

Committee Meeting Minutes

DATE: June 5, 2009
1:30 pm – 3:30 pm

ATTENDEES: Mr. Jack McManus Mr. Jeff Pippin
 Mr. Paul Lasiter Mr. Grant Nelson
 Ms. Edna Powell Mr. Marc Goodman
 Ms. Lauren Cosentino

ABSENTEES: Ms. Michelle del Giudice
 Ms. Connie James
 Mr. Michael Feltner

GUESTS: Mr. Andrew Benton, Pepperdine University
 Mr. Chris Rowey, Benefit Funding Services Group
 Ms. Heather Rabara, Benefit Funding Services Group
 Various Faculty, Pepperdine University

SUBJECT: Pepperdine University Retirement Plan Committee Meeting

FIDUCIARY MINUTES:

The Committee unanimously approved the 2/11/2009 meeting minutes.

Market Overview: Mr. Rowey provided a brief market commentary outlining the current economic environment. Economic growth, as measured by Gross Domestic Product (GDP) fell at a revised rate of 6.3% in the fourth quarter 2008 and preliminary figures show the economy falling at a rate of 6.1% in the first quarter. Unemployment rose from 7.2% at the end of 2008 to 8.5% at the end of the first quarter with over 5.7 million jobs lost since the beginning of the recession in October 2007. Headline inflation (includes food and energy) declined 0.4% in the first quarter signaling a deflationary environment; however, core inflation remained at 1.8%. Domestic and foreign equities continued their decline in the first quarter with the S&P 500 Index down 11% and the MSCI EAFE Index down 14%. The fixed income markets remained steady with the Barclays Aggregate Bond Index finishing the quarter up 0.12%. The leading equity market sectors during the quarter were technology and materials while financials and industrials extended their decline by lagging the overall market.

1st Quarter Retirement Plan Investment Review – Diversified: Mr. Rowey reviewed the investment lineup with Diversified, and commented on each of the funds. The following includes comments on noteworthy funds in the lineup:

- **Guaranteed Pooled Fund:** 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 fund is run by Galliard, and currently has a 96% market to book ratio.
- **PIMCO Total Return Admin:** The fund continues to perform well. Bill Gross moved the portfolio into treasuries into 2007, which protected the fund during the market downturn in 2008. Gross is now moving the portfolio more into mortgage-backed securities.

- MainStay High Yield Bond I: The fund's average credit quality is BB. The fund outperformed the peer group in Q1. The fund was up approximately 20% YTD through June 4th.
- Davis NY Venture: Davis NY Venture's overweight in the financial sector caused its underperformance in 2008. However, the fund was up 8.3% YTD through June 3rd 2009, as the financials that the fund held began to make a comeback after the close of Q1.
- Fidelity Contrafund: The fund is run by Danoff, and takes a contrarian approach to management. It is very defensive, and currently has an 8% allocation to cash. It has lowered its allocation to financials, has not moved into the technology sector, and has added more mega caps to its holdings. The fund outperformed in 2008; Q1 produced some underperformance on the fund; however, the fund was up 8% through June 4th.
- Vanguard PRIMECAP: The fund has approximately half of its portfolio allocated to health care and technology stocks. The fund slightly underperformed in Q1; however, the fund was up 10% through June 4th, in part due to the rally in the technology sector.
- Lord Abbett Small Cap Value A: The fund experienced a recent manager change. The new manager has been an analyst on the fund since 1998, and managed the Lord Abbett Micro Cap Value fund. Due to the manager change, the Committee agreed to place the fund on the Watch List.
- Mutual Discovery Z: Mutual Discovery has greatly outperformed its peers during the market downturn, due to its defensive nature and large allocation to cash. The top three holdings in the fund are tobacco stocks. In Q1, the fund was down only -1.78% while the peer group was down -9.35%.
- American Funds EuroPacific Growth: The fund performed well for the quarter, and continues to outperform over the long term. The fund invested in healthcare and avoided troubled European banks. The portfolio is highly diversified, and employs a multi-manager approach.

Quantitative Analysis Summary: The plan-weighted evaluation methodology score for Q1 was 19.93, placing the plan in "outperform" status. Out of the 20 funds that receive an evaluation methodology score, 18 received an "outperform" ranking and 2 received a "perform" ranking.

Portfolio Analysis: The plan participants have allocated their accounts into a conservative allocation with approximately 47% allocated to cash and bonds and 53% in equities.

Portfolio Return vs. Custom Benchmark: The plan outperforms the custom active and passive benchmarks on a 3, 5, and 10 year basis. Plan expenses are below the benchmarks at 0.52% vs. 0.66%.

Asset Allocation: Total plan assets as of 3/31/09 were \$80.7 million, with a total participant count of 1,880. The most utilized funds as measured by number of balances per fund were Fidelity Spartan US Equity Index, Eaton Vance Large Cap Value, and Fidelity Contrafund. 157 participants were utilizing Portfolio Xpress at the end of Q1, and 3 participants were utilizing the self-directed brokerage.

