

MINUTES
SCHOLARSHARE INVESTMENT BOARD

December 13, 2012

Chair Patricia Wynne called the meeting to order at 1:04 PM.

Present:

Members: Patricia Wynne for Bill Lockyer, California State Treasurer
Richard Gillihan for Ana J. Matosantos, Director of Finance
Camille Esch for Sue Burr, Executive Director, State Board of Education
Hal Geiogue
Rhonda Johnson

Staff: Zeny M. Agullana, Executive Director, ScholarShare Investment Board
(SIB or Board)
Arlene Greene, Deputy Director, SIB
Stanley Zeto, Manager, SIB
Katie Burns, SIB
Maria Collins, SIB
Sue Lim, SIB
Joyce Eriksson, SIB
Deborah Yang, Senior Attorney, State Treasurer's Office (STO)

Consultants: Jeremy Thiessen, Managing Director, Pension Consulting Alliance, Inc., (PCA)
Andrea Feirstein, Managing Director, AKF Consulting Group (AKF)

TFI: Michael Noone, President, TIAA-CREF Tuition Financing, Inc. (TFI)
Pamela McNulty, Senior Director, Head of Marketing, TFI
Chris Lynch, Senior Managing Consultant, TFI
Laura Moewe, Director, TFI
Ed Mihallo, Director, Investment and Product Strategy, TFI
Don Wolf, Senior Marketing Manager, TFI
Ralph Clement, Team Manager, Lead Field Consultant, TFI

Chair Wynne declared a quorum present.

Board Agenda Item Number One
Approval of Minutes from September 20, 2012 ScholarShare Investment Board Meeting

The minutes for the September 20, 2012 SIB meeting were presented to the Board.

Board Action

Member Gillihan moved to approve the item before the Board, the minutes for the September 20, 2012 SIB meeting. The motion was seconded by Member Esch and approved by the Board.

Board Agenda Item Number Two
Executive Director's Report

Ms. Zeny Agullana, SIB, provided highlights of 2012 as well as upcoming marketing efforts planned for 2013. Ms. Agullana reported that funds invested in the Governor's Scholarship Programs (GSP) would revert to the General Fund by January 1, 2013, pursuant to statute.

Ms. Agullana provided updates on federal and state legislation. Member Wynne inquired if it would be possible to include in federal legislation a change to the definition of qualified higher education expenses to include computers. Ms. Agullana noted that allowing computers as a qualified higher education expense was an oversight and that a recommendation would be made to add it as a provision of the bill as well as increasing the number of exchanges allowed annually. Ms. Andrea Feirstein, AKF, indicated it was unclear what changes would be made to Section 529 in context with tax reform, but it was unlikely that 529's would escape being a target in a Congress that was looking for revenue. Ms. Feirstein noted that the computer provision was not at issue, but there were two items that would be reviewed: a potential income limit on participation; and a national limit to participation.

Mr. Stanley Zeto, SIB, provided updated account and asset data for the ScholarShare College Savings Plan (Plan) through December 7, 2012. Mr. Zeto highlighted contract amendments currently in progress and also provided program updates for GSP and the California Memorial Scholarship Program (CMS).

Ms. Arlene Greene, SIB, provided highlights of recent marketing and outreach efforts. Ms. Greene also provided updates on recently submitted annual reports.

Ms. Agullana presented the 2013 SIB meeting calendar and asked the Board to let SIB know if they had any scheduling conflicts.

Board Agenda Item Number Three
Resolution to Approve Amendment to Agreement No. SIB 10-10 with
Pension Consulting Alliance, Inc. for Investment Consulting Services

Mr. Zeto presented Resolution No. 2012-06 which would approve an amendment to Agreement No. SIB 10-10 with PCA for investment consulting services to extend the term for one additional year and to increase the maximum amount of the contract to ensure sufficient funds are available during the extension term of the contract. Mr. Zeto stated that the extension term in the contract was included in the competitively bid request for proposals issued in 2010. Member Gillihan suggested that detailed information about the terms of the contract be included in the meeting materials provided to the Board in the future.

Board Action

Member Johnson moved to approve the item before the Board, Resolution No. 2012-06, authorizing the Executive Director to approve and execute an amendment to Agreement No. SIB 10-10. The motion was seconded by Member Geiogoue and approved by the Board.

