

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

March 24, 2005
9:00 a.m.

MEMBERS PRESENT: *Adamski, Darling, Johnson, Wegenke, Ron Yates for Durcan, Oemichen, Voight, Wolff*

MEMBERS PRESENT BY CONFERENCE PHONE: *Plale, Clumpner*

MEMBERS ABSENT: *Reid*

OTHERS PRESENT: Marty Olle and Rich Janosik, EdVEST Program; Tom Petri of Sen. Darling's office; Sarah Henriksen, Drew Wineland and Andrew Owen of Wells Fargo; Ron Jackson, Evaluation Associates, Inc. [by phone]; Mike Mikalsen, Representative Nass' office; Susie Bauer, Robert W. Baird; Don Liebe, Wisconsin Credit Union League; Lorrie K. Heinemann and Kathryn Carlson, DFI.

I. Call to Order – The meeting was called to order at approximately 9:01 a.m. by Board Vice-Chair *Voight*.

II. Roll Call – See above.

III. Approval of Agenda – *Oemichen* moved and *Adamski* 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 *Wolff* seconded a motion to approve the minutes of the February 3, 2004 meeting of the Board, with two minor edits to the draft version. Motion passed on a voice vote without objection.

VI. Administrative Reports

A. State Treasurer Comments – *Voight* mentioned the status of AB 31 and AB 111 [also discussed later in the meeting] and said that prior to the previous board meeting there were rumors circulating about a potential transfer of EdVest to another agency as part of the state budget debate. Concern about preserving the program on his part and among a group of legislators led to their discussions about creating a grant program to encourage low-income families to save for college. This led to a legislative press release about a grant program, which was premature since the Board had not yet approved the use of program funds for grant purposes. *Voight* said it is possible that such use of program funds may need to be approved by program participants as well.

[Chair Darling arrived and led the meeting at this point]. Extensive discussion ensued and many board members expressed their views on the topics of who should speak publicly for the Board and at what point in the decision-making process. Also, board members asked to be informed in advance of press releases and other situations where members may be questioned about an issue or board action [actual or potential] by legislators, media or the public.

B. Board Chair Comments -- Darling applauded the board's work to date on the potential program improvements suggested by the new program manager, Wells Fargo and said she looks forward to continued progress on these items at this meeting.

C. Program Director Comments --- Olle referred to program revenue, expenditure and other administrative data which he had distributed earlier to the board. He mentioned efforts to schedule another Outreach Committee meeting and expects that this can be accomplished soon.

He then discussed general timelines for the process of issuing a Request for Proposals regarding the program manager function recently taken over by Wells Fargo. The Wells contracts expire in May 2006. Olle has volunteered his and Rich Janosik's assistance to DOA, which will be leading this effort. The state may hire a specialized consultant to assist with the RFP and procurement process. Johnson asked if there are changes being considered in how the program is structured and if the board will have input into those changes. Wolff stated that board input will be solicited prior to issuing the RFP. Darling suggested a board retreat as a potential way of expediting it. Adamski asked if there is any potential for a legislator to introduce legislation consolidating the authority over the program which is currently split between the board and DOA. Darling said that is another topic for the board retreat.

VII. Old Business

There was no old business for board discussion or action.

VIII. New Business

A. EdVest CD Investment Option – Lorrie Keating Heinemann, the Department of Financial Institutions Secretary, brought the board up to date on a potential new conservative investment option which could be offered as part of the EdVest program. It is currently being researched by her department, Wisconsin banks and the Bankers Bank of Wisconsin, and could also be expanded to include credit unions. Two potential obstacles must be resolved before moving forward with this option: 1) obtain FDIC insurance and be able to pass it through to the investor; and 2) get approval of marketing and distribution of the product directly through banks and bank personnel. The FDIC is expected to take up the issue of 529 program use of CDs at either its spring meeting or in the fall of 2005.

