

# 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

October 29, 2007  
1:00 p.m.

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

MEMBERS ABSENT: *Sheehy, Plale, Darling, Rosen*

OTHERS PRESENT: *Marty Olle and Rich Janosik, EDVEST Program; Jay Risch, Sen. Darling's office; Mark Anderson, Sen. Plale's office; Andrew Owen, Sarah Henriksen, Wells Fargo Funds Management; Michael Wolff, DOA; Linda Schlissel, EAI; Megan Perkins and John Lease, Office of State Treasurer; Matt Tomasicchio and Susan Lowe, KPMG (by phone)*

**I. Call to Order and Roll Call** – The meeting was called to order at approximately 1:03 p.m. by Marty Olle, as Board Chair *Darling* was absent. (See above for attendance.)

**II. Election of Board Vice-Chair** – Olle stated that both Bill *Oemichen* and Pat *Sheehy* have expressed interest in the position, and Senator *Darling* has suggested that both could be elected as Co-Vice Chairs and share the position. *Johnson* asked how a shared position would work in practice. *Adamski* asked why *Darling* had suggested this approach. *Oemichen* stated that it was very unusual for *Darling* to miss a meeting, and that he thought it would be possible for himself and Mr. *Sheehy* to work out who would run a meeting in her absence. Beyond that, he did not think the position of Vice Chair carried any particular weight beyond that of any other Board member. The Chair would ordinarily speak for the Board when called upon to do so. *Olle* said the Pat *Sheehy* is amenable to sharing the position. *Adamski* moved, and *Durcan* seconded a motion to elect Mr. *Sheehy* and Mr. *Oemichen* as Co-Vice Chairs of the Board. The motion passed by a voice vote without opposition.

### **III. Approval of Agenda**

*Oemichen* asked for approval of the agenda. *Wolff* suggested that **Item VIII A. Independent Auditor Report**, be moved up allow the KPMG representatives to immediately make their presentation to the Board. Matt Tomasicchio and Susan Lowe made their presentation to the Board regarding the EdVest and tomorrow's scholar financial audits. They highlighted changes to the portfolios, principally the switch from the stable value portfolios to money market funds for both programs. The audit results were described as favorable with excellent cooperation from Wells Fargo staff and others involved in the process. The audit is unqualified, and no limitations were placed on KPMG as to access to records of the program. The auditors checked the pricing process and the internal controls of the program including

SAS 70 audits performed on the fund manager, record keeper and other program service providers. The audit this fiscal year was prepared under GASB standards, which is a change from past years when FASB standards were followed (footnote 2 in the audit opinion). Tomasicchio discussed this change and its meaning for 529 programs in general and the Wisconsin program in particular. He stated that most 529 plans are going to GASB standards for the presentation of their audits. These changes are described in the footnotes to this year's audit. Required communications between the auditor and management were reviewed for the Board, and it was noted by KPMG that there was nothing unusual found during the course of the audit, nor is there any reason or need for an executive session with the Board. *Johnson* asked about the management discussion and analysis of the portfolios. This is included in the annual reports, which is presented as unaudited, but is in conformity with the data that was audited by KPMG. A motion was made by *Wegenke* and seconded by *Adamski* to accept the audit report as presented. The motion passed by a voice vote with no objections.

**IV. Public Presentations** – None

**VI. Administrative Reports**

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

**B. State Treasurer Comments**

Treasurer *Sass* discussed activities recently held for Higher Education Day which was on October 9. There were events in over 25 cities, and the constitutional officers had various activities going on that day. There were events at many of the UW system campuses, including open houses on that day. A Higher Education Day essay contest was announced, with three EdVest scholarships to be awarded (\$2,500, \$1,000 and \$500) open to 7<sup>th</sup> and 8<sup>th</sup> graders. Treasurer *Sass* visited middle schools in Kenosha and Beloit to announce the essay scholarship contest. In conjunction with Money Smart Week, three students were awarded \$1,000 EdVest scholarships based on a statewide competition held this fall. An EdVest informational DVD has been sent to all elementary and middle schools and public libraries in the state, promoting enrollment in the EdVest program. *Oemichen* commented that at the last meeting that he attended as a member of the Board of Visitors of the UW College of Agriculture and Life Sciences, that board spent a good amount of time discussing the financial literacy of UW students. There is definitely a need to focus on this area.

**C. Program Director Comments**

1. Communications, Program Activity, Revenues and Expenditures Update, Proxy Voting, Annual Report - *Olle* asked that the minutes be approved from the last meeting.

**V. Approval of Minutes for April 30, 2007 Meeting**

*Johnson* moved and *Cook* seconded the approval of the minutes of the April 30, 2007 meeting of the Board, as distributed. Motion passed on a voice vote without objection.

