

## Investment Plans Committee

Regular Meeting  
Minutes  
April 23, 2008

A regular session of the Investment Plans Committee was held on Wednesday, April 23, 2008 and convened at 8:30 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 La Violette,    | 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:

|                    |                    |
|--------------------|--------------------|
| Bob Thompson,      | Dodge & Cox        |
| 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 8:30 a.m. and was chaired by Elaine Kurtz.

### AGENDA ITEM 2 – Public Comment

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

### AGENDA ITEM 3 - IPC Committee Chair Report - "Check-in" by IPC Members

None of the Committee members had any check-in items.

### AGENDA ITEM 4 - Discussion and Action Concerning a) Minutes – March 26, 2008

The Committee reviewed the March 26, 2008 meeting minutes and approved the following motion:

Motion: To approve the March 26, 2008 meeting minutes with the following modifications:

**Page 2 – Agenda Item 3a: - Change** - "The question was raised because the employee would technically be terminated ~~in prior to~~ the year ~~that in which~~ the check would be issued. This is permissible under the Internal Revenue Code, however, legal counsel stated that the employee must submit paperwork to Benefits ~~at least 30 days~~ prior to the month of retirement in accordance with the plan document.

**Page 2 – Agenda Item 3b: - Change** - Result: Staff will keep a copy of Form 700 for all committee members.

**Page 3 – Agenda Item 7a: - Change** - " Committee members asked about volatility related to subprime mortgage exposure ~~the exposure to sub-prime...~~"Dodge & Cox was underweight in treasuries and overweight in corporate bonds."

**Page 5 – Agenda Item 9d: - Change** - "The Committee also directed staff to research alternatives to keeping the administrative account money in the Dwight Stable Value Fund."

**Page 5 – Agenda Item 9e: - Change** - "A Committee member suggested that staff ask all the Committee members to review the BART IPC website prior to the next meeting to see what needs to be updated."

### AGENDA ITEM 5 – Record Keeper Report

- a) Ann-Marie Carlson of ICMA-RC provided the following transaction summary for the 401(a) Money Purchase Pension Plan and 457 Deferred Compensation Plan for the period ending March 31, 2008.

| March 2008          | 401(a) MPP    | 457 Deferred Comp |
|---------------------|---------------|-------------------|
| Opening Balance     | \$264,648,273 | \$404,795,490     |
| Contributions       | 1,088,708     | 1,870,370         |
| Roll-ins            | 3,807         | 7,791             |
| Distributions       | (1,075,285)   | (1,817,914)       |
| Adjustments         | (23,514)      | (23,514)          |
| Investment Earnings | (1,218,189)   | (2,660,394)       |
| Service Fees        | (51)          | (60)              |
| Closing Balance     | 263,423,750   | 402,171,769       |
| Change              | (\$1,224,523) | (\$2,623,721)     |

The record keeper advised the Committee that the \$10,000 BART Plan Expense Fee was not charged in March 2008 as requested by the Committee. This fee category will be listed in future transaction summaries with a zero dollar amount.

The record keeper noted that there was one new participant in the VantageBroker program for a total 98 participants. A Committee member asked about the 457 and 401(a) plan expense fee of \$9,000. The record keeper explained that this was the annual fee for the T.Rowe Price Target Retirement Date Funds recently added to the plans.

A Committee member requested that a subtotal for the T. Rowe Price Life Strategy Options be shown across all columns of the BART Fund Information report. The record keeper also noted that the percentage of plan assets in the Life Strategy Options has increased from the prior month in both the 457 and 401(a) plans.

The record keeper provided a handout on the "Invest Smart for Your Retirement" button on the ICMA-RC website at [www.icmarc.org](http://www.icmarc.org). This site was developed to help plan sponsors calm participant nerves about the volatile year in the markets and better educate participants about the fundamentals of investing.

A staff member requested that the Additional Retirement Service Credit or "airtime" purchases be reflected on the 457 deferred compensation transaction summary.

A Committee member asked the record keeper to research the \$29,000 amount for airtime purchases for March 2008 as the number seemed low.

The record keeper informed the Committee of documentation about how staff determined the amount of money that should be assessed of each participant in the deferred compensation plan. The record keeper will report back to the Committee at the next meeting.

b) Fund Code Sheet – update – The record keeper handed out copies of the recently revised Fund Code Sheet. A Committee member requested some changes and the matter was referred to staff to incorporate.

