

**MINUTES
SCHOLARSHARE INVESTMENT BOARD**

August 16, 2007, 1:00 p.m.

Chair Patricia Wynne called the meeting to order at 1:07 p.m.

Present: Patricia Wynne for Bill Lockyer, State Treasurer
Tom Dithridge for Michael C. Genest, Department of Finance
Dena Wilson for David Long, Office of the Secretary of Education (joined at 1:15pm)
Antoinette Chandler
Alice Perez (via teleconference)

Staff: Zeny Marie Agullana, Executive Director, ScholarShare Investment Board (SIB)
Don Sherman, Manager, SIB
Stanley Zeto, Analyst, SIB
Ali Cooper, Analyst, SIB

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

Fidelity: Joe Ciccariello, Vice President, College Planning, Fidelity Personal Investments (FPI)
Jeff Troutman, Vice President, College Planning, Fidelity Investments Institutional Services (FIIS)
Robert O'Neill, Senior Vice President, Marketing, FPI
Heidi Siegal, Vice President, Relationship Manager, FPI
Jonathan Shelon, Portfolio Manager, Fidelity Management & Research (FMR)
Andrew Dierdorf, Associate Portfolio Manager, FMR
David Taylor, Branch Manager (Roseville, California), FPI

The Chair declared a quorum present.

Board Agenda Item Number One
Approval of Minutes from April 19, 2007 Meeting

The minutes from the April 19, 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 April 19, 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. Mr. Stanley Zeto, SIB, provided updated account and asset information for the ScholarShare Direct Plan and Advisor Plan and an update on the Governor's Scholarship Programs (GSP), including information regarding claiming and the GSP website.

Ms. Agullana provided an updated on various initiatives by the ScholarShare Program Manager, Fidelity Investments (Fidelity), including focus groups that Fidelity will be conducting in San Francisco and San Diego in late-August to improve the ScholarShare website and a San Francisco Giants fundraising program to benefit Bay Area school districts. Ms. Agullana also provided an update on the claiming deadline for GSP awards.

Mr. Don Sherman, SIB, provided the Board with an update on legislation including a brief overview on current bills in the legislature. Mr. Sherman reported some staff changes in SIB, including the addition of the new outreach coordinator, Ali Cooper, and the new compliance officer, Sue Lim. Mr. Sherman provided a brief summary about the outreach plan SIB Staff is currently working on implementing.

Board Agenda Item Number Three

Resolution to Issue Request for Proposals for an Investment Consultant for the ScholarShare Investment Board

Ms. Agullana presented a resolution to the Board for approval regarding the issuance of a Request for Proposals (RFP) for an investment consultant. Ms. Agullana stated that the contract with the current investment consultant is set to expire in April 2008 and there continues to be a need for this service. Member Dithridge inquired about the evaluation criteria for scoring proposals to which Ms. Agullana replied that SIB Staff was in the process of determining the specific criteria.

Board Action:

Member Perez moved to approve the item before the Board, Resolution No. 2007-03 authorizing the Executive Director to issue an RFP for an investment consultant to aid the Board in administering the ScholarShare Direct Plan and Advisor Plan. The motion was seconded by Member Wilson and approved by the Board.

Board Agenda Item Number Four

Resolution to Issue Request for Proposals for a 529 Industry Consultant for the ScholarShare Investment Board

Mr. Sherman presented a resolution to the Board for approval regarding the issuance of a RFP for a 529 industry consultant. Mr. Sherman stated that the contract with the current 529 industry consultant is set to expire in April 2008 and that there continues to be a need for this service.

Board Action:

Member Perez moved to approve the item before the Board, Resolution No. 2007-04 authorizing the Executive Director to issue an RFP for a 529 industry consultant to provide the Board with a national perspective on the 529 industry, 529 plan comparison analyses, assistance with writing request for proposals and interpretation of the program manager's marketing plans and performance. The motion was seconded by Member Dithridge and approved by the Board.

Board Agenda Item Number Five
Resolution to Issue Request for Proposals for an Auditor for the
ScholarShare Investment Board

Mr. Zeto presented a resolution to the Board for approval regarding the issuance of a RFP for an auditor. Mr. Zeto stated that the contract with the current auditor is set to expire in June 2008. Chair Wynne inquired as to the last time an audit was completed. Mr. Zeto replied that it was during September of 2006 and takes place annually. Member Dithridge suggested to seek approval from the State Office of Audits and Evaluation. Mr. Sherman replied that SIB's statutes declare that it is exempt as it states that the audit must be completed by an independent certified public accountant.

Board Action:

Member Wilson moved to approve the item before the Board, Resolution No. 2007-05 authorizing the Executive Director to issue an RFP for an auditor to provide the Board with annual audited financial statements. The motion was seconded by Member Chandler and approved by the Board.

