

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of July 25, 2011

The July 25, 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
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
Catherine Provencher	State Treasurer
Martha Gooze	Public Member, appointed by the Governor
Michael Cryans	Public Member, appointed by the Governor

Members Absent were:

Sylvia Larsen	State Senator
Gary Lambert	State Senator
Lynne Ober	State Representative
Linda Hodgdon	Commissioner of Administrative Services Dept., representing the Governor

Also present at the meeting were Joe Ciccariello, Peter Mahoney, Matthew Golden, and Joe Cullen from Fidelity Investments (Fidelity), Cynthia Capodestria from the Department of Education, and Bill Dwyer from the State Treasury.

Review of Prior Meeting Minutes

Minutes of the May 16, 2011 regular meeting and non-public session were reviewed. Approval of the minutes was moved by Ms. Gooze 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:

- 1) Mr. Dwyer provided a summary of Fiscal Year 2012 & 2013 UNIQUE Endowment Fund impacts resulting from HB2 (budget legislation), as well as proposals for the timing of affected payouts to the State's colleges and universities:
 - a. the Endowment Fund liquidation has been completed, with the USNH receiving \$8.5M and the CCSNH receiving \$5M, leaving \$3M in the fund to support future Annual Awards to students attending private institutions;
 - b. distribution of the yearly \$500,000 Annual Endowment allocations from incoming management fees to private colleges and universities will be completed on December 15 in both 2011 and 2012 and;
 - c. the July Annual Awards allocations to the public and private colleges and universities have been eliminated and will be replaced by reimbursements for Annual Awards paid during the upcoming academic year for students attending private institutions (in accordance with the revised guidelines, detailed below). The source of funds for this reimbursement will be earnings on the \$3M Endowment Fund balance after liquidation and distributions to the USNH and CCSNH (noted above).

Mr. Dwyer also noted that the State's share of monthly management fee income from Fidelity will be paid out on an estimated basis as part of the monthly General Fund appropriations to the USNH (70% of net income) and CCSNH (30% of net income). The gross income will be reduced each month by 1/12th of the \$500,000 yearly Endowment Allocation and 1/12th of the estimated administrative expenses of the Commission (\$270,000, consisting primarily of the cost of the annual audit, as well as Endowment Fund management fees and CSF & CSPN membership fees). As a result of the monthly General Fund appropriation, the monthly management fee income will be transferred immediately to the General Fund and there will be a fiscal year 'true-up' of estimated versus actual in May and June of 2012. The presentation included a FY 2012 timeline that reflected estimated monthly Fund cash flows and interim balances, as well as a Fund earnings projection for supporting Annual Awards reimbursements to the private colleges and universities in early July 2012 using earnings from the Fund, pursuant to the legislation. In order to maintain Annual Awards to the private institutions at the same \$400,000 level as in FY 2011, the remaining \$3 million Endowment Fund would need to yield just over 11% in interest, dividends, and capital gains in the current fiscal year. Mr. Horgan noted that the State of Maine had just this morning terminated its resident scholarship reciprocity with the State of New Hampshire under a New England states agreement (providing scholarship support for state residents attending public institutions in other New England states), joining Vermont and Massachusetts in doing so, and leaving only Connecticut and Rhode Island in place at this time. He also explained that the State of Maine funded such scholarships at an amount 6 times higher than what the State of New Hampshire funded for its resident students attending public institutions in Maine. Ms. Payne noted that in her observation thus far, the private colleges and universities have not identified any UNIQUE Annual Awards for students in their financial aid packages. She proposed that the Commission reduce the individual scholarship amount in the upcoming academic year from \$1,000 to \$500, effective for the second semester, so

that more students could be provided scholarships and to enable the Endowment Fund to grow from a slightly higher base to fund Annual scholarships in the 2012-13 academic year. Dr. MacKay requested the Commission's ratification of these proposals. Approval of all recommendations was moved by Ms. Payne and seconded by Rep. Parsons. The motion passed unanimously. Following ratification, Mr. Dwyer pointed out the need for a disclosure update in Fidelity's marketing materials with respect to the use of the State's share of management fee income. Mr. Mahoney indicated that he would follow up with Mr. Dwyer to ensure that is done.

- 2) Mr. Dwyer also provided an update on contract amendment negotiations pursuant to the new investment product proposal from Fidelity that was approved by the Commission during the non-public session of the May 16, 2011 meeting. The Attorney General's office has exchanged a few minor contract revisions with Fidelity's counsel and is in the process of finalizing its review. The Investment Management Agreement is expected to be finalized prior to mid-August so that a request package can be submitted to Governor & Council in time for the August 24 meeting, or the September 14 meeting at the latest. This will allow for an October 1 launch date.

