

**MINUTES OF THE
OREGON 529 COLLEGE SAVINGS BOARD
MEETING OF February 26, 2009**

Members Present: Ben Westlund, Chair
Kirby Dyess
Lyn Hennion (by phone)
Carl Vance

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

Treasury Staff: Tom Lofton, Office of the Treasurer
Ben Mahon, Office of the Treasurer
Kevin Nordhill, Office of the Treasurer
James Sinks, Office of the Treasurer
Michael Viteri, Office of the Treasurer

Others Present: Fred Boss, Department of Justice
Tim Findlay, TGF Productions, Inc.
Scott Gardner, Gardner Financial Group
Raquel Granahan, OppenheimerFunds, Inc.
Susan Kay, MFS Investment Management
Keith Ketterling, Stoll Berne
Suzanne Pardington, The Oregonian
Maria Salmon, Princor
Bruce Sheinhaus, OppenheimerFunds, Inc.
Simon Whang, Department of Justice
Donna Winn, OppenheimerFunds, Inc.

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

Carl Vance moved to approve the minutes of the January 22, 2009 Board meeting, seconded by Kirby Dyess. All approved.

Chair Westlund introduced the recommendation for the replacement funds for the Oppenheimer Core Bond Fund and Limited Term Government Bond Fund. He asked if the Board had any comments regarding the resolution. Ms. Dyess stated that she agrees with the resolution and believes that it makes a lot of sense. Receiving no further comments, Chair Westlund moved to accept the staff recommendation to replace the Oppenheimer Core Bond Fund with the Dreyfus Total Bond Market Index Fund in both the Oregon College Savings Plan and the OppenheimerFunds 529 Plan, and replace the Oppenheimer Limited Term Government Fund with the Vanguard Short-Term Bond Fund Index in the Oregon College Savings Plan. Mr. Westlund also moved that the Board accept the staff recommendation on reallocation of asset classes in the 1-3 Years to College Portfolio, the Conservative Portfolio, the In-College Portfolio, and the Ultra-Conservative Portfolio in the Oregon College Savings Plan and OppenheimerFunds 529 Plan. The motion was seconded by Ms. Dyess.

Mr. Vance stated that he first wanted to be sure that the fee structure of the fund replacements was discussed as it compares to the existing fee structure for the current programs. He had previously spoken to Network Director Michael Parker about this and asked Mr. Parker to lead the Board through the discussion.

Mr. Parker noted that both the Dreyfus and Vanguard funds will be bought at very good institutional rates. Oppenheimer has requested that a 30 basis point wrapper be added to the funds in addition to the Network's current costs to ensure that all administrative functions are met properly. Mr. Parker stressed that this is a temporary fix, and wrappers are not typically added to funds. Given the short time frame because staff and the Board want to move out of Core Bond and Limited Term as expeditiously as possible, as well as some recordkeeping and administrative costs, the Network is allowing the wrapper so the move can be made quickly. He asked that Rocky Granahan of OppenheimerFunds provide a more detailed explanation to the Board.

Ms. Granahan explained that in the economics of a 529 plan, a common denominator that is used to make sure that administration is paid for goes back to the average account size of a typical account. In the Oregon College Savings Plan, the average account size is somewhere around \$6,000. Class Y Share mutual funds have been used as the underlying funds of the portfolios in the Plan. The Class Y share structure consists of a management fee and a fee that covers administration, also known as a transfer agency fee. The Institutional Share Class, which will be the class of the index replacement funds, charges management fees only. The Dreyfus fund is at 15 basis points and the Vanguard fund is at 10 basis points, which will go entirely to management fees with nothing built in to cover administration and be carried on the platform. The 30 basis points is being added to both funds to help them cover their pro rata share of approximately a \$25 account fee.

In response to Mr. Vance's question regarding the total fees of the funds being removed, Mr. Parker stated that the total institutional fee for the Limited Term Government Bond Fund is 55 basis points and for Core Bond it was 49 basis points. The State's 10 basis point fee would be added to those totals, as well as the five basis point recordkeeping fee that Oppenheimer is paid per fund.

