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

April 30, 2007
1:00 p.m.

MEMBERS PRESENT: *Darling, Sass, Johnson,* Paul Nelson *for Wegenke, Durcan, Oemichen, Adamski, Rosen,*

MEMBERS ABSENT: Cook, Sheehy, Plale

OTHERS PRESENT: Marty Olle and Rich Janosik, EDVEST Program; Jay Risch, Sen. Darling's office; Mark Anderson, Sen. Plale's office; Andrew Owen, Nancy Galica, Sarah Henriksen, Tom Biwer, Wells Fargo Funds Management; Michael Wolff; Linda Schlissel, EAI; Megan Perkins and John Lease, Office of State Treasurer; Carrie Templeton, DFI; Thomas Liebe, WI Credit Union League; Bill Sayles, WI Corporate Central Credit Union; Daryll Lund, Community Bankers of Wisconsin; Thomas Underkofler and Garrett Marr, Bankers Bank; John Knight, Boardman Law Firm

I. Call to Order – The meeting was called to order at approximately 1:04 p.m. by Treasurer Sass, as Senator *Darling* was not yet present.

II. Roll Call – See above.

III. Approval of Agenda

Oemichen moved and *Durcan* seconded a motion to approve the agenda as printed. Motion passed on a voice vote without objection.

IV. Public Presentations – None

V. Approval of Minutes

Oemichen moved and *Johnson* seconded the approval of the minutes of the January 29, 2007 meeting of the Board, as distributed. Motion passed on a voice vote without objection.

VI. Administrative Reports

B. State Treasurer Comments – Treasurer *Sass* welcomed *Michael Rosen* as a new member of the Board. She stated that the Board would be reviewing the FDIC response letter to the program's request for approval of an insured CD investment option later in the meeting.

C. Program Director Comments – *Olle* distributed copies of communications that had been received by the program. The first was from Stephen Tone of Tone Financial Advisors in Stoughton. He asked the Board to align the program's investments to be more in line with his values based on biblical stewardship. He considers investments in GE, Apple, Microsoft, CVS Pharmacies, Coca-Cola and others inappropriate. The other letter was from Mr. Carl Johnson, who is interested in having the state extend the EdVest state tax deduction to investors who are unrelated to beneficiaries, the proceeds to be used for needy students. *Olle* and the Treasurer have responded to his letter, letting him know that they are aware of his request, that changing the state tax deduction would be difficult, that existing non-"529" mechanisms may potentially allow him to achieve his goals more quickly, but that they will keep his request in mind going forward.

Olle reported that staff is preparing a renewal of the program's legal services contract with Foley and Lardner in preparation for the release of a settlement plan regarding the Strong Funds case. The SEC website now estimates release of the plan after June 1, and the amount of the overall settlement will be approximately $140 million. The staff will continue to follow developments in this matter as it relates to program participants. *Oemichen* asked if the legal expenses were being paid on an hourly basis, and *Olle* responded that they are.

Olle distributed copies of a new EdVest brochure to each Board member. He also reported on the creation of a DVD that will contain a presentation and background information on the EdVest program. It will be posted on the website and made available to groups such as PTAs/PTOs that wish to hear more about the program. He also distributed travel reimbursement forms for Board members to use.

Olle reviewed revenues and expenditures for the current fiscal year to date, and said a more detailed breakdown will be available for the complete fiscal year at the July meeting. He reported that the contingency fund balance is approximately $6.5 million. *Omeichen* mentioned that the size of the contingency is a concern as it continues to grow, as it can become a target for the Legislature. *Adamski* commented that it's important to get the low and moderate income [Outreach] committee to meet and discuss how a portion of these funds might be used. He recommended to the Chair that the committee be reconvened. *Olle* then reviewed program assets and liabilities and program account data as distributed to the members. Total assets are now at $2.017 Billion for combined EdVest and tomorrow's scholar assets. Accounts totaled 225,000.

D. Program Manager [Wells Fargo] Comments – *Henriksen* distributed the year-end summary to the Board. The year-end marketing campaign was about two times higher than last year's campaign. The Sage Scholar program for use at participating private colleges was added in the past year, and about five percent of accounts are linked up to a Sage account. Financial advisors in particular have been interested in having their program clients linked to the Sage program. The website has been enhanced to add additional capabilities for account owners and students who use the site, including more about financial aid resources as college attendance gets closer. Wells Fargo Education Financial Services has been linked to the program site and it provides free scholarships to program participants.

Oemichen asked if there is any way the program could do more to increase participation in the western part of the state, perhaps by advertising more in the Minneapolis media market. Henriksen responded that the advertising is done mostly at year-end and in the larger population centers like Eau Claire. Legislative newsletters were suggested as a possible place to promote the program.