Heinemann stated that despite the appearance of simplicity, the CD option is actually quite complex, with various regulatory and administrative issues to resolve, and they want issues firmly worked out before proceeding with a proposal. Darling suggested and Adamski moved to express board interest in the concept of an EdVest CD investment option and to ask DFI to return with a detailed proposal when the key issues have been resolved. Wegenke seconded, adding an amendment commending Adamski for the process of thorough research prior to approaching the board for approval. The motion passed unanimously.

B. Assembly Bill 31 – *Olle* described a legislative bill that would extend eligibility for the Wisconsin state tax deduction to all 529 college savings programs nationally. At a recent legislative hearing, a request was made of the board to take a position on the bill. The board discussed at length whether or not to take a position on the bill. Some members support the bill, some oppose it, others could support it if it were amended to include a reciprocity clause [meaning Wisconsin would allow a deduction for any state's program if that state extends the same benefit to its citizens who invest in our program] and other members believe it is not appropriate for the board to take a position since the bill is not specifically an EdVest bill. Mike Mikalsen, aide to Representative Nass, added background information regarding a reciprocity amendment, the possibility of phasing in certain fiscal effects of the bill, and support for the bill by the securities industry. The board concluded that it will remain open to additional information pertaining to the bill, but elected not to take a position on the bill at this time.

C. EdVest Investment Options, Distribution, Portfolios and Fees -- Henriksen reported on the transfer agency conversion from Strong's former data platform to the Wells Fargo platform. The fund mergers will be taking place on the April 8 weekend.

Owen discussed the creation of a Wisconsin select portfolio, taking into account the board's discussion at its last meeting. The recommendation reduces the percentage of Wells Fargo funds in the portfolio, and includes only funds that are managed by investment managers in the state of Wisconsin. Ron Jackson of EAI said their review of the proposed portfolio found it acceptable from both a performance basis and a fee basis. He characterized the fund as a balanced portfolio, 65 percent equity, 35 percent fixed income, with international equity exposure. *Wolff* mentioned that he wanted the disclosure to clearly state that geography is not necessarily the best method to use in picking one's investments. *Voight* moved, and *Wolff* seconded a motion to approve the addition of the Wisconsin select portfolio to the EdVest program, as detailed in recommendation number one of the meeting materials. Motion passed by voice vote.

Owen reviewed the suggested reallocation of the EdVest portfolios to include more diversification and a closer tracking to their benchmarks. Also, the Stable Value option is not scheduled for deletion at this time, based on the discussion at the last board meeting. He did mention that the sub-management of the fund will change from Dwight Capital Management to Galliard Capital Management. Only minor changes to the portfolio will be made. Galliard is currently the manager of the Wisconsin Deferred Compensation stable value option, and is a subsidiary of Wells Fargo. *Voight* moved, and *Wegenke* seconded a motion to accept the portfolio changed as outlined in recommendation number two. Jackson was asked to discuss the risk/reward profile as changed by the reallocation of the portfolios. He stated that with the exception of the bond portfolio, all the new allocations showed improvement when analyzed. Motion carried by voice vote.

Henriksen next discussed the recommendation to merge the Baird Bond portfolio into the EdVest Bond portfolio. She reviewed the reasons, including the small amount invested in the portfolio, Baird's participation in the Wisconsin select portfolio, and the similarity to the other bond portfolio offered by the program. *Johnson* and *Wolff* asked about the transition of account holders from the existing Baird portfolio to the suggested fund. Investor notification and choice was a concern of the transition, especially since account holders are allowed only one change of investment option during the year. Board members discussed the advisability of

eliminating the Baird bond portfolio, and heard input from Susie Bauer, the 529 program manager at Baird. Bauer questioned the logic behind dropping the Baird bond offering, based on the short period of time that it has been included in the program. The Board was also concerned about the fee change. Jackson commented on the performance of the Baird portfolio, which has been superior to the EdVest bond fund, but from a programmatic point of view, its replacement with the Wells bond portfolio makes sense as a way of making the portfolio offerings more consistent. Chair *Darling* declared that she would not be voting on this issue due to a conflict of interest. The board questioned Jackson as to the difference in performance between the Baird bond portfolio and the existing EdVest Bond portfolio; he stated that the difference was nearly 200 basis points over the past three year period. Henriksen stated that it would be possible to keep current Baird investors in the fund but close it to new investors. Several board members said they were not comfortable with making a decision on this recommendation. Jackson stated that he would look at the performance of the new lineup of funds in the EdVest bond option, and see how that would compare. Action was postponed on the third recommendation.

