

**MINUTES
SCHOLARSHARE INVESTMENT BOARD**

December 8, 2011

Chair Patricia Wynne called the meeting to order at 1:06 PM.

Present:

Members: Patricia Wynne for Bill Lockyer, California State Treasurer
Diana Ducay for Ana J. Matosantos, Director of Finance
Antoinette Chandler
Lawrence Hershman
Rhonda Johnson
Mark Vargas

Staff: Zeny M. Agullana, Executive Director, ScholarShare Investment Board
(SIB or Board)
Arlene Greene, Deputy Director, SIB
Stanley Zeto, 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, Managing Director, PCA
Andrea Feirstein, Managing Director, AKF Consulting Group (AKF) – (via telephone)

Fidelity: Matt Golden, Vice President, College Savings, Fidelity Investments
Institutional Services (FIIS)

TFI: Doug Chittenden, President, TIAA-CREF Tuition Financing, Inc. (TFI)
Joe Del Grande, Senior Director, Operations, TFI
Laura Moewe, Program Director, TFI
Don Wolf, Senior Marketing Manager, TFI

Chair Wynne declared a quorum present.

Board Agenda Item Number One
Approval of Minutes from September 8, 2011 and October 11, 2011 ScholarShare
Investment Board Meetings

The minutes for the September 8, 2011 and October 11, 2011 SIB meetings were presented to the Board.

Board Action

Member Vargas moved to approve the item before the Board, the minutes for the September 8, 2011 SIB meeting. The motion was seconded by Member Chandler and approved by the Board, with an abstention from Member Ducay.

Member Ducay moved to approve the item before the Board, the minutes for the October 11, 2011 SIB meeting. The motion was seconded by Member Vargas and approved by the Board.

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

Ms. Zeny Agullana, SIB, presented the Executive Director's Report, providing an update on recent activities.

Mr. Stanley Zeto, SIB provided updated account and asset data for the ScholarShare College Savings Plan (Direct Plan) and ScholarShare Advisor College Savings Plan (Advisor Plan), and a brief update on the Governor's Scholarship Programs (GSP).

Ms. Agullana provided a legislative update and Ms. Arlene Greene, SIB, reported that, in January 2012, there will be a new member to the Board, Sue Burr, Executive Director of the State Board of Education.

Ms. Greene also provided an update on marketing and outreach efforts, and recently completed contracts.

Mr. Zeto provided an update on the statutorily required annual reports submitted in September and October. Member Wynne inquired whether the steps to reduce administrative costs as identified in the GSP report had been implemented. Ms. Agullana stated that not all steps had been completed as several require legislative changes.

Member Ducay inquired whether a link to the State Controller Office for unclaimed property could help locate and reach out to beneficiaries in GSP who had not used their scholarship awards. Member Wynne encouraged TFI to offer suggestions.

Ms. Agullana presented the proposed 2012 SIB meeting calendar and requested that the Board review the dates and notify staff of any scheduling conflicts prior to the final schedule distribution in January 2012.

Board Agenda Item Number Three **Review and Analysis of Fidelity Investments' Investment Performance for the ScholarShare Advisor Plan for Third Quarter 2011**

Mr. Matt Golden, FIIS, presented Fidelity's Investment Performance Review for the Advisor Plan for the third quarter 2011. Mr. Allan Emkin, PCA, provided a market update and reported that the markets came back recently; however, they have been extremely volatile.

Mr. Jeremy Thiessen, PCA, presented PCA's Investment Performance Status Report for the Advisor Plan for third quarter 2011 and provided an update on the portfolios currently on watch status. Mr. Emkin reported that all active managers have underperformed this quarter, and stated that the biggest challenge has been that inflation rose faster than investments.

Ms. Andrea Feirstein, AKF, reported that the entire industry was suffering, but the message conveyed was that it was important to continue to save, be prudent in financial planning, and be careful. Ms. Feirstein added that conservative products were being requested and that it would be a rough end to the year, however, we were in the beginning steps of recovery. Ms. Feirstein reported that a couple of states had discussed increasing their exposure to internationals.

Board Agenda Item Number Four
Review and Analysis of Fidelity Investments' Investment Performance for the ScholarShare Direct Plan for Third Quarter 2011

Mr. Golden presented Fidelity's Investment Performance Review for the Direct Plan for third quarter 2011. Mr. Thiessen presented PCA's Investment Performance Status Report for the Direct Plan for third quarter 2011, highlighting the current market and performance of the portfolios.

Board Agenda Item Number Five
Review of Fidelity Investments' Administrative Performance for the ScholarShare Direct Plan and Advisor Plan for Third Quarter 2011

Mr. Golden presented Fidelity's Administrative Performance Report for the Direct Plan for third quarter 2011 and reported that Fidelity underperformed by more than two percent in two performance areas. In addition, Mr. Golden provided Fidelity's Administrative Performance Report for the Advisor Plan for third quarter 2011.

Board Agenda Item Number Six
Resolution to Approve Issuance of Request for Proposals for Audit

Mr. Zeto reported that the existing contract for audit services expires on June 30, 2012. Mr. Zeto presented, for the Board's approval, Resolution No. 2011-12 authorizing the issuance of a request for proposals (RFP) for audit services.

