



Education Trust Board of New Mexico

Barbara Damron, PhD, RN, FAAN
Board Chair

Ted Miller, JD, LLM
Executive Director



Investments and Pensions
Oversight Committee

August 3, 2017



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INTRODUCTORY COMMENTS





What is a 529 College Savings Plan?

- A 529 Plan is an education savings plan operated by a state or educational institution designed to help families set aside funds for future college costs. An account can be opened with as little as \$25.
- 529 assets can be used to pay for the expenses of post-secondary education – public or private.
- All earnings and withdrawals from a 529 plan are free from federal and state income taxes if used to pay for qualified educational expenses.
- Contributions by a New Mexico tax payer may be deducted from income for New Mexico individual income tax purposes.





Qualified Education Expenses

- Tuition and fees
- Room and board
- Books, supplies, and equipment
- Computer technology, equipment, or internet access
- Expenses for special needs services





NM ETB Responsibility and Structure

- The Education Trust Board (NM ETB) is the governing body for New Mexico's 529 college savings programs
- The NM ETB Acts as a fiduciary of the Education Trust.
- The NM ETB is responsible for implementation, administration and marketing of the plans established under the Education Trust Act.
- The NM ETB is administratively attached to the New Mexico Higher Education Department.
- Secretary of Higher Education Department or the Secretary's designee is the Board Chair.
- Other members are appointed by the Governor (2), Senate Pro Tem (1), and Speaker of the House of Representatives (1).





NM ETB Program Manager

OppenheimerFunds serves as the program manager for the NM college savings program and is responsible for:

- Program Administration
- Customer Service and Recordkeeping
- Investment Management
- Marketing and Distribution





NM ETB Members, Staff, & Advisors

EDUCATION TRUST BOARD

Mark Jarmie
Gov. Appt.
6yrs.

David Jansen
Gov. Appt.
6yrs.

Dr. Barbara
Damron,
Chair

Robert
Desiderio,
Vice Chair
House Speaker
6yrs.

Dr. Jose Garcia,
Senate Pres.
Pro-tem
2 yrs.

General Counsel

Sommer Udall

Executive Director

Ted Miller

Financial Coordinator

Vera Lyons

INDUSTRY / INVESTMENTS

MARKETING / OPERATIONS/ IT

Program
Manager

Oppenheimer
Funds

Investment
Consultant

Pension
Consulting
Alliance

529
Counsel

Hogan Lovells

Industry
Consultant

AKF
Consulting

Marketing

Esparza

Community
Outreach

Mikaela Roos
Michelle
Tange

Accounting
Consultant

Morton
Accounting
Services

Audit
Firm

CLA

Public
Relations

Waite &
Co

IT

ABBA
Tech





NM ETB Compensation and Fees FY 2017

- Employees – paid from NM ETB administrative fund
 - NM ETB Executive Director earns \$86,000 per year
 - NM ETB Financial Coordinator earns \$62,000 per year
- Professional Services – paid from NM ETB administrative fund
 - Fees to Investment Consultant \$179,220 + GRT
 - Fees to 529 Counsel \$87,058 + GRT
 - Fees to Marketing Firm \$50,000 + GRT (Oppenheimer also provides \$650,000 annually for NM ETB-directed marketing efforts)
 - All other vendors are under small contracts for professional services with maximum fee of \$50,000 + GRT
- Program Manager – paid by program participants
 - Oppenheimer program fees to participants disclosed in plan documents subject to federal securities law disclosure requirements
 - NM ETB does not incur costs for Oppenheimer's services as program manager





Economic Impact

- The NM ETB does **not** receive state general funds. By statute NM ETB must fund its efforts **entirely** from program fees.
- 20,919 New Mexico resident 529 accounts as of 6/30/2017
- \$406,402,361 in these New Mexico accounts
- Average New Mexico account size is \$19,427
- Non-resident accounts provide 83% of NM ETB revenue.





Comparison to Peers

SECTION II – DATA REPORT 529 State Sponsors by 1Q 2017 Assets (in \$M)

