

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of January 25, 2010

The January 25, 2010 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 approximately 10:00 a.m. by Dr. Edward MacKay, Advisory Commission Chair. Members present, who constituted a quorum, were:

Edward MacKay (Chair)	Chancellor, University System of New Hampshire
Harold Janeway	State Senator
Russell Ingram	State Representative
Robert Foose	State Representative
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
Thomas Horgan	President & CEO, representing the New Hampshire College and University Council
Martha Gooze	Public Member, appointed by the Governor
Linda Hodgdon	Commissioner of Administrative Services Dept., representing the Governor
Catherine Provencher	State Treasurer

Members Absent were:

Amanda Merrill	State Senator
Kathryn Dodge	Executive Director, Post Secondary Education Commission
Michael Cryans	Public Member, appointed by the Governor

Also present were Kyla Doyle, Joe Ciccariello, Jeff Troutman, Andrew Dierdorf and Christopher Sharpe from Fidelity Investments (Fidelity), Steven Hirt of PricewaterhouseCoopers LLP (PwC), Richard Mahoney, Director of the LBA Audit Division, Judith Knapp of Postsecondary Education, Richard Gustafson, Chancellor of the Community College System of New Hampshire and Brad Jacobson, Deputy Treasurer.

Review of Prior Meeting Minutes

Minutes of the October 26, 2009 regular meeting were reviewed. Approval of the minutes was moved by Senator Janeway, seconded by Ms. Gooze and approved unanimously.

Review of Annual Audits as of and for the Year Ended September 30, 2009

Mr. Mahoney introduced Mr. Hirt of PwC, who was responsible for the performance of the annual external audits of each of the 50 portfolios within the UNIQUE College Investment Plan and the Fidelity Advisor 529 Plan. The audits were as of, and for the year ended, September 30,

2009. Mr. Mahoney informed the Advisory Commission that PwC was awarded a five-year contract by the State's LBA Audit Division, prior to the 2008 audit, resulting from a competitive RFP process.

Mr. Hirt presented the results of the independent audits of both the State's UNIQUE and the Fidelity Advisor 529 Plans. Audit work relating to Fidelity's internal controls focused on the daily unit value process, the re-balancing process, participant transactions (including new account set-ups and remittances) and the multi-class accounting. The audit team also relied on the independent SAS 70 audit report (Statement on Auditing Standards No. 70), as it related to Fidelity systems and controls, prepared by PwC.

Audit work relating to the financial statements included investment valuation of the underlying funds, proper accounting for fees and expenses, confirmations with the recordkeeping agent and the appropriate financial statement disclosures and presentation. All financial statements received unqualified opinions and there were no adjustments proposed by PricewaterhouseCoopers or processed by Fidelity. Mr. Hirt reported that the statutory communications requirement with the State's legislative Fiscal Committee was satisfied during a Fiscal Committee meeting on Friday January 8, 2010.

Mr. Hirt reviewed the many items requiring communications with the Advisory Commission and stated that the financial statements were prepared on the basis of the Financial Accounting Standards Board (FASB) rather than the Governmental Accounting Standards Board (GASB). While all of the States in which Fidelity is the Plan manager utilize FASB standards, other states utilize the GASB standards for financial statement presentation purposes. At Treasurer Provencher's request, Mr. Hirt is going to provide a listing of those states utilizing FASB standards and those states utilizing GASB standards. Mr. Hirt also reported Fidelity and the Plans' Trustee provided full cooperation in the conduct of the audit, that no illegal or fraudulent acts were identified and that no significant deficiencies in the internal controls were noted.

As most of the Advisory Commission members are not accountants, Ms. Gooze requested that a listing of those acronyms utilized in this presentation be provided. (This listing was subsequently prepared by Mr. Mahoney and emailed to Advisory Commission members on January 26, 2010.)

Representative Foose moved and Senator Janeway seconded a motion that the audit reports be accepted and the motion passed unanimously.

Old Business

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

1. Shareholder Proxy Voting Guidelines – A draft of the Shareholder Proxy Voting Guidelines was provided to the Advisory Commission members for review, discussion and adoption. The State Treasurer, as the Trustee of the New Hampshire Higher

Education Savings Plan Trust, is the legal shareholder of the underlying mutual funds of the Plan Participants' investment portfolios. In this specific fiduciary position, the Treasurer, as are all members of the Advisory Commission, is legally and ethically bound to advocate for and act in the best interests of the Plans' Participants. The guidelines are therefore intended to provide the appropriate proxy voting guidance for the Treasurer as the Plans' Trustee and Shareholder. Dr. MacKay stated that such guidelines are consistent with national templates.

