

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of July 27, 2009

The July 27, 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 10:00 a.m. by Dr. Edward MacKay, Advisory Commission Chair. Members present at the meeting were:

Edward MacKay (Chair)	Chancellor, University System of New Hampshire
Robert Foose	State Representative
Russell Ingram	State Representative
Kathryn Dodge	Executive Director, Post Secondary Education Commission
Amy Bourgault	Executive Director, CCSNH Foundation representing the Community College System of NH
Tara Payne	Vice President, representing the NH Higher Education Assistance Foundation Organizations
Martha Gooze	Public Member, appointed by the Governor
Michael Cryans	Public Member, appointed by the Governor
Catherine Provencher	State Treasurer

Absent were:

Amanda Merrill	State Senator
Harold Janeway	State Senator
Thomas Horgan	President & CEO, representing the New Hampshire College and University Council
Linda Hodgdon	Commissioner of Administrative Services Dept., representing the Governor

Also present were Kyla Doyle, Mary Connors, Joe Ciccariello, Jeff Troutman and Christopher Sharpe from Fidelity Investments (Fidelity), Judith Knapp and Cynthia Capodestria of Postsecondary Education and Brad Jacobson, Deputy State Treasurer.

Review of Prior Meeting Minutes

Minutes of the January 26, 2009 regular meeting and the non-public session could not be voted on at the May 18, 2009 meeting, due to a lack of a quorum, so they were reviewed today. These meeting minutes were approved unanimously. Minutes of the May 18, 2009 meeting were also reviewed and approved unanimously.

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

Dr. MacKay called the public hearing to order at 10:15 to take oral public comments, and to review any written comments received by the Treasury, on the following Initial Proposed Administrative Rules (Proposed Rules):

1. To “Readopt with Amendment” Administrative Rule Csp 100 – Organizational Statements. (Rulemaking Notice Number 2009-16)
2. To “Adopt” Administrative Rule Csp 200 – Practice and Procedures (Rulemaking Notice Number 2009-17)
3. To “Adopt” Administrative Rule Csp 300 – Establishment, Operation and Administration of the Plan (Rulemaking Notice Number 2009-18)

Dr. MacKay noted that there was a quorum of Advisory Commission members present for this public hearing. This hearing was originally noticed in the State’s Rulemaking Register on February 13, 2009 and noticed again on May 29, 2009 for the postponement and rescheduling of the hearing due to a lack of a quorum at the May 18, 2009 Advisory Commission meeting. Furthermore, since there is a 150-day maximum period allowed between the date of the original public hearing notice (February 13, 2009) and the date that “Final Proposals” are filed with Legislative Services (which would have been July 13, 2009), Treasury requested and received a waiver of that 150-day period from the Director of Legislative Services.

Dr. MacKay next requested comments on the Proposed Rules which were noticed in the Rulemaking Register and previously sent to Advisory Commission members for review. There were no oral comments on the Proposed Rules.

Dr. MacKay then asked Mr. Jacobson, the Treasury’s contact person listed in the Rulemaking Register, if there were any written comments on the Proposed Rules. Mr. Jacobson indicated that there were no written public comments to the Proposed Rules received by the Treasury as of this time but that the Treasury had received a number of proposed edits and written comments from the staff of the Joint Legislative Committee on Administrative Rules (JLCAR).

Mr. Jacobson reviewed each of the proposed edits and each of the comments from the JLCAR staff (attached to these meeting minutes) which were evaluated by the Advisory Commission for potential inclusion in the Proposed Rules. Many of the JLCAR staff comments suggested the need for more specificity and clarity in the Proposed Rules. While expressing appreciation for JLCAR staff comments, the Advisory Commission members indicated that because of the ever changing IRS regulations as well as other federal and Obama Administration initiatives they needed the flexibility currently provided in the Proposed Rules. Such flexibility will allow making appropriate Program changes on a more timely basis to comply with the Advisory Commission’s statutory role without having to continually update the Rules. (Note: The statutory role of the Advisory Commission pursuant to RSA 195-H:2 is “...ensure the proper administration and management of the savings plan” and to “ensure that the savings plan complies with the requirements of section 529 of the Internal Revenue Code....”) Furthermore, because of other State controls in existence over contract amendments with Fidelity Investments and the Trust Agreement (e.g. Governor and Executive Council review), additional and more specific guidance in the Rules would not be required.

