

THE BOARD OF TRUSTEES OF THE COLLEGE SAVINGS PLANS OF NEVADA

MINUTES OF BOARD MEETING

Wednesday, June 26th, 2024

Location:

Via videoconference at the following locations:

State Capitol Building
1st Floor State Treasurer's Office
101 N. Carson Street, Suite 4
Carson City, NV 89701

Board members present:

Chairman Treasurer Zach Conine – Carson City
Michael Rankin – Zoom
Robin Hager – Zoom
Donna Velez – Zoom
Lisa Cano Burkhead – excused

Others present:

Nicole Ting, Deputy Attorney General
Kirsten Van Ry, Chief of Staff
Lori Hoover, Chief Deputy Treasurer
Tya Mathis-Coleman, Deputy – College Savings
Troy Watts, Treasurer's Office
Blanca Platt, Treasurer's Office
Leslie Milton, Treasurer's Office
Naomi Nevers, Treasurer's Office
Ariel Luke, Treasurer's Office
Aysun Kilic, Meketa Investment
Kay Ceserani, Meketa Investment
Chris Catanese, Ascensus
Tom Hewitt, Ascensus
Jennifer Walker, Vanguard
Stewart Duffield, Vanguard
Mannik Dhillon, Victory Capital
Lance Humphrey, Victory Capital
Scott Kefer, Victory Capital
Jessica Campbell, Victory Capital
Heather Bedont, Victory Capital
Caroline Churchill, Victory Capital
Jennifer Fuentes, Victory Capital

Andrea Feirstein, AKF Consulting
Mark Chapleau, AKF Consulting
Douglas Polak, JP Morgan
Liz Farrell, JP Morgan
Jacklyn Tarapacki, JP Morgan
Nikki Williams, Wealthfront
Jessica Davila
Sandie Palmer

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.

Consent Agenda

- 3. For possible action to approve:** the minutes of the College Savings Board of Trustees meeting of February 21, 2024.
- 4. For possible action to approve:** the Ascensus program manager's report encompassing results for Vanguard, USAA, Future Path, and Wealthfront 529 plans for the quarter ended March 31, 2024.
- 5. For possible action to approve:** the Putnam 529 for America program manager's report for the quarter ended March 31, 2024.
- 6. For possible action to approve:** the Nevada Prepaid Tuition Program activity report for the quarter ended March 31, 2024.

Motion to approve the Consent Agenda from Member Hager and a second from Member Rankin. Motion passed unanimously.

Discussion Agenda

- 7. For discussion:** Staff updates
 - a. Prepaid Tuition Trust Fund Audit
 - b. Putnam Investments Contract Update
 - c. Prepaid Contest

Chief of Staff Kirsten Van Ry provided two brief updates noting that at the last board meeting in February it was discussed that the Prepaid Tuition Trust Fund Audit still had not been completed given the delay in issuing the ACFR and documents necessary for the auditors being inaccessible

in the financial system. They received the final audit in May and included it in the materials. She reviewed that on March 31st an annual report was due to the Governor's Office and the State Legislator. Upon advice of counsel, they submitted the annual report by the due date along with a cover memo stating as to why the annual report did not include the audit. She noted that the full audit and addendum is in the materials.

Chief Van Ry continued with the Putnam Investments Contract issue and stated they have been working diligently to workout a solution. They have connected with Franklin Templeton on potential alternatives including plan restructuring. After a review, they concluded that a scaled down or restructured plan does not meet the needs of their current and future participants. Therefore, they have worked with their consultants on issuing an RFQ that was released in April and are still working with Meketa and AKF Consulting on analyzing those responses. She shared they are hopeful to have a proposed solution soon.

