

# Committee Meeting Minutes

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DATE: February 11, 2009  
9:00 am – 11:10 am

ATTENDEES: Ms. Michelle del Giudice                      Mr. Jack McManus  
                 Mr. Paul Lasiter    Mr. Grant Nelson  
                 Ms. Edna Powell    Mr. Marc Goodman

ABSENTEES: Mr. Chip Moore  
                 Ms. Lauren Cosentino  
                 Ms. Clariza Mullins

GUESTS: Mr. Chris Rowey, Benefit Funding Services Group  
            Ms. Heather Rabara, Benefit Funding Services Group

SUBJECT: Pepperdine University Retirement Plan Committee Meeting

## **ADMINISTRATIVE MINUTES:**

**Participant questions regarding the conversion:** The Committee discussed the questions posed by participants, and the means by which the Committee is addressing answers to their questions. Mr. Goodman and Mr. Rowey reminded the Committee that a prudent process is what matters, not the results. The Committee has followed a prudent process throughout the vendor search and selection, and will continue to do so by monitoring the funds, executing a committee charter, and following the Investment Policy Statement.

**Debrief: Conversion to Diversified Investment Advisors:** As of the morning of February 11<sup>th</sup>, 2009, Diversified was in the final audits stage, and reported that blackout would likely end in the afternoon. Ms. del Giudice stated that an email was ready to go out to all faculty and staff once blackout was complete. She also reported that participants were commenting that TIAA-CREF transfers (for those who elected to move to Diversified) were going well. Data transfer from Vanguard and Fidelity to Diversified also went smoothly.

**Notification of Prudential participants:** Prudential's current contract allows for participants to receive a letter notifying them of their ability to elect moving their current plan assets to the new Diversified platform. Prudential's contract reflects that they can send one wire with multiple participants' accounts to the new provider, given the participant responds within 30 days of receipt of the letter. Prudential notified BFSG in late December that no surrender charge would apply, and the current interest rate environment resulted in no market value adjustment for movement of GIA assets. However, Prudential asked that Diversified generate the letter and send to participants. The Committee asked that BFSG further pursue issuance of the letter with Prudential and Diversified.

Administrative meeting adjourned at 9:30 am.

## **FIDUCIARY MINUTES:**

**Year End Plan Review:** Mr. Rowey reviewed the 12/31/08 investment performance for the funds with the 4 legacy fund sponsors: Fidelity, Prudential, TIAA-CREF, and Vanguard. The plan weighted scores according to the Evaluation Methodology were 39.46, 43.76, 34.91, and 32.04, respectively, placing each of the portfolios in "perform" status.

The Committee will continue to monitor the TIAA-CREF and Prudential portfolios on an ongoing basis.

**Review of new fund lineup at Diversified:** Mr. Rowey outlined the performance (through 12/31/08) of the funds selected for the new Diversified fund lineup. These returns did not impact the plan assets, as assets did not transfer to these funds until 2/1/09. Mr. Rowey noted that all of the actively managed funds beat their category peer group on a 3, 5, and 10 year basis. 14 of the actively managed funds were in the top quartile for 1 year returns; 4 of the funds were in the top half; and only 2 of the funds, Davis NY Venture and TIAA-CREF Mid Cap Value, fell slightly below average. Davis NY Venture was overweighted in financials, which were hit hard in 2008. Half of TIAA-CREF Mid Cap Value's portfolio tracks the index; the portfolio as whole was overweighted in financials; both factors contributed to its slight underperformance on a 1-year basis.

Mr. Lasiter asked that BFSG produce a full quarterly investment report on the Diversified plan lineup. BFSG committed to providing this to the Committee.

**Vanguard Capital Opportunity Review:** Due to the fact that participants had requested the retention of the Vanguard Capital Opportunity fund, the Committee reviewed this fund option in detail. Vanguard Capital Opportunity was available to plan participants on the legacy Vanguard platform, but is closed to new investors. An exception would need to be given by Vanguard in order to add this fund to the platform at Diversified.

Mr. Rowey noted that as of 9/30/08, Vanguard Capital Opportunity was categorized as a mid cap growth fund. Mid cap growth is defined by having a <\$10 billion market cap. Since 9/30/08, the fund has moved up market, and now has a \$13-14 billion market cap, and is now defined as a large cap growth fund.