Mr. Vance noted that if the motion is passed, the Limited Term Government Bond Fund, which has a total fee of 70 basis points, and the Core Bond Fund, which has a total fee of 64 basis points, would be replaced by the Vanguard Short Term Bond Fund, which has a total fee of 55 basis points, and the Dreyfus Short Term Bond, which has a total fee of 60 basis points, respectively. Although Mr. Vance appreciated that the fees were lower than the fees of the original funds, he had hoped for a more significant price reduction. He asked if the fees on the replacement funds were absolutely the best fees that Oppenheimer could give the Board, and Ms. Granahan affirmed that it is.

Mr. Parker reiterated that the replacement funds are a temporary solution, as an RFP was going to be released seeking bids for the management of the Oregon College Savings Plan. He also reminded the Board that they had voted to add a \$25 annual account fee on anyone holding a Vanguard portfolio, since there is no margin in the Vanguard fees to pay for administration. Oppenheimer was given the right to institute the fee in 2009. To date, the fee has not been instituted as other issues have been being worked through.

After these clarifications, all approved the resolution for the replacement funds for the Oppenheimer Core Bond and Limited Term Bond Funds.

Mr. Parker introduced the discussion regarding an FDIC-insured investment product, stating that the Board has been considering ways to add a guaranteed or insured product to the Plan. The prepaid tuition option would fit that bill, but it's a defined benefit product, not an investment product. Mr. Parker would like to have an FDIC-insured option available in both the direct and advisor products. Seven states are now offering FDIC-insured products, and it is something people want in the current economic climate. Staff is researching the idea of adding an FDIC-insured option. Mr. Parker requested that the Board agree to have language included in the upcoming RFP for management services of the direct plan that would ask proposers about their willingness to help with a bank CD product. Mr. Parker believes that lessons learned in 2008 warrant having an FDIC-insured option available for those who wish to invest in such a product.

There was discussion regarding existing CD and guaranteed options in other states, and the administrative challenges these types of programs pose. Mr. Parker would like to make the request in the RFP to see what the proposers think about offering an FDIC-insured option and if they have any new ideas on how to do so. The Board agreed that it would be a good idea to know where proposers stand on the issue of offering an FDIC-insured product.

Mr. Parker gave the Board a quick update regarding the RFP for direct plan services. He is working with Treasury staff and the Board's attorney to structure the RFP, and he is confident that the Board will receive a number of quality responses. Mr. Parker hopes to release the RFP in about 30 days, and he believes the entire process to approve the chosen proposer will take until approximately August of 2009.

Rocky Granahan updated the Board on the Core Bond Fund. In January 2009, the Fund was down 4.8% versus the Barclays Capital Aggregate at -0.90%. As of February 20, 2009, the Year-to-date performance was down 8.8% versus the Barclays Capital Aggregate at -0.60%. The two primary areas where Core Bond is underperforming are due to commercial mortgages as well as the long financials that Oppenheimer is currently owning in which the spreads continue to widen. The Fund continues to be overweight in residential mortgages and non-agency mortgage backed securities relative to the Barclays Capital Aggregate.

When looking at the markets overall, Ms. Granahan stated that Oppenheimer is concerned regarding the TARP program and what the Obama administration is going to do for them. The Core Bond Fund's performance was significantly affected when it appeared that some of its assets wouldn't be included in the TARP program. The decision on how to deal with the assets still hasn't been made, and there is a lot of uncertainty in the market. With this type of environment, the Core Bond portfolio will most likely continue to perform poorly.

Fred Boss of the Oregon Department of Justice gave the Board an update regarding DOJ's investigation of the Oppenheimer Core Bond Fund. Since the investigation was ongoing, he provided an overview but did not detail the investigation. The Attorney General has devoted its full resources to the investigation, Oppenheimer is cooperating, and more than 15,000 pages of documents have been reviewed. Oregon is cooperating with the Attorney General offices of Illinois, New Mexico, Texas and Maine. Oregon is the first state to retain experts in order to evaluate the Fund and its performance. It is expected that the Department of Justice will provide a recommendation for a course of action to the Treasurer prior to the next Board meeting.

