

May 14, 1990

MINUTES  
REGULAR MEETING OF THE  
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM  
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD  
May 14, 1990

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 May 14, 1990.

PRESENT: Crist, Masuoka, Sperling, DeCamilla

ABSENT: Frierson

CONSENT CALENDAR

MINUTES OF REGULAR MEETING HELD APRIL 23, 1990

APPROVED

The Board received and reviewed the minutes of the regular meeting held April 23, 1990. Ms. Masuoka moved the minutes be approved. The motion was seconded by Mr. Crist and was carried by the following vote:

AYES: Crist, Masuoka, Sperling, DeCamilla

NOES: None

INVESTMENTS - TREASURER'S ACTIVITY REPORT

ACCEPTED

The Board received the March 1990 Treasurer's Investment Activity Report. Deborah Carter, Investment Officer, reviewed the investment report with the Board.

Michelle Stenoski gave a verbal report on the system's fixed asset activity transactions.

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

AYES: Crist, Masuoka, Sperling, DeCamilla

NOES: None

May 14, 1990

REPORTS OF CONSULTANTS AND ADVISORSCITY TREASURER'S UTILITY STOCK, MARCH 31, 1990 QUARTERLY REPORT  
ACCEPTED

Deborah Carter, Investment Officer, informed the Board that due to the the rescheduling of the regular meeting to an earlier date the formal written report will be distributed at the next meeting. Ms. Carter distributed a brief overview report highlighting the first quarter performance.

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

AYES: Crist, Masuoka, Sperling, DeCamilla

NOES: None

HARD ASSET PROGRAM FEBRUARY 28, 1990 FINAL REPORT  
ACCEPTED

The Board received the Hard Asset final report. Ms. Carter reviewed the report with the Board. As recommended and approved by the Board the hard asset program was liquidated February 28, 1990. The \$1,692,972.67 was reallocated to the portfolio based upon Board policy. Since inception (March, 1982) the hard asset program realized a net loss of \$472,566.

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

AYES: Crist, Masuoka, Sperling, DeCamilla

NOES: None

REAL ESTATE ADVISOR'S REPORT  
CONTINUED

W. Jim Smith, Real Estate Advisor, informed the Board the regular report for May 1990 will be given at the next meeting.

May 14, 1990

DRAFT LETTER TO CITY COUNCIL REGARDING COMMUNITY CONVENTION CENTER  
EXPANSION  
AMENDED

The Board received the draft letter prepared by W. Jim Smith, Real Estate Advisor, concerning the expansion of the community convention center and the impact on the System's investment property at 1414 K.

Solon Wisham, Assistant City Manager and concerned member of the system, spoke before the Board regarding the proposed letter to the City Council. Mr. Wisham recommended the Board amend the letter to respectfully convey its concerns and to express its desire to have input in the planning process.

W. Jim Smith, Real Estate Advisor, agreed that the Board needs to definitely express their concerns to the City Council as it is the Board's responsibility to maintain the integrity of the investment.

After discussion, Ms. Masuoka moved that Mr. Smith and William Carnazzo, Counsel to the Board, redraft the letter and forward it to the City Council. The motion was second Mr. Sperling and was carried by the following vote:

AYES: Crist, Masuoka, Sperling, DeCamilla

NOES: None

AXE-HOUGHTON MANAGEMENT MARCH 31, 1990 QUARTERLY REPORT  
ACCEPTED

The Board received the March 31, 1990 quarterly report from Axe-Houghton. Porter H. Sutro reviewed the report with the Board.

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

AYES: Crist, Masuoka, Sperling, DeCamilla

NOES: None

May 14, 1990

NEWBOLD'S ASSET MANAGEMENT MARCH 31, 1990 QUARTERLY REPORT

ACCEPTED

The Board received the March 31, 1990 quarterly report from Newbold's Asset Management. Harry Hiestand reviewed the report with the Board.

