

MINUTES  
SCHOLARSHARE INVESTMENT BOARD

October 4, 2006, 1:00 p.m.  
Teleconference

Chair Ted Eliopoulos called the meeting to order at 1:35 p.m.

- Present: Ted Eliopoulos for Phil Angelides, State Treasurer  
Tom Dithridge for Michael C. Genest, Department of Finance  
Cathleen Cox for Alan Bersin, Office of the Secretary of Education  
Antoinette Chandler  
Allison Jones (via phone) (joined at 1:36 p.m.)  
Sabrina Kay (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
- Fidelity: Sanjiv Mirchandani, Executive Vice President, Fidelity Personal Investments (FPI)  
Joe Ciccariello, Vice President, FPI  
Bob O'Neill, Senior Vice President Marketing, FPI  
John Lloyd, Senior Vice President Distribution, FPI  
Lynne Goldman, Senior Vice President, Fidelity Investments Institutional Services (FIIS)  
Jeff Troutman, Vice President, FIIS  
Bill McNamara, Vice President Marketing, FIIS  
Heidi Siegal, Director, FPI  
Chris Sharpe, Portfolio Manager, Fidelity Management & Research (FMR)  
Bill Hall, Analyst, FMR
- Geode: Jeff Miller, Chief Operating Officer, (via phone) (joined at 1:40)  
Jeff Adams, Senior Portfolio Manager, (via phone) (joined at 1:40)  
Pat Waddell, Portfolio Manager (via phone) (joined at 1:40)

The Chair declared a quorum present.

**Board Agenda Item Number One**  
**Approval of Minutes from June 29, 2006 Meeting**

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The minutes from the June 29, 2006 ScholarShare Investment Board (SIB) meeting were approved as submitted.

## **Board Agenda Item Number Two**

### **Staff Report**

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Ms. Carrie Douglas Fong, SIB, presented the Staff Report to the Board.

Ms. Douglas Fong reported that SIB staff is working on how to handle proxy voting in the long term and the short term for the Social Choice Portfolio as it is offered by Geode and will be handled as a separately managed account, not a mutual fund. Ms. Douglas Fong stated that Geode will be handling the proxy voting initially and SIB Staff will report back to the Board in December regarding the proxy voting in the short term.

Staff has worked with Fidelity Investments (Fidelity), Staff counsel and consultants in regards to the disclosure on the Direct Plan and Advisor Plan and will monitor how it works and report back to the Board regarding any issues.

Ms. Douglas Fong reported that Staff has been working with TIAA-CREF Tuition Financing, Inc. (TFI) on reducing the budget for the Governor's Scholarship Programs (GSP) contract and will report back to the Board with a final budget.

## **Board Agenda Item Number Three**

### **Review of TIAA-CREF's Second Quarter 2006 Investment Performance**

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Mr. John Charley, Pension Consulting Alliance, Inc. (PCA), presented the Fund Performance Status Report for the second quarter of 2006 and reported that the Large Cap Value Fund and the Small Cap Equity Fund are in the positive range. Mr. Allan Emkin, PCA, reported that changes made to the investment line-up during the previous two years have proved to be appropriate considering the funds that previously were in the caution range are now in the positive range, showing that the Board's actions have been beneficial to the ScholarShare participants.

## **Board Agenda Item Number Four**

### **Consideration of Changes to the ScholarShare Statement of Investment Policy**

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Ms. Douglas Fong reported that at the June 29 meeting, the goal was to set the mapping of investments from TIAA-CREF to Fidelity and that additional changes would be made at a future meeting that would include the removal of the TIAA-CREF investments and insertion of the Fidelity investments. Ms. Douglas Fong described the revised Statement of Investment Policy (Investment Policy), which included changes to the Program Objectives and the Permitted Investments section as well as substantial changes to Addendums 1 and 2 to completely reflect the change from TIAA-CREF investments to Fidelity investments.

Member Dithridge requested that the third bullet listed under Program Objectives be made more explicit and that the Board revisit this issue at a future Board meeting. Mr. Emkin stated that this bullet has a unique objective in that it represents age bands as each band has its own discreet objective. Mr. Charley stated that the Fund Monitoring Procedures and Criteria have additional language addressing this and that the language in the Investment Policy is more general.

Mr. Emkin provided details on the Social Choice Portfolio, specifically the significant change in how this portfolio is structured. At TIAA-CREF, the Social Choice Fund was a publicly traded mutual fund, whereas at Fidelity, it is a separately managed account and the trust will own the assets directly. Mr. Emkin stated that Staff is currently looking at a variety of ways to provide the best

advice on proxy voting for the Social Choice Portfolio, however, in the interim Geode will assume responsibility for fulfilling that obligation.

Mr. Emkin stated that there are additional Permitted Investments for the Social Choice Portfolio to allow Geode to use financial instruments, such as derivatives and swaps, to get exposure to the market quickly and more cost-effectively. Mr. Emkin stated that for this investment vehicle, a report should be provided to the Board quarterly showing how often Geode uses various financial instruments. In response to an inquiry by Member Chandler, representatives from Geode stated that the portfolios that did not use the financial instruments would lack market exposure and underperform and have a higher tracking error.

Member Dithridge asked that a discussion on investing in foreign emerging markets be included as an action item at the next Board meeting. Chair Eliopoulos asked that Fidelity make a presentation on its policy and criteria for foreign emerging markets and international funds.

Member Chandler recommended that a glossary of terms, such as cataclysmic event, be included in the Investment Policy at some point to provide the Board with a better understanding.

