

**Maryland 529
Board Meeting Minutes
Conference Call**

**October 29, 2020
9:30 AM – 12:00 PM
Held by Conference Call**

Call-in #: 1-866-899-4679 Access Code: 799-882-149

**Board Members/Designees Present via
Conference Call**

Nancy K. Kopp, State Treasurer and Board
Chair
Geoffrey Newman, Secretary of Higher
Education's Designee and Board Vice-
Chair
Carol Beatty, Secretary of Maryland
Department of Disabilities
Amalie Brandenburg, Superintendent of
School's Designee
Ellen Herbst, Chancellor of University
System of Maryland's Designee
Sam Gallo
Jessica McClain
Joanna Pratt
Peter Tsirigotis

Staff, Representatives and Guests

Erin Layton, Executive Director and
Interim-Director of Investments & Cash
Management
Janaki Kannan, Director of Finance
Bette Ann Mobley, Director of ABLE
Michelle Winner, Director of Marketing
Meghan Marek, Assistant Attorney General
Maria Dodge, Executive Assistant
Glenn Ross, Marquette Associates
Dave McAvoy, T. Rowe Price
Christine Akins, T. Rowe Price
Sally Reinfenstahl, BNY Mellon
Graylin Smith, SB & Company

Board Members Absent

Justin Hayes, Maryland Comptroller's
Designee and Board Secretary
Dr. Lisa Weah

Maryland 529 Board Meeting

Treasurer Kopp called the meeting to order at 9:35 AM.

- Approval of Minutes

Treasurer Kopp asked for comments on the minutes from the September 10, 2020 and October 19, 2020 Board meeting. There being no comments, and upon motion duly made and seconded, it was unanimously

RESOLVED, that the minutes for the September 10, 2020 and October 19, 2020 Board meeting are hereby approved.

Treasurer Kopp asked for comments on the minutes from the October 19, 2020 Board meeting's closed session. There being no comments, and upon motion duly made and seconded, it was unanimously

RESOLVED, that the minutes for the October 19, 2020 Board meeting's closed session are hereby approved.

- SB & Company Annual Audit

Mr. Smith, SB & Company ("SB") summarized the annual financial audit for Maryland Prepaid College Trust ("MPCT"), Maryland College Investment Plan ("MCIP") and the ABLE plan. SB did not identify any instances of fraud, no material weaknesses and they had complete cooperation and full access from management with no audit journal entries noted. Mr. Smith reviewed the risk based audit approach that was used. SB reviewed the balances, looked for unexpected results, reviewed third party information, and examined internal documentation for action and legal confirmations. Mr. Smith specifically referenced the risk areas reviewed for each plan and the effectiveness of the internal controls pertaining to the environment and individual process. After understanding the process, SB did a walk through to see what could go wrong and tested and evaluated the process. SB concluded that the processes and controls were effective.

While the annual financial audit is not a fraud audit, SB reported that they had nothing of a material nature to report from the MCPT audit. SB agrees with management's process improvements and recommended the Agency continue doing what they have been doing.

Sally Reinfenstahl joined the meeting.

- Audit and Governance Committee

Ms. Herbst requested that Ms. Layton provide an update on the forensic audit. Ms. Layton reported that there are no findings at this time from Grant Thornton but did explain that they had requested 150 account transaction samples from the population. The Agency has requested 75 additional boxes from archives for review, in addition to the 200+ boxes already at the office. Ms. Layton requested GT to estimate the cost for their staff to review the requested boxes as she is unsure if the MD529 staff will be able to complete the review timely.

Ms. Layton reminded the Board that it has already approved \$425,000 or up to \$475,000 with the two renewal periods. GT has brought in more people to move the project forward which is increasing costs, but the \$50,000 in the renewal can't be moved to the base period per Office of State Procurement (OSP). GT has estimated that the additional workload will cost about \$35,000 a week but it is unclear how much in office time will be needed. The quote is in line with the rest of GT's detailed invoices. Based on this and with the support of the Committee, Ms. Layton requests that the Board approve an additional \$100,000, which would allow for the base period amount to be increased from \$425k to \$475K and then and an additional \$50k, which would be subject to OSP approval, in the event the funds are needed. This would take Board approval of base-term costs for the contract from \$425k to \$525k. Ms. Layton is hoping to stay within the first \$50,000, but doesn't want to have to come back to the Board if additional monies are needed. Ms. Layton is hoping to have a report at the November Board meeting and will keep the Audit & Governance

Committee apprised of the status. There being no more discussion and upon motion duly made and seconded, it was unanimously

RESOLVED, that the Board approves a contract modification of \$50,000 and the request for an additional contract modification with OSP's approval of an additional \$50,000 if needed.

