THE BOARD OF TRUSTEES OF THE COLLEGE SAVINGS PLANS OF NEVADA

MINUTES OF BOARD MEETING
Thursday, June 22nd, 2023

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

Board members present:

Chairman Treasurer Zach Conine
Andrew Clinger- Excused
Robin Hager
Donna Stanfel
Lisa Cano Burkhead- Discussion Agenda only

Others present:

Kirsten Van Ry, Chief of Staff
Lori Hoover, Chief Deputy Treasurer
Tya Mathis-Coleman, Deputy – College Savings
Greg Ott, Chief Deputy Attorney General
Blanca Platt. Treasurer's Office
Kristina Ramirez, Treasurer's Office
Naomi Nevers, Treasurer's Office
Troy Watts, Treasurer's Office
Mary Giandijian, Treasurer's Office
Itzel Fausto, Treasurer's Office
James Sparks, GRS Consulting
Kay Cesarani, Meketa Investment Group Inc.
Kevin Mclaughlin, Meketa Investment Group Inc.
Thomas Hewitt, Ascensus
Mannik Dhillon, Victory Capital
Lance Humphrey, Victory Capital
Caroline Churchill, Victory Capital
Shan Dagli, Victory Capital
Randi Ussery, Victory Capital
Thomas Allman, Victory Capital
Lela Dunlap, Victory Capital
Jennifer Fuentes, Victory Capital
Scott Kefer, Victory Capital
Courtney Kairer, Vanguard
Andrea Feirnstein, AKF Consulting
Johnny Saldana, Ascensus
Tricia Scarlata, JP Morgan
Brian Gikes, JP Morgan

Douglas Polak, JP Morgan
Greg Porteous, JP Morgan
Jordan Lee, Backer
Nikki Williams, Wealthfront
Stewart Duffield
Caitlyn Robinson

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

2. **Public Comment.**

Chief of Staff Kirsten Van Ry in Las Vegas commented that on Wednesday, May 31, it was announced that Franklin Templeton entered into an agreement to acquire Putnam Investments. The transaction is expected to close in the fourth quarter of 2023. She stated they are working with their partners at Putnam to determine the impacts this transaction may have to their partnership with Putnam and will keep the Board apprised. Judy Minsk, Director of Investment Strategies at Putnam is available to answer any questions the Board may have. There were no further comments.

Consent Agenda

3. **For possible action to approve:** the minutes of the College Savings Board of Trustees meeting of May 19, 2023.

4. **For discussion and possible action:** the Ascensus program manager's report encompassing results for Vanguard, USAA, SSgA Upromise, and Wealthfront 529 plans for the quarter ended March 31, 2023.

5. **For discussion and possible action:** the Putnam 529 for America program manager's report for the quarter ended March 31, 2023.

6. **For discussion and possible action:** the Nevada Prepaid Tuition Program activity report for the quarter ended March 31, 2023.

Motion to approve this consent agenda from Member Hager and a second from Member Stanfel. Motion passed unanimously.

Discussion Agenda

Member Cano Burkhead was present beginning agenda item 7 but not for the consent agenda.

7. **For discussion:** Victory Capital Management presentation on the 2023 investment review for the USAA 529 Education Savings Plan.

Mannik Dhillon with Victory Capital presented the 2023 investment review. They are not recommending any changes; however, they have made meaningful enhancements to the asset allocation and underlying funds over the last couple years that have made an impact within the plan and investors. He introduced Scott Kefer from Victory Capital. They are adding resources internally to the USAA 529 Education Savings Plan where Mr. Kefer will be leading the distribution efforts, management, and marketing outreach. Mr. Kefer is an Investment Professional and has been with the firm over 20 years. He was the Senior Portfolio Manager for their Solutions Business and now is turning his focus to this plan.

