Committee Meeting Minutes

DATE:	December 10, 2009 1:30 pm	
	Mr. Paul Lasiter Mr. Michael Feltner Ms. Lauren Cosentino Ms. Edna Powell	Mr. Grant Nelson Ms. Michelle del Giudice Ms. Connie James
GUESTS:	Mr. Chris Rowey, Benefit Funding Services Group Ms. Cathy Christ, Benefit Funding Services Group Ms. Christine Hannick, Pepperdine University Kevin Iga, Pepperdine University	
ABSENT:	Mr. Jeff Pippin Mr. Jack McManus Mr. Marc Goodman	
SUBJECT:	Pepperdine University Retirement Plan Committee Meeting	

The Committee unanimously approved the minutes of the 8/21/09 meeting.

FIDUCIARY AGENDA:

The meeting began with Mr. Rowey presenting a brief commentary outlining the current economic environment. Mr. Rowey then reviewed the investment options of the Diversified, TIAA-CREF and Prudential Plans.

3rd Quarter Market Overview and Economic Update:
Mr. Rowey provided a review of 3rd quarter economic and market activity. Following the worst recession in the post-war era, the U.S. economy appears to have embarked on recovery. Real GDP could rise over the next year, boosted by small inventory cutbacks, rebounding home-building and strong light vehicle sales. However, continued tight credit could keep economic growth below normal rebound levels from a big recession. GDP was positive for the first time in 4 quarters at 2.2%, and it is also expected to be positive in the 4th quarter of 2009, which technically would indicate the end of a recession. Again, unemployment continued to rise in the third quarter in a lagged response to big output declines, and it is expected by most economists to reach 10% by year end. Inflation is still tame without much pricing power, although there are still long term concerns about the effects of the extraordinary economic stimulus measures that have been taken. The Federal Reserve as well as most global central banks are keeping interest rates low in this economic environment and will probably continue to do so until the unemployment numbers improve.

The major market indices ended the third quarter 2009 as follows: bonds, as measured by the Barclays Aggregate Bond index, were up 3.74%; the broad domestic market, as measured by the S&P 500 index, was up 15.61%; and the international market, as measured by the MSCI EAFE index, was up 19.47%.

3rd Quarter Investment Review - Diversified Plan:
Mr. Rowey reviewed the funds in the Plan. Funds of Note included:

MainStay High Yield Bond I: This fund was in-line with the broad high yield category, but it lagged the index in the short term. Its strength was its downside protection.

BlackRock Equity Dividend A: The fund has a dividend orientation which has impacted its short term results. The strongest value performers have been financials, which have cut their dividends and therefore would not be in this portfolio. The fund retained its "outperform" ranking.

Fidelity Contrafund: This fund lagged the category a bit. The fund is high quality oriented and in the short term lower quality investments have made a more significant rebound. The fund is managed with a contrarian strategy.

TIAA-CREF Instl Mid Cap Value Inst: This fund is a good compliment to the Perkins Mid Cap Value Inv. As expected the fund has beat the market on the upside where the Perkins Fund tends to do better on the downside.

Mutual Global Discovery Z: The fund has lagged the category and the index mostly due to its high cash position. The fund recently experienced a significant management change and the fund name was changed from Mutual Discovery Z to Mutual Global Discovery Z on 11/11/2009. The Committee made the decision to put the fund on the Watch List. Mr. Lasiter commented that during future fund selections the committee may want to look at how much cash the funds tend to hold, and whether a cash investment should be a manager or participant decision. Mr. Lasiter asked if any of the other funds are heavy in cash. Mr. Rowey shared that the other funds in the plan really are not heavy in cash. The largest cash holders are the Contrafund with approximately 10% in cash, and the EuroPacific and New Perspective Funds which each are holding about 6% in cash.

Lord Abbett Small Cap Value A: The fund had a mid-year manager change and the fund was moved by Morningstar to the small blend category. The committee decided to leave the fund on watch.

