

**Missouri Higher Education Savings Program
Minutes of the MOST Board Meeting**

State Capitol Building, Senate Committee Room 2
Jefferson City, MO
June 12, 2008

Item I: Call to Order

Ms. Steelman called the meeting to order at 1:30 p.m.

Item II: Roll Call

MOST Board Members present were Sarah Steelman, Thomas Baumgardner, Adam Koenigsfeld (proxy for Dr. Robert Stein), Rep. Sally Faith and Rhonda Meyer (proxy for Greg Steinhoff).

State Treasurer's Office (STO) staff present were: Doug Gaston, Mark Mathers, and Jane O'Toole.

Upromise staff present were: Derek Delorenzo, Brian Boswell, Temeka Easter and Janet Kottman.

Vanguard staff present were: Stewart Duffield.

Item III: Approval of Minutes

Ms. Faith moved to approve the minutes from the previous Board meeting held on March 13, 2008. Mr. Baumgardner seconded the motion, and the motion passed unanimously.

Item IV: Legislative Report

Ms. Steelman indicated that SB 863 had passed the legislature and awaits the Governor's signature. The bill clarifies the \$16,000 deduction for married couples and extends the state tax deduction to other state 529 plans.

Item V: Annual Investment Review – Advisor Plan

Ms. Steelman explained that this item would be deferred to the next Board meeting.

Item VI: Direct Plan – Short Term Reserves Account

Mr. Duffield presented Vanguard's recommendations to modify the Short Term Reserves Account, which is the underlying investment for the MOST Interest

Accumulation Portfolio and Vanguard Conservative Income Portfolio. Mr. Duffield explained the reasons for Vanguard's recommendations and the recommendation itself to allow investment in two underlying Vanguard mutual funds. The investment in the two bond funds, which have a floating NAV, required using an insurance company to securitize or "wrap" the mutual funds to provide for a stable NAV. The NAV would reset quarterly.

Mr. Baumgardner inquired about the impact of larger redemptions out of the fund and the possible impact on the fund and investors. Mr. Duffield and Mr. Mathers responded that there were several factors that minimized this risk including the once-a-year limitation on investment changes to 529 participants and the fact that the Interest Accumulation Fund would continue to invest in Vanguard's money-market fund, which maintained a \$1 NAV value, and guaranteed investment contracts, which provide dollar-for-dollar exchanges. There were additional questions about the possibility of the fund's yield falling below a money-market fund, again spurring possible redemptions. There were discussions about the likelihood of that event and the possible effect on the fund.

A question was raised about the risk of not proceeding with Vanguard's recommendation. Mr. Duffield explained that Vanguard would continue to attempt to place investments in traditional contracts if possible in order to draw down the money market portion of the Account. In the absence of more traditional investment contract investments, the account would continue to have a more money market like return.

Mr. Duffield explained that Vanguard's recommendation was subject to two conditions: (1) the maximum allocation for investment in the two bond funds by the Interest Accumulation Fund would be set in conjunction with the Director of Investments and (2) only funds approved by the Director of Investments would be used. Mr. Koenigsfeld moved to adopt this recommendation, and Ms. Meyer seconded. The motion passed unanimously.

Item VII: Quarterly Report

Ms. Steelman announced that all public universities and colleges in the state now have MOST scholarships. The quarterly report was presented by Mr. Delorenzo and Mr. Duffield. There was discussion by the Board about the marketing materials and plans. Mr. Baumgardner asked whether Upromise could provide figures for the number of persons attending events listed in the report. Mr. Delorenzo indicated that Upromise would provide that in the future.

Item VIII: Fund Performance Monitoring Report

Mr. Mathers reviewed the quarterly performance monitoring report, noting continued short-term underperformance by two existing funds on WATCH status, Legg Mason Value Fund and Templeton Growth Fund. The Van Kampen Comstock fund, which is on "WATCH" status for intermediate performance, saw its performance improve slightly.

Mr. Mathers recommended that two news funds be placed on "WATCH" status, the T. Rowe Price Growth Stock Fund and T. Rowe Price International Growth and Income Fund due to poor 1-year returns. Mr. Mathers commented on recent changes and performance for the funds. Mr. Koenigsfeld moved to adopt this recommendation, and

Ms. Meyer seconded. Mr. Baumgardner voted “no” to the motion. The motion carried. Mr. Baumgardner requested that consideration be given to having funds placed on WATCH status by State Treasurer staff based on set criteria versus the current practice of requesting Board approval. Mr. Mathers indicated that he would draft such a change to the MOST Investment Policy for consideration at the next meeting.

Item IX: Adjournment

Mr. Baumgardner moved to adjourn, Mr. Koenigsfeld seconded. Meeting adjourned.