North Carolina's
National College Savings Program

College Foundation of North Carolina

Special Update

September 2011

Changes to Vanguard Investment Options to Reduce Certain Fees in Low-Cost NC 529 Plan Further

Back in October 2010, *Money* magazine recognized the NC 529 Plan as one of the three top picks for "ultralow fees and age-based portfolio options." At that time, fees for the Plan's Investment Options ranged from 0.25% to 0.90%. Then, as now, the V Fund Aggressive, Moderate or Conservative Tracks (with mutual funds from The Vanguard Group) made up the age-based options.

Since last fall, the Plan's already low cost went down even more. Early in 2011, the Plan completed its strategy to move away from actively managed funds to less expensive index funds. By no longer offering any actively managed funds, the Plan reduced the fees and expenses from the October 2010 range of 0.25% - 0.90% to 0.25% - 0.49% in February 2011. With the cut from 0.90% to 0.49%, the highest cost option in the NC 529 Plan was 41 basis points lower, a 46% decrease.

Late October 2011, additional changes to the NC 529 Plan will narrow the range of asset-based fees and expenses even more, with a 5 basis points drop in fees and expenses for the highest cost option. This reduction from 0.49% to 0.44% is a 10% decrease, making the new range of Investment Option fees and expenses 0.25% - 0.44%.

This additional decrease will be possible due to the replacement of the current V Fund Age-Based and Individual Investment Options (composed of underlying funds from Vanguard) with new Vanguard Age-Based and Individual Portfolios. Several of the mutual funds making up new Vanguard Portfolios are in share classes available at a lower cost than those currently used in V Fund options.

Fees and expenses on the low-cost Federally-Insured Deposit Account, provided for the NC 529 Plan by the State Employees' Credit Union, and the Dependable Income Fund, managed by the State Treasurer of North Carolina, will remain the same, 0.25% and less than 0.30%, respectively.

New Vanguard Investment Options

The new offering of Vanguard funds will be structured differently. Vanguard Portfolios will replace the V Fund Investment Options currently being used in Age-Based Tracks and Individual Investment Options.

All V Fund Investment Options will be closed and assets automatically exchanged to the corresponding new Vanguard Portfolios. Since the exchange will be made automatically by the NC 529 Plan, it will not count as your permitted change in Investment Options for the calendar year. However, if you have not yet made your annual permitted change and decide to move your assets out of the V Fund Investment Options to another Investment Option in the NC 529 Plan (the Dependable Income Fund or Federally-Insured Deposit Account) prior to the automatic exchange, that decision will count as your permitted annual change.

The new Vanguard Age-Based options will operate in the same manner as the current V Fund Age-Based options, with your choosing an Aggressive, Moderate or Conservative Track depending on your risk tolerance and the Plan using your Beneficiary's birth date to place you in the Vanguard Portfolio appropriate for start date and future asset migration.

V Funds 1 – 8 will be replaced by eight new, corresponding Vanguard individual options. A new ninth individual option will be added, the Vanguard Aggressive Growth Portfolio.

Transition Timeline

Monday, October 24, 2011

- Online Electronic Funds Transfers ("EFT") must be entered by 12:00 midnight on Monday for processing on Tuesday, October 25 in order to post to your Account prior to transition to new Investment Option(s).

Wednesday, October 26, 2011

- Last day of regular transaction processing
- Temporary block on Withdrawals and reallocations will begin as of 4 p.m. Wednesday; however, Participants will still be able to set up new Accounts and view existing Accounts online.

Thursday, October 27, 2011 - Sunday, October 30, 2011

- Contributions received prior to 4 p.m. on Thursday will be processed.
- Contributions received **after 4 p.m.** on Thursday cannot be processed until the transition is complete, which is expected to be Monday, October 31.
- Automatic Draft ("ACH") transactions with a debit date of October 27 will be processed.
- **Access to the NC 529 Plan website will be temporarily suspended as of Thursday, October 27 at 4 p.m. as the new Portfolios are being added to the NC 529 Plan.**

Friday, October 28, 2011

- Assets in current V Fund Age-Based Investment Options and V Fund Individual Investment Options will be exchanged into the new Vanguard Age-Based Options and Vanguard Individual Portfolio Investment Options. **At no time during the exchange will funds be out-of-market.**
- Future contribution allocations that had been scheduled for V Fund Age-Based and V Fund Individual Investment Options will be updated for allocation to the new Vanguard Age-Based and Vanguard Individual Portfolio Investment Options.
- ACH transactions with debit dates of October 28 will be processed on and with a trade date of October 31.

Monday, October 31, 2011

- Online access to NC 529 Plan is expected to resume no later than 9:00 a.m.
- Contributions received after 4 p.m. on Thursday, October 27 and ACH transactions with debit dates of October 28 will be processed.
- The updated Program Description for North Carolina's National College Savings Program will be effective and posted online at CFNC.org/NC529.

Charts that follow provide preliminary information on the new offering and the exchange. Complete details will be outlined in the new Program Description dated October 31, 2011 that will be available online.

NEW VANGUARD AGE-BASED INVESTMENT OPTIONS

Age of Beneficiary	Aggressive Track	Moderate Track	Conservative Track
Newborn-5	Vanguard Aggressive Growth Portfolio	Vanguard Growth Portfolio	Vanguard Moderate Growth Portfolio
6-10	Vanguard Growth Portfolio	Vanguard Moderate Growth Portfolio	Vanguard Conservative Growth Portfolio
11-15	Vanguard Moderate Growth Portfolio	Vanguard Conservative Growth Portfolio	Vanguard Income Portfolio
16-18	Vanguard Conservative Growth Portfolio	Vanguard Income Portfolio	Vanguard Income Portfolio
19 and older	Vanguard Income Portfolio	Vanguard Income Portfolio	Vanguard Money Market Portfolio

Description of Exchange from Current V Fund Age-Based Options to New Vanguard Age-Based Options

Age of Beneficiary	Aggressive Track	Exchanging to New Aggressive Track
Newborn-5	V Fund 1	Vanguard Aggressive Growth Portfolio
6-10	V Fund 1	Vanguard Growth Portfolio
11-15	V Fund 2	Vanguard Moderate Growth Portfolio
16-18	V Fund 3	Vanguard Conservative Growth Portfolio
19 and older	V Fund 4	Vanguard Income Portfolio

Age of Beneficiary	Moderate Track	Exchanging to New Moderate Track
Newborn-5	V Fund 1	Vanguard Growth Portfolio
6-10	V Fund 2	Vanguard Moderate Growth Portfolio
11-15	V Fund 3	Vanguard Conservative Growth Portfolio
16-18	V Fund 4	Vanguard Income Portfolio
19 and older	V Fund 5	Vanguard Income Portfolio

Age of Beneficiary	Conservative Track	Exchanging to New Conservative Track
Newborn-5	V Fund 2	Vanguard Moderate Growth Portfolio
6-10	V Fund 3	Vanguard Conservative Growth Portfolio
11-15	V Fund 4	Vanguard Income Portfolio
16-18	V Fund 5	Vanguard Income Portfolio
19 and older	V Fund 5	Vanguard Money Market Portfolio

NEW VANGUARD INDIVIDUAL INVESTMENT OPTIONS

Individual Portfolios	Asset Allocation
Vanguard Aggressive Growth Portfolio	Vanguard® Institutional Total Stock Market Index Fund – 70% Vanguard Total International Stock Index Fund – 30%
Vanguard Growth Portfolio	Vanguard Institutional Total Stock Market Index Fund – 52.50% Vanguard Total International Stock Index Fund – 22.50% Vanguard Total Bond Market Index Fund – 25%
Vanguard Moderate Growth Portfolio	Vanguard Institutional Total Stock Market Index Fund – 35% Vanguard Total International Stock Index Fund – 15% Vanguard Total Bond Market Index Fund – 50%
Vanguard Conservative Growth Portfolio	Vanguard Institutional Total Stock Market Index Fund – 17.50% Vanguard Total International Stock Index Fund – 7.50% Vanguard Total Bond Market Index Fund – 75%
Vanguard Income Portfolio	Vanguard Total Bond Market Index Fund – 50% Vanguard Inflation-Protected Securities Fund – 25% Vanguard Prime Money Market Fund – 25%
Vanguard Money Market Portfolio	Vanguard Prime Money Market Fund – 100%
Vanguard Total Stock Market Index Portfolio	Vanguard Institutional Total Stock Market Index Fund – 100%
Vanguard Total International Stock Index Portfolio	Vanguard Total International Stock Index Fund – 100%
Vanguard Total Bond Market Index Portfolio	Vanguard Total Bond Market Index Fund – 100%

Description of Exchange from Current V Fund Individual Options to New Vanguard Individual Options

Current Investment Option	Exchanging to New Investment Option
V Fund 1	Vanguard Growth Portfolio
V Fund 2	Vanguard Moderate Growth Portfolio
V Fund 3	Vanguard Conservative Growth Portfolio
V Fund 4	Vanguard Income Portfolio
V Fund 5	Vanguard Money Market Portfolio
V Fund 6	Vanguard Total Stock Market Index Portfolio
V Fund 7	Vanguard Total International Stock Index Portfolio
V Fund 8	Vanguard Total Bond Market Index Portfolio

Investment in the Prime Money Market Portfolio is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency. Although Vanguard seeks to preserve the value of the investment at $1 per share, it is possible that the Prime Money Market Portfolio may lose money.

Investments in the plan are subject to risk and Participants should carefully read the Program Description for NC's National College Savings Program effective October 31, 2011 for more information.

Performance Reporting on New Vanguard Investment Options

The new Vanguard Investment Options become available to the NC 529 Plan in late October. Since there will not be a full 30 days of information available in October to perform return calculations, however, the first performance information for the new Vanguard Portfolios will be available after the November 30, 2011 returns, which will be posted to the website on the third business day in December, 2011.

Annual Account Fee for Paper Communication to Begin November 1

Due to rising postage and printing costs, beginning November 1, 2011, each Account will be subject to an $18 annual Account fee (assessed at $1.50 per month) for the receipt of paper statements and notices via standard mail.

The Account fee will be waived if you, as a Participant, elect to receive electronic delivery ("e-delivery") of quarterly Account statements and other communication using an email address. Duplicate statements, such as those requested for a Participant's relative or financial advisor, are available in paper at no charge, as long as the Participant's election for e-delivery remains in effect for all other communication. Accounts established by entities (such as those set up as part of a scholarship program) will not be subject to an Account fee.

Participants currently receiving paper communication related to their individual Account(s) may elect, at any time, to discontinue paper communications and to receive e-delivery. To elect e-delivery of statements and other communications for your Account, log in to CFNC.org/NC529 and click on "My NC 529 Accounts." Then select the Account for which you want to make this election, click on "Electronic Delivery and Email Changes" under "Quicklinks" and follow the prompts.

Please note that e-delivery must be elected separately on each Account for which you wish to receive communication in this manner. As long as you elect e-delivery prior to the last day of a month, your Account will not be charged an Account fee at the beginning of the month following the month of your election. If, at any time, you request to return to receiving paper statements and notices, the associated Account will be assessed the fee at the monthly rate beginning with the month following the month you make the change.