

MINUTES
REGULAR MEETING OF THE
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD
FEBRUARY 24, 1986

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 1:10 p.m. on February 27, 1986.

PRESENT: Crist, DeCamilla, Friery, Moore

ABSENT: Wolford

CONSENT CALENDAR

MINUTES OF REGULAR MEETING HELD JANUARY 27, 1986

APPROVED

The Board received and reviewed the minutes of the regular meeting held January 27, 1986. Mr. Moore moved the minutes be approved. The motion was seconded by Mr. DeCamilla and was carried by the following vote:

AYES: DeCamilla, Friery, Moore

NOES: None

MINUTES OF SPECIAL MEETING HELD FEBRUARY 14, 1986

APPROVED

The Board received and reviewed the minutes of the special meeting held February 14, 1986. Mr. DeCamilla moved the minutes be approved. The motion was seconded by Mr. Moore and was carried by the following vote:

AYES: DeCamilla, Friery, Moore

NOES: None

INVESTMENTS - TREASURER'S ACTIVITY REPORT

ACCEPTED

The Board received the January 1986 Treasurer's Investment Activity Report. Donald Sperling, Assistant City Treasurer, reviewed the activity

report, stating that the Security Pacific Bank reports are not included. The Treasurer's Office is now reviewing the reports and will include them in next month's investment report.

Mr. Crist arrived at 1:15 p.m.

Thomas Friery, City Treasurer, reviewed the gold and silver report with the Board.

Mr. Moore moved to accept the investment activity report. The motion was seconded by Mr. DeCamilla and was carried by the following vote:

AYES: Crist, DeCamilla, Friery, Moore

NOES: None

REPORTS OF CONSULTANTS AND ADVISORS

REAL ESTATE ADVISOR'S REPORT ACCEPTED

The Board received the real estate advisor's report for January 1986. W. Jim Smith of WJS & Associates reviewed the report with the Board.

Mr. Smith reported 1) the State Personnel Board will be terminating their lease in the 1414 K Street building on March 31, 1986; 2) that the insurance agent on the 1414 K Street building suggests installing an emergency lighting system and he is looking into that possibility; 3) the management contract with Coldwell Banker for 1414 K Street expires in March 1986 and he is currently reviewing property management proposals; and, 4) that he recommends inspection of the 1414 K Street building for any asbestos problems at the cost of \$800 to \$1,000.

Following Board discussion and advise of legal counsel, Mr. Moore moved to accept the report with the exception of approving the asbestos inspection. The motion was seconded by Crist and was carried by the following vote:

AYES: Crist, DeCamilla, Friery, Moore

NOES: None

Mr. Smith submitted a proposal for the purchase of an industrial building located at 1259 Commerce Lane, Woodland, California for \$1,050,000. After discussion, Mr. Moore moved the Board approve the purchase of the building subject to completion of all due diligence, including legal counsel review of all lease documents, service contracts, maintenance contracts, approval and inspection of improvements by City Fire Marshall for compliance to all fire codes, inspection by qualified personnel of the HVAC units and roof, and review and verification of 1985 actual expenses. The motion was seconded by Mr. Crist and was carried by the following vote:

AYES: Crist, DeCamilla, Friery, Moore

NOES: None

The Chairman informed Mr. Smith that the Board has discussed increasing the real estate equity allocation from 3% to 6%. Mr. Smith stated that he could handle the increase in funds for real estate equity purchases in the current market. Mr. Moore moved the Board increase the real estate equity investment allocation from 3% to 6%. The motion was seconded by Mr. Crist and was carried by the following vote:

AYES: Crist, DeCamilla, Friery, Moore

NOES: None

LOOMIS, SAYLES & COMPANY DECEMBER 31, 1985 QUARTERLY REPORT
ACCEPTED/NEGOTIATE NEW CONTRACT

The Board received the Loomis, Sayles & Company December 31, 1985 quarterly report on the options programs. William Mullen, Options Manager, reviewed the report with the Board. Mr. Moore moved to accept the report. The motion was seconded by Mr. DeCamilla and was carried by the following vote:

AYES: Crist, DeCamilla, Friery, Moore

NOES: None

Mr. Mullen stated he has received the February 14, 1985 letter from the Chairman terminating the options programs contract and requesting a proposal for a covered call option program. Mr. Mullen submitted and reviewed the requested proposal with the Board.

After discussion, Mr. Crist moved that: 1) the full options program is terminated and Mr. Mullen is instructed to hold the stocks; 2) the Chairman be authorized to negotiate a contract with Mr. Mullen for a covered call option program and that the matter be continued to the next meeting; 3) the current covered call option program remains in force until the new contract is negotiated and approved. The motion was seconded by Mr. DeCamilla and was carried by the following vote:

AYES: Crist, DeCamilla, Friery, Moore

NOES: Wolford

LEHMAN MANAGEMENT DECEMBER 31, 1985 QUARTERLY REPORT
ACCEPTED

The Board received the Lehman Management December 31, 1985 quarterly report on the emerging growth stock portfolio and an overview report on special equity performance. Scott Higgins and Ron Worobel of Lehman reviewed the reports with the Board. Mr. Higgins stated he knows of the SEI results on SCERS fund performance. However, he feels his firm's performance should not be measured against the S&P 500 but against other special equity performance measurements such as NASDAQ, Lipper Cap, or Value Line.

