New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of October 24, 2011

The October 24, 2011 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, constituting a quorum, were:

Edward MacKay (Chair)	Chancellor, University System of New Hampshire
Robbie Parsons	State Representative
Tara Payne	Vice President, representing the NH Higher Education Assistance Foundation Organizations
Linda Hodgdon	Commissioner of Administrative Services Dept., representing the Governor
Amy Bourgault	Executive Director, CCSNH Foundation representing the Community College System of NH
Catherine Provencher	State Treasurer
Sylvia Larsen	State Senator
Martha Gooze	Public Member, appointed by the Governor

Members Absent were:

Thomas Horgan	President & CEO, representing the New Hampshire College and University Council
Michael Cryans	Public Member, appointed by the Governor
Gary Lambert	State Senator
Lynne Ober	State Representative

Also present at the meeting were Joe Ciccariello and Matthew Golden, from Fidelity Investments (Fidelity), Amy Slattery from the Department of Education Division of Higher Education, Scott Power from the NH College & University Council, and Bill Dwyer from the State Treasury.

Review of Prior Meeting Minutes

Minutes of the July 25, 2011 regular meeting were reviewed. Approval of the minutes was moved by Rep. Parsons and seconded by Ms. Payne. The motion passed unanimously.

Old Business

a) Bill Dwyer presented the resolution of a proposal introduced at the previous quarterly meeting for the UNIQUE 529 Plan to pursue an independent marketing campaign targeting State of California 529 participants who might not want to remain with

TIAA-CREF as the new administrator of the retail 529 plan previously administered by Fidelity. The primary reasons not to proceed with such a campaign were:

a. Restrictions in the Restated Investment Management & Administrative Services Agreement that preclude similar services being provided by any vendor other than Fidelity;
b. The effect on Fidelity's obligation to ensure the Plan's compliance with the Investment Advisers Act of 1940 and other applicable laws and regulations;
c. The inability to publish any type of potential solicitation to investors without invoking the Fidelity name. Under its current contract with the State of California, Fidelity is prohibited from marketing on behalf of another Plan within the state.

This topic led to a related discussion regarding the State of California's Advisor-sold ScholarShare Plan. Matt Golden explained that as a result of not receiving any responses to its RFP, California has elected to fold its Advisor-sold plan into its direct sold plan, which will be administered by TIAA-CREF effective November 4. Mr. Golden stated that in previous years the UNIQUE Plan has given financial advisors the option of waiving account rollover fees (loads) in order to entice participants to move their accounts to the plan administered by that advisor through Fidelity. Ultimately the load waiver option was eliminated due to compliance objections from the broker-dealer community (the issue being the choice on the part of the advisor of whether or not to waive the load), but given anticipated participant flight from California's Advisor-sold ScholarShare Plan over the next several weeks the Fidelity team proposed that the UNIQUE Plan reinstitute a mandatory, temporary load waiver for the period from December 1 through March 31, 2012. The waiver would apply to account rollovers from any state plan, although due to its contractual obligations in California, Fidelity would once again be prohibited from marketing the waiver to participants in that state's plan. The load waiver would only impact the financial advisors, with no adverse impact to account participants or the UNIQUE Plan.

Rep. Parsons asked what level of account rollover volumes might be expected into the UNIQUE Plan from the ScholarShare Plan, and Mr. Golden indicated that since the latter had about $300 million in assets under management, it might be reasonable to expect about $25-$50 million in account rollover activity for UNIQUE. Treasurer Provencher asked whether Governor & Council approval for the load waiver would be required pursuant to a contract amendment, but Mr. Golden stated that Fidelity would only need to 'sticker' (update) the offering circular to disclose the temporary load waiver, rather than amend the existing contract. He also explained that one reason to delay the implementation of the load waiver until December 1 is to give those advisors who still want to be paid the sales charge an opportunity to roll into the UNIQUE Plan prior to the waiver taking effect. Ms. Hodgdon asked what makes the UNIQUE Plan distinct from other advisor-sold plans and therefore desirable to advisors. Mr. Golden replied that UNIQUE does benefit from the Fidelity brand name and pointed out that regardless of the Commission's decision regarding the load waiver, all advisors to California plan participants will not receive a sales fee when existing California accounts roll into the TIAA-CREF program. He also stated that other state plan investment advisors have taken a predatory approach to contacting investment advisers in the California plan, so a temporary waiver of the load is the best tactical step the UNIQUE Plan could take. Dr. MacKay asked whether Fidelity would be permitted to market directly to California 529 plan participants after the November 4 cutover to TIAA-CREF, and Mr. Ciccariello stated that in 2012 Fidelity may market to those investors who have existing investment accounts with Fidelity.

