

**MINUTES OF THE
OREGON 529 COLLEGE SAVINGS BOARD
MEETING OF DECEMBER 12, 2008**

Members Present: Randall Edwards, Chair
Kirby Dyess
Lyn Hennion
Scott Sandbo
Carl Vance

Network Staff: Michael Parker, Executive Director
Stephanie Swetland, Executive Assistant
Lynn Nagasako, Legal Counsel

Treasury Staff: Kate Richardson, Chief of Staff
Ben Mahon, Investment Division

Others Present: Howard Biggs, Arnerich Massena & Associates
Dan Block, Arnerich Massena & Associates
Leslie Christian, Portfolio 21
Tim Findlay, TGF Productions, Inc.
Scott Gardner, Gardner Financial Group
Mary Ellen Glynn, Pyramid Communications
Raquel Granahan, OppenheimerFunds, Inc.
Carsten Henningsen, Portfolio 21
Tim Kruis, SAM (Sustainable Asset Management)
James Madden, Portfolio 21
Suzanne Pardington, The Oregonian
Michael Selvaggio, Office of the Treasurer-elect
Bruce Sheinhaus, OppenheimerFunds, Inc.
Bryan Shipley, Arnerich Massena & Associates
Anthony Tursich, Portfolio 21
Katie Walther, Run Spot Run Media, Inc.
Ben Westlund, Treasurer-elect
Donna Winn, OppenheimerFunds, Inc.

Chair Randall Edwards convened the Board meeting at 1:13 p.m.

Michael Parker, Director of the Oregon 529 College Savings Network, stated that the Board would be hearing presentations from Portfolio 21 and SAM (Sustainable Asset Management) regarding their bids for the sustainable investment option through the Oppenheimer plans.

Carsten Henningsen, Leslie Christian and Tony Tursich represented Portfolio 21. A hard copy of their presentation is a part of the records for this Board meeting. Mr. Henningsen stated that he started the company in 1982, and Portfolio 21 was one of the first investment firms in the country to apply environmental screening to the investment process. Portfolio 21 is now recognized both nationally and internationally.

Ms. Christian explained the investment philosophy of Portfolio 21. It is based on the belief that the most critical challenge facing the world, the economy and businesses is ecological limits. We're used to unlimited growth, but there are limits in our environment. How businesses respond to those limits will determine if they thrive or end up going out of business in the future. The best companies to invest in are those that are adapting and responding to ecological limits.

Portfolio 21 is a global fund, investing in stocks throughout the world. When the fund was started in 1999, there weren't enough U.S. companies that met the criteria. It is currently invested approximately 70% outside the U.S. and 30% inside the country in mainly large cap companies. Companies are selected based on having a business model that addresses ecological limits, financial acumen, capable and adaptable management and the potential to retain and/or build a market niche.

Board Member Carl Vance inquired as to whether there are specific hard and fast rules for the environmental criteria when selecting companies, or if it is more the interpretive opinions of Portfolio 21.

Ms. Christian stated that there are no truly sustainable companies, certainly not in their fund, and few and far between in the world of global publicly- traded companies. Therefore, Portfolio 21 looks for companies that are better, with strengths in many areas and that are well-positioned to compete in the future. Portfolio 21 aims to identify companies that have a better chance to survive and thrive as we go through difficult environmental times. To do this, Portfolio 21 has developed a proprietary scoring system in which they grade the company's whole process of making the product or service and what the environmental impacts of that process are. Additional factors considered are how a company is managing its environmental risk and liabilities, how they operate in their offices and ancillary operations aside from their core business, and how they handle risks and liabilities such as spills, etc.

Mr. Vance commented that the explanation given was theoretical, not numerical, to which Ms. Christian agreed. She stated that Portfolio 21 does have a numerical process where information gathered is plugged into particular subsections of each category and then scored. The process can't be completely quantitative, because the quantitative score is reached through analysis.

Chair Randall Edwards inquired about turnover in their portfolio.

Mr. Tursich responded that Portfolio 21 strives to keep turnover low, since they are a long-term investor. Turnover has been in the low to mid-single digits since its inception in 1999, and it is expected that turnover will remain in that range.

Board Member Lyn Hennion asked who Portfolio 21 uses as their custodian and how they conduct their trading.

Ms. Christian stated that U.S. Bank and the Bank of New York are used as the custodian. Mr. Tursich explained that U.S. stocks which make up approximately 30% of the Fund are traded through a broker relationship back East. Mr. Tursich provides guidance to the broker, who then executes orders for Portfolio 21 at very reasonable rates. Foreign trading of the stocks which make up 70% of the Fund are traded online through a Bloomberg terminal which is connected to the market. The trades are cleared through U.S. Bank or Bank of New York. Portfolio 21 has plenty of liquidity, excellent access to markets, and has had great success in its trading operations.

