

Investment Plans Committee

Regular Meeting
Minutes
July 23, 2008

A regular session of the Investment Plans Committee (IPC) was held on Wednesday, July 23, 2008 and convened at 8:37 a.m. 300 Lakeside Drive, 20th 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:

Tom Dickson,	TIFI Foreign Equity Securities Fund (Templeton)
Ann-Marie Carlson,	ICMA-RC
Russ Richeda,	Saltzman & Johnson
Marcia Beard,	R.V. Kuhns
Peter Horikoshi,	BART
Arne Stokstad,	BART
Carolina Lopez,	BART
Gary Thornton	Participant

AGENDA ITEM 1 - Convene and Sign-in

The meeting convened at 8:37 a.m. and was chaired by Elaine Kurtz.

AGENDA ITEM 2 – Public Comment

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

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

There were no check-in items at the July 23, 2008 BART Investment Plans Committee's public meeting.

AGENDA ITEM 4 - Discussion and Action Concerning

a) Minutes – June 25, 2008

The Committee reviewed the June 25, 2008 meeting minutes and approved the following motion:

Motion: To approve the June 25, 2008 meeting minutes with the following modifications:

Page 1 - Agenda Item 4: Change – Alternate member Robert Fernandez was absent.

Page 2 – Agenda Item 9d: - Change – CalPERS to CALAPRS change is not necessary.

AGENDA ITEM 5 – Discussion and Action Concerning

Investment Manager Review – Templeton

In advance of their presentation, Templeton was reviewed in greater detail. After five calendar years of strong performance, Templeton landed in the 93rd percentile for first six months of 2008 resulting in a below median rank for the one-year period ended June 30, 2008. Over twenty-three percent of Templeton's portfolio was invested in the financial sector, which was the worst performing sector in the quarter and for the first six months of 2008. Stock selection was also an issue for Templeton, trailing the benchmark in seven of the ten sectors and in six of the eight regions in which they invest. The bulk of Templeton's emerging market exposure was in Asia and EM Asia was the worst performing region. Although a small allocation, Templeton underperformed EM Latin America by almost over 40% (-34.48% versus +6.03% for the benchmark). Templeton was overweight Europe ex the UK and that region was the second worst performing region in the quarter. Although Templeton's short-term performance was disappointing, their long-term track record is strong ranking in the 17th percentile for the 5-year period. Their statistics are also strong with top quartile ranks for Sharp and information ratios for the seven-year period ended June 30, 2008.

AGENDA ITEM 6 – Discussion and Action Concerning

Fund Manager Update: Templeton

Mr. Thomas Dickson is the Senior Vice President of Templeton's account management group. Mr. Dickson provided the Committee with an update on the Templeton fund.

Investment Policy Guidelines:

- The Templeton fund exceeded the Investment Policy Guideline for the Foreign Large Value fund category because it returned an annual average of 14.08% vs. 12.84% for the MSCI EAFE Index over a 3-year period.
- The Templeton fund exceeded the Investment Policy Guideline of being ranked in the 50th percentile or higher in the International Equity Multi-Cap Core Funds Universe by ranking in the 31st percentile over a 3-year period.
- The fund exceeded the Investment Policy Guideline for the Foreign Large Value fund category because it returned an annual average of 18.43% vs. 16.67% for the MSCI EAFE Index over a 5-year period.
- The Templeton fund exceeded the Investment Policy Guideline of being ranked in the 50th percentile or higher in the International Equity Multi-Cap Core Funds Universe by ranking in the 17th percentile over a 5-year period.
- The fund met the Investment Policy Guideline of not significantly increasing the expense ratio from the previous quarter by maintaining the expense ratio of 0.78%.

The Fund's returns ranked at or above median as compared to the MSCI ACW Ex US Index in the last five calendar years but year-to-date 2008 the Fund ranked well-below median. As in the past and as a result of the value investment style, the Fund was positioned with under weights in the two best performing sectors – basic materials and oil and gas. In addition, the Fund manager invested in sectors that year-to-date were two of the worst performing sectors – consumer goods and consumer services. Templeton's resulting stock selection was below the benchmark in 7 of the 10 sectors.

