

## Investment Plans Committee

Regular Meeting  
Minutes  
October 22, 2008

A regular session of the Investment Plans Committee (IPC) was held on Wednesday, October 22, 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        |
| Robert 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:

|                    |                                |
|--------------------|--------------------------------|
| Karl Knas,         | NorthPointe Capital            |
| Ann-Marie Carlson, | ICMA-RC                        |
| Russ Richeda,      | Saltzman & Johnson             |
| Marcia Beard,      | R.V. Kuhns                     |
| Peter Horikoshi,   | BART                           |
| Arne Stokstad,     | BART                           |
| Carolina Lopez,    | BART                           |
| John Davenport,    | BART Participant               |
| Jeff Bratzler,     | Benefits Communication Network |

### 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

A plan participant along with his financial advisor Jeff Bratzler from Benefits Communications Network, appeared before the Investment Plans Committee at the Committee's October 22, 2008 meeting. The participant stated that he

believed that he had not been notified of the mapping in February 2008 of his investment in the VantagePoint Savings Oriented Model Portfolio to the T. Rowe Price Retirement 2020 target retirement age fund, resulting in a loss that he estimated to amount to \$35,000. The participant did acknowledge that he received quarterly statements and did not notice the change of funds until October 2008.

**AGENDA ITEM 3 - IPC Chair Report - “Check-in” by IPC Members**  
There were no check-in items by committee members.

**AGENDA ITEM 4 - Discussion and Action Concerning**  
a) Minutes – September 24, 2008

The Committee reviewed the September 24, 2008 meeting minutes and approved the following motion:

Motion: To approve the September 24, 2008 meeting minutes with the following modifications:

**Page 4 – Agenda Item 7: Change - “Jackie reviewed the strategy using performance and attribution of the strategy as of June 30, 2008.”**

**Page 5 – Agenda Item 9a: Change - “BART staff will continue to work on the workbook with ICMA-RC staff and each chapter will be reviewed by the Committee at monthly meetings”**

**Page 5 – Agenda Item 10a: Change - “Monthly Budget Review and Vendor Reconciliation Report (August)”**

**AGENDA ITEM 5 – 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 September 30, 2008

| <b>September 2008</b>  | <b>401(a) MPP</b> | <b>457 Deferred Comp</b> |
|------------------------|-------------------|--------------------------|
| Opening Balance        | \$257,940,867     | \$401,504,261            |
| Contributions          | \$104,589         | \$1,819,743              |
| Roll-ins               | \$118,284         | \$70,470                 |
| Distributions          | (\$1,882,146)     | (\$2,530,759)            |
| Adjustments            | (\$2,523)         | (\$2,523)                |
| Plan to Plan Transfers | \$0               | \$0                      |
| Earnings               | (\$14,065,001)    | (\$25,259,481)           |
| Service Fees           | (\$30)            | (\$135)                  |
| Closing Balance        | \$242,219,087     | \$375,606,623            |
| Change                 | (\$15,721,780)    | (\$25,897,638)           |

It was noted that Adjustment amounts in the table above represent, in part, Fund Administrative Allowances received from Rainier, T. Rowe Price, Westwood, ICMA-RC Invoice for Record Keeping fee and Client Service Fee. The Fund Reimbursement Reconciliation Report was furnished to the IPC to provide payment history of the various fund reimbursements. The reimbursements were received as anticipated.

Also reviewed by the record keeper was the ICMA-RC Fund Information report covering Plan Asset Balances as well as Contributions for the period of 9/1/08 – 9/30/08.

The Record Keeper reported that there were 2 Airtime purchases from the 401(a) plan for a total amount of \$52,475 and 2 Airtime purchases from the 457 plan for a total amount of \$141,729.

A Third Quarter 2008 Participant Information report was reviewed. The report covered the following information for the 401(a) and 457 Plans:

- Participation Report for 457 and 401(a) plan
- Enrollments
- Allocations (methods of making future allocations)
- Fund Transfers (methods of making fund transfers)
- Number of Phone Calls to Investor Services

BART staff updated ICMA-RC's database with terminated status for several hundred participants. This resulted in a significantly higher number of terminated participants for these reports. The Committee asked that a footnote be placed on the Participants Not Contributing Report stating "technical adjustments due to updating ICMA-RC records to match BART's terminated employees."

- b) The Record Keeper provided a review of Third Quarter 2008 BART Plan Premier Program Overview. Observations and notes were:
- Adding participants steadily
  - Premier Program enhancements were implemented in March and announcements were sent to both eligible and enrolled participants
  - Enrollment has continued to increase
  - Total Assets of BART participants in Premier Program as of 9/30/08 are \$213,356,542
  - The Certified Financial Planner held 56 One-on-One Sessions/General Consultations in 2008 as of 9/30/08
- c) A DVD "Overseeing Defined Contribution Plans for Public Sector Employees" which has been developed by ICMA-RC to provide basic information and an overview of issues that may be faced by members of

public employee defined contribution retirement plan committees was provided to each member for individual viewing.

