

**New Mexico Education Trust Board**

**Monitoring Procedures and Criteria**

**for the**

**Education Plan Trust of New Mexico**

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## A. Purpose of these Procedures

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's Edge ("SE").

The NMETB has adopted an Investment Policy Statement ("Policy Statement") that sets forth the formal investment policy for the NMETB. **The terms and provisions of the Policy Statement are incorporated herein by this reference.** 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 (N.M. Stat. Ann §45-7-601 et. seq.).

NMETB has established these Monitoring Procedures and Criteria for the Program ("Monitoring Procedures") to implement the provisions of the Policy Statement. The NMETB has delegated certain responsibilities to the NMETB Executive Director, the Contractor and any approved subcontractors ("Program Manager") and the Investment Consultant as set forth in these 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.

Ascensus College Savings Recordkeeping Services, 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. In the case of SE, ASCR has subcontracted certain responsibilities in connection with the Monitoring Procedures to Principal Global Investors, LLC ("PGI") to the extent set forth in a subcontract among ACSRS, PGI and Principal Funds Distributor, Inc., approved by NMETB.

Capitalized terms that are not otherwise defined in these Monitoring Procedures shall have the meaning set forth in the Policy Statement.

## B. Monitoring Procedures

These Monitoring Procedures outline the aspects of the Program subject to monitoring and how and when such monitoring shall take place; the mixture of permitted investments as described in the Policy Statement that are acceptable from both a rate of return and risk standpoint; a definition of what constitutes acceptable performance; and how underperformance may be addressed.

The Program will be monitored both at the Investment Portfolio and at the Underlying Investment level. Benchmarks for the Investment Portfolios will be derived from the Underlying Investments each option is comprised of, where an asset-weight composite benchmark is used for comparison purposes if the Investment Portfolio holds more than one fund.

The following Monitoring Procedures primarily focus on providing performance standards (criteria) to monitor the Underlying Investments which are the building blocks of the Investment Portfolios, providing the Board with a mechanism for corrective action.

There are two major groups of monitoring activities: Quarterly Monitoring and Other Monitoring.

## **1. Quarterly Monitoring Activities**

Quarterly monitoring activities primarily focus on quantitative factors, including measurement and assessment of investment risk, performance, and related investment activities but also considers qualitative aspects of the managers' practices. Monitoring evaluation criteria for the Underlying Investments can be found in Section C.1. and their assigned benchmarks in Section F.

### **a. Quarterly Investment Performance Review by the Program Manager**

As part of the ongoing reporting process, the Program Manager shall report the quarterly and annualized results of the Investment Portfolios to the NMETB and the Investment Consultant.

The Program Manager shall provide to the NMETB quarterly performance reports for the Investment Portfolios and Underlying Investments used in the Program against their respective benchmarks and indicate if these funds do not satisfy Section E.1. of the Policy Statement.

Quarterly the Program Manager shall provide for each Underlying Investment, based on publicly available information: i) an explanation of investment activities that caused under- or out-performance for the quarter, ii) significant changes in the Underlying Investment related to personnel, organization, investment approach, and investment strategy, and iii) any other reporting as required by law.

### **b. Quarterly Investment Performance Evaluation by the Investment Consultant**

#### **Underlying Investments**

Using data that is publicly available, the Investment Consultant will provide a quarterly report for the NMETB comparing each Underlying Investment with its respective benchmark found in Section F as well as highlight any qualitative concerns.

Performance for each actively managed Underlying Investment shall be rated as Pass or Fail using the criteria listed in the Investment Rating Schedule in Section C.1. Funds with an overall rating of Fail qualify for Watch status.

