

MINUTES  
SCHOLARSHARE INVESTMENT BOARD

June 20, 2003, 2:00 PM  
Teleconference

Chair Anne Stausboll called the meeting to order at 2:12 PM.

Present: Anne Stausboll for Philip Angelides, State Treasurer  
Steve Larson for Steve Peace, Department of Finance  
Lynn Lorber for Kerry Mazzoni, Office of the Secretary for Education  
Allison Jones  
Sabrina Kay  
Allison Okyle Levyn  
Maria Elena Serna

Staff: Carrie Douglas Fong, Director, ScholarShare Investment Board (SIB)  
Marian Cohen, Manager, Governor's Scholarship Programs (GSP)  
John Middlebrook, TIAA-CREF, Tuition Financing Inc. (TFI)  
Carla Raffin, TIAA-CREF, Tuition Financing Inc.  
Neil Rue, Pension Consulting Alliance (PCA)  
Tom Nogueraola, ScholarShare Investment Board Legal Counsel

The Chair declared a quorum present.

**Board Agenda Item Number One**  
**Approval of Minutes of the April 18, 2003 Teleconference**

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The minutes from the April 18, 2003 ScholarShare Investment Board (SIB) meeting were approved as submitted.

**Board Agenda Item Number Two**  
**Staff Report**

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***Update on the ScholarShare Program***

Ms. Carrie Douglas Fong provided updated program totals for the ScholarShare and Governor's Scholarship Programs.

### Account Growth

The total number of ScholarShare accounts opened is 115,372. Unique Accounts are reported on a monthly basis and remain at 13,424. The total net asset value is \$708.4 million and the average account balance is \$6,140.

### Notice of Deficiency for Third and Fourth Quarter Performance

TIAA-CREF Tuition Financing, Inc. (TFI) responded to the Notice of Deficiency for the Third and Fourth Quarters, and staff is currently analyzing their response. A presentation will be provided to the Board in regards to the Administrative and Marketing Criteria at the next SIB meeting.

### Public Relations

A Public Services Announcement (PSA) promoting ScholarShare and the Program's sponsorship of the A's Amigos is playing at A's games. TFI's public relations firm, Ogilvy Worldwide, has arranged for the PSA to play at every A's game as well as a few other games.

### Repayment of the ScholarShare General Fund Loan

The first payment for the ScholarShare General Fund Loan has been made.

### ***Updates on the Governor's Scholarship Programs (GSP)***

#### Governor's Scholar Awards Claim Rates

For the 2000, 2001, and 2002 Test Years, the number of students who earned qualifying scores for a Governor's Scholars Award were 106,257, 113,584 and 119,365 with claiming rates of 84 percent, 84 percent, and 61 percent, respectively.

#### GSP Legislative Update and 2003/2004 Budget Proposals

The conference committee did not cut GSP's operating budget by \$1 million and the original proposed budget of \$1,159,000 was retained. Two remaining proposals, the first to suspend awards for tests taken in 2003 and the second to defer awards for students in the 10<sup>th</sup> and 11<sup>th</sup> grade until they are in the 12<sup>th</sup> grade, will be considered in Big Five (the Governor and the Leaders of both Houses).

#### The Governor's Scholarship Programs' Website

SIB received a schedule for the GSP website and is reviewing it.

Discussion

Members inquired about a letter TFI sent directly to Board members immediately before the meeting. TFI's letter stated that it was their interpretation that under the statute as amended by SB 27 "SIB (and thus TFI) will not have authority to administer GSP starting on July 1, 2003." Several Members explained that the language in SB 27 was part of the budget process and that it was the Legislature's intention that SIB should continue to administrate GSP until the Legislature makes a final decision on the status of the program. The Board directed staff to work with TFI to address their operational concerns.

Chair Stausboll asked how TFI was doing with the generation of new ScholarShare accounts compared to the account generation goals. Mr. Tim Lane, TFI, stated that a straight-line projection would indicate that TFI is below its year-end goal. Typically, account generation is slow during the first half of the year and speeds up during the fall season when students return to school. Mr. Lane stated that growth in the industry has slowed as a result of the war, the Federal Government tax reduction on dividends and capital gains, and a reduction in the amount of overall press attention. Despite these factors, Mr. Lane was confident that account generation would increase at the beginning of the school year.

Mr. David Copeland, TFI, reported that UC system now offers ScholarShare through payroll deduction and is working with TFI to reach employees on their nine campuses. Additionally, TFI has enhanced their online marketing and, as a consequence, reduced account acquisition costs including kit production costs. Mr. Copeland is developing banner ads, web pages, and other devices to market the program.

