

Education Trust of Alaska FY 2013 Annual Report

Presentation to: Board of Regents

James F. Lynch, CPA, CGFM

Chief Treasury Officer

December 12, 2013

The Education Trust of Alaska

- ▶ Established by the Board of Regents in 2001 to develop and maintain the University's College Savings Program
- ▶ Engaged T. Rowe Price to serve as Program Manager
- ▶ The only Section 529 College Savings Plan organized within a university

Three Plans Offered by the Trust

- ▶ T. Rowe Price College Savings Plan (TRP Plan)
- ▶ University of Alaska College Savings Plan (UA Plan)
- ▶ John Hancock Freedom 529 (JH Plan)

Program Highlights for FY2013

- ▶ Governance and Investment Policy Adopted
- ▶ Granted Morningstar's Gold Rating
- ▶ UA Plan Marketing Awards:
 - ▶ *Mutual Funds Education Alliance (MEFA)*
STAR AWARD
 - ▶ *American Marketing Association Alaska Chapter*
Prism Award

Program Highlights for FY2013 (continued)

- ▶ Record participation through the Alaska Permanent Fund Check-Off
- ▶ First native corporation offers a Corporate Dividend Check-Off
- ▶ Crossed the \$5 Billion threshold
- ▶ Initiating a national student recruitment effort

Governance and Investment Policy

- ▶ Adopted by the Board of Regents September 27, 2013
- ▶ Presented by Dr. Ashok Roy and Jim Lynch
- ▶ Currently posted on the Finance Website
- ▶ Education Trust of Alaska Financial Statements included in the University's Finance Annual **Report** for the first time.

Morningstar “Gold Rating”

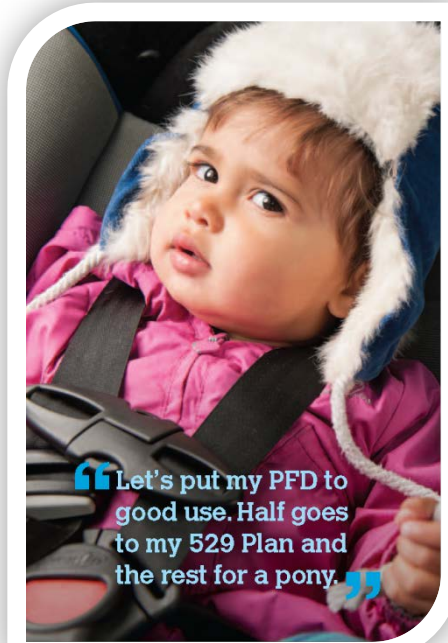
- ▶ The Alaska T. Rowe Price College Savings Plan awarded a prestigious “Gold Rating” by Morningstar for 2013.
- ▶ Only four plans received a gold rating.
- ▶ Based on Morningstar’s conviction of the plans ability to outperform its peer group.
- ▶ Morningstar’s analysis considers the talent, resources, investment strategy and stewardship including oversight by the University.

Morningstar “Gold Rating” (continued)

- ▶ The UA Plan not rated due to its small size, but provides the same high quality investment options and service as that of the TRP Plan.
- ▶ The JH Plan received a neutral rating. Morningstar generally cites the plan’s strong roster of investment managers and positive ratings for its strategy, but the higher fees cause it to receive a dampen rating.

