

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of August 6, 2012

The August 6, 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.

The Advisory Commission lacked the 7 members required in order to constitute a quorum. Members present were:

Edward MacKay (Chair)	Chancellor, University System of New Hampshire
Amy Bourgault	Executive Director, CCSNH Foundation, representing the Community College System of NH
Michael Cryans	Public Member, appointed by the Governor
Robbie Parsons	State Representative
Tara Payne	Vice President, representing the NH Higher Education Assistance Foundation Organizations
Catherine Provencher	State Treasurer

Members absent were:

Thomas Galligan, Jr.	President, Colby-Sawyer College, representing the Higher Education Commission – Dept. of Education
Martha Gooze	Public Member, appointed by the Governor
Linda Hodgdon	Commissioner of Administrative Services Dept., representing the Governor
Thomas Horgan	President & CEO, representing the New Hampshire College and University Council
Gary Lambert	State Senator
Sylvia Larsen	State Senator
Lynne Ober	State Representative

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

Review of Prior Meeting Minutes

Minutes of the May 14, 2012 regular meeting were reviewed, but could not be approved by the Advisory Commission due to the lack of a quorum. Those minutes, along with today's meeting minutes, will be approved at the next quarterly meeting on November 5.

Old Business

There were no prior business issues requiring the Advisory Commission's review.

Summary of Investment Committee Meeting

Dr. MacKay presented an overview of the Investment Committee meeting with the Fidelity team (which preceded the general meeting), highlighting the fact that over the past few quarters the active management approach has underperformed as individual equities have generally performed in line with equity markets. The expectation is that the active strategies will begin to outperform the benchmarks when those stocks with poor fundamentals “decouple” from the broader equity markets. Diversification of assets across many classes, a strategy employed more in the UNIQUE array of options than in other state plans, is also expected to produce less volatile returns over the long term.

Review of the “Dashboard Report”

Dr. MacKay provided the semi-annual review of the College Savings Plan Dashboard Report as of June 30. This report presents the State’s 529 Plan historical and forecasted account management fees, actual fee revenue received, and projected participant account balances, as well as a historical analysis of the Endowment Trust Fund and scholarship information. Dr. MacKay described the various historic trends and future projections that inform the Advisory Commission in its decision-making capacity, particularly with respect to scholarships.

Of significant note in the report was Fidelity’s projected growth in year-end Plan assets under management for the calendar years ended 2012, 2013, and 2014 at 8%, 12%, and 13% respectively. Advisory Commission members also noted that under HB2 (2011 budget legislation) there were only 165 Annual Award scholarship reimbursements to three private colleges totaling \$82,500 for the 2011-12 academic year compared to nearly 5,900 scholarships totaling \$4.1M in the 2010-11 academic year. Treasurer Provencher noted that Southern New Hampshire University did not submit a timely reimbursement request and was therefore denied its reimbursement request. The three colleges receiving Annual Award reimbursements were New England College, Saint Anselm College, and Franklin Pierce University. Dr. MacKay noted that pursuant to the Advisory Commission’s vote at the May 14 meeting, the approximately \$43,000 Endowment Trust Fund balance in excess of the \$3 million core balance has been set aside to provide a baseline for funding Annual Award reimbursements to the private colleges prior to the end of the current academic year. Endowment Trust Fund earnings in the current fiscal year will be added to that amount in order to provide the maximum amount of reimbursements possible.

Maximum Participant Contribution

Ms. Doyle of Fidelity described contribution limit trends and related developments in the 529 industry. She noted that at \$350,000 the UNIQUE 529 Plan ranks 18th-highest nationally in terms of Plan Maximum Contribution limit, with a ranking of 12th highest taking into account instances of multiple state plans at the same contribution maximum. The State of North Carolina 529 plan

currently has the highest limit at \$400,000. Ms. Doyle also explained that 90% of the top twenty state 529 plans (in terms of Maximum Contribution Limits) have raised their limits in the past 3-4 years.

