

Investment Plans Committee

Regular Meeting
Minutes
January 28, 2009

A regular session of the Investment Plans Committee (IPC) was held on Wednesday, January 28, 2009 and convened at 8:30 a.m. and adjourned at 2:05 p.m. at 300 Lakeside Drive, 20th 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:

Ann-Marie Carlson,	ICMA-RC
Russ Richeda,	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 8:30 a.m. and was chaired by Elaine Kurtz.

AGENDA ITEM 2 – Public Comment

There were no public comments at the January 28, 2009 BART Investment Plans Committee's public meeting.

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 – December 17, 2008

The Committee reviewed the December 17, 2008 meeting minutes and approved the following motion:

Motion: To approve the December 17, 2008 meeting minutes

AGENDA ITEM 5 – Discussion and Action Concerning

a) Investment Performance Report – Fourth Quarter 2008

The capital market's volatility continued into and throughout the fourth quarter of 2008 with most markets ending the year with massive losses due to long lasting problems in credit markets. In response, the U.S. government passed a \$700 billion bailout plan on October 2nd to help ease the financial crisis. On October 8th several major central banks cut their respective key rates by 50 bps in a coordinated effort to stem the crisis. The U.S. Federal Reserve cut rates an additional 50 bps at the end of the month, sending the Federal Funds Rate to 1.00%. In December, the Fed further cut the Federal Funds rate to a range of 0.00% - 0.25%, marking the tenth time it had cut rates in the last 15 months. This represents the lowest target the Fed has ever set for its overnight lending rate. Crude oil prices continued to fall from July's record high of \$146 per barrel, ending the quarter under \$45 per barrel. Due in part to massive declines in energy costs, the Consumer Price Index fell 3.91% during the fourth quarter representing the largest quarterly decline since the first quarter of 1932. Measured against a weighted-average basket of 26 currencies, the U.S. Dollar closed the year up 8.6% and was able to gain 4.5% against the Euro. The National Bureau of Economic Research officially declared that the U.S. economy officially entered into a recession during late 2007.

While most equities were positive during December, they still ended the fourth quarter and 2008 down significantly. Every sector within the S&P 500 and MSCI All Country World index declined during the fourth quarter and was negative during 2008. Domestically, measured by the S&P 500, Telecommunication Services produced the smallest decline during the fourth quarter while Financials continued to struggle providing their worst return during both the fourth quarter and 2008. Internationally, measured by the MSCI All Country World Ex US, Health Care was the best performing sector while Financials performed the worst during the fourth quarter. Large cap domestic stocks outperformed small cap stocks and value stocks slightly outperformed growth stocks. International stocks mirrored U.S. stocks with Emerging Markets trailing all other sectors both during the fourth quarter and during 2008.

Led by Treasurys, the Barclays Capital Aggregate Bond Index saw its best quarterly performance since the third quarter of 2002, returning 4.58% for the fourth quarter. Only two of the eight sectors, CMBS and ABS, were

negative during the fourth quarter with Treasuries and Corporate Long securities providing the best returns during the quarter. High yield securities continued to struggle falling significantly during the fourth quarter. TIPS saw declines during the quarter, and excluding only third quarter 2008, it was their worst quarterly return ever. The Treasury yield curve steepened and declined over all maturity ranges during the quarter between 80 and 150 basis points.

After review of each manager in the Plan, R.V. Kuhns did not recommend any changes to the line-up at this time.

b) Investment Manager Review – Dwight Asset Management

In anticipation of the Dwight Asset Management presentation, Jake reviewed the manager focus pages and Dwight has exceeded their benchmark across most trailing time periods. The lone exception being the 4th quarter of 2008, in which Dwight essentially matched the 5 Year CMT Rolling Average Benchmark. R.V. Kuhns does not recommend any changes to this option at this time.

Investment Policy Guidelines:

- The Dwight Stable Value Fund maintained an average credit quality of at least Aa/AA by Moody's, S&P, or another nationally recognized statistical rating agency.
- The Dwight Stable Value Fund returned greater than the rolling 5-year Constant Maturity Treasury Index over a 3-year and 5-year period.
- The Dwight Stable Value Fund returned greater than the ML 3-Month US T-Bill Index over a 3-year and 5-year period.

AGENDA ITEM 6 – Fund Manager Update: Dwight Asset Management

Dwight Asset Management - Stable Value Manager - Ron Heath and Bill Gardner

Dwight's Stable Value assets under management rose from \$42 billion at the end of 2007 to roughly \$54 billion at the end of 2008 across all relationships. The San Francisco Bay Area Rapid Transit District participant assets invested in Dwight Stable Value products rose from \$229.0 million as of 12/31/07 to \$261.7 million as of 12/31/08.

The current market to book value of the Stable Value Fund is 94%. While this is below recent averages, it is well above the current industry market to book ratios and not a cause for immediate concern. However, due to smoothing and reduced yields in the current fixed income market, the yield of the stable value fund is likely to be slightly reduced in the future. Dwight may take steps to reduce the amortization window in order to make participant assets more accurately reflect portfolio assets.

Another issue discussed in detail was the wrap insurance placed around the stable value product in light of the difficulties faced by some of the firms which offer wrap protection. Fortunately, Dwight has not encountered any difficulties with the providers of wrap insurance that they currently have in place. Dwight had no exposure to AIG in their wrap program and in general their wrap providers maintain at least an AA rating. While there is no direct exposure to the wrap providers that have faced difficulties, as a result of the troubles in the marketplace, the cost of wrap protection is likely to increase. Dwight also mentioned the need to inform them of any plan changes, as these changes can affect the terms of the wrap insurance.

AGENDA ITEM 7 – 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 month ending December 31, 2008.

December 2008	401(a) MPP	457 Deferred Comp
Opening Balance	\$210,402,593	\$321,444,549
Contributions	\$89,956	\$1,406,552
Roll-ins	\$0	\$22,052
Distributions	(\$1,538,891)	(\$1,463,607)
Adjustments	(\$15,600)	(\$15,600)
Plan to Plan Transfers	\$0	\$0
Earnings	\$4,376,068	\$7,356,451
Service Fees	(\$30)	(\$75)
Closing Balance	\$213,314,097	\$328,750,323
Change	\$2,911,503	\$7,305,773

The Record Keeper reported that there was one airtime purchase from the 457 plan and none from the 401(a) plan.

The Reimbursement Reconciliation Report was furnished to the Investment Plans Committee (IPC) to provide payment history of the various fund reimbursements. It was noted that the 3Q 2008 Westwood payment that was received on November 7, 2008 and reported on the November 30, 2008 report, was submitted by Westwood again on December 2, 2008. This overpayment/error by Westwood will be reflected on the January 2008 report. In addition, ICMA-RC was notified by T. Rowe Price of a shortfall of \$347.40 in their November 2008 payment that was received in December 2008. ICMA-RC is awaiting payment for this amount.

The Record Keeper advised the IPC on the “Worker, Retiree and Employer Recovery Act of 2008” which was passed on December 23, 2008 and suspends the minimum distribution requirements for 2009. A request was

made for a report of participants who are presently receiving required minimum distributions. The Record Keeper provided information that ICMA-RC has sent letters to any impacted participants explaining the options.

Information was provided to the IPC on ICMA-RC's upcoming Web Forum for Plan Sponsors "Investing in 2008 and Beyond" to be held February 19th & 24th, 2009.

Copies of a letter from Joan McCallen, President and CEO of ICMA-RC were distributed to the IPC. The letter ensures participants of the continued support they can expect from ICMA-RC.

AGENDA ITEM 8 – Discussion and Action Concerning

- a) IRS Tracking Report - Legal counsel presented the IRS tracking report and reported that there had not been any relevant IRS developments since the last report.

- b) Same-Sex Marriages and the Internal Revenue Code - Legal counsel reviewed his July 22, 2008 memo concerning the relationship of same-sex marriages and the Internal Revenue Code (IRC) with respect to hardship applications and to domestic relations orders. The Committee discussed the memo and directed legal counsel to modify it in accordance with his comments that an individual designated as a beneficiary is a beneficiary for IRC purposes, even while the participant is alive.
 - i) Memo: Definition of Beneficiary as Applicable to Hardship Applications - Legal counsel reviewed the analysis of the term "beneficiary" under Internal Revenue Code section 457 and under the deferred compensation plan. He proposed that section 7.4 of the plan concerning hardships be amended to include beneficiaries to the extent permitted under the relevant IRS regulations. The Committee discussed the advantages of broadening the plan's hardship provisions, i.e., to address a broader range of financial emergencies, and the disadvantages, i.e., increasing the ability to take distributions out of the plan, rather than saving for retirement. The Committee directed legal counsel to bring a proposed amendment on this topic to the Committee.

Legal counsel also discussed the situation under each plan when a participant did not have a beneficiary designation form on file. Legal counsel noted that the current default option is the participant's estate and recommended that other default options be included ahead of an estate. The Committee directed legal counsel to prepare a memorandum on this topic and a proposed amendment.

