

DRAFT

New Hampshire College Tuition Savings Plan Advisory Commission Minutes of the Meeting of March 14, 2022

The March 14, 2022 meeting of the New Hampshire College Tuition Savings Plan Advisory Commission (“Advisory Commission”) was called to order at 10:02 a.m. by Dr. Deborah Scire, Advisory Commission Chair. The meeting was held at the University System of New Hampshire’s office located at 4 Chenell Drive, Suite 301, Concord, NH 03301.

Attendance:

Member	Representing	Attendance
Dr. Deborah Scire, Chair	NH College and University Council	Present
Christiana Thornton, Vice Chair	NH Higher Education Assistance Foundation	Present
Monica Mezzapelle	State Treasurer	Present
Senator Lou D’Allesandro	State Senator	Absent
Rep. Kenneth Weyler	State Representative	Present, Left at 11:00 a.m.
Sr. Paula Buley	NH Higher Education Commission	Present
Catherine Provencher	University System of New Hampshire	Absent
Shannon Reid	Community College System of New Hampshire	Absent
Senator Ruth Ward	State Senator	Present
Rep. Robert Lynn	Public Member Appointed by the Governor	Present
Joseph Doiron	Governor Designee	Present
Rep. Peter Leishman	State Representative	Absent

Also present at the meeting were Stephen Smith from the Legislative Budget Assistant’s office, Declan Byrne from PricewaterhouseCoopers, and Kevin Davis from the State Treasury. Anthony Durkan, Ron Hazel, Daniel Terio, and Heather Zakian from Fidelity Investments (“Fidelity”) attended via conference call.

Review of Prior Meeting Minutes

The minutes of the December 6, 2021 meeting were presented for approval by Dr. Scire. Senator Ward identified one typo to be corrected. Hearing no additional comments, Senator Ward moved to adopt the meeting minutes, as corrected, and Sr. Buley seconded the motion. All Advisory Commission members voted in favor and the motion passed.

Q4 2021 Investment Review

Ms. Zakian provided an overview of the capital markets as well as an update of the Plan’s performance during Q4 2021. Ms. Zakian reported Q4 capped a banner year for U.S. stocks underpinned by strong earnings growth of U.S. large cap stocks, U.S. mid cap stocks, and U.S. small cap stocks at 11%, 6.4%, and 2.1%, respectively. Inflation expectations rose which pushed real yields even more negative.

During the quarter, active and blend age-based portfolios underperformed their benchmarks driven by being underweight to and underlying managers of U.S. equities.

Over the one year period, active age-based portfolios performance was mixed, but all blend age-based underperformed their benchmarks driven by being underweight to U.S. equities, overweight to and underlying managers within emerging market equities, offset by underweight to and underlying managers of investment grade debt and an allocation to commodities.

Over the three and five-year periods, all but one active age-based portfolios outperformed their benchmarks driven by being overweight to and underlying managers on non-U.S. equities, underlying managers of U.S. equities, and being underweight to and underlying managers of investment grade debt.

The Fidelity Index Portfolios performed in line with expectations for the quarter.

Ms. Zakian indicated in their active and blend strategies, they maintain a 5.3% underweight in investment grade debt. In addition, the portfolios maintain a 5.1% underweight in U.S. equities feeling that they are overvalued. At the other end of the spectrum, they maintain 3.9% overweight to emerging market equities feeling like there is more value. Lastly, they also maintain a 2.1% and 1.9% overweight to commodities and non-U.S. developed-markets equity, respectively.

Mr. Terio reviewed the competitor overview over the 1-, 3- & 5-year timeframes. The one-year Fidelity Fund (active) portfolios ranked mostly in the third quartile of Morningstar rankings. Fidelity continues to add value to their shareholders relative to their peer groups as all 3- & 5-year Fidelity Fund (active) portfolios are ranked in the top half of Morningstar rankings demonstrating the value of their strategic asset allocation.

Mr. Terio provided a brief overview of a stable value portfolio product offering. The stable value portfolio is a common component of defined contribution and 529 plans that seek principal preservation. The strategy offers the potential for steady, predictable returns consistent with a conservative approach to capital preservation. Historically, stable value has out yielded and out returned money market funds over time. The stable value portfolio will be a standalone investment option that will invest primarily in short term investment grade bonds funds managed by Fidelity. The stable value portfolios are scheduled to launch on April 1, 2022 and Fidelity is recommending that all funds currently in the money market account be mapped to the stable value fund. Mr. Terio explained that the fees for the stable value offering are about 3 basis points higher but historically stable value has out yielded and outperformed money market accounts. He explained that today, the money market account is yielding about one basis point while the stable value portfolio is yielding about 140 basis points, a substantial increase.

