

Investment Plans Committee

Regular Meeting
Minutes
May 26, 2010

A regular meeting of the Investment Plans Committee (IPC) was held on Wednesday, May 26, 2010 and convened at 8:30 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.
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:

David Orlando,	T. Rowe Price
Michele Martin,	ICMA-RC (record keeper)
Janna Dandridge,	ICMA-RC (via telephone)
Russ Richeda,	Saltzman & Johnson (legal counsel)
Marcia Beard,	R.V. Kuhns (investment consultant)
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 May 26, 2010 BART Investment Plans Committee's public meeting.

8:35 Hubert LaViolette and Rube Warren joined the 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 – April 28, 2010

The Committee reviewed the minutes and approved the following motion:

Motion: To approve the April 28, 2010 meeting minutes with the following modifications:

Page 4 – Agenda Item 5: Change – “Every sector of the Barclays Capital (BC) US Aggregate experienced positive returns.”

Page 5 – Agenda Item 5: Change – “The Fund lost 0.29% in 2008 compared to the BC Aggregate Index which gained 5.24% in the same period.”

Page 6 – Agenda Item 6: Change – “Brought on two new analysts, ~~and as a result, they sold autos. What does this mean?~~”

Page 6 – Agenda Item 6: Change – “Hired a lobbyist in Washington to help them monitor public policy and where it is heading.”

Page 6 – Agenda Item 6: Change – “Committee member Jean Hamilton left the meeting at 9:00 a.m. and Committee member Dennis Howard Jones entered the meeting at 9:15 a.m.”

Page 9 – Agenda Item 8d: Change – “He pointed out the formalities set forth in the Probate Code and which are required to be met before the power of attorney would be valid.”

Page 11 – Agenda Item 11a: Change – “At that point, the Investment Plans would have had no further legal obligations as the monies would have been distributed to the court. The Committee authorized legal counsel to file an interpleader in this particular case.”

AGENDA ITEM 5 – Discussion and Action Concerning Investment Consultant Report

a) Investment Performance Update – April 2010

April 2010 proved to be a good month for domestic equity markets. All domestic equity indexes posted positive returns for the month. The S&P 500 Index gained 1.58%. Domestic small and mid cap stocks outperformed domestic large cap stocks. Domestic value stocks outperformed growth stocks.

Non-US equities posted a negative return with the MSCI EAFE Index down 1.81%. The Barclays Capital Aggregate Index was positive for the month at 1.04%.

The majority of the Plans' funds outperformed their respective benchmarks in the month with the exception of Dodge & Cox Stock and Income Funds, RCM Large Cap Growth, Westwood Smid Cap Fund and the Dwight Stable Value portfolios.

b) **Manager Focus – T. Rowe Price (Target Retirement Date Funds and Balanced Fund)**

The investment consultant provided detailed information on the T. Rowe Price Funds in anticipation of the presentation from David Orlando.

Balanced Fund – March 31, 2010

The Fund performed in line with a comparative benchmark (currently - 52% S&P 500 Index, 35% Barclays Capital US Aggregate Index and 13% MSCI EAFE Index) in the quarter and outperformed the Index by 5.66% for the one-year period ended March 31, 2010. 2009 was a very strong year for the Fund, which beat its benchmark by 807 basis points. Although ahead of its benchmark in 2009, the Fund experienced disappointing returns in 2008 on an absolute basis. However, on a relative basis the Fund ranked above median (48th percentile). Longer-term performance for the Fund is strong. The Fund beat its comparative benchmark over the last ten years in every year except for 2008 and 2002 and ranked above median in its peer universe in each calendar year. Over the last ten years, the Fund captured 116.49% in the quarters when the benchmark went up but also captured 102.24% when the benchmark experienced down quarters.

Target Retirement Date Funds – March 31, 2010

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

The following factors that contributed to the 2008 underperformance across the T.Rowe Price Target Retirement Date strategies were the same factors that lead to the strong outperformance in 2009 and for the first calendar quarter of 2010:

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

The investment team at T. Rowe Price has been very stable.

AGENDA ITEM 6 – Fund Manager Update: T. Rowe Price Balanced Fund and Retirement Date Funds

David Orlando, Relationship Manager presented. As of December 31, 2008, T. Rowe Price managed \$419.0 billion globally. T. Rowe Price continues to have no outstanding long-term debt with substantial liquidity, including cash and mutual fund investment holding of nearly \$1.5 billion. David explained the cash reserve is a defensive measure in that T. Rowe Price wants to have at least \$1.0 billion in reserve at all times to operate the company. They experienced net cash inflows of \$19 billion in the first quarter of 2010. 30% of T. Rowe Price analysts are now working outside of the US.

Balanced Fund

David reviewed the asset allocation of the Balanced Fund stressing that the Fund is a well-diversified asset allocation portfolio with broad asset class exposure. A goal of T. Rowe Price is to manage this Fund in an asset allocation profile similar to a typical defined benefit plan – currently the target allocation is 65% global equity and 35% fixed income exposure. The Fund experiences modest asset allocation changes but he stressed that it is not an active market timing fund. The fund is managed by a team of 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 0-8% of total assets). David stressed that T. Rowe Price's stock selection and portfolio construction is driven by a combination of active fundamental research and quantitative modeling.

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 Record Keeper Report

a) April 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

2010	457 Deferred Compensation	401(a) Money Purchase Plan
Opening Balance as of April 1, 2010	\$399,188,058.54	\$245,815,071.31
Contributions	\$1,756,391.95	\$946,282,.98
Roll-ins	\$9,000.19	\$0.00
Distributions	(\$2,567,616.30)	(\$1,790,476.55)
Adjustments	\$0.00	\$0.00
Plan-to-Plan Transfers	\$0.00	\$0.00
Earnings	\$4,919,084.59	\$2,714,284.11
Service Fees	(\$117.08)	(\$4,515.41)
Closing Balance as of April 30, 2010	\$403,304,801.89	\$247,680,646.44
Change	\$4,116,743.35	\$1,865,575.13

The Record Keeper, in her review of the 457 Transaction Summary Report, noted that there was an enrollment in the VantageBroker Program. The report reflects an increase by one in the total number of participants in the program and the one-time enrollment fee. The Committee inquired about a no-activity fee in the VantageBroker program and if the appropriate disclosures are available on the IPC Web site. The Record Keeper will research and follow-up with the Committee on this inquiry during next month's meeting.

A new footnote was added to the 401(a) Transaction Summary report which reflects the after-tax source balance. The Committee agreed to keep the additional footnote going forward. The Record Keeper reviewed the 401(a) and 457 Fund Detail Reports highlighting the funds that had significant transfer-in and transfer-out activity.

The Record Keeper noted that fund payments are arriving on schedule and that quarterly fund payments will be reflected on the May and June 2010 reports.

b) Observations/trends related to California clients/participants

The Record Keeper reviewed trends amongst California transit clients related to seminars and on-site educational events. She noted that other clients face some of the same challenges in drawing people to the events and attracting a younger demographic. Participants that attend such events are generally those nearing retirement and who regularly attend seminars/employee events. This opened the floor to the Committee's discussion and feedback about Participant Day.

c) Participant Day results of seminars and individual consultations-success stories

The Record Keeper reported that the individual consultations were successful in that they remained full throughout the day. Survey results were reviewed following the meeting and showed that attendees thought that the event was beneficial and enjoyed the presentations. The Committee expressed their appreciation and commented on the quality of the presentations given during the event.

AGENDA ITEM 8 – Discussion and Action Concerning Legal Counsel Report

a) Legal updates

Legal counsel reviewed his legal update. He discussed the Governor's proposal for a second tier for new state employees and reviewed developments concerning placement agents, including a felony plea bargain in New York by the chief investment officer of the New York State Comptroller's Office for securities law fraud and bribery concerning the State's retirement fund.

b) Proposed Roth IRA amendment to both plans

Legal counsel stated that he was still preparing that amendment. He noted that his office had confirmed that the IRS considered the amendment mandatory, despite the absence of clear language in the Internal Revenue Code to that effect. He intended to return to the Committee with a draft amendment at its June or July meeting.

c) Reconsideration of status of domestic partners for purposes of the default distribution amendment to both plans

Legal counsel reviewed the Committee's prior deliberations concerning the desirability of adding to each plan a distribution hierarchy in the event a

d) Plan distribution concerning a deceased participant

Legal counsel notified the Committee that the parties had come to a tentative agreement on this issue and that it may not be necessary to file an interpleader action.

e) Status on pending plan amendments

Legal counsel reported that he had contacted the District's General Counsel about the status of the pending plan amendments and that he would continue to do so.

f) Placement Agent Policy Update

Legal counsel presented the draft placement agent policy and the investment consultant indicated that it had been provided to Dwight Asset Management for its comments. A final policy would be presented to the Committee at its June meeting.

AGENDA ITEM 9 – Discussion and Action Concerning

a) 2010 Participant Day

This item was discussed in agenda item 7c

b) 2010 NAGDCA Conference

The Committee discussed BART staff attendance at the NAGDCA conference. The Committee felt that staff could benefit from many of the sessions at the conference. The Committee approved two staff members to attend the 2010 conference.

AGENDA ITEM 10 – Discussion and Action Concerning Staff Report

a) Monthly Budget Review & Vendor Reconciliation Report – April 2010

The Committee accepted the April budget report as presented. It was noted

that April was the first month for this calendar year in which income was less than expenses. However, staff noted that the year to date fund reimbursements from Rainier and T. Rowe Price are more than had been anticipated. The Committee will discuss whether to suspend the participant fee at next month's meeting. A committee member requested that the "accountant" be added as a permanent line item on the budget.

b) Workshops/Seminars

Staff continues to forward notices of workshops, seminars and web seminars to committee members.

c) 2007 Audit – Auditor Review and Scheduling Presentation Findings

Staff continues to work with the auditors to the investment plans to complete the audit of the 2007 plan year. The auditors plan to present their findings at the June 2010 monthly committee meeting. The Committee changed the date of the June 2010 meeting to June 22, 2010 to accommodate the auditor's schedule.

d) Accountant Review of QuickBooks Files

Staff continues to meet with the accountant for training sessions in preparation for the 2008 audit.

AGENDA ITEM 11 – Discussion and Action Concerning Closed Session

There were no emergency withdrawal applications to review at this meeting.

A closed session of the Investment Plans Committee was held on Thursday, May 13, 2010 and convened at 1:00 p.m. to consider two Emergency Withdrawal Applications of which two were approved. The Closed session was adjourned at 1:10 p.m.

AGENDA ITEM 12 - Adjournment

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