

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of May 20, 2019

The May 20, 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
Sr. Paula Buley	President, Rivier University Representing the Higher Education Commission – Dept. of Education
Bill Dwyer	State Treasurer
Ross Gittell	Chancellor, Community College System of New Hampshire (“CCSNH”)
Jay Knower	Public Member, appointed by the Governor
Todd Leach	Chancellor, University System of New Hampshire
Debby Scire	Interim President & CEO, representing the New Hampshire College and University Council (“NHCUC”)
Kenneth Weyler	State Representative

Members absent were:

Lou D’Allesandro	State Senator
Jay Kahn	State Senator
Sylvia Larsen	Representing the Governor; Retired State Senator
Peter Leishman	State Representative

Also present at the meeting were Melissa Ridolfi, Ron Hazel, Justin Rozzero, Andrew Dierdorf, and Eric Kaplan from Fidelity Investments (“Fidelity”), David Mahoney, retired Advisory Commission member, Michael Seidel, Director of the Higher Education Division, Department of Education, and Monica Mezzapelle from State Treasury.

Introductions and Award Presentation

Dr. MacKay begin the meeting with introductions welcoming three new members to the Advisory Commission: Dr. Sister Paula Buley, President of Rivier University representing the Higher Education Commission, Dr. Debby Scire, Interim President and CEO of NHCUC, and Mr. Jay Knower, Public Member appointed by the Governor.

Dr. MacKay also recognized Mr. David Mahoney who represented the Higher Education Commission since 2013 and who is retiring from both commissions. On behalf of the Advisory Commission, Dr. MacKay presented an award to Mr. Mahoney to thank him for the many years of outstanding service to the Commission. Mr. Mahoney was very grateful for the recognition and award presented and shared that the work on the Advisory Commission had been a very rewarding experience for him.

Dr. MacKay also congratulated Fidelity for being the recipient of the New Hampshire Higher Education Excellence Award presented by the New England Board of Higher Education during the Governor and Executive Council meeting on May 15th. The Board recognized Fidelity for their leadership and partnership with New Hampshire in creating one of the best 529 plans in the country.

Review of Prior Meeting Minutes

The minutes of the December 10, 2018 meeting and March 11, 2019 meeting were presented for approval. Hearing no comments or corrections, Dr. MacKay requested a motion to approve the December 10, 2018 meeting minutes. Rep. Weyler moved and Dr. Leach seconded. Subsequently, Dr. MacKay requested a motion to approve the March 11, 2019 meeting minutes. Treasurer Dwyer moved, Dr. Gittell seconded. The meeting minutes from the two meetings were unanimously approved.

Update of Endowment Trust Fund and Scholarship Disbursements

Treasurer Dwyer provided an update of the Endowment Trust Fund and Scholarship Disbursements reporting that through March 31, 2019, the endowment trust fund had received \$11 million in assessment revenues from Fidelity and had earned \$122,588 in net market gains, interest and dividend income. With respect to disbursements, in July 2018, Treasury distributed \$1 million in UNIQUE Annual Award allocations to participating colleges and universities and nearly \$9 million in aggregate monthly allocations to institution endowments participating in the UNIQUE Endowment Allocation program. Treasurer Dwyer added that preliminary reporting (via reimbursements requests) by higher education institutions indicated that another \$1.6 million in excess of the \$1 million disbursed in July 2018 had been distributed to eligible NH students. For the benefit of new Commission members, Dr. MacKay mentioned that no administrative costs are allowed in the endowment allocation program, only aid of a minimum of \$1,000 provided to eligible New Hampshire residents.

Additionally, Treasurer Dwyer stated that through the third quarter of fiscal year 2019, the endowment trust fund had incurred \$419,089 in administrative expenses, consisting of: 1) \$340,829 paid to PricewaterhouseCoopers for the audits of the two 529 plans, the UNIQUE College Investing Plan and the Fidelity Advisory 529 plan, 2) investment management fees paid in August, November, and February totaling \$7,291; 3) the first, second, and third quarterly Treasury overhead allocations of \$28,140, 4) the annual membership dues paid to the College Savings Plan

Network (\$4,100) and College Savings Foundation (\$2,500), 5) the yearly support services payment to the Division of Higher of Education of \$36,000, and 6) \$229 for a service award presented to former Advisory Commission member Michael Cryans.