Summary of Investment Committee Meeting

Dr. MacKay summarized the results of the Investment Committee meeting, which preceded the general meeting. The primary focus of the meeting was a request from Fidelity to disaggregate holdings in Fidelity's Strategic Real Return Fund in order to allow increased granularity for investment in commodities (oil, precious metals, agriculture, etc.), inflation-protected debt such as TIPS, floating rate debt, and real estate debt and equity. This change is also designed to reduce investment return volatility and provide a more stable inflation hedge. The proposal would not result in any change in fees and would be phased in gradually through the beginning of 2012.

Mr. Cullen provided a brief review of targeted investment levels in the specific asset classes. He also noted that the change would be phased in with both the direct and advisor-sold plans and would apply in both the age-based and static portfolios.

Following Mr. Cullen's summary, Dr. MacKay requested a motion to approve the change. Approval of the change was moved by Treasurer Provencher and seconded by Rep. Parsons. The motion passed unanimously.

Review of "Dashboard Report"

Dr. MacKay presented the semi-annual "Dashboard Report", updated as of June 30, 2011, reflecting specific and historical information regarding the New Hampshire Higher Education Savings Plan programs, the Endowment Trust Fund, and scholarship programs. The report provides a context to the Advisory Commission in its decision-making capacity, particularly with respect to scholarships.

Of significant note in the report were: 1) the Fiscal Year 2012 split in program fees between the State and Fidelity pursuant to recent contract amendments, resulting in an equal share to Fidelity and the State going forward; 2) the distribution of an estimated 4,500 Annual Award scholarships last year to NH resident students attending both private and public institutions, and; 3) confirmation that final data reporting on both Annual and Endowment scholarships is due from all institutions in October, and the final report for the 2010-11 academic year will be made to the Commission at the January meeting. Updated revenue and plan asset projections will be provided by Fidelity to the State Treasury prior to the October 24 meeting.

New Hampshire's 529 Program & 529 Plan Industry Update

Mr. Mahoney provided a business update of the 529 College Savings Plan industry and the New Hampshire 529 programs as of March 31, 2011. Total 529 Plan market-valued industry assets at the end of the first quarter of 2011 increased approximately 5.8% and New Hampshire's UNIQUE and FA 529 plans together increased by 4.8% for the same quarter. The New Hampshire Program remained the 3rd largest plan in the country in asset value as of March 31, 2011 with \$10 billion in assets (at market value) and approximately 6.9% of the industry's market share. New Hampshire followed Virginia (\$33.2 billion in assets) and New York (\$11.8 billion in assets) and was ahead of 4th place Rhode Island (\$7.9 billion in assets). Mr. Mahoney noted that due to favorable ratings in the first Morningstar evaluation of 529 Plans in 2010, the state of Nevada is growing rapidly and also benefits from being recognized as among the lowest-cost 529 Plan sponsors, the latter resulting in many external advisor recommendations to that plan simply on the basis of cost with little attention given to quality and stability.

On the national regulatory front, there are no major updates since what was reported at the May 16 Commission meeting with respect to H.R. 529 (designed to promote 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.

Key program enhancements to both State plans, as summarized by Mr. Mahoney, include a system upgrade allowing the online setup of multiple accounts for one beneficiary, FA 529 Advisor Plan networking and automation scheduled for a 2012 rollout, and ongoing enhancements to investment products.

Mr. Mahoney reported that credit card rebates for the quarter ended June 30, 2011 approximated \$5.85 million. Over \$160 million in cumulative credit card rebates have been earned and applied to participant accounts in both the UNIQUE and the FA529 Plans since inception. There are 1,918 rewards cardholders from the State of New Hampshire, constituting 3% of the number of cardholders, but 60% of the rewards dollars distributed among the various Fidelity state plans.

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. Total waived fees at calendar year-to-date June 30, 2011 were \$396,410.

UNIQUE College Investing Plan Review

Mr. Mahoney reported that as of March 31, 2011 UNIQUE retail plan assets approximated \$6.9 billion in market value and as of June 30, 2011 consisted of nearly 408,000 participant accounts. Average account size of a UNIQUE portfolio was \$17,322, compared to the average account size in the industry of \$13,916. Contributions for the second quarter of 2011 totaled \$178.8 million and exceeded second quarter 2010 contributions by 12%. New accounts in the second quarter increased 22% over the second quarter of 2010.

At the end of the second quarter of 2011, 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. 85% of net flows for the quarter were into age-based portfolios, 10% into static portfolios and the remaining 5% into individual and bank deposit portfolios.

During the second quarter, the College aged-based portfolio, 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 1.89% and 0.19% respectively, believed to be caused by investment confidence returning and funds moving to higher-return investments.

Due to the proximity of the meeting to the end of the second 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.

Participants residing in New Hampshire are fifth out of all states at 5.3% of the total participants and follow Texas (12.3%), California (9.9%), New Jersey (8.3%) and Florida (5.7%). New Hampshire participants increased 1.6% during the second quarter of 2011.

Fidelity Advisor 529 Plan Review

Mr. Golden reported that the Fidelity Advisor 529 Plan (FA 529 Plan) had approximately \$3.2 billion in market-valued assets as of the end of the second quarter 2011 spread over more than 237,000 participant accounts. 6% fewer new accounts were opened in the second quarter of 2011 than in the same quarter of 2010 and 2.2% more contributions were made in these same periods.

