

Investment Plans Committee

Regular Meeting
Minutes
April 22, 2009

A regular session of the Investment Plans Committee (IPC) was held on Wednesday, April 22, 2009 and convened at 8:35 a.m. and adjourned at 4:00 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

Kory Frost,	BPOA
Michael Pon,	BPOA alt.

Committee Members or Alternate Members Absent:

Teresa Murphy, BART

Jean Hamilton, AFSCME alt.

Other Attendees:

Rose Roberts,	ICMA-RC (recordkeeper)
Russ Richeda,	Saltzman & Johnson (legal counsel)
Marcia Beard,	R.V. Kuhns (investment consultant)
Steve Gorski,	Dodge & Cox
Bob Thompson,	Dodge & Cox
Peter Horikoshi,	BART
Arne Stokstad,	BART
Carolina Lopez,	BART

AGENDA ITEM 1 - Convene and Sign-in

The meeting convened at 8:35 a.m. and was chaired by Elaine Kurtz.

AGENDA ITEM 2 – Public Comment

There were no public comments at the April 22, 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 – March 25, 2009

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

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

Page 2 – Agenda Item 5a: Change – “Non-US equities posted a negative return with the ~~MACI~~ MSCI EAFE Index down 7.58%”.

Page 3 – Agenda Item 5a: Change – “~~Marcia~~ The investment consultant provided an update of the decision points concerning the Micro Cap Option”.

Page 3 – Agenda Item 5a: Change – “~~Marcia~~ The investment consultant provided detailed information on the Rainier Small/Mid Cap Equity Fund in anticipation of the presentation from Rainier”.

Page 4 – Agenda Item 6: Change – “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 ~~R2500G~~ Russell 2500 Growth Index at 6.4% and their price to earnings ratio of 10.3X compared to 12.3X for the index”.

Page 7 – Agenda Item 10a: Change – “Rose Roberts of ICMA-RC will work with staff to prepare a special insert to be included in participant statements”.

AGENDA ITEM 5 – Discussion and Action Concerning

a) Investment Performance Report – First Quarter 2009

The first quarter of 2009 began where 2008 ended, with returns of most asset classes down significantly. March saw most asset classes rebound impressively from depressed valuations, and witnessed the sixth best S&P 500 monthly return and fourth best MSCI Emerging Markets return in the last 20 years. With the Federal Funds Rate already at a range of 0.00% to 0.25%, the U.S. Federal Reserve made no changes to the key rate during the first quarter, although global central banks lowered their target short-term rates. In an effort to contain the fallout of the credit crisis into the economy, the U.S. Government passed an \$800 billion stimulus package.

The U.S. seasonally adjusted unemployment rate increased to 8.5% during the first quarter from 7.2% at the end of the fourth quarter, and from 4.9% from the beginning of 2008. March's unemployment rate represents the highest level in over a quarter of a century, the previous high of 8.8% having been reached in October 1983. Although crude oil

prices remained well below July 2008's record high of \$146 per barrel, they ended the quarter up over 10% at just under \$50 per barrel. Even given the first quarter increase, prices have fallen over 60% from the recent high. With declining oil prices serving to curtail inflation, the Consumer Price Index rose moderately during the first quarter by 1.2% but has fallen 0.4% over the last 12 months, the largest 12-month drop since 1955. Measured against a weighted-average basket of 16 currencies, the U.S. Dollar closed the quarter up 4% and gained 5% against the Euro. The U.S. economy officially entered, in late 2007, into a recession that has persisted through the end of the first quarter 2009.

Information Technology was the only sector in the S&P 500 to post a positive return during the first quarter. The Financial sector was the worst-performing sector during the quarter as well as for the one-, three-, and five-year trailing periods. Growth stocks significantly outperformed their value counterparts and large capitalization stocks outperformed smaller stocks during the quarter. Internationally, no sector, measured by the MSCI All Country World Ex US, has posted a positive return over the trailing three-year period. The Telecommunication Services, Materials, and Energy sectors all posted strong relative performance compared to the other sectors during the first quarter, with Financials and Utilities posting relatively weak returns. Emerging markets was one of the few asset classes during the quarter to post a positive return after having the worst returns of the major asset classes during 2008.

The Barclays Capital Aggregate Bond Index (BC US Aggregate Bond Index) was led by Asset Backed Securities but only posted slim gains because of the struggles by Long Corporates and Treasuries. The Treasury yield curve increased between 10 and 90 basis points over all maturity ranges during the quarter.

The Plans' funds outperformed their respective benchmarks in the month, with the exception of the RCM Large Cap Growth, Rainier Small/Mid, Templeton Foreign Equity, Dodge & Cox Income and the Dwight Stable Value funds.

The IPC and investment consultant conducted their quarterly Investment Policy Review.

- Dodge & Cox Stock Fund fell below the three and five year policy expectations for performance relative to their policy benchmark and their peer universe. In response, the IPC will review a large cap value manager comparison at the June 2009 meeting.
- PIMCO All Asset Fund fell below the three year policy expectation and it looks like they will fall below the five year expectation at the end of May. In response, the IPC will review a summary of other real

return strategy managers at the June 2009 meeting.

b) Investment Manager Review – Dodge & Cox

The investment consultant provided detailed information on the Dodge & Cox Funds in anticipation of the presentation from Dodge & Cox.

Stock Fund:

Although ahead of its benchmark year-to-date 2009, the Fund experienced very disappointing returns in 2008 both on an absolute and relative basis. The Fund lost 43.31% in 2008 compared to the Russell 1000 Value Index which lost 36.85% in the same period. Longer-term performance for the Fund is strong. The Fund beat the Russell 1000 Value Index in 2007 and 2000 through 2005. Prior to 2007, the Fund ranked in the top-quartile of its peer universe in each calendar year. Over the last seven years, the Fund captured 103.8% in the quarters when the benchmark went up but also captured 103.56% when the benchmark experienced down quarters. The investment team at Dodge & Cox has been very stable.

Income Fund:

The Fund experienced very disappointing returns in 2007 and 2008 on an absolute basis. Relative to its peers in 2008, the Fund ranked well-above median (37th percentile). The Fund lost 0.29% in 2008 compared the BC US Aggregate Bond Index which gained 5.24% in the same period. Longer-term performance for the Fund is stronger. Year-to-date the Fund is outperforming the BC US Aggregate Bond Index. Over the last seven years, the Fund captured 85.30% in the quarters when the benchmark went up but only captured 99.70% when the benchmark experienced down quarters. The investment team at Dodge & Cox has been very stable.

Investment Policy Guidelines:

Fixed Income Fund:

- The Dodge & Cox Income fund fell below the Investment Policy Guideline for the BC US Aggregate Bond Index because it returned 3.26% vs. 5.78% for the Index over a 3-year period.
- The Dodge & Cox Income fund exceeded the Investment Policy Guideline of being ranked in the 50th percentile or higher in the US Broad Market Core Funds Universe by ranking in the 40th percentile over a 3-year period.
- The Dodge & Cox Income fund fell below the Investment Policy Guideline for the BC US Aggregate Bond Index because it returned

- The Dodge & Cox Income fund exceeded the Investment Policy Guideline of being ranked in the 50th percentile or higher in the US Broad Market Core Funds Universe by ranking in the 34th 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 0.44%.

Stock Fund:

- The Dodge & Cox Stock fund fell below the Investment Policy Guideline for the Russell 1000 Value Index because it returned -18.36% vs. -15.40% for the Index over a 3-year period.
- The Dodge & Cox Stock fund fell below the Investment Policy Guideline of being ranked in the 50th percentile or higher in the US Equity Large-Cap Value Funds Universe by ranking 93rd percentile over a 3-year period.
- The Dodge & Cox Stock fund fell below the Investment Policy Guideline for the Russell 1000 Value Index because it returned -6.58% vs. -4.93% for the Index over a 5-year period.
- The Dodge & Cox Stock fund fell below the Investment Policy Guideline of being ranked in the 50th percentile or higher in the US Equity Large-Cap Value Funds Universe by ranking 84th 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 0.52%.

