

New Hampshire College Tuition Savings Plan Advisory Commission  
Minutes of the Meeting of March 6, 2107

The March 6, 2017 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 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
Michael Cryans	Public Member, appointed by the Governor
Lou D’Allesandro	State Senator
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
Todd Leach	Chancellor, University System of New Hampshire
Peter Leishman	State Representative
Kenneth Weyler	State Representative

Members absent were:

Daniel Innis	State Senator
Sylvia Larsen	Representing the Governor; Retired State Senator
David Mahoney	Representing the Higher Education Commission – Dept. of Education

Also present at the meeting were Kyla Doyle, Keith Bernhardt, Ron Hazel, Sarah Pulsifer, and Peter Walsh from Fidelity Investments (“Fidelity”), Rachel Bradley from PricewaterhouseCoopers (“PwC”), Stephen Smith from the Legislative Budget Assistant Audit Office (“LBA”), as well as Monica Mezzapelle from the New Hampshire State Treasury.

### **Review of Prior Meeting Minutes**

Minutes of the December 5, 2016 regular meeting and minutes from the February 6, 2017 special meeting were presented for approval by Dr. MacKay. Dr. MacKay reported that the Advisory Commission met on February 6, 2017 (outside of the meeting schedule) to finalize the UNIQUE Annual Award eligibility criteria for the 2017-18 academic year. During the December 5<sup>th</sup> meeting, the Advisory Commission decided to perform additional research in order to finalize the

UNIQUE Annual Award eligibility criteria. This item was approved during the special meeting. Dr. MacKay then asked for a motion to approve the December 5, 2016 meeting minutes. Treasurer Dwyer moved, Dr. Leach seconded. In addition, Mr. Cryans made a motion to approve the February 6, 2017 meeting minutes and Senator D'Allesandro seconded. Both motions were unanimously approved.

### **Summary of Investment Committee Meeting**

Dr. MacKay summarized the 529 investment update presentation led by Mr. Peter Walsh, Institutional Portfolio Manager for the Fidelity managed-529 plans, during the Investment Committee meeting.

Mr. Walsh provided an overview of the capital markets highlighting that 2016 saw a number of investment themes. Early in the year, concerns about health care costs and slowing global growth resulted in higher volatility. Markets recovered by the spring and oil prices rose. Political uncertainty impacted the global environment due to events such as Brexit and the U.S. election. Post-U.S. elections, optimism for higher economic growth increased, which boosted U.S. equities. As the U.S. economy grows and higher inflation expectations continue, the likelihood of an interest rate increase by the U.S. Federal Reserve increases, which could be 25-50 basis points.

Mr. Walsh emphasized that the 529 investment strategies used are designed to help investors achieve the long-term objective of saving for college. The glide path objective is to replace 50% of in-state public college cost. The 529 glide path is structured to achieve that goal, enhanced by Active Asset Allocation, where fund managers have the ability to adjust the asset allocations +/- 10% to identify opportunities to improve asset class positioning over intermediate timeframe. Active Asset Allocation added 135 basis points to the Plans in 2016.

As a result, in 2016, all age-based and static portfolios (Fidelity and Multi-firm funds) revealed positive absolute performance over the 1, 3, 5, and 10-year periods. Index portfolios performed in line with their respective benchmarks.

### *UNIQUE and Fidelity Advisor 529 Competitive Performance Update*

Ms. Pulsifer presented the UNIQUE and FA 529 Competitive Performance Update for quarter ending December 31, 2016. For the UNIQUE plan analysis, 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 to Fidelity Funds (NH) were T. Rowe Price (AK), Schwab (KS), Franklin Templeton (NJ), USAA (NV), and Multi-Firm funds (NH). Similarly, for the advisor-sold plans, funds were aligned by the portfolios most in line with Fidelity's equity allocation. Fidelity Advisor 529 (NH) portfolios were compared to American Funds (VA), Blackrock (OH), and John Hancock (AK).

In summary, the UNIQUE and FA 529 portfolios performed well relative to competitors during quarter four of 2016, as evidenced by the 1, 3, and 5-year performance.

### **Review of 2016 External Audit**

Mr. Stephen Smith, Audit Director from the LBA, began indicating that his Office is responsible for contracting the external auditor for the UNIQUE and FA 529 Plans and that the contract with PwC has been extended for another three years, including the 2016 audit. Mr. Smith also reported that Ms. Bradley presented the audit results to the Fiscal Committee of the General Court on February 17, 2017 and the release of the audits was approved then.

