



Annual Evaluation of the
CONNECTICUT HIGHER EDUCATION TRUST

For the Period Ending June 30, 2011

Submitted to:

Committees on Education and Finance, Revenue and Bonding
of the Connecticut General Assembly

June 2012

Statutory Requirements

This *Annual Evaluation of the Connecticut Higher Education Trust* (“CHET” or “Trust”) is jointly submitted by the Connecticut State Treasurer’s Office and the Board of Governors of Higher Education to the Committees on Education and Finance, Revenue and Bonding of the Connecticut General Assembly, pursuant to Section §3-22e(b) of the Connecticut General Statutes.

Pursuant to Section §3-22k of the general statutes, the annual audited financial statements for CHET are included in the Annual Report of the Treasurer, which is transmitted to the Governor and members of the General Assembly on December 31st of each year. The audited financial statements are also transmitted to the CHET Advisory Committee pursuant to Section §3-22e of the General Statutes.

The members of the CHET Advisory Committee as of the 2011 annual meeting, held on December 8, 2011, were:

<i>Denise L. Nappier</i>	<i>State Treasurer</i>
<i>Andrea Stillman</i>	<i>Senate Chair, Education Committee</i>
<i>Andrew M. Fleischmann</i>	<i>House Chair, Education Committee</i>
<i>Antonietta “Toni” Boucher</i>	<i>Senate Ranking Member, Education Committee</i>
<i>Marilyn Giuliano</i>	<i>House Ranking Member, Education Committee</i>
<i>Eileen M. Daily</i>	<i>Senate Chair, Finance, Revenue and Bonding Committee</i>
<i>Patricia M. Widlitz</i>	<i>House Chair, Finance, Revenue and Bonding Committee</i>
<i>Andrew Roraback</i>	<i>Senate Ranking Member, Finance, Revenue and Bonding Committee</i>
<i>Sean J. Williams</i>	<i>House Ranking Member, Finance, Revenue and Bonding Committee</i>
<i>Benjamin Barnes</i>	<i>Secretary, Office of Policy and Management</i>
<i>Dr. Robert Kennedy</i>	<i>President, Connecticut Board of Regents for Higher Education</i>
<i>James Blake</i>	<i>Executive Vice President for Finance and Administration, Southern Connecticut State University</i>
<i>Margaret Wolf</i>	<i>Director of Financial Aid, Capital Community College</i>
<i>Julie L. Dolan</i>	<i>Vice President of Finance and Treasurer, Fairfield University</i>
<i>Julie Savino</i>	<i>Executive Director of Financial Assistance, Sacred Heart University</i>

Background and Program Management

CHET is a qualified state tuition program pursuant to Section 529 of the Internal Revenue Code. Connecticut's authorizing statute was unanimously approved by the Connecticut General Assembly in Public Act No. 97-224 (the "Act"), signed into law by Governor John Rowland in July 1997, and the program began operating on January 1, 1998. While the Trust is considered an instrumentality of the State, the assets of the Trust do not constitute property of the State and the Trust is not construed to be a department, institution or agency of the State.

The Act designates the State Treasurer as the Trustee of CHET. The assets of CHET are privately managed by professional money managers under the supervision of the State Treasurer.

In December 1999, Treasurer Denise L. Nappier contracted with TIAA-CREF Tuition Financing Inc. ("TFI") as program manager for CHET. TFI offers a wide range of products to the general public, including its core constituents in the academic, research, medical and cultural fields, and is recognized as a premier pension system provider in the United States. Ranked as one of *Fortune* magazine's 100 largest U.S. companies, TFI manages total combined assets of approximately \$464 billion (as of December 30, 2011).

In 2009, Treasurer Nappier issued a request for proposals for management of both the current direct-sold program, as well as for a new advisor-sold program. In 2010, the Treasurer entered into a management agreement with TFI to continue offering the CHET direct-sold plan for a contract period ending in March 2015. On August 31, 2010, Treasurer Nappier entered into a management agreement with The Hartford Financial Services Group, Inc. to offer an advisor-sold plan for a contract period ending August 20, 2017. That plan was launched in October 2010. To differentiate the plans, they were re-branded as "CHET Direct" and "CHET Advisor."

Regulatory Environment during 2011

The Securities and Exchange Commission ("SEC") and the Municipal Securities Rulemaking Board ("MSRB") provided continuing guidance and new rulings governing the disclosure of program information, including investment options and performance, as well as fees and other program features. This enhanced oversight has brought 529 plans into closer alignment with investment securities guidelines. New rulings that relate to broker-administered plans have also significantly affected 529 plan marketing and communication practices, including increased media advertising disclosure requirements and provisions. One new stipulation requires that 529 disclosure and marketing materials adequately inform consumers about potential state tax benefits for investments made in plans administered within their home state.

The National Association of State Treasurers ("NAST") expanded its collaborative work with the College Savings Plan Network ("CSPN") to address regulatory, media and consumer concerns relating to adequacy of disclosures and program comparability. The Connecticut Treasurer's Office and TFI have been actively engaged in national planning efforts regarding program administration and marketing practices and standards, and actively monitor new industry trends. CHET has implemented all of the new CSPN disclosure principles and participates in the new CSPN college savings website, www.collegesavings.org which provides comparative information on all state qualified and prepaid 529 college savings programs.

CHET DIRECT

As of December 30, 2011, CHET Direct had 103,926 program accounts with \$1.55 billion in assets. This compares to 96,479 accounts and \$1.44 billion in assets on December 31, 2010. Both the number of accounts and assets increased almost 8% despite account redemptions, as account owners withdrew funds for their beneficiaries' college tuition payments. Since inception, \$491 million has been withdrawn for 17,369 beneficiaries.

Investment Options

Upon renewal of the CHET Direct contract with TFI, new investment options were added and fees reduced. CHET Direct now has eleven (11) investment options (date of inception of each option is noted below). For more detailed descriptions, including underlying mutual fund investments, please visit www.aboutchet.com.

- Moderate Managed Allocation Option (6 Age bands) was the only investment option when CHET was initially launched. This option was changed from ten age bands to six age bands in 2005.
- High Equity Option (2001)
- Principal Plus Interest Option (2001)
- Equity Index Option (Renamed in 2011; created in 2006 and formerly called the 100% Equity Index Option)
- Active Fixed-Income Option (Renamed in 2011; created in 2006 and formerly called the 100% Fixed-Income Option)
- Aggressive Managed Allocation Option (6 Age bands) (2007)
- Social Choice Option (2007)
- Money Market Option (2008)
- Conservative Managed Allocation Option (6 Age bands) (2011)
- Active Equity Option (2011)
- Index Fixed-Income Option (2011)

Asset allocation changes have been made on a periodic basis in order to broaden the investment options for the underlying assets. These adjustments have taken the form of new or replacement underlying mutual funds or inclusion of new asset classes, based on an improved risk-reward analysis and projected performance improvement for all categories. A total of twenty-two institutional mutual funds (from TFI, Thornburg, GE, DFA, T. Rowe Price and Artio fund families) underlie the investment options. The Principal Plus Interest Option is invested through a funding agreement with TIAA-CREF Life Insurance Company.

CHET Direct's administrative and program management fees are competitively ranked in the bottom quartile of fees charged by providers in the 529 industry, and are currently the lowest in the program's history. Current total asset-based fees range from 0.32% to 0.95%, depending upon which option is selected. The Principal Plus Interest Option is not assessed a program management fee. With the 2010 contract renewal, effective November 2010, the fee structure changed from a flat fee (unitary pricing for all Options) to a non-unitary structure which is in line with industry standard. The new fee structure includes a breakdown of program management fees, state administrative fees, and underlying mutual fund fees. The base program management

fee was reduced from 0.20% to 0.18% in June 2011 when total assets under management exceeded \$1.5 billion. Since inception, fee reductions have been negotiated by the Treasury five times, from 1.55% to the current fee level of 0.18% on the average daily net assets of the Trust, plus the cost of underlying fund expenses. An additional program management fee reduction will occur when assets under management reach \$2 billion.

In addition there is a state fee of 0.01% of the average daily net assets of the Trust annually to pay for expenses related to oversight of the Trust (included in the fees above). This was instituted July 1, 2005.

Program Improvements and Changes

Direct and Mass Marketing

The Connecticut Treasurer's Office works closely with TFI to enhance its annual marketing program to strengthen public awareness of the CHET Direct program features and to increase understanding of the importance of saving for a college education. The Treasury and TFI are committed to promoting the benefits of saving for college early to families of all backgrounds and cultures throughout Connecticut. During 2011, multi-channel direct and mass marketing campaigns, along with several major grass-roots promotional programs reaching out to low- to-moderate-income Connecticut residents, were used to obtain the greatest reach. Seasonal timing of campaigns generally focused around tax time (February/March), graduation (June), back-to-school, College Savings Month (August/September), and year-end/gift giving (November/December). The multi-channel marketing strategy included print advertising, direct mail, e-mail, banner advertising and search engine marketing to target prospective account owners. Television, radio, outdoor billboards, and bus ads were utilized during spring tax-time and year-end gift-giving seasons, emphasizing the state tax deduction and importance of developing a college savings strategy, as well as promoting general brand awareness of CHET Direct.

