

**New Mexico Education Trust Board**

**Investment Policy Statement**

**For the**

**Education Plan Trust of New Mexico**

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## **A. PROGRAM PURPOSE**

In accordance with Section 529 of the Internal Revenue Code of 1986 (the "Code"), as amended, and the Education Trust Act (Section 1 through 7 of Article 21K, "Education Trusts," 21-21K-1 to 21-21K-7 NMSA 1978), the Education Plan Trust of New Mexico ("Program") offers a qualified tuition program to help Account Owners save for future education expenses on a tax advantaged basis. The New Mexico Education Trust Board ("NMETB") is the trustee of the Program. There are two distinct plans offered by the Program – The Education Plan ("TEP") and Scholar'sEdge ("SE").

## **B. PURPOSE OF THIS POLICY STATEMENT**

This Investment Policy Statement ("Policy Statement") sets forth the formal investment policy for NMETB. All decisions made on behalf of the Program shall be made for the sole benefit of the Account Owners and Beneficiaries and in compliance with the prudent investor rule as set forth in the Uniform Prudent Investor Act ("UPIA") (N.M. Stat. Ann §45-7-601 et. seq.).

The purpose of this Investment Policy Statement is to assist NMETB to effectively establish, monitor and evaluate the Investment Portfolios and the Underlying Investments, and specifically to:

- Set forth in writing NMETB's objectives and guidelines for the investment of Program assets;
- Identify the roles of specific entities having a fiduciary responsibility to the Program;
- Define policies regarding permitted investments, benchmarks, and asset allocation;
- Establish guidelines, consistent with the defined Monitoring Procedures, for monitoring and evaluating performance and appropriateness of the Program's investments and investment risk; and
- Provide an annual review of the Investment Portfolios and Underlying Investments.

NMETB has also established the Monitoring Procedures and Criteria for the Program ("Monitoring Procedures") to implement the provisions of this Policy Statement. NMETB has delegated certain responsibilities to the NMETB Executive Director, the Contractor ("Program Manager") and the Investment Consultant as set forth in the Monitoring Procedures. The Monitoring Procedures are designed to provide qualitative and quantitative information on the performance and the risk of the Investment Portfolios and the Underlying Investments.

## **C. INVESTMENT OBJECTIVES**

The primary investment objective of the Program is to provide Account Owners with a range of investment options comprised of permitted investments from which they may construct diversified portfolios by asset class and investment style that match their risk tolerances, asset class

preferences, investment time horizons and expected returns, taking into account the following factors, if relevant:

- 1) General economic conditions
- 2) Effect of inflation/deflation
- 3) Expected tax consequences
- 4) Role of each investment or course of action plays within overall trust portfolio
- 5) Expected total return from income and appreciation
- 6) Other potential resources of the beneficiaries
- 7) Needs for liquidity, regularity of income, and preservation or appreciation of capital
- 8) Any potential conflict of interest, if any, posed by proposed investments to the trust

Account Owners shall be able to change investment options and allocations with a frequency determined by applicable law. While the investment objectives for all of the Investment Portfolios offered in the Program are approved by NMETB, Account Owners bear the risk of investment results derived from the selected Investment Portfolios. The appropriate Investment Portfolio (or Portfolios) for each Account Owner is (are) a function of multiple factors to be evaluated by such Account Owner, including age (of Beneficiary), income, length of time before money is used (date of expected use), and tolerance for investment risk.

NMETB shall engage a Program Manager that shall be responsible for providing Investment Management Services. Account Owners may direct the investment of their Accounts to a variety of Investment Portfolios. The Investment Portfolios are to be comprised of Underlying Investments. The Program taken as a whole shall seek to:

1. Offer Investment Portfolios that encompass a range of expected risk and return opportunities and provide Account Owners with the ability to invest in a diversified portfolio;
2. Strive to be competitive with alternative investment options for college savings;
3. Assess the relative operating costs of each Investment Portfolio or Underlying Investment included in the Program against the relative benefit of utilizing that Investment Portfolio or Underlying Investment in the Program;
4. Include as Underlying Investments mutual funds that are able to add value over a full market cycle and that are in the top half of their peer universe over trailing 1 and 3-year time periods;
5. Consider and potentially include Underlying Investments which are not mutual funds; and
6. Include at least one Investment Portfolio for TEP that is suitable to be used as a default investment choice for Account Owners who fail to make affirmative investment choices. Such an Investment Portfolio is referred to as the "Default Investment Option".

