

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of August 17, 2020

The August 17, 2020 meeting of the New Hampshire College Tuition Savings Plan Advisory Commission (“Advisory Commission”) was called to order at 9:00 a.m. by Dr. Todd Leach, Advisory Commission Chair. The meeting was held telephonically due to the State of Emergency declared by the Governor as a result of the COVID-19 pandemic and in accordance with the Governor’s Emergency Order No. 12, pursuant to Executive Order 2020-04, as extended.

Attendance:

Member	Representing	Roll Call
Dr. Todd Leach, Chair	University System of New Hampshire	Present and Alone
Mr. Robert Lynn	Public Member Appointed by the Governor	Present and Alone
Rep. Kenneth Weyler	State Representative	Present and Alone
Rep. Peter Leishman	State Representative	Present and Alone
Senator Lou D'Allesandro	State Senator	Present and Alone
Senator Jay Kahn	State Senator	Absent
Mr. Joseph Doiron	Governor Designee	Joined the meeting at 10 a.m.
Mr. Jay Knower	Public Member appointed by the Governor	Present and Alone
Ms. Shannon Reid	Community College System of New Hampshire	Present and Alone
Ms. Deborah Scire	NH College and University Council	Present and Alone
Ms. Tori Berube	NH Higher Education Assistance Foundation	Present and Alone
Sr. Paula Buley	NH Higher Education Commission	Present and Alone
Ms. Monica Mezzapelle	Commissioner of the Treasury	Present and Alone

Also attending were Melissa Ridolfi, Ron Hazel, Justin Rozzero, Heather Zakian, and Eric Kaplan from Fidelity Investments.

Public Hearing for Administrative Rule Csp 400 (Governor’s Scholarship Program)

Dr. Leach opened the public hearing and asked Ms. Mezzapelle to provide an update of the status of the administrative rules amendment for the Governor’s Scholarship Program. Ms. Mezzapelle reported that the initial proposal approved by the Advisory Commission on March 9 was submitted to the Office of Legislative Services (“OLS”) in July and the public hearing was the next step in the rulemaking process. The public hearing was published in the Rulemaking Register on July 23 and also posted to the Treasury’s website. The event was also communicated to Financial Aid Officers. Ms. Mezzapelle indicated that comments in writing

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were also allowed and the deadline for submission was August 17 at 4:00 p.m. Dr. Leach kept the public hearing open for 30 minutes, however, no members of the public attended. Since no additional changes were made to the initial proposal, Ms. Mezzapelle stated that pending consideration of written public comments (if any), which could necessitate another Commission meeting, and incorporation of minor editorial comments made by the OLS attorneys, the Treasury will file the final proposal for consideration and approval by the Joint Legislative Committee on Administrative Rules. If no concerns are identified by JLCAR, the plan would be to adopt the Csp 400 rule during the December 7 meeting.

Review of Prior Meeting Minutes

The minutes of the May 18, 2020 meeting were presented for approval by Dr. Leach. Hearing no comments or corrections, Senator D’Allesandro moved to adopt the meeting minutes and Rep. Weyler seconded the motion. Advisory Commission members voted as follows:

Member	Roll Call
Dr. Todd Leach, Chair	Yes
Mr. Robert Lynn	Yes
Rep. Kenneth Weyler	Yes
Rep. Peter Leishman	Yes
Senator Lou D’Allesandro	Yes
Senator Jay Kahn	Absent
Mr. Joseph Doiron	Absent
Mr. Jay Knowler	Yes
Ms. Shannon Reid	Yes
Ms. Deborah Scire	Yes
Ms. Tori Berube	Yes
Sr. Paula Buley	Yes
Ms. Monica Mezzapelle	Yes

Investment Performance Review

Ms. Zakian provided an overview of the capital markets as well as an update of the Plan’s performance during the second quarter of 2020. Ms. Zakian reported that it was a strong quarter for risky assets due to the market rebound in the second quarter after the reopening of the global economy. U.S. Large Cap was 20.5%, Emerging Markets Stocks were 18.1%, and Non-U.S. Developed Stocks were 14.9%. In addition, the bond markets posted robust year to date returns. For the quarter, Long Gov. and Credit Bonds were 6.2%, and U.S. Corporate Bonds were 8.2%. Additionally, Ms. Zakian stated that the recovery had been the fastest of recent recessionary periods, however, unemployment at 10% was still concerning.

During the quarter, all of the active, blend and advisor age-based and static portfolios outperformed their benchmarks. The 2027 active portfolio returned 11.7%, 106 basis points above the benchmark, driven by security selection in equities and investment grade debt.