Senator Janeway questioned the intent of the proposed language for the potential of an over-commitment of a Fidelity Board Trustee serving on multiple Boards. It was explained that while a Fidelity Trustee can serve on several internal Fidelity fund Boards, the concern of over-commitment is intended to focus on those Trustees serving on multiple non-Fidelity external Boards and, as a result, may not have the time to focus on Fidelity business issues. The language in the Guidelines will, therefore, be clarified to state "...appears to be an over commitment of a proposed director serving on multiple external Boards."

Ms. Gooze moved and Representative Ingram seconded a motion approving, as amended, the Proxy Voting Guidelines. The motion passed unanimously.

2. Delegation of Advisory Commission Rulemaking Authority to Treasurer – Treasurer Provencher updated the Advisory Commission members on House Bill 1539 which proposes that the rulemaking authority for the College Savings Plan Administrative Rules be delegated to the State Treasurer, as the Plans' Trustee, rather than to the Advisory Commission, as currently promulgated in the State Statutes. As a result of testimony provided at the public hearing of the House Executive Departments and Administrative Committee (ED&A Committee), Treasurer Provencher advised that that the ED&A Committee will propose that the bill be deemed "inexpedient to legislate." An executive session of the ED&A Committee will take place on January 26 when the results of their official proposal will be determined. The Treasurer will keep the Advisory Commission members informed of the bill's status as it progresses through the Legislature.
3. Annual Advisory Commission Member Financial Disclosures – Treasurer Provencher reported that all Advisory Commission members, by the end of the day, will have filed their required annual financial disclosure statements in compliance with RSA 14-B (for Legislators) and RSA 15-A (for Executive branch employees and Governor appointees).

Review of "Dashboard" Report

Dr. MacKay provided an overview of the one-page "Dashboard" Report as of December 31, 2009 and pointed out the various historic trends and future projections that the Advisory Commission members can utilize to assist in the review and decision-making relating to the UNIQUE Annual Allocation Program scholarship criteria later in the meeting. The report is updated and provided to the Advisory Commission on a semi-annual basis and is intended to also be used by Advisory Commission members for "talking points" when discussing the program.

The first half of the page contains information relating to the College Savings Plan programs (fee structure, revenue from fees and program assets) and is presented on a calendar year basis. Four years of history and four years of projections are presented. The second half of the page reflects information relating to the Endowment Trust and scholarship information of both the UNIQUE Annual Endowment Allocation Program and the UNIQUE Endowment Allocation Program. This information is provided on an academic year basis (July 1 through June 30) and reflects only actual information and no projections for future academic years.

A question arose concerning fee revenue for calendar year 2009 and the split between the State and Fidelity. It was agreed that Fidelity would review the 2009 actual fees and advise Treasurer of the necessary changes, if any. The Treasury will then redistribute the “Dashboard” report.

UNIQUE Annual Allocation Program Scholarship Criteria for Academic Year 2010 - 2011

Pursuant to Administrative Rule Csp 602, the Advisory Commission is required to establish annually, in January, certain student eligibility and award criteria for scholarships for the UNIQUE Annual Allocation Program for the upcoming academic year (2010 – 2011). The purpose of making these decisions in January is so that the colleges can begin planning and communicating their financial aid programs for the next year, and initiate awards on a timely basis. Criteria to be determined by the Advisory Commission, together with the criteria established in January of 2009 for the current academic year, are:

1. Total Allocation Award:
 - a. Total amount of the initial allocation distribution (\$1.2 million currently)
 - b. Guaranteed reimbursement of amounts awarded in excess of the initial disbursement. (currently “yes”)
2. Individual Award – Maximum individual annual award to be paid on a semester basis (currently \$1,300 each)
3. Expected Family Contribution (EFC) – the maximum EFC for eligibility (currently up to and including \$1,000).
4. FAFSA Receipt Date – deadline date for receipt of the student’s FAFSA form (currently 12/31/09)

A lengthy and thoughtful discussion ensued and included such issues as the number of potential scholarships to be awarded based on recent changes to the federal methodology for determining Effective Family Contribution amounts (which liberalized student eligibility), the overall economic situation relative to potentially financially-challenged New Hampshire students and their families, other financial aid funding available to New Hampshire colleges at the State and federal levels, increasing enrollments in the Community College System due to rising unemployment, projections of fee revenues available for the scholarship programs and the potential impacts and drawdown on the Endowment Trust from the current \$18.5 million level.

Following this discussion, Senator Janeway moved and Ms. Hodgdon seconded that for the academic year 2010-2011:

1. The individual maximum award amount for students be established at \$1,000 to be paid on a semester by semester basis;
2. The EFC be established up to and including \$1,000; and,
3. The FAFSA receipt deadline date be set at December 31, 2010.

The motion passed by a majority vote.

