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**Annual Report Summary
and Highlights**
for Account Holders

For the Fiscal Year Ended June 30, 2014



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Annual Report Summary and Highlights

New Participants and Investment Growth Continue Amid Strong Stock Market Performance

We are pleased to report continued growth in the **College Savings Plans of Maryland** during Fiscal Year 2014. Across both Plans, contributions from current account holders, new enrollments, and very favorable stock market performance significantly contributed to total investments in the Plans increasing by more than 20% during the fiscal year, exceeding \$4.8 billion as of June 30, 2014 for more than 177,000 beneficiaries.

Investments in the **Maryland Prepaid College Trust** earned about 18.5% during the fiscal year and reached \$895 million as of June 30, 2014 on behalf of more than 31,500 beneficiaries. Over the past year, as well as over the past several years, strong investment returns have combined with lower than projected tuition increases at Maryland's public colleges to strengthen the Trust's actuarial surplus, which reached a funded status of 143% at fiscal year-end. While this is good news, we believe there is a significant likelihood that these trends may not continue at these levels over the next several years. We will continue to work with our financial advisor and actuary to prepare for the future and sustain the long-term health of the Trust for our participants.

Investments in the **Maryland College Investment Plan** reached \$3.9 billion as of June 30, 2014. In addition, the Plan had a net gain of nearly 11,500 additional beneficiaries and reached a total of nearly 145,700 beneficiaries at fiscal year-end. With more than \$400 million in contributions from account holders and favorable investment markets during the fiscal year, we are very pleased to report that the average account balance increased during the year by more than 12%, reaching \$19,654 as of June 30, 2014.

Thank you for participating in the College Savings Plans of Maryland and for making college savings a priority in your family.

Sincerely,

The Board
College Savings Plans of Maryland

Read the 2014 Annual Report by
visiting CollegeSavingsMD.org or
by calling 888.4MD.GRAD (463.4723).



2014 Snapshot

6/30/14



Prepaid College Trust

Contributions from Account Holders	\$58 million
Investments	\$895 million
Beneficiaries	31,567
Funded Status	143%

College Investment Plan

Contributions from Account Holders	\$433.7 million
Investments	\$3.9 billion
Beneficiaries	145,691
Average Account Size	\$19,654



Martin O'Malley, *Governor*

Anthony Brown, *Lt. Governor*

College Savings Plans of Maryland Board

Nancy K. Kopp
Board Chair, State Treasurer

Helene Grady
Board Vice Chair and Public Member

Lewis A. Robinson
Board Secretary and Public Member

W. Gary Dorsch
Public Member

Peter Franchot
State Comptroller

Catherine M. Schultz
Acting Secretary of Higher Education

Russell V. Kelley, Ph.D.
Public Member

John D. Kenney
Public Member

William E. Kirwan, Ph.D.
Chancellor
University System of Maryland

Lillian M. Lowery, Ed. D.
State Superintendent of Schools

Total investments in both Plans exceeded \$4.8 billion for nearly 177,000 beneficiaries

Participants in the Prepaid College Trust (Trust) and the College Investment Plan (Plan) contributed over \$490 million over the past fiscal year. More than 177,000 beneficiaries had active, funded accounts in at least one plan as of June 30, 2014.

Highlights by Plan include:

