

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of November 5, 2012

The November 5, 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
Amy Bourgault	Executive Director, CCSNH Foundation, representing the Community College System of NH
Michael Cryans	Public Member, appointed by the Governor
Linda Hodgdon	Commissioner of Administrative Services Dept., representing the Governor
Thomas Horgan	President & CEO, representing the New Hampshire College and University Council
Robbie Parsons	State Representative
Tara Payne	Vice President, representing the NH Higher Education Assistance Foundation Organizations
Catherine Provencher	State Treasurer

Members absent were:

Thomas Galligan, Jr.	President, Colby-Sawyer College, representing the Higher Education Commission – Dept. of Education
Martha Gooze	Public Member, appointed by the Governor
Gary Lambert	State Senator
Sylvia Larsen	State Senator
Lynne Ober	State Representative

Also present at the meeting were Kyla Doyle, Keith Bernhardt, Ron Hazel, Joe Cullen, and Allan Telenko, from Fidelity Investments (Fidelity), and Bill Dwyer from the State Treasury.

Review of Prior Meeting Minutes

Minutes of the May 14, 2012 and August 6, 2012 regular meetings were reviewed. Approval of the May 14 minutes was moved by Linda Hodgdon and seconded by Representative Parsons. The motion passed unanimously. Michael Cryans moved and Representative Parsons seconded the approval of the August 6 minutes. The motion passed unanimously.

Old Business

- a) Bill Dwyer reported that an amendment to the Management & Administrative Services Agreement, allowing for the implementation of omnibus recordkeeping in the FA 529 Plan (advisor-sold), was presented to and approved by Governor and Executive Council on September 19. Ron Hazel confirmed that the launch date is expected to be the first quarter of 2014.
- b) Chairman MacKay stated that due to the lack of a quorum at the August 6 meeting, a vote needed to be taken with respect to the proposed Maximum Contribution Limit of \$350,000 for UNIQUE 529 accounts. Kyla Doyle reminded the Advisory Commission that the New Hampshire plan currently has the 18th highest contribution limit in the country, with North Carolina at the highest level with a \$400,000 maximum. Chairman MacKay briefly summarized the “Dartmouth formula” calculation based on 7 years of undergraduate and post-graduate matriculation at a total of \$420,000. Based on Fidelity’s recommendation to maintain the limit at the current \$350,000, Mr. Cryans moved and Commissioner Hodgdon seconded a motion to approve the recommendation. The motion passed unanimously.

New Hampshire’s 529 Program & 529 Plan Industry Update

Mr. Hazel informed the Advisory Commission that the Financial Research Corporation (“FRC”) has not completed its industry assessment for the quarter ended September 30 therefore Fidelity did not have that information available to present. As a result, the Fidelity team presented second quarter industry data.

Total 529 Plan market-valued industry assets at the end of the second quarter of 2012 decreased approximately 0.5% from the previous quarter, and New Hampshire’s UNIQUE and FA 529 plans combined decreased by 0.3% for the same quarter. The rate at which state 529 plans grow or decline in any given quarter is largely determined by asset mix, which accounts for the varying growth rates among the top ten plans, although in most cases total plan assets fell slightly during the quarter for this group, driven in large part by a 2.75% decline in the S&P 500 index as a measure of equity market performance. The New Hampshire Program remained the 3rd largest plan in the country in asset value as of June 30, 2012 with \$10.7 billion in assets (at market value) and approximately 6.8% of the industry’s market share. New Hampshire followed Virginia (\$34.9 billion in assets) and New York (\$13.3 billion in assets) and was ahead of 4th place Nevada (\$9.2 billion in assets). New York continues its growth under the ongoing administration of its direct-sold plan by Vanguard and its advisor-sold plan by JP Morgan Chase. The Nevada plan solidified its position in the rankings as a result of its low-cost, index plan administered by Vanguard. The State of Virginia College America 529 Plan’s administrator, American Funds, recently added target date funds to its asset mix, underscoring the importance of these funds in the Fidelity 529 lineup. The Virginia Plan also benefits from very favorable in-state tax treatment.

Mr. Hazel 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 September 30, 2012 totaled \$447,544.

