

UNIQUE COLLEGE INVESTING PLAN
Minutes of the Meeting of April 26, 2004

The fiftieth meeting of the NH College Savings Plan Advisory Commission was called to order at 10:10 AM by Senator Larsen, Chairperson. The meeting was held at the offices of the New Hampshire Higher Education Assistance Foundation. Present were:

Sylvia Larsen	State Senator from Concord
Ingrid Lemaire	Senior Director, Research and State Relations, NH Higher Education Assistance Foundation
Michael Ablowich	State Treasurer
Ann Weddleton	Director of System Research and Grants, representing the Community Technical College System
Edward MacKay	Vice Chancellor, representing the University System of New Hampshire
Michael Cryans	Public Member from Hanover

Absent were:

Larry Elliott	State Representative from Hillsborough
Martha Gooze	Public Member from Durham
Father Jonathan DeFelice	President, Saint Anselm, representing the Post Secondary Education Commission
Andrew Peterson	Senator from Peterborough
Thomas Horgan	Executive Director, New Hampshire College and University Council
Richard Leone	State Representative from Sunapee
A representative from Governor Benson's office	

Also present were Ed Nigro, David Pearlman, Mary Connors, Bob Corcoran, and Heidi Siegal from Fidelity.

A quorum was not present. As a result action to review and approve the minutes of the January 26, 2004 meeting was not taken.

Mr. Corcoran reviewed with the Commission business results for the 1st quarter of calendar year 2004 for the UNIQUE Plan. At the end of the quarter the UNIQUE Plan had assets of over \$2.3 billion. New account openings and market appreciation lead to the increase of assets by over \$200 million since the end of 2003. Stronger financial markets (particularly the equity markets) have contributed to the increase in assets and

account openings. Incidental to continued marketing efforts, the number of incoming account transfers have grown dramatically but do not represent the majority of sales. In fact, total dollars from rollovers from other 529 plans is still less than 1% of monthly sales. As in prior periods as the total assets have grown the amount of management fees transferred to the state has also increased. Mr. Corcoran also handed out but did not review a presentation on portfolio investment review and a general financial market review for the 1st quarter.

Mr. Corcoran pointed out that sales continue to remain focused on the age-based as opposed to the static portfolios, although cashflows to the 100% and 70% equity portfolios have continued to be strong as the equity markets improve. Included with Mr. Corcoran's presentation was a list of state of residence of account holders. This list indicated that New Hampshire residents were still a significant number of all account holders at 6% of the total.

There was some discussion concerning the ranking methodology used by Morningstar to compare and evaluate different college savings plans which became the subject of a news article listing the 5 best and 5 worst 529 Plans. Fidelity will continue to work with Morningstar analysts to make sure they have the most up to date information on the UNIQUE Plan so they can make informed evaluations about the features and performance of UNIQUE relative to other 529 Plans. Neither the UNIQUE Plan nor the FA 529 Plan were listed among the best or worst plans by Morningstar.

There was also some discussion concerning the level of fees charged to customers to participate in the UNIQUE Plan versus others. This is important since some evaluation methods look predominately at fees as a primary evaluation factor. Mr. Corcoran agreed to develop some plan to plan fee comparisons for the Commission to review.

The MBNA 529 College Rewards MasterCard remains popular. In the first quarter of 2004 the reward dollars transferred into the UNIQUE Plan was nearly \$2.1 million.

For the remainder of 2004 Fidelity will continue to focus on marketing and will attempt to launch a product enhancement every month. Most of the product enhancements will be to allow customers more flexibility in how they access and maintain their accounts.

Mr. Nigro presented an overview of the Fidelity Advisor 529 Plan (FA 529 Plan) business results for the first quarter of calendar year 2004. Mr. Nigro also handed out a presentation which illustrated the 1st quarter performance of FA 529 investment options but did not review it. The first quarter of the new year saw sales increase sharply over the prior year. The FA 529 Plan ended the quarter with just over \$739 million in assets. New accounts in the quarter were more than three times the number in the same quarter in 2003. Cashflows to the age-based portfolios continue to be strong as is the case with UNIQUE.

