

MINUTES
SCHOLARSHARE INVESTMENT BOARD

June 10, 2010, 1:00 p.m.

Chair Patricia Wynne called the meeting to order at 1:05 p.m.

Present:

Members: Patricia Wynne for Bill Lockyer, California State Treasurer
Cynthia Bryant for Ana J. Matosantos, Director of Finance
Anne McKinney for Bonnie Reiss, Secretary of Education
Lawrence Hershman
Allison Jones (via teleconference)

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
Joyce Eriksson, SIB
Kristin Smith, Staff Counsel, State Treasurer's Office (STO)

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

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
Andrew Dierdorf, Portfolio Manager, Fidelity

Chair Wynne declared a quorum present.

Board Agenda Item Number One
Approval of Minutes from March 11, 2010 ScholarShare Investment Board Meeting

The minutes from the March 11, 2010 SIB meeting were presented to the Board.

Board Action

Member Bryant moved to approve the item before the Board, the minutes from the March 11, 2010 SIB meeting. The motion was seconded by Member McKinney and approved by the Board.

Board Agenda Item Number Two
Executive Director's Report

Mr. Stanley Zeto, SIB, provided updated account and asset numbers for the ScholarShare College Savings Plan (Direct Plan) and ScholarShare Advisor College Savings Plan (Advisor Plan).

In regards to federal legislation, Ms. Zeny Agullana, SIB, stated that Treasurer Lockyer wrote a letter to the California delegation requesting support of H.R. 1351, (Pomeroy), and provided an update on H.R. 4178 (Clever) that would amend the Federal Deposit Insurance Act to allow states to offer 529 college savings plans incorporating Federal Deposit Insurance Corporation insured bank accounts.

Ms. Agullana stated that staff is preparing for College Savings Month in September, with 40-50 events planned throughout the state from August through October. Ms. Arlene Greene, SIB, highlighted a few of the outreach events that SIB has been coordinating including efforts with alumni associations at UCLA and USC and three minor league baseball teams, as recommended by a previous Board Member. Ms. Greene reported that as part of SIB's partnership with Telemundo, SIB staff and Member Chandler participated in the Hispanic Business Salute 2010 event in San Francisco.

Mr. Zeto provided updated account information on the Governor's Scholarship Programs (GSP) and provided an update on the status of SIB's contracts for audit services and program management services for GSP.

Ms. Agullana provided the dates for the remaining Board meetings in 2010 and requested that the Board let staff know if there were any conflicts with the scheduled dates. Member Wynne stated that with Member Denise Fairchild resigning as a Board Member to pursue other opportunities outside of California, it is important Board Members are present at the meetings to maintain a quorum.

Board Agenda Item Number Three
Resolution to Approve an Interagency Agreement with the State Treasurer's Office for Administrative Services for Fiscal Year 2010-2011

Mr. Zeto presented Staff's recommendation that SIB adopt the Resolution No. 2010-06 approving an interagency agreement with the STO for administrative services for fiscal year 2010-2011.

Board Action

Member Hershman moved to approve the item before the Board, Resolution No. 2010-06, approving an interagency agreement with the STO for administrative services for fiscal year 2010-2011. The motion was seconded by Member Bryant and approved by the Board.

Board Agenda Item Number Four
Resolution to Approve Regulations for the California ScholarShare Advancement Vehicle for Education Program

Ms. Greene stated that staff has been working on the California ScholarShare Advancement Vehicle for Education (CalSAVE) Program regulations. Ms. Greene stated that pending Board approval, the CalSAVE regulations would be submitted to the Office of Administrative Law (OAL) for approval and re-posting to the website for public comment.

Member Wynne inquired about how the youth eligibility had been addressed within the regulations. Mr. Brian K. Aguilar, SIB, explained that the foster youth group was being explored as a beneficiary group and that other groups may be considered at a later date which would require Board approval. Mr. Aguilar added that the regulations are broad to provide flexibility as other beneficiary groups are determined and used in the future.

Mr. Aguilar discussed two research projects which will help SIB determine how former foster youth will utilize college savings plans to assist them in attaining higher education goals. Mr. Aguilar stated that the foster youth programs at California State University Fresno and City College of San Francisco were found to be two of the strongest in the state in terms of having an established structure and support program in place for working with former foster youth in higher education settings. Mr. Aguilar reported that SIB is in the process of finalizing the contracts and anticipates beginning these research projects in the fall.

Board Action

Member Bryant moved to approve the item before the Board, Resolution No. 2010-07, approving the regulations for the CalSAVE Program. The motion was seconded by Member Hershman and approved by the Board.

