

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 10, 2010
1:00 p.m.

MEMBERS PRESENT: *Sheehy (by phone), Adamski, Cook, Durcan (by phone), Sass, and Johnson.*

MEMBERS ABSENT: *Darling, Oemichen, Plale, Rosen, and Wegenke.*

OTHERS PRESENT: Michael Wolff, DOA; Sarah Henriksen (by phone), 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 Buhandt, Sen. Plale's staff; Wes Stefonek, Jim DiUlio

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

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

III. Public Presentations – There were none requested.

IV. Approval of Minutes for February 8, 2010 Meeting – *Cook* moved and *Adamski* seconded that the minutes of the February 8, 2010 Board meeting be approved. Motion passed unanimously by voice vote.

V. Administrative Reports

A. Board Vice Chair Comments – None today.

B. State Treasurer Comments – *Sass* reported on school visits to promote the program, including the just merged Chetek-Weyerhaeuser district where she met with kindergarten parents. There has been good interest in the just initiated program supplying elementary schools with *EdVest* materials. More school visits to come. Last month, *Sass* along with *DiUlio*, taped three radio programs as guests of Karen Ellenbecker in Milwaukee and Googins & Anton in Madison, both popular financial shows.

Sass also said that *EdVest* will again sponsor activities at the Milwaukee County Zoo as part of national 529 day. Wells Fargo staff will have an information booth there and the first 529 children get into the Zoo for \$5.29 on May 29, all courtesy of

EdVest. In the past, this has been a success, along with *EdVest* sponsoring the Zoo map, distributed to thousands through the summer. There will be more information at the next meeting regarding the student contest program. *Sass* then expressed her thanks and best wishes to *Wes Stefonek* for his help with the program during the past few months.

- C. Program Director Comments** – *DiUlio* began by sharing information from some of the committees and groups that came with the job, providing him a good network to start. Next week, he will attend the College Savings Program Network meetings in Salt Lake City, the national 529 group that is part of the National Association of State Treasurers. Our recent sponsorship of the ‘Crazylegs Classic’ event here in Madison, with Badger Sports, was mostly successful. The demographic of young adults, some with children, was a perfect audience for *EdVest*, *DiUlio* stated. Other activities coming up include Summer Reading Programs with five community library systems in Wisconsin, promotion with WAICU’s Private College Week in July, and an information booth at the State Fair in August.

First impressions and review during three months here are good, with no major problems discovered, *DiUlio* reported. Some catch-up recordkeeping and charting is needed, along with a few outside projects to complete. All the components for progress exist, he said, including good investments and policies, national rankings, an experienced Board, program manager, and expert advisors. He said the next step is to discuss the future, while sharing some graduation statistics by year and minority groups, and distribution of accounts by Wisconsin county. *DiUlio* then reviewed the revenue and expenditure report, with selected account and asset graphs.

Proxy requests have been received regarding the Columbia Marsico Growth Fund changing management agreements due to new ownership and for election of board members. Another group of proxy requests have been received relating to the Wells Fargo Funds purchase of Evergreen and reorganization of funds. *DiUlio* brought up as a matter of information, stating he has voted the recommended position on Columbia and plans to do soon for Wells Fargo Funds, following the Board’s policy of the Director consulting with the Investment Advisor (EAI). Some discussion by the Board followed, suggesting further consultation with members. Suggestion by *Cook* that the Investment Advisory Committee review the current policy, amending if needed. *Henriksen* said that these two proxy votes were preceded by three last year, and four in 2008. Mutual funds proxies are few, she added, with changes material enough to merit shareholder approval. For comparison at SWIB, *Johnson* said they handle hundred of proxies because they are working with individual stocks. *Adamski* offered that for the time being, proxy voting information be shared by *DiUlio* via email with the Investment Advisory Committee for additional comment.

- D. Manager [Wells Fargo] Comments** – *Henriksen* began her report reviewing some 529 issues on the federal level. The SEC has a new Custody Rule and Wells Fargo is in compliance as of March 12, 2010. The rule covers a number of practices that Wells Fargo currently complies with, including annual audits, custodians sending data to the Wisconsin program before Wells Fargo, et al. The rule now requires copies of the annual audit are to be sent to each participant. This part of the rule was prompted by the Madoff events and is intended for other types of accounts, not necessarily 529 plans. Investment industry groups have appealed to the SEC, to little end. Initial cost estimates for Wisconsin/Wells Fargo to comply this year are about \$75,000. *Wolff* asked about posting the audit on the EMMA online system to save postage and

printing, since MSRB defines access as delivery. Henriksen replied that the rule as written does not carve out 529 plans to allow this. She added, however, about 35% of account owners with e-statements will receive it electronically. Due to another part of the rule, the outside audit has to be received and approved by the Board before the end of October. *DiUlio* will coordinate a special Board meeting in October to receive the audit from KPMG.

Also in Congress is HR 4178, to allow FDIC banks to offer 529s directly to investors. Outlook is mixed, Henriksen said, but even if it passes, banks would have to work through state programs and follow federal 529 rules. *Adamski* asked about the impact on us. None, *Henriksen* replied, adding that potential providers may be discouraged when they realize the tax reporting, aggregation, and distribution requirements of section 529. *Johnson* then asked *Henriksen* if any federal financial reform proposals would affect us. The only item may be the swaps prohibition, *Henriksen* said, but those are gone with the stable value portfolio. *Biwier* was not aware of any other underlying exposure.