Lance Humphrey with Victory Capital provided an overview of their materials. He reminded that their plan underwent two significant changes in both 2021 and 2022. Following their detailed analysis, they are not recommending changes to the plan at the current time. They do think that the plan has continued to be well set up for participants and feel comfortable where they are positioned. He reviewed the key pilar when making changes and how they have impacted the plan participants. He noted it is important to review the overall glidepath which is the mix between stocks and bonds in the various stages of the plan. He reviewed that last year when they came to the Board to recommend a change to increase the equity allocations across the glidepath on some of the portfolios that are nearer to the college date. They also looked at the overall asset class selection and in 2021 they made a notable step to add a new asset class to the plan which was an alternative income exposure and allocated through the Victory Market Neutral Income Fund. Looking back, it was the single best performing line item in the plan and provided what was intended. He noted that last year it was a time where both the stock market and bond market had experienced significant losses in certain parts of the year, therefore providing this type of fund that is not correlated to stocks or bonds and providing consistent return stream was beneficial to the holdings. He reviewed they also look at portfolio construction ensuring they have a proper level of diversification and that the funds asset classes they implement are contributing to the overall correlation of the portfolio. An example he noted that in 2021 they made some modifications to the credit quality within the fixed-income portion of the portfolio where they increased a bit of their weighting such as government related securities to alter that mix. He reviewed one of the last steps is the overall fund selection and once they have decided the overall asset classes they want to invest in, they determine which funds they want to populate in those slots. He noted that last year they replaced the Victory Growth Fund with the Nasdaq 100 Index Fund which has been an outstanding change. He concluded that they feel strong in the overall portfolio.

This is an informational item and therefore did not require a vote of members.

8. <u>For discussion:</u> Staff update regarding JP Morgan SSGA Transition

Ms. Van Ry provided a brief overview of this report. She informed the Board that they we are on track to finalize the agreement and get it signed by all parties by end of day. She stated they also finalized the Program Description, brochures, one-pagers, and other collateral pieces. They will provide these in bulk at the next meeting. She expressed their excitement to launch and thanked their partners at Ascensus and JP Morgan for their hard work over the last year.

Tom Hewitt with Ascensus noted that the conversion starts this weekend and are excited. He stated it's been a great collaborative effort and noted they have a 114-point plan. He discussed the launch within the weeks ahead. Today is the last day they accept any transactions and will indicate on the website throughout the plan transition. They will begin running conversion jobs where they do three practice runs live and start audit reports for data clean up. On the weekend they will ensure everything is running as expected. They will have a final checkpoint before they go live and will open the site live on Monday with Future Path. He reviewed there is still cleanup steps but provided an update of what's to come.

Treasurer Conine thanked Mr. Hewitt, his team, and Ms. Van Ry for all the work. He looks forward into getting updates over the weekend within the transition.

This is an informational item and therefore did not require a vote of members.

9. **For discussion and possible action**: the Nevada Prepaid Tuition Investment Monitoring Report prepared by Meketa Investment Group for the quarter ended March 31, 2023.

Kay Cesarani with Meketa presented the Prepaid Tuition Investment Monitoring Report for the quarter ending March 31, 2023. She began the presentation on page 76 of the materials. She noted it finished the quarter with $372.7 million which was up by $17.3 million for the quarter. It outperformed its policy benchmark in return 5.6 versus 5.4. She noted it's still lagging over the 1-year period but overall, its outperformed by 20 basis points for the longer-term periods and the most recent period. She reviewed that the individual managers have performed in line or matched their benchmark. The markets have been more volatile over the most recent quarter but has been positive except for commodities. There aren't any international equities in this portfolio, but international markets did outperform US for the quarter although it has reverted to the US outperforming year to date through May.

Motion to approve this agenda item from Member Hager and a second from Member Cano Burkhead. Motion passed unanimously.

10. **For discussion and possible action:** the Nevada 529 College Savings Plans Investment Monitoring Report prepared by Meketa Investment Group for the quarter ended March 31, 2023.

Kevin McLaughlin provided brief highlights of the 529 College Savings Plans Investment Monitoring Report for the quarter ending on March 31, 2023. He began the presentation with page 94 of the materials. He noted that currently one fund from Putnam is on watch status and one additional fund qualifies for watch status. The Income Fund needs to remain on watch status while the Putnam Growth Opportunities Fund newly qualifies for watch status. The Putnam Growth recently changed its name to the Putnam Largecap Growth Fund. Its relative performance falls below the medium-term criteria meaning its rolling 36-month excess return is falling below the -1.50% for six consecutive months which is the reason as to why they are recommending this fund to be on watch status. Additionally, there are two that remain on watch such as the Vanguard STAR Fund and the Vanguard US Growth Admiral Fund. He noted that the STAR Fund technically doesn't qualify anymore but recommend leaving it on watch status for one more quarter to ensure that outperformance continues. He reviewed that one fund from the SSgA Upromise Plan remains on watch status which is the SPDR FTSE International Government Inflation-Protected Bond ETF, and no additional funds qualify. Lastly, the Wealthfront 529 College Savings Plan does not have any funds that qualify for watch status and does not have any funds on watch either. He concluded stating that all funds have positive absolute returns and are outperforming their benchmarks with the exception of the first two funds that were discussed.

