

March 25, 1991

MINUTES
REGULAR MEETING OF THE
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD
March 25, 1991

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 March 25, 1991.

PRESENT: Crist, Frierson, Masuoka, Friery

ABSENT: DeCamilla

CONSENT CALENDAR

MINUTES OF REGULAR MEETING HELD FEBRUARY 25, 1991
APPROVED AS AMENDED

The Board received and reviewed the minutes of the regular meeting held February 25, 1991. Mr. Crist requested the minutes be amended to reflect that he resigned from the position of Vice-Chairman. Mr. Crist moved to approve the minutes as amended. The motion was seconded by Ms. Masuoka and was carried by the following vote:

AYES: Crist, Frierson, Masuoka, Friery

NOES: None

MINUTES OF SPECIAL MEETING HELD FEBRUARY 25, 1991
APPROVED

The Board received and reviewed the minutes of the special meeting held February 25, 1991. Mr. Crist moved to approve the minutes. The motion was seconded by Ms. Masuoka and was carried by the following vote:

AYES: Crist, Frierson, Masuoka, Friery

NOES: None

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INVESTMENTS - TREASURER'S ACTIVITY REPORT
ACCEPTED

The Board received the January 1991 Treasurer's Investment Activity Report. Deborah Carter, Investment Officer, reviewed the investment report with the Board.

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

AYES: Crist, Frierson, Masuoka, Friery

NOES: None

REPORTS OF CONSULTANTS AND ADVISORS

REAL ESTATE ADVISOR'S REPORT
ACCEPTED

The Board received the March, 1991 Real Estate Advisor's Report, submitted by W. Jim Smith of WJS & Associates. Mr. Smith reviewed the report with the Board.

Mr. Smith informed the Board that the report now includes information on whether the system's properties are running over or under budget.

The Board discussed the issue of tenants who continually pay late. In the future all new leases should include language that a charge will be assessed on late rental payments.

Mr. Crist moved to accept the real estate advisor's report. The motion was seconded by Ms. Frierson and was carried by the following vote:

AYES: Crist, Frierson, Masuoka, Friery

NOES: None

Mr. DeCamilla informed the Board that he is still working on the draft letter to the City Council regarding the Community Center Expansion project.

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REAL ESTATE APPRAISAL PRACTICES
ACCEPTED AS INFORMATIONAL

The Board received and reviewed a recent article from the Wall Street Journal regarding real estate appraisal practices.

Mr. Smith present a written report to the Board on this issue. Mr. Smith informed the Board that the system has its properties appraised once every three years by an M.A.I. appraiser. The appraiser is hired by the system. Mr. Smith's fees are computed based on the actual amount of funds invested in the property not on any increase in values and that he does not receive any further compensation when the property is sold.

After discussion, the Board accepted the report as informational.

SEI DECEMBER 31, 1990 QUARTERLY REPORT
ACCEPTED

The Board received SEI's performance report for the quarter ending December 31, 1990. John McLaughlin, from SEI, reviewed the report with the Board.

The Board requested that SEI review Batterymarch's domestic investment performance versus foreign investment performance.

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

AYES: Crist, Frierson, Masuoka, Friery

NOES: None

CORRESPONDENCE TO EQUITY MANAGERS REGARDING ASSET REALLOCATION
ACCEPTED AS INFORMATIONAL

The Board received copies of the letters sent to each equity manager regarding the Board's action on asset reallocation.

As instructed by the Board, Mr. Friery informed Batterymarch that the Board is disappointed with their performance and that the Board will be looking at their future performance very closely. Mr. Larry Speidell, from Batterymarch, sited that part of the problem goes back to 1985 when

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the Board initially decided to invest in the foreign market and Batterymarch delayed investing because they wanted formal instructions from the Board.

The Board accepted as informational the letters sent to the equity managers.

LEXINGTON CAPITAL MANAGEMENT, INC., JANUARY 1991 PERFORMANCE REPORT
ACCEPTED AS INFORMATIONAL

The Board accepted as informational Lexington Capital Management, January 1991 performance report.

GENERAL COMMUNICATIONS

The Board accepted as informational an article from the February 1991 issue of Capitol Area Advocate regarding the community center expansion.

REPORTS OF SECRETARY

TERMS OF BOARD MEMBERS

Joseph McInerney, Counsel to the Board, advised the Board that he had reviewed Ordinance 90-040 which limits terms of board and commission appointments to two consecutive terms and that this ordinance does apply to the AIFM Board. In order to exempt the AIFM Board from this ordinance a new ordinance must be adopted by the City Council.

The Board directed the secretary to prepare a report on this issue.

