**MINUTES OF THE MEETING**

**Arkansas Section 529 Plan Review Committee**

Tuesday, November 16, 2021, at 2:00 PM

Victory Building Conference Room, Suite 275, Little Rock, AR 72201

A meeting of the Arkansas Section 529 Plan Review Committee (“Committee”) was held on Tuesday, November 16, 2021, at 2:00 PM in the Victory Building Conference Room, Suite 275 and via Zoom virtual meeting. Present at the meeting were Grant Wallace, Chief Deputy Treasurer as proxy for Treasurer of State Dennis Milligan; Curtis Carter, serving as proxy for the Arkansas Teacher Retirement System; Alisha Lewis, serving as proxy for Arkansas Department of Higher Education; Fran Jansen, Director of 529 Programs and Financial Education; Chris Scott, Manager, AR 529 Programs; Stacy Peterson, Communications Director for the State Treasurer’s office; Dave Ponder with Ascensus College Savings; John Peace with Dover Dixon Horne; John Park with BlackRock; and Julia Ward with Vanguard.

Grant Wallace called the meeting to order at 2:04 PM.

Grant then asked for a motion to approve the minutes of the August 31, 2021, meeting. Alisha Lewis moved for approval, Curtis Carter seconded the motion, and the minutes were approved.

Fran Jansen gave the director’s report. She highlighted attendance at state employees’ benefits fairs during the open enrollment period; a meeting with the director of human resources at a hospitality group representing several restaurants in northwest Arkansas; a strategic plan beginning in 2022 to initiate conversations with HR directors at state agencies to raise awareness of 529 payroll direct deposit; and a similar awareness plan for Arkansas businesses. She continued with an update on marketing efforts, reporting that messaging during the holidays will focus on opening an Arkansas 529 account or contributing to an existing one, then will shift to promoting end of year tax benefits. She concluded by reporting that our plan’s ranking did not change during Morningstar’s annual 529 plan review. The Arkansas 529 retains its ‘neutral’ ranking.

Before Fran formally presented for approval checks and invoices paid during second quarter of fiscal year 2022, Grant prefaced the order of business with an explanation regarding payments to Central 25. He informed the committee that while we are in the process of unwinding the agreement with Central 25, we are still responsible for billing that includes maintenance expenses. He stated that Central 25 has been asked to submit proof of any outstanding development costs so as to prevent ongoing maintenance and operational costs. In closing, Grant indicated that an amended budget reflecting this Central 25 payment would be presented for approval later in the meeting.

Fran then presented the checks and invoices paid during the second quarter of fiscal year 2022 for approval. Curtis Carter moved to approve, Alisha Lewis seconded the motion, and the checks and invoices were approved.

John Peace reported on the budget for fiscal year 2022 as of October 31. He stated that the income was around $240,000, expenses came in at about $260,000. John said that for being about a third of the way through the fiscal year, the income was right in line with what was budgeted. He continued by stating that the expenses were higher than anticipated due to the Central 25 payments, and had it not been for those payments the expenses would have been in line for the budget as well.

The next report came from Dave Ponder, who reported on assets, contributions, withdrawals, funded accounts, average funded account size, iShares 529 assets, U-gift and U-promise. He stated that as of October 31, the GIFT assets under management were $583,715,761. He noted that the GIFT plan received $48.1 million in year-to-date contributions, had a total of 32,654 funded accounts, with an average account size of $17,876. Dave also reported on the iShares Plan, stating there was more than $668 million in total assets under management, 15,687 funded accounts, with an average account size of $43,760, bringing the total assets under management to $1,270,181,347.

Next, Julia Ward with Vanguard gave a report on market conditions and Vanguard’s position on the glide path methodology for 2022. She explained that because of simulations, tests, and forecasting, Vanguard believes that the age-based portfolios are still presenting the appropriate risk and return profile and are still effective. For this reason, Vanguard does not recommend any changes to the age-based glide path. Regarding market conditions, Julia noted that equities were weak across the board, pressure continued on emerging markets from China, and that commodities and hard assets were performing well.

John Park reported on Arkansas-owned iShares Plans, stating that assets had grown by about $69 million since the end of 2020; the total number of financial advisors offering the plan in Arkansas had grown to 398 advisors, and that there were currently 3,476 Arkansas-owned accounts with an average account size of $19,899.

Next, John Peace presented amended program rules for the Arkansas 529 program. Amendments included the name change, removing mentions of the Aspiring Scholars Matching Grants program that had been suspended, and other minor changes. Curtis Carter moved to approve, Alisha Lewis seconded the motion, and the amended rules were approved.

Grant introduced the next item of business, which was the adoption of an investment policy statement. He explained that as the 529 plan grows, so should the checks & balances and operational aspects of managing the plan, thus presenting the need for an investment policy statement to guide the committee.

Dave Ponder followed by presenting an investment policy statement that covers both the direct and advisor plan, provides flexibility and stronger oversight. Grant indicated that after his review, he found the investment policy statement to be standard and acceptable. Curtis Carter moved to approve, Alisha Lewis seconded the motion, and the investment policy statement was approved.

Grant then led a conversation about replacing Vanguard’s current age-based portfolio model with that of the target enrollment portfolio (TEP) model. He reminded the committee that the TEP model was presented at a previous meeting, and that following internal discussions, it was the staff’s recommendation to transition to the TEP model. Grant noted that adopting the change would also be more in line with where the industry is going.

Julia added that two things distinguish the TEP from the current age-based portfolios: 1) having a single portfolio option that corresponds with the age of the beneficiary eliminates the task of risk assessment that often prevents a potential account owner from opening an account, and 2) TEP offers a smoother glide path structure with more frequent and smaller asset allocation changes which will help mitigate market impact and optimize the risk return profile. The discussion concluded with Dave stating it would take approximately four to six months to convert to a TEP glide path.

Grant sought approval to transition from the age-based portfolio options to the target enrollment portfolio glide path. Curtis Carter moved to approve, Alisha Lewis seconded the motion, and the transition to the target enrollment portfolio was approved.

Grant concluded by presenting a revised-but not officially amended- FY22 budget, noting additional expenses for the Central 25 mobile app as well as a correction to Invite Education expenses line item that was incorrect on a previous budget.

There being no further business, Grant Wallace adjourn the meeting at 3:10 PM.

Respectfully submitted,

Fran Jansen, Director of 529 Programs and Financial Education