

**Connecticut Higher Education Trust (“CHET”) Advisory Committee
Minutes of the 2016 Meeting
November 22, 1:30 pm**

Members Present

Lawrence A. Wilson, Deputy Treasurer, Office of the Treasurer (representing Denise L. Nappier, State Treasurer)
Kerry Kelley, Office of Policy and Management (representing Benjamin Barnes, Secretary, Office of Policy and Management)
State Senator Antonietta Boucher, Ranking Member, Education Committee
Keith Norton, Executive Director, Office of Higher Education
Ryan Wolfe, on behalf of State Representative Christopher Davis, Ranking Member, Finance Revenue and Bonding Committee
Marc Maniatis, on behalf of Patrick Torre, Vice President of Finance, University of New Haven
Shannon Sarver, on behalf of Julie Savino, Executive Director, University Financial Assistance, Sacred Heart University
Margaret Malaspina, Director of Financial Aid, Capitol Community College
Leslie Navarrete, on behalf of State Representative Andrew Fleischmann, Co-Chair, Education Committee

Others Present

Assistant Treasurer for Policy Mary Phil Guinan, Office of the Treasurer
Joanne Dombrosky, Principal Investment Officer, Office of the Treasurer
Director of Communications David Barrett, Office of the Treasurer
Glenn Friedman, TIAA
Kerry Alexander, TIAA
Elizabeth McLaughlin, TIAA
Jeff Cohan, The Hartford
Mike Myers, The Hartford
Claire Shaughnessy, Aon Hewitt Investment Services

Call to Order

Deputy Treasurer Lawrence A. Wilson called the annual meeting to order at 1:32 p.m.

Welcoming Remarks

Deputy Treasurer Wilson thanked the committee for attending the annual meeting, highlighted a few of CHET’s accomplishments over the last year, particularly the reduction in CHET Direct’s program management fee and the bronze medal from Morningstar, which puts CHET in the top half of 529 plans across the country.

Adoption of Minutes

Deputy Treasurer Wilson called for adoption of the minutes of the December 3, 2015 meeting of the CHET Advisory Committee. The minutes were unanimously approved.

Presentation by The Hartford Funds

Deputy Treasurer Wilson introduced Jeff Cohan and Mike Myers of The Hartford. Mr. Cohan is the Senior Vice President for Strategic Marketing and Mr. Myers is the Director of the 529 Program.

Mr. Cohan began by talking about CHET Advisor today. The Hartford has run the CHET Advisor Program since its inception in 2010. Hartford Funds has made two strategic changes over the last year to benefit CHET: one was to bring in an ETF provider called Lattice Strategies and the other was to partner with Schroder's Investment, a large U.K. based institutional Asset Manager to take over all the U.S. funds, which gives CHET Advisor a bigger tool box to work with as they continue to improve the program over the coming years. Finally, CHET Advisor contracted with a new and updated call center run by Ascensus which they believe will improve customer service dramatically.

Mr. Cohan then went on to highlight CHET Advisor's growth regarding both account sales and assets under management. Though the past year was a little slower from a sales perspective, the last four years have seen marked growth in both arenas. The identified trend here is growth in accounts by age at the bottom of the spectrum, meaning that younger beneficiaries are increasingly benefiting from CHET account openings. CHET Baby Scholars is instrumental in this growth. Another point of note: Though it is routinely assumed that CHET Advisor only works with high income residents, the numbers show a different story. The vast majority of Advisor accounts range from \$1,000 to \$10,000, so financial advisors clearly come in all shapes and sizes and work with a diverse clientele. For example, Merrill Lynch is one of the biggest sellers of CHET Advisor and they are clearly focused on high network individuals. However, People's Bank is also one of the biggest sellers and they are working with the general public directly at local Stop & Shop stores to try to get them to sign up for the 529 program.

Mr. Cohan highlighted the breakdown of assets under management by share class. CHET Advisor reflects a fairly standard breakdown between share-class within the 529 industry. They have had some underperformance in the portfolio over the last few years. Behind this underperformance are two key drivers: one has been the overweighting of non U.S. stocks versus U.S. Stocks. The second driver is the overweighting of small and mid-cap equities. The strength in that market over the last few years has largely been U.S. based, but The Hartford feels that their allocation is positioned well for long term growth. Despite having underperformed the benchmark in these cases, CHET Advisor's performance has been strong in absolute numbers. That said, they continue to look for ways to improve the program.

Mr. Cohan then introduced Mr. Myers, who began by talking about performance. He stated that the program works with the mega wire house firms of Merrill Lynch, UPS, and Morgan Stanley which comprise 30% of the AUM of the program. However they also call on community based banks such as People's Securities which help them reach the general public. Mr. Myers then went on to discuss marketing, which is very seasonal, with spikes in AUM and

account growth particularly identifiable at the end of the year and around tax filing deadlines. Also noted was the Baby Scholars campaign, which has resulted in more than 900 accounts for new babies being set up across the state. The fourth quarter, for both CHET and CHET Baby Scholars is easily the best selling quarter, which is standard across the industry. They see a lot of people trying to get their contributions in before years' end for tax purposes which results in an average of 15 to 20% of all sales for the year being made in the month of December alone.

The Hartford works with nearly 5,000 advisors across the State of Connecticut and about 2/3rd of those are actively selling advisors. Mr. Cohan touched on a few elements regarding performance expenses and stressed that The Hartford will continue its effort to deliver a high quality product at a lower cost.

Presentation by TIAA Tuition Financing, Inc.

Deputy Treasurer Wilson then introduced Kerry Alexander of TIAA.

