Retiree Health Benefit Trust of the San Francisco Bay Area Rapid Transit District

STATEMENT OF INVESTMENT POLICY

OBJECTIVES AND GUIDELINES

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Statement of Investment Policy, Objectives, and Guidelines

Retiree Health Benefit Trust

GENERAL INFORMATION

The investment objective of the Retiree Health Benefit Trust of the San Francisco Bay Area Rapid Transit District (the "Trust") is to achieve consistent long-term growth for the Trust and to maximize income consistent with the preservation of capital for the sole and exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the Trust.

SCOPE OF THIS INVESTMENT POLICY

This Statement of Investment Policy reflects the investment policy, objectives, and constraints of the Trust.

PURPOSE OF THIS INVESTMENT POLICY STATEMENT

This Statement of Investment Policy is set forth by the Board in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding for all involved parties of the investment goals and objectives for Trust assets.
3. Offer guidance and limitations to all investment managers regarding the investment of Trust assets.
4. Establish a basis for evaluating investment results.
5. Ensure that Trust assets are managed in accordance with all legal requirements.
6. Establish the relevant investment horizon for which Trust assets will be managed.

INVESTMENT AUTHORITY

The BART Board of Directors establishes the general investment policy and guidelines for the Trustee to follow. For the purpose of the Investment Policy Statement, the Trustee is defined as the Controller-Treasurer. The Trustee will have the authority to implement the policy and guidelines in the best interest of the Trust to best satisfy the purposes of the Trust. In implementing this policy, the Trustee may delegate certain functions to:

1. An investment management consultant ("Consultant") to assist the Trustee in establishing investment policy, objectives, and guidelines; selecting investment managers; reviewing

such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate;

2. Investment managers ("Managers") with discretion to purchase, sell, or hold, the specific securities that will be used to meet the Trust's investment objectives;

3. A custodian, if needed, to physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Trust, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Trust accounts;

4. A co-trustee, such as a bank trust department, to be co-trustee to assume fiduciary responsibility for the administration of Trust assets; and

5. Additional specialists such as attorneys, auditors, actuaries, retirement plan consultants, and others to assist in meeting its responsibilities and obligations to administer Trust assets prudently.

GENERAL INVESTMENT PRINCIPLES

1. Investments shall be made solely in the interest of the participants and beneficiaries of the Trust and for the exclusive purpose of providing health and welfare benefits and defraying the reasonable expenses of administration.

2. The Trust shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use in the investment of a Trust of like character and with like aims.

3. Investments of the Trust shall be diversified so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

4. The Trustee may employ one or more Managers of varying styles and philosophies to attain the Trust's objectives.

5. Cash is to be employed productively at all times, by investment in short term cash equivalents to provide safety, liquidity, and return.

INVESTMENT MANAGEMENT POLICY

1. Preservation of Capital - Consistent with their respective investment styles and philosophies, Managers should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.

2. Risk Aversion - Understanding that risk is present in all types of securities and investment styles, the Board recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Trust's objectives. However, selected Managers are

to make reasonable efforts to control risk and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.

3. Adherence to Investment Discipline - Managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.

INVESTMENT OBJECTIVES

The primary objective in the investment management for Trust assets shall be to achieve over time an annualized total rate of return that, taking into account expected contributions and expenses, is sufficient to satisfy all Trust benefit obligations.

The secondary objective in the investment management of Trust assets shall be to preserve purchasing power of Trust assets. Risk control is an important element in the investment of Trust assets.

SPECIFIC INVESTMENT GOALS

The investment horizon for the Trust as determined by the Trustee and established in this Statement is a five (5) year rolling time period.

Over the investment horizon, it is the goal of the aggregate Trust assets to meet or exceed:

> The return of a balanced market index comprised of 50% Russell 3000 Index, 35% Bloomberg US Aggregate Bond Index, 5% NCREIF Property Index, 5% CPI+3%, 5% FTSE 3-Month T-Bill

The investment goals above are the objectives of the aggregate Trust and are not meant to be imposed on each investment account (if more than one account is used). The goal of each Manager, over the investment horizon, shall be to:

1. Meet or exceed the market index, or blended market index, selected and agreed upon by the Trustee that most closely corresponds to the style of investment management applicable to that Manager.

2. Display an overall level of risk in the portfolio which is consistent with the risk associated with the benchmark specified above. Risk will be measured by the standard deviation of quarterly returns.