Rank	State	Assets			% Growth	Mkt Share	Mkt Share
		1Q 2016	4Q 2016	1Q 2017	1Q 2017	(of Est. Total)	+/- Qtr
1	VA	\$52,557	\$56,009	\$59,465	6.2%	22.4%	0.15%
2	NY	\$21,803	\$23,691	\$25,079	5.9%	9.4%	0.04%
3	NV	\$16,579	\$18,382	\$19,617	6.7%	7.4%	0.09%
4	NH	\$14,403	\$15,063	\$15,773	4.7%	5.9%	-0.04%
5	UT	\$8,769	\$9,841	\$10,456	6.3%	3.9%	0.03%
6	OH	\$9,108	\$9,679	\$10,129	4.6%	3.8%	-0.03%
7	ME	\$8,315	\$8,747	\$9,155	4.7%	3.4%	-0.03%
8	IL	\$7,843	\$8,624	\$9,114	5.7%	3.4%	0.01%
9	AK	\$6,788	\$7,181	\$7,538	5.0%	2.8%	-0.01%
10	CA	\$6,530	\$7,032	\$7,407	5.3%	2.8%	0.00%
11	CO	\$6,373	\$6,879	\$7,191	4.5%	2.7%	-0.02%
12	RI	\$6,724	\$6,371	\$6,381	0.2%	2.4%	-0.13%
13	KS	\$4,883	\$5,269	\$5,540	5.1%	2.1%	-0.01%
14	MA	\$4,947	\$5,151	\$5,421	5.2%	2.0%	0.00%
15	MI	\$4,688	\$5,007	\$5,282	5.5%	2.0%	0.00%
16	NJ	\$4,552	\$4,818	\$5,061	5.0%	1.9%	-0.01%
17	MD	\$4,313	\$4,694	\$4,971	5.9%	1.9%	0.01%
18	IA	\$4,338	\$4,561	\$4,785	4.9%	1.8%	-0.01%
19	WI	\$3,951	\$4,256	\$4,469	5.0%	1.7%	-0.01%
20	NE	\$3,923	\$4,196	\$4,394	4.7%	1.7%	-0.01%
21	IN	\$3,284	\$3,613	\$3,820	5.7%	1.4%	0.00%
22	CT	\$2,791	\$3,001	\$3,185	6.1%	1.2%	0.01%
23	SC	\$2,446	\$2,719	\$2,910	7.0%	1.1%	0.02%
24	OR	\$2,469	\$2,675	\$2,829	5.8%	1.1%	0.00%
25	MO	\$2,523	\$2,617	\$2,734	4.5%	1.0%	-0.01%
26	NM	\$2,257	\$2,307	\$2,374	2.9%	0.9%	-0.02%
27	WV	\$2,184	\$2,301	\$2,395	4.1%	0.9%	-0.01%
28	PA	\$1,961	\$2,146	\$2,297	7.0%	0.9%	0.01%
29	GA	\$1,929	\$2,125	\$2,270	6.8%	0.9%	0.01%
30	NC	\$1,751	\$1,882	\$1,991	5.8%	0.7%	0.00%
31	AL	\$1,311	\$1,414	\$1,487	5.2%	0.6%	0.00%
32	MN	\$1,187	\$1,244	\$1,292	3.8%	0.5%	-0.01%
33	AZ	\$1,026	\$1,092	\$1,150	5.3%	0.4%	0.00%
34	SD	\$1,059	\$1,045	\$1,073	2.7%	0.4%	-0.01%
35	OK	\$803	\$859	\$900	4.8%	0.3%	0.00%
36	LA	\$658	\$713	\$756	6.0%	0.3%	0.00%
37	AR	\$634	\$690	\$728	5.5%	0.3%	0.00%
38	DE	\$614	\$627	\$650	3.6%	0.2%	0.00%
39	TX	\$533	\$581	\$614	5.7%	0.2%	0.00%
40	DC	\$429	\$481	\$510	6.1%	0.2%	0.00%
41	FL	\$436	\$479	\$507	5.9%	0.2%	0.00%
42	ND	\$398	\$416	\$431	3.8%	0.2%	0.00%
43	ID	\$344	\$372	\$392	5.3%	0.1%	0.00%
44	VT	\$289	\$310	\$319	3.1%	0.1%	0.00%
45	MT	\$214	\$212	\$214	0.8%	0.1%	0.00%
46	MS	\$186	\$196	\$205	4.6%	0.1%	0.00%
47	KY	\$178	\$184	\$192	4.5%	0.1%	0.00%
48	TN	\$62	\$85	\$93	9.6%	0.0%	0.00%
49	HI	\$70	\$73	\$75	3.3%	0.0%	0.00%
Totals		\$235,412	\$251,910	\$265,620	5.4%		





NM ETB Mission, Vision & Goals

- **MISSION**

The New Mexico Education Trust Board (NM ETB) is responsible for New Mexico's 529 College Savings Program. Our mission is to make post-secondary education more attainable by offering a flexible, low-cost, tax-efficient way to save for the costs of higher education.

- **VISION**

NM ETB believes that higher education improves the lives of our children and ultimately benefits the citizens and the economy of New Mexico. Our vision is to enable as many New Mexican children as possible to become beneficiaries of 529 College Savings Accounts before age 10, and to promote continued contributions to the Accounts until post-secondary education is complete.

- **GOALS**

To show consistent year-over-year growth in new account owners in New Mexico.

To be recognized by industry experts/national rating services as a top rated program for both in-state and out-of-state residents.

By the end of FY 2020 to become one of the top15 college savings programs in the country by assets and accounts.





NEW MEXICO 529 PROGRAM STRUCTURE





New Mexico 529 Program Structure

- The New Mexico College Savings Program consist of two separate plans:
 - The Education Plan (TEP) – sold directly to participants
 - Scholar’s Edge (SE) – sold through commission-based investment advisors
- Most participants in each plan tend to select an age-based portfolio option:
 - Utilizes a glide path structure typically 20 – 22 years in length
 - Adjusts asset allocation over time away from volatile equities and toward more stable fixed income/short-term bond classes near the “draw down” period (college age)





Plan Options



- Direct-Sold Plan
 - Assets – \$535 million
 - Accounts – 21,445
 - 3.8 ★'s Avg. Morningstar rating for underlying funds in plan
 - 38% funds 529 medal rated by Morningstar
 - Age-based and custom choice options
- Advisor-Sold Plan
 - Assets – \$1.9 billion
 - Accounts – 109,861
 - 3.8 ★'s Avg. Morningstar rating for funds underlying in plan
 - 35% funds 529 medal rated by Morningstar
 - Age-based, custom choice and individual fund options

- Three risk-based tracks currently offered in each Program – Aggressive, Growth and Balanced.
- The Education Plan and Scholar'sEdge glidepaths currently include six age-bands.
- Account assets are shifted to next stage of glidepath on birthday of Beneficiary.
- The Education Plan offers both index and blended portfolios in its age-based and custom choice options.





