

THE BOARD OF TRUSTEES OF THE  
COLLEGE SAVINGS PLANS OF NEVADA

MINUTES OF BOARD MEETING  
August 29, 2013

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Chairman Kate Marshall, State Treasurer, called the meeting of the Board of Trustees of the College Savings Plans of Nevada to order at 10:20 a.m., on Thursday, August 29, 2013. The meeting was held by conference call from the Nevada State Capitol, 101 North Carson Street, Guinn Room, Carson City, Nevada to the Grant Sawyer Building, 555 East Washington Avenue, Suite 5100, Las Vegas, Nevada. Other attendees participated in person or by conference call.

Present at the meeting were:

Board Members

Ned Martin  
Mike Torvinen  
Robert Seale (Excused)  
Crystal Abba, Nevada System of Higher Education (via teleconference through  
half of Agenda Item 15)  
Chairman Kate Marshall

Others Present

Eric White, Pension Consulting Alliance  
Tricia Brady, Upromise Investments  
Lisa Connor, Upromise Investments  
Caroline Tucker, USAA  
Paul Fulmer, USAA  
John Kvantas, USAA  
Stewart Duffield, Vanguard  
Sheila Salehian, Senior Deputy Treasurer - South  
Mark Mathers, Chief Deputy Treasurer  
Steve George, Chief of Staff, Treasurer's Office  
Linda English, GGMS, College Savings Deputy  
Troy Watts, Marketing Coordinator  
Kenneth G. Alberts, GRS  
David Kausch, GRS  
Blanca Platt, Program Officer, Treasurer's Office  
Tara Hagan, Senior Deputy Treasurer – North

Jenna Weisenthal, Treasurer's Office

Roll was taken and it was determined a quorum was present. Ms. Salehian indicated the meeting had been properly noticed and the agenda was posted in accordance with the Open Meeting Law.

1. Public Comment.

There was no public comment in Carson City or Las Vegas.

Consent Agenda

2. For possible action – Board review and approval of the minutes of the College Savings Board of Trustees meeting of July 25, 2013.
3. For possible action: Board review and approval of the Upromise program manager's report encompassing results for Vanguard, USAA, and SSgA Upromise 529 Plans for the quarter ended June 30, 2013.
4. For possible action: Board review and approval of the Putnam 529 for America advisor sold program manager's report for the quarter ended June 30, 2013.
5. For possible action: Board review and approval of the Thomas & Thomas unaudited financial statements of the Nevada College Savings Plans compiled for the quarter ended June 30, 2013.
6. For possible action: Board review and approval of the performance report from Chicago Equity Partners, investment manager for the fixed income portfolio of the Nevada Higher Education Trust Fund (Prepaid Tuition Program), for the quarter ended June 30, 2013.
7. For possible action: Board review and approval of the Prepaid Tuition Investment Monitoring Report prepared by Callan Associates for the quarter ended June 30, 2013.
8. For possible action: Board review and approval of the updated plan description for the SSgA Upromise 529 College Savings Plan.
9. For possible action: Board review and approval of the renewal of the R & R advertising contract for the continuation of marketing services for the College Savings Plans through November 12, 2015.

10. For possible action: Board review and approval of the SSgA Marketing expenditures for the SSgA Upromise 529 plan for the quarter ending June 30, 2013, and approve the expenditures for inclusion in the non-cash marketing commitment budget as specified in Amendment #3 to the Upromise Agreement.
11. For possible action: Board review and approval of the updated plan description for the Vanguard 529 College Savings Plan.
12. For possible action: Board review and approval of the Putnam 529 for America incentive plan for the advisor sold 529 College Savings Plan.

Chairman Marshall asked if any Board members wished to remove any items from the Consent Agenda, Items 2 - 12 for individual discussion. Hearing none, a motion was made by Mr. Ned Martin to approve the items on the Consent Agenda. A second was made by Mr. Mike Torvinen. No discussion ensued. Motion passed unanimously.

