

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of May 19, 2014

The May 19, 2014 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
Bill Dwyer	Commissioner of the Treasury
Ross Gittell	Chancellor, Community College System of New Hampshire
Linda Hodgdon	Commissioner of Administrative Services Dept., representing the Governor
Thomas Horgan	President & CEO, representing the New Hampshire College and University Council
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

Members absent were:

Jeanie Forrester	State Senator
Sylvia Larsen	State Senator
H. Robert Menear	State Representative
Lynne Ober	State Representative

Also present at the meeting were Keith Bernhardt and Matt Golden from Fidelity Investments (Fidelity).

Review of Prior Meeting Minutes

Minutes of the February 10, 2014 regular meeting were reviewed and presented for approval by Dr. MacKay. Approval was moved by Commissioner Dwyer and seconded by Mr. Horgan. The motion passed unanimously.

Old Business

Matt Golden provided the Investment Team's update (as of April 1st) regarding the implementation of Active Asset Allocation as a component into the active age-based portfolios. The Portfolio Management Team fully implemented their asset allocation views within the portfolios by mid-April. The portfolios are modestly overweight in US equities at this time; they are neutrally positioned within developed non-US equities with a small position in emerging markets. They are also modestly underweight investment-grade bonds and underweight cash, specifically in the near-dated and college portfolios where they also have a position in TIPS (Treasury inflation-protected securities) as an inflation hedge.

The Team will attend the next Advisory Commission meeting to provide a full update including a quarterly view and detailed review of the age-based portfolios and performance attribution.

In conclusion, implementation has taken place, and the portfolio managers are actively using their ability to implement their market views through a business cycle (not tactical / short-term), with small shifts anticipated going forward. The portfolios are modestly positioned with an overweight in US equities at this stage. The March 31 investment performance review that was distributed at the meeting reflects the period prior to implementation of active asset allocation and thus provides the standard roll-down view for the age-based portfolios.

Fiscal Year 2015 College Savings Program Budget Review

Dr. MacKay presented the proposed fiscal year 2015 program budget. Attendees referred to documents provided as Commissioner Dwyer described the budget components followed by a general discussion regarding strategic use of Fidelity's fees and marketing initiatives with regard to NH families. The 2015 budget includes management fees based on projected assets in the UNIQUE Plan and Fidelity Advisor Plan. The budget projects \$9.3 million in revenue in FY2015 on the direct-sold side and nearly \$4 million revenue on the advisor-sold side.

Program disbursements include UNIQUE Endowment allocations of \$10.6 million (80% of \$13.25 million in management fee income), representing the monthly allocation payments to the specific endowments each participant maintains that are funded by UNIQUE programs and separately maintained. UNIQUE Annual award scholarships are derived from program revenue, less the Endowment allocations, less budgeted administrative expenses. Therefore the \$2.65 million for Annual awards is not intended to precisely predict what will be distributed for these scholarships; it is simply a placeholder for budgeting purposes, and the number of actual payouts could be more or less than budgeted depending on the total amounts awarded by participating colleges throughout the 2014-15 academic year. The Advisory Commission voted at its February 10 meeting to guarantee such reimbursements to participating institutions for Annual Awards distributed in excess of the initial \$1 million allocation to be distributed in July. As a result it is possible that the Excellence in Higher Education Endowment Trust Fund "corpus" may be used to fully fund the reimbursements.

In terms of administrative expenses, the budget for the FY2014 audit of both plans is \$298,000, confirmed by LBA Budget Director Dick Mahoney. Other administrative expenses consist of

fund-management fees, association dues, the quarterly Treasury overhead allocation, and administrative support fees paid to the Division of Higher Education totaling \$86,000.

After Advisory Commission members discussed the components of the budget, Dr. MacKay requested a motion to approve. Mr. Cryans moved for approval, and Commissioner Hodgdon seconded. The Advisory Commission approved the budget unanimously.

