

## Investment Plans Committee

Regular Meeting  
Minutes  
January 23, 2008

A regular session of the Investment Plans Committee was held on Wednesday, January 23, 2008 and convened at 8:39 a.m. 300 Lakeside Drive, 20<sup>th</sup> Floor; Oakland, California, 94612.

### Committee Members or Alternate Members Present:

Elaine M. Kurtz,	BART alt.
Howard D. Jones,	SEIU
Bob Fernandez,	SEIU alt.
Carolyn Pope-Chappell,	ATU
Hubert LaViolette,	ATU alt.
Rube Warren,	AFSCME
Jean Hamilton,	AFSCME alt.
Kory Frost,	BPOA
Michael Pon,	BPOA alt.

### Committee Members or Alternate Members Absent:

Teresa Murphy, BART

### Other Attendees:

Ron Heath,	Dwight Asset Management
Bill Gardner,	Dwight Asset Management
Ann-Marie Carlson,	ICMA-RC
Russ Richeda,	Saltzman & Johnson
Marcia Beard,	R.V. Kuhns
Peter Horikoshi,	BART
Carolina Lopez,	BART
Arne Stokstad,	BART

### AGENDA ITEM 1 - Convene and Sign-in

The meeting convened at 8:39 a.m. and was chaired by Elaine Kurtz.

## **AGENDA ITEM 2 – Public Comment**

There were no public comments at the January 23, 2008 BART Investment Plans Committee's public meeting.

## **AGENDA ITEM 3 - IPC Committee Chair Report**

### a) "Check-in" by IPC Members

a. There were no comments by the Committee members during the check-in period.

## **AGENDA ITEM 4 - Discussion and Action Concerning**

### a) Minutes – Dec. 19, 2007

The Committee reviewed the December 19, 2007 meeting minutes and approved the following motion:

Motion: To approve the December 19, 2007 meeting minutes with the following modifications:

Change – "The PIMCO All Asset fund seeks to provide a return equal to the Consumer Price Index (CPI) plus five percentage points over the long term."

Page 3: Agenda Item 6

Change – "Action: the Committee directed staff to reschedule PIMCO's 2008 Fund Manager Update to the June meeting, so that the Committee can benefit from PIMCO's analysis and projected outlook for the economy over the next year."

Page 3: Agenda Item 6

Change – "Strategy. PIMCO All Asset fund seeks to outperform the CPI by five percentage points over the long term with a low target volatility of between 6 and 8%. The fund will tactically shift its allocation, meaning that PIMCO can change the allocation of investments when their research indicates that such a move will increase return or that it will protect assets from a downturn."

Page 3: Agenda Item 7

Change – "The VantagePoint funds trailed for the month but it was confirmed that they will ~~soon~~ be replaced by the T.Rowe Price target retirement date funds in the first quarter of 2008.

b. ~~As discussed at the September 26, 2007 meeting, it can be difficult for Committee members to determine if there is a possible conflict of interest for Committee members because information regarding ownership of investment management companies has not been explicitly stated. The Ownership Structure of Investment Management Companies document shows whether a company is~~

~~publicly held, employee or parent owned and provides background information on the company. The Investment Analyst will update this document annually. The Committee noted that some funds offered to participants are owned by publicly traded corporations, the shares of which could possibly be purchased by Committee members either through the brokerage window or on their own account. To avoid the possibility of a conflict, information will be periodically provided to the Committee concerning the ownership of the funds offered to participants by the Committee.~~ “

Page 4: Agenda Item 8

Change – “Action: The Committee voted to apply \$10,000.00 of the transaction error gain in the deferred compensation plan (reported on in the November 28, 2007 meeting) to reimburse participants for the \$10,000.00 BART Plan Expense fee charged to deferred compensation participants in November.”

Page 5: Agenda Item 9a

Delete – ~~“Deferred Compensation transfers for “Airtime” are made by retirees and not active employees.”~~

Page 5: Agenda Item 9b

Change – “Over 20% of eligible BART participants are enrolled in Premier Services.”

Page 5: Agenda Item 9c

Change – “Due to the change to T.Rowe Price Target Retirement Date funds ICMA-RC the Committee is adding twelve new funds, with an annual one-time fee to ICMA-RC of \$1,500 per fund.”