The UA Plan's Award Winning Marketing Campaign





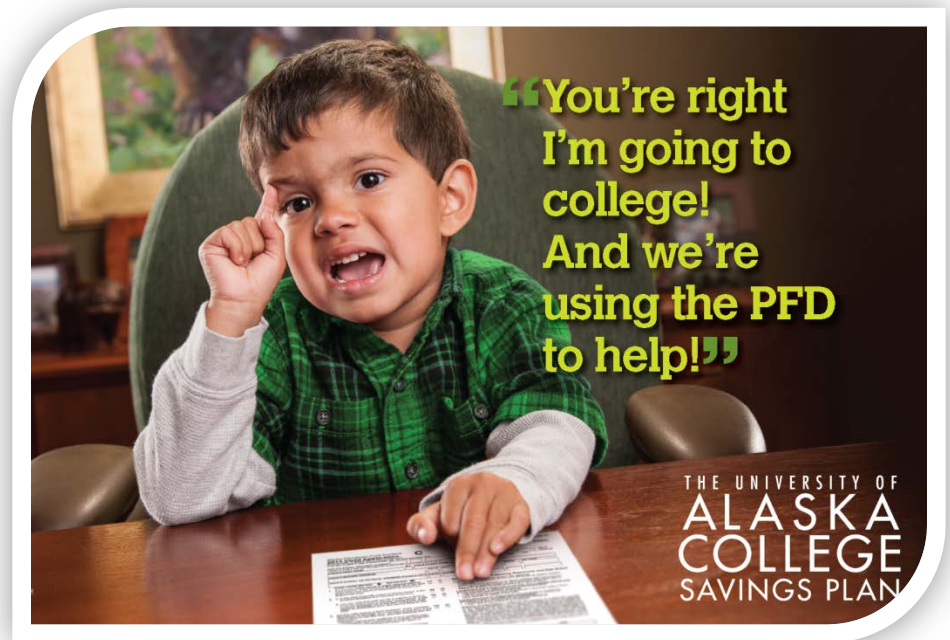
- New marketing campaign features Alaskan children urging their parents in unexpected ways to save for college!
- Campaign was nominated for and **WON** two marketing awards this fall.



*Mutual Funds Education Alliance (MEFA)
STAR AWARD "Retail Marketing Campaign"*



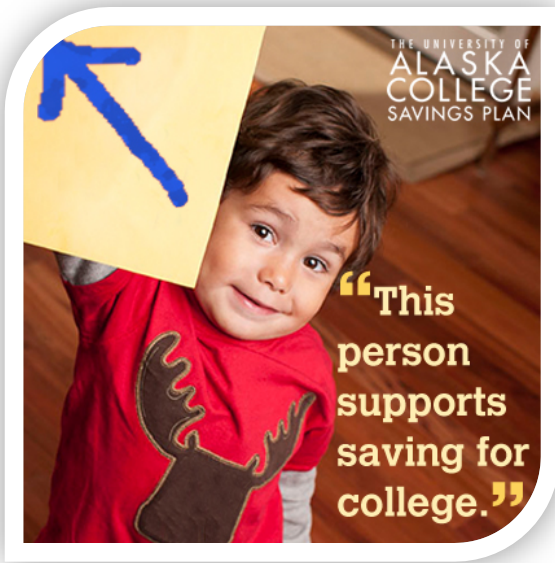
*American Marketing Association Alaska Chapter
Prism Award "Marketing Campaign – Non Profit"*



PFD promotion 25K giveaway

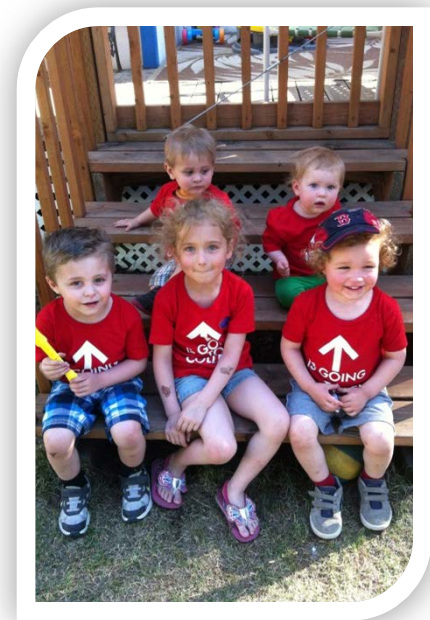
- Listed on the 2013 PFD application
- Promoted in print, web, radio, and social media
- 25K giveaway continues to be a successful campaign
- 7% total increase of contributions from 2012
- Over 12,000 PFD recipients checked YES!





