New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of March 5, 2018

The March 5, 2018 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:

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| 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 |
| Bill Dwyer | State Treasurer |
| Lou D'Allesandro | State Senator |
| Todd Leach | Chancellor, University System of New Hampshire |
| Michael Vlacich | President & CEO, representing the New Hampshire College and University Council |
| Kenneth Weyler | State Representative |

Members absent were:

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| Ross Gittell | Chancellor, Community College System of New Hampshire ("CCSNH") |
| Daniel Innis | State Senator |
| Sylvia Larsen | Representing the Governor; Retired State Senator |
| Peter Leishman | State Representative |
| David Mahoney | Representing the Higher Education Commission – Dept. of Education |

Also present at the meeting were Keith Bernhardt, Ron Hazel, Melissa Ridolfi, Justin Rozzero, Peter Walsh, Andrew Dierdorf, and Eric Kaplan from Fidelity Investments ("Fidelity"), Stephen Smith from the office of the Legislative Budget Assistant, Declan Byrne from PricewaterhouseCoopers ("PwC"), Charles Ansell from CCSNH, Janet Fiderio from the New Hampshire Department of Education, Division of Higher Education, as well as Monica Mezzapelle from the New Hampshire State Treasury.

## Review of Prior Meeting Minutes

Minutes of the December 4, 2017 meeting were reviewed and presented for approval by Dr. MacKay. Hearing no additional comments or corrections, Dr. MacKay requested a motion to approve the December 4, 2017 meeting minutes, as distributed. Mr. Cryans moved, Rep. Weyler seconded. The motion carried unanimously.

As a follow up from the previous meeting, Dr. MacKay mentioned that at the last meeting, Mr. Hazel informed the Commission that some state program sponsors reported erroneous information when migrating accounts to the omnibus platform. Subsequent research by Fidelity revealed that it was a one-time issue, specifically related to one state double-counting new accounts and no other issues were noted.

**Summary of Investment Committee Meeting**

Dr. MacKay provided an overview of the investment committee meeting with the Fidelity team, which preceded the regular meeting, highlighting that all funds produced positive returns and exceeded the respective benchmarks in 2017 despite the slight underperformance versus benchmarks during the fourth quarter of 2017. Nevertheless, during the 1, 3, and 5-year periods, the funds managed by Fidelity outperformed the composite benchmarks. For the 1-year, the actively managed and static portfolios outperformed composite benchmarks by 140 to nearly 300 basis points. Performance of the multi-firm portfolios has been strong and index portfolios performed in line with their respective benchmarks. Mr. Walsh also indicated that most of the strong performance comes from the glide-path structure supported by the active asset allocation strategy, which added approximately 80 basis points of return (0.80%) for the 1-year period in the representative portfolio. Dr. MacKay also pointed out that the actively managed funds have outperformed the index funds, as evidenced in the charts provided. Mr. Walsh clarified that the active asset allocation strategy is not employed in the passive portfolios.

Mr. Walsh and Mr. Dierdorf also presented a capital markets update during the investment committee meeting, stating that in 2017 U.S. equities displayed strong performance and in the fourth quarter, growth continued to outperform value, however, the healthcare and technology sectors lagged. Mr. Dierdorf added that current positioning reflects a constructive view on the global macroeconomic environment, including an overweight position in non-U.S. equities focused primarily in the emerging markets, and overweight in inflation-sensitive assets.

Also, during the investment committee meeting, Mr. Kaplan presented the UNIQUE and FA 529 Competitive Performance Analysis for quarter ending December 31, 2017, reporting that both plans performed very well relative to their peers. Mr. Kaplan mentioned the analysis followed a methodology based on performance rankings relative to peers in the respective Morningstar categories. Portfolios in both plans were, for the most part, in the top quartile. All of the 529 strategies are doing well, particularly the actively managed funds, compared to the main competitors such as American Funds, Vanguard, and T. Rowe Price. Mr. Kaplan added that T. Rowe Price performed better in the 1-year period due to a more aggressive strategy with higher allocation in equities. Mr. Kaplan continued stating that during the 3 and 5-year periods, the multi-firm portfolios did particularly well in the college portfolios due to the selection of some of the fixed income managers chosen for multi-firm funds.