Page 6: Agenda Item 9d

Change – “Ann-Marie proposed a contract extension of three years, which the Committee accepted in order to preserve the \$36 to \$32 fee reduction. ~~after discussing~~ The Committee also discussed its fiduciary responsibility to issue periodic Requests for Proposals (RFP) for the recordkeeper.”

Page 6: Agenda Item 9d

Change – “The auditor’s next site visit ~~will probably be in~~ is scheduled for January. “

Page 6: Agenda Item 11a

Change – “The Committee accepted the newly revised Expense Report form and will begin using it immediately.

Page 7: Agenda Item 12c

Change – “Staff reported that the insurance company providing fiduciary liability insurance will reduce return the liability limit from \$7,000,000 to \$5,000,000 effective December 1, 2007 so as to reduce costs.”

Page 7: Agenda Item 12e

## **AGENDA ITEM 5 - Discussion and Action Concerning**

Dan Kohler from ICMA-RC reviewed the VantageBroker program. BART participants with a minimum balance of \$6,000 in the Deferred Compensation Plan can use the VantageBroker services to invest in more than 12,000 mutual funds and all securities traded on major U.S. exchanges. There is a \$30 set-up fee, but the annual account fee will not be charged starting in 2008. The current fee schedule is listed below:

### **VantageBroker Trading Fees**

#### **Mutual Funds**

No Load, No Transaction Fee Funds (NTFs)

\$0\*

\*Short-term trading fee of \$52 applies to shares held <180 days.

No Load Funds With a Transaction Fee

\$30

Load Funds

Load charges vary by fund family

#### **Equities**

Stocks/ETF's

\$24 up to 1,000 shares plus an additional \$0.03 per share for each share over 1,000

#### **Fixed Income Securities**

Bonds

\$50 plus \$2 per \$1,000 face value of the bond

U.S. Treasury Bill

\$50

The Committee discussed making trading fees more competitive.

Result: The Committee directed staff to post a message regarding the improvements in the VantageBroker Fund website.

## **AGENDA ITEM 6 - Discussion and Action Concerning**

a) Investment Manager Review –

The BART Investment Policy has three guidelines for the Dwight Stable Value Fund:

- 1) To maintain an average credit quality of at least Aa/AA as rated by Moody's, S&P, or another nationally recognized statistical rating agency.
- 2) The fund returns greater than the rolling 5 Year Constant Maturity Treasury over a 3 year and 5 year period.
- 3) The fund returns greater than the ML 3-Month US T-Bill Index over a 3 year and 5 year period.

The investment analyst stated that the fund exceeded the guidelines:

- 1) The fund currently has an average credit quality of AAA/Aaa.

2) **5 Year Constant Maturity Treasury Index**

	Past 3 Years	Past 5 Years
Fund Performance	4.87%	4.83%
Guideline	3.77%	4.03%

- 3)

**ML 3-Month US T- Bill**

	Past 3 Years	Past 5 Years
Fund Performance	4.87%	4.83%
Guideline	4.30%	3.07%

Dwight Asset Management represents the fund with the largest percentage of BART participant assets by far with 29% in the Deferred Compensation Plan and 37% in the Money Purchase Pension Plan. The Chairman and CEO Laura Dagan, transferred the President title to David Thompson, who is also the Co-Chief Investment Officer, to position Dwight towards continued fast-paced growth. Dwight also hired Peter Vutz to build a non-U.S. investment capability.

Elaine Kurtz left the meeting at 9:45 and returned at 10:30

**AGENDA ITEM 7 - Fund Manager Update**

Bill Gardner and Ron Heath from Dwight Asset Management discussed the past year's performance and economic outlook from the funds perspective.

- The performance of the Stable Value fund met policy expectations for the last six to seven months. The fund earned over 5% in 2007.

- According to Dwight's economic outlook, net exports are the one bright spot. Export growth is outpacing import growth due to the weaker dollar and the relative strength of foreign economies. Dwight Asset Management expects this to help offset some of the weakness in domestic demand this year.