Underlying Money Managers



- Oppenheimer Funds
- Vanguard
- TIAA CREF
- Dreyfus



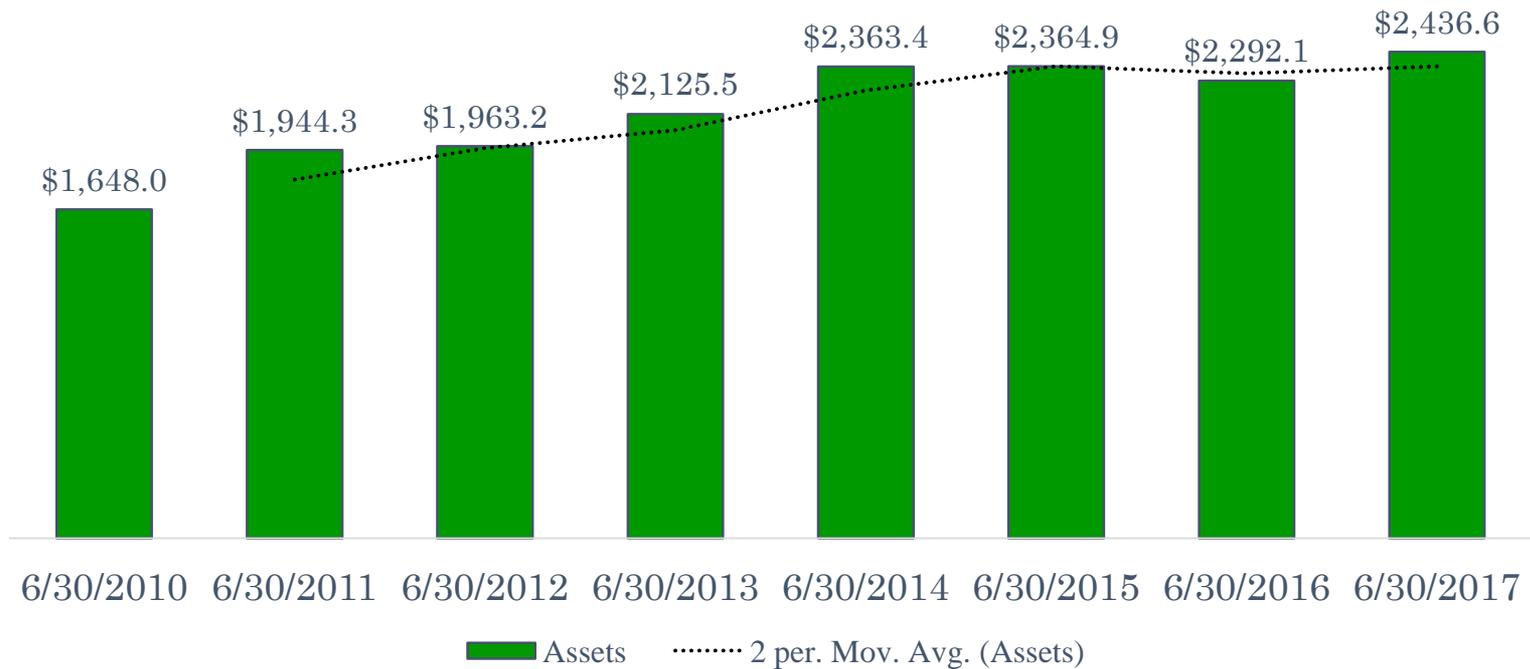
- Oppenheimer Funds
- Dreyfus
- American Century
- MainStay
- Monetta
- NYLIM Funding Agreement





TOTAL EDUCATION TRUST ASSETS

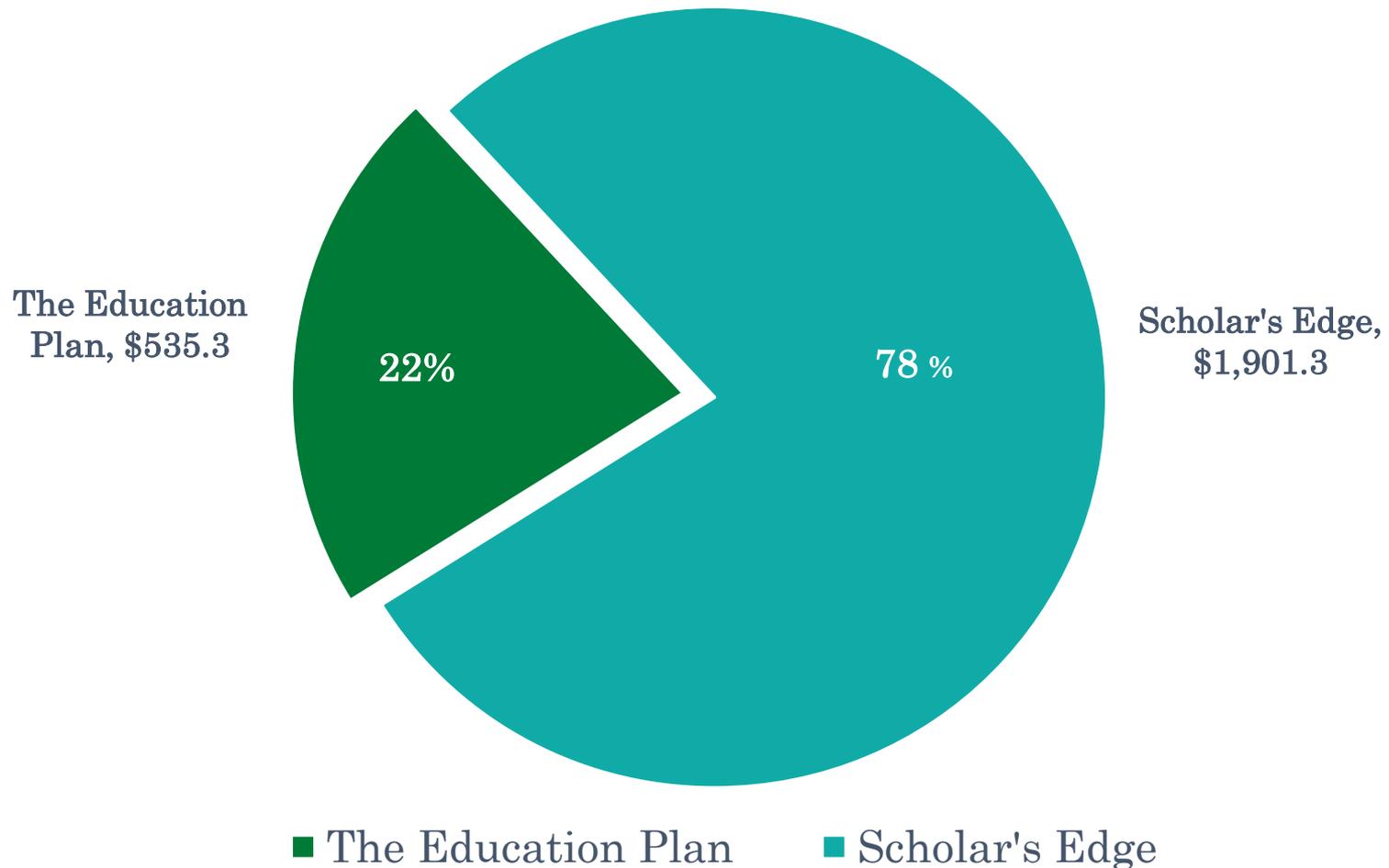
(IN MILLIONS)





TOTAL EDUCATION TRUST ASSETS BY PLAN

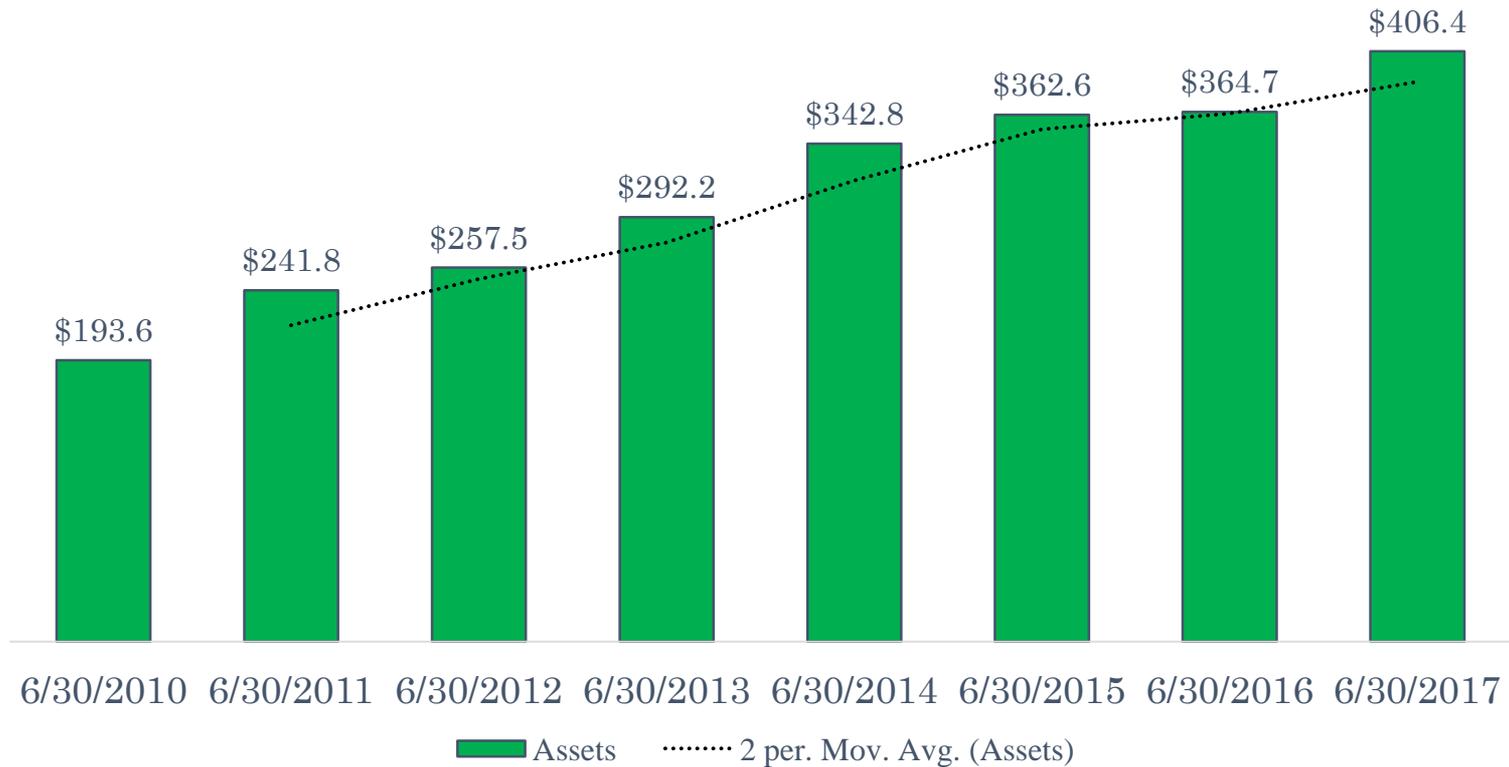
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EDUCATION TRUST ASSETS IN NM