- Investment Committee Report

Ms. Pratt reported that the Investment Committee reviewed the GRS pricing scenarios, which included keeping the contract pricing flat or with a pricing reduction. After a discussion regarding fairness and operational issues if the pricing were reduced at this time, as opposed to after a full refund analysis can be completed, it was determined that the pricing should be kept flat. There was also discussion regarding the overfunding issue. The Committee suggested that Ms. Layton come back with a recommendation for proceeding with a funding rebate process. Ms. Layton pointed out that the pricing was not being presented as a separate vote at this time but would rather be included in the approval of the Disclosure Statement review and approval later in the meeting.

Ms. Pratt thanked Mr. Tsirigotis for his review and revisions for consistency of the Investment Policy Statements. Ms. Pratt then informed the Board that Mr. Gallo and she reviewed the statements for minor content edits for the purpose of clarification. The only issue discussed by the Committee was that the role of the Investment Committee and Board is for oversight and not as a decision making body. Investment recommendations will come from Ms. Layton and the team. There being no more discussion, and upon motion duly made and seconded, it was unanimously

RESOLVED, that the Board approved the Investment Policy Statements as presented.

- Annual Reports, Highlight Brochures, and Disclosure Statements

Ms. Layton noted that the Annual Report Summary and the ABLE Disclosure updated will be presented in November.

Ms. Winner noted that the final piece to be included in the report will be the letters from SB that were discussed earlier in the meeting. She will look to upload the report on the website by October 31, 2020. She then reviewed the MCPT and MCIP Annual Statement, including the Board letter. Ms. Winner explained that Hatcher conducted a photo shoot using local families, which resulted in new photos being used and, as the report is now online, it has been created in color this year. The Report uses the standard template from previous years. The Financial Statements and accompanying notes are included in the report, which ties back to the Audit & Governance Committee's discussion held earlier in the month. There being no further discussion, and upon motion duly made and seconded, it was unanimously

RESOLVED, that the Board approves the Maryland 529 2020 Annual Report.

Ms. Winner presented the MCPT and MCIP Highlights Brochure for Board approval. With suggestions for minor revisions to the Board letter, and upon motion duly made and seconded, it was unanimously

RESOLVED, that the Board approve the Highlights Brochure for the Maryland Prepaid

College Trust and Maryland College Investment Plan, subject to revisions discussed.

Ms. Winner reviewed the MPCT Disclosure Statement noting that the enrollment kit copy will be in black and white and the website version will be in color. Ms. Layton reported that the Agency has extended the upcoming enrollment period to June 30, 2021. Ms. Winner said that this was better for marketing purposes as the State Contribution Program ends on May 31, 2021 and it gives the Agency another month to market the plan by itself.

Ms. Marek reported that there was a reorganization of some of the Articles to make the document more readable. She summarized the key changes including moving the termination provision from Article VI to the end of Article VIII. She explained that operating expenses have now been defined separately since they are referred to in several definitions. A definition of Minimum Benefit was also added. The Agency added a broad overview of the rollover section. The new beneficiary provision answers an operational challenge regarding the transfer of beneficiary from one sibling to a much younger sibling when there is no contract price available for the younger sibling. The transfer contract will now be at the current price point.

Ms. Marek reported that the cyber security paragraph was added as a general risk warning that is not unique to Maryland 529 but broader. There was discussion that the Agency has made improvements to cyber security by moving the Cloud that is managed by DoIT and the next step is by moving to a new program manager for the MCPT. It was also noted that T. Rowe Price (“TRP”) also has systems in place. The Board recommended that the paragraph be revised to explicitly note that cyber security risks are not specific to Maryland 529 but a general statement. There being no further discussion, and upon motion duly made and seconded, it was unanimously

RESOLVED, that the Board approves the Disclosure Statement and Enrollment Form for the Maryland Prepaid College Trust, subject to the revisions discussed.

