

**INVESTMENT OBJECTIVES AND
POLICY GUIDELINES**

**San Francisco Bay Area Rapid Transit District
Money Purchase Pension Plan & Deferred Compensation Plan**

Adopted: March 11, 1993
Amended: March 24, 1999
Amended: June 28, 2000
Amended: October 25, 2000
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I. INTRODUCTION

This statement governs the investment of the assets held in trust for the San Francisco Bay Area Rapid Transit District Money Purchase Pension Plan & Deferred Compensation Plan (the "Plans").

This statement is set forth in order that the members of the Investment Plans Committee (the "Committee"), the Trustee, Investment Managers (Managers), and management of San Francisco Bay Area Rapid Transit District may be made aware of the policy of the Committee with regard to the investment of the Plans' assets, the investment objectives and policy established by the Committee, and the expectations and requirements of the Committee with respect to the Managers' performances.

II. THE PLANS

The vested assets of the Plans belong to employees (active, retired, terminated vested, and beneficiaries) who are plan participants. The objective of the Plans is to provide employees with a source of retirement income from accumulated employee contributions, employer contributions, and investment returns.

III. THE RESPONSIBILITIES OF THE INVESTMENT PLANS COMMITTEE

The Committee shall have the authority to oversee the investments of the Plans. The Committee responsibilities include the following duties:

- a) When deemed necessary, and at least annually, review the Policy, and modify the Policy if changes are needed.
- b) Annually review the investment option lineup including the number and type of investment options offered to participants in each of the Plans.

- c) Select professional investment managers.
- d) Negotiate and monitor investment expenses.
- e) Monitor and evaluate investment performance on a quarterly and ongoing basis.
- f) Assure proper custody of the investments.
- g) Identify and avoid conflicts of interest.
- h) Promote communication and education to help participants understand the objectives of each investment option so that they may make investment decisions aligned with their objectives.

IV. INVESTMENT POLICY GUIDELINES

A. The Committee does not expect to be reactive to short-term investment developments, recognizing that the overall considerations for retirement payout are long term and that investment competence must be measured over a complete market cycle (generally three to five years). Subject to Section V below, the Committee anticipates making interim qualitative judgments. Specific qualitative factors that will be reviewed on an ongoing basis include any fundamental changes in:

- The Manager's investment philosophy;
- The Manager's performance relative to the established index or benchmark;
- The Manager's organizational structure, financial condition (including any significant changes in total assets under management), personnel; and
- Any change in the Manager's fee structure relative to their peers.

B. When portfolios are separately managed for the Plans, selected financial derivatives may be used within prudent limits to manage risk. However, the Committee does not want investment managers to materially alter the portfolio risk profile beyond that which is implied by the investment manager's investment style. The use of derivatives in pursuit of strategies to achieve "above market" performance is considered speculative and is strictly forbidden. Under no circumstances should leverage be employed in the purchase of securities. (A derivative is defined as a contract or security whose value is based on the performance of an underlying financial asset, index, or other investment.)

V. INVESTMENT OPTIONS AND PERFORMANCE MEASUREMENT

Each participating employee is responsible for directing his or her own contributions to any or all of the investment options outlined below, unless restricted by Plan guidelines. By virtue of this allocation, each participant determines the amount of risk he or she is willing to accept. Investment management of the Plans' assets will correspond to the guidelines outlined herein.

The Committee's specific objectives for each of the investment options are as follows:

TIER ONE – LIFE STRATEGY (TARGET RETIREMENT DATE) OPTION

The Target Retirement Date Option provides a series of investment funds that are systematically diversified and have different reward and risk characteristics based on the targeted maturity date of the fund, which is expected to coincide with the approximate retirement date of the participant. Generally the funds with longer dated maturities will be more aggressively allocated to equities, and will be managed over time to become more conservative as the maturity date nears. The Retirement Income Fund, which is intended for post retirement participants, will continue to maintain an exposure to equity markets in order to provide some level of inflation protection in retirement.