#### Discussion Agenda

13. For possible action: Board review and approval of the Nevada College Savings Plans Investment Monitoring Report prepared by Pension Consulting Alliance, Inc. for the quarter ended June 30, 2013

Eric White from PCA gave a report. Chairman Marshall asked if Putnam was comfortable with the Putnam discussion portion. Ms. Judy Minsk indicated they were. Chairman Marshall confirmed that USAA Aggressive Growth was going to be talked about in the next agenda item and Mr. Eric White concurred. Chairman Marshall asked if the Board Members had any questions or comments on the Investment Monitoring Report from PCA. The Board indicated they had none. Chairman Marshall indicated she was willing to take a motion to approve. Mr. Ned Martin made a motion to approve and Mr. Mike Torvinen seconded. Chairman Marshall confirmed that approving it was just approving the report, not removing the Aggressive Growth until they heard from USAA. The motion passed unanimously.

14. For possible action: Board review and approval of the annual investment presentation for the USAA 529 College Savings Plan.

Chair Marshall indicated her belief that USAA had done its own analysis and that Chair Marshall would like to know where they were. It was asked if Chair Marshall strictly wanted to know about the Aggressive Growth fund or an investment overview. Chair Marshall indicated that she wanted to hear their thoughts and what they wanted to do. Mr. John Kvantas discussed USAA philosophy, investment overview, and economic conditions. Chair Marshall asked if the Global Development Region Equities included Japan. Mr. Kvantas indicated that it did. Chair Marshall asked if Mr. Kvantas felt Japan

was strong or not so strong. Mr. Kvantas discussed Japan as far as what they needed to do. Chair Marshall addressed the housing price index, citing an article in the Washington Post proposing that the feds get rid of the 20% down requirement and asked how USAA reacts to that. Mr. Kvantas indicated he hadn't seen that. Chair Marshall replied that it's just a proposal. Discussion ensued regarding that article. Chair Marshall stated that the reason she pointed that out is that they are showing this as if it's showing strength in the economy, but if it ends up growing as a result of loosening up regulations, is it really strength? Mr. Kvantas indicated that under current conditions it's very positive as far as they see it. He went on to discuss employment and the job market.

Mr. Kvantas asked if Chair Marshall wanted him to discuss the Funds on Watch. Chair Marshall indicated that there is an issue with the Aggressive Growth Fund and that there is a recommendation to ask if USAA might substitute another fund and that it's a pretty big move. Chair Marshall indicated that USAA has pretty active investment monitoring of its own and that the Board is pretty impressed with that and would like to know what USAA's thoughts are. Mr. Kvantas then discussed the Aggressive Growth Fund and stated that in discussions that they've had they feel comfortable removing Aggressive Growth and will show where that money is going to go. Chair Marshall restated that USAA is comfortable removing Aggressive Growth. Mr. Kvantas indicated yes. Chair Marshall asked if the board had any questions or concerns at this point. Mr. Ned Martin and Mr. Mike Torvinen both indicated they can continue.

More discussion and background were given. Mr. Kvantas discussed their proposals. Chairman Marshall asked Eric's take on the proposed portfolio. Mr. Eric White indicated that overall it's a good change, that they have highlighted the problems with the Aggressive Growth fund. He indicated that USAA had been extremely helpful with the process and discussed the reasons the change was a wise one. Chair Marshall again asked if there are any Board Member questions or thoughts. None were indicated. Secretary Sheila Salehian informed Chair Marshall that Chrystal Abba was on the line as well. Chair Marshall stated to let the record show that Chrystal Abba, the Board Member, was now on the phone. Chair Marshall asked if there were any other comments. Mr. Kvantas gave some comments. Chair Marshall stated that if the Board was willing, she would entertain a motion to approve. Mr. Ned Martin moved to approve. Chair Marshall asked for a second. Mr. Mike Torvinen and Crystal Abba seconded the motion. Chair Marshall stated that she had two "seconds" and asked for any discussion. Hearing none, Chair Marshall asked for all in favor of the approval of the annual investment presentation for the USAA 529 College Savings Plan which included the removal and reallocation of the USAA Aggressive Growth Fund. Motion passed unanimously. Chair Marshall complimented USAA on their internal oversights and strategies on their investments.

15. For possible action: Board review and approval of the annual investment presentation for the Vanguard 529 College Savings Plan. (Stewart Duffield – 20 min)

Chair Marshall stated that now they would be hearing about the annual investment presentation for Vanguard and that she wanted the Board to be aware that this includes the addition of International bond exposure in the age-based plans and indicated to Vanguard that she hoped they understood that she will be asking a few questions about the international bond exposure.

