New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of July 26, 2010

The July 26, 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 approximately10:10 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
Kathryn Dodge	Executive Director, Postsecondary Education Commission
Tara Payne	Vice President, representing the NH Higher Education Assistance Foundation Organizations
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
Martha Gooze	Public Member, appointed by the Governor
Michael Cryans	Public Member, appointed by the Governor
Thomas Horgan	President & CEO, representing the New Hampshire College and University Council

Also present were Kyla Doyle, Joe Ciccariello, Jeff Troutman, Christopher Sharp and Mary Connors from Fidelity Investments (Fidelity) and Brad Jacobson, Deputy Treasurer.

Review of Prior Meeting Minutes

Minutes of the May 17, 2010 regular meeting were reviewed. Approval of the minutes was moved by Treasurer Provencher, seconded by Senator Janeway and passed unanimously.

Old Business

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

1. Elimination of Class B Shares: The Third Amendment to the Restated New Hampshire Higher Education Savings Plan Trust Agreement and the Fourth Amendment to the Restated Investment Management Agreement, relating to the elimination of Class B

shares in the FA 529 Plan, have been fully executed and were approved by the Governor and Executive Council on June 23, 2010. Both documents were effective July 1, 2010.

2. FDIC-Insured Portfolio: The Fourth Amendment to the Restated New Hampshire Higher Education Savings Plan Trust Agreement and the Third Amendment to the Restated Management and Administrative Services Agreements have been fully executed and are on the agenda of the July 28, 2010 meeting of the Governor and Executive Council. Both documents, which relate to the addition of an FDIC-insured investment option to the UNIQUE College Investing Plan and assuming approval of the Governor and Executive Council, will be effective September 1, 2010.

Summary of Investment Committee Meeting

Dr. MacKay summarized the Investment Committee meeting which immediately preceded this regular meeting. Portfolio investment performance largely mirrored the general investment market performance for the preceding three quarters with the most recent quarter experiencing negative performance.

Fidelity will likely be proposing certain investment portfolio changes in the 4th quarter of calendar year 2010 which will be intended to improve investment performance while mitigating market volatility. Future market performance and economic recovery is being viewed by Fidelity as “cautiously optimistic.”

Review of the “Dashboard Report”

Dr. MacKay presented the semi-annual “Dashboard Report,” updated as of June 30, 2010, reflecting certain historical and projected summary information regarding the New Hampshire Higher Education Savings Plan programs, the Endowment Trust Fund and scholarship programs. The intent of this report is to assist the Advisory Commission in future decision-making, especially with respect to scholarships.

Two highlights pointed out by Dr. MacKay were 1. the upcoming split in program fees between the State and Fidelity as negotiated in recent contract amendments; and 2. the continuing increase in scholarship funds being disbursed in spite of the negative investment market performance in the last two years.

The next report will be available as of December 31, 2010 at which time more scholarship information will be available for the 2009–2010 academic year following the reporting of scholarships by participating colleges to Postsecondary Education in the Fall (October/November timeframe).

New Hampshire’s 529 Program Update

Mr. Ciccariello provided a business update of the 529 industry and the New Hampshire programs. Total 529 Plan market-valued industry assets at the end of the first quarter of 2010 increased approximately 5.4% and the New Hampshire's UNIQUE and FA 529 plans together increased by 5.1%. Total industry assets as of March 31, 2010 approximated $123.4 billion in market value. The New Hampshire Program remained the 3rd largest plan in the country in asset value as of March 31, 2010 with approximately $8.74 billion in assets and 7.1% of the market share. New Hampshire followed Virginia ($28.25 billion in assets) and New York ($ 9.70 billion in assets) and was ahead of Rhode Island ($ 7.39 billion in assets). Other top-10 states' growth trends in market-valued assets were also reviewed. The number 11 state in market value is the Utah plan. Only two states (New York and Nevada) increased their market share in the first quarter of 2010. All other states remained essentially flat with respect to market share.

Attorney Connors of Fidelity provided the regulatory updates as follows: The Deposit Restricted Qualified Tuition Programs Act (H.R. 4178), was introduced by Rep. Cleaver on behalf of the Banking Association. H.R. 4178 is intended to amend the Federal Deposit Insurance Act to require that a deposit-restricted 529 program utilize a bank product but will continue to require state involvement. (Banks will not be allowed to offer an FDIC-insured investment option without state sponsorship.) As a result of intensive lobbying by both the College Savings Foundation (primarily industry fund management firms) and the College Savings Plan Network (primarily state sponsors of 529 plans), the bill is likely on the congressional "backburner."