**Capital Preservation Portfolios (funding agreements backed by insurer's general account)**

The Investment Consultant will include a summary of the health of the Capital Preservation Provider's (the insurer) General Account (General Account). Monitoring of the Capital Preservation Portfolios is based on the financial strength of the insurer's General Account, and not investment performance results relative to a stated benchmark. The NMETB will work with the Investment Consultant to gather information from the providers detailing the characteristics of the insurers' financial strength in order to assess the providers' claims-paying abilities. Analysis of the information provided by the providers is subject to availability and may be lagged by one quarter. This review is based on the following:

- General Account Financial Strength Rating by all four rating agencies (Moody's Investors Service, Standard & Poor's, A.M. Best, and Fitch) must be above the lowest A rating.
- Status of the Mortgage Portfolio: In Good Standing, In Good Standing with Restructured Terms, 90 days Overdue, or Foreclosure in Process.
- Bond Portfolio Grade: Investment Grade, Medium Grade, and High Yield.
- Account Diversification: Diversified across asset classes.

The Investment Consultant will monitor changes to any of the categories listed. Should these changes be deemed significant, the Investment Consultant will provide the NMETB with a memo detailing its findings and apply an investment rating of Pass or Fail.

**2. Other Monitoring Activities**

As part of its ongoing fiduciary responsibilities, the Investment Consultant will regularly (annually or more often if needed) review and report to NMETB with regard to qualitative aspects of the Program Manager's investment practices, the Investment Portfolios, including the Default Option, and the Underlying Investments. This qualitative review may include, but are not limited to, review of:

- a. Investment guidelines to ensure they remain consistent with the NMETB's mandate
- b. Investment strategy and style
- c. Portfolio activity and structure (e.g., turnover rate, and number of holdings, and sector weights)
- d. Risk profile relative to the applicable benchmark
- e. Organizational structure
- f. Legal and/or regulatory issues
- g. Stability of fund personnel and organization
- h. Contractual obligations to NMETB

## C. Investment Rating

### 1. Investment Rating Schedule

The quarterly investment reports provided by the Investment Consultant will rate each Underlying Investment as Pass or Fail as detailed in the following table. Underlying Investments falling below these performance standards and/or qualitative criteria will qualify for Watch status.

#### ***Underlying Investment Rating Schedule***

	Performance Evaluation Criteria
Types of Strategies	Active strategies
Factors	Annualized performance versus benchmark and peer relative results
Frequency of Review	Quarterly
Time Periods Reviewed	Rolling 1-Year Rolling 3-Year
Benchmark Relative Returns	Pass = above benchmark or below benchmark for < 9 consecutive months
	Fail = below benchmark for 9 or more consecutive months
Peer Rankings	Pass = Above median or below median for < 12 consecutive months
	Fail = Below Median for 12 or more consecutive months
Peer Universe Data Source	Morningstar
Overall Rating	Pass = Passing result for at least 3 of 4 criteria
	Fail = Failing result for 2 or more of the 4 criteria results in <b>Watch</b> status
	Qualitative Evaluation Criteria
Types of Strategies	Passive and active strategies
Factors	Non-performance issues
Frequency of Review	On-going
People (Investment Team)	Departure of one or more key decision makers in process without appropriate succession planning
Process	Material change in investment guidelines, buy/sell disciplines, quantitative models and/or portfolio construction process
Philosophy	Significant deviation from stated investment style or philosophy
Organization Structure	Change in ownership that may affect firm/team culture and/or be a distraction to the investment process
Litigation	Material litigation underway that may impact the manager and/or fund
Overall Rating	Failing any one of these events could trigger a recommendation to place a fund on <b>Watch</b> status

### ***Overview of Rating Assignment***

An Underlying Investment's quarterly rating shall be evaluated based on short-term (rolling 12-month) and medium-term (rolling 36-month) performance results versus its benchmark and peer group<sup>1</sup>. An actively managed Underlying Investment will be assigned an overall Fail rating if it fails two (2) or more of the four (4) performance evaluation criteria and/or if there is a material qualitative issue. A passive Underlying Investment will be assigned a Fail rating if there is a material qualitative issue or if performance is not reasonably in line with its stated benchmark. Underlying Investments with an overall investment rating of Fail will qualify for Watch status.

