New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Non-Public Session of May 16, 2011

Dr. MacKay called the New Hampshire College Tuition Savings Plan Advisory Commission (Advisory Commission) non-public session to order. (Reference minutes of the May 16, 2011 Advisory Commission meeting.) The sole purpose of this non-public session was to discuss Fidelity's proposal to offer Open Architecture portfolios to Fidelity 529 accountholders.

Members present at the non-public session were:

Edward MacKay (Chair)	Chancellor, University System of New Hampshire
Robbie Parsons	State Representative
Tara Payne	Vice President, representing the NH Higher Education Assistance Foundation Organizations
Thomas Horgan	President & CEO, representing the New Hampshire College and University Council
Amy Bourgault	Executive Director, CCSNH Foundation representing the Community College System of NH
Catherine Provencher	State Treasurer
Kathryn Dodge	Executive Director, Postsecondary Education Commission
Martha Gooze	Public Member, appointed by the Governor

Members Absent were:

Sylvia Larsen	State Senator
Gary Lambert	State Senator
Lynne Ober	State Representative
Linda Hodgdon	Commissioner of Administrative Services Dept., representing the Governor
Michael Cryans	Public Member, appointed by the Governor

Also present at the meeting were Joe Ciccariello, Jeff Troutman, Peter Mahoney, Matthew Golden, and Joe Cullen from Fidelity Investments (Fidelity), Cynthia Capodestria from the Postsecondary Education Commission, Richard Gustafson, Chancellor of the Community College System of New Hampshire, and Bill Dwyer and Brad Jacobson from the State Treasury.

Dr. MacKay stated that Fidelity is proposing to offer what is known in the industry as Open Architecture (OA) options to participants in the State's 529 college savings program. He turned the floor over to Mr. Ciccariello to present a brief overview of the OA product. This offering will provide an array of investment management choices for participants not wanting to invest solely with the proprietary fund manager, Fidelity. The college savings plan industry is increasingly moving in the direction of extending these types of portfolios to investors. To the extent the Commission authorizes the pursuit of an amendment in the current contract (requiring the approval of the Governor and Executive Council) the anticipated implementation date is late September or early October. Treasurer Provencher noted that through this initiative there would be 8 new funds offered to investors, resulting in increased audit fees for the plan at a cost of $4,000 per additional fund. Since the UNIQUE and Fidelity Advisor 529 funds are audited annually as of September 30, her recommendation is to launch the enhancement after that date in order to prevent the incremental cost of $32,000 from being incurred with only one or two weeks of program benefit to the funds. At this time, Mr. Ciccariello turned the floor over to Mr. Cullen to present a more detailed review of the OA product.

Mr. Cullen provided a brief overview of the benefits and trade-offs associated with OA and stated that the product is still in the early enough stages within the industry that the results thus far are mixed, with no clear indication yet that it produces significantly better investment or participation results. Most 529 plan investment managers that have begun offering OA are using a small number of outside managers and there tends to be a high degree of passive investing with little turnover. More than 50% of investors in this product make consistent contributions to an OA fund in order to benefit from dollar cost averaging, and asset allocation has been the key factor in terms of the variability of returns.

It is Fidelity's intention to limit the OA product to the age-based portfolios only, which will include U.S. Equity, Non-U.S. Equity, Investment Grade Debt, High Yield Debt and Short Term Debt and Fidelity proprietary money market funds. As part of its value-add research process for identifying the most appropriate and sound investment managers, Fidelity has chosen to limit the universe of available investment funds to those that do not charge transaction fees and will focus the lowest cost share class of a particular fund within the "No Transaction Fee" (NTF) fund universe. From a portfolio standpoint, the allocation to non-Fidelity funds would be a potential range of between 50-75% of the portfolio, with the remainder retained within Fidelity's proprietary fund offerings. The precise allocation to non-Fidelity funds will vary over time and could be outside this range.

Mr. Cullen reviewed the core capabilities and key personnel within Fidelity's Asset Allocation Division and then described Fidelity's OA investment process, which is similar to the process used for the Fidelity proprietary plan. The risk and asset allocation methodologies similarly rely on an 88% equity weighting in age-based funds 18 years prior to the target date with the eventual transition on a 'glide path' based on age to a portfolio with less risk at college age. Fidelity's process of fund manager selection begins with a universe of over 2,000 funds, reduced to eliminate any funds which assess transaction fees, and further reduced to eliminate those funds that concentrate on the higher-cost share classes, ultimately resulting in an available pool of approximately 1,200 eligible funds. Following this process, Fidelity applies a selection matrix that evaluates both quantitative and qualitative metrics to identify the best funds and fund managers for the UNIQUE portfolios. Key assessment factors include the organization's leadership and culture, the unique characteristics of a fund's investment team, the investment philosophy, and the investment process. Fidelity researchers will also conduct site visits in order to construct the most thorough perception of the firms and investment teams.

The sample portfolio presented to the Advisory Commission reflected the widest array of offerings in its U.S. equity allocation due to the risk nature of that sector and the sector's high weighting within the overall portfolio. Fidelity's analysis also provides a thorough accounting of expense ratios by fund, and in this vein, the Fidelity team emphasized that the OA product, while offering access to outside investment managers, is backed, researched, and administered by Fidelity, with complete fiduciary responsibility for portfolio performance.

From a pricing standpoint, expense ratios tend to run 30-40 basis points higher than in a proprietary fund portfolio due to relatively higher fund fees charged by non-Fidelity funds, so the expected incremental return in an OA should be similarly enhanced in order to make the product compelling to investors. The program fee assessed in addition to the specific fund expenses would be 35 basis points, which is consistent with what other OA providers charge. The proposal includes a 10 basis point share to the NH program with 25 basis points retained by Fidelity. The increase in program fees is a direct result of the additional analysis costs incurred by Fidelity. According to the Fidelity team, no other state sponsor receives greater than 10 basis points in an OA program and total program fees are 35 basis points for all Fidelity-managed state programs.

Among all Fidelity investment product types (i.e., retirement funds), approximately $100 billion is situated in OA portfolios. Fidelity's goal is to get ahead of this trend as it emerges in the 529 plan segment. The Fidelity OA portfolio will provide access to the greatest number of non-proprietary funds of any 529 plan and is likely to be implemented by other state sponsors that have contracts with Fidelity.

Upon completion of the OA product discussion, the Commission unanimously approved the closing of the non-public session. Following the re-opening of the public session, the Commission moved and there was majority approval of the pursuit of a contract amendment with Fidelity in order to implement the new investment product proposal. In addition, the Commission moved and approved the authorization of Treasurer Provencher to execute the relevant contract amendments and to seek Governor and Executive Council approval on behalf of the Commission. Lastly, Ms. Gooze moved, Mr. Horgan seconded, and the Commission unanimously approved that the minutes pertaining to the new investment proposal remain sealed until the amendment is approved by Governor and Executive Council.