

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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ROBERT J. DESIDERIO, VICE CHAIR
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EXECUTIVE DIRECTOR
NATALIE CORDOVA

Meeting Minutes of November 6, 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)

ETB Staff

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

Meketa Investment Group

Kay Ceserani, Managing Principal (remote)
Aysun Kilic, Managing Principal/Consultant
Henry Lopez, Investment 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 (remote)
Jerry Matthews, Senior Account Executive
(remote)

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 8:32 AM by Mr. Gordon. Mr. Gordon, Mr. Green, and Mr. Davis were present. Mr. Desiderio joined the meeting at 8:33 AM (virtually via Zoom) and Ms. Pacheco De

Alas attended (virtually via Zoom) at 8:36 AM.

2) APPROVAL OF AGENDA

The agenda was approved unanimously.

3) APPROVAL OF MINUTES 8/7/2024

There were no changes to the minutes. 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 ETB's the Legislative Finance Committee's (LFC) budget hearing took place on October 23, 2024, for the FY26 budget. The LFC has a new process. The hearing this year was different and ETB did not present, instead a LFC staff member read a report for each agency, including ETB.

Ms. Cordova shared the Morningstar ratings with the Board and noted there were not any changes from the prior year. Additionally, the annual audit was submitted to the Office of the State Auditor on October 30, 2024. She made the Board aware that we have had a series of IT inquiries and analysis, including preparation in defense of cyber-attacks or threats.

Ms. Cordova then went on to discuss the informational fee analysis comparison slides updated for 2024 data and projected information. In the 2024 analysis, future expected revenue is expected to narrow the variance between the two plans.

Ms. Ceserani added some additional commentary regarding the impact of the revenue and noted they will continue to look at this each year.

a) FY 2025 1st Quarter Financial Report - Janet Pacheco-Morton, Morton Accounting Services

Ms. Pacheco-Morton presented the FY 2025 Q1 Financial Report as of September 30, 2024. She discussed the administrative fund and noted that program fees, investment earnings are within budget. ETB has not used any reserves yet. She noted the largest contracts are for marketing services. In other costs, all categories are within budget. As far as revenue, we are slightly ahead compared to prior year. Expenses are in line with prior year.

She moved on to the fiduciary fund financial statements. She noted a positive change in net position for both plans due to positive returns in the first quarter.

b) Open Meeting Resolution for Calendar 2025

The Open Meeting Resolution for calendar year 2025 was presented to the Board. Mr. Gordon called for a motion to adopt the 2025 Open Meetings Resolution. The motion was approved unanimously.

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

Mr. Pritchard noted there was a strong market in the 3rd quarter and it led to an increase in assets in both plans. He noted an increase in accounts from quarter to quarter for TEP and there was a decrease in accounts from last quarter for Scholar's Edge. Mr. Pritchard gave an update on universal enrollment, noting there were a few minor issues during the launch that were identified and addressed/fixed.

Mr. Lowe noted the third quarter was good. Value outperformed growth for the first time in a few years. Longer term rates have been higher, and the employment rate has been decent. Within the asset allocation portfolios, passive is in line with benchmarks, active portfolio underperformed for quarter, and the underlying income funds did well for the quarter. Capital preservation slightly underperformed, but the new rate sleeve should help performance. Mr. Lowe discussed the ratings of the funds.

Mr. Welch discussed the market and noted that having a more broad-based market is better for asset management. On a relative basis, they had a strong quarter among peers and was a good quarter overall.

Mr. Smith noted that coming out of this quarter and into the next, it is quite competitive. Diversified emerging markets had a negative impact due to some factors taking place in China. Equity income has healed quite nicely over the quarter. He noted that MacKay High Yield, missed the benchmark, but they will keep an eye on it, and he discussed the Principal scoring sheet.

a) Principal Equity Income Fund Review, Randy Welch, James Fennessey and Scott Smith, Principal and Kay Ceserani, Meketa

Mr. Fennessey discussed the Principal Equity Income fund information, and noted the peer ranking has increased steadily over the past few months as the Fed has lowered rates. He recommended keeping the Principal Equity Income Strategy. Mr. Davis expressed some concerns about keeping the fund. Mr. Welch added some additional commentary and noted it is rooted in dividend focused strategy. Mr. Davis explained that he asked the question from a risk management viewpoint. Mr. Gordon noted it is a small allocation.

