

Request for Proposal for  
Comprehensive Management  
&  
Operations Services

for the

CollegeBound*fund*



A Program of the Rhode Island Higher Education Assistance Authority

Presented By:

**Alliance Capital** 

Wednesday, May 10, 2000  
12:00 noon (EDT)

**AllianceCapital**

Alliance Fund  
Distributors, Inc.  
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**Richard A. Davies**  
Executive Vice President  
Investment Management Services Group

May 8, 2000

The CollegeBoundfund  
c/o William H. Hurry, Jr.  
Executive Director  
R.I.H.E.A.A.  
560 Jefferson Boulevard  
Warwick, RI 02886

Dear Mr. Hurry:

On behalf of Alliance Fund Distributors, Inc., it is my pleasure to submit our response to the Rhode Island Higher Education Assistance Authority's request for proposal for financial services in connection with Rhode Island's CollegeBoundfund. We believe our response demonstrates that Alliance is well positioned to offer a comprehensive and unique alternative to assist the RIHEAA in achieving its objective of establishing the "nation's premier college savings program".

As one of the industry's largest asset managers and one of the most experienced and respected investment managers in the world, we are confident that we can provide a superior, high quality program to the citizens of Rhode Island and interested participants around the country.

We appreciate your consideration and look forward to the opportunity to work with you and your staff. Please direct any questions you may have concerning our capabilities to my attention. As our partner in this initiative, Peter Mazareas, is very familiar with the requirements of a state RFP process, please feel free to contact him directly in his Boston office at (617) 338-7855.

Sincerely,

*Richard A. Davies*

**RHODE ISLAND HIGHER EDUCATION  
ASSISTANCE AUTHORITY**

**REQUEST FOR PROPOSAL**

**For**

**COMPREHENSIVE MANAGEMENT SERVICES**

**of the**

***CollegeBoundfund***

**QUESTIONNAIRE**

**FIRM NAME:** Alliance Capital Management L.P.

**ADDRESS:** 1345 Avenue of the Americas  
New York, New York 10105

**TELEPHONE:** (212) 969-1000

**FACSIMILIE:** (212) 969-6180

**CONTACT:** Richard A. Davies

**TITLE:** Executive Vice President

**SIGNATURE:** *Richard A. Davies*

**DATE:** May 10, 2000

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## Executive Summary

Alliance Fund Distributors, Inc. (AFD), in conjunction with its affiliate companies Alliance Capital Management L.P. and Alliance Fund Services, Inc. (AFS), is proposing a mutual fund-based solution to meet the Rhode Island Higher Education Assistance Authority's college savings plan needs. Alliance Capital Management is one of the most experienced and respected money managers in the world with \$394 billion under management as of March 31, 2000. Alliance has been selected as a money manager by employee benefit plans for 31 of the FORTUNE 100 and public retirement funds in 31 states as well as hundreds of universities, foundations, and endowments. Alliance services more than 6 million individual shareholder accounts and is the "manager of choice" for thousands of investment professionals around the world.

In addition to expertise in money management, Alliance is highly regarded for its record administration and customer service efforts. For example, Plan Sponsor Magazine in its annual Defined Benefit Client Satisfaction Survey (March 2000) rates Alliance Capital as #1 for service... "a standout, with exceedingly high scores and meritorious comments, particularly from its public fund clientele". We would provide the same quality of service for RIHEAA's CollegeBound*fund* savings program.

Alliance Capital has the expertise, resources and national marketing and distribution system to meet RIHEAA's objective of establishing "one of the very best 529 plans" in the nation. We have proposed a program that will offer a substantial competitive advantage over other state plans, and one which will provide a cost effective savings option for Rhode Island citizens, regardless of income level, investment preference and risk tolerance.

In our proposed program design, beneficiary funds will be invested in portfolios of existing Alliance mutual funds utilizing, where available, institutional fund portfolios offering the lowest possible expense ratios. Recommended investment options include a series of age-based portfolios as well as pure equity and balanced options. Alliance will earn investment management fees exclusively through the fees charged within the funds and will not charge additional management fees to manage the Rhode Island portfolios. Depending on the investment portfolio selected, the base program fee for Rhode Island residents who do not utilize a financial advisor to enroll in the program will range from 0.92% to 1.08% of assets annually. The average cost for the age-based asset allocation model is 0.97%. In addition, there will be no annual account maintenance fee for Rhode Island residents.

Alliance is committed to entering into the "529" College Savings marketplace to offer this important tax and estate planning college saving vehicle to its current 6 million account shareholders, and to all Americans through its national distribution network of 80,000 financial advisors. As such, Alliance has assembled a team of senior professionals with broad experience and proven records in all of the areas needed to develop, launch and administer the "nation's best college savings program".

Richard A. Davies, Executive Vice President, Alliance Fund Distributors, Inc. will head the Alliance Team. In addition, to assist in all aspects of program management and oversight, Alliance has retained the exclusive and long-term services of Dr. Peter Mazareas. Dr. Mazareas is recognized as one the nation's foremost 529 college savings experts and has extensive experience in developing, marketing and administering two distinct college savings programs in Massachusetts.

## Executive Summary (continued)

Furthermore, Alliance has retained Seward & Kissel LLP to serve as outside compliance counsel. Seward & Kissel LLP is knowledgeable about all related issues as the firm served as counsel for New York State in connection with the implementation of that state's "College Choice Tuition Savings Program". Therefore, between the collective resources and knowledge of Alliance, Seward & Kissel, Dr. Mazareas and the RIHEAA Staff, we can anticipate with confidence, an efficient, effective and seamless transition and program launch.

Alliance is highly motivated to work with the RIHEAA to establish the nation's premier college savings program. We will commit, for year one, a minimum of \$1.1 million for in-state marketing. In addition, if account volume develops as anticipated, Alliance projects additional in-state spending of \$2.4 million over the remaining four-year life of the contract. In addition, we project to spend \$30.8 million for national marketing and sales support over the five-year life of the contract, based on asset growth. Alliance will undertake all recordkeeping and customer service responsibilities for the new program, at no additional cost to the RIHEAA.

In addition, to assist RIHEAA to "cover out-of-pocket administrative costs" and transition and related issues as identified in sections 4(d)(ii) and 4(h) of your current management agreement, Alliance will commit \$250,000 each year for five years.

An innovative feature of the Alliance proposal is our plan to involve our existing distribution network of financial advisors and planners to assist investors in understanding program benefits and options at the time of contribution, as well as advising their clients on an ongoing basis. With few exceptions, every major investment firm and bank in America distributes Alliance products – we are not wedded to a single retail sales force. Our national distribution network of 80,000 advisors, including 368 in Rhode Island, can be mobilized into a significant marketing resource for the RIHEAA. For example, Alliance currently conducts business with financial advisors in approximately 40 Rhode Island cities and towns and maintains a client base of more than 10,000 Rhode Island citizens who have invested more than \$140 million in Alliance mutual funds.

Alliance is not involved in marketing other 529 college savings programs. Alliance is seeking to develop a targeted approach with a single program that combines maximum marketing effort with superior features including portfolio choice, competitive investment returns, cost-effective administration and high quality service. Therefore, Alliance's targeted approach should eliminate potential confusion with marketing multiple programs and allow maximum resources and priority to be granted to the Rhode Island Program.

In summary, Alliance Capital, one of the world's largest and most respected money managers, is prepared to commit substantial corporate resources to assist the Rhode Island Higher Education Assistance Authority in establishing the "nation's premier college savings program". Alliance is well positioned to help accomplish this goal. We bring a strong record of investment management expertise, state-of-the art account administration, excellent customer service, and a substantial and unequalled marketing and distribution network.

## A. ORGANIZATIONAL STRUCTURE

### 1. Provide a brief overview and history of your firm, including the following:

Alliance Capital Management L.P. is one of the most experienced and respected money managers in the world with \$394 billion under management as of March 31, 2000. Alliance has been selected as a money manager by employee benefit plans for 31 of the FORTUNE 100 and public retirement funds in 31 states as well as by hundreds of universities, foundations and endowments. Alliance is the "manager of choice" for thousands of investment professionals around the world.

Alliance Capital is a diversified, publicly-traded investment adviser with over 2,900 institutional accounts and 6 million individual accounts in over 30 offices worldwide. Alliance provides investment management services to institutional and individual investors through a broad line of domestic and international products covering the investment spectrum. Alliance Capital's leadership position in the global financial community stems from our commitment to developing and implementing strategies that fulfill our clients' investment needs.

Alliance Fund Services, Inc. (AFS), a wholly-owned subsidiary of Alliance Capital Management L.P., currently maintains a large service location in Secaucus, New Jersey to handle fund accounting, transaction processing, transfer agency, as well as shareholder and sales representative telephone services. In August of 1998, AFS opened a new service center site in San Antonio, Texas. Collectively, both service centers employ in excess of 600 people, who are involved in opening 25-30,000 new investment accounts per month and processing more than \$100 million in new invested client assets per day.

Below are answers to the specific questions:

➤ **Year of organization**

Alliance Capital Management Corporation, the predecessor of Alliance Capital Management L.P., began managing assets on January 17, 1971. At that time, the investment management department of Donaldson, Lufkin & Jenrette (DLJ) was merged with Moody's Investor Services investment advisory business to form Alliance Capital Management Corporation.

➤ **Year of first 529 program operation (if applicable)**

Alliance Capital does not currently manage a 529 program. However, we do serve as investment manager for Florida's pre-paid program.

➤ **Year of first operation of programs similar to 529 programs**

We began managing mutual fund operations for individual investor savings programs in 1985. Alliance Capital also provides administration and investment management services for 401(k), profit sharing, money purchase and 403(b) plans as well as SEP-IRA and SIMPLE IRA plans.

➤ **Nature of the firm's ownership**

As of March 1, 2000, AXA, AXA Financial, Inc. ("AXF") (formerly The Equitable Companies Incorporated), The Equitable Life Assurance Society of the United States ("ELAS") and certain subsidiaries of ELAS were the beneficial owners of 95,855,945 Alliance

Capital Units or approximately 55.7% of the issued and outstanding Alliance Capital Units and 1,544,356 Alliance Holding Units or approximately 2.1% of the issued and outstanding Alliance Holding Units. As of March 1, 2000, Alliance Holding was the owner of 71,855,296 Alliance Capital Units or approximately 41.7% of the issued and outstanding Alliance Capital Units.

Based on information provided by AXF, at March 1, 2000, AXA, a French company, and certain of its subsidiaries beneficially owned approximately 60.3% of AXF's issued and outstanding shares of common stock. AXF is a public company with shares traded on the New York Stock Exchange, Inc. AXF owns all of the shares of ELAS.

Based on information provided by AXA, on March 1, 2000, approximately 20.3% of the issued ordinary shares (representing 31.9% of the voting power) of AXA were owned directly and indirectly by Finaxa, a French holding company. As of March 1, 2000, 60.7% of the shares (representing 70.7% of the voting power) of Finaxa were owned by four French mutual insurance companies (the "Mutuelles AXA") (one of which, AXA Assurances I.A.R.D. Mutuelle, owned 34.8% of the shares, representing 40.4% of the voting power), and 22.3% of the shares of Finaxa (representing 13.3% of the voting power) were owned by Paribas, a French bank. Including the ordinary shares owned by Finaxa, on March 1, 2000, the Mutuelles AXA directly or indirectly owned approximately 23.3% of the issued ordinary shares (representing 36.7% of the voting power) of AXA.

For additional information, please refer to Alliance Capital's 1999 Form 10-K.

➤ **Nature of relationship with owned, affiliated, or partnership firms.**

Alliance Capital is affiliated with Donaldson, Lufkin & Jenrette Securities Corporation ("DLJSC"), a registered broker/dealer and a wholly owned subsidiary of the Equitable Life Assurance Society of the United States. In 1985, DLJ and Alliance Capital were acquired by the Equitable Life Assurance Society of the United States. On April 21, 1988, Alliance Capital reorganized as a master limited partnership, Alliance Capital Management L.P.

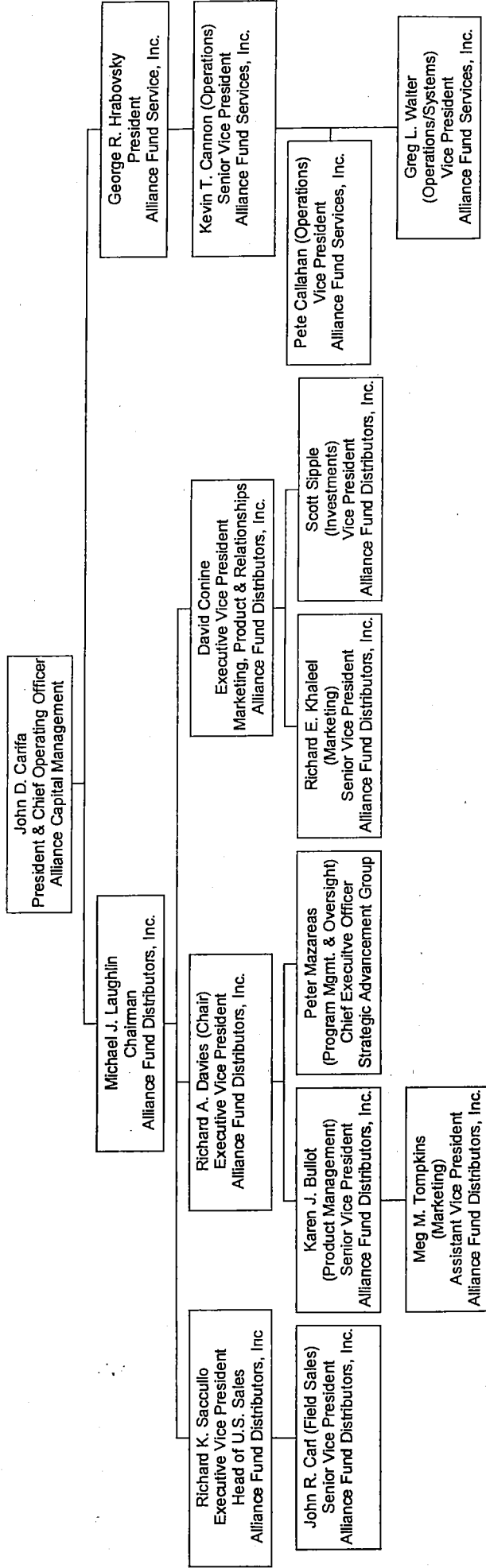


- 2. Describe the organizational structure of your firm, and the specific unit that will be involved with the management of *CollegeBoundfund*. Provide an organizational chart that indicates operational relationships, and highlights the unit(s) that will manage the program.**

Alliance Fund Distributors (AFD), a wholly owned subsidiary of Alliance Capital, will manage the *CollegeBoundfund* utilizing mutual funds managed by Alliance.

With regard to the specific Committee designated to manage the *CollegeBoundfund* (please see the organizational chart on the following page), Alliance has selected senior professionals for their expertise in their respective fields to manage the *CollegeBoundfund* and work with the RIHEAA staff. We are confident that this group of high level professionals will promote a comprehensive, competitive college savings program for the state of Rhode Island.

# CollegeBoundfund Organizational Steering Committee



**3. Detail the experience and background of the personnel expected to be assigned to this contract. In particular indicate if these individuals have had experience with the operation of a 529 program.**

Alliance, has assigned a group of highly qualified senior professionals to work directly with the Rhode Island Higher Education Assistance Authority (RIHEAA) to develop, launch and administer the new, enhanced CollegeBound*fund*.

In addition , Alliance Capital has retained the services of Dr. Peter Mazareas, Chief Executive Officer of Strategic Advancement Group. Dr. Mazareas is considered one of the nation's foremost experts on college savings programs. He developed, launched and administered two college savings programs in Massachusetts (the U Fund and the U Plan). He was elected Chair and served as Vice Chair of the National Association of State Treasurer's College Savings Plans Network (CSPN). In addition to administering Massachusetts' programs, he has provided direct assistance to approximately ten states in the development and marketing of their respective college savings programs. Finally, he has been instrumental in lobbying for federal legislation and met with and assisted U.S. Treasury and IRS officials in developing 529 regulations. By virtue of a long-term exclusive consulting arrangement with Alliance, Dr. Mazareas will play an active role in all aspects of the program's implementation and administration. We believe his experience, knowledge and perspective will help facilitate a smooth and effective program integration and national launch.

We have also retained the law firm of Seward & Kissel LLP to advise us on all 529 program issues. That firm represented the State of New York, specifically the Comptroller and the Higher Educational Services Corporation, in implementing the state's 529 program, including assistance in the drafting of all program documents.

Alliance Capital has a great deal of experience in managing similar individual investor savings programs such as Traditional and Roth IRAs, SEP and SIMPLE IRAs, 401(k) and other long-term savings vehicles. We manage the assets and accounts for more than 6 million shareholders and have received commendations for our service. For example, Plan Sponsor magazine in its annual Defined Benefit Client Satisfaction Survey (March 2000) rates Alliance Capital as #1 for service – “a “standout, with exceedingly high scores and meritorious comments, particularly form its public fund clientele”.

Below is a listing of the dedicated management team for the CollegeBoundfund:

**General Management and Finance**

<b>Name &amp; Location</b>	<b>Title &amp; Responsibility</b>	<b>Total Years Experience</b>	<b>Years with Firm</b>	<b>Contract responsibilities</b>
Richard Davies	EVP/AFD	10	4	Overall Responsibility
Karen Bullo	SVP/ Retirement Services	18	3	Program Design/ Management/ Training
Peter Mazareas	Consultant	19	-	Program Design/ Management/ Training

**Investment Services**

<b>Name &amp; Location</b>	<b>Title &amp; Responsibility</b>	<b>Total Years Experience</b>	<b>Years with Firm</b>	<b>Contract responsibilities</b>
Scott Sipple	V.P. Product Management	16	2	Investments

**Marketing**

<b>Name &amp; Location</b>	<b>Title &amp; Responsibility</b>	<b>Total Years Experience</b>	<b>Years with Firm</b>	<b>Contract responsibilities</b>
Richard Khaleel	SVP/ Marketing	15	3	Creative Development
Meg Tompkins	AVP/ Retirement Products	9	2	Program Design
John Carl	SVP/Retirement Sales	12	3	Field Sales

### Records Administration and Customer Service

Name & Location	Title & Responsibility	Total Years Experience	Years with Firm	Contract responsibilities
George Hrabovsky	President/AFS	25	25	Overall Service
Kevin Cannon	SVP/AFS	16	16	Customer Service
Greg Walter	VP/AFS	14	14	Systems
Peter Callahan	VP/AFS	13	13	Customer Service/ Call Center/ Fulfillment

**4. Describe your understanding of the CollegeBoundfund and the objectives of RIHEAA in relation to the operation of this program.**

The objective of the CollegeBoundfund is to provide the best possible tax-advantaged college savings program to the citizens of Rhode Island. By virtue of Dr. Mazareas' prior experience and advising other state programs, Alliance fully understands the purpose, investment strategies and legal requirements of "529" college savings programs. Moreover, we understand and are sensitive to the respective roles and needs of the state agency charged with administering the program. As such, we would anticipate having a very positive and productive working relationship.

Furthermore, Alliance understands RIHEAA's objective to offer a stable, long-term, and cost effective college savings solution to the citizens of Rhode Island. RIHEAA's goal of establishing the "nation's premiere" college savings program is achievable and Alliance is confident that if selected, we would be able to provide the citizens of Rhode Island with the best program available in the marketplace.

**5. Describe the strategy and commitment of your firm, and the competitive advantage that your firm would afford CollegeBoundfund if selected.**

Alliance is committed to entering into the "529" College Savings marketplace in order to offer this important tax and estate planning college saving vehicle to its current 6 million account shareholders and to all Americans through its national distribution network of 80,000 financial advisors. As such, Alliance has assembled a team of senior professionals with broad experience and proven records in all of the areas needed to develop and administer the "nation's premiere college savings program."

Alliance is highly motivated to work with RIHEAA. Alliance will commit a minimum of \$3.5 million for in-state marketing over a projected five-year life contract. In addition, we project to spend nearly \$31 million for national marketing and sales support over the five-year life of the contract, based on our projections of asset growth.

Alliance, in addition to investment management, records administration and customer service, has several distinct competitive advantages over other providers. Perhaps the most significant is our plan to involve our existing network of financial advisors and planners to assist families in both Rhode Island and across the nation in understanding the benefits of the *CollegeBoundfund*. With few exceptions, every major investment firm and bank in America distributes Alliance products – we are not limited or wedded to a single retail sales force. Our national distribution network of 80,000 advisors, including 368 in Rhode Island, can be mobilized into a significant marketing resource for RIHEEA. For example, Alliance currently conducts business with financial advisors in 80 offices in 40 Rhode Island cities and towns, and maintains a Rhode Island client base of more than 10,000 accounts, totaling more than \$140 million in Alliance mutual funds.

Alliance Capital, one of the world's largest and most respected money managers, is prepared to commit substantial corporate resources and is well positioned to help RIHEEA achieve its goal of establishing the nation's premiere program. We bring a strong record of investment management expertise, state-of-the art account administration, excellent customer service, and a substantial and unsurpassed marketing and distribution network.

- 6. Provide a copy of your audited financial statements for the preceding three years, and describe any material changes since the most recent one. Provide a copy of your most recent annual report and describe any material changes subsequent thereto.**

Our audited financial statements for 1997, 1998 and 1999 are included in Appendix A. We have also included a copy of our 1999 Annual Report. There have been no material changes since the 1999 audited financial statement and annual report were issued.

- 7. Where possible, highlight the performance of any 529 or similar programs you manage. If your firm has provided services to any 529 program during the last three years, indicate if any contracts are currently in force and, if not, the reason(s) for the termination of services to such program.**

Alliance Capital does not currently manage a Section 529 Plan, as such, we have no contracts currently in force. We do manage similar savings programs (e.g., Traditional and Roth IRAs, SEP and SIMPLE IRAs, 401(k) and other qualified retirement plans) and have received continuous commendations for high quality service and investment performance. We also manage two institutional accounts for the Florida pre-paid program.

**8. Describe any litigation to which your firm is currently a party, or in the last three years has been a party, either as a plaintiff or as a defendant. Include the current status of such litigation, management's opinion as to the likely outcome of such litigation, and whether such litigation or outcome is likely to have a materially adverse impact on your firm's operations or affairs which would affect your firm's ability to effectively serve RIHEAA. Also, indicate whether any of the individuals identified above, as persons who will be responsible for specific tasks of the program in the event of a contract award, are similarly involved or have been involved in litigation either as your agent or independent of your firm.**

On July 25, 1995, a Consolidated and Supplemental Class Action Complaint "(Original Complaint)" was filed against the Alliance North American Government Income Trust, Inc. (the "Fund"), Alliance Capital Management Holding L.P. ("Alliance Holding") and certain other defendants affiliated with Alliance Holding alleging violations of federal securities laws, fraud and breach of fiduciary duty in connection with the Fund's investments in Mexican and Argentine securities. On September 26, 1996, the United States District Court for the Southern District of New York granted the defendants' motion to dismiss all counts of the Original Complaint. On October 29, 1997, the United States Court of Appeals for the Second Circuit affirmed that decision.

On October 29, 1996, plaintiffs filed a motion for leave to file an amended complaint. On October 15, 1998, the United States Court of Appeals for the Second Circuit issued an order granting plaintiffs' motion to file an amended complaint alleging that the Fund misrepresented its ability to hedge against currency risk and denying plaintiffs' motion to file an amended complaint alleging that the Fund did not properly disclose that it planned to invest in mortgage-backed derivative securities and that certain advertisements used by the Fund misrepresented the risks of investing in the Fund. On December 1, 1999, the United States District Court for the Southern District of New York granted defendants' motion for summary judgment on all claims against all defendants. On December 14 and 15, 1999, the plaintiffs filed motions for reconsideration of the Court's ruling. These motions are currently pending with the Court.

On March 24, 2000 Alliance Capital announced that a memorandum of understanding had been signed with the lawyers for the plaintiffs settling this action under the settlement Alliance Capital will permit Fund shareholders to invest up to \$250 million in Alliance mutual Funds free of initial sales charges. Like all class action settlements, the settlement is subject to court approval.

Alliance believes that the allegations in the amended complaint are without merit and intends to vigorously defend against this action if the settlement does not become final. While the ultimate outcome of this matter cannot be determined at this time, management of Alliance does not expect that it will have a material adverse effect on Alliance's results of operations or financial condition, nor will it affect Alliance's ability to effectively serve RIHEAA.

None of the individuals identified in our response to Question A.3. above have been involved in litigation within the past three years, with the possible exception of private domestic relations matters.

**B. PROFESSIONAL STAFF AND SUB-CONTRACTOR RELATIONSHIPS**

- 1. Identify the key individuals and specific responsibilities of those who would be assigned to the management of CollegeBoundfund. Describe their responsibilities and provide biographies on each person.**

Please see our response to Question 3 in Section A for key individuals and their specific contract responsibilities. Following are biographies of these key individuals:

**RICHARD A. DAVIES** – Executive Vice President and Head of the Investment Management Services Group - Alliance Fund Distributors, Inc., with responsibility for Investment Advisor, 401(k), Retirement, Wrap-Fee, Annuity and Insurance business lines. Before joining Alliance in 1995, Mr. Davies served as President of First Chicago Investment Services and as a Managing Director of First Chicago Investment Management Company, where he was responsible for retail investment product sales, marketing and operations, including the bank's proprietary funds. Prior to joining First Chicago in 1989, Mr. Davies was a consultant and manager for six years with The Boston Consulting Group, where he specialized in marketing and distribution assignments for financial, consumer and industrial companies. He worked in brand management for Procter & Gamble before graduate school. Mr. Davies received a B.A. in Economics, with Honors, from the University of Wisconsin and his M.B.A. from the Harvard Business School. Financial services experience: 10 years. Alliance: 4 years.

**KAREN BULLOT**, Senior Vice President, Alliance Fund Distributors, Inc. Ms. Bullot joined Alliance in 1997 as Director of Retirement Planning and Individual Savings Products. Her department's responsibilities encompass strategy, marketing and client services for retirement plans and savings programs for both individuals and corporations. Prior to joining Alliance, she held a similar position at John Hancock Funds. Prior to that, Ms. Bullot held retirement planning/marketing positions at Oppenheimer Capital and E.F. Hutton. Ms. Bullot holds a B.A. in Economics from Bucknell University. Investment Experience: 18 years. Alliance: 3 years.

**PETER MAZAREAS**, Dr. Peter Mazareas is Chief Executive Officer of the Strategic Advancement Group. From 1993 to 1999, Dr. Mazareas served as the Executive Director of the Massachusetts Educational Financing Authority. Dr. Mazareas is recognized nationally as one of the nation's leading college tuition financing experts. While at MEFA, he established six new programs: The U Fund (529 college investing program), the U Plan (prepaid tuition college program), an International College Loan Program, the MEFA Out of State Loan Program, the MEFA Graduate Loan Program, as well as MEFA's Public Service Outreach Program. During his tenure, MEFA's assets under management grew from \$327 million to \$812 million (148% increase), annual loan volume increased from \$26 million to \$105 million (295% increase), and colleges participating in MEFA's programs grew from 56 to 94 (68% increase), the number of families served grew from 29,842 to approximately 115,762 (288% increase), and its two nationally acclaimed college savings programs helped over 51,000 families save over \$200 million for their children's college education.

Dr. Mazareas was elected in July 1999 to serve as the Chair of the National Association of State Treasurer's College Savings Plans Network (CSPN) for the year 1999-2000. He previously



served as Vice Chair of CSPN and conceived and implemented the Network's highly acclaimed Management Institute. He has served as a primary source on college savings for the national and regional media and has been quoted in such publications as the Wall Street Journal, New York Times, Chronicle of Higher Education and Kiplinger.

Prior to joining the Massachusetts Authority, Dr. Mazareas was a full-time Visiting Professor of Business at Boston College's Carroll Graduate School of Management where he taught courses on strategy and business development. He also served as Deputy Treasurer for the Commonwealth of Massachusetts where he oversaw the receipt, disbursement and investment of \$19 billion in state funds from 158 agencies. His academic experience includes serving as both an administrator and faculty member at both public and private colleges and universities. Dr. Mazareas received a B.A. from Harvard College, and both an M.B.A and Ph.D. from the University of Chicago. He was selected as a Ford Foundation Fellow and awarded a Woodrow Wilson Internship.

**SCOTT C. SIPPLE**, Vice President and Equity Product Manager for Alliance Capital Management. Mr. Sipple's responsibilities include product management oversight for all domestic and international equity funds at Alliance totaling over \$35 billion in assets. Mr. Sipple joined Alliance from Portfolio Advisory Services, Inc., which manages hedge fund and separate accounts for institutional and high net worth investors. As Managing Director, he served as a member of both the Investment and Executive Committees of the firm. Mr. Sipple began his career as an institutional equity trader and eventually headed Capital Markets for a regional investment banking firm where he served on both the Underwriting and Management Committees. He has been a featured investment conference speaker and guest on numerous financial radio programs around the country. He has also been quoted in such publications as *Barron's*, the *Wall Street Journal*, and the *New York Times*. Mr. Sipple is a graduate of Dartmouth College. Investment Experience: 16 years. Alliance: 2 years.

