

Minutes of the Meeting
of the
College Savings Program Board

Held in the State Treasurer's Conference Room, Third Floor
1 South Pinckney Street; Madison, Wisconsin

August 15, 2011
1:00 p.m.

MEMBERS PRESENT: *Adamski, Durcan, Oemichen,
Sheehy (by phone)*

MEMBERS ABSENT: *Darling, Johnson, Rosen, Wegenke*

OTHERS PRESENT: *Deputy State Treasurer Scott Feldt, Sarah Henriksen and
Shane Martwick, Tom Biwer (by phone) of Wells Fargo Funds Management;
and Jim DiUlio.*

I. Call to Order and Roll Call – The meeting was called to order at 1:10 p.m. by Board Chair *Oemichen*, attendance is listed above. *DiUlio* stated the meeting has been properly posted.

II. Approval of Agenda – Motion by *Durcan*, second by *Adamski* to approve the agenda as posted. Agenda approved by unanimous voice vote.

III. Public Presentations – There were none requested

IV. Approval of Minutes for May 16, 2011 Meeting – Minutes of the meeting were reviewed. Motion by *Durcan*, second by *Adamski* to approve the minutes. Minutes approved by unanimous voice vote.

V. Administrative Reports

A. Board Chair Comments – None today.

B. Department of Administration Comments – None today.

C. Program Director Comments – *DiUlio* briefly talked about the physical move from the State Treasurer's office to the DOA building in the past few days. Some difficulties with phones and computers need to be resolved, but he thanked Treasury staff for allowing College Savings and LGIP staff to remain at the bank building while DOA space was made ready. It is anticipated that Board and Committee meetings will now be held at the DOA building for convenience of materials and support staff. A city parking ramp is located across the street.

The Program's regular activities continue with support for the Summer Reading events at the Milwaukee and Madison Public Libraries. EdVest has participated for a number of years with both programs. Another cosponsored event coming in

April 2012 will be Money Smart Week, a statewide financial literacy promotion from the Department of Financial Institutions with support from the Federal Reserve Bank of Chicago. This past year, 26 communities scheduled more than 300 activities. This will be larger this year as the Chicago Fed takes the promotion nationwide and the American Library Association joins the group. In September and October, a series of employee benefit fairs begin at state agencies and private employers. *Shane Martwick* has coordinated the group at Wells Fargo staff most of these. We promote the EdVest plan and also payroll deduction where available. And we will be involved with both the high school counselors and college financial aids advisors at various events in October and November. And just today, thanks to *Deputy Treasurer Scott Feldt*, we have a proclamation from *Governor Walker* designating September as College Savings Month. This is part of a multistate effort by the College Savings Plan Network (CSPN) to increase awareness of 529 plans.

The revenue and expense report is nearly complete for the fiscal year. We ended with larger revenue than last year, driven by the market's increase in our asset base, and we spent a bit less, to finish the year just under \$200,000 more than where we started. Regarding the numbers of accounts and assets, we show some modest gains in the EdVest plan. And while the numbers are smaller with Tomorrow's Scholar, the decrease is actually a fraction of a percent. Also attached for information is the recent Second Quarter rankings from Savingforcollege.com. Both plans placed well in his evaluation system, repeating many of the previous quarters' high rankings, reflecting good work with plan and portfolio design. Wells Fargo Funds circulated a trade magazine reprint with the previous quarter's high rankings to more than 50,000 advisors. Comment by *Adamski* saying the three- and five-year high rankings are important and should be publicized.

Question from *Oemichen* regarding additional promotion of these rankings. *DiUlio* said that we need to exercise caution using this data without the securities disclosures, etc. However, the Governor's proclamation will be posted on both commercial websites, and work is underway to establish a separate program website, separate from the previous location of the OST site. The new website can incorporate a greater variety of information than that of a regulated entity.

Morningstar annual interview included both state and Wells Fargo people on the same call this year. It began a bit unsettling when the interviewer asked to start the conversation at slide 30, however it seemed to go well. *Henriksen* added that the previous Wells experience with this interviewer was tough, but with good questions. We will wait for results.

Proxy voting to report involves one of the last pieces of the Evergreen/Wachovia and Wells Fargo funds consolidation. The Wells Fargo Advantage Disciplined Value fund will be merging into the WFA Large Company Value fund. We have 9 positions in Disciplined Value totaling about \$140 million, controlling about 35% of the fund. The net effect will be zero as fees remain the same, and our shares will be diluted. Our yes vote was recommended by Wells Fargo and should take place yet this quarter. We did our diligence and found nothing negative.

One item to note on the national and federal level. There are some companies using the internet to attract deposits to 529 accounts from friends and family of those who register. Of concern to the states were a number of compliance issues of acting as securities dealers and also charging for no load fund or using a credit card to make the purchase. We, along with Maryland and Alaska through our

program managers, asked one of the providers (Gift of College) to cease and desist and have also notified the regulators. A secondary concern is one of damaging the good reputation we all enjoy with the public.

No further word on the proposed licensing rule concerning volunteer members of boards such as ours. There has been considerable national comment, however.

