

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of August 25, 2014

The August 25, 2014 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:

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| Edward MacKay (Chair) | Public Member, appointed by the Governor; Retired Chancellor, University System of New Hampshire |
| Bill Dwyer | Commissioner of the Treasury |
| Michael Cryans | Public Member, appointed by the Governor |
| Ross Gittell | Chancellor, Community College System of New Hampshire |
| Sylvia Larsen | State Senator |
| Todd Leach | Chancellor, University System of New Hampshire |
| David Mahoney | Representing the Higher Education Commission – Dept. of Education |
| Tara Payne | Vice President, representing the NH Higher Education Assistance Foundation Organizations |

Members absent were:

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| Jeanie Forrester | State Senator |
| Linda Hodgdon | Commissioner of Administrative Services Dept., representing the Governor |
| Thomas Horgan | President & CEO, representing the New Hampshire College and University Council |
| H. Robert Menear | State Representative |
| Lynne Ober | State Representative |

Also present at the meeting were Keith Bernhardt, Kyla Doyle, Matt Golden, Peter Walsh, Brett Sumsion, and Ron Hazel from Fidelity Investments (Fidelity), Paul Curley, Director of College Savings Research at Strategic Insight, as well as Monica Mezzapelle from State Treasury.

Review of Prior Meeting Minutes

Minutes of the May 19, 2014 regular meeting were reviewed and presented for approval by Dr. MacKay. Approval was moved by Mike Cryans and seconded by Mr. Leach. The motion passed unanimously.

Old Business

Peter Walsh and Brett Sumsion from Fidelity provided the Investment Team's update regarding progress of the newly implemented Active Asset Allocation as a component of the active age-based portfolios. Mr. Walsh described how Fidelity has applied Active Asset Allocation in its other portfolios, including retirement. Active Asset Allocation looks for "mispriced" opportunities using a +/-10% maximum allocation adjustment band, with up to an 8% shift most likely. This approach is not designed to be tactical (very short term), but based upon 1-5 year business cycle.

Mr. Sumsion who joined the Fidelity Investment team in January 2014, introduced himself to the Commission as the new 529 Portfolio Manager. In response to a question from an Advisory Commission member, Dr. MacKay noted that Mr. Sumsion and Mr. Andrew Dierdorf, a co-Portfolio Manager, now manage over \$200 billion in assets. Prior to working for Fidelity, he worked for Dupont Capital Markets for 9 years in the area of Active Asset Allocation of Defined Contribution Plans. The Active Asset Allocation update was part of the 529 Plan Investment update summarized by Dr. MacKay as discussed below.

Summary of Investment Committee Meeting

Dr. MacKay provided a brief summary of the Investment Committee meeting that preceded the regular meeting, summarizing that the actively managed portfolios generally outperformed their respective benchmarks. As a result of expectations regarding the interest rate environment and changes, Fidelity has chosen to overweight Equity Funds and underweight Bond Funds, while also noting emerging equity markets have relative upside potential. Dr. MacKay also noted that Active Funds are outperforming Index Funds, as would be expected. He further explained that the Multi-Firm portfolios continue to lag their benchmarks. Mr. Walsh explained the Multi-Firm funds were launched about three years ago and since the funds are designed for downside risk protection, are good products and with the proper asset allocation and portfolio construction, performance should improve over longer time horizons. In closing Mr. Walsh added that Fidelity has confidence in the managers and periodically reviews their processes and makes necessary change in managers, if necessary.

Review of the Dashboard Report as of June 30, 2014

Dr. MacKay provided the semi-annual review of the College Savings Plan Dashboard Report as of June 30. This report presents the 529 Plan's historical and forecasted account management fees, actual fee revenue received, and projected participant account balances, as well as a historical analysis of the NH Excellence in Higher Education Endowment Trust Fund balance (referred to as the Endowment Trust Fund or Trust Fund), including grant and campus endowment scholarship information. Commissioner Dwyer described the various historic trends and future projections that inform the Advisory Commission in its decision-making capacity, particularly with respect to scholarships.

