

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of January 24, 2011

The January 24, 2011 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
Sylvia Larsen	State Senator
Robbie Parsons	State Representative
Tara Payne	Vice President, representing the NH Higher Education Assistance Foundation Organizations
Thomas Horgan	President & CEO, representing the New Hampshire College and University Council
Amy Bourgault	Executive Director, CCSNH Foundation representing the Community College System of NH
Linda Hodgdon	Commissioner of Administrative Services Dept., representing the Governor
Catherine Provencher	State Treasurer

Members Absent were:

Gary Lambert	State Senator
Lynne Ober	State Representative
Martha Gooze	Public Member, appointed by the Governor
Michael Cryans	Public Member, appointed by the Governor
Kathryn Dodge	Executive Director, Postsecondary Education Commission

Also present at the meeting were Joe Ciccariello, Jeff Troutman, Peter Mahoney, and Chris Sharpe from Fidelity Investments (Fidelity), T.J. O'Brien of PricewaterhouseCoopers LLP (PwC), Richard Mahoney, Director of the LBA Audit Division, Cynthia Capodestria from the Postsecondary Education Commission, Richard Gustafson, Chancellor of the Community College System of New Hampshire, and Bill Dwyer and Brad Jacobson from the State Treasury.

Review of Prior Meeting Minutes

Minutes of the October 25, 2010 regular meeting were reviewed. Approval of the minutes was moved by Treasurer Provencher and seconded by Ms. Payne. The motion passed unanimously.

Old Business

The status of issues that have arisen in prior meetings and required further follow-up and resolution were reviewed and resolved as follows:

No business to discuss

Fiscal 2010 Audit Report

Mr. Richard Mahoney introduced Mr. O'Brien of PwC, who was responsible for the performance 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, 2010.

Mr. O'Brien 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. The audit review also reported on the addition of a new Bank Deposit Portfolio (within the UNIQUE Plan) that invests in bank deposits at Wells Fargo Bank. All financial statements received unqualified opinions and there were no adjustments proposed by PricewaterhouseCoopers or processed by Fidelity. Mr. O'Brien reported that the statutory communications requirement with the State's Legislative Fiscal Committee was satisfied during a Fiscal Committee meeting on January 21, 2011. Treasurer Provencher noted that during the presentation to Fiscal Committee, Steven Hirt of PwC stated that New Hampshire's 529 Plans-governance received a rating of "Best in Class".

Mr. O'Brien reviewed 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. O'Brien 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.

Commissioner Hodgdon moved and Rep. Parsons seconded a motion that the audit reports be accepted and the motion passed unanimously.

Review of "Dashboard" Report

The Dashboard Report as of December 31, 2010 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 intended to also be used by Advisory Commission members for “talking points” when discussing the program.)

UNIQUE Annual Allocation Program Scholarship Criteria for Academic Year 2011-2012

Pursuant to Administrative Rule Csp 602, 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 (2011 – 2012). 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 2009-2010 academic year over \$4.4 million was awarded to approximately 5,000 financially-challenged New Hampshire residents attending New Hampshire colleges and universities. In the current year it is estimated approximately 5,500 residents will receive grants totaling \$5 million.

Criteria to be used in the UNIQUE Annual Allocation Program student awards for the 2011-2012 academic year was 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 2010-2011 academic year are as follows:

1. Initial Allocation Amount – The initial allocation amount to be disbursed to colleges in July 2010 was \$1.2 million.
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 on a semester basis, were \$1,000 total per student.
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 student in excess of the initial allocation made to them. The participants have also been told that there is no guarantee that this practice will continue into future years.
5. Deadline for filing the federal Free Application For Student Aid (FAFSA) – To be eligible for a student award for the 2010-2011 academic year, a FAFSA for student had to be received on or before December 31, 2010.

A lengthy and thoughtful discussion ensued and included such issues as the number of potential scholarships to be awarded based on recent changes to the federal methodology for determining Effective Family Contribution amounts, the overall economic situation relative to potentially financially-challenged New Hampshire students and their families, other financial aid funding available to New Hampshire colleges at the State and federal levels, increasing enrollments in the New Hampshire Community College System due to rising unemployment, the business practices of “for-profit” versus non-profit institutions, projections of fee revenues available for the scholarship programs, and the potential impacts and drawdown on the Endowment Trust from the current \$17.9 million level.

Following this discussion, Mr. Horgan moved and Senator Larsen seconded that for the academic year 2011-2012 the criteria remain the same as the current academic year as follows :

1. The individual maximum award for eligible students shall be \$1,000 to be paid on a semester basis;
2. The maximum EFC shall remain up to and including \$1,000;
3. The FAFSA receipt date shall be no later than December 31, 2011;
4. The initial allocation to participating colleges shall remain \$1.2 million to be paid in July 2011.
5. Awards made to eligible students in excess of the initial allocation will be guaranteed.