Board Action

Member Hershman moved to approve the item before the Board, Resolution No. 2011-12, approving the issuance of a RFP for audit services. The motion was seconded by Member Vargas and approved by the Board.

Board Agenda Item Number Seven

Discussion on Closure of the ScholarShare Advisor Plan to New Accounts

Ms. Agullana stated that to accomplish a smooth and seamless transition process, the Advisor Plan will be closed to new participants effective January 1, 2012. Mr. Golden also reported that Fidelity would provide a waiver on the contingent deferred sales charge for participants transitioning to the Direct Plan or rolling over to another plan. Ms. Agullana added that a transition communication plan has been developed in anticipation of the transition scheduled in spring 2012.

Board Agenda Item Number Eight

Update on Program Management Transition for the ScholarShare Direct Plan

Ms. Agullana provided an update on the results of the program management transition for the Direct Plan that was completed on November 7, 2011. Ms. Agullana reminded the Board of its goals in the original RFP process.

Mr. Doug Chittenden, TFI, outlined the results of the transition and indicated that the conversion of assets and the transfer of account owner records had been successful. Mr. Chittenden stated that the website and the call centers were available November 7. Mr. Chittenden and Mr. Joe Del Grande, TFI, highlighted call volume in November and training for call center representatives.

Mr. Del Grande provided an overview of the issues encountered during and following the transition, and how they were resolved. Mr. Del Grande identified the trends that participants experienced and noted that TFI was open to making modifications as needed to maintain ease for participants while maintaining security and diminishing risk.

Mr. Don Wolf, TFI, highlighted the pre and post transition communication to existing participants and the recent website enhancements. Ms. Laura Moewe, TFI, provided an overview of the changes to the ScholarShare website noting that the site was launched on November 4, 2011 and it had received 98,000 hits since the transition.

Mr. Chittenden introduced the TFI team dedicated to ScholarShare. Mr. Chittenden also identified the field team locations and reassured the Board that although the field representatives reside in coastal cities they remain committed to marketing the program throughout the state including the central valley.

Board Agenda Item Number Nine

Resolution to Approve Changes to the ScholarShare Monitoring Procedures and Criteria

Ms. Agullana highlighted the proposed changes to the ScholarShare Monitoring Procedures and Criteria (Procedures). Mr. Thiessen outlined the details of the proposed changes to the Procedures consisting of the replacement of the Fidelity portfolios and funds for the Direct Plan with the TFI portfolios and funds, as well as additional updates to reflect the investment

changes. Mr. Thiessen noted that the changes include identification of appropriate benchmarks, changes to the fund lineup, and inclusion of performance criteria for all portfolios and funds utilized within the Direct Plan. Mr. Thiessen stated that each of the underlying funds had an ample track record allowing for performance analysis of the underlying funds' respective rolling 12-month and 36-month performance results.

Board Action

Member Ducay moved to approve the item before the Board, Resolution No. 2011-13, approving changes to the Procedures. The motion was seconded by Member Hershman and approved by the Board.

Board Agenda Item Number Ten
Resolution to Approve Changes to the Administrative Performance Criteria for the ScholarShare Direct Plan

Mr. Del Grande presented the proposed changes to the Administrative Performance Criteria for the Direct Plan and highlighted the reasons for the proposed changes. Mr. Del Grande reported that TFI contracts with Boston Financial Data Systems (BFDS) to meet or exceed the National Quality Review (NQR) monthly average accuracy percentage for all 529 financial transactions. Mr. Del Grande stated that NQR is an independent, third party quality reviewer that performs reviews throughout the financial services industry and developed an accuracy average for various financial transactions.

Board Action

Member Ducay moved to approve the item before the Board, Resolution No. 2011-14, approving changes to the ScholarShare Administrative Performance Criteria for the Direct Plan. The motion was seconded by Member Chandler and approved by the Board.

Board Agenda Item Number Eleven
TIAA-CREF Tuition Financing, Inc.'s 2012 Marketing Plan for the ScholarShare Direct Plan

Ms. Agullana provided a brief overview of the main goals of the strategic plan developed with SIB's independent marketing consultant earlier in the year.

Mr. Don Wolf, TFI, presented the 2012 Marketing Plan Recommendations for the Direct Plan. Mr. Wolf outlined the efforts developed and planned for the upcoming year and provided an overview of the marketing activities that include online, print, broadcast, and ethnic outreach advertising, customer direct marketing and communications, public relations, and local marketing. Mr. Wolf stated that re-introducing the public to ScholarShare would be an important part of the plan.

Member Vargas inquired whether social media would play a part in the marketing efforts. Mr. Wolf stated that there would be challenges with social media, but it is continually being

explored from both SIB's and TFI's point of view. Ms. Greene stated that SIB currently uses Twitter to invite the public to visit events and to learn more about ScholarShare.

Ms. Agullana encouraged the Board to engage in SIB outreach events, hoping to leverage their expertise and collective ideas. Member Vargas agreed to form a sub-committee for the Board to develop a strategic plan.

Ms. Agullana summarized ScholarShare's goals for 2012, noting the goals are: grow assets and accounts, provide excellent customer service, and improve products.

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 3:25 PM.

Respectfully submitted by,

Zeny M. Agullana, Executive Director
ScholarShare Investment Board