

October 29, 1990

MINUTES
REGULAR MEETING OF THE
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD
October 29, 1990

CALL TO ORDER AND ROLL CALL

The Administration, Investment and Fiscal Management Board met in regular session in Conference Room 101, 921 - 10th Street, at 1:30 p.m. on October 29, 1990

PRESENT: Crist, Frierson, Masuoka, Friery

ABSENT: DeCamilla

The meeting was chaired by Vice-Chairman Thomas Friery.

CONSENT CALENDAR

MINUTES OF REGULAR MEETING HELD SEPTEMBER 24, 1990
APPROVED AS AMENDED

The Board received and reviewed the minutes of the regular meeting held September 24, 1990.

Mr. Friery requested the minutes be amended to read as follows under the real estate advisor's section:

As Mr. Smith was unable to attend the meeting, Mr. Smith contacted Mr. Friery and briefed Mr. Friery on the current real estate activities.

Ms. Frierson moved the amended minutes be approved. The motion was seconded by Ms. Masuoka and was carried by the following vote:

AYES: Frierson, Masuoka, Friery

NOES: None

ABSTAINED: Crist

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INVESTMENTS - TREASURER'S ACTIVITY REPORT
ACCEPTED

The Board received the August 1990 Treasurer's Investment Activity Report. Deborah Carter, Investment Officer, reviewed the investment report with the Board.

Michelle Stenoski, Investment Officer, reported that on August 31, 1990, \$6 million of the 8% Imperial "put" bonds maturing in 2011 were sold and reinvested into 30 year 8.75% U.S. Treasury Bonds yielding 9.12%. Although the sale resulted in a bookkeeping loss of approximately (\$200,000), the total net benefit of the trade to the year 2011 worked out to be nearly \$800,000.

The original purchase of the Imperial Bonds in October 1986 was made in lieu of the current U.S. Treasury Bond which was yielding 7.75% at that time. As it was felt that interest rates were due to rise, the Imperial "put" bonds provided the City an opportunity to get out of the bonds earlier than maturity, if necessary, without the risk of owning a 30 year security.

Mr. Crist moved to accept the investment activity report. The motion was seconded by Ms. Frierson and was carried by the following vote:

AYES: Crist, Frierson, Masuoka, Friery

NOES: None

REPORTS OF CONSULTANTS AND ADVISORSREAL ESTATE ADVISOR'S REPORT
ACCEPTED

The Board received the October 1990 Real Estate Advisor's report, submitted by W. Jim Smith of WJS & Associates. Mr. Smith was unable to attend the meeting.

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Ms. Masuoka moved to accept the report. The motion was seconded by Mr. Crist and was carried by the following vote:

AYES: Crist, Frierson, Masuoka, Friery

NOES: None

BATTERYMARCH AUGUST 1990 PERFORMANCE REPORT
ACCEPTED AS INFORMATIONAL

The Board accepted as informational Batterymarch's August 1990 performance report.

LEXINGTON AUGUST 1990 PERFORMANCE REPORT
ACCEPTED AS INFORMATIONAL

The Board accepted as informational Lexington's August 1990 performance report.

AXE-HOUGHTON MANAGEMENT, INC., SEPTEMBER 1990 PERFORMANCE REPORT
ACCEPTED AS INFORMATIONAL

The Board accepted as informational Axe-Houghton Management's September 1990 performance report.

IDEAS AND QUESTIONS, MEMBERS OF THE BOARD

Ms. Frierson reported that she attended the first Adjacent Property Owner Design Input Meeting on October 4, 1990 regarding the Community/Convention Center Expansion project. As a representative of the Board, she expressed the Board's concerns on the loading dock issue and the affects on the system's 1414 K Street property. Mr. Jim Smith, Real Estate Advisor, will be attending the next meeting, October 31, 1990.

Mr. Friery informed the Board that he will be attending a seminar in November on international investment opportunities. For future planning, he will be viewing foreign securities as part of the asset diversification plan. Mr. Friery welcomed any ideas or comments from the other Board members on this subject.

There being no further business, the meeting was adjourned at 1:50 p.m. to meet again at the call of the chair.

ATTACHMENT A-1

SCERS - STATEMENT OF ASSETS AVAILABLE FOR INVESTMENT
AS OF AUGUST 31, 1990

	CASH		INVESTMENTS @ COST	AMOUNT 1/ AVAILABLE FOR INVESTMENT
	POOL A	FAC HOR		
OPERATING CASH	(914,505)			(914,505)
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	(2,257,775)	2,133,776	143,649,813	143,525,814
REAL ESTATE MORTGAGE	2,901,545		8,261,729	11,163,274
UTILITY STOCKS	908,412	936,894	11,931,597	13,776,902
TOTAL FIXED	1,552,181	3,070,670	163,843,138	168,465,989
EQUITY:				
AXE-HOUGHTON	11,405	1,355,000	9,221,869	10,588,274
BATTERYMARCH		231,106	9,727,986	9,959,093
DELAWARE		3,373,690	24,940,795	28,314,485
LEXINGTON	764	3,028,290	9,581,517	12,610,571
NEWBOLDS	51,508	3,653,040	20,257,113	23,961,661
REAL ESTATE EQUITY	3,057,378		23,039,904	26,097,281
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	3,121,054	11,641,127	90,769,184	105,531,365
GRAND TOTAL	3,758,730	14,711,797	254,612,322	273,082,849 - <i>areest</i>

1/ This column represents the amount available for investment for each category derived by adding to or subtracting from the previous period's balance all invested income (interest, dividend, gains, losses, etc.) and all contribution transfers.

