

MINUTES
SCHOLARSHARE INVESTMENT BOARD

December 8, 2006, 1:00 p.m.

Chair Ted Eliopoulos called the meeting to order at 1:07 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
 Allison Jones
 Alice Perez

Staff: Carrie Douglas Fong, Executive Director, ScholarShare Investment Board (SIB)
 Don Sherman, Manager, SIB
 Stanley Zeto, Analyst, SIB
 Mark Paxson, General Counsel, State Treasurer's Office (STO)
 Kristin Smith, Staff Counsel, STO
 Nancy Wong, Staff Counsel, STO

Consultants: Allan Emkin, Pension Consulting Alliance, Inc. (PCA)
 John Charley, PCA
 Andrea Feirstein, AKF Consulting LLC (via phone)

Fidelity: Joe Ciccarello, Vice President, Fidelity Personal Investments
 Jeff Troutman, Vice President, Fidelity Investments Institutional Services
 Chris Sharpe, Portfolio Manager, Fidelity Management & Research

The Chair declared a quorum present.

Board Agenda Item Number One
Approval of Minutes from October 4, 2006 Meeting

The minutes from the October 4, 2006 ScholarShare Investment Board (SIB) meeting were approved as submitted with one abstention from Member Perez as she was not in attendance at that meeting.

Board Agenda Item Number Two
Staff Report

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

Ms. Douglas Fong reported that as expected, account growth slowed down during the transition period and conversion to Fidelity Investments (Fidelity) and that an increase is anticipated when online enrollment begins. Ms. Douglas Fong stated that there were a number of conversion issues, and that the people at Fidelity, Frank Russell and Staff worked very hard to ensure that the

conversion was completed successfully so that participants would not be negatively impacted. Ms. Douglas Fong also provided a few details on the two ScholarShare launch events that took place in Sacramento and Los Angeles on November 30.

Ms. Douglas Fong reported that the claiming numbers for the Governor's Scholarship Programs remain largely unchanged.

Board Agenda Item Number Three
Review of TIAA-CREF's Third Quarter 2006 Investment Performance

Mr. John Charley, Pension Consulting Alliance, Inc. (PCA), presented the Fund Performance Status Report for the third quarter of 2006 and reported that the TIAA-CREF Institutional Large Cap Value Fund had moved back into the caution range.

Board Agenda Item Number Four
Consideration of Changes to the ScholarShare Fund Monitoring Procedures and Criteria

Ms. Douglas Fong stated that the ScholarShare Fund Monitoring Procedures and Criteria (Procedures) would be reviewed in two parts, with the Direct Plan and Advisor Plan schedules being reviewed at this meeting and the written portion of the Procedures reviewed at the March meeting. Ms. Douglas Fong reported that Fidelity's investment performance will be monitored differently than TIAA-CREF's investment performance and that in some cases we would be looking at how the asset class is performing against the benchmark as opposed to the individual fund. Mr. Charley added that the new monitoring charts tighten the risk parameters and target a 90% confidence interval. Ms. Douglas Fong stated that the Procedures should be reviewed again in 15-18 months after SIB has experience with Fidelity, the revised Procedures and this new type of investing.

Board Action:

Member Cox moved to approve the new Direct Plan and Advisor Plan schedules to the ScholarShare Fund Monitoring Procedures and Criteria and that the Procedures be reviewed again in 15-18 months. The motion was seconded by Member Dithridge and approved by the Board.

Board Agenda Item Number Five
Use of Foreign Emerging Markets in ScholarShare Trust

Ms. Douglas Fong reported that SIB Staff, PCA and Fidelity have spent a substantial amount of time looking at foreign emerging markets (EM) in the ScholarShare Trust and stated that EM have been a part of the ScholarShare Trust since inception. Ms. Douglas Fong stated that 10% of TIAA-CREF's International Equity Fund, which was TIAA-CREF's only active fund in the ScholarShare Trust, had EM and it added value to the ScholarShare investments. Ms. Douglas Fong also reported that the request for proposals (RFP) for a program manager specifically requested that bidders put forth their best portfolios; all three responses included EM in their active portfolios.

In response to Member Dithridge's inquiry, Mr. Chris Sharpe, Fidelity, discussed Fidelity's procedures and policies with regards to EM including its investment professionals, exit strategies and company selections. Chair Eliopoulos encouraged SIB to continue asking hard questions about investments and EM as part of its review and asked that Fidelity provide quarterly updates with

regard to EM performance and exposure as well as the countries in which its active portfolios currently invest.

Board Agenda Item Number Six

2007 Marketing Plan for the ScholarShare Direct Plan and Advisor Plan

Ms. Douglas Fong stated that the marketing performance criteria (marketing benchmarks) for the Direct Plan were provided in Fidelity's response to the RFP and that the marketing benchmarks for the Advisor Plan have not been developed yet as it is new to the ScholarShare program. Ms. Douglas Fong added that Fidelity's marketing budget of \$5.5 million is solely for the Direct Plan and does not include marketing the Advisor Plan.

Mr. Joe Ciccarello, Fidelity, presented the marketing plan for the ScholarShare Direct Plan for the first trimester of 2007, providing an overview of the strategies, target audience, and campaigns, which include print and online advertising, billboards, and direct mail. Members inquired about how Fidelity intends to reach out to different ethnic markets and how the branches factor into the marketing plan. Mr. Ciccarello stated that some branch managers could attend future meetings to discuss local outreach and that Fidelity could provide information on branch plans and ethnic outreach specifically. Member Perez also requested that information regarding demographics of households be provided to the Board.

Member Cox stated that she was excited to see the 2007 marketing plan and hopes that the plan will be changed as necessary to achieve the marketing benchmarks and to reach as many families as possible. Board Members requested quarterly updates on how Fidelity is performing against marketing benchmarks.

Mr. Jeff Troutman, Fidelity, presented the marketing plan for the ScholarShare Advisor Plan for the first half of 2007 which include activities focused on both participants and advisors.

Board Agenda Item Number Seven

2007 ScholarShare Investment Board Meeting Calendar

Ms. Douglas Fong presented the SIB meeting calendar for 2007, requested that the Board notify Staff if they have scheduling conflicts with any of the dates, and stated that the final calendar will be set in January.

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 2:40 p.m.

Respectfully submitted by,

Carrie Douglas Fong, Executive Director
ScholarShare Investment Board