

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of November 3, 2008

The November 3, 2008 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 10:05 a.m. by Dr. Edward MacKay, Advisory Commission Chair. Present at the meeting were:

Edward MacKay (Chair)	Vice Chancellor & Treasurer, representing the University System of New Hampshire
Harold Janeway	State Senator
Robert Foose	State Representative
Russell Ingram	State Representative
Kathryn Dodge	Executive Director, Post Secondary Education Commission
Tara Payne	Vice President, representing the NH Higher Education Assistance Foundation Organizations
Thomas Horgan	President & CEO, representing the New Hampshire College and University Council
Linda Hodgdon	Representative from the Office of the Governor and Commissioner of Administrative Services Dept.
Catherine Provencher	State Treasurer
<u>Absent were:</u>	
Margaret Hassan	State Senator
Ann Toomey	Director of System Research and Grants, representing the Community College System of NH
Martha Gooze	Public Member
Michael Cryans	Public Member

Also present were Joe Ciccariello, Jeff Troutman, Christopher Sharpe, David Pearlman, Mary Connors, Kyla Doyle and Cliff Poirier from Fidelity Investments (Fidelity), Amy Bourgault from the Community College System of New Hampshire, Judith Knapp of Postsecondary Education and Brad Jacobson, Deputy State Treasurer.

The minutes of the meeting of July 28, 2009 were reviewed. The minutes were motioned for approval, as revised, by Rep. Ingram and seconded by Dr. Dodge. The motion passed unanimously.

Old Business

The status of issues that have arisen in prior meetings, requiring further resolution were reviewed as follows:

1. Endowment Fund Asset Allocation Study

Treasurer Provencher reported that Treasury continues to work on the Endowment Fund allocation study. A draft of the results of the study has been circulated to members of the Investment Committee for comments. Once the asset allocation has been reviewed, Treasury will begin the selection of the mutual funds representing the various asset classes.

2. Fidelity Fee Negotiation Status

Dr. MacKay reported that the ad hoc fee negotiation committee has continued to meet with Fidelity to discuss fee and related contractual options but no final decisions have been reached. It is currently expected that the Massachusetts request for proposal will be issued to firms in January 2009 and a final decision will be required by the Advisory Commission at the April or the July 2009 meeting if Fidelity is successful in winning the management contract for Massachusetts.

3. Reforecasting 2008 Targets

Mr. Ciccariello reported that the original 2008 targets that had been reforecast in the middle of 2008 did not reflect the most recent economic downturn and had therefore become meaningless by November.

4. UNIQUE Retail Plan Analysis of Net Flows and Asset Values by Type of Portfolios

To be discussed in the UNIQUE College Investing Plan update.

New Hampshire's 529 Program Update

Mr. Sharpe led a discussion about the recent financial crisis, the economic downturn and the credit and the investment markets. Credit markets typically lead the equity markets in market trends. While overnight lending appears to be freeing up the three-month lending market is still completely frozen. Retail investors (general public) were mostly selling equities as of the end of September taking investment losses and moving toward more conservative investments and cash. This type of activity has historically signaled the end of a bear market.

College savings investors across the 529 Plan industry do not appear to be liquidating their accounts, except for those having to pay current college costs. Rather, participants appear to be retaining funds in their college savings plan but moving funds from equity portfolios to more conservative investment portfolios. Both the UNIQUE Plan and the Advisor 529 Plans reflected a significant movement from aged-based portfolios to conservative portfolios in the month of October, as compared to the rest of calendar year 2008. This is a similar trend to what Fidelity is seeing in the retirement savings industry. Fidelity is currently performing various analyses of participant portfolios to be able to continue to monitor participant trends and to offer investment advice to participants.

Mr. Ciccariello presented the overall College Savings Plan market update for the third quarter of 2008. By the end of the second quarter, New Hampshire had moved into the second

position among all states by asset value. Programs managed by Vanguard, American and Fidelity continued to improve market share.

Fidelity's second annual College Savings Indicator results for New Hampshire residents reflect:

1. 64% of parents cite day-to-day expenses as a barrier to saving for college.
2. Fewer parents are on track for meeting their college savings goals this year (22% in 2007 vs. 17% in 2008).
3. More parents (79% in 2008 vs. 77% in 2007) are planning on student loans to fund college savings.
4. 32% of parents are investing in dedicated college savings, like a 529 account.
5. Almost 77% of parents are seeking alternative strategies to meet rising costs (i.e. live at home, commute to school, work part time).
6. Parents that are saving for college are starting to save a year earlier than was reported last year.