Mr. Alexander started the presentation for CHET Direct on behalf of TIAA Tuition Financing, Inc. TIAA has worked with CHET since 1999. Over that time period, CHET Direct has seen tremendous growth in both accounts and assets under management. This consistent relationship has allowed for dramatic fee reductions for Connecticut residents along with national recognition by the Morningstar ranking system. Their footprint in Connecticut is substantial. They work with 75,000 residents as well as 386 non-profits. CHET Direct has 108,500 accounts. Last year that number was 102,000. Last year's AUM was \$2.2 billion. This year it is \$2.5 billion. Average account size is \$23,300 and last year it was \$22,300. Mr. Alexander said that these are the numbers that show the continued success and health of the CHET program. They are also seeing a significant drop in the amount of non-qualified withdrawals from existing CHET accounts.

The fee reductions paint a very important picture in regards to CHET. Two years ago the program management fees were 17 basis points. That went down to 15 and then 12 this past year.

CHET individual account growth has been steadily climbing as has the AUM. Asset growth was especially strong between 2015 and 2016 as opposed to the slower growth during economic headwinds in 2014-2015.

Mr. Alexander said that CHET Baby Scholars is also driving a notable change in savings habits. CHET Baby Scholars helps families to start saving right away when their children are born.

Mr. Alexander then said that there are a lot of residents who use online resources, with 83 percent of new accounts set up online. He said that online enrollment streamlines the process for Connecticut families which creates a much more positive customer experience. He said the same goes for online contributions, redemptions and investment changes. It also saves the plan money, and it's good for the environment.

Glen Friedman then presented on investment options. He detailed active and passive investment options as well as the tactical asset allocation funds and age-based options. TIAA reviews its investment returns each year and they take their performance seriously. Due diligence of underlying funds, risk profiles and strategies are all formally reviewed in house. Mr. Friedman then detailed the most popular CHET investment option: the moderate risk age based option. All underlying funds had positive returns and met their respected benchmarks.

Claire Shaughnessy presented the independent fund analysis that is performed each year by AON Hewitt. Of particular note was the TIAA Real Estate securities portfolio which had the highest performance return in CHET.

Mr. Alexander then spoke about the importance of diverse investment options and low fees. Many states have only 2 or 3 investment options. By comparison, CHET Direct has 14. One very unique option is the principle plus one option which has a guaranteed return each year of 1.6 percent. Kerry Kelley asked if TIAA tracks data regarding enrollment in 2 vs. 4 year colleges or public vs. private institutions. TIAA does not currently track that information effectively but will look into getting more data for the next annual meeting.

Elizabeth McLaughlin then presented the CHET marketing plan. The marketing budget is developed with input from the Treasury each year. Ms. McLaughlin discussed strong social media presence as well as direct marketing and community involvement. Right now there is a huge industry shift in terms of 529 marketing toward millennials rather than the baby boomers. Ms. McLaughlin said that direct mail does continue to be a strong component of marketing, but TIAA has begun to expand engagement in digital spaces through banner ads, emails, blogs, Twitter and Facebook. In addition, it has focused on automatic payroll deduction (APD) outreach by offering incentives to state employees who open a CHET account and sign up for APD. In 2017 TIAA will continue to engage other big employers across the state. Ms. McLaughlin also played the CHET direct-response television advertisement.

Presentation by Office of the Treasurer

Deputy Treasurer Wilson introduced Mary Phil Guinan of the Office of the Treasurer, who then presented a few of the programs aimed at engaging potential CHET account holders. She chose to highlight CHET *Advance* Scholarship, CHET Dream Big and CHET Baby Scholars.

Ms. Guinan pointed out that through these programs CHET is able to touch every school across the state every year. It also has a presence in all 21 hospitals across the state and puts an extra focus on engagement in lower income communities. CHET Baby Scholars was started in cooperation with the Governor and the Legislature. It gives families up to \$250 if they open a CHET account within the first year after their child's birth. Ms. Guinan said that instrumental in the marketing of CHET Baby Scholars is a partnership with the Department of Public Health which put a new birth certificate application in hospitals across the state in 2016 that includes a CHET Baby Scholars checkbox. Through Q3 2016, 11,200 families "checked the box" which represents 43 percent births across the state. Through Q3, a total of 4,094 CHET Baby Scholars

accounts have been opened, \$980,000 has been distributed and those same accounts today represent \$14.7 million in assets. Ms. Guinan said that, assuming a 10 percent participation rate moving forward, CHET Baby Scholars will run out of funding in Q3 of 2020. She said that the Treasury is working to establish a more sustainable funding source.

Ms. Guinan reported that CHET *Advance* Scholarship will award \$500,000 to 200 high school students across the state this year. This money comes from The Hartford and TIAA so no state funds are used. Winners are chosen by lottery and winners are distributed across all five congressional districts.

Ms. Guinan then said that CHET Dream Big awarded \$26,000 to 48 elementary and middle school students across the state. The winners are chosen on merit by a group of teachers and Treasury employees. Submissions are essays and drawings that depict the children's hopes and dreams for their post-college aspirations. Ms. Guinan also presented several of the grand prize entries to the committee.

Comments

Deputy Treasurer Wilson proposed a change in the schedule for CHET Advisory Committee meetings to a March 30th meeting which will continue annually. This will allow the Treasury to present investment changes, end of year numbers and a full marketing plan. Senator Boucher made a motion to change the schedule as discussed which was seconded by Kerry Kelley and passed unanimously.

Senator Boucher asked a question about the transparency of fee structures. Deputy Treasurer Wilson, Mr. Alexander, and Mr. Myers responded.

Adjournment

Margaret Malaspina made a motion to adjourn the meeting which was seconded by Ryan Wolfe. The meeting adjourned at 3:49 p.m.