

Date: January 30, 2008
Committee Meeting Date: February 21, 2008
Board Meeting Date: N/A
INFORMATION ITEM

BOARD MEMORANDUM

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

THROUGH: Michael T. Burns
General Manager

FROM: Joseph T. Smith
Chief Financial Officer

SUBJECT: Report on Santa Clara Valley Transportation Authority Investments for the month of December 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 sub prime mortgage meltdown weighed heavily on the financial markets in the second half of 2007. The impact that these low quality loans has had on investors and financial institutions around the world continued to surprise the markets. U.S. equities posted losses once again in December even after the Federal Reserve Board (Fed) lowered overnight interest rates, for a third consecutive time, to 4.25%. The movement by the Fed was amid intensifying concerns (over slowing economic growth) which are stemming from the housing correction and the related freeze-up in credit markets. The U.S. economy showed signs of slowing with weak holiday retail sales serving as an illustration of the pressures impacting the consumer. Meanwhile, much of the global economy remained strong, resulting in higher food and energy prices, including a recent surge in oil prices to nearly \$100 per barrel.

Attachment A represents month-end portfolio balances where security holdings are based on the "settlement date" (delivery versus payment) of investment transactions 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 the "trade date" (trade dates are normally

three (3) days ahead of settlement dates) of investment transactions and securities are priced using each MM’s proprietary system. Money Manager and portfolio performance summarized in the following discussion is based on data provided in attachment A1.

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	December ATU Return	Calendar YTD	Benchmark	December Benchmark Return	Calendar YTD
Fixed Income	Dodge & Cox	0.1%	5.9%	Lehman Brothers US Aggregate	0.3%	7.0%
Large Cap Index	State Street	-0.7%	5.6%	S&P 500	-0.7%	5.5%
International Equity Index (Growth)	Pyramis/MFS	0.2%	16.3%	MSCI EAFE	-2.3%	11.2%
Large Cap Value Stocks	Robeco Boston Partners	-1.0%	5.2%	Russell 1000 Value	-1.0%	-0.2%
Small Cap Value	Brandywine	-2.0%	-11.3%	Russell 2000 Value	-0.9%	-10.0%
Total (Weighted)		-0.4%	5.8%		-0.6%	4.5%

The Small Cap Value portfolio under performed its benchmark in the December and calendar year-to-date as past market leaders such as energy and materials sectors outperformed and Brandywine’s lower valuation holdings did not experience price rebound. An above market weight in retail and banking stocks, the latter of which were adversely impacted despite

nonexistent sub prime exposure, also detracted from returns as investors worried about further mortgage losses and impact of the crisis on consumer spending. The Small Cap Value portfolio's inception-to-date (September 1998 through December 2007) performance is the same as its benchmark at 178.0%.

Brandywine (MM) plans to modify the Diversified Small Cap Value Equity strategy in the first quarter of 2008, by enhancing their existing low price-to-earnings strategy to include low price-to-book. Including the low price-to-book should reduce future performance volatility and enhance future performance based on research and testing on historical performance using the amended strategy.

The VTA/ATU Pension Fixed Income portfolio underperformance in December and calendar year-to-date was due to an overweight of holdings in the corporate and mortgage backed securities (MBS) sectors and corresponding underweight in the Treasury sector. This detracted from relative returns given the significant underperformance of both corporate and MBS sectors. The portfolio's shorter duration compared to benchmark duration also detracted from relative returns, given the significant Treasury yield declines. In addition, the shorter duration of the portfolio's Treasury holdings meant that it minimally participated in the strong Treasury rally in the second half of 2007.

Value

Fund	Book Value	Market Value	Inception-to-date Unrecognized Gain (Loss)
VTA/ATU Pension Plan	\$337,379,979	\$346,662,755	\$9,282,776

The VTA/ATU Pension Plan portfolio has an actuarial assumption of 8% investment rate of 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 December 2007) performance is a gain of 124.6% versus the composite benchmark of 93.8%. Average composite annual return is 13.5% for ATU Pension Plan versus 10.1% for Benchmarks.

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

100% of Assets are invested in Domestic Fixed Income.

