

MINUTES  
SCHOLARSHARE INVESTMENT BOARD

June 9, 2004, 10:00 a.m.

Chair Ted Eliopoulos called the meeting to order at 10:09 a.m.

Present: Ted Eliopoulos for Phil Angelides, State Treasurer (not present 12:08-1:25 pm)  
Tom Dithridge for Donna Arduin, Department of Finance  
Anne McKinney for Richard Riordan, Office of the Secretary for Education (departed at 1:56 pm)  
Cathleen Cox for Richard Riordan, Office of the Secretary for Education  
Allison Jones (departed at 2:45 pm)  
Allison Levyn (departed at 2:58 pm)  
Sabrina Kay (departed at 2:18 pm)  
Maria Elena Serna

Staff: Carrie Douglas Fong, Executive Director, ScholarShare Investment Board (SIB)  
Marian Cohen, Manager, SIB  
Christopher Lynch, Regional Director, TIAA-CREF Tuition Financing, Inc. (TFI)  
Carla Raffin, California Program Manager, TFI  
Stephen McDonald, Associate-Equity Portfolio Analysis, TFI  
Cindy Wilson, Field Consultant, TFI  
Yvonne Jimenez, Field Consultant, TFI  
Christine Doyle, Senior Counsel, TFI (via phone)  
Bob Garcia, Golden State Advocacy, TFI  
Allan Emkin, Pension Consulting Alliance (PCA)  
Andrea Feirstein, AKF Consulting  
Linda McAtee, General Counsel, State Treasurer's Office (STO)  
Tom Noguerola, ScholarShare Investment Board Legal Counsel

The Chair declared a quorum present.

**Board Agenda Item Number One**

**Board Training: Investments, Asset Allocation, Investment Policy and  
Fiduciary Responsibilities**

---

Ms. Carrie Douglas Fong, SIB, began the Board Training session by providing a general overview of this item and the meeting. Ms. Douglas Fong stated that an SIB Policy Binder would be provided to the Board in about 6-8 weeks and presented the SIB Program Chronology, which lists important investment decisions by the Board as well as other highlights.

Ms. Linda McAtee, STO, provided an overview of the Board's fiduciary responsibilities and answered a number of questions posed by the Board. Chair Eliopoulos summarized discussions and requested that an item be presented to the Board regarding liability, fiduciary insurance, and the California Tort Claims Act.

Ms. Douglas Fong stated that the proxy policy requested during the December meeting will be presented to the Board at the July meeting.

Mr. Allan Emkin, PCA, reviewed the current Investment Policy. Member Dithridge asked if possible amendments to the Policy would be recommended. Ms. Douglas Fong responded that staff has already asked PCA to review the Policy. Member Kay stated that she would like to look at index funds as an option rather than actively managed funds. Chair Eliopoulos said that SIB should review its options, including index funds.

Mr. Emkin presented to the Board an overview of asset class characteristics and an overview of asset allocation and the purpose of each asset class.

There was a recess from 12:30 p.m. to 1:20 p.m. for lunch. The Board decided to move Agenda Item 2 after Agenda Items 4 and 5, and to defer Agenda Item 3 to the July 15, 2004 SIB meeting.

## **Board Agenda Item Number Two**

### **Review and Analysis of TIAA-CREF's First Quarter 2004 Investment Performance**

Mr. Allan Emkin, PCA, presented the Board with the Fund Performance Status Report through March 31, 2004, explaining that the Bond Plus Fund, Equity Index Fund, Large Value Index Fund, Small Blend Index Fund, International Equity Fund and Social Choice Equity Fund are all currently positive.

The Growth & Income Fund was put on probation on April 9 and the Board and Mr. Emkin both expressed concern with the fund's performance and whether it was possible for the fund to recover. Mr. Emkin stated that PCA would work with staff to keep the Board updated on the status of the Growth & Income Fund and an update on that fund will be provided at the September meeting. The Growth Equity Fund continues to remain on probation and a recommendation will be made in regards to that fund at the September meeting.

Mr. Emkin stated that TIAA-CREF needs to come to a quick resolution regarding the selection of a new investment management team for the Growth & Income Fund. TIAA-CREF is expected to provide staff with information about the new team by late July. This information will be presented to the Board along with an opinion from PCA prior to the September meeting, if not sooner. An update will be provided to the Board at the July meeting.

## **Board Agenda Item Number Three**

### **Review TIAA-CREF Philosophy of Current Asset Allocation**

This item was deferred to the July 15, 2004 SIB meeting.

**Board Agenda Item Number Four**  
**Minutes from April 9, 2004 Meeting**

---

The minutes from the April 9, 2004 SIB meeting were approved as submitted.

**Board Agenda Item Number Five**  
**Staff Report**

---

Ms. Carrie Douglas Fong presented the Staff Report to the Board, providing program totals for the ScholarShare Program and noting that TFI has changed the status of zero-balance accounts from “active” to “inactive” which explains why the unique account number is larger than the total account number for 2004. Ms. Douglas Fong reported TFI did not provide May numbers until shortly before the meeting so staff has not had the time to analyze them. However, it is clear that TFI is currently behind in account generation relative to last year at this time.

Ms. Douglas Fong reported that Assembly Bill 2724 has been approved by the Assembly and will be heard in the Senate.

In the administration’s May Budget Revise, there is a provision that \$50 million from the Governor’s Scholarship Programs (GSP) be reverted to the General Fund, however, less than \$50 million in unclaimed award funds is available to revert. Staff has worked with TIAA-CREF, the Department of Finance (DOF) and the Legislative Counsel’s Office regarding the reversion to ensure GSP reverts an appropriate amount. Mr. Chris Lynch, TFI, stated that they are most concerned with having sufficient funds available at all times so that award claiming can continue. The Board asked if students will be notified that the five years they have to claim is almost up and whether they would receive notice if award claiming were suspended because of the reversion. Ms. Douglas Fong responded that initial notification letters to students state that they have five years to claim the award, and the proposed legislation should ensure that funding for awards is available making any suspension in awards temporary.

