OCTOBER 16, 2023

AGENDA ITEM 2
INFORMATION ITEM

SCHOLARSHARE INVESTMENT BOARD

Fiduciary and Investment Training for Board Members

Background
The Fiduciary and Investment Training prepared for the ScholarShare Investment Board's (SIB) members will be presented by SIB's consultants, AKF Consulting Group and Meketa Investment Group, Inc., and will outline various items that include:

- AKF Consulting Group: Fiduciary and Governance Training
  - Oversight and Investment Fundamentals
  - Fiduciary Duties of Administrators
  - Guidance on Good Governance

- Meketa Investment Group, Inc.: Investment Training
  - The Framework: Policy Statements
  - The Line-Up: Investment Portfolios

Presenters
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California ScholarShare Investment Board

Fiduciary and Governance Training

October 16, 2023

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Today's Discussion

Section 1.

Oversight and Investment Fundamentals

Fundamentals of 529 Plans

- **529 Plans are consumer-facing investment pools created for college savings**

- **Pursuant to Sections 529(b)(1) of the Internal Revenue Code, qualified tuition programs are "established and maintained by a State or agency or instrumentality thereof …"**

- **State legislation sets the terms to implement each State's 529 Program:**
  - **Essentially creates a municipal trust by statute, rule or resolution**
  - **Identifies the administrator and often the business model**
  - **By language or by implication, the administrator serves as a fiduciary to the participants**

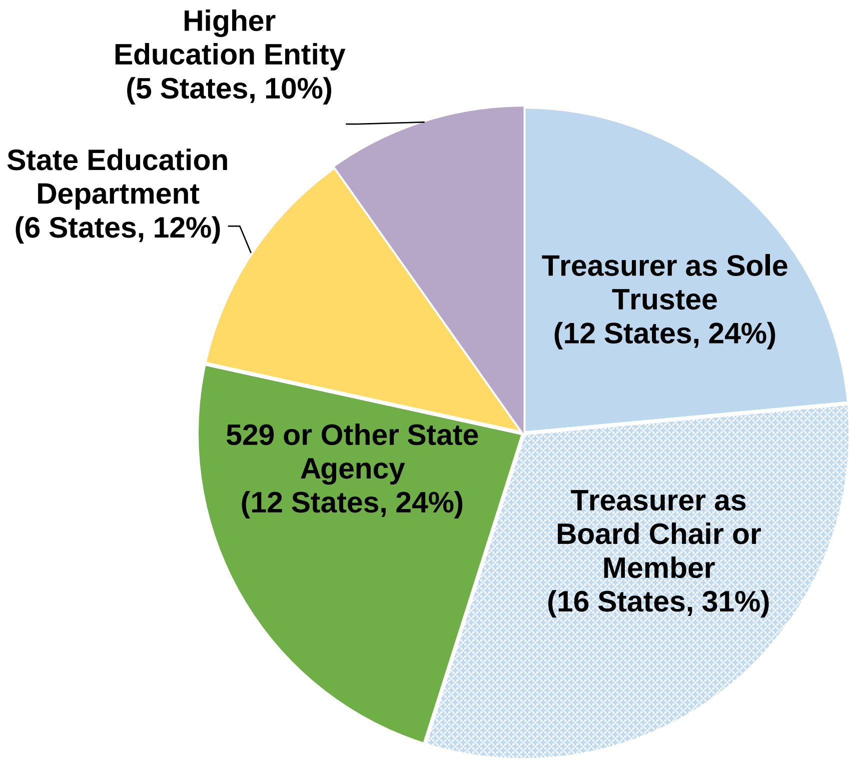
- **The State entity oversees and is the "issuer" of units in the municipal trust:**
  - **Interests in these trusts are "municipal fund securities" as defined by Rule D-12 of the Municipal Securities Rulemaking Board**

- **Authorization for ScholarShare is codified in the Golden State Scholarshare Trust Act, Article 19 (§§ 69980 — 69994)**

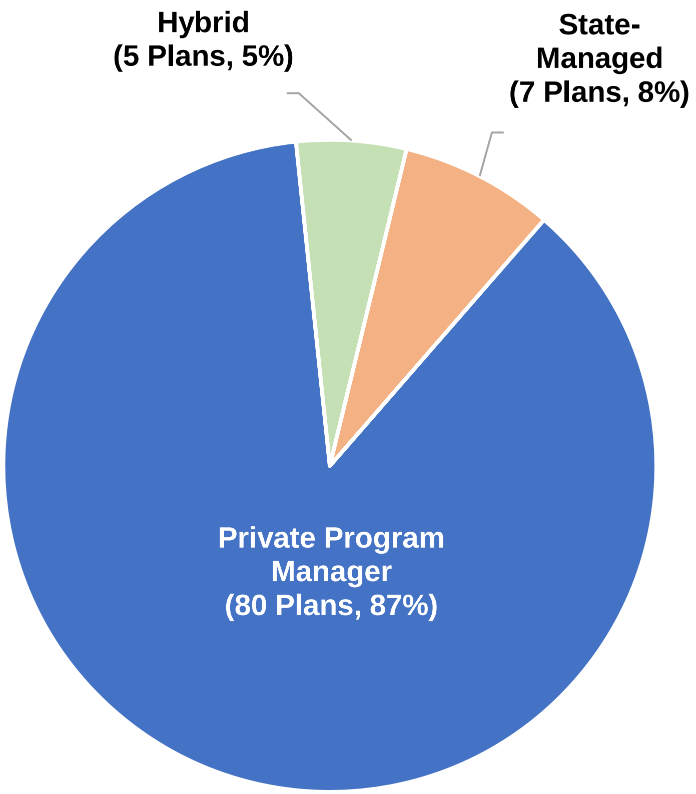
- **Federal securities laws govern the issuance of municipal securities**

Oversight and Management of 529 Savings Plans

State Oversight (51 Entities)



Management Model (92 Plans)



Data current as of September 28, 2023; percentages exceed 100% due to rounding
Higher Education Entities include Student Loan Authorities, among others
State Departments of Education include Boards of Regents

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Savings Plan Business Models

Model	Private Program Manager	State Manager	Hybrid
	Program Manager provides all services directly or through subcontracts	State provides all services	Private sector provides recordkeeping and / or customer service
Plans	All Plans except those noted in State-run categories	Colorado[1] Louisiana[2] North Carolina[3] Utah Virginia[3]	Florida Iowa[3] Ohio[3] Pennsylvania Tennessee
# of Plans	80 Plans	7 Plans	5 Plans
% of Total Savings Plans	87.0%	7.6%	5.4%
% of Total Savings Assets	87.1%	7.9%	5.0%
% of Total Savings Accounts	85.7%	8.1%	6.3%

Source: Asset data from College Savings Plans Network ("CSPN") as of June 30, 2023

Notes: Represents Plans; data current as of September 1, 2023. Percentages may not sum to 100% due to rounding

[1] Stable Value and Smart Choice
[2] START and K-12
[3] Direct-sold Plan

Key Structural Elements of 529 Programs

- A qualified tuition program is established and maintained by a state instrumentality:
  - State entity acts in a *fiduciary capacity*
  - State entity is advised by several external experts, *which are fiduciaries*
  - State entity is an issuer of municipal securities

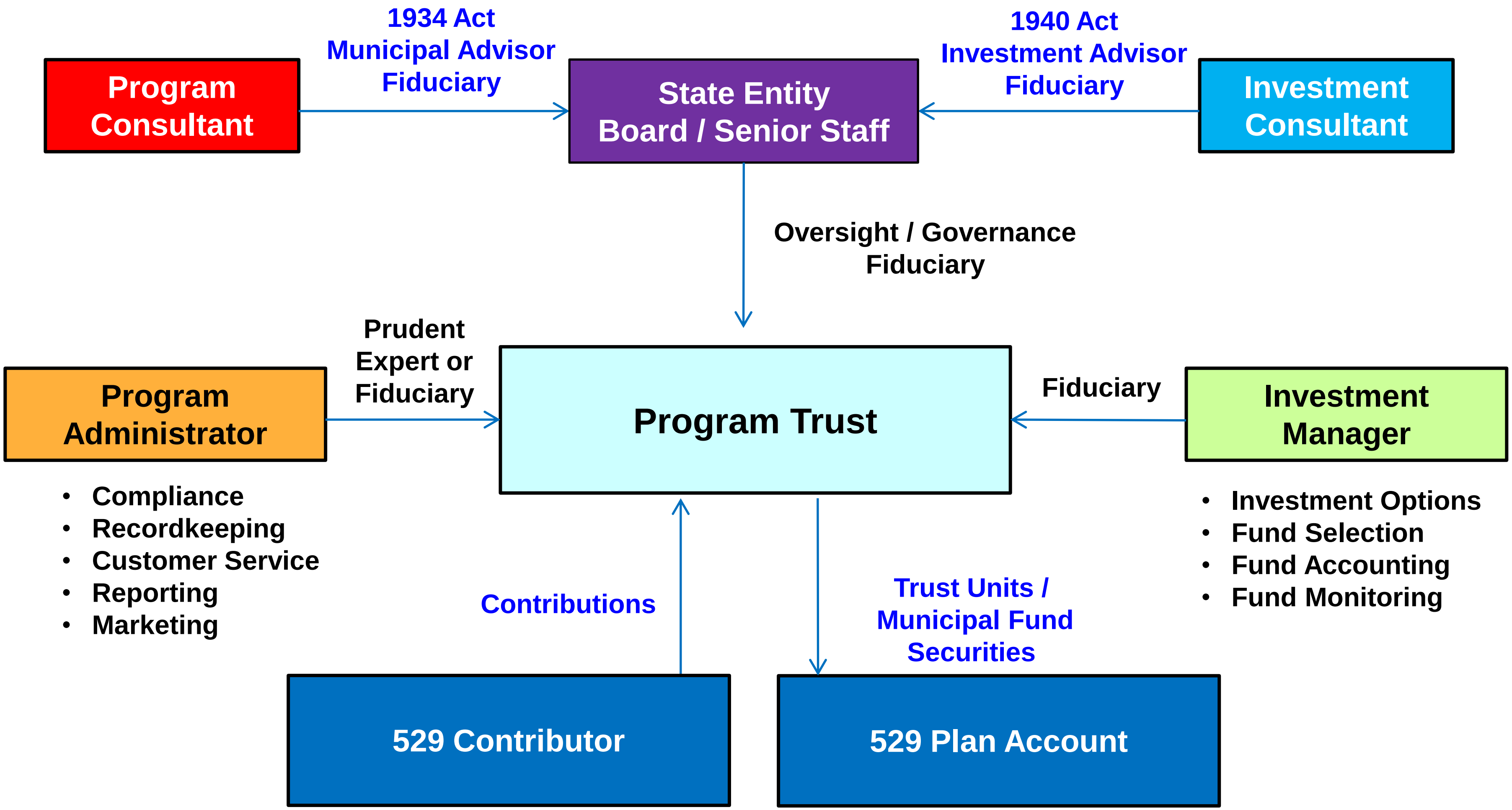
- Municipal securities are exempt from registration under the Investment Company Act of 1940 (the “1940 Act”), which regulates mutual funds:
  - Exemption is codified in Section 2(b) of the 1940 Act and Rule D-12 of the Municipal Securities Rulemaking Board (which defines municipal fund securities)

