

Minutes of the Meeting of the College Savings Program Board

Atrium Conference Room
Wells Fargo Funds Management Wisconsin Headquarters
100 Heritage Reserve
Menomonee Falls, Wisconsin

*A tour of the facility preceded the meeting and started at approximately 12:30 pm
Monday June 12, 2006
1:00 p.m.*

MEMBERS PRESENT: *Adamski, Darling, Johnson, Wegenke (by phone),
Durcan, Voight, Cook, Reid, Sheehy, Plale.*

MEMBERS ABSENT: *Oemichen*

OTHERS PRESENT: Marty Olle and Rich Janosik, EDVEST Program; Connie Schulz, Sen. Darling's office; Andrew Owen, Nancy Galica, Sarah Henriksen, and Tom Steffen, Wells Fargo Funds Management; Michael Wolff, DOA; Linda Schlissel and Ron Jackson, EAI; Avi Lank, Milwaukee Journal-Sentinel; Susie Bauer, Robert W. Baird.

I. Call to Order – The meeting was called to order at approximately 1:01 p.m. by Board Chair *Darling*.

II. Roll Call – See above.

III. Approval of Agenda – *Adamski* moved and *Voight* seconded approval of the agenda as posted and distributed. Motion passed by voice vote without objection.

IV. Public Presentations – Tom Steffen gave an overview of Wells Fargo's marketing plans for the upcoming year.

V. Approval of Minutes – *Johnson* moved and *Durcan* seconded a motion to approve the minutes of the April 5, 2006 meeting of the Board, as distributed. Motion passed on a voice vote without objection.

VI. Administrative Reports

A. Board Chair Comments – *Darling* stated that the principal purpose of the meeting today was to review performance for the first quarter of 2006. She also noted that the next board meeting would be October 30, 2006.

B. State Treasurer Comments – *Voight* announced that Wisconsin Higher Education Day will be held in October. The purposes of this event are to recognize the existing higher education leadership and to promote college attendance as a goal along with saving for college. The constitutional officers of the state have agreed to sign a proclamation from the governor declaring the day, which is proposed for

October 3, to be Higher Education Day in Wisconsin. The officers will divide the state into six regions, and will present the importance of getting an education beyond high school.

C. Program Director Comments --- *Olle* shared results from a marketing survey completed by Wells Fargo on the customer base for the program. Eleven thousand account owners with college-age beneficiaries were sampled, and there was a 13% response rate. [Note that some of the following statistics have changed from what was presented at the meeting. This is the result of further analysis of the data collected by Wells Fargo.] About one-third of respondents said their student beneficiary plans to attend a Wisconsin school, one-third plan to attend an out-of-state school and the remainder were undecided. About 84% of those planning to attend a Wisconsin school indicated that it is a public school. Among those who named a specific school as the intended institution, the great majority named UW-System schools and schools in Minnesota. Marquette University also made the top 10. About two-thirds of respondents planning to attend school outside of Wisconsin indicated it will be a private school.

The next scheduled meeting of the Board is Monday October 30, 2006. Meetings scheduled for 2007 include January 29, April 30, July 30 and October 29. A revised EdVest fee schedule showing total expenses by program portfolio was distributed and is available on the EdVest website. The EdVest program now has some of the lowest fees in the U.S., as reported in the business press.

The month end May reports were not yet available, and *Olle* stated that they would be sent by e-mail shortly. He summarized the reports, stating that the program has \$1.7 billion in assets with 214,000 total accounts. Fiscal year-to-date revenues exceeded expenditures by \$400,000, which makes the program's contingency fund balance approximately \$6.2 million.

D. Program Manager Comments - *Henriksen* summarized the SAGE Scholar program, which will soon be available to program participants. Current EdVest and *tomorrow's scholar* participants who open a SAGE account will receive a 5% annual tuition reward in their SAGE account, posted quarterly, based on the size of their 529 account that quarter. SAGE accounts can be used for tuition discounts at participating private colleges and universities nationwide.

VII. Old Business

A. Presentation on the RFP Process and New Program Manager Contract -

Marilee Thomas and Michael Wolff of the State Department of Administration gave an extended presentation on the process that was followed in selecting Wells Fargo for the new five-year contract with the state to administer the program. The scoring sheets of the review team were distributed, and a lengthy discussion of the process followed. *Voight* asked Wells Fargo if the Strong settlement would have any impact on the new contract. *Henriksen* stated that Wells has no connection to the distribution plan for the Strong settlement, which has not yet been released by the SEC. Some account holders may benefit from the settlement when it is announced later this year. The Board resolved without objection to thank the participants in the RFP selection process. *Johnson* commented that the Board can feel comfortable with the process that was followed, and added that the review team was also well served by the consultants, EAI and AFC Consulting, who assisted in drafting the RFP and in reviewing the proposed fund selections.

B. Approval of Investment Evaluation/Removal Policy -- *Janosik* discussed the third draft of the policy and the changes that had been made since it was first presented in January. Jackson of EAI stated that they had been involved in the policy's development. *Darling* moved board approval of the policy to be dated June 12, 2006. *Durcan* seconded the motion. Motioned passed unanimously on a voice vote.