Specific investment goals and constraints for each Manager, if any, shall be incorporated as part of this Statement of Investment Policy. Each separate account manager shall receive a written statement outlining their specific goals and constraints as they differ from those objectives of the entire Trust.

MARKETABILITY OF ASSETS

The Board requires that all of Trust assets be invested in liquid securities, except for private debt, real estate and infrastructure investments. Liquid securities can be defined as securities that can be transacted quickly and efficiently for the Trust, with minimal impact on market price.

INVESTMENT GUIDELINES

In the case of collective investments such as insurance company separate accounts, registered mutual funds, commingled funds, and/or limited partnerships, the governing documents with respect to the collective investments shall prevail.

Allowable Assets

1. No single security shall exceed five percent of the total Trust assets (at market value) with the following exceptions: obligations of the U.S. Government; short-term money market funds that are within themselves diversified, including such funds provided by the Trust's custodian; index funds and other diversified commingled accounts that are within themselves diversified; and, for actively managed equity accounts, where, for issues that comprise more than 4% of the account's stated benchmark, the limit shall be 125% of the weight of the common stock in the benchmark.

2. No managed account shall incur any leverage (except for mutual funds which may borrow short term to meet temporary liquidity needs).

Cash Equivalents

- Treasury Bills
- Money Market Trusts
- STIF Trusts
- Commercial Paper rated A1/P1
- Banker's Acceptances or Certificates of Deposit (of domestic banks with net worth in excess of $2 billion or foreign banks with net worth, expressed in current U.S. dollars, of at least $4 billion and which satisfy tier 1 and tier 2 or current Basel capital requirements)
- Repurchase Agreements with Federal Reserve reporting dealers and maintained in accordance with Federal Reserve guidelines

Fixed Income Securities

- U.S., Agency, and Corporation Bonds (including Yankees), and Preferred Stock and Rule 144A issues, all rated investment grade by Standard & Poor's and/or Moody's. For Rule 144A securities the issue must be at least $100 million, the issuer has common stock which trades in the U.S., and the issue must come with registration rights. The lowest of the ratings of any bond by the nationally recognized rating agencies shall govern concerning credit quality of fixed income instruments.

- Mortgage- or asset-backed securities rated no lower than AA. In the case of "private label" mortgage securities the issuer/servicer must be a significant firm, and the issue must meet Securities Industry and Financial Markets Association (SIFMA) standards.

- Unless a specific type of derivative security is allowed in this document, an Investment Manager(s) must seek permission from the Trustee to include derivative investments in the Plan's portfolio. The Manager(s) must present detailed information as to the expected return and risk characteristics of such investment vehicles.

Equity Securities

- U.S. and non-U.S. traded common, preferred stocks and convertible stocks and bonds, including American Depository Receipts (ADRs)

Real Estate

- One or more actively managed commingled fund whose primary objective is to generate competitive risk adjusted returns by investing in diversified real estate investments that have the potential to offer current cash returns, long-term capital appreciation, or both.

Private Debt

- One or more actively managed commingled fund whose primary objective is to generate competitive risk adjusted returns by investing in a diversified portfolio of, primarily non-public fixed income investments, which can generate current income and long-term capital appreciation, or both.

Infrastructure

- One or more actively managed commingled fund whose primary objective is to invest in a diversified portfolio of infrastructure assets to generate current income and long-term capital appreciation, or both.

Prohibited Assets

Anything not expressly permitted is prohibited; but for the sake of clarity the items below are expressly prohibited:

1. Commodities and Commodity Futures Contracts
2. Private Placements, letter or otherwise restricted stock. (As noted above, certain Rule 144A securities are allowed.)
3. Venture-Capital Investments
4. Stand Alone Real Estate Properties
5. Interest-Only (IO), Principal-Only (PO), and Residual Tranche CMOs

6. OTC contracts, including, but not limited to, forwards and swaps. (For the purpose of this prohibition, mortgage passthroughs and TBAs meeting SIFMA standards are not OTC forwards.)
7. Structured notes whose coupon, principal payments or return are linked to the performance of an underlying asset or index by some multiple other than one.
8. Swaps

Prohibited Transactions

Prohibited transactions include, but are not limited to the following:

1. Short Selling
2. Margin Transactions

Asset Allocation Guidelines

Investment management of the assets of the Trust shall be in accordance with the following asset allocation guidelines established by the Trustee.

