



Annual Evaluation of the  
**CONNECTICUT HIGHER EDUCATION TRUST**

For the Period Ending December 31, 2021

Submitted to:

The Committees on Education and Finance, Revenue  
& Bonding of the Connecticut General Assembly

June 15, 2022

## **Statutory Requirements**

This *Annual Evaluation of the Connecticut Higher Education Trust* ("CHET" or "Trust") is jointly submitted by the Connecticut State Treasurer's Office and the Executive Director of the Office of Higher Education to the Committees on Education and Finance, Revenue and Bonding of the Connecticut General Assembly, pursuant to Section 3-22e(b) of the Connecticut General Statutes.

Pursuant to Section 3-22k of the general statutes, the annual audited financial statements for CHET are included in the Annual Report of the Treasurer, which is transmitted to the Governor and members of the General Assembly on December 31<sup>st</sup> of each year. The audited financial statements also are sent to the CHET Advisory Committee pursuant to Section 3-22e of the general statutes. The CHET Advisory Committee meeting was held on December 10, 2021.

The members of the CHET Advisory Committee, as of December 31, 2021, were:

Shawn T. Wooden, State Treasurer  
Timothy D. Larson, Executive Director, Office of Higher Education  
State Sen. Douglas McCrory, Senate Co-Chair, Education Committee  
State Rep. Robert Sanchez, House Co-Chair, Education Committee  
State Sen. Eric C. Berthel, Ranking Member, Education Committee  
State Rep. Kathleen M McCarty, Ranking Member, Education Committee  
State Sen. John Fonfara, Senate Co-Chair, Finance, Revenue and Bonding Committee  
State Rep. Sean Scanlon, House Co-Chair, Finance, Revenue and Bonding Committee  
State Sen. Henri Martin, Ranking Member, Finance, Revenue and Bonding Committee  
State Rep. Holly H. Cheeseman, Ranking Member, Finance, Revenue and Bonding Committee  
Patrick Torre, Vice President of Finance, University of New Haven  
Kerry Kelly, Interim CFO, Connecticut State Community College  
Steven McDowell Jr., Assoc. Vice President for Financial Aid & Title IX Services, Connecticut State Community College  
Julie Savino, Executive Director, University Financial Assistance, Sacred Heart University  
Holly Williams, Fiscal & Program Policy Director, Office of Policy and Management

## **Background and Program Management**

CHET is a qualified state tuition program established pursuant to Section 529 of the Internal Revenue Code. Connecticut's authorizing statute was unanimously approved by the Connecticut General Assembly and signed into law by the Governor in 1997 (Public Act No. 97-224, the "Act"). The program began operating on January 1, 1998. While the Trust is considered an instrumentality of the State, the assets of the Trust do not constitute property of the State, and the Trust is not construed to be a department, institution, or agency of the State.

The Act designates the State Treasurer as the Trustee of CHET. The assets of CHET are privately managed by professional money managers under the supervision of the State Treasurer.

In January 31, 2020, the State Treasurer issued a Request for Proposal from qualified firms interested in serving as program managers for the CHET 529 program, consisting of the direct-sold plan ("CHET Direct"), offered to the public and the advisor-sold plan ("CHET Advisor"), offered through financial investment professionals. The plan manager would work with the Office of the Treasurer to develop and offer plans that are recognized as the

best in the country based upon the quality of underlying funds, breadth of investment options, quality customer service, and platform that supports account owners at home and in the workplace.

On December 2, 2020, Connecticut State Treasurer's Office announced that Fidelity Investments ("Fidelity") was selected as the new program and investment manager for the CHET Direct and CHET Advisor programs.

The CHET Direct plan was successfully converted to Fidelity Investments on February 8, 2021. The CHET Advisor plan was successfully converted to Fidelity Investments on March 22, 2021.

### **CHET Direct**

As of December 31, 2021, CHET Direct had 148,438 unique accounts with \$4.43 billion in assets. This compares to 138,871 accounts and \$3.96 billion in assets on December 31, 2020, representing increases of 8% and 12% for accounts and assets, respectively. At the end of this year, CHET Direct added a total of 18,475 new accounts, representing a 43% increase from a year ago. Net contributions as of December 31 were \$103 million, resulting from \$474 million in contributions subtracted from \$371 million in redemptions. The average account size at the end of December 2021 was \$29,690 versus \$28,541 during the same time last year.

### **Investment Options**

The CHET Direct Sold Program managed under Fidelity offers 3 different types of 529 portfolios and provides performance information for each proposed investment option on a quarterly basis.