Dr. MacKay asked the investment team if they could provide some information regarding potential implications brought by the new federal tax law, which will allow the use of 529 funds for K-12 education. Mr. Kaplan stated that the new tax law allows expenses of up $10,000 a year for K-12 tuition-only (unlike higher education expenses which offer greater flexibility in the type of expenditures) and that Fidelity is still assessing the impact of the change. For example, Fidelity is evaluating the type of savers who will be taking advantage of the provision: individuals that could contribute large amounts of money, take advantage of the tax benefits, and then replace the funds for higher education, or individuals who may want to pay K-12 expenses out pocket and also maximize the benefits for college. After more consideration is given, Fidelity will come back to the Commission with final recommendations. Dr. MacKay also mentioned that since New Hampshire does not assess an income tax, the tax implications for some states are not applicable to New Hampshire and anyone could presently withdraw funds for K-12 education and would not have state tax implications.

**Review of 2017 External Audits**

Mr. Smith from the office of the Legislative Budget Assistant informed the Commission that his office is responsible for overseeing that the audits of the UNIQUE and FA 529 Plans are completed every year and that the second year of a 3-year contract with PwC was just concluded; the agreement will be reviewed again next year. Mr. Smith also reported that on December 15, 2017, the Fiscal Committee of the General Court ("Committee") approved the release of the 529 plan annual reports and on February 16, 2018, the Committee also received a presentation of the audit results. Mr. Declan Byrne, the engagement partner from PwC, and Treasurer Dwyer presented the results at that time. Mr. Smith added that Mr. Byrne took over from Rachel Bradley and he is now the partner for the NH 529 plan audits.

Mr. Byrne presented the audit results, highlighting that the financial statements as of, and for the year ended, September 30, 2017, received unqualified (clean) opinions and that PwC encountered no issues during the course of the audits. PwC audited each of the 36 portfolios within the UNIQUE College Investment Plan and the 27 portfolios within the Fidelity Advisor 529 Plan, which maintain their own set of records. Mr. Byrne described the audit approach, focused on the valuation of the underlying funds, proper accounting of fees and expenses, participant contributions and redemptions, reclassification of capital gain distributions (manual accounting process), and proper financial statement presentation and disclosures. PwC also reviewed Fidelity's control procedures 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. Mr. Byrne emphasized that no material or significant weaknesses/concerns came to their attention and the audits were completed timely.

Dr. MacKay asked if there were any accounting changes the Commission should anticipate in the near future. Mr. Byrne mentioned that PwC is evaluating Governmental Accounting Standards Board ("GASB") changes and the possibility of transferring to GASB accounting rather than the FASB (Financial Accounting Standards Board) approach currently followed. PwC anticipates engaging in a discussion with the Commission next year for a potential change beginning in 2019.

Treasurer Dwyer thanked Mr. Smith and Mr. Byrne, on behalf of the Treasury, for all the work, coordination, and effort required to conduct the audits, which is essential to fulfill the governance and fiduciary responsibility of the Advisory Commission with respect to the 529 plans.

Dr. MacKay then requested a motion to accept the audit reports. Treasurer Dwyer moved, Dr. Leach seconded. The audits were unanimously accepted.

**Dashboard Review as of December 31, 2017**

Dr. MacKay presented the semi-annual update of the College Tuition Savings Plan Dashboard Report as of December 31, 2017. The Dashboard report includes the New Hampshire 529 Plan historical and forecasted data: actual and projected revenue of the Endowment Trust Fund based on actual and projected plan assets under Fidelity management, Endowment Trust Fund financial activity, as well as scholarship award information relative to the two UNIQUE scholarship programs.

Updated revenue estimates for calendar years 2018, 2019, and 2020 were provided by Fidelity, projecting $14.9 million, $15.5 million, and $16.3 million, respectively. Projected average plan assets for the same periods were also updated, anticipated to grow to $17.4 billion in 2018, $18.3 billion in 2019, and $19.4 billion in 2020. The Advisory Commission's revenue share is based on average plan assets.

The UNIQUE scholarship program results were also captured in the dashboard report. Colleges and universities participating in the UNIQUE Annual Allocation program granted a total of 5,379 individual awards to full-time and part-time students (totaling $2.4 million) during the 2016-17 academic year. Restricted institutional endowments also distributed 1,539 individual awards of at least $1,000 each, for a total distribution of nearly $3 million from endowment earnings.

