

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

May 16, 2011
1:00 p.m.

MEMBERS PRESENT: *Adamski, Doug Hoerr (for Durcan), Johnson, Oemichen, Schuller, Sheehy (by phone), Wegenke*

MEMBERS ABSENT: *Darling, Rosen*

OTHERS PRESENT: *Michael Wolff, DOA; Sarah Henriksen, Shane Martwick, of Wells Fargo Funds Management; Linda Schlissel, Evaluation Associates (by phone), Jelina Radich, Sen. Darling's office; and Jim DiUlio.*

I. Call to Order and Roll Call – The meeting was called to order at 1:06 p.m. by Board Chair *Oemichen*, attendance is listed above. *DiUlio* stated the meeting has been properly posted.

II. Approval of Agenda – Request by *DiUlio* to move his portion of the meeting to the end in view of keeping a quorum for anticipated action items. The reordered agenda approved by unanimous voice vote.

III. Public Presentations – There were none requested

IV. Approval of Minutes for February 14, 2011 Meeting – Minutes of the meeting were reviewed and approved by unanimous voice vote.

V. Administrative Reports

A. Board Chair Comments – *Oemichen* has none today.

B. State Treasurer Comments – *Schuller* has none today.

C. Program Director Comments – Deferred to later in the meeting.

D. Program Manager [Wells Fargo] Comments – *Henriksen* began her report with an update of the fund changes planned for the EdVest plan. All is going smoothly, toward the July 8 implementation date. On May 2, notices were distributed to those in the affected portfolios. She added that communications process is working well, with no significant increases at the call center. The web pages are also in a transitional stage. *Henriksen* then gave some examples of how account applications and investment selections are handled during this period. Wells Fargo has also implemented a fee waiver for the Credit Union CD

portfolio, as over 80% of the portfolio is now in cash, awaiting replacement to the Bank portfolio. *Adamski* thanked *Henriksen* for the gesture.

Henriksen then explained the annual publication of the EdVest plan's Program Description will take place to coincide with the July 8 fund lineup changes. As work progressed on the document, she and *DiUlio* have discussed how fees and waivers are presented. As an example, the plans' outside audit fees, now paid by the settlement money, will be covered for a finite period longer than the annual effective dates of the Program Description. Accurately reflecting the situation, the fees can be stated as zero, and not included as a cost for the required \$10,000 example illustrations. In addition, the Board currently waives its 10 basis points asset fee, reserving the right to reinstate at any time. What the Wells Fargo attorneys suggest is language that also sets finite dates for the Board's fee waiver, in similar fashion, allowing the fee to be reported as zero and not be included in the \$10,000 cost examples. Since many of the outside 529 publications rank cost factors of various plans, this proposal would move EdVest up five places, while having no material effect on participant accounts. *Wolff* then discussed how this would affect the state's role, concluding that the change is one of semantics to allow the statement of zero fees, but to retain the Board's right to reinstate them if needed. *Johnson* added that the concept was discussed in last week's Investment Advisory committee meeting. Although there was no vote, he said there was unanimous support.

Motion by *Johnson*, second by *Adamski*, "To permanently waive the Board Administrative Fee applicable to the EdVest portfolios, effective as of the effective date of the 2011 EdVest Program Description until the earlier of:

1. the effective date of the 2012 EdVest Program Description, or
2. August 31, 2012 (the "Fixed Waiver Period").

After the expiration of the Fixed Waiver Period, unless otherwise extended for another term by the Board, the waiver will continue in such form originally approved by the Board on March 24, 2005." Motion carried by unanimous voice vote.

Henriksen then reviewed some of the previous quarter's trends and outreach activities. Wells Fargo's report on the year's activities in more depth is now available in both in paper and on CD; copies are available at today's meeting. Upcoming events include participation in the national 5-29 day promotions. We will again partner with the Milwaukee County Zoo for an event there.

She shared results of a survey from 694 financial advisors—those selling either of our 529 plans, some not at all. Of interest to the advisors is the state tax deduction, similar to responses from earlier surveys with direct sales participants. The key feature for advisors is investment performance. The top negative for advisors was the amount of paperwork, often part of the broker dealer's procedure.

