

**Retirement Plan Investment Committee
Meeting Minutes – Phone Conference
Friday, April 27, 2007, 1:30-2:30**

Participants

Committee Members: Michael Green, Chair, Larry Curtis, Larry Dann, Deborah Janikowski, John Settle, Kip Sigetich, and Sherry Stahl.

Consultant: Howard Biggs, Arnerich Massena and Associates, Inc.

Other: Darrell Brown, PSU, and Mina Carson, OSU, and Denise Yunker, OUS Chancellor's Office.

1. Structural Design

Mike Green directed participants to refer to the retirement plan structural design handout. He stated that a significant number of meetings and time spent by the faculty advisory committee resulted in this structural design, which has changed significantly since the last time the Investment Committee met. This new design shows three record keepers: TIAA-CREF record kept separately, AIG VALIC that will continue for current participants only, and a new CORE MENU record-kept by Fidelity. The core menu is the topic of this meeting.

The shaded portion of the diagram indicates the area that the Investment Committee has oversight on that will be discussed at this meeting, the development of at least the part above the CHOICE piece.

2. Approval of Minutes – October 25, 2006

Larry Curtis moved to approve the minutes of the October 25, 2006, Investment Committee meeting; Sherry Stahl seconded motion. Motion carried unanimously.

3. Void Action Items 4-7 of October 25, 2006 Meeting Minutes

Items 4 through 7 of the October 25, 2006 meeting involved preliminary mutual fund slottings onto a platform that was designed previously. A default investment option was also identified, which has been administratively changed. Age or target date option decisions have been made outside of the committee, which will be seen on the platform.

Larry Dann moved that items 4 through 7 of the October 25, 2006, meeting be voided in light of discussions and recommendations from the OUS Retirement Advisory Committee. Deb Janikowski seconded the motion. Motion carried unanimously.

When Mr. Curtis asked about record-keeping cost implications of changing the plan this significantly, Mr. Biggs replied that Fidelity is taking the long-term view over their element of the plan that, over time, it will grow substantially, so they did not have a fee increase as a result of the structural changes.

4. Core Menu Construction

Mr. Biggs directed the committee to the investment menu construction matrix handout, which lays out three tiers:

Tier I – Default

A target retirement date solution will be defined as opposed to alternative approaches for this category. A custom construction process for the set of funds will be deferred until assets have accumulated to a large enough level to make the methodology that is available at Fidelity more feasible from a participant overhead perspective. There is a fixed cost to doing the custom approach that has to be allocated to these funds and, without knowing how much OUS participation there will be in the beginning, this makes this approach too risky from a participant cost standpoint. For example, if OUS does not have a substantial amount of funds in one particular age category, then the fixed cost would make the overall expense burden of the product too high. Instead, OUS should move to a product version which would run for a number of years or until the cash flow going into these products could be assessed. Then a custom solution could be implemented if the committee so desires. All vendors would be considered at that time, not just Fidelity.

Tier III – Self Directed

Participants could, if inclined, invest in a large array of mutual fund type products that would not be on the core menu, to give them as much flexibility as they might desire within reasonable parameters. The self-directed mutual fund window is a by-product of the record keeper. From a fiduciary obligation/responsibility standpoint, the participant who goes into the self-directed window is stepping outside of the zone of the products that the fiduciary committee has oversight and/or responsibility for. The brokerage tool itself is as the service provider structures it. Participants will sign an electronic or paper acknowledgement when electing this option to accept sole responsibility for investment fees and performance of mutual funds acquired through the brokerage “window.”

In response to John Settle asking about transaction fees associated with the various products, Denise Yunker said that she had sent out a list of current funds indicating whether they did or did not have transaction fees.

Mr. Dann asked about an e-mail that circulated a couple days prior to the meeting in response to Joe Stone’s hypothetical question regarding transaction fees. All of the responses were confined to the no transaction fee funds. Mr. Dann asked if there would still be transaction fees for the other funds on the menu.

Ms. Yunker responded in the affirmative. She stated that funds are clearly identified through the Fidelity brokerage link with a symbol indicating NTF, no trading/transaction fees. She indicated that discussion is taking place with Fidelity about establishing a sweep account so that a participant may make contributions in the money market fund and then be swept once a year or once a quarter, avoiding a monthly transaction fee every month that his/her payroll contribution comes through.

In response to the question whether or not participants are going to be able to allocate funds across the tiers, Mr. Biggs said that if a participant is choosing Tier I, that is an all-or-nothing type of decision. It is very common to have participants allocate only a portion of their assets to self-directed so Mr. Biggs recommended not making that an exclusive decision. He suggested checking with Fidelity regarding any operational constraints. Ms. Yunker didn't see any preclusions against doing it but stated that it undercuts the general structure of what OUS is trying to achieve using those auto-pilot target age funds.

Mike Green stated he believes that if a participant has a 401(a) plan and the 403(b) plan is supplemental to that, one might want to put half in the default and half in a self-directed fund. Ms. Yunker agrees that it is possible. Mr. Biggs says the Tier I investment is often done in an all-or-nothing perspective but more from an operational and practical implementation standpoint. If the committee wants to make a non-binding recommendation to permit it from an administrative standpoint, that might be appropriate.

Mr. Biggs believes this can be run in a very flexible manner where people can go across the Tiers, and he believes Fidelity is fully capable of that approach. John Settle feels that people would not like roadblocks to diversifying. Ms. Yunker suggested having it on the menu with no restrictions but providing educational information for people to decide on their own. Ms. Stahl and Ms. Janikowski agree with this approach. In light of a developed consensus, the Chair directs that we will explore this option and if administrative or cost issues are encountered, they will be brought back to the committee.

