

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of August 20, 2018

The August 20, 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:

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
Ross Gittell	Chancellor, Community College System of New Hampshire (“CCSNH”)
David Mahoney	Representing the Higher Education Commission – Dept. of Education
Kenneth Weyler	State Representative

Members absent were:

Daniel Innis	State Senator
Sylvia Larsen	Representing the Governor; Retired State Senator
Todd Leach	Chancellor, University System of New Hampshire
Peter Leishman	State Representative
Michael Vlacich	President & CEO, representing the New Hampshire College and University Council (“NHCUC”)

Also present at the meeting were Melissa Ridolfi, Ron Hazel, Justin Rozzero, Peter Walsh and Eric Kaplan from Fidelity Investments (“Fidelity”), as well as Monica Mezzapelle from the New Hampshire State Treasury.

Review of Prior Meeting Minutes

Minutes of the May 21, 2018 meeting were distributed in advance and presented for approval by Dr. MacKay. Hearing no additional comments or corrections, Dr. MacKay requested a motion to approve the meeting minutes as distributed. Mr. Cryans moved, Rep. Weyler seconded. The motion was unanimously approved.

Summary of Investment Committee Meeting

Dr. MacKay summarized the discussion that occurred during the investment committee meeting which preceded the regular meeting and was led by Mr. Walsh and Mr. Kaplan from Fidelity Investments.

Dr. MacKay highlighted that volatility returned in the second quarter of 2018 associated with concerns over interest rates increases, trade tariffs, and other factors. During the second quarter, the UNIQUE and FA529 portfolios experienced positive absolute returns; however on a relative basis, the active and multi-firm portfolios slightly underperformed their respective benchmarks. Mr. Walsh stated that the underlying managers positively contributed to the relative performance for the age-based portfolios; however, this was offset by the underweight in U.S. equities and overweight in emerging market equities. This position was based on the fact that the economy is approaching the late business cycle where the Federal Reserve is raising interest rates to counteract inflation, but corporate fundamentals remained strong during the second quarter as a result of Tax Reform, and therefore, U.S. equities had positive performance during the quarter. Mr. Walsh added that fund managers continue to see value in emerging markets and inflation-sensitive assets.

All portfolios outperformed their respective benchmarks over the 1, 3, and 5-year periods, net of fees. The Multi-firm portfolios lagged benchmarks in the second quarter, largely driven by underperformance of the underlying funds, particularly in U.S. equities and emerging market equities. Fidelity Index portfolios performed in line with expectations.

In response to Treasurer Dwyer's questions, Mr. Walsh stated that active asset allocation was a detractor this quarter, however it has contributed approximately 200 basis points over a 3-year period.

UNIQUE and Fidelity Advisor 529 Competitive Performance Update

Also during the investment committee meeting, Mr. Kaplan presented the UNIQUE and FA529 Competitive Performance Analysis for quarter ending June 30, 2018. Mr. Kaplan shared that another way to assess how the portfolios are doing is by looking at the performance of the active vs. index portfolios since the intent is to outperform their corresponding benchmarks. The 1, 3, and 5-year charts of the materials demonstrated that the active portfolios (Fidelity and Multi-Firm) outperformed the Fidelity Index funds.

With regard to competitors, Mr. Kaplan clarified that since there is no universal index for 529 portfolios unlike other mutual funds, the methodology used for this analysis was based on performance rankings relative to peers in the respective Morningstar categories (i.e. Medium-equity). Mr. Kaplan reported that the UNIQUE and FA529 strategies did well compared to the three main competitors: American Funds for the advisor-sold portfolios, Vanguard for the index portfolios, and T. Rowe Price for the active portfolios. In response to the Dr. MacKay's question, Mr. Kaplan explained that the index portfolios had a lower ranking performance compared to peers due to exposure in commodities which has lagged in recent periods. Dr. Gittell asked if it is common to see asset migration due to underperformance. Ms. Ridolfi stated that, from the business perspective, participants primarily look at plans with an in-state tax benefit, have a brand

preference, or select plans with lower fees. For example the Virginia plan, the largest plan in the country managed by American Funds which was also the first state to offer a state tax incentive, offers a substantial tax deduction.

Review of Dashboard Report

Dr. MacKay presented the semi-annual update of the College Tuition Savings Plan Dashboard Report as of June 30, 2018. The Dashboard report includes the New Hampshire 529 Plan historical and forecasted data: actual and projected revenue of the Endowment Trust Fund based on plan assets, Endowment Trust Fund financial activity, as well as scholarship award information relative to the two UNIQUE scholarship programs.

