

MINUTES
REGULAR MEETING OF THE
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD
October 24, 1988

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 1:35 p.m. on October 24, 1988.

PRESENT: Masuoka, Wolford, Friery, DeCamilla

ABSENT: Frierson

CONSENT CALENDAR

MINUTES OF REGULAR MEETING SEPTEMBER 26, 1988
APPROVED

The Board received and reviewed the minutes of the regular meeting held September 26, 1988. Mr. Friery moved the minutes be approved. The motion was seconded by Ms. Masuoka and was carried by the following vote:

AYES: Masuoka, Wolford, Friery, DeCamilla

NOES: None

INVESTMENTS - TREASURER'S ACTIVITY REPORT
ACCEPTED

The Board received the August 1988 Treasurer's Investment Activity Report. Deborah Carter, Investment Officer, reviewed the investment report with the Board.

Ms. Carter informed the Board that attachment A-4 will be amended to reflect what the allocation would be if it went into effect as of that date. Also, she informed the Board that the Capital Area Development Agency (CADA) - Brannan Court "private placement" investment was terminated October 6, 1988, as CADA had obtained other permanent financing and a separate report was presented to the Board.

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There was general discussion regarding the system's recovery progress since the October 1987 debacle. The chair requested that the Treasurer's office develop a report comparing pre and post October 1987 debacle fund assets and that this information, along with the progress in decreasing the unfunded liability, be communicated to the City Council and the public and be included in the annual transmittal letter.

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

AYES: Masuoka, Wolford, Friery, DeCamilla

NOES: None

REPORTS OF CONSULTANTS AND ADVISORS

REAL ESTATE ADVISOR'S REPORT
ACCEPTED

The Board received the October, 1988 Real Estate Advisor's Report, submitted by W. Jim Smith of WJS & Associates. Mr. Smith was not able to attend the meeting.

As there was nothing unusual in the report, Mr. Wolford moved to accept the real estate report. The motion was seconded by Mr. Friery and was carried by the following vote:

AYES: Masuoka, Wolford, Friery, DeCamilla

NOES: None

DELAWARE INVESTMENT ADVISERS, THIRD QUARTER PERFORMANCE
ACCEPTED AS INFORMATIONAL

The Board accepted as informational Delaware Investment Advisers' third quarter performance report.

LEXINGTON CAPITAL MANAGEMENT, INC., AUGUST 1988 PERFORMANCE
ACCEPTED AS INFORMATIONAL

Ralph D'Agostini and Robert DeMichele, Chairman of Lexington, were present. Mr. DeMichele discussed the funds performance and Lexington's investment philosophy.

BATTERYMARCH - SEPTEMBER 1988 PERFORMANCE
ACCEPTED AS INFORMATIONAL

The Board accepted as informational Batterymarch's September's 1988 performance.

IDEAS AND QUESTIONS, MEMBERS OF THE BOARD

Mr. Friery once again discussed the issue of the system's disbursements exceeding contributions and income. Mr. Friery commented that in the future as it pertains to asset allocation that the Board may consider income as opposed to total return. Mr. Friery mentioned that the phenomenon of disbursements exceeding contributions was first discussed 10 years ago by the Board and several times since. This phenomena is the result of no new entrants into the plan combined with a larger number of the participants reaching retirement.

There being no further business the meeting was adjourned at 2:10 p.m. to meet again at the call of the chair.

SCERS - STATEMENT OF ASSETS AVAILABLE FOR INVESTMENT
AS OF AUGUST 31, 1988

	CASH		INVESTMENTS @ COST	AMOUNT 1/ AVAILABLE FOR INVESTMENT
	POOL A	PAC HOR		
EXTERNAL CONTRIBUTIONS	5,174,009	0	0	5,174,009
FIXED:				
BONDS, 2ND TD'S. & MIG. BK. CERTS.	9,256,933	1,592,734	150,170,139	161,019,806
REAL ESTATE MORTGAGE	2,081,755	0	5,770,916	7,852,671
UTILITY STOCKS	2,000,000	637,672	13,150,246	15,787,918
TOTAL FIXED	<u>13,338,688</u>	<u>2,230,406</u>	<u>169,091,301</u>	<u>184,660,395</u>
EQUITY:				
AXE-HOUGHTON	0	3,625,829	8,013,931	11,639,760
BATTERYMARCH	0	1,209,143	27,367,487	28,576,630
DELAWARE	0	2,528,112	26,271,242	28,799,354
LEXINGTON	2,000,000	665,615	9,105,052	11,770,667
NEWBOLD'S	3,603,608	1,856,318	22,088,272	27,548,198
GOLD & SILVER	12,332	0	3,020,655	3,032,987
REAL ESTATE EQUITY	1,612,217	0	22,233,190	23,845,407
LESS: LOAN PAYABLE	0	0	(6,000,000)	(6,000,000)
TOTAL EQUITY	<u>7,228,157</u>	<u>9,885,017</u>	<u>112,099,829</u>	<u>129,213,003</u>
TOTAL	<u><u>25,740,854</u></u>	<u><u>12,115,423</u></u>	<u><u>281,191,130</u></u>	<u><u>319,047,407</u></u>

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.

