

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of March 9, 2020

The March 9, 2020 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 9:00 a.m. by Dr. Todd Leach, Advisory Commission Chair.

Members present, constituting a quorum, were:

Todd Leach (Chair)	Chancellor - University System of New Hampshire
Debby Scire (Vice Chair)	President & CEO, representing the New Hampshire College and University Council (“NHCUC”)
Tori Berube	Vice President, representing the NH Higher Education Assistance Foundation Organizations
Lou D’Allesandro	State Senator
Joseph Doiron	Workforce Development Administrator, representing the Governor
Bill Dwyer	State Treasurer
Shannon Reid	Director of Communications, representing the Community College System of New Hampshire (“CCSNH”)
Jay Kahn	State Senator
Peter Leishman	State Representative

Members absent were:

Sr. Paula Buley	President, Rivier University, representing the Higher Education Commission – Dept. of Education
Jay Knowler	Public Member, appointed by the Governor
Robert Lynn	Public Member, appointed by the Governor; Retired Chief Justice
Kenneth Weyler	State Representative

Also present at the meeting were Melissa Ridolfi, Ron Hazel, Eric Kaplan, and Andrew Dierdorf (via phone) from Fidelity Investments (“Fidelity”), Stephen Smith from the Office of the Legislative Budget Assistant, Audit Division, Declan Byrne from PricewaterhouseCoopers, Dr. Edward MacKay, Joe Maiola, and Monica Mezzapelle.

Investment Review- 4th Quarter 2019

Mr. Dierdorf, Portfolio Manager of the 529 portfolios, began the investment performance discussion providing an overview of the capital markets during quarter four 2019, highlighting that the markets had a strong quarter and year. Returns in Q4 were led by global stocks, with emerging market equities providing performance of 12%. U.S. long duration bonds were the worst performers for quarter four, but gained 15% for the 1-year period. Central banks continued

to inject liquidity into the markets and the U.S.-China trade deal was reached, contributing to a favorable and relatively stable capital market environment.

During the quarter, all of the UNIQUE and Advisor active age-based and static portfolios outperformed their benchmarks driven both security selection and asset allocation decisions. Year-to-date, all of the UNIQUE and Advisor active age-based and static portfolios outperformed their benchmarks and over the 3 and 5-year periods, all of the UNIQUE active age-based portfolios outperformed their benchmarks, driven by non-U.S. equity security selection, investment grade debt security selection, and asset allocation decisions. For the Advisor age-based portfolios, returns for the 3-year period were mixed, and all of the portfolios are trailing their benchmark over the 5-year period. Index portfolios performed in line with expectations.

Mr. Kaplan reviewed the investment enhancements implemented in 2019, which comprised of the strategic allocation and glide path update, the transition of the underlying investments to Series funds, moving to top-level fees, closing the multi-firm strategy, and launching the blend portfolios (mix of passive and active building blocks). Lastly, in 2019, the 2018 and 2019 (Advisor) portfolios were merged into the College portfolios, while the 2039 portfolio was launched in both the Fidelity Advisor 529 and UNIQUE plans. Mr. Kaplan reiterated that the successful implementation of the investment enhancements were a result of the mutual collaboration between Fidelity and the Advisory Commission, contributing to the Morningstar upgrade from bronze to silver medal for the UNIQUE plan. In addition, implementation costs associated with transition activities were lower than originally anticipated.

Mr. Dierdorf also shared that the investment team is planning additional updates in 2020 intended to increase diversification in the portfolios. The plan is to update the composition of the equity allocation, adjusting the mix of U.S. and Non-U.S. equity exposure from 70%/30% to 60%/40%. Emerging markets and non-U.S. developed markets will be split in the same proportion as the weights in the benchmark (MSCI ACWI ex-U.S. index). Previous discussions clarified that no contract amendment would be needed for this change as it falls under Fidelity's responsibilities as the investment manager.

Overview of the 529 Programs

529 Industry Market Update

Mr. Hazel continued with the program update indicating that the capital markets saw positive results in quarter four 2019 where the majority of the active age-based and static portfolios (retail and advisor) experienced positive results. The New Hampshire 529 plan remains the 4th largest in the country with over \$19.3 billion in market-value assets, representing 5.6% of the market-share. The New Hampshire plans continue to trail Virginia (\$76 billion in assets managed by American Funds), New York (\$34.6 billion in assets managed by Ascensus) and the Nevada plans (\$28.7 billion in assets managed by multiple providers, including Vanguard). 529 industry assets increased by 6.1% from quarter three to quarter four 2019 and increased by 19.9% year over year. New Hampshire assets increased by 4.9% in quarter four and 17.2% year over year. Similarly,

U.S. equities were up 9.1% for the quarter and 30.9% year over year. Non-US developed equities were up 7.9% and 22.8% year over year. Investment grade debt (bonds) increased by 0.18% for the quarter and 8.7% year over year. Year over year for quarter four, asset growth for both the UNIQUE and FA 529 plan lagged the industry, partly attributed to the distribution outflows.