- d) The Record Keeper addressed The VantageBroker Login Process in response to a member's dissatisfaction in accessing The VantageBroker account online. The main issues raised were related to what the member believed were excessive security measures ICMA-RC and UVEST have added to reduce the risk of unlawful electronic access to a participant's financial information online. Information was furnished to the Investment Plans Committee as to steps participants can take that will streamline the login process while also maintaining the added security protection, such as shortcuts to navigate through the website.

The Committee suggested that participants be notified via mail and a website notice on how to login directly into the UVEST/The VantageBroker website.

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

### **Investment Manager Review – NorthPointe Capital**

As a part of the full performance report review, Marcia stated that Nationwide/NorthPointe is a micro cap equity manager. Micro Cap stocks have been the worst performing segment in the domestic equity market in this flight to quality. Long-term composite performance for the manager has been strong.

**Investment Policy Guidelines:** *The Investment Plans do not have a five-year track record with the Nationwide Fund. The Fund was added to the line-up in January 2005.*

- The Nationwide Micro Cap fund fell below the Investment Policy Guideline for the Domestic Micro Cap fund category because it returned an annual average of -9.16% vs. -3.11% for the Russell Microcap Index over a 3-year period.
- The Nationwide Micro Cap fund fell below the Investment Policy Guideline of being ranked in the 50<sup>th</sup> percentile or higher in the US Equity Small-Cap Growth Fund Universe by ranking in the 98<sup>th</sup> percentile over a 3-year period.
- The Nationwide Micro Cap fund fell below the Investment Policy Guideline for the Domestic Micro Cap fund category because it returned an annual average of 3.70% vs. 4.09% for the Russell Micro Cap Index over a 5-year period.
- The Nationwide Micro Cap fund fell below the Investment Policy Guideline of being ranked in the 50<sup>th</sup> percentile or higher in the US Equity Small-Cap Growth Funds Universe by ranking in the 71<sup>st</sup> percentile over a 5-year period.

- The Nationwide Micro Cap fund met the Investment Policy Guideline of not significantly increasing the expense ratio from the previous quarter by maintaining the expense ratio of 1.50%.

### **Investment Performance Update – Third Quarter Market Environment** September 2008

In a dramatic flight to quality, the credit and liquidity crisis gripped all markets during the third quarter and sent volatility skyward. In the quarter's final month, markets witnessed the largest bankruptcy in U.S. history and unprecedented market intervention by the Federal Reserve and U.S. Treasury.

- Fannie Mae and Freddie Mac were taken over by the government
- Lehman Brothers filed for bankruptcy protection
- The government took control of AIG in exchange for an \$85 billion loan
- Merrill Lynch and Wachovia were sold
- Washington Mutual was seized by federal regulators

Lehman's bankruptcy, on September 15, 2008, provided the catalyst for a late-quarter intensification of the credit crisis, as lending between banks ground to a halt and corporate borrowing costs soared. By the time a hasty effort on the part of U.S. regulators to secure passage of a rescue plan ultimately failed on September 29, 2008, the Dow Jones Industrial Average suffered its largest point decline in history, before a 5% rebound on the quarter's last trading day. Concerns for global demand sent commodity prices, particularly oil (which declined 28%), downward.

#### **Third Quarter Equities**

Markets around the world saw significant declines in the third quarter, based on a combination of a flight to quality given the credit and liquidity crisis, and on greater concerns of an economic slowdown. Commodity-rich and export-dependent emerging markets equities led the decline, returning -27%, in parity with the decline in commodity prices. International small-cap equities declined by 24%, and international developed markets fell by 21%. Within the domestic equity market, small-cap value securities provided the sole source of positive returns as every other market segment declined, led downward by large-cap growth. The economic sectors that had shown the best performance during the first half of the year saw the greatest declines in the third quarter, as energy and materials declined by 25% and 22%, respectively. Financial stocks, despite significant volatility, ended the quarter marginally positive, as the smaller and healthier banks posted gains. Consumer staples, long considered a recession hedge, posted the domestic market's greatest gains at 5%.

#### **Third Quarter Fixed Income**

In the quarter's flight to quality, every broad segment of the fixed income market except for short-term Treasury bills, fixed-rate mortgage-backed securities, and

agency securities posted negative returns. Investors' preference for the very safest securities, short-term Treasuries, caused their prices to rise to such a level that, several times toward the end of the quarter, their yields turned negative -- indicating that investors were willing to accept a small, known loss as the price of avoiding all uncertainty. At the same time, yields for any fixed income security that included default, interest-rate, or any other risk soared as their prices collapsed. Fixed-rate securities rose as the Federal Reserve cut interest rates by 0.50%.

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 Dodge & Cox Stock Fund (domestic large cap value option). RVK did not recommend any changes to the line-up at this time.

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

### **Fund Manager Update: NorthPointe Capital**

Committee member Elaine Kurtz left the meeting at 10:30 a.m. and returned the meeting at 10:45 a.m.

Mr. Karl Knas of NorthPointe Capital provided the Committee with an update on the Nationwide Micro Cap Equity fund.