On the national regulatory front, Ms. Doyle explained that there will be very little legislative movement prior to year end due to the elections this fall. H.R. 529 (promoting college savings plans among low to moderate income families) has been backed by 28 cosponsors, but deficit concerns and the upcoming sequestration, along with anticipated tax reforms, are limiting sponsorship for this type of legislation. The lack of a "vehicle" and the anticipated cost will also preclude any legislative progress in 2012. "ABLE" Act legislation, which was drafted in November in both the House and Senate, includes tax-advantaged savings accounts for individuals with disabilities under Section 529 and allows the savings to be used to fund both college-related expenses and "quality-of-life" support. The bills have found 234 and 35 cosponsors in the House and Senate respectively, as the disability community continues to work actively to promote the legislation. The General Accountability Office (GAO) study of the treatment of 529 plans is still proceeding, with industry research provided by the College Savings Plan Network (CSPN), the College Savings Foundation (CSF) and the Financial Research Corporation (FRC). The report is expected to be completed in late 2012. Chairman MacKay asked whether the results of the GAO 529 study might be used to influence post-election tax policy, and Ms. Doyle replied that it is possible, but the stated intent of the study was to provide a comprehensive evaluation of college savings in the context of financial aid provided to needy students.

Key program enhancements to the UNIQUE plan thus far in 2012, as summarized by Ms. Doyle, included the late June launch of the redesigned College Planning website in order to streamline navigation and create an additional "landing zone" for marketing the UNIQUE Plan. Initiatives for the remainder of the year include an e-mail communication designed to increase participation in "BillPay for 529", as well as increase awareness of money market account features. As noted earlier, the Management & Administrative Services Agreement modification to provide omnibus recordkeeping in the FA 529 Plan was approved by Governor and Executive Council, with implementation scheduled to take place in 2014. As was described in greater detail by Mr. Telenko during the competitive analysis, the Fidelity Contrafund, Fidelity Low Priced Stock Fund, Fidelity Large Cap Stock Fund, and Fidelity Equity Dividend Income Fund were all added to the UNIQUE active portfolio lineup, while the Fidelity Dividend Growth Fund was removed. For the FA 529 Plan, the FA New Insights Fund, FA Mega Cap Stock Fund, FA Stock Selector Small Cap Fund, and FA Growth Opportunities Fund were added to the lineup, while the FA Growth & Income Fund, FA Stock Selector Mid-Cap Fund, and FA Small Cap Fund were removed.

UNIQUE College Investing Plan Review

Ms. Doyle reported that as of September 30, 2012 UNIQUE retail plan assets totaled \$7.66 billion in market value, consisting of 451,127 participant accounts and comprising a 4.7% market share among plans in the direct-sold segment (as of June 30). She noted that the 69% share of industry assets in age-based portfolios as of June 30 registers significantly lower than Fidelity's 81% as of

September 30; however the industry metric is expected to rise over time. The UNIQUE Plan also exceeds the industry average at 57% of participant accounts enrolled in automatic contributions as of September 30, compared to 44% of industry accounts as of June 30.

New accounts grew by 8,123 in the third quarter, with the number of new accounts increasing by 18% compared to the third quarter of 2011. Average account size of a UNIQUE portfolio was \$21,314 as of September 30, compared to the average account size in the industry of \$14,208 (Q2 FRC data). Contributions for the third quarter of 2012 totaled nearly \$187 million and exceeded third quarter 2011 contributions by 6%. The average monthly new account and existing account contributions in the third quarter were \$3,800 and \$119 respectively, with the same metrics for NH residents registering \$1,954 and \$211 respectively. Ms. Doyle noted that the percentage of new account openings from California residents dropped to 19% during the third quarter compared to 16% for the same period in 2011, an indication that volumes are returning to their normal levels as residents of other states once again diversify the geographic growth of the plan.

Participants residing in New Hampshire are 5th out of all states at 5.07% of total accounts in the Plan and follow Texas (12.25%), California (11.18%), New Jersey (8.06%), and Florida (5.80%). The number of New Hampshire participants increased 1.17% during the third quarter of 2012. The average balance of a UNIQUE participant residing in New Hampshire is \$16,383. In terms of assets under management in the UNIQUE Plan, New Hampshire ranked 7th at 4.75%, trailing California (13.53%), Texas (12.20%), New Jersey (10.39%), Florida (5.49%), Illinois (5.11%), and Pennsylvania (5.05%).

At the end of the third quarter of 2012, 82% of the UNIQUE retail participant assets were held in age-based portfolios with 13% in static portfolios, and the remaining 6% in individual and bank deposit portfolios. Ninety percent of net flows for the quarter were into age-based portfolios (including 17% for multi-firm portfolios), 6% into static portfolios, and the remaining 6% into individual and bank deposit portfolios on a net basis. Through the third quarter 2012, the College aged-based portfolio, both actively managed and index portfolios, experienced negative net cash flow at the rate of 54.75% and 2.25% of all portfolio cash flows respectively as funds were redeemed to pay college costs. This was also the case for the 2012 active age-based portfolio, with outflows constituting 4.75% of all cash flows year to date. The Money Market portfolio has experienced cash outflows at the rate of 5.54% of all portfolio cash flows, while the Bank Deposit portfolio has undergone cash outflows at 1.51% of all portfolio cash outflows, both believed to be caused by investor confidence returning and funds moving to higher-return investments. In addition there were nominal declines in assets in both the active Moderate Growth and Conservative funds.

Ms. Doyle reported that Fidelity Investments American Express credit card rebates for the third quarter 2012 totaled \$5 million in rewards flows deposited into the UNIQUE Plan, with over \$24.5 million in rewards to 529 participants and non-529 participants over the past 15 months. Rebate volumes are likely to increase during the fourth quarter as a result of holiday shopping.

Ms. Doyle also presented nationwide marketing efforts completed in the third quarter, including the yearlong “search advertising” initiative, the UNIQUE Peek Into Books literacy partnership

with local libraries, the portfolio review campaign completed in August, and Fidelity's 6th annual College Savings Indicator Study completed in September. The latter generated a substantial amount of market feedback, with 46 million "impressions" registered. Programs planned for the remainder of the year include a nationwide holiday gifting e-mail campaign scheduled for November and the "fall flight" campaign targeting local parenting and financial magazines as well as newspapers. Fidelity will also integrate college savings promotions into its nationwide "Personal Economy" campaign, with online banner advertisements that lead to the 529 college savings page on Fidelity.com. These ads will appear on websites such as Parents Connect (Nickelodeon), Cafemom.com, BabyCenter.com, Families.com, BGH.com (Better Homes and Gardens), and LHJ.com (Ladies Home Journal). In addition, some online banner ads will link to a "Conversation Starters" page on Fidelity.com oriented toward families and children. Lastly, print and outdoor advertisements highlighting the importance of college savings will appear in the November issues of Bon Appétit, Conde Nast Traveler, More, and Time magazines, as well as train and commuter rail stations in Philadelphia and New Jersey. The outdoor campaign is designed to build on Fidelity's strong presence in the New Jersey/metro NYC market while breaking into Philadelphia's highly competitive financial market.

At the end of the marketing presentation, Tara Payne expressed her concerns regarding the issue of marketing dollars not being targeted to increase college savings on the part of New Hampshire residents. Ms. Doyle replied that each year the Fidelity marketing team gives strong consideration to ways it might enhance its efforts in the State and that any new ideas or proposals are encouraged. Ms. Payne offered one suggestion involving the placement of Fidelity UNIQUE promotional materials in hospital "care" baskets sent home with newborns. Chairman MacKay stated that he would reach out to Education Commissioner Virginia Barry to discuss outreach to elementary schools. Representative Parsons then stated that any campaigns targeted to elementary schools should also include outreach to private schools, where parents are already aware of the need to invest in their children's education. Finally, Tom Horgan made the point that the messaging of such campaigns might be enhanced by focusing on the positive outcomes achieved as a result of college education, rather than focusing on the daunting cost of education, suggesting that more positive messaging could be highly effective. Ms. Doyle thanked Advisory Commission members for their feedback and said that she would relay these comments to the Fidelity marketing team.

Joe Cullen provided an overview of fund changes across all of the portfolios. In the UNIQUE direct-sold and FA 529 advisor-sold active and index portfolios, three Fidelity funds will be added to the investment grade bond portfolio lineup in a diversification initiative: Fidelity Corporate Bond, Fidelity Investment Grade Bond, and Fidelity Mortgage Securities. These funds represent the underlying components of a broad fixed income approach and will allow for greater precision in asset allocation while reducing risk. The diversification measure is also intended to stabilize investment performance going forward. In tandem with this change, the investment grade debt benchmark will change from the Barclays US Intermediate Government/Credit Bond Index to the Barclays US Aggregate Bond Index, which is used extensively in the industry to assess fixed income portfolios. In the high yield bond portfolio lineup, the Fidelity Capital and Income Fund will be removed, leaving the Fidelity High Income fund as the sole fund in this asset class. This change is based on Fidelity's belief that the latter provides the best match for a "core" exposure to

high yield. No change in expense ratios will result from these changes to the active and index portfolios of either plan. In the multi-firm portfolios, Fidelity will remove the DWS Core Equity Fund and replace it with three funds: Fidelity Mega Cap Stock Fund, Oppenheimer Main Street Fund, and Natixis AEW Real Estate Fund. The removal of the DWS fund is largely the result of changes in the implementation of the fund manager's investment process. The funds being added will provide added risk management, while also stabilizing investment performance, and are expected to generate approximately \$8,000 in increased audit costs. Expense ratios in the multi-firm portfolios will increase by 2 basis points in the longer dated age-based funds and 1 basis point in the short-dated funds.