Advisory Commission members were also provided with an updated version of the Dartmouth College contribution determination analysis, which is based on 7 years of matriculation (undergraduate and graduate combined) at the current tuition and fee rate. The current total under this approach is nearly \$420,000. With a total of only 49 participant accounts combined (direct and advisor-sold) currently above the \$350,000 limit, and due to increased IRS scrutiny of 529 college savings accounts, Fidelity's recommendation is to maintain the limit at the current level. Ms. Doyle noted that when an account reaches the Maximum Contribution Limit additional contributions are suspended, although the account can continue to grow through earnings. The Fidelity team also informed the Advisory Commission that the \$350,000 UNIQUE Plan limit can effectively be exceeded if a 529 participant opens an account in one of Fidelity's other state plans (MA, AZ, and DE).

Due to the lack of a voting quorum, the Advisory Commission will take up this decision at the next quarterly meeting on November 5.

New Hampshire's 529 Program & 529 Plan Industry Update

Mr. Golden informed the Advisory Commission that the Financial Research Corporation ("FRC") has not completed its industry assessment for the quarter ended June 30, therefore Fidelity did not have that information available to present. However preliminary indications for the second quarter are that there was a drop in both overall assets in the industry (with the UNIQUE Plan assets declining by 0.2%), as well as the growth rate in new accounts. If third quarter information is not available to present at the November 5 meeting, Fidelity will present second quarter industry data.

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 June 30, 2012 totaled \$382,876.

On the national regulatory front, Ms. Doyle explained that there will be very little legislative movement prior to year end due to the elections this fall. H.R. 529 (promoting college savings plans among low to moderate income families) has been backed by 26 cosponsors, but the lack of a "vehicle" and the anticipated cost will also preclude any legislative progress in 2012. "ABLE" Act legislation, which was drafted in November in both the House and Senate, includes 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 bills have found 160 and 20 cosponsors in the House and Senate respectively, as the disability community continues to work actively to promote the legislation. 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). The report is expected to be completed in late 2012 or early 2013. Dr. MacKay asked what the impetus was for having this study launched, and Ms. Doyle cited three reasons: 1) to determine the value and demographic characteristics of families enrolling in 529 college savings plans; 2) to identify the median contributors (participants) and factors affecting participation; and 3) to ascertain how savings in 529 plans affect financial aid for postsecondary education.

Key program enhancements to the UNIQUE plan, as summarized by Ms. Doyle include an e-mail communication intended to increase participation in “BillPay for 529”, as well as increase awareness of money market account features, and the late June launch of the redesigned College Planning website in order to streamline navigation and create an additional “landing zone” for marketing the UNIQUE Plan. Ms. Doyle also highlighted the addition of two new funds to the multi-firm lineup: the Oppenheimer Developing Market Fund and the Western Asset Core Bond Fund. It was also noted that among the new Fidelity funds that were added as underlying funds to the Fidelity aged-based and static asset allocation funds, the Contrafund and FA New Insights Fund are both being directed by the same fund manager. Lastly, Mr. Golden stated that the Management & Administrative Services Agreement modification to provide for omnibus recordkeeping in the FA 529 Plan is on track to be presented to the Governor & Executive Council for approval at the September 22 meeting so that implementation can take place in mid to late 2013.

UNIQUE College Investing Plan Review

Ms. Doyle reported that as of June 30, 2012 UNIQUE retail plan assets totaled \$7.34 billion in market value, consisting of over 442,000 participant accounts and comprising a 9.2% market share among plans in the direct-sold segment and a 4.7% market share relative to the entire 529 industry. Mr. Bernhardt noted that the 69% share of industry assets in age-based portfolios registers significantly lower than Fidelity’s 81% due to the late entrance of American Funds (State of Virginia 529 Plan) into age-based funds. As a result, the industry metric is expected to rise over time.

New accounts grew by 7,516 in the second quarter, with California residents comprising 21% of that growth. The number of new accounts increased by 19% compared to the second quarter of 2011. Average account size of a UNIQUE portfolio was \$20,850, compared to the average account size in the industry of \$14,390 (Q1 FRC data). Contributions for the second quarter of 2012 totaled \$194.2 million and exceeded second quarter 2011 contributions by 9%. The average monthly new account and existing account contributions in the second quarter were \$3,720 and \$130 respectively, with the same metrics for NH residents coming in at \$1,546 and \$211 respectively.

Participants residing in New Hampshire are 5th out of all states at 5.11% of total accounts in the Plan and follow Texas (12.23%), California (11.01%), New Jersey (8.10%), and Florida (5.80%).

