

**MINUTES**  
**SCHOLARSHARE INVESTMENT BOARD**

**October 15, 2009, 1:00 p.m.**

Chair Patricia Wynne called the meeting to order at 1:01 p.m.

Present: Patricia Wynne for Bill Lockyer, State Treasurer  
Thomas Sheehy for Michael C. Genest, Department of Finance  
(departed at 1:25 pm)  
Amy Turnipseed for Glen Thomas, Office of the Secretary of Education  
Antoinette Chandler  
Denise Fairchild  
Allison Jones

Staff: Zeny M. Agullana, Executive Director, ScholarShare Investment Board  
(SIB or Board)  
Arlene Greene, Deputy Director, SIB  
Stanley Zeto, SIB  
Brian K. Aguilar, SIB  
Sue Lim, SIB  
Samantha Smith, 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: Jeff Troutman, Vice President, College Planning, Fidelity Investments  
Institutional Services  
Peter Mahoney, Vice President, Relationship Manager, Fidelity Investments  
(Fidelity)  
Christopher Sharpe, Portfolio Manager, Fidelity

**Board Agenda Item Number One**  
**Approval of Minutes from August 20, 2009 Meeting**

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The minutes from the August 20, 2009 SIB meeting were presented to the Board.

**Board Action:**

Member Sheehy moved to approve the item before the Board, the minutes from the August 20, 2009 SIB meeting. The motion was seconded by Member Chandler and approved by the Board.

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

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Ms. Zeny Agullana, SIB, provided an update on outreach events that took place during College Savings Month in September. Ms. Arlene Greene, SIB, provided updated information for the Governor's Scholarship Programs (GSP) and reported that 4,000 letters were sent out to award recipients with low balance accounts requesting a voluntary forfeiture of funds. GSP funds that are forfeited would revert to the General Fund.

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

**Board Agenda Item Number Three**  
**Resolution to Approve Amendment to Agreement No. SIB 05-07 for 529 Industry Consulting Services for the ScholarShare Investment Board**

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Ms. Agullana presented Resolution No. 2009-11, authorizing the Executive Director to approve an amendment to Agreement No. SIB 05-07 to extend the term for one additional year and to increase the maximum amount of the contract to ensure sufficient funds are available during the extension term of the contract. Member Chandler suggested that the Board give consideration to developing evaluation criteria in order to measure the contractor's performance. Ms. Greene stated that SIB staff plans to develop evaluation criteria with input from the Board. Chair Wynne concurred and recommended that evaluation criteria be included in future RFPs.

*Board Action:*

Member Sheehy moved to approve the item before the Board, Resolution No. 2009-11, approving the amendment to Agreement No. SIB 05-07. The motion was seconded by Member Jones and approved by the Board.

**Board Agenda Item Number Four**  
**Resolution to Approve Amendment to Agreement No. SIB 06-07 for Investment Consulting Services for the ScholarShare Investment Board**

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Ms. Agullana presented Resolution No. 2009-12, authorizing the Executive Director to approve an amendment to Agreement No. SIB 06-07 to extend the term for one additional year and to increase the maximum amount of the Contract to ensure sufficient funds are available during the extension term of the contract.

*Board Action:*

Member Sheehy moved to approve the item before the Board, Resolution No. 2009-12, approving the amendment to Agreement No. SIB 06-07. The motion was seconded by Member Chandler and approved by the Board.

**Board Agenda Item Number Five**

**Resolution to Approve Program Changes to the ScholarShare Direct Plan and Advisor Plan**

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Ms. Agullana provided a brief overview of Agenda Items 5, 6 and 7 and noted that Agenda Items 5 and 6 would be presented together, but voted on separately.

Mr. Peter Mahoney, Fidelity, presented Fidelity's "ScholarShare Program Review" which provided an overview of the recommended program changes to pricing, market performance criteria (benchmarks) and investment product and design.

Member Sheehy inquired if there were plans for a guaranteed product. Mr. Mahoney stated that Fidelity is working to provide an FDIC-insured product during the second or third quarter of 2010. Member Fairchild inquired about the current ScholarShare portfolios and how they were performing. Mr. Mahoney stated that 70% of ScholarShare participants are in an age-based portfolio, noting that they took advantage of the recent market changes. Member Chandler inquired about the possible impact if participants were restricted to make investment changes just once a year. Chair Wynne clarified by asking how many participants change their investments during the year. Mr. Jeff Troutman, Fidelity, noted that exchange activity has not been excessive, and parents tend not to change their investments.

Member Chandler inquired about how ScholarShare could move forward with a tax deduction benefit. Chair Wynne concurred that a tax benefit is necessary to stay competitive, however, with the current budget situation, it is highly unlikely that California would be able to offer such a benefit. Chair Wynne also stated that it would be beneficial to hire a consultant to demonstrate how having educated California residents would be beneficial to the State. Member Chandler inquired if SIB should at least evaluate the short and long-term advantages of a tax incentive. Member Jones added that now is probably not the right time and that two to three years out might be more appropriate. Ms. Agullana suggested that in addition to a tax incentive, SIB should look at financial aid exemptions and bank-insured options to remain competitive.

Member Fairchild inquired as to why Nevada had a higher market share than California. Ms. Andrea Feirstein, AKF, stated that Nevada is the national plan for Vanguard and is a direct competitor to Fidelity. Member Fairchild also inquired about the cost of college and affordability in California when other states, such as New York, have higher education costs. Member Jones noted that there has been a large fiscal crisis in California, making it difficult to keep costs down.

