

**MINUTES OF THE
OREGON 529 COLLEGE SAVINGS BOARD
MEETING OF July 23, 2009**

Members Present: Ben Westlund, Chair
Lyn Hennion
Paul Kelly
Scott Sandbo
Carl Vance

Network Staff: Michael Parker, Executive Director
Stephanie Swetland, College Savings Specialist
Lynn Nagasako, Legal Counsel

Treasury Staff: Stacey Dycus, Office of the Treasurer
Curt Hartinger, Office of the Treasurer
Robert Johnson, Office of the Treasurer
Tom Lofton, Office of the Treasurer
Ben Mahon, Office of the Treasurer
James Sinks, Office of the Treasurer

Others Present: Peter Angus, UPromise, Inc.
Charlene Canale, MFS Investment Management
Doug Chittenden, TIAA-CREF
David Connelly, MFS Investment Management
Joe DelGrande, TIAA-CREF
Ed Ferko, Vanguard
Tim Findlay, TGF Productions, Inc.
Bill Finnegan, MFS Investment Management
Becky Gratsinger, RV Kuhns & Associates
Ryan Harvey, RV Kuhns & Associates
Kate Ives, OppenheimerFunds, Inc.
Susan Kay, MFS Investment Management
Brian McAndrews, TIAA-CREF
Corrie Oliva, RV Kuhns & Associates
Suzanne Pardington, The Oregonian
John Settle, Portland State University/Selection Committee
Bruce Sheinhaus, OppenheimerFunds, Inc.
Ben Taylor, RV Kuhns & Associates
Chris Werner, OppenheimerFunds, Inc. (by phone)

Chair Ben Westlund convened the meeting at 1:04 p.m.

Chair Westlund welcomed new Board member Paul Kelly, who will be serving on the 529 College Savings Board as Oregon's Higher Education Board representative.

Lyn Hennion moved to approve the minutes of the April 23, 2009 Board meeting, seconded by Carl Vance. All approved.

Becky Gratsinger, CEO of RV Kuhns & Associates (RVK), introduced the team that will be working with the 529 College Savings Network going forward in RVK's capacity as the Board's investment consultant. The team includes herself, Ryan Harvey, Corrie Oliva, and Ben Taylor. The focus of RVK's presentation was to provide an overview of the markets and an in-depth analysis of the performance of some of the individual funds in each of the Network's plans. The

Investment Performance Analysis report prepared by RVK contains all information discussed at the Board meeting and is a part of the Network's records for the meeting.

Ryan Harvey of RVK stated that the second quarter of 2009 was one of the best quarters for the stock market in several years. Risk-taking was rewarded during the quarter, with the riskiest assets being the most rewarded. Mr. Harvey gave a detailed overview of the performance of the different broad markets and their sector weights during the quarter and historically. He stated that as volatile as things have been in the United States, the U.S. Stock Market has outperformed approximately two-thirds of the developed stock markets around the world.

Corrie Oliva discussed the fund performance of the Network's plans, stating that overall the Program Managers did a great job during the quarter, keeping up with the market and having a majority of the funds outperform their benchmarks and peer groups. Only four funds underperformed their benchmark, although they still performed in line with the median funds in their respective peer groups. The four funds were MFS funds. The underperformance was due in part to the fact that some of the current market advance was on the back of lower quality stocks, so managers with higher quality portfolios trailed the benchmark. Also a factor was the differences in the asset allocation percentages of the portfolios when compared to the benchmark allocations. Ms. Oliva stated that the MFS asset allocation funds and Oppenheimer Years to College and blended portfolios outperformed their respective benchmarks.

Chair Westlund introduced the issue of transitioning the OppenheimerFunds 529 Plan assets over to the MFS 529 Savings Plan. Network Director Michael Parker stated that staff recommends that the Oppenheimer advisor-sold assets be moved, along with their accounts and administration, to the MFS plan. The recommendation is based on the fact that MFS has significantly lowered its fees in the past few years, including eliminating the 15 basis point administration fee. MFS has solid performance over a long track record, is committed to the college savings space, has added quality staff and is prepared to execute a seamless transition. MFS has done a transition in the past for the Network, when the Schoolhouse Capital Plan was discontinued and its assets were moved over to the MFS plan. Mr. Parker believes that moving the assets over to the MFS plan will be good for the Network and participants because it will simplify Oregon's college savings offerings to one advisor-sold program and one direct-sold program.