**AGENDA ITEM 8 - Discussion and Action Concerning**

- a. Investment Analyst Update – Fourth Quarter 2007 Performance Review
- b. Barclays Global Investors (BGI) Active Stock Fund and Enhanced Equity Option

a) Economic volatility continued during the fourth quarter, fueled by falling real estate values, high energy prices, a weak dollar, and decreased consumer spending. In an attempt to ease concerns and increase liquidity and demand in the credit markets, the U.S. Federal Reserve decreased the Federal Funds rate by a total of 50 basis points during the fourth quarter, in two separate rate cuts in October and December. The current Federal Funds target rate is 4.25%. The year ended with an increase in the U.S. unemployment rate, which rose from 4.4% to 5.0% in 2007. The U.S. Dollar continued to decline in 2007 relative to a weighted average basket of currencies. The Consumer Price Index increased 4.1% during 2007, significantly higher than its five-year average of 3.0% and its largest increase since 1990. Increasing energy costs were the key driver of inflation. The core CPI, which excludes food and energy, saw an increase of only 2.4% during 2007, down from 2.6% in 2006.

Beginning in the summer, there was a flight to quality. Investors chose to take risk off the table resulting in riskier asset classes underperforming less-risky asset classes. Both domestically and internationally, small cap stocks underperformed large cap stocks. The bond market rallied with US Treasuries providing the best performance as expected in a flight to quality. Two of the Plans' funds fell below performance expectations. Dodge & Cox Income Fund trailed its benchmark due to the Fund's defensive duration and due to its underweight to Treasuries and overweight to corporate bonds. BGI Active Stock Fund also had a difficult year along with other quantitative managers who were hurt in the flight to quality and de-leveraging of the market place. R.V. Kuhns did not recommend any changes to the line-up or to the funds.

b) The BGI Active Stock Fund is having some difficulty meeting the investment policy guidelines at this time. The investment analyst presented an active/passive comparison report because BART's Investment Plans include as investment options both BGI's active (Active Stock) fund and passive (S&P 500) fund.

Result: The Committee will continue to monitor this fund over the next six months.

**AGENDA ITEM 9 - Discussion and Action Concerning**

- a) Recordkeeper Report
- b) Performance Reporting - discussion
- c) Premier Pricing – discussion and vote
- d) Premier Services – letter to participants
- e) Templeton Report
- f) Contract Renewal Status
- g) Trustee change status
- h) "Airtime" Transfer

a) The recordkeeper presented the report for December 2007. The Committee had questions regarding fund transfers.

Result: The Committee asked the recordkeeper to provide comparative information for the past several months of fund transfers based on an observation of large amounts of fund transfers.

b) The recordkeeper will bring the performance guarantee results to the February meeting.

c) The recordkeeper stated that their fees for the premier program would increase 10% from 11,375 to 12,750.00. This amount is paid for by the investment plans and the participants do not pay a fee for these services.

Result: The Committee discussed this increase and proposed a counter offer which will be reviewed by the recordkeeper and brought back to a future meeting.

d) The Committee and the recordkeeper are developing a letter to participants who are eligible for premier services. Prior to sending out the letter, the committee must wait until the premier services counter proposal is reviewed and approved.

e) The recordkeeper reported a mathematical error by The Franklin Templeton Institutional Foreign Equity Fund that resulted in an excess payment of \$550.00. Corrected statements will be sent to participants in this fund.

f) This item was deferred to the February meeting

g) Result: The Committee approved a change of trustee from State Street Bank to VantageTrust who has agreed to assume trustee duties at no additional costs. The attorney to the committee will review the language to allow the change of trustee to VantageTrust. The attorney will notify the committee chair and forward comments to the new trustee.

h) The recordkeeper distributed a report of transfers to purchase Additional Retirement Service Credit, commonly referred to as "air-time", in 2007. There were 74 participants who transferred money from the 401 Money Purchase Pension Plan and 6 participants who transferred money from the 457 Deferred Compensation Plan. Transferring money from the Deferred Compensation Plan had only been allowable after employees retire.

**AGENDA ITEM 10 - Discussion and Action Concerning**

- a) Legal developments (information)
- b) Public Employees Post-Employment Benefits Commission (information)
- c) IRS tracking report (information)
- d) Plan Restatements and Amendments

a) The attorney for the Investment Plans Committee presented an update on legal developments including IRS Limits for 2008.

