

November 27, 1989

MINUTES
REGULAR MEETING OF THE
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD
November 27, 1989

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 1:37 p.m. on November 27, 1989.

PRESENT: Masuoka, Wolford, Sperling, DeCamilla

ABSENT: Frierson

CONSENT CALENDAR

MINUTES OF REGULAR MEETING HELD OCTOBER 23, 1989

APPROVED

The Board received and reviewed the minutes of the regular meeting held October 23, 1989. Mr. Sperling moved the minutes be approved. The motion was seconded by Mr. Wolford and was carried by the following vote:

AYES: Masuoka, Wolford, Sperling, DeCamilla

NOES: None

INVESTMENTS - TREASURER'S ACTIVITY REPORT

ACCEPTED

The Board received the September 1989 Treasurer's Investment Activity Report. Deborah Carter, Investment Officer, reviewed the investment report with the Board.

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

AYES: Masuoka, Wolford, Sperling, DeCamilla

NOES: None

November 27, 1989

REPORTS OF CONSULTANTS AND ADVISORSCITY TREASURER'S UTILITY STOCK, SEPTEMBER 30, 1989 QUARTERLY REPORT
ACCEPTED

The Board received the Treasurer's Utility Stock Fixed Income Alternative Portfolio Results for the quarter ending September 30, 1989. Ms. Carter reviewed the report with the Board.

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

AYES: Masuoka, Wolford, Sperling, DeCamilla

NOES: None

HARD ASSET PROGRAM SEPTEMBER 30, 1989 QUARTERLY REPORT
ACCEPTED

The Board received the Hard Asset Quarterly Report for the quarter ending September 30, 1989. Ms. Carter reviewed the report with the Board.

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

AYES: Masuoka, Wolford, Sperling, DeCamilla

NOES: None

REAL ESTATE ADVISOR'S REPORT
ACCEPTED

The Board received the November, 1989 Real Estate Advisor's Report, submitted by W. Jim Smith of WJS & Associates. Mr. Smith reviewed the report with the Board.

Mr. Wolford moved to accept the Real Estate Advisor's Report. The motion was seconded by Mr. Sperling and was carried by the following vote:

AYES: Masuoka, Wolford, Sperling, DeCamilla

NOES: None

November 27, 1989

AXE-HOUGHTON MANAGEMENT SEPTEMBER 30, 1989 QUARTERLY REPORT

ACCEPTED

The Board received the September 30, 1989 quarterly report from Axe-Houghton. Porter H. Sutro reviewed the report with the Board.

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

AYES: Masuoka, Wolford, Sperling, DeCamilla

NOES: None

NEWBOLD'S ASSET MANAGEMENT SEPTEMBER 30, 1989 QUARTERLY REPORT

ACCEPTED

The Board received the September 30, 1989 quarterly report from Newbold's Asset Management. Lynn Wharton reviewed the report with the Board.

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

AYES: Masuoka, Wolford, Sperling, DeCamilla

NOES: None

LEXINGTON CAPITAL MANAGEMENT SEPTEMBER 30, 1989 QUARTERLY REPORT

ACCEPTED

The Board received the September 30, 1989 quarterly report from Lexington Capital. Ralph D'Agostini reviewed the report with the Board.

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

AYES: Masuoka, Wolford, Sperling, DeCamilla

NOES: None

BATTERYMARCH SEPTEMBER 30, 1989 QUARTERLY REPORT

ACCEPTED

The Board received the September 30, 1989 quarterly report from Batterymarch. Larry Speidell reviewed the report with the Board.

November 27, 1989

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

AYES: Masuoka, Wolford, Sperling, DeCamilla

NOES: None

DELAWARE INVESTMENT ADVISERS SEPTEMBER 30, 1989 QUARTERLY REPORT
ACCEPTED

The Board received the September 30, 1989 quarterly report from Delaware Investment Advisers. George Deming reviewed the report with the Board.

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

AYES: Masuoka, Wolford, Sperling, DeCamilla

NOES: None

TOWERS, PERRIN, FORSTER & CROSBY, JUNE 30, 1989 ACTUARIAL VALUATION
ACCEPTED/RATES ADOPTED

The Board received the June 30, 1989 Actuarial Valuation report from Towers, Perrin, Forster and Crosby. David LeSueur, Actuary, reviewed the report with the Board. Mr. LeSueur informed the Board that this report does not reflect the transfer of the active safety members to PERS.

The Board briefly discussed the impact of the transfer of active safety members from SCERS to PERS.

Mr. Wolford moved to accept the report and adopt the new contribution rates as recommended by the actuary. The motion was seconded by Mr. Sperling and was carried by the following vote:

AYES: Masuoka, Wolford, Sperling, DeCamilla

NOES: None

November 26, 1989

GENERAL COMMUNICATIONS

Deborah Carter informed the Board that the press release regarding the success of the Board's investment performance has been sent out.

Ms. Masuoka informed the Board that the annual financial statement will be completed by the end of January 1990.

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

SCERS - STATEMENT OF ASSETS AVAILABLE FOR INVESTMENT
AS OF SEPTEMBER 30, 1989

	CASH		INVESTMENTS @ COST	AMOUNT 1/ AVAILABLE FOR INVESTMENT
	POOL A	PAC HOR		
EXTERNAL CONTRIBUTIONS	(353,231)			(353,231)
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	1,432,108	1,200,257	117,928,690	120,561,054
REAL ESTATE MORTGAGE	398,198		5,533,024	5,931,223
UTILITY STOCKS	821,671	999,399	10,047,605	11,868,675
TOTAL FIXED	2,651,977	2,199,656	133,509,319	138,360,952
EQUITY:				
AXE-HOUGHTON	(17,288)	1,393,523	8,791,875	10,168,111
BATTERYMARCH		372,793	19,276,971	19,649,765
DELAWARE		3,028,547	18,607,056	21,635,602
LEKINGTON	(18,449)	3,129,064	6,909,610	10,020,225
NEWBOLDS	(19,353)	1,321,344	19,801,711	21,103,702
GOLD & SILVER	303,697		2,049,044	2,352,742
REAL ESTATE EQUITY	2,028,983		22,892,899	24,921,882
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	2,277,590	9,245,271	92,329,167	103,852,029
SUB-TOTAL	4,576,337	11,444,927	225,838,487	241,859,750
PERS TRUST ACCOUNT 2/		313,632	116,086,973	116,400,605
GRAND TOTAL	4,576,337	11,758,559	341,925,460	358,260,355

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/ In compliance with action taken by the AIFM Board approving the plan to transfer the Safety Members assets, all the investments have been liquidated as of June 30, 1989. During the month of July 1989, \$116,217,073 was transferred to a separate account at Security Pacific National Bank and have been invested in various short term securities until January 12, 1990, when the transfer to PERS will take place.

ATTACHMENT A-1A

SCERS - STATEMENT OF ASSETS @ MARKET VALUE
AS OF SEPTEMBER 30, 1989

	CASH		INVESTMENTS @MARKET	TOTAL ASSETS @ MARKET
	POOL A	PAC-HOR		
EXTERNAL CONTRIBUTIONS	(353,231)			(353,231)
FIXED:				
BONDS, 2ND TD'S, & MIG. BK. CERTS.	1,432,108	1,200,257	117,192,500	119,824,865
REAL ESTATE MORTGAGE	398,198		5,949,056	6,347,254
UTILITY STOCKS	821,671	999,399	10,709,306	12,530,376
TOTAL FIXED	<u>2,651,977</u>	<u>2,199,656</u>	<u>133,850,862</u>	<u>138,702,495</u>
EQUITY:				
AXE-HOUGHTON	(17,288)	1,393,523	10,790,551	12,166,786
BATTERYMARCH		372,793	22,791,638	23,164,431
DELAWARE		3,028,547	21,703,890	24,732,437
LEXINGTON	(18,449)	3,129,064	9,008,956	12,119,571
NEWBOLDS	(19,353)	1,321,344	23,142,075	24,444,066
GOLD & SILVER	303,697		1,348,860	1,652,557
REAL ESTATE EQUITY	2,028,983		22,580,000	24,608,983
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	<u>2,277,590</u>	<u>9,245,271</u>	<u>105,365,970</u>	<u>116,888,832</u>
SUB-TOTAL	4,576,337	11,444,927	239,216,833	255,238,096
PERS TRUST ACCOUNT		313,632	116,086,973	116,400,605
GRAND TOTAL	<u>4,576,337</u>	<u>11,758,559</u>	<u>355,303,806</u>	<u>371,638,701</u>