Update of Endowment Trust Fund and Scholarship Disbursements

The Endowment Trust Fund and scholarship update report, for the quarter ended June 30, 2014, was submitted by Commissioner Dwyer. The Endowment Trust Fund had a balance of \$3.417

million as of fiscal year-end 2014, reflecting an increase from the \$3.166 million fund balance at the beginning of the fiscal year due to management fee income accumulating in the Trust (net of monthly Endowment Awards Program distributions and the Annual Awards Program distribution and reimbursements), as well as interest, dividend earnings, and net market gains/losses in the fund during the current fiscal year of approximately \$267,000. Fee revenues for the fiscal year 2014 totaled nearly \$11.74 million.

With the restoration of the UNIQUE scholarship programs to their traditional administration (as a result of 2013 HB 2), an Annual Awards distribution totaling \$999,900 was disbursed to participating colleges and universities in July of 2013. Pursuant to Csp 702.01, monthly Endowment Awards distributions to participating institutions resumed in August 2013 and totaled \$8.56 million for the fiscal year. Administrative expenses for the year totaled approximately \$362,000, comprised of the annual financial audit of the UNIQUE and FA 529 Plans by PricewaterhouseCoopers totaling \$276,500, the yearly support services payment of \$36,000 to the Division of Higher Education, Treasury quarterly overhead allocations of \$30,800, quarterly Endowment Trust Fund management fees of \$11,300, yearly membership dues paid to the College Savings Plan Network (\$4,000) and the College Savings Foundation (\$2,500), and \$500 in service awards presented to Martha Gooze and Catherine Provencher.

Commissioner Dwyer noted that Annual award scholarships totaling \$2.8 million were distributed by participating institutions in the 2013-14 academic year, resulting in \$1.8M in reimbursement payments that were made in the final quarter of fiscal year 2014.

Maximum Participant Contribution

Commissioner Dwyer explained to Advisory Commission members the updated Dartmouth College contribution determination analysis, which is based on 7 years of matriculation (undergraduate and graduate combined) at the current tuition and fee rate. The current total under this approach is \$442,000. He went on to say that the Dartmouth analysis serves as one proxy in setting the maximum contribution limit but the Advisory Commission also considers any significant changes that Fidelity has noted among other state plan limits.

Ms. Doyle explained that she is not aware of any major contribution limit changes in the industry, noting that the UNIQUE plan limit at \$375,000 is in the top 10 nationally but not among the very highest in the country. Mr. Bernhardt commented that of the more than 700,000 participant accounts in the UNIQUE plans, no more than approximately 100 accounts were at or near the limit. He further explained that if capital gains cause an account to exceed the limit, the participant is not required to reduce the balance but is not permitted to make further contributions.

Dr. MacKay asked whether any Advisory Commission members felt strongly that the UNIQUE limit should be changed. The Advisory Commission agreed that no action was necessary, therefore, the maximum contribution limit remains at \$375,000.

New Hampshire's 529 Program & 529 Plan Industry Update

Mr. Golden then presented the second quarter 2014 program and industry update. Total 529 Plan market-value industry assets as of June 30, 2014 increased 4.7% from the previous quarter and 20.2% year over year while New Hampshire's UNIQUE and FA 529 plans combined increased by 4.2% for the quarter and 16.1% year over year. He noted that for the second quarter 2014, the S&P 500 increased by 5.23% and the Barclays Aggregate Bond Index increased by 2.04%. He also noted that for the one year period ending June 30, 2014, the S&P 500 increased by 24.61% and the Barclays Aggregate Bond Index increased by 4.37%.

