

MINUTES
SCHOLARSHARE INVESTMENT BOARD

December 12, 2003, 1:00 PM
Teleconference

Chair Anne Stausboll called the meeting to order at 1:05 PM.

Present: Anne Stausboll for Phil Angelides, State Treasurer
Fred Klass for Donna Arduin, Department of Finance
Lynn Lorber for Richard Riordan, Office of the Secretary for Education
Allison Jones
Allison Okyle Levyn
Maria Elena Serna

Staff: Carrie Douglas Fong, Executive Director, ScholarShare Investment Board
Marian Cohen, Program Manager, ScholarShare Investment Board
Phillip Rollock, Vice President, TIAA-CREF Tuition Financing, Inc. (TFI)
Christopher Lynch, Regional Director, TFI
Carla Raffin, California Program Manager, TFI
Richard Heller, Manager of Operations of Administration for Education Savings
Stephen MacDonald, Business Analysis, TFI
David Copeland, Senior Marketing Communications Specialist, TFI
Christine Doyle, Senior Counsel, TFI
Abby Ingber, Senior Counsel, TFI
Neil Rue, Pension Consulting Alliance (PCA)
Andrea Feirstein, AKF Consulting
Tom Noguerola, ScholarShare Investment Board Legal Counsel

The Chair declared a quorum present.

Board Agenda Item Number One
Approval of Minutes of the October 17, 2003 Teleconference

The minutes from the October 17, 2003 ScholarShare Investment Board (SIB) meeting were approved as submitted.

Board Agenda Item Number Two
Staff Report

Ms. Carrie Douglas Fong provided updated program totals as of December 5, 2003 for the ScholarShare Program.

Update on the ScholarShare Program

Account Growth

The total number of ScholarShare accounts opened since inception is 133,000. The number of unique accounts was unavailable as it is provided monthly. To date, 35,170 total accounts (not unique) have been opened. The total net asset value of all accounts is \$888 million.

Marketing

Ms. Douglas Fong reported that TIAA-CREF Tuition Financing, Inc. (TFI) dropped 1.2 million pieces of mail in the past week to increase account generation. The period from late November until early January tends to be the best time for college savings and mutual funds. During this season, people are more likely to open accounts, and TFI reports they are increasing the marketing efforts in an attempt to generate accounts and additional deposits.

Request for Proposal for an Investment Firm/Manager for Intermediary Distribution

Ms. Douglas Fong announced that the SIB's Request for Proposal (RFP) for a Third Party Distributor has extended the deadline for responses from potential bidders to January 5, 2004 and staff anticipates having a vendor selected by the end of January. The final selection will come back to the Board, which will need to vote for a resolution to enter into a contract with the vendor selected by the evaluation panel.

Updates on the Governor's Scholarship Programs (GSP)

Unclaimed Reports

Ms. Douglas Fong reported that an additional unclaimed report, a list of students who have not yet claimed, for the Governor's Scholarship Programs was sent out this week. For the 2000 and 2001 test years, the claim rate for the Governor's Scholarship Programs has been increasing. For the 2002 test year, the claim rate has also been increasing and staff anticipates an additional increase in early 2004 due to the duplicate notification effort planned for that month. The duplicate notification effort made in 2002 resulted in an increase in claim rate for the 2001 test year.

Ms. Douglas Fong also reported an issue with an unclaimed report that went out last week. Although the school lists that went out were correct, there was a problem with the district list, which incorrectly listed the number of students who have claimed as being zero for all schools. Staff noticed this error and immediately notified TFI. Within 24 hours, TFI had a letter drafted for the districts explaining the problem and informing them that a corrected unclaimed report would be sent out during the next week.

Board Agenda Item Number Three
2004 Board Meeting Calendar

Ms. Douglas Fong explained that staff hopes to finalize the 2004 Proposed Board Meeting Calendar and requests that Board members contact staff pending any scheduling conflicts with the dates and times proposed. The 2004 Board Meeting Calendar will appear in every Board packet as a reminder. Ms. Douglas Fong anticipates that the 2004 Board Meeting calendar will be finalized at the next SIB meeting.

Board Agenda Item Number Four
Resolution for Contract Amendment with TIAA-CREF for System Documentation

Ms. Douglas Fong explained that the proposed contract amendment adds Section 57, which would arrange for a \$1 million letter of credit in place of the system documentation as required in Section 51.