TIER TWO – CORE INVESTMENT OPTIONS

The Core Investment Options provide each participant a reasonable opportunity to materially affect the potential return of the participant's account and the overall level of risk to which the participant's account is exposed. In addition, the core investment options provide each participant the opportunity to diversify their individual participant account.

The asset classes (options) are listed in order starting with those that have historically experienced the least volatility to those that have historically experienced the most volatility

- A. Stable Value Option - This option will consist primarily of stable value products. Stable value products are defined as fixed income investments whose principal and interest rate remain fixed for a pre-determined period of time. The portfolio is divided into Guaranteed Investment Contracts (GICs), GIC alternatives, collateralized GICs, collective investment trusts and cash or cash equivalents. The minimum average credit quality of the option must be Aa/AA as rated by Moody's, S&P or other nationally recognized statistical rating agency. The primary investment objective is preservation of capital. Within this objective, the option will seek to achieve a reasonably stable monthly return, a high level of liquidity for participant withdrawals and a total return net of fees and expenses, which, over time, exceeds the return of the rolling 5 Year Constant Maturity Treasury and the 90-Day T-Bill Index. Employees participating in this option should recognize that the investments of the option have minimal risk and minimal appreciation potential. The return of this option is based solely on the earned investment income.
- B. Fixed Income Option - This option will consist primarily of fixed income securities and cash. Employees participating in this option should recognize that investments in this option entail the risks associated with the fixed income market. Investment

performance compared against the Barclays Capital U.S. Aggregate Bond Index and against managers investing with similar objectives will be used to measure the fund Manager's performance. It is expected that the Manager's investment performance over a market cycle will, at a minimum, match the Barclays Capital U.S. Aggregate Bond Index.

- C. All Asset Fund, a Real Return Strategy - This option employs an active, multi-market strategy that seeks to provide real long-term inflation adjusted returns. The Manager will be responsible for the active allocation between equities, fixed income, cash and alternative asset classes, such as commodities and real estate securities. Employees participating in this option should recognize that investments in this option entail equity, fixed income, and alternative asset market risks. It is expected that the Manager's investment performance over a market cycle will exceed the increase in the Consumer Price Index (CPI) by at least five percent per annum.
- D. Balanced Option - This option will consist primarily of equities, fixed income securities, and some cash. The Manager will be responsible for the active allocation between equities, fixed income, and cash. Employees participating in this option should recognize that investments in this option entail both equity and fixed income market risks. It is expected that the Manager's investment performance over a market cycle will rank above median compared to the Bankers Trust Balanced Fund Universe and a static index comprised of 60% S&P 500 and 40% Barclays Capital U.S. Aggregate Bond Index.
- E. Large Cap Value Equity Option - The option invests primarily in undervalued stocks of medium and large companies, characterized by above-average income yields and below-average price/earnings ratios relative to the stock market. The Manager will typically be fully invested, with only residual cash at any given time. Employees participating in this option should recognize that investments in this option entail equity market risk. Performance of this option should exceed the Russell 1000 Value Index and should outperform the median in a universe of similar managers.
- F. Standard & Poor's 500 Index Option - This option will consist of the 500 stocks which comprise the S&P 500 Index. Participating employees should recognize that investments in this option entail equity market risks identical to investing to the S&P 500 Index. The investment performance should be compared against the S&P 500 Index less fees. It is expected that the option's performance will closely match the S&P 500, less fees, on a quarterly and annual period of time and over a market cycle. It is expected, however, that there may, from time-to-time, be a tracking error of up to ten basis points annually.