Hearing no further questions, Dr. MacKay requested a motion to approve Fidelity's proposal to implement a temporary load waiver on rollovers from all state plans into the UNIQUE Advisor-sold plan, covering the period from December 1 through March 31, 2012. Rep. Parsons motioned and Sen. Larsen seconded. The Commission voted unanimously to approve the temporary rollover waiver.

b) Mr. Dwyer informed the Commission that at its August 24 meeting the Governor & Executive Council approved the Treasury's request to amend the existing contract documents with Fidelity in order to introduce Open Architecture portfolios into the UNIQUE 529 Plan. As a result, Fidelity launched the program on October 4 and Mr. Ciccariello stated that Fidelity will include program updates at future quarterly meetings of the Commission. Mr. Ciccariello noted that in the first few weeks since the launch of the portfolios approximately $200,000 has been invested in OA funds by plan participants.

2012 Maximum Contribution

Dr. MacKay reported that Fidelity needed to include a 2012 maximum contribution limit (total allowable participant account balance) in its final fact kit to be published by September 20 pursuant to the Open Architecture launch. In order to avoid convening a special meeting of the Advisory Commission, Dr. MacKay and Treasurer Provencher reviewed contribution limit trends and related developments throughout the 529 industry with the Fidelity team and elected to maintain the limit at $350,000. Mr. Ciccariello explained that the contribution limit threshold for the UNIQUE Plan is right in the middle of the range of limits for plans throughout the industry. Dr. MacKay opened the floor to the Commission for any further discussion on this issue, and a request was made to have the maximum contribution limits discussed and approved annually at the post-Q2 meeting going forward.

New Hampshire's 529 Program & 529 Plan Industry Update

Mr. Golden provided a business update of the 529 College Savings Plan industry and the New Hampshire 529 programs as of June 30, 2011. Total 529 Plan market-valued industry assets at the end of the second quarter of 2011 increased approximately 2.4% from the previous quarter, and New Hampshire's UNIQUE and FA 529 plans combined increased by 1.9% for the same quarter. The New Hampshire Program remained the third largest plan in the country in asset value as of

June 30, 2011 with $10.2 billion in assets (at market value) and approximately 6.8% of the industry's market share. New Hampshire followed Virginia ($33.9 billion in assets) and New York ($12.1 billion in assets) and was ahead of 4th place Nevada ($8.2 billion in assets), which overtook Rhode Island in the second quarter. Nevada's surge in the rankings is the result of its low-cost, index plan administered by Vanguard, as well as favorable Morningstar ratings on the basis of short-term investment performance. Rhode Island, whose 529 plan is administered by Alliance Bernstein, has declined recently due to a poor investment performance rating by Morningstar. The State of Virginia's 529 Plan continues to maintain the largest market share nationally on the basis of robust state tax incentives and the strong investment performance of its plan administrator, American Funds. Mr. Ciccariello noted that the overall growth in many state plans during the second quarter was the combined result of both equity market appreciation and increased account contributions.

On the national regulatory front, there have been no developments since the May meeting with respect to H.R. 529 (promoting college savings plans among low to moderate income families) and Vice-President Biden's Middle Class Task Force Initiative for making college education more affordable for middle and lower income families.

Key program enhancements to both State plans, as summarized by Mr. Golden, include a system upgrade allowing the online setup of multiple accounts for one beneficiary, FA 529 Advisor Plan networking and automation scheduled for a 2012 rollout (Fidelity is awaiting a third party broker-dealer to pilot with), and ongoing enhancements to investment products, most notably the launch of eight Open Architecture portfolios on October 4 in order to give Plan participants access to externally-managed investment portfolios. Mr. Ciccariello mentioned that Morningstar recently completed its annual evaluation of the UNIQUE 529 Plan and focused considerable attention on how Fidelity conducts its research process for 3rd party fund selection. The Morningstar ratings for the UNIQUE Plan should be published in the next few weeks.

