

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of July 28, 2008

The July 28, 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 10:10 a.m. by Dr. Edward MacKay, Advisory Commission Chair. Present at the meeting were:

Edward MacKay (Chair)	Vice Chancellor, representing the University System of New Hampshire
Harold Janeway	State Senator
Kathryn Dodge	Executive Director, Post Secondary Education Commission
Tara Payne	Vice President, representing the NH Higher Education Assistance Foundation Organizations
Ann Toomey	Director of System Research and Grants, representing the Community College System of NH
Linda Hodgdon	Representative from the Office of the Governor
Martha Gooze	Public Member
Michael Cryans	Public Member
Catherine Provencher	State Treasurer

Absent were:

Margaret Hassan	State Senator
Robert Foose	State Representative
Russell Ingram	State Representative
Thomas Horgan	President & CEO, New Hampshire College and University Council

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

The minutes of the meeting of May 5, 2008 were reviewed. The minutes were motioned for approval as written by Dr. Dodge and seconded by Ms. Hodgdon. The motion passed unanimously. The minutes of the special meeting of June 23, 2008 were reviewed. The minutes were motioned for approval as written by Dr. Dodge and seconded by Ms Toomey. The motion passed unanimously.

Old Business

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

1. Subprime Mortgage Impacts on Fidelity 529 Portfolios and Competitors
Fidelity has held explicit holdings in asset-backed securities for several years. After an extensive review, Fidelity has sold all securities that were not prudent to continue to hold but has retained those securities that they expect full payment at maturity. Holdings of such asset-backed securities will remain tied to the housing market into the future. This item was more fully discussed at the preceding Investment Committee meeting.
2. Comparison of Fidelity Portfolio Performance to Major Competitors
This item was discussed during the Investment Committee meeting and was briefly discussed during the quarterly Fidelity report later in the meeting.
3. 529 Marketing Specific to Investing of Economic Stimulus Checks
This item was discussed during the quarterly Fidelity report later in the meeting.
4. Number of Participants Who Withdraw or Exit the Plan Before College
This item was discussed during the quarterly Fidelity report later in the meeting.
5. Special Plans to Reach Out to New Immigrant Parents
This item was discussed during the quarterly Fidelity report later in the meeting.
6. Direct Deposits for Retired State Employees
Mr. Jacobson reported that he discussed the potential of promoting pension payment deductions from retired state employees for deposit into UNIQUE accounts with the Retirement System. At the present time, with their current systems, the Retirement System is unable to differentiate between retired state employees and all other municipal retirees for the purpose of targeted messages or pension payment deductions. Therefore a pension payment deduction offering, directed solely to retired state employees, is not feasible at the present time. Any such efforts would need to be directed to all retired state and municipal employees administered by the Retirement System.

Responding to a question about the feasibility of promoting college savings pension payment deductions to all retired state and municipal employees administered by the Retirement System, Mr. Jacobson indicated that if the current results of the State employee payroll deduction process was an indication of success (only 54 accounts opened by 34 employees after 15,000 letters from the Governor, numerous agency and benefits fair appearances and 300-400 face-to-face discussions) then this same type of promotional process would probably not be cost-effective. Mr. Ciccariello stated that Fidelity would evaluate this group in Fidelity's ongoing marketing planning but it may be more of a long-term focus as we move into 2009.

7. Status of Annual Allocation Program Administrative Rules
Ms. Knapp reported that the Joint Legislative Committee on Administrative Rules (JLCAR) approved the proposed changes in the Administrative Rules relating to the UNIQUE Annual Allocation Program (Csp 600). The next step is for the Advisory Commission to adopt these changes and notify the JCLAR. It was moved by Treasurer

Provencher and seconded by Ms. Gooze to adopt the proposed changes effective August 1, 2008 so that such changes would be effective for the 2008-09 school year awards. The motion passed unanimously. Ms. Knapp will arrange for the notification to the JCLAR that the Advisory Commission has adopted the changes to the Administrative Rules, as approved. Mr. Jacobson will communicate these changes to the institutions participating in the UNIQUE Annual Allocation Program.

8. Endowment Fund Asset Allocation Study

Treasurer Provencher reported that Treasury and members of the Investment Committee have met with Fidelity but that under our present contractual arrangements Fidelity cannot provide investment advice for the Endowment Fund. Treasury has, however, received asset allocation input from Investment Committee members and is in the process of finalizing the study. The investment objective of the endowment fund, as confirmed by the Advisory Commission, will continue to be focused on “Long-Term Growth”. Results of the study should be available for information purposes at the next quarterly meeting of the Advisory Commission (November 3, 2008).