Deputy of College Savings Tya Mathis-Coleman provided updates on the Prepaid Contest. She reviewed that the Nevada Prepaid Tuition Program offers Nevada families an option to take control of rising in-state college tuition rates and offers affordable payment options. She noted the value of the credit hours purchased may also be applied to eligible out- of-state public or private colleges or universities. This enrollment year, they celebrated the 25th anniversary of the Nevada Prepaid Tuition Program by hosting a contest. The giveaway was open to those who purchased a Nevada Prepaid Tuition contract during the open enrollment period November 1, 2023, through April 15, 2024. She stated that this giveaway was open to those with an existing Nevada Prepaid Tuition active contract. All participants who purchased or had an existing active Nevada Prepaid Tuition Contract on April 15th were automatically entered into the drawing. There were two winners selected for this giveaway. One winner was selected in a random drawing from all eligible participants who opened a Prepaid Tuition Contract during the 2024 enrollment period. The other winner was selected randomly from the eligible participants who are existing Nevada Prepaid Tuition Program active contract holders. Their first winner is Marlene Wheeler from the 2024 enrollment period. She purchased a 4-year University plan for a lump sum of \$24,747.00 for a newborn. She has a total of 7 prepaid contracts and resides in Henderson, Nevada. Their second winner is Jonathan Dickinson from the existing contracts. He purchased a 2+2 plan in 1998. He paid \$8,550.00. He currently has 2 prepaid contracts and resides in Sparks, Nevada. She expressed that this was an excellent way to end their 25th year of Nevada Prepaid Tuition and are looking forward to their next year of open enrollment with their new Prepaid Navigator that will be able to focus on expanding the program statewide.

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

- 8. For discussion:** Implementation status update on Vanguard investment changes that were approved during the December 2023 Board Meeting.

Treasurer Conine introduced Jennifer Walker with the Vanguard Education Savings State Relationship Team. Ms. Walker stated she is the Senior Relationship Manager and provided a brief background noting she has been in the Investments Industry for more than 20 years in a variety of Client-Relationship Management and Leadership roles. She expressed her excitement to be apart of the team and gave an overview of the Vanguard investment changes that were approved during the December 2023 Board Meeting. She began on page 135 and noted that these changes will take effect as of July 12th. She noted they are standalone multi-fund portfolios in the plan, and these

have had a shift of 25% from the asset allocation changes and they're shifting to a 20% shift in those assets. She explained if you go from a growth to a moderate portfolio instead of going from a 75% equity allocation to a 50%, the shift would now go from 80% to 60, 40 and so on. Additionally, with these changes, they have removed a couple of the strategies from the lineup and have added a few as well which are shown on page 135 of the materials. She noted that the Short-Term Bond Index, Core Bond Fund, and FTSE Social Conservative Growth are all new. The High Yield Corporate is exchanging into another fund, the Inflation Protected Securities is leaving, and the STAR is exchanging as well. To give a scope of this type of project, she noted the overall plan is around \$34 billion with about 618,000 participants which are actual account owners and not just families. She discussed that a project like this has a lot of connection points, and several teams focused on the implementation for July 12th. They have approximately three dozen people engaged on this particular project focused on the implementation across Vanguard and Ascensus. She stated they are working on things such as communications, user testing, web experience, accounting, Pax, and others.

Ms. Walker then introduced Stew Duffield with Vanguard who provided an overview of the Communications Journey Map. He discussed the high-level events and three major milestones. He reviewed everyone was already notified of the upcoming changes that July 12th is the trade date and then 2 weeks after the launch, they are issuing a brand-new program description document which is a big undertaking due to the large documents. He reviewed they sent a 30-day notice in advance and gave a 30-day benchmark to give people comfort with the project. Internal communications were sent in advance and went out to everybody in the plan, not just those who were affected by the transactions. He stated that Vanguard's a company of around 18,000 employees and 8,000 of those employees or crew members are on the retail side. He noted they had to get word to those 8,000 folks of this happening. The kind of phone calls they got were from folks not impacted by the plan rather than the ones who are impacted. With this they gathered that communications were very good because the folks who were impacted understood and saw it coming. He noted they did receive a few calls from folks who just wanted to check if they would be affected and most of those calls were people who were outside of scope as its only about 10% of the plan that's involved with the project. He reviewed they are in the testing phase and once they hit the launch phase they will be processing the transactions, closing accounts, processing confirms, and it is important to inform the fund managers of this event because they are moving millions of dollars. The fund managers like to know about it ahead of time so that they can prepare the underlying portfolios for all these changes. He emphasized that the Monday after July 12th is an important day as that is when the confirm goes out and they expect folks will call again but they are prepared for all those calls. On the 26th they are going to take away the 30-day communication that is sitting on the website right now and replace it with the brand-new PD and they'll have fully harmonized all these changes into the plan for folks. They believe that the next contact point may be after the September 30th statements. He stated that the majority of the battle is just getting the word out to everybody so that they could all do their portions of the project and getting them all moving forward.

