

**MINUTES OF THE
OREGON 529 COLLEGE SAVINGS BOARD
MEETING OF January 22, 2009**

Members Present: Ben Westlund, 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: Stacey Dycus, Office of the Treasurer
Tom Lofton, Office of the Treasurer
Mike Mueller, Office of the Treasurer
Kevin Nordhill, Office of the Treasurer
Kate Richardson, Office of the Treasurer
James Sinks, Office of the Treasurer

Others Present: Chris Abbruzzesse, Arnerich Massena & Associates
Gary Andeen, Oregon Independent Colleges Assn.
Tony Arnerich, Arnerich Massena & Associates
Dan Block, Arnerich Massena & Associates
Fred Boss, Department of Justice
David Connelly, MFS Investment Management
Kevin Dachille, OppenheimerFunds, Inc.
Bruce Dunbar, OppenheimerFunds, Inc.
Bill Finnegan, MFS Investment Management
Scott Gardner, Gardner Financial Group
Raquel Granahan, OppenheimerFunds, Inc.
Dave Grovell, Arnerich Massena & Associates
Ken Henry, OppenheimerFunds, Inc.
Susan Kay, MFS Investment Management
Keith Ketterling,
Ryan Kost, The AP
Brent Krantz, OppenheimerFunds, Inc.
Russel Loeb, Edward Jones
Suzanne Pardington, The Oregonian
Bruce Sheinhaus, OppenheimerFunds, Inc.
Tegan Schlatter, Bullivant Houser Bailen
Roy Tucker, Public
Larry Werin, Public
Simon Whang, Department of Justice
Donna Winn, OppenheimerFunds, Inc.
Kurt Wolfgruber, OppenheimerFunds, Inc.

Chair Ben Westlund convened the meeting at 1:05 p.m.

This was Chair Westlund's first 529 College Savings Board meeting since taking office as Oregon State Treasurer on January 5, 2009. He opened the meeting by stating that it's important not to lose sight of the fact that the real goal is presenting the best 529 access and affordability model to

the state of Oregon. Although there are concerns over existing structures, which Chair Westlund shares, the greater responsibility is how to design the best plan possible.

Chair Westlund noted that we are currently in one of the most unique and still yet-to-be understood market collapses in history. Not only this Board, but every financial market in the country is trying to figure out where we're going.

Chair Westlund has children in college, and his 529 statements reflect what other plan holders have seen in their accounts. The aggregate value of the Oregon College Savings Plan fell by about 25% in the past year, which is hard to swallow, though somewhat reflective of the statements for other portfolios. However, this is particularly hard for those who have children in college or about to enter college.

The Oregon College Savings Plan has been Chair Westlund's top priority since taking office as State Treasurer. He sees his role as the state's chief fiduciary officer, and in that capacity, his job is to protect Oregon's investments in all of its capital pools, and especially in its 529 plans. He has directed the Oregon Attorney General to launch a comprehensive investigation into the handling and management of certain mutual funds that are part of the portfolios. While everyone has experienced losses, it's necessary to ensure that questionable practices did not make those losses worse. In addition, Treasurer Westlund has instructed the Investment Division at the Office of the State Treasurer to take a bigger role in providing analysis that can help the Board going forward, in conjunction with information provided from the fund managers. Chair Westlund's goal is to ensure that Oregon has not only the strongest 529 savings plan possible, but also the best college savings plan in the entire country.

Board Member Carl Vance moved to approve the December 12, 2009 Board meeting minutes, seconded by Board Member Kirby Dyess. All approved.

Chair Westlund introduced the discussion of the Oppenheimer Core Bond Fund. Donna Winn and Kurt Wolfruber of OppenheimerFunds were Oppenheimer's representatives for the discussion.

Ms. Winn is the president of OFI Private Investments, a subsidiary of OppenheimerFunds that is responsible for the program management of the Oregon College Savings Plan. She stated that everyone at OppenheimerFunds takes the trust that the Board has placed in them very seriously. Oppenheimer is very disappointed in the performance of the Oppenheimer Core Bond Fund and the impact it has had on the Oregon College Savings Plan portfolios, and they are highly motivated to develop appropriate solutions, some of which are already in place.

Ms. Winn stated that OppenheimerFunds Inc. and its subsidiaries is one of the largest and most respected asset management companies in the United States, being the seventh largest U.S. manager. Since being named Oregon's program manager in February, 2004, Lipper named Oppenheimer its large fund company of the year in 2006 and its large fixed income manager of the year in 2006 and 2007. Morningstar, Inc. highly ranked the Oregon 529 plan in 2007.

Ms. Winn noted that when Oppenheimer became program manager, the previous manager's average total expense ratio was approximately 1.25%. Oppenheimer's expense ratios for actively managed portfolios are 30-75% lower. Vanguard was added to the program to provide index options at even lower costs. Assets and accounts in the plan have nearly tripled since Oppenheimer became program manager.

Ms. Winn concluded by stating that Oppenheimer remains committed to working with the Board to bring Oregonians a plan that is designed to meet their needs. The unprecedented events of 2008 in the stock and bond markets negatively affected nearly every investor. These events affected Oppenheimer's Core Bond Fund greatly. Ms. Winn believes that the Fund was managed in accordance with its investment policies and using securities that were appropriate for its objectives.

Kurt Wolfgruber is the President and Chief Investment Officer of OppenheimerFunds. As such, he manages over 180 investment professionals who manage the \$140 billion Oppenheimer invests on behalf of its investors. Mr. Wolfgruber has worked in the investment management business for almost 35 years and is sizably invested in the Core Bond Fund himself. He presented the following testimony:

Mr. Wolfgruber stated that the Core Bond Fund was managed clearly within the guidelines and objectives that were set for it. It was managed by an experienced and highly successful team with an outstanding track record. The Fund's results were driven largely by highly unusual market conditions, marked by an unprecedented rise in interest rate spreads, by high correlations among securities that previously had been uncorrelated and almost non-existent market liquidity. Oppenheimer is committed to reestablishing the credibility of their Core Plus Bond offerings and has already begun to implement a plan that they believe will give investors the opportunity for strong bond portfolio returns in the future.

Mr. Wolfgruber explained that Oppenheimer Core Bond Fund is an actively managed total return-oriented bond fund, which means it seeks to provide a combination of income and capital appreciation to investors. This is done by investing in a wide variety of fixed income instruments, including derivative securities. These include both domestic and foreign corporate bonds, government bonds, mortgage-backed securities and other securities offered by private organizations like Fannie Mae or Freddy Mac. In aggregate, 80% of the Fund's investments are to be invested in investment grade securities. The Fund is consistently described as a long-term vehicle, appropriate for investors who are willing to assume the risk of investing in broadly defined taxable fixed income securities and can also handle the risk of the impact of changing interest rates on those securities' prices. The Fund was not a short-term bond fund, it was not a government securities fund, and it was not a guaranteed fund. Over the tenure of the investment management team, the Fund invested primarily in investment grade domestic, corporate, U.S. government and mortgage-backed securities, which is consistent with its policies and objectives. It maintained a duration (a measure of the portfolio's overall sensitivity to a change in interest rates) of three to six years. What this means is that for each one percent change in interest rates, the Fund's portfolio would be expected to change in value by three to six percent.

The key members of the investment team joined OppenheimerFunds in early 2002 after working together and developing a strong track record at an investment subsidiary of Morgan Stanley. In each year from 2002-2006, the Fund's returns were higher than that of its benchmark index, returning between 2.5 and 10.6% annually and beating the benchmark by between .1 and 2.5%. This placed the Fund in the top 20% or better of its peer group as measured by noted fund-ranking service Lipper, and in the top 22% or better by a similar ranking from Morningstar. Morningstar increased its star ranking of the Fund from three stars in 2002 to its highest five-star ranking in 2006. In 2007, as the earlier signs of the credit crisis began to emerge, the Fund underperformed the benchmark by 2.2%, while still delivering a positive total return of 4.8% and outperforming 35% of its Lipper peer group and 40% of the Morningstar category. Under the management of this team prior to 2008, the Fund had never lost money for shareholders on a calendar-year basis, and its single worst quarterly return was a loss of 2.26% in the second quarter of 2004.

Mr. Wolfgruber described the investment management process, which was essentially benchmark-focused and designed to seek out relative return. Securities were sought that appeared to have the potential to increase in value if their prices returned to historical or peer group averages. Their risk management process also was primarily based on comparing the Fund's risk levels to those of its benchmark, and it relied on managing risk by shifting allocations between and among different sectors and different securities. Within those sectors, investments were diversified across a range of securities and sectors to limit the impact of any one of those on the portfolio. The approach had historically allowed the team to create a portfolio that balanced a variety of uncorrelated risks. This means that the risks had historically at least partially offset each other and reduced total portfolio risk.

Mr. Wolfgruber commented on the overall economic and financial market environment in 2008. It was a very challenging year for the country's economic system, given the unprecedented stock and bond market conditions. Banks and other financial service firms suffered dramatic losses and in many cases required substantial bailouts by the Treasury or Federal Reserve. The governmental response to the crisis has been very unpredictable, presenting fundamental challenges to the financial system and markets.

Mr. Wolfgruber explained that the 2008 performance story actually begins in the fall of 2007. Based on the previously described investment approach and the economic environment that was unfolding, the team developed the following investment thesis: With a weakening economy and historically low yields and lower quality securities, the best investment opportunities would be in high quality bonds and related securities whose value would decline less than that of lower quality securities if spreads returned back to their more normal historical levels. The team built investment positions for the Fund based on this thesis, investing in AAA-rated securities backed by commercial mortgages (CMBS), securities backed by prime rate jumbo residential mortgages from borrowers with high credit scores, and securities issued by highly rated financial institutions. These were not sub-prime mortgages.

Throughout 2007 and into 2008, the relative value of these investments appeared even greater to the team, and they increased their commitments until early spring of 2008. When the Federal Reserve intervened and assisted JP Morgan in purchasing Bear Stearns in late spring of 2008, the markets rallied under the assumption that major financial institutions were considered too big to fail, and the market stresses would begin to ease. The Fund gained nearly 2% during the second quarter of 2008, and the team's investment thesis appeared validated by the markets. However, as the second half of 2008 began, economic conditions deteriorated rapidly to the point where, even today, comparisons are being drawn to the Great Depression. Changes in the market were sudden, global and unprecedented, resulting in extreme changes in securities valuations.