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Underweight in investment grade and overweight to Non-U.S. equities was also additive. Security selection in U.S. equities provided 55 basis points of outperformance and Non-U.S. equities, 58 basis points of outperformance. Series Growth Companies added 47 basis points and Series Blue Chip Growth added 19 basis points, as growth continued to outperform value. The Emerging Markets Opportunities Fund generated 31 basis points of outperformance. Active asset allocation detracted in quarter two due to the underweight in U.S. equities, bias toward value, overweight to commodities, and cash on hand.

Over the 1, 3, and 5-year periods, all of the active and advisor age-based and static portfolios underperformed their benchmarks driven by the allocation to commodities, and underweight to U.S. equities. The Index portfolios performed in line with expectations.

Ms. Zakian indicated that the overall equities exposure was moved back to a more neutral position, and exposure to Non-U.S. equities was increased during the quarter. The team continues to believe that U.S. equities are broadly unattractive relative to Emerging Market equities. Over the quarter, commodity exposure was reduced despite maintaining an overweight to inflation sensitive assets, and exposure to short-term debt was also reduced.

Mr. Kaplan reviewed the *Competitor Age-Based Portfolio Comparisons* for the UNIQUE and the FA 529 plans, stating that for the active strategy and using T. Rowe Price as the key competitor, the active portfolios underperformed during the second quarter of 2020 due to the underweight to U.S. equities, as previously mentioned. T. Rowe Price maintains higher equity allocations along the glide path compared to the Fidelity's active strategy. Additionally, the active portfolios ranked in the top half of the Morningstar rankings.

With respect to the passive strategy, the team compared the index portfolios to the Vanguard's moderate portfolios and Fidelity outperformed the Vanguard strategy during the quarter, driven by the relative overweight to equities and underweight to investment grade debt. The index portfolios were in the top third of the peer group rankings for the 1, 3, and 5-year periods, outperforming the active strategy.

Lastly, for the advisor-sold strategy, American Funds portfolios were compared to the FA 529 Class A portfolios and Fidelity outperformed American Funds for the quarter due to Fidelity's higher allocation in equities. Additionally, the FA 529 Class A strategy ranked near the 50% ranking for the majority of the portfolios for the 1 and 3-year periods.

Maximum Contribution Limit

Mr. Hazel reviewed information regarding the Maximum Contribution Limit, which the Advisory Commission reviews every year. Mr. Hazel shared that New Hampshire's maximum contribution limit is currently at \$522,000. New Hampshire maintains the second highest contribution limit after California, theirs is at \$529,000. The average 529 Plan contribution limit is \$422,711, the median is \$430,000.

As a reference point, Mr. Hazel mentioned that college costs continue to increase every year, although the pace of the increase has declined in recent years. Average published in-state tuition and fees in the public four-year sector increased by \$230 (or 2.3% adjusting for inflation), from

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\$10,210 in 2018-19 to \$10,440 in 2019-20. Average total tuition and fees and board charges in 2019-20 were \$21,950. The average college tuition and fees for a four-year private college increased 3.4% from 2018-19 to 2019-20 to \$49,870.

Mr. Hazel shared that New Hampshire has historically used the Dartmouth formula as one proxy to support its contribution limit calculation. This year the Dartmouth formula calculated a maximum contribution amount of \$542,395 ($\$77,485 \times 7$), which includes undergraduate and graduate study (7 years).

In response to several questions from Commission members, Ms. Ridolfi indicated that the Municipal Securities Rulemaking Board (MSRB) required that states develop a methodology that included college costs for four years plus graduate school. Ms. Mezzapelle reiterated that the Advisory Commission has historically used the Dartmouth formula to support its decisions. After an engaged discussion, Rep. Weyler moved to increase the Maximum Contribution Limit to \$542,000. Mr. Lynn seconded the motion. Advisory Commission members voted as follows:

Member	Roll Call
Dr. Todd Leach, Chair	Yes
Mr. Robert Lynn	Yes
Rep. Kenneth Weyler	Yes
Rep. Peter Leishman	Yes
Senator Lou D'Allesandro	Yes
Senator Jay Kahn	Absent
Mr. Joseph Doiron	Abstained
Mr. Jay Knower	Yes
Ms. Shannon Reid	Yes
Ms. Deborah Scire	Yes
Ms. Tori Berube	Yes
Sr. Paula Buley	Yes
Ms. Monica Mezzapelle	Yes

Overview of the 529 Programs

529 Industry Market Update

Mr. Hazel provided an update of the 529 industry reiterating that the markets recovered in the second quarter after the reopening of the global shutdown resulting from the COVID-19 pandemic. During the quarter, all of the active and blend age-based and static portfolios outperformed their benchmarks.

