MAY 15, 2023

AGENDA ITEM 1
INFORMATION ITEM

CALIFORNIA ABLE ACT BOARD

Executive Director’s Report

Background

The Executive Director’s Report included an overview on the following items:

- Program Update
  - Assets Under Management
  - State Legislative Update
- Operations Update
  - Staffing
- Outreach Update
  - Partner Toolkit
- Conversion Update
  - Conversion Communication
  - Proposed Change to Underlying Fund

Presenter

Dante Allen, Executive Director, California ABLE Act Board

Attachments

- Attachment #1 – CalABLE Partner Toolkit Cover Page and Table of Contents
- Attachment #2 – Conversion Letter to CalABLE Account Holders
- Attachment #3 – Meketa Memorandum

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CALIFORNIA ACHIEVING A BETTER LIFE EXPERIENCE ACT BOARD
EXECUTIVE DIRECTOR'S REPORT

May 15, 2023

Program Update

Assets Under Management

CalABLE reached $101 million in assets under management during Q1. This is an exciting achievement for CalABLE and highlights the faith that CalABLE account holders have in the CalABLE Program.

State Legislative Update

AB 339 (California ABLE Age Adjustment): Staff have been monitoring, Assembly Bill 339 (Irwin), which would revise the definition of "eligible individual" under the Qualified ABLE Program by increasing the age limit for when an eligible individual's blindness or disability occurred to 46 years of age to conform with federal ABLE Act beginning January 1, 2026. Staff have created a sample letter of support for the public to share with their representatives.

Executive Director Dante Allen testified in support of AB 339 in March 2023. AB 339 has been re-referred to the Committee on Appropriations.

Operations Update

Staffing

CalABLE has hired Cynthia Aguayo, a retired annuitant, to provide project management support for the program administration conversion of the CalABLE Program from TIAA-CREF to Vestwell State Savings.

CalABLE has conducted interviews and plans to make a hire for the SSA/AGPA bilingual position to assist with outreaching efforts in the Spanish community.

Outreach Update

Partner Toolkit (Attachment #1)

CalABLE launched the Partner Toolkit on March 3, 2023, through the CalABLE listserv and social media sites. Since launch, 380 people have signed up to receive the Partner Toolkit. CalABLE is sending hard copies of the Partner Toolkit to 111 partnering organizations, including the Board and CalABLE ambassadors.

The Toolkit can also be downloaded from https://www.calable.ca.gov/resources.

Staff has redirected their outreach efforts to awareness and education about CalABLE accounts. Outreach towards enrollment will begin in the fall, when new program enhancements are available.

Conversion Update

Conversion Communications (Attachment #2)

On May 11, 2023, a letter from Executive Director Dante Allen went out to CalABLE account holders informing them of the upcoming program administrator change. This letter is currently posted on the CalABLE website: https://www.calable.ca.gov/.

Proposed Change to Underlying Fund (Attachment #3)

Vestwell State Savings has proposed a fund change to the Emerging Markets Debt fund within their fund lineup, replacing Vanguard Emerging Markets Government Bond Index (VGAVX) with the Vanguard Emerging Markets Bond Fund (VEGBX). Meketa Investment Group (“Meketa”) conducted a review of the proposed fund change consisting of several factors, including review of fund performance, fee comparison as well as portfolio characteristics. After review, Meketa concurred with the recommendation as they believe there are compelling reasons for active management in the Emerging Markets Debt space.

Attachment #1
CalABLE Partner Toolkit Cover
Page and Table of Contents

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CalABLE
Partner Toolkit

Dear Friends,

I'm pleased to share the CalABLE program with you and, by extension, those you care for and about. CalABLE can truly be a life-changing tool that is creating financial freedom and equity for people living with disabilities.

Opening a CalABLE account allows people living with disabilities to invest in their futures while preserving their benefits. Before CalABLE accounts existed, people with disabilities receiving government benefits couldn't save more than $2,000 or they were at risk of losing their benefits. Today, anyone with an account can save up to $100,000 and keep receiving government benefits.

