Education Trust Board
of New Mexico

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Executive Director

the
education plan®

SCHOLAR'S EDGE®
= 529 =

Investments and Pensions
Oversight Committee

May 19, 2016

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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.

- 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

- Books, supplies, and equipment

- Computer technology, equipment, or Internet access

- Expenses for special needs services

- Room and board

NM ETB Mission, Vision & Goals

- ## MISSION

    The New Mexico Education Trust Board (NMETB) 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

    NMETB 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 top 529 college savings programs in the country by assets and accounts.

BOARD GOVERNANCE & OVERSIGHT PROCESS

NM ETB Funding, Structure & Responsibility

- The Education Trust Board is the governing body for New Mexico's 529 college savings programs

  - The NM ETB does **not** receive legislative appropriations. By statute, NM ETB must fund its efforts **entirely** from program fees.

  - 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 Members, Staff, & Advisors

EDUCATION TRUST BOARD

Mark Jarmie

David Jansen

Dr. Barbara Damron, Chair

Robert Desiderio, Vice Chair

Dr. Jose Garcia

General Counsel
David Mathews

Executive Director
Ted Miller

Financial Coordinator
Vera Lyons

INDUSTRY / INVESTMENTS

OPERATIONS

Program Manager	Investment Consultant	Industry Consultant	529 Counsel	New Mexico Counsel	Accounting Consultant	Audit Firm
Oppenheimer Funds	Pension Consulting Alliance	AKF Consulting	Hogan Lovells	Sommer Udall	Weiner & Co.	REDW

NM ETB Program Manager

Oppenheimer Funds 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

Board Governance & Oversight Process

- ETB utilizes its team of consultants to develop and implement a monitoring and guidelines process:

    1. Established Monitoring Criteria via Investment Policy and Monitoring Guidelines document
    2. Consultant reports criteria breaches and communicates with Program Manager
    3. Consultant monitors and reports on changes in performance and continues dialogue with Program Manager
    4. 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 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

- ETB and PCA conduct site-visits with OFI for review of operations, investment management and risk management

NEW MEXICO 529 PROGRAM STRUCTURE

New Mexico 529 Program Structure

- The New Mexico College Savings Program consist of two separate plans

    - The Education Plan – sold directly to participants
    - Scholar's Edge – 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

the education plan

- Direct-Sold Plan
- Assets – $473 million
- Accounts – 20,858
- 3.7 ★'s Avg. Morningstar rating
- 40% funds 529 medal rated by Morningstar
- No- load funds
- Age-based and static options

SCHOLAR'S EDGE 529

- Advisor-Sold Plan
- Assets – $1.8 billion
- Accounts – 117,467
- 3.5 ★'s Avg. Morningstar rating
- 25% funds 529 medal rated by Morningstar
- Age-based, custom choice and static options

- Three risk-based tracks offered in each Program – Aggressive, Growth and Balanced.
- The Education Plan and Scholar'sEdge glidepaths 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 static options.

