

MINUTES
SCHOLARSHARE INVESTMENT BOARD

April 14, 2005, 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 (arrived at 1:10 p.m.)
Cathleen Cox for Richard Riordan, Office of the Secretary for Education
Allison Jones
Sabrina Kay (via phone) (arrived at 1:07 p.m.)
Allison Levyn (via phone)

Staff: Carrie Douglas Fong, Executive Director, ScholarShare Investment Board
Chris Lynch, Regional Director, TIAA-CREF Tuition Financing, Inc. (TFI)
Susan Ulick, Senior Managing Director, Head of Public Equity Investments,
TIAA-CREF
Stephen MacDonald, Associate – Equity Portfolio Analytics, TIAA-CREF
Cindy Wilson, Program Manager, TFI
Kathleen Tunson, Account Executive, TFI (via phone)
Christine Doyle, Senior Counsel, TFI (via phone)
Bob Garcia, Golden State Advocacy
Allan Emkin, Pension Consulting Alliance, Inc.
Andrea Feirstein, AKF Consulting LLC
Jack Zorman, Staff Counsel, State Treasurer's Office

The Chair declared a quorum present.

Board Agenda Item Number One

Approval of Minutes from February 25, 2005 and March 22, 2005 Meetings

The minutes from the February 25, 2005 ScholarShare Investment Board (SIB) meeting were approved as amended. Staff reported the following changes to the minutes. In the first sentence in the fourth paragraph on page 2, the word “inside” be changed to “with”; in the subsequent sentence, the word “taxation” be capitalized; and in the first sentence under Board Agenda Item Number Four on page 3, the word “to” be added after the word “relative.”

The minutes from the March 22, 2005 SIB meeting were approved as submitted. Members Cox and Levyn abstained from voting as they were not in attendance at the March meeting.

Board Agenda Item Number Two

Staff Report

Ms. Carrie Douglas Fong, SIB, presented the Staff Report to the Board and provided account totals for the ScholarShare program.

Ms. Douglas Fong provided a legislative update, which included the status on the ScholarShare technical corrections bill, Assembly Bill (AB) 961, as well as AB 3 and Senate Bill (SB) 30. AB 961 has gone through the Assembly of Higher Education and Appropriations on consent, and the State Treasurer's Office (STO) will be looking to make these highly technical amendments in the next few weeks. AB 3 is still in committee and was set to be heard, however, the author requested that the bill be pulled. SB 30 was amended last week. It was originally a ScholarShare-only unlimited deduction and is now a \$3,000 per individual and \$6,000 per couple deduction for contributions to any 529 plan. The estimated cost for SB 30 is \$25 million in its first year, however, the author may offer amendments to reduce the total cost. Staff will provide additional updates as they become available.

Ms. Douglas Fong reported that Pension Consulting Alliance, Inc. (PCA) is still looking into TIAA-CREF's transfer of ScholarShare assets out of the Growth & Income Fund that took place on February 16, 2005. Ms. Douglas Fong stated that TIAA-CREF says it is unable to provide certain information PCA requested because of the Securities and Exchange Commission (SEC) Selective Disclosure Guidelines. PCA has requested more information on these SEC guidelines and a statement from TIAA-CREF on why they cannot release the information. Mr. Allan Emkin, PCA, stated that TIAA-CREF has been cooperative and there has been no adverse impact to the fund or the participants.

Ms. Douglas Fong reported that Staff is currently reviewing a letter that TIAA-CREF Tuition Financing, Inc. (TFI) will be sending to the 62 custodial account owners who do not have access online. This letter will provide these account owners with information on how to access their accounts online.

Ms. Douglas Fong reported that the Investment Consultant and 529 Industry Advisor request for proposals (RFPs) are completed. The Investment Consultant contract has been routed to the Department of General Services and the 529 Industry Advisor contract is currently being routed in the STO.

