

**MINUTES
SCHOLARSHARE INVESTMENT BOARD**

**December 12, 2007, 1:00 p.m.
Teleconference**

Chair Patricia Wynne called the meeting to order at 1:03 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 1:05 p.m.)
Antoinette Chandler
Allison Jones (via teleconference)
Sabrina Kay (via teleconference) (departed at 3:05 p.m.)
- Staff: Zeny Marie Agullana, Executive Director, ScholarShare Investment Board (SIB)
Don Sherman, Manager, SIB
Stanley Zeto, Analyst, SIB
Kristin Smith, Staff Counsel, State Treasurer's Office (STO)
- Consultants: Allan Emkin, Managing Director, Pension Consulting Alliance, Inc. (PCA)
John Charley, Senior Vice President, PCA
- Fidelity: Joe Ciccariello, Vice President, College Planning, Fidelity Investments (Fidelity)
Jeff Troutman, Vice President, College Planning, Fidelity Investments
Institutional Services (FIIS)
Heidi Siegal, Vice President, Relationship Manager, Fidelity
Stephen Connors, Vice President, Marketing, Fidelity
Bill McNamara, Vice President, Advisor Marketing, FIIS
Andrew Dierdorf, Associate Portfolio Manager, Fidelity
David Taylor, Investor Center Manager, Fidelity (Roseville, CA)

Board Agenda Item Number One

Approval of Minutes from August 16, 2007 and October 15, 2007 Meetings

The minutes from the August 16, 2007 and October 15, 2007 SIB meetings were presented to the Board.

Board Action:

Member Wilson moved to approve the item before the Board, the minutes from the August 16, 2007 SIB meeting. The motion was seconded by Member Dithridge and approved by the Board

with abstentions from Member Jones and Member Kay, as they had not been present at the August 16, 2007 meeting.

Member Wilson moved to approve the item before the Board, the minutes from the October 15, 2007 SIB meeting. The motion was seconded by Member Chandler and approved by the Board with abstentions from Member Dithridge and Member Kay, as they had not been present at the October 15, 2007 meeting.

Board Agenda Item Number Two

Staff Report

Mr. Stanley Zeto, SIB, provided updated account and asset information for the ScholarShare Direct and Advisor Plans.

Mr. Don Sherman, SIB, provided the Board with an update on legislation including a brief overview of some current bills in the Legislature.

Ms. Zeny Marie Agullana, SIB, presented an update on various ScholarShare outreach events, such as the ScholarShare Project for Achievement and Recognition of Creativity (SPARC) and the legislative briefing SIB Staff hosted at the State Treasurer's Office. Ms. Agullana stated that SIB plans to continue working with the Legislature and various state agencies to promote the benefits of ScholarShare and the importance of saving for college. Ms. Agullana provided an update on SIB's current Request for Proposals (RFP) for a 529 industry consultant, investment consultant and auditor.

Mr. Joe Ciccariello, Fidelity, reported since the transition in late-2006, the number of ScholarShare participants setting up automatic investments has increased by 30 percent (%). In response to Member Dithridge's inquiry about the measurement of effectiveness for SPARC, Ms. Agullana stated that Staff is working with the Sacramento County Office of Education on developing this process. Chair Wynne recommended that Staff obtain input from Board members on developing this method.

Board Agenda Item Number Three

Review and Analysis of Fidelity Investments' Investment Performance for the ScholarShare Advisor Plan and Direct Plan for the Third Quarter of 2007

Mr. John Charley, Pension Consulting Alliance, Inc. (PCA) presented its Investment Performance Status Report for the ScholarShare Advisor and Direct Plans for the third quarter of 2007.

Mr. Charley recommended that Fidelity provide information on the underlying cautions for the short term portfolios performance during the third quarter.

Member Chandler requested information on PCA's method of evaluating style of individual portfolio equity growth and what is contributing to performance. Mr. Charley responded that PCA does not stick to a particular style and that they only highlight excess or underperformance

but can provide details in the report upon request. Mr. Allan Emkin, PCA, stated that PCA would ask about anything outside of the band and that they do have the tools to analyze historic returns.

Mr. Charley recommended SIB request information from Fidelity regarding the Advisor Plan FA Intermediate Bond performance during August 2007.

Mr. Andrew Dierdorf, Fidelity, presented Fidelity's Investment Performance Review for the ScholarShare Advisor and Direct Plans for the third quarter of 2007, provided an update on the portfolio enhancements that the Board approved in August 2007, and addressed the Board's inquiries from the previous Board meeting.

Member Dithridge inquired about the tracking error percentages of the Advisor Asset Class Performance, to which Mr. Dierdorf replied Fidelity would verify the tracking error results and report back to the Board. Member Chandler inquired about re-evaluating the need for having a range for tracking error as well. Mr. Dierdorf stated that a more detailed report of the attribution between the position versus benchmark security selection will be provided to the Board. Mr. Dierdorf provided information in response to Member Dithridge's inquiry from the October 15, 2007 Board meeting regarding which investments are prone to bankruptcy. Mr. Dierdorf stated that Fidelity will provide historical experience data regarding that query.

Mr. Dierdorf addressed Member Chandler's previous inquiry regarding Collateralized Debt Obligation (CDO) and CDO exposure in the portfolios. Mr. Dierdorf explained that securities can be bundled together and resold in the marketplace, which can also be split into pieces to be picked up by different investors. Mr. Dierdorf stated that the exposure in Fidelity's portfolios is almost zero.

Board Agenda Item Number Four

Review of Fidelity Investments' Administrative Performance for the ScholarShare Direct Plan for the Third Quarter of 2007

Ms. Heidi Siegal, Fidelity, presented the Administrative Performance Report for the ScholarShare Direct Plan for the third quarter of 2007. Ms. Siegal stated that marketing volatility during the third quarter of 2007 impacted email inquiries and the call center which is why these particular areas significantly underperformed their benchmarks this quarter. Ms. Siegal stated that to remedy this underperformance, Fidelity has hired 600 additional representatives and will implement extensive training for the call center representatives.

Ms. Siegal also addressed Member Chandler's previous inquiry regarding the high call volume during the conversion period. Ms. Siegal stated that the call volume a year ago was about 28,000 calls per month and is currently at about 5,000-7,000 calls per month.

Board Agenda Item Number Five
Fidelity Investments' 2008 Marketing Plan for the ScholarShare Advisor Plan

Mr. Jeff Troutman and Mr. Bill McNamara, Fidelity, presented Fidelity's 2008 Marketing Plan for the ScholarShare Advisor Plan. Member Kay requested that Fidelity look into a gift card program in both English and Spanish at the next Board meeting. Mr. Troutman stated that the Advisor Plan has a gift card program in place and will provide additional information at the next Board meeting. Member Chandler inquired about determining whether the brokers, which Fidelity markets to, have ScholarShare Advisor accounts and if there is anything Fidelity can do to market to them as customers.

Board Agenda Item Number Six
Fidelity Investments' 2008 Marketing Plan for the ScholarShare Direct Plan

Mr. Steve Connors, Fidelity, presented Fidelity's 2008 Marketing Plan for the ScholarShare Direct Plan, describing its various marketing strategies, learnings from 2007, direct mail and online marketing plans, sponsorships, public relations, local market development plans, and workplace outreach . Ms. Agullana requested that Fidelity research advertising at Nick Jr. and Dora the Explorer web pages and report back to the Board. Mr. Ciccariello stated that Fidelity will provide details on the California College Savings Indicator Research at the next Board meeting. Member Dithridge requested Fidelity look at the promotional materials and have them lead tested.

Board Agenda Item Number Seven
2008 ScholarShare Investment Board Meeting Calendar

Ms. Agullana presented the proposed SIB meeting calendar for 2008. Chair Wynne requested that Board members report back to Ms. Agullana regarding their availability for the scheduled meeting dates.

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 3:39 p.m.

Respectfully submitted by,

Zeny Marie Agullana, Executive Director
ScholarShare Investment Board