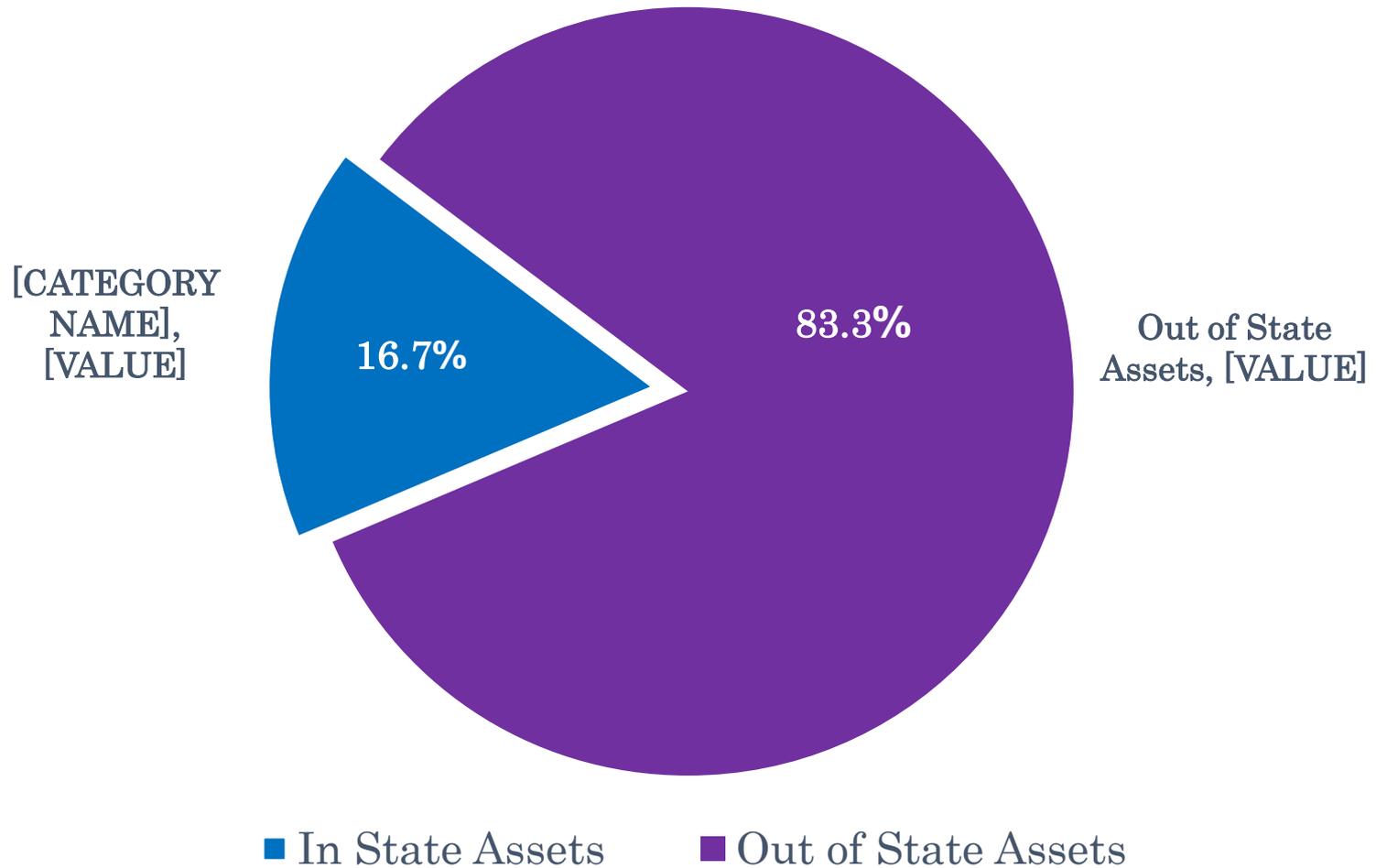
(IN MILLIONS)





TOTAL TRUST ASSETS BY RESIDENCY OF ACCOUNT OWNERS

(IN MILLIONS)





PROGRAM MARKETING & INITIATIVES UPDATE





NM ETB FY17 Marketing Highlights

- Redesigned TEP website enrollment process for easier enrollment
- Instituted TEP default investment option for naïve investors
- Raised maximum contribution limit to \$500,000 to remain competitive with other national plans
- Began development of content strategy & architecture for new TEP website
- Launched first-ever TEP billboard campaign across the entire State
- Saw record-breaking traffic numbers across all marketing websites and media impressions





NM ETB FY17 Marketing Highlights

- Implemented inaugural employer-focused advertising campaign in local papers' business sections
- Held productive meetings with key NM employers/organizations – LANL, Presbyterian Health, UNM, AED, CNM, SFCC, various Counties, Chambers of Commerce, etc.
- Major sponsor of the New Mexico Spelling Bee
- Attended family-friendly events around the State – KidFest, UFO Festival, Lavender Festival
- Secured legal protection of new TEP tagline:

When they are 5 to 9, open a 529.®





NM ETB FY17 Marketing Highlights

NJHS & NHS State Summit – April 25, 2017

- TEP is a strategic partner of NASSP
- TEP co-sponsored NHS/NJHS event at UNM
- Second occurrence of this event in New Mexico
- 500 middle school students nationally received Outstanding Academic Achievement Awards of \$500 TEP 529 savings accounts
- 7 winners from across New Mexico
- 290+ student/adviser attendees from all areas of the State (representing 27 schools)
- Jill Hruby from Sandia Labs, Acting President Abdallah, and Senator Soules spoke to the students







NM ETB FY18 Marketing and Initiatives Highlights

- Launch redesigned TEP website; including a system for capturing information from interested prospects
- Move to enhanced digital marketing in order to drive leads to website & strengthen tracking capabilities
- Additional PR/community outreach initiatives with a new firm
- Stronger employer/professional outreach plan
- New advertising creative messages for Scholar's Edge (create more distinction for SE; keep SE top-of-mind with financial advisors)





