

**MINUTES
SCHOLARSHARE INVESTMENT BOARD**

March 10, 2011

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

Present:

Members: Patricia Wynne for Bill Lockyer, California State Treasurer
Nicolas Schweizer for Ana J. Matosantos, Director of Finance
Antoinette Chandler
Lawrence Hershman
Rhonda Johnson
Mark Vargas

Staff: Zeny M. Agullana, Executive Director, ScholarShare Investment Board
(SIB or Board)
Arlene Greene, Deputy Director, SIB
Stanley Zeto, SIB
Sue Lim, SIB
Samantha DeAnda, SIB
Brian Gorban, SIB
Joyce Eriksson, SIB
Mark Paxson, General Counsel, State Treasurer's Office (STO)

Consultants: Allan Emkin, Managing Director, Pension Consulting Alliance, Inc. (PCA)
Jeremy Thiessen, Principal, PCA
Andrea Feirstein, Managing Director, AKF Consulting Group (AKF)
(Via teleconference)

Fidelity: Jeff Troutman, Vice President, College Savings, Fidelity Investments
Institutional Services (FIIS)
Matt Golden, Vice President, College Savings, FIIS
Kyla Doyle, Vice President, Relationship Management, Fidelity Investments
(Fidelity)
Chris Sharpe, Portfolio Manager, FIIS
Krista Scalzo, Senior Vice President and Division Manager, FIIS
Tracey Ryan, Director, Marketing, FIIS
Sharon Rogers, Director, Marketing, Fidelity
Dan Egan, Director, Product Management-Distribution/Operations, Fidelity

Chair Wynne declared a quorum present.

Board Agenda Item Number One
Approval of Minutes from December 9, 2010 and January 27, 2011 ScholarShare
Investment Board Meetings

The minutes from the December 9, 2010 and January 27, 2011 SIB meetings were presented to the Board.

Board Action

Member Hershman moved to approve the item before the Board, the minutes from the December 9, 2010 and January 27, 2011 SIB meetings. The motion was seconded by Member Chandler and approved by the Board.

Board Agenda Item Number Two
Executive Director's Report

Mr. Stanley Zeto, SIB, provided updated account and asset data for the ScholarShare College Savings Plan (Direct Plan), ScholarShare Advisor College Savings Plan (Advisor Plan), and Governor's Scholarship Programs.

Ms. Zeny Agullana, SIB, provided a legislative update and referenced H.R. 529 (Jenkins) which proposes to include computer technology and equipment as qualified higher education expenses for 529 plans and to allow certain individuals and businesses a tax credit for contributions to 529 plans. The bill is currently in the House Ways and Means Committee.

Ms. Agullana provided an update on SIB's recent request for proposals (RFP) and contracts including the awarding of a contract to AKF for SIB's 529 industry consulting services and to PCA for investment consulting services. Both contracts were awarded following competitive RFP processes that began in September 2010 and November 2010, respectively. Ms. Agullana also reported that following a request for offer (RFO) process, a contract was awarded to ProProse LLC for strategic planning and marketing review services. As requested by the Board, Ms. Agullana stated that SIB will report back with an update following the completion of the contract.

Ms. Agullana presented the proposed 2011 SIB meeting calendar and noted that the May and August meeting dates would most likely change.

Ms. Arlene Greene, SIB, provided an update on marketing and outreach events during the previous quarter. Ms. Greene also provided an update on SIB's two CalSAVE pilot programs which would study how ScholarShare 529 accounts could best be utilized by former foster youth in higher education. Member Johnson inquired as to who would have ownership of the funds. Ms. Greene responded that the students would have ownership of the account, but they will receive "wrap-around" support services from the administrative agents of the pilot programs. As requested by the Board, Ms. Greene stated that updates on these pilot programs will be provided at future meetings.

Mr. Mark Paxson, STO, provided an update on a proposed rule by the Securities and Exchange Commission (SEC) that would require board members of municipal issuers who are not elected officials, to register as financial advisors with both the SEC and the Municipal Securities Rulemaking Board (MSRB). Mr. Paxson stated that the State Treasurer submitted comment to the SEC outlining a number of burdens on our appointed board members should the rule be put in place. The comment included a recommendation that the SEC adopt an exemption for statutory or appointed board members, or designees of statutory or elected board members, allowing them to be excluded from the registration requirements. Ms. Andrea Feirstein, AKF, stated that the SEC had received over 600 comments from clients against the concept and indicated she would be surprised if the SEC concluded. Member Wynne inquired about the timeline for the SEC action and Mr. Paxson indicated it should be resolved within a few months.

Board Agenda Item Number Three

Review and Analysis of Fidelity Investments' Investment Performance for the ScholarShare Advisor Plan for Fourth Quarter and Year End 2010 and Resolution to Place Select Fidelity Portfolio on Watch Status

Mr. Chris Sharpe, Fidelity, presented Fidelity's Investment Performance Review for the Advisor Plan for fourth quarter 2010. Mr. Sharpe provided an update on factors that have impacted the U.S. markets during the quarter and reported that the risk portfolios had performed very well due to accelerated economic conditions and tax relief benefits.

Mr. Jeremy Thiessen, PCA, presented PCA's Investment Performance Status Report for the Advisor Plan for fourth quarter 2010. Member Chandler inquired whether it was safe to assume that the funds demonstrated more consistency over the life of the portfolio and inquired how the risk was measured. Mr. Sharpe explained that the risk of the portfolio was aligned with the benchmark.

Mr. Thiessen presented PCA's memo recommending the placement of the Fidelity Advisor Equity Growth Portfolio on watch status for not meeting the investment performance criteria. Mr. Thiessen stated that PCA and SIB staff recommends the portfolio be placed on watch status and closely monitored during the next 12 months. Member Schweizer asked if the funds would be replaced with something similar. Mr. Thiessen responded that the Board would follow the approved monitoring procedures if the fund continues to underperform.

Board Action

Member Hershman moved to approve the item before the Board, Resolution No. 2011-02, approving the placement of the Fidelity Advisor Equity Growth Portfolio on watch status. The motion was seconded by Member Chandler and approved by the Board.

Board Agenda Item Number Four
Review and Analysis of Fidelity Investments' Investment Performance for the ScholarShare Direct Plan for Fourth Quarter and Year End 2010.

Mr. Sharpe presented Fidelity's Investment Performance Review for the Direct Plan for fourth quarter 2010 and reported that the index portfolio performance lagged the benchmark, generally by the expenses incurred by the fund. Mr. Sharpe described the two alternatives for the shareholders, active versus index, and reported that the active portfolios outperformed the index funds over the quarter but generally underperformed the index portfolios over the life of the fund.

Mr. Thiessen presented PCA's Investment Performance Status Report for the Direct Plan for fourth quarter 2010. Mr. Thiessen also provided clarification about the fair market value adjustment for the Passive International Equity Asset Class.

Mr. Jeff Troutman, Fidelity, provided an update on the Money Market Portfolio reporting that during 2010, SIB and Fidelity had waived management fees totaling \$28,477 and \$250,884, respectively.

Agenda Item Number Five
Review of Fidelity Investments' 2010 Marketing Results for the ScholarShare Direct Plan

Ms. Kyla Doyle, Fidelity, presented the marketing results for 2010, including a review of the number of accounts opened and assets collected relative to the approved marketing performance criteria. Ms. Doyle indicated that the percentage of accounts closed due to rollovers may have been attributed to the economy which may have driven the participants to advisor-sold plans. Ms. Doyle also noted that clients generally would follow if the advisors left the firm

Ms. Doyle provided an update on local marketing results and outlined strategies planned for 2011. Ms. Doyle also reported that Fidelity was exploring new concepts for the annual High School Survey that may spark increased media interest, including surveying college students and recent graduates experiencing the difficulties of paying expenses in college. Member Hershman stated that the California Student Aid Commission may be helpful in developing financial aid survey. Ms. Greene stated that Member Johnson assisted in reviewing and commenting on the financial aid survey. Member Vargas requested a copy of the most recent ScholarShare Participant Profile.

Ms. Sharon Rogers, Fidelity, provided results for online advertising and direct marketing. Ms. Agullana noted that SIB staff meets with the Fidelity team regularly to make adjustments, ensuring the correct mix of advertising.

Board Agenda Item Number Six
Review of Fidelity Investments' 2010 Marketing Results and 2011 Marketing Plan for the ScholarShare Advisor Plan

Mr. Jeff Troutman, Ms. Tracey Ryan, and Ms. Krista Scalzo, FIIS, presented Fidelity's marketing results for 2010 and marketing plan for 2011. Mr. Troutman explained that investors depend on their advisors for advice, guidance, product information and performance of the portfolio and advisors depend on Fidelity for product information and sales support. Mr. Troutman reported that the level of contributions for 2010 exceeded their goal.

Ms. Scalzo stated that Fidelity's sales group focused on four key activities that provided educational opportunities for the producers and stated that workbooks, such as "The College Solution" and "How To Get Into College," were provided to the advisors with the Advisor Plan being the key discussion. Ms. Scalzo reported that the meetings were being evaluated.

Ms. Ryan highlighted specific campaign results in 2010 and provided a snapshot of Fidelity's marketing activity for 2011 which focused on targeting the advisors by creating teaser emails to entice advisors to go online for more information, adding direct mail, resending emails, and continuing the campaign of educating advisors at one-on-one events, group meetings, and shareholder events.

Board Agenda Item Number Seven
Review of Fidelity Investments' Administrative Performance for the ScholarShare Direct Plan and Advisor Plan for Fourth Quarter and Year End 2010

Ms. Doyle presented Fidelity's Administrative Performance Report for the Direct Plan for fourth quarter 2010. Ms. Doyle reported that there were four areas of underperformance during the fourth quarter. Mr. Dan Egan, Fidelity, provided an explanation for the underperformance in these areas. Mr. Egan stated that Fidelity saw an increase in the volume of calls in the fourth quarter, primarily due to the strong market performance and that they will continue to monitor staffing levels, provide additional training, and cross-train existing staff. Member Schweizer recommended that Fidelity anticipate the increased calls according to marketing and seasonal demands. Member Johnson suggested offering wait times, a call back opportunity, or extended hours during peak times. Ms. Agullana suggested cross-training non-529 staff to accommodate high volumes. Member Wynne stated that the Board would be closely monitoring administrative performance with the expectation of improvement.

Mr. Troutman presented Fidelity's Administrative Performance Report for the Advisor Plan for fourth quarter 2010.

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 4:15 p.m.

Respectfully submitted by,

Zeny M. Agullana, Executive Director
ScholarShare Investment Board