Performance

Asset Class	Money Manager	December Return	Calendar YTD	Benchmark	December Benchmark Return	Calendar YTD
Restricted-Fixed Income	Payden & Rygel	0.3%	7.8%	Lehman Brothers US Govt. Intrmed.	0.3%	8.3%
Unrestricted-Fixed Income	Payden & Rygel	0.4%	5.1%	Institutional Money Market	0.4%	5.1%
Total (Weighted)		0.4%	5.8%		0.4%	6.1%

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.

Value

Fund	Book Value	Market Value	Inception-to-date Unrecognized Gain (Loss)
Restricted	\$99,050,669	\$101,553,809	\$2,503,140
Unrestricted	\$301,372,161	\$302,394,019	\$1,021,858
Funds with LAIF	\$40,000,000	\$40,000,000	N/A
Bond Funds	\$38,533,914	\$38,728,175	\$194,261
Union Bank	\$3,861,734	\$3,861,734	N/A
Measure B	\$55,334,866	\$55,334,866	N/A
CMP (1)	\$1,566,381	\$1,566,381	N/A
Total	\$539,719,725	\$543,438,984	\$3,719,259

(1) = Congestion Management Program

VTA Retiree Health Care Program

<u>Asset Allocation</u>	<u>Range</u>	<u>Actual</u>	<u>Ongoing Target</u>
Domestic Fixed Income	25-60%	39%	38%
Domestic Large Cap Index	35-70%	60%	60%
Cash	0-5%	1%	2%

Performance

Asset Class	Money Manager	December Retiree Return	Calendar YTD	Benchmark	December Benchmark Return	Calendar YTD
Fixed Income	Dodge & Cox	0.1%	6.1%	Lehman Brothers US Aggregate	0.3%	7.0%
Large Cap Index	State Street	-0.7%	5.6%	S&P 500	-0.7%	5.5%
Total (Weighted)		-0.4%	6.1%		-0.3%	6.4%

The Fixed Income portfolio's underperformance in December and calendar year-to-date was due to an overweight of holdings in the corporate and mortgage backed securities (MBS) sectors and corresponding underweight in the Treasury sector. This detracted from relative returns given the significant underperformance of both corporate and MBS sectors. The portfolio's shorter duration than benchmark duration also detracted from relative returns, given the significant Treasury yield declines. In addition, the shorter duration of the portfolio's Treasury holdings meant that it minimally participated in the strong Treasury rally in the second half of 2007.

Value

Fund	Book Value	Market Value	Inception-to-date Unrecognized Gain (Loss)
Retiree Health	\$104,842,628	\$105,925,772	\$1,083,144

The Retiree Health Care program has an actuarial assumption of 7% investment rate of return.

ATU Spousal Medical Trust Funds, Dental, and Vision Plan

<u>Asset Allocation</u>	<u>Range</u>	<u>Actual</u>	<u>Ongoing Target</u>
Domestic Fixed Income	25-60%	43%	38%
Domestic Large Cap Index	35-70%	53%	60%
Cash	0-5%	4%	2%

Performance

Asset Class	Money Manager	December Spousal Return	Calendar YTD	Benchmark	December Benchmark Return	Calendar YTD
Fixed Income (Index Fund)	Dodge & Cox	0.0%	4.7%	Lehman Brothers US Aggregate	0.3%	7.0%
Large Cap Index	State Street	-0.7%	5.6%	S&P 500	-0.7%	5.5%
Total (Weighted)		-0.4%	5.4%		-0.3%	6.4%

Value

Fund	Book Value	Market Value	Unrecognized Gain (Loss)
ATU Spousal	\$12,462,799	\$12,417,071	\$45,728

The Fixed Income portfolio's underperformance in December and calendar year-to-date was due to an overweight of holdings in the corporate and mortgage backed securities (MBS) sectors and corresponding underweight in the Treasury sector. This detracted from relative returns given the significant underperformance of both corporate and MBS sectors. The portfolio's shorter duration than benchmark duration also detracted from relative returns, given the significant Treasury yield declines. In addition, the shorter duration of the portfolio's Treasury holdings meant that it minimally participated in the strong Treasury rally in the second half of 2007.

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. Based on budgeted revenues and expenditures as well as actual transfers to/from reserves, there are sufficient funds available to meet expenditure requirements for the six months ending June 30, 2008.

