New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of May 14, 2012

The May 14, 2012 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
Amy Bourgault	Executive Director, CCSNH Foundation, representing the Community College System of NH
Linda Hodgdon	Commissioner of Administrative Services Dept., representing the Governor
Thomas Horgan	President & CEO, representing the New Hampshire College and University Council
Sylvia Larsen	State Senator
Robbie Parsons	State Representative
Tara Payne	Vice President, representing the NH Higher Education Assistance Foundation Organizations
Catherine Provencher	State Treasurer

Members absent were:

Michael Cryans	Public Member, appointed by the Governor
Thomas Galligan, Jr.	President, Colby-Sawyer College, representing the Higher Education Commission – Dept. of Education
Martha Gooze	Public Member, appointed by the Governor
Gary Lambert	State Senator
Lynne Ober	State Representative

Also present at the meeting were Allan Telenko, Kyla Doyle, Keith Bernhardt, and Matthew Golden, from Fidelity Investments (Fidelity), and Bill Dwyer from the State Treasury.

Review of Prior Meeting Minutes

Minutes of the January 23, 2012 regular meeting were reviewed. Approval of the minutes was moved by Linda Hodgdon and seconded by Rep. Parsons. The motion passed unanimously.

Old Business

Bill Dwyer reported that at its February 8 meeting the Governor and Executive Council approved a Fidelity Investment Management Agreement amendment to introduce commodity-related mutual funds into the static investment portfolios, as approved at the January 23, 2012 Advisory Commission meeting. As authorized at the same Advisory Commission meeting, an additional amendment granting Fidelity the authority to make discretionary changes to the underlying funds of the active and index portfolios within the defined asset allocation parameters in advance of receiving approval from the Advisory Commission will be presented to G&C later in the calendar year.

New Hampshire's 529 Program & 529 Plan Industry Update

Matt Golden provided a business update of the 529 College Savings Plan industry and the New Hampshire 529 programs as of March 31, 2012. Total 529 Plan market-valued industry assets at the end of the first quarter of 2012 increased approximately 9.6% from the previous quarter, and New Hampshire's UNIQUE and FA 529 plans combined increased by 9.6% for the same quarter. The primary factor in the first quarter growth for the industry and the NH Plan was the strong performance of the equity markets (S&P rose 12.5% vs. only 0.3% for the Barclay's aggregate bond index). As was discussed in greater detail later in the meeting, the rate at which state 529 plans grow or decline in any given quarter is largely determined by asset mix, which accounts for the varying growth rates among the top ten plans. The New Hampshire Program remained the 3rd largest plan in the country in asset value as of March 31, 2012 with nearly $10.8 billion in assets (at market value) and approximately 6.8% of the industry's market share. New Hampshire followed Virginia ($35.3 billion in assets) and New York ($13.3 billion in assets) and was ahead of 4th place Nevada ($9.1 billion in assets). New York continues its growth under the ongoing administration of its direct-sold plan by Vanguard and its advisor-sold plan by JP Morgan Chase. Nevada's solidified its position in the rankings as a result of its low-cost, index plan administered by Vanguard. The State of Virginia College America 529 Plan's administrator, American Funds, recently added target date funds to its asset mix, underscoring the importance of these funds in the Fidelity 529 lineup.

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 March 31, 2012 totaled $185,903.

On the national regulatory front, Kyla Doyle mentioned that H.R. 529 (promoting college savings plans among low to moderate income families) has been referred to the House Ways and Means Committee, but is likely to languish there until after the 2012 general elections. There have been no updates regarding the "ABLE" Act legislation, drafted in November to include tax-advantaged savings accounts for individuals with disabilities under Section 529 and allowing the savings to be used to fund both college-related expenses and "quality-of-life" support. The General Accountability Office (GAO) study of the treatment of 529 plans is still proceeding, with industry research provided by the College Savings Plan Network (CSPN), the College Savings Foundation (CSF) and the Financial Research Corporation (FRC).

