

## MINUTES

### SCHOLARSHARE INVESTMENT BOARD October 12, 2001 – 2:00 PM – 3:34 PM Teleconference

The meeting was called to order at 2:05 PM by Chair Cathy Calfo.

Present: Cathy Calfo for Philip Angelides, Chair  
Bob Spurlock for Kerry Mazzoni, Office of the Secretary for Education  
Kathy Gaither for Timothy Gage, Director of Finance  
Allison Jones  
Allison Okyle

Staff: Carrie Douglas Fong, Executive Director, ScholarShare Investment Board  
Neil Rue, Pension Consulting Alliance (PCA)  
Paul Ramsey, State Treasurer's Office Counsel

The Chair declared a quorum present.

The minutes from the ScholarShare Investment Board August 1, 2001 meeting were approved as submitted.

#### Item #2

#### Staff Report

Carrie Douglas Fong presented updated program statistics. The number of accounts currently opened is 48,465, total assets are approximately \$209.6 million and the average account balance is \$4,324.

Written analysis of the interim marketing was provided and it was noted that the number of accounts generated and the cost of each account were very close to estimates. Ms. Douglas Fong noted that tracking continues to be an issue. She also noted that initiatives that have been proven successful are very similar to what Cerulli and Associates (Cerulli) have proposed.

Before the September 11<sup>th</sup> terrorist attacks on the United States, account growth was at expected levels. Since then account growth and inquiries are off in what is traditionally the strongest period for account generation.

The back-to-school media campaign resulted in several television stories and in numerous print media and radio station mentions. The public relations team is now working on a December campaign centering on ScholarShare as a gift. Ms. Douglas Fong introduced Kristen Anderson Wagner, a Staff Services Analyst hired for ScholarShare to be dedicated to marketing efforts. Currently, Ms. Wagner is working to place ScholarShare flyers in the payroll checks of county and city employees. Staff hopes that, in addition to assisting in the implementation of the business and marketing plan, Ms. Wagner's efforts will result in the generation of enough accounts to fund her position.

TFI has recommended that the rollout of the new aggressive age-based option be postponed until January due to the volatility of the equity markets.

Cerulli has completed its recommendations to the Board. Staff has asked TIAA-CREF to submit comments on those recommendations by November 9<sup>th</sup>. Staff hopes to come to the November 29<sup>th</sup> Board meeting with agreed upon recommendations.

Ms. Douglas Fong noted that staff may need to amend the current PCA contract to allow them to hire a sub-contractor to assist in developing a Request for Proposal for third party distribution if that is the action that the Board takes.

Ms. Douglas Fong updated the Board on several legislative issues. AB 508, which would have allowed students whose schools administered the tests incorrectly to collect awards, was vetoed.

Ms. Douglas Fong reported that over 75,000 of the 106,000 students identified as having qualifying scores have claimed their Governor's Scholarship Awards and 385 students have claimed the Distinguished Math and Science award. More than 4,500 scholarship recipients have withdrawn the funds. Due to the State's financial situation this year the Department of Finance requested that staff cut the program budget by \$34,000. Staff has also submitted a budget change proposal for a 3%, 5%, and 10% budget cut but recommended that the budget not be cut additionally because it would jeopardize the already minimal budget for outreach activities. If significant budget cuts are required, statutes may need to be changed, resulting in the decrease of students who receive awards.

More than \$114 million dollars will be transferred from the State to an omnibus account next week for the next claiming session that will begin in January. A meeting was held to discuss improvements for next year's program. It was noted that last year's program went relatively smoothly. The involvement of all the partners including the Department of Education, the Department of Finance, the Office of the Secretary for Education, and the Advanced Placement and International Baccalaureate programs was crucial to successful program rollout. The biggest issue remaining is the date of birth issue in which schools gave the Department of Education the wrong dates of birth for students. Additional information will be provided to Board members upon request.

Member Jones inquired if staff attributed the decline in account growth to the September 11<sup>th</sup> attacks, the market decline or overall outreach strategy. Staff replied that the decline is probably due to a combination of things. Mr. Tim Lane, Tuition Financing Incorporated (TFI), stated that although TIAA-CREF was not affected operationally, there was very little phone volume. He also mentioned that 529 plans have held their trend better than expected because people consider contributions as savings and not investments.