In presenting the Competitive Analysis, Mr. Telenko provided several examples that, as is always the case, specific asset allocation is a key driver in determining quarterly performance results derived by the plan's competitors. In the 1-year time horizon for active age based portfolios, Fidelity generally has slightly underperformed T. Rowe Price, while outperforming Schwab (Moderate Portfolio), USAA, and Franklin Templeton (Moderate Portfolio). In the 3-year segment Fidelity generally underperformed T. Rowe Price, Schwab and USAA, while outperforming Franklin Templeton (Growth Portfolio). In the 5-year timeframe Fidelity has underperformed against all four competitors. As was stated previously by Mr. Cullen, several fund changes have been undertaken in order to deliver more consistent returns in the portfolio lineups. Chairman MacKay asked whether Morningstar utilizes this type of comparative analysis (using comparable equity allocation) in order to determine its annual 529 plan rankings, but Mr. Telenko replied that this does not appear to be the case.

In terms of 1-year results in the age based index market, Fidelity generally performed in line with Oppenheimer, Vanguard (NY Moderate Portfolio), TIAA-CREF (Moderate Portfolio), and Vanguard (NV Moderate Portfolio). In the 3-year segment Fidelity was outperformed by Vanguard (NY), but was otherwise in line with the other competitors. Lastly, Fidelity underperformed all four competitors in the 5-year horizon in its index age based portfolios.

Fidelity Advisor 529 Plan Review

Ron Hazel reported that the Fidelity Advisor 529 Plan (FA 529 Plan) had \$3.53 billion in market-valued assets under management as of the end of the third quarter 2012 distributed over nearly 199,000 participant accounts. As a result in part from rollovers from other state 529 plans, 3.1% more new accounts were opened in the third quarter 2012 than the same period in 2011, with 10.7% more contributions made relative to these same periods.

New Hampshire residents maintained a ranking of 20th in the number of accounts in the advisor-sold plan at approximately 1.47% of all accounts. Residents from California (13.02%), Texas (7.83%), Massachusetts (6.97%), Pennsylvania (5.72%), and Florida (5.27%) constituted the top 5 in the plan. The average account size in the advisor-sold plan was \$17,766, with New Hampshire residents averaging \$17,526 in account balances.

For the third quarter 2012, net outflows occurred in the age-based College Portfolio at the rate of 8%, as participants began and continued their redemptions for college expenses. Seventy-three percent of all FA 529 assets were held in age-based portfolios with 19% in individual portfolios and the remaining 8% in static portfolios, although by contrast 33.1% of year to date net flows have gone into the individual portfolios.

Mr. Hazel submitted an overview of the integrated marketing effort on the part of the FA 529 Plan. The initiative combines elements such as e-mail surveys and informational communications, press releases, and interviews highlighting the need for college savings, with sales support, website promotion, client meetings, marketing promotion, and sales interaction augmenting these efforts. He provided detailed results of the September “tax advantages” e-mail campaign, with nearly 19,000 e-mails distributed to financial advisors, 2,479 e-mails opened (13.1% open rate), and 99 “click throughs” (4% click through rate). An open rate greater than 10% is considered successful for this type of campaign. A “Build Wealth” e-mail campaign was launched in October and a “Many Ways to Save” e-mail campaign is scheduled for November. He also noted that the College Savings Indicator Study revealed that 74% of participants in the FA 529 plan had to ask their financial advisor about a strategy for college savings. The FA 529 team will design some campaign messaging targeted to financial advisors using this theme, as a way to promote greater fiduciary awareness and initiative on the part of advisors.

Two other states’ plans continue to utilize Fidelity funds on an investment-only basis, with over \$13 million in market-value assets as of September 30, 2012:

Nevada (Putnam - \$3 million since inception in October 2010); and
Alabama (Union Bank & Trust - \$10.1 million since inception in June 2010)