**C. Program Director Comments [continued]** - *Olle* noted that this was the 37<sup>th</sup> meeting of the College Savings Program Board. He announced that this meeting will be his last, as he will be retiring from state service in January.

He distributed the DVD that has been produced by Wells Fargo for the program, which contains an introduction by Treasurer *Sass* and is thirteen minutes in length. It is hoped that the DVD will be used in conjunction with some of the presentation requests that the office receives, since we often must turn them down due to a lack of staff resources.

An interim version of the state budget included an amendment to allow any state's 529 program to qualify for the Wisconsin state tax deduction. This amendment was not included in the final version that was signed into law by the governor.

EdVest now has over \$700 million in program assets, so the program fees have been reduced by 2 basis points as stipulated in the contract with Wells Fargo.

Both Kiplingers and Money Magazine have recently given good reviews to the Wisconsin program.

DOA has relinquished the proxy voting powers to the Board. *Olle* suggested that the Board allow staff to fulfill the function of voting the proxies that come to it. *Oemichen* asked how DOA had decided in the past to vote the program shares. *Wolff* responded that in most cases, the votes are for routine matters like the approval of auditors, board membership, or occasionally changes in fund investment policies. They are seldom substantive in nature. He would advise that EAI be consulted if there were any extraordinary issues being voted on. *Johnson* was asked to describe how SWIB handles its proxy voting, and he did so. Wegenke moved to allow program staff to vote proxies and make a report to the Board at the next regular meeting of the Board as to how it voted unless, in staff and EAI's view, there is a special reason to bring the issue to the Board before voting. Cook seconded the motion and it passed on voice vote without objection.

Cheryl Elkington of Madison, attending the meeting as a private citizen, asked to comment. She made a statement about the state subsidizing the college education of out-of-state residents. She felt that too many Wisconsin students were being denied the ability to attend a UW institution because of this practice. *Oemichen* suggested that her comment might be more appropriately made to the UW System Administration, as the Board only has jurisdiction over the EdVest savings program, not admission policies at the universities. He also suggested that she make comment to her legislators and the governor's office, and thanked her for her comments.

*Olle* commented that the distribution plan for the Strong settlement, which has been delayed several times, was delayed again. The SEC website for the matter now says that the settlement will be released on or after December 1. There is no explanation given for why the settlement continues to be delayed, but staff will track any developments in the matter and keep the Board posted.

The Program's Annual Report has been prepared and reviewed by the Board and as required by statute will be delivered to the Governor and the standing committees of the legislature.

The budget has been adjusted to reflect a change in the allocation of the cost of the program audit. This fiscal year, for the first time, this fee is being paid to KPMG by investors, instead of directly from the program. This will mean that the amount of \$132,600 for the audit that was shown in earlier versions of the budget will remain unallotted and it will remain in reserve. The Joint Finance committee would have to approve any spending of that amount, and it is not available in the program's expenditures. *Oemichen* asked about the \$75,000 budgeted for legal services. *Olle* replied that it has been set aside to pay for legal expenses that are expected to be incurred when the Strong settlement is announced. None has been expended so far. *Adamski* asked why audit expenses were now being charged to investors, rather than being paid out of program revenues. The response was that since state fees are no longer being charged to accounts, allocating audit fees across the portfolios distributes the cost of the audit more equitably among investors. The question of recovering the funds for the program budget is not relevant, as the money is not appropriated for any other use and therefore must be reserved as unallotted. The contingency fund started the year at \$6.7 million, and has grown by \$232,000 from fees derived from tomorrow's scholar accounts. It

currently stands at \$6.9 million. *Olle* reviewed the current assets and open accounts held in the program in both EdVest and tomorrow's scholar.

*Wegneke* asked to recognize Marty Olle's contribution to the program over the years since its inception, and his consistent treatment of all members of the Board with respect. He put this in the form of a motion, and asked for acceptance of the motion by acclamation. Board approved the motion by acclamation without objection. *Adamski* asked to have the appropriate person draft the motion as a resolution, and that it be presented to Mr. Olle for his service over the years to the Board and the program. The State Treasurer responded to several questions regarding the hiring of a replacement for the Program Director position.