ATTACHMENT A-1A

SCERS - STATEMENT OF ASSETS @ MARKET VALUE
AS OF AUGUST 31, 1990

	CASH		INVESTMENTS @MARKET	TOTAL ASSETS @ MARKET
	POOL A	PAC HOR		
OPERATING CASH	(914,505)			(914,505)
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	(2,257,775)	2,133,776	139,252,107	139,128,108
REAL ESTATE MORTGAGE	2,901,545		-8,619,811	11,521,356
UTILITY STOCKS	908,412	936,894	10,713,550	12,558,856
TOTAL FIXED	1,552,181	3,070,670	158,585,469	163,208,320
EQUITY:				
AXE-HOUGHTON	11,405	1,355,000	9,517,644	10,884,048
BATTERYMARCH		231,106	9,469,346	9,700,452
DELAWARE		3,373,690	24,126,764	27,500,455
LEXINGTON	764	3,028,290	9,387,034	12,416,089
NEWBOLDS	51,508	3,653,040	20,231,092	23,935,640
REAL ESTATE EQUITY	3,057,378		22,580,000	25,637,378
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	3,121,054	11,641,127	89,311,880	104,074,062
GRAND TOTAL	3,758,730	14,711,797	247,897,349	266,367,876

SCREENS - STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR INVESTMENT FOR THE PERIOD 7/31/90 - 8/31/90

ATTACHMENT A-2

BALANCE	7/31/90	POOL A	PAC HOR	INVESTMENT	DIV	GAIN (LOSS) ON SALES	RENTAL INCOME	INTEREST EXPENSE	EXTERNAL CONTRIB.	TRANSFRS	BALANCE	8/31/90
OPERATING CASH	(3,109,342)								585,912	1,608,925	(914,505)	
FIXED:												
BONDS, 2ND TO 8, 6	143,809,090	0	3,295	1,685,630		(203,277)				(1,608,925)	143,525,814	
REAL ESTATE MORTGAGES	11,100,237	0		55,030							11,163,275	
PRIVATE STOCKS	13,705,198	0	7,102			64,003					13,776,902	
EQUITY:												
AIR-HOGGTON	10,599,608	0	14,649	2,610	(20,599)						10,580,275	
INTERMEDIATE	9,137,075	0	3,109	10,499	209						9,959,092	
DELMAR	10,103,377	0	25,565	105,544	0						20,314,486	
LEXINGTON	12,964,359	0	0,777	19,654	(302,220)						12,610,570	
KEROLDS	23,357,099	0	40,726	11,193	543,843						23,961,661	
REAL ESTATE EQUITY	25,949,281	0									26,077,281	
LOAN PAYABLE	(6,000,000)										(6,000,000)	
GRAND TOTAL	270,425,382	0	113,423	1,740,660	221,510	(150,045)			585,912		270,002,051	0
YEAR TO DATE:	271,043,656	0	213,350	2,563,025	462,412	206,052	354,750	(90,750)	(1,742,444)		270,002,051	0

ATTACHMENT A-3

SCERS - STATEMENT OF ESTIMATED INCOME & RATES OF RETURN
AS OF AUGUST 31, 1990

	COST	MARKET	ESTIMATED ANNUAL INCOME	EST. RATE AT COST	EST. RATE AT MARKET
CASH					
CITY POOL A	3,758,730	3,758,730	319,492	8.50%	8.50%
PAC HORIZONS MONEY MARKET FUND	14,711,797	14,711,797	1,131,337	7.69%	7.69%
FIXED:					
BONDS, 2ND TD'S & MTG. BK CERTS	143,649,813	139,252,107	13,254,831	9.23%	9.52%
REAL ESTATE MORTGAGE	8,261,729	8,619,811	841,401	10.18%	9.76%
UTILITY STOCKS	11,931,597	10,713,550	746,562	6.26%	6.97%
EQUITY:					
AIX-HOUGHTON	9,221,869	9,517,644	21,490	0.23%	0.23%
BATTERYMARCH	9,727,986	9,469,346	258,351	2.66%	2.73%
DELAWARE	24,940,795	24,126,764	1,313,977	5.27%	5.45%
LEXINGTON	9,581,517	9,387,034	202,503	2.11%	2.16%
NEWBOLDS	20,257,113	20,231,092	1,039,618	5.13%	5.14%
REAL ESTATE EQUITY	23,039,904	22,580,000	1,965,500 1/	8.53%	8.70%
LOAN PAYABLE	(6,000,000)	(6,000,000)			
GRAND TOTAL	273,082,849	266,367,876	21,095,063	7.72%	7.92%

1/ Per Board Resolution # 86-007, dated 6/23/86, Real Estate Equity can be leveraged up to 50% of the System's Portfolio and up to 75% of the purchase price of a particular property. The Discovery Plaza Property purchased for \$10 million was leveraged with a \$6 million 9.875% note dated 2/24/87 payable to the Travelers Insurance Company. Annual interest expense on this loan is \$592,500.

