

MINUTES
SCHOLARSHARE INVESTMENT BOARD

February 25, 2005, 1:00 p.m.
Teleconference

Chair Ted Eliopoulos called the meeting to order at 1:02 p.m.

Present: Ted Eliopoulos for Phil Angelides, State Treasurer
Tom Dithridge for Tom Campbell, Department of Finance
Anne McKinney for Richard Riordan, Office of the Secretary for Education
Cathleen Cox for Richard Riordan, Office of the Secretary for Education
Allison Jones
Allison Levyn (via phone) (arrived at 1:11 p.m.)

Staff: Carrie Douglas Fong, Executive Director, ScholarShare Investment Board (SIB)
Marian Cohen, Manager, SIB
Dennis Siebert, Associate Governmental Program Analyst, SIB
Phil Rollock, Vice President, TIAA-CREF Tuition Financing, Inc. (TFI)
Chris Lynch, Regional Director, TFI
Stephen MacDonald, Associate – Equity Portfolio Analytics, TFI
Kathleen Tunson, Account Executive, TFI
Christine Doyle, Senior Counsel, TFI (via phone)
Allan Emkin, Pension Consulting Alliance, Inc. (PCA)
Andrea Feirstein, AKF Consulting
Jack Zorman, Staff Counsel, State Treasurer’s Office (STO)

The Chair declared a quorum present.

Board Agenda Item Number One
Minutes from December 16, 2004 Meeting

The minutes from the December 16, 2004 SIB meeting were approved as amended. On page 3, the last sentence under Agenda Item Seven will now read, “The Board concurred with the Treasurer’s recommendation that the Board explore the possibility of an RFP.”

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 the CREF Board approved the transfer of assets out of the Growth & Income Fund to the new funds on February 15, 2005 and the assets were transferred to the new funds on February 16. TFI told Staff that they did not transfer the funds within the 45-day period as required in the Investment Policy because they previously forgot to obtain CREF Board approval, which the Securities and Exchange Commission (SEC) requires for this type of transfer. Ms. Douglas Fong stated that TFI has provided a letter to Staff on this issue and will follow-up with Staff on some outstanding questions.

Ms. Douglas Fong stated that the issue regarding custodial account access online would be resolved shortly as TFI is currently drafting a letter providing account owners, who are still impacted by this issue, with information as to how they may access their accounts online. Ms. Douglas Fong stated that Staff has not received documentation from TFI in regards to the controls in place on Governor's Scholarship Programs (GSP) and GEAR-UP accounts.

Ms. Douglas Fong stated that TFI notified Staff that about \$78,000 in outstanding stale dated checks for GSP dating back to 2001 have not been cashed. TFI does not currently have a procedure in place to handle these checks, but is in the process of developing one.

Ms. Douglas Fong stated that the SEC, National Association of Security Dealers and New York Stock Exchange have announced a \$75 million settlement with Edward Jones relating to its failure to disclose revenue sharing agreements with mutual fund companies. Ms. Douglas Fong stated that the Joint Committee on Taxation has put forth proposals for 529 plans that include providing the 2001 Tax Act mechanisms that allows for tax-free withdrawals at the federal level to continue indefinitely.

Ms. Douglas Fong stated that the proxy policy would be addressed at a later date and that the TIAA-CREF Investment Personnel will be addressed at the March meeting.

Ms. Douglas Fong stated that the omnibus account is currently at \$1.2 million and that mechanisms are in place to acquire more funds for distribution as soon as the account balance falls below \$1 million. The transfer is expected sometime next month.

Member Levyn recommended ScholarShare participants be informed of the benefits of Senate Bill 30. Chair Eliopoulos requested that Staff work with counsel to determine what is appropriate under state law.

As requested by the Board at the December meeting, Andrea Feirstein, AKF Consulting, commented on the 2005 Marketing Budget provided by TFI. Ms. Feirstein commended TFI for committing resources above the \$3 million contract amount. However, Ms. Feirstein did question whether the allocation was effective and recommended redirecting more of the budget to areas with a low cost of acquisition, but with high conversion rates.

Board Agenda Item Number Three
2004 Marketing Results by TIAA-CREF Tuition Financing, Inc. and
Independent Marketing Analysis

Ms. Douglas Fong noted that the material provided by TFI includes data through December 31, 2004 whereas material provided by AKF Consulting includes data through September 30, 2004.

Mr. Rollock stated that unique account generation for 2004 was disappointing and emphasized TFI's commitment to continued improvement in areas of deficiencies. Mr. Rollock stated that TFI has learned from its mistakes in 2004 and is in the process of doing additional research, performing scientific tests and experiments, and working with a matrix expert in 2005 to determine the most effective marketing strategies.

