

New Hampshire College Tuition Savings Plan Advisory Commission  
Minutes of the Meeting of March 11, 2019

The March 11, 2019 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
Bill Dwyer	State Treasurer
Lou D’Allesandro	State Senator
Ross Gittell	Chancellor, Community College System of New Hampshire (“CCSNH”)
Jay Kahn	State Senator

Members absent were:

Sr. Paula Buley	President, Rivier University Representing the Higher Education Commission – Dept. of Education
Sylvia Larsen	Representing the Governor; Retired State Senator
Todd Leach	Chancellor, University System of New Hampshire
Peter Leishman	State Representative
Michael Vlacich	President & CEO, representing the New Hampshire College and University Council (“NHCUC”)
Kenneth Weyler	State Representative
Vacant	Public Member, appointed by the Governor

Also present at the meeting were Melissa Ridolfi, Ron Hazel, Justin Rozzero, Finola McGuire Foley, Andrew Dierdorf, Eric Kaplan, and Chris Pariseault from Fidelity Investments (“Fidelity”), Declan Byrne from PricewaterhouseCoopers (“PwC”), Stephen Smith from the Legislative Budget Assistant Office, and Monica Mezzapelle from State Treasury.

### **Introductions**

The regular meeting began with introductions welcoming Senator Jay Kahn as a new member of the Advisory Commission, as well as two individuals joining the Fidelity investment team, Finola McGuire Foley as a co-portfolio manager of the Fidelity 529 Index portfolios, and Chris Pariseault, Institutional Portfolio Manager.

### **Review of Prior Meeting Minutes**

Unable to reach a quorum, Dr. MacKay asked Commission members whether there were any comments or corrections needed regarding the December 10, 2018 meeting minutes, which had been distributed in advance. Hearing none and for the record, Dr. MacKay requested a motion to endorse the meeting minutes as distributed. Senator D’Allesandro moved and Dr. Gittell seconded the motion. All Commission members present endorsed the meeting minutes which will be voted on during the next meeting scheduled for May 20, 2019.

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

Dr. MacKay briefly provided an overview of the investment committee meeting which preceded the regular meeting. The following points were highlighted during the investment committee meeting:

- Mr. Pariseault discussed that in quarter four 2018, the majority of the Fidelity age-based and static portfolios had negative absolute and relative returns, underperforming their benchmarks. An underweight position in U.S. equities contributed to performance, but was offset by an underweight position to investment grade debt, as well as the performance of several underlying equity funds. Mr. Pariseault added that while the aggregate impact of equity performance was negative in 2018, the results for specific strategies were generally consistent with expectations.
- Positive absolute performance occurred across all portfolios over the 3, 5, 10, and Life of Fund periods.
- Multi-firm portfolios also lagged their benchmarks during the quarter, however, Fidelity Index portfolios performed in line with expectations.
- Positioning for the quarter reflected a modest underweight in U.S. equities, and within equities, emphasis in emerging markets continued as they remain favorably valued and less exposed to late cycle risks relative to U.S. equities. In addition, inflation-sensitive assets continued to be attractively valued and, even though yields on sovereign bonds have increased from historic lows, an underweight position remained with an overweight in long-term bond exposure.
- Contributions by Active Asset Allocation (“AAA”) were neutral during the quarter. For the benefit of Commission members, Mr. Dierdorf discussed the flexibility available through AAA where portfolio managers have the ability to make allocation adjustments of +/- 10% in equity, bonds, and short-term funds, with the goal of increasing performance by 25-50 basis points per year over long-term periods.

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

Also during the investment committee meeting, Mr. Kaplan presented the semi-annual update of the Plans’ performance compared to competitors.

Mr. Kaplan pointed out that long-term, value continues to be provided to shareholders relative to peers, as most of the active portfolios had favorable Morningstar results versus median returns for

similar plans. Furthermore, active portfolios outperformed index portfolios, underscoring the value of active strategies.

