

**Retirement Plan Investment Committee  
Meeting Minutes  
Friday, May 25, 2007, 1:30-5:00**

**Participants**

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

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

Other: Ernie Pressman, UO, and Denise Yunker, OUS Chancellor's Office

**1. Introductions**

Mr. Green called the meeting to order, noting that four committee members were present, making a quorum: Kip Sigetich, Mike Green, John Settle, and Sherry Stahl.

**2. Approval of Minutes – April 27, 2007**

The minutes of the April 27, 2007 meeting were presented with edit suggestions by Denise Yunker (indicated in red). John Settle made a motion to approve the minutes of the April 27, 2007, investment committee meeting; Kip Sigetich seconded the motion. Motion carried unanimously.

**3. Approval of Investment Policy**

Mr. Green asked for approval of a recommendation to the vice chancellor to approve changes in the investment policy. The three changes are: 1) added language to include the ORP 401a plan to the policy, 2) added language to incorporate annuities required by the ORP, and 3) updates to the investment menu for actions of the last meeting.

Mr. Settle expressed concern about the lack of language concerning roles of the investment committee versus the retirement committee. He stated that the language doesn't necessarily need to be in this document but he wished to understand the thought process. Ms. Yunker responded that there is an administration committee and an investment committee, and those two together form a retirement committee.

He also wanted to know who monitors the consultant and who monitors the record keeper. Howard Biggs stated there was some traditional language in the policy. He said the monitoring of the consultant and the record keeper is done by the plan administrator. He stated that the administration committee generally oversees operations, record keepers, service providers, etc. The investment committee oversees investments.

Ms. Yunker referred Mr. Settle to a spreadsheet outlining the responsibilities of the Board, Investment Committee, Administration Committee, and staff that she gave him.

In an attempt to clarify the question asked by Mr. Settle, Mr. Green asked if the question is about how good of a job is being done. How is performance of a consultant monitored?

Mr. Biggs responded that the evaluation of a consultant could be based on a tracking of recommendations that are being made. The different elements of the services that are being provided should be evaluated by the people who are hiring, similarly to how you might evaluate an employee. There would be different criteria upon which the client evaluates the consultant.

Ms. Yunker pointed out that this investment policy is draft four, May 2007. It hasn't been approved yet; however, it has been structured so that the administration committee has the responsibility to retain or terminate trustees, custodians, investment managers, investment consultants, investment products, actuaries, plan auditors, legal council, plan record keepers, administrators, insurance companies, and any and all service providers providing services to the retirement plans. That function does not transfer over to the investment committee.

Mr. Green expressed a hope the administration committee would consult with the investment committee. Ms. Yunker said she expected that would happen. Mr. Settle said he believed he saw language that the investment committee supported the retirement committee, and that perhaps that was sufficient language to take care of this issue.

Ms. Yunker responded that the investment committee is designed for a very specific function of investments only, recognizing that the people on the investment committee have other jobs. This was initially set up this way to address a workload limitation so that the committee could be focused on the investment side.

Mr. Settle requested the addition of a third item under section C, page five, of the investment policy:

3. Transferring assets between investment options as they deem appropriate.”

Mr. Settle made a motion to approve the investment policy statement as amended by the latest edits (see underlines/strikeouts) and by Mr. Settle. Mr. Sigetich seconded the motion. Motion carried unanimously.

Mr. Green requested that the record show that Larry Dann entered the meeting.

#### **4. Investment Company Menu Selection**

Mr. Green announced that Mr. Biggs would be taking the committee through the investment company selection. A blank menu was handed out for committee members to track the selections, and Mr. Green stated that at the end of the meeting he'd ask for a motion to approve the whole group of investment companies.

Mr. Biggs handed out a retirement plans manager search book prepared by Arnerich Massena & Associates, Inc. He outlined the process that the analytical department goes through in selecting candidates for the committee to review (tab 1). He then directed the committee to tab 2 to begin the investment company selection for the OUS retirement plans.

