

August 27, 1990

MINUTES
REGULAR MEETING OF THE
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD
August 27, 1990

CALL TO ORDER AND ROLL CALL

The Administration, Investment and Fiscal Management Board met in regular session in Conference Room 101, 921 10th Street, at 1:30 p.m. on August 27, 1990.

PRESENT: Crist, DeCamilla, Frierson, Friery, Masuoka

ABSENT: None

CONSENT CALENDAR

MINUTES OF REGULAR MEETING HELD JULY 23, 1990
APPROVED

The Board received and reviewed the minutes of the regular meeting held July 23, 1990.

It was moved and seconded to approve the minutes.

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

INVESTMENTS - TREASURER'S ACTIVITY REPORT
ACCEPTED

The Board received the June 1990 Treasurer's Investment Activity Report. Deborah Carter, Investment Officer, reviewed the investment report with the Board.

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

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

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REPORTS OF CONSULTANTS AND ADVISORSCITY TREASURER'S UTILITY STOCK, JUNE 1990

ACCEPTED

The Board received the quarterly SCERS Utility Stock Portfolio for the period ending June 30, 1990. Deborah Carter reviewed the portfolio with the Board.

Mr. Crist moved to accept the Utility Stock Portfolio. Ms. Frierson seconded the motion which passed with the following vote:

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

NEWBOLD'S ASSET, JUNE 30, 1990 QUARTERLY REPORT

ACCEPTED

The Board received the June 30, 1990 quarterly report from Newbold's Asset Management Inc.

Harry Hiestand reviewed the quarterly report with Board members.

Following the review, Mr. Friery added that since Mr. Hiestand would be leaving the meeting early, he requested any input he had regarding the frequency of investment manager presentations. Mr. Hiestand stated that he felt the Board would be better served if his firm did it's homework in the office rather than coming back in a short three-month period to report. He felt that semiannual presentations would be more suitable, but added he was comfortable with quarterly reports if that was the wish of the Board.

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

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

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DELAWARE INVESTMENT ADVISERS, JUNE 30, 1990 QUARTERLY REPORT
ACCEPTED

The Board received the June 30, 1990 quarterly report from Delaware Investment Advisers.

George Deming reviewed the quarterly report with Board members.

Mr. Deming was questioned regarding his opinion on the frequency of investment manager presentations to the Board. He stated that his firm's investments were long-term oriented and, therefore, semiannual presentations would be more appropriate.

Mr. Friery moved to accept the report. The motion was seconded by Jack Crist. The motion was carried by the following vote:

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

NOTE: Harry Hiestand and George Deming left the meeting.

REAL ESTATE ADVISOR'S REPORT
ACCEPTED

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

Mr. Smith informed the Board that PM Realty Advisors are continuing to do their due diligence work relative to their offer to purchase the Enterprise Boulevard property. He will keep the Board informed of the progress of this sale as it materializes.

He added that he is awaiting the signed loan commitment on the Alhambra and "O" Office Building. The delay is due to the borrower being on an extended vacation. Mr. Smith expects this to be resolved momentarily.

The Board questioned Mr. Smith on his recommendation regarding the

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frequency of investment managers presentations. Mr. Smith stated that the terms of his contract require monthly