The New Hampshire 529 program remains the fourth largest in the country with over \$19.6 billion in market-value assets, representing 5.6% of the market-share. The New Hampshire plans continue to trail the Virginia (\$76.4 billion in assets), New York (\$35.1 billion in assets) and Nevada plans (\$25.1 billion in assets). 529 industry assets increased by 13.7% from Q1 2020 to Q2 2020 and increased by 6.2% year over year while New Hampshire assets increased by 11.8%

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for the quarter and 5.5% year over year. Asset growth was driven by the performance in the markets: U.S. Equities was up 22.2% for the quarter and 6.4% year over year. Non-US Developed equities increased 15.4% for the quarter, however, declined 5.2% year over year. Investment grade debt increased by 2.9% for the quarter and 8.7% year over year.

With regard to the investment enhancements implemented in 2019, Mr. Hazel noted that as of June 30, 2020, there were \$107 million in assets in the new UNIQUE Plan Blend portfolios, a 70% increase from the previous quarter, and customer feedback and adoption has remained positive.

Mr. Hazel also commented that the Oklahoma Dream, an advisor-sold plan, will transition to Fidelity in September of 2020.

Fidelity Advisor 529 Plan Review

Mr. Hazel continued with the Advisor-sold market update stating that Virginia remains the top advisor-sold plan in the country. 529 Advisor-sold plan assets increased by 14.1% from quarter one to quarter two 2020 and by 3.9% year over year, while New Hampshire's FA 529 Plan assets increased by 11.5% for the quarter and by 0.7% year over year. As of June 30, 2020, the FA 529 plan had \$4.9 billion in market-value assets with 173,000 total active accounts.

Mr. Hazel reported that in quarter two, new account growth was down 18% compared to the same quarter a year ago, while total active accounts declined 2%. Total contributions for the quarter were down 24% compared to quarter two 2019 and total assets under management were nearly \$5 billion, up 0.7% year over year. Plan distributions for the quarter declined 22% compared to quarter two 2019, while distributions for New Hampshire residents were flat year over year.

Direct-sold (UNIQUE) 529 Plan Review

Mr. Rozzero reported on the Direct-sold industry, stating that the 529 Direct-sold plan assets increased 14.1% from quarter one and by 3.9% year over year, while the UNIQUE plan assets increased 11.9% for the quarter and 7.3% year over year. As of June 30, 2020, the UNIQUE plan had \$14.7 billion in assets, up 7% year over year, with 565,000 total active accounts.

With regard to new accounts, Mr. Rozzero reported a 32% increase from the previous quarter and new account contributions rose 11% to \$3,000 per new account. Total contributions rose 4% compared to the same quarter last year. In quarter two 2020, distributions also decreased 7% while distributions by New Hampshire residents increased 10%. Mr. Rozzero also reviewed the "Age Wave" chart noting that the active accounts remain spread out with assets leaning toward the older beneficiary population. Mr. Rozzero briefly reported on the efforts to promote the online gifting platform and the results from the rewards card, which declined 27% during the quarter, possibly attributed to the slowdown in spending during the COVID-19 crisis.

Review of Dashboard Report

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Dr. Leach presented the College Savings Plan Dashboard Report as of June 30, 2020, stating that the Dashboard was updated with the latest revenue projections, fiscal year 2020 activity, as well as scholarship information.

Revenue projections for 2020, 2021, and 2022 were \$16.1 million, \$15.5 million, and \$15.6 million, respectively. Projected plan assets for the same periods were \$18.2 billion, \$18.5 billion, and \$18.8 billion, respectively.

Dr. Leach noted that the revised eligibility criteria was also updated, highlighting the new individual award amount of \$1,000 and the revised maximum Expected Family Contribution (“EFC”) of \$1,000. The program results for the 2019-20 academic year will be available in the fall after the yearly reporting by higher education institutions on or before October 15.

Update of Endowment Trust Fund and Scholarship Disbursements

Ms. Mezzapelle provided an update of the Endowment Trust Fund and Scholarship Disbursements reporting that in fiscal year 2020, the endowment trust fund received \$15.7 million in assessment revenue, which was 6% above plan, and disbursed \$12.5 million to the UNIQUE Endowment Allocation Program, and \$2.5 million to the UNIQUE Annual Award Program. Additionally, approximately \$441,000 in administrative expenses were incurred, which the largest expense was to cover the cost of the two 529 plan audits. The endowment trust fund realized \$176,660 in net market gains and ended the fiscal year with a balance of \$3 million.

Since program inception, the endowment trust fund has collected \$190 million in assessment revenue and has disbursed over \$155.2 million in scholarship funds.