Ms. Cesarani added that all but one of the funds are in the top quartile of their respective peer group. She noted that on the most recent period, performance is good relative on an absolute basis as well as versus peers.

Motion to approve this agenda item from Member Stanfel and a second from Member Cano Burkhead. Motion passed unanimously.

11. For discussion and possible action: 2023 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

Tya Mathis-Coleman Deputy Treasurer of College Savings presented the 2023 Memorial Scholarship history and applicants. She stated that in 2011 the Nevada Legislature approved with Governor Sandoval where he signed into law Senate Bill 220 establishing the Kenny C. Guinn Memorial Millenium Scholarship. She noted that this scholarship trust fund is used for qualified GGMS Scholars each year with two in Northern Nevada and two in Southern Nevada who are majoring in elementary or secondary education with the intent of teaching in Nevada. While it directly serves award recipients, the scholarship also serves Nevada by keeping their best and brightest teachers in the state. She noted that students must satisfy the eligibility requirements for the Millenium Scholarship set forth in NRS 396.930, have a record of community service, be entering their senior year of college at an eligible institution, have a grade point average of 3.5 or higher, and have a stated commitment to teaching in Nevada upon graduation. She reviewed that this year the office received a total of 15 applications statewide and 10 of those met the requirements. She thanked her team at the Treasurer's Office for their work on this process and thanked the Guinn family for their commitment to education in this state. The office received two recommendations from the Guinn family which includes Samuel Self from the South and Emily Burton from the North.

Treasurer asked if there are recipient recommendations from the Board.

Member Cano Burkhead recommended Monique Raven in the South and Maddison Mead in the North.

Treasurer Conine confirmed that they have a total of four recommendations that being, Samuel Self and Monique Raven from the South, and Emily Burton and Maddison Mead from the North.

Treasurer Conine stated that every year they are blown away from the quality of these future educators in Nevada and are exceptionally happy to have. He thanked the Guinn family for their support.

Motion to approve this agenda item from Member Cano Burkhead and a second from Member Stanfel. Motion passed unanimously.

12. For discussion and possible action: Nevada Prepaid 2017-2022 Experience Study Review and approval of Pricing for 2023-2024 Enrollment Period.

Treasurer Conine stated they made the decision to bring this whole process to the forefront as it is important to understand how they make these Prepaid Tuition decisions and wanted everyone to have as much transparency as possible.

Ms. Van Ry noted that they worked closely with Meketa Investments and GRS Consulting on the recommended assumptions provided by GRS in their presentation. There are two assumptions provided, one is the main focus of the presentation and the other is included in the appendices of the materials provided by GRS. Staff worked closely with these parties and all collectively agreed that utilizing these assumptions were in the best interest of the Program and its participants.

James Sparks with GRS Consulting stated he is the actuary that works for the Prepaid Tuition Program. He referenced page 241 of the materials. He provided a high-level overview of the 5-year Actuarial Experience Study within this plan and provided the pricing for the upcoming academic year. He stated that the goal is to provide affordable options for people to save for children to go to college. To have success in that goal is to always have money on hand to pay every benefit promised when due. The risk is that they will not know if they achieve that goal until the last benefit is paid which is where the actuary comes in to help manage the risk. They work with staff annually to develop the pricing for the upcoming academic year. They also do an annual evaluation to compare the assets the plan has to the future obligations or liabilities. The Program must ensure they are fully funded to pay those benefits. They must review their assumptions to be reasonable and make any updates as necessary. The Program has a funding policy used to make decisions for the plan if needed but this is a well-funded prepaid plan and haven't had to use the funding policy in the last few years. He discussed they have two sources of funding and two obligations that they must pay for the plan. They have the contributions that come into the plan where they agree on contract payments. The system uses those assets they have and invest overtime for the child until they reach the point of college. He noted the pricings of the plan is what develops the contributions that they will get. When they set the pricing, they always have two goals in mind. One is they ensure the price is enough money to be able to pay the future benefits but also have a mechanism to save affordably. This is why they update the pricing annually and incorporate a risk premium. Assumptions must be made to see how contracts will be utilized. He noted that Nevada does have a Predictable Pricing Program which assists in mitigating this risk within a 2 to 3 years to know how much tuition will cost.

