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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
<b>CASH</b>					
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					
<b>FIXED:</b>					
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%
<b>EQUITY:</b>					
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)			
<b>TOTAL</b>	<u>337,795,303</u>	<u>342,514,691</u>	<u>24,882,829 2/</u>	<u>7.37%</u>	<u>7.26%</u>

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)
<b>FIXED:</b>				
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
<b>TOTAL FIXED</b>	<b>\$0</b>	<b>\$774,696</b>	<b>(\$807,173)</b>	<b>(\$32,477)</b>
<b>EQUITY:</b>				
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
<b>TOTAL EQUITY</b>	<b>\$4,675,857</b>	<b>\$10,139,056</b>	<b>(\$9,650,907)</b>	<b>\$485,532</b>
<b>TOTAL</b>	<b>\$4,675,857</b>	<b>\$10,913,752</b>	<b>(\$10,458,160)</b>	<b>\$455,054</b>

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