

November 28, 1988

MINUTES

REGULAR MEETING OF THE
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD
November 28, 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 1:30 p.m. on November 28, 1988.

PRESENT: Wolford, Friery, DeCamilla

ABSENT: Frierson, Masuoka

CONSENT CALENDARMINUTES OF REGULAR MEETING OCTOBER 24, 1988

APPROVED

The Board received and reviewed the minutes of the regular meeting held October 24, 1988. Mr. Friery moved the minutes be approved. The motion was seconded by Mr. Wolford and was carried by the following vote:

AYES: Wolford, Friery, DeCamilla

NOES: None

INVESTMENTS - TREASURER'S ACTIVITY REPORT

ACCEPTED

Ms. Frierson arrived at 1:35 p.m.

The Board received the September 1988 Treasurer's Investment Activity Report. Don Sperling, Assistant City Treasurer, reviewed the investment report with the Board.

Mr. Friery gave a verbal report on leveraged buy outs (LBO's) and their impact on fixed income obligations. Recently industrial bonds in general have declined in relative value. Specifically, R. J. Reynolds bonds (\$2 million owned by SCERS) were impacted significantly as yield changed from 1.25% more than government bonds to 2.50%. The increase in yield affects price by approximately 13%.

The reason for this value decline is the markets concern for selling corporate assets to finance the LBO. The Treasurer advised that "Poison Puts" are being used on new industrial bonds to discourage this. However, the Treasurer mentioned that he has informed Wall Street underwriters that professionally he favors a share holder resolution that protects bondholders by permitting previous bonds to be put in the event of a takeover and/or restructure the old debt to reflect change and/or offer an equity participation to bondholders as of an announced take over date to protect bondholder interests. Until a more acceptable protection is afforded bondholders, SCERS will not be purchasing industrial bonds, unless the Treasurer perceives the risk justifiable. Also, major sales are not expected. Mr. Wolford moved to accept the investment activity report. The motion was seconded by Ms. Frierson and was carried by the following vote:

AYES: Frierson, Wolford, Friery, DeCamilla

NOES: None

REPORTS OF CONSULTANTS AND ADVISORS

UTILITY STOCK FIXED INCOME ALTERNATIVE PORTIFOLIO AND PORTFOLIO RESULTS,
SEPTEMBER 30, 1988
ACCEPTED

The Board received the Treasurer's Utility Stock Fixed Income Alternative Portfolio and Portfolio Results for the quarter ending September 30, 1988. Mr. Friery reviewed the report with the Board.

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

AYES: Frierson, Wolford, Friery, DeCamilla

NOES: None

November 28, 1988

HARD ASSET SEPTEMBER 30, 1988 QUARTERLY REPORT
ACCEPTED

The Board received the Hard Asset Quarterly Report for the quarter ending September 30, 1988. Mr. Friery reviewed the report with the Board. Mr. Wolford moved to accept the report. The motion was seconded by Ms. Frierson and was carried by the following vote:

AYES: Frierson, Wolford, Friery, DeCamilla

NOES: None.

REAL ESTATE ADVISOR'S REPORT
APPROVED

The Board received the November, 1988 Real Estate Advisor's Report, submitted by W. Jim Smith of WJS & Associates. Mr. Smith reviewed the report with the Board.

There has been a settlement agreement reached with Natural Grocers on rents and CAM charges owed when they moved out and discontinued business. After discussions with System's outside legal counsel, Mr. DeCamilla and Mr. Friery a settlement in the amount of \$14,224.18 was reached.

After discussion and upon Mr. Smith's recommendation the Board decided to have full M.A.I. appraisals done on each SCERS project since this has not been done in the past. The anticipated cost would be under \$20,000. Mr. Smith will secure bids from several M.A.I. appraisers.

Mr. Frierson moved to approve the real estate report. The motion was seconded by Mr. Wolford and was carried by the following vote:

AYES: Frierson, Wolford, Friery, DeCamilla

NOES: None

NEWBOLD'S ASSET MANAGEMENT SEPTEMBER 30, 1988 QUARTERLY REPORT

ACCEPTED

The Board received the September 30, 1988 quarterly report from Newbold's Asset Management. Harry K. Hiestand reviewed the report with the Board.

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

AYES: Frierson, Wolford, Friery, DeCamilla

NOES: None

DELAWARE INVESTMENT ADVISORS SEPTEMBER 30, 1988 QUARTERLY REPORT

ACCEPTED

The Board received the September 30, 1988 quarterly report from Delaware Investment Advisors. George Deming reviewed the report with the Board.