He went over the Annual Actuarial Valuation where June 30th of every year they assess a comparison of the assets that the plan has. They compare to the obligations and liabilities for tuition payments in the future. The difference between the assets and the liabilities they refer to a surplus or a deficit. This plan is associated with surpluses going forward as they have more assets than liabilities. For this Annual Valuation they take all the information from the Program such as the demographics, provisions, actuarial assumptions, financial information, and funding policy. He stated that as of June 30th last year they had about 11,000 contracts in this plan, $389 million in assets in present day, and compared to the liabilities they now have $205 million as of this day. They have a surplus of $184 million as of latest valuation. He expressed that the good news is that they have almost $2.00 for every $1.00 of expected liabilities in the future. Based on page 257 of the materials it compares the surplus, deficit, and funded ratio over the past 5 years. The surplus has increased significantly about $100 million due to good experience with investment returns.

He reviewed the 2017-2022 Experience Study starting on page 258. He emphasized that not one set of assumptions is always going to match experience, however, the goal is to come up with assumptions that are as close to future experiences. Mr. Sparks reviewed the two main sections within the study such as the economic assumptions and demographic assumptions. He noted that if they have aggressive measurements it could result in an overly optimistic representation of the funded status of the Progam and potential overpricing of contracts. If they take a conservative approach then it could result in an overly pessimistic representation or potential overpricing of contracts. He noted that the economic assumptions shall be individually reasonable and consistent with one another. The selection of the price inflation assumption should be consistent with the selection of investment return and tuition increase assumptions. The recommended increasing price inflation assumption ranges from 2.25% to 2.50%. With the Predicatble Pricing Program that Nevada has, it's shown what the expected tuition increases for the next 3 years known increases that will occur in the future. The rate of future tuition increases for a 4-year university is 4.00% whereas it's 3.50% for 2-year community colleges for these assupmtions. For the price inflation assumption they look at forecasts annually such as the Congressional Budget Office, the Federal Reserve Banks, U.S. Department of the Treasury, and Social Security Trustees which is closer to the 2.00% to 3.00% range. Their reccomendation is to increase the price inflation assumption from 2.25% to 2.50%. He noted the factors in determination of a reasonable investment return assumption includes Program's asset allocation, future capital market expectations of a variety of investment consultants where they survey from 10-15 consultants, and put into a model to come up with the predicated expected return will be over the next time-period. Two key measurements are the short-term 10-year period and long-term 20-30 years and factors in determination of a reasonable investment return assumption of program assets allocation. They also take into account a wide range of time horizons of contracts.

