WA529 Committee Meeting Minutes
May 6, 2020
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Virtual Meeting

Staff in Attendance:
Luke Minor, WA529 Director
Christina Crawford, WA529 Administrative Assistant
Daniel Payne, WA529 Communications Specialist
Betsy Hagen, Associate Director of GET Operations
Rodger O'Connor, Associate Director for WA529 Marketing & Communications
Don Bennett, Deputy Director, Washington Student Achievement Council
Matthew Freeby, GET Finance Manager

Presenters in Attendance:
Sally Riefenstahl (BNY Mellon)
Matt Smith (Office of the State Actuary)
Nick Procyk (Lockwood Investments)

Guests in Attendance:
Graham Dyer and Sarah Baker (Office of the State Actuary)
Chris Phillips and Aileen Liu (Washington State Investment Board)
Rick Brady (Office of the Attorney General)
Matthew Forester (Lockwood Investments)
Kate Henry, Michele Alishahi, and Kellee Gunn (Washington State Legislature)
Breann Boggs, (Office of Financial Management)
Mike Bay, Nate Shaw, and Scott Chisa (TVW)
Justin Slaughter (FIN News)

WELCOME
Mike Meotti, Chair of the WA529 Committee, called the meeting to order at 2:05 p.m. The other WA529 Committee members in attendance were Brenda Snyder, proxy for Treasurer Duane Davidson, Director of the Office of Financial Management (OFM), David Schumacher, citizen member, Linden Rhoads and new citizen member, Touk Sinantha.

MEMBER INTRODUCTIONS:
Meotti welcomed new Committee member, Touk Sinantha. Sinantha gave an overview of her career background. Sinantha is a Washington native from the town of Raymond. She completed her BA at Western Washington University and her MBA at University of Chicago. Approximately four years ago she founded an investment firm, Altravue Capital, and has been in the investment field for two decades.

APPROVAL OF THE January 07, 2020 MINUTES
Motion to approve the minutes by Rhoads. Seconded by Sinantha. Five ayes by Meotti, Snyder, Rhoads, Sinantha and Schumacher. Motion carries and minutes approved as presented.

PROGRAM UPDATES
Luke Minor and Sally Riefenstahl provided GET and DreamAhead program updates.

In response to the COVID-19 crisis, the WA529 and Sumday teams have been working remotely since mid-March. Phone hours have been reduced for both programs, but full support remains for emails and support tickets. Customer feedback has been generally positive during this transition.

Since stay at home orders have gone into effect, GET program enrollments, contributions, and customer inquiries have generally been down. Minor noted that GET enrollments are tracking 10 percent behind last year, but projects unit sales will hit the statutory goal of 500,000.

Riefenstahl noted that in the face of the pandemic and market strains, people are still enrolling in DreamAhead. We have not seen a large retreat to more conservative investment options, though there has been some movement.

Staff continues to monitor market activity and any possible state and federal budget and policy changes that would impact the programs.

Rhoads asked how the DreamAhead customer behavior compares to other plans that Sumday manages in other states. Riefenstahl and Minor verified that customer behaviors in response to the pandemic have been consistent across the 529 industry.

Sinantha noted the recent shift of assets into DreamAhead cash preservation portfolio and asked if that occurred before or after March 23 market bottom out. Riefenstahl replied that the shift primarily occurred after the decline, but it has been a small percentage of customers.

Minor provided an update on the development of a WA529 data dashboard to help inform Committee members and stakeholders how the program is tracking compared to its goals. The framework is currently being built and is planned to be implemented by the end of 2020.

Minor noted that a new portal for GET master scholarships is being created which will enable entities to manage scholarship accounts more efficiently.

WA529 MARKETING/BUSINESS DEVELOPEMENT UPDATE
Rodger O'Connor gave an overview of current WA529 marketing efforts. In response to COVID-19, funds have been redirected to more digital, social and TV News programming and away from a planned spring billboard campaign. A hospital initiative pilot campaign has been launched placing eleven displays in five separate hospitals. After GET enrollment closes at the end of May, efforts will shift to heavier DreamAhead advertising. Community outreach efforts have adapted to the COVID-19 impacts with a major shift to virtual learning sessions.

GET ACTUARIAL UPDATE
State Actuary, Matt Smith gave an update and overview on the Office of the State Actuary's (OSA) work for GET. Smith noted that the financial impacts of COVID-19 have been significant and are still evolving with volatile investment markets. The OSA is monitoring recession indicators and state budget and tuition responses and provided examples of how different market impacts could

affect GET's funded status. Smith noted that GET has weathered the past two recessions and is entering this recession with a higher reserve than prior recessions. Tools to help the program manage risk include unit pricing assumptions, asset allocation, and the new asset smoothing method employed by OSA. Upcoming actuarial work includes the CAFR Roll-Forward in August, Price-Setting Analysis in September and a 2020 Actuarial Valuation Report in November.

Sinantha asked if there is a cash component in the GET asset allocation. Smith deferred to Chris Phillips with the Washington State Investment Board (WSIB).

GET INVESTMENT UPDATE

Phillips started with responding to Sinantha's question, noting that there is always a zero percent target for cash but there is always some residual cash.