Bill Finnegan of MFS thanked the Board for its consideration and confidence in choosing MFS as the successor manager for the OppenheimerFunds 529 Plan assets. He stated that the challenge in performing the transfer will be to understand all of the associated costs that come with the transfer and making sure that the shareholders have the best experience possible in the process. MFS has contemplated some of the issues associated with the transfer. It would be predicated on what the agreements are in the existing contracts, of which MFS has no knowledge, and would require the cooperation of Oppenheimer in executing a seamless transaction.

Carl Vance inquired if the additional assets that MFS would acquire would allow them to reduce their fees further. Mr. Finnegan responded that MFS continually reviews the structure and asset base to see if expenses can be reduced. MFS recently removed its 15 basis point administration fee, and he doesn't know if the additional assets will provide enough of a benefit to reduce the underlying fund expenses. However, MFS will review it. Mr. Vance requested that during the review, MFS also determine price points where there would be an advantage to the MFS 529 program and fees could be reduced.

Chair Westlund moved to choose MFS as the new manager of the OppenheimerFunds 529 Plan assets by reading the following motion:

BE IT RESOLVED, THAT the Board hereby approves and authorizes the liquidation of the assets of the OppenheimerFunds 529 Plan and the transfer of the proceeds of such liquidation to the MFS 529 Savings Plan, such liquidation

and transfer to occur no later than the termination of the Program Management Agreement between the Board and OppenheimerFunds, Inc. and OppenheimerFunds Distributor, Inc., dated as of June 4, 2004.

BE IT FURTHER RESOLVED, THAT the Board hereby authorizes the Chair to do and perform such acts and things, including negotiation of the terms of the above-described liquidation and transfer, and to execute and deliver such documents, as may in his discretion be deemed reasonable, necessary or proper in order to carry into effect any of the provisions of these resolutions.

Lyn Hennion seconded the motion. All approved.

The evaluation committee that chose the two finalists from the six who bid to replace Oppenheimer as Program Manager for the Oregon College Savings Plan was asked to discuss the evaluation process. Members of the committee were Board member Carl Vance, John Settle, finance professor at Portland State University, Network Director Michael Parker, Tom Lofton and Ben Mahon of the Investment Division of the Office of the State Treasurer, and the RVK team.

Mr. Parker explained that the evaluation process took about three and a half months, and the proposals from the finalists kept improving as the committee drilled down very deep into them and negotiated with the finalists. Therefore, due to the work of the committee, the services that the Board will get are vastly improved over what was originally proposed. The committee was able to get increased investment flexibility, much lower fees, increased resources and commitment to get the word out to investors about the benefits of the 529 plan, a very solid line up of passively managed index options, and a commitment to provide additional resources to the Board, the State and its investors for outreach efforts statewide.

Ryan Harvey of RVK directed the Board's attention to a document prepared by RVK entitled "Timeline & Due Diligence Summary," which provides a summary of the process the evaluation committee went through in arriving at its selection of the two finalists. The document is part of the Network's records for this Board meeting.

The RVK team sat as one seat on the evaluation committee. Mr. Harvey explained the evaluation criteria for the written responses to the Request for Proposal (RFP):

- Firm background, reputation, experience and material legal events
- Quality and flexibility of investment choices the firm proposed
- Communication, investor education and customer service proposal
- Process for the transition and conversion
- Quality of the technology and website
- Fee proposal

Specific weights and scoring criteria were assigned to the RFP questions regarding the above evaluation criteria, and the original first responses were scored accordingly, which is how the first cut was made. Fidelity was excluded because it was determined that its plan structure was too inflexible for the Network. College Savings Bank was determined to have too little experience in the industry, insufficient technological capabilities, and an incompatible investment strategy. ValMark was deemed non-responsive, most prominently because it lacks control of its recordkeeping system.

TIAA-CREF, Upromise and Union Bank & Trust (UBT) advanced to the second stage of the evaluation process. Prior to meeting with them for in-person presentations, additional due diligence, research and negotiation took place. Research included surveying every listed reference for each firm, clarifying the precise process for the asset transition, clarifying how customer service needs would be met, the process for investment oversight and the degree of investment flexibility, website functionality and customizability on both the administrative and

investor sides, and the philosophy, flexibility and content of each firm's approach to educating and communicating the benefits of the Plan to Oregonians.

TIAA-CREF, Upromise and UBT each gave two-hour presentations to the evaluation committee. They were asked to answer questions about their firm, experience and key professionals, give demonstrations of their communication materials and investor education capabilities, and provide additional details about the transition plan, investment management and flexibility, administration and customer service, and pricing proposal. Each firm was also requested to give a live website demonstration.