Most shocking to the financial system were the bankruptcy of Lehman, which pulled the "too big to fail" rug out from under market assumptions, and the mid-November announcement by Treasury Secretary Paulson that the Troubled Asset Relief Plan (TARP) funds would not be used to purchase troubled assets but rather to support financial institutions' balance sheets. Three significant market factors emerged from these two events that drove the Fund's performance. Interest rate spreads widened to levels never seen before, returns in previously uncorrelated sectors of the market became highly correlated, and large parts of the bond market essentially froze.

Mr. Wolfgruber explained that the spreads between the yields on CMBS and treasury bonds widened to unforeseeable levels. Between 1988 and 2007, historical spreads for these types of securities averaged less than one percent, and a move of a tenth of one percent was deemed to be a lot. At the start of 2008, the spread stood at 1.75% and peaked at 15.6% on November 21, 2008, nearly 16 times what would be viewed as a normal spread level. Another way to look at it is that CMBS prices assumed that every underlying mortgage-backed property would go into default, a 100% default rate. The most recent historical data available today shows the current default rate at less than one percent, and the all time high is 15%.

The spread widening was driven largely by increases in the yield of CMBS, which means that the market value of those securities fell. The bulk of the Fund's underperformance occurred in November, 2008. At that point, the spread duration of the Fund's CMBS holdings was 2.4 years, which means that the CMBS spreads widened by 10 percentage points during the month. This is when the TARP plans were changed. A duration of 2.4 years, coupled with a widening of 10 percentage points, resulted in the Fund's holdings declining 24%. At the same time, yields on treasury securities were falling. Prices were going up, increasing the value of those and widening the performance differential between the Fund and similar funds with a greater investment in government securities.

Mr. Wolfgruber stated that the second market anomaly was that correlations between sectors changed materially. Sectors that had historically had divergent performance moved in concert during the fall. Even worse, it was a very important exception to typical behavior. In most crisis, we normally expect there to be a flight to quality. What is defined as quality is AAA securities, which would be a rush to invest in low risk securities, including government-backed mortgage securities. During the fall, the flight to security was almost exclusively to short treasuries. T-bills went to zero, and other treasuries were 90 basis points, which are extremely low levels. This drove down the price of other AAA securities and drove up short treasury prices, decreasing again the Fund's values. Paradoxically, while the team moved its exposure to higher quality assets, the market's behavior redefined quality in a way that was defined in a much narrower context.

The final factor was a nearly complete lack of liquidity in certain parts of the bond markets, especially the mortgage market. While financial institutions had expanded their positions in mortgage-backed securities for much of the past 25 years, they began to aggressively shrink their balance sheets in response to economic stress, market concerns and balance sheet stress. In November, Secretary Paulson eliminated what had been one remaining source of liquidity, which was the TARP funds. This lack of liquidity made it impossible for the team to respond to changing market conditions, and the opportunity to trade securities or hedge risk essentially disappeared.

While the main source of underperformance was mortgage-backed securities, the Fund's position and the debt of financial companies lost value rapidly over the second half of 2008 as banks, investment banks and insurers sought capital infusions. They were sold at fire sale prices or they were taken over. While many of the securities in the Fund were sold before bankruptcies or takeovers took place, they had lost significant value, which also hurt the Fund.

Mr. Wolfgruber stated that virtually all of the events he described had reached their peak between September and November of 2008, resulting in essentially all of the underperformance of the Fund. By Oppenheimer's calculations, over 90% of the underperformance relative to its Lipper universe took place during that period. Although the sector allocations and securities were chosen carefully with clear goals in mind, the divergence from similar funds resulted from the emphasis on these sectors which were most affected by the financial crisis and by the use of securities that became extremely difficult to trade in an unexpectedly illiquid market. It was a brutal period for investors in every sector of the stock and bond markets except treasuries, and Oppenheimer was, for all the right reasons, in the wrong places.

Chair Westlund requested clarification on whether Mr. Wolfgruber had stated that in early 2008 the rating agencies were still ranking these types of investment vehicles as high as AA or AAA. Yet the market chose to ignore the rating, for whatever reasons, and there was flight to even more safety. However, Oppenheimer's investment team chose to continue with the rating agency approvals as one of their investment criteria, as they had in the past.

Mr. Wolfgruber agreed, stating that the funds are still rated at those levels today. By Oppenheimer's own analysis, they believed then and still believe today that the securities are extremely cheap. The underlying issue is that they are good assets and they will ultimately return. The time frame is what is difficult.

Mr. Wolfgruber detailed what Oppenheimer has done from an investment risk management standpoint to attempt to provide a structure that will give future investors in this fund and others in their fixed income products confidence in their management. Art Steinmetz has been named as the new Director of Fixed Income. He replaces Angelo Manioudakis, who resigned in December. A very senior and globally experienced head of Risk Management was also hired in December.

Mr. Wolfgruber stated that Oppenheimer is committed to rebuilding client trust and plans to do so by deepening the investment management organization, applying greater resources to risk

management and focusing on core bond business and the business of managing mutual funds and related products, such as college savings plans. This concluded Mr. Wolfgruber's testimony.

Oregon 529 College Savings Network Director Michael Parker invited members of the financial consulting firm Arnerich Massena (Arnerich) to present their report. The report was prepared after meeting with Oppenheimer's portfolio managers in Boston, MA, and reviewing the fund holdings in the portfolios. Arnerich has been providing investment consulting services to institutional clients for over 20 years, including performance evaluation services.