Underlying Money Managers

the education plan®

- Oppenheimer Funds
- Vanguard
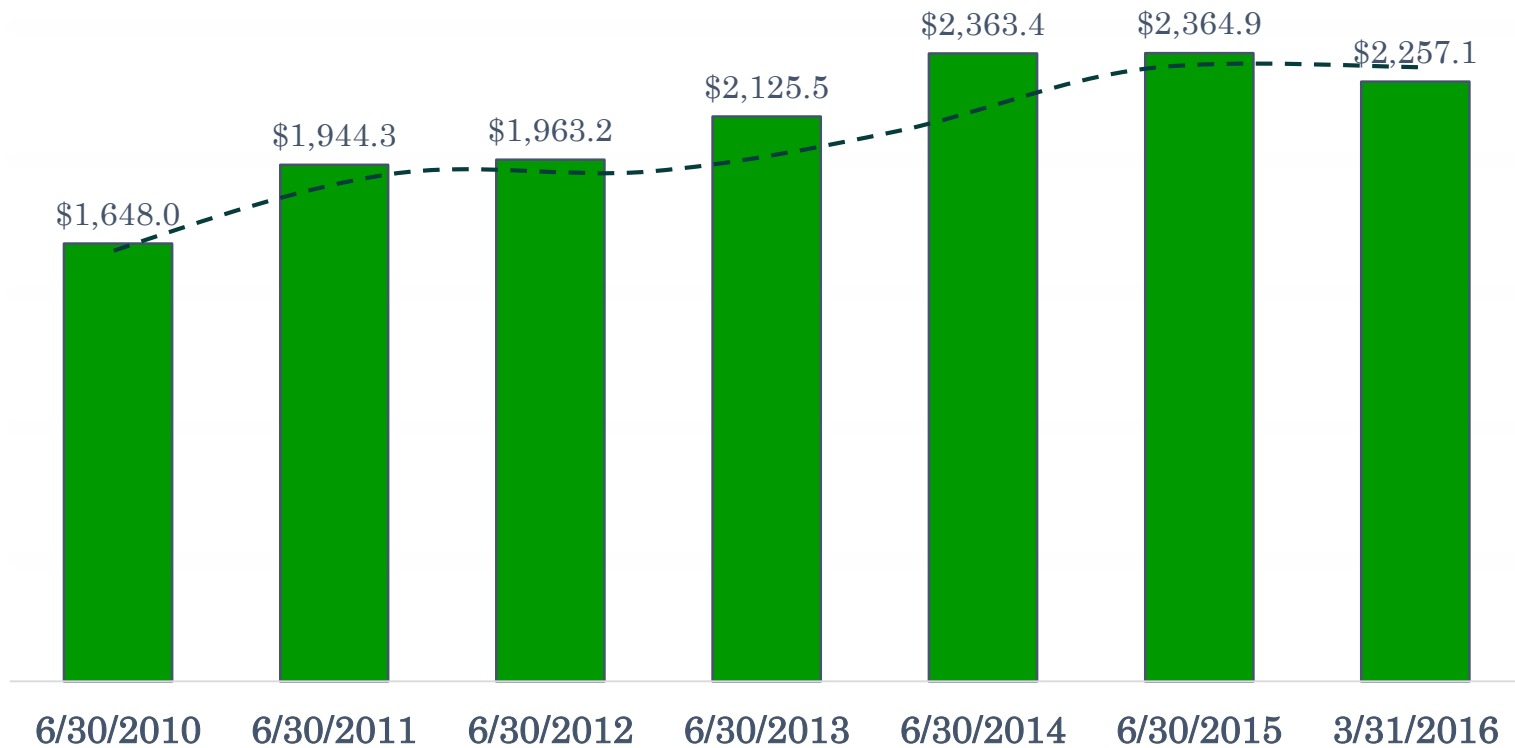- TIAA CREF
- Dreyfus

SCHOLAR'S EDGE® 529

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

TOTAL EDUCATION TRUST ASSETS

(IN MILLIONS)

Date	Value
6/30/2010	$1,648.0
6/30/2011	$1,944.3
6/30/2012	$1,963.2
6/30/2013	$2,125.5
6/30/2014	$2,363.4
6/30/2015	$2,364.9
3/31/2016	$2,257.1

TOTAL EDUCATION TRUST ASSETS BY PLAN

(IN MILLIONS)