	<b>DEFERRAL CATEGORY FOR 2008</b>	<b>ANNUAL MAXIMUM</b>	<b>PAY PERIOD AMOUNT</b>
1.	Basic Deferral	\$15,500	\$596.16
2.	50 Plus Catch-up	\$5,000	\$192.31
3.	Basic Deferral + 50 Plus Catch-up (categories: 1+2)	\$20,500	\$788.47
4.	Pre-Retirement Catch-up (three consecutive year max, minimum age requirement) *	\$15,500	\$596.16
5.	Basic Deferral + Pre-Retirement Catch-up (categories 1+4)	\$31,000	\$1,192.31

\* Actual amount depends on individual opportunity. For more information, contact Benefits staff.

b) The State of California established a public employee post employment benefits commission. The commission issued a 330 page report that can be found on their website: [www.pebc.ca.gov](http://www.pebc.ca.gov). The report discusses financial obligations for post employment benefits, such as retiree medical coverage.

c) Legal counsel stated that there were no new developments to report.

d) Legal counsel provided the committee with an updated chart on status of plan restatements and amendments. Due to a change in the Pension Protection Act, the Committee has acknowledged that it is now allowable to use Deferred Compensation Plan funds to purchase Additional Retirement Service Credit.

Result: The Committee directed staff to draft a notification to participants that the option to transfer money from the Deferred Compensation Plan funds to pay for Additional Retirement Service Credit is available. This notification will be included with the invitation sent to participants for the Annual Participants Education Day. The Committee also directed staff to modify the website to reflect this additional option.

**AGENDA ITEM 11 - Discussion and Action Concerning**

- a. Status of 2006 & 2005 Audits
- b. Strategic Plan for the Committee for 2008

a) BART Senior Benefits Analyst Randy Quan updated the committee on the status of the 2005/2006 audits. All the additional documents requested by the auditors for the 2005 audits have been provided and the documents for 2006 will be sent to the auditors by the end of the week. A conference call is scheduled for the week of January 28<sup>th</sup> to discuss the current status and to schedule a site visit.

Result: The Committee expressed its desire to have staff complete 2005/2006 audits as quickly as possible. Ann Marie reported that ICMA staff is working seven hours a day pulling forms for archive files.

b) The 2008 Strategic Plan for the Committee was deferred to the next meeting.

**AGENDA ITEM 12 - Discussion and Action Concerning**

- a. Monthly Budget Review – December
- b. 2008 Annual Proposed Budget
- c. Check Registers - December
- d. Workshops/seminar
- e. Fiduciary Liability Insurance Update

a) A draft budget for December was presented. A final budget for December will be presented at the next meeting once the remainder of the invoices for December have been received and paid.

b) A preliminary budget for 2008 was presented to the committee. Changes in this budget included:

- A contractual increase for the investment advisor.
- An increase in fixed recordkeeping services due to the addition of the T. Rowe Price target retirement date funds.
- An anticipated increase in mailing costs for participant statements.
- A decrease in website maintenance costs.
- A slight increase in fiduciary liability insurance.

Result: The Committee directed staff to:

- Defer the IRS Model Audit budget to 2009.
- Increase the Premier Services budget to \$12,750 in anticipation of its renewal.
- Reduce the trustee cost to zero.
- Eliminate the Miscellaneous expense costs of \$15,000.

c) The Committee asked what the expenses for Wolborg Michaelson represented. Staff stated that this was the temporary help agency for the investment plans assistant position before it was filled on a permanent basis. The Committee expressed their concern that staff was spending money from their personal accounts to pay for committee expenses to then be reimbursed. This issue will be placed on the agenda for the February meeting.

- d) Staff is continuing to search for appropriate workshops and seminars.
- e) The committee has received a check representing a reduction in premium based on the return of the liability limit from 7 million to 5 million effective December 1, 2007. Staff has asked the insurance company for an updated quote if the deductible were lowered.

**AGENDA ITEM 13 – Discussion and Action Concerning  
February 27, 2008 IPC Agenda**

Items for the next meeting include:

- Investment Policy
- Recordkeeper performance reporting
- Cash flow for committee expenses
- Participants Day
- Strategic Plan
- Proposed 2008 Budget
- Premier services renewal and letter to participants
- Recordkeeper contract renewal
- Trustee change
- Status 2005/2006 Audits
- Workshops & Seminars
- Fiduciary Liability Insurance

**AGENDA ITEM 14 - Closed Session Pursuant to Government Code Section  
54957.10: Hardship Application(s)**

The Committee adjourned the public meeting at 2:30 p.m. to consider a Hardship Withdrawal Application and reconvened the public meeting at 2:45 p.m.

**AGENDA ITEM 15 - Adjournment**

The meeting adjourned at 2:45pm.

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