

June 2, 2009 Action Items

SVIA Board of Directors

To: SVIA Board of Directors

From: Gina Mitchell, SVIA

Re: Action Items from June 2nd Board of Directors' Meeting

The SVIA Board of Directors met on June 2nd at Fidelity Investments in Boston, Massachusetts. The Board meeting was hosted by Doris Fritz. The following board members attended the meeting: Ed Adam, Tony Camp, Terry Finan, Doris Fritz, Warren Howe, Steve LeLaurin, Marc Magnoli, Laura Powers, David Starr, and Richard Taube. Additionally, Rabbobank's Elizabeth McNichols, Bank of America's Mark Ljubich; State Street's Julie Fisher; Fidelity's Steve Kolocotronis; TRowe's Robert Madore; State Street Global Asset's Henry Kao and Jon Veit attended the meeting. Jordan Culp, Marijn Smit, Sharon Parkes and Michael Wyatt were unable to attend.

Consultant Outreach. A working group of Tony Camp, Doris Fritz, Steve LeLaurin, Marc Magnoli, Gina Mitchell, Laura Powers and Richard Taube developed materials and made a presentation to consultants on May 20th covering the basics of stable value and current issues. 61 consultants out of 253 registered for the call. Thirty-three consultants participated in the call.

The consultant list was culled from consultant contacts submitted by the voting members. All SVIA voting members were asked to provide a consultant list. However, only six provided a list.

The Board agreed to follow up with this group through emails and future conference calls. The group agreed to use the newsletter and Fall Forum to solicit consultants for membership. Additionally, the group agreed to use the 2008 survey results as a way to continue the conference call dialogue.

Plan Sponsor Outreach. The Board agreed to use the consultant presentation for a similar outreach to the plan sponsor community and investment committee. The membership will be asked to provide email contacts to supplement the Association's existing database of plan sponsors.

Capacity. The Board was updated by various members on interest by new wrappers and outreach to potentially new issuers and SVIA's Capacity Working Group. Additionally, a manager group also has held a call on making a more coordinated effort to reach out to potential new entrants. The three wrappers--AIG, Rabobank and UBS—exiting the business creates a need for \$65 billion in new wraps. This figure does not include cash in current portfolios or future demand caused by the economy or the aging of the population. The Board agreed to consolidate efforts with the manager group and to reach out to the broader membership in an attempt to be as inclusive as possible in developing a coordinated strategy and approach to bring in additional providers. Laura Dagan was volunteered to chair this Working Group. A call will be held shortly to the broader group to coordinate and move this issue.

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SVIA Quarterly Survey. The Board of Directors unanimously agreed that the SVIA should undertake a five question survey at minimum on a quarterly basis. The Board felt that the following information was critical to SVIA's mission to educate policymakers and the public about stable value. The Board decided the following information should be collected:

- Total assets for the period
- Net crediting rate for the period
- Overall credit quality for the period
- Overall duration for the period
- Market to book ratio.

Individual responses would continue to be confidential and information gained would only be used in the aggregate. The new survey falls within the responsibility of the Data and Research Committee. The survey will go out in the middle of June.

Annual Survey. SVIA's Annual Survey covering yearend 2008 is complete. The survey is in the final review process and will be distributed to the membership towards the end of June. The Board agreed to hold a conference call for the membership to highlight the survey.

Board Elections. The Board was reminded that four seats are open for election this fall. They are:

- Ed Adams who is a plan sponsor and eligible to run for a second term;
- Laura Powers, BlackRock, who is a service firm member and eligible to run for a second term;
- Richard Taube, Pacific Life who is a service firm member and eligible to run for a second term;
- Marijn Smit, AEGON who is a service firm member who was appointed to finish Brian Murphy's term and is eligible to run.