New revenue estimates were provided by Fidelity, projecting that 2018 will end up with \$15.2 million in revenues and, in 2019 and 2020, \$16 million and \$16.7 million, respectively, are expected to be generated for the Commission. In addition during the same periods, average plan assets projections are \$17.7 billion in 2018, \$18.8 billion in 2019, and \$19.9 billion in 2020. The Advisory Commission's revenue-share is based on average plan assets.

The UNIQUE scholarships program results for the 2017-18 academic year will be provided in the next meeting after higher education institutions submit their scholarship reports by October 15. During the 2016-17 academic year, colleges and universities granted a total of 5,379 individual UNIQUE annual awards to full-time and part-time students, while restricted institution endowments distributed 1,539 individual awards of at least \$1,000 each, for a total distribution of nearly \$3 million from endowment earnings.

Ms. Berube inquired if it was possible to obtain Expected Family Contribution ("EFC") data to assist in the determination of the UNIQUE Annual Award eligibility criteria. Dr. MacKay indicated that the Department of Education, Higher Education Division, does not collect that information; however, utilizing the Memorandum of Understanding between the Division and the Advisory Commission, the Division could request the information from colleges and universities. After seeing interest on the part of the Commission to collect EFC data (i.e. number of students with \$0 - \$500 and \$501-\$1,000 EFC), Treasurer Dwyer agreed to request the information from the Higher Education Division and provide it during the December 3rd meeting.

Update of Endowment Trust Fund and Scholarship Disbursements

Treasurer Dwyer presented the Endowment Trust Fund and Scholarship Disbursements update for fiscal year 2018 highlighting that the endowment trust fund concluded fiscal year 2018 with a balance of over \$2.3 million and received assessment revenues from Fidelity of nearly \$14.7 million, \$1.6 million more (+13%) than the budgeted amount of \$13 million. The revenue increase is attributed to conservative revenue projections by Fidelity back in December of 2016, which changed as a result of the equity market performance throughout 2017 and year-to-date. The trust fund also earned \$59,253 in net market gains, and interest and dividend income.

In July of 2017, State Treasury distributed an initial allocation of \$1 million to colleges and universities participating in the UNIQUE Annual Allocation scholarship program and at the end of fiscal year 2018, participating institutions requested nearly \$1.8 million in additional scholarship funds for awards granted in excess of the initial allocation amount distributed in July. Furthermore, the UNIQUE Endowment Allocation Program distributed \$11.7 million in monthly allocations to participating institution endowments during fiscal year 2018.

In addition to scholarship disbursements, the endowment trust fund incurred \$418,070 in administrative expenses during fiscal year 2018, consisting of: 1) the payment to PricewaterhouseCoopers for the two 529 Plan audits, totaling \$327,720, 2) investment management fees of \$10,470, 3) the quarterly Treasury overhead allocations of \$37,011, 4) the annual membership dues paid to the College Savings Plan Network and College Savings Foundation, combined, of \$6,600, 5) the yearly administrative support payment to the Division of Higher Education for \$36,000, and 6) miscellaneous expenses (recognition award for Dr. Thomas Horgan and supplies) of \$269.

Since program inception, the endowment trust fund has received \$159.4 million in assessment revenues and has distributed over \$125.8 million in scholarship funds.

In response to Mr. Cryans' question, Dr. Gittell mentioned that the New Hampshire Charitable Foundation and the UNIQUE scholarship programs are the major sponsors of scholarships in the state for the benefit of New Hampshire students.

Maximum Participant Contribution (Csp 302.03)

Mr. Hazel mentioned that the New Hampshire 529 Plan provisions allow for changes in the maximum amount participants can contribute to a 529 plan. New Hampshire is currently ranked as having the third highest nationwide contribution limit at \$500,000, which the Advisory Commission approved last year.

College costs continue to increase every year: the average tuition and fees for in-state students in a public four-year college increased by \$300 or 3.1% from \$9,670 in 2016-17 to \$9,970 in 2017-18. The average total tuition and fees and room and board charges are \$20,770, nationwide. The average total tuition and fees and room and board charges for a private four-year college is \$46,950. The Advisory Commission has traditionally used the Dartmouth College formula (most expensive college in New Hampshire) as one proxy to evaluate whether or not the contribution limit should be changed. The Dartmouth College formula includes undergraduate and graduate study for seven years resulting in total cost of \$516,852 ($\$73,836 * 7$ years). The annual cost at Dartmouth of \$73,836 includes tuition, fees, books, housing, food, and miscellaneous expenses as of August of 2018.

