

New Mexico 529 College Savings 529 plans

Scholar's Edge (SE-Advisor-sold)

Morningstar Annual Research Paper Notes

A key point to remember is that Morningstar does not rank 529 plans, but rather rates them. They only rate the 50 largest 529 plans, so SE is rated but TEP is not.

Every one of the 50 largest 529 plans is rated into 1 of 5 rating categories: Top, Above Average, Average, Below Average, and Bottom. Within each rating category the plans are listed alphabetically (again reinforcing the point that the 529 plans are not ranked). SE was rated **Average**, the middle of the 5 rating categories for 2011.

Morningstar evaluates the plans in 5 broad areas: Process, Performance, Price, People, and Parent.

Process: Looks at Glide Paths, Active versus Passive, Open-Architecture and available choices

Performance: Looks at a minimum of 3 years, so performance for this time period is negatively impacted by the Core Bond performance problems. Morningstar assigns a Star rating to every portfolio similar to what they do for individual funds. We performed poorly (many of the portfolios were in the 90th percentile or worse due partially to Core Bond) and therefore the SE Portfolios received mostly 1-Star. However, Morningstar takes a more forward looking view as noted by these comments from the Analysis section of the SE Plan report:

“The program managers also took steps to address the risky funds at the source of the damage. In 2009, primary offender Oppenheimer Core Bond was replaced with buttoned-up, respectable American Century Diversified Bond. Oppenheimer Limited-Term Government, which also suffered losses, remained in the portfolio but with a new management team.

Now the plan's portfolio of underlying funds features a generally solid lineup, but there are pockets of uncertainty. The plan features some well-respected strategies, such as new additions Oppenheimer International Growth (a Morningstar analyst favorite) and Thornburg International Value as well as Invesco Mid Cap Core and Oppenheimer Value. Oppenheimer International Bond is another strong fixed-income strategy. However, four of the 12 underlying funds have replaced a portion or all of their management teams in the past few years. Of these four, two are bond funds that experienced outsized losses in 2008. The other two, Oppenheimer Capital Appreciation and Oppenheimer Main Street Small-Mid Cap, are equity funds that were not directly affected by the fixed-income upheaval. Such changes aren't necessarily a negative; in fact, many of the affected funds have performed quite well so far and (in the case of bond funds) are arguably improvements over their predecessors.”

Please see the complete Morningstar Analysis of Scholar's Edge which is attached.

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Price: TEP was ranked in the 44.64 percentile on price within the Direct-sold plan group and SE was ranked in the 47.29 percentile within the Advisor-sold group. Thus, the NM plans are not the cheapest plans in the marketplace, but they are less expensive than more than half of the 529 plans available.

People: Morningstar looks primarily at the average tenure of the Portfolio Managers of each fund included in the plans. We are in the middle of the pack in this area with some very long tenured PMs. However, our average is pulled down by some of the PM changes discussed earlier.

Parent: Morningstar looks primarily at changes at the State Treasurer's office where most 529 plans are located. Their report did not mention changes at the Dept. of Higher Education.