

## Investment Plans Committee

Regular Meeting  
Minutes  
August 27, 2008

A regular session of the Investment Plans Committee (IPC) was held on Wednesday, August 27, 2008 and convened at 8:40 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:

Issa Brandt,	Allianz RCM
Ray Edelman,	Allianz RCM
Ann-Marie Carlson,	ICMA-RC
Russ Richeda,	Saltzman & Johnson
Richard Johnson,	Saltzman & Johnson
Jake O'Shaughnessy,	R.V. Kuhns
Peter Horikoshi,	BART
Arne Stokstad,	BART
Carolina Lopez,	BART

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

The meeting convened at 8:40 a.m. and was chaired by Elaine Kurtz.

### **AGENDA ITEM 2** – Public Comment

There were no public comments at the August 27, 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 August 27, 2008 BART Investment Plans Committee's public meeting.

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

#### **a) Minutes – July 23, 2008**

The Committee reviewed the July 23, 2008 meeting minutes and approved the following motion:

Motion: To approve the July 23, 2008 meeting minutes with the following modifications:

**Page 1 – Agenda Item 1: Change** – Note that Gary Thornton was present at the July 23, 2008 Committee meeting.

**Page 2 – Agenda Item 5: Change** – "Templeton was reviewed in greater detail by R.V. Kuhns our investment analyst."

**Page 2 – Agenda Item 5: Change** – "Their statistics are also strong with top quartile ranks for Sharper-and information ratios for the seven-year period ended June 30, 2008."

**Page 3 – Agenda Item 6: Change** – "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% ~~greater than~~ for the MSCI EAFE Index over a 3-year period."

**Page 3 – Agenda Item 6: Change** – "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% ~~greater than~~ for the MSCI EAFE Index over a 5-year period."

**Page 3 – Agenda Item 6: Change** – "In addition, the Fund manager ~~found value~~ invested in sectors that year-to-date were two of the worst performing sectors – consumer goods and consumer services."

**Page 3 – Agenda Item 6: Change** – "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..."

**Page 5 – Agenda Item 8: Change** – "~~May~~ June 2008"

**Page 5 – Agenda Item 8a: Change** – “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.”

**Page 5 – Agenda Item 8b: Change** – “Performance Reporting: James Rohrbacher, Sr. VP/Chief Compliance Officer at ICMA-RC via teleconference presented information on primary rules that govern investment performance presentations (SEC Rule 481 of the Securities Act of 1933 and FINRA Conduct Rule 2210)...”

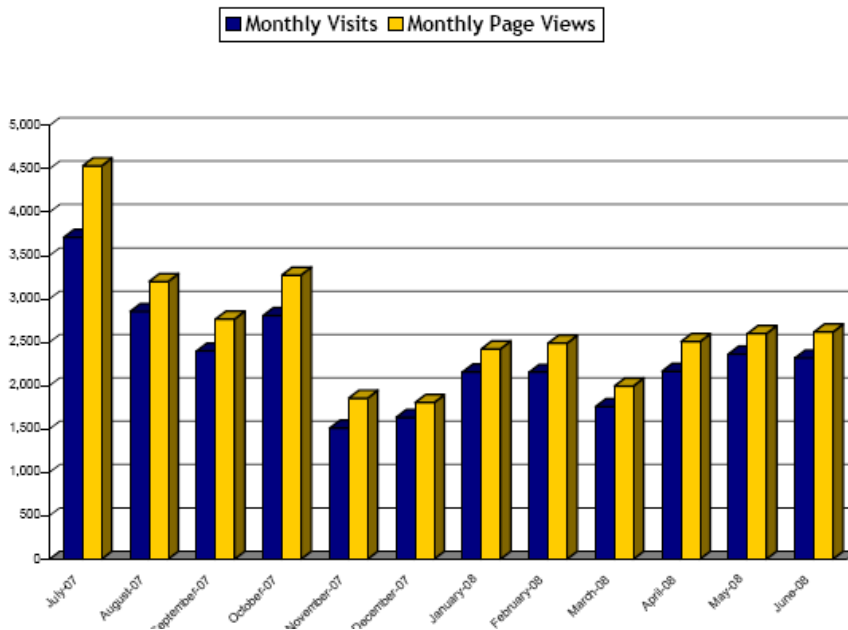
**Page 5 – Agenda Item 8b: Change** – “The committee agreed to the changes to the required format as long as the document contains the additional information currently being provided.”