AGENDA ITEM 6 – Fund Manager Update: Dodge & Cox

Steve Gorski and Bob Thompson attended. Dodge & Cox was founded in 1930 and has remained 100% owned by active employees. As of March 31, 2009 the Stock Fund had total net assets of \$27.1 billion with an expense ratio of 0.53%. The total net assets under management for the Income Fund were \$13.6 billion and the expense ratio was 0.43%. Dodge & Cox stated that they knew their investment performance had been disappointing and they were invested in the funds as well. Bob and Steve said Dodge & Cox stayed true to their long-term investment philosophy but admitted they learned lessons over the last several quarters.

Bob and Steve said missteps in the financial sector hurt their performance. Three companies cost 8% in absolute return for the Stock Fund: AIG, Fannie Mae and Wachovia. Seven financial companies went out of business during the financial crisis and Dodge & Cox owned three of them. Bob and Steve said Dodge & Cox underestimated 1) the impact of sub prime, 2) the worsening credit crisis and 3) the likelihood of government intervention.

They admitted learning hard lessons in 2008 and said they are doing the following as a result:

1. New focus on liquidity. Brought on two new analysts and are relying more on the input of their fixed income analysts.
2. Spending more time on trying to understand where public policy is going.

Bob said he believes Dodge & Cox's experience could have been a detriment in the downturn in that they moved forward believing the regulators would behave as they had in past downturns. They missed, or underestimated, regulatory intervention. For example, they did not expect the undoing of Fannie Mae. They underestimated the degree to which the macro environment would affect individual issues.

Turnover historically has been about 15% but in 2008 the Fund turnover was 32% which is still lower than industry averages. In part, increased turnover was a result of forced sales due to increased withdrawal requests.

Bob stated he believes the market outlook is better. He said Dodge & Cox may not agree with everything the Fed is doing but they are trying hard to get things back on track. He said that the US and global economies will be resilient over the long-term including factoring in positive developments in developing markets.

AGENDA ITEM 7 – Discussion and Action Concerning

- a) Educational Presentations - Bill Eagan, Certified Financial Planner (CFP), Certified Public Accountant (CPA), and Seminar Presenter, of ICMA-RC presented to the Committee a description of the various services available to BART participants on an individual basis and in a group setting.
 - I) Seminar Presentations – ICMA-RC offers, to BART participants, seminars targeted at four areas of one's career – (1) early career, (2) mid career, (3) pre-retirement, and (4) in retirement.
 - II) Financial Planning – Provides individual financial planning consultations to BART participants. Common themes that may arise from these consultations are:
 - Portfolio Construction - How should investments be allocated? Items to consider are what stage in your career are you in, what is your risk tolerance, what other financial resources do you have?
 - Retirement - What will my cash flow look like in retirement? Will there be enough money to live comfortably? Should I work longer? How much longer? Can I cut back on my expenses in retirement?

- Mortgage - Should I pay it off? What are the financial and tax implications? How about refinancing? When does that make sense?
- Insurance - How much and what kind do I need?
- Estate Planning - What is a living trust and should I have one?

During Bill's presentation, a number of questions and discussion items were raised:

- How prepared is the typical BART participant vs. other ICMA-RC participants when retirement is at hand?
- How can we better reach early career people and help put them on a retirement savings track?
- What are our options with respect to ICMA-RC seminars? "Webinars"? Quarterly?
- The Roth IRA. What is it? What are the rules? What are the features and benefits? Bill left a copy of ICMA-RC's Roth seminar.
- The benefit of developing a consolidated flyer for distribution to BART employees explaining all ICMA-RC field services.

b) Recordkeeper Report - Rose Roberts 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 March 31, 2009.

March 2009	401(a) MPP	457 Deferred Comp
Opening Balance	\$200,870,865	\$305,542,426
Contributions	\$1,137,830	\$1,801,489
Roll-ins	\$923,287	\$508,338
Distributions	(\$1,146,223)	(\$2,160,043)
Adjustments	(\$415)	(\$16,409)
Plan to Plan Transfers	\$0	\$0
Earnings	\$5,750,779	\$10,168,043
Service Fees	(\$16,024)	(\$60)
Closing Balance	\$207,520,099	\$315,843,785
Change	\$6,649,234	\$10,301,358

The Recordkeeper reported that there was one airtime purchase from the 457 plan and two from the 401(a) plan. Also reviewed by the Recordkeeper was the ICMA-RC Fund Information Report for the period of 3/1/09 – 3/31/09. Commentary was provided on the amount of contributions and distributions that occurred in March 2008 compared to March 2009. It was also noted that it was a positive month for earnings compared to February 2009. The Fund Information report was reviewed and it was noted that the percentage of assets in the stable value fund increased since March 2008

(457 plan: 32.94% as of 3/31/08 compared to 48.13% as of 3/31/09; 401 plan: 40.75% as of 3/31/08 compared to 55.67% as of 3/31/09).

The Reimbursement Reconciliation Report was furnished to the Investment Plans Committee (IPC) to provide payment history of the various fund reimbursements. Payments were on schedule from T. Rowe Price and Rainier. The other fund company credits are received quarterly and should be received in May 2009.

The following March 31, 2009 reports were reviewed: Web Page Visits, Participation Report, Participants not Contributing, Enrollments, Fund Transfers, Allocations, and Phone Call Activity. Next quarter the reports will be enhanced as follows: Participation Report (will include # of eligibles to derive overall participation); and Phone Call Activity (will include the top 5 topics).

The Recordkeeper provided screen shot samples of the recent enhancements made to the fund profiles shown in the BART IPC web site. Statistics were provided to the Committee regarding the number of participants that signed up for electronic delivery of statements and confirmations as a result of the recent communication campaign within Account Access.

The Recordkeeper advised that the Vice President of Legislative Affairs will be available via teleconference in July 2009 to present recent federal legislative activities. The Committee indicated that they would be interested in this presentation.

The VantageView Account Aggregation service will be discontinued in September 2009 due to low volume of usage. It was agreed that an announcement will be provided in the June 30th quarterly statement regarding the alternative option available through Yodlee.com at no charge.

- c) Micro Cap Equity Fund Closing – The Recordkeeper provided summary statistics regarding the closing of the Nationwide Micro-Cap Growth Equity Fund closing on March 27, 2009.

AGENDA ITEM 8 – Discussion and Action Concerning

- a) Legal Updates - Legal counsel presented to the Committee a legal update on the Heroes Earnings Assistance and Relief Tax Act of 2008 (HEART). The Act requires defined contribution plans and defined benefit plans that are qualified under Internal Revenue Code section 401(a) to add a provision treating former employees who die while performing military service to be treated as if they had died while employed. The effective date of the provision is retroactive back to January 2007. The plan does not need to be amended to add this provision until January 2012.

Legal counsel reported to the Committee on recent developments in the City of Vallejo bankruptcy. In particular, the bankruptcy court recently ruled that the City, subject to certain procedural limitations, was entitled to reject labor contracts.

- b) IRS Tracking Report - Legal counsel presented a tracking report and noted that, other than the HEART Act summarized above, there were not any important developments since the last report.
- c) Revised Resolution on Same-Sex Marriages - Legal counsel presented a revised version of a resolution on same-sex marriage. The Committee reaffirmed its commitment as a matter of policy to same-sex marriages. The Committee directed legal counsel to clarify the resolution to indicate that same sex marriages entered into prior to the effective date of Proposition 8 were valid. The Committee directed legal counsel to add an additional "whereas" clause to note that the Committee's policy was consistent with District policy on this issue.

RESULT: The Committee unanimously approved the resolution subject to the directions noted above.

- d) Public Safety Benefit - Legal counsel presented a memorandum concerning the \$3,000 retired public safety officer benefit provided by the federal Pension Protection Act. He described that the retiree could deduct \$3,000 on his or her income tax return for health plan premiums or long term care premiums paid, but only if certain conditions were met, one of which being that the plans must pay the premiums directly to the insurer. The Committee considered the administrative complexities involved in implementing this optional benefit.

RESULT: The Committee decided to table this issue.

- e) Response to Public Records Act Request - It had been previously reported to the Committee that a Public Record Act request from a San Jose attorney requesting various Committee documents had been received and a response provided. Legal counsel reported that there had not been any further communications from the requester.
- f) Rollovers by Non-Spousal Beneficiaries - It had been previously reported to the Committee that the federal Pension Protection Act contained a provision permitting public sector defined contribution plans to be amended to allow rollover distributions by non-spousal beneficiaries from deferred compensation plans or from money purchase pension plans. ICMA-RC has added this feature to its model plans. The IRS has not issued model plan language on this issue. Legal counsel presented a proposed amendment to each plan. The Committee reviewed the proposed amendments.

RESULT: The Committee by motion unanimously adopted the proposed

amendments as its recommendation to the District and directed that staff process them accordingly.

- g) Amendments Adding Beneficiaries to Deferred Compensation Plan's Emergency Withdrawal Provisions - It had been previously reported to the Committee that the federal Pension Protection Act contained a provision permitting public sector deferred compensation plans to be amended to expand the subjects of emergency withdrawals to include unforeseeable emergencies occurring to beneficiaries. Legal counsel presented a memorandum setting forth language from ICMA-RC's model deferred compensation plan document and containing a series of decision points for Committee review. The Committee discussed at length a variety of considerations involved in such an expansion.

RESULT: The Committee tabled any action on this item until its May 2009 meeting.

- h) Revised Emergency Withdrawal Application - Legal counsel presented a revised emergency withdrawal application packet. Mr. Horikoshi noted certain corrections that needed to be made. Issues were also raised concerning the section of the application concerning withholding for taxes. Legal counsel was directed to make appropriate changes.
- i) Committee Policy Concerning Disclaimer by Beneficiaries - Legal counsel presented a memorandum to the Committee describing a pending distribution issue involving a deceased participant. The designated beneficiary for his deferred compensation plan account was his surviving spouse. The designated beneficiary for his money purchase pension plan account was his sister. His sister indicated in writing that she did not wish to receive the distribution but instead wished to have his surviving spouse receive it. Legal counsel noted that the deferred compensation plan did not address this issue. He noted that the plan delegates to the Committee the authority to adopt rules for the administration of the plan. Legal counsel stated that disclaimers of interests in property were permitted under California law and that he recommended that the Committee adopt a rule permitting disclaimers of interests under the deferred compensation plan.

RESULT: The Committee by motion unanimously agreed to adopt as its rule that written disclaimers by designated beneficiaries in a form acceptable to legal counsel are permissible in situations where the participant is deceased.

AGENDA ITEM 9 – Discussion and Action Concerning

- a) Monthly Budget Review & Vendor Reconciliation Report (March 2009) - Staff presented the monthly budget review and vendor reconciliation report for March 2009. It was noted that income for the month of March was less than February. The report was accepted as presented.

- b) Workshops/Seminars – Staff reported that hotel accommodations and registrations have been made on behalf of all committee members to attend the NAGDCA Conference that is being held 9/12/09 – 9/16/09.
- c) 2007 Audit – Staff reported that data is being pulled from QuickBooks to provide the auditors with a final financial statement report. Once this is complete, the auditors will be scheduled to come on site to conclude their audit.
- d) Increase in Fund Reimbursement – Staff reported that T. Rowe Price Funds' Board of Directors recently approved a change to the Administrative Fee Payment (AFP) program to increase the AFP payment rate from 10 basis points to 15 basis points for Investor, Advisor, and R class Fund shares held by employer-sponsored defined contribution retirement plans.

AGENDA ITEM 10 – Closed Session Pursuant to Government Code Section 54957.10: Hardship Application(s)

The Committee adjourned the meeting at 3:10 p.m. to enter into closed session to consider (3) Hardship Withdrawal Applications of which (2) were approved and (1) was denied. The Committee reconvened the public meeting at 3:58 p.m.

A closed session of the Investment Plans Committee was held on Thursday, April 9, 2009 and convened at 10:10 a.m. to consider (2) Hardship Withdrawal Applications of which (2) were approved. The Closed session was adjourned at 10:45 a.m.

AGENDA ITEM 11 – Adjournment

The Committee adjourned the meeting at 4:00 p.m.