**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, 2017.

Through December 31, 2017, the endowment trust fund received assessment revenue from Fidelity of over $7.2 million and had total disbursements of $6.8 million. In July of 2017, the UNIQUE Annual Allocation Program disbursed an initial allocation of $1 million to participating colleges and universities. In addition, through December 31, 2017, the UNIQUE Endowment Allocation Program distributed nearly $5.8 million to participating post-secondary education institution endowments. Through the second quarter of the State's fiscal year 2018, administrative expenses of $65,818 were also incurred, comprised of the first and second quarterly Treasury overhead allocations of $18,504, investment management fees paid in August and November of $4,479, the annual membership dues of $6,600 paid to the College Savings Plan Network and College Savings Foundation, the yearly administrative support payment to the

Division of Higher Education of $36,000, and miscellaneous expenses of $235. Treasurer Dwyer also highlighted that since program inception, the endowment trust fund has received nearly $152 million in revenues and has disbursed over $118 million in scholarship funds through December 31, 2017.

**Discussion Whether to Maintain the Current 80% Allocation of Revenues to the UNIQUE Endowment Allocation Program**

Treasurer Dwyer began the conversation by noting he had requested the inclusion of this topic in the meeting agenda, as for some time now the Commission has had to tighten the annual eligibility criteria for the UNIQUE Annual Allocation Program while continuing to transfer 80% of the revenues received from Fidelity to the UNIQUE Endowment Allocation program, as prescribed in the administrative rules Csp 700. Furthermore, college and university endowments have grown significantly since the inception of the program, now totaling approximately $100 million in the aggregate, and therefore are now able to annually disburse award amounts that have surpassed total Annual Allocation Awards in the past two academic years. Treasurer Dwyer also directed members to a handout in the materials containing student full-time and part-time activity during the 2016-17 academic year, noting that a significant portion of the UNIQUE annual award dollars are going to part-time students (46%), more specifically, at a relatively higher cohort of students attending the Community Colleges and Southern New Hampshire University. Treasurer Dwyer added the analysis appears to reflect the recent scheduling flexibility implemented in higher education environments and that many students no longer attend traditional semesters. This development has reduced the average part-time award to less than $350 in many cases (half of the full-time scholarship amount), contrary to what the Commission has previously anticipated.

Treasurer Dwyer explained that in order to relieve the current constraints when selecting the annual eligibility criteria of the Annual Allocation program, the Advisory Commission could, at any time, consider lowering (or adjusting) the current percentage of funds transferred on a monthly basis to school endowments through the Endowment Allocation Program. The change would require revising a provision in the administrative rules, which could take 6-9 months to implement via the process required to amend rules.

Dr. Leach commented on the short-term and long-term objectives: the short-term goal is to give dollars to students right away, while the long-term objective is to build up restricted endowments that give students scholarship funds for a much longer period of time, theoretically in perpetuity. He praised the effectiveness of the endowment program, which has experienced significant growth and provides increasing benefit as intended. Dr. Leach also cautioned the Commission to be mindful of foreseeable challenges such as demographic decline, 529 plan market-share shrinkage as competition grows, etc.

Ms. Mezzapelle also pointed out that, as illustrated in the current budget, in recent years the endowment trust fund has been reduced in order to meet the funding requirements of the UNIQUE Annual Allocation program due to the fact that 20% of the revenues minus administrative costs are insufficient to cover the full obligations of the Annual Allocation program. Dr. MacKay suggested the Commission should revisit this item during the May 21st meeting after more information becomes available with regard to additional Annual Award reimbursement requests that will be submitted in April by postsecondary education institutions. Mr. Cryans also asked if it would be possible to provide a sensitivity analysis that would illustrate the potential impact of a rule change. Treasurer Dwyer explained that at an estimated $14 million of yearly revenues received through participant assessments, each 5% reduction in the endowment allocation (offset by an identical increase in the Annual Award allocation) would total approximately $700,000. Dr. Leach also asked if it would be possible to provide a historical analysis of Annual Award part-time scholarship activity. Treasurer Dwyer agreed to provide such information.

## **Overview of the 529 Programs**

*Introduction of new Fidelity team members*

Dr. MacKay announced that Ms. Doyle recently left Fidelity pursuing new opportunities and Mr. Bernhardt has also been presented with a new opportunity within Fidelity and has accepted additional responsibilities in the retirement income space. Dr. MacKay thanked Mr. Bernhardt for all the years of excellent service and support to the Commission, including assisting with many various complex issues. Mr. Bernhardt also expressed his gratitude to the Commission for the great partnership all these years since he joined the NH Plan in 2011.