**Page 6 – Agenda Item 8d: Change** – “Lunch will be served and during that time, the Sr. Senior Leadership Team will join the IPC for continuing discussion of the relationship.”

**Page 6 – Agenda Item 8d: Change** – “Arrangements have been made by ICMA-RC on behalf of the IPC, 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.”

**Page 6 – Agenda Item 8e: Change** – “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.”

Visits and Page Views By Month



**Page 6 – Agenda Item 9b: Change** – “Legal counsel presented an IRS tracking report in which he indicated that there were not any relevant developments.”

**Page 6 – Agenda Item 9c: Change** – “Legal counseled reviewed his office’s opinion ...”

**AGENDA ITEM 5** – Discussion and Action Concerning

a) Legal Update:

Legal counsel presented a memo, dated August 7, 2008 summarizing relevant recent Attorney General opinions, including opinion 06-203 in which the A.G. ruled that Proposition 59, a 2003 initiative incorporating public record disclosure and open meeting requirements into the California constitution, did not supersede privacy interests.

b) IRS Tracking Report:

Legal counsel presented an IRS tracking report and indicated that there had not been any relevant IRS developments.

c) Memo: Beneficiaries and Community Property:

Legal counsel presented a memo, dated August 12, 2008, containing comments on ICMA RC's EZ enrollment form, including suggested alternate language for the community property section of the form, a modification of the waiver-of-liability provision to include the District and the Committee, and a suggestion to review the documents to which reference is made in section 4 of the instructions to the form.

d) Memo: Same Sex Marriages and IRS Code:

Legal counsel presented a memo, dated July 22, 2008, in which the relation between state law and the Internal Revenue Code concerning same-sex marriages was reviewed, particularly in the context of hardship applications and domestic relations orders. Legal counsel noted the possibility of proposing amendments to sections 7.4 and 11.5 of the deferred compensation plan concerning the status of beneficiaries for hardship applications and article X of the money purchase pension plan concerning the definition of domestic relations order. The Committee directed legal counsel to bring back memos on the following topics at the Committee's October 2008 meeting: (1) memo on IRS definition of beneficiary, (2) memo on IRS definition of dependent, and (3) memo on the IRS hardship regulations as applied to beneficiaries and dependents. Legal counsel was also directed to contact CalPERS on these issues. Legal counsel was further directed to (1) work with staff to prepare a

handout on these issues for participants and beneficiaries, (2) prepare a similar memo concerning registered and unregistered domestic partners, and (3) prepare a Committee resolution setting forth Committee policy on same sex marriages.

e) Committee Policies:

The Committee reviewed the Committee's disaster recovery policy and record retention policy. With respect to the disaster recovery policy, the Committee by motion suspended section 4 of the policy, pending further review and updating of the policy. Staff was directed to prepare a Committee contact list. This item was to be placed on the Committee's October agenda for further review or action.

f) Communications Policy (draft):

Legal counsel presented a draft communications policy. The Committee directed counsel to modify the draft policy by adding a provision for reimbursement of xeroxing costs, by clarifying the time period in section VI to be calendar days, and adding "response" to section VI (3) and (4).

g) Memo: Brown Act (meetings outside of area):

Legal counsel presented a memorandum in which he concluded that, under the unique facts and circumstances outlined in the memorandum, e.g., magnitude of fiduciary issues, necessity of all Committee members to visit ICMA-RC offices, measures to provide access, etc., it was permissible to hold a noticed meeting, which included an opportunity for public comment, at ICMA-RC's offices.

h) Memo: Length of Hardships:

Legal counsel presented a memorandum in which he concluded that the IRS hardship regulations did not forbid an applicant from exhausting his or her account, provided that the requirements for a hardship, e.g., a severe financial situation, absence of other resources, etc., continued at all times to exist.

i) Memo: Online Withdrawals/Beneficiary Designations:

Legal counsel presented a memorandum on some of the legal issues involved in online withdrawals or beneficiary designations, including the federal Electronic Signatures in Global and National Commerce Act, section 6061 of the Internal Revenue Code, and California's Uniform Electronic Transactions Act.

j) Memo: Small Account Distribution:

This item was continued until a future meeting.

k) Memo: Non-Spousal Beneficiary Rollovers:

This item was continued until a future meeting.

