

July 11, 2000

To: SVIA Board of Directors

From: Gina Mitchell

Re: Action Items from the June 14 Board of Directors' Meeting

Listed below is a brief summary of the action items from the Board's June meeting.

Wendy Cupps, Ben D'Angelo, Paul Donahue (for Kim McCarrel), Vic Gallo, Bill Gardner, Wayne Gates, Susan Graef, Aruna Hobbs (for Rudy Gernert), Jennifer Hudson, Eric Kirsch, Dan Libby, Scott Matirne, Jim McDevitt, Jim McKay, John Milberg, Gina Mitchell, Jeff Norris, Tom Obsitnik, Tami Pearce, Al Turco, Karen Watson and Mike Wyatt (for Karen Chong-Wulff) attended the meeting.

Asset Allocation Models. The following issues related to asset allocation models were discussed at the June 14 Board of Directors' meeting

White paper on how to model stable value. A working group comprised of Chris Cutler, Paul Lipson and Jim McDevitt is developing a recommendation on how to model stable value. The working group's proposal is slated for review and completion before the end of August.

Consultant. Wayne Gates is dialoguing with different academics to see if the assistance of an independent expert would advance the Association's arguments on how to properly model stable value funds with asset allocation model makers. To date, Wayne has solicited input from Erwin Tipper (Harvard), Jack VanderHigh (Temple), Sholomo Benartzi (University of California) and Doctor Frank Sortino.

Meetings with policymakers. On June 14-16, SVIA used policymakers' heightened interest in providing defined contribution plan participants investment advice to discuss Stable Value Funds. Policymakers have been exploring how to encourage market-based innovation such as advice in defined contribution plans while balancing current safeguards provided by the Employee Retirement Income Security Act (ERISA) through a series of discussions held by the House Subcommittee on Employer-Employee Relations. The Subcommittee Chairman John Boehner (R-OH) introduced legislation that aims to provide a statutory exemption to firms who provide advice on investment products that they also manage or invest.

SVIA's delegation: Bill Gardner, Dwight Asset Management; Wayne Gates, John Hancock Financial Services; Jim McDevitt, State Street Bank & Trust; and Gina Mitchell, SVIA(1); met with Leslie Kramerich, Acting Assistant Secretary for the Department of Labor's Pension and Welfare Benefits Administration; David Franks (Republican) and Michelle VarnHagen (Democratic) Counsels for the House Subcommittee on Employer-Employee Relations; and, Karen Quint Black (Republican) and Michael Rae (Democratic) Pension Policy Advisors for the Senate Committee on Health, Education, Labor and Pensions.

SVIA review of models. The Board agreed to explore Vic Gallo's suggestion that SVIA review asset allocation models and make their analysis available to the membership, plan sponsors and model makers as a way to encourage more accurate modeling of stable value funds.

ASB on Derivatives/Synthetic GICs. Tami Pearce volunteered to get more information on FASB's proposal on derivatives and their treatment of synthetic GICs. Concerns were expressed that FASB's requirement

that all derivatives be reported at market value could put the book value treatment of synthetic GICs at risk should FASB require market value reporting in all instances.

Defined contribution trends. ASA's Scott Macey and Mary Ann Arlt provided an overview of defined contribution trends. The ASA team pointed out that design and investment option changes are increasingly driven by human resource departments. They predicted that the next wave of outsourcing and consolidation is about to occur in the mid-plan market?plans with 1,000 to 10,000 employees. They also predicted that the build-up in defined contribution assets and increased market volatility could test the limits of 404(c) through litigation, should participants experience a significant loss of retirement capital and be unwilling to weather that loss.

Performance measurement. The Task Force reported that it had reached consensus on the disclosure or Phase II of its work. Paul Donahue and Dan Libby gave a brief overview of the new draft report.

The Board agreed to disseminate the new draft report and recommendations to the full SVIA membership for review and consideration. The Board also charged the Task Force with reaching out to the membership to educate them on the need for a performance measurement standard, the draft report and its recommendations, and voluntary use of the Task Force recommendations by individual firms.

The Board encouraged the Task Force to dialogue directly with the membership on the report's recommendations through Association sponsored conference calls, Internet bulletin boards and the Annual Forum.

