

MINUTES
SCHOLARSHARE INVESTMENT BOARD

July 15, 2004, 1:00 p.m.
Teleconference

Chair Ted Eliopoulos called the meeting to order at 1:04 p.m.

Present: Ted Eliopoulos for Phil Angelides, State Treasurer
Bob Campbell for Donna Arduin, Department of Finance
Cathleen Cox for Richard Riordan, Office of the Secretary for Education
Allison Jones
Allison Levyn (via phone; joined meeting at 1:06 p.m.)

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 MacDonald, Associate-Equity Portfolio Analysis, TFI
Cindy Wilson, Field Consultant, TFI
Yvonne Jimenez, Field Consultant, TFI (via phone)
Christine Doyle, Senior Counsel, TFI (via phone)
Neil Rue, Pension Consulting Alliance (PCA)
Andrea Feirstein, AKF Consulting (via phone)
Tom Noguerola, ScholarShare Investment Board Legal Counsel

The Chair declared a quorum present.

Board Agenda Item Number One
Minutes from June 9, 2004 Meeting

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

Board Agenda Item Number Two
Staff Report

Ms. Carrie Douglas Fong, SIB, presented the Staff Report to the Board and provided account and asset totals for the ScholarShare Program. Ms. Douglas Fong stated that Staff was concerned that TFI would not meet this year's account generation goal because as of June 30, 2004, TFI generated only 10,285 new unique accounts, about 21.7% of the account generation goal for 2004. In comparison, at the same time last year, TFI had generated 15,399 new unique accounts, about 35.6% of the account generation goal for 2003.

The Board concurred with Ms. Douglas Fong's concerns regarding TFI's low account totals for 2004 and questioned how the problem would be remedied. Ms. Douglas Fong stated that TFI is planning to implement incentive campaigns that will run for the remainder of the year. TFI will discuss their account generation and marketing campaigns during the mid-year marketing update, agenda item 4.

Ms. Douglas Fong reported that Staff and TFI will be recommending changes to the performance criteria adopted by the Board in 2002 because the asset goal appears to be considerably lower and the account goal appears to be somewhat higher when compared to the overall market.

Ms. Douglas Fong reported that Staff met with TIAA-CREF on July 8, 2004 and that TIAA-CREF does not anticipate having an investment team in place for the Growth & Income Fund until the end of the year. Ms. Douglas Fong stated that a more substantial update is expected in September as well as possible action items related to both the Growth & Income Fund and the Growth Equity Fund.

Ms. Douglas Fong reported that ScholarShare's technical corrections bill, Assembly Bill 2724, will be heard in Senate Appropriations on August 2, 2004.

September is College Savings Month and TFI has been working with Ogilvy Public Relations Worldwide to set up press events throughout the state. Staff will notify the Board of any opportunities taking place around their area and whether any assistance is needed.

Ms. Douglas Fong reported that the Securities and Exchange Commission (SEC) met with the College Savings Plan Network (CSPN) on July 14, 2004. Ms. Andrea Feirstein, AKF Consulting, attended on SIB's behalf. The SEC is encouraging CSPN to continue improving the disclosure documents that were provided to the Board at the June SIB meeting and will continue to review most of the State plans, if not all of them, by this fall.

Ms. Douglas Fong stated that SIB is currently in the process of paying back a series of loans for start-up costs incurred when the California Student Aid Commission (CSAC) administered the ScholarShare program. The first loan has been paid in full, and a payment of \$200,000 has been made to the second loan, which is in accordance to the payment schedule agreed to by the Department of Finance. Staff will provide the Board with additional information in writing within the next couple of weeks.

Ms. Douglas Fong recommended discussion of the proxy policy be moved from the September meeting to the November meeting due to the number of items on the agenda for the next meeting. TFI stated that the next proxy vote would most likely take place in late-2005 and assured the Board that no proxy votes are anticipated for the remainder of 2004.

Member Jones recommended that the Board attempt to attend meetings in person and possibly discuss the issue of attendance at a later date.