Following additional discussion, Treasurer Provencher moved and Mr. Horgan seconded that the initial allocation to be disbursed in July 2010 be \$1,200,000 with a guarantee that colleges would continue to be reimbursed for awards made to eligible students in excess of the original disbursement. This motion passed unanimously.

(The Treasurer notified all eligible and participating colleges, in letters dated February 1, 2010, of the student eligibility criteria, the amount of their initial allocation to be disbursed in July and the guarantee of reimbursement of funds awarded in excess of the initial disbursement.)

Summary of Investment Committee Meeting

Dr. MacKay summarized the results of Investment Committee which preceded this meeting. Investment returns of the Program portfolios and the underlying mutual funds, both in the equity and the bond funds, had good returns in 2009 with actively managed funds generally outperforming the index funds. The new funds being introduced into the participant portfolios and the age-based portfolio structural changes, approved by the Advisory Commission during the October 26, 2009 are being implemented. Studies and analysis are currently underway for potential new funds to be added to the participant investment portfolios.

New Hampshire's 529 Program Update

Mr. Sharpe reviewed the implementation and transition status of the changes to the participant portfolios which began December 1, 2009. The roll-down structure transition of the age-based portfolios, approved at the October 26, 2009 meeting, is expected to be completed no later than the end of this year. The 2009 Portfolio in the UNIQUE direct plan and the 2010 portfolio in the 529 Advisor Plan will merge into the College portfolios near year-end 2010. A new 2030 Portfolio in the UNIQUE direct plan and a 2031 Portfolio in the Fidelity Advisor 529 Plan will be launched simultaneously with these portfolio mergers.

Other approved portfolio investment changes, also initiated on December 1, 2009, will complete their transition no later than year-end 2010. They are:

1. Increases in the international equity allocation to 30% of the total equity allocation.
2. Fidelity Emerging Markets Fund added to the age-based portfolios of the UNIQUE direct retail plan.
3. Fidelity Advisory Emerging Markets Fund and Fidelity Advisor High Income Fund being added to the age-based portfolios of the Fidelity Advisor 529 Plan.

Mr. Ciccariello announced that Rodger Lawson will step down as president of Fidelity Investments at the end of March, 2010, and remain an advisor to the Company.

Ms. Doyle provided an update of the 529 Program industry and the New Hampshire programs. Total 529 plan industry assets increased approximately 11.5% during the third quarter of calendar year 2009, as compared to the second quarter, and approximated the New Hampshire Plan asset market value increase. The New Hampshire plans retained their position as 3rd largest in the country in asset value as of September 30, 2009 with approximately \$8.0 billion in assets following Virginia and New York and ahead of Rhode Island with \$7.0 billion. Total industry assets as of September 30, 2009 approximated \$111.1 billion in market value.

Credit card rebates in the fourth quarter of 2009 exceeded \$5 million which was about the same as each of the first three quarters of the year. Over \$130 million in cumulative credit card rebates have been earned and applied to participant accounts in both the retail and advisor plans since inception.

Ms. Doyle provided an update on the Obama Administration's "Middle Class Task Force" which is currently working with the Departments of the Treasury and Education to study 529 plans and identify ways to make college more affordable for lower income families. Recommendations made by the Task Force so far include:

1. Adoption of age-based fund options and index funds
2. Elimination of home state bias (i.e. state income tax benefits applicable only to residents). (New Hampshire provides tax exemptions from interest and dividends taxes to all participants, regardless of state of residence.)
3. Contribution limits established at the beneficiary (not state-specific) level
4. Increased transparency and compliance of all Plans

Additionally, a proposed Education bill sponsored by Senator Grassley of Iowa calls for tax law changes to 529 plans:

1. Expand qualified expenses to include technology-related expenses (e.g. computers);
2. Expand the number of investment changes to four per year rather than the current once-per-year annual exchange.

The Advisory Commission agreed with Treasurer Provencher that she should send another letter to the State's congressional delegation recommending that they support this bill. (The similar letter to the congressional delegation relating to these issues was sent in May of 2009.)

UNIQUE College Investing Plan Review

Ms. Doyle highlighted accomplishments in 2009 which included:

1. A revised contract between Fidelity and the State which extended the existing contract to 2018 and decreased the administrative fees of both the active and index portfolios (which received significant media attention);
2. Changes in the Plan's portfolio investments (discussed by Mr. Sharpe above);
3. Contributions in the month of December exceeded November by over 60% which was attributed to the decrease in the administrative fees as well as Fidelity's focused holiday gifting initiative.

In addition to the holiday gifting campaign, advertising in magazines and local newspapers and the online display's linking to Fidelity's UNIQUE website during the third and fourth quarter of 2009 will continue in 2010. Search advertising through Google and Microsoft's Bing search engines has proven to be very successful and more emphasis will be focused in that area in the upcoming year.