Treasurer Dwyer also highlighted that since program inception, the endowment trust fund had collected over \$170 million in assessment revenues and had disbursed approximately \$135.8 million in scholarship funds through March 31, 2019. The endowment trust fund concluded the quarter with a balance of approximately \$3.1 million.

Fiscal Year 2020 College Savings Program Budget Review

Treasurer Dwyer presented the Fiscal Year 2020 budget stating that assessment revenues for fiscal year 2020 were budgeted at \$14.8 million, approximately \$10.4 million would be revenue generated by the UNIQUE plan (typically 70% of total revenue) and approximately \$4.4 million would be from the FA 529 plan. Based on anticipated disbursements, contributions from the endowment trust fund are also predicted by approximately \$342,000.

Disbursements relative to the UNIQUE Endowment Allocation program were budgeted at \$11.8 million (representing 80% of \$14.8 million in revenue), and \$2.8 million reserved for the UNIQUE Annual Allocation program. The amount budgeted for the UNIQUE Annual Allocation Program was kept at the same level as for Fiscal Year 2019.

Furthermore, approximately \$457,585 were reserved for administrative expenses, \$361,585 to cover the cost of the two audits, and \$96,000 for other expenses, including the endowment trust fund investment management fees, association dues, the quarterly Treasury overhead allocations, administrative support paid to the Division of Higher Education, and miscellaneous expenses.

Treasury Dwyer clarified that the revenue projections are derived from data Fidelity provides semi-annually and shared with the Commission in the Dashboard Report --- a revised Dashboard Report as of December 31, 2018 was also included in the materials for the benefit of the Commission. In response to a question from Mr. Seidel, Treasury Dwyer explained that the endowment trust fund is being invested using a conservative strategy recognizing that capital preservation is necessary in order to meet the Commission's obligations.

Dr. MacKay then requested a motion to approve the fiscal year 2020 budget as presented by Treasurer Dwyer. Rep. Weyler moved and Dr. Gittell seconded the motion. The budget was unanimously approved and adopted.

Overview of the 529 Programs

Investment Enhancements Proposal

The Fidelity Investment team introduced a series of enhancements to improve the investment strategies of the NH 529 plan. Mr. Dierdorf presented the first proposal which entailed adding two additional exposures to the glide path and strategic allocation to create additional diversification: U.S. Treasury Inflation Protection Securities and U.S. Long-Term Treasury bonds. The second recommendation Mr. Dierdorf introduced was transitioning from retail and advisor mutual funds to Fidelity Series Funds as underlying building blocks. In response to Dr. MacKay's question, Mr. Dierdorf clarified that no changes are expected to the current Active Asset Allocation strategy and process.

Mr. Kaplan continued the presentation discussing a proposal impacting the multi-firm strategy, which is managed by the 529 portfolio managers using an open-architecture structure and has higher fees relative to many other 529 products in the industry. Mr. Kaplan stated that the recommendation would be to close the multi-firm strategy and introduce a blend strategy that would include both active and passive strategies (average 60% active/40% passive over long-term periods). Participants who chose the multi-firm strategy would be transitioned to the Fidelity Funds strategy, as its attributes are comparable to the multi-firm products. Consequently, with the introduction of the blend product and Fidelity Series Funds, Mr. Kaplan stated that the fees would be simplified and slightly reduced for the majority of portfolios.

A timeline of activities was also reviewed with a planned implementation timeframe of October 2019. In response to Dr. Gittell's question, Mr. Kaplan shared that the change is not expected to impact revenues the State receives. The blend strategy would be an additional choice for investors who prefer an option that combines active and passive building blocks.