Update of Endowment Trust Fund and Scholarship Disbursements

The Endowment Trust Fund and scholarship update report, for the quarter ended March 31, 2014, was submitted by Commissioner Dwyer. The Endowment Trust Fund had a balance of \$4.487 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 Awards Program distributions and the July Annual Awards Program distribution), as well as interest, dividend earnings, and net market gains/losses in the fund during the current fiscal year of approximately \$204,000. Fee revenues through the third quarter of fiscal year 2014 totaled nearly \$8.67 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 \$6.20 million through the third quarter. Fiscal year-to-date administrative expenses totaled nearly \$350,000, comprised of the annual financial audit of the UNIQUE and FA 529 Plans by PricewaterhouseCoopers totaling \$276,500, the yearly support services payment of \$36,000 to the Division of Higher Education, Treasury quarterly overhead allocations of \$22,700, quarterly Endowment Trust Fund management fees of \$7,900, and yearly membership dues paid to the College Savings Plan Network (\$4,000) and the College Savings Foundation (\$2,500).

Commissioner Dwyer noted that Annual award scholarships totaling \$2.8 million were distributed by participating institutions in the current academic year, resulting in \$1.8M in reimbursement payments that will be made in the final quarter of the current fiscal year. Therefore the Endowment Trust Fund is projected to end the year with a balance of approximately \$3.3 million.

New Hampshire's 529 Program & 529 Plan Industry Update

Ms. Payne noted there is a desire to increase the number of NH families participating in 529 Plans and why this should become a priority of the Advisory Commission. Many families are in a position to save, yet they need to understand the benefits and why it makes sense to do so; perhaps increased public awareness is needed. Although there is an efficient process in place to distribute dollars to low-income students, the Advisory Commission cannot completely address demographics or the impact of the awards in helping students to attend, matriculate and graduate

from school. It is important that the Advisory Commission continue to monitor the impact of the dollars and respond to opportunities to enhance that benefit.

Advisory Commission members discussed that NH residents represent about 5% of participation in the UNIQUE plans and Ms. Payne suggested the idea of goal-setting to increase that percentage. This prompted a discussion of several related issues:

- only about 30% of families being aware of 529 Plans as a savings vehicle,
- helping students not able to afford higher education,
- informing families about 529 Plans,
- leveraging available resources toward identified objectives (increase post-secondary matriculation rates in NH,
- increasing the percentage of students staying in NH to go to college and remaining in NH after graduation,
- advertising 529 Plans,
- ,models for establishing a college-savings plan gift for newborns in NH
- strategic use of scholarship funds,
- the
- NH's zero contribution to support higher education,
- building a well-educated NH workforce,
- encouraging private philanthropy,
- the overwhelming increases in the cost of higher education, and
- tracking using established student identifiers.

Advisory Commission members agreed to continue discussing these issues at future meetings in the context of how to best tailor the UNIQUE scholarship award programs to meet these needs. Commissioner Dwyer noted that in order to implement any type of different distribution of discretionary funds, Administrative Rules would need to be amended. Mr. Golden then presented the first quarter 2014 program and industry update. Total 529 Plan market-value industry assets as of March 31, 2014 increased 3.0% from the previous quarter and 16.8% year over year while New Hampshire's UNIQUE and FA 529 plans combined increased by 2.7% for the quarter and 12.6% year over year.

On a combined basis, the New Hampshire Programs ranked ahead of Nevada as the 3rd largest in the country in asset value as of March 31, with nearly \$13.5 billion in assets (at market value) and 6.4% of the industry's market share. New Hampshire followed Virginia (\$48.0 billion in assets) and New York (\$18.4 billion in assets) and surpassed 4th place Nevada by only \$32 million in assets under management. In the direct-sold space, the UNIQUE Plan remained in third place with an 8.5% market share, trailing New York's 14.0% share and Nevada's 9.0% share, which surpassed UNIQUE for the first time in the third quarter 2013. On the advisor-sold side, the FA 529 Plan ranks fifth with a 4.1% market share, trailing Virginia (44.5%), Rhode Island (7.6%), Maine (7.5%), and Ohio (4.5%).

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 for the first quarter of 2014 totaled \$190,000.

On the national legislative front, there continues to be 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 February 2013 for consideration before possibly being referred to the entire House or Senate. There has also been 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 2013 and likely 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 in May 2013 but has also stalled. This bill focuses on Coverdell Education Savings Accounts. Provisions of the bill include an increase in the beneficiary age limit for Coverdells 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.

New legislation, H.R. 4333, was introduced on March 27, 2014 and referred to House Ways and Means. It includes several provisions related to 529 plans: the allowance of computer/technology equipment as a qualified higher education expense; an increase in the number of investment changes to more than 4 times annually; the ability to re-contribute 529 funds whenever a school issues a refund due to student withdrawal; permitting 529 accounts that have been held for more than 10 years to be rolled into Roth IRA's, and; modifying aggregation rules on distribution to be applied on an account by account basis. Fidelity will continue to monitor all of these legislative developments.

