



June 13, 2006

To: SVIA Board of Directors

From: Gina Mitchell

Re: Action Items from June 6th Board of Directors' Meeting

SVIA's Board of Directors met on June 6 in Washington, D.C. The following individuals attended the meeting. They were: Ben Allison, John Axtell, Don Butt, Tony Camp, Mark Devine, Nat Duffield, Ralph Egizi, Bret Estep, Bob Fox, Doris Fritz, Aruna Hobbs, Bob Madore, Marc Magnoli, Mike Norman, Vicky Paradis, Ken Quann, and Dylan Tyson. Rick Cook was unable to attend due to an accident. Mike Norman was also unable to attend. Laura Powers from Merrill Lynch also attended the meeting. Lastly, Jackie Bell announced she was resigning from the Board at the Board dinner on June 5.

GASB Accounting Issues. The GASB, which is the accounting standard setter for state and local governmental entities, just released a preliminary views document for public comment requiring market valuation of all derivatives. The preliminary views document revises GAS 31, which had been used to provide implied guidance by investment instruments for most stable value funds. At this time; however, the preliminary view does not provide specific guidance for stable value funds. Since guidance is not provided, it is believed that stable value funds would have to be valued at market value, not contract value. Comments must be filed with GASB by July 28. The GASB will review these comments and develop an exposure draft that will most likely be released in 2007.

The Association has two educational sessions scheduled with GASB. The Accounting Working Group will meet with staff on June 13. Members of the Accounting Working Group will make a formal presentation to the GASB Board on July 13. The Accounting Working Group is comprised a subset of the Accounting Committee. The Working Group is comprised of Aruna Hobbs, Kim McCarrel, Marc Magnoli, Steve Kolocotronis, Ben Allison, Brian Murphy, and Gina Mitchell.

The Board agreed that the focus or goal of these meetings should be to educate the GASB Board and staff on the value of stable value to government plans. The Board agreed to an overview approach that focused on the size of the market, the overall market impact, and the policy arguments for stable value.

The Board will update and educate the overall membership on the GASB preliminary views document after the meeting with GASB staff. They want to launch a targeted comment

campaign from the SVIA membership and public plan sponsors that asks for GASB to provide guidance for stable value funds.

The Association has hired Rick Steinberg to assist SVIA in its efforts to obtain accounting guidance for stable value funds from GASB. Rick helped guide the SVIA's accounting deliberations with FASB last year.

Circle Trust. Circle Trust's independent fiduciary Nell Hennessey briefed the Board about the proposed plan to payout all benefits from the bankrupt stable value fund. The proposal is subject to investor approval later this summer. She predicts the investors in Circle Trust will approve the payout and that on average, investors will recover between 96 to 98% on the dollar.

Additionally, the Department of Labor has asked the Association to be a resource in the mediation hearings on Circle Trust by attending the mediation. The mediation is scheduled for June 22 and 23. The Board unanimously approved the Association's participation in this process.

Vicky Paradis, as Chairwoman of the Communications Committee was charged with developing a brief communications piece that allays investors' concerns that their stable value fund could fail as Circle Trust did due to some fiduciary violations, investment fraud, and investment fraud.

Explaining Stable Value. The Board discussed the use of target and lifestyle funds as a new default option for defined contribution plans. They charged Vicky Paradis to create a Working Group that focuses on the global changes in pensions and what that means for stable value funds. They also asked Vicky to work with the Media Team to create educational materials for plan sponsors and consultants on stable value funds as it relates to default options and asset allocation modeling.

Annual Survey. As Chairman of the Data and Research Committee, Marc Magnoli reported that SVIA's Annual Investment and Policy Survey would be released shortly. The 2005 survey covers over \$396 billion in assets from more than 108,000 plans. Assets covered in the survey declined since some members choose not to participate in the in-house and life insurance company segments. Additionally, SVIA added a question to uncover any double counting of sub advised assets and found that some of 2004's \$419 billion had significant double counting from three managers.