Mr. Hazel presented a proposal to add four new Fidelity funds to the FA 529 Individual Portfolio lineup. He noted that it has been six years since the FA 529 plan added new funds. The recommendation to add Global Strategies Portfolio, Growth Opportunities, Strategic Dividend & Income, and Total Bond to the current Individual Portfolio lineup of 13 is in response to increasing contribution dollars to the Individual fund lineup over the past year and will leverage the fact that these funds are already being promoted to financial advisors in the context of other Fidelity financial products. In 2011 approximately 25% of cash flows were directed to the Individual Portfolios, however in 2012 that volume has grown to 33% and is likely to continue rising. The proposal would also give the advisor-sold Plan a total of 27 portfolios, which is closer to what most of the top six competitors in the advisor-sold space offer. Fidelity’s recommendation is to add the portfolios to the Offering Statement effective December 27, 2012, with a campaign to alert financial advisors via the website, brochures, and phone calls in January 2013. After the presentation, Chairman MacKay solicited further questions or discussion prior to a vote. Mr. Cryans asked whether there might be any downside involved in adding the funds. Mr. Hazel replied that an excessive number of fund offerings might confuse financial advisors and their clients however the FA 529 plan is at the low end of the number of fund offerings relative to competitors in the advisor-sold market. Mr. Cryans then moved that the fund changes be approved. Cathy Provencher seconded the motion and the Advisory Commission passed it unanimously.

Scholarship Report for the 2011-12 Academic Year

The State Treasury and Higher Education Commission have collaborated to complete the Annual Award reconciliation between amounts distributed as reported by colleges and amounts disbursed to colleges by the Treasury. Mr. Dwyer reported that one minor variance resulted from a refund owed from the 2010-11 academic year that was paid during the 2011-12 academic year. A second variance of \$5,000 was the result of 10 awards of \$1,000 each paid by Saint Anselm College that were reimbursed by the Treasury at \$500 per scholarship pursuant to criteria previously approved by the Advisory Commission. The 2011-12 Endowment Award activity has not yet been submitted by all of the colleges, but the Higher Education Commission is actively working with the various financial aid offices to get all of the data in so that the State Treasury can complete its evaluation.

Update of Endowment Trust Fund and Scholarship Disbursements

The Endowment Trust Fund and scholarship update report, for the quarter ended September 30, 2012, was submitted by Treasurer Provencher. The Endowment Trust Fund had a balance of \$3.323 million as of quarter-end, 9.2% higher than the \$3.043 million fund balance at the beginning of the fiscal year. Fiscal year 2013 interest and dividend earnings and net market gains/losses totaled \$95,431, and fee revenues collected were approximately \$2.56 million. Fiscal year 2013 reimbursements to the General Fund (out of management fees received) for appropriation payments made to USNH and CCSNH totaled approximately \$2.36 million. As approved by the Commission at the July 25, 2011 meeting, a \$500,000 UNIQUE Endowment Allocation to the State's private colleges and universities will be distributed on December 15, 2012. Year-to-date administrative expenses totaled approximately \$12,900, reflecting the first quarter Treasury overhead allocation of \$6,700, annual membership dues for the College Savings Plan Network of \$4,000, the quarterly Endowment Trust Fund account management fee of \$2,100, and a nominal adjustment to the fiscal 2012 Treasury overhead allocation.

Other Business

a. Proposed 2013 meeting dates

Chairman MacKay explained that due to the timing of Financial Research Corporation's quarterly publication of industry data, it is necessary to schedule future meetings on the eighth Monday after each quarter-end. He also noted that the next Advisory Commission meeting, previously scheduled for February 11, 2013, conflicts with an industry conference that will be attended by several members of the Fidelity team. As a result, he presented a proposal to change the February 11 meeting date to March 4 and schedule subsequent quarterly meetings for May 20, August 19, November 25, and February 24, 2014. Representative Parsons moved to approve this proposal and Mr. Cryans seconded, with the Advisory Commission voting unanimously to convene on these dates.

b. Annual Financial Disclosure due to Secretary of State on or before Friday, Jan. 18, 2013

Chairman MacKay reminded Advisory Commission members that the deadline for the annual filing of financial disclosure statements to the Secretary of State is approaching. Mr. Dwyer stated that the filing deadline is Friday, January 18 and that he will distribute an e-mail reminder and website link to Advisory Commission members in mid-December.

c. Joint Statement of Support for Restoration of UNIQUE Scholarship Funding

Mr. Horgan informed the Advisory Commission that New Hampshire's college presidents have agreed to submit a joint request for restoration of the UNIQUE scholarship programs to the State's General Court. He distributed a copy of the draft request to Advisory Commission members and asked for any comments by late November so that the request can be submitted in early December. Mr. Dwyer noted that the 2014-15 Treasury budget was predicated on the expiration of the provisions of HB2 that effectively eliminated the UNIQUE scholarship programs and liquidated most of the Endowment Trust Fund. Representative Parsons stated that he and Senator Larsen are both in favor of restoring the scholarship programs.

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

NOTE: The next regular meeting is scheduled for Monday, March 4, 2013 beginning at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. The meeting will be preceded by the Investment Committee meeting beginning at 9:00 a.m. All Advisory Commission members are invited to attend.