Ben Taylor of RVK provided a summary of UBT. The firm came in just slightly as the highest-cost provider. It is an experienced 529 provider, but has only one advisor-sold and one direct-sold plan. UBT has no proprietary fund requirements, which provides great flexibility and is very appealing, and it offered one of the highest investor education budgets, including a dedicated, full-time representative based in Oregon. However, the website was the least customizable of any, and the service capabilities were significantly less robust. There is no voice response system for participants wanting to call in and check on their accounts after hours. No direct-sold references were obtained, as UBT's only direct-sold plan (Nebraska) is seeking proposals for plan administration services. This is due to the fact that Nebraska's contract will be expiring.

UBT was eliminated because it was determined that there was a significant business risk for a smaller operation in the 529 industry, given the fact that its primary partner in the direct-sold space may be moving to another provider. There was concern that service levels will decline if Nebraska chooses a different provider.

Mr. Taylor summarized the TIAA-CREF proposal. The firm proposed the lowest overall cost and offers substantial freedom for investment flexibility with no requirement for proprietary actively managed funds. TIAA-CREF provides complete fee transparency to participants and proposed the highest communication and investor education commitment of all proposals, including a dedicated, licensed, full-time representative based in Oregon. TIAA-CREF has strong references, utilizes a well known and widely used outsourced record keeper and call center operator (BFDS), has a highly flexible website, and proposed a transition plan with which the evaluation committee was comfortable.

Mr. Taylor summarized the Upromise/Vanguard proposal. A unitary fee structure was proposed, which means that each investment option fee would be the same and would not vary in relation to the underlying investment option unless a threshold amount was exceeded. This fee structure diminishes the ease of providing total fee transparency to investors. Non-proprietary investment options would include a plan administration fee of 35 basis points. There is no requirement for actively managed funds. Upromise/Vanguard utilizes an integrated systems approach, with a capable website and very strong, high quality recordkeeping system. However, it restricts the ability of the Board to direct those activities for communicating the Plan because most of the functionality is integrated into the system. Upromise/Vanguard's proposal for communication and investor education is significantly less than what would be received from TIAA-CREF. The committee felt that there would be some inflexibility that may cause some difficulty moving forward with planned communication. The Upromise/Vanguard transition team is very strong, as they have conducted more transitions than any other provider in the 529 marketplace. The website is the most customizable of all proposals and one of the most capable. Upromise/Vanguard has strong references.

Doug Chittenden of TIAA-CREF gave a half-hour presentation to the Board. A bound copy of the presentation is a part of the Network's records for this Board meeting. Topics discussed were the services available for marketing the program, proposed program design and fund lineup, account servicing and pricing.

Chair Westlund asked for more information regarding the Oregon-based consultant that TIAA-CREF is proposing. Mr. Chittenden responded that TIAA-CREF believes that it's important to

have someone accessible to participants who is licensed to speak with them about securities. A local person is also good for employer-based outreach and to interface with the Network's staff to better understand the Board's needs. This person would also travel around the state to make people aware of the program.

Lyn Hennion inquired what the additional cost would be if the previously approved sustainable investment option or any other third-party fund is added to TIAA-CREF's proposed program. Mr. Chittenden explained that the cost of bringing a third-party fund onboard will be borne by TIAA-CREF. The fee charged to investors would be 25 basis points netted against any revenue share that the third-party fund may or may not choose to make available to TIAA-CREF.

In response to Ms. Hennion's inquiry regarding account fees, Mr. Chittenden stated that there will be no additional account fees, whether a participant is in Oregon or out of state.

Mr. Vance asked that Mr. Chittenden explain why TIAA-CREF lost the California and New York contracts a few years back. Mr. Chittenden stated that although he wasn't part of the business when that occurred, it is his perception that the firm rested on its laurels, and the loss of those programs was a wakeup call that the clients' needs weren't being met. Mr. Chittenden came into TIAA-CREF after those contracts were lost, after spending 25 years in other parts of the firm. He was asked to evaluate the 529 business and determine if the firm should stay in it or get out. It was determined that, in keeping with the firm's mission, it should remain in the 529 business and reinvest in it. Other TIAA-CREF veterans were brought in, candid conversations took place with the firm's existing clients to determine how the firm was doing, and the last three years have been spent working very hard to recommit the firm to education savings. The result has been that TIAA-CREF has been able to get renewals from some of their existing clients in a very competitive environment.

Peter Angus of Upromise and Ed Ferko of Vanguard gave a half-hour presentation to the Board for Upromise/Vanguard. A bound copy of the presentation is a part of the Network's records for this Board meeting. Topics discussed were the approach to program management and marketing the program, proposed investment lineup, and account servicing and pricing.

In response to an inquiry by Paul Kelly, Mr. Angus further explained the Upromise rewards service. Participating Oregon residents would have their rewards automatically swept directly into their 529 plan if Upromise/Vanguard were chosen as the new Program Manager. The average sweep is \$65 per account each quarter, and 85 percent of the people who link to their 529 plan sweep significantly more than what their annual expenses are for the plan.