The Board discussed "emerging growth stocks" as an investment strategy. The consensus of the Board is to not change the allocation percentage, no additional funds shall be given to Lehman at this time, and

that discussion of "emerging growth stocks" category be continued at future meetings. After discussion Mr. Moore moved that Lehman return cash of \$2.2 million to the system by March 1, 1986. The motion was seconded by Mr. DeCamilla and was carried by the following vote:

AYES: DeCamilla, Friery, Moore

NOES: None

Mr. Moore moved the Board accept the reports. The motion was seconded by Mr. DeCamilla and was carried by the following vote:

AYES: DeCamilla, Friery, Moore

NOES: None

BATTERYMARCH FINANCIAL MANAGEMENT DECEMBER 31, 1985 QUARTERLY REPORT
ACCEPTED

The Board received the Batterymarch Financial December 31, 1985 quarterly report on equities. Rich Gula reviewed the report with the Board. Mr. DeCamilla was excused from the meeting at 3:20 p.m.

The Board discussed at length the disappointing performance of Batterymarch and the failure of Batterymarch to invest in the foreign market without formal action by the Board. Mr. Crist stated that under the system's investment standards and contract with Batterymarch, Batterymarch has had the authority to make foreign investments if they felt it prudent to do so. Following discussion, the Board determined it would take no action on asset reallocation at this time.

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

AYES: Crist, Friery, Moore

NOES: None

ALLIANCE CAPITAL MANAGEMENT DECEMBER 31, 1985 QUARTERLY REPORT
ACCEPTED/FUNDS REALLOCATED

The Board received the Alliance Capital Management December 31, 1985 quarterly report on equities. John Story and Al Henderson of Alliance reviewed the report with the Board. Mr. Story informed the Board that there has been organizational changes at Alliance, however, these changes will have no effect on the system's portfolio management. After Board discussion on the favorable performance of Alliance, Mr. Friery moved to accept the report, to increase the Alliance equity allocation from 14% to 15%, and that no transfer of funds will take place at this time even though the current fund balance may exceed 15% of assets. The motion was seconded by Mr. Crist and was carried by the following vote:

AYES: Crist, Friery, Moore

NOES: None

SEI DECEMBER 31, 1985 PERFORMANCE SUMMARIES AND MARKET INDEXES
ACCEPTED AS INFORMATIONAL

The Board received the following items from SEI: December 31, 1985 Performance Summary, Market Indexes, and Retirement Fund Universe reports. The Board accepted the items as informational.

REPORTS OF SECRETARY

SEMINAR - CALIFORNIA ASSOCIATION OF PUBLIC RETIREMENT SYSTEMS

Richard E. Snyder, Secretary, informed the Board that the Board is invited to attend the California Association of Public Retirement Systems seminar on March 7, 1986. Any member wanting to attend should contact him for reservations as soon as possible.

GENERAL COMMUNICATIONS

LETTERS REGARDING ALLIANCE CAPITAL ORGANIZATIONAL CHANGES
ACCEPTED AS INFORMATIONAL

The Board received two letters from Alliance Capital Management regarding the organizational changes in the firm. The Board accepted the letters as informational.

NEWS ARTICLES REGARDING GROWTH-STOCK RESULTS AND STOCK OPTIONS
ACCEPTED AS INFORMATIONAL

The Board received copies of three February 3, 1986 Pension & Investment Age articles regarding growth stock results and the use of stock options. The Board accepted the articles as informational.

IDEAS AND QUESTIONS, MEMBERS OF THE BOARD

The Chairman discussed the need of the Board to meet with the external auditors as a normal process of the annual audit. Mr. Crist stated the City will be hiring new auditors beginning with the June 30, 1986 audit and that he will schedule entrance and exit conferences for the Board.

There being no further business, the meeting was adjourned at 4:30 p.m. to meet again at the call of the chair.

SCERS - STATEMENT OF ASSETS AVAILABLE FOR INVESTMENT
AS OF DECEMBER 31, 1985

	CASH		INVESTMENTS @ COST	AMOUNT 1/ AVAILABLE FOR INVESTMENT
	POOL A	OVERLAND		
EXTERNAL CONTRIBUTIONS	4,135,361	0	0	4,135,361
FIXED:				
CORP. BONDS	2,140,384	563,671	92,621,290	95,325,345
2ND TRUST DEED	521,157	0	572,381	1,093,538
MORTGAGE BACKED CERT.	4,951,567	424,482	17,034,276	22,410,325
SUB-TOTAL	7,613,108	988,153	110,227,947	118,829,208
REAL ESTATE MORTGAGE	1,150,168	22,768	4,679,768	5,852,704
TOTAL FIXED	8,763,276	1,010,921	114,907,715	124,681,912
EQUITY:				
ALLIANCE	0	282,565	30,508,130	30,790,695
BATTERYMARCH	0	948,268	30,569,241	31,517,509
EMERGING GROWTH	0	2,214,482	12,899,267	15,113,749
BUY-WRITE OPTIONS	0	912,672	10,612,991	11,525,663
O/S BUY-WRITE OPTIONS	0	0	(633,029)	(633,029)
OVER-WRITE OPTIONS	0	149,275	0	149,275
O/S OVER-WRITE OPTIONS	0	0	(261,537)	(261,537)
GOLD & SILVER	709,207	0	1,346,396	2,055,603
REAL ESTATE EQUITY	1,919,196	0	4,690,207	6,609,403
TOTAL EQUITY	2,628,403	4,507,262	89,731,666	96,867,331
TOTAL	15,527,040	5,518,183	204,639,381	225,684,604