Prepared by: Manny Bagnas, Investment Program Manager

Reviewed and verified by: _____
Kimberly Koenig, Manager, Finance Department

VTA INVESTMENT COMPOSITE PORTFOLIO PERFORMANCE.

PER GENERAL LEDGER BALANCE - SETTLEMENT DATE FOR THE MONTH OF DECEMBER 2007

SUMMARY: December 31, 2007

<u>Description</u>	<u>Jul-07</u> <u>Book Value</u> <u>/Cost</u>	<u>Dec-07</u> <u>Book Value</u> <u>/Cost</u>	<u>Fiscal 08</u> <u>Year-to-Date</u> <u>Nov 07 Realized</u> <u>Earnings - \$</u>	<u>Fiscal 08</u> <u>Year-to-Date</u> <u>Dec 07 Realized</u> <u>Earnings - \$</u>	<u>Change for the Month</u> <u>Realized</u> <u>Earnings - \$</u>
VTA FUNDS					
1 - Restricted Fund-Fixed Income (1)	95,857,005	98,148,658	1,769,206	2,221,474	452,267 (5)
2 - Unrestricted Cash Reserve-Fixed Income (2)	60,671,908	89,829,785	1,480,828	1,894,762	413,934 (5)
3 - Measure A	209,996,647	210,617,261	4,311,629	5,282,150	970,521 (5)
4 - VTA Bond Funds with Fiscal Agents (3)	94,218,679	38,533,914	1,451,206	1,744,764	293,558
5 - Funds with LAIF/State Pool (4)	33,500,000	40,000,000	664,419	797,303	132,884
6 - Funds with Union Bank-Congestion Management	12,740,826	8,475,541	180,646	193,991	13,345
7 - Funds with Union Bank-Measure B	64,537,167	57,078,037	1,058,244	1,221,313	163,069
8 - Funds with Union Bank DDA account	5,777,498	3,861,734	84,892	101,894	17,002
Total VTA Funds	577,299,730	546,544,930	11,001,071	13,457,651	2,456,580
ATU PENSION FUNDS					
1 - VTA/ATU Pension Fund-Fixed Income	130,522,698	133,429,064	2,961,029	3,557,264	596,235
2 - VTA/ATU Pension Fund-State Street - Index	52,891,135	52,891,135	0	0	0
3 - VTA/ATU Pension Fund- Int'l - Equity Growth Pyramis/MFS (6)	56,992,278	55,108,856	0	2,812,578	2,812,578 (7)
4 - VTA/ATU Pension Fund-Stock Large Cap Value	62,316,885	63,296,420	1,635,226	2,003,824	368,598
5 - VTA/ATU Pension Fund-Stock Small Cap Value	31,378,705	32,250,443	1,474,378	1,348,085	-126,293
Total ATU Pension Funds	334,101,701	336,975,918	6,070,633	9,721,751	3,651,118
RETIREE HEALTH FUNDS					
1 - Retiree Health-Fixed Income	40,616,576	41,556,075	958,796	1,144,527	185,731
2 - Retiree Health-State Street - Index	59,999,619	59,999,619	0	0	0
Total Retiree Health Funds	100,616,195	101,555,694	958,796	1,144,527	185,731
ATU SPOUSAL PLAN FUNDS					
1 - ATU Spousal Med Fund - Dodge & Cox - Index	5,317,234	5,317,234	0	0	0
2 - ATU Spousal Med Fund-State Street - Index	7,007,187	7,007,187	0	0	0
Total ATU Spousal Plan Funds	12,324,421	12,324,421	0	0	0
Total Investments	1,024,342,047	997,400,963	18,030,500	24,323,929	6,293,429

Legend:

- (1) Workers Comp, Insurance, Spousal Med, and BAAQC are part of Restricted Fixed Income / VTA Commingled pool.
- (2) Funds earmarked to underwrite operations deficits and the local share of capital projects.
- (3) Bonds Reserves, Debt Service Funds for both VTA Transit Enterprise and Measure A Program.
- (4) Includes LAIF estimated earning for October, November and December 2007
- (5) Prorated earnings base on December book value
- (6) Replace Pyramis by MFS December 14, 2007
- (7) Excludes \$4,696,000 principal withdrawal from Pyramis FY 08