

Date: February 26, 2008

Committee Meeting Date: March 20, 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 January 2008

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

Recession fears intensified early in January as reported economic activities confirmed fears of weakened retail sales and consumers confidence, suggesting the housing downturn and high energy prices have caught up with the consumer. On January 22, 2008, amid rapidly deteriorating and volatile global financial markets, the Federal Reserve Board (Fed) stepped in with a surprise 75 basis point emergency rate cut in overnight Fed Funds followed by an additional 50 basis points at the regularly scheduled Fed meeting eight days later that pushed the overnight rate down to 3% (1 percent equals 100 basis points). The accompanying Fed language focused on threats to economic growth citing “a deepening of the housing contraction” and “considerable stress” in the credit markets. Against this backdrop, markets fell in January but were able to avoid sharp losses after the aggressive Fed cuts.

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%	41%	39%
Domestic Large-Cap Value	15-25%	20%	20%
Domestic Large-Cap Index	10-20%	15%	15%
Domestic Small-Cap Value	5-15%	9%	10%
International Equity	10-20%	15%	15%
Cash	0-5%	0%	1%

Performance

Asset Class	Money Manager	January ATU Return	Calendar YTD	Benchmark	January Benchmark Return	Calendar YTD
Fixed Income	Dodge & Cox	1.4%	1.4%	Lehman Brothers US Aggregate	1.7%	1.7%
Large Cap Index	State Street	-6.0%	-6.0%	S&P 500	-6.0%	-6.0%
International Equity Index (Growth)	Pyramis/MFS	-8.4%	-8.4%	MSCI EAFE	-10.1%	-10.1%
Large Cap Value Stocks	Robeco Boston Partners	-5.5%	-5.5%	Russell 1000 Value	-4.0%	-4.0%
Small Cap Value	Brandy-Wine	-1.5%	-1.5%	Russell 2000 Value	-4.1%	-4.1%
Total (Weighted)		-2.8%	-2.8%		-2.9%	-2.9%

The VTA/ATU Pension Fixed Income portfolio underperformance in January 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 Large Cap Value portfolio underperformed its benchmark, -5.4% versus -4.0%. The Health Care, Technology and Finance sectors were the primary areas of relative weakness for the month,

reducing returns by over 1.5%. Stocks declined on an absolute basis as investors worried about jobless claims, further mortgage-related write-downs and flat consumer spending.

Historic Portfolio Performance (calendar year) for the last five calendar years:

Year	Performance
2003	21.5%
2004	12.2%
2005	7.2%
2006	14.6%
2007	5.8%

The VTA/ATU Pension Plan portfolio has an actuarial assumption of 8% investment rate of return.

Inception-to-date (October 1998 to January 2008) performance is a gain of 118.2% versus the composite benchmark of 88.2%. Average composite annual return is 12.7% for ATU Pension Plan versus 9.4% for Benchmarks.

Restricted and Unrestricted Funds

100% of Assets are invested in Domestic Fixed Income.

Performance

Asset Class	Money Manager	January Return	Calendar YTD	Benchmark	January Benchmark Return	Calendar YTD
Restricted-Fixed Income	Payden & Rygel	2.3%	2.3%	Lehman Brothers US Govt. Intrmed.	2.4%	2.4%
Unrestricted-Fixed Income	Payden & Rygel	0.6%	0.6%	Institutional Money Market	0.3%	0.3%
Total (Weighted)		1.0%	1.0%		0.8%	0.8%

The Restricted Funds slight underperformance in January 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.

VTA Retiree Health Care Program

<u>Asset Allocation</u>	<u>Range</u>	<u>Actual</u>	<u>Ongoing Target</u>
Domestic Fixed Income	25-60%	41%	38%
Domestic Large Cap Index	35-70%	59%	60%
Cash	0-5%	0%	2%

Performance

Asset Class	Money Manager	January Retiree Return	Calendar YTD	Benchmark	January Benchmark Return	Calendar YTD
Fixed Income	Dodge & Cox	1.4%	1.4%	Lehman Brothers US Aggregate	1.7%	1.7%
Large Cap Index	State Street	-6.0%	-6.0%	S&P 500	-6.0%	-6.0%
Total (Weighted)		-2.9%	-2.9%		-2.8%	-2.8%

The Retiree Health Care Fixed Income portfolio underperformance in January 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.

Historic Portfolio Performance (calendar year) for the last five calendar years:

Year	Performance
2003	17.2%
2004	7.6%
2005	3.9%
2006	11.7%
2007	6.1%

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	January Spousal Return	Calendar YTD	Benchmark	January Benchmark Return	Calendar YTD
Fixed Income (Index Fund)	Dodge & Cox	1.2%	1.2%	Lehman Brothers US Aggregate	1.7%	1.7%
Large Cap Index	State Street	-6.0%	-6.0%	S&P 500	-6.0%	-6.0%
Total (Weighted)		-2.7%	-2.7%		-2.5%	-2.5%

The ATU Spousal Fixed Income Index portfolio underperformance in January 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.

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 July 31, 2008.

Prepared by: Manny Bagnas, Investment Program Manager

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