



## Memorandum

To: Rhode Island State Investment Commission

From: Capital Cities, L.L.C.

Date: September 11, 2020

Re: Annual CollegeBound Program Review

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Capital Cities prepared an independent review of the CollegeBound Saver (Direct) and CollegeBound 529 (Advisor) Plans. As part of the analysis, an investment structure review was conducted, evaluating the 529 Plans' menus and investment options. Fees were also documented and benchmarked. In addition, the Plans' Investment Policy Statement was reviewed.

The following recommendations were made, within the presentation, and require the State Investment Commission's vote, during the September 23, 2020 meeting:

- **Adopt the Amended Investment Policy Statement in light of the SECURE Act.**
- **Enhance the current CollegeBound Saver Age-Based Portfolios' custom benchmark construction to reflect each underlying fund's respective benchmark and weighting.**

Further details regarding the enhancement, to the CollegeBound Saver Age-Based Portfolios' custom benchmark construction, is provided below.

### **CollegeBound Saver Age-Based Portfolios' Overview:**

The CollegeBound Saver (Direct Plan) Age-Based Portfolios are designed to offer diversified portfolios that automatically become more conservative, as high school graduation and college enrollment approaches for designated beneficiaries. There are 11 Age-Based Portfolios, that have been custom-created for the Plan. These Portfolios are offered in two-year age bands, closely aligning each designated beneficiary to an appropriate asset allocation based on his/her age.

## Custom Benchmark Construction:

Capital Cities and the Rhode Island Office of the General Treasurer Staff have been closely working with the Invesco Global Solutions' team, to further examine CollegeBound Saver's Age-Based Portfolios' benchmark construction, as part of the ongoing evaluation of the Portfolios. In particular, the Portfolios have been historically benchmarked against targets that represent their underlying broad asset allocation, utilizing the Russell 1000 Index (U.S. Large Cap Equity), MSCI EAFE Index (Developed International Equity), Bloomberg Barclays Aggregate Bond Index (U.S. Investment Grade Bonds) and the Bloomberg Barclays 3-Month Treasury Index (Cash Equivalent), as set by Invesco at the Program's inception.

The Portfolios have experienced meaningful tracking error relative to the broad benchmarks, established by Invesco, given the Portfolios take a much more diversified approach. For example, CollegeBound Saver's Age-Based Portfolios are comprised of nine, passively managed iShares, Invesco and Vanguard products. These passively managed funds each seek to replicate a specific benchmark, only one of which, is included in Invesco's broad benchmarks outlined above. Further details are provided in the following table.

CollegeBound Saver Age-Based Portfolios		
Underlying Funds:	Current Benchmarks:	Proposed Benchmarks:
iShares Core S&P Total U.S. Stock Market ETF (ITOT)	Russell 1000 Index	S&P Total Market
Invesco Equally-Weighted S&P 500 Fund - R6 (VADFX)		S&P 500 Eq Wt
Vanguard Total International Stock Index Fund Instl Class (VTSNX)	MSCI EAFE Index	FTSE Global All Cap ex-U.S.
Invesco FTSE RAFI Developed Markets ex-U.S. ETF (PXF)		FTSE RAFI Developed Markets ex-U.S.
Vanguard Global ex-U.S. Real Estate Index Fund (VGRLX)		S&P Global ex-U.S. Property
Vanguard Total Bond Market II Index Institutional Class (VTBFX)	Bloomberg Barclays Aggregate Bond	Bloomberg Barclays Aggregate Bond
Vanguard Short-Term Investment Grade (VFSIX)		Bloomberg Barclays U.S. 1-5 Year Credit
Vanguard Short-Term Inflation-Protected Secs Index Instl Fund (VTSPX)		Bloomberg Barclays U.S. 0-5 Year TIPS
Invesco Treasury Collateral ETF (CLTL)	Bloomberg Barclays 3-Month Treasury Index	ICE U.S. Treasury Short Bond

## Recommendation:

**In an effort to have a benchmark that is more reflective of the CollegeBound Saver Age-Based Portfolios' underlying construction, Capital Cities recommends utilizing a new custom construction that represents the benchmark for each underlying fund, at its respective weighting, across the glidepath. Capital Cities believes this enhancement will be more reflective of the Portfolios' actual asset allocations and will decrease tracking error.**

It is also important to note that the benchmark enhancements will be reflected in Capital Cities' quarterly Performance & Evaluation Reports; however, no Program Description Supplement or account owner ETF communication is required.