



Oregon  
University  
System

**OREGON UNIVERSITY SYSTEM  
RETIREMENT COMMITTEE MEETING  
NOVEMBER 21, 2008**

Investment Committee: Larry Dann (Chair), Richard Bailey, Mike Green, Deb Janikowski,  
Gary Malone, John Settle, Kip Sigetich

Administration Committee: Ernie Pressman, Sandi Setters, John Craven, Denise Yunker (Chair)

Staff: Nathan Klinkhammer

Guests: Howard Biggs, Arnerich Massena and Associates, Inc.  
Shawn Crosgrove, Fidelity Investments

Chairman Dann introduced Professor Richard Bailey, the newest member of the Investment Committee. He is with the management department at the Oregon Institute of Technology, and replaces professor Larry Curtis on the committee. Richard advised on the implementation of the plan redesign in 2007.

**1. Report: Fidelity Fee Structures**

Fidelity Investments Relationship Manager Shawn Crosgrove reviewed the fees for the “OUS” investment menu and programs. Each fund and annuity contributes a portion of the total expense ratio for recordkeeping, participant education and services and profit. Typically, equity funds generate 35 basis points, fixed income money markets generate 25 basis points, and index funds generate zero basis points.

For Q3 of the 2008, the overall investment expense was 26 basis points for the ORP, and 28 basis points for the TDI. Fidelity’s annualized ORP revenue is \$119 for each of the 964 enrolled participants, and \$25 per participant for the TDI, which serves 1,776 participants. The difference in revenue is a function of the average account balances: ORP accounts average \$46,000, whereas TDI accounts started at zero in Nov 2007. Increases in participation, cash flow, and account balances over time will allow use of lower cost share classes. Contracted participant education days decrease in 2009 and 2010, additionally reducing revenue requirements.

Investment Committee members discussed opportunities for reducing share class costs. Howard Biggs noted that some of the mutual funds could now be stepped down. The Investment Committee’s role – to keep fees low for the participants, create an investment structure for participants to choose on the risk/reward spectrum, and oversee the performance of investments – includes working with the Administration Committee to determine the needs to provide service to participants through recordkeeping, education, and communications.

*Action: An overview of investment expenses was referred to a future Investment Committee agenda.*

**2. Performance of Retirement Date Funds**

The committee addressed performance of the Fidelity retirement date funds. In comparison to three other major fund families that provide similar target retirement date funds, Larry Dann concluded all the fund families are close to each other in terms of performance. Kip Sigetich noted that equity exposure in funds with a beginning target date of 2030 have greater than 80% equity exposure, and there appears to be more risk in that equity portion than in the S&P 500. Shawn Crosgrove noted the S&P 500 represents the large

cap market's benchmark for target retirement date funds. Fidelity's sector-neutral benchmarks include indexes for domestic equity, international equity, high yield bonds, fixed instruments, and short-term bonds. (Appendix A) Year to date performance of the target retirement date funds has been primarily affected by asset classes outside the S&P 500, including international markets and effects of the credit crisis on low quality bonds, as a function of the diversification model, which Fidelity believes will correct over time with the financial markets.

Howard Biggs commented that the current performance is reflective of October 2008, and Fidelity products were ahead of the S&P 500 until a month prior. However, he continued, back-modeling shows that passive investments generally outperform active and there is considerable discussion in the industry about how much equity is advisable in the last several years before retirement. Crosgrove added that both the equities and fixed income components have been depressed and the 2000-2015 target date funds are being held up primarily by the money market component of the funds.

Larry Dann noted the committee studied various alternatives before approving the Fidelity target date funds. Those options could be revisited. Other options were discussed; including consideration of Fidelity's redesigned Portfolio Advisory Service that builds target date funds from the core investment lineup, or index-based lifecycle funds. However, costs (e.g., unitization and recordkeeping) could be high until there are adequate assets in the plan to support a flat fee structure.

*Action Item: Discussion of target retirement date fund options referred for future committee consideration.*

### **3. Investment Committee Minutes**

May 16, 2008 meeting minutes were approved.

### **4. Committee Follow-up Items**

Revenue Share Recordkeeping and services fees are included in the overall investment expense listed on the Fidelity website, but not reported separately on the website by Fidelity. At the request of the Investment Committee, the 2009 employee handbooks will note that some funds have higher overall expense ratios and contributions to recordkeeping and service costs (revenue share) than others.