Wegenke asked about the response at a college night event in April, in light of WAICU's nearly 200 events annually. *Martwick* said that the events have had mixed results, and Wells participates when staff and resources permit. This particular event in Germantown was focused on college savings and promoted by the high school staff.

A question was raised as to how the advisors are compensated. *Henriksen* replied that there is a mix of both A and C shares; the class B accounts are no longer sold. There are also some Registered Investment Advisors with fee-based

accounts and the no load shares. *Adamski* added thoughts about customer service—that advisors should be looking at college savings as part of a client’s total financial needs picture.

Henriksen concluded with an update of a recent legal settlement regarding activity by Wachovia Bank and Mexican drug money laundering. Wells Fargo was aware of the pending action prior to the acquisition of Wachovia and set aside reserves for settlement fees, she said, and should not affect their ability to serve customer needs. She said that Wells’ corporate culture is one of a very conservative company, and wants to assure customers that a rigorous compliance model is in place to protect all.

VI. Old Business

None today

VII. New Business

A. Investment Committee Report – Last week’s committee meeting received the first quarter’s positive performance report, *Johnson* said, including continuing improved performance of a portfolio on the Watch List. *Schlissel* then said she would review her book quickly, because it was a good quarter, the numbers were strong on both an actual and relative basis. On the EdVest risk-based portfolios managed by Wells Fargo, all of them outperformed their benchmarks for the quarter and trailing year. The performance is also very good from inception dates. The Vanguard portfolios after factoring fees, are steady. The Legg Mason portfolio had a difficult quarter, primarily due to composition, in contrast to the higher quality names in the Wells Fargo portfolios. The bond funds did well. The money market and CD portfolios are showing the current environment. The underlying portfolios are in line. The WFA Growth fund is enjoying some spectacular performance, she said, due to both stock selection and sector allocation. The committee’s initial concerns about undue risk are not evident, with a 101 stocks, more than many peers, she concluded. The sector mix was also correct.

The tables of EdVest peer comparisons show continuing improvement of all the portfolios. The lower ranking of the money market and “in college” selections is of no concern, since the tight number ranges are out at 6 decimals. A zero return could be either a 94th or 6th percentile now.

Schlissel then reviewed the progress made by WFA Diversified International Fund over the past four quarters, with the previous rolling averages close to the marks. There has been continued improvement over the past three years.

Similar good performance follows through the Tomorrow’s Scholar portfolios, for the quarter and rolling periods. With the underlying funds, those on the informal watch list have done well recently. Every piece of this plan has been working well, she said, adding that the plans should be receiving good notice in the media.

Sheehy asked about notice given to Baird and Legg Mason regarding the changes. *Henriksen* replied that there were both verbal and written communications as the process moved along. *Schlissel* added that her conversations stressed that these were plan decisions, and not any reflection by EAI of either fund’s performance.

Moving to the informal watch list eligibility list, there are improvements to the recent performance of three funds and will not trigger any recommendation to place them on formal watch. In addition, the WFA Diversified International's improvement brings a recommendation by EAI and the Committee for it to be removed from Formal Watch. The draft Formal Watch list now shows no funds on watch.

Motion by Johnson, second by Adamski to remove WFA Diversified International Fund from the watch list, resulting in no funds listed on formal watch. Motion carried by unanimous voice vote.

Johnson then expressed the sentiments of the Investment Committee and the Board, thanking the Wells Fargo team for its work with the new fund lineup. He added that the practice of bringing managers in to meet with us will continue, starting with the larger managers of both plans. Schlissel said other 529 plans also have manager meetings, sometimes with staff and/or boards. She favors our current arrangement, allowing the Investment Committee direct contact and time to dig a little deeper with questions and concerns. Johnson added that all Board members are welcome to participate in these visits.

Schlissel, who had been participating by phone, left the meeting.

B. Marketing Committee Update – Sheehy expressed thanks to Wells Fargo for the activity reports, including the entry into Facebook. These activities are important for new and continuing accounts, he said. He then asked DiUlio to share their recent conversations regarding outreach and promotion of the plans. DiUlio briefly recalled the program's earlier efforts reach residents throughout the state with awareness and information activities for EdVest. In addition, the advisor-sold products show flat and declining account numbers, suggesting a need for support. The vacant second position for marketing was frozen at the first of the year. Efforts to fill the need with a Limited Term person produced two experienced candidates—but one took a full-time job and the other could not cover child care with the wage allowed. He said the need remains for more outside work and is critical for long-term growth of the program. Other ideas to address the problems will be pursued, including social media.