1. Age-Based: Age-Based Strategies are managed according to the approximate year the beneficiary is projected to enter college, becoming more conservative over time. Fidelity uses a "smooth" glide path approach. Fidelity offers the age-based portfolios in active, blend, and index management styles.
  - a. Active: The Fidelity Fund portfolios invest primarily in actively managed underlying funds. They are designed to generate returns that outperform a composite of major market indices over the long term. Additionally, the portfolios utilize active asset allocation, active security selection, and invest in a broad set of global asset classes.
  - b. Blend: The Fidelity Blend portfolios invest in a mix of actively managed and index funds. They are designed to generate returns that outperform a composite of major market indices over the long term. Additionally, the portfolios utilize active asset allocation, active security selection, and invest in a broad set of global asset classes.
  - c. Index: The Fidelity Index portfolios invest in index funds. They are designed to generate returns that closely mirror the performance of a composite of major market indices over the long term.
2. Static: Static portfolios are managed with the strategic asset allocation remaining the same over time. Fidelity offers static portfolios in active and index management styles.
  - a. Active: The Fidelity Fund portfolios invest primarily in actively managed underlying funds. They are designed to generate returns that outperform a composite of major market indices over the long term. Additionally, the portfolios

utilize active asset allocation, active security selection, and invest in a broad set of global asset classes.

- b. Index: The Fidelity Index portfolios invest in index funds. They are designed to generate returns that closely mirror the performance of a composite of major market indices over the long term.
3. Individual Fund Portfolios: Options include equity, fixed income, and money market portfolios. Each portfolio has the same investment objective as its underlying mutual fund. Fidelity will offer four index portfolios, a money market portfolio, and a bank deposit portfolio at the time of conversion in early 2021.

The two options offered by Fidelity that are similar to the Principal Plus Interest option offered by TFI are the Bank Deposit Portfolio and the Money Market Fund options. The Bank Deposit Portfolio is composed exclusively of a deposit in an FDIC-insured, interest-bearing account. It seeks the preservation of principal and is designed for beneficiaries of any age. The Money Market Fund (Fidelity Government Cash Reserves Fund) seeks as high a level of current income as is consistent with the preservation of capital and liquidity as the money market investment option.

Fidelity and State Treasurer's Office continue to work collaboratively on developing a Stable Value option and ESG option for plan participants. The Stable Value option will replace the TFI Principal Plus Interest option.

Strategy	Management Style	Portfolio	Product Description
Age-Based Portfolios	Active	College	Age-Based Portfolios are investment options designed to accommodate Beneficiaries based on age. These portfolios invest primarily in dedicated, actively managed Fidelity mutual funds.
		2021	
		2024	
		2027	
		2030	
		2033	
		2036	
	2039		
	Blend	College	Age-Based Portfolios are investment options designed to accommodate Beneficiaries based on age. These portfolios invest in dedicated index and actively managed Fidelity mutual funds.
		2021	
		2024	
		2027	
		2030	
		2033	
		2036	
	2039		
	Index	College	Age-Based Portfolios are investment options designed to accommodate Beneficiaries based on age. These portfolios invest in dedicated index Fidelity mutual funds.
		2021	
		2024	
		2027	
		2030	
2033			
2036			
2039			

Static Portfolios	Active	Aggressive Growth	Static Portfolios are investment options designed to accommodate beneficiaries according to a static asset allocation.
		Moderate Growth	
		Conservative	
	Index	Aggressive Growth	
		Moderate Growth	
		Conservative	
Individual Portfolios	Index	500 Index	Individual Fund Portfolios are investment options designed to provide the option to build a personalized approach to college saving and investing.
		International Index	
		Intermediate Treasury Index	
		Total Market	
		US Sustainability Index	
	Active	Money Market	
Bank Deposit	N/A	Bank Deposit	The Bank Deposit Portfolio is an investment option composed exclusively of a deposit in an FDIC insured interest-bearing deposit account and accommodates Beneficiaries without regard to age

## **Direct**

### ***Investment Performance***

CHET Direct's 24 active, blend, and index age-based portfolios produced positive returns between 13.90% and 1.60% from inception, February 2, 2021, to December 31, 2021. The active and index static portfolios generated returns of between 14.60% and 0.10% for the period of inception, February 2, 2021, to December 31, 2021.