**RICHARD KHALEEL**, Senior Vice President, Director of Marketing and Technology. Mr. Khaleel is Director of Marketing and Technology for Alliance Capital Management, L.P., responsible for the firm's marketing and electronic communications with financial intermediaries and clients. He oversees Alliance Capital's advertising and public relations activity. Mr. Khaleel also directs the development of the firm's mutual funds sales and marketing electronic strategies, Internet web sites and other electronic marketing tools. Prior to joining Alliance Capital in 1996, Mr. Khaleel was head of marketing and technology for NBC Cable, including the launch of CNBC and has also innovated branding programs for many large consumer goods and services companies. Mr. Khaleel holds an M.B.A in Finance from New York University and a B.A. degree from Princeton University.

**JOHN CARL**, Senior Vice President, National Sales Director – Retirement Plans. Mr. Carl's responsibilities include management and oversight for all sales as they relate to the retirement business line including 401(k), IRA, SIMPLE & all other Defined Contribution Plans. He has most recently been quoted in Forbes Magazine and The Wall Street Journal and has appeared on CNBC. Prior to heading up the retirement sales effort at Alliance Capital, Mr. Carl held the position of Vice President, Product Management at J & W Seligman. Before J & W Seligman, he held the positions of Co-Director of the Closed-End Research Department and Branch & Regional Sales Manager at Prudential Securities. Mr. Carl has a B.S. in Economics from Lehigh University and currently attends Columbia University's Executive Continuing Education Program. Investment Experience: 12 years. Alliance: 3 years. Location: New York.

**GEORGE HRABOVSKY**, President of Alliance Fund Services. Responsible for all domestic and international operational activities regarding mutual funds, partnership accounting services and insurance accounting services.

**KEVIN T. CANNON** - Senior Vice President, Alliance Fund Services. 16 Years with Alliance working in Audit, Treasury, Marketing and the last four years with AFS. Responsible for 500 personnel from the Servicing and Dealer Services organization in three domestic locations. BS in Accounting from Boston College and MBA in Finance from Pace. Speaker at a number of fund industry and other conferences.

**GREG WALTER**, Vice President, Director of Operations with Alliance Fund Services. Mr. Walter has been with Alliance since 1986. His responsibilities at Alliance are associated with the management of transfer agent operations, ensuring the appropriate record-keeping of all shareholder mutual fund assets. Prior to joining Alliance, he attended the State University of New York at Binghamton where he received a Bachelor of Science degree in Business Administration in 1985.

**PETER CALLAHAN**, Vice President, Alliance Fund Services, Director of Global Servicing Operations, Site Manager, San Antonio Operations Facility. Extensive background in managing call center and transaction processing, operations and systems. 13 years of Alliance & Transfer Agency and Customer Service Experience.

2. Provide the level of full-time turnover for your firm for the last three years. This information should identify, at a minimum, the total staff, employees leaving, and the employees recruited.

	<u>Total Staff</u> (beginning yr)	<u>New Hires</u>	<u>Terminated</u>	<u>Total Staff</u> (year-end)
1997	1466	603: 132 Professionals/ 471 Support	351: 81 Professionals/ 270 Support	1647
1998	1647	783: 167 Professionals/ 616 Support	391: 88 Professionals/ 303 Support	2022
1999	2022	797: 133 Professionals/ 664 Support	495: 88 Professionals/ 407 Support	2328

Professionals include those employees that are either Assistant Vice President and above, or have management/officer responsibilities.

3. Of the numbers of individuals reported as leaving and of those recruited, provide a breakdown that specifies, at a minimum, which of these personnel were executive, managerial, customer service, and/or fiscal staff.

See above.

4. With respect to the specific division or unit that was identified earlier as having responsibility for the management of *CollegeBoundfund*, provide similar turnover information.

We have designated eleven senior management executives to manage the *CollegeBoundfund*. Only one person represents a replacement for an individual who left the company in the previous five years.

In addition, our investment management group has experienced low turnover throughout over the years. The chart below illustrates new additions/turnover of the investment management group for the last three years:

	Portfolio Managers	Research /Analysts
<b>Total</b>		
1999	108	122
1998	135	107
1997	103	109
<b>Departures</b>		
1999	15	10
1998	4	10
1997	4	8
<b>Additions</b>		
1999	17	23
1998	12	27
1997	2	8

\* as of Dec 31, 1999

5. Describe the strategies you intend to employ to ensure that the personnel identified as key to the management of *CollegeBoundfund* will remain with your firm and with the administration of the program.

Alliance Capital has assigned a group of highly qualified senior professionals to work directly with the RIHEAA staff to develop, launch and administer the *CollegeBoundfund*.

Alliance Capital provides significant financial and organizational incentives for key professionals. Approximately 8 percent of the firm is owned by employees and professionals are eligible for increased ownership via an options program.

The majority of our firm's professional staff compensation is incentive-based. Most investment professionals are shareholders (unit holders) in Alliance Capital. Professionals receive salaries, deferred profit sharing, and are eligible for option awards and significant bonus income. The bonus pool is a function of Alliance Capital's pre-tax, pre-bonus profitability. Shares of the pool are allocated annually by a Compensation Committee based upon several objective measures of performance and a more subjective assessment of overall contribution to our clients' performance and to the firm.

Our compensation/human resources strategy, combined with our professional work environment and successful business accomplishments, serve to keep professional employee departures to a minimum.

- 6. Indicate the various aspects of your proposal that will be conducted in-house, and those that will be sub-contracted (marketers, record keepers, etc). Identify the sub-contractors and the services they will provide. Further provide a contact person and telephone number of the firm and, to the extent possible, provide information relative to the expertise of the firm as it relates to the particular service for 529 programs or similar programs.**

Alliance Capital is not sub-contracting with any vendor to provide the proposed services necessary to administer the *CollegeBoundfund*. Alliance does, however, in its normal course of business, utilize various consultants and other vendors for marketing support, advertising and public relations, systems, and legal. For example, Alliance Capital has retained Ibbotson Associates, one of the investment industry's foremost consulting firms, to work with Alliance to monitor and advise us on asset allocation policy, and ongoing portfolio construction and policy implementation. Ibbotson Associates' role is as technical consultant to Alliance Capital.

- 7. For those services you intend to have performed by a sub-contractor, indicate the agreed to or projected fee structure for those services.**

We do not intend to utilize any sub-contractors for the *CollegeBoundfund*.

- 8. In identifying the sub-contractor(s) to be involved, indicate the location of the corporate headquarters, and of the unit expected to perform services for this program.**

Not applicable.

**C. ASSET MANAGEMENT**

- 1. Briefly discuss your policy and procedures for assuring that each participant's funds are properly held for safekeeping, and that their positions are properly maintained in your accounting records.**

With respect to the safekeeping of assets, participant funds are deposited into an account in the name of "Alliance Fund Distributors, for the Benefit of the Shareholders of the Alliance Family of Mutual Funds" on the date of receipt. Once available, funds are immediately wired and credited to the applicable fund's custodial account.

Participant accounts are individually disclosed on our recordkeeping system. All transactions post to a transaction history file and display a sub-total with the posting of every transaction. We monitor audit reports on a daily basis to ensure that the transaction history file equals the participant's account master file. This same transaction activity changes the outstanding shares in the fund each day. Another audit report is reviewed daily to ensure that the fund's total outstanding shares equal the aggregate total of all of the individual participant account master files.

- 2. Provide a listing of fund managers you propose to use in the administration of the CollegeBoundfund. Identify those that are affiliated with your company and the nature of that affiliation, if applicable.**

Alliance Capital is proposing portfolios of Alliance mutual funds for the CollegeBoundfund. The underlying mutual funds are managed by a team of Alliance's top-performing fund managers. Below is a complete listing of the managers responsible for each of the underlying funds:

Name & Location	Title & Responsibility	Total Years Experience	Years with Firm	Most Advanced Degree
Alfred Harrison - Minneapolis	Vice Chairman Large Cap Team Leader	39	22	M.B.A./ C.F.A.
Wayne D. Lyski - New York	Chairman and CIO Fixed Income	26	17	M.B.A.
Mark Breedon - London	Director, Alliance Capital Limited	22	13	B.A.
Jeff Phlegar - New York	S.V.P. Portfolio Manager	13	11	M.B.A.
Doug Peebles - New York	S.V.P. Portfolio Manager	13	13	M.B.A.
Paul Rissman - New York	S.V.P. Portfolio Manager	11	11	M.B.A. / Ph.D.
Peter Anastos - New York	S.V.P. Portfolio Manager	31	21	M.B.A.
Gerry Malone - New York	S.V.P. Portfolio Manager	22	8	M.B.A./ C.F.A.
Bruce K. Aronow - New York	V.P. Portfolio Manager	10	1	B.A. / C.F.A.

**ALFRED HARRISON** — Vice Chairman of the Board and Large Capitalization Growth team leader. Mr. Harrison, manager of the Minneapolis office, joined the firm in 1978. Mr. Harrison

was President and Chief Executive Officer of IDS Advisory Corporation, the pension fund investment management subsidiary of Investors Diversified Services, Inc. Prior to co-founding IDS Advisory in 1972, he managed the IDS Progressive Fund, a large mutual fund oriented to capital appreciation. He also worked in Canada as an economist and investment manager. Mr. Harrison received his B.A. and M.A. degrees with honors from Cambridge University. Chartered Financial Analyst. Investment Experience: 39 years. Alliance: 22 years. Location: Minneapolis.

**WAYNE D. LYSKI** — Chairman and Chief Investment Officer of Alliance Capital Fixed Income Investors. Mr. Lyski oversees fixed income investment at Alliance and manages assets in both the domestic and international markets. Prior to joining Alliance Capital in 1983, Mr. Lyski was responsible for the money market research and asset/liability departments at J.P. Morgan. At J.P. Morgan, he was responsible for analyzing trends in U.S. monetary and fiscal policies in support of the bank's bond and currency investment activities and for identifying the bank's exposure to interest rates. In 1998, Mr. Lyski was inducted to the Fixed Income Analysts Society's Hall of Fame. Mr. Lyski graduated with high honors from Seattle Pacific University and received his M.B.A. from the Wharton Graduate School of Business. Investment Experience: 26 years. Alliance: 17 years. Location: New York.

**MARK H. BREEDON** — Senior Vice President of Alliance Capital Management L.P. and Director of Alliance Capital Limited. He is portfolio manager of the Southern Africa Fund, the Worldwide Privatization Fund, the Spain Fund, the Spanish Smaller Companies Fund and the Austria Fund. Prior to joining Alliance Capital, Mr. Breedon was responsible for the management of international equity portfolios for the First National Bank of Chicago. He had particular responsibility for investments in Continental Europe and the United Kingdom. From 1975 to 1979, Mr. Breedon worked in the Continental European department of Vickers Da Costa, initially as a research analyst and subsequently as manager. Mr. Breedon holds a B.A. with honors from Lanchester Polytechnic. Investment Experience: 22 years. Alliance: 13 years. Location: London.

**JEFFREY S. PHLEGAR** — Senior Vice President and Portfolio Manager. Mr. Phlegar joined Alliance Capital in 1993 from Equitable Capital. His responsibilities include formulating the daily portfolio management and risk decisions, in addition to supervising Alliance's High Grade portfolio team. Mr. Phlegar specializes in the management of high-grade corporate and mortgage related products. In addition, Mr. Phlegar has been responsible for the creation and distribution of a variety of innovative Structured Products and Structured Funds launched by Alliance Capital. While at Equitable Capital, he was responsible for managing high grade securities for regulated insurance entities. His prior background includes sale and distribution of mutual funds as an account executive at the Dreyfus Corporation. Mr. Phlegar holds an M.B.A. in Money Management from Adelphi University and an undergraduate degree in Business Finance from Hofstra University. Investment Experience: 13 years. Alliance: 11 years. Location: New York.

**DOUGLAS J. PEEBLES** — Senior Vice President and Portfolio Manager. Mr. Peebles is a member of the global fixed income portfolio management team focusing on global and global high yield portfolios as well as multi-market income portfolios. Prior to joining the global fixed income group, Mr. Peebles worked in the fund accounting as well as the tax-exempt department of Alliance. Mr. Peebles joined Alliance in 1987. He holds a B.A. degree in Accounting and

Political Science from Muhlenberg College and received his M.B.A. from Rutgers University. Investment Experience: 13 years. Alliance: 13 years. Location: New York.

**PAUL RISSMAN** — Senior Vice President and Portfolio Manager. Mr. Rissman joined Alliance in 1989. He received his B.A. and Ph.D. (anthropology) from the University of Pennsylvania and an M.B.A. from Columbia Business School. Prior to joining Alliance Capital, Mr. Rissman taught at Drew University and New York University. He is a member of Beta Gamma Sigma and a Chartered Financial Analyst. Investment Experience: 11 years. Alliance: 11 years. Location: New York.

**PETER ANASTOS** — Senior Vice President. Coverage: IBM Computer Networking, Internet, Software. Mr. Anastos rejoined Alliance in 1983 after three years with Frontier Capital, a firm in which he was a co-founder, and three years with Endowment Management and Research. Previously, he served in the former Boston office of Alliance for five years. He has analyzed the technology sector for most of his career and is the co-manager of the Alliance Technology Fund. He is also a member of the New York Society of Security Analysts, the Electronics Analysts group of New York and the Software Analysts Group of New York. Mr. Anastos received a B.A. from Boston University, and an M.B.A. from Columbia University. In 1991 and 1989, Mr. Anastos was named to the Institutional Investor Best of the Buy-side All Star Team and was mentioned again in 1996. Investment Experience: 31 years. Alliance: 21 years. Location: New York.

**GERALD T. MALONE** — Senior Vice President. Coverage: PC's/Peripherals, Workstations/Servers, Consumer Software, Database Software, Case Software, and Video Conferencing. Mr. Malone is also co-manager of the Alliance Technology Fund, ACM International Technology Fund, Alliance Variable Product Tech Portfolio, the ACM Strategic Investments – Technology Portfolio, the ACM Technology Hedge Fund and the ACM Technology Partners, L.P. Mr. Malone joined Alliance Capital in 1992 after 13 years as a technology research analyst at College Retirement Equities Fund. He is a member of the New York Society of Security Analysts and the Computer Industry Analysts Group of New York. In 1991, Mr. Malone was named to the Institutional Investor Best of the Buy-side All Star Team. He received his undergraduate degree from Manhattan College in 1976 and his M.B.A. from New York University in 1978. Chartered Financial Analyst. Investment Experience: 22 years. Alliance: 8 years. Location: New York.



**BRUCE K. ARONOW**- Vice President, Portfolio Manager. Prior to joining Alliance in 1999, Mr. Aronow was responsible for research and portfolio management of the small cap consumer sector at INVESCO (NY). He also held portfolio management duties for the consumer and the autos/transportation sectors since early 1997. He joined Chancellor in 1994 as a small cap analyst primarily focusing on autos/transportation, specialty finance and consumer-related companies. Previously, Mr. Aronow was a Senior Associate with Kidder, Peabody & Company for four years before joining Chancellor. Mr. Aronow holds a B.A. with a concentration in Philosophy and a minor in Economics from Colgate. He has served as a recent graduate member on the Board of Trustees of College University from 1990-1993.

Mr. Aronow is a Chartered Financial Analyst and a member of both the New York Society of Security Analysts and the Association of Investment Management & Research. Investment Experience: 10 years. Alliance: 1 year. Location: New York. Chartered Financial Analyst.

**3. Describe your process for monitoring the financial stability and performance of fund managers you propose employing, if applicable.**

This question is not applicable, as all of the managers associated with the proposed products are also employees of Alliance Capital Management L.P.

**4. Describe the asset allocation system you propose to use for CollegeBoundfund. Indicate what, if any, impact the proposed asset allocation system would have as it relates to the participants who are in the currently approved asset allocation system.**

The Alliance Capital investment management team has developed seven Age-Based portfolios, as well as two Equity portfolios and a Balanced portfolio for the CollegeBoundfund. The underlying investments of each portfolio consist of Alliance Capital mutual funds - each having its own stated investment objective and management style.

Our proposed asset allocation portfolios were constructed using a model program that is influenced by time horizon, objective and a diversified level of risk. These portfolios offer a limited number of funds, which have been carefully selected to offer diversification, maximize return and optimize administrative efficiency. Our models are optimized to deliver a very favorable risk/return profile. We believe that our proposed asset allocation models, over time, will provide competitive returns with reasonable risk levels associated with those returns.

Following are the proposed asset allocation models for the CollegeBound*fund*. In addition, Appendix B contains further portfolio details/characteristics of our proposed investment options.

**Age-Based Portfolios:**

**Target Asset Allocation**

<b>Beneficiary Age</b>	<b>Equity</b>	<b>Fixed Income</b>	<b>Cash</b>
<b>0-3 years</b>	100%	0%	0%
<b>4-6 years</b>	90%	10%	0%
<b>7-9 years</b>	80%	20%	0%
<b>10-12 years</b>	80%	20%	0%
<b>13-15 years</b>	65%	35%	0%
<b>16-18 years</b>	50%	35%	15%
<b>College</b>	40%	30%	30%

**Balanced Portfolio:**

Fixed policy benchmark of 60% equities and 40% fixed income.

<b><u>Category</u></b>	<b><u>Fund</u></b>	<b><u>Target</u></b>
Large Cap Growth	Premier Growth	35%
Large Cap Value	Growth & Income	20%
Mid Cap	Alliance Fund	5%
U.S. Government	U.S. Government Fund	20%
Corporate Bond	Quality Bond Fund	<u>20%</u>
		<b>100%</b>

### Aggressive Equity Portfolio:

We constructed an aggressive diversified equity portfolio utilizing all the major equity sectors, including large cap growth, large cap value, mid-cap growth, small cap growth, technology and international equity. Alliance recommends the S&P 500 Index as a benchmark for the Aggressive Portfolio. Seventy-five percent of the portfolio represents domestic equity and more than half of the portfolio represents large cap equities.

<u>Category</u>	<u>Fund</u>	<u>Target</u>
Large Cap Growth	Premier Growth	25%
Large Cap Value	Growth & Income	20%
Mid-Cap	Alliance Fund	10%
Small Cap Growth	Quasar	10%
Technology	Technology	20%
International	Worldwide Privatization	15%
		<b>100%</b>

### Conservative Equity Portfolio:

<u>Category</u>	<u>Fund</u>	<u>Target</u>
Large Cap Growth	Premier Growth	30%
Large Cap Growth	Growth & Income	35%
Small Cap Growth	Quasar	20%
International	Worldwide Privatization	15%
		<b>100%</b>

The investment management team assigned to the RIHEAA CollegeBound*fund* will review portfolio asset allocation periodically and re-balance the portfolios on an annual basis at a minimum, or more frequently as required by market conditions. Each portfolio will be rebalanced based upon its specified allocation policy guidelines. The re-allocation of Age-Based portfolios from one portfolio to the next will occur on a systematic predetermined basis.

Alliance Capital has formed a specific Investment Management Committee to oversee the investment products and asset allocation process. Chaired by Scott Sipple, Vice President and Director of Global Product Management, the Committee will regularly review portfolio manager performance, asset allocation targets and implement rebalancing as needed, based on market conditions (no less than annually). In addition, the Committee will make recommendations to the RIHEAA on investment product substitutions/additions, if necessary. Our Chief Investment Officer has appointed several senior research and quantitative analysts to serve on this Committee.

**5. Discuss how you will monitor and report fund performance.**

The proposed portfolios for the RIHEAA CollegeBound*fund* are comprised exclusively of Alliance Capital mutual funds. Tracking and reporting of fund performance for both the proposed products for the RIHEAA CollegeBound*fund* and the underlying individual Alliance mutual funds will be handled by our fund performance specialists at the offices of Alliance Fund Services.

Reports for participant accounts financial activity and/or positions can be provided in paper format or electronic data transmission on a daily, weekly, quarterly or as needed frequency. These reports would give account detail for all financial transactions, registration updates and summarize activity for a given period of time. The RIHEAA would also be able to access the proposed database directly through either the Internet or P.C. This access would also provide a variety of reports based upon user requests.

## **D. AUDIT CONTROLS**

- 1. Provide copies of audit opinions, business advisory letter, or management letter of your independent auditors specifically related to your management of 529 programs or similar programs.**

Alliance does not currently manage a 529 program. A copy of our SAS 70 is enclosed (as also requested with D.8. below), as well as an "Independent Accountants' Report" letter.

- 2. If you utilize internal audit staff to review the operation of 529 programs or similar programs, describe the internal audit organization. Include the size of staff and the nature of internal staff audits.**

Our Internal Audit Department is staffed with 18 employees. All of our systems and processes go through a risk assessment ranking process. This assessment and an evaluation of current business initiatives are taken into account when determining our annual audit plan. Major systems and processes are audited annually. Our audits focus on a review of existing controls and procedures, and detailed testing to ensure compliance with procedures. Controls and procedures are evaluated to ensure compliance with regulatory, contractual, and self-imposed requirements. Based on their findings, our audit staff will make recommendations. These recommendations require a response from the department manager having responsibility for the system/process. Our Internal Audit Department periodically reports their findings to the Mutual Fund Audit Committee (who in turn make a report to the Mutual Fund Board of Directors) as well as the Alliance Capital Management Board of Directors.

- 3. Describe how do you assure that 529 programs or similar program services are provided in accordance with proper industry standards, regulatory requirements, and the executed management agreement.**

Alliance focuses on the measurement of our operational performance, service levels and quality controls as an everyday part of our business. Our systems and processes are designed to enable compliance and performance to industry standards, regulatory requirements, and contractual obligations (including service level agreements). Similarly, we will implement procedures that will be in full compliance with section 529 of the IRC. Management reports are then utilized to ensure compliance on a daily basis. On a monthly basis, our reports are aggregated to a department level and reviewed by the senior officer team in our service organization. In this review process, planning and realignment of resources occurs to ensure that we are meeting and indeed exceeding our customer expectations and business obligations.

**4. Describe the process your organization uses to evaluate your internal controls and the ongoing monitoring of those internal controls.**

Part of this question is answered in D.2. and D.3. above which indicate that our Internal Audit Department and the management reports we have in place are both key elements in the monitoring and, in some respects, evaluation of our internal controls. As well, an independent audit firm conducts a Statement of Auditing Standards 70 Review on an annual basis with the primary focus being an evaluation of Alliance's internal control system. Other resources have been dedicated to this task as well. Our Operational Risk Management Team has 11 employees dedicated to daily tasks aimed at mitigating risk and processing improvements aimed at improving internal controls.

**5. Describe what internal control procedures exist, or will be implemented to ensure that the following data is valid: asset detail and transactions, asset allocation, fee calculation and payment, and performance information.**

All cash transactions go through a quality control review. Alliance historically processes transactions at an accuracy rate of 99.8%. All transaction activity will be aggregated and processed to the underlying mutual fund investments based on the model portfolio asset allocations. A worksheet will be maintained as a means to determine actual portfolio allocation, and will be used as a tool to ensure that the portfolio stays within its guidelines.

All fees will be calculated and paid based on average daily outstanding assets. Our system has the ability to calculate this amount and various reports are utilized to ensure the integrity of the data. Although Alliance did not factor revenue sharing into its fee structure described under Worksheet I-2: Fee Structure, Alliance would, at the direction of the RIHEAA, add and collect additional fees for the benefit of the program.

All of our unit price data is loaded to a system that warehouses historic prices and dividend and capital gain distributions for the purpose of providing same to interested parties as well as providing fund performance data on demand. On a daily basis, our fund accountants verify that the data updates were performed accurately. This system is audited annually by internal and external auditors who verify the validity of the data and review a sample of performance calculations to ensure their accuracy.

**6. Describe the audit processes you will implement them in relation to the participant's portfolio statements. Also, describe your reconciliation with participants and outside managers if used. Please describe how you would provide audited reports on all aspects of program operations.**

Alliance currently has a variety of statement streams that we support. We quality control all messages, date parameters, and other key data that is used to initiate production. For each statement stream we run an audit job that provides random statement samples for us to review prior to production. Additionally, we verify that statement production totals are in line with our expectations prior to releasing the statements to the print queue.

Alliance will work with RIHEAA to develop a comprehensive report package demonstrating our servicing of the CollegeBoundfund and will employ an independent auditor to validate the information provided therein.

**7. Describe what type of insurance and indemnification coverage will be in place to protect participants and RIHEAA.**

Alliance Capital has Fidelity Bond Coverage, and Directors and Officers / Errors and Omissions Coverage in place in the amount of \$25 million and \$50 million, respectively.

**8. If your firm obtained a Statement of Auditing Standards 70(SAS 70) report, briefly describe the nature of all errors and/or weaknesses that were discovered as a result of the SAS 70 report. Describe the steps that have been taken to correct the errors or otherwise improve the controls. Provide a copy of the SAS 70 report.**

The following exception items were identified as a result of the SAS 70 review. In addition, the actions taken to address each of the items are included as well.

Exception 1: Of 20 transfer transactions selected, 2 were not processed within three days of receipt.

Response 1: These items were delayed due to their being categorized improperly upon receipt and thus being misrouted. To address this, Alliance has conducted remedial training sessions.

Note: Alliance's policy is to complete 90% of transfers within 2 business days. The Securities Exchange Commission (SEC) regulations mandate that 90% of transfers must be completed within 3 business days. It is important to note that although the two transactions referenced were not processed within three days of receipt, Alliance remained in compliance with SEC regulations.

Exception 2: Of 4 manual time stamp machines tested, 2 were not accurate.

Response 2: Procedures to ensure daily testing of the stamp machines have been implemented.

Exception 3: Of 17 telephone conversations selected; 3 tape recordings were not available.

Response 3: Procedures have been put into place to ensure that all recorded lines are tested on a regular basis (typically monthly). In addition, our recording system has been upgraded as well.

Exception 4: Of 5 indemnification agreements requested for review, 4 were not provided.

Response 4: A review of this process revealed that the absence of these agreements was immaterial. An evaluation to determine whether these agreements will be required on an ongoing basis is pending.

Exception 5: Formal documentation was not provided by the authorizing manager to document AFS initiated program changes to the DST TA2000 system.

Response 5: Upon review, management concluded that the informal authorization process that existed at the time, and continues to exist, is sufficient.

Exception 6: Of 20 terminated AFS employees, 4 did not have their access privileges removed on a timely basis.

Response 6: Upon review, these were determined to be due to human error. The error occurred during a time of personnel transition. The importance of the timeliness of this process has been communicated to all parties involved.

Exception 7: Of 30 logical security profiles selected, 1 profile was found to have user privileges, as defined by AFS management, inappropriate to the job function.

Response 7: Procedures to review employees' logical access have been enhanced to increase the frequency of this review.

Exception 8: It was noted that Human Resources may not be notified of and/or does not always communicate terminations/resignations in a timely manner.

Response 8: The importance of the timeliness of this process has been communicated to all parties involved. Circumstances where a delay may be unavoidable are: if an individual decided last minute to accelerate his or her start date, the processing could occur after the event; if an unexpected or immediate transfer or termination occurred, the processing would occur after the event.

Exception 9: Of 20 separated employees selected, 2 were included in the TA2000 "Current Users List."

Response 9: Procedures to review employees' logical access have been enhanced to increase the frequency of this review.

Exception 10: Of 15 remote 401k providers selected, 3 had inappropriate access privileges and had an active profile despite no longer being an active remote provider.

Response 10: Procedures to review remote logical access privileges have been enhanced to increase the frequency of this review.



Exception 11: Global Windows NT password settings do not force password expiration.

Response 11: Alliance Capital has agreed upon Security Access Standards. A project is being undertaken to address the password requirements of the new Access Standards.

Exception 12: Of 15 "On-Request" jobs selected, 2 did not follow appropriate approval procedures.

Response 12: An approval and recordkeeping database has been created to address this item.

**E. ADMINISTRATION AND ACCOUNT SERVICING**

- 1. Describe your experience in individual account administration and record keeping. Include the number of years you have provided this service, the number of accounts for which you are currently responsible, the frequency and volume of individual transactions you process on a daily and weekly basis, and the approximate dollar value of such accounts.**

Alliance is a leader in the mutual fund industry and has 15 years of experience in individual investor account recordkeeping; portfolio accounting and custodial/administrative services. As the recordkeeper for millions of individual shareholder accounts (mutual funds, defined contribution plans and 401(k) plans) with mutual fund assets approaching \$200 billion and a commitment to technology which is unsurpassed, Alliance stands out as an industry leader in experience and technology.

Alliance Fund Services, is a wholly owned transfer agent subsidiary in the Alliance Capital group located in Secaucus, New Jersey and San Antonio, Texas, servicing over 5 million accounts for Alliance mutual fund shareholders and their financial advisors. AFS is the technological link providing Alliance Capital mutual fund shareholders and distributors with cost-efficient, high quality customer service and maintaining Alliance's position as a service leader in the highly competitive mutual fund marketplace. AFS has earned recognition by Dalbar (an independent mutual fund consultant) as a leading provider of service to its mutual fund customers.

In the processing of shareholder transactions and maintenance of shareholder accounts, AFS manually processes thousands of transactions on a daily basis with a multi-million dollar value. AFS also supports various automated system interfaces with banks, brokerage firms and trade processing clearing houses that transmit over ten thousand transactions daily with values over 100 million dollars.