- ii) Memo: Definition of Dependent in the Internal Revenue Code Applicable to Hardship Regulations - Legal counsel included in the

agenda packet a memo on the definition of dependent in the Internal Revenue Code.

- iii) Memo: Dependents and Beneficiaries Under the IRS Hardship Regulations - Legal counsel included in the agenda packet a memo concerning dependents and beneficiaries under the IRS hardship regulations.
- iv) Memo: Draft Committee Resolution Concerning Same-Sex Marriages - Legal counsel included in the agenda packet a proposed Committee resolution in support of same-sex marriages. In light of the passage in November 2008 of Proposition 8, the Committee directed legal counsel to bring back a revised resolution.

Legal counsel reviewed Article X of the money purchase pension plan and its reference to the Internal Revenue Code in the context of spouses. Legal counsel recommended that an amendment be considered deleting the IRC reference. The Committee directed legal counsel to prepare a proposed amendment to delete the reference.

- c) Committee Policies - Disaster Recovery/Retention of Committee Records - Legal counsel presented the Committee's current disaster recovery plan, revised through April 23, 2003. It was noted that many of the policy's provisions were already in place. It was also noted that the policy did not address hardship applications in a disaster context, such as modifying Committee quorum rules. The Committee directed legal counsel and staff to address these issues and come back with recommendations.

Legal counsel reviewed the Committee's record retention policy, adopted January 23, 2002.

Motion: To confirm the Committee's record retention policy. The motion was approved.

AGENDA ITEM 9 – Discussion and Action Concerning

- a) Administrative Procedures Manual – Staff reported that they have completed the review process with ICMA-RC staff. They will present the current “final” version at the next monthly committee meeting. This document will be updated whenever new procedures are instituted or when changes are made to existing procedures.
- b) Deferred Compensation Voluntary Automatic Escalation Proposal – the Committee discussed this proposal presented by staff and legal counsel, where new and current employees would be offered the opportunity to sign up for an easy way of deferring pay. This voluntary option would start the employee at 1% of base pay and automatically increase the contribution by 1% per year in the first paycheck in July. The Committee asked questions

about several options that were considered by staff and legal counsel, but were not included in order to keep the program as simple as possible.

Motion: To offer this program to employees, starting at 1% of base pay and automatically increasing the contribution by 1% per year until the annual maximum allowable deferral is reached. The motion was approved.

- c) Money Market as an Investment Option – The Committee discussed the possibility of adding a money market fund as an option for participants. It appears that if this action were taken, the Stable Value Fund might withdraw from BART's fund lineup. The Committee decided that the Stable Value Fund is a better option for participants than a money market fund.

AGENDA ITEM 10 – Discussion and Action Concerning

- a) Monthly Budget Review & Vendor Reconciliation Report (December 2008) - Staff presented the monthly budget review and vendor reconciliation report for December 2008. The report was accepted as presented.
- b) 2009 Proposed Budget - Staff presented a proposed budget for 2009 that reflected reductions in expenses to match anticipated lower administrative fee reimbursements from the four funds that provide them since these reimbursements are based on the value of participant investments. Even with these reductions, the administrative account for the Money Purchase Pension Plan needs to be replenished, so staff proposed discontinuing the fee holiday that has been in place for several years and reinstating a participant fee of approximately \$3.50 per participant per month. The Committee requested the budget be revised to show the anticipated income based on this fee in the income section and to show total anticipated income minus total anticipated expenses.
- c) Annual Participant Day – Staff proposed some format changes that included a large group session instead of several smaller group sessions. This was proposed in order to address logistical issues due to sessions being held last year on different floors and in smaller rooms. The change in venue to the second floor auditorium also allows for greater interaction amongst speakers, committee members, staff, and participants. After considering pros and cons of the changes, the Committee directed staff to proceed with the proposed plan.
- d) Workshops/Seminars - Staff asked if any other committee members were interested in attending the California Association of Public Retirement Systems (CALAPRS) General Assembly (conference). This conference will be held from March 1-3, 2009 in Monterey, California. The cost of registration is included in the annual membership fee. Several committee members stated that they would like to attend, bringing the number to five.

- e) 2007 Audit – with the completion of the procedures manual, staff changed the focus of the regular teleconference meetings with ICMA-RC staff to the reconciling of monthly income and expenses. Staff is reconciling the June transaction summary, which appears to be particularly difficult to reconcile due to some duplicate charges that were later corrected. The 2007 audit is almost complete.

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 2:05 p.m.