

**MINUTES OF THE
OREGON 529 COLLEGE SAVINGS BOARD
MEETING OF JULY 24, 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, Office of the Treasurer
 Ley Garnett, Office of the Treasurer
 Ben Mahon, Office of the Treasurer

Others Present: Gary Andeen, Oregon Independent Colleges Association
 Kyla Doyle, MFS Investment Management
 Tim Findlay, TGF Productions, Inc.
 Mary Ellen Glynn, Pyramid Communications
 Bill Graves, The Oregonian
 Dan Herrmann, OppenheimerFunds, Inc.
 Susan Kay, MFS Investment Management
 Bill Raynor, OppenheimerFunds, Inc.
 Sarah Stephen, Pyramid Communications
 Katie Walther, Run Spot Run Media

Chair Randall Edwards convened the Board meeting at 1:10 p.m.

Oregon 529 College Savings Network Director Michael Parker introduced the issue of Vanguard fees and changes to the Oregon College Savings Plan (OCSP) portfolios. Mr. Parker suggested that some of Oppenheimer's current index products could be mixed with the active funds in the OCSP age-based portfolios. This would reduce the risk in the portfolios and significantly lower the cost to participants. It would also provide another low-cost option for participants who may choose to move out of Vanguard funds when account fees for those funds go into effect. The index fund/active fund portfolio mixes will be modeled with a simulation to see what returns would look like over time. Mr. Parker will present the Board with some sample portfolios when they are developed.

Mr. Parker reviewed the ongoing issue with the Vanguard accounts. Since Vanguard is a third party investment, they are not sustaining themselves on the system. Recordkeeping is a hard dollar cost for each account. There is no margin in the selling price of the Vanguard funds, and Oppenheimer isn't being reimbursed for the administration of the Vanguard accounts. The Board and Oppenheimer have been covering the cost, which is not sustainable long term.

Mr. Parker stated that Oppenheimer needed to make at least \$25 per Vanguard account. Participants who hold a Vanguard position can either be charged \$25, or an attempt could be made to wrap each Vanguard portfolio with a higher wrapper to get to the \$25. The issue with determining a higher wrapper is that an account balance of a certain amount must be assumed to make the equation of account balance times basis points charge work. The easiest way to solve the issue is to charge a set account fee.

Dan Herrmann of Oppenheimer explained that the account fee covers people answering phone calls, processing transactions, four quarterly statements, confirmations, and anything else that goes into the recordkeeping obligation, which is at the account level. This is important because if three billion dollars in Vanguard holdings equated to three billion Vanguard accounts, the asset scale would provide very little relief due to the per account fixed fee. The Plan needs to cover that fixed cost. In the industry, most outside funds typically pay their way for these costs, usually charging 15-20 basis points. Vanguard doesn't, which has created the current issues.

Chair Edwards asked that Mr. Parker explain his recommendation on the Vanguard account charge issue. Mr. Parker stated that both he and Oppenheimer want the Plan to be self-sustaining and that Vanguard investors cover their own costs. Various solutions have been discussed, most of which are problematic because they're difficult to explain or go against current policy. Mr. Parker feels the easiest way to explain it to an investor and keep the Vanguard and Oppenheimer products separate would be to charge a \$25 yearly account fee. This fee would be charged per account, not per Vanguard position, so a person could have four Vanguard holdings in one account.

Mr. Parker believes the only other alternative to charging a yearly account fee on Vanguard accounts would be to add a larger wrapper. If a \$7,000 account balance was assumed, the wrapper would need to be approximately 35 basis points in addition to the underlying fund fees. This would result in a charge of 55-70 basis points, depending on which Vanguard option was chosen.

Mr. Parker stated that many other states that offer Vanguard funds buy them at institutional price and layer on a wrapper of 55-60 basis points. The average index product around the country is 67 basis points. In states where Vanguard is offered without a wrapper, there is an account fee.

Lyn Hennion commented that a \$25 account fee on a \$4,800 account is 52 basis points. The fees are necessary, and Ms. Hennion doesn't feel that Oppenheimer or the State should be covering the people that want to invest below the cost of Vanguard. This would be subsidizing them, which shouldn't be done.

There was discussion regarding whether Vanguard should be kept in the OCSP program. The Oppenheimer index funds would have a self-sustainable fee of 63 basis points all in, which would be less than the average of 67 basis points.

If Vanguard remains in the program with sustainable fees, additional Vanguard offerings could be included. It has been suggested that possibly a Small Cap Fund, the S & P Fund or other popular Vanguard funds could be added to give participants more choice. Instead of four Vanguard funds, the Plan would have six or seven. The single Vanguard funds would be chosen based on making it possible for participants to create an investment strategy much like the age-based option currently offered with Oppenheimer portfolios.

There was discussion regarding the account fee and how much Oppenheimer needs to make them whole. Mr. Parker doesn't believe the account fee should go any higher than \$25, since that is the industry standard. However, \$25 doesn't meet Oppenheimer's expenses, so it was suggested that perhaps Oppenheimer could take five of the State's ten basis points on the Vanguard assets. If the Board were to do that, Mr. Parker strongly recommended that it would be for a time certain, not indefinitely. As assets increase, the five basis points would eventually revert back to the Network. The specifics of such a proposal hadn't been determined at the time of the Board meeting.

