

Investment Plans Committee

Regular Meeting
Minutes
July 22, 2009

A regular session of the Investment Plans Committee (IPC) was held on Wednesday, July 22, 2009 and convened at 8:35 a.m. and adjourned at 1:05 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)
Milly Stanges,	ICMA-RC (via phone)
Russ Richeda,	Saltzman & Johnson (legal counsel)
Marcia Beard,	R.V. Kuhns (investment consultant)
Tom Dickson,	Templeton
Brian Kahley,	Templeton
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.

It was noted that Director McPartland would not be attending the meeting.

Rose Roberts of ICMA-RC notified the Committee that the indemnification letter was delivered to Teresa Murphy for signing. Committee member Elaine Kurtz will follow up to see that it was received.

AGENDA ITEM 2 – Public Comment

There were no public comments at the July 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 – June 17, 2009

The Committee reviewed the June 17, 2009 meeting minutes and approved the following motion:

Motion: To approve the June 17, 2009 meeting minutes.

Committee member Carolyn Pope-Chappell joined the meeting at 8:40 a.m.

AGENDA ITEM 5 – Discussion and Action Concerning

a) Investment Performance Report for Second Quarter 2009

The second quarter of 2009 was marked by cautious optimism as the rate of contraction across economic indicators slowed, yet investors await significant positive growth as a sign of a lasting recovery. The Federal Reserve held the Federal Funds Rate to a range of 0% to 0.25%, but many global central banks cut short-term target rates during the quarter. The U.S. Dollar Index, which measures the Dollar against a basket of most commonly traded world currencies, fell 6.2% during the second quarter as some world leaders called for a new world currency. Unemployment continues to weigh on consumer sentiment; the U.S. seasonally adjusted unemployment rate reached 9.5% in the second quarter, compared to 8.5% at the close of the first quarter and 7.6% in January.

Despite concerns, returns for the quarter were positive for all asset classes with the exception of U.S. Treasuries and private real estate. The Pending Home Sales Index rose for four consecutive months, and the credit markets appear to be regaining strength, as many banks have repaid their TARP loans and creditworthy companies are able to borrow again. The Consumer Price Index rose modestly by 1.4% in the second quarter but has fallen by 1.4% over the last 12 months. Finally, long-term interest rates on Treasury securities rose throughout the quarter. The yield on the 10-Year Note climbed from 2.71% in March to 3.53% in June. Despite the Federal Reserve's attempts to hold rates low, investors' embrace of riskier assets

contributed to a sell-off in Treasurys and consequent rise in yields.

During the second calendar quarter the U.S. stock market posted its largest gain since December 1998. The S&P 500 Index rose by 15.93% in the quarter and has risen 36.88% since its March 9, 2009 low. Each of the sectors that make up the S&P 500 Index posted positive returns for the quarter. The Financial sector rebounded strongly from first quarter losses and was the best performing sector during the second quarter. Small capitalization stocks outperformed larger stocks during the quarter. Growth and value stocks posted similar gains in the large-cap segment of the market, while smaller-capitalization growth stocks outperformed their value counterparts by a five-percentage-point margin. Risk was also rewarded in the international markets, which were led by the emerging markets and smaller issues. As measured by the MSCI All Country World Ex US Index, all sectors posted positive returns with Financials leading other sectors.

The only sector of the Barclays Capital Aggregate Bond Index to post negative returns in the second quarter was Treasurys. Long-Term Corporates posted the strongest gains in the quarter, yet fixed-rate mortgage-backed securities have posted the largest gains over the one-, three-, and five-year trailing periods. Within the corporate fixed income space, high yield outperformed other credit qualities by a significant margin during the second quarter.

The Plans' funds outperformed their respective benchmarks in the quarter, with the exception of the Rainier Small/Mid-Cap Equity, Westwood Small/Mid-Cap Value, Templeton Foreign Equity and the Dwight Stable Value funds.

b) Investment Manager Review – Templeton Foreign Equity

The investment consultant provided information on Templeton Foreign Equity in anticipation of the presentation from Thomas Dickson and Brian Kahley. The Fund experienced disappointing returns in 2008 on an absolute basis (-42.15%) but outperformed the MSCI All Country World ex U.S. Index. On a relative basis the Fund ranked above median, in the 37th percentile when compared to International Equity peers. The Fund gained 25.68% in the quarter trailing the MSCI All Country World ex U.S. Index but ranked in the 31st percentile. Longer-term the Fund has performed well by beating its benchmark, net of fees, and ranking in the 11th percentile for the five-year period. For the seven-year period ended June 30, 2009 the Fund provided a net of fee return above the benchmark at lower volatility.

