

The Board of Trustees of the West Virginia College and Jumpstart Savings Programs

APPROVED

Board of Trustees Quarterly Meeting Minutes

Meeting Date: March 22, 2023

Approved Date: June 7, 2023

Board of Trustees

Treasurer Riley Moore, Chair

Daniel Anderson	Terri Underhill Rader
Phyllis Arnold	Patrick Smith
Bonny Copenhaver	Phillip Uy
Chris Heller	Brian Weingart
Marguerite Horvath	Justin Williams

STAFF

Amy Willard, Deputy Treasurer Savings Programs
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Elizabeth Liston, Executive Assistant
Amy Hamilton, Director SMART529
Andrea Herrick, Director Jumpstart

Greg Curry, Financial Director
Karl Shanholtzer, Internal Consultant
Sarah Canterbury, General Counsel
Lindsay Marchio, Deputy General Counsel

The Board of Trustees of the West Virginia College and Jumpstart Savings Programs

Board of Trustees Meeting Minutes

315 70th Street, SE – 2nd Floor Conference Room
Microsoft TEAMS Optional

Date: March 22, 2023

The Quarterly Meeting of the Board of Trustees of the West Virginia College and Jumpstart Savings Programs was called to order on Wednesday, March 22, 2023 at 10:05 am. A silent roll call was taken, and a quorum was established. The following members attended: Dr. Daniel Anderson; Ms. Phyllis Arnold; Mr. Chris Heller; Treasurer Riley Moore; Terri Rader; Patrick Smith; Phillip Uy; Brian Weingart; and Justin Williams. Dr. Bonny Copenhaver and Ms. Marguerite Horvath were not present.

The following consultants were present: Ms. Justine Bartholomew; Mr. Jørn Otte, Mr. Chris Morvant, Ms. Allison Mortenson, Mr. Jim Glendon, representing Hartford Funds; and, Mr. Ross Bremen and Mr. Tim Fitzgerald representing NEPC, LLC.

The following WVSTO staff members attended: Mr. Greg Curry; Ms. Amy Hamilton; Ms. Andrea Herrick; Ms. Gina Joynes; Ms. Lynda King; Ms. Elizabeth Liston; Ms. Lindsay Marchio; Mr. Karl Shanholtzer; and, Ms. Amy Willard.

Call to Order – Silent Roll Call

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| I. | Consideration of the December 7, 2022 Regular Quarterly Meeting Minutes | TAB 1 |
| II. | Chairman’s Report | TAB 2 |
| | a. SMART529 Operational Update | |
| | b. Jumpstart Operational Update | |
| III. | Investment Committee Report & Consideration of Investment Policy Statement | TAB 3 |
| IV. | Program Manager Quarterly Report– Hartford Funds | TAB 4 |
| V. | Program Investment Consultant Quarterly Report – NEPC | TAB 5 |
| VI. | Other Business | |

Adjournment

Agenda Item I.

The first order of business on the agenda was the approval of the minutes from the December 7, 2022 Regular Quarterly Meeting. The minutes were previously circulated with the Board packet. As there were no additions or corrections to the minutes, a motion to accept the minutes was made by Patrick Smith and seconded by Justin Williams. There being no discussion, the Chair polled the members, and the minutes were approved as presented.

Agenda Item II.

The Chair recognized Deputy Treasurer of Savings Programs, Amy Willard, and her team to give the quarterly report. Ms. Willard announced that Lynda King will be officially retiring in May. Lynda has worked for the Board for close to 20 years, with the past few years being in a part-time capacity. Ms. Willard thanked Lynda for her many years of service and for all of her assistance since started with the state treasurer's office a year and a half ago. She really has been a great help to me and we wish Lynda the best in her retirement.

Ms. Willard recognized Amy Hamilton to give the SMART529 operational update, followed by Sarah Canterbury to give an update regarding some jumpstart legislation that passed during the recent legislative session, and then Andrea Harrick will wrap things up with the Jumpstart operational update.

Ms. Hamilton reported that the quarterly status report, under Tab 2, was filed with the legislature. At the end of the quarter, our savings plan assets recorded almost \$2.7 billion. There were 1,234 new accounts added during the quarter ending December 31, 2022. Nationwide, there were 113,623 accounts with over 38,290 being West Virginia accounts totaling of \$690 million.

Treasurer Moore kicked off the *When I Grow Up* essay contest with the deadline being in February. Essays are now being reviewed to assure they qualify and getting them ready for the judges. That was our one of our largest marketing efforts for the year and we received over 3000 entries. Additional activities are reported in the Community Outreach section of the quarterly report.

