

MINUTES
REGULAR MEETING OF THE
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD
April 24, 1989

PRESENCE AND ROLL CALL

The Administration, Investment and Fiscal Management Board met in
Conference Room 103, 801 - 9th Street, at 1:34 p.m. on April

Frierson, Masuoka, Sperling, DeCamilla

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AGENDA

REGULAR MEETING HELD MARCH 27, 1989

The Board received and reviewed the minutes of the regular meeting
held on March 27, 1989. Mr. Sperling moved the minutes be approved. The motion
was seconded by Ms. Masuoka and was carried by the following vote:

Frierson, Masuoka, Sperling, DeCamilla

- TREASURER'S ACTIVITY REPORT

The Board received the February 1989 Treasurer's Investment Activity
Report. Deborah Carter, Investment Officer, reviewed the investment report
to the Board.

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

Frierson, Masuoka, Sperling, DeCamilla

April 24, 1989

REPORTS OF CONSULTANTS AND ADVISORS
REAL ESTATE ADVISOR'S REPORT
ACCEPTED

The Board received the April 1989 Real Estate Advisor's Report, submitted by W. Jim Smith of WJS & Associates. Mr. Smith reviewed the report with the Board.

Mr. Smith verbally corrected two errors in the report on the 1414 K Street building. The first correction is the improvements for the California Apartment Association are completed and the tenant is expected to move in during May or early June with rents to start on July 1st. The second correction is the bid for the asbestos removal from the first floor was slightly over \$48,000.

Mr. Smith reported he has received the M.A.I. appraisal on the Discovery Plaza property and has received a verbal offer of \$6.7 million on the Enterprise property. He will review the offer and report back to the Board.

Mr. Sperling moved to accept the real estate report with the two corrections. The motion was seconded by Ms. Frierson and was carried by the following vote:

AYES: Frierson, Masuoka, Sperling, DeCamilla

NOES: None

Mr. Friery arrived at 1:47 p.m.

LEXINGTON CAPITAL MANAGEMENT, INC., FEBRUARY AND MARCH 1989 PERFORMANCE
ACCEPTED AS INFORMATIONAL

The Board accepted as informational Lexington's February and March 1989 performance report.

BATTERYMARCH, MARCH 1989 PERFORMANCE
ACCEPTED AS INFORMATIONAL

The Board accepted as informational Batterymarch's March 1989 performance report.

SEI'S PERFORMANCE REVIEW 1988
ACCEPTED AS INFORMATIONAL

The Board accepted as informational SEI's Performance Review 1988 report.

AXE-HOUGHTON MANAGEMENT, INC., INVESTMENT STYLE
ACCEPTED AS INFORMATIONAL

In response to Jim Blachman's, SEI Performance Consultant, comments at the March 27, 1989 meeting, Axe-Houghton submitted a letter to the Board clarifying their investment style and strategy relative to their current activity.

The Board accepted the letter as informational.

POLICY MATTERS TO BE CONSIDERED AND ACTED UPON

FY 89-90 INTEREST RATE CREDIT TO MEMBERS' ACCOUNTS
ADOPTED

Betty Masuoka, Director of Finance and Thomas P. Friery, City Treasurer, submitted a report and resolution for the adoption of a 12.25% interest rate to be credited to members' accounts. The report stated that the three-year moving average actual rate of return on investable assets was approximately 12.52%.

Mr. Friery stated that the interest rate credit, which is primarily the result of the last three year average of investment results, is the highest in the history of SCERS and is reflective of a string of consecutively above average earning results. Although the members will enjoy this premium credit rate in this fiscal year beginning July 1, 1989, nonetheless, in the following fiscal year this rate should decline by 1% or more. Mr. Friery felted the SCERS members should be informed now of the potential decline in the interest rate credit beginning July 1, 1990.

April 24, 1989

Richard E. Snyder, Secretary to the Board, suggested that this information be included in the next annual financial report and an article be included in the next issue of the City's Insider newsletter which will be published in June or July.

Mr. Friery moved to adopt the resolution to be effective July 1, 1989. The motion was seconded by Ms. Frierson and was carried by the following vote:

AYES: Frierson, Masuoka, Friery, DeCamilla

NOES: None

REPORTS OF SECRETARY

1989 CALAPRS MEMBERSHIP ROSTER
ACCEPTED AS INFORMATIONAL

Secretary Richard Snyder distributed copies of the CALAPRS 1989 Membership Roster to the Board.

COMPENDIUM OF AIFM BOARD ACTIVITIES
ACCEPTED AS INFORMATIONAL

Secretary Richard Snyder distributed the updated Compendium of AIFM Board activities which reflects all major AIFM Board actions from inception on January 13, 1977 through December 31, 1988.

