

DRAFT

New Hampshire College Tuition Savings Plan Advisory Commission Minutes of the Meeting of March 8, 2021

The March 8, 2021 meeting of the New Hampshire College Tuition Savings Plan Advisory Commission (“Advisory Commission”) was called to order at 9:00 a.m. by Dr. Deborah Scire, Advisory Commission Vice Chair. The meeting was held via Zoom due to the State of Emergency declared by the Governor as a result of the COVID-19 pandemic and in accordance with the Governor’s Emergency Order No. 12, pursuant to Executive Order 2020-04, as extended.

Attendance:

| Member | Representing | Roll Call |
|--------------------------|-------------------------------------------|-------------------|
| Dr. Deborah Scire | NH College and University Council | Present and alone |
| Catherine Provencher | University System of New Hampshire | Present and alone |
| Rep. Robert Lynn | Public Member Appointed by the Governor | Present and alone |
| Rep. Kenneth Weyler | State Representative | Present and alone |
| Rep. Peter Leishman | State Representative | Present and alone |
| Senator Lou D’Allesandro | State Senator | Absent |
| Senator Jay Kahn | State Senator | Present and alone |
| Joseph Doiron | Governor Designee | Present and alone |
| Jay Knower | Public Member appointed by the Governor | Present and alone |
| Shannon Reid | Community College System of New Hampshire | Present and alone |
| Christiana Thornton | NH Higher Education Assistance Foundation | Present and alone |
| Sr. Paula Buley | NH Higher Education Commission | Present and alone |
| Monica Mezzapelle | State Treasurer | Present and alone |

Also attending were Ron Hazel, Justin Rozzero, Heather Zakian, and Daniel Terio from Fidelity Investments, Declan Byrne and Greg Raines from PricewaterhouseCoopers, Stephen Smith from the Office of the Legislative Budget Assistant, Kevin Davis from the State Treasury, and Edward Mackay.

Election of Chairperson

Ms. Provencher nominated Dr. Debby Scire to be chair of the Advisory Commission. It was seconded by Rep. Weyler. Dr. Scire asked if there were any other nominations at this point, hearing none, Rep. Weyler moved to cast one ballot, which was seconded by Rep. Lynn. Advisory Commission members voted as follows:

New Hampshire College Tuition Savings Plan Advisory Commission

Minutes of the Meeting of March 8, 2021

| Member | Roll Call |
|--------------------------|------------------|
| Dr. Deborah Scire | Yes |
| Rep. Robert Lynn | Yes |
| Rep. Kenneth Weyler | Yes |
| Rep. Peter Leishman | Yes |
| Senator Lou D'Allesandro | Absent |
| Senator Jay Kahn | Yes |
| Joseph Doiron | Yes |
| Jay Knower | Yes |
| Shannon Reid | Yes |
| Christiana Thornton | Yes |
| Sr. Paula Buley | Yes |
| Catherine Provencher | Yes |
| Monica Mezzapelle | Yes |

Review of Prior Meeting Minutes

The minutes of the December 7, 2020 meeting were presented for approval by Dr. Scire. Hearing no comments or corrections, Rep. Lynn moved to adopt the meeting minutes, and Mr. Knower seconded the motion. Advisory Commission members voted as follows:

| Member | Roll Call |
|--------------------------|-----------------------------------|
| Dr. Deborah Scire | Yes |
| Rep. Robert Lynn | Yes |
| Rep. Kenneth Weyler | Yes |
| Rep. Peter Leishman | Yes |
| Senator Lou D'Allesandro | Absent |
| Senator Jay Kahn | No vote, left meeting temporarily |
| Joseph Doiron | Yes |
| Jay Knower | Yes |
| Shannon Reid | Yes |
| Christiana Thornton | Yes |
| Sr. Paula Buley | Yes |
| Catherine Provencher | Abstain |
| Monica Mezzapelle | Yes |

Q4 2020 Investment Review

Ms. Zakian provided an overview of the capital markets as well as an update of the Plan's performance during the fourth quarter of 2020. Ms. Zakian reported a reflation rally in Q4

powered riskier assets to strong gains in Q4 with small cap and non-U.S. equities leading quarterly returns. U.S. small cap was up 31.4%, emerging markets stocks were up 19.7%, and non-U.S. small cap was up 17.3% for the quarter. Commodities were also up 10% for the quarter.

