

THE BOARD OF TRUSTEES OF THE
COLLEGE SAVINGS PLANS OF NEVADA

MINUTES OF BOARD MEETING
June 2, 2016

Chairman Dan Schwartz, State Treasurer, called the meeting of the Board of Trustees of the College Savings Plans of Nevada to order at 10:00 a.m., on Thursday, June 2, 2016. The meeting was held by conference call from the Nevada State Laxalt Building, 401 North Carson Street, 2nd Floor Chambers, and 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:

Chairman Dan Schwartz – Carson City
Ned Martin – via phone
Janet Murphy – Carson City
Jamie Hullman – Carson City

Others present:

Tara Hagan, Chief Deputy Treasurer, Treasurer's Office
Grant Hewitt, Chief of Staff, Treasurer's Office
Linda J. English, Senior Deputy Treasurer – South
Budd Milazzo, Senior Deputy Treasurer – North
Holly Primka, Treasurer's Office
Sheila Salehian, Deputy Treasurer for Prepaid Tuition & Financial Literacy
Sue Serewicz, Ascensus College Savings
James Canup, Hirschler Fleischer
Eric White, Pension Consulting Alliance
Caitlin Richardson, Putnam
Jyostna Wadera-Sandhu, Putnam
Greg Walker, Thomas & Thomas

Roll was taken, and it was determined a quorum was present. Ms. English indicated the meeting had been properly noticed and the agenda was posted in accordance with the Open Meeting Law in both Carson City and Las Vegas.

1. Public Comment

There was no public comment in Las Vegas or Carson City.

Consent Agenda

2. For possible action – Board review and approval of the minutes of the College Savings Board of Trustees meeting of April 12, 2016.
3. For possible action: Board review and approval of the education and outreach expenditure report for the SSGA Upromise 529 Plan for the quarter ended March 31, 2016 to be recorded as non-cash revenue in the State’s accounting system.
4. For possible action: Board review and approval of the Putnam education and outreach expenditure report for the Putnam 529 for America Plan for fiscal year 2016 and approve the expenditures to be recorded as non-cash revenue in the State’s accounting system.
5. For possible action: Board review and approval of the final recipients for the Kenny C Guinn Memorial Millennium Scholarship award for the 2016-2017 academic year:
 - a. One finalist for the Northern Nevada award
 - b. One finalist for the Southern Nevada award
6. For possible action: Board review and approval of the continuation of the contract with Hirschler Fleisher to serve as 529 disclosure and compliance outside legal counsel to the Board.
7. For possible action: Board review and approval of the Thomas & Thomas unaudited financial statements of the Nevada College Savings Plans compiled for the quarter ended March 31, 2016.

Ned Martin motioned to approve items 2, 5, 6 and 7, Jamie Hullman seconded, and motion carries.

Jamie Hullman asked to pull Agenda Item 3 and Agenda Item 4 from the Consent Agenda. Mr. Hullman asked if both items were budgeted numbers or actual numbers. Linda English replied that they were actual numbers. Mr. Hullman inquired regarding item 3 if the Board has spent approximately half of the budgeted amount and Ms. English said that was correct. Mr. Hullman also wanted to know if the Board would spend the entire remaining amount in the fourth quarter. Ms. English replied she didn't believe so and noted that any amounts not spent for the fiscal year will rollover to next year.

Treasurer Schwartz asked if we knew what the shortfall would be. Ms. English indicated that she did not know but noted that she will send the numbers to the Board later in the day.

Mr. Hullman wanted to know, regarding Item 4, if there was a budgeted amount for total expenditures for the year and if the amount had been spent. Ms. English noted that per the contract with Putnam, the Board is required to spend a minimum of \$50,000 and this amount has been spent.

Jamie Hullman motioned to approve items 3 and 4 and Janet Murphy seconded. Motion carries.

Discussion Agenda

8. For possible action: Board review and approval of proposed changes to the Putnam 529 for America Plan. (PCA Representative, Putnam Representative and Staff – 30 min.)
 - A. Recommendation to approve the Putnam Growth Opportunities Fund as the replacement for the Putnam Voyager Fund.
 - B. Recommendations to approve the mapping of the Putnam International Capital Opportunities Fund into the existing foreign equity option, the MFS Institutional International Equity Fund.
 - C. Putnam Offering Statement
 - D. Contract Amendment

Staff noted that during the March 24, 2016, the Board received the quarterly investment report for period ending December 31, 2015 from Pension Consulting Alliance (PCA). Staff stated that the report reviewed the Putnam Voyager fund and over the most recent 12-month period has seen its relative performance drop precipitously as the fund has trailed its benchmark by 11.7%, ranking it in the 97th percentile relative to its peers. Staff stated that in March that the fund management changed significantly, as former portfolio manager Nick Thakore, who had managed the fund since 2008 left Putnam to pursue other opportunities.

Staff stated that in February 2016, Robert Brookby began managing the Voyager Fund, in addition to the Growth Opportunities Fund and the Multi-Cap Growth Fund. Staff noted that historically, under the management of Nick Thakore the Voyager fund had struggled with its risk-adjusted performance as compared to the Growth Opportunities Fund over the past six years under manager Robert Brookby.

Staff noted that Putnam, PCA and staff had started to vet and discuss, prior to the March meeting, the notion of replacing the Putnam Voyager Fund with the Growth Opportunities Fund. Subsequent to these discussions, the Putnam Board has since

made the decision to map the Voyager fund into the Growth Opportunities fund. This decision will discontinue the Voyager fund effective in mid-July 2016.

Treasurer Schwartz asked Ms. Hagan if this had anything to do with the international bond fund recommendation. Ms. Hagan explained that the international bond fund is an issue with the Vanguard plan and this discussion is exclusive to Putnam 529 plan.

The PCA representative, Eric White, noted that PCA, Putnam and staff recommend the Board review and approve the mapping of the Voyager Fund into the Putnam Growth Opportunities Fund. He stated that the recommendation is based on several key factors noted in PCA's report. He noted the key factors include the fact that the Growth Opportunity has a lower level of risk (as measured by standard deviation) and lower volatility than its peer group (Morningstar Large Capitalization Growth) with superior returns and that it more closely aligns to its benchmark. He noted that it's important to review the fund's performance relative to its peer group versus the benchmark. He stated that actively managed large capitalization growth funds have been a difficult space and that the Growth Opportunity Fund is within the top third of its peer group in regards to performance.

Treasurer Schwartz asked Mr. White why it's unreasonable to think that PCA couldn't select a fund within the top 10% of large capitalization growth funds. Mr. White noted that he could probably eliminate the worst 40% of funds and if half the funds outperform the index and half the funds underperform the index, then you can eliminate the bottom 40%. He noted that the top 10% of funds would be nearly impossible to sustain over longer periods of time but rather would have increased volatility. He noted that there is a good probability that you can select a fund that outperforms over a long time period and that scores relatively well within its peer group.

Jyostna Wadera-Sandhu (on the phone) gave a brief presentation regarding the investment philosophy and process of the Growth Opportunities Fund.

Treasurer Schwartz thanked Ms. Wadera-Sandhu for the presentation and asked if any Board members had questions and there were none.

Staff noted that PCA reported that the Putnam International Capital Opportunities fund had been on 'watch' status for 18 months and as of the fourth quarter of 2015, the fund had continued to underperform its benchmark and over the most recent quarter trailed its benchmark by 2.1%, placing the fund in the 54th percentile relative to its peers. Furthermore, Putnam announced an impending manager change for the fund effective March 2016. Staff stated that PCA noted that given the ongoing

underperformance and recent manager changes, that it recommended it work with Putnam to develop a replacement for the existing fund.

The PCA representative, Eric White, noted that PCA, Putnam and staff recommend the Board review and approve the mapping of the Putnam International Capital Opportunities Fund into the existing foreign equity fund the MFS Institutional International Equity fund. He stated that the recommendation is based on several key factors noted in PCA's report. He noted the key factors include the fact that the MFS fund has a lower level of risk (as measured by standard deviation) than its peer group (Morningstar Large Capitalization International Growth) and that the removal of the Putnam International Capital Opportunities Fund does not adversely affect participant diversification.

Jamie Hullman asked Eric White in the whole universe of funds would PCA expect small capitalization international stocks to grow and outpace large international capitalization stocks over the longer term. Mr. White explained that over the longer term, smaller capitalization companies should outperform large capitalization companies. He noted that PCA has looked at many studies of the actual mutual fund universe and the mutual funds that tracked smaller international capitalization companies had not outperformed at a greater degree than large capitalization funds. Mr. White stated that while the theory would hold that the small capitalization funds should outperform over time, history has shown that over the last 15 years this hasn't been the case.

Treasurer Schwartz asked Mr. White if PCA takes into account currency movements and Mr. White said neither of the funds hedges their currencies so currency movements do impact the performance of these funds. Mr. Schwartz asked if this fact was made clear to the Nevada investors and Mr. White stated it is explained in the risk disclosures.

Jamie Hullman wanted to know if over the longer term large capitalization stocks have less volatility than the small capitalization stocks. Eric White answered yes that this tends to be the case and it would be his assumption that going forward this would remain true. Mr. Hullman asked if participants in the plan would no longer have the opportunity to invest in the small capitalization stocks if the fund was changed. Mr. White answered that was correct. Mr. Hullman asked if the fund would have lower volatility and potentially the same returns if this change in funds. Mr. White responded that he would anticipate having the same or at least close to the same returns with lower volatility and risk as measured by standard deviation.

Treasurer Schwartz made a motion to approve A, B, C and D. Jamie Hullman motioned, Ned Martin seconded the motion and motion carried.

9. Public Comment

No public comment in Carson City; no public comment in Las Vegas; and no public comment on conference call.

Meeting adjourned at 10:37am.

Attest:



Linda English, Secretary to the Board