New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of November 25, 2013

The November 25, 2013 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)	Public Member, appointed by the Governor; Retired Chancellor, University System of New Hampshire
Michael Cryans	Public Member, appointed by the Governor
Ross Gittell	Chancellor, Community College System of New Hampshire
Sylvia Larsen	State Senator
Todd Leach	Chancellor, University System of New Hampshire
David Mahoney	Representing the Higher Education Commission – Dept. of Education
Tara Payne	Vice President, representing the NH Higher Education Assistance Foundation Organizations
Catherine Provencher	State Treasurer

Members absent were:

Jeanie Forrester	State Senator
Linda Hodgdon	Commissioner of Administrative Services Dept., representing the Governor
Thomas Horgan	President & CEO, representing the New Hampshire College and University Council
H. Robert Menear	State Representative
Lynne Ober	State Representative

Also present at the meeting were Keith Bernhardt, Kyla Doyle, and Matt Golden from Fidelity Investments (Fidelity), Richard Gustafson, Director of the Division of Higher Education, Elizabeth Keuffel, Director of Financial Aid - Saint Anselm College and President of the New Hampshire Association of Student Financial Aid Administrators, Susan Proulx, Director of Financial Aid Compliance for the Community College System of New Hampshire, and Bill Dwyer from the State Treasury.

Review of Prior Meeting Minutes

Minutes of the August 19, 2013 regular meeting were reviewed and presented for approval by Dr. MacKay. Approval was moved by Mr. Cryans and seconded by Mr. Mahoney. The motion passed unanimously.

Old Business

Matt Golden from Fidelity presented an update regarding the age-based portfolio active asset allocation initiative introduced at the August 19 meeting. He explained that Fidelity's portfolio managers have spent the last several months researching the active asset allocation strategy not only for the firm's college savings programs, but for Fidelity's retirement funds as well. The group has done additional research regarding the downstream impact this strategy would have on the underlying Fidelity funds and has given the initiative the go-ahead. Therefore the Fidelity team will present its recommendation to the Advisory Commission at the next meeting on February 10, 2014.

Dr. MacKay asked whether the implementation of the strategy would require the approval of the Executive Council. Mr. Golden replied that based on contract reviews done by Fidelity's in-house counsel, no contract amendment or Council approval will be necessary. He noted that if the Advisory Commission gives its authorization at the February meeting, implementation would be targeted for the second quarter 2014. Dr. MacKay then asked what type of notification would be required and provided to UNIQUE investors. Mr. Golden explained that rather than issuing a new Fact Kit and prospectus at year-end and then having to "sticker" the documents once active asset allocation were approved, Fidelity will simply wait to issue the disclosures in the first quarter.

Dr. Gittell asked whether other 529 programs around the country are implementing this type of initiative. Mr. Golden stated that there are some programs using the strategy, but most do not. Dr. MacKay added that the New Hampshire plans would have the benefit of access to Fidelity's powerful research capability for greater latitude rather than adhering to prescriptive, narrow allocation bands now in place.

Mr. Mahoney asked why the glide path for the age-based portfolios is currently structured the way it is. Mr. Golden noted that Fidelity's portfolio managers presently don't make macro-economic investment decisions within the 529 plan funds, but that over the past five years in particular more resources have been dedicated to giving Fidelity a more tactical view into the capital markets. He added that there is certainly an element of risk in this approach, but that Fidelity is confident it can add value to 529 participants without taking unnecessary risk. In response to a question from Treasurer Provencher regarding whether any competitors have had success with this strategy, Mr. Bernhardt promised to present competitor information at the February meeting. Mr. Golden remarked that at this time it is difficult to attribute what portion of a firm's performance enhancements can be attributed to the enhanced allocation measures versus simply the performance of the underlying funds.

Lastly, Mr. Cryans inquired regarding the size of Fidelity's research capability, and Mr. Golden responded that the firm has been growing its capability exponentially since 2008. Dr. MacKay told the Fidelity team that the Advisory Commission looks forward to the recommendation to be presented in February.