Templeton's regional allocations served as a head wind as well. The Fund was overweight in emerging market Asia which was the worst performing region for the quarter ended June 30, 2008. Templeton was underweight in emerging market Latin America which was one of the best performing sectors and, their stock select in that region was disappointing trailing the benchmark by 40%. Templeton was overweight Europe and underweight Japan, which was not rewarded by the market in those regions.

Mr. Dickson stated that the Team at Templeton is stable and there have not been significant changes to the process or philosophy.

AGENDA ITEM 7 – Discussion and Action Concerning

a) Investment Performance Report – Second Quarter 2008

The second quarter began with high hopes that the credit crunch was over and that the U.S. would escape a recession. This initial optimism was dampened as write-downs related to the mortgage market spread, inflation became a growing concern, and oil and other commodity prices continued their upward trend. These and other factors lead to gloomy forecasts and rekindled predictions of a U.S. recession. The U.S. Federal Reserve lowered the target rate a modest 25 basis points, from 2.25% to 2.00%. Oil prices increased from just over \$100 per barrel to start the quarter to over \$140 a barrel to close the quarter, well above inflation-adjusted record prices set during the 1980s. Mostly due to the rise in energy and food costs, and their influence on input costs throughout the economy, the Consumer Price Index increased 5.0% during the last 12 months. This increase represents the largest 12-month increase since 1991. The U.S. Dollar closed the quarter roughly flat and was able to gain 0.3% against the Euro.

Equities began the second quarter by gaining back much of what they had lost in the first quarter. This bullish run was short lived as new fears of recession, inflation, and continued bank write-downs spooked investors. In the U.S., growth stocks continued to significantly outperform their value counterparts, while small cap stocks outperformed large cap stocks. Energy stocks outpaced all other sectors and closed the quarter up significantly, while financial stocks continued to plummet, posting the worst sector returns in the S&P 500. International stocks, including emerging markets, continued to post negative returns, with most major indexes showing year-to-date losses similar to those in the U.S. market.

Treasuries experienced negative returns for the quarter amid an early sell-off by investors gaining appetite for riskier instruments and inflation concerns later in the quarter. Adjustable Mortgage Backed Securities posted positive returns. Yields across all maturities increased from last quarter by nearly 50 basis points, and the yield curve regained its positive slope in the short maturity range.

All funds met the investment policy five-year performance guidelines with the exception of the Dodge & Cox Income Fund (domestic fixed income option) and the RCM Large Cap Growth Fund (domestic large cap growth option). R.V. Kuhns did not recommend any changes to the line-up at this time.

AGENDA ITEM 8 – Discussion and Action Concerning

- 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 June 30, 2008.

June 2008	401(a) MPP	457 Deferred Comp
Opening Balance	\$273,220,328	\$422,027,105
Contributions	283,060	1,856,256
Roll-ins	0	0
Distributions	(1,341,749)	(2,145,499)
Adjustments	70,340	73,276
Plan to Plan Transfers	0	0
Investment Earnings	(11,007,730)	(19,411,358)
Service Fees	(216)	(367)
Closing Balance	261,224,033	402,399,414
Change	(\$11,996,295)	(\$19,627,691)

It was noted that the Adjustment amounts in the table above represent, in part, previous period fund administrative allowances that have been credited to this period.

The Record Keeper reported there were 5 Airtime purchases from the 401(a) plan for a total amount of \$193,697 and 6 Airtime purchases from the 457 plan for a total amount of \$217,649.

- b) Performance Reporting: James Rohrbacher, Sr. VP/Chief Compliance Officer at ICMA-RC via teleconference presented information on rules that govern investment performance presentations (SEC Rule 481 of the Securities Act of 1933 and FINRA Conduct Rule 2210) which necessitate changes in the current format of the custom Investment Performance Summary that is currently inserted in participant quarterly statements. The committee agreed to the changes to the required format as long as the document contains the additional information currently being provided. The Committee requested a mock-up of this format for the August meeting.
- c) On-line Withdrawals/Online Loans: Vernetta Aziz, Manager, Client Services at ICMA-RC via teleconference presented an overview of the on-line loan program along with roles/responsibilities of the record keeper, BART IPC, and BART staff. After some discussion about on-line loans, it was requested that examples of payment schedules (amortization schedules) for a \$10,000 and \$50,000 loan with repayments at various terms (1, 3, 5 yr) be furnished at the next meeting. A committee member also requested information on participation percentages in loan programs of ICMA-RC's other clients who are of similar size as the BART plan. In addition, a request was made for information on the loan default rates for these clients.