Chair Stausboll asked how the letter of credit would be utilized and if SIB alone can make the determination if costs were incurred. Ms. Douglas Fong responded that under the contract amendment SIB alone would determine if there was an issue, identify costs involved and notify TFI in writing that SIB would be drawing upon the letter of credit. Member Klass inquired about how SIB would know if a problem existed. Ms. Douglas Fong stated that the new contractor would notify SIB should they encounter any problems with the data migration process, delays in the commencement of work or costs incurred.

Member Klass also questioned the length of time the letter of credit would cover. Ms. Douglas Fong stated that the letter of credit would be active for a reasonable period of time after the data migration period was completed.

Board Action:

Member Klass moved that the contract with TFI (T-98-003) be amended to add Section 57 authorizing a letter of credit be provided instead of the system documentation required in Section 51. The motion was seconded by member Jones and approved by the Board.

Board Agenda Item Number Five
TIAA-CREF Investment Personnel Changes

Ms. Douglas Fong announced that Mr. Allan Emkin and Mr. Neil Rue of Pension Consulting Alliance (PCA) and staff met with the new management team of the Growth Equity Fund after the October SIB meeting at which they outlined their qualifications. Mr. Rue stated that PCA was comfortable with the staff changes at TFI. Mr. Chris Lynch, TFI, concurred that the meeting was productive, apologized to the Board for not making the information available in a timely manner and assured the Board that situations like this will not occur again. Mr. Lynch also stated that the new team has started putting in place a new stock selection strategy and will have rebalanced the fund by the end of the December.

Mr. Stephen MacDonald, TFI, discussed the implementation of the Dual Investment Strategy, which merged the actively managed index and the enhanced index, and further explained this strategy to the Board.

Board Action:

Member Jones moved to approve the appointments of David Fording and Greg Luttrell as active managers of the Growth Mutual Funds portfolio management team. The motion was seconded by Member Okyle Levyn and approved by the Board.

Board Agenda Item Number Six
TFI Reorganization

Ms. Douglas Fong introduced Mr. Phillip Rollock as the head of TFI's business unit. Mr. Rollock stated that he is aware that TFI has fallen short of the Board's and TFI's expectations for excellence. With what he described as the new TIAA-CREF, Mr. Rollock emphasized TFI's commitment to ScholarShare and to excellence.

Mr. Rollock reported that Herb Allison, who joined TFI in November 2002 as Chair, President and Chief Executive Officer, had implemented a strategic review called Decisions 2003 in July. This review was a rededication to excellence and involved the reorganization of the senior management team and the replacement of the executive management team. The three main aspects of Decisions 2003 were customers/clients, value and performance.

Mr. Rollock stated that TFI would have weekly meetings with staff to discuss marketing progress and other staff issues so that any problems could be identified and resolved as soon as possible. In early fall 2003, TFI met with staff to identify ways to improve performance. TFI then designed a Time and Action Plan, which emphasized timeliness, communication and quality of work.

Mr. Rollock reported that 6,000 new unique accounts were generated in November bringing the total number of unique accounts to date over the 30,000 mark. TFI anticipates that the 2002 goal of 32,000 unique accounts will be surpassed, but that TFI will come a bit short of the 2003 goal.

Members stated that they will continue to watch performance closely and are pleased to hear that Mr. Rollock and TFI are committed to improving performance.

Board Agenda Item Number Seven
Third Quarter 2003 TIAA-CREF Investment Performance

Ms. Douglas Fong stated that the investment performance this quarter does not differ much from last quarter's. Mr. Rue reported that the Growth Equity Fund remains on probationary status and two funds, including the Growth and Income Fund and the International Equity Fund, are on cautionary status. The International Equity Fund's performance has improved slightly, but it is likely the Growth and Income Fund will be placed on probation due to its long-term underperformance.

Discussion:

The third quarter was a record economic growth quarter with significant absolute returns across the funds. Mr. MacDonald stated the absolute positive returns of the second and third quarters are good and that more diverse funds may be added to the portfolio.

Chair Stausboll inquired about what was being done to improve the performance of the Growth and Income Fund. Mr. MacDonald explained that the performance of the Growth and Income Fund, which was introduced into the ScholarShare program in July 2000, closely resembles that of the Growth Equity Fund, which was introduced during the inception of the ScholarShare program in October 1999. Had both funds been introduced into the ScholarShare program at the same time, the Growth and Income Fund would likely be on probation as well. Mr. MacDonald stated that changes implemented to improve the Growth Equity Fund would most likely benefit the Growth and Income Fund as well.