The number of New Hampshire participants increased 1.23% during the second quarter of 2012. The average balance of a UNIQUE participant residing in New Hampshire is \$15,687. In terms of assets under management in the UNIQUE Plan, New Hampshire ranked 7th at 4.83%, trailing California (13.36%), Texas (12.10%), New Jersey (10.46%), Florida (5.41%), Illinois (5.16%), and Pennsylvania (5.09%).

At the end of the second quarter of 2012, 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. Eighty-four percent of net flows for the quarter were into age-based portfolios (including 9% for multi-firm portfolios), 9% into static portfolios, and the remaining 7% into individual and bank deposit portfolios on a net basis. During the second quarter, the College aged-based portfolio, both actively managed and index portfolios, experienced negative net cash flow at the rate of 18.6% and 0.2% respectively as funds were redeemed to pay college costs. The Money Market portfolio experienced cash outflows at the rate of 0.7%, believed to be caused by investor confidence returning and funds moving to higher-return investments. In addition there was a 0.2% decline in assets in the NH Bank Deposit Portfolio.

Ms. Doyle described nationwide marketing efforts completed earlier in the year leveraging publications such as Parents, Parenting, Baby, and Family Fun. In addition there is a 28-week campaign planned for New Hampshire Public Television. Programs planned for the remainder of the year include the mid-year Portfolio Review Campaign, Fidelity's 6th annual College Savings Indicator Study (August), and online search advertising throughout the year. Recently-completed local market development initiatives include the annual "UNIQUE at StoryLand" event on June 2 and the April "I Can Save Tour". The primary initiative planned for the third quarter is the UNIQUE "Peek into Books" youth literacy partnership with local libraries.

Ms. Doyle reported that credit card rebates for the second quarter 2012 totaled nearly \$5 million in rewards flows deposited into the UNIQUE Plan, with over \$24 million in rewards to 529 participants and non-529 participants over the past 15 months.

During the Investment Committee meeting Mr. Bernhardt described Fidelity's process for overhauling the competitive analysis for both active and index portfolios. The methodology used for identifying appropriate competitors included the selection of fund managers on the basis of whether they use active or index strategies, as well as the determination of which funds had an equity allocation most similar to those in the UNIQUE lineup (based on Morningstar data as of June 30, 2012). For the active segment, Fidelity has selected T. Rowe Price (AK), USAA (NV), Schwab (KS), and Franklin Templeton (NJ). In the 1-year time horizon Fidelity has generally underperformed T. Rowe Price and Schwab, while performing in line with USAA and Franklin Templeton. In the 3-year segment Fidelity slightly underperformed T. Rowe Price, while closely tracking the performance of Schwab, USAA, and Franklin Templeton. In the 5-year timeframe Fidelity has underperformed against all four competitors. As noted earlier, Mr. Cullen and Mr. Sharpe attributed the underperformance to individual equity performance in tandem with overall positive equity market returns.

In the index sector, Fidelity has identified Vanguard (NV & NY), Oppenheimer (IL), and TIAA-CREF (MI) as appropriate competitors. In terms of 1-year results Fidelity was outperformed by Oppenheimer and Vanguard (NY), while generally performing in line with TIAA-CREF and Vanguard (NV). In the 3-year segment Fidelity performed in line with all four competitors. Lastly, Fidelity underperformed all four competitors in the 5-year horizon for most of the index portfolios. In the multi-firm portfolios the Fidelity funds underperformed their benchmarks in the longer-dated funds, while slightly outperforming in the shorter-dated funds, including the College portfolio.

Fidelity Advisor 529 Plan Review

Mr. Golden reported that the Fidelity Advisor 529 Plan (FA 529 Plan) had just over \$3.4 billion in market-valued assets as of the end of the second quarter 2012 distributed over nearly 200,000 participant accounts. As a result in part from rollovers from other state 529 plans, 11.5% more new accounts were opened in the second quarter 2012 than the same period in 2011, with 26.1% more contributions made in these same periods.

New Hampshire residents maintained a ranking of 20th in the number of accounts in the advisor-sold plan at approximately 1.5% of all accounts. Residents from California (12.9%), 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 \$17,057, with New Hampshire residents averaging \$16,750 in account balances.

For the second quarter 2012, nominal net outflows occurred in the age-based College Portfolio at the rate of 2.2%, as participants began and continued their redemptions for college expenses. As noted earlier, assets declined slightly in the aggregate due to overall equity performance in the second quarter. Seventy-three percent of all FA 529 assets were held in age-based portfolios with 19% in individual portfolios and the remaining 8% in static portfolios, although in contrast 30% of year to date net flows have gone into the individual 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 e-mail surveys and informational communications, press releases, and interviews highlighting the need for college savings, with sales support, website promotion, client meetings, marketing promotion, and sales interaction augmenting these efforts. He briefly reviewed the marketing campaigns for the remainder of 2012, which are focused on wealth-building, savings, and tax-advantaged strategies, with the latter timed to coincide with the fall elections. Much of the activity is scheduled for the fall, 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 fourth quarter direct mail and e-mail messaging.

The results of a “Build Wealth” e-mail campaign to investment advisors launched in late June were presented. Of the more than 70,000 e-mails sent, nearly 10,000 were opened for a very

successful open rate of nearly 14%. An open rate of 10% is the benchmark for assessing the effectiveness of this type of campaign. Of the 10,000 e-mails opened, there were more than 250 ‘click-throughs’, constituting 2.6% of those e-mails opened. The volumes and results were generally consistent with an identical campaign in February however the click-through rate was down from 4% previously.

Ms. Payne asked the Fidelity team how much was being spent on NH-specific marketing initiatives, and Ms. Doyle indicated that \$10,000 was spent on local marketing development programs in New Hampshire, but noted that the above mentioned amount does not include dollars spent on nationwide marketing communication efforts. Ms. Payne expressed that she would like to see additional marketing efforts targeted to potential New Hampshire 529 savers and families. The Fidelity team explained that past efforts to work with the Department of Education in an outreach to school superintendents were not particularly fruitful, with a lack of follow-through in distributing UNIQUE 529 informational materials. Treasurer Provencher stated that she would follow up with DOE Commissioner Virginia Barry to discuss the promotion of the UNIQUE 529 Plan to school administrative units around the state. Ms. Payne also volunteered to have her College Planning Center team distribute materials during their numerous workshops for middle school and younger students held around the state each year.

Two other states’ plans continue to utilize Fidelity funds on an investment-only basis, with nearly \$13 million in market-value assets as of June 30, 2012:

Nevada (Putnam - \$2.9 million since inception in October 2010); and

Alabama (Union Bank & Trust - \$10 million since inception in June 2010)

The State of Nebraska recently removed its funds from the Fidelity platform.

Endowment Trust Fund and Scholarship Disbursements

The Endowment Trust Fund and scholarship update report, for the fiscal year ended June 30, 2012, was submitted by Treasurer Provencher. The Endowment Trust Fund had a balance of \$3.043 million as of June 30, 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 2012 interest and dividend earnings and net market gains/losses totaled \$125,000, and fee revenues collected were approximately \$10.16 million. Fiscal year 2012 reimbursements to the General Fund (out of management fees received) for appropriation payments made to USNH and CCSNH totaled approximately \$9.4 million. As approved by the Commission at the July 25, 2011 meeting, a \$500,000 UNIQUE Endowment Allocation was distributed on December 15, 2011. Year-to-date administrative expenses totaled approximately \$261,000, reflecting \$206,000 in external audit fees paid to PwC in January, \$20,000 in quarterly Endowment Fund management fees paid to Fidelity, Treasury overhead allocations of \$28,000, and \$6,500 in annual membership dues for the College Savings Plan Network and College Savings Foundation.

Treasurer Provencher noted that three private colleges---New England College, Franklin Pierce College, and Saint Anselm College---requested and received a total of \$82,500 in Annual Awards

reimbursements based on their submissions of a list of qualified NH students within the required timeframe. Endowment Trust Fund earnings for fiscal year 2012 were used to fund these reimbursements.

Other Business

There were no additional business items requiring the Advisory Commission's review.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 11:45AM.

NOTE: The next regular meeting is scheduled for Monday, November 5, 2012 beginning at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. There will be no Investment Committee meeting.