##### Intermediate Term Bond Options (tab 2)

- Metropolitan West Total Return Bond (committee selected)
- PIMCO Total Return Admin
- Western Asset Core Bond FI

Mr. Biggs pointed out that PIMCO is managed by Bill Gross, and that they hired Alan Greenspan recently as an outside consultant. PIMCO has a non-traditional approach that was a concern to some on the committee. Mr. Biggs stated that PIMCO is much more index like with regards to its volatility. He stated that Met West is much more of a traditional total bond manager, similar to Western Asset. Mr. Green said that Western Asset is in the OUS endowment fund.

Much discussion ensued on how to interpret the information under each tab in the book in order to help with the selection process. At the same time, the committee was comparing the three choices for intermediate term bond.

After comparing the performance numbers, Mr. Biggs recommended Met West to the committee. The committee agreed with that recommendation.

Larry Dann opened a discussion regarding the term "revenue share" as he feels it is "...drawing a lot of heat in litigation." Denise Yunker said that some of the current vendors use "PER – plan expense reimbursement." She later suggested that PER isn't a good term because it might imply that OUS is getting some sort of reimbursement. After much discussion, the group agreed to use "recordkeeping fee."

Kip Sigetich wanted to be very clear that all of the revenue share (recordkeeping fee) goes to Fidelity. Mr. Biggs replied that what money is above and beyond the bill is able to be used to purchase additional services from Fidelity. He said that most of the time that comes in the form of educational services.

### Inflation Protected Bond Options (tab 3)

- Fidelity Inflation-Protection Bond Fund
- PIMCO Real Ret Admin
- Vanguard Inflation-Protected Securities (committee selected)

Mr. Biggs directed the committee to note that Vanguard is very traditional with US Governments (see page under tab 3). In the fund specific information (expense ratio), he noted that Vanguard is 20 basis points, versus Fidelity at 45 basis points, and PIMCO at 70. Vanguard represents the lower cost version of the implementation of an inflation protected bond strategy, and it has no recordkeeping fee. This is the product that Mr. Biggs recommended. The committee concurred.

### Large Cap Value Options (tab 4)

- American Beacon Large Cap Value Institutional (committee selected)
- BlackRock Large Cap Value A
- Hotchkis & Wiley Core Value I

There is a fourth option listed in the book but Mr. Biggs stated that DFA Large Cap Value was trying to create a product for use in this space but didn't come up with one.

Mr. Biggs explained that BlackRock is really Merrill Lynch Basic Value.

American Beacon implements a manager of managers type strategy which includes Hotchkis & Wiley as an element of their strategy; Hotchkis & Wiley is a sub-advisor to American Beacon.

The question was raised as to why Dodge & Cox didn't appear in this space. Mr. Biggs replied that Dodge & Cox is closed.

Mr. Biggs explained that American Beacon is more truly large cap, that it's more aligned with the index. The other choices have a bit more exposure in the mid space.

Mr. Green pointed out that BlackRock seems to have more name recognition than the others.

Mr. Biggs stated that Hotchkis & Wiley will generally have more volatility because they are more concentrated in terms of their ability to return. American Beacon and BlackRock are fairly close to one another in terms of volatility. Overall, there is not huge variation among the three choices.

John Settle pointed out that American Beacon has the lowest expense ratio. Mr. Biggs responded that BlackRock has the highest overall cost.

Mr. Green said that he was leaning toward American Beacon as a choice. Committee members agreed. Mr. Biggs stated that American Beacon had a little less volatility in this space, but none of the products had really high volatility.

#### Large Cap Growth Options (tab 5)

- American Funds Growth Fund of America R4 (committee selected)
- Fidelity Contrafund
- Rainier Growth Equity

Mr. Biggs said that American Funds Growth Fund of America is the lower cost option. It and Fidelity are both strong performers, he said.

While the Contrafund is closed, OUS is able to get it because of an established relationship with Fidelity.

Mr. Biggs explained that American Funds has another version of this product, the R5, which is 39 basis points instead of the R4's 69, with a 5 basis point recordkeeping fee. This fund could be obtained once participant activity stabilizes and Mr. Biggs is able to determine how much money went to the indexes. This is not a possibility with the Fidelity Contrafund.

