Minutes of the Meeting
of the
College Savings Program Board

Held in the State Treasurer's Conference Room, Fifth Floor
1 South Pinckney Street
Madison, Wisconsin

February 11, 2008
1:00 p.m.

MEMBERS PRESENT: *Sass, Johnson, Wegenke, Durcan, Oemichen, Adamski, Cook, Sheehy*

MEMBERS ABSENT: Plale, Darling, Rosen

OTHERS PRESENT: Megan Perkins and Rich Janosik, EDVEST Program; Jay Risch, Sen. Darling's office; Mark Anderson, Sen. Plale's office; Andrew Owen, Sarah Henriksen, Shane Martwick, Tom Biwer, Wells Fargo Funds Management; Michael Wolff, DOA; Linda Schlissel, EAI

I. Call to Order and Roll Call – The meeting was called to order at approximately 1:02 p.m. by co-Vice Chair *Sheehy*, as Board Chair *Darling* was absent. (See above for attendance.)

II. Approval of Agenda – *Sheehy* asked for approval of the agenda. *Wegenke* moved and *Durcan* seconded a motion to approve the agenda, which passed unanimously on a voice vote.

III. Public Presentations – None

IV. Approval of Minutes for October 29, 2007 Meeting *Johnson* moved and *Wegenke* seconded a motion to approve the minutes of the last Board meeting. The motion passed on a unanimous voice vote.

V. Administrative Reports

A. Board Chair Comments – Senator *Darling* was absent.

B. State Treasurer Comments - Treasurer *Sass* discussed her recently completed tour of all 72 of Wisconsin's counties. The unclaimed property database was taken on these visits. This year unclaimed property returned $5 million more than last year, making it a record year for returns. EdVest brochures are being provided to all the county Treasurers so they are available anyone walking in to the offices. The county tour for 2008 has already begun. The Higher Education Day essay contest was a great success with over 1,080 entries from all around the state. She is hoping that the contest can be repeated this year. The Treasurer's office is going to be a part of Wisconsin Saves at the end of February, and is hoping to send out the EdVest DVD again this year as well. (*Adamski* joined the meeting) Treasurer *Sass* mentioned the EdVest television ad campaign that ran through year end.

C. <u>Program Director Comments</u> - *Perkins* reported that the SEC Strong settlement site still does not have any additional information. All Higher Education Day essay contest entrants got a certificate of participation, and over 20 percent of all parents of the participants have requested additional information on the EdVest program and are being sent packets. On January 17 the IRS released advance notice of the publication of final regulations for 529 programs. They seem to be particularly interested in addressing perceived abuse of the programs for estate, gift and other tax avoidance. State program managers are very concerned about potential new administrative requirements and recordkeeping that may result from these final regulations being proposed. The College Savings Program Network is working on a letter of response to this notice, and this draft will be circulated to the Board. In the president's budget proposal there is a new tax credit for low and moderate income families contributing to 529 programs that is proposed. Also, the state legislature is holding a hearing tomorrow on Assembly bill 154, the divorced parents deduction bill. The program is tracking the progress of this bill. *Janosik* updated the Board on two proxy votes that were filed for the Baird bond funds that are used in EdVest portfolios. The votes were to affirm the election of five board members and were considered routine and recommended favorably by EAI. These proxies were voted affirmatively. *Cook* asked what would have happened if the proxy votes had been controversial. Staff responded that the Board would have been consulted before voting the proxies either by phone or with a special meeting.

Perkins reviewed the program activity statistics that were distributed to the Board for the meeting. The contingency fund balance is currently $7.07 million. *Sheehy* asked about the monthly Tomorrow's Scholar fee income to the program, and staff responded that it continues to track at about the same level as the past year. *Henriksen* noted that Tomorrow's Scholar assets were still growing in 2007.

D. <u>Program Manager [Wells Fargo] Comments</u> - *Henriksen* reviewed the year-end summary for the Board that she distributed. She reported that EdVest had been recognized in 2007 as a low-cost plan by Business Week, Kiplinger's Personal Finance and Money Magazine. National Quality Review (NQR) gave the program a 5-star award for transaction processing, and Mutual Fund Educational Alliance gave Wells Fargo 7 star awards, four of which are directly applicable to the EdVest program's site. She reviewed the steps that were taken in 2007 to make the program lower cost and more affordable. The first breakpoint was reached in the program in the 3rd quarter. High levels of customer service have continued to be a focus, and the program met its goals for customer service in 2007.