- 2. Describe the procedures you will employ for the receipt of funds and their subsequent assignment within the asset allocation pool. Include the timing of such transactions and allocations.**

Alliance will offer participants several options by which they can contribute to the program. Program participants will be able to make:

1. Lump sum payment(s) by check or wire transfer direct to the program.
2. Periodic (monthly or bi-monthly) through direct debit (ACH transfers) from a checking or savings account (Automatic Investment Plans).
3. Through payroll deduction.
4. Telephone purchases – Participants who establish accounts with this feature can, through the program's toll free number, authorize wire payments into the program from their checking and savings accounts.
5. Minimum contribution accepted will be \$250 to establish a new account; \$50 for ongoing mail-in contributions; no minimum for ongoing electronic contributions (e.g. ACH).

All contributions received in good order will be credited to the contributing participant's account same day at that night's closing price for the participant's applicable investment. Participant accounts will be maintained at the asset allocation portfolio level. All contributions will be aggregated daily and disbursed across the underlying investment options based on the target asset allocation model created for each portfolio in the program.

- 3. Describe in detail how your firm will ensure that any transition from the current vendor and/or sub-contractor will avoid any negative impact on the current assets of the participants.**

Alliance Capital will work with the RIHEAA and Educational Finance Group, Inc. to develop and implement procedures for a smooth transition of participant assets. Working with the RIHEAA and EFG, we will design a customized Implementation Plan (see J.2.), communicate the Plan's agenda, and assign responsibilities to all parties. We anticipate playing a lead role in managing the entire transition process with minimal involvement from the RIHEAA.

- 4. Describe the process for communicating with the investment managers you propose to use in serving CollegeBoundfund participants, if applicable.**

We are proposing asset allocation portfolios constructed of Alliance Capital mutual funds. As such, the RIHEAA has the advantage of an existing and direct relationship with our portfolio managers.

- 5. Discuss the procedures you suggest using for redemption of funds. Detail how these procedures will vary on the basis of State and Federal legislation, as well as on the basis of whether the withdrawal is a qualified or unqualified withdrawal.**

To make qualified withdrawals (all payments including payment of reimbursables) AFS will supply participants with easy to use "Withdrawal Request Forms" which require authentication by the participant and proof of disbursement.

Payments for tuition and on-campus room and board are made directly to an eligible educational institution (by EFT or check) or to an eligible educational institution for the benefit of a designated beneficiary.

The distribution is made after the designated beneficiary submits substantiation to show that the distribution is a reimbursement for qualified expenses. All approved requests will be processed on the day of receipt and payments will be issued (by check or EFT) on T+1.

Distributions for nonqualified expenses will be subject to a withholding penalty. Penalty percentages will be hard coded into the system and deducted from the principal amount of the withdrawal.

All procedures will continually be monitored for compliance with IRC and state regulations. Operational procedures will be changed in reaction to any changes in statutes or regulations at any jurisdictional level.

**6. Discuss the various ways you intend to utilize the CollegeBoundfund web-site for the purposes of recruitment, retention, providing information to participants, and as a general marketing tool.**

Alliance Capital, has a dedicated team of individuals who work solely on the development and maintenance of our Internet strategy. Our Internet marketing strategy for the CollegeBoundfund will be developed including maximizing links to appropriate web-sites to increase accessibility and awareness of program features and enrollment procedures. This would include, but not be limited to, links to the web-sites of the Rhode Island Department of Elementary and Secondary Education, as well as the Rhode Island Education Exchange. Alliance will also prominently position the Program on its own web-site which is viewed by approximately 6 million shareholders nationwide.

We propose the following for the CollegeBoundfund web-site:

- Recruitment – We will work with the CollegeBoundfund staff to design web pages that educate participants about the CollegeBoundfund, offer online enrollment, college savings calculators and investment information.
- Retention – Once enrolled, participants will have access to their accounts to view information, request statements and conduct transactions. Additionally, participants will be able to view investment performance and related investment data. The web-site will provide participants with modifications and updates to the program.
- Providing information to Participants – The CollegeBoundfund web-site will be a repository of information about the program including, but not limited to, program highlights, contacts, advertisements, and comprehensive investment information. Participants can view all account information online.
- General marketing tool – As mentioned, the CollegeBoundfund web-site will be a major marketing tool in the promotion of the program. As part of the overall marketing plan, we expect all aspects of the program to be available on the web-site and intend to utilize the web-site heavily in the development, promotion and ongoing maintenance of the program.

**7. Describe how you propose to accept and process applications, your experience and ability to process applications, to establish and maintain individual accounts and to ensure compliance with Federal and State legislation.**

Alliance will provide participants with customized application forms that will include dedicated P.O. Box, overnight and express mail address information for the two AFS Regional Processing Facilities. All completed applications will be scanned into a document imaging system, reviewed for compliance with plan contribution limits and processed on the day of receipt. Initial contributions will also be processed on the day of receipt. Both the new account and initial transaction will be reviewed post processing to ensure that all information was established correctly on the recordkeeping system.

AFS processes over 300,000 new account applications annually and has supported daily volume peaks of over 4,000 processing items. AFS currently establishes multiple types of individual investor accounts including retail investment, Traditional, Roth, and Education IRA's and various qualified plan accounts including 401(k), 403(b)(7), Simple IRA, money purchase and profit sharing plan accounts.

Through the use of document imaging and electronic work queues, AFS ensures that all transactions on both new and existing accounts are completed in compliance with SEC regulations and in accordance with AFS internal quality standards.

AFS' system would be programmed to ensure compliance with section 529. The overall program design, from the creation of application forms to detailing of participant account records is executed using Section 529 and Rhode Island's specific rules and regulations as a template. To ensure compliance with Section 529 and the Act, AFS will establish the following controls:

1. Establish minimum/maximum contribution limits;
2. Hard code maximum contribution limits into various edit fields on the program's recordkeeping systems;
3. Electronically flag within 24 hours any accounts that exceeds the maximum contribution allowed under the program; and
4. Notify participants in writing within five business days of discovery that they have exceeded the maximum investment level and that they have six months in which to transfer excess contributions to another beneficiary's account before having to take a mandatory refund of excess contribution (including earnings) and pay a penalty.

**8. Describe how do you propose to record and report transactions within your system, to the participants, and to the appropriate administrative entity (RIHEAA, SIC).**

AFS's recordkeeping platform, the DST TA 2000 Shareholder Accounting System, is the most functionally rich recordkeeping system available today. The TA 2000 Shareholder Accounting System which supports over 300 fund options and transaction codes, both which are maintained on line, allows Alliance to define a program's processing rules according to its unique needs and requirements. The DST TA 2000 Shareholder Accounting System is the same recordkeeping system used by TIAA-CREF in the servicing of other states Section 529 Plans.

Reports for participant accounts financial activity and/or positions can be provided in paper format or electronic data transmission on a daily, weekly, quarterly or as needed frequency. These reports would give account detail for all financial transactions, registration updates and summarize activity for a given period of time. The costs to support electronic data transmissions would be only what hardware and software is required retrieve this data for a mainframe or P.C. No cost would be associated with the frequency or the telecommunications required to support the data transmissions. The RIHEAA would also be able to access the participant accounts database directly through either the internet or P.C. This access would also provide a variety of reports based upon user requests.

## **F. PERFORMANCE REPORTING**

- 1. Describe your ability to prepare account statements and reports, and the frequency of such reports. Your response should recommend any reports, statements, or other vehicles that will help the participants of the program understand the current status of their accounts. Indicate what effect the implementation of any recommended reports will have on the fee structure. Please see Scope of Services, Section b, Account Servicing and Reporting, to review minimum requirements.**

Alliance will provide a quarterly participant statement. This statement will be a customized format to include an RIHEEA quarterly message (if desired), account transaction detail and beginning and ending participant fund balance for the period. In addition to a quarterly statement, a confirmation statement will be sent for each contribution in the participant's account. Statements will be mailed no later than (5) five business days following the quarter-end (an Alliance standard). Statements via the internet (electronic media) are currently in design and will be beta tested this summer. This statement option will be available to the RIHEEA participants this fall.

Through the use of cutting edge technology, Alliance can design, customize and produce account statements and confirmations that meet your specific requirements. Alliance is fully committed to helping the RIHEEA make the State of Rhode Island's Section 529 Plan a highly competitive product versus other states which already offer such plans.

- 2. Describe your ability to prepare program total reports, and the frequency of the availability of such reports. Your response should recommend any reports, statements, or other vehicles that will help RIHEEA understand the current status of the program. Indicate the effect, if any, the implementation of reports will have on the fee structure.**

Reports for participant accounts financial activity and/or positions can be provided in paper format or electronic data transmission on a daily, weekly, quarterly or as needed frequency. These reports would give account detail for all financial transactions, registration updates and summarize activity for a given period of time. The costs to support electronic data transmissions would be only the cost of the hardware and software required to retrieve this data for a mainframe or P.C. No cost would be associated with the frequency or the telecommunications required to support the data transmissions. The RIHEEA would also be able to access the accounts database directly through either the Internet or P.C. This access would also provide a variety of reports based upon user requests.

Alliance focuses on the measurement of our operational performance, service levels and quality controls as an everyday part of our business. This provides for a wide spectrum of customer service reports from AFS will provide in-depth account details ranging from financial activity volumes to average speed of answer of participant inquires into our call centers. Monthly distribution of these reports to the Tuition Trust can either be in a report format or an electronic file.

- 3. Discuss your procedures for posting transactions to participant accounts, and how they will be reflected in reports to both the participant and RIHEEA.**

Information regarding the posting of transactions is provided in E.8. and reporting information is included with the answers to F.1. and F.2.

- 4. Describe your ability to provide performance reports to participants via the CollegeBoundfund web-site.**

Alliance utilizes the Internet and our web-site extensively for communication with customers, including reporting our investment performance results. We can easily report investment performance on the CollegeBoundfund web-site including:

- the investment options' overall performance
- the underlying mutual funds' performance
- the related benchmarks' performance

In addition, we can report further data on the investment options, such as asset allocation percentages, market commentaries, etc. Note also that we can link our Alliance Capital site to the CollegeBoundfund site to provide more detailed underlying mutual fund information, if the RIHEEA desires. We will work with the RIHEEA staff to develop appropriate reports for the benefit of the program and its participants.



## G. MARKETING AND PROMOTION

1. Provide an overview of your plan for marketing and promoting the program. Within your response, describe your marketing plans, both in-state and nationally, and what steps will be taken to coordinate these efforts.

Alliance has the internal resources and along with Dr. Mazareas the knowledge base to successfully market the *CollegeBoundfund* within Rhode Island, New England and nationally. We recognize, however, the unique marketing challenges facing RIHEAA as we attempt to reposition and communicate the new program features and options available to the citizens of Rhode Island. Given the program's history, we are recommending an aggressive, far-reaching and comprehensive marketing plan, similar to a new product launch strategy.

Alliance's marketing concept objectives and strategies are detailed in Appendix C, our proposed Marketing and Public Relations Plan for the *CollegeBoundfund*.

### The primary objectives are:

- To maximize awareness of, and enrollment in, the new and redesigned *CollegeBoundfund*.
- To position Rhode Island's program as the most customer responsive and best college savings program (public or private) available in the national market place today.
- To minimize in-state consumer confusion by creating a strategy that clearly communicates the new features, new program manager, long-term stability and numerous benefits and options of the redesigned program.

### The primary strategies include:

- To leverage and build upon the awareness, marketing expertise, consumer and institutional relationships that the Treasurer's Office and the RIHEAA Staff has established over the many years of providing college financing for Rhode Island residents.
- To utilize a broad and aggressive mix of media, public relations, community-based and promotional activities.
- To utilize Alliance's extensive financial advisory service network of 368 professionals located in 40 cities/towns throughout Rhode Island (an additional 40 offices in the Providence area) to promote the program and generate enrollment through (a) personal one-on-one financial planning sessions for new clientele and Alliance's current Rhode Island-based clientele that hold more than 10,000 mutual fund accounts totaling more than \$140 million in assets, (b) jointly-sponsored regional seminars to civic, school, and business groups, and (c) initiating communications with new customers through the financial advisory service network.

- To maximize the use of new technology including Internet marketing, web-based videoconferencing and online enrollment.

### **In-State Marketing**

Alliance proposes a far-reaching and comprehensive in-state marketing plan in order to make all citizens aware of the enhanced features and investment choices of the redesigned CollegeBoundfund. To reach all demographic segments of the Rhode Island market, the marketing plan consists of the following elements:

**Advertising Campaign** – A substantial paid media and advertising campaign utilizing television, radio, print, outdoor transit with both a broad and targeted market strategy (non-traditional investors) will be implemented following RIHEAA approval. The goal will be to immediately and aggressively make citizens aware of the redesigned Program availability, features and benefits. By the end of year one, we would anticipate that 99% of the Rhode Island targeted audience will have seen and or heard a program message approximately 21 times.

**Public Relations** - A multi-faceted and aggressive on-going public relations strategy - See Appendix C. The public relations effort will maximize the communication opportunities created by the launch of the new and redesigned Program, and increase awareness and interest on an on-going basis. Alliance will work with the RIHEAA's staff to assist in the development and execution of this effort.

**Community Outreach Program** – We would utilize and expand relationships with state officials, public and private school officials, professional and educational associations, churches, hospitals, libraries, leading employers, and financial and legal advisor groups to promote awareness of the integrated program. Elements will include direct mail, on-site seminars, joint promotional activities, sponsorships, and an expansion of the Authority's existing community outreach activities, and the establishment of an Alliance-sponsored Speakers Bureau.

**Internet Marketing** – An Internet marketing strategy will be developed including the use of banner ads. Links to appropriate web sites will be maximized to increase accessibility and awareness of program features and enrollment procedures (for example links to Department of Education and Rhode Island EducationExchange web sites). Alliance will prominently position the Program on its Web site, which is potentially viewed by approximately 6 million shareholders nationwide.

**Alliance Distribution** – Alliance would mobilize its network of more than 368 Rhode Island financial advisors to personally contact Alliances' existing customer base, and initiate sales efforts to new customers through telemarketing, financial seminars and direct mail.

The following is the projected in-state marketing budget we are planning if enrollment volume develops as anticipated.

<u>Contract Year</u>	<u>Projected In-State Marketing Support (\$ millions)</u>
Year One	\$1.1
Year Two	0.6
Year Three	0.6
Year Four	0.6
Year Five	0.6
<b>Total</b>	<b>\$3.5 million</b>

### National Marketing

Alliance anticipates fully integrating the Rhode Island Savings program into its array of investment and savings products that are offered nationwide. Currently Alliance serves 6 million investors with mutual fund investments, and long-term savings programs, including financial plans for college and retirement savings. In addition, millions of Americans participating in many of the nation's largest pension plans know Alliance as their retirement savings money manager.

Our national marketing strategy would be implemented in a similar fashion to the Rhode Island dedicated effort and include a combination of direct marketing communications and personal consulting activity provided through our substantial nationwide network of financial advisors, totaling nearly 80,000. A sampling of activities would include cross marketing to existing Alliance customers; training and marketing through our financial advisor base to reach existing and new customers -- including seminars and personal guidance; national marketing; direct mailing and public relations activities to promote the Rhode Island program as "America's Best College Savings Plan."

Alliance would consider the Rhode Island CollegeBound*fund* a significant addition to its product line and as such, would receive commensurate financial support and sales/marketing priority. Alliance is budgeted to spend more than \$160 million on national sales and marketing support for all its mutual fund products in 2000.

The following is the projected annual marketing spending which we are planning if volume develops as anticipated. These projections are based on Rhode Island college savings program assets exceeding \$3 billion in Year 5. A significant portion of these expenditures would be dedicated to Alliance sales force and financial advisor compensation.

<u>Contract year</u>	<u>Projected National Marketing Support</u>
Year One	\$3.9 million
Year Two	\$5.4 million
Year Three	\$5.8 million
Year Four	\$7.3 million
Year Five	\$8.4 million
<b>Total</b>	<b>\$30.8 million</b>

Alliance, therefore projects an additional \$30.8 million in marketing dollars over the life of a proposed five-year contract, based on volume developing as anticipated.

Alliance intends to measure the effectiveness of the national marketing effort in addition to measuring the success of the Rhode Island effort. All results will be shared with the RIHEEA. Proposed assessment for the marketing effort will include toll-free call tracking, sales activity tracking, periodic consumer feedback through surveys and focus groups. The findings of this research will assist us in measuring the marketing effectiveness, program awareness and understanding, as well as provide demographic participation and satisfaction levels at both the state and national levels. We propose a semi-annual formal review with the RIHEEA as well as interim monthly updates on marketing strategies and results.

2. **Provide certification that, neither your firm, nor any subsidiary thereof, is under contract with another state for exclusive national marketing rights of a Qualified State Tuition Program, or that your firm will be clear of such contractual obligation by July 31, 2000. Proposals that fail to provide such certification will not be considered.**

Alliance, hereby, certifies that neither it nor any of its subsidiaries is currently under contract to manage another state's Qualified State Tuition Program and has no exclusive national or other marketing obligations of such a program.

3. **In your proposal, confirm that your firm will endorse and continue to utilize the program name *CollegeBoundfund*.**

Alliance confirms that it will continue to utilize and endorse the program name *CollegeBoundfund* until RIHEEA elects to change the name of the program.

4. **Indicate your projections for participant enrollment over the next 1, 3 and 5 years. Within your response, provide your projections for growth, both in-state and nationally. Indicate any additional programs that could enhance the appeal of the program, and your view as to any legislation that would be necessary for such a complementary program to be offered.**

We believe that the Program we propose will outperform most other state programs, specifically by providing investment options that appeal to all citizens regardless of income level and risk tolerance. The *CollegeBoundfund* will be more attractive than any other state college savings programs available in the national marketplace today. Our projections for growth are ambitious, given our national commitment to the effort and our belief in the attractiveness of 529 programs.

<u>Program Growth Projections</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
New Accounts	20,000	40,000	50,000	75,000	100,000
Rhode Island	2,000	3,000	4,000	4,500	4,500
Out-Of-State	18,000	37,000	46,000	70,500	95,500
Cumulative New Accounts Opened	20,000	60,000	110,000	185,000	285,000
Average Opening Balance	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
New Assets (\$Mil)	\$200.0	\$400.0	\$500.0	\$750.0	\$1,000.0
Withdrawal Rate (%)	0%	1%	3%	5%	10%
Withdrawn Assets (\$Mil)	\$0.0	\$2.0	\$19.4	\$64.5	\$229.9
Add-On Rate (%)	0%	15%	15%	15%	15%
Add-On Assets (\$Mil)	\$0.0	\$30.0	\$97.2	\$193.6	\$344.8
Appreciation @ 10% (\$Mil)	\$0.0	\$20.0	\$64.8	\$129.1	\$229.9
<b>Yearend Assets (\$Mil)</b>	<b>\$200</b>	<b>\$648</b>	<b>\$1,291</b>	<b>\$2,299</b>	<b>\$3,643</b>
<b>Average Assets (\$Mil)</b>	<b>\$100</b>	<b>\$424</b>	<b>\$969</b>	<b>\$1,795</b>	<b>\$2,971</b>

The above projections are based upon the CollegeBoundfund offering the additional investment options described earlier.

5. **Given Rhode Island's demographic profile, and the alternative college savings vehicles in the marketplace, describe how you would target the marketing program to attract the greatest numbers of investors. Also, describe how you would identify those investors who would most benefit by participation in the State plan. Specifically, in your opinion, indicate to whom our plan would most appeal, given our demographics and federal and state law. Indicate if there are any investors you would direct to other savings vehicles offering them greater benefits. Discuss the minimum contribution levels you would propose, and how these proposed levels might affect the number of participants in the program.**

Our strategy to attract the greatest number of investors is threefold:

1. As detailed above we will execute a comprehensive and far-reaching marketing plan that will reach all demographic sectors and income levels within the State of Rhode Island with a variety of program messages encouraging them to begin saving for college through the CollegeBoundfund. We anticipate 99% of targeted Rhode Island audience will have seen or heard a program message approximately 22 times.
2. We have structured our investment options to provide choice and appeal to a broad range of investors regardless of income level, risk tolerance, time horizon and age. Market research has demonstrated that a large segment of the population saving for college view existing state savings programs as too conservative. As you are aware, several national financial journals and financial professionals have similarly recommended against investing in state sponsored programs primarily because of their conservative asset allocations. As a result, a substantial segment of the investing public in Rhode Island and nationally is denied the tax and estate planning benefits available under Section 529. Alliance's proposed investment options will

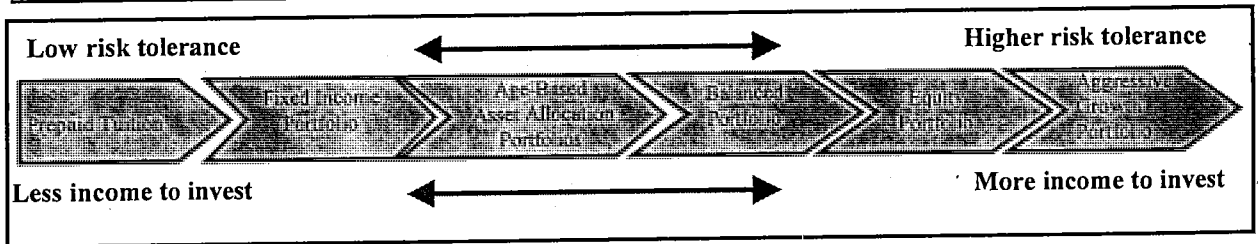
appeal to those investors. Through a targeted marketing strategy and Alliance's extensive Rhode Island financial advisory network, the new savings program will generate interest and participation from this here-to-fore underserved market segment of investors.

3. As a matter of sound public policy designed to encourage maximum participation, Alliance is proposing a \$250 minimum investment to open a new account, no annual administrative account fee (for Rhode Island residents), and management fees that average approximately 0.97% annually (for Rhode Island residents). Subsequent contributions are proposed at a minimum \$50 for mail-in checks and no minimum for electronic contributions (e.g. ACH). It is our hope that the attractive low contribution minimum and low fees will generate increased levels of participation from nontraditional investors.

Given the experience of the RIHEEA's staff, Alliance would rely heavily on the staff's knowledge of cost-effective target marketing segmentation techniques.

As summarized in the chart below, we believe our proposed program is suitable for all income levels and risk tolerances. If, however, someone is risk adverse, we would not recommend this program and encourage a CD or money market investment in a local banking institution.

**Sample Risk and Income Level Scenarios**



Finally, the plan would have great appeal to individual investors and financial/legal professionals involved in estate planning. Alliance, through its general marketing strategy and financial advisors network, will promote this important benefit.

6. Describe how you would maximize free or low-cost publicity, and your experience with such marketing. Please describe what other State, private, and non-profit resources you would include in the marketing campaign. Suggest several possible specific scenarios for that involvement.

Ongoing free and low cost publicity is a critical element in the successful year round marketing of a college savings program. Although Alliance has no prior experience in marketing college savings programs, it does have a significant advertising and public relations staff. In addition we would engage a Rhode Island based public relations staff to work with RIHEEA staff to implement an aggressive public relations campaign and strategy. Please see Appendix C for a detailed public relations and community outreach plan.

As a result of Dr. Mazareas' national leadership role in the college savings plan network (elected Chair, Vice Chair, Executive Committee Member) and his development of the management training institute, he is most familiar with a variety of successful and effective free public relations strategies utilized in states around the country. As outlined in Appendix C, the goal would be to utilize all possible state, private and nonprofit resources. Four specific scenarios include:

- 1) Working closely with the Rhode Island Department of Elementary and Secondary Education to promote the CollegeBound*fund* program to parents throughout the state by:
    - a) having Peter McWalters, the Commissioner, co-sign a CollegeBound*fund* brochure which would be distributed through the school system to the parents, b) including CollegeBound*fund* information (and link) in appropriate educational web-sites such as the Rhode Island Educational Exchange and the Department of Elementary and Secondary Education.
  - 2) Establishing a Speakers' Bureau consisting of Alliance Financial Advisors and RIHEAA staff and others to provide onsite regional seminars to school districts, major employers and other appropriate groups. A concerted effort will be made to build alliances with business groups and promote corporate sponsorships and affiliations.
  - 3) Establishing promotional activities and relationships with Rhode Island day care centers, doctors and hospitals by offering a monthly scholarship lottery to newborns. This would generate parental interest and media coverage.
  - 4) Maximize the use of state officials in promoting the CollegeBound*fund* program. Legislators in each legislative district can host public relations events and seminars. In addition the Governor, Treasurer and other leaders should include CollegeBound*fund* in their policy addresses and speeches, demonstrating what the state is doing to help families save for college.
- 7. Describe what type of strategic plan you will have in place for the protection of the participants if the CollegeBound*fund* should be rendered non-competitive by further changes to Federal tax law?**

As one of the nation's largest publicly-traded asset managers, Alliance is committed to disclosing information and informing investors about potential risk. For the Rhode Island College Savings Program, we would provide a detailed program brochure outlining risks associated with each investment and the potential impact resulting from new IRS regulations and/or Federal tax law changes.

Alliance will work with personnel of the RIHEAA to insure that the appropriate documents describing the Savings Program disclose the associated potential risks. This disclosure will be with due regard for the requirements of applicable securities laws as well as Municipal Securities Rulemaking Board rules. This disclosure will be prepared with the assistance of

our regular counsel, Seward & Kissel LLP, which also acted as counsel for New York State in connection with the implementation of that state's "College Choice Tuition Savings Program".

If the Federal tax law changes Alliance and RIHEAA would develop an appropriate strategy that would minimize the impact on investors in so far as possible.

- 8. The United States Congress recently enacted Education IRA savings accounts that provide many of the same tax benefits as Qualified State Tuition Programs. Describe the products that you currently offer to State of Rhode Island residents that will compete with the State's college savings program and describe whether your firm will likely offer such IRA products to Rhode Island residents. Indicate whether you would agree to refrain from directly or indirectly offering any competing product for so long as you are providing any services to the State. Indicate if the same would be true if the education IRA annual contribution limit is raised to \$2,500, as is being proposed by Congress.**

Alliance is a diverse investment company that offers a wide range of investment products such as Individual Retirement Accounts, which like any other investment account, might be used to pay for college. Although Alliance does offer an Education IRA, we do not aggressively market it and would recommend consumers invest in a 529 program. As a leading mutual fund company, we must make Education IRAs available as an accommodation product. We believe the long-term profitability of the *CollegeBoundfund* would strongly motivate Alliance to promote it aggressively versus other education savings vehicles.



## H. INVESTMENT STRATEGY AND CONTRACT TERMS

1. Describe your proposed investment strategy for the program, subject to the approval of the SIC, and how such an approach achieves the objective of maximizing returns while preserving capital for the contributions made by individuals to the program. Within your response, compare how your proposal meshes with the existing strategy, what impact there would be on current participants, and what managers and sub-contractors you propose utilizing.

We have provided an in-depth discussion of our proposed asset allocation strategy in Section C – Asset Management. Following is a detailed description of our proposed investment strategy.

### Investment Objective

Alliance Capital investment objective for the RIHEAA CollegeBound*fund* Program seeks to maximize returns and preserve capital above through a distinct and consistent style of investing. Alliance does not emphasize market timing as an investment tool but instead emphasizes long-term objectives, generally remaining fully invested.

Alliance Capital recognizes that investment results achieved for clients are the key to profitability and growth, and we believe that investment results are ultimately a direct function of the quality and commitment of our management and research capabilities. Our mission is to deliver value-added products and superior investment performance. We are committed to understanding our clients' needs and providing thoughtful solutions by harnessing our firm's significant resources.

### Equity Investment Strategy

Alliance Capital's equity strategy is to invest in securities of companies we believe are best positioned in their respective industry segments. We look for companies experiencing strong earnings and growth, coupled with superior management teams and business models. We also seek out companies that have strong relative positioning within their specific industry segments. We assess these factors, and then weigh the factors relative to the valuations associated with any individual company, both on an absolute and relative basis. We continuously seek the proper balance between fundamental and valuation characteristics.

Alliance believes that fundamental research-driven stock selection will produce superior investment performance results. We employ a growth style of investment management and our investment strategy emphasizes bottom-up stock selection. Industry exposures are a by-product of individual stock selection. The relative attractiveness of each investment in our universe is assessed from both qualitative and quantitative perspectives. Our analysts provide qualitative ratings and rate each stock relative to other stocks under their coverage. Ratings are based on expected performance over a 12-month time horizon. Based on an evaluation of prospective growth and price, analysts assign ratings to stocks such that 1 = Buy, 2 = Hold, and 3 = Sell. The relative performance of analyst ratings within their universe is a material influence on their overall compensation.

### Fixed Income Investment Strategy

Alliance Capital's fixed income approach seeks to add value by concentrating on sector allocation decisions while minimizing the impact of interest rate volatility and foreign exchange volatility. Key highlights include:

- Emphasis on the undervalued sectors of the market, the undervalued securities within each sector and the credit quality (upgrade potential)
- De-emphasis on interest rate "bets" and currency "bets"
- Manage for total returns (yield plus price appreciation)
- Control risk through a disciplined team-oriented approach

We believe our fixed income sector rotation process will continue to outperform its benchmark by investing in undervalued sectors and securities and, as they become more fully valued, sell into price strengths and "rotate" to more compelling opportunities.