IDEAS AND QUESTIONS, MEMBERS OF THE BOARD

Mr. Friery distributed to the Board a copy of a report dated April 17, 1989 to Mr. Steve Lakich regarding the current status of those securities involved in the PERS/SCERS merger.

The Board briefly discussed the ballot measure language. William Carnazzo, Counsel to the Board, informed the Board that the ballot language will not contain information on the possible loss of the sale of assets.

During the March 3, 1989 special meeting, the Board was informed that approximately \$114 million of SCERS assets would be the proportionate and equitable market value share of the transferring members. However, a recently completed PERS valuation requires the transfer of only \$103 million because PERS has adopted an asset adjustment method which currently increases assets by 12.3%. The \$103 million, adjusted by 12.3%, will equal the \$116 million unfunded liability of transferred members.

There being no further business the meeting was adjourned at 2:15 p.m. to meet again at the call of the chair.

April 24, 1989

ATTACHMENT A-1

SCERS - STATEMENT OF ASSETS AVAILABLE FOR INVESTMENT
AS OF FEBRUARY 28, 1989

| | CASH | | INVESTMENTS @ COST | AMOUNT 1/ AVAILABLE FOR INVESTMENT |
|------------------------------------|-------------------|-------------------|-----------------------|--|
| | POOL A | PAC HOR | | |
| EXTERNAL CONTRIBUTIONS | 1,702,543 | | | 1,702,543 |
| FIXED: | | | | |
| BONDS, 2ND TD'S, & MTG. BK. CERTS. | 9,392,172 | 1,758,228 | 159,078,305 | 170,228,705 |
| REAL ESTATE MORTGAGE | 2,338,721 | | 5,663,979 | 8,002,700 |
| UTILITY STOCKS | 1,541,617 | 1,163,894 | 14,086,662 | 16,792,173 |
| TOTAL FIXED | <u>13,272,511</u> | <u>2,922,121</u> | <u>178,828,946</u> | <u>195,023,578</u> |
| EQUITY: | | | | |
| AXE-HOUGHTON | 2,750,000 | 2,375,063 | 7,740,280 | 12,865,344 |
| BATTERYMARCH | | 3,226,093 | 25,311,746 | 28,537,839 |
| DELAWARE | | 2,858,208 | 27,625,220 | 30,483,428 |
| LEXINGTON | 0 | 1,586,942 | 11,299,119 | 12,886,061 |
| NEWBOLDS | 3,248,420 | 914,084 | 25,884,729 | 30,047,233 |
| GOLD & SILVER | 312,898 | | 3,020,675 | 3,333,573 |
| REAL ESTATE EQUITY | 3,438,757 | | 22,484,615 | 25,923,371 |
| LESS: LOAN PAYABLE | | | (6,000,000) | (6,000,000) |
| TOTAL EQUITY | <u>9,750,075</u> | <u>10,960,390</u> | <u>117,366,385</u> | <u>138,076,849</u> |
| TOTAL | <u>24,725,128</u> | <u>13,882,511</u> | <u>296,195,331</u> | <u>334,802,970</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.

CCERS - STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR INVESTMENT
FOR THE PERIOD 1/31/89 TO 2/28/89

| | BALANCE 1/31/89 | INTEREST INCOME | | | DIV | GAIN (LOSSES) ON SALES | NET RENTAL INCOME | INTEREST EXPENSE | NET EXTERNAL CONTRIB. | CONTRIB. TRANSFER | BALANCE 2/28/89 |
|--------------------------------------|---------------------------|-----------------|----------|------------|-----------|---------------------------|-------------------------|---------------------|-----------------------------|----------------------|---------------------------|
| | | POOL A | PAC HOR. | INVESTMENT | | | | | | | |
| EXTERNAL CONTRIBUTION | 7,217,943 | | | | | | | | 1,184,600 | (5,700,000) | 1,702,543 |
| FIXED: | | | | | | | | | | | |
| BONDS, 2ND TD'S, & MTG. GK. CERTS | 165,782,999 | 0 | 5,435 | 1,589,036 | | 1,234 | | | | 2,850,000 | 170,228,704 |
| REAL ESTATE MORTGAGES | 8,197,831 | 0 | | 54,869 | | | | | | (250,000) | 8,002,700 |
| UTILITY STOCKS | 16,163,381 | 0 | 2,604 | | 70,154 | 6,034 | | | | 550,000 | 16,792,173 |
| EQUITY: | | | | | | | | | | | |
| AXE-HOUGHTON | 11,590,914 | 0 | 6,104 | | 7,225 | (38,901) | | | | 1,300,000 | 12,865,343 |
| BATTERYMARCH | 29,214,032 | | 12,777 | | 46,530 | 664,501 | | | | (1,400,000) | 28,537,839 |
| DELAHARE | 29,805,834 | | 20,374 | | 116,500 | 290,721 | | | | 250,000 | 30,483,428 |
| LEXINGTON | 11,878,582 | 0 | 4,906 | | 15,465 | 187,108 | | | | 800,000 | 12,886,051 |
| NEHBOLDS | 29,217,726 | 0 | 3,802 | | 125,703 | 0 | | | | 700,000 | 30,047,232 |
| GOLD & SILVER | 3,033,416 | | | 157 | | | | | | 300,000 | 3,333,573 |
| REAL ESTATE EQUITY LOAN PAYABLE | 24,241,747 (6,000,000) | 0 | | | | | 131,000 | (49,375) | | 1,600,000 | 25,923,372 (6,000,000) |
| TOTAL | 330,344,405 | 0 | 56,003 | 1,644,062 | 381,577 | 1,110,697 | 131,000 | (49,375) | 1,184,600 | 0 | 334,802,969 |
| YEAR TO DATE | 315,753,098 | 759,671 | 576,654 | 9,178,570 | 3,037,634 | 1,501,970 | 897,624 | (395,000) | 3,492,748 | | 334,802,969 |