Sarah Canterbury reported on the recent Jumpstart legislation - the legislature adopted Senate bill for 478 on March 10th and it will be retroactively effective on January 1st. It does have tax impact and it makes sense to start the changes with the taxable year. Board staff believe that this new law will greatly simplify and improve the utility of the Jumpstart Savings Program, so that our marketing team can really get to work on growing the accounts.

The bill defines a new term, “qualifying profession,” to succinctly describe the occupations, professions, or trades that qualify an individual to benefit from Jumpstart.

The bill expands the educational programs that will allow someone to practice a qualifying profession. In addition to completion of a community and technical school program, an ACE (Advanced Career Education) program, or a federally approved apprenticeship program, a career requiring completion of a License 35 school program (like Ross College) or a career and technical education or vocational training program at a public secondary school is now a qualifying profession.

The bill also authorizes this Board, in the future, to expand the list of qualifying professions by Board action.

The bill strikes the statutory minimum deposit of \$25 to open a Jumpstart account and instead allows this Board to establish a minimum account opening deposit, if needed, or forego the minimum deposit altogether. At our next meeting, Board staff will present recommendations to the Board regarding minimum account deposits.

With regard to tax benefits for Jumpstart participants, the bill closes a couple of loopholes and potential tax shelters identified by the State Tax Commissioner:

The bill establishes an increasing personal income tax modification for account distributions used for non-qualified expenses and previously applied toward the state tax deduction for account contributions. This will ensure that any amount of a contribution not ultimately used for the Program’s purposes will be recaptured as income to the Account Owner - the person who receives the funds.

The bill clarifies that an employer may not claim a tax credit for an employer matching contribution to an account if the employer himself or herself is the account owner or account beneficiary receiving the contribution. The legislation also clarifies that an employer may not claim both the state deduction for a contribution and the matching credit for the same amount contributed. These amendments are both aimed at preventing employers from “double dipping,” or claiming duplicative tax benefits for the exact same amount of money.

Finally, the bill redefines qualified expenses by incorporating a number of federally deductible expenses into the definition. This change contemplates that many taxpayers will be able to take the state-level personal income tax deduction for contributions to a Jumpstart account, but later use the amount for an expense that is federally deductible (such as ordinary and necessary business expenses) rather than claim the more complicated state-level distribution deduction. This would mirror the utility of a SMART529 account – participants can take a state deduction for contributions to their Jumpstart Savings Account, then take a federal deduction for account distributions used for those qualified expenses that are already federally deductible under current U.S. tax law.

Ms. Herrick thanked Sarah for providing those updates and for the hard work of our team and seeing the Jumpstart bill through to the Governor's desk. Passing this legislation was a critical piece of the puzzle for Jumpstart as it addresses issues that have inhibited messaging and communication regarding the program over the past year.

Based on these updates, we're now in the midst of drafting new marketing materials, brochures, and website language. We will develop an on-demand webinar series including a program overview, eligibility quiz, and application walk-through. Additionally, our marketing team is working with Digital Relativity to finalize a paid search campaign, initially focusing on 5-7 trade professions. The data gathered from paid search will be used to further focus our outreach. We anticipate a busy spring connecting with our target audience. Just this week, we have two major outreach events taking place: the WV Contractors Association Construction & Design Expo here in Charleston today and tomorrow, and the WV State SkillsUSA competition for trade students at Fairmont State University this weekend. We'll also be marketing Jumpstart at Bridging Innovation Week in Wheeling next month and at several graduation and program completion events at trade schools, apprenticeship programs and career centers statewide.

As of March 15th, we have 21 accounts funded for \$2,254.24. Now that we've attained resolution on the Jumpstart tax issues, our local government staff and I will be turning our focus toward establishing relationships with independent contractors, sole proprietors, owner operators, etc. and anticipate account totals and AUM to climb. We are working with a number of employers interested in matching contributions to employee Jumpstart accounts as a workforce recruitment and retention tool. Overall, she stated that she is thrilled to market Jumpstart with new energy and clarity to its intended audience!

Agenda Item III. Investment Committee Report & Consideration of Investment Policy Statement TAB 3

Mr. Heller was recognized and reported that the Committee met at 9:00 am preceding the full Board meeting. After approving the minutes from the December 7, 2022 Investment Committee meeting, the Committee reviewed a draft Investment Policy Statement prepared by Board staff. The Committee voted to recommend the Investment Policy Statement to the full Board for approval.

The Chair asked if there were any questions for Chris and as there were none, Justin Williams moved to accept the Investment Committee report. The motion was seconded by Dr. Anderson. The members were polled, and the motion carried.

The Chair acknowledged that the Investment Committee voted to recommend the Investment Policy Statement to the full Board for approval and asked if there were any questions for Mr. Heller regarding the Investment Policy Statement. Hearing none, the Chair recognized Ms. Arnold who moved the Board approve the adoption of the Investment Policy Statement and the motion was seconded by Mr. Uy. The members were polled, and the motion carried.