Tony Arnerich explained the process the firm used to analyze the Oppenheimer Core Bond Fund. Oppenheimer is a value-based manager, they follow a honed process, and they had stable personnel until late 2008. Oppenheimer provided Arnerich full transparency in the portfolio, allowing it to be analyzed at both the sector and security level. Price and performance were reviewed. Oppenheimer's standard of commitment, voracity and honesty were also considered, and Mr. Arnerich felt that the senior management demonstrated these qualities.

Dan Block is the Director of Traditional Investments at Arnerich. He stated that his review of the Core Bond Fund was based on determining whether it is a viable investment going forward. Mr. Block noted that, although it isn't an excuse, Oppenheimer wasn't the only firm that made these types of investment choices and was hit badly by the dislocation of the market. The Core Bond product was hit worse than the others. Mr. Block was impressed with the frankness and openness of Oppenheimer's investment management team. However, there was some concern that the management team will change going forward.

Chris Abbruzzesse is a Senior Analyst at Arnerich in the alternative investment space. He has background in risk management, and he elaborated on Mr. Wolfgruber's explanation of Oppenheimer's focus on spread duration in the portfolio and where the new team is expected to take risk control going forward. Mr. Abbruzzesse believes that the explanation was very credible for bringing Oppenheimer and the Core Bond Fund up to industry best practices. In his view, there was a relatively monochromatic focus on spread duration to control risk in the portfolio, which led to an overexposure in certain sectors. A number of different stress tests and stress scenarios will be instituted regularly going forward, which is a credible way to manage a fixed income portfolio.

Chair Westlund inquired if he was correct in understanding that best practice stress testing was not in place at the time the Fund suffered its losses. Mr. Abbruzzesse agreed that it was not.

Mr. Block stated that Oppenheimer made value-based investment decisions that they can't be faulted for. The mistake was that the size of the bets were outsized.

Mr. Block explained the pros and cons of the four options Arnerich sees available to the Plan. The options are to remain status quo, keep the Core Bond and add an index, terminate the Core Bond and replace it with a similar product, or terminate the Core Bond and replace it with an index product. The full report with explanations is available in the Network's file for this Board meeting.

Kevin Nordhill, Public Equity Investment Officer in the Investment Division of the Office of the State Treasurer, stated that Treasurer Westlund requested that the Investment Division take a stronger role in managing and advising on the investment aspects of the Oregon College Savings Plan. Mr. Nordhill noted that the additional resources of a full retainer consultant will most likely be recommended. Mr. Nordhill had some questions that he asked Oppenheimer directly. First, he inquired if Oppenheimer believed that they employed industry best practices in measuring, monitoring and controlling risk and liquidity in the Core Bond Fund.

Mr. Wolfgruber responded that, as a member of the Risk Management Committee that receives the risk management analyses reports, they had received indications from outside parties that Oppenheimer did have best practices. However, he believes that a number of Arnerich's comments were well founded. Additionally, the information that has come from two recent

industry conferences is that all segments of the financial services community are rethinking their risk management procedures, because they clearly failed. Mr. Wolfgruber believed at the time that Oppenheimer had best practices in place, but he also believes that those are being redefined and Oppenheimer is responding.

Mr. Nordhill questioned that if Oppenheimer considered its risk controls at the time to be solid, how does it explain such a large deviation in performance relative to its peers?

Mr. Wolfgruber stated that Oppenheimer is an active manager, and it looked for opportunities in highly-rated securities. It didn't feel its exposures were outsized, based on historical evaluations and the assumption that they would behave at least somewhat like they had in historical periods. Mr. Wolfgruber explained that if the same benchmarks used in the portfolio were used today regarding tracking error or volatility of the assets, owning them would not be allowed today, due to the experience of that three-month period. The losses were caused by security selection and an exposure that was not captured, principally from a liquidity perspective.

Mr. Nordhill asked if Angelo Manioudakis resigned or was asked to leave.

Mr. Wolfgruber stated that Mr. Manioudakis resigned. He opined that the reason Mr. Manioudakis did so was because Oppenheimer would have to make changes in the risk management process and potentially in the levels of exposures in some of the asset classes, which would involve differences in the way the portfolio was managed. Mr. Manioudakis resigned so that Oppenheimer could retain the remainder of the management team.

Mr. Nordhill inquired as to the likelihood that the sector heads who are co-managing the Core Bond Fund would still be with Oppenheimer in a year from now.

Mr. Wolfgruber commented that the management team consists of 20 people. Four have been asked definitively to stay with Oppenheimer, and they have agreed. Oppenheimer hopes to retain eight others also. However, the investment management team is going to be moved from Boston to New York, where all of Oppenheimer's other investment teams are located. It is believed that exposure to the broader range of ideas and thoughts will benefit the team. Mr. Wolfgruber feels that at least one or two of the top four will remain with Oppenheimer.

Mr. Nordhill inquired as to how the liquidation would be handled if the Board determined to terminate the bond funds.

Mr. Wolfgruber wasn't entirely sure how the liquidation would take place. He pointed out that the Core Bond Fund currently has net inflows into it. Oppenheimer could carve out the assets and do an in-kind distribution to preserve the exposure to the Fund.

Mr. Nordhill asked what the fourth quarter net outflows were in the Fund.

Mr. Wolfgruber didn't have those figures, but Mr. Block of Arnerich did. It's a fund with a billion and a half in assets. The 2008 positive cash flow was \$6 million, with a negative cash flow of \$80 million in the fourth quarter.

