

Investment Plans Committee

Regular Meeting
Minutes
June 17, 2009

A regular session of the Investment Plans Committee (IPC) was held on Wednesday, June 17, 2009 and convened at 8:42 a.m. and adjourned at 1:04 p.m. at 300 Lakeside Drive, 20th 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
Kory Frost,	BPOA
Michael Pon,	BPOA alt.

Committee Members or Alternate Members Absent:

Teresa Murphy,	BART
Howard D. Jones,	SEIU
Jean Hamilton,	AFSCME alt.

Other Attendees:

Rose Roberts,	ICMA-RC (recordkeeper) (via phone)
Al Micheli,	ICMA-RC (via phone)
Russ Richeda,	Saltzman & Johnson (legal counsel)
Marcia Beard,	R.V. Kuhns (investment consultant)
Iwona Scibisz,	PIMCO All Asset
Peter Horikoshi,	BART
Arne Stokstad,	BART
Carolina Lopez,	BART

AGENDA ITEM 1 - Convene and Sign-in

The meeting convened at 8:42 a.m. and was chaired by Elaine Kurtz.

AGENDA ITEM 2 – Public Comment

There were no public comments at the June 17, 2009 BART Investment Plans Committee's public meeting.

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

The Investment Consultant announced that she would be leaving the meeting early.

AGENDA ITEM 4 - Discussion and Action Concerning

a) Minutes – May 27, 2009

The Committee reviewed the May 27, 2009 meeting minutes and approved the following motion:

Motion: To approve the May 27, 2009 meeting minutes with the following modifications:

Page 2 – Agenda Item 5a: Change – “A Summary of the Current Market Environment for ~~the~~ April 2009 was reviewed ”.

Page 4 – Agenda Item 6: Change – “As of December 31, 2008, ~~Rainier T. Rowe Price~~ Investment Management had \$268.8 billion under management ”.

Page 6 – Agenda Item 7d: Change – “The Record Keeper reported on the most recent Disaster Recovery Test conducted by ICMA-RC. The test was successful”.

Page 6 – Agenda Item 7i: Change – “Next month, the Record Keeper will ~~have a topic~~ agendize 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”.

Page 7 – Agenda Item 8a: Change – “The Committee further reviewed its policy of encouraging ~~more veteran~~ all Committee members to attend the annual NAGDCA educational conference”.

Page 7 – Agenda Item 8b: Change – “The Committee discussed the issue and concluded that it was appropriate to ~~contain~~ include similar language in each plan”.

AGENDA ITEM 5 – Discussion and Action Concerning

a) Investment Performance Report – May 2009

A Summary of the Current Market Environment for May 2009 was briefly reviewed. All indexes for publically traded asset classes posted positive returns for the month of May and year-to-date. The S&P 500 Index gained 5.59% in the month. Large cap value stocks out performed large cap growth stocks. Non-US equities posted a positive return with the MSCI EAFE Index up 12.01% and the MSCI ACW ex-US Index up even more at

13.69% on the strength of the rebound in emerging markets.

The Plans' funds outperformed their respective benchmarks in the month, with the exception of Rainier Small/Mid and Dwight Stable Value funds.

b) Manager Focus – PIMCO All Asset

The investment consultant provided information on the PIMCO All Asset Fund in anticipation of the presentation from Iwona Scibisz of PIMCO. The All Asset Fund experienced disappointing returns in 2008 on an absolute basis. The Fund lost 15.48% in 2008 compared to an index of 60% S&P and 40% BC Aggregate which lost 22.06% and to the BC US Treasury Inflation Notes (1-10 Yr) Index which lost 2.43 % for the same period. The year-to-date return through May of 6.39% was well ahead of the 60/40 benchmark.

The inception date for the All Asset Fund was July 31, 2002. Since its inception, PIMCO has revised or added various benchmarks for the Fund including CPI +5%, US TIPS 1-10 Year Index, and the 60% S&P and 40% Aggregate benchmark. Given the tactical nature of this real return strategy, there is not a perfect benchmark.

The Plans added the All Asset Fund in May of 2004. Since its inception with the Plans, the All Asset Fund has trailed CPI +5% and the US TIPS benchmarks. The Fund fell below its policy benchmark as of the March 31, 2009 review and as a result the IPC will review other real return strategies at the July 2009 meeting.

When PIMCO was selected for the real return strategy it was understood that a portfolio manager would not attend the annual presentation to the IPC.

