

DRAFT

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of January 23, 2012

The January 23, 2012 meeting of the New Hampshire College Savings Plan Advisory Commission (Advisory Commission), held at the offices of the New Hampshire Higher Education Assistance Foundation in Concord, was called to order at 10:00 a.m. by Dr. Edward MacKay, Advisory Commission Chair.

Members present, constituting a quorum, were:

Edward MacKay (Chair)	Chancellor, University System of New Hampshire
Robbie Parsons	State Representative
Tara Payne	Vice President, representing the NH Higher Education Assistance Foundation Organizations
Linda Hodgdon	Commissioner of Administrative Services Dept., representing the Governor
Amy Bourgault	Executive Director, CCSNH Foundation, representing the Community College System of NH
Martha Gooze	Public Member, appointed by the Governor
Thomas Horgan	President & CEO, representing the New Hampshire College and University Council
Michael Cryans	Public Member, appointed by the Governor

Members absent were:

Catherine Provencher	State Treasurer
Thomas Galligan, Jr.	President, Colby-Sawyer College, representing the Higher Education Commission – Dept. of Education
Sylvia Larsen	State Senator
Gary Lambert	State Senator
Lynne Ober	State Representative

Also present at the meeting were Chris Sharpe, Joe Cullen, Joe Ciccariello, Kyla Doyle, Keith Bernhardt, and Matthew Golden, from Fidelity Investments (Fidelity), Steve Hirt of PricewaterhouseCoopers LLP (PwC), Richard Mahoney of the LBA Audit Division, and Bill Dwyer from the State Treasury.

Review of Prior Meeting Minutes

Minutes of the October 24, 2011 regular meeting were reviewed. Approval of the minutes was moved by Thomas Horgan and seconded by Linda Hodgdon. The motion passed unanimously.

Old Business

Updates from the Fidelity team on both the effects of the Advisor-sold load waiver for all account rollovers, as well as the ongoing impact of the State of California's transition of its state-sponsored 529 plan to TIAA-CREF were included in the various plan updates later in the meeting and outlined below.

Fiscal 2011 Audit Report

Richard Mahoney introduced Steve Hirt of PwC, who oversaw the completion of the annual external audits of each of the 50 portfolios within the UNIQUE College Investment Plan and the Fidelity Advisor 529 Plan. The audits were as of, and for the year ended, September 30, 2011.

Mr. Hirt presented the results of the independent audits of both the State's UNIQUE and the Fidelity Advisor 529 Plans. Audit work relating to Fidelity's internal controls focused on the daily unit value process, the re-balancing process, participant transactions (including new account set-ups and remittances) and the multi-class accounting. The audit team also relied on the independent SAS 70 audit report (Statement on Auditing Standards No. 70), as it related to Fidelity systems and controls, prepared by PwC.

Audit work relating to the financial statements included investment valuation of the underlying funds, proper accounting for fees and expenses, confirmations with the recordkeeping agent, and the appropriate financial statement disclosures and presentation. All financial statements received unqualified opinions and there were no adjustments proposed by PricewaterhouseCoopers or processed by Fidelity. Mr. Hirt reported that the statutory communications requirement with the State's Legislative Fiscal Committee was satisfied during a Fiscal Committee meeting on January 20, 2012.

Mr. Hirt described the many items requiring communications with the Advisory Commission and stated that the financial statements were prepared on the basis of the Financial Accounting Standards Board (FASB). Mr. Hirt also reported Fidelity and the Plans' Trustee provided full cooperation in the conduct of the audit, that no illegal or fraudulent acts were identified and that no significant deficiencies in the internal controls were noted.

Michael Cryans moved and Linda Hodgdon seconded a motion that the audit reports be accepted, and the motion passed unanimously.

Review of Investment Committee Meeting

Dr. MacKay summarized the results of the Investment Committee, which preceded this meeting. Investment returns of the Program portfolios and the underlying mutual funds, both in the equity and the bond funds, were presented for the fourth quarter of 2011, with actively managed funds underperforming the benchmark indexes.

On the basis of a recommendation from the Fidelity team, the Advisory Commission was asked to consider three proposals as outlined by Chris Sharpe: 1) adding commodity-based mutual funds to

provide more precise granularity and flexibility than what was previously available with the Fidelity Strategic Real Return Fund; 2) changing the respective performance benchmarks in concert with the first change; and 3) granting Fidelity managerial discretion in making underlying fund changes within the defined asset allocation parameters to the active and index portfolios prior to receiving approval from the Advisory Commission. Joe Cullen emphasized that the last of the three proposals is in line with the type of managerial discretion Fidelity exercises in the multi-firm (Open Architecture) segment and that Fidelity would maintain its commitment to providing transparency and accountability (presenting a justification for any change made) in pursuing future changes.