Other Marketing Initiatives

- 529 Day (May 29th)
 - T-shirt campaign
 - Social media campaign
- College Savings Month (September)
 - Sponsored Alaska Zoo's Moose Madness event
 - Sponsored Fairbanks Children's Museum "Airmaze" exhibit
 - College Savings Webinar with Stuart Ritter CFP
 - Governor's proclamation
 - Social media campaign



Outreach & Partnerships

- Huna Totem Native Corporation
- Spirit of Youth
- Boys and Girls Club Youth of the Year
- Fund the Future
- State fair
- Kids Day
- Alaska Commission on Post-Secondary Education's I Know I Can & Kids to College events
- Fairbanks Children's Museum Without Walls events

“Brand new website,
check it out!”

www.uacollegesavings.com

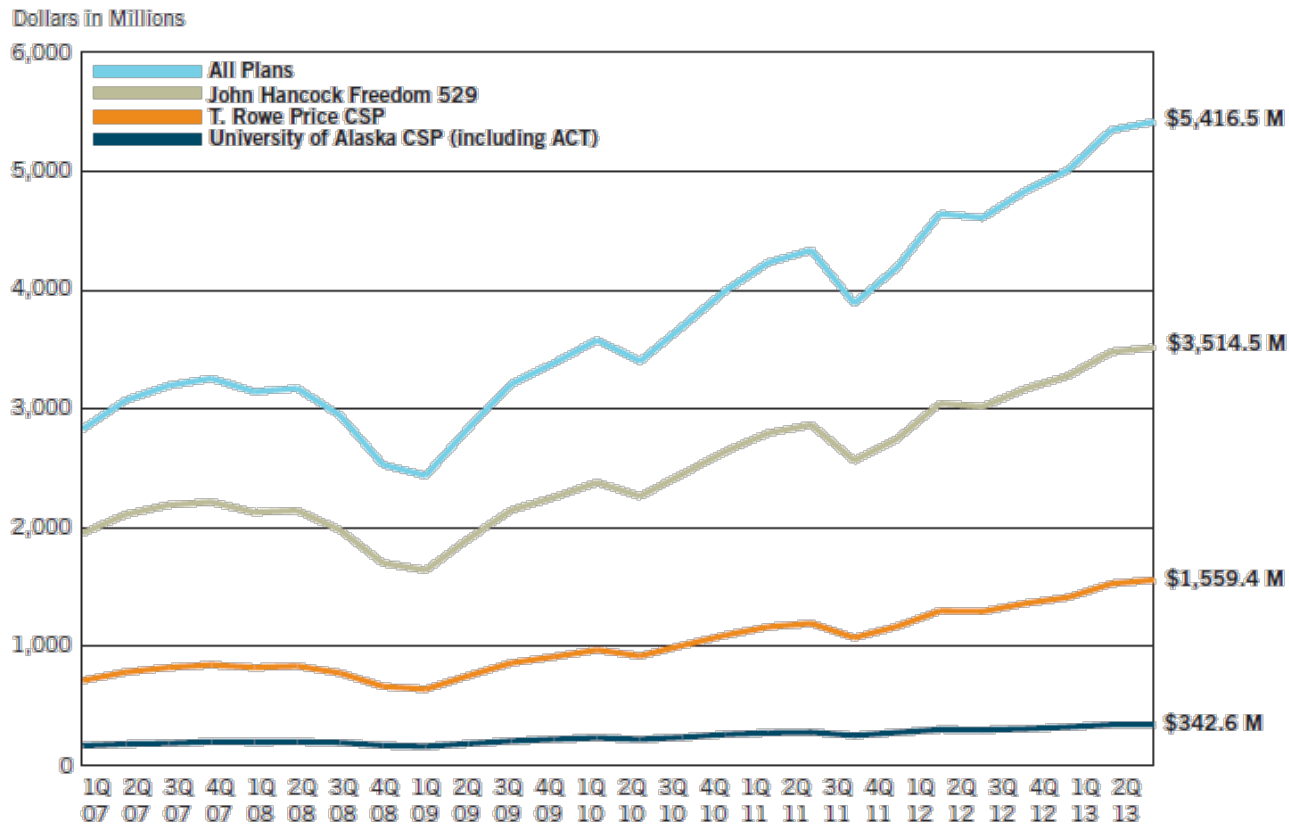


Points of Interest

- Reduced fees from \$20 to \$10 per account
- Maximum contribution limit increased from \$320k to \$400K
- 14% increase in 2013 PFD contributions to a CSP