Board Agenda Item Number Six
Consideration of Portfolio Enhancements to the ScholarShare Direct Plan and Advisor Plan

Mr. Joe Ciccariello, Fidelity, updated the Board on portfolio team changes, introducing Andrew Dierdorf as co-portfolio manager with Chris Sharpe, and reporting that Jonathan Shelon will be moving to another team within Fidelity. Mr. Jonathan Shelon, Fidelity, provided the Board with an overview of the proposed portfolio enhancements to the ScholarShare Direct Plan and Advisor Plan. Mr. Shelon stated that these changes are intended to improve risk adjusted performance.

Member Dithridge inquired as to how these changes will improve the risk characteristics and Mr. Shelon replied that these changes would make the range tighter and add value through active management. Member Chandler inquired about the correlation between the two portfolios that are being added and removed. Mr. Shelon stated that they are both large cap core, managed to the same benchmark and that the enhanced index approach is best. Member Chandler inquired if there are any Collateralized Debt Obligations in the fund, to which Mr. Shelon replied that he will check and report back to the Board.

Mr. Shelon stated that the final change involved switching from cash reserves to a Fidelity Institutional Money Market (FIMM) Fund, and that Fidelity is in the process of seeking approval from the Fidelity Board of Trustees on this change. Member Dithridge inquired if there are investments prone to bankruptcy, to which Mr. Shelon replied that he will research the data and report back to the Board. Member Dithridge inquired whether SIB's investment consultant verified

the reduction in cost. Mr. Shelon replied that the data has not been verified and that it will provide the information to the Board at the next meeting.

Mr. Sherman stated that the transfer/change of the notation of the Cash Reserves fund is contingent upon Fidelity's Board approval of the Cash Reserves fund being changed to the FIMM fund.

Board Action:

Member Wilson moved to approve the item before the Board, the portfolio enhancements to the ScholarShare Direct Plan and Advisor Plan. The motion was seconded by Member Perez and approved by the Board with an abstention from Member Dithridge.

Board Agenda Item Number Seven
Review and Analysis of Fidelity Investments' Investment Performance for the ScholarShare Direct Plan and Advisor Plan for the Second Quarter of 2007

Mr. John Charley, Pension Consulting Alliance, Inc. (PCA), presented PCA's Investment Performance Status Report for the ScholarShare Direct Plan and Advisor Plan for the second quarter of 2007, which compares each Fidelity portfolio used in the ScholarShare Direct Plan and Advisor Plan to applicable benchmark criteria. Mr. Charley also noted which Fidelity portfolios were currently performing in "positive" and "acceptable" ranges. Mr. Shelon and Mr. Dierdorf presented Fidelity's Investment Review for the Direct Plan and Mr. Jeff Troutman, Fidelity, presented Fidelity's Investment Review for the Advisor Plan. Mr. Dierdorf and Mr. Troutman reported that investment performance for the Direct Plan and Advisor Plan have been performing as well as expected.

Board Agenda Item Number Eight
Review of Fidelity Investments' Administrative Performance for the ScholarShare Direct Plan for the First and Second Quarters of 2007

Ms. Heidi Siegal, Fidelity, presented Fidelity's Administrative Performance Report for the first and second quarters of 2007, stating that there has been improvement in performance areas from quarter to quarter. Ms. Siegal also provided explanations for the underperformance in specific performance areas, such as call center accuracy and timeliness, and discussed changes that are being made to improve performance, such as increased staffing, additional training and opening satellite offices. Member Perez inquired about historical data for the call center and requested it be provided at a later meeting.

Board Agenda Item Number Nine
Fidelity Investments' 2007 Marketing Update for the ScholarShare Direct Plan and Advisor Plan

Ms. Siegal presented the marketing update for the Direct Plan, reporting that assets are greatly increasing and that automatic investing has increased from 14% to 30%. Ms. Siegal reported that new accounts are increasing, and activity is higher at year end. Ms. Siegal stated that Fidelity now has the ability to track online accounts opened. Member Dithridge inquired about the cost per conversion to which Mr. Robert O'Neill, Fidelity, replied that the cost was around \$300 to \$400 per conversion, but would verify the cost and report back to the Board.

Member Perez inquired about non-profit scholarship programs and marketing towards the younger market with material from the “Dora the Explorer” television program. Mr. O’Neill replied that Fidelity will look into Dora the Explorer”. Mr. O’Neill informed the Board that Fidelity is sponsoring the University of California’s Early Academic Outreach Program. Member Perez inquired as to whether Fidelity is partnering with any ethnic Chambers of Commerce on its marketing programs. Mr. David Taylor, Fidelity, provided an update on various outreach events.

Mr. Troutman presented the marketing update for the Advisor Plan. Mr. Troutman reported that in response to the Board’s inquiry at a previous meeting with regards to marketing in Spanish, there has been one request since inception for Spanish materials. Mr. Troutman stated that Fidelity will continue to monitor the need for these materials.

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 3:58 p.m.

Respectfully submitted by,

Zeny Marie Agullana, Executive Director
ScholarShare Investment Board