

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of August 22, 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
Thomas Horgan	President & CEO, representing the New Hampshire College and University Council Hampshire
Sylvia Larsen	Representing the Governor; Retired State Senator
David Mahoney	Representing the Higher Education Commission – Dept. of Education

Members absent were:

Lou D’Alessandro	State Senator
Jeanie Forrester	State Senator
Ross Gittell	Chancellor, Community College System of New Hampshire
Todd Leach	Chancellor, University System of New Hampshire
Lynne Ober	State Representative
Laurie Sanborn	State Representative

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

Review of Prior Meeting Minutes

Minutes of the May 16, 2016 regular meeting were distributed and presented for approval by Dr. MacKay. After reviewing the minutes, Dr. MacKay asked for a motion to approve the minutes as distributed. A motion was made by Mr. Cryans, seconded by Ms. Larsen. The minutes were unanimously approved. It was also noted for the record that completion of the Administrative Rules revision process was a major accomplishment, and Monica Mezzapelle deserves recognition and credit for her outstanding work on behalf of the Commission in leading this effort.

Summary of Investment Committee Meeting

Dr. MacKay summarized presentations led by Mr. Peter Walsh, Institutional Portfolio Manager for the Fidelity managed-529 plans, and Mr. Andrew Dierdorf, Portfolio Manager of several Fidelity Funds, during the Investment Committee meeting.

During the Investment Committee meeting, Mr. Walsh and Mr. Dierdorf stated that for much of the quarter, the global economy showed signs of stabilization, which provided a basis for commodity prices and global equities to continue to recover from a challenging first quarter; however, the U.K. referendum vote to leave the European Union in late-June brought more uncertainty about the global economy and markets, leading to a further drop in bond yields. Despite turbulent markets in late June, stocks finished higher for the second quarter with U.S. stocks posting modest gains led by energy and dividend yield-oriented stocks, which benefited from lower interest rates. Non-U.S. Developed markets stocks fell slightly, meanwhile emerging markets, supported by higher commodity prices, outpaced non-U.S. developed markets like Europe. Global yields fell throughout the quarter, which led to positive returns within fixed income for high-quality bonds. The best performing sectors were commodities and high yield debt and the worst performing sectors were non-U.S. equities and short-term debt.

Mr. Dierdorf highlighted that most of the age-based and static portfolios (Fidelity, Multi-Firm and Index Funds) experienced positive results during the second quarter, while underperforming their benchmarks during the 1-year and 3-year periods. Active Asset Allocation was a key contributor to performance, adding 16 basis points during the second quarter and 120 basis points year-to-date. Last quarter active asset allocation brought in 30-35 basis points to the Plans.

Dr. MacKay told the Commission that Mr. Bernhardt and Mr. Dierdorf met with Morningstar representatives early in the month to provide an update about the New Hampshire plans, and in particular, the positive performance realized since adoption of active asset allocation. The State Treasury's office had also been contacted to provide an update from the Plan sponsor's perspective and a call had been scheduled for Friday, August 26, 2016. Mr. Dierdorf reminded the Commission that Morningstar awards medals to the best 529 plans and conducts its yearly reviews around this time of the year. Both plans, the UNIQUE and FA 529, currently hold Morningstar ratings of "Neutral". Results are typically released in October.

Review of the Dashboard Report as of June 30, 2016

Dr. MacKay presented the semi-annual update of the College Tuition Savings Plan Dashboard Report as of June 30, 2016. The Dashboard report includes the New Hampshire Plans historical and forecasted data, including actual and projected management fee income, actual and projected plan assets, activity of the New Hampshire Excellence in Higher Education Endowment Trust Fund established pursuant to RSA 6:38, as well as award information relative to the two UNIQUE scholarship programs.

Updated revenue projections for calendar year 2016 now reflect \$13.4 million in commission revenue, which is based on the average total plan assets. The average plan assets metric was also updated and assets are now projected to reach \$14.7 billion by the end of calendar year 2016.

Preliminary Annual Award results were also included – so far participating institutions have reported \$2.6 million in UNIQUE funds granted to New Hampshire students during the 2015-16 academic year, representing 5,830 individual Annual Awards. Final numbers will be available in the fall after the reporting October 15 deadline.

Update of Endowment Trust Fund and Scholarship Disbursements

Treasurer Dwyer presented the Endowment Trust Fund results for fiscal year 2016 reporting that the Endowment Trust Fund finished the year with a balance of \$2.46 million, a decrease of approximately 414,000 or 14% compared to last year. During the year, the fund received \$12.7 million in revenue and over \$152,000 in investment earnings and net market gains. The fund also paid over \$12.8 million in scholarship funds to participating colleges and universities of the UNIQUE Annual and Endowment Allocation programs. Similarly, since program inception, the fund has received \$131 million in revenue and over \$5.5 million in investment income, while nearly \$98.3 million has been disbursed for scholarship programs. Treasurer Dwyer noted that by the next Advisory Commission meeting, we should have surpassed the \$100 million mark in UNIQUE scholarship distributions. In response to an inquiry from Mr. Cryans, Dr. MacKay suggested the Advisory Commission could plan a celebration for this milestone in 2017, once the State budget is finalized and the preliminary 2016-17 scholarship results are received from participating institutions. 2017 would also be the twentieth anniversary of the legislation approving the NH 529 Plan, and another appropriate reason to publicize the accomplishments of the program.