He reviewed the June 2022 Investment Policy on page 270 showing that half the plan is in equities or stocks, 40% is in Fixed-Income, and 20% is in Covered Calls. They take that asset allocation shown and put it into their GRS Capital Market Assumption Modeler (GRS CMAM). He simplified that Modeler shown on page 272 of the materials and stated they had 11 investment consultants that they surveyed and noted that the expected nominal return net for all these consultants was about 7.00%. They then remove the assumptions that they had and put in the proposed assumptions of 2.5% which was in line with what they expected. He reviewed that in 2018 the Nevada Board of Regents adopted a method of determining future increases based on the Commonfund Higher Education Price Index (HEPI). Tuition rates for the next 3-to-4 years can be anticipated in advance which are developed by reviewing historical data published. In the 2023 Valuation and pricing is 5.20% assumption for the 2026/2027 academic year. Over the last decade, tuition increases have been about 2.00% to 3.00% a year which is lower than their 4.00% assumption. Since tuition has been growing slower than they assume it creates gain for the plan each year. However, due to the inflation in the last few years, they recommend retaining the 4.00% long-term tuition increase assumption for universities given the experience they've seen since 2010. Although, they plan to raise the assumption for the community colleges to match the university assumption. He proceeded to discuss the demographic assumptions focusing on the 4-year university plan results. Experience during the period 2017-2022 was consistent with expectations. There were small changes proposed to the pre-matriculation refund valuation assumption which had minimal impact on the results. In the first year that someone purchases a plan they see about 4.00% of contracts refunding and as they get closer to college that tends to decline. They have also seen contracts continue to refund 1-3 years after they have matriculated and gone to college whether they didn't use the contracts or dropped out. With this, they expect less contracts to be utilized in the future. Assumptions for these refunds are split between contracts purchased before and after the 2010 enrollment period. He reviewed that even though contracts purchased on or after the 2010 enrollment period only have 6 years to utilize benefits. Utilization assumptions for valuation purposes extend beyond the 6-year period to reflect lagging experience observed in the valuation data. He explained that experience during 2017-2022 continued to show those who underutilize their contracts in the past do not “catch-up” in the future. For the proposed assumptions, it is no longer assumed contracts who have under-utilized in the past will make up that utilization later on. What they typically see is people use on average about 20-25 credits per year for the first 3-4 years and after that 4th year they tend to see a big decline in utilization showing the actual experience has been on average about 5-10 credits being used and slowly goes to zero at depletion of the contract. He reviewed if valuation assumptions correctly predict the number of credits a contract utilizes, biases in the actual dollar benefits paid can exist. He noted this was especially observed when a university contract utilized their benefits at lower priced community colleges. When they do the upcoming valuation, they will assume -5.0% bias load on the dollar payouts for university credit utilization. This assumption is not included in the pricing of new contracts otherwise if someone knows they will not be going to community college, they would be getting this 5.00% benefit to have those who do pay for cheaper college. He moved on to the estimated impact to valuation results where the assets in the plan didn’t really change as there’s a slight decrease. However, the liabilities in the plan decreased significantly shown as $179.3 million. The funded status has increased quickly. The surplus of the plan would be about $210 million, and the funded ratio would be about $217 million. He emphasized that although the funded ratio is $217.0 that doesn’t mean they are overpricing contracts by over 200.0%. They take lots of risks on the plan and have been able to beat that with better returns than expected. Contracts sold in 2021-2022 shows there’s a margin of about 17.6% to 18.0%. He explained that from those contracts sold, their funded status was about 117.0% which was aligned with the funding policy of the plan. The current pricing is still inline with the target as they take on risks and must have some margin in the pricing to guarantee payment of benefits in the future.

Lastly, he provided an overview of the upcoming pricing within the 2023-2024 Enrollment Period starting on page 309. Based upon the proposed economic assumptions, they’ll use the 5.25% interest rate, the known short-term tuition increases, and the 4% long-term assumption. He stated the pricing has risk premiums based upon the Board of Funding Policy but currently are not putting those into the pricing since they have a great funding status. They do have implicit premiums such as not assuming any refunding of the pricing. To the extent that individuals do not use their contracts, it can lead to gains for the system. Prices should be remaining level or increasing at the rate of tuition. For 4-year university contracts, compared to last year there should be an increase of about 3.00% to 4.00%. He noted it is important to keep in mind that if all assumptions are perfectly met, they’d be expecting it to increase to a long-term tuition increase assumption. The other university contracts have similar patterns. The one with the most significant change is the community college contracts with a price increase for this upcoming academic year due to their recommendation to have the same assumptions as university colleges. Next year, if all assumptions are met then they’ll expect to see more uniform increases that match tuition across the board.

Member Hager asked if the Board of Regions noted that percentage of the tuition increase would be the same for universities and community college.

Mr. Sparks noted it is not explicitly stated but have no reason to use a different assumption given the last 3-4 years with increases at the same rate.

Motion to approve this agenda item from Member Stanfel and a second from Member Hager. Motion passed unanimously.

Treasurer Conine expressed his appreciation towards all the work that went into this pricing. He stated he is very excited to have one of the most effective Prepaid Tuition Programs in history.

13. <u>Public Comment</u>.
There was no public comment.

14. <u>ADJOURNMENT.</u>

Meeting adjourned at 11:25 am.