Board Agenda Item Number Four
Resolution to Approve Increase in the Maximum Account Balance Limit for the
ScholarShare Plan

Ms. Greene stated that AKF and SIB staff recommends the Board adopt Resolution No. 2012-07 to increase the ScholarShare maximum account balance limit from \$350,000 to \$371,000 per beneficiary.

Ms. Feirstein provided an overview of AKF's analysis of the maximum account balance limit (limit) and noted that a base of the highest cost schools nationally and in California was considered when determining the limit. Ms. Feirstein added that due to the cost of higher education, AKF recommends that the limit for ScholarShare move to a higher range to compete on a national level. Member Geiogoue recommended the limit be increased to \$375,000 to compete with other state 529 plans.

Member Esch inquired whether raising the limit would facilitate a school's right to raise the cost of higher education. Ms. Feirstein did not believe that raising the limit was a factor in the rise in cost of higher education. Member Esch indicated she would like to take some time to think about increasing the limit. Member Wynne recommended revisiting this agenda item at the next SIB meeting.

Board Action

No action taken at this time. Item to be included on the agenda for the March 2013 SIB meeting.

Board Agenda Item Number Five
Review and Analysis of TIAA-CREF Tuition Financing, Inc.’s Investment Performance for the ScholarShare Plan for Third Quarter 2012 and Resolution to Place Select Funds on Watch Status

Ms. Agullana noted that the item before the Board was no longer an action item as it was determined by PCA that both the TIAA-CREF International Equity Index Fund and TIAA-CREF Emerging Markets Equity Index Fund did not qualify for watch status after a review and analysis of additional data provided by TFI.

Mr. Ed Mihallo, TFI, presented TFI’s Investment Performance Report for the Plan for third quarter 2012. Mr. Mihallo provided a brief market overview and highlighted the performance of the portfolios noting that the portfolios were outperforming the benchmarks.

Mr. Jeremy Thiessen, PCA, presented PCA’s Investment Performance Status Report for third quarter 2012. Mr. Thiessen discussed performance of the funds compared to the approved investment performance criteria. Mr. Thiessen also discussed the fair market value adjustment related to the international funds.

Board Action

No action taken at this time.

Board Agenda Item Number Six
Review and Analysis of TIAA-CREF Tuition Financing, Inc.’s 2013 Asset Allocation Recommendations for the ScholarShare Plan

Mr. Zeto stated that each year TFI and SIB review the asset allocation of the investment portfolios for the Plan to determine if any changes are necessary to continue to meet its investment objectives.

Mr. Mihallo reported that TFI was recommending no change in asset allocation in 2013 and provided a brief overview of TFI’s analysis.

Mr. Thiessen presented PCA’s memo and reported that after a review and analysis of TFI’s recommendation, PCA concurred with TFI’s asset allocation recommendation for 2013.

Board Agenda Item Number Seven
Review of TIAA-CREF Tuition Financing, Inc.’s Administrative Performance for the ScholarShare Plan for Third Quarter 2012

Ms. Laura Moewe, TFI, presented TFI’s Administrative Performance Report for the third quarter 2012 reporting that TFI underperformed (by more than two percent) in one performance area – Quarterly/Annual Account Statements – Accuracy. Ms. Moewe provided additional explanation for the underperformance.

Additionally, Ms. Moewe reported that TFI would be launching standing instructions for investments in mid-February which would allow the account owner to establish a portfolio allocation for contribution to the account either from themselves or from others contributing gifts.

Board Agenda Item Number Eight

TIAA-CREF Tuition Financing, Inc.'s 2013 Marketing Plan for the ScholarShare Plan

Ms. Greene, SIB, highlighted a number of marketing goals for 2012.

Mr. Don Wolf, TFI, provided TFI's 2013 Marketing Plan Recommendations for the Plan. Mr. Wolf presented an overview of the various marketing activities which includes online, print, radio, and ethnic outreach advertising, customer direct marketing and communications, public relations, and local marketing. Member Geiogoue inquired if TFI tracked which efforts were not successful. Mr. Wolf responded affirmatively and explained that efforts that weren't successful were not repeated.

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 3:01 PM.

Respectfully submitted by,

Zeny M. Agullana, Executive Director
ScholarShare Investment Board