

The Education Trust Board of New Mexico

THE HONORABLE MICHELLE LUJAN
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GOVERNOR OF NEW MEXICO

STEPHANIE RODRIGUEZ
CABINET SECRETARY
NEW MEXICO HIGHER EDUCATION DEPARTMENT



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EXECUTIVE DIRECTOR
NATALIE CORDOVA

Meeting Minutes of
August 7, 2024
33 Plaza La Prensa
Santa Fe, New Mexico 87507

Board Members

Gary L. Gordon, Chair
Robert J. Desiderio, Vice Chair (remote)
Lawton Davis, Member
Mont Green, Member
Chamiza Pacheco de Alas, Member (remote)

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Natalie Cordova, Executive Director
Carolyn Fittipaldi, Marketing Director
Natalie Zamora, Financial Coordinator

Meketa Investment Group

Kay Ceserani, Managing Principal
Aysun Kilic, Managing Principal/Consultant
Heather Bedont, Performance Analyst (remote)

Hogan Lovells

Helen Atkeson, Partner

Sommer, Udall

Kurt Sommer, Partner

Ascensus

Tom Lowe, VP Investment Management
Khalel Pritchard, Director, Relationship
Management

Morton Accounting Services

Janet Pacheco-Morton, CPA

Esparza Advertising

Del Esparza, CEO
Lindsey Lubenow, VP of Accounts & Media

Sunny505

Joanie Griffin, CEO
Jerry Matthews, Senior Account Executive

Principal

Randy Welch, Managing Director, Portfolio
Manager
James Fennessey, Portfolio Manager, Director of
Research
Scott Smith, Portfolio Manager
Jori Horn, 529 Marketing Director
Brandon Miller, Director of Operations

1) CALL TO ORDER

The meeting was called to order at 8:31 AM by Mr. Gordon. Mr. Gordon, Mr. Green, and Ms. Pacheco De Alas (virtually via Zoom) and Mr. Desiderio (virtually via Zoom) were present. Mr. Davis joined the meeting at 8:56AM.

2) APPROVAL OF AGENDA

The agenda was approved unanimously.

3) APPROVAL OF MINUTES 5/1/2024

The minutes were approved unanimously.

4) PUBLIC COMMENT

There was no public comment.

5) EXECUTIVE DIRECTOR'S REPORT – Natalie Cordova, Executive Director

Ms. Cordova noted that the FY24 audit is underway, as the Education Trust Board (ETB) has already had the entrance conference and samples have been requested. She noted that both Ascensus and Ms. Pacheco Morton assist with the audit and requests. We expect a submission of the draft to the Auditor's Office on or before the November 1st due date. State budget submission for FY26 is around the corner and it will be discussed later in the meeting. Congress is continuing to look at ways to expand the use of 529 plans and there has substantial proposed legislation. Ms. Cordova will keep the board updated on any developments. Additionally, there are some changes coming with Morningstar as they have issued changes to their rating methodology. Saving for College has issued a survey with questions for their rating process, so there may be updates there as well. She noted that the ETB participated in the 3rd annual back to school event with Del Norte LOV foundation in Espanola.

a) FY 2024 Q4 Financial Report -- Janet Pacheco-Morton, Morton Accounting Services

Ms. Pacheco-Morton presented the FY 2024 Q4 Financial Report for June 30, 2024. She discussed the operating fund and some additional details regarding that fund. She discussed the income statement for the operating fund and noted the operating revenues are made up of program revenue and contractual revenue. ETB exceeded projected revenue by over 500,000 due to positive investment earnings. The largest positive variance in the budget is legal services, where we were under budget. Mr. Green asked about budget vs actuals for the expense side. He asked if there is ever a situation where it may be use it or lose it. Ms. Pacheco-Morton noted that is not true for this entity, as it is an enterprise fund. We have restricted net position, so legally, they can't change our funding and net position. Ms. Cordova noted that there is no reversion of any funds as we do not receive appropriated funds. What we don't spend, we retain in our reserve fund.

Ms. Pacheco moved on to the fiduciary fund financial statements. She noted that on the income statement, there is a positive change in net position. The largest component is a favorable market. She noted net position has increased by \$56 million this year.

The motion to accept the unaudited quarterly financial statements was approved unanimously.

6) SCHOLAR'S EDGE MARKETING, SALES AND DISTRIBUTUION REPORT and FY 2025 MARKETING PLAN REVIEW - Jori Horn, Principal

Ms. Horn recapped the campaigns that ran during the second quarter, which included tax season,

March Madness, and the evergreen campaigns. They are seeing an increase in the engagement rate on the website. She noted there may be a decrease in third quarter, as business is lighter in the summer. They have begun rebranding their marketing materials, featuring the “Edge” orange cube. Additionally, they have worked to expand resources for both financial professionals and consumers. They have launched a back-to-basics quarterly newsletter and also released four new audience journeys.

She provided an update of the prior year budget. She also discussed some of the FY25 media/digital campaigns. The back-to-school campaign will take place from July through September. They also did a commercial that coincided with the Olympics. They also advertise by using paid media (ex: social media, podcasts, etc.). She noted that they are recreating the website and rebranding. Mr. Gordon noted that it’s important to target grandparents and being consistent on getting the word out regarding the plan. Ms. Horn noted they do have materials directed towards grandparents.

Mr. Miller, Director of Operations, handles distributions for the 529 plans. There is a 14% growth in accounts for the year. Quarter 2 is typically the slowest quarter. He also provided an update of the account and rollover breakdown. There was an update on their strategy. There were some events that they took part in such as PFN rocky mountain kickoff meeting and 529 Day at the Isotopes Game in Albuquerque with New Mexico financial professionals. They are exploring future omnibus opportunities. He noted they are also working to cultivate their geographic focus. There were no questions for Mr. Miller.

7) THE EDUCATION PLAN MARKETING REPORT and FY 2025 MARKETING PLAN REVIEW
– Carolyn Fittipaldi, Marketing Director, ETB –Jerry Matthews, Sunny 505 – Del Esparza and Lindsey Lubenow, Esparza Advertising

Ms. Fittipaldi provided some updates and noted that TEP has 242 new accounts for July. There are new accounts from Mosquero, Ohkay Owingeh and many other smaller rural towns. She noted there are 28 new accounts combined using payroll direct deposit and/or heard about TEP from an employer. Each month, about 70-73% of new accounts are from New Mexico. Ms. Fittipaldi mentioned that 22 students from around the state accepted the Saving for Success Award. Some outreach activities include Bernalillo Family Fun Fest, Los Alamos Chamber Fest, ABQ Mom Play Dates (3 in June), La Fonda managers presentation and employee open enrollment, Farmington B2B Expo, Los Alamos Science Fest, Bernalillo County Health & Safety Event and many more. Additionally, she noted that Heritage Hotels & Resorts has just come on board as a new employer and has invited TEP to several open enrollment events. Some other new employers include US Eagle Federal Credit Union and New Mexico Mutual. She noted she gave another presentation to Sandia Labs employees. There was great engagement with 51 attendees.

Ms. Griffin and Mr. Matthews began the Sunny 505 report, noting the challenge of inflation on household budgets. Mr. Gordon asked if we do (or could) follow-up with account owners with low balances, reminding about contributions. Ms. Cordova noted that there are reminders and advertisements for participants contributions. Mr. Matthews noted that direct traffic coming from New Mexico is the most engaged and moved on to discuss the media spend and marketing highlights. Some of the marketing objectives for FY25 are to continue to drive new account enrollments, grow contributions in existing accounts, and improve institutional advocacy for NM employers. He noted they shifted the campaign strategy regarding overall branding, a gifting message, a tax season message, and employer messaging. He reiterated how they are focusing on reaching grandparents in addition to parents and other individuals. Mr. Matthews noted the budget for the year is \$625,000. Based on the popularity of soccer for 529 account holders, TEP is

continuing a partnership with NM United in FY25. He also discussed the FY25 media breakout and what is included. They are shifting certain advertising during the political campaign advertising leading up to the election in November. Mr. Green had a question regarding media spend. He wanted to ensure that broadcasts are reaching Santa Fe and Ms. Griffin noted that they are. Mr. Davis asked if there are some advertising methods reaching the Southeastern parts of the state. Mr. Matthews noted yes and discussed the different advertising methods they have.