Henriksen discussed recommendation four, which is to add an “in college” age band to the age-based portfolios, and to add two new age-based options, an Aggressive Growth and a Conservative Growth track to the EdVest portfolio offerings. Current account holders will be able to stay in the existing portfolio which will be renamed the Moderate Growth Age-Based Portfolio. Adamski moved and Wegenke seconded a motion to approve recommendation number four. The motion passed by a voice vote.

D. Tomorrow’s Scholar Investment Options, Distribution, Portfolios and Fees -- Owen discussed recommendation five, which is a proposal to modify the existing Tomorrow’s Scholar portfolios as discussed in the Wells presentation. The fund offerings are enhanced with the addition of Franklin Funds and ING Funds in the portfolios, in addition to American Express Funds. *Johnson* asked about the reasons for selecting the funds being added, and the likely effect on the amount of assets that American Express has in the program currently. Owen said that the blending of the distribution, as well as what style areas Wells Fargo and AMEX are lacking, prompted the selection of Franklin Funds and ING. Both new fund firms have good distribution channels as well as excellent funds. American Express knows that with the changes in the portfolios structures, the percentage invested in their funds will drop both near term and in the future. The advantage to them is broader distribution of a potentially larger program. Ron Jackson commented that the changes in the program improve on the existing Tomorrow’s Scholar portfolios. Voight moved and Adamski seconded a motion to accept recommendation number five. Motion carried on a voice vote.

Owen reviewed recommendation six, which is to add a Stable Value portfolio to the Tomorrow’s Scholar program, to be managed by Galliard. *Adamski* asked if there had been any discussion with American Express of replacing the stable value product with a CD option if one becomes a part of EdVest. He said that this issue had not been discussed. Johnson moved, and Wegenki seconded a motion to accept recommendation number six. The motion carried on a voice vote.

Henriksen reviewed recommendation seven, which is to add the Stable Value portfolio to the age-based investment tracks for the “in college” bracket of those portfolios. This is similar to how the stable value portfolio is used currently in the EdVest program. Oemichen moved and Wegenke seconded a motion to approve recommendation seven. Motion carried by voice vote.

Henriksen discussed recommendation eight, which would discontinue advisor-sold EdVest and merge existing accounts into the most comparable Tomorrow's Scholar portfolios. *Olle* clarified that Vanguard has stated its willingness to allow the Vanguard funds currently available in the direct-sold EdVest program to be available through advisor-sold Tomorrow's Scholar. Henriksen stated that their recommendation would be to not include the Vanguard funds through Tomorrow's Scholar to new investors, but allow current investors of advisor-sold EdVest accounts to continue with their Vanguard investments after the transition. *Wolff* stated that he did not support this, since Vanguard has the lowest price funds available through the program, and those options have grown very quickly and have been very popular. He suggested that the Vanguard funds be left in both EdVest and Tomorrow's Scholar. Owen mentioned that by leaving them in both, advisors are put in a difficult position, from a suitability standpoint. The Board discussed the recommendation and what effect it would have on investor options going forward. Jackson stated that the changes would make the program more competitive nationally, and grow the program assets. *Darling* said this change may cause confusion because of the RFP process that will be taking place in the near future. *Olle* stated that a program name change was considered as well [i.e. changing Tomorrow's Scholar to EdVest Advisor], but it was felt that the change being proposed was less disruptive.