American Funds EuroPacific Growth R4: The fund has benefited from security selection and is rated "outperform." The portfolio, which had moved away from financials, is moving back into European financials. UBS made an attractive private offer of shares to Capital Research and Management Company, the fund manager of the EuroPacific Growth Fund. This resulted in additional UBS holdings in the portfolio of EuroPacific.

DFA Emerging Markets Value I: This fund is invested like an emerging markets index with a tilt towards risk. It is benefiting on the upside of the market, and plan participants have been moving into the fund which held $1.1 million in plan assets in the 1st quarter and $2.9 million in plan assets in the 3rd quarter of 2009.

The Committee discussed the possibility of adding a commodities fund. Mr. Rowey commented that this is a narrowly focused investment and recommended looking at something broader, such as a real asset fund. Mr. Rowey also commented that the Plan's allocation at the end of the 3rd quarter resulted in a total of 12.05% in Industrial Materials, which is in line with the S & P 500 Index weight.

The Committee also discussed the number of investment options in the portfolio and whether some of the small balance funds really needed to be included in the Plan. The concerns expressed included the amount of supervision necessary when offering so many fund choices as well as whether too many choices confuse plan participants.

Lifestyle Funds/Models: The short term returns for Portfolio Xpress models lagged the category and the T. Rowe Price lifestyle funds primarily because the Portfolio Xpress models have a more conservative allocation, although they are really a moderate allocation in comparison to the category. Mr. Lassiter expressed that he would like to make sure that participants are aware that the T. Rowe Price lifestyle funds have a more aggressive allocation. These two options perform differently in different markets as indicated by the fact that the Portfolio Xpress models significantly outperformed the category during the 3 year time period while the T. Rowe Price lifestyle funds did not. Portfolio Xpress tends to do better in down markets while the T. Rowe Price lifestyle funds do better in up markets. Both strategies did well against the target date category over the 3 & 5 year periods.

Quantitative Analysis:
The Committee reviewed the 3rd quarter performance of the funds in the Diversified Plan. Based on the investment policy criteria, 18 of the funds were rated "outperform," and 5 of the funds were rated "perform." None of the funds in the Diversified Plan were rated "underperform." The funds that made the largest moves from their 3 year averages were the Davis NY Venture, which improved by 5 points, the Vanguard Intermediate Term Treasury, which declined by 7 points, and the Munder Mid Cap Core Growth, which declined by 5 points. The Committee is reviewing a search for a mid cap growth fund today. On a plan weighted basis, the Plan scored 21.78, which ranked the Plan "outperform."

An analysis of the Plan's return 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 also had a low expense ratio of 0.58 compared with an expense ratio of 0.70 for the custom active benchmark.

3rd Quarter Investment Review – TIAA-CREF Plan:
Approximately 52% of the TIAA-CREF Plan is invested in the TIAA Traditional account. Funds of note in the TIAA-CREF Plan included the CREF Growth and CREF Global Equities, both of which ranked "underperform," and have rebounded in the short term but have underperformed long term. The Plan had 4 funds which rated "perform," and two funds which rated, "outperform." The plan weighted score for the 3rd quarter, according to the Evaluation Methodology, was 33.42. This placed the portfolio in "perform" status. The Plan outperformed its benchmarks for all time periods reported and had an expense ratio of 0.53, which is below that of the custom active benchmark of 0.67.

3rd Quarter Retirement Plan Investment Review –Prudential Plan:
The plan weighted score for the 3rdd quarter according to the Evaluation Methodology was 40.70, which places the portfolio in "perform" status. As during the second quarter, four of the funds receive an "underperform" ranking according to the evaluation methodology, and three of the funds ranked "perform." The Plan was in-line with its passive and active custom benchmarks for the 3rd quarter, as well as the 3 & 5 year time period. The Plan slightly outperformed the benchmarks for the 10 year period.