Chair Eliopoulos reiterated Staff's recommendation to approve the changes to the Investment Policy and added that Fidelity will report back to the Board at the December meeting about foreign emerging markets, with information about policy, criteria, and guidelines; that information will be provided in the quarterly performance review with regards to the use of instruments in the Social Choice Portfolio; and that an appendix, or glossary of terms, be added to the Investment Policy at some point. Ms. Douglas Fong recommended that the Investment Policy be reviewed in one year and that we look at adding an appendix with terms at that time. Ms. Douglas Fong also stated that if adopted, this revised Investment Policy would not take effect until Fidelity takes possession of the assets in the Trust on November 13, 2006.

Board Action:

Member Cox moved to approve the changes to the ScholarShare Statement of Investment Policy with the agreements as summarized by Chair Eliopoulos. The motion was seconded by Member Chandler and approved by the Board.

**Board Agenda Item Number Five**  
**Update on Program Launch and Launch Marketing Plan for ScholarShare Direct Plan**

Ms. Douglas Fong reported that the transition is moving along smoothly, and both Fidelity and TFI have been very cooperative.

Mr. Bob O'Neill, Fidelity, presented Fidelity's marketing plan for the launch of the ScholarShare Direct Plan. Ms. Douglas Fong stated that Fidelity is spending \$2 million over and above the contracted amount on marketing for the program launch.

Mr. John Lloyd, Fidelity, provided additional information about community outreach and Mr. O'Neill stated that the local events are not included in the marketing budget. Mr. O'Neill discussed the various marketing channels and emphasized its goal to give confidence to the customer. In response to a Member inquiry, Mr. Merchandani confirmed that the 24/7 customer service is available in the United States via a number of call centers, and that California residents would generally be directed to the call center in Salt Lake City, Utah.

**Board Agenda Item Number Six**  
**Customer Experience for the ScholarShare Direct Plan and the Advisor Plan**

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Ms. Douglas Fong stated that at the last meeting, the Board had questions in regards to the differences between the Direct Plan and the Advisor Plan and that the goal of this item is to make it clear how the two plans differ and how they will be treated on the participant level and advisor level.

Mr. Ciccariello provided an overview of the customer experience for the Direct Plan and stated that the focus would be on the existing customers, new customers, and on-going customer experience. Ms. Heidi Siegal, Fidelity, provided details about the various communications that existing customers would be receiving during the pre-conversion, account transfer, and post-conversion periods. Mr. Ciccariello presented a brief demo showing the experience existing customers would be taking through the ScholarShare website, including how they would log-in to view their portfolio summary page to activate their account. Mr. Ciccariello discussed the enrollment process for new customers and stated although that online enrollment would be available beginning in February, customers would be able to open an account by calling a phone representative, visiting an investor center, or downloading an application from the ScholarShare website. In response to a Member inquiry, Mr. Ciccariello stated that Fidelity would be able to identify the number of people who visit the website, as well as the individuals who enroll through the investor center and by calling a representative.

Chair Eliopoulos stated that one of the Board's concerns was that Direct Plan customers and new families would be unknowingly influenced to switch over to the Advisor Plan. Mr. Mirchandani stated that it would not be cross-selling the Advisor Plan and that that its goal is the direct relationship. Mr. Mirchandani added that customers would be informed of the lower costs with the Direct Plan and guidance would be provided free-of-charge. Mr. O'Neill stated that the marketing plan for 2007 is primarily focused in creating awareness and to drive people to the Direct Plan, and that communication and advertising is focused on the Direct Plan and not to encourage individuals to migrate to the Advisor Plan. Member Chandler inquired about the training for customer representatives to which Mr. Ciccariello responded that representatives on the Direct Plan will be trained to provide guidance on the Direct Plan.

Ms. Andrea Feirstein, AKF Consulting LLC, added that one of the things that Fidelity does well is provide complimentary guidance without the predisposition to push customers to the more expensive Advisor Plan. Ms. Douglas Fong added that from Staff's perspective and from working with Fidelity, it is clear that there are two entirely different plans, which has increased Staff's comfort level regarding this issue. Chair Eliopoulos requested that Ms. Feirstein report back to the Board periodically on her review of how the marketing plan is moving forward and how the customer experience for the Direct Plan and Advisor Plan is progressing.

Mr. Jeff Troutman, Fidelity, provided an overview to the customer experience for the Advisor Plan and discussed some of the differences between the Advisor Plan and Direct Plan, including the customer, the pricing structure, the marketing and sales interaction, and the investment options. In response to the Board's inquiry, Mr. Ciccariello provided the account and asset goals for the Direct Plan and Ms. Douglas Fong stated that the account and asset goals for the Advisor Plan have not been set, but will be reviewed after the first year.

**Board Agenda Item Number Seven**  
**Launch Marketing Plan for the ScholarShare Advisor Plan**

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Ms. Douglas Fong stated that the Direct Plan and Advisor Plan have their own marketing plan and budget.

Mr. Bill McNamara, Fidelity, presented the marketing plan for the Advisor Plan providing information about the marketing objectives and activities during the pre-launch, launch, and post-launch periods. Mr. McNamara stated that the marketing plan timeline for the Advisor Plan runs parallel with the Direct Plan and described some of the marketing activities that would be completed during that period. Member Cox inquired about how the Fidelity would be distinguishing ScholarShare with their current 529 plans. Mr. McNamara stated that Fidelity will be exclusively marketing ScholarShare within California and there will no marketing of other plans in California. In response to Member Cox's inquiry, Mr. Mirchandani stated that the California plan would not be marketed to advisors out-of-state.

**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 4:04 p.m.

Respectfully submitted by,

Carrie Douglas Fong, Executive Director  
SCHOLARSHARE INVESTMENT BOARD