Key program enhancements to the UNIQUE plan, as summarized by Ms. Doyle include the upcoming annual portfolio review to help participants identify the most appropriate portfolio mix, an e-mail communication intended to increase participation in "BillPay for 529", and the late June launch of the redesigned College Planning website in order to streamline navigation and create an additional entry point for marketing the UNIQUE Plan. Ms. Doyle also described an online enhancement that will allow multi-account participants to research their accounts not only by account number, but by beneficiary nickname as well. In addition, the underlying funds in the multi-firm portfolio added the Ashton/Montag & Caldwell Growth Fund and the Invesco Diversified Dividend Fund to replace the Black Rock Capital Appreciation Fund, as described in greater detail later in the meeting by Allan Telenko.

UNIQUE College Investing Plan Review

Ms. Doyle reported that as of March 31, 2012 UNIQUE retail plan assets approximated $7.35 billion in market value, consisting of over 435,000 participant accounts and comprising a 9.2% market share for second place among 59 plans in the direct sold segment, and a 4.6% market share relative to the entire 529 industry. The State of New York led the direct-sold segment with $11 billion in assets and announced today that it is lowering its annual fee on index funds from 25bp to 17bp, placing it significantly lower than any other plan (UNIQUE ranges between 25-35bp in the index segment). Dr. MacKay asked the Fidelity team to closely monitor the market's response to the pricing change, and advise the Commission if it appears that similar pricing may be necessary in order for the UNIQUE plans to remain competitive. Nevada's plan, which charges an annual fee of 25bp on index funds, placed third as of March 31, 2012.

Ms. Doyle pointed out that accounts taking advantage of auto-contributions comprised 57% of all accounts in the direct-sold Plan, compared to the industry average of 33%. Average account size of a UNIQUE portfolio was $20,878, compared to the average account size in the industry of $14,390. Contributions for the first quarter of 2012 totaled $241 million and exceeded first quarter 2011 contributions by 9%. New accounts in the first quarter of 2012 increased 8% over the first quarter of 2011. The average monthly new account and existing account contributions in the first quarter were $4,160 and $161 respectively, with the same metrics for NH residents coming in at $1,400 and $273.

Participants residing in New Hampshire are fifth out of all states at 5.13% of total accounts in the Plan and follow Texas (12.25%), California (10.83%), New Jersey (8.12%), and Florida (5.86%). New Hampshire participants increased 1.43% during the first quarter of 2012. For the first time since 2008, California residents unseated Texas residents for the top spot in the UNIQUE Plan in terms of total assets in the Plan. The average balance of a UNIQUE participant residing in New Hampshire is nearly $16,000. Also of note, the number of California participants increased by 5% in the quarter, while participants in North Dakota rose 4%, possibly as a result of a lack of multi-firm portfolios available in that state plan.

Ms. Doyle presented additional statistics for new California accounts opened in the UNIQUE Plan for the first quarter 2012 versus first quarter 2011. The volume of new accounts for California residents as a percentage of all new UNIQUE accounts opened registered 24%, 25%, and 30% respectively for January, February, and March, compared to only 2% for the first quarter 2011. On average, there were 750 new California accounts opened per month in the quarter compared with only 57 average monthly account openings in the same quarter in 2011. Dr. MacKay asked about the pace of new account openings across the 529 industry compared to 2011, and Ms. Doyle indicated she would research that and follow up with an answer.

Ms. Doyle presented local market development initiatives planned for the second quarter and beyond, including the UNIQUE "Peek into Books" children's literacy tour of local libraries, an event planned for Story Land in June, and the "I Can Save" financial literacy program.

Ms. Doyle reported that credit card rebates for the first quarter 2012 totaled $4.77 million in rewards flows deposited into the UNIQUE Plan, with nearly $24 million in rewards to 529 participants and non-529 participants over the past 5 quarters. She noted that the data points illustrated very consistent spending among consumers, with slight increases during the holidays.