ATTACHMENT A-1A

SCERS - STATEMENT OF ASSETS @ MARKET VALUE
AS OF AUGUST 31, 1988

	CASH		INVESTMENTS @ MARKET	TOTAL ASSETS @ MARKET	ESTIMATED TOTAL RETURN (MONTH) 1/
	POOL A	PAC HOR			
EXTERNAL CONTRIBUTIONS	5,174,009	0	0	5,174,009	
FIXED:					
BONDS, 2ND TD'S, & MIG. BK. CERTS.	9,256,933	1,592,734	141,600,629	152,450,296	0.69%
REAL ESTATE MORTGAGE	2,081,755	0	5,913,023	7,994,778	0.70%
UTILITY STOCKS	2,000,000	637,672	11,473,925	14,111,597	-0.53%
TOTAL FIXED	13,338,688	2,230,406	158,987,577	174,556,671	0.60%
EQUITY:					
AXE-HOUGHTON	0	3,625,829	7,955,125	11,580,954	-2.67%
BATTERYMARCH	0	1,209,143	28,933,171	30,142,314	-1.26%
DELAWARE	0	2,528,112	24,707,213	27,235,325	-2.40%
LEXINGTON	2,000,000	665,615	9,163,325	11,828,940	-4.99%
NEWBOLD'S	3,603,608	1,856,318	20,882,000	26,341,926	-1.81%
GOLD & SILVER	12,332	0	2,486,955	2,499,287	-3.33%
REAL ESTATE EQUITY	1,612,217	0	22,580,000	24,192,217	-0.17%
LESS: LOAN PAYABLE	0	0	(6,000,000)	(6,000,000)	
TOTAL EQUITY	7,228,157	9,885,017	110,707,789	127,820,963	-1.93%
TOTAL	25,740,854	12,115,423	269,695,366	307,551,643	-0.38%

1/ This column provides an estimate of the total (realized and unrealized) rate of return on an interim basis, since SEI measures performance only on a quarterly basis. There may be differences in our estimated rate of return and the rate reported by various managers because of timing differences between trade date and settlement date.

SCERS - STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR INVESTMENT
FOR THE PERIOD 7/31/88 TO 9/31/88

	BALANCE 7/31/88	INTEREST INCOME				GAIN (LOSS) ON SALES	NET RENTAL INCOME	INTEREST EXPENSE	NET EXTERNAL CONTRIB.	CONTRIB. TRANSFER	BALANCE 9/31/88
		POOL A	PAID FOR	INVESTMENT	DIV.						
EXTERNAL CONTRIBUTION	4,352,207								311,802		5,174,009
FIXED:											
BONDS, INT'D'S. & MID. SK. CERTS	159,533,066		1,042	1,519,323		(27,545)					161,019,805
REAL ESTATE MORTGAGES	7,757,912			55,559							7,852,571
UTILITY STOCKS	15,838,170		3,551		50,984	25,113					15,737,918
EQUITY:											
AXE-HOUGHTON	11,716,737		20,577		7,513	(105,167)					11,539,750
BATTERYMARSH	29,511,294		3,557		42,411	(65,362)					29,579,530
DELAWARE	28,592,553		1,523		91,898						28,799,354
LEXINGTON	12,032,128		7,211		9,507	(337,159)					11,770,567
NEWBOLD'S	27,455,238		15,528		64,682						27,548,198
GOLD & SILVER	3,032,387										3,032,987
REAL ESTATE EQUITY LOAN PAYABLE	23,739,407 (5,060,000)						35,375 (49,375)				23,845,407 (6,000,000)
TOTAL	317,322,559	0	75,629	1,574,982	275,955	(540,850)	35,375 (49,375)	311,802	0		319,347,407
YEAR TO DATE	315,753,238	0	152,518	2,453,954	541,951	(393,324)	184,750 (38,750)	423,210	0		319,347,407

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ATTACHMENT A-3

SCERS - STATEMENT OF ESTIMATED INCOME & RATES OF RETURN
AS OF AUGUST 31, 1988

	COST	MARKET	ESTIMATED ANNUAL INCOME	EST. RATE AT COST	EST. RATE AT MARKET
CASH					
CITY POOL A	25,740,854	25,740,854	2,061,188	8.01%	8.01%
PAC HORIZONS MONEY MARKET FUND	12,115,423	12,115,423	815,367	6.73%	6.73%
SCERS INVESTMENT POOLS	0	0	0	0.00%	0.00%
FIXED:					
BONDS, 2ND TD'S, & MTG. BK. CERTS	150,170,139	141,600,629	13,245,467	8.82%	9.35%
REAL ESTATE MORTGAGE	5,770,916	5,913,023	671,379	11.63%	11.35%
UTILITY STOCKS	13,150,246	11,473,925	837,344	6.37%	7.30%
EQUITY:					
AXE-HOUGHTON	8,013,931	7,955,125	113,665	1.42%	1.43%
BATTERYMARCH	27,367,487	28,933,171	810,626	2.96%	2.80%
DELAWARE	26,271,242	24,707,213	1,311,285	4.99%	5.31%
LEXINGTON	9,105,052	9,163,325	205,917	2.26%	2.25%
NEWBOLD'S	22,088,272	20,882,000	991,013	4.49%	4.75%
GOLD & SILVER	3,020,655	2,486,955	0	0.00%	0.00%
REAL ESTATE EQUITY	22,233,190	22,580,000	1,370,500 1/	6.16%	6.07%
LOAN PAYABLE	(6,000,000)	(6,000,000)			
TOTAL	<u>319,047,407</u>	<u>307,551,643</u>	<u>22,433,751 2/</u>	<u>7.03%</u>	<u>7.29%</u>