UNIQUE Scholarship Report for the 2012-13 Academic Year

On behalf of the Higher Education Commission, Dr. Gustafson presented an overview of UNIQUE scholarships awarded, in both the Annual and Endowment programs, for the 2012-13 academic year. He highlighted that there was a total of $420,000 in UNIQUE Annual Award scholarships distributed to 1,080 qualified students and $1.47 million of UNIQUE Endowment Awards distributed to 1,101 students, meaning that over 2,100 students received awards during the year. Treasurer Provencher asked whether any students received both awards, and Ms. Keuffel replied that under the specific qualifying criteria for the Annual program, particularly the $0 EFC, very few students would have received both types of awards. However it was noted that some who received an Annual Award might also have received an Endowment Award.

Dr. Gustafson was also asked to provide an update to the Advisory Commission regarding the status of the Higher Education Commission's efforts to receive a "maintenance of effort" waiver from the federal government. Unfortunately the federal Department of Education has turned down HEC's request, citing limited financial support from the legislature during the 2011-12 biennium. Dr. Gustafson informed the Advisory Commission that with federal support about to expire, Amy Slattery, who has provided considerable administrative assistance to the UNIQUE scholarship programs, will likely seek employment elsewhere in higher education.

The State Treasury and Higher Education Commission have collaborated to complete the 2012-13 Annual Award reconciliation between amounts distributed as reported by colleges and amounts distributed to colleges by the Treasury. There are no variations to report.

Update of Endowment Trust Fund and Scholarship Disbursements

The Endowment Trust Fund and scholarship update report, for the quarter ended September 30, 2013, was submitted by Treasurer Provencher. The Endowment Trust Fund had a balance of $3.563 million as of quarter-end, reflecting an increase from the $3.166 million fund balance at the beginning of the fiscal year due to management fee income accumulating in the Trust (net of monthly Endowment Program distributions), as well as interest, dividend earnings, and net market gains/losses in the fund during the current fiscal year of approximately $67,000. Fee revenues for the first quarter of fiscal year 2014 totaled nearly $2.9 million. With the restoration of the UNIQUE scholarship programs to their traditional administration (as a result of 2013 HB 2), an Annual Awards distribution totaling $999,900 was disbursed to participating colleges and universities in July. Pursuant to Csp 702.01, monthly Endowment Awards distributions to participating institutions resumed in August and totaled $1.54 million for the first quarter. Administrative expenses for the quarter totaled $9,400, comprised of the Treasury overhead allocation of approximately $7,000 and $2,400 of Endowment Trust Fund management fees.

New Hampshire's 529 Program & 529 Plan Industry Update

Mr. Golden then presented the third quarter 2013 program and industry update. Total 529 Plan market-value industry assets as of September 30, 2013 increased 4.2% from the previous quarter and 16.9% year over year, while New Hampshire's UNIQUE and FA 529 plans combined increased by 3.3% for the quarter and 11.6% year over year. He noted that during the third quarter, the S&P 500 index rose by 5% while bonds increased by only 0.57%, underscoring that 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 newer plans tend to have a higher allocation to equities, and the more mature plans, such as New Hampshire's, are more weighted in fixed income assets. He also mentioned that the slower growth in the NH Plan relative to other state plans was due to higher volumes of redemptions for those beneficiaries now attending college. He noted that the Nevada program is administered under four different plans: Vanguard, USAA, State Street Global Advisors, and Putnam. This is an approach taken by some of the newer state sponsors and appears to be viewed favorably by Morningstar.

On a combined basis, the New Hampshire Programs remained the 3rd largest in the country in asset value as of September 30, with nearly $12.5 billion in assets (at market value) and approximately 6.5% of the industry's market share. New Hampshire followed Virginia ($43.5 billion in assets) and New York ($16.4 billion in assets) and was ahead of 4th place Nevada ($11.9 billion in assets). Ms. Doyle reported that in the direct-sold space, the UNIQUE Plan fell to third place with an 8.7% market share, trailing New York's 13.9% share and Nevada's 8.8% share, which surpassed UNIQUE for the first time. The Nevada plan has surged in the overall rankings as a result of its low-cost index plan administered by Vanguard. Dr. Gittell asked whether Fidelity has targeted any of its marketing effort to grandparents, and Ms. Doyle noted that Fidelity generally targets two audiences: young parents and those 55 and older, which is intended to reach grandparents. On the advisor-sold side, Mr. Golden stated that the FA 529 Plan ranks fifth with a 4.2% market share, trailing Virginia (44%), Rhode Island (8.1%), Maine (7.5%), and Ohio (4.5%). He also explained that the #9-ranked State of New Jersey is preparing to put its $2.7 billion plan out to bid, but that due to contract provisions that allow Franklin Templeton to retain all plan assets in the event of the state's migration to another administrator, it is unlikely that many firms will bid and highly unlikely that New Jersey will make such a move.

