

New Hampshire College Tuition Savings Plan Advisory Commission  
Minutes of the Meeting of August 21, 2107

The August 21, 2017 meeting of the New Hampshire College Tuition Savings Plan Advisory Commission (“Advisory Commission”), held at the offices of the New Hampshire Higher Education Assistance Foundation in Concord, was called to order at 10:00 a.m. by Dr. Edward MacKay, Advisory Commission Chair.

Members present, constituting a quorum, were:

Edward MacKay (Chair)	Public Member, appointed by the Governor; Retired Chancellor, University System of New Hampshire
Tori Berube	Vice President, representing the NH Higher Education Assistance Foundation Organizations
Michael Cryans	Public Member, appointed by the Governor
Bill Dwyer	State Treasurer
David Mahoney	Representing the Higher Education Commission – Dept. of Education
Sr. Paula Buley	President, Rivier University, representing the New Hampshire College and University Council
Sylvia Larsen	Representing the Governor; Retired State Senator
Todd Leach	Chancellor, University System of New Hampshire
Kenneth Weyler	State Representative

Members absent were:

Lou D’Allesandro	State Senator
Ross Gittell	Chancellor, Community College System of New Hampshire
Daniel Innis	State Senator
Peter Leishman	State Representative

Also present at the meeting were Kyla Doyle, Keith Bernhardt, Ron Hazel, Sarah Pulsifer, Peter Walsh, and Andrew Dierdorf from Fidelity Investments (“Fidelity”), Charles Ansell from the Community College System of New Hampshire (“CCSNH”) attending on behalf of Dr. Gittell, and Monica Mezzapelle from the New Hampshire State Treasury.

The Meeting began with introductions and congratulating Mr. Cryans for his 20<sup>th</sup> year with the Advisory Commission as a Public Member representative. Dr. MacKay also welcomed Sr. Paula Bouley, President of Rivier University, who accepted the role as the College and University Council representative, replacing Dr. Thomas Horgan who recently retired.

**Review of Prior Meeting Minutes**

Minutes of the May 15, 2017 meeting were presented for approval by Dr. MacKay. Hearing no additional comments, Dr. MacKay requested a motion to approve the meeting minutes as distributed. Mr. Cryans moved and Dr. Leach seconded. The motion carried unanimously.

### **Summary of Investment Committee Meeting**

Dr. MacKay informed Commission members that the Fidelity investment team presented the 529 Plan investment update during the Investment Committee meeting, stating that he was very pleased to report that, as a result of active asset allocation (“AAA”), the “active” portfolios reported significant outperformance.

Following up on Dr. MacKay’s statements, Mr. Walsh commented that AAA added approximately 80 to 120 basis points to the actively managed age-based portfolios over the last year. AAA seeks to identify mispriced asset classes in the capital markets, with an objective of adding 25 to 50 basis points every year over long-term periods. Mr. Walsh continued indicating that during quarter-two and the 1-year periods, portfolios recorded positive absolute and relative performance across all age-based active and multi-firm portfolios and that portfolios are showing a positive trend for the 1, 3, 5, 10 and Life-of-fund periods. Index portfolios also performed in line with their respective benchmarks. The advisor portfolios, age-based and static portfolios, also outperformed their composite benchmark for the quarter and 1-year period. A brief overview of the glide-path and strategy used by the investment team was also presented to the Commission.

During the investment committee meeting, Mr. Dierdorf reviewed the capital market positioning, noting that their process and strategy has provided positive results. There are four research areas that are emphasized: view of the macro-environment, valuation of asset classes, market sentiment, and fundamental or company-specific research. The asset allocation strategy was overweight in emerging markets (3%-4%) and underweight in investment grade bonds and U. S. equities. Best performing asset class during quarter-two was emerging-markets equity (+6.4%) and the worst performer was commodities, declining (-0.3%).

#### *UNIQUE and Fidelity Advisor 529 Competitive Performance Update*

Ms. Pulsifer presented the UNIQUE and FA 529 Competitive Performance Update for quarter ending June 30, 2017. Ms. Pulsifer indicated that the methodology used this quarter was based on Morningstar performance rankings relative to peers in the respective Morningstar categories.