9. Fidelity Fee Negotiation Status

Dr. MacKay reported that the negotiation committee will be meeting with Fidelity next on August 6. That meeting will likely be followed by additional negotiation committee meetings. The target to have a finalized fee proposal available for the Advisory Commission’s approval is the November 3, 2008 meeting.

Investment Committee Meeting Recap

Mr. MacKay summarized the results of the Investment Committee meeting, which immediately preceded this meeting. The investment returns of the UNIQUE and Advisor 529 portfolios are similar to the overall negative investment market returns and that Fidelity does not foresee any short-term turnaround in these markets due to some significant economic obstacles to overcome. In this down market, however, the long-term investment horizon of the well-diversified age-based portfolios should provide good investment option for plan participants.

New Hampshire’s 529 Program Update

Mr. Ciccariello announced that Adam Colon had recently left Fidelity. Mr. Ciccariello is looking for a replacement but in the interim administrative inquiries should be directed to Mr. Ciccariello. Mr. Ciccariello then presented the College Savings Plan market update for the second quarter of 2008 was presented. Recent reports of the College Savings Foundation and the Financial Research Corporation report that the tight economy is negatively impacting the entire college savings plan market at a time when competition among the 529 plan providers is intensifying. Net sales for the industry are down 10%. While detailed plan results from most states are not yet available, New Hampshire has at least maintained its market position as the third largest plan in the nation. It is still anticipated that the New Hampshire plans assets will soon exceed the Rhode Island plan and move the New Hampshire into the second spot.

Mr. Pearlman next updated the Advisory Commission on regulatory and legal issues. With respect to tax parity among state plans, Missouri recently passed a tax parity law providing state tax benefits to residents regardless in which state college savings plan they participate. There are now a total of five states with state tax parity. (New Hampshire provides tax parity through the Interest and Dividend tax.) The Kentucky vs. Davis case recently heard by the U.S. Supreme Court involved a couple bringing suit for not being provided Kentucky state tax benefits on their Ohio tax-free municipal bonds. The Court recently ruled against the Davises. In Illinois, a case involving an Illinois couple not being allowed Illinois state tax benefits on a non-Illinois 529 plan was recently withdrawn. The couple, however, left the door open in the event that they wish to refile.

There was no significant progress during the second quarter with the U.S. Treasury finalizing regulations for 529 plans. Reviews are still underway at Treasury of responses to the advance notice of proposed rulemaking issued early this year. It is expected that no issuance of proposed rules will occur until sometime after early 2009. Fidelity, as a lead member of the College Savings Foundation, continues to push this initiative forward.

Mr. Ciccariello next discussed last week's press release by Fidelity celebrating the 10th anniversary of the UNIQUE Plan launch. The press release included quotes from Treasurer Provencher and Mr. Cryans who opened the first UNIQUE account.

UNIQUE Plan Review

Mr. Ciccariello reviewed the business results of the UNIQUE retail plan for the second quarter of 2008. The growth in new accounts during the quarter decreased 12.8% as compared to the second 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 by 6% as compared to the second quarter of 2008. During the second quarter 16,022 new accounts were added with a total of over 386,000 accounts as of June 30, 2008. Contributions during the second quarter were over \$428.5 million with a market value \$5.4 billion. Overall, Fidelity is falling behind their 2008 quarterly and annual targets and is in the process of reforecasting targets for the remainder of the year. Mr. Ciccariello indicated that he would share the reforecasted targets when completed.

Online marketing efforts continue to be successful, with continually improving "click-through-rates". In response to "Old Business" issues, Mr. Ciccariello reported that Fidelity did not provide any marketing efforts specific to College Savings investing of tax rebates ("stimulus" checks). Fidelity did, however, launch a broad savings campaign relating to the stimulus checks which included savings for retirement and for college. Likewise, Fidelity has no specific online or print marketing of the UNIQUE plan directed to new immigrant parents. Fidelity believes that their existing grass-roots marketing initiatives provide coverage for all parents, including new immigrants.

Comparisons of the UNIQUE retail plan with the Upromise/ Vanguard and the T.Rowe Price plans were presented by Mr. Ciccariello. Such comparisons continue to be difficult due to the differences in the plans. Vanguard, for example, has three age-based index portfolio series (aggressive, moderate and conservative) compared to the single series of age-based index portfolios in the UNIQUE plan. Portfolio performance of the UNIQUE plan is between the performance of the Vanguard aggressive and conservative funds. The UNIQUE age-based plan compared favorably with the T.Rowe Price age-based portfolio.

In a previous meeting, Fidelity was asked if they could identify invested funds which were withdrawn prior to beneficiaries aging out of the plan vs. using the funds for college expenditures. Mr. Ciccariello stated that Fidelity does not yet have the technology in place to do a detailed analysis of this issue but in recent sampling of first quarter 2008, early withdrawals appear to be mostly rollovers to other states' plans indicating that most of the invested funds are being used for college expenditures and not withdrawn early to meet other needs.