On a combined basis, the New Hampshire Programs ranked ahead of Ohio as the fourth largest in the country in asset value as of June 30, 2014, with just over \$14 billion in assets (at market value) and 6.4% of the industry's market share. New Hampshire followed Virginia (\$50.4 billion in assets managed by American Funds), New York (\$19.3 billion in assets managed by J.P. Morgan), and Nevada (\$14.2 billion in assets administered by multiple managers, including Vanguard). In the direct-sold space, the UNIQUE Plan remained in third place with an 8.5 % market share, trailing New York's 14.0% share and Nevada's 9.1% share, which surpassed UNIQUE for the first time in the third quarter 2013. On the advisor-sold side, the FA 529 Plan ranks fifth with a 4.1% market share, trailing Virginia (44.7%), Maine (7.5%), Rhode Island (7.4%), and Ohio (4.5%).

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 through the second quarter of 2014 totaled \$408,000.

"ABLE" Act legislation was approved on 7/31/2014 by the House Ways and Means Committee. As a result of an initial cost of \$20 billion, this legislation was re-introduced under a new Internal Revenue Code (529A), which included a new set of provisions, reducing the cost to \$2 billion. H.R. 647 includes tax-advantaged savings accounts for individuals with disabilities and allows the savings to be used to fund both college-related expenses and "quality-of-life" support. Ms. Doyle described the various qualifications and restrictions of the program. The bill has 379 co-sponsors and faces a 74% chance of enactment.

In terms of Industry updates, the annual Morningstar ratings are scheduled to be released in October. The Fidelity team does not expect Morningstar to move the NH UNIQUE Plan out of the Bronze category at this time. Planned customer experience enhancements and communications include FDIC and bill pay service communications, the online gifting platform launch, a rewards card promotional mailing, and the annual fact kit mailing. As noted earlier, active asset allocation launched during the second quarter. Lastly, the FA 529 omnibus recordkeeping/networking initiative remains on track to launch in the first quarter of 2015. The Advisory Commission authorized the Treasury Commissioner during the May 19th meeting to seek G&C approval for an amendment to the Investment Management Agreement for the waiver of the \$20 annual account fee of participants whose advisor participates in the Omnibus initiative.

As a follow-up to an item discussed at the May Commission meeting, Dr. MacKay noted he and Commissioner Dwyer testified before the Children's Savings Account (CSA) Legislative Study Committee (HB1146) two weeks prior to the Advisory Commission meeting. While Commissioner Dwyer needs to maintain strict neutrality on potential legislation, Dr. MacKay asked the Advisory Commission members whether they wished to discuss and take a position on this matter. Mr. Cryans commented on the possibility of participating in this type of initiative by investing approximately \$100,000 of seed funding from the Trust Fund, with a limit of up to 20% of the total cost for seed money payments to newborns, and with other charitable and private sector entities also contributing. Dr. Gittell added that, although he liked the idea of contributing to a program as such, he would be cautious of the type of commitment involved. Dr. Leach also added he had concerns about diverting funds from the Trust Fund, as had occurred in the past. Ms. Payne indicated that she was glad this matter was in a study committee, and since the State no longer provides postsecondary grant awards directly to students through general funds, working on trying to find a way to encourage low to moderate income NH families to save for college was a great way to start.

Dr. MacKay emphasized that the UNIQUE Annual Awards and Endowment programs, which either give grants to needy students currently attending college, or in the relatively near term, provides more immediate results (plus enables such grants in perpetuity via the endowments), versus the long-term, delayed benefits of a CSA program. Dr. Gittell suggested a vote so the Study Committee understood the Advisory Commission's position on this matter, rather than the individual positions the Advisory Commission members would have if they were called to testify. Senator Larsen suggested a motion indicating that the Advisory Commission supports the CSA program under discussion, however, the College Savings current allocations and accumulated Trust Fund purpose were not created with that intent. Commissioner Dwyer indicated he had to recuse himself from voting on this issue, as his position requires him to remain impartial. In response to a question from Dr. Leach, Dr. MacKay stated the due to the recent introduction of the CSA programs it is too soon to assess results, but he did cite the City of San Francisco and State of Maine pilot programs. Dr. MacKay then conducted an informal straw poll of members who supported the position articulated by Senator Larsen, e.g., conceptual endorsement of the value of children's savings accounts, but reluctance to support any funding scenario that will divert 529 Plan fees from the current uses, which are providing significant immediate benefit to residents and assisting the State in meeting shorter term economic objectives.

