New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of May 17, 2010

The May 17, 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 approximately10:00 a.m. by Dr. Edward MacKay, Advisory Commission Chair. Members present, constituting 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
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, Postsecondary Education Commission
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
Michael Cryans	Public Member, appointed by the Governor

Also present were Joe Ciccariello, Jeff Troutman and Mary Connors from Fidelity Investments (Fidelity), Cynthia Capodestria of Postsecondary Education and Brad Jacobson, Deputy Treasurer.

Review of Prior Meeting Minutes

Minutes of the January 25, 2010 regular meeting were reviewed. Approval of the minutes was moved by Senator Janeway, seconded by Rep. Ingram and passed unanimously.

Old Business

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

1. House Bill 1539 - Delegation of Advisory Commission rulemaking authority to the Treasurer. Mr. Jacobson updated the Advisory Commission members on House Bill 1539 which proposed that the rulemaking authority for the College Savings Plan

Administrative Rules be delegated to the State Treasurer, as the Plan Trustee, rather than to the UNIQUE Advisory Commission, as currently promulgated in the State Statutes. This bill was determined to be "Inexpedient to Legislate" by the House on February 3.

2. House Bill 1284 – Posting of minutes of public meetings in two places. Mr. Jacobson updated the Advisory Commission members on House Bill 1284 which would, among other things, require the posting of the minutes of all public meetings in two places. This bill was determined to be "Inexpedient to Legislate" by the House on February 17. Treasury currently posts all Advisory Commission meeting minutes on the Treasury website and would have been using the Postsecondary Education Commission's website had this bill passed.

3. House Bill 1689 – Waiving the repeal of committees, boards and commissions. Mr. Jacobson updated the Advisory Commission members on House Bill 1689 which, with related House Bill 1690, is addressing the need to retain or sunset all previously created non-regulated State-sponsored committee, boards and commissions. With the passage of House Bill 2, in the 2009 Legislative session, all State-sponsored non-regulatory committees, boards and commissions would have automatically been discontinued unless specifically retained by the Legislature. A "Committee on Committees" Legislative study committee was established for this review. House Bill 1689, which has now passed the House and the Senate, waives the repeal of the Advisory Commission.

4. Accounting Acronyms Used in Audit Presentation. As requested at the January 25, 2010 meeting, definitions of accounting and audit acronyms used by PricewaterhouseCoopers (PwC) in their 2009 audit presentation were provided to Advisory Commission members by email from the State Treasury on January 26, 2010. Hardcopies of that document were also provided to Advisory Commission members at the meeting.

5. 529 Plans Audited by PwC. As requested at the January 25, 2010 meeting, PricewaterhouseCoopers provided the Advisory Commission with a listing of the 25 College Savings Plans that they audit and whether they utilize the standards promulgated by the Financial Accounting Standards Board (FASB) or the Governmental Accounting Standards Board (GASB) for accounting and financial reporting. 13 of the College Savings Plans use FASB standards and the remaining 12 use GASB standards.

New Hampshire's 529 Program Update

Mr. Troutman provided a business update of the 529 Program industry and the New Hampshire program. Overall, first quarter 2010 reflects a significant investment market improvements in both the UNIQUE retail plan and the FA 529 advisor plan compared to the last two years.

Total 529 Plan market-valued industry assets at of the fourth quarter of 2009 increased approximately 5.4% and the New Hampshire UNIQUE and FA 529 plans together increased by 4.5%. Total industry assets as of December 31, 2009 approximated $117 billion in market value. The New Hampshire Program remains as 3rd largest plan in the country in asset value as of

December 31, 2009 with approximately $8.3 billion in assets following Virginia ($26.9 billion in assets) and New York ($9.1 billion in assets) and ahead of Rhode Island ($7.2 billion in assets). Other top-10 states' growth trends, in market-valued assets, were also reviewed.

Credit card rebates for the quarter ended March 31, 2010 approximated $5.4 million which was about the same level as each of the two previous quarters. Approximately $134 million in cumulative credit card rebates have been earned and applied to participant accounts in both the UNIQUE and the FA529 Plans since inception.