Ms. Douglas Fong reported that the College Savings Plan Network (CSPN) and other 529 industry groups met with the Staffs of the Senate Housing Finance Committee and Joint Committee on Taxation to advocate for permanency of the tax changes to 529, specifically the sunset provision in 2010, which would allow beneficiaries to use your money for higher education purposes tax-free. Ms. Douglas Fong stated that it appears that in the next few weeks, legislation to make the 2001 529 reforms permanent will be presented in the House and Senate.

Ms. Douglas Fong reported that CSPN met with Senior SEC staffers to discuss the Disclosure Principles and is currently reviewing recommendations made by the SEC. A committee has been put in place to evaluate these recommendations and changes to the Disclosure Principles are expected. Chair Eliopoulos inquired about a possible timeframe, and Ms. Douglas Fong and Ms. Andrea Feinstein, AKF Consulting LLC, anticipate the process to take about 6 months, or possibly by the end of the year. Chair Eliopoulos expressed interest in seeing the comments by SEC in terms of the disclosure of fees as well as any recommendations or comments that may be enhancements that CSPN may have already proposed.

Ms. Douglas Fong stated that approximately 31 states are in compliance with CSPN's Disclosure Principles. All states intend to update their disclosure materials to comply with the principles, but will do so at their own timeframe as their materials require updates. Since the Disclosure Principles will most likely be revised, states are expected to be at different levels of compliance.

Ms. Douglas Fong provided an update to the Governor's Scholarship Programs (GSP) including GSP and Gear-Up draft controls that Staff received from TFI. Staff has requested that TFI provide these controls in final form and submit to Staff along with its policies. Ms. Douglas Fong also reported that \$4 million was successfully transferred from the General Fund to the GSP omnibus account and that there are sufficient funds to pay GSP award claims.

Ms. Douglas Fong provided the Board with an update on SIB's recent staff changes.

Board Agenda Item Number Three
Resolution to Approve Contract Amendment with TIAA-CREF Tuition Financing, Inc. for the Governor's Scholarship Programs for Fiscal Year 2005-2006

Ms. Douglas Fong presented the annual contract amendment with TFI regarding GSP. Ms. Douglas Fong stated that the Board votes on a contract amendment every year because the contract is funded annually through the budget process. TFI originally provided an estimated amount of \$709,000, and more recently provided a revised budget of approximately \$670,000. Ms. Douglas Fong reported that Staff is currently reviewing this budget and will work with TFI regarding this item.

Member Jones inquired about the decrease in the budget amount from last year. Mr. Chris Lynch, TFI, explained that TFI had reviewed what its charges would be on an account basis in GSP. Mr. Lynch stated that as the program matures and more students claim their awards and as TFI projects how many accounts it will be carrying on a going-forward basis, TFI would be charged less this year by its transfer agents.

Board Action:

Member Jones moved to approve the Resolution No. 2005-3 authorizing the Executive Director to negotiate, execute, and take any necessary steps to amend the GSP management services contract with TFI for fiscal year 2005-2006. The motion was seconded by Member Dithridge and approved by the Board

Board Agenda Item Number Four
Review of TIAA-CREF Investment Personnel Changes

Ms. Douglas Fong stated that this item was initially addressed at the October 14, 2004 SIB meeting and was deferred until a later date due to some concerns from the Board. Since that time, Chair Eliopoulos and Member Dithridge met with senior members of TIAA-CREF's investment team, including Scott Evans and Susan Ulick. Ms. Douglas Fong stated that the Board members who attended that meeting may relay to the Board what took place during that meeting. Per Chair Eliopoulos' request, Ms. Douglas Fong stated to the Board that according to provisions in the contract with TIAA-CREF, vacated positions shall be filled with key investment

professionals of comparable skill, experience, and reputation, subject to the approval of the Board.

Mr. Allan Emkin, PCA, stated that the TIAA-CREF investment personnel in place has requisite amount of skill, experience and reputation, and that PCA recommends that the Board approve the investment personnel changes, but to also recognize the large amount of turnover in personnel.