The year end marketing campaign data are not all available yet, but *Henriksen* reviewed data that were available. The web site has been increasingly important in generating leads for the program, and ranked higher than direct mail for the first time. Road show activity was down from the previous year during the year-end campaign. Newspaper was a significant contributor to new leads; tv advertising data is not yet in for the year-end push.

Andrew Owen of Wells Fargo briefly discussed the planned reorganization of the Wells Fargo funds to rationalize the number of funds that are being offered to investors. This affects one fund in the Tomorrow's Scholar program, the WF Corporate Bond Fund. They are recommending that this fund be merged into the WF Income Plus Fund, which will likely take place in the third quarter of 2008. We will be receiving more information about this merger of funds in May, with the proxy to be voted on after that time. The portfolio managers for the funds are the same, although there are more managers for the Income Plus Fund as it covers more fixed-income asset classes. *Wolff* asked about exposure to bond insurers, structured investment vehicles and sub-prime mortgage instruments. *Owen* responded that the exposure is very slight in the money market fund, less then one quarter of one percent. This has not impacted the fund in any significant way, or threatened the $1 NAV of the money market fund. He could not speak to the Baird fixed income funds. *Wolff* asked Linda Schlissel about the Vanguard Wellington, and she stated that to her knowledge it had no exposure to the problem issues, but all fixed income funds were impacted to the extent that they held bonds of the financial institutions that have been affected by the credit crisis, but no direct exposure. She said that she thought that this was true for the Baird fixed-income funds in the program as well.

VI. <u>Old Business</u>

A. <u>Status of Proposed EdVest CD Investment Portfolio</u> – *Perkins* reported that the CD working group met in December, and decided that the FDIC Option #3 would make the most sense for moving forward on the investment option for the program. Bankers Bank would do the bank portion of the investment placement, and Federal Members United Credit Union would participate with the credit union portion. Operational issues were discussed, including recordkeeping that would satisfy the FDIC requirements, and building an interface to connect the information from all three of the parties involved in the transactions. The group also discussed a non-term investment to use for the portfolio (as is offered in the state's deferred compensation program), but neither of the RFP respondents said they would be able to work with such an investment. Wells has assembled a project team to work on the operational details that need to be worked out for the investment. The group also discussed allowing investors to withdraw monies on non-rollover dates between the semi-annual regular investment dates, and it was decided that investors would have to be allowed, although discouraged, to take money out between the semi-annual investment dates to be workable. *Henriksen* stated that the development of the investment will be a big challenge for Wells Fargo and its partners, since the portfolio will be so different from the others that are currently in the program. *Adamski* stated that the bid process that Members United has suggested be used to set the rates on the CDs may be acceptable to Bankers Bank, such that there would be no difference between the two processes. Bankers Bank had discussed this very early in the development of the CD option, but later it had been discarded. *Johnson* felt that the best approach would be having both investments, both the bank and credit union option, as nearly equal as possible to avoid investor confusion. *Henriksen* said in response to a question that to get the investment option in place by year end will be an aggressive timetable. *Owen* stated that the cost of getting the CD investment option in place could be $1 million given all the complexities involved in the program. *Oemichen* asked about whether the once a year investment change option applied in this case, and how Wells Fargo will recoup the investment just discussed. It was pointed out that the same investment change rule would apply to the CD option, and *Owen* stated that the conversation on the cost of the development of the investment option still needs to be had with the state. The cost is clearly more than the portfolio would return to Wells Fargo. *Cook* asked if anyone else has tried to do this type of investment. *Janosik* reviewed the history of the portfolio's development progress, and the goals of the investment option and how it differs from what other state 529 programs have done. *Adamski* elaborated on the advantages of the structure that Wisconsin is trying to achieve with its investment portfolio, and *Owen* suggested that the portfolio would be unique among state 529 programs.

B. <u>Board Policy Regarding Travel to Conferences by Members</u> – *Perkins* reviewed the discussion at the last Board meeting concerning members traveling to conferences. The ECB policy was discussed, in that it allows reimbursement for conference attendance as long at the member receives prior approval of the travel by the whole board. *Johnson* stated that he thought the policy should encourage members to attend relevant conferences. The Investment Board discusses conference attendance of members in open session, and maintains a list of conferences that have been deemed useful by board members. <u>*Wegenke* moved that the Board adopt a policy for travel that follows the ECB policy, with the addition of suggested/recommended conferences for members to attend.</u> *Johnson* seconded the motion. The motion passed on a unanimous voice vote.

