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MINUTES
REGULAR MEETING OF THE
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD
June 26, 1989

CALL TO ORDER AND ROLL CALL

The Administration, Investment and Fiscal Management Board met in regular session in Conference Room 103, 801 - 9th Street, at 1:45 p.m. on June 26, 1989.

PRESENT: Stamper, Sperling, DeCamilla

ABSENT: Frierson, Wolford

Due to a mechanical problem with the tape recorder the meeting could not be recorded. Mr. Sperling moved the meeting continue even though it could not be recorded. The motion was seconded by Mr. Stamper and was carried by the following vote:

AYES: Stamper, Sperling, DeCamilla

NOES: None

CONSENT CALENDAR

MINUTES OF REGULAR MEETING HELD MAY 22, 1989
APPROVED AS AMENDED

The Board received and reviewed the minutes of the regular meeting held May 22, 1989. Mr. Sperling requested the minutes be amended to reflect that Mr. Friery did submit an article to the City's newsletter regarding the 12.25% interest rate credit to members' SCERS accounts. Mr. Sperling moved the amended minutes be approved. The motion was seconded by Mr. Stamper and was carried by the following vote:

AYES: Stamper, Sperling, DeCamilla

NOES: None

INVESTMENTS - TREASURER'S ACTIVITY REPORT
ACCEPTED

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

Ms. Carter distributed and reviewed an addendum report on the sale of SCERS assets to accommodate the transfer of active safety members to PERS.

She also informed the Board that the Treasurer's office is preparing a report, to be presented at the August meeting, on the effects of increasing the fixed income allocation.

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

AYES: Stamper, Sperling, DeCamilla

NOES: None

REPORTS OF CONSULTANTS AND ADVISORS

REAL ESTATE ADVISOR'S REPORT
ACCEPTED

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

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

AYES: Stamper, Sperling, DeCamilla

NOES: None

SEI MARCH 31, 1989 QUARTERLY PERFORMANCE REPORT
ACCEPTED

The Board received SEI's performance reports for the quarter ending March 31, 1989. John McLaughlin, from SEI, reviewed the report with the Board.

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

AYES: Stamper, Sperling, DeCamilla

NOES: None

PRESENTATION BY TOUCHE ROSS, CITY'S EXTERNAL AUDITOR
ACCEPTED AS INFORMATIONAL

At the request of the Board, Louis Paletta and Marty Tokunaga auditors for Touche Ross, presented an overview on how the 1988-89 audit of SCERS will be conducted. They distributed a time schedule and reported that the reliance testing portion of the audit had been completed and there were no exceptions this year. They stated the audit process reviews the reasonableness of the assumptions used by the system's actuary and discussed current regulatory matters in terms of reporting pension liability. They will report back to the Board when the audit is completed.

BATTERYMARCH, MAY 1989, PERFORMANCE
ACCEPTED AS INFORMATIONAL

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

SEI'S PERFORMANCE REVIEW 1989
ACCEPTED AS INFORMATIONAL

The Board accepted as informational SEI's Performance Review for the first quarter of 1989.

LEXINGTON CAPITAL MANAGEMENT, INC., MAY 1989 PERFORMANCE
ACCEPTED AS INFORMATIONAL

The Board accepted as informational Lexington Capital Management, Inc., May 1989 performance report.

GENERAL COMMUNICATIONSARTICLE ON AXE-HOUGHTON MANAGEMENT, INC.
ACCEPTED AS INFORMATIONAL

The Board accepted as informational an article on Axe-Houghton Management, Inc. that appeared in the Gannett Westchester Newspaper on April 30, 1989.

There being no further business the meeting was adjourned at 3:15 p.m. to meet again at the call of the chair.

SCERS - STATEMENT OF ASSETS AVAILABLE FOR INVESTMENT
AS OF APRIL 30, 1989

| | CASH | | INVESTMENTS @ COST | AMOUNT 1/ AVAILABLE FOR INVESTMENT |
|------------------------------------|------------|------------|-----------------------|--|
| | POOL A | PAC HOR | | |
| EXTERNAL CONTRIBUTIONS | (278,748) | | | (278,748) |
| FIXED: | | | | |
| BONDS, 2ND TD'S, & MTG. BK. CERTS. | 11,602,750 | 1,086,020 | 159,944,224 | 172,632,995 |
| REAL ESTATE MORTGAGE | 2,525,061 | | 5,627,258 | 8,152,319 |
| UTILITY STOCKS | 1,518,247 | 1,394,470 | 14,086,662 | 16,999,379 |
| TOTAL FIXED | 15,646,059 | 2,480,490 | 179,658,144 | 197,784,693 |
| EQUITY: | | | | |
| AXE-HOUGHTON | 2,798,748 | 2,135,717 | 8,327,361 | 13,261,827 |
| BATTERYMARCH | | 2,143,178 | 27,312,195 | 29,455,373 |
| DELAWARE | | 3,713,703 | 27,073,328 | 30,787,032 |
| LEXINGTON | 22,886 | 2,812,137 | 10,355,938 | 13,190,960 |
| NEWBOLDS | 3,311,921 | 5,559,725 | 21,286,615 | 30,158,260 |
| GOLD & SILVER | 317,398 | | 3,020,675 | 3,338,073 |
| REAL ESTATE EQUITY | 3,515,986 | | 22,581,847 | 26,097,834 |
| LESS: LOAN PAYABLE | | | (6,000,000) | (6,000,000) |
| TOTAL EQUITY | 9,966,939 | 16,364,460 | 113,957,959 | 140,289,358 |
| TOTAL | 25,334,250 | 18,844,950 | 293,616,103 | 337,795,303 |

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 APRIL 30, 1989

| | CASH | | INVESTMENTS @ MARKET | TOTAL ASSETS @ MARKET |
|------------------------------------|------------|------------|-------------------------|--------------------------|
| | POOL A | PAC HOR | | |
| EXTERNAL CONTRIBUTIONS | (278,748) | | | (278,748) |
| FIXED: | | | | |
| BONDS, 2ND TD'S, & MTG. BK. CERTS. | 11,602,750 | 1,086,020 | 151,028,357 | 164,517,127 |
| REAL ESTATE MORTGAGE | 2,525,061 | | 5,373,787 | 8,398,848 |
| UTILITY STOCKS | 1,518,247 | 1,394,470 | 13,238,888 | 16,201,605 |
| TOTAL FIXED | 15,646,059 | 2,480,490 | 170,991,032 | 189,117,581 |
| EQUITY: | | | | |
| AME-HOUGHTON | 2,798,748 | 2,135,717 | 10,279,500 | 15,213,965 |
| BATTERYMARCH | | 2,143,178 | 31,483,897 | 33,627,075 |
| DELAWARE | | 3,713,703 | 29,792,136 | 33,505,839 |
| LEXINGTON | 22,886 | 2,812,137 | 12,808,388 | 15,643,411 |
| NEWBOLDS | 3,311,921 | 5,559,725 | 24,205,663 | 33,077,309 |
| GOLD & SILVER | 317,397 | | 2,194,875 | 2,512,272 |
| REAL ESTATE EQUITY | 3,515,986 | | 22,580,000 | 26,095,986 |
| LESS: LOAN PAYABLE | | | (6,000,000) | (6,000,000) |
| TOTAL EQUITY | 9,966,938 | 16,364,460 | 127,344,459 | 153,675,858 |
| TOTAL | 25,334,249 | 18,844,950 | 298,335,491 | 342,514,691 |

SCERG - STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR INVESTMENT
FOR THE PERIOD 3/31/89 - 4/30/89

| | BALANCE 3/31/89 | INTEREST INCOME | | | | GAIN (LOSS) ON SALES | NET RENTAL INCOME | INTEREST EXPENSE | NET EXTERNAL CONTRIB. | CONTRIB. TRANSFER | BALANCE 4/30/89 |
|-------------------------------------|--------------------|-----------------|---------|------------|-----------|-------------------------|-------------------------|---------------------|-----------------------------|----------------------|--------------------|
| | | POOL A | PAC HOR | INVESTMENT | DIV | | | | | | |
| EXTERNAL CONTRIBUTION | 965,699 | | | | | | | | (1,244,446) | (278,748) | |
| FIXED: | | | | | | | | | | | |
| BOND, 2ND TR'S, & MTG. BK. CERTS | 171,376,434 | 0 | 10,656 | 778,381 | | (32,477) | | | | 172,632,994 | |
| REAL ESTATE MORTGAGES | 9,097,704 | 0 | | 54,615 | | | | | | 8,152,319 | |
| UTILITY STOCKS | 16,897,929 | 0 | 9,468 | | 91,983 | 0 | | | | 16,989,379 | |
| EQUITY: | | | | | | | | | | | |
| AXE-HOUGHTON | 13,017,076 | 0 | 14,403 | | 7,245 | 223,195 | | | | 13,261,826 | |
| BATTERYMARCH | 29,034,908 | | 19,405 | | 71,840 | 323,220 | | | | 29,455,373 | |
| DELAWARE | 30,627,511 | | 22,556 | | 163,848 | 27,915 | | | | 30,787,632 | |
| LEDXINGTON | 12,976,468 | 0 | 10,555 | | 11,177 | 192,760 | | | | 13,190,960 | |
| HOMELDS | 30,394,925 | 0 | 12,687 | | 37,918 | (207,470) | | | | 30,150,266 | |
| GOLD & SILVER | 3,335,632 | | | 2,241 | | | | | | 3,338,073 | |
| REAL ESTATE EQUITY | 25,969,834 | 0 | | | | | 177,375 | (49,375) | | 26,097,834 | |
| LOAN PAYABLE | (6,000,000) | | | | | | | | | (6,000,000) | |
| TOTAL | 337,194,419 | 0 | 100,326 | 635,236 | 329,010 | 453,055 | 177,375 | (49,375) | (1,244,446) | 337,795,302 | |
| YEAR TO DATE | 315,753,098 | 1,209,455 | 737,646 | 11,603,373 | 3,852,181 | 2,589,603 | 1,142,374 | (493,750) | 1,401,321 | 337,795,301 | |

SCERS - STATEMENT OF ESTIMATED INCOME & RATES OF RETURN
AS OF APRIL 30, 1989

| | COST | MARKET | ESTIMATED ANNUAL INCOME | EST. RATE AT COST | EST. RATE AT MARKET |
|---------------------------------|--------------------|--------------------|-------------------------|-------------------|---------------------|
| CASH | | | | | |
| CITY POOL A | 25,334,250 | 25,334,250 | 2,216,746 | 0.75% | 0.75% |
| FAC HORIZONS MONEY MARKET FUND | 18,844,950 | 18,844,950 | 1,750,636 | 9.29% | 9.29% |
| SCERS INVESTMENT POOLS | | | | | |
| FIXED: | | | | | |
| BONDS, 2ND TD'S & MTG. BK CERTS | 159,944,224 | 151,828,357 | 14,434,275 | 9.02% | 9.51% |
| REAL ESTATE MORTGAGE | 5,627,258 | 5,873,787 | 658,496 | 11.70% | 11.21% |
| UTILITY STOCKS | 14,086,662 | 13,288,888 | 910,760 | 6.47% | 6.85% |
| EQUITY: | | | | | |
| AXE-HOUGHTON | 8,327,361 | 10,279,500 | 90,288 | 1.00% | 0.88% |
| BATTERYMARCH | 27,312,195 | 31,483,897 | 871,807 | 3.19% | 2.77% |
| DELAWARE | 27,073,328 | 29,792,136 | 1,376,098 | 5.08% | 4.62% |
| LEXINGTON | 10,355,938 | 12,808,388 | 250,405 | 2.42% | 1.96% |
| NEWBOLDS | 21,286,615 | 24,205,663 | 911,758 | 4.20% | 3.77% |
| GOLD & SILVER | 3,020,675 | 2,194,875 | | | |
| REAL ESTATE EQUITY | 22,581,847 | 22,580,000 | 1,411,500 1/ | 6.25% | 6.25% |
| LOAN PAYABLE | (6,000,000) | (6,000,000) | | | |
| TOTAL | 337,795,303 | 342,514,691 | 24,882,829 2/ | 7.37% | 7.26% |

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 APRIL 30, 1989

| | 1/ COST | 1/ MARKET | % AUTHORIZED | DOLLARS AUTHORIZED | 2/ OVER (UNDER) INVESTED, BASED UPON COST/MARKET |
|-----------------------------------|-------------|-------------|--------------|-----------------------|--|
| EXTERNAL CONTRIBUTIONS | (278,748) | (278,748) | | | |
| FIXED: | | | | | |
| BONDS, 2ND TD'S, & MTG BK. CERTS. | 172,632,995 | 164,517,127 | 50.50% | 170,506,628 | 2,046,367 |
| REAL ESTATE MORTGAGE | 8,152,319 | 8,090,848 | 2.50% | 3,444,803 | (46,034) |
| UTILITY STOCKS | 16,999,379 | 16,201,605 | 5.00% | 16,889,765 | 109,614 |
| TOTAL FIXED | 197,784,693 | 189,117,581 | 58.00% | 195,921,276 | 2,109,946 |
| EQUITY: | | | | | |
| AXE-HOUGHTON | 13,261,827 | 15,213,965 | 4.00% | 13,511,812 | 1,702,153 |
| BATTERYMARCH | 29,455,373 | 33,627,075 | 9.00% | 30,401,577 | 3,225,498 |
| DELAWARE | 33,787,032 | 33,505,839 | 9.00% | 30,401,577 | 3,104,262 |
| LEXINGTON | 13,190,960 | 15,643,411 | 4.00% | 13,511,812 | 2,131,598 |
| NEWBOLDS | 30,158,260 | 33,077,309 | 9.00% | 30,401,577 | 2,675,731 |
| GOLD & SILVER | 3,338,073 | 2,512,272 | 1.00% | 3,377,953 | (39,880) |
| REAL ESTATE EQUITY | 26,097,834 | 26,095,986 | 6.00% | 20,267,718 | (169,885) |
| LESS: LOAN PAYABLE | (6,000,000) | (6,000,000) | | | |
| TOTAL EQUITY | 140,289,358 | 153,675,858 | 42.00% | 141,874,027 | 12,629,478 |
| TOTAL | 337,795,303 | 342,514,691 | 100.00% | 337,795,303 | 14,739,424 |

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 4/30/89, \$14,460,676 (\$14,739,424 - \$278,748) 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.

SCERS - STATEMENT OF PURCHASES AND SALES ACTIVITY
FOR APRIL 1989

1]

| PORTFOLIO MANAGER | PURCHASES (COST) | (PROCEEDS) | SALES (COST) | GAIN/(LOSS) |
|-----------------------|---------------------|---------------------|-----------------------|-------------------|
| FIXED: | | | | |
| BONDS | \$0 | \$468,500 | (\$495,500) | (\$27,000) |
| MTG BACKED | | \$306,196 | (\$311,673) | (\$5,477) |
| 2ND TD'S | | | | \$0 |
| REAL ESTATE MORTGAGES | | | | \$0 |
| UTILITY STOCKS | \$0 | \$0 | \$0 | \$0 |
| TOTAL FIXED | \$0 | \$774,696 | (\$807,173) | (\$32,477) |
| EQUITY: | | | | |
| AXE-HOUGHTON | \$1,326,091 | \$1,857,123 | (\$1,634,018) | \$223,105 |
| BATTENMARCH | \$1,117,618 | \$2,100,862 | (\$1,769,104) | \$329,220 |
| DELAWARE | \$317,915 | \$897,723 | (\$869,807) | \$27,916 |
| LEXINGTON | \$905,222 | \$1,842,190 | (\$1,649,431) | \$192,760 |
| NEWBOLDS | \$1,009,011 | \$3,441,158 | (\$3,728,628) | (\$287,470) |
| GOLD & SILVER | | | | \$0 |
| TOTAL EQUITY | \$4,675,857 | \$10,139,056 | (\$9,650,907) | \$485,532 |
| TOTAL | \$4,675,857 | \$10,913,752 | (\$10,458,160) | \$455,054 |

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