BOARD GOVERNANCE, OVERSIGHT AND TRANSPARENCY





Board Governance and Oversight Process

- NM ETB utilizes its professional staff and team of consultants to develop an Investment Policy Statement and to implement a monitoring and guidelines process:
 - Establish and periodically review (not less than annually) Investment Policy and Monitoring Guidelines
 - Watch List Process
 - Consultant reports criteria breaches and communicates with Program Manager
 - Consultant monitors and reports on changes in performance and continues dialogue with Program Manager
 - Recommendations to terminate, restore to normal status, or continue to monitor are made within a 12-18 month time period
 - ETB responsible for final decisions to add/remove funds from the “Watch” list
- Reports provided by PCA and AKF to the NM ETB
 - Monthly “Performance Flash Report” on all underlying mutual funds
 - Monthly “Investment Risk Metrics Report”
 - Quarterly “Investment Monitoring Report”
 - Quarterly “Watch” list Review and Update Memo
 - Quarterly Newsletter “529 Investment Overview”
 - Annual “529 Industry Landscape Analysis”
 - Assessment of Oppenheimer’s (OFI) Annual Program Review
- NM ETB and PCA conduct semi-annual site-visits with OFI for review of operations, investment management and risk management





Transparency – Online at nmetb.org

- Investment Policy Statement and Monitoring Procedures and Criteria
- Program Manager Quarterly Reports – including asset and account numbers and investment performance
- Current RFPs and supporting materials
- IPRA Policy
- Audited Financials
- ETB Open Meeting Resolution, Agendas and Minutes
- Plan expenses and detailed program information contained in plan disclosure documents (online at theeducationplan.com and scholarsedge529.com)





Plans and Actions

- Redesign and Repricing of Investment Offerings:
 - Create low-cost TEP Index offering with Vanguard Funds
 - Lower costs on TEP Blended offerings by replacing current Dreyfus and TIAA index funds with Vanguard index funds
 - Price TEP in the top quartile of 529 plans nationwide
 - Align asset allocation age-based offerings in TEP and SE
 - Use these changes to encourage Morningstar to rate TEP
- Redesign of TEP website
- Enhanced Community Outreach
- Focus on Digital Marketing
- Grant program pending legal approval





Impediments

- NM ETB is operating a national retail financial services business. It must react quickly to 529 market challenges from other states. New Mexico should reviewed its statute against the legal frameworks of highly successful programs sponsored by other states. For example:
 - Exempt NM ETB from the Procurement Code, similar to ERB, PERA, SIC, NMFA and other state 529 programs. This would allow for faster response time in a competitive national market.
 - Provide explicit authority to create grant programs. This is key to helping low and moderate income New Mexicans create college savings.





PROGRAM PERFORMANCE UPDATE





Performance as of 6/30/2017

The Education Plan (TEP) and Scholar's Edge (SE)

	Quarter		1 Year		3 Years		5 Years	
	Return	Rank	Return	Rank	Return	Rank	Return	Rank
New Mexico Age Based 0-5								
T.E.P. Age 0-5	4.02	50	19.33	15	6.74	11	12.54	15
<i>TEP 0-5 Benchmark</i>	3.35	89	19.02	23	6.85	10	12.97	8
T.E.P. Index Age 0-5	3.59	81	18.01	65	7.24	5	12.82	11
<i>TEP Index 0-5 Benchmark</i>	3.67	74	18.73	37	7.65	4	13.43	5
Scholar'sEdge Age 0-5 A	4.46	22	19.72	4	6.53	24	12.17	38
<i>SE 0-5 Benchmark</i>	3.35	89	19.06	19	6.78	11	12.71	14
Custom Morningstar Age 0-5 Median	4.02		18.48		5.79		11.68	
New Mexico Age Based 6-8								
T.E.P. Age 6-8	3.44	42	15.67	27	5.90	21	10.50	26
<i>TEP 6-8 Benchmark</i>	2.93	91	15.33	37	6.14	15	10.98	17
T.E.P. Index Age 6-8	3.04	88	13.97	65	6.20	14	10.60	24
<i>TEP Index 6-8 Benchmark</i>	3.13	81	14.75	49	6.58	6	11.09	14
Scholar'sEdge Age 6-8 A	3.84	18	16.27	16	5.68	35	10.37	35
<i>SE 6-11 Benchmark</i>	3.06	87	15.38	34	5.89	21	10.68	21
Custom Morningstar Age 6-8 Median	3.37		14.69		5.34		9.93	
New Mexico Age Based 9-11								
T.E.P. Age 9-11	2.84	47	11.85	32	4.92	28	8.34	38
<i>TEP 9-11 Benchmark</i>	2.53	82	11.58	39	5.36	8	8.92	21
T.E.P. Index Age 9-11	2.50	85	10.26	78	5.02	25	8.31	42
<i>TEP Index 9-11 Benchmark</i>	2.60	77	10.88	64	5.47	7	8.75	25
Scholar'sEdge Age 9-11 A	3.26	15	13.09	14	4.88	31	8.39	37
<i>SE 9-11 Benchmark</i>	2.74	53	11.86	32	5.02	25	8.71	26
Custom Morningstar Age 9-11 Median	2.78		11.23		4.51		8.22	

- Latest 1-year results for nearly all of the Active TEP and SE portfolios were above median peers
- Latest 1-year earlier-age benchmark returns were below respective medians due to lower International Equity allocations relative to peers
- Nearly all 5-year portfolio and benchmark returns were above the median return.