Investment Policy Guidelines:

- The PIMCO All Asset Fund fell below the Investment Policy Guideline of returning greater than the CPI +5% over a 3 year period, because the fund returned -1.88% vs. 7.21% for the Index.
- The PIMCO All Asset Fund fell below the Investment Policy Guideline of returning greater than the CPI +5% over a 5 year period, because the fund returned 1.16% vs. 7.69% 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 0.86%.

c) **BlackRock, Inc. to acquire Barclays Global Investors (BGI)**

R.V. Kuhns confirmed that BlackRock, Inc. agreed to acquire Barclays Global Investors in a deal valued at \$13.5 billion, creating a massive firm with \$2.7 trillion in assets. BGI currently manages more than \$1 trillion in assets. The acquisition will expand BlackRock's operations outside of the U.S. and makes the firm the world's largest institutional money manager. Barclays will retain a 20% stake in the combined firm, which will be called BlackRock Global Investors.

AGENDA ITEM 6 – Fund Manager Update: PIMCO All Asset

a) **Manager Presentation – PIMCO All Asset**

The Investment Consultant left the meeting at 9:30 a.m.

Iwona Scibisz, Vice President and account manager attended. As of December 31, 2008, PIMCO had \$755.9 billion in assets under management. PIMCO employs over 400 investment professionals in 9 global offices.

Iwona stressed that the PIMCO All Asset Fund outperformed TIPS and 60/40 blended benchmarks since the Fund inception. It has not outperformed the non-Beta benchmark of CPI +5%. To support the tactical nature of the Fund, Iwona explained that 2008 was the worst year for the Fund and described the five phases that occurred in 2008 through March 2009; the All Asset Fund outperformed an equally weighted composite of the underlying funds in each of the 5 phases.

The All Asset Fund is incrementally adding risk exposure believing there are currently opportunities in the following areas:

- TIPS: price to reflect approximately 1% inflation through 2028
- Corporate Debt: yielding 5% more than Treasuries
- Convertible bonds and high yield debt: widest spreads in history
- Emerging market bonds: double digit yields
- Treasuries: limited yield

Iwona was careful to say that although PIMCO believes there are opportunities, they are maintaining a defensive positioning going into the second quarter. 48% of the Fund is in defensive positions, 42% is seeking yield with low correlation to equity and only 10% of the Fund is in "risk" assets.

Iwona reviewed PIMCO's secular outlook which they are calling the New Normal.

The New Normal

1. Realignment and Structural Changes

- Smaller banking system
- Long term inflation, short-term deflation
- US Dollar vulnerability

2. International Orientation

- Developing countries facing lower growth
- Emerging markets split into two groups: old paradigm (financial instability) and breakout phase (continued growth)

Risks

- Politics and policy mistakes
- Stability of implicit contracts
- Public debt
- Autonomy of key institutions (the Fed)
- Disorderly economic handoffs

Outlook for an L-Shaped Recession: Deleveraging --- Deglobalization --- Re-Regulation

Economic reality

- Severe global recession continues
- US alone unable to lead revival in global demand

Financial reality

- Paradox of deleveraging
- Policy prescription

Political reality

- Global political climate not open to required size for policy response
- “burden sharing” philosophy

AGENDA ITEM 7 – Discussion and Action Concerning

- a) May 2009 Financial Highlights - 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 May 31, 2009. The Recordkeeper highlighted the variances between contributions, distributions and earnings for this same time period in 2008. She also noted

the change in asset balances for the International Fund, the S & P 500 Index and the Stable Value Fund compared to May 2008.

May 2009	401(a) MPP	457 Deferred Comp
Opening Balance	\$216,959,965	\$331,119,110
Contributions	\$602,580	\$1,750,333
Roll-ins	\$215,144	\$0
Distributions	(\$985,699)	(\$1,333,153)
Adjustments	\$11,246	(\$4,728)
Plan to Plan Transfers	\$0	\$0
Earnings	\$5,757,544	\$10,330,317
Service Fees	(\$16,055)	(\$90)
Closing Balance	\$222,544,725	\$341,861,790
Change	\$5,584,759	\$10,742,680

- b) Education Webinar Topics - Al Micheli, the Financial Planning Communications Specialist, attended the following portion of the meeting (via phone) to discuss what ICMA-RC can offer in webinars as it relates to Financial Planning and other general education topics. The Committee received a list of topics for 45 minute webinars as well as webinar topics that would be approximately 20 minutes in length. It was agreed that in August, the Committee would receive a demo of two of the webinars: Strategies to Help You Save for Retirement and Beneficiary Designations. Mr. Micheli was then excused from the meeting.
- c) Escheatment Procedure - The Recordkeeper explained the Escheatment process for the State of California as it relates to disbursement checks that have not been cashed. In June, there will be a total of \$14.75 escheated to the State for two participant checks.
- d) PeopleSoft Upgrade 9.0 - ICMA-RC was asked to participate in the testing of the indicative files that are transmitted from BART to ICMA-RC. This is a result of the upgrade to PeopleSoft 9.0. The test was completed successfully.
- e) De minimus - As a follow-up from the May 2009 meeting, the Recordkeeper provided the draft indemnification letter for the 457 small balance disbursement processes that occurred in January 2009. The Committee indicated that the letter was acceptable. A final letter will be provided to the Chairperson, Teresa Murphy.
- f) Quarterly Statement – Message/IPC Website - The Recordkeeper distributed sample quarterly statements showing the custom message related to education. This message will appear in the upcoming June 30th

quarterly statement. In addition, the address of the BART IPC website will replace the address of the ICMA-RC website on the front page of the quarterly statement. In addition, a copy of the Account Access message was distributed to the Committee. The message again emphasizes the importance of communication and education that is offered for BART participants, and encourages participants to sign-up for onsite education sessions. The plan is to change the message quarterly to keep participants updated on a variety of topics. It was also suggested that it would be helpful to maintain records of the messages and the time frame for historical purposes.

- g) Guided Pathways Online Advice - The Recordkeeper also communicated to the Committee about a recent requirement from Ibbotsen related to the Online Advice service that is offered. After a review of ICMA-RC's various customer portfolios, they reported that the fund line-up for BART would need to include a second fixed income option. In the last 12 months, the Online Advice program has not been used by any BART participants. The Committee was concerned about the need to change the fund line-up. Since the Investment Consultant was not in attendance for this portion of the meeting, it was decided to defer discussion on this until the July 2009 IPC Committee meeting.

The Recordkeeper also reported that through her review of publications and the plan documents she has suggested to the Committee's Legal counsel to amend the plan documents as it relates to beneficiary designations, particularly the 457 Deferred Compensation plan document. He will review and bring suggested amendments to an upcoming meeting.

There was also discussion about participants having beneficiary designations on file. The Recordkeeper will provide an update at the next meeting on the number of participants who do not have designations on file and will also see if she can obtain when the participants updated their records. She did note that the beneficiary does appear on the quarterly statement so that participants are reminded of this information.

AGENDA ITEM 8 – Discussion and Action Concerning

- a) Legal Updates - Legal counsel distributed a memorandum on legal updates. He discussed a recent federal case concerning vested rights arising out of the San Diego city retirement system and a recently filed initiative that, if enacted, would tax pension income at increasing rates.
- b) IRS Tracking Report - Legal counsel presented an updated IRS tracking report and noted that there had not been any relevant developments since his last report.

- c) Amendment to Add Beneficiaries to Deferred Compensation Plan's Emergency Withdrawal Provisions - Legal counsel presented a proposed amendment to amend the emergency withdrawal provision of the deferred compensation plan to permit withdrawals on behalf of beneficiaries. It was noted that a participant would still be required to file the application, that the withdrawal would be taxable to the participant, and that the distribution would be paid to the participant on behalf of the beneficiary.

RESULT: The Committee by motion unanimously adopted the proposed amendment as its recommendation, subject to deleting "or Beneficiary" and inserting "on behalf of the Beneficiary" from the second-to-last sentence of the proposed amendment.

- d) De minimus – Draft Amendments to 401/457 Plans - Legal counsel presented a proposed amendment to each plan to provide mandatory distributions of account balances under \$1,000 from each plan at or after termination of employment, provided that the participant has been afforded the opportunity to elect to keep his or her funds in the plan. The Committee discussed the two conditions applicable to deferred compensation plans, i.e., no deferrals within twenty-four months and no prior distributions. The Committee determined that only the "no deferral within twenty-four months" condition should be added to the amendment to the money purchase pension plan.

RESULT: The Committee by motion unanimously adopted the proposed amendment to the deferred compensation plan (identified as item 8(d)(i)).

FURTHER RESULT: The Committee by motion unanimously adopted a proposed amendment to the money purchase pension plan identified as item 8(d)(ii), as modified by deleting "(a)" and by deleting "and (b) there has not been any prior distribution to the participant".

- e) Public Records Act Request - Legal counsel reported that there had not been any developments concerning the request.

AGENDA ITEM 9 – Discussion and Action Concerning

- a) Outreach – Staff will continue to monitor the attendance to the monthly 'brown bag' seminars.

AGENDA ITEM 10 – Discussion and Action Concerning

- a) Monthly Budget Review & Vendor Reconciliation Report (May 2009) - Staff presented the monthly budget review and vendor reconciliation report for May 2009. The report was accepted as presented.

- b) Workshops/Seminars – There were no new events to report this month.
- c) 2007 Audit – The Committee requested that staff work with the auditors to finalize the audit in the next month.

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

The Committee adjourned the meeting at 12:35 p.m. to enter into closed session to consider (2) Emergency Withdrawal Applications of which (1) was approved and (1) was denied. The Committee reconvened the public meeting at 12:53 p.m.

A closed session of the Investment Plans Committee was held on Thursday, June 11, 2009 and convened at 1:30 p.m. to consider (4) Emergency Withdrawal Applications of which (4) were approved. The Closed session was adjourned at 2:20 p.m.

AGENDA ITEM 11 – Adjournment

The Committee adjourned the meeting at 1:04 p.m.