

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

**Participants**

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

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

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

**1. Introductions**

Mr. Green called the meeting to order and stated that there was one agenda item, which was the completion of the investment menu selections for the platform, focusing especially on the target retirement date fund selection.

**2. Completion of Investment Selections for the Platform**

A Target Age Glide Path Comparison between Vanguard and Fidelity (Attachment A) was distributed to committee members via e-mail. Howard Biggs created this chart to give the committee a picture of how the two companies run their equity positioning of the portfolios from their longest portfolio out, the 2050 fund, down to what they both call the target retirement fund. Mr. Biggs described the glide paths step by step and then summarized by saying, "The Vanguard glide path is more of a gradual curve downward toward their retirement, and Fidelity has some steps... along the way, and then they come to a lower equity positioning."

Larry Dann asked if portfolio standard deviations lined up with the equity allocations, specifically, if Fidelity's portfolio standard deviation is lower than the counterpart for Vanguard. Mr. Biggs responded that in the years they had lower equity, Fidelity's standard deviation was lower than Vanguard's. The two companies were fairly close in the years where both had higher equity positions. When Fidelity gets into the lower stage, they're holding more in fixed income and more in cash than Vanguard.

Mr. Biggs noted that in looking at the retirement phase when people enter the consumption period of their benefit, Fidelity has taken a different strategy than a lot of other companies. They have run these portfolios for 10 years and have done a lot of participant "data mining" to see how participants utilize the portfolios. As a result, Fidelity has dropped down equity allocations in those retirement years because they are factoring in the higher consumption that takes place and trying to account for the potential risk of the impact of a significant equity downturn. Mr. Biggs stated that he liked this strategy.

He further explained that Fidelity is in the process of making changes to their portfolio, which they'll have phased in by the end of the year. These changes will have the impact of implementing fewer funds, implementing an index in their large cap space, and reducing their expense ratios between 3 and 6 basis points from each of the ones that were reviewed previously (May 25, 2007 investment committee meeting). They reduced the number of large cap equities and felt a better outcome would be achieved if they included an index in the portfolio to reduce the tracking error and costs. They also went to an institutionally-priced money fund.

Ernie Pressman asked if Fidelity ended the year with just one index fund in the overall portfolio. Mr. Biggs replied in the affirmative, saying that they are basically putting an S&P 100 in the mega- or large-cap space because it's going to have the largest impact on the index type return.

Mr. Biggs went on to say that Vanguard's allocation only contains index products. He said that the Vanguard product didn't have a fee to reimburse the cost of the recordkeeping.

While Fidelity's product cost is substantially lower than the peer group average, ranging between 46 and 72 basis points, Mr. Biggs felt it would seem high to the committee. The peer group averages across the board range from approximately 126 to 132 basis points for these targeted age-based products. He explained that it's a new product area and a lot of the products are brand new, so to cover costs, those product prices are somewhat high until they get a significant pool of assets. Fidelity's costs are a function of the investment products that are in the mix. At the low end, at 46 basis points, they are much more fixed income products, which tend to be lower cost products, and at the higher, longer end, they're at 72 basis points and that's predominately an equity-based portfolio. The Fidelity product does include recordkeeping fees.

Larry Curtis asked about Vanguard's product cost. Mr. Biggs replied that it is a flat rate at 21 basis points; however, it does not include the recordkeeping fee. He explained that Vanguard was presented more for discussion and comparison purposes. To fund Vanguard, a recordkeeping fee would need to be added as well as a cost of utilization. In other words, a daily net asset value (NAV) for each of the funds would have to be calculated, building in the cost of the recordkeeping fee. The utilization cost of \$10,000 is a competitive marketplace figure. The recordkeeping fee would be an average of 35 basis points.

Following more discussion on costs, John Settle stated that he feels the Fidelity product is a better option based on price. He made a motion to select Fidelity as the target date retirement selection. Larry Dann seconded the motion and the motion carried unanimously.

Larry Dann offered information he found on-line for 3-year performances. For the 2015 fund, 3-year performance, Vanguard beat Fidelity by about 36 basis points. For the

longer 2025 fund, Fidelity beats Vanguard by 68 basis points. Mr. Dann likes the more conservative approach of Fidelity for the default funds.

### **3. Additional Discussion**

In the May 25, 2007 meeting, the investment committee selected the Munder product for both the mid cap growth space and the small cap value space if Munder would waive the 2% redemption fee their products carry. Between that meeting and this, Mr. Biggs spoke with Munder and the company agreed to waive the fee. He stated that Scott Bruce of Fidelity, upon finding out that Munder could waive the fee at the fund level, felt that it could also be waived at the recordkeeping level. He will look into that more and report back to Mr. Biggs.

