

THE BOARD OF TRUSTEES OF THE COLLEGE SAVINGS PLANS OF NEVADA

MINUTES OF BOARD MEETING

Thursday, September 23, 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
Ian Carr, Attorney General
Eric White, Meketa Investment Group Inc.
Stephanie Sorg, Meketa Investment Group Inc.
Thomas Hewitt, Ascensus
Mannick Dhillon, Victory Capital
Lance Humphrey, Victory Capital
Andrea Feirstein, AKF Consulting
Mark Chapleau, AKF Consulting
Judy Minsk, Putnam Investments
Brendan Murray, Putnam Investments
James Sparks, GRS Consulting
Lance Weiss, GRS Consulting
Lance Humphrey, Victory Capital
Mannick Dhillon, Victory Capital
Lisa Conner, Ascensus
Randy Ussery, Victory Capital
Nathaniel Gandy, Wealthfront
Tiffany King, Ascensus

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 June 24, 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 June 30, 2020.
5. **For possible action to approve:** the Putnam 529 for America program manager's report for the quarter ended June 30, 2021.
6. **For possible action to approve:** the Nevada Prepaid Tuition Program activity report for the quarter ended June 30, 2021.

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

7. **For discussion and possible action:** Nevada Prepaid Tuition Investment Monitoring Report prepared by Meketa Investment Group Inc for the quarter ending June 30, 2021.

Eric White with the Meketa Investment Group provided an overview of the report for the quarter ending in June 30, 2021, noting it was a very good quarter for the Prepaid Tuition trust (Trust). He noted there was a net increase of ~\$20 million for the Trust during the second quarter and an increase of ~\$87 million for the one-year period, resulting in total assets under management near \$400 million. He stated the Trust returned 5.2% for the quarter, 26.5% for the one-year period, and 12% for the three-year period.

Mr. White provided an overview of the current economic environment noting it's a mixed bag with 6.5% Gross Domestic Product (GDP) growth in the second quarter which was less than the 10% GDP economists were expecting. He noted inflation is on the rise which can mute the GDP numbers, noting inflation was at 5.4% during the second quarter. Mr. White provided an overview of the Trust performance which was 7.6% for the overall equity allocation for the quarter, including large, mid, and small cap passively managed mutual funds. He reviewed that fixed income performance managed by Garcia Hamilton which returned 80 basis points and trailed the return of the benchmark which was 1.5%. He explained that there was a slight underweight to duration in risk assets to guard against interest rates. He noted that the returns of fixed income and the movement of interest rates move inversely, however, in this case they saw the interest rates during this time fall, which explains the positive return for fixed income due to trailing the index more defensively positioned. Overall, this was an exceedingly good report with excess return for the quarter.

Treasurer Conine thanked him and appreciated his confidence. There were no questions on this item.

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

8. For discussion and possible action: Nevada 529 College Savings Plans Investment Monitoring Report prepared by Meketa Investment Group Inc for the quarter ending June 30, 2021.

Mr. White provided a overview of the 529 College Savings Plans report for the quarter ending June 30, 2021. He provided a brief summary on all five(5) plans, noting there are a number of plans that don't get represented during this agenda item when funds aren't on the watch list. He noted the Vanguard 529 Program performed with over 90% of the underlying funds in positive or acceptable categories which isn't surprising since the funds are passively managed and expected to track their applicable indices. He noted the SSgA Upromise 529 Plan had 93% of its underlying funds in the positive category with good overall performance. On page 124 of the materials, he reviewed there were mixed results for the USAA plan with 55% of funds in positive, 18% of funds in the acceptable status, and 27% on watch. He noted within the Putnam Program there were only 13% of the funds in positive category and 25% in acceptable status, 19% in caution, and 43% on the watch list. He went over the Wealthfront 529 Plan noting there was about 90% of funds in the positive category.

