

MINUTES
SCHOLARSHARE INVESTMENT BOARD

April 9, 2004, 1:00 p.m.
Teleconference

Chair Anne Stausboll called the meeting to order at 1:12 p.m.

Present: Anne Stausboll for Phil Angelides, State Treasurer
Tom Dithridge for Donna Arduin, Department of Finance
Anne McKinney for Richard Riordan, Office of the Secretary for Education
(departed at 3:55pm)
Allison Jones (via phone; arrived at 1:25pm)
Allison Levyn (via phone)
Sabrina Kay (via phone; departed at 3:35pm)
Maria Elena Serna (via phone)

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
Hans Erickson, Senior Managing Director-Quantitative Investments, TFI
Carla Raffin, California Program Manager, TFI
Stephen McDonald, Associate-Equity Portfolio Analysis, TFI
Steven Goldstein, Executive Vice President-Public Affairs, TFI
Monica Calhoun, Vice President & Chief Counsel-Product Management, TFI
Karen Elinski, Government Relations, TFI
Cindy Wilson, Field Consultant, TFI
Yvonne Jimenez, Field Consultant, TFI
Christine Doyle, Senior Counsel, TFI
Bob Garcia, Golden State Advocacy, TFI
Allan Emkin, Pension Consulting Alliance (PCA)
Andrea Feirstein, AKF Consulting
Tom Noguera, ScholarShare Investment Board Legal Counsel

The Chair declared a quorum present.

Board Agenda Item Number One
Approval of Minutes of the February 19, 2004 Teleconference

The minutes from the February 19, 2004 ScholarShare Investment Board (SIB) meeting were approved as submitted.

The Board decided to switch the order of items and have Item Number 11 come before Item Number 10, and to defer Item Number 7 to the next meeting.

Board Agenda Item Number Two

Staff Report

Ms. Carrie Douglas Fong presented the Staff Report to the Board, providing program totals for the ScholarShare Program, and noted that TIAA-CREF Tuition Financing, Inc. (TFI) has begun changing the status of some accounts from “active” to “inactive” which has the effect of lowering the unique and total account numbers. Inactive accounts (those that maintained a zero-balance for more than 90 days) were inflating account numbers. Ms. Douglas Fong reported that TFI decided to remove the Gift Card incentive from the Tax Time Campaign due to problems that occurred during the Year-End/Gift Giving campaign in 2003.

Ms. Douglas Fong also updated the Board on national 529 news. Specifically, the Lifetime Savings Accounts (LSA’s) that the Bush administration proposed will most likely not be addressed until next year and that no additional information was available regarding the Securities and Exchange Commission (SEC) task force or the National Association of Securities Dealers (NASD) investigation.

Ms. Douglas Fong reported that the Governor’s Scholarship Programs has sent duplicate notification letters to schools encouraging them to mail the notices to students who have not claimed their Governor’s Scholars Awards for the 2002 test year. In addition, Staff is calling over 1,000 schools to ensure that the duplicate notification materials were received and distributed, and to assist schools with claiming.

Mr. Phillip Rollock, TFI, stated that TFI is rededicating itself to excellence and that one of the challenges it faces is getting to the next level of performance as a business, which it intends to do. He addressed the difficulties associated with filling the gift card orders for the Year-End/Gift Giving campaign as well as properly reporting account owner tax information to the Franchise Tax Board (FTB). Mr. Rollock stated that these issues are being addressed and ensured a swift resolution. He also assured the Board that TFI is committed to identifying mistakes as they arise and remedying them expeditiously. TFI addressed some questions from Members Kay, Levyn and Dithridge regarding the monitoring of accounts and the effectiveness of campaigns on account generation.

Board Agenda Item Number Three

Resolution for Penalty Account Disbursement and Closure

Ms. Douglas Fong stated that SIB formerly extracted a penalty from account owners who made unqualified withdrawals from their accounts. These funds were deposited in a penalty account. The federal and State governments now tax unqualified withdrawals and SIB has stopped extracting the penalty. Ms. Marian Cohen, SIB, stated that Staff recommends that the Penalty Account be closed and all funds be transferred to the Board’s administrative fund to pay for

operating expenses. Member Kay noted that the resolution be changed to reflect the required signature of the Chair rather than the Executive Director.

Board Action:

Member Kay moved to adopt the resolution as amended to transfer the balance of the Penalty Account to the Board's administrative fund for operational expenses. The motion was seconded by Member Serna and approved by the Board.

Board Agenda Item Number Four
Review and Analysis of TIAA-CREF's Fourth Quarter and Year End 2003
Investment Performance

Mr. Allan Emkin, Pension Consulting Alliance (PCA), presented the Board with the Fund Performance Status Report through December 31, 2003, explaining that the Bond Plus Fund, Equity Index Fund, Large Value Index Fund, Small Blend Index Fund and Social Choice Equity Fund are all currently positive. The International Equity Fund warrants cautionary status, the Growth & Income Fund warrants probation and the Growth Equity Fund continues to remain on probation. Mr. Emkin addressed questions from the Board pertaining to the variance in fund performance, how performance was measured and the process for placing a fund on probation.