ATTACHMENT A-1A

SCERS - STATEMENT OF ASSETS @ MARKET VALUE
AS OF FEBRUARY 28, 1989

| | CASH | | INVESTMENTS @ MARKET | TOTAL ASSETS @ MARKET |
|------------------------------------|-------------------|-------------------|-------------------------|--------------------------|
| | POOL A | PAC HOR | | |
| EXTERNAL CONTRIBUTIONS | 1,702,543 | | | 1,702,543 |
| FIXED: | | | | |
| BONDS, 2ND TD'S, & MTG. BK. CERTS. | 9,392,172 | 1,758,228 | 149,526,902 | 160,677,302 |
| REAL ESTATE MORTGAGE | 2,338,721 | | 6,088,107 | 8,426,828 |
| UTILITY STOCKS | 1,541,617 | 1,163,894 | 12,604,900 | 15,310,411 |
| TOTAL FIXED | <u>13,272,511</u> | <u>2,922,121</u> | <u>168,219,909</u> | <u>184,414,541</u> |
| EQUITY: | | | | |
| AXE-HOUGHTON | 2,750,000 | 2,375,063 | 8,731,375 | 13,856,438 |
| BATTERYMARCH | | 3,226,093 | 28,738,373 | 31,964,466 |
| DELAWARE | | 2,858,208 | 28,257,350 | 31,115,558 |
| LEXINGTON | 0 | 1,586,942 | 12,591,125 | 14,178,067 |
| NEWBOLDS | 3,248,420 | 914,084 | 26,546,869 | 30,709,372 |
| GOLD & SILVER | 312,898 | | 2,212,545 | 2,525,443 |
| REAL ESTATE EQUITY | 3,438,757 | | 22,580,000 | 26,018,757 |
| LESS: LOAN PAYABLE | | | (6,000,000) | (6,000,000) |
| TOTAL EQUITY | <u>9,750,075</u> | <u>10,960,390</u> | <u>123,657,637</u> | <u>144,368,101</u> |
| TOTAL | <u>24,725,128</u> | <u>13,882,511</u> | <u>291,877,546</u> | <u>330,485,185</u> |

SCERS - STATEMENT OF ESTIMATED INCOME & RATES OF RETURN
AS OF FEBRUARY 28, 1989

| | COST | MARKET | ESTIMATED ANNUAL INCOME | EST. RATE AT COST | EST. RATE AT MARKET |
|------------------------------------|--------------------|--------------------|-------------------------------|----------------------|------------------------|
| CASH | | | | | |
| CITY POOL A | 24,725,128 | 24,725,128 | 2,101,636 | 8.50% | 8.50% |
| PAC HORIZONS MONEY MARKET FUND | 13,882,511 | 13,882,511 | 1,195,284 | 8.61% | 8.61% |
| SCERS INVESTMENT POOLS | | | | | |
| FIXED: | | | | | |
| BONDS, 2ND TD'S & MTG. BK CERTS | 159,078,305 | 149,526,902 | 14,347,031 | 9.02% | 9.59% |
| REAL ESTATE MORTGAGE | 5,663,979 | 6,088,107 | 661,793 | 11.68% | 10.87% |
| UTILITY STOCKS | 14,086,662 | 12,604,900 | 910,760 | 6.47% | 7.23% |
| EQUITY: | | | | | |
| AXE-HOUGHTON | 7,740,280 | 8,731,375 | 52,058 | 0.67% | 0.60% |
| BATTERYMARCH | 25,311,746 | 28,738,373 | 809,423 | 3.20% | 2.82% |
| DELAWARE | 27,625,220 | 28,257,350 | 1,433,295 | 5.19% | 5.07% |
| LEXINGTON | 11,299,119 | 12,591,125 | 280,365 | 2.48% | 2.23% |
| NEWBOLDS | 25,884,729 | 26,546,869 | 1,064,940 | 4.11% | 4.01% |
| GOLD & SILVER | 3,020,675 | 2,212,545 | | | |
| REAL ESTATE EQUITY | 22,484,615 | 22,580,000 | 1,458,500 1/ | 6.49% | 6.46% |
| LOAN PAYABLE | (6,000,000) | (6,000,000) | | | |
| TOTAL | 334,802,970 | 330,485,185 | 24,315,085 2/ | 7.26% | 7.36% |