Dr. MacKay also added that another option would be to give more awards or funds to students who enroll in 15-hr enrollment credits vs. 12-hr enrollment credits to encourage early graduation. At the end of the discussion the Advisory Commission did not take a formal position on this issue.

UNIQUE 529 Plan Review

Ms. Doyle reported that as of June 30, 2014 UNIQUE retail plan assets totaled nearly \$9.7 billion in market value, consisting of almost 525,000 participant accounts and holding an 8.5% market share, third among plans in the direct-sold segment behind New York and Nevada. Ms. Doyle noted that the 50% share of industry assets in age-based portfolios still registers significantly lower than Fidelity's 79% at the end of the second quarter.

New accounts grew by 10,022 in the second quarter, with the number of new accounts increasing by 9.5% compared to the same quarter in 2013. Contributions for the second quarter of 2014 totaled approximately \$231 million and exceeded second quarter 2013 contributions by 3.5%. The average account size of a UNIQUE portfolio was \$24,141 compared to the industry average of \$17,798 as of June 30, 2014 with NH residents averaging a balance of \$16,870 in the Plan. The average monthly new account and existing account contributions nationwide in the second quarter were \$4,052 and \$126, respectively, with the same metrics for NH residents registering \$1,375 and \$213, respectively.

Participants residing in New Hampshire are 5th out of all states at 4.80% of total accounts in the retail Plan and trail Texas (12.44%), California (12.11%), New Jersey (7.75%), and Florida (6.05%). In terms of assets under management in the UNIQUE Plan, New Hampshire maintained its 7th-place ranking, trailing California, Texas, New Jersey, Florida, Pennsylvania, and Illinois.

At the end of the second quarter of 2014, 79% of the UNIQUE retail participant assets were held in age-based portfolios with 13% in static portfolios, and the remaining 8% in individual and bank deposit portfolios. During the second quarter, 83% of net flows were into age-based portfolios (including 14% for multi-firm portfolios), 9% into static portfolios, and the remaining 8% into individual and bank deposit portfolios on a net basis. Through the second quarter of 2014, the College aged-based portfolios, both actively managed and index, have experienced negative net cash flows at the rate of 25.69% and 1.36%, respectively out of all portfolio cash flows, as funds were redeemed to pay for college costs. The Money Market portfolio has experienced cash outflows at the rate of 0.66% of all portfolio cash flows, while the Bank Deposit portfolio has undergone cash outflows at 0.89% of total portfolio activity, and there have been cash outflows of 0.55% out of the Conservative actively managed static funds.

Advertising and outreach efforts planned include promotional campaigns on New Hampshire Public Television (TV ad that runs for 28 weeks), magazines, and online and social media, such as Parenting and Money magazines, as well as Savingforcollege.com, Twitter, and Facebook (an example of a “nostalgic image” Facebook Ad was provided). Ms. Doyle summarized the elements of the new online social gifting initiative, including the ability for family and friends to contribute to participant accounts through social media or email and “private” tracking of gifts via a customized dashboard. Ms. Doyle also emphasized that the online search spend is a big part of the advertising budget, with the goal of obtaining 100% SOV (share of voice), which attempts to place the UNIQUE plan in the top three slots when using search engines (such as Google, YAHOO and Bing).

Local sponsorship and marketing initiatives planned throughout 2014 were reported including a new partnership with the Children’s Museum of New Hampshire (located in Dover), the UNIQUE Plan’s 2014 season-long sponsorship of the New Hampshire Fisher Cats, the ongoing literacy collaboration with the NH JumpStart Coalition, and participation with the Lil’ Iguanas Child and Safety Foundation. In response to a question from Ms. Payne, Ms. Doyle indicated that the local marketing development spend (not including national advertising or marketing dollars) was

approximately \$25,000, which only includes the museum, the Fisher Cats and the Lil' Iguanas programs

Fidelity Investments American Express credit card rebates for the second quarter of 2014 totaled \$5.35 million in rewards flows deposited into the UNIQUE Plan, with almost \$25.5 million in rewards to 529 participants and non-participants over the past 15 months.