Scott Sandbo inquired whether Chair Edwards or Mr. Parker preferred using the basis point wrapper or the \$25 account fee to cover expenses. Mr. Parker preferred the \$25 account fee, because adding the wrapper would make the Vanguard funds almost as expensive as the age-based product, which is funded by Oppenheimer funds. The goal in bringing the Oppenheimer

fund prices down is to give participants another option if they're unhappy with the Vanguard account fees.

Lyn Hennion stated that she agreed with the \$25 account fee if low balance investors are informed that there are other options in the Plan that may be better for them. She also feels that the application should have big, bold print stating that Vanguard funds have a \$25 annual fee. Lyn believes that if the \$25 fee is instituted, it should be kept simple and apply to all Vanguard investors, regardless of the balance of their accounts. Kirby Dyess agreed.

Mr. Parker summarized the current proposal for the Board. Vanguard account holders would be charged \$25 annually, Oppenheimer would get five of the Boards' ten basis points on Vanguard assets only, Oppenheimer would waive the entire current liability in the program, which is close to \$500,000, and the Network would work with Oppenheimer to significantly lower the fees in the age-based product by adding Oppenheimer indexes.

Kirby Dyess moved to add a \$25 fee to the Vanguard funds to cover administrative costs, commencing in 2009 when the final fund proposal is agreed upon, in addition to Oppenheimer taking care of the entire liability that is currently owed to the program and with the ability of the State to give five of its ten basis points with a negotiable event certain.

Carl Vance stated that he wanted to wait on voting to give up the State's five basis points until the proposal comes back with Oppenheimer's fee structure. He didn't want to approve giving up the five basis points until he knows what event(s) will revert them back to the State.

A discussion ensued, and it was determined that there were aspects of the current Vanguard proposal that needed to be solidified before the Board would be comfortable approving it. Therefore, Ms. Dyess moved simply to approve the \$25 fee on Vanguard accounts, seconded by Scott Sandbo. All approved.

Lyn Hennion moved to adopt the April 24, 2008 meeting minutes, seconded by Scott Sandbo. All approved.

Mr. Parker introduced the topic of a socially responsible investment option. Mr. Parker wasn't advocating for such a fund. However, the Board has never discussed socially responsible investment options, and Mr. Parker wanted to have an open discussion about this type of fund and get some direction as to whether the Board would like him to do some research and analysis to determine what's available in this type of offering. The Board was also in receipt of a letter sent by a potential participant advocating for a socially responsible option. Mr. Parker stated that the Network receives a few calls each year regarding socially responsible funds.

Ms. Dyess commented that the issue surrounding socially responsible funds is the definition, and that it's not about what's out, but what's in. She feels it should be determined what the Board wants to have in this type of fund, as opposed to trying to exclude companies. She suggested looking at sustainable fund options instead of those considered socially responsible. The Board agreed, since the members aren't interested in making a judgment of what is socially responsible.

Dan Herrmann of Oppenheimer believed it could be difficult to find a fund that would meet the service level standards set for MFS and Oppenheimer. Susan Kay of MFS believed that the challenge will be in raising meaningful assets in such a fund.

The Board wants to be mindful of the performance and cost of adding a sustainable fund option to the Plan. They were in agreement that the performance needs to be such that the fund is a viable investment, and adding such an option can't come at the expense of other participants in the Plan.

The Board requested that Michael research what is available in sustainable fund options and bring that information for further discussion at the October Board meeting.

Gary Andeen of the Oregon Independent Colleges Association explained a bill he'll be advocating in the next Legislative session. The bill is known as the "Baby Bill", and it would seed a college savings account for every newborn in Oregon.

Kyla Doyle presented the quarterly review information for MFS. Topics covered included monthly plan contributions and assets, Oregon resident account owners and assets, and Oregon county breakouts of accounts, assets and beneficiaries. Ms. Doyle informed the Board that Joe Hurley of SavingforCollege.com had provided a day of 529 training on May 29, 2008 for MFS wholesalers. Morgan Stanley has been approved to sell the MFS 529 Savings Plan, so MFS sent an e-mail to 4,500 west coast Morgan Stanley representatives, along with a marketing campaign.

Ms. Doyle stated that MFS was very excited about their new partnership with Merrill Lynch. A regional plan will be offered as of August 1, 2008, allowing Merrill Lynch advisors to sell the MFS plan to Oregon residents only. MFS is Merrill's tenth regional plan. The regional plan they will be offering is the same as the existing MFS plan, with the exception that Merrill will not be offering 529B shares.

Dan Herrmann presented the quarterly review information for Oppenheimer. Account and asset growth were highlighted for both the OCSP and OppenheimerFunds 529 Plan, as well as Oregon county breakouts of accounts and assets, and fund performance. Both the MFS and Oppenheimer quarterly reviews are part of the Network's records for this Board meeting.

Tim Findlay of TGF Productions, Inc. explained the new marketing campaign that will be developed in September 2008. Current account owners will be used for testimonial television ads, and testimonials will also be put on the Network's website. The ad campaign will begin running after the November election and carry through April 2009.

Chair Edwards adjourned the meeting at 4:30 p.m.