Board Agenda Item Number Five
Resolution to Approve Contract Amendment to Agreement No. SIB 05-05 Relating to the Money Market Portfolio

Ms. Agullana explained that this agenda item had been presented at the Board Meeting in March and, as requested, is being brought back to the Board with additional information. At the last meeting, the Board requested clarification on the share class for the Money Market Portfolio.

Mr. Jeff Troutman, Fidelity, provided an explanation concluding that based on the factors and their direct impact on the cost of maintaining and servicing the Direct Plan and Advisor Plan and its participants, Fidelity considers the use of the retail money market fund to be appropriate in the individual Money Market Portfolios.

Ms. Andrea Feirstein, AKF, stated that AKF previously researched how 529 college savings plans with similar short-term investment options compared in terms of fees and concurred with Fidelity, adding that ScholarShare was quite competitive with the rest of the industry in terms of overall pricing for the Money Market Portfolio. Ms. Agullana added that Fidelity bid the contract in this way and felt it was inappropriate to re-negotiate at this point. Ms. Agullana stated that staff concurred with Fidelity's assessment of the share class used for the Money Market Portfolio.

Mr. Peter Mahoney, Fidelity, stated that Fidelity has reduced its program management fee for the Money Market Portfolio in the Direct Plan and Advisor Plan to a level that brings the net of fee yield to zero. Mr. Mahoney presented Fidelity's proposal for splitting the fee reduction equally with SIB beginning October 1, 2010.

Mr. Jeremy Thiessen, PCA, presented a memo which also provided a recommendation on splitting the fee reduction between Fidelity and SIB. PCA recommended that SIB participate in the fee reduction only after Fidelity waived its program management fees of 10 basis points. Ms. Feirstein concurred with PCA's recommendation, but reiterated that program managers generally are waiving fees without a concurrent or equal fee reduction by their State partners.

Ms. Agullana stated that staff concurred with the recommendation proposed by SIB's consultants. Discussion among Board Members determined it was appropriate to review this item on a regular basis.

Board Action

Member Hershman moved to approve the item before the Board, Resolution No. 2010-05, approving a contract amendment to Agreement No. SIB 05-05 relating to the Money Market Portfolio. The motion was seconded by Member Bryant and approved by the Board.

Agenda Item Number Six

Resolution to Approve Contract Amendment to Agreement No. SIB 05-05, Relating to the Addition of the ScholarShare Bank Deposit Portfolio to the ScholarShare Direct Plan

Mr. Mahoney provided the Board with an overview on the ScholarShare Bank Deposit Portfolio, an FDIC-insured product proposed as an addition to the investment lineup of the Direct Plan. Ms. Agullana stated that during a number of ScholarShare events, the public expressed concern about whether their money was safe in a ScholarShare account.

The Board's consultants, PCA and AKF, agreed that adding this product to the lineup would broaden the choices to prospective and existing ScholarShare participants. Ms. Feirstein expressed some concern over the overall pricing and the budget allocated for this marketing portfolio. Mr. Joe Ciccariello, Fidelity, stated the fee is capped at 40 basis points and Fidelity does not charge an annual account maintenance fee. Ms. Feirstein inquired about who would be responsible for marketing the product, suggesting that the bank partner be responsible for part of the expense, as the focus should be on the marketing message. Mr. Ciccariello stated that the product would be an additional portfolio included in the investment lineup and that Fidelity would work with SIB on the marketing of this portfolio.

Member Wynne inquired about whether Fidelity would be partnering with several banks and Mr. Ciccariello stated that it would start with Wells Fargo Bank to handle the deposits and, as the deposits increased, they would consider others. Member McKinney asked if Fidelity had an internal marketing group and if there was internal monitoring of investments. Mr. Ciccariello reassured the Board that there was a heightened awareness for monitoring and that Fidelity had its own marketing agencies, investor centers, phone and online presentations.

Ms. Agullana stated that the resolution authorizes the Executive Director to negotiate with Fidelity regarding the different components of the portfolio. Ms. Agullana reiterated that staff would work with Fidelity on developing the marketing for this product as an additional ScholarShare portfolio.

Board Action

Member Hershman moved to approve the item before the Board, Resolution No. 2010-08, approving a contract amendment to Agreement No. SIB 05-05 relating to the addition of the ScholarShare Bank Deposit Portfolio to the Direct Plan. The motion was seconded by Member Bryant and approved by the Board.

Board Agenda Item Number Seven

Resolution to Approve Contract Amendment to Agreement No. SIB 05-05 Relating to the Discontinuation of Class B Shares in the ScholarShare Advisor Plan

Mr. Troutman reported that Fidelity is requesting that the class B shares in the Advisor Plan be discontinued. Mr. Troutman added that, if approved, the class B shares would be discontinued effective at close of business on September 1, 2010 and that any money added to the B shares after that date would automatically be deposited into a special class A share.

Mr. Thiessen agreed with Fidelity's recommendation to discontinue the sale of Class B shares for the Advisor Plan.

Board Action

Member Bryant moved to approve the item before the Board, Resolution No. 2010-09, approving a contract to Agreement No. SIB 05-05 relating to the discontinuation of class B shares in the Advisor Plan. The motion was seconded by Member McKinney and approved by the Board.

Board Agenda Item Number Eight
Resolution to Place the Fidelity Advisor Dynamic Capital Appreciation Fund on Watch Status

Mr. Andrew Dierdorf, Fidelity, provided an update on recent changes to the way the Fidelity Advisor Dynamic Capital Appreciation Fund (Fund) was being managed which included being moved to a more sector-based approach. Mr. Dierdorf added that this approach was not new for Fidelity. Mr. Thiessen stated that the change in portfolio construction strategy was potentially positive, but since it represented a significant change in strategy, PCA was recommending the Fund be placed on watch status to be monitored over the next six to nine months.

Board Action

Member Hershman moved to approve the item before the Board, Resolution No. 2010-10, approving the placement of the Fidelity Advisor Dynamic Capital Appreciation Fund on watch status. The motion was seconded by Member Bryant and approved by the Board.

Board Agenda Item Number Nine
Review and Analysis of Fidelity Investments' Investment Performance for the ScholarShare Advisor Plan for First Quarter 2010 and Resolution to Place Select Fidelity Advisor Funds on Watch Status

Mr. Dierdorf presented Fidelity's Investment Performance Report for the Advisor Plan for first quarter 2010. Mr. Thiessen presented PCA's Investment Performance Report and reviewed the performance of three funds it was recommending for placement on watch status due to performance reasons, as outlined in the monitoring procedures and criteria adopted by the Board.

Mr. Dierdorf recommended that the Fidelity Advisor Strategic Income Fund not be placed on watch status as the benchmark is not representative of what is invested. Member Bryant inquired as to how the benchmarks were set. Mr. Thiessen stated that the Securities and Exchange Commission sets the requirements for the benchmarks. Ms. Agullana stated that the benchmark was initiated when the contract with Fidelity was originated and suggested a blended benchmark be reviewed to see if it would accurately reflect the performance of the portfolio. Mr. Thiessen agreed that the benchmark should be reviewed. The Board collectively agreed to not place the Fidelity Advisor Strategic Income Fund on watch status and remove it from the resolution. The Board requested that the benchmark be reviewed and brought back to the Board.

Board Action

Member Bryant moved to approve the item before the Board, Resolution No. 2010-11, approving the placement of the Fidelity Advisor Small Cap Fund and Fidelity Advisor High Income Fund on watch status and striking the Fidelity Advisor Strategic Income Fund from the resolution. The motion was seconded by Member McKinney and approved by the Board.

Board Agenda Item Number Ten **Review and Analysis of Fidelity Investments' Investment Performance for the ScholarShare Direct Plan for First Quarter 2010**

Mr. Dierdorf presented Fidelity's Investment Performance Review for the Direct Plan for the first quarter 2010 and Mr. Thiessen presented PCA's investment performance report.

Mr. Dierdorf noted the Fidelity portfolios that were in the caution range were Active International Equity Asset Class and Passive International Equity Asset Class and addressed the tough market environment stating that performance was in line with the benchmarks.

Mr. Thiessen presented the current quarter status of the ScholarShare Direct Age Based Portfolios actively managed versus the Index Performance Period stating the active portfolios with higher equity weights lagged index counterparts over the quarter and generally underperformed index portfolios over a three year period.

Board Agenda Item Number Eleven **Review of Fidelity Investments' Administrative Performance for the ScholarShare Direct Plan and Advisor Plan for First Quarter 2010**

Mr. Mahoney provided the quarterly administrative performance report for the Direct Plan and an explanation for the underperformance in the email inquiries and call center areas.

Mr. Mahoney stated that the underperformance was based on volume, and that the staffing had been increased accordingly. Mr. Mahoney added that the performance during the current quarter has shown improvement and appears to be back on track.

Ms. Agullana stated that she and Mr. Mahoney visited a Fidelity call center in Utah and had the opportunity to listen to several calls. Ms. Agullana was happy to report the dedicated college savings line put in place appears to have made a difference.

Mr. Troutman reported on the administrative performance for the Advisor Plan for first quarter 2010, stating that the call center staffing level remained flat and volumes remained high. Mr. Troutman added that Fidelity was not optimistic that the levels would change in the next quarter.

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 3:20 p.m.

Respectfully submitted by,

Zeny M. Agullana, Executive Director
ScholarShare Investment Board