Mr. Kaplan stated that Fidelity also assesses performance against their main competitors: 1) For active funds, the T. Rowe Price strategy, which has a higher equity allocation (52% vs. 45%), was compared to Fidelity active strategy, and in this quarter the T. Rowe Price strategy struggled more, therefore, the Fidelity funds had better performance. 2) Regarding the passive strategy, Fidelity index funds were compared to Vanguard funds, which are slightly more conservatively positioned and, due to a higher equity exposure, Fidelity underperformed Vanguard this quarter. 3) Similarly, for the Advisor-sold strategy, American Funds were compared to the FA 529 portfolios, and since the American Funds strategy is slightly more conservatively positioned, American Funds outperformed the FA 529 portfolios. Overall, using the passive strategy as a benchmark, Mr. Kaplan reiterated that the active strategy is outperforming the passive strategy for the 3 & 5 year periods.

### **Review of 2018 External Audits**

Mr. Smith communicated that the office of the Legislative Budget Assistant works with the State Treasury to maintain an auditor for the two 529 plans and that his office has had a relationship with PwC for several years. Mr. Smith also mentioned that the State's Fiscal Committee approved the release of the audits back in October of 2018 based on a request submitted by the State Treasury and on February 8, 2019, Mr. Declan Byrne, engagement partner from PwC, presented the audit results to the Fiscal Committee.

Mr. Byrne then presented the 2018 audit results, highlighting that the financial statements as of, and for the year ended, September 30, 2018, received unqualified (clean) opinions which were issued on time on December 20, 2018. PwC audited each of the 36 portfolios within the UNIQUE College Investment Plan and 27 portfolios within the Fidelity Advisor 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 and for that purpose, PwC receives supplemental reports that allow them to obtain reasonable assurance that control procedures relative to valuations of the underlying funds, existence of assets, income classification, proper financial statement presentation and disclosures, etc. were working properly. Mr. Byrne also reported on a few aspects required by auditing standards, such as areas of significant risks, fraud, errors, material weaknesses, etc. but overall, assurance was provided that audit procedures and results were consistent with prior years and no issues or concerns came to their attention.

Additionally, Mr. Byrne shared that due to recent Governmental Accounting Standards Board ("GASB") pronouncements issued, GASB accounting vs. Financial Accounting Standards Board ("FASB") accounting may need to be applied to 529 plans. However, questions remain on that subject area and PwC's national office is still working on determining whether or not that change would be necessary. Mr. Byrne added that Fidelity has some experience applying GASB standards, therefore, there are currently no concerns in that regard.

Treasurer Dwyer expressed his gratitude to Mr. Smith, Mr. Byrne, and members of the Fidelity team for their effort and collaboration on completing the audits timely. After the presentation was concluded, with the members present, Dr. MacKay requested a motion to accept the audit reports presented by PwC. Treasurer Dwyer moved, Senator D'Allesandro seconded. The audits were accepted. Note: No formal vote of the Commission is required to accept the audits.

### **Dashboard Review as of December 31, 2018**

Dr. MacKay presented the semi-annual update of the Dashboard Report as of December 31, 2018. The Dashboard Report includes historical, actual, and forecasted data of 529 Plan assets, fee revenues, trust fund activity, as well as award data relative to the two UNIQUE scholarship programs:

- New revenue estimates were provided by Fidelity, projecting that approximately \$13.9 million in revenues will be generated by the end of calendar year 2019, a decrease of \$2.1 million or -13.1% since last reported. Revenue projections as of December 31, 2018 for 2020 and 2021 were \$14.1 million (same amount each year).
- Since revenues are derived from assets under management, average plan assets were also adjusted down to \$16.8 billion, \$17.2 billion, and \$17.4 billion in 2019, 2020, and 2021, respectively.
- Regarding scholarship results, during the 2017-18 academic year, colleges and universities granted a total of 5,297 individual UNIQUE annual awards to full-time and part-time students, while restricted institution endowments distributed 1,928 individual awards of at least \$1,000 each compared to 1,539 (25% increase) in the prior academic year, for a total distribution of nearly \$3.6 million from endowment earnings.