Rank: 1=highest, 100=lowest; GREEN indicates above median results
Source: Morningstar Direct





Performance as of 6/30/2017

The Education Plan (TEP) and Scholar's Edge (SE)

	Quarter		1 Year		3 Years		5 Years	
	Return	Rank	Return	Rank	Return	Rank	Return	Rank
New Mexico Age Based 12-14								
T.E.P. Age 12-14	2.08	62	8.06	57	3.75	47	5.99	60
<i>TEP 12-14 Benchmark</i>	1.95	77	7.87	59	4.13	25	6.46	41
T.E.P. Index Age 12-14	1.94	78	6.86	79	3.86	40	6.03	59
<i>TEP Index 12-14 Benchmark</i>	1.93	78	7.18	71	4.08	27	6.19	54
Scholar'sEdge Age 12-14 A	2.46	27	9.28	19	3.79	44	6.13	57
<i>SE 12-14 Benchmark</i>	2.14	57	8.14	53	3.90	36	6.40	42
Custom Morningstar Age 12-14 Median	2.19		8.35		3.70		6.22	
New Mexico Age Based 15-17								
T.E.P. Age 15-17	1.37	61	4.40	56	2.51	52	3.52	58
<i>TEP 15-17 Benchmark</i>	1.32	66	4.23	62	2.84	39	4.39	30
T.E.P. Index Age 15-17	1.26	69	3.32	88	2.48	54	3.56	57
<i>TEP Index 15-17 Benchmark</i>	1.27	69	3.59	82	2.66	41	3.65	54
Scholar'sEdge Age 15-17 A	1.66	39	5.46	30	2.59	46	3.77	53
<i>SE 15-17 Benchmark</i>	1.51	48	4.44	55	2.65	41	3.99	47
Custom Morningstar Age 15-17 Median	1.46		4.61		2.53		3.79	
New Mexico Age 18+								
T.E.P. Age 18+	0.99	34	2.55	42	1.69	37	2.13	40
<i>TEP 18+ Benchmark</i>	0.95	36	2.43	44	1.97	31	2.49	37
T.E.P. Index Age 18+	0.72	53	1.70	56	1.67	38	2.21	40
<i>TEP Index 18+ Benchmark</i>	0.79	46	1.90	52	1.65	38	2.11	40
Scholar'sEdge Age 18+ A	1.19	25	3.55	29	1.83	35	2.51	37
<i>SE 18+ Benchmark</i>	1.15	27	2.57	42	1.88	32	2.64	35
Custom Morningstar Age 18+ Median	0.76		2.03		1.33		1.62	

- Latest 1-year results for nearly all of the Active TEP and SE portfolios were above median peers
- Latest 1-year earlier-age benchmark returns were below respective medians due to lower International Equity allocations relative to peers
- Nearly all 5-year portfolio and benchmark returns were above the median return.

Rank: 1=highest, 100=lowest; GREEN indicates above median results
 Custom peer groups determined by portfolio equity allocation
 Source: Morningstar Direct