Committee Structure and Responsibilities Larry Dann clarified that the Investment Committee has oversight and responsibility for investments on the "OUS" (Fidelity) platform, but not for TIAA-CREF or VALIC.

Investment Policy Statement Investment Committee oversight and responsibility is for to the "OUS Core Investment Menu", which was revised to include ING variable and fixed annuities. The committee revised and accepted illustrations of the plan and management structures of the 401(a) and 403(b) plans. The Investment Policy statement will be revised, as needed, to reflect Investment Committee oversight of funds used for the subaccounts of the ING variable annuity contract. (Appendix B)

Watch List Criteria The Investment Committee revised and recommended watch list criteria for adoption. The proposed criteria permit automatic watch-listing by the investment advisor and flexibility for the committee in timing and actions regarding a watch-listed investment. Amended language will be proposed for adoption by the Board.

## 5. Participant Response to Market Decline

Nathan Klinkhammer reported that some participants are consolidating their accounts, supported by numerous one-on-one meetings with Fidelity and TIAA-CREF. Additionally, sixty-five percent of OUS participants used call center, voice response, and internet services with Fidelity in the first three quarters of 2008, and OUS sent out targeted communications about recent market activity from Fidelity, TIAA-CREF, and VALIC. Year to date, about 10% of all participants, particularly in the age 40-50 group, transferred or exchanged investments. In real numbers, 40 TDI and 50 ORP participants requested transfer of funds. The relatively low transfer activity indicates that panic selling has not occurred.

## 6. Investment Performance - September 30, 2008

Market Update As of September 30, 2008, in the general market both large and mid-cap equities were off about 22% and small caps 14.5% for the trailing 12 months. Since then, extreme volatility took all three as low as 40-45% off in the domestic category. International was off about 55%, and emerging markets down 60%.

Index funds on the OUS Core Investment Menu were above median among index products in the 5-year period, and 4 of the 5 were above median in one- and three-year periods. The mid cap index fund did not meet or equal the peers in the one- and three-year periods. In all, 89% of the managers were above median for the three-year period, and 93% for five-year period.

Twenty-one percent (21%) of ORP and fifty-eight percent (58%) of TDI assets are invested in Fidelity Freedom Funds. The TDI participation and assets are growing at the most rapid pace. ING investments constitute the smallest portion of the plans.

Large Cap Funds American Beacon's underperformance on the short-end (longer term performance is at the 18th percentile) was due to focus on the financial area. ContraFund continued to perform very well. Spartan Equity Index Fund is in line with the with the Admiral share class with Vanguard.

Freedom Funds Howard Biggs commented that the benchmarks for the lifecycle funds generally group funds into broad bands, e.g., the 2000, 2005, and 2010 target date funds are compared to peers with target dates of 2000-2014. Fidelity's peer group ranking in this range and for the Income Fund will be improving relative to peers with higher equity positions during this negative market. On par, the Fidelity suite is doing relatively well, but there may be some opportunity to work with Fidelity on the equity component for the participants closer to retirement. In particular, the model assumes a participant would be able to live on 4-5% of the account, before the 40% market drawdown. For near retirees, high equity exposure significantly drew down the accounts. Biggs advised addressing the equity roll-down when the time is right for that discussion with Fidelity.

Index Funds Larry Dann noted that Vanguard index target retirement date funds average expense ratios of 20 basis points compared to other target date funds that average 70-80 basis points. Biggs concurred that actively managed funds run between 55 and 100 basis points, and cover the revenue share requirements that are needed for recordkeeping, education and services. John Settle commented that, in general, index managers outperform equity managers and 80 percent of fixed income managers, an important concept for participants.

Reduced Cost Options Three core investments – the Met West Bond Fund, Times Square product, and American Beacon Large Cap Value Fund - have lower cost structures that could be implemented when the plan budget permits.

**Fund Performance Changes**

Howard Biggs addressed the performance of 5 specific funds that merited comment. No funds were watch-listed as of September 30, 2008.

UBS Large Cap: Improved Performance has turned around from the last review due to relative weighting and performance of energy and financials.

ING/JP Morgan Mid Cap: Improved From the first quarter report, its performance is quite strong. There are two quarters in a row where it exceeded the median.

