

**MINUTES  
SCHOLARSHARE INVESTMENT BOARD**

**December 9, 2010**

Chair Patricia Wynne called the meeting to order at 1:09 p.m.

**Present:**

Members: Patricia Wynne for Bill Lockyer, California State Treasurer  
Cynthia Bryant, Director of Finance (departed at 3:00 PM)  
Anne McKinney for Bonnie Reiss, Secretary of Education  
Antoinette Chandler  
Lawrence Hershman

Staff: Zeny M. Agullana, Executive Director, ScholarShare Investment Board  
(SIB or Board)  
Arlene Greene, Deputy Director, SIB  
Stanley Zeto, SIB  
Sue Lim, SIB  
Brian K. Aguilar, SIB  
Brian Gorban, SIB  
Joyce Eriksson, SIB  
Mark Paxson, General Counsel, State Treasurer's Office (STO)

Consultants: Allan Emkin, Managing Director, Pension Consulting Alliance, Inc. (PCA)  
Jeremy Thiessen, Principal, PCA  
Andrea Feirstein, Managing Director, AKF Consulting LLC (AKF)  
(Via teleconference)

Fidelity: Joe Ciccariello, Vice President, Personal & Workplace Investing, Fidelity  
Investments (Fidelity)  
Jeff Troutman, Vice President, College Savings, Fidelity Investments  
Institutional Services (FIIS)  
Kyla Doyle, Vice President, Relationship Management, Fidelity  
Sharon Rogers, Director, Marketing, Fidelity  
Andrew Dierdorf, Portfolio Manager, Fidelity

Chair Wynne declared a quorum present.

The Board agreed to change the order of the items and have Agenda Item No. 11 follow Agenda Item No. 2.

**Board Agenda Item Number One**  
**Approval of Minutes from September 2, 2010 ScholarShare Investment Board Meeting**

The minutes from the September 2, 2010 SIB meeting were presented to the Board.

*Board Action*

Member Bryant moved to approve the item before the Board, the minutes from the September 2, 2010 SIB meeting. The motion was seconded by Member McKinney and approved by the Board.

**Board Agenda Item Number Two**  
**Executive Director's Report**

Ms. Zeny M. Agullana, SIB, provided an update on recently completed administrative tasks, such as the Report On Higher Education, and the statutorily required annual reports for the ScholarShare program, Governors Scholarship Programs (GSP) and California Memorial Scholarship Program.

Mr. Stanley Zeto, SIB, provided updated account and asset numbers for the ScholarShare College Savings Plan (Direct Plan), and the ScholarShare Advisor College Savings Plan (Advisor Plan). Member McKinney inquired about how these numbers compared with the previous year. Mr. Zeto stated that the accounts and assets showed an increase when compared with the prior year. Mr. Zeto also provided an update on SIB's current requests for proposals for (RFPs) 529 industry consulting services, investment consulting services, and strategic planning and marketing review services.

Ms. Arlene Greene, SIB, provided an update on staff changes and highlighted ScholarShare's participation in several marketing and outreach events during the previous quarter, including a number of events during the College Savings Month in September. Ms. Greene also provided an update on the California ScholarShare Advancement Vehicle for Education (CalSAVE) program, reporting that regulations were finalized and approved by the Office of Administrative Law in September and, two pilot programs (City College of San Francisco and California State University, Fresno), are currently in the implementation stage. Member Wynne inquired about funding for the pilot program and whether ScholarShare would be proactive in finding resources. Ms. Greene noted this would be an important next step and Mr. Brian K. Aguilar, SIB, would provide an update at a future board meeting.

Mr. Zeto provided a brief update on GSP, including an overview of additional efforts SIB implemented to encourage award recipients to utilize their funds.

Ms. Agullana presented the proposed 2011 SIB meeting calendar and requested that the Board review the dates and notify staff of any scheduling conflicts.

Ms. Andrea Feirstein, AKF, provided an update on the 529 industry from a national perspective. Ms. Feirstein reported that for the years 2008 through the second quarter of 2010, ScholarShare's relative growth had been flat, however, ScholarShare's assets increased substantially more than the national average. Member Wynne inquired whether the peer states had made any changes, such as additional tax advantages, to warrant the increase in growth rates. Ms. Feirstein stated that Utah's particularly strong growth may be due to it serving a national audience, whereas ScholarShare is only sold within the state of California. Member Hershman added that the national economic condition, and California's economic slump, may have had an impact on the rate of growth.

Member Wynne inquired about suggestions to further increase the growth rate of ScholarShare. Ms. Feirstein stated that a tax benefit would be the biggest driver. She also stated that reaching new channels, such as aggressively implementing an employer/workplace effort, seeking distribution channels beyond the broker/dealer, and making a serious attempt to reach insurance companies and registered investment advisors, would all be productive efforts.