- Account contributions are deposited into a municipal trust that represents the Program:
  - Trust invests in underlying investments approved by the state entity
  - Trust owns the underlying investments

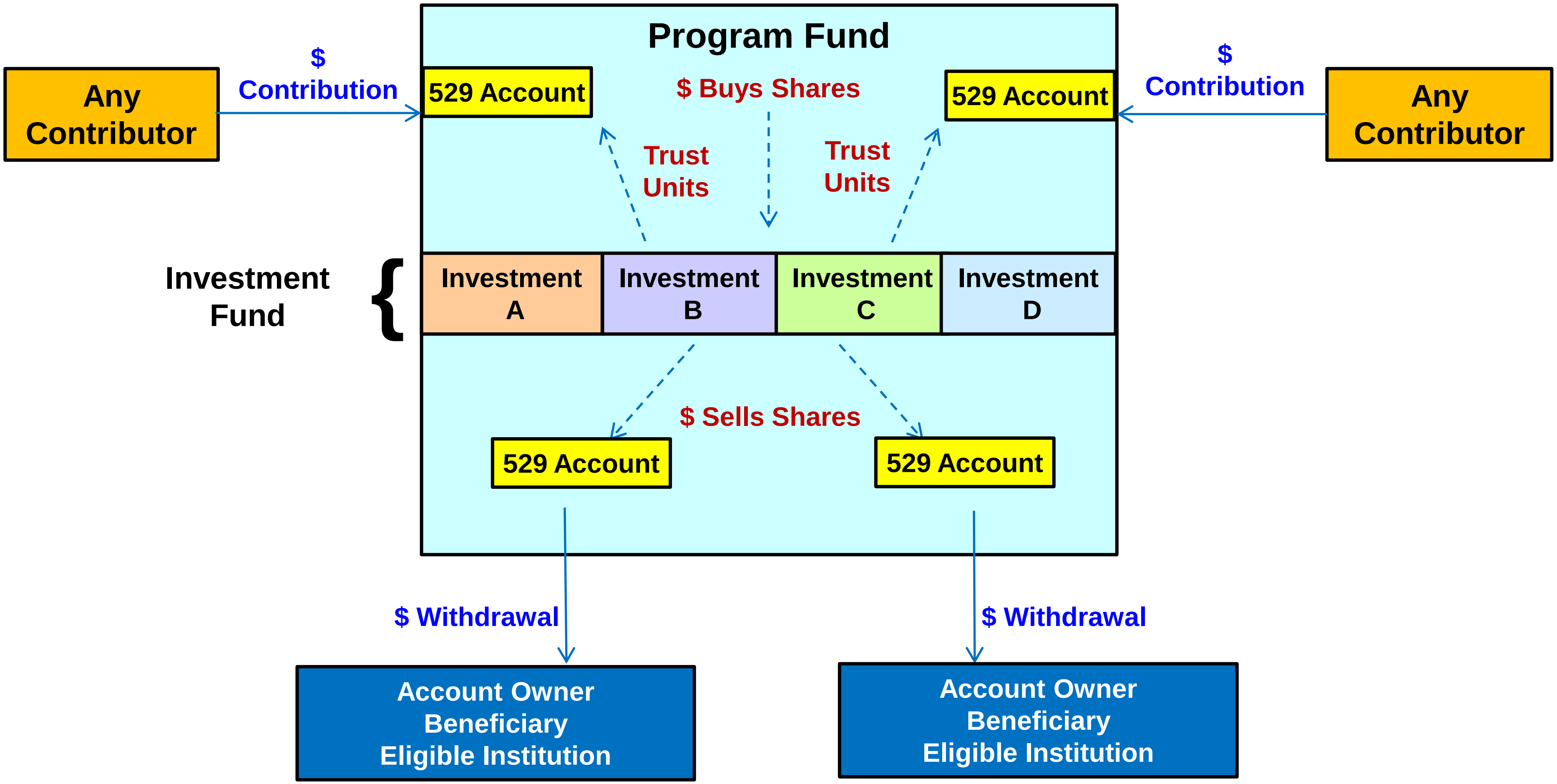
- Account owners select investment options that reflect the underlying investments:
  - Investments are evidenced by “units” of the trust
  - Account owner does not directly own shares of the underlying investments

- Asset-based fees are charged against each account to pay the administrative costs of the Program

Typical Structure for 529 Plans



Flow-of-Funds for 529 Plans



Federal Securities Law Foundations and Exemptions

- **Securities Act of 1933:**
  - **Municipal securities are exempt from registration**
  - ***Anti-fraud provisions apply to issuers***

- **Securities Exchange Act of 1934:**
  - **Municipal securities are exempt from most reporting requirements**
  - **Board members, officers and employees may participate in the sale of Trust interests without registering as broker-dealers**
  - ***Municipal securities are subject to anti-fraud provisions***

- **Trust Indenture Act of 1939:**
  - **Provisions do not apply to municipal securities**

- **Investment Company Act of 1940 and Investment Advisers Act of 1940:**
  - **Provisions do not apply to instrumentalities of a State or agents "acting in the course of official duty"**

- **Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010:**
  - **Advisers to municipal entities are subject to varying degrees of oversight by FINRA, the MSRB and applicable Bank Regulators**

Regulatory Framework

- **529 Programs operate in accordance with SEC No-Action Letters, relying on various exemptions for political subdivisions or public instrumentalities of a state:**
  - **Division of Corporate Finance will not recommend enforcement action *for the sale* of 529 plan interests *as non-registered securities***
  - **Division of Investment Management will not recommend enforcement action if the *municipal fund is not registered***
  - **Division of Market Regulation will not recommend enforcement action if *state employees offer or sell units in the 529 plan without being registered***

Importance of the 1933 and 1934 Acts Together

- **Municipal trusts do not register securities or sales of securities**

- **BUT anti-fraud provisions of both Acts *always* apply:**
  - **Section 17(a) – Fraudulent Interstate Transactions (1933 Act)**
  - **Section 10(b) – Manipulative and Deceptive Devices (1934 Act)**
  - **Rule 10b-5 – Employment of Manipulative and Deceptive Devices (1934 Act)**

- **Content is always subject to anti-fraud prohibitions of securities laws:**
  - **"It is unlawful to make *any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading"***

  - ***Interpretation:*** **You cannot misstate a material fact and you can't fail to state a material fact IF that material fact would make the statement not misleading … In other words, if that material fact would have caused the investor not to be misled…or maybe not to have invested**

- **Single most important concept in the federal securities laws relating to disclosure and applies to all 529 disclosure materials**

Oversight and Governance

- Regardless of oversight and management models, Board members are fiduciaries for account owners and beneficiaries
- Other parties also may be fiduciaries by virtue of the work they perform or by contract, including Program Directors and CIOs, investment managers, investment consultants and municipal advisors
- Breaches of fiduciary duty have serious consequences
- Understanding the duties and implementing thorough decision-making processes mitigate the risk of a fiduciary breach

Section 2.

