

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of May 18, 2009

The May 18, 2009 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. Members present at the meeting were:

Edward MacKay (Chair)	Vice Chancellor & Treasurer, representing the University System of New Hampshire
Russell Ingram	State Representative
Linda Hodgdon	Commissioner of Administrative Services Dept., representing the Governor
Tara Payne	Vice President, representing the NH Higher Education Assistance Foundation Organizations
Thomas Horgan	President & CEO, representing the New Hampshire College and University Council
Catherine Provencher	State Treasurer
<u>Absent were:</u>	
Harold Janeway	State Senator
Jeb Bradley	State Senator
Robert Foose	State Representative
Kathryn Dodge	Executive Director, Post Secondary Education Commission
Ann Toomey	Director of System Research and Grants, representing the Community College System of NH
Martha Gooze	Public Member, appointed by the Governor
Michael Cryans	Public Member, appointed by the Governor

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

Due to the lack of a quorum of members, the minutes of the meetings of January 26, 2009 will be reviewed for approval at the July 27, 2009 meeting.

Public Hearing for Administrative Rules Csp 100, Csp 200 & Csp 300

Pursuant to RSA 541:11 paragraph II, a public hearing on Administrative Rules by a board or commission must be physically attended by a quorum of its members. Therefore, due to the lack of a quorum of members, the public hearing noticed in the Rulemaking Register on February 13, 2009, is being postponed until the July 27, 2009 meeting. (Treasury filed the necessary notices and waiver requests on May 19, 2009.)

Old Business

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

1. Status of Money Market Portfolio Fee Reduction Amendment - Treasurer Provencher reported that the contract amendment relating to the Fidelity money market portfolio fee reduction has been executed and approved by the Governor and Executive Council. During the first quarter of 2009 Fidelity waived \$8,700 in fees. The contract amendment prevents potential negative returns to those plan participants of the money market portfolios due to low investment rates caused by the current economic downturn. (The Advisory Commission approved this proposal and delegated to the Treasurer the authority to negotiate and execute the necessary contract amendments at the November 3, 2008 meeting.)
2. Update on Other Fidelity Contractual Amendments - Treasurer Provencher reported that there has been no work yet on the Fidelity contract amendments relating to the Massachusetts RFP process. Contract amendment work, if necessary, is expected to begin in June with final amendment execution and Governor and Executive Council review scheduled for September. (The Advisory Commission approved the contract amendment proposal and delegated to the Treasurer the authority to negotiate and execute the necessary contract amendments at the January 26, 2009 meeting and non-public session.)
3. Status of Fidelity Advisor 529 Plan Service and Administrative Changes – Mr. Troutman informed the Advisory Commission that work on the process changes, to move certain administrative responsibilities from Fidelity to broker-dealers as discussed in previous meetings, was still underway but falling behind schedule. The intent of these changes is to make the process from initial broker-dealer contact with customers to the opening of Fidelity Advisor 529 accounts and subsequent depositing of contributions much quicker and more efficient than the current process.

The original schedule estimated the completion of phase 1 of this project by the end of 2009 and completion of phase 2 in the following quarter. It now appears as if no changes will be made to the current service model until sometime in 2010. While Fidelity is able to support these changes, other firms who would also be making this change apparently do not have the resources to make these changes this year.

4. Status of Members' Statements of Financial Interest – Mr. Jacobson reminded the Advisory Commission members that their annual Statements of Financial Interests need to be filed with the Secretary of State if not already done. House Bill 255, if signed into law during this legislative session, would prevent members from carrying out their Advisory Commission responsibilities until such time as a Statement of Financial Interest has been filed. (This bill has passed the House and the Senate at the date of this

meeting.) If signed into law, Treasury will request a confirmation of financial disclosure filing next January from each Advisory Commission member to keep on file.

5. Biennial Membership Renewal – Mr. Jacobson reminded Advisory Commission members with two-year terms that their letters of appointment are due to the Treasurer's office by June 30. Letters for the appointment of public members by the Governor for two-year terms are due in September. No appointment letters have been received as of the date of this meeting.