All the UNIQUE age-based portfolios and 80 of the 82 different plans in the 529 age-based Morningstar universe fall into the “Medium Equity” category. Medium-equity portfolios are more conservative than high-equity portfolios (medium range). For instance, portfolios in the “Age 0-6 Medium Equity” category have an approximate range of 40%-70% in equities, while portfolios in the “Age 13-18 Medium Equity” category have an approximate range of 20%-50% in equities. For the 1-year rankings, the Fidelity Active and Multi-firm portfolios in the Age 0-6 Medium Equity and Age 19+ Medium Equity categories reported the highest average rankings (lower number is better) of < 20%, outperforming 80%-90% of the peer group. For the 3-year percentile

performance average rankings, most age-based portfolios across all categories reported high to above average rankings, ranging from 10%-45%, outperforming 90%-65% of the peer group. For the 5-year average rankings, all age-based portfolios across all categories performed very well, ranking 5%-40%, outperforming 95%-60% of the peer group.

Competitor results for the FA 529 were also provided, noting that all the FA 529 age-based portfolios fall in to the “Medium Equity” category of the 529 age-based Morningstar universe, except for the 2034 portfolio which falls into the “High Equity” category. For the 1-year average rankings, the Fidelity Active Class A portfolios in the Age 0-6 High & Medium Equity and Age 19+ Medium Equity categories ranked the highest, approximate 12%-30%, outperforming 88%-70% of the peer group. For the 3-year performance average rankings, portfolios in the Age 19+ Medium Equity category ranked the highest, 25%, outperforming 75% of the peer group. And for the 5-year performance average rankings, portfolios performed relatively in line compared to peers, ranking 25%-55% and outperforming 75%-45% of the peer group.

Ms. Pulsifer concluded that the portfolios not only performed well against the respective benchmarks, but also on a peer relative basis.

### **Proposed 529 Portfolio Enhancements**

Mr. Walsh informed the Commission that three enhancements were being brought to their attention to add to the strategy which would ultimately benefit participants.

1. Allow index funds in active 529 portfolios: This would give flexibility to portfolio managers to use index funds in these portfolios when there are low alpha expectations for an active strategy, consistent with the investment philosophy and in the best interest of the participant. For example when markets are really efficient (ex. S&P 100) and not much value can be added, index funds could be utilized. The addition of index funds may lower expense ratios of the portfolios. The Investment Management Agreement (“IMA”) would need to be amended.
2. Replace underlying EAFE Index fund with ACWI ex US fund: An index fund that tracks the MSCI EAFE would be replaced with an index fund that tracks the MSCI ACWI ex US in order to provide increased diversification through exposure to emerging-market equities and Canadian equity. The expense impact would be minimal, there would be a one basis point increase, the EAFE fund is priced at 5 basis points and the ACWI ex US fund has a 6 basis point fee. A section of the IMA would need to be updated.
3. Replace the standalone EAFE fund with ACWI ex US standalone fund: Consistent with the changes proposed for the age-based portfolios. Minimal expense ratio impact and the change would require an amendment to the IMA and Fact Kit.

After a brief discussion, Dr. MacKay requested a motion to approve enhancements proposed by Fidelity. Mr. Cryans moved, Mr. Mahoney seconded. All members voted in favor. Treasurer

Dwyer added that Treasury will bring the IMA amendment to the Governor and Executive Council meeting on September 27, 2017 for final approval.

## **Overview of the 529 Programs**

### *529 Industry Market Update*

Mr. Hazel presented the 529 Industry update for the second quarter in 2017 noting that New Hampshire continues as the fourth largest in the country with nearly \$16.4 billion in market-value assets and 5.9% of market share. Industry assets increased by 4% during the quarter and by 13.8% year over year. New Hampshire assets also increased 4% during the quarter and by 10.6% compared to last year. Asset growth was in line with market performance: The Dow Jones U.S. Total Stock Market Index was up 3% for the quarter and climbed 18.5% for the 1-year period. The Barclays U.S. Aggregate Bond Index increased 1.4% during the quarter and dropped -0.3% for the 1-year period. New Hampshire again trailed Virginia with \$61.8 billion in assets (managed by American Funds), New York with \$26.1 billion (managed by J.P. Morgan), and the Nevada plans with \$20.5 billion in assets (multiple managers – including Vanguard).

### *Fidelity Advisor 529 Plan Review*

Moving on to the advisor-sold space (plans sold through financial advisors such as Ameriprise), Mr. Hazel stated that as of June 30, 2017, Advisor-sold 529 plan assets, industry-wide, increased 3.6% and by 11.5% year over year. The New Hampshire FA 529 plan increased 3.2% during the second quarter and by 7.6% compared to last year. The FA 529 Plan is the sixth largest in the country with \$4.6 billion in market-value assets, distributed across 187,673 participant accounts, and a 3.8% of the market share. The FA 529 is behind Virginia (\$57.8 billion in assets), Maine (\$8.8 billion in assets), Rhode Island (\$6.1 billion in assets), Ohio (\$5.1 billion in assets) and the Alaska (\$4.7 billion in assets) plans.