The Education Plan, $477.8 — 21.2%

Scholar's Edge, $1,779.3 — 78.9%

■ The Education Plan ■ Scholar's Edge
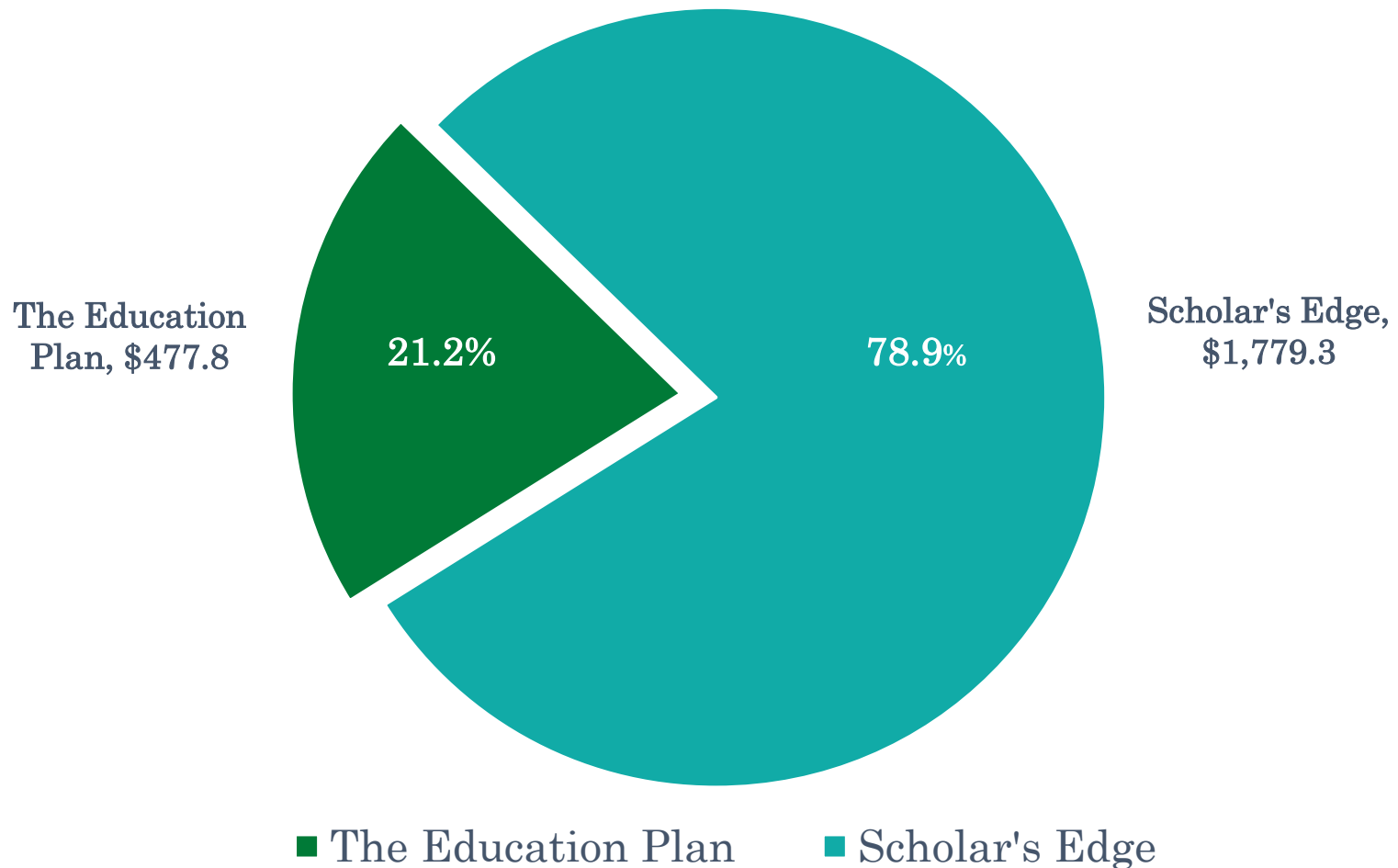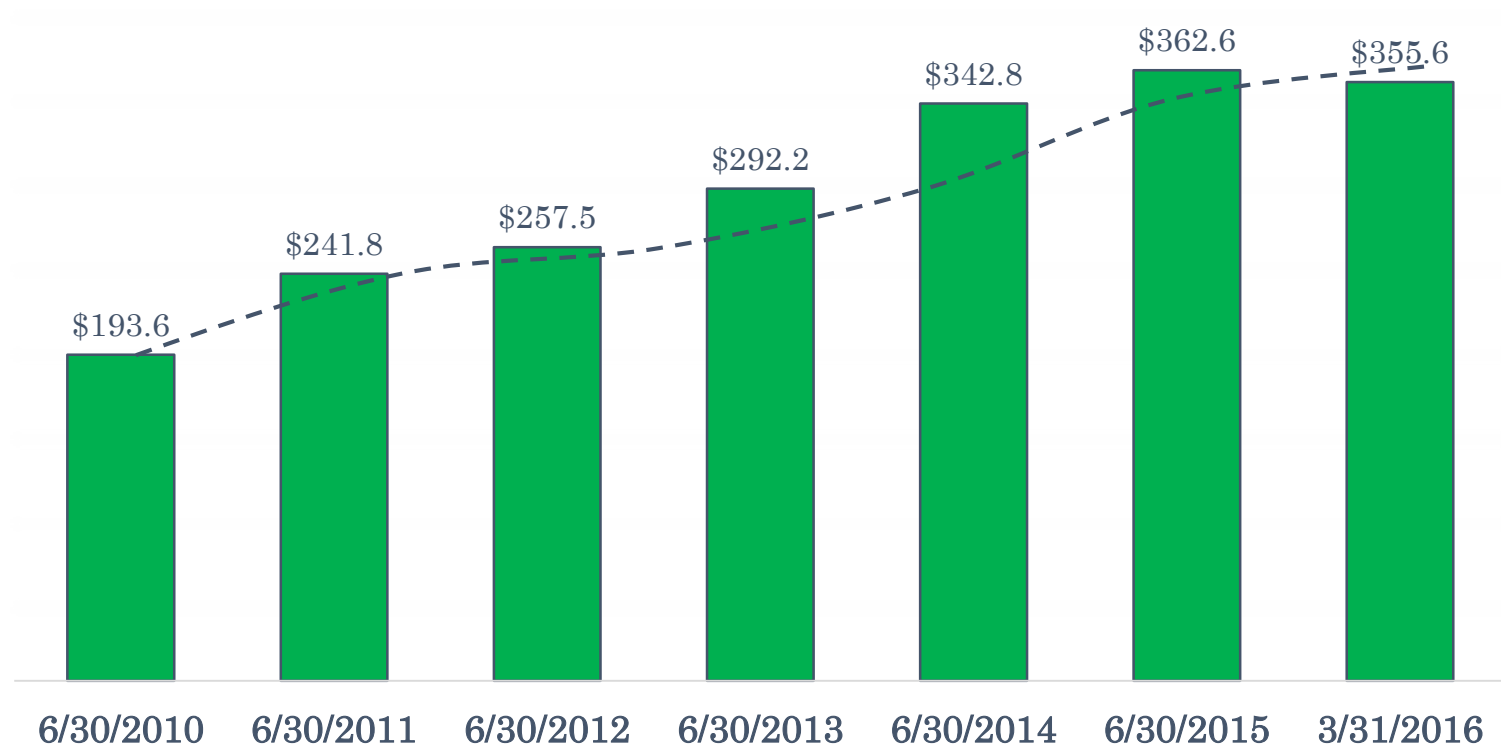
EDUCATION TRUST ASSETS IN NM

(IN MILLIONS)

TOTAL TRUST ASSETS BY RESIDENCY OF ACCOUNT OWNERS

(IN MILLIONS)

In State Assets, $355.6

15.8%

84.2%

Out of State Assets, $1,895.2

- ■ In State Assets
- ■ Out of State Assets
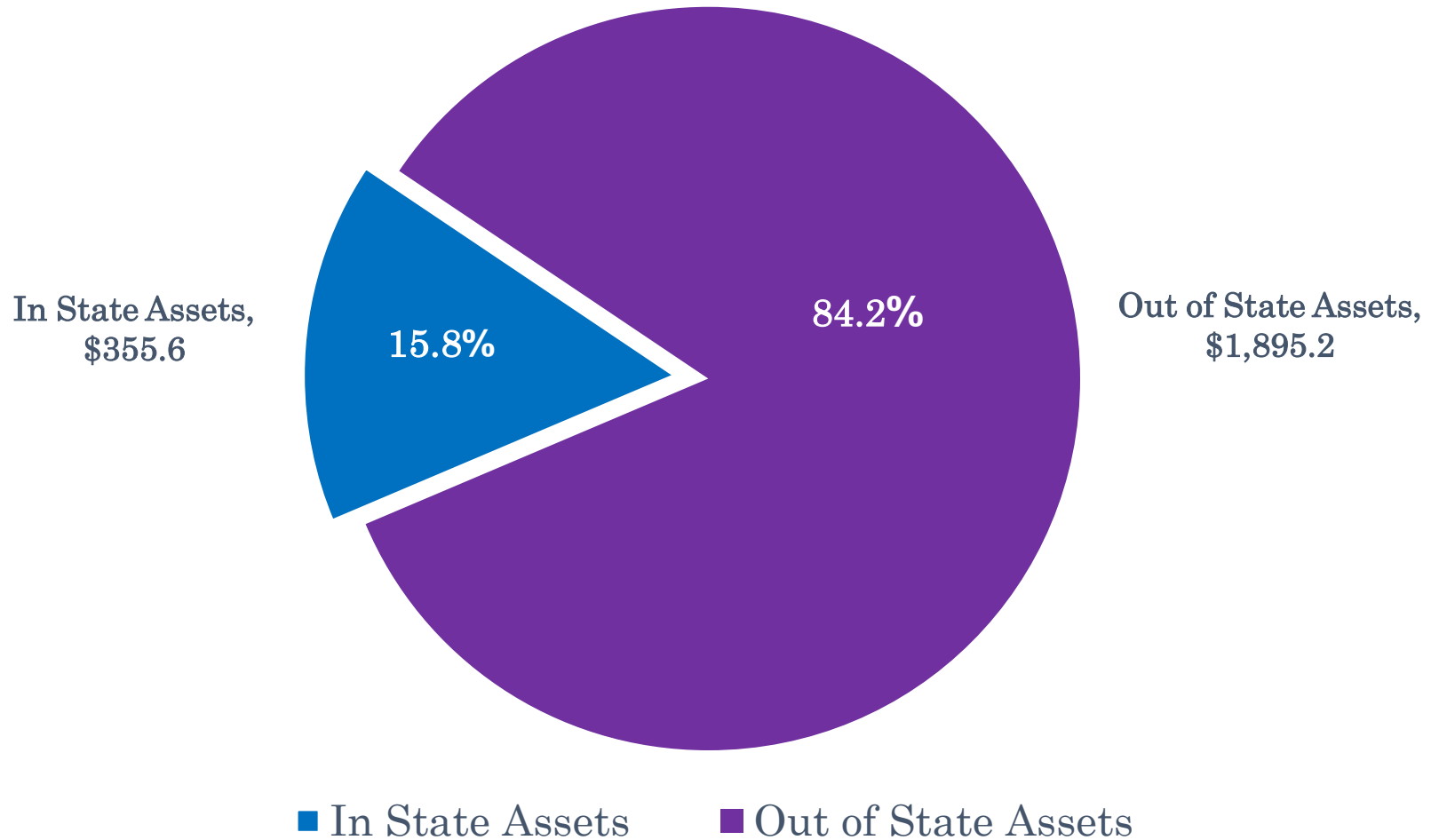
PROGRAM MARKETING & INITIATIVES UPDATE

NM ETB Marketing Highlights

- Opinion Letter by Secretary Damron featured in Albuquerque Journal – April 10

- New placements in grassroots publications (Round the Roundhouse, Voices of God, NM Kids! and more)

- Various website improvements completed and in process to ensure online enrollment is understandable & efficient

- Strong growth in TEP Facebook interactions

- **2016 NJHS & NHS State Summit – April 28, 2016**
  - TEP is a strategic partner of NASSP
  - TEP co-sponsored inaugural NHS/NJHS event at UNM
  - 500 middle school students nationally received Outstanding Academic Achievement Awards of $500 TEP 529 savings accounts
  - 7 winners from across New Mexico
  - 270+ student/adviser attendees from all areas of the State
  - Secretary Damron, Secretary Skandera & President Frank spoke to the students
  - NM media outlets covered the event

Welcome

It's never too early to SAVE for your FUTURE EDUCATION!...

529 SAVINGS PLAN

KNOWLEDGE ?

NM ETB Marketing and Initiatives Highlights

- **FY17 initiatives:**
  - Increase in overall marketing investment (totaling $2.54 million)

  - New advertising messages (create a greater sense of urgency)

  - Pilot matching grant program (aiming to launch this winter)

  - Employer outreach plan (aiming to rollout this fall)

  - Additional public relations and sponsorship efforts focused on education and financial literacy (ongoing)

PROGRAM PERFORMANCE UPDATE

Performance as of 3/31/2016

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	-0.53	63	-3.54	43	8.17	18	7.94	33
TEP 0-5 Benchmark	*0.29*	*40*	*-3.44*	*40*	*8.27*	*13*	*8.33*	*18*
T.E.P. Index Age 0-5	0.23	41	-1.67	4	9.00	5	8.77	11
TEP Index 0-5 Benchmark	*0.27*	*40*	*-1.38*	*2*	*9.55*	*4*	*9.41*	*6*
Scholar'sEdge Age 0-5 A	-0.81	73	-3.71	48	7.72	38	7.29	50
SE 0-5 Benchmark	*0.60*	*18*	*-3.57*	*45*	*7.95*	*30*	*7.95*	*33*
Custom Morningstar Age 0-5 Median	**-0.07**		**-3.73**		**7.55**		**7.29**	
New Mexico Age Based 6-8								
T.E.P. Age 6-8	0.11	51	-2.74	37	6.89	26	7.17	21
TEP 6-8 Benchmark	*0.83*	*31*	*-2.35*	*30*	*7.21*	*16*	*7.56*	*11*
T.E.P. Index Age 6-8	0.73	33	-1.01	4	7.58	9	8.17	3
TEP Index 6-8 Benchmark	*0.74*	*32*	*-0.58*	*1*	*8.10*	*3*	*8.20*	*3*
Scholar'sEdge Age 6-8 A	-0.22	64	-3.02	44	6.34	47	6.48	44
SE 6-11 Benchmark	*1.39*	*7*	*-2.03*	*21*	*6.74*	*31*	*6.89*	*30*
Custom Morningstar Age 6-8 Median	**0.13**		**-3.32**		**6.24**		**6.37**	
New Mexico Age Based 9-11								
T.E.P. Age 9-11	0.65	61	-2.06	44	5.58	32	6.28	25
TEP 9-11 Benchmark	*1.37*	*30*	*-1.26*	*27*	*6.11*	*15*	*6.73*	*10*
T.E.P. Index Age 9-11	0.90	47	-0.76	14	6.13	14	7.14	6
TEP Index 9-11 Benchmark	*1.19*	*36*	*0.13*	*1*	*6.61*	*6*	*6.95*	*9*
Scholar'sEdge Age 9-11 A	0.44	70	-2.34	53	5.04	51	5.83	37
SE 9-11 Benchmark	*1.95*	*6*	*-0.71*	*13*	*5.46*	*37*	*5.78*	*38*
Custom Morningstar Age 9-11 Median	**0.86**		**-2.24**		**5.08**		**5.44**	

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

- Latest 1-year results for nearly all of the Active TEP and SE portfolios were above median peers

- Nearly all benchmark results over all time periods were above median to top decile, indicating the Program's asset allocation is working

- Nearly all 3- and 5-year portfolio returns were above the median return.

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	0.92	54	-1.18	35	4.13	37	4.98	30
TEP 12-14 Benchmark	*1.48*	*26*	*-0.51*	*17*	*4.55*	*23*	*5.23*	*22*
T.E.P. Index Age 12-14	1.11	44	-0.34	14	4.60	21	5.85	11
TEP Index 12-14 Benchmark	*1.29*	*35*	*0.58*	*1*	*4.83*	*15*	*5.24*	*22*
Scholar'sEdge Age 12-14 A	0.85	57	-1.61	44	3.58	53	4.64	37
SE 12-14 Benchmark	*2.09*	*7*	*-0.42*	*15*	*4.28*	*31*	*4.93*	*31*
Custom Morningstar Age 12-14 Median	0.99		-1.70		3.73		4.17	
New Mexico Age Based 15-17								
T.E.P. Age 15-17	1.11	51	-0.42	32	2.48	40	3.45	30
TEP 15-17 Benchmark	*1.47*	*37*	*0.20*	*20*	*2.94*	*27*	*3.59*	*27*
T.E.P. Index Age 15-17	1.23	49	0.00	26	2.85	30	4.28	18
TEP Index 15-17 Benchmark	*1.37*	*42*	*0.94*	*5*	*3.02*	*26*	*3.49*	*30*
Scholar'sEdge Age 15-17 A	1.23	49	-0.76	42	2.09	54	3.12	39
SE 15-17 Benchmark	*2.08*	*12*	*0.42*	*13*	*2.79*	*33*	*3.44*	*31*
Custom Morningstar Age 15-17 Median	-2.30		-0.83		2.45		3.22	
New Mexico Age 18+								
T.E.P. Age 18+	1.03	53	-0.08	49	1.53	37	2.34	44
TEP 18+ Benchmark	*1.22*	*46*	*0.39*	*32*	*1.92*	*31*	*2.46*	*40*
T.E.P. Index Age 18+	0.99	55	0.00	47	1.86	31	3.17	29
TEP Index 18+ Benchmark	*1.01*	*54*	*0.81*	*14*	*1.79*	*32*	*2.13*	*47*
Scholar'sEdge Age 18+ A	1.14	49	-0.49	64	1.28	41	2.25	45
SE 18+ Benchmark	*1.92*	*19*	*0.78*	*15*	*1.92*	*31*	*2.48*	*38*
Custom Morningstar Age 18+ Median	1.12		-0.10		0.89		2.00	

- Latest 1-year results for nearly all of the Active TEP and SE portfolios were above median peers

- Nearly all benchmark results over all time periods were above median to top decile, indicating the Program's asset allocation is working

- Nearly all 3- and 5-year portfolio returns were above the median return.
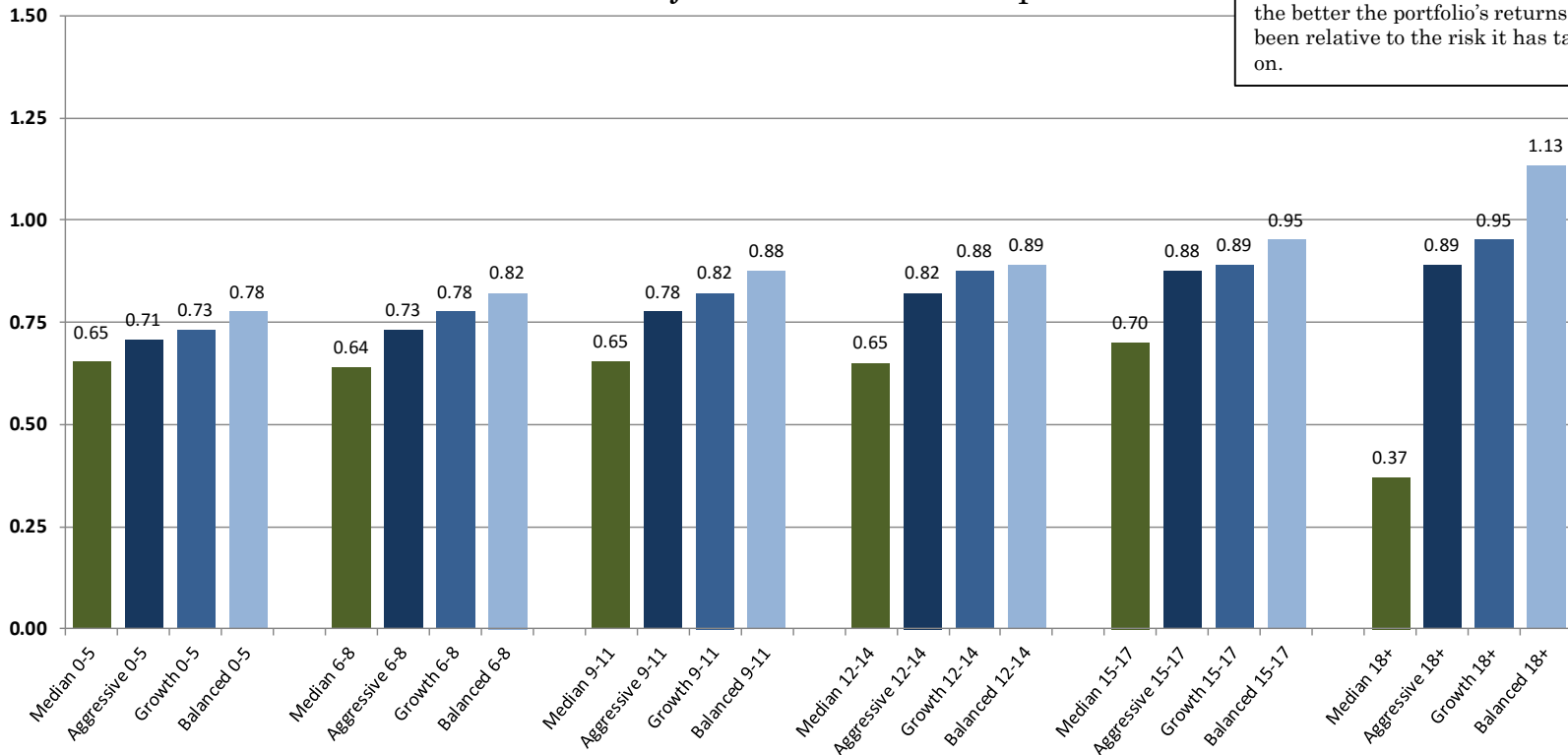
Rank: 1=highest, 100=lowest; GREEN indicates above median results
Custom peer groups determined by portfolio equity allocation
Source: Morningstar Direct

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

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.