The Board also approved of the Task Force's outreach to AIMR to review the Task Force's recommendations on performance measurement standards for stable value. The Board also encouraged the Task Force to pursue the opportunity to write an article on stable value funds for the Journal on Performance Measurement.

Budget & Finance. Jim McDevitt reported that SVIA had met its revenue targets for the year by the end of May and was under budget on expenses.

Jim noted that 2000 marked the first time the Association had decided to deploy the Legal Reserve (\$40,000 set aside) by hiring Don Myers from Reed Smith to assist in the advice/stable value discussions with policymakers. However, Don's project earmarked no more than \$12,000 to be spent on the discussions and included all preparatory work.

Jim also advised that the Association had reserves available to hire a consultant on asset allocation models, should the Board deem the need for additional assistance.

Lastly, because the Association has been successful in meeting its revenue targets and managing its expenses, the Budget & Finance Committee will look into longer term investments than the current money market account for some portion of the Association's resources.

Communications and Education. The Board approved SVIA's redesign of the Stable Times. The new design will be featured in the Second Quarter 2000 issue. The new design should shorten the length of the publication and make it more reader friendly through its layout and use of three colors (purple, green and black).

The Board tasked Susan Graef and Eric Kirsch to make recommendations on a sustained marketing effort to increase the visibility of stable value funds. The Board agreed that should the Association undertake a marketing effort that additional resources would need to be raised since current revenues would not support such an effort.

Fourth Annual Investment Policy Survey. Wayne Gates reported that the Fourth Annual Investment Policy Survey was almost complete. The survey group had expanded its net to include full service life insurance companies. Data from this segment was slow coming in. However, Wayne reported that the survey should be completed in time for SVIA's National Forum.

National Forum. SVIA's Planning Committee has finalized the topics for "Retirement Security in the New Millennium." The October 10-12 Forum will be held at the Monarch Hotel in Washington, D.C. The Committee has confirmed Frank Luntz, Stan Greenberg and Sil Schieber as keynote speakers for the event. A full agenda and registration information are available at www.stablevalue.org under "Conference Center."

2001 Meetings. The Board approved the following meeting dates for next year. February 8-9, 2001 Board of Directors Washington, DC or New York City April 23, 2001 Board of Directors 3 to 5:00 p.m. Aventura, FL GICS 2001 Conference June 13-14, 2001 Board of Directors Washington, DC October 8-10, 2001 National Forum Ritz Carlton Washington, DC

Membership. Tami Pearse reported that SVIA has three new plan sponsor members: USX, South Carolina Public Employees' Retirement System and Pacific Maritime Association.

She called on the Board to ask two to three individuals to join the SVIA from segments of the stable value community that the Membership Committee is actively recruiting. The segments include the consulting community (300 listed), private and public sector plan sponsors. In addition to the target lists, talking points were also distributed in the Board package to assist members in their outreach efforts.

Site Selection for 2001 Meeting. A working group from the Board reviewed several hotels for the Association's National Forum. The group consisted of Tami Pearse, John Milberg, Ben D'Angelo, Karen Watson and Scott Matirne. The group selected the Ritz Carlton that is currently under construction at 23rd and M Streets. The Ritz Carlton is scheduled to open in October of 2000. The Ritz Carlton agreed to our contract terms so the contract has been signed. The room rate will be \$259 for next year's conference. The Ritz Carlton has meeting space that can accommodate up to 450 people. The Monarch Hotel can accommodate up to 250 people.

Walking tours added to Forum. Many of the Board members participated in an evening walking tour of LaFayette Square (national park in front of the White House) and a morning tour of Embassy Row. The Board members approved of adding the walking tours as additional social activities to the conference program since they provided a unique view of Washington and an excellent networking opportunity for the membership.

Staff Departure. Jennifer Hudson resigned as SVIA's Communications Officer effective June 30 to move back to Oregon. She will be working on a Congressional campaign. The Association appreciates her contributions during her three months with SVIA.

(1) SVIA's Board Working Group also included American Express' Jim McKay and PRIMCO's Kim McCarrel. They were involved in organizing for the meetings but were unable to participate in the meetings.