Dr. MacKay mentioned that since assets under management have recovered since the fourth quarter in 2018, updated revenue projections may be necessary for the preparation of the fiscal year 2020 budget, which will be presented for approval in May. Treasury will work with Fidelity to determine whether Fidelity's view has changed and therefore revenue projections should be adjusted.

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

Treasurer Dwyer provided an update of the Endowment Trust Fund and Scholarship Disbursements reporting that through December 31, 2018, the endowment trust fund received \$7.5 million in assessment revenues from Fidelity and earned \$24,658 in net market gains, interest and dividend income. In addition, through December 31, 2018, Treasury distributed an initial allocation of \$1 million to colleges and universities participating in the UNIQUE Annual Allocation program and slightly over \$6 million in aggregate monthly allocations to institution endowments, as part of the UNIQUE Endowment Allocation program.

Through the second quarter of fiscal year 2019, the endowment trust fund incurred \$66,299 in administrative expenses, consisting of: 1) investment management fees of \$4,710, 2) the first and second quarterly Treasury overhead allocations of \$18,760, 3) the annual membership dues paid to the College Savings Plan Network and College Savings Foundation, combined, of \$6,600, 4) the yearly payment for administrative support to the Division of Higher Education of \$36,000, and 5) \$229 for the award presented to former Commission member Michael Cryans.

Treasurer Dwyer also highlighted that since program inception, the endowment trust fund has collected nearly \$167 million in revenues and has disbursed close to \$133 million in scholarship funds through December 31, 2018. The endowment trust fund finished the quarter with a balance of approximately \$2.7 million.

### **Overview of the 529 Programs**

#### *529 Industry Market Update*

Mr. Hazel provided an overview of the 529 industry, reporting that the fourth quarter of 2018 brought with it a lot of volatility, which took its toll on assets across the 529 industry. Quarter over quarter, the UNIQUE and FA 529 plan assets were able to stay ahead of the industry, however, year over year the NH plans lagged part of which can be attributed to distribution outflows.

529 industry assets decreased by -6.9% from quarter three to quarter four 2018 and decreased by -2.0% year over year. New Hampshire assets also decreased by -6.4% during the fourth quarter and by -4.0% year over year. To put these results into perspective, U.S. Equities were down -14.4% for the quarter and by -5.3% year over year, while Investment Grade Debt increased by 1.6% for the quarter and was flat at 0.0% for the 1-year period.

The New Hampshire 529 program remains the 4<sup>th</sup> largest in the country with over \$16.4 billion in market-value assets, representing 5.7% of the market-share. The New Hampshire plans continue to trail Virginia (\$63.6 billion in assets managed by American Funds), New York (with \$28.1 billion in assets managed by Ascensus), and the Nevada plans (with 23.0 billion in assets managed by multiple providers, including Vanguard). Total active accounts, both programs combined, reached 685,737 participant accounts at the end of 2018.

#### *Fidelity Advisor 529 Plan Review*

With respect to the Advisor-sold market, Mr. Hazel stated that Virginia remains the top advisor-sold plan with 47.7% of the Advisor-sold market share. Industry-wide, advisor-sold assets decreased by -8.3% from quarter three to quarter four 2018 and decreased by -4.8% year over year. New Hampshire FA 529 assets also decreased by -8% for the quarter and by -7.9% year over year. The FA 529 Plan finished the quarter with \$4.4 billion in assets under management.

In terms of new account activity, in 2018, the FA 529 Plan had the strongest growth compared to any of the past two years, outpacing the advisor-sold 529 industry. In quarter four 2018, there was a 12% increase in new account activity compared to quarter four 2017 while the advisor-sold industry experienced a 5.4% growth in new accounts. For the full year, new account activity was up 19%. The Class C to Class A share conversion and pricing structure change in 2018 contributed to the positive results. As of December 31, 2018, the FA 529 plan had a total of 178,913 active accounts. The average account balance in a FA 529 plan account was \$24,727.