Phillips gave an update on GET market values, asset allocation and targets and ranges. Total assets in the GET fund at March 31, 2020 were at $1.29 Billion with roughly 59% in fixed income, almost 40% in equity and 1% in cash. The asset allocation change, to 40/60 global equities/fixed income was completed in January 2020. In March 2020, in response to COVID, WSIB completed another rebalancing due to market dislocation.

Sinantha asked in general what the thoughts were surrounding cash, as the goal is zero, but the cash allocation was currently at 1%. Phillips noted that the permissible policy range is 0-5% and that there is always some residual cash to enable transactions but historically has been low by design. Sinantha asked who approves the ranges. Phillips responded that proposed changes are first brought to the Committee for consideration and then approved by the WSIB board. Changes are evaluated by the risk management team at WSIB to keep allocations in agreed upon levels.

Sinantha asked what the U.S. growth and historical blended returns refers to for the equity return benchmark. Phillips replied that the benchmark is designed to be a closer match to what the investments are. It is a blend of index components. Phillips suggested that he refer Sinantha to Aileen Liu for further information regarding this topic.

DREAMAHEAD INVESTMENT UPDATE AND PORFOLIO REVIEW

Nick Procyk provided an update on DreamAhead portfolio performance. All DreamAhead portfolios met their respective benchmarks in the first quarter of 2020. No remedial action is necessary and there are not any funds on the watch list as all funds have performed as expected.

Minor shared that Sinantha had a question prior to the meeting regarding Cash Preservation Portfolio fees. Sinantha stated she was concerned that the cash preservation portfolio had the highest fees among DreamAhead portfolios. Sinantha asked if options could be revisited and if any comparisons have been done long term between FDIC insured savings accounts versus a money market option. Procyk stated that Lockwood reviews all asset classes in the various portfolios. When DreamAhead launched two years ago, the J.P. Morgan Money Market fund was the least expensive money market option available. An FDIC option was discussed but it was decided to go with a money market option as funds in an FDIC-insured fund cannot be co-mingled with other funds in a portfolio. Lockwood is currently reviewing another money market fund with a lower expense ratio that DreamAhead may now have access to with more assets.

Every two years a new set of Year of Enrollment Portfolios is introduced, aligned with the year that is 18 years beyond the current year. Procyk introduced the Conservative, Moderate, and Growth 2038 Year of Enrollment Portfolios. The portfolios' allocations align with the beginning of their respective glide paths and there are no proposed glide slope changes.

Rhoads moved to approve the new DreamAhead Year of Enrollment 2038 Portfolios as presented. Sinantha seconded this motion. Five ayes from Meotti, Sinantha, Rhoads, Schumacher and Snyder. Motion approved as presented.

Procyk introduced proposed new 'Terminal' Year of Enrollment and outlined two options of how to introduce the portfolios. The primary purpose for terminal portfolios is to ensure portfolios have an 'expiration' process by rolling all participants in 'matured' portfolios into a terminal state and to maintain the current final asset allocation for each of the three risk options.

Both options start with introducing, on June 30, 2020, three new terminal portfolios aligned with the current ending asset allocation on the Conservative, Moderate, and Growth glide paths. Exchanges in and out would remain permissible and would be open to new investors.

The difference between the two options is when mature portfolios roll into the terminal portfolios. In option 1, 2018 and 2020 portfolios roll into the terminal option on June 30, 2020; in every even number year after, that year's portfolios would roll into the terminal option (e.g. 2022 portfolios roll in on June 30, 2022). In option 2, 2018 portfolios roll in on June 30, 2020, 2020 portfolios roll in on June 30, 2022, etc. This option creates a two-year lag between when the portfolio reaches its ending allocation and when it rolls into the terminal option.

Sinantha stated that it appeared that the 2018 and 2020 conservative asset allocations were identical. Procyk stated that is correct.

Meotti stated for clarification that option 2 is beneficial because it affects a smaller amount of accounts this year as opposed to option 1 being beneficial as it seems to be a more stable approach. Procyk agreed and stated that they would lean towards option 1.

Sinantha asked if choosing option 1 would prohibit the Committee from making different asset allocations in the future. Procyk stated that it would not.

Rhoads asked how the transition to terminal portfolios is handled with other 529 plans across the states. Procyk responded that not all 529 plans are the same and are handled a variety of ways.

Snyder asked if there will be a required time frame in which we notify our customers that the change is being made and if so, do we fall within the time frame if we make the change this June 30. Minor replied that while we are not obligated to do so in accordance with the Program Details Booklet, we would let customers know as soon as possible.

Rhoads motioned to approve option 1, as outlined by Procyk's presentation and to notify affected customers as soon as possible and make the appropriate changes to the Program Details Booklet

by no later than July 1, 2020. Motion seconded by Snyder. Five ayes from Meotti, Rhoads, Sinantha, Schumacher and Snyder. Motion carries as presented.

Meotti asked that the topic surrounding Sinantha's questions regarding cash preservation be discussed at the next meeting.

PUBLIC COMMENT
No public comment.

ADJOURNMENT
Snyder motioned to adjourn meeting at 2:08 p.m. Seconded by Rhoads. Five ayes from Meotti, Snyder, Rhoads, Sinantha and Schumacher. Meeting adjourned.