Agenda Item IV. Program Manager Quarterly Report– Hartford Funds TAB 4

Moving to the next Agenda Item, the Chair recognized Chris Morvant and Team to present the quarterly Program Manager's report from Hartford Funds. Mr. Morvant reported they continue to monitor the portfolios and that includes speaking with all of the third-party investment managers as well as our sub advisors to the Hartford Funds products. To

quantify that right across the Smart 529 program as a whole, any exposure to Silicon Valley Bank, Signature Bank and Silvergate Capital was limited to low single digit basis point exposure within some of the passively managed products within the plan. There was one DFA fund within the entire Select plan, one Schwab fund within the advisor plan, and three Vanguard funds within the Direct plan. Those exposures were very low. The range from .01% to .07% within each fund and these are passively managed products. They're tracking a benchmark and as the benchmark constituents are comprised of some of those firms we expect to see some of that. One other product within the plan, the stable value product managed by Invesco had a small .13%. There has been minimal impact to our Smart 529 program and we are continuing to monitor.

Mr. Glendon stated they have been talking about this on a daily basis at the firms, having a lot of discussions between Allison and he, the research team discussions with the PM teams at Wellington and running our reports. We are pleased overall with our positioning.

The Chair asked if they could put a dollar figure on those losses? Mr. Morvant will research and follow-up. The Chair asked what is our exposure right now in terms of long-term Treasury notes? Mr. Glendon responded that across the board, all of our bond managers are going to have some longer duration treasuries within their portfolios. If there are concerns about rates selling off and a longer end, I think we are very well positioned for that.

The Chair asked what kind of the average maturity of those Treasury notes? Mr. Glendon responded that it's going to be about 6 years overall. The Chair continued by asking about the fixed income managers – what is the rest of the mix? Is that CD's, commercial paper, overnight repo? Mr. Glendon responded that the managers are not going to leave it sitting in CD's and banks. There will be small cash amounts, but mostly they are going to be in bonds. We are not going to see municipal bonds as these are taxable accounts. There might be a tiny piece of those sitting out there, but I would say if anything were left, it's inconsequential.

Mr. Morvant continued by moving on to page 2 and reported that the fourth quarter largely continued the challenging market environment throughout that we've experienced throughout 2022. As of December 31st, total program assets were 2.73 billion. That was down about 15% from December 31st of last year when everything was going very well. You know throughout 2022 the S&P 500 was down between 18 and 19%. The Barclays Agg as a proxy for fixed income markets was down between 13% and 14% today. Program assets were up slightly. We started out a little bit more strongly to start the year, but some of those gains have since been given up given some of the recent volatility.

From a sales perspective, sales were down 24% from the same period last year. Numerically, the West Virginia Direct plan led that decline. It was down 32%, but if you back out the Governor's Baby Dog COVID vaccine 529 scholarships which awarded about \$3 million to West Virginia direct plan accounts, Direct sales were only down 21%. We worked with our record keeper across the industry to research how much sales were down nationwide and we are very much in line within the industry.

Similar to sales right, new account activity was down 23%. West Virginia new accounts performed better than nationwide. Those were down 16%, so stronger and would like to attribute that to some of our marketing efforts.

From a call center perspective, on Slide 6, it was a smooth quarter. There were 7500 calls. The average speed to answer is very strong at seven seconds.

Federal legislation passed in December 2022 to the Secure 2.0 Act and that impacts 529. That legislation allowed for limited tax and penalty free 529 plan rollovers to Roth IRA accounts starting in 2024. Our view on this, this is a real positive change for the industry. Probably the biggest hurdles or complaints that we hear about 529 plans is that one of my beneficiaries does not want to pursue higher education and I'm left with funds within the account that I have to take a penalty on the earnings to withdraw for nonqualified distribution. This helps to address that. Beginning in 2024, account owners can roll those amounts into a Roth IRA account for retirement. Retirement is a goal that most, if not

everyone, aspires to. There are a few limitations to the rollovers: the account needs to be open for at least 15 years; subject to the Roth IRA annual contribution limits of \$6500; a lifetime rollover limit of \$35,000; and the eligible rollover amounts must be in the IRA account for at least five years. Only roughly 3% of accounts were eligible from that perspective.

The Chair asked when the rules will be put out for comment period. Mr. Morvant responded that various industry groups are going back to Treasury and the IRS for some clarifications. Probably the biggest clarification is in the instance of a change of beneficiary. - does that reset the 15-year clock?

