

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 8, 2010
1:00 p.m.

MEMBERS PRESENT: *Sheehy (by phone), Wegenke, Oemichen, Darling, Cook, Sass, Johnson, Durcan*

MEMBERS ABSENT: *Rosen, Plale, Adamski,*

OTHERS PRESENT: Marty Olle, Jim DiUlio, Wes Stefonek, EDVEST Program; Michael Wolff, DOA; Sarah Henriksen, Shane Martwick and Tom Biwer (by phone), Wells Fargo Funds Management; Chris Pegelow, Ron Giordan, Jessica Pautzke, Treasurer's Office; Jay Risch, Sen. Darling's staff; Katie Buhrandt, Sen. Plale's staff; Linda Schlissel (EAI)

I. Call to Order and Roll Call – The meeting was called to order at approximately 1:00 p.m. by Board Chair *Darling*. (See above for attendance.)

II. Approval of Agenda - The Chair asked for approval of the Agenda, which was unanimously approved by voice vote.

III. Public Presentations – Treasurer Sass introduced Jim DiUlio as the new Program Director. He discussed his background and experience, and expressed his excitement in joining the group.

IV. Approval of Minutes for November 9, 2009 Meeting – *Wegenke* moved and *Durcan* seconded that the minutes of the November 9, 2009 Board meeting be approved. Motion passed unanimously by voice vote.

V. Administrative Reports

- A. Board Chair Comments** – *Darling* also welcomed *Mr. DiUlio* and thanked *Mr. Olle* for his service to the program.
- B. State Treasurer Comments** – *Sass* stated that winners of this year's coloring and essay contests were announced at ceremonies at the Capitol and the Governor's residence. There were 700 coloring contest entries and 400 essays. Video winners will be announced in a few weeks from the 20 entries. She also welcomed *Mr. DiUlio* and thanked *Mr. Olle* for his interim work as Director and thanked *Ken Johnson* for his work in screening candidates for the Directorship.
- C. Program Director Comments** – *Olle* said he had an initial conference call with several Department of Revenue staff regarding the issue of moving the state tax deduction deadline to April 15. Further discussion will be needed if the Board wants

to pursue a tax deadline change. He discussed highlights from a series of spreadsheets and graphs relating to program growth, revenues and expenditures in the third quarter. He mentioned that DOR has agreed to insert an EdVest message in approximately half of the 1.2 million tax refund checks to be mailed in 2010.

- D. Manager [Wells Fargo] Comments** – *Henriksen* discussed quarterly marketing, outreach and service highlights. The full year-end summary will be presented at the next meeting. New households in the program were up 22%, new accounts were up 14.5% and net purchases were up 25% over last year. Service level and processing statistics met or exceeded benchmarks in all quarters in 2009. *Cook* asked if program participant demographics match up well with the state's population and *Henriksen* replied it is very close and she will update her graph with comparison data.

VI. Old Business

- A. Strong Funds Settlement** – *Olle* provided a brief update on the Strong settlement. Shortly after the previous board meeting he sent a letter to distribution consultant Michael Gibbons, professor at the Wharton School of Business at the University of Pennsylvania. The letter outlines the board's proposed plan for distributing the program's share of settlement funds. He has not received a reply as of this date, but has verified that Gibbons has received the letter. *Olle* has approached the State Controller to discuss how to structure the accounting of future settlement funds received. An accounting mechanism needs to be approved prior to the deposit of settlement funds.

VII. New Business

- A. Investment Committee Report** – *Johnson* reviewed the committee's activity since the Board's last meeting. He said that significant steps to more formal policies and procedures have been discussed. Today, Linda Schlissel will be introducing, for review only, a draft Investment Policy Statement addressing these topics. They include delineating the responsibilities of the Office of the Treasurer, Department of Administration, and the Program Manager. Investment philosophy and a framework for choosing, monitoring, and terminating managers is also part of the discussion. *Johnson* thanked Wells Fargo for providing contributions to the draft and has asked new program director *DiUlio* for input. This may become an action item for the May meeting.

Johnson also thanked Wells Fargo for setting up an online participant survey on the EdVest website in January. The questions related to investment choices. A number of interesting and sophisticated responses were received and the data is included in today's materials. Wells Fargo will be offering some suggestions at a later date, after reviewing this new information.

Linda Schlissel (EAI) began her 2009 Investment Performance Report reminding all that the equity markets were down in the first two months of the year. The next ten months, however, saw significant positive numbers. All of the funds—whether portfolios, enrollment static based, or the underlying mutual funds—had a great year. The highlights are included in the fourth quarter Investment Report in today's materials. *Johnson* noted that the Legg Mason fund had turned around, and appreciated that fund's manager meeting with the Board, as well as Wells Fargo International fund manager. Vanguard fund managers will be scheduled for an upcoming meeting.

