

MINUTES
SCHOLARSHARE INVESTMENT BOARD

June 29, 2006, 1:30 p.m.
Teleconference

Chair Ted Eliopoulos called the meeting to order at 1:37 p.m.

- Present: Ted Eliopoulos for Phil Angelides, State Treasurer
Tom Dithridge for Michael C. Genest, Department of Finance
Cathleen Cox for Alan Bersin, Office of the Secretary for Education
Allison Jones (via phone)
Sabrina Kay (via phone) (joined at 1:42 p.m. and departed at 3:40 p.m.)
Maria Elena Serna (departed at 3:12 p.m.)
- Staff: Carrie Douglas Fong, Executive Director, ScholarShare Investment Board (SIB)
Don Sherman, Manager, SIB
Stanley Zeto, Analyst, SIB
Julia Bilaver, Staff Counsel, State Treasurer's Office
- Consultants: Allan Emkin, Pension Consulting Alliance, Inc. (PCA) (joined at 1:45 p.m.)
John Charley, PCA
Andrea Feirstein, AKF Consulting LLC (via phone)
- TIAA-CREF: Stephen MacDonald, Business Analysis, TIAA-CREF Tuition Financing, Inc. (TFI)
(via phone)
Cindy Wilson, Program Manager, TFI (via phone)
- Fidelity: Joe Ciccariello, Vice President, Fidelity Personal Investments
Jeff Troutman, Vice President, Fidelity Institutional Services
Heidi Siegal, Director, Fidelity Personal Investments
Jonathan Shelon, Vice President, Co-Portfolio Manager, Fidelity Investments
Jackie Ly, Global Asset Allocation Analyst

The Chair declared a quorum present.

The Board decided to change the order of the items and have Agenda Items 10, 9 and 3 follow Agenda Item 8.

Board Agenda Item Number One
Approval of Minutes from April 13, 2006 Meeting

The minutes from the April 13, 2006 ScholarShare Investment Board (SIB) meeting were approved as submitted.

Board Agenda Item Number Two

Staff Report

Ms. Carrie Douglas Fong, SIB, presented the Staff Report to the Board and reported that Mr. Doug Chittenden has replaced Phil Rollock as Vice President of TIAA-CREF Tuition Financing, Inc. (TFI).

Ms. Douglas Fong reported that SIB staff met with representatives from Fidelity Investments (Fidelity) on at least three occasions and has been doing its due diligence during contract negotiations with Fidelity. Ms. Douglas Fong added that SIB staff finalized the contract and forwarded it to Fidelity and anticipates that it will be ready for review by the Department of General Services by the following week. Ms. Douglas Fong stated Fidelity's data collection varies from that of TFI, and that there is a need to make significant changes to the benchmarks. Ms. Douglas Fong stated that Fidelity should have a preliminary marketing plan ready for the Board at the next meeting. Member Cox requested a notice be sent out to the Board upon a signed agreement between SIB and Fidelity.

Board Agenda Item Number Three

Review of TIAA-CREF's First Quarter 2006 Investment Performance

Mr. John Charley, Pension Consulting Alliance, Inc. (PCA), presented the Fund Performance Status Report for the first quarter of 2006 and reported that the Large Cap Value Fund, which was in the caution range last quarter, is now in the positive range and that the Small Cap Equity Fund remains in the caution range.

Board Agenda Item Number Four

Adopt Resolution to Approve Contract Amendment with AKF Consulting LLC for Additional Funds for 529 Industry Consultant Services

Ms. Douglas Fong recommended that the Board adopt Resolution No. 2006-02 which approves a contract amendment with AKF Consulting LLC (AKF) for additional funds. These additional funds are needed to cover the cost for the extension term to SIB's contract with AKF.

Board Action:

Member Dithridge moved to adopt the Resolution No. 2006-02 to approve the contract amendment with AKF for additional funds for 529 industry consultant services. The motion was seconded by Member Kay and approved by the Board.

Board Agenda Item Number Five

Adopt Resolution to Approve Administrative Services Contract with the State Treasurer's Office for Fiscal Year 2006-2007

Ms. Douglas Fong reported that SIB Staff has not received a final amount from the State Treasurer's Office (STO) budget department regarding the administrative services contract for fiscal year 2006-2007. Ms. Douglas Fong stated that the amount will be fairly similar to last year's amount and will not exceed \$130,000. The Board requested SIB staff notify them of the final contract amount when it becomes available. Ms. Douglas Fong recommended that the Board adopt Resolution No. 2006-03 which authorizes the Executive Director to enter into an administrative services contract with STO in an amount not to exceed \$130,000 for fiscal year 2006-2007.

Board Action:

Member Serna moved to adopt Resolution No. 2006-03 authorizing the Executive Director to enter into an administrative services contract with STO in an amount not to exceed \$130,000 for fiscal year 2006-2007. The motion was seconded by Member Cox and approved by the Board.