Tier II – Core Menu

Mr. Biggs describes Tier II as more of a core menu for those people who want to act more independently in their selections within reasonable boundaries (“do-it-yourself mode”).

Mr. Settle asked about the capacity limit in terms of having so many choices on the menu. He asked if there was a cost issue or a confusion issue, to which Mr. Biggs replied that there was not a capacity issue with regards to the record keeper, only a confusion issue.

Mr. Green felt that both index and active are going to be important to have in every category. Mr. Settle agreed that he would like to see active and passive paired because he felt it would reduce confusion.

Mr. Dann suggested six passive categories that he felt were worth consideration:

- Something like a total stock market index
- Either an intermediate bond or bond index that is passively managed
- An international
- Inflation index – inflation protected bonds
- A small cap
- Emerging markets -- international

After a discussion that emerging markets is already incorporated in the international index, Mr. Dann agreed to the withdrawal of his emerging markets separate index suggestion.

Mr. Settle stated that he really wants to see the inflation protected fund on the menu.

Discussion ensued regarding the inclusion of a socially responsible fund. It was agreed that this is an important category to include, even though it is an "...ill-defined category," according to Mr. Biggs. It is typically benchmarked to the large cap index because that is where the product offerings generally exist.

Mr. Biggs stated that it is not common to see high yield bond funds on these menus. Since participants can choose a high yield fund in the Tier III Self Directed window, the committee determined that high yield should not be included in the core menu.

The committee determined that the active intermediate bond category should remain in the fixed income category. Kip Sigetich asked why there wasn't a total bond index fund as a passively managed product on the menu as a higher yield, longer term bond. Mr. Biggs stated that in looking at the category, total bond type products would be included and evaluated. Mr. Sigetich agreed to this approach.

The committee did not want to add a low duration bond fund to the menu.

There was a discussion regarding whether or not to include the money market category on the menu. Ms. Yunker pointed out that some of the ORP plan document custodial agreements require that a money market fund be available for use by the custodian.

Under domestic equity, Mr. Biggs included on the matrix three categories that are commonly utilized: large cap, mid cap, and small cap. A concern was raised about a suggestion to get some of the products through the self-directed windows, causing a participant to pay higher trading fees than if the same choice was on the core menu. Additional concerns were raised about limiting participant choice. The committee decided to keep large cap, mid cap, and small cap, with growth, value, and index in each of those categories.

Under international equity, Mr. Biggs presented the same options as under the domestic equity heading: growth, value, and index. The general consensus was towards symmetry in the menu, so having the same choices under international equity; however,

before the call was terminated, Mr. Sigetich raised concerns about the international growth and value categories being ill defined, specifically, that the accounting conventions are different. Mr. Biggs suggested going for a more core-oriented product. He reminded the committee that growth and value are on a continuum so a product might have value or growth in the name but stylistically, it might be arguably within a core or blend range. He suggested an offering that is more towards the core area. The committee agreed.

Mr. Curtis asked if cost information could be provided up-front on a grid for participants to see to assist them in selecting funds. Mr. Biggs was not sure, in terms of how the participant interfaces with the plan at the time of making decisions, electronically and through the record-keeper's environment, if it was possible to build this type of information into the display – that it may be a generic, one-size-fits-all view. He did, however, feel a custom display could be constructed.

Mr. Curtis then asked if the costs change annually or more frequently than that.

Mr. Biggs explained that costs are generally constructed of two major elements, the manager's fee and a corporate overhead fee (mutual fund management including the cost of putting a product together, marketing it, etc) that is built into the expense ratio. Most of the products have an asset break point so small decreases will be factored in as it relates to the break point pricing. These decreases do not occur on specific dates but they generally decrease over time.

Ms. Yunker suggested that as the committee evaluates the funds semi-annually, the updated information will be available to participants either on the OUS web site or perhaps Fidelity will incorporate it into their display. This way, the information would be updated every six months, every time Mr. Biggs' company does the review.

Mr. Curtis asked if the expense ratios are posted, does that create any perpetual implicit guarantees regarding expenses. Mr. Biggs didn't know the answer from a legal perspective. He did suggest posting an 'as of' date. He believed that posting rates with an 'as of' date did not imply a contract but a commitment to update the information from time to time. He was not sure that OUS would want to create a possible burden on the record-keeper in such an interactive daily environment as the online system. He suggested that a communication could go out to participants on a semi-annual or other periodic basis. He did feel that there is some potential risk as it relates to showing information that gets stale or inaccurate over what could be very short time periods.

In the last five minutes of the conference call, the committee agreed to the removal of global equity as an uncommon, confusing choice. Specialty funds were felt to be too risky to have on the core menu and they are infrequently used on retirement plan menus. They will be available through the self directed mutual fund window.

Mr. Green asked for a motion to approve the following:

Target retirement date funds under the default category (Tier I).

Under the core menu (Tier II), a money market fund. Domestic equity -- a large, small, and mid cap with an index (passive) and growth and value (active). International -- an index and an active core. Fixed income -- an intermediate bond active, an intermediate or total bond passive, and an inflation protected passive.

Mr. Curtis moved to approve the aforementioned investment menu construction.

Mr. Settle seconded the motion.

Mr. Settle registered a preference for a pairing of active and passive but said he'd vote for the motion.

Motion carried unanimously.

See Attachment A for results of this selection process.

5. Public Input

No public input.