Quarterly status is primarily driven by formulaic criteria centered on the measurement and assessment of investment performance versus a benchmark and peer group. Underlying Investments, however, may qualify for Fail status due to qualitative aspects of an Underlying Investment's management and practices. For example, style drift, organizational issues, and/or portfolio management turnover.

## **2. Watch Status Underlying Investment Monitoring**

The Investment Consultant shall provide a report to the NMETB detailing those Underlying Investments that have i) exhibited a clear path of declining performance results, as defined in the Investment Rating Schedule and qualifying for Watch status or ii) have experienced qualitative changes warranting Watch status as discussed in Sections B.2 and C.1. Based upon the recommendation and advice of the Investment Consultant, the NMETB shall make a determination whether or not to place the Underlying Investments on Watch status.

Once on Watch status, the Underlying Investment shall be monitored quarterly by the Investment Consultant. In addition, the Program Manager shall provide a quarterly report, based on publicly available information, explaining causes of underperformance or improvement. This heightened level of monitoring continues during the Watch status period until either the Underlying Investment is released from Watch status or corrective measures are taken as detailed in Section D.

Underlying Investments on Watch status should exhibit improvement within 12 to 18 months. The Investment Consultant may recommend action sooner or later than 12 to 18 months. In either case, the Investment Consultant shall report to the NMETB on the recommended action and the reasons supporting such action.

The Program Manager shall, upon request or when a fund has been included on the Watch list for 12 consecutive months, provide a written review of the fund to the Board and Investment Consultant, and the Program Manager shall provide a list of alternative fund(s) for the Board's consideration and potential action.

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<sup>1</sup> Peer groups are assigned based on Morningstar classification.

### **3. Improvement Occurs – Release from Watch Status**

The Investment Consultant's quarterly reports to the NMETB shall highlight the original reasons for placing an Underlying Investment on Watch status and discuss how these matters have been addressed. If the fund no longer qualifies for Watch status and/or if sufficient improvement occurs in an appropriate amount of time (generally 12 to 18 months), the Investment Consultant may make a recommendation to the NMETB to release the Underlying Investment from Watch status. After consultation with the Investment Consultant and based upon the Investment Consultant reports, the NMETB will make a determination whether or not to release the Underlying Investment from Watch status.

#### **Capital Preservation Portfolios (funding agreements backed by insurer's general account)**

Applying an investment rating to the Capital Preservation Funding Agreement Providers is based on different criteria than those applied to underlying funds. Given that the monitoring of the Capital Preservation Providers is based on non-performance related issues, different criteria must apply to measure improvement during Watch. If the financial strength of the insurance company and/or quality of the insurer's general account results in a Fail rating, the Investment Consultant will provide regular updates to the NMETB until such time that improvement is noted (typically a 12-to-18-month period) in the characteristics that caused the Capital Preservation Providers to be placed on Watch status.

### **D. Corrective Measures**

If the Underlying Investment is not released from Watch status within an appropriate period, corrective action may be necessary. In this event, the Investment Consultant shall conduct an analysis and provide the NMETB with options and a recommendation for action. Options include:

1. Giving the Underlying Investment additional time in Watch status,
2. Closing it to new investments (individual option only),
3. Reducing the allocation to the Underlying Investment within the multi-investment (year of enrollment and allocation) portfolios or
4. Replacing the Underlying Investment as outlined below.

If the NMETB determines that replacement of an Underlying Investment is necessary, the Program Manager shall provide the NMETB with one or more recommended replacement investments that meet the investment objectives outlined in Section C of the Policy Statement.

- If a replacement investment is unaffiliated with the Program Manager, the Program Manager shall notify the NMETB of any change in its administrative fee with regard to the replacement investment.
- The Program Manager shall notify the manager of a recommended replacement investment that the NMETB requests the manager to provide written 10b-5 certifications (also known



as a disclosure or negative assurance letter) to the NMETB relating to any information about such investment included in or omitted from all plan disclosure documents. The Program Manager shall disclose the response of each recommended manager to the NMETB for its consideration in deciding whether to accept the recommended investment as a replacement investment.