During the quarter, all of the active, and blend age-based portfolios outperformed their benchmarks. This was driven by security selections in U.S. equity, non-U.S. equity and investment grade debt. Overweight emerging market equities and underweight in investment grade debt was also additive.

Over the 1 year period, most of the active age-based and static portfolios outperformed their benchmarks driven by security selections in U.S. equity, non-U.S. equity and investment grade debt. Over the five-year period, most active age-based and static portfolios outperformed their benchmarks driven by security selections in non-U.S. equity and investment grade debt funds. Being overweight to non-U.S. equities and underweight to investment grade debt was also additive for both the one and five year periods.

The Fidelity Index Portfolios performed in line with expectations.

Ms. Zakian indicated that the overall equities exposure remained unchanged with an equity beta neutral position, as they believe there is a lot of uncertainty in the capital market. They also continue to believe the multiple expansion in U.S. equities is unsustainable and there is more value in emerging market equities. In addition, they believe yields on sovereign bonds are near historic lows and continue to warrant an underweight to investment grade debt.

Ms. Zakian indicated in their active and blend strategies, they maintain a 6.8% underweight in investment grade debt. In addition they maintain a 5.1% underweight in U.S. equities feeling that they are overvalued. At the other end spectrum, they have 4.9% overweight to emerging market equities feeling like there is more value. In addition, they also have an overweight of 2.5% and 2.0% to commodities and inflation protected debt, respectively.

Review of 2020 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 2020 to comply with the SEC 120 day rule and at their February 2020 meeting, Mr. Declan Byrne presented the results of the audits to the Committee.

Mr. Byrne presented the 2020 audit results to the Advisory Commission, stating that the financial statements as of, and for the year ended, September 30, 2020, received unmodified (clean) opinions and were issued on time on December 18, 2020. 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. Ms. Thornton moved, Sr. Buley seconded. Advisory Commission members voted as follows:

| Member | Roll Call |
|--------------------------|-----------------------------------|
| Dr. Deborah Scire | Yes |
| Rep. Robert Lynn | Yes |
| Rep. Kenneth Weyler | Yes |
| Rep. Peter Leishman | Yes |
| Senator Lou D'Allesandro | Absent |
| Senator Jay Kahn | No vote, left meeting temporarily |
| Joseph Doiron | Yes |
| Jay Knower | Yes |
| Shannon Reid | Yes |
| Christiana Thornton | Yes |
| Sr. Paula Buley | Yes |
| Catherine Provencher | Yes |
| Monica Mezzapelle | Yes |

Overview of the 529 Programs

529 Industry Market Update

Mr. Hazel presented the 529 industry update highlighting that a reflation rally in Q4 2020 powered riskier assets to strong gains in Q4 with small cap and non-U.S. equities leading quarterly returns. In addition, all the NH active and blend age-based portfolios outperformed their benchmarks.

The New Hampshire 529 program remains the fourth largest in the country with \$22.1 billion in market-value assets, representing 5.5% of the market-share. The New Hampshire plans continue to trail the Virginia (\$88.5 billion in assets), New York (\$40.7 billion in assets) and Nevada plans (\$33.9 billion in assets). 529 industry assets increased by 10.2% from Q3 2020 to Q4 2020 and increased by 15.1% year-over-year ending December 31, 2020, while New Hampshire assets increased by 8.8% for the quarter and 14.1% year-over-year. Asset growth was driven by the performance of the capital markets: U.S. equities was up 14.8% for the quarter and 20.8% year-over-year. Non-U.S. developed equities increased 15.9% for the quarter and 7.8% year-over-year. Investment grade debt increased by 0.7% for the quarter and 7.5% year-over-year.

Mr. Hazel also shared that on January 27, 2021, Senator Cruz introduced Senate Bill 44

(“Student Empowerment Act”) that would expand 529 qualified expenses to include K-12 home schooling tuition, curriculum and curriculum materials, books, instructional materials, online educational materials, tutoring, tutoring facility, standardized tests (SAT, ACT, Advanced Placement (AP), College Admission Tests), and educational therapies for individuals with disabilities. This 2021 bill builds upon prior introductions of the bill in 2018 and 2019. (House Partner Bill is HR 605).

