

February 24, 1992

REPORTS OF CONSULTANTS AND ADVISORSUTILITY STOCK FIXED INCOME ALTERNATIVE PORTFOLIO AND PORTFOLIO RESULTS
DECEMBER 31, 1991
CONTINUED

This item was continued to the next meeting.

REAL ESTATE ADVISOR'S REPORT
ACCEPTED

The Board received the February 1992 Real Estate Advisor's report submitted by W. Jim Smith of WJS Associates. Mr. Smith reviewed the report with the Board.

Mr. Smith is still awaiting the asbestos inspection report on 1414 K which the State of California requires before renting space.

Continuing to implement the SMUD energy study at Larchmont Square, Mr. Smith recommended approving the cost of \$2890.00 to change the interior ballasts with electronic ballasts and the cost of \$2380.00 to obtain a set of mechanical drawings on the air conditioning system.

Mr. Friery moved to accept the report and approve the two expenditures on the Larchmont Square property. The motion was seconded by Mr. Crist and carried by the following vote:

AYES: Crist, Masuoka, Friery, DeCamilla

NOES: None

AXE-HOUGHTON MANAGEMENT, INC., DECEMBER 31, 1991 QUARTERLY REPORT
PRESENTATION
ACCEPTED

The Board received Axe-Houghton Management's December 31, 1991 quarterly report. Porter H. Sutro reviewed the report with the Board.

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

AYES: Crist, Masuoka, Friery, DeCamilla

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POLICY MATTERS TO BE CONSIDEREDPROPOSED TRANSFER OF SCERS ACTIVE TO PERS - INVESTMENT MANAGEMENT
IMPLICATIONSANDFY 1991/92 ASSET ALLOCATIONACCEPTED REPORTS AND ADOPTED RESOLUTIONS

The Board received copies of both reports and considered both items concurrently. Mr. Thomas P. Friery, City Treasurer and Michael Medema, Assistant City Treasurer, reviewed the reports with the Board.

After the City Treasurer's staff had spent an extensive amount of time developing the asset allocation plan for FY 1991/92, Mr. Friery learned that the City was considering entering into a contract with TPF&C, the system's actuary, to evaluate a proposed transfer of active SCERS employees to PERS. Mr. Friery informed the Board that City Council adopted a resolution February 18, 1992 authorizing the contract with TPF&C. Should the SCERS City employees conceptually approve the concept, City staff is prepared to develop a ballot initiative for the November 1992 election to amend the City Charter to permit the transfer. Although the Board expressed that this proposal was only under consideration, Mr. Friery felt it was imperative the Board be aware that the City's management and policy making body is continuing to consider or pursue actions that could lead to a termination of the SCERS plan as far as active members are concerned.

This type of action, if approved, would significantly reduce the assets of the SCERS plan as well as necessitate a re-evaluation of asset diversification and investment strategy since there would no longer be any active members in the plan. Although it is possible that the transfer

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The motion was seconded by Mr. Friery and was carried by the following vote:

AYES: Crist, Masuoka, Friery, DeCamilla

NOES: None

The Board advised Axe-Houghton and Lexington, who were present, the effect of the adopted allocation. The Treasurer's staff will provide a copy of the newly adopted allocation to all the investment managers and inform them that the cash call will be taken on March 31, 1992.

GENERAL COMMUNICATIONS

FORMAL REQUEST FOR THE DOWLING ASSOCIATES' REPORT OF THE DRAFT
SUPPLEMENTAL ENVIRONMENTAL IMPACT REPORT
APPROVED

The Board received a written request from the City's Environmental Services Division for a copy of the Dowling Associates' Report regarding the draft SEIR on the Convention Center expansion.

After a lengthy discussion, Ms. Masuoka moved to transmit the report to Ms. Branan, Manager, Environmental Services Division. The motion was seconded by Mr. Crist and the following vote took place:

AYES: Crist, Masuoka

NOES: Friery, DeCamilla

The motion failed. After further discussion and determining that the report was a public document as the Board adopted it in open session, Mr. DeCamilla changed his vote to an aye. The motion passed. The Secretary was directed to forward the report to Ms. Branan.

There being no further business the meeting was adjourned at 3:45 p.m. to meet again at the call of the chair.

ATTACHMENT A-1A

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

	CASH		INVESTMENTS @MARKET	TOTAL ASSETS @ MARKET
	POOL A	PAC HOR		
OPERATING CASH	467,639			467,639
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	(734,501)	2,450,388	164,844,417	166,560,304
REAL ESTATE MORTGAGE	1,267,548	1,000,000	11,325,673	13,593,221
UTILITY STOCKS	258,657	174,107	16,247,375	16,680,140
TOTAL FIXED	791,704	3,624,495	192,417,465	196,833,665
EQUITY:				
AXE-HOUGHTON		2,930,094	12,421,885	15,351,979
BATTERYMARCH		0	0	0
DELAWARE		404,613	35,565,150	35,969,763
LEXINGTON		1,698,703	16,243,621	17,942,324
NEWBOLDS		967,142	28,673,073	29,640,215
REAL ESTATE EQUITY	49,987	4,000,000	23,720,000	27,769,987
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	49,987	10,000,553	110,623,729	120,674,269
GRAND TOTAL	1,309,331	13,625,048	303,041,194	317,975,573

ATTACHMENT A-2

SCRS - STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR INVESTMENT
FOR THE PERIOD 11/30/91 - 12/31/91

	BALANCE 11/30/91	INTEREST INCOME			DIV	GAIN (LOSS) ON SALES	NET RENTAL INCOME	INTEREST EXPENSE	NET EXTERNAL CONTRIB.	CONTRIB. TRANSFER	BALANCE 12/31/91
		POOL A	PAC HOR	INVESTMENT							
OPERATING CASH	68,211	(42,405)								1,768,098	467,639
FIXED:											
BONDS, 2ND TD'S, & MTG. BK. CERTS	154,122,648	72,893	3,153	1,771,163		3,319				(1,418,704)	154,554,473
REAL ESTATE MORTGAGES	12,749,093	23,562		100,866							12,873,521
UTILITY STOCKS	15,102,089	31,599	1,515		42,540	0					15,177,743
EQUITY:											
AIE-HOUGHTON	12,757,275		8,848		4,740	(401,001)					12,369,861
BATTERYMARCH	347,485		1,909		0	0			(349,394)		0
DELAWARE	31,164,199		2,946		189,254	141,666					31,498,066
LEXINGTON	13,492,594		8,307		29,795	0					13,530,696
NEWBOLDS	25,683,498		115,897		5,481	47,040					25,851,917
REAL ESTATE EQUITY LOAN PAYABLE	28,085,489 (6,000,000)	10,860		16,167			166,750	(49,375)			28,229,891 (6,000,000)
GRAND TOTAL	287,572,581	96,509	142,576	1,888,196	271,811	(208,975)	166,750	(49,375)	(1,326,265)	0	288,553,807
YEAR TO DATE:	283,883,423	210,148	829,510	7,125,165	1,454,905	3,343,899	917,775	(296,250)	(8,914,768)	0	288,553,807

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

	COST	MARKET	ESTIMATED ANNUAL INCOME	EST. RATE AT COST	EST. RATE AT MARKET
CASH					
CITY POOL A	1,309,331	1,309,331	170,213	13.00%	13.00%
PAC HORIZONS MONEY MARKET FUND	13,625,048	13,625,048	694,877	5.10%	5.10%
FIXED:					
BONDS, 2ND TD'S & MTG. BK CERTS	152,838,586	164,844,417	13,709,266	8.97%	8.32%
REAL ESTATE MORTGAGE	10,605,972	11,325,673	982,638	9.26%	8.68%
UTILITY STOCKS	14,744,979	16,247,375	897,520	6.09%	5.52%
EQUITY:					
AXE-HOUGHTON	9,439,767	12,421,885	21,450	0.23%	0.17%
BATTERYMARCH					
DELAWARE	31,093,453	35,565,150	1,302,286	4.19%	3.66%
LEXINGTON	11,831,993	16,243,621	278,543	2.35%	1.71%
NEWBOLDS	24,884,775	28,673,073	1,164,565	4.68%	4.06%
REAL ESTATE EQUITY	24,179,904	23,720,000	1,895,500 1/	7.84%	7.99%
LOAN PAYABLE	(6,000,000)	(6,000,000)			
GRAND TOTAL	288,553,807	317,975,573	21,116,858 2/	7.32%	6.64%

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 1990/91 was \$3.1 million. Administrative Expenses for this same period were \$87,000 for Banking and Trustee Fees, \$603,000 for Investment Manager Fees, \$592,500 for Interest Expense on Note Payable (Discovery Plaza), and \$1,025,000 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 DECEMBER 31, 1991

	1/ COST	1/ MARKET	% AUTHORIZED	DOLLARS AUTHORIZED	2/ OVER (UNDER) INVESTED, BASED UPON COST/MARKET
OPERATING CASH	467,639	467,639			467,639
FIXED:					
BONDS, 2ND TD'S, & MTG BK. CERTS.	154,554,472	166,560,304	56.00%	161,590,132	4,970,172
REAL ESTATE MORTGAGE	12,873,520	13,593,221	4.00%	11,542,152	2,051,069
UTILITY STOCKS	15,177,744	16,680,140	5.00%	14,427,690	2,252,449
TOTAL FIXED	182,605,736	196,833,665	65.00%	187,559,975	9,273,690
EQUITY:					
AXE-HOUGHTON	12,369,861	15,351,979	3.75%	10,820,768	4,531,212
BATTERYMARCH	0	0		0	0
DELAWARE	31,498,066	35,969,763	10.75%	31,019,534	4,950,229
LEXINGTON	13,530,696	17,942,324	4.75%	13,706,306	4,236,018
NEWBOLDS	25,851,918	29,640,215	8.75%	25,248,458	4,391,757
REAL ESTATE EQUITY	28,229,891	27,769,987	7.00%	20,198,766	2,031,125
LESS: LOAN PAYABLE	(6,000,000)	(6,000,000)			
TOTAL EQUITY	105,480,432	120,674,269	35.00%	100,993,832	20,140,340
GRAND TOTAL	288,553,807	317,975,573	100.00%	288,553,807	29,881,669

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

On 10/31/91 the Board terminated Batterymarch, and the 3.00% allocation was transferred to Fixed Bonds increasing that allocation to 56.00%.

ATTACHMENT A-5

1]
SCERS - STATEMENT OF PURCHASES AND SALES ACTIVITY
FOR DECEMBER 1991

PORTFOLIO MANAGER	PURCHASES (COST)	(PROCEEDS)	SALES (COST)	GAIN/(LOSS)
FIXED:				
BONDS	\$0	\$109,010	(\$105,485)	\$3,525
MTG BACKED	\$0	\$168,251	(\$168,457)	(\$206)
2ND TD'S	\$0	\$0	\$0	\$0
REAL ESTATE MORTGAGES	\$0	\$995,958	(\$995,958)	\$0
UTILITY STOCKS	\$1,836,946	\$0	\$0	\$0
TOTAL FIXED	\$1,836,946	\$1,273,219	(\$1,269,900)	\$3,319
EQUITY:				
AXE-HOUGHTON	\$1,432,031	\$2,780,892	(\$3,181,893)	(\$401,001)
BATTERYMARCH	\$0	\$0	\$0	\$0
DELAWARE	\$3,299,779	\$2,920,679	(\$2,779,012)	\$141,666
LEXINGTON	\$0	\$0	\$0	\$0
NEWBOLDS	\$289,579	\$274,959	(\$227,918)	\$47,040
REAL ESTATE EQUITY	\$0	\$3,983,833	(\$3,983,833)	\$0
TOTAL EQUITY	\$5,021,389	\$9,960,362	(\$10,172,657)	(\$212,295)
GRAND TOTAL	\$6,858,335	\$11,233,581	(\$11,442,557)	(\$208,976)

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