

**CollegeCounts 529 Board Meeting
November 5, 2014**

Board Present:

Chair Young Boozer
Ms. Sara Calhoun for Dr. Mark Heinrich
Dr. William Meehan
Mr. Daniel Hughes
Mr. Ronald Stokes

Board Absent:

Mr. Dennis Beavers
Mr. Chess Bedsole
Dr. Greg Fitch
Lt. Governor Kay Ivey
Mr. Mychal Smith

Others Present:

Ms. Daria Story, Assistant Treasurer
Ms. Glenda Allred, Deputy Treasurer
Ms. Anita Kelley, Program Director
Mr. Jay Steinacher, Union Bank & Trust
Ms. Cari Kaup, Union Bank & Trust
Mr. Austin Morgan, Union Bank & Trust
Ms. Elizabeth Taylor, Union Bank & Trust
Mr. Mannik Dhillon, Wilshire Associates (by phone)
Ms. Leah Emkin, Wilshire Associates (by phone)
Mr. Will Beck, Wilshire Associates (by phone)
Mr. Eric White, Pension Consulting Alliance
Ms. Kay Cesarani, Pension Consulting Alliance
Mr. Mark Ervin, Big Communications
Ms. Rylee Roquemore, Big Communications
Ms. Tiffany Turner, International Scholarship and Tuition Services, Inc.

Pursuant to written and public notice, the meeting of the Board of Directors of the CollegeCounts 529 fund was held in the Wells Fargo Tower in Birmingham, AL on November 5, 2014.

Agenda Item 1.

The meeting was called to order by Chair Young Boozer at 9:03 a.m.

Agenda Item 2.

Roll was taken without a quorum present.

Agenda Item 3.

Chair Boozer presented the minutes for the August 6, 2014. The minutes will be presented for approval at the next board meeting.

Agenda Item 4.A.

Chair Boozer called on Ms. Anita Kelley to give the program report. Ms. Kelley provided a spreadsheet on the Administrative fund with a listing of the 2014 budget and expenses along with the 2015 budget. She also provided a Statement of Cash Flows for the scholarship program. She stated that the balance in that account has grown from \$6,011,016 on 12/31/2011 to \$9,426,316 as of 9/30/2014. She also stated that the program is currently processing scholarship payouts for the fall semester.

Agenda Item 4.B.

Chair Boozer called on Mr. Mark Ervin and Ms. Rylee Roquemore from Big Communications to provide an update on marketing efforts. Mr. Ervin stated that their primary goal was to educate and familiarize the people of Alabama with the value, flexibility and accessibility of Alabama's 529 plan. He advised that investing can be intimidating to a lot of people and that their goal is to bring it to a level that is comfortable and easy to understand. Mr. Ervin provided samples of the different marketing and advertising pieces that are currently being distributed in print, social media and television. He then highlighted the public relations efforts including the upcoming statewide media tour with Treasurer Boozer.

Agenda Item 4.C.

Chair Boozer called on Ms. Tiffany Turner from International Scholarship and Tuition Services, Inc. ("ISTS") to provide information on the scholarship program. Ms. Turner gave an overview of the application process. She also gave an analysis of the 2014-2015 program year stating that they received 576 complete applications from 61 Alabama counties. She stated that they will be implementing tracking on past winners to capture data such as GPA, enrollment status and current major. She said that nationally, scholarships and grants paid for 30% of college costs in 2013 which was a 23% increase from 2010. Ms. Turner discussed the expectations for ISTS in regards to the CollegeCounts 529 plan for next year which included an incomplete county report and a greater utilization of text messaging to communicate with the students.

Glenda Allred stated that \$188,000.00 in scholarships had currently been paid out for fall semester and that some of the larger school's invoices had not been received. She advised that 24,000 postcards will be sent out to 429 high school guidance counselors promoting the CollegeCounts scholarship by December 1. The deadline to apply for next year's scholarship is March 1, 2015.

Agenda Item 4.D.