**Board Agenda Item Number Three**  
**Resolution to Enter into Contract with 529 Industry Consultant**

Mr. Zeto reported that the existing contract for 529 industry consulting services expires in April 2011. Mr. Zeto stated that following a competitive RFP process, AKF was selected as the winning bidder. Mr. Zeto reported that SIB staff is recommending the Board adopt Resolution No. 2010-17 authorizing the Executive Director to enter into a contract with AKF for 529 industry consulting services.

*Board Action*

Member Hershman moved to approve the item before the Board, Resolution No. 2010-17, authorizing the Executive Director to enter into contract with AKF for 529 industry consulting services. The motion was seconded by Member Chandler and approved by the Board.

**Board Agenda Item Number Four**  
**Resolution to Approve Changes to the ScholarShare Statement of Investment Policy**

Mr. Andrew Dierdorf, Fidelity, provided an overview of the proposed investment changes to the Direct Plan and Advisor Plan which included changes to the portfolios, underlying funds, and benchmarks. Mr. Dierdorf stated that the changes were designed to improve overall portfolio performance by reducing risk or by improving returns.

Mr. Jeremy Thiessen, PCA, stated that PCA and SIB staff had reviewed the changes proposed by Fidelity and were comfortable with them. Mr. Thiessen added that revisions have been made to both the ScholarShare Investment Policy and the ScholarShare Monitoring Procedures and Criteria to reflect these changes.

Board Action

Member Bryant moved to approve the item before the Board, Resolution No. 2010-18, approving changes to the ScholarShare Investment Policy. The motion was seconded by Member Chandler and approved by the Board.

**Agenda Item Number Five**  
**Resolution to Approve Changes to the ScholarShare Monitoring Procedures and Criteria**

---

This item was presented with Agenda Item 4 and was voted on separately.

Board Action

Member McKinney moved to approve the item before the Board, Resolution No. 2010-19, approving changes to the ScholarShare Monitoring Procedures and Criteria. The motion was seconded by Member Bryant and approved by the Board.

**Board Agenda Item Number Six**  
**Review and Analysis of Fidelity Investments' Investment Performance for the ScholarShare Advisor Plan for Third Quarter 2010 and Resolution to Place Select Fidelity Portfolios and Fund on Watch Status**

---

Mr. Jeff Troutman, Fidelity, provided an update on the status of the fee waivers associated with the Money Market Portfolio. Mr. Troutman reported that the Board began sharing in the fee waiver beginning in October 2010.

Mr. Dierdorf presented Fidelity' Investment Performance Review for the Advisor Plan during third quarter 2010, stating that Fidelity was working to improve the performance over the life of the portfolios.

Mr. Thiessen presented PCA's Investment Performance Status Report for the Advisor Plan for the third quarter 2010, as well as a memo recommending that three portfolios and funds: High Yield Asset Class, Short Term Asset Class and Fidelity Advisor Inflation Protected Securities, be placed on watch status. Mr. Thiessen stated that the three portfolios and funds would be placed on watch status and closely monitored during the next twelve months. Mr. Thiessen added that the Board would be apprised of the portfolio and fund's performance regularly via the quarterly monitoring report. He also stated that PCA believes the underperformance was not the result of a structural deficiency in the management of the portfolios, but rather was due to the exceedingly challenging market environment.

Mr. Dierdorf agreed 12 months was a reasonable period of time to see improvement in a fund, but stated that the burden was on Fidelity to deliver improvements before that period of time. Member Wynne inquired whether the Board would be forced to take action following the 12 month period. Mr. Thiessen stated that a recommendation for any action would be brought to the Board prior to or at that time, as necessary.

### Board Action

Member McKinney moved to approve the item before the Board, Resolution No. 2010-20, approving the placement of select Fidelity portfolios and funds on watch status. The motion was seconded by Member Chandler and approved by the Board.

### **Board Agenda Item Number Seven** **Review and Analysis of Fidelity Investments' Investment Performance for the ScholarShare Direct Plan for Third Quarter 2010 and Resolution to Place Select Fidelity Portfolios on Watch Status**

---

Mr. Dierdorf presented Fidelity's Investment Performance Review for the Direct Plan for the third quarter 2010.

Mr. Thiessen presented PCA's Investment Performance Status Report for the Direct Plan for third quarter 2010, as well as a memo recommending the placement of four portfolios: Short Term Asset Class, Passive International Equity Asset Class, Passive Fixed Income Asset Class, and Passive Short Term Asset Class, be placed on watch status. Mr. Thiessen stated that the Board would be apprised of the portfolio's performance regularly via the quarterly monitoring report. Mr. Thiessen noted that, since the report, the tracking for Passive International Equity Asset Class had changed and PCA recommends that the portfolio not be placed on watch status. Mr. Thiessen added that, in some cases, the performance of these portfolios is not due to structural deficiency in the management of the portfolios, but rather due to the exceedingly challenging market environment of the past years

### Board Action

Member Hershman moved to approve the item before the Board, Resolution No. 2010-21, with changes, approving the placement of select Fidelity portfolios on watch status. The motion was seconded by Member McKinney and approved by the Board.

