

MINUTES  
SCHOLARSHARE INVESTMENT BOARD

October 17, 2003, 1:00 PM  
Teleconference

Chair Anne Stausboll called the meeting to order at 1:10 PM.

Present: Anne Stausboll for Phil Angelides, State Treasurer  
Shelley Mateo for Steve Peace, Department of Finance  
Jordan Brandman for Kerry Mazzoni, Office of the Secretary for Education  
Allison Jones  
Maria Elena Serna

Staff: Carrie Douglas Fong, Executive Director, ScholarShare Investment Board  
Marian Cohen, Program Manager, ScholarShare Investment Board  
Phillip Rollock, Vice President, TIAA-CREF Tuition Financing, Inc. (TFI)  
Christopher Lynch, Regional Director, TFI  
John Middlebrook, Regional Director, TFI  
Carla Raffin, California Program Manager, TFI  
Yvonne Jimenez, Field Consultant, TFI  
David Copeland, Senior Marketing Communications Specialist, TFI  
Tyler Bleszinski, Media Relations Manager, Ogilvy Public Relations  
Allan Emkin, Managing Director, Pension Consulting Alliance (PCA)  
Tom Noguerola, ScholarShare Investment Board Legal Counsel

The Chair declared a quorum present.

**Board Agenda Item Number One**  
**Approval of Minutes of the June 20, 2003 Teleconference**

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The minutes from the June 20, 2003 ScholarShare Investment Board (SIB) meeting were approved as submitted.

**Board Agenda Item Number Two**  
**Staff Report**

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Ms. Carrie Douglas Fong provided updated program totals as of October 10, 2003 for the ScholarShare Program.

## ***Update on the ScholarShare Program***

### Account Growth

The total number of ScholarShare accounts opened since inception is 124,240. This year 26,184 accounts have been opened. The total net asset value is \$818 million and the average account balance is \$6,585.

Ms. Douglas Fong expressed concern that TFI will not reach its account generation goal of 43,000 because the current account generation numbers are below last year's levels. Staff outlined the actions that the SIB may take in the event the account numbers fail to increase under the contract. Staff anticipates providing an update on the numbers to the Board at the December meeting.

Mr. John Middlebrook, TIAA-CREF Tuition Financing, Inc. (TFI), explained that although it was a struggle to reach the account goals established by Cerulli Associates, Inc. for 2002, it should be noted that the asset goals exceeded the target this year and the target for 2002 by nearly 100 percent. TFI is open to working with staff on annually revising targets.

### Request for Proposal for an Investment Firm/Manager for Intermediary Distribution

Ms. Douglas Fong announced that the SIB's Request for Proposal (RFP) for an Investment Firm/Manager for Intermediary Distribution was distributed on October 6, 2003. The responses for this RFP are expected by December 3, 2003.

### TIAA-CREF Reorganization

Ms. Douglas Fong stated that TFI has begun a reorganization. Staff will continue ongoing dialogue with TFI regarding significant changes and report back to the Board at the December meeting.

## ***Updates on the Governor's Scholarship Programs (GSP)***

### Unclaimed Reports

Unclaimed reports for the Governor's Scholarship Programs were sent out this week. The claim rate for the Governor's Scholarship Programs has also been continuing to improve.

## **Board Agenda Item Number Three**

### **TIAA-CREF Investment Personnel Changes**

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Staff and Pension Consulting Alliance (PCA) had insufficient information to make a recommendation for the investment personnel changes at TFI. SIB's contract with TFI requires Board approval for potential TFI personnel changes. Ms. Douglas Fong advised that SIB and

PCA would meet with TFI investment managers to get additional information and that the item would be addressed at the December meeting.

Board Action:

Member Brandman moved that the item be tabled until the December meeting or earlier. The motion was seconded by Member Mateo and approved by the Board.

**Board Agenda Item Number Four**  
**Maximum Account Balance Limit for**  
**Golden State ScholarShare College Savings Trust for 2004**

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Ms. Douglas Fong stated that up until last year, ScholarShare had some of the lowest maximum account balance limits in the industry. The Board voted to change the methodology for determining the maximum for 2003, and the new methodology is typical of current industry standards. The current methodology for the maximum account balance limit is the cost of four years of undergraduate study plus two years of graduate instruction (4 + 2) at the most expensive higher education institution in California (Stanford University) and is based on research conducted by staff, PCA and Milliman USA. Staff recommended that the methodology, which was previously approved by the Board, remain intact and that the maximum account balance limit be raised from \$267,580 to \$274,672, due to the increasing tuition at Stanford University.

Discussion:

Member Jones stated that a methodology that uses four and a half to five years for undergraduate study better represents current full time college student attendance. Ms. Douglas Fong explained that a similar methodology using five years for undergraduate study was considered, but that more than six years total study was frowned upon by the Internal Revenue Service and a 4 + 2 methodology allowed for a higher limit than a 5 + 1 methodology.

Mr. Middlebrook recommended rounding the limit up to \$275,000 for simplicity.

Board Action:

Member Serna moved that the maximum account balance limit be increased from \$267,580 to \$275,000. The motion was seconded by member Brandman and approved by the Board.