	Sharpe Ratio
Median 0-5	0.65
Aggressive 0-5	0.71
Growth 0-5	0.73
Balanced 0-5	0.78
Median 6-8	0.64
Aggressive 6-8	0.73
Growth 6-8	0.78
Balanced 6-8	0.82
Median 9-11	0.65
Aggressive 9-11	0.78
Growth 9-11	0.82
Balanced 9-11	0.88
Median 12-14	0.65
Aggressive 12-14	0.82
Growth 12-14	0.88
Balanced 12-14	0.89
Median 15-17	0.70
Aggressive 15-17	0.88
Growth 15-17	0.89
Balanced 15-17	0.95
Median 18+	0.37
Aggressive 18+	0.89
Growth 18+	0.95
Balanced 18+	1.13

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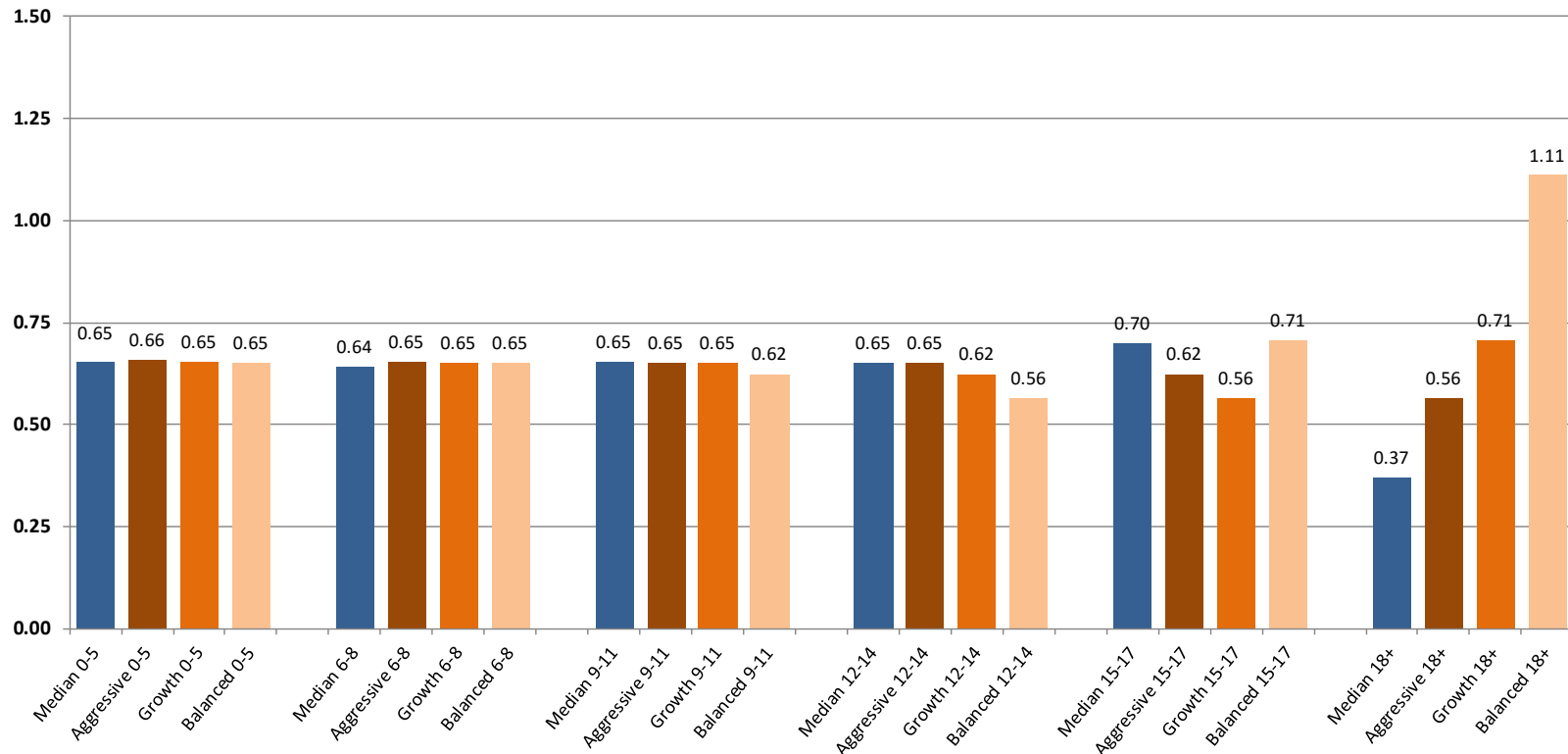Source: Morningstar

- 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

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

- Most Scholar's Edge portfolios were roughly in-line with median peers

- Reveals that most Scholar's Edge portfolios achieve equivalent return per unit of risk

- Sharpe Ratio = (Portfolio Return − Risk Free Return) / Standard Deviation