Vanguard Mid-Cap Index In this time period, passive allocation has underperformed the active in this particular asset class. This fund a little more larger-cap weighted, and has underperformed its peer group.

Managers Essex Small-Micro Cap Performance has fallen off. The micro cap part of that market is on the growth side and growth has had some impact.

Spartan Index Fund: Improved This fund does not include emerging markets, so performance improved considerably. Expected to continue in the fourth quarter.

Biggs closed the funds performance review, remarking, "...when the markets are up, we are all excited that the funds are outperforming their peer groups. But now...the absolute market impact hits you. The menu does cross the risk/reward spectrum and it does give participants a range of choice. And on par, 93 percent of the funds over the long term are outperforming. And even in the short term, a little over 75 percent on the one year have outperformed their peer groups. So that is good news to be pleased with from a menu structure standpoint."

**7. Multiple Asset Class Manager Search**

In May 2008, the Investment Committee asked Arnerich Massena and Associates, Inc., to research new investment options in 5 categories. The search results and committee resolution are summarized in the following table.

Investment Option	Results and Recommendations	Committee Action
International Index	<ul style="list-style-type: none"> <li>• Fidelity Spartan International Index (current)</li> <li>• Vanguard Total International Stock Index</li> <li>• Vanguard FTSE All World ex-US Index</li> </ul> <p>Advisor Recommendation: Defer on any action that would require transfer of funds during current market volatility.</p>	Defer on changes to the menu until May 2009 or later.
Emerging Markets	<ul style="list-style-type: none"> <li>• Fidelity Emerging Markets</li> <li>• Vanguard Emerging Markets Index</li> </ul> <p>Advisor Recommendation: Vanguard Index is lowest cost, if timing is right to add an emerging markets fund.</p>	Defer on additions to the menu until May 2009 or later.

<b>Investment Option</b>	<b>Results and Recommendations</b>	<b>Committee Action</b>
REITs	<ul style="list-style-type: none"> <li>• Cohen &amp; Steers Global Realty A</li> <li>• Cohen &amp; Steers Shares</li> <li>• T. Rowe Price Real Estate</li> <li>• Vanguard REIT Index</li> </ul> <p>Advisor Recommendation: Best used in portfolio construction, and not as a sole investment available on a participant directed menu.</p>	Defer on additions to the menu until May 2009 or later.
Commodities	<ul style="list-style-type: none"> <li>• Oppenheimer Commodity Strat Total Return A</li> <li>• PIMCO All Asset Admin</li> <li>• PIMCO Commodity Real Return A</li> </ul> <p>Advisor Recommendation: PIMCO All Asset hybridizes commodities, REITs, and TIPS. Provides diversification to a portfolio, but risky on a platform where 100% election could expose participants to significant volatility.</p>	Deferred action to adopt, but may be considered for future use in a custom-constructed target retirement date product.
Sustainability	<ul style="list-style-type: none"> <li>• New Alternatives</li> <li>• Portfolio 21</li> <li>• SAM Global Sustainability Active</li> <li>• Spectra Green N</li> </ul> <p>Advisor Recommendation: Limited funds selection; green and sustainable funds' focus differs between green technology and sustainable business practices. More options will come to market in Q1 2009.</p> <p>SAM funds, focused on water-resources, leader in green funds, could present to Committee before next meeting with more descriptive material on their funds; use a comprehensive selection process.</p> <p>DOL advises there will be little tax-credits support for use of these funds by committee-directed plans.</p>	Requested additional descriptive information before or at next Committee meeting.



**November 21, 2008**

**To: OUS Retirement Plans Investment Committee**  
**From: ORP/Retirement Plans Administration Committee**  
**Subject: Activity Report**

Since the May 16, 2008 meeting of the OUS Retirement Committee, the Administration Committee of the Optional Retirement Plan and OUS Retirement Committee has completed the following activities:

**Activity**

A written plan document for the Tax-Deferred Investment 403(b) Plan (TDI) was adopted by the Oregon State Board of Higher Education on November 7, 2008, to be effective January 1, 2009. Key provisions of the existing plan were adapted the IRS' model plan document for public schools to ensure compliance with treasury regulations newly applicable to 403(b) plans. Under the Plan, discontinued 403(b) providers are no longer eligible to receive contributions, but are included as "in-plan" providers to ensure administrative coordination required by the regulations, and to permit participants to consolidate their prior accounts to the current providers that are eligible to receive contributions.

