

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of August 30, 2021

The August 30, 2021 meeting of the New Hampshire College Tuition Savings Plan Advisory Commission (“Advisory Commission”), held at the offices of the University System of New Hampshire in Concord, was called to order at 10:00 a.m. by Dr. Deborah Scire, Advisory Commission Chair.

Attendance:

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

Also present at the meeting were Senator Ruth Ward, Anthony Durkan from Fidelity Investments (“Fidelity”) and Kevin Davis from the State Treasury. Ron Hazel, Daniel Terio, Finola McGuire Foley, and Jessica Bialas from Fidelity attended via conference call.

Election of Vice Chairperson

Dr. Debby Scire advised the Advisory Commission that they are in need of a Vice Chair. Ms. Reid nominated Ms. Thornton and Ms. Provencher seconded the nomination. All members in attendance voted in favor and the nomination passed.

Review of Prior Meeting Minutes

The minutes of the May 24, 2021 meeting were presented for approval by Dr. Scire. Hearing no additional comments or corrections, Senator Kahn moved to adopt the meeting minutes as presented, and Treasurer Mezzapelle seconded the motion. All members in attendance voted in favor with the exception of Rep. Weyler and Mr. Knower abstaining, as Rep. Weyler was not present for the first half of the meeting and Mr. Knower was not present during that meeting. The motion passed.

Fidelity Enhancement Updates

New Portfolio Manager:

Ms. Foley informed the Advisory Commission that as of September 1, 2021, Bruno Weinberg Crocco will be a co-portfolio manager on the active and blend portfolios. Mr. Weinberg Crocco has experience across all dimensions of the investment process associated with the 529 portfolios – strategic asset allocation, active allocation, risk management, portfolio construction, manager selection and implementation.

Glide Path and Strategic Asset Allocation Update:

Ms. Foley explained that Fidelity's glide path and strategic asset allocation is based on a research driven process, which emphasizes three primary areas of research including participants' needs and behaviors, diversification, and capital market views. The proposed update is based on the capital market side and focuses on increasing diversification by adding international bonds and refining TIPS exposure. The proposed update focuses on fixed income allocations by (1) adding international developed market sovereign debt hedged, (2) increasing allocation to inflations-protected debt and replace existing mandate with two components with distinct maturity ranges, (3) increases allocation to long-maturity U.S. Treasuries, and (4) reduces allocation to U.S. investment grade and short-term debt. The proposed glide path would be implemented over a period of approximately 12 months.

Fee Reductions:

Mr. Terio walked through the proposed fee reduction for both the direct and advisor active age-based portfolio fees as well as the direct active program fees.

Direct and Advisor Active Age-Based Portfolio Fees

The current direct active age-based portfolio fees for the portfolio management rolldown schedule is currently at 43-79 basis points with a proposed reduction to 43-69 basis points. This fee reduction reduces the average portfolio management fund expense from 60 basis points to 55 basis points. For the advisor age-based portfolio fees, the portfolio management rolldown schedule is currently at 47-79 basis points with a proposed reduction to 47-69 basis points. This fee reduction reduces the average portfolio management fund expense from 63 basis points to 57 basis points. Mr. Terio explained that the decision is driven by the growth in their 529 offering and their continued commitment to providing value to their clients.

Direct Active Program Fees

The current direct active program fees are 20 basis points with a proposed reduction to 17 basis points. Mr. Terio explained that all fee reduction would be borne by Fidelity and have no impact on the assessments collected by the State.

The collection of all proposed changes for both the direct and advisor age-based portfolio fees and the direct active program fees results in an approximately \$6 million annual savings to plan participants. The effective date of the fee schedule if it received full approval would be January 1, 2022.

Stable Value:

Fidelity proposed adding a stable value product to the program. Mr. Terio explained that a stable value fund option is a fundamental component of defined contribution and 529 plans that seeks principal protection. Stable value funds have the potential to (1) provide steady, predictable returns consistent with conservative principal protection vehicles, (2) outperform money market funds over time, and (3) outpace inflation and retain the purchasing power of a dollar.

Mr. Terio explained that this would be a standalone investment option which would invest in underlying Fidelity mutual funds and would not be included in the glide path. He continued to explain that he would recommend contracting it in at this so we have the flexibility to move to it when the time was right. He pointed out that at this time the market rate isn't particularly conducive given how low the rates currently are.

Sustainable Investing:

Ms. Bialas stated that Fidelity had been focused on environmental, social and governance (ESG) and sustainable investing over the past several years. As such, Fidelity is offering a new sustainable multi-asset portfolio for consideration. The estimated timing for the new strategy would be in the first half of 2022. Portfolio characteristics include allocating assets to Fidelity mutual funds investing in securities with high environmental, social and governance (ESG) ratings. There is a neutral allocation of 70% equity and 30% fixed income with flexibility to invest in active and passive building blocks. The global asset allocation teams will be managing the product with active asset allocation capabilities, with flexibility of +/- 10% relative to neutral equity and fixed income allocations.

In response to some concerns raised by Advisory Commission members that ESG funds could narrow down the investment options that participants would otherwise have access to, Ms. Bialas explained that Fidelity's rating system is inclusionary and not exclusionary, meaning, they review all of the companies in an industry and then rate them. They do not exclude any industries due to the type of business. Mr. Hazel added that the ESG option is standalone portfolio and would not be included as part of the aged-based or within the glide path. It would be an option for participants seeking those types of funds.

Institutional Share Class for Orphaned Accounts:

Mr. Hazel explained that within the Fidelity Advisory plan, there are a number of share class options that are designed to pay commissions to the broker/dealer on the account. When a broker/dealer resigns, those participants remain in those higher expense share classes. For orphaned accounts who no longer have an associated broker/dealer with the account, Fidelity proposed they will automatically exchange those participants out of the higher commission based share classes and move them into the institutional share class, which is relatively new to the plan, to reduce the fees to the participant for the same investment. The fee reduction depends on the share class and could result in an average savings of approximately 15 to 25 basis points. The effective date of the institutional share class change for orphaned accounts if it received full approval would be January 1, 2022.

Ms. Provencher made a motion to approve the proposals made by Fidelity regarding the fee reductions, moving share classes of orphaned accounts to an institutional share class effective January 1, 2022, as well as the ability to add both a stable value fund and sustainable investing options at a future date. Rep. Weyler seconded the motion. All members in attendance voted in

favor and the motion passed. Note: Glide-path and strategic asset allocation changes do not require Commission approval. The Treasurer's office will work with Fidelity on the contract amendment and bring it to the Governor and Executive Council for final approval.

Maximum Contribution Limit

Mr. Durkan reviewed information regarding the maximum contribution limit, which the Advisory Commission reviews every year. Mr. Durkan shared that New Hampshire's maximum contribution limit is currently at \$542,000. New Hampshire maintains the second highest contribution limit after Missouri, theirs is at \$550,000. The average 529 Plan contribution limit is \$430,277, the median is \$500,000.

Mr. Durkan shared that New Hampshire has historically used the Dartmouth formula as one proxy to support its contribution limit calculation. This year the Dartmouth formula calculated a maximum contribution amount of \$553,098 ($\$79,041 \times 7$), which includes undergraduate and graduate study (7 years).

Treasurer Mezzapelle indicated that the IRS code requires that plan sponsors review the contribution limit annually and an accepted methodology considers college costs for four years plus graduate school. Treasurer Mezzapelle reiterated that the Advisory Commission has historically used the Dartmouth formula to support its decisions. After an engaged discussion, Senator Kahn moved to increase the Maximum Contribution Limit to \$553,098. Mr. Lynn seconded the motion. All members in attendance voted in favor and the motion passed.

Dashboard Review as of June 30, 2021

Treasurer Mezzapelle presented the semi-annual update of the Dashboard Report as of June 30, 2021 including the following:

- Revenue estimates were updated by Fidelity projecting that revenues would reach \$19.2 million, \$20.0 million, and \$20.5 million in calendar years 2021, 2022, and 2023, respectively.
- Average plan assets were also updated projecting \$23.5 billion, \$24.3 billion, and \$24.9 billion in 2021, 2022, and 2023, respectively. Note: Commission revenue is derived from average plan assets.

Update of Endowment Trust Fund, and Scholarship Disbursements

Treasurer Mezzapelle provided an update of the Endowment Trust Fund and Scholarship Disbursements through Q4 of FY21, highlighting that the trust fund had received nearly \$17.7 million in assessment revenue from Fidelity and generated net market gains of \$327,238. Additionally, the endowment trust fund had also incurred \$451,857 in administrative expenses consisting of: 1) investment management fees of \$22,274, 2) the first, second, third and fourth quarterly Treasury overhead allocation of \$22,223, 3) \$8,500 in membership dues paid to the

College Savings Plan Network and College Savings Foundation, 4) \$36,000 paid to the Department of Education for the administrative support provided, 5) \$275 for a Zoom meeting license, and 6) \$361,525 paid to PwC for the FY20 audit. The endowment trust fund ended the fiscal year with a balance of \$11.4 million.

Since program inception, the endowment trust fund has collected \$208 million in assessment revenue and has disbursed over \$164.5 million in scholarship funds.