Maryland Prepaid College Trust

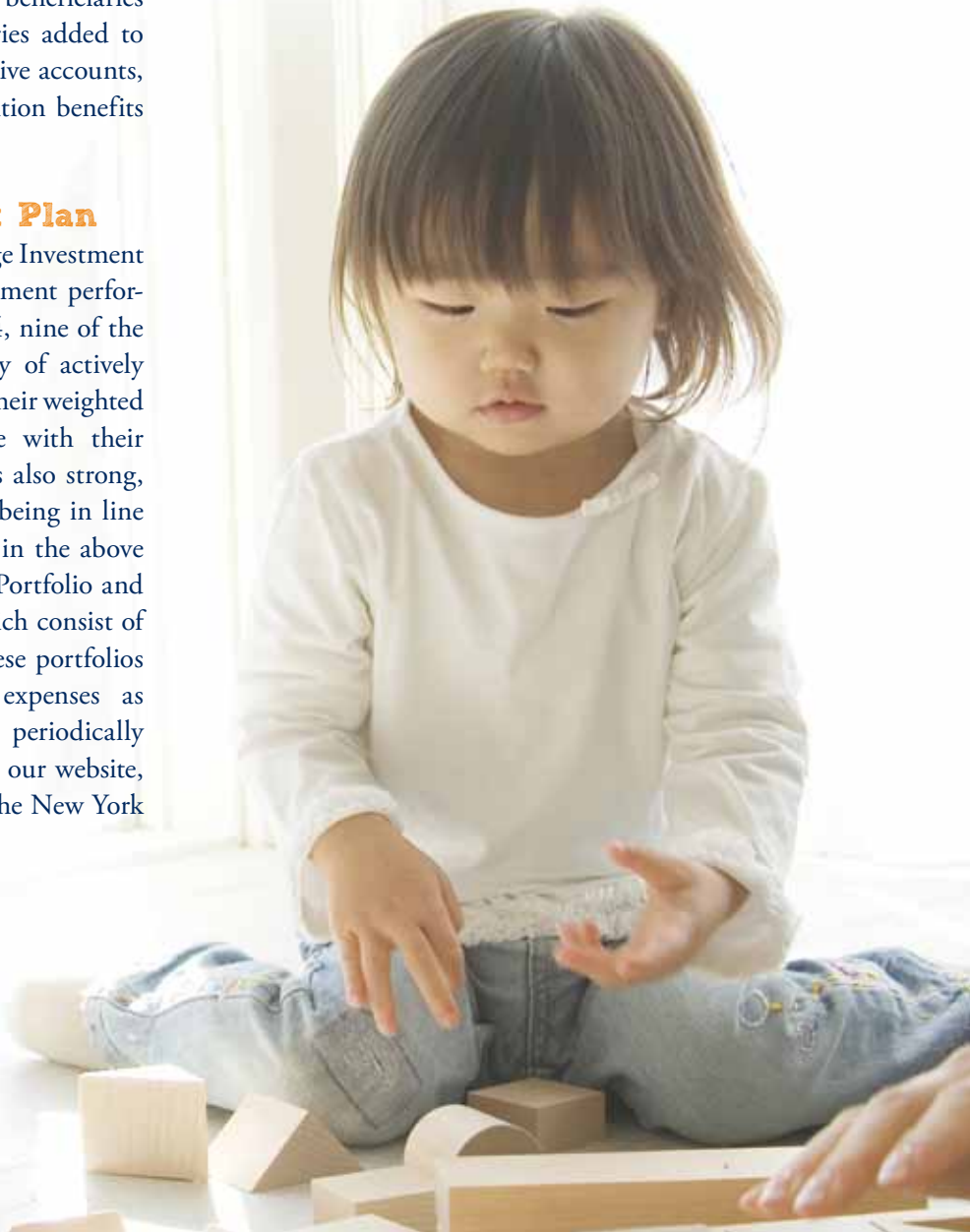
Actuarial Status: The funded status in the Prepaid College Trust reached 143% as of June 30, 2014 and the actuarial surplus was \$321.5 million. The Trust's funded status has increased over the past two years, primarily as a result of investment earnings that were significantly above our target of 7.5% annually, combined with lower than projected tuition growth at Maryland's public colleges.

Total Beneficiaries: The total number of beneficiaries increased by nearly 1,000 with new beneficiaries added to the Trust. Other beneficiaries no longer had active accounts, as most of them completed the use of their tuition benefits through college attendance.

Maryland College Investment Plan

Investment Return vs. Benchmark: The College Investment Plan maintained strong one-year relative investment performance. For the 12 months ended June 30, 2014, nine of the 12 investment portfolios that consist primarily of actively managed T. Rowe Price mutual funds exceeded their weighted benchmarks and two portfolios were in line with their benchmark. "Since inception" performance was also strong, with eight of 12 portfolios either exceeding or being in line with their weighted benchmarks. Not counted in the above portfolios are the Global Equity Market Index Portfolio and the U.S. Treasury Money Market Portfolio, which consist of only index funds or a money market fund. These portfolios underperformed their benchmarks due to expenses as expected. We encourage account holders to periodically review the performance of their investments on our website, since investment returns are updated each day the New York Stock Exchange is open for business.

