

February 26, 1990

MINUTES
 REGULAR MEETING OF THE
 SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
 ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD
 February 26, 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 February 26, 1990.

PRESENT: Frierson, Masuoka, Wolford, Friery, DeCamilla

ABSENT: None

CONSENT CALENDARMINUTES OF REGULAR MEETING HELD FEBRUARY 26, 1990

APPROVED

The Board received and reviewed the minutes of the regular meeting held February 26, 1990. Mr. Friery requested the minutes be amended to reflect that Lexington Capital Management, Inc. also submitted a response to the recommended asset allocation policy. Mr. Friery moved the amended minutes be approved. The motion was seconded by Ms. Frierson and was carried by the following vote:

AYES: Frierson, Masuoka, Wolford, Friery, DeCamilla

NOES: None

INVESTMENTS - TREASURER'S ACTIVITY REPORT

ACCEPTED

The Board received the December 1989 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. Masuoka and was carried by the following vote:

AYES: Frierson, Masuoka, Wolford, Friery, DeCamilla

NOES: None

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REPORTS OF CONSULTANTS AND ADVISORSCITY TREASURER'S UTILITY STOCK, DECEMBER 31, 1989 QUARTERLY REPORT
ACCEPTED

The Board received the Treasurer's Utility Stock Fixed Income Alternative Portfolio Results for the quarter ending December 31, 1989. Ms. Carter reviewed the report with the Board.

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

AYES: Frierson, Masuoka, Wolford, Friery, DeCamilla

NOES: None

HARD ASSET PROGRAM DECEMBER 31, 1989 QUARTERLY REPORT
ACCEPTED

The Board received the Hard Asset Quarterly Report for the quarter ending December 31, 1989. Ms. Carter reviewed the report with the Board and reminded the Board the Hard Asset Program will be liquidated by February 28, 1990 in accordance with the newly adopted asset allocation policy.

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

AYES: Frierson, Masuoka, Wolford, Friery, DeCamilla

NOES: None

REAL ESTATE ADVISOR'S REPORT
ACCEPTED

The Board received the February, 1990 Real Estate Advisor's Report, submitted by W. Jim Smith of WJS & Associates. Mr. Smith reviewed the report with the Board.

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Per the Board's request, Mr. Smith presented a report updating the Board on the 1414 K Street Building since renovation and leasing on the the investment is now complete.

After discussion, Mr. Friery moved to accept the Real Estate Advisor's reports. The motion was seconded by Mr. Wolford and was carried by the following vote:

AYES: Frierson, Masuoka, Wolford, Friery, DeCamilla

NOES: None

DELAWARE INVESTMENT ADVISERS DECEMBER 31, 1989 QUARTERLY REPORT
ACCEPTED

The Board received the December 31, 1989 quarterly report from Delaware Investment Advisers. George Deming 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, Masuoka, Wolford, Friery, DeCamilla

NOES: None

AXE-HOUGHTON MANAGEMENT DECEMBER 31, 1989 QUARTERLY REPORT
ACCEPTED

The Board received the December 31, 1989 quarterly report from Axe-Houghton. Porter H. Sutro reviewed the report with the Board.

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

AYES: Frierson, Masuoka, Wolford, Friery, DeCamilla

NOES: None

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NEWBOLD'S ASSET MANAGEMENT DECEMBER 31, 1989 QUARTERLY REPORT

ACCEPTED

The Board received the December 31, 1989 quarterly report from Newbold's Asset Management. Lynn Wharton reviewed the report with the Board.

Ms. Wharton advised the Board that Newbold's parent company, Provident Mutual Life, has placed the firm up for sale. Mr. Friery stated it was important to the Board to be informed who the new owners will be.

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, Masuoka, Wolford, Friery, DeCamilla

NOES: None

LEXINGTON CAPITAL MANAGEMENT DECEMBER 31, 1989 QUARTERLY REPORT

ACCEPTED

The Board received the December 31, 1989 quarterly report from Lexington Capital. Ralph D'Agostini reviewed the report with the Board.

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

AYES: Frierson, Masuoka, Wolford, Friery, DeCamilla

NOES: None

BATTERYMARCH DECEMBER 31, 1989 QUARTERLY REPORT

ACCEPTED

The Board received the December 31, 1989 quarterly report from Batterymarch. Richard Gula reviewed the report with the Board.