For the UNIQUE Annual Allocation Program, an initial allocation of nearly \$1 million was distributed in July of 2015 and an additional \$1.6 million in reimbursements was distributed to participating colleges and universities that paid out more annual awards than the initial allocation amount received in July. Under the UNIQUE Endowment Allocation Program, nearly \$10.2 million was distributed to participating institutions during fiscal year 2016. Administrative expenses through June 30, 2016 totaled approximately \$393,000, consisting of: 1) \$303,000 paid to PricewaterhouseCoopers (“PwC”) for the two 529 Plan audits; 2) the quarterly Treasury overhead allocations of \$35,000; 3) Endowment Trust Fund investment management fees of \$12,000; 4) yearly membership dues of \$6,600 paid to the College Savings Plan Network and College Savings Foundation; 5) the yearly payment to the Division of Higher Education of \$36,000 for ongoing administrative support, and; 6) miscellaneous expenses totaling \$250.

Ms. Larsen commented that in years past, the annual award amount was higher than \$700, ranging from \$500 - \$1,500. Dr. MacKay stated the Advisory Commission will have an opportunity to review it again during the next meeting, as the Advisory Commission designated that meeting for determination of the subsequent year Annual Award criteria and maximum amount. Ms. Larsen asked State Treasury if an analysis on the impact to the trust fund balance

could be done in preparation for that meeting; Treasury Dwyer agreed to provide a sensitivity analysis for the next meeting.

Maximum Participant Contribution

Mr. Golden provided an overview of the 529 Contribution Limits. The Plan provisions allow for changes to be made to the contribution limit and currently New Hampshire is ranked as having the 13th largest maximum contribution limit nationwide at \$375,000. Mr. Golden indicated the average 529 Plan contribution limit is \$359,891 and the median is \$352,800. In addition, college costs are increasing every year: the average total college expenses for a four-year public college increased 2.9% from the 2014-15 academic year to \$23,344 and the average total college expenses for four-year private college increased 3.6% from the 2014-15 academic-year to \$54,303.

Over the years New Hampshire has used the Dartmouth College formula (the most expensive college in New Hampshire) as one proxy for evaluating the Contribution Limit. The Dartmouth College formula includes undergraduate and graduate study for seven years resulting in total cost of \$486,318 ($\$69,474 * 7$ years). The annual cost of \$69,474 includes tuition, fees, books, housing, food, and miscellaneous expenses as of August of 2016.

Mr. Golden added last time changes were made was in 2013 when New Hampshire was in the top 5, last year New Hampshire was No. 10. New Hampshire is now in the top 13. Ms. Larsen added that New Hampshire was one of the first states implementing a 529 plan and back then, there were concerns about regulatory ramifications if the limit was set to too high. However, based on Fidelity's presentation, it is clear that states can go as high as \$500,000 (Michigan and Virginia plans). In addition, there are six accounts in the UNIQUE College Investing Plan and 49 in the Fidelity Advisor 529 that exceeded the contribution limit of \$375,000 as of August of 2016. Accounts that exceed the contribution limit are not allowed to make additional contributions to the plans, but they are allowed to stay to continue to grow.

After some discussion and consideration given to potentially discouraging investors from participating in the New Hampshire plan, a motion was made to raise the Contribution Limit from \$375,000 to \$475,000. A motion to increase the maximum participant contribution was made by Ms. Larsen, seconded by Dr. Horgan. The motion passed unanimously. The new Maximum Participant Contribution will be \$475,000 effective January of 2017. Participants will be notified in January of 2017 when the new Fact Kits are distributed.

Proposal to Offer Institutional Share Classes

Mr. Bernhardt shared with Commission members that Fidelity has had a series of enhancements to make the 529 plans more competitive.

On July 6th, Fidelity announced a reduction in total asset-based fees for the UNIQUE Index Portfolios ranging from 19 to 29 basis points to 11 to 20 basis points. These portfolio expenses

are now among the lowest in the 529 industry. This change did not require a revision to the existing agreements between the Trust and Fidelity.

Another enhancement Fidelity is planning to implement is the expansion of institutional share classes (lower fees) available for investment by the Multi-Firm 529 Portfolios. The universe of mutual funds available for investment will now include the Fidelity Funds and Third Party Funds participating in the Fidelity's Fund Network of over 2,000 mutual funds that are available to 529 plans and trade on a non-transaction fee or transaction fee basis. This could result in reduced fees for participants of 14 to 25 basis points. This change requires a simple amendment to the existing Investment Management Agreement, and therefore, approval by the Advisory Commission and the Governor and Executive Council. Fidelity is targeting mid-October to implement the changes.

Hearing no further discussion, Dr. MacKay asked for a motion to approve Fidelity's request to amend the existing Investment Management Agreement to offer institutional share classes in the Multi-Firm 529 Portfolios. A motion was made by Mr. Cryans, seconded by Mr. Mahoney. The request was unanimously approved.