Mr. Block wanted to add that the Oppenheimer management team hadn't maxed out its risk budget prior to this instance. Mr. Block doesn't feel the team was trying to make massive numbers by making big bets. They simply felt this was an opportunity they'd never seen before.

Mr. Wolfgruber concurred, stating that Mr. Block's description was very accurate. He also noted that Oppenheimer did have a shorter period of tracking error observations outside of the investment management team for the Fund, which triggered some discussions around its exposures. However, at that time the liquidity was so limited that there was little ability to change it.

Mr. Block referred to the in-kind distribution that Mr. Wolfgruber had mentioned, stating that he felt it would be a transfer of the same liquidity issues that investors in the Fund are now facing.

Mr. Nordhill inquired if Oppenheimer would be willing to provide cash in the event of a termination.

Kevin Dache is a Product Specialist and part of the Oppenheimer portfolio team in Boston. He explained that as the fiduciary manager of the mutual fund, Oppenheimer must act in the interest of all the shareholders. Many factors come into play, including current market conditions, the dollar amount of the portfolio and the current construction of the portfolio. Any request for what would be determined to be a significant withdrawal would be dealt with on that basis.

Mr. Block inquired if a five percent withdrawal would be considered significant, and Mr. Dache stated that it wouldn't. He also commented that Oppenheimer has been aware that withdrawals were probably imminent, and they have prepared for that.

Mr. Vance commented that he understands how the poor performance happened, but he doesn't understand how the Fund was marketed as a core bond fund when in fact it was a total return bond fund with much more risk. What doesn't make sense to him is why it was put as the principal vehicle in the Conservative Portfolio, which is for investors who have a very short duration in years to college investing. Investors thought they were investing in a conservative investment when they were investing in a very unconservative investment. Mr. Vance feels there's a disconnect between the investors and Oppenheimer's reality.

Mr. Wolfgruber responded that he believes conservative is too confining a term to put on the portfolio, because it's defined as an intermediate term bond portfolio. He explained that the representation of the levels of risk are always based on historical behaviors.

Chair Westlund inquired if the Core Bond Fund or Limited Term Government Bond Fund were leveraged to increase exposure either on the upside or the downside to gain greater investment returns.

Mr. Wolfgruber explained that the funds are mutual funds, and federal regulations prohibit the borrowing of money to purchase securities. Oppenheimer did not do that in the context of their definition of leverage, and this issue was also discussed in detail with Arnerich during their review.

Mr. Nordhill asked how Oppenheimer has prepared for pretty significant cash outflows from the Fund, given that there are a number of 529 plans invested in it and financial advisors who placed clients in the Fund who may now all be considering withdrawing from it.

Ms. Winn responded that Oppenheimer does not expect significant outflows from the Fund, because for the most part, this fund is a portion of asset allocation funds and is not a stand-alone fund. The states with 529 plans with Oppenheimer have made different decisions around what they're going to do with the Fund. Most are retaining the assets and putting new money into another fund, although some have not made their decision yet. Oppenheimer has not seen large withdrawals from the Fund or from any of its 529 plans.

Mr. Vance mentioned the Conservative and Ultra-Conservative Portfolios. For the fourth quarter, the Conservative Portfolio was down 16%, a variance of 14.7%, and the Ultra-Conservative was down 6.8%, a variance of 9.16%. The results don't sound like the names of the portfolios, so the unsophisticated investor is going to feel that this isn't possible or shouldn't be possible in a conservative portfolio and that they've been hoodwinked, as has been evidenced by the responses received from investors. Mr. Vance wanted to know what Oppenheimer planned to do in terms of their portfolio construction to earn the respect of investors.

Mr. Wolfgruber responded that the experience of 2008 will be imbedded in all asset classes five or ten years from now, and its volatility will be dramatically different than it has been in almost any other period. Going forward, the definition of conservative and moderate will be different, based on the experience of 2008. Expectations will be recalibrated also.

Mr. Vance asked if the portfolios would be rebalanced.

Ms. Winn commented that, historically, the Conservative and Ultra-Conservative Portfolios were probably properly named. 2008 was unprecedented, and Oppenheimer wasn't the only firm to perform poorly in certain portfolios. Ms. Winn noted that the portfolios were designed for people with children in or near college, with the understanding that college is four years long and college inflation is 6.5%. The goal was to allow the investor to have a longer term investment portion in the asset allocation pie so that they could continue to pay for college on a go-forward basis. At the time, the reasoning for setting the allocations up that way was sound. However, times have changed, and it behooves everyone to reevaluate the naming conventions and examine the asset allocations. She suggested that a guaranteed option should be considered for those who cannot lose money, since returns were never guaranteed on any of the existing options.

Mr. Parker commented that the original reason for retaining Arnerich was to work on reallocating the portfolios, but when the Core Bond Fund began having its issues, Arnerich was redirected to focus directly on that Fund.

Board Member Scott Sandbo commented that, in his mind, the fundamental issue was the performance of the fund relative to its benchmark. The benchmark was 4.6%, and the fund was at -30+%.

