

MINUTES  
SCHOLARSHARE INVESTMENT BOARD

December 16, 2004, 1:00 p.m.  
Teleconference

Chair Ted Eliopoulos called the meeting to order at 1:05 p.m.

Present: Ted Eliopoulos for Phil Angelides, State Treasurer  
Tom Dithridge for Tom Campbell, Department of Finance  
Cathleen Cox for Richard Riordan, Office of the Secretary for Education  
(arrived 1:07 p.m.)  
Allison Jones  
Allison Levyn (via phone) (left 2:30 p.m.)  
Maria Elena Serna (via phone) (left 2:00 p.m.)

Staff: Carrie Douglas Fong, Executive Director, ScholarShare Investment Board (SIB)  
Marian Cohen, Manager, SIB  
Dennis Siebert, Associate Governmental Program Analyst, SIB  
Chris Lynch, Regional Director, TIAA-CREF Tuition Financing, Inc. (TFI)  
Carla Raffin, California Program Manager, TFI  
Kevin Seaman, Marketing Director, TFI  
Stephen MacDonald, Associate – Equity Portfolio Analytics, TFI  
Cindy Wilson, Registered Representative, TFI  
Kathleen Tunson, Account Executive, TFI  
Christine Doyle, Senior Counsel, TFI (via phone)  
Allan Emkin, Pension Consulting Alliance, Inc. (PCA)  
Jeff Van Orden, Milliman USA (via phone)  
Andrea Feirstein, AKF Consulting (via phone)  
Jack Zorman, Staff Counsel, State Treasurer’s Office (STO)

The Chair declared a quorum present.

The Board decided to change the order of the items and have Item Number 2 follow Item Number 3, and have Item Numbers 4 and 5 follow Item Numbers 6 and 7.

**Board Agenda Item Number One**  
**Minutes from October 14, 2004 Meeting**

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The minutes from the October 14, 2004 SIB meeting were approved as submitted.

### **Board Agenda Item Number Three**

#### **ScholarShare Investment Board 2005 Meeting Calendar**

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Ms. Douglas Fong presented the tentative SIB meeting calendar for 2005 and requested that the Board let Staff know of any necessary changes by the end of 2004.

### **Board Agenda Item Number Two**

#### **Staff Report**

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Ms. Carrie Douglas Fong, SIB, presented the Staff Report to the Board and provided account and asset totals for the ScholarShare Program. Member Jones expressed disappointment about the account generation total relative the 2004 goal and recommended looking at other options. Ms. Douglas Fong stated that Staff asked Andrea Feirstein of AKF Consulting, SIB's 529 consultant, to compare ScholarShare's performance with that of other state programs. Ms. Feirstein found that as of September 30, asset growth in California during 2004 was fairly close to national numbers and account growth was below the national average, giving California the lowest growth rate this year among the state plans that were looked at. Chair Eliopoulos asked that Staff give the report to TFI and once finalized, to the Board.

Ms. Douglas Fong stated that changes to TIAA-CREF Investment Personnel would not be discussed until the January 2005 meeting.

Ms. Douglas Fong reported that the College Savings Plans Network (CSPN) has finalized its Disclosure Principles and that 44 states have indicated that they intend to implement these principles. SIB will implement the principles on January 1, 2005 in the new Disclosure Booklet that is expected to be out by the end of 2004.

Ms. Douglas Fong stated that SIB is required to provide annual audit reports to the Governor and the Controller, among others. This year, there was a delay in the delivery of the audit reports due to an intergovernance issue involving two TIAA-CREF Board members who had an undisclosed economic relationship with TFI's auditor Ernst & Young. Ernst & Young will no longer serve as TFI's auditor and the two Board members have resigned. Mr. Chris Lynch, TFI, stated that TFI notified all of the Boards and the President of Overseers of the issue on a timely basis and that the Wall Street Journal incorrectly reported that there was a delay in notification. Ms. Douglas Fong reported that the annual audit reports have been sent to the appropriate parties, but were late.

Ms. Douglas Fong reported that TFI had a problem with new account enrollment that affected 533 persons; this problem involved statements that were mailed out to new account owners stating that they were signed up for the Aggressive Age-Based Option when they had actually signed up for the Age-Based Option. TFI has since resolved this matter.

**Board Agenda Item Number Six**  
**Review and Analysis of TIAA-CREF's Third Quarter 2004 Investment Performance**

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Mr. Allan Emkin, PCA, presented the Board with the Fund Performance Status Report through September 30, 2004, explaining that the Social Choice Equity, Equity Index, Large-Cap Value Index, Small-Cap Blend Index, International Equity and Bond Plus funds are all currently in the "positive" range relative their benchmarks, and that the Growth Equity Fund and Growth & Income Fund, which were removed from the portfolio at the October meeting, remain on probation.

The Board inquired about what percentage of the ScholarShare assets consists of the two funds on probation. TFI and Staff will provide the Board with actual numbers.

**Board Agenda Item Number Seven**  
**Investment Performance Relative to Peers**

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Ms. Douglas Fong stated that there are different ways to look at investment performance and SIB asked Milliman USA (Milliman) for its independent analysis. The Milliman report analyzes ScholarShare's mutual funds (net of the underlying mutual fund fees, 529 fees and administrative fees) as compared to the investment benchmarks as well as to a universe median.

Mr. Jeff Van Orden, Milliman, stated that this report attempts to look at the program from the perspective of the participants. Mr. Van Orden affirmed that the final numbers in the report have been reconciled by TIAA-CREF and is confident that the numbers are accurate. Chris Lynch and Stephen MacDonald, TFI, expressed concern about the methodology used to complete the investment peer review by Milliman and proposed that alternate methodologies be considered to provide a more accurate peer review. Chair Eliopoulos stated that he does not expect that another peer review will be pursued at this time.

Chair Eliopoulos reported that the Treasurer believes that given the performance numbers, the number of investment personnel changes, the Milliman report and marketing issues, it would be at least prudent for the Board to consider whether there are other options in the 529 marketplace. Chair Eliopoulos requested that Staff bring back an analysis for discussion at the January meeting. This analysis would examine possible options including a look at moving forward with a request for proposal (RFP), as well as decision points, timelines, pros and cons, and the structure of the RFP. The Board concurred with the Treasurer's recommendation that the Board explore the possibility of an RFP.

**Board Agenda Item Number Four**  
**TIAA-CREF Tuition Financing, Inc. 2005 Marketing Plan**

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Mr. Kevin Seaman and Ms. Kathleen Tunson, TFI, presented TFI's 2005 Marketing Plan, discussing marketing objectives and providing a look at the various campaigns planned for 2005. Mr. Seaman and Ms. Tunson added that the launch of a branded affinity card should happen during the first quarter.

Member Jones stated that additional marketing activities need to be explored to create more awareness in the program and to increase account generation. Furthermore, Member Jones recommended setting-up California State University counselor conferences or planning sessions on California's 529 program. Chair Eliopoulos stated that Staff would work with Member Jones and TFI regarding these possible marketing opportunities.

Member Dithridge recommended that consultants comment on aspects of TFI's 2005 marketing plan, including the budget.

**Board Agenda Item Number Five**  
**TIAA-CREF Tuition Financing, Inc. Marketing Update**

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Due to time constraints, this item was not presented at this meeting.

**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 2:49 p.m.

The next meeting is scheduled for January 27, 2005 at 1:00 p.m.

Respectfully submitted by,

Carrie Douglas Fong, Executive Director  
SCHOLARSHARE INVESTMENT BOARD