Stephanie Sorg with Meketa provided details of the changes to the funds for this time period and provided an overview of the watch report. She recommended a new fund that qualifies for watch, that being the Principal Mid Cap Blend within the Putnam 529 Plan. She recommended that the Putnam Small Cap Value and the Putnam Income funds be taken off watch. She stated that there are currently a total of ten (10) funds on the watch list: three (3) funds on the USAA plan, six (6) funds from the Putnam plan, and one (1) fund from the SSgA plan. She noted the details on page 99 of the materials, where she stated the USAA Growth fund was placed on watch status 33 months ago and has since underperformed the Russell 1000 Growth index by 2.1%, ranking in the 58th percentile of its respective peer group. She stated that in the second quarter the fund underperformed its benchmark by 40 basis points and ranked in the 37th percentile among peers. She noted that the stock selection and asset allocation weighed on the strategy's relative results. Due to continued underperformance, the USAA Growth fund still qualifies for watch based on medium-term criteria.

She noted the next fund on watch is the USAA Value strategy which was placed on watch 33 months ago. It has underperformed its Russell 3000 Value benchmark by 340 basis points and ranked in the 92nd percentile of the US Large Cap Value peer group. She noted that the fund returned 44% over the trailing 12 months but underperformed its benchmark by 140 basis points. Ms. Sorg mentioned that over the trailing 5 years, this values strategy has taken on more risk than the index and has unfortunately not achieved higher returns. With the fund's underperformance it continues to qualify for watch based on the medium-term criteria and therefore she recommended the fund remains on watch at this time.

Ms. Sorg reviewed the USAA Growth & Income and stated it is a large blend strategy that invests in equity securities which show the best potential for a total return through a combination of capital growth and income. Since being placed on watch 30 months ago, the strategy has underperformed its index by 6.1% and ranked in the 90th percentile of its peer group. Due to the continued poor performance that was experienced in 2019 and over the trailing time periods, the rolling 12- and 36-month excess performance still falls below the criteria's thresholds, and it is recommended that it be on watch as well. She noted additionally, consistent with the portfolio changes that were presented by Victory Capital at the June investment committee meeting, the fund will be removed from the program effective by the end of October.

Member Martin expressed concern regarding the amount of Putnam and USAA funds that are on the watch list. He noted that we are in a time period where generally the stock markets seem to be going up, however, these continue to be a problem. He asked if the funds are designed to do better when the market goes down and also inquired if the watch list funds correlate with the funds that are actively managed as there is a pattern that may need to be discussed.

Mr. White noted that the vast majority of the assets amongst the five (5) plans are invested in the Vanguard portfolios and are the largest in terms of size and plans where the concentration of the assets take place. He noted that the watch report is composed of actively managed funds. All the passively managed funds within the program are doing well and tracking the applicable indices exceedingly tight. A majority of the performance issues that show up on the watch report are the actively managed funds and are measured by their relative performance. He noted that the USAA Growth Fund holds a much stronger pricing discipline as a whole. He used Tesla as an example noting it is the 5th or 6th most valuable company in the United States, does not make any money, but is worth more than the German and Japanese auto industries combined. A fund like the USAA Growth Fund will either underweight the more speculative growth companies. He noted that the Putnam GAA funds have more conservative characteristics, paying lower prices than the benchmark, investing in cheaper stocks such as stocks with higher quality characteristics. With the current market, any stock/company that generates a lot of growth has seen a tremendous increase in price and the less high growth companies are left out. He noted when Victory Capital took over, there were wholesale changes within the subadvisors in the USAA funds.

Member Martin commented that the actively managed funds have not been performing anywhere near the passively managed funds and may cost more to administer. He stated we are here to ensure we preserve the assets by increasing their value so that children can go to college. He is concerned about the foreign exposure within the active funds and wants to discuss thinking long term.

Mr. White noted they are wanting to offer a good product to a number of different styles of participants by providing different plan options such as the Vanguard plan, the SSgA plan, the USAA, Putnam, Wealthfront, etc. He stated a lot of the participants who get online and open their own account are leaning towards the Vanguard plan and the USAA plan has the military umbrella which includes different USAA products. If working with an advisor, they might look into the SSgA plan or if you are a young millennial, they lean towards the Wealthfront structure. He agreed with Member Martin as it may be difficult to recommend more people participate in certain products and recognizes that over the last decade, active management performance has trailed passive management.