Mr. Lynch stated that the annual contributions for 2004 exceeded the benchmark significantly. The customer satisfaction rate, or closed account rate, for 2004 met the benchmark, but represented an increase from 2003. The Board requested that TFI provide an analysis on where the accounts went and why; Mr. Lynch stated that this analysis would be provided to Staff and the Board within a few weeks. Member McKinney stated that TFI does not appear to have performance goals set, and the Board requested that TFI provide a plan that includes performance goals, decision points and questions, deadlines, a timetable of procedures in place to address deficiencies, and an analysis on why the goals were or were not met. Mr. Rollock stated that TFI would provide the Board with a Time and Action Plan. Chair Eliopoulos stated that the Board would like to see this plan as soon as it is completed, possibly by late March.

Ms. Feirstein presented an Independent Marketing Analysis on college savings growth during 2004 and summarized that asset growth for ScholarShare is consistent with similar programs and is fairly close to the national average. In terms of account growth, ScholarShare is significantly behind similar programs in total unique accounts from inception, but only slightly behind for 2004; a greater disparity is apparent when ScholarShare is compared with states that offer a plan with in-state tax benefits and advisors.

Board Agenda Item Number Four

Review and Analysis of TIAA-CREF's Fourth Quarter and 2004 Year End Investment Performance

Mr. Allan Emkin, PCA, presented the Board with the Fund Performance Status Report through December 31, 2004, explaining that the Social Choice Equity, Equity Index, Large-Cap Value Index, Small-Cap Blend Index, and Bond Plus funds are all currently in the "positive" range relative to their benchmarks, the International Equity Fund is in the "caution" range, and the Growth Equity Fund and Growth & Income Fund, which were removed from the portfolio at the October 2004 meeting, remain on probation. Mr. Stephen MacDonald, TFI, stated that the International Equity Fund is ahead of its benchmark by 40 basis points for 2005.

Board Agenda Item Number Five

Options for Program Management Including Request for Proposal

Ms. Douglas Fong presented items to the Board in regards to the possibility of issuing a request for proposal(s) (RFP) early, including a decision tree, the pros and cons of issuing an RFP early from both a customer and state perspective, and a possible timeline. Ms. Douglas Fong stated that including an Advisor component in the RFP would increase assets significantly and reduce fees sooner, as well as generate greater interest for vendors to bid, which would optimize the number of bids received and the overall quality of the bids.

Letters from Board members Sabrina Kay and Maria Elena Serna, who were not in attendance, were distributed to the Board. Ms. Douglas Fong reported that while Member Kay is generally in favor

of the Staff recommendation, she has some concerns related to liability and transition costs, which Ms. Douglas Fong addressed. Board members expressed some concerns with the possibility of confusion for the customers. Ms. Douglas Fong stated that if the Board decides to vote to issue an RFP early, a formal notification would be provided to participants.

Ms. Feirstein presented additional information in regards to the best state programs as well as reasons as to why they are successful including such factors as brand name, low costs and market performance.

Mr. Rollock stated that TFI had a few questions about a number of the provisions in the contract in regards to reimbursements for costs and expenses. Chair Eliopoulos directed Staff to meet with TFI to discuss these particular provisions of the contract. Member Dithridge had a few questions in regards to termination of the current contract as well as negative press and possible changes to the new RFP that would be issued to ensure a materially improved contract, which Ms. Douglas Fong addressed.

Chair Eliopoulos and Member Jones agreed with the Staff recommendation and believe that it would give the Board flexibility because it encourages the most and best bids possible and allows maximum flexibility to determine what the best program is for consumers and the State. Ms. Douglas Fong stated that Staff would provide the Board with a list of major issues at a future Board meeting. Member Cox requested a copy of the old RFP for comparison purposes. Chair Eliopoulos requested Staff bring back to the Board in March the major points and topics of the RFP so that the Board can make a better determination of whether the entire RFP needs to be reviewed. Ms. Douglas Fong also stated that the meeting scheduled for March 9, 2005 would be rescheduled.

Board Action:

Member Jones moved to approve Resolution 2005-1 to issue an RFP(s) for a Program Manager(s) for the ScholarShare program to manage investments, administration and customer service, and marketing for a Direct Series and an Advisor Series. The motion was seconded by Member Levyn and approved by the Board with one nay vote from Member Dithridge.

There being no further business before the Board, the Chair adjourned the meeting at 2:52 p.m.

Respectfully submitted by,

Carrie Douglas Fong, Executive Director
SCHOLARSHARE INVESTMENT BOARD