ATTACHMENT A-2

SCERS - STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR INVESTMENT
FOR THE PERIOD 8/31/89 - 9/30/89

	BALANCE 8/31/89	INTEREST INCOME			DIV	GAIN (LOSS) ON SALES	NET RENTAL INCOME	INTEREST EXPENSE	NET EXTERNAL CONTRIB.	CONTRIB. TRANSFER	BALANCE 9/30/89
		POOL A	PAC INC	INVESTMENT							
EXTERNAL CONTRIBUTION	(496,248)								143,017		(353,231)
FIXED:											
BONDS, 2ND TD'S, & MTG. BK. CERTS	118,981,687	262,380	6,303	1,232,448		78,237					120,561,055
REAL ESTATE MORTGAGES	5,609,244	68,080		53,899							5,931,223
UTILITY STOCKS	11,774,375	36,786	7,179		50,336	0					11,868,675
EQUITY:											
AXE-HOUGHTON	9,759,429	58,345	6,046		17,060	327,231					10,168,111
BATTERYMARCH	19,421,682		3,920		80,741	143,422					19,649,765
DELAWARE	21,180,397		20,027		79,672	355,507					21,635,603
LEXINGTON	9,450,196	271	2,734		30,666	536,357					10,020,224
NEWGOLDS	20,929,543	80,354	12,191		75,155	6,460					21,103,702
GOLD & SILVER	2,350,512			2,230		0					2,352,742
REAL ESTATE EQUITY	24,785,245	86,637					99,375	(49,375)			24,921,882
LOAN PAYABLE	(6,000,000)										(6,000,000)
SUB-TOTAL	237,946,062	592,853	58,400	1,288,576	333,628	1,447,214	99,375	(49,375)	143,017	0	241,859,750
PERS TRUST ACCOUNT	116,376,183		24,422	0							116,400,605
GRAND TOTAL	354,322,245	592,853	82,821	1,288,576	333,628	1,447,214	99,375	(49,375)	143,017	0	358,260,355
YEAR TO DATE:											
PERMANENT ASSETS	349,384,263	592,853	458,920	3,236,153	899,337	3,597,281	466,875	(148,125)	(404,732)	(116,217,074)	241,859,751
PERS TRUST ACCOUNT			120,830	62,700						116,217,074	116,400,604
TOTAL YEAR TO DATE	349,384,263	592,853	579,749	3,298,853	899,337	3,597,281	466,875	(148,125)	(404,732)	0	358,260,355

SCERS - STATEMENT OF ESTIMATED INCOME & RATES OF RETURN
AS OF SEPTEMBER 30, 1989

	COST	MARKET	ESTIMATED ANNUAL INCOME	EST. RATE AT COST	EST. RATE AT MARKET
CASH					
CITY POOL A	4,576,337	4,576,337	411,870	9.00%	9.00%
PAC HORIZONS MONEY MARKET FUND	11,444,927	11,444,927	961,373	8.40%	8.40%
SCERS INVESTMENT POOLS					
FIXED:					
BONDS, 2ND TD'S & MTG. BK CERTS	117,928,690	117,192,500	10,742,985	9.11%	9.17%
REAL ESTATE MORTGAGE	5,533,024	5,949,056	650,026	11.75%	10.93%
UTILITY STOCKS	10,047,605	10,709,306	652,773	6.50%	6.10%
EQUITY:					
AXE-HOUGHTON	8,791,875	10,790,551	95,260	1.08%	0.88%
BATTERYMARCH	19,276,971	22,791,638	383,057	1.99%	1.68%
DELAWARE	18,607,056	21,703,890	893,008	4.80%	4.11%
LEXINGTON	6,909,610	9,008,956	166,525	2.41%	1.85%
NEWBOLDS	19,801,711	23,142,075	795,719	4.02%	3.44%
GOLD & SILVER	2,049,044	1,348,860			
REAL ESTATE EQUITY	22,892,899	22,580,000	1,648,500 1/	7.20%	7.30%
LOAN PAYABLE	(6,000,000)	(6,000,000)			
SUB-TOTAL	241,859,750	255,238,096	17,401,096 2/	7.19%	6.82%
PERS TRUST ACCOUNT	116,400,605	116,400,605	10,185,052	8.75%	8.75%
GRAND TOTAL	358,260,355	371,638,701	27,586,148	7.70%	7.42%

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. Capital Gains for the prior fiscal year 1987/8 was \$9 million. Administrative Expenses for this same period were \$90,000 for Banking and Trustee Fees, \$766,000 for Investment Manager Fees, \$444,000 for Interest Expense on Note Payable (Discovery Plaza), and \$793,000 for Real Estate Maintenance and Repair Expenses. Although we are unable to estimate Capital Gains for Fiscal Year 1988/9, 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.

