



**CLINT ZWEIFEL**  
MISSOURI STATE TREASURER

**August 17, 2016**

FROM: Bruce A. Ring, Jr.  
Director of Investments

RE: 2015 Annual Program Review

Section 166.450 of the Revised Statutes of Missouri requires the Director of Investments of Treasurer Zweifel's office to annually review the Missouri Higher Education Savings Program ("MOST") and report those findings to the MOST Board ("Board"). The director must review five areas:

- Board administration
- Financial status
- Investment policy
- Participation rate
- Continued viability

Accordingly, I am pleased to report the following from my review for calendar year 2015.

## **I. Board Administration**

Ascensus College Savings Recordkeeping Services, LLC serves as MOST's program manager, record-keeper, and servicing agent. Together with its affiliates, Ascensus College Savings has overall responsibility for the day-to-day operations of the plan. Formerly known as Upromise Investments, Ascensus College Savings assumed responsibility as recordkeeping and servicing agent, for both the Direct and Advisor Plans on June 3, 2006. On February 7, 2011, the Board entered into another contract with Ascensus College Savings, following a Request for Proposal ("RFP") process. The new contract extends to June of 2016. As the Board is aware, we issued an RFP for program management services in 2015. On February 8, 2016, a new contract was entered into with Ascensus College Savings extending the contract service period to June of 2021. In addition, the Board met quarterly during 2015, as required by law.

Under the terms of the new contract, the Advisor Plan was closed and the assets were transferred into the Direct Plan in 2016. As such, this annual review will not address the financial performance of the underlying funds or the continuing feasibility of the Advisor Plan.

## **II. Financial Status**

Following is a review of the financial status of our major partners and a summary of the investment performance of the investment options within the MOST Plan.

#### *A. Financial Status of MOST Partners*

Ascensus College Savings is part of Ascensus, Inc., the largest independent retirement and college savings services provider in the United States, helping over six million Americans save for the future. With more than 30 years of experience, the firm partners with financial institutions to offer tailored solutions that meet the needs of financial professionals, employers, and individuals. Ascensus specializes in recordkeeping, administrative, and program management services, supporting over 43,000 retirement plans and 3.8 million 529 college savings accounts. It also administers more than 1.5 million IRAs and health savings accounts.

The investment manager for the Direct Plan, The Vanguard Group, Inc., remains a strong franchise. Vanguard is one of the world's largest investment companies, offering about 280 low-cost traditional funds and ETFs. As of January 31, 2016, more than 20 million investors in about 170 countries have entrusted Vanguard with more than \$3.5 trillion in global assets under management. Vanguard continues to be a leader in the 529 plan industry, evidenced by over \$60 billion in 529 savings and pre-paid tuition plan assets under management. Headquartered in Malvern, Pennsylvania, Vanguard has about 14,000 employees spread across 16 locations worldwide.

#### *B. Performance of MOST Underlying Funds*

Overall, 2015 had a mixed performance from equity, with a slightly more positive performance from fixed income, although the overall performance of all funds would best be described as marginal due to market forces. All but one of the fixed income funds showed positive results for the year while only around ⅓ of the equity funds showed positive results. Equity funds showed results ranging from -4.22% to +6.86%, while the fixed income results ranged from -0.17% to 1.14%. The negative results in funds can be attributed to low inflation and poor performance in value and international equity sectors.

In 2015, the returns on the underlying funds in the Direct Plan were much less varied than the returns we saw in 2014. The annual returns ranged from -4.22% in Vanguard Explorer to a high of 6.86% in the Vanguard Morgan Growth Fund. In 2014, the one-year returns of the funds in the Direct Plan, excluding the Interest Accumulation Portfolio ranged from -5.77% (Vanguard International Growth Portfolio) to +12.34% (Vanguard Total Stock Market Index Portfolio). Underlying fund performance was similar in that the plan showed mixed returns for the year. Funds with an international component tended to perform poorer in 2015 than in 2014.

Treasurer Zweifel's office is responsible for monitoring the relative performance of each of the underlying investment alternatives versus an established benchmark. This effectively measures the contribution that the investment manager's expertise has on participants' returns. During calendar year 2015, both absolute returns and relative performance were mixed. Six of the 11 underlying portfolios performed at or slightly above benchmark, while the other five funds lagged. While index funds are expected to be at or below benchmark, depending on the extent to which they stray from exact matching of the index, actively-managed funds are expected to exceed those benchmarks. But, with one exception, the actively-managed funds generally missed those benchmarks this year. The Vanguard Actively managed funds have been replaced by DFA funds beginning in 2016. To summarize, the investment managers' overall contribution to participants' returns was negative, albeit modestly. All passive (index tracking) funds performed satisfactorily, and experienced low-tracking error of returns versus their relevant indices.