- D. Program Manager [Wells Fargo] Comments** – *Henriksen's* quarterly update began with the industry updates. The MSRB is asking for comments on account activity in 529 plans, almost down to the granular level. There has been concern within the industry of whether the data will be used for regulatory use or with some sort of data for investors. She and *DiUlio* have been on a number of calls where this has been discussed. However, an interesting point has been included with this proposal—to add the MSRB's "access equals delivery" electronic posting to 529 plans. This would save most plans paper printing and mailing expense, and we will watch this closely.

The July EdVest product changes proceeded smoothly. Money is starting to come into the new International Index. As the Credit Union CD portfolio transferred to the Bank CD portfolio, there were no noticeable trends in calls. Bankers Bank is temporarily reducing their fee 10 bps, to allow a bit better yield for investors.

Other activities included the annual Program Description and mailing, in conjunction with July product change, and the annual enrollment-based migration of 29,000 accounts last week. All conducted smoothly, she said.

The state tax deduction for grandparents was clarified with better language added to the statutes with the budget bill.

Recent outreach activities were outlined by *Martwick*, including the popular annual "529 Day" at the Milwaukee County Zoo, events at Children's Hospital and with investment advisors. Additional outreach courtesy of the State Treasurer's office was at the Wisconsin State Fair, with materials available at their Unclaimed Property booth.

Two suggested action items are on today's agenda from Wells Fargo:

Henriksen said that movement within the 529 industry, as program managers change, has brought inquiries from financial advisors wanting to move client 529 accounts to our plans at net asset value (NAV). The idea is to move the assets and not charge the client another commission. The financial advisor's broker dealer would be responsible for verifying that a rollover was eligible for purchase at NAV. Discussion of hypothetical situations followed.

Motion by Adamski, second by Durcan to allow purchases of Class A shares at net asset value for rollovers from another state's 529 plan, provided the shares were previously subject to a sales charge. Approved by unanimous voice vote.

Second suggested action from *Henriksen* recalled a 'red flag' presentation to the Board and incorporated into the Program Description regarding terminating certain accounts where information could not be verified at the application

process. However, no process exists after that time where an account exposes all of us to additional risk years later due to fraudulent or other types of activity. This potential risk was identified through an internal review of procedures at Wells Fargo.

Oemichen asked what if an unwitting victim with an account was caught up in identity theft in something like this, would they suffer a market or other loss with a terminated account? *Henriksen* replied that this procedure was more focused on things like money laundering or intentional identity fraud. The account owner would be given 30 day notice of the closing, which would still allow a remedy within the 60-day rollover window. The Wells Fargo procedure would not be a knee-jerk decision, but only be considered after a number of steps to identify the situation. New York and all the other Vanguard plans have similar procedures in place, *DiUlio* added. *Oemichen* then asked if as a temporary step an account could be suspended. *Adamski* replied that in banking and securities training, there is not really a mechanism for that, but looking for very strict action. The banking business has a very short time to react with suspicious activity. *Oemichen* said he was willing to support this concept as long as the 'unwitting victim' was protected.

Motion by *Adamski*, second by *Sheehy* to allow for the Board or the Program Manager to redeem or close an account, without the account owner's permission in cases of suspicious, fraudulent or illegal activity or activity that may otherwise expose the State, the Board, the Program or the Program Manager (or its affiliates) to legal, reputational or other risk. Further, if an account closure or redemption occurs as a result of the foregoing, any market loss, tax implications, penalties or other expenses will be solely borne by the account owner. Approved by unanimous voice vote.

VI. Old Business

None today

VII. New Business

- A. Investment Committee Report** – *Oemichen* is filling in for *Johnson's* report from the last week's committee meeting. In the absence of a report from an investment consultant, the group discussed the quarter's flat performance of the portfolios and underlying funds against their benchmarks. It was the consensus of the group to not make any recommendation to the Board with regard to the formal Watch List, currently empty, or the three funds on early warning.

Members of the committee met recently with representative from Callan Associates, who are seeking to replace Evaluation Associates' contract. *Annoesjka West* and *Karen McKechnie* came to Madison for an initial visit and presentation. Their research materials, experience, and related information will be reviewed and Callan indicated a willingness to visit us on a quarterly basis. The consensus of the committee was to recommend that DOA further pursue an agreement with Callan.

The committee is looking ahead to continue meeting with portfolio manager in the coming months. Other activity will also include updating the Investment

Policy Statement document in light of the program's relationship changes with OST and DOA.

B. Marketing Committee Update – *Sheehy* thanked *Martwick* and the Wells Fargo team for the continued outreach activities. He also asked about the end-of-year market plan. *Martwick* replied that *Laura Wilkinson* could not make today's meeting but is working on the plan and will have information soon. *DiUlio* mentioned visiting the state's Farm Technology Days recently, this year near Marshfield. There are good outreach opportunities through that event we will consider for next year.

VIII. Other Announcements – The outside audit is underway, things are bit behind schedule, but KPMG tells us they will catch up. An October date will be set for a special meeting to review and accept the outside audit of the program by KPMG, LLP. That date will be announced as work is completed and an available time is scheduled.

The Board is scheduled to meet for its next regular meeting on Monday, November 14, 2011.

IX. Adjournment — Motion by *Durcan*, second by *Adamski* to adjourn. Unanimous vote.
The Chair adjourned the meeting at 2:14 p.m.