SCERS - STATEMENT OF OVER (UNDER) INVESTMENT BASED UPON
COST/MARKET AS OF SEPTEMBER 30, 1989

	1/ COST	1/ MARKET	% AUTHORIZED	DOLLARS AUTHORIZED	2/ OVER (UNDER) INVESTED, BASED UPON COST/MARKET
EXTERNAL CONTRIBUTIONS	(353,231)	(353,231)			
FIXED:					
BONDS, 2ND TD'S, & MTG BK. CERTS.	120,561,054	119,824,865	50.50%	122,139,174	(1,578,119)
REAL ESTATE MORTGAGE	5,931,223	6,347,254	2.50%	6,046,494	300,760
UTILITY STOCKS	11,868,675	12,530,376	5.00%	12,092,988	437,389
TOTAL FIXED	138,360,952	138,702,495	58.00%	140,278,655	(839,970)
EQUITY:					
AXE-HOUGHTON	10,168,111	12,166,786	4.00%	9,674,390	2,492,396
BATTERYMARCH	19,649,765	23,164,431	9.00%	21,767,378	1,397,054
DELAWARE	21,635,602	24,732,437	9.00%	21,767,378	2,965,059
LEXINGTON	10,020,225	12,119,571	4.00%	9,674,390	2,445,181
NEWBOLDS	21,103,702	24,444,066	9.00%	21,767,378	2,676,689
GOLD & SILVER	2,352,742	1,652,557	1.00%	2,418,598	(65,856)
REAL ESTATE EQUITY	24,921,882	24,608,983	6.00%	14,511,585	4,410,297
LESS: LOAN PAYABLE	(6,000,000)	(6,000,000)			
TOTAL EQUITY	103,852,029	116,888,832	42.00%	101,581,095	16,320,820
SUB-TOTAL	241,859,750	255,238,096	100.00%	241,859,750	15,480,850
PERS TRUST ACCOUNT	116,400,605	116,400,605	100.00%	116,400,605	0
GRAND TOTAL	358,260,355	371,638,701	100.00%	358,260,355	15,480,850

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 12/31/88 and became effective 2/29/89.

Should the Board reallocate as of September 30, 1989, \$15,127,619 (\$15,480,850-\$353,231) would be allocated to the managers according to the percentages authorized.

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 SEPTEMBER 1989

PORTFOLIO MANAGER	PURCHASES (COST)	(PROCEEDS)	SALES (COST)	GAIN/(LOSS)
FIXED:				
BONDS	\$1,995,542	\$2,746,842	(\$2,669,160)	\$77,682
MIG BACKED 2ND TD'S		\$43,074	(\$42,519)	\$555
REAL ESTATE MORTGAGES				\$0
UTILITY STOCKS	\$166,656	\$0	\$0	\$0
TOTAL FIXED	\$2,162,198	\$2,789,916	(\$2,711,679)	\$78,237
EQUITY:				
AXE-HOUGHTON	\$1,667,451	\$1,389,684	(\$1,062,453)	\$327,231
BATTERYMARCH	\$1,163,263	\$881,657	(\$738,188)	\$143,422
DELAWARE	\$592,130	\$864,889	(\$509,382)	\$355,507
LEXINGTON	\$0	\$2,381,927	(\$1,845,570)	\$536,357
NEWBOLDS	\$2,203,833	\$47,379	(\$40,919)	\$6,460
GOLD & SILVER				\$0
TOTAL EQUITY	\$5,626,677	\$5,565,537	(\$4,196,512)	\$1,368,977
SUB -TOTAL	\$7,788,875	\$8,355,453	(\$6,908,191)	\$1,447,214
PERS TRUST ACCOUNT	\$3,109,079			\$0
GRAND TOTAL	\$10,897,954	\$8,355,453	(\$6,908,191)	\$1,447,214

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