

MINUTES

SCHOLARSHARE INVESTMENT BOARD May 18, 2001 – 3:00 PM – 3:50 PM 915 Capitol Mall, Room 587 Sacramento, CA 95814

The meeting was called to order at 3:06 PM by Chair Anne Stausboll.

Present: Anne Stausboll for Philip Angelides, Chair
Diana Fuentes-Michel for Kerry Mazzoni, Office of the Secretary for Education
Annette Porini for Timothy Gage, Director of Finance
Maria Elena Serna

Staff: Carrie Douglas Fong, Executive Director, ScholarShare Investment Board
Amelia Budd, Counsel, ScholarShare Investment Board

The Chair declared a quorum present.

The minutes from the ScholarShare Investment Board March 15, 2001 meeting were approved as submitted.

Item #2

Staff Report

Carrie Douglas Fong presented updated program statistics. The number of accounts currently opened is 37,949, total assets are approximately \$160,000,000 and the average account balance is \$4,219. Ms. Fong also mentioned that the total number of enrollment kits mailed was 253,501. Ms. Fong noted that two of the TIAA-CREF mutual funds have performed below their benchmarks, most notably the International Equity Fund. Mr. Allan Emkin, Pension Consulting Alliance, believes that there is no reason to be concerned with recent performance because the overall performance over a long period of time has been positive. He recommended that he and Ms. Fong meet with TIAA-CREF fund managers because of changes in the way TIAA-CREF manages these funds.

It is too early to report on the success of the latest marketing campaign. The number of enrollments for April 2001 was significantly higher than April 2000. Requests for enrollment kits improved 151% from last year. More information will be available at the next meeting.

Ms. Fong shared the steps staff was taking to ensure that ScholarShare stays competitive. ScholarShare is on track to meet the goals set forth for the number of enrollments and it was noted that this time of the year was a traditionally slow time for 529 plans. Staff has worked with TIAA-CREF to hire a business consultant to explore making major distribution changes to the program. Cerulli Associates has been retained as business consultant based on their record of making successful recommendations accepted by clients. ScholarShare staff is also considering hiring an analyst, on a limited term basis, that would be devoted to marketing through state distribution systems. Cerulli Associates has requested that the next board meeting be held in the first week of August to allow them time to prepare recommendations. Staff will be in touch with the Board to schedule the next meeting.

Staff would like to give all Board members a chance to meet with Cerulli Associates to discuss ideas for the business plan. Staff will be in touch with the Board to schedule these meetings if members wish.

Member Michel inquired about the marketing activities undertaken since the March meeting. Ms. Fong noted that the implementation plan presented at the March meeting has been followed and activities concluded with a freestanding insert in major newspapers statewide. The results of this campaign are inconclusive thus far, however preliminary information will be available at the time of the next Board meeting with more conclusive information presented at the September meeting.

Staff issued an RFP for audit services and has retained Gilbert Accountancy Corporation as Auditor. This is a three-year contract for \$87,100. It is expected that the actual amount spent will be lower than this contract amount. Because the Executive Director was given authority to sign contracts for less than \$100,000, the Board does not need to approve this contract.

In the past, the Board has expressed concern over tracking marketing initiatives. Staff is also exploring controls related to oversight of back-office issues. Carrie Douglas Fong will be traveling to New York and Boston to meet with TIAA-CREF and BFDS to discuss these issues in July or August.

Ms. Douglas Fong reported that over 46,000 of the 106,000 students identified as having qualifying scores have claimed their Governor's Scholarship Awards. There have also been 279 students who have claimed their Math and Science awards. Staff has been extremely busy tracking phone calls and insuring that claiming and web site issues are addressed. Staff continues to work with all of the entities involved in this program, including the Department of Education, Office of the Secretary for Education, Department of Finance, International Baccalaureate, and Advanced Placement Program.

Member Michel elaborated on two issues that have arisen in the Governor's Scholarship Programs. The first issue deals with the way the award is calculated in the needs analysis for student financial aid. The second issue deals with high-achieving students who did not take the appropriate tests because they had completed their mathematics requirements in prior years. The State Board of Education can take action to exempt students in this situation in 2001 and 2002, however there is no fix for the 2000 test-taker group.

Chair Stausboll reported that Treasurer Angelides expressed concern over the performance of TIAA-CREF International funds and has requested that TIAA-CREF and Allan Emkin, PCA, report on the performance at the next meeting. Mr. John Middlebrook reported that the International Fund has suffered because it was over-weighted in technology stocks. Member Porini inquired as to if TIAA-CREF will be rebalancing the funds to make up for the short-term loss. Mr. Tim Lane, TIAA-CREF, said that these funds are considered a long-term investment but that they will be re-evaluated.

Member Michel mentioned that the U.S. Department of Education would be distributing a pamphlet to all California high school students that includes information about how to plan for college. This will include information about the Cal Grant program, as well as the Governor's Scholars Program.

Item # 3

Approval of Permanent Program Regulations

Ms. Sue Mapes, ScholarShare Investment Board, presented the permanent program regulations for approval. She noted that the Board approved emergency regulations at the November, 2000 meeting that made it possible for entities and trusts to become account owners. No comments were received during the public comment period and these regulations are now ready to be moved forward to the Office of Administrative Law. Ms. Mapes noted that only non-substantive changes had been made to the package the Board approved in November.

Member Porini moved that the Board approve the regulations package as permanent ScholarShare regulations. Member Serna seconded. The motion was approved unanimously.

Item # 4**Proposed New Investment Option**

Mr. John Middlebrook, TIAA-CREF, presented a proposal for the addition of an Aggressive Age Based Allocation option for the ScholarShare Program. TIAA-CREF and consultants Milliman & Robertson believe that this addition will help keep ScholarShare competitive in the 529 plan market. Member Michel asked about other programs success with this type of option. Ms. Douglas Fong stated that in New York, 31% of all new accounts opened choose this option. The popularity of this program has not dimmed, even with the change in the stock market.

Chair Stausboll asked if the possibility of a Social Choice Age Based Allocation option had been explored. Ms. Douglas Fong answered that it had been explored, however it was felt that it would not attract enough demand to out-weigh the costs associated with managing an allocation option.

Ms. Fong noted that adopting this proposal would mean making a change to the ScholarShare Investment Board investment policy. She also noted that the benchmarks for the Institutional Money Market Fund had changed its name.

The new investment option would be rolled out in early September.

Member Serna moved that the Board approve the addition of the Aggressive Age Based Allocation option. Member Michel seconded. The motion was approved unanimously.

Other Business

Chair Stausboll called for public comment. There was none. There being no further business before the board, the Chair adjourned the meeting at 3:50 PM.

Respectfully submitted by,

Carrie Douglas Fong
Executive Director, ScholarShare Investment Board