V. C. Program Director report Total assets have increased since the first of the year, but most of that has been the market, rather than additional accounts. DiUlio explained how a child could have multiple accounts, with a multifund portfolio, an index fund, and a money market. Account totals would appear inflated, but logical from a recordkeeping perspective. Wells Fargo provides data on both discrete owners and beneficiaries for a more accurate picture. He shared a recent report that \$1 billion will be withdrawn from 529 accounts nationwide this year, about 11% of total assets.

At the nine month expenses mark, we are at about 71% of our expenses, and projections will put us about 90% when the year ends. Interest income over the year has dropped. We have calculated that the outside audit expenses will be covered to August 2015 using the Strong settlement money we received in December. Following-up on the call center remediation report from the last meeting, we are back on track. This past quarter, call pickups were at 17 seconds vs. the 30-second standard and dropped calls are 0.86% vs. the 3% standard. And the e-mail response time is 8 hours, 41 minutes vs. 24 hours.

The FDIC took action at Legacy Bank in Milwaukee, where we have a \$250,000 certificate maturing in September. Seaway Bank & Trust of Chicago took over Legacy, raising the question would this still satisfy the Wisconsin bank requirement? After consultation, we decided to keep the certificate since FDIC insures the principal for the short time remaining, and the local borrowers could be affected if we pulled out. The press has called Seaway a good corporate citizen and we will watch the situation. *Adamski* added that not being contacted by the FDIC was good news. They could have returned the principal or dropped the rate if things were serious.

On the federal and state front, there are many items. The SEC's proposal for rule 15B, potentially requiring volunteer Board members to register as advisors will be pushed back to late fall, following hundreds of comments, including one from MSRB. H.R. 529 has picked up 17 cosponsors so far, and may be attached to other legislation. Tax impact is minimal, depending if the employers' \$600 annual match or the Savers Credit provision are included. Another proposal for the bank-only 529 has been introduced in Congress; CSPN is monitoring activity and compiling data on the 30-plus existing state 529 plans with CDs or stable value choices. We were told on one of the calls that our operational model for the CDs is 'belt and suspenders,' meaning a high degree of investor protection, transparency, and a good example for other programs to follow. Here in Wisconsin, the Revenue Department's March newsletter told tax practitioners that a grandparent could not receive a tax deduction for contributions to a parent's account for the grandchild—the grandparent had to have a separate account. This was contrary to our interpretations. We received calls here and at Wells Fargo from advisors and tax professionals, asking about 'the change.' The financial press shortened the headline to say 'grandparents can't get a tax deduction.' To remedy the situation, DOR has recognized the situation and is researching better statutory language for possible inclusion in the budget bill. If the statutes cannot be changed, discussion about capturing more information on the state tax return form may be an alternative. We will offer support where needed. *DiUlio* also shared some information from the NAST/CSPN meetings in Atlanta two weeks ago. He served on the program committee and moderated a session on student financial aid. Board members were reminded that they are also welcome to participate in these national conferences, with money in the budget for that purpose.

Treasurer Schuller added that during his NAST meetings earlier this year in Washington, he lobbied regarding the Dodd-Frank law and in support of H.R. 529. Even though the program moves to DOA, he said EdVest would be promoted in his travels. He added that he enjoyed his short time on the Board. *Oemichen* thanked him for his service and the hospitality of the Treasurer's Office.

Oemichen also recognized the service of Board members Mary Cook and Jeff Plale, whose terms have just expired. He asked staff to order plaques of recognition, expressing the Board's thanks for their contributions.

He also thanked *Doug Hoerr* of UW System Trust Funds for participating in today's meeting, in place of *Debbie Durcan*.

VIII. Other Announcements – The Board is scheduled to meet on Monday, August 15, and then on Monday, November 14, 2011.

IX. Adjournment — The Chair adjourned the meeting at 2:27 p.m.