Schlissel presented the Watch List and Summary of Watch List eligibility. There are no changes from the last report. (No vote taken)

The Board then referred to the draft Investment Policy Statement for discussion. This has been a collaborative effort to provide structure to the plan, generally speaking. Recalling earlier efforts at investment policy, the Board just used benchmark comparisons and a watch list to evaluate the individual investments. This draft is more detailed as to contracts, subcontracts, and the responsibilities of agencies. These sections were highlighted for possible action in May.

Chair Darling suggested that each committee review sections of the draft are most relevant to the committee and perhaps have a voluntary meeting for Board members outside of the Investment Committee who may want to cover the points. *Darling* asked *DiUlio* and *Schlissel* to schedule a meeting when appropriate.

Johnson said that while parts of the draft are broad and some specific, it is a reflection of the statutes as to where responsibility of the parties begins and ends. *Chair Darling* also appreciated the language regarding where statutes may conflict.

The highlights include allowing the program manager to retain much of the authority over the investment portfolios. Specified are the objectives, duties, and responsibilities of all the parties: i.e. the Board, investment committee, program director, program manager, investment managers, and investment consultant. The document then includes a statement of investment policy, benchmarks, and control procedures to monitor and terminate investments.

Question by *Chair Darling* as to how this draft would compare with those of other 529 programs. *Schlissel* is familiar with only a few others and had no opinion. Some could be on websites, *DiUlio* will review.

Henriksen of Wells Fargo next presented the results of the online survey taken over three weeks in December and January by existing account owners. The response was a very good 6.5% or 1,800 of those contacted by email. The survey had both prepared questions and allowed for free-form comments from respondents.

Some highlights: 74% said the existing lineup met their needs; close to 60% wanted more options. About half of the respondents said that EdVest was their only college savings account, which also implies an opportunity to target those who are saving in some other vehicle. By far the most popular request for investment choices was for a passive or index fund, followed by international selections.

Johnson added that he was also impressed by the response rate and the participants' interest regarding passive and international choices. He suggested that an education component be added if index investment choices are added to the program, to explain the differences to actively managed funds.

Johnson then asked *Henriksen* to review her presentation from the January 19 Investment Committee meeting with the entire Board. She said *Shane Martwick* prepared data, researching 89 different 529 plans for the report. *EAI's Schlissel* also contributed recommendations. *Johnson* and the committee asked *Henriksen* for further analysis on four recommendations from the report. First, combine both advisor-sold plans. There are very few states that offer multiple advisor-sold or direct- and advisor-sold plans. Here in Wisconsin, there is some confusion with both the public and the advisor channel.

Another recommendation was adding a fixed income index selection. But rather than add another bond choice, Wells Fargo suggests replacing the Baird Bond portfolio with an index bond fund, and moving participants to the new choice as a group. Third, Wells Fargo agrees with EAI's recommendation to add single-fund choices to the tomorrow's scholar plan. A survey could be done to better understand what third-party distributors would like to be added. Finally, *Henriksen* said there continues to be a challenge finding available credit union CDs for the respective portfolio. As of this morning, about half of the portfolio remained in cash for the credit union CD investment; slightly over ten percent in cash for the bank CDs. While Wells Fargo does not have a recommendation for action, the situation needs to be addressed.

An investor's expectations for this credit union CD portfolio are a concern, *Johnson* said. *Schlissel* added that the guarantee element is also a factor. *Johnson* plans to hold a committee meeting by telephone with the credit union leaders to gather information and report back to the Board for the May meeting.

Johnson asked *Schlissel* if there were further recommendations from her. She said that before any reconstruction of any advisor-sold plan portfolios proceed, the input of key producers should be solicited.

For the benefit of newer Board members, *Chair Darling* asked *Wolff* for a brief history of both advisor-sold plans. He went through the American Express difficulties, proprietary products, brand names, and the evolution from a Wisconsin-only to a national program. A short discussion followed, with agreement to discuss at a later meeting.

B. **Marketing Committee Update** – *Sheehy* (by telephone) had two items to report.

The report detailing 2009 marketing activity and expenditures will be presented at the May Board meeting. *Sheehy* thanked *Henriksen* for all the preliminary data assembled so far. *Sheehy* also plans to meet with new director *DiUlio* to bring him up to date on the Committee's marketing and outreach activities and the Board's charges to the group. The next marketing meeting will be held in March. He said that during this interim period with *Olle* at the helm, the committee made a decision to keep marketing activities in a maintaining mode. With the new director, things will ramp up and *Sheehy* asks all Board members to suggest agenda items for the Committee.

VIII. Other Announcements There are no announcements. The next board meeting will be held on Monday, May 10, 2010 at 1:00 p.m. in the State Treasurer's Conference Room.

IX. Adjournment — The Chair adjourned the meeting at approximately 2:25 p.m. upon a motion by *Oemichen*, seconded by *Cook* and passed by unanimous voice vote.