Member Martin appreciated Mr. White's comments and efforts. He stated he has noticed that there is a pattern of short-term trades in the past within the actively managed accounts and the people that invest in the passive funds are doing better. With a fiduciary responsibility he believes that they should be looking at the overall approach.

Ms. Sorg reviewed the Putnam 529 Plan that starts on page 101 of the meeting materials. She first went over the Putnam Small Cap Value strategy that is being recommended to be removed from the watch list. She noted that this domestic equity strategy seeks to invest in small, undervalued companies with improving fundamentals and the strategy diversifies across all 11 market sectors. It was placed on watch 30 months ago and has outperformed its Russell 2000 value index by 3.4 % and ranking in its 14th percentile of its respective peer group. In the second quarter, the fund

outperformed by 440 basis points and ranked in the 5th percentile of its peer group. She noted that this fund returned 85.1% over the trailing 12-month time period which is attributed to security selection within the healthcare industrial and material sectors. She noted that this fund has proven through persistent outperformance and therefore is recommended to be removed from watch at this time.

Mr. White went over the four (4) GAA funds that are currently on watch. He noted these portfolios are separate accounts that have US, international, and emerging market equities, in addition to fixed income securities. He noted over the past 50 years, researchers have found that stocks that exhibit these kinds of common characteristics outperform the market. Putnam has structured their portfolio to benefit from these positive factors while being underweight the negative factors. Unfortunately, overtime a number of the positive factors have not worked out within the last 5-10 years. However, towards the end of 2020 and through the first quarter of 2021, the value stocks started to outperform growth and companies with good fundamentals started to outperform companies with bad fundamentals. He noted that the Putnam funds had been underperforming over the last quarters, however, more recently there has been significant improvement in all funds' performance relative to the benchmark.

Ms. Sorg noted the two (2) additional recommendations regarding watch status, that being the Putnam Income Fund and the Principal Mid Cap Blend. She referenced page 103 starting with the Putnam Income strategy, stating it was placed on watch nine (9) months ago and has since outperformed the Barclays US Aggregate Bond Index by 1.0%. Over the most recent quarter, the strategy underperformed by 170 basis point. During the first half of 2020, the fund detracted from the relative results, however the fund has proven to post strong results over the longer time periods. Over the trailing 12 months, the fund outperformed its benchmark by 170 basis points. Therefore, it is recommended based on the rolling 12- and 36-month performing measures that the fund be removed from watch status at this time. She then reviewed the Principal Mid Cap Blend strategy which qualifies for the watch status at its rolling 12-month threshold of -2.75% for six (6) consecutive months. The fund has underperformed its benchmark and placed in the 73rd percentile of its Morningstar category. Based upon the short-term criteria, the fund should be added to the watch list.

Member Martin expressed his concerns within the Putnam funds and its performance. He inquired whether there is an objective standard to determine whether or not they no longer recommend a specific fund.

Mr. White noted that there is no absolute criteria that is used in this circumstance. He mentioned in the past there where underlying funds where there was continued underperformance and they needed to determine why they were underperforming and if it is consistent within the market environment. Such funds get closely monitored and once the fund consistently no longer meets expectations, it would be recommended for removal from the plan. He confirmed in the past they have indeed replaced funds and in other circumstances they have also stopped the flow of assets going into a specific fund.

Member Martin recommended that the costs being charged should be considered as well.

Mr. White noted one thing to keep in mind is that because of the way these funds are structured as mutual funds or ETFs, the overall performance numbers reported to the Board are net of fees.

Judy Minsk with Putnam Investments provided information and updates regarding the portfolios. She is joined by Brendan Murray who is a Senior Investment Director and a team leader in Global Asset Allocation.

Mr. Murray noted that Brett Goldstein is one of the senior team members who was elevated to Co-Chief Investment Officer in June of this year. He noted that Brett has been with Putnam since 2010 and is a great asset to the team. Brett is the lead on all glide path strategies. Mr. Murray noted they want to create a strategic starting point that is more thoughtful as to what types of stocks and bonds are owned. Secondly, they want to make asset allocation decisions dependent on the market today and going forward. Third, they make an implementation decision on how they want to own the different asset classes. He noted Mr. White did a great job of explaining US equities and the Putnam's quantitative security selection process and that has added tremendous value over time, however, in the prior three (3) years it detracted and drove the underperformance relative to the benchmark. He reviewed the underlying funds' strategies which include the conservative strategy at 70 % fixed income and 30% equity, the balanced strategy at 40% fixed income and 60% equity, the grow strategy is 20% fixed income and 80% equity, and lastly the 100% equity portfolio. These portfolios are used to build both the age-based and the goal-based options. He explained that the age-based portfolios, the asset allocation changes adjusts overtime and are designed to be more conservative as the child approaches college age. The goal-based options are separately managed and keep the same allocation mix. He noted the portfolios have all driven positive returns in all those time periods and are doing a great job of growing those assets. The starting point is better than the category average in 75% of those time periods. There is significant outperformance on a year-to-date basis given there has been an outpace by 3% which has led the 1-year and year-to-date numbers to come back stronger.

Treasurer Conine stated that given the commitment to a system that has worked for a period of time and may not be working in the current environment is both appreciated and is also something that will be monitored.

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

9. For discussion and possible action: Nevada Prepaid Tuition 2022 contract prices, open enrollment dates and fee schedule, including approval of an incentive initiative during the holiday season which waives the \$100 enrollment fee for up to 500 applications for a cost of \$50,000 to be paid by the trust fund.

Chief Deputy Tara Hagan provided an overview of the contract pricing, open enrollment, and program fees for the Nevada Prepaid Tuition. The open enrollment date for this year's Prepaid Tuition Program is November 1st through April 15th. She reviewed the recommended contract prices noting the funded ratio is above 140% and therefore, according to the funding policy the contract pricing for this upcoming enrollment period will remain flat.

She noted there are no changes in the fee schedule. She stated they want to start an incentive program that includes waiving the enrollment fee for all applicants from November 1st through the end of December for an amount not to exceed \$50,000 or 500 applicants. She mentioned there is a \$100.00 enrollment fee assessed to any new contract purchaser, however, they would like to waive the enrollment fee this year, noting last year there were about 520 applicants.

College Savings Deputy Tya Mathis- Coleman stated that they are very excited to encourage families to buy their students and children a Prepaid Tuition plan as they want to push this program out and give the gift that keeps on giving.

Ms. Hagan thanked Tya and asked the Board if there are any questions about the incentive.

Member Martin suggested that he would rather have the applicants put the \$100.00 directly into the account instead of waiving the enrollment fee.

Treasurer Conine noted going back to the funded balance of the plan no one had any concerns about the fiduciary perspective. He wants to ensure that we can use this incentive plan to give back to Nevadans.

Member Haag asked if they are able to draft this motion in a way to give staff flexibility to exceed the number of waived applications fees. He recommended that they extend it to 1,000 applications rather than the 500 waived application fees. Ms. Hagan appreciated Member Haag's suggestion.

Ms. Hagan went over agenda item #10 reviewed there are minor changes within the 2022 Nevada Prepaid Tuition Master Agreement.

Deputy Attorney General Ian Carr recommended taking agenda items 9 and 10 motion actions separately.

Member Haag stated he would like to make an amended motion to agenda item number 9 to approve the 500 waived enrolments to grant staff the authority to go up to approve 1,000 waived enrollments with notification back to the Board when 500 is exceeded.

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

10. For discussion and possible action: Nevada Prepaid Tuition 2022 Master Agreement amendments.

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

11. Public Comment.

There was no public comment.

12. ADJOURNMENT.

Member Martin motioned to adjourn at 11:12. Member Greenameyer seconded the motion. Motion passed unanimously.