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 9.9% from Q3 to Q4 2020 and by 13.2% year-over-year, while New Hampshire’s FA 529 Plan assets increased by 7.6% for the quarter and by 9.2% year-over-year. As of December 31, 2020, the FA 529 plan had \$5.47 billion in market-value assets and 171,400 active participant accounts.

Mr. Hazel reported that in Q4 2020, new account growth was up 113% compared to the same quarter in 2019. Year-over-year account growth was up 36% compared to the same time last year. Q4 2020 contributions were up 8% compared to Q4 2019 and year-over-year down 11% compared to Q4 2019, while Q4 distributions by New Hampshire residents were down 14% compared to Q4 2019.

Direct-sold (UNIQUE) 529 Plan Review

Mr. Rozzero reported the results of the Direct-sold UNIQUE plan assets increased 16% year-over-year from 2019 to 2020. As of December 31, 2020, the UNIQUE plan had \$16.6 billion in market-value assets and 596,000 total active participant accounts. Active participant accounts are defined as accounts with a balance.

Q4 2020 new account growth increased by 37% compared to Q4 2019 and new account contributions rose 29% to \$3,300 per new account. Total contributions increased by 23% compared to the same quarter last year while overall distributions decreased by 5% compared to the same quarter last year. Distributions by New Hampshire residents also decreased by 7% for Q4 2020 as compared to Q4 2019. Mr. Rozzero also reviewed the “Age Wave” chart noting that the distribution of active accounts and assets under management remain healthy as they are fairly spread out across the age spectrum and accounts for younger beneficiaries remain strong. Contributions through the online gifting platform and the rewards card continue to be positive. Year-over-year, contributions via the Online Gifting tool are up 79% in Q4 and accounted for 1.4% of total contributions into the UNIQUE Plan for the year. Despite less household spending nation-wide, participants continued to take advantage of the Fidelity rewards card as an alternative method for contributions.

Dashboard Review as of December 31, 2020

Ms. Mezzapelle presented the semi-annual update of the Dashboard Report as of December 31, 2020 including the following:

- Revenue estimates were updated by Fidelity projecting that revenues would reach \$18.4 million, \$18.3 million, and \$18.5 million in calendar years 2021, 2022, and 2023, respectively.
- Average plan assets were also updated projecting \$21.9 billion, \$22.4 billion, and \$22.9 billion in 2021, 2022, and 2023, respectively. Note: Commission revenue is derived from average plan assets.
- Regarding scholarship results, during the 2019-20 academic year, colleges and universities granted a total of 4,459 individual UNIQUE annual awards to full-time and part-time students compared to 4,736 (-5.8%) in the previous year, while restricted institution endowments distributed 2,192 individual awards of at least \$1,000 each compared to 2,447 (-10.4%) in the prior academic year, for a total distribution of approximately \$4.6 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 Q2 of FY21, highlighting that the trust fund had received \$8.6 million in assessment revenue from Fidelity and generated net market gains of \$209,425.

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 \$3.1 million in monthly allocations to the restricted endowments of institutions participating in the UNIQUE Endowment Allocation program. Disbursements to restricted endowments reflected the changes pursuant to Exhibit M to Executive Order No. 29 which temporarily changed the portion of proceeds being allocated to restricted endowments from 80% to 30%. Additionally, since program inception, the endowment trust fund had received \$198.6 million in assessment revenues and had distributed approximately \$159.4 million in scholarship funds through December 31, 2020.

The endowment trust fund had also incurred \$59,802 in administrative expenses through December 31, 2020, consisting of: 1) investment management fees of \$7,638, 2) the first quarterly Treasury overhead allocation of \$10,164, 3) \$6,000 in membership dues paid to the College Savings Plan Network, and 4) \$36,000 paid to the Department of Education for the administrative support provided. The trust fund balance as of December 31, 2020 was approximately \$7.6 million.

Update of Governor's Scholarship Program

Ms. Mezzapelle provided an update of the Governor's Scholarship Program indicating that in FY2021, 346 scholarships were awarded to students who earned the NH Scholar designation in high school receiving \$2,000 per year, and 459 non-scholar scholarships (\$1,000 per year) were awarded to NH students. The commitment for FY2021 awards is approximately \$4 million. Total awarded in FY2019 and FY2020 were approximately \$2.0 million and \$2.5 million, respectively. Since inception, colleges and universities participating in the Governor's

Scholarship Program have received a total of \$2.4 million in reimbursement for scholarships awarded to eligible students.

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.

State Legislation Update

Rep. Weyler provided an update on House Bill 2 (HB2), the bill that accompanies the budget. He stated that there was an organizational change that if passed would affect the NH College Tuition Savings Plan Advisory Commission. Currently, annual assessments less any annual administrative costs received from the NH college tuition savings plan established under RSA 195-H shall be credited to the trust fund to provide scholarships for the benefit of residents of the state pursuing programs of study at eligible educational institutions within the state. The proposed changes in the bill would change the name from New Hampshire Excellence in Higher Education Endowment Fund to New Hampshire Excellence in Higher Education Trust Fund and the distribution of the funds would also change. As currently proposed, the monies coming in from the plan should be split as follows; 1) 20% shall be used to provide direct scholarships to NH residents attending NH institutions of higher education; and 2) 20% shall be used for the UNIQUE endowment allocation program; and 3) 60% shall be transferred to the workforce development student debt relief fund established in RSA 162-T:3 for the purpose of providing student debt relief. This change would result in a 60% reduction in the funds credited to the trust fund. Additionally, a new commission is to be established titled Workforce Development Student Debt Relief Program to oversee the workforce development student debt relief fund and shall allocate \$300,000 from the fund annually to administer the program. Rep. Weyler also commented that he was especially upset that it took \$300,000 to run this new commission versus the 1% we are currently allowed for the New Hampshire College Tuition Savings Plan Advisory Commission. Rep. Weyler then expressed his willingness to introduce an amendment to HB2 that would represent the Advisory Commission's position on the bill regarding the portion of the funds to be used for the scholarship programs (40% of total assessments collected).

After the discussion, Ms. Provencher moved to recommend to the Finance Committee (part 1) to remove the 20% allocation in section 162 of HB2 relative to the direct scholarships and UNIQUE endowment allocation program and allow the Advisory Commission to determine the allocation amount of the total 40% via administrative rules, and (part 2) should HB2 not move forward as proposed, the Advisory Commission will pursue changing the allocation to 70% for the annual allocation program and 30% to the endowment program by amending administrative rules. Dr. Scire seconded the motion. Advisory Commission members voted as follows:

| Member | Roll Call |
|---------------------|--------------------|
| Dr. Deborah Scire | Yes |
| Robert Lynn | Absent, left early |
| Rep. Kenneth Weyler | Yes |

New Hampshire College Tuition Savings Plan Advisory Commission
 Minutes of the Meeting of March 8, 2021
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| | |
|--------------------------|--------------------|
| Rep. Peter Leishman | Absent, left early |
| Senator Lou D'Allesandro | Absent |
| Senator Jay Kahn | Yes |
| Joseph Doiron | Absent, left early |
| Jay Knower | Yes |
| Shannon Reid | Yes |
| Christiana Thornton | Yes |
| Sr. Paula Buley | Absent, left early |
| Catherine Provencher | Yes |
| Monica Mezzapelle | Abstain |

Other Business

Hearing no additional new business, Dr. Scire requested a motion to adjourn the meeting. Ms. Reid moved, Ms. Provencher seconded the motion. Advisory Commission members voted as follows:

| Member | Roll Call |
|--------------------------|--------------------|
| Dr. Deborah Scire | Yes |
| Robert Lynn | Absent, left early |
| Rep. Kenneth Weyler | Absent, left early |
| Rep. Peter Leishman | Absent, left early |
| Senator Lou D'Allesandro | Absent |
| Senator Jay Kahn | Yes |
| Joseph Doiron | Absent, left early |
| Jay Knower | Absent, left early |
| Shannon Reid | Yes |
| Christiana Thornton | Yes |
| Sr. Paula Buley | Absent, left early |
| Catherine Provencher | Yes |
| Monica Mezzapelle | Yes |

The meeting adjourned at 11:55 a.m.

NOTE: The next regular meeting is scheduled for Monday, May 24, 2021 beginning at 10:00 a.m.