Treasurer Conine stated he appreciates Vanguard's commitment to make sure this is a smooth transition without any single wrinkles.

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

9. For discussion: Annual Investment Review of the USAA 529 Education Savings Plan.

Lance Humphrey with the Victory Solutions Team presented the annual investment review. He noted he is the Head of Portfolio Management and is overseeing the USAA 529 Plan. He confirmed they are not bringing any official changes to the plan for the Board this year. He referenced slide 69 in the materials to provide a brief overview of the process that they undertake each year when they review the plan and its component. He reviewed in both, 2021 and 2022, they took the plan through some of the most significant changes that they have over the past decade and hit on each element of the plan and its core drivers of performance. Over those two years they now feel very confident that the plan is positioned appropriately for participants moving forward. He went over some of the changes that they did make and how those have benefited the plan participants over the last couple of years and why they believe that those are positioned appropriately moving forward. He noted the glide path of the age-based options is going to be one of the largest drivers of determinants of success for the plan participants. They brought a major change to the plan to increase their allocation to equities relative to fixed income. That stemmed from their capital market expectations that they felt that equities had a more beneficial risk adjusted return looking forward relative to fixed income. Since that time period global equity markets are up over 15% during a period when fixed income markets were flat. He noted that one change alone has made a very material difference to the outcome of participants and as they review their capital market expectations today and moving forward, they feel that that glide path positioning is appropriate for the plan. The next step that they do is to make sure that they have the right asset classes as part of the plan selection. In 2021 they introduced a new asset class to the plan which was an alternative income exposure and obtained that exposure through the Victory Market Neutral Income Fund, which he noted is a way to produce stable income for the plan participants, but to do so without having risk to duration from rising interest rates or credit risk that is seen in many bond portfolios. In 2021 interest rates were at all-time lows and by adding this exposure, they were able to produce an uncorrelated return and one that has outperformed the various fixed income alternatives within the portfolio. He reviewed the next step is the Portfolio Construction where they think about the proper diversification, and if the asset classes are at a weight that help complement one another. In that 3-year period since the change, US Large Cap stocks have been one of the best performing if not the best performing asset class which is another benefit for the plan. The last step would be Fund Selection where they determine if they have the best line items within each of those asset classes which they have added a few changes to their lineup over the last couple of years. He noted they swapped the Victory Growth Fund for the Nasdaq-100 Index Fund, which has been beneficial for the overall plan. He expressed they feel very comfortable moving forward with their positioning and as they think about the upcoming 12 months and when they revisit this again next year, they will continue to review that fund selection area. He noted they have entered into a memorandum of understanding to acquire the asset management company of Pioneer. That's going to provide a new opportunity to review a new lineup of individual funds from various asset classes and they are going to do that process to evaluate those funds and will be presenting back to the staff and to the Board over the 12 months on any potential changes from a fund lineup perspective. He stated that each of the funds utilized within the plan, are within the green status from Meketa with no funds on caution or watch status.

Kay Ceserani with Meketa highlighted that they met with Victory Capital to review this proposal, reviewed their analysis, and agree with their findings. She noted they also take the time to review the different products using Meketa's analysis to ensure that the portfolios are appropriately structured. They don't have any recommendations other than to follow what they have proposed.

10. For discussion and possible action: the Nevada Prepaid Tuition Investment Monitoring Report prepared by Meketa Investment Group for the quarter ended March 31, 2024.

Aysun Kilic with Meketa is the Managing Principal and she presented the Prepaid Tuition Monitoring Report starting on page 153 and 154 of the materials showing the Economic Indicator Snapshot for economic updates. She noted this helps to gauge the overall health of the economy and when looking at the indicators, there are particularly a few that are more helpful and widely watched. The snapshot includes the quarterly real GDP, US Unemployment, US Inflation, and the US yield curve. She highlighted that despite some issues, the US economy has been remarkably resilient and in terms of quarterly real GDP the number has dropped for the 1st quarter compared to the 4th quarter of last year. She noted that it is still relatively strong, in terms of the expectations for this year compared to the 20-year history and the other G7 countries. She reviewed that the US Unemployment has been strong, which can be a double-edged sword because it can bring wage inflation but at the other hand it helps with consumer spending which is a pivotal part of the economy. US Inflation has been overall trending down but is more secure than desired and the last component is the US Yield Curve where they typically pay most attention to the spread between the 2-year and the 10-year yield. She noted typically, they want this upward sloping but has been reversed inverted for some time now which can signal an upcoming recession. She moved to the next page for the market update and highlighted that the 1st quarter was strong as it was mainly a continuation of a rally environment from the 2023 market environment. They particularly saw that equity markets, continue to rally in the 1st quarter with several major asset classes producing positive terms where US outperformed non-US developed. US large cap equities were strong, and technology related stocks dominated. Fixed Income was broadly negative with the exception of high yields and diversifying asset classes had mixed returns.