**AGENDA ITEM 6 – Discussion and Action Concerning**

**Investment Manager Review – Allianz RCM**

In advance of the presentation, Allianz was reviewed briefly. While the Large Cap Growth Fund managed to outperform its benchmark, the Russell 1000 Growth Index, for the month of July by nearly 80 basis points (-1.06% vs. -1.90%), the Fund has trailed its benchmark by nearly 2% for the 2008 year to date through July. Over the 1,3, and 5 year periods ending in July the Allianz Large Cap Growth Fund has performed in line with its benchmark and has outperformed by a fair margin (7.32% vs. 4.66%) since its inception in 1997. The Allianz Large Cap Growth Fund continues to be a good option for San Francisco Bay Area Rapid Transit District participants as it has produced returns in line with or in excess of peers while taking on significantly lower volatility.

**Investment Performance Update – July 2008**

Overall equity markets were mixed during the month of July with value stocks outperforming growth and smaller cap names outpacing large caps. Energy stocks retreated during the month - thanks to a drop in commodities prices, while financial stocks showed signs of life as investors found value in several downtrodden names. International equities fell more than domestic stocks, primarily due to a strengthening US dollar. Fixed income securities were essentially flat for the month, while REIT's saw a nice rebound during July.

**AGENDA ITEM 7 – Discussion and Action Concerning**

**Fund Manager Update: Allianz RCM**

Ray Edelman (Co-CIO of Large Cap Growth Strategy) and Issa Brandt (Relationship Manager) provided the committee with an update on the Fund and Allianz RCM.

The Large Cap Growth team continues to apply a bottom up, grass roots methodology to portfolio construction. Mr. Edelman stated that this type of security selection allows the firm to better manage the downside risk to the portfolio by incorporating 'worst case' scenarios for each particular investment. While the Fund lost nearly 400 basis points of relative performance in January of

2008 alone due to a shift away from energy stocks, the Fund's trimming of exposure to financials over the 6/30/07 to 6/30/08 period helped performance in light of the sub-prime mortgage crisis. On another note, the Fund has recently been gradually increasing the exposure to select names in the financial sector as net interest margins are forecast to improve - thanks to low borrowing and high lending rates that banks see in the current environment. Wal-mart and McDonald's were names that were new to the top 10 holdings list this year, while Franklin Resources dropped out of the top ten holdings.

**Investment Policy Guidelines:**

- The Allianz RCM fund did not exceed the Investment Policy Guideline for the Large Cap Growth fund category because it returned an annual average of 5.69% vs. 5.91% against the Russell 1000 Growth Index over a 3-year period.
- The Allianz RCM fund exceeded the Investment Policy Guideline of being ranked in the 50<sup>th</sup> percentile or higher in the US Equity Large-Cap Growth Funds Universe by ranking in the 45<sup>th</sup> percentile over a 3-year period.
- The Allianz RCM fund did not exceed the Investment Policy Guideline for the Large Cap Growth fund category because it returned an annual average of 6.84% vs. 7.32% against the Russell 1000 Index over a 5-year period.
- The Allianz RCM fund did not exceed the Investment Policy Guideline of being ranked in the 50<sup>th</sup> percentile or higher in the US Equity Large-Cap Universe by ranking in the 54<sup>th</sup> 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 0.71%.

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

- a) Record Keeper Report : 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 July 31, 2008.

<b>July 2008</b>	<b>401(a) MPP</b>	<b>457 Deferred Comp</b>
Opening Balance	\$ 261,224,033	\$ 402,399,414
Contributions	\$166,817	\$1,847,426
Roll-ins	\$ 0	\$85,127
Distributions	(\$1,401,461)	(\$1,868,881)
Adjustments	(\$44,420)	(\$44,420)
Plan to Plan Transfers	\$ 0	\$ 0
Investment Earnings	(\$1,746,946)	(\$3,133,578)
Service Fees	(\$60)	(\$867)
Closing Balance	\$258,197,963	\$399,284,221
Change	(\$3,026,070)	(\$3,115,193)

It was noted that Adjustment amounts in the table above represent, in part, Fund Administrative Allowances received from Rainier and T. Rowe Price, ICMA-RC Invoices for Record Keeping fees covering 3 previous months and the current month, as well as Client Service Fees covering May and June 2008.

The Record Keeper reported there were 8 Airtime purchases from the 401(a) plan for a total amount of \$223,448 and 10 Airtime purchases from the 457 plan for a total amount of \$350,495.

