

Date: _____ December 21, 2007

Committee Meeting Date: _____ January 17, 2008

Board Meeting Date: _____ N/A

BOARD MEMORANDUM

INFORMATION ITEM

TO: Administration and Finance Committee
Santa Clara Valley Transportation Authority
Board of Directors

THROUGH: Michael T. Burns
General Manager

FROM: Jerry G. Mikolajczyk
Chief Financial Officer

SUBJECT: Report on Santa Clara Valley Transportation Authority Investments for the month of November 2007

FOR INFORMATION ONLY

BACKGROUND:

Santa Clara Valley Transportation Authority funds are invested in accordance with the asset allocation strategies described in the Investment Policies amended December 13, 2007.

DISCUSSION:

General Market Conditions

The annual GDP projection (gross domestic product – the sum of all goods and services produced in the U.S.) for the 3rd quarter of 2007 was updated from 3.9% to 4.9% annual rate. This increase was driven in large part by upward revisions to manufacturing inventories and US exports.

Despite increases in inventories and exports, the domestic consumption was revised down and some economists are predicting that growth may cool to an annual rate of less than 1% in October through December - 4th quarter.

The Federal Reserve Board (Fed) cut the overnight lending rate by 25 basis points to 4.25% (1 percent equals 100 basis points). “The change should help promote moderate growth over time,” the Fed said in a statement after their meeting on December 11th, 2007. Fed officials also signaled that further cuts were possible if the severe housing downturn and mortgage lending crisis get worse.

Attachment A represents month-end portfolio balances where security holdings are based on the investment transactions’ “settlement date” (delivery versus payment) and portfolio holdings are automatically priced through VTA in-house Bloomberg Financial System. Attachment A1 represents the reconciled portfolio holdings reported by individual professional investment money

managers (MM) where security holdings are based on investment transactions’ “trade date” (trade dates are normally three (3) days ahead of settlement dates) and securities are priced using each MM’s proprietary system.

VTA/ATU Pension Plan Assets

It is the policy of the VTA/ATU Board of Pension to have a well-managed investment program that provides for the financial needs of the pension plan and allows the investments to be appropriately diversified and prudently invested to protect the safety of the principal while maintaining a reasonable return. Assets are invested within the following investment guidelines:

<u>Asset Allocation</u>	<u>Range</u>	<u>Actual</u>	<u>Ongoing Target</u>
Domestic Fixed Income	35-45%	39%	39%
Domestic Large-Cap Value	15-25%	21%	20%
Domestic Large-Cap Index	10-20%	15%	15%
Domestic Small-Cap Value	5-15%	9%	10%
International Equity	10-20%	16%	15%
Cash	0-5%	0%	1%

Performance

Asset Class	Money Manager	November ATU Return	Calendar YTD	Benchmark	November Benchmark Return	Calendar YTD
Fixed Income	Dodge & Cox	1.1%	5.8%	Lehman Brothers US Aggregate	1.8%	6.7%
Large Cap Index	State Street	-4.2%	6.3%	S&P 500	-4.2%	6.2%
International Equity Index (Growth)	Pyramis	-3.3%	16.1%	MSCI EAFE	-3.3%	13.7%
Large Cap Value Stocks	Robeco Boston Partners	-3.3%	6.2%	Russell 1000 Value	-4.9%	0.8%
Small Cap Value	Brandy-Wine	-6.8%	-9.5%	Russell 2000 Value	-7.5%	-9.0%
Total (Weighted)		-2.1%	6.2%		-2.2%	5.1%

The Small Cap Value portfolio slightly under performed its benchmark by 0.50% in the November calendar year-to-date performance as companies with high or negative price-to-earning ratios outperformed and undervalued companies lagged. The portfolio’s thrift/mortgage

finance holding detracted from the performance and has been declining as a result of a greater-than-expected decline in the credit and housing markets and concerns about the health of the overall economy.