Rep. Weyler made a motion to accept the advice of our investment advisors and map the funds from the money market account to the stable value portfolio and close the money market account. Rep. Lynn seconded the motion. All advisory commission members voted in favor and the motion passed.

Overview of the 529 Programs

529 Industry Market Update

The New Hampshire 529 program remains the fourth largest in the country with over \$24.6 billion in market-value assets, representing 5.4% of the market-share. The New Hampshire plans continue to trail the Virginia (\$100.5 billion in assets), New York (\$46.8 billion in assets) and Nevada plans (\$39.3 billion in assets). 529 industry assets increased by 5.0% from quarter three 2021 to quarter four 2021 and increased by 13.5% year-over-year, while New Hampshire assets increased by 4.0% for the quarter and increased 11.5% year-over-year. U.S. Equities increased by 9.1% for the quarter and increased 25.7% year-over-year. Non-US Developed equities increased 3.2% for the quarter and increased 12.9% year-over-year. Investment grade debt was flat for the quarter and decreased 1.5% year-over-year.

Fidelity Advisor 529 Plan Review

Mr. Hazel continued his presentation providing an update of the Advisor-sold industry stating that Virginia remains the top advisor-sold plan in the country. 529 Advisor-sold plan assets increased by 4.3% from quarter three to quarter four 2021 and increased by 11.1% year-over-year, while New Hampshire's FA 529 Plan assets increased by 1.8% for the quarter and increased 5.0% year-over-year. As of December 31, 2021, the FA 529 plan had \$5.7 billion in market-value assets and 169,800 active participant accounts.

Mr. Hazel reported that in quarter four 2021, new account growth decreased 47% compared to the same quarter in 2020. Year to date new account growth decreased 10% compared to year to date 2020. Quarter four contributions increased 7% compared to quarter four in 2020 and year to date contributions increased 15% compared to the same period in 2020. Quarter four distributions increased 32% compared to quarter four 2020, while distributions by New Hampshire residents increased 50% in quarter four compared to the same period in 2020.

Direct-sold (UNIQUE) 529 Plan Review

Mr. Durkan presented the results of the Direct-sold industry stating that the 529 Direct-sold plan assets increased 5.4% from quarter three 2021 and increased by 15.2% year-over-year, while the UNIQUE plan assets increased 4.6% for the quarter and increased 13.7% year-over-year. As of December 31, 2021, the UNIQUE plan had \$18.8 billion in market-value assets (up 14% year-over-year) and 678,000 active participant accounts.

Quarter four new account growth increased by 8% compared to quarter four in 2020 and new account contributions rose 19% to \$3,000 per new account. Total contributions increased by 29% compared to the same quarter last year while overall distributions increased 26%. Distributions by New Hampshire residents also increased 30%. Mr. Durkan also reviewed the "Age Wave" chart noting that the distribution of active accounts and assets under management remain fairly spread out across the age spectrum and accounts for younger beneficiaries remain strong. Contributions through the online gifting platform increased 50% year-over-year and accounted for just under 1.5% of total contributions into the UNIQUE Plan.

Review of 2021 External Audits

Mr. Stephen Smith indicated that his office, in collaboration with the Treasury's office, is responsible for procuring an external auditor for the two 529 plan audits. Mr. Smith shared that the Fiscal Committee ("Committee") authorized the release of the audits back in November of 2021 to comply with the SEC 120 day rule and at their February 2021 meeting, Mr. Declan Byrne presented the results of the audits to the Committee.

Mr. Byrne presented the 2021 audit results to the Advisory Commission, stating that the financial statements as of, and for the year ended, September 30, 2021, received unmodified (clean) opinions and were issued on time on December 20, 2021. PwC audited each of the 36 portfolios within the UNIQUE Plan and 27 portfolios within the FA 529 Plan (each portfolio maintain its own set of records). Mr. Byrne added that as part of the process, PwC has to rely on Fidelity's internal controls to obtain reasonable assurance over valuations of the underlying funds, existence of assets, income classification, proper financial statement presentation and disclosures, etc. Mr. Byrne had to report on certain required communications, however, procedures and results were consistent with prior years and no issues or concerns came to their attention.