Mr. Hazel stated that a small percentage of accounts in the UNIQUE and FA529 plans exceed the contribution limit and those participants are not allowed to make additional contributions; however, they are allowed to stay in the plan and continue to grow.

After considering the information provided by Fidelity, the Advisory Commission decided to take no action regarding the contribution limit. Therefore, the contribution limit for the New Hampshire 529 plans will remain at \$500,000.

Overview of the 529 Programs

529 Industry Market Update

Mr. Hazel began by informing the Advisory Commission of the revision made to the meeting materials. Fidelity, Dr. MacKay, Treasurer Dwyer, and Ms. Mezzapelle had the opportunity to provide feedback during this process. Mr. Hazel encouraged Commission members to share their thoughts about it and/or let them know if there is additional information they would like to see. Mr. Hazel then presented an update of the 529 Industry and results of the second quarter of 2018, stating that 529 industry assets increased by 2.4% from quarter one 2018 to quarter two 2018 and by 10.3% year over year. Similarly, New Hampshire assets increased by 1.9% during the second quarter 2018 and by 7% year over year. The New Hampshire 529 program remains in 4th place in the country with over \$17.5 billion in market-value assets, representing 5.8% of the market-share. Mr. Hazel mentioned that asset growth was in line with the stock market performance: U.S. Equities were up 3.9% during the quarter and rose 14.8% for the 1-year period, while Investment Grade Debt decreased by -0.2% in the quarter and dropped -0.4% for the 1-year period ending June 30, 2018. The New Hampshire plans were behind Virginia (\$68.7 billion in assets managed by American Funds, encompassing 22.6% of the market-share), New York (with \$29.3 billion in assets, managed by J.P. Morgan), and the Nevada plans (with \$23.7 billion in assets managed by multiple providers, including Vanguard).

Fidelity Advisor 529 Plan Review

Mr. Hazel also presented the second quarter results of the Advisor-sold 529 plan industry, highlighting that 529 Advisor-sold plan assets increased by 2.1% from quarter one 2018 to quarter two 2018 and by 8.2% year over year. In the same way, the New Hampshire Fidelity Advisor 529 Plan assets grew 1.3% during the second quarter 2018 and by 3.6% year over year. As of June 30, 2018, the FA529 Plan had over \$4.8 billion in market-value assets and 182,392 active participant accounts. The FA529 Plan is the 8th largest in the Advisory-sold space, maintaining 3.6% of the market-share. As of June 30, 2018, the 5th largest advisor-sold plans were: Virginia (\$64.2 billion in assets), Maine (\$9.1 billion in assets), Rhode Island (\$5.7 billion in assets), Ohio (\$5.4 billion in assets), and New York (\$5.1 billion in assets).

Mr. Hazel reported that new account growth increased in the second quarter: For quarter two 2018, there was a 21.5% increase in new account activity compared to quarter two 2017. New account activity was also up 21.5% from January through June 2018 compared to January through

June 2017. Strategic levers included lowering Class A shares pricing to 3.5% to help attract new business which became effective on May 15, 2018, and other marketing initiatives targeted to broker-dealer advisors.

Contributions in the second quarter 2018 totaled \$79.9 million, down 2.1% compared to quarter two 2017; however, contributions from January through June 2018 were higher than January through June 2017 by 3.4%. As a result of being a mature plan, distributions increased during the second quarter by 13.4% compared to quarter two 2017. Distributions in the second quarter were \$76.1 million and year-to-date were \$188.6 million. In response to Dr. Gittell's request, Mr. Hazel agreed to provide information on closed accounts in addition to account distributions.

As of June 30, 2018, the average account balance of FA529 plan accounts was \$26,400 and, in New Hampshire, FA529 account balances averaged \$23,800.

Direct-sold (UNIQUE) 529 Plan Review

Mr. Rozzero presented the Direct-sold 529 plan results during the second quarter of 2018, indicating that 529 Direct-sold plan assets increased by 2.7% from quarter one 2018 to quarter two 2018 and by 12% year over year. Likewise, assets in the UNIQUE Plan increased by 2.1% from quarter one 2018 to quarter two 2018 and by 8.4% year over year. As of June 30, 2018, the UNIQUE Plan had \$12.7 billion in market-value assets with 493,588 active accounts, capturing 7.4% of the Direct-sold program market-share. The UNIQUE Plan holds the 3rd spot in this space, trailing the New York (\$24.2 billion in assets, 14.2% of market-share), and Nevada plans (\$17.9 billion in assets, 10.5% of market-share).