## **D. RESPONSIBILITIES**

### **1. NMETB**

NMETB will administer the Program in compliance with the Code and the Education Trust Act, and this Policy Statement. Additionally, the NMETB will administer the Program with the skill, care, and diligence of a prudent person acting in a like capacity and familiar with such matters. The NMETB is authorized to delegate certain responsibilities to professional experts in various fields. NMETB will exercise reasonable care, skill and caution in selecting such delegated entities and will monitor their performance and compliance with their contractual and other obligations. All decisions made on behalf of the Program will be for the sole benefit of the Account Owners and Beneficiaries. The NMETB specifically will:

- a. Continue to offer a comprehensive investment plan for the Program, as evidenced by this Policy Statement;
- b. Review and revise this Policy Statement as appropriate;
- c. Engage a qualified Program Manager;
- d. Establish the asset classes and other criteria related to the development of Investment Portfolios and selection of Underlying Investments taking into consideration the UPIA, which outlines circumstances a trustee should consider, if relevant, in investing and managing the Trust;
- e. Review and approve a target asset allocation and benchmark for each Investment Portfolio as well as the benchmark for each Underlying Investment in the Program;
- f. Review, approve, and, if appropriate, modify investment proposals by the Program Manager;
- g. Establish procedures for monitoring investment performance and other contractual obligations of the Program Manager, including an annual investment review; and
- h. Monitor adherence to the policies set forth in this Policy Statement and in the Monitoring Guidelines.

### **2. Investment Consultant**

NMETB has determined that it is necessary and reasonable to retain an Investment Consultant to assist it with its obligation to ensure that the Program is operated in a prudent manner while meeting its investment objectives. The Investment Consultant will have certain fiduciary responsibilities as well as other specific duties set forth in its contract with NMETB and by law. Under this Policy Statement, the Investment Consultant works for the benefit of NMETB and shall be responsible to:

- a. Provide general advice and recommendations on certain matters including: investment strategy, proposals for Investment Portfolio and Underlying Investment additions or changes by the Program Manager, proposed benchmarks and target asset allocations for Investment Portfolios and 529 industry investment issues and trends;
- b. Provide clarification and assistance to NMETB in understanding various investment climates and market conditions that may affect the performance of the Investment Portfolios and Underlying Investments;
- c. Assist the NMETB with any revisions to this Policy Statement and with monitoring the performance of the Program Manager;
- d. Evaluate the performance of the Underlying Investments of the Program using criteria developed by NMETB as well as criteria developed by the Program Manager;
- e. Monitor the overall risk of the Underlying Investments;
- f. Advise NMETB with regard to the development of a Default Investment Option or recommend to the NMETB the selection of an existing Investment Portfolio or Portfolios as the Default Investment Option specifically detailing how and why the recommended Portfolio is prudent;
- g. Conduct quarterly evaluations of the Program which compare quarterly investment returns to appropriate benchmarks and NMETB policies, including compliance by the Program Manager with this Policy Statement;
- h. Provide quarterly reports as set forth in "Performance Monitoring";
- i. Provide recommendations to the Executive Director with respect to any proxies to be voted on behalf of the Program; and
- j. Provide advice and assistance with both the implementation and annual review of the Investment Portfolios and Underlying Investments as prepared by the Program Manager and described in Subsection 3.e. The annual review shall include an analysis of the Investment Portfolios and Underlying Investments to provide NMETB with insight into the broad risk exposures and potential response(s) of the Investment Portfolios and Underlying Investments to major macro events (e.g. a significant crisis affecting the financial markets).

Meketa Investment Group, Inc. currently serves as the Investment Consultant to NMETB. NMETB relies on the advice, guidance and actions of the Investment Consultant in carrying out its responsibilities.

### 3. Program Manager

NMETB has determined that it is necessary and reasonable to retain a professional manager to administer the Program and to provide Investment Management Services. The Program Manager shall have certain fiduciary responsibilities and specific duties as set forth in the Program Management Agreement with NMETB and by law. This Policy Statement shall be provided to the Program Manager to develop and maintain Investment Portfolios for the review and approval of NMETB.

The Program Manager shall, or cause a subcontractor approved by NMETB, to:

- a. Monitor ongoing adherence to the Program Management Agreement, this Policy Statement, the Code and applicable law;
- b. Review, analyze and propose investment guidelines for the Program, relating to glidepath construction, benchmarks, target asset allocations, and recommend changes (if any) for NMETB's review and approval, no less frequently than annually;
- c. Maintain the asset class allocations and rebalance the Underlying Investments to their target asset class allocations as provided in Section E.2;
- d. Develop Investment Portfolios appropriate to the purposes of the Program for consideration and approval by NMETB, and manage those Investment Portfolios;
- e. Take action as directed by NMETB to modify the Program, which may include (but not be limited to) the elimination or addition of an Investment Portfolio or Underlying Investment. All such actions shall be consistent with constraints imposed by the Program Management Agreement, this Policy Statement, the Code and applicable law;
- f. Prepare an annual review of the Investment Portfolios and the Underlying Investments. The review should include, but not be limited to, an asset allocation review, as well as proposed changes to benchmarks and Underlying Investments;
- g. Report any management and other changes related to the Underlying Investments to NMETB and the Investment Consultant as soon as reasonably possible after such information has become publicly available and the Program Manager learns of such changes;
- h. Inform NMETB and the Investment Consultant of changes to any benchmarks or material changes in objectives by any Underlying Investment, including changes that result in the inclusion of investments that are not consistent with the Permitted Investments outlined in Section E.1., as soon as reasonably possible after such information has become publicly available and the Program Manager learns of such changes;