Net outflows during the quarter occurred primarily in the College Portfolio (10.9%) and the 2010 Portfolio (18.2%) as participants began and continued their redemptions for college expenses. Other portfolios with notable net outflows included the Intermediate Bond Portfolio at 2.8%, and the Money Market Portfolio at 2.1%. 73% of all FA 529 assets were held in age-based portfolios with 19% in individual portfolios and the remaining 8% in static portfolios.

Mr. Golden briefly reviewed current marketing activities directed at both investors and the financial advisors. The campaign continues the broad-based awareness messaging begun in 2010, including emphasis on wealth-building, savings, and tax-advantaged strategies. Among the campaign enhancements are web links in e-mails and direct mailers, targeted campaign integration (online and sales), and increased target marketing focused on the best customers (financial advisors). Results of the June tax-efficient e-mail campaign indicate a high open rate at 13%. Fidelity typically experiences an e-mail open rate of 8-9% for its other marketing campaigns. In addition, Fidelity continues to assess and implement measures to simplify account-opening logistics for financial advisors.

Two other states' plans continue to utilize Fidelity funds with \$105.9 million in market-value assets as of June 30, 2011:

Nebraska (FNB of Nebraska - \$102.5 million since inception in December 2010); and
Nevada (Putnam - \$3.4 million since inception in October 2010)

State of California 529 Plan RFP

Mr. Ciccariello explained to the Commission that Fidelity made a strategic decision not to participate in the recent bidding for the State of California's direct-sold 529 Plan (ScholarShare). This was primarily due to several challenging criteria that were included in the RFP, particularly with respect to pricing. TIAA-CREF was selected as the winning bidder for the direct-sold plan, however Fidelity remains the investment manager for the advisor-sold plan as that has not yet been awarded to a new vendor and it is possible that program may remain with Fidelity. He indicated that the conversion from Fidelity to TIAA-CREF is scheduled to take place in early November and emphasized that Fidelity's decision not to participate in the RFP in no way reflects a pullback in the firm's commitment to the 529 Plan business.

Dr. MacKay asked whether the UNIQUE 529 Plan might benefit by marketing to California residents who are loyal to and wish to remain with the Fidelity brand. He also inquired whether Fidelity has any of its own marketing plans intended for that purpose. Mr. Ciccariello replied that Fidelity is contractually prohibited from soliciting California residents on behalf of the UNIQUE Plan. He indicated that there is no opt-in required for ScholarShare participants to move to the TIAA-CREF-administered plan, therefore participants must actively opt-out in order to invest in a Fidelity plan (UNIQUE is Fidelity's national plan) or an alternative. The ScholarShare Plan currently has approximately 250,000 accounts and about \$1.5 billion in plan assets.

The Commission engaged in a lively discussion of the options and costs associated with initiating a marketing effort of its own to California participants. Given the constraints identified by Mr. Ciccariello, any marketing initiatives would have to omit all references to Fidelity as the investment manager for the UNIQUE Plan. There was some discussion of contracting with a marketing firm to help the Commission launch a campaign using newspaper and internet media, although the costs of doing so and the limited timeframe in which to act appear to be significant impediments. Both Rep. Parsons and Mr. Cryans indicated that there does not appear to be

sufficient time or financial resources to launch such a campaign. Mr. MacKay asked Mr. Dwyer to communicate with the Attorney General's office to determine what limitations and opportunities exist.

Mr. Ciccariello pointed out that since the awarding of the ScholarShare direct-sold contract there has already been 115% growth in the number of California accounts in the UNIQUE Plan.

Endowment Trust Fund and Scholarship Disbursements

The Endowment Trust Fund and scholarship update report, for the fiscal year ended June 30, 2011, was presented by Treasurer Provencher. The Endowment Trust Fund had a balance of \$16.5 million as of June 30, 2011, 5% higher than the \$15.7 million fund balance at the beginning of the fiscal year. Fiscal year 2011 interest and dividend earnings and net market gains were nearly \$2.96 million (18.8% yield) and fee revenues collected were approximately \$10.4 million. Fiscal year 2011 scholarship-related disbursements were over \$12.3 million for the UNIQUE Annual Allocation and the UNIQUE Endowment Allocation Program. Year-to-date administrative expenses totaled \$236,134, including the cost of the annual audit in the amount of \$194,000.

Public Member Reappointments in "Odd Years" – September 4

Mr. Dwyer reminded the Commission that membership reappointments for public members (Governor-appointed) are required prior to September 4, 2011. Reminders to public members will be distributed in early August. Notifications of such appointments should be sent to the State Treasury.

Other Business

Hearing no additional new business, Dr. MacKay adjourned the meeting at 12:00PM.

NOTE: The next regular meeting is scheduled for Monday, October 24, 2011 starting at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord.