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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

March 12, 2010
2:00 p.m.

Minutes

I. Call to Order and Roll Call at 2:05 p.m. (Ken Johnson, Chair)
Present – Johnson, Oemichen, Durcan, Wolff, Schlissel, Sarah Henriksen (Wells Fargo), representatives of the Credit Unions: Mike Lee (Midwest Region President of Members United Corporate FCU), Mark Solomon (President/CEO Primary Financial Company LLC), joined by Tom Liebe (VP Government Affairs, Wisconsin Credit Union League) and Jim Drogue (VP, Wisconsin Credit Union League) approximately 2:20 p.m., and Jim DiUlio
Absent – Sheehy

II. Agenda Approval and Public Posting Report (Chair, staff) Approved by voice vote
III. Public Presentations (none)
IV. Old Business – (none)

V. New Business

A. Discussion of Credit Union CD Investments *Johnson* opened the discussion, relating that today's topic is in response to the 2009 review of the investments in the EdVest 529 plan. Participation of the credit union portion of the CD investment is not high, with a large proportion in cash. This raises concerns for the long term and questions whether the credit unions have the capacity needed, as compared to the bank CD program. The Board has asked the Committee to meet with today's group to see if this is a longer-term issue or something else is affecting things. Wells Fargo and the CU institutions have put considerable work into creating the portfolios, but the concern is now with the individual investor getting an adequate return.

Johnson then asked for initial comments from the CU representatives. *Mike Lee* began, stating that in this environment many credit unions have not needed CDs for their balance sheet, and suggested that many of those who participate do so more for support of the state program than for need. *Johnson* asked about long-term thoughts. *Lee* said that generally they are having difficulty lending money as individuals react to the economy. However, some pockets of the country have not been affected as much and his group has been able to place money in those states for other investors. He said there is a proposed national regulation to encourage 'alternative' investments, making 529 programs very attractive to credit unions. *Mark Solomon,* as the operator of the SimpliCD program, stated that he has a significant mismatch all over, with demand far exceeding supply. Loan demands are down and creditworthiness of certain institutions are some of his challenges. He thought that the low rate environment would change, seeing an uptick in one-and-one-half to two-year portion of the curve.

Johnson then asked how the credit unions are made aware of our 529 program and what the Board could do to assist. *Lee* said Members United had one person located in Wisconsin and another investment sales person assigned. They have done a Webinar and other meetings to educate staff. *Oemichen* asked if regulatory issues were a barrier and *Lee* replied that issues had been resolved. A comment paper had been circulated to member credit unions explaining terminology and procedure. *Henricksen* said that from Wells Fargo's perspective, both Members United and Primary Financial have been working hard on this project, along with the Wisconsin CU League. Wells Fargo has prepared marketing materials and worked to introduce the program.

Schilssel said that she agreed that the economy was going to remain slow for some time. She recalled that when the CD program was rolled out, insured money was the big concern.

Tom Liebe and Jim Drogue join the call at approximately 2:20 p.m. *Liebe* said that liquidity is a lesser problem than rate sensitivity. On reflection, this program was started at the worst time possible, but he remains highly confident. He added that much of what has been placed so far required significant encouragement.

Johnson commented that currently 52% of credit union CD portfolio is in non-producing cash and the Board's concern is about total return to the investor. *Henriksen* said that the returns on the invested portions of both CDs were nearly identical, with the 30-day yield for credit union CDs only 7 basis points lower than the banks'.

Solomon brought up the questions of investors getting the best possible return by limiting placement to Wisconsin institutions? And why we did not anticipate the large inflow into the CD investments? *Oemichen* recalled a statutory issue guided the decision. *Henriksen* added that the Board's initial plan was to give initial preference to Wisconsin institutions, and then open to all, but the trust arrangements do not allow out-of-state placements. *Durcan* commented that our hands seem to be tied.

As a newcomer to the program, *DiUlio* said his initial concerns were also for the individual investors. While reviewing the large volume of file material creating the CD program, he found little mention of how to handle operational situations. He suggested that the controls mutual funds take to be fully invested could serve as an example.

Johnson stated it would take Legislative action to open the program to out-of-state institutions and the time now is very short in their current session. Assuming that we could align all the interests, it could be fall at the earliest to make any statutory change. *Liebe* suggested that a blanket approach to open to non-Wisconsin institutions may not be acceptable, but an on-off mechanism based on percentages of the cash balance may be better received. Discussion followed by all, each offering varied concerns of trying to accomplish legislative action in a very short time, and to avoid the missteps of previous efforts.

Henriksen felt that some sort of percentage limit would work, so that when the cash balance in the credit union portion reached a certain point, the portfolio would be closed to new investors and they would be directed to the bank CD portfolio. *Wolff* stressed that disclosures would need to be very thorough for this, but thought the process would meet statutory authority. It would be more difficult for Wells Fargo to monitor the process with transfer agency and accounting, *Henriksen* said, but it would be a solution. She will draft some suggested procedures.

Solomon raised his concerns again with the Wisconsin-only design of the CD portfolios, saying that if the program was broadened, it could bring a lot more to investors.

Summarizing the meeting, *Johnson* asked *Henriksen* to develop some crossover ideas. He will communicate to Board members an initial summary of today's discussion. The suggested outcomes from today's discussion include legislation, waiting-out the rate environment until an uncertain date, or taking some sort action if a participation threshold is not met at a certain date.

VI. **Announcements** - The next regular meeting of the Committee will be Monday, May 3, 2010 from 1 to 3 p.m. and the full Board meeting will be Monday, May 10, 2010.

VII. **Adjournment** – The meeting was adjourned at 2:55 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.***