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 through the third quarter of 2013 totaled $584,000.

On the national legislative front, Ms. Doyle reported that in the past several months there has been no movement on H.R. 529 (enhancing college savings plans through the inclusion of 529 contributions in the tax-advantaged retirement savers' credit and employer/employee matching contributions up to $600 annually on a tax-free basis), which was assigned to a congressional committee in early February for consideration before possibly being referred to the entire House or Senate. It is estimated there is only a 2% chance that the bill will move beyond the committee and virtually no likelihood of its ultimate passage. There was also no progress on "ABLE" Act legislation, which was reintroduced in the Senate, includes tax-advantaged savings accounts under Section 529 for individuals with disabilities and allows the savings to be used to fund both college-related expenses and "quality-of-life" support. This bill was also assigned to a congressional committee in February and faces a similar fate to H.R. 529. Lastly, H.R. 2006, the "Helping Families Save for Education Act", was introduced and assigned to a legislative committee on May 15. Provisions of the bill include an increase in the beneficiary age limit from 18 to 22 and an increased maximum contribution limit in any taxable year from $2,000 to $10,000. This bill faces the same low likelihood of passage as the previous two. Fidelity will continue to monitor these legislative developments.

Key program enhancements to the New Hampshire plans for the third quarter 2013, as summarized by Ms. Doyle, include legislative/regulatory updates as described above and ongoing industry reporting such as the 7th annual Fidelity College Savings Indicator study released in September and most noteworthy, the Morningstar Ratings Report, which ranked the New Hampshire plan in the bronze category for the first time. Improved customer experience initiatives and communications completed, or slated for completion in the second half of 2013, include the online beneficiary and allocation change form, the release of four new "Viewpoint" articles (education in nature rather than promotional), and the launch of post log-in improvements. During the third quarter, notable investment product changes consisted of the program management fee reduction in the index portfolios and the change in the composition and name of the FA Intermediate Bond Fund to the FA Limited Term Bond Fund. Lastly, the FA 529 omnibus recordkeeping/networking initiative with Ameriprise remains on track to launch in November 2014.

UNIQUE College Investing Plan Review

Ms. Doyle reported to the Advisory Commission that as of September 30, 2013 UNIQUE retail plan assets totaled $8.56 billion in market value, consisting of just over 490,000 participant accounts and holding an 8.7% market share, third among plans in the direct-sold segment. She noted that the 50% share of industry assets in age-based portfolios registers significantly lower than Fidelity's 81% at the end of the third quarter. The UNIQUE Plan also exceeds the industry average at 57% of participant accounts enrolled in automatic contributions at year end, compared to 39% of industry accounts.

New accounts grew by 9,228 in the third quarter, with the number of new accounts increasing by 14% compared to the third quarter of 2012, with Ms. Doyle highlighting a 16% increase in August. She also reported that there were over 3,300 new accounts added in October totaling $77 million in contributions, an indication that the fourth quarter is off to a strong start. The average account size of a UNIQUE portfolio was $23,005 as of September 30, compared to the average account size in the industry of $16,241. Contributions for the third quarter of 2013 totaled over $211 million and exceeded third quarter 2012 contributions by 13%. The average monthly new account and existing account contributions in the third quarter were $3,715 and $122 respectively, with the same metrics for NH residents registering $1,439 and $221 respectively.

Participants residing in New Hampshire are 5th out of all states at 4.91% of total accounts in the retail Plan and follow Texas (12.35%), California (11.75%), New Jersey (7.88%), and Florida

(5.90%). Ms. Doyle highlighted that 5,000 of the 9,200 new accounts opened in the third quarter were established by residents in the top 5 states in the rankings. The average balance of a UNIQUE participant residing in New Hampshire is $16,014. In terms of assets under management in the UNIQUE Plan, New Hampshire maintained its 7th- place ranking, trailing California, Texas, New Jersey, Florida, Illinois, and Pennsylvania.