The Optional Retirement Plan has been restated and adopted by the Oregon State Board of Higher Education, in accordance with the IRS mandatory 5-year remedial amendment cycle for individually-designed plans. The Plan will be submitted to request an IRS determination letter that the changes meet the requirements for plan qualification.

TIAA-CREF will establish Roth 403(b) accounts, to be available to participants in 2009.

**Notices**

The ORP employer contribution rates will change effective July 1, 2009:

Tier One and Tier Two = 11.89%

ORPSR (Tier Three) = 5.89%

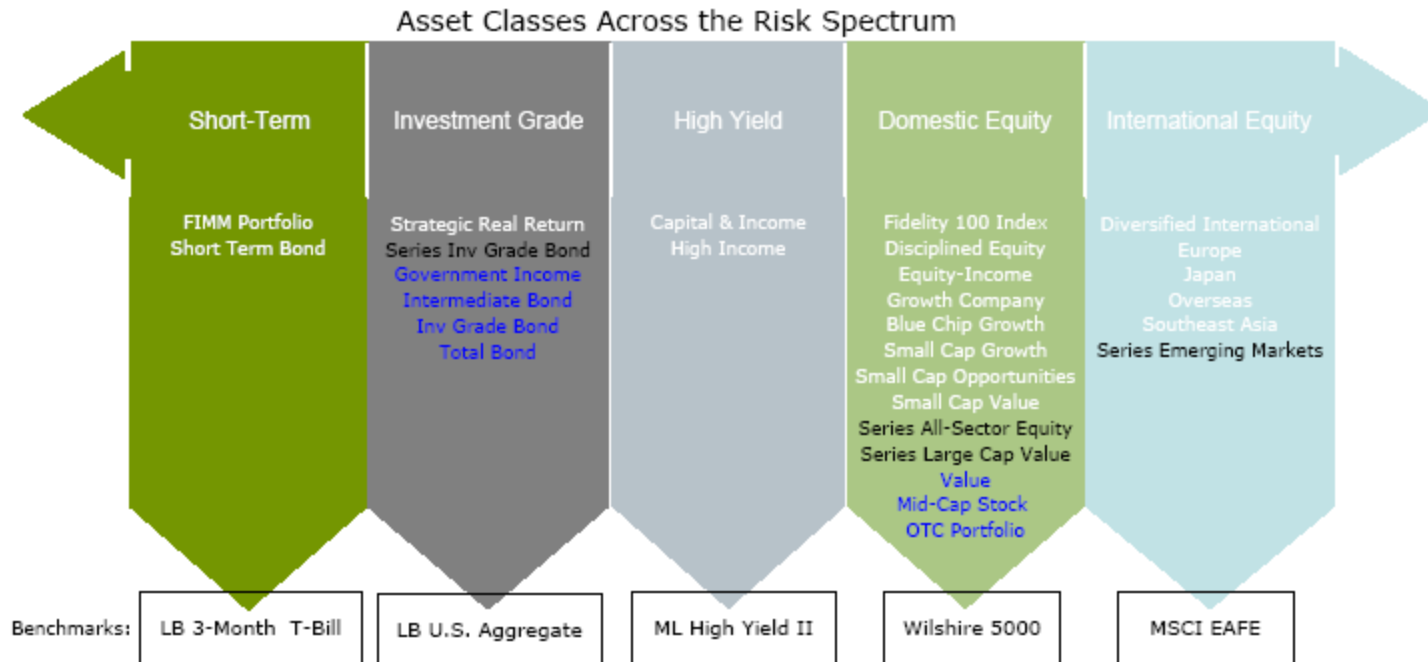
The employee contribution (pickup) remains at 6.00% for both plans

The first Notice of Universal Availability of the Tax-Deferred Investment 403(B) Plan will be provided to all eligible OUS employees in early 2009, as a mailer that includes a quick-response enrollment card.