Ms. Bradley, PwC Partner responsible for the completion of the audits, presented the results of the audits highlighting that the financial statements as of, and for the year ended, September 30, 2016, received clean (unqualified) opinions. PwC audited each of the 36 portfolios within the UNIQUE College Investment Plan and the 27 portfolios within the Fidelity Advisor 529 Plan. Ms. Bradley briefly summarized the audit approach indicating that the audit focused on the review of investment valuation of the underlying funds, proper accounting for fees and expenses, participant subscriptions or contributions and redemptions, reclassification of capital gain distribution (manual accounting process), and the proper financial statement presentation and disclosures. PwC also reviewed controls implemented by Fidelity, which are mostly automated, focusing on the controls over the daily portfolio unit value process, the re-balancing process, participant transactions (account set-up and remittance process), multi-class accounting, management override of controls, and the education savings platform. Ms. Bradley stated that no significant or material concerns came to her attention and matters required to be communicated to the Advisory Commission are included in the presentation for informational purposes only.

D. MacKay asked for a motion to accept the audit reports. Mr. Cryans moved, Senator D'Allesandro seconded. The audits were unanimously accepted.

### **Update of Endowment Trust Fund and Scholarship Disbursements**

Treasurer Dwyer provided an update of the Endowment Trust Fund and Scholarship Disbursements for quarter ending December 31, 2016. During the second quarter of the State's fiscal year 2017, the endowment trust fund received nearly \$6.6 million in management fee income (or assessments) from the two 529 Plans and had disbursements of approximately \$6.3 million. Through December 31, 2016, administrative expenses totaled a little over \$65,000, comprising of 1) \$4,860 for trust fund management fees paid in August and December of 2016, 2) \$17,920 for the first and second quarterly Treasury overhead allocations, 3) \$6,600 for the annual membership dues paid to the College Savings Plan Network and College Savings Foundation, combined, 4) \$36,000 for the administrative support provided by the Division of Higher Education, and 5) \$80 for supplies. The endowment trust fund finished the quarter with a balance of \$2.7 million.

Participating institutions also received the initial 2016-17 UNIQUE Annual Award Allocations of approximately \$1 million in July of 2016. In addition, nearly \$5.3 million in monthly Endowment Allocations were distributed to participating institution endowments through quarter ending December 31, 2016. Since program inception, the endowment trust fund has received nearly \$138 million in fee revenue and has surpassed the \$100 million mark in combined scholarship disbursements, with over \$104 million distributed to participating colleges and universities through December 31, 2016.

Referring to Attachment 3 of the materials and in response to Representative Wyler's question, Treasury Dwyer and Dr. MacKay indicated that Chester College and other colleges that have closed or have become ineligible for the UNIQUE programs have returned funds to the trust fund, as illustrated by the negative amounts (refunds).

### **Review of the Dashboard Report as of December 30, 2016**

Dr. MacKay presented the semi-annual update of the College Tuition Savings Plan Dashboard Report as of December 31, 2016. The Dashboard report includes the New Hampshire 529 Plans historical and forecasted data, actual and projected management fee income for the Advisory Commission and Fidelity, actual and projected plan assets, activity of the New Hampshire Excellence in Higher Education Endowment Trust Fund (pursuant to RSA 6:38), as well as scholarship award information relative to the two UNIQUE scholarship programs.

Updated revenue projections were provided by Fidelity for calendar years 2017, 2018, and 2019, resulting in \$13 million, \$13.1 million, and \$13.2 million, respectively, which is based on projected average plan assets. The average plan assets metric was also updated and average plan assets are now expected to reach \$15.4 billion in CY 2017, \$16.0 billion in CY 2018, and \$16.7 billion in CY 2019. Fidelity's revenue is expected to grow at higher rate and this, according to Fidelity, is due to projections relative to the multi-firm portfolios in which Fidelity receives a higher revenue share of 25 basis points compared to 10 basis points the Advisory Commission receives.

The UNIQUE Annual and Endowment program award results for the 2015-16 academic year were also included, reporting that \$2.6 million in UNIQUE Annual Award funds were granted to eligible New Hampshire students, or 5,933 individual awards of \$700 for a full-time student and prorated for a part-time student. Institution endowments also granted nearly \$2.8 million in scholarship funds to eligible New Hampshire students, or 1,516 individual awards of at least \$1,000.