Board Member Scott Sandbo wondered how the current economically challenging times will impact the investment performance and strategy of the Fund.

Mr. Tursich noted that despite the recession, the Fund has continued to outperform the MSCI World Equity Index, which is their benchmark. Due to the volatility and shakiness of the financial markets, Portfolio 21 has started maintaining a higher than usual cash balance in the Fund and have been very underweighted in financial stocks. In so doing, it has fared well even in the down market.

Prior to SAM making its presentation, Kirby Dyess moved to approve the October 28, 2008 Board meeting minutes, seconded by Scott Sandbo. All approved.

Tim Kruis represented SAM. A hard copy of his presentation is a part of the records for this Board meeting. Mr. Kruis stated that the firm is a thought leader in the area of sustainable investing. In 1995, they realized that social, economic and environmental variables were under-researched and under-appreciated by the markets. By dedicating research capabilities specifically in that area, SAM felt that it would be able to add value for investors.

Mr. Kruis explained the specifics of SAM's business structure. He stated that of particular importance is the fact that, excluding the CEO, 20% of SAM's shares are held by its investment professionals and researchers, which demonstrates their level of commitment. With 26 investment professionals solely focused on sustainability investing, SAM has the largest research group globally. Some of the investment professionals are also engineers, chemists, and six of them hold PhD's.

Chair Edwards inquired if SAM looks for companies that anticipate global sustainable trends or are in markets that will serve them.

Mr. Kruis responded that SAM does both, looking for companies that are at the forefront and are developing new and alternative technologies for dealing with resource scarcity, as well as companies that already have proven business models and have proven to be very good investment opportunities.

Mr. Kruis explained the process for measuring and assessing corporate sustainability. A questionnaire is sent out to a network of companies that SAM systematically investigates for the Dow Jones Sustainability Index. SAM has more than eight years of historical data on over 1,000 companies that have responded to over 130 cross- and industry-specific sustainability data points. Mr. Kruis stated that the data points are divided between economic, social and environmental dimensions, scrutinizing corporate governance, human capital, and eco-efficiency. Companies are then scored, and SAM focuses on the best-in-class companies in terms of sustainability.

Mr. Kruis also explained SAM's process for determining how sustainability impacts return on invested capital, which is the area in which SAM has the edge in terms of sustainability assessment. Once a company is in SAM's portfolio, it continues to be evaluated on changes in its sustainability practices as well as how it's performing in the traditional financial matrix. SAM's research on their sustainability leaders and laggards has shown that the leaders clearly outperform the laggards.

There was discussion regarding the performance of the SAM fund, as it performed slightly under its benchmark over a four-year period when fees are factored in. Dan Block of Arnerich Massena explained that certain sectors will score higher on sustainability and will have higher returns, but out of prudence in portfolio construction, SAM is building sectors somewhat close to the benchmark and choosing the most sustainable companies within those sectors. This is to avoid having an inordinate amount of weight in specific sectors.

Mr. Kruis stated that SAM is close to the benchmark in terms of industry and regions, but what the Board will get with the portfolio is a portfolio that is geared towards the winners in terms of sustainability within those sectors. The value SAM aims to add is performing the bottom up research in terms of sustainability, which is what the Board will most likely want if selecting this type of product. SAM has had a substantial track record of managing sustainability factors for a very long time. In the short term it has been challenging times, but SAM feels very comfortable that once the attention to fundamentals returns, they will be able to continue to generate attractive returns over the long run driven purely by sustainable alpha.

The Network's investment consulting firm, Arnerich Massena (Arnerich), gave its overview and recommendation to the Board. Bryan Shipley stated that if SAM didn't exist, Portfolio 21 is a very good option. They've been doing sustainable investing for a long time and have very good numbers as well. However, Portfolio 21 doesn't have the strength SAM does in the institutional

side of things, such as the operations, the depth of the research, and the depth of how they establish their investment universe. These are key factors, particularly in a space that comes under so much pressure when defining sustainability. SAM has a clear process to how they arrive at their investment universe, and Portfolio 21 is more touchy feely and somewhat questionable how they get there. Dan Block of Arnerich explained that the Global Core Fund through SAM would be a large cap product. Although SAM's long-term performance looked like they were a little bit behind, that was entirely due to the difficult market in 2008. Mr. Block expects that going forward the fund will slightly exceed the benchmark, and do so in a sustainable way.