VIII. Old Business

A. <u>Status of Proposed EdVest CD Investment Portfolio</u> – *Adamski* asked to review the history of the CD investment option for the program. He noted that since joining the board in 2000, he has advocated for a low-risk CD portfolio option for investors. When the new contract with Wells Fargo was entered into in 2005, a CD option was included as a part of the agreement with them. The Board voted to include a CD option in the program as soon as it is possible to get the FDIC and NCUA to agree with the structure for the portfolio to be offered. (*Senator Darling* joined the meeting at this point) A letter from the FDIC was received in April outlining several alternative structures that could receive FDIC insurance coverage, but the methods differed from the program's initial proposal to FDIC. *Adamski* stated that representatives of Banker's Bank were present at the meeting today to present a new alternate approach and answer any questions regarding how the proposed portfolio could be structured. Treasurer *Sass* asked the Board to credit Secretary Heinemann of DFI and thank her for her work in meeting with FDIC and pushing them to respond to our EdVest CD investment option proposal. (*Michael Rosen* joined the meeting at this point)

B. <u>Bankers Bank Presentation of Alternative CD Proposal and Potential Action</u> - Thomas Underkofler and Garrett Marr from Bankers Bank distributed a packet that included two letters from FDIC regarding the CD investment option. The titling of CDs and traceability of ownership were considerations in the FDIC response to the program's proposal. They discussed a flowchart of how the new proposed program would function and detailed the methods that they would use to distribute the funds to participating banks. *Wolff* asked a question about over or under-subscription for the funds available. Marr said that the fed funds target rate is the rate at which banks would be willing to take the investments. They have indications of interest from Wisconsin banks about participation in this offering. *Johnson* described the State Investment Board [SWIB] CD program and asked if there is any way to assure the Board that there would be enough demand for the EdVest CDs.

Olle stated that the monthly liquidity needs for the stable value portfolios are currently about $2 million, demonstrating the need for flexibility for withdrawals throughout the year. *Oemichen* asked about the availability of funds between maturity dates for the CD, and wondered how the investor would know if their investment were exceeding the $100,000 limit per investor in an individual institution. The distribution of funds would be accompanied by a list of investors, and the list could be checked by Wells Fargo or the subcontractors against the depositors of a particular institution to make certain that the $100,000 was not exceeded for any investor in an EdVest CD account.

Regarding credit union participation, the participant would indicate whether they wanted to be in a credit union or bank CD. Sayles stated that the earnings in either the bank or credit union CD would be equivalent. Pending a ruling at the federal level, investors may be required to be eligible for membership in the credit union taking the CD investment.

Johnson asked if the Board was being asked to approve offering the CD option in a revised structure, or whether more had to be done to develop the option. Knight stated that he did not think that FDIC insurance was an issue, but rather the recordkeeping needed to be done in an acceptable way, which seems not to be a hurdle. *Olle* commented that the FDIC letter gave three options that the program could use, and he felt that the CD working group should meet again and see which of the options now made the most sense. He said that he was not convinced that the decision of the FDIC could not be appealed, after waiting for over 9 months for their response. Unfortunately, the new approach as dictated by FDIC may not be as flexible or appealing for the program's investors who choose a CD investment option. *Adamski* stated that he felt that the original proposal to the FDIC, even if revised, would likely not be approved in his opinion, so the Board should look at the Banker's Bank proposal and the working group should be reconvened to look at the options and go forward.

Wolff suggested that since the SWIB program and its "pooled CDs" concept was approved, he is surprised that the EdVest proposal was not approved. Knight stated that the laws governing the two programs are different and that the FDIC letter is likely its final word as to what the FDIC will approve. We will have to work within one of the three options outlined if we wanted to get FDIC insurance for the portfolio investments. *Olle* stated that Option 1, which is the most similar to our proposal, would allow investment up to $100,000 in any single bank, and there are more than 250 banks and 270 credit unions in the state. Bankers' Bank said that they would have to check with FDIC counsel to make sure that any new approach would be acceptable. Sayles stated that a combination of Options 1 and 3 might come closer to the original proposal. The Board by consensus agreed to send the proposal back to the CD working group for further consideration of the options and to work out the details as attractively as possible.

C. <u>Termination of Stable Value Investment Portfolios</u> – *Olle* reviewed for the Board the process of transitioning all current investors in the Stable Value portfolios to the new Ultra Conservative Portfolio which consists of the Wells Fargo Advantage Money Market Fund. *Johnson* asked EAI what benchmark would be used to evaluate the new investment option. Schlissel stated that over the long run, a stable value fund may outperform a money market fund, depending on the cash flows into the portfolio and the timing of the flows. Owen stated that the benchmark would be the iMoneyNet First Tier Institutional Money Market Average, and Schlissel stated that EAI was comfortable with this as the benchmark. *Johnson* stated that he thought investors should have different expectations for the new money market portfolio than they did for the stable value fund.