Ms. Susan Ulick, TIAA-CREF, stated that TIAA-CREF does not see significant changes going forward and that it is adding significantly to its team with the addition of 14 analysts during the next three years. Member Kay questioned whether the personnel included all new employees and Ms. Ulick responded that the personnel included both new employees as well as current TIAA-CREF employees; Ms. Ulick also provided the Board with a brief background on some these employees.

Member Dithridge stated some concerns regarding the poor investment performance and the fact that some of TIAA-CREF's personnel that made a number of investment selections are still part of the current investment personnel. Member Dithridge stated that he is not in a position to say that the investment personnel is of comparable skill, experience and reputation.

Chair Eliopoulos stated that the Treasurer is comfortable approving the recommendation from Staff and the consultants.

Board Action:

Member Jones moved to approve TIAA-CREF investment personnel changes and continue to monitor TIAA-CREF investments and personnel. The motion was seconded by Member Levyn and approved by the Board with one nay vote from Member Dithridge.

Board Agenda Item Number Five
Resolution To Issue Request For Proposal for Program Manager for the
Governor's Scholarship Programs

Ms. Douglas Fong stated that at the February 25, 2005 SIB meeting, the Board approved a resolution to issue a request for proposal (RFP) for a program manager for ScholarShare. Ms. Douglas Fong reported that Staff and consultants canvassed vendors and most vendors indicated that they are less likely to bid on the ScholarShare RFP if GSP is included. Ms. Douglas Fong also stated that releasing a separate RFP for GSP would increase competition for the ScholarShare RFP, and since GSP is funded by the General Fund and ScholarShare is funded by basis points, including them together in one RFP would make for a complicated scoring process and contract. Ms. Douglas Fong stated that at this point, Staff believes that this RFP could be a discreet piece of work and it is possible for this vendor to be a trust vendor, and for SIB to meet aggregation and maximum contribution limit requirements with having two vendors. Staff recommends that the Board approve Resolution 2005-4 to issue an RFP for a program manager for GSP.

Board Action:

Member Dithridge moved to approve Resolution 2005-4 to issue an RFP for a program manager for GSP to provide program management services. The motion was seconded by Member Cox and approved by the Board.

Board Agenda Item Number Six
Major Items Relating to Request For Proposal for Program Manager

Ms. Douglas Fong stated that at the February 25, 2005 SIB meeting, the Board approved a resolution to issue an RFP for a program manager for ScholarShare and requested that Staff provide a list of major items that would be included in the RFP.

Ms. Douglas Fong explained the list of major items for the Board and addressed some of the Board's concerns and questions. These concerns included the proposed scoring of the proposals. Ms. Douglas Fong, Mr. Allan Emkin, and Ms. Andrea Feirstein provided the Board with explanation in regards to its concerns.

Chair Eliopoulos summarized the Treasurer's concerns and provided some recommendations for completing the RFP; the Board also suggested alternate ways of scoring the proposals. Ms. Douglas Fong stated that Staff would take the Board's comments under consideration, take another look at the scoring of the proposals, make any necessary changes, and report back to the Board any changes to the scoring criteria for the RFP including the weighting of points.

Member Kay proposed that at some point in the next few years, the Board look at having multiple vendors separately manage each of three aspects of the scope of work, which consists of investments, marketing, and administration, back office and customer service.

Member Dithridge and Member Levyn inquired about who would be on the interview panel and how it would be determined. Ms. Douglas Fong stated that the interview panel typically consists of the primarily STO personnel who reviewed the proposals. The panel has not been discussed at this time, but Staff will be discussing this particular item with Legal and report back to the Board.

Public Comment

Chair Eliopoulos called for public comment. Member Cox inquired about the item that Member Anne McKinney requested from TFI at the February 25, 2005 SIB meeting. Ms. Douglas Fong reported that Staff had just received it and will forward it to the Board after it has been reviewed.

There being no further business before the Board, the Chair adjourned the meeting at 2:28 p.m.

The next meeting is scheduled for May 24, 2005 at 1:30 p.m.

Respectfully submitted by,

Carrie Douglas Fong, Executive Director
SCHOLARSHARE INVESTMENT BOARD