

**MINUTES OF THE
OREGON 529 COLLEGE SAVINGS BOARD
MEETING OF OCTOBER 23, 2008**

Members Present: Randall Edwards, Chair
 Kirby Dyess
 Lyn Hennion
 Scott Sandbo
 Carl Vance (by phone)

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

Treasury Staff: Kate Richardson, Office of the Treasurer

Others Present: Howard Biggs, Arnerich Massena & Associates
 Dan Block, Arnerich Massena & Associates
 David Connelly, MFS Investment Management
 Keven Dachille, OppenheimerFunds, Inc.
 Tim Findlay, TGF Productions, Inc.
 Scott Gardner, Gardner Financial Group
 Mary Ellen Glynn, Pyramid Communications
 Raquel Granahan, OppenheimerFunds, Inc.
 Ken Henry, OppenheimerFunds, Inc.
 Dan Herrmann, OppenheimerFunds, Inc.
 Chuck Kandilis, OppenheimerFunds, Inc.
 Susan Kay, MFS Investment Management
 Bill Loesch, MFS Investment Management
 Bruce Sheinhaus, OppenheimerFunds, Inc.
 Bryan Shipley, Arnerich Massena & Associates

Chair Randall Edwards convened the Board meeting at 1:15 p.m.

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

The 2009 Board meeting dates were discussed. They will be January 22, April 23, July 23, and October 29, 2009.

Oregon 529 College Savings Network Director Michael Parker stated that the meeting wouldn't be following the original agenda. Given the events that had taken place in the market recently, Mr. Parker and Chair Edwards had requested that Oppenheimer and MFS have their portfolio managers speak to the performance of their specific funds, as well as an overview of what's happening in the market. Part of the discussion would also center around the remixing of the age-based portfolios in the Oregon College Savings Plan (OSCP).

The Network has hired the consulting firm Arnerich Massena & Associates to perform the search for the sustainability fund option and rebuild the OCSP age-based portfolios. Oppenheimer has made all funds that would be viable for the age-based portfolios available, and Arnerich Massena is in the process of vetting those funds. The remix will most likely be completed by the end of the first quarter of 2009.

Chair Edwards suggested that the 1-3 Years to College Portfolio be invested more conservatively, and perhaps the In College Portfolio be made a money market, with a more aggressive option available for those who prefer it. This is not as an overreaction to the current market, but more as a fine tune to preserve principal. Board Members Scott Sandbo, Kirby Dyess and Lyn Hennion agreed.

Keven Dachille of Oppenheimer explained the current bleak market conditions, brought on by the subprime lending crisis. The effects have been felt in all areas of the market, and Oppenheimer's Core Plus Fixed Income Portfolio has been responsible for substantial losses in the more conservative age-based portfolios. Mr. Dachille's comments centered around a presentation Oppenheimer had prepared regarding the performance of the Core Plus portfolio, and that presentation is part of the records for this Board meeting.

Mr. Dachille highlighted the stress points in the current poor performance of the Core Plus portfolio, which are commercial mortgage-backed securities, investment grade credit and mortgage-backed securities. He stated that the losses are recoverable losses, as opposed to "permanent impairment." He believes the underperformance will be made up and positive attribution will be seen when the markets come back into a more normal condition.

Reasons given for the underperformance of the fund were that Oppenheimer was "early," due to the discipline of their approach to the bond market, unprecedented market action, increase in portfolio risk and the lack of diversification benefits. The last three issues aren't specific to Oppenheimer, and the majority of active bond managers are struggling in the current market.

Mr. Dachille stated that Oppenheimer's investment style is very research driven, and explained how that contributed to the current performance of the Core Plus portfolio. In response to questions from Board members, Mr. Dachille outlined Oppenheimer's bond investment boundaries and guidelines. Mr. Dachille provided the Board with an in-depth explanation of the different types of securities invested in by the Core Plus portfolio, why they were chosen, and how market conditions negatively affected them and the performance of the portfolio. He also explained that if the market returns to where it was at the end of May 2008, the commercial mortgage-backed securities and mortgage-backed securities portions of the portfolio could easily see well into double-digit return potentials.

Board Member Carl Vance needed to leave the meeting due to another commitment.

Chair Edwards' explained that his issue with the Core Plus portfolio is that it has hurt everyone in the conservative age-based portfolios and is too aggressive for those whose children are in college or 1-3 years from college. Mr. Dachille agreed, stating that the Core Plus portfolio would be better suited for those who are 3-5 years from college.

Dan Herrmann of Oppenheimer said that as Oppenheimer researches remixing the portfolios from an asset allocation standpoint, they will concentrate on the investment horizon of the underlying funds and lessons learned from this situation in making those determinations. Another huge factor will be the timing of when the new portfolios are introduced, so people aren't locked into their losses.

Dan Block of the Network's consulting firm Arnerich Massena said that Mr. Dachille's explanation of the performance issue was good and accurate. He also stated they have several firms who are performing equally as bad, and one that is worse. He reviewed the Core Plus portfolio, and it is not a product that should have seen such dramatic losses. However, the market environment has been so dramatic that it caused the losses.

Ken Henry of Oppenheimer spoke to the equity side of Oppenheimer's investments. There are six different equity funds in the age-based portfolios, each managed independently by different teams. There is no central research staff for all of the equity funds. Five of those funds outperformed the benchmark through June 2008. The third quarter performance in the funds

dropped considerably, due to the market and the rearranging of the Russell Index. Mr. Henry explained the different funds, their investments, and how they were affected by the market conditions. He also provided details on some restructuring that had been done in some of the different funds.

Chair Edwards requested that research be done to determine why Oppenheimer's funds have consistently performed below the 3-year benchmark. The theory behind active management is that over time the funds will perform better than the benchmark. That hasn't been the case, and Mr. Edwards feels the Board needs to understand why.

