

**MINUTES
SCHOLARSHARE INVESTMENT BOARD**

December 10, 2009, 1:00 p.m.

Chair Patricia Wynne called the meeting to order at 1:08 p.m.

Present: Patricia Wynne for Bill Lockyer, State Treasurer
Thomas Sheehy for Michael C. Genest, Department of Finance
Amy Turnipseed for Glen Thomas, Office of the Secretary of Education
Antoinette Chandler

Staff: Zeny M. Agullana, Executive Director, ScholarShare Investment Board
(SIB or Board)
Arlene Greene, Deputy Director, SIB
Sue Lim, SIB
Samantha DeAnda, SIB
Samantha Smith, 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 (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
Sharon Rogers, Marketing Director, Fidelity

Board Agenda Item Number One
Approval of Minutes from October 15, 2009 Meeting

The minutes from the October 15, 2009 SIB meeting were presented to the Board.

Board Action:

Member Sheehy moved to approve the item before the Board, the minutes from the October 15, 2009 SIB meeting. The motion was seconded by Member Chandler and approved by the Board.

Board Agenda Item Number Two

Executive Director's Report

Ms. Zeny Agullana, SIB, provided an update on recent marketing and outreach efforts. Ms. Arlene Greene, SIB, provided updated account and asset information for the ScholarShare College Savings Plan (Direct Plan) and ScholarShare Advisor College Savings Plan (Advisor Plan) and updated information for the Governor's Scholarship Programs (GSP), reporting that 79 of the 2,000 low balance accounts have been closed.

Board Agenda Item Number Three

Review of Fidelity Investments' Marketing Update for the ScholarShare Advisor Plan

Mr. Jeff Troutman, Fidelity, presented Fidelity's "Marketing Update" for the Advisor Plan, which provided an overview of the marketing efforts that took place during the last quarter of 2009, and would continue through the first quarter of 2010. Mr. Troutman stated that a detailed 2010 marketing plan will be addressed at the next Board meeting.

Mr. Troutman reported that there was positive growth in the Advisor Plan during third quarter 2009.

Member Sheehy inquired about accelerated gifting. Mr. Troutman stated that 529 plans are sheltered from gift taxes, noting that a gift of up to five years worth of contributions can be gifted at one time without penalty and that currently individuals are allowed a maximum annual contribution of \$13,000 while couples are allowed a maximum annual contribution of \$26,000.

Board Agenda Item Number Four

Review of Fidelity Investments' 2010 Marketing Plan for the ScholarShare Direct Plan

Ms. Sharon Rogers, Fidelity, presented Fidelity's "2010 Marketing Plan" for the Direct Plan, outlining marketing objectives and strategies for the upcoming year. Chair Wynne inquired about existing ScholarShare participants and what efforts Fidelity would be implementing to encourage them to contribute more to their accounts. Ms. Rogers stated that there are marketing efforts that will focus on the existing customer base and that existing participants are more likely to open more new 529 accounts.

Member Chandler inquired about ethnic marketing and if it was only targeting the Hispanic market or if other diverse groups were being targeted. Member Chandler also inquired about what was driving the discussion on ethnic marketing targeting Hispanic populations. Ms. Rogers stated that the effort was intended to add Spanish-specific materials, noting that Fidelity is testing the impact on other diverse groups, looking into pilot programs, and addressing specific language barriers. Ms. Agullana responded that the decision was based on research showing that the Hispanic and Spanish-speaking population is the largest growing group in California. Ms. Agullana also noted that it is SIB's intention to do outreach to other diverse populations.

Member Sheehy inquired how the amount of awareness is measured from local marketing events such as athletic events. Ms. Rogers stated that Fidelity is working to develop metrics to measure the success of these local efforts and that metrics like attendance are used to track event success. Peter Mahoney, Fidelity, added that Fidelity is striving for quality interaction, not just distribution of collateral at these events. Member Chandler inquired if there was a correlation between the number of events and the number of new accounts opened. Mr. Mahoney stated that account information by zip code is compared to events month-to-month and that the comparison should provide a trend indication.

Member Chandler inquired if and how leads were currently being tracked. Mr. Mahoney stated that a lead follow up system could be in place in 2011. Member Turnipseed inquired about tracking contacts with diverse populations at events. Mr. Mahoney stated that Fidelity will look into a system.

Member Sheehy inquired how the athletic teams, such as the Anaheim Angels and the San Diego Padres, were specifically chosen. Mr. Mahoney stated that Major League Baseball has a large presence in Southern California where the California 529 brand penetration is lower than in Northern California. Member Sheehy inquired about what type of advertising was done at athletic events. Mr. Mahoney stated that LED banners and Jumbotron ads were used along with the distribution of ScholarShare branded material. Member Sheehy inquired if Fidelity was looking at Minor League Baseball teams for marketing. Ms. Rogers stated that Fidelity would explore options.