### **CHET-Direct Marketing and Promotion**

- The Treasurer's Office worked closely with Fidelity to develop and execute a robust multi-channel marketing plan to promote CHET, strengthen public awareness, and increase understanding of the importance of saving for a college education. The Treasurer's Office and Fidelity remain committed to promoting the benefits of saving for college early to families of all backgrounds and cultures throughout Connecticut. In addition to broad-based marketing to the core target market, CHET also incorporated an outreach effort to low- to moderate-income individuals to ensure that all Connecticut residents have the knowledge and access to save with CHET. Further, Fidelity expanded outreach and marketing to the state's Latino and African American constituents over the past two years through targeted events, community influencers, and social media.

Key highlights include:

- CHET Baby Scholars continued as a flagship program through December 2021, providing college savings accounts for newborns in Connecticut. The program was initially funded in 2014 with \$4.4 million from the Connecticut Student Loan Foundation. The Baby Scholar program was temporarily paused on November 1, 2021, due to the transition from the previous program manager, TIAA-CREF, and restarted on March 31, 2021, managed under a new program manager, Fidelity Investments. All CHET participants that qualified for the Baby Scholar program between November 1, 2021, and March 31, 2021, were funded in 2021. By June of 2021, all \$4.4 million had been distributed to accounts for Connecticut's newborns, and starting July 1, 2021, the program rules were amended to provide for \$100 funding for any CHET account opened prior to child's first birthday or within the first year of adoption. The financing of the amended program is supported from fees generated from the 529 program management.
- CHET also continued the annual Dream Big! essay and drawing competition for elementary and middle school students, running for thirteen consecutive years. The Dream Big! competition received a total of 25,702 entries and was awarded a total of \$553,224 since inception. For 2021, Fidelity merged the CHET Advance Scholarship and CHET Dream Big! Competition to one larger program. In 2021, the CHET Dream Big! Competition selected 336 winners from 452 entries, with a total of \$235,424 awarded.

- Fidelity partnered with data-driven marketing agencies, Camelo Communications and Cronin, public relations, digital, social, event, and multicultural marketing for CHET. Throughout 2021, Fidelity continued to implement an onboarding program for all new account owners, followed by monthly communications to stay in contact with existing CHET account owners. Fidelity managed an outreach program for individuals who inquired about CHET - whether online, through social, via phone, at an event, or any other activity - to follow up, answer questions, troubleshoot issues, and encourage opening an account. Lastly, Fidelity continued to engage in outreach to prospects across the State through digital and direct marketing programs.
- In 2021, CHET continued to execute a reenergized social media, public relations, and mass media plan. Integrated advertising and direct marketing campaigns ran throughout the year, focusing on tax time, graduation time, back-to-school, and year-end contributions. CHET's advertising and direct marketing efforts increased CHET's brand awareness among state residents. The campaigns focused on the value of saving for college and the specific benefits of Connecticut's 529 college savings program

### **CHET Advisor**

CHET Advisor was re-established in 2021, with Fidelity Investments serving as program manager. As of December 31, 2021, CHET Advisor had 32,082 program accounts with \$917.9 million in assets. Accounts grew by 5.5% and assets by 9.0% since the plan was established. Contributions as of December 31 were \$36.5 million.

### ***Program Offerings***

While CHET Advisor offers similar investment options to CHET Direct, the structure of an advisor-sold plan is different by its nature. This plan offers four different share classes (A, C, I, and P) and has different fee structures for each share class. Share classes are structured to include compensation for the financial advisor.

### **Share classes and fee structure are as follows:**

- **Class A:** Under the Class A fee structure, there is an up-front sales charge of up to 3.5%, which is reduced as the total value of all savings plan accounts of the account owner grows above certain levels.
- **Class C:** Under the Class C fee structure, there is no up-front sales charge. However, withdrawal of any contribution that has been in the account for twelve months or less will be charged a contingent deferred sales charge equal to 1% of the amount withdrawn. Class C shares that have been held for five years or longer are automatically converted to Class A. The shares that roll into Class A will not pay any Up-Front Sales Charge. Thereafter, contributions that have been in an account for at least five years, together with any earnings

associated with those contributions, automatically transfer to the Class A fee structure within approximately a month of the five-year anniversary of the account holding such shares.