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

ATTACHMENT A-1

SCERS - STATEMENT OF ASSETS AVAILABLE FOR INVESTMENT
AS OF JANUARY 31, 1991

	CASH		INVESTMENTS @ COST	AMOUNT 1/ AVAILABLE FOR INVESTMENT
	POOL A	PAC HOR		
OPERATING CASH	(1,354,074)			(1,354,074)
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	(1,917,240)	1,288,644	145,294,241	144,665,645
REAL ESTATE MORTGAGE	3,390,940		8,223,776	11,614,716
UTILITY STOCKS	420,427	272,303	13,437,347	14,130,076
TOTAL FIXED	1,894,127	1,560,946	166,955,364	170,410,437
EQUITY:				
AXE-HOUGHTON	8,861	1,322,345	8,907,992	10,239,198
BATTERYMARCH		1,108,198	8,407,075	9,515,273
DELAWARE		3,540,921	23,163,153	26,704,074
LEXINGTON	775	1,365,011	10,273,464	11,639,249
NEWBOLDS	52,264	3,478,371	21,556,617	25,087,252
REAL ESTATE EQUITY	3,522,787		23,039,904	26,562,690
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	3,584,686	10,814,844	89,348,205	103,747,735
GRAND TOTAL	4,124,739	12,375,790	256,303,568	272,804,098

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 JANUARY 31, 1991

	CASH		INVESTMENTS @MARKET	TOTAL ASSETS @ MARKET
	POOL A	PAC HOR		
OPERATING CASH	(1,354,074)			(1,354,074)
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	(1,917,240)	1,288,644	146,541,907	145,913,311
REAL ESTATE MORTGAGE	3,390,940		8,596,938	11,987,878
UTILITY STOCKS	420,427	272,303	12,754,638	13,447,367
TOTAL FIXED	1,894,127	1,560,946	167,893,483	171,348,556
EQUITY:				
AXE-HOUGHTON	8,861	1,322,345	11,188,590	12,519,796
BATTERYMARCH		1,108,198	8,974,253	10,082,451
DELAWARE		3,540,921	25,297,576	28,838,497
LEXINGTON	775	1,365,011	11,530,569	12,896,354
NEWBOLDS	52,264	3,478,371	22,719,769	26,250,404
REAL ESTATE EQUITY	3,522,787		22,580,000	26,102,787
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	3,584,686	10,814,844	96,290,757	110,690,288
GRAND TOTAL	4,124,739	12,375,790	264,184,240	280,684,769

ATTACHMENT A-2

SCRS - STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR INVESTMENT
FOR THE PERIOD 12/31/90 - 1/31/91

	BALANCE 12/31/90	INTEREST INCOME			DIV	GAIN (LOSS) ON SALES	NET RENTAL INCOME	INTEREST EXPENSE	NET EXTERNAL CONTRIB.	CONTRIB. TRANSFER	BALANCE 1/31/91
		POOL A	PAC HOR	INVESTMENT							
OPERATING CASH	(2,431,232)	0							333,836	743,322	(1,354,074)
FIXED:											
BONDS, 2ND TD'S, & MTC. BK. CERTS	144,557,201	0	5,089	845,878		798				(743,322)	144,665,645
REAL ESTATE MORTGAGES	11,538,651	0		76,065							11,614,716
UTILITY STOCKS	14,036,587	0	1,528		91,962	0					14,130,076
EQUITY:											
AKR-BOUGHTON	10,214,298	0	2,176		4,440	18,284					10,239,198
BATTERYMARCH	9,525,120		6,909		19,171	(35,926)					9,515,274
DELAWARE	27,110,967		18,487		124,717	(550,097)					26,704,074
LEXINGTON	12,179,326	0	1,296		17,384	(558,758)					11,639,249
NEWBOLDS	25,011,703	0	52,793		22,755	0					25,087,251
REAL ESTATE EQUITY LOAN PAYABLE	26,532,690 (6,000,000)	0					79,375	(49,375)			26,562,690 (6,000,000)
GRAND TOTAL	272,275,311	0	88,278	921,943	280,428	(1,125,698)	79,375	(49,375)	333,836	0	272,804,098
YEAR TO DATE:	271,043,656	61,616	979,599	8,025,020	1,711,681	(2,609,600)	1,020,625	(345,625)	(7,082,874)	0	272,804,098

SCERS - STATEMENT OF ESTIMATED INCOME & RATES OF RETURN
AS OF JANUARY 31, 1991

	COST	MARKET	ESTIMATED ANNUAL INCOME	EST. RATE AT COST	EST. RATE AT MARKET
CASH					
CITY POOL A	4,124,739	4,124,739	367,102	8.90%	8.90%
PAC HORIZONS MONEY MARKET FUND	12,375,790	12,375,790	891,057	7.20%	7.20%
FIXED:					
BONDS, 2ND TD'S & MTG. BK CERTS	145,294,241	146,541,907	13,489,835	9.28%	9.21%
REAL ESTATE MORTGAGE	8,223,776	8,596,938	800,519	9.73%	9.31%
UTILITY STOCKS	13,437,347	12,754,638	837,818	6.23%	6.57%
EQUITY:					
AXE-HOUGHTON	8,907,992	11,188,590	41,150	0.46%	0.37%
BATTERYMARCH	8,407,075	8,974,253	236,983	2.82%	2.64%
DELAWARE	23,163,153	25,297,576	1,189,003	5.13%	4.70%
LEXINGTON	10,273,464	11,530,569	251,063	2.44%	2.18%
NEWBOLDS	21,556,617	22,719,769	1,165,517	5.41%	5.13%
REAL ESTATE EQUITY	23,039,904	22,580,000	1,731,500 1/	7.52%	7.67%
LOAN PAYABLE	(6,000,000)	(6,000,000)			
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GRAND TOTAL	272,804,098	280,684,769	21,001,547 2/	7.70%	7.48%
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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. The Capital Gains for the prior fiscal year 1989/90 was \$8.5 million. Administrative Expenses for this same period were \$119,000 for Banking and Trustee Fees, \$748,000 for Investment Manager Fees, \$592,500 for Interest Expense on Note Payable (Discovery Plaza), and \$1,008,000 for Real Estate Maintenance and Repair Expenses. Although we are unable to estimate Capital Gains for Fiscal Year 1990/91, 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.

ATTACHMENT A-4

SCERS - STATEMENT OF OVER (UNDER) INVESTMENT BASED UPON
COST/MARKET AS OF JANUARY 31, 1991

	1/ COST	1/ MARKET	% AUTHORIZED	DOLLARS AUTHORIZED	2/ OVER (UNDER) INVESTED, BASED UPON COST/MARKET
OPERATING CASH	(1,354,074)	(1,354,074)			(1,354,074)
FIXED:					
BONDS, 2ND TD'S, & MTG BK. CERTS.	144,665,645	145,913,311	51.00%	139,130,090	6,783,221
REAL ESTATE MORTGAGE	11,614,716	11,987,878	4.00%	10,912,164	1,075,714
UTILITY STOCKS	14,130,076	13,447,367	5.00%	13,640,205	489,871
TOTAL FIXED	170,410,437	171,348,556	60.00%	163,682,459	8,348,806
EQUITY:					
AXE-HOUGHTON	10,239,198	12,519,796	4.00%	10,912,164	1,607,632
BATTERYMARCH	9,515,273	10,082,451	4.00%	10,912,164	(829,713)
DELAWARE	26,704,074	28,838,497	11.00%	30,008,451	(1,169,954)
LEXINGTON	11,639,249	12,896,354	5.00%	13,640,205	(743,850)
NEWBOLDS	25,087,252	26,250,404	9.00%	24,552,369	1,698,035
REAL ESTATE EQUITY	26,562,690	26,102,787	7.00%	19,096,287	1,466,403
LESS: LOAN PAYABLE	(6,000,000)	(6,000,000)			
TOTAL EQUITY	103,747,735	110,690,288	40.00%	109,121,639	2,028,552
GRAND TOTAL	272,804,098	280,684,769	100.00%	272,804,098	9,023,284

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 12/31/89 and became effective 2/28/90.

Should the Board reallocate as of January 31, 1991, \$9,023,284 would be allocated to the managers according to the percentages authorized.

1]

SCERS - STATEMENT OF PURCHASES AND SALES ACTIVITY
FOR JANUARY 1991

PORTFOLIO MANAGER	PURCHASES (COST)	(PROCEEDS)	SALES (COST)	GAIN/(LOSS)
FIXED:				
BONDS	\$0	\$289,870	(\$287,000)	\$2,870
MTG BACKED	\$0	\$206,447	(\$208,518)	(\$2,071)
2ND TD'S	\$0	\$0	\$0	\$0
REAL ESTATE MORTGAGES	\$0	\$0	\$0	\$0
UTILITY STOCKS	\$0	\$0	\$0	\$0
TOTAL FIXED	\$0	\$496,317	(\$495,518)	\$799
EQUITY:				
AXE-HOUGHTON	\$655,037	\$1,605,997	(\$1,587,713)	\$18,284
BATTERYMARCH	\$531,161	\$405,720	(\$441,646)	(\$35,926)
DELAWARE	\$2,541,126	\$3,182,248	(\$3,732,345)	(\$550,097)
LEXINGTON	\$958,626	\$2,088,443	(\$2,647,200)	(\$558,758)
NEWBOLDS	\$243,276	\$0	\$0	\$0
TOTAL EQUITY	\$4,929,225	\$7,282,408	(\$8,408,904)	(\$1,126,496)
GRAND TOTAL	\$4,929,225	\$7,778,725	(\$8,904,422)	(\$1,125,697)

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