Dr. MacKay inquired if there are any plans to expand institutional share classes available for investment in the other actively-managed funds, expressing support for doing so and thereby reducing costs for participants. Mr. Bernhardt stated he was not aware of it, but will follow up with his team.

Overview of the 529 Programs

529 Industry Market Update

Mr. Golden presented the 529 Industry Update for quarter two of 2016 noting that New Hampshire continues as the fourth largest in the country with over \$14.8 billion in market-value assets under management and 6.1% of the industry's market-share. New Hampshire again trailed Virginia (\$54.24 billion in assets managed by American Funds), New York (\$22.59 billion, managed by J.P. Morgan), and the Nevada plans (\$17.26 billion, overseen by multiple managers, including Vanguard). Mr. Golden noted that the California plan moved to 10th place with the Rhode Island plan moving out of the top 10.

The Dow Jones Stock Market Index was up for the quarter 2.6% and the Barclays Aggregate Bond Index 2.2%. Similarly, the 529 industry assets increased 3.1% from quarter one 2016 to quarter two 2016 and increased by 3.4% year over year, while New Hampshire assets, both plans combined, increased 2.9% from quarter one 2016 to quarter two 2016 and increased by 1.4%, year over year.

Fidelity Advisor 529 Plan Review

On the 529 Advisor-sold plan, Mr. Golden reported that as of June 30, 2016 the Fidelity Advisor 529 Plan had over \$4.3 billion in market-value assets, distributed across 193,474 participant

accounts and a 3.9% of the market-share. 529 Advisor-sold Plan assets increased by 2.4% from quarter one 2016 to quarter two 2016 and increased by 0.2% year over year, while the FA 529 Plan assets increased 2.1% from quarter one 2016 to quarter two 2016 and decreased by 2.1% year over year. New Hampshire trailed Virginia (\$50.79 billion in assets), Maine (\$8.06 billion in assets), Rhode Island (\$6.6 billion in assets), and Ohio (\$4.7 billion in assets). Mr. Golden added the Alaska plan keeps growing and it is right behind the New Hampshire FA 529.

New account growth was slow during the second quarter, reporting a decrease of 8.6% from quarter one 2016 and 14.4% compared to quarter two of 2015. The results could be attributed to numerous factors, including changes investment advisors are considering after the U.S. Department of Labor issued its Fiduciary Ruling. Mr. Golden shared their plans to support new account growth through an expansion of the FA 529 Plan marketing plan, distributing differentiated content to Broker-Dealer advisors in order to stand out from competitors, and by highlighting the value of college savings as an integral part of the overall client conversation.

Contributions also decreased by 14% compared to quarter one of 2016 and by 9.5% compared to quarter two in 2015. The average account size of the advisor-sold plan was \$22,337, with New Hampshire residents averaging \$20,605 in account balance. Mr. Mahoney expressed concern for the decline in the rate of new accounts being established, and both Mr. Golden and Mr. Bernhardt described the commitment to focus on this aspect as it is the primary driver of future plan asset growth.

Direct-sold (UNIQUE) 529 Plan Review

On the 529 Direct-sold side, Mr. Bernhardt reported that as of June 30, 2016, the UNIQUE Plan had over \$10.5 billion in market-value assets distributed across 621,467 participant accounts – maintaining 8% of the market-share. The UNIQUE Plan assets increased 3.2% from quarter one 2016 to quarter two 2016 and increased by 3% year over year. The Plan trails New York with \$18.7 billion in assets (14.2% market-share) and Nevada with \$12.8 billion (9.7% market-share). Mr. Bernhardt mentioned states with income tax benefits keep growing, such as the New York plan, and most likely those residents will remain in their state plan. Massachusetts just passed a law allowing 529 contributions to be deducted from the state income tax. Similarly, Maryland recently passed a law launching a generous state contribution match program to encourage residents to invest in the Maryland 529 plans.

New account growth declined during the quarter compared to quarter one of 2016 by 11% and by 6.5% compared to quarter two of 2015. Contributions to the Plan also decreased during the quarter compared to quarter one of 2016 by 14%; however, increased by 1% year over year. The average account size in a UNIQUE account was \$23,515, while New Hampshire residents averaged \$20,605. In addition, the average monthly contributions to new and existing accounts nationwide were \$3,949 and \$135, respectively, while New Hampshire residents averaged \$1,763 in new account contributions and \$230 in contributions to existing accounts.

Mr. Bernhardt briefly talked about the Fidelity Investments 529 College Rewards Credit Card, which brings about \$1.7 million in contributions every month – netting over \$5.2 million in contributions during the second quarter 2016, roughly \$40 million since inception.

Report on the Children’s Savings Account Program (RSA 195-J)

Dr. MacKay briefly updated the Advisory Commission on the Children’s Savings Account Program (“CSA”) stating that the CSA commission will be discussing a legislative proposal for the next legislative session that would introduce a fee increase dedicated to funding the CSA program.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 11:45 a.m.

NOTE: The next regular meeting is scheduled for Monday, December 5, 2016 beginning at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. There will be no Investment Committee meeting.