Member Turnipseed inquired about click-through tracking and how long people remained on the website. Ms. Rogers stated that activity is tracked including when a new account is opened. Member Turnipseed inquired about the Pandora Radio marketing effort and if music genres were tracked. Ms. Rodgers stated it is something that Fidelity will look into tracking.

Member Sheehy inquired about the Google Content Network. Ms. Rogers stated that the network allows the purchase of bulk ad space resulting in decreased costs. Member Sheehy requested clarification on search engines. Ms. Rogers stated that search engines are very cost efficient and yield the best results. Ms. Rogers also noted that due to the recent fee reductions there will most likely be increased traffic.

Ms. Rogers noted that there are two marketing campaigns for the Direct Plan; one focusing on existing customers and another focusing on new prospects. Ms. Greene inquired where the focus groups were going to be conducted and noted that SIB would like to be involved. Ms. Rogers stated that focus groups had not been scheduled yet, but that SIB would be included.

Member Sheehy inquired if there were ways to provide an incentive for California residents to rollover funds from other state 529 plans into a ScholarShare account. Mr. Mahoney stated that Fidelity will look into incentives, but noted that there could be regulatory issues that would prevent incentives. Mr. Joe Ciccariello, Fidelity, added that in terms of incentives, a \$50 Target gift card is currently available to individuals opening new accounts and that Fidelity is limited to \$100 worth of gifts per year.

Board Agenda Item Number Five
Review and Analysis of Fidelity Investments' Investment Performance for the ScholarShare Advisor Plan for Third Quarter 2009

Mr. Jeremy Thiessen, PCA, presented PCA's "Advisor Plan Investment Performance Status Report" for third quarter 2009. Mr. Thiessen noted that seven asset classes had improved while nine remained unchanged, noting the dramatic improvement in many of the funds. Mr. Thiessen reported that the greatest improvement was seen in the fixed income and bond funds. In response to Member Sheehy's inquiry, Mr. Thiessen provided clarification on how a portfolio's status would move from acceptable to caution.

Mr. Sheehy inquired as to why there are different funds for the Direct Plan and Advisor Plan. Mr. Andrew Dierdorf stated that the fund in the Direct Plan is a direct retail outlet to customers, whose needs are less sophisticated, while the fund in the Advisor Plan is in place to meet the diverse needs of advisors. Ms. Andrea Feirstein, AKF, also noted the potential conflict with advisors selling retail funds when customers can buy retail funds direct without paying advisor fees.

Mr. Thiessen noted that the High Income Portfolio was 14% less volatile than the benchmark and that Fidelity will continue to monitor the fund. Mr. Dierdorf provided an overview of Fidelity's "Investment Performance Review" for the Advisor Plan for third quarter 2009 noting that high risk products have performed well and are outperforming their benchmarks. Mr. Dierdorf also noted that the one-year return through the third quarter was even on a return basis.

Board Agenda Item Number Six
Review and Analysis of Fidelity Investments' Investment Performance for the ScholarShare Direct Plan for Third Quarter 2009

Mr. Thiessen presented PCA's "Direct Plan Investment Performance Status Report" for third quarter 2009. Mr. Thiessen noted that the status for three portfolios had improved while the status for the remaining eight portfolios was unchanged. Mr. Thiessen reported that the Active Short-Term Asset Class remained in caution status, and that both PCA and Fidelity will continue to monitor the fund's progress moving forward. Mr. Thiessen stated that during times of high volatility, tracking error has increased in the Passive International Equity Asset Class. Chair Wynne inquired if there would be three years of historical data next year. Mr. Thiessen stated that this would occur during the first quarter of 2010.

Mr. Dierdorf provided an overview of Fidelity's "Investment Performance Review" for the Direct Plan for third quarter 2009. Mr. Dierdorf reported that the Direct Plan experienced a positive rebound. Member Sheehy inquired about the difference between actively-managed and index funds. Mr. Dierdorf stated that the bond allocations account for the difference.

Board Agenda Item Number Seven
Review of Fidelity Investments' Administrative Performance for the ScholarShare Direct Plan and Advisor Plan for Third Quarter 2009

Mr. Mahoney presented Fidelity's "Administrative Performance Report" for the ScholarShare Direct Plan for the third quarter 2009. Additionally, Mr. Troutman reported that Fidelity did not underperform any of the administrative performance criteria for the Advisor Plan.

Board Agenda Item Number Eight
2010 ScholarShare Investment Board Meeting Calendar

Ms. Greene presented the 2010 SIB meeting calendar and requested that the Board provide input on availability. Member Sheehy requested that the tentatively scheduled SIB meeting in May be moved one week due to state budget issues. Ms. Greene stated that a final meeting calendar will be provided to the Board in January 2010.

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 3:04 p.m.

Respectfully submitted by,

Zeny M. Agullana, Executive Director
ScholarShare Investment Board