VII. New Business

A. Watchlist Modification [Evaluation Associates, Inc.] – Linda Schlissel of EAI discussed a slight change to the policy, changing a single word in the criteria from "and" to "or". As "and", it would be nearly impossible for any fund to go on the watchlist. Cook moved that the Board adopt the change in the Investment Evaluation/Removal Policy to substitute the word "or" for the word "and" as indicated in the first watchlist criteria. *Oemichen* seconded the motion. The motion passed unanimously by a voice vote.

B. 2007 Investment Performance Review including Peers (Evaluation Associates Inc.) - Linda Schlissel of EAI referred to the performance evaluation analysis prepared for the Board by EAI for 2007 and distributed earlier. She mentioned that EAI is now on a good schedule to get information to the Board in a timely manor for its quarterly meetings.

Johnson commented on the amount of return that is being given up in the advisor-sold share classes. Schlissel discussed the results that are shown in her report of 2007 annual results. For EdVest, 10 of the 12 options met or exceeded their peer medians on a one-year basis, and 6 out of 12 options did so on a rolling three year basis. Performance has improved across almost all the funds relative to the past quarter or two. Most of the funds had a very strong one year performance. She discussed the reason for these results. For the underlying mutual funds, she noted strong one year performance with the exception of the WF Advantage US Value Fund, the Legg Mason Special Investment Fund, and the WF Advantage Opportunity Fund. *Johnson* asked about the performance of the Thompson Plumb Fund, and Schlissel responded that sector weightings caused the fund to under perform its peers. She also commented on the underperformance of the fixed-income funds versus their benchmarks due to the drop in interest rates and how the funds were positioned on the yield curve.
Schlissel then reviewed the Tomorrow's Scholar portfolio performance for 2007. All the portfolios had exceeded the performance of their benchmarks medians on a one year basis, and nine of the eleven outperformed on a three year basis. She stated that the portfolios had done very well in 2007, and reviewed the fund performance versus their peers. She said that recent performance had been strong for the Tomorrow's Scholar portfolios.

C. Change of 529 benchmark for the Heritage Money Market Fund in the Ultra Conservative Portfolio [Evaluation Associates, Inc.] – Schlissel stated that we had been using the Morningstar benchmark for the WF Heritage Money Market Fund, and this is not the stated benchmark for the fund per its prospectus. The stated benchmark for the fund is the Lipper Money Market Average and she recommended that the investment policy be changed to reflect this. EAI will be getting the Lipper benchmark from Wells Fargo. *Oemichen* moved to change the Investment Policy dated June 15, 2007 to reflect the following benchmark changes: for the EdVest and Tomorrow's Scholar Ultra-Conservative Portfolios, replace the iMoneyNet First Tier Institutional Money Fund Average with the Lipper Institutional Money Market Average, and change the underlying benchmark for the Wells Fargo Advantage Heritage Money Market Fund to the Lipper Institutional Money Market Average. Motion was seconded by *Wegenke*, and passed unanimously by voice vote.

D. Watchlist Additions [Evaluation Associates, Inc.] – Schlessel discussed the memo that was distributed to board members listing the Legg Mason Aggressive Portfolio, and the Legg Mason Special Investment Trust, WF Advantage Opportunity Fund, and the WF Advantage US Value Fund in the EdVest program, and the same two WF funds in the Tomorrow's Scholar program. What being placed on watchlist means to EAI is that these funds will receive even closer monitoring on a quarterly basis and a report to the board on their performance, with a further recommendation after one year at the annual review next February. This information would be communicated to the fund managers of these three funds, according to Owens. *Wolff* asked about communicating with investors regarding these designations. *Johnson* stated that he did not think the Deferred Compensation board communicated with investors directly about watch list decisions, and he said he would lean that way here. *Henriksen* stated that in their discussions with their 529 attorney of the action of placement on watch, the Board should consider the reason for the placement. If it was based on underperformance, as in this case, then this information was already being disclosed on the program's web site for any investor or potential investor to see and consider.

The Board discussed various approaches to the action of placing the investments on watch. *Janosik* stated that information will be included in the re-write of the program description that will describe the investment performance review/removal process. *Oemichen* said that he thought some form of notice should be available at least on the web site. *Cook* felt that the Board needed legal guidance as to what disclosure was needed about watchlist placement. *Owen* stated that the Wells Fargo Funds Board did not publicize their watchlist placements, as it is felt to be fluid and changeable based upon performance. He was not aware of any other state that is disclosing the candidates on their watchlists. *Wolff* reviewed the process of disclosing a material event and information notices to the national securities information repositories. *Adamski, Johnson,* and *Wegneke* expressed their positions regarding the disclosure of the Board action regarding placing funds on the watchlist. *Cook* moved to consult legal counsel on how the Board should handle the watchlist recommendations.

Schlissel stated that with her other clients, the process that is followed in almost more important than what funds are placed on the list. If the policy is posted on the website, she felt that posting funds that fall on the list would make sense. The policy is meant to be a working document for the group. She suggested that whatever date is decided to make the policy effective, that the Board go ahead with getting the message to the fund managers that it has concerns with the funds' performance. The Board continued to discuss the implications of their action regarding funds being recommended for the watchlist by EAI, and whether additional legal advice was needed to determine what disclosure was needed if affirmative action was taken to accept the recommendations. *Oemichen* seconded the motion, with the addition that the Board instruct Wells Fargo to inform the fund managers of the funds recommended for watchlist status, and ask them what steps they will be taking to address their performance. *Sheehy* said that he was still unclear as to the effective date of the modification to the Investment Evaluation policy. The Board discussed the point further.

Oemichen restated the purpose of the motion on the floor – to consult with legal counsel as to how the program will notify investors if necessary of watchlist actions, to have Wells Fargo make inquiries to the fund managers identified for watchlist placement as to what steps they would be taking to improve performance, and ask staff to insure that relevant performance information is available to investors. The motion passed by voice vote with no objections.

Durkin moved to make the effective date on the revised Investment Evaluation/Removal Policy in **VII A.** above be made December 31, 2007. *Cook* seconded the motion. The motion passed by voice vote with no objections.

Wegenke moved to accept the recommendations of EAI to put portfolio and funds on the watchlist per their memo to the Board dated February 4, 2008. *Cook* seconded the motion. The motion passed by voice vote unanimously without objection.

E. 2008 Board Meeting Dates – Perkins confirmed meeting dates for 2008 are May 12, August 11, and November 10, 2008. These will remain as discussed at the last meeting.

F. Outreach Committee Report – This committee met briefly this morning to pick up the discussion of ideas for outreach to potential investors. One idea that is underway is a plan to work with DPI and UW-Extension for a middle school financial literacy plan. This is to fill a gap in financial education so that students, by the time they reach eighth grade, will have achieved certain state financial literacy goals/standards about financial issues including college savings. The Treasurer has focused on this program. A project plan and funding document is being developed, so that by July the curriculum will be available and a pilot program will be started. *Perkins* said that she is hopeful that the Board may support these efforts. Also, a discussion of the contingency fund was undertaken, but it may not be timely to take this to the legislature at the present time. The establishment of a trust fund is one idea, but it may overlap the Wisconsin Covenant's thrust. *Perkins* reported on a community branding plan for EdVest to be undertaken with the Wisconsin Newspaper Association and the Wisconsin Radio Network. This campaign would focus attention to college savings through these media outlets, primarily through free media and planned events. Funding may come from the unspent audit funds if that could be approved by the legislature, as they are not being used to fund the audit this year. Finally, the group talked about partnering with state professional sports teams to help promote the EdVest plan, as has been done in Indiana.

G. Board Offsite Meeting in 2008 – *Perkins* discussed the possibility of inviting Andrea Feirstein to discuss with the Board the future directions and developments in the 529 state savings plans. The general consensus was to engage her in a discussion of what her availability might be, the costs involved, and what kind of presentation she could do at an off-site meeting for the Board similar to the one held in 2006.

VIII. Announcements – *Oemichen* discussed the CSPN conference held in San Antonio Texas in December 2007. He reported on information that was delivered by speakers at the meeting including, Joe Hurley and Andrea Feirstein. *Sheehy* discussed the conference sponsored by Joe Hurley's organization Savingforcollege.com that was held in October, 2007 that he attended in Boston. One of the primary messages was that the states must control the marketing message of the programs, and the aggressiveness of some of the state treasurers in working with their program managers. He discussed advertising and marketing efforts in other states including Illinois and Oregon. Both conferences were highly recommended by the attendees.

IX. Adjournment— The Co-Vice Chair adjourned the meeting at approximately 3:05 p.m. on a motion by *Wegenke*, seconded by *Durcan* which passed by a voice vote.