

Montana Family Education Savings Program (MFESP)

April 21, 2010

GSL Conference Room 201B - Helena, MT

11:30 am – 1:00 pm

In Attendance:

Board members in person: Jon Satre (Chair), Lynne Egan, Todd Buchanan (on phone), Robert Minto (on phone), Paul Christofferson

Public: Gil Johnson (on phone) with College Savings Bank (CSB), Dan Davenport (on phone) with CSB, Mary Anne Busse (on phone) with Great Disclosure

GSL/OCHE Staff: Bruce Marks, Robin Graham, Amy Berry, Sheila Newlun

1. Welcome and Approval of minutes:

Jon Satre – Call to order and welcome to all

Todd Buchanan **Motioned:** to approve the minutes from the March meeting, Lynne Egan seconded.

Vote: all in favor, none-opposed.

2. College Savings Bank and Vanguard updates: presented by Dan

- Agreements with Vanguard and UPromise are moving forward, still finalizing, but don't see any issues, hoping to have contracts signed in early May.
- The original transition date was November, are now working toward September. They have conference call tomorrow with UPromise to discuss this timeline.
- The initial letter to account holders regarding the July transfer is being finalized, hoping to be sent next week. Pacific Life is also sending a letter the end of April.
- There was some concern about the broker sold Pacific Life funds, they are currently charging fees (this was not clear from the last meeting), the direct sold are not charged fees. This was unexpected by the Brokers and could have been made more clear. Dan and Amy are researching to see how others have done this during transitions (i.e.: when other states have discontinued fees and taking deposits). Since the brokers are getting paid, they may be more willing to have their clients invest during this time period.

3. July transfer update

- Mary Anne is currently approving the letter, then will go to Pacific Life for approval. Investors will be notified their funds are being liquidated, and the Board of Regents (BOR) has approved the transfer to the CSB Savings account. The letter encourages investors to contact CSB if they prefer a different option than the default, it also lets them know their options.
- Plan to send a second letter in June to let them know exact dates and more particular details before the transfer in July. 785 accounts and \$8.8 million in deposits. Dan said, in general, those that have already exited these funds, are staying in the plan.
- Letter to Pacific Life – Amy will email this letter to those on the phone, this letter was informing Pacific Life of the BOR decision. Dan should have reaction from them on tomorrow's conference call. They agreed to cease sales as of August. Dan and Amy are researching the Arizona transfer to see how they handled the fees, maybe we'll follow the same timeline.
- Amy has received very few calls with concerns, most are just curious about the timeline and are excited about moving to Vanguard.

4. Action Item: Pacific Life funds update and mapping of remaining funds to be transferred by the Trustee September 2010: Mary Anne presented Portfolio Optimization options. (see handouts)

- One area still open for discussion is the Portfolio Optimization Conservative option.
 - She would like to have transferred the fund to a CD product, this would be the closest match, if the penalties would be waived for early withdraw. (slide 9) CSB is not able to waive the penalty. It is a term deposit, regulations require they charge an early withdraw penalty, so this is NOT an option she would recommend.
 - Could use the Money Market account so investors could take their funds as they need, but this may be risky to recommend to BOR because of lower returns...the Vanguard funds have better return than the Money Market account.
 - The next option would be Vanguard Conservative growth, however, it slightly more aggressive.

- Vanguard does have the Income Fund option that would be a better match, but was not offered. (maybe this could be an option in the future) The bank products were the conservative option in the initial forecast.
- Account holders do have the ability to give direction to their funds if they don't like the options they are presented. The market has changed since these options were presented
- 30 days prior to the time the transfers go into effect, investors will receive a letter to tell them where their funds are now...and where they are going. This gives them 30 days to make a change.
- Communication timeline (SLIDE 21). Around July 15th, the first communication will let them know about the transition coming up. In the middle of August they will receive a 10-12 page transition newsletter that walks through the process. It will show details of where investments are being mapped, they have the opportunity to make a change if they aren't comfortable, and will include lots of numbers for contact. Will go to all account holders, and to brokers as well. Should be very simple and straightforward giving the investors the mix of current investments compared to the mix of future investments. Have to be careful to let them know the new funds are not exact matches.
- In general it needs to be very clear to investors that the options they are transferring to may be a little more aggressive or more conservative than their current funds
- Will investors get new prospectus and new disclosure documents?
 - Generally no, the industry typically provides a summary, and make prospectus available upon request.
 - Under MT law, believe they have to be provided? and at least in this case maybe they should receive one since they aren't picking their investments.
 - The account owners are investing in the MFESP trust, not directly in the underlying investments.
 - How much hassle? How much cost? Not much hassle, more of a cost issue, and isn't legally required. Maybe worth the cost, doing more than is required may be a good investment?
 - Pacific Life has sent prospectuses in the past. May be very overwhelming for an investor to receive all of these? Maybe we could do it for the conservative account because they are being placed into a more aggressive fund? If it is provided for one it may might have to be sent to all.
 - Staff will look at what this may involve and cost
 - Life strategy prospectus would include all, including the Income Fund
- When it is presented to the BOR, they should be informed of what disclosures will be sent as well
- Mary Anne will send her disclosures that she has used in the past to the Board members. Will also send an example of a conversion newsletter she has used in the past so the board can get an idea of that type of communication
- Around \$7.3 mil in the Optimization fund
- Moderate-Conservative (SLIDE 11), mapped a little more conservative, but very close
- Moderate (SLIDE 12), may be some fluctuation, but generally speaking, are very close to the same asset allocations
- Moderate Aggressive (SLIDE 13), a little more conservative
- All the rest map very close
- Recommendation to bold the "current mix" so investors focus in on this
- Use the same term when comparing , fixed income vs. fixed income (rather than bonds)
- Asset allocation fluctuation is also something that needs to be very clear