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

AYES: Frierson, Wolford, Friery, DeCamilla

NOES: None

BATTERYMARCH SEPTEMBER 30, 1988 QUARTERLY REPORT

ACCEPTED

The Board received the September 30, 1988 quarterly report from Batterymarch. Richard Gula reviewed the report with the Board.

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

AYES: Frierson, Wolford, Friery, DeCamilla

NOES: None

LEXINGTON CAPITAL MANAGEMENT SEPTEMBER 30, 1988 QUARTERLY REPORT
ACCEPTED

The Board received the September 30, 1988 quarterly report from Lexington Capital. Ralph D'Agostini reviewed the report with the Board.

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

AYES: Frierson, Wolford, Friery, DeCamilla

NOES: None

AXE-HOUGHTON MANAGEMENT SEPTEMBER 30, 1988 QUARTERLY REPORT
ACCEPTED

The Board received the September 30, 1988 quarterly report from Axe-Houghton. Stephen Darby and Porter Sutro reviewed the report with the Board.

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

AYES: Frierson, Wolford, Friery, DeCamilla

NOES: None

TOWERS, PERRIN, FORSTER, & CROSBY, JUNE 30, 1988 ACTUARIAL VALUATION
ACCEPTED/RATES ADOPTED

The Board received the June 30, 1988 Actuarial Valuation report from Towers, Perrin, Forster and Crosby. David LeSueur, Actuary, was unable to attend and review the report with the Board.

After discussion and with the significant improvement on the unfunded liability and to meet the time constraints to complete the SCER's annual financial report, Mr. Friery moved to accept the report, adopt the new rates and have Mr. LeSueur attend the next meeting to review the report with the

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

AYES: Frierson, Wolford, Friery, DeCamilla

NOES: None

Richard Snyder, Secretary to the Board, was instructed to remind Betty Masuoka, Director of Finance, that the external auditors are to review and address the adequacy of the actuarial assumptions

SEI PERFORMANCE SUMMARY AND MARKET INDEXES, SEPTEMBER 30, 1988
ACCEPTED AS INFORMATIONAL

The Board accepted as informational SEI's September 30, 1988 performance summary and market indexes.

INVESTMENT PERFORMANCE SINCE OCTOBER, 1987 DEBACLE
ACCEPTED AS INFORMATIONAL

In response to the Chairman's request for information on the SCERS investment performance since the October 19, 1987 market decline, the Board received a written report from Donald Sperling, Assistant City Treasurer. Mr. Sperling reviewed the report with the Board

REPORTS OF SECRETARY

TRANSMITTAL LETTER FOR SCERS 1987-88 ANNUAL REPORT

Secretary Richard Snyder informed the Board that he is working with the Treasurer's office on completing the draft. Copies will be mailed to each member requesting comments.

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

SCERS - STATEMENT OF ASSETS AVAILABLE FOR INVESTMENT
AS OF SEPTEMBER 30, 1988

	CASH		INVESTMENTS @ COST	AMOUNT 1/ AVAILABLE FOR INVESTMENT
	POOL A	PAC HOR		
EXTERNAL CONTRIBUTIONS	4,642,515			4,642,515
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	6,569,181	1,529,778	154,346,604	162,445,563
REAL ESTATE MORTGAGE	2,188,342	0	5,753,423	7,941,765
UTILITY STOCKS	2,006,757	642,341	13,247,765	15,896,863
TOTAL FIXED	10,764,280	2,172,119	173,347,792	186,284,191
EQUITY:				
AXE-HOUGHTON	3,000,000	965,504	7,619,461	11,584,965
BATTERYMARCH		1,486,677	27,237,895	28,724,572
DELAWARE	0	2,659,113	26,361,242	29,020,355
LEXINGTON	2,000,000	3,244,112	6,438,758	11,682,870
NEWBOLD'S	3,675,053	2,166,408	22,063,810	27,905,271
GOLD & SILVER	12,393	0	3,020,675	3,033,068
REAL ESTATE EQUITY	1,754,239	0	22,211,190	23,987,429
LESS: LOAN PAYABLE	0	0	(6,000,000)	(6,000,000)
TOTAL EQUITY	10,441,685	10,521,814	108,525,031	129,938,530
TOTAL	25,848,480	12,693,933	282,322,823	320,865,236

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 ASSETS @ MARKET VALUE
AS OF SEPTEMBER 30, 1988

