

**OUS Retirement Plan Committee
Friday, May 16, 2008, 1:00 p.m.
Salbasgeon Suites Hotel & Conference Center**

Meeting Minutes

Participants

Investment Committee: Larry Dann, Chair; Larry Curtis, Michael Green, Gary Malone, John Settle, and Kip Sigetich.

Administrative Committee: Ernie Pressman and Sandy Setters.

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

Staff: Nathan Klinkhammer and Rita Brown, OUS Chancellor's Office

Approval of Minutes

June 15, 2007 Minutes: Motion made and seconded; unanimously approved.

October 3, 2007 Minutes: Motion made and seconded; unanimously approved.

December 3, 2007 Minutes: Motion made and seconded; unanimously approved.

Mr. Settle noted that the June 15, 2007 meeting minutes indicated there would be a statement on the Fidelity website regarding some funds having higher revenue sharing costs than others. That statement has not been added to the web site. Ms. Brown will follow-up with Denise Yunker to have that statement added by Fidelity.

Administration Committee Report

Mr. Pressman reported on the following items:

There was an amendment to 403(b) plans that allows transfers from prior 403(b) accounts that are no longer active and that were eliminated in the transition, to the new 403(b) program in November of 2007. As of February 7, 2008, members were able to transfer into the three active accounts that are now in place: TIAA-CREF, Fidelity Investments, and AIG VALIC.

The 401(a) plan was amended through the State Board of Higher Education to permit nontaxable rollover distributions to a tax-sheltered plan for those people who are non-spouse beneficiaries of the deceased members, retroactive to January 1, 2008. This was a result of the Pension Protection Act of 2006.

OUS is in discussions with PERS regarding a PERS-initiated rule that requires a person wanting to roll some of their PERS money into their optional retirement account to roll the entire amount rather than just a portion of it. OUS disagrees with this rule, feeling it should not be mandatory to roll the entire amount.

Announcements

Call for nominations to the Investment Committee

A call for nominations letter is being sent to Faculty Senate Presidents, Administrative Vice Presidents, and Provosts. This is to select a replacement for Larry Curtis, whose term of office ends with this meeting. The closure of the nomination period is September 30, 2008.

Mr. Curtis pointed out that he was asked to participate on behalf of the Institutional Faculty Senate, in case that's a consideration for his replacement. That question will be presented to Jay Kenton.

Introduction of Gary Malone

Mr. Dann introduced Gary Malone, who was appointed by Jay Kenton to replace Sherry Stahl on the Investment Committee. Mr. Malone is appointed not to complete Ms. Stahl's term, but rather to serve a new three-year term.

Letter of appreciation – Larry Curtis

Mr. Dann read a letter of appreciation, from Jay Kenton to Mr. Curtis, thanking him for his service (see attachment).

Review of Investment Policy Statement

There was significant discussion regarding how the policy statement reads in relation to what the members of the committee understand their role to be. It is felt that the policy statement does not clearly define this committee's responsibilities; specifically, does the committee have oversight of TIAA-CREF and AIG VALIC.

Mr. Biggs recalls that the original intent of the policy, approved by the Board, was that the Investment Committee's responsibilities be limited to the Fidelity and ING choices on the Fidelity platform.

Mr. Dann was concerned also that if the committee is not responsible for evaluating AIG and TIAA-CREF, who does have the authority to evaluate and perhaps change those vendors. He would like it clearly stated in the policy where that responsibility lies.

Mr. Green agreed to work with Mr. Biggs and Nathan Klinkhammer to prepare a revised version of the Investment Policy Statement, clarifying responsibilities of the committee, specifically with respect to CREF and VALIC, and including a definitions and terms section. Mr. Green will also confirm with Jay Kenton the understanding of responsibilities.

There was also concern over the Statement of Responsibilities, at the bottom of page four of the Investment Policy statement; specifically, it was felt that the committee has not established investment objectives. Mr. Biggs clarified that what was meant by “objectives” was really “performance criteria.”

There was further discussion that the performance objectives stated in section three are too broad. Mr. Biggs argued that going into too much detail in the policy moves the policy into a more formula-based approach and may not allow the committee to exercise discretion in the making of decisions.