Education Trust of Alaska

Total Net Assets, June 30, 2013



Education Trust of Alaska
Condensed Combined Statement of Net Assets
Year Ended June 30, 2013
(000 Omitted)

	Operating Fund	Participant Accounts
Assets:		
Receivables	\$ 24,879	\$ 4,451,270
Due from participant accounts	244,940	
Investments	15,129,848	5,420,146,297
Total assets	<u>15,399,667</u>	<u>5,424,597,567</u>
Liabilities:		
Payables and accrued expenses	227,415	7,156,558
Due to operating fund		244,940
Tuition-Value Guarantee	4,100,000	
Total liabilities	<u>4,327,415</u>	<u>7,401,498</u>
Net assets	<u>\$ 11,072,252</u>	<u>\$ 5,417,196,069</u>

Education Trust of Alaska
Condensed Combined Statement of Operations and Changes in Net Assets
Year Ended June 30, 2013
(000 Omitted)

	<u>Operating Fund</u>	<u>Participant Accounts</u>
Revenues and Other Additions:		
Dividend income	\$ 345,163	\$ 93,110,366
Program fees retained	2,708,004	
Provision for Tuition-Value Guarantee	740,000	
Total income	<u>3,793,167</u>	<u>93,110,366</u>
Expenses and Other Deductions:		
Guarantee payments	181,430	
Net program and admin. fees		34,343,020
Administrative expenses	1,334,069	
Net investment income	<u>1,515,499</u>	<u>34,343,020</u>
Net increase from operations	2,277,668	58,767,346
Net realized gain or loss	760,889	445,463,733
Net unit sales over redemptions	<u>-</u>	<u>304,877,078</u>
Increase in net assets from operations	3,038,557	809,108,157
Net assets Beginning of year	<u>8,033,695</u>	<u>4,608,087,912</u>
Net assets End of year	<u>\$ 11,072,252</u>	<u>\$ 5,417,196,069</u>

Education Trust of Alaska

Performance Ranking, June 30, 2013

	<u>Ranking</u>				<u>Cap Rating</u>	
	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>	<u>Resident</u>	<u>Non-Resident</u>
TRP Plan	13 of 52	1 of 44	7 of 42	1 of 14	4.5	4.5
UA Plan	9 of 52	3 of 44	6 of 42	3 of 14	5	4.5
JH Plan	21 of 29	11 of 24	5 of 18	2 of 9	4.5	4.5

Source: Savingforcollege.com (ranking net of fees)
Not for use of the investing public

TRP & UA Plan Portfolios

Value Added Relative to Weighted Benchmarks

Periods Ended June 30, 2013

	Relative Value ¹				
	Three Months	One Year	Three Years	Five Years	Ten Years
Money Market Portfolio	-0.02%	-0.07%	-0.08%	0.04%	–
Short-Term Bond Portfolio	-0.59	-0.33	0.10	0.24	-0.05%
Fixed Income Portfolio	-0.59	3.20	1.57	1.20	1.23
Future Trends Portfolio	1.27	1.72	2.32	2.65	2.30
Equity Portfolio	0.39	-0.67	-0.26	0.96	0.29
College Portfolio	0.00	0.84	0.58	0.99	0.71
Portfolio 2013-2016	-0.07	1.22	0.60	1.10	0.54
Portfolio 2017-2020	-0.09	1.30	0.51	1.15	0.30
Portfolio 2021-2024	0.14	0.52	0.19	1.23	0.37
Portfolio 2025-2028	0.32	-0.30	-0.17	1.18	–
Portfolio 2029-2032	0.41	-0.50	–	–	–

 Outperformance vs. Benchmark

¹ Relative Value Added is the difference between the annualized return of the fund and the annualized return of the benchmark.