### **Board Agenda Item Number Eight** **Fidelity Investments' Marketing Update for the ScholarShare Advisor Plan**

---

Mr. Troutman presented Fidelity's Marketing Update for the Advisor Plan including an overview of account and asset results through the third quarter of 2010 and a summary of the marketing strategies and results for 2010. Mr. Troutman reported that the total assets continue to grow and accounts are up 31% from last year. Mr. Troutman also stated that although the number of rollovers continues to decline, the dollar amount of the rollovers has increased. Member Wynne inquired as to the cause of the increase in rollover assets. Mr. Troutman stated that the rollover numbers were modest and that the change was due to many factors such as advisors changing firms, performance, marketing, and sales tax benefits from other 529 plans.

Member Chandler inquired about recommended next steps in the marketing campaign. Mr. Troutman indicated that the Fidelity sales team had scheduled several Smith Barney advisor events such as small lunches and home office meetings. Member Chandler requested that Fidelity track the account activities due to the sales efforts in order to justify the marketing dollars.

### **Board Agenda Item Number Nine**

#### **Fidelity Investments' 2011 Marketing Plan for the ScholarShare Direct Plan**

Ms. Sharon Rogers, Fidelity, presented Fidelity's 2011 Marketing Plan for the Direct Plan, including an overview of Fidelity's marketing approach, objectives and strategies for 2011.

Member Wynne inquired if marketing through employers and trusted providers would be integrated into the plan. Mr. Joe Ciccariello, Fidelity, stated that employers were beginning to recognize the value of offering employees education in achieving their lifetime financial goals. Fidelity initiated a Comprehensive Employee Solution campaign targeting workplace clients in order to provide ongoing guidance and education on saving for college and retirement. Ms. Agullana inquired about the number of companies that have signed up for the campaign. Mr. Ciccariello responded that approximately 70-80% of its clients have signed up and that details on penetration would follow. Mr. Ciccariello added that Fidelity planned a brand-specific guidance and education campaign in California including regional college planning workshops and webinar training.

Member Chandler requested collaboration between Fidelity and SIB staff to ensure that ScholarShare was foremost in the messaging, recognizing that many equate the ScholarShare program with Fidelity and not as the California State 529 Plan. Ms. Rogers acknowledged the need for a better balance between ScholarShare and Fidelity messaging, as well as recognizing the diverse ethnic audience of the California population, while building ScholarShare awareness.

Member Hershman highlighted the concern among the general population regarding the affordability of higher education, considering the increases in tuition. Member Hershman recommended Fidelity should keep this in mind when marketing ScholarShare. Ms. Rogers affirmed that Fidelity offers ScholarShare as a way to make college an attainable goal. Ms. Agullana added that SIB staff and Fidelity continue to collaborate to strengthen the ScholarShare brand.

### **Board Agenda Item Number Ten**

#### **Review of Fidelity Investments' Administrative Performance for the ScholarShare Direct Plan and Advisor Plan for Third Quarter 2010**

Ms. Kyla Doyle, Fidelity, presented Fidelity's Administrative Performance Report for third quarter 2010 for the Direct Plan. She stated that Fidelity had increased the staffing levels, and cross-trained other Fidelity phone representatives to take college-related phone calls, to address the two areas of underperformance. Ms. Doyle stated this would allow Fidelity to successfully achieve and maintain expected service levels.

**Board Agenda Item Number Eleven**  
**Resolution to Issue Request for Proposals for a Program Manager for California's 529**  
**College Savings Plans**

---

Ms. Agullana reported that the program management contract with Fidelity expires in November 2011. Ms. Agullana stated that due to the substantial changes in the financial services industry during the past five years, as well as extensive research by our independent consultants and SIB staff, we recommend that a competitive RFP be issued for these services in early 2011.

Mr. Allan Emkin, PCA, commented that moving forward with a competitive RFP for a program manager was an important decision, and that because the environment had changed from a seller-driven market to a buyer-driven market, it was good policy to support open competition. Mr. Emkin added that he was confident that the RFP would ultimately result in a better product for the ScholarShare participant.

The Board agreed that it was good public policy and felt there was no substitute for a true market test.

*Board Action*

Member Hershman moved to approve the item before the Board, Resolution No. 2010-22 to issue a RFP for a program manager for California's 529 college savings plans. The motion was seconded by Member McKinney and approved by the Board.

**Public Comment**

---

Chair Wynne called for public comment. There was none.

There being no further business before the Board, the Chair adjourned the meeting at 3:16 p.m.

Respectfully submitted by,

Zeny M. Agullana, Executive Director  
ScholarShare Investment Board