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 CHANGES IN ASSETS AVAILABLE FOR INVESTMENT
FOR THE PERIOD 11/30/85 TO 12/31/85

	BALANCE 11/30/85	INTEREST INCOME			DIV.	GAIN (LOSS) ON SALES	OPTION SALES PROCEEDS	NET RENTAL INCOME	NET EXTERNAL CONTRIB.	CONTRIB. TRANSFER	INTEREST PURCH.	CHANGE IN OPTIONS O/S	BALANCE 12/31/85
		POOL A	OVERLAND	INVESTMENT									
EXTERNAL CONTRIBUTION	3,152,489	69,916							912,956				4,135,361
FIXED:													
CORP. BONDS	94,196,266	120,923	3,881	1,004,275									95,325,345
2ND TRUST DEED	1,077,592	5,991		9,955									1,093,538
MORTGAGE BACKED CERT.	22,136,401	42,816		204,117		26,991							22,410,325
REAL ESTATE MORTGAGES	5,786,124	19,412		47,168									5,852,704
EQUITY:													
ALLIANCE	29,459,350		27,896		56,467	1,246,982							30,790,695
BATTERYMARCH	31,263,359		4,430		201,422	46,298							31,517,509
EMERGING GROWTH	14,902,902		6,762		19,551	184,534							15,113,749
BUY-WRITE OPTIONS	11,353,700		827		44,720	(15,349)	141,765						11,525,663
O/S BUY-WRITE OPTIONS	(406,270)										(226,759)		(633,029)
OVER-WRITE OPTIONS	273,572		1,880		8,310 **		(134,487)						149,275
O/S OVER-WRITE OPTIONS	(306,032)										44,495		(261,537)
GOLD & SILVER	2,048,740			6,863									2,055,603
REAL ESTATE EQUITY	6,523,526	37,968						47,909					6,609,403
TOTAL	221,463,719	297,026	45,676	1,272,378	330,470	1,489,456	7,278	47,909	912,956	0	0	(182,264)	225,684,664

** This figure represents dividends paid on optioned stock which was not transferred as of 12/31/85.

SCERS - STATEMENT OF OVER (UNDER) INVESTMENT BASED UPON
COST/MARKET AS OF DECEMBER 31, 1985

	COST	MARKET	% AUTHORIZED	DOLLARS AUTHORIZED	1/ OVER (UNDER) INVESTED BASED UPON COST	1/ OVER (UNDER) INVESTED BASED UPON MARKET
SH						
CITY POOL A	15,527,040	15,527,040	0.00%	0	15,527,040	15,527,040
OVERLAND MONEY MARKET FUND	5,518,183	5,518,183	0.00%	0	5,518,183	5,518,183
DED:						
CORP. BONDS	92,621,290	92,443,582	43.00%	97,044,380	(4,423,090)	(4,600,798)
2ND TRUST DEED	572,381	650,454	0.50%	1,128,423	(556,042)	(477,969)
MORTGAGE BACKED CERT.	17,034,276	17,658,785	10.00%	22,568,460	(5,534,184)	(4,909,675)
REAL ESTATE MORTGAGE	4,679,768	4,802,220	2.50%	5,642,115	(962,347)	(839,895)
JITY:						
ALLIANCE	30,508,130	36,114,812	14.00%	31,595,845	(1,087,715)	4,518,967
BATTERYMARCH	30,569,241	34,908,915	14.00%	31,595,845	(1,026,604)	3,313,070
EMERGING GROWTH	12,899,267	13,612,012	7.00%	15,797,922	(2,898,655)	(2,185,910)
BUY-WRITE OPTIONS	10,612,991	11,556,120	5.00%	11,284,230	(671,239)	271,890
O/S BUY-WRITE OPTIONS	(633,029)	(844,724)	0.00%	0	(633,029)	(844,724)
OVER-WRITE OPTIONS	0	0	0.00%	0	0	0
O/S OVER-WRITE OPTIONS	(261,537)	(361,253)	0.00%	0	(261,537)	(361,253)
GOLD & SILVER	1,346,396	1,281,720	1.00%	2,256,846	(910,450)	(975,126)
REAL ESTATE EQUITY	4,690,207	4,690,207	3.00%	6,770,538	(2,080,331)	(2,080,331)
TOTAL	225,684,604	237,558,073	100.00%	225,684,604	(10)	11,873,469

1/ 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 12/31/84 and became effective 3/1/85. The actual amount of cash available for each asset category is shown in Attachment A-1.