

**MINUTES
SCHOLARSHARE INVESTMENT BOARD**

March 11, 2010, 1:00 p.m.

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

Present:

Members: Patricia Wynne for Bill Lockyer, State Treasurer
Cynthia Bryant for Ana J. Matosantos, Director of Finance
Antoinette Chandler
Denise Fairchild
Lawrence Hershman
Allison Jones

Staff: Zeny M. Agullana, Executive Director, ScholarShare Investment Board
(SIB or Board)
Arlene Greene, Deputy Director, SIB
Stanley Zeto, SIB
Sue Lim, SIB
Brian K. Aguilar, SIB
Samantha DeAnda, SIB
Joyce Eriksson, SIB
Brian Gorban, SIB
Kristin Smith, Staff Counsel, State Treasurer's Office
Michelle Inan, Attorney General'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 (FIIS)
Peter Mahoney, Vice President, Relationship Manager, Fidelity
Julie Ravech, Vice President, Marketing, FIIS
Chris Sharpe, Portfolio Manager, Fidelity

Chair Wynne declared a quorum present at 1:10 PM

Board Agenda Item Number One
Approval of Minutes from December 10, 2009 SIB Meeting

The minutes from the December 10, 2009 SIB meeting were presented to the Board.

Board Action

Member Fairchild moved to approve the item before the Board, the minutes from the December 10, 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. Arlene Greene, SIB, introduced SIB staff and welcomed two new Board members, Mr. Lawrence Hershman, Governor's appointee representing the California Student Aid Commission, and Ms. Cynthia Bryant, representing the Department of Finance. Mr. Stanley Zeto, SIB, provided an update on the ScholarShare accounts and assets and the Governor's Scholarship Programs (GSP). Ms. Zeny Agullana, SIB, highlighted new and continuing marketing and outreach efforts that SIB staff has been working on during the last few months. Ms. Agullana also stated that Member Chandler served on a panel at the College Savings Foundation Conference in February. Ms. Greene provided an update on the Cal SAVE program and stated that SIB is moving forward with funding two pilot research projects related to Cal SAVE, one with a California State University and one with a community college. Member Fairchild requested that a school in Southern California be considered citing the high concentration of foster children in the area. Ms. Greene replied that educational agencies in all parts of the State would be considered for the pilot project.

Board Agenda Item Number Three
Resolution to Enter into Contract with Program Manager for the Governor's Scholarship Programs

Mr. Zeto reported that the current contract with TIAA-CREF Tuition Financing, Inc. (TFI) for program management services for GSP expires on June 30, 2010 and a competitive request for proposals (RFP) was released in January. Mr. Zeto stated that the contract was awarded to TFI and is for five years with two one-year extension options. Ms. Agullana noted that the contract reflects a reduction in cost to the General Fund, and that SIB will continue to work towards the goal to decrease program costs.

Board Action:

Member Bryant moved to approve the item before the Board, Resolution No. 2010-01, authorizing the Executive Director to enter into contract with TFI for program management services for GSP. The motion was seconded by Member Chandler and approved by the Board.

Board Agenda Action Item Number Four
Resolution to Issue Request for Proposals for Investment Consulting Services for the ScholarShare Investment Board

Mr. Zeto stated that Agenda Items 4 and 5 would be presented together, but voted on separately. Mr. Zeto reported that the current contract with PCA for investment consulting services expires in April 2011. Chair Wynne inquired about the duration of the existing contracts for investment consulting and 529 industry consulting services. Mr. Zeto responded that the existing contracts were for two years, with options to extend for one year. Member Chandler expressed interest in assisting with the development of performance measures for inclusion in future contracts and SIB staff invited Board members to participate in the process if they were interested.

Member Bryant inquired about why staff is requesting Board approval to issue the RFPs over a year before the contract is set to expire. Ms. Agullana replied that due to staff workload and the time it takes to draft the RFP, it is important to get an early start. Ms. Greene added that the RFPs wouldn't be released until late-fall or early-winter, but that it is necessary to obtain the Board's approval to begin the RFP preparation process.