Pacific Life mapping

- Also mapping the Pacific Life funds that have been "parked" into the CSB account (slide 3 and 15)
- Equity funds (SLIDE 15), do not have a stand alone option, so best fit is Vanguard Stock Market (an index fund), Mary Anne will give the breakdown of this fund. Benchmarks to DOW Jones Index fund, 15% in large companies, blend Small-Mid and large cap growth.
- Do we know if we have some diversified investors that may all end up in the Vanguard Stock market? There are 785 investors, with 1100 different investments, some investors are diversified...and would end up in one bucket. This may give them four accounts in one investment, there is not a good way to avoid this situation. Again, communication will be key to let investors know where their funds land.
- With regards to Inflation Managed and Short Duration Bond and Managed Bond, there are no other fixed income investment options at this time.
- Working toward age-based options as soon as possible, products would not be the same as any other in country, will also feature CSB products, along with Vanguard products to create a brand new option for investors, hopefully in 2011
- Written comments by John Driscoll (he was unable to attend) – in favor of mapping shown on slides, with the comment, would like education and marketing to include the names of the Vanguard investments.

- Moderate-Aggressive (SLIDE 3) discussion – could it blend into a certain % to Moderate, and the rest to aggressive? Could it be done, should it be done this way? It would be more of a mapping issue from Upromise, Mary Anne said it can be done. If we give them their own names? Then wouldn't be as confusing to investors. Can make it work wither way
- Jon if it gets us closer to the same mix...than we should do it
- Could also blend the moderate conservative in the same fashion, but doesn't feel like it as pertinent
- What are chances we could ask Vanguard for Income fund? This would make it a perfect match. Was not approved by board, would be in direct competition of CSB...would push back the timeline...not really feasible at this point. Currently we don't offer a conservative fund, may not be able to change today, but should ask...just in case it can be done at a later date.

Robert Minto **Motioned:** to approve the mapping as follows: Lynne Egan seconded.

Portfolio Optimization

Portfolio Optimization Conservative TO;
Vanguard LifeStrategy Conservative Growth Fund

Portfolio Optimization Moderate-Conservative TO;
Vanguard LifeStrategy Conservative Growth Fund

Portfolio Optimization Moderate TO;
Vanguard LifeStrategy Moderate Growth Fund

Portfolio Optimization Moderate-Aggressive TO;
a comparable blend of Vanguard LifeStrategy Moderate Growth Fund AND Vanguard LifeStrategy Growth Fund

Portfolio Optimization Aggressive TO;
Vanguard LifeStrategy Growth Fund

Pacific Life Funds (that are currently being held in the CSB Savings account)

Small-Cap Growth AND Mid-Cap Growth AND Large-Cap Growth AND Large-Cap Value AND Mid-Cap Equity
AND Real Estate AND Comstock AND Growth LT TO;
Vanguard Total Stock Market

International Large Cap TO;
Vanguard Total International Index

International Value TO;
Vanguard Total International Index

Inflation Managed TO;
CollegeSure CD

Short Duration Bond TO;
CSB Savings Account

Managed Bond TO;
CSB Savings Account

Pacific Life Money Market TO;
CSB Savings Account

Discussion: Mary Anne will determine the blend for the Moderate-Aggressive mix. GSL staff will pursue obtaining the Vanguard Income fund as an option in the future.

Vote: all in favor, none-opposed.

5. Model Portfolios & Other Items: Amy presented (see handouts)

- First quarter was relatively good in general for everyone. Some 3 year investments are now positive. Sue Mohr has agreed to help her blend the Vanguard products into this worksheet for future analysis

- Bob would like to recommend postponing the pre-paid discussion until after the Pacific Life transfer to Vanguard is complete. Jon agrees that is very reasonable.
- Robin and Amy are doing a review of CSB next week, will also visit UPromise and Vanguard.

6. Next meeting:

- Any statutory items would be a topic for discussion during the next meeting, maybe in August
- Amy will continue to send letters, etc... to the Committee as they are approved

Adjourned 12:45