MINUTES SCHOLARSHARE INVESTMENT BOARD

December 11, 2008, 1:00 p.m.

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

Present: Patricia Wynne for Bill Lockyer, State Treasurer

Diana Ducay for Michael C. Genest, Department of Finance

Antoinette Chandler

Allison Jones

Staff: Zeny M. Agullana, Executive Director, ScholarShare Investment Board (SIB)

Arlene Greene, Manager, SIB

Stanley Zeto, SIB Brian K. Aguilar, SIB Samantha Evans, SIB

Sue Lim, SIB

Kristin Smith, Staff Counsel, State Treasurer'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

Peter Mahoney, Vice President, Relationship Manager, Fidelity

Samantha O'Neil, Vice President, Marketing, Fidelity

Chris Sharpe, Portfolio Manager, Fidelity

Public: Dena Wilson, Office of Secretary of Education

The Chair declared a quorum present at 1:08 p.m.

Board Agenda Item Number One

Approval of Minutes from August 11, 2008 Meeting

The minutes from the August 11, 2008 ScholarShare Investment Board (SIB or Board) meeting were presented to the Board.

Board Action:

Member Ducay moved to approve the item before the Board, the minutes from the August 11, 2008 SIB meeting. The motion was seconded by Member Chandler and approved by the Board.

Board Agenda Item Number Two Executive Director's Report

Ms. Zeny M. Agullana, SIB, stated that because the Secretary of Education position is currently vacant, Ms. Dena Wilson cannot vote but can participate in discussion.

Mr. Stanley Zeto, SIB, provided updated account information for the ScholarShare Direct Plan and Advisor Plan. Mr. Zeto also provided an update on the Annual Reports, as well as current account information about the Governor's Scholarship Programs, the California Memorial Scholarship (CMS) Program and the ScholarShare Program for Achievement and Recognition of Creativity (SPARC). Member Ducay inquired about the outcome of funds in the CMS Program if they are not used. Mr. Zeto responded that the funds are reverted back to the General Fund. In response to Member Ducay's inquiry about how much is reverted back, Mr. Zeto responded that each account is \$5,000.

Ms. Agullana reported that SIB is now represented on the College Savings Foundation Board and the College Savings Plans Network Executive Board.

Mr. Brian K. Aguilar, SIB, provided an update on legislation, reporting that SB 1457 (CalSAVE; Steinberg) was passed and that guidelines and regulations for CalSAVE are currently being developed. Chair Wynne inquired about whether the regulations would be new or derived from existing regulations. Mr. Aguilar responded that they are most likely going to modify existing regulations.

Board Agenda Item Number Three

Resolution to Approve Contract Amendment to Agreement No. SIB 05-05 Relating to Administrative and Servicing Enhancements to the ScholarShare Advisor Plan

Mr. Jeff Troutman, Fidelity, stated that the ScholarShare Advisor Plan is considering significant administrative and servicing enhancements as part of an industry-wide initiative. SIB staff is recommending that the Board adopt Resolution No. 2008-10, authorizing the SIB Executive Director to approve a contract amendment to Agreement No. SIB 05-05 relating to administrative and servicing enhancements to the ScholarShare Advisor Plan. Ms. Agullana stated that the changes will make the account opening process more efficient.

Board Action:

Member Ducay moved to approve the item before the Board, Resolution No. 2008-10, authorizing the SIB Executive Director to approve a contract amendment to Agreement No. SIB 05-05 relating to administrative and servicing enhancements to the ScholarShare Advisor Plan.

Board Agenda Item Number Four Resolution Regarding Fidelity Investments' 2008 Marketing Performance for the ScholarShare Direct Plan

Ms. Andrea Feirstein, AKF, presented AKF's "Market Performance and Benchmarks" report which compares ScholarShare's performance and growth rate with the national 529 market and evaluates ScholarShare's performance against the marketing performance criteria (benchmarks) adopted by the Board. Ms. Feirstein reported that ScholarShare is performing better than the national 529 market in terms of account and asset growth.

Ms. Agullana stated that SIB staff recommends the Board adopt the Resolution No. 2008-11 which approves the decision to not invoke financial consequences to Fidelity for not meeting its marketing benchmarks for program year 2. Ms. Feirstein recommended that when developing the marketing benchmarks for program years 4 and 5, it should be done with an eye towards setting a comparative peer group or at a national performance level. Member Jones and Member Chandler inquired if there have been shifts in accounts. Mr. Mahoney responded that as accounts approach matriculation, there have been more exchanges toward more conservative options and that there has not been a significant increase when compared to previous years. Member Jones inquired if the Board could be faulted for their actions in the market conditions. Mr. Emkin responded that the Board could not be faulted because the Board has been vocal in the process and in monitoring the investment portfolio.