VIII. New Business

A. <u>2006 Investment Performance Review and Peer Comparisons</u> and
B. <u>First Quarter 2007 Investment Performance Review</u> --Linda Schlissel of EAI distributed the analysis prepared for the Board for the 2006 calendar year. She announced that Ron Jackson had left EAI, and that she would be leading the EAI team on the EdVest account going forward. They compared the direct share class performances against the benchmarks. The results for the one and three-year periods were disappointing, with many of the portfolios underperforming their benchmarks. However, for the first quarter of 2007, there was a lot of improvement which is a result of the changes in the portfolios that were made late in 2006. She also discussed the performance of the individual funds within the portfolios for 2006 against their peers. *Olle* clarified that the peer comparisons were against all funds of a similar type, not just other 529 fund comparisons.

Schlissel also discussed comparisons of the EdVest portfolios against their 529 peer universe over one, two and three years. The Wells Fargo Aggressive fund is doing well, in the top third of its universe. The WF Moderate portfolio has improved against its peers, the WF Balanced portfolio is lagging somewhat and the WF Bond fund is improving. Stable Value has had a relatively poor run.

Versus the static aggressive fund universe, the WF Aggressive fund compares favorably over the one, two and three year periods shown. Schlissel discussed the range of equity percentages in each of the peer group comparisons, as it can markedly affect the performance comparison against the EdVest portfolios. In the future, the bands may need to be narrowed to make a more equitable comparison to the peer groups. The bond funds have done well, but the equity funds have not. Within the equity funds, the growth funds have done better. Both the Vanguard Wellington and the Baird Bond fund have done well.

The *tomorrow's scholar* portfolios generally underperformed their benchmarks for the one and three year time periods, but exhibited marked performance improvements in the first quarter 2007 results. EAI is also working on the fee-adjusted return data to look at gross results for the portfolios, and that will be presented at the next meeting.

For the *tomorrow's scholar* portfolio comparison with peers, the Aggressive and Moderate Growth portfolios were above median for one and three years. The Balanced and the Conservative funds have not done as well, nor has the Income fund.

For 2007 first quarter performance, all EdVest portfolios outperformed the S&P 500 Index. All funds showed improvement from the previous calendar year performance. Each of the *tomorrow's scholar* portfolios outperformed its benchmark for the first quarter with the exception of Stable Value. This was true for all share class offerings. The results show an improving situation for these advisor-sold offerings of the program. EAI is encouraged by the first quarter results for 2007, although one quarter does not make a trend.

Darling asked whether the benchmarks are accurate for the program. Schlissel stated that with the exception of some of the age-bands and the percentage of equities in some of the portfolio comparisons the benchmarks are accurate. She also responded to a question about program fees, that they appear to be competitive and reasonable compared to other state 529 program fees. Henriksen referred the Board to the Year-end Summary she had distributed and pointed out some of the comparative fee data they collected. This data showed favorable comparisons to the 529 industry averages for both EdVest and advisor-sold *tomorrow's scholar*. *Wolff* asked if she is aware of any program managers that are paid on a performance basis, and Henriksen replied that she was not aware of any.

Schlissel reported that the Watch List oversight will begin following the end of the June 30, 2007 quarter. Owen stated that Wells Fargo looks at both the performance of the portfolio and of the underlying funds against their benchmarks and as percentile rankings against peer groups. He said that they would be working with EAI to tweak any benchmarks that might need to be adjusted. All of the funds within the program are rated either three, four or five star funds by Morningstar, which is a rating that the investing public does look at. The only exception is the WF International Equity fund, which is rated one star by Morningstar. That fund has been revamped to improve its performance. The changes that have been made to the program since 2005 have added 250 basis points to the performance, and the changes made in January 2007 have added 40 basis points to performance. Wells Fargo is still concerned with the performance of some of the program portfolios, and they would like to continue to look at peer group comparisons with EAI to identify where underperformance might be coming from.

C. Board Vice-Chair Vacancy – *Darling* reminded Board members of the Vice-Chair vacancy and encouraged anyone interested in serving in that role to let her know prior to the next Board meeting. Both Pat *Sheehy* and Bill *Oemchien* have indicated their interest.

IX. Announcements -- There were no announcements. The next Board meeting is scheduled for July 30, 2007.

X. Adjournment— Before adjourning, *Sass* asked a question concerning procurement for the CD investment option. *Wolff* replied that he would investigate the issue of whether working solely with Wisconsin Corporate Central Credit Union and Bankers Bank is appropriate, or whether other groups might be qualified and interested in that function.

The Chair adjourned the meeting at approximately 2:48 p.m. on a motion by *Oemichen* and seconded by *Durcan*.