

**Missouri Higher Education Savings Program
Minutes of the MOST Board Meeting**

State Capitol Building, Senate Committee Room 2
Jefferson City, MO
June 12, 2007

Item I: Call to Order

Chairperson Steelman called the meeting to order at 1:30 p.m.

Item II: Roll Call

MOST Board Members present were Sarah Steelman, Robert Stein, Thomas Baumgardner, John Klebba, Rich Aubuchon (proxy for Mike Keathley) and Rhonda Meyer (Proxy for Greg Steinhoff).

State Treasurer's Office (STO) staff present were: Doug Gaston, Mark Mathers, Jane O'Toole, Denise Chaple and Kelly Gunderson.

Upromise/Vanguard Staff present were: James Polinsky, Liz Robinson, Jeff Howkins, Tim Pi, Temeka Easter, Janet Kottman, Tricia Brady and Derek Delorenzo.

Item III: Approval of Minutes

Commissioner Stein moved to approve the minutes from the previous Board meeting held on March 30, 2007. Thomas Baumgardner seconded the motion, and the motion passed unanimously.

Item IV: Legislative Update

Ms. Steelman gave a brief update of the most recent legislative session. Bills that did not move out of the legislature included the Legacy initiative, a repeal of the 12-month minimum contribution period, and a clarification of the state tax deduction for married couples.

Commissioner Stein inquired regarding when legislative initiatives would be revisited for the upcoming year. Ms. Steelman responded that the legislative agenda would be discussed at the September meeting. Treasurer Steelman also pointed out that it would be likely that the State Treasurer's Office would pursue the Legacy initiative again as well as any ideas put forth by the board.

Item V: Discussion of Pending Ownership change of SLM Corp.

Mr. Mathers reviewed the staff report provided to the Board discussing the proposed Leveraged Buyout (LBO) of Sallie Mae (Upromise's parent) by a consortium of private equity firms and banks. Mr. Howkins stated that all current commitments, contractual and otherwise, will be honored and that Upromise expects to maintain the

current management team. Mr. Howkins reiterated Upromise's and Sallie Mae's commitment to their relationships and partnerships and to starting the CD plan and negotiating the contract for services with Central Bank and the STO. Mr. Howkins introduced Tricia Brady, who joined Upromise in April and will be taking the lead on the CD Contract.

Commissioner Stein inquired about the anticipated target date for finalization of the CD contract and initiation of the project. Liz Robinson responded that there were no absolutes; however, they do have contract drafts. Ms. O'Toole elaborated that the roll-out of pilot program is targeted for late summer and based on those results, the timing of the roll-out will be determined, but it should be by year end, if all goes as planned.

Commissioner Stein asked whether the final contract would be presented to the board for approval. Ms. Steelman responded that a special meeting would be called once a contract is finalized for the Board's approval.

Mr. Klebba inquired whether or not there is a step-by-step process set out for the rollout of the Pilot Program. Mr. Gaston replied that there is a very specific set of criteria/milestones during the pilot program. Ms. Robinson elaborated that Upromise will help create a list of criteria and dates for rollout to present to the board upon completion of the contract.

Commissioner Stein requested contract highlights (via bullet points) regarding termination, commitments, severability clauses, terms, etc. of the current contract with Upromise to gain a better understanding of the contract. Ms. O'Toole responded that she would obtain that information for Stein and get it to all board members.

Item VI: American Century Proxy Vote

Mr. Mathers provided an overview of the staff report on this issue. We received a proxy vote from American Century in error on the second item of their ballot relating to fees. The second item on modification of fees does not apply to us, as we hold investor class shares whereas the vote is for advisor class shares.

Mr. Mathers recommended approval of Item #1 regarding the approval of the Board of Directors and Item #3 regarding a minor adjustment to the wording of the investment philosophy of the American Century Real Estate Fund.

Commissioner Stein moved to approve the recommendation. Aubuchon seconded the motion and the motion passed unanimously.

