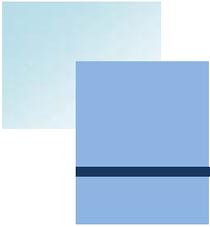


Presentation to the:

INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE

Education Trust Board of New Mexico





New Mexico 529 Programs – Introductory Comments

About PCA

- Pension Consulting Alliance, Inc. (PCA) is an independent, full-service investment consulting firm providing a broad range of investment advice to a wide variety of sophisticated institutional investors
- Investment consulting is PCA's only line of business
- PCA began consulting to the Education Trust Board (ETB) in December 2011
 - Prior to this, PCA did not provide consulting services to any 529 programs run by Oppenheimer
- PCA now provides investment consulting services to 8 state-run 529 College Savings Plans totaling \$37.1 billion in client assets
 - Additional project work for several other 529 College Savings Plans
 - Total client asset under advisement = \$1.1 trillion

New Mexico 529 Programs – Introductory Comments

MANAGER MONITORING

- ETB utilizes its team of consultants to develop and implement a monitoring and guidelines process:
 1. Establish Monitoring Criteria via Investment Policy and Monitoring Guidelines Document
 2. Consultant reports breaches to criteria set forth in the document, communicates with Program Manager
 3. Consultant Monitors and Reports on Improvement/Deterioration, and Discussions with Program Manager
 4. Recommendations to Terminate, Restore to Normal Status, 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 to the Education Trust Board
 - 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
 - Assessment of Oppenheimer’s (OFI) Annual Program Review

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

Performance as of 6/30/2013 – TEP and SE

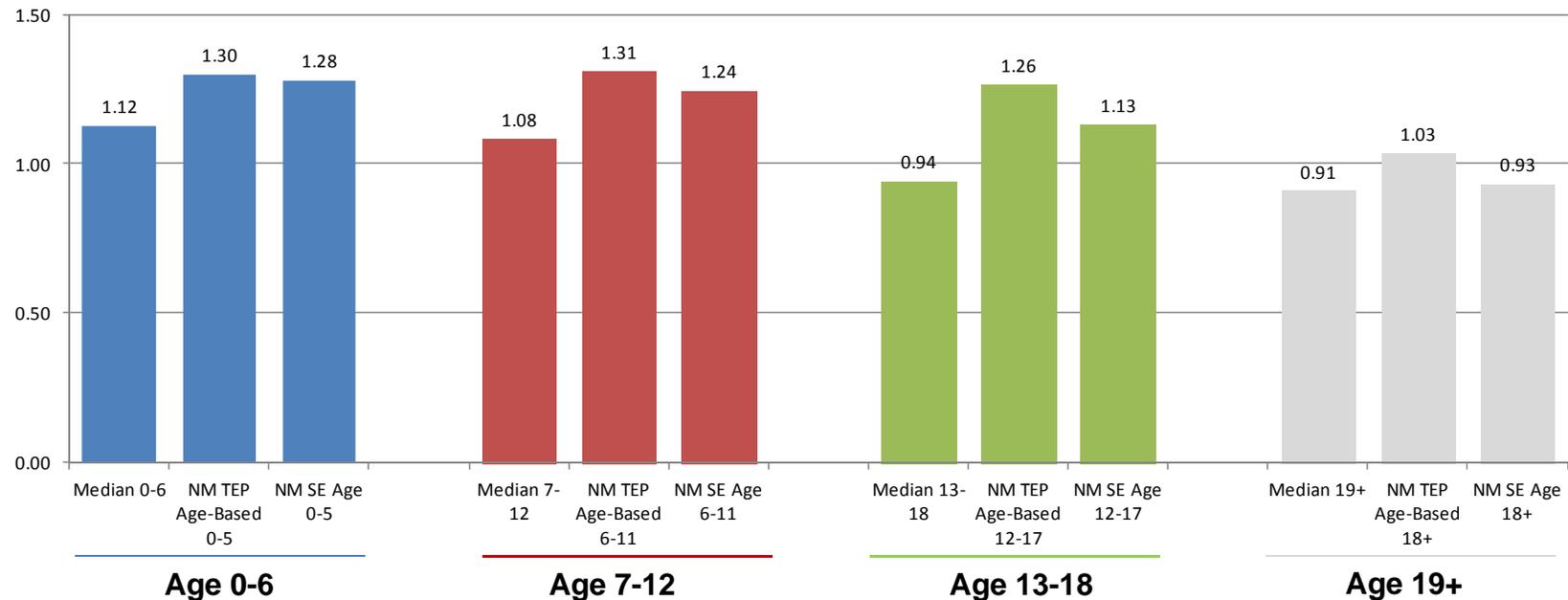
	Quarter		1 Year		3 Years		5 Years	
	Return	Rank	Return	Rank	Return	Rank	Return	Rank
NM Age Based 0-5								
NM Edu PI Age-Based 0-5 Yrs	1.55	5	19.57	4	15.51	11	4.33	57
NM TEP 0-5 Benchmark	1.97	3	21.44	1	17.08	2	5.97	9
NM Edu PI Age-Based Idx 0-5 Yrs	1.90	3	19.79	3	16.05	6		
NM TEP Index 0-5 Benchmark	2.08	2	20.68	3				
NM Scholar'sEdge Age 0-5 Aggr A	1.30	10	19.12	6	14.19	25	3.30	76
NM SE 0-5 Benchmark	1.93	3	21.35	1	17.07	2	5.96	10
Morningstar US 529 Age 0-6 Median	0.35		14.92		12.60		4.65	
NM Age Based 6-11								
NM Edu PI Age-Based 6-11 Yrs	0.54	14	13.53	25	12.21	22	1.95	86
NM TEP 6-11 Benchmark	0.86	7	15.04	13	13.35	11	6.18	6
NM Edu PI Age-Based Idx 6-11 Yrs	0.45	19	13.41	26	13.19	13		
NM TEP Index 6-11 Benchmark	0.53	16	13.97	21				
NM Scholar'sEdge Age 6-11 Mod Agg A	0.15	27	14.06	20	11.82	29	2.98	73
NM SE 6-11 Benchmark	0.79	8	14.96	14	13.47	10	6.15	7
Morningstar US 529 Age 7-12 Median	-0.33		10.71		10.54		4.54	
NM Age Based 12-17								
NM Edu PI Age-Based 12-17 Yrs	-0.48	22	5.50	51	6.63	54	-1.28	100
NM TEP 12-17 Benchmark	-0.22	14	6.49	39	7.12	47	4.78	32
NM Edu PI Age-Based Idx 12-17 Yrs	-1.14	55	5.18	55	7.52	38		
NM TEP Index 12-17 Benchmark	-1.19	56	5.57	50				
NM Scholar'sEdge Age 12-17 Cnsv A	-0.92	43	6.15	43	6.87	50	1.09	92
NM SE 12-17 Benchmark	-0.28	16	6.59	38	7.43	40	4.96	27
Morningstar US 529 Age 13-18 Median	-1.08		5.43		6.77		4.07	
NM Age Based 18+								
NM Edu PI Age-Based 18+ Yrs	-0.65	25	1.67	58	3.25	57	-1.51	98
NM TEP 18+ Benchmark	-0.47	21	2.37	52	3.55	54	3.27	29
NM Edu PI Age-Based Idx 18+ Yrs	-1.55	74	1.42	63	4.18	45		
NM TEP Index 18+ Benchmark	-1.56	75	1.71	58				
NM Scholar'sEdge Age 18+ School Yrs A	-1.13	46	2.43	51	3.81	50	0.82	88
NM SE 18+ Benchmark	-0.50	21	2.50	50	4.02	46	3.76	14
Morningstar US 529 Age 19+ Median	-1.21		2.55		3.81		2.74	

Rank: 1=highest, 100=lowest; GREEN indicates above median results
 Some Age-Based results have been aggregated for comparison purposes
 Source: Morningstar Direct

- Latest quarter, 1-year, and 3-year results for the Active TEP and SE portfolios were at or above median peers
- 5-year benchmark results were above median to top decile indicating the Program's asset allocation is working
- 5-year portfolio results versus peers due primarily to the Core Bond Fund (removed from the Program in 2009)

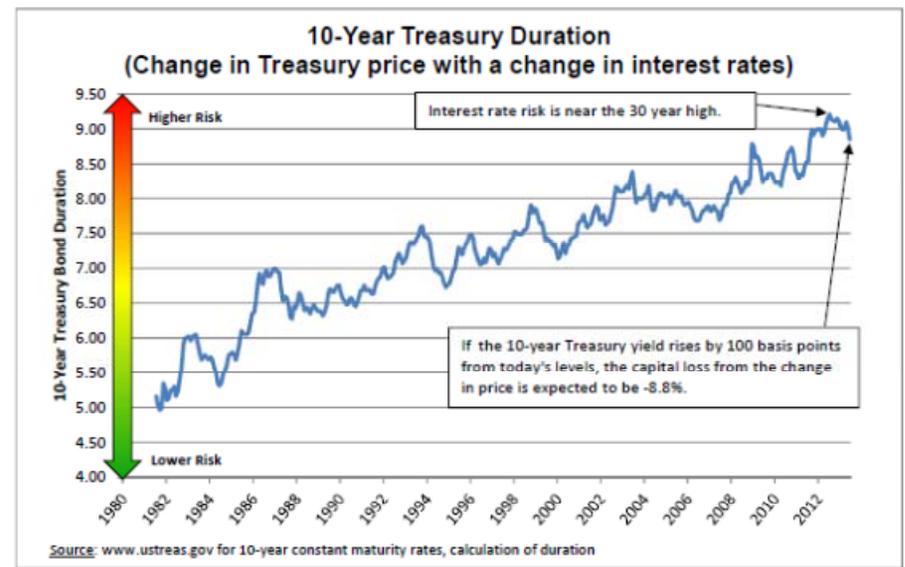
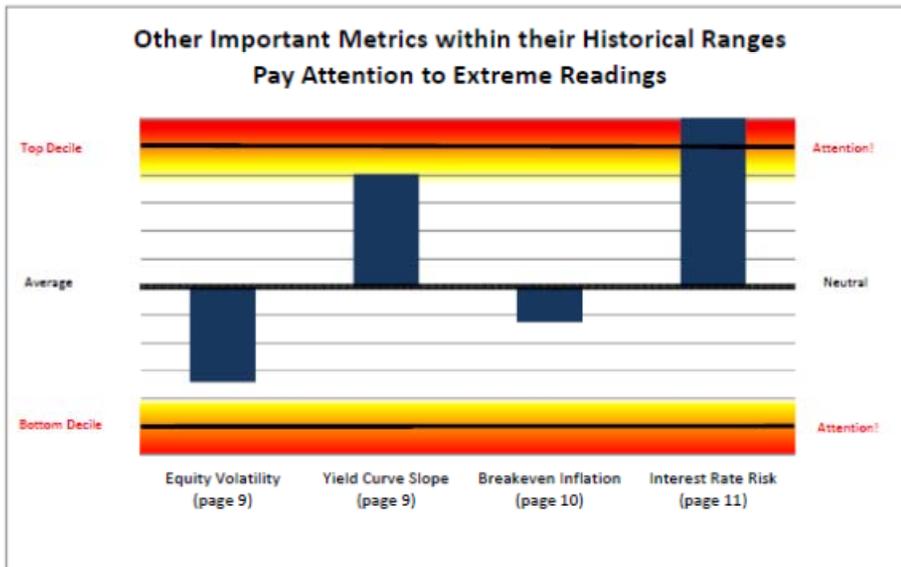
Performance as of 6/30/2013 – TEP and SE

1 Yr Risk Adjusted Results (Sharpe Ratio) – As of 6/30/2013



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

Fixed Income Portfolio Enhancements



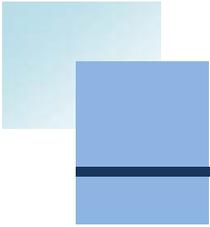
- PCA has worked with the ETB and OFI to monitor additional potential risks to the Program
- Interest rate risk perceived to be very high as the 10-year Treasury has a duration of approximately 9 years
 - Indicates a capital loss of 9.0% if interest rates rise 1.0%
 - This is exactly what happened during 2Q 2013!

Fixed Income Portfolio Enhancements

Risk Adjusted Results (Sharpe Ratio) – As of 6/30/2013

	Quarter		1 Year		3 Years		5 Years	
	Return	Rank	Return	Rank	Return	Rank	Return	Rank
NM SE Fixed Income Portfolio								
American Century Diversified Bond Fund	-2.73	58	-0.71	79	3.73	65	5.49	54
Barclays US Agg Bond TR USD	-2.32		-0.69		3.51		5.19	
Oppenheimer Limited-Term Government Fund	-0.88	51	0.62	2	1.83	10	2.19	54
Barclays Capital Government 1-3 Year Bond Index	-0.11		0.34		0.86		2.06	
Oppenheimer Senior Floating Rate Fund	0.67	10	7.83	24	7.40	22	6.53	4
Credit Suisse Leveraged Loan USD	0.43		7.64		6.86		5.77	
MainStay High Yield Corporate Bond Fund	-1.02	21	8.66	53	9.63	51	8.74	48
Credit Suisse HY USD	-1.38		9.18		10.31		10.11	
Oppenheimer International Bond Fund	-5.50	89	1.06	41	4.51	36	4.28	48
Citi Group World Government Bond Index xUS	-3.44		-5.72		2.57		2.55	

- ETB approved changes to the fixed income portfolio in August 2012 to mitigate the impact of a rising rate environment
 - Inclusion of the Oppenheimer Limited-Term Govt Fund
 - Inclusion of the Oppenheimer Senior Floating Rate Fund
- In 2Q 2013, Barclays Aggregate Bond Index fell -2.32% as rates quickly rose
- Key additions to the Program held up well during this period
 - Limited Term Bond Fund outpaced broad index by 1.44%
 - Senior Floating Rate Fund outpaced broad index by 2.99%



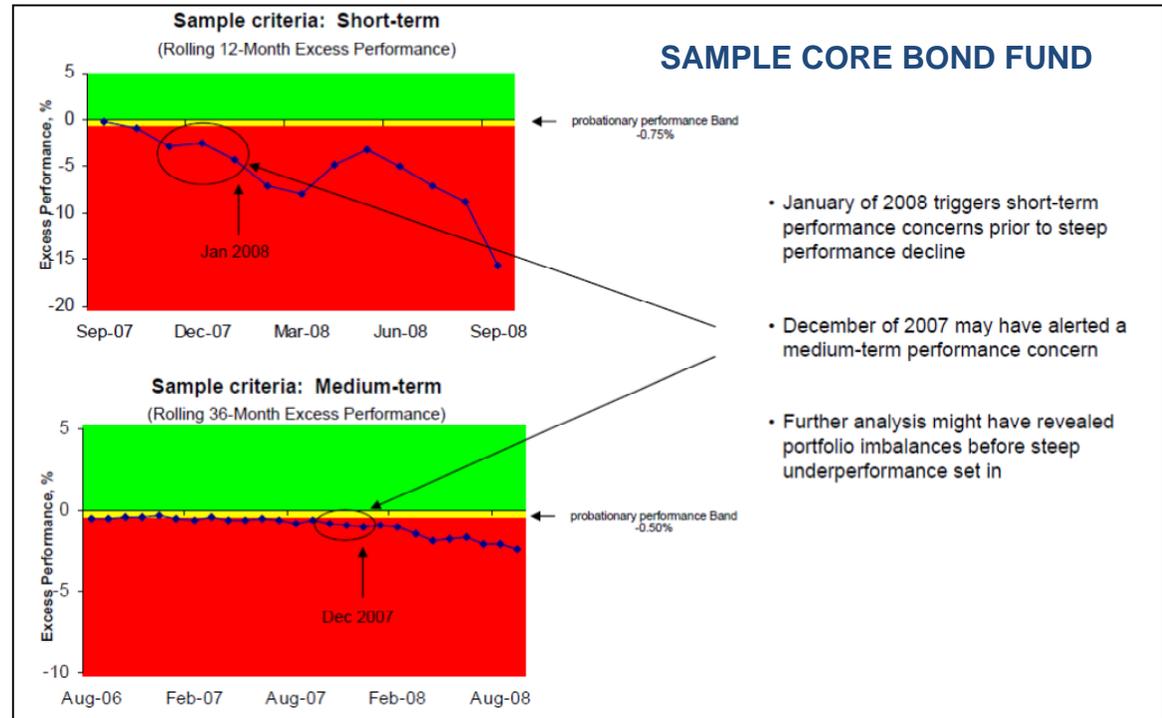
Appendix

- PCA Fund Monitoring Process

PCA Fund Monitoring Process

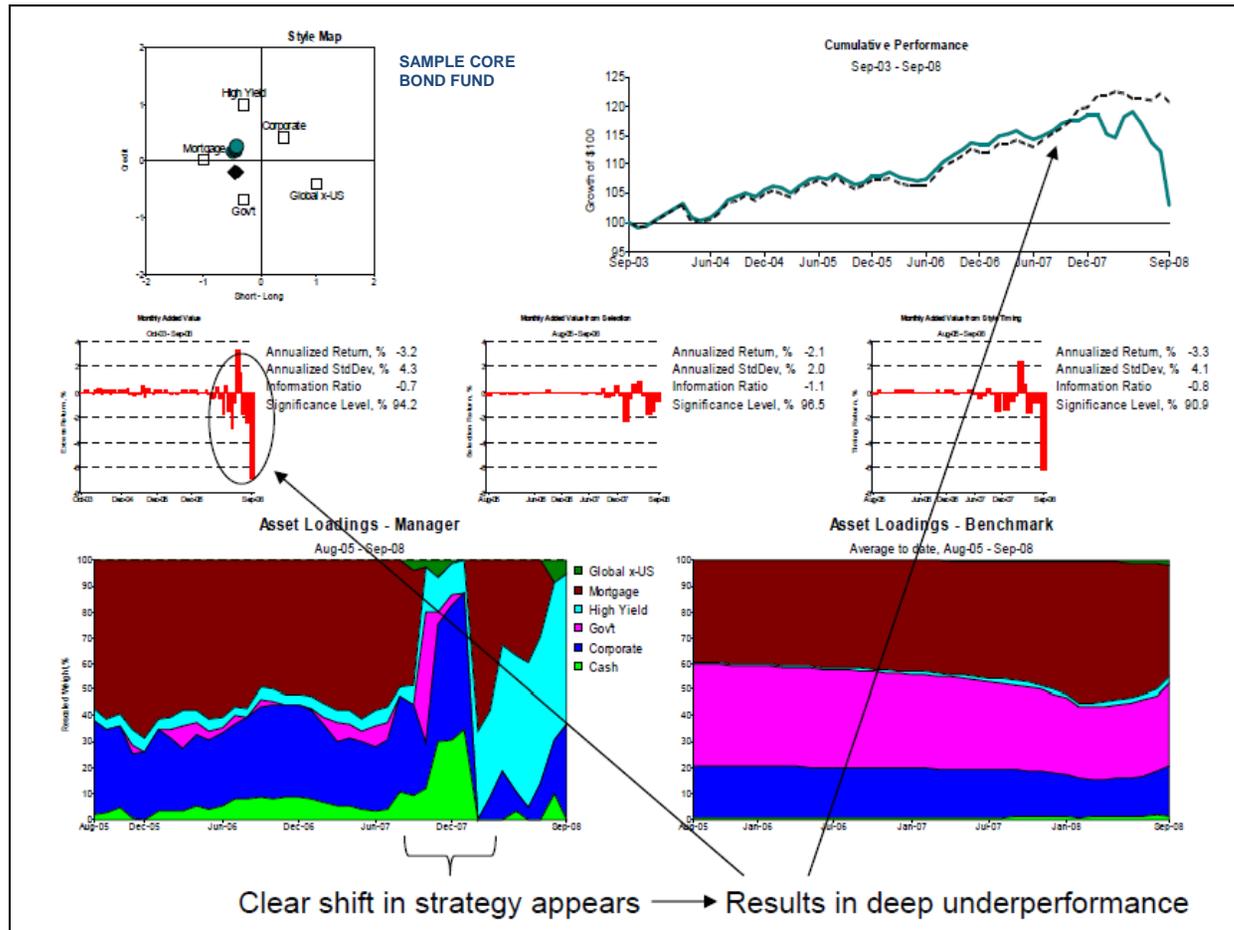
MANAGER MONITORING

- This continual monitoring process is essential as 2008-2009 revealed that performance can deteriorate quickly
- However, having a process in place helps insure that trouble spots are identified early



- Simply monitoring annualized performance results on a monthly or quarterly basis may not prove sufficient to identify problems and react appropriately

PCA Fund Monitoring Process



- Because the process triggers deeper analysis, problems are more likely to be uncovered
- Organizational developments are also monitored closely and acted upon in a similar manner