

Date: June 27, 2007Committee Meeting Date: July 19, 2007Board Meeting Date: N/A**BOARD MEMORANDUM**ACTION        DISCUSSION        INFO X

**TO:** Committee of the Whole  
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 May 2007.

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**Policy-Related Action:** No

**Government Code Section 84308 Applies:** No

**FOR INFORMATION ONLY****BACKGROUND:**

Santa Clara Valley Transportation Authority funds are invested in accordance with the asset allocation strategies described in the Investment Policies reaffirmed May 3, 2007.

In compliance with Government Code Section 53646, the monthly investment report will, at the end of each quarter (March, June, September, December), include detailed information such as the type of investment, issuer, date of maturity, par and dollar amount invested on all securities.

**DISCUSSION:****General Market Conditions**

The annual GDP (gross domestic product – the sum of all goods and services produced in the U.S.) for the 1<sup>st</sup> quarter of 2007 was reduced from 1.3 percent to 0.7 percent annual rate, the slowest pace since 2002. Manufacturing growth, with the ISM Manufacturing Index marching up to 55.0 from 54.7 in April, grew a bit more rapidly in May. Overall inflation measures rose at a slower pace during the month.

Although weaker economic growth and a slowdown in the jobs market appear to be taking some of the pressure off inflation, the Federal Open Market Committee voted May 9, 2007 to hold interest rates steady at 5.25 percent. The central bank's rate-setting committee has left the benchmark federal funds rate, the rate banks charge for overnight loans, unchanged since June 2006.

## **Restricted and Unrestricted Funds**

### Performance

Asset Class	Money Manager	May Return	Calendar YTD	Benchmark	May Benchmark Return	Calendar YTD
Restricted-Fixed Income	Payden & Rygel	-0.6%	1.3%	Lehman Brothers US Govt. Intrmed.	-0.8%	1.2%
Unrestricted-Fixed Income	Payden & Rygel	0.4%	2.2%	Institutional Money Market	0.4%	2.1%

### Value

Fund	Book Value	Market Value	Unrecognized Gain (Loss)
Restricted	\$95,775,565	\$95,399,491	(\$376,074)
Unrestricted	\$180,170,741	\$180,532,714	\$361,973
Pooled Funds	\$30,123,557	\$30,123,191	(\$366)
Bond Funds	\$105,005,795	\$105,005,941	\$146
Union Bank	\$5,322,561	\$5,322,561	-0-

## **VTA/ATU Pension Plan Assets**

It is the policy of this portfolio 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%	37%	39%
Domestic Large-Cap Value	15-25%	21%	20%
Domestic Large-Cap Index	10-20%	15%	15%
Domestic Small-Cap Value	5-15%	11%	10%
International Equity	10-20%	16%	15%
Cash	0- 5%	0%	1%

## Performance

Asset Class	Money Manager	May ATU Return	Calendar YTD	Benchmark	May Benchmark Return	Calendar YTD
Fixed Income	Dodge & Cox	-0.4%	1.7%	Lehman Brothers US Aggregate	-0.8%	1.3%
Large Cap Index	State Street	3.5%	8.8%	S&P 500	3.5%	8.8%
International Equity Index (Growth)	Pyramis	1.7%	8.9%	MSCI EAFE	1.8%	10.6%
Large Cap Value Stocks	Robeco Boston Partners	3.7%	9.4%	Russell 1000 Value	3.6%	8.8%
Small Cap Value	Brandy-Wine	4.4%	8.1%	Russell 2000 Value	3.7%	6.3%
Total (Weighted)		1.9%	6.3%		1.7%	6.0%

## Value

Fund	Book Value	Market Value	Unrecognized Gain (Loss)
VTA/ATU Pension Plan	\$328,851,719	\$354,241,450	\$25,389,731

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 May 2007) performance is a gain of 125.6% versus the composite benchmark of 96.8%. Average composite annual return is 14.5% for ATU Pension Plan versus 11.2% for Benchmarks.

On June 7, 2007, the VTA Board of Directors authorized the General Manager to execute an agreement with MFS Investment Management (MFS) and terminate the agreement with Pyramis Global Advisors (Pyramis) for the management of the International Growth Equity Index Fund portfolio of the VTA/ATU Pension Plan assets. Staff is currently reviewing the agreement with MFS. Once VTA and MFS agree, we will send the 30-day notice of termination to Pyramis.

### **VTA Retiree Health Care Program**

#### Performance

Asset Class	Money Manager	May Retiree Return	Calendar YTD	Benchmark	May Benchmark Return	Calendar YTD
Fixed Income	Dodge & Cox	-0.5%	1.7%	Lehman Brothers US Aggregate	-0.8%	1.3%
Large Cap Index	State Street	3.5%	8.8%	S&P 500	3.5%	8.8%
Total (Weighted)		2.0%	6.1%		1.9%	5.9%

#### Value

Fund	Book Value	Market Value	Unrecognized Gain (Loss)
Retiree Health	\$96,169,947	\$98,392,918	\$2,222,971

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	May Retiree Return	Calendar YTD	Benchmark	May Benchmark Return	Calendar YTD
Fixed Income	Dodge & Cox	-0.4%	1.6%	Lehman Brothers US Aggregate	-0.8%	1.3%
Large Cap Index	State Street	3.5%	8.8%	S&P 500	3.5%	8.8%
Total (Weighted)		1.8%	5.7%		1.7%	5.6%

Value

Fund	Book Value	Market Value	Unrecognized Gain (Loss)
ATU Spousal	\$12,244,198	\$12,642,884	\$218,686

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 6 months ending November 30, 2007.

Prepared by: Manny Bagnas, Investment Program Manager