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

AYES: Crist, Masuoka, Sperling, DeCamilla

NOES: None

LEXINGTON CAPITAL MANAGEMENT MARCH 31, 1990 QUARTERLY REPORT

ACCEPTED

The Board received the March 31, 1990 quarterly report from Lexington Capital. Janet Acheatel reviewed the report with the Board.

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

Ms. Masuoka left the meeting at 2:30 p.m.

AYES: Crist, Sperling, DeCamilla

NOES: None

BATTERYMARCH MARCH 31, 1990 QUARTERLY REPORT

ACCEPTED

The Board received the March 31, 1990 quarterly report from Batterymarch. Larry Speidell reviewed the report with the Board.

The Board had a lengthy discussion regarding Batterymarch's performance since inception, the portfolio's exposure to non-US equities and the investment limitations imposed by the Board's investment policy.

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

AYES: Crist, Sperling, DeCamilla

NOES: None

May 14, 1990

DELAWARE INVESTMENT ADVISERS MARCH 31, 1990 QUARTERLY REPORT  
ACCEPTED

The Board received the March 31, 1990 quarterly report from Delaware Investment Advisers. George Deming reviewed the report with the Board.

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

AYES: Crist, Sperling, DeCamilla

NOES: None

POLICY MATTERS TO BE CONSIDERED AND ACTED UPON  
RESOLUTION ESTABLISHING 10.25% INTEREST RATE CREDIT  
ADOPTED

The Board received the resolution formalizing the adoption of 10.25% interest rate credit to members' accounts effective July 1, 1990. Mr. Sperling moved to adopt the resolution. The motion was seconded by Mr. Crist and was carried by the following vote:

AYES: Crist, Sperling, DeCamilla

NOES: None

RESOLUTION ESTABLISHING POLICY RELATED TO THE TRANSFER OF BOND INCOME  
DIRECTLY TO OPERATING CASH  
ADOPTED

The Board received the resolution establishing a policy to periodically transfer bond income directly to operating cash because employer and employee contributions are now less than the benefit payments and investment expenses of the system. The City Treasurer shall determine when the periodic transfers will occur.

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

AYES: Crist, Sperling, DeCamilla

NOES: None

May 14, 1990

IDEAS AND QUESTIONS, MEMBERS OF THE BOARD

Mr. Crist recommended the agenda format be amended to read, Citizens and Members Addressing the Board on Matters Not on the Agenda.

CLOSED SESSION - REAL PROPERTY TRANSACTIONS

The Board met in executive session to discuss a real estate proposal submitted by Jim Smith, Real Estate Advisor.

The Board reconvened. 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 MARCH 31, 1990

	CASH		INVESTMENTS @ COST	AMOUNT 1/ AVAILABLE FOR INVESTMENT
	POOL A	PAC HOR		
OPERATING CASH	(3,007,115)			(3,007,115)
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	14,253,907	2,517,870	126,447,882	143,219,659
REAL ESTATE MORTGAGE	5,388,611		5,366,898	10,755,509
UTILITY STOCKS	931,891	1,947,692	10,569,325	13,448,908
TOTAL FIXED	<u>20,574,409</u>	<u>4,465,562</u>	<u>142,384,105</u>	<u>167,424,076</u>
EQUITY:				
AXE-HOUGHTON	9,793	1,676,579	8,646,171	10,332,543
BATTERYMARCH		333,809	9,539,147	9,872,957
DELAWARE		4,338,033	23,152,232	27,490,265
LEXINGTON	(423)	3,419,192	9,305,408	12,724,176
NEWBOLDS	50,667	902,466	21,361,426	22,314,559
GOLD & SILVER	23,381		0	23,381
REAL ESTATE EQUITY	2,582,618		23,006,980	25,589,598
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	<u>2,666,035</u>	<u>10,670,080</u>	<u>89,011,363</u>	<u>102,347,478</u>
SUB-TOTAL	20,233,329	15,135,642	231,395,468	266,764,440
SCERS SAFEKEEPING II 2/	(3,391)	0	0	(3,391)
GRAND TOTAL	<u>20,229,938</u>	<u>15,135,642</u>	<u>231,395,468</u>	<u>266,761,048</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.