Johnson questioned the issue of how large the program should grow. The Board, he felt, was being exposed to more issues as the program is marketed more on a national level. *Darling* stated that she may need more time to discuss these issues of where to go with the Tomorrow's Scholar program. Henriksen stated that the suggestions in this recommendation are motivated by trying to make the program better for investors, not necessarily to benefit Wells Fargo. *Voight* stated that advisors and the public need to know that there is a fee involved if the investor goes through the advisor to buy the program. He felt that in the past, some investors using an advisor may not have been aware of the fees involved. *Wolff* suggested that the Board did not seem likely to resolve these questions without further discussion at another future meeting, but asked Wells to consider the downside of staying with EdVest advisor-sold, and not forcing investors to migrate to Tomorrow's Scholar into essentially a new investment. He would like them to explore the option of not moving them.

Voight asked about the marketing of both plans in Wisconsin. Henriksen said that all the direct marketing would be done for EdVest, and the advisor channel would be the focus of marketing Tomorrow's Scholar. *Darling* suggested that the Board postpone both recommendations 8 and 9, and revisit recommendation 3 at a future meeting in the near future. Henriksen asked about a possible delay in the implementation of all the approved recommendations, beyond the original planned date of July 1. Board consensus was that a delay would not be a serious problem, but it was important to have more time to look at the outstanding points in the recommendations not passed today. *Johnson* asked about advising current investors about upcoming changes; *Wolff* suggested that inserts in quarterly statements might be used to pass along notice about the impending changes to allow investors lead time to consider them, to plan their one annual opportunity to change investment options. Henriksen mentioned that the Wisconsin Association of Insurance and Financial Advisors [WAIFA] has its annual gathering in June. Staff and Wells are preparing to discuss all of the program changes at that time. *Voight* stated that he wanted it to be made clear going forward with marketing materials that Tomorrow's Scholar is a part of the overall EdVest program.

Staff will follow up with Ron Jackson to get information to the board regarding the Baird bond fund recommendation/questions. *Johnson* would appreciate an overall diagram or picture of how all the changes would look, from where the program is currently to the new configurations. *Oemichen* thought a little more narrative to flesh out the changes would also be helpful, beyond what has already been presented. *Olle* mentioned that the Vanguard funds participation issue, whether in the program in advisor-sold form called EdVest or Tomorrow's Scholar, was a huge factor to consider for the health and success of the program going forward.

(*Plale* left the meeting by phone)

E. State Fees for EdVest and Tomorrow's Scholar -- *Wolff* discussed state fees and suggested that he could support a moratorium on EdVest fees, waiving the 10 basis point state fee, and reducing Tomorrow's Scholar fees from 15 to 10 basis points given the reserves the program has accumulated. He thought the motion should be worded to state that when the reserves fall to a certain level, perhaps two years of operating expenses, that the fee on EdVest be automatically reinstated. He felt that this would be a reasonably safe position. *Voight* moved to impose a moratorium on all state administrative fees charged to EdVest accounts, and to reduce the annual state administrative fee on Tomorrow's Scholar accounts to 10 basis points, to be implemented as soon as possible in conjunction with the other program changes being implemented. This fee moratorium shall continue until the contingency reserve fund for the program is at or below the most recent two years of operating expenses. *Wegenke* seconded the motion. Motion carried by unanimous voice vote.

Voight asked for an opportunity to propose another motion, to allow the Treasurer to pursue other legal options to invest the program's operating funds balance in investment vehicles that might yield more than the State short-term investment fund run by SWIB. *Wolff* clarified that state statutes allow the Board to recommend this to SWIB, but it may not be advisable to do so. *Johnson* said that the SWIB board did not generally look favorably upon such requests, as the system is currently set up to sweep excess funds daily into highly secure and liquid investments, which admittedly may only be earning today two percent or so. It just is not practical for SWIB to use its manpower to act otherwise. *Wolff* suggested that a motion was not needed to do the research on this and that the Treasurer could just look into the possibilities and report back to the board.

Darling asked if there was anything further to come before the board. Hearing nothing, she moved that the board adjourn at approximately 12:20 pm. Motion was seconded by *Wolff*, and the motion passed by voice vote.