

## Investment Plans Committee

Regular Meeting  
Minutes  
May 27, 2009

A regular session of the Investment Plans Committee (IPC) was held on Wednesday, May 27, 2009 and convened at 8:48 a.m. and adjourned at 1:05 p.m. at 300 Lakeside Drive, 20<sup>th</sup> Floor; Oakland, California, 94612.

### Committee Members or Alternate Members Present:

Elaine M. Kurtz,	BART alt.
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
Howard D. Jones,	SEIU

### Other Attendees:

Rose Roberts,	ICMA-RC (recordkeeper)
Russ Richeda,	Saltzman & Johnson (legal counsel)
Marcia Beard,	R.V. Kuhns (investment consultant)
David Orlando,	T. Rowe Price
Peter Horikoshi,	BART
Arne Stokstad,	BART
Carolina Lopez,	BART

### **AGENDA ITEM 1** - Convene and Sign-in

The meeting convened at 8:48 a.m. and was chaired by Elaine Kurtz. Committee member Dennis Jones signed in and left the meeting.

### **AGENDA ITEM 2** – Public Comment

There were no public comments at the May 27, 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 – April 22, 2009

The Committee reviewed the April 22, 2009 meeting minutes and approved the following motion:

**Motion:** To approve the April 22, 2009 meeting minutes with the following modifications:

**Page 3 – Agenda Item 5a: Change** – “The Treasury yield curve increased ~~by~~ between 10 and 90 basis points over all maturity ranges during the quarter”.

**Page 4 – Agenda Item 5b: Change** – “The Fund lost 43.31% in 2008 compared to the Russell 1000 Value Index which lost 36.85% in the same period”.

**Page 5 – Agenda Item 6: Change** – “Seven financial companies went out of business during the financial crisis and Dodge & Cox owned three of ~~them~~ them”.

**Page 6 – Agenda Item 6: Change** – “They underestimated the degree to which the macro environment would affect individual issues”.

## **AGENDA ITEM 5 – Discussion and Action Concerning**

### a) Investment Performance Report – April 2009

A Summary of the Current Market Environment for the April 2009 was reviewed. All indexes for publically traded asset classes posted positive returns for the month of April although year-to-date performance for US equities and developed international equity markets remained negative. The S&P 500 Index gained 9.57% in the month. Value stocks outperformed growth stocks across capitalizations. Non-US equities posted a positive return with the MSCI EAFE Index up 11.60% and the MSCI ACW ex-US Index up even more at 16.66% on the strength of the rebound in emerging markets.

The Plans' funds outperformed their respective benchmarks in the month, with the exception of the RCM Large Cap Growth, Rainier Small/Mid, Westwood Smid Cap, and Dwight Stable Value. April was the first month that Westwood underperformed their benchmark, the Russell 2500 Value Index, since the Fund was added to the Plans' lineup in September 2007.

### b) Investment Manager Review – T. Rowe Price

The investment consultant provided detailed information on the T. Rowe Price Balanced Fund and the menu of T. Rowe Price Retirement Funds in anticipation of the presentation from T. Rowe Price. The Balanced Fund experienced disappointing returns in 2008 on an absolute basis but was

median when compared to their balanced fund peers. The Fund lost 28.43% in 2008 compared to an index of 60% S&P and 40% BC Aggregate which lost 22.06% in the same period. The year-to-date return of 2.75% through April was well ahead of the 60/40 benchmark. Longer-term performance for the Fund is strong. The Fund beat the 60/40 benchmark in 2003 through 2007.

The same story is true for the Retirement Fund; strong performance relative to their respective benchmarks prior to 2008 and above median relative to their peers.

The 2008 underperformance across the T. Rowe Price strategies can be attributed the following:

- Overweight to equities, in general
- Overweight to international equities
- Exposure to fixed income spread sectors: in particular, credit, high yield credit, and non-US

T. Rowe Price experienced a 6% reduction in workforce. The portfolio management teams escaped layoffs.

c) Investment Option Analysis (Best Practices for Fund Line-up)

At the request of the IPC, the investment consultant presented an Investment Option Analysis which compared the Investment Plans to industry standards. The Plans' lineup stacked up well to industry standards including broad asset class exposure with few options, active and passive options, and exposure to more volatile asset classes such as high yield and emerging market bonds through a multi-class fund. Areas where the Plans could add exposure would include:

- Passive small/mid cap
- Passive core fixed income
- TIPS (have as an asset class within real return)

Other topics discussed: trend for larger plans to develop multi-strategy portfolios by asset class and current focus on stable value funds including the lessons learned from the financial crisis, industry review of the asset class as a result of the financial crisis and the debate concerning transparency and wraps.