Further, Mr. Biggs stated that he'll start 'notching down' all of the products that are selected to lower cost versions of the products once participant activity stabilizes.

In comparing American Funds and Fidelity Contrafund, Mr. Biggs said the two funds have been very strong side-by-side. He felt OUS couldn't go wrong with either of the products in a retirement plan type of environment. Both companies are a little more toward the core. American Funds and Fidelity are growth funds but not aggressively growth oriented so by default they've been beating their peer groups substantially. This could change when and if the market shifts.

Mr. Biggs recommended American Funds, saying it's a very popular and very good product. It's a huge fund with \$160 billion. He recommends it because it has the ability to price down and adjust. The committee concurred with the recommendation.

#### Mid Cap Value Options (tab 6)

- Artisan Mid Cap Value (committee selected)
- BB&T Mid Cap Value A
- Managers AMG Systematic Mid Cap Value A

While Artisan had a weak year in 2006, Mr. Biggs pointed out that they are a very strong value manager and this is the company that Mr. Biggs recommended. John Settle voted for Managers AMG but Sherry Stahl expressed concern that a participant would not be able to see a lot of information (e.g., history information) with that company because

Managers is not that old; therefore, she voted for Artisan. The rest of the group, besides Mr. Settle who kept his vote with Managers, voted in favor of Artisan.

#### Mid Cap Growth Options (tab 7)

- Munder Mid Cap Core Growth Y (committee selected if 2% fee is waived)
- Rainier Mid Cap Equity
- TimesSquare Mid Cap Growth Premier (committee's second choice)

In describing a "slight distinction between the three (companies)" in terms of how aggressive they are between the mid cap core index and the mid cap growth index, Mr. Biggs said that TimesSquare would be much more aggressive, much more toward the growth, Rainier Mid Cap would be more towards the middle, and Munder would be more mid cap core and the least aggressive. He stated that they are all actively managed funds. Mr. Biggs' recommendation for this space was Munder. Mr. Dann expressed concern about creating a menu that had conservative choices in every category – that there was not much dispersion of choice between a mid cap value and a mid cap growth.

Ms. Stahl noted an additional 2% fee under the Munder selection. Mr. Biggs explained that it's a short-term, round-trip cost, something the mutual fund industry is starting to implement. This led to concerns about people's expectations when mapping funds over and the "black-out" or "lock-out" period. It was decided that Munder was the first choice of the committee if they would agree to waive the 2% fee. If they would not, then the choice would be TimesSquare.

#### Small Cap Value Options (tab 8)

- Munder Small Cap Value Y (committee selected if 2% fee is waived)
- Westcore Small Cap Value
- WHG Small Cap Value (committee's second choice)

Mr. Biggs said that Munder is a good manager that is really hard to keep funded right now because they just had a bad year. He felt participants might look favorably upon Westcore. He said they use a little bit of a dividend discount type model, and that they are looking for funds that have small cap value but they want good dividend-paying funds as opposed to older, non dividend-paying funds.

Mr. Green noted that Westcore does not 'revenue share' and that they have a 2% fee.

Despite a lot of discussion around Munder's bad year, the committee was less comfortable with the other choices and high fees. Mr. Biggs pointed out that Munder has already recovered a bit and that trend will likely continue. The committee felt Munder is the best choice for this small cap value space but, if they won't waive the 2% fee (as discussed earlier), the committee chooses WHG Small Cap Value.

### Small Cap Growth Options (tab 9)

- Managers AMG Essex Small Micro Cap Growth A (committee selected)
- Perimeter Small Cap Growth Institutional
- TrendStar Small Cap

Mr. Biggs pointed out that Managers AMG Essex Small Micro Cap is a fairly aggressive version of small cap funding while Perimeter is much more to the index in terms of its size; it is definitely small cap growth.