As a result of this decision, it is estimated the Trust Fund will be drawn down by roughly \$3 million next year to meet the annual award obligations. The motion passed unanimously.

(The Treasurer will notify all participating colleges, in letters dated early February 2011, of the student eligibility criteria, the amount of their initial allocation to be disbursed in July and the guarantee of reimbursement of funds awarded in excess of the initial disbursement.)

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 sound in the fourth quarter of 2010, with actively managed funds exceeding or performing in line with the benchmark indexes. On the basis of a recommendation from the Fidelity team, the Investment Committee proposed the removal of the OTC Fund from the Direct Plan and the removal of the Large Cap Core Enhanced Index Fund from both the Direct and Advisor Plans. The reason for the former is its heavy weighting in technology stocks, and the reason for the latter is to maximize the opportunity to invest in active strategies across all cap sizes. The recommendation also included the addition of the Stock Selector All Cap Fund to the Direct Plan (the fund is already included in the Advisor Plan).

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

Dr. MacKay then noted that under advisement from the Fidelity team, the benchmark index for non-U.S. equities has been changed from the MSCI EAFE Index to the MSCI ACWI ex-US Index in order to reflect the 15-20% allocation to emerging markets within this investment segment.

New Hampshire's 529 Program Update

Mr. Peter Mahoney provided a business update of the 529 College Savings Plan industry and the New Hampshire 529 program as of September 30, 2010. Total 529 Plan market-valued industry assets at the end of the third quarter of 2010 increased approximately 8.5% and New Hampshire's UNIQUE and FA 529 plans together increased by 7.1% for the same quarter. The New Hampshire Program remained the 3rd largest plan in the country in asset value as of September 30, 2010 with approximately \$8 billion in assets (at market value) and 7 % of the industry's market share. New Hampshire followed Virginia (\$29 billion in assets) and New York (\$10 billion in assets) and was ahead of 4th place Rhode Island (\$7 billion in assets).

Key program enhancements to both State plans, as summarized by Mr. Mahoney, include ongoing reviews and reporting improvements in the State's plan design, customer experience initiatives, FA 529 Advisor Plan automation, and enhancements to investment products. Current customer experience enhancements include an email sent to all customers (with an email address on file) notifying them that Fidelity is happy to review their portfolio with them to ensure that is positioned appropriately for their situation, an awareness message concerning low earnings on money market portfolios, and continuing customer messaging on "BillPay," which was implemented earlier this year as Fidelity's number one customer request for system improvements. Investment product enhancements, approved in 2010, continue to be rolled out and include the FDIC-Insured Bank Deposit portfolio (which launched in the fourth quarter and grew to \$10 million in assets), the rollout of the 2030 age-based portfolio, the closing of "B" Class shares in the FA 529 Advisor Plan, and an increase in international equities to 30% of total equities.

Mr. Troutman of Fidelity provided the regulatory updates on two rules changes being proposed by the Securities and Exchange Commission:

- The extension of the exemption for computer purchases (expired at the end of 2010 as a temporary exemption)
- The expansion of the number of inter-fund exchanges from once per beneficiary per year to four per beneficiary per year (enhanced flexibility should lead to increased participation)

In addition Mr. Troutman reported that Bank of America Merrill Lynch was fined \$500,000 for lacking adequate supervisory structure (sales of 529 plans were limited to "Merrill-only" plans in non-income tax states)

Mr. Ciccariello presented an overview of the Morningstar 529 industry plan ratings, in which both New Hampshire plans received an “average” rating. Morningstar’s new ratings system is based on 5 criteria: stewardship, pricing, quality of investment professionals, investment performance, and portfolio construction. Mr. Ciccariello noted that the ratings methodology does not capture all of the qualitative characteristics of Fidelity’s 529 plans, and that Fidelity most likely incurred the lowest ratings in the portfolio construction category due to its commitment to stable investing, low risk profile and long-term performance. Fidelity continues to pursue dialogue with Morningstar with the goal of clarifying its understanding of the ratings methodology and expressing its concerns regarding benchmarks that could be considered short-sighted.

Mr. Peter Mahoney reported that credit card rebates for the quarter ended December 31, 2010 approximated \$5.8 million. \$151 million in cumulative credit card rebates have been earned and applied to participant accounts in both the UNIQUE and the FA529 Plans since inception.

During the recent market decline money market yields were, at times, exceeded by portfolio fees and expenses. The Advisory Commission therefore authorized Fidelity, at its request, to waive their fees for both the UNIQUE direct and the FA 529 Advisory plans to prevent money market funds from “breaking the buck.” Total waived fees at calendar year-to-date December 31, 2010 were \$778,374.

UNIQUE College Investing Plan Review

Mr. Peter Mahoney reviewed various marketing initiatives for the UNIQUE retail plan, starting in September, which included the continuation of the online search advertising and advertising in hardcopy magazines and newspapers during September through December of 2010. Other key awareness initiatives included a new account and holiday gifting campaign. In the first quarter of 2011 Fidelity will continue its online search and online display campaigns as well as advertising in specific magazines and newspapers that have proven to generate the most new business.