Mr. McAvoy, TRP, summarized the key changes to MCIP’s Disclosure Statement including an expansion of the general risk provision to include market volatility due to various events, a portfolio name change, the same cyber security notice as MCPT, and a notice regarding timelines for various data included in the documentation. TRP will work with Maryland 529 regarding making changes to their cyber security notice. Mr. McAvoy also reviewed the cover letter for approval. There being no further discussion, and upon motion duly made and seconded, it was unanimously

RESOLVED, that the Board approves the Disclosure Statement for the Maryland College Investment Plan, subject to the revisions discussed.

- ABLE Annual Report

Ms. Layton noted that this was the third annual report for the ABLE program and the structure has been setup to mirror both the MPCT and MCIP where possible. Ms. Mobley discussed the report and pointed to the pictures and the intent to reflect the diversity of ABLE account holders. She also highlighted that this year the report is using a single column format as it is more accessible to account holders. Ms. Mobley reviewed the Board letter which is a celebration of the success and growth. She also noted that this year, they were able to include numbers that show how Maryland ABLE compares nationally. This year’s report reflects some beneficiary spikes in the transitional age and mid-life population, with the mid-life increases due in part to Authorized Legal

Representatives. The rest of the report is similar to previous years. Ms. Mobley reported that the Disclosure Statements will be ready in November due to the new regulations that were recently issued and are being incorporated. There being no discussion and upon motion duly made and seconded, it was unanimously

RESOLVED, that the Board approves the Maryland ABLE 2020 Annual Report .

Ms. Layton indicated that final regs for the ABLE program had been released and that both Ms. Mobley and Ms. Marek were reviewing before bringing back comments to herself and the Board.

- ABLE Quarterly Report

Ms. Sally Reinfenstahl, BNY Mellon (“BNY”) summarized the ABLE September 30th results which reflect \$20M in assets under management and account balances being above the national average. As of this morning, there were 2,629 accounts and \$20.7M in assets under management. BNY looked at closing zero balance accounts that have been inactive for 12 consecutive months, but discovered they can’t open a new account under the same social security number, so they are looking at putting a process in place by the end of the calendar year to fix this issue. Ms. Reinfenstahl summarized the plan rollovers and gifting. Pursuant to the request at the last meeting, Ms. Reinfenstahl reviewed that there have been 1,230 gifts to 241 beneficiaries totaling \$1.45M in contributions with ACH and checks from family members being the biggest number of contributors. She noted that funded accounts increased, potentially due to Covid-19 and people not traveling as much and therefore have more funds to put into their accounts; but, also noted that distributions have increased, which may also be due to Covid-19 and lost income or people simply spending more money from home. They have a new staff member that will be investigating these trends and looking for explanations.

Ms. Reinfenstahl reported on account distributions across the state and ALR statistics. There was a discussion regarding the growth opportunities in specific geographical areas.

Mr. Tsirigotis left the meeting at this time.

- Morningstar Update

Ms. Layton reported that Morningstar has issued a Silver rating for Maryland 529. During her meeting with Morningstar, there were no negatives reported but Morningstar did override its original Bronze rating due to the new rating system implemented this year.

- State Contribution Update

Ms. Layton requested advice from the Board regarding the State Contribution Program. As of now, requested funds will total approximately \$14M, with only \$10M dollars currently budgeted, and it is not known if additional funds will be available this year. Due to the extended tax filing deadline, it is unknown when the Comptroller’s office will be finished with their processing. The processing completed by the Comptroller’s office impacts who is deemed eligible or not when receiving a contribution to their account. The Agency is trying to avoid asking for additional funding multiple times in order to provide for additional account holders. There was a discussion of the potential issues of not meeting deadlines and it was determined that Ms. Layton will continue to

communicate with the DBM budget analyst, the DLS analyst and the Comptroller's Office to try to work through the issue.