With regards to TrendStar, Mr. Bigg's said that Tom Laming, the manager of a fund called Buffalo Small Cap Fund, founded his own fund, TrendStar. Mr. Laming is a very long-term investor on long-term secular trends. He has a high concentration of funds and a concentration in three sectors. The performance is weak right now and, Mr. Biggs advised, one needs to have a lot of patience for this style of manager. He pointed out that Mr. Laming's stock selection has been very strong within the sectors he's in, but the sectors have not performed very well and they are sector allocations he's not going to change. For this reason, Mr. Biggs recommended not utilizing TrendStar and focusing more on Essex and Perimeter.

The committee chose Essex.

### International Equity Options (tab 10)

- American Funds EuroPacific GrR4
- Dodge & Cox International Stock (committee selected)
- Fidelity Diversified International
- Forward International Equity

Mr. Biggs explained that the American Funds EuroPacific has a growth oriented tilt to it. Dodge & Cox is value oriented. Fidelity is growth oriented. Forward is much more of a cross-cap/multi-cap type of fund.

Kip Sigetich favored Dodge & Cox for the lowest costs, good reputation, and good returns. The committee concurred.

### Intermediate Term Index Options (tab 11)

- Barclays Global Bond Index
- Fidelity U.S. Bond Index
- Vanguard Total Bond Index (committee selected)

In this category, Mr. Biggs said that Vanguard is the total bond index. The other two companies are benchmarking off of the Lehman. He noted that the product costs are not significantly far apart but Fidelity is the more expensive one.

Denise Yunker stated a concern that there was, so far, no Fidelity on the menu.

After much consideration, the committee chose Vanguard Total Bond Index.

#### Large Cap Index Options (tab 12)

- Barclays Global Inv S&P 500 Index
- Fidelity Spar 500 Adv (committee selected)
- Vanguard 500 Index
- Vanguard Total Stock Market Index

Mr. Biggs reminded the committee that the S&P 500 is going to be tracked a lot closer in this space. The total stock market index is included because that was requested.

Mr. Green noted that Fidelity Spartan has the lowest basis points at 9. Although 7 basis points is what was reported in the book, that is not available until a certain plan level is reached. Vanguard has 18 basis points up front with a lower cost available later as well. Mr. Green felt that even though the cost could potentially go lower, the participant is not going to look favorably on 18 basis points up front when they can go out to the self directed window and get something lower. Mr. Green cast a vote for Fidelity Spartan. The committee agreed.

#### Mid Cap Index Options (tab 13)

- Fidelity Spar Ext Mkt Adv
- Vanguard Mid Cap Idx (committee selected)

Mr. Biggs says this space is benchmarked against the Russell Mid Cap. The Vanguard Mid Cap Index is the Morgan Stanley US 450 and the Fidelity Spartan is the Dow Jones Wilshire 4500. Fidelity has fees of 9 basis points and Vanguard has fees of 22 basis points with an eventual reduction. Mr. Biggs explained the differences in the indexes. The Fidelity product is actually mid/small index. Vanguard is much more aligned with the mid cap space.

The committee selected Vanguard.

#### Small Cap Index Options (tab 14)

- Principal Inv S&P 600 Institutional
- Vanguard Small Cap Index (committee selected)

Mr. Settle made an argument for Vanguard based on the idea of symmetry with the mid cap index. The committee agreed with this choice.

### International Index Options (tab 15)

- Fidelity Spartan International Adv (committee selected)
- Vanguard Total International Stock Index

When asked how much difference there is between the Morgan Stanley EAFE Index (Fidelity) versus the All Country ex-US (Vanguard), Mr. Biggs said that the All Country ex-US picks up South America and some of the global market. He said they track really close to one another. The MSCI All Country World Index ex-US has done well lately because of the emerging market.

The committee chose Fidelity Spartan in this space.

### Large Cap Socially Responsible Options (tab 16)

- Calvert Social Investment Equity A
- Neuberger Berman Socially Responsible Tr (committee selected)

Mr. Biggs explained that this is a very different category for retirement funds. While it is really common, there is no definition of 'socially responsible' that fits for everybody. Some plans are more traditional, some are morally socially responsible, some are politically correct socially responsible, and there are religiously socially responsible.

