

MINUTES
SCHOLARSHARE INVESTMENT BOARD

July 8, 2005, 1:00 p.m.
Teleconference

Chair Ted Eliopoulos called the meeting to order at 1:07 p.m.

- Present: Ted Eliopoulos for Phil Angelides, State Treasurer
Anne Sheehan for Tom Campbell, Department of Finance
Cathleen Cox for Alan Bersin, Office of the Secretary for Education
Allison Jones
Sabrina Kay (via phone)
Allison Levyn (via phone)
- Staff: Carrie Douglas Fong, Executive Director, ScholarShare Investment Board (SIB)
Don Sherman, Manager, SIB
Stanley Zeto, Analyst, SIB
Julia Bilaver, Staff Counsel, State Treasurer's Office
- Consultants: Allan Emkin, Pension Consulting Alliance, Inc. (PCA)
John Charley, PCA
Andrea Feirstein, AKF Consulting LLC (via phone)
- TIAA-CREF: Phillip Rollock, Vice President, TIAA-CREF Tuition Financing, Inc. (TFI)
Chris Lynch, Regional Director, TFI
Stephen MacDonald, Associate – Equity Portfolio Analytics, TFI
(via phone)
Cindy Wilson, Program Manager, TFI
Kathleen Tunson, Account Executive, TFI
Christine Doyle, Senior Counsel, TFI (via phone)
Bob Garcia, Golden State Advocacy

The Chair declared a quorum present.

Board Agenda Item Number One
Approval of Minutes from April 14, 2005

The minutes from the April 14, 2005 ScholarShare Investment Board (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 totals for the ScholarShare program.

Ms. Douglas Fong reported that the technical corrections bill, Assembly Bill (AB) 961, is working its way through the Assembly and the Senate and that so far every vote has been on consent. This is a highly technical bill and all amendments have been distributed to the Board. Ms. Douglas Fong reported that AB 3 and Senate Bill (SB) 30, the two bills that would provide tax deductions to all 529 plans, do not appear to be moving and have not made any progress in the last couple of months. In addition, Ms. Douglas Fong stated that AB 115 would address some very technical changes relating to discrepancies that the Franchise Tax Board (FTB) discovered between the California statute and the federal statute of the tax codes pertaining to 529 plans.

Ms. Douglas Fong reported that there has been no additional progress in the bills entered into the U.S. House and Senate related to the sunset provision for 529 plans. These bills would make the reforms passed in 2001, including tax-free qualified withdrawals, permanent.

Ms. Douglas Fong reported that Staff and consultants are looking at Request for Proposals (RFP) from other states and redrafting SIB's.

Ms. Douglas Fong reported that Staff recently sent the Board a number of items including the marketing report Member Anne McKinney requested from TIAA-CREF Tuition Financing, Inc. (TFI) at the February 25 SIB meeting. The Board stated that they would prefer smaller mailings in the future, and possibly receive e-mail alerts prior to items being delivered.

Ms. Douglas Fong reported that Governor's Scholar Awards (GSA) for exam year 2000 can no longer be claimed as of June 30, 2005, and that the final claiming percentages are in line with what the Department of Finance (DOF) and SIB had anticipated. Ms. Douglas Fong stated that the deadline for individuals to submit a participation agreement for the California Memorial Scholarships Program was June 30, 2005, and that there has been approximately \$75,000 in scholarships established.

Ms. Douglas Fong introduced the Board to SIB's new Staff members, Manager Don Sherman, Shana Hustedde, the Office Technician and Staff Counsel, Julia Bilaver.

Board Agenda Item Number Three

Resolution to Approve Administrative Services Contract with State Treasurer's Office for Fiscal Year 2005-2006

Mr. Stanley Zeto, SIB, presented Resolution No. 2005-5 for approval of the annual administrative services contract with the State Treasurer's Office (STO) to provide SIB with administrative support services for fiscal year 2005-2006.

Board Action:

Member Sheehan moved to approve Resolution No. 2005-5 authorizing the Executive Director to enter into an administrative services contract with the STO in an amount not to exceed \$130,000 for fiscal year 2005-2006. The motion was seconded by Member Cox and approved by the Board.

Board Agenda Item Number Four

ScholarShare Investment Board Proxy Policy

Ms. Douglas Fong presented the SIB Proxy Policy that was developed by STO Legal and SIB Staff, adding that SIB has the ability to vote the shares that the ScholarShare participants have invested through the Trust and TIAA-CREF.

Mr. Allan Emkin, Pension Consulting Alliance, Inc. (PCA), concurred with Staff's recommendation to approve the SIB Proxy Policy.

Board Action:

Member Sheehan moved to approve the SIB Proxy Policy as a guide for future SIB proxy votes. The motion was seconded by Member Jones and approved by the Board.

Board Agenda Item Number Five
Review and Action on TIAA-CREF Tuition Financing, Inc.'s 2004 Marketing Performance

Ms. Douglas Fong reported that in 2004, TFI had exceeded the asset benchmark, but significantly underperformed the account benchmark. Ms. Douglas Fong stated that although TFI exceeded the satisfaction benchmark of 2%, the number of rollovers has increased when compared to last year.