Mr. Settle asked if Mr. Biggs felt that Fidelity was confident that the menu selections will cover costs. Mr. Biggs said that, based on the way the assets map, the costs should be easily covered. One thing that is unknown on a go-forward basis is participant patterns. It is anticipated that there will be more than enough money at the outset. After monitoring participant patterns for some time, perhaps a year and a half out, there may be a review of the menu again on a share class adjustment to reduce share class costs and recordkeeping fee adjustments. Revenue positive dollars can buy additional recordkeeping services, communication services, and education services above and beyond what has been committed. Mr. Biggs said, in a response to the questions posed by Mr. Settle, that Fidelity has not indicated a willingness to hold revenue positive dollars to cover future year shortfalls.

Ms. Yunker stated a concern that participants will not see enough Fidelity products on the menu. She asked that the committee reconsider their selection of American Funds Growth Fund of America over the Fidelity Contrafund for the large cap growth space. Mr. Green commented that he wasn't comfortable with selecting funds based on name, but he did not feel that was happening here considering that both funds compared well side-by-side.

Mr. Biggs expressed a slight preference for the American Funds product because of the multi-manager approach they've employed. The one disadvantage that American Funds has, he felt, is that it is huge (160 plus billion dollars); however, they are a highly diversified portfolio with 10 managers with their own separate mandates.

The Fidelity Contrafund is also a highly diversified portfolio. While American Funds is at 160 plus billion, Contrafund is 68 billion. Contrafund's lead manager is William Danoff.

While the cost of the product is to the favor of American Funds, both funds are good quality performers.

Mr. Dann favored American Funds based on a portfolio turnover of 22% versus 76% for the Contrafund but stated he wouldn't be averse to switching if other committee members felt more strongly than he did.

Mr. Settle originally favored Contrafund because of their investment philosophy. He felt the familiarity argument had merit.

Mr. Sigetich stated a strong preference for Contrafund.

Mr. Biggs advised the committee that the Fidelity Contrafund is technically a closed fund. OUS is able to access it in this situation because of an already-established relationship with Fidelity. He suggested that OUS could utilize the Contrafund product for a while, and then switch to American Funds, an open product, at a later date if Contrafund disappoints or otherwise becomes unfavorable.

Mr. Settle made a motion to reverse the committee's earlier decision in favor of American Funds Growth Fund of America for the large cap growth space, and instead select the Fidelity Contrafund. Kip Sigetich seconded the motion.

Discussion ensued further comparing the two funds. Mr. Biggs stated that Contrafund is a bit more growth oriented or growth style categorized than American Funds Growth Fund of America. The Growth Fund of America has the greater breadth of holdings over into the core value arena.

Mr. Green reminded the committee of the earlier motion and second in favor of the Fidelity Contrafund. He asked for all those in favor to say, "I", to which the response was unanimous. There were no members opposed. Motion carried.

While Mr. Biggs was not prepared to talk about annuities at this meeting, he did provide the committee with a status update. He reported that Fidelity is engaged in discussions with ING to get the operational linkages (i.e. the daily trade) between the two organizations in place on the menu.

Mr. Biggs described ING's product as essentially a mutual fund product. He stated that it is legally an annuity but it has been priced and structured as almost a pure mutual fund menu. There are no M&E fees in the accumulation phase of the contract. When one converts over to an annuity, there will be an M&E fee but not until then. From a consumer standpoint, this is a mutual fund that is legally wrapped with a contract that makes it an annuity. One of the key requirements, stated Mr. Biggs, was that participants could trade out of the annuity and into the mutual fund without a surrender fee.

Mr. Biggs stated his concern that the ING product may not be available by October 1, that Fidelity and ING would not get it executed in time. He assumed that the current AIG product would remain available until the ING product was in place. Ms. Yunker expressed nervousness around the lack of surety about ING meeting the timeline as she needs enough time to execute a contract with ING. She also stated that if the ING product is not going to be available October 1 for participants, she would need to change some of the communications pieces.

When asked if ING should feel some incentive to get their product available to participants as soon as possible, Mr. Biggs responded that ING has seen the committee's product selection and realizes that annuities will be playing a diminished role in the plan.

Ms. Yunker asked if the committee would have the same oversight of the annuity investments as they're exercising for the mutual funds.

Mr. Biggs responded that he felt the committee should wait for more information coming from ING and Fidelity. Once Fidelity and ING get the product executed, then the annuity investments could be constructed as planned, in the self-directed annuities and self-directed mutual fund windows. An alternate approach would be to offer the two choices side-by-side on the menu. He recommended staying the current course unless the committee feels compelled to change direction.

Mr. Sigetich said that if the ING products are comparable to mutual funds and there are no M&E expenses, then a lot of negative concerns about annuities fall away for him. He also stated that if the committee is going to have fiduciary responsibility in a relatively direct way for annuity products, he wants there to be a protracted discussion. Mr. Biggs concurred that he and the committee would want to have a protracted conversation from a fiduciary perspective before changing that course.

Mr. Dann had a final question about a participant's ability to split their monies across products. Mr. Biggs replied that in the investment menu, participants may do anything they want. They cannot split monies between Valic, TIAA-CREF, and Fidelity.

Mr. Biggs reported that Munder agreed to waive their 2% round-trip fee, which the committee required for them to be selected for the platform.

The meeting was adjourned with the ending of the conference call at 2:45 p.m.

# Attachment A