Asset Class	Minimum	Maximum	Preferred
Equities	40%	60%	50%
Fixed Income	25%	45%	35%
Public Fixed Income	*25%*	*45%*	*30%*
Private Debt	*0%*	*10%*	*5%*
Infrastructure	0%	10%	5%
Real Estate	0%	10%	5%
Cash and Equivalents	3%	10%	5%

At least quarterly, the Trustee shall assess the need to bring actual Trust asset allocations towards compliance with the targeted asset allocation. The Consultant shall have the authority to rebalance investment accounts when they fall outside of the target asset allocation ranges. Rebalancing shall be made first from normal cash flows, whenever prudent, and second by transferring funds between asset classes in a timely and cost-effective manner.

Guidelines for Fixed Income Investments and Cash Equivalents

1. In case of split ratings, the lower shall prevail. If subsequent to purchase, the grading of any security should fall below Baa/BBB, no action to reduce the holding shall be required except as warranted by investment consideration as determined by the Manager; however the Manager shall notify the Trust of the change in grading and its analysis of the situation in a timely fashion but in no event later than the next scheduled Trustee meeting.

2. Fixed income maturity restrictions are as follows:

    - Maximum maturity for any single security is 40 years.
    - Weighted average portfolio maturity may not exceed 25 years.

3. Money Market Trusts selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poor's, and/or Moody's.

Ethical and Environmental Guidelines

The Trust expects the management of companies whose equity securities are held in actively managed separate client portfolios to conduct themselves with propriety and with a view toward social consideration. If any improper practice arises, the Trust expects corporate management to act decisively to eliminate and to effectuate controls to prevent recurrence. Proxies should be voted accordingly. The Trustee will also consider when making investment selections, where appropriate, criteria which support environmental protection, energy conservation and sustainability.

SELECTION OF INVESTMENT MANAGERS

The Trust's selection of Manager(s) must be based on prudent due diligence procedures. A qualifying Manager must be a registered investment adviser under the Investment Advisers Act of 1940, or a bank or insurance company. The Trust requires that each Manager provide, in writing, acknowledgment of fiduciary responsibility to the Trust.

Managers of separately managed accounts:

1. subject to the terms and conditions of this Statement, shall have full discretionary power to direct the investment, exchange, liquidation and reinvestment of the assets of the managed accounts.

2. shall place orders to buy and sell securities and, by notice to the custodian bank, shall cause the custodian to deliver and receive securities on behalf of the Trust.

3. are authorized to place purchase and sale orders for the Trust account to obtain the best execution for the Trust; best execution is defined as the best combination of price and commission and not necessarily the lowest commission cost.

4. will give the Trustee and the Consultant written notice within 30 days of any change in the Manager's ownership, financial condition, insurance, key personnel, or any investigation by a governmental agency or alleged breach of fiduciary duty or other developments which would adversely affect their ability to manage Trust assets effectively.

5. if registered under the Investment Advisers Act of 1940 shall supply the Trust with their current Form ADV Part 2 annually.

6. will recommend when advisable, changes to this Statement and will certify its compliance with this Statement or its proposed changes at least quarterly.

7. must be prepared to meet with the Trustee at least annually to review the management of their accounts in the context of these goals, objectives, and policies.

8. must disclose to the Trust in writing within 10 business days of the discovery of the exception, any investments which are not in compliance with this Statement, and must include in their next regular report their explanation and plans for dealing with them.

PROXY VOTING

Managers shall vote proxies appurtenant to the Trust assets under their control, unless specifically informed otherwise that authority to vote such proxies has been retained by the Trustee or delegated to another fiduciary.

The Trust's Consultant shall vote fund-level proxies for the Trust's commingled investments. All proxy votes shall be made solely in the best interests of the Trust and its participants. The Consultant shall report its voting activity to the Trustee at least once a year.

AGGREGATE PERFORMANCE

Given the long-term perspective of the Trust, overall Trust performance will be evaluated over rolling five year periods. Performance will be compared to two factors:

- The Trust assumed actuarial rate of return;
- A Trust Policy Benchmark.

The structure of the Policy Benchmark is described below:

Asset Class	Benchmark	Weight
Public Equity	Russell 3000 Index	50%
Core Fixed Income	Bloomberg US Aggregate Bond Index	30%
Private Debt	Bloomberg US Aggregate Bond Index	5%
Real Estate	NCREIF Property Index	5%
Infrastructure	CPI + 3%	5%
Cash	FTSE 3 Month T-Bill Index	5%
Total		**100%**