Hearing no other questions, he handed it to Justine Bartholomew to provide a marketing update. Ms. Bartholomew referred to Slide 8, the year-end website traffic, obviously not a standout year here. We were down 12% year over year in traffic to the site and it's coming from our non-page channel. So that is organic traffic that's coming to the site. Moving to slide 10, we really took a look at our marketing mix for this year moving in the 2023 and we're adding four channels here. One being LinkedIn, which is great channel advertise on affluent client base, probably people that are looking to invest. Another one is a hybrid between standard television ads and digital videos which runs on streaming platforms. It will run on platforms like Hulu and YouTube. We have targeting capabilities there that we wouldn't have through TV commercials. This year we launched a prospecting e-mail, which is a nurture stream that puts people through a series of emails. We are going to hit a bigger mix this year than we have in the past with adding these channels.

We are currently doing OTT (over the top of) statewide but will perform better in certain parts of the state. Native advertising is content based, like scrolling through an article and suggested posts and articles come up. Regular display ads run on any type of shopping sites. Ms. Joynes mentioned the iHeart media campaign. Ms. Bartholomew also presented the 2022 budget.

Hearing no other questions, Mr. Jørn Otte reported his total calls of 3,758 over 45 weeks; 523 appointments; and 390 presentations were given. The most frequent locations were Morgantown, Bridgeport/Clarksburg, Wheeling, Weirton, Charleston, and Beckley. The most frequent industries were medical, accounting, manufacturing, aerospace, state and local governments and schools. Ms. Joynes called attention to Jørn's partnership with the Local Government staff.

Agenda Item V. Program Investment Consultant Quarterly Report – NEPC

TAB 5

Moving to the next Agenda Item, the Chair recognized Tim Fitzgerald from NEPC to present the Program Investment Consultant Quarterly Report. On Page 3, there are a couple of comments about markets before we shift gears and look at performance for the portfolios. Stocks ended the fourth quarter in the black, but the gains were overshadowed by the broader losses of 2022 as persistent and elevated inflation, slowing economic growth, and a hawkish stance from central banks underscored concerns around an economic slowdown. In the U.S., the S&P 500 Index gained 7.6% in the fourth quarter; in the same period, international equities outperformed with the MSCI EAFE Index up 17.3% and the MSCI ACWI ex U.S. Index returning 14.3% driven by better-than-expected earnings and a selloff in the U.S. dollar.

Doubling down on its commitment to rein in inflation even at the expense of economic growth, the Federal Reserve boosted the Fed Funds rate by 75 basis points in October and 50 basis points in December—its sixth and seventh rate hike in 2022—bringing the benchmark rate to 4.25% to 4.5%, the highest level in 15 years.

Reporting on WV Direct Age-Based portfolios it was reported that Age-Based 0-3 was 8.90% over the benchmark of 7.59% and Age-Based 18+ was 1.77% which was below the benchmark of 1.94%. The Chair asked about passive products and how they are weighted in tech stocks. Mr. Fitzgerald responded that our passive funds would match our benchmarks weighting. Ms. Mortenson replied that the actively managed funds do have some more heavily weighted in tech stocks, but we offset that with portfolios that have the offsetting effects in the value space.

The Chair inquired about energy stocks. Mr. Glendon responded that to give the idea of the scale in the S&P 500 energies, they are only 5% or so of the index now. And that's even after this great rally that energies had over the past couple years. Approximately a year ago, the entire energy sector was like 3% of the S&P 500.

Moving to page 11, Mr. Fitzgerald reported more losses in lower age-based portfolios due to equity exposure but performing well against benchmarks. Stable value has been key when compared to peer groups. As shown on page 14, Select plan, the DFA portfolios, has done well over the last quarter and the last year versus their benchmark and peers value has performed well over the last 12-18 months. As a result of the really strong recent numbers that impact over the 12 to 18 months, is reflecting now in those longer term three-, five- and seven-year performances.

The Chair asked if there were any questions. Hearing none, he moved to the next Agenda item.

Agenda Item VI. Other Business

The Chair announced that the next quarterly meeting of the Board is scheduled for June 7, 2023.

The Chair then announced that, following the Board meeting today, Andrea Feirstein of AKF Consulting, will provide a continuing education presentation surrounding the history, legislation, and business models for 529 plans. This presentation has been approved for CPE credit by the WV Board of Accountancy and CLE credit by the WV State Bar

Is there any further business to be brought before the Board?

Adjournment

As there was no further business, Mr. Smith moved the meeting be adjourned and the motion was seconded by Mr. Heller. The members were polled, and the motion carried. The Chair declared the meeting adjourned 11:04 am.

Prepared by Lynda King

Approval Date: June 7, 2023

Submitted by:



Riley Moore, WV State Treasurer

Chair, Board of Trustees