

Committee Meeting Minutes

DATE: August 31, 2009
2:00 pm

Mr. Jack McManus	Mr. Jeff Pippin
Mr. Paul Lasiter	Mr. Grant Nelson
Mr. Marc Goodman	
Ms. Lauren Cosentino	
Ms. Michelle del Giudice	
Ms. Connie James	
Mr. Michael Feltner	

GUESTS: Mr. Chris Rowey, Benefit Funding Services Group
Ms. Cathy Christ, Benefit Funding Services Group
Various Faculty, Pepperdine University

ABSENT: Ms. Edna Powell

SUBJECT: Pepperdine University Retirement Plan Committee Meeting

FIDUCIARY AGENDA:

The meeting began with Mr. Rowey presenting a brief commentary outlining the current economic environment. Mr. Rowey then reviewed the investment lineups with Diversified, Prudential and TIAA-CREF fund line ups and commented on the funds.

2nd Quarter Market Overview and Economic Update:

Mr. Rowey commented that economic activity in the US and around the world continued to decline, however at a slower pace than the last couple of quarters. GDP, while still negative, declined at a much slower rate than during the last quarter of 2008 and the first quarter of 2009. Unemployment continued to rise in the second quarter to over 9.5% and typically unemployment tends to be one of the last areas to recover after a recession. While inflation is not a concern for the short-term, some economists are worried about inflation longer-term due to the extraordinary steps that have been taken to restore liquidity and confidence in the financial system.

The major market indices ended the second quarter as follows: bonds, as measured by the Barclays Aggregate Bond index were up 1.78%; the broad domestic market, as measured by the S&P 500 index was up 15.93%; and the international market, as measured by the MSCI EAFE index, was up 25.43%.

2nd Quarter Investment Review - Diversified Plan:

In the Diversified plan, most of the funds performed as expected. With a bias towards quality they may lag slightly on the upside while providing more downside protection than other funds which took on more risk. The Diversified plan as a whole scored "outperform." based on the evaluation methodology. Funds of note included:

Vanguard PRIME Money Market Instl: About half of this fund was invested in government paper. Many participants are still invested in this fund which contains approximately 12% of plan assets.

Vanguard Intermediate Term Treasury: This fund was hurt the most this quarter as its portfolio is all U.S. Treasuries. Other funds in the category are able to hold mortgage backed securities. Although it lagged, it was still rated "perform" under the evaluation methodology."

PIMCO Total Return Admin: The fund had a broader investment choice and 63% of its portfolio was in mortgage backed securities. It also began to move into corporate securities, but mainly financials which have some government backing. This fund is ranked “outperform.”

Davis NY Venture Y: This fund performed well for the quarter. Its heavy weight in financials hurt performance in 2008 but has helped in 2009. It also had a decent amount of consumer exposure.

Fidelity Contra Fund: The fund lagged for the quarter and year-to-date. This is primarily due to its conservative bias, which helped in 2008. It was also light in technology holdings.

Lord Abbett Small Cap Value A: The fund rated an “outperform” based on the evaluation methodology. Morningstar moved the fund to the small blend category from the small value and it has a new manager, so this fund will be placed on watch.

Munder Mid-Cap Core Growth A: This fund is more conservative than the market as a whole. There is not one sector driving performance. The 3 month performance isn't off as much as the year-to-date performance. On an absolute basis it is performing OK, while on a relative basis it lags.

Allianz NFJ Small Cap Value Inst: The fund's year-to-date and 1 year performance is lagging small cap value by a couple of percentage points. This is due in part to its dividend focus as most dividend paying stocks are under pressure in this economy. The fund has had a stellar decade and this is the first dip.

American Funds EuroPacific Growth Fund: The fund did a good job of avoiding European Banks during the downturn. Its approximately 12% emerging markets exposure also helped it relative to the category.

Aim Real Estate Instl: Although the fund lagged its category for the quarter, it still is rated “outperform” based on the methodology.

Portfolio Express: The portfolios edged to the conservative side and lagged a bit in the near term while it performed well over the long term.

The overall theme is that the plan has quality oriented managers that may not participate quite as fully on the upside, but provide solid long term results.

The committee decided to conduct a search on a small value fund next quarter since the Lord Abbott Small Cap Value A has been moved by Morningstar to the blend category. The committee will also look at some mid cap options, although there is no thought to make a change at this point.

Asset Allocation:

The committee reviewed the performance of the funds in the Diversified plan. Based on the investment policy criteria, 17 of the funds were rated “outperform,” and 4 of the funds were rated “perform.” None of the funds in the Diversified plan were rated “underperform.” On a plan weighted basis, the plan as a whole was ranked “outperform.”

An analysis of the plan vs. the active and passive custom benchmarks revealed that the plan outperformed the benchmarks on a 1, 3, 5 & 10 year basis, and was in-line with the benchmarks for the most recent quarter. The plan is performing as expected with a superior long term results.

2nd Quarter Investment Review Prudential Plan:

The plan weighted score for the 2nd quarter according to the Evaluation Methodology was 40.24, which was a slight improvement from the 1st quarter score of 42.67. The 2nd quarter score places the portfolio in “perform” status. Four of the funds receive an “underperform” ranking according to

the evaluation methodology. The Committee commented that there are only about 25 active employees remaining in the Prudential plan. The Committee also discussed ways to communicate information to participants regarding the other options available in the Diversified Plan as well how to inform them of the expense differential between the two plans. BFSG will put together a comparison illustration of the returns and expenses of the two plans.

2nd Quarter Retirement Plan Investment Review – TIAA-CREF Plan: Approximately 55% of the plan's assets are still allocated to the TIAA Traditional Annuity. The plan weighted score for the 2nd quarter, according to the Evaluation Methodology, was 32.92, which is slightly better than that of the 1st quarter of 34.47. This also placed the portfolio in "perform" status. The CREF Global Equities has underperformed due in part to poor stock selection and the TIAA Real Estate Fund is showing losses for the first time as it owns property, rather than REITs, which caused the real estate market downturn to appear later in the fund than it did in the index or in its peers which do not own property.

Employee Education: The committee discussed providing additional education to plan participants. One suggestion that will be explored is providing Morning Star information for each fund option on the participant website. BFSG will follow up with Diversified regarding the participant communication plan for the end of 2009 and for the year 2010.

Fund Additions: The committee then discussed adding additional funds to the Diversified fund line-up. BFSG presented a report with a detailed analysis of 4 GNMA funds. It was decided that the Vanguard GNMA fund would be added as an additional fixed income choice. BFSG also prepared an analysis comparing 4 leading large cap value choices to compliment the current plan line up. The committee chose to add the BlackRock Equity Dividend Fund. Both additions are scheduled to occur during the 4th quarter of 2009.

New Initiatives: The committee discussed ways to measure how well the plan is meeting the overall retirement needs of participants. The result of the discussion is that BFSG will prepare a "Retirement Readiness" analysis based upon the assets, demographics, and contribution rates of the Pepperdine population.

The meeting adjourned at 4:30 pm