Based on the analysis, the Committee agreed they were comfortable with the current investment fund line-up.

**AGENDA ITEM 6 – Fund Manager Update: T. Rowe Price**

## Fund Manager Presentation – T. Rowe Price

David Orlando, Relationship Manager, from T. Rowe Price attended the meeting. R.V. Kuhns will remind T. Rowe Price that the Committee requires that a portfolio manager attend the annual presentation to the IPC. As of December 31, 2008, T. Rowe Price Investment Management had \$268.8 billion under management. T. Rowe Price has no outstanding long-term debt. They experienced net cash inflows of \$4.5 billion in the first quarter of 2009.

### Balanced Fund

David reviewed the asset allocation of the Balanced Fund stressing that the Fund is a well-diversified asset allocation portfolio with broad exposure to significant asset classes. The target allocation is 65% equity and 35% fixed income exposure. The Fund experiences modest asset allocation changes but stressed that it is not an active market timing fund. The fund is team managed by specialists in the different asset classes. David stated that he believes the differentiating features of the Fund are the international equity exposure (typically 10 - 15% of total assets) and the high yield bond exposure (typically ranging between 0.0% - 8% of total assets).

### Retirement Funds

David spent most of his time addressing the T. Rowe Price philosophy for the retirement date strategy. T. Rowe Price believes the following:

- The risk of outliving retirement assets should be the key driver of managing retirement portfolios
- Time horizon should drive asset allocation throughout an investor's life
- Active management, coupled with modest tactical asset allocation shifts, can help to enhance long-term performance

David stated the following as the T. Rowe Price differentiation:

- T. Rowe Price maintains significant equity allocations based on proprietary asset allocation modeling and research
- Their allocations continue to shift for thirty years after target date based on their belief that an individual's investing time horizon extends well-beyond retirement
- Opportunity for outperformance over time through active management
- Potential downside protection through active management

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

- a) Record Keeper 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 April 30, 2009.

<b>April 2009</b>	<b>401(a) MPP</b>	<b>457 Deferred Comp</b>
Opening Balance	\$207,520,099	\$315,843,785
Contributions	\$937,142	\$1,734,185
Roll-ins	\$163,651	\$49,918
Distributions	(\$603,454)	(\$2,633,719)
Adjustments	\$4,279	(\$11,720)
Plan to Plan Transfers	\$0	\$0
Earnings	\$8,954,298	\$16,136,901
Service Fees	(\$16,051)	(\$240)
Closing Balance	\$216,959,965	\$331,119,110
Change	\$9,439,866	\$15,275,325

- b) de minimis Process - Rose Roberts reviewed the memorandum that was provided to the Committee regarding the de minimis distributions that were completed in error in January 2009 for the 401 Money Purchase Plan and the 457 Deferred Compensation Plan. The IPC has discussed de minimis distributions in prior meetings, but did not direct ICMA-RC to process de minimis distributions. The 401 Money Purchase Plan document provides for the de minimis provision; however the 457 Deferred Compensation Plan does not. Two options were presented. ICMA-RC can indemnify the Committee for the 457 Deferred Compensation Plan if the Internal Revenue Service audits the plan and determines that action would be taken such as returning the funds to the participant accounts within the 457 Deferred Compensation Plan. The other option is to retroactively amend the 457 Deferred Compensation plan document to include the provision.

A motion was made and approved to accept the indemnification by ICMA-RC for the 457 Deferred Compensation de minimis situation. In addition the Committee requested that the indemnification be expanded to include any claims/complaints by participants. A motion was made and approved to have amendments prepared for the next meeting related to the de minimis provision. It was agreed that both the 401 Money Purchase Plan and the 457 Deferred Compensation plan should have the same provision and not vary, so that it can facilitate administration of both plans.

In addition, the Record Keeper will check with ICMA-RC legal counsel whether the participants can choose to return the funds so that they can remain in the 457 Deferred Compensation Plan. This update will be addressed at the next BART IPC meeting.

- c) Administrative Procedures & Forms Review - The Record Keeper also reported that a quarterly review of the BART Administrative procedures was completed with the BART Benefit's team. The Record Keeper highlighted some of the updates that were made at the most recent quarterly review

that was completed.