Mr. Green stated a preference for Neuberger's fees and returns.

Mr. Biggs noted that there was nothing that discusses Neuberger's investment philosophy other than to invest wisely and get good returns.

Mr. Biggs stated that Calvert is a very popular name. It's more growth tilted where Neuberger is more of a blend, more of an "all-weather" socially responsible type of product. Neuberger takes the S&P 500 Index approach and then "enhances it" by being socially responsible. Both companies are actively managed, not index approaches.

Ms. Yunker said that from the things participants have said in meetings over the years, there's an interest in alcohol, guns, tobacco, and environmental issues in regards to "socially responsible." Mr. Green noted that Neuberger avoids investing in companies involved with nuclear power.

The committee chose Neuberger.

### Target Date (Age-Based) Net Performance (tab 17)

No company selection for this space was made at this meeting. It was agreed that the committee would meet via conference call during the next week to finalize this selection as well as the annuities selection.

Various types of age-based portfolios of three companies were compared (Barclays Global Investment, Fidelity, and T. Rowe Price). Mr. Dann was especially concerned about the recordkeeping fees and participant perception that they are being “ripped off” if the cost of a chosen product in this space is higher than some of the choices that are elsewhere on the core menu. He requested an analysis that might enable him to justify to participants why a higher price product was chosen, if that is the outcome. He would like to be able to explain that, if a product is priced higher, it is a better product -- more conservative, less aggressive

Mr. Biggs agreed that he did see the Barclays product as being somewhat high priced. The T. Rowe Price product isn't quite as expensive, but the cost is a little higher as a function of the short amount of time the product has been in place. The committee was interested in a comparison of the Vanguard product with Fidelity.

Mr. Dann stated, “I think the defaults are for people who primarily are not comfortable with looking at this stuff and want to know that it's a good product and it's low risk for them because they are not inclined to get informed about how to make individual fund choices. So I think there is something incumbent upon us to make sure that the default is a relatively conservative fund, and if it could be shown that the Fidelity's product is more conservative than the alternatives... certainly Vanguard, then I can very honestly say, “Yeah, I know Vanguard costs less, but for the kind of person who is likely to stay in the default target age fund, Fidelity is a sensible product.”

Mr. Biggs was not prepared to discuss annuities other than to say that he had commitments from ING and Met Life. He spoke on the ING construction being ‘wrapped up’ in mutual funds and stated that it was the most price-efficient version.

### Summary

Mr. Green announced the company choices and requested a motion to approve them as a group:

<b>Categories</b>	<b>Companies</b>
Money Market	Fidelity
Intermediate Term Bond	Metropolitan West Total Return Bond
Intermediate Term Index	Vanguard Total Bond Index
Inflation Protected Bond	Vanguard Inflation-Protected Securities
Large Cap Growth (Active)	American Funds Growth Fund of America R4
Large Cap Index (Passive)	Fidelity Spartan 500 Adv
Large Cap Value (Active)	American Beacon Large Cap Value Institutional
Large Cap Socially Responsible	Neuberger Berman Socially Responsible Tr
Mid Cap Growth (Active)	Munder Mid Cap Core Growth Y, if we can negotiate away 2% fee. Second choice: TimesSquare Mid Cap Growth Premier
Mid Cap Index (Passive)	Vanguard Mid Cap Index
Mid Cap Value (Active)	Artisan Mid Cap Value (Mr. Settle chooses Managers AMG Systematic Mid Cap Value A)
Small Cap Growth (Active)	Managers AMG Essex Small Micro Cap Growth A
Small Cap Index (Passive)	Vanguard Small Cap Index
Small Cap Value (Active)	Munder Small Cap Value Y, if we can negotiate away 2% fee. Second choice: WHG Small Cap Value
International Equity	Dodge & Cox International Stock
International Index	Fidelity Spartan

Mr. Dann moved to accept the aforementioned company choices. Ms. Stahl seconded the motion. Motion carried unanimously.