TRP & UA Plan Portfolios

Morningstar Ranking and Star Ratings

As of June 30, 2013

Portfolio	Morningstar Category	One-Year Return Percentile Rank	Three-Year Return Percentile Rank	Five-Year Return Percentile Rank	Ten-Year Return Percentile Rank	Overall Morningstar Ranking
Money Market Portfolio	US 529 Static Money Market	46th (64 out of 138)	56th (52 out of 92)	73rd (54 out of 73)	—	—
Fixed Income Portfolio	US 529 Static Intermediate Bond	13th (36 out of 274)	14th (28 out of 194)	28th (43 out of 150)	18th (12 out of 62)	★★★★
ACT Portfolio	US 529 Static Conservative Alloc.	25th (31 out of 120)	8th (7 out of 81)	1st (1 out of 74)	53rd (9 out of 16)	★★★★
Balanced Portfolio	US 529 Static Moderate Allocation	29th (59 out of 203)	18th (28 out of 150)	12th (16 out of 127)	19th (9 out of 44)	★★★★
Equity Portfolio	US 529 Static Large Blend	81st (185 out of 228)	49th (80 out of 163)	39th (55 out of 140)	13th (8 out of 56)	★★★★
Total Equity Market Index Portfolio	US 529 Static Large Blend	13th (30 out of 228)	13th (21 out of 163)	8th (12 out of 140)	—	★★★★
Portfolio for College	US 529 Age 19+ Medium Equity	41st (77 out of 187)	3th (4 out of 126)	5th (6 out of 107)	7th (5 out of 59)	★★★★
Portfolio 2015	US 529 Age 13-18 Medium Equity	30th (93 out of 305)	3rd (6 out of 203)	15th (27 out of 181)	1st (1 out of 76)	★★★★
Portfolio 2018	US 529 Age 7-12 Medium Equity	27th (68 out of 248)	6th (10 out of 166)	23rd (35 out of 151)	3rd (3 out of 84)	★★★★
Portfolio 2021	US 529 Age 7-12 High Equity	57th (64 out of 111)	17th (14 out of 78)	29th (21 out of 70)	4th (2 out of 27)	★★★★
Portfolio 2024	US 529 Age 0-6 Medium Equity	27th (57 out of 212)	4th (5 out of 129)	24th (26 out of 106)	N/A ¹	★★★★
Portfolio 2027	US 529 Age 0-6 High Equity	45th (64 out of 142)	24th (19 out of 78)	17th (12 out of 69)	—	★★★★
Portfolio 2030	US 529 Age 0-6 High Equity	35th (50 out of 142)	20th (16 out of 78)	—	—	★★★
Portfolio 2033	—	N/A ¹	—	—	—	N/A ¹