She also updated a number given at last week's Investment Advisory Committee meeting. The average age of accounts is 7-8 years, not the age of beneficiaries. Currently, *EdVest* beneficiaries average 11.5-years-old, with *tomorrow's scholar* beneficiaries just above 12. Students in accounts are getting older.

Other mutual fund mergers are in process at Wells Fargo, *Biwier* added, mostly on the fixed income side and not affecting the Wisconsin program.

VI. Old Business

Strong Funds Settlement – No word yet from the attorney or SEC.

VII. New Business

A. Investment Committee Report –

- a. **First Quarter 2010 Investment Performance Review** - (*Linda Schlissel* of EAI not able to participate by phone today due to travel circumstances.)
- b. **Watch List Update, recommendations** - *Johnson* presented the committee's work from last week's meeting. He discussed the evaluation by EAI regarding the recent performance of the Legg Mason funds and Wells Fargo International Equity fund, both currently on the Watch List. It is the recommendation of EAI and the Committee to remove Legg Mason from the Watch List, based on their recovery performance while maintaining management style consistency. It is also the recommendation to keep Wells Fargo International on the Watch List. This fund has shown performance improvement, but still not above longer-term benchmarks. Discussion by the Board followed regarding Legg Mason. Comments included remaining skeptical based on one quarter's great improvement. Other comments referred to the clearly aggressive name and whether investors knew they were getting into a volatile fund or were specifically seeking this kind of portfolio. *Schlissel's* positive insight from the meeting was recalled, saying that throughout the 50-point drop and 100-point recovery, Legg Mason's management stayed very consistent to style—and that their strategy worked.

Motion by Adamksi, second by Durcan: Move to accept the recommendation of the Investment Advisory committee and the Investment Advisor to remove Legg Mason Aggressive and Legg Mason Special Investment Trust from the Watch List since recent performance has improved significantly and the manager has remained consistent to their style. Motion carried.

- c. **Credit Union Portfolio** – *Johnson* began the conversation, continuing from the last Board meeting, of the concern that actual credit union CDs are not being absorbed from the greater portfolio and have not changed much since this part of the program started. We had a committee meeting by phone with representatives of the credit unions in March, he said, attempting to resolve if design or lack of information was preventing participation. The representatives said no, it was more of a market function. One person suggested that we open the portfolio to out-of state institutions, but the committee felt it would require a legislative change, difficult logistically. Suggestions from the committee included sending staff to the credit unions’ state convention later this week for outreach and also making more information available to investors about the CD and money market ratio. *Johnson* felt we were technically covered from a disclosure standpoint, but we should be more clear. Taking a step beyond that, we may want to consider a threshold or trigger that would close this part of the program. He said we are not near that point yet, adding that the great effort so far to implement has been hampered by low interest rates—and that the spread between CDs and money markets is very small. But we and Wells Fargo should have a plan ready in case the portfolio needs to be closed. *Henriksen* said that also covers Wells Fargo’s perspective. Also appreciating all the work invested in this, *DiUlio* said he would work on further outreach with the credit union organization. *Adamski* asked *DiUlio* to review the files for insight for other approaches to take. *Johnson* recalled a discussion regarding the combination of portfolios as a cumbersome process. *Adamski* also recalled a “plan b” discussion of some software that was available if portfolios were to be combined; staff will search the files. *Sass* and *DiUlio* will also seek information from other states. The Board then looked at two suggestions from Wells Fargo to add language to the *EdVest* web pages at the credit union portfolio spot. One included a ‘pop-up’ box when the mouse cursor rolled over the title, the other was a more conventional footnote. The consensus was to follow the more traditional route and *DiUlio* will work to add clearer language regarding the amount invested in credit union CDs, and also do the same if need for bank CDs.

At this point, Durcan (by phone) left the meeting for a previously announced commitment, resulting in a Lack of a Quorum.

- d. **Investment Policy Statement** – for information only, the remaining Board members informally discussed the work submitted by the Investment Advisory Committee. The Statement was a cooperative effort by the committee, Wells Fargo, and EAI, and attempts to define the roles of the Board, the Office of the State Treasurer, the Department of Administration, the Program Manager, the Investment Advisor, and the Program Director with regard to investment policy. *Cook* raised concerns about not including the definitions of the Board and Director in the document. She also suggested language be added defining the Board’s spokesperson in the event such as the Strong Funds crisis.

Due to the lack of the quorum, this piece will be carried over to the next Board meeting as part of the Investment Advisory committee's agenda.

B. Marketing Committee Update – Postponed.

VIII. Other Announcements A special Board Meeting to review and accept the program's annual audit from KPMG is anticipated during October, in order to comply with the SEC reporting rule this year. The audit will be the prime agenda item DiUlio will coordinate. The next regularly scheduled board meeting will be held on Monday, September 13, 2010, at 1:00 p.m. in the State Treasurer's Conference Room.

IX. Adjournment — The Vice Chair noted the absence of a quorum, adjourning the meeting at approximately 2:25 p.m. upon a motion by Adamski, seconded by Cook and passed by unanimous voice vote.