Dr. MacKay noted that in weighing the relative merits of acting in the best interests of plan participants versus the role of the Advisory Commission in authorizing such changes in advance, the need to give Fidelity the latitude to make such changes on a timely basis appeared to be of greater importance, explaining that the Investment Committee meets semi-annually. A recent change in the multi-firm portfolios that resulted in the removal of one Eaton Vance fund and its replacement with another Eaton Vance fund was provided as an example. Martha Gooze asked how this change has affected the performance of the multi-firm portfolios, and Mr. Cullen explained that since the change was made very recently and represents a very small portion of the multi-firm lineup there has not been any notable impact yet. Ms. Gooze asked what data was evaluated in order to justify the change. Mr. Cullen responded that the new Eaton Vance fund is designed to produce less volatility in generating returns and is also more consistent with the asset class in which the portfolio resides.

Following this discussion Ms. Hodgdon moved and Rep. Parsons seconded the approval of these changes. The motion passed unanimously.

Review of “Dashboard” Report

The Dashboard Report as of December 31, 2011 was reviewed by Dr. MacKay. This report reflects the State’s 529 Plans historical and forecasted fees, fee revenue and participant account balances, as well as historical analysis of the Endowment Fund and scholarship information. Dr. MacKay pointed out the various historic trends and future projections that the Advisory Commission members are to utilize during the review and decision-making relating to the UNIQUE Annual Allocation Program scholarship criteria later in the meeting. (The report is updated and provided to the Advisory Commission on a semi-annual basis and is also intended to be used by Advisory Commission members for “talking points” when discussing the program.)

Endowment Trust Fund and Scholarship Disbursements

The Endowment Trust Fund and scholarship update report, for the quarter ended December 31, 2011, was presented by Bill Dwyer. The Endowment Trust Fund had a balance of nearly \$2.9 million as of December, 2011, 83% lower than the \$16.5 million fund balance at the beginning of the fiscal year due to the \$13.5 million liquidation and distribution to USNH and CCSNH pursuant

to HB 2 (2011 budget legislation). Fiscal year-to-date 2012 interest and dividend earnings and net market gains/losses were nominally positive, and fee revenues collected were approximately \$5.17 million. Fiscal year 2012 General Fund reimbursements (out of management fees received) for estimated payments made to USNH and CCSNH totaled approximately \$4.8 million, which is \$306,000 less than the amounts paid out fiscal year-to-date using the revenue estimate for the fiscal year (although the shortfall decreased to \$265K in January due to recently-reduced appropriation payments). Dr. MacKay noted that a ‘true-up’ of actual versus estimated revenues will take place prior to fiscal year end and that at this pace the CCSNH and USNH would not likely receive their full budget allotment. As approved by the Commission at the July 25 meeting, a \$500,000 UNIQUE Endowment Allocation was distributed on December 15. Year-to-date administrative expenses totaled approximately \$16,000, reflecting quarterly Endowment Fund management fees paid to Fidelity, with \$206,000 in external audit fees paid in January.

Dr. MacKay explained to the Commission that a legislative effort to restore the UNIQUE Annual and Endowment programs to their original state (prior to changes under HB2) will not likely be successful in the 2013 fiscal year, but that it will be pursued for the fiscal year 2014-15 biennium. He noted that it would require approximately \$11-11.5M in General Fund appropriations to the CCSNH and USNH in order to hold those systems harmless and accomplish program restoration and will keep the Commission informed regarding any progress on this front.

UNIQUE Annual Allocation Program Scholarship Criteria for Academic Year 2012-2013

Pursuant to Administrative Rule Csp 602.01, the Advisory Commission is required to establish annually, in January, certain student eligibility and award criteria for scholarships for the UNIQUE Annual Allocation Program for the upcoming academic year (2012 – 2013). The purpose of making these decisions in January is so that the colleges are notified and can begin planning and communicating their financial aid programs for the next academic year, and initiate awards on a timely basis.