#### **D. Program Manager [Wells Fargo] Comments**

*Henriksen* reviewed the year-end marketing plan summary for the Board. She discussed the use of TV ads this year, and the other advertising channels being used. Print and on-line ads are being supplemented by TV advertising due to the relaxation of rules governing 529 program marketing disclosure. An animated 30-second TV ad is being developed to run in Wisconsin media markets. Current Wells Fargo clients are the focus of much of the direct mail print advertising, as well as current account holders who have not yet contributed up to their \$3,000 state tax deduction amount. She also reviewed the plans for the "road show" for the year end push, and mentioned the sites that will have more Wells personnel available to assist walk-in clients in opening or adding to EdVest accounts before December 31. For financial advisors, the focus is on supporting the EdVest program this year. Several types of advertising materials are being developed for use by sales professionals, and Wells is also doing direct mail to advisors to remind them of the advantages of the program. Material related to the Sage Program is being distributed to advisors who sell the program to their clients, and gift certificates have been developed for the EdVest program this year.

Wells Fargo will be hosting two one-day 529 plan symposiums in Menominee Falls for financial advisors, focusing on tomorrow's scholar and EdVest. There will be presentations on the development of 529 programs nationally, and changes that have been made to the Wisconsin program. The guest speaker will be Joe Hurley, who will be presenting information on how advisors can use the 529 program to increase their client business.

Outside of the year-end campaign, Wells Fargo is trying to improve the functionality of the Sage Scholar program for financial advisors. They are also increasing the content of the web site for advisors. Wells is working with PriceWaterhouseCoopers to implement a brokerage simplification program for their employees. This program would allow their employees to invest in EdVest without worrying about pre-approval of the trades and investments in the program. *Henricksen* responded to several questions from Board members regarding Sage accounts and the advertising materials. *Wolff* asked about the portion of the marketing budget that is targeted to non-Wells customers. *Henricksen* responded that there would be a significant focus outside the Wells customer base for the advertising, and this was provided in earlier materials shown to program staff. This could be provided to the Board. *Wolff* also mentioned the *Davis vs. Kentucky* municipal bond case as potentially having an impact on the Wisconsin state tax deduction. *Oemichen* inquired about the marketing to western portions of the state.

Andrew Owen of Wells Fargo briefly discussed the June conversion of the Stable Value Portfolio to the Ultra-Conservative Fund Portfolio, which went extremely smoothly. He also mentioned that the series of portfolio modifications made in January 2007 produced positive results.

## **VII. Old Business**

**A. Status of Proposed EdVest CD Investment Portfolio/RFP Responses** – *Olle* reported that the CD working group has met twice since the last Board meeting. After a discussion of the procurement of services for the CD portfolio, a Request for Statement of Interest was sent out by Wells Fargo to about 100 firms, producing responses from four firms. *Henriksen* reported that two firms responded to a Request for Proposals that was subsequently distributed -- Banker's Bank in Madison and Members United Federal Credit Union of Illinois and Minnesota. The responses are being analyzed, and it is expected that recommendations will be made to the Board at the next meeting based on the proposals. *Wolff* asked about the next steps in the process. *Henricksen* responded that the Working Group would meet to discuss the proposals to give direction to Wells and to bring a proposal to the Board at its next meeting.

**B. Activation of the Outreach Committee** – *Olle* discussed the history of the Outreach Committee of the Board, which had been formed to increase participation in the program by low and moderate income groups, and to contribute to other goals including financial literacy. One of the possible approaches was to take a portion of the contingency fund to form a trust to fund initiatives in these areas. He mentioned that it would be necessary with any plan of this type to have it approved by the Joint Finance Committee of the legislature. *Olle* asked if there was Board interest in opening up the process once again. *Wegenke* said that although he supported the cause and purpose of the committee, he was concerned about anything that is done might be a negative. He felt that at this time that reactivating the committee would not be advisable, but it might be at some later time. *Wegenke* said that he would want to participate if the group were to meet. *Cook* said that she would also be interested in taking part in meetings of the committee. *Johnson* stated that the committee's role might go beyond just determining a way to spend a part of the surplus, by trying to understand more about the population that is presently not being served by the program. *Oemichen* said that he was very worried that by going over to talk to the Joint Finance Committee about using the funds would have the effect of drawing unwelcome attention to the contingency at a time when the budget process has the legislature looking to any available revenue. He would really be cautious about proceeding. *Janosik* mentioned that engaging with HEAB might be a way to address the issue of underserved groups. *Wegenke* suggested that they also have similar issues in the current budget environment. He suggested it comes down to marketing to encourage savings and the promotion of college participation through web-based links. *Wolff* also thought that marketing might be a place to look to enhance efforts of this type. (*Adamski* rejoined the meeting by phone.) *Cook* asked about reaching low-income populations, and mentioned a program that Ohio uses to let people know about the low amount that was needed to open a 529 account there. *Henriksen* responded that Wells had done some testing during the year-end campaign in 2006 of two different ways to encourage people to open an account, one focused on the low monthly amount needed (\$15 with an automatic investment program) and one focused on the state tax deduction. Their conclusion was that the low monthly dollar investment was not an effective approach and did not work.

