

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

January 29, 2007
1:00 p.m.

MEMBERS PRESENT: *Darling, Sass, Johnson, Wegenke, Durcan. By Phone: Adamski, Sheehy*

MEMBERS ABSENT: Cook, Plale, Oemichen, Reid

OTHERS PRESENT: Marty Olle and Rich Janosik, EDVEST Program; Jay Risch, Sen. Darling's office; Andrew Owen, Nancy Galica, Sarah Henriksen, Wells Fargo Funds Management; Catherine Gacad, Wells Fargo Bank (by phone), Michael Wolff, DOA; Ron Jackson, Linda Schlissel and Kathy Bajorinas, EAI (by phone); Megan Perkins, Office of State Treasurer

I. Call to Order – The meeting was called to order at approximately 1:04 p.m. by Board Chair *Darling*. Senator *Darling* welcomed Dawn Marie *Sass* as a new member of the Board in her new position of State Treasurer.

II. Roll Call – See above.

III. Approval of Agenda and **V. Approval of Minutes**

Durcan moved and *Wegenke* seconded a motion to approve the agenda as printed and the minutes of the October 30, 2006 meeting of the Board, as distributed. Motion passed on a voice vote without objection.

IV. Public Presentations - None

VI. Administrative Reports

A. Board Chair Comments – *Darling* reported that Anne Reid has resigned from the Technical College Board, and will therefore no longer be a member of the College Savings Program Board. As an ex-officio member, her replacement is expected to be appointed soon by the President of the Technical College System Board. Today's meeting features a year-end report by Wells Fargo and discussion of the replacement investment for the Stable Value portfolios. Evaluation Associates, Inc. will present the quarterly investment performance report on the program investment options. Jack Voight also left the Board when he left office as State Treasurer and the Board thanks and congratulates him on his service to the program over the years. He served as the Vice-Chair of the Board and anyone interested in filling that role in the

future was asked to contact Senator *Darling* or Marty Olle with an expression of their interest. The Board will take up the selection of a Vice-Chair at its April meeting.

B. State Treasurer Comments – Treasurer *Sass* thanked the Chair and expressed her pleasure in joining the Board. She gave the Board a brief review of her background and recent work history, and mentioned that the EdVest program would be an important focus of her tenure in the treasurer's office. She is hoping to bring new ideas to the Board.

C. Program Director Comments – *Olle* distributed copies of the newsletter that was recently distributed to all accountholders. He also mentioned that we have received approval to distribute an EdVest insert to all persons receiving a state tax refund this year. 1.5 million copies have been printed for distribution by the Department of Revenue.

Three Board members' terms will expire in May -- Mary Cook, Bill Oemichen, and Senator Jeff Plale. We have not yet heard from the Governor's office, but expect that they will be reappointed to the Board.

A recent Business Week article mentioned the EdVest program as having some of the lowest-cost "529" investment options available nationally, specifically the fifth lowest cost option in the country. This was highlighted in a table at the end of the article.

There is no news to report about the CD investment option proposal submitted to the FDIC last year. Wisconsin Department of Financial Institutions Secretary Keating-Heinemann will be in Washington in several weeks and will meet with the FDIC to push for approval of the EdVest request.

Olle then reviewed 2006 year-end program statistics for the Board. He mentioned the program is approaching \$2 billion in assets invested by account holders. There was growth of about \$350 million in program assets in 2006, the third highest since 2000. About 15,000 net new accounts were added to the program last year. Each year we have more families that are withdrawing funds for college expenses and closing their accounts at graduation, so net growth has slowed since the program opened. Two Board members asked how many accounts were in payout mode and what the average age of beneficiary is. *Henriksen* said that she would look into getting these numbers for the Board. *Olle* also reviewed program revenues and expenses as reported to the Board.

Wolff asked about any biennial budget requests, and legal fees for the program. *Olle* reported that there are no new budget requests for the program, but we are asking the Governor's office for approval to renew the legal services contract which has expired.

D. Program Manager [Wells Fargo] Comments – *Henriksen* discussed the activities of the plan in the past year. Assets grew by 22% in 2006 to over \$1.9 billion, about half from contributions and half from market appreciation. Accounts grew to over 221,000, with about 60% of those in EdVest and 40% in *tomorrow's scholar*. The most recent national data ranked the Wisconsin plan as 13th largest by assets and 9th by number of accounts. She reviewed the rest of the report that was distributed to the Board, and talked about the service level monitoring that is now going on under the new contract. *Henriksen* discussed the year-end "road show" events that were held across the state in late December to help individuals open EdVest accounts in person. She also reviewed the marketing of the program through

financial advisors at year end. *tomorrow's scholar* earned a STAR award from the Mutual Fund Education Alliance as the best on-line site for large mutual fund companies. *Johnson* asked a question about the direct versus the advisor-sold percentages of new accounts. *Henriksen* responded that the percentages have remained relatively constant over time for EdVest [two-thirds direct, one-third advisor]. In response to a question by *Wegenke*, she stated that the dollars spent in the past two years for marketing were about the same but the year-end data has not been completely analyzed yet. *Johnson* asked if the demographics of other state programs was comparable to what we are seeing with the Wisconsin program. *Olle* stated that we are similar to other states' results as far as reaching low and moderate income families with the 529 programs. *Sass* mentioned her interest in holding financial literacy events for low income people. *Adamski* mentioned the need for an FDIC type of investment for persons of moderate means, due to their interest in a low risk investment option. *Durcan* asked about the gap between the savings level and costs of college. *Henriksen* stated that there are tools on the web site to help investors calculate what they need to save.