**Board Agenda Item Number Three**  
**Resolution for FY 2003-04 Administrative Services Contract with**  
**State Treasurer's Office (STO)**

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Ms. Douglas Fong stated that the last sentence of the resolution should be amended to read, "...in an amount not to exceed \$125,000 for the period July 1, 2003 through June 30, 2004, for administrative support services."

Board Action:

Motion to approve the resolution as amended for fiscal year 2003-2004 carried unanimously.

**Board Agenda Item Number Four**  
**Resolution for BY 2003-04 Governor's Scholarship Programs' Sole Source**  
**Contact Amendment with TIAA-CREF**

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Ms Carrie Douglas Fong proposed amending the resolution by moving the last whereas clause that states "the Executive Director should cooperate with the Department of Finance in establishing the amount to be funded," to the end of the last paragraph.

Ms. Marian Cohen reported that in October, 2000, the Board approved a sole source contract with TFI for program management services for GSP through October 6, 2006. Total annual compensation has been set every year in the State budget. This resolution allows the Executive Director to negotiate and execute an amendment for GSP costs for fiscal year 2003/2004. Staff had asked TFI to present a revised budget to the program for services.

Board Action:

Motion to adopt the resolution as amended was approved unanimously.

**Board Agenda Item Number Five**  
**First Quarter 2003 Investment Performance**

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Mr. Neil Rue, Pension Consulting Alliance (PCA), reported that during the first quarter, fund investment performance was affected by several factors, including the war. Although the markets have since rebounded significantly, investors have been cautious. Overall, the majority of the funds outperformed their benchmarks for the quarter with one exception, the Institutional Growth and Income Fund, which underperformed its benchmark by 0.5 percent for the quarter.

Mr. Rue then presented a fund monitoring report, which followed the format adopted during the April 18, 2003 Board meeting.

Discussion:

A Board member asked how the benchmarks were established and what they measure. Mr. Rue explained that the benchmarks use publicly traded funds that establish expected investment performance levels. He also said that it is more important for a fund to outperform over the long term versus outperforming every single quarter because TFI's funds are actively managed.

**Board Agenda Item Number Six**  
**Review of TIAA-CREF Growth Equity Fund Performance**

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Mr. Rue recommended placing the Growth Equity Fund on probation at this time. This change would mean that the Board, its staff, and the consultant would monitor that fund more closely.

Mr. Rue noted that the appropriate time frame for this probation would range from 9 to 15 months, which would allow the investment fund at least 9 months to improve performance. After that time, the funds probationary status can be reviewed.

Discussion:

A Board member inquired if the change in benchmark from the Russell 3000 growth index to the large cap Russell 1000 growth index impacted the fund's performance. Mr. Steve MacDonald, TFI, stated that the change in benchmarks most likely had very little bearing, or no effect at all, on the fund being placed on probationary status.

Mr. Lane stated that the performance of the Growth Equity Fund relative to its benchmark has actually been very positive in the months following the first quarter. It has outperformed its benchmark, which is a sign that its performance may be back on track.

Board Action:

Motion to place the Growth Equity Fund on probationary status carried unanimously.

**Board Agenda Item Number Seven**

**Information Item: California Memorial Scholarship Fund**

Ms. Cohen presented information about a new program, The California Memorial Scholarship Program, which is administered by the SIB. She also clarified that participants can use the funds up until July 1, 2015 or their 30<sup>th</sup> birthday, whichever occurs last, not whichever occurs first, as stated in the packet.

Discussion:

The Board requested clarification on the five percent the Board receives to administer the program. Ms. Cohen explained that the Board receives five percent of the total scholarship money and no additional funding is currently identified for the program. Member Jones had some concerns about whether this amount would be sufficient enough to operate the program. Ms. Douglas Fong stated that staff has been analyzing the least expensive way to administer this program and agreed with Member Jones that a legislative recourse may be necessary to provide additional funds.

**Public Comment**

Chair Stausboll called for public comment. Member Jones recommended a change in the starting time for Board meetings. He noted that the change in time from 2:00 p.m. to 1:00 p.m. would be more convenient for those who fly out from Southern California. The Board agreed that this change would be considered and discussed before the next meeting.

Adjourned.

The June 20, 2003 Board Meeting adjourned at 3:10 p.m.

Respectfully submitted by,

Carrie Douglas Fong, Executive Director  
SCHOLARSHARE INVESTMENT BOARD