

## Investment Plans Committee

Regular Meeting  
Minutes  
March 15, 2010

A regular session of the Investment Plans Committee (IPC) was held on Wednesday, March 15, 2010 and convened at 8:35 a.m. and adjourned at 12:30 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.
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:

Rose Roberts,	ICMA-RC (record keeper) (via telephone)
Russ Richeda,	Saltzman & Johnson (legal counsel)
Brandie Barrows,	Saltzman & Johnson (legal counsel)
Marcia Beard,	R.V. Kuhns (investment consultant)
John O' Halloran,	Rainier
Daniel Brewer,	Rainier
Peter Horikoshi,	BART
Arne Stokstad,	BART
Carolina Lopez,	BART

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

### **AGENDA ITEM 2** - Public Comment

There were no public comments at the March 15, 2010 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 Minutes – February 24, 2010**

The Committee reviewed the minutes and approved the following motion:

**Motion:** To approve the February 24, 2010 meeting minutes as written.

### **AGENDA ITEM 5 – Discussion and Action Concerning Investment Consultant Report**

#### a) Investment Performance Report – February 2010

February 2010 proved to be a good month for domestic equity markets. Domestic equity indexes posted positive returns for the month. The S&P 500 Index gained 3.10% earning back the majority of the 3.60% lost in January. Domestic small cap stocks outperformed domestic large cap stocks. Domestic value stocks underperformed growth stocks. Non-US equities posted a negative return with the MSCI EAFE Index down 0.69%. The Barclays Capital Aggregate Index was positive for the month at 0.37%.

The majority of the Plans’ funds underperformed their respective benchmarks in the month with the exception of RCM Large Cap Growth Fund, Westwood Smid Cap Fund, DWS RREEF Real Estate Securities Fund and the PIMCO All Asset Fund.

#### b) Review of Draft Investment Policy Revision for Approval

A draft of a revised Investment Policy was reviewed. Originally the proposed revisions centered on removal of the Micro Cap Equity Option and the Enhanced Equity Option in Section V. Tier Two – Core Investment Options as well as changing the fixed income benchmark from the Lehman Aggregate Bond Index to the Barclays Capital U.S. Aggregate Bond Index. During the February meeting the Committee asked that Section III. The Responsibilities of the Investment Plans Committee be broadened to include an annual review of the Policy and draft an introductory statement under Section V. Tier Two – Core Investment Options (similar to Tiers I and III). The Committee approved the revisions as drafted and also asked R.V. Kuhns to rearrange the Core Investment Options section from least risk to most risk. R.V. Kuhns was instructed to make the changes, show the Policy as amended and provide a final copy to the Committee in April.

The Investment Consultant reported that all the Plans’ managers had complied

with the annual information request and staff had the CD with the responses. The IPC asked that the Consultant provide a summary sheet to accompany the CD showing investment manager firm, if they responded to all questions, if they provided the Form ADV and if they provided the SAS 70. The Consultant will provide this report to the Committee in April.

c) Investment Manager Review – Rainier Investment Management

In anticipation of the presentation, the Investment Consultant provided information on the Rainier Small/Mid Cap Equity Fund. The Fund experienced disappointing returns relative to its peers and to its benchmark, the Russell 2500 Growth Index, in 2009 (29.83% vs. 41.66%). The Fund also trailed its benchmark year-to-date through February 2010. Longer-term the Fund has performed well by beating its benchmark, net of fees, for the seven- and ten-year periods and since the Fund's inception in 1994. For the ten-year period ended December 31, 2009 the Fund provided a net of fee return well-above the benchmark with far less volatility and captured 93.05% of up markets and only 73.19% of down markets. The Fund is well-diversified holding 131 securities with less than 20% in the top ten holdings.

**AGENDA ITEM 6 – Fund Manager Update: Rainier**

Daniel Brewer, Senior Equity Portfolio Manager and John O'Halloran, Chairman and CEO of Rainier Mutual Funds attended. Rainier manages domestic large, mid and small cap equity and fixed income. Rainier has \$17.3 billion in assets under management including \$5.04 billion in small/mid cap.

Mr. Brewer stated that the portfolio management team remains stable and the two portfolio managers added in 2008 were timely additions. Mr. Brewer said their process remains the same but they have added a formal meeting each Monday as another check - a data point sharing. They found that the sector teams can benefit from information provided by other sector teams. The Monday meeting serves as reconciliation for the group.

Daniel reviewed what worked for the portfolio in the last eighteen months and what did not:

Worked:

- Technology overweight and good stock selection – semi conductors tend to rally early.
- Financial services – Rainier was careful with credit risk and did not have much exposure to banks.

Hurt:

- sell off in energy and materials in the second half of the year (last half of 2008).
- the majority of the Fund's underperformance came from the health care sector (2009).

Mr. Brewer said the Rainier team believes attention will return to companies that can sustain growth – more profitable companies. He believes we will return to more a stock pickers market. He said earnings growth should be good in 2010 but valuations will remain the question. Rainier does not believe there will be a double dip recession.

Rainier experienced a net gain in assets in 2009.

