

Board of Regents
Friday, December 7, 2012

Education Trust of Alaska

Presented by:

James F. Lynch, CPA, CGFM

Chief Treasury Officer

Education Trust of Alaska

In 2001 the Board of Regents:

- ▶ Established the Education Trust of Alaska to develop and maintain the University's College Savings Program
- ▶ Engaged T. Rowe Price to serve as Program Manager

The Trust offers three distinct savings plans:

- ▶ The T. Rowe Price College Savings Plan (TRP Plan), a modestly priced, actively managed plan with 13 investment options, which is marketed nationally.
- ▶ The University of Alaska College Savings Plan (UA Plan), a locally marketed plan, which is actually the TRP Plan plus the ACT Portfolio. The ACT Portfolio functions as either a prepaid tuition plan if used for tuition at the UA or as a savings plan if used for anything else.
- ▶ The John Hancock Freedom 529 (JH Plan), a high quality, multi-managed plan with 22 investment options, 30 plus investment managers and almost 70 mutual funds. The plan is marketed nationally through brokers and financial advisors.

Morningstar's "Gold Rating":

- ▶ Morningstar awarded its prestigious "Gold Rating" to the Alaska's T. Rowe Price College Savings Plan for 2012.
- ▶ Only four plans in the country received a gold rating.
- ▶ The rating is based on Morningstar's conviction of the plans ability to outperform its peers.
- ▶ Their conclusion is based on the talent, resources, strategy and stewardship of the Program Manager and the oversight by the state (in our case, the University).

Morningstar's "Gold Rating":

- ▶ The UA Plan was not included in the Morningstar analysis because of its small size.
- ▶ Although not rated, the UA Plan provides the same high quality program and service to Alaskans as the TRP Plan.
- ▶ The JH Plan received a neutral rating. Morningstar cited the plan's positive rating of almost every strategy and strong roster of investment managers, but high equity positions and fees dampen the results.

Peer Performance Rankings:

As of September 30, 2012:

	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
TRP Plan	1 of 49	1 of 44	18 of 40	1 of 11
UA Plan	2 of 49	4 of 44	12 of 40	2 of 11
JH Plan	4 of 30	6 of 25	5 of 19	1 of 6

Source: Savingforcollege.com (not for use of the investing public)

Due Diligence Processes:

- Daily:
 - Literature and document review and interaction with TRP and JH management and staff regarding operational issues.
- Bi-weekly:
 - Audio-conferences with TRP management and staff from legal, IT, operations, marketing, and management regarding the status of the plans, ongoing projects, and outstanding issues.
- Monthly:
 - Briefing on investment performance, tactical changes in asset allocation, the economic outlook, and recommendations of the TRP Asset Allocation Committee.

Due Diligence Processes (Continued):

- Quarterly:
 - Briefing on TRP/JH Investment Oversight Committee actions and recommendations regarding the JH Plan.
 - Briefing on TRP/JH Business Oversight Committee regarding business strategy and implementation (actually, three times annually).
 - UA conducts in-depth, in-person reviews of the three programs including business strategy, investment performance, service levels, benchmarks, legal and regulatory issues, all written complaints, sample email correspondence, and comments by call center staff regarding issues encountered by participants.

Due Diligence Processes (Continued):

- Semi-Annually:
 - Callan Associates conducts an independent review of all underlying mutual funds of the JH Lifestyle Investment Portfolios.
- Annually:
 - Milliman USA performs an independent calculation of the ACT Portfolio Tuition-Value Guarantee Liability, which is reviewed by actuaries from both PWC for the Trust's audit and KPMG for the University's audit).

Due Diligence Processes (Continued):

- Annually (Continued):
 - Callan Associates conducts an independent review of each underlying mutual fund in the three programs.
 - PricewaterhouseCoopers conducts an independent audit of the financial statements for each investment option of all three plans.
 - PricewaterhouseCoopers conducts an independent audit of the financial statements for the Education Trust of Alaska.
 - UA staff reviews T. Rowe Price SAS 70 reports.
 - UA staff reviews Shareholder Reports for TRP and JH.

Operating Controls:

- Premier program support:
 - T. Rowe Price as program manager;
 - Manulife Financial and John Hancock as distributor;
 - PricewaterhouseCoopers as independent auditor;
 - Milliman USA as actuary;
 - Callan Associates as investment advisor; and
 - Wohlforth, Brecht, Cartledge & Brooking as outside counsel.

Operating Controls (Continued):

- Seasoned Staff:
 - UA has very experienced staff that are active participants in two trade-associations, which are critical to keeping the UA up to date on legal, regulatory, marketing, and operational issues in a specialized field:
 - NAST/CSPN – National Association of State Treasurers/College Savings Network.
 - CSF – College Savings Foundation (National Association of College Savings Program Managers and States).

Why College Savings ??

- Reducing financial barriers to education.
- Incentivizing students to work harder in school.
- Promoting attendance at the University of Alaska.
- ▶ Changing the family mindset and conversation to “When I go to college!” rather than “If I go to college!”