

September 23, 1991

MINUTES  
REGULAR MEETING OF THE  
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM  
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD  
September 23, 1991

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 September 23, 1991.

PRESENT: Crist, Masuoka, Friery

ABSENT: Frierson, DeCamilla

CONSENT CALENDAR

MINUTES OF REGULAR MEETING HELD AUGUST 26, 1991  
APPROVED

The Board received and reviewed the minutes of the regular meeting held August 26, 1991. Ms. Masuoka moved to approve the minutes. The motion was seconded by Mr. Crist and was carried by the following vote:

AYES: Crist, Masuoka, Friery

NOES: None

INVESTMENTS - TREASURER'S ACTIVITY REPORT  
ACCEPTED

The Board received the July 1991 Treasurer's Investment Activity Report. Deborah Kanner, Investment Officer, reviewed the investment report with the Board.

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

AYES: Crist, Masuoka, Friery

NOES: None

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REPORTS OF CONSULTANTS AND ADVISORS

Ms. Frierson arrived at 1:40 p.m.

UTILITY STOCK FIXED INCOME ALTERNATIVE PORTFOLIO AND PORTFOLIO RESULTS  
QUARTER ENDING JUNE 30, 1991 (continued)  
ACCEPTED

The Board received the quarterly SCERS Utility Stock Portfolio for the period ending June 30, 1991. Deborah Carter reviewed the report with the Board.

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

AYES: Crist, Frierson, Masuoka, Friery

NOES: None

REAL ESTATE ADVISOR'S REPORT  
ACCEPTED

The Board received the September 1991 Real Estate Advisor's Report, submitted by W. Jim Smith of WJS & Associates. Mr. Smith reviewed the report with the Board.

Mr. Smith informed the Board that he had received three bids to replace the roof on the "Penthouse" level of the 1414 K Street building. The low bid was \$19,210.00. Mr. Smith recommended the expenditure providing the bid included encapsulating the asbestos. The Board discussed in length the asbestos issue and the possible increased cost if the asbestos needs to be removed rather than encapsulating and having Mr. Smith return to the Board with a bid to remove the asbestos.

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Ms. Masuoka moved that the Board give authority to the Chair or Vice Chair to authorize the approval of the roof replacement depending on the reasonableness of the bid to either encapsulate or remove the asbestos. The motion was seconded by Mr. Friery and was carried by the following vote:

AYES: Crist, Frierson, Masuoka, Friery

NOES: None

Mr. Smith distributed to the Board two bids to remove, repave and re-strip the parking lot at Discovery Plaza. Mr. Smith recommended the Board contract with A&B Asphalt for \$51,103.00.

Ms. Masuoka moved to accept the real estate advisors report and approve the expenditure to repave the Discovery Plaza parking lot. The motion was seconded by Ms. Frierson and was carried by the following vote:

AYES: Crist, Frierson, Masuoka, Friery

NOES: None

Joseph McInerney, counsel to the Board, recommended a formal contract be drawn with A&B Asphalt.

SEI JUNE 30, 1991 QUARTERLY REPORT ON PERFORMANCE  
ACCEPTED

The Board received SEI's performance report for the quarter ending June 30, 1991. John McLaughlin, from SEI, reviewed the report with the Board.

After discussion, Mr. Friery 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

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TERMINATION OF AGREEMENT WITH BATTERYMARCH FINANCIAL MANAGEMENT  
ADOPTED

Michael Medema, Assistant City Treasurer, presented to the Board a report recommending the Board adopt a resolution to terminate the Board's agreement with Batterymarch Financial Management and reallocate the funds to the fixed income investment class of SCERS.

After a discussion, Mr. Crist moved to adopt the resolution to terminate the investment contract with Batterymarch Financial Management. The motion was seconded by Ms. Frierson and carried by the following vote:

AYES: Crist, Frierson, Masuoka, Friery

NOES: None

INVESTMENT POLICY EXEMPTION - AXE HOUGHTON MANAGEMENT, INC.  
ADOPTED

Michael Medema, Assistant City Treasurer, presented to the Board a report recommending the Board adopt a resolution granting an exemption to the Board's investment policy with Axe-Houghton Management, Inc. to provide Axe-Houghton Management, Inc. sufficient latitude to implement the investment strategy approved by the Board and eliminate the conflict created by the AIFM Board's investment standards and investment objectives.

Mr. Medema informed the Board that there had been a similar prior experience when the Board hired Lehman Management Co., Inc. in 1982 where Lehman's investment style conflicted with the Board's investment standards. The Board's agreement with Lehman included a special investment policy for emerging growth stock investments.

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Similar authority should have been given Axe-Houghton Management, Inc. at the time of the initial agreement. Mr. Medema noted that the Board had received and approved the investment activity and portfolio reports submitted by Axe-Houghton Management, Inc. since inception of the agreement.

After discussion, Mr. Crist moved to adopt the resolution to permit the investment policy exemption for Axe-Houghton Management, Inc. The motion was seconded by Ms. Masuoka and was carried by the following vote:

AYES: Crist, Frierson, Masuoka, Friery

NOES: None

REVIEW OF DRAFT SUPPLEMENTAL ENVIRONMENTAL IMPACT REPORT ON EXPANSION OF SACRAMENTO COMMUNITY CENTER  
ADOPTED

Michael Medema, Assistant City Treasurer, presented to the Board a report recommending the Board adopt a resolution which ratifies the execution of an agreement by the Board's Vice Chair with Dowling Associates to conduct a review of the Draft Supplemental Environmental Impact Report on the expansion of the Sacramento Convention Center and approve payment for services not to exceed \$2,500.

As directed by the Board, at the August 26, 1991 meeting, Mr. Friery (Vice Chair) and Ms. Masuoka negotiated and executed an agreement in partnership with the League of California Cities with a qualified consultant to conduct a review of the draft environmental impact report on the expansion of the community center.

Mr. Crist moved to adopt the resolution ratifying the agreement between the Board and the League of California Cities with Dowling

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Associates. The motion was seconded by Ms. Frierson and was carried by the following vote:

AYES: Crist, Frierson, Masuoka, Friery

NOES: None

AXE-HOUGHTON MANAGEMENT, INC., JULY 1991 PERFORMANCE REPORT  
ACCEPTED AS INFORMATIONAL

The Board accepted as informational Axe-Houghton's July 1991 performance report.

DELAWARE INVESTMENT ADVISERS, AUGUST 1991 PERFORMANCE REPORT  
ACCEPTED AS INFORMATIONAL

The Board accepted as informational Delaware's August 1991 performance report.

REPORTS OF SECRETARY

REPORT ON TERMS OF APPOINTED BOARD MEMBERS

Margaret Allen, Secretary to the Board, informed the Board that she will prepare a staff report for the City Council's consideration recommending the AIFM Board's appointed members be excluded from the term limitations imposed by City Ordinance 90-040. The report will be presented at the next Board meeting.

CLOSED SESSION - REAL PROPERTY TRANSACTIONS

The Board adjourned to closed session to discussion a real estate transaction.

The Board reconvened in open session. There being no further business, the meeting was adjourned at 3:15 p.m. to meet again at the call of the chair.

SCERS - STATEMENT OF ASSETS AVAILABLE FOR INVESTMENT  
AS OF JULY 31, 1991

	CASH		INVESTMENTS @ COST	AMOUNT 1/ AVAILABLE FOR INVESTMENT
	POOL A	PAC HOR		
OPERATING CASH	1,639,895			1,639,895
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	1,187,468	1,046,181	143,478,315	145,711,964
REAL ESTATE MORTGAGE	698,920		11,625,743 2/	12,324,663
UTILITY STOCKS	2,084,599	159,432	12,548,371	14,792,402
TOTAL FIXED	3,970,987	1,205,613	167,652,428	172,829,029
EQUITY:				
AXE-HOUGHTON	39,558	1,496,799	10,410,593	11,946,950
BATTERYMARCH		1,008,884	7,202,551	8,211,435
DELAWARE		627,819	29,606,134	30,233,953
LEXINGTON	(10,779)	5,567,791	7,092,809	12,649,822
NEWBOLDS	85,910	2,281,538	22,703,964	25,071,411
REAL ESTATE EQUITY	857,305		26,686,254 3/	27,543,558
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	971,994	10,982,830	97,702,305	109,657,129
GRAND TOTAL	6,582,877	12,188,443	265,354,733	284,126,053

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/ Included is \$3.5 million Commercial Paper due 8/21/91 to be used for any future Real Estate Mortgage Investments.

3/ Included is \$3.7 million Commercial Paper due 8/21/91 to be used for any future Real Estate Equity Investments.

ATTACHMENT A-1A

SCERS - STATEMENT OF ASSETS @ MARKET VALUE  
AS OF JULY 31, 1991

	CASH		INVESTMENTS @MARKET	TOTAL ASSETS @ MARKET
	POOL A	PAC HOR		
OPERATING CASH	1,639,895			1,639,895
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	1,187,468	1,046,181	144,727,718	146,961,367
REAL ESTATE MORTGAGE	698,920		11,989,833	12,688,753
UTILITY STOCKS	2,084,599	159,432	12,258,113	14,502,144
<b>TOTAL FIXED</b>	<b>3,970,987</b>	<b>1,205,613</b>	<b>168,975,663</b>	<b>174,152,264</b>
EQUITY:				
AXE-HOUGHTON	39,558	1,496,799	11,620,950	13,157,307
BATTERYMARCH		1,008,884	8,374,646	9,383,530
DELAWARE		627,819	32,777,417	33,405,236
LEXINGTON	(10,779)	5,567,791	9,845,557	15,402,570
NEWBOLDS	85,910	2,281,538	25,624,546	27,991,993
REAL ESTATE EQUITY	857,305		26,226,350	27,083,655
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
<b>TOTAL EQUITY</b>	<b>971,994</b>	<b>10,982,830</b>	<b>108,469,466</b>	<b>120,424,290</b>
<b>GRAND TOTAL</b>	<b>6,582,877</b>	<b>12,188,443</b>	<b>277,445,129</b>	<b>296,216,449</b>



SCRS - STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR INVESTMENT  
FOR THE PERIOD 6/30/91 - 7/31/91

	BALANCE 6/30/91	INTEREST INCOME			DIV	GAIN (LOSS) ON SALES	NET RENTAL INCOME	INTEREST EXPENSE	NET EXTERNAL CONTRIB.	CONTRIB. TRANSFER	BALANCE 7/31/91
		POOL A	PAC HOR	INVESTMENT							
OPERATING CASH	2,242,328	0							(1,368,903)	766,470	1,639,895
FIXED:											
BONDS, 2ND TD'S, & HYG. BK. CERTS	145,713,655	0	4,843	761,627		(1,690)				(766,470)	145,711,965
REAL ESTATE MORTGAGES	12,248,947	0		75,716							12,324,663
UTILITY STOCKS	14,690,602	0	191		101,610	0					14,792,402
EQUITY:											
AIX-HOUGHTON	12,044,373	0	6,446		3,172	(107,041)					11,946,950
BATTERYMARCH	8,130,284		3,780		20,153	57,220					8,211,436
DELAWARE	30,012,076		3,140		150,148	68,590					30,233,953
LEXINGTON	12,350,444	0	1,875		22,900	274,602					12,649,821
NEWBOLDS	24,992,157	0	56,541		9,941	12,773					25,071,411
REAL ESTATE EQUITY LOAN PAYABLE	27,458,557 (6,000,000)	0					134,375	(49,375)			27,543,557 (6,000,000)
GRAND TOTAL	283,883,423	0	76,815	837,343	307,923	304,453	134,375	(49,375)	(1,368,903)	0	284,126,053
YEAR TO DATE:	283,883,423	0	76,815	837,343	307,923	304,453	134,375	(49,375)	(1,368,903)	0	284,126,054

SCERS - STATEMENT OF ESTIMATED INCOME & RATES OF RETURN  
AS OF JULY 31, 1991

	COST	MARKET	ESTIMATED ANNUAL INCOME	EST. RATE AT COST	EST. RATE AT MARKET
<b>CASH</b>					
CITY POOL A	6,582,877	6,582,877	536,241	8.15%	8.15%
PAC HORIZONS MONEY MARKET FUND	12,188,443	12,188,443	723,994	5.94%	5.94%
<b>FIXED:</b>					
BONDS, 2ND TD'S & MTG. BK CERTS	143,478,315	144,727,718	13,367,391	9.32%	9.24%
REAL ESTATE MORTGAGE	11,625,743	11,989,833	1,047,301	9.01%	8.73%
UTILITY STOCKS	12,548,371	12,258,113	796,008	6.34%	6.49%
<b>EQUITY:</b>					
AXE-HOUGHTON	10,410,593	11,620,950	47,835	0.46%	0.41%
BATTERYMARCH	7,202,551	8,374,646	172,265	2.39%	2.06%
DELAWARE	29,606,134	32,777,417	1,422,576	4.81%	4.34%
LEXINGTON	7,092,809	9,845,557	159,987	2.26%	1.62%
NEWBOLDS	22,703,964	25,624,546	1,141,615	5.03%	4.46%
REAL ESTATE EQUITY	26,686,254	26,226,350	2,107,488 1/	7.90%	8.04%
LOAN PAYABLE	(6,000,000)	(6,000,000)			
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<b>GRAND TOTAL</b>	<b>284,126,053</b>	<b>296,216,449</b>	<b>21,522,701 2/</b>	<b>7.58%</b>	<b>7.27%</b>
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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 Capital Gains for the prior fiscal year 1989/90 was \$8.5 million. Administrative Expenses for this same period were \$119,000 for Banking and Trustee Fees, \$748,000 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. Capital Gains for the Fiscal Year 1990/91 are approximately \$3.1 million. The other expenses for Fiscal Year 1990/91 should remain constant, however they will be reported as soon as available. All income and expense items are considered in determining funds total performance.

SCERS - STATEMENT OF OVER (UNDER) INVESTMENT BASED UPON  
COST/MARKET AS OF JULY 31, 1991

	1/ COST	1/ MARKET	% AUTHORIZED	DOLLARS AUTHORIZED	2/ OVER (UNDER) INVESTED, BASED UPON COST/MARKET
OPERATING CASH	1,639,895	1,639,895			1,639,895
FIXED:					
BONDS, 2ND TD'S, & MTG BK. CERTS.	145,711,964	146,961,367	53.00%	150,586,808	(3,625,441)
REAL ESTATE MORTGAGE	12,324,663	12,688,753	4.00%	11,365,042	1,323,711
UTILITY STOCKS	14,792,402	14,502,144	5.00%	14,206,303	586,099
TOTAL FIXED	172,829,029	174,152,264	62.00%	176,158,153	(1,715,631)
EQUITY:					
AXE-HOUGHTON	11,946,950	13,157,307	3.75%	10,654,727	2,502,580
BATTERYMARCH	8,211,435	9,383,530	3.00%	8,523,782	859,748
DELAWARE	30,233,953	33,405,236	10.75%	30,543,551	2,861,685
LEXINGTON	12,649,822	15,402,570	4.75%	13,495,987	1,906,582
NEWBOLDS	25,071,411	27,991,993	8.75%	24,861,030	3,130,964
REAL ESTATE EQUITY	27,543,558	27,083,655	7.00%	19,888,824	1,654,735
LESS: LOAN PAYABLE	(6,000,000)	(6,000,000)			
TOTAL EQUITY	109,657,129	120,424,290	38.00%	107,967,900	12,916,294
GRAND TOTAL	284,126,053	296,216,449	100.00%	284,126,053	12,840,558

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 12/31/90 and became effective 2/25/91. The transfer of cash was completed in April 1991.

1]

SCERS - STATEMENT OF PURCHASES AND SALES ACTIVITY  
FOR JULY 1991

PORTFOLIO MANAGER	PURCHASES (COST)	(PROCEEDS)	SALES (COST)	GAIN/(LOSS)
<b>FIXED:</b>				
BONDS	\$0	\$44,000	(\$44,000)	\$0
MTG BACKED	\$0	\$224,920	(\$226,610)	(\$1,690)
2ND TD'S	\$0	\$0	\$0	\$0
REAL ESTATE MORTGAGES	\$0	\$0	\$0	\$0
UTILITY STOCKS	\$0	\$0	\$0	\$0
<b>TOTAL FIXED</b>	<b>\$0</b>	<b>\$268,920</b>	<b>(\$270,610)</b>	<b>(\$1,690)</b>
<b>EQUITY:</b>				
AXE-HOUGHTON	\$1,838,537	\$1,718,059	(\$1,825,100)	(\$107,041)
BATTERYMARCH	\$378,386	\$601,459	(\$544,239)	\$57,220
DELAWARE	\$3,298,681	\$2,582,544	(\$2,513,954)	\$68,590
LEXINGTON	\$0	\$3,294,377	(\$3,019,775)	\$274,602
NEWBOLDS	\$764,222	\$1,208,925	(\$1,196,152)	\$12,773
REAL ESTATE EQUITY	\$0	\$0	\$0	\$0
<b>TOTAL EQUITY</b>	<b>\$6,279,825</b>	<b>\$9,405,364</b>	<b>(\$9,099,221)</b>	<b>\$306,143</b>
<b>GRAND TOTAL</b>	<b>\$6,279,825</b>	<b>\$9,674,284</b>	<b>(\$9,369,830)</b>	<b>\$304,453</b>

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