- MCIP Quarterly Report

Mr. McAvoy, TRP, summarized the September report, including the program's record breaking growth numbers. He reported both TRP and the industry's distributions were up sharply compared to historical September numbers, with the primary driver thought to be college costs being delayed from the typical July timing. There was a 7.3% increase from the prior year with 2,600 new accounts and 236,000 beneficiaries, exceeding the industry average. The plan and the industry are seeing about 30% of college families making changes with about one third opting to change from private to public college, one third are choosing community college versus a four year program and one third are taking a gap year. Mr. McAvoy indicated that although their customer service team is handling the more complex situations, digital usage is up 6% from last year and 84% of new accounts are being opened online. He also indicated that since the onset of COVID about 4% of account holders moved into money markets or bond funds. TRP is looking to see what they can do help account holders understand their allocations so they are taking advantage of the market and maximizing their portfolios.

There was a discussion that the University System of Maryland is seeing the same numbers regarding college choice changes and there is a concern that the gap year might actually represent some students simply choosing not to attend college instead of the taking a traditional gap year but it is too soon to determine if that is the case yet.

- Executive Director's Report

Ms. Layton provided a staffing update. The posting of the contractual Associate Director of Finance is expected to occur by early next week. That position is expected to last for approximately six months and will be a back-up to Ms. Kannan. About half of the Procurement Offer interviews have been completed with some good candidates in the pool. The two Director of Investments and Cash Management applicants are being interviewed by the Directors and then one or both of them will be brought in to interview with Ms. Pratt and Ms. Layton.

In response to an inquiry about communications to staff regarding the program manager contract, Ms. Layton responded there have been discussions with the staff and that there is hope that some of the deficiencies within the office will be addressed when the program manager is put in place. She also indicated that there doesn't appear to be any roadblocks in completing contract negotiations with the new program manager. Ms. Layton has reached out to the Department of Information Technology to inform them that a program manager should be in place soon and they were happy to hear the news.

Ms. Layton informed the Board that investments continued to be strong and all of the changes approved over the last six months have now been completed with the exception being the real estate reduction and funding of an infrastructure manager. Those will take approximately 1 year to complete but she is working with Marquette to interview managers. She indicated that she is carrying more cash than usual in anticipation of the peak season coming at the end of November and the expected volatility in the markets around the election. Ms. Layton also reported that the marketing department is working on the website design and ABLE continues to increase its assets.

There was a discussion regarding the timing of some of the legislative projects and it was suggestions that the Agency check with its legislative contacts to see when everything will need to be presented.

Mr. Tsirigotis rejoined the meeting at this time.

- Legal Update

Ms. Marek reported that the ABLE IRS regulations dropped on October 2, 2020, which included much more than the draft had indicated causing a delay in finalizing the ABLE Disclosure Statement. Ms. Marek said that there may be a few things that can be implemented by December and some that will wait until later and since it is online it can easily be updated. There have been, and will continue to be, national meetings with subgroups reviewing key issues in the regulations. Maryland ABLE is participating in the charter subgroup, which is reviewing the multi-state programs and there are a number of additional issues including the scope of powers of attorney, structure of multi-state programs, tax contribution issues and sub-accounts.

There being no new business and upon motion duly made and seconded, it was unanimously

RESOLVED, that the Board meeting be adjourned at 11:55 AM.

Approved:  Date: 11/24/2020
Justin Hayes, Board Secretary

Exhibit List

- | | | | |
|------|---|------|---|
| 01A- | Agenda | 6A- | Maryland 529 Annual Report |
| 01B- | Draft Minutes 9/20/20 | 6B- | MPCT 2020 Highlight Brochure |
| 01C- | Draft Minutes 10/19/20 | 6C1- | MPCT 2020 Disclosure Statement
Key Changes |
| 3- | SB – Annual Financial Audit
Presentation | 6C2- | MPCT 2020 Disclosure |
| 4- | Audit & Governance Committee
Title Page | 6D1- | MCIP Summary of Changes |
| 5- | Investment Committee Title Page | 6D2- | MCIP 2020 Cover Letter for
Disclosure Update |
| 5A1- | GRS Pricing Scenarios | 6D3- | MCIP 2020 MCIP Disclosure |
| 5A2- | GRS 2020 MPCT Valuation | 6E- | ABLE 2020 Annual Report |
| 5B- | 2020 MPCT Investment Policy
Statement | 7- | BYN – Maryland ABLE Report –
Q1 – FY2021 |
| 5C- | 2020 MCIP Investment Policy
Statement | 8A- | T. Rowe Price MCIP Update |
| | | 9- | Executive Director’s Report |
| | | 9B- | Maryland 529 Project List |