*Oemichen* suggested that there were other non-monetary ways to promote the program. He stated that providing state legislators with camera-ready copy for their newsletters might be one approach, as he has heard from some in the legislature that they would be willing to do this. Several members indicated their interest in participating in any meetings of this group. *Olle* stated that a notice would be sent out to get a meeting arranged.

## **VIII. New Business**

**A. Independent Auditor Report –Financial Audit for Fiscal Year 2006-2007 (KPMG)**  
(taken up earlier in meeting)

**B. Third Quarter 2007 Investment Performance Review-(Evaluation Associates Inc.) --**

Linda Schlissel of EAI referred to the performance evaluation analysis prepared for the Board by EAI for the third quarter of 2007 and distributed earlier. She mentioned that EAI would be trying to get data to the Board on a more timely basis, by pushing the meeting dates a little later each quarter in 2008.

She discussed minor reformatting that was done to the reports to make them more user-friendly and easier to read. For the September 30 quarter end, all the equity and balanced funds have beaten their benchmarks for the quarter (and for the 9 months of 2007), with the exception of the Legg Mason aggressive fund. The bond funds have had difficulty during the quarter, primarily because of the sub-prime mortgage market issues causing even conservative fixed income funds to perform poorly during the quarter. *Johnson* asked if the Baird Bond Fund has any sub-prime exposure, and Schlissel stated that as far as she knew, they did not. The poor results for fixed income were due to everyone being “painted with the same brush.” She reviewed the detail results versus benchmark for the EdVest portfolio funds. Growth funds did particularly well, and this is reflected in the results in the third quarter. Schlissel mentioned the reallocations that were done early in 2007 as helping performance, particularly in the additional exposure to international equities. She talked about the presentation of the underlying fund versus peer groups, their Morningstar ratings and their percentile rankings in the category. The Thompson Plumb growth fund performance is of concern at this time and they are watching it carefully. The Legg Mason aggressive fund has not done well due to its overweight to the financial sector which has been particularly hurt by the mortgage market problems. The fixed income funds are almost all above median for both one and three-year returns and in the top third of their categories.

For the tomorrow’s scholar portfolios, the results are similar to EdVest. All of the funds did very well except for the income portfolio and the ultra-conservative portfolio. The individual funds have improved significantly in the quarter. The full year-end review will be presented at the February meeting, including 529 peer reviews.

*Wolff* asked about using fund performance for funds that may not have a track record in the program, but do have for periods before they were included in the program. Schlissel stated that she would like to revisit the “Watch List” guidelines, now that they have been using them for a period of time. In checking the performance, she would like to re-examine the Watch List criteria. *Wolff* said he would like to use previous performance. Schlissel said that the word “and” in the policy should be revisited when combining four quarters of underperformance and rolling three-year averages. *Johnson* stated that at the Investment Board, they interview each manager each year, and he wondered if EAI or Wells was doing this for every manager in the program. Schlissel stated that she does view this function as EAI’s role, and she has a short list of managers she will be talking to before the February annual review. The quarterly commentary that is summarized in the EAI reports can also include this type of information, and be presented to the Board. *Cook* asked if there were any serious concerns that EAI had at this time with any of the funds, and Schlissel responded that there were not at this time as the improvements in performance were encouraging; the Legg Mason portfolio was disappointing but not on a long-term basis, and the WF Opportunity Funds needs to be followed as it has been disappointing for some time. Neither, however, would end up on the Watch List at this time given how it is now written. Thompson Growth also would deserve close scrutiny going forward, she said. She reviewed the complete data that is available for each quarter that underlies the high level summary presented to the Board.

**C. Board Policy Regarding Travel to Conferences by Members** – *Olle* stated that the current administrative budget is adequate for Board members to attend conferences at

program expense. There is no policy in place now regarding this, but it may benefit Board members to do so. It has been approved on an ad-hoc basis in the past. *Wegenke* suggested that we look at other boards, such as the EAB that he sits on, that do have conference attendance policies, and that we use them to come back to the Board at the next meeting. *Wegenke* moved to allow Board members to attend the December College Savings Program Network conference or any appropriate 529 conference until a policy is put in place. *Cook* seconded the motion. Motion passed by voice vote, without objection.

**D. 2008 Board Meeting Dates** – Dates suggested at this time are: February 11, May 12, August 11, and November 10, 2008. The one o'clock to three p.m. time period seems to work for everyone.

**IX. Announcements** -- There were no announcements or other public comments. The next Board meeting is scheduled for February 11, 2008.

**X. Adjournment**— The Co-Vice Chair adjourned the meeting at approximately 3:24 p.m. on a motion by *Wegenke* and seconded by *Durcan* which passed by a voice vote.