

Investment Plans Committee

Regular Meeting
Minutes
March 25, 2009

A regular session of the Investment Plans Committee (IPC) was held on Wednesday, March 25, 2009 and convened at 8:30 a.m. and adjourned at 1:26 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)
Rose Roberts,	ICMA-RC
Russ Richeda,	Saltzman & Johnson (legal counsel)
Marcia Beard (via phone),	R.V. Kuhns (investment consultant)
John O'Halloran,	Rainier
Daniel Brewer,	Rainier
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 March 25, 2009 BART Investment Plans Committee's public meeting.

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

Committee members reported the 2009 CALAPRS conference in Monterey, CA was useful and cost-effective.

AGENDA ITEM 4 - Discussion and Action Concerning

a) Minutes – February 25, 2009

The Committee reviewed the February 25, 2009 meeting minutes and approved the following motion:

Motion: To approve the February 25, 2009 meeting minutes with the following modifications:

Page 2 – Agenda Item 5a: Change – ~~“The IPC agreed to discontinue the Micro Cap Equity Option and to map the assets currently invested in the Nationwide Micro Cap Fund to the Rainier SMid Cap Equity Fund”.~~

Page 3 – Agenda Item 6: Change – “BGI has Assets Under Management (AUM) under of \$1,494.7 billion managing 3,000 funds which track over 250 indexes globally”.

Page 4 – Agenda Item 7a: Change – “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”.

Page 8 – Agenda Item 10b: Change – “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 shared sense that ICMA-RC is ‘on probation’ given the number and seriousness of problems in the past months”.

AGENDA ITEM 5 – Discussion and Action Concerning

a) **Investment Performance Report** – February 2009

A Summary of Current Market Environment for the February 2009 was briefly reviewed. All indexes for publicly traded asset classes posted negative returns for the month of February. The S&P 500 Index lost an additional 10.34% in the month. Value stocks underperformed growth stocks across capitalizations. Non-US equities posted a negative return with the MSCI EAFE Index down 7.58%. The Plans' funds outperformed their respective benchmarks in the month, with the exception of the Rainier Small/Mid, Nationwide Micro Cap, Dodge & Cox Income and PIMCO All Asset.

The assets in the Micro Cap Equity Option will be mapped to the Rainier SMid Equity Fund on March 27, 2009. The investment consultant provided an update of the decision points concerning the Micro Cap Option:

Question #1: Should a Micro Cap Option continue to be offered as a Core Option? *February 25, 2009. The Committee voted unanimously to discontinue offering the Micro Cap Option.*

Question #2: If the answer is “yes”, should the Committee complete a search for another micro cap equity fund? *Not applicable based on answer to Question #1*

Or

transfer assets to the mutual fund (or commingled fund) that NorthPointe plans to offer in the second quarter of 2009? *Not applicable based on answer to Question #1*

Question #3: If the answer is “no”, should participant assets be mapped to another Option within the Plans’ lineup? *February 25, 2009. The Committee agreed to map assets currently in the Micro Cap Option to another Option.*

Question #3a: 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? *February 25, 2009. The Committee voted unanimously to map assets currently in the Micro Cap Option to the Domestic Small Mid Cap Growth Option (Rainier SMid Cap Equity Fund).*

Investment Manager Review – Rainier Investment Management

The investment consultant provided detailed information on the Rainier Small/Mid Cap Equity Fund in anticipation of the presentation from Rainier. The Fund experienced very disappointing returns in 2008 both on an absolute and relative basis. The Fund lost 48.79% in 2008 compared the Russell 2500 Growth Index which lost 41.50% in the same period. Longer-term performance for the Fund is strong. The Fund beat the Russell 2500 Growth Index in 2004 through 2007 and matched the benchmark performance in 2003. Prior to 2008, the Fund ranked in the top-quartile of its peer universe in each calendar year. Over the last seven years, the Fund captured 111.21% in the quarters when the benchmark went up and only 91.01% when the benchmark experienced down quarters. The characteristics of the Fund confirm its Growth at a Reasonable Price philosophy. Rainier added two portfolio managers to the team.

