

Investment Plans Committee

Regular Meeting
Minutes
February 25, 2009

A regular session of the Investment Plans Committee (IPC) was held on Wednesday, February 25, 2009 and convened at 8:45 a.m. and adjourned at 3:05 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 (record keeper)
Kris Heurich,	ICMA-RC
Keith Sendall,	ICMA-RC
Russ Richeda,	Saltzman & Johnson (legal counsel)
Marcia Beard (via phone),	R.V. Kuhns (investment consultant)
Lisa Laughlin,	Barclays Global Investors
Scott Dingwell,	Barclays Global Investors
Peter Horikoshi,	BART
Arne Stokstad,	BART
Carolina Lopez,	BART

AGENDA ITEM 1 - Convene and Sign-in

The meeting convened at 8:45 a.m. and was chaired by Elaine Kurtz.

AGENDA ITEM 2 – Public Comment

There were no public comments at the February 25, 2009 BART Investment Plans Committee's public meeting.

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

A committee member raised a question by a participant about moving money from the Stable Value Fund to the VantageBroker account. This participant was told by ICMA-RC that there would be a 90 day hold before he could move the money to the VantageBroker account. The participant was concerned about moving the money to a fund that might lose value during the 90 day waiting period. The record keeper stated that this information was in the brokerage agreement and is something that must be clarified with Dwight Stable Value fund managers. The investment consultant said that she would contact Dwight.

AGENDA ITEM 4 - Discussion and Action Concerning

a) Minutes – January 28, 2009

The Committee reviewed the January 28, 2009 meeting minutes and approved the following motion:

Motion: To approve the January 28, 2009 meeting minutes with the following modifications:

Page 6 – Agenda Item 8: Change – “In light of the passage in November 2008 of Proposition 8, the Committee ~~determined that there was not now any need for such a directed legal counsel to bring back a revised~~ resolution”.

AGENDA ITEM 5 – Discussion and Action Concerning

a) Investment Performance Report – January 2009

A Summary of Current Market Environment for January 2009 was distributed and reviewed. All indexes posted negative returns for the month of January. The S&P 500 Index lost an additional 8.43% in the month. Value stocks underperformed growth stocks across capitalizations. Non-US equities posted a negative return with the MACI EAFE Index down 9.81%. The Plans' funds outperformed their respective benchmarks in the month, with the exception of the Templeton, PIMCO and Dwight Stable Value funds.

Committee members have been fielding questions about the Self-directed Brokerage Account and the equity wash. The Committee asked Marcia to confirm with Dwight that the SDB option is considered a competing fund.

b) Investment Manager Review – Barclays Global Investors (BGI)

Marcia provided more detailed information on the BGI Equity Index Fund in anticipation of the presentation from BGI. The review included statistics and characteristics for the Fund. The presentation was brief since this is an index fund and all materials provided matched the S&P 500 Index as expected. Marcia suggested the Committee question BGI on the

operational aspects of the Fund since there is no unique philosophy or strategy in the management of this Fund.

Investment Policy Guidelines:

- The BGI Equity Index Fund has net returns equal to the S&P 500 over a 3 month (1Quarter) period (with a tracking error of up to ten basis points). The fund returned -21.84% vs. -21.94% for the Index.
- The BGI Equity Index Fund has net returns equal to the S&P 500 over a 1 year period (with a tracking error of up to ten basis points). The fund returned -36.90% vs. -37.00% for the Index.
- The BGI Equity Index Fund has net returns equal to the S&P 500 over a 3 year period (with a tracking error of up to ten basis points annually). The fund returned -8.29% vs. -8.36% for the Index.
- The BGI Equity Index Fund has net returns equal to the S&P 500 over a 5 year period (with a tracking error of up to ten basis points annually). The fund returned -2.15% vs. -2.19% for the Index.
- The fund met the Investment Policy Guideline of not significantly increasing the expense ratio from the previous quarter by maintaining the expense ratio of 0.05%.

AGENDA ITEM 6 – Fund Manager Update: Barclays Global Investments (BGI)

Lisa Laughlin and Scott Dingwell from BGI presented information about BGI and the BGI S&P 500 Index Fund. BGI has Assets Under Management (AUM) of \$1,494.7 billion managing 3,000 funds which track over 250 indexes globally. Even though this fund is not actively managed, BGI dedicates expertise and resources to closely monitor the companies and stock prices of the S&P 500 Index in order to match the benchmark as closely as possible. The goal of the fund is not to outperform the index but to match the index, gross of fees. The presentation by BGI focused mainly on operational aspects since the BGI fund is an index fund.

AGENDA ITEM 7 – Discussion and Action Concerning

- a) Micro Cap Equity Fund Options – The investment consultant presented decision points for determining options for the micro cap equity fund that is being terminated. The presentation included best practices for investment plans, an outline of a multi-tiered structure, and the core investment menu. In this discussion it was noted that micro cap securities make up only 2% of the U.S. Equity Market. The BART plans offer a full suite of investment options that are in line with industry best practices. The current assets of BART participants in the micro cap equity fund equaled 0.21% in the Money Purchase Pension Plan and 0.30% in the Deferred Compensation Plan as of December 31, 2008. Three questions were presented to the Committee.

1. Should a Micro Cap Option continue to be offered as a Core Option?
The Committee answered no to this question.

2. If the answer is “yes”, should the IPC complete a search for another micro cap equity fund? Or transfer assets to the mutual fund (or commingled fund) that NorthPointe plans to offer in the second quarter of 2009? These questions were not reached given the negative response to question #1.
3. If the answer is “no”, should participant assets be mapped to another Option within the Plans’ lineup? Should the assets in the Micro Cap Option be mapped to the Domestic Small Mid Cap Growth Option currently invested in the Rainier SMid Cap Equity Fund? **The Committee answered yes to both of these questions.**

Result: The Committee approved a motion to not continue to offer a micro cap option and to map currently invested monies to the Rainier SMid Cap Equity Fund.

Included in the Best Practices/Decision Point presentation was a chart showing an outline for a multi-tiered structure. The Plans have a very similar structure but the Committee noticed that the chart showed one difference, which was a passive core fixed income option. The Committee asked if they should add a fixed income index using the space made available by discontinuing the micro cap option. Marcia suggested that R.V. Kuhns complete a GAP analysis for the Plans in the next couple of months indicating other options that the Committee may want to consider, such as another international option, TIPS, etc.

4. Nationwide Micro Cap Equity Fund Mapping Date – A committee member noted that the supplemental prospectus that was issued to notify investors that the fund is closing stated that shareholders may bear increased operating expenses and will bear a proportionate share of the costs of liquidation and other expenses. The Committee decided to close the fund to BART investors several weeks before the April 24, 2009 fund closing date to minimize the potential risk of bearing these costs. The Committee decided to move the balances to the Rainier SMid Cap Equity Fund since it is the fund in the BART line-up that most strongly correlates to the Nationwide Micro Cap Equity Fund.

Result: The Committee approved a motion to map balances in the Nationwide Micro Cap Equity Fund to the Rainier SMid Cap Equity Fund on Friday, March 27, 2009 and to send a letter to participants notifying them of this action and the reasons for this action.

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 month ending January 31, 2009.

January 2009	401(a) MPP	457 Deferred Comp
Opening Balance	\$213,314,097	\$328,750,323
Contributions	\$1,811,584	\$2,794,844
Roll-ins	(\$166,800)	\$20,337
Distributions	(\$1,607,280)	(\$2,504,670)
Adjustments	(\$20,742)	(\$20,741)
Plan to Plan Transfers	\$0	\$0
Earnings	(\$5,865,502)	(\$10,715,001)
Service Fees	(\$105)	(\$180)
Closing Balance	\$207,465,252	\$318,324,911
Change	(\$5,848,844)	(\$10,425,411)

The Record Keeper reported that there were four airtime purchases from the 457 plan and five 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 payments from T. Rowe Price and Rainer were received as anticipated. Additional information was furnished that payments associated with 4th quarter 2008 have been received during February 2009 from Westwood and Dodge & Cox and will be reflected in the February report.