Mr. Abbruzzesse of Arnerich revisited the question regarding the use of leverage in the Core Bond Fund. He stated that it's accurate to say that there was not financial leverage and derivatives were not used to amplify the leverage in the Fund. He requested that Mr. Wolfgruber elaborate on the imbedded or economic leverage involving the Fund, explaining that when a security is bought on margin, there is financial leverage. Also, if an investment bank is purchased that has a balance sheet leveraged 40 to 1, even if it is purchased with cash, it is still an economically leveraged investment.

Mr. Wolfgruber responded that when all the measures of risk in a portfolio are overlayed, they start with limitations on the risk based on a benchmark evaluation of the risk. Whether this is done through a cash security or some form of derivative really doesn't matter if the level of risk is being controlled at the aggregate portfolio level. Mr. Wolfgruber believed that Oppenheimer acts in the best interest of the investor when it obtains exposure to a desired sector in the cheapest and most effective way possible. These exposures are sought for liquidity and diversification reasons. CMBS total return swaps are used because the process provides a widely diversified portfolio of risk and the years in which the loans were made, so a far more diversified position is obtained. Oppenheimer has an internal guideline in which securities are earmarked to support that position. Securities are not borrowed to do it.

Mr. Arnerich also had questions regarding the Limited Duration Fund in the Ultra-Conservative Portfolio and the concept of diversification within the structure of the premises.

Mr. Dachille responded that many of the same strategies were employed in the Limited Duration Fund as were in the Core Bond Fund. 80% of the portfolio was required to be in government and government agency issuers, but the other 20% of the Fund was invested very similarly to the Core Bond Fund. In Mr. Arnerich's view, this caused the portfolio additional exposure to that particular part of the market.

Mr. Dachille noted that the perspective of risk is an important dynamic to consider. The portfolio management team considers relative risk, which is generally measured by tracking error, when putting forth their best ideas for the portfolio. Investors may be approaching it more on an

absolute risk basis, which ties in with Mr. Abbruzzese's suggestions for risk controls using bar measures or stress testing for spread duration. The perspective of the portfolio management team was very focused in terms of relative risk positions within the context of the prospectus' absolute risk limitations.

Chair Westlund stated that he believes the industry terms don't accurately reflect to the investor what they mean in the investment community.

Mr. Parker asked Arnerich to provide the Board with a recommendation, based on the due diligence review they performed on the underlying securities in the Fund and their sit-down meetings with the portfolio team in Boston.

Mr. Arnerich stated that there are certain risks that Arnerich sees going forward; namely, the length of time of recovery, the mismatch of expectations on the nomenclature of the Fund, the fact that Arnerich believes that Oppenheimer believes a little bit differently than what might have been stated for the record, and that is that there will be liquidations, and the litigation risk that exists. Given the risk of liquidations and the risk of portfolio manager changes, Arnerich recommends that the State terminate both the Limited Duration Fund and the Core Bond Fund. The assets should be temporarily moved into a short-duration index fund to match the objectives of the Limited Duration Fund and into a Barclay's Index Fund to better match the Core Bond Fund. Arnerich's main concern is the liquidity risk to the funds.

Mr. Nordhill of Treasury's Investment Division concurred, with the caveat that the liquidation would be in an orderly fashion for cash, because an in-kind transfer of securities would not be palatable.

Mr. Arnerich wanted to note that from their experience with Oppenheimer, Arnerich believes they are honorable, credible people. He believes Oppenheimer is an extremely reputable firm, and will be able to liquidate for cash if given the appropriate time to provide liquidity in a tough market environment.

There was discussion regarding the steps that would need to be taken to transfer the assets.

Mr. Sandbo stated that at the October Board meeting, Arnerich had indicated that they felt there was a lot of relative value in the Funds' asset class, but the spreads were unusually high. He inquired if Arnerich's feeling was that the liquidity risk and the impact that could have on the funds outweighs their relative value. Dan Block of Arnerich agreed.

Chair Westlund moved that the Board take all necessary steps to end the Plan's involvement with the Core Bond Fund and Limited Term Government Bond Fund, and direct the Board's financial consultant to work with the Office of the State Treasurer's Investment Division staff to replace the funds; and, in the interest of the Plan's participants, that the Board authorize the Chair to work with the Investment Division to approve the replacement funds. The motion was seconded by Kirby Dyess and approved by all.

Chair Westlund requested that Fred Boss of the Department of Justice give an update regarding the Attorney General's investigation of the Core Bond Fund. Mr. Boss stated that the investigation is a priority for the Attorney General's office and that they are moving forward as quickly as possible. Since the investigation is ongoing, he couldn't comment much on it, but felt that they would hopefully be coming back with a decision in about a month or so.

Mr. Parker introduced the topic of adding an age-based option made up of index funds to the Oregon College Savings Plan.

Chair Westlund feels that it's important to include such an option in order to give Oregonians more choice in their college savings investments.

Mr. Vance was concerned that the balance of what's conservative and what's ultra-conservative should be determined prior to launching any other initiatives to add an indexed age-based option.

Mr. Parker agreed, stating that the asset allocation of all the current portfolios would be worked out first, as outlined in the last three Board meetings. The index piece will follow along with that.

Ms. Dyess agreed that the definitions of the portfolio names need to be determined and tested, and that the investment options for those 16 through college age need to be looked at very closely and adjusted.

Chair Westlund's goal is to create the best college savings plan in the country and to send a strong message that people need to be saving for college.

Mr. Parker asked for a motion to authorize staff, the Investment Division and consultants to pursue the construction of an indexed age-based portfolio option within the Oregon College Savings Plan, which would then come back to the Board for ratification. Lyn Hennion moved, seconded by Kirby Dyess. All approved.