As a result of the research that Arnerich and the Network have done, Mr. Parker recommended that if the Board is going to hire a sustainability fund they should hire Sustainable Asset Management (SAM). The Fund will be offered as a stand-alone portfolio through the Oregon College Savings Plan and will most likely also be offered through the Oppenheimer Funds 529 Plan. MFS is unable to support an outside fund on its system.

Lyn Hennion moved that the Board accept the recommendation to proceed with SAM and to work with them on the pricing issues, making sure that it fits on the platform, and any other important detail issues. The motion was seconded by Kirby Dyess.

Carl Vance requested clarification on when the exact pricing would come in and if it would go back to the Board for approval.

Mr. Parker stated that the SAM fund wouldn't go live until at least the end of the 2009 second quarter. In the interim, the pricing and any minimums required for investing, etc., will be worked out with Oppenheimer. There will be a second motion on this fund in April, prior to anything going live.

The motion was approved by all.

In recognition of Chair Edward's efforts in spearheading the creation and implementation of the Oregon 529 college saving plans, Lyn Hennion informed Mr. Edwards of the creation of the Randall Edwards Scholarship Fund of the Oregon Community Foundation. The fund was more than halfway to its goal of \$50,000.

Scott Sandbo needed to leave the Board meeting.

Mr. Parker introduced the next topic of discussion, which is the remixing of the age-based portfolios in the Oregon College Savings Plan. Arnerich is working on the remix, and they would like the Board's input on how conservative the portfolios should be. Mr. Parker stated that in the current age-based option, nothing is being locked up in a money market fund until the beneficiary is 18.

Chair Edwards commented that a current concern is for those who are in college and about to go to college. He cautioned that the Board not over react to the current market, since what has been happening is hopefully not going to be the norm. However, the 529 plans aren't retirement plans and have a very finite period time of investing and expending. This is further complicated by the fact that the average 529 investor starts investing when their child is seven years old. The question is whether the asset mix should be changed on both the back end and the front end. Perhaps a sixth portfolio could be added to the option on the early end, maybe for 0-3 years, that is 100% equity. Chair Edwards would also argue that beneficiaries should probably be in a money market sooner, maybe at 17.

Mr. Vance believes that the Board needs to insure that the portfolios are getting the diversification that they need. A careful risk analysis of the component products also needs to be done, so the Board understands that it is getting the diversification and whether or not it can preserve capital, because preserving capital needs to be the Board's number one priority in the later years.

Lyn Hennion agreed that more of a risk analysis needs to be done on the individual pieces of the portfolios. With an extraordinarily volatile market, an actively managed fund may be a less risky option. It's very difficult to choose a one-size-fits-all when it isn't known what the timing is or what other assets are available to the investor. What the Board is attempting to do is create, over a period of years, portfolios that will outperform the college inflation rate.

Kirby Dyess believes that beginning to lock in the gains should probably occur when the beneficiary reaches 16. Current trends in Oregon's education entities point to more students entering college at a younger age. She believes it's risky to wait until the beneficiary is 18 to start locking in the gains. She also believes that taking more risk in the very early years is a good idea.

Chair Edwards suggested that perhaps the age bands could be changed so that the beneficiary would go into a money market fund at age 16, but another more aggressive option be made available for account owners who actively choose to opt into it.

Mr. Parker stated that he and Arnerich are looking at potentially having six portfolios, dialing down the exposure to equities in two of them, adding indexes into the mix with actively managed funds, and adding a larger international component into the portfolios. He asked if the Board had any other specific directives related to the funds.

Mr. Block of Arnerich commented that another thing to think about is the liability, which is college tuition in this case. Something to consider is if there are inflation-correlated asset classes that would more closely match the increase in college tuition. Examples would be TIPS, real estate, and commodities. Oppenheimer has real estate and commodities products that could be used in small allocations to help with the liability matching. The Board decided it wasn't interested in this option, as it would make the Plan more complicated.

Bruce Sheinhaus of OppenheimerFunds pointed out that it's very important to determine who the customer is. Oppenheimer can profile the investor to learn the age of the beneficiary when people are entering the Plan, contribution patterns, and the types of schools the funds are being used to attend. Another important consideration is the age of the parents, because of where they are in their own cycle of earning salary and saving towards retirement. It would be ideal to keep parents engaged throughout the life cycle of their savings and continue educating them, which can be done through e-mail communication.

Mr. Parker stated that prepaid and guaranteed options are also being considered for the plans.

Chair Edwards adjourned the meeting at 3:55 p.m.