- **Class I:** Class I Units are only available for sale to Participants (i) who purchase Units through a broker-dealer, registered investment advisor, trust institution, or a bank department that charges an asset-based or management fee and has elected to make available for purchase such Class I Units to their clients, (ii) whose Portfolio Units have been exchanged by Fidelity from Class A Units of a Portfolio to Class I Units of the same Portfolio, and (iii) any employee of a firm, and any member of the immediate family of such person, if such firm has in effect a Selling Agreement for the CHET Advisor Plan with Fidelity Distributors Company LLC. Class I Units are not subject to front-end sales charges, contingent deferred sales charges, or distribution fees
- **Class P:** Class P Units are only available through the Plan's Workplace Savings Program. The Workplace Savings Program gives the employer a choice between offering employees CHET Advisor Plan through payroll deduction (contributing to the CHET Advisor Plan through their paychecks) or through Electronic Funds Transfer (EFT), establishing a Systematic Investment Plan through employees' bank accounts.
- Under all CHET Advisor asset classes, there is an additional state administrative fee of 0.01% to pay for expenses related to the oversight of the Trust.

## ***Investment Options***

### **Investments**

The CHET Advisor Program offers three different types of 529 portfolios and provides performance information for each proposed investment option every quarter.

1. **Age-Based:** Fidelity's Age-Based Strategies are managed according to the approximate year the beneficiary is projected to enter college, becoming more conservative over time. Fidelity uses a "smooth" glide path approach. Fidelity's age-based portfolios in the Advisor Plan invest primarily in actively managed underlying funds. They are designed to generate returns that outperform a composite of major market indices over the long term. Additionally, the portfolios utilize active asset allocation, active security selection, and invest in a broad set of global asset classes.
2. **Static:** Fidelity's static portfolios are managed with the strategic asset allocation remaining the same over time. In the Advisor Plan, the static portfolios invest primarily in actively managed underlying funds. They are designed to generate returns that outperform a composite of major market indices over the long term. Additionally, the portfolios utilize active asset allocation, active security selection, and invest in a broad set of global asset classes.



3. Individual Fund Portfolios: Options include equity, fixed income, Stable Value, and balanced portfolios. Each portfolio has the same investment objective as its underlying mutual fund.

Strategy	Management Style	Portfolio	Product Description
Age-Based Portfolios	Active	College	Age-Based Portfolios are investment options designed to accommodate Beneficiaries based on age. These portfolios invest in primarily active dedicated managed Fidelity mutual funds.
		2022	
		2025	
		2028	
		2031	
		2034	
		2037	
Static Portfolios	Active	Aggressive Growth	Static Portfolios are investment options designed to accommodate beneficiaries according to a static asset allocation.
		Moderate Growth	
Individual Portfolios	Active	Asset Manager 60% Diversified International	Individual Fund Portfolios are investment options designed to provide the option to build a personalized approach to college saving and investing.
		Dividend Growth	
		Equity Growth	
		Equity Income	
		Growth Opportunities	
		High Income	
		Inflation-Protected Bond	
		Limited Term Bond	
		New Insights	
		Small Cap	
		Stock Selector Mid Cap	
		Strategic Dividend & Income	
		Strategic Income	
		Total Bond	
Value Strategies			

## ***Investment Performance***

CHET Advisor's eight age-based portfolios (Class A) produced positive NAV returns between 9.00% and 2.40% from inception (3/16/2021) to December 31, 2021. The static portfolios (Class A) generated NAV returns of between 9.60% and 7.50% for the period of inception (3/16/2021) to December 31, 2021.

## **Capabilities**

Fidelity's direct-sold plans offer convenient 529 digital self-service capabilities, including online account opening, which accounts for over 90% percent of direct-channel 529 accounts opened. Customers are able to transact 529 related businesses through Fidelity's automated phone system or through a dedicated college planning associate.

Fidelity's operational capabilities in the 529 market benefited from Fidelity's extensive experience in a wide range of financial services. Once requests are received, Fidelity can process participant transactions at a high volume and high level of efficiency and success by back-office personnel, leveraging next-generation robotics to assist.

Plan enrollment is available online via the CHET website, aboutCHET.com, with centralized mail through Fidelity's Covington, KY office or in person or via mail at the Fidelity Connecticut investor offices. Fidelity can receive mail each day and maintains a unique address for overnight mail.

Participants are able to obtain all transactional and account-level data and information at any time digitally or via phone.

Comprehensive 529 plan administrative services include:

- Enrollment
  - Educational materials/Viewpoints to aid in understanding the importance of college savings and how to meet savings goals
  - Literature and enrollment materials
  - Participant enrollment digitally, through a regional center or investor center associates, or via paper application
  - Participant confirmations via eDelivery
  - Robust planning & guidance tools to help new participants understand the importance of saving early and tracking their goals and progress
  
- Participant Inquiries and Transactions
  - Additional contributions can be made via the web, a mobile device, paper/mail, or telephone
  - Account owners are able to log in via the web or mobile device to view their account balances, see all activity in the account, and view the account's investment basis and the cumulative profit or loss that the account has experienced since the account's inception.