Key program enhancements to the New Hampshire plans for the first and second quarter 2014 include industry, state, and legislative/regulatory updates as described above. Planned customer experience enhancements and communications include FDIC and bill pay service communications, the online gifting platform launch, a rewards card promotional mailing, and the annual fact kit mailing. As noted earlier, active asset allocation launched during the second quarter. Lastly, the FA 529 omnibus recordkeeping/networking initiative remains on track to launch in November 2014, with Ameriprise slated to utilize the universal 529 account application.

UNIQUE 529 Plan Review

Mr. Golden and Mr. Bernhardt reported that as of March 31, 2014 UNIQUE retail plan assets totaled nearly \$9.28 billion in market value, consisting of almost 515,000 participant accounts and holding an 8.5% market share, third among plans in the direct-sold segment behind New York and Nevada. Mr. Bernhardt noted that the 50% share of industry assets in age-based portfolios still registers significantly lower than Fidelity's 81% at the end of the first quarter. The UNIQUE Plan also

exceeds the industry average at 57% of participant accounts enrolled in automatic contributions at quarter end, compared to 32% of industry accounts.

New accounts grew by 12,226 in the first quarter, with the number of new accounts increasing by 14% compared to the same quarter in 2013. Contributions for the first quarter of 2014 totaled nearly \$290 million and exceeded first quarter 2013 contributions by 12%. The average account size of a UNIQUE portfolio was \$23,848 compared to the industry average of \$17,246 as of March 31, with NH residents averaging a balance of \$16,433 in the Plan. The average monthly new account and existing account contributions in the first quarter were \$3,621 and \$166 respectively, with the same metrics for NH residents registering \$2,756 and \$284 respectively.

Participants residing in New Hampshire are 5th out of all states at 4.83% of total accounts in the retail Plan and trail Texas (12.39%), California (11.99%), New Jersey (7.78%), and Florida (6.09%). In terms of assets under management in the UNIQUE Plan, New Hampshire maintained its 7th-place ranking, trailing California, Texas, New Jersey, Florida, Pennsylvania, and Illinois.

At the end of the first quarter of 2014, 80% of the UNIQUE retail participant assets were held in age-based portfolios with 13% in static portfolios, and the remaining 7% in individual and bank deposit portfolios. During the first quarter, 82% of net flows were into age-based portfolios (including 15% for multi-firm portfolios), 9% into static portfolios, and the remaining 9% into individual and bank deposit portfolios on a net basis. Through the first quarter of 2014, the College aged-based portfolios, both actively managed and index, have experienced negative net cash flows at the rate of 35.61% and 2.24% 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 1.12% of all portfolio cash flows, while the Bank Deposit portfolio has undergone cash outflows at 1.40% of total portfolio activity, and there have been outflows of 0.80% and 0.09% out of the Conservative actively managed and index funds respectively.

Local sponsorship and marketing initiatives planned throughout 2014 were reported including a new partnership with the Children's Museum of New Hampshire (located in Dover), the UNIQUE Plan's 2014 season-long sponsorship of the New Hampshire Fisher Cats, the ongoing literacy collaboration with the NH JumpStart Coalition, and participation with the Lil' Iguanas Child and Safety Foundation. Advertising and outreach efforts planned include promotional campaigns on New Hampshire Public Television and in magazines and online media, such as Parenting and Money magazines as well as Savingforcollege.com. Once again there will be UNIQUE marketing communications centered on estate planning, back-to-school, and holiday gifting themes, in addition to Fidelity Reward Card communications.

Fidelity Investments American Express credit card rebates for the first quarter 2014 totaled \$4.9 million in rewards flows deposited into the UNIQUE Plan, with \$25 million in rewards to 529 participants and non-participants over the past 15 months. Mr. Bernhardt would like to see increased participation in American Express rewards.

Attendees discussed fund levers and drivers, relative growth, conservative investments, and increased competition (17 years ago NH was actively accumulating assets) as more investment options are available. There might be less differentiation in growth rates with the active asset

allocation. Benefits of the Plan need to be marketed effectively. There needs to be strong performance and it should be simple for advisors to use the Plan nationally.