The Board inquired about the request for proposals (RFP) process and contract language, and requested clarification from SIB staff before voting on this item. Chair Wynne recommended that this item be postponed until the next SIB meeting, after the RFP process and contract are reviewed, to which the Board agreed.

Board Agenda Item Number Five Review and Analysis of Fidelity Investments' Investment Performance for the ScholarShare Advisor Plan for the Third Quarter 2008

Mr. Allan Emkin and Mr. Jeremy Thiessen, PCA, presented PCA's "Advisor Plan Investment Performance Status Report" for the third quarter of 2008. Mr. Emkin stated the volatility and loss in the market, as well as the lack of liquidity in the capital markets, have been unprecedented events. Mr. Thiessen reported that three Fidelity portfolios in the Advisor Plan lowered their status from the prior quarter and that all the portfolios in the caution range are equity incomes. Member Chandler inquired about the length of time needed in order to take action. Mr. Thiessen responded that a fund would need to be in the caution range for six consecutive months based on 36 months of performance.

Mr. Chris Sharpe, Fidelity, presented Fidelity's "Investment Performance Review" for the ScholarShare Advisor Plan for the third quarter of 2008 and reported that performance for the Advisor Plan for the third quarter lagged behind the benchmarks. Member Chandler inquired about the investment performance through November. Mr. Sharpe responded that since the beginning of the year, performance has trended downwards. In response to Member Chandler's

request that international financial institutions (IFIs) be highlighted, Mr. Sharpe stated that IFIs have been down 40 percent year-to-date with some international markets down 50-55 percent.

Mr. Emkin suggested that SIB staff work with Fidelity to communicate to participants that the Board is aware of what is happening. Ms. Agullana responded that there is a letter scheduled to be sent out at the end of the year.

Board Agenda Item Number Six Review and Analysis of Fidelity Investments' Investment Performance for the ScholarShare Direct Plan for the Third Quarter 2008

Mr. Thiessen presented PCA's "Direct Plan Investment Performance Status Report" for the third quarter of 2008. Chair Wynne inquired about whether recurring caution categories are being monitored to see when action needs to be taken. Mr. Thiessen responded that they are being monitored and it would be reported should a change be needed, but also that there needs to be 36 months of performance before an action is taken.

Mr. Sharpe presented Fidelity's "Investment Performance Review" for the ScholarShare Direct Plan for the quarter of 2008. Mr. Sharpe reported that the performance of the portfolios in the Direct Plan is behind the benchmarks.

Board Agenda Item Number Seven Review of Fidelity Investments' Administrative Performance for the ScholarShare Direct Plan for the Third Quarter 2008

Mr. Peter Mahoney, Fidelity, presented Fidelity's "Quarterly Administrative Performance Report" comparing its performance during the third quarter of 2008 to administrative benchmarks adopted by the Board and reported that only two areas underperformed the administrative benchmarks (by more than two percent). Mr. Mahoney stated that SIB staff and Fidelity are currently working on making changes to the customer service criteria.

Board Agenda Item Number Eight Fidelity Investments' 2009 Marketing Plan for the ScholarShare Advisor Plan

Mr. Jeff Troutman, Fidelity, presented Fidelity's "2009 Marketing Plan" for the ScholarShare Advisor Plan. Mr. Troutman discussed the various marketing campaigns that were launched during 2008 and reported that the Advisor Plan is one of the only plans in the industry with positive growth year after year. Mr. Troutman reported that in October, 22 percent of net flows came from the Money Market portfolio. Mr. Troutman stated that in 2009, one of the main goals will be to help advisors maintain focus on 529s. Mr. Troutman previewed upcoming marketing campaigns for 2009 and reported on new product changes.

Board Agenda Item Number Nine Fidelity Investments' 2009 Marketing Plan for the ScholarShare Direct Plan_

Ms. Samantha O'Neil, Fidelity, presented Fidelity's 2009 Marketing Plan for the ScholarShare Direct Plan. Ms. O'Neil reported that the marketing objectives for 2009 include creating a broader awareness, increasing plan growth and expanding relationships with participants.

Ms. Agullana added that in order to make people recommit to saving, they need to feel comfortable with saving in general. Ms. Agullana stated that an editorial board campaign about savings should be implemented to spread awareness. In addition, Ms. Agullana stated that some of the events ScholarShare participated in resulted in more opportunities including TV interviews and workshops.

Board Agenda Item Number Ten 2009 ScholarShare Investment Board Meeting Calendar

Ms. Agullana presented the 2009 ScholarShare Investment Board meeting calendar and requested that the Board enter the dates into their 2009 calendars and let SIB staff know if they have scheduling conflicts. A final calendar will be set in January 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 3:58 p.m.

Respectfully submitted by,

Zeny M. Agullana, Executive Director ScholarShare Investment Board