At the end of the third quarter of 2013, 81% of the UNIQUE retail participant assets were held in age-based portfolios with 13% in static portfolios, and the remaining 6% in individual and bank deposit portfolios. During the third quarter, 84% of net flows were into age-based portfolios (including 13% for multi-firm portfolios), 9% into static portfolios, and the remaining 7% into individual and bank deposit portfolios on a net basis. On a year-to-date basis through the third quarter of 2013, the College aged-based and 2012 portfolios, both actively managed and index, have experienced negative net cash flows at the rate of 37.65%, 61.08%, 2.65%, and 2.54% respectively out of all portfolio cash flows, as funds were redeemed to pay college costs. The Money Market portfolio has experienced cash outflows at the rate of 4.82% of all portfolio cash flows, while the Bank Deposit portfolio has undergone cash outflows at 2.06% of total portfolio activity, both caused by investor confidence returning and funds moving to higher-return investments. Lastly, there have been outflows of 2.52% and 0.76% out of the Conservative actively managed and index funds respectively for what are likely similar reasons.

Ms. Doyle also presented both nationwide and local marketing efforts continued or completed in the third quarter of 2013, including the UNIQUE Plan's 2013 season-long sponsorship of the New Hampshire Fisher Cats and UNIQUE Kids Day on August 18, ongoing Summer Literacy events at libraries throughout the State, and the 7th annual nationwide College Savings Indicator Study. Outreach initiatives scheduled for the fourth quarter include promotional campaigns on New Hampshire Public Television, in magazines, and local newspapers, as well as the UNIQUE Holiday Gifting communication. The yearlong partnership with Jump $tart, a financial literacy collaboration with elementary school students in several locations, is also ongoing.

Lastly, Ms. Doyle reported that Fidelity Investments American Express credit card rebates for the third quarter 2013 totaled $5.2 million in rewards flows deposited into the UNIQUE Plan, with nearly $25.3 million in rewards to 529 participants and non-participants over the past 15 months. Dr. Gittell asked whether any American Express rewards account could have dollars directed into a UNIQUE 529 savings account, and Mr. Bernhardt explained that only the Fidelity brand American Express rewards card provides that feature.

Fidelity Advisor 529 Plan Review

Mr. Golden reported that the Fidelity Advisor 529 Plan ("FA 529 Plan") had $3.93 billion in market-valued assets under management at September 30, distributed over nearly 199,000 participant accounts. Using the third quarter 2012 as a basis for comparison, 2.7% more new accounts were opened in the third quarter of 2013, with 3.2% more in relative contributions for these same periods. The metrics for the third quarter 2011 versus third quarter 2013 were also provided, with even more robust performance on a comparative basis. Mr. Golden was also pleased to inform the Advisory Commission that the FA 529 Plan hit the $4 billion asset level last week.

New Hampshire residents maintained a ranking of 20th in the number of accounts in the advisor-sold plan at approximately 1.48% of all accounts. Residents from California (13.41%), Texas (7.90%), Massachusetts (7.02%), Pennsylvania (5.74%), and Florida (5.47%) constituted the top 5 in the plan at the end of the third quarter. Mr. Golden noted that the State of North Carolina is going to eliminate its college savings in-state tax deduction in 2014, which could drive more assets into FA 529. Dr. MacKay mentioned that NH residents comprise only 4% of combined plan assets, meaning that most of the management fee income generated by the plans is coming from out of state. The average account size in the advisor-sold plan was $19,738, with New Hampshire residents averaging $18,808 in account balances.

For the third quarter 2013, net outflows occurred in both the age-based College and 2013 Portfolios resulting in a drop of 8.1% and 5.8% respectively from the prior quarter, as participants began and continued their redemptions for college expenses. Noteworthy outflows in the bond portfolios through the third quarter are an indication that investors are moving away from fixed income funds. Consistent with the second quarter, seventy-two percent of all FA 529 assets were held in age-based portfolios, with 20% in individual portfolios, and the remaining 8% in static portfolios. Portfolio activity through the third quarter saw over 85% of net flows directed to the age-based segment, with nearly 8% of net flows into the individual portfolios and 7% into the static.

