

March 22, 1993

MINUTES
REGULAR MEETING OF THE
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD
March 22, 1993

CALL TO ORDER AND ROLL CALL

The Administration, Investment and Fiscal Management Board met in regular session in Conference Room 101, 921 Tenth Street, at 1:30 p.m. on March 22, 1993.

PRESENT: Crist, Frierson, Friery, DeCamilla

ABSENT: Masuoka

CONSENT CALENDAR

MINUTES OF REGULAR MEETING HELD JANUARY 25, 1993 - CONTINUED

MINUTES OF REGULAR MEETING HELD FEBRUARY 22, 1993

APPROVED

The Board received and reviewed the minutes of the regular meetings held January 25, 1993 and February 22, 1993. Mr. Friery moved to approve the minutes. The motion was seconded by Mr. Crist and was carried by the following vote:

AYES: Crist, Frierson, Friery, DeCamilla

NOES: None

INVESTMENTS - TREASURER'S ACTIVITY REPORT

ACCEPTED

The Board received the January, 1993 Treasurer's Investment Activity Report. Ms. Deborah Kanner, Investment Officer, reviewed the investment report with the Board.

Mr. Crist moved to accept the January, 1993 investment activity report. The motion was seconded by Ms. Frierson and was carried by the following vote:

AYES: Crist, Frierson, Friery, DeCamilla

NOES: None

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REPORTS OF CONSULTANTS AND ADVISORSREAL ESTATE ADVISOR'S REPORT MARCH, 1993
ACCEPTED

The Board received the March, 1993 Real Estate Advisor's report. Jim Smith, of WJS & Associates, reviewed the report with the Board.

Ms. Masuoka arrived at 1:50 p.m.

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

AYES: Crist, Frierson, Friery, DeCamilla

ABSTAINED: Masuoka

NOES: None

LOAN PROPOSAL TO WEST DAVIS ASSOCIATES
APPROVED

The Board received a loan proposal to a partnership known as West Davis Associates. Jim Smith, Real Estate Advisor, reviewed the proposal with the Board.

The loan request is for \$3.7 million at a 9 1/2% interest rate plus a non-refundable loan fee of 1% to the System. The term of the loan is for 12 years with a 25 year amortization. The loan is locked in for 10 years.

Mr. Smith recommended the Board approve the loan proposal.

After discussion, Mr. Friery moved to approve the loan proposal to West Davis Associates with all legal costs and fiduciary toxic insurance paid by the borrower. The motion was seconded by Mr. Crist and was carried by the following vote:

AYES: Crist, Frierson, Friery, DeCamilla

NOES: Masuoka

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D. B. FITE/BRADSHAW BUSINESS PARK PROPERTY

The Board received a brief memorandum from Jim Smith, Real Estate Advisor, regarding a request from Mr. Gerald Perkins relative to a loan extension on the D. B. Fite/Bradshaw Business Park Property.

Mr. Smith requested guidance from the Board to negotiate the loan extension. Mr. Smith recommended extending the loan, which has a current balance of \$2,030,699.50 under, the following terms:

Term: Three years terminating 7/1/96
Interest Rate:: 10% fixed with a 15 year amortization
Points: 1% of loan

After discussion, Mr. Crist moved that Mr. Smith proceed with negotiating the loan extension. The motion was seconded by Mr. Friery and was carried by the following vote:

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

UTILITY STOCK FIXED INCOME ALTERNATIVE PORTFOLIO REPORT, DECEMBER 31, 1992
ACCEPTED

The Board received the December 31, 1992, Utility Stock Fixed Income Alternative Portfolio report. Deborah Kanner, Investment Officer, reviewed the report with the Board.

Mr. Friery informed the Board on the current management strategy for the portfolio. Under the current weak economic environment, the investment strategy is to remain in cash and look for opportunities to buy more reasonably priced utility positions. As the market appears to be less over valued, positions will possibly be bought back.

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

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

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SCERS LARGE CAPITALIZATION/GROWTH PORTFOLIO QUARTER ENDING DECEMBER 31, 1992
ACCEPTED

The Board received the first quarterly SCERS Large Capitalization/Growth Portfolio for quarter ending December 31, 1992. Anthony Ives, Investment Officer, reviewed the report with the Board.

Mr. Ives reviewed the investment strategy and objectives of the new program with the Board.

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

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

SEI DECEMBER 31, 1992, QUARTERLY PERFORMANCE REPORT
ACCEPTED

The Board received SEI's performance report for the quarter ending December 31, 1992. Karen Smith, of SEI, reviewed the report with the Board.

Mr. Friery moved to accept SEI's December 31, 1992, quarterly performance report. The motion was seconded by Mr. Crist and was carried by the following vote:

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

DELAWARE INVESTMENT ADVISERS, FEBRUARY, 1993, PERFORMANCE
ACCEPTED AS INFORMATIONAL

The Board accepted as informational Delaware Investment Advisers' February, 1993, performance report.

RESOLUTION AUTHORIZING AGREEMENT TO AXE-HOUGHTON ASSOCIATES
ADOPTED

The Board received a proposed resolution authorizing consent to

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assign Axe-Houghton Associates Investment Advisory Agreement to Axe-Houghton Associates, a wholly-owned subsidiary of Hoenig Group Incorporated. Deborah Kanner, Investment Officer, reviewed the proposed resolution with the Board.

Ms. Masuoka moved to adopt the proposed resolution. The motion was seconded by Mr. Friery and was carried by the following vote:

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

POLICY MATTERS TO BE CONSIDERED AND ACTED UPON

FISCAL YEAR 1993-94 INTEREST RATE CREDIT TO MEMBERS' ACCOUNTS
ADOPTED

Betty Masuoka, Director of Finance and Thomas P. Friery, City Treasurer, submitted a report for the adoption of a 9.50% interest rate to be credited to members' accounts.

Ms. Frierson moved to adopt the resolution establishing 9.50% as the interest rate credit to members' accounts for FY 93-94. The motion was seconded by Mr. Friery and was carried by the following vote:

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

ADJUSTMENT TO SCERS CONTRIBUTION RATES
ADOPTED

The Board received a proposed resolution repealing resolution 92-011 related to adopting City contribution rates to SCERS. The proposed resolution is formalizing the action taken by the Board at the regular meeting of February 22, 1993.

After a brief discussion, Ms. Masuoka moved to adopt the proposed resolution which suspends the UAAL contribution through FY 93-94 and

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allows the system to use the estimated surplus of \$2,561,000 for normal contributions through December 31, 1993. The motion was seconded by Mr. Friery and was carried by the following vote:

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

REPORTS OF SECRETARY

PENSIONERS' COST OF LIVING INCREASE
ACCEPTED AS INFORMATIONAL

Secretary Margaret Allen submitted a memorandum informing the Board that system retirees and beneficiaries will be receiving a 3% cost of living increase effective July 1, 1993. The Board accepted the memorandum as informational.

There being no further business the meeting was adjourned at 3:30 p.m. to meet again at the call of the chair.

ATTACHMENT A-1

SCERS - STATEMENT OF ASSETS AVAILABLE FOR INVESTMENT
AS OF JANUARY 31, 1993

| | CASH | | INVESTMENTS @ COST | AMOUNT 1/ AVAILABLE FOR INVESTMENT |
|------------------------------------|------------|-----------|-----------------------|--|
| | POOL A | PAC HOR | | |
| OPERATING CASH | 1,369,128 | | | 1,369,128 |
| FIXED: | | | | |
| BONDS, 2ND TD'S, & MTG. BK. CERTS. | 2,726,189 | 950,400 | 160,765,537 | 164,442,126 |
| REAL ESTATE MORTGAGE | 213,418 | 728,823 | 14,514,787 | 15,457,028 |
| UTILITY STOCKS | 5,344,241 | 325,498 | 10,205,664 | 15,875,402 |
| TOTAL FIXED | 8,283,847 | 2,004,722 | 185,485,988 | 195,774,557 |
| EQUITY: | | | | |
| AXE-HOUGHTON | | 785,312 | 18,334,035 | 19,119,346 |
| DELAWARE | | 725,528 | 33,254,846 | 33,980,375 |
| LARGE CAPITAL/GROWTH | 752,947 | 7,667 | 6,348,151 | 7,108,766 |
| NEWBOLDS | | 4,487,942 | 23,113,413 | 27,601,355 |
| REAL ESTATE EQUITY | 4,319 | 177,514 | 25,995,394 | 26,177,227 |
| LESS: LOAN PAYABLE | | | (5,971,709) 2/ | (5,971,709) |
| TOTAL EQUITY | 757,266 | 6,183,963 | 101,074,130 | 108,015,360 |
| GRAND TOTAL | 10,410,242 | 8,188,685 | 286,560,118 | 305,159,045 |

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.

2/ Balance is an outstanding loan on Discovery Plaza. Loan payments commenced 4/1/92.

ATTACHMENT A-1A

SCERS - STATEMENT OF ASSETS @ MARKET VALUE
AS OF JANUARY 31, 1993

| | CASH | | INVESTMENTS | TOTAL ASSETS |
|------------------------------------|------------|-----------|-------------|--------------|
| | POOL A | PAC HOR | @MARKET | @ MARKET |
| OPERATING CASH | 1,369,128 | | | 1,369,128 |
| FIXED: | | | | |
| BONDS, 2ND TD'S, & MTG. BK. CERTS. | 2,726,189 | 950,400 | 173,781,843 | 177,458,432 |
| REAL ESTATE MORTGAGE | 213,418 | 728,823 | 15,076,295 | 16,018,536 |
| UTILITY STOCKS | 5,344,241 | 325,498 | 11,907,500 | 17,577,239 |
| TOTAL FIXED | 8,283,847 | 2,004,722 | 200,765,638 | 211,054,207 |
| EQUITY: | | | | |
| AXE-HOUGHTON | | 785,312 | 22,175,063 | 22,960,374 |
| DELAWARE | | 725,528 | 37,960,296 | 38,685,825 |
| LARGE CAPITAL/GROWTH | 752,947 | 7,667 | 6,293,575 | 7,054,189 |
| NEWBOLDS | | 4,487,942 | 25,257,652 | 29,745,594 |
| REAL ESTATE EQUITY | 4,319 | 177,514 | 25,555,490 | 25,737,323 |
| LESS: LOAN PAYABLE | | | (5,971,709) | (5,971,709) |
| TOTAL EQUITY | 757,266 | 6,183,963 | 111,270,367 | 118,211,596 |
| GRAND TOTAL | 10,410,242 | 8,188,685 | 312,036,005 | 330,634,931 |

ATTACHMENT A-2

SCRS - STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR INVESTMENT
FOR THE PERIOD 12/31/92 - 1/31/93

| | BALANCE 12/31/92 | INTEREST INCOME | | | DIV | GAIN (LOSS) ON SALES | NET RENTAL INCOME | INTEREST/ PRINCIPAL PAYMENTS | NET EXTERNAL CONTRIB. | CONTRIB. TRANSFER | BALANCE 1/31/93 |
|-------------------------------------|---------------------------|-----------------|-----------|------------|-----------|-------------------------|-------------------------|------------------------------------|-----------------------------|----------------------|---------------------------|
| | | POOL A | PAC HOR | INVESTMENT | | | | | | | |
| OPERATING CASH | 2,064,456 | | | | | | | | (1,614,796) | 919,468 | 1,369,128 |
| FIXED: | | | | | | | | | | | |
| BONDS, 2ND YD'S, & MTG. BK. CRTS | 164,336,172 | | 6,378 | 781,735 | | (2,601) | | | | (679,559) | 164,442,125 |
| REAL ESTATE MORTGAGES | 15,457,030 | | | 160,577 | | | | | | (160,577) | 15,457,030 |
| UTILITY STOCKS | 15,768,923 | | 2,187 | | 104,290 | | | | | | 15,875,400 |
| EQUITY: | | | | | | | | | | | |
| AXE-HOUGHTON | 18,537,751 | | 4,201 | | 7,203 | 570,191 | | | | | 19,119,345 |
| DELAWARE | 33,761,728 | | 1,815 | | 87,986 | 128,849 | | | | | 33,980,377 |
| LARGE CAPITAL/GROWTH | 7,001,945 | | | | 5,448 | 101,372 | | | | | 7,108,766 |
| NEWBOLDS | 28,361,751 | | 77,508 | | 7,969 | (845,873) | | | | | 27,601,355 |
| REAL ESTATE EQUITY LOAN PAYABLE | 26,177,227 (5,974,643) | | 1,832 | | | | 126,666 | (49,166) 2,935 | | (79,332) | 26,177,227 (5,971,700) |
| GRAND TOTAL | 305,492,340 | 0 | 93,922 | 942,312 | 212,894 | (48,063) | 126,666 | (46,232) | (1,614,796) | (0) | 305,159,045 |
| YEAR TO DATE: | 299,604,557 | 257,054 | 1,117,680 | 8,667,630 | 1,321,198 | 4,545,955 | 1,130,160 | (324,614) | (11,160,575) | 0 | 305,159,045 |

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ATTACHMENT A-3

SCERS - STATEMENT OF ESTIMATED INCOME & RATES OF RETURN
AS OF JANUARY 31, 1993

| | COST | MARKET | ESTIMATED ANNUAL INCOME | EST. RATE AT COST | EST. RATE AT MARKET |
|------------------------------------|--------------------|--------------------|-------------------------------|----------------------|------------------------|
| CASH | | | | | |
| CITY POOL A | 10,410,242 | 10,410,242 | 673,334 | 6.47% | 6.47% |
| PAC HORIZONS MONEY MARKET FUND | 8,188,685 | 8,188,685 | 248,936 | 3.04% | 3.04% |
| FIXED: | | | | | |
| BONDS, 2ND TD'S & MTG. BK CERTS | 160,765,537 | 173,781,843 | 14,188,457 | 8.83% | 8.16% |
| REAL ESTATE MORTGAGE | 14,514,787 | 15,076,295 | 1,549,106 | 10.67% | 10.28% |
| UTILITY STOCKS | 10,205,664 | 11,907,500 | 684,928 | 6.71% | 5.75% |
| EQUITY: | | | | | |
| AXE-HOUGHTON | 18,334,035 | 22,175,063 | 40,040 | 0.22% | 0.18% |
| DELAWARE | 33,254,846 | 37,960,296 | 1,284,288 | 3.86% | 3.38% |
| LARGE CAPITAL/GROWTH- | 6,348,151 | 6,293,575 | 73,163 | 1.15% | 1.16% |
| NEWBOLDS | 23,113,413 | 25,257,652 | 1,073,323 | 4.64% | 4.25% |
| REAL ESTATE EQUITY | 25,995,394 | 25,555,490 | 1,805,968 1/ | 6.95% | 7.07% |
| LOAN PAYABLE | (5,971,709) | (5,971,709) | | | |
| | ----- | ----- | ----- | ----- | ----- |
| GRAND TOTAL | 305,159,045 | 330,634,931 | 21,621,543 2/ | 7.09% | 6.54% |
| | ===== | ===== | ===== | ===== | ===== |

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. Paydown for this loan started April 1992, with the annual interest expense to be approximately \$591,000.

2/ The estimated annual income represents only interest and dividends, and does not include Capital Gains, Administrative Expenses and Debt Service. The Capital Gains for the prior fiscal year 1991/92 was \$10.1 million. Administrative Expenses for this same period were \$85,000 for Banking and Trustee Fees, \$639,000 for Investment Manager Fees, \$592,400 for Interest Expense on Note Payable (Discovery Plaza), and \$1,194,000 for Real Estate Maintenance and Repair Expenses. All income and expense items are considered in determining the funds total performance.

ATTACHMENT A-4

SCERS - STATEMENT OF OVER (UNDER) INVESTMENT BASED UPON
COST/MARKET AS OF JANUARY 31, 1993

| | 1/ COST | 1/ MARKET | % AUTHORIZED 3/ | DOLLARS AUTHORIZED | 2/ OVER (UNDER) INVESTED, BASED UPON COST/MARKET |
|-----------------------------------|-------------|-------------|-----------------|--------------------|--|
| OPERATING CASH | 1,369,128 | 1,369,128 | | | 1,369,128 |
| FIXED: | | | | | |
| BONDS, 2ND TD'S, & MTG BK. CERTS. | 164,442,126 | 177,458,432 | 57.00% | 188,461,911 | (11,003,479) |
| REAL ESTATE MORTGAGE | 15,457,028 | 16,018,536 | 4.00% | 13,225,397 | 2,793,139 |
| UTILITY STOCKS | 15,875,402 | 17,577,239 | 5.00% | 16,531,747 | 1,045,492 |
| TOTAL FIXED | 195,774,557 | 211,054,207 | 66.00% | 218,219,055 | (7,164,848) |
| EQUITY: | | | | | |
| AXE-HOUGHTON | 19,119,346 | 22,960,374 | 9.00% | 29,757,144 | (6,796,770) |
| DELAWARE | 33,980,375 | 38,685,825 | 8.50% | 28,103,969 | 10,581,855 |
| LARGE CAPITAL/GROWTH | 7,108,766 | 7,054,189 | 5.00% | 16,531,747 | (9,422,981) |
| NEWBOLDS | 27,601,355 | 29,745,594 | 6.50% | 21,491,271 | 8,254,323 |
| REAL ESTATE EQUITY | 26,177,227 | 25,737,323 | 5.00% | 16,531,747 | 3,673,771 |
| LESS: LOAN PAYABLE | (5,971,709) | (5,971,709) | | | |
| TOTAL EQUITY | 108,015,360 | 118,211,596 | 34.00% | 112,415,877 | 6,290,200 |
| GRAND TOTAL | 305,159,045 | 330,634,931 | 100.00% | 330,634,931 | 494,480 |

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 using the higher of Cost or Market based upon the Board's asset allocation policy.

3/ Effective November 30, 1992 the AI&PM Board terminated Lexington Capital Management and reallocated certain assets and established a Large Capital/Growth Equity program. The present percentages are effective March 31, 1993

ATTACHMENT A-5

SCERS - STATEMENT OF PURCHASES AND SALES ACTIVITY
FOR JANUARY 1993

1]

| PORTFOLIO MANAGER | PURCHASES (COST) | (PROCEEDS) | SALES (COST) | GAIN/(LOSS) |
|-----------------------|---------------------|--------------------|----------------------|-------------------|
| FIXED: | | | | |
| BONDS | | \$5,000 | (\$5,000) | |
| MTG BACKED | | \$265,369 | (\$267,970) | (\$2,601) |
| 2ND TD'S | | | | |
| REAL ESTATE MORTGAGES | | | | |
| UTILITY STOCKS | | | | |
| TOTAL FIXED | | \$270,369 | (\$272,970) | (\$2,601) |
| EQUITY: | | | | |
| AXE-HOUGHTON | \$3,041,210 | \$3,508,779 | (\$2,938,588) | \$570,191 |
| DELAWARE | \$1,249,057 | \$1,714,010 | (\$1,585,161) | \$128,849 |
| LARGE CAPITAL/GROWTH | \$228,070 | \$872,728 | (\$771,356) | \$101,372 |
| NEWBOLDS | \$683,055 | \$2,534,645 | (\$3,380,517) | (\$845,873) |
| REAL ESTATE EQUITY | | | | |
| TOTAL EQUITY | \$5,201,392 | \$8,630,161 | (\$8,675,623) | (\$45,461) |
| GRAND TOTAL | \$5,201,392 | \$8,900,530 | (\$8,948,593) | (\$48,062) |

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

ATTACHMENT B

SCERS FIXED ACTIVITY

1/1/93 - 1/31/93

| SECURITY DESCRIPTION | COUPON | YIELD | MAT DATE | RATING | BROKER | CASH/PROCEEDS | PAR VALUE |
|-------------------------|--------|-------|-----------|--------|--------|---------------|------------|
| PURCHASES | | | | | | | |
| | | | | | | \$0.00 | \$0.00 |
| SALES, CALLS | | | | | | | |
| MATURITIES | | | | | | | |
| CALL-MERCANTILE BANCORP | 8.500% | | 15-Jan-04 | | | \$2,000.00 | \$2,000.00 |
| CALL-MOORE McCORMACK | 8.875% | | 15-Jul-01 | | | \$3,000.00 | \$3,000.00 |
| | | | | | | \$5,000.00 | \$5,000.00 |