Ms. Douglas Fong reported that the Securities and Exchange Commission has asked the College Savings Plan Network (CSPN) to develop universal disclosure documents for 529 plans because of the current difficulties comparing programs created by different disclosure practices. The National Association of Securities Dealers (NASD) is now investigating 15 states/firms as opposed to the previous six. Staff also reviewed difficulties that other state 529 plans are having including ethical and financial issues.

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

---

Ms. Douglas Fong, SIB, stated that on the Annual Marketing Performance Report, the third criteria, Satisfaction, is being reported by TFI for the first time although they are only able to provide accounts that have been switched from ScholarShare to another 529 program (rollover).

Ms. Andrea Feirstein, AKF Consulting, presented an Independent Marketing Analysis, which evaluated the performance of ScholarShare against the national market and specific state plans. Ms. Feirstein reported that accounts and asset growth have been increasing steadily for ScholarShare and for 529 plans nationally. Ms. Feirstein also noted a change in the presentation material on page 10, which should list Utah in the category “Direct-sold programs with a state tax deduction” rather than the “Direct-sold programs without a state tax deduction” category. California is somewhat below average when compared with other state programs in asset growth and is doing slightly better than average in terms of account growth. However, she noted that the program is not doing as well as other programs in terms of market penetration, even when compared to similar plans. She also noted that more Californians are investing in Utah’s program than Utah residents who receive a state tax deduction in spite of the fact that Utah’s program is not marketed out-of-state.

Ms. Douglas Fong reported that TFI has achieved two of their benchmarks and stated that staff recommends that we allow TFI time to improve upon areas of deficiencies. Staff also recommends that it review these benchmarks, look at possibly adding the Average Account Balance to the report, and bring it back to the Board at a later date.

Board Action:

Member Dithridge moved to allow TFI time to improve upon areas of deficiencies and to review current benchmarks. The motion was seconded by Member Serna and approved by the Board.

**Board Agenda Item Number Seven**

**Review of 2003 TIAA-CREF Tuition Financing, Inc. Administrative Performance**

Ms. Douglas Fong stated that this item was deferred from the last meeting due an issue regarding TFI not filing state tax reports with the Franchise Tax Board (FTB). TIAA-CREF has reported that more information was provided to FTB and the issue has now been resolved

Ms. Cindy Wilson, TFI, presented the Administrative Performance Report to the Board and explained that TFI had incorrectly reported data for service correspondence under the wrong timeliness category. Revised reports were distributed to the Board showing that data for service correspondence should have been reported under step level 2 instead of step level 1. TFI will be recommending this benchmark be changed to mirror their operating procedures that give priority to financial correspondence, which makes up the majority of the correspondence.

Ms. Douglas Fong stated that staff recommends replacing the quarterly trend analysis column on the last page of the administrative performance report with a column showing important trends worth noting or increases/decreases over time. The Board requested TFI identify quarterly, annual, or other trends that they deem important for interpreting the data.

Chair Eliopoulos stated that the Treasurer is concerned with the inability to provide data on 21 criteria and expects TFI to identify similar criteria they can provide data on as soon as possible.

TFI and staff are looking for ways to obtain the data for these criteria without incurring costs for SIB. Ms. Cindy Wilson, TFI, stated that TFI is collecting all the data for 2004 at no additional expense to SIB.

Ms. Marian Cohen, SIB, reported that TFI has put together a preliminary recommendation for the revised administrative benchmarks for discussion and staff will provide a full report at the September meeting if not earlier.

Board Action:

Member Serna moved to allow TFI time to improve upon areas of deficiencies and provide a mid-year report to the Board. The motion was seconded by Member Cox and approved by the Board.

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

This item was deferred to the July 15, 2004 SIB Meeting at the request of Member Kay.

**Board Agenda Item Number Nine**  
**Resolution to Approve Contract Amendment with TIAA-CREF Tuition Financing, Inc. for the Governor's Scholarship Programs for Fiscal Year 2004-2005**

Ms. Douglas Fong, SIB, presented the annual contract amendment with TFI regarding the Governor's Scholarship Programs. The Board votes on a contract amendment every year because the contract is funded annually through the budget process. The estimated amount is \$709,000, which was set in the budget, but this amount may be affected by the May Budget Revise. The final amount will need to be approved by the Department of Finance (DOF) in advance.

Members questioned whether the contract amount was reasonable, to which Ms. Douglas Fong responded that TFI appears to be able to provide receipts for services that exceed the \$709,000 amount for previous years. Chair Eliopoulos noted that the resolution would allow the Executive Director to negotiate an amount with TFI and seek approval from DOF. Ms. Douglas Fong stated that staff would not be bringing this item back to the Board, but would update the Board when a final amount has been set.

Board Action:

Member Dithridge moved to adopt the resolution to approve the contract amendment with TIAA-CREF Tuition Financing, Inc. for the Governor's Scholarship Programs for fiscal year 2004-2005. The motion was seconded by Member Serna and approved by the Board with one abstention.

**Public Comment**

Chair Eliopoulos called for public comment. There was none. There being no further business before the Board, the Chair adjourned the meeting at 3:26 p.m.

The next meeting is scheduled for July 15, 2004 at 1:00 p.m.

Respectfully submitted by,

Carrie Douglas Fong, Executive Director  
SCHOLARSHARE INVESTMENT BOARD