Mr. Pearlman next updated the Advisory Commission on regulatory and legal issues. When the first New Hampshire plan was launched, participants could not change investments at all, except when an account's beneficiary was changed. In 2001 Treasury and IRS issued a notice permitting participants to reallocate their investments once a year without a beneficiary change. The College Savings Foundation, an organization consisting mostly of plan management and service firms, will soon submit a request to the Treasury asking that reallocations be permitted without a beneficiary change up to four times per calendar year.

There have been rumors recently in the financial media about a pending 4,000 person layoff at Fidelity. Mr. Ciccariello reported that Fidelity is looking for ongoing process efficiencies and cost savings partly driven by the recent reorganization at Fidelity and partly driven by the current economic situation but that no specific plans had yet been announced. Mr. Ciccariello also indicated that it was highly unlikely that the College Savings services from Fidelity would be impacted.

Annual Maximum Contribution

Annually the Advisory Commission reviews the maximum contribution level applicable to the State's College Savings Plans. (In the event that a beneficiary has accumulated this level of market value in the State's Plans at Fidelity, as calculated each December 31, no additional contributions will be allowed during the following year.) Currently the maximum contribution level, established for calendar year 2008, is \$318,000 and is based on the "Dartmouth Formula" which is seven years of tuition, mandatory fees, housing and board at the State's most expensive college. Utilizing the "Dartmouth Formula", which was adopted by the Advisory Commission at the inception of the State's 529 Plans, the maximum contribution level for 2009 would be \$333,858 as calculate by the State Treasury.

It was moved by Senator Janeway, and seconded by Representative Foose, that the maximum contribution level be raised to \$330,000 for 2009. During the ensuing discussion, the following issues were evaluated:

1. Currently New Hampshire ranks twenty-second of all states.
2. If the contribution level is raised to \$330,000 the ranking would be number 12.
3. There are only 6 accounts in the UNIQUE and the Advisor plans with market values in excess \$275,000.
4. There are only 2 such accounts in the UNIQUE plan.
5. No accounts have reached the current \$318,000 ceiling.
6. Potential negative perception of investors, during this market decline, of raising the contribution level.

After significant discussion the motion passed. The maximum contribution level in effect for calendar 2009 will be \$330,000.

UNIQUE Plan Review

Ms. Doyle reviewed the business results of the UNIQUE retail plan for the third quarter of 2008. The growth in new accounts during the quarter decreased 14.9% as compared to the third quarter 2007, mostly due to the nationwide economic decline. This trend is expected by Fidelity to continue for the rest of the year. Contributions for the quarter had also declined a bit as compared to the second quarter of 2008. During the third quarter 22,266 new accounts were added which contributed to a year-to-date total of over 392,000 accounts as of September 30, 2008. Contributions during the third quarter approximated \$593 million. This is a decrease in contributions of 8.4% as compared to the third quarter of 2007. Total market value of the portfolios in the Plan was approximately \$5.1 billion as of September 30, 2008. 82% of the total assets in the Plan as of September 30 are in age-based portfolios.

During the third quarter Fidelity conducted their first direct mailing of college savings information to workplace and retirement participants nationwide. Other TV and Online Search advertising continued. During the upcoming 4th quarter, Fidelity will be sending out an e-newsletter with an emphasis on “gifting” possibilities for the holiday season and the benefits of “auto-investing.” The annual in-school distribution of UNIQUE Plan materials is expected to take place later in November.

The improvement of the “Customer Experience” activities during the third quarter included the final organizational changes to establish two dedicated college planning sites, in Jacksonville, FL and Salt Lake City, UT, consisting of 60 specially trained phone representatives. As specialists, these representatives are expected to improve the phone services to 529 customers. New college planning tools have been added to the Fidelity website and deposit slips are being mailed to all customers to make it easier to make contributions.

As a result of the recent market volatility, Fidelity has been providing customers with market commentaries, web casts and other informative market-related communications. Research on customer activity will provide additional insights to be used in such future communications.

Fidelity Advisor 529 Plan Review

Mr. Troutman reviewed the business results of the FA 529 Plan (Advisor Plan) for the third quarter of 2008. The Advisor 529 Plan has also been adversely affected by the negative economic conditions but continues to perform a bit better than the overall industry. Approximately 13,800 new accounts were added during the third quarter which is 27.8% behind the third quarter of 2007. Total accounts as of September 30 approximated 203,000. Contributions during the third quarter approximated \$265 million which was 16.2% behind the third quarter of 2007. The market value of plan assets as of September 30, 2008 was \$2.4 billion. 72% of the assets are in age-based portfolios.

Quarterly welcome letters continue to be sent to new and existing account participants to encourage systematic deposits.