Ms. Griffin discussed the FY24 PR results.

Mr. Esparza began the presentation for Esparza, and noted they handle all digital marketing while Sunny 505 focuses on traditional media outlets. The goals and marketing objectives for FY24 were discussed and they are similar to prior year goals. He noted that there is great collaboration between vendors and the Education Trust Board to help grow and move in the right direction. Additionally, there is a 110% increase in accounts in the past five years. They noted that they decreased the cost per acquisition by 30%.

Ms. Lubenow discussed open and closed accounts for the year and displayed a chart showing where accounts are across the United States. They provided an update on quarter over quarter data regarding website insights and top pages as well as landing page insights and top pages. She then provided the top 5 articles in Q4 FY24 as well and top organic search queries.

The board took a recess at 9:56 AM. The board meeting resumed at 10:03 AM.

Ms. Lubenow noted they put a big effort into increasing the Search Engine Optimization (SEO). She presented an overview of the digital marketing channels. She noted there is a lot of engagement on email campaigns and the top email was the "How Are We Doing?" email. Ms. Lubenow provided an update on social media marketing and some of the FY24 digital display campaigns. She provided screenshots of some of the content and emails.

Ms. Lubenow provided a summary of the FY25 strategy and plans. The FY25 budget was presented and also discussed in the last meeting.

8) INVESTMENT CONSULTANT'S ECONOMIC AND MARKET UPDATE – informational –
Aysun Kilic and Kay Ceserani, Meketa

Ms. Aysun Kilic provided an economic and market update. She noted they saw positive strong markets in the quarter. The unemployment number is increasing. The yield curve has been inverted and recently was briefly normal, but then inverted again. The Magnificent Seven continue to lead the market. The fixed income market has been positive over the quarter with the exception of emerging markets. Usually, the yield curve turns positive as or before the recession starts. Mr. Green asked about Fed easing interest rates. She noted the expectation is that in September there will be a lowering of rates. The Fed has been very focused on unemployment and a few other items. She noted there is a divergence in European countries around the world. Mr. Davis asked how the political arena is affecting the market. She noted that "unknowns" can affect the markets. She noted that leading into an election, volatility can increase.

9) PROGRAM MANAGER'S QUARTERLY OPERATIONS AND INVESTMENT REPORTS –
Khalel Pritchard and Tom Lowe, Ascensus – Randy Welch, James Fennessy and Scott Smith,
Principal

Mr. Pritchard noted he will be covering Q2 results for both plans. He noted they are coming off a favorable market. He provided a plan snapshot of The Education Plan (TEP) and Scholar's Edge (SE). On April 9th, Ascensus's automated method of sending account owner contribution checks to Bank of New York was not working properly. As a result, two withdrawals came out of account owner accounts instead of one. There were 25 account owners impacted and as of June, all accounts impacted were resolved. Mr. Gordon asked if any account owners left the plan. Mr. Pritchard noted account owners were pleased with the communications, and none left the plan. He also provided some updates on some upcoming rollouts. He noted as of today, there are 18 outstanding checks on the escheatment list.

Mr. Lowe provided a Q2 performance summary. This included updates regarding plan growth, passive YOE Portfolios, Asset Allocation Portfolios, and Underlying Funds. The plan growth is up \$14.7 million in assets for the quarter. The passive YOE portfolios had a strong quarter. The Asset Allocation portfolios are in line with benchmark, and for the underlying funds, three were lowered by one star.

Principal began their presentation on SE and Mr. Welch discussed performance for the quarter. He discussed the YOE Average as well as the Static Average.

Mr. Smith provided some additional updates regarding the year of enrollment performance as well as the scoring sheet. He then moved on to discussing some of the numbers of Underlying Strategy Performance for YOE Portfolios. It was a difficult quarter for active managers. He then discussed the underlying strategy performance for stand-alone options only. The watch list summary was discussed, noting that the two flagged items include Principal Equity Income Inst. Fund and JPMorgan Emerging Markets Equity. An update on the Principal Scoring Summary was provided. The items with less favorable grades include Principal Blue Chip, JP Morgan Emerging Markets Equity I, and Principal Equity Income Inst. He noted not many changes to the static allocation positioning.

10) JP MORGAN EMERGING MARKETS AND PRINCIPAL EQUITY INCOME FUND REVIEW
— Randy Welch, James Fennessey and Scott Smith, Principal, Kay Ceserani, Meketa

Mr. Fennessey discussed the JP Morgan Emerging Markets. He noted not much has changed regarding the strategy with this fund and they have seen a decrease in performance in this quarter. They do feel comfortable with the team managing the fund. Mr. Davis expressed some concerns with these two funds.

Mr. Gordon noted the board is deciding whether they want to make a change in this fund to another. Principal noted DFA Emerging Markets (EM) Fund is a good choice for a comparable asset allocation. Ms. Ceserani provided insights on EM fund potentials. Meketa finds the DFA EM fund to be a more suitable fund than the JP Morgan EM Equity fund based on their review. Mr. Gordon noted that the volatility of the JP Morgan EM Equity Fund does appear to present an issue. Mr. Green noted that he was alluding to that as well. Mr. Green made a motion to move to DFA Emerging Market Funds from the JP Morgan Emerging Markets Equity Fund. The motion was approved unanimously. Ms. Atkeson outlined the likely timeline for notice to participants.

Mr. Fennessey then discussed the Principal Equity Income Fund. He noted they believe that equity income will have a tailwind. They expect it to perform well and are recommending staying with the Equity Income Strategy. No questions on these items. Ms. Ceserani noted they don't recommend changing this fund.

11) INVESTMENT CONSULTANT’S QUARTERLY REPORT, UNDERLYING FUND FEE REVIEW AND WATCH LIST RECOMMENDATIONS – Kay Ceserani and Aysun Kilic, Meketa Consulting

Ms. Ceserani discussed the investment monitoring report. She discussed the MorningStar ratings for the funds. She noted some funds that underperformed by 1% or more. Some of which include Nuveen Large Cap Responsible Equity, Principal Blue Chip, Principal Diversified Intl, and JP Morgan EM. For TEP, 85% of funds have a positive status and there are 3 funds that qualify for watch status. For Scholar’s Edge, 87% of funds have a positive status, while 2 funds qualify for watch status. There are two funds that had portfolio management changes, both were individuals retiring.

Ms. Kilic discussed the watch list summary. Mr. Green moved to accept the recommendations of watch list funds by Meketa. It was approved unanimously.

Ms. Ceserani then discussed the underlying fund fee review, noting they evaluate the competitiveness of the underlying fund fees. Meketa considered each fund’s net expense ratio, constructed peer groups using Morningstar Direct, and reviewed program funds to determine a few items. She noted that overall fees are mostly highly competitive, and few opportunities exist in the plans for potential savings.

12) FY 2026 BUDGET APPROPRIATION REQUEST – Natalie Cordova, Executive Director

Ms. Cordova noted the deadline to submit the budget appropriation request is September 1, 2024. She presented the request and outlined the use of reserves to cover proposed expenditures. The revenue side of the request and the last two previous budget years were displayed for comparison. She noted that the Assets Under Management (AUM) for SE is much higher than TEP. Her projection is proposing \$1.6 million in fee revenue for FY 2026 based on prior year’s actual figures and estimated AUM in FY 2026. We saw an unexpected increase in interest revenue earned on the administrative fund this year, which contributed to reserves. The contractual revenue, as projected, is firmly expected since it is contract based. She provided a high-level review of expenditures such as personnel services and employee benefits, contractual services, and other expenses. Three years of budget requests were displayed in an overall comparison. Mr. Davis asked about the maintenance expense and Ms. Cordova provided discussion of the copy machine reduction due to savings on a smaller machine that still meets needs. Mr. Desiderio moved to accept the FY26 budget request. The budget was approved unanimously.

13) CLOSED EXECUTIVE SESSION PURUANT TO NMSA 10-15-1(H)(2) AND (7) TO DISCUSS LEGAL AND PERSONNEL MATTERS

A motion was made to move into closed session at 11:47 AM. The motion was approved unanimously. Mr. Gordon called roll. All members agreed to be in closed session.

14) ADJOURNMENT

Each member was polled and agreed to return to open session at 12:01 PM. Mr. Gordon announced that the board took no action in closed executive session. The Board then unanimously adjourned the meeting.