Mr. Mahoney reported that the proposed fee reductions are competitive with the fee reductions in Ohio. Mr. Troutman added that there are 36 advisor plans nationwide and that pricing is not a driving factor for advisors.

Mr. Mahoney discussed the new Comprehensive Employee Solutions program which will connect Registered Investment Advisors (RIAs) to ScholarShare and Fidelity with an anticipated rollout in 2010. Member Chandler inquired about how success would be measured in 2011 and

stated that the Board should look into online messaging, seminars, and direct mail. Mr. Mahoney responded that success would be measured with the pricing structure revisions.

Member Jones and Member Fairchild inquired about the impact of these fee reductions. Mr. Mahoney stated that over five years the loss to SIB and Fidelity would be approximately \$11 million and \$24 million, respectively. Ms. Agullana stated that although there would be a decrease in revenue to SIB, there would be no significant impact on SIB's administration of the program. Member Chandler inquired about how ScholarShare's current breakdown of accounts with 83% in index portfolios and 17% in actively managed portfolios compares with other Fidelity-managed 529 plans and whether there were any 529 plans with a 50/50 or 40/60 breakdown. Mr. Mahoney responded that reducing fees on the index side would have more of an impact on program participation than on the active side and that many of the older 529 plans reduce fees more from the active side. Ms. Feirstein stated that all accounts are in index portfolios through Vanguard and that the plan is not as competitive as others.

Chair Wynne asked Ms. Feirstein for her thoughts on the proposed program changes. Ms. Feirstein stated that without the pricing changes, ScholarShare would not remain competitive and noted the benefit of reducing fees was obtained without having to extend the current contract with Fidelity. Ms. Feirstein also noted that additional changes will be needed in 2011 to remain competitive as other 529 plans will most likely reduce their fees next year.

In response to Member Jones' inquiry regarding the marketing funds, Ms. Agullana stated that \$500,000 of Fidelity's \$5.5 million annual marketing commitment would be under SIB's direct control. Ms. Feirstein also added that SIB's control of the \$500,000 marketing budget needs to remain intact.

**Board Action:**

Member Jones moved to approve the item before the Board, Resolution No. 2009-13, approving program changes to the ScholarShare Direct Plan and Advisor Plan. The motion was seconded by Member Chandler and was approved by the Board.

**Board Agenda Item Number Six**  
**Resolution to Approve Marketing Performance Criteria for the ScholarShare Direct Plan**

The Benchmarks for the ScholarShare Direct Plan were presented during Agenda Item 5.

Member Fairchild expressed concern over what marketing areas would be affected by the reduction of the marketing budget. It was also noted that we need to continue to monitor and note any red flags. Member Jones stated that the ability to monitor marketing will remain intact and be regularly reviewed by the Board.

**Board Action:**

Member Jones moved to approve the item before the Board, Resolution No. 2009-14, approving the Benchmarks for the Direct Plan for Program Years 4 and 5, and changes to the Benchmarks

for the Direct Plan for Program Year 3. The motion was seconded by Member Chandler and approved by the Board.

**Board Agenda Item Number Seven**

**Resolution to Approve Investment Changes to the ScholarShare Direct Plan and Advisor Plan**

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Mr. Christopher Sharpe, Fidelity, presented Fidelity's "529 Age-Based Portfolios Proposed Investment Changes" and stated that Fidelity is proposing changes to the ScholarShare Direct Plan and Advisor Plan as they relate to asset allocation and portfolio construction.

Member Chandler confirmed that the time period being reviewed is zero to age twenty-two and inquired what period of time was being back-tested. Mr. Sharpe noted that the analysis was from the point of matriculation on, and then back tested from 1973 to 2009. Member Chandler clarified that the international equity exposure was proposed to increase up to 30% and inquired that from a risk/reward statement, how is the overall portfolio performance being evaluated. Mr. Sharpe noted that Fidelity does not move the return line and that the portfolio is more efficient and represents developed international markets.

Member Fairchild expressed concern over under-investing in domestic and emerging domestic markets. Member Jones noted that the Board has a fiduciary responsibility regarding return rates. Mr. Jeremy Thiessen, PCA, addressed the social investing issue, noting that increasing international equity and adding emerging markets is consistent with the rest of the institutional world. Mr. Thiessen also stated that the most growth is likely to be seen in the international markets. Member Chandler inquired about increases in other 529 plans. Mr. Thiessen noted that typically pension plans invested 70% in U.S. markets with only 30% non-U.S. equities and that recently, most plans have moved from U.S. equities to global equities with a 50/50 investment. Member Chandler inquired about the split between emerging and developed markets in non-U.S. equities. Mr. Thiessen noted that non-U.S. equities are on average 15% emerging market. Ms. Feirstein added that the Utah 529 plan moved from a 0% international allocation to a 10% international option and a 30% international option. Mr. Thiessen noted that the changes widen the investment opportunities.

**Board Action:**

Member Jones moved to approve the item before the Board, Resolution No. 2009-15, approving investment changes to the ScholarShare Direct Plan and Advisor Plan. The motion was seconded by Member Chandler and approved by 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 3:55 p.m.

Respectfully submitted by,

Zeny M. Agullana, Executive Director  
ScholarShare Investment Board