During the 2010-2011 academic year over \$4.1 million was awarded to nearly 5,900 financially-challenged New Hampshire residents attending New Hampshire colleges and universities. In the current academic year the total dollar amount and number of students projected to receive Annual Program scholarships are unknown due to the significantly reduced Endowment Trust Fund base from which scholarships can be funded. In addition, only the private institutions are eligible to participate in the UAAP in the 2011-12 and 2012-13 academic years. Participating colleges and universities were notified in July that awards for the current year would be provided just after July 1, 2012 on a “best efforts” reimbursement basis for the second semester at a maximum of \$500 per student, to the extent earnings in the Endowment Trust Fund can support scholarships at that level. If Fund earnings are not adequate to provide individual scholarships at that level, there will be partial scholarship reimbursements to participating institutions at a reduced, uniform, per-scholarship amount. Any awards made by the institutions to qualified students during the academic year will be at the risk of each institution, with the Advisory Commission held harmless.

Criteria to be used in the UNIQUE Annual Allocation Program student awards for the 2012-2013 academic year were discussed with consideration of expected fee revenues and the impact on the UNIQUE Endowment Trust fund, the source of scholarship funding. The criteria for the 2011-2012 academic year are as follows:

1. Initial Allocation Amount – No initial allocation amount disbursed to colleges in July 2011 due to legislative changes affecting the Endowment Trust Fund.
2. Expected Family Contribution (EFC) Cap – The EFC cap used for student eligibility was \$1,000.
3. Individual Scholarship Award – Individual scholarships, to be awarded in the second semester only, were set at \$500 maximum per student, as described above.
4. Guarantee for Reimbursement of Awards – Historically the Advisory Commission has informed the Program participants that they will be reimbursed for any awards made to eligible students in excess of the initial allocation made to them. As noted, there was no initial allocation and there is no guarantee of reimbursements for Annual awards.
5. Deadline for filing the federal Free Application For Student Aid (FAFSA) – To be eligible for a student award for the 2011-12 academic year, a FAFSA for the student had to be received on or before December 31, 2011.

A lengthy and thoughtful discussion ensued and included such issues as the number of potential scholarships to be awarded based the overall economic situation relative to financially-challenged New Hampshire students and their families, projections of fee revenues available for the scholarship programs, and the potential investment return scenarios and drawdown on the Endowment Trust from the current \$2.9 million level. Dr. MacKay noted that the Trust cannot be drawn down below the \$3 million level to award Annual scholarships.

Following this discussion, Mr. Horgan moved and Ms. Gooze seconded that for the academic year 2012-2013 the criteria shall remain nearly identical as follows:

1. The individual maximum award for eligible students shall be \$500 to be paid on a reimbursement basis from available Endowment Trust funds over the entire academic year, with the Advisory Commission held harmless in the event that Trust earnings do not support awards at this level;
2. The maximum EFC shall remain up to and including \$1,000;
3. The FAFSA receipt date shall be no later than December 31, 2012;
4. There will be no initial allocation amount disbursed to colleges in July 2012 due to legislative changes affecting the Endowment Trust Fund.
5. There will be no guarantee of reimbursements for Annual awards.

The motion passed unanimously.

(The State Treasurer will notify all participating colleges, in letters dated late January 2012, of the student eligibility criteria, the maximum individual award amounts, and the conditional nature of award reimbursement from the Endowment Trust.)

New Hampshire's 529 Program & 529 Plan Industry Update

Matt Golden provided a business update of the 529 College Savings Plan industry and the New Hampshire 529 programs as of September 30, 2011. Total 529 Plan market-valued industry assets at the end of the third quarter of 2011 decreased approximately 10.2% from the previous quarter, and New Hampshire's UNIQUE and FA 529 plans combined decreased by 9.9% for the same quarter. The primary factor in the third quarter decline for the industry and the NH Plan was an overall decline in equity values (i.e., S&P down 14%), although index programs outperformed actively managed programs. The New Hampshire Program remained the 3rd largest plan in the country in asset value as of September 30, 2011 with \$9.2 billion in assets (at market value) and approximately 6.9% of the industry's market share. New Hampshire followed Virginia (\$29.7 billion in assets) and New York (\$11.1 billion in assets) and was ahead of 4th place Nevada (\$7.5 billion in assets). Nevada's surge in the rankings is the result of its low-cost, index plan administered by Vanguard, as well as favorable Morningstar ratings on the basis of short-term investment performance. The State of Virginia's College America 529 Plan continues to maintain the largest market share nationally on the basis of robust state tax incentives, strong historical investment performance, and the broad advisor distribution span of its plan administrator, American Funds.

Mr. Golden stated that as a result of low market interest rates, the money market portfolios' returns were, at times, exceeded by portfolio fees and expenses. The Advisory Commission therefore authorized Fidelity, at its request, to waive certain fees for both the UNIQUE direct and the FA 529 Advisory plans to prevent negative returns on each plan's money market portfolio. This practice has been in effect since late 2009 due to the historically low interest rate environment. Total waived fees at calendar year-to-date December 31, 2011 totaled \$794,295.