New account growth declined during the second quarter of 2017 by -6.3% compared to quarter one 2017 and by -14.5% compared to quarter two of 2016, resulting in a net increase of 2,049 new accounts. Mr. Hazel also commented that new account growth in the advisor-sold industry has also decreased: new account activity for the quarter was down -15.2% and by -6.6% year over year. FA 529 contributions decreased by -6.7% in quarter two 2017 from quarter one and by -3% from quarter two 2016 compared to quarter two 2017. The decrease in new account growth may be attributed to several factors, including the issuance of the U.S. DOL fiduciary rule. Some advisors are changing the way they conduct business from commission-based products to more assets-based type fees (advisory fees). For example, some firms are selling retail products and then charge an advisory fee, even though the rule does not apply to 529 plans, it is impacting the space. Mr. Hazel mentioned the current U.S. DOL administration has proposed an 18-month delay to the implementation of certain provisions within the rule.

Mr. Hazel was pleased to announce the successful implementation of a new record-keeping platform that should allow the pursuit of more omnibus relationships with other broker-dealers.

Also as a result of Minnesota offering tax parity (MN residents could qualify for state tax benefits regardless of the state plan they are contributing), Fidelity will launch a marketing campaign to potentially attract new participants to rollover assets to the FA 529 plan.

Furthermore, account distributions in quarter-two were \$67.1 million, a decrease of 29.3% compared to quarter one, and year-to-date plan distributions were \$162 million. NH distribution metrics were also provided: \$800,000 in quarter-two and \$6.2 million over the last year. Dr. MacKay added that the large distribution activity is due to being more mature plans.

During the second quarter of 2017, the average account size of FA 529 plan account was \$24,778, with New Hampshire residents averaging \$22,105. New Hampshire residents maintain 2,880 accounts in the FA 529 plan, comprised of \$63.6 million in assets.

#### *Direct-sold (UNIQUE) 529 Plan Review*

On the 529 Direct-sold side, Ms. Doyle reported that as of June 30, 2017, the 529 direct-sold plan assets increased by 4.3% during the quarter and by 15.7% year over year. The UNIQUE Plan increased 4.2% in quarter two of 2017 and by 11.9% year over year, reaching \$11.7 billion in market-value assets. The Plan remains the third largest in the country with 7.7% of market-share. The UNIQUE Plan again trailed the New York plan with \$21.4 billion in assets and the Nevada plan with \$15.4 billion.

Ms. Doyle indicated that the Plan had a decline in account growth during the quarter of -17% (slightly better than the retail-sold industry with -19%) and a positive increase of 23% compared to last year. In addition, quarter three has started strong with over 4,500 new accounts in July. As of June 30, 2017, the UNIQUE Plan reported 676,907 participant accounts. Contributions in quarter two also decreased by -13%, however increased by 23% year over year. Distribution metrics were also reported: approximately \$151.3 million in distributions were reported in quarter-two and year-to-date total plan distributions were approximately \$380 million.

The average account size in a UNIQUE account was \$24,495, with New Hampshire residents averaging \$21,529 in account balance. The average monthly contributions to new and existing UNIQUE accounts nationwide were \$5,060 and \$132, respectively, while New Hampshire residents contributed an average of \$3,810 to new accounts and an average of \$218 to existing accounts. The UNIQUE plan has 21,646 NH accounts, comprising of \$466 million in assets.

#### **Maximum Participant Contribution**

Ms. Doyle presented an overview of the 529 Plan Contribution Limits. The New Hampshire 529 Plan provisions allow for changes in the maximum amount participants can contribute to a 529 plan. New Hampshire is currently ranked as having the third highest nationwide contribution limit at \$475,000, which the Commission approved last year.

Ms. Doyle mentioned college costs continue to rise every year: the average tuition and fees for in-state students in a public four-year college increased 2.4% from \$9,420 in 2015-16 to \$9,650 in 2016-17. The average total tuition and fees and room and board charges are \$20,090, nationwide. In New England, the average total college expenses for a public four-year college is \$24,120 and for a private four-year college is \$56,330. The Advisory Commission has traditionally used the Dartmouth College formula (the most expensive college in New Hampshire) as one proxy to evaluate whether or not the contribution limit should be changed. The Dartmouth College formula includes undergraduate and graduate study for seven years resulting in total cost of \$499,863 (\$71,409 \* 7 years). The annual cost at Dartmouth of \$71,409 includes tuition, fees, books, housing, food, and miscellaneous expenses as of August of 2017.