At Chair Westlund's request, Mr. Parker provided some background on prepaid tuition in Oregon. In 1998, a prepaid tuition bill was on the ballot because it required the full faith and credit of the state to back the prepaid tuition contracts. The bill failed. The following legislative session the College Savings Bill passed, which created the Oregon College Savings Plan (OCSP). Prepaid tuition plans have been around nationally for more than 20 years. The OCSP does not have an option that is risk free and guaranteed. Treasurer Westlund has proposed, with Senate President Peter Courtney, that legislation be drafted to establish a prepaid tuition plan within the OCSP. It will act as a prepaid plan but will not require the support of the full faith and credit of the state. The prepaid tuition plan would be offered as an option within the OCSP and will not be set up as an OCSP competitor. The two options could work very well together, with the prepaid tuition portion being used to purchase tuition, and the savings plan portion being used to save for room and board, books, and other expenses not covered by the prepaid tuition option. The prepaid tuition plan would allow risk-averse investors to buy tuition at a guaranteed rate and would also qualify for the same tax treatment as the current options in the OCSP. The prepaid tuition bill is one of Treasurer Westlund's priority bills for this legislative session.

Chair Westlund believes that the Board should focus on offering more choices of various risk levels to more Oregonians, towards the fundamental principal of increasing savings for college.

Ms. Dyess felt that the advantage of a prepaid option is that it allows a different sector to invest in college, and the investor can rest that the money will be there when needed.

Mr. Vance stated that he believes the prepaid tuition option speaks to the correspondence that had been received during the last month, where Oregonians were so frustrated and devastated by the losses they'd incurred. A guaranteed option would give people hope. Mr. Vance also shared a report with the Board from the National Center for Public Policy and Higher Education, which is an organization that reviews states' higher education performance. The report card for Oregon listed affordability as an "F," and Mr. Vance believes that a prepaid program would really help in that regard.

Chair Westlund moved the following resolution in support of the addition of a prepaid tuition option within the Oregon College Savings Plan:

Whereas, the Board fully supports giving Oregonians choices when saving for college; and
Whereas, the Board continually strives to make the Oregon College Savings Plan the best vehicle for families to save for college; and
Whereas, the Board understands that investors have different risk tolerances when saving for college, and

Whereas, the Board wants to make college more affordable and more accessible to all Oregon families; and
THEREFORE, BE IT RESOLVED, THAT the Board urges the State Legislature to pass legislation establishing a Prepaid Tuition option within the Oregon College Savings Plan.

Mr. Sandbo moved the motion, seconded by Ms. Dyess. All approved.

Chair Westlund introduced the final action item, stating that he is recommending that a Request for Proposals for administration of the Oregon College Savings Plan be issued. This will allow the Board to survey the marketplace and determine how it can enhance college and higher education savings opportunities for Oregon families. He asked Mr. Parker to elaborate.

Mr. Parker commented that the 529 marketplace has changed considerably over the years. Since the industry has changed to a very different landscape from when Oppenheimer was hired and Oppenheimer's contract comes up for renewal at the end of 2009, Mr. Parker recommends that the Board survey the marketplace again to determine what is available for college savings services for the direct assets. Oppenheimer can also bid for renewal of their contract.

Board Members Lyn Hennion and Ms. Dyess feel that surveying the marketplace is best practice, but clarified that the choice to do so is with no disrespect towards Oppenheimer. Both members also appreciated Oppenheimer's transparency in their testimony.

Chair Westlund moved the authorization to issue a Request for Proposals for a program manager for the Oregon College Savings Plan:

BE IT RESOLVED, THAT the Board hereby authorizes the issuance of a Request for Proposals (RFP) for a program manager of the Oregon College Savings Plan who will be responsible for administration, marketing, recordkeeping, and investment management for the Oregon College Savings Plan, and such RFP shall be prepared by staff and reviewed by the Department of Justice.

BE IT FUTHER RESOLVED, THAT the Board hereby authorizes the Chair to approve the form of the RFP and to do and perform such other acts and things, as may in his discretion be deemed reasonable, necessary or proper in order to carry into effect any of the provisions of these resolutions.

Ms. Dyess moved the motion, seconded by Ms. Hennion. All approved.

Bill Finnegan and David Connelly presented MFS quarterly information to the Board. Their prepared quarterly report is part of the Network's file for this Board meeting. Mr. Finnegan noted that 2009 is the 85th anniversary of MFS, and the MIT Fund, which was invented by MFS and was the nation's first fund, is an option in the MFS 529 Plan. Mr. Finnegan highlighted the asset and account information for the fourth quarter of 2008, informed the Board that the MFS micro site has been redesigned and now offers a much better user experience, and explained how MFS has been reaching out to advisors and investors through e-mails, podcasts, iTunes and infosheets to keep them educated during this challenging market.