Chair Boozer called on Jay Steinacher for the quarterly program review. Mr. Steinacher stated that there were 70,794 active accounts with total assets in the plan at \$1.207 billion. This represents a 14% increase year over year. He stated that the number of Alabama account holders is 32,672 with \$478.1 million in plan assets. Mr. Steinacher discussed that rollover contributions from other plans are solid with \$21.3 million

through 9/30. He indicated that contributions were \$103.3 million which is on pace with 2013 contributions and that the average account size is \$18,000.

Mr. Steinacher asked Ms. Cari Kaup to provide information on the customer care process that Union Bank provides for the program. She stated that over the past quarter the call center had assisted approximately 12,000 customers and advisors. She provided information on customer care standards, including call abandon rates and average answer times. Ms. Kaup stated that the bulk of the calls for the third quarter were concerning withdrawals for first time users. She advised that they are beginning to receive increased phone calls regarding rollovers as well as opening new accounts prior to calendar year end. The call center will be open extended hours on week nights and Saturdays in December to assist clients. Ms. Kaup then provided a summary of website activity including the most popular links that direct viewers to the CollegeCounts website.

Mr. Steinacher asked Mr. Austin Morgan and Ms. Elizabeth Taylor to give an update on the grass roots marketing efforts. Mr. Morgan stated that this past quarter they have focused on the larger cities in the state and have spent most of their time in schools and daycares in Tuscaloosa, Montgomery and Mobile. He advised that they have attended many family oriented events such as both the Montgomery and Birmingham Zoo Boo festivals. He stated that they have also visited with advisors and have received positive feedback on the product specifically concerning product structure and customer service.

Agenda Item 4.E.

Chair Boozer called on Mr. Mannik Dhillon of Wilshire Associates for the investment performance report. Mr. Dhillon provided commentary on the economy. He also provided a summary of the individual fund portfolios for both the direct and advisor plans and provided commentary on fund performance compared to the relative benchmarks. He noted that the BlackRock Inflation-Protected Bond fund had increased in the Manager Research Rating decile from 4 to 3 while the Pimco Total Return Fund decreased in the same rating from 2 to 6. Mr. Dhillon reviewed the various portfolio returns.

Agenda Item 4.F.

Chair Boozer called on Mr. Eric White and Ms. Kay Cesarani of Pension Consulting Alliance (PCA) for the consultant's analysis. Mr. White provided a summary of PCA's investment fund performance and stated that all funds in the direct plan are meeting or exceeding expectations with exception of the Vanguard Intermediate Term Bond Index fund which remains on watch status. He stated that the funds within the advisor plan are meeting or exceeding expectations as well with an exception of the Voya Global Real Estate Fund which remains on watch status and the Neuberger Berman International Select Fund which is on monitor status. Mr. White stated that PCA is recommending the Neuberger Berman fund be placed on watch status. Mr. Stokes asked if the Neuberger Fund was managed by one person or if it was a team approach and agreed with the recommendation of watch status. Mr. White then provided a commentary on the economy and its overall performance.

Agenda Item 5.A.

Chair Boozer discussed the Investment Committee Meeting that took place on 9/30/2014. He stated the meeting was called in response to the resignation of Bill Gross, founder of the Pimco Total Return Fund on 9/26/14. He noted that both PCA and Wilshire recommended the removal and liquidation of the fund after Mr. Gross' resignation. Chair Boozer stated that the Investment Committee met and voted unanimously to exit the fund. The funds were moved temporarily to the Vanguard Total Bond Market Index Fund for the Direct Plan and to the Northern Funds Bond Index Fund for the Advisor Plan.

Agenda Item 5.A.1

Chair Boozer advised that the proposed resolution to ratify the Investment Committee's actions on removal of the Pimco Total Return Fund will be presented for a vote at the next CollegeCounts Board Meeting when a quorum is present.