The Committee requested the following additions to the asset allocation section for Q2: deferral rate by age group, contributions for the quarter by fund, and asset allocation by age group.

Portfolio Xpress Construction: Mr. Rowey reviewed the methodology and composition of Portfolio Xpress, the asset allocation tool offered to participants in the plan. He noted the

glidepath's more conservative nature as compared to the T. Rowe Price Retirement Date funds offered in the plan.

1st Quarter Retirement Plan Investment Review – Prudential Plan: The plan weighted score for Q1 according to the Evaluation Methodology was 42.67, placing the portfolio in “perform” status. 5 of the funds receive an “underperform” ranking according to the evaluation methodology. Due to the fact that the plan is controlled by individual contracts, the Committee does not have the authority to remove or replace any of the funds in the plan. The Committee asked that BFSG work with Pepperdine Human Resources to create a communication to Prudential participants to emphasize the benefits of the new Diversified platform and remind them that they have the ability to move their assets to Diversified.

1st Quarter Retirement Plan Investment Review – TIAA-CREF Plan: Over 55% of the plan's assets are allocated to the TIAA Traditional Annuity. The plan weighted score for Q1 according to the Evaluation Methodology was 34.47, placing the portfolio in “perform” status. Mr. Rowey commented that most of the TIAA-CREF equity funds are market performers, and many follow a quasi-index strategy.

Inflation Protected Bond (TIPS) Fund Search: The Committee discussed the potential addition of a TIPS fund to the core lineup at Diversified. Four funds were discussed: American Century Inflation Adjusted Bond Inv; TIAA-CREF Inflation Link Bond Inst; CREF Inflation Linked Bond; and Vanguard Inflation Protected Securities. Mr. Rowey commented that all of the funds have a mandate that 80% of assets must be dedicated to Treasury Inflation Protected securities. Vanguard received the best score according to the Evaluation Methodology. Due to this fact, as well as the low fee structure, the Committee unanimously chose the Vanguard Inflation Protected Securities fund to add to the plan lineup.

Intermediate Bond Index Fund Search: The Committee discussed the potential addition of an Intermediate Bond Index fund to the lineup. Three funds were discussed: Dreyfus Bond Market Index Inv; Vanguard Total Bond Market Index; and T. Rowe Price U.S. Bond Index. The Committee unanimously chose to add the Vanguard Total Bond Market Index to the lineup given its low expenses and ability to track the Barclays Aggregate Bond Index.

Large Cap Value Fund Search: The Committee discussed the potential addition of a 2nd option in the Large Cap Value asset class to complement the current fund, Eaton Vance Large Cap Value. Potential additions included: American Century Value Instl; American Funds Washington Mutual R4; BlackRock Equity Dividend A; and Dodge & Cox Stock. Washington Mutual and Dodge & Cox offered a complementary management style to Eaton Vance, but the funds are currently out of favor. The Committee opted against American Century given the high turnover; BlackRock seemed too similar to Eaton Vance to be a logical addition to the lineup. The Committee decided to hold off on adding another Large Cap Value fund to the lineup, but asked BFSG to regenerate another Large Cap Value fund search for review at the next quarterly meeting.

GNMA fund: The Committee discussed the potential addition of a GNMA bond fund to the lineup. Mr. Rowey commented on the focused nature of GNMA bond funds; however, the Committee asked to look at some fund options for the plan at the next meeting. BFSG committed to providing a fund search for the Committee's review at the next meeting.

Investment Policy Statement (IPS) – Final Review: Ms. Rabara reviewed the final draft of the IPS with the Committee. Mr. Lasiter noted a few edits. With these edits, the Committee unanimously adopted the IPS. Ms. Rabara will supply a final copy of the IPS to the Committee, including the edits and fund additions, after the meeting.

Closing: BFSG will produce a Large Cap Value fund search and GNMA fund search for review at the next Committee meeting. BFSG will add the requested data to the Asset Allocation section

of the Diversified quarterly investment report. Ms. Rabara will supply a final copy of the IPS with the suggested edits, and will notify Diversified of the fund additions in the TIPS and Intermediate Bond Index categories. BFSG will work with Pepperdine Human Resources on generating a communication to Prudential participants on the benefits of the Diversified program.

Meeting adjourned at 3:15 pm.

ADMINISTRATIVE MINUTES:

Web capabilities (addition to next quarter's agenda): The Committee discussed some issues with the Diversified website, including pulling transaction history reports. The Committee decided to gather thoughts on the website to discuss at the next meeting. The Committee / BFSG can then compile these thoughts and submit to Diversified for review.

Automatic Rebalance Feature: The Committee discussed the benefits of the automatic rebalance feature available on the Diversified website. The Committee asked BFSG to request a participant communication piece from Diversified regarding automatic rebalancing.

Meeting adjourned at 3:30 pm.