

**MINUTES  
SCHOLARSHARE INVESTMENT BOARD**

**September 2, 2010**

Chair Patricia Wynne called the meeting to order at 1:18 p.m.

**Present:**

Members: Patricia Wynne for Bill Lockyer, California State Treasurer  
Jeannie Oropeza for Ana J. Matosantos, Director of Finance  
Anne McKinney for Bonnie Reiss, Secretary of Education  
Antoinette Chandler

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

Consultants: Jeremy Thiessen, Principal, Pension Consulting Alliance, Inc. (PCA)  
Andrea Feirstein, Managing Director, 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  
Kyla Doyle, Vice President, Relationship Manager, Fidelity  
Sharon Rogers, Director, Marketing, Fidelity  
Chris Sharpe, Portfolio Manager, Fidelity

Chair Wynne declared a quorum present.

**Board Agenda Item Number One**  
**Approval of Minutes from June 10, 2010 ScholarShare Investment Board Meeting**

The minutes from the June 10, 2010 SIB meeting were presented to the Board.

### Board Action

Member Chandler moved to approve the item before the Board, the minutes from the June 10, 2010 SIB meeting. The motion was seconded by Member McKinney and approved by the Board, with one abstention from Member Oropeza.

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

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Ms. Zeny Agullana, SIB, introduced Ms. Kyla Doyle, the new relationship manager for Fidelity. Ms. Agullana stated that Mr. Peter Mahoney, the current relationship manager, was moving on to a new position at Fidelity.

Mr. Stanley Zeto, SIB, provided updated account and asset numbers for the ScholarShare College Savings Plan (Direct Plan) and the ScholarShare Advisor College Savings Plan (Advisor Plan) and provided an update on the Governor's Scholarship Programs.

Ms. Agullana reported that SIB staff has been working to generate support for H.R. 1351. Ms. Agullana stated that letters from Treasurer Lockyer were sent to congressional members, urging them to support the bill which would provide flexibility in the use of 529 plans. The bill currently has 82 co-sponsors including 20 members of congress from California.

Ms. Arlene Greene, SIB, highlighted ScholarShare's participation in several marketing and outreach events from late-August through early-October to promote College Savings Month in September.

Ms. Agullana reported that ScholarShare and Fidelity held focus groups in Los Angeles in early August to explore the decision-making process and family dynamics related to saving for college. Ms. Agullana stated that it was a blind test focus group and generated a number of interesting results which will be addressed later during discussion of the outreach and marketing efforts.

Mr. Zeto provided an update on ScholarShare's upcoming requests for proposals for 529 industry consulting services and investment consulting services.

Ms. Greene reported that SIB staff is working on implementing two pilot programs related to the use of 529 plans by former foster youth and that staff is in the process of finalizing agreements with the two selected sites, City College of San Francisco and California State University, Fresno.

### **Board Agenda Item Number Three** **Resolution to Approve Changes to the ScholarShare Maximum Contribution Limit**

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Ms. Andrea Feirstein, AKF, provided the Board with analysis of the maximum contribution limit (limit) for ScholarShare and recommended that the Board approve an increase in the limit from \$320,000 to \$350,000.

Members Chandler and McKinney inquired about the maximum contribution limit range of other 529 plans and whether there was a correlation between them and the size of the state. Ms. Feirstein stated that the higher limit range was at approximately \$380,000. She noted that the trend would most likely continue to move upward. Furthermore, Ms. Feirstein noted that the size of the state does not necessarily correlate with the limit, and it may relate to the different fund managers and their recommendations.

#### Board Action

Member Oropeza moved to approve the item before the Board, Resolution No. 2010-12 approving changes to the ScholarShare maximum contribution limit. The motion was seconded by Member Chandler and approved by the Board.

#### **Board Agenda Item Number Four**

##### **Resolution to Approve Changes to the ScholarShare Statement of Investment Policy**

Ms. Agullana stated that SIB reviews the ScholarShare Statement of Investment Policy (Investment Policy) and Monitoring Procedures and Criteria (Procedures) annually, and that discussion on Agenda Items 4 and 5 will be presented together, but voted on separately.

Mr. Jeremy Thiessen, PCA, presented PCA's memo outlining recommended changes to the Investment Policy and Procedures. Mr. Thiessen stated that the recommended changes are related to the Guaranteed Option, the addition of the Bank Deposit Portfolio, and benchmark changes to the Fidelity Advisor Strategic Income Fund and Social Choice Portfolio.

Member McKinney inquired about whether any thought had been given to moving out of the mortgage portfolio. Mr. Thiessen replied that it was not considered as the fund was a portion of the General Account and was under guarantee and contract.

Ms. Agullana noted a couple of additional consistency changes in Addendum 1 to the Investment Policy related to the 100% Equity Portfolio and 70% Equity/30% Fixed Income Portfolio for the Advisor Plan, and noted the changes will be made accordingly.

#### Board Action

Member Oropeza moved to approve the item before the Board, Resolution No. 2010-13, approving the changes to the ScholarShare Investment Policy. The motion was seconded by Member Chandler and approved by the Board.

#### **Board Agenda Item Number Five**

##### **Resolution to Approve Changes to the ScholarShare Monitoring Procedures and Criteria**

This item was presented with Agenda Item 4 and was voted on separately.

Board Action

Member Oropeza moved to approve the item before the Board, Resolution No. 2010-14, approving changes to the ScholarShare Procedures. The motion was seconded by Member Chandler and approved by the Board.

**Agenda Item Number Six**  
**Resolution to Approve Changes to the Administrative Performance Criteria for the ScholarShare Direct Plan**

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Mr. Mahoney presented proposed changes to the Administrative Performance Criteria for the Direct Plan relating to Call Center Accuracy. The proposal reflects Fidelity's recent change from telephone to online surveys. Mr. Mahoney noted that the new format has yielded reduced performance scores, but the online format allows respondents to be more candid and thoughtful in their responses since it provides more anonymity than a phone survey.

Board Action

Member Chandler moved to approve the item before the Board, Resolution No. 2010-15, approving changes to the Administrative Performance Criteria for the Direct Plan. The motion was seconded by Member McKinney and approved by the Board.

**Board Agenda Item Number Seven**  
**Resolution to Approve Changes to the ScholarShare Outreach and Public Education Plan**

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Ms. Agullana stated that the ScholarShare Outreach and Public Education (SCOPE) Plan is reviewed annually by SIB. Ms. Agullana reported that SIB staff participates in a variety of marketing and outreach activities and initiatives, and takes into consideration the results of these efforts when proposing changes to the SCOPE Plan. Ms. Agullana noted that proposed changes to the SCOPE Plan included minor revisions to the goals and sponsorship selection criteria and would provide a more defined outline of the organizations and the efforts in which SIB partners.

Member Wynne inquired whether SIB participated in efforts that had been unsuccessful in the past. Ms. Greene provided a couple examples in which the partnership was not effective, and therefore was not considered again.

Member Oropeza inquired whether efforts had been made toward targeting students who take the Advanced Placement (AP) exams. Ms. Wynne replied that the AP audience may not be the best one to target as they were already near college age. Ms. Agullana, however, added that SIB was working with several school districts and county offices of education, including the superintendents, to promote the importance of attending and saving for college. Ms. Agullana stated that Mr. Brian K. Aguilar, SIB, represents ScholarShare on the Middle Grades Initiative Committee of the Intersegmental Coordinating Committee and works with other organizations, such as the Campaign for College Opportunity and College Access Network, to successfully incorporate ScholarShare into their existing efforts and relationships.

Ms. Agullana presented the ScholarShare Participant Profile which provides a look at various attributes of a typical ScholarShare participant. Ms. Agullana stated that the information summarized in this profile was compiled in conjunction with the review and development of SIB's SCOPE Plan and Fidelity's annual marketing plan. Ms. Chandler inquired if there was data on investor behavior. Ms. Agullana stated that the information was available, but not charted, however, may be included in the semi-annual reports. Ms. Chandler commented that the current data allowed ScholarShare to be more strategic in determining how to allocate resources. Ms. Chandler also requested that the profile be revised to include a breakdown by ethnicity, which will assist SIB and Fidelity in incorporating more ethnic marketing activities in their plans.

### Board Action

Member Oropeza moved to approve the item before the Board, Resolution No. 2010-16, approving changes to the SCOPE Plan. The motion was seconded by Member Chandler and approved by the Board.

### **Board Agenda Item Number Eight**

#### **Fidelity Investments' Marketing Update for the ScholarShare Direct Plan**

Mr. Mahoney presented Fidelity's marketing update for the Direct Plan and noted that account and asset results have shown increases in 2010, with the exception of market share.

Mr. Mahoney stated that of the top 13 plans, only five had gained market share during the first quarter of 2007 through the second quarter of 2010. Mr. Mahoney reported that California, New York, New Hampshire, Nevada, and Utah had similar attributes, but that California, due to the economy, is not able to benefit from some attributes offered by the other states such as lower fees, significant state tax deductions, or national distribution.

Member McKinney inquired if consideration had been given to internal adjustments that may have contributed to the decrease in market share. Mr. Mahoney assured the Board that Fidelity explored both internal and external components in relating the effectiveness of the marketing campaigns and messaging.

Member Chandler inquired how the decrease in market share was represented in terms of dollar amounts. Mr. Joe Ciccariello, Fidelity, responded that a definitive dollar figure was not available and that a number of factors would need to be considered including gross sales, distributions, and market appreciation or depreciation.

Ms. Sharon Rogers, Fidelity, provided an overview on the campaign results through online and print advertising, direct marketing, local marketing and ethnic outreach advertising.

Mr. Mahoney previewed the activities budgeted for the third and fourth quarter and emphasized, that in conjunction with SIB staff's outreach efforts, Fidelity re-evaluated their position and decided to participate in larger local marketing sponsorships, working with organizations that utilized multi-discipline avenues in terms of its marketing and outreach components.

Member McKinney complimented Fidelity on its update, commenting that the details of the plan were rich and robust and is what the Board was looking for in the past.

### **Board Agenda Item Number Nine**

#### **Fidelity Investments' Marketing Update for the ScholarShare Advisor Plan**

Mr. Jeff Troutman, Fidelity, provided Fidelity's Marketing Update for the Advisor Plan which outlined the current environment, marketing goals and strategies, key trends, budget, and account and asset results.

Mr. Troutman expressed Fidelity's desire to generate awareness with advisors to the Advisor Plan. Mr. Troutman noted that incoming transfers remain relatively high compared to transfers out of the plan. He further noted that Smith Barney and Edward Jones had been approved for the marketing campaigns and sales efforts.

Member Chandler inquired about whether Morgan Stanley and Smith Barney would be analyzed together or separately because the selling agreements were separate. Mr. Troutman replied that they would like to keep them separate to monitor the progress of the firms.

### **Board Agenda Item Number Ten**

#### **Review and Analysis of Fidelity Investments' Investment Performance for the ScholarShare Direct Plan for the Second Quarter 2010**

Mr. Chris Sharpe, Fidelity, presented Fidelity's Investment Performance Review for the Direct Plan for the second quarter of 2010.

Mr. Thiessen presented PCA's Direct Plan Investment Performance Status Report.

Member Chandler inquired about the three-year attribution analysis for the actively-managed portfolios. Mr. Thiessen stated that the attribution analysis shows that security selection is a significant factor in a portfolio's performance and of the age-based portfolios, the actively-managed portfolios generally underperformed the index portfolios over the three-year period. Mr. Thiessen reminded the Board that the portfolios vary in performance and that staff would continue to monitor the portfolio's performance.

### **Board Agenda Item Number Eleven**

#### **Review and Analysis of Fidelity Investments' Investment Performance for the ScholarShare Advisor Plan for the Second Quarter 2010**

Mr. Sharpe provided Fidelity's Investment Performance Review for the Advisor Plan for the second quarter of 2010 and stated that, although these are a different set of portfolios than the Direct Plan, the goals remain the same.

Mr. Thiessen presented PCA's Advisor Plan Investment Performance Status Report for the second quarter of 2010.

Mr. Troutman provided an update on the Money Market Portfolio stating that the Total Bond Fund outperformed the benchmarks. Mr. Troutman added that starting October 2010, SIB may be contributing to the management fees waiver as the returns on the portfolios were close to 10 basis points.

Member Chandler inquired as to how long a fund can remain in caution status before a change is considered. Mr. Thiessen responded that a fund could remain in caution for no specific timeframe, and that the Board may place the fund on watch status, as outlined in the Procedures, which would increase its level of monitoring.

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

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Mr. Mahoney presented the Administrative Performance Report for the Direct Plan for the second quarter of 2010 and stated that there was one area of underperformance by more than 2%, Call Center – Answer Time/Service Factor Accuracy. Mr. Mahoney provided an explanation for the underperformance and stated that Fidelity believed the decrease in performance was due to a decrease in the number of completed surveys received resulting from the change from telephone surveys to online surveys. Mr. Mahoney assured the Board that Fidelity was dedicated to ensuring that ScholarShare participants had a good customer experience when they interacted with Fidelity.

**Public Comment**

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Chair Wynne called for public comment

Mr. Thiessen introduced Mr. Eric White, a Sacramento-based representative from PCA, to the Board.

There being no further business before the Board, the Chair adjourned the meeting at 4:07 p.m.

Respectfully submitted by,

Zeny M. Agullana, Executive Director  
ScholarShare Investment Board