



Annual Evaluation of the

CONNECTICUT HIGHER EDUCATION TRUST

For the Period Ending December 31, 2023

Submitted to:

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

June 30, 2024

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 Commissioner 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 31st 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 06, 2023.

The members of the CHET Advisory Committee, as of December 31, 2023, were:

Erick Russell, State Treasurer
Timothy D. Larson, Commissioner, Office of Higher Education
State Sen. Eric C. Berthel, Ranking Member, Education Committee
State Rep. Kathleen M McCarty, Ranking Member, Education Committee
State Rep. Jeffrey Currey, House Co-Chair, Education Committee
State Sen. Douglas McCrory, Senate Co-Chair, Education Committee
State Rep. Holly H. Cheeseman, Ranking Member, Finance, Revenue and Bonding Committee
State Sen. Henri Martin, Ranking Member, Finance, Revenue and Bonding Committee
State Sen. John Fonfara, Senate Co-Chair, Finance, Revenue and Bonding Committee
State Rep. Maria Horn, House Co-Chair, 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 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.

On January 31, 2020, the State Treasurer issued a Request for Proposals from qualified firms interested in serving as program manager 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 program 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, and continues to be actively managed to benefit participants.

CHET Direct

As of December 31, 2023, CHET Direct had 166,830 unique accounts with \$4.55 billion in assets. This compares to 157,442 accounts and \$3.90 billion in assets on December 31, 2022, representing increases of 6% and decrease of 17% for accounts and assets, respectively. By the end of 2023, CHET Direct added a total of 17,102 new accounts. Net contributions as of December 31 were \$107 million, resulting from \$564 million in contributions compared to \$457 million in redemptions. The average account size at the end of December 2023 was \$27,288 versus \$24,784 at the end of December 2022.

Investment Options

The CHET Direct Sold Program managed by 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 Portfolios 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, stable value, and sustainable multi-asset. Each portfolio has the same investment objective as its underlying mutual fund. Fidelity offers five index portfolios, an active sustainable multi-asset portfolio, and a bank deposit portfolio.

The two options offered by Fidelity that are similar to the Principal Plus Interest option previously offered by TIAA Tuition Financing, Inc. are the Bank Deposit Portfolio and the Stable Value portfolio. The Bank Deposit Portfolio is composed exclusively of an underlying FDIC-insured, interest-bearing account. It seeks the preservation of principal and is designed for beneficiaries of any age. While the Stable Value Portfolio seeks the preservation of principal while earning a level of income that is consistent with principal preservation.

| Strategy | Management Style | Portfolio | Product Description |
|----------------------|-------------------|-----------|---|
| Age-Based Portfolios | Active | College | Age-Based Portfolios are investment options designed to accommodate Beneficiaries based on age and their expected enrollment in higher education. These Portfolios invest primarily in dedicated, actively managed Fidelity mutual funds. |
| | | 2024 | |
| | | 2027 | |
| | | 2030 | |
| | | 2033 | |
| | | 2036 | |
| | | 2039 | |
| | | 2042 | |
| | Blend | College | Age-Based Portfolios are investment options designed to accommodate Beneficiaries based on age and their expected enrollment in higher education. These Portfolios invest in dedicated index and actively managed Fidelity mutual funds. |
| | | 2024 | |
| | | 2027 | |
| | | 2030 | |
| | | 2033 | |
| | | 2036 | |
| | | 2039 | |
| | | 2042 | |
| | Index | College | Age-Based Portfolios are investment options designed to accommodate Beneficiaries based on age and their expected enrollment in higher education. These Portfolios invest in dedicated index Fidelity mutual funds. |
| | | 2024 | |
| | | 2027 | |
| | | 2030 | |
| | | 2033 | |
| | | 2036 | |
| | | 2039 | |
| | | 2042 | |
| Active | Aggressive Growth | | |

| Strategy | Management Style | Portfolio | Product Description |
|------------------------------|------------------|-------------------------|--|
| Static Portfolios | | Moderate Growth | Static Portfolios are investment options designed to accommodate Beneficiaries according to a static asset allocation. |
| | | Conservative | |
| | Index | Aggressive Growth | |
| | | Moderate Growth | |
| | | Conservative | |
| Individual Portfolios | Index | 500 Index | Individual 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 | Stable Value | |
| | | Sustainable Multi-Asset | |
| Bank Deposit | N/A | Bank Deposit | The Bank Deposit Portfolio is an investment option composed exclusively of a deposit in an underlying FDIC insured interest-bearing deposit account and accommodates Beneficiaries without regard to age |

Investment Performance

The majority of CHET Direct's 21 active, blend, and index Age-Based Portfolios produced positive returns between the range of 0.14% to 3.65% from inception on February 2, 2021 to December 31, 2023. The three 2042 Portfolios (active, blend and index), which launched on December 28, 2022, produced positive returns ranging from 21.26% to 23.26% since their inception.