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The Board discussed Batterymarch's performance since inception. Mr. Friery moved to accept the report. The motion was seconded by Mr. Wolford and was carried by the following vote:

AYES: Frierson, Masuoka, Wolford, Friery, DeCamilla

NOES: None

POLICY MATTERS TO BE CONSIDERED AND ACTED UPON

RESOLUTION AMENDING ASSET ALLOCATION POLICY
ADOPTED

At the January 22, 1990 meeting, the Board adopted an amended asset allocation policy. To formalize this action the Board received and reviewed a resolution. The Board requested the resolution be corrected to include language stating the ultimate result of the allocation will be 70% fixed and 30% equity to be accomplished by reducing the equity exposure by 2% each year and Attachment "A" percentages be corrected.

Ms. Masuoka moved the resolution be adopted and the corrected resolution be distributed at the next meeting as informational. The motion was seconded by Mr. Friery and was carried by the following vote:

AYES: Frierson, Masuoka, Wolford, Friery, DeCamilla

NOES: None

RECOMMENDED ASSET REDISTRIBUTION
APPROVED

The Board received and reviewed the recommended asset redistribution report which is in accordance with the new asset allocation policy and in compliance with resolution #84-007.

Mr. Wolford moved to approve the redistribution of assets in compliance with resolution #84-007. The motion was seconded by Mr. Friery

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and was carried by the following vote:

AYES: Frierson, Masuoka, Wolford, Friery, DeCamilla

NOES: None

REPORTS OF SECRETARY

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM ANNUAL FINANCIAL REPORT,
JUNE 30, 1989

ACCEPTED AS INFORMATIONAL

The Board accepted as informational the Sacramento City Employees' Retirement System Annual Financial Report, June 30, 1989. The Board complimented the Director of Finance Betty Masuoka and her staff for an excellent report.

Mr. Friery and Mr. DeCamilla will present the report to the City Council.

GENERAL COMMUNICATIONS

The Board received a copy of an article from the Business Journal regarding the SCERS plan to diversify the portfolio as it begins to mature. The Board accepted the article as informational.

There being no further business, the meeting was adjourned at 3:05 p.m. to meet again at the call of the chair.

SCERS - STATEMENT OF ASSETS AVAILABLE FOR INVESTMENT
AS OF DECEMBER 31, 1989

	CASH		INVESTMENTS @ COST	AMOUNT 1/ AVAILABLE FOR INVESTMENT
	POOL A	PAC HOR		
EXTERNAL CONTRIBUTIONS	(3,710,343)			(3,710,343)
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	787,331	1,115,167	120,668,462	122,570,961
REAL ESTATE MORTGAGE	678,733		5,383,546	6,062,279
UTILITY STOCKS	907,022	1,689,466	10,246,202	12,842,690
TOTAL FIXED	2,373,087	2,804,634	136,298,210	141,475,930
EQUITY:				
AXE-HOUGHTON	5,474	4,332,705	6,813,215	11,151,394
BATTERYMARCH		1,561,210	18,274,334	19,835,544
DELAWARE		3,466,890	18,794,037	22,260,926
LEXINGTON	733	457,485	9,891,700	10,349,919
NEWBOLDS	121,398	726,780	22,141,578	22,989,756
GOLD & SILVER	26,545		2,331,799	2,358,345
REAL ESTATE EQUITY	2,376,981		22,949,472	25,326,453
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	2,531,131	10,545,070	95,196,135	108,272,336
SUB-TOTAL	1,193,875	13,349,703	231,494,345	246,037,923
SCERS SAFEKEEPING II 2/	(435,083)	765,000	117,544,160	117,874,076
GRAND TOTAL	758,792	14,114,703	349,038,504	363,911,999

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 have been liquidated as of June 30, 1989. During the month of July 1989, \$116,217,073 was transferred to a separate account at Security Pacific National Bank and have been invested in various short term securities until January 12, 1990, when the transfer to PERS will take place.

SCERS - STATEMENT OF ASSETS @ MARKET VALUE
AS OF DECEMBER 31, 1989

	CASH		INVESTMENTS @MARKET	TOTAL ASSETS @ MARKET
	POOL A	PAC HOR		
EXTERNAL CONTRIBUTIONS	(3,710,343)			(3,710,343)
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	787,331	1,115,167	121,205,815	123,108,313
REAL ESTATE MORTGAGE	678,733		5,798,368	6,477,101
UTILITY STOCKS	907,022	1,689,466	10,799,263	13,395,751
TOTAL FIXED	2,373,087	2,804,634	137,803,445	142,981,165
EQUITY:				
AXE-HOUGHTON	5,474	4,332,705	7,369,410	11,707,589
BATTERYMARCH		1,561,210	20,524,880	22,086,090
DELAWARE		3,466,890	21,933,462	25,400,352
LEXINGTON	733	457,485	11,598,744	12,056,962
NEWBOLDS	121,398	726,780	24,889,844	25,738,022
GOLD & SILVER	26,545		1,640,625	1,667,170
REAL ESTATE EQUITY	2,376,981		22,580,000	24,956,981
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	2,531,131	10,545,070	104,536,965	117,613,166
SUB-TOTAL	1,193,875	13,349,703	242,340,410	256,883,988
SCERS SAFEKEEPING II	(435,083)	765,000	117,544,160	117,874,076
GRAND TOTAL	758,792	14,114,703	359,884,570	374,758,065

SCERS - STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR INVESTMENT
FOR THE PERIOD 11/30/89 - 12/31/89

	BALANCE 11/30/89	INTEREST INCOME			DIV	GAIN (LOSS) ON SALES	NET RENTAL INCOME	INTEREST EXPENSE	NET EXTERNAL CONTRIB.	CONTRIB. TRANSFER	BALANCE 12/31/89
		POOL A	PAC FOR	INVESTMENT							
EXTERNAL CONTRIBUTION	(3,177,616)	(11,947)							(520,780)		(3,710,343)
FIXED:											
BONDS, 2ND TD'S, & MTG. BK. CERTS	121,962,353	(217,071)	0	817,746		7,934					122,570,961
REAL ESTATE MORTGAGES	6,038,591	(29,778)		53,467							6,062,280
UTILITY STOCKS	12,079,784	85,351	10,614		51,140	615,802					12,842,691
EQUITY:											
AVE-HOUGHTON	11,174,912	22,762	10,511		5,321	(62,111)					11,151,395
BATTERYMARCH	19,797,156		3,806		75,905	(41,324)					19,835,543
DELAWARE	21,946,749		24,042		89,750	209,386					22,260,927
LEXINGTON	10,286,764	19,182	23,117		20,854	0					10,349,917
HEBOLOG	22,715,538	140,751	15,507		111,384	6,575					22,989,755
GOLD & SILVER	2,357,199	304		842		0					2,358,345
REAL ESTATE EQUITY	25,110,882	111,570					153,375	(49,375)			25,326,452
LOAN PAYABLE	(6,000,000)										(6,000,000)
FIXED SUB-TOTAL	244,292,312	121,125	87,596	872,054	345,354	736,262	153,375	(49,375)	(520,780)	0	246,037,923
STOCKS SAFKEEPING II	116,977,366		5,044	691,666							117,674,076
GRAND TOTAL	361,269,678	121,125	92,640	1,763,720	345,354	736,262	153,375	(49,375)	(520,780)	0	363,911,999
YEAR TO DATE:											
PERMANENT ASSETS	349,384,263	713,978	693,479	5,599,122	1,752,102	7,256,200	902,000	(296,250)	(3,749,897)	(116,217,074)	246,037,923
SCERS SAFKEEPING II			137,115	1,519,897						116,217,074	117,674,076
TOTAL YEAR TO DATE	349,384,263	713,978	830,594	7,119,009	1,752,102	7,256,200	902,000	(296,250)	(3,749,897)	0	363,911,999

SCERS - STATEMENT OF ESTIMATED INCOME & RATES OF RETURN
AS OF DECEMBER 31, 1989

	COST	MARKET	ESTIMATED ANNUAL INCOME	EST. RATE AT COST	EST. RATE AT MARKET
CASH					
CITY POOL A	1,193,875	1,193,875	101,479	8.50%	8.50%
PAC HORIZONS MONEY MARKET FUND	13,349,703	13,349,703	1,074,159	8.05%	8.05%
SCERS INVESTMENT POOLS					
FIXED:					
BONDS, 2ND TD'S & MTG. BK CERTS	120,668,462	121,205,815	10,994,424	9.11%	9.07%
REAL ESTATE MORTGAGE	5,383,546	5,798,368	637,483	11.84%	10.99%
UTILITY STOCKS	10,246,202	10,799,263	577,928	5.64%	5.35%
EQUITY:					
AXE-HOUGHTON	6,813,215	7,369,410	44,635	0.66%	0.61%
BATTERYMARCH	18,274,334	20,524,880	356,277	1.95%	1.74%
DELAWARE	18,794,037	21,933,462	909,019	4.84%	4.14%
LEXINGTON	9,891,700	11,598,744	274,983	2.78%	2.37%
NEWBOLDS	22,141,578	24,889,844	942,327	4.26%	3.79%
GOLD & SILVER	2,331,799	1,640,625			
REAL ESTATE EQUITY	22,949,472	22,580,000	1,788,500 1/	7.79%	7.92%
LOAN PAYABLE	(6,000,000)	(6,000,000)			
SUB-TOTAL	246,037,923	256,883,988	17,701,214 2/	7.19%	6.89%
SCERS SAFEKEEPING II	117,874,076	117,874,076	10,313,982	8.75%	8.75%
GRAND-TOTAL	363,911,999	374,758,065	28,015,196	7.70%	7.48%

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 1987/8 was \$9 million. Administrative Expenses for this same period 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. Although we are unable to estimate Capital Gains for Fiscal Year 1988/9, 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 DECEMBER 31, 1989

	1/ COST	1/ MARKET	% AUTHORIZED	DOLLARS AUTHORIZED	2/ OVER (UNDER) INVESTED, BASED UPON COST/MARKET
EXTERNAL CONTRIBUTIONS	(3,710,343)	(3,710,343)			(3,710,343)
FIXED:					
BONDS, 2ND TD'S, & MTG BK. CERTS.	122,570,961	123,108,313	50.50%	124,249,151	(1,140,838)
REAL ESTATE MORTGAGE	6,062,279	6,477,101	2.50%	6,150,948	326,153
UTILITY STOCKS	12,842,690	13,395,751	5.00%	12,301,896	1,093,855
TOTAL FIXED	141,475,930	142,981,165	58.00%	142,701,995	279,170
EQUITY:					
AXE-HOUGHTON	11,151,394	11,707,589	4.00%	9,841,517	1,866,072
BATTERY MARCH	19,835,544	22,086,090	9.00%	22,143,413	(57,323)
DELAWARE	22,260,926	25,400,352	9.00%	22,143,413	3,256,939
LEXINGTON	10,349,919	12,056,962	4.00%	9,841,517	2,215,445
NEWBOLDS	22,989,756	25,738,022	9.00%	22,143,413	3,594,609
GOLD & SILVER	2,358,345	1,667,170	1.00%	2,460,379	(102,035)
REAL ESTATE EQUITY	25,326,453	24,956,981	6.00%	14,762,275	4,564,177
LESS: LOAN PAYABLE	(6,000,000)	(6,000,000)			
TOTAL EQUITY	108,272,336	117,613,166	42.00%	103,335,928	15,337,884
SUB-TOTAL	246,037,923	256,883,988	100.00%	246,037,923	11,906,712
SCERS SAFEKEEPING II	117,874,076	117,874,076	100.00%	117,874,076	0
GRAND TOTAL	363,911,999	374,758,065	100.00%	363,911,999	11,906,712

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 December 31, 1989, \$11,906,712 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 DECEMBER 1989

PORTFOLIO MANAGER	PURCHASES (COST)	(PROCEEDS)	SALES (COST)	GAIN/(LOSS)
FIXED:				
BONDS	\$1,475,000	\$228,152	(\$220,648)	\$7,504
MIG BACKED		\$60,806	(\$60,376)	\$430
2ND TD'S				\$0
REAL ESTATE MORTGAGES				\$0
UTILITY STOCKS	\$2,994,313	\$3,011,032	(\$2,395,230)	\$615,802
TOTAL FIXED	\$4,469,313	\$3,299,990	(\$2,676,254)	\$623,736
EQUITY:				
AXE-HOUGHTON	\$1,439,138	\$4,221,807	(\$4,283,918)	(\$62,111)
BATTERYMARCH	\$48,422	\$914,196	(\$955,519)	(\$41,323)
DELAWARE	\$891,330	\$618,491	(\$409,105)	\$209,386
LEXINGTON	\$2,579,424	\$0	\$0	\$0
NEWBOLDS	\$2,718,029	\$37,776	(\$31,201)	\$6,575
GOLD & SILVER				\$0
TOTAL EQUITY	\$7,676,342	\$5,792,270	(\$5,679,744)	\$112,527
SUB-TOTAL	\$12,145,655	\$9,092,260	(\$8,355,998)	\$736,263
SCERS SAFEKEEPING II				
GRAND TOTAL	\$12,145,655	\$9,092,260	(\$8,355,998)	\$736,263

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

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 WITHOUT THE WRITTEN PERMISSION OF THE BOARD OF DIRECTORS