The Securities and Exchange Commission (SEC) has been reviewing mutual fund target-date fund marketing and advertising (e.g. the State's aged-based portfolios) and has issued a rules proposal requiring significantly more disclosures. The proposed rules are a result of losses incurred in the last couple of years in target-based funds primarily as account owners did not pay attention to the asset allocation of these funds. New disclosure requirements, intended to highlight asset allocations, would require all age-based or target-based funds to disclosure the detailed asset allocations as well as a roll-down graph. Since the Municipal Securities Regulatory Board (MSRB), which regulates 529 Plans, closely follows SEC rulemaking, it is expected that such disclosure requirement would ultimately apply to the State's 529 plans as well. Fidelity will be closely monitoring the SEC rulemaking process and reviewing their current and future disclosure requirements. It is likely that the increase in disclosure requirements may impact marketing and advertising plans.

Key program enhancements to both State plans, as presented by Mr. Ciccariello, include ongoing reviews and improvements in the State's plan design, customer experience, FA 529 Advisor Plan automation and enhancements to investment products.

Participant portfolio changes, recently reviewed and approved by the Advisory Commission in 2009 and early 2010, are on schedule with their phase-in plans to be completed on or about the 4th quarter of 2010. These portfolio 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 as well as starting closer to age 17 with 20% equity exposure in the portfolio.

5. A new FDIC – Insured investment option for the UNIQUE retail plan (discussed above).
6. Closing sales of Class "B" shares in the FA 529 Advisor Plan (discussed above).
7. Launch of the 2030 age-based portfolio.

Fidelity has recently introduced "Fidelity BillPay" for 529 accounts which permit participants to direct both single payments directly to colleges or to accounts owners and beneficiaries for cost reimbursement. Account holder communications regarding "Fidelity BillPay" will continue throughout the year using scheduled "trigger" communications. Other such trigger communications include an annual participant portfolio "check-up" for all customers and money market awareness.

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

Mr. Ciccariello reported that credit card rebates for the quarter ended June 30, 2010 approximated $5.8 million which exceeded each of the five previous quarters (back to the first quarter of 2009). Approximately $140 million in cumulative credit card rebates have been earned and applied to participant accounts in both the UNIQUE and the FA529 Plans since inception. About 2-3% of the rebate growth is due to new card holders while the remaining growth is from current card holders. Deposits are made monthly to participant accounts based on the purchases made using the AMEX rewards card. At the request of the Advisory Commission, Fidelity will be presenting at future meetings, all previous quarterly results.

During the recent market decline money market yields were, at times, exceeded by portfolio fees and expenses. The Advisory Commission therefore authorized Fidelity to waive their fees for both the UNIQUE direct and the FA 529 Advisory plans to prevent money market funds from "breaking the buck." Total waived fees at calendar year-to-date June 30 approximated $414,000.

UNIQUE College Investing Plan Review

Ms. Doyle reported that as of June 30, 2010 UNIQUE retail plan assets approximated $5.72 billion in market value and consisted of over 381,000 participant accounts. Average account size was $18,000 as compared to the average industry account size of $13,500.

During June, Fidelity again staffed a booth at Storyland and launched a new "UNIQUE Peak into Books" program focusing on childrens' summer reading at select New Hampshire public libraries. This program will continue into October with six planned events. Other marketing of the UNIQUE retail plan in the remainder of 2010 will consist of the continuation of the online search advertising (Google, Bing, etc.) and advertising in hardcopy magazines and newspapers during September through November of 2010. The fourth annual College Savings Indicator survey will have results available in late August or early September with a release to coincide with College Savings Month (September).

Net contributions for the second quarter of 2010 totaled $162 million and exceeded second quarter 2009 contributions by 26%. In spite of this growth, however, contributions are still approximately 24% below 2007 levels as a result of the recent negative market performance. New accounts in the second quarter increased 25% over the second quarter of last year and, similar to contributions, are below the 2007 levels.

At the end of the second quarter of 2010, 81% of the UNIQUE retail participant assets were held in age-based portfolios with14% in static portfolios and the remaining 55% in individual portfolios. Net flows for the quarter approximated this same percentage mix.

