report concerning forward looking projections on net accounts and net assets for the program. He noted that the projections were for calendar years. Ms. Ceserani stated that PCA reviewed the data for the last eight years. Then forward projections were computed using the rate of change of the data for the last three years – calendar years 2014-2016.

Mr. Miller pointed to the graph that highlighted the number of accounts and assets by beneficiary age. He noted that there was a prominent peak at ages 14-15. He observed that 38% of accounts are held for beneficiaries between ages 12 and 16. This group of accounts is going to be leaving the program over the next several years. Mr. Miller went back to the program data to determine how this account peak was formed. It appears to be the result of the acquisition of accounts and assets by the current program manager in the second quarter of 2008. As a result of this acquisition the accounts and



assets under the current program manager's control effectively doubled. Program history revealed that there used to be several 529 plans distributed under the New Mexico program by different advisor-sold providers, and that these assets and accounts represented the departure of one of these providers from the 529 market. OppenheimerFunds was the recipient of these accounts and assets in Scholar'sEdge as a result.

The result is that after this doubling of assets and accounts OppenheimerFunds did not have the sales capability to bring in new accounts and assets at a rate fast enough to overcome the natural loss of accounts and assets over time from the program.

This meant that the program went into a net loss position for accounts and assets several years ago, and that as the assets peak moved through the age bands, the net losses have increased. The forward projections show through 2025 show the gradual aging and flattening of the account and asset peak. By 2020 the projections show an account decline to about 110,000 accounts. By 2025 the projection is for a decline to about 75,000 accounts.

Vice Chair Desiderio asked if the program would reach some sort of equilibrium by 2025. Dr. Damron followed by noting that the question was whether the program would be able to support itself at that time.

Dr. Damron asked if the projections could be done again, this time with the acquired accounts and assets removed. Mr. Werner said that the data could be provided.

Mr. Miller noted that if in fact accounts decline to 75,000 by the mid-twenties, the revenue to the Board will be effectively halved. In his view it is necessary to increase the rate of sales. Although market growth on existing assets can help.

Dr. Damron asked if the program could survive at the projected levels. Ms. Ceserani and Mr. Miller both thought that it could, but that costs to operate the program as a percentage of assets would be higher.

Dr. Garcia stated that ETB could control the growth of the program in New Mexico. Mr. Miller noted that it is important to increase direct-sold assets. The problem is that the advisor-sold plan is much larger, and drives the revenue received. Dr. Garcia asked if the goals of ETB and of OppenheimerFunds were divergent in this regard.

Mr. Werner stated that OppenheimerFunds did not need to expand its share of savings plans, but it needed to focus on making the New Mexico plan work. He thought that changing the asset allocations and changing the Morningstar ratings would increase assets and allow more money to be spent on advertising.

Dr. Garcia noted that the loss of Illinois could benefit the New Mexico program.

Ms. Granahan stated that OppenheimerFunds was committed to the New Mexico 529 program. Any cutbacks in personnel from the loss of Illinois would come from seasonal employees hired to man the call center, but otherwise head count would not be cutback. Mr. Jansen asked if the cutbacks would affect the sales effort. Ms. Granahan said that they would not. OppenheimerFunds intended to keep its current staff.

Vice Chair Desiderio and Dr. Damron asked what level of assets and accounts the program needed to survive. Mr. Miller said he thought the program needed about \$2 million in revenue a year to carry out its mission. Vice Chair Desiderio commented that the program generated presently generated about that amount of revenue.

Mr. Miller noted that the program administration fund would begin to drop in assets and programs like the grant program would need to be curtailed if the program generated decreasing amounts of revenue.

He also noted that OppenheimerFunds was contractually committed to spending significant marketing dollars, and that that commitment needed to remain firm.

Mr. Jansen asked if a five-year projected budget could be prepared. What level of accounts would it take to level off the program and halt the decline?