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. Capital gains for fiscal year 1987/88 was \$9 million. Administrative expenses for fiscal year 1987/88 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. These additional income and expenses as well as the debt service expense described in footnote 1/ should be considered in determining the funds total performance.

SCERS - STATEMENT OF OVER (UNDER) INVESTMENT BASED UPON
COST/MARKET AS OF AUGUST 31, 1988

	1/ COST	1/ MARKET	%AUTHORIZED	DOLLARS AUTHORIZED	2/ OVER (UNDER) INVESTED BASED UPON COST	2/ OVER (UNDER) INVESTED BASED UPON MARKET
EXTERNAL CONTRIBUTIONS	5,174,009	5,174,009	0.00%	0	5,174,009	5,174,009
FIXED:						
BONDS, 2ND TD'S, & MFG. BK. CERTS.	161,019,806	152,450,296	50.50%	161,118,941	(99,135)	(8,668,645)
REAL ESTATE MORTGAGE	7,852,671	7,994,778	2.50%	7,976,185	(123,514)	18,593
UTILITY STOCKS	15,787,918	14,111,597	5.00%	15,952,376	(164,452)	(1,840,773)
TOTAL FIXED	184,660,395	174,556,671	58.00%	185,047,496	(387,101)	(10,490,825)
EQUITY:						
AXE-HOUGHTON	11,639,760	11,580,954	4.00%	12,761,896	(1,122,136)	(1,180,942)
BATTERYMARCH	28,576,630	30,142,314	9.00%	28,714,267	(137,637)	1,428,047
DELAWARE	28,799,354	27,235,325	9.00%	28,714,267	85,087	(1,478,942)
LEXINGTON	11,770,667	11,828,940	4.00%	12,761,896	(991,229)	(932,956)
NEWBOLD'S	27,548,198	26,341,926	9.00%	28,714,267	(1,166,069)	(2,372,341)
GOLD & SILVER	3,032,987	2,499,287	1.00%	3,190,474	(157,487)	(691,187)
REAL ESTATE EQUITY	23,845,407	24,192,217	6.00%	19,142,844	4,702,563	5,049,373
LESS: LOAN PAYABLE	(6,000,000)	(6,000,000)			(6,000,000)	(6,000,000)
TOTAL EQUITY	129,213,003	127,820,963	42.00%	133,999,911	(4,786,908)	(6,178,948)
TOTAL	319,047,407	307,551,643	100.00%	319,047,407	0	(11,495,764)

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/ 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 12/31/87 and became effective 2/29/88. Effective 1/25/88 the Board adopted a resolution which reduced Alliance's allocation from 10% to 8% and increased the Corporate Bond's allocation from 48.50% to 50.50%.

Effective March 31, 1988, the services of Alliance Capital Management were terminated, and effective April 1, 1988, the Board appointed Axe-Houghton Management, Inc. and Lexington Capital Management, Inc.

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ATTACHMENT A-5

1)

SCERS - STATEMENT OF PURCHASES AND SALES ACTIVITY
FOR AUGUST 1988

PORTFOLIO MANAGER	PURCHASES (COST)	(PROCEEDS)	SALES (COST)	GAIN/(LOSS)
FIXED:				
BONDS	\$2,953,046	\$3,024,752	(\$3,063,084)	(\$38,332)
MTG BACKED	\$0	\$140,301	(\$139,514)	\$787
2ND TD'S	\$0	\$370	(\$370)	\$0
REAL ESTATE MORTGAGES:	\$0	\$17,364	(\$17,364)	\$0
UTILITY STOCKS	\$0	\$706,420	(\$281,307)	\$25,113
TOTAL FIXED	\$2,953,046	\$3,489,207	(\$3,501,639)	(\$12,432)
EQUITY:				
AXE-HOUGHTON	\$1,032,309	\$1,278,467	(\$1,383,634)	(\$105,167)
BATTERYMARCH	\$1,554,368	\$1,027,319	(\$1,113,381)	(\$86,062)
DELAWARE	\$550,405	\$0	\$0	\$0
LEXINGTON	\$726,503	\$2,153,800	(\$2,490,989)	(\$337,189)
NEWBOLD'S	\$1,042,592	\$0	\$0	\$0
GOLD & SILVER	\$0	\$0	\$0	\$0
TOTAL EQUITY	\$4,906,177	\$4,459,586	(\$4,988,004)	(\$528,418)
TOTAL	\$7,859,223	\$7,948,793¹⁾	(\$8,489,643)	(\$540,850)

1) For detailed listings of activity, see Attachments 'B' through 'I'.