The 2007 age-based portfolio will be rolled down to the college portfolio on December 19. A new 2028 age-based portfolio will be launched on the same day.

Mr. Troutman reported that as of September 30, two program management firms, Union Bank & Trust (Nebraska Plan) and Oppenheimer (New Mexico Plan), continue to utilize Fidelity Advisor funds in their programs. Total investments in Fidelity funds in these two plans are \$223.2 million. Putnam, representing the Ohio plan, is expected to add a Fidelity Advisor fund to their portfolio in December. Bank One (Indiana Plan) and Allianz (South Dakota Plan) eliminated Fidelity funds from their portfolios in September. Mr. Troutman indicated that Fidelity continues to receive calls from other state plans interested in adding Fidelity funds.

Fidelity intends to make certain service and administrative changes to the Advisor 529 Plan process to make it easier for financial advisors and their clients to use 529 college savings plans. These changes would mirror those processes utilized with other advisor-sold investment products. The current process is labor intensive and time consuming for both the advisor and the advisor's clients and is outside the mainstream of how other investment products are handled. In addition, the regulatory environment is driving the need to further automate the compliance process. The change being contemplated, called "NSCC Network Level 3" will streamline the process from a 7 – 21 day period down to a 1-3 day period. Fidelity's goal is to be the first plan to implement this new process that will ultimately be adopted by all other firms in the 529 industry.

While more tasks in the new process will be performed by broker/dealers rather than by Fidelity, Fidelity will retain the overall administrative and contractual responsibility of the process and be directly accountable to the Advisory Commission and the Plan's Trustee for all

services. System development is scheduled to begin in late 2008 with a launch scheduled in the fourth quarter of 2009. It was moved by Representative Foose, and seconded by Ms. Hodgdon to authorize the State Treasurer, as Trustee, to negotiate and execute any contract amendments necessary to complete the implementation of the new Network Level 3 process. The motion passed unanimously. Mr. Troutman will continue to provide the Advisory Commission with the status of this project.

As a result of the recent economic downturn and declining market returns, Fidelity has been monitoring yields of the money market portfolios. It is conceivable that a negative return could occur. That would happen if the market yields are less than the sum of the underlying fund and portfolio expenses. Amendments to the Investment Management Agreement were made in November 2002 applicable to certain classes of the money market portfolio in the Advisor 529 Plan to waive a portion of the distribution fees in the event of a negative return. Although it is unlikely that a “negative return” situation will arise, Mr. Troutman believes that it would be prudent at this time to be prepared, in advance, for the potential of negative returns on all of the State’s 529 money market portfolios. In the event of a negative return situation, Fidelity would first waive its distribution fee and, if the distribution fee waiver is not enough, Fidelity would next waive its portion of the Program Fee (15 basis points). The State’s portion of the Program Fee would not be affected. The Advisory Commission voted unanimously to authorized the State Treasurer to negotiate and execute any contract amendments necessary to implement a Fidelity fee-waiver process in the event of a potential “negative return” situation. Mr. Troutman will continue to brief the Advisory Commission on these events.

Endowment Fund and Scholarship Update

Ms. Provencher provided the Advisory Commission members with an update on the Endowment Fund, and UNIQUE Allocation Program scholarships, as of September 30, 2008. Expenditures exceeded fee revenue, as expected, in the first quarter of fiscal 2009 largely due to the payment of the Annual Allocation Program award in July. Administrative costs in the first quarter were annual association dues for the College Savings Plan Network (a committee of the National Association of State Treasurers) and the College Savings Foundation. The Advisory Commission is a member of both organizations. The market value of the fund approximated \$20 million as of September 30, 2008 and incurred a net market value loss during the quarter of \$2.5 million which was reflective of the market downturn.

Other Business

1. Meeting dates for 2009, beyond the next meeting date of January 26, will be determined by Mr. Jacobson based on the 4th Monday following the end of the quarter. These dates will be circulated to the Advisory Commission members to mitigate any significant conflicts.
2. Advisory Commission member financial disclosures are due to be sent in to the Secretary of State’s office by mid-January. Forms are available on the Dept. of State’s website and Mr. Jacobson will provide members with the appropriate link.

3. Representative Ingram thanked the Advisory Commission members for the card and thoughts extended to him during his recent hospital stay.
4. Dr. MacKay was congratulated on his upcoming appointment as Chancellor of the University System of New Hampshire.

There being no further business, Dr. MacKay adjourned the meeting at 12:15.

NOTE: The next regular meeting is scheduled for January 26, 2009 starting at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. This meeting will be preceded by the semi-annual Investment Committee starting at 9:00.