Marketing to existing account owners continued to be an important component of the overall strategy. Existing account owners were encouraged to re-contribute, automate their contributions with systematic investing using direct deposit, and to roll over funds from other college savings plans. The primary communication channels used to target account owners included direct mail, e-mail and quarterly statement messaging and inserts.

Throughout 2011, as interested individuals responded to direct mail, on-line communications, or interacted with a CHET representative at local events, TFI utilized an integrated inquirer follow-up strategy to capture interest and communicate directly to interested parties. The program tracks inquiries with the ultimate goal of helping that individual open an account. These potential investors received either an email or direct mail reminder after 30 days and again after 60 days if they had not yet taken action and opened an account.

Web-Based Marketing and Account Activity

In 2011, CHET Direct launched a completely redesigned website, which enhanced navigation to make it easier for users to learn about CHET, find investment options and performance information, and open accounts on-line. Key additions to the new site included an on-line scheduling tool where interested individuals can set up an in-person or phone consultation with a CHET representative, and a new downloadable smart phone mobile application for CHET's College Savings Planner tool.

On-line enrollment continued to grow during 2011, accounting for 70% of new account openings (vs. 67.8% in 2010). CHET Direct has realized a significant shift toward on-line activity over the past few years and has been increasingly successful in attracting and converting new prospects into account owners via this marketing medium. The ability to send on-line withdrawals directly to a college or university was also implemented in 2011, which was an important improvement for account owners who can now pay a school directly, without the added step of having the funds sent to them or the student first, to pay college tuition bills.

Web-based advertising continued to be an important marketing medium for CHET Direct. TFI ran a series of banner ads throughout 2011 using on-line advertising aggregators such as Google, Yahoo, AdBlade and more. CHET realized positive results from on-line banner advertising, generating over 500 new accounts and achieving a solid conversion rate with low cost of acquisition, making it a cost-effective advertising tactic for CHET.

CHET Direct has also worked with the College Savings Plan Network, a national membership organization for state 529 plan providers, and Savingforcollege.com to promote awareness of the program through new interactive college savings comparative informational databases that are available online.

Major Promotions

Dream Big Competition

In May 2011, CHET Direct and the Connecticut Treasurer's Office kicked off the CHET Dream Big! Competition, a drawing and essay contest for students in grades kindergarten through five. The parents or legal guardians of the eighty-six county winners each received \$250 deposited into a CHET Direct account, and forty-three Merit winners each received \$50 deposited into a CHET Direct account. Additionally, \$50 towards school supplies was given to the top ten teachers whose students submitted the most entries. The contest inspired students to imagine how a college education would help them to change the world for the better, while it motivated parents to think about how to save for college education to support their children's dreams.

The successful competition culminated with an awards ceremony at Rentschler Field in May, attended by over 500 people including the winners, their families and teachers. The competition garnered 2,200 entries from ninety-one of Connecticut's cities and towns (representing all eight counties), including many schools in underserved districts such as Bridgeport, Waterbury, Hartford and New Haven. The Dream Big! ceremony recognized the winning children, who had the opportunity to meet the Deputy State Treasurer and have their photos taken for their local newspaper. Parents and teachers were reminded of the importance of going to college and starting to save early for a college education.

Summer Reading Program

In June 2011, CHET Direct and the Connecticut Treasurer's Office partnered with the Connecticut State Library ("CSL") to present the Summer Reading Promotion called "Destination College Savings." CHET Direct reached out to the CSL to support its summer reading initiatives by providing a financial incentive to encourage more children to participate in the CSL summer reading program. Participation in the annual CSL conference in early May 2011 helped generate excitement around the program. Parents or legal guardians entered their children to win one of four grand prizes, a \$1,000 CHET account. Two smaller drawings were held during the campaign to maintain momentum of the program, with eight \$50 Barnes & Noble gift cards awarded to winners. Partnering with the CSL has proven to be a good way to help

keep families thinking about saving for college with CHET during a traditionally slow account enrollment period.