Fiduciary Duties of Administrators

Sources of Fiduciary Duties

- **California Code (Article 19, § 69981) establishes the Program and the Board's fiduciary duties**
- **Fiduciary law is based on common law of trusts developed over time by case law**
- **Fiduciaries are held to extremely high standards of conduct**
- **Sources for and guidance on fiduciary duties include:**

State Law	Common Law	Federal Laws	Plan Documents
Golden State Scholarshare Trust Act	Restatement of Trusts	Internal Revenue Code	Program Description
Applicable Board Rules and Regulations		Securities Laws	Participation Agreements
		ERISA, UPIA	

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Common Law Underpinnings

- **Duty of Care:**
  - **Act in good faith, in the best interest of the entity**
  - **Standard: ordinarily prudent person acting under similar circumstances**
  - **Seek professional assistance where necessary**
- **Duty of Loyalty:**
  - **Put entity's interests ahead of personal interests**
  - **Act solely for the benefit of participants**
- **Duty of Obedience:**
  - **Follow governing documents and the entity's mission**
  - **Comply with the law**

The Board's Key Duties

- **Duty of Care and Duty of Loyalty:**
  - **Duty of Care*:* Act solely in the best interest of the plan's account owners and beneficiaries**
  - **Duty of Loyalty*:* Putting the plan's interest ahead of other interests**
  - **Unwavering commitment to stay focused on the interests of the participants in the Program**

- **Duty of Prudence:**
  - **Invest with care, skill, prudence and diligence in accordance with the prudent investor rule for trustees**
  - **Consider the purposes, terms, distribution requirements, and other circumstances of the Plan**
  - **Make a reasonable effort to verify facts relevant to the investment and management of trust assets**
  - **Requires expertise and more than a good faith attempt to try to do the right thing**
  - **Test of prudence is CONDUCT, not RESULTS**

- **Duty of Obedience:**
  - **Adhere to the Investment Policy and Program Description booklet and related documents**

Additional Fiduciary Duties

- **Duty to Diversify:**
  - **Flows from prudence**
  - **Investments should be diversified unless not prudent**

- **Duty to Refrain from Prohibited Transactions:**
  - **Avoid self-dealing and all conflicts of interest**

- **Duty to Delegate:**
  - **Prudence allows for delegation but not abdication**
  - **Fiduciaries cannot delegate appropriate monitoring**

Federal Law Guidance on Fiduciaries

- **Employee Retirement Income Security Act of 1974 ("ERISA") may provide some fiduciary standards**
- **Investment Company Act of 1940 ("1940 Act") can provide governance standards for unregistered investment options**
- **Uniform Prudent Investor Act ("UPIA") establishes standards of prudence for investment portfolios**

ERISA on Fiduciaries

- **Generally, ERISA does not apply to governmental plans, i.e., 529 Plans or public funds**

- **Status is based on the functions performed, not just a person's title, held to a "prudent expert standard":**
  - ***"With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims…" ****

- **Includes the Trustee, investment advisers and individuals exercising discretion in administration**

- **Excludes attorneys, accountants and actuaries acting in their professional capacity**

*** ERISA 404(a)(I)(B) (*Emphasis added*)**

Fiduciary Liability

- Laws governing fiduciaries may impose liability for breach of duty:
  - Sovereign immunity may apply

- Delegating responsibility may shift the liability BUT:
  - Oversight is still required
  - Delegation must continue to be prudent

- Consequences of breach of duty:
  - Personal liability to make good any losses to the Plan and to restore any profits that have been made through use of Plan assets
  - Other equitable or remedial relief as a court may deem appropriate
  - Liability usually not relieved in bankruptcy

- Attorney-client privilege may run to the Plan rather than to an individual fiduciary

Co-Fiduciary Liability

- "You are your brother's and sister's keeper" … "you have a duty to squeal"
- Liability can result if a fiduciary enables, knowingly participates in, or knowingly undertakes to conceal a breach by another fiduciary
- For liability to attach, you must have actual knowledge of an action that you know to be a breach
- A fiduciary has a duty to speak up and take reasonable steps to prevent or halt a co-fiduciary's breach
- Where applicable, resignation from a Board is usually not sufficient

Mitigating Fiduciary Liability

- **Understand Your Duty:**
  - **Initial orientation and continuing education demonstrate key steps toward fiduciary responsibility**
  - **Know what being a fiduciary means and be aware of where the duties exist**
- **Have Set Processes and Follow Them:**
  - **Detailed and disciplined decision-making process with clear documentation of actions and rationale**
- **Engage Experts Where Needed:**
  - **Investment consultants, legal counsel and others, as appropriate**
  - **Prudent delegation and diligent oversight – know what authority has been delegated and what has been retained**
- **Diligently Monitor Key Functions:**
  - **Clearly define roles and responsibilities, benchmarks and accountability**
  - **Commit to continual oversight**

Section 3.

Guidance on Good Governance

Defining Governance

- What is Governance?
  - The structure, manner, and process by which a Board exercises authority or control
  - Begins with understanding of fiduciary duty

- Elements of Governance:
  - Accountability
  - Transparency
  - Adherence to laws, rules and policies
  - Inclusiveness – engaging in participatory processes
  - Clear distinction between roles of the Board and the staff

- Governance is not:
  - Management
  - Day-to-day operations
  - Tactical decisions
  - Staff functions
  - Details of policy implementation

CSPN on Governance

- Adopted in May 2010 in response to SEC and Morningstar concerns about 529 Plan oversight by State Administrators:
  - Intended for State Administrators, not regulated entities
- Guidance as adopted acknowledges that State structures all differ
- Intent is to provide a framework for operating standards that:
  - Complement each plan's enabling legislation
  - Provide transparency of performance
  - Facilitate oversight and monitoring
- "Matters State Administrators should consider in the operation of 529 plans":
  - Structure and procedures should be *appropriate to the size* of the Administrator
  - Governance should assure *adequate oversight of operations*
  - Procedures should assure *compliance with legal and regulatory requirements* and oversee accounting and financial reporting
  - Structure should provide *investment oversight*

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Exhibiting Good Governance

- Procurement Processes
- Investment Policy Statements
- Performance Benchmarks (Administrative and Marketing)
- On-going Plan and Investment Reviews

Processes for Governance

- Procurement Processes:
  - Delineate appropriate roles for Boards / Trustees and staff in –
    - Development and approval of RFPs
    - Evaluation of responses
    - Final approval of contracts
  - Staff should ensure open and fair solicitations
  - Recommendations should reflect weighted criteria that bidders understand
  - If sole source procurement, basis for closed process should be clear

- Investment Policy Statements and Monitoring Criteria:
  - Establish roles, responsibilities and process
  - Also defines selection criteria and monitoring procedures
  - Ramifications for underperformance should be clear

- Establishment of Performance Benchmarks:
  - Administration and operations
  - Marketing costs and results
  - Investment policies and performance targets

Processes for Governance, cont'd

- On-going Reviews:
  - Monthly investment results to key staff and independent Investment Consultant from Investment Manager
  - Quarterly reports to the Board / Trustee from –
    - Investment Manager and independent Investment Consultant on investment performance
    - Program Manager on agreed upon administrative and marketing benchmarks

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Governance Best Practices

- **Prepare for and attend all meetings**
- **Act in good faith and in the best interest of all participants**
- **Know and abide by applicable laws, regulations and Program or Plan policies**
- **Where appropriate, delegate to experts but maintain vigilant oversight**
- **Establish and document prudent processes; review regularly to ensure consistency and relevancy**

The Bottom Line

- **All Board members are fiduciaries with strict statutory duties:**
  - The duties of prudence and loyalty are most important
  - The duty to follow the law and Plan Documents is critical as well
  - Board members may delegate certain duties but cannot abdicate their overall responsibility
- **Prudence is more than just trying to do the right thing:**
  - Understand what's being voted on
  - Investigate all options
  - Seek expert advice
- **A good process is more important than a good outcome:**
  - Written procedures are critical
  - Following established procedures and written policies is the best defense to liability
- **Fiduciary duties require prudence, not necessarily perfection!**

Appendix 1

Statutory and Regulatory Sources

Employee Retirement Income Security Act of 1974 (“ERISA”)

- **Federal law that establishes minimum standards for pension plans in private industry regarding participation, vesting, benefit accrual and funding**
- **ERISA plans must provide participants with information about plan features and funding, and furnish information regularly and free of charge**
- **Provides extensive rules on the federal income tax effects of transactions associated with employee benefit plans**
- **ERISA requires accountability of plan fiduciaries, and, in addition to insisting participants are informed, it also gives participants the right to sue for benefits and breaches of fiduciary duty**
- **https://uscode.house.gov/view.xhtml?path=/prelim@title29/chapter18&edition=prelim**

Uniform Prudent Investor Act ("UPIA")

- **Reflects changes in investment practice since the late 1960s, specifically with regard to modern portfolio theory**
- **Establishes that standard of prudence applies to any investment in the context of the total portfolio, rather than to individual investments**
- **Allows trustees to delegate investment management functions, subject to appropriate safeguards (such delegation was expressly forbidden by the former trust law)**
- **Fosters a greater degree of diversification in investment portfolios and allows for derivatives, commodities and futures:**
  - **Despite these investments individually having a relatively higher degree of risk, they could potentially reduce overall portfolio risk and boost returns when considered in a total portfolio context.**
- **uniformlaws.org**

Securities Act of 1933 (the "'1933 Act")

- **Exempts issuers of municipal securities from registration (Section 3(a)(2))**

- **"Truth in securities" has two basic objectives:**
  - **Requires that investors receive financial and other significant information about securities being offered**
  - **Prohibits deceit and misrepresentation in the sale of securities**

- **https://www.sec.gov/answers/about-lawsshtml.html#secact1933**

Securities Exchange Act of 1934 (the "1934 Act")

- Created the SEC and empowers it to register, regulate and oversee:
  - Brokerage firms, clearing agencies and transfer agents
  - Self regulatory organizations ("SROs") including Financial Industry Regulatory Authority ("FINRA") and the Municipal Securities Rulemaking Board ("MSRB")

- Establishes periodic reporting requirements for registered entities or transactions
  - Municipal securities generally are exempt from reporting requirements (Section 3(a)(29))
  - BUT some initial and ongoing disclosures apply (Rule 15c2-12)

- Identifies and prohibits deceitful conduct

- Grants the SEC disciplinary powers over regulated entities and the persons associated with them
  - SROs are essential to the entire process (municipal broker-dealers may not contravene any rules of the MSRB (Section 15B))