Board Agenda Item Number Eight
2004 TFI Marketing Plan

Ms. Douglas Fong noted this was the first time in years that TFI has provided the marketing plan for the coming year prior to the new year beginning. Mr. Lynch explained that TFI was rededicating itself to executing campaigns on time as depicted on the marketing calendar provided.

Ms. Carla Raffin, TFI, discussed the overall marketing objectives for ScholarShare, as well as specific objectives for 2004. Mr. David Copeland, TFI, stated that an important goal was to cultivate new business continually throughout 2004. Mr. Copeland also said that it is beneficial to deliver content, which is customized and readily available to each key segment in the account acquisition process, and to continue to improve the account acquisition matrix and improve customer satisfaction.

Ms. Serna inquired about whether anything was being done to reach the community college system, as well as private colleges, universities and institutions, since they represent a very large portion of education in California. Ms. Raffin agreed and explained that they have received contact information for community colleges and trade schools, and will follow up on this inquiry. Ms. Douglas Fong stated that staff would work with TFI and report back as to what past efforts have been.

Member Okyle Levyn inquired about the past promotions, including promotions with Target, Barnes & Noble and hospitals. Mr. Copeland explained that numerous marketplace analyses have shown that gift cards decrease the cost of acquisition. Mr. Copeland stated that even though gift cards may increase response rate and conversion rate, they might serve to undervalue the product if they are too often relied upon as a support vehicle.

A new mom campaign is expected to begin in January, which will involve providing new mothers with baskets filled with baby products from companies such as Johnson & Johnson and Gerber, as well as a marketing piece from ScholarShare. Ms. Raffin explained that hospitals are a core client base and it is important to develop this base and expand upon it. This campaign

would be in conjunction with Sutter Health, the largest hospital organization in California, during the first quarter of the upcoming year. Additionally, TFI plans include an insert into the paychecks of Sutter Health employees during this marketing campaign.

Board Agenda Item Number Nine **TIAA-CREF Proxy**

Ms. Douglas Fong reported that the TIAA-CREF proxy vote at the upcoming shareholders meeting for the three trustees for the Institutional Mutual Funds Board and the Mutual Funds Board needed to be approved by the Board. This shareholders meeting and proxy vote are the first that SIB has participated in.

The three trustees that TFI has proposed are William Carleton, Martin Gruber and Bridget Macaskill. After looking over the proxy statements and resumes of the proposed trustees, PCA believes that they are qualified and recommends Board approval. The two options for the Board regarding this proxy vote include approving the vote or withholding the vote.

Ms. Douglas Fong stated that staff will set up a meeting with TFI to discuss any other questions regarding the proxy vote and corporate governance and report back to the Board in conjunction with TIAA-CREF's governance structure. Staff plans to develop a proxy voting policy next year, which will provide a layout of how proxies would be voted on in the future, and will keep the Board updated on its status.

Ms. Abby Ingber, TFI, gave background on TIAA-CREF's governance structure. She explained that there are eight members on the Board. Ms. Douglas Fong stated that TFI has policies in place where geography, gender, diversity, and investment expertise are looked at when determining who will be nominated for their Board. They also do an extensive search throughout the country and directly solicit perspective trustees from universities and other organizations. There is also a shareholder nomination panel.

Board Action:

Member Klass moved that the Board approve the proxy vote to elect the three trustees, Willard Carleton, Martin Gruber and Bridget Macaskill, to the TIAA-CREF Institutional Mutual Funds Board and the TIAA-CREF Mutual Funds Board. The motion was seconded by Member Lorber and approved by the Board.

Discussion:

Chair Stausboll and Member Okyle Levyn asked several questions regarding the proxy vote. Ms. Ingber stated that this meeting would be the first public shareholders meeting that they have held. Following industry practice, these shareholders meetings are held to approve fundamental changes in the funds, such as mergers or changes in advisory arrangements, and in the case of this shareholders meeting, to elect trustees. Ms. Douglas Fong noted that this meeting was being held to ensure that a sufficient number of trustees, at least two-thirds, have been elected by shareholders so that the Board of Trustees may fill future vacancies. Chair Stausboll also

reminded Board members that staff would be having a fiduciary workshop in the spring that will provide them with more information on their roles and responsibilities on topics such as this one.

Public Comment

Chair Stausboll called for public comment. There was none. There being no further business before the Board, the Chair adjourned the meeting at 2:45 p.m.

The next meeting is scheduled for January 29, 2004 at 1:00 p.m.

Respectfully submitted by,

Carrie Douglas Fong, Executive Director
SCHOLARSHARE INVESTMENT BOARD