Customers are able to access daily net asset value for all the 529 plan portfolios, one month, year-to-date, 1-year, 3-year, and 5-year returns (as applicable).

- Exchanges and allocation changes via online, paper/mail, or telephone
  - Fidelity's plans offer participants the ability to perform exchanges and allocation changes via online, paper/mail, or telephone.
  - Dedicated CHET 800 number directed to CHET college planning associates
  - Statements and confirmations (online, eDelivery, or paper-based)
- Participant Changes
    - Successor Participant changes via online, phone, or paper/mail
    - Systematic investment plan changes via online, phone, or paper/mail
  - Mobile Check Deposits
    - Ability to deposit checks directly into a 529 via mobile device
  - Online Gifting Program
    - Participants can set up a personalized dashboard and share a dedicated link with friends and families
    - Gift contributions can be made directly via electronic check
    - Automated notifications and online tracking of gifts are available via the dashboard
  - Qualified Withdrawals/Distributions
    - Distributions directly to participant, beneficiary, or school via online, phone, or paper/mail
    - Rollover to new designated beneficiary via online, phone, or paper/mail
    - Rollover to new 529 Plan account via online, phone, or paper/mail
  - Tax Reporting
    - 1099Q generation
    - Track and enforce cap limits

## **Customer Service**

Fidelity plans to staff approximately fifty dedicated college planning specialists who are available Monday through Friday, 8:00 a.m. to 9:00 p.m. ET. As a contingency, Fidelity prepares and upskills associates outside the college planning team to handle overflow volume. This ensures these calls are prioritized and handled promptly during peak volume times. During the off hours for this team, all college planning calls are answered by Fidelity's service representatives, who are available 24-7, 365 days a year. Fidelity also accepts email inquiries, with responses take up to 3-5 business days.

Fidelity does offer language lines through a third-party vendor for non-English-speaking callers. For hearing-impaired, Fidelity offers a TTY number as well as online chat services as well.

## **Marketing**

When it comes to marketing the CHET plans within Connecticut, Fidelity is able to leverage digital platforms, social media, **events**, and local investor center and regional center associates to market the CHET Program in the direct channel:

- **Acquisition:** Fidelity partnered with State Treasurer's Office to develop an integrated marketing and public relations strategy to identify target participants in Connecticut and help educate them on the benefits of the 529 plan. Marketing and public relations activities are supported by an in-house team of marketing and ad agency professionals who provide strategic and creative services; in Fidelity's five local investor center offices. Fidelity's user experience and design team and state-of-the-art web capabilities; and dedicated college planning telephone associates.
- **529 Customer Development:** Fidelity provides education and guidance through an ongoing series of communications to existing 529 customers designed to help them manage their investments and encourage them to save regularly.

These strategies are carried out via various marketing channels, which include paid media/advertising, online marketing, community outreach, organic search and social media, and branch office support.

Fidelity makes the CHET 529 plans accessible to all, including low and moderate-income families, by eliminating the minimum investment requirement, meaning that all families can open and start saving at any time. Fidelity will explore this potential participant base as they develop a marketing plan for CHET in 2022.

While Fidelity does not employ on-site, in-state marketing associates, Fidelity employs a centralized team of marketing specialists dedicated to promoting 529 plans on both a national and local basis. Fidelity's local marketing development coordinator would work alongside the plan's relationship manager and Connecticut state contacts to help organize and implement in-state events and sponsorships. Fidelity looks to help staff these events by leveraging their investor center associates located in Fairfield, Greenwich, New Haven, Stamford, and West Hartford and/or the plan's relationship manager.

Fidelity maintains the successful CHET Dream Big! program that will see nearly \$350,000 in awards granted to Connecticut residents.

The CHET Baby Scholars program continues as well, with changes in July 2021 to ensure the program's longevity. With the removal of the "opt-in" process, all CT residents who open a CHET account for a beneficiary one-year-old or under or within one year of adoption will receive a \$100 contribution. The funding for the amended program is supported by fees generated from the 529 program management.

Finally, Fidelity currently partners with State Treasurer's Office regarding financial literacy in the State. In the following year, Fidelity will propose initiatives and events to make a difference in the lives of school-age children and teachers in Connecticut communities through financial education.