- https://www.sec.gov/answers/about-lawsshtml.html#secact1933

Trust Indenture Act of 1939

- Applies to debt securities – including bonds and interests in publicly offered trusts
- Requires a trustee to protect and enforce the rights of bondholders and rights must be included in a trust indenture
- Municipal trusts are exempt based upon '33 Act exemption (Section 304(a)(4)(A))
- https://www.sec.gov/answers/about-lawsshtml.html#secact1933

Investment Advisers Act of 1940 (the "Advisers Act")

- **Firms that provide advice about securities investments must conform to regulations designed to protect investors:**
  - **Advisers with more than $100 million in client assets must file Form ADV with SEC**
  - **If assets > $25 million but < $100 million, adviser registers with state**

- **Does not apply to states or subdivisions or to officers or employees "acting as such in the course of his official duty" (Section 202(b))**

- **https://www.sec.gov/answers/about-lawsshtml.html#secact1933**

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Investment Company Act of 1940 (the “1940 Act”)

- Regulates companies that engage primarily in investing, reinvesting and trading in securities
- Focus of the Act is to provide the public with information about a fund and its objectives, and about the investment company structure and operations
- Explicitly not applicable to government entities or officers or employees “acting as such in the course of his official duty” (Section 2(b))
- https://www.sec.gov/answers/about-lawsshtml.html#secact1933

1940 Act on Governance Duties

- Directors of investment companies and public companies generally share common responsibilities
- Examples of duties specific to investment company directors:
  - Approve time of NAV calculations and procedures for valuation of securities
  - Approve trading practices and procedures
  - Approve investment objectives and policies
  - Monitor credit quality and valuation of funds
- By analogy, duties of Boards mirror those of investment company directors

Investment Company Definition and Exemption

- **If the Section 2(b) exemption for political subdivisions and instrumentalities of a State were not available, in the absence of SEC No-Action relief, it is highly likely that 529 Programs would be deemed to fall within the Section 3(a)(1)(A) definition of Investment Company:**

  "When used in this title, "investment company" means any issuer which — (A) is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting, or trading in securities"

- **Securities are defined as all securities other than government securities**

- **The Section 2(b) exemption is critical because the *Act could otherwise subject any 529 Program to the disclosure and corporate governance provisions applicable to mutual funds***

- **By contrast, the SEC is prohibited from regulating the content of disclosure of municipal issuers, and the governance of 529 Programs is a matter of State law**

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Municipal Securities Rulemaking Board (“MSRB”)

- Established by Congress in 1975:
  - Mission is to protect investors, municipal entities and obligated persons, and to promote a fair and efficient municipal market
  - Operates Electronic Municipal Market Access (“EMMA”) to promote transparency and provide widespread access to information

- MSRB rules are intended to:
  - Prevent fraudulent or manipulative practices
  - Promote just and equitable principles of trade

- Has no enforcement powers – its rules are enforced by:
  - FINRA for securities firms
  - Office of the Comptroller of the Currency, the Federal Reserve, or the FDIC for banks
  - SEC for municipal advisors, securities firms and bank dealers

- Bottom line: jurisdiction is over securities firms, municipal dealers and municipal advisors, NOT municipal issuers

- msrb.org

MSRB Definition of Municipal Fund Security

- **The Municipal Securities Rulemaking has defined 529 Plans distributed by SEC-registered broker-dealers or municipal securities dealers as "municipal fund securities" under Rule D-12:**

  "The term "municipal fund security" shall mean a municipal security issued by an issuer that, but for the application of Section 2(b) of the Investment Company Act of 1940, would constitute an investment company within the meaning of Section 3 of the Investment Company Act of 1940."

- **Simple interpretation: But for the '40 exemption that applies to municipal entities, the *municipal trust would actually be an investment company* (i.e., a mutual fund)**

- **529 Plans that are sold directly to the public without the assistance of a broker-dealer or municipal securities dealer are not subject to MSRB jurisdiction**

Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”)

- **Amends Section 15B (‘34 Act) to require registration of municipal advisors and imposes fiduciary duty on them**
- **“Municipal advisor” is any person that provides advice to or on behalf of a municipal entity regarding municipal securities, including advice with respect to the structure, timing, terms and similar matters concerning such issues**
- **Excludes registered Investment Advisers, attorneys offering “legal advice”, engineers and accountants**
- **Act also creates the Consumer Financial Protection Bureau**
- **https://www.sec.gov/answers/about-lawsshtml.html#secact1933**

Appendix 2

Checklist – Common and Best Practices

Checklist – Common and Best Practices

- **Prepare for and attend all meetings**
- **Act in good faith and in the best interest of participants in all decision making**
- **Be familiar with and abide by all applicable laws, regulations and Plan documents**
- **Delegate, where appropriate, to experts pursuant to a prudent process**
- **Establish and document prudent processes**
- **Periodically review policies and procedures to ensure consistency and relevancy**
- **Differentiate Board policies from management policies**
- **Take actions consistent with the mission and policies of the Plan**

Checklist – Common and Best Practices, cont'd

- **Perform continual oversight – applies to Board and staff**

- **Institute reporting tools and procedures that facilitate oversight**

    - Internal Sources examples –
        - Executive Director Reports
        - Internal Audit
        - Risk Management Dashboard

    - External Sources examples –
        - Program Administrator
        - Investment Manager(s)
        - Investment and Program Consultants
        - Independent Auditors

- **Clearly define and enumerate roles and responsibilities between the Board and staff**

- **Regular review of efficiency and effectiveness of the Plan's goals**

Checklist – Common and Best Practices, cont'd

- **Assess performance and actions of staff and service providers**
  - Program Manager and Investment Managers, consultants and auditors
- **Benchmark operations to similar programs and best practices**
- **Develop and maintain comprehensive charters for Board committees, if any**
- **Obtain independent expert advice**
- **Require transparency and accountability**
- **Communicate with all stakeholders in a timely, accurate and transparent manner**
- **Maintain confidentiality of account owner and beneficiary information**
- **Offer orientation and continuing education on relevant topics**

AKF Legal Disclosure

Pursuant to Municipal Securities Rulemaking Board ("MSRB") Rule G-42, on Duties of Non-Solicitor Municipal Advisors, Municipal Advisors are required to make certain written disclosures to clients and potential clients which include, among other things, Conflicts of Interest and Legal or Disciplinary events of AKF and its associated persons.

Conflicts of Interest

Compensation

AKF represents that in connection with the issuance of municipal fund securities, AKF receives compensation from its client issuers for services rendered on an hourly, retainer or fixed fee basis. Consistent with the requirements of MSRB Rule G-42, AKF hereby discloses that such forms of compensation may present a potential conflict of interest regarding AKF's ability to provide unbiased advice regarding a municipal fund security transaction. This potential conflict of interest will not impair AKF's ability to render unbiased and competent advice or to fulfill its fiduciary duty.

Other Municipal Advisor Relationships

AKF serves a wide variety of clients that may from time to time have interests that could have a direct or indirect impact on the interests of other AKF clients. AKF fulfills its regulatory duty and mitigates such conflicts by dealing honestly and with the utmost good faith with all clients. If AKF becomes aware of any potential or actual conflicts of interest after this disclosure, AKF will disclose the detailed information in writing to the client or obligated person in a timely manner.

Legal or Disciplinary Events

AKF does not have any legal events or disciplinary history on its Form MA and Form MA-I, which includes information about any criminal actions, regulatory actions, investigations, terminations, judgments, liens, civil judicial actions, customer complaints, arbitrations and civil litigation. You may electronically access AKF's most recent Form MA and each most recent Form MA-I filed with the Securities and Exchange Commission at the following website: www.sec.gov/edgar/searchedgar/companysearch.html. If any material legal or regulatory action is brought against AKF, AKF will provide complete and detailed disclosure to its clients, thereby allowing each client to evaluate AKF, its management and personnel.