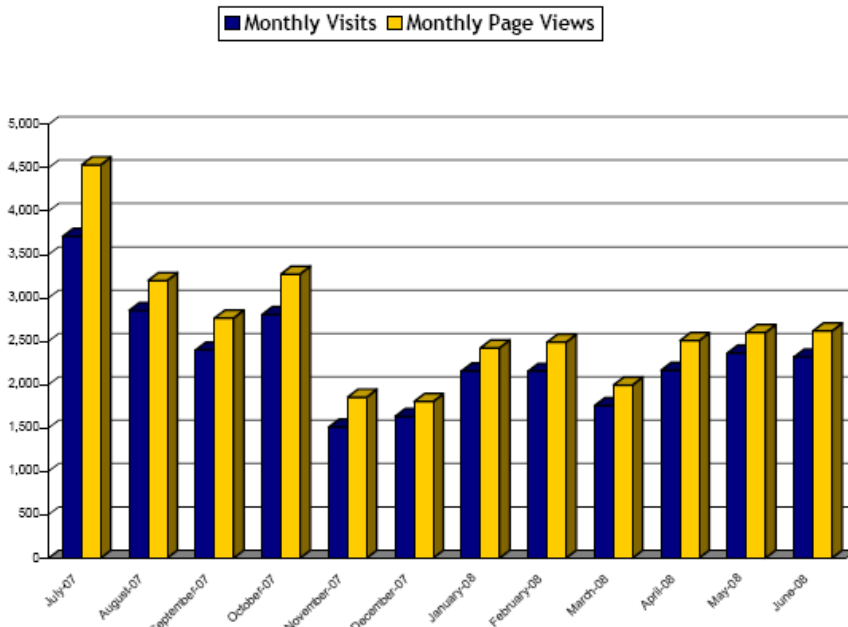
Ms. Aziz also presented additional functional information covering on-line withdrawals. This product/feature was introduced at the June 25, 2008 IPC meeting and is described in the minutes from that meeting. A question

was asked whether the on-line withdrawal feature is available for in-service 59-1/2 distributions. She will check to see if this is available under this product.

- d) Site visit update – The Record Keeper covered the proposed agenda which will include a workbook session (roles/responsibilities), a tour, and a presentation by Investor Services. Lunch will be served and during that time, the Senior Leadership Team will join the IPC for continuing discussion of the relationship. Client Services will be working with BART staff on the development of the workbook. It was requested to have this workbook available for review on or before September 14th. A request was made to have available telephone capabilities for any off-site callers to call in during the workbook session. Arrangements have been made by ICMA-RC, at the expense of the IPC, for transportation from the NAGDCA Conference in Baltimore to the ICMA-RC Headquarters in nearby Washington, DC. as well as hotel reservations at a hotel close to ICMA-RC that evening. It was reported that the time frame for the site visit is tentatively 9:30 a.m. – 2 p.m. – but can be extended if needed.

- e) Website Statistics: Information was provided on the monthly usage of the BART IPC Website. This covered the number of visits to a page as well as the number of times the page was viewed by visitors over a period covering 7/07 – 7/08. This report will be used to gauge the effectiveness of the pens that have been ordered with the Investment Plans Committee’s web address to help promote the website.

Visits and Page Views By Month



Administrative Allowance Investment Vehicle: Information was provided that ICMA-RC has offered to set up a separate “plan” that can hold the Administrative Allowance funds and utilize an ICMA-RC Money Market fund as an investment vehicle. This will be placed on the August agenda for further discussion and action.