Rollover activity has also increased substantially over the past year. Rollovers accounted for more than 25% of sales in the first quarter and are expected to remain strong, although not expected to continue to represent this level of activity compared to all sales.

For calendar year 2004, marketing activities will continue to emphasize to advisors the ease of rollover transactions and on building basic awareness of the product.

Mr. Pearlman reviewed the regulatory environment for the mutual fund industry and 529 Plans. Fidelity continues to cooperate with the SEC on providing documentation and information as needed, but to this point has not been accused of or charged with any wrongdoing. Fidelity plans to provide comments to the SEC on proposed changes to mutual fund industry regulations. Fidelity has also provided the SEC with information concerning 529 Plan marketing and investment policies. Related to this, the College Savings Foundation, an industry association of 529 Plan providers, has also sent a letter to the SEC offering to be a resource to the SEC as they review the marketing and investment practices in this segment of the mutual fund industry.

Mr. Corcoran commented on the efforts of Fidelity to address the negative comments that the SEC and some elected officials in Washington, DC have been expressing about 529 Plans. Fidelity has 5 key messages on the subject of the integrity of 529 Plans: 1). 529 Plans work, 2) Fidelity's state sponsors are actively engaged in plan oversight, 3) The plans are fairly priced, 4). Sales practices are ethical, and 5). Disclosure is substantial and adequate.

Ms. Judy Knapp of the Post Secondary Education Commission ("PSEC") next addressed the Commission. Ms. Knapp reviewed the structure of the state's scholarship program that is funded through remaining administrative fees collected through the 529 Plans and not spent on administration. She contrasted New Hampshire's program with those of Maine and Rhode Island. She described a profile of the existing recipients. Based on the best information available Ms. Knapp believes that the PSEC has been able to award scholarships to every student who filed a FAFSA by May 1 and met the other eligibility criteria. Ms. Knapp suggested some options to improve the efficiency of processing these scholarships. Specifically Ms. Knapp suggested that schools could perform some initial screening of their incoming students to identify those who meet the award criteria and forward those names to PSEC. This change would relieve a significant administrative burden from PSEC and quicken the process of identifying eligible students. There was consensus that this was a positive change and it was endorsed by the Commission.

As a continuation of the discussion on scholarships there was a subcommittee formed to review the question of whether the scholarships are reaching the intended students and whether the \$1,000 per year was a sufficient amount given the current levels of the costs to attend post secondary education. Mr. MacKay, Mr. Cryans, Ms. Lemaire

and Ms. Weddleton agreed to participate in this working group to investigate these questions.

Mr. Ablowich then reviewed the status of the Endowment Fund. He reviewed the transactions to date in fiscal year 2004. He proposed a budget for state fiscal year 2005. In summary, the budget expects revenue of \$4.5 million, administrative expenditures of \$126,125 (including a total estimate of \$113,125 for the annual audits and audit expenses) and scholarships of \$137,000. The balance of revenue and expenditure will be added to the endowment. There was consensus that the budget was appropriate.

Mr. Ablowich requested an amount not to exceed \$1,100 from the 2005 budget to attend the College Savings Plan Summit in New York City on July 19th. There was consensus that this was an appropriate expenditure.

Mr. Ablowich also discussed the issue raised in the last meeting by Ms. Sheila Evans of the New Hampshire Women's Lobby concerning the issue of divorce and the treatment of 529 Plans. He had some language for the Commission to consider incorporating into future disclosure documents. However it was mentioned that there is a bill in the legislature that may make this issue not relevant. Mr. Ablowich agreed to monitor the bill and see what impact this would have, if passed, on the issue of divorce and the treatment of savings in a 529 Plan.

The meeting adjourned at 12:00 P.M. The next meeting will be August 2, 2004 at 10 A.M. The meeting will take place at the New Hampshire Higher Education Assistance Foundation. At 9AM the investment committee will meet to discuss the first half of calendar year 2004 performance.