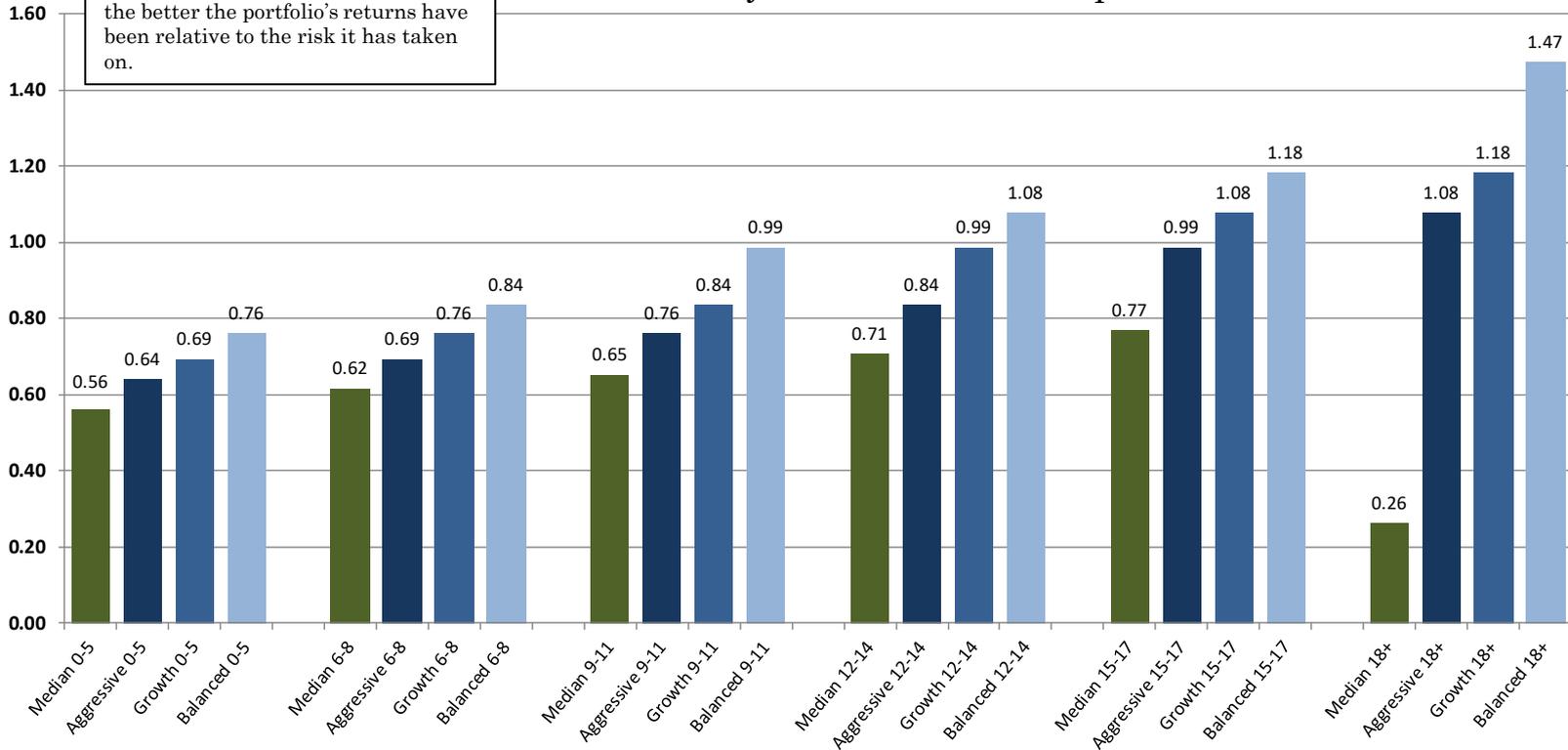




Performance as of 6/30/2017

Sharpe Ratio is used to characterize how well the return of the portfolio compensates for the risk taken. The higher the portfolio's Sharpe Ratio, the better the portfolio's returns have been relative to the risk it has taken on.

The Education Plan 3-Yr Risk Adjusted Results (Sharpe Ratio)



Growth 18+, Balanced 15-17, and Balanced 15-17 portfolio returns estimated using underlying funds
Source: Morningstar

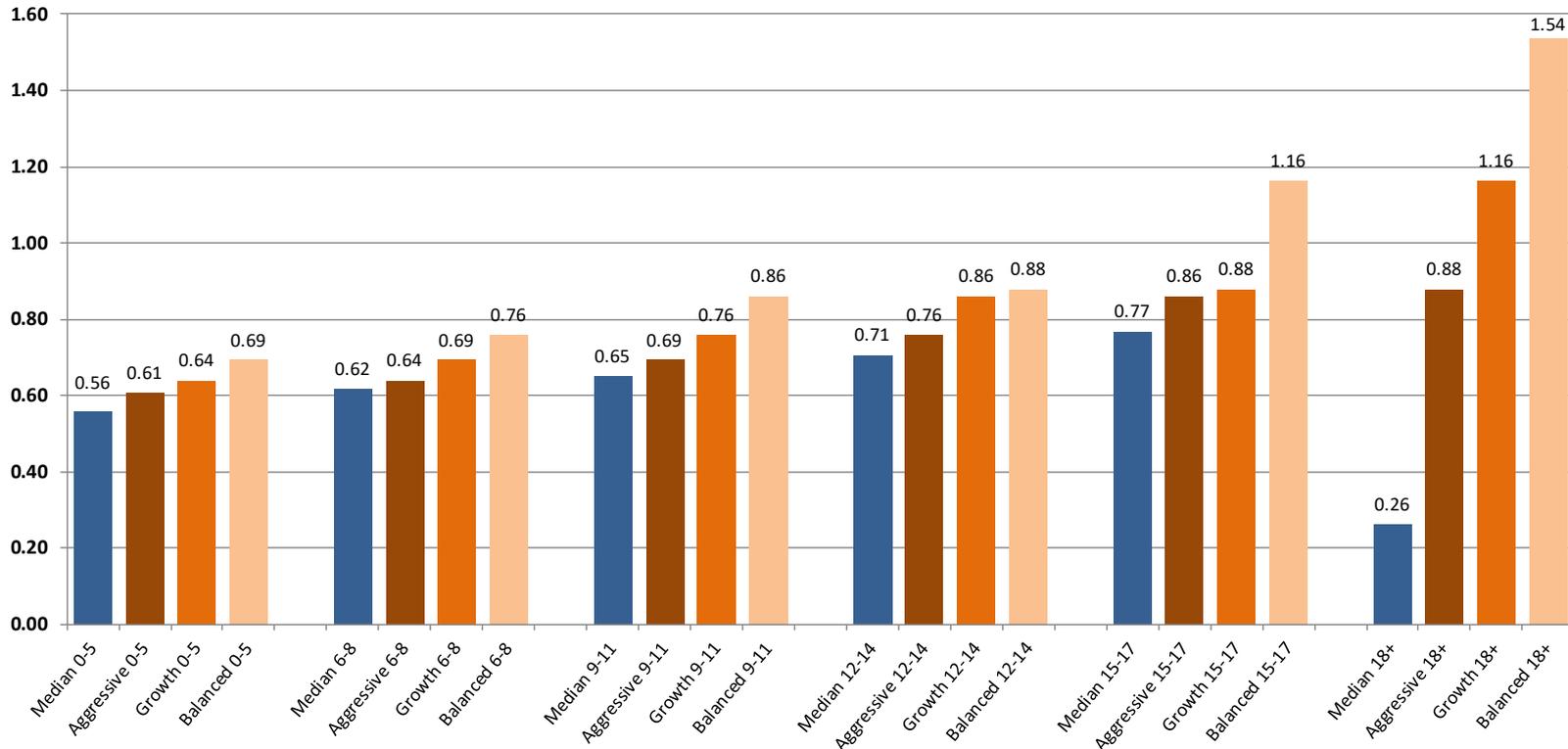
- The Education Plan portfolios have better risk-adjusted results than their median peers
- Reveals that The Education Plan portfolios achieve a higher return per unit of risk
- Sharpe Ratio = (Portfolio Return – Risk Free Return) / Standard Deviation





Performance as of 6/30/2017

Scholar's Edge 3-Yr Risk Adjusted Results (Sharpe Ratio)



Growth 18+, Balanced 15-17, and Balanced 15-17 portfolio returns estimated using underlying funds
Source: Morningstar

- All Scholar's Edge portfolios have better risk-adjusted results than their median peers
- Reveals that most Scholar's Edge portfolios achieve a higher return per unit of risk
- Sharpe Ratio = $(\text{Portfolio Return} - \text{Risk Free Return}) / \text{Standard Deviation}$





Thank You