Ms. Ridolfi briefly mentioned that the implementation of the Blend portfolios in the UNIQUE plan, the merge of the 2018 portfolio into the College portfolio, combined with the launch of the 2039 portfolio had been successful. As of January 31, 2020, \$45.3 million had been invested in the UNIQUE plan Blend portfolios. Feedback and adoption of the investment enhancements continued to be positive.

Mr. Hazel announced that the two plans reached a milestone in quarter four, the FA 529 plan passed the \$5 billion mark for the first time and the UNIQUE plan passed the \$14 billion mark in quarter four 2019.

Fidelity Advisor 529 Plan Review

Mr. Hazel provided additional information regarding the Advisor-sold space, stating that the Virginia plan remains the top Advisor-sold plan in the country with 48.6% of the Advisor-sold market-share. 529 Advisor-sold plan assets increased by 5.9% from quarter three to quarter four 2019 and by 17% year over year. New Hampshire FA 529 assets increased by 3.8% for the quarter and by 13.6% year over year. As of December 31, 2019, the FA 529 plan had \$5 billion in market-value assets, a 14% increase year over year.

Additionally, Mr. Hazel noted the following:

- New account growth was flat from quarter four 2018;
- By the end of quarter four 2019, total active accounts were 173,900, a 3% decrease year over year;
- FA 529 participants made contributions of \$87.2 million in the quarter, remaining flat from quarter four 2018; and
- Total distributions for the quarter were \$129 million, up 5% from quarter four 2018, of which \$2.1 million were New Hampshire residents (11% increase).

Direct-sold (UNIQUE) 529 Plan Review

Ms. Ridolfi covered the Direct-sold industry, reporting that 529 Direct-sold plan assets increased by 6.3% during the quarter and by 22% year over year, including the UNIQUE plan assets which increased 5.3% during the quarter and by 18% year over year. As of December 31, 2019, the UNIQUE plan had \$14.3 billion, representing 7.1% of the Direct-sold market-share and an increase in assets of 18% year over year.

New account growth was strong in 2019, increasing 24%. The amount individuals contributed for the first time also increased by 11% from \$3,700 to \$4,100 per new account. By the end of the fourth quarter 2019, total active accounts grew to 539,200 (848,600 accounts since plan

inception). Contributions for the quarter were \$479 million, a 19% increase year over year. Distributions from UNIQUE plan increased 17% (\$374.5 million) in the quarter compared to quarter four 2018, while distributions by New Hampshire participants increased 7% (\$17.3 million). Ms. Ridolfi commented that accounts are fairly spread out across the age spectrum and that the participation rate is healthy for participants with younger beneficiaries. Fidelity also purchased a license to market the Silver rating awarded by Morningstar on their website in order to continue marketing efforts promoting the plan.

Award Recognition

Dr. Leach recognized former Chair Dr. Edward MacKay for the many years of outstanding service to the Commission. Dr. MacKay was one of the founding members and a valuable contributor to the success of the 529 college savings plan and scholarship programs. Dr. MacKay was very appreciative of the award and praised the outstanding work of the Advisory Commission, Fidelity, and the Treasury.

Dr. Leach also mentioned that this was Treasurer Dwyer's last meeting, as he was leaving State service at the end of March. Dr. Leach thanked Mr. Dwyer for his service on the Commission and invited him to come back to a future meeting to be properly recognized.

Review of 2018 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 October of 2019 and on February 14, 2020, Mr. Declan Byrne presented the results of the audits to the Committee.

Mr. Byrne presented the 2019 audit results to the Advisory Commission, stating that the financial statements as of, and for the year ended, September 30, 2019, received unqualified (clean) opinions and were issued on time on December 20, 2019. 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. Leach requested a motion to accept the audit reports presented by PwC. Senator D'Allesandro moved, Treasurer Dwyer seconded. The audits were accepted.

Review of Prior Meeting Minutes

Draft minutes of the December 9, 2019 meeting were presented for approval by Dr. Leach. The draft minutes had been distributed in advance to Advisory Commission members. Hearing no comments or corrections, Dr. Leach requested a motion to approve the draft minutes. Senator D'Allesandro moved and Mr. Doiron seconded. The minutes were unanimously approved.

Dashboard Review as of December 31, 2019

Dr. Leach presented the semi-annual update of the Dashboard Report as of December 31, 2019 including the following:

- Revenue estimates were updated by Fidelity projecting that revenues would reach \$16.3 million, \$15.8 million, and \$15.7 million in calendar years 2020, 2021, and 2022, respectively.
- Average plan assets were also updated projecting \$19 billion, \$18.7 billion, and \$18.3 billion in 2020, 2021, and 2022, respectively. Note: Commission revenue is derived from average plan assets.
- Regarding scholarship results, during the 2018-19 academic year, colleges and universities granted a total of 4,736 individual UNIQUE annual awards to full-time and part-time students compared to 5,297 (-11%) in the previous year, while restricted institution endowments distributed 2,447 individual awards of at least \$1,000 each compared to 1,928 (+27%) in the prior academic year, for a total distribution of approximately \$4.2 million from endowment earnings.