	CASH		INVESTMENTS @ MARKET	TOTAL ASSETS @ MARKET
	POOL A	PAC HOR		
EXTERNAL CONTRIBUTIONS	4,642,515			4,642,515
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	6,569,181	1,529,778	148,502,004	156,600,963
REAL ESTATE MORTGAGE	2,188,342	0	5,895,474	8,083,816
UTILITY STOCKS	2,006,757	642,341	11,739,600	14,388,698
TOTAL FIXED	<u>10,764,280</u>	<u>2,172,119</u>	<u>166,137,078</u>	<u>179,073,477</u>
EQUITY:				
AXE-HOUGHTON	3,000,000	965,504	8,086,938	12,052,442
BATTERYMARCH	0	1,486,677	28,797,448	30,284,125
DELAWARE	0	2,659,113	25,818,713	28,477,826
LEXINGTON	2,000,000	3,244,112	6,927,325	12,171,437
NEWBOLD'S	3,675,053	2,166,408	21,365,963	27,207,424
GOLD & SILVER	12,393	0	2,320,350	2,332,743
REAL ESTATE EQUITY	1,754,239		22,580,000	24,334,239
LESS: LOAN PAYABLE	0		(6,000,000)	(6,000,000)
TOTAL EQUITY	<u>10,441,685</u>	<u>10,521,814</u>	<u>109,896,737</u>	<u>130,860,236</u>
TOTAL	<u>25,848,480</u>	<u>12,693,933</u>	<u>276,033,815</u>	<u>314,576,228</u>

~~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 8/31/88 TO 9/30/88

	BALANCE 8/31/88	INTEREST INCOME			DIV.	GAIN (LOSS) ON SALES	NET RENTAL INCOME	INTEREST EXPENSE	NET EXTERNAL CONTRIB.	CONTRIB. TRANSFER	BALANCE 9/30/88
		POOL A	PAC HDR	INVESTMENT							
EXTERNAL CONTRIBUTION	5,114,009	76,568							(608,062)		4,642,515
FIXED:											
BONDS, 2ND TO'S, & MTG. BK. CERTS	161,019,806	113,461	7,507	1,303,793		996					162,445,563
REAL ESTATE MORTGAGES	7,852,671	33,564		55,530							7,941,765
UTILITY STOCKS	15,787,918	6,757	2,270		71,600	28,318					15,896,863
EQUITY:											
AXE-HOUGHTON	11,639,760		23,493		10,738	(89,026)					11,584,965
BATTERYMARCH	28,576,630		8,939		128,698	10,305					28,724,572
DELAWARE	28,799,354		15,969		130,467	74,565					29,020,355
LEXINGTON	11,770,667		6,998		31,033	(125,828)					11,682,870
MEHOLD'S	27,548,198	71,445	15,918		125,135	134,574					27,905,271
GOLD & SILVER	3,032,987			81							3,033,068
REAL ESTATE EQUITY LOAN PAYABLE	23,845,407 (6,000,000)	33,022					158,375	(49,375)			23,987,429 (6,000,000)
TOTAL	319,047,407	334,817	81,095	1,359,404	507,671	33,904	158,375	(49,375)	(608,062)	0	320,865,236
YEAR TO DATE	315,753,098	334,817	243,713	3,823,258	1,049,622	(349,420)	343,125	(148,125)	(184,852)	0	320,865,236

SCERS - STATEMENT OF ESTIMATED INCOME & RATES OF RETURN
AS OF SEPTEMBER 30, 1988

	COST	MARKET	ESTIMATED ANNUAL INCOME	EST. RATE AT COST	EST. RATE AT MARKET
CASH					
CITY POOL A	25,848,480	25,848,480	2,087,238	8.07%	8.07%
PAC HORIZONS MONEY MARKET FUND	12,693,933	12,693,933	854,301	6.73%	6.73%
SCERS INVESTMENT POOLS	0	0	0	0.00%	0.00%
FIXED:					
BONDS, 2ND TD'S, & MTG. BK. CERTS	154,346,604	148,502,004	13,674,921	8.86%	9.21%
REAL ESTATE MORTGAGE	5,753,423	6,895,474	669,812	11.64%	11.36%
UTILITY STOCKS	13,247,765	11,739,600	844,504	6.37%	7.19%
EQUITY:					
AXE-HOUGHTON	7,619,461	8,086,938	106,365	1.40%	1.32%
BATTERYMARCH	27,237,895	28,797,448	803,847	2.95%	2.79%
DELAWARE	26,361,242	25,818,713	1,317,569	5.00%	5.10%
LEXINGTON	6,438,758	6,927,325	129,587	2.01%	1.87%
NEWBOLD'S	22,063,810	21,365,963	996,183	4.52%	4.66%
GOLD & SILVER	3,020,675	2,320,350	0	0.00%	0.00%
REAL ESTATE EQUITY	22,233,190	22,580,000	1,360,500 1/	6.12%	6.03%
LOAN PAYABLE	(6,000,000)	(6,000,000)			
TOTAL	320,865,236	314,576,228	22,844,827 2/	7.12%	7.26%

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.