Mr. Jarmie asked if OppenheimerFunds was the solution to the New Mexico program's problem. Ms. Granahan stated that with the loss of Illinois, New Mexico was now OppenheimerFunds primary national program.

Mr. Jarmie noted that the New Mexico program was less than 1% of the assets under management at OppenheimerFunds. He stated that he was not convinced that the firm was fully dedicated to the program.

Ms. Granahan replied that the firm made a decision to remain in the 529 business. The firm was committed to the contractual obligations that it has under the contract with New Mexico.

Mr. Werner said that it was important to the sales force to have multiple products available in the field. If the firm were to drop the 529 business entirely, then advisors would turn to other providers, and perhaps also use those other providers' funds in their general business. Mr. Werner stated that program was changing from the terms of the original contract.

Ms. Ceserani noted that in all fairness, changes to the investment lineup were contemplated in the contract.

Ms. Granahan noted that in her view there were wholesale program management changes involving operational and technology changes. There was retraining of staff and administration. These were not being charged back to the program, but were being eaten by OppenheimerFunds. Mr. Werner agreed.

Ms. Holliday noted that there will still be dedicated staff for the 529 business. Mr. Jarmie noted that the staff would be smaller. Ms. Holliday noted that the program's customers would still be serviced at the level they were accustomed to. She noted that 90% of her time would be devoted to the New Mexico program.

Mr. Jarmie asked how much of Ms. Granahan's time was devoted to the 529 program. She stated that it was about ½ of her time.

Mr. Hyland stated that the marketing group was spending a disproportionate amount of its time on the New Mexico program.

At this point the group took a break from 11:19 to 11:25.

#### **10) PROGRAM MANAGER'S QUARTERLY INVESTMENT REPORT**

Dr. Damron asked Mr. Werner to give the report. He referred the Board to the Executive Summary. He began with a brief review of the quarter and the year-to-date in terms of the economy and markets.

For The Education Plan Mr. Werner noted that the funds in the index portfolios were across the board performing as expected. Moving to the blended portfolios, he noted that the portfolios had performed as expected relative to their benchmarks and net of fees. The level of underperformance was modest, about the level of fees.

With regard to the underlying funds, the Senior Floating Rate Fund outperformed its benchmark by over 1%. The Main Street Fund outperformed mainly due to its investment in financial stocks.

In Scholar'sEdge seven of the eight multi-fund portfolios outperformed their benchmarks. The Age-Based Portfolio 100 underperformed its benchmark by more than its fees. This was largely due to the underperformance of the International Growth Fund. As with the previous quarter, the Fund suffered from a low allocation to financials, energy and materials as well as the decline in value of the British pound.

Mr. Miller noted that the executive summary focused on the larger funds in the program, and that supporting detail for all investments was in the quarterly report. He observed that long term performance mattered more than quarterly changes in performance. Three year and five year performance were more significant, especially for the actively managed funds in the program.

#### **11) INVESTMENT CONSULTANT QUARTERLY REVIEW AND WATCH LIST RECOMMENDATION**

Ms. Ceserani then gave the investment consultant's report. She began with the Watch List Memo. She noted that there are five funds that are recommended for watch status. Recommended for removal from watch are the Oppenheimer Senior Floating Rate Fund, the Oppenheimer Capital Income Fund and the Oppenheimer Global Strategic Income Fund. Recommended for addition to the Watch List are the Oppenheimer Global Fund, which failed the short-term criteria, and the Oppenheimer Global Value Fund, which failed the medium term criteria. The remaining funds on the Watch List carried over from the previous quarter. They are the Oppenheimer Value Fund, the Oppenheimer Equity Income Fund (which is being removed from the program in February) and the Monetta Young Investors Fund.

She noted that the Value Fund had underperformed in three out of the four last quarters. It qualified for both short and medium term watch status. She noted that the fund management is undertaking a review and replacement of some of the models used by the fund. Mr. Werner was not aware of the status of that process. Ms. Ceserani suggested that a follow up with the fund manager would be appropriate on that point. Mr. Werner agreed.