After an engaged discussion, Dr. MacKay requested a motion to approve the investment enhancements proposed by the Fidelity Investment team which would include:

- 1) Approval of investment product proposal and updated fee schedule.
 - Conversion to Fidelity Series Funds as underlying investments for both UNIQUE and Fidelity Advisor 529 plans
 - Implementation of enhanced glide path and strategic asset allocation for both UNIQUE and Fidelity Advisor 529 plan
 - Elimination of Multi-Firm product offering from the UNIQUE lineup
 - Launch of Blend age-based product offering for the UNIQUE plan
- 2) Agreement to transition current UNIQUE Multi-Firm participants to Fidelity-only portfolios.
- 3) Authorization to proceed with investment management agreement changes.

Sr. Buley moved and Dr. Leach seconded. The motion was unanimously approved.

529 Industry Market Update

Mr. Hazel provided an update on the 529 industry, stating that the capital markets rebounded in the first quarter of 2019 where all of Fidelity's active age-based and static portfolios had positive absolute returns as well as outperformed their benchmarks. Asset growth for the UNIQUE and FA 529 plans lagged the industry primarily due to distribution outflows during the quarter. The

New Hampshire 529 program remains the 4th largest in the country with over \$17.8 billion in market-value assets, representing 5.7% of the market share. The New Hampshire plans continue to trail Virginia (69.8 billion in assets managed by American Funds), New York (\$31.1 billion in assets managed by Ascensus) and the Nevada plans (\$25.4 billion in assets managed by multiple providers, including Vanguard).

529 industry assets increased by 9.4% during the first quarter of 2019 and increased by 6.2% year over year. Similarly, New Hampshire assets increased by 8.2% in the quarter and 3.7% year over year. Asset growth reflected gains in the capital markets, where U.S. equities were up 14% for the quarter and 8.7% for the 1-year period. Investment grade debt increased by 2.9% for the quarter and 4.5% for the 1-year period.

Legislative Update

Mr. Hazel provided an update on the legislative front, stating that on January 15th, California AB 211 was introduced to provide a \$5,000 tax deduction for a contribution to an in-state 529 plan (\$10,000 for married couple filing jointly). On April 23rd, the Committee on Revenue and Taxation amended the bill language to change the effective date from January 1, 2020, to January 1, 2025 and referred the bill to the Committee on Appropriations after a 10-1 vote. During a hearing on May 1st, opposition emerged based on the cost of the deduction as well as the argument that the proposed tax deduction would benefit higher income households. Mr. Hazel added that Fidelity will continue to monitor this legislation as new developments become available.

FA 529 Old A to Class A Conversion Proposal

Mr. Hazel introduced a proposal to convert FA 529 “Old” Class A Units into Class A Units, as the two Class A Units presently share the same pricing and expense structure as a result of the Class A pricing reduction approved in April of 2018. The proposal would require a contract amendment and final approval from the Governor and Executive Council.

Dr. MacKay then asked for a motion to approve Fidelity’s proposal as presented. Rep. Weyler moved and Dr. Leach seconded. The FA 529 proposal was unanimously approved.

Fidelity Advisor 529 Plan Review

With respect to the Advisor-sold space, Mr. Hazel mentioned that Virginia remains the top advisor-sold plan with 48.1% of the advisor-sold market share. Advisor-sold assets increased by 8.9% during the first quarter 2019 and decreased by -3.0% year over year. New Hampshire FA 529 assets also increased by 7.6% during the quarter and increased by 0.1% year over year. As of March 31, 2019, the FA 529 Plan had \$4.8 billion in assets under management.

Mr. Hazel and Mr. Rozzero shared that the meeting materials were updated to illustrate year-to-year trends rather than quarter-to-quarter results. Using the new presentation, Mr. Hazel reported that 2018 was a strong year for the FA 529 plan, however, there were 2,300 new accounts added in quarter one 2019, representing a -12% decrease when compared to quarter one 2018. Similarly,

the advisor-sold industry was down -16% relative to new account activity. Total active accounts decreased -3% for the 1-year period, with a total of 177,600 active accounts as of March 31, 2019.

Total contributions at the end of quarter one 2019 compared to quarter one 2018 were \$82.6 million, a -13% decrease. Distributions during the same period were \$105.5 million, a -6% decrease from quarter one 2018. Of the \$105.5 million, \$1.4 million in distributions were from New Hampshire accounts, a 17% increase since quarter one 2018.