MEKETA | 45 YEARS
CELEBRATING A MILESTONE

ScholarShare Board Investment Training

October 16, 2023

Meketa Investment Group

ScholarShare Board Investment Training

Table of Contents

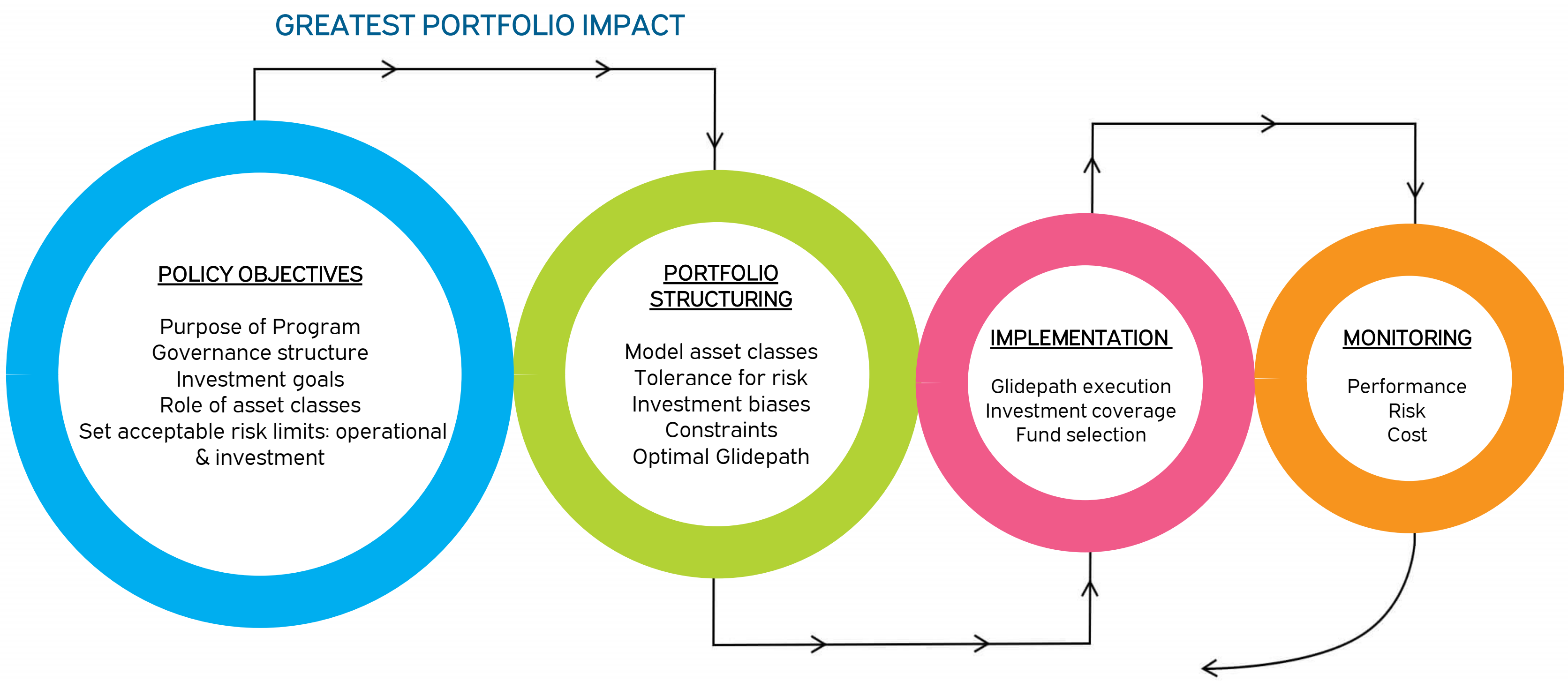
The Framework:

Policy Statements

Program Structure Goals

1. Offer a range of options across the risk spectrum – utilizing high quality funds
2. Diversified options should provide broad based capital market exposure
3. Efficient from a risk-return perspective; meet or exceed the rate of college tuition inflation
4. Identify/remove unintended biases
5. Cost conscious

The Framework



Elements of an Investment Policy Statement

Specifies Program's Guiding Principals

- Defines purpose of the Plan
- Outlines expectations and responsibilities
- Defines decision making processes; guidelines and general instructions for investment management decisions
- Defines the investor
- Blueprint to govern plans objectives and tolerance for risk
- Outlines eligible asset classes and their permissible uses
- Provides a mechanism for evaluation

Evaluating the Program

Approach and Understanding of Investment Design

- → Overall appropriateness of investment options – rational capital markets exposure
- → Review portfolio's effectiveness at generating returns relative to the risks incurred

Due Diligence and Risk Management

- → Overall risk oversight
- → Underlying fund evaluation
- → Asset allocation / risk analysis

Appropriateness of 529 Investment Menu

- → The number and quality of the investment options
- → Broad based capital market exposure
- → Investment biases
- → Reasonableness of cost relative to investment structure

Monitoring Procedures

→ The Monitoring Procedures are designed to aid in making the best decisions on behalf of participants.

→ Since Programs are mostly comprised of retail mutual funds or exchange traded funds as the underlying components, performance data is easily accessible.

→ The key element to developing the Monitoring Procedures is to pre-determine a level of underperformance that is unacceptable.

- To accept actively managed funds is to accept periods of relative underperformance (beyond portfolio management fees).
- It is important to establish a level of underperformance where the fund no longer meets expectations.

→ The Monitoring Procedures then provide for predetermined steps to address funds that do not exhibit material improvement.

Manager/Fund Monitoring

The evaluation process should exhibit several key features

- → Objectivity
- → Balance between short-term issues and long-term objectives
- → Biases of client

While the process might be fluid, a systematic documented approach is essential

- → Incorporate quantitative and qualitative aspects of managers/funds' practices
- → Understanding the role of the manager/fund in the Program
- → Clear time period of review

Manager/Fund Monitoring

Quantitative Review

Formulaic criteria focused on

- → Relative performance versus a benchmark/peer group over various time periods

Understand underperformance

- → Is investment style out of favor?
- → What are the biases of the investment strategy?
- → Do the portfolio characteristics reflect its stated investment style?
- → Is the benchmark/peer group an accurate representation of the fund's opportunity set?
- → Is the underperformance consistent with expectations?

Qualitative Review

Non-performance issues

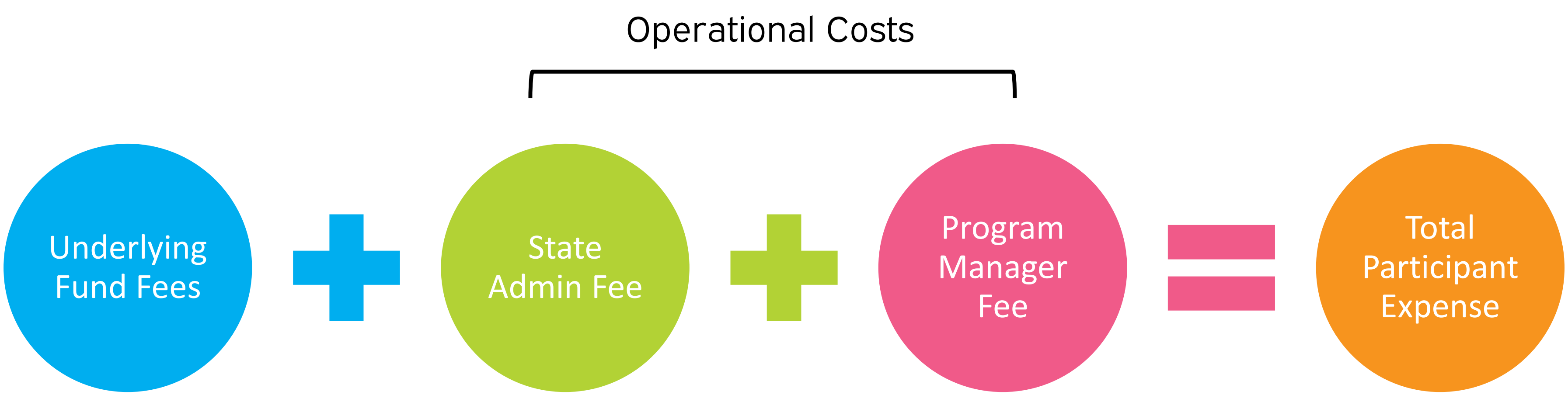
- → Has there been a change in ...
  - ☑ People – PM/Analysts
  - ☑ Process
  - ☑ Philosophy
  - ☑ Organizational Structure

Implications of change/event

- → Is the change a positive or negative?
- → How will it impact the management of the fund?
- → How will it impact the firm/team culture?
- → Will it be a distraction to the investment process?

529 Portfolio Fee Components

→ Evaluate how competitive fees are versus peers



The Line-up:

Investment Portfolios

The Line-up

Investment Menu (Similar to 401k Plans)

→ **Age- / Enrollment-based Options (most common choice of participants)**
- Diversified options that de-risk over the investment horizon

→ **Static Options (Risk-based)**
- Asset allocation remains the same over time

→ **Stand Alone (Individual) Options**
- Invests in a single fund

→ **FDIC Option**
- Savings account

→ **Stable Value Option**
- Protects against decline in yield and loss of capital

Conservative Options

Asset Allocation and Diversification

What's the difference?

Asset Allocation	Diversification
The portion, or percentage, of each asset class that an investor has in their portfolio. For example, 60% stocks and 40% bonds.	A risk management practice to reduce the impact of any one investment, by investing in a mix of assets that move up and down under different market conditions.

Different, but related.

Asset Allocation and Diversification

Asset allocation is one of the most important decision an investor makes

→ Asset allocation decisions dominate the risk and return in investment results

→ Impact of other decisions like manager selection is minimal

→ Awareness of risk embedded in an asset allocation is critical

A properly developed (diversified) asset allocation …

→ Combines risky assets (stocks) with less risky assets (bonds & cash)

→ To meet a return target while minimizing their risk (volatility)

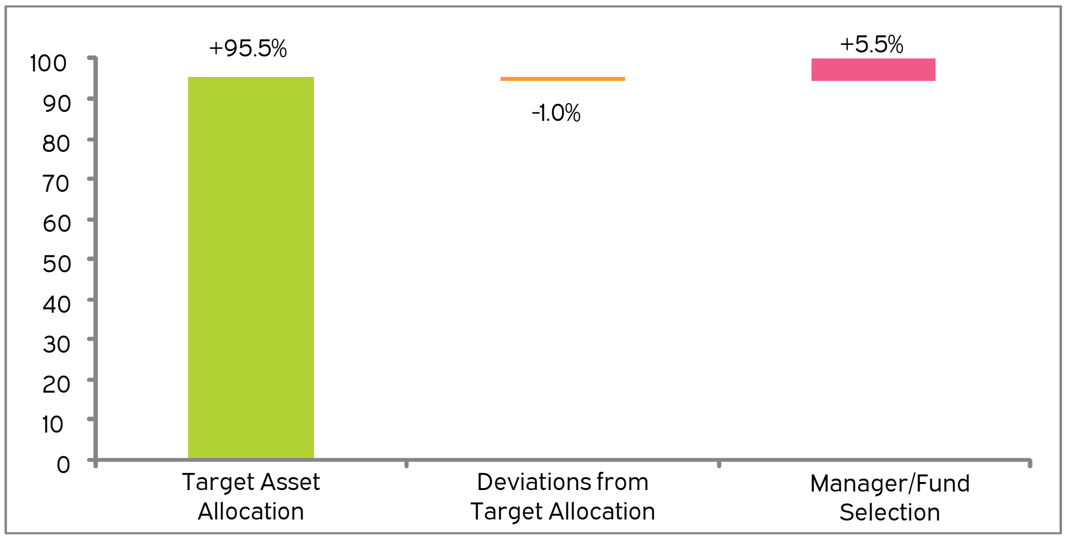
Volatility

How much a portfolio's overall value fluctuates up and down.