Ms. Ceserani provided a summary of their review of the plan at a high-level beginning on page 155. The plan ended the quarter with \$432.4 million, which is an increase of \$24.4 million over the quarter and approximately \$60 million over the one-year period. All the asset categories were within their acceptable ranges, although there was a little bit of drift from the targets. She went over the performance of the plan and noted it's strong across all periods. For the quarter it was up 5.6%, which outperformed its annual assumed rate of return of 5.25%. Although it did underperform the policy benchmark, mostly due to the Glenmede Portfolio. Over longer time periods, for the one-year period the portfolio is up 16.4% on another fee basis, 5.7% over 3 years, and 8.9% over the 5-year period with overall good returns. She also went over the drivers of the change in market value within the two components, which is cash flows as well as market dynamics. She noted both were positive, but the main contributor was the market dynamics for the period. On page 157 she went over the performance for the underlying managers that constitute the portfolio overall. She reminded there's five different managers utilized and of the five, three of them are passively managed which are the public equity funds and all of those produce results within expectations. She went over the two managers that cover two different asset classes which are Fixed Income as Garcia Hamilton and then Glenmede which is the Covered Calls Manager. She noted those are actively managed and both did underperform for the quarter. On page 160 she reviewed the asset allocation where there has been a drift. Large Cap Equity and Fixed Income are out of alignment within range but still at the outer limits in terms of the asset allocation ranges. Equity was overweight 4.2% and Fixed Income was underweighted which ended up being beneficial to the plan over the most recent quarter. Lastly, she noted that they did add a few extra pages in the materials this quarter where they showed some statistics of the two actively managed funds. She stated it should be helpful for context for the future or just for own knowledge.

Treasurer Conine appreciated the additions as he enjoyed them and hopes that the other board members did as well.

Motion to approve the agenda item from Member Rankin and a second from Member Velez. Motion passed unanimously.

11. 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, 2024.

Ms. Kilic provided an overview of 529 Plans Investment report for the quarter on page 171 of the meeting materials. She reviewed for Vanguard there are two funds qualifying for watch and one has already been on watch for 27 months whereas the other is a new addition. They will be spending more time on these during the watch memo but overall, 80% of funds in the Vanguard Program have either a positive or acceptable status, which is a good ratio to have. As far as the USAA 529 Program, 100% of funds in the program either have a positive or acceptable status with no funds on watch. For the Putnam 529 Program, there is one fund qualifying for watch which is the Federated Hermes Short-International Government Bond for 6 months, however she reviewed that 86% of funds in the program have either a positive or acceptable status which is again a very good ratio to have. She noted Wealthfront on page 173 has no funds on watch and 89% of funds in this program have either a positive or acceptable status. Lastly, under the JP Morgan 529 Program there are no funds currently on watch and 91% of funds in this program have either a positive or acceptable status. Pages 174 to 179 there is detailed information about the watch status and how it has moved from one quarter to another. On page 180 they have the portfolio management teams listed highlighting where the changes occur. For the last quarter the changes occurred on the JP Morgan platform and those are highlighted starting on pages 179 and 190. They have reviewed these changes where many organizations can have portfolio management and investment team changes over time, and when they review the ones that are going on with JP Morgan, they see that the new or the remaining portfolio managers have long tenures either at JP Morgan or in the industry and feel comfortable with the changes. Therefore, they expect no changes to the investment process or philosophy. Pages 192 to page 199, there is further performance shown that they use to determine the watch list in terms of underlying components and the building blocks. Then starting on page 200 the performance of the age-based and other portfolios that are utilized for Nevadans are shown. Ms. Ceserani added that in the last two sections of the Age-based and year of enrollment, they included those a few quarters ago and don't necessarily pertain to the watch status, but they do think it's important for the Board to see how the portfolios have done versus the Morning Star universes, which is what's captured on those pages.

Member Hager asked how long they keep something on watch status before they make a change.

Ms. Ceserani noted that after a fund typically goes on watch, on average they like to see it come off the list at most after 18 months. However, it is a soft target in terms of what's going on in the market environment, so it is subjective as they try to balance the short-term results with the longer term. At this point in time, they're not recommending that fund be removed from the program although they do plan to meet with them in between now and the next meeting to give a bit more detail on that fund as it's a fund-to-fund structure.

Ms. Kilic went over page 218 of the materials as it has a summary of the memo showing the funds qualifying for watch. There are no funds qualifying for watch from the three of the platforms which are USAA/Victory, Wealthfront, and JP Morgan. For Vanguard there are two funds qualifying for watch where the Vanguard US Growth Admiral has already been on watch for 27 months. She reviewed it's important to have a methodical objective process to qualify funds for watch but then there is a qualitative aspect of overviewing why they are underperforming and that's where due diligence calls are important. For the Vanguard US Growth Admiral specifically, their medium-term performance, particularly impacted by 2021 and 2022 qualifies them for watch but actually have seen improvements in their relative performance in more recent time periods. Another fund that qualifies for watch that is new is the Vanguard Star Fund. She noted this fund is going to be removed from the lineup as a part of a structuring and they would like to follow the process as it is being flagged for watch status acknowledging that it will be removed sometime in July. Another fund that has been on watch with the Putnam platform is the Federated Hermes Short International Government Fund which has a smaller level of underperformance relative to the metrics on watch which has been officially for 6 months but relative performance issues for a little longer, so they plan on having a call on this.

Treasurer Conine requested that they make sure to cover the outcome of that call with new remarks the next time around at the next Board meeting regarding that fund that's been on the watch list for a while.

Motion to approve the agenda item from Member Rankin and a second from Member Hager. Motion passed unanimously.

12. For discussion and possible action: 2024 Kenny C. Guinn Memorial Millennium Scholarship applications and selection of:

- a. Two (2) recipients in Northern Nevada
- b. Two (2) recipients in Southern Nevada

Treasurer Conine reminded that the Governor Guinn Memorial Millennium Scholarship was originally set up after Governor Guinn's untimely passing by his family. This supports individuals in Nevada who are planning to go into an education field and are already recipients of the Governor Guinn Millennium Scholarship. He nominated the following four people from Northern & Southern Nevada. First, he noted Lesly Diaz Perez, who is a mentor at the Dean's Future School since 2021, a teaching assistant at an elementary school, and a recipient of the Teach Nevada Scholarship along with others. She's a secondary education major as well. Also, from Northern Nevada he recommended Amelie May, who completed an internship at the United Way of Northern Nevada as a literacy mentor for pre-k students in Reno and is an elementary education major. From Southern Nevada, he recommended Mackenzie Baack, who is a mentee in the Grad Rebel Advantage Program, Vice President of Finance and Philanthropy, Director of Community Service, and a secondary education major. He also recommended Riley Wargo, a community service student who's been focused on tutoring, volunteering, and taking care of animals at the Hearts Alive Village cat café.

Motion to approve the agenda item from Member Velez and a second from Member Hager. Motion passed unanimously.

- 13. Closed Session:** Board to enter into a closed session pursuant to NRS 241.015(3)(b)(2) with counsel to discuss the USAA 529 Education Savings Plan contract.

Treasurer Conine noted that at this stage of the meeting, they are going into a closed session to discuss the USAA 529 Education Savings Plan contract. Pursuant to NRS 241.015, this action does not qualify as a meeting per the definition, therefore the recording of the was stopped for this agenda item.

- 14. For discussion and possible action:** Board to direct State Treasurer staff to identify a solution to potential contractual issues regarding the USAA 529 Education Savings Plan.

Motion to approve the agenda item from Member Velez and a second from Member Hager. Motion passed unanimously.

- 15. Public Comment.**

There was no public comment.

- 16. ADJOURNMENT.**

Meeting adjourned at 11:15 am.