Marc asked for volunteers to review the survey to make sure the questions were clear and that the data requested was meaningful to the membership. Doris Fritz, Dylan Tyson and Vicky Paradis agreed to review the survey.

Stable Value Practices. The Board discussed the latest draft of stable value practices, which incorporated five comments from Board members received prior to the meeting. The Board directed Ben Allison, the Chair of the Stable Value Practices Working Group to focus on the three major structures of stable value: pools, insurance, and external separate accounts. The Board also agreed that all members would provide written comments to Ben no later than June 23 on the draft. The comments should explain any issues and/or concerns and recommend how to address or fix the issue or concern. Based on this input, Ben will redraft the document. A call

will be scheduled in July to discuss the Board's input and once a consensus is developed, the draft will be shared with the broader stable value manager membership to get their thoughts and concerns. The Board set a goal of October for final Board consideration on stable value practices.

Valuation of Wraps. Laura Powers reported on the work of the Valuation of Wraps Working Group. The group is comprised of Laura, Marc Magnoli, Brian Murphy, Kim McCarrel, and Steve Kolocotronis. She reported that the group had tried three methods of valuation: option pricing, Monte Carlo simulation and replacement cost. They had found that replacement cost seemed to produce more consistent results based on the preliminary work that had been done. She noted that the Working Group would be holding a conference call on June 14 to brief the broader wrapper and manager community on valuation issues and to get their input and participation. She urged the Board to start discussions with their auditors and the audit firm's national practice leaders on wrap valuation to ensure that auditors were comfortable with the valuation method that is used.

Fall Board of Directors' Election. The Board will have potentially five seats open for the fall election. Two Board members: Nat Duffield and Aruna Hobbs will be retiring from the Board since they have finished the end of two-continuous terms. John Axtell and Mike Norman have served one term and can run for a second term. The Board discussed filling the plan sponsor's open seat with Jackie Bell's resignation with a public plan sponsor for the remaining two-years of Jackie Bell's term. The Board was asked to make public plan sponsor recommendations to Gina Mitchell before the end of June. If the Board does not fill Jackie's seat for her remaining two-years, then the Board will need to decide to either eliminate the seat or put it up for election in the fall.

Spring Seminar. Ben Allison reported that SVIA's First Spring Seminar was a substantive and financial success. Net revenues from the seminar were roughly \$86,000.

SVIA Reception. The Board discussed membership participation at SVIA receptions. The Board asked that Gina Mitchell reach out to the Value Program Members and other firms that hold special events piggybacking the meeting to minimize conflicts between SVIA's reception times of 6 to 7:30 p.m. The Board wanted to maximize the networking time with colleagues at the reception while encouraging members to network and socialize with their clients after the reception.

Annual Forum. SVIA's October 10-12 Forum will be held at the Ritz Carlton in Washington, D.C. The next two Forums will be held at the Fairmont Hotel. Board members were asked to provide any suggestions on themes, topics and speakers by June 23 to Planning Committee. The Planning Committee is comprised of Aruna Hobbs, Tony Camp, Dylan Tyson, Jim McDevitt, Ben Allison, Rick Cook and Gina Mitchell.

SVIA New Offices. SVIA has new offices at 1050 Connecticut Avenue, NW, Suite 1000, Washington, DC 20036. The new phone number is 202.580.7620 and fax number is 202.580.7621.

Approved Action Items and Resolutions. The Board unanimously approved the April Action Items and several resolutions. The Board approved several housekeeping resolutions as a package.

The housekeeping package included designating the Annual Forum as the membership meeting including the Board meeting at that time; granting the Board authority to designate regular and special meetings; defining the call and notice requirements for Board and regular meetings; permitting the Board to conduct business by written ballot outside of Board meetings should a need arise; appointment of committee and officers; authorizing Association account signatories.

Additionally, the Board unanimously approved a resolution that updated the Merrill Lynch Working Capital Account to reflect the current Chairman, Treasurer, Secretary and President.

Next Meeting. The Board's next meeting will be October 10th from 2 to 5 p.m. at the Ritz Carlton in Washington, D.C.