

Date: March 24, 2010

To: Commissioner Stearns  
Board of Regents

From: Amy Berry

RE: Update, Montana Family Education Savings Program

In January of 2010 the Board of Regents approved Item 146-106-R0110, the addition of five Vanguard Group, Inc (Vanguard) equity funds to the Montana Family Education Savings Program (MFESP). As presented to the Board, 3 of the 5 funds would be available this spring, with the final 2 products becoming available as deposits within the plan grew (likely towards the end of this year). This timeline has been revised and I am writing this memo to provide an update on the status of our conversion to Vanguard.

When the MFESP was first notified that Pacific Life would not seek renewal of the MFESP contract, we began exploring options for a new equity provider. As negotiations proceeded with Vanguard, our program manager (College Savings Bank) also had to address the requirement of servicing the equities. Pacific Life uses a company named PNC Financial Services Group (PNC) to service its equity products and it seemed logical to retain PNC as the servicer for our new Vanguard products. One of the benefits of using the same servicer was that we could begin offering Vanguard products almost immediately (i.e. this spring). During conversations with PNC, however, College Savings Bank learned that the fee structure for PNC was cost-prohibitive and began researching other servicing options. College Savings Bank discovered that Vanguard already had a relationship with a servicer by the name of UPromise, Inc. The pricing structure offered by UPromise was much more favorable compared with PNC pricing. The one disadvantage of choosing UPromise, however, is that a conversion would be required (moving the investments from one data system to another). The result of that conversion is that Vanguard is not available for purchase until November of this year.

There are roughly \$133 million in total Pacific Life investments. It was the MFESP's hope and plan to move all \$133 million at the same time (in November). However, to further complicate matters, Pacific Life has notified the MFESP of its intent to liquidate a subset of the investments this July. Pacific Life has about 1,000 accounts held by MFESP investors in individual funds purchased prior to the fund-of-fund model adopted by Pacific Life several years back. Since Vanguard is not yet available, it is necessary to move these 1,000 accounts representing about \$9 million in investments to an alternative, qualifying account. Since only the Board of Regents, as trustee of our plan, has the authority to move these investments, there is a need to have a special Board of Regent conference call so that Board can take action regarding these 1,000 accounts.

The accounts referenced above represent only about 1,000 of the 15,000 total accounts within the MFESP held by Pacific Life. The MFESP has hired a consultant to help with the transfer of investments from Pacific Life to Vanguard. The MFESP plans to work with the consultant between now and the May Board of Regent meeting, at which time the MFESP and Oversight Committee will have a recommendation for the remaining 14,000 accounts.