In the past decade, mid cap growth has outperformed large cap growth. Thus, 10 year performance for the Vanguard Capital Opportunity outpaces the large cap growth category peer group by a wide margin. Vanguard Capital Opportunity also outperforms the 2 large cap growth funds chosen for the Diversified plan fund lineup, Fidelity Contrafund and Vanguard PRIMECAP, on a 10 year basis. However, on a 3 mo, YTD, 1, 3, and 5 year basis, Contrafund and PRIMECAP outperform Vanguard Capital Opportunity.

The Committee did not wish to add the Vanguard Capital Opportunity fund to the lineup, given PRIMECAP and Contrafund are already offered in the large cap growth space, and adding a third fund option would not be necessary at this time. Additionally, Contrafund and PRIMECAP have higher average market caps, at \$32 billion and \$30 billion, respectively, and thus fit more centrally into the large cap growth style box.

**Additional Fund Options** (addition to agenda): The Committee asked that BFSG bring fund searches to the next meeting for the large cap value category and the intermediate bond index category. Mr. Lasiter inquired as to whether a high yield bond index fund exists, which Ms. Rabara committed to researching and reporting back on.

**Guaranteed Pooled Fund** (addition to agenda): Mr. Rowey described the differences between TIAA-CREF's fixed fund option (TIAA Traditional Annuity) with the option that will be offered at Diversified (Guaranteed Pooled Fund). Mr. Rowey explained that the TIAA Traditional Annuity is a general account product backed by the claims-paying ability of TIAA-CREF. Principal, interest and lifetime payment guarantees offered are backed by TIAA-CREF's general account assets. Investors don't invest directly in the general account. On the other hand, the Guaranteed Pooled Fund at Diversified is a separate account of Transamerica which invests in portfolio of intermediate term, investment grade fixed income securities. The TIAA Traditional Annuity has a 10-year transfer restriction on movement of assets to a different fund option, and at a plan level, no authority is given to the fiduciary to move assets to a different fund sponsor. The Guaranteed Pooled Fund has no transfer restrictions with exception of the standard 90- day equity wash provision, and at a plan level, liquidation of assets are allowed at book value over a 12-24 month period.

**Socially Responsible Fund Search:** Per participant requests, the Committee discussed the potential addition of a socially responsible fund to the core lineup at Diversified. Mr. Rowey described how socially responsible screens vary widely and are not uniquely defined. When choosing a socially responsible fund, the Committee would need to give attention to each potential fund's mandate (no tobacco or alcohol, for example), as well as the quantitative aspect of the fund analysis. The Committee unanimously agreed that they, as fiduciaries, did not wish to select a socially responsible fund for the plan, given that each participant's definition of "socially responsible" could vary widely. A variety of socially responsible funds are available through the mutual fund window, and if participants choose a fund through the window, they can choose the fund and mandate which best suites their individual philosophy.

**Investment Policy Statement (IPS) Review:** Ms. Rabara reviewed the contents and purpose of the draft IPS supplied by BFSG. The Committee members supplied various comments and edits. Ms. Rabara committed to making the changes, and submitting back to the Committee members for final review.

**Ongoing Committee policies and procedures:** Mr. Rowey noted that the Committee will continue to meet on a quarterly basis to review the fund options, and BFSG will continue to supply quarterly reports on the Diversified plan, as well as the frozen TIAA-CREF and Prudential plans.

BFSG will produce an annual report to the Board in conjunction with the 4<sup>th</sup> quarter report, beginning in 2010. The annual report will include actions taken by the Committee during the year; a year end plan investment review; and the minutes taken at each of the year's meetings; amongst other items.

**Closing:** The Committee requested that BFSG review the Portfolio Xpress construction methodology during the next quarterly review meeting. BFSG will also create the fund searches for large cap value and intermediate bond index. Prior to the next Committee meeting, BFSG will send the 12/31/08 quarterly investment report on the Diversified plan fund lineup to the Committee, and will edit the IPS and resubmit a draft for final review.

Meeting adjourned at 11:10 am.