Mr. Hazel also announced that the FA 529 plan can now be purchased through the Fidelity Clearing & Custody Solutions 529 omnibus trading platform. There are currently 32 broker-dealers who have expressed interest in this new functionality.

Direct-sold (UNIQUE) 529 Plan Review

Mr. Rozzero was pleased to announce that the UNIQUE plan passed the \$13 billion milestone in the first quarter, with \$13.1 billion in assets as of March 31, 2019 and asset growth continued after that reaching \$13.4 billion in assets as of April 30, 2019. Mr. Rozzero reported that industry-wide, 529 Direct-sold plan assets increased by 9.7% from quarter four 2018 to quarter one 2019 and increased by 8.7% year over year. The UNIQUE plan assets increased by 7.2% during quarter one 2019 and 5.0% year over year. Mr. Rozzero also pointed to a slide that illustrated assets by portfolio which indicated that the majority of assets in the UNIQUE plan were held in the Fidelity Funds age-based portfolios, with the Index age-based portfolios holding the second most. As of the end of the first quarter, only 6% of the assets were in Multi-firm age-based portfolios.

Continuing with new account and existing account activity, Mr. Rozzero reported that 17,200 new accounts were added in the first quarter of 2019, a -14% decrease compared to the first quarter of 2018. New account contributions decreased to \$2,800 per new account, a -20% decrease compared to quarter one 2018. Total new account contributions were \$48.3 million, -31% decrease year over year. Mr. Rozzero added that 44% of new accounts opened were for beneficiaries under age 5, reflecting Fidelity's efforts to target parents with children in that demographic. Contributions in quarter one 2019 were down -11% from quarter one 2018 (\$395.2 million) while distributions climbed 8% overall (\$261.5 million of which \$8.4 million related to New Hampshire accounts). Mr. Rozzero also commented on contributions via the online gifting tool stating that contributions were up 11% year over year, totaling \$2.9 million, and contributions from participants who take advantage of the Fidelity rewards card totaled \$6 million year over year.

In quarter one 2019 active accounts increased to 515,000 being fairly spread out across the age spectrum with assets more tilted toward the older beneficiary population as expected based on the age of the plan. The UNIQUE plan had \$13.1 billion in assets under management, up 5% year over year.

Marketing initiatives to promote the UNIQUE plan using digital advertising continued. New testing opportunities in 2019 include Pandora streaming radio and Pinterest.

State Legislation Update

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

Dr. MacKay briefly provided an update on HB 2, stating that the Governor's proposal to redirect the assessment revenue the State receives from Fidelity to fund a new student loan assistance program was eliminated in the House's budget and that the Senate was contemplating the transfer of the Governor's Scholarship program, currently under the Office of Strategic Initiatives, to be under the oversight of the Advisory Commission (in Treasury's Budget). Budget negotiations will continue and an update will be provided in the next quarterly meeting.

HB 689, establishing the Student Career and College Investment Program

Regarding HB 689, Dr. MacKay shared that the Senate tabled the bill due to concerns pertaining to the mutual fund fee increase and it was unclear whether the Senate was going to reconsider the bill again this year. The legislative proposal was amending the existing Children's Savings Account program established in RSA 195-J to secure funding for the program.

The Student Career and College Investment Program would create an opportunity for all second graders who complete a financial literacy program to raise aspirations for postsecondary enrollment and highlight the importance of saving for college. Upon filing an application, the parent would have \$250 contributed to the UNIQUE 529 account as seed money.

Advisory Commission Two-Year Appointments Conclude on June 30, 2019 for Certain Members (RSA 195-H:2,I,(b))

Treasurer Dwyer reminded Commission members that pursuant to RSA 195-H:2,1(b)), a few Advisory Commission appointments will be expiring on June 30, 2019. Treasury will be sending letters requesting re-appointments or new appointments prior to June 30th.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 12:06 p.m.

NOTE: The next regular meeting is scheduled for Monday, August 19, 2019 beginning at 10:00, preceded by an Investment Committee meeting beginning at 9:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord.