

THE BOARD OF TRUSTEES OF THE COLLEGE SAVINGS PLANS OF NEVADA

MINUTES OF BOARD MEETING

Thursday, June 24, 2021

The meeting was held virtually for all board members and participants.

Board members present:

Chairman– Treasurer Zach Conine
Andrew Clinger
Tiffany Greenameyer
Jeff Haag
Andrew Martin

Others present:

Kirsten Van Ry, Chief of Staff
Tara Hagan, Chief Deputy Treasurer
Tya Mathis-Coleman, Deputy – College Savings
Troy Watts, Treasurer’s Office
Blanca Platt, Treasurer’s Office
Jamille Walton, Treasurer’s Office
Ian Carr, Attorney General
Eric White, Meketa Investment Group Inc.
Stephanie Sorg, Meketa Investment Group Inc.
Erica Norton, Ascensus
Thomas Hewitt, Ascensus
Christy Miller, Vanguard
Joy Slaubaugh, Vanguard
Amanda Muir, Vanguard
Mannick Dillon, Victory Capital
Lance Humphrey, Victory Capital
Lela Dunlap, Victory Capital
Kaprel Oszolak, Spectra Professional Services
George Betzios, Spectra Professional Services
Andrea Feirstein, AKF Consulting
Mark Chapleau, AKF Consulting

1. Roll Call

Chairman Treasurer Conine called the meeting to order at 10:00 am, and determined a quorum was present.

2. Public Comment.

There was no public comment.

3. **For possible action to approve:** the minutes of the College Savings Board of Trustees meeting of January 28, 2021.
4. **For possible action to approve:** the Ascensus program manager's report encompassing results for Vanguard, USAA, SSGA Upromise, and Wealthfront 529 plans for the quarter ended December 31, 2020.
5. **For possible action to approve:** the Ascensus program manager's report encompassing results for Vanguard, USAA, SSGA Upromise, and Wealthfront 529 plans for the quarter ended March 31, 2021.
6. **For possible action to approve:** the Putnam 529 for America program manager's report for the quarter ended December 31, 2020.
7. **For possible action to approve:** the Putnam 529 for America program manager's report for the quarter ended March 31, 2021.
8. **For possible action to approve:** the Nevada Prepaid Tuition Program activity report for the quarter ended December 31, 2020.
9. **For possible action to approve:** the Nevada Prepaid Tuition Program activity report for the quarter ended March 31, 2021.
10. **For possible action to approve:** the Nevada Prepaid Tuition Investment Monitoring Report prepared by Meketa Investment Group for the quarter ended December 31, 2020.
11. **For possible action to approve:** the Nevada 529 College Savings Plans Investment Monitoring Report prepared by Meketa Investment Group for the quarter ended December 31, 2020.

Motion to approve this consent agenda from Member Clinger and a second from Member Martin. Motion passed unanimously.

12. **For discussion and possible action:** 2021 Kenny C. Guinn Memorial Millennium Scholarship applications and selection of:
 - a. Two (2) recipients in Northern Nevada
 - b. Two (2) recipients in the Southern Nevada

Chief of Staff Kirsten Van Ry presented an overview of the selection of the Memorial Scholarship applicants. She explained that last year there was a presentation on this program and legislation sponsored by Senator Kieckhefer during the 2019 session increased the number of awards from two (2) to four (4). She mentioned that there are two (2) awards in Northern Nevada and two (2) in Southern Nevada. This year the Treasurer's office received eight (8) applications that have been reviewed and all have met the minimal requirements for eligibility. She stated that the Guinn family had an opportunity to review the applications and provide the Board with their comments and who they would recommend for selection. This year the family has recommended Colyn Abron and Lindy Norcutt from Northern Nevada and Edgar Canela Lopez and Marlyn Catral from Southern Nevada.

Motion to approve this agenda item from Member Martin and a second from Member Greenameyer. Motion passed unanimously.

13. For discussion and possible action: Nevada Prepaid Tuition Investment Monitoring Report prepared by Meketa Investment Group Inc for the quarter ending on March 31, 2021.

Eric White with the Meketa Investment Group provided an overview of the report noting the progression from a year ago since the pandemic. He stated the first quarter was off to a great start and the plan overall was up just shy of 5%. He noted that the reopening of the economy has made a good impact and stated there was strong performance across the different asset classes, with equities leading the pack. He mentioned that most segments of the economy are either fully reopened or on the path to reopening. The fixed income interest rates started the quarter at 90 basis points on the 10-year treasury and by the quarter end rates almost doubled up by 90% to 1.75%. Overall, the fund experienced a very strong relative performance versus its benchmark.

Treasurer Conine expressed his appreciation for the information and the positive performance numbers.

Motion to approve this agenda item from Member Clinger and a second from Member Martin. Motion passed unanimously.

14. For discussion and possible action: Nevada 529 College Savings Plans Investment Monitoring Report prepared by Meketa Investment Group Inc for the quarter ended March 31, 2021.

Stephanie Sorg with Meketa provided an overview of the Watch Report on the first-quarter performance. She noted that they are not recommending any changes for this period and there are no new funds that qualify for watch, nor any funds being removed from watch. Ms. Sorg noted that there is a total of ten (10) funds on the watch list which include three (3) from the USAA Program, six (6) from the Putnam 529 for America Program, and one (1) from the SSgA Upromise 529 College Savings Plan.

She noted the Putnam Small Cap Value, the GAA Conservative, and the Putnam Income fund have all exhibited improved performance and no longer meet the criteria for watch status. However, given the current extraordinary market environment, it is prudent to maintain these funds on watch for a minimum of an additional quarter to ensure that the positive results persist before making any recommendations. Ms. Sorg reviewed the Putnam Small Cap Value Fund on page 308 of the materials and stated it is a domestic equity strategy that seeks to invest in small, undervalued companies with improving fundamentals and it diversifies across all 11 market sectors. She noted it was placed on watch 27 months ago and since then has outperformed the Russel 200 Value benchmark by 150 basis points, placing the fund in the 27th percentile of its peer group. She noted that over the most recent quarter, the fund outperformed its benchmark by 250 basis points. With the improved results, the fund no longer qualifies under the medium-term performance. She recommended that the fund stays on watch for a minimum of an additional quarter as it will be monitored closely. The next fund is the GAA Conservative Portfolio which was placed on watch a year and a half ago and underperformed its custom benchmark by 110 basis points. She noted 35% of the portfolio is invested across domestic and international developed securities and the remaining 65% in Core Fixed Income bonds. Over the most recent quarter, the strategy

outperformed its benchmark by 80 basis points translating to a one-year outperformance of 60 basis points. She noted that with improved results the fund no longer qualifies for medium-termed performance but is recommended to stay on watch for a minimum of an additional quarter. She reviewed the final fund which is the Putnam Income strategy which was placed on watch six (6) months ago. She reviewed the Putnam Income portfolio outperformed the Barclays US Aggregate Bond Index by 2.7% and ranked in the 28th percentile of its peer group. She noted the fund outperformed its benchmark by 110 basis points and like the rest will no longer qualify for watch status, however, is recommended to remain on watch.

Member Martin questioned what subjective criteria is being used to maintain the funds on the watch list versus the data points needed to begin considering a fund's removal from a plan.

Mr. Eric White explained that in the past there was a problem when placing a fund on watch as over a certain period it would improve to where they were being taken off watch but would later need the recommendation to be put back on watch due to the mechanical nature of the watch criteria. He explained that as dynamics start to shift where they focus on understanding the performance, therefore, allowing them additional time as observed in the fourth quarter the funds start to outperform before taking them off watch.

Member Martin expressed his concern regarding the length of time and the expectations. He advised that there should be a time limit on the watch list.

Motion to approve this agenda item from Member Martin and a second from Member Clinger. Motion passed unanimously.