There are 45 accounts in the UNIQUE College Investing Plan and seven in the Fidelity Advisor 529 exceeding the contribution limit of \$475,000 as of July 2017. Accounts that exceed the contribution limit are not allowed to make additional contributions; however, they are allowed to stay and continue to grow.

Ms. Larsen noted that when the 529 plan was first implemented in New Hampshire, the Dartmouth College formula was used to have a reasonable basis for their decisions. Ms. Doyle also noted, that up to about five years ago, there was a misconception that having a large contribution limit was an indication that 529 plans were only for wealthy individuals. This misperception no longer exists and this factor may be a consideration when a participant is trying to decide what 529 plan to choose. Six other states have contribution limits greater than New Hampshire and five states have a contribution limit of \$500,000.

Ms. Larsen then moved to increase the maximum participant contribution to \$500,000, seconded by Mr. Mahoney. The motion passed unanimously.

### **Update of Endowment Trust Fund and Scholarship Disbursements**

Treasurer Dwyer presented the Endowment Trust Fund and Scholarship Disbursements update for the State's fiscal year 2017.

The endowment trust fund received over \$13.3 million in revenue (management fee income or assessments) from the two 529 Plans and had over \$13 million in scholarship disbursements during fiscal year 2017. Since program inception, the endowment trust fund has received \$144 million in revenue and has distributed over \$111 million in scholarship allocations to participating colleges and universities. The endowment trust fund finished the fiscal year with a balance of \$2.4 million.

With regard to the UNIQUE Annual Allocation program, an initial allocation of approximately \$1 million was distributed to participating colleges and universities in July of 2016 and additional reimbursements of approximately \$1.4 million were distributed to participating colleges and universities that awarded more scholarships than the initial allocation amount distributed in July.

Similarly, through June 30, 2017, the UNIQUE Endowment Allocation Program distributed over \$10.6 million in monthly allocations to participating colleges and universities.

Through June 30, 2017, administrative expenses totaled \$404,280, comprised of \$315,115 paid to PwC for the two 529 Plan audits, \$36,206 for the quarterly Treasury overhead allocations, \$10,253 for endowment trust fund investment management fees, \$6,600 paid to the College Savings Plan Network and College Savings Foundation, combined, for yearly membership dues, \$36,000 paid to the Higher Education Division within the Department of Education for administrative support provided, and \$106 for supplies purchased.

### **Review of Dashboard Report as of June 30, 2017**

Dr. MacKay presented the semi-annual update of the College Tuition Savings Plan Dashboard Report as of June 30, 2017. The Dashboard report includes New Hampshire 529 Plan historical and forecasted data, including actual and projected revenue-share for Fidelity and the Advisory Commission, actual and projected plan assets, activity of the New Hampshire Excellence in Higher Education Endowment Trust Fund (trust fund) pursuant to RSA 6:38, as well as scholarship award information relative to the two UNIQUE scholarship programs.

Dr. MacKay reported that Fidelity updated revenue projections for the trust fund for the remaining of 2017, 2018, and 2019, resulting in \$13.6 million, \$13.9 million, and \$14.2 million, respectively, which are based on annualized year-to-date actuals and projected average plan assets. The average plan assets and projected number of accounts were also updated: for calendar years 2017, 2018, and 2019, it is expected that \$15.7 billion, \$16.2 billion, and \$16.8 billion, respectively, will be reached in average plan assets and, approximately, 895,000, 960,000 and 1 million, respectively, in total new accounts will be attained.

Historical scholarship program results since inception (2006-2016) were also included. Dr. MacKay added that total awards granted during the 2016-17 academic year will be reported in December after all higher education institutions report as required by October 15<sup>th</sup>.

### **Request to Approve Saint Anselm's UNIQUE Annual Award Reimbursement**

Dr. MacKay stated that Saint Anselm College submitted a reimbursement request to Treasury after the April 30<sup>th</sup> deadline and after the Commission had met on May 15. Not having the authority to approve the request, Treasury withheld the request. Saint Anselm College is requesting reimbursement of \$700 for an Annual Award granted in excess of the initial amount allocated. Dr. MacKay asked for a motion to approve Saint Anselm College's request. Ms. Berube moved and Mr. Mahoney seconded. The motion carried unanimously.

