

**MINUTES
SCHOLARSHARE INVESTMENT BOARD**

March 27, 2009, 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, Director of Finance
Dena Wilson for Glen Thomas, Secretary of Education
Antoinette Chandler

Staff: Zeny M. Agullana, Executive Director, ScholarShare Investment Board (SIB)
Arlene Greene, Deputy Director, SIB
Stanley Zeto, SIB
Samantha Evans, SIB
Shana Adams, SIB
Kristin Smith, Staff Counsel, State Treasurer's Office

Consultants: Jeremy Thiessen, Senior Vice President, Pension Consulting Alliance, Inc. (PCA)
Andrea Feirstein, Managing Member, AKF Consulting LLC (AKF)

Fidelity: Joe Ciccariello, Vice President, College Planning, Fidelity Investments (Fidelity)
Jeff Troutman, Vice President, College Planning, Fidelity Investments
Institutional Services
Peter Mahoney, Vice President, Relationship Manager, Fidelity
Andrew Dierdorf, Portfolio Manager, Fidelity

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

Board Agenda Item Number One
Approval of Minutes from December 11, 2008 Meeting

The minutes from the December 11, 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 December 11, 2008 SIB meeting. The motion was seconded by Member Chandler and approved by the Board.

Board Agenda Item Number Two

Executive Director's Report

Mr. Stanley Zeto, SIB, provided updated account information for the ScholarShare Direct Plan and Advisor Plan. Mr. Zeto also provided updates on the Governor's Scholarship Programs (GSP), the California Memorial Scholarship (CMS) Program and the ScholarShare Project for Achievement and Recognition of Creativity (SPARC). Ms. Arlene Greene, SIB, provided an overview of recent ScholarShare outreach activities.

Ms. Zeny M. Agullana, SIB, provided an update on federal and state legislation. In response to Chair Wynne's inquiry regarding H.R. 1351, Ms. Agullana stated that there would be no program costs involved with additional exchanges. Mr. Jeff Troutman, Fidelity, added that there are currently few exchanges despite the recent change to allow investment exchanges twice a year in 2009. Member Ducay inquired about the state legislation impact of AB 1320 (Fong) on workload of SIB staff, to which Ms. Agullana responded that staff was looking into whether the bill is needed.

Member Ducay inquired about the costs associated with SB 323 (Oropeza). Ms. Agullana responded that the Franchise Tax Board would be reimbursed for costs to implement the tax form change, and that the reimbursement would be paid out of the ScholarShare administrative fund. Ms. Agullana added that a budget change proposal would be necessary to give SIB authority to allocate the funds.

Ms. Agullana noted that she is presently serving on two Boards, including the College Savings Foundation and the College Savings Plans Network. Ms. Agullana stated that it is highly beneficial to ScholarShare to serve on these Boards, as California brings a unique perspective to the table. Ms. Andrea Feirstein, AKF, added that California has great potential due to its size and diverse population.

Board Agenda Item Number Three

Resolution to:

- **Approve Contract Amendment to Agreement No. SIB 01-06 for Program Management Services for the Governor's Scholarship Programs; and**
 - **Issue a Request for Proposals for a Program Manager for the Governor's Scholarship Programs**
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Mr. Zeto reported that the current contract for program management services for GSP will expire at the end of June 2009. SIB staff recommends that the Board adopt Resolution No. 2009-01, authorizing the Executive Director to approve a contract amendment to Agreement No. SIB 01-06 extending the contract for one additional year, and to increase the maximum amount of the contract to ensure sufficient funds are available during the extension term. Mr. Zeto also stated that since this contract only allows for this one last extension, staff recommends that the Board adopt Resolution No. 2009-02, authorizing the Executive Director to issue a competitive request for proposals (RFP) for program management services for GSP. Ms. Greene added that SIB is continually looking for ways to minimize costs and build efficiencies in procedures and processes related to program administration and management.

Board Action:

Member Wilson moved to approve the item before the Board, Resolution No. 2009-01, authorizing the Executive Director to approve a contract amendment to Agreement No. SIB 01-06 for program management services for GSP. The motion was seconded by Member Ducay and approved by the Board.

Member Wilson moved to approve the item before the Board, Resolution No. 2009-02, authorizing the Executive Director to issue an RFP for a program manager for GSP. The motion was seconded by Member Chandler and approved by the Board.

Board Agenda Item Number Four
Resolution to Approve Changes to the ScholarShare Monitoring Procedures and Criteria

Mr. Jeremy Thiessen, PCA, highlighted the minor changes to the ScholarShare Monitoring Procedures and Criteria, which included updates to the investment status schedule, target date fund names, and indices.

Board Action:

Member Wilson moved to approve the item before the Board, Resolution No. 2009-03, approving changes to the ScholarShare Monitoring Procedures and Criteria. The motion was seconded by Member Chandler and approved by the Board.

Board Agenda Item Number Five
Resolution to Approve Changes to the Administrative Performance Criteria for the ScholarShare Direct Plan

Mr. Peter Mahoney, Fidelity, highlighted the proposed change to the Administrative Performance Criteria for the ScholarShare Direct Plan regarding Fidelity's call center timeliness. Member Chandler inquired about the cost savings regarding the benchmark and requested that additional details be brought back to the Board at the next meeting. In addition, Chair Wynne requested that information on customer service satisfaction be brought back to the Board. Mr. Mahoney responded that they will monitor customer satisfaction and will report back any feedback from the call center.

Board Action:

Member Wilson moved to approve the item before the Board, Resolution No. 2009-04, approving changes to the Administrative Performance Criteria for the ScholarShare Direct Plan. The motion was seconded by Member Chandler and approved by the Board.

Board Agenda Item Number Six
Resolution to Approve Contract Amendment to Agreement No. SIB 05-05 Relating to the Minimum Investment Levels

Mr. Troutman highlighted the proposed change to Agreement No. SIB 05-05 with regard to the removal of the minimum subsequent investment level for the ScholarShare Advisor Plan. Mr. Troutman stated that if approved by the Board, the change would be contingent upon the Fidelity Funds Board of Trustees approval in May 2009.

In response to Member Ducay's inquiry regarding any additional costs, Mr. Troutman responded that they anticipate costs to be minimal and they will not affect ScholarShare.

Board Action:

Member Wilson moved to approve the item before the Board, Resolution No. 2009-05, authorizing the Executive Director to enter into a contract amendment to Agreement No. SIB 05-05 relating to minimum investment levels. The motion was seconded by Member Chandler and approved by the Board.

Board Agenda Item Number Seven
Resolution Regarding Fidelity Investments' 2008 Marketing Performance for the ScholarShare Direct Plan

Ms. Agullana stated that this item was brought to the Board at the last meeting and the Board requested additional information which was subsequently provided in December 2008. Ms. Agullana stated that staff recommends that the Board adopt Resolution No. 2009-06 which approves the decision to not invoke financial consequences to Fidelity for not meeting the marketing performance criteria for program year 2.

Board Action:

Member Wilson moved to approve the item before the Board, Resolution No. 2009-06, regarding Fidelity's 2008 marketing performance for the ScholarShare Direct Plan. The motion was seconded by Member Chandler and approved by the Board.

Board Agenda Item Number Eight
Review and Analysis of Fidelity Investments' Investment Performance for the ScholarShare Advisor Plan for Fourth Quarter and Year End 2008

Mr. Thiessen presented PCA's "Advisor Plan Investment Performance Status Report" for fourth quarter 2008. Ms. Agullana stated that PCA has provided a memo reviewing the performance of the Active Fixed Income Asset Class due to underperformance, and that monitoring the performance of the portfolios is an important part of the Board's fiduciary responsibility.

Member Chandler had questions regarding shortening the rolling 12-month performance review timeframes with the current market condition in a state of uncertainty. Mr. Thiessen responded that PCA does not think it is necessary with the quarterly review of the rolling 12-month review currently in place.

Mr. Andrew Dierdorf, Fidelity, outlined Fidelity's internal procedures related to monitoring investment performance, risk management, and controls currently in place. Member Chandler inquired as to whether Fidelity is considering changes to which Mr. Dierdorf responded that Fidelity is utilizing third party software and meeting more frequently with management to ensure the portfolios are in correct position. If there is a significant stretch in the portfolio, Fidelity may reallocate funds in order to reduce risk to that portfolio.

Board Agenda Item Number Nine
Review and Analysis of Fidelity Investments' Investment Performance for the ScholarShare Direct Plan for Fourth Quarter and Year End 2008

Mr. Thiessen presented PCA's "Direct Plan Investment Performance Status Report" for fourth quarter 2008. Mr. Thiessen noted that while the market in general was plummeting during the fourth quarter, investment assets for ScholarShare were maintained primarily in index funds.

Mr. Dierdorf reviewed steps taken to address underperformance of the Active Domestic Equity Asset Class during fourth quarter 2008. These included heightened scrutiny, risk control, and different research procedures. Mr. Dierdorf noted that the addition of the Large Cap Core Enhanced Index Fund, making up 20% of the asset allocation, helped to diversify and to improve performance in 2008.

Board Agenda Item Number Ten
Review of Fidelity Investments' Administrative Performance for the ScholarShare Direct Plan for Fourth Quarter and Year End 2008

Mr. Mahoney reviewed Fidelity's "Quarterly Administrative Benchmark Performance" during fourth quarter 2008. Mr. Mahoney noted that during the fourth quarter, the market took a downturn which had a significant impact on administrative performance, including timeliness of email inquiries, new account set up accuracy, withdrawal timeliness, and call center answer time and abandonment rates.

Chair Wynne requested that Fidelity report back to the Board with raw figures and an explanation for underperformance. Member Ducay inquired about the call volume, the decrease in performance of the account set up accuracy, and the impact of errors made. Mr. Mahoney noted that increases in call volume in October, as well as changes in Fidelity's call center staff had an effect on performance. Mr. Mahoney stated that errors can cause delays and customer dissatisfaction and require follow up calls to customers.

Board Agenda Item Number Eleven
Review of Fidelity Investments' Marketing Performance for the
ScholarShare Advisor Plan for Year End 2008

Ms. Feirstein provided an overview of marketing performance from a national perspective and noted that California's performance in terms of account and asset growth are remarkable and have exceeded the national averages.

Mr. Troutman highlighted Fidelity's 2008 marketing results for the ScholarShare Advisor Plan. Mr. Troutman noted that ScholarShare is one of the only advisor plans nationally with positive asset growth during 2008.

Board Agenda Item Number Twelve
Review of Fidelity Investments' Marketing Performance for the
ScholarShare Direct Plan for Year End 2008

Mr. Mahoney reviewed Fidelity's 2008 marketing results for the ScholarShare Direct Plan. Member Chandler inquired about whether communication in terms of direct mail and eNewsletters to participants addressing the current state of the economy would be continued in the future. Mr. Mahoney stated that providing participants with perspective on the current state of the market is beneficial and that Fidelity will continue this type of communication in the future, by sending participants customer appreciation letters, reminding them that Fidelity advisors are available to discuss portfolio positions and concerns, and market conditions. Mr. Mahoney noted that since inception of Fidelity management, 65 percent of account owners have set up an automatic investment plan.

Chair Wynne inquired about whether the PBS online advertising is cost effective. Mr. Mahoney responded that it is worth the cost and is important. Member Ducay inquired about the possibility of marketing on Facebook. Mr. Mahoney stated that Fidelity will check with their marketing team and report back to the Board.

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 3:50 p.m.

Respectfully submitted by,

Zeny M. Agullana, Executive Director
ScholarShare Investment Board