Mr. Parker stated that he has requested that Arnerich Massena look into the existing funds in the OSCP and research those performance questions, as well as reviewing other Oppenheimer funds that, upon analysis, may be better suited to the Plan. Proper risk factors for each individual age-based portfolio will be determined, and the specific funds placed in the portfolios will vary, based on the risk tolerance and longevity analysis for each portfolio.

David Connelly of MFS discussed the performance of the MFS funds. He noted that during the third-quarter market environment of fear and volatility, diversification wasn't necessarily a beneficial attribute. Every type of investment was down except treasury bonds. Mr. Connelly's comments focused on the performance of the MFS asset allocation strategies relative to one another, relative to their blended indexes, and their performance within the Morningstar categories. The most aggressive asset allocation is down 13.8%. As the allocations become less aggressively invested, the percentage of loss decreases to less than 2% in the in-college allocation. Mr. Connelly explained MFS's investment strategies and their perspective on the market and investing going forward.

Bill Loesch of MFS informed the Board that phone redemptions for MFS 529 accounts went into effect October 1, 2008. The fall campaign includes e-mails to Oregon advisors and advisors in certain focus states regarding 529. Internal sales reps, regardless of who they are talking to, are ending their calls with "By the way, who do you use for your 529 plans?"

Bryan Shipley, Howard Biggs and Dan Block of Arnerich Massena presented their findings regarding the sustainability fund options that might work for Oregon's plans. A hard copy of the presentation is part of the Network's records for this Board meeting. Mr. Block stated that the industry is moving from socially responsible investing to sustainable investing, since socially responsible investing is an exclusionary type of investment process, and a more diverse and broader group of investors can agree to sustainable options.

Mr. Shipley explained the unique approaches of green investing versus sustainable investing. Sustainable investing is a much broader mandate, where industries aren't excluded and companies are sought that are incorporating the environment and sustainability into their business mix. Green investing is geared much more to pure play companies that will benefit from the move to sustainability, such as solar, geothermal, or water resource companies. Such companies are much smaller in nature, which introduces significantly more volatility into the portfolio. Therefore, Arnerich doesn't feel a green investment option is appropriate for a college savings or defined contribution plan. Arnerich defines sustainability as "meeting the needs of the present without compromising the needs of our future generations." Six or seven current mutual funds meet this criteria.

Alger Green, Northern Global Sustainability Index, Portfolio 21 and SAM Global Sustainability Active (SAM) are the four sustainability fund options that Arnerich would recommend for Oregon's plans. Investment policies, portfolio composition, performance and specifics about each fund were discussed. Of the four options, Arnerich feels Portfolio 21 and SAM lead in the sustainability space and recommend that the Board go with one of them.

Lyn Hennion mentioned that the Board should consider Portfolio 21, since it's an Oregon company. Kirby Dyess agreed. Chair Edwards suggested that both SAM and Portfolio 21 make presentations to the Board, and a decision can be made after that time.

The directive from the Board for the sustainability investment option was to have Arnerich do some additional research on costs and fees for placing either Portfolio 21 or SAM on the system and to get more detailed information on both funds regarding what their process is for choosing investments, etc. It was determined that both firms will give presentations to the Board at a special Board meeting on December 12, 2008.

Mr. Parker introduced the topic of the Education CD Plus Portfolio in the OppenheimerFunds 529 Plan (Opp529 Plan), which went into effect in November 2007. Assets are currently less than \$250,000, when the goal was \$1,000,000 per quarter. The product requires a minimum of a 70% participation rate over a 5-year period in the S & P 500. Due to market issues, the 70% participation rate hasn't been attainable in the last two quarters, and it doesn't appear that it will be anytime in the foreseeable future. Participants are sitting in the money market fund, and the CD isn't being sold. Although they feel the CD option should be discontinued, Mr. Parker and Oppenheimer remain committed to devising a guaranteed product, and work is being done in that area. It is also a goal to offer such a product in the OCSP, not just the Opp529 Plan.

Mr. Herrmann stated that a year's worth of history has shown that the CD product hasn't met its mark, because a price has never been struck. He feels that there is a desire for a similar type of product, one that is guaranteed or protected. Mr. Herrmann believes it would be best to discontinue the CD option before a price is struck and the option can't be discontinued. The current participation rate is around 50%, with no indication it'll go up anytime soon.

Scott Sandbo moved to immediately discontinue the Education CD Plus Portfolio, seconded by Kirby Dyess. Investors will be notified through their advisors. The funds will then be moved as instructed by the investors. All approved.

Returning briefly to the discussion regarding the performance of the Oppenheimer funds in the OCSP, Mr. Herrmann noted that he'd retrieved Oppenheimer's October 2007 quarterly report. One year prior to this Board meeting, all portfolios were out-performing their benchmarks in both the 1- and 3-year categories. Mr. Herrmann agrees with Chair Edwards that action is required to adjust the risk levels in the conservative age-based portfolios. However, he wanted the Board to know that the market conditions of 2008 have skewed performance figures as far back as three years.

Mr. Parker briefly summarized the Network's current marketing efforts. A new ad campaign has been developed and is ready for launch this year or next year. However, the Network is taking a very measured approach regarding what will be said to investors, given the current investment climate, and the tone of the new campaign wouldn't be appropriate at this time. A quick TV campaign is being considered around the message that the Plan understands where things are at and that we're here to help people put their children through school.

Mr. Parker gave a quick update regarding Vanguard. The \$25 annual fee approved by the Board will go into effect in 2009. It will come out of accounts as two separate \$12.50 charges each year, proportionate to the amount in each Vanguard holding.

Chair Edwards adjourned the meeting at 5:05 p.m.