Hearing no further comments on the Proposed Rules Dr. MacKay closed the public hearing.

Dr. MacKay summarized the changes to the Proposed Rules recommended by the Advisory Commission members during the public hearing as follows:

1. Make all “edits” in all Rules as identified by the JCLAR staff.
2. Csp 200 to include a new section stating that pursuant to State statute (RSA 541-A:30-a, IV) the Advisory Commission has adopted model Administrative Rules developed by the Attorney General’s office (Jus 800), as recommended by JCLAR staff, in the highly unlikely event of an adjudicatory proceeding coming before the Advisory Commission.
3. Delete paragraph Csp 304.02 (k), delegating rulemaking authority to the Treasurer, as recommended by JCLAR staff.

It was moved by Representative Foose and seconded by Mr. Cryans that these changes be made to the Proposed Rules and that the Treasurer file the Final Proposed Rules with Legislative Services. The motion was unanimously approved.

Old Business

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

1. Update on Fidelity Contractual Amendments – Mr. Jacobson reported that there has been no work performed on the Fidelity contract amendments relating to the Massachusetts RFP process. Contract amendment work is expected to begin as early as next week, however, assuming that Fidelity is awarded the Massachusetts 529 program management contract. Final amendment execution and Governor and Executive Council review is scheduled for October or November with the expected effective date of December 1. Mr. Ciccariello indicated that Massachusetts was to make its final decision later today. (Note: The Advisory Commission approved the contract amendment proposal and delegated to the State Treasurer the authority to negotiate and execute the necessary contract amendments at the January 26, 2009 meeting and non-public session.)
2. Status of Fidelity Advisor 529 Plan Service and Administrative Changes – Mr. Troutman informed the Advisory Commission that work on the necessary administrative process changes, to shift certain responsibilities from Fidelity to broker-dealers as discussed in previous meetings, was still underway but falling behind schedule since many firms do not have the resources necessary to make their internal process changes at this time. 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 mid-2010.

(Note: As discussed in previous meetings, 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. These changes would require amendments to the existing contractual arrangements with Fidelity. This item will remain on the “old business” list but will not need to be reviewed for the next several meetings.)

3. Status of Daniel Webster College Sale to ITT – Mr. Jacobson reported that the sale of Daniel Webster College (DWC) to ITT was effective on June 10. At that time DWC became a “for-profit” institution and became ineligible to participate in the UNIQUE Endowment Allocation Program. Earlier this month, Treasury received approximately \$780,000 from DWC representing a return of their UNIQUE Endowment funds including earnings and net of any scholarships awarded. Treasury returned the money to the Endowment Trust as directed at the May 18, 2009 Advisory Commission meeting.

Treasury had deferred the June disbursement of the UNIQUE Endowment Allocation Program funds to DWC as a result of the announcement of the sale. These funds were reallocated and distributed to the other program participants with their July 15, 2009 payments. Starting in July, DWC is no longer being included in the UNIQUE Endowment allocation process but continues to be eligible for the UNIQUE Annual Allocation Program.

4. Biennial Membership Renewal – Mr. Jacobson advised that all appointment letters of Advisory Commission membership due June 30 in odd-numbered years have been received. He reminded Advisory Commission public members appointed by the Governor for two-year terms (Ms. Gooze and Mr. Cryans) that their appointment letters are due to the Treasury in September.

Summary of the Investment Committee Meeting

The Investment Committee met this morning at 9:00 and Dr. MacKay summarized the meeting which focused primarily on potential changes in the various investment portfolios. Such changes are still being analyzed by Fidelity. The changes being reviewed include:

1. Greater allocation of equity investments to international funds.
2. Additional asset classes being available for the portfolio investments to include TIPS and commodities (no direct exposure to actual commodity holdings).
3. Revision of the investment “roll-down” in age-based portfolios (a higher risk/ heavier weighting in equities in the earlier years of a portfolio and gradually moving to lower risk investments as the beneficiary nears matriculation age).