Stewart Duffield began by stating who was present (Dan Reyes, Senior Manager) and who was on the phone (Maria Bruno and Susan Grave) and indicated that others may be chiming in, then gave an introduction. He turned his time over to Maria Bruno who indicated that she is accompanied by Andrew Patterson and Joe Vardaro. She gave a presentation discussing the intention to add the international bonds. Mr. Duffield asked if there are any questions. Chair Marshall addressed the Board members and indicated that she has a lot of questions about this and that she is in favor of diversification but not necessarily into something that she considers weak. She questioned PCA about page 5 of their analysis, their bullet point number 5 which addressed that and asked them to comment on their thoughts on the international bond fund. Mr. Eric White explained PCA's analysis. Chair Marshall indicated that she wanted to make sure she had the issues on the table so they could be addressed. She then listed the issues of concern and expressed her thoughts and opinions on each. She expressed that diversification is great but asked why they are diversifying into weakness at this particular moment. She stated that her questions relate to specific holdings, specific countries they're emphasizing and the timing of this diversification.

Chair Marshall reminded them they are dealing with college savings. Mr. Duffield asked if Chair Marshall would like them to address this now. He deferred to Ms. Bruno. Mr. Joe Vardaro discussed the reason and thoughts behind the diversification right now. Ms. Bruno continued with the discussion. Chair Marshall commented that this philosophy has been Vanguard's philosophy the whole time, but that it is only now that they've decided to add the international bond fund to this portfolio. She expressed that their philosophy has been the same for the last 5 and 10 years, yet they are adding the international bond fund at a time when the international market is particularly weak and that it does become a question of timing because they didn't choose to do it 5 years ago or 10 years ago or even 1 year or 3 years ago, they chose to do it now when the market is weak. Dan Reyes addressed the concern about the timing and that Vanguard believes that it isn't about timing.

Chair Marshall stated that it is as if they are responding to the first part of the equation without considering the effect of the second part of the equation. Chair Marshall indicated that she understands the philosophy and that the philosophy is sound, but the fact of the matter is that they are doing it now. And the reason they are doing it now is

because they say it's as if the United States is comprised of certain factors which makes us think we need look elsewhere, but elsewhere is weaker than what makes us look elsewhere in the first place. So the second part of the equation is not logical. Mr. Ned Martin asked a question after explaining philosophy about financial markets versus economic stability. His question: Why are they making the change? Mr. Andrew Patterson from the Investment Strategy Group enters the discussion and explained further Vanguard's position. Ms. Bruno and then Mr. Duffield further explained.

Mr. Ned Martin asked them to explain a little further the hedging component and what it means to the portfolio they are looking at. Mr. Martin also asked if they are adding more currencies and Mr. Patterson explained they are getting rid of all currency risk and leaving in fixed asset risk. After more discussion between Mr. Martin and Vanguard, Chair Marshall asked what Mr. Mike Torvinen thinks. He stated he is interested in what the total allocation is in the portfolio, that he agreed with everything Mr. Ned Martin said yet he agrees with Chair Marshall, that where there is a good place to put this money and that he is a bit uncomfortable with it. Chair Marshall asked Ms. Crystal Abba what she thinks. There was no response. Mr. Duffield said there is another part to this and that he can go through it in 5 minutes, does Chairman Marshall want to vote on it as a whole or in parts. They agreed to discuss it in whole. Mr. Ned Martin asked another question regarding the status of the fund's flow. Mr. Duffield noted that the telephone responder indicated the fund is too new to be able to figure out the trend.

Chair Marshall asked PCA if, understanding the need to diversify, if there are other options PCA sees in Vanguard or what they feel about adding the International bond fund. Mr. Eric White answered and expressed his opinions. Chair Marshall addressed the Board Members and stated that she would go along with whatever the Board Members would want to do, that she has a lot of faith in Vanguard and what they do, but that maybe it might be more beneficial to wait awhile to see how this particular fund works out. Chair Marshall acknowledges weakness in the U.S. bond market, but that she would like to wait a little longer. If the board feels like the U.S. bond market seems weaker, she would be willing to diversify as well and asked what the board would like to do. Mr. Ned Martin asks if there are other International Bond Funds. Vanguard stated that no, this is their only non-U.S. fund. Mr. Mike Torvinen expressed concern and states he would be willing to pass for a while. Mr. Martin expressed that in general he is comfortable with it, but that the overall theme seems to be to sit and wait for a while, so he is fine with that.

