

MINUTES
SCHOLARSHARE INVESTMENT BOARD

April 19, 2007, 1:00 p.m.

Chair Patricia Wynne called the meeting to order at 1:06 p.m.

Present: Patricia Wynne for Bill Lockyer, State Treasurer
Tom Dithridge for Michael C. Genest, Department of Finance
Antoinette Chandler (via teleconference)
Allison Jones (via teleconference; departed at 3:15 pm)
Sabrina Kay (via teleconference)

Staff: Zeny Marie Agullana, Executive Director, ScholarShare Investment Board (SIB)
Don Sherman, Manager, SIB
Stanley Zeto, Analyst, SIB
Nancy Wong, Staff Counsel, State Treasurer's Office

Consultants: John Charley, Pension Consulting Alliance, Inc.
Andrea Feirstein, AKF Consulting LLC

Fidelity: Jeff Troutman, Vice President, Fidelity Investments Institutional Services (FIIS)
Heidi Siegal, Director, Fidelity Personal Investments (FPI)
Robert O'Neill, Senior Vice President, Marketing, FPI
Adam Zakarian, Director, Marketing, FPI
Jonathan Shelon, Portfolio Manager, Fidelity Management & Research (FMR)
David Taylor, Branch Manager (Roseville, California), FPI

The Chair declared a quorum present.

Board Agenda Item Number One
Approval of Minutes from January 25, 2007 Meeting

The minutes from the January 25, 2007 ScholarShare Investment Board (SIB) meeting were presented to the Board.

Board Action:

Member Dithridge moved to approve the item before the Board, the minutes from the January 25, 2007 SIB meeting. The motion was seconded by Member Chandler and approved by the Board.

Board Agenda Item Number Two

Staff Report

Ms. Zeny Marie Agullana, SIB, presented the Staff Report to the Board. Ms. Agullana updated the Board on changes to SIB Staff, amendments to current contracts with SIB's consultants, and upcoming in-house outreach plans.

Mr. Don Sherman, SIB, provided the Board with an update on legislation including a brief overview of some current bills in the legislature. Member Dithridge inquired about whether SIB would be administering AB 152 (Beall) to which Mr. Sherman responded yes.

Mr. Stanley Zeto, SIB, provided updated account and asset information for the ScholarShare Direct Plan and Advisor Plan and updated claiming numbers for the Governor's Scholarship Programs. The Board inquired about how the recent availability of online enrollment has affected the number of accounts opened. Ms. Heidi Siegal, Fidelity Investments (Fidelity), stated that 40 percent of the accounts opened since online enrollment became available have been online.

Board Agenda Item Number Three

Appointment of Acting Executive Director of the ScholarShare Investment Board

Ms. Agullana stated that she will be taking maternity leave in May and that SIB Staff recommends that Mr. Sherman, the current SIB Manager, serve as Acting Executive Director of SIB until her anticipated return in August.

Board Action:

Member Jones moved to approve the item before the Board, Resolution No. 2007-02 appointing Mr. Sherman as the Acting Executive Director for SIB. The motion was seconded by Member Kay and approved by the Board.

Board Agenda Item Number Four

Consideration of Changes to Maximum Contribution Limit for the ScholarShare College Savings Plan

Ms. Andrea Feirstein, AKF Consulting LLC (AKF), reported that after reviewing the maximum contribution limits for other qualified tuition programs, AKF and SIB Staff are recommending that the maximum contribution limit for the ScholarShare College Savings Plan be increased from \$300,000 to \$320,000 on the basis of seven years of school in the State of California. Member Jones inquired about how many accounts were approaching this limit and Ms. Siegal replied that approximately two dozen families were approaching the \$300,000 limit. Member Kay inquired about whether there was any downside to increasing the limit, to which Ms. Feirstein responded no.

Board Action:

Member Kay moved to approve the item before the Board, the increase in the maximum contribution limit for the ScholarShare College Savings Plan from \$300,000 to \$320,000. The motion was seconded by Member Jones and approved by the Board.

Board Agenda Item Number Five
Consideration of Changes to the Fund Monitoring Procedures and Criteria for the ScholarShare Direct Plan and Advisor Plan

Mr. John Charley, Pension Consulting Alliance, Inc. (PCA), reported there were few significant changes to the Fund Monitoring Procedures and Criteria for the ScholarShare Direct Plan and Advisor Plan. Mr. Charley highlighted and reviewed some structural changes and provided a brief review of the sample investment monitoring report that PCA will be presenting to the Board on a quarterly basis.

