

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

September 13, 2010
1:00 p.m.

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

MEMBERS ABSENT: *Plale and Rosen.*

OTHERS PRESENT: Michael Wolff, DOA; Sarah Henriksen, Shane Martwick, Laura Wilkinson, and Tom Biwer (by phone), Wells Fargo Funds; Linda Schlissel (by phone) Evaluation Associates; Jessica Pautzke, Treasurer's Office; Connie Schulze, Sen. Darling's staff; and Jim DiUlio

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 - Staff reported that the meeting agenda was properly posted for the public. The Chair asked for approval of the Agenda. Motion by *Oemichen*, second by *Durcan* to approve. Motion passed unanimously by voice vote.

III. Public Presentations – There were none requested.

IV. Approval of Minutes for May 10, 2010 Meeting – *Oemichen* moved and *Adamski* seconded that the minutes of the May 10, 2010 Board meeting be approved. Motion passed unanimously by voice vote.

V. Administrative Reports

- A. Board Chair Comments** – *Darling* recognized *DiUlio* for the smooth transition of program directors, and the confidence to continue the Board's work. She also acknowledged *Johnson's* work leading the Investment Advisory Committee through a great deal of work in recent months. *Johnson* announced that he will be retiring from SWIB at the end of the year, but will remain on this Board as that body's designated member.
- B. State Treasurer Comments** – *Sass* reported that the Treasurer's Office is again participating in summer reading programs with public libraries around the state. EdVest starter accounts are awarded from among those children who have reached their reading goals. The State Fair promotion was hampered by election rules, which did not allow EdVest brochures to be passed out—only given on request. Higher

Education Day with the related coloring, writing, and video contests begin later this month. In the Congress, Sass reported, H.R. 1351 now has 82 bipartisan cosponsors, recently adding Representative Baldwin. The best news, she added, is that Milwaukee has been awarded the 2012 annual conference of the National Association of State Treasurers (NAST).

- C. Program Director Comments** – *DiUlio* started by reviewing some of the items from the previous meeting, since some of the members did not attend. He voted proxies on May 21, in consultation with EAI, related to the Wells Fargo purchase and integration of the Evergreen funds business, as recommended by their board. 529 Day at the Milwaukee County Zoo was a success, with children admitted for \$5.29. In connection with this promotion, EdVest is the sponsoring ad on the souvenir map given to zoo guests throughout the year.

For information, as part of the Wisconsin Covenant legislation (the precollege grant program), there will be a 'College Access Network Council' appointed, to include all involved with higher education. We will investigate if the Board needs representation on that panel. In addition to the library promotions the Treasurer mentioned, we are also planning EdVest promotion for Money Smart Week in October. This is a statewide financial literacy program with the Department of Financial Institutions and the Federal Reserve Bank of Chicago. Twenty-six Wisconsin cities and counties are participating.

Recalling the earlier e-mail to the Board, the Milwaukee Journal Sentinel had a story about Strong Funds and settlements with individual investors. The reporter had conversations with *DiUlio*, discussing the Board's position and actions with its separate action regarding Strong. We were fairly represented in the final story; however there were a few concerned callers and e-mails from individuals, all of whom received a detailed synopsis of the Board's rationale and decisions regarding this.

As part of Morningstar's annual reporting on 529 plans, lengthy interviews were held on September 1 with Wells Fargo's *Sarah Henriksen* and *Tom Biwer*, along with *Darling, Johnson*, and *DiUlio* representing the Board. Those participating shared their experiences with the Board. Morningstar's people did not give an indication of their responses to us. Their report will be out later this year.

Jonathan Becker, the Ethics Administrator at the Government Accountability Board, has tentatively accepted an invitation to appear at a future Board meeting to update members on fiduciary responsibilities. Some additional presenters may be added.

The fall promotion with Badgers Football has begun. In the coming weeks, a number of university campus and state agency benefit fairs are scheduled for EdVest, along with state school employee's conventions. At these events, we will introduce the materials promoting the tax advantages of using 529 plans for you. The target will be those in the medical, education, or emergency jobs that require graduate continuing education.

DiUlio then said he is nearly caught up on the charting and recordkeeping that was unfinished from last year. At a future meeting, he will share analysis of trends over multiple years. Reviewing the program's monthly revenues and expenditures, all is on track to finish the fiscal year in good form. Payroll and fringes are lower than budgeted due to the vacant position. The related Tuition Unit account numbers are also on track for the past year.