Ms. Ceserani then turned to the analysis of the age-based portfolios in the program versus the industry competition. These portfolios are important because they contain a significant portion of the assets in the program and they are funds where Oppenheimer selects both the underlying funds and makes the asset allocation decisions. The charts compared the age-based portfolios in the plans against the age-based portfolios for Morningstar medal-rated plans. She noted that on average the New Mexico portfolios were either at or below median performance, particularly for portfolios with equity exposure. The 5-year results were somewhat better than the 3-year results.

She also reviewed the attribution graphs which showed that asset allocation had added value to the portfolios, but that security selection had been negative for performance.

Dr. Damron then asked for motions regarding the Watch List recommendations. Mr. Jarmie moved to continue Watch List status for the Oppenheimer Equity Income, Value and Monetta Young Investor Funds, as well as to add to the Watch List the Oppenheimer Global and Global Value Funds. Mr. Jansen seconded the motion. The vote to adopt the motion was unanimous.

Mr. Jarmie then moved that the Oppenheimer Senior Floating Rate, Capital Income and Global Strategic Income Funds be removed from the Watch List. Mr. Jansen seconded the motion. The vote to adopt the motion was unanimous.

## **12) MARKETING AND SALES UPDATE**

Ms. Bednar then began the marketing and sales update. She referred to the 8 key performance indicators in the marketing report. Six of the eight were at the highest levels for the year. She then turned to the quarterly new sales data. At the end of the first half of the fiscal year new accounts were at 45% of target for the year and new contributions were at 42% for the year.

She noted that the TEP website was receiving increased traffic, and the focus is on getting visitors to enroll. She also noted the TEP billboard campaign around New Mexico as well as the employer advertising initiatives.

Ms. Roos addressed some of the employer outreach activities for the quarter, including participation in the New Mexico Association of Counties Legislative Conference. Six counties have meetings with her as a result of the conference. She also has a meeting with CNM as a result of a conversation between Dr. Damron and the CNM president.

Mr. Miller noted that a new employer brochure has been created with space for a card, so that employers will have a human contact to go with the brochure.

Ms. Roos also mentioned the initiative with Presbyterian Hospital to reinvigorate the awareness of the program with employees.

Ms. Bednar also mentioned efforts to increase engagement with Scholar'sEdge account holders. This will help with account owners that aren't receiving regular information

about the 529 program from their advisors. Over 31,000 emails were delivered to Scholar'sEdge account holders in the quarter.

Ms. Howard then gave a preview of the marketing plan for the coming fiscal year. She described the cycle from awareness to interest to conversion and then retention. In the last couple of years the focus was on awareness. Going forward the focus would be on interest, conversion and retention. Email is an important tool as well as social media – especially Facebook. Enhancements are also being made to the TEP website to address the unsophisticated investor.

Mr. Werner noted that despite the loss of net accounts, the new account activity was up year over year. This was the second quarter in a row for this increase. He then reviewed the list of top-selling broker relationships. He related the example of New York Life and reaching out to the product trainer in each office. Managers don't want direct activity with the brokers for fear of losing focus on insurance sales. There is a similar approach with other brokers who also sell insurance such as Mass Mutual.

He also mentioned the need to streamline the product offering in Scholar'sEdge for the broker channel to facilitate omnibus accounting. He also mentioned the use of his staff to do internal training at Oppenheimer, the targeted use of informational pieces on topics such as estate planning and financial aid and the use of lunches and dinners to target larger groups of brokers. He also noted the creation of several different email templates that can be used by the Oppenheimer sales desk staff. These can be customized by the sales person and sent to brokers.

### **13) ADJOURNMENT**

Dr. Damron asked if there was any other business to come before the Board. There being none, the meeting adjourned at 12:39 PM.