

March 8, 1994

**MINUTES
SPECIAL MEETING OF THE
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD
March 8, 1994**

CALL TO ORDER AND ROLL CALL

The Administration, Investment and Fiscal Management Board met in special session in Conference Room 101, 921 Tenth Street, at 1:40 p.m. on March 8, 1994.

PRESENT: Crist, Benoit, Sperling, Friery, DeCamilla

ABSENT: None

POLICY MATTERS TO BE CONSIDERED AND ACTED UPON

ASSET ALLOCATION PROCESS

ADOPTED

AND

1994 ASSET ALLOCATION AND STRATEGY RECOMMENDATION

ADOPTED

The Board received the 1994 Asset Allocation and Strategy Recommendation prepared and submitted by the Treasurer's staff and a report prepared and submitted by John Worcester, Secretary to the Board, regarding Asset Allocation Process.

Mr. Friery opened the discussion and informed the Board that he had a meeting with Mr. Crist, Mr. Worcester, and Mr. Michael Medema, Assistant City Treasurer, to discuss the 1994 Asset Allocation and the issue of retaining a consultant firm to evaluate the Board's asset allocation policy adopted by the Board in 1990.

As a result of that meeting, Mr. Friery presented to the Board for approval a resolution authorizing the issuance of a Request for Proposals to conduct an asset allocation study. The cost of the study should not exceed \$45,000.00. The Assistant City

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Treasurer and the Retirement System Manager will recommend to the Board approval of a consultant.

The Board discussed the proposed resolution. Mr. Crist, Ms. Benoit and Mr. Sperling were in favor of hiring a consultant to review and determine if the Board's 1990 policy to move 2% increments each year to a point where 70% of SCERS assets are invested in fixed income and 30% in equities is appropriate and timely given the demographics of the plan members.

Mr. DeCamilla disagreed and felt that conducting an asset allocation study was not necessary. He felt confident, based on the Board's expertise and past performance, that the Board could determine the appropriate asset allocation. Mr. DeCamilla felt the issue was a matter of managing risk and a policy decision on total return versus cash flow.

Mr. Crist reiterated that there was no harm in retaining a consultant and that he was not advocating higher equity investment but felt the study could provide alternative options as well as determining if the Board is moving too fast into fixed income.

There was discussion between Mr. Friery and Mr. Crist on how the utility stock portfolio should be categorized. Mr. Friery felt this issue should be reviewed in the study.

After further discussion, Mr. Friery requested the Board take action on the proposed resolution.

Mr. DeCamilla commented that an RFP would not be necessary if the Board decided to have Towers Perrin, the system's

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actuary, conduct the evaluation since the majority of the report is based on actuarial data.

Other Board members felt an RFP should be released.

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

AYES: Crist, Benoit, Sperling, Friery, DeCamilla

NOES: None

Mr. John Worcester and Mr. Michael Medema were directed to proceed with the RFP and to provide to the Board monthly activity and progress reports regarding the study.

Mr. Friery reviewed the 1994 Asset Allocation and Strategy Recommendation with the Board. To assist the Board, Mr. Friery distributed a January 16, 1990, report entitled Asset Diversification of a Maturing Retirement System Model and recommended the consultant be provided a copy of this report.

Mr. Friery briefly reviewed the background on how the Board arrived at adopting the 1990 policy. To evaluate the demographics of the SCERS plan, a model was created to depict investment assets, diversification, investments, income expenses, etc. The model was created in 1990 and updated in 1992, and has been used by the Board in assessing risk tolerance and asset diversification. Included in this report is a model as of February, 1994 for the Board's consideration.

At this time Mr. Friery did not recommend that the Board reconsider policy concerning the assets authorized for investments.

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The Board has authorized domestic equity, fixed investments, real estate mortgages and real estate equity.

Mr. Friery reviewed investment strategy, cash flow analysis and the cash flow model. The report also addressed immunization of SCERS plan assets, options available to fund the operation cash shortfall, emphasis on cash rate of return rather on total rate of return, should real estate be reconsidered as an appropriate asset class and when should the Board terminate a manager for failing to meet performance objectives.

Mr. Friery distributed charts and data on SCERS equity performance and manager comparisons.

The report recommended proceeding with the established 2% shift of assets allocated to the Board's defined equity assets to fixed assets, which will achieve a 68% fixed 32% equity allocation as follows:

Fixed:	Bonds/2nd Trust/Mortgage Backs	57.0%
	Real Estate Mortgages	4.0
	Utility Stocks	<u>7.0</u>
	Total Fixed	68.0%
Equity:	Axe-Houghton	8.0
	Delaware	8.0
	Large Cap/Growth	7.0
	Newbold's	5.0
	Real Estate Equity (Net)	<u>4.0</u>
	Total Equity	<u>32.0</u>
	Total Fixed & Equity	100.0

Mr. Sperling stated that he concurred with the proposed 68%/32% split; however, after reviewing the report Mr. Sperling distributed his proposal bringing bonds/2nd Trust/Mortgage Backs to 57.5%, real estate mortgages to 5.5% to cover existing mortgages, utility stock 5.0%, achieving the 68% and Axe-Houghton 8.0%,

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Delaware 8.5%, Large Cap 5.0%, Newbold's 6.5%, Real Estate Equity 4.0%, achieving the 32%.

After a lengthy discussion on various options, Mr. Crist moved to adopt a resolution reallocating the SCERS portfolio to a 68% fixed asset and 32% equity asset ratio as of January 1, 1994 establishing the 1994 asset allocation as follows:

Fixed:

Bonds/2nd Trust/Mortgage Backs	56.0%
Real Estate Mortgages	5.0
Utility Stocks	<u>7.0</u>
Total Fixed	68.0%

Equity:

Axe-Houghton	7.5
Delaware	8.0
Large Cap/Growth	6.0
Newbold's	6.5
Real Estate Equity (Net)	<u>4.0</u>
Total Equity	32.0

Total Fixed & Equity 100.00%

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

AYES: Crist, Benoit, Sperling, Friery, DeCamilla

NOES: None

There being no further business the meeting was adjourned at 4:00 p.m. to meet at the call of the chair.