Board Action:

Member Jones moved to approve the item before the Board, Resolution No. 2010-02, authorizing the issuance of a RFP for investment consulting services. The motion was seconded by Member Bryant and approved by the Board.

Board Agenda Item Number Five
Resolution to Issue Request for Proposals for 529 Industry Consulting Services for the ScholarShare Investment Board

Mr. Zeto reported that the current contract with AKF for 529 industry consulting services expires in April 2011.

Board Action

Member Hershman moved to approve the item before the Board, Resolution No. 2010-03, authorizing the issuance of a RFP for 529 industry consulting services. The motion was seconded by Member Fairchild and approved by the Board.

Board Agenda Item Number Six
Resolution to Approve the Continued Offering of the Guaranteed Option in the ScholarShare Direct Plan

Ms. Agullana stated that pursuant to SIB's contract with Fidelity, if at the end of May 2010, total assets in the Guaranteed Option in the ScholarShare Direct Plan are \$100 million or more, the Board shall have the option to explore another funding agreement for that option. The fund currently has \$152 million in assets with approximately 21,000 accounts. Ms. Agullana stated the

SIB staff and PCA have reviewed other options and recommend that the Guaranteed Option continue to be offered through a funding agreement with TIAA-CREF Life Insurance Company. Member Chandler inquired about the impact to future benefits for the participants invested in the Guaranteed Option if we hit the 1% guaranteed minimum floor. Mr. Allan Emkin, PCA, stated that this option would continue to be competitive in today's market even if it went to 1% and that the impact would be no different than any other investment that is subject to general interest rates. Member Chandler requested that the Board and SIB staff be notified by PCA on the TIAA General Account if there is any potential deterioration. Ms. Agullana mentioned that PCA also monitors the GSP and will continue to monitor the health of the TIAA General Account.

Board Action:

Member Jones moved to approve the item before the Board, Resolution No. 2010-04, authorizing the Executive Director to take the necessary steps to continue offering the Guaranteed Option in the ScholarShare Direct Plan to participants currently invested in that option. The motion was seconded by Member Chandler and approved by the Board.

Board Agenda Item Number Seven

Resolution to Approve Contract Amendment to Agreement No. SIB 05-05 Relating to the Money Market Portfolio

Ms. Agullana reported that Fidelity is requesting that SIB share in the reduction of the program management fees as it relates to the Money Market portfolios. Mr. Mahoney stated that the portfolio currently exhibits a negative yield to investors, net of fees, and that Fidelity has reduced its program management fee to a level that brings the yield, net of fees, to zero. Mr. Mahoney added that Fidelity will continue to reduce its fee, as necessary, and has proposed that beginning July 1, 2010, SIB split the fee reduction equally with Fidelity. Member Chandler inquired if there is an opportunity to negotiate the investment expense ratio and if there are other options available for participants. Mr. Emkin recommended that Fidelity provide additional information to the Board, but that this information, as a form of background, would not affect today's decision.

Member Chandler inquired as to whether the two funds are managed so differently to justify the difference in fees. Mr. Chris Sharpe, Fidelity, provided an explanation on the difference between the two funds. Ms. Andrea Feirstein, AKF, stated that she has not seen another plan where the state is splitting fees with the program manager in these instances. Ms. Feirstein stated she was unaware that the retail share class was being used in the ScholarShare Direct Plan, as the owner of the 529 share is the Trust. Member Chandler inquired as to why SIB is not considered an institutional investor and stated that this information may impact the Board's decision to agree to a fee split. The Board agreed that this item be postponed until additional information was provided. Mr. Mahoney stated that Fidelity would provide more information to the Board on the share class at the June meeting and Chair Wynne stated that this item be revisited at that time.

Board Agenda Item Number Eight
Update on the Fidelity S&P 500 Index Fund Merger

Mr. Jeremy Thiessen, PCA, stated that two of Fidelity's funds indexed to the S&P 500, the Fidelity 500 Index Fund and Fidelity Spartan U. S. Equity Index Fund, were merged in late-January and will retain the Fidelity Spartan 500 Index name. Mr. Thiessen added that Fidelity and PCA believe that the merger of the two funds would have no impact as they contain substantially identical holdings.