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## Freedom Fund Asset Class Composition as of September 30, 2008



**The Freedom Benchmark is designed to capture all relevant asset classes across the spectrum of risk exposures.**

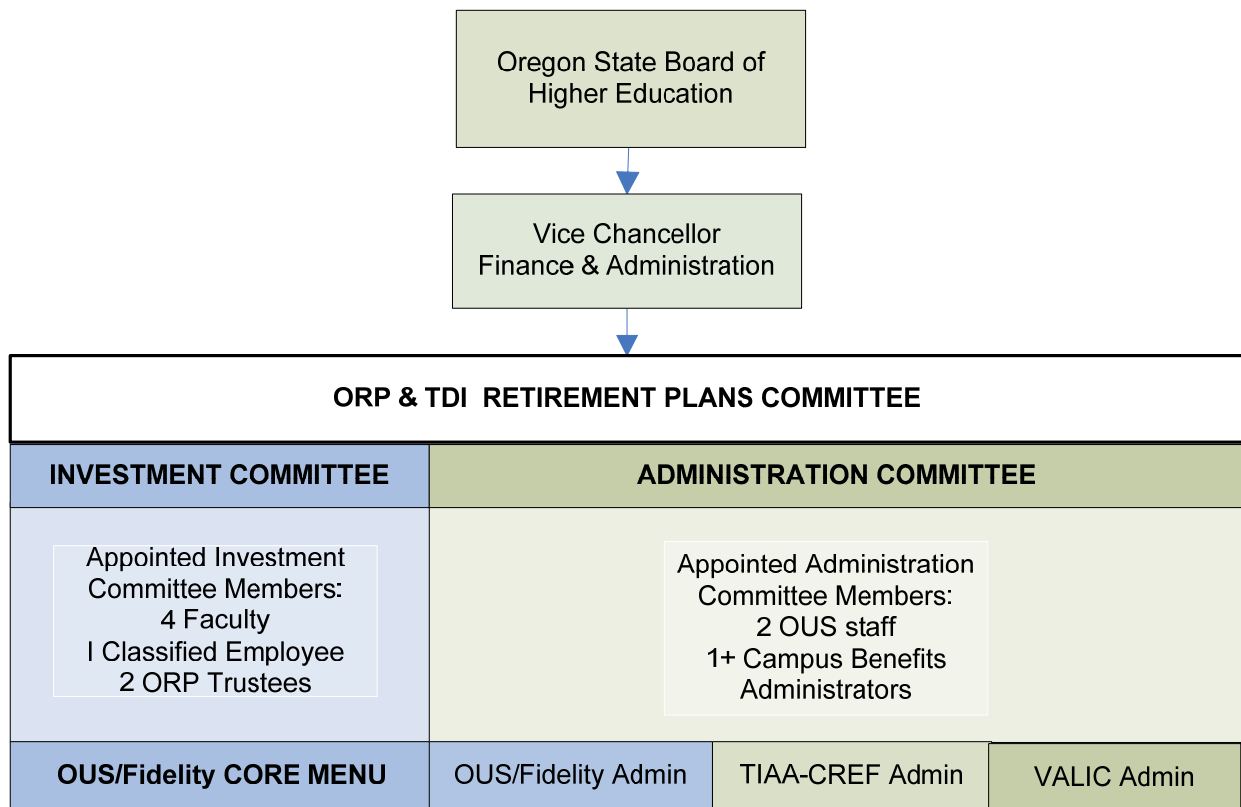
\*Over time, and as market conditions warrant, Freedom Funds' are expected to increase investments in the Funds being added (black) and to eliminate their investments in the funds being "removed." (blue)

This spectrum, with the exception of the Domestic Equity category, is based on Fidelity's analysis of the characteristics of the general investment categories and not on the actual investment options and their holdings, which can change frequently. Investment options in the Domestic Equity category are based on the options' Morningstar categories as of 9/30/08. Morningstar categories are based on a fund's style as measured by its underlying portfolio holdings over the past three years and may change at any time. These style calculations do not represent the investment options' objectives and do not predict the investment options' future styles. Investment options are listed in alphabetical order within each investment category. Risk associated with the investment options can vary significantly within each particular investment category and the relative risk of categories may change under certain economic conditions. For a more complete discussion of risk associated with the mutual fund options, please read the prospectuses before making your investment decisions. The spectrum does not represent actual or implied performance.

General representation of asset classes and holdings. Not all Freedom Funds hold all named asset classes or funds.

Appendix B

OUS Retirement Plans Management



ORP 401(a) and TDI 403(b)  
Plan Design