Board Agenda Item Number Six

Adopt Resolution to Approve Contract Amendment with TIAA-CREF Tuition Financing, Inc. for Program Management Services for the Governor's Scholarship Programs for the Period from July 1, 2006 through the end of the Contract

Ms. Douglas Fong stated that each year the Board approves a contract amendment with TFI to provide funding for the upcoming fiscal year for program management services for the Governor's Scholarship Programs (GSP). Ms. Douglas Fong reported that the amount of this contract amendment would not exceed \$300,000. Ms. Douglas Fong recommended that the Board adopt Resolution No. 2006-04 to approve the contract amendment with TFI for program management services for GSP for the period from July 1, 2006 through the end of the contract, including the transition period. Member Cox inquired about the amount of last year's contract amendment. Mr. Stanley Zeto, SIB, responded that the amount for fiscal year 2005-2006 was approximately \$620,000.

Board Action:

Member Cox moved to adopt Resolution No. 2006-04 authorizing the Executive Director to negotiate, execute and take any necessary steps to amend the GSP management services contract with TFI for the period from July 1, 2006 through the end of the contract. The motion was seconded by Member Kay and approved by the Board.

Board Agenda Item Number Seven

Adopt Resolution to Authorize the Executive Director to Negotiate with and Award Contract for Program Manager for the Governor's Scholarship Programs

Ms. Douglas Fong reported that SIB received two proposals in response to the GSP Program Manager request for proposals issued earlier this year, however, one of the proposals is conditional. Member Dithridge inquired as to how the proposals compare. Ms. Douglas Fong stated that since one of the proposals is conditional, Staff may not be able to consider it and they have not been compared. Member Dithridge inquired as to how we decide on costs. Ms. Douglas Fong stated that this would happen once it is clear who the bidders are or bidder is. In response to Member Dithridge's query of SIB Staff's next steps for this process, Chair Eliopoulos stated that the motion would give SIB the ability to negotiate once a winning bid is determined.

Board Action:

Member Serna moved to adopt Resolution No. 2006-05 to authorize the Executive Director to negotiate with and award contract to the winning bidder to serve as program manager for GSP. The motion was seconded by Chair Eliopoulos and approved by the Board with abstentions from Members Dithridge and Cox.

Board Agenda Item Number Eight
Review of Proposed Investment Options and Funds for the Direct Plan and Advisor Plan and Consideration of Changes to the ScholarShare Statement of Investment Policy

Presentations from Fidelity were provided to the Board detailing the proposed investment options and funds for the direct and advisor plans. Ms. Douglas Fong stated that an Addendum 2 was added to the Statement of Investment Policy (Investment Policy) that details the mapping of investments from TIAA-CREF to Fidelity as well as Fidelity's proposed investment options and funds. Ms. Douglas Fong added that PCA has reviewed these options and funds and has provided a memo on Fidelity's portfolio construction proposals. Ms. Douglas Fong noted one error that appears on page 7 of the revised Investment Policy. The benchmark listed for the Institutional Social Choice Equity Fund should be the Russell 3000 Index, not the S&P 500 Index.

Mr. Joe Ciccariello, Fidelity, introduced Fidelity's staff.

Chair Eliopoulos inquired about the historical experience of families using index funds versus using actively managed funds and inquired about which funds performed better. Mr. Jonathan Shelon, Fidelity, responded that over time this will be presented, as this is relatively new to the marketplace.

Chair Eliopoulos added that the Treasurer would like to make sure that Fidelity maintains the integrity of the direct plan. Member Cox stated that it should be clear that the State has two plans. Mr. Shelon responded that Fidelity will recognize and show that the direct plan is the core plan.

Board Action:

Chair Eliopoulos moved to approve changes to the ScholarShare Investment Policy including the addition of Addendum 2. The motion was seconded by Member Serna and approved by the Board.

Board Agenda Item Number Nine
Introduction to Fidelity Investments

Mr. Ciccariello, Mr. Jeff Troutman, and Ms. Heidi Siegal, all of Fidelity, provided the Board with a brief introduction to Fidelity Investments. Chair Eliopoulos requested that these presentations be forwarded to Board members participating via teleconference.

Board Agenda Item Number Ten
Review of Transition Timeline for the New ScholarShare Program Manager

Mr. Ciccariello presented the Board with a timeline for the transition from the current program manager to the new program manager. Member Dithridge and Member Jones inquired about the asset value and how much will be lost in the transition from TFI to Fidelity. Mr. Charley stated that zero dollars will be lost. Mr. Shelon added that the value would not decline under any circumstance for the investor. Mr. Allan Emkin, PCA, stated that an implicit fee would be the only fee incorporated, meaning the fee has been added in prior (at the price it is sold at), and the explicit fee would be de minimus.

Public Comment

Chair Eliopoulos called for public comment. There was none.

There being no further business before the Board, the Chair adjourned the meeting at 3:44 p.m.

Respectfully submitted by,

Carrie Douglas Fong, Executive Director
SCHOLARSHARE INVESTMENT BOARD