

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

State Capitol Building, Senate Committee Room 2
Jefferson City, MO
December 13, 2005

CLOSED SESSION MINUTES

Board members present were Sarah Steelman, Rep. Sally Faith, Thomas Baumgardner, John Klebba, Rich Aubuchon (proxy for Mike Keathley), Greg Fitch and Eric McClure (proxy for Greg Steinhoff).

Item II: MOST RFP

Mr. Baumgardner moved that the Board go into closed session to consider staff's report regarding the MOST RFP. Mr. Klebba seconded the motion, and the motion passed. The Board went into closed session at 10:05 a.m.

Ms. Steelman asked that Mr. Mathers review the evaluation process and recommendations of the evaluation panel. Mr. Mathers indicated that in the interests of time, he would review the highlights of the memorandum from the evaluation panel that the Board had received. Mr. Mathers gave a summary of the RFP process, noting that 41 firms received copies of the RFP and that six firms responded:

- TIAA-CREF
- American Century
- Oppenheimer
- Upromise, which submitted two joint proposals, one with Vanguard and one with American Century
- Union Bank & Trust, based in Nebraska; and
- Waddell & Reed, which submitted a proposal for the Advisor Program only

An evaluation committee composed of the Deputy State Treasurer, Director of Investments, the Assistant Commissioner of the Department of Higher Education and a representative from the Office of Administration reviewed the proposals based on the scoring criteria stated in the RFP. Based on their scores, the panel selected four proposals to be short-listed and invited to an interview. They were American Century, Upromise-Vanguard, Upromise-American Century and TIAA-CREF. These firms were interviewed on December 5th and 6th.

Mr. Mathers reviewed the strengths and weaknesses of each proposal. Mr. Mathers explained the services provided by Upromise and how they proposed to market the MOST program to their customers. There are approximately 100,000 Upromise account owners in Missouri. Mr. McClure inquired about the financial condition of Upromise. Mr. Mathers noted that they have generated a profit and continue to make major inroads in the 529 industry. Mr. Mathers also reviewed some of the interview questions posed to TIAA-CREF and their responses.

Mr. Mathers then explained the methodology used for the Financial Evaluation of the proposals, which comprises 40% of the total score. The process involved reviewing the 3-year historical gross returns of the underlying funds proposed for each investment option, modeling account owners' use of these funds and then subtracting proposed fees to derive a weighted net total return. Based on the overall scores, the order of firms' ratings were: Upromise-American Century, American Century, Upromise-Vanguard and TIAA-CREF.

Mr. Mathers noted that the panel felt that no bidder provided a truly multi-manager proposal, with the Upromise and TIAA-CREF proposals providing choice in their Advisor programs, but a varying but still minor degree of choice for customers in the Direct program. For that reason, the panel recommended negotiating with Upromise, American Century and Vanguard to enhance the number of investment options offered by multiple fund families as well as negotiating items such as "open architecture" language, a "most favored nations" clause, transition issues and certain marketing ideas.

There was discussion regarding this recommendation. Mr. Fitch inquired about the legality of asking firms to modify their proposals as recommended by staff. Since the Upromise-American Century proposal contained Vanguard funds and since the Upromise-Vanguard proposal contained American Century funds, Mr. Mathers responded that he felt requesting adjustments along these lines was appropriate. Mr. McClure inquired about Upromise's transition experience. Staff then reviewed their experience with other states. Mr. Baumgardner inquired whether any of these firms were in the top 5 ranking of firms by total 529 assets. Mr. Mathers responded that he was not sure but that firms operating certain larger state plans such as Virginia did not respond; however, the Upromise firm has succeeded in gaining 529 assets versus losing them.

Mr. Baumgardner moved that staff is hereby directed to research and obtain additional information with the top three firms to consider expansion of investment options as well as other contractual and marketing issues and to report back to the Board by December 31st. Mr. Klebba seconded the motion, and the motion passed unanimously.

The Board reconvened the open meeting at 11:05 a.m.