CalABLE accounts can be used for many different disability-related expenses, including education, employment support, housing, transportation, assistive technology and healthcare.

On the following pages, you'll find basic information about the program, and a range of ways to share the program with the people you know.

I welcome you to the CalABLE community,
and hope you find this guide helpful.

Fiona Ma, CPA
California State Treasurer

A Partner's Guide to **CalABLE**

CalABLE is a savings and investment plan offered by the state of California to individuals living with disabilities.

If you live with, work with, support, teach, advocate for, or simply know people living with disabilities, **this CalABLE toolkit is for you**.

On the following pages, you'll find these sections:

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Attachment #2
Conversion Letter to
CalABLE Account Holders

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Email to all account holders. Also, replaces letter from Treasurer Ma on public website homepage.

Header for website: CalABLE Announces Upcoming Changes

Subject line for email: Important CalABLE Update

Dear CalABLE Community:

The CalABLE team is excited to announce some upcoming changes to CalABLE. Beginning in late August, Vestwell State Savings (Vestwell) will become the contracted Program Administrator for CalABLE.

Why did we make this change?
This change was necessary due to the ending of our current Program Administration contract with TIAA-CREF, Tuition Financing Inc. (TFI). Vestwell was selected in an open-bid process to manage the CalABLE program going forward.

The program administrator performs many functions related to the day-to-day management of CalABLE accounts. The administrator recommends the investment portfolios, manages customer service and transactions, performs banking and financial custody functions, including securing a prepaid card vendor, and operates the CalABLE website. The change to Vestwell means we will be introducing new resources, like a new website and mobile app, more investment options, and new ways to access CalABLE, like direct deposit from Social Security.

Why was Vestwell selected?
CalABLE received multiple bids from firms seeking to become our program administrator. Ultimately, we chose the bid we felt would be best for current and future account holders.

Vestwell has a rich history managing ABLE and college savings plans for other state programs, as well as a deep appreciation for the disabled community. Combined with the CalABLE team's understanding of CalABLE account holders, this partnership ensures CalABLE remains a great resource for the CalABLE community.

What does this mean for you?
There is nothing you need to do today; however, this change will require additional action on your part. In the coming weeks, we will share instructions and a timeline of the steps you will need to take to complete this transition with minimal interruption. We are doing everything we can on our end to ensure a smooth transition and have developed a guide to help you every step of the way. This guide will be mailed to all account holders later this summer as the transition approaches.

We are excited to begin this journey and introduce you to the new CalABLE. In the meantime, please stay tuned for important communication regarding the transition.

And as always, thank you for being a CalABLE account holder, and entrusting us to help you achieve a better life experience. If you have questions, please don't hesitate to contact us.

Sincerely,

Dante Allen
Executive Director, CalABLE

The CalABLE Program is offered by the State of California. TIAA-CREF Tuition Financing, Inc. (TFI), program manager. TIAA-CREF Individual & Institutional Services, LLC, Member FINRA, distributor and underwriter. **Consider the investment objectives, risks, charges and expenses before investing in the California 529A Qualified ABLE Program (CalABLE Program). Please call toll-free 833-CAL-ABLE for a Disclosure Statement containing this and other information. Read it carefully.**
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Attachment #3
Meketa Memorandum

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MEKETA INVESTMENT GROUP

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MEMORANDUM

TO: California ABLE Board
FROM: Eric White, CFA; Kay Ceserani; Inwoo Hwang;
Meketa Investment Group
DATE: March 30, 2023
RE: Recommendation on Proposed Change to Underlying Fund

Summary

Meketa Investment Group ("Meketa") has conducted a review of the proposed fund change to the Emerging Markets Debt fund within the Vestwell fund lineup, replacing Vanguard Emerging Markets Government Bond Index (VGAVX) with the Vanguard Emerging Markets Bond Fund (VEGBX). The review of both funds consisted of several factors, including review of fund performance, fee comparison as well as portfolio characteristics. **After review, we concur with the recommendation as we believe there are compelling reasons for active management in the Emerging Markets Debt space.**

Background

Vestwell was awarded the Program Manager contract after the RFP Review in January. In the original proposed line up of funds, the Vanguard Emerging Markets Government Bond Index was included as the sole Emerging Markets Debt exposure in the plan. Recently, we received communications from Vestwell proposing to replace Vanguard Emerging Markets Government Bond Index with the Vanguard Emerging Markets Bond Fund, an actively managed emerging market bond fund. In our review, we compared the funds' respective returns as well as portfolio characteristics (fees, portfolio composition, etc).