Brandywine managers attended the December 4th ATU Pension Plan Investment Committee meeting and explained that the Small Cap Value portfolio's two periods of significant underperformance against its benchmark occurred during the technology bubble (internet boom in 2000) and energy bubble in 2006 and 2007. The portfolio's holdings in these sectors were sold when the sale price threshold was reached while the benchmark retained the inflated value during those two periods. The Brandywine (Small Cap Value) portfolio's inception-to-date outperformed its benchmark (183.7% versus 180.4%).

The VTA/ATU Pension Fixed Income portfolio that Dodge & Cox manages does not hold any securities from sub prime mortgage backed securities (MBS) deals. All of the portfolios' MBS holdings are Federal Agency/Government Sponsored Enterprises (GSE) guaranteed (e.g., Fannie Mae, Freddie Mac). The portfolio does have some indirect exposure to sub prime mortgages through holdings of General Motors Acceptance Corporation (GMAC) (1.31% which is \$1.7 million of the portfolio value). GMAC's mortgage finance subsidiary, Residential Capital LLC (ResCap), has been a significant originator of sub prime residential mortgages in the past several years. Dodge & Cox management has reduced its exposure to sub prime assets in 2007 through greatly reduced sub prime originations and roll-off of older loans.

Value

Fund	Book Value	Market Value	Inception-to-date Unrecognized Gain (Loss)
VTA/ATU Pension Plan	\$342,189,420	\$348,717,564	\$6,528,144

The VTA/ATU Pension Plan portfolio has a long-term goal (over 20 years) of 8% average annual market return.

Historic Portfolio Performance (calendar year):

Year	Performance
2002	-3.9%
2003	21.5%
2004	12.2%
2005	7.2%
2006	14.6%

Inception-to-date (October 1998 to November 2007) performance is a gain of 125.6% versus the composite benchmark of 95.1%. Average composite annual return is 13.7% for ATU Pension Plan versus 10.4% for Benchmarks.

The California Public Employee Retirement System (CALPERS) portfolio performance from October 1998 to October 2007 (VTA inception-to-date) is a gain of 121.1% with a 13.3% average annual return.

The contract with MFS Investment Management (MFS) for VTA/ATU Pension Plan's International Growth Equity Index Fund portfolio was finalized December 7, 2007 and funds from Pyramis Global Advisors amounting to \$55,108,856 were received December 14, 2007 and deposited to MFS on the same day.

Restricted and Unrestricted Funds

Performance

Asset Class	Money Manager	November Return	Calendar YTD	Benchmark	November Benchmark Return	Calendar YTD
Restricted-Fixed Income	Payden & Rygel	2.4%	7.4%	Lehman Brothers US Govt. Intrmed.	2.4%	7.9%
Unrestricted-Fixed Income	Payden & Rygel	0.4%	4.7%	Institutional Money Market	0.4%	4.7%
Total (Weighted)		0.9%	5.4%		0.9%	5.7%

The underperformance in calendar year-to-date of the Restricted Funds was due to the portfolio's sector overweight of corporate and mortgage backed securities (MBS) and corresponding underweight of U.S. Treasuries which detracted from relative returns as both corporate and MBS substantially under performed comparable-duration Treasuries.

The portfolios that Payden & Rygel manage do not hold any securities from sub prime MBS deals. The portfolios do, however, own corporate notes in the financial sector (10% which is \$31.9 million in the Unrestricted Cash Reserve portfolio and 7% which is \$6.9 million in the Restricted portfolio) which, depending on the company, may have exposure to the sub prime market (e.g., 1.1% in CitiGroup, 0.95% in Bear Stearns, 0.45% in Washington Mutual, 0.35% in Merrill Lynch paper), among others. Payden also owns corporate notes from Goldman Sachs, American Express, and JP Morgan - companies that do not have as much exposure. These are diversified financial institutions, with businesses in many markets, not just in the sub prime sector.

Value

Fund	Book Value	Market Value	Inception-to-date Unrecognized Gain (Loss)
Restricted	\$98,284,058	\$101,222,680	\$2,938,622
Unrestricted	\$319,357,601	\$320,354,004	\$996,403
Funds with LAIF	\$40,000,000	\$40,000,000	N/A
Bond Funds	\$47,869,791	\$48,262,379	\$392,588
Union Bank	\$5,972,575	\$5,972,575	N/A
Measure B	\$57,078,037	\$57,078,037	N/A
CMP	\$8,475,541	\$8,475,541	N/A
Total	\$577,037,603	\$581,365,216	\$4,327,613

VTA Retiree Health Care Program

Performance

Asset Class	Money Manager	November Retiree Return	Calendar YTD	Benchmark	November Benchmark Return	Calendar YTD
Fixed Income	Dodge & Cox	1.0%	5.9%	Lehman Brothers US Aggregate	1.8%	6.7%
Large Cap Index	State Street	-4.2%	6.3%	S&P 500	-4.2%	6.2%
Total (Weighted)		-2.1%	6.5%		-1.8%	6.7%

The underperformance in November of the Fixed Income Funds was due to the portfolio's sector overweight of corporate and mortgage backed securities (MBS) and corresponding underweight of U.S. Treasuries which detracted from relative returns as both corporate and MBS substantially under performed comparable-duration Treasuries.

The Retiree Health Care Program portfolio that Dodge & Cox manages do not hold any securities from sub prime mortgage backed securities (MBS) deals. All of the portfolios' MBS holdings are Federal Agency/Government Sponsored Enterprises (GSE) guaranteed (e.g., Fannie Mae, Freddie Mac). The portfolio does have some indirect exposure to sub prime mortgages through holdings of General Motors Acceptance Corporation (GMAC) (1.15% which is \$0.5 million of the portfolio value). GMAC's mortgage finance subsidiary, Residential Capital LLC (ResCap), has been a significant originator of sub prime residential mortgages in the past several years. Dodge & Cox management has reduced its exposure to sub prime assets in 2007 through greatly reduced sub prime originations and roll-off of older loans.

Value

Fund	Book Value	Market Value	Inception-to-date Unrecognized Gain (Loss)
Retiree Health	\$107,462,209	\$105,485,147	(\$1,997,062)

The Retiree Health Care program has a calendar year annual return goal of 7%.

ATU Spousal Medical Trust Funds, Dental, and Vision Plan

Performance

Asset Class	Money Manager	November Spousal Return	Calendar YTD	Benchmark	November Benchmark Return	Calendar YTD
Fixed Income (Index Fund)	Dodge & Cox	0.6%	4.7%	Lehman Brothers US Aggregate	1.8%	6.7%
Large Cap Index	State Street	-4.2%	6.3%	S&P 500	-4.2%	6.2%
Total (Weighted)		-2.0%	5.8%		-1.5%	6.7%

Value

Fund	Book Value	Market Value	Unrecognized Gain (Loss)
ATU Spousal	\$12,730,557	\$12,462,799	(\$267,758)

The underperformance in calendar year-to-date of the Fixed Income (Index Fund) was due to the portfolio's sector overweight of corporate and mortgage backed securities (MBS) and corresponding underweight of U.S. Treasuries which detracted from relative returns as both corporate and MBS substantially under performed comparable-duration Treasuries.

The Spousal Medical Trust Funds, Dental and Vision Plan have a calendar year annual return goal of 7%.

Other Data

The valuation of VTA's securities is provided by Interactive Data Corporation (IDC), Merrill Lynch Securities Pricing Service and Bloomberg Generic Pricing Service. These firms are the leading providers of global securities data. They offer the largest information databases with current and historical prices on securities traded in all major markets.

This report complies with VTA's adopted investment policies and the reporting requirements of State law. The amount of the funds available is sufficient to meet expenditure requirements for the six months from 12/1/07 through May 31, 2008.

Prepared by: Manny Bagnas, Investment Program Manager