

MINUTES
SCHOLARSHARE INVESTMENT BOARD

August 29, 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
Cathleen Cox for Alan Bersin, Office of the Secretary for Education
Allison Jones (via phone)
Sabrina Kay (via phone)
Maria Elena Serna

Staff: Carrie Douglas Fong, Executive Director, ScholarShare Investment Board (SIB)
Stanley Zeto, Analyst, SIB
Julia Bilaver, Staff Counsel, State Treasurer's Office

Consultant: Allan Emkin, Pension Consulting Alliance, Inc.

TIAA-CREF: Chris Lynch, Regional Director, TIAA-CREF Tuition Financing, Inc. (TFI)
(via phone)
Scott Terada, Mutual Fund Product Manager, TFI
Cindy Wilson, Program Manager, TFI
Christine Doyle, Senior Counsel, TFI (via phone)
Bob Garcia, Golden State Advocacy

The Chair declared a quorum present.

Board Agenda Item Number One
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 brief legislative update, stating that the ScholarShare technical correction bill, Assembly Bill (AB) 961, is on consent and that AB 115 (tax conformity) is continuing to move through the legislature.

Ms. Douglas Fong stated that the Department of General Services (DGS) is expected to review the Request for Proposals (RFP) this week, and that Staff will provide the Board with a memo prior to the release of the RFP explaining the changes to the RFP including a revised weighting of the points and more information about the evaluation committee.

Ms. Douglas Fong stated that Staff asked TIAA-CREF Tuition Financing, Inc. (TFI) if the investment performance data and benchmarks were now being reported for identical time periods. TFI stated they had not made the change in July, as originally promised. Ms. Douglas Fong expressed disappointment that TFI did not provide notification to Staff that the data had not been changed for June performance. Ms. Douglas Fong stated that Staff is concerned the information on the website may be misleading to investors and must be resolved as soon as possible.

Ms. Douglas Fong stated that the date for the next SIB meeting will depend on the schedule for the RFP.

Board Agenda Item Number Two

TIAA-CREF Proxy Statement

Ms. Douglas Fong stated that based on the nature of this item, the Board will be voting on this item in four parts.

Election of Trustees

Ms. Douglas Fong stated that Pension Consulting Alliance, Inc. (PCA) has provided short biographies for the trustees in its memo and agrees that all potential trustees qualify. Ms. Douglas Fong stated that Staff and PCA recommend that the Board approve the election of trustees of the TIAA-CREF Institutional Mutual Funds.

Board Action:

Member Dithridge moved to approve the election of trustees. The motion was seconded by Member Serna and approved by the Board.

Ratification of New Auditor

Ms. Douglas Fong stated that Staff and PCA recommend that the Board approve PriceWaterhouseCooper, LLP as the new auditor for the Institutional Funds to replace Ernst and Young, which had conflicts of interest with several trustees.

Board Action:

Member Serna moved to approve the ratification of the new auditor. The motion was seconded by Member Dithridge and approved by the Board.

New Investment Agreement with Teacher's Advisors (Passive Funds)

Ms. Douglas Fong stated that under the new investment agreement, the underlying mutual fund fees for the passively managed funds would remain the same.

Ms. Douglas Fong stated that Staff recommends that the Board approve the new investment agreement between Teacher's Advisors (subsidiary) and TIAA-CREF (parent company) for passive funds.

Board Action:

Member Kay moved to approve the new investment agreement with Teacher's Advisors for the passive funds. The motion was seconded by Member Cox and approved by the Board.

New Investment Agreement with Teacher's Advisors (Active Funds)

Ms. Douglas Fong reported that the new investment agreement with Teacher's Advisors for the actively-managed funds would involve a fee increase that would be used to enhance services by Teacher's Advisors. Ms. Douglas Fong stated that the new investment agreement would increase the underlying mutual fund fees of the actively-managed funds, which means that the current fee of 80 basis points would not change, but the amount apportioned to investments would increase.

Ms. Douglas Fong stated that although Staff does think that fee increases are warranted, Staff recommends that the Board not approve the new investment agreement with Teacher's Advisors for the actively-managed funds because TFI has not provided justification for the size of the increases. The Board expressed concerns about the impact a fee increase would have on shareholders and/or current account owners. Member Cox requested clarification on what would occur if this new investment agreement was not approved. Mr. Scott Terada, TFI, stated that there would be no short-term effect, but that after a year or so, there may be an exit strategy for some fund options.

Mr. Allan Emkin, PCA, stated that if the Board does not approve the new agreement, the fees may still increase since there are other shareholders who are voting.

Board Action:

Member Dithridge moved to not approve the new investment agreement with Teacher's Advisors for actively-managed funds. The motion was seconded by Member Serna and approved by the Board with one nay vote from Member Cox.

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 1:45 p.m.

Respectfully submitted by,

Carrie Douglas Fong, Executive Director
SCHOLARSHARE INVESTMENT BOARD