### **Overview of the 529 Programs**

*Proposal to Amend Fidelity Advisory 529 Class C Units*

Mr. Ron Hazel stated that a recent FINRA examination identified concerns around Broker-Dealer usage of Class C units within 529 plans when a beneficiary of a 529 plan is under the age of 13. Class C units do not assess an up-front sales load like Class A units, however the internal expense ratios on Class C units are higher than Class A units. Some 529 plans have already amended their Class C units to allow them to convert automatically to load-waived Class A units after a 5-year holding period. As a result, several FA 529 clients have asked Fidelity to make a similar amendment to the FA 529 Plan. Currently, 25% of FA 529 Plan assets and annual contributions are in Class C units.

Mr. Hazel highlighted that converting FA 529 Class C units to load-waived Class A units would result in lower fees for Plan participants and would not impact the revenue share that the Advisory Commission currently receives. Mr. Hazel also clarified that adding a convertible feature to Class C units does require amendments to the existing Investment Management Agreement, the Trust Agreement (subject to Governor and Council approval), and the Plan's offering statement. However, not offering a convertible Class C unit feature could result in a decline in FA 529 Plan assets and new account growth. Implementation of these changes would occur during the May-June timeframe.

Fidelity requested approval from the Advisory Commission to move forward with the conversion of Class C units by amending existing agreements to allow any new purchases of FA 529 Class C units to automatically convert to load-waived Class A units after a five-year holding period, and allow all existing FA 529 Class C units that have been held for five years to automatically convert to load-waived Class A units. Existing FA 529 Class C units held for less than five years will automatically convert to load-waived A units after five years. Dr. MacKay requested a motion to approve Fidelity's proposal. Dr. Horgan moved and Dr. Leach seconded the motion. The motion was unanimously approved.

### *529 Industry Market Update*

Mr. Hazel provided an overview of the 529 Industry during quarter four of 2016, noting that New Hampshire continues as the fourth largest in the country with over \$15 billion in market-value assets under management and 6% of the market share. Industry assets increased 1.5% from quarter three to quarter four in 2016 and increased by 9.3% year over year – relatively in line with market performance: the Dow Jones U.S. Total Stock Market Index was up 4.1% for the quarter and climbed 12.6% year over year, while the Barclays U.S. Aggregate Bond Index was down -3% for the quarter and rose 2.6% at the end of 2016. Similarly, New Hampshire plans had a net decrease of -0.2% for the quarter and increased by 6.4% year over year. New Hampshire again was behind Virginia (\$56 billion in assets managed by American Funds), New York (\$23.6 billion, managed by J.P. Morgan), and the Nevada plans (\$18.3 billion, multiple managers – including Vanguard).

As mentioned in prior meetings, the New Hampshire plans are more mature compared to other states, therefore, distributions to pay for college are increasing and impacting asset growth. Mr. Hazel shared a few facts relative to FA 529 plan distributions data: in 2013, distributions totaled

\$327 million vs. 2016 distributions, which totaled \$430 million. Ms. Kyla Doyle also shared distributions data from the UNIQUE plan: 2012 distributions were \$614 million vs. 2016 distributions, which totaled \$984 million. In response to Treasurer Dwyer's question in regard to potential full withdrawals of remaining balances once 529 funds are used to pay for college, Mr. Keith Bernhardt stated that Fidelity educates account owners on how to spend from 529 accounts to reduce taxes and avoid penalties, including what to do with money left over. Examples of these include changing the designated beneficiary to another one, leave the funds there for future children or grandchildren, etc.

#### *Fidelity Advisor 529 Plan Review*

On the 529 Advisor-sold space, Mr. Hazel continued indicating that as of December 31, 2016 the FA 529 Plan had \$4.3 billion in market-value assets, distributed across 189,894 participant accounts and maintaining 3.8% of the market-share. 529 Advisor-sold plan assets, industry-wide, increased 0.9% from quarter three to quarter four in 2016 and increased by 6% year over year. The FA 529 plan is growing at slower pace, revealing a net decrease in the quarter of -1.2% and net increase of 3.1% year over year. The New Hampshire plan is the sixth largest in the country, trailing the Virginia (\$52.3 billion in assets), Maine (\$8.2 billion in assets), Rhode Island (\$6.1 billion in assets), Ohio (\$4.8 billion in assets) and Alaska (\$4.4 billion in assets) plans.