Investment Policy Guidelines:

- The Rainier fund fell below the Investment Policy Guideline for the Domestic Small Mid-Cap fund category because it returned an annual average of -10.66% vs. -10.36% for the Russell 2500 Growth Index over a 3-year period.
- The Rainier fund exceeded the Investment Policy Guideline of being ranked in the 50th percentile or higher in the US Equity Mid-Cap Growth Fund Universe by ranking in the 46th percentile over a 3-year period.
- The Rainier fund exceeded the Investment Policy Guideline for the Domestic Small Mid-Cap fund category because it returned an annual average of -0.33% vs. -2.24% for the Russell 2500 Growth Index over a 5-year period.
- The Rainier fund exceeded the Investment Policy Guideline of being ranked in the 50th percentile or higher in the US Equity Mid-Cap Growth Funds Universe by ranking in the 20th 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 1.16%.

AGENDA ITEM 6 – Fund Manager Update: Rainier

John O'Halloran, Chairman and CEO and Daniel Brewer, Portfolio Manager attended. As of December 31, 2008, Rainier Investment Management had \$12.5 billion under management. \$4.0 billion is the small/mid cap strategy. Rainier's mutual funds make up 35.7% of the assets they manage. Rainier's equity management team of nine portfolio managers includes two additions in 2008.

Rainier believes that earnings growth drives stock prices and that they are able to add value through fundamental analysis and bottom up stock selection by their sector specialists. Rainier evaluates growth potential within the context of a stock's price and they pride their team as very disciplined in their buy and sell analysis. Rainier does not take huge sector bets because they believe there are growth opportunities in all sectors. As of December 31, 2008, there were 121 stocks in the portfolio. The maximum investment in any single security is 5% and as of 12/31/08 just under 20% of the portfolio was in the top ten holding.

Rainier confirmed their Growth at a Reasonable Price philosophy by reviewing their one year estimated earnings per share growth rate of 11.8% compared to the Russell 2500 Growth Index at 6.4% and their price to earnings ratio of 10.3X compared to 12.3X for the index.

AGENDA ITEM 7 – Discussion and Action Concerning

- a) **Recordkeeper 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 February 28, 2009.

February 2009	401(a) MPP	457 Deferred Comp
Opening Balance	\$207,465,252	\$318,324,911
Contributions	\$1,291,052	\$1,767,940
Roll-ins	\$2,808	\$5,121
Distributions	(\$534,774)	(\$1,205,530)
Adjustments	\$51,800	\$35,907
Plan to Plan Transfers	\$0	\$0
Earnings	(\$7,398,072)	(\$13,399,407)
Earnings (uncashed checks)	\$8,771	\$13,529
Service Fees	(\$15,973)	(\$45)
Closing Balance	\$200,870,865	\$305,542,426
Change	(\$6,594,387)	(\$12,782,485)

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, Rainier, Dodge & Cox, and Westwood were received during the month of February as anticipated.

Also reviewed by the Record Keeper was the ICMA-RC Fund Information Report covering Asset Balances as well as Contributions for the period of 2/1/09 – 2/28/09.

- b) **Nationwide Micro Cap Equity Fund Closing** - ICMA-RC is on schedule to close out the Nationwide Micro-Cap Equity Fund on March 27, 2009 and transfer assets to the Rainier Small Mid Cap Equity Fund. As of Friday, March 20, 2009, there was approximately \$682,000 in the 457 Deferred Compensation Plan and \$322,000 in the 401(a) Money Purchase Pension Plan. After February 27, 2009, there were 31 fund transfers from the Nationwide Micro-Cap Equity Fund.
- c) **Service Update** - Rose Roberts, Vice President, Client Services was introduced to the IPC. Rose is located in the ICMA-RC Washington, DC office and, going forward, will manage the record keeper relationship between BART Investment Plans Committee and ICMA-RC. The following items were reported:
 - i.) Paperless Campaign – This year ICMA-RC will be conducting a communications campaign for participants to “go paperless”. The

first communication was recently introduced in Account Access, the participant online system. A special screen appears when the participant logs into Account Access regarding the ability to sign-up for electronic delivery of statements and confirmations. A copy of the screen was provided to the IPC.

- ii.) Forms Inventory – ICMA-RC is working with BART to review existing forms and to make appropriate enhancements. A new In-Service Withdrawal form was created; the Beneficiary Designation and Employee Information Change form was enhanced.

AGENDA ITEM 8 – Discussion and Action Concerning

- a) **IRS Tracking Report** - Legal counsel presented a tracking report and noted that there were not any important developments since the last report.
- b) **Proposed Amendment to the Deferred Compensation Plan to Add Beneficiaries to the Emergency Withdrawal Provisions** - Legal counsel presented for continued Committee discussion the proposed amendment to add beneficiaries to section 7.4 of the Deferred Compensation plan, the emergency withdrawal provision of the plan. The Committee repeated its direction to find model plan language on this topic from other plans. The Committee discussed the desirability of restricting the scope of an amendment in this area. The Committee tabled this amendment to a future meeting.
- c) **Revised Emergency Withdrawal Application** - Legal counsel presented the draft of a revised emergency withdrawal application packet, including instructions, application form, and worksheets. The draft was intended to address some of the problems experienced by the Committee in considering past hardship applications. The Committee extensively discussed the draft and directed legal counsel to incorporate its comments and modifications. The Committee directed staff to begin using the revised application packet and to make minor modifications to it in the future, bringing only major modifications back to the Committee.
- d) **Suspension of Minimum Required Distribution Rules** - The Committee previously adopted as recommendation to the District an amendment to the Money Purchase Pension plan to suspend for calendar year 2009 the rules in the Internal Revenue Code that require a retiree to take a minimum distribution from the MPP plan. Legal counsel reported to the Committee that the District had adopted the amendment.
- e) **Deferred Compensation Restatement** - The Committee had earlier reviewed and adopted as its recommendation to the District a 2009 restatement of the Deferred Compensation plan that incorporated the nine amendments that had been made to the 1997 restatement. Legal counsel

reported to the Committee that the District had adopted the restatement. A copy of the restatement was included in the agenda packet for the meeting.

- f) **Response to Public Records Act Request** - Legal counsel reported to the Committee that the District has since the Committee's last meeting received and responded to a Public Records Act request from a San Jose attorney for documents concerning the Committee, including its contract with ICMA-RC, the Deferred Compensation plan document, and any District claims ordinance.

AGENDA ITEM 9 – Discussion and Action Concerning

- a) **Review of Participant Day** – While attendance was down from previous years, feedback continued to be positive. The new format and venue were well received. The Committee requested that Bill Eagan, ICMA-RC's financial planner and a speaker at the Participant Day event, attend the next meeting to discuss topics related to educational presentations he gives throughout the year. The Committee was interested in learning more about the special provisions in the Roth IRA that he mentioned in his presentation.

AGENDA ITEM 10 – Discussion and Action Concerning

- a) **Monthly Budget Review & Vendor Reconciliation Report (February 2009)** - Staff presented the monthly budget review and vendor reconciliation report for February 2009. The report was accepted as presented. A Committee member requested to have the participant fee broken down by basis points as of December 31, 2009 to be reflected on the 1st Quarter statement for 2010. Rose Roberts of ICMA-RC will work with staff to prepare a special insert to be included in participant statements.
- b) **Workshops/Seminars** – Staff forwarded to the Committee an invitation to attend the 2009 National Labor Community Awards. There was no interest in attending.

2007 Audit – Legal counsel recommended that staff provide a schedule for completion of the audit and reiterated the importance of a timely completion of the audit. A committee member suggested that a timeline of milestones in the auditing process be added to the procedures manual. Staff reported that they continue to have weekly conference calls with ICMA regarding the audit.

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

The Committee adjourned the meeting at 1:15 p.m. to enter into closed session to consider (2) Hardship Withdrawal Applications of which (1) was approved and (1) was denied. The Committee reconvened the public meeting at 1:25 p.m.

A closed session of the Investment Plans Committee was held on Thursday, March 12, 2009 and convened at 1:10 p.m. to enter into closed session to consider (2) Hardship Withdrawal Applications of which (2) were denied. The Closed session was adjourned at 2:30 p.m.

AGENDA ITEM 12 – Adjournment

The Committee adjourned the meeting at 1:26 p.m.