Mr. Connelly provided a review of the fourth quarter performance information for MFS. He stated that 2008 was, in many areas of the market, the worst performance year in our lifetime. MFS runs fully-invested style-disciplined portfolios, so their results were reflective of the market environment that they were in. It was a painful time for investors and MFS did not avoid that. He explained MFS's investing strategy, and that their focus on high quality companies with strong balance sheets helped them navigate the marketplace, performing a little bit better than the benchmarks. Early identification by their investment team of potential problems with large banks with exposure to subprime and avoidance of those areas also added to relative performance. In

relation to the MFS asset allocation funds, Mr. Connelly reiterated that, as discussed earlier with Oppenheimer, in a market that was so broadly negative, diversification did not prevent against loss. The more conservative models did dampen the losses compared to the overall market and compared to the more aggressive asset allocation models, consistent with their design. All four of the MFS asset allocation models performed at or above average in their Morningstar categories, and their five-year track records remain in the top third of performance.

Mr. Connelly also noted that the MFS Board of Trustees recently voted to enhance the asset allocation funds with increased diversification. This has been in process for a few years, and was not in reaction to the current market. The number of underlying funds being invested in will increase from 8 or 10 to 12 or 17, increasing asset class, style and geographical diversification. The goal of the enhancements is to further dampen volatility within the strategies and deliver superior risk-adjusted performance. The transition is expected to be complete by April of 2009, providing that market conditions allow.

Bruce Sheinhaus and Ken Henry presented Oppenheimer's quarterly information, which is also part of the Network's file for this Board meeting. Mr. Sheinhaus had several prepared comments that he wanted to share with the Board. He stated that, in regards to the prepaid tuition option, he believes the Board is going down an excellent path, because they would be providing the opportunity for people to reach achievable goals. This is very important when talking about saving for college, because one of the biggest challenges is that people don't know what their goals are. Another benefit will be that more Oregon students will remain in state. In 2007, 25% of Oregon students attended school out of state.

Mr. Sheinhaus commented that the fourth quarter of 2008 will likely be the most challenging financial market that any account owner has lived through and hopefully will live through. The majority of college savers across the country experienced significant declines in their savings, especially those with young children. The focus has rightfully been on those who are near or in college, but it's important to keep those who are just starting to save engaged in the program. The OCSP 2008 returns for the youngest age band, the 10+ Years to College Portfolio, was -37.8%. This is comparable to performance in the youngest age band in plans managed by T. Rowe Price, Fidelity, and UPromise Vanguard. However, Oppenheimer doesn't take comfort in such comparisons, and it's difficult to compare performance or account owner experience across state programs in periods of high volatility, since many things come into play. These factors include the length beneficiaries are in age bands, asset classes used, percentage of allocation to each, underlying funds, and expenses. The fact remains that savers for young children lost a significant amount of their investments in 2008. Even so, enrollment in the OCSP for beneficiaries five and under increased by four percent. Mr. Sheinhaus feels it's critical in these trying economic times to keep account owners engaged in the program, and that they use tools like the Education Funding Planner on the Program's website to formulate reasonable goals, and they use an automatic contribution plan to help achieve these goals.

Mr. Sheinhaus spoke to nomenclature, stating that many individuals, with different needs and perceptions, make up the OCSP. If names are put before them of what the different options are, they're all going to have a different interpretation and they're not necessarily going to even understand what their own circumstances are. Education is paramount to helping people understand what their goals are and how the options work within them.

Mr. Sheinhaus presented statistical information showing that those who are in the Program for more than one year have a higher percentage of earnings. This did not consider the magnitude of gains and losses, but it did show the benefit of long-term investing. He also provided information that showed rollovers had remained pretty much unchanged from 2007 to 2008, but non-qualified withdrawals had risen fourfold. Account owner contacts were closely monitored from December 1, 2008 through January 11, 2009 to the OCSP phone center have trended only slightly higher.

Ken Henry is on Oppenheimer's 529 Group investment team. He explained the fourth quarter performance, stating that the equity markets were quite challenging, with index performance off 20-26%. All markets exhibited a dramatic flight to perceived safety, ignoring long-term fundamentals. Long-term fundamental investment strategies were simply not rewarded. In September 2007, at the near point of the market highs and starting point of the market deterioration, all of the Oregon age-based portfolios in both OCSP and the Oppenheimer Funds 529 Plan outperformed their respective benchmark on an annualized basis for the year-to-date, one-year, and three-year time periods. Nearly all of the underlying equity funds in those portfolios were outperforming their respective benchmarks on an annualized basis for the one-year, three-year and five-year time periods. Also at that point, 85% of Oppenheimer's funds were outperforming the category median over the one-, three-, and five-year time periods. In 2008, while other 529 plans performed similarly or worse, Oppenheimer did not meet the standards that it had set for itself. From November 20, 2008, the date near or at the lows of the market for both the fixed income and equity markets, to January 16, 2009, all of the age-based portfolios outperformed their respective blended benchmark by a minimum of 3.8% to some over 12%. Two of the equity funds that were struggling due to their long-term focus have done exceptionally well recently. From January 1-16, 2009, Oppenheimer's Large Cap Value Fund is in the top five percent of all funds in that category and has outperformed the median fund in that category by 4.7%.

Mr. Sandbo commented that this truly has been an unprecedented period in the market, and he agrees that the allocations in the portfolios should be reviewed. He also feels the portfolios themselves should be reviewed for fundamental stability as the lessons of the current financial situation are applied. Tuition increases should be considered as well. A thorough analysis of everything involved needs to be conducted, using the Investment Division, financial consultant, and any other resources available.

Chair Westlund informed the Board that they would potentially be meeting monthly to deal with formal Board action items until it becomes less necessary to do so.

Chair Westlund adjourned the meeting at 4:49 p.m.