He also cited a study of all funds over the last ten years that were top 25th percentile and above. Of all of those funds, 89 percent had at least one rolling three-year period below the median. His point was that one bad year, if the committee’s criteria is too stringent, could have the potential for termination of an otherwise strong performing fund.

Mr. Settle suggested that one of the criteria for determining termination should be consideration of disruption to the platform and, therefore, participants.

Mr. Sigetich was concerned with the lack of a formalized process for evaluating and placing on watch status a fund that is not performing well. Mr. Biggs said that he would prepare and submit a sample statement as to what criteria determines a fund will be put on a watch list and that correction of the criteria will result in removal from the watch list, for approval by the committee.

Mr. Biggs further stated that a common approach, which was met with general approval from the committee, is for the menu to be reviewed during the semi-annual meeting. During the process, a few funds would be identified and discussed. The meeting minutes would document the rationale for putting a fund on a watch list or not putting it on. If it is determined a fund goes on a watch list, that fund is flagged as part of the Arnerich Massena process.

At the following meeting, the fund(s) flagged at the previous meeting would be discussed as a part of the performance evaluation process. In this way, there is an ongoing process, with the minutes documenting the results.

A final concern was raised related to the responsibility of the committee. Mr. Green referred to the matrix, the Service Manager Provider row. His

understanding is that this committee is responsible completely for selecting investment managers and products, that it is not a joint responsibility.

Mr. Biggs agreed to submit a paragraph to Mr. Green in a Word document that would state that the Investment Committee has responsibility over the investment funds and the Administrative Committee has responsibility over the service providers.

Updated Performance Analysis and Review of Investment Choices – Arnerich Massena (Howard Biggs)

The performance for the UBS Large Cap on the rolling three-year period was about the 62nd percentile and the five year period was just a little better than the median. Performance to date, as of the day before this meeting, was at the 8th percentile. For year-to-date, this year they are at the 22nd percentile. Mr. Biggs stated that fund's performance has improved to a degree. He would not recommend this fund go on a watch list.

Mr. Settle stated that he'd like to see the paragraph that relates to what discipline this fund follows that might help explain why the fund performed the way it did in the particular market. Mr. Biggs said the Arnerich analysts could prepare a write-up of the UBS Large Cap discipline.

In the mid-cap grouping, Mr. Dann asked for a similar write-up on the ING/JP Morgan product.

There was significant interest in having performance information on the internet. At the same time, there was concern over participant interpretation of the data presented. Mr. Biggs said the information could be saved to a pdf file and e-mailed. Mr. Klinkhammer suggested using this report as a starting point for a report that would be more suitable for participants, such as one that does not display one-year numbers. It was also suggested that contact numbers for participants with questions be clearly stated within the report, not benefit officers and not investment committee members. Instead, the contact number(s) should be Fidelity representatives.

Mr. Biggs brought to the group's attention the EAFE index, stating that it's lagged in the last few years. He suggested that if the committee would like to migrate to a different approach there is another choice in the MSCI Morgan Stanley All Country World Index, which gives exposure to emerging markets. Mr. Sigetich said he would like to continue monitoring the EAFE index performance.

Mr. Biggs directed the committee's attention to pages 11 and 12 to see the Fidelity Freedom Funds in the context of an index that was similarly composed.

Mr. Sigetich asked for a write up on International, in addition to the UBS product in the Large Cap space for ING, and the JP Morgan Mid Value in the Mid Cap space for ING.

Mr. Biggs stated that, in constructing this menu, the committee had no way of knowing what participants might do. Arnerich Massena is monitoring where the participant dollars are going because there is also a certain amount of revenue that's coming off the funds to pay the recordkeeper. If the revenue is substantive enough (since the recordkeeper is paid a fixed price), there is the possibility of going back through the menu and looking at lowering share classes.

Mr. Biggs stated that if the committee was interested in adding an additional product to a particular style or asset class, Arnerich Massena would then present three or four choices for the committee to review. This would happen at the request of the committee, usually after a fund is put on a watch list.

The committee did not want to consider replacing any funds at this time but was interested in starting to look at adding asset classes. It was requested that Mr. Biggs bring information on an REIT- (real estate) type asset class, an international with the MSCI index, and something from the green fund universe.

Public Comment

None.

Adjourned

The motion was made and seconded to adjourn; passed unanimously. The meeting was adjourned at 4:05 p.m.