Board Member Requirements, Selection & Election Process. To run for the Board, the member must be in good standing and must become the voting member for his or her company once elected. Individuals interested in running for the Board should let Gina Mitchell or any member of the Executive Committee know. Voting members will be asked to make nominations this summer. Service firm members need a minimum of three nominations to become a candidate for the Board. Lastly, once candidates are determined, the slate of candidates is announced prior to the Fall Forum with the election following the Fall Forum and Annual Membership meeting.

Spring Seminar. Marc Magnoli reported that the Spring Seminar was a success despite the challenging financial times and that the feedback from the meeting was overwhelmingly positive. Doris Fritz reported that the seminar achieved a profit of \$19,000.

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Spring Seminar in 2010. Based on this feedback, the Board agreed to hold a 2010 Spring Seminar. The Board selected the Four Seasons at Palm Beach for the meeting. The meeting date is April 11-13th (Sunday-Tuesday). The Four Seasons is serviced by three airports in order of proximity: West Palm Beach, Fort Lauderdale and Miami. The room rate is \$205. The Board agreed to include a casual dinner as part of the meeting.

Fall Forum 2009. The Fall Forum and Annual Membership Meeting will be held on October 14-16, 2009, which is a Wednesday-Friday meeting pattern. The room rate is \$299, which is a very competitive rate for the Washington area. However, SVIA is working with the Fairmont to reduce the room rate further to encourage people to stay at the hotel rather than surrounding hotels that may have lower rates.

Membership. Doris Fritz reported that SVIA had two new members: Charles Schwab and TIAA-CREF. Additionally, two members who indicated they were renewing have not yet paid their 2009 dues: PIMCO and Principal. Richard Taube agreed to follow up with PIMCO and Doris agreed to follow up with Principal.

Budget. Doris Fritz reported that SVIA was on budget despite the economy and a decline in membership. She reported that SVIA had collected \$352,500 in service dues, down by 6.5%; \$165,000 in value program dues, down by 17.5%, \$516 in interest, which is down by 88%. However, expenses have also declined compared to last year, declining by 21.2%.

Stable Times. The first issue of Stable Times will be released in mid-June. Many of its stories focus on the Spring Seminar. The newsletter is now a biannual publication, coming out every six months.

Website. SVIA hired Black, Inc. to update and redesign the website. The new site and its functionality are scheduled to be completed and fully functional by the end of July. The new site should assist the Association with more timely communication to the membership since it will permit timelier updating and posting and the Members' Only Section will be fully functional.

Federal Reserve. Several of the members reported that James Clark from the Federal Reserve had been reaching out to them about stable value funds. The Board agreed to provide an industry perspective to Jim Clark on his research about stable value using the consultant presentation as the basis for this dialogue.

AIG. AIG's Sai Raman provided an informal overview of AIG's wrap business. He noted that the Federal Government had targeted unwinding AIG by year end. However, the Government realized there were several books of business that could not be unwound during this time period, including the wrap business. The Government was very aware of downside risks to stable value and wished to do no harm to stable value investors. He reported that AIG was looking for some improvement in market to book ratios by some of its managers and was selectively considering immunization as a last resort. He noted

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that AIG is still considering options for the wrap business that include finding an outside buyer, or absorbing the business in the parent company of insurance division.

Accounting Issues. Deloitte's Brian Gallagher reported that valuation and implementation issues for FAS 157 continued for stable value and other asset classes. He asked how managers were obtaining wrap pricing when a wrapper refused to rebid on business since most of the managers were using a repricing based methodology. He also noted that in cases of corporate events, the extent that the event was probable of occurring and actual contract terms should be the basis for determining if market or contract value was the appropriate valuation for the stable value fund.

Fiduciary Issues. Morgan and Lewis' Don Myers provided an overview of fiduciary issues that could arise with stable value. He reminded the group that the prudence expert requirement should be used to evaluate investment decisions and the importance of having a well-documented process to demonstrate that the prudence standard had been met. He stressed this was equally important with any changes to stable value contracts.

Minutes Approved. The Board unanimously approved the April action items.

Attachments: Approved Action Item
Consultant Presentation
May 20, 2009 Call Participants