Ms. Douglas Fong stated that Staff recommends that the Board continue to monitor TFI's marketing performance, and review and take potential action once additional 2005 performance data is available, which would likely be during the fall. Member Sheehan requested that the same time periods be reviewed for comparison purposes.

Ms. Kathleen Tunson, TFI, reported on TFI's marketing plans for the remainder of the year including the addition of a new agency that will be working on the year-end campaign. Member Cox stated that many of the items in the report that TFI submitted at Member McKinney's request were vague, and that an aggressive marketing campaign needs to be implemented during the fourth quarter when the new advertising firm begins work. Member Cox requested more concrete and definitive strategies and quantitative data in future marketing reports including percentage yields, forecasts with respect to the benchmarks, and data points to analyze input and output.

Chair Eliopoulos reiterated Member Cox's request for more quantitative data in all future reports and requested that Staff prepare a letter of underperformance to TFI and provide a copy to the Board. Ms. Tunson concurred with the Board that the marketing report is vague and that many of the direct mail marketing efforts and tactics utilized may not be fairly addressed in the report.

Board Action:

Member Jones moved to continue monitoring the marketing performance of the vendor and review and take potential action once additional 2005 performance data is available. The motion was seconded by Member Sheehan and approved by the Board.

Board Agenda Item Number Six
Review and Action on TIAA-CREF Tuition Financing, Inc.'s 2004 Administrative Performance

Ms. Douglas Fong reported that TFI had provided data for all categories in 2004, but that the number of areas in which TFI underperformed the benchmark has increased from last year. Member Sheehan inquired about the accuracy of new account set-ups, and why TFI has underperformed the benchmark by 18%. Ms. Wilson stated that TFI underperforms the

benchmark in this area due mainly to typographical errors when manually processing new accounts.

Ms. Douglas Fong stated that Staff's recommendation for this item is exactly the same as the recommendation for Agenda Item 5, but that Staff anticipates there will be less administrative performance information than marketing performance information available in the fall.

Board Action:

Member Sheehan moved to continue monitoring the administrative performance of the vendor, and review and take potential action once additional 2005 performance data is available. The motion was seconded by Member Jones and approved by the Board.

Board Information Item Number Seven
Review and Analysis of TIAA-CREF's First Quarter 2005 Investment Performance

Mr. John Charley, PCA, presented the Board with the Fund Performance Status Report through March 31, 2005, explaining that the Bond Plus Fund, Large Cap Value Index Fund, Small Cap Blend Index Fund, Large Cap Growth Index Fund, S&P Index Fund, Social Choice Equity Fund, Large Cap Value Fund, and Small Cap Equity Fund are all in the "positive" range relative to their benchmarks, and the International Equity Fund remains in the "caution" range. Chair Eliopoulos inquired about the performance of the International Equity Fund during the last nine months and if there were any reasons for this underperformance. Mr. Stephen MacDonald, TFI, stated that performance has been fluctuating and has been closely monitored by management and senior management teams. Mr. MacDonald concurred with PCA's assessment that caution is warranted for this fund and stated that given the additional resources put on the fund, including the addition of more analytical staff, he is confident that the performance will move into the positive range. Chair Eliopoulos inquired about the team responsible for the fund; Mr. MacDonald stated that the team is consistent and has not changed and that Susan Ulick and Bill Reigel from senior management have stepped in to take a look at this fund. Chair Eliopoulos requested that TFI report back on this fund at the next meeting.

In regards to the Large Cap Value Fund, Mr. Douglas Fong stated that the majority of the negative performance occurred before we got into the fund and that we entered at the tail end of it.

Board Information Item Number Eight
Preliminary Information on TIAA-CREF Proxy for August 18, 2005 TIAA-CREF Meeting. TIAA-CREF Proxy Statement may include election of Trustees, selection of new auditor, approval of a new management agreement with fund advisor and a new distribution plan.

Ms. Douglas Fong stated that Staff and PCA submitted a list of questions to TFI on the draft proxy statement and anticipate receiving a response back from TFI in two weeks. Ms. Douglas Fong stated that due to a blackout period, Staff has not been able to communicate with TFI on any matters related to the proxy statement and will most likely have additional questions after the blackout period, and after the final proxy statement is made available.

Although TFI will propose to increase fees on the actively managed TIAA-CREF Institutional Mutual Funds that SIB uses in the ScholarShare portfolio, Mr. Phillip Rollock (TFI) assured the Board that TFI does not see an increase in the 70 basis points TFI currently receives.

Ms. Douglas Fong stated that Staff and PCA will prepare an analysis and recommendation for the Board and that a special SIB meeting will be scheduled in August prior to the TIAA-CREF proxy vote in mid-August.

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 2:20 p.m.

Respectfully submitted by,

Carrie Douglas Fong, Executive Director
SCHOLARSHARE INVESTMENT BOARD