Mr. Golden stated that as a result of low market interest rates, the money market portfolios' returns were, at times, exceeded by portfolio fees and expenses. The Advisory Commission therefore authorized Fidelity, at its request, to waive certain fees for both the UNIQUE direct and the FA 529 Advisory plans to prevent negative returns on each plan's money market portfolio. This practice has been in effect since late 2009 due to the historically low interest rate environment. Total waived fees at calendar year-to-date September 30, 2011 were $595,118. Treasurer Provencher inquired as to whether Fidelity sales professionals and investment advisors would be inclined to steer plan participants away from the money market funds due to the prospect of having to waive fees, and Mr. Golden replied that to do so would prevent Fidelity from meeting its fiduciary responsibilities.

UNIQUE College Investing Plan Review

Mr. Ciccariello reported that as of June 30, 2011 UNIQUE retail plan assets approximated $6.3 billion in market value and as of September 30, 2011 consisted of nearly 415,000 participant accounts. Average account size of a UNIQUE portfolio was $17,414, compared to the average account size in the industry of $14,000. Contributions for the third quarter of 2011 totaled $175.6 million and exceeded third quarter 2010 contributions by 17%. New accounts in the third quarter increased 26% over the third quarter of 2010. Ms. Payne asked whether the matrix presented in the materials could be expanded to include a column for identical statistics strictly for NH residents, and the Fidelity team responded that it would assess its reporting capabilities and provide a response at the next quarterly meeting.

At the end of the third quarter of 2011, 82% of the UNIQUE retail participant assets were held in age-based portfolios with 13% in static portfolios and the remaining 5% in individual portfolios. 90% of net flows for the quarter were into age-based portfolios, 9% into static portfolios and the remaining 1% into individual and bank deposit portfolios on a net basis.

During the third quarter, the College aged-based portfolio, both actively managed and index portfolios, experienced negative net cash flow as funds were redeemed to pay college costs. The Money Market and Conservative (actively managed and index) portfolios experienced cash outflows at the rate of 7.58% and 1.66% respectively, believed to be caused by investor confidence returning and funds moving to higher-return investments. In addition there was a 0.81% decline in assets in the NH Bank Deposit Portfolio.

Due to the proximity of the meeting to the end of the second quarter, the competitive analysis, which provides a review of both the active and passive (index) portfolios over the 1-, 3-, and 5-year time intervals was not available to be included in the presentation. The presentation did, however, include a schedule of Open Architecture portfolio targets for the age-based funds, which will be included and tracked in future meetings as investment activity increases.

Participants residing in New Hampshire are fifth out of all states at 5.2% of the total participants and follow Texas (12.3%), California (10.0%), New Jersey (8.3%) and Florida (5.8%). New Hampshire participants increased 0.95% during the third quarter of 2011.

Fidelity Advisor 529 Plan Review

Matt Golden reported that the Fidelity Advisor 529 Plan (FA 529 Plan) had approximately $2.9 billion in market-valued assets as of the end of the third quarter 2011 spread over more than 240,000 participant accounts. Underscoring the need for enhanced advisor automation, 4.3% fewer new accounts were opened in the third quarter of 2011 than in the same quarter of 2010, although 2.5% more contributions were made in these same periods.

Net YTD outflows through the third quarter occurred primarily in the College Portfolio (34.2% of net flows across all funds) and the 2010 Portfolio (80.2%), as participants began and continued their redemptions for college expenses. Other portfolios with notable net outflows included the 100% Equity Portfolio at 3.8%, the Intermediate Bond Portfolio at 3.7%, and the Money Market Portfolio at 3.0%. 74% of all FA 529 assets were held in age-based portfolios with 18% in individual portfolios and the remaining 8% in static portfolios.

Mr. Golden explained the "roll-down" of assets in the oldest age-based portfolio (FA 529 2010 Portfolio) into the College Portfolio, in tandem with the introduction of the new FA 529 2031 Portfolio for the youngest beneficiaries.