Ms. Ceserani noted they are constantly reviewing this fund and are in the middle of doing their annual review process. They will be reviewing this fund and its role within the program. Ms. Kilic noted that this fund has been on watch for a while, and they have been looking at other options. They have been looking at the performance and ranking of this fund and it has been improving. She noted that it did struggle in 2021 and 2022. Ms. Ceserani added that none of the options only outperform over time, and they all go through cycles. No matter what fund you pick, they will underperform at some point. Mr. Gordon noted that this fund is the best upside capture. Mr. Green noted that they have the same conversation about these funds and asked if slow and steady is better? Mr. Gordon noted that our resolution should help with this, since they are being reviewed. Mr. Gordon called for a motion to continue to watch the fund and review next quarter. The motion was approved unanimously.

7) INVESTMENT CONSULTANT'S QUARTERLY OPERATIONS AND INVESTMENT REPORTS – Kay Ceserani and Aysun Kilic, Meketa Consulting

Ms. Kilic noted resilience in the macro-economic data. Unemployment has been softening and inflation has been stubborn at times. It has been a very strong market and in the fixed income world, credits have been doing well. Fund performance summary for the quarter was positive. For The Education Plan, 90% of funds have a positive status. One fund no longer qualifies for watch and two funds qualify for watch status. For Scholar's Edge, 80% of funds have a positive status and 2 funds qualify for watch status. Vanguard Ultra Short-Term Bond no longer qualifies for watch status, and they recommend that this fund be removed from watch. The new introduction to watch is the Principal Real Estate. Meketa recommends the funds listed be kept on watch. Mr. Gordon called for a motion to accept Meketa's recommendation. The motion to accept was unanimously approved.

a) Investment Policy Statement and Monitoring Procedures and Criteria

Ms. Kilic provided a summary of the changes in the red line version of the investment policy statement and the monitoring procedures and criteria. Mr. Gordon called for a motion to accept all changes, and it was approved unanimously.

Ms. Kilic introduced Henry Lopez, who will be assisting as an Investment Analysis with Meketa.

Mr. Gordon called the Board to recess at 9:58AM. Mr. Gordon resumed the meeting 10:05 AM.

8) SCHOLAR'S EDGE FY25 1ST QUARTER MARKETING, SALES AND DISTRIBUTION REPORT – Jori Horn and Brandon Miller, Principal

Ms. Horn noted they were working on targeting the back-to-school time period during the prior quarter. Additionally, they were running a campaign that tied to the Olympics. She discussed some website metrics year over year. There was an increase in sessions, pageviews, users, engagement rate, and new users from prior year. There was a decline in events per session. There was a week where the Google paid search was down. They released their achievement starts early brochure. Ms. Horn noted they are completely rebuilding the Scholar's Edge (SE) website. There are several large changes taking place such as updating the platform, layout, color palette, and branded images. Internally, they have a new website they are building from scratch. That is why there are not a lot of digital updates. It is being done in house, so it will not cost anything. She noted that Scholar's Edge was a sponsor at the ISS 529 Conference which included participation on a panel on Consumer Behavior and Marketing Strategies, a table to display materials, and an event hosted by SE. She provided the budget review from July-September 2024.

Ms. Horn said that they just released their holiday campaign starting on October 31, 2024, as well as their 5th Anniversary Campaign. They are in the process of completing their new parent checklist.

Mr. Miller reviewed sales and distribution and noted there was an increase in account growth and the Omnibus accounts increased. Mr. Green asked about people pulling out money potentially to pay bills and other items. He also asked if there's an increase in account withdrawals in time periods like this. Mr. Miller noted it does occur, but everyone just needs to be educated on seeing the long-term benefits. Mr. Miller went on to discuss firm level engagement as well as future opportunities.