New Hampshire's 529 Program Update

Ms. Doyle, Mr. Ciccariello and Mr. Sharpe provided an update of the 529 Program industry and the New Hampshire programs. Due to the current economic conditions, the College Savings Plan 529 industry assets declined 13% during the fourth quarter of 2008 and declined by 21% for the year to an estimated industry-wide asset market value at year-end of \$88.5 billion. The New Hampshire plans mirrored the industry asset declines ending the year 2008 with \$6.5 billion in assets (market value) and 7.3% of the industry's market share at year-end which places it 3rd in the country in asset value following Virginia and New York. The 529 industry fared better than the overall mutual fund industry which has decreased 20% since the 3rd quarter of 2008 and by 35% in the last year.

In spite of these economic conditions, Fidelity is still opening accounts for new participants in the New Hampshire 529 Plans, though the number of new participants is lower than last year. Plan distributions for college expenses represent 80% to 85% of the total distributions which means there is no increase in the number of participants cashing out of their plans for other purposes. There has, however, been a slight shift by participants to more conservative investment options.

Mr. Sharpe explained that Fidelity is continuing to strategically review and research the asset allocations for the various portfolios that the New Hampshire plans offer, especially in the age-based portfolios balancing potential risk vs. returns. Additional asset classes (including TIPS, real estate and commodities) are being reviewed for potential inclusion in the plans. It is expected that portfolio change recommendations will be presented to the Investment Committee at the July 27 meeting. Fidelity is also researching why participants choose the various state plans (e.g. state income tax benefits) in order to improve their marketing to potential new participants and to increase market share.

Morningstar's annual rankings of the various states' 529 plans were recently released and the New Hampshire plans were not in the published top five or the bottom five state plans. Mr. Sharpe explained that Morningstar's ranking methodology focuses on fees, flexibility, state income tax deductions, the number of five-star funds in the portfolios, state matching contributions and asset allocation schemes. Fidelity has previously met with Morningstar to discuss the methodology and hopes to meet again in the Fall. Mr. Sharpe believes that Morningstar's methodology is starting to shift away from their rather rigid focus on 5-star funds and to better understand the various states' underlying portfolio strategies.

The 529 industry is still following Treasury tax rule-making and has been promoting a permanent change to the number of investment changes that can be made each year. Recently, as a result of the investment market performance, the Treasury has permitted two investment changes per calendar year in 2009.

UNIQUE Plan Review

Ms. Doyle reported that the UNIQUE Plan asset market values have decreased at a slightly less rate as the national trend at 12.7% in the 4th quarter of 2008. As a result of the current economic environment, consumers appear to be focusing on debt reduction. In the last 12 months 28% of all Americans are saving more than in the previous year and 71% of Americans have cut back on spending. The savings trend has moved slightly away from college savings (45% in 2008 compared to 53% in 2007) and toward retirement (53% in 2008 compared to 51% in 2007) according to a recent AARP survey.

Contributions into the UNIQUE Plan have decreased 39% in the first quarter of 2009 compared to the first quarter of 2008 and new account openings have decreased 52% in these same periods. As of March 31, 2009 the UNIQUE Plan had a total asset market value of almost \$4.3 billion with almost 356,000 participants. 81% of these assets are invested in the age-based portfolios but there has been a slight shift by UNIQUE participants into more conservative investment options. Compared to the industry, the UNIQUE Plan has 52% of its participants automatically investment compared to 43% of the industry. UNIQUE participant accounts averaged \$11,122 compared to the industry average of \$9,797.

Nationwide and New Hampshire marketing efforts are continuing with recent and near-future activities as follows:

1. New Hampshire in-school distribution, with emphasis on elementary school outreach, was completed in February.
2. Fidelity conducted an automatic contribution campaign in the month of March.
3. A College Planning E-Newsletter will be distributed later this month with a message from the New Hampshire State Treasurer, an article on the benefits of dollar cost averaging and a Q & A article by the portfolio managers.
4. The annual Storyland booth will be manned by Fidelity staff on Saturday June 6th. All Advisory Commission members and family members were invited to participate. Fidelity has tickets for all participants.

Fidelity has recently responded to a Request for Proposal (RFP) for the management of Oregon's state-sponsored plan. Since Oregon has a very significant state income tax deduction for in-state 529 participants, there should be no competitive impact on the UNIQUE national plan. Fidelity has recently elected not to respond to a couple of other state RFP's.

Fidelity Advisor 529 Plan Review

Similar to industry-wide trends, Mr. Troutman reported that the Fidelity Advisor 529 Plan had 45% fewer new accounts opened in the first quarter of 2009 than in the first quarter of 2008 and contributions were 35% less in these same periods. Total plan assets were \$1.970 billion as of March 31, 2009 with 209,500 accounts.

Unlike the UNIQUE retail plan, the Fidelity Advisor 529 Plan experienced a growth in the conservative money market portfolio of 40% during Q1 2009, and over 230% compared to the preceding twelve months. Most of this shift is due to portfolio exchanges. Fidelity is planning on working with financial advisors to try and move some of these funds into other portfolios and to promote dollar cost averaging. Financial advisors are currently focused on “fixing” their customer’s investment balance sheets, asset re-accumulation and asset allocation strategies. The advisors’ message recently is to not to push products but, rather, what they need to tell their clients.

Additional marketing efforts for the Fidelity Advisor 529 Plan will continue with welcome letters to new participants and an annual letter to current participants, both of which will encourage systematic investments.

Fidelity Advisor mutual funds are currently being utilized in 529 plans offered by the states of Nebraska (Union Bank & Trust - \$139 million), Ohio (Putnam - \$21 million) and South Dakota (Allianz - \$37 million).

Daniel Webster College Sale to ITT

Daniel Webster College recently announced its intention of being sold to ITT Education Services, Inc. Effective on the date of sale, planned for June 30, 2009, the college will no longer be eligible to participate in the UNIQUE Endowment Allocation Program as it will become a for-profit institution. As a result of its ineligibility, all funds remaining in its UNIQUE restricted endowment fund, including accumulated earnings and net of any scholarships awarded, are to be returned to the Advisory Commission. A certified letter was sent to the college by Treasurer Provencher on April 28, 2009 advising them of their pending ineligibility and obligation to return the remaining funds.

Since this is the first time that UNIQUE Endowment Allocation Program funds are being returned, Dr. MacKay led a discussion on the precedent-setting options for the use of these funds as follows:

1. The funds can be returned to the Endowment Trust and invested for future use or
2. The funds can somehow and on some basis be reallocated to the remaining eligible institutions.

After some discussion the consensus of the members was that the funds be returned to the Endowment Fund for future use. Treasury will be following up with Daniel Webster College following the closing of the sale for the return of their endowment funds.

Review of Draft “Dashboard” Report

Dr. MacKay presented a draft “Dashboard” report and explained the various sections of the report. The intent of this report, which will be continually updated, is use by Advisory Commission members in external discussions and to make internal Advisory Commission decisions, especially with respect to the scholarship programs and annual budgets, using historic trends and fee forecasts. The consensus of the Advisory Commission members was that the information on this report was helpful and efforts to keep it current would be worthwhile. The report will be distributed at least twice a year (July and January).

Fiscal 2010 UNIQUE Endowment Trust Budget

Treasurer Provencher presented the proposed fiscal year 2010 budget for the Endowment Fund. The income and expenditures reflected in the proposed budget, while optimistic considering the current economic environment and potential contract changes, are included in the Treasury’s biennial budget for 2010 – 2011 as submitted to the Governor and Legislature. There is no financial impact on the State’s budget or on the Endowment Fund as a result of this optimism since all expenditures are made from fee revenue or from the endowment trust. The consensus of the Advisory Commission members was to adopt the fiscal 2010 budget as presented.

Endowment Fund and Scholarship Disbursements

Treasurer Provencher provided a brief overview of the endowment fund and the first quarter transactions which included reimbursements to the Community College System of New Hampshire and the University System of New Hampshire for the 2008-2009 UNIQUE Annual Allocation Program scholarship awards totaling over \$2 million and a market value loss on the fund investments of approximately \$1.1 million. Advisory Commission members were encouraged to review the report in detail and direct any questions that they may have to the Treasury.

Treasurer Provencher advised that the Treasury is currently utilizing Fidelity’s Portfolio Advisory Services to manage the Endowment Fund due to the current lack of resources within the Treasury created by hiring and budget freezes. Fidelity is providing a “fund of funds” approach for the investment strategy which includes a number of non-Fidelity mutual funds. Treasury will send out the asset allocation to Advisory Commission members for their information following the meeting. (The April 30, 2009 statement reflecting the asset allocation was emailed to all members on May 19, 2009.)

Other Business

There being no further business, Dr. MacKay adjourned the meeting at 11:45 a.m.

NOTE: The next regular meeting is scheduled for July 27, 2009 starting at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. This meeting will be

preceded by the Investment Committee meeting which will start at 9:00 and is open to all Advisory Commission members.