Mr. Golden also submitted an overview of the anticipated integrated marketing efforts on the part of the FA 529 Plan throughout the year. The initiatives combine elements such as e-mail surveys and direct mail informational communications, statement stuffers, and back-to-school and holiday gifting outreach, with Fidelity sales support, website promotion, client meetings, marketing promotion, and sales interaction augmenting these efforts. The "Back to School" direct mail and e-mail campaigns were launched in late August, with Mr. Golden presenting detailed results of the latter. Nearly 37,000 e-mails were distributed to financial advisors, with 5,666 e-mails opened (15.4% open rate), and 68 "click-throughs" (1.2% click-through rate). An open rate of greater than 10% is considered successful for these types of campaigns and Mr. Golden noted that the e-mails have been updated to include images rather than text only. The "Back to School" direct mailer was distributed to over 82,000 prospects and current 529 holders. For the fourth quarter, the "Holiday Gifting" direct and e-mail campaigns will launch around December 13.

Other state plans continue to utilize Fidelity Advisor funds on an investment-only basis, with $14.5 million in market-value assets as of September 30, 2013:

Nevada (Putnam - $3.9 million since inception in October 2010)
South Carolina (Columbia - $10.6 million since inception in October 2012)

Review of Other Items

a) Proposed 2014 meeting dates

After Senator Larsen pointed out that the scheduled date of February 24 for the next meeting falls during the New Hampshire school vacation week, the Advisory Commission agreed to move the date to February 10 due to the Presidents Day holiday on February 17. Dr. MacKay then requested a motion to accept the subsequent meeting dates of May 19, August 25, and November 24, followed by February 23, 2015. Senator Larsen moved and Dr. Leach seconded the motion, which passed by unanimous vote.

b) Annual financial disclosures due to Secretary of State on or before January 17, 2014

Dr. MacKay asked Mr. Dwyer to update Advisory Commission members regarding the statutory filing requirement. Mr. Dwyer explained that the deadline for filing with the Secretary of State is Friday, January 17 and that he will distribute an e-mail reminder with links to the financial disclosure form website to Advisory Commission members in December.

c) Update from Dr. MacKay's meeting with college and university financial aid directors

Dr. MacKay reminded Advisory Commission members that, as he described in his September 26 letter, he met with representatives from the New Hampshire Association of Student Financial Aid Administrators (NHASFAA) on October 18 at Saint Anselm College. The purpose of that meeting was to ensure that there was widespread understanding of the Advisory Commission's processes and rationale in determining the UNIQUE Annual Awards criteria. One outcome from the meeting was an agreement that the Higher Education Commission staff member who prepares data for Advisory Commission consideration would periodically meet with financial aid officers in order to better inform the process for establishing these criteria. Another outcome was the expectation that a NHASFAA representative will attend Advisory Commission meetings whenever possible. Also discussed in October was the Advisory Commission action that in order not to impose additional eligibility audit requirements on behalf of UNIQUE, the colleges will simply use the same guidelines required at the federal level.

Treasurer Provencher asked whether the Advisory Commission would be notified if there were any findings resulting from an audit, and Dr. MacKay replied that only findings that were major in nature would be reported. He will work with the Higher Education Commission to have the Advisory Commission notified of any major findings resulting from a federal Department of Education program review.

d) Overview of NH student debt report from Granite State Management & Resources

Ms. Payne provided the Advisory Commission with a few highlights from GSM&R's report, which was released in early October. GSM&R is an NHHEAF network organization. The report, titled "Why Is Student Debt So High In New Hampshire?", presented insightful metrics that point to the convergence of consumer behavior, diminishing legislative support, and the rising cost of education as major factors contributing to this dilemma. Ms. Payne noted that in 1995 approximately 33% of families actively saved for college, while today only 16% save. She also explained that 90% of New Hampshire-resident students attend college in the high-cost regions of New England and the mid-Atlantic. The report cites many other factors that have combined to drive college tuition and student debt higher, and she encouraged Advisory Commission members to review the report.

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

NOTE: The next regular meeting is scheduled for Monday, February 10, 2014 beginning 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.