Board Agenda Item Number Five
Review of TIAA-CREF Growth & Income Fund Performance for
Possible Probationary Status

Ms. Douglas Fong stated that placing the Growth & Income Fund on probation would make it the second fund placed on probation and that if a majority of funds were placed on probation, the long-term relationship with TFI would need to be examined further. Staff and PCA recommended that the Board place the Growth & Income Fund on probationary status. Funds that are placed on probation are watched for 9 to 15 months, at which time they are reviewed. If at the time of the review, the fund has not improved it can be replaced.

Board Action:

Member Serna moved that the TIAA-CREF Growth & Income Fund be placed on probationary status. The motion was seconded by Member Dithridge and approved by the Board.

Board Agenda Item Number Six
2003 Marketing Plan Analysis from TIAA-CREF Tuition Financing, Inc.

Mr. Chris Lynch, TFI, stated that in 2004, TFI is working toward increasing account generation steadily throughout the year rather than have to rely on a year-end push like that of 2003. With more scheduled campaigns and online advertisements, TFI feels that ScholarShare will have a more constant presence in the marketplace this year.

Ms. Carla Raffin, TFI, presented TFI's 2003 Marketing Plan Analysis to the Board and discussed various campaigns that were completed during the year. Ms. Raffin provided campaign results and various account generation numbers and explained that recontribution campaigns are being planned for this year. Mr. Lynch also stated that since online enrollment made up a large percentage of accounts opened in 2003, changes would be made to the website to make it more interactive and attractive to visitors.

Member Kay expressed interest in seeing the ScholarShare program compared with programs in other states. Ms. Douglas Fong responded that an independent marketing analysis focused on account totals and assets was being prepared and would be presented at the next meeting. Chair Stausboll proposed that TFI's 2003 Marketing Plan Analysis be redistributed along with the independent marketing analysis item at the next meeting so that the Board can view all of the materials together.

The Board asked if Ms. Douglas Fong had any thoughts about TFI's report. Ms. Douglas Fong responded that Staff was concerned with TFI entering the fourth quarter last year with such a low account number, but was optimistic that this year's account numbers would be greater due to the improvement of TFI's 2004 Marketing Plan over its 2003 Marketing Plan.

Board Agenda Item Number Seven
Review of 2003 TIAA-CREF Tuition Financing, Inc. Marketing Performance and Independent Marketing Analysis

This item was deferred to the May 20, 2004 SIB meeting.

Board Agenda Item Number Eight
Review of 2003 TIAA-CREF Tuition Financing, Inc. Administrative Performance

Ms. Douglas Fong explained that the recommendation for this item had been changed and action would need to be held due to outstanding issues involving TFI's tax reporting with the Franchise Tax Board (FTB).

Mr. Lynch, TFI, presented the Administrative Performance Criteria to the Board and explained that although there was no data for 48% of the 2003 performance criteria, 100% of the performance criteria data is now being collected as of January 1, 2004.

The Board requested to defer Item Number 11 to the next meeting.

Board Agenda Item Number Nine
Resolution to Adopt Mutual Fund Protection Principles

Ms. Douglas Fong presented to the Board the Mutual Fund Protection Principles. CalSTRS and CalPERS have both adopted these principles and the National Association of State Treasurers

(NAST) adopted them a few weeks ago. Ms. Douglas Fong stated that Staff recommends that the Board adopt the Mutual Fund Protection Principles. Member Jones proposed a change in the resolution language to reflect the addition of the phrase "...and the monitoring of existing vendors." to the last sentence of the resolution.

Board Action:

Member Jones moved to approve the resolution as amended to adopt the Mutual Fund Protection Principles. The motion was seconded by Member Levyn and approved by the Board with one abstention.

Board Agenda Item Number Ten
Presentation by TIAA-CREF on their Corporate Governance Structure and Policies

Ms. Monica Calhoun, TIAA-CREF, presented the Board with TIAA-CREF's Corporate Governance structure and policies. The Board had some questions regarding the audit committee, proxy voting criteria, annual evaluation of trustees and ScholarShare's percentage in shareholders. Ms Calhoun responded that answers to these questions could be provided at a later date. Also, Ms. Douglas Fong stated that an SIB proxy policy would be presented later in the year.

Board Agenda Item Number Eleven
Marketing in the Asian Community and Asian Languages Report

This item was deferred to the May 20, 2004 SIB Meeting.

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 4:20 p.m.

The next meeting is scheduled for May 20, 2004 at 1:00 p.m.

Respectfully submitted by,

Carrie Douglas Fong, Executive Director
SCHOLARSHARE INVESTMENT BOARD