Morningstar "Gold" again: In October 2014, we were pleased to learn that the Plan was again one of four plans in the country to receive a "Gold" rating from Morningstar, Inc. Morningstar stated that plans with a "Gold" rating lead the industry and represent some of the best options available for college savers." In addition to also receiving a "Gold" rating in 2013 and 2012, the College Investment Plan received Morningstar's "Top" rating in 2011 and 2010.



Future Direction

According to the *Project on Student Debt**, in 2012, the most recent year for which data are available, 58% of graduates of Maryland public and private four-year institutions had student debt and their average debt was \$25,951. Maryland was ranked 29th and 26th in the nation in these data, respectively.

As we look to the future, we are mindful of the drain that student loan debt places on students, their families, and our economy. As always, our primary goal is to continue to provide the best possible plans to Maryland families to help and encourage them to save for the future higher education of their children, grandchildren, and other friends and loved ones.

We continue to develop new ways to inform and educate our account holders about their plans. This year, we are also implementing a new webinar series, with some of the sessions dedicated to helping current account holders use their plans once their student is ready to attend college. Please check our website at CollegeSavingsMD.org for details and plan to join us.

We also plan to begin some communications with our account holders through email. We encourage all account holders to establish a secure login ID, maintain your password, and ensure your email address is up-to-date so you can receive these communications and log into your account at any time to view your account information and make certain changes if necessary.

*An initiative of the *Institute for College Access & Success*

Financial Highlights – Maryland Prepaid College Trust

Changes to Net Position

The Prepaid College Trust allows families to lock in payments that are based in part on current tuition and mandatory fees at Maryland's public colleges. The Board invests those payments and commits to pay future tuition benefits when eligible students attend college, whether they attend a Maryland public college or nearly any other public or private college in the country.

Contributions from new and existing account holders exceeded \$58 million for the fiscal year. Nearly \$51.0 million was paid in tuition benefits for 6,129 beneficiaries.

For the fiscal year ended June 30, 2014, the net position of the Trust increased by \$135.4 million. This increase was due to two factors, the most significant of which was the Trust's 18.5% return on investments for the period, which was higher than our projected return of 7.5%. In addition, the combined actual increase in tuition and mandatory fees was 3.1%, compared to the projected tuition increase of 6% and mandatory fee increase of 10%. This also had a positive effect on the Trust's net position.

The Prepaid College Trust invests your scheduled payments in order to pay future tuition benefits.

Condensed Statements of Net Position As of June 30, (in millions)

	<u>2014</u>	<u>2013</u>
Assets		
Current	\$987.2	\$839.1
Noncurrent	<u>116.7</u>	<u>117.7</u>
Total	1,103.9	956.8
Liabilities		
Current	99.4	92.2
Noncurrent	<u>677.2</u>	<u>672.7</u>
Total	<u>776.6</u>	<u>764.9</u>
Net Position	<u>\$327.3</u>	<u>\$191.9</u>

Maryland Prepaid College Trust Investment Earnings and Tuition Increases

Net Investment Gains

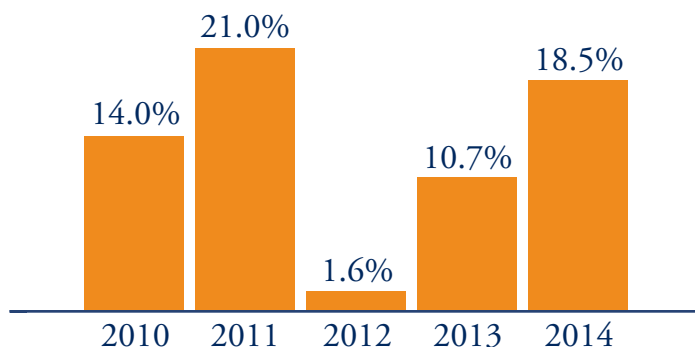
During the fiscal year ended June 30, 2014, the Trust continued to invest contract payments received into its increasingly diversified investment portfolio. The investment balances as of June 30, 2014 and June 30, 2013 are shown below:

Investments as of June 30, (in thousands)