### **III. Investment Policy**

In mid-2007, the Board adopted a formal investment policy governing program investments. The policy establishes objectives for structuring the investment options; formulates policies for selecting appropriate investment managers and the use of specific investment vehicles; and establishes an investment-performance process for underlying funds in the Plan. The policy is an important statement by the Board in terms of defining its fiduciary responsibilities and standards for Treasurer Zweifel's office staff and MOST partners.

Since its adoption, the policy has been amended twice. In 2008, the Board modified the policy to allow the Director of Investments, rather than the Board, to place a fund on, or release it from, the "WATCH" status.

In August 2011, the Board made several modifications to the policy. The Board lengthened a fund's formal review period—specifically, up three consecutive quarters from two—when looking at benchmark performance evaluation for the Watch List. When determining a fund's Watch List eligibility and quarterly performance, the Board also added "Beta" and "Alpha" measures to a review process. Finally, the Board eliminated the "value of active management" measurement criteria.

In 2015, the Board reviewed, but did not change, the investment policy.

### **IV. Participation Rate**

The following is an examination of the participation rate of the MOST programs. By examining the participation rate for the program, we can attempt to gauge the relative success the program has had in reaching the state's residents and encouraging them to increase college savings—the original goal of the IRS section authorizing these programs. The relative success or failure of states' various 529 programs rests on many different factors including the effectiveness of marketing efforts, availability of a state tax deduction, demographic and economic conditions, cost structure and the abilities, and resources of states' partners to attract and retain assets. However, one facet that has remained a constant is the competition for assets among states' program managers, which remains fierce.

#### *A. Growth of Plan in 2015*

The MOST Plans experienced growth in both assets and accounts during the year. The asset growth in 2015 is due to both investment returns and increased contributions. The positive change in number of accounts is primarily the result of plan marketing, increased awareness, and popularity of the program.

Combined plan assets (including both Direct and Advisor) grew by a rate of 0.8% as compared to an 8.57% growth rate last year, ending the year at approximately \$2.492 billion as compared to year-end 2014 at \$2.472 billion. Growth was slowed in both plans due to slowing growth in new accounts as well as relatively poor market performance when compared to the last three or four years.

Contributions outpaced withdrawals in the combined plan. Total combined contributions for both plans were slightly over \$270 million, while withdrawals were \$227 million. Contributions in 2015 were roughly equivalent to 2014 versus growth of \$3.8 million in 2014, \$13.1 million in 2013 and \$26.2 million in 2012. While the rate of growth in contributions has slowed, the plan as a whole is continuing to grow.

The number of accounts grew again in 2015 for a total of 153,826 combined accounts at year-end, which is a 3.6% increase over 2014. The Direct Plan grew at a rate of 4.01% which is in keeping with the 4.51% growth rate of our peer group. The rate of growth has slowed but positive growth is still occurring. The vast majority of accounts are Missouri residents which account for almost 90% of account ownership.

### *B. Comparison of MOST Participation to National Trends*

Nationally, assets in 529 Plans on average have grown significantly over the past decade, but at a decreasing rate. Similar to Missouri, levels plummeted in 2008 due primarily to the financial market performance, but accounts have continued to grow signaling that popularity and awareness across the country is on the rise. Overall, the growth trends for Missouri's MOST Plan, both in respect to assets and accounts, have consistently mirrored the national rates over the past several years.

For 2015, MOST assets grew by 0.8% (both plans combined) compared to a national growth in assets for 529 plans of about 2.8%. Our Direct Plan showed more growth (1.29%) than did our Advisor Plan (-4.2%). When compared to national numbers, this lag in performance is similar to what we saw in 2014, but when compared to our peer plan group, MOST Direct fared much better and actually outperformed 4 out of 6 members of our peer group. MOST's five-year compound growth rate of 9.19% is comparable to its peer-group growth rate of 10.51%.

## **V. Continued Viability**

The MOST 529 Plan remains a viable college savings program. In Ascensus College Savings' 9½-years of program management, we have experienced strong trends in asset and account growth despite the market turmoil that plagued much of this period. We also saw an upswing in the number of new beneficiaries enrolled in the plan, which shows growth of new customers.

Throughout the economic downturn and subsequent recovery, the Plan's performance has been resilient. The fact that participants weren't required to make non-qualified withdrawals on a large scale during this period is promising. As a result, the majority of participants should have experienced full recovery of their college savings account balances and some asset growth. The economic environment remains challenging, but it appears the economy is on the road to a slow and steady recovery.

In an effort to further strengthen our future performance, the Board decided to close the Advisor Plan and migrate the accounts into a revamped Direct Plan with broader offerings to appeal to those people in the Advisor Plan who may have wanted something other than a true index fund. The addition of DFA funds will enhance our program offerings and should improve our overall plan.

Missouri's MOST 529 Plan remains not only viable, but well positioned for growth as one of the premiere plans in the country.