ATTACHMENT A-4

SCERS - STATEMENT OF OVER (UNDER) INVESTMENT BASED UPON
COST/MARKET AS OF SEPTEMBER 30, 1988

	1/ COST	1/ MARKET	%AUTHORIZED	DOLLARS AUTHORIZED	2/ OVER (UNDER) INVESTED BASED UPON COST
EXTERNAL CONTRIBUTIONS	4,642,515	4,642,515	0.00%	0	
FIXED:					
BONDS, 2ND TD'S, & MTG. BK. CERTS.	162,445,563	156,600,963	50.50%	162,036,944	408,619
REAL ESTATE MORTGAGE	7,941,765	8,083,816	2.50%	8,021,631	62,185
UTILITY STOCKS	15,896,863	14,388,698	5.00%	16,043,262	(146,399)
TOTAL FIXED	186,284,191	179,073,477	58.00%	186,101,837	324,405
EQUITY:					
AXE-HOUGHTON	11,584,965	12,052,442	4.00%	12,834,609	(782,167)
BATTERYMARCH	28,724,572	30,284,125	9.00%	28,877,871	1,406,254
DELAWARE	29,020,355	28,477,826	9.00%	28,877,871	142,484
LEXINGTON	11,682,870	12,171,437	4.00%	12,834,609	(663,172)
NEWBOLD'S	27,905,271	27,207,424	9.00%	28,877,871	(972,600)
GOLD & SILVER	3,033,068	2,332,743	1.00%	3,208,652	(175,584)
REAL ESTATE EQUITY	23,987,429	24,334,239	6.00%	19,251,914	(917,675)
LESS: LOAN PAYABLE	(6,000,000)	(6,000,000)			
TOTAL EQUITY	129,938,530	130,860,236	42.00%	134,763,399	(1,962,462)
TOTAL	320,865,236	314,576,228	100.00%	320,865,236	(1,638,057)

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 as of this date. The last reallocation was as of 12/31/87 and became effective 2/29/88.

Should the Board reallocate as of 9/30/88, \$1,638,055 would be reallocated amongst the managers as listed above. In addition, of the remaining external contributions \$3,004,460 would be allocated according to the percentages authorized.

Effective April 1, 1988, the Board appointed Axe-Houghton Management, Inc. and Lexington Capital Management, Inc.

SCERS - STATEMENT OF PURCHASES AND SALES ACTIVITY
FOR SEPTEMBER 1988

1]

PORTFOLIO MANAGER	PURCHASES (COST)	(PROCEEDS)	SALES (COST)	GAIN/(LOSS)
FIXED:				
BONDS	\$4,396,558	\$0	\$0	\$0
MTG BACKED	\$0	\$111,109	(\$110,113)	\$996
2ND TD'S	\$0	\$605	(\$605)	\$0
REAL ESTATE MORTGAGES:	\$0	\$17,493	(\$17,493)	\$0
UTILITY STOCKS	\$336,255	\$267,054	(\$238,736)	\$28,318
TOTAL FIXED	\$4,732,813	\$396,261	(\$366,947)	\$29,314
EQUITY:				
AXE-HOUGHTON	\$1,105,050	\$1,410,494	(\$1,499,520)	(\$89,026)
BATTERYMARCH	\$3,698,049	\$3,835,738	(\$3,825,433)	\$10,305
DELAWARE	\$456,960	\$441,525	(\$366,960)	\$74,565
LEXINGTON	\$0	\$2,540,466	(\$2,666,294)	(\$125,828)
NEWBOLD'S	\$249,723	\$408,758	(\$274,184)	\$134,574
GOLD & SILVER	\$0	\$0	\$0	\$0
TOTAL EQUITY	\$5,509,782	\$8,636,981	(\$8,632,391)	\$4,590
TOTAL	\$10,242,595	\$9,033,242	(\$8,999,338)	\$33,904

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