	<u>2014</u>	<u>2013</u>
S&P 500 Core	\$123,090	\$ 91,681
Large Cap Value	113,783	88,926
Large Cap Growth	102,440	80,635
Small Cap Value	82,070	61,063
Small/Mid Cap Core	6	32,305
Private Equity	8,383	2,025
International	74,331	58,683
Developed Markets Equity	27,743	22,458
Emerging Markets Equity	27,247	24,733
Global Real Estate	35,770	31,497
Private Real Estate	41,156	0
Intermediate Duration Fixed Income	126,696	144,532
Short Duration Fixed Income	0	32,629
Emerging Market Debt	81,748	57,930
High Yield Fixed Income	40,756	26,814
Commodities	10,071	0
Total Investments	<u>\$895,290</u>	<u>\$755,911</u>

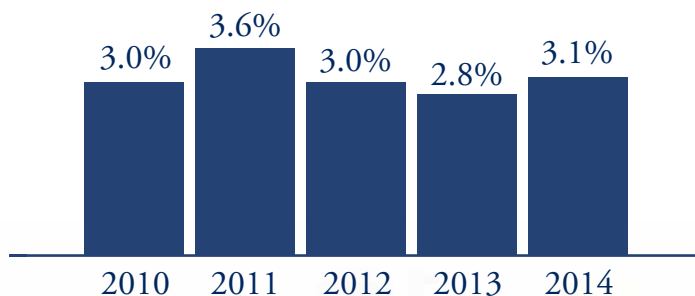
Investment Returns

The Trust's investments produced an overall return of 18.5% for the fiscal year. The chart below shows the rate of return on the Trust's investments for the past five fiscal years:



Tuition Increases

The weighted average tuition at Maryland's public four-year colleges rose by 3.1% for the 2014-2015 academic year, as compared to the projected tuition increase of 6% and mandatory fee increase of 10%. Weighted average tuition increases for the past five fiscal years are shown in the chart below:



Help your family and friends learn about our Plans and saving for college by telling them about our website—CollegeSavingsMD.org



Maryland Prepaid College Trust

Actuarial Status and Tuition Benefit Payments

The Prepaid College Trust is Well Funded

Each year, an actuarial valuation of the Prepaid College Trust is conducted. The purpose of this valuation and resulting Soundness Report is to compare the future value of the Trust's assets to its future liabilities, which are discounted to reflect their present value.

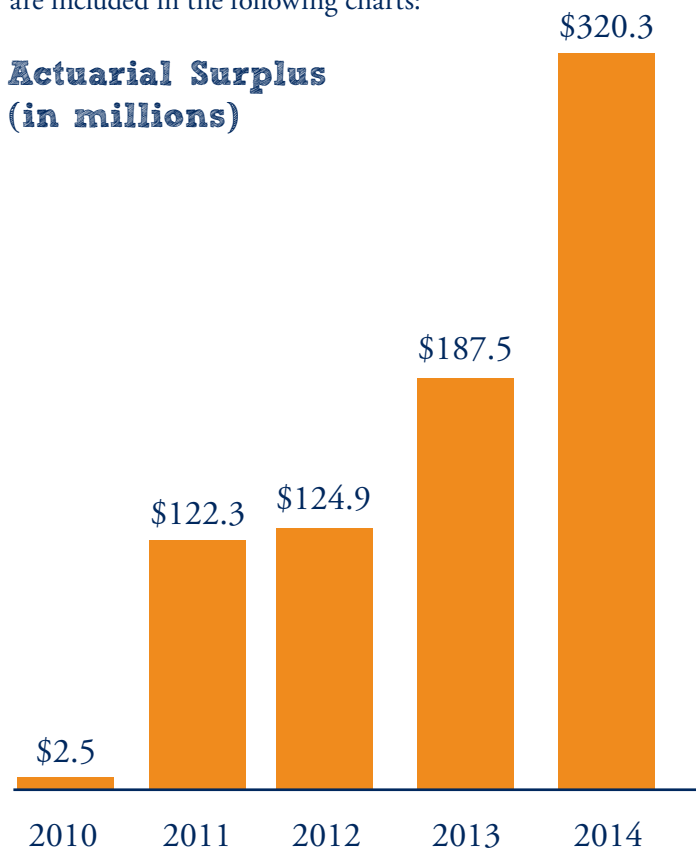
As of June 30, 2014, the Trust was 143% funded, with an actuarial surplus of \$321.5 million. This is a significant increase from last year, when the Trust was 125% funded, with an actuarial surplus of \$187.5 million.