In addition, Dr. MacKay mentioned that perhaps delegating authority to the Trustee of the Plan (State Treasurer) for these types of reimbursement requests would allow the Treasury to address the issues more timely and wouldn't have to wait until the next quarterly meeting. Dr. Leach

suggested adding a cap. Dr. Leach then made a motion to delegate authority to the State Treasurer for approval of scholarship reimbursement requests up to \$10,000. Rep. Weyler seconded. All members voted in favor.

### **State Legislation Update**

#### *Update of the Children's Savings Account Program (RSA 195-J)*

Dr. MacKay provided a brief update on the Children's Savings Account Program ("CSA"). After the House Education Committee decided to retain HB 609, Rep. Ladd created a study committee to make a recommendation to the House Education Committee by November 1<sup>st</sup> as to whether or not to move forward. HB 609 included a \$100 increase in the licensing fee paid for each mutual fund class to fund the CSA program. According to the Bureau of Securities Regulation ("Bureau"), an estimated \$2.6 million in revenue could be available to fund the program based on approximately 26,000 mutual fund classes registered with the Bureau.

#### *Governor's Scholarship Program (RSA 4-C) and Dual and Concurrent Enrollment Program (RSA 188-E:25-29)*

Dr. MacKay thanked Rep. Weyler and Senator D'Allesandro for being very instrumental in the passage of the two programs. The Governor Scholarship Program ("GSP") is an initiative included in the 2018-19 budget to provide scholarships for recipients who meet certain residency, academic performance or work experience requirements. The scholarships will be distributed by postsecondary education institutions and reimbursed by the State twice per year. The individual scholarship amount is \$1,000 and \$2,000 for New Hampshire Scholars to underscore the value of taking a more rigorous curriculum while in high school (doubling the scholarship amount). An annual appropriation of \$5 million for the GSP includes funding (\$850,000 and \$950,000 for the 2018-19 biennium) of CCSNH STEM and STEM-related courses and encourages residents to matriculate and complete postsecondary degree programs in New Hampshire. The Dual and Concurrent Enrollment program provides free credits to high school students attending 11 and 12 grade enrolled in college level science, technology, and math courses. They are high school courses approved by CCSNH (concurrent enrollment) or courses taught by CCSNH instructors (dual enrollment) in which high school students earn both high school and college credits while still attending high school. Students can enroll in up to two courses and the State will pay CCSNH up to \$250 per course upon successful completion and such amount will be accepted as full payment. Mr. Ansell added that some details need to be finalized; however, once that happens, CCSNH is ready for the implementation of the programs.

### **Proposed 2018 Meeting Dates**

Dr. MacKay directed Commission members to a list of proposed meeting dates for 2018. The proposed 2018 meeting dates were selected based on the practice adopted by the Advisory

Commission prior to 2014 to schedule meetings the 8<sup>th</sup> Monday following the end of the quarter taking into consideration Holidays and vacation weeks.

Hearing no comments, Dr. MacKay requested a motion to adopt the proposed meeting dates. Treasurer Dwyer moved and Ms. Larsen seconded. The motion passed unanimously. The meeting dates for calendar year 2018 are March 5, 2018, May 21, 2018, August 20, 2018 and December 3, 2018.

### **Other Business**

Dr. MacKay asked for a motion to enter into a non-public session pursuant to **RSA 91-A:3, II, (I)** for discussion and consideration relative to legal advice provided by the Attorney General Office's legal representative. Rep. Weyler moved, seconded by Dr. Leach.

Roll Call Vote:

<b>Name</b>	<b>Yes</b>	<b>No</b>
Dr. Edward MacKay	Yes	
Bill Dwyer	Yes	
Kenneth Weyler	Yes	
Peter Leishman		Absent
Lou D'Allesandro		Absent
Daniel Innis		Absent
Sylvia Larsen	Yes	
Michael Cryans	Yes	
Todd Leach	Yes	
Ross Gittell		Absent
Sr. Paula Buley	Yes	
Tori Berube	Yes	
David Mahoney	Yes	

The Commission entered non-public session at 11:30 a.m. The public and all other attendees left the room. Ms. Mezzapelle and Charles Ansell, representing Dr. Gittell, remained in the meeting.

After a majority vote to come out of non-public session at 12:05 p.m. and placing no restrictions on the release of the non-public session minutes, Dr. MacKay requested a motion to adjourn. Ms. Berube moved, Treasurer Dwyer seconded. All members voted in favor. The meeting adjourned at 12:10 p.m.

**NOTE:** A special meeting has been scheduled for Thursday, September 21, 2017 from 2:00 p.m. to 3:30 p.m. at the NH Higher Education Assistance Foundation in Concord. The next regular meeting is scheduled for Monday, December 4, 2017. There will be no investment committee meeting.