Fidelity Advisor 529 Plan Review

Mr. Troutman reviewed the business results of the FA 529 Plan (Advisor Plan) for the second quarter of 2008. The Advisory 529 Plan has also been affected by the negative economic conditions but is doing a bit better than the overall industry. Approximately 9,800 new accounts were added during the second quarter but that is 28.0% behind the second quarter of 2007. Total accounts approximate 199,000. Contributions during the second quarter approximated \$212 million but were 15.7% behind the second quarter of 2007. The market value of plan assets as of June 30, 2008 was \$2.6 billion.

Mr. Troutman provided an analysis which indicated that 74% of both net flows and total assets in the FA 529 plan are in age-based portfolios followed by individual portfolios (21% and 16% respectively) and by static portfolios (5% and 10% respectively). These results are similar to the same analysis made during the first quarter. As a result of the economic situation a high percentage new cash flows are still being invested in the money market portfolio. Mr. Ciccariello agreed to the request to provide a similar analysis for the UNIQUE retail plan in future meetings.

Fidelity continues to aggressively market the Advisor 529 to financial advisors who still do not see college savings as a primary investment market product for many of their clients. Quarterly letters continue to be sent to new and existing account participants to encourage systematic deposits. In-person and phone contacts are made to financial advisors together with the use of direct mail and targeted campaigns. Fidelity currently participated with Smith Barney in their recent call-out day by providing Smith Barney representatives information about the Advisory 529 plan. As of year-to-date June, 8,400 phone meetings and 3,400 in-person meetings were made to financial advisors by Fidelity's regional investment consultants and field representatives.

Measurement of the success of these efforts is difficult but in a recent survey by Market Metrics two factors, identified by financial advisors as extremely important, were reputation and wholesaler responsiveness. Both of the factors are considered by financial advisors to be Fidelity strengths.

Fidelity continues to receive requests from managers of other state 529 plans to utilize Fidelity funds in their portfolios. Mr. Troutman indicated that South Dakota (managed by Allianz Global Investors) has most recently added two Fidelity funds (Large Cap and Spartan 500) in its college savings plan with assets exceeding \$51 million. Firms who have used Fidelity funds in their 529 accounts are:

Union Banks & Trust	Nebraska	Since June 2001
Bank One	Indiana	Since June 2003
Oppenheimer	New Mexico	Since July 2003
Union Bank & Trust	Illinois	Since December 2005
Allianz	South Dakota	Since July 2008

Changes in New Hampshire's Right-To-Know Law

Mr. Jacobson reported that since the Advisory Commission was formed by the General Court, it is considered to be a "Public Body" and is therefore subject to the changes in New Hampshire's right-to-know laws (RSA 91-A) as a result of the passage of HB 1408 (effective July 1, 2008). A summary of these changes, as they affect how the Advisory Commission conducts business was provided by Mr. Jacobson as follows:

1. Meetings are defined as the convening of a quorum of the membership (7 or more members) in person, by telephone or other electronic communications as long as members can communicate with each other contemporaneously.
2. Communications among Advisory Commission members outside of a meeting, including sequential communications, shall not be used to circumvent the spirit and purpose of the statute.
3. Advisory Commission members may attend meetings by telephone or other electronic means if:
 - a. Attendance is not reasonably practical
 - b. A quorum is physically present
 - c. Meeting is audible or otherwise discernable to the public
4. Meeting shall not be conducted by email or any other form of communication that prevents the public from hearing, reading or otherwise being unable to discern the discussion contemporaneously.
5. Meeting notices are to be posted in two "appropriate" places. (Advisory Commission meetings are posted in the legislative calendars and the Treasury website.)
6. Minutes of meetings shall be made available to the public within five business days (draft and approved minutes are available on Treasury website from inception).

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 June 30, 2008. Fee revenue exceeded the annual estimate by \$1.1 million due to higher-than-expected market values of the 529 Plan portfolios. Administrative costs exceeded the estimate for fiscal year 2008 by approximately \$40,000 due primarily from underestimated audit fees. UNIQUE Endowment Allocation Program scholarship disbursements exceeded the estimate by almost \$900,000 due to the higher-than-expected fee revenue and the UNIQUE Annual Allocation Program disbursements exceeded the annual estimate by approximately \$140,000 due to higher than expected reimbursements to participating colleges for scholarships they made in excess of the initial approved allocations. The market value of the fund approximated \$24 million as of June 30, 2008.

There being no further business, Dr. MacKay adjourned at 11:45 A.M.

NOTE: The next regular meeting is scheduled for November 3, 2008 starting at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord.