

MINUTES  
REGULAR MEETING OF THE  
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM  
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD  
August 22, 1988

CALL TO ORDER AND ROLL CALL

The Administration, Investment and Fiscal Management Board met in regular session in Conference Room 103, 801 - 9th Street, at 1:32 p.m. on August 22, 1988.

PRESENT: Frierson, Friery, DeCamilla

ABSENT: Masuoka, Wolford

CONSENT CALENDAR

MINUTES OF REGULAR MEETING JULY 25, 1988

APPROVED

The Board received and reviewed the minutes of the regular meeting held July 25, 1988. Mr. Friery moved the minutes be approved. The motion was seconded by Ms. Frierson and was carried by the following vote:

AYES: Frierson, Friery, DeCamilla

NOES: None

INVESTMENTS - TREASURER'S ACTIVITY REPORT

ACCEPTED

The Board received the June, 1988 Treasurer's Investment Activity Report. Deborah Carter, Investment Officer, reviewed the investment report with the Board.

Ms. Carter reminded the equity managers that they can enhance their cash rates of return by using the City's short-term Pool A fund as an alternative to the lower yielding bank sweep account

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

AYES: Frierson, Friery, DeCamilla

NOES: None

REPORTS OF CONSULTANTS AND ADVISORSCITY TREASURER'S UTILITY STOCK JUNE 30, 1988 QUARTERLY REPORT  
ACCEPTED

The Board received the Treasurer's Utility Stock Fixed Income Alternative Portfolio and Portfolio Results for the quarter ending June 30, 1988. Mr. Friery reviewed the report with the Board.

After discussion, Ms. Frierson moved to accept the report. The motion was seconded by Mr. DeCamilla and was carried by the following vote:

AYES: Frierson, Friery, DeCamilla

NOES: None

HARD ASSET JUNE 30, 1988 QUARTERLY REPORT  
ACCEPTED

The Board received the Hard Asset Quarterly Report for the quarter ending June 30, 1988. Mr. Friery reviewed the report with the Board. Ms. Frierson moved to accept the report. The motion was seconded by Mr. DeCamilla and was carried by the following vote:

AYES: Frierson, Friery, DeCamilla

NOES: None.

REAL ESTATE ADVISOR'S REPORT  
ACCEPTED

The Board received the August, 1988 Real Estate Advisor's Report, submitted by W. Jim Smith of WJS & Associates. Mr. Smith reviewed the report with the Board.

Mr. Smith stated that he was looking for properties for the System but he had none currently to bring forth. In response to an inquiry by Mr. DeCamilla, Mr. Smith informed the Board that the 1414 K Street property was approximately 90% leased. Mr. Friery expressed a wish to have the Board meet and walk through the 1414 K Street property in the future.

August 22, 1988

Ms. Frierson moved to accept the real estate report. The motion was seconded by Mr. Friery and was carried by the following vote:

AYES: Frierson, Friery, DeCamilla

NOES: None

DELAWARE INVESTMENT ADVISORS JUNE 30, 1988 QUARTERLY REPORT  
ACCEPTED

The board received the June 30, 1988 quarterly report from Delaware Investment Advisors. George Deming and John Durham, Chairman, reviewed the report with the Board.

After discussion, Mr. Friery moved to accept the report. The motion was seconded by Ms. Frierson and was carried by the following vote:

AYES: Frierson, Friery, DeCamilla

NOES: None

BATTERYMARCH JUNE 30, 1988 QUARTERLY REPORT  
ACCEPTED

The Board received the June 30, 1988 quarterly report from Batterymarch. Larry Speidell reviewed the report with the Board.

After discussion, Mr. Friery moved to accept the report. The motion was seconded by Ms. Frierson and was carried by the following vote:

AYES: Frierson, Friery, DeCamilla

NOES: None

NEWBOLD'S ASSET MANAGEMENT JUNE 30, 1988 QUARTERLY REPORT  
ACCEPTED

The Board received the June 30, 1988 quarterly report from Newbold's Asset Management. Harry K. Hiestand reviewed the report with the Board.

After discussion, Ms. Frierson moved to accept the report. The motion was seconded by Mr. Friery and was carried by the following vote:

AYES: Frierson, Friery, DeCamilla

NOES: None

AXE-HOUGHTON MANAGEMENT JUNE 30, 1988 QUARTERLY REPORT

ACCEPTED

The Board received the June 30, 1988 quarterly report from Axe-Houghton. John Schroeder and Porter Sutro reviewed the report with the Board.

After discussion, Ms. Frierson moved to accept the report. The motion was seconded by Mr. Friery and was carried by the following vote:

AYES: Frierson, Friery, DeCamilla

NOES: None

LEXINGTON CAPITAL MANAGEMENT JUNE 30, 1988 QUARTERLY REPORT

ACCEPTED

The Board received the June 30, 1988 quarterly report from Lexington Capital. Ralph D'Agostini and Janet Acheatel reviewed the report with the Board.

After discussion, Ms. Frierson moved to accept the report. The motion was seconded by Mr. Friery and was carried by the following vote:

AYES: Frierson, Friery, DeCamilla

NOES: None

SEI PERFORMANCE SUMMARY AND MARKET INDEXES, JUNE 1988

ACCEPTED AS INFORMATIONAL

The Board accepted as informational SEI's June 1988 Performance Summary and Market Indexes.

REPORTS OF SECRETARY

Secretary Richard Snyder expressed to the fund managers the need to have their reports submitted on a timely basis.

IDEAS AND QUESTIONS, MEMBERS OF THE BOARD

Mr. DeCamilla requested that the draft resolution establishing policy and guidelines for the acquisition of private placement securities be

agendized. Mr. Friery also commented that he would like to see this item brought before the Board. Mr. Snyder responded that a motion could not be made to agendize this item. However, the request and concurrence of Mr. DeCamilla and Mr. Friery respectively is cause for the Secretary to agendize this item for the next meeting. Following Board discussion this item could be acted upon at the next meeting.

There being no further business, the meeting was adjourned at 3:23 p.m. to meet again at the call of the chair.

SCERS - STATEMENT OF ASSETS AVAILABLE FOR INVESTMENT  
AS OF JUNE 30, 1988

	CASH		SCERS INVESTMENT POOLS	INVESTMENTS @ COST	AMOUNT 1/ AVAILABLE FOR INVESTMENT
	POOL A	PAC HOR			
EXTERNAL CONTRIBUTIONS	4,750,699	0	0	0	4,750,699
FIXED:					
BONDS, 2ND TD'S, & MTG. BK. CERTS.	8,863,445	1,215,913	0	148,584,176	158,663,534
REAL ESTATE MORTGAGE	1,935,186	0	0	5,806,674	7,741,860
UTILITY STOCKS	1,500,000	347,427	0	13,752,284	15,599,711
TOTAL FIXED	<u>12,298,631</u>	<u>1,563,340</u>	<u>0</u>	<u>168,143,134</u>	<u>182,005,105</u>
EQUITY:					
ALLIANCE	0		0	0	0
AXE-HOUGHTON	0	3,576,784		8,284,521	11,861,305
BATTERYMARCH	0	2,320,563	0	26,163,143	28,483,706
DELAWARE	0	2,156,781	0	26,194,857	28,351,638
LEXINGTON	0	1,197,380		10,869,539	12,066,919
NEWBOLD'S	3,603,608	2,792,127	0	21,045,680	27,441,415
GOLD & SILVER	12,249	0	0	3,020,655	3,032,904
REAL ESTATE EQUITY	1,707,482	0	0	22,051,925	23,759,407
LESS: LOAN PAYABLE	0	0	0	(6,000,000)	(6,000,000)
TOTAL EQUITY	<u>5,323,339</u>	<u>12,043,635</u>	<u>0</u>	<u>111,630,320</u>	<u>128,997,294</u>
TOTAL	<u>22,372,669</u>	<u>13,606,975</u>	<u>0</u>	<u>279,773,454</u>	<u>315,753,098</u>

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.

SCERS - STATEMENT OF ASSETS @ MARKET VALUE  
AS OF JUNE 30, 1988

	CASH		SCERS INVESTMENT POOLS	INVESTMENTS @ MARKET	TOTAL ASSETS @ MARKET	ESTIMATED TOTAL RETURN (QTR)
	POOL A	PAC HOR				
EXTERNAL CONTRIBUTIONS	4,750,699	0	0	0	4,750,699	
FIXED:						
BONDS, 2ND TD'S, & MTG. BK. CERTS.	8,863,445	1,215,913	0	142,176,970	152,256,328	1.27%
REAL ESTATE MORTGAGE	1,935,186	0	0	5,948,672	7,883,858	1.37%
UTILITY STOCKS	1,500,000	347,427	0	12,453,813	14,301,240	6.38%
TOTAL FIXED	<u>12,298,631</u>	<u>1,563,340</u>	<u>0</u>	<u>160,579,455</u>	<u>174,441,426</u>	<u>1.67%</u>
EQUITY:						
ALLIANCE	0	0	0	0	0	
AXE-HOUGHTON	0	3,576,784	0	8,691,788	12,268,572	2.24%
BATTERYMARCH	0	2,320,563	0	28,647,803	30,968,366	7.48%
DELAWARE	0	2,186,781	0	25,734,100	27,890,881	7.57%
LEXINGTON	0	1,197,380	0	11,607,338	12,804,718	6.71%
NEWBOLD'S	3,603,608	2,792,127	0	20,279,556	26,675,291	3.21%
GOLD & SILVER	12,249	0	0	2,573,385	2,585,634	0.14%
REAL ESTATE EQUITY	1,707,482	0	0	22,580,000	24,287,482	-0.15%
LESS: LOAN PAYABLE	0	0	0	(6,000,000)	(6,000,000)	
TOTAL EQUITY	<u>5,323,339</u>	<u>12,043,635</u>	<u>0</u>	<u>114,113,970</u>	<u>131,480,944</u>	<u>5.17%</u>
TOTAL	<u>22,372,669</u>	<u>13,606,975</u>	<u>0</u>	<u>274,693,425</u>	<u>310,673,069</u>	<u>3.10%</u>

SCERS - STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR INVESTMENT  
FOR THE PERIOD 5/31/88 TO 6/30/88

	BALANCE 5/31/88	INTEREST INCOME			DIV.	GAIN (LOSS) ON SALES	NET RENTAL INCOME	INTEREST EXPENSE	NET EXTERNAL CONTRIB.	CONTRIB. TRANSFER	BALANCE 6/30/88
		POOL A	PAC HOR	INVESTMENT							
EXTERNAL CONTRIBUTION	3,846,200	51,524						832,906	20,069		4,750,699
FIXED:											
BONDS, 2ND TD'S, & MTG. BK. CERTS	157,340,280	58,277	2,079	1,259,673		2,425					158,663,534
REAL ESTATE MORTGAGES	7,661,213	24,605		56,042							7,741,860
UTILITY STOCKS	15,504,963		4,351		87,390	3,007					15,599,711
EQUITY:											
ALLIANCE	19,966		103		0					(20,069)	0
AXE-HOUGHTON	11,849,126		22,425		11,778	(22,024)					11,861,305
BATTERYMARCH	28,314,572		11,902		127,202	30,030					28,483,706
DELAWARE	28,178,904		8,755		163,979	0					28,351,638
LEXINGTON	12,020,642		37,379		24,048	(15,150)					12,066,919
NEHROLD'S	27,824,830	76,941	4,830		180,383	(645,569)					27,441,415
GOLD & SILVER	3,032,724			180		0					3,032,904
REAL ESTATE EQUITY LOAN PAYABLE	23,668,011 (6,000,000)	26,396					114,375	(49,375)			23,759,407 (6,000,000)
TOTAL	313,261,431	237,743	92,624	1,315,895	594,780	(647,281)	114,375	(49,375)	832,906	0	315,753,098
YEAR TO DATE	285,022,204	722,187	809,439	11,982,090	4,665,676	8,542,396	1,073,625	(444,375)	3,379,856	0	315,753,098

ATTACHMENT A-3

SCERS - STATEMENT OF ESTIMATED INCOME & RATES OF RETURN  
AS OF JUNE 30, 1988

	COST	MARKET	ESTIMATED ANNUAL INCOME	EST. RATE AT COST	EST. RATE AT MARKET
<b>CASH</b>					
CITY POOL A	22,372,669	22,372,669	1,633,429	7.30%	7.30%
PAC HORIZONS MONEY MARKET FUND	13,606,975	13,606,975	877,650	6.45%	6.45%
SCERS INVESTMENT POOLS	0	0	0	0.00%	0.00%
<b>FIXED:</b>					
BONDS, 2ND TD'S, & MTG. BK. CERTS	148,584,176	142,176,970	13,073,234	8.80%	9.20%
REAL ESTATE MORTGAGE	5,806,674	5,948,672	674,531	11.62%	11.34%
UTILITY STOCKS	13,752,284	12,453,813	857,924	6.24%	6.89%
<b>EQUITY:</b>					
ALLIANCE	0	0	0		
AXE-HOUGHTON	8,284,521	8,691,788	105,595	1.27%	1.21%
BATTERYMARCH	26,163,143	28,647,803	760,502	2.91%	2.65%
DELAWARE	26,194,857	25,734,100	1,333,298	5.09%	5.18%
LEXINGTON	10,869,539	11,607,338	247,103	2.27%	2.13%
NEWBOLD'S	21,045,680	20,279,656	927,456	4.41%	4.57%
GOLD & SILVER	3,020,655	2,573,385	0	0.00%	0.00%
REAL ESTATE EQUITY	22,051,925	22,580,000	1,441,500 1/	6.54%	6.38%
LOAN PAYABLE	(6,000,000)	(6,000,000)			
<b>TOTAL</b>	<b>315,753,098</b>	<b>310,673,069</b>	<b>21,932,222 2/</b>	<b>6.95%</b>	<b>7.06%</b>

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. Capital gains for fiscal year 1986/87 was \$13 million and for fiscal year 1987/88 to date was approximately \$9 million. Administrative expenses for fiscal year 1986/87 were \$80,000 for Banking and Trustee Fees, \$600,000 for Investment Manager Fees, and \$400,000 for Real Estate Maintenance and Repair Expenses. These additional income and expenses as well as the debt service expense described in footnote 1/ should be considered in determining the funds total performance.

SCERS - STATEMENT OF OVER (UNDER) INVESTMENT BASED UPON  
COST/MARKET AS OF JUNE 30, 1988

	1/ COST	1/ MARKET	%AUTHORIZED	DOLLARS AUTHORIZED	2/ OVER (UNDER) INVESTED BASED UPON COST	2/ OVER (UNDER) INVESTED BASED UPON MARKET
EXTERNAL CONTRIBUTIONS	4,750,699	4,750,699	0.00%	0	4,750,699	4,750,699
FIXED:						
BONDS, 2ND TD'S, & MTG. BK. CERTS.	158,663,534	152,256,328	50.50%	159,455,314	(791,780)	(7,198,986)
REAL ESTATE MORTGAGE	7,741,860	7,883,858	2.50%	7,893,827	(151,967)	(9,969)
UTILITY STOCKS	15,599,711	14,301,240	5.00%	15,787,655	(187,944)	(1,486,415)
TOTAL FIXED	182,005,105	174,441,426	58.00%	183,136,797	(1,131,692)	(8,695,371)
EQUITY:						
ALLIANCE	0	0			0	0
AXE-HOUGHTON	11,861,305	12,268,572	4.00%	12,630,124	(768,819)	(361,552)
BATTERYMARCH	28,483,706	30,968,366	9.00%	28,417,779	65,927	2,550,587
DELAWARE	28,351,638	27,890,881	9.00%	28,417,779	(66,141)	(526,898)
LEXINGTON	12,066,919	12,804,718	4.00%	12,630,124	(563,205)	174,594
NEWBOLD'S	27,441,415	26,675,291	9.00%	28,417,779	(976,364)	(1,742,488)
GOLD & SILVER	3,032,904	2,585,634	1.00%	3,157,531	(124,627)	(571,897)
REAL ESTATE EQUITY	23,759,407	24,287,482	6.00%	18,945,186	4,814,221	5,342,296
LESS: LOAN PAYABLE	(6,000,000)	(6,000,000)			(6,000,000)	(6,000,000)
TOTAL EQUITY	128,997,294	131,480,944	42.00%	132,616,301	(3,619,007)	(1,135,357)
TOTAL	315,753,098	310,673,069	100.00%	315,753,098	0	(5,080,029)

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/ These two columns represent 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 as of this date. The last reallocation was as of 12/31/87 and became effective 2/29/88. Effective 1/25/88 the Board adopted a resolution which reduced Alliance's allocation from 10% to 8% and increased the Corporate Bond's allocation from 48.50% to 50.50%.

Effective March 31, 1988, the services of Alliance Capital Management were terminated, and effective April 1, 1988, the Board appointed Axe-Houghton Management, Inc. and Lexington Capital Management, Inc.

1)  
 SCERS - STATEMENT OF PURCHASES AND SALES ACTIVITY  
 FOR JUNE 1988

PORTFOLIO MANAGER	PURCHASES (COST)	(PROCEEDS)	SALES (COST)	GAIN/(LOSS)
<b>FIXED:</b>				
BONDS	\$0	\$0	\$0	\$0
MTG BACKED	\$0	\$120,944	(\$118,519)	\$2,425
2ND TD'S	\$0	\$468	(\$468)	\$0
REAL ESTATE MORTGAGES:	\$0	\$16,979	(\$16,979)	\$0
UTILITY STOCKS	\$0	\$944,188	(\$941,181)	\$3,007
<b>TOTAL FIXED</b>	<b>\$0</b>	<b>\$1,082,579</b>	<b>(\$1,077,147)</b>	<b>\$5,432</b>
<b>EQUITY:</b>				
ALLIANCE	\$0	\$0	\$0	\$0
AXE-HOUGHTON	\$1,978,478	\$1,270,639	(\$1,292,663)	(\$22,024)
BATTERYMARCH	\$3,155,439	\$3,844,509	(\$3,805,319)	\$39,190
DELAWARE	\$421,630	\$0	\$0	\$0
LEXINGTON	\$5,427,652	\$225,988	(\$241,138)	(\$15,150)
NEWBOLD'S	\$0	\$1,688,681	(\$2,334,250)	(\$645,569)
GOLD & SILVER	\$0	\$0	\$0	\$0
<b>TOTAL EQUITY</b>	<b>\$10,983,199</b>	<b>\$7,029,817</b>	<b>(\$7,673,370)</b>	<b>(\$643,553)</b>
<b>TOTAL</b>	<b>\$10,983,199</b>	<b>\$8,112,396</b>	<b>(\$8,750,517)</b>	<b>(\$638,121)</b>

1) For detailed listings of activity, see Attachments 'B' through 'J'.