Item VII: Investment Policy

Mr. Mathers reviewed the proposed MOST Investment Policy, which was distributed to the Board at the last meeting. Mr. Mathers explained that in many ways the policy simply formalizes the MOST RFP of 2005 by requiring that the MOST Plan provide more investment choices, lower cost options, etc. The MOST Board has never had a formal investment policy. The proposed policy contains only one new facet, which is a performance monitoring system for investment options. Under this process, STO staff would not look at quarterly performance, but at 1- to 3-year returns. Recommendations for replacement of funds or funds "on watch" could result.

Commissioner Stein asked whether the verbiage on page 9 of the policy dealing with the release from watch status would require Board approval. Mr. Mathers responded affirmatively. Commissioner Stein stated concern that this could tie staffs' hands if a meeting of the board could not be scheduled. Mr. Mathers assured that this would not be a problem as a fund could be on "watch status" for up to 1.5 years. Replacement of funds would most commonly be coordinated with the annual review of the plans to avoid investor confusion and transition costs. In response to a question by Mr. Klebba, Mr. Mathers assured the Board that if an immediate change were needed, a special meeting would be scheduled and upon approval, staff would map investors to a comparable investment.

Mr. Baumgardner moved to approve the recommended Investment Policy as is. Stein seconded the motion and the motion passed unanimously

Item VIII: Proposed Advisor Plan Lineup Changes

Mr. Delorenzo reviewed the proposed lineup changes to the Advisor Plan and explained that these changes were made in consultation with STO staff. As a result of these changes, the Advisor Plan's overall costs were lowered significantly and the proposed plan is within the top quartile of state advisor plans, by cost.

Commissioner Stein asked whether there was a ceiling on fund expenses for funds we will allow into the lineup. Mr. Delorenzo responded that they look at the funds and how they fit into the overall lineup holistically and that there are no blanket exclusions as long as they can reach the goal. The proposed plan's average underlying expense is at 0.64%. Mr. Klebba asked about funds with 3-star ratings. Mr. Delorenzo explained that the two proposed index funds only can get a 3-star rating and he explained their review of performance. Commissioner Stein requested Morningstar rating criteria.

Mr. Baumgardner inquired about the size of the UMB Terror-Free International fund. Mr. Delorenzo explained that the fund is starting from scratch but that the UMB Scout International Fund, for which the terror-free fund is modeled, has more than \$3 billion in assets.

Mr. Delorenzo stated that the goal for the Advisor Plan lineup is that it is to be launched by the end of Sept. 2007. Commissioner Stein moved to approve the recommended line-up. Ms. Meyer seconded the motion and the motion passed unanimously

Item IX: Quarterly Report

The quarterly report was presented by Robinson, Delorenzo, and Polinsky. Ms. Robinson noted that MOST crossed the \$1 billion mark in the Direct Plan.

In response to a question from Commissioner Stein at the last board meeting, Ms. Robinson reported that there are 400 crossover accounts and 102 individual contributors (as some individuals have multiple accounts). She also noted that 71% of new accounts enrolled online.

Commissioner Stein questioned whether Upromise could determine the socioeconomic class of participants in MOST, especially being that the Board's focus is on increasing participation for lower to middle income families. Robinson promised to bring a graph to the next board meeting of income level research. As of today, for the

71% that enrolled online, there is not a way to denote social class. However, 66% of Upromise-sourced MOST accounts have less than a \$300 account balance.

Mr. Polinsky reviewed the call center numbers in detail. Ms. Robinson continued by reviewed the MOST communication calendar as well as past events that were held including “Parents as Teachers” and the “Working Women’s Survival Show” in which they got 180 leads out of 500 participants. She also revealed the advisor plan direct mail program in which she showed marketing trends to the effect that brokers prefer print versus email campaign letters. Ms. Robinson closed with the handout depicting a new relationship with Oprah.com stating their yearlong partnership to promote college savings.

Item X: Adjournment

Commissioner Stein moved to adjourn, Mr. Klebba seconded. Meeting adjourned.