In response to Chair Wynne's inquiry, Mr. Charley stated that with regards to the Direct Plan and Advisor Plan, there are a few differences in monitoring performance as well as minor procedural differences. Member Dithridge inquired about whether both underperformance and outperformance would be monitored when deciding whether a fund or portfolio would be put on Watch. Mr. Charley stated that underperformance would be primarily monitored, however, if it appeared the fund was taking too much risk, outperformance would be monitored as well.

The Board inquired about how the criteria were established. Mr. Charley stated that PCA looked at historical data from Fidelity, looked at the range of standard deviation, set criteria based on standard deviation, and compared these criteria with other clients. In response to the Board's inquiry, Mr. Charley stated that PCA and Fidelity were comfortable with the ranges, and that after careful analysis, they feel that these are the best ranges.

Chair Wynne inquired about how the benchmarks for the actively managed portfolios and passively managed portfolios differ. Mr. Charley responded that the index funds are more oriented to relative risk or tracking error. Member Chandler inquired about why the underlying fund's benchmark is dollar-weighted by assets. Mr. Charley clarified that the composition of the benchmark is based on a weighted average of the underlying funds benchmark, and that when monitoring performance, a time-based series return (not dollar-weighted) is used at that point.

Board Action:

Member Kay moved to approve the item before the Board, the revised Monitoring Procedures and Criteria for the ScholarShare Direct Plan and Advisor Plan, including the changes proposed by the Board. The motion was seconded by Member Dithridge and approved by the Board.

Board Agenda Item Number Six
Consideration of Changes to the Administrative Performance Criteria for the ScholarShare Direct Plan

Ms. Siegal provided a brief overview of the changes to the Administrative Performance Criteria for the ScholarShare Direct Plan including information about Fidelity's Customer Experience Index (CEI). Member Dithridge inquired about the "Check Processing" area and requested information about how many checks are represented by the one percent (%) considered inaccurate. Ms. Siegal stated that Fidelity would get back to the Board about this inquiry.

Member Dithridge recommended adjusting the CEI from “78%” to “98%” under E-mail Inquiries Accuracy to reflect Fidelity’s actual measure. Ms. Agullana stated there were additional changes that need to be reflected, including changing “1 day” to “1 calendar day” under Systems Availability and changing “review” to “review and approve” in the third bullet under Deadlines, Inquiries, Document Review.

Board Action:

Member Jones moved to approve the item before the Board, the revised Administrative Performance Criteria for the ScholarShare Direct Plan, including the changes proposed by the Board. The motion was seconded by Member Kay and approved by the Board.

Board Agenda Item Number Seven

2007 Marketing Plan for the ScholarShare Advisor Plan and Direct Plan

Mr. Jeff Troutman, Fidelity, presented the 2007 Marketing Plan for the ScholarShare Advisor Plan. The Board inquired about the use of multiple languages in marketing for the Advisor Plan. Mr. Troutman stated he would follow-up on this. Ms. Siegal added that there would be Spanish materials for the Direct Plan. Ms. Agullana stated that SIB Staff is currently working with the California Student Aid Commission on possible outreach efforts.

Mr. Robert O’Neill, Fidelity, presented the 2007 Marketing Plan for the ScholarShare Direct Plan. Mr. O’Neill provided details about learnings from 2006 and new efforts for 2007, including online placements and marketing, public relations initiatives, community relations, local marketing activities and sponsorships, television, placements in parenting magazines, direct mail to both Fidelity and non-Fidelity customers, and promotions. Mr. David Taylor, Fidelity, provided the Board with an overview of local marketing and outreach. In response to the Board’s inquiry regarding the marketing budget, Mr. O’Neill stated that in addition to the \$2 million non-contractual marketing spend in 2006, there is a marketing budget of \$5.5 million for 2007. Mr. Troutman stated there is also a marketing budget of \$375,000 for the Advisor Plan in 2007.

Public Comment

Chair Wynne called for public comment. There was none.

There being no further business before the Board, the Chair adjourned the meeting at 3:36 p.m.

Respectfully submitted by,

Zeny Marie Agullana, Executive Director
ScholarShare Investment Board