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.

ATTACHMENT A-4

SCERS - STATEMENT OF OVER (UNDER) INVESTMENT BASED UPON
COST/MARKET AS OF FEBRUARY 28, 1989

| | 1/ COST | 1/ MARKET | % AUTHORIZED | DOLLARS AUTHORIZED | 2/ OVER (UNDER) INVESTED, BASED UPON COST/MARKET |
|-----------------------------------|-------------|-------------|--------------|--------------------|--|
| EXTERNAL CONTRIBUTIONS | 1,702,543 | 1,702,543 | | | |
| FIXED: | | | | | |
| BONDS, 2ND TD'S, & MTG BK. CERTS. | 170,228,705 | 160,677,302 | 50.50% | 169,075,500 | 1,153,205 |
| REAL ESTATE MORTGAGE | 8,002,700 | 8,426,828 | 2.50% | 8,370,074 | 56,754 |
| UTILITY STOCKS | 16,792,173 | 15,310,411 | 5.00% | 16,740,149 | 52,024 |
| TOTAL FIXED | 195,023,578 | 184,414,541 | 58.00% | 194,185,723 | 1,261,983 |
| EQUITY: | | | | | |
| AXE-HOUGHTON | 12,865,344 | 13,856,438 | 4.00% | 13,392,119 | 464,319 |
| BATTERYMARCH | 28,537,839 | 31,964,466 | 9.00% | 30,132,267 | 1,832,199 |
| DELAWARE | 30,483,428 | 31,115,558 | 9.00% | 30,132,267 | 983,291 |
| LEXINGTON | 12,886,061 | 14,178,067 | 4.00% | 13,392,119 | 785,948 |
| NEWBOLDS | 30,047,233 | 30,709,372 | 9.00% | 30,132,267 | 577,105 |
| GOLD & SILVER | 3,333,573 | 2,525,443 | 1.00% | 3,348,030 | (14,457) |
| REAL ESTATE EQUITY | 25,923,371 | 26,018,757 | 6.00% | 20,088,178 | (69,422) |
| LESS: LOAN PAYABLE | (6,000,000) | (6,000,000) | | | |
| TOTAL EQUITY | 138,076,849 | 144,368,101 | 42.00% | 140,617,247 | 4,558,984 |
| TOTAL | 334,802,970 | 330,485,185 | 100.00% | 334,802,970 | 5,820,967 |

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.

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 FEBRUARY 1989

| PORTFOLIO MANAGER | PURCHASES (COST) | (PROCEEDS) | SALES (COST) | GAIN/(LOSS) |
|-----------------------|---------------------|-------------|-----------------|-------------|
| FIXED: | | | | |
| BONDS | \$1,987,606 | \$13,000 | (\$12,935) | \$65 |
| MTG BACKED | | \$117,777 | (\$116,608) | \$1,169 |
| 2ND TD'S | | | | \$0 |
| REAL ESTATE MORTGAGES | | | | \$0 |
| UTILITY STOCKS | \$0 | \$149,295 | (\$143,261) | \$6,034 |
| TOTAL FIXED | \$1,987,606 | \$280,072 | (\$272,804) | \$7,268 |
| EQUITY: | | | | |
| AXE-HOUGHTON | \$1,189,912 | \$1,249,088 | (\$1,287,989) | (\$38,901) |
| BATTERYMARCH | \$2,791,651 | \$5,083,590 | (\$4,419,089) | \$664,501 |
| DELAWARE | \$1,314,070 | \$871,271 | (\$580,550) | \$290,721 |
| LEXINGTON | \$543,240 | \$675,399 | (\$488,291) | \$187,108 |
| NEWBOLDS | \$584,272 | \$0 | \$0 | \$0 |
| GOLD & SILVER | | | | \$0 |
| TOTAL EQUITY | \$6,423,144 | \$7,879,348 | (\$6,775,919) | \$1,103,429 |
| TOTAL | \$8,410,750 | \$8,159,420 | (\$7,048,723) | \$1,110,697 |

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