We have designed our fixed income sector rotation process to provide returns in excess of the benchmark with lower volatility. Given that possible excess returns are largely a function of prevailing interest rates and interest rate movements, it is most accurate to express our expectations in terms relative to the benchmark (Lehman Aggregate). Depending on client guidelines, we would expect to add 10 - 20% above the benchmark per annum over a full market cycle (3 - 5 years). Hence, using 20% incremental return as an example, if the benchmark returned 10% we would expect our returns to be 12%. However, if benchmark returns were 5%, our return expectation would be 6%.

### International Equity Investment Strategy

Alliance's international investment approach employs a research-driven, "bottom-up" stock selection process, based upon industry analysis within various countries/regions. Industry exposures tend to be a by-product of individual stock selection.

We are proposing the Alliance Worldwide Privatization Fund for the CollegeBound*fund* program. The Alliance Worldwide Privatization Fund specifically seeks to take advantage of investment opportunities that are created by the privatization of state enterprises in both established and developing economies. We believe the major global equity investment theme is the move from managed economies to liberal capitalism and that this process will continue for a long time. The Worldwide Privatization Fund offers the opportunity to invest in the global trend towards free markets and increased competition.

Our investment objective is to outperform relative benchmarks and peer universes over time, with lower relative volatility. We do not market time and our stock selection reflects those privatized companies exhibiting the best combination of growth and value. Historically (since Fund

inception 6/2/94), investing in privatized businesses has proven to outperform indices over time, and we anticipate no change in these opportunities going forward.

### Asset Allocation Review Process

As described under Section C - Asset Management, Alliance Capital has a formal investment management review process. Our Investment Management Committee chaired by Scott Sipple, Vice President and Director of Global Product Management, will regularly review portfolio manager performance, asset allocation targets and implement rebalancing as needed, based on market conditions (and no less than annually). On an "as needed" basis, and at least semi-annually, we hold Investment Management Committee meetings to determine if the asset allocation mix continues to be prudent. In addition, the Committee will make recommendations to the RIHEAA CollegeBoundfund on investment product substitutions/additions, if necessary. Adjustments to the portfolio will be determined in conjunction with the RIHEAA CollegeBoundfund staff. In summary, our proposed Age-Based asset allocation strategy meshes with the CollegeBoundfund's existing strategy and therefore, will have minimum impact on current participants.

- 2. Describe the investment vehicles you would propose utilizing, and provide background on past performance and management responsible for such investment vehicles. Where possible, provide rate of return information those vehicles have generated for other college savings programs or similar programs.**

As previously stated in Section C - Asset Management, Alliance is proposing seven age-based portfolios, plus three additional asset allocation portfolios for the RIHEAA CollegeBoundfund. All proposed investment options are carefully constructed, with Alliance Capital mutual funds, taking into account time horizon, objective and a diversified level of risk that is acceptable to the RIHEAA CollegeBoundfund limits. These underlying funds have been carefully chosen for their investment objectives, excellent historical returns, diversification qualities and fee structures. The Portfolios are constructed in such a way as to promote the strongest possible returns given the aforementioned constraints.

Below is a description of the underlying mutual funds utilized in the proposed portfolios for the CollegeBoundfund, followed by a summary of the proposed portfolios and historical performance.

### Equity Funds

#### **Alliance Growth & Income Fund (Large Cap Value)**

- Seeks to provide income and capital appreciation through value-oriented investments in common stocks of quality companies.
- Stock selection is based on a company having a price-to-earnings- ratio less than the S&P 500 and a dividend yield greater than the S&P 500, as well as greater earnings prospects than the S&P 500.
- The fund does not make sector or market bets, but instead emphasizes intensive, bottom-up research and careful stock selection.
- The fund is managed with an eye toward maintaining a defensive dividend yield and price-to-earnings ratio, a fully invested posture, and a high degree of sector and industry diversification.

#### **The Alliance Fund (Mid Cap Core)**

- Seeks long-term growth of capital and income by primarily investing in common stocks across the capitalization spectrum, with a strong emphasis on mid-capitalization stocks.
- The Fund attempts to identify the most rapidly growing companies in this mid-cap range, and to buy and them at attractive valuation levels.
- The Fund may invest in other types of securities such as convertible securities, investment grade securities, U.S. Government securities and high quality, short-term obligations such as repurchase agreements, certificates of deposit, etc.

#### **Alliance Premier Growth Fund (Large Cap Growth)**

- The portfolio typically invests in selective stocks of high-quality, larger U.S. companies.
- The fund combines in-depth fundamental research on a company-by-company basis with opportunistic trading around core portfolio positions.
- The fund emphasizes an earnings driven approach, which identifies and invests in companies demonstrating 2-3 year future relative earnings strength at a reasonable valuation.
- The portfolio typically holds a more concentrated position where the favored 25 stocks represent 70% of the total portfolio. The managers also add and trim core positions based on market weakness or strength, assessing the optimal price range for each stock.

### **Alliance Quasar Fund (Small Cap Growth)**

- Seeks growth of capital by investing in small companies that offer the potential for faster-than-average earnings growth in both growth and cyclical industries.
- A bottom-up fundamental research approach focuses foremost on a company's individual merits rather than economic conditions. Also, there is a requirement for a strong and close working relationship with the senior management of the companies under consideration.
- Stocks of companies that are selected have demonstrated the ability to generate earnings per share growth of at least 15-20% per year over the next 3-5 years.
- The fund buys stocks of smaller quality companies that have strong, experienced management teams, quality products selling at reasonable prices and dominant market share with the potential for faster than average growth.

### **Alliance Technology Fund**

- Seeks out companies expected to benefit from technological advances and improvements (i.e., companies that use technology extensively in the development of new and improved products and processes).
- Invests in companies that Alliance Capital believes are rapidly growing and reasonably priced.
- Employs a research-driven method of stock selection, utilizing the vast resources of Alliance's position in technology stocks.
- Due to inherent technology stock volatility, strong emphasis is based on those companies who are most dominant in their industry (wherever possible and valuations are reasonable).

### **Fixed Income Funds**

#### **Alliance Bond Fund: U.S. Government Portfolio**

- Seeks primarily to maximize income over the long term; secondarily, attempts to increase its capital through appreciation of its investments.
- The fund pursues its objective by investing at least 65% of its total value in U.S. Government securities. The fund may invest the remaining 35% of its total value in assets in non-U.S. Government securities, including mortgage related and asset backed securities.
- The fund will not invest in any security rated below BBB or Baa.

### **Alliance Quality Bond Portfolio**

- Seeks primarily to provide total return through high current income and capital preservation through a portfolio of investment grade bonds.
- It attempts to increase its capital through appreciation of its investments in U.S. investment-grade, fixed-income securities.
- The Fund will invest primarily in the fixed-income securities of issues located in the U.S.

### **Alliance Corporate Bond Fund**

- Seeks primarily to maximize income over the long term. Secondly, it will attempt to increase its capital through appreciation of its investments in a diversified portfolio of U.S. dollar-denominated corporate bonds issued by domestic and foreign issues with attractive yields.
- The fund tends to have a relatively long average maturity and duration that will provide for more price fluctuation due to interest rate movement.
- The fund does not make interest rate bets.

### **International Fixed Income Fund**

#### **Alliance Global Strategic Income Trust**

- Fund invests in debt securities of U.S. and non-U.S. companies, U.S. Government and foreign governments and supranational entities.
- Foreign investments in the Fund are usually denominated in foreign currencies, and it generally seeks to hedge currency risk.

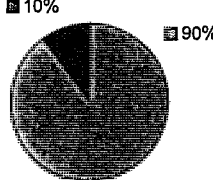
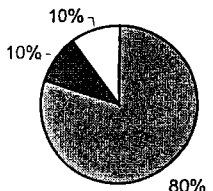
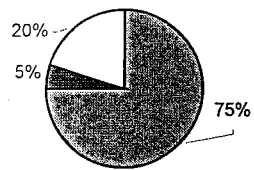
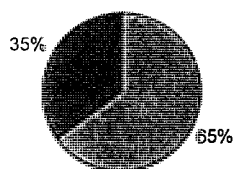
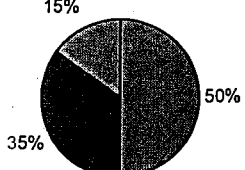
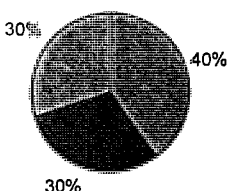
The Fund may invest at least 65% of its total assets in the debt securities of companies located in at least three countries, one of which may be the United States. At least 65% of total assets are placed in investment grade securities, but may also invest up to 35% of assets in lower-rated securities. The Fund limits its investments in any one foreign country to 25% of its total assets.

## International Equity Fund

### **Alliance Worldwide Privatization Fund**

- Seeks long-term capital appreciation through investments in equity securities issued at enterprises that are undergoing, or have undergone, a transition from government ownership to private sector ownership.
- The balance of investments will be made in securities of companies believed by Alliance to be the beneficiaries of privatization.
- The Fund diversifies its investments among a number of countries and normally invests in issuers based in at least four, and usually considerably more, countries.

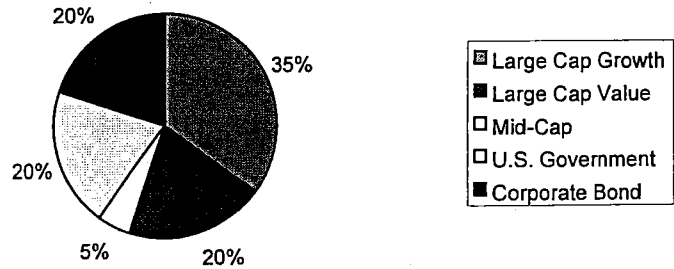
# PROPOSED AGE-BASED INVESTMENT OPTIONS

Beneficiary Age	
0-3 Years	 <div style="display: flex; align-items: center; margin-left: 20px;"> <div style="width: 15px; height: 15px; background-color: #cccccc; border: 1px solid black; margin-right: 5px;"></div> US Equities  <div style="width: 15px; height: 15px; background-color: #333333; border: 1px solid black; margin-right: 5px; margin-left: 10px;"></div> International Equity         </div>
4-6 Years	 <div style="display: flex; align-items: center; margin-left: 20px;"> <div style="width: 15px; height: 15px; background-color: #cccccc; border: 1px solid black; margin-right: 5px;"></div> US Equities  <div style="width: 15px; height: 15px; background-color: #333333; border: 1px solid black; margin-right: 5px; margin-left: 10px;"></div> International Equity  <div style="width: 15px; height: 15px; background-color: #ffffff; border: 1px solid black; margin-right: 5px; margin-left: 10px;"></div> Fixed Income         </div>
7-9 Years 10-12 Years	 <div style="display: flex; align-items: center; margin-left: 20px;"> <div style="width: 15px; height: 15px; background-color: #cccccc; border: 1px solid black; margin-right: 5px;"></div> US Equities  <div style="width: 15px; height: 15px; background-color: #333333; border: 1px solid black; margin-right: 5px; margin-left: 10px;"></div> International Equity  <div style="width: 15px; height: 15px; background-color: #ffffff; border: 1px solid black; margin-right: 5px; margin-left: 10px;"></div> Fixed Income         </div>
13-15 Years	 <div style="display: flex; align-items: center; margin-left: 20px;"> <div style="width: 15px; height: 15px; background-color: #cccccc; border: 1px solid black; margin-right: 5px;"></div> US Equities  <div style="width: 15px; height: 15px; background-color: #333333; border: 1px solid black; margin-right: 5px; margin-left: 10px;"></div> Fixed Income         </div>
16-18 Years	 <div style="display: flex; align-items: center; margin-left: 20px;"> <div style="width: 15px; height: 15px; background-color: #cccccc; border: 1px solid black; margin-right: 5px;"></div> US Equities  <div style="width: 15px; height: 15px; background-color: #333333; border: 1px solid black; margin-right: 5px; margin-left: 10px;"></div> Fixed Income  <div style="width: 15px; height: 15px; background-color: #cccccc; border: 1px solid black; margin-right: 5px; margin-left: 10px;"></div> Cash         </div>
College	 <div style="display: flex; align-items: center; margin-left: 20px;"> <div style="width: 15px; height: 15px; background-color: #cccccc; border: 1px solid black; margin-right: 5px;"></div> US Equities  <div style="width: 15px; height: 15px; background-color: #333333; border: 1px solid black; margin-right: 5px; margin-left: 10px;"></div> Fixed Income  <div style="width: 15px; height: 15px; background-color: #cccccc; border: 1px solid black; margin-right: 5px; margin-left: 10px;"></div> Cash         </div>

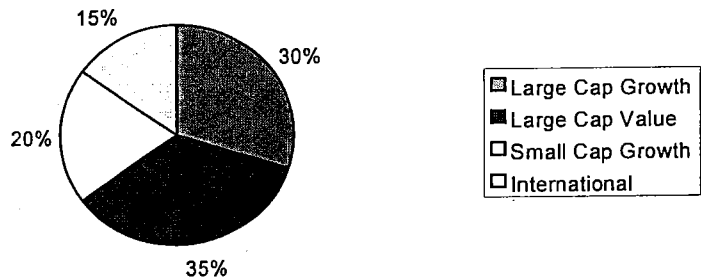


## ADDITIONAL PROPOSED ASSET ALLOCATION INVESTMENT OPTIONS

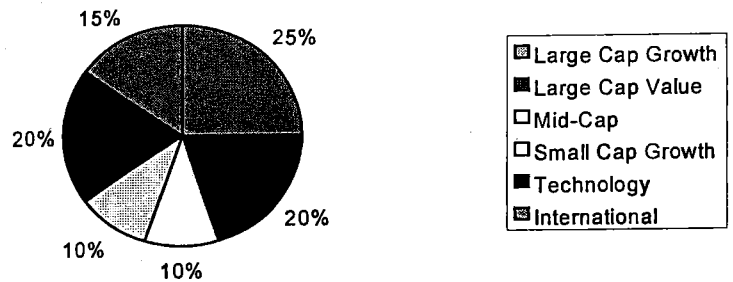
### 1. Alliance Balanced Portfolio



### 2. Alliance Conservative Equity Portfolio



### 3. Alliance Aggressive Equity Portfolio



The Investment Management Committee assigned to the RIHEAA CollegeBoundfund will review portfolio asset allocation periodically and re-balance the portfolios on an annual basis at a minimum, or more frequently as indicated by market conditions. Each portfolio will be rebalanced based upon its specified allocation policy guidelines. The re-allocation of Age-Based portfolios from one portfolio to the next will occur on a systematic predetermined basis.

The performance figures below demonstrate historical annualized returns based on the allocations of our proposed Age-Based Portfolios.

**Proposed CollegeBoundfund Investment Options**  
**Performance as of 3/31/00**

PORTFOLIO	YTD	1 Year	3 Years	5 Years	7 Years	10 Years
<b><u>Age-Based Portfolios</u></b>						
Ages (0-3)	3.03%	26.45%	25.65%	26.01%	20.34%	17.65%
Ages (4-6)	3.18%	21.88%	24.24%	25.04%	19.31%	N/A*
Ages (7-9)	3.82%	18.24%	24.34%	24.26%	18.49%	N/A*
Ages (10-12)	3.82%	18.24%	24.34%	24.26%	18.49%	N/A*
Ages (13-15)	3.31%	12.81%	19.35%	20.22%	15.46%	N/A*
Ages (16-18)	3.53%	12.50%	18.59%	18.44%	14.27%	N/A*
College Years	3.59%	11.50%	16.27%	16.89%	13.29%	N/A*
<b>Balanced</b>	3.75%	13.04%	21.84%	20.61%	15.68%	15.51%
<b>Conservative Equity</b>	3.30%	23.74%	24.36%	25.85%	20.04%	17.22%
<b>Aggressive Equity</b>	6.19%	37.98%	32.02%	29.29%	23.90%	20.64%

**Note:** Where applicable, actual mutual fund performance (A shares at net asset value) was utilized. Note that the CollegeBoundfund portfolios will be invested in institutionally-priced funds when available, which could potentially slightly improve overall performance. If a fund was not in existence for the entire period indicated, the relevant institutional track record as listed in the funds' prospectuses or style-specific index was utilized to calculate performance.

\*A 10 year return is not available for these portfolios because for Global Strategic Income Trust has not been in existence for 10 year period.

## Annualized Performance and Ratings of Underlying Mutual Funds

### Performance - as of 3/31/00

	<u>YTD</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>7 Year</u>	<u>10 Year</u>
✓ <b>Premier Growth</b>	6.71%	25.86%	40.26%	35.22%	25.83%	22.31%
Lipper Rank-Large-Cap Growth	315/505	345/436	67/273	23/185	16/109	N/A**
Lipper Percentile	64%	80%	26%	13%	15%	N/A**
<i>Russell 1000 Growth</i>	7.13%	34.12%	36.94%	31.83%	24.53%	21.61%
✓ <b>Growth &amp; Income</b>	2.24%	9.46%	20.23%	22.87%	17.24%	15.60%
Lipper Rank-Multi-Cap Value	183/508	176/480	29/318	11/204	13/134	15/87
Lipper Percentile	36%	36%	9%	6%	10%	17%
<i>Russell 1000 Value</i>	0.48%	6.34%	18.02%	20.97%	16.97%	15.99%
✓ <b>The Alliance Fund</b>	-3.22%	24.87%	19.21%	20.35%	16.17%	16.33%
Lipper Rank-Mid-Cap Value	175/188	77/184	33/122	18/80	11/45	9/34
Lipper Percentile	93%	42%	28%	24%	24%	27%
<i>S&amp;P Midcap 400</i>	12.69%	38.08%	27.39%	24.08%	19.01%	19.11%
✓ <b>Worldwide Privatization</b>	3.29%	57.66%	22.78%	22.14%	19.50%	12.71%
Lipper Rank-International	136/696	115/643	83/423	26/254	N/A	N/A
Lipper Percentile	21%	18%	20%	11%	N/A	N/A
<i>MSCI World ex-US</i>	0.61%	26.96%	16.96%	13.12%	13.38%	9.82%
✓ <b>Quasar</b>	0.70%	21.60%	8.76%	18.39%	14.77%	11.49%
Lipper Rank-Small Cap Core	213/221	186/198	105/109	25/63	13/36	13/17
Lipper Percentile	97%	94%	96%	40%	36%	73%
<i>Russell 2000</i>	7.08%	37.29%	17.75%	17.24%	14.58%	14.44%
✓ <b>Technology</b>	19.44%	88.10%	58.71%	41.22%	37.44%	31.41%
Lipper Rank-Science & Technology	63/156	88/103	39/59	18/31	8/14	6/12
Lipper Percentile	41%	85%	65%	57%	54%	47%
<i>NASDAQ Composite</i>	12.37%	85.78%	55.26%	41.11%	31.02%	26.51%
✓ <b>U.S. Government</b>	3.13%	1.54%	5.98%	5.70%	4.81%	6.81%
Lipper Rank-General US Government	24/190	40/185	57/160	87/126	49/78	32/51
Lipper Percentile	13%	22%	36%	69%	63%	62%
<i>Lehman Brothers Government Bond</i>	3.35%	2.50%	7.04%	7.16%	6.10%	7.97%
✓ <b>Corporate Bond</b>	2.40%	4.31%	5.66%	10.75%	7.84%	10.57%
Lipper Rank-Corporate Bond BBB	34/151	10/143	36/88	3/56	4/36	1/21
Lipper Percentile	23%	7%	41%	6%	11%	5%
<i>Lehman Brothers Aggregate Bond</i>	2.21%	1.87%	6.70%	7.14%	6.14%	8.02%
✓ <b>Global Strategic Income</b>	4.77%	9.09%	8.87%	12.56%	10.29%	N/A***
Lipper Rank-Multi Sector Income	1/124	5/117	1/78	N/A**	N/A**	N/A**
Lipper Percentile	1%	6%	3%	N/A**	N/A**	N/A**
<i>Lehman Brothers Aggregate Bond</i>	2.21	1.87%	6.70%	7.14%	6.14%	8.02%
✓ <b>Quality Bond</b>	2.44	-2.03%	5.49%	7.63%	6.60%	8.26%
Lipper Rank-Multi-Sector Income	10/124	N/A**	N/A**	N/A**	N/A**	N/A**
Lipper Percentile	8%	N/A**	N/A**	N/A**	N/A**	N/A**
<i>Lehman Brothers Aggregate Bond</i>	2.21%	1.87%	6.70%	7.14%	6.14%	8.02%

Note: Where applicable, actual mutual fund performance (A shares at net asset value) was utilized. Note that the CollegeBoundfund portfolios will be invested in institutionally-priced funds when available, which could potentially slightly improve overall performance. If a fund was not in existence for period indicated, the relevant institutional track record as listed in the funds' prospectuses or style-specific index was utilized to calculate performance.

\*\*Lipper data is not available. \*\*\*Global Strategic institutional account not in existence 10 years.

- 3. Indicate whether your firm will agree to a contract for administration and investment management that includes language that establishes levels at which the fee structure would be adjusted on the basis of the aggregate level of funds under management.**

We are utilizing established Alliance mutual funds for the *CollegeBoundfund*. In order to provide the lowest possible fee structure, we are offering Institutional and Advisor class shares (for those funds where such classes are available) which offer the lowest expense ratios and carry no 12b-1 fees or sales loads. Portfolio expenses represent the blended expense ratios of the underlying Alliance mutual funds; as such we are unable to offer a fee reduction based upon account or asset levels. Asset growth in individual mutual funds, however, generally results in improved operating efficiencies, which will be passed on to program participants.

- 4. Indicate whether your firm will agree to a contract for a term the Authority establishes which might be a 3-5 year contract which allows renewal options on mutually agreeable terms.**

As indicated above, Alliance would be investing substantial financial and corporate resources to position the *CollegeBoundfund* program as the "nation's premiere" college savings program. As such, we would expect to have a long-term relationship with RIHEEA. We are prepared to accept a five-year contract with renewal options. We understand that RIHEEA'S goal is not to be locked into a long-term contract and to insure both quality service as well as a cost competitive fee structure over the duration of the contract. Alliance shares that goal and would agree to review and negotiate the terms prior to exercising the renewal options.

- 5. Indicate whether your firm will agree to a contract that includes language that provides for fee reduction and/or fee exclusion for individual participants when their accounts reach certain levels.**

For Rhode Island residents, there will be no annual account fees.

For Non-Rhode Island residents, Alliance would charge an annual account fee of \$25.00. The annual fee would be waived if 1) a systematic savings plan is elected, or 2) account balances exceed \$25,000.

Of course, normal fund management fees and expenses would apply as outlined in Section I.2.

- 6. Indicate whether your firm will agree to a contract which requires the manager, if requested to do so by the Authority, to remove from the program, within a reasonable period of time, any subcontractor, employee, or other person whom the Authority reasonably determines is incompetent, dishonest, uncooperative, or is deemed not to serve the best interests of the program.**

It is Alliance Capital's intention to assign to the CollegeBound*fund* only those individuals who Alliance believes will be capable of performing their program-related duties in a competent and professional manner. Nonetheless, we would agree to a contract provision requiring us to remove an employee from the program at the request of the Authority for good cause. However, we would expect the Authority to provide written notice detailing its reasons it believes the employee should be removed and give Alliance a reasonable period of time to work with the employee to correct any deficiency. This agreement would not apply to investment personnel.

**I. FEES**

**1. Specify the cost for all transitional and operational services, and the proposed method and means of payment.**

Alliance will provide a full turnkey operation and as such, will assume the full cost of marketing, records administration, customer service, investment management and related management services, and a Pre-Paid program feasibility study.

**Marketing Costs:**

The following is the marketing/administrative costs over the life of a projected five-year contract.

	<b>Rhode Island Marketing</b>	<b>Projected National Marketing Support</b>
	(mil)	(mil)
Year One	\$1.1	\$3.9
Year Two	0.6	5.4
Year Three	0.6	5.8
Year Four	0.6	7.3
Year Five	0.6	8.4
Total	\$3.5	\$30.8

The above budget reflects a \$1.1 million hard dollar commitment for the in-state campaign and an estimated level for the national campaign, assuming appropriate enrollment levels. Please note the above figures do not include additional administrative expenses that Alliance Capital will assume.

**Records Administration and Customer Service Costs:**

Records administration and customer services expenses are included in the underlying mutual fund fee structure.

In summary, Alliance will assume the upfront transitional costs (excluding any termination fees for which the state is liable), as well as full operational costs over the life of the contract. Other than mutual fund management fees detailed below in question I.2., there will be no additional fees charged to RIHEAA and Rhode Island residents who invest directly without the use of a financial advisor (please see question I.3. below for more detail on this matter).

2. Provide a schedule of fees, and the related services that result from those fees. If your proposal presents more than one fee structure with differing levels of service to both RIHEAA and the participants, be sure to describe the differences in the structures and the service. To assist the review committee, complete worksheet I-2 as part of your response.

We are proposing the following 4 separate investment options for use in Rhode Island's CollegeBound*fund*. The suggested portfolios consist of Alliance Capital mutual funds (the fees will vary depending on the weighting of each fund within the various portfolios). There are no direct fees charged to the RIHEAA. All expenses are included within each mutual fund.

Below is the current fee structure for each of the proposed investment options. Please note under Option 1, each Age-Based portfolio will have its specific fee (expense ratio), however, the average cost for the Age-Based Portfolio is 0.97%.

<u>Option 1</u>		<u>Option 2</u>
Age-Based Portfolios		Balanced Portfolio 0.923%
Ages 0-3	1.000%	
Ages 4-6	0.999%	<u>Option 3</u>
Ages 7-9	0.978%	Conservative Equity Portfolio 0.991%
Ages 10-12	0.978%	
Ages 13-15	0.999%	<u>Option 4</u>
Ages 16-18	0.958%	Aggressive Equity Portfolio 1.079%
College Years	0.940%	

For Rhode Island residents, there is no annual per account administrative fee.

For non-Rhode Island residents, there is a \$25 per account administrative fee, which will be waived if (1) the contributor establishes a systematic investment plan or (2) has a balance in excess of \$25,000.

Please note Alliance is proposing a fee structure that is cost effective and competitive. Although, Alliance did not factor revenue sharing into its fee structure to cover the RIHEAA's overhead, Alliance would, at the direction of the RIHEAA, add and collect additional fees for the benefit of the program.

- 3. If your firm offers any "premium" products or services that are not included in your fee quote, please identify these products or services and the related annual cost of each.**

As described above in I.1., Rhode Island residents would not incur a service fee when they enroll directly through the RIHEAA, direct mail or on-line. For Rhode Island residents electing to enroll through a financial advisor, and for all non-Rhode Island participants, Alliance will collect an additional 0.50% fee to be passed on to the financial advisory firm providing the service as compensation for initial enrollment support and ongoing advisory services. As additional compensation for financial advisors, Alliance will pay from its own revenue a one-time finder's fee of 0.50% at the time of initial contribution.



**J. PROGRAM IMPLEMENTATION AND TRANSITION**

- 1. Describe what steps you would take to ensure an orderly transition from the current vendor or subcontractors, should such a transition be necessary. Also explain how much time you believe such a transition would require.**

In order to provide a smooth transition we would develop an open line of communication through RIHEAA with all existing vendors and subcontractors, including but not limited to the recordkeeper and the various money managers. This will ensure that all parties are on the same page with respect to timing, account information (owner registration, beneficiary, history), file transfers (format and medium to be used), etc. Once a conversion date is determined and all parties have been notified, we would request account owner information to populate our system and prepare for the money movement and product transition. We would expect a conversion of this nature, to take approximately 2 – 3 months.

- 2. Provide a detailed task list and schedule on how you will approach the conversion process, including actions required on the part of RIHEAA, the SIC, or the current vendor or sub-contractor. Include in your response the individual in your firm who will be responsible for coordinating this process.**

<b>ID</b>	<b>Task</b>	<b>Duration</b>	<b>Resources</b>
1	Notify all parties of program change	2 days	RIHEAA
2	Identify members of conversion team	2 days	ACM
3	Coordinate a conversion date between all parties	5 days	RIHEAA, SIC, ACM, Money Managers, Recordkeeper
4	Determine specific features of the program	2 wks	RIHEAA, ACM
5	Determine marketing plan and materials	2 wks	ACM
6	Determine funds to be used for program	5 days	ACM
7	Develop mapping from existing investment vehicles to new investment vehicles for aged based asset mix	2 wks	ACM, SIC
8	Obtain original applications (image or hardcopy)	8 days	ACM, Recordkeeper
9	Determine file format for account owner information (AOI)	2 wks	ACM, Recordkeeper
9a	If electronic file is not available we will use original applications to set up accounts	0 days	ACM, Recordkeeper
10	Download AOI file into ACM's	2 days	ACM,

	recordkeeping system (DST) to set up accounts		Recordkeeper
10a	Manually set up all new accounts on DST	3 days	ACM
11	QC all new accounts	2 days	ACM
12	Set appropriate system parameters to properly process 529 activity	2 wks	ACM, DST
13	Dedicate and train client services personnel to answer 800 line specific to program and it's features	2 wks	ACM
14	Dedicate and train transaction processing personnel to post program activity	5 days	ACM
15	Confirm conversion date with Money Managers to facilitate security liquidation acquisition and settlement on conversion date	2 wks	ACM, Money Managers
16	Determine file format for account balance information	5 days	ACM, Recordkeeper
17	Transmit and download account balance information	2 days	ACM, Recordkeeper
18	Wire monies from Money Managers to ACM	1 day	ACM, Money Managers
19	Reconcile wire to account totals and resolve discrepancies if any	1 day	ACM
20	Update program web-site to include any new /changed contact information and add link for on-line account access	2 days	ACM
21	Plan goes live	0 days	ACM

Dick Davies is the individual responsible for coordinating the process among the departments involved for Alliance.