Contributions during the quarter were also positive: For quarter four 2018, contributions were up 3% compared to quarter four 2017 and, for the full year, total contributions increased 6% over 2017. There was also an increase in distributions (9%) compared to quarter four in 2017 and distributions were also up 15% year over year. Total distributions in 2018 totaled \$508.1 million and the portion relative to NH accounts was \$7.1 million.

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

Mr. Rozzero presented the Direct-sold space update stating that the UNIQUE plan slightly outpaced the industry in asset growth during the fourth quarter, but lagged year over year. Industry-wide, 529 Direct-sold assets decreased by -5.9% for the quarter, however increased by 0.4% year over year. For the full year, the UNIQUE plan assets decreased by -5.8% from quarter three to quarter four 2018 and by -2.4% year over year. As of December 31, 2018, the UNIQUE plan had \$12.1 billion in assets under management, with 506,824 active participant accounts (up 7% from quarter four 2017).

Mr. Rozzero mentioned that new account growth was not as strong in the fourth quarter compared to the 529 industry (new accounts decreased by -7% in the quarter, while the industry was down -3.6%). Conversely, for the full year, new accounts were up 10% outpacing the industry which was at 9.1%.

Additional metrics were reported:

- 69% of new accounts opened in quarter four 2018 were for beneficiaries age 0-9, in line with quarter four 2017.
- 12% of new accounts opened in quarter four 2018 were opened by a New Hampshire resident, up from 10% in quarter four 2017.
- 79% of new UNIQUE accounts were opened by an existing Fidelity Personal Investment customer.

Regarding contributions, quarter four 2018 saw a 2% increase over quarter four 2017, while the industry was up 9.5%. UNIQUE contributions increased by 8%, however, lagged compared to the retail-sold industry which increased by 21%. The average new account contribution in quarter four 2018 was \$4,415. As anticipated, distributions continued to increase in 2018 reaching nearly \$1.2 billion (9% increase year over year) with NH accounts seeing \$53.2 million in distributions (10% increase year over year).

Contributions from gifting via the gifting tool was significant in 2018, with an increase of 73% year over year. December saw \$2.5 million in contributions, accounting for 23% of total activity for the year. Mr. Rozzero added that gifting dollars made up 3% of the total contributions to the Plan. Lastly, Mr. Rozzero brought in promotional materials (kids' sunglasses with the UNIQUE logo) being handed out at local marketing events, such as Ski NH and the Children's Museum of New Hampshire events, for Commission members to see.

### **State Legislation Update**

#### *HB 2, relative to State Fees, Funds, Revenues, and Expenditures (Trailer Bill)*

Dr. MacKay briefly commented on the changes being proposed in HB 2, one of which is the redirection of the revenue received from Fidelity and used for scholarships to a new program proposed in the Governor's budget for student loan assistance. HB 2 also changes certain responsibilities of the Advisory Commission, such as removal of the rulemaking authority granted in statute while transferring current rules to the Department of Education to remain in effect for one year in order to administer the two scholarship programs. After a brief discussion, Dr. MacKay indicated that conversations with State legislators have begun to determine whether there are other alternatives to fund a student loan assistance program while maintaining the current scholarship programs. More information will be provided in the next quarterly meeting.

#### *HB 689, establishing the Student Career and College Investment Program*

Dr. MacKay shared that HB 689 was passed by the House Education Committee and it is anticipated that the bill will be referred to the House Ways & Means or the House Finance Committee to discuss the fee increase included (\$100 increase to the \$1,000 fee for mutual fund registration) to fund a \$2.5 million appropriation for the program. This legislative proposal intends to provide funding for the existing Children's Savings Account program established in RSA 195-J. When funded, the program would create an opportunity for all second graders who complete a financial literacy program, and by discussing the module with their parents, raise aspirations for postsecondary enrollment and come to better understand the importance of saving for college. Upon filing the plan application, the parent would have \$250 contributed to the UNIQUE 529 account as seed money.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 11:26 a.m.

**NOTE:** The next regular meeting is scheduled for Monday, May 20, 2019 beginning at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. There will be no Investment Committee meeting.