## **AGENDA ITEM 6 – Investment Analyst Update**

R. V Kuhns reviewed performance for the quarter ended March 31, 2008. The quarter was a difficult period with all funds posting negative returns with the exception of the fixed income, real estate securities, and real return options. There was a great deal of volatility in the capital markets given concerns of a recession, a declining dollar, high energy prices, fallout from the subprime concern, and the deteriorating housing market. The Fed lowered the Fed Funds rate three times (200 basis points) during the quarter from 4.25% to 2.25%. Equity markets across the globe suffered significant losses during the quarter. The S&P 500 suffered its sixth-largest first quarter decline in its history. Value indexes performed slightly better than their growth counterparts with large and small cap stocks performing equally poorly. The domestic bond market posted positive returns in most sectors led by Treasuries.

The Committee reviewed the two large cap core options and answered the following questions:

- Should the Plans continue to offer domestic large cap core equity as an investment option? Yes
- Should the Investment Plans Committee continue to offer two domestic large cap core equity options? No
- If offering only one domestic large cap core equity option, should it be actively or passively managed? Passively
- If offering only one domestic large cap core equity option that is passively managed, should the participant assets in the actively managed option be mapped to the passive option? Yes

The Investment Plans Committee expressed an interest to complete the transition on July 1, 2008. The record keeper will check to see if this date is available.

#### **AGENDA ITEM 7 – Fund Manager Update – Dodge & Cox**

a) Bob Thompson, Vice President of Dodge & Cox Investment Managers, provided the Committee with an overview of the Income and Stock Funds:

Bay Area Rapid Transit (BART) has been a Dodge & Cox Funds client since 1993 (15+ years). BART employees now have \$42.4 million invested in the Income Fund and \$20.8 million invested in the Stock Fund. There were no changes to the Dodge & Cox management team in the last year. Mr. Thompson assured the Committee that the Income Fund has no exposure to subprime mortgages because it invests in government backed mortgages such as Fannie Mae and Freddie Mac.

#### **Income Fund:**

- For calendar years 2005 - 2007, the Dodge & Cox Income fund did not meet the Investment Policy Guideline for the Fixed Income Fund category because it returned an annual average of 4.34% vs. 5.48% for the LB Aggregate Bond Index over a 3 year period.
- For calendar years 2005 - 2007, the fund exceeded the Investment Policy Guideline of being ranked in the 50<sup>th</sup> percentile or higher in the US Broad Market Core Funds Universe by ranking in the 44<sup>th</sup> percentile over a 3 year period.
- For calendar years 2003 – 2007, the fund did not meet the Investment Policy Guideline because it returned an annual average of 4.13% vs. 4.58% for the LB Aggregate Bond Index over a 5 year period.
- For calendar years 2003 - 2007, the fund exceeded the Investment Policy Guideline of being ranked in the 50<sup>th</sup> percentile or higher in the U.S. US Broad Market Core Funds Universe by ranking in the 36<sup>th</sup> percentile over a 5 year period.
- The fund exceeded the Investment Policy Guideline of not significantly increasing the expense ratio from the previous quarter by maintaining the expense ratio of 0.44%.

## Stock Fund:

- For calendar years 2005 - 2007, the Dodge & Cox Stock fund did not meet the Investment Policy Guideline for the Large Cap Value Fund category because it returned an annual average of 4.52% vs. 6.01% for the Russell 1000 Value Index over a 3 year period.
- For calendar years 2005 - 2007, the fund did not meet the Investment Policy Guideline of being ranked in the 50<sup>th</sup> percentile or higher in the US Equity Large-Cap Value Funds Universe because it ranked in the 61<sup>st</sup> percentile over a 3 year period.
- For calendar years 2003 – 2007, the fund exceeded the Investment Policy Guideline by returning an annual average of 13.74% vs. 13.68% for the Russell 1000 Value Index over a 5 year period.
- For calendar years 2003 - 2007, the fund exceeded the Investment Policy Guideline of being ranked in the 50<sup>th</sup> percentile or higher in the US Equity Large-Cap Value Funds Universe by ranking in the 19<sup>th</sup> percentile over a 5 year period.
- The fund exceeded the Investment Policy Guideline of not significantly increasing the expense ratio from the previous quarter by maintaining the expense ratio of 0.52%.

## Dodge & Cox's Economic Outlook:

The U.S. Economy has slowed significantly:

- Non-farm payrolls have shrunk year-to-date and the unemployment rate has risen modestly.
- The U.S. housing market is in a significant decline.
- Consumer debt levels are high and confidence levels have dropped.
- Energy and other commodity prices are high and volatile.
- Lending terms are tightening as the Finance sector retrenches.