**3. Give a detailed description of your last comparable conversion, including the details of specific problems that occurred and the solutions implemented, if applicable.**

Alliance has great deal experience with a wide variety of conversions. Our internal conversions involve existing monies with Alliance that are changing products, recordkeepers, third party administrators, or clearing houses. Over the past year, internal conversions with financial service organizations including Davenport, Crowell Weedon and others, have resulted in conversions of \$3 billion and 18,000 account holders. Our external conversions would include inflows/outflows to/from Alliance due to acquisition of other mutual fund companies and investment managers, retirement plan takeovers, rollovers, and trustee transfers and cash management product takeovers.

External conversions over the last year with Discover, Advest, Janney Montgomery and others have converted over \$4.6 billion representing 173,000 new account holders.

One issue, which is always a potential problem with conversions, is the cooperation of the vendor subcontractor being replaced. We have found the best way to alleviate this issue is to be proactive in establishing an open line of communication through RIHEAA. Because of this experience, Alliance has an abundance of qualified personnel ready to ensure a smooth transition.

**4. Provide a summary of the issues you might reasonably expect to encounter during this conversion, and your anticipated approach to those challenges.**

The potential issues we expect to encounter include a) cooperation of existing vendors and subcontractors, b) inability of existing subcontractors to provide compatible file formats for our system, and c) discrepancies between the monetary and record account totals. Alliance's respective solutions would be: a) be proactive in establishing open lines of communications with all necessary third parties through RIHEAA and providing each with the appropriate contact names; b) all account information would be manually entered and quality controlled by a member of our management team; c) identify any pending transactions and transactions inaccurately posted due to possible timing differences between files and wires received.

**5. Describe how you plan to process transactions that are pending during the conversion period.**

Since the asset allocation model will be built prior to loading account profiles, we would propose that as soon as the account profiles are loaded onto our system, all new purchases, additional purchases for existing accounts, and distribution requests be processed by Alliance. This will limit the number of transactions that could be pending during the conversion due to timing differences. Any transactions, which do fall into this category, will be identified and posted during the reconciliation process.

**6. Describe the training that you would provide to RIHEAA, and/or subcontractor(s) staff during conversion.**

Conversions are a joint process and as such the conversion plan including a detailed list of activities and timelines should be shared with all appropriate parties. Alliance regularly provides staff training and communications to its partners. We would provide the same quality training and communications to our RIHEAA staff and would expect to work closely with RIHEAA and the Educational Finance Group, Inc. to accomplish a successful conversion.

**7. Describe the process for the transfer of physical securities and appropriate client files.**

Alliance would be happy to recommend a file format for the transfer of all client information. If the existing recordkeeper is unable to provide the file in the suggested format, we would accept a file as basic as an Excel spreadsheet. We are also flexible with regard to the medium used to transmit the file, including, but not limited to, tape, diskette, FTP, BBS, and e-mail.

Alliance would need to review the investment holdings of existing managers before determining if we would accept some securities transfers into our fund, or simply transfer cash.

**8. Describe, in brief, rules and regulations changes that you believe would be necessary as a result of the program transition. Describe what assistance you are qualified and prepared to offer in this regard, and what effect you estimate this process will have on the program's ability to continue to accept applications and contributions.**

Since Rhode Island was one of the first states to adopt a Section 529 tuition savings program, we suggest that RIHEAA consider some changes to its existing rules and regulations to make the program more competitive with those of other states. For example, we suggest that the current 15% penalty on non-qualified distributions be reduced to 10%. To our knowledge, most states apply a 10% penalty. We also suggest that the rules clarify that participants who do not have a connection with Rhode Island are eligible to maintain program accounts.

Alliance is qualified to assist RIHEAA in the development of rules, regulations and procedures for the program. As described above, Dr. Peter Mazareas is familiar with the 529 Plan marketplace. Our outside counsel, Seward & Kissel LLP, served as counsel to the State of New York in connection with that state's section 529 Program. In addition, Alliance has considerable experience, marketing and servicing plans that are governed by detailed requirements including IRAs, 401(k)s, 403(b)(7) plans and others.

During the process of drafting, review and obtaining approval of the rule changes, the program will be able to continue accepting applications and making withdrawals.

**9. Please enclose with your response a draft of proposed contract language that would implement the program you are proposing.**

Before we propose specific language to be included in a contract between Alliance and RIHEAA, we believe it would be helpful to gain a thorough understanding of the existing program and the Authority's expectations for the future. Accordingly, we propose to work with RIHEAA to develop a contract that is satisfactory to both parties. While there may be additional provisions the need for which may become apparent

after discussions with RIHEAA, at this time we envision that the contract should contain provisions covering at least the following:

- Appointment of Alliance as program manager and Alliance's acceptance of its appointment.
- Description of each age-based investment portfolio and other portfolios.
- Description of the mutual funds which comprise each investment portfolio.
- Performance benchmarks for the investment portfolios.
- Description of the administration and account servicing responsibilities of Alliance, including processing contributions and distributions, maintaining account records, preparing and mailing participant statements, preparing confirmations of account transactions and preparing any required reports to the Internal Revenue Service and participants in connections with distributions from accounts.
- Description of procedures for transitioning existing accounts from the current program manager to the program managed by Alliance.
- Description of the periodic reports to RIHEAA to be prepared by Alliance, including reports reflecting contributions, number of participants, fund performance, distributions, etc.
- Description of the periodic reports to participants to be prepared by Alliance, including quarterly statements, acknowledgment of new account establishment, confirmations, etc.
- Fees payable to Alliance – through our mutual funds and/or separate service fee.
- Summary of the marketing and promotional plans for the program and an estimate of the marketing and promotion expenses to be incurred by Alliance.
- Description of the relevant audit controls that Alliance will have in place relating to the program and the reports Alliance will furnish periodically to RIHEAA.
- Representations, warranties and covenants of Alliance, including its authority to enter into the agreement and that it will procure any governmental or regulatory approvals that it deems advisable in connection with the program.
- Representations, warranties and covenants of RIHEAA, including its authority to enter into the agreement.
- Designation of contact persons for each party.

- RIHEAA's right to inspect program records maintained by Alliance.
- Nondisclosure of confidential information.
- Indemnification of parties.
- Terms of agreement and termination provisions.
- General contract provisions such as applicable law, severability, no assignment without consent, etc.

PLEASE NOTE: Nothing in this proposal should be viewed as contractually binding until agreed to in the final contract between RIHEAA and Alliance.

**10. Please enclose with your response a draft of your proposed investment plan(s) and policies so as to implement the investment strategies/asset allocations you are proposing.**

Alliance Capital has formed an Investment Policy Committee to oversee the investment portfolios created for the Rhode Island College *Boundfund*, chaired by the head of mutual fund product management. At the request of our Chief Investment Officer, the associate head of equity research and the head of Alliance's quantitative investment team also will serve on this committee. Alliance has also retained Ibbotson Associates, one of the investment industry's foremost consulting firms, to work with Alliance to monitor and advise us on asset allocation policy, and ongoing portfolio construction and policy implementation. Ibbotson will be available to brief RIHEAA and your own outside advisors as required.

This policy committee will meet quarterly to monitor portfolio performance or on a special needs basis if warranted by unique market conditions. The fund and portfolio information reviewed by the committee will be reported to RIHEAA quarterly as well. The committee will be charged with monitoring portfolio manager performance as well as the asset allocation policy weightings for each portfolio, and will make recommendations on fund substitutions and portfolio allocation changes as appropriate. Given the long investment time horizon of the underlying portfolios, we anticipate the need to rebalance back to policy asset allocation weightings on an annual basis. However, the committee could direct special reallocations if required due to unusual market conditions.

To summarize Alliance's proposed investment plan, we have proposed seven Age-Based Portfolios in addition to a Conservative Equity Portfolio, an Aggressive Equity Portfolio and a Balanced Portfolio. Each portfolio consists of diversified mutual funds in specified allocations from the Alliance Capital family of funds, providing participants and new participants with a full range of options including Age-Based Portfolios (automatically re-allocated according to schedule), as well as a selection of

individual portfolios, ranging from conservative (Balanced Portfolio) to more aggressive (Aggressive Equity Portfolio).

In designing each of the proposed investment portfolios and selecting their underlying funds, Alliance will consider the role each fund will play in each option's overall portfolio objective. Given the investment strategy for each option, we will select funds that have risk and return objectives reasonably suited to the option. We believe this to be a prudent methodology for the design and management of portfolios for a college savings program.

For the purposes of the transition, Alliance proposes that the dollar value of each existing participant account under the current *CollegeBoundfund* program as of the determined liquidation date be transferred to the appropriate Alliance Age-Based Portfolio based on the age of the beneficiary. This will alleviate any difficulties in transitioning from five to seven asset allocation portfolios.

## WORK SHEET I-2: FEE STRUCTURE

RIHEAA is concerned with the fees to be charged to the participants relative to their level of participation in the program. Please indicate the fees and amounts below as they relate to the services you have indicated that you will provide. If your proposal has a multiple fee structure, complete a copy of this form for each structure.

### ITEM

### RESPONSE

	Rhode Island	Out-of State
	Resident	Residents*
1. What annual account maintenance fee is proposed?	No fee	\$25.00
2. Is there an individual account level where this fee is waived?	No fee	Yes

\*For non-Rhode Island residents, there is a \$25 per account administrative fee, which will be waived if 1) the contributor establishes a systematic investment plan or 2) has a balance in excess of \$25,000.

### 3. What is the annual management fee proposed for assets under management up to \$50 million?

Below is the fee structure for each of the proposed investment options. Please note under Option 1 (Age-Based Portfolios), each age based portfolio will have its specific fee (expense ratio), however, the average cost for the age-based portfolio is 0.97%.

<u>Option 1</u>		<u>Option 2</u>
Age-Based Portfolios		Balanced Fund Portfolio 0.923%
Ages 0-3	1.000%	
Ages 4-6	0.999%	<u>Option 3</u>
Ages 7-9	0.978%	Aggressive Fund Portfolio 1.079%
Ages 10-12	0.978%	
Ages 13-15	0.999%	<u>Option 4</u>
Ages 16-18	0.958%	Equity Portfolio 0.991%
College Years	0.940%	

Alliance is providing the lowest cost fee structure given the selection of mutual funds used in the various portfolios. As such it cannot provide a variable management fee based upon assets under management. Asset growth in individual mutual funds, however, generally results in improved operating efficiencies, which will be passed on to program participants. Rhode Island residents who do not utilize a financial advisor and enroll in the program will pay only the mutual fund fees identified above. For Rhode Island residents electing to enroll through a financial advisor and all non-Rhode Island participants, Alliance will charge an additional 0.50% fee to be passed on to the financial advisory firm providing the advisory service. In



addition, Alliance will pay from its own revenue a one-time finder's fee of 0.50% to advisors at the time of initial contribution.

- 4. What is the annual management fee proposed for assets under management between \$50 million plus-100 million? N/A
- 5. What is the annual management fee proposed for assets under management between \$100 million plus-150 million? N/A
- 6. What is the annual management fee proposed for assets under management between \$150 million plus-200 million? N/A
- 7. What part of the management fee is designated for RIHEAA? To be determined

Alliance is proposing a fee structure that is cost effective for the citizens of Rhode Island and price competitive versus neighboring (Massachusetts/Fidelity fee of 1.00%) and other national programs. Our goal is to provide the most competitive fees thereby positioning Rhode Island's program as a cost-effective alternative.

Although, Alliance did not factor revenue sharing into its fee structure to cover RIHEAA's overhead, Alliance understands that RIHEAA must generate funds to cover the overhead of administering the *CollegeBondfund* as well as other transitional/conversion expenses outlined in your current management contract. Therefore, Alliance will contribute \$250,000 each year for five years "to cover out-of-pocket administrative expenses". In addition, if total Authority out-of-pocket expenses on an annual basis exceed revenue generated from the program, Alliance would be prepared to discuss a reallocation of its marketing dollars to meet said costs.

- 8. Indicate any other fees. NONE
- 9. Provide a brief summary of the services you have described in your proposal as it relates to the fee structure above.

Alliance will provide all services outlined in the RFP for the fee structure described above.

## **AllianceCapital**

### **Firm Activities in Support of Women and Minorities**

Alliance Capital has broad and formal policies and practices relating to non discrimination in employment and employment practices. Procedures are in place to provide applicants and employees with access to senior level managers within the firm if they believe such discrimination has taken place.

Alliance actively seeks to create a diverse applicant pool through participation in various programs. We are sponsors of Prep for Prep, both financially and through college internships. We recruit at schools with diverse student populations including Rutgers, Seton Hall University, Drew University and Montclair State. Our two largest suppliers of recruiting services, Tina Lane Personnel and Taylor Hodson, are owned by women.

In 1999, Alliance established the Alliance Capital Management Business Honors Scholarship at the University of Texas at San Antonio. The annual scholarship is awarded to graduating inner-city High School seniors who are outstanding students.

Alliance Capital is an active participant in the New York City Job Partnership, providing summer jobs for inner city youth.

Each year Alliance hosts approximately 100 young girls for Take Your Daughter to Work Day. Parents and women executives participate in workshops, cross cultural experiences, tours and hands on exposure to diverse careers and opportunities.

Alliance Capital solicits and utilizes emerging, minority and women-owned business for services at the firm. These include suppliers for services such as trading, training, catering, computer equipment and supplies, and promotional products.

In order to broaden the scope of minority, women and disabled veteran firms used to provide brokerage services and/or research to Alliance Capital and its clients, Alliance issues a Request for Proposal. Qualified firms which meet our criteria are considered as part of the firm's brokerage allocation process.

Our representation of minorities and women at Alliance are quite good: 49% of the workforce is female, 37% of the workforce is in a minority group. In our professional categories, 42% are female, 26% are in a minority group.

## **EQUAL EMPLOYMENT OPPORTUNITY POLICIES**

### **NONDISCRIMINATION AND EQUAL EMPLOYMENT OPPORTUNITY POLICY**

Alliance does not discriminate against any employee or applicant for employment on the basis of race, color, religion, creed, ancestry, national origin, sex, age, disability, marital status, citizenship status, sexual orientation or any other basis that is prohibited by applicable law. Alliance's policies, as well as its practices, seek to ensure that employment opportunities are available to all employees and applicants based solely on job-related criteria. This policy of nondiscrimination applies to all employment practices, including, but not limited to, hiring, compensation, benefits eligibility, promotions, transfers and lay-offs.

Individuals who believe that this policy has been violated (with respect to themselves or others), should immediately report it to the Human Resources Department or the Compliance Officer in the Corporate Legal Department. The complaint will be investigated and prompt, appropriate action will be taken. Individuals will not be retaliated against for filing a complaint.

Employees and prospective employees will be informed periodically of Alliance's commitment to its Nondiscrimination Policy and of its efforts to provide equal opportunities to individuals based solely on job-related criteria. This policy will be provided to new employees at the time of their employment; will be periodically circulated to all managers and employees; and will be posted as appropriate.

Alliance will make a concerted effort to recruit applicants without regard to race, color, religion, creed, ancestry, national origin, sex, age, disability, marital status, citizenship status, sexual orientation or any other basis that is prohibited by applicable law.

Alliance will take steps to ensure that promotion decisions are based solely on job-related criteria. Promotional opportunities will be made available to current employees when appropriate.

Alliance's Nondiscrimination Policy will be administered by the Human Resources Department in conjunction with the Corporate Legal Department. Violations of this policy by any employee will result in disciplinary action up to and including termination of employment.

## **EQUAL EMPLOYMENT OPPORTUNITY POLICIES - cont'd.**

### **NONDISCRIMINATION AGAINST PERSONS WITH DISABILITIES POLICY**

Alliance is an equal employment opportunity employer. As such, Alliance will not tolerate discrimination against persons with disabilities. Persons with disabilities, for purposes of this policy, are those individuals who have a physical or mental impairment which interferes with a major life function or have a record of such an impairment or are regarded as having such an impairment. This policy of nondiscrimination includes, but is not limited to, matters related to such areas as recruitment, training, job application procedures, hiring, promotion, transfer, layoff, termination, compensation, the provision of benefits and participation in company sponsored activities, including social and recreational programs.

Alliance will reasonably accommodate the known physical or mental limitations of a "qualified individual with a disability" unless the accommodation will result in an "undue hardship." A qualified individual with a disability is one who satisfies the basic skill, experience, and educational requirements of the position and can perform the essential functions of the job either with or without a reasonable accommodation. Examples of reasonable accommodations include, but are not limited to: job sharing, job relocation, modified work schedule, the acquisition or modification of equipment or devices and the provision of qualified readers or interpreters.

The provision of a reasonable accommodation will be evaluated on a case-by-case basis in consultation with the employee who requested the accommodation. Factors to be considered in determining whether a particular accommodation will result in an undue hardship to the Firm include the nature and cost of the accommodation, the overall financial resources of the affected facility and Alliance as a whole and the needs of the affected operations.

It is expected that an employee with a disability who needs an accommodation will notify, in writing, the Human Resources Department or his or her manager of that need. All questions regarding the terms or applicability of this policy or the need for a reasonable accommodation should be directed to the Senior Vice President, Human Resources.

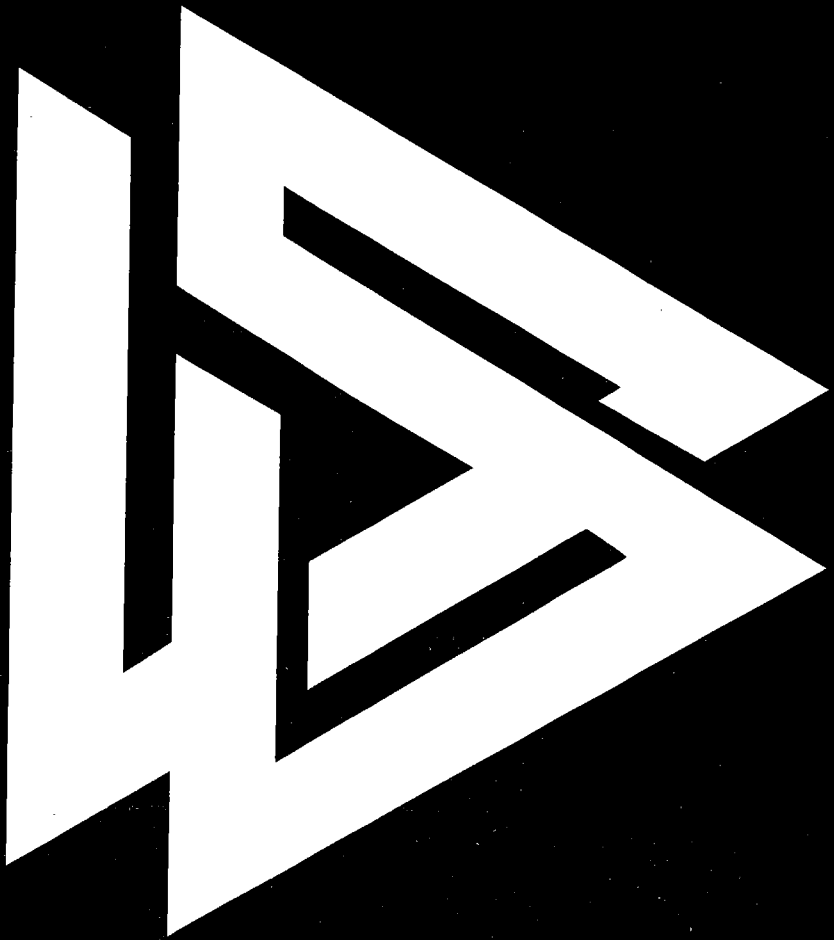
## **Footnotes:**

\*Russell 2000 Growth Index is used to represent the allocation to the Alliance Quasar Fund.

\*\*Sector Rotation is Alliance's Institutional Track record and is used to represent the allocation to the Alliance Quality Bond Fund.

\*\*\*Enhanced Sector Rotation is Alliance's Institutional Track record and is used to represent the allocation to the Alliance Global Strategic Income Trust.

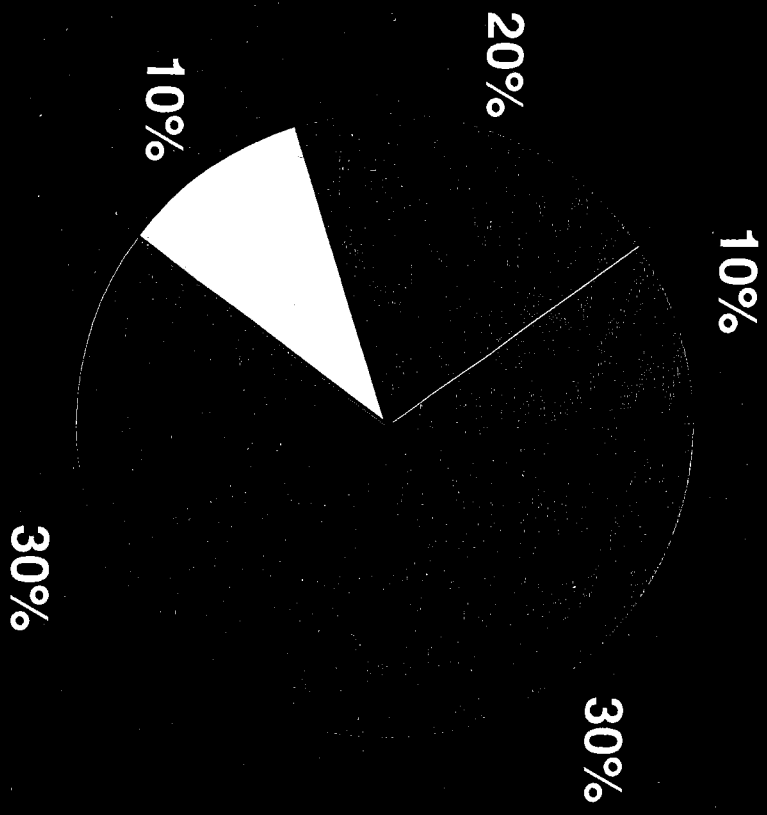
***Past performance is no guarantee of future results. As of 3/31/00. Source: Zephyr Allocation Advisor Software. The weighted average expenses number is calculated by multiplying each fund's institutional or regular class share expense by that fund's weight in the portfolio. After each fund's respective weighted expenses is calculated these numbers are added together to get the portfolio's weighted average expenses.***



Alliance Capital



# Age-Based Investment Option Allocation For Ages 0-3 Years



- Growth & Income
- Premier Growth
- Alliance Fund
- Worldwide Privatization
- Quasar

# Age-Based Investment Option Allocation For Ages 0-3 Years

## Portfolio Allocations

Alliance Growth & Income	30.0%
Alliance Premier Growth	30.0%
Alliance Fund	10.0%
Alliance Worldwide Privatization	20.0%
Alliance Quasar*	10.0%

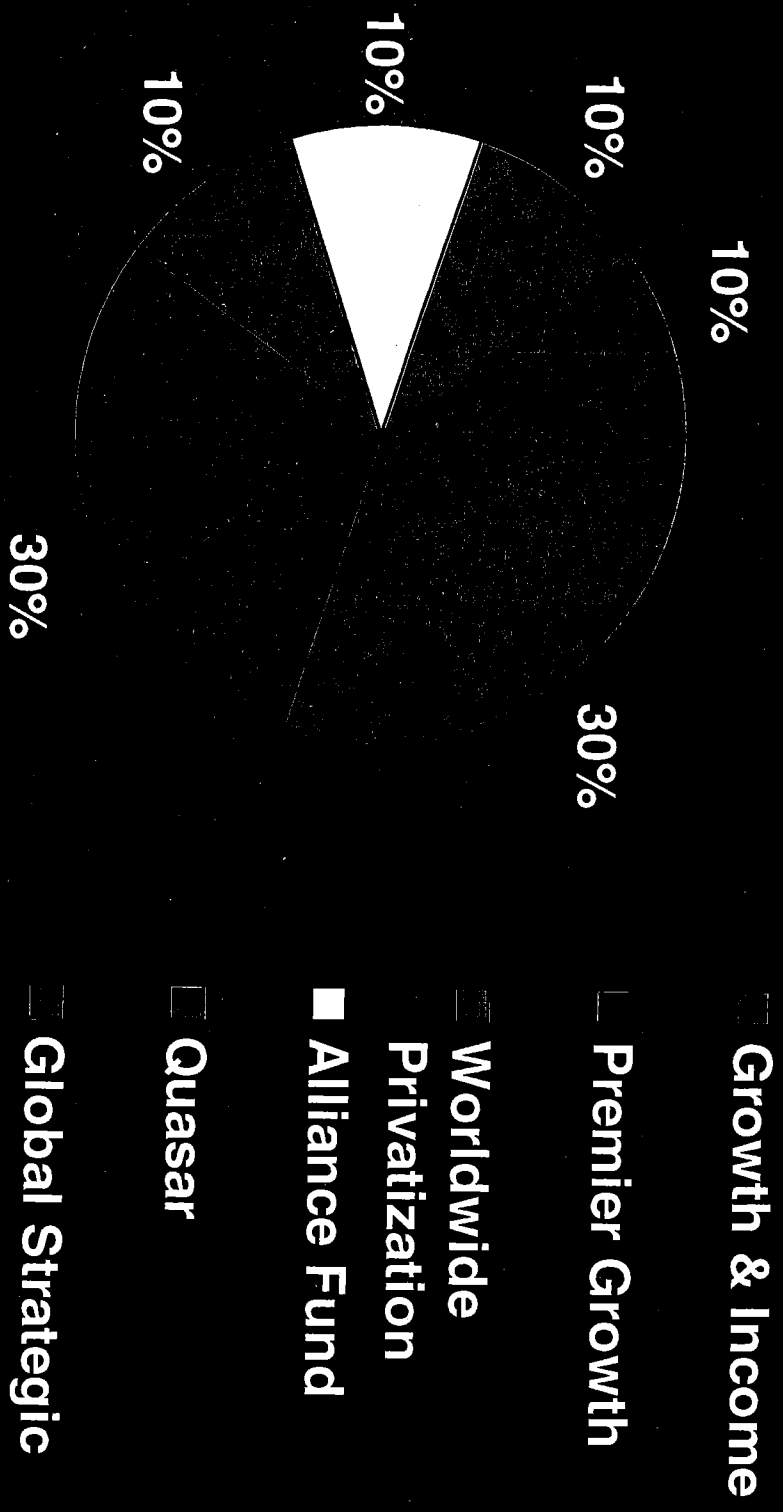
## Weighted Average Expenses

1.00%

## Historical Returns (Annualized)

YTD	3.03%
1 Year	26.45%
3 Year	25.65%
5 Year	26.01%
7 Year	20.34%
10 Year	17.65%

# Age-Based Investment Option Allocation For Ages 4-6 Years





# Age-Based Investment Option Allocation For Ages 4-6 Years

## Portfolio Allocations

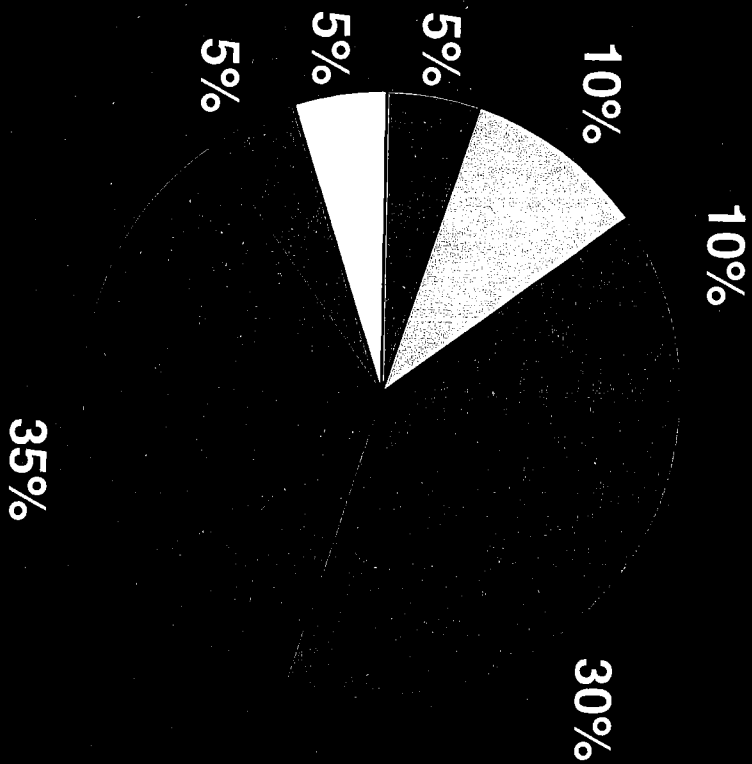
- Alliance Growth & Income
- Alliance Premier Growth
- Alliance Fund
- Alliance Worldwide Privatization
- Alliance Global Strategic Income\*\*\*
- Alliance Quasar\*

## Weighted Average Expenses

## Historical Returns (Annualized)

	30.0%
	30.0%
	10.0%
	10.0%
	10.0%
	10.0%
	10.0%
	0.99%
<b>YTD</b>	<b>3.18%</b>
<b>1 Year</b>	<b>21.88%</b>
<b>3 Year</b>	<b>24.24%</b>
<b>5 Year</b>	<b>25.04%</b>
<b>7 Year</b>	<b>19.31%</b>
<b>10 Year</b>	<b>N/A*</b>

# Age-Based Investment Option Allocation For Ages 7-9 Years



Growth & Income

□ Premier Growth

▨ Worldwide Privatization

■ Alliance Fund

□ Quasar

■ US Gov't

▨ Global Strategic

# Age-Based Investment Option Allocation For Ages 7-9 Years

## Portfolio Allocations

Alliance Growth & Income	30.0%
Alliance Premier Growth	35.0%
Alliance Fund	5.0%
Alliance Worldwide Privatization	5.0%
Alliance Quasar*	5.0%
Alliance U.S. Gov't	10.0%
Alliance Global Strategic Income Trust***	10.0%

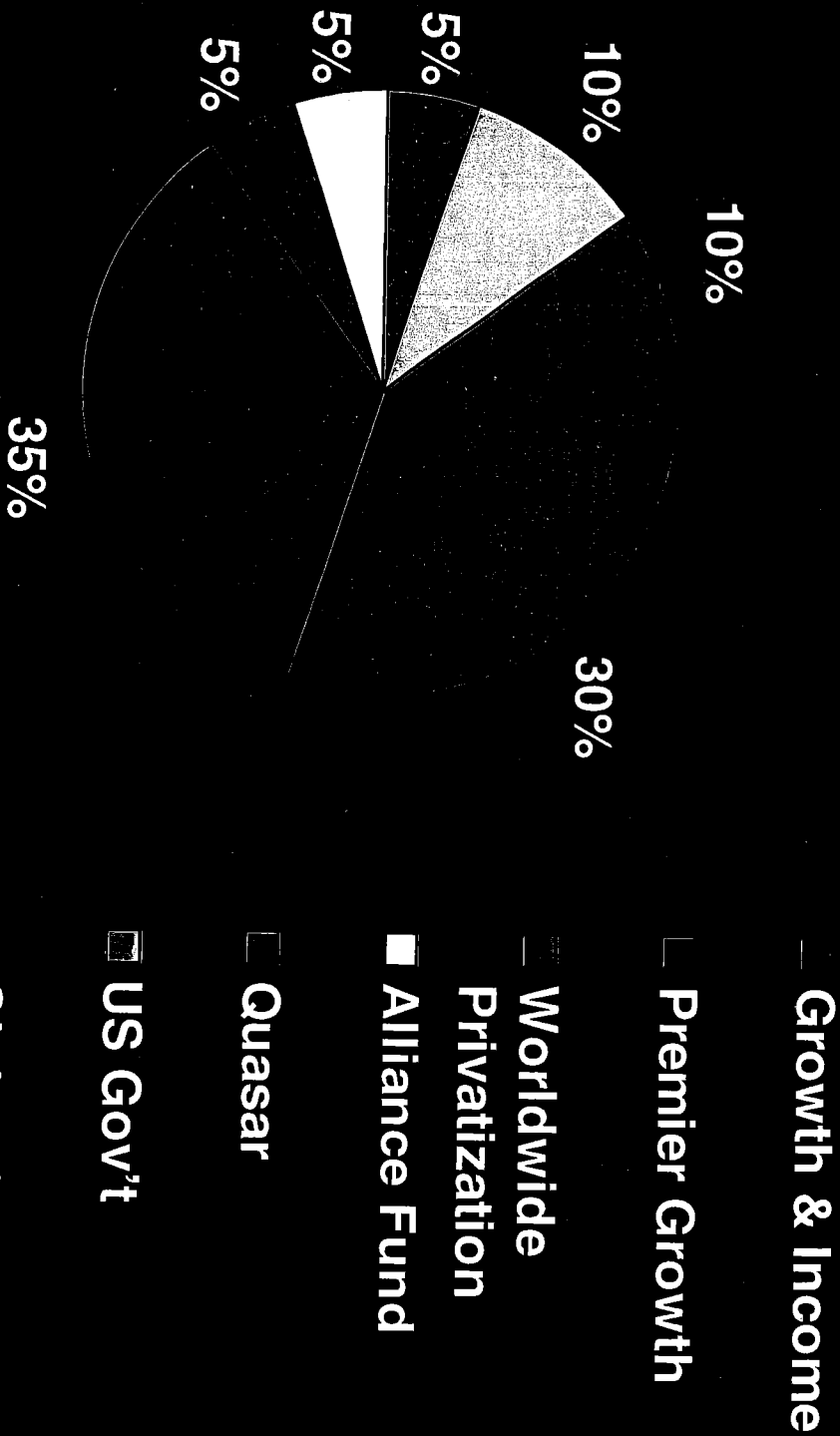
## Weighted Average Expenses

0.978%

## Historical Returns (Annualized)

YTD	3.82%
1 Year	18.24%
3 Year	24.34%
5 Year	24.26%
7 Year	18.49%
10 Year	N/A*

# Age-Based Investment Option Allocation For Ages 10-12 Years



# Age-Based Investment Option Allocation For Ages 10-12 Years

## Portfolio Allocations

Alliance Growth & Income	30.0%
Alliance Premier Growth	35.0%
Alliance Fund	5.0%
Alliance Worldwide Privatization	5.0%
Alliance Quasar*	5.0%
Alliance U.S. Gov't	10.0%
Alliance Global Strategic Income Trust***	10.0%

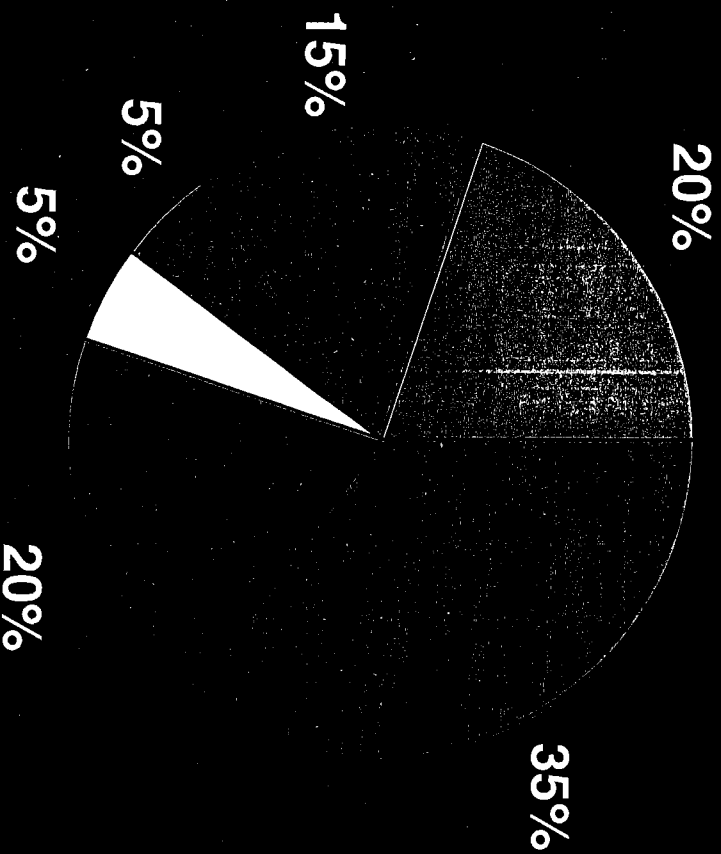
## Weighted Average Expenses

0.978%

## Historical Returns (Annualized)

YTD	3.82%
1 Year	18.24%
3 Year	24.34%
5 Year	24.26%
7 Year	18.49%
10 Year	N/A*

# Age-Based Investment Options Allocation For Ages 13-15 Years



- Growth & Income
- Premier Growth
- Alliance Fund
- Quasar
- Global Strategic
- US Gov't

# Age-Based Investment Option Allocation For Ages 13-15 Years

## Portfolio Allocations

- Alliance Growth & Income 35.0%
- Alliance Premier Growth 20.0%
- Alliance Fund 5.0%
- Alliance Quasar\* 5.0%
- Alliance Global Strategic Income\*\*\* 15.0%
- Alliance U.S. Gov't 20.0%

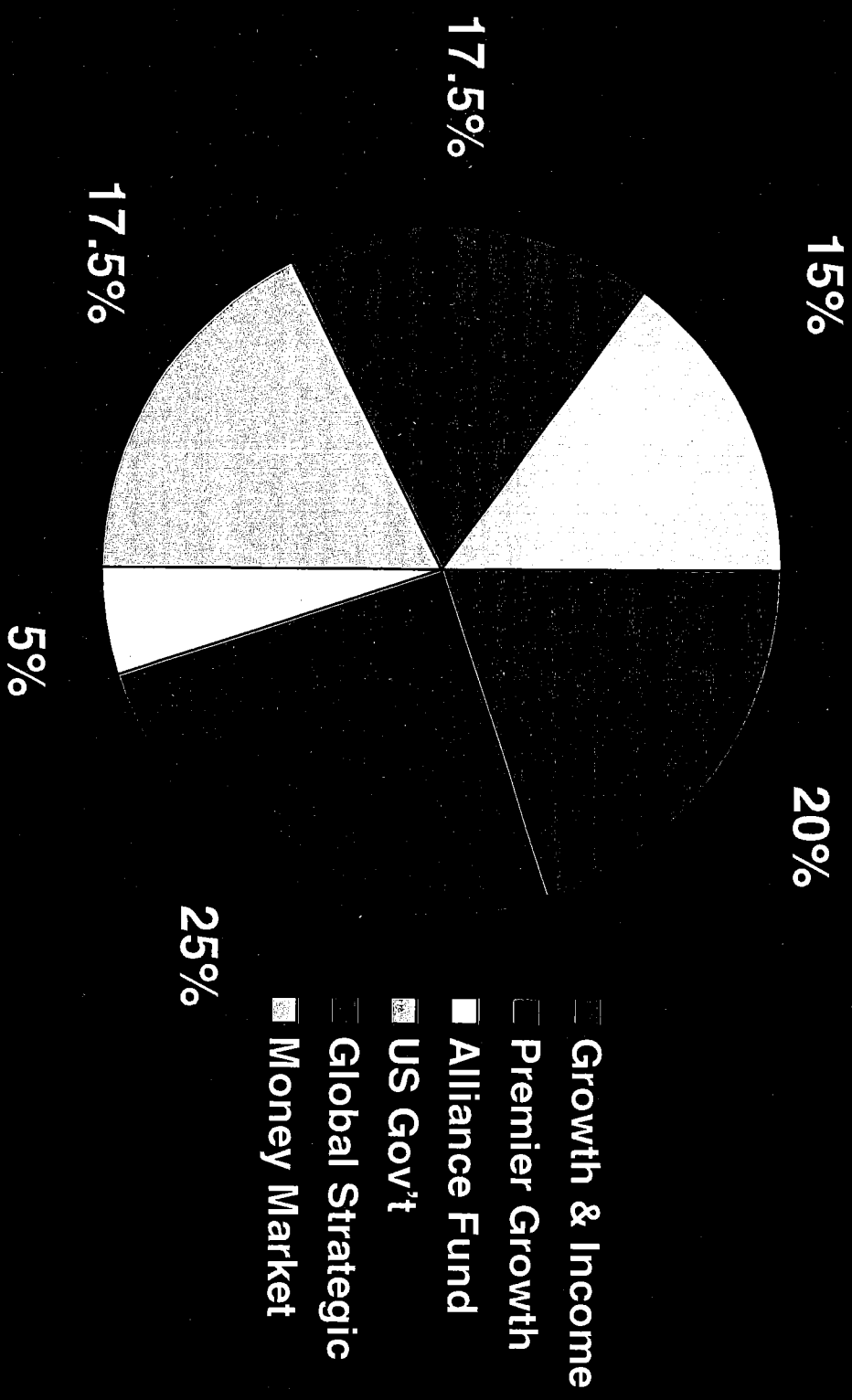
## Weighted Average Expenses

0.999%

## Historical Returns (Annualized)

YTD	3.31%
1 Year	12.81%
3 Year	19.35%
5 Year	20.22%
7 Year	15.46%
10 Year	N/A*

# Age-Based Investment Option Allocation For Ages 16-18 Years





# Age-Based Investment Option Allocation For Ages 16-18 Years

## Portfolio Allocations

Alliance Growth & Income	20.0%
Alliance Premier Growth	25.0%
Alliance Fund	5.0%
Alliance U.S. Gov't	17.5%
Alliance Global Strategic Income***	17.5%
Alliance Money Market	15.0%

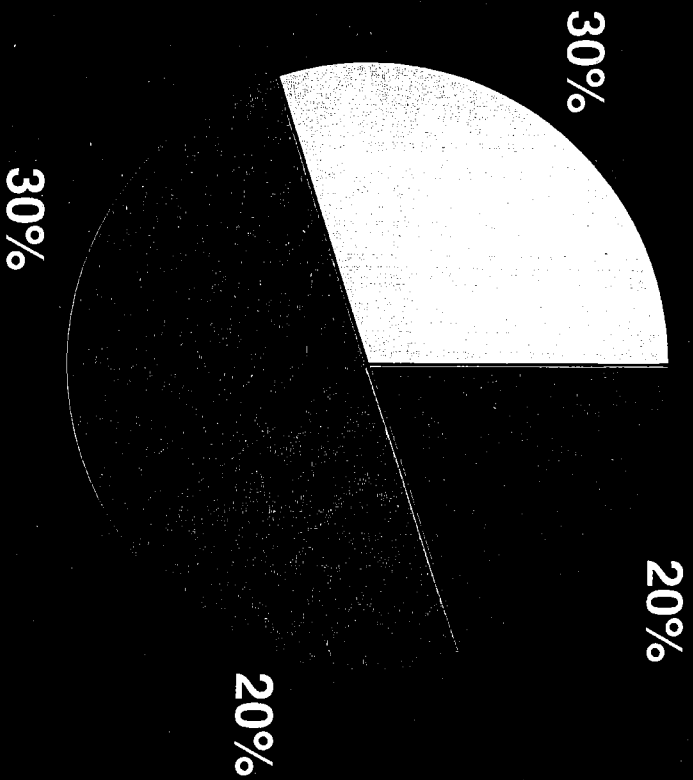
## Weighted Average Expenses

0.958%

## Historical Returns (Annualized)

YTD	3.53%
1 Year	12.50%
3 Year	18.59%
5 Year	18.44%
7 Year	14.27%
10 Year	N/A*

# Age-Based Investment Option Allocations For College Years



- Premier Growth
- ▨ Growth & Income
- ▩ Global Strategic
- Money Market

# Age-Based Investment Option Allocation For College Years

## Portfolio Allocations

Alliance Growth & Income	20.0%
Alliance Premier Growth	20.0%
Alliance Global Strategic Income***	30.0%
Alliance Money Market	30.0%

## Weighted Average Expenses

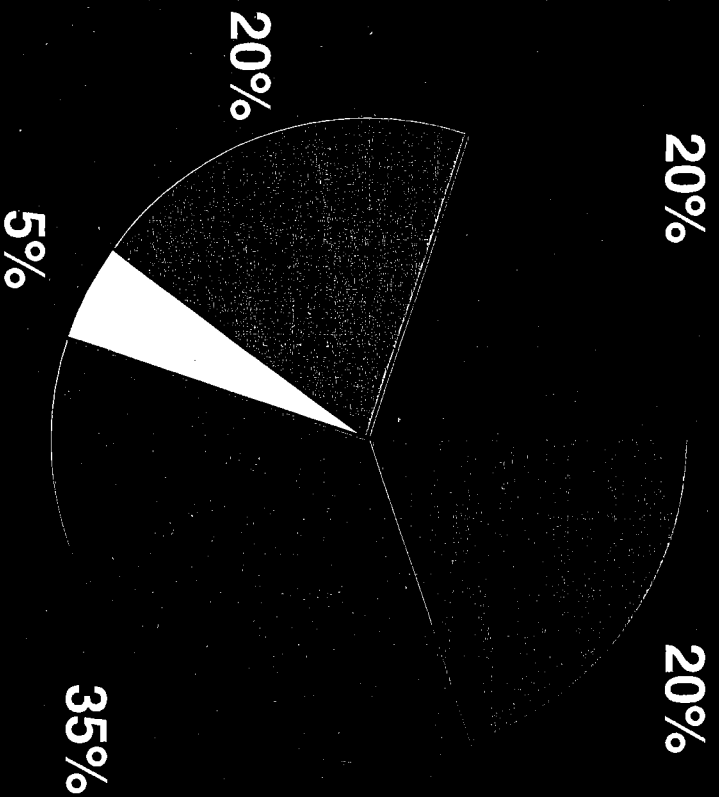
0.940%

## Historical Returns (Annualized)

YTD	
1 Year	3.59%
3 Year	11.50%
5 Year	16.27%
7 Year	16.89%
10 Year	13.29%
	N/A *

# Balanced Investment Option

## Alliance Balanced Portfolio



- Growth & Income
- Premier Growth
- Alliance Fund
- U.S. Gov't
- Quality Bond

# Balanced Investment Option

## Alliance Balanced Portfolio

### Portfolio Allocations

Alliance Growth & Income  
Alliance Premier Growth  
Alliance Fund  
Alliance U.S. Gov't  
Alliance Quality Bond\*\*

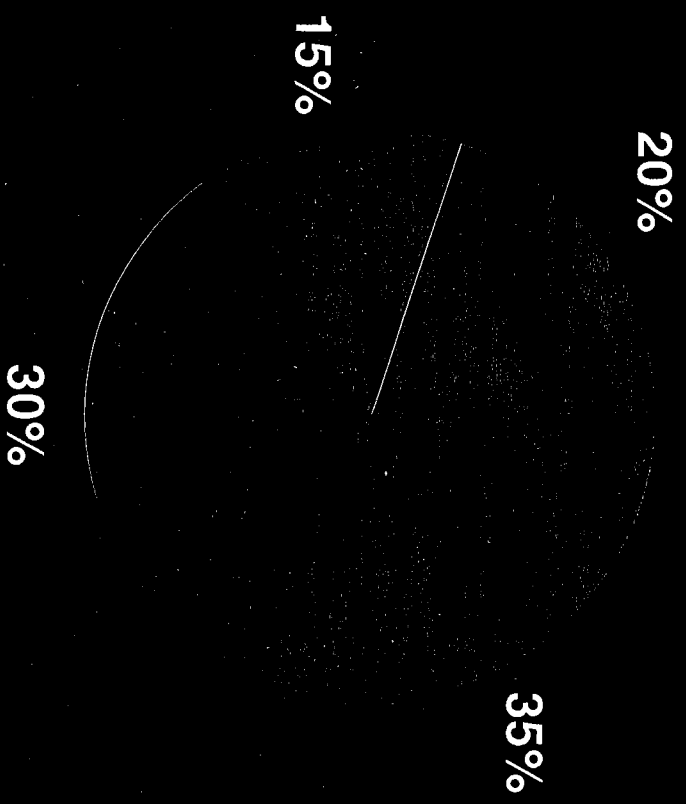
### Weighted Average Expenses

### Historical Returns (Annualized)

YTD	3.75%
1 Year	13.04%
3 Year	21.84%
5 Year	20.61%
7 Year	15.68%
10 Year	15.51%



# Conservative Equity Investment Option Alliance Conservative Equity Portfolio



- Growth & Income
- Premier Growth
- Worldwide Privatization
- Quasar

# Conservative Equity Investment Option

## Alliance Conservative Equity Portfolio

### Portfolio Allocations

Alliance Growth & Income	35.0%
Alliance Premier Growth	30.0%
Alliance Worldwide Privatization	15.0%
Alliance Quasar*	20.0%

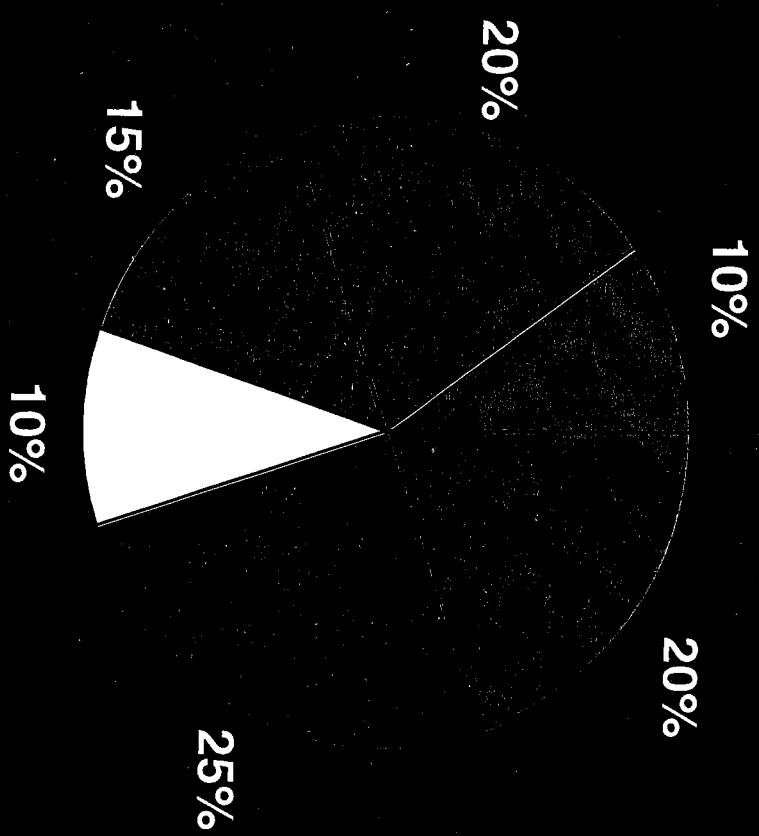
### Weighted Average Expenses

0.991%

### Historical Returns (Annualized)

YTD	3.37%
1 Year	23.74%
3 Year	24.36%
5 Year	25.85%
7 Year	20.04%
10 Year	17.77%

# Aggressive Equity Investment Option Alliance Aggressive Equity Portfolio



- Growth & Income
- Premier Growth
- Alliance Fund
- Worldwide Privatization
- Technology
- Quasar



# Aggressive Equity Investment Option

## Alliance Aggressive Equity Portfolio

### Portfolio Allocations

- Alliance Growth & Income 20.0%
- Alliance Premier Growth 25.0%
- Alliance Fund 10.0%
- Alliance Worldwide Privatization 15.0%
- Alliance Technology 20.0%
- Alliance Quasar \* 10.0%

### Weighted Average Expenses

1.079%

### Historical Returns (Annualized)

YTD	6.19%
1 Year	37.98%
3 Year	32.02%
5 Year	29.29%
7 Year	23.90%
10 Year	20.64%

**State of Rhode Island College Savings Program**

**COLLEGEBOUNDFUND**

**Marketing Plan Presented By**

**Alliance Capital** 

# Table of Contents

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- IV. Target Audience
- V. Marketing Plan Execution
  - a. Public Relations
  - b. Advertising and Media
  - c. Community Outreach
  - d. Communication Collateral
  - e. Marketing Support and Fulfillment
  - f. Internet

# I. Plan Objective

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- A. **A SUCCESSFUL LAUNCH:** To successfully reposition and launch the new and improved CollegeBound*fund* and maximize consumer awareness of the new program features and generate enrollment.
- B. **DEVELOP THE NATION'S BEST PROGRAM:** To position Rhode Island's new program as the most responsive and best college savings program (public or private) available in the national marketplace today.
- C. **MINIMIZE CONSUMER CONFUSION AND CONCERN:** To minimize consumer confusion, as a result of manager turnover, by developing a clear and cohesive communication strategy that stresses stability, peace of mind and confidence.
- D. **EDUCATE RHODE ISLAND CITIZENS:** Educate citizens to understand the importance of tax deferred saving for college and that RHEAA is providing Rhode Islanders' with several tax advantaged savings options that meet their individual needs based upon their own income level, investment strategies and tolerance for risk.

## **I. Plan Objective (continued)**

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- E. PROFESSIONAL INVESTMENT MANAGEMENT:** Create comfort and confidence that investments will be managed by one of the world's leading fund investment management companies in partnership with RHEAA and the State.
- F. COST EFFECTIVE, AFFORDABLE and EASY to START:** communicate the savings (reduction in fees over current program) and the cost effective and easy to start qualities of the new program.
- G. GENERATE INTEREST, INQUIRIES and ENROLLMENT**

## II. Strategies

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Our goal is to strongly communicate that Rhode Islanders now have a new and cost effective College Bound *fund* that best meets their specific needs based upon each family's income level, investment strategies and tolerance for risk.

Our strategy includes the following steps:

- A. To utilize our collective resources to educate consumers, media, financial advisors, accountants, lawyers and opinion leaders about the benefits of the new redesigned program and that it is the "best college savings vehicle available to Rhode Island families".
- B. To leverage and build upon the awareness, marketing expertise, consumer and institutional relationships that the Treasurer's Office and RIHEAA staffs have established.

## II. Strategies (continued)

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- C. To maximize the use of Alliance's extensive financial advisory service network of 260 financial advisors located in 40 cities and towns throughout Rhode Island.
- D. To leverage the news value of the launch of the redesigned and improved CollegeBound*fund* and create public relations opportunities utilizing State Officials, satisfied parents, and educators.
- E. To utilize paid media and a comprehensive advertising campaign.
- F. To create a Speakers Bureau Program utilizing Alliance financial advisors and others to provide seminars in school districts, libraries, businesses, and community locations.
- G. And to take advantage of seasonal opportunities to generate media coverage.

### **III. Key Messages**

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The Rhode Island Higher Education Savings Trust has redesigned the College Bound Fund, reduced fees, added investment options and has selected one of the nation's respected money managers to administer the Program.

Now Rhode Islanders can choose which tax advantaged college savings option best meets their individual needs. The new Rhode Island College Bound Fund includes:

- Tax-deferred savings in professionally managed mutual funds (taxed at child's rate upon withdrawal for education expenses)
- Low cost and contribution levels
- No income limitations
- Freedom to choose accredited post-secondary institution of your choice, both in and out of state
- Investment choices ranging from all equity to age-based asset allocation strategy



### **III. Key Messages (continued)**

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- Generous estate planning benefits
- Gift tax benefits (\$100,000 per couple over five years)
- Convenience and cost effective features
- Flexibility in changing beneficiary

Consumers have the security of knowing that their investments will be overseen by the Rhode Island's State Investment Committee, RIHEAA and managed by Alliance Capital, one of the world's leading fund management companies.

## **IV. Target Audiences**

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- A. The 1556 current participants
- B. Parents with children between the ages of 0 and 17
- C. Grandparents
- D. Aunts and uncles
- E. Local media
- F. Community leaders
- G. Business leaders
- H. Financial / investment professionals
- I. Legal community
- J. Accountants and CPA's

## V. Marketing Plan Execution

---

### A. Public Relations

A comprehensive public relations program will lay the groundwork for the new program, promote the product-redesigned launch and sustain on-going awareness and interest.

#### Pre-Launch

- Objective: To create awareness of the new program redesign and to generate public understanding and interest and generate inquiries and calls to 1-877-474-4378 or to the web site
  - Press releases announcing the program launch date and selection of Alliance Capital
  - Letter from appropriate state officials to large corporations, financial intermediaries, accountants, and lawyers

## **V. Marketing Plan Execution - Public Relations (continued)**

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- Television and radio appearances by appropriate State Officials
- Editorial coverage
- Legislative seminars

### **Public Relations Program Launch**

- Objective: To announce availability of new and redesigned Program, promote an understanding of its benefits, generate excitement and interest
- Vehicles:
  - Kick-off event with state officials, educational, business and civic leaders

## **V. Marketing Plan Execution-Public Relations (continued)**

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- Issue press advisory via blastfax and Business Wire inviting print, radio and TV reports and editors to attend the press conference
- Press conference with Governor, Treasurer, Legislative Leaders, RHEAA Board Members, staff, business leaders, education leaders, parents and students
- Press kit including press release, question and answers, fact sheets and infographics
- Support with information kits and promotional posters distributed throughout the State
- Post-launch media outreach including radio or television public service announcement

## **V. Marketing Plan Execution – Public Relations (continued)**

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- Coordinate community outreach with key civic and business leaders such as Department of Education, Board of Higher Education, Regional Chambers of Commerce, Libraries and Hospitals
- Communication with Rhode Island State employees and all Alliance customers
- Initiate a state-wide news media and editorial campaign
- Implement an Rhode Island school district distribution program resulting in all K-12 students and their parents receiving a promotional brochure signed by appropriate State Officials
- Initiate regional seminars utilizing Alliance Speaker's Bureau Program

## V. Marketing Plan Execution –

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### B. Advertising and Media

A far-reaching and aggressive integrated campaign will communicate a series of marketing messages designed to promote the launch of the new and redesigned CollegeBound*fund* to all citizens of Rhode Island, neighboring New England States and nationally.

#### Program Launch

- Objective: To generate excitement and interest in the program and to drive leads to phone representatives.

- Vehicles:

- A variety of vehicles will be utilized (see Appendices for recommended paid media plan, sample print and billboard ads)
- Direct response print advertising (1-877-474-4378)
- Spot broadcast on television and radio
- Outdoor
- Target literature distribution

## **V. Marketing Plan Execution - Advertising and Media (continued)**

---

- Use a mix of appropriate media vehicles to ensure broad reach and to strengthen overall message impact.
- During year one and in subsequent years execute media campaign to coincide with back to school, pre-holiday, tax return time, and graduation periods.



## V. Marketing Plan Execution

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### C. Community Outreach

Contact and expand existing educational promotional programs with nonprofit and business groups such as:

- Department of Education
- School Administrators Associations(Superintendents, Principals)
- Board of Higher Education
- Rhode Island Hospital Association
- Day Care Groups
- State Employees and Associations
- Alumni and Affinity Groups

## **V. Marketing Plan Execution - Community Outreach (continued)**

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- PTAs
- Library
- Business Groups
  - Chamber of Commerce
  - Top Business Employees
  - Community Banks
  - Accounting Firms
  - Financial Planners
  - Law Firms

- Establish a Speakers Bureau of Alliance representatives to provide on site regional seminars to school districts, major employers and other appropriate groups

## **V. Marketing Plan Execution - Community Outreach (continued)**

---

- Work with state Department of Education and develop a brochure distribution strategy to the parents of all public and private k-12 school students.
- Work with Board and outreach groups to establish and generate new promotional activities tied to school and community organizations such as an elementary school poster contest, a hospital scholarship lottery for newborns, etc.

## V. Marketing Plan Execution

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### D. Communications Collateral

A coordinated set of communications pieces will support the advertising and public relations campaigns and be used as elements in fulfillment

- Enrollment Kit
  - The enrollment kit will include an informative booklet, participation agreement, a fact sheet as well as enrollment applications.
- Brochure
  - An informational publication designed to communicate the benefits of the new and redesigned program, clarify various features, and provide enrollment procedures and information.

## V. Marketing Plan Execution - Communications Collateral (Continued)

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- Fact Sheet -- A simple easy-to-read listing of the features and benefits.
- Posters
  - Posters will be distributed throughout the State for posting in public buildings and cooperating businesses
- Public Service Announcement (PSA) Video & Radio
  - A public service announcement (PSA) video and radio, TV ads will be available to the media and the public libraries, etc. featuring State Officials, prominent financial advisors and satisfied parents extolling the benefits of the new program

## **V. Marketing Plan Execution**

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### **E. Marketing Support and Fulfillment**

A selected team of Alliance trained representatives will respond to consumer calls and be available for individual customer service and consultation.

- Field inquires
- Provide details on the program
- Provide comparison to other college savings options
- Help calculate college costs
- Help fill out applications
- Mail fulfillment kits

## **V. Marketing Plan Execution - Marketing Support and Fulfillment** **(Continued)**

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- The kits will contain
  - Letter from appropriate officials
  - Fact sheet on the program
  - Brochure with enrollment applications
  - Plan Disclosure and Participation Agreement

## **V. Marketing Plan Execution**

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### **F. The Internet**

World Wide Web: Alliance will work with the RICHEAA to develop a new customized interactive Web site for the Program. In addition to providing detailed information about the Program, it will contain important information about college planning, financial aid, a college cost savings calculator, as well as links to state and national educational organizations. In addition, Alliance will prominently position the Program on its web site and promote the Program to its more than 6 million customers nationwide.



## **V. Marketing Plan Execution – The Internet (continued)**

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- An Internet marketing campaign will be developed utilizing banner ads, links and other creative strategies. The web site will:
  - Supply information and allow interested residents to download information kits and application forms
  - Enroll online
  - Link to Alliance's Web site
  
- Create links to other not-for-profit national organizations involved in college planning and financing including The College Savings Plans Network (CSPN), National Association of Financial Aid Administrators (NASFA), United States Department of Education

# Integrated Communications Plan for Rhode Island

## Media Strategies:

1. Use a mix of appropriate media vehicles to ensure broad reach and to strengthen overall message impact.
2. Launch campaign on October 1st with heavy paid media to coincide with:
  - ◆ Launch (Back to School)
  - ◆ Graduation
  - ◆ Pre-Holiday
  - ◆ Tax Return Time

	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug
Advertising												
• Newspapers		=====				=====	=====		=====	=====		
• Magazine		=====				=====	=====		=====	=====		
• TV		=====				=====	=====		=====	=====		
• Radio		=====				=====	=====		=====	=====		
• Billboards		=====				=====	=====		=====	=====		
PR Events												
• Pre-Launch		=====										
• Launch		=====										
• On-going												
Direct Mail		=====										



## **Media Plan Highlights**

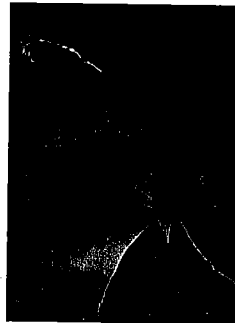
- Utilizes a media mix of TV, Radio and local newspapers to effectively promote the Rhode Island 529 College Savings program.
- The television schedule will promote the College Savings program on a combination of highly rated national and local programming throughout the day.
- The plan will reach 90% of Rhode Island residents (adults 25-64 years of age) who are prime targets for the college savings plan over 5 times during every average 4 weeks that the program is advertised.
- The plan will reach 99% of Rhode Island residents more than 21 times with the college savings message during the first 12 months of advertising.



## THE NEW COLLEGE BOUND FUND

# Introducing the best tax advantaged way to invest for college.

Si meliora dies, ut vina, peomata reddit, asicre velim, charits pretium quotus arroget annus. scriptor abinac annos centurm qui decedit, inter perfectos verasque referri debet an inter vilis ataque novos. Exludat lurig finis, est vetus atque probus, centum qui perficit annos. Quid qui deperitt minor uno mense vei anno, inter quos referendus erit. Veteresene poetas, an quos et presents et psoterar repusai actas. Quotus arroget annus. scriptor abinac annos centurm qui decedit, inter perfectos verasque referri debet an inter vilis ataque novos. Exludat lurig finis, est vetus atque probus, centum qui perficit annos. Quid qui deperitt minor uno mense vei anno, inter quos referendus erit. Veteresene poetas,



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presents et psoterar repusai actas quotus arroget annus. scriptor abinac annos centurm qui decedit, inter perfectos verasque r.

- ▶ Earnings grow federal and Rhode Island tax-deferred
- ▶ Funds can be used at any accredited university or college nationwide
- ▶ Funds are taxed at beneficiary's rate upon withdrawal
- ▶ Invest for as low as \$15 per month
- ▶ Assets are invested in a selected portfolio of Alliance mutual funds
- ▶ Contributions up to \$50,000 are federal gift tax-free

Call for your free  
College Bound Fund Kit

CollegeBoundFund

A Common sense Guide  
on Financing a Higher  
Education

1-877-474-4378

[www.collegeboundfund.com](http://www.collegeboundfund.com)

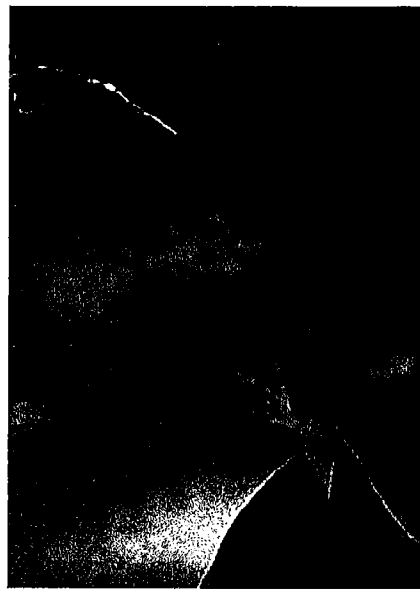
AllianceCapital 

Administered By Rhode Island Higher Education Assistance Authority

## THE NEW COLLEGE BOUND FUND

# When it comes to savings programs for higher education, the new enhanced *CollegeBoundfund* gets an A+.

Si meliora dies, ut vina, poemata reddit, asicre velim, charits pretium quotus arroget annus. scriptor abinac annos centurm qui decedit, inter perfectos verasque referri debet an inter vilis ataque novos. Exludat lurig finis, est vetus atque probus, centum qui perficit annos. Quid qui deperitt minor uno mense vei anno, inter quos referendus erit. Veteresene poetas, an quos et presents et psoterar repusai actas. Quotus arroget annus. scriptor abinac annos centurm qui decedit, inter perfectos verasque referri debet an inter vilis ataque novos. Exludat lurig finis, est vetus atque probus, centum qui perficit annos. Quid qui deperitt minor uno mense vei anno, inter quos referendus erit. Veteresene poetas, an quos et presents et psoterar repusai actas quotus arroget annus. scriptor abinac annos centurm qui decedit, inter perfectos verasque referri debet an inter vilis ataque novos. Exludat lurig finis, est vetus atque probus, centum qui perficit annos. Quid qui deperitt minor uno mense vei anno, inter quos referendus erit. Veteresene



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**1-877-474-4378  
www.collegeboundfund.com**

The Choice  
Is Yours.

CollegeBoundfund

**AllianceCapital** 

**Administered By Rhode Island Higher Education Assistance Authority**





## THE NEW COLLEGE BOUND FUND

No need to study about  
how to fund your kid's  
education...  
just come to class.

### Free Seminar

The Rhode Island College Bound Fund

Where: Rhode Island Latin School

When: Tuesday, September 12, 2000

Time: 7:00 pm

Si meliora dies, ut vina, poemata reddit, asicre velim, charits pretium quotus arroget annus. scrp-  
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1-877-474-4378

[www.collegeboundfund.com](http://www.collegeboundfund.com)

Administered By Rhode Island Higher Education Assistance Authority

# **Feasibility Analysis for A Prepaid Tuition Program**

Alliance would be pleased to assist RIHEAA in a feasibility analysis and proposal preparation for the development of a prepaid tuition program.

As you may be aware, Dr. Mazareas, while the Executive Director of MEFA, responded to a request from Rhode Island state officials to assist them in a feasibility analysis of developing a prepaid program similar to that offered in Massachusetts.

Commencing in 1995, Dr. Mazareas participated in a series of conference calls with officials from the Treasurer's Office, the Board of Higher Education, College Presidents and others. He shared with them, and with RIHEAA, program documentation and program materials for the U Plan-The Massachusetts Prepaid Tuition Program. In addition to providing detailed program analysis and the prepaid options available to the state of Rhode Island, he conducted a public institutional risk analysis for Rhode Island public colleges and the University of Rhode Island. As indicated earlier, Dr. Mazareas, has advised several states as both a paid and pro bono consultant, and thus is familiar with the different prepaid models currently in use around the country. Dr. Mazareas would be able to assist Rhode Island in evaluating which option is most appropriate for the state.



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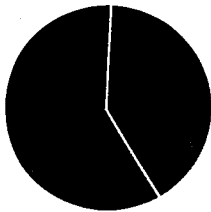
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# Alliance Capital

*The Investment Professional's Choice*

Of Alliance's  
\$321 Billion In  
Assets, 56% Is  
Managed For  
Institutional  
Clients and 44%  
For Mutual Fund  
Investors

Mutual  
Fund  
Assets



Institutional  
Assets

## **Alliance Is Uniquely Qualified To Help You Prepare For Your Retirement**

We already manage the retirement assets of millions of employees and retirees of many of America's largest institutions. Since 1962, Alliance Capital has specialized in the investment management of pension funds. Today, many premier institutions receive investment advisory services from Alliance Capital, including:

- ▶ Employee benefit plans of 29 of the FORTUNE 100 companies
- ▶ Public employee retirement plans in 32 of the 50 states
- ▶ Hundreds of foundations and endowments
- ▶ Hundreds of foreign institutions, including central banks

## **Institutional Investors Hire Professional Money Managers To "Beat The Benchmarks"**

Alliance Capital's core institutional clients are public pension plans and ERISA accounts (the Employee Retirement Income Security Act of 1974 which governs the operations of most private pension and benefit plans). These institutions have thousands of employees and retirees counting on them for the bulk of their retirement income. With hundreds of millions of dollars to invest — and hundreds of money managers vying for their business — institutional investors can demand better-than-average results. They generally look for an investment manager with a consistent investment style and a track record of providing "better-than-investment-benchmark" performance with moderate relative risk over long time periods.

Consistent investment performance has enabled us to retain our institutional clients and attract additional assets from new and existing institutional clients and mutual fund investors from around the world.

*All information on Alliance Capital is as of 6/30/99.*

### **Investment Products Offered**

**▶ Are Not FDIC Insured ▶ May Lose Value ▶ Are Not Bank Guaranteed**

# Our Sole Business Is Investment Management

At Alliance, your \$250 mutual fund investment receives the same attention as an institutional client's \$250,000,000 account because both investments are managed by the same experienced investment professionals.

## **How We Manage America's Retirement Money**

We believe we offer investors an advantage. It's in the way we manage money for our clients. Alliance Capital's public pension plan and ERISA clients typically seek long-term accumulation rather than short-term gains and our investment philosophy has been built accordingly. We believe that, in an increasingly complex world, a consistent, fundamental, research-oriented approach designed to perform well over long time periods produces the best investment results for all of our clients — large institutions as well as mutual fund investors.

## **Alliance Capital's Investment Decision-Making Process Is Heavily Dependent Upon Fundamental Analysis and Research**

Investing is an intense, information-based business, and analysts must collect, process and act upon that information intelligently and decisively. At Alliance Capital, every issue is evaluated on its fundamental merits and analysts cover a limited number of companies to facilitate intense coverage. Alliance Capital's research analysts and portfolio managers meet regularly with company management, industry experts, regulators and suppliers. They must know their companies extremely well, develop close working relationships with company management and possess a great sensitivity to prices.

## **Organized To Achieve Consistent Investment Performance**

At Alliance Capital, we believe consistent investment results are produced by small teams of well-informed, dedicated professionals armed with extensive research and technological resources. Alliance's success as an investment manager during the last four decades is based on our in-depth research capabilities.

## **Breadth And Depth Of Research Enhances Investment Process**

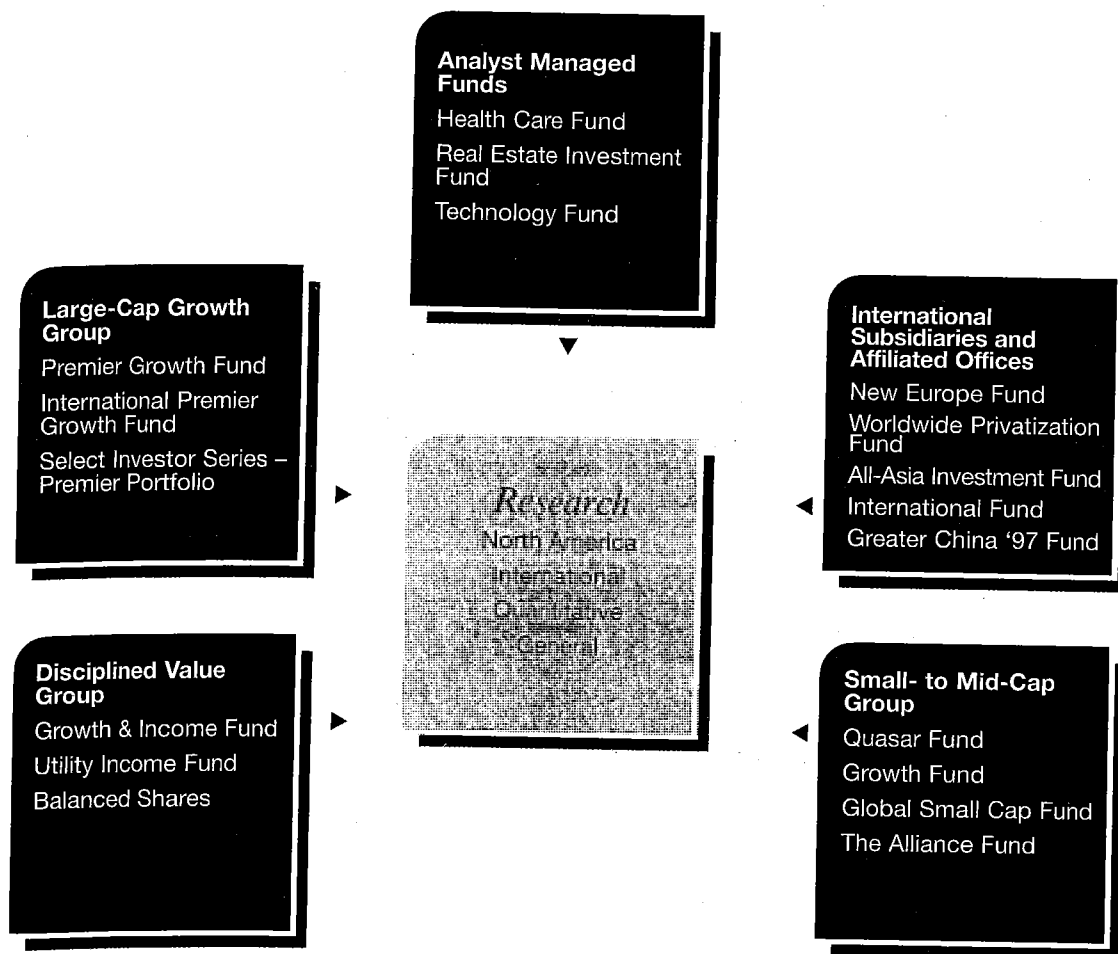
Alliance employs 270 investment professionals who average 14 years of investment experience and 7 years with the firm.

# A Premier Research Organization

## Alliance Equity Management

Equity management at Alliance Capital consists of over 65 equity analysts and 51 portfolio managers. We maintain a consistent style of equity investing; looking for well-managed, growing companies that we believe are relatively undervalued by the market. Alliance's equity investment professionals place primary emphasis on prospective long-term earnings growth, while also placing important emphasis on valuation.

We do not attempt to "time" the markets but instead maintain a long-term perspective that seeks to provide stock investors with attractive long-term investment returns. Our capabilities cover a wide selection of investments from our global and international portfolios managed in our Asian and European offices, to our analyst-managed, disciplined value and small- to mid-cap groups in our New York and San Francisco offices and our large-cap growth teams in Minneapolis, Cleveland and Chicago.

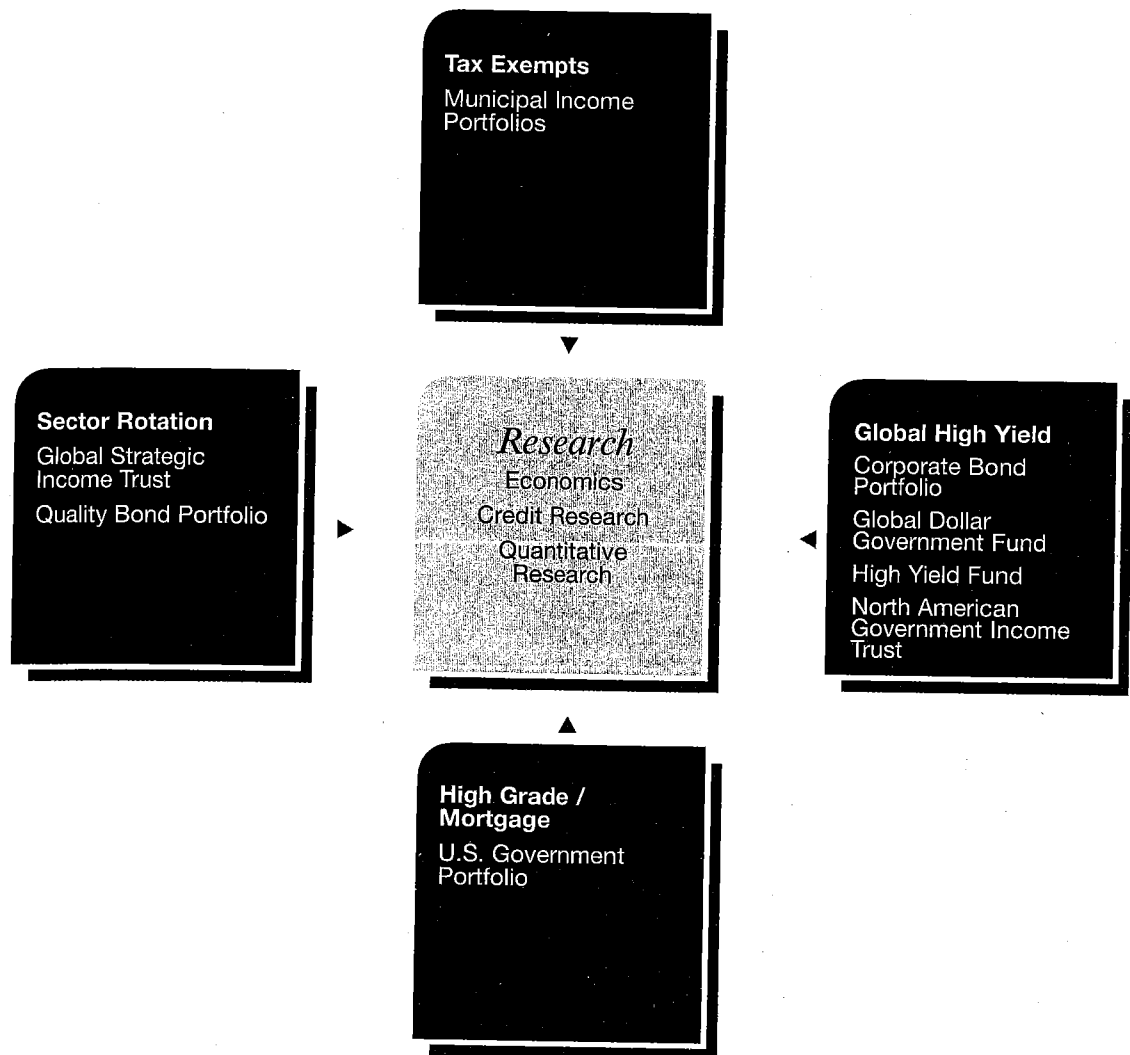


# A Premier Research Organization

## Alliance Fixed-Income Management

With 35 fixed-income analysts and 46 fixed-income portfolio managers, Alliance has a bond market presence matched by few other firms. Our investment approach seeks to provide attractive returns while managing an acceptable level of risk. Our expertise covers a wide range of securities across domestic and international fixed-income markets including foreign government and corporate bonds, and emerging market securities.

Alliance's fundamental research team is the cornerstone of the security selection process. Our experienced team of portfolio managers and analysts work together with the goal of attaining consistent long-term results.



# We Use Our Size To Your Advantage

## In The World Of Investing, Size Matters

As one of the largest investment managers in the world, Alliance Capital has access to information from company management and research staffs. Our standing in the industry attracts companies to our offices around the world.

**Our worldwide infrastructure provides a firm foundation for participation in the dynamic growth opportunities both within and outside of the U.S.**

- ▶ Technological resources
- ▶ Research capabilities
- ▶ Offices and subsidiaries
- ▶ Strategic alliances
- ▶ Diversified products

## Global Resources Matched By Few Firms

*270 Investment Professionals Around The World*





### **A Word About Risk**

**The investment return and principal value of an investment in the Funds will fluctuate so that your shares, when redeemed, may be worth more or less than their original cost.** While the Funds invest principally in equity or fixed income securities, in order to achieve their investment objectives, the Funds may at times use certain types of investment derivatives, such as options, futures, forwards and swaps. These involve risks different from and, in certain cases, greater than, the risks presented by more traditional investments. As each Fund pursues unique investment strategies, the risks associated with investments in each Fund differ. **These risks are fully discussed in each Fund's prospectus. For more complete information on any Alliance Mutual Fund, including investment objectives and policies, sales charges, expenses, risks and other matters of importance to prospective investors, call your financial representative for a current prospectus. Please read it carefully before you invest or send money.** Alliance Fund Distributors, Inc., the principal underwriter of Alliance Mutual Funds and an affiliate of Alliance Capital Management L.P., the manager of the Funds, is a member of the NASD.

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June 1999  
ARMMBRO699

# Let's Work It Out

## Planning to Meet the Cost of College

### Children Grow Quickly and So Do College Costs.

Your own college prep work must begin long before your child begins to prepare for college. On average, college costs have historically risen about 5% every year. Though your child may still be a baby, will you be ready to meet the costs of four years of tuition, room, board, and expenses in 18 years, which may be as much as \$245,328 at a private college?\*

### How Much Will You Need?

This table is designed to help you determine approximately how much you may need to send your children to college (based on current college costs and assuming that these costs continue to rise at 5% per year). Locate your child's age and the corresponding amount. Write that amount here for each of your children:

\$ \_\_\_\_\_ **Amount You Will Need**

Child's Age Now	Public		Private	
	Yearly Cost	Total Cost	Yearly Cost	Total Cost
18	\$10,909	\$47,019	\$23,651	\$101,939
17	\$11,454	\$49,370	\$24,834	\$107,036
16	\$12,027	\$51,839	\$26,075	\$112,387
15	\$12,629	\$54,431	\$27,379	\$118,007
14	\$13,260	\$57,152	\$28,748	\$123,907
13	\$13,923	\$60,010	\$30,185	\$130,103
12	\$14,619	\$63,010	\$31,695	\$136,608
11	\$15,350	\$66,161	\$33,279	\$143,438
10	\$16,118	\$69,469	\$34,943	\$150,610
9	\$16,923	\$72,942	\$36,690	\$158,140
8	\$17,770	\$76,589	\$38,525	\$166,048
7	\$18,658	\$80,419	\$40,451	\$174,350
6	\$19,591	\$84,440	\$42,474	\$183,067
5	\$20,571	\$88,662	\$44,597	\$192,221
4	\$21,599	\$93,095	\$46,827	\$201,832
3	\$22,679	\$97,749	\$49,169	\$211,923
2	\$23,813	\$102,637	\$51,627	\$222,520
1	\$25,004	\$107,769	\$54,209	\$233,646
Newborn	\$26,254	\$113,157	\$56,919	\$245,328

*Assume: 5% annual increase in college costs, current average cost of \$10,909 for public school (1999-2000 academic year), current average cost of \$23,651 for private school (1999-2000 academic year). Average cost includes tuition, fees, room and board. Source: The College Board.*

\* Sources: The Consumer Price Index and The College Board.

#### Investment Products Offered

- ▶ Are Not FDIC Insured
- ▶ May Lose Value
- ▶ Are Not Bank Guaranteed

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This is an example of how substantially an Alliance Growth & Income Fund investment would have grown if \$10,000 was invested 18 years ago and \$100 was added every month.



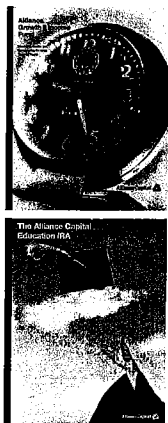
*Past performance is not indicative of future results. Alliance Growth & Income Fund Class A share SEC returns for the 1-, 5- and 10-year periods ended 12/31/99 are 6.16%, 23.23% and 14.56%, respectively. SEC returns reflect reinvestment of all distributions and payment of the maximum 4.25% front-end sales charge. This chart illustrates the value of a hypothetical \$10,000 investment in Alliance Growth & Income Fund Class A, followed by monthly investments of \$100. The chart reflects the deduction of the maximum 4.25% sales charge, and assumes the reinvestment of dividends and capital gains. Performance for Class B, Class C, and Advisor Class shares will vary from the results shown, due to differences in expenses charged to these classes. The investment return and principal value of an investment in the Fund will fluctuate as the prices of the individual securities in which it invests fluctuate, so that shares, when redeemed, may be worth more or less than their original cost.*

*For more complete information on any Alliance mutual fund, including investment objectives and policies, sales charges, expenses, risks and other matters of importance to prospective investors, see the prospectus. To obtain a prospectus for any Alliance Capital mutual fund, call your investment professional, or call (800) 227-4618. Please read the prospectus carefully before you invest or send money.*

### How Much Should You Invest?

Find the table that reflects your child's age. Locate the amount you will need. Each table shows you how much your monthly investment should be, based on a steady hypothetical investment return rate of 10%.\*

Child's Age	Amount Needed	Monthly Investment
1	\$100,000	\$100
2	\$100,000	\$100
3	\$100,000	\$100
4	\$100,000	\$100
5	\$100,000	\$100
6	\$100,000	\$100
7	\$100,000	\$100
8	\$100,000	\$100
9	\$100,000	\$100
10	\$100,000	\$100
11	\$100,000	\$100
12	\$100,000	\$100
13	\$100,000	\$100
14	\$100,000	\$100
15	\$100,000	\$100
16	\$100,000	\$100
17	\$100,000	\$100
18	\$100,000	\$100
19	\$100,000	\$100
20	\$100,000	\$100
21	\$100,000	\$100
22	\$100,000	\$100
23	\$100,000	\$100
24	\$100,000	\$100
25	\$100,000	\$100
26	\$100,000	\$100
27	\$100,000	\$100
28	\$100,000	\$100
29	\$100,000	\$100
30	\$100,000	\$100



\* The example shown is for illustrative purposes only and does not represent the past or future performance of any specific investment, including any Alliance mutual fund. A plan of regular investing does not assure a profit and does not protect against loss in declining markets. Since this strategy involves continuous investments, regardless of fluctuating prices, investors should consider their financial ability to invest during periods of low price levels.