AGENDA ITEM 9 – Discussion and Action Concerning

- a) Legal and Legislative Updates - Legal counsel presented a legal and legislative update.
- b) IRS Tracking Report - Legal counsel presented an IRS tracking report in which he indicated that there were not any relevant developments.
- c) Opinion concerning administrative fee sharing - Legal counsel reviewed his office’s opinion concerning the Committee’s plan-wide use of administrative fee reimbursements. He described the fiduciary components of the Committee’s practice and concluded that the Committee’s use of the reimbursements to benefit all plan participants was reasonable and appropriate.
- d) Memorandum concerning out-of-area meetings under the Brown Act- Legal counsel presented a draft of his analysis of out-of-area Committee meetings under the Brown Act. He noted the ambiguity in the Act on this issue and the fiduciary concerns that prompted the Committee to hold a due diligence meeting and visitation at ICMA RC’s headquarters in Washington, D. C. After responding to Committee questions, he reported that he would return at the Committee’s August meeting with a final opinion on this topic for Committee review.
- e) Memorandum concerning same sex marriage issues under the Internal Revenue Code - Legal counsel introduced a memorandum on issues under the Internal Revenue Code concerning same sex marriages. He discussed the complexities caused by the inconsistencies between state and federal law on this topic. He asked that this matter be included on the agenda of the Committee’s August meeting.
- f) Committee Response to Public Records Act Request by a Potential Beneficiary - Legal counsel reported that, with respect to the Public Records Act request by a potential beneficiary, he had, as directed by the Committee, discussed the issue with the District’s general counsel prior to sending out the letter and obtained the general counsel’s concurrence in the approach being pursued. The general counsel was also copied on the letter sent to the potential beneficiary. He further reported that he had not received any response.

- g) Foreclosure as a Hardship - Legal counsel presented his memorandum on the question of hardship withdrawal requests due to foreclosures. He indicated that foreclosure to the degree that it resulted from a severe financial hardship such as an illness or accident or natural disaster would qualify as a hardship, whereas a foreclosure arising from financial mismanagement or from the resetting of a variable rate mortgage would not, generally speaking, constitute an unforeseeable emergency.

AGENDA ITEM 10 – Discussion and Action Concerning

- a) Strategic Plan for the Committee for 2008 – Subcommittee Reports:
- i) Policy Updates – The Committee discussed the policy areas listed below and directed staff to compile the most recent versions of committee policies.
- Travel
 - Per Diem
 - Consultant Retention
 - Fund Manager Presentation
 - Staff Selection Process
 - Hardship Withdrawal
 - Communication and Media
 - Chairperson Temporary Absence
 - Annual Participant Meeting
 - Plan Structure
 - Annual Budget

Staff has created a handbook to hold these versions for the Committee's reference. The handbook currently includes the following:

- Legal Opinion Re: Allocation of reimbursed administrative fees from fund managers.
 - Legal Opinion Re: Foreclosure as a hardship
 - Reporting and reimbursement of travel expenses (1999 version), staff will look for more recent version.
- ii) Participant Outreach – The record keeper handed out a flyer for a retirement planning seminar that is being held on July 31, 2008 in San Ramon. A Committee member suggested that similar seminars be offered in all the counties served by BART.
- b) Communication & Media Policy – In the June 25, 2008 Committee meeting, a Committee member suggested that the proposed policy provides guidelines for handling requests from the public. The Committee directed legal counsel to draft policy language regarding the handling of

routine questions as well as more sensitive or complicated questions. Legal counsel will present this at the next meeting.

- c) Record Keeper Issues – The Committee deferred record keeper issues to the August 27, 2008 meeting.

AGENDA ITEM 11 – Discussion and Action Concerning

- a) Monthly Budget Review and Vendor Reconciliation Report (June) - Staff presented the monthly budget review and vendor reconciliation report for June 2008. The Committee noted that the clarity of the descriptions of the expenses made it easy to understand.
- b) NAGDCA Conference – Staff was successful in reserving rooms for most of the committee members at the conference hotel at a lower rate than was available in other hotels in the surrounding area.
- c) EZ Enrollment Form – The Committee deferred this item to the August 27, 2008 meeting.
- d) Workshops/Seminar – Staff notified the Committee of the upcoming Pensions and Investments West Coast Defined Contribution conference to being held October 19 – 21, 2008.

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

The Committee adjourned the meeting at 2:40 p.m. to enter into closed session to consider four Hardship Withdrawal Applications. The Committee reconvened the public meeting at 3:15 p.m.

AGENDA ITEM 13 – Adjournment

The Committee adjourned the meeting at 3:15 p.m.