There are two primary reasons for the increase in the amount of the actuarial surplus. Both of the following factors had significant positive effects on the actuarial valuation and were discussed on the prior page:

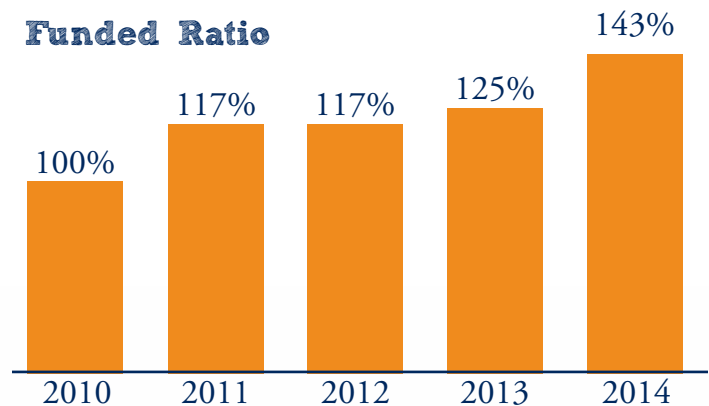
- First, the Trust's overall rate of return on its investments was 18.5% as compared with its goal of 7.65%.
- Second, the weighted average tuition at Maryland's public four-year colleges increases by 3.1% as compared with our projected tuition increase of 6% and mandatory fee increase of 10%.

The key measures of soundness for the past five fiscal years are included in the following charts:

Actuarial Surplus (in millions)



Funded Ratio



Long Term Trends Effecting the Trust's Actuarial Status

As shown in the charts on this page, the actuarial status reached a record high level for Fiscal Year 2014 and has steadily improved over the past five years. This improvement was primarily the result of investment returns that significantly exceeded our rate of return projection in four of the past five years, as well as lower than projected tuition growth at Maryland public four-year colleges over the entire five-year period.

We believe there is a significant likelihood that these trends may not continue at these levels over at least the next several years. We will continue to work closely with our financial advisor and actuary on assessing of our future projections, as well as our investment strategy, in order to maintain the Trust's long-term health and meet the needs of its participants.

Students Use Tuition Benefits at Colleges Nationwide

4,931 beneficiaries had claimed their benefits for the fall 2014 semester as of October 22, 2014, with approximately 42% of these students attending Maryland public colleges and 58% attending a wide variety of private and out-of-state colleges across the country.

The Trust's Funded Status, the difference between the tuition benefits promised and the assets needed to pay those tuition benefits, is one way to measure the Trust's financial health.

Financial Highlights – Maryland College Investment Plan

The College Investment Plan is managed and distributed by T. Rowe Price and offers families the opportunity to choose from a variety of investment options ranging from conservative to aggressive with no sales commissions or loads. Account holders choose how much they wish to invest, starting with as little as \$25 per month with automatic monthly contributions.

Changes to Net Position

There was an increase in net position of \$739 million for the Plan for fiscal year 2014. Net additions to net position resulted from 29,240 new accounts, \$434 million in account holder contributions to portfolios, and \$529 million in net investment income. Net deductions from the Plan's net position include \$207 million in distributions to account holders for the fiscal year and \$17 million in rollovers to other 529 plans.

Market Commentary

Market performance has a direct effect on the overall returns for investments in the College Savings Plans of Maryland. The following is designed to provide a summary of market performance for the 12-month period ended June 30, 2014.

Another Strong Year for Stocks – U.S. equities produced excellent returns over the last year. The U.S. economy grew at a modest pace in the second half of 2013, supported by the Federal Reserve's broadly accommodative monetary policy, improved housing and labor markets, low inflation, and reduced fiscal headwinds. Economic growth contracted in the first quarter of 2014, however, due in part to harsh winter weather and cyclical inventory corrections. As the period ended, major large-cap U.S. indexes reached all-time highs, as investors looked past the economic contraction, geopolitical tensions in Ukraine, and rising oil prices due to sectarian violence in Iraq.

Outside the U.S., European stocks benefited from reduced emphasis on austerity measures, progress on structural reforms in some countries, and data suggesting that an economic recovery was underway. In Japan, a series of fiscal and monetary reforms managed to jump-start the country's stagnant economy in 2013. However, investors remained concerned about a lack of progress on more challenging structural reforms. Conditions in emerging economies were mixed, with many implementing tighter monetary policies to defend their currencies and contain inflation. Overall, emerging markets stocks generated modest gains but trailed developed markets by a wide margin due to concerns that when the Federal Reserve started winding-down asset purchases in January 2014 that would also reduce global liquidity and increase risk aversion.

Global Bonds Rally As Yields Retreat – U.S. bonds produced good returns over the last year, with much of the gain recorded in the last six months of our reporting period. Although long-term Treasury yields climbed through the end of 2013, they trended sharply lower in the first half of 2014. The Federal Reserve started tapering its quantitative easing program in January and has reduced its monthly bond purchases in \$10 billion increments.

High yield bonds significantly outperformed investment-grade securities, supported by solid corporate fundamentals, strong investor demand for attractive yields in the low-rate environment, and their lower sensitivity to interest rate changes. Within the investment-grade universe, corporate bonds performed best due to solid corporate earnings growth and investors' preference for securities offering a yield advantage. Bonds in developed non-U.S. markets produced solid returns over the last year. European bonds fared best as low eurozone inflation and hopes for greater monetary stimulus from the European Central Bank allowed yields to fall and prices to rise. Emerging markets bonds posted solid gains despite fears of reduced global liquidity and concerns about slowing growth in emerging countries.



Investment Earnings by Portfolio

The investment earnings for each Portfolio are listed below. Please read the 2014 Annual Report for explanations of performance vs. benchmark for each individual Portfolio.

Performance Comparison as of June 30, 2014

Portfolio	1 Year Return	Weighted Benchmark*	Annualized Since Inception Return	Weighted Benchmark*	Inception Date
Portfolio 2033	24.5	24.2	23.3	23.7	12/31/12
Portfolio 2030	24.5	24.2	14.3	14.4	12/31/09
Portfolio 2027	23.5	22.6	7.2	6.9	6/30/06
Portfolio 2024	21.1	19.5	7.8	7.6	10/31/03
Portfolio 2021	18.6	16.3	6.3	6.2	11/26/01
Portfolio 2018	15.5	13.0	6.1	5.9	11/26/01
Portfolio 2015	9.1	9.1	5.6	5.6	11/26/01
Portfolio for College	6.0	6.0	3.5	3.5	11/26/01
Equity Portfolio	24.5	24.2	6.9	7.0	11/26/01
Global Equity Market Index Portfolio	24.3	24.5	7.7	8.0	6/30/06
Balanced Portfolio	17.5	16.7	7.0	6.6	11/26/01
Bond & Income Portfolio	8.9	4.4	6.6	5.0	11/26/01
Inflation Focused Bond Portfolio	1.6	2.5	2.6	2.7	10/31/03
U.S. Treasury Money Market Portfolio	0.0	0.0	0.0	0.1	12/31/09

*Benchmark performance commenced on November 30, 2001 for the Investment Portfolios with an inception date of November 26, 2001. Benchmark performance for all other Investment Portfolios commenced on the same date as the Investment Portfolio's inception date.

Asset Distribution by Portfolio

In the table below, we show the distribution of assets (rounded to the nearest tenth of a percent) invested in each portfolio as of June 30, 2014. Assets in the Enrollment-Based Portfolios compose approximately 73.8% of total plan assets, which is slightly lower than at the end of fiscal year 2013. Among the Enrollment-Based Portfolios, the Portfolio for College declined 3.7% during the fiscal year, primarily due to withdrawals for beneficiaries who have reached college age. With the exception of Portfolio 2015 which declined by 1.5%, the other Enrollment-Based Portfolios grew slightly during the fiscal year, between 0.2% and 1.2%. Among the Fixed Portfolios, the Equity Portfolio grew 0.5% during the fiscal year. The Global Equity Market Index Portfolio and the U.S. Treasury Money Market Portfolio grew 0.7% and 0.2%, respectively, during the fiscal year. The Bond & Income Portfolio declined 0.4%, the Inflation Focused Bond Portfolio declined 0.6%, and the Balanced Portfolio grew 0.05%.