Also reviewed by the Recordkeeper was the ICMA-RC Fund Information Report covering Plan Asset Balances as well as Contributions for the period of 1/1/09 – 1/31/09.

The 4th Quarter 2009 Premier Program Overview was provided with the following observations:

- The program has been adding participants steadily (an increase of 122 participants over 2008), and
- The amount of assets in the Premier program has continued to grow.

The BART IPC web site statistics report was provided with the observation that there is a year over year increase in visits/page views for the month of January 2009 vs. January 2008.

A handout titled “Brief Summary on Economic Stimulus Package and Reference to Transportation Provisions” which was prepared by ICMA-RC was distributed to the IPC. This report contained links to official committee summaries, transportation provisions within the Economic Stimulus Package, Federal Transit Authority outline of immediate actions transit agencies ought to be undertaking in the first 90 days of signing of the Stimulus Package, as well as links to information from American Public Transportation Association on Implementing Economic Recovery Funds.

The Recordkeeper also handed out a flyer reflecting the number of participants using each fund offered and information on the number of participants who are invested in more than 1 fund as well as a listing of the number of participants invested in 2 or more funds.

- b) ICMA-RC Service Updates – Kris Heurich, Senior Vice President of Client Services, discussed the situation related to the premature closing of the Nationwide Micro Cap Equity Fund. She provided an apology for what happened and an explanation as to how it happened. Ms. Heurich indicated that the management oversight of the administration for the plans has been transferred to Rose Roberts, Vice-President of Client Services who has extensive experience at ICMA-RC and in the retirement industry. Ms. Roberts has already been working with BART staff, who has indicated its satisfaction with the work done thus far.
- c) ICMA-RC Service Updates(Disposition of Gain) - Keith Sendall, Senior Vice President, Field Sales, advised the IPC that in the course of restoring participant assets back to the Nationwide Fund at the appropriate share price, as requested, there was a realized gain in the amount of \$50,640.57. This gain resulted from the increase in value of Rainier SMid Cap Equity Fund shares during the two weeks that participants were incorrectly invested in that fund. He described options for committee members and sought guidance on how to handle the gain. Also, as demonstration for ICMA-RC's willingness to accept responsibility for the event, Mr. Sendall extended an offer to waive some plan expenses for the Committee's consideration.

Result: The Committee approved a motion to allocate the gain equally between the 457 and 401(a) Plans administrative allowance accounts.

The Committee acknowledged ICMA-RC's offer to waive some plan expenses but decided to seek additional ICMA-RC services that may benefit all participants rather than a select group of participants.

AGENDA ITEM 9 – Discussion and Action Concerning

- a) Legal and Legislative Developments - Legal counsel presented a memorandum describing the McCauley Public-Employee Pension Reform Act, an initiative now being circulated to amend the vested rights provision of the California constitution to allegedly permit renegotiation of public retirement benefits. Legal counsel also presented an update on the Orange County 3% at 50 litigation, in which the County is contending that its agreement in 2001 to enhance retirement benefits for deputy sheriffs was constitutionally defective. In a tentative ruling, the superior court dismissed the gift-of-public-funds cause of action and indicated skepticism of the County "indebtedness" cause of action, i.e., that the 2001 agreement

created a debt which exceeded revenues in 2001.

- b) IRS Tracking Report - Legal counsel presented a tracking report and noted that there were not any important developments since the last report.
- c) Proposed Amendments to the Deferred Compensation Plan to Add Beneficiaries - Legal counsel presented an amendment to add beneficiaries to section 7.4 of the DC plan, the emergency hardship provision of the plan. The Committee discussed the proposed amendment, noting the possibility of frequent changes in beneficiaries, the desirability of allowing a participant flexibility in naming beneficiaries, and the possible increased outflow of funds from the plan in the event the range of hardship recipients is increased. Representatives of ICMA-RC indicated that its plans contained this type of provision and had not observed any heightened hardship activity associated with adding beneficiaries. The Committee directed ICMA-RC to find model language from another plan regarding beneficiary emergency withdrawals that the IPC may want to adopt. The Committee decided to table this amendment to a future meeting.
- d) Memo and Proposed Amendment to Article X of the Money Purchase Pension Plan - Legal counsel presented a proposed amendment to Article X of the Money Purchase Pension Plan to delete the reference to the Internal Revenue Code's definition of domestic relations order. He noted that the reference is not required by the Code. The Committee unanimously approved the amendment as its recommendation and directed that the amendment be processed.
- e) Suspension of Minimum Required Distribution - Worker, Retiree, and Employer Recovery Act of 2008 - Legal counsel presented a memo, dated February 3, 2009, concerning the Act and its provision permitting plans to suspend for calendar year 2009 the rules in the Internal Revenue Code for minimum required distribution. He indicated that a proposed plan amendment to implement the suspension had been submitted to the District.
- f) Deferred Compensation Plan Restatement - Legal counsel reported that the District was actively considering pending amendments to the DC plan and a proposed plan restatement. The Committee's proposed amendment concerning the scope of Committee responsibilities was set aside for future consideration.

AGENDA ITEM 10 – Discussion and Action Concerning

- a) Recordkeeper Performance – The Committee felt obliged to review ICMA-RC's actions in the premature closing of the Nationwide Micro Cap Equity Fund, as referenced in Agenda Item 8b, in light of other errors that have been made by ICMA-RC in the past 18 months. ICMA-RC has looked into the cause of this particular error and has made significant changes into how

they administer BART's account.

- b) Recordkeeper Remedies, RFP, & Other Alternatives – The Committee considered issuing a request for proposals for a recordkeeper to the investment plans. After much discussion and considering a variety of alternatives, the Committee decided that it is in the best interest of the participants to continue working with ICMA-RC to improve its service to the BART plan. The Committee conveyed to ICMA-RC representatives its hared sense that ICMA-RC is 'on probation' given the number and seriousness of problems in the past months.

AGENDA ITEM 11 – Discussion and Action Concerning

- a) 2009 Proposed Budget - Staff reformatted the proposed budget spreadsheet to display total income and total expenses and revised some of the anticipated income figures to reflect lower fund reimbursements. Because of the lower reimbursements that are anticipated for 2009, the Money Purchase Pension Plan Administrative Allowance Account will experience a deficit. It is therefore necessary to end the participant fee holiday for the Money Purchase Pension Plan and to temporarily reinstitute a plan expense fee calculated to be \$16,000 per month. This fee will be assessed equally amongst all Money Purchase Pension Plan participants starting in February 2009.

Result: The Committee approved a motion to adopt the proposed 2009 Investment Plans Committee Budget as presented.

- b) Monthly Budget Review & Vendor Reconciliation Report (January 2009) - Staff presented the monthly budget review and vendor reconciliation report for January 2009. The report was accepted as presented.
- c) Annual Participant Day – Staff provided an update on the preparations taking place for the event.
- d) Workshops/Seminars - Staff asked if any committee members were interested in attending the International Foundation Investment Institute being held April 27 – 29, 2009. Committee members declined to participate in the conference.
- e) 2007 Audit – Staff reported continued progress in reconciliation of expenses.
- f) Administrative Procedures Manual – Staff provided each committee member with a copy of the completed administrative procedures manual.

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

The Committee adjourned the meeting at 1:52 p.m. to enter into closed session to consider (5) Hardship Withdrawal Applications of which (2) were approved and (3) were denied. The Committee reconvened the public meeting at 2:33 p.m.

AGENDA ITEM 13 – Adjournment

The Committee adjourned the meeting at 3:05 p.m.