2/ The estimated annual income represents only interest and dividends, and does not include Capital Gains, Administrative Expenses and Debt Service. The estimated Capital Gains for the prior fiscal year 1989/90 was \$8.0 million. Administrative Expenses for this same period were \$119,000 for Banking and Trustee Fees, \$756,000 for Investment Manager Fees, \$592,500 for Interest Expense on Note Payable (Discovery Plaza), and \$1,008,000 for Real Estate Maintenance and Repair Expenses. Although we are unable to estimate Capital Gains for Fiscal Year 1990/91, we anticipate that the other expenses should remain fairly constant. These additional income and expense items should be considered in determining the funds total performance.

ATTACHMENT A-4

SCERS - STATEMENT OF OVER (UNDER) INVESTMENT BASED UPON
COST/MARKET AS OF AUGUST 31, 1990

	1/ COST	1/ MARKET	% AUTHORIZED	DOLLARS AUTHORIZED	2/ OVER (UNDER) INVESTED, BASED UPON COST/MARKET
OPERATING CASH	(914,505)	(914,505)			(914,505)
FIXED:					
BONDS, 2ND TD'S, & MTG BK. CERTS.	143,525,814	139,128,108	51.00%	139,272,253	4,253,560
REAL ESTATE MORTGAGE	11,163,274	11,521,356	4.00%	10,923,314	598,042
UTILITY STOCKS	13,776,902	12,558,856	5.00%	13,654,142	122,760
TOTAL FIXED	168,465,989	163,208,320	60.00%	163,849,710	4,974,362
EQUITY:					
AXE-HOUGHTON	10,588,274	10,884,048	4.00%	10,923,314	(39,266)
BATTERYMARCH	9,959,093	9,700,452	4.00%	10,923,314	(964,221)
DELAWARE	28,314,485	27,500,455	11.00%	30,039,113	(1,724,628)
LEXINGTON	12,610,571	12,416,089	5.00%	13,654,142	(1,043,572)
NEWBOLDS	23,961,661	23,935,640	9.00%	24,577,456	(615,795)
REAL ESTATE EQUITY	26,097,281	25,637,378	7.00%	19,115,799	981,482
LESS: LOAN PAYABLE	(6,000,000)	(6,000,000)			
TOTAL EQUITY	105,531,365	104,074,062	40.00%	109,233,140	(3,406,001)
GRAND TOTAL	273,082,849	266,367,876	100.00%	273,082,849	653,856

1/ Includes cash for each investment category. See Attachment A-1 and Attachment A-1A for the breakdown of cash and investments at cost and market respectively.

2/ This column represents the amount over (under) invested for each category (Cost/Market) based upon the Board's asset allocation policy. These are the amounts to be considered should the Board decide to reallocate assets of this date. The last reallocation was as of 12/31/89 and became effective 2/28/90.

Should the Board reallocate as of August 31, 1990, \$653,856 would be allocated to the managers according to the percentages authorized.

ATTACHMENT A-5

1]

SCERS - STATEMENT OF PURCHASES AND SALES ACTIVITY
FOR AUGUST 1990

PORTPOLIO MANAGER	PURCHASES (COST)	(PROCEEDS)	SALES (COST)	GAIN/(LOSS)
FIXED:				
BONDS	\$8,107,835	\$19,000	(\$18,905)	\$95
MTG BACKED		\$6,121,741	(\$6,405,113)	(\$283,372)
2ND TD'S	\$0	\$0	\$0	\$0
REAL ESTATE MORTGAGES	\$0	\$0	\$0	\$0
UTILITY STOCKS	\$0	\$0	\$0	\$0
TOTAL FIXED	\$8,107,835	\$6,140,741	(\$6,424,018)	(\$283,277)
EQUITY:				
AXE-HOUGHTON	\$2,405,253	\$2,074,255	(\$2,102,854)	(\$28,599)
BATTERYMARCH	\$311,125	\$0	\$209	\$209
DELAWARE	\$0	\$0	\$0	\$0
LEXINGTON	\$0	\$1,775,529	(\$2,157,749)	(\$382,220)
HEWBOLDS	\$0	\$2,184,582	(\$1,640,740)	\$543,843
TOTAL EQUITY	\$2,716,378	\$6,034,366	(\$5,901,134)	\$133,232
GRAND TOTAL	\$10,824,213	\$12,175,107	(\$12,325,152)	(\$150,045)

1] For detailed listings of activity, see Attachments "B" through "I".