VIII. Old Business

A. Implementation of Harbor International Fund in *tomorrow's scholar* Portfolios –

Olle reported that all the portfolio changes that had been approved at the last meeting of the Board have been implemented. There was a small glitch with the introduction of the Harbor International Fund, and a two-phase process is being used to get into the preferred share class. Consequently the fees being charged to account holders will be slightly higher for a short period of time (1 basis point or 0.01%) until late February or March.

B. Replacement Alternatives for Stable Value Investment Portfolios - Andrew Owen of Wells Fargo presented the board with a report on the replacement options for the Stable Value portfolios. Galliard continues to manage the gap between the market value of the portfolio of investments and their book value. This gap has closed by about two-thirds from the amount identified when the accounting change issue was raised by the auditors last year, and the plan is to eliminate it by the end of June, 2007. Wells has worked with the state and EAI to look at alternative investments. Three were originally suggested, one of which - the Wells Fargo Ultra-Short Term Bond Fund - was dropped due to its potential for loss of principal.

The two remaining options under consideration are the Wells Fargo Bank Deposit product and the Wells Fargo Heritage Money Market Fund. Owen reviewed the two options for the Board. The objectives of both are similar to that of the stable value portfolios, in that both of the options seek to maintain principal value and offer daily liquidity. Both products have substantial size in terms of total investments held. The Bank Deposit product is maintained offshore in a Wells Fargo Cayman Island branch. The Money Market Fund also has some investments in offshore vehicles. Performance is slightly higher for the bank deposit product (seven to twelve basis points over time), and both options improve the yield over the current stable value portfolios. Both are also an improvement over the current stable value portfolios from an expense standpoint. Board members asked several questions about the pricing of the bank deposit product and the fees associated with each. Ron Jackson commented that EAI had analyzed all three options and noted that there was not a significant difference between the money market and the bank deposit product over the longer time period. He recommends that the money market fund be used, partly to avoid any potential controversy over the offshore nature of the bank deposit product.

Adamski commented that he thought consumers would more readily understand the money market product, as opposed to possibly being confused that the bank deposit product might

carry FDIC insurance, which it does not. *Wolff* asked about the pick-up in yield with the deposit product. Owen responded that domestic bank deposit products are prohibited from paying the overnight interest that is allowed because of the offshore nature of the Wells Fargo branch that holds the deposits.

It was clarified that the forced migration from stable value being discussed today would not count as an investor's once per year investment change allowance. *Olle* and *Henriksen* further clarified that if the CD option obtains approval and can be readied by the June 30 transition date from the stable value portfolio, EdVest [but not *tomorrow's scholar*] investors will be able to select either the money market fund or the insured CD portfolio. *Adamski* moved and *Johnson* seconded a motion to migrate the Stable Value Portfolios assets into the Heritage Advantage Money Market Fund by June 30, 2007. The Board further discussed the need to take action at today's meeting and the advantages of each investment option. The motion passed on a unanimous voice vote of the Board.

VIII. A. 2006 Fourth Quarter Investment Performance Review -- Ron Jackson of EAI led the discussion of the program's fourth quarter 2006 portfolio performance, and also reviewed three and five-year results. He commented that it would be unusual for 529 program portfolios, because of their program management fees, to consistently beat their benchmarks. In absolute terms, the equity weighted portfolios have done reasonably well in the last quarter, but are not beating their benchmarks. *Olle* asked if, given his first comment, EAI would consider widening their 10 basis point margin which defines a portfolio as being in line with the benchmark. Jackson stated the creation of the peer-group universe would tend to address this issue, and he also suggested that they could use gross returns to look at performance going forward. *Johnson* asked if any of the portfolios have triggered the "watch list" criterion, but Jackson stated that there have not yet been enough quarters of performance under the policy to trigger anything for the list. Owen was asked if Wells had any comments, and he stated that he felt that the changes that were implemented in January in the portfolio allocations and underlying funds would tend to improve performance in future periods, although there is no guarantee of this. He agreed with EAI's discussion regarding the need to look at peer group comparisons as well as benchmark comparisons. As for *tomorrow's scholar*, the portfolios are still lagging but the gaps with the benchmarks are narrowing, and the new portfolio changes should also benefit performance. At the next meeting EAI will add gross returns to their reports and include the peer comparisons.

B. 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.

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

X. Adjournment-- The Chair adjourned the meeting at approximately 2:43 p.m. on a motion by *Wegenke* seconded by *Durcan*.