Chair Marshall asked PCA what about waiting to see some sort of track record, and what could you tell in two quarters? Mr. White stated that yes, but that a year is better and that a year should be the minimum. He stated that they have so much faith in Vanguard that they were comfortable with it, that waiting six months would not be a huge detriment to the program. Chair Marshall asked the Board if they feel comfortable with delaying a decision for 6 months. The Board agreed. Chair Marshall stated that they have the whole investment review, but that they are going to take out the

international bond fund and allow them to finish their presentation. Mr. Duffield continued the discussion and deferred to Ms. Susan Gray to discuss the remainder.

Mr. Duffield clarified some items then deferred back to Ms. Susan Gray who continued the explanation. Chair Marshall indicated she had no further questions and asked if any Board Members have any questions. Vanguard wants the flexibility to go to A rather than AA rated companies and wants the Board to understand they are asking for that change. Chair Marshall indicated the Chief Deputy Treasurer still gets to look at this. Mr. Duffield stated that they will work with State staff to determine what the appropriate amount is. Chair Marshall asked for any questions by Board Members. None were indicated. Chair Marshall stated that taking the investment report for approval separate and apart from the International Bond Fund which they are going to wait and see how it does and asked for an approval. Motion for approval as stated was made by Mr. Mike Torvinen. Chair Marshall asked for a second which was offered by Mr. Ned Martin. Motion passed unanimously. Chair Marshall expressed appreciation to Vanguard.

16. For possible action: Board review of the report on 2014 pricing scenarios for the Prepaid Tuition open enrollment period of December 1, 2013 to February 28, 2014 and approve pricing schedules for contract sales.

Chair Marshall addressed GRS and asked them to be concise. Ken Alberts addressed the Board and referred to a letter that had been prepared and allowed questions to be asked along the way. Mr. Alberts explained the thoughts and methodology behind the pricing scenarios. Chair Marshall stated that the College Savings Board also contributed to the Prepaid Tuition Plan and a cushion is beneficial for all the people purchasing contracts so they don't end up like the 11 states that had to basically close their plans because they weren't fully funded. Mr. Alberts agreed and continued his explanation of the different scenarios and the methodology for the pricing exercise. He then turned the time over to David Kausch who continued explaining the pricing reasoning. Sheila Salehian clarified the pricing approaches and the reasoning behind GRSs' recommendation. Chair Marshall asked if there were any questions from Board Members. Chair Marshall asked if there were any questions from Board Members and asked if the Board likes the interim combination which eases them into the better methodology or do they prefer the hard track to the right. Mr. Martin stated that there isn't a lot of difference between the two and that if the interim one eases the blow from an advertising perspective, he's ok with that. Mr. Alberts explained that there is a larger increase in the 2-year than for the 4-year and that the increase will continue for several years. Mr. Alberts said the margin for the 2-year wasn't as large as it was for the 4-year in past years. Mr. Ned Martin made a motion to accept the interim combination pricing. Mr. Mike Torvinen seconded the motion. Chair Marshall asked for discussion and then called for a vote. The motion passed unanimously.

Mr. Steve George gave a quick overview of the Nevada College Kick Start Program. Chair Marshall stated that the Charles Schwab grant had come in. Washoe County has identified 8 Title One schools they will be funding. Andre Agassi had added 88 Kindergartners at his school.

Chair Marshall indicated there were Staff Notes in the board packets.

17. Public Comment.

Mr. Duffield with Vanguard clarified what to do with the consent item program description update in the packet concerning the International Growth Fund. Chair Marshall said it was approved without that area and it could be updated appropriately.

As there was no further business, Chair Marshall adjourned the Board meeting at 12:20 p.m.

Attest:

A handwritten signature in cursive script that reads "Sheila Salehian". The signature is written in black ink and is positioned above a horizontal line.

Sheila Salehian, Secretary to the Board