Fidelity Advisor 529 Plan Review

Mr. Golden reported that the Fidelity Advisor 529 Plan (“FA 529 Plan”) had approximately \$4.3 billion in market-valued assets under management at June 30, 2014, distributed over nearly 199,400 participant accounts. Using the second quarter 2013 as a basis for comparison, 3% fewer new accounts were opened in the second quarter of 2014; however, with 5.4% more in contributions for these same periods. The metrics for the second quarter 2014 versus first quarter 2014 were also provided, with a slight decline in both new account growth and account contributions.

New Hampshire residents maintained a ranking of 20th in the number of accounts in the advisor-sold plan at 1.49% of all accounts. Residents from California (13.64%), Texas (8.0%), Massachusetts (7.06%), Pennsylvania (5.77%), and Florida (5.58%) constituted the top 5 in the plan at the end of the second quarter. The average account size in the advisor-sold plan was \$21,759, with New Hampshire residents averaging \$20,676 in account balances.

For the second quarter 2014, net outflows occurred in both the age-based College and 2013 Portfolios resulting in a drop of 1.2% and 0.3%, respectively from the prior quarter, as participants began and continued their redemptions for college expenses. Continued outflows in three of the bond portfolios in the second quarter are an indication that some investors are moving away from fixed income funds and into equity funds. Consistent with the first quarter 2014, 71% of all FA 529 assets were held in age-based portfolios, with 21% in individual portfolios, and the remaining 8% in static portfolios. Portfolio activity through the second quarter saw 71% of net flows directed to the age-based segment, with 28.1% of net flows into the individual portfolios, and 0.8% inflows to the static.

Mr. Hazel presented an overview of the anticipated integrated marketing efforts that are planned throughout the year. The initiatives combine elements such as e-mail and direct mail informational communications and promotions, along with “Here’s to the future”, and holiday gifting themed outreach. Fidelity sales support, website promotion, client meetings, conference participation, marketing promotion, and sales interaction will augment these efforts, with specific baseline and promotional marketing support provided for topics including an overview of the FA 529 Plan, active asset allocation, and accelerated giving.

The “Here’s to the future” direct mail and e-mail campaigns were launched in May, with Mr. Hazel presenting detailed results of the latter. Mr. Hazel indicated these campaigns focus on encouraging participants who have the ability to do “Accelerated Gifting” to contribute larger sums of money up-front. Nearly 75,000 e-mails were distributed to financial advisors, with nearly 13% of the e-mails

opened, and 0.22% “click-throughs”. As part of this campaign 50,000 direct mailers were also distributed to the top prospects. The “Generation generosity” email campaign took place in July with nearly 72,000 emails sent, an open rate of 11.6%, and a click through rate of 0.21%. An open rate of greater than 10% is considered successful for these types of campaigns and he noted that Fidelity conducts follow up activities with investment advisors to determine the level of account openings that resulted. During the presentation, Mr. Golden added that 90% of grandparents indicated their willingness to contribute to a 529 account if asked, making this demographic group a great source for College funding.

Other state plans continue to utilize Fidelity Advisor funds on an investment-only basis, with \$17.9 million in market-value assets as of June 30, 2014:

Nevada (Putnam - \$5.0 million since inception in October 2010)

South Carolina (Columbia - \$12.9 million since inception in October 2012)

Review of Other Items

Hearing no additional new business, Dr. MacKay adjourned the meeting at 11:55 a.m.

NOTE: The next regular meeting is scheduled for Monday, November 24, 2014 beginning at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. There will be no Investment Committee meeting preceding the regular meeting.