
DECEMBER 10, 2020

**AGENDA ITEM 5
ACTION ITEM**

SCHOLARSHARE INVESTMENT BOARD

Resolution to Approve Investment Portfolios for the California Kids Investment and Development Savings Program

Recommendation

ScholarShare Investment Board (SIB or Board) staff and Meketa Investment Group, Inc. (Meketa) recommend the Board adopt Resolution No. 2020-08 approving the investment portfolio options for the master holding account and cohort accounts for the California Kids Investment and Development Savings Program (CaKIDS or Program).

Background

CaKIDS, established pursuant to California Education Code 69996.6, is currently in development and preparing for launch in 2021. Statute authorizes the Board to invest funds held in CaKIDS accounts within ScholarShare 529 (Plan), California's 529 college savings plan. In evaluating the investment portfolio options for the master holding account and cohort account(s) for CaKIDS, Meketa, SIB's investment consultant, reviewed the Plan's investment portfolio options, along with the goals and objectives of the Program, and provided its analysis (Exhibit A) outlining its recommended options for these CaKIDS accounts. Meketa recommends:

- Funds held in the master holding account, the CaKIDS account holding all Program funds, be invested in the Plan's Principal Plus Interest Portfolio, and
- Funds held in the cohort account(s), the CaKIDS account(s) holding all Program funds allocated to a specific cohort of participants, be held in the Plan's corresponding Passive Enrollment Year Investment Portfolio.

SIB staff has reviewed the analysis and concurs with Meketa's recommendation.

Presenters

Julio Martinez, Executive Director, ScholarShare Investment Board
Noah Lightman, Manager, CSA Initiatives, ScholarShare Investment Board
Eric White, Principal, Meketa Investment Group, Inc.

RESOLUTION NO. 2020-08

RESOLUTION OF THE SCHOLARSHARE INVESTMENT BOARD RELATING TO THE APPROVAL OF THE SCHOLARSHARE 529 INVESTMENT PORTFOLIO OPTIONS FOR THE CALIFORNIA KIDS INVESTMENT AND DEVELOPMENT SAVINGS PROGRAM ACCOUNTS

WHEREAS, the California Kids Investment and Development Savings Program (“CalKIDS” or the “Program”) and CalKIDS fund are established pursuant to Education Code sections 69996.1 and 69996.6, respectively;

WHEREAS, the ScholarShare Investment Board (the “SIB” or “Board”) was created under Education Code section 69980 et seq. (the “Golden State ScholarShare Trust Act” or “Act”);

WHEREAS, Section 69996.4(c) of the Education Code provides that the Board shall have the powers and authority to cause moneys in the program fund to be held and invested and reinvested;

WHEREAS, Section 69996.3(f) of the Education Code provides that the Board shall establish one or more ScholarShare 529 (the “Plan”) college savings accounts (the “accounts”) and shall make a separately accounted-for seed deposit from the CalKIDS fund into a KIDS Account established within a ScholarShare 529 account in an amount determined by the Board;

WHEREAS, the SIB staff and the Board’s investment consultant (the “Consultant”) reviewed the goals and objectives for the Program, the CalKIDS accounts, and the Plan’s investment portfolios, and recommend the funds held in the CalKIDS master holding account and the CalKIDS cohort account(s) be invested in the Plan’s Principal Plus Interest Portfolio and corresponding Passive Enrollment Year Investment Portfolio, respectively.

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby approves the investment portfolio options for the CalKIDS master holding account and cohort account(s), as recommended by SIB staff and the Consultant and as shown in the Consultant’s memo dated December 10, 2020.

BE IT FURTHER RESOLVED, that this Resolution becomes effective upon its adoption by the Board.

Attest: _____
Chairperson

Date of Adoption: _____

MEMORANDUM

TO: ScholarShare Investment Board (SIB)
FROM: Meketa Investment Group ("Meketa")
DATE: December 10, 2020
RE: Recommendation for CalKIDS Investment Options

Recommendation

Meketa has reviewed the California Investment Development and Savings Program (CalKIDS or Program) structure as it relates to how the money in the Program should be invested within the ScholarShare 529 Plan, specifically for the master holding account and the cohort accounts. ***Meketa recommends the SIB utilize the Principal Plus Interest Portfolio for the CalKIDS master holding account and the corresponding Passive Enrollment Year Portfolio for the CalKIDS cohort accounts.*** We believe this structure matches the corresponding risk-reward profiles of the individual components of the Program. This structure emphasizes capital preservation within the master holding account while providing a low-cost dynamic investment for the cohort accounts that self-adjusts to reduce risk as the cohort nears matriculation.

Background

SIB Staff requested that Meketa review the CalKIDS' structure as it relates to how the funds in the Program should be invested. Based on our analysis, we believe the primary objective for the CalKIDS master holding account should be the preservation of capital as it holds the Program assets prior to distribution to the cohort accounts. We believe the Principal Plus Interest Portfolio best meets the objective of capital preservation because the assets within the investment are not subject to Net Asset Value (NAV) volatility as it maintains a stable NAV while offering a crediting rate at yields similar to high quality short-to-intermediate fixed income securities.

For the CalKIDS cohort accounts, we believe the primary objective should be to maintain tuition purchasing power over time. Tuition inflation has historically run at a rate of about one and a half to two times the rate of general inflation. As such, in order to maintain tuition purchasing power the corresponding investment option must have the ability to appreciate over time. The investment should also take the participant's risk tolerance into account which is largely driven by the time remaining until matriculation. Accordingly, the investment should become more conservative over time as the time until matriculation diminishes. We believe the Passive Enrollment Year Portfolios best meet this objective. The Passive Enrollment Year Portfolios invest in growth assets (stocks) when the participant is young (and has a long-time horizon before matriculation) and then shift to more conservative investments as the participant nears matriculation. We also believe the cost of the investment should be a secondary consideration and as such we would recommend the corresponding Passive Enrollment Year Portfolio for the CalKIDS cohort accounts. Given that new passive enrollment year options are launched by TIAA-CREF Tuition Financing, Inc. (TFI) on a rolling two-year schedule, we believe the goal should be to align the cohort account with the Passive Enrollment Year Investment Portfolio that most closely corresponds to the cohort's anticipated enrollment date.