



Wisconsin College Savings
Program Board

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**College Savings Program Board
Investment Advisory Committee Meeting**

State Treasurer's Conference Room
1 S. Pinckney Street, Third Floor -- Madison, Wisconsin

**May 9, 2011
1:00 p.m.**

Minutes

- I. Call to Order and Roll Call** at 1:00 p.m. (Ken Johnson, Chair)
Present: Ken Johnson, Bill Oemichen, Debbie Durcan [by phone], Michael Wolff, Kurt Schuller, Linda Schlissel and John Smith (Evaluation Associates by phone), Sarah Henriksen and Tom Biver (Wells Fargo by phone), and Jim DiUlio.
- II. Agenda Approval and Public Posting Report** (Chair, staff) Meeting has been posted properly. Agenda approved by unanimous voice vote
- III. Approval of Committee Minutes of February 7, and February 14, 2011** An editorial change was discussed regarding the wording of a motion at 5.C. from the February 14 minutes. To better explain the process affecting the Legg Mason and Baird selections in July, these two EdVest equity portfolios will be renamed and the underlying investments will change, all as a continuous action. No separate action will be required by the participants. As stated in the original motion, the International Index portfolio will be a new addition, and the Credit Union CD portfolio will close with the participants moved to the Bank CD portfolio. Agreement by the originators of the motion. Motion by Wolff, second by Oemichen to approve both sets of minutes. Carried.
- IV. Public Presentations** (if requested in advance) None.
- V. Old Business**
 - A. Progress report on scheduled EdVest portfolio changes The process has been moving very smoothly, *Henriksen* began. Advance notice to those in the affected investments was mailed May 2. A supplement to the Program Description, also dated May 2, has been distributed, and entered on MSRB and EdVest websites. The process to handle affected investment requests for the next 9 weeks is in place. July 8 is the target date for the change and the Vanguard contracts are in place. The termination agreements with Legg Mason, Baird, and the credit union deposit brokers are also in process, she added. *Biver* said planning is underway to place the relocated CDs in proper



maturities. *Henriksen* added that 80% of the credit union portfolio is in cash and the remaining five certificates will be terminated on July 1 in anticipation of the move. In view of the large cash holding, Wells Fargo is waiving fees and absorbing costs to maintain pricing. *Johnson* asked if the infrastructure will be kept in place to reopen the credit union portfolio [as the state has done] at a future date. *Henriksen* replied yes.

She then reviewed the annual update of the Program Description, which will coincide with the July 8 fund changes. With the Board's decision to waive the annual audit fees for a number of years, Wells Fargo will report that category as zero in the fee tables. In the same vein, she and *DiUlio* have discussed how to report other fees. Reviewing the way the Board has temporarily imposed a moratorium on the 10 basis points administrative fee, the waived fee does show up on fee tables as a cost over various periods. She suggested that the Board formally waive their fee in yearly or other increments, with the provision that it would phase back in if subsequent action was not taken. The concept would be to better reflect the actual costs (the waived fee) in both the Program Description and by the outside ranking services. Disclosure would be provided and the Board would retain the right to reinstate the fee at any time. There would be no material change for participants, but would affect commonly published cost rankings. A proposal will be prepared for next week's Board meeting.

Oemichen asked that Wells Fargo be sensitive to any participant comments during the fund change process, and report as necessary.

- B. First Quarter 2011 Investment Performance Reports *Schlissel* began by reporting that all of the EdVest multifund Wells Fargo portfolios outperformed their benchmarks by significant margins. She also said the Baird portfolio has also enjoyed good performance as it phases out. The underlying funds generally did well versus benchmarks, excepting the Legg Mason fund—as more of a holdings issue, but not significant with its transition. All the Wells Fargo funds outperformed, with the exception of Opportunity Fund lagging 100 bps for the quarter, but ahead of benchmark for three and five years. The addition of another manager to that fund is seen as a positive by Evaluation Associates. She noted the good one-year performance of the WFA Diversified International Fund, due to some management changes and to EA's recommendation to remove of the fund from the Watch List.

Johnson asked about the exceptional performance of the WFA Growth fund for the quarter and year, wondering how the difference departs from the benchmark. *Biwer* replied that Tom Ognar's team has been on a successful run, and will assemble more data for the committee. *Schlissel* added that the fund's sector allocation [underweight in financials], along with stock selection provide the numbers. *Johnson* then asked for more information about the Russell 3000 Growth index, especially the number of names. More will be discussed at the Board meeting.

The WFA Disciplined Value fund bears some attention, with recent management changes *Schlissel* said. Moving to the peer comparisons, the very conservative portfolios rankings look much worse than they actually are. The differences are out at the six decimal ranges, of minimal concern. The lower-quality bonds in some of the peers affect the rankings. The Vanguard Balanced portfolio's weighting on value weighting results in lower ranking in a growth period.

The Tomorrow's Scholar portfolios and underlying funds tell the same story, she said. Nearly everything is beating benchmark, with the peer comparisons in both enrollment-based and static choices doing well. The Columbia Marsico fund which had been struggling is back on track now.

- C. Watch List Update, Review, Recommendations to Board. The same five underlying funds continue on the Early Warning list, as they work through the rolling three year periods. *Schlissel* said none of these warrant a recommendation to be placed on the formal Watch List. With regard to the WFA Diversified International Fund, placed on watch in May 2008, sufficient change has occurred in the quality of the portfolio and it is only slightly behind the benchmark now. EA recommends that it be taken off watch, so now the official list will have no funds on formal watch.
- D. Recommended changes, additions, or deletions The members briefly discussed the progress the fund has made. Motion by *Schuller*, second by *Durcan* to recommend to the Board that WFA Diversified International Fund be taken off the Formal Watch List. Carried by unanimous vote.

Chair Johnson expressed his appreciation to the Wells Fargo staff for the excellent investment performance this quarter.

VI. New Business

None

VII. Future Committee Agenda Discussion Items

Johnson asked for ideas for future manager visits. *Schlissel* suggested that they could be organized around assets—portfolios with greater assets and their underlying funds first, for both EdVest and Tomorrow's Scholar. Scheduling two or three managers at a time would help get through the list.

VIII. Announcements

Treasurer Schuller said he has enjoyed his short tenure on the Board since January, as the program moves from Treasury to the Department of Administration with the new state budget. He said he will continue to promote EdVest and assist the program. The other Board members in attendance thanked him for his service.

NEXT MEETING: The committee will meet next on Monday, August 8, 2011.

IX. Adjournment

Motion by *Oemichen*, second by *Schuller* to adjourn. Unanimous voice vote. Meeting adjourned at 2:00 p.m.

NOTE: *The Committee may recess into closed session, pursuant to the exemptions contained in s. 19.85, Wis. Stats. for deliberation of investment of public funds or other business where competitive reasons are an issue.*