- i. Collect performance data and create a performance report for the Investment Portfolios and Underlying Investments on a quarterly basis in a format acceptable to NMETB;
- j. Provide any reports (reasonably agreed upon by the Program Manager) on a periodic basis as requested by NMETB in a format acceptable to NMETB and, if necessary, in consultation with the investment managers of any Underlying Investments;
- k. Coordinate, manage, and oversee relationships with the investment managers of the Underlying Investments, which will include performing due diligence and advising NMETB of issues and concerns;
- l. In the case of non-mutual fund investments, to engage investment managers to manage such Underlying Investments that have been in existence for at least 5 full years and are registered with the Securities Exchange Commission, or that are federally regulated banks, or are licensed US domiciled insurance company affiliates;
- m. Review investment proposals from investment managers described in l. to ensure compliance with contractual obligations as well as the Code and this Policy Statement;
- n. Take action to identify replacement Underlying Investments as described in the Monitoring Procedures for either performance or qualitative reasons.; and
- o. Maintain and manage a Default Investment Option for NMETB.

Ascensus College Savings Recordkeeping Service, LLC (“ASCR”) currently serves as the Program Manager for TEP and SE with overall responsibility for the day-to-day operations of the Program; except that Ascensus Investment Advisors, LLC (“AIA”) provides Investment Management Services to TEP and, in the case of SE, ASCR has subcontracted responsibility for Investment Management Services to Principal Global Investors, LLC (“PGI”), and responsibility for certain Distribution Services and Marketing Services to Principal Funds Distributor, Inc. (“PFD”). NMETB relies on the advice, guidance and actions of ASCR, AIA, PGI, and PFD in carrying out its responsibilities.

## **E. PROGRAM POLICIES**

NMETB shall establish guidelines for the development and structuring of the Investment Portfolios and the selection of Underlying Investments, which may include specific prohibitions on certain investments, limits on asset or asset class exposures, various risk constraints, benchmarks and investment return objectives.

### **1. Permitted Investments**

- a. **Broad Asset Classes:** The Underlying Investments of the Program shall draw from any of the following broad asset classes:



- i. Short-term marketable securities;
- ii. Fixed income securities;
- iii. Equity securities;
- iv. Bank certificates of deposit;
- v. Capital preservation investments; and
- vi. Alternative securities.

The Underlying Investments of the Program shall be limited to mutual funds, exchange-traded funds, capital preservation investments, direct holdings of bank certificates of deposit, FDIC-insured savings accounts or separately managed accounts. Investment instruments or asset classes which differ materially from these broad categories would necessitate a revision to this Policy Statement.

The NMETB may establish guidelines for the development and structuring of the Program investment alternatives taking into consideration UPIA, which outlines circumstances a trustee should consider, if relevant, in investing and managing the Trust, which may include specific prohibitions on certain investments, limits on asset or asset class exposures, various risk constraints, benchmarks and investment return objectives.

- b. Use of Derivatives: Under the Program, there will be no categorical prohibition against the use of derivatives and/or other forms of leverage in mutual funds, exchange-traded funds or separate accounts provided such investments have the proper and adequate disclosure regarding the risk appurtenant to such investments.

## **2. Asset Class Allocation Guidelines**

The Program Manager is responsible for recommending asset class allocation guidelines designed to meet the investment objectives of the Program. The Investment Consultant shall review the Program Manager's recommendations and advise NMETB as to their suitability for the Program.

Once it has received the recommendations of the Program Manager and the advice of the Investment Consultant, NMETB shall adopt asset class allocation guidelines for the Program.

The Program Manager shall maintain the asset class allocations within approved levels. Rebalancing of the Underlying Investments to their target asset class allocations within the Investment Portfolios shall be performed by the Program Manager at least on a calendar quarterly basis. Interim rebalancing within an Investment Portfolio will also be performed by the Program Manager if any of the Underlying Investments in an Investment Portfolio deviates more than five full percentage points from its target asset class allocation.