- 15. For discussion and possible action:** on recommended investment changes for the USAA 529 plan, including new investment options, removal of existing investment options, modifications to asset allocation of the target-age portfolios, and reduction in overall plan fees.
- a. Victory presentation
 - b. Meketa's Commentary on proposal

Mannick Dillon with Victory Capital Management (VCM) presented this item and outlined the enhancements being recommended for the USAA 529 plan portfolios. He explained that VCM is committed to expanding the tools available to participants. Overall, the recommendations identified certain asset allocation adjustments as well as underlying fund changes in enhancements that are believed to better aid participants.

Lance Humphrey with Victory Capital stated the overall plan is to reduce the risk across two different dimensions by decreasing the risk in an absolute term meaning that each portfolio shall have a standard deviation moving forward and maintaining the forward-looking expected return of the portfolio. The asset allocation changes will reduce the existing overweight in the plan to International and Emerging Market equities, and reductions in fixed income credit exposure will move the asset allocation closer to market peers. Mr. Humphrey noted that while reducing risk and increasing diversification, they also wanted to look for opportunities to reduce the underlying fee for participants. He provided an analysis within each portfolio within the plan that has either the same fee or a lower fee within the current allocation. On average, this comes out to between 1 to 4 basis points of an overall fee reduction as a result of the changing mix of the underlying funds. He noted they recommend reducing the weight to US Small Cap in favor of increasing the weight to US Large Cap, including the USAA Growth Fund, the USAA Income Stock Fund, and the

USAA Value Fund. The USAA Growth & Income Fund will be removed from the watch list program as a result of the changes. He stated that the Victory Market Neutral Income Fund will allow the increase in the level of income and increase diversification.

Mr. White further explained Meketa's analysis that shows that the proposed changes do not alter the overall expected risk-return profile of the program while improving downside protection and mitigating the number of biases that the program had that caused deviations. He explained that the outputs within the modeling work within the capital market assumptions have outcomes that are less than the 10-basis point range.

Motion to approve this agenda item from Member Martin and a second from Member Greenameyer. Motion passed unanimously.

16. For discussion and possible action: on Vanguard error related to the implementation of the glidepath allocation approved by the Board in June 2020, including corrective actions and participant impact overview.

- a. Staff Memo and recommended amendments to the Private Label Product Agreement
- b. Vanguard Memo
- c. Memo regarding corrective action methodology and actions taken by Vanguard presented by independent third-party advisory firm Spectra Professional Services

Ms. Tara Hagan presented this item and provided an overview of the investment enhancement approved at the June 2020 Board meeting. The Board approved changes to the Vanguard 529 Plan to create a smoother glide path to transition participants more efficiently from higher equities when the beneficiary is younger to the conservative investments as beneficiaries move closer to matriculation. She noted on November 2, 2020, Vanguard converted the three-risk-based glide paths to the target enrollment portfolios and in this execution an error occurred which increased equity exposure in nine (9) of the target enrollment portfolios versus the percentage approved by the Board at the June meeting. She stated on March 19, 2021, staff was made aware of the execution error by Vanguard representatives, and all parties, including Meketa and AKF quickly worked together to correct the allocations to match what was approved by the Board. On March 24, 2021, the necessary trades occurred to correct the equity percentages, in addition to providing participant communications and filing the required disclosure documentation.

Ms. Hagan noted in consultation with Meketa and AKF, the decision was made to hire a third-party firm to review the methodology and calculations related to the account-level review completed by Vanguard. Spectra Professional services was hired to conduct this review, and Vanguard was more than willing to provide Spectra representatives for all the necessary access to its system to ensure a thorough review was conducted.

Ms. Hagan provided the Board with the details regarding the results of the account-level analysis. She noted that there were approximately 273,000 accounts invested in the nine portfolios and the majority (~268,000) of the accounts had excess returns as a result of the increased equity allocation. She stated that the account holders that who benefited would keep the excess returns. She noted only 4,563 accounts were negatively impact and had losses valued between \$0.01 up to a maximum of \$2,488.05.

Ms. Hagan noted that Vanguard, Spectra and the State worked together to determine the appropriate threshold for loss when determining those accounts eligible for a share adjustment. The parties compromised with a de minimis \$5 threshold instead of the more standard \$25 de minimis amount. The State noted average account balances for college savings accounts are generally lower than retail mutual fund or retirement accounts and therefore, warrant a lower threshold. Ms. Hagan noted on May 3, 2021, a total of 2,888 accounts were identified as having a negative impact of \$5 or more using the net asset value of the impacted portfolios as of April 30, 2021. These accounts received a share adjustment funded by Vanguard which totaled \$231,920.

Amanda Muir with Vanguard expressed her concerns regarding the error within the 529 Plan and stated that they recognize it was unacceptable as it made an impact on the account owners, the plan, and their relationship with the State. She mentioned that not only a resolution was made on the issue but also priority was taken to strengthen the process. She thanked the partnership with the State and Spectra and greatly appreciated the collaboration and speedy resolution.

Member Martin inquired on how to prevent this from happening again and what the resolution is moving forward.

Ms. Muir explained they took the opportunity to reevaluate the entire process in place from the creation of recommendations, the creation of portfolios, and the retirement of portfolios. They recognized that there were opportunities to further enhance and revise the controls moving forward such as preventative controls and detective controls.

Andrea Feirstein with AKF Consulting stated their observation to mitigate future similar issues is to recommend that the Board be added as a third party to the agreement that exists with Vanguard and Ascensus which would give the Board the right to enforce obligations. She also noted the Board should consider adding quarterly compliance certificates from Vanguard to the agreement. She stated that it is important to get a certification especially when investment policy changes, rebalancing, or investment option changes are made.

Member Martin agrees with the idea of certifications as there is a lot of money that is at stake therefore, he supports the idea to move forward as the students are counting on the college funds. He appreciated the comments and recommendations.

Treasurer Conine echoed his comment. He expressed his appreciation towards Vanguard's willingness to not only resolve the issue but to also look for opportunities to make the process better.

Kaprel Ozsolak with Spectra Professional Services explained the corrective action that occurred. He stated there was excellent cooperation from Vanguard as they received all the information that was requested and there were no scope limitations which allowed completion within a two-week span. He concluded that the overall approach to correct the error was appropriate, reasonable, and it was in the best interest of the participants.

Motion to approve this agenda item from Member Martin and a second from Member Clinger. Motion passed unanimously.

Information Agenda

17. Board to receive an update on the 2021 Legislative Session outcomes related to the Nevada College Savings Board.

Chief of Staff Kirsten Van Ry presented this informational item noting that during the most recent legislative session the legislator passed Assembly Bill 362 which requires the Board to adopt a policy regarding how excess funds and the Prepaid Tuition Trust Funds can be utilized for repurposing. She noted that Assembly Bill 235 also passed which requires School Districts to hold events for families to learn more about the college programs. She stated that there are further higher education bills that passed which are still being analyzed internally to determine if there are impacts on the programs. The Board will be updated as appropriate on all respective bills and there will be presentations prepared for implementation.

Member Martin questioned the motivation for the creation of Assembly Bill 362.

Ms. Van Ry explained the bill was sponsored by Assemblywoman Teresa Benitez-Thompson as she noticed the funding percentage of the Prepaid Tuition Trust that can be utilized for other purposes for families in the plan.

Ms. Hagan added to her comment where she stated that the expenditures under the 529 Savings Plan are to be aligned with the Prepaid Tuition Trust to the extent that the plan can afford to extend it to the beneficiaries within the plan.

Member Martin expressed his concern about working towards a conservative approach and is open to discussion.

This item was presented as information only and no motion is required.

18. Public Comment.

There was no public comment.

19. ADJOURNMENT.

Member Martin motioned to adjourn at 11:07. Member Clinger seconded the motion. Motion passed unanimously.