Mr. Peter Mahoney reported that as of December 31, 2010 UNIQUE retail plan assets approximated \$6.5 billion in market value and consisted of over 390,000 participant accounts. Average account size of a UNIQUE portfolio was \$16,000 as of 9/30/2010 as compared to the average account size of the industry of \$13,600. Contributions for the fourth quarter of 2010 totaled \$207 million and exceeded fourth quarter 2009 contributions by 13.9%. New accounts in the fourth quarter increased 36.9% over the third quarter of 2010.

At the end of the fourth quarter of 2010, 81% of the UNIQUE retail participant assets were held in age-based portfolios with 14% in static portfolios and the remaining 5% in individual portfolios. 84% of net flows for the quarter were into age-based portfolios, 11% into static portfolios and the remaining 5% into individual and bank deposit portfolios.

During the fourth quarter, the 2009 and College aged-based portfolios, both actively managed and index portfolios, experienced negative net cash flow as funds were redeemed to pay college costs. The Money Market and Conservative portfolios experienced cash outflows at the rate of 6.8% and less than 1% respectively, believed to be caused by investment confidence returning and funds moving to higher-return investments.

Mr. Sharpe presented a competitive analysis review of both the active and passive (index) portfolios over the 1-, 3-, and 5-year time intervals ended September 30, 2010. Identified active portfolio competitors include T. Rowe Price (Alaska), TIAA-CREF (Michigan), Oppenheimer (New Mexico), and Wells Fargo (Wisconsin). In the active portfolio segment for these intervals, Fidelity's performance was generally in the lower range among its competitors for the more long-term age-based duration (through 2027) and in the higher range among its competitors in the near-term age-based duration (current college age through 2018). Identified index portfolio competitors consisted of 3 Vanguard funds for the State of New York. In the index portfolio segment, Fidelity's performance was in the higher range among its competitors for the 1-year interval, but lagged its competitors in the 3-year interval.

Participants residing in New Hampshire are fifth out of all states at 5.3% of the total participants and follow Texas (12.2%), California (10.1%), New Jersey (8.3%) and Florida (5.8%). New Hampshire participants increased 1.5% during the fourth quarter of 2010.

Fidelity Advisor 529 Plan Review

Mr. Troutman reported that the Fidelity Advisor 529 Plan (Advisor Plan) had approximately \$3 billion in market-valued assets as of the end of the fourth quarter 2010 spread over more than 231,000 participant accounts. 7.1% more new accounts were opened in the fourth quarter of 2010 than in the same quarter of 2009 and over 9.8% more contributions were made in these same periods.

Net outflows during the quarter occurred primarily in the College Portfolio (28%) and the 2010 Portfolio (44%) as participants began their redemptions for college expenses. Other portfolios with net outflows included the 100% and the 70% Equity Portfolio, at 3.5% and 5.5% respectively, and the Money Market Portfolio at 5.3%. 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. Troutman briefly reviewed future marketing activities directed at both investors and the independent financial advisors in 2011. The campaign will continue the broad-based awareness messaging begun in 2010, including emphasis on wealth-building, savings, and tax-advantaged strategies. Among the campaign enhancements will be web links in e-mails and direct mailers, targeted campaign integration (online and sales), and increased targeted marketing focused on the best customers (independent financial advisors). New initiatives include the use of the Fidelity Viewpoints online newsletter to increase thought leadership and the consideration of a 529 plan advisory board comprised of the top financial advisors in order to leverage valued advisor-level insights.

Three other states' plans continue to utilize Fidelity funds with \$146 million in market-value assets as of December 31, 2010:

- Nebraska (First National Bank of Nebraska - \$86 million);
- South Dakota (Allianz - \$59 million); and
- Nevada (Putnam - \$1 million since inception on 10/1/10)

Endowment Trust Fund and Scholarship Disbursements

The Endowment Trust Fund and scholarship update report, for the fiscal second quarter and year-to-date ended December 31, 2010, was presented by Treasurer Provencher. The Endowment Trust Fund had a balance of \$17.9 million as of December 31, 2010, 13% higher than the \$15.8 million fund balance at the beginning of the fiscal year. Fiscal year-to-date interest and dividend earnings and net market gains approximated \$2.3 million and fee revenues collected were \$5.1 million. Year-to-date scholarship-related disbursements were \$5.26 million for the UNIQUE Annual Allocation and the UNIQUE Endowment Allocation Program. Year-to-date administrative expenses totaled \$21,456, with the cost of the annual audit having been paid in January in the amount of \$195,000.

Other Business

Hearing no additional new business, Dr. MacKay adjourned the meeting at 11:50AM.

NOTE: The next regular meeting is scheduled for Monday May 16, 2011 starting at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. There will be no Investment Committee meeting.