Book Bag Donation Program

In August 2011, CHET Direct donated 1,500 school book bags filled with school supplies to the Department of Children and Families ("DCF"). CHET also worked with the Department of Economic and Community Development ("DECD"), which donated an additional 50 back packs filled by DECD employees to give away. The donation event occurred in August before the start of school, and was attended by representatives from DCF, DECD and the Connecticut Treasurer's Office.

Educational and Cultural Community Outreach and Events

TFI employs Connecticut-based outreach personnel, including a bilingual field consultant, to educate Connecticut residents, employers and community organizations about the benefits of CHET Direct. The outreach strategy aims to promote the message that saving for college through CHET is available to families of all income levels, as well as to differentiate CHET from competing 529 plans or other savings vehicles such as Custodial or Coverdell accounts. During 2011, TFI outreach focused on sponsoring and attending a series of individual and small group events to reach as many potential investors as possible. Events targeting low- to-moderate-income communities were scheduled throughout the year to ensure that the CHET message was reaching Connecticut's under-served populations. For example, CHET Direct sponsored a series of Bridgeport Bluefish and New Britain Rock Cats baseball games, providing tickets to target organizations to attend the games as a group, booths to answer questions about CHET, running radio ads and CHET signage at games to raise awareness. In addition, CHET undertook specific outreach and marketing to the Latino community including attendance at events such as the Latinas in Power Symposium, Telemundo La Feria de la Familia, Latino Expo and more. In-person meetings were offered and encouraged to both low- to-moderate-income families, as well as to Latino families, in both English and Spanish, to provide the extra level of support and service needed to ensure individuals understood CHET and how CHET could help them save for college.

CHET Direct also partnered with other community-based organizations and agencies specializing in promoting financial literacy and economic empowerment, including the annual Money Conference for Women, the Fairfield County Women's Expo, college financial planning nights at local high schools, company benefit fairs and more.

Employer Outreach

CHET Direct employer outreach included continued contact with several of Connecticut's employers such as Yale University, the Communication Workers of America, AT&T, and the City of New Britain. CHET Direct continued to expand its outreach with TFI participants through its internal wholesaling activities. During the latter part of 2011, a robust, integrated employer marketing strategy was initiated, with a suite of materials under development for deployment in 2012, including a new webinar to offer to employees, human resources contact materials, employee emails, posters, table tents, etc. to help facilitate communication within companies, all explaining the value and benefits of CHET and how to enroll and set up payroll deduction. As of the end of 2011, 546 employers offered CHET Direct payroll deduction opportunities to their employees, with 1,286 employees participating. This compares with 514 employers offering CHET Direct payroll deduction in 2010.

CHET ADVISOR

The CHET Advisor Plan was established on October 1, 2010, with The Hartford Financial Services Group, Inc. ("HFSG") serving as program manager. As of December 30, 2011, CHET Advisor had 5,077 program accounts with \$60,053,553 in assets. Marketing is focused on educating financial advisors who then work with their clients to open CHET Advisor accounts.

Program Offerings

While CHET Advisor offers similar investment options to CHET Direct, the structure of an advisor-sold plan is different by its nature. This plan offers three different share classes (A, C, and E), and has different fee structures for each share class, depending on the share class sales charge (fee). Share classes are structured to include compensation for the financial advisor.

Share classes and fee structure are as follows:

There are three share classes offered through CHET Advisor: A, C and E.

Class A: Under the Class A fee structure, there is an up-front sales charge of up to 5.5%, which is reduced as the total value of all Savings plan accounts of the account owner grows above certain levels. In addition, there are ongoing asset-based fees equal to an annual charge of approximately 1.11% to 1.57% of the total value of each account, depending on investment options selected.

Class C: Under the Class C fee structure, there is no up-front sales charge. However, withdrawal of any contribution that has been in the account for twelve months or less will be charged a contingent deferred sales charge equal to 1% of the amount withdrawn. In addition, there are ongoing asset-based fees equal to an annual charge of approximately 1.86% to 2.32% of the total value of each account, depending on investment options selected.

Class E: This class is available only to certain groups associated with Hartford Life Insurance Company¹ (the parent company of HFBSB). Under the Class E fee structure, there is no up-front or contingent deferred sales charge. There are ongoing asset-based fees each year of approximately 0.86% to 1.32% of the total value of each account, depending on investment options selected.

Under all CHET Advisor asset classes, there is an additional state fee of 0.02% to pay for expenses related to the oversight of the Trust.

¹ Those groups associated with Hartford Life that are eligible for the Class E fee structure include: current or retired officers, directors, trustees and employees and their families of The Hartford Financial Services Group, Inc. and its affiliates; employees of Wellington Management and their families; selling broker-dealers and their employees and sales representatives and their families, who have a sales agreement with Hartford Life and Hartford Security Distribution Company ("HSD") to sell the program; and individuals purchasing an account through a registered investment advisor who has a sales agreement with Hartford Life and HSD to sell the program. "Family" includes the account owner's spouse or legal equivalent recognized under state law and any children under the age of 21.

Investment Options

For more detailed descriptions, including underlying mutual fund investments, please visit www.CHETAdivisor.com.

1 Age-Based Option – 5 bands

- CHET Advisor Age-Based 0-8, 9-13, 14-15, 16-17 & 18+ Portfolios

5 Static Portfolio Options

- Aggressive Growth
- Growth
- Balanced
- Conservative
- Checks & Balances Portfolios

12 Individual Portfolio Option

- Small Company
- Growth Opportunities
- International Opportunities
- Capital Appreciation
- MidCap
- Global Research
- Value
- Dividend & Growth
- Inflation Plus
- Total Return Bond
- Money Market 529 Portfolios

Update on The Hartford Financial Services Group, Inc.

The Hartford Financial Services Group, Inc. announced on March 21, 2012 that it would focus on its property and casualty, group benefits and mutual funds businesses, each of which has a competitive market position, strong capital-generating abilities and lower sensitivity to capital markets. The Hartford believes that sharper focus positions it to deliver superior performance and greater shareholder value.

As a result, the Company is placing its Individual Annuity business into runoff and is pursuing sales or other strategic alternatives for Individual Life, Woodbury Financial Services and Retirement Plans. The announcement is the result of management and the Board of Directors' evaluation of the company's strategy and business portfolio conducted over the past several quarters which concluded in March.

CHET Advisor is sold, serviced, and overseen by a team within The Hartford Mutual Funds Division, which has been identified as a core component of The Hartford going forward.

Hartford Mutual Fund Updates

The Hartford is expanding its relationship with Wellington Management to accelerate growth in its mutual fund business. The Hartford Mutual Funds' Board of Directors has conducted a fund-by-fund review of this transition. Once completed, Wellington Management will serve as the sole sub-adviser for The Hartford's funds, including both equity and fixed income.

A summary of the funds that are affected within CHET Advisor can be found below, along with the action taken by the Mutual Fund board, supplemental filing dates for the funds, and the effective dates of the transitions.

Fund Name	Change	Supplemental Filing	Effective Date of Wellington as Sub-Adviser
The Hartford Inflation Plus Fund The Hartford Short Duration Fund The Hartford Total Return Bond Fund	Wellington Management as Sub-Adviser	February 3, 2012 For Total Return Bond Only: December 15, 2011 (Initial 485(a) prospectus filing)	March 5, 2012
The Hartford Strategic Income Fund	Wellington Management as Sub-Adviser	February 3, 2012	April 2, 2012
The Hartford Corporate Opportunities Fund	Wellington Management as Sub-Adviser Fund Strategy Change and Name Change. Fund to be Renamed to The Hartford Unconstrained Bond Fund	February 7, 2012	April 23, 2012
The Hartford Floating Rate Fund	Wellington Management as Sub-Adviser	March 29, 2012	April 23, 2012
The Hartford Small/MidCap Equity Fund	Wellington Management as Sub-Adviser	March 29, 2012	On or about June 4, 2012

The Mutual Fund board will review the current strategy of The Hartford Money Market Fund at an upcoming board meeting. In addition, The Hartford is relocating the headquarters of its Mutual Funds business to a Radnor, Pennsylvania complex where Wellington also has an office.



CERTIFIED RESOLUTION

BOARD OF REGENTS FOR HIGHER EDUCATION

I, Erin A. Fitzgerald, Secretary of the Board of Regents for Higher Education, do hereby certify that the following is a true and correct copy of a resolution duly adopted on consent at a meeting of the Board of Regents for Higher Education duly held and convened on June 21, 2012, at which meeting a duly constituted quorum of the Board was present and acting throughout, and that such resolution has not been modified, rescinded or revoked, and is at present in full force and effect:

RESOLVED, that the Board of Regents for Higher Education endorses the 2012 annual report of the Connecticut Higher Education Trust (CHET) for the submission to the Education and Finance, Revenue and Bonding Committees of the Connecticut General Assembly

IN WITNESS WHEREOF, I have affixed my signature and the seal of the Board of Regents for Higher Education this 28th day of September, 2012.

Erin A. Fitzgerald, Secretary
Board of Regents for Higher Education