Reviewing the invested portfolios report, *Oemichen* inquired about the ratio of Wells Fargo vs. non-Wells Fargo funds in total assets. The ratio seems to have swung a bit the non- funds in the previous quarter. *DiUlio* responded that the ratios have fluctuated between 60:40 and 65:35 at times over the last four years. *Henriksen* added that some of that activity may be explained by the annual migration among the funds with the age-based portfolio choices.

Looking the graphs, the general drop in market values last quarter is apparent. However enrollment numbers remain steady. At the last meeting, current enrollments by county were presented. Today, those same numbers are shown on a state map with congressional districts boundaries and nearly equal populations. There are discrepancies throughout the state. However, *DiUlio* explained with examples, 'one account' is not necessarily a sole parent-child relationship. Further work will be needed to correctly translate raw numbers into useful information.

D. Manager [Wells Fargo] Comments – *Henriksen* introduced *Laura Wilkinson* who is Wells Fargo's person responsible for EdVest marketing. She will share her plan for year- end following *Henriksen's* quarterly review.

- 1. Quarterly Report** - On the federal level, the status of Coverdell accounts is unknown, but if they return to earlier limits, it can only help the 529 market. Since the last meeting, a number of updates have occurred. The annual program descriptions of both plans were completed and distributed. Wells Fargo has successfully integrated the Evergreen funds and renamed some portfolios, in a few cases, resulting in lower fees. And the annual enrollment-based fund migration successfully moved nearly 30,000 accounts.

On the service front, the bulk of phone calls now are due to fall tuition requests and have been handled well. Other call volume has increased. A few spikes have occurred related to the solicitation letters law firms have been sending to former Strong Funds customers. *Wilkinson* added some more outreach details to the earlier comments of *Treasurer Sass* and *DiUlio*.

- 2. Year-end Marketing Plan** - The 2010 year-end marketing outline was introduced by *Wilkinson*. She said the focus on the \$3,000 tax deduction and to parents with children from 5 to 12 years will again be the prime targets. In addition to the Milwaukee and Madison media markets, additional efforts will be placed in Eau Claire, Wausau, La Crosse and the Green Bay/Fox River Valley areas. This year, some testing will occur with online advertising as different messages run simultaneously. The more effective ads will then be emphasized toward the end of the campaign. The current look of the ads with the children photos will continue.

Again this year, they will produce payroll stuffers for state agencies for distribution in November. The Wells Fargo Advantage Funds newsletter will include a 529/EdVest feature for customers nationwide. A multi-channel approach with financial advisors, credit unions, banks, and Wells Fargo's existing customers will again be used this year.

Adamski asked about dedicated advertising to credit union customers. *Wilkinson* explained that they do not contact the local institutions directly, but work through the Wisconsin Credit Union League offices to offer materials, which can be then requested directly from Wells Fargo. Attempts

to reach out in the past have not been very successful, *Henriksen* added, but would welcome suggestions to make it work.

Discussion among members questioned why the greatest amount of the campaign was allocated to television, when the cost per inquiry is so high. With newer electronic channels, would that not be more effective, *Cook* asked? *Wilkinson* explained that television has the greatest reach, and some of the discrepancy is due to not all media types having discrete phone numbers or Internet addresses, skewing the statistics. She added that Facebook and other social media are not considered because of regulatory issues. *DiUlio* responded that we have had an EdVest Facebook page for three months, as a placeholder, until the point we can devote time to the site. Both Virginia and New York have robust Facebook sites for their 529 programs.

Sheehy responded that many of the elements are in place, and he and *DiUlio* have discussed a number of approaches to best promote the program. Perhaps some help from the outside or looking at other 529 programs to benchmark where we stand would be of value. *Cook* added that if regulatory issues prevented Wells Fargo from doing some of the social/electronic activities, perhaps some of the marketing dollars could be reallocated to another entity to develop a plan. *Sheehy* said that being in the financial services business, he is aware of the regulatory issues, but feels that *DiUlio* and staff are making progress in this area to identify a solution.

Darling summarized the feelings of the Board by saying that we all want more 'bang for the buck' in spending scarce marketing dollars. She said that more impact is required from whoever is the program manager, because our goal is to broaden the base. Referring to his agricultural base, *Oemichen* added that 4-H, FFA, extension offices, and other farm groups may be an effective and inexpensive way to reach northern and western Wisconsin.

Clarification offered from *Johnson* that the money for this marketing plan does not come out of the State Treasurer's budget, but from the fees that Wells Fargo collects. *DiUlio* added that nominal amounts to cover outreach events, printing, and travel comes from the program's portion of the fees, but the great bulk of the marketing dollars are the manager's, Wells Fargo.

A question by *Oemichen* addressed to Wells Fargo for any comment regarding an August verdict in the District of Northern California court regarding banking operations. [Gutierrez v. Wells Fargo, the judge ordering restitution for excessive overdraft fees] He asked the question in light of what information the Board needs to know with a separate bank but related company in federal court. *Henriksen* replied that she had not heard of this action but would get details. (Note: After the meeting, she forwarded a one-page statement from the bank stating that Wells Fargo is planning to appeal the judge's verdict and *Henriksen* said that she would keep us informed as things develop.]

VI. Old Business

Strong Funds Settlement – No word yet from the SEC, however there will be a release of some of the money yet this year according to the attorney.

VII. New Business

A. Investment Committee Report – *Johnson* had two brief comments. At the committee's meeting last week, Vanguard Funds made a presentation and answered questions. After Wells Fargo Funds, Vanguard is the second largest holder of our investments, about 30% in total. Currently, we have about \$170 million in their Institutional Index Fund and when it reaches \$200 million we will qualify even lower expense fees at 2.5 basis points. Their funds and index funds in general were mentioned in our participant survey, and the committee may consider adding another fund or two. Vanguard enjoys a good stretch of continuity in their management teams and said they have a good working relationship with Wells Fargo. *Johnson* said the things we try to stress in these manager visits are to identify performance or other issues such as the loss of key personnel or difficulties working with program managers.

The greater portion of the Investment Committee meeting was *Linda Schlissel's* in-depth explanation of the charting and tracking her firm does for us, identifying the actions and risks the managers are taking in each portfolio. *Johnson* said it is comforting that she takes this detailed approach to advise the committee and program

- 1. Second Quarter 2010 Investment Performance Review** - *Linda Schlissel* then went through the difficulties the markets have had recently, influenced by a handful of European countries. BP also had a large effect, both domestically and internationally. She thinks positive numbers will come, but in small increments. Even though there were negative returns through June 30, the funds in both Wisconsin programs have done very well when compared to their peers. There has been a steady increase in peer rankings over the past few periods.
- 2. Watch List** - Last quarter, no funds triggered an early watch or watch status, and EAI is recommending no changes to the Watch List. She added that her Board-level reports continue to be brief because the Investment Committee is working very well, and other than on an exception basis, the Board reports will continue to be short. *Darling* expressed her appreciation to EAI for their continued work.
- 3. Credit Union Portfolio** – *Johnson* said our watch of this situation continues, and the low spread of interest rates maintains the problem, while allowing us some time to find a solution. As an aside, he has had conversation with credit union leaders and has heard concerns about the extra level of complexity with nonmember deposits. He has discussed a number of paths the program may choose with *Henriksen* and *DiUlio*. The invested CU portfolio, *Henriksen* added, has changed from about 50% cash at the beginning of the year to about 62% now. The increase in cash is not being driven by new investment but by nonrenewed deposits. *Adamski* shared how 'settling your cash letter' process works with the institutional Bankers Bank, a successful relationship model. Additional discussion talked about other vendors, perceptions, and status of public funds with insured deposits.

[At this point *Darling* departed, handing the meeting to vice-chair *Oemichen*]

Oemichen suggested additional outreach with the Credit Union League, perhaps presenting at a convention or visiting their board meetings.

Responding to the conversation, *Henriksen* volunteered to begin looking at further alternatives.

- 4. Investment Policy Statement** – Due to the loss of the quorum at the May 2010 meeting, the IPS is again offered for the Board’s consideration. *Johnson* said that the Investment Committee has nothing to add to the earlier recommendation for approval. *DiUlio* added that following a Board request in February to review similar documents nationwide, this proposed IPS appeared to be more detailed and comprehensive than others. *Schlissel* agreed, saying that this document could be a model for other states. Motion by *Adamski*, second by *Wegenke*, to adopt the proposed Investment Policy Statement for the Board’s activities. Motion passed unanimously by voice vote.

B. Marketing Committee Update – see Wells Fargo year-end plan outline above

VIII. Other Announcements A special Board Meeting to review and accept the program’s annual audit from KPMG will be set for an October date to comply with the SEC reporting rule this year. 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 — Motion to adjourn by *Johnson*, second by *Durcan*. Passed by unanimous voice vote.

Adjourn at 2:35 p.m.