

# 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 5, 2006  
1:00 p.m.

MEMBERS PRESENT: *Adamski, Darling, Johnson, Paul Nelson for Wegenke, Durcan, Oemichen, Voight and Cook; By Phone: Reid, Sheehy, Plale.*

MEMBERS ABSENT: None

OTHERS PRESENT: Marty Olle and Rich Janosik, EDVEST Program; Tom Petri, Sen. Darling's office; Andrew Owen, Nancy Galica, and Sarah Henriksen, Wells Fargo Funds Management; Michael Wolff, DOA; Linda Schlissel and Ron Jackson, EAI; Tom Levy, WCUL

**I. Call to Order** – The meeting was called to order at approximately 1:03 p.m. by Board Chair *Darling*.

**II. Roll Call** – See above.

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

**IV. Public Presentations** - None

**V. Approval of Minutes** – *Oemichen* moved and *Adamski* seconded a motion to approve the minutes of the December 19, 2005 meeting of the Board, as distributed. Motion passed on a voice vote without objection.

## **VI. Administrative Reports**

**A. Board Chair Comments** – *Darling* congratulated Michael Wolff on being named DOA liaison to the Board and thanked him for his continued participation. She said the 2005 reviews of the program are the highlights of this meeting, along with the discussion and vote on the new Insured EdVest CD investment option. Tom Petri, staff to *Darling*, related the status of enabling legislation SB661 and AB1153, for the CD option. *Darling* said the goal of the CD option is to broaden participation in our program and get more residents to attend college.

*Durcan* moved, and *Voight* seconded, a motion of Board support for SB661 and AB1153. It was approved on a voice vote with no opposition.

**B. State Treasurer Comments** – *Voight* announced that EdVest received a positive review from the financial writer of the WEAC newsletter. He also announced that he is spearheading the creation of Wisconsin Higher Education Day, to be held in September. 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. He has already reserved [www.highereducationday.com](http://www.highereducationday.com) as a website and plans to hire a marketing consultant to help coordinate related activities.

**C. Program Director Comments** --- *Olle* shared a letter received from Mr. David Lee of Milwaukee, advocating for more low-cost investment options in the program. Mr. Lee also suggests that more value-oriented equity options be made available as opposed to growth-oriented funds. *Olle* asked the Board's consultants from EAI to respond. They related that both EdVest and *tomorrow's scholar* now have, especially following the September 2005 portfolio revisions, adequate exposure to value equity funds. The program also has a comfortable variety of low-cost index funds as well as actively-managed fund options.

*Olle* will produce the quarterly financials and graphs in a week or so and distribute to the members. Scheduling future meetings in mid-month would allow adequate time for him to produce the materials prior to the meetings.

The new five-year contract with Wells Fargo is being negotiated and should be finalized and in place by the end of April.

**D. Program Manager [Wells Fargo] Comments** – *Henriksen* presented 2005 highlights from a report she shared with the Board. Wells Fargo took over as program manager in January 2005 and successfully converted over 264,000 accounts and almost \$1.4 billion in 529 plan assets. They worked with the Board to re-launch both EdVest and *tomorrow's scholar* during the year and made numerous improvements to the program's portfolio offerings, including 1) a new Wisconsin Select Portfolio and two new enrollment-based tracks to EdVest; 2) four new fixed allocation options to TS; 3) updated the underlying mutual funds included in the existing portfolios, which resulted in lower expenses for all EdVest Portfolios. The weighted average cost is now 0.8% compared with 0.94% on 1/1/05; 4) added five new underlying investment managers to the EdVest program and two new managers to TS. Morningstar currently ranks EdVest as the 529 plan with the 3<sup>rd</sup>-highest number of "highly rated funds" in its portfolios.

2005 was a productive year on the marketing front. Program assets grew by 17% (26% EdVest and 8% TS) and Wells opened nearly 21,000 net new accounts – more than double the number of net new accounts opened in 2004. Wells Fargo focused on unique opportunities within the company. EdVest was included in Wells Fargo's ConSern program – a program reaching more than 8 million employees through 327 companies, including 22 Wisconsin-based companies such as Briggs & Stratton, Covenant Healthcare, Harley-Davidson Motor Company, Journal Communications, Kohl's Department Stores, Miller Brewing, Modine Manufacturing, and WE Energies. Also began distributing EdVest and TS through more than 6,200 Wells Fargo Bank Stores, including 58 community banks across Wisconsin.

*Cook* asked for a future presentation on the recent RFP process, including the elements that led to the selection of Wells, and what will be different in the new five-year contract period.

## **VII. Old Business**

**A. Board Meeting Dates** – The Board anticipates meeting in June and November 2006 and in February, May, August and November of 2007. *Olle* will work with members to select the optimal dates.

**B. Expectations for Advisor Disclosure to Clients** – Referring to discussion at the previous meeting about disclosure requirements for financial advisors, *Olle* reported that the MSRB has just issued new guidance, to be addressed under agenda item VIII.D.

**C. Approval of Benchmark for Vanguard Balanced Portfolio** – At the previous Board meeting, members asked for a recommendation from EAI for an appropriate replacement benchmark for the Vanguard Balanced fund (Wellington). After brief discussion of a memo from EAI, *Voight* moved and *Johnson* seconded a motion to change the benchmark for the EdVest Vanguard Balanced Portfolio from 100% of the Russell 3000 Index to 65% of the Russell 3000 Index and 35% of the Lehman Aggregate Bond Index. The motion passed on a voice vote without objection.

**D. Investment Evaluation/Removal Policy** – The Board reviewed changes to the draft policy made since the previous meeting and members asked for several additional edits, including 1) clarify that the term “underlying investments” extends to the level of specific mutual funds but not individual stocks and bonds, 2) use of more flexible language than “will and shall” to give the Board more latitude in modifying the program’s investment policy, 3) substitute “four” in place of “three” consecutive quarters in several of the watch-list criteria, 4) use one and three-year “rolling averages” in the watch-list criteria and 5) clarify that the Board has flexibility to consider one or more of the specified criteria, as well as other factors, in determining whether or not to place an investment on the watch-list. The Board asked for these edits to be made to the draft policy and distributed to the members for review. When the draft policy is considered final, a paper ballot vote will be taken to approve the policy. *Janosik* emphasized that the policy is expected to evolve over time as conditions change.

Further discussion of this issue led to the conclusion that, in general, future deliberations and conclusions regarding the watch-list will appropriately be conducted in closed session. At such time a decision is made to remove an investment from the program, the decision will be made public.

## **VIII. New Business**

**A. 2005 Investment Performance Review and Comparisons** – *Olle*, *Janosik* and Ron Jackson and Linda Schlissel from Evaluation Associates introduced the first annual investment performance and peer review of the program, mentioning that it is a process that will evolve over time and is intended to provide the Board with the level of information most useful to the members. They stated that other similar programs conduct these evaluations in closed session and suggested the Board may find it appropriate to do so in future sessions.

EAI reviewed the program’s investment results for the year ending December 30, 2005. They stated that 2005 was a difficult year for most of the EdVest and *tomorrow’s scholar’s* investment options and several of the underlying mutual funds. Wells Fargo and the Board diversified the program’s offerings in September of 2005 by adding more style-specific funds in the small and mid-cap asset classes and an international fund to the equity segment. EAI believes the diversification will benefit

the portfolios in the long term, but the changes were made too late in the year to have significant impact on this annual performance review. Four of ten EdVest options met or exceeded their benchmarks, and three of the six options with at least three years of history in the program met or exceeded their benchmark. Net returns ranged from 2.1% for the Wells Fargo Bond Portfolio to 9.1% for the Legg Mason Aggressive Portfolio. All of the *tomorrow's scholar* options trailed their benchmarks. Net returns ranged from 2.5% for the *tomorrow's scholar* Income Portfolio to 4.9% for the *tomorrow's scholar* Aggressive Portfolio.

In a comparison of performance against the “universe” of 529 program options nationally, the EdVest one-year percentile ranks ranged from 1 for the Vanguard Balanced Portfolio to 80 for the Wells Fargo Moderate Portfolio. [The Moderate Portfolio was compared with other “age-based” portfolios for beneficiaries 6-10 years of age.] A score of 0 is the highest rank, and 100 is the lowest. For portfolios with at least three years in the program, the rankings ranged from 26 for the Wells Fargo Aggressive Portfolio [compared with other age-based portfolios for the 0-5 year age group] to 73 for the Wells Fargo Stable Value Portfolio.

“529” peer group comparisons for the *tomorrow's scholar* portfolios will be available in several weeks. The annual evaluation of all program benchmarks will be ready for discussion at the next regular Board meeting. In future years, this evaluation will be presented at the May meeting along with the annual performance review and 529 peer comparisons.

EAI confirmed that they will continue reporting on a quarterly and annual basis, and if situations of concern arise, they will be in touch with program staff.

*Johnson* suggested that the Board might consider having representatives of each fund family come in each year to make a presentation to the Board and meet the managers in closed session. *Jackson* reported that one of his 529 clients limits presentations to the watch-list fund managers. *Janosik* suggested that the Board could create an Investment Committee to address investment performance and other concerns. Any of these approaches are options for the Board.

**B. EdVest CD Investment Option** – *Adamski* summarized the work completed to date by the Board CD option working group and moved, seconded by *Voight*, to approve establishment of EdVest portfolios investing in insured CD investments from Wisconsin financial institutions, beginning July 2006. This date is contingent upon 1) enactment of state enabling legislation and 2) receipt of necessary legal opinions regarding approval by FDIC and NCUA.

Consensus was reached that the initial contracts between Wells Fargo and Bankers Bank and Corporate Central Credit Union [the entities that will receive investor funds from Wells Fargo and purchase CDs from member banks and credit unions statewide] be kept to 12-18 months so that adjustments can be made to the program at that time as needed. The Board and participant institutions might want to revisit such issues as the length of future CDs, the benchmark on which the interest formula is based, fees or other relevant issues following a year of experience with the CD program. After significant discussion, members asked for additional information about the formula to be used for the interest rate, which includes program fees to be charged for the CD investment option. Board consensus was that this information should be distributed by e-mail and may be approved by paper ballot.

**C. Wells Fargo Bank Customer Loyalty Program** – *Henriksen* presented a new “Portfolio Management Account (PMA) Package” opportunity available to Wells Fargo

Bank customers who also have EdVest or *tomorrow's scholar* accounts. If approved by the Board, Wells Fargo could allow bank customers to include their EdVest and TS accounts to qualify for financial benefits through the PMA program. During discussion of the issue, *Cook* and several other members expressed concern whether this is a proper use of EdVest and *TS* data, whether this gives Wells Fargo an advantage over other financial institutions, and whether if approved the Board would be obligated to review all other similar requests from other financial institutions. *Cook* asked program staff to request an opinion from the State Attorney General's office on this matter.

**D. MSRB Guidance Issued 3/31/06** -- Janosik stated that in the interest of time, he could summarize the recent MSRB rule dated March 31, 2006 at the next Board meeting. There were no objections and his suggestion was accepted by the group.

**IX. Announcements** -- -There were no announcements.

**X. Adjournment**-- *Voight* moved, and *Johnson* seconded a motion to adjourn. The motion carried by voice vote and the Board adjourned at approximately 3:35 p.m.