Update of Endowment Trust Fund and Scholarship Disbursements

Treasurer Dwyer provided an update of the Endowment Trust Fund and Scholarship Disbursements through December 31, 2019, indicating that the trust fund received \$7.8 million in assessment revenues from Fidelity and earned \$134,708 in net market gains, interest and dividend income. Regarding scholarship disbursements, Treasury sent the initial distribution of \$1 million to colleges and universities participating in the UNIQUE Annual Allocation program in July of 2019 and \$6.2 million in monthly allocations to institutions participating in the UNIQUE Endowment Allocation program. Additionally, since program inception, the endowment trust fund had received \$182 million in assessment revenue and had distributed approximately \$147.5 million in scholarship funds through December 31, 2019.

The endowment trust fund also incurred \$65,771 in administrative expenses through December 31, 2019, consisting of: 1) investment management fees of \$4,606, 2) the first and second quarterly Treasury overhead allocations of \$18,760, 3) \$6,000 paid to the College Savings Plan Network for the annual membership dues, 4) \$36,000 paid to the Department of Education for administrative support services provided, and 5) \$405 for the purchase of supplies and recognition awards for former Advisory Commission members. The trust fund balance as of December 31, 2019 was approximately \$3.2 million.

Update of Governor’s Scholarship Program

Ms. Mezzapelle provided an update of the Governor’s Scholarship Program indicating that in fiscal year 2019, 234 scholarships were awarded to students who earned the NH Scholar designation in high school receiving \$2,000 per year, and 272 non-scholar scholarships (\$1,000 per year) were awarded to NH students. Total awarded in fiscal year 2018 were approximately \$2 million and in fiscal year 2019 were \$2.5 million.

Since the transfer of the program oversight from the Office of Strategic Initiatives to the Advisory Commission, new participation agreements were executed and approximately \$4.5 million were awarded to participating institutions for the 2020-21 academic year. Award letters were issued to participating institutions informing them of their allocation/funding amount.

Proposed Administrative Rules Amendment – Governor’s Scholarship Program

Dr. Leach mentioned that the Advisory Commission will need to amend some of the provisions in the current administrative rules adopted by the Office of Strategic Initiatives to reflect changes in the Governor’s Scholarship Program law (RSA 4:31-34), as amended. A draft proposal had been distributed in advance and Ms. Mezzapelle walked Commission members through the changes and provided some information regarding the administrative rules process as well as a tentative timeline. Advisory Commission members agreed to the changes included in the draft proposal and recommended additional language regarding the provision related to the extension of a 2-year award for students attending the Community College System and subsequently transferring to a 4-year institution. Ms. Reid agreed to work with Treasury to find suitable language for that section.

Dr. Leach entertained a motion to authorize Treasury to file the initial draft that would include additional language suggested by the Advisory Commission with the Office of Legislative Services. Senator D’Allesandro moved and Mr. Doiron seconded. The motion was unanimously approved.

State Legislation Update

Dr. Leach stated that there are two pieces of legislation impacting the Commission directly, HB 1576, establishing a targeted workforce development program, and SB 529, relative to the New Hampshire excellence in higher education scholarship program and establishing a workforce development student debt relief program and fund. Chair Leach commented that HB 1576 was already referred to interim study and asked Senators on the Commission to provide additional remarks on SB 529. Senator D’Allesandro described the content of the legislation filed and indicated that the bill had a public hearing scheduled for the next day. SB 529, as introduced, amended the excellence in higher education endowment trust fund statute by changing how the revenue assessments received from the 529 program would be distributed and it would establish a student debt relief program for qualified industries. SB 529, as introduced, would direct 50% of

the assessment revenue to fund the direct scholarship program, \$2 million would fund the restricted endowment program, and the balance would be sent to the Business Finance Authority to administer the proposed student debt relief program. Dr. Leach indicated that from previous discussions, Advisory Commission members were in favor of changing the current assessment allocation between the two scholarship programs, whether through a law or administrative rule change, in order to provide more direct aid to New Hampshire students, therefore, SB 529 was going to be closely monitored.

Hearing no additional new business, Dr. Leach asked for a motion to adjourn. Treasurer Dwyer moved and Senator D'Allesandro seconded the motion. All member voted in favor to adjourn. The meeting adjourned at 11:35 a.m.

NOTE: The next regular meeting is scheduled for Monday, May 18, 2020 beginning at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. There will be no Investment Committee meeting.