At the end of the first quarter of 2012, approximately 81% of the UNIQUE retail participant assets were held in age-based portfolios with 13% in static portfolios, and the remaining 6% in individual, bank, and multi-firm portfolios. 84% of net flows for the quarter were into age-based portfolios (including 10% for multi-firm portfolios), 10% into static portfolios, and the remaining 6% into individual and bank deposit portfolios on a net basis. During the first quarter, the College aged-based portfolio, both actively managed and index portfolios, experienced negative net cash flow at the rate of 28% and 1% respectively as funds were redeemed to pay college costs. The Money Market portfolio experienced cash outflows at the rate of 1.55%, believed to be caused by investor confidence returning and funds moving to higher-return investments. In addition there was a 0.30% decline in assets in the NH Bank Deposit Portfolio.

Mr. Telenko presented a competitive analysis of both the active and passive (index) portfolios over the 1-, 3-, and 5-year time periods ended March 31, 2012. Identified active portfolio competitors include T. Rowe Price (Alaska), TIAA-CREF (Michigan), Oppenheimer (Illinois), and the Ohio Tuition Trust Authority. In the active portfolio segment, Fidelity's competitive performance was at the bottom in the 1- and 5-year intervals and near the top in the 3-year interval, with relative performance essentially consistent along the portfolio duration lineup. Identified index portfolio competitors consisted of 3 Vanguard funds (NY) in the 1- and 3-year timeframes and T. Rowe Price and TIAA-CREF in the 5-year interval. In the index segment, Fidelity's performance was near the top in the 3-year interval (with a very stable glide path along the portfolio horizon), but at the bottom in the 1-year interval. Mr. Telenko explained that asset allocation played a major role in the relative performances, as Fidelity has a significant weighting in international equities, while advisors such as Vanguard have no weighting in that segment. Relative performance also lagged at the bottom in the 5-year timeframe, although different competitors were used, as noted.

Mr. Telenko also presented the overall investment performance review for the UNIQUE portfolios. In the multi-firm portfolios (large cap segment) Fidelity replaced the BlackRock Capital Appreciation Fund with the Aston Montag & Caldwell Growth Fund and the Invesco Diversified Dividend Fund. Mr. Telenko noted that the BlackRock fund has produced excessively volatile investment returns in the view of Fidelity portfolio managers and that both replacement funds have generated more stable returns, pointing out that the Aston Montag & Caldwell fund has grown to over $5 billion in assets. In the short timeframe that open architecture has been available returns in the multi-firm portfolios have outperformed their benchmarks in both the 3-month interval and since inception, net of fees. In the active and static segment, the portfolios outperformed the benchmark in the 3-month interval while underperforming over the 1-year horizon. Consistent with the theme of asset allocation driving portfolio performance, Mr. Telenko explained that in the first quarter of 2012 riskier assets generally performed better and with less volatility than in all of 2011. The returns in the index segment consistently tracked their benchmarks across all time intervals. Treasurer Provencher asked whether Fidelity is considering a reduction in portfolio debt allocations, given the inevitable upward pressure on interest rates. Mr. Telenko responded that Fidelity is in the process of evaluating its flexibility in making tactical shifts of assets out of the fixed income class, and Keith Bernhardt added that the challenge for portfolio managers is identifying the most suitable investment sector for such a reallocation, with a potential candidate being the shorter-term debt segment for liquidity purposes.

Fidelity Advisor 529 Plan Review

Mr. Golden reported that the Fidelity Advisor 529 Plan (FA 529 Plan) had approximately $3.4 billion in market-valued assets as of the end of the first quarter 2012 spread over 198,000 participant accounts. As a result of the A share up front sales charge waiver amendment and rollovers from other state 529 plans, over 180% more new accounts were opened in the first quarter 2012 than the same period in 2011, with 115% more contributions made in these same periods. Dr. MacKay asked how much in total has migrated into the FA 529 Plan from the former California ScholarShare Plan and Mr. Golden replied that assets totaling $102 million have moved into FA 529.

For the first quarter 2012, nominal net outflows occurred solely in the age-based College Portfolio, as participants began and continued their redemptions for college expenses. Again, the reduced volume of net outflows is due to rollover inflows from other plans, as there were no other net outflows during the quarter. 73% of all FA 529 assets were held in age-based portfolios with 19% in individual portfolios and the remaining 8% in static portfolios.

Mr. Golden submitted an overview of an integrated marketing effort on the part of the FA 529 Plan. The initiative will combine elements such as surveys, press releases, and interviews highlighting the need for college savings with sales support, website promotion, client meetings, marketing promotion, and sales interaction. He briefly reviewed the marketing campaigns for the remainder of 2012, which are focused on wealth-building, savings, and tax-advantaged strategies. Much of the activity is scheduled for later in 2012, with follow-up phone calls planned for several campaigns. Using results from the College Savings Indicator survey and press release, marketing activities will continue these themes directed at both investors and the financial advisors, including new initiatives for SIP statement stuffers, the third quarter product guide ad insert, and late-year direct mail and e-mail messaging.

Three other states' plans continue to utilize Fidelity funds with $114.4 million in market-value assets as of March 31, 2012:

Nebraska (FNB of Nebraska - $100.4 million since inception in December 2010); and
Nevada (Putnam - $3.3 million since inception in October 2010)
Alabama (Union Bank & Trust - $10.7 million since inception in October 2010)

New Hampshire residents ranked 20th in the number of accounts in the advisor-sold plan at just below 1.5% of all accounts. Residents from California (12.5%), Texas (7.8%), Massachusetts (7.0%), Pennsylvania (5.7%), and Florida (5.2%) constituted the top 5 in the plan. The average account size in the advisor-sold plan was $17,253, with New Hampshire residents averaging $16,846 in account balances. Dr. MacKay noted that aggregating assets from both the direct and advisor-sold plans, NH residents have over $400 million invested in NH's college savings plans.

Mr. Golden also provided a status update on the progress of implementing omnibus recordkeeping in the advisor-sold program. He explained that Fidelity plans to collaborate with large national broker-dealers to have FA 529 accounts held directly on their recordkeeping platforms. This conversion will reduce the amount of time required to open a new account from up to 21 days to 1-3 days. Fidelity will continue to receive real-time information from each broker-dealer on a daily basis in order to ensure compliance and reporting transparency. Omnibus recordkeeping will also allow each advisor to consolidate the FA 529 accounts into the comprehensive investment statements they provide their clients (statements must be provided separately by Fidelity today). The efficiencies gained will not result in any cost increases to participants, and Mr. Golden stated that Fidelity eventually intends to partner with 3-7 broker-dealers.

In response to correspondence she received from the Coalition for Mutual Fund Investors (CMFI), Treasurer Provencher submitted a letter to the Commission explaining the collective view among her, Chairman MacKay, and the FA 529 team that the future transition to omnibus recordkeeping will not adversely impact the Plan or its participants.

Fiscal Year 2013 Budget Review

Treasurer Provencher presented the Endowment Trust Fund budget for fiscal year 2013. Of particular note to the Advisory Commission is the ongoing run rate in management fees at a lower level than what was anticipated 1-2 years ago. This is driven by slightly reduced growth in asset levels, a decrease in account fees, and highly volatile equity performance since 2008. Dr. MacKay explained that to the extent management fee income is realized above or below budgeted levels, budget appropriations to the University System of New Hampshire and Community College System of New Hampshire will be adjusted to compensate so that income remains sufficient to fund the $500,000 Endowment Allocation to private colleges and universities as well as administrative expenses of the Advisory Commission, including the annual Plan audit estimated to be about $240,000 for fiscal 2012. Dr. MacKay also made reference to his proposal for funding UNIQUE Annual Awards for the upcoming fiscal year, which is described below. Sen. Larsen moved to accept the 2013 budget and Rep. Parsons seconded the motion. The Advisory Commission voted unanimously to accept the budget.

Endowment Trust Fund and Scholarship Disbursements

The Endowment Trust Fund and scholarship update report, for the quarter ended March 31, 2012, was submitted by Treasurer Provencher. The Endowment Trust Fund had a balance of just under $3 million as of March 31, 2012, 82% 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 totaled $124,000, and fee revenues collected were approximately $7.62 million. Fiscal year 2012 reimbursements to the General Fund (out of management fees received) for estimated payments made to USNH and CCSNH totaled approximately $7.0 million, which is $249,000 less than the amounts paid out fiscal year-to-date using the revenue estimate for the fiscal year (although the shortfall decreased to $150,000 in April due to adjusted appropriation payments beginning in December). A 'true-up' of actual versus estimated revenues will take place prior to fiscal year end, however at this pace the CCSNH and USNH would not likely receive their full budget allotment. As approved by the Commission at the July 25, 2011 meeting, a $500,000 UNIQUE Endowment Allocation was distributed on December 15, 2011 to private colleges and universities. Year-to-date administrative expenses totaled approximately $244,000, reflecting $206,000 in external audit fees paid to PwC in January, $18,000 in quarterly Endowment Fund management fees paid to Fidelity, first and second quarter Treasury overhead allocations of $14,000, and $6,000 in annual membership dues for the College Savings Plan Network and College Savings Foundation.

In response to questions from Rep. Parsons, Dr. MacKay explained that under current legislation the UNIQUE Annual and Endowment programs will revert to the policies and procedures in place prior to the current biennium. Any legislative effort to restore additional funding to Endowment Trust Fund would have to be undertaken for the 2014-15 biennium.

2012-13 Annual Awards Funding Using Endowment Trust Fund Balance in Excess of $3M at 6/30

Dr. MacKay presented a proposal to segregate the Endowment Trust Fund balance in excess of $3 million at June 30 and sweep those funds to the money market account in order to provide funding for Annual Award scholarship reimbursements to private colleges and universities for the 2012-13 academic year at a maximum of $500 per scholarship. It is expected that the Endowment Trust Fund balance will reach approximately $3.2 million at the end of fiscal 2012. Rep. Parsons moved to implement this proposal and Ms. Hodgdon seconded. The motion passed with a unanimous vote. Mr. Dwyer confirmed that the State Treasury will ensure the authorized action is taken.

Other Business

Dr. MacKay asked Tom Horgan to update the Advisory Commission on a recent meeting held at the New Hampshire Charitable Foundation (NHCF) on scholarships in New Hampshire. Mr. Horgan reported that at this meeting the issue of the cost of college in New Hampshire and the growing student debt load was discussed. With the significant reduction in the UNIQUE Annual and Endowment Awards programs and the elimination of state scholarships from the General Fund, NHCF now serves as the leading scholarship provider to NH students at $5 million awarded annually.

Mr. Horgan stated that today the U.S. ranks approximately 12th globally in terms of the education level of its population, compared to being number one in rankings among industrialized nations a generation ago. New Hampshire is the 9th-most highly educated state in the U.S., however 80% of residents with post-graduate degrees are not from New Hampshire and were educated outside the state. Compounding that statistic is the fact that New Hampshire is 50th in the nation in support to public higher education, now provides no General Fund support to help students access higher education with scholarship funds, New Hampshire students carry the highest debt load in the country and a just released report by the Carsey Institute at UNH states that New Hampshire's population growth has slowed to its smallest gains in fifty years, as fewer people are moving into the state. He also pointed out that New Hampshire ranks 46th nationally in the percentage of natives (those born and still living in NH) who possess a bachelor's degree.

All of this data contradicts a popular myth espoused by many who claim our nation, and our state, is over-educating its citizens. In fact, with only 33 percent of New Hampshire residents holding a bachelor's degree, obviously 67 percent of our residents do not hold four year degrees. As New Hampshire strives to build its future workforce, and if our state cannot rely on "importing" educated workers, attention to these issues seems warranted. The New Hampshire College & University Council is preparing a White Paper for gubernatorial candidates that will highlight many of these findings in June and will be available for review.

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

NOTE: The next regular meeting is scheduled for Monday, August 6, 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.