

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of May 16, 2016

The May 16, 2016 meeting of the New Hampshire College 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 (“NHHEAF”)
Michael Cryans	Public Member, appointed by the Governor
Bill Dwyer	State Treasurer
Ross Gittell	Chancellor, Community College System of New Hampshire
Thomas Horgan	President & CEO, representing the New Hampshire College and University Council Hampshire
David Mahoney	Representing the Higher Education Commission – Dept. of Education

Members absent were:

Lou D’Alessandro	State Senator
Jeanie Forrester	State Senator
Sylvia Larsen	Representing the Governor; Retired State Senator
Todd Leach	Chancellor, University System of New Hampshire
Lynne Ober	State Representative
Laurie Sanborn	State Representative

Also present at the meeting were Kyla Doyle, Keith Bernhardt, Matt Golden, Peter Walsh, Andrew Dierdorf, and Sarah Pulsifer from Fidelity Investments (“Fidelity”), and Monica Mezzapelle from State Treasury.

Review of Prior Meeting Minutes

Minutes of the February 29, 2016 regular meeting were reviewed and presented for approval by Dr. MacKay. After hearing no discussion, Dr. MacKay asked for a motion to approve the minutes. Approval was moved by Dr. Gittell and seconded by Mr. Cryans. The motion passed unanimously.

Summary of Investment Committee Meeting

After hearing presentations from the Fidelity team, led by Mr. Peter Walsh, Institutional Portfolio Manager for the Fidelity managed-529 plans, and Mr. Andrew Dierdorf, Portfolio Manager of several Fidelity funds, Dr. MacKay provided a brief summary of the Investment Committee meeting, which preceded the regular meeting. During the Investment Committee meeting Mr. Walsh and Mr. Dierdorf presented an overview of the Capital Markets during the first quarter of 2016, highlighting that it was a volatile quarter.

Mr. Dierdorf stated the U.S. economy is experiencing some signs of the late business cycle and a global monetary policy continued predominantly accommodative, especially in the U.S., Europe, and Japan, in order to support future economic growth. Even with growth challenges overseas, the U.S. economy continued to grow supported by a healthy labor market and growing wages. The best performers of this quarter were emerging markets debt and inflation protected debt (TIPs). The worst performers were non-U.S. equities and short-term debt.

Dr. MacKay reminded Commission members that during the last quarter, Fidelity made some changes to the asset allocation based on investment research, increasing allocations to sectors expected to benefit in the current environment and reducing exposure in others. Mr. Dierdorf stated asset allocations continue slightly overweight in equities, while underweight in fixed income and short-term debt. Mr. Dierdorf and Mr. Walsh were pleased to report that Active Asset Allocation brought in 30-35 bps to the plans during the quarter.

Fidelity will continue routine reviews of its position in accordance with its investment strategy, supported by active allocation, fund management, and a robust research team. Fidelity will also monitor market volatility, pace of monetary tightening, global trade in China, rapid strengthening of the U.S. dollar, and geopolitical destabilization.

Before concluding the presentation, Ms. Sarah Pulsifer from Fidelity presented the UNIQUE and Fidelity Advisory 529 Competitive Performance Update for quarter one of 2016. For the UNIQUE plan, top competitors were selected based on managers' use of active and passive strategies and in order to more closely compare performance, the funds were aligned by portfolios most in line with Fidelity's equity allocation. Plans compared were T. Rowe Price (AK), Schwab (KS), Franklin Templeton (NJ), USAA (NV), and Multi-Firm funds (NH) to Fidelity Funds (NH). Similarly, for the advisor-sold plans, funds were aligned by the portfolios most in line with Fidelity's equity allocation, which compared American Funds (VA), John Hancock (AK), Blackrock (OH), and Alliance Bernstein (RI) to Fidelity (NH). Overall, the NH plans continue to perform positively and in line with competitors.

Administrative Rules – Adoption of Rule Csp 300 & Csp 600, Conditional Approval Response of Rule Csp 700, and Adoption of Csp 700

Dr. MacKay reported that all the filings submitted by the State Treasury to the Office of Legislative Services (“OLS”) were approved by the Joint Legislative Committee on Administrative Rules (“JLCAR”) during its March 18th meeting. As a result, the Advisory Commission took the following actions during this meeting:

1. Adoption of Rule Csp 300 and Csp 600

After JLCAR approval, the rule requires adoption by the Advisory Commission and it becomes effective upon notification to the OLS. Dr. MacKay requested a motion to adopt Rules Csp 300 and Csp 600. Mr. Cryans moved and Treasurer Dwyer seconded. The motion passed unanimously.

2. Conditional Approval Response of Rule Csp 700

During the last meeting the Commission had an opportunity to review and approve the Draft Conditional Approval Request for Rule Csp 700. The corresponding document was filed with the OLS on March 1st and was subsequently approved by the JLCAR on March 18th. The next step is for the Advisory Commission to formally concur with such approval by filing a Conditional Approval Response. Upon concurrence by the Advisory Commission, the filing was hand-delivered to the OLS for confirmation and the Advisory Commission was ready to adopt Rule Csp 700 during this meeting. Therefore, Dr. MacKay requested a motion to formally concur with the JLCAR approval. Mr. Mahoney moved and Dr. Gittell seconded. The motion passed unanimously.

3. Adoption of Rule Csp 700

After receiving confirmation that the OLS accepted the Conditional Approval Response of Rule Csp 700, the Advisory Commission proceeded to adopt Rule Csp 700. Dr. MacKay requested a motion to adopt Rule Csp 700. Treasurer Dwyer moved and Dr. Gittell seconded. The motion passed unanimously.

Dr. MacKay informed the Commission the State Treasury will file the proper documentation with the OLS requesting that the rules be adopted immediately. Dr. MacKay was pleased to announce that this concluded the rules update process and the 529 Plan and UNIQUE scholarship programs will now have updated rules for the proper operation of the programs as required by RSA 195-H:3 and RSA 6:40.

Update of Endowment Trust Fund and Scholarship Disbursements

Treasurer Dwyer presented the Endowment Trust Fund results for quarter ended March 31, 2016 and indicated the Endowment Trust Fund as of March 31st had a balance of over \$3.3 million, an increase of approximately \$270,000 or 8.9% since the last quarter. Since the beginning of the fiscal year, the fund has received nearly \$9.5 million in management fee income and approximately \$94,000 in interest and dividend earnings and net market gains. In addition, from program inception, \$128 million in account management revenue has been received and over \$5.4 million in investment management income has been earned by the Endowment Trust Fund, while over \$94 million has been disbursed for the UNIQUE Annual and Endowment Allocation programs.

In this fiscal year, an initial allocation of nearly \$1 million was distributed in July of 2015 to participating higher education institutions of the UNIQUE Annual Allocation Program. The allocation was based on individual scholarship amounts of \$700 each (full-time student equivalent). Under the UNIQUE Endowment Allocation Program, over \$7.7 million has been distributed to participating institutions through March 31, 2016. In addition, administrative expenses for the quarter totaled \$380,650, representing the annual payment to PricewaterhouseCoopers (“PwC”) for the two Plan audits of \$303,000, the quarterly Treasury overhead allocations of \$26,600, the endowment fund management fees of \$8,220, the yearly membership dues paid to the College Savings Foundation and College Savings Plan Network of \$6,600, combined, the annual support services paid to the Division of Higher Education of \$36,000, and the service award presented to Ms. Tara Payne of \$230.

Fiscal Year 2016 College Savings Program Budget Review

Treasurer Dwyer presented the proposed fiscal year 2017 program budget of the NH College Tuition Savings Plan Advisory Commission.

The fiscal year 2017 budget includes management fee income of \$13.8 million as derived from the projected assets in the UNIQUE College Investing Plan and the Fidelity Advisor 529 Plan. The budget projects over \$9.6 million in revenue on the direct-sold side (typically 70% of the total projected revenue) and over \$4.1 million in revenue on the advisor-sold side.

Program disbursements include the UNIQUE Endowment allocations of \$11 million (80% of \$13.8 million in revenue), which are paid monthly to the specific endowments each participating institution maintains and the UNIQUE Annual Award Scholarship amount of \$2.3 million. The Annual Award Scholarship amount is derived from program revenues, less the budgeted Endowment Allocations and budgeted administrative expenses; therefore, the \$2.3 million is not the actual projection of Annual Awards, as the number of actual payouts could be more or less depending on the total amounts awarded by participating institutions during the 2017-18 academic year. The Advisory Commission voted at its February 29 meeting to guarantee reimbursement requests submitted by participating institutions for Annual Awards granted in excess of the initial allocation amount of \$1 million. If the total Annual Awards granted are greater than the budgeted amount, the Endowment Trust Fund balance will be used to cover what is needed to fully fund the scholarship program.

In addition to the scholarship programs, \$92,000 is being budgeted for administrative expenses, which covers the audits of the two 529 plans contracted with PwC, association dues, the quarterly Treasury overhead allocations, the administrative support paid to the Division of Higher Education, and miscellaneous expenses. After hearing no further discussion, Dr. MacKay asked the Advisory Commission for a motion to approve the fiscal year 2017 operating budget. Mr. Cryans moved to approve and Dr. Horgan seconded. The Advisory Commission unanimously approved the fiscal year 2017 budget.

Overview of the 529 Programs

529 Industry Market Update

Mr. Golden presented the results of quarter one of 2016 529 Industry Update noting that New Hampshire continues as the fourth largest in the country with over \$14.4 billion in market-value assets under management and 6.1% of the industry's market-share as of March 31, 2016. New Hampshire again trailed Virginia (\$52.5 billion in assets managed by American Funds), New York (\$21.8 billion, manage by J.P. Morgan), and the Nevada plans (\$16.5 billion, overseen by multiple managers, including Vanguard). Mr. Golden added the Alaska plan moved to ninth place trading positions with the Rhode Island plan which is now in 10th place.

529 industry assets increased by 2.1% from quarter four 2015 to quarter one 2016 and increased by 1.5% year over year. While New Hampshire's assets, both plans combined, increased by 1.7% from quarter four 2015 to quarter one 2016 and decreased by 0.4%, respectively during the same time periods.

Fidelity Advisor 529 Plan Review

On the 529 advisor-sold side, Mr. Golden reported 529 advisor-sold Plan assets increased by 1.0% from quarter four 2015 to quarter one 2016 and decreased by 1.2% year over year ending March 31, 2016. While the Fidelity Advisor 529 Plan had over \$4.2 billion in market-value assets, distributed across 194,193 participant accounts, and a 3.9% of the market-share, as of March 31, 2016. New Hampshire trailed Virginia (\$49.2 billion in assets), Maine (\$7.9 billion in assets), Rhode Island (\$6.7 billion in assets), and Ohio (\$4.6 billion in assets).

The FA 529 Plan assets increased 0.6% from quarter four 2015 to quarter one 2016, but were lower by 3.5% year over year. New participant accounts decreased by 8.2% compared to quarter one 2015 and by 4.9% compared to quarter four in 2015. However, contributions increased by 2.2% compared to quarter one of 2015 and by 1.1% compared to quarter four in 2015. The average account size of the advisor-sold plan was \$21,786, with New Hampshire residents averaging \$21,030 in account balance.

In response to inquiries of the Advisory Commission, Mr. Golden commented on the new U.S. Department of Labor ("DOL") fiduciary rule, which impacts the advisor space. The new DOL rule requires investment advisers to operate under a "fiduciary" capacity and no longer under "suitability" for retirement assets. The fiduciary rule could increase liability for investment advisers and advisers may change how they do business. For example, advisers may change to a fee-based compensation rather than commission-based. Fidelity is exploring options to respond to changes that this DOL rule may bring.

Direct-sold (UNIQUE) 529 Plan Review

On the 529 Direct-sold side, Ms. Doyle reported the UNIQUE Plan surpassed again the \$10 billion mark, with over \$10.1 billion in market-value assets and 8% of the market-share. The UNIQUE Plan assets increased by 2.2% from quarter four 2015 to quarter one 2016 and increased by 1% year over year. The Plan continued to trail New York with \$18.0 billion in assets (14.2% market-share) and Nevada with \$12.3 billion (9.7% market-share).

Ms. Doyle pointed out that the market played a significant role during the period, the volatility seen early in the quarter had an impact in account growth. As of March 31, 2016, the UNIQUE plan had 610,763 participant accounts, a reduction in the number of new accounts of 11.5% compared to last year and a growth rate reduction of 7.5% compared to quarter four of 2015. Dr. MacKay emphasized that despite the decline in account growth, the Plan gained 12,069 new accounts in the quarter. Ms. Doyle added the Plan has already recovered in April, which will be reported in the next quarter. Contributions to the Plan increased for the quarter by 2% and declined by 3% compared to quarter one of 2015.

The average account size in a UNIQUE account was \$23,020, with New Hampshire residents averaging \$19,157. In addition, the average monthly contributions to new and existing accounts nationwide were \$3,874 and \$147, respectively, with New Hampshire residents averaging \$1,545 in contributions to new accounts and \$240 in contributions to existing accounts.

Regulatory and Legislative Report

Ms. Doyle also presented the Regulatory and Legislative update impacting the 529 industry. On March 17, 2016 - Senators Burr (R-NC) and Casey (D-PA) along with Representatives Crenshaw (R-FL), Van Hollen (D-MD), McMorris Rodgers (R-WA), and Sessions (R-TX) introduced a package of bills to enhance the ABLÉ Act – they include the following:

- *The ABLÉ Financial Planning Act:*

To allow rollovers from 529 college savings plan to ABLÉ accounts.

- *The ABLÉ to Work Act:*

To expand on the goals of the ABLÉ Act by encouraging self-sufficiency and work. The legislation allows individuals and their families to save more money in an ABLÉ account if the beneficiary works and earns income. Specifically, an ABLÉ beneficiary who earns income from a job could save up to the Federal Poverty Level, which is currently at \$11,770. The bill will also allow ABLÉ beneficiaries to qualify for the existing Saver's Credit when they put savings in.

- *The ABLÉ Age Adjustment Act:*

To raise the age limit for ABLÉ accounts from age 26 to age 46. Increasing the age limit for ABLÉ accounts will allow more individuals to save in these accounts to help cover the costs of short, medium and long-term care.

Ms. Doyle indicated no programs have been implemented yet, but it is anticipated that Florida and Nebraska may launch their programs in June 2016. Dr. MacKay stated that Governor Hassan signed SB 265 to allow an ABLÉ program in New Hampshire. Treasurer Dwyer added that due to the potential size of the program, New Hampshire could join a consortium with other states. Furthermore, the law contains three contingencies: 1) No general fund revenue can be

used, 2) the final federal regulations need to be enacted, and 3) the State would need to have found a third party provider for this program.

Review of Other Items

Report on the Children's Savings Account legislation

Dr. MacKay provided an update on the recent activities of the commission on the Children's Savings Account Program ("CSA") pursuant to RSA 195-J.

The purpose of the CSA program is to increase opportunities for college and career success for all students and to do so by encouraging positive postsecondary education savings behavior for low and moderate income families and to provide, in cooperation with the public schools, financial literacy for all students and their parents. The CSA program is to begin with two pilot programs consisting of creating savings accounts at a financial institution with a minimum deposit of \$50 for each eligible child attending public kindergarten in Coos County and in the City of Manchester. The New Hampshire Charitable Foundation has pledged to match the funding if initial seed money is provided by the State. The total estimated cost of the first year of the program is \$65,000 for 1,300 students entering kindergarten in the two pilot locations. Once implemented, the intent is to eventually migrate the oversight and management of this program to the College Tuition Savings Plan Advisory Commission.

SB 408 was introduced in this 2016 legislative session to appropriate \$50,000 to the children's savings account fund pursuant to RSA 195-J:5. The bill was placed on the table and it is unlikely further action will be taken during this session. The CSA commission will now work on a proposal for the next legislative session to potentially introduce a fee that could be dedicated to fund this program.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 11:40 a.m.

NOTE: The next regular meeting is scheduled for Monday, August 22, 2016 beginning at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. The meeting will be preceded by the Investment Committee meeting beginning at 9:00 a.m. All Advisory Commission members are invited to attend.