1-50th Percentile

JH Plan Portfolios

Morningstar Ranking and Star Ratings

As of June 30, 2013

Portfolio	Morningstar Category	One-Year Return Percentile Rank	Three-Year Return Percentile Rank	Five-Year Return Percentile Rank	Ten-Year Return Percentile Rank	Overall Morningstar Ranking
Money Market Portfolio	US 529 Static Money Market	46th (64 out of 138)	56th (52 out of 92)	87th (64 out of 73)	—	—
Short-Term Bond Portfolio	US 529 Static Short-Term Bond	64th (75 out of 117)	75th (67 out of 89)	60th (48 out of 79)	67th (17 out of 25)	★★
Fixed Income Portfolio	US 529 Static Intermediate Bond	31st (84 out of 274)	36th (70 out of 194)	35th (53 out of 150)	30th (19 out of 62)	★★★
Future Trends Portfolio	US 529 Static Large Growth	4th (7 out of 162)	3rd (4 out of 123)	1st (1 out of 107)	6th (4 out of 57)	★★★★
Equity Portfolio	US 529 Static Large Growth	43rd (70 out of 162)	59th (73 out of 123)	32nd (35 out of 107)	29th (17 out of 57)	★★★
College Portfolio	US 529 Age 19+ Medium Equity	32nd (60 out of 187)	8th (11 out of 126)	4th (5 out of 107)	14th (9 out of 59)	★★★
Portfolio 2013-2016	US 529 Age 13-18 Medium Equity	35th (107 out of 305)	10th (20 out of 203)	8th (15 out of 181)	4th (4 out of 76)	★★★
Portfolio 2017-2020	US 529 Age 7-12 Medium Equity	38th (95 out of 248)	17th (29 out of 166)	22nd (33 out of 151)	6th (6 out of 84)	★★★
Portfolio 2021-2024	US 529 Age 7-12 High Equity	48th (54 out of 111)	13th (11 out of 78)	19th (14 out of 70)	20th (6 out of 27)	★★
Portfolio 2025-2028	US 529 Age 0-6 High Equity	48th (69 out of 142)	35th (28 out of 78)	8th (6 out of 69)	—	★★★
Portfolio 2029-2032	US 529 Age 0-6 High Equity	32nd (46 out of 142)	—	—	—	—

1-50th Percentile

JH Plan Portfolios

Morningstar Ranking and Star Ratings (continued)

As of June 30, 2013

Portfolio	Morningstar Category	One-Year Return Percentile Rank	Three-Year Return Percentile Rank	Five-Year Return Percentile Rank	Ten-Year Return Percentile Rank	Overall Morningstar Ranking
Lifestyle Balanced 529 A	US 529 Static Moderate Allocation	51st (104 out of 203)	68th (103 out of 150)	46th (59 out of 127)	—	★★
Lifestyle Growth 529 A	US 529 Static Aggressive Allocation	67th (88 out of 131)	72nd (64 out of 88)	56th (45 out of 79)	—	★★
Lifestyle Moderate 529 A	US 529 Static Conservative Alloc.	21st (26 out of 120)	18th (15 out of 81)	13th (10 out of 74)	—	★★
American Mutual 529 A	US 529 Static Large Value	93rd (108 out of 116)	75th (65 out of 86)	20th (14 out of 66)	34th (11 out of 31)	★★★
TRP Blue Chip Growth 529 A	US 529 Static Large Growth	48th (79 out of 162)	1st (2 out of 123)	27th (29 out of 107)	48th (28 out of 57)	★★★
TRP Equity Income 529 A	US 529 Static Large Value	36th (42 out of 116)	37th (32 out of 86)	22nd (15 out of 66)	30th (10 out of 31)	★★
Jennison Capital Appreciation 529 A	US 529 Static Large Growth	80th (131 out of 162)	51st (63 out of 123)	33rd (36 out of 107)	—	★★★
TRP Mid-Cap Value 529 A	US 529 Static Mid-Cap Equity	29th (38 out of 129)	94th (87 out of 92)	31st (26 out of 82)	24th (8 out of 31)	★★★★
TRP New Horizons 529 A	US 529 Static Mid-Cap Equity	43rd (56 out of 129)	1st (1 out of 92)	1st (1 out of 82)	—	★★★★★
TRP Small-Cap Stock 529 A	US 529 Static Small-Cap Equity	51st (64 out of 125)	9th (7 out of 71)	2nd (2 out of 59)	42nd (9 out of 20)	★★★★
Templeton International Value 529 A	US 529 Static Non US Equity	15th (31 out of 201)	75th (91 out of 120)	49th (42 out of 85)	—	★★