However, while they expect slower growth in 2008, they believe the U.S. economy is unlikely to enter into a prolonged recession:

- Monetary and fiscal policy levers have been engaged (e.g., 2.25% Fed Funds rate, significant broadening of Fed lending facility terms, Congress passage of fiscal stimulus package).
- Interest rates are low.
- Corporate balance sheets are generally strong and free cash flow generation is historically high.
- The export sector, benefiting from U.S. dollar weakness, has been a source of strength.
- The past two recessions (1990/91 and 2000/01) were short and relatively shallow.
- Consumer spending should be buoyed by the relatively low unemployment rate and ongoing growth in personal income.
- Global economic growth, driven by emerging markets and oil-based economies, remains healthy. Global integration is a long-term stimulus for growth.

## **AGENDA ITEM 8 – 2005/2006 Investment Plans Audits**

The Committee's extended discussion about the management letter associated with the 2005/2006 audits and the upcoming 2007 audit delayed the auditor's presentation. The Committee was made aware of the high volume of management-letter comments received for both years and plans, despite the clean reports. The Committee is aware that the Segal company is conducting an operations review of the Benefits group which will support a substantial review and upgrade of these and similar items.

The auditor had to leave to catch his flight and left his materials with the Committee. Staff has contacted the auditor to arrange for finalization of the audit.

## **AGENDA ITEM 9 – Counsel for the Committee**

- a) Legal Updates – Legal counsel presented an update on legal developments.
- b) IRS Tracking Report – Legal counsel presented an IRS tracking report.
- c) Plan Amendment Chart - Legal counsel presented a plan amendment chart and reported that he had almost completed preparing a restated deferred compensation plan document.
- d) Opinion on Administrative Fee Allocation - Legal counsel reported that he was completing his opinion on this topic.
- e) Opinion on Question Raised by Participant - Legal counsel presented an opinion in response to a question from a participant on the issue of whether a plan participant who is an employee over the age of 59 1/2 may transfer moneys from the participant's Money Purchase Pension Plan account to an IRA. The conclusion of the opinion is that such a rollover under these circumstances is permissible.

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

- a) Strategic Plan – Subcommittee Assignments  
Committee member Jones volunteered to chair the Policy Book subcommittee and presented a draft discussion document that he created. Committee members Warren and Pope-Chappell signed up for the Participant Retention sub-committee.
- b) Press Communication  
The Committee expressed a desire to develop a policy of how the Committee should respond a request for information from the press. A Committee member agreed to bring a copy of the policy presented at the CALAPRS conference to the next committee meeting. The Committee discussed the option to use the District's Public Affairs department to respond to press requests to the Committee.
- c) Travel Reimbursement Policy  
The Committee also expressed a desire to clarify the travel reimbursement and per diem policy. A Committee member reminded the Committee that the a travel reimbursement policy had already been adopted by the Committee. Staff will bring a copy of that policy to the next Committee meeting for discussion and action.

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

- a) Monthly Budget Review and Check Register – The Committee asked staff how much money has been contributed to the administrative account as a result of revenue sharing from the investment funds. **Result:** Staff will bring that information to the next meeting.
- b) Workshops/Seminars–The Committee asked staff to register them for the 2008 NAGDCA Conference.
- c) Website – The Committee stated that they would review the website before the next meeting.
- d) ICMA Plan Usage Demographic Reports – Staff presented reports available through administrator access in ICMA-RC’s website, providing demographic information about participants and their participation in the funds:
  - Average Account Balance by Age
  - Average Contribution by Age Group
  - Participants in Investment Funds (Number of Funds Invested)
  - Top 10 Most Popular Investment Funds
- e) Annual Participant Day Survey Results – Staff compiled and presented results of the surveys that were completed by participants. The Target Retirement Date Funds session had the most attendees. This session had the highest attendance of employees who were between four and ten years or more from retirement.
- f) IRS Advisory Committee on Tax-Exempt and Government Entities (ACT) – Staff asked the Committee if there were any recommendations that they would like to make to this advisory committee. After discussion, the Committee decided that a recommendation was not necessary at this point in time.
- g) CALAPRS Attorneys’ Roundtable - Counsel for the Committee stated that although he normally attends the CALAPRS Attorney Roundtable (paid for by one of his other clients), he will be unable to attend the May meeting. He also mentioned that only a small portion of the attorneys’ roundtable is related to defined contribution plans.

## **AGENDA ITEM 12 – Closed Session Pursuant to Government Code Section 54957.10: Hardship Application(s)**

The Committee adjourned the public meeting at 2:15 p.m. to consider a Hardship Withdrawal Application and reconvened the public meeting at 2:45 p.m.

## **AGENDA ITEM 13 – Adjournment**

The meeting was adjourned at 2:45 p.m.