**AGENDA ITEM 7 - Discussion and Action Concerning Record Keeper Report**

a) February Financial Highlights and Reports

The Record Keeper reviewed the following monthly reports:

- BART 401(a) and 457 Transaction Summary Reports
- BART 401(a) and 457 Fund Information Reports
- BART 401(a) and 457 Fund Detail Reports
- BART Fund Reimbursement Reconciliation Report
- BART IPC Web Activity

<b>2010</b>	<b>457 Deferred Compensation</b>	<b>401(a) Money Purchase Plan</b>
Opening Balance as of February 1, 2010	\$380,198,277.89	\$236,451,242.65
Contributions	\$1,720,665.10	\$1,177,444.25
Roll-ins	\$268,722.97	\$25,077.56
Distributions	(\$1,324,246.17)	(\$1,607,580.40)
Adjustments	\$0.00	\$0.00
Plan-to-Plan Transfers	\$0.00	\$0.00
Earnings	\$5,047,283.41	\$2,750,210.51
Service Fees	(\$145.00)	(\$4,384.86)
<b>Closing Balance as of February, 2010</b>	<b>\$385,910,558.20</b>	<b>\$238,792,009.71</b>
<b>Change</b>	<b>\$5,712,280.31</b>	<b>\$2,340,767.06</b>

The Record Keeper also reviewed the percentage of participants who have 100% of their account balance in the Stable Value Fund compared to the total number of participants in each age group:

	<u>457 Plan</u>	<u>401(a) Plan</u>
Age 35 and under	6%	5%
Age 36 – 55	17%	10%
Over 55	37%	24%

Regarding the mutual fund reimbursements, the Record Keeper confirmed that Dodge and Cox and Westwood transmit the funds by wire transfer. Rainier has indicated they can only send by check. T. Rowe Price is looking into sending by wire or electronic deposit.

The Record Keeper also followed up from last meeting that there were 3 participants who chose to rollover their funds in the de minimis process that was completed in January 2010.

b) National Save for Retirement Week

The Record Keeper reported that National Save for Retirement Week is tentatively October 17 – 23, 2010 (assuming Congress passes the resolution). ICMA-RC will be participating in the ICMA Trade Association annual conference which will be in San Jose, California during this same week. At a future meeting, we will be discussing how BART may be involved with the celebration of National Save for Retirement Week in the bay area region in partnership with ICMA-RC. More details will follow at a future meeting.

c) Participant Day Quarterly Statement Communications

The draft flyer was distributed to the Committee regarding the Annual Participant Education Day. The Committee provided feedback. Edits will be made and staff will review the final copy so that it's printed in time for inserting into the upcoming first quarter statement.

d) Beneficiary Outreach Update

Last month the Record Keeper provided results on the beneficiary outreach campaign. Additional records were updated in the Record Keeper's system after the meeting held in February. As a result, there are 12% of participants in the 457 Deferred Compensation Plan who have not selected a beneficiary. In the 401(a) Money Purchase Pension Plan, there are 16% who have not completed a designation.

**AGENDA ITEM 8** – Discussion and Action Concerning Legal Counsel Report

a) Legal Update

Legal Counsel Russ Richeda presented an oral update on Keith Richman's latest public pension plan initiative, the New Employees Benefits Reform Initiative, which would have significantly increased eligibility requirements for

public retirement defined benefit plans and reduced benefits for new hires. Mr. Richman's group, the Foundation for Fiscal Responsibility, has issued a press release withdrawing, for now, its efforts to obtain signatures to qualify the Initiative for the November 2010 ballot. Governor Arnold Schwarzenegger declined to support the measure, and the support the Foundation expected to receive from gubernatorial candidate Meg Whitman did not materialize.

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

- a) 2010 Participant Day – Staff presented a proposal to the Committee to hold afternoon and early evening sessions on the same day instead of morning and afternoon sessions in order to accommodate employees with differing schedules. Based on feedback that some employees are reluctant to attend events at the Lakeside location, staff is looking into reserving the Metro Auditorium near the Lake Merritt BART station. Committee members asked if the evening session could be held earlier in the day.

The sessions will focus on presenting the following:

- investment lineup and describing how each of these funds might fit into a participant's portfolio,
- a separate session on target retirement date funds,
- special programs like contributions to the Money Purchase Pension Plan through the District's buy back programs,
- rolling funds from a previous employer's tax deferred plan and deferred compensation catch up programs, and
- how to use on-line resources plus the importance of beneficiary designations for final distributions.

In an effort to attract more employees, a raffle will be held with an iPod touch as the prize. Staff will work with the record keeper to firm up these details so that the record keeper can prepare flyers to be included in the quarterly statement that will be mailed in early April. A report will be presented at the April 28, 2010 monthly committee meeting.

**AGENDA ITEM 10** - Discussion and Action Concerning Staff Report

- a) Monthly Budget Review & Vendor Reconciliation Report – February 2010

Staff presented the monthly budget review and vendor reconciliation report for February 2010. Staff reported that the previous year's column is still being reflected on the budget due to payments still being made to vendors for services in 2009. Reports were accepted as received.

- b) Workshops/Seminars

c) 2007 Audit – Auditor Review and Scheduling Presentation of Findings

Staff has submitted financial statements and management discussion and analysis documents to the auditors. The Committee expressed its desire to complete the 2007 audit as soon as possible. Staff will try to complete the process so that the auditors will be able to present findings at the April 28, 2010 monthly committee meeting.

d) Accountant Review of QuickBooks Files

Staff met with the accountant, George Carathimas, several times in the past few weeks to let the accountant familiarize himself with the kinds of entries and accounts, income and expenses that the plans commonly use. He has already found some entries that should be corrected. It is staff's intent to use him for the preparation of the 2008 financial statements using QuickBooks rather than focusing on the 2007 financial statements, which have already been submitted to the auditors.

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

The Committee adjourned the meeting at 12:15 p.m. to enter into closed session to discuss recently reviewed cases related to the IRS' rules on unforeseeable emergencies affecting a participant's qualifying dependent and or beneficiary. The Closed session was adjourned at 12:30 p.m.

A closed session of the Investment Plans Committee was held on Thursday, March 11, 2010 and convened at 1:10 p.m. to consider five Emergency Withdrawal Applications of which three were approved and two were denied. The Closed session was adjourned at 2:00 p.m.

**AGENDA ITEM 12 - Adjournment**

The Committee adjourned the meeting at 12:30 p.m.