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

Mr. Thiessen presented PCA's "Fund Performance Status Report" for the ScholarShare Advisor Plan for fourth quarter 2009. Mr. Emkin stated that what happened in 2009 is a good start, but it will still take many years to repair the market downturn. Mr. Thiessen stated that many of the funds have improved quarter to quarter. Mr. Emkin added that last year, the majority of the funds were in "caution status" and that it is important to remember that this is a dramatic transition. PCA stated that it will continue to closely monitor the portfolios.

Ms. Fairchild expressed concern about the International Equity Portfolio and inquired if the investment change to increase allocation to international equity had been completed. Mr. Chris Sharpe, Fidelity, stated that the funds are migrated over a 12-month period.

Mr. Sharpe presented Fidelity's "Investment Performance Review" for the ScholarShare Advisor Plan for fourth quarter 2009.

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

Mr. Thiessen presented PCA's "Fund Performance Status Report" for the ScholarShare Direct Plan for fourth quarter 2009.

Mr. Sharpe presented Fidelity's "Investment Performance Review" for the ScholarShare Direct Plan for fourth quarter 2009. Mr. Sharpe provided an update on the market and stated that most factors were viewed as improvements in 2009 even if some areas remained challenging on an absolute basis.

Board Agenda Item Number Eleven
Review of Fidelity Investments' 2009 Marketing Performance for the ScholarShare Direct Plan

Mr. Mahoney presented Fidelity's "2009 Marketing Results" for the ScholarShare Direct Plan which detailed Fidelity's marketing performance relative to the marketing performance criteria, (Benchmarks), and the results of its marketing efforts which include advertising, direct mail, local market development and public relations. Mr. Mahoney stated that as required in the Benchmarks, Fidelity will increase its marketing budget for 2010 by \$100,000 in 2010 due to a 0.5% decrease in ScholarShare's asset-based market share.

Member Fairchild inquired about the ad content of the marketing pieces and whether there has been an analysis done on the Fidelity-initiated messaging as compared to its competitors. Mr. Mahoney stated that Fidelity has increased the messaging around "value" and "guidance" and that it is one of the lowest cost providers in the industry. Mr. Joe Ciccariello, Fidelity, stated that additional analysis can be provided to the Board. Member Fairchild inquired about where ScholarShare participants are within the state so that marketing resources can be concentrated in specific areas. Mr. Mahoney stated that Fidelity is in the process of collecting this information and will provide a report to the Board within the next few months.

Board Agenda Item Number Twelve
Review of Fidelity Investments' 2009 Marketing Performance and 2010 Marketing Plan for the ScholarShare Advisor Plan

Ms. Julie Ravech, FIIS, presented Fidelity's "2009 Sales and Marketing Review" and "2010 Sales and Marketing Plan" for the ScholarShare Advisor Plan which provided an overview of its marketing and sales results for 2009 and strategies, approaches, and activities for 2010. Member Chandler inquired about having a conversation with advisors to see why they are not selling the ScholarShare Plan. Ms. Ravech stated that 529s were seen by advisors as labor intensive with a low return on investment. Mr. Ciccariello added that the recent College Savings Indicator study showed that as the cost of college increased, the money being saved by families continue to decrease. Ms. Ravech stated that Fidelity is continuing sales integration for all marketing campaigns. Member Chandler recommended that Fidelity provide brief 529 points for its advisors to focus on the basics, while emphasizing asset growth and credibility.

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

Mr. Mahoney presented its "Quarterly Administrative Performance Report" for the ScholarShare Direct Plan for fourth quarter 2009 reporting that Fidelity underperformed the benchmark by more than two percent in two performance areas related to email inquiries timeliness. Mr. Mahoney stated that the underperformance was due to a new scheduling update and technology upgrade, which Fidelity feels will increase efficiencies going forward. For the Board's

information, Mr. Troutman presented Fidelity's "Quarterly Administrative Performance Report" for the Advisor Plan for fourth quarter 2009.

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 3:48 p.m.

A closed item session was held. No action taken.

Respectfully submitted by,

Zeny M. Agullana, Executive Director
ScholarShare Investment Board