

**MINUTES  
SCHOLARSHARE INVESTMENT BOARD**

**August 11, 2008, 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  
Diana Ducay for Michael C. Genest, Department of Finance  
Dena Wilson for David Long, Office of the Secretary of Education  
(departed at 2:10 p.m.)  
Antoinette Chandler  
Allison Jones
- Staff: Zeny Marie Agullana, Executive Director, ScholarShare Investment Board (SIB)  
Stanley Zeto, Analyst, SIB  
Sue Lim, Compliance Officer, SIB  
Kristin Smith, Staff Counsel, State Treasurer's Office
- Consultants: Allan Emkin, Managing Director, Pension Consulting Alliance, Inc. (PCA)  
Jeremy Thiessen, Senior Vice President, PCA  
Andrea Feirstein, Managing Member, AKF Consulting LLC
- Fidelity: Joe Ciccariello, Vice President, College Planning, Fidelity Investments  
Jeff Troutman, Vice President, College Planning, Fidelity Investments  
Institutional Services  
Peter Mahoney, Vice President, Relationship Manager, Fidelity Investments  
Chris Sharpe, Portfolio Manager, Fidelity Investments (via teleconference)  
Patrick Perry, Geode (via teleconference)

The Chair declared a quorum present at 1:07 p.m.

The Board decided to change the order of the items and have Agenda Items 8 and 9 follow Agenda Item 4.

**Board Agenda Item Number One**  
**Approval of Minutes from June 19, 2008 Meeting**

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The minutes from the June 19, 2008 ScholarShare Investment Board (SIB or Board) meeting were presented to the Board.

Board Action:

Member Ducay moved to approve the item before the Board, the minutes from the June 19, 2008 SIB meeting. The motion was seconded by Member Wilson and approved by the Board with an abstention from Member Jones.

**Board Agenda Item Number Two**  
**Executive Director's Report**

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Mr. Stanley Zeto, SIB, provided updated account information for the ScholarShare Direct Plan and Advisor Plan. Ms. Zeny Marie Agullana, SIB, provided an update on legislation reporting that SB 1457 (CalSAVE; Steinberg) is currently in Senate concurrence. Ms. Agullana also reported that SB 918 (Qualified Tuition Programs, Oropeza) is currently in suspense. In response to Chair Wynne's inquiry about costs associated with SB 918, Ms. Agullana stated that the initial implementation is \$300,000, with a maintenance fee of \$30,000 every year after.

Ms. Agullana provided an overview of recent outreach efforts including upcoming events for College Savings Month in September.

Member Ducay inquired about how the account and asset numbers compare to last year. Ms. Agullana stated that this year the number of new accounts opened is at 33 percent of the benchmark compared to 42 percent during the same time last year. Assets for this year are at 43 percent of the benchmark compared to 52 percent during the same time last year.

**Board Agenda Item Number Three**  
**Resolution to Approve Administrative Services Contract with the**  
**State Treasurer's Office for Fiscal Year 2008-2009**

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Mr. Zeto presented Resolution No. 2008-08 which authorizes the Executive Director to enter into an administrative services contract with the State Treasurer's Office (STO). Mr. Zeto stated that under this contract, the STO would provide services such as accounting, budgeting, data processing, and legal services. Mr. Zeto reported that the cost of this contract is \$149,634, which was determined by the STO budget office. In response to Member Ducay's inquiry regarding last year's contract amount, Mr. Zeto reported that the cost of last year's contract was \$136,750. Ms. Agullana added that the \$12,877 difference between this year and last year was due to the addition of an information technology component.

Board Action:

Member Jones moved to approve the item before the Board, Resolution No. 2008-08, approving the administrative services contract with the STO for fiscal year 2008-2009. The motion was seconded by Member Wilson and approved by the Board.

**Board Agenda Item Number Four**  
**Resolution to Approve Contract Amendment Negotiations for Agreement No. SIB 05-05**

Ms. Agullana presented Resolution No. 2008-09 authorizing the Executive Director, in tandem with the Chair, or designee, and a Board member to be determined, to enter into good faith negotiations regarding contract amendments to Agreement No. SIB 05-05 on behalf of the Board. In response to Chair Wynne's inquiry regarding timeline, Ms. Agullana stated that a recommendation would be brought back to the Board depending on when the information was made available to SIB. Board members agreed that it is appropriate to have the flexibility to negotiate in private. Following Board discussion, it was determined that Member Chandler would serve on the subcommittee with the Executive Director and Chair, or designee, to enter into negotiations regarding contract amendments to the Agreement No. SIB 05-05.

**Board Action:**

Member Jones moved to approve the item before the Board, Resolution No. 2008-09, authorizing the Executive Director, in tandem with the Board Chair, or designee, and Member Chandler, to enter into good faith negotiations regarding contract amendments to Agreement No. SIB 05-05 on behalf of the Board. The motion was seconded by Member Wilson and approved by the Board.

**Board Agenda Item Number Five**  
**Review and Analysis of Fidelity Investments' Investment Performance for the ScholarShare Advisor Plan for Second Quarter 2008**

Mr. Jeremy Thiessen, Pension Consulting Alliance, Inc. (PCA), presented PCA's "Advisor Plan Investment Performance Status Report" for the second quarter of 2008. Mr. Thiessen stated that PCA does not have any concerns, and that in order to truly reflect on market cycle, 36 months of performance are needed. Mr. Allan Emkin, PCA, stated that any current loss of value is not a result of the managers, but rather an uncontrollable result of the market. In response to Member Ducay's inquiry about PCA's report, Mr. Thiessen clarified that at this time, the current status of the portfolio is determined by criteria #2 (rolling 12-month performance) only.

Mr. Chris Sharpe, Fidelity, presented Fidelity's "Investment Performance Review" for the ScholarShare Advisor Plan for the second quarter of 2008. Mr. Sharpe stated that the current market condition is challenging at best and reported that for the three months ending March 31, 2008 performance and benchmarks were negative. Member Chandler inquired about the duration of the investment grade portfolio and how it lines up with Lehman Brothers index in terms of duration. Mr. Sharpe added that on the investment grade bond fund benchmarked to Lehman, we are duration neutral, and that it is a blend of underlying funds to the one Lehman index.

**Board Agenda Item Number Six**  
**Review and Analysis of Fidelity Investments' Investment Performance for the ScholarShare Direct Plan for Second Quarter 2008**

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Mr. Thiessen presented PCA's "Direct Plan Investment Performance Status Report" for the second quarter of 2008. Mr. Thiessen stated that five funds moved from "acceptable" status to "positive" status from last quarter, with four funds remaining in the "caution" status.

Mr. Sharpe presented Fidelity's "Investment Performance Review" for the ScholarShare Direct Plan for the second quarter of 2008. He stated that the Advisor Plan's relative performance outperformed the International Equity and High Yield portfolios, while the Direct Plan focused more on Domestic Equity. Mr. Patrick Perry, Geode, stated that the Social Choice portfolio outperformed the benchmark during the second quarter. Member Chandler stated that she had some questions for Geode. Mr. Ciccariello stated that Geode can be made available to address questions from the Board.

**Board Agenda Item Number Seven**  
**Review of Fidelity Investments' Administrative Performance for the ScholarShare Direct Plan for Second Quarter 2008**

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Mr. Peter Mahoney, Fidelity, presented Fidelity's "Quarterly Administrative Performance Report" comparing its performance during the second quarter of 2008 to administrative benchmarks adopted by the Board. Mr. Mahoney stated that although the email inquiries timeliness performance areas are still below the benchmarks, they have shown significant improvement from first quarter. Mr. Mahoney reported that the performance in the call center accuracy area is being addressed by a 60-man test site.

**Board Agenda Item Number Eight**  
**Fidelity Investments' 2008 Marketing Update for the ScholarShare Advisor Plan**

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Mr. Jeff Troutman, Fidelity, presented Fidelity's marketing update for first half of 2008 for the ScholarShare Advisor Plan. Mr. Troutman stated that Fidelity has been doing slightly better than the industry, but was still struggling during these market conditions. Mr. Troutman discussed the various marketing campaigns and mailings that were completed during the first half of 2008.

Member Jones inquired if there was a way to have tax refunds deposited directly to a 529 plan. Mr. Joe Ciccariello, Fidelity, stated that it is possible on the direct side and it would be considered in 2009. Mr. Troutman stated that it was not currently possible on the advisor side, but that it would be considered.