Dr. MacKay noted that a STEM task force and legislative group formed as a result of HB1146, a bill proposing to provide incentives for young children to save for college. The Treasury Commissioner will likely be asked to provide testimony during the interim legislative session, with the group expected to report its results by November 1.

Dr. MacKay suggested that everyone think about today's broad discussion of optimizing program scholarships; the topic will be included on the Commission's August 25th meeting agenda. At that meeting, Dr. Gittell will provide a STEM Task Force update and Commissioner Dwyer may bring attendees up to date on the HB1146 Task Force.

Fidelity Advisor 529 Plan Review

Mr. Golden reported that the Fidelity Advisor 529 Plan ("FA 529 Plan") had approximately \$4.19 billion in market-valued assets under management at March 31, distributed over nearly 199,000 participant accounts. Using the first quarter 2013 as a basis for comparison, 10.6% fewer new accounts were opened in the first quarter of 2014, with 0.1% less in relative contributions for these same periods. The metrics for the first quarter 2014 versus first quarter 2012 were also provided, with even stronger under-performance on a comparative basis due to significant account migration into the FA 529 Plan in 2012 resulting from a one-time event.

New Hampshire residents maintained a ranking of 20th in the number of accounts in the advisor-sold plan at 1.47% of all accounts. Residents from California (13.58%), Texas (7.96%), Massachusetts (7.04%), Pennsylvania (5.75%), and Florida (5.57%) constituted the top 5 in the plan at the end of the first quarter. The average account size in the advisor-sold plan was \$21,015, with New Hampshire residents averaging \$20,037 in account balances.

For the first quarter 2014, net outflows occurred in both the age-based College and 2013 Portfolios resulting in a drop of 4.1% and 3.2% respectively from the prior quarter, as participants began and continued their redemptions for college expenses. Continued outflows in three of the bond portfolios in the first quarter are an indication that some investors are moving away from fixed income funds. Consistent with the fourth quarter 2013, nearly 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 first quarter saw nearly 81% of net flows directed to the age-based segment, with over 24% of net flows into the individual portfolios and 5% outflows from the static. Mr. Golden does not see as many assets going into static portfolios; advisors are building their own or they are choosing the age-based portfolios.

An overview was submitted of the anticipated integrated marketing efforts that are planned throughout the year. The initiatives combine elements such as e-mail and direct mail informational communications and promotions, along with "here's to the future", back-to-school and holiday gifting themed outreach. Fidelity sales support, website promotion, client meetings,

conference participation, marketing promotion, and sales interaction will augment these efforts, with specific baseline and promotional marketing support provided for topics including an overview of the FA 529 Plan, active asset allocation, and accelerated giving.

Other state plans continue to utilize Fidelity Advisor funds on an investment-only basis, with \$16.5 million in market-value assets as of March 31, 2014:

Nevada (Putnam - \$4.6 million since inception in October 2010)

South Carolina (Columbia - \$11.9 million since inception in October 2012)

Advisory Commission members discussed drivers for the program's success, concerns about relative growth (in view of the competition), outflows increasing by double-digit percentage rates each year, conservative investments, account drags (lower proportional allocation to equities and net withdrawal factors resulting from mature college savings plans), double-digit new account openings, targeted marketing, and the desire to see the Plans to grow.

Lastly, Mr. Golden solicited Advisory Commission approval for a waiver of the annual \$20 account maintenance fee for participants in the omnibus Broker/Dealer environment. These participants may already be assessed a maintenance fee for the services provided by their Broker/Dealer. Since the FA 529 account maintenance fee is written into the existing Investment Management Agreement, the Advisory Commission must first authorize the Commissioner of the Treasury to seek Executive Council approval of an amendment to the IMA. With the anticipated launch of omnibus brokerage in November (with Amerprise), the G&C request must be submitted in advance. Dr. MacKay requested a motion to waive the maintenance fee. Dr. Gittell moved, and Dr. Leach seconded. The Advisory Commission voted unanimously, approving the motion.

Review of Other Items

On behalf of the Advisory Commission, Dr. MacKay presented awards to former Commission members Martie Gooze and Catherine Provencher (former State Treasurer and Trustee of the Plans). Advisory Commission members expressed their gratitude for the service and commitment of both, noting that Ms. Gooze was a member of the original Commission established in 1997.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 11:50 a.m.

NOTE: The next regular meeting is scheduled for Monday, August 25, 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.