2/ In compliance with action taken by the AIFM Board approving the plan to transfer the Safety Members assets, all the investments were liquidated as of June 30, 1989. During the month of July 1989, the amount representing these assets was transferred to a separate account at Security Pacific National Bank and invested in short term securities. During the month of January 1990, \$103,339,314.34 was transferred to PERS.

SCORES - STATEMENT OF ASSETS @ MARKET VALUE  
AS OF MARCH 31, 1990

	CASH	POOL A PAC HOR	INVESTMENTS @ MARKET	TOTAL ASSETS @ MARKET
OPERATING CASH	(3,007,115)			(3,007,115)
BONDS, 2ND TD'S, & MFG. BK. CERTS.	14,253,907	2,517,870	122,901,858	139,673,635
REAL ESTATE MORTGAGE	5,388,611		5,800,249	11,188,860
UTILITY STOCKS	931,891	1,947,692	10,252,698	13,132,221
TOTAL FIXED	20,574,409	4,465,562	138,954,745	163,994,716
EQUITY:				
AXE-HOUGHTON	9,793	1,676,579	9,508,238	11,194,610
BATTEMMARSH		333,809	9,998,047	10,331,856
DELAWARE		4,398,033	25,086,147	29,424,180
LEXINGTON	(423)	3,419,192	9,480,563	12,899,332
HEMBOLDS	50,667	902,466	23,347,903	24,301,036
GOLD & SILVER	23,381		0	23,381
REAL ESTATE EQUITY	2,582,618		22,580,000	25,162,618
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	2,666,035	10,670,080	94,000,898	107,337,013
SUB-TOTAL	20,233,329	15,135,642	232,955,643	268,324,615
OTHER SAFEGUARDING II	(3,391)	0	0	(3,391)
GRAND TOTAL	20,229,938	15,135,642	232,955,643	268,321,223



SCORS - STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR INVESTMENT  
FOR THE PERIOD 2/28/90 - 3/31/90

	BALANCE 2/28/90	INTEREST INCOME			DIV	GAIN-(LOSS) ON SALES	NET RENTAL INCOME	INTEREST EXPENSE	NET EXTERNAL CONTRIB.	CONTRIB. TRANSFER	BALANCE 3/31/90
		POOL A	PAC MGR	INVESTMENT							
OPERATING CASH	(946,007)	(301,741)							(1,759,367)		(3,007,115)
FIXED:											
BONDS, 2ND TD'S, & MFG. BK. CERTS	141,590,592	141,411	0,692	1,324,683		(244,319)					143,219,659
REAL ESTATE MORTGAGES	10,667,673	35,268		52,570							10,755,511
UTILITY STOCKS	13,363,455	24,668	10,544		30,040	0					13,448,933
EQUITY:											
AXE-HOUGHTON	10,267,180	4,319	18,171		23,904	18,965					10,332,544
BATTERYMARCH	13,915,134		27,245		47,671	(117,093)		(4,000,000)			9,872,956
DELAWARE	27,360,561		19,368		90,316	0					27,450,265
LEXINGTON	12,645,416	(1,156)	5,948		16,332	55,636					12,724,175
WENCOLDS	22,394,009	(70,731)	118,610		7,178	(134,567)					22,314,559
GOLD & SILVER	23,382	0		0		0					23,382
REAL ESTATE EQUITY LOAN PAYABLE	25,464,274 (6,000,000)	79,346					95,352 (49,375)				25,569,597 (6,000,000)
SLB-TOTAL	271,166,069	(88,417)	206,598	1,377,453	217,441	(421,314)	95,352 (49,375)	(5,759,367)	0		266,764,441
SCORS SAFKEEPING II	(5,057)		1,666	0	0						(3,391)
GRAND TOTAL	271,181,012	(88,417)	208,264	1,377,453	217,441	(421,314)	95,352 (49,375)	(5,759,367)	0		266,761,049
YEAR TO DATE:											
PERMANENT ASSETS	349,364,263	586,539	1,199,542	6,873,016	2,463,256	7,550,213	1,272,946	(444,375)	12,060,072	(116,217,074)	266,764,440
SCORS SAFKEEPING II			148,731	4,925,824	17,627,000	27,267			(121,359,314)	116,217,074	(3,391)
TOTAL YEAR TO DATE	349,364,263	586,539	1,348,273	13,798,842	2,480,323	7,585,480	1,272,946	(444,375)	(109,251,242)	0	266,761,049