- b) Performance Reporting : As a follow up from last month's teleconference with ICMA-RC's Chief Compliance Officer who communicated several necessary changes in the current format of the custom Investment Performance Summary, a mock-up of the new format was presented and approved. The BART IPC logo will be added to this report.
- c) Brokerage Fee Reduction: The Record Keeper reported that effective August 1, 2008 the VantageBroker – Online Equity Trade Fee will be reduced from \$24 to \$13.
- d) Administrative Allowance – New Account Set up: Information was provided that ICMA-RC has offered to establish two new plans (one for the 401(a) plan's Administrative Allowances and one for the 457 plan's Administrative Allowances) to house these Administrative Allowance Funds. Funds in these plans/accounts will be invested in the VantageTrust Money Market Fund. It was directed that RV Kuhns perform a due diligence on this fund and upon their review/approval ICMA-RC is directed to move forward to establish these plans and transfer the Administrative Allowance funds into these plans. The Committee was informed that these plans will not roll (account balances) into the current established plans and will remain as separate plans with separate balances.
- e) Site Visit Update: Information was provided on shuttle service and the tentative agenda was reviewed for the September 18<sup>th</sup> site visit to ICMA-RC headquarters in Washington, DC. The meeting time is scheduled for 9:30 a.m. – 3:30 p.m.
- f) On-line Loans/Withdrawals: Follow up on both of these plan features was provided. Sample Amortization Schedules (for various terms/amounts of loan repayments) were provided. Loan participation information for other ICMA-RC client's loan programs was provided along with a recent NAGDCA survey on loan programs/usage. The committee voted to not add a loan program at this time, but agreed to revisit this program during annual strategic planning.

On-Line Withdrawals: as described in the June 25, 2008 meeting minutes, on-line withdrawals for terminated participants was approved by the IPC with the request to implement as soon as administratively feasible. Staff will work with ICMA-RC to communicate this new feature to plan participants. This feature will be added to the 401(a) plan and 457 plan. In-service withdrawals cannot be done on-line.

- g) Premier Services: Information was provided to the IPC on the usage of Premier Services for 2008 through 6/30/08 as compared to usage through year end 2007. Observations provided that the program is adding participants steadily and has a higher percentage of participation overall (25% enrolled) than participation across other ICMA-RC plans.

Information was presented about the educational DVD ICMA-RC has developed that is intended to be an introduction and overview of issues that may be faced by members of public employee defined contribution retirement plan committees. It was agreed to view one or two chapters at each IPC meeting, commencing at the October meeting.

Invitation to join Joan McCallen, President and CEO of ICMA-RC and other ICMA-RC staff for breakfast while at NAGDCA (Monday, September 15<sup>th</sup> @ 7 a.m.) was offered and accepted.

#### **AGENDA ITEM 9 – Discussion and Action Concerning**

- a) Strategic Plan for the Committee for 2008 – Subcommittee Reports:
- i) Policy Updates: Staff will continue to update the policy handbook for the Committee. The subcommittee is no longer needed as policies will be updated by the Committee on an ongoing basis.
  - ii) Participant Outreach: A Committee member reported on feedback she received from participants about the Annual Participants' Education day and retirement workshops.
- b) Record Keeper Issues: There was no discussion for this agenda item.

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

- a) Monthly Budget Review and Vendor Reconciliation Report (July): Staff presented the monthly budget review and vendor reconciliation report for July 2008.
- b) NAGDCA Conference: Arrangements to attend the conference were finalized.

- c) EZ Enrollment Form: Staff presented potential changes to the EZ Enrollment form, but recommended that the current form continue to be used. The Committee requested that the current enrollment form and the EZ Enrollment form be compared at the October 22, 2008 Committee meeting.
- d) Workshops/Seminar: Staff handed out literature on the 11<sup>th</sup> Annual International Benefits Foundation Defined Contribution Conference being held in San Francisco on October 19 – 21, 2008. Registration is complimentary for plan sponsors.

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

Since the Committee will have recently returned from the NAGDCA Conference, the September 24, 2008 agenda will be abbreviated as follows:

- Fund Manager Presentation
- Record Keeper Report
- Legal Updates
- Follow up NAGDCA Conference
- Follow up ICMA-RC Site Visit

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

The Committee adjourned the meeting at 2:41 p.m. to enter into closed session to consider three Hardship Withdrawal Applications of which one was approved and two were denied. 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.