Update of Governor's Scholarship Program

Treasurer Mezzapelle provided an update of the Governor's Scholarship Program. She explained that State law and the administrative rules require participating institutions to submit an invoice to be reimbursed for awards they have granted to students. She continued to explain that this program originated with the Office of Strategic Initiatives (OSI) and has since been moved to the Advisory Commission. For the 2018-19 award year, OSI had allocated approximately \$4 million and we will have paid approximately \$904,000 through the third of four years. For the 2019-20 award year, OSI had allocated approximately \$4.8 million and we will have paid approximately \$1.4 million through the second of four years. For the 2020-21 award year, the program was transferred to the Advisory Commission which allocated approximately \$4.5 million and we will have paid approximately \$1.0 million through the first of four years. Treasurer Mezzapelle explained the Advisory Commission was responsible for the oversight of the program for award year 2020-21 and they changed the rules to say the allocation to schools will be based on enrollment. As such, the Advisory Commission took some of the funding that was not utilized in prior years and it was reallocated to award year 2020-21.

Treasurer Mezzapelle reviewed the Statement of Revenues, Expenditures, and Changes in Fund Balance as of June 30, 2021. At the beginning of FY21, the fund had approximately \$9.7 million and we ended the year with a balance of \$17.1 million. Of the \$17.1 million, approximately \$11.8 million is unrestricted and the remaining \$5.3 million is restricted as it has already been awarded to students in prior academic years. Treasurer Mezzapelle also noted that within the \$11.8 million unrestricted balance, included is the FY22 allocation of approximately \$5.4 million.

Proposed Changes to the Administrative Rules

Treasurer Mezzapelle explained that HB2 contained language that allows the Advisory Commission the ability to transfer funds between the New Hampshire Excellence in Higher Education Endowment Trust Fund and the Governor's Scholarship Fund. This allows the Advisory Commission to fund the Governor's Scholarship Program should the legislature choose to discontinue appropriating general funds to the program. In addition, HB2 appropriated \$6 million to the Governor's Scholarship Program for FY21 and moved the chapter law from the Office of Strategic Initiatives (RSA 4-C:31-34) to the chapter that covers the Advisory Commission (RSA 195-H). Due to the changes in HB2, the administrative rules must now be amended under the authority that is granted to the commission. Administrative rules Csp 300,

Csp 400 and Csp 700 require the following updates due to statute changes as well as some housekeeping items:

Csp 300:

The language “Csp 400” must be added to include the Governor’s Scholarship Program an authorized use of the assessments collected.

Csp 400:

Changes in this chapter intend to align the Csp 400 rules with the statutory changes pursuant to Chapter 91:163, laws of 2021 (HB2), which moved the location of the Governor’s Scholarship Program from the Office of Strategic Initiatives (RSA 4-C:31-34) to the Advisory Commission (RSA 195-H).

Csp 700:

Changes in this chapter include adding information needed to confirm student eligibility to participate in the program. This is part of the required annual reporting by participating institutions. Additionally, Csp 702.01(b) & (c) have been edited allowing the Advisory Commission to determine the percentage of gross proceeds available for endowment allocations on a yearly basis rather than having a fixed percentage. This proposal changes the fixed percentage of 80% by requiring the Advisory Commission to determine annually the percentage of gross proceeds from assessments which will be available for endowment allocation to participating institutions. The proposed change in the administrative rules will maximize the number of scholarships available for New Hampshire students by reviewing the funding on a yearly basis based on current economic/other conditions.

Mr. Lynn made a motion to accept all proposed changes to the rules and it was seconded by Rep. Weyler. The State Treasury will work on behalf of the Advisory Commission to move through the rule-making process. Treasurer Mezzapelle brought to the Advisory Commission’s attention that we will need a special meeting of the commission sometime in October so we are able to meet all of the rulemaking deadlines to have a final draft of the proposed rules for the Commission to vote on in December.

Proposed 2022 Meeting Dates

Dr. Scire presented the proposed 2022 meeting dates. Senator Kahn mentioned that the May 23, 2022 date is the final week of the legislative session and may present scheduling conflicts for the legislators on the Commission. It was suggested that the May 23rd date be moved to June 6th and that a revised proposed meeting schedule would be presented at the next commission meeting.

Other Business

Rep. Weyler raised a concern regarding how financial aid is calculated when a student holds funds in a 529 plan. Ms. Provencher responded that she would follow up the Financial Aid Directors at the University System with that question and report back to the Advisory Commission. After additional discussion, Ms. Provencher offered to have a Financial Aid Director from the University System attend a future meeting to discuss the scholarships and

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address Rep. Weyler's concern. Ms. Reid also offered to have a Financial Aid Director from the Community College system attend to provide perspective from a 2-year program standpoint so it could be contrasted with 4-year programs.

Hearing no additional new business, Dr. Scire requested a motion to adjourn the meeting. Rep. Weyler moved, Ms. Provencher seconded the motion. All attending members voted in favor and the meeting adjourned at 12:39 p.m.

NOTE: The next regular meeting is scheduled for Monday, December 6, 2021 beginning at 10:00 a.m.