### Harness Tax-Deferral — the "Education IRA"

With an Alliance Education IRA you can invest up to \$500 per year per child to pay for education expenses. The tax advantages can be significant. Earnings grow tax-free, and withdrawals are tax-free (if used for higher education expenses before age 30).

To order Alliance Growth & Income Fund materials or "The Alliance Capital Education IRA" call (800) 227-4618.

Investment Products Offered

- ▶ Are Not FDIC Insured
- ▶ May Lose Value
- ▶ Are Not Bank Guaranteed

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# AllianceAdvance

The Alliance Advance is published quarterly for shareholders of Alliance Mutual Funds

Spring 2000

## Where Are You Investing?

Even though the Dow Jones Industrial Average (DJIA) closed below 10,000 on February 25, 2000 for the first time in more than 10 months, it's hard to deny the market's unprecedented economic expansion. Investors continue to search for bargain stocks or hot dotcoms that will bring them faster profit growth. But are they focusing too heavily on one industry or market? Are they neglecting to diversify? Are they overlooking other opportunities, perhaps in the international arena?

Below is a list of 16 countries whose MSCI Indices grew at a rate of over 10% for the last 20 years ended December 31, 1999. Can you guess which stock market beat all the others?

Australia	The Netherlands
Belgium	Singapore/ Malaysia
Canada	Spain
Denmark	Sweden
France	Switzerland
Germany	United Kingdom
Hong Kong	United States
Italy	
Japan	

Surprisingly, the answer is not the U.S. The country whose stock market posted the largest gain for the last 20 years was Sweden. Its annualized return was 24.18%, compared to a U.S. return of 18.07%. The Netherlands even beat out the U.S., posting a return of 19.51%.\* (For a complete chart of all returns, please turn to page 5.)

Considering these numbers from around the world, have investors opted to diversify their investments internationally outside of U.S. borders, or have they focused solely on the U.S.? According to the Investment Company Institute (ICI), the national association of the investment company industry, 62% of mutual fund investors owned international or global mutual funds as of February 1999. The number of investors willing to diversify their investments overseas is probably the result of several factors.

First, the amount and breadth of investment information available to the average investor over the last 20 years has increased dramatically. From cable television news shows, to

magazines and the internet, investors have more information about specific investment options and investing advice than ever before. This has made them more knowledgeable, and hence, more savvy investors.

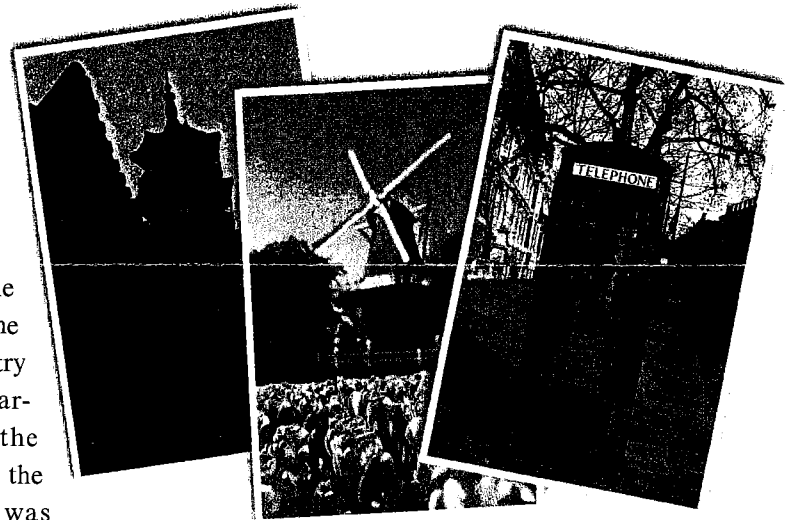
*Continued on page 5*

*\* Past performance is no guarantee of future results. Source: Morgan Stanley Capital International (MSCI). Performance for each country is based on the unmanaged Morgan Stanley Capital International (MSCI) index for each country in U.S. dollars. These indices track the performance of each country's stock market and do not reflect fees or expenses. An investor cannot invest directly in an index. Performance figures are historical, assume reinvestment of dividends, and do not represent the performance of any specific investment, including an Alliance mutual fund.*

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AllianceCapital   
The Investment Professional's Choice



# Snapshot of Our International World

Alliance Capital offers a wide range of international mutual funds — from Europe to Asia, small cap to large cap, and well established companies to newly privatized ones. If you would like to diversify your current investment portfolio with international investments, you may want to consider one of these Alliance funds.

Remember that being well diversified is important, but spreading your investments around too thinly, or focusing too heavily on one country or region, may not be the best strategy. You should also keep in mind that foreign investments involve risks not associated with U.S. investments, including political and economic uncertainties of foreign countries, as well as the risk of currency fluctuations. And these risks may be magnified for investments in emerging markets. Also, investing in the stocks of small companies or those that concentrate their investments in one country or region may be more volatile, and the loss of principal may be greater, than more diversified portfolios. Please note that the Asian markets, particularly Alliance All-Asia Investment Fund and Alliance Greater China '97 Fund, performed particularly well in 1999, after performing particularly poorly in 1998.

## Alliance All-Asia Investment Fund

Invests primarily in the equity securities of Asian companies. Invests a significant portion of its assets, which may be more than 50%, in equity securities of Japanese companies. We take full advantage of Alliance's global research teams in the U.S. and Europe, as well as our in-house Asian research teams in Tokyo, Hong Kong, Singapore and Mumbai. On the basis of our in-depth fundamental research and frequent contact with corporate managements, we hope to identify undervalued companies.

## Alliance Global Small Cap Fund

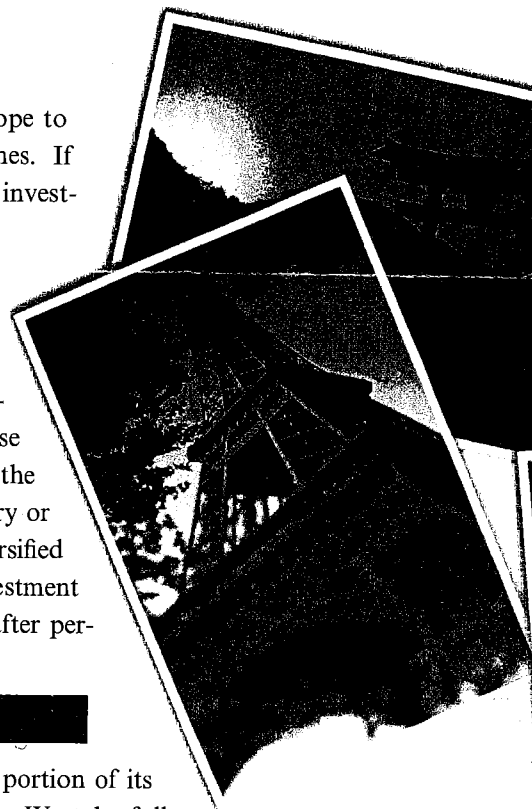
The Fund's investment policies, which are aggressive, include investments in equity securities of companies with relatively small market capitalizations. Our strategy is to invest in quality companies selling at undervalued market prices relative to expected earnings, fundamentals and future prospects. We buy stocks of companies that have strong, experienced management teams, quality products selling at reasonable prices and dominant market share with the potential for faster than average growth.

## Alliance Greater China '97 Fund

Invests primarily in securities of Greater China companies, which are companies in Hong Kong, China and Taiwan. The Fund's current strategy is to focus on companies in the high-growth sectors in the Greater China region, and, in particular, those in the technology, telecommunications and information technology sectors.

## Alliance International Fund

Invests in the equity securities of established non-U.S. companies as well as U.S. companies which have their principal business outside the U.S. In managing the Fund, we allocate investments between regions based on our macroeconomic outlook and utilize the fundamental analysis and research of Alliance's large global equity research team to select stocks.



## Alliance International Premier Growth Fund

Invests predominantly in the equity securities of carefully selected non-U.S. companies that are judged likely to achieve superior earnings growth. The Fund's focus is on "premier" growth companies with market values generally in excess of \$10 billion that are leaders in their respective industries. The Fund invests in approximately 40 companies, 30 of which will typically comprise approximately 70% or more of the Fund.

## Alliance New Europe Fund

Invests primarily in the equity securities of European companies. We utilize a disciplined approach to invest on a bottom-up basis in those companies exhibiting the best available combination of sustainable earnings growth at a reasonable price. Our approach emphasizes proprietary qualitative and quantitative inputs developed by our in-house analysts.

## Alliance Worldwide Privatization Fund

Invests primarily in securities of issuers that are undergoing or have undergone privatizations. The Fund seeks to take advantage of investment opportunities that are created by privatizations of state enterprises in both established and developing economies. We believe that the Fund offers a unique opportunity to invest in the global trend towards free markets and increased competition.

To receive a fund prospectus on any Alliance mutual fund, which contains more information about each fund's investment objectives and policies, sales charges, expenses, risks and other matters of importance to prospective investors, please contact your financial representative, or call Alliance Capital at (800) 227-4618. Please read the prospectus carefully before you invest or send money. ■

## Alliance International Fund Class A Share Annual Total Returns

	NAV as of 2/29/00			SEC as of 12/31/99		
	1 year	5 year	10 year	1 year	5 year	10 year
All-Asia Investment	123.22%	7.83%	7.98%*	109.70%	6.58%	6.48%*
Global Small Cap	76.83%	23.90%	12.42%	40.43%	18.98%	9.36%
Greater China '97	92.35%	6.35%*		75.11%	6.39%*	
International	43.11%	13.76%	7.68%	28.92%	11.09%	6.21%
International Premier Growth	62.20%	27.17%*		40.88%	20.85%*	
New Europe	33.75%	22.82%	13.73%*	20.76%	20.33%	12.72%*
Worldwide Privatization	71.72%	22.28%	18.04%*	49.67%	18.98%	16.81%*

\* Returns as of the Fund's inception date. Inception dates are: All-Asia Investment 11/28/94, Greater China '97 9/3/97, International Premier Growth 3/3/98, New Europe 4/2/90, Worldwide Privatization 6/2/94. Past performance is not indicative of future results. The investment return and principal value of an investment in the Funds will fluctuate as the prices of the individual securities in which they invest fluctuate, so that your shares, when redeemed, may be worth more or less than their original cost. Returns are for each Fund's Class A shares. Returns include reinvestment of all distributions. Net asset value (NAV) returns are as of 2/29/00 and do not include sales charges which would reduce total return figures. SEC returns are as of 12/31/99 and include the maximum 4.25% front-end sales charge. Returns for Class B, Class C and Advisor Class shares will vary due to different expenses charged to these classes. The Asian markets, particularly Alliance All-Asia Investment Fund and Alliance Greater China '97 Fund, performed particularly well in 1999, after performing particularly poorly in 1998.

# Going Places?

## Take Your Retirement Money With You

The booming economy has rewarded many investors financially and has led to an unemployment rate of 4.1% – one of the lowest unemployment rates in 29 years.\* That means workers have more opportunities to work where they want, at the salaries they want, and perhaps even retire earlier.

If you contribute to your company's 401(k), 403(b) or profit sharing plan, and you change jobs or retire, you will need to decide what to do with your retirement plan money. You have several options:

- ▶ Open a Rollover IRA
- ▶ Take a cash distribution
- ▶ Create an indirect rollover to an IRA
- ▶ Leave the money in your former employer's plan
- ▶ Roll the money over into your new employer's plan

Deciding which option to choose can sometimes be overwhelming because each option has its own set of advantages, disadvantages and tax consequences. You also need to decide who your beneficiary should be, which can have an important impact on your estate planning.

Additionally, if you changed jobs several times throughout your career, you may have retirement funds housed at several different locations. If this is the case, your assets may not be divided into the asset allocations you feel most comfortable with. Consolidating all these accounts in one central location may save you time and money and make managing them a little bit easier. Alliance offers retirement investors over 25



mutual funds from conservative funds to aggressive funds. Depending on your time horizon and risk tolerance, you could select from the following categories: high quality fixed income, specialty fixed income, value equity, growth equity, specialty equity and international equity. Plus, if you open an Alliance Capital IRA account and invest over \$25,000, we will waive the \$10 annual administrative fee.\*\*

At Alliance, we respect the value professional financial advisors bring to their clients. That's why we continue to create programs such as the Retirement Plan Distribution Analyzer to help them better service their clients. The Retirement Plan Distribution Analyzer helps investors understand their own personal distribution options and the tax consequences of each, so they can make a more informed decision about what to do with their retirement money.

By supplying us with some basic information about you and your upcoming retirement plan distribution, we will create your own Retirement Plan Distribution Analyzer that will be mailed to you and your financial advisor.

*Continued on page 5*

\* Bureau of Labor Statistics and CNNfn

\*\* Excludes employer-sponsored SIMPLE IRAs.

### A Professional Financial Advisor Can Help With:

- ▶ Determining how much you will need at retirement
- ▶ Determining your investing needs based on your financial goals and time until retirement
- ▶ Understanding your tolerance for risk
- ▶ Evaluating your investment options and choosing a well-diversified asset allocation
- ▶ Understanding your distribution options at and before retirement



# Where Are You Investing?

(Continued from page 1)

Second, investors also better understand basic investing concepts such as diversification, dollar cost averaging, asset allocation, and maintaining a long term investment time horizon.

Third, technology, global competition, an increasing number of mergers and acquisitions, the introduction of the Euro, the decline of communism, and more favorable trade practices have brought the world a little bit closer together – and benefited global economies, not just the U.S. All these factors have led many long-term investors to also look abroad for investment opportunities.

Investors should keep in mind that foreign investments involve risks not associated with U.S. investments, including political and economic uncertainties of foreign countries, as well as the risk of currency fluctuations. These risks may

be magnified for investments in emerging markets.

The booming economy, both in the U.S. and overseas, and the large number of investment choices available to investors today, have fueled the mutual fund industry. Twenty years ago, only 5.7% of U.S. households owned mutual funds. In 1999, that number reached 47.4%, according to the ICI.

While 54% of equity owners purchased their first equity before 1990, 28% did so between 1990 and 1995 and 18% after 1995, according to the ICI. That means that nearly 46% of equity investors have never experienced a bear market. The U.S. economy may continue to soar, perhaps with a correction or two along the way, but then again, it may not. Therefore, it may make sense to keep a long-term perspective and ensure your investments are well diversified. ■

# Going Places?

(Continued from page 4)

Through easy to read charts and tables, the Analyzer will illustrate:

- ▶ The tax consequences of taking a cash distribution
- ▶ The tax savings possible by rolling over your distribution to an IRA
- ▶ A future projection of the growth of your retirement assets – for both the cash distribution option and the Rollover IRA option\*\*
- ▶ Special tax considerations to keep in mind when planning for the future – based on your personal information
- ▶ A general asset allocation program that you should review with your financial advisor

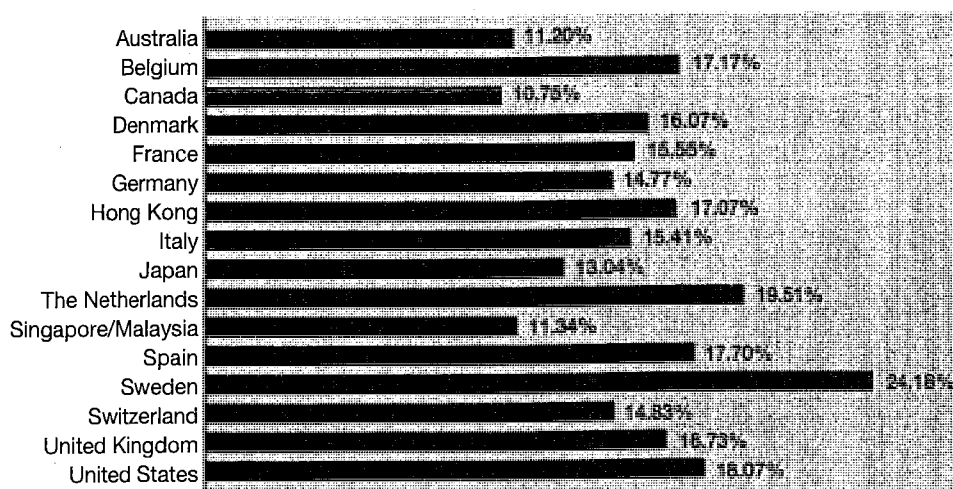
To take advantage of this new free service, contact your financial advisor, or call Alliance directly at (800) 221-5672. Our IRA Consulting Services representatives will gather the pertinent information from you and have your customized Retirement Plan Distribution Analyzer mailed directly to you and your financial advisor.

Since everyone's own personal situation is different and unique, it's important to examine each retirement plan option carefully with your financial consultant and tax advisor before making any decisions. ■

\*\* Reinvested dividends and earnings in a Rollover IRA are not taxed until withdrawn, helping the account grow faster than a taxable investment.

## Country Returns\*

December 31, 1979 – December 31, 1999



\*Past performance is no guarantee of future results. Source: Morgan Stanley Capital International (MSCI). Performance for each country is based on the unmanaged Morgan Stanley Capital International (MSCI) index for each country. These indices track the performance of each country's stock market and do not reflect fees or expenses. An investor cannot invest directly in an index. Performance figures are historical, assume reinvestment of dividends, and do not represent the performance of any specific investment, including an Alliance mutual fund.

# Alliance Fund Services

## Account Access becomes easier!

Through the improved Alliance Answer, shareholders can enjoy 24 hour access to their accounts, 7 days a week. It's fast, it's confidential and now even easier!

The Alliance Answer is now equipped with an advanced speech recognition system that allows callers to use spoken commands to retrieve account information or process transactions. The Alliance Answer can recognize most natural speech patterns as well as simple one word commands.

The Alliance Answer can identify voice commands and questions such as:

- ▶ What's my balance?
- ▶ What's the price of the Growth Fund, class A?
- ▶ I want to make an exchange from Growth to Technology.
- ▶ I want to order a statement.
- ▶ I want to change my PIN.

These statements can be as simple as:

- ▶ Account balance
- ▶ Growth Fund, class A  
(to request the price)
- ▶ Exchange
- ▶ Statement
- ▶ Change PIN

The Alliance Answer can also recognize the same request, asked in different ways.

- ▶ What is the price of the Growth Fund?
- ▶ I want the price of the Growth Fund.
- ▶ Give me the price of the Growth Fund.
- ▶ I want a price for the Growth Fund.
- ▶ Price for Growth Fund
- ▶ Price

If a caller is unsure of what to say, the directed dialogue feature will prompt the caller through the menu to the desired area of interest. Touch-tone service may always be accessed by pressing \*\*. A caller may be transferred to a representative at any time during business hours, by saying "representative".

## Invest By Mail

To make an additional investment in any of your existing Alliance mutual funds, please make checks payable to "Alliance Funds" and mail to:

Alliance Fund Services  
P.O. Box 786003  
San Antonio, TX 78278-6003

Be sure to include your fund and account number on your check.

## Getting in Touch

Alliance Fund Services  
(800) 221-5672 or (201) 553-3300

Alliance Answer  
(800) 251-0539

Our Website  
[www.alliancecapital.com](http://www.alliancecapital.com)

Our Address  
Alliance Capital Management L.P.  
1345 Avenue of the Americas  
New York, NY 10105

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Editor: Theresa Iosca

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*For a prospectus on any of the Alliance mutual funds, which includes complete information about investment objectives and policies, sales charges, expenses, risks and other matters of importance to investors, contact your investment dealer or call (800) 227-4618. Please read the prospectus carefully before you invest or send money. Alliance Fund Distributors, Inc., the principal underwriter of Alliance Mutual Funds, is a member of the NASD.*

## Investment Products Offered:

- ▶ Are Not FDIC Insured
- ▶ May Lose Value
- ▶ Are Not Bank Guaranteed

Information as of March 2000, except where indicated.

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# Alliance Capital Retirement Plans

## Mutual Fund Performance as of 3/31/00

*This performance update is authorized for use only in connection with Alliance group retirement plans. It shows performance at NAV, without the imposition of sales charges that would apply if shares were purchased outside of a qualified retirement plan. If sales charges were reflected, performance would be lower.*

Total Returns as of 3/31/00 Class A Shares	Lipper Category	1 Year Return	3 Year Return	5 Year Return	10 Year Return
<b>Aggressive Growth Funds</b>					
<b>Alliance Global Small Cap Fund</b>	<b>Global Small-Cap</b>	<b>68.35%</b>	<b>23.78%</b>	<b>22.85%</b>	<b>11.92%</b>
Lipper Global Small-Cap Funds Average		66.82%	22.40%	20.66%	12.19%
<b>Alliance Technology Fund</b>	<b>Science &amp; Technology</b>	<b>88.10%</b>	<b>58.71%</b>	<b>41.22%</b>	<b>31.41%</b>
Lipper Science & Technology Funds Average		137.75%	68.77%	44.10%	31.51%
<b>Alliance Worldwide Privatization Fund</b>	<b>International</b>	<b>57.66%</b>	<b>22.78%</b>	<b>22.14%</b>	<b>18.33%†</b>
Lipper International Funds Average		39.77%	18.02%	15.42%	12.80%†
<b>Alliance Quasar Fund</b>	<b>Small-Cap Core</b>	<b>21.60%</b>	<b>8.76%</b>	<b>18.39%</b>	<b>11.49%</b>
Lipper Small-Cap Core Funds Average		54.26%	20.20%	18.19%	13.81%
<b>Alliance New Europe Fund</b>	<b>European Region</b>	<b>30.21%</b>	<b>22.40%</b>	<b>21.06%</b>	<b>13.50%†</b>
Lipper European Region Funds Average		33.83%	20.74%	21.39%	12.22%†
<b>Growth Funds</b>					
<b>Alliance International Fund</b>	<b>International</b>	<b>38.92%</b>	<b>15.78%</b>	<b>12.76%</b>	<b>7.61%</b>
Lipper International Funds Average		39.77%	18.02%	15.42%	10.68%
<b>Alliance Premier Growth Fund</b>	<b>Large-Cap Growth</b>	<b>25.86%</b>	<b>40.26%</b>	<b>35.22%</b>	<b>25.86%†</b>
Lipper Large-Cap Growth Funds Average		38.08%	36.45%	29.39%	22.53%†
<b>The Alliance Fund</b>	<b>Mid-Cap Value</b>	<b>24.87%</b>	<b>19.21%</b>	<b>20.35%</b>	<b>16.33%</b>
Lipper Mid-Cap Value Funds Average		21.95%	14.72%	15.69%	13.20%
<b>Alliance Growth Fund</b>	<b>Multi-Cap Core</b>	<b>27.68%</b>	<b>30.38%</b>	<b>26.29%</b>	<b>25.39%†</b>
Lipper Multi-Cap Core Funds Average		25.51%	23.13%	21.96%	18.78%†
<b>Growth &amp; Income Funds</b>					
<b>Alliance Growth &amp; Income Fund</b>	<b>Multi-Cap Value</b>	<b>9.46%</b>	<b>20.23%</b>	<b>22.87%</b>	<b>15.60%</b>
Lipper Multi-Cap Value Funds Average		7.97%	12.96%	16.32%	13.40%
<b>Alliance Utility Income Fund</b>	<b>Utility</b>	<b>23.91%</b>	<b>27.54%</b>	<b>20.59%</b>	<b>15.27%†</b>
Lipper Utility Funds Average		26.59%	22.22%	18.92%	12.94%†
<b>Alliance Balanced Shares</b>	<b>Balanced</b>	<b>7.05%</b>	<b>16.81%</b>	<b>15.51%</b>	<b>11.60%</b>
Lipper Balanced Funds Average		10.50%	14.72%	15.34%	12.39%
<b>Income Funds</b>					
<b>Alliance High Yield Fund</b>	<b>High Current Yield</b>	<b>-4.98%</b>	<b>4.83%†</b>	—	—
Lipper High Current Yield Funds Average		0.06%	4.15%†		
<b>Alliance Corporate Bond Portfolio</b>	<b>Corporate Debt BBB</b>	<b>4.31%</b>	<b>5.66%</b>	<b>10.75%</b>	<b>10.57%</b>
Lipper Corporate Debt BBB Funds Average		0.57%	5.57%	7.13%	8.39%
<b>Alliance Global Strategic Income Trust</b>	<b>Multi-Sector Income</b>	<b>9.09%</b>	<b>8.87%</b>	<b>10.71%†</b>	—
Lipper Multi-Sector Income Funds Average		2.13%	4.46%	5.51%†	
<b>Alliance U.S. Government Portfolio</b>	<b>General U.S. Gov't</b>	<b>1.54%</b>	<b>5.98%</b>	<b>5.70%</b>	<b>6.81%</b>
Lipper General U.S. Government Funds Average		0.75%	5.77%	6.11%	7.02%
<b>Money Market Fund</b>					
<b>AFD Exchange Reserves</b>	<b>Money Market</b>	<b>4.52%</b>	<b>4.46%</b>	<b>4.42%</b>	<b>4.25%†</b>
Lipper Money Market Funds Average		4.72%	4.82%	4.93%	4.85%†

*Past performance does not guarantee future results.*

*Total returns reflect reinvestment of all distributions. Source: Lipper Inc. Returns are for Class A shares at net asset value (NAV). Funds in the Lipper average generally have similar objectives to the Funds, although some may have different investment policies. An investor cannot invest directly in the averages and its returns are not indicative of any specific investment, including an Alliance mutual fund.*

*† Performance based on closest month-end after Fund's inception date. (dates: Worldwide Privatization Fund 6/2/94; New Europe Fund 4/2/90; Premier Growth Fund 9/28/92; Growth Fund 9/4/90; Utility Income Fund 10/18/93; High Yield Fund 4/22/97; Global Strategic Income Trust 1/19/96; AFD Exchange Reserves 3/25/94.)*

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## Total Return Performance as of 3/31/00

Class B Shares	1 Year	3 Year	5 Year	10 Year
Global Small Cap Fund	67.08%	22.89%	21.95%	13.75%*
Technology Fund	86.76%	57.60%	40.22%	38.16%*
Worldwide Privatization Fund	56.58%	21.91%	21.27%	16.72%*
Quasar Fund	20.65%	7.89%	17.49%	13.23%*
New Europe Fund	29.27%	21.53%	20.20%	14.62%*
International Fund	37.89%	14.94%	11.89%	8.34%*
Premier Growth Fund	25.02%	39.32%	34.32%	25.10%*
The Alliance Fund	23.87%	18.20%	19.34%	15.50%*
Growth Fund	26.76%	29.45%	25.40%	19.03%
Growth & Income Fund	8.25%	19.30%	21.92%	15.03%*
Utility Income Fund	23.00%	26.64%	19.76%	14.33%*
Balanced Shares	6.23%	15.90%	14.61%	11.03%*
High Yield Fund	-5.62%	4.84%*	—	—
Corporate Bond Portfolio	3.56%	4.93%	9.97%	8.48%*
Global Strategic Income Trust	8.36%	8.28%	11.29%*	—
U.S. Government Portfolio	0.74%	5.23%	4.94%	5.39%*
AFD Exchange Reserves	3.99%	3.93%	3.90%	3.73%*

Past performance does not guarantee future results.

\* Since inception (dates: Global Small Cap Fund 9/17/90; Technology Fund 5/3/93; Worldwide Privatization Fund 6/2/94; Quasar Fund 9/17/90; New Europe Fund 3/5/91; International Fund 9/17/90; Premier Growth Fund 9/28/92; The Alliance Fund 3/4/91; Growth & Income Fund 2/8/91; Utility Income Fund 10/18/93; Balanced Shares 2/4/91; High Yield Fund 4/22/97; Corporate Bond Portfolio 1/8/93; Global Strategic Income Trust 3/21/96; U.S. Government Portfolio 9/30/91; AFD Exchange Reserves 3/25/94.) Total returns are for Class B shares and reflect reinvestment of all distributions. Sales loads are not assessed on fund shares purchased through group retirement plans. Therefore performance information is shown without sales charges.

### A Word About Risk:

The investment return and principal value of an investment in the Funds will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. While the Funds invest principally in equity or fixed-income securities, in order to achieve their investment objectives, the Funds may at times use certain types of investment derivatives, such as options, futures, forwards and swaps. These instruments involve risks different from and, in certain cases, greater than, the risks presented by more traditional investments. As each Fund pursues unique investment strategies, the risks associated with investments in each Fund differ. These

risks are fully discussed in each Fund's prospectus. For more complete information on any Alliance mutual fund, including investment objectives and policies, sales charges, expenses, risks and other matters of importance to prospective investors, call your financial representative or Alliance Capital at (800) 227-4618 for a current prospectus. Please read the prospectus carefully before you invest or send money. Alliance Fund Distributors, Inc., the principal underwriter of Alliance mutual funds and an affiliate of Alliance Capital Management L.P., the manager of the Funds, is a member of the NASD.

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