Mr. Bernhardt then introduced Ms. Melissa Ridolfi and Mr. Justin Rozzero. Mr. Rozzero will be taking over for Ms. Doyle and Ms. Ridolfi will replace Mr. Bernhardt. Mr. Rozzero introduced himself stating he has been with Fidelity for about 12 years and with the 529 group for nearly two years as a relationship manager for Delaware and Arizona and now New Hampshire. Prior to joining Fidelity, Mr. Rozzero worked in television and media. Ms. Ridolfi also introduced herself, indicating she has been with Fidelity for 20 years, in the year 2000 Ms. Ridolfi joined Personal Investments and became a branch manager for New York and D.C. and has been supporting the branch and phone channels in different capacities for the last decade. In her current roles, Ms. Ridolfi is responsible mainly for tax-advantaged accounts (i.e. contributory IRAs, small business, and 529 accounts). Both look forward to working with the Commission.

*Proposal to Reduce FA 529 Class A Pricing Structure*

Mr. Hazel mentioned that in order to help attract new participants into the FA 529 Plan, Fidelity would like to request approval to reduce the maximum sales charge on the FA 529 Class A units from 5.75% to 3.5% and change the pricing structure to reduce the sales charge for all purchases; for example the sales charge for purchases of up to $49,999 would be reduced from 5.75% to 3.50% and for purchases of $500,000 to $999,999 the sales charge would be reduced from 2% to 1.50%. Mr. Hazel highlighted that this proposal, reducing the sales charge, would benefit both new and existing plan participants, would have no impact on the revenue share the Advisory Commission receives, would satisfy requests from certain top broker-dealer clients, would align with industry trends focused around fee reductions, and it would require an amendment to the current Investment Management Agreement and Plan's offering statement.

Hearing no questions, Dr. MacKay requested a motion to approve Fidelity's recommendation to reduce the Pricing Structure on FA 529 Class A units. Dr. Leach moved, Senator D'Allesandro seconded. All members voted in favor.

*529 Industry Market Update*

Mr. Hazel presented the 529 Industry update for the fourth quarter of 2017, stating that 529 industry assets increased by 4.3% from quarter three to quarter four 2017 and by 16.9% year over year. New Hampshire continues in fourth place, as the fourth largest plan in the country with over $17.1 billion in market-value assets, an increase of 3.2% in the fourth quarter and 14% growth year over year. The 529 industry benefited from the capital appreciation in the equity markets, as reflected by the Dow Jones U.S. Total Stock Market Index performance, which rose 6.3% for the quarter and gained 21.2% for the 1-year period ending 12/31/2017. Fixed income represented by the Barclays U.S. Aggregate Bond Index was up 0.4% for the quarter and increased 3.5% for the year. The New Hampshire plan is behind Virginia (with $65.9 billion in market value assets, managed by American Funds), New York (with $28.2 billion in assets, managed by J.P. Morgan), and the Nevada plans (with $22.5 billion in assets managed by multiple providers, including Vanguard).

*Fidelity Advisor 529 Plan Review*

Mr. Hazel continued the presentation providing an update on the Advisor-sold 529 plan space. As of December 31, 2017, the FA 529 Plan had nearly $4.8 billion in assets under management, distributed across 184,094 participant accounts, representing 3.7% of the market-share. The Advisor-sold 529 Plan assets increased by 3.4% during the fourth quarter and by 14.5% year over year. The FA 529 plan reported asset growth of 2.2% for the quarter and of 10.7% for the year 2017. During quarter four, the FA 529 plan moved down one place and it is now the 8th largest in the country, surpassed by the Illinois plan. The FA 529 plan now trails Virginia ($61.6 billion in assets), Maine ($9 billion in assets), Rhode Island ($5.9 billion in assets), Ohio ($5.3 billion in assets), New York ($5 billion in assets managed by J.P. Morgan), Alaska ($5 billion in assets), and now Illinois with $4.9 billion in assets (91.9% asset growth due to the merge of two Advisor-sold plans).

New account growth was strong in quarter four 2017, increasing 14.7%, adding 2,182 new accounts compared to 1,902 in quarter three 2017, and 2,034 new accounts during the same quarter in 2016, an increase of 7.3%. Contributions also improved during the quarter compared to quarter three of 2017, up 18.2% and an increase of 5.6% compared to quarter four in 2016. Total contributions in 2017 totaled $326 million. Following the distributions cycle, FA 529 distributions declined 29.1% during the quarter, $113 million in distributions compared to $159.3 million in quarter three of 2017, which is typical activity in quarter four. New Hampshire participants also reduced their distributions reporting $1.5 million during the fourth quarter of 2017.

During the fourth quarter of 2017, the average account size of a FA 529 plan account was $26,100, with New Hampshire residents averaging $23,300.