Update of Governor’s Scholarship Program

Ms. Mezzapelle reviewed the financial activity of the Governor’s Scholarship Program as of June 30, 2020, reporting that the Treasury reimbursed college and universities as follows:

- For the 2018-19 award year (funded with fiscal year 2018 appropriations) a total of \$920,998 had been paid covering awards for a period of two years. \$4 million was initially allocated.
- For the 2019-20 award year (funded with fiscal year 2019 appropriations) \$684,338 had been disbursed covering Year-1 of awards granted. \$4.8 million initially allocated.

Students holding the “scholar” designation were granted individual awards of \$2,000 per year and “non-scholars” were awarded \$4,000 per year. Ms. Mezzapelle mentioned that \$4.5 million are being awarded in the 2020-21 academic year and more details on how colleges and universities are awarding those funds will be known in the fall when we receive their invoices.

Approximately \$9 million have been committed from the Governor’s Scholarship Fund and \$3 million remain unallocated to fund awards for the upcoming academic year. Allocations for the 2021-22 academic year will be reviewed during the December 7 meeting.

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State Legislation Update

Dr. Leach communicated that Exhibit M to Executive Order No. 29 was signed by the Governor on July 28, 2020 in response to the request submitted by the Advisory Commission on April 28 to temporarily modify administrative rule Csp 702.01(b). The change will reduce the portion of revenue directed to institution endowments and, therefore, increase the amount of funding for the UNIQUE Annual Allocation Program to provide additional assistance to students and families during the COVID-19 crisis. Colleges and universities were also notified of the revised eligibility criteria for the 2020-21 academic year, which increases the maximum EFC from \$0 to \$1,000 and the individual award amount from \$800 to \$1,000.

Senator D'Allesandro updated the Commission members on the status of SB 529, stating that the bill did not pass, however, similar language will be introduced in the 2021 legislative session that would include additional funding for direct scholarships, and a loan forgiveness portion.

Lastly, Ms. Mezzapelle shared that State agencies are beginning to craft their operating budgets for the 2022-2023 biennium and those proposals will be submitted to the Governor's Office in September as a basis for the Governor's budget. Ms. Mezzapelle explained that the scholarship programs are part of the Treasury's budget and wanted to know if there was any interest on the part of the Advisory Commission to review the funding for the two programs (Governor's Scholarship Program and UNIQUE programs), particularly because the Governor's Scholarship Program is currently funded with general funds, or provide any feedback at this point in the process. Ms. Mezzapelle briefly shared some of the budgetary concerns and projected deficit, however, for the record, she stated that she was not making any recommendations and only wanted to bring this issue to the Commission's attention. At the conclusion of the conversation, several Commission members expressed their willingness to collaborate with the Governor's Office and Legislature during the budget process.

Proposed 2021 Meeting Dates

Advisory Commission members were provided with a list of proposed meeting dates for 2021. The proposed 2021 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.

Hearing no questions or concerns, Dr. Leach asked for a motion to approve the proposed meeting dates. Ms. Reid moved and Mr. Lynn seconded the motion. Advisory Commission members voted as follows:

Member	Roll Call
Dr. Todd Leach, Chair	Yes
Mr. Robert Lynn	Yes
Rep. Kenneth Weyler	Yes
Rep. Peter Leishman	Yes

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Member	Roll Call
Senator Lou D'Allesandro	Yes
Senator Jay Kahn	Absent
Mr. Joseph Doiron	Yes
Mr. Jay Knower	Yes
Ms. Shannon Reid	Yes
Ms. Deborah Scire	Yes
Ms. Tori Berube	Yes
Sr. Paula Buley	Absent
Ms. Monica Mezzapelle	Yes

The approved meeting dates for 2021: Monday, March 8, 2021, Monday, May 24, 2021, Monday, August 30, 2021, and Monday, December 6, 2021.

Hearing no additional new business, Dr. Leach requested a motion to adjourn the meeting. Rep. Leishman moved, Mr. Lynn seconded. Advisory Commission members voted as follows:

Member	Roll Call
Dr. Todd Leach, Chair	Yes
Mr. Robert Lynn	Yes
Rep. Kenneth Weyler	Yes
Rep. Peter Leishman	Yes
Senator Lou D'Allesandro	Yes
Senator Jay Kahn	Absent
Mr. Joseph Doiron	Yes
Mr. Jay Knower	Yes
Ms. Shannon Reid	Yes
Ms. Deborah Scire	Yes
Ms. Tori Berube	Yes
Sr. Paula Buley	Absent
Ms. Monica Mezzapelle	Yes

The meeting adjourned at 11:08 a.m.

NOTE: The next regular meeting is scheduled for Monday, December 7, 2020 beginning at 10:00 a.m.