THE BOARD OF TRUSTEES OF THE
COLLEGE SAVINGS PLANS OF NEVADA

MINUTES OF BOARD MEETING
July 29, 2014

Chairman Kate Marshall, State Treasurer, called the meeting of the Board of Trustees of the College Savings Plans of Nevada to order at 10:01 a.m., on Tuesday, July 29, 2014. The meeting was held by conference call from the Nevada State Capitol, 101 North Carson Street, Guinn Room, Carson City, Nevada to the Grant Sawyer Building, 555 East Washington Avenue, Suite 5100, Las Vegas, Nevada. Other attendees participated in person or by conference call.

Board members present:

Ned Martin – Las Vegas
Crystal Abba – Reno - Via teleconference
Chairman Kate Marshall – Carson City

Others present:

Mark Mathers, Chief Deputy Treasurer
Tara Hagan, Senior Deputy Treasurer - North
Sheila Salehian, Senior Deputy Treasurer – South
Linda J. English, GGMS, College Savings Deputy Treasurer
Troy Watts, Marketing Coordinator, Treasurer's Office
Blanca Plat, Program Officer, Treasurer's Office
Eric White, PCA
Ken Alberts, GRS (On the Phone)
David Kausch, GRS (On the Phone)
Daniel Reyes, Vanguard (On the Phone)
Gina Robison-Billups, International Association of Working Mothers
Tara Villalobos, International Association of Working Mothers
Irene Bustamante-Adams, International Association of Working Mothers

Roll was taken, and it was determined a quorum was present. Ms. Salehian indicated the meeting had been properly noticed and the agenda was posted in accordance with the Open Meeting Law.

1. Public Comment:

There were no public comments in Carson City or Las Vegas.

Consent Agenda

2. For possible action: Board review and approval of the College Savings Board minutes of June 25, 2014.

3. For possible action: Board review and approval of the engagement letter from Kafoury, Armstrong & Co. dated June 13, 2014 that summarizes the significant terms of engagement for the Nevada Prepaid Tuition Audit.

4. For possible action: Board review and approval of the Fiscal Year 2014 auditors selected by each of the College Savings Plans to conduct the annual audits for USAA – Ernst & Young, Vanguard – PricewaterhouseCoopers, Putnam – PricewaterhouseCoopers and SSgA Upromise 529 Plan – Thomas & Thomas.

5. For possible action: Board review and approval of SsgA Upromise 529 Marketing Expenditure Report for the quarter ended June 30, 2014. As well as approve the expenditures for inclusion in the non-cash marketing commitment budget as specified in Amendment #3 to the UPromise Agreement.

6. For possible action: Board will receive a report on the progress to implement the 5 year Financial Plan for College Savings Endowment Account. Board authorization of the funding from the College Savings Endowment Account per NRS 353B.350(5) to various projects, and/or direct staff as appropriate.

Chairman Kate Marshall asked if the Board members wished to take items 1, 2, 3, 4, 5 or 6 out to discuss separately. Hearing none, Chairman Kate Marshall asked if there was a motion to approve the consent items. Mr. Ned Martin made a motion to approve the consent items. Second was made by Ms. Abba. Motion passed unanimously.

Discussion Agenda

7. For possible action - Board review and approval of an updated Asset Allocation study for the Higher Education Tuition Trust Fund (Nevada Prepaid Tuition Program).

Mr. Eric White discussed assets and asset allocations. He indicated that proper asset allocation determines 90% of returns. Mr. White discussed short term and long term objectives and different investment alternatives and the importance of those objectives. Mr. White explained that in order to do an Asset Allocation Study, it is necessary to establish assumptions. Mr. White then explained each type of assumption and that the Actuary uses Geometric Return assumptions. Mr. White discussed the percentages of each asset type and what they were expected to produce over the next nine years. Mr. White explained that inflation was expected to increase 2.75%. Currently, the plan has 43% of its assets in fixed income and 57% of its assets in equities. Because of the low fixed income assumptions, the plan would no longer reach a 6.75% assumed rate of return that the actuaries have used in the prior year. This was illustrated by the 10-year capital market assumptions, in which the plan would obtain a 5.6% expected rate of return. Looking at the table, over 10 years there's only a 37% chance of hitting the 6.75% assumed rate of return.

The question becomes then—what different approach needs to be taken to increase the probability of reaching a 6.75% outcome, or at least to create a portfolio that produces a return greater than the 5.6% rate of return without totally increasing the risk that the plan was taking. Due to the sanctions of this plan, they are limited to 60% maximum allocation to equities, and therefore you cannot just abandon fixed income and put all of the assets into equities. With 57% currently in equities, the plan is essentially tapped out in terms of its equity allocation. So the question then becomes where the other asset classes that could be invested in should be to offset the poorer prospects for fixed income. Looking at the prospect of different asset classes, they found that they are able to invest in real estate which is capped at 5%. At 5%, real estate essentially doesn't cause a large risk. The other asset class available is covered calls. Previously Staff had provided an educational overview on covered calls to the Board. Chairman Marshall asked if real estate could be used and was it his recommendation that they should make it a part of the equation.

Mr. White stated that at this time they would focus on covered calls because they had looked at changing it to real estate and that essentially they are locked in at 5% maximum and that it isn't enough to move the dial. Chairman Marshall asked if it would be smart to make it part of the portfolio because then it would provide more diversification. Mr. White stated that they would recommend at the next iteration of this study to consider real estate. Chairman Marshall asked if even at the 5% level. Mr. White stated even at the 5% level it would need more fine tuning whereas this Allocation Study focuses more on covered calls because that's an asset class where they have much greater flexibility to increase allocation relative to other asset classes. Chairman Marshall asked if they just did that because they asked them to do a covered call strategy or was it his professional analysis not to look at (Real Estate Investment Trusts) REITs now.

Mr. White stated that they did look at REITs, and that clearly it doesn't move the needle now, whereas when they looked at covered calls, they see much larger deviations from the current portfolio. Chairman Marshall stated to go ahead; she just wanted to make sure they weren't glossing over or missing something that they should look at. Mr. White stated that it was definitely something that at a later meeting they would want to address, but at this meeting, since covered calls have a much broader ability to move the portfolio, that this is where they should spend their time and analysis. Mr. White stated that overall they could make a portfolio using different asset classes, mainly incorporating covered calls to create a greater return or an equivalent return at less risk, or they could create a higher rate of return, maybe not all the way up to 6.75 as the actuarial assumed rate of return, but they could create a higher return at the same level of risk. So to do this, they actually used two models: Monte Carlo and Mean-Variance. They created six unique alternative asset portfolios. The first set reduced fixed income to 30%. The 30% was not some magical number but was a number that was discussed with staff and they all felt comfortable at that level. The reason you wouldn't want to eliminate fixed income is because it provides tremendous diversification benefits in down markets and stability for the overall portfolio. So if you completely eliminated fixed income, you would be dependent on the equities markets for returns. Mr. White explained the rationale behind the 30% fixed income. Mr. White directed everyone to look at slide 15 which showed the current portfolio and the different options for portfolios, stating that the current portfolio was 43% bonds and 57% equities. He explained the other portfolios.

Mr. White directed everyone to slide 16 and explained that it was their analysis based on Mean Variance analysis and what Mean Variance analysis shows. For example, using Mean Variance analysis, the current portfolio should return 5.56% current year over the next 10 years with the same mediation of risk of 11.28. Mr. White then pointed out that the alternate portfolios have a higher rate of return and that portfolios A, B, C have higher expected risk, whereas portfolio D has equivalent risk with a higher rate of return, .5% greater return with the same risk and portfolios E and F have lower risk than the current portfolio with more returns. Mr. White explained that the main problem with mean Variance analysis is that it assumes that the way you do the analysis, you have to assume a normal distribution in terms of your historical returns. The problem is that history has not produced a normal distribution.

Mr. White explained that in order to correct the bias of Mean Variance analysis, they also looked at Monte Carlo analysis. For Monte Carlo analysis; the way they perform it is that they collect the last 27 years of history, which is covers the history of the covered call index. PCA looked at the historical data and then merged the historical data with their capital market assumptions. Then they performed 10,000 simulations and created a distribution of possible returns based on those 10,000 simulations. The advantage of Monte Carlo analysis is that it allows for non-normal distributions and does not have the assumption, it maintains a historical inter-class interaction. It preserves both the directional and magnitudinal relationship between the different asset classes. The other nice outcome is that it produces a range of possibilities rather than a single point estimate. Slide 18 shows the results of the Monte Carlo analysis which shows the return assumptions are pretty close to those generated by the Mean Variance analysis, but shows slightly lower standard mediation across the board. He said you'll see both the current portfolio and the alternative portfolio A, which has 13% allocations to covered calls and has the same standard mediation of risk with substantially more rate of return. Each subsequent alternative portfolio has slightly less expected return, but significantly less volatility producing higher Sharpe ratios which is a measure of return relative to risk. Mr. White explained the other results of the portfolio. Mr. White explained what must be looked at to determine the best portfolio to go with. Mr. White also explained each portfolio and the effect on the fund. PCA concluded that there is a relatively low probability of meeting the 6% rate of return.

Chairman Kate Marshall asked what the options are if the Board chooses Portfolio E, yet they determine that they are undermining themselves. She stated that there should be a flexibility to roll out the chosen Portfolio in a timely manner since it is such a significant change that must be made since the Prepaid Tuition Plan is in a position of being overfunded. She also asked Eric White if covered calls are the only option to which Mr. White responds that there are other strategies, but covered calls are the safest.

Mr. Mark Mathers recommended Portfolio C. Ms. Crystal Abba mentioned that she is comfortable with Portfolio F but had no objection to Mark's recommendation of receiving a quarterly report to see how the covered calls performed.

Mr. Ned Martin made a motion to set the portfolio allocation to 20% covered calls and accept Portfolio C, and to get a quarterly report back in six months. Ms. Crystal Abba seconded the motion. The motion passed unanimously.

8. <u>For possible action - Board review and approval of the Nevada Prepaid Tuition Program's annual assumptions for inflation and tuition increases; approval for their use in the 2014 Actuarial Valuation Study prepared pursuant to NRS 353B.190 and the preparation of pricing scenarios for the 2014 Prepaid Tuition contracts for fall enrollment; and/or direct staff.</u>

Ken Alberts and David Kausch from Gabriel, Roeder and Smith (GRS) were present via phone. They outlined the recommended assumptions for future tuition increases, investment rate of return, inflation, and utilization of credits.

Ms. Abba made a statement on the assumption from GRS that the 4% rate was locked in. She explained that the Board did take specific action to choose a rate, but there is no guarantee that the rate won't change in the 2015 or 2017 legislative sessions. The Board is open to changing the rate under certain circumstances. Ms. Abba is comfortable with the current assumption.

GRS recommends a rate of return between 5.75% and 6.75%. Mark Mathers and the staff recommend lowering the return assumption from 6.75% to 6.25%. Ms. Marshall proceeded to ask Ken Alberts if he was comfortable with a 6.25% rate of return assumption and how it would affect the fund to which Ken responded that they suspect the fund will increase over last year. Mr. Martin and Ms. Abba stated that they are also comfortable with a 6.25% rate of return.

Mr. Martin made a motion to approve the assumptions outlined in agenda item 8 for the Prepaid Tuition Plan with the exception of amending the investment rate of return from 6.75% to 6.25%. Crystal Abba seconded the motion. The motion passed unanimously.

9. <u>For possible action – Board review and approval of proposed changes to fees for the Vanguard 529 Plan.</u>

Mr. Daniel Reyes of Vanguard presented to the Board a proposal to implement a fee reduction from 21 basis points to 19 basis points.

Mr. Reyes explained that they agreed to do this once the plan reached $10 Billion in assets. The plan reached $10 Billion in assets on May of 2014. This reduction will be effective September 1, 2014.

Mr. Mathers stated that he had some concern with the Program Management Fee as there was a wide variance; therefore, he asked Vanguard to relook at the fees and create some options to make them more uniform in September.

Ms. Marshall states that she looks forward to the Vanguard presentation in September.

Mr. Martin made a motion to approve the Vanguard Fee Reductions from 21 basis points to 19 basis points, as well as on the individual portfolios. Ms. Abba seconded the motion. The motion passed unanimously.

10. <u>For possible action – Board review and approval of Amendment #7 to the Vanguard 529 College Savings Plan Private Label Agreement with Ascensus.</u>

11. <u>For possible action – Board review and approval of the supplement to the Vanguard 529 College Savings Plan Program Description per NRS 353B.370.</u>

Chairman Marshall decided to address agenda item 10 and agenda item 11 together.

Agenda Item 10 seeks the review and approval of Amendment 7 to the Vanguard 529 College Savings Plan Private Label Agreement effective September 1st. Agenda item 11 is a supplement to the customers to notify them of the changes made by the Board.

Mr. Martin moved to approve Agenda Item 10 as well as Agenda Item 11. Ms. Abba seconded the motion. The motion passed unanimously.

12. For possible action - Board review of the report on the 3rd Annual Women's Money Conferences, which took place in February, March, and April of 2014; approval of program continuation in FY15.

Gina Robison-Billups, CEO of the International Association of Working Mothers presented a report on the 2014 Nevada Women's Money Conferences held in March and April 2014 and the plans for the 2015 conferences. Mrs. Robison-Billups informed that in 2014 the Women's Money Program has seen significant advancements. She also thanked the Board for challenging them to create the Mujeres y Dinero program completely in Spanish. She informed the Board that without the Board's approval, they would not have even attempted to create this conference until 2015. In the first six months of 2014, the Nevada Women's Money Conference had 902 registrations which surpassed the 2013 enrollment. 22% of attendees visited the SSgA UPromise booth to inquire about college savings.

The Board was asked to approve the funding for the 2015 Fiscal Year for the continuation and extension of the program. Gina Robison-Billups requested $75,000 and an extra $10,000 to which Ms. Marshall asked what that money would be used for. Gina informed the Board that the extra $10,000 would be used for materials and creating an application and providing mentors in schools for young women. Kate asked how many women they expected to reach to which Gina estimated that they will be able to have mentors at three schools, and they will be able to measure the effectiveness of the program with a good tracking system.

Chairman Marshall clarified that Women's Money Conference is requesting funding of $75,000 to be utilized for four conferences and an extra $10,000 to sponsor the Young Women's program. Ms. Abba made a motion to fund the Women's Money Conference for a total of $85,000. Mr. Martin seconded the motion. The motion passed unanimously.

13. Staff Updates

Sheila Salehian mentioned that the Prepaid Tuition program ended 2014 enrollment at 1,270 contracts. Ms. Salehian noted that this year was a record enrollment year, as the last time enrollments topped 1,270 was in 2001! Linda English commented that they received 255 Silver State Matching Grant applications and there were 446 accounts attributed to the College Kick Start Program as of June 30, 2014. Ms. English also informed the Board that Washoe County accounted for 52% of the accounts, and that they were taking the Navigator program to the South.

There was no further business, and Chairman Marshall adjourned the Board meeting at 11:43 a.m.

Attest:

Sheila Salehian

Sheila Salehian, Secretary to the Board