It is expected that Fidelity will have their analysis completed by early September and make their recommendations first to the Investment Committee and then to the full Advisory Commission for approval. In order to ensure sufficient time to review the proposals, the Investment Committee may convene for a special meeting prior to the next full Commission meeting in October.

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 approximately 3% during the first quarter of 2009 which approximated the New Hampshire Plan asset market value reduction. The New Hampshire plans retained their position as 3rd largest in the country in asset value following Virginia and New York.

Credit card rebates in the second quarter of 2009 exceeded \$5 million which was about the same as the first quarter. Over \$117 million in cumulative credit card rebates have been earned and applied to participant accounts in both the retail and advisor plans since inception.

The Obama Administration has established a “Middle Class Task Force” which will, working with the Departments of the Treasury and Education, study 529 plans and identify ways to make college more affordable for lower income families. Recommendations could include the restructuring of the tax code, the creation of a national 529 plan, imposing Department of Labor-type guidelines and ERISA-like fiduciary responsibilities on states and mandating FDIC-insured investment options. Information is currently being requested from 529 program managers for evaluation.

A question arose concerning what entity Fidelity views as the New Hampshire 529 “shareholder” of the portfolios – the State Treasurer as the trustee, the participants who manage their accounts or the beneficiary of the account. Mr. Sharpe indicated that from a legal perspective the “shareholder” is the State Treasurer, as Trustee, but in discussions about the 529 Plans, he uses the term to apply to all three parties. Treasurer Provencher triggered a brief discussion about proxy involvement and requested any guidance that other states have adopted. Treasury will then review the need for similar guidance and, if necessary, present such guidance to the Advisory Commission for review.

UNIQUE College Investing Plan Review

Ms. Doyle reported that as of June 30, 2009 the UNIQUE Plan asset market values of the UNIQUE Plan approximate \$4.8 billion with about 360,000 accounts. As of March 31, 2009, 52% of all customers utilize auto-investing, as compared to an industry-wide average of only 43%, with 59% of all new customers utilizing auto-investing. The average UNIQUE account size is over \$12,000 as compared to the industry account average of \$9,700. 81% of all UNIQUE assets are in age-based portfolios.

As a result of the economic downturn and loss of investment market value by customers, Fidelity’s marketing focus will continue to be the rebuilding of investor confidence. Components of the marketing plan include the promotion of customer-focused and needs-based solutions for life stages (including saving for college) and customer advocacy including availability of conservative investment options and asset allocation. Fidelity will also be promoting investor education in future customer messages and communications. The third annual “College Savings Indicator” survey will take place in the third quarter of 2009 and

focused advertising will continue with both print and TV ads to build more parental awareness of 529 plans.

New accounts opened in the second quarter of 2009 continued to lag both 2007 and 2008 and were down 44% compared to the second quarter 2008. Total customers as of June 30, 2009 were 359,563. Likewise, quarterly contributions lag both 2007 and 2008 and are down 30% compared to the second quarter of 2008. Market values of all accounts as of June 30, 2009 totaled almost \$4.9 billion. As compared to their top program management competition, Fidelity remains in the top third to half with respect to one, three and five-year fund performance.

Net cash flows appear to be moving out of individual and static portfolios and into age-based portfolios again. 81% of assets are in age-based portfolios with 14% in static portfolios and 6% in individual portfolios.

At the May meeting Fidelity reported that they had responded to a Request for Proposal (RFP) for the management of Oregon's state-sponsored plan. They indicated today that they were not successful with their proposal.

Fidelity Advisor 529 Plan Review

Mr. Troutman reported that similar to the UNIQUE Plan, the Fidelity Advisor 529 Plan (Advisor Plan) had approximately 41% fewer new accounts opened in the second quarter of 2009 than in the second quarter of 2008 and received approximately 33% fewer contributions. Total plan assets approximated \$2.26 billion as of June 30, 2009 with more than 212,000 total accounts.

Also similar to the UNIQUE Plan, the Advisor Plan is experiencing a movement toward age-based and actively-managed portfolios with 80% of the second quarter net cash flows going into age-based portfolios. 74% of all assets are invested in age-based portfolios as of June 30. Mr. Troutman believes that this movement away from more conservative investments results from improving investor confidence as well as the IRS temporarily permitting twice-per-year exchanges in 2009 as compared to the previous once-per-year exchanges which permits more investor flexibility in adapting to market conditions.

Financial advisors continue to emphasize improving their clients' investment portfolio. They are heavily focused on asset re-accumulation and asset allocation strategies and less focused on 529 plan investments. The advisors' message to Fidelity continues to be to tell them what they need to tell their clients. Marketing efforts for the Fidelity Advisor 529 Plan will utilize direct mail campaigns, marketing e-mails and communications campaigns to increase advisor awareness to get them to start changing their customer focus. The overall marketing strategy is to provide accessibility of the Advisor Plan to more eligible advisors, improve advisor awareness so that more advisors are selling the Advisor Plan and improving the productivity of existing advisors.

The marketing theme provided to Advisors to pass along to their clients is "It's why you invest" focusing on providing a better life for children and grandchildren, including saving for their

college education. The message to Advisors is “It’s why you serve investors” which is to contribute to their clients’ financial success, including saving for college.

Marketing goals established in late 2008 for the Advisor Plan will be difficult to achieve considering current market conditions. One important and achievable goal, however, is to increase the number of accounts utilizing a systematic investing plan by 10%. Over 35% of new accounts utilize systematic investing.

Mr. Troutman reported that currently three other state plans are utilizing Fidelity funds:
Nebraska (Union Bank & Trust - \$159 million),
Ohio (Putnam - \$23 million), and
South Dakota (Allianz - \$53 million)

Fidelity is in discussions with Oppenheimer, managing the Colorado plan, to utilize both Fidelity actively-managed and index funds in their 529 plans.

Endowment Fund and Scholarship Disbursements

Treasurer Provencher provided a brief overview of the endowment fund activity and UNIQUE Annual and Endowment Allocation Program scholarship disbursements for the fiscal year ended June 30, 2009. The endowment fund had a balance of \$15.5 million as of the end of the fiscal year. Fee revenue totaled \$10.1 million and scholarship funds disbursed totaled \$11.4 million for the fiscal year. Administrative costs, consisting primarily of audit fees, totaled approximately \$174,000. Investment market losses, net of interest and dividend income, totaled \$6.9 million for the fiscal year.

Advisory Commission members were encouraged to review the report in detail and direct any questions that they may have to the Treasury.

Other Business

Dr. MacKay reviewed the updated “Dashboard” report which includes summary information on the 529 Program, the endowment fund and the scholarship programs. The report will continue be updated and provided to the Advisory Commission at the January and July meetings.

As a result of a question from Dr. Dodge, the Advisory Commission discussed whether the Administrative Rules relating to the UNIQUE Endowment Allocation Program (Csp 700) needed to be revised to clarify scholarship award requirements of colleges in the event that there are no earnings in a particular year. Currently the Rules include the expectation that Endowment scholarships are paid out of earnings and that the total annual scholarship awards are to be at least 4% of the market value of the accumulated and restricted endowment, subject to any statutory or regulatory restrictions. Dr. MacKay pointed out that State statutes were revised during the 2008 legislative session (RSA 292-B Uniform Prudent Management of Institutional Funds Act) that if adopted by the respective governing board, provides colleges with more flexibility over the management of such funds, especially in those years with no earnings. The consensus of the Advisory Commission was that each college should make their own policy

decisions utilizing the revised State statute and the expectations stated in the Administrative Rule.

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

NOTE: The next regular meeting is scheduled for October 26, 2009 starting at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. The meeting may be preceded by an Investment Committee meeting which will be open to all members.