Agenda Item 5.B.1

Chair Boozer called on Mannik Dhillon with Wilshire to review their recommendation on funds to replace the PIMCO Total Return Fund. Mr. Dhillon advised that the Mackay Shields MainStay Total Return Bond Fund would be the best alternative to the PIMCO Total Return Fund. He stated that this fund is the preferred option due to their top-down process, strong sector capabilities, diversification and historical tendency to protect in down markets. Mr. Dhillon called on Mr. Will Beck with Wilshire to expand on these points. Mr. Hughes expressed concern that a \$1 billion fund could have disadvantages compared to its peers as far as expenses, withdrawals and liquidity. Mr. Eric White with PCA discussed that they view a fund that size as sufficient and that MacKay Shields has a multibillion dollar platform. Mr. Beck discussed the Prudential Total Return Bond Fund as another alternative for the funds. He stated that despite Prudential's low expense ratio and historical performance, the MainStay Total Return Bond Fund is the preferred recommended option due to the diversification benefits.

Chair Boozer called on Mr. Eric White of PCA to review their recommendation. Mr. White stated that downside protection is paramount for a 529 plan due to the short duration of the investment. He said that when looking at both the Mainstay Total Return Bond Fund and the Prudential Total Return Bond Fund, they paid particular attention to capital preservation and consistency of returns. He advised that over the past ten years, the MainStay fund consistently exhibited less volatility and downside risk. Mr. White advised that PCA recommends the MainStay Total Return Bond Fund over the Prudential Total Return Bond Fund in meeting the objective of the CollegeCounts Program.

Agenda Item 5.B.2.

Chair Boozer noted the proposed resolution to select a replacement fund will be presented for vote at the next board meeting when a quorum is present.

Agenda Item 5.C.1.

Chair Boozer called on Jay Steinacher to discuss the revised Program Disclosures and supplements which were mailed to the advisors and investors that reflect the investment changes that were made by the Investment Committee in regards to the Pimco Total Return Bond Fund.

Agenda Item 5.C.2.

Mr. Steinacher discussed the memo that summarized the updates to the Program Disclosure Statements.

Agenda Item 5.C.3.

The proposed resolution to approve the Program Disclosure Statements and supplements will be presented for vote at the next board meeting when a quorum is present.

Agenda Item 5.D.1.

Chair Boozer called on Ms. Kay Cesarani to discuss the revised Investment Policy Statement and Monitoring guidelines. She advised that PCA recommends updating the Investment Status Schedule to include language under the Watch status category that focuses on qualitative factors, including but not limited to, organization issues, changes in personnel related to the fund and shift in investment strategy and style. Other updates were included in the proposed revisions.

Agenda Item 5.D.2.

The proposed resolution to approve the recommended updates to the Program Monitoring Procedures and Criteria and to the Investment Policy Statement will be presented for vote at the next board meeting when a quorum is present.

Agenda Item 6.A.

Chair Boozer called on Ms. Daria Story to discuss the October 2014 due diligence visit to Union Bank and Trust. Ms. Story stated that Glenda Allred, Anita Kelley and she traveled to Lincoln, NE to meet with Mr. Steinacher and other members of Union Bank and Trust which included Ms. Angie Muhleisen, President/CEO and Brad Crain, CFO, the Internal Audit team, the Data Center and Technology team as well as Megan Wiedel who represented Regulatory and Compliance Overview. She advised that the group also met with the outside auditors, BKD and Snitily Carr who designs and manages the website. Ms. Story also noted that they toured the Operational and Service Center. She stated that all the meetings had positive feedback in regards to CollegeCounts.

Agenda Item 6.B.

Chair Boozer called on Mr. Steinacher to discuss the recent Morningstar Report. He advised that the Direct plan received a Bronze rating and read several of the bullet points listed in the analysis. He stated that the Advisor plan received an upgrade from Neutral to Bronze. He discussed that both plans were acknowledged for their transparent oversight and program management.

Agenda Item 6.C.

Chair Boozer called on Ms. Story to review the CSPN Mid-Year Report.

Agenda Item 6.D.

Chair Boozer announced the 2015 board meeting dates.

There being no further business the meeting adjourned at 11:37a.m.

All detailed reports were received for information and are attached for reference. This summary of the meeting is for informational purposes.