Impact of Asset Allocation and Diversification

The Plan determines the asset allocation for participants in age-based and static 529 Portfolios.

Investment Portfolio Risk Contribution Example



Asset Allocation and Diversification

Overview of Asset Classes

→ The investable universe is largely composed of just two broad asset classes.

→ Historically, these major asset classes have not moved up and down at the same time.

Equity	Fixed Income	
Stocks	**Bonds**	**Cash Equivalents**
→Ownership in publicly traded companies →Categorized by style, market capitalization, and geography →Role: Growth	→Essentially loans that the investor (lender) makes to an entity (borrowers) →Role: Protection and income generation	→Short term, highly liquid, low risk debt instruments →Role: Capital Preservation

Asset Allocation and Diversification

Investable Universe

→ 529 Plans are limited to public markets

→ Representing approximately 90% of the investable universe

→ Equity and Fixed Income asset classes can be broken into numerous sub-asset classes

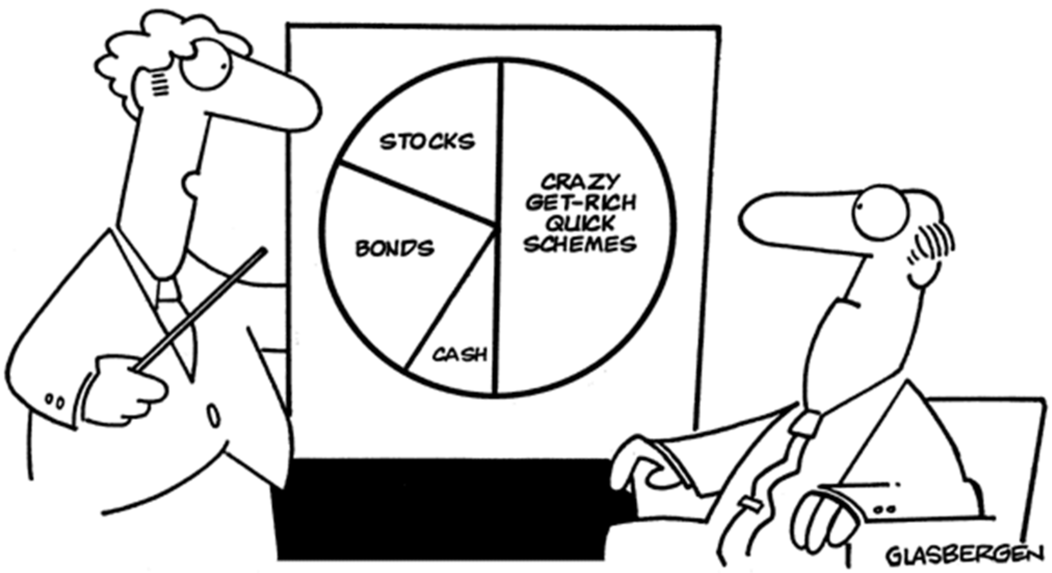
→ Each sub-class has its own inherent risk and return potential

Asset Class	Market Size (USD, Trillions)	% of Global Investable Universe
US Equity	43.1	22.8
Non-US Equity (Developed)	32.4	17.1
Non-US Equity (Emerging)	9.7	5.1
Public Real Estate Equity	4.6	2.4
Commodities	2.1	1.1
US Bonds	25.3	17.9
Bank Loans	1.6	0.8
Non-US Bonds (Developed)	33.9	13.4
Emerging Markets Bonds	8.8	4.6
Inflation-Linked Bonds	3.3	1.7
Money Market/Cash Equivalents	4.5	2.4
Private/Illiquid Markets		
Private Equity	4.5	2.4
Private Debt	0.9	0.5
Infrastructure	0.5	0.3
Natural Resources, Energy, Timberland and Agriculture	0.2	0.1
Private Real Estate	10.2	5.4
Hedge Funds	3.8	2.0
Total	**189.4**	**100.0**

Data Sources: MSCI, Bloomberg, BIS.org, LaSalle Accessing the Real Estate Universe in 2021, Preqin, NCREIF, Investment Company Institute

Asset Allocation and Diversification

→ Why not just invest in the asset classes which have the highest expected long-term returns?



"I'd like you to consider a bold new strategy..."

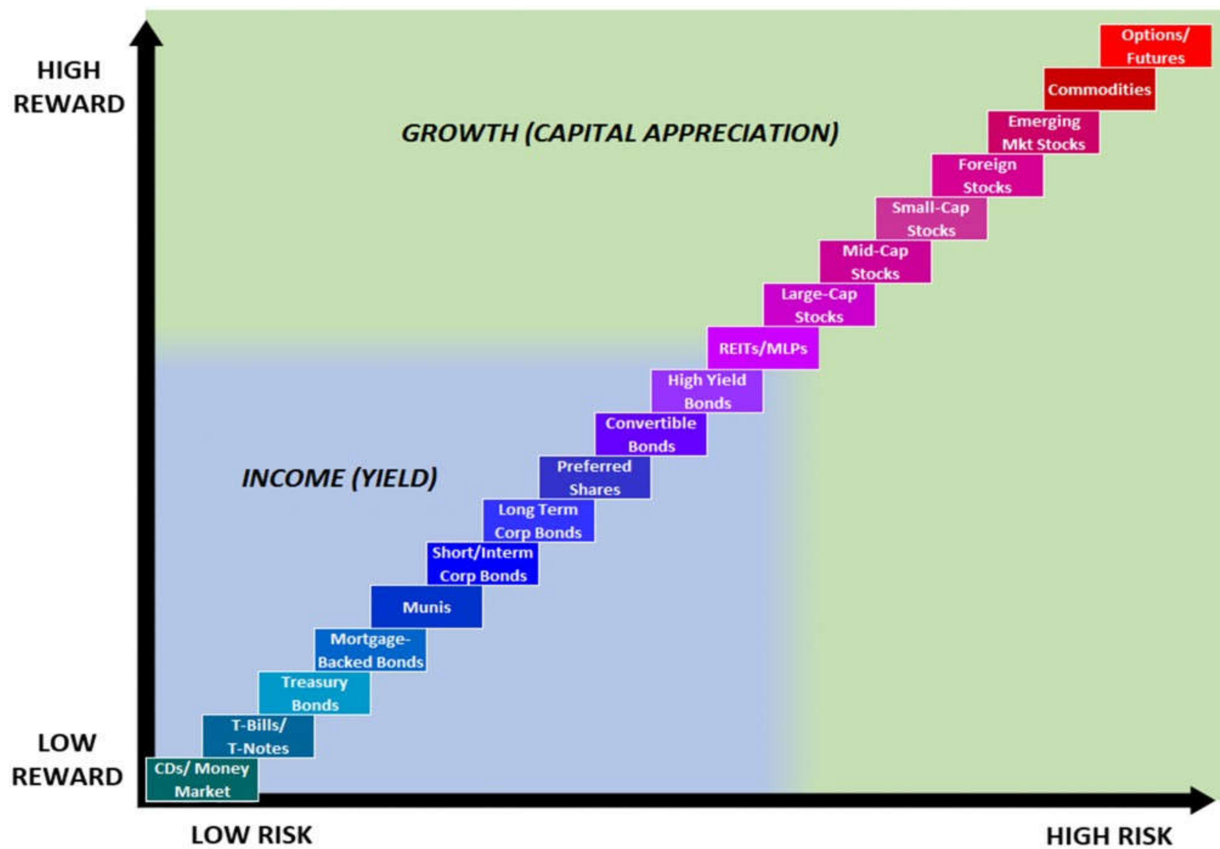
Asset Allocation and Diversification

Risk (Volatility)

→ There exists a tradeoff between volatility and return

→ Historically, stocks have significantly outperformed other asset classes

→ But with significantly greater volatility



Asset Allocation and Diversification

Potential volatility of risky assets: US equities fall ≈50% 2x in the last 20 years

S&P 500 Price Index

Characteristic	3/24/2000	10/9/2007	2/19/2020	1/3/2022	10/12/2022	6/30/2023
Index Level	1,527	1,565	3,386	4,797	3,577	4,450
P/E Ratio (fwd.)	25.2x	15.1x	19.2x	21.4x	15.2x	19.1x
Dividend Yield	1.4%	1.9%	1.9%	1.3%	1.9%	1.6%
10-yr. Treasury	6.2%	4.7%	1.6%	1.6%	3.9%	3.8%