C. Approval of EdVest CD Investment Option -- *Olle* reviewed the history of the development of the CD investment option, including recently signed legislation establishing the necessary state trust funds to hold investor funds. He also stated that regulatory approval is expected from both FDIC and NCUA. *Adamski* commented that he is comfortable with the interest rate and fee formula, and the working group can review the formula every year. He is happy that the investment option will potentially provide development funds for Wisconsin local communities. *Voight* moved, and *Adamski* seconded a motion to approve the CD investment option for the program, and for it to be implemented as soon as possible. Motion passed unanimously on a voice vote.

D. Discussion of MSRB Guidance Relating to Marketing of 529 Plans -- *Janosik* reviewed guidance which was recently made policy by the SEC and therefore is now required to be followed by advisors and broker/dealers when selling a 529 program to their clients. It covers rules for advertising, marketing and customer disclosure. He reviewed for the board the importance of this new SEC rule, and offered to answer any further questions that any board member might have.

E. Continuation of 2005 Investment Performance and Peer Group Comparison (see under VIII. A, Below) (This presentation was interrupted earlier by a continuation of item VII A. above, and was combined with the following item of new business.)

VIII. New Business

A. 2006 1st Quarter Investment Performance Review -- Ron Jackson of EAI reviewed the performance report for the first quarter of 2006. He explained that it is divided into three sections covering EdVest, *tomorrow's scholar*, and an explanation of the peer group universes used for comparative purposes. The peer group universes allow comparison by investment option, by performance, and against peers in other 529 college savings plans.

In summary for EdVest, after a weak 2005 the portfolios are off to a good start for the first quarter of 2006. The improved performance has been spreading across the portfolios and across the time-frames used in the investment policy. The reallocation of funds implemented in September last year has improved the performance of the age-based and other portfolios. In the first quarter of 2006, Jackson stated that the WF Aggressive Portfolio was 10 basis points ahead of its benchmark. EAI considers a plus or minus 10 basis point band around the benchmark as acceptable performance in any one time period.

The WF Growth Fund was an exceptionally good performer, and this result carried across into the three-year historic numbers. Fixed income investments had a difficult time in the 1st quarter of 2006 due to rising interest rates. The Stable Value Portfolio continued to lag its benchmark, but the WF Bond Portfolio was helped by the September 2005 reallocation and beat its benchmark.

As for the stand-alone portfolios in the first quarter, the change of the benchmark for the Legg Mason fund from the Russell 3000 to the S&P mid-cap 4000 will more appropriately reflect its performance relative to benchmark. The Vanguard funds slightly underperformed, and the Baird Bond Fund was at benchmark. Jackson discussed the positive aspects of the EdVest portfolio performance based on percentile rankings.

Jackson commented on the *tomorrow's scholar* portfolios, noting performance relative to benchmarks and 529 peer group, and commenting on the strengths and weakness of underlying funds and the effects of the September 2005 reallocations on the TS portfolio performance relative to peer groups. He noted that the EdVest peer group was no-load options in the 529 offerings of other states. For TS the universe is A and C share class offerings, but the comparison is still an "apples-to-apples" comparison. He noted specific portfolios and their respective peer group sizes. The usefulness of the peer group comparisons for TS suffers due to the relatively small peer universe size. He noted that all TS portfolios were below their peer averages, and discussed the reasons for the underperformance. *Johnson* asked if a fuller explanation of the reasons for the underperformance could be offered. *Andrew Owen* said that Wells Fargo would take the information, look at improvements that can be made to increase performance, and make recommendations to the Board.

Linda Schlissel stated that EAI will look closely at any identified underperformance on an ongoing basis, now that the investment policy/watchlist has been put in place by the Board.

B. Approval of Investment Portfolio Benchmarks--EAI discussed its review of the benchmarks for all investment portfolios, and confirmed that two slight changes to the benchmarks have been discussed. First, the stable value benchmark continues to be under evaluation and remains as it is. The benchmark for the RiverSource Large Cap Equity fund will be the stated benchmark in its prospectus as it was merged with the RiverSource New Dimensions fund, which was not reflected in the original copy of the new investment policy that was distributed to the Board with the Board materials. Jackson stated that EAI and the program staff and Wells Fargo were in agreement regarding the investment policy benchmarks dated as of today's meeting. For the Growth Fund, EAI recommends that the Russell 1000, rather than the Russell 3000, be used as the benchmark in the policy. Schlissel of EAI reiterated that they would expect the benchmarks to the underlying and stand-alone funds to almost never or only very rarely change, but they would be reviewing them annually, and monitoring them to see if they remain appropriate. Performance will continue to be reported on and monitored quarterly by EAI and program staff. *Sheehy* stated that he considered the policy to be an organic document, and staff re-iterated that that was its original intent, that is, to change when necessary and appropriate according to the recommendations of the independent investment advisor, EAI. EAI will try to highlight any manager change in strategy for any of the funds in the program, thereby identifying potential issues that might exist for continued use of the fund for its stated purpose with EdVest or Tomorrow's Scholar portfolios.

After further discussion *Darling* moved and *Voight* seconded a motion to adopt the revised investment policy for the program dated June 12, 2006. Motion carried by voice vote with no one voting in the negative.

IX. Announcements -- -There were no announcements.

X. Adjournment -- The meeting was adjourned at approximately 3:05 p.m. by unanimous voice vote of members present.