**Board Agenda Item Number Five**  
**Asset Allocation for Age-Based Options for**  
**Golden State ScholarShare College Savings Trust for 2004**

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Mr. Allan Emkin, PCA, explained that every year, the manager has an obligation to bring to the Board a new recommendation regarding asset allocation in each of the different age bands. The

recommendation from TFI, which PCA concurs with, is that the asset allocation be maintained at current levels. Mr. Emkin stated that a series of information items would be presented to the Board to provide a foundation to consider more extensive changes in the 2005 Asset Allocation.

This change amends the age bands to reflect the age of the children and is performed annually.

Board Action:

Member Brandman moved to approve changes to the age bands used for the Age-Based Asset Allocation and Aggressive Age-Based Asset Allocation Options as shown in redline on SIB's Investment Policy. The motion was seconded by Member Mateo and approved by the Board.

**Board Agenda Item Number Six**  
**Second Quarter 2003 Investment Performance**

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Mr. Allan Emkin, PCA, announced that funds did very well on an absolute and relative basis and no overwhelming issues of underperformance were apparent. Mr. Emkin also presented the Fund Performance Status Report through June 30, 2003, which followed the format adopted during the April 18 SIB meeting.

Discussion

The Performance Criteria Sensitivity Analysis for each fund was presented and explained. Mr. Emkin pointed out that underperformance at a small level should not cause concern since the long-term performance of a fund is most important.

The majority of the funds fall in the "positive" range relative to their benchmarks. Two of the funds, the Growth and Income Fund and the International Equity Fund, are in a "cautionary" range and will be monitored closely should there be any need to take action such as probation of the fund. The Growth Equity Fund remains on probation, but has shown recent improvement.

**Board Agenda Item Number Seven**  
**Fourth Quarter 2002 Administrative and Marketing Performance Report**

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Ms. Marian Cohen, presented sample data for the Administrative and Marketing Performance Report in a modified report format, consisting of both qualitative and quantitative formats. Ms. Douglas Fong stated that this report provided the information the Board requested in February including trends, columns, and more information as to why TFI was below in some areas. By spring 2004, staff will present a full year's worth of data and should be able to provide some trend analysis.

Ms. Douglas Fong stated that staff and consultants had researched industry standards, including speaking with firms in the financial industry and looking at the benchmarks for other states. The Board set the Administrative and Marketing Criteria for the vendor and approved benchmarks in June 2002.

Discussion:

Member Jones questioned why only data from the fourth quarter was presented. Ms. Cohen responded that this report is an example of the type of report that the Board will receive when a full calendar year of data is available. Staff is working with TFI to provide the best way to present performance over time. After the first of the year, staff will do an Annual Performance Report, which should be available for the Board spring 2004.

Chair Stausboll questioned whether a comparison between the fourth quarters of 2002 and 2003 would be presented. Ms. Cohen responded that staff would work with TFI to develop an effective way to present this particular information.

Members inquired about the performance criteria (benchmarks) and why the inside numbers were used rather than the outside numbers and expressed interest in using outside numbers. Ms. Cohen stated that staff and TFI are analyzing what TFI can provide, what they cannot provide, and what can be provided at an additional cost, and will be bringing recommendations to the Board.

**Board Agenda Item Number Eight**  
**2003 Marketing Update**

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Ms. Carla Raffin, TFI, presented a qualitative report and spreadsheet containing a marketing update for the current year. This year's marketing plan includes two campaigns (an online Barnes and Noble gift card campaign and a direct mail Graduation campaign), outreach with employees at the University of California and Disney, internet advertising on such websites as savingforcollege.com, letters describing ScholarShare and its benefits mailed to estate attorneys, and an upcoming online Target gift card campaign. This marketing plan was successful in inducing new customers to open ScholarShare accounts, which is one of the program's primary goals. Mr. David Copeland, TFI, stated that online outreach has been successful in generating accounts, especially since the majority of accounts are opened online, which can be attributed to the large number of visits to the ScholarShare website.

Chair Stausboll inquired about how many accounts are expected to be opened during this new Target gift card campaign. Ms. Raffin expects that this campaign will be more successful than the Barnes and Noble campaign since Target is a wider store with more retail outlets and more aggressive advertising.

**Board Agenda Item Number Nine**  
**Hispanic Outreach Plan**

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As requested by the Board at the February meeting, TFI has presented a report on the Hispanic Outreach efforts. Ms. Carla Raffin and Ms. Yvonne Jimenez, TFI, discussed various outreach efforts including the availability of Spanish language flyers and kits, the Latino Book and Family Festival, the publication of a ScholarShare article in several newsletters, and the press conferences held during College Savings Month.

Mr. Tyler Bleszinski, Ogilvy Public Relations, discussed ScholarShare's sponsorship of the A's Amigos, an outreach effort for Spanish speaking children in the Bay Area. The program brings students to Oakland A's games to talk with Spanish speaking players and emphasizes the importance of college as well as how to succeed in life.

Finally, Mr. Bleszinski and Ms. Raffin showed the press clips from KCRA and KQCA News and an Univision segment featuring Treasurer Angelides and Member Serna.

**Public Comment**

Chair Stausboll called for public comment. There was none. There being no further business before the Board, the Chair adjourned the meeting at 3:05 p.m.

The next meeting is scheduled for December 12, 2003 at 1:00 p.m.

Respectfully submitted by,

Carrie Douglas Fong, Executive Director  
SCHOLARSHARE INVESTMENT BOARD