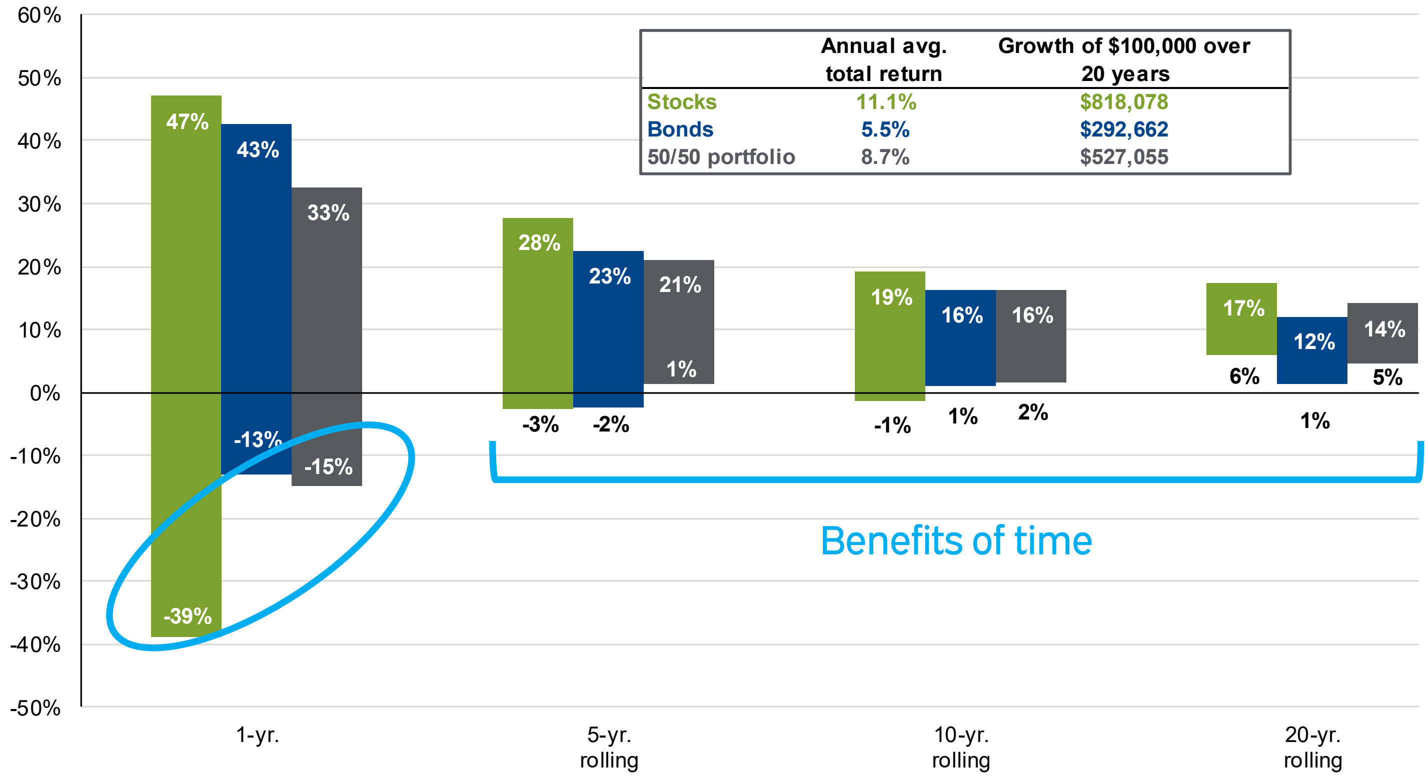
Source: Compustat, FactSet, Federal Reserve, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management.
Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price-to-earnings ratio is a bottom-up calculation based on IBES estimates and FactSet estimates since January 2022. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of June 30, 2023.

Asset Allocation and Diversification

Over time, US equities produce the best returns but exhibit largest variation in returns

Range of stock, bond and blended total returns

Annual total returns, 1950-2022



	Annual avg. total return	Growth of $100,000 over 20 years
Stocks	11.1%	$818,078
Bonds	5.5%	$292,662
50/50 portfolio	8.7%	$527,055

Source: Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management.
Returns shown are based on calendar year returns from 1950 to 2021. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Aggregate thereafter. Growth of $100,000 is based on annual average total returns from 1950 to 2022.
Guide to the Markets – U.S. Data are as of June 30, 2023.

Asset Allocation and Diversification

Diversification

→ Combining risky assets (stocks) with relatively safe assets (bonds), the investor achieves diversification

→ Diversification happens when assets don't move directly together

- By holding assets that are not highly correlated, the overall portfolio exhibits less risk (volatility) than the individual risky assets

→ Since diversification can reduce risk while not reducing expected return, diversification is often said to be the only "free lunch" in investing

Returns for Different Asset Classes

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD	2008 - 2022 Ann.	2008 - 2022 Vol.
Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	REITs 41.3%	Comdty. 16.1%	Large Cap 16.9%	Large Cap 8.8%	REITs 23.4%
Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Large Cap 28.7%	Cash 1.5%	DM Equity 12.1%	Small Cap 7.2%	Small Cap 23.2%
Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Comdty. 27.1%	High Yield -12.7%	Small Cap 8.1%	REITs 6.6%	EM Equity 23.0%
High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Small Cap 14.8%	Fixed Income -13.0%	Asset Alloc. 7.8%	Asset Alloc. 6.1%	Comdty. 20.2%
Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	Asset Alloc. 13.5%	Asset Alloc. -13.9%	High Yield 5.2%	High Yield 5.4%	DM Equity 20.0%
Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	DM Equity 11.8%	DM Equity -14.0%	EM Equity 5.1%	Fixed Income 2.7%	Large Cap 17.7%
Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	Large Cap -18.1%	REITs 3.0%	DM Equity 2.3%	High Yield 13.0%
REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	EM Equity -19.7%	Cash 2.3%	EM Equity 1.0%	Asset Alloc. 12.4%
DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Fixed Income -1.5%	Small Cap -20.4%	Fixed Income 2.1%	Cash 0.6%	Fixed Income 4.2%
EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	EM Equity -2.2%	REITs -24.9%	Comdty. -7.8%	Comdty. -2.6%	Cash 0.4%

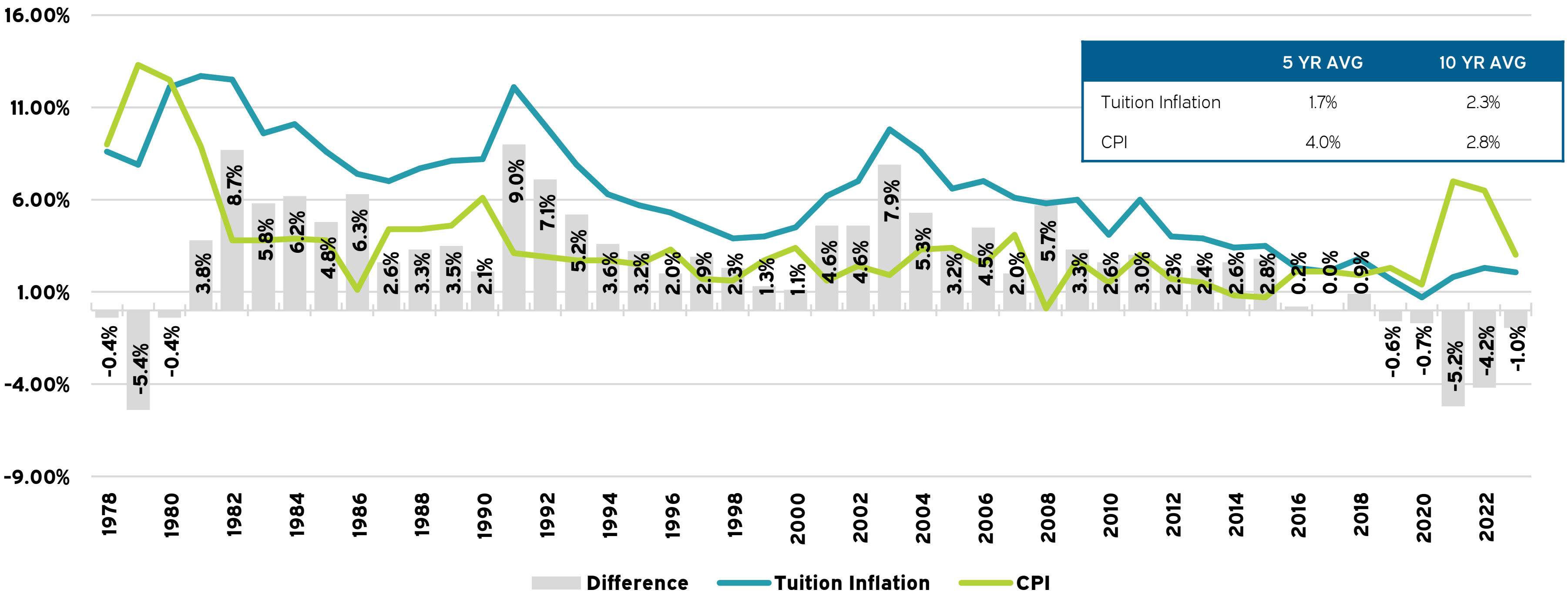
Source: Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.
Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Fixed Income: Bloomberg US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg US Aggregate, 5% in the Bloomberg 1-3m Treasury, 5% in the Bloomberg Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period from 12/31/2007 to 12/31/2022. Please see disclosure page at end for index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of June 30, 2023.