During the second quarter, the 2009 and College aged-based portfolios both experienced negative net cash flow (5.8% and 8.2% respectively) as college costs were redeemed. The Money Market portfolio also experienced a 2.1% negative net flow, believed to be caused by investment confidence returning and funds moving to higher return investments.

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 for one, three and five years.

Participant residences in New Hampshire are fifth out of all states at 5.3% and follow Texas (12.04%), California (10.35%), New Jersey (8.34%) and Florida (5.63%). New Hampshire participants increased 1.38% during the second quarter of 2010. In the other State programs managed by Fidelity, only Arizona decreased in its number of participants in the UNIQUE plan and that decrease was 0.02%.

Fidelity Advisor 529 Plan Review

Mr. Troutman reported that the Fidelity Advisor 529 Plan (Advisor Plan) had approximately $2.65 billion in market-valued assets as of the end of the second quarter 2010 spread over 225,000 participant accounts. 4.11% more new accounts were opened in the second quarter of 2010 than in the same quarter of 2009 and over 18.7% more contributions were made in the same periods. New accounts in the first six months of 2010 exceeded the number of new accounts added in the same months in 2009. Mr. Troutman explained that the disconnect between new account opening growth and net contribution increases are due financial advisors focusing on rebuilding client wealth, as a result of market declines the last couple of years, rather than opening new accounts for clients in products such as 529 accounts.

As experienced during the first quarter of 2010, net outflows during the second quarter occurred primarily in the College Portfolio (8.9%) and the 2010 Portfolio (7%) as participants began their redemptions for college expenses. Other portfolios with net outflows included the 100% and the 70% Equity Portfolio, at .1% and 1.3% respectively, and the Money Market Portfolio at 1.2%.

74% of all FA 529 assets were held in age-based portfolios with 18% in individual portfolios and the remaining 8% in static portfolios. Fidelity is analyzing the ongoing trend of negative outflows from the static portfolios to determine if funds are being redeemed for college costs, being transferred to other portfolios or are being rolled out to other plans. The results of this analysis will be reported to the Advisory Commission at an upcoming meeting.

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

Three other states' plans continue to utilize Fidelity funds with $281 million in market-value assets as of June 30, 2010:

Nebraska (Union Bank & Trust - $218 million);
Ohio (Putnam - $27 million); and
South Dakota (Allianz - $46 million)

First National Bank is due to replace Union Bank and Trust Company as the fund manager for the Nebraska plan and Putnam will soon be replaced by BlackRock as the manager of the Ohio plan. Fidelity funds may or may not continue to be utilized by these new fund managers.

Endowment Trust Fund and Scholarship Disbursements

The Endowment Trust Fund and scholarship update report, prepared by the Treasury for the full fiscal year ended June 30, 2010, was presented by Treasurer Provencher. The Endowment Trust Fund had a balance of $15.8 million as of June 30, 2010 which is slightly greater than the $15.5 fund balance at the beginning of the year. Annual interest and dividend earnings and net market gains approximated $2.0 million for the fiscal year and fee revenues collected were $10.5 million. Annual scholarship-related disbursements included $4.4 million for the UNIQUE Annual Allocation and approximately $7.6 million for the UNIQUE Endowment Allocation Program for the fiscal year 2010. Administrative expenses, consisting primarily of external audit fees, totaled $220,000.

Other Business

Mr. Jacobson informed the Advisory Commission that the Massachusetts Educational Financing Authority (MEFA) will likely be sending a letter to Treasurer Provencher, as Trustee, requesting a waiver of the 5 basis point (0.05%) program fee relating to the new FDIC-insured investment option if the Feds Fund Rate is below 50 basis points (0.50%). The new Fidelity contract amendment discussed above requires a program fee to be paid to the State of 5 basis points regardless of the Feds Fund Rate and the contract continues to establish the floor for program fees charged by other States whose programs are managed by Fidelity. The outcome of previous discussions between Fidelity with the Advisory Commission, and later with the State Treasury, was that no program fee waivers for other States would be permitted as stated in the existing New Hampshire contract terms. The Advisory Commission affirmed this position to Treasurer Provencher.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 11:15 a.m.

NOTE: The next regular meeting is scheduled for October 25, 2010 starting at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord.