

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.

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 (LOSS) 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	<u>195,023,578</u>	<u>184,414,541</u>	<u>58.00%</u>	<u>194,185,723</u>	<u>1,261,983</u>
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	<u>138,076,849</u>	<u>144,368,101</u>	<u>42.00%</u>	<u>140,617,247</u>	<u>4,558,984</u>
TOTAL	<u>334,802,970</u>	<u>330,485,185</u>	<u>100.00%</u>	<u>334,802,970</u>	<u>5,820,967</u>

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".