After the audit presentation, Dr. Scire requested a motion to accept the audit reports presented by PwC. Sr. Buley made the motion, Rep. Lynn seconded. All Advisory Commission members voted in favor and the motion passed

Ratify Vote Regarding FY23 Endowment Allocation

During the December 6, 2021 Advisory Commission meeting, board members voted to set the allocation percentage of assessment revenue to the UNIQUE Endowment Allocation Program to 30% for FY23 from the current percentage of 80% after the adoption of the updated administrative rules. Mr. Davis explained that since the advisory commission had approved the minutes during the December 6, 2021 meeting, but hadn't yet filed the approved final version with the Office of the Legislative Services, the commission didn't have the authority at the time of the vote to set the allocation percentage for the UNIQUE Endowment Allocation Program. As such, the commission needed to ratify the vote from December 6, 2021. Christiana Thornton made a motion to ratify the December 6, 2021 vote setting the allocation percentage of assessment revenue to the UNIQUE Endowment Allocation program to 30% for FY23 from the current percentage of 80% for FY22, Joseph Doiron seconded the motion. All members voted in favor and the motion passed.

Dashboard Review as of December 31, 2021

Ms. Mezzapelle presented the semi-annual update of the Dashboard Report as of December 31, 2021 including the following:

- Revenue estimates were updated by Fidelity projecting that revenues would reach \$20.8 million, \$21.4 million, and \$21.7 million in calendar years 2022, 2023, and 2024, respectively.
- Average plan assets were also updated projecting \$25.3 billion, \$25.4 billion, and \$25.9 billion in 2022, 2023, and 2024, respectively. Note: Commission revenue is derived from average plan assets.
- Regarding scholarship results, during the 2020-21 academic year, colleges and universities granted a total of 4,857 individual UNIQUE annual awards to full-time and part-time students compared to 4,459 (+8.9%) in the previous year, while restricted institution endowments distributed 2,646 individual awards of at least \$1,000 each compared to 2,192 (+20.7%) in the prior academic year, for a total distribution of approximately \$5.3 million from endowment earnings.

Update of Endowment Trust Fund and Scholarship Disbursements

Ms. Mezzapelle provided an update of the Endowment Trust Fund and Scholarship Disbursements through December 31, 2021, highlighting that the trust fund had received \$9.8 million in assessment revenue from Fidelity and had realized a net market gain of \$218,813.

With respect to scholarship disbursements, Treasury distributed the initial allocation amount of \$1 million to colleges and universities participating in the UNIQUE Annual Allocation program and \$7.8 million in monthly allocations to the restricted endowments of institutions participating in the UNIQUE Endowment Allocation program. Pursuant to administrative rule Csp 702.01(b), 80% of gross proceeds from assessments collected were distributed to participating institutions. Additionally, since program inception, the endowment trust fund had received \$217.6 million in assessment revenues and had distributed approximately \$173.3 million in scholarship funds through December 31, 2021.

The endowment trust fund had also incurred \$91,773 in administrative expenses through December 31, 2021, consisting of: 1) investment management fees of \$25,125, 2) the first and second quarterly Treasury overhead allocation of \$22,028, 3) \$6,120 in membership dues paid to the College Savings Plan Network, 4) \$2,500 in membership dues paid to the College Savings Foundation, and 5) \$36,000 paid to the Division of Higher Education for support services. The trust fund balance as of December 31, 2021 was approximately \$12.8 million.

Governor's Scholarship Program Update

Ms. Mezzapelle provided an update of the Governor's Scholarship Fund. As of December 31, 2021, the fund had a balance of \$16.0 million of which \$9.7 million was restricted and \$6.3 million was unrestricted.

State Legislation Update

Ms. Mezzapelle reported there were no state legislative updates at this time for the commission.

Other Business

Ms. Mezzapelle explained that the Treasury was planning on filling the vacant program assistant position to assist with the administration of the program.

Hearing no additional new business, Dr. Scire requested a motion to adjourn the meeting. Senator Ward moved to adjourn, Rep. Lynn seconded the motion. All Advisory Commission members voted in favor and the motion passed.

The meeting adjourned at 11:36 a.m.

NOTE: The next regular meeting is scheduled for Monday, June 6, 2022.