Chair Westlund moved that the Board, as trustees of the Oregon College Savings Plan Trust, authorize, to the extent necessary, if any, the Treasurer and the Attorney General to take any actions they deem necessary in the best interest of the Oregon 529 College Savings Network and its participants, consistent with the recommendation of the Department of Justice in connection with its current investigation into OppenheimerFunds, Inc. Chair Westlund explained that the motion gives the Treasurer and the Attorney General the authority to move forward if necessary, based on the Attorney General's findings and recommendation. Ms. Dyess seconded the motion.

Mr. Vance and Ms. Hennion stated that they support the motion, but want to remain as informed and involved in any actions taken as possible. Ms. Hennion would prefer that a special Board meeting be called if action is required prior to the next Board meeting.

Special Assistant Attorney General Keith Ketterling, who has been handling the Oppenheimer investigation, stated that there could be issues relating to attorney client privilege in the Attorney General's communications with the Treasurer or the Board. He explained that calling a special Board meeting under the Open Meetings Act requirements could have some affect on the attorney client privilege between the Attorney General and the Board. The Attorney General's office will determine a way to ensure that the Board is informed, while at the same time protecting the privilege, which is very important for the Trust to do as well.

All Board members were in favor, and the Chair's motion passed unanimously.

Mr. Parker provided the Board with a Legislative update, stating that the prepaid tuition bill is about to be dropped and will head to the Senate Education Committee. Additional legislation that was filed pre-session would have increased the tax deduction from \$4,000 per return to \$4,000 per beneficiary. Due to the State's current financial situation, that bill has been withdrawn.

Susan Kay of MFS informed the Board that the annual Barron's ranking placed MFS as the fourth most prominent investment house in the United States in terms of performance in 2008 on a five-year basis, and MFS was ranked fifth on a ten-year basis. MFS is especially excited that when the 1-year, 5-year and 10-year performance is totaled together, it is ranked first among investment houses over all of those time frames together.

Ms. Kay stated that MFS is reducing its 12b-1 fees in most of its funds by 5-10 basis points, which will benefit 529 plan holders. MFS is also expanding its asset allocation funds to go anywhere from a current mix of 8-10 underlying investment funds to a mix of 12-17 funds, depending on the model. The purpose of this is to provide increased diversification to further dampen volatility, ensure that each of the portfolios has exposure to all of the markets that are available for an individual investor to be represented in, and to increase geographic diversification. A breakdown of the new funds being added to the portfolios is available in MFS's Board report, which is included in the Network's records for this Board meeting. Ms. Kay briefly discussed portfolio performance, which is beating or at the industry's benchmark for the majority of the MFS portfolios. This information is also included in the Network's records for the Board meeting.

Bruce Sheinhaus of OppenheimerFunds informed the Board that he and Mr. Parker have been working on creating a more detailed Board report, which will be available at the April Board meeting. Mr. Sheinhaus stated that there has been a 13.3% increase in the number of beneficiaries in the Oregon College Savings Plan from January 31, 2008 to January 31, 2009. This is an understated percentage, because it doesn't account for beneficiaries who have left the plan because they've used their funds for college. During the same time period, the Money Market Fund has grown 241%, underscoring the current flight to more conservative options by investors. Mr. Sheinhaus explained the current investment trends of new and existing account owners.

Mr. Sheinhaus spoke to the performance of Oppenheimer's funds, stating that 49% of the funds were in the top quartile, 30% were in the top decile and 16% were in the top five percent of the LIBOR rankings as of February 20, 2009. Mr. Sheinhaus walked the Board through the performance figures for the portfolios in the Oregon College Savings Plan and OppenheimerFunds 529 Plan. The performance is detailed in the Board report, which is included in the Network's records for the Board meeting.

Chair Westlund adjourned the meeting at 2:35 p.m.