As of May 31, 2024, year-to-date performance for all 24 Age-Based Portfolios produced positive returns of 1.32% to 9.69%.

The Aggressive and Moderate Static Portfolios generated positive returns of between 2.09% to 4.89% for the period of inception, February 2, 2021, to December 31, 2023. As of May 31, 2024, year-to-date performance of all static portfolios produced positive returns of 0.6% to 10.53%.

CHET-Direct 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 future 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. To this point, Fidelity makes CHET Direct accessible to all by eliminating the minimum investment requirement, meaning that all families can open and start saving at any time. 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:

- Fidelity merged the CHET Advance Scholarship and CHET Dream Big! Competition to one larger program. In 2023, the CHET Dream Big! Competition selected 353 winners from 2,769 entries, with a total of \$447,000 awarded including technology prizes to selected schools.
- CHET Baby Scholars continued as a flagship program through December 2023, 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, 2020, due to the transition from the previous program manager, TIAA-CREF, and restarted on March 31, 2021, managed under 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 by Fidelity's program management fees.
- 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 28,471 entries and was awarded a total of \$1,132,018 since inception in 2021.

- In order to drive the CHET marketing program forward into 2023 with fresh thinking and innovative approaches, Fidelity continued to work with Mintz+Hoke, a marketing agency with the ability to provide a more robust engagement at the local community level and to multicultural audiences.
- Fidelity continues to employ traditional media (tv, out-of-home billboards), events/sponsorships, community outreach, while regularly exploring new media channels (streaming audio/video, organic and paid social media, online banner advertising). All of these channels, plus branch office support provide an aggressive digital and direct marketing campaign to drive the message of saving for higher education to prospects across the State.
- 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.
- In 2022, Fidelity launched a Spanish language website for the CHET 529 and subsequent programs (Dream Big! and Baby Scholars). Fidelity also re-launched CHET Latino on Facebook - making it the first Fidelity-managed social channel in Spanish. Fidelity continued to support these initiatives throughout 2023.

CHET Advisor

As of December 31, 2023, CHET Advisor had 33,801 program accounts with \$912 million in assets. Accounts grew by 2.0% and assets grew by 15.0% since December 31, 2022. Contributions as of December 31 were \$105 million. CHET Advisor was transitioned in 2021, with Fidelity Investments serving as program manager.

Program Offerings

While CHET Advisor offers similar investment options to CHET Direct, the structure of an advisor-sold plan is different by its nature. CHET Advisor 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 related sales 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.

Investment Options

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 Portfolios 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 |
| | | 2025 | |

| Strategy | Management Style | Portfolio | Product Description |
|------------------------------|------------------|-----------------------------|--|
| | | 2028 | on age and their expected enrollment in higher education. These Portfolios invest in primarily active dedicated managed Fidelity mutual funds. |
| | | 2031 | |
| | | 2034 | |
| | | 2037 | |
| | | 2039 | |
| | | 2042 | |
| 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% | Individual Portfolios are investment options designed to provide the option to build a personalized approach to college saving and investing. |
| | | Diversified International | |
| | | 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 | |
| Stable Value | | | |
| Sustainable Multi-Asset | | | |

Investment Performance

Seven CHET Advisor Age-Based Portfolios (Class A, College, 2025 to 2039) produced returns between 0.61 % and 1.73% from inception (3/16/2021) to December 31, 2023. The 2042 Portfolio, which launched on December 28, 2022, generated 21.58% return since inception.

As of May 31, 2024, year-to-date performance for all eight Age-Based Portfolios produced positive NAV returns between 1.12% to 9.35%.

The Static Portfolios (Class A) generated returns of between 0.99% to 2.86% for the period of inception (3/16/2021) to December 31, 2023. As of May 31, 2024, year-to-date performance produced positive NAV returns between 6.42% to 10.17%.

The Individual Portfolios (Class A) generated returns of between 1.93% to 8.47% for the period of inception (3/16/2021) to December 31, 2023. As of May 31, 2024, all Individual Portfolios except CHET Advisor Total Bond produced positive year-to-date performance ranging between 0.91% to 18.96%.

Program Management 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 has approximately ninety 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 business days.

Fidelity offers 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.

Program Marketing

When it comes to marketing within Connecticut, Fidelity is able to leverage digital platforms, social media, events, and local investor center and regional center associates to promote the CHET Program:

- Fidelity partners with the State Treasurer's Office to develop an integrated marketing and public relations strategy to identify target participants in Connecticut and to 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 utilizes a Hartford-based marketing team in Connecticut and employs a centralized team of marketing specialists dedicated to promoting 529 plans nationwide. Fidelity's local marketing development coordinator works alongside the firm'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 with a baseline of \$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 within one-year of birth or adoption will receive a \$100 contribution. The funding for the amended program is supported by Fidelity's program management fees.

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