- d) Results of April Disaster Recovery Test - The Record Keeper reported on the most recent Disaster Recovery Test conducted by ICMA-RC. The test was successful.
- e) ICMA-RC's Preparation Efforts for a Pandemic Flu - The Record Keeper provided information regarding ICMA-RC's Pandemic Flu Task Force team and the preparations that have been made over the last several years.
- f) Approval Letter for VantageView Insert - The Committee reviewed the draft letter communicating the elimination of the VantageView Account Aggregation service. After discussion, it was determined that only the 14 participants who used the service will be informed. This will be discontinued in September 2009.
- g) PIMCO Redemption Fee Elimination - The PIMCO Redemption Fee was eliminated as of 5/1/2009. The Committee agreed that a separate communication to participants was not necessary.
- h) Withdrawal Packet - The Record Keeper reported that the custom BART Withdrawal packet was updated and reviewed/approved by the BART Benefits staff. A draft has just been sent to BART legal counsel for review. The next packet that will be addressed is the BART Beneficiary Withdrawal packet.
- i) Topics for Quarterly Financial Planning Seminars - A list of the Financial Planning seminars was provided to the Committee and feedback was sought on some of the seminars that should be considered. The topics that the Committee thought would be helpful included the following:
  - Investing for a Lifetime Workshop
  - Managing Credit and Debt Workshop
  - Planning for the Unthinkable: Estate Planning
  - How Much Will Retirement Cost (A Workshop)

Next month, the Record Keeper will agendaize an item regarding potential webinars that can be presented so that a broader audience can be reached and if the information is provided in shorter segments, it may attract the younger participant base who are used to obtaining information via online channels.

The Record Keeper reminded the Committee that the Vice President of Legislative Affairs will present to the Committee via teleconference in July regarding the latest Capitol Hill/Congressional updates as it relates to retirement plans.

- j) 401(a) After-Tax Contribution Withdrawals - This item was deferred to a future meeting.

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

- a) Education Policy - Legal counsel and staff asked the Committee whether it was appropriate to adopt a written education policy. Legal counsel indicated that such a written policy was not required. The Committee reviewed its current informal practice of encouraging new Committee members to attend a general fiduciary orientation and educational presentation, such as that offered at Stanford. The Committee further reviewed its policy of encouraging all Committee members to attend the annual NAGDCA educational conference. The amount budgeted for educational conferences for each Committee member was also discussed.

**RESULT:** Based upon the effective operation of the current practice, the Committee determined that a written education policy was not necessary

- b) Small Account Distribution – Legal counsel presented a memorandum, dated August 12, 2008, concerning the distribution of small participant accounts. In that memorandum it was indicated that the Internal Revenue Code permitted the distribution of small accounts under \$1,000 upon termination of employment. It was noted that section 8.10 of the money purchase pension plan currently contains such a provision, whereas the deferred compensation plan currently does not contain such a provision. The Committee discussed the issue and concluded that it was appropriate to include similar language in each plan.

**RESULT:** The Committee directed legal counsel to prepare a draft amendment to each plan providing for distribution of plan accounts of less than \$1,000 at termination of employment unless the participant elects to retain the account.

- c) 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 had previously 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 concluded that a plan participant should be accorded the ability to decide whether or not to submit an application for emergency withdrawal for an unforeseeable hardship for beneficiaries. It was noted that only the participant and not a beneficiary could submit an application for the beneficiary. It was further noted that the plan permitted primary and contingent beneficiaries and that applications for

emergency withdrawals could apply to either category of beneficiary.

**RESULT:** The Committee directed legal counsel to prepare a draft amendment adding beneficiaries to section 7.4, the emergency withdrawal provision, of the deferred compensation plan.

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

- a) Outreach – Staff reported that attendance to the fund manager “brown bag” seminars is up; 25 participants attended April’s seminar compared to 5 at previous seminars.

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

- a) Monthly Budget Review & Vendor Reconciliation Report (April 2009) - Staff presented the monthly budget review and vendor reconciliation report for April 2009. The report was accepted as presented.
- b) Workshops/Seminars – The Committee discussed arrangements for the upcoming National Association of Government Defined Contribution Administrators (NAGDCA) conference in September, 2009.
- c) 2007 Audit – Staff reported that the financial statements continue to be worked on, and are waiting on Brown Armstrong to answer some questions related to the financial statements. A Committee member requested that a timeline for the 2007/2008 audits be presented at the next meeting.

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

The Committee adjourned the meeting at 12:51 p.m. to enter into closed session to consider (3) Hardship Withdrawal Applications of which (1) was approved and (2) were denied. The Committee reconvened the public meeting at 1:05 p.m.

A closed session of the Investment Plans Committee was held on Thursday, May 7, 2009 and convened at 1:00 p.m. to consider (5) Hardship Withdrawal Applications of which (1) was approved and (4) were denied. The Closed session was adjourned at 2:25 p.m.

**AGENDA ITEM 11 – Adjournment**

The Committee adjourned the meeting at 1:05 p.m.