Mr. Troutman provided a status of New Hampshire Plan participant portfolio enhancements, reviewed and approved by the Advisory Commission in 2009, which are on schedule with phase-in plans to be completed by the 4th quarter of 2010. These enhancements include:

1. Increase in international equity to 30% of total equity exposure.
2. Addition of the Emerging Markets Fund to both the UNIQUE retail plan and the FA 529 advisor plan.
3. Addition to the FA 529 advisor plan of the Advisor High Income Fund.
4. Age-based portfolio roll-down changes to more conservative college-age investments starting at age 18 to starting closer to age 17.

Another program enhancement is the automation of the FA 529 Plan application and reporting process to make the advisor-initiated sign-up process of participants less time-consuming and easier for the advisor. This enhancement was initially reviewed in 2008 with a delegation by the Advisory Commission to the State Treasurer to review and approve any relevant contract amendments. The target date for implementation is currently the first quarter of 2011, assuming that the rest of the industry finally begins to move in that direction.

A recent organization change at the top management level of Fidelity was discussed by Mr. Troutman and Mr. Cicariello. All Fidelity investment-related entities now report to two top executives. Customer-related distribution entities report to Ms. Abby Johnson who previously headed Fidelity's workplace investment entities (e.g. 401k plans, retirement benefits administration). All money management and corporate administrative entities (e.g. legal, HR, accounting) now report to Mr. Ronald O'Hanley who was recently hired from BNY Mellon. While there have been no changes to the Fidelity 529 team, Fidelity will keep the Advisory Commission informed of any resulting organization changes at the July 26 meeting.

UNIQUE College Investing Plan Review

Mr. Ciccariello reported that as of March 31, 2010 UNIQUE retail plan assets approximated $5.96 billion in market value and consisted of over 376,000 participant accounts. Net contributions for the quarter totaled $185.7 million and exceeded first quarter 2009 contributions by 24%. New accounts in the first quarter increased 39% over the first quarter of last year. Average account size was $18,405 as compared to the average industry account size of $12,412. In response to a question of the Advisory Commission, Mr. Ciccariello stated that the median age of plan beneficiaries, at the time that a new account is opened, has changed from age 8 to around age 4. Mr. Ciccariello agreed to periodically update the Advisory Commission on changes to the median age of beneficiaries of new accounts.

Marketing of the UNIQUE retail plan in 2010 will consist of the continuation of the online search advertising (Google, Bing, etc.) for the entire year and advertising in hardcopy magazines and newspapers in the second quarter of 2010. In the second quarter, Fidelity will again staff a booth at Storyland and will initiate and sponsor a new “UNIQUE Peak into Books” program focusing on childrens’ summer reading at select New Hampshire public libraries.

At the end of the first quarter of 2010, over 81% of the UNIQUE retail participant assets were held in age-based portfolios with 14% in static portfolios and the remaining 5% in individual portfolios. Net flows for the quarter followed this same percentage mix.

During the first quarter, the 2009 and College aged-based portfolios both experienced negative net cash flow (8.1% and 11.1% respectively) which is normal as college costs are redeemed. The Money Market portfolio also experienced a 3% negative net flow likely caused by investment confidence returning and funds moving to higher return investments.

Current customer enhancements initiated to date in 2010 include:

1. Opening of Fidelity’s first New Hampshire investor center in Nashua in early May.
2. Customer online distributions – bill paying for distributions, to beneficiaries or directly to schools, launched in March. Distributions will able to be set up by the customer as either a one-time of as a routine event.

A competitive analysis of each of the age-based active and index portfolios was reviewed which compared Fidelity’s return performance to other large 529 program management firms.

Fidelity Advisor 529 Plan Review

Mr. Troutman reported that the Fidelity Advisor 529 Plan (Advisor Plan) had approximately $2.8 billion in market-valued assets as of the end of the first quarter 2010 spread over 222,000 participant accounts. 28% more new accounts were opened in the first quarter of 2010 than in the same quarter of 2009 and over 17% more contributions were made in the same periods. New accounts in the first three months of 2010 exceeded the number of new accounts added in the same months in 2009.