9) THE EDUCATION PLAN FY25 1ST QUARTER MARKETING REPORT – Carolyn Fittipaldi, ETB – Joanie Griffin and Jerry Matthews, Sunny 505 – Del Esparza and Lindsey Lubenow, Esparza Advertising

Ms. Fittipaldi noted that TEP has had an 8% increase YOY in new accounts in October and there are more new accounts in small rural communities in New Mexico. For FY25 Q1, we had 740 new accounts and about 75% were from New Mexico. Both plans saw a large increase in gifting contributions from September of last year to September this year as well as a large increase YTD 2024 over 2023. There were several recent outreach events such as the State Fair, East Mountain Celebration, Water Authority Wellness and Safety Fair, Nuclear Museum Spooky Science, APS Wellness Fair, NM Science Teachers Conference, CNM Health Fair, Conference on Aging, Santa Fe Children's Museum Weird Science, City of ABQ Health Fair, and many others.

Ms. Griffin provided a few updates regarding public relations. Mr. Matthews provided a few examples of new commercials. Mr. Gordon reiterated the importance to educate everyone on the importance of saving for college expenses other than tuition. Mr. Matthews noted that they also have a new billboard, and they had to shift some media based on the election. He discussed the spend in different types of media and advertising. An important update was that they switched their advertising to include Peacock streaming. Ms. Griffin noted that the view completion rate is at 98.5 percent. Mr. Matthews discussed the Google Analytics as well as the FY25 media breakout.

Mr. Esparza discussed goals and marketing objectives for FY25. He noted every year, we are continuing to grow in new accounts. Ms. Lubenow discussed trends across the United States for The Education Plan and website insights and top pages. Sessions, pageviews, and new users are all up. Landing page insights and top pages saw a lot of growth in sessions, pageviews, and new users. They went on to discuss the top 5 articles in Q1 FY25 and top organic search queries. There is a significant increase in website traffic coming from organic (non-paid) search and referral traffic. She noted there will be an increase in traffic due to search platform expansion. Ms. Lubenow went on to discuss the impact of search trends and the volume of AI related searches. There has been an increase. Ms. Cordova asked if users are knowingly using the AI and Ms. Lubenow noted that yes, that is correct, and the AI pulls all of this data together. Google is still dominating in average user searches. They also discussed their digital marketing channels overview, email marketing, and social media marketing. Overall, she noted that they are off to a great start in FY25. Mr. Green asked why new account goals are only at 4% when there has been such a large increase and whether there would be a drop-off expected. Mr. Esparza noted that budget amounts are also taken into consideration. Ms. Fittipaldi also noted they look into industry account growth trends. Mr. Davis asked about information including maximum contributions and gift tax averaging and whether legally we should include such info. Mr. Sommer noted the information is not considered giving legal advice, just stating factual limits. Ms. Fittipaldi noted we also recommend speaking with a financial advisors or tax advisors as we do not provide any such advice.

Mr. Gordon took a moment to discuss the board appointment process. He noted New Mexico Speaker of the House Martinez has chosen a new board member for his statutory position. Vice Chair Desiderio served this appointment for multiple terms. Mr. Gordon shared Mr. Desiderio's background and history, including his service as the Vice Chair of ETB. Mr. Sommer shared some additional words regarding how great of a teacher he was and how he is regarded highly throughout the state and noted he has been a great asset to the Board. Mr. Desiderio thanked them both for the kind words. He reiterated that he was appointed to the Board 24 years ago and noted how much ETB has grown. He noted he is so happy to see how well ETB is doing at this point. He noted the Board was created to help the children of NM go to college, particularly those who would otherwise have no chance. He wishes for that effort to continue to be a focus of ETB.

**10) CLOSED SESSION PURSUANT TO SECTION 10-15-1(H)(6) OF THE OPEN MEETINGS ACT
TO DISCUSS CONTRACT MATTERS**

A motion was made to move into closed session at 11:25 AM. The motion was approved unanimously. Mr. Gordon called roll. All members agreed to be in closed session.

11) ADJOURNMENT

Each member was polled and agreed to return to open session at 11:40 AM. The Board then unanimously adjourned the meeting.