The NMETB shall approve the targeted asset class allocation for each Investment Portfolio. The appropriateness of the targeted asset class allocation for each Investment Portfolio shall be reviewed as part of the annual review of this Investment Policy by NMETB, the Program Manager and the Investment Consultant. In conjunction with approval of any changes to the targeted asset class allocations, NM ETB, with input from

the Program Manager and NM ETB Counsel, shall determine whether a supplement to the Plan Description is necessary to disclose the approved changes to account owners prior to proposed changes, or whether subsequent disclosure is appropriate. The current targeted asset class allocations shall be identified in the Monitoring Procedures.

### **3. Establishment of Benchmarks**

NMETB shall evaluate investment performance of the Investment Portfolios relative to an assigned benchmark as described in Section F. An appropriate custom asset-weighted benchmark for each Investment Portfolio will be recommended to NMETB by the Program Manager and reviewed by the Investment Consultant. The benchmark assigned to each of the Investment Portfolios shall have first been approved by NMETB. The current benchmarks approved by NMETB for each Investment Portfolio shall be identified in the Monitoring Procedures.

### **4. Proxy Voting**

Proxies will be voted for the benefit of the Program. NMETB delegates the voting of proxies to the NMETB Executive Director. The Investment Consultant shall make a recommendation to the Executive Director with respect to any proxies to be voted for the Program.

The Executive Director is to provide reports at the end of each calendar quarter to NMETB as to any proxies voted during such quarter.

## **F. PERFORMANCE MONITORING**

NMETB has determined it is necessary and reasonable to develop an investment monitoring program to advise NMETB with regard to investment and compliance issues and has delegated such a role to the Program Manager and Investment Consultant. Additional information about the procedures used in the performance monitoring program can be found in the Monitoring Procedures.

The Investment Consultant shall evaluate investment performance relative to an assigned benchmark for each Underlying Investment. The Program Manager shall at all times seek to propose Underlying Investments with performance consistent with performance criteria as shown in the Monitoring Procedures. When evaluating investment performance, relevant benchmarks<sup>1</sup> will be used for comparison to actual performance results as follows:

- a. Actual performance is based on end of day market pricing reflecting appreciation/depreciation and interest and/or dividend payments;

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<sup>1</sup> A fund's primary prospectus benchmark will be used as its benchmark for evaluation purposes. There may be instances when the primary prospectus benchmark differs enough from the fund's strategy to warrant a change in benchmark. The Board must approve all non-primary prospectus benchmarks.

- b. Evaluations shall be against industry standard benchmarks;
- c. Investment Portfolios shall be compared to appropriate benchmarks or policy benchmark as outlined in the Monitoring Procedures and Criteria; and
- d. All Underlying Investments and Investment Portfolios shall be considered against their respective benchmarks over an identical time period.

The Investment Consultant shall monitor the performance of Underlying Investments and may make informal recommendations to add, remove, or change the Underlying Investments to NMETB, as detailed in the Monitoring Procedures.

On a quarterly basis, the Investment Consultant shall report its evaluation to NMETB. The report shall address, amongst other matters, the ratings of the Underlying Investments as "Pass" or "Fail", where an overall rating of Fail results in "Watch" status. NMETB may require an Underlying Investment placed on "Watch" status to adhere to special reporting requirements while remaining on "Watch" status. The Monitoring Procedures contain additional information on the ratings.

## **G. ANNUAL INVESTMENT REVIEW**

The Program Manager shall present or shall cause a subcontractor approved by NMETB to present investment reviews for each Plan in the Program on an annual basis or, if requested by NMETB, a more frequent basis. Such reviews shall be in a format and at a level of detail typical of reviews presented to institutional investors. They shall include, without limitation:

- 1) any proposed changes to approved benchmarks, asset allocation guidelines, permitted investment options, asset mixes, and fees;
- 2) the rationale for the proposed changes as well as the support documentation;
- 3) the impact on the current and proposed expected returns and risks for each Investment Portfolio under review, as well as the model inputs (i.e., capital market assumptions); and
- 4) background information for any new funds encompassed within the proposal.

Proposed changes shall be reviewed by the Investment Consultant prior to presentation to NMETB. Any such changes will be subject to review and approval by NMETB. Updates to all disclosure and customer documents to reflect approved changes will be reviewed and approved as appropriate by NMETB.

## **H. ADOPTION AND REVIEW OF POLICY STATEMENT**

NMETB will review this Policy Statement at least annually. Changes to this Policy Statement can be made at any time to the extent such changes would be in the best interest of the Account Owners and Beneficiaries. NMETB will communicate any proposed modifications in writing on a timely basis to the Program Manager and the Investment Consultant. The Policy Statement shall be posted on the NMETB website (nmetb.org). The Program Manager shall have a reasonable amount of time to implement such modifications.