### Firm Update

- NorthPointe Fund Management has bought themselves back from Nationwide. The Fund will continue to be called Nationwide, but that could change in the future.
- An analyst dedicated to the Growth Team left the Firm. This analyst worked mainly with small and mid cap products. Sean Feng was added to the Growth Team.

### Market Overview According to NorthPointe

- Historically micro caps lead the market down but they have historically led out of a market downturn as well.
- Investor risk appetite has started to increase in the micro cap market. Recently investors have invested in higher growth names and in micro cap.
- NorthPointe believes investors will once again focus on company fundamentals and stock valuation
- NorthPointe expects to do better. They believe their focus on US companies will be a tailwind since it is likely the US will lead the globe out of the recession. In addition, NorthPointe invests in higher quality companies that are profitable and have cash.

## Nationwide Micro Cap Equity Fund: Portfolio Outlook

- Expected earnings growth rate of portfolio +27% with P/E just 10x. PE's have not been this low since 2002.
- Historically, the smaller cap end of the market has proven to be resilient after material absolute declines.
- NorthPointe believes now is the time to position the portfolio for the future – there are many more stocks to choose from that are selling at a discount to their long-term growth rate.

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

- a) Authorization to Apply for a Determination Letter Concerning the Money Purchase Pension Plan

Legal counsel presented a memo requesting Committee authorization for Saltzman & Johnson to apply to the IRS for an updated determination letter for the Money Purchase Pension Plan, confirming that the plan continued to meet the Internal Revenue Code requirements. The deadline for application is January 31, 2009.

The Committee approved the following motion: To authorize legal counsel to apply for a determination letter for the Money Purchase Pension Plan by the deadline of January 31, 2009 and to pay legal fees to Saltzman & Johnson at a not-to-exceed amount of \$10,000.00 and reimbursement of IRS filing fees.

- b) Memo: Foreclosure as a Hardship

Legal counsel presented a memorandum on foreclosures as hardships, outlining two alternative approaches. The Committee discussed the relative merits of each approach. The Committee decided to adhere to its current policy concerning foreclosures, i.e., employing its discretion to decide each case on its own facts and circumstances on a case-by-case basis.

- c) Memo: Background Information About Hardships

Legal counsel distributed a memorandum concerning hardships which include a copy of his email to Angela Montez, ICMA-RC's general counsel, and her response.

- d) Same-Sex Marriages and the Internal Revenue Code:

Legal counsel provided a summary of the following issues before the

Committee concerning same-sex marriages. The Committee directed that these items be added to the agenda for the Committee's December 2008 meeting.

(i) Memo: Definition of Beneficiary as Applicable to Hardship Applications

(ii) Memo: Definition of Dependent in the Internal Revenue Code Applicable to Hardship Applications

(iii) Memo: Dependents and Beneficiaries under the IRS Hardship Regulations

(iv) Memo: Draft Committee Resolution Concerning Same-Sex Marriages

e) Memo: Proposed Committee Policy Concerning External Communications

Legal counsel presented a revised version of the proposed Committee communications policy. The Committee directed that section V 2 of the proposed policy be modified to provide for Committee discretion to respond to requests for information either by itself or jointly with the District.

f) Distribution of Small Participant Accounts

This item was tabled until the Committee's January 2009 meeting.

g) Rollover Distributions of Plan Accounts by Non-Spousal Beneficiaries

Legal counsel represented his memorandum concerning rollover distributions of plan accounts by non-spousal beneficiaries. The Committee directed legal counsel to prepare amendments to each plan to provide for such rollovers.

h) Committee Policies - Disaster Recovery/Retention of Committee Records

This item was tabled until the Committee's January 2009 meeting.

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

The following items were deferred to the November 25, 2008 committee meeting:

- a) Hardship Application Review
- b) Deferred Compensation Voluntary Automatic Escalation

- c) Communication Strategy
- d) Follow up on Returned Mail

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

- a) Monthly Budget Review and Vendor Reconciliation Report (September): Staff presented the monthly budget review and vendor reconciliation report for September 2008, including a year-to-date view of income and expenses of the Administrative accounts. Staff reported that expenses were below budget for the year. The reports were received as anticipated.
- b) ICMA-RC/BART Administrative Procedures Manual – Staff reported that ICMA-RC and BART staff have begun conference calls to cover chapters in the Administrative Procedures Manual. The Committee requested that staff share the results of the chapter reviews at subsequent committee meetings.
- c) 2007 Audit – Staff notified the Committee that the auditors were due to work on BART's plans in early November.
- d) Workshops/Seminar – The Committee approved the following motion: to nominate Kory Frost and Michael Pon to attend the Franklin Templeton Institutional 2008 Client Conference held November 9-11, 2008.
- e) Fiduciary Liability Insurance – Staff notified the Committee that renewal of the Committee's fiduciary liability insurance was in process for the same limits and deductibles as 2007-2008.

**AGENDA ITEM 11** – Closed Session Pursuant to Government Code Section 54957.10: Hardship Application(s)

There were no hardship applications to review at this meeting.

**AGENDA ITEM 12** – Adjournment

The Committee adjourned the meeting at 1:57 p.m.