The Investment Consultant shall provide its opinion of the Program Manager's recommended alternatives. If some are deemed unsuitable, the investment consultant shall put forth its own list of alternative candidates to the NMETB with the understanding that the ultimate inclusion of any third-party candidate funds would depend on their ability to be offered by the Program Manager.

If the NMETB determines that an Underlying Investment must be replaced, the Program Manager shall provide notice to all Account Owners and, in the case of SE, to financial advisors as well. NMETB and the Program Manager shall agree on the timing and content of the notice. The Program Manager shall ensure that the notice complies in all respects with applicable law.

The Underlying Investment must have a Pass rating using the criteria listed in Section C.1. Underly Investment Rating Schedule to be reconsidered at for inclusion at a later date.

**Capital Preservation Portfolios (funding agreements backed by insurer's general account)**

If no improvement is seen in the characteristics of the Capital Preservation Provider related to those characteristics that caused Watch status, the Investment Consultant may recommend that the NMETB replace the Capital Preservation Provider with other options. While it is recognized that replacing the Capital Preservation Provider may be difficult, the Investment Consultant and NMETB will work to provide a solution that is feasible given the nature of the underlying funding agreement.

## E. Investment Performance Criteria Schedules

**Table 1: Capital Preservation Funding Agreements**  
(Based on non-investment performance criteria)

Providers	Financial Strength	Mortgage Portfolio	Bond Portfolio	Account Diversification
New York Life Insurance Company Principal Life Insurance Company	A.M. Best = >A- Fitch = >A Moody's = >A3 Standard & Poor's = >A-  Any downgrade in overall Financial Strength quality would result in Caution or Watch status	100% in good standing	At least 90% investment grade	Portfolio is diversified across asset classes and types

## F. Underlying Fund Asset Classes and Benchmarks

### *The Education Plan Underlying Funds*

Monitors			
Fund	Asset Class	Sub-Asset Class	Benchmark <sup>2</sup>
<b>Passive Funds</b>			
Vanguard Total Stock Market Index Instl Plus Fund	Equity	Domestic Equity	CRSP US Total Market TR USD
Vanguard Developed Markets Index Fund	Equity	International Equity	FTSE Dev ex US All Cap ex-US NR USD
SPDR Portfolio Emerging Markets ETF	Equity	International Equity	S&P Emerging BMI TR USD
Schwab US REIT ETF	Alternative	REITs	DJ Equity All REIT Capped Index TR USD
Vanguard Total Bond Market II Index	Fixed Income	Intermediate	BB US Agg Float Adjusted TR USD
Vanguard Total Bond Market Index ETF	Fixed Income	Intermediate	BB US Agg Float Adjusted TR USD
iShares Core International Agg Bond ETF	Fixed Income	International Fixed	BB Gbl Agg xUSD 10% IC TR Hdg USD
Vanguard Short-Term Treasury Index Instl Fund	Fixed Income	Short-term	BB 1-3 Yr US Treasury TR USD
Vanguard Short Term Infl-Prot Sec Idx Fund	Fixed Income	Inflation Protection	BB US TIPS 0-5 Year TR USD
<b>Active Funds</b>			
Vanguard Growth and Income Fund Adm	Equity	Domestic Equity	S&P 500 TR USD
Nuveen Real Estate Securities Select Instl Fund	Alternative	Real Estate	FTSE NAREIT All Equity REITs TR USD
DFA International Core Equity I Fund	Equity	International Equity	MSCI World ex USA NR USD
DFA Emerging Markets Core Equity I Fund	Equity	Emerging Markets Equity	MSCI EM NR USD
Nuveen Core Plus Bond Instl Fund	Fixed Income	Intermediate	BB US Aggregate Bond TR USD
Vanguard High Yield Corporate Adm Fund	Fixed Income	High Yield	95% BB US HY Ba/B 2% IC and 5% BB US 1-5 Year Treasury Bond
Vanguard Ultra Short-Term Bond Fund	Fixed Income	Ultra Short-term	BB US Treasury Bellwether 1 Year
DFA Inflation-Protected Secs I Fund	Fixed Income	Inflation Protection	BB US Treasury US TIPS TR USD
PGIM Global Total Return R6 Fund	Fixed Income	International Fixed	BB Global Aggregate TR USD
Nuveen Large Cap Responsible Equity Instl Fund	Equity	Domestic Equity - Social	S&P 500 as of 3/31/24, previously Russell 3000 TR USD
<b>Funding Agreement</b>			
NY Life GIA 10	Capital Preservation	Capital Preservation	Non-investment

