

September 27, 1993

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MINUTES
REGULAR MEETING OF THE
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD
September 27, 1993

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 1:30 p.m. on September 27, 1993, 1993.

PRESENT: Crist, Masuoka, Sperling, Friery

ABSENT: DeCamilla

CONSENT CALENDAR

MINUTES OF REGULAR MEETING HELD AUGUST 23, 1993
APPROVED

The Board received and reviewed the minutes of the regular meeting held August 23, 1993. Ms. Masuoka moved to approve the minutes. The motion was seconded by Mr. Sperling and was carried by the following vote:

AYES: Crist, Masuoka, Sperling, Friery

NOES: None

INVESTMENTS - TREASURER'S ACTIVITY REPORT
ACCEPTED

The Board received the July, 1993 Treasurer's Investment Activity Report. Ms. Deborah Kanner, Investment Officer, reviewed the investment report with the Board.

Ms. Kanner informed the Board that the operating cash issue would be discussed as a separate agenda item.

Mr. Crist moved to accept the July, 1993 Treasurer's Investment

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Activity Report. The motion was seconded by Mr. Sperling and was carried by the following vote:

AYES: Crist, Masuoka, Sperling, Friery

NOES: None

REPORTS OF CONSULTANTS AND ADVISORS

UTILITY STOCK FIXED INCOME ALTERNATIVE PORTFOLIO, JUNE 30, 1993, QUARTERLY REPORT PRESENTATION - CONTINUED
ACCEPTED

David DeCamilla arrived at 1:45 p.m.

The Board received the June 30, 1993, Utility Stock Fixed Income Alternative Portfolio report. Deborah Kanner, Investment Officer, reviewed the report with the Board. Ms. Kanner pointed out to the Board that a \$209,964 correction was made to this report, which SEI has just been advised of. Due to the magnitude of the adjustment, SEI will recalculate the SCERS performance.

Mr. Sperling moved to accept the June 30, 1993 Utility Stock Fixed Income report. The motion was seconded by Mr. Crist and was carried by the following vote:

AYES: Crist, Masuoka, Sperling, Friery, DeCamilla

NOES: None

GREAT WESTERN FINANCIAL
ACCEPTED AS INFORMATIONAL

In response to a Board request staff reported back on the \$3 million, 5 year note of Great Western Bank (GWF) that was purchased for SCERS fixed on June 15, 1993.

Mr. Friery reviewed the report with the Board. In Mr. Friery's judgement GWF, although rated "BBB", was a suitable investment and the five year investment area at a 6.20% return was highly desirable given the severe reduction in the general level of interest rates over the last two years.

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The Board accepted the report as informational.

SEI, JUNE 30, 1993, QUARTERLY PERFORMANCE REPORT
ACCEPTED

The Board received SEI's performance report for the quarter ending June 30, 1993. Karen Smith, of SEI, reviewed the report with the Board, discussed the asset allocation growth during the last quarter, the current asset allocation and the performance of each investment manager. Ms. Smith informed the Board that the utility stock performance is understated because of the correction that Ms. Kanner discussed earlier and that SEI would prepare and distribute revised reports.

John Worcester, Secretary to the Board, asked Ms. Smith how long should an investment manager be retained when the Board is concerned about their performance. Ms. Smith stated that generally SEI recommends evaluating a manager based on a full market cycle, three to five years.

After Ms. Smith's presentation the Board had an extensive discussion regarding asset allocation and the different investment styles of the managers.

During the discussion Ms. Smith stated that SEI expected a protracted period of low interest rates, twelve to eighteen months. Mr. Friery commented if interest rates remain unchanged there could be a significant correction in the market to justify the price earnings of stocks. In that case would SEI recommend the Board reduce the exposure in stocks? Ms. Smith responded "no" and that the Board should be looking at the long term goals of the plan rather than the short term adjustments.

Various investment strategies related to asset allocation were discussed such as, reducing equity exposure, increasing cash, foreign

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investments and perhaps increasing equity exposure to achieve a greater return to the system.

To assist in the asset allocation process, Mr. Worcester asked the Board if they would like to consider having an outside consultant review the system and make a recommendation on asset allocation structure.

Mr. Friery stated that the established process has been for the Treasurer's staff to annually research and develop the asset allocation policy and to present the policy for adoption each January. Based on the performance of the fund, it was Mr. Friery's opinion that staff had been proficient in developing the asset allocation policy and there was no need to have a consultant. Mr. Friery did agree to consider the idea.

To assist the Board in determining the asset allocation policy for 1994, the Treasurer's staff was directed to prepare a "white paper" addressing all the issues discussed and to present the paper at the November meeting.

Ms. Smith stated that SEI would be more than happy to assist in developing the paper.

Mr. Sperling moved to accept SEI's June 30, 1993 quarterly report. The motion was seconded by Mr. Friery and was carried by the following vote:

AYES: Crist, Masuoka, Sperling, Friery, DeCamilla

NOES: None

AXE-HOUGHTON MANAGEMENT, INC., PORTFOLIO APPRAISAL, AUGUST 31, 1993
ACCEPTED AS INFORMATIONAL

The Board accepted as information Axe-Houghton's August 31, 1993, portfolio appraisal.

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OPERATING CASH SHORTFALL REPORT
ACCEPTED

The Board received a report prepared by the Treasurer's staff regarding the operating cash shortfall. Mr. Friery reviewed the report with the Board.

The report recommended that the Board temporarily allocate \$4,000,000 in cash from the fixed income bond account to offset the projected shortfalls of the operating cash balance through March, 1994. The operating cash balance has been negatively impacted due to early retirements of miscellaneous employees.

Mr. Sperling moved to accept the report and the Treasurer's recommendation to temporarily allocate \$4,000,000 in cash from the fixed income bond account to operating cash. The motion was seconded by Ms. Masuoka and was carried by the following vote:

AYES: Crist, Masuoka, Sperling, Friery, DeCamilla

NOES: None

BOARD MEMBER VACANCY
ACCEPTED AS INFORMATIONAL

The Board accepted as informational the announcement that Mr. DeCamilla's term expires January, 1994. Mr. DeCamilla informed the Board that he had submitted his application for reappointment.

CLOSED SESSION - REAL ESTATE TRANSACTION

Under Government Code Section 54956.8, the Board adjourned to closed session at 3:15 p.m. to discuss the option to sell 1414 K Street property to the RJB Interests.

The Board reconvened in open session at 3:30 p.m. and directed its negotiator to prepare the terms and price for selling 1414 K.

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