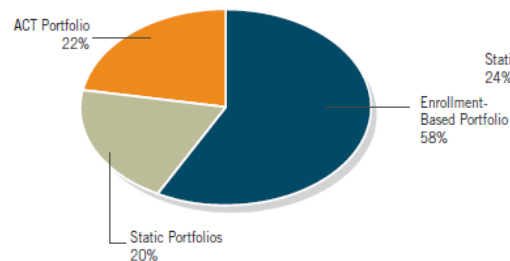
1-50th Percentile

Education Trust of Alaska

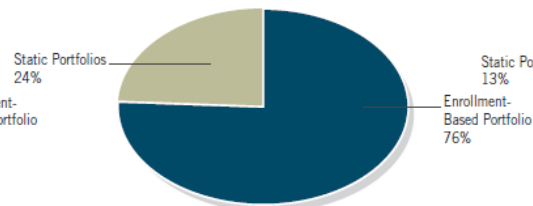
Investment Strategy Participation, June 30, 2013

	University of Alaska College Savings Plan	T. Rowe Price College Savings Plan	John Hancock Freedom 529
Enrollment-Based Portfolios	58%	76%	74%
Static Portfolios	20	24	13
ACT Portfolio	22	N/A	N/A
Individual	N/A	N/A	5
Lifestyle	N/A	N/A	8
Total	100%	100%	100%

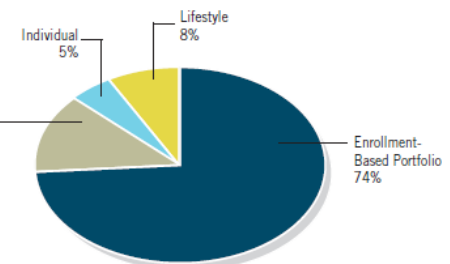
**University of Alaska
College Savings Plan**



**T. Rowe Price
College Savings Plan**



John Hancock Freedom 529



Education Trust of Alaska

Plan Participation, June 30, 2013

	<u>UA Plan</u>	<u>TRP Plan</u>	<u>JH Plan</u>	<u>Total</u>
Beneficiaries	27,898	68,634	157,148	253,680
Account Holders	24,189	45,162	97,162	166,513
Average Balance	\$10,896	\$20,162	\$13,825	\$14,961

Source: T. Rowe Price Quarterly Report

Due Diligence Processes

- ▶ **Daily:**
 - ▶ Literature and document review and interaction with TRP and JH staff and management regarding operational issues.
- ▶ **Weekly:**
 - ▶ Audio-conference with marketing staff regarding planning and implementation of initiatives
- ▶ **Bi-weekly:**
 - ▶ Audio-conferences with TRP staff from legal, IT, operations, and management regarding the status of projects and current issues.
- ▶ **Monthly:**
 - ▶ Briefing on the economic outlook, investment performance, changes in the asset allocation, and the TRP Asset Allocation Committee's recommendations.

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).
- ▶ Conduct an in-depth, in-person review of the three programs including investment performance, sales and distribution activity, service levels, legal and regulatory issues, sample email correspondence, all written participant complaints, and comments by call center staff regarding problems encountered by them and participants.

Due Diligence Processes (Continued)

- ▶ **Semi-Annually:**

- ▶ Callan Associates conducts independent review of all underlying mutual funds of the JH Lifestyle Investment Portfolios.

- ▶ **Annually:**

- ▶ Callan Associates conducts independent review of each underlying mutual fund in the three programs.
- ▶ PricewaterhouseCoopers conducts independent audit of the financial statements for each of the individual investment option for all three plans.

Due Diligence Processes (Continued)

▶ **Annually:**

- ▶ Milliman USA performs independent actuarial calculation of the ACT Portfolio Tuition-Value Guarantee Liability (periodically reviewed by PWC actuarial staff).
- ▶ UA staff review T. Rowe Price SSAE 16 reports.
- ▶ UA staff review Annual Financial Reports for TRP and JH and discuss the financial health of the companies with management.

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.
 - ▶ Wohlforth, Brecht, Cartledge & Brooking as outside counsel.

Operating Controls (Continued):

- ▶ Seasoned Staff:

- ▶ The Trust has a 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 State Sponsors and support entities).

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 from “If he or she goes to college!” to “When he or she goes to college!”