Board Agenda Item Number Three
Resolution Authorizing the Reversion of Governor's Scholarship Program
Funds to the General Fund

Ms. Douglas Fong presented to the Board the resolution authorizing the reversion of Governor's Scholarship Program (GSP) Funds to the General Fund (GF). Ms. Douglas Fong reported that TFI notified Staff on July 1, 2004 that in order to process a reversion of GSP unclaimed funds to the GF, it needed a resolution from the Board requesting the funds be transferred. Ms. Douglas Fong stated that SIB would most likely be reverting about \$38 million, which is the amount of unclaimed funds minus the \$5 million being reserved for ongoing award claiming.

Ms. Douglas Fong explained that pending legislation would permit SIB access to additional funds if more than \$5 million were needed to continue award claiming.

Ms. Douglas Fong stated that Staff recommends the Board approve the resolution authorizing the reversion of GSP funds to the GF.

Board Action:

Member Levyn moved to approve the resolution authorizing the reversion of GSP funds to the GF. The motion was seconded by Member Jones and approved by the Board.

Board Agenda Item Number Four
Tuition Financing, Inc. (TFI) 2004 Mid-year Marketing Update

A revised 2004 Marketing Initiatives Projected Results (as of 6/30/04) spreadsheet from TFI was distributed to the Board. Ms. Douglas Fong noted a correction to TFI's spreadsheet: the actual response rate for the School's Out/Graduation campaign is 0.6%, not 0.66%.

Mr. Chris Lynch, TFI, stated that TFI is aware of Staff's concerns about reaching the account generation goal for 2004 and explained that this year's account numbers are less than last year's due to the lack of an incentive campaign this spring. Mr. Lynch stated that TFI understands that the most effective tactic in the past has been the incentive campaign, but because of difficulties associated with the fulfillment of gift cards during the 2003 year-end campaign, TFI decided not to offer an incentive during the tax-time campaign. To increase account generation, TFI is currently planning a Back-to-School incentive campaign for August and a possible incentive for current account owners who sign up for the Automatic Contribution Plan.

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

Ms. Douglas Fong asked the Board if they wished to discuss this item at this meeting since it had been postponed twice or if they would rather move the item to the November meeting. The Board agreed to discuss the item at this meeting.

Ms. Douglas Fong reported that Staff and TFI have analyzed and researched the possibility of distributing enrollment kits in languages other than English and Spanish, specifically in an Asian language. Research showed that less than 500,000 people speak one given Asian language. In order to market in another language, disclosure documents by law must be translated; the cost associated with the translation of a language is at least \$50,000 per language translated.

Ms. Douglas Fong recommended that the Board market to the Asian population in English, but not in Asian languages. Members Levyn and Jones agreed with Staff's analysis. Ms. Douglas Fong stated that outreach to the Asian community in English would be incorporated into the TFI's overall Marketing Plan and reports. Ms. Douglas Fong stated that Staff suggests this item not be reviewed anytime soon because the data will most likely remain unchanged for a number of years.

Board Agenda Item Number Six

Review of TIAA-CREF Investment Philosophy and Asset Allocation Process; Presentation of Possible Additions to Asset Allocation

Mr. Stephen MacDonald, TIAA-CREF, made three presentations to the Board that provided additional information and background on TIAA-CREF's investment philosophy, current allocations, asset allocation process and goals, asset classes, efficient frontier analysis and possible additions to the asset allocation.

Ms. Douglas Fong stated that Staff & Pension Consulting Alliance (PCA) met with TIAA-CREF's business & investment staff last week and requested TFI submit their complete asset allocation recommendation and if the Growth & Income Fund and the Growth Equity Fund needed to be changed, provide a recommendation. Recommendations from PCA and TIAA-CREF, and possibly Milliman U.S.A. will be provided to the Board, giving the Board a variety of different viewpoints to consider.

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 2:50 p.m.

The next meeting is scheduled for September 16, 2004 at 1:00 p.m.

Respectfully submitted by,

Carrie Douglas Fong, Executive Director
SCHOLARSHARE INVESTMENT BOARD