*Direct-sold (UNIQUE) 529 Plan Review*

Mr. Rozzero presented the results of the Direct-sold 529 plans during quarter four of 2017. As of December 31, 2017, the UNIQUE College Investing Plan had over $12.3 billion in market-value assets capturing 7.5% of market-share. In quarter four 2017, 529 Direct-sold plan assets increased by 5.1% and by 15.5% year over year. Similarly, the UNIQUE Plan assets increased by 3.6% for the quarter and 15.4% during the 1-year period. The UNIQUE Plan is still the third largest in the country, trailing New York ($23.1 billion in assets, 14.1% of market-share), and the Nevada plans (3 separate plans, $17 billion in assets, 10.4% of market-share).

The number of new accounts increased 34% during quarter four 2017 (December is one of the biggest months in terms of gifting and year-end planning) and also new account growth rose 30% year over year, adding 18,868 new accounts compared to 14,108 in quarter three 2017 and 14,543 in quarter four 2016. Mr. Rozzero noted that this quarter had the highest number of new accounts yearly since 2002 and December was the biggest month since 2002 as well. As of December 31, 2017, there were 474,825 accounts participating in the plan. In response to Dr. MacKay's and Treasurer's Dwyer question, Mr. Rozzero clarified the "total accounts since inception" metric vs. "total account with balances", indicating that the latter represents all accounts opened (including closed) since the beginning of the program and "account with balances" are active accounts.

Quarter four 2017 contributions were strong increasing 36% and by 13% year over year. Mr. Rozzero also pointed out that the most contributions ever were also in the month of December of 2017 – Total contributions in 2017 were $1.4 billion. Mr. Rozzero also highlighted the Online Gifting Tool, stating that Fidelity underwent some policy changes in October 2017 and it raised the maximum single entry gift limit from $2,500 to $10,000, which aided in the substantial increase in gifts. Nearly $2 million was gifted to UNIQUE accounts during quarter four 2017. Similar to the FA 529 plan, distributions in quarter four 2017 decreased by 33% and by 0.01% year over year, in line with the 529 distribution cycle.

The average account balance in a UNIQUE account in quarter four 2017 was $25,000, while New Hampshire residents averaged $23,000. The average monthly contributions to new and existing accounts nationwide were $5,000 and $100, respectively, while New Hampshire participants in the UNIQUE plan contributed $4,000 to new accounts and $200 to existing accounts.

In response to Mr. Cryans' question, Mr. Rozzero stated some initiatives are being evaluated, including further promotion of the gifting tool, rewards card ($6.1 million in contributions during quarter four 2017), and other workplace opportunities.

## Update of GEAR UP New Hampshire Program

Dr. MacKay provided an update on the GEAR UP program. The Advisory Commission was informed in previous meetings of the federal award received by the New Hampshire College and University Council and Campus Compact relative to the GEAR UP program (Gaining Early Awareness and Readiness for Undergraduate Programs), whose mission is to significantly increase the number of low-income and underrepresented students who are prepared to enter and succeed in postsecondary education. A cohort of seventh grade students from seven school districts in the North Country had been identified to participate in the program. GEAR UP New Hampshire will receive $1.6 million annually for a period of seven years; $1 million is to be invested and kept in a trust until students selected attend postsecondary education and the remaining funds are to be used to promote the mission of the program.

Dr. Mackay noted that the question raised at the last meeting was whether or not the UNIQUE Annual Awards could be identified to satisfy the federal "match" requirement and if there would be adverse consequences to the Commission/State if the Annual Awards match were denied. Preliminary results indicate there would be no impact to the State and there is sufficient positive information to continue the discussion with the Attorney General's office to be able to bring a recommendation before the Commission in May. Mr. Vlacich also commented on the progress of the program. Treasurer Dwyer indicated that the Treasury is taking a cautious approach in this assessment in order to ensure that no constraints, impairment, or obligations would negatively impact the Annual Awards program.

## State Legislation Update

*Children's Savings Account Program*

Dr. MacKay provided an update of the Children's Savings Account Program ("CSA"), stating that through an amendment to HB 609, the CSA program was renamed "Student Career and College Investment Program" and the funding provision, assessing a new fee to each mutual fund class, was also removed. HB 609 was referred to the Finance Committee and due to concerns raised by some members regarding the potential use of 529 account funds for K-12 education (after the new federal tax law was enacted), the bill was sent to Interim Study, which essentially kills this bill in the legislative session. Rep. Weyler commented on the outcome of the bill and that the bill will be re-introduced in the 2019 legislative session.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 11:50 a.m.

**NOTE**: The next regular meeting is scheduled for Monday, May 21, 2018 beginning at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. There will be no Investment Committee meeting.