On the national regulatory front, Kyla Doyle explained that there have been no developments since the October meeting with respect to H.R. 529 (promoting college savings plans among low to moderate income families) and Vice-President Biden's Middle Class Task Force Initiative for making college education more affordable for middle and lower income families. One new legislative development in mid-November was a proposal in both the House and Senate to create tax-advantaged savings accounts for individuals with disabilities ("ABLE" Act). The legislation was drafted to include these accounts under Section 529 and would allow the savings to be used to fund both college-related expenses and "quality-of-life" support. Separately, the General Accountability Office (GAO) has been commissioned to study the treatment of 529 plans. As part of that effort, the College Savings Plan Network (CSPN) has solicited data from program managers and state sponsors so that every 529 plan can be included in the assessment. The College Savings Foundation (CSF) and Financial Research Corporation (FRC) are also collaborating with the GAO in the study.

Key program enhancements to both State plans, as summarized by Ms. Doyle include an educational initiative targeted at customers to underscore the distinction between money market investments (not insured by FDIC) and the Bank Deposit Portfolio, FA 529 Advisor Plan networking and automation scheduled for a 2012 rollout (Fidelity is awaiting a third party broker-dealer to pilot with), continued promotion of “BillPay for 529”, and a redesign of the College Planning website in order to streamline navigation and create an additional entry point for marketing the UNIQUE Plan. Ms. Doyle also noted that a holiday season e-mail campaign directed toward both participants and prospects reached 1 million people. Investment product enhancements include the introduction of commodity-related mutual funds and the associated benchmark changes, as described in detail in the Review of the Investment Committee Meeting.

UNIQUE College Investing Plan Review

Ms. Doyle reported that as of December 31, 2011 UNIQUE retail plan assets approximated \$6.77 billion in market value, consisting of 425,359 participant accounts and comprising a 9.4% market share for second place in the direct sold segment. The State of New York led the segment with \$9.3 billion in assets, while Nevada’s plan placed third with \$5.3 billion as of September 30, 2011. Average account size of a UNIQUE portfolio was \$19,887, compared to the average account size in the industry of \$12,548. Contributions for the fourth quarter of 2011 totaled \$235.8 million and exceeded fourth quarter 2010 contributions by 14%. New accounts in the fourth quarter increased 52% over the fourth quarter of 2010. The average monthly new account and existing account contributions in the fourth quarter were \$5,800 and \$140 respectively. For the entire year, new account contributions averaged nearly \$3,600 and existing account contributions averaged \$138.

Participants residing in New Hampshire are fifth out of all states at 5.2% of the total participants and follow Texas (12.3%), California (10.5%), New Jersey (8.2%), and Florida (5.8%). New Hampshire participants increased 2% during the fourth quarter of 2011. The average balance of a UNIQUE participant residing in New Hampshire is \$15,500 and the average New Hampshire beneficiary age is 13. Also of note, the number of California participants increased by 9% in the quarter, while participants in Iowa and North Dakota rose 4%, possibly as a result of a lack of multi-firm portfolios available in those state plans.

Due to the proximity of the meeting to the end of the fourth quarter, the competitive analysis, which provides a review of both the active and passive (index) portfolios over the 1-, 3-, and 5-year time intervals was not available to be included in the presentation. This analysis will be presented in future quarterly meetings, as the meeting dates have been moved back two additional weeks from each quarter end.

Due to the State of California’s recent awarding of its direct-sold ScholarShare Plan to TIAA-CREF (and the “folding” of its advisor-sold plan into the direct plan), Ms. Doyle presented statistics for new California accounts opened in the UNIQUE Plan for fourth quarter 2011 versus fourth quarter 2010. The volume of new accounts for California residents as a percentage of all new UNIQUE accounts opened registered 41%, 34%, and 23% respectively for October,

November, and December, compared to only 2% for each month over the same period in 2010. On average, there were 1,160 new California accounts opened per month in the quarter.

Ms. Doyle reported that credit card rebates for the year ended December 31, 2011 totaled \$19 million in rewards flows deposited into the UNIQUE Plan, with approximately \$94 million in rewards to 529 participants and non-529 participants in 2011.