In addition to the listed underlying funds, the NM ETB discloses which underlying funds are utilized within the Program on The Education Plan's website at [theeducationplan.com](https://theeducationplan.com). Circumstances may cause the underlying funds utilized in The Education Plan to change from time to time, after the date Monitoring Procedures have been adopted.

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<sup>2</sup> Primary prospectus benchmark

### **Scholar's Edge Underlying Funds**

<b>Monitors</b>			
<b>Fund</b>	<b>Asset Class</b>	<b>Sub-Asset Class</b>	<b>Benchmark<sup>3</sup></b>
<b>Passive Funds</b>			
iShares S&P 500 Stock Index ETF	Equity	Domestic Equity	S&P 500 TR USD
Vanguard Mid Cap Index Instl Plus Fund	Equity	Domestic Equity - Mid	CRSP US Mid Cap TR USD
iShares Small Cap Index ETF	Equity	Domestic Equity - Small	S&P SmallCap 600 TR USD
Vanguard Total World Stock ETF	Equity	World Equity	FTSE Global All Cap (US RIC) NR USD
iShares Core US Aggregate Bond ETF	Fixed Income	Intermediate	BB US Agg Bond TR USD
Vanguard Total Intl Bond ETF	Fixed Income	World Fixed	BB Gbl Agg x USD FI Aj RIC TR HUDS
<b>Active Funds</b>			
Principal Blue Chip R6 Fund	Equity	Domestic Equity	Russell 1000 Growth TR USD
Principal Equity Income Instl Fund	Equity	Domestic Equity	Russell 1000 Value TR USD
Principal Diversified Intl R6 Fund	Equity	International Equity	MSCI ACWI Ex USA NR USD
DFA Emg Mkts Eq Instl Fund	Equity	Emerging Markets Equity	MSCI EM NR USD
Principal Core Fixed Income R6 Fund	Fixed	Intermediate	BB US Agg Bond TR USD
Principal Short-Term Income Instl Fund	Fixed	Short-term	BB US Credit 1-3 Yr TR USD
NYLI MacKay High Yield Corp Bd R6 Fund	Fixed	High Yield	ICE BofAML US HY Constnd TR USD
Principal Real Estate Securities R6 Fund	Alternative	Real Estate	FTSE NAREIT All Equity REIT <sup>4</sup>
<b>Funding Agreement</b>			
Scholar's Edge Guaranteed Contract	Capital Preservation	Capital Preservation	Non-investment

In addition to the listed underlying funds, the NM ETB discloses which underlying funds are utilized within the Program on The Scholar's Edge website at [Scholar's Edge 529 Plan \(scholarsedge529.com\)](https://www.scholarsedge529.com). Circumstances may cause the underlying funds utilized in the Scholar's Edge Plan to change from time to time, after the date Monitoring Procedures have been adopted.

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<sup>3</sup> Primary prospectus benchmark

<sup>4</sup> FTSE NAREIT All Equity REIT Index as of March 1, 2024, previously MSCI US REIT Index.