Investment Policy Guidelines:

- The Templeton Foreign Equity Fund exceeded the Investment Policy Guideline of returning greater than the MSCI EAFE Index over a 3 year period by returning -3.85% vs. -7.98% for the Index.
- The Templeton Foreign Equity Fund exceeded the Investment Policy Guideline of being ranked in the 50th percentile or better as compared to similar funds in the International Equity Multi-Cap core Funds Universe by ranking in the 9th percentile over a 3 year period.
- The Templeton Foreign Equity Fund exceeded the Investment Policy Guideline of returning greater than the MSCI EAFE Index over a 5 year period by returning 5.04% vs. 2.31% for the Index.
- The Templeton Foreign Equity Fund exceeded the Investment Policy Guideline of being ranked in the 50th percentile or better as compared to similar funds in the International Equity Multi-Cap core Funds Universe by ranking in the 11th percentile over a 5 year period.
- The Templeton Foreign Equity Fund met the Investment Policy Guideline of not significantly increasing the expense ratio from the previous quarter by maintaining the expense ratio of 0.80%.

c) Quarterly Investment Policy Review (as a result of falling below policy performance guidelines)

- The Dodge & Cox Income Fund fell below the three year policy expectations for performance relative to its policy benchmark and peer universe. The Fund is in compliance with five-year policy expectations.
- The 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 reviewed a large cap value manager comparison. The IPC agreed they would keep Dodge & Cox Stock Fund on the watch list but would not make any changes at this time.
- The PIMCO All Asset Fund fell below the three and five year policy performance expectation. In response, the IPC reviewed a summary of other real return / Global Tactical Asset Allocation (GTAA) managers. The IPC agreed to keep PIMCO on their watch list but would not make any changes at this time. The investment consultant encouraged the IPC to consider a multi-manager approach for this option.

- The Rainier Small/Mid Cap Equity Fund fell below the three and five year policy expectations for performance relative to its policy benchmark. Against its peer universe the Fund fell below the policy expectation for the three year period but remained in compliance for the five year period. The IPC agreed to take no action at this time since long-term performance for the Fund is strong and there have been no changes to the fund management team.

AGENDA ITEM 6 – Fund Manager Update: Templeton

a) Manager Presentation – Templeton Foreign Equity

Thomas Dickson, Senior Vice President and Brian Kahley, Relationship Manager attended. As of March 31, 2009, Franklin Templeton Investments had \$391.1 billion in assets under management. Franklin Templeton laid off 10% of their workforce in three stages. The last round of layoffs was in March 2009. The Global Equity Group was not impacted.

Templeton reviewed their Investment Philosophy – they try to buy quality at a discount.

- Value – They seek companies that they believe are trading at a discount to what their research indicates the company to be worth.
- Patience – Security prices can fluctuate more widely than underlying security values. In their opinion, market efficiencies should recognize and correct the security prices over time.
- Bottom-Up – Templeton identifies value through fundamental analysis of a company's business to determine what they consider its economic worth based on projected future earnings, cash flow or asset value potential.

Underperformance to the MSCI All Country World ex US Index for the quarter was explained as the market rally was driven by riskier securities while Templeton focused on quality. Health care and telecom over weights were headwinds while under weights to materials also hurt performance. Templeton started to find opportunities in high quality stocks in early March but the markets took off before they could complete their implementation.

Templeton is currently over weight in pharmaceuticals. They consider this to be a defensive play. They are also over weight in telecom believing valuations after the tech bubble burst were quite attractive – they now consider the sector to be defensive and the sector gives them exposure to emerging markets at a cheaper price. Their largest under weight is in materials which they believe to be too expensive.

Templeton's research is industry specific so regional allocations are fallouts from their research.

AGENDA ITEM 7 – Discussion and Action Concerning

a) Legislative Update

Milly Stanges, Vice President, Legislative and Public Affairs for ICMA-RC, provided a Legislative Update for the IPC. Topics included updates on Payroll Deduction/Auto IRA, Saver's Credit, Fee Disclosure, Required Minimum Distribution (RMD) changes, Universal Health Care, and National Save for Retirement Week.

b) June 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 June 30, 2009. The Recordkeeper highlighted the variances between overall average contributions and distributions for the time period of January - June 2009 compared to January - June 2008.

June 2009	401(a) MPP	457 Deferred Compensation
Opening Balance	\$222,544,725	\$341,861,790
Contributions	\$346,466	\$1,753,565
Roll-ins	\$1,001	\$1,000
Distributions	(\$570,920)	(\$1,409,348)
Adjustments	(\$7,863)	(\$23,828)
Plan to Plan Transfers	\$0	\$0
Earnings	\$435,974	\$733,376
Service Fees	(\$15,996)	(\$90)
Closing Balance	\$222,733,387	\$342,916,465
Change	\$188,662	\$1,054,675

She also reviewed the monthly data on the web site visits, the quarterly statistics for the Premier Services, participation activity, enrollments, fund transfers and allocation changes. She also shared the activity for telephone calls and the top 10 most common topics that participants are inquiring about.

c) Rainier Fund Reimbursement Process

All of the other mutual fund companies are submitting the shareholder

service fee reimbursements to ICMA-RC's bank lockbox except for Rainier Fund. This is causing a delay in receipt of the funds. They were notified by mail about the change in procedure and to date, the change has not been made. We will attempt alternative methods to communicate this change to see if we will achieve results.

d) Ibbotson Recommendation Second Fixed Income – Request Cancelled

As a follow-up from the June meeting, ICMA-RC received notice from Ibbotson that the second fixed income option will not be required for the Online Advice program.

e) Beneficiary Updates Strategy

There are approximately 1600 participants in the Money Purchase Plan and 1100 participants in the 457 Deferred Compensation Plan who do not have a beneficiary designation listed in ICMA-RC's system. A targeted outreach campaign will occur in which we will communicate with these participants through several channels in order to obtain a current beneficiary designation. A project plan will be provided to the BART staff for review. In November, when the outreach is complete, we will provide the results of the campaign. This campaign will be conducted on an annual basis. Participants will be contacted through a special letter inserted in the quarterly statement, through email, special announcement in Account Access and a reminder script for the Investor Services call center.

AGENDA ITEM 8 – Discussion and Action Concerning

a) Legal Update

Legal counsel presented a memorandum on the California Supreme Court decision in *Strauss v. Horton*, upholding the initiative passed by the voters in November 2008 amending the California constitution to provide that marriage was between a man and a woman. It was noted that the court confirmed the validity of same-sex marriages entered into between the date in 2008 of the court's earlier decision upholding same-sex marriages and the date the initiative was passed.

b) Distributions from the Deferred Compensation Plan (age 70 ½)

Legal counsel presented a memorandum concerning distributions from the deferred compensation plan. He noted that the plan does not now provide for distributions to employees at age 70 1/2 or older but that the Internal Revenue Code does permit such distributions. The Committee discussed the advantages and disadvantages of permitting this type of distribution. The Committee concluded that such distribution was not appropriate.

c) Minimum Deferrals from Deferred Compensation Plan

Legal counsel presented a memorandum concerning minimum deferrals under the deferred compensation plan. It was noted that the current provision in section 4.5 providing for minimum deferrals "for each investment choice" was difficult to administer. Staff also noted that some participants were deferring less than \$10 per pay period. The Committee discussed the desirability of encouraging participants to save for retirement, while at the same time not subsidizing overly small deferrals. The Committee concluded that notice should be sent to participants deferring small amounts about the \$10 requirement and directed legal counsel to prepare a proposed amendment deleting the phrase "for each investment choice" from section 4.5.

d) Distribution Deadlines in Deferred Compensation Plan

Legal counsel presented a memorandum concerning distribution deadlines in the deferred compensation plan. It was noted that the deadlines set forth in section 7.3(a), 7.3(b), and 11.5 of the deferred compensation plan were workable in the normal case but were not necessarily feasible in more complex cases. Legal counsel recommended that the fixed deadlines be replaced by references to "reasonable" time periods. The Committee directed legal counsel to prepare a proposed amendment to this effect.

e) Distribution Update

Legal counsel discussed the number of distribution cases he was currently handling for the Committee. The Committee directed that an on-going log of pending distribution cases be prepared, without names or other identifying information.

f) Banks Interpleader

Legal counsel presented a memorandum describing the distribution consequences involving former participant Richard Banks. Legal counsel described the efforts to date to obtain agreement on the distribution of the plan accounts to the designated beneficiaries. He indicated that he would continue those efforts. The committee authorized legal counsel, in the event it did not prove possible to obtain agreement, to file an interpleader action with legal fees not to exceed \$7,000.00.

AGENDA ITEM 9 – Discussion and Action Concerning

a) Outreach

Staff reported that twelve participants attended the June brown bag seminar. Committee member, Kory Frost reported that BART's Police Officer's Association will schedule Bill Eagan of ICMA-RC to give a presentation to its members.

AGENDA ITEM 10 – Discussion and Action Concerning

a) Monthly Budget Review & Vendor Reconciliation Report (June 2009)

Staff presented the monthly budget review and vendor reconciliation report for June 2009. A committee member noted that income for June was less than previous months. Staff reported that since fund reimbursements from Rainier are not being sent to ICMA-RC's lock box, payments are not being posted on time.

b) Workshops/Seminars

Staff notified the Committee of the upcoming Pensions and Investments West Coast Defined Contribution conference being held November 1 – 3, 2009. A committee member requested that staff register them for this event.

c) 2007 Audit

Staff reported that the auditors have begun working on our file. However, staff has not been able to dedicate much time to the audit due to other obligations related to labor negotiations. Staff asked the Committee to extend the deadline to the end of August; the Committee approved this request.

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 five Emergency Withdrawal Applications of which four were approved and one was denied. The Committee reconvened the public meeting at 1:05 p.m.

A closed session of the Investment Plans Committee was held on Thursday, July 9, 2009 and convened at 1:00 p.m. to consider one Emergency Withdrawal Applications of which one was approved. The Closed session was adjourned at 1:15 p.m.

AGENDA ITEM 12 – Adjournment

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