Member Okyle inquired about the claiming of the Governor's Scholarship Programs and asked what had been done to increase the claiming rate. Staff replied that 75,000 of an estimated 95,000 eligible recipients had claimed. Staff has been limited by the fact that the schools have to contact award recipients and that there is a limited outreach budget. Staff has leveraged existing state resources, such as the Student Aid Commission, to educate counselors at both the high school and college levels. Also, two rounds of letters have been sent to schools with the names of students who have not claimed. Staff is hopeful that the resolution of the date of birth issue will allow some of the eligible students who have not claimed to claim their awards.

### **Item # 3**

#### **Review of Performance of ScholarShare Investment Options**

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Mr. Tim Lane presented an attribution analysis of the four TIAA-CREF institutional equity mutual fund investments used in the ScholarShare program for the period beginning July 1, 2000 and ending June 30, 2001. He stated that TFI has made changes in the percentages of the funds that are actively managed and that they are looking to bring the funds back in line with their respective benchmarks.

Mr. Neil Rue, PCA, noted that the growth market has been down, and the value market had been up. Unfortunately, there was no value orientation in ScholarShare's mandates. Mr. Rue suggested that the Board exercise patience because TFI is managing risk and, in the past, has proven to be good at picking stocks.

Member Jones, Chair Calfo, and Member Okyle expressed concern over the investment performance. Chair Calfo stated that the Treasurer suggested that standards be set by PCA. Staff will work with PCA to develop some standards and present them at the next meeting.

**Item # 4**

**ScholarShare Business Plan, Phase I**  
**Options for Third Party Intermediary Sales and Distribution of ScholarShare**

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At the previous Board meeting, Mr. Peter Starr, Cerulli Associates (Cerulli), presented phase I of the initial recommendations to the Board based on analysis of the 529 college savings program industry and ScholarShare's products and distribution alternatives. At that time, Cerulli recommended using third party distribution, preferring wholesale distributors to an individual broker approach. In subsequent discussions it became apparent that there was a third possibility of having the ScholarShare Investment Board release a Request for Proposal for a program manager to handle third party distribution. This is the option that Cerulli recommends and it will be revisited at the January Board meeting.

**Item #5**

**Presentation of ScholarShare Business Plan, Phase II**

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Mr. Peter Starr presented Phase II of the ScholarShare business plan. He stated that direct marketing would continue to be the backbone of the marketing plan and that the ScholarShare Investment Board and staff should be removed from day-in-day-out marketing activities while still providing oversight. Cerulli also recommends that the marketing campaign shift from an awareness-based campaign to solutions-based customer interactions.

Members Jones and Spurlock inquired how Cerulli's numbers were derived and if under this proposal TFI would be responsible for tracking methods of contribution to accounts, as shown in the presentation. Mr. Starr responded that the contribution breakdown estimates shown in the presentation are based on Cerulli's knowledge of programs of this type across the nation and are only intended to demonstrate what are reasonable expectations for such products.

Member Gaither inquired how a policy of only providing oversight would affect the Board's fiduciary responsibility. It was noted that the fiduciary responsibility applies only to investments and not marketing. It was stressed that the Board would still provide oversight and direction, however the Board and staff would not direct specific activities. The goal of this proposal is to give TFI the ability to make marketing decisions, and then hold them accountable for those decisions.

Member Okyle stated her opinion that educating the consumer is key and one of the best tools ScholarShare has for this is the web site. She inquired about the future direction of the web site. Ms. Douglas Fong replied that online enrollment would be available soon. Cerulli stated that this would be an important step for the future of the program.

Staff has asked TFI to provide a written response to Cerulli's proposal. This will give TFI a chance to state their concerns.

**Other Business**

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Chair Calfo called for public comment. There was none. There being no further business before the board, the Chair adjourned the meeting at 3:40 PM.

Respectfully submitted by,

Carrie Douglas Fong  
Executive Director, ScholarShare Investment Board