Performance

Trailing Period Returns					
Fund Name	Qtr	1 Yr	3 Yr	5 Yr	S.I.
Vanguard Emerging Markets Bond Fund	9.83%	-13.02%	-0.36%	2.98%	3.02%
Vanguard Emerging Markets Government Bond Index Fund	7.94%	-16.67%	-4.73%	-0.85%	1.78%
Difference	1.89%	3.65%	4.37%	3.83%	1.24%
Bloomberg USD EmergMkt GovRIC CapIx	*8.04%*	*-17.09%*	*-4.85%*	*-0.88%*	*1.80%*
JP Morgan EMBI Global Diversified	*8.11%*	*-17.78%*	*-5.28%*	*-1.31%*	*-1.22%*

Calendar Year Returns					
Fund Name	2018	2019	2020	2021	2022
Vanguard Emerging Markets Bond Fund	-0.70%	17.86%	15.17%	-1.24%	-13.02%
Vanguard Emerging Markets Government Bond Index Fund	-2.77%	14.00%	5.81%	-1.93%	-16.67%
Difference	2.07%	3.86%	9.36%	0.69%	3.65%
Bloomberg USD EmergMkt GovRIC CapIx	*-2.60%*	*14.03%*	*5.79%*	*-1.78%*	*-17.09%*
JP Morgan EMBI Global Diversified	*-4.26%*	*15.04%*	*5.26%*	*-1.80%*	*-17.78%*

As can be seen in the prior tables, the passively managed Vanguard Emerging Market Government Index fund has closely tracked its benchmark, the Bloomberg USD Emerging Market Government Index. The actively managed Vanguard Emerging Markets Bond fund has significantly outpaced its index in all measured trailing periods. In addition, the fund has outperformed the Vanguard Emerging Markets Government Bond Index Fund over all time periods.

Non-Performance Metrics	Portfolio Composition (as of 2/28/23)			
Fund Name	Expense Ratio	# of Bonds	Yield to Maturity	Average Duration
Vanguard Emerging Markets Government Bond Index Fund	0.20%	755	7.30%	7.3 Years
Vanguard Emerging Markets Bond Fund	0.40%	221	7.80%	6.2 Years

The actively managed fund has an expense ratio 20 bps higher than the passively managed fund. In terms of portfolio composition, the actively managed fund holds significantly fewer securities, as the manager holds proportionately larger weights in fewer issuers which the manager has high conviction in. Additionally, the manager can deviate from the index weighting by region, as shown in the current composition (as of 2/28/23), where the actively managed fund holds a lower allocation to EM Issuers (88.9% vs Index Fund weight of 98.8%), and a higher weight to US issuers (5.9% vs 0.3%).

Conclusion

Meketa has a bias towards active management in the emerging market debt asset class. In addition, we would argue that emerging market debt is an asset class where active management is preferred. There are two primary reasons for this:

1. The asset class is relatively inefficient. Less efficient markets offer more opportunity for active managers to add value relative to the index.
2. There exists a certain perverse nature of capitalization weighted fixed income benchmarks that passive funds are designed to track. Due to capitalization weighting schemes of bond indexes, the more debt an entity has outstanding the larger it's weight within the benchmark. In other words, within emerging market indexes as a country increases its debt burden, worsening its credit worthiness, the index increases its weight to that country and

will inversely lower its weight to countries that improve their financial condition by reduced borrowings. Some indexes try to mitigate this mechanism by capping exposure at certain levels.

Based on this, we are supportive of the recommendation to switch from the Vanguard Emerging Markets Government Bond Index to the Vanguard Emerging Markets Bond Fund.

EDW/KRC/IH/mp

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