Mr. Rozzero also stated that for quarter two 2018, there was an 11% new account increase over quarter two 2017 and that new accounts were up 19% for the first six months of the year compared to January through June 2017. Mr. Rozzero pointed out that 80% of new UNIQUE accounts are opened by an existing Fidelity Personal Investment customer, 12% are opened by a brand new customer and 8% are opened by a customer with an existing Fidelity Workplace relationship. For quarter two 2018, there was a 7% increase in total active accounts compared to quarter two 2017. As of June 30, 2018, active accounts totaled 493,588. Mr. Rozzero mentioned that key levers for this effort were marketing to grandparents, eliminating account minimums, and that Fidelity will continue to leverage from the workplace relationships through their financial wellness programs.

UNIQUE plan contributions in the second quarter totaled \$323.3 million, a 1% increase compared to quarter two 2017. Levers in this space included reminders to participants to make regular contributions, increasing the contribution limit of the gifting tool to \$15,000, in line with the IRS limit recently updated, etc. Distributions during quarter two were \$163.2 million (an increase of 23% year over year) and year-to-date were \$404.2 million.

Mr. Rozzero directed Commission members to a slide that depicted participants' readiness based on the "2K Rule of Thumb", which defines readiness as having \$2,000 x Beneficiary Age saved (funds that will be needed to cover 50% of post-secondary education at a public institution). As of June 30, 2018, 19% of UNIQUE accounts were meeting the 2K Rule of Thumb. Mr. Rozzero

added that participant readiness in the UNIQUE plan is comparable to other 529 plans managed by Fidelity.

As of June 30, 2018, the average UNIQUE account size sits at \$26,000 and the average contribution to a new account is \$3,796.

Update of GEAR UP (Gaining Early Awareness and Readiness for Undergraduate Programs) New Hampshire Program

Dr. MacKay mentioned that in past meetings the Advisory Commission discussed the possibility of using the UNIQUE grants to satisfy the matching requirement of the GEAR UP program. Dr. MacKay stated that the matter is still being reviewed by the Attorney General's office; however, it is anticipated that some type of recommendation will be available prior to the December 3rd meeting.

The NHCUC and Campus Compact are the recipients of the federal GEAR UP grant which intends 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 have 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.

State Legislation Update

Senator D'Allesandro and Rep. Weyler commented that the legislature will soon be back in session and one of the areas that will be reviewed is the funding of the K-12 education. Also, the Governor's scholarship program, now that the rules have been enacted, should be able to provide significant benefits to New Hampshire students attending New Hampshire post-secondary institutions. Dr. Gittell added that the Dual and Concurrent Enrollment program has already started and is providing multiple benefits to New Hampshire students.

Proposed 2019 Meeting Dates

Dr. MacKay stated that the materials provided include a list of proposed dates for meetings in 2019. The proposed 2019 meeting dates were selected based on the practice adopted by the Advisory Commission prior to 2014 to schedule meetings the 8th Monday following the end of the quarter, taking into consideration Holidays and vacation weeks.

After a brief discussion, Dr. MacKay requested a motion to adopt the proposed meeting dates. Senator D'Allesandro moved and Rep. Weyler seconded. The motion passed unanimously. The

meeting dates for calendar year 2019 are March 4, 2019, May 20, 2019, August 19, 2019 and December 9, 2019.

Morningstar Update

Treasurer Dwyer updated the Advisory Commission regarding the yearly review conducted by Morningstar analysts. This year State Treasury has been contacted again to go over any changes that have occurred since the last review. State Treasury primarily covers one of the five Morningstar pillars (Parent), and when analysts meet with representatives from Fidelity, the other four pillars are discussed (Performance, Process, People, and Price). The call with State Treasury is scheduled for Monday, August 27th. Ms. Ridolfi added that their meeting is scheduled for September 13th. Currently, the UNIQUE College Investing Plan holds a “Bronze” medal and the FA529 maintains a “Neutral” rating. An update will be provided during the next meeting.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 11:35 a.m.

NOTE: The next regular meeting is scheduled for Monday, December 3, 2018 beginning at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. There will be no Investment Committee meeting.