In response to Ms. Hennion's question regarding how often Vanguard rebalances its portfolios, Mr. Ferko stated that it is done on an as-needed basis. For example, when wild swings were occurring in the market, Vanguard rebalanced the portfolios on a daily basis.

Ms. Hennion inquired if there would be an account fee for either in-state or out-of-state account holders under the Upromise/Vanguard proposal. There will not.

Chair Westlund requested that the evaluation committee present its recommendation for the new Program Manager for the Oregon College Savings Plan. Becky Gratsinger of RVK referred to a memorandum distributed to the Board from the evaluation committee. The memorandum recommends the hiring of TIAA-CREF as the plan administrator for the Oregon College Savings Plan, and Ms. Gratsinger explained the factors which lead the committee to this decision. A copy of the memorandum is included at the end of these minutes.

There was discussion regarding the decision-making process, in which it was revealed that initially the committee votes were equally divided between TIAA-CREF and Upromise/Vanguard. When asked why that changed, Tom Lofton of the Investment Division of the Treasurer's Office stated that what changed for him was comfort with the transition capabilities of TIAA-CREF. He felt that TIAA-CREF had offered the State of Oregon the greatest transparency and flexibility from

the beginning, but the Upromise/Vanguard administrative services platform was extremely strong. He wanted to be sure that the transition and customer service issues through the transition would be handled properly and felt it was important for the evaluation committee to vet that out. He also felt TIAA-CREF was clear and upfront when asked for changes or modifications by the committee, while it was more difficult to get clear answers from Upromise/Vanguard.

Mr. Harvey of RVK explained that three things changed from the point where the committee was tied in its votes. First, TIAA-CREF completely revised its transition plan, which originally would have caused participants to be out of the market for a day during the transition. The committee was very comfortable with the revised plan. Second, the committee heard from TIAA-CREF's California reference, which is a contract that had terminated, and the comments were very positive. Lastly, in an effort to negotiate with the providers and bring both TIAA-CREF and Upromise/Vanguard to similar offerings, it was communicated to Upromise that their budget for the investor education could be improved. Upromise did not respond with a satisfactory answer.

After some discussion by the Board, Chair Westlund made the following motion:

BE IT RESOLVED, THAT the Board hereby authorizes the hiring of TIAA-CREF as program manager for the Oregon College Savings Plan who will be responsible for administration, record keeping, investment management, disclosure, and legal compliance for the Oregon College Savings Plan.

BE IT FURTHER RESOLVED, THAT the Board hereby authorizes the Chair to do and perform such acts and things, including but not limited to negotiation of terms of a program management agreement, and to execute and deliver such documents, as may in his discretion be deemed reasonable, necessary or proper in order to carry into effect any of the provisions of these resolutions.

The motion was seconded by Carl Vance. A roll call vote was taken, and the motion was approved unanimously.

Susan Kay presented the MFS quarterly report, a copy of which is part of the Network's record for this Board meeting. She covered the asset and plan growth, mentioned that MFS is using the fact that it has been named by Barron's as a top-5 fund family over a 1-, 5-, and 10-year period in its sales approach with advisors, and the advertising and advisor awareness campaigns MFS is conducting.

Dave Connelly of MFS spoke about the performance of the MFS funds, stating that RVK had already given a commendable review of the capital markets and performance. He commented that the quarter was broadly positive for the investment markets and was a period where the fear trade that had previously gripped the markets was continuing to unwind. Investors were beginning to move from more defensive investments to more aggressive investments, and equities were broadly positive. Riskier investments were rewarded during the quarter, and overall portfolio returns were strong.

Bruce Sheinhaus and Chris Werner (by phone) presented the OppenheimerFunds quarterly report. Mr. Sheinhaus stated that positive growth continues to take place in the Oregon College Savings Plan with minimal marketing efforts. Investments were moving from the Money Market Portfolio back into other investment options as people were becoming more confident in the direction of the market.

Chris Werner stated that all twelve of the Oregon College Savings Plan portfolios outperformed their benchmarks during the second quarter, and 75 percent of them outperformed year-to-date benchmarks. The index portfolios were tracking their benchmarks. Slight underperformance in the Vanguard Total International Stock Index Portfolio was due to exposure in emerging markets, and would be expected given the current market trends. Six of the seven OppenheimerFunds

529 Plan portfolios outperformed their benchmarks during the second quarter, and five of the seven outperformed year-to-date benchmarks.

Chair Westlund adjourned the meeting at 5:10 p.m.