- G. Large Cap Growth Equity Option – Investments will be primarily in stocks of medium and large companies, characterized by above-average earnings growth potential. The Manager will typically be fully invested, with only residual cash at any given time. Employees participating in this option should recognize that investments in this option entail equity market risk. Performance of this option should exceed the Russell 1000 Growth Index and should outperform the median in a universe of similar managers.
- H. International Equity Option - This option shall consist of international common stocks and cash equivalents in amounts determined by the Manager. Employees participating in this option should recognize that investments in this option may entail foreign equity market risks, as well as currency risk. Investment performance comparison against the MSCI EAFE Index and MSCI ACW ex U.S. Index will be used to assess the fund Manager's performance. It is expected that the Manager's investment performance over a market cycle will exceed the median in a universe of similar managers.
- I. Real Estate Securities Option - This option invests in real estate securities. These include real estate investment trusts and companies engaged in the real estate industry. Employees participating in this option should recognize that investments in this option entail equity market risk. Performance of this option should exceed the NAREIT Index.
- J. Small / Mid Cap Value Equity Option - This option will emphasize investment in companies based on the issuer's earning power, and the relative value of the issuer's assets. Typically, the option will be invested in the common stock of companies with a market capitalization of \$10 billion or less. The Manager will typically be fully invested, with only residual cash at any given time. Employees participating in this option should recognize that investments in this option entail equity market risk associated with small to mid sized companies. Performance of this option should exceed the Russell 2500 Value Index and should outperform the median in a universe of similar managers.
- K. Small / Mid Cap Growth Equity Option - This option will emphasize management of equity investment in companies considered to have above-average potential for growth in earnings and value. Typically, the option will be invested in the common stock of companies with a market capitalization of \$10 billion or less. The individual issues may have one or more of the following characteristics: above-market price to earnings ratio; high relative volatility; high relative price to book ratio; low dividend yield; above average longer-term earnings expectations. The Manager will typically be fully invested, with only residual cash at any given time. Employees participating in this option should recognize that investments in this option entail equity market

risk associated with small to mid sized companies. Performance of this option should exceed the Russell 2500 Growth Index and should outperform the median in a universe of similar managers.

TIER THREE – SELF-DIRECTED BROKERAGE OPTION

The Self-Directed Brokerage Option gives participants seeking greater investment flexibility access to a brokerage window. The Self-directed Brokerage Option is only available in the Deferred Compensation Plan. Participants may elect to allocate 100% of their Deferred Compensation Plan balance to this option. The types of securities available for investment include mutual funds, publicly traded common and preferred stock, American Depository Receipts, bonds, and closed-end funds. Direct investments in options, futures and other financial derivatives are not permitted. Participants investing in this option do so entirely at their own risk. The Committee is not responsible for the monitoring or evaluation of any self-directed brokerage account investments.

VI. POLICY REGARDING INVESTMENT OPTIONS AVAILABLE FOR PARTICIPANTS

The Committee will consider the following criteria before adding any new investment options.

- A sufficient number of investment choices will be offered in order to provide participants an array of investments that will provide numerous risk/return options. These options will range from preservation of capital (stable value) to more aggressive options (international and aggressive equity).
- The Committee will consider the number of options offered and the ability to communicate the information so that it can be properly understood by the participants.
- The Committee will strive to assure that additional options that are added for participant selection will have different risk/return characteristics than those that are currently available.
- The Committee will analyze and consider the costs for administration, record keeping, legal, trustee, and communications issues before adding any new options.
- All of the investment options must give each participant a reasonable opportunity materially to affect the potential return of the participant's plan account and the overall level of risk to which the participant's plan account is exposed. Additionally, the option must provide each participant the opportunity to diversify.

VII. COMMITTEE EXPECTATIONS OF INVESTMENT MANAGERS

A. Standard of Conduct

1. The investment management firms selected by the Committee are responsible for strictly adhering to all legal requirements as they pertain to their duties and responsibilities as fiduciaries.
2. The Committee has delegated the authority to their selected investment management firms to vote proxies with respect to plan-owned shares. Proxy voting should be performed on an annual basis or when necessary.

B. Derivatives Reporting

1. When portfolios are separately managed for the Plans, managers must review their use of derivatives with the Committee prior to employing derivative tactics.
2. The Committee recognizes that selected financial derivatives may be used in commingled funds and mutual funds. The managers must review any use of derivatives during each of their annual presentations to the Committee.

C. Evaluation Timetable

The investment management firms will be expected to provide such data as is required for investment performance monitoring to the Committee within 30 days following the end of each quarter. In addition, the Managers will provide, as appropriate, transaction registers and portfolio valuations, including cost and market data, on a monthly basis. The Managers will be requested to meet with the Committee at least annually to review the following:

- The investment forecast for the following year.
- The effect of the investment forecast on the attainment of the Committee's objectives.
- The Manager's actual results for the preceding forecast period compared to the previously established return goal for the reporting period.

The Committee will request investment management firms to promptly notify the Committee in writing if any of the following events occur:

- Significant changes in the Manager's organizational structure.

- Significant personnel changes, which affect the management of any Plan assets.
- Changes in fee structure.
- Material changes in the Manager's total assets under management.

D. Annual Reporting by Investment Management Firms

The Committee's investment consultant will send annually to each investment management firm correspondence, a sample of which is attached to this policy as Exhibit A. The investment consultant will compile responses and report back to the Committee.

VIII. INVESTMENT CONSULTANT'S RESPONSIBILITIES

The Investment Consultant shall be responsible for the following:

- Make recommendations to the Committee regarding investment policy and strategic asset allocation.
- Assist the Committee in the selection of qualified investment managers, and assist in the oversight of existing managers, including monitoring changes in personnel, ownership and the investment process.
- Assist in the selection of a qualified custodian if necessary.
- Prepare a quarterly performance report including performance attribution of the managers and total assets, including adherence to investment style and discipline.
- Provide topical research and education on investment subjects that are relevant to the Committee.

IX. CODE OF ETHICS AND CONFLICTS OF INTEREST

The Committee, Staff, Investment Managers, and all Consultants to the Plans shall refrain from personal business activity that poses a conflict of interest with the proper execution and management of the investment program or impairs their ability to make impartial decisions. The parties involved shall reveal all relationships that could create, or appear to create, a conflict of interest in their unbiased involvement in the investment process.

The above policy is meant to be a working guideline for investment management of the Plans' assets. It is expected that the Managers will review the guidelines and make suggested changes

and recommendations to the Committee on a continuous basis in order to maximize the total fund rate of return.

The Investment Plans Committee and Plan Consultants will review this Policy periodically.

Exhibit A

Date

Manager Name
Company Name
Address 1
Address 2

Dear Name:

The Investment Plans Committee (IPC) of San Francisco Bay Area Rapid Transit District Money Purchase Pension Plan and Deferred Compensation Plan is requesting to receive the following information on an annual basis from each of the investment management firms. Please respond in writing to the following based on calendar year 20__:

- Were there any changes in your firm's organization structure?
- Did your firm experience any changes in personnel?
- Were there any changes in the fee structure of the product?
- Review any changes in assets under management for the firm, and for the product.
- Did your firm make any changes in business practices?
- Is your firm involved in any lawsuits or legal actions including SEC investigations?
- Have any claims been filed against your firm's errors and omissions insurance?
- Please review any use of derivatives in the product.
- Provide a summary of proxy voting for this product.
- Have you reviewed the Plans' statement of Investment Objectives and Policy Guidelines for the Plan? Would you like to request any changes to the statement?
- Does your firm provide the Plans an administrative reimbursement? If so, for what fund and at what rate does your firm provide an administrative reimbursement?
- If you manage a separate account for the Plans, do you compensate any placement agent with respect to that account?

In addition, please include a copy of your most recent Form ADV (Uniform Application for Investment Adviser Registration), most recent Statement on Auditing Standards No. 70 (SAS 70) and an audited financial statement for the calendar year ended December 31, 20 .

We ask that you email your response to (*email address of investment consultant*) and follow with a hard copy report including a signed cover letter addressed to the Investment Plans Committee but mailed to (*name of investment consultant*), (*address of investment consultant*) no later than (*due date*).

Please note this information is based on a calendar year. (*Name of investment consultant*) will compile the responses for the IPC annually. We ask that you mark your calendar for each year going forward as responses will be due no later than March 31, 20 .

Should you have any questions, feel free to contact me at (*telephone number of investment consultant*) or email to (*email address of investment consultant contact*).

Sincerely,

Investment Consultant