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Employee Education: BFSG provided a plan comparison of the Diversified Plan and Prudential Plan investment options for each investment category which illustrated the returns and expenses of the options as of 9/30/09. The Committee is also interested in providing Morningstar information to participants on the plan website and has contacted Morningstar for a fee proposal. A binder containing all participant communication pieces distributed in 2009 was given to each committee member. Diversified continues to conduct monthly participant meetings twice a month at the Malibu Campus and every other month at the West LA Campus.

Fund Additions: The Vanguard GNMA Admiral and the BlackRock Equity Dividend funds were added to the Diversified Plan on 11/30/09.

Mid Cap Growth Fund Search: Mr. Rowey presented a fund search analysis of mid cap growth funds. The search included the Munder Mid-Cap Core Growth A, the American Century Heritage Inst, the Goldman Sachs Growth Opportunities IR and the T. Rowe Price Mid-Cap Growth. After a thorough discussion of the investment strategies, the fund statistics and the performance of the above mentioned funds, the Committee decided not to act at this time but elected to keep the

Munder Mid-Cap Core Growth A on the Watch List. The fund currently holds 1.52% ($1.6 million) of the plan assets. Although it has lagged in the short term, it is in the top half of its category for the last 3 year period, and it outperformed its category and index over the last 10 year period.

Small Cap Value Fund Search: The Committee also reviewed a fund search for the small cap value category which included the Allianz NFJ Small Cap Value Inst, the American Century Small Cap Value Inv, the Columbia Small Cap Value I Z, and the Perkins Small Cap Value J. After reviewing the analysis, the committee decided to add the Perkins Small Cap Value J. BFSG will follow up with Diversified and the fund will be added to the Plan as soon as administratively feasible.

Socially Responsible Fund: The committee revisited the topic of socially responsible funds and looked at the major fund offerings and variations of criteria used by the funds. The criteria were mostly consistent, with a few funds possessing a stronger environmental bias. Again the suggestion was made that these funds may be purchased through the mutual fund window. Ms. James asked if there is an evaluation tool which could be provided to plan participants to help them select a particular socially responsible fund. Mr. Rowey mentioned that there is the same issue with an evaluation tool that there is with the funds themselves, which is choosing the criteria to use when evaluating these funds. BFSG will compile a list of evaluation tools which are general in nature, rather than designed by a special interest, and these tools will be discussed at the next committee meeting.

ADMINISTRATIVE AGENDA

Plan Revenue: Mr. Rowey presented a plan revenue report from Diversified which detailed the amount of revenue generated by the Plan for the first 3 quarters of 2009. Through the 3rd quarter there is a 1 basis point shortfall of the plan administration fees. Mr. Rowey shared that in the 2nd quarter of 2009 BFSG conducted an analysis of plan administration fees in the marketplace and top tier providers were charging close to $180 per participant. The $100 per participant fee (18 basis points of plan assets) that Diversified is charging for the Pepperdine Plan is quite competitive.

Retirement Readiness Report: Mr. Rowey presented an analysis of how well the Plan's participants are prepared for retirement. The report considered average balances, salaries, deferral rates and asset allocation for participants in different age groups to determine the amount of income replaced by the Plan at age 65. The income needed at retirement was based on the industry standard of 70% of current income. For those participants age 39 or younger there was no gap in the amount of income required and the income expected to be provided by the Plan For participants over the age of 40, there were some significant gaps in income. This analysis did not take into account the participant's length of service or any other retirement plan assets they may hold in other retirement Plans, such as those from previous employers. Some other items that could affect the results for the older participants include the fact that older participant's deferral rates were much lower, which also resulted in lower matching contributions. It was also assumed that no contributions continued to be made by participants after age 60. The committee asked if it were possible to add years of service into the analysis. BFSG will explore that possibility.

With no further business, the committee meeting adjourned at 3:50 pm