Member Jones inquired if California's fiscal condition is effecting California families' decision to open 529 plans. Mr. Troutman and Mr. Ciccariello stated that they had not heard that, but could inquire with the phone representatives. Mr. Troutman reported that based on feedback from advisors, a state tax benefit is one of the top three items that people have inquired about. Chair Wynne inquired if that was consistent with what is seen nationwide. Ms. Andrea Feirstein,

AKF Consulting LLC (AKF), confirmed that it was, and emphasized that it is important that the tax benefit be considered just for ScholarShare.

### **Board Agenda Item Number Nine**

#### **Fidelity Investments' 2008 Marketing Update for the ScholarShare Direct Plan**

Mr. Peter Mahoney, Fidelity, presented Fidelity's marketing update for the first half of 2008 for the ScholarShare Direct Plan. He discussed the various marketing efforts that were completed in the first half of 2008 as well as the activities planned for the remainder of the year. Mr. Mahoney reported that the gift card offer would be going live on September 1 and would be integrated into all facets of ScholarShare marketing. In response to Chair Wynne's inquiry regarding placement, Mr. Mahoney and Mr. Ciccariello stated that the offer would be promoted on the ScholarShare website as well as other sites such as Nickjr.com. Ms. Agullana added that the offer would be promoted in inserts distributed with state employee paychecks, and that many of ScholarShare's partners have agreed to post the gift card offer on their websites. In response to Chair Wynne's inquiry, Mr. Mahoney confirmed that this gift card offer is exclusive to ScholarShare.

In response to the Board's questions with regard to online marketing, Mr. Ciccariello stated that Google continues to be a top performer and that Fidelity is working on different variations of words to make sure there is 100% share of voice. The Board inquired about the PBS sponsorship, specifically regarding timing, to which Mr. Ciccariello responded that when sponsorships are bought, time periods are chosen and that there is a lot of leverage with PBS and an optimal time can be chosen. Ms. Agullana added that the advertising runs during the "Clifford the Big Red Dog" program. Chair Wynne inquired about the workplace campaign Fidelity is working on for ScholarShare. Mr. Ciccariello stated the exact names of the workplaces could not be provided, but that the offer is available to companies in California that outsource their retirement plan to Fidelity.

Mr. Mahoney provided an update on local market development and outreach activities. Mr. Ciccariello added that the focus of the first half of 2008 was related to the national outlet, while the second half will focus more on local markets. In response to the Board's inquiry regarding ScholarShare's Morningstar rating, Mr. Ciccariello stated that Morningstar wanted to see more of Fidelity's top performing funds in ScholarShare's lineup and that Fidelity is constantly looking at the funds to make sure there is appropriate asset allocation and maximizing risk. Member Jones requested a comparison of ScholarShare versus other states, and the Board asked that Ms. Feirstein work with Fidelity in putting this comparison together. Member Chandler inquired about why Fidelity doesn't use top performing funds for ScholarShare. Mr. Ciccariello responded that the issue is from a Morningstar perspective and how they assess Fidelity's asset allocation and fund-to-fund structure.

### **Board Agenda Item Number Ten**

#### **Review of Fidelity Investments' Marketing Performance for the ScholarShare Direct Plan**

Mr. Mahoney reviewed Fidelity's marketing performance for the ScholarShare Direct Plan comparing ScholarShare's growth with the 529 industry. Mr. Mahoney stated that

ScholarShare's market share within the industry has been increasing despite the current state of the economy and market volatility. Mr. Ciccariello added that there may be some other plans that are growing faster than ScholarShare. In response to the Board's request, Fidelity will work with Ms. Feirstein in gathering data about what other states are doing and how they are performing with regard to benchmarks and account and asset growth. The Board also discussed the possibility of exploring a tax benefit for ScholarShare and requested that Ms. Feirstein gather data about what other states are offering with regards to tax benefits.

**Board Agenda Item Number Eleven**  
**Fidelity Investments' College Savings Indicator**

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Due to time constraints, this item was not addressed at this meeting.

**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 3:34 p.m.

Respectfully submitted by,

Zeny Marie Agullana, Executive Director  
ScholarShare Investment Board