SCERS - STATEMENT OF ESTIMATED INCOME & RATES OF RETURN  
AS OF MARCH 31, 1990

	COST	MARKET	ESTIMATED ANNUAL INCOME	EST. RATE AT COST	EST. RATE AT MARKET
<b>CASH</b>					
CITY POOL A	20,233,329	20,233,329	1,719,833	8.50%	8.50%
PAC HORIZONS MONEY MARKET FUND	15,135,642	15,135,642	1,188,148	7.85%	7.85%
SCERS INVESTMENT POOLS					
<b>FIXED:</b>					
BONDS, 2ND TD'S & MTG. BK CERTS	126,447,882	122,901,858	11,580,796	9.16%	9.42%
REAL ESTATE MORTGAGE	5,366,898	5,800,249	635,548	11.84%	10.96%
UTILITY STOCKS	10,569,325	10,252,638	592,188	5.60%	5.78%
<b>EQUITY:</b>					
AXE-HOUGHTON	8,646,171	9,508,238	38,305	0.44%	0.40%
BATTERY MARCH	9,539,147	9,998,047	259,241	2.72%	2.59%
DELAWARE	23,152,232	25,086,147	1,143,939	4.94%	4.56%
LEXINGTON	9,305,408	9,480,563	263,196	2.83%	2.78%
NEWBOLDS	21,361,426	23,347,903	980,142	4.59%	4.20%
GOLD & SILVER	0	0			
REAL ESTATE EQUITY	23,006,980	22,580,000	1,828,500 1/	7.95%	8.10%
LOAN PAYABLE	(6,000,000)	(6,000,000)			
SUB-TOTAL	266,764,440	268,324,615	20,229,836 2/	7.58%	7.54%
SCERS SAFEKEEPING II	(3,391)	(3,391)	0	0.00%	0.00%
<b>GRAND TOTAL</b>	<u>266,761,048</u>	<u>268,321,223</u>	<u>20,229,836</u>	<u>7.58%</u>	<u>7.54%</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, Administrative Expenses and Debt Service. Capital Gains for the prior fiscal year 1988/89 was \$8.6 million. Administrative Expenses for this same period were \$82,000 for Banking and Trustee Fees, \$665,000 for Investment Manager Fees, \$592,500 for Interest Expense on Note Payable (Discovery Plaza), and \$1,060,000 for Real Estate Maintenance and Repair Expenses. Although we are unable to estimate Capital Gains for Fiscal Year 1989/90, we anticipate that the other expenses should remain fairly constant. These additional income and expense items should be considered in determining the funds' total performance.