Mr. Golden briefly reviewed current marketing activities directed at both investors and the financial advisors. The campaign continues the broad-based awareness messaging begun in 2010, including emphasis on wealth-building, savings, and tax-advantaged strategies. Among the campaign enhancements are web links in e-mails and direct mailers, targeted campaign integration (online and sales), and increased target marketing focused on the best customers (financial advisors). Results of the September 21 "build wealth" advisor-targeted e-mail campaign, directed toward top-tier advisors only, indicate a high open rate at 14%. Fidelity typically experiences an e-mail open rate of approximately 10% for its other marketing campaigns.

Two other states' plans continue to utilize Fidelity funds with $93.7 million in market-value assets as of September 30, 2011:

Nebraska (FNB of Nebraska - $90.9 million since inception in December 2010); and
Nevada (Putnam - $2.8 million since inception in October 2010)

2010 – 2011 Academic Year Scholarship Awards

Although the report of UNIQUE Annual and Endowment Allocation Program scholarship information for the 2010-2011 academic year was not available to be presented at the meeting, subsequent to the meeting the Higher Education Commission distributed the information as reported by the participating colleges and universities as follows:

	Amount Awarded	Number of Student Awards
UNIQUE Annual Allocation Program	$4,119,646	5,877
UNIQUE Endowment Allocation Program	$880,160	562

The State Treasury and HEC have collaborated to complete the Annual Award reconciliation process between amounts awarded as reported by colleges and amounts disbursed to colleges by the Treasury. One minor variance has been identified and a refund requested.

Endowment Trust Fund and Scholarship Disbursements

The Endowment Trust Fund and scholarship update report, for the quarter ended September 30, 2011, was presented by Mr. Dwyer. The Endowment Trust Fund had a balance of nearly $3.1 million as of September, 2011, 81% lower than the $16.5 million fund balance at the beginning of the fiscal year due to the $13.5 million liquidation and distribution to USNH and CCSNH pursuant to HB 2 (2011 budget legislation). Fiscal year-to-date 2012 interest and dividend earnings and net market gains/losses reflected an aggregate decline of $0.09 million, and fee revenues collected were approximately $2.65 million. Fiscal year 2012 General Fund reimbursements (out of management fees received) for estimated payments made to USNH and CCSNH totaled approximately $2.5 million, which is $140,000 less than the amounts paid out for the quarter using the revenue estimate for the fiscal year. Mr. Dwyer noted that a 'true-up' of actual versus estimated revenues will take place prior to fiscal year end and that at this pace the CCSNH and USNH would not receive their full budget allotment. As approved by the Commission at the July 25 meeting, a $500,000 UNIQUE Endowment Allocation will be distributed on December 15. Year-to-date administrative expenses totaled approximately $11,000, reflecting quarterly Endowment Fund management fees paid to Fidelity.

Dr. MacKay explained to the Commission that a legislative effort has been undertaken to restore the UNIQUE Annual and Endowment programs to their original state (prior to changes under HB2), with the goal of having that in place for the 2013 fiscal year. He noted that it would require approximately $11-11.5M in General Fund appropriations to the CCSNH and USNH in order to hold those systems harmless and accomplish program restoration and will keep the Commission informed regarding any progress on this front.

Other Business

1. Proposed 2012 meeting dates were presented by Mr. Dwyer. In order to ensure that quarter-end reporting data from both Fidelity and Morningstar will be available to present at each meeting, the proposed dates fall six weeks after each quarter-end. The dates of the 2012 meetings, all beginning at 10:00 a.m. will be:
   Monday, January 23 (scheduled last year)
   Monday, May 14
   Monday, August 6
   Monday, November 5
   Monday, February 11, 2013

   The January and August meetings will be preceded by an Investment Committee meeting beginning at 9:00 a.m.

2. Advisory Commission members were reminded by Mr. Dwyer that their annual financial disclosures, pursuant to RSA 15-A, are due to the Secretary of State's office by Friday, January 20, 2012. In early December he will sent out reminders by e-mail, with a link to the Secretary of State's website.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 11:40AM.

NOTE: The next regular meeting is scheduled for Monday, January 23, 2012 starting at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. The meeting will be preceded by the Investment Committee meeting beginning at 9:00 a.m. All Advisory Commission members are invited to attend.