Net outflows during the first quarter occurred primarily in the College Portfolio and the 2010 Portfolio, as expected, as participants began their redemptions for college expenses. Other portfolios with net outflows included the 70% Equity Portfolio and the Money Market Portfolio. 74% of all FA 529 assets were held in age-based portfolios with 18% in individual portfolios and the remaining 9% in static portfolios.

Mr. Troutman briefly reviewed recent marketing activities directed at both investors and the independent financial advisors scheduled throughout 2010. The campaign will focus on both direct mail and email messages and will include several new presentations and mailers. The majority of the activity focused on advisors will occur in the September – November period.

Three other states' plans are utilizing Fidelity funds with $315 million in market-value assets as of March 31, 2010:

Nebraska (Union Bank & Trust - $232 million),
Ohio (Putnam - $30 million), and
South Dakota (Allianz - $53 million)

Currently, Oppenheimer (Texas) and First National Bank (Nebraska) are potential opportunities for utilizing Fidelity funds in their plans.

Fidelity has recently made some changes to its Dynamic Capital Appreciation Fund which is an underlying equity fund in both the FA 529 age-based and static portfolios. Rather than investing in individual stocks, the Dynamic Capital Appreciation Fund will invest in shares of Fidelity's Sector Central Shares, the assets of which are allocated among ten equity sectors. Fidelity Sector Central Shares are specialized investment vehicles designed to be used in Fidelity's mutual funds and are not available for direct public investment. The S&P 500 serves as a guide for the asset allocation among the Sector Central Shares. The investment objective to seek capital appreciation will not be changing but the allocation to the Dynamic Capital appreciation Fund is expected to increase from the current 14% to 20% by the end of this year.

<u>Discontinuation of Class"B" Units of FA 529 Plan Portfolios</u>

Mr. Troutman proposed that the FA 529 plan eliminate the Class "B" units in the portfolios for the following reasons:

1. Class "B" assets have been in a net redemption position for the last few years. Assets have decreased from 24% to 16 % of total FA 529 Plan assets while Class "A" assets represent over 55% of the total Plan assets.
2. Of the 32 states that currently offer Advisor-sold plans, over half do not offer Class "B" shares and several have recently discontinued their Class "B" shares.
3. It is questionable if Class "B" shares are applicable to many of the FA 529 plan portfolios since there is a 5% contingent deferred sales charge (CDSC), or back-end load, which decreases over a 7-year holding period. At the end of 7 years, the Class "B" shares convert to Class "A" shares which have a front-end sales charge up to 5.75% but do not have a CDSC charge. If the matriculation age of the beneficiary is less that the 7-year holding period, then the participant will be charged the CSCD upon redemption. Since financial advisors should be matching their clients' investment needs, it is unlikely that they will recommend Class "B" shares for many of their clients.
4. Fidelity is planning on eliminating Class "B" in Fidelity Advisor mutual funds across the Firm. Since Fidelity typically maintains consistency on such actions, the Advisory Commission has been requested to approve the elimination of Class "B" shares from the FA 529 Plan. The Plan would retain the Class "A", "C" and "P" shares.

Rep. Foose moved and Rep. Ingram seconded a motion to approve Fidelity's proposal to eliminate Class "B" funds from the FA 529 Plan, contingent on approval of Fidelity's Board of Trustees, and to delegate authority to the State Treasurer, as Trustee, to review and approve the applicable contract and Trust amendments on behalf of the Advisory Commission. The motion passed unanimously. If, for some reason the Fidelity Board does not approve the elimination of Class "B" shares across the Firm, no action will be taken by the Treasury to amend the contracts and Trust Agreement.

FDIC-Insured Bank Deposit Portfolio Proposal

Ms. Connors updated the Advisory Commission on H.R. 4178, sponsored by Rep. Cleaver, which recently passed the House of Representatives. The bill amends the FDIC act and prescribes requirements for a deposit-restricted 529 account. The act further deemed that 529 accounts subject to FDIC insurance are "bank products" but that banks cannot offer a 529 account without state sponsorship. The bill is pending on the Senate floor as part of the financial services reform bill.

Mr. Ciccariello reported that Fidelity has been working toward offering an FDIC-Insured Portfolio to be made available in the UNIQUE retail plan as an option for a conservative investor and saver. Savers who currently save for college using traditional taxable bank products may be attracted to this option. The Portfolio is currently scheduled for a September 2010 implementation pending Advisory Commission approval. Participants' investments in this portfolio will flow through Fidelity to ultimately reside in a yet-to-be-determined bank to be insured by the FDIC. Fidelity will continue to assume responsibility for all administrative activities and reporting for participants in this portfolio. An FDIC-insured investment portfolio is already in place in several other states.

Fees to be collected by the State, Fidelity and the participating bank will be based on the Fed Fund rate but will be capped at a total of fifty basis points (0.50%). The State will receive a program fee of five basis points (0.05%) regardless of the Fed Fund rate. Fidelity and the bank will waive administrative fees as long as the Feds Fund rate is below 50 basis points (0.50%). At a Fed Fund rate of 50 basis points and above, Fidelity will receive a program management fee of 5 basis points (0.05%) and an administration fee of 20 basis points (0.20%) if the Feds Fund rate is between 50 and 75 basis points and a maximum of 40 basis points (0.40%) if the Fed Fund rate is 75 or more basis points. The participant would receive earnings of 20 basis points (0.20%) if the Fed Fund rate was below 75 basis points and would receive the Fed Fund rate, net of the maximum 50 basis point administrative fee, for a Fed Fund rate of 75 basis points and above.

Additional work is still to be completed by Fidelity, as the fiduciary, which includes final selection and contracting with the depository bank and the establishment of contingencies in the event of a failure of the selected bank. That work is currently underway.

Treasurer Provencher moved and Senator Janeway seconded a motion to approve the addition of an FDIC-insured portfolio and to delegate authority to the State Treasurer, as Trustee, to review and approve the contractual and Trust Agreement amendments on behalf of the Advisory Commission. The motion passed unanimously.

During the discussion, a question was raised regarding the ability of another state, whose 529 plan Fidelity manages, to "waive" their portion of the administrative fee. Fidelity is going to further review the New Hampshire contracts and discuss further with the State Treasury.

Annual Fiscal Year Budget Review

The fiscal year 2011 budget was presented by Treasurer Provencher. The budget is based on the 2010-2011 approved biennial budget of the Treasury, which was approved by the Legislature in early 2009, and was intended to provide enough cushion in both revenues and expenditures so that Treasury does not need to request a budget adjustment during the year. (So far, this portion of Treasury's budget has not been impacted by other State budget reductions as there is no impact on the General Fund.) The fiscal year 2011 budget did not consider the recent reduction in administrative fees which impacts not only the fee revenue but also the UNIQUE Endowment Allocation Program which disburses 80% of the fees in scholarship funds. Senator Janeway moved and Rep. Foose seconded a motion to approve the budget as presented. The motion passed unanimously.

Endowment Trust Fund and Scholarship Disbursements

The Endowment Trust Fund and scholarship update report, prepared by Treasury for the three quarters ended March 31 2010, was reviewed. The Endowment Trust Fund had a balance of $19.4 million as of March 31, 2010. Year-to-date earnings and net gains approximated $3.0 million and fee revenues collected were $8.0 million. Year-to-date scholarship-related disbursements included $1.2 million for the UNIQUE Annual Allocation Program excluding the $3 million disbursed which was disbursed May 1, 2010 as reimbursement for the UNIQUE Annual Allocation Program to USNH and CCSNH. Approximately $5.7 million has been disbursed for the UNIQUE Endowment Allocation Program as of the end of the third fiscal quarter.

Other Business

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

NOTE: The next regular meeting is scheduled for July 26, 2010 starting at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. The meeting will be preceded by an Investment Committee meeting starting at 9:00.