SCERS - STATEMENT OF OVER (UNDER) INVESTMENT BASED UPON  
COST/MARKET AS OF MARCH 31, 1990

	1/ COST	1/ MARKET	% AUTHORIZED	DOLLARS AUTHORIZED	2/ OVER (UNDER) INVESTED, BASED UPON COST/MARKET
OPERATING CASH	(3,007,115)	(3,007,115)			(3,007,115)
FIXED:					
BONDS, 2ND TD'S, & MTG BK. CERTS.	143,219,659	139,673,635	51.00%	136,049,864	7,169,795
REAL ESTATE MORTGAGE	10,755,509	11,188,860	4.00%	10,670,578	518,283
UTILITY STOCKS	13,448,908	13,132,221	5.00%	13,338,222	110,686
<b>TOTAL FIXED</b>	<b>167,424,076</b>	<b>163,994,716</b>	<b>60.00%</b>	<b>160,058,664</b>	<b>7,798,764</b>
EQUITY:					
AXE-HOUGHTON	10,332,543	11,194,610	4.00%	10,670,578	524,032
BATTERYMARCH	9,872,957	10,331,856	4.00%	10,670,578	(338,721)
DELAWARE	27,490,265	29,424,180	11.00%	29,344,088	80,092
LEXINGTON	12,724,176	12,899,332	5.00%	13,338,222	(438,890)
NEWBOLDS	22,314,559	24,301,036	9.00%	24,008,800	292,236
GOLD & SILVER	23,381	23,381	0.00%	0	23,381
REAL ESTATE EQUITY	25,589,598	25,162,618	7.00%	18,673,511	916,087
LESS: LOAN PAYABLE	(6,000,000)	(6,000,000)			
<b>TOTAL EQUITY</b>	<b>102,347,478</b>	<b>107,337,013</b>	<b>40.00%</b>	<b>106,705,776</b>	<b>1,058,217</b>
<b>SUB-TOTAL</b>	<b>266,764,440</b>	<b>268,324,615</b>	<b>100.00%</b>	<b>266,764,440</b>	<b>5,849,866</b>
SCERS SAFEKEEPING II	(3,391)	(3,391)	100.00%	(3,391)	0
<b>GRAND TOTAL</b>	<b>266,761,048</b>	<b>268,321,223</b>	<b>100.00%</b>	<b>266,761,048</b>	<b>5,849,866</b>

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 of this date. The last reallocation was as of 12/31/88 and became effective 2/29/89.

Should the Board reallocate as of March 31, 1990, \$5,849,866 would be allocated to the managers according to the percentages authorized.

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

1]  
 SCERS - STATEMENT OF PURCHASES AND SALES ACTIVITY  
 FOR MARCH 1990

PORTFOLIO MANAGER	PURCHASES (COST)	(PROCEEDS)	SALES (COST)	GAIN/(LOSS)
<b>FIXED:</b>				
BONDS	\$5,506,070	\$3,967,491	(\$4,214,423)	(\$246,932)
MTG BACKED		\$142,265	(\$139,652)	\$2,613
2ND TD'S				\$0
REAL ESTATE MORTGAGES				\$0
UTILITY STOCKS	\$120,870	\$0	\$0	\$0
<b>TOTAL FIXED</b>	<b>\$5,626,940</b>	<b>\$4,109,756</b>	<b>(\$4,354,075)</b>	<b>(\$244,319)</b>
<b>EQUITY:</b>				
AXE-HOUGHTON	\$3,087,531	\$2,518,084	(\$2,499,115)	\$18,969
BATTERYMARCH	\$252,117	\$158,035	(\$275,128)	(\$117,093)
DELAWARE	\$3,154,175	\$0	\$0	\$0
LEXINGTON	\$1,324,209	\$847,680	(\$792,045)	\$55,636
NEWBOLDS	\$1,369,090	\$1,405,031	(\$1,539,537)	(\$134,507)
GOLD & SILVER				\$0
<b>TOTAL EQUITY</b>	<b>\$9,187,122</b>	<b>\$4,928,831</b>	<b>(\$5,105,826)</b>	<b>(\$176,995)</b>
<b>SUB -TOTAL</b>	<b>\$14,814,062</b>	<b>\$9,038,587</b>	<b>(\$9,459,901)</b>	<b>(\$421,314)</b>
SCERS SAFEKEEPING II				\$0
<b>GRAND TOTAL</b>	<b>\$14,814,062</b>	<b>\$9,038,587</b>	<b>(\$9,459,901)</b>	<b>(\$421,314)</b>

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