At the end of the fourth quarter of 2011, approximately 82% of the UNIQUE retail participant assets were held in age-based portfolios with 13% in static portfolios and the remaining 5% in individual portfolios. 89% of net flows for the quarter were into age-based portfolios (including 3% for multi-firm portfolios), 7% into static portfolios and the remaining 4% into individual and bank deposit portfolios on a net basis. During the fourth quarter, the College aged-based portfolio, both actively managed and index portfolios, experienced negative net cash flow at the rate of 58.6% and 2% respectively as funds were redeemed to pay college costs. The Money Market and Conservative (actively managed and index) portfolios experienced cash outflows at the rate of 6.4% and 1.7% respectively, believed to be caused by investor confidence returning and funds moving to higher-return investments. In addition there was a 0.6% decline in assets in the NH Bank Deposit Portfolio.

Fidelity Advisor 529 Plan Review

Mr. Golden reported that the Fidelity Advisor 529 Plan (FA 529 Plan) had approximately \$3.07 billion in market-valued assets as of the end of the fourth quarter 2011 spread over more than 244,000 participant accounts. Underscoring the need for enhanced advisor automation, only 0.74% more new accounts were opened in 2011 than in 2010, although 5.2% more contributions were made in these same periods.

For all of 2011, net outflows occurred primarily in the 100% Equity Portfolio and the 70% Equity Portfolio (both are static funds), as participants began and continued their redemptions for college expenses. Other portfolios with notable net outflows included the Diversified International Portfolio, the Equity Growth Portfolio, the Equity Income Portfolio, the High Income Portfolio and the Value Strategic Portfolio. 74% of all FA 529 assets were held in age-based portfolios with 18% in individual portfolios and the remaining 8% in static portfolios. Mr. Golden also described the “roll-down” of assets in the oldest age-based portfolio (FA 529 2010 Portfolio) into the College Portfolio, in tandem with the introduction of the new FA 529 2031 Portfolio for the youngest beneficiaries.

Mr. Golden briefly reviewed the marketing campaigns completed in 2011, which focused on wealth-building, savings, and tax-advantaged strategies. A late October campaign highlighting “many ways to save” distributed over 30,000 direct mailers and nearly 80,000 e-mails, with the e-mail open rate registering 12%. A second campaign in mid-November describing tax advantages generated similar volumes of both direct mailers and e-mails, with the latter producing a strong 13.5% open rate. Marketing activities scheduled for 2012 will continue these themes directed at

both investors and the financial advisors, including new initiatives for SIP statement stuffers, the third quarter product guide ad insert, and late-year direct mail and e-mail messaging.

Two other states' plans continue to utilize Fidelity funds with \$99 million in market-value assets as of December 30, 2011:

Nebraska (FNB of Nebraska - \$95 million since inception in December 2010); and
Nevada (Putnam - \$4 million since inception in October 2010)

New Hampshire residents ranked 20th in the number of accounts in the advisor-sold plan, with 1.51% of all accounts. Residents from California (10.21%), Texas (7.97%), Massachusetts (7.14%), Pennsylvania (5.83%), and Florida (5.34%) constituted the top 5 in the plan. The average account size in the advisor-sold plan was nearly \$15,900, with New Hampshire residents averaging nearly \$15,700 in account balances.

In the two months since the awarding of the California ScholarShare Plan to TIAA-CREF, there have been 636 accounts constituting nearly \$14.7 million in assets that have rolled into the FA 529 plan. Much of this activity can be attributed to the A-share load waiver which was approved by the Advisory Commission and put into effect on December 1 with a March 31 expiration.

Other Business

Dr. MacKay asked Mr. Dwyer to provide an overview of the process for pursuing Governor and Executive Council (G&C) approval of the investment changes authorized by the Advisory Commission today. Mr. Dwyer explained that the changes to the Investment Management Agreement (IMA) that would be required in order to grant the Advisory Commission and Fidelity discretionary authority over portfolio allocation changes were substantial enough that there would not be sufficient time to finalize them prior to March 1. The IMA amendment involving only the revision of asset allocations would require less time and was therefore more likely to be achieved in time for the March 1 implementation deadline. In addition, it was necessary to await the votes of the Advisory Commission at today's meeting. As a result, the State Treasury is working with Fidelity and its counsel to prepare the documentation reflecting the revision of asset allocations to present at either the February 8 or February 22 G&C meeting. The revision required to completely remove the allocations from the IMA (and thereby grant the Advisory Commission and Fidelity management discretion in making those changes) will be pursued at a later date in the year.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 11:40AM

NOTE: The next regular meeting is scheduled for Monday, May 14, 2012 starting at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. There will be no Investment Committee meeting.