Building Portfolios

Cost of College

→ A 529 plan should at least keep up with tuition inflation

Year-Over-Year, 1977 – June 2023
Price Inflation for College Tuition and Fees
Consumer Price Index v. CPI, U.S. Bureau of Labor Statistics



	5 YR AVG	10 YR AVG
Tuition Inflation	1.7%	2.3%
CPI	4.0%	2.8%

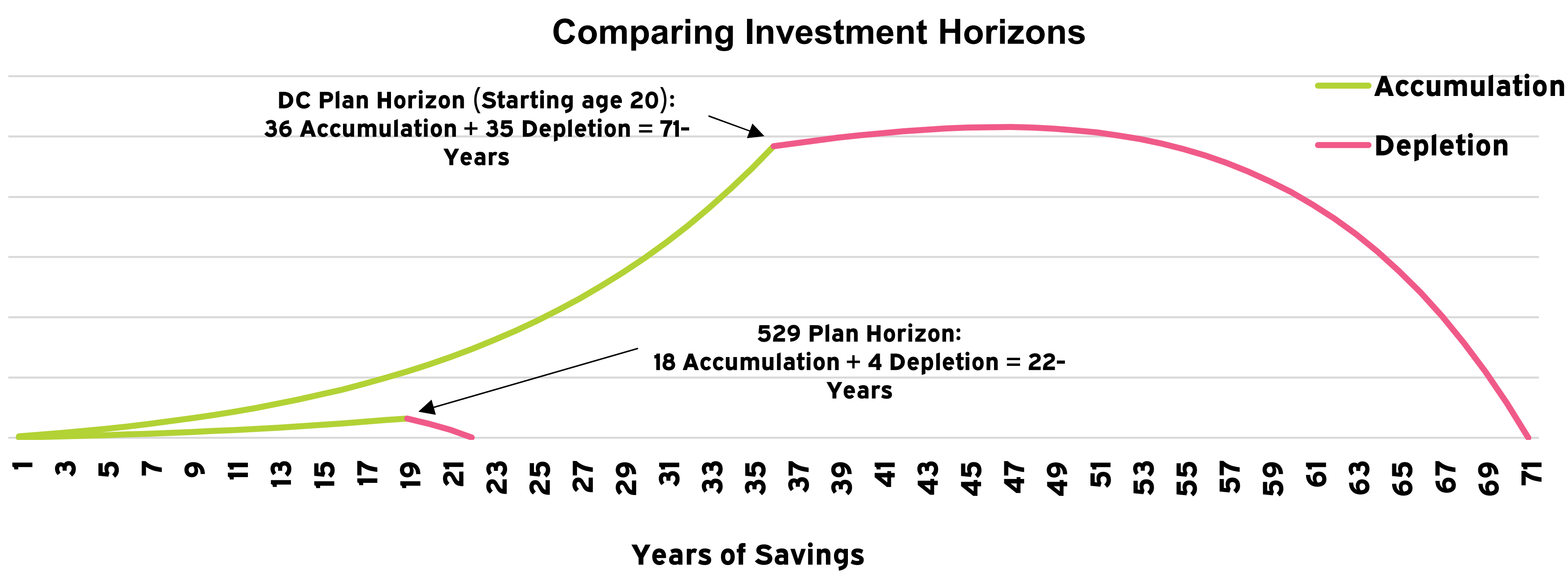
Building Portfolios

Biggest Constraint of All: Time

→ Most plans use a condensed version of a defined contribution Glidepath

→ The investment horizon of a 529 plan is < 1/3rd that of a defined contribution plan

→ Shorter accumulation horizon = less time to recover from portfolio drawdowns



Building Portfolios

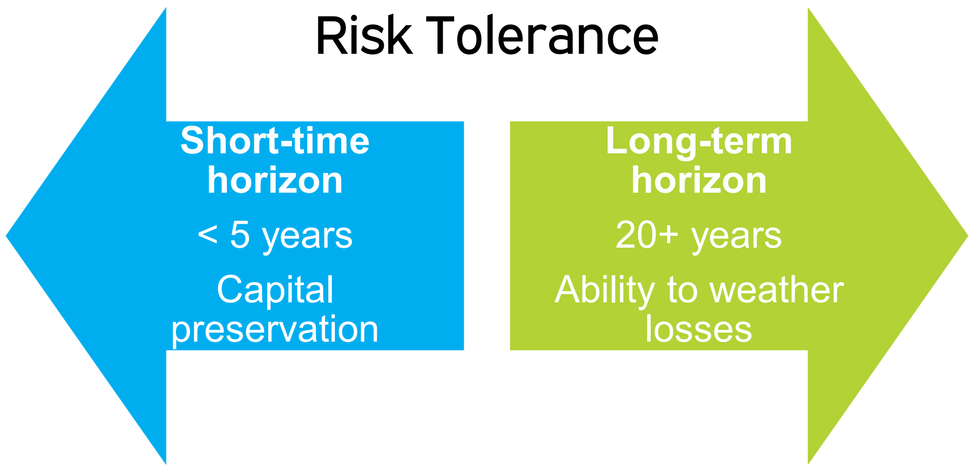
Glidepath

A Glidepath refers to a formula that defines the asset allocation mix of age- or enrollment-based funds

→From the inception to the end of the investment period

→Reflects risk tolerance changes over time

→All Glidepath gradually get more conservative over time

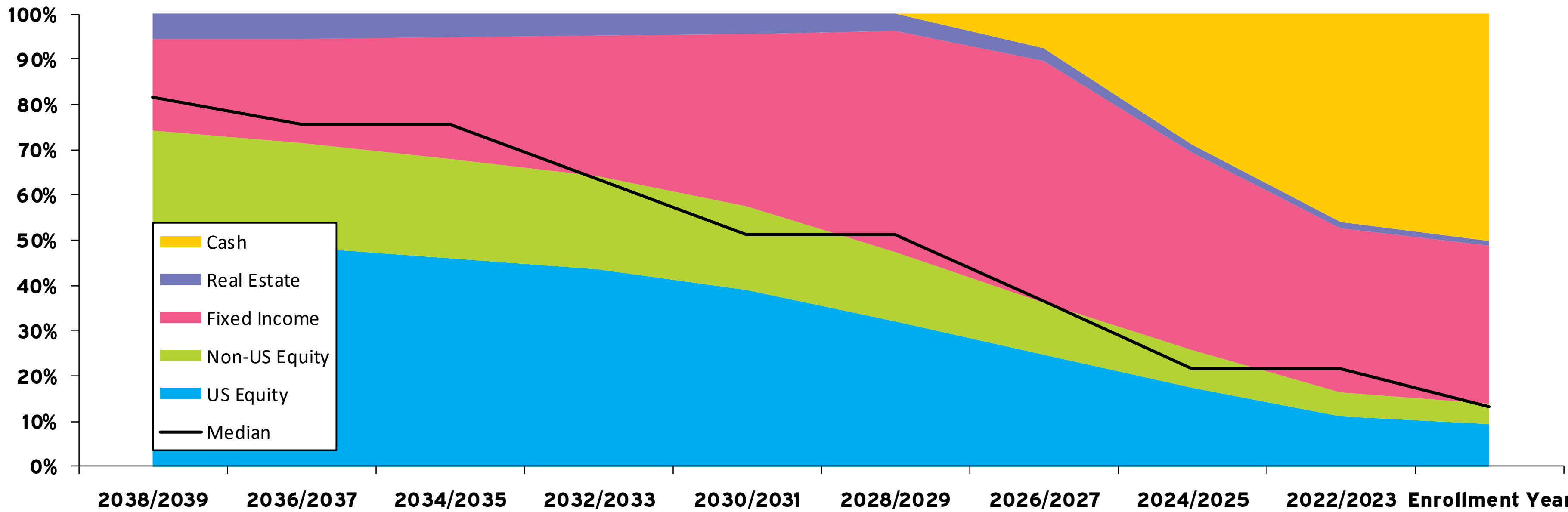


Building Portfolios

Sample Glidepath

→ "One stop shop" for investors, the asset allocation automatically adjusts over time

- Most providers follow similar broad asset class mixes over time (equity v. fixed)
- At the sub-asset level, each can vary greatly and have materially different risk-return profiles



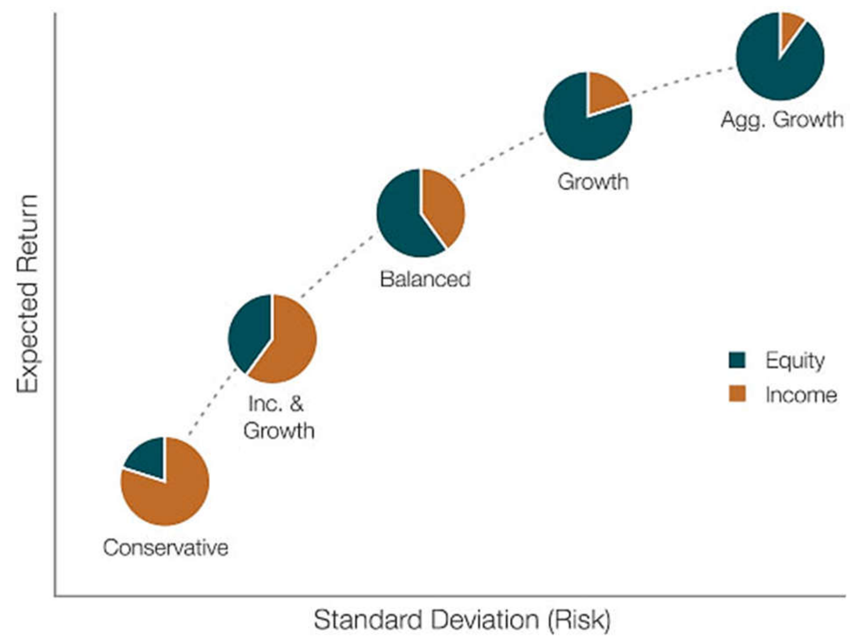
Building Portfolios

Static Portfolios

→ Asset allocation remains unchanged over time

→ Offered in index, active, or blended form

→ Allows an investor to target a point along the efficient frontier that aligns with their risk tolerance



Questions?