New account growth decreased during the quarter by 17%, gaining 2,034 accounts compared to 2,449 accounts in the previous quarter. Similarly, new account growth decreased by 26.3% compared to quarter four in 2015. In addition, contributions in quarter four 2016 increased by 4.8% compared to quarter three of 2016; however, contributions decreased by 16% in quarter four of 2016 compared to quarter four of 2015. Average account size metrics were also reported: The average account size in the FA 529 plan was \$22,832, with New Hampshire residents averaging \$20,706 in account balance.

Mr. Hazel indicated that the advisor-sold industry, as a whole, is experiencing a decline in new account growth and in contributions, as more investors are choosing more passive portfolios with lower fees. Mr. Hazel also shared that there are plans to work with another Firm to create another omnibus arrangement in 2018, similar to the existing partnership with Ameriprise, which should provide multiple benefits to the Plan, the Broker-Dealer, and its clients.

#### *Direct-sold (UNIQUE) 529 Plan Review*

On the 529 Direct-sold side, Ms. Doyle reported that as of December 31, 2016, the UNIQUE Plan had over \$10.7 billion in market-value assets, distributed across 647,834 participant accounts. The Plan remains in third-place in the country with 7.8% of the market-share, following New York (\$19.6 billion in assets), and Nevada (\$13.7 billion in assets). 529 Direct-sold plan assets increased by 2.1% from quarter three to quarter four of 2016 and by 12.1% year over year. The UNIQUE Plan assets had a net increase of 0.2% during the quarter and increased by 7.8% year over year.

New account growth was up during quarter four of 2016, increasing 23% compared to quarter three of 2016, and adding 14,543 new accounts. Account growth in quarter four 2016 compared to quarter four 2015 also increased by 11%. Contributions to the Plan also increased by 31% in quarter four of 2016 compared to quarter three of 2016, and by 17% compared to quarter four of 2015.

The average account size in a UNIQUE account was \$24,058, while New Hampshire residents averaged an account balance of \$19,587. The average monthly contributions to new and existing accounts nationwide were \$4,431 and \$156, respectively; while New Hampshire residents contributed an average of \$2,804 to new accounts and an average of \$305 to existing accounts.

### **State Legislation Update**

#### *Update of the Children's Savings Account Program (RSA 195-J)*

Dr. MacKay updated the Advisory Commission on the Children's Savings Account Program ("CSA") initiative. HB 609 was introduced and referred to the House Education Committee with the purpose of obtaining funding for the program. HB 609 proposed a \$100 increase in the licensing fee paid for each mutual fund class and such increase would be dedicated to fund the CSA program. The Bureau of Securities Regulation testified at the hearing and stated that there were 26,000 mutual fund classes registered and the increase would result in \$2.6 million in funding for the CSA program. The House Education Committee decided to retain the bill until there is more legislative support for the license fee increase.

### **Other Business**

#### *GEAR UP Grant*

Dr. Horgan informed the Advisory Commission about a federal grant awarded to the New Hampshire College and University Council ("NHCUC") and Campus Compact known as GEAR-UP (Gaining Early Awareness and Readiness for Undergraduate Programs). New Hampshire was the only state not participating in the program, primarily because of the relatively small low-income population until now.

The award includes a state-wide and partnership scholarship component. Recipients of the grant are required to provide college preparation services state-wide. Under the partnership scholarship component, \$1 million a year will be set aside in a trust for a period of seven years to provide scholarships to a cohort of students. Low-income students attending the seventh grade from seven partner communities have been identified as the cohort to be tracked. The funds need to be placed in a trust outside the NHCUC-Campus Compact and held until the students enroll in postsecondary education at a New Hampshire institution. The students will not own the funds, but rather have the respective college receive the funds for tuition and other costs when they attend the

institution. The individual grant award will be at least the minimum Pell grant award each year (\$590 for the 2016-2017 academic year). Also a non-federal match is required under this program and the UNIQUE Annual Award scholarship program could potentially meet the match requirement, as it shares a similar purpose of providing support for New Hampshire students with financial need attending New Hampshire institutions.

Dr. Horgan mentioned he contacted Dr. MacKay to discuss where those funds can be invested and that led to the exploration of 529 accounts for that purpose – at least four other states use 529 accounts for their GEAR UP grants. The first draw down can be made in April of this year and every April after that. Dr. Horgan expects to have the trust established by then and be able to begin the investment. Dr. MacKay added this could result in a great partnership between the NHCUC-Campus Compact and the Advisory Commission. More updates will be provided in future meetings.

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

**NOTE:** The next regular meeting is scheduled for Monday, May 15, 2017 beginning at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. There will be no Investment Committee meeting.