

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

February 14, 2011
1:00 p.m.

MEMBERS PRESENT: *Adamski, Cook, Durcan (arrived 1:10 p.m.), Johnson, Oemichen, Schuller, Sheehy (by phone), Wegenke*

MEMBERS ABSENT: *Darling, Plale, Rosen*

OTHERS PRESENT: *Michael Wolff, DOA; Scott Feldt, OST; Sarah Henriksen, Shane Martwick, and Danny Sarnowski (by phone), Wells Fargo Funds Management; Linda Schlissel (Evaluation Associates), and Jim DiUlio.*

I. Call to Order and Roll Call – The meeting was called to order by *DiUlio*, acting as the Board's Secretary at 1:00 p.m. He reported that Board Chair *Darling* would not be with us today, and due to a mistake in the previous governor's office in 2009, her renomination to the Board had not been submitted for a Senate vote. He then read a message to the members from the Senator's office stating that she was now in the process of being nominated again, but would not pursue the chairperson's position due to her duties as co-chair of the Joint Finance Committee. *DiUlio* then deferred to the Board on how to proceed—since it is the first meeting of the year, election of officers could take place now or later in the meeting. He added that a review of the other public members' appointments appeared to be in good order.

Adamski stated that we should have elections now, and nominated *Bill Oemichen* for the position of Board Chair. Second by *Cook*. There were no other nominations. Unanimous voice vote to elect *Oemichen* as Chair. Nominations open for Vice Chair and *Cook* nominated *Pat Sheehy*. Second by *Schuller*. There were no other nominations. Unanimous voice vote to elect *Sheehy* as Vice Chair. *DiUlio* stated that the meeting has been properly posted and handed the meeting to *Chair Oemichen* for roll call. (see attendance above)

Oemichen began by recognizing the contribution of *Senator Darling* as the Board's leader. Motion by *Wegenke*, second by *Schuller*, unanimous vote:

"The Wisconsin College Savings Program Board acknowledges the work of Senator Alberta Darling, who has taken the responsibilities of Board Chair since the group's inception. The program has grown in both stature and size over the years under her leadership. Her continued service and counsel are appreciated as she remains a member of the Board."

II. Approval of Agenda – Motion by *Adamski*, second by *Wegenke* to approve the Agenda. Unanimous voice to approve.

III. Public Presentations – There were none requested

IV. Approval of Minutes for November 8, 2010 Meeting –Motion by Johnson, second by Schuller to approve the Minutes of the November 8, 2010 Board meeting. Motion passed unanimously by voice vote.

V. Administrative Reports

A. Board Chair Comments – none today

B. State Treasurer Comments – *Schuller* said he looks forward to working with the Board and appreciates the time and effort members contribute.

C. Program Director Comments – *DiUlio* took the Board through the reports, as we continue to operate under budget, along with experiencing strong enrollment and investment returns during the previous quarter. He also responded to a question by *Oemichen* that the program’s next biennial budget request is nearly identical to the current one and there has been no request for any changes.

The most recent savingforcollege.com ratings for both Wisconsin plans in various categories continue to improve, and the program received some nice coverage in a recent Milwaukee Journal Sentinel story in the business section.

Since the last Board meeting, there have been two routine proxy votes for mutual funds in our plans: Harbor International directors, following the death of one of the founders; and for reorganization of the parent company of Columbia’s Diversified Equity Income and Marsico Growth. We voted the recommended position in both. Outreach events included the School Boards Convention, followed by regional school in-service meetings. Coming up is our partial sponsorship of the Crazylegs Classic event with UW Madison athletics. And EdVest fliers will be going out again with state tax refund mail over the course of the year. The Departments of Administration and Revenue partner with us to distribute 500,000 pieces this year.

He then referred to a memo in the meeting book regarding a service shortfall at the Wells Fargo call center in mid-2010. The 30-second standard for call pickups was broken for two quarters, triggering a response and remediation plan. The review showed a number of calls were received in response to mass mailings to previous Strong Funds customers by outside law firms. The confusing letters also prompted calls to OST. About the same time, Wells Fargo Funds were merging with Evergreen Funds operations, losing some of their registered staff. As part of the remediation plan, Wells rearranged staff and overtime to address the situation while additional staff could be recruited, trained, and licensed. Joining on the phone was *Danny Sarnowski*, the call center manager. He outlined how their phone queues work and how their staffing has changed a result of the experiences. He added that their training process has also been compressed, to better deal with staff turnovers. *DiUlio* concluded that he did not sense any intent to cut service, but the combination of the two situations overwhelmed the system. Further, the response by Wells Fargo was prompt and effective and fully disclosed to the program. Recommend that the Board accept their course of action. Motion by *Wegenke*, second by *Durcan* to accept Wells Fargo’s actions, with a request for an update at the next Board meeting. Carried by voice vote.