Total accounts in the UNIQUE retail plan approximated 370,200 accounts with 13% more accounts added during the fourth quarter of 2009 than the same quarter in 2008. The average account balance approximates \$17,000 as compared to a national average of about \$12,000. Contributions were 12% higher in the fourth quarter of 2009, compared to 2008 and totaled \$182.2 million. Initial contributions into new accounts averaged approximately \$5,000 in the month of December as compared to January of 2009 at \$3,000, indicating increasing investor confidence in 529 Plan savings. Total plan assets for the UNIQUE retail plan as of December 31, 2009 approximated \$5.7 billion.

Three future program and customer enhancements planned for 2010 include:

1. Opening of Fidelity's first New Hampshire investor center in Nashua sometime in May.
2. Customer online distribution – bill paying for qualified and non-qualified distributions, to beneficiaries or directly to schools, scheduled for launch in March. Distributions will be able to be set up by the customer as either a one-time or as a routine event.
3. FDIC Portfolio scheduled for September – investments fully covered by FDIC insurance. Fidelity is still evaluating if it will be an in-house or an external fund.

Ms. Doyle reported that earlier this month (January 12, 2010), the UNIQUE retail plan had requested and received approval of a waiver to forgo fees of the UNIQUE money market portfolio to maintain a stable portfolio unit value and will communicate to participants in February. Fidelity is also merging their Spartan 500 Index and Spartan U.S. Equity Index Fund which will provide more efficient fund management with no impact on participants.

During the review of total UNIQUE accounts by state residency, Ms. Hodgdon asked if Fidelity could also begin reporting new accounts by state of residency. Ms. Doyle agreed to begin this analysis for the future meeting.

Fidelity Advisor 529 Plan Review

Mr. Troutman reported that the Fidelity Advisor 529 Plan (Advisor Plan) had approximately 2% fewer new accounts opened in the fourth quarter of 2009 than in the same quarter of 2008 but the Plan had received over 9% more in contributions. New accounts in November and December of 2009 exceeded the number of new accounts added in the same months in 2008. Total plan assets approximated \$2.64 billion as of December 31, 2009 with almost 219,000 total accounts.

During the first half of 2009, Mr. Troutman explained, financial advisors seemed to be focused on maintaining their own customer relationships as a result of the poor market performance. During the second half of 2009, however, the advisors appeared to be returning to customer portfolio building which resulted in the increase in new accounts and increasing contributions. Significant net outflows during 2009 occurred primarily in the College Portfolio and the 2010

Portfolio, as expected, as participants began their distributions for college expenses. All other age-based portfolios experienced significant net inflows.

Mr. Troutman briefly reviewed recent marketing activities directed at both investors and advisors for the last half of 2009. The campaign focused on both direct mail and email and included several new presentations and mailers.

Besides the product enhancements discussed by Mr. Sharpe above, the Advisor Plan program staff will be working on the following additional activities which began in 2009:

1. Completing the investment product and design changes discussed by Mr. Sharpe above.
2. Network automation with expected completion in the 2nd quarter.
3. CIT-DART migration with expected completion in the 4th quarter.

Mr. Troutman reported that currently three other state plans are utilizing Fidelity funds:
Nebraska (Union Bank & Trust - \$166 million),
Ohio (Putnam - \$29 million), and
South Dakota (Allianz - \$50 million)

An additional three states are considering the utilization of Fidelity funds (Texas, Alabama and Nebraska).

In February, 2009, Fidelity requested and received authorization to waive fees in the underlying Fidelity Cash Reserves fund of the Advisor Plan's Money Market Portfolio in order to avoid the potential of negative returns for money market investments. Waived fees by Fidelity approximated \$176,000 for 2009.

Endowment Trust Fund and Scholarship Disbursements

The Endowment Trust Fund and scholarship update report, prepared by Treasury for the period ended December 31, 2009, was briefly reviewed. The Endowment Trust Fund had a balance of \$18.5 million as of the end of the calendar year which will likely be reduced considerably when reimbursement requests for the UNIQUE Annual Allocation Program reimbursement requests are processed, possibly as much as an additional \$3 million.

Other Business

Ms. Bourgault informed the Advisory Commission that Administrative Rule Csp 701.05, relating to the UNIQUE Endowment Allocation Program awards to be made by colleges, incorrectly references the Uniform Management of Institutional Funds Act standard (UMIFA) as pointed out by the CCSNH auditors. The correct reference, resulting from a 2008 amendment to RSA 292-B, should be the Uniform Prudent Management of Institutional Funds Act standard (UPMIFA). This change will be made the next time that this Administrative Rule is updated by the Postsecondary Education Commission.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 12:15 p.m.

NOTE: The next regular meeting is scheduled for May 17, 2010 starting at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord.