

MINUTES
SCHOLARSHARE INVESTMENT BOARD

June 30, 2011

Chair Patricia Wynne, called the meeting to order at 1:13 p.m.

Present:

Members: Patricia Wynne for Bill Lockyer, California State Treasurer
Diana Ducay for Ana J. Matosantos, Director of Finance
Antoinette Chandler
Rhonda Johnson
Mark Vargas

Staff: Zeny M. Agullana, Executive Director, ScholarShare Investment Board
(SIB or Board)
Arlene Greene, Deputy Director, SIB
Stanley Zeto, SIB
Sue Lim, SIB
Brian Aguilar, SIB
Brian Gorban, SIB
Joyce Eriksson, SIB
Mark Paxson, General Counsel, State Treasurer's Office (STO)

Consultants: Allan Emkin, Managing Director, Pension Consulting Alliance, Inc. (PCA)
Jeremy Thiessen, Principal, PCA
Andrea Feirstein, Managing Director, AKF Consulting Group (AKF)
(Via teleconference)

Fidelity: Joe Ciccariello, Vice President, Tax Exempt Market, Relationship Management,
Fidelity Investments (Fidelity)
Matt Golden, Vice President, College Savings, Fidelity Investments Institutional
Services (FIIS)
Andrew Dierdorf, Portfolio Manager, (Fidelity)

Chair Wynne declared a quorum present.

Board Agenda Item Number One
Approval of Minutes from March 10, 2011 and June 13, 2011 ScholarShare Investment Board Meetings

The minutes from the March 10, 2011 and June 13, 2011 SIB meetings were presented to the Board.

Board Action

Member Chandler moved to approve the item before the Board, the minutes from the March 10, 2011 SIB meeting. The motion was seconded by Member Vargas and the motion was approved by the Board with an abstention from Member Ducay.

Member Chandler moved to approve the item before the Board, the minutes from the June 13, 2011 SIB meeting. The motion was seconded by Member Vargas and the motion was approved by the Board.

Board Agenda Item Number Two
Executive Director's Report

Ms. Zeny Agullana, SIB, presented the Executive Director's Report, providing an update on recent activities. Ms. Agullana reported that SIB has had several meetings with ProProse, a local marketing firm, to develop a strategic marketing plan including a new mission and vision statement, core values, and strategic goals, which will be integrated into the ScholarShare Outreach and Public Education (SCOPE) Plan and presented to the Board at the next meeting.

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

Ms. Arlene Greene, SIB, provided an update on marketing and outreach events during the previous quarter. She also informed the Board that SIB staff met with TIAA-CREF Tuition Financing, Inc. to discuss various transition-related items. Ms. Greene assured the Board that SIB staff would keep them updated during the process.

Mr. Brian Aguilar, SIB, provided a brief update on the CalSAVE program noting that the two test sites for the foster youth program are in the process of opening accounts. Ms. Agullana stated that this is a pilot program which ScholarShare hopes to expand in the future, following additional research on facilitating the mechanics of the program.

Board Agenda Item Number Three
Review and Analysis of Fidelity Investments' Investment Performance for the ScholarShare Advisor Plan for First Quarter 2011 and Resolutions to Place Fidelity Advisor Equity Income Portfolio on Watch Status and Remove the Fidelity Advisor Stock Selector All Cap Fund from Watch Status

Mr. Andrew Dierdorf, Fidelity, presented Fidelity's Investment Performance Review for the Advisor Plan for the first quarter 2011, highlighting the current market and performance of the portfolios.

Mr. Jeremy Thiessen, PCA, presented PCA's Investment Performance Status Report for the Advisor Plan for the first quarter 2011. Mr. Thiessen also presented PCA's memo recommending that the Fidelity Advisor (FA) Equity Income Portfolio be placed on watch status due to a change in investment management team, and that the FA Stock Selector All Cap Fund be removed from watch status because it has produced exceptional results since being placed on watch status.

Board Action

Member Chandler moved to approve the item before the Board, Resolution No. 2011-04, approving the placement of the FA Equity Income Portfolio on watch status. The motion was seconded by Member Ducay and approved by the Board.

Member Chandler moved to approve the item before the Board, Resolution No. 2011-05, approving the removal of the FA Stock Selector All Cap Fund from watch status. The motion was seconded by Member Ducay and approved by the Board.

Board Agenda Item Number Four
Review and Analysis of Fidelity Investments' Investment Performance for the ScholarShare Direct Plan for First Quarter 2011.

Mr. Dierdorf presented Fidelity's Investment Performance Review for the Direct Plan for first quarter 2011, highlighting the current market and the performance of the portfolios

Chair Wynne inquired why the Money Market and Social Choice Portfolios were under-performing. Mr. Dierdorf explained that the government, in an attempt to keep the interest rate low, was producing a low yield for the short term market. Mr. Joe Ciccariello, Fidelity, explained that the emotional trading of the individual index portfolios had provided an opportunity to educate the participants, via direct mail, about options that may meet their needs, including the age-based portfolios. Mr. Allan Emkin, PCA, commented that education was crucial to inform the participant with a long-term horizon, about options available to them.

Mr. Matt Golden, FIIS, provided an update on the Money Market Portfolio management fees. To date in 2011, SIB and Fidelity have waived management fees totaling \$48,000 and \$116,000, respectively.

Mr. Thiessen, PCA, presented PCA's Investment Performance Status Report for the Direct Plan for first quarter 2011. Mr. Thiessen provided an update on the portfolios on watch status and indicated that the Active Short-Term Asset Class portfolio was performing above the composite benchmark and could be considered for removal from watch status.

Member Chandler inquired what direction should be taken for future investing considering the challenges and consideration of the global market. Mr. Dierdorf indicated that politicians making decisions for the financial market made advisors very uncomfortable, although the government, through policy, was making every effort to avoid depression or a deep recession. Mr. Dierdorf indicated that the age-based strategies remained the best option for the 529 plan, considering the fact that the average American would not have substantial purchasing power due to difficulty in acquiring credit and income and that the U.S would not see substantial growth as a result.

Agenda Item Number Five

Review of Fidelity Investments' Administrative Performance for the ScholarShare Direct Plan and Advisor Plan for First Quarter 2011

Mr. Ciccariello presented Fidelity's Administrative Performance Report for the Direct Plan for first quarter 2011. Mr. Ciccariello reported that there were three areas that underperformed the administrative performance criteria (benchmarks) for the first quarter. Mr. Ciccariello provided an explanation stating that non-financial incidents, such as extreme weather, resulted in representatives being unavailable to respond to emails in a timely manner or caused an increase in email volume, preventing a timely response to email inquiries. Mr. Ciccariello stated that Fidelity had begun the process of hiring and training representatives to meet the administrative benchmarks and is confident the benchmarks will be met. Member Duway requested additional details on why there had been a change in vendors for email inquiries. Mr. Ciccariello indicated that he would follow up with more information.

Chair Wynne highlighted the importance of commitment to service and administration during the transition period, recognizing the need to ensure high level of service for prospective and existing participants. Mr. Ciccariello agreed, stating that Fidelity assured no decline in service, marketing, or administrative services during the transition period.

Mr. Golden, presented Fidelity's Administrative Performance Report for the Advisor Plan for first quarter 2011, reporting that Fidelity had been able to achieve higher customer service levels and lower abandonment rates due to an increase in staffing levels since January.

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 2:32 PM.

Respectfully submitted by,

Zeny M. Agullana, Executive Director
ScholarShare Investment Board