Next item is related to a proposed SEC interpretation of rule 15B regarding board members involved with municipal securities issues—including 529s, housing, hospitals, and the like. Briefly, it says that appointed board members will need

to register as investment advisors with the SEC, as do the professionals (while exempting government employees and elected officials). The comment period is still open, and has drawn critical reactions from many states and agencies. Arguments in favor of the registration include “preventing a friend of an elected official going from town to town promoting a particular bond issue.” While those opposed say these board members are often volunteers, with broad outside experience. Additionally, many may decline to serve, not wanting to deal with additional disclosure of their private business. Discussion by Board members touched a number of points, including licensing fees, continuing education requirements, effective dates, responses from other government finance groups. Six or more of our eleven members would be affected, depending on dedicated seats, and may prompt changes to statutes. About 200 mostly negative comments have been posted as of today on SEC’s website, including those from Wisconsin agencies and cities. 529 plans from Maine, Maryland, and Oklahoma have responded so far, with a long letter coming from our CSPN group. *Schuller* added that he has signed on to NAST’s letter of concern from the treasurers last month. Motion by *Wegenke*, second by *Adamski* for staff to monitor the ongoing progress and if needed, express the Board’s concerns of this proposal to the SEC and Wisconsin Congressional delegation. Carried by voice vote.

Finally, HR 529 was introduced this week in Congress by Rep. Jenkins (former Kansas Treasurer) and Rep. Kind of LaCrosse. A project of CSPN, it incorporates the three items of last session’s HR 1351: allowing computers as an allowable expense, up to four account changes per year, adding the SAVERS Credit of personal retirement plans to 529s; and new this time, an employer match of up to \$600 a year. CSPN believes that this may be attached to an education or tax bill, rather than pass a separate bill.

At 1:55, *Sheehy* leaves the meeting.

- D. Manager [Wells Fargo] Comments** – *Henriksen* reported that the Coverdell ESA has been extended, and contributions to both 529 and the ESA may be made in the same year, which will benefit some investors. The assets in the Vanguard Institutional Index have recently passed another breakpoint, dropping the fund’s fee to 2.5 basis points. (saving our participants \$5 million a year).

She highlighted outreach efforts, including a new program at Wells Fargo Student Loan Centers, providing 20 scholarships nationwide in the form of \$1,000 EdVest starter accounts. The year-end campaign again resulted in good volume, meeting the goals forecast last fall. Nearly 18,000 calls received, with the state tax refund insert generating the greatest response. Calls from radio ads also were significant, even though only 5% of the budget. 92,000 online visits just for EdVest were up 25% over last year. *Martwick* added detail about the click-throughs from the website ads during the campaign. Over the year, average account sizes increased 10-14% and average assets per owner and beneficiary also increased 14-15%. More details will be in the year in review report at the May meeting.

VI. Old Business

- A. Strong Funds Settlement** – *DiUlio* said that this Old Business item will now be retired with the receipt of \$790,376.14 from the settlement account and the funds have been deposited with the state investment funds. Of the SEC’s allowable uses for the settlement, this Board earlier chose to dedicate these dollars to pay the plans’ outside audit fees that had been charged to participants.

So far this year, we have accrued about \$55,000 for audit fees at the rate of two cents per thousand dollars invested. It is estimated that the total of what has been accrued and the settlement funds will cover the audits until 2016 or 2017. Discussion by members and staff on whether to suspend the audit fee or eliminate it and restore at a later date, including standard reporting and PR effects. *Cook* and *Wegenke* suggested that a reminder appear in participant materials informing that the fee may come back. Motion by *Schuller*, second by *Wegenke* to remove the participant audit fee until such time it may need to be restored. Carried, by unanimous voice vote.

VII. New Business

- A. Investment Committee Report** – *Johnson* began by reviewing some key activities the committee has been asked to do. A little more than a year ago, the group developed a more formal written policy for the committee and those involved with the investments. Second, looking at performance and investment managers, with periodic face to face meetings. And third, a formal review of the investment menu offered to our participants, responsive to their needs and costs. A participant survey taken about a year ago, along with input from Wells Fargo has brought us to today's report for the Board from Evaluation Associates, with a recommendation, passed unanimously by the committee earlier today. *Johnson* thanked *Wolff*, *Schlissel*, and *Henriksen* for their work in preparing this report.

Schlissel began with the report's summary, saying that the survey of investors showed strong support for index funds and lower-cost options, so EA is recommending that EdVest add a domestic small cap equity index, an international equity index, and a fixed income index. These additions, along with the index 500 would allow a totally indexed portfolio across the risk/reward spectrum. She said the existing Legg Mason fund and its volatility could create a situation where the student is ready for college and having to cash out at an inopportune time. The concern leads to a recommendation to close out that option. EA is also recommending closing out of the Baird Bond fund. The assets would be mapped to the new funds, on a timetable to allow investors to proceed or make another choice. EA also recommends that the credit union CD be merged into the bank CD option. Lastly, the committee had a lengthy discussion on the category of emerging markets in portfolio construction and its volatility. As a solution, the group decided to not offer a standalone fund in the category, but to add a small allocation to the age-based portfolios. *Schlissel* then explained Vanguard's day-to-day index fund investment strategy. She noted that the committee looked at other index fund families, but Vanguard was the selection. The underlying indices and share classes were reviewed, and she said the fees were very competitive. *Wolff* added that the participants to be moved from the Legg Mason and Baird fund will see considerably lower fees from the Vanguard funds. *Johnson* noted that in a low return environment, low fees are very attractive to investors. A review of statistical information for both the Legg Mason and Baird funds followed. Inconsistent performance and peer comparisons, along with investors moving away support the decision of the committee. Moving to the credit union portfolio, the major problem continues with being able to place money at the institutions—over 80% of the portfolio remains in cash. The other insured choice with the bank portfolio would be an appropriate place for investors. *Henriksen* reported the recent attempt to find alternative placement for the credit union

portfolio with CCCU, while serious, resulted in them declining for business reasons. The committee agreed on keeping the statutory framework for the credit union portfolio in place to restore it on short notice should economic conditions allow. *Schlissel* then moved to emerging markets, which EA expects to return double digits in the next ten years. EA's model portfolio suggestions were outlined, along with the 2-3 basis point differentials, to be offset by the expected performance.

Johnson then brought the motion of the committee for the multiple changes: Recommend to the College Savings Program Board that the following investment portfolio changes take place to the EdVest plan: Add three Vanguard Index Funds—Total Bond Market, Small Cap Equity, and Total International Stock—to the plan, by renaming the Baird Bond and Legg Mason portfolios and changing the underlying investments; to close the Credit Union CD portfolio and move the participants to the Bank CD portfolio, but keeping the framework in place to reopen if needed, and accepting Wells Fargo's recommendation to add an emerging market fund allocation to the set portfolios. Unanimous voice vote. Carried.

For information, *DiUlio* reported the investment trade group, College Savings Foundation, is holding a conference call soon with Morningstar. Other plans have their issues with their data reporting.

Fourth Quarter 2011 Investment Review – *Schlissel* briefly said that the quarter was very good, with most investments surpassing benchmarks for the quarter and year-to-date. Returns in each category were relatively consistent. Vanguard Balanced was not as strong, due to their value orientation. There are no changes recommended to the official Watch List at this time. The WFA Diversified International is set for a formal review at the end of the first quarter. Rolling three year returns are the indicator and another quarter may allow its removal. Motion by Adamski, second by Schuller to accept the Watch List report for the fourth quarter. Carried.

- B. Marketing Committee Update** – Since *Sheehy* had to leave early, *DiUlio* reported that they are looking at doing more out-of-state promotion, and will be reviewing our recent results from Pennsylvania and elsewhere. Efforts to increase sales through the advisor channel will be a 2011 priority.

VIII. Other Announcements – Suggested Board meeting dates for the remainder of 2011 are May 16, August 15, and November 14, all Mondays, with the Investment Advisory Committee meeting one week earlier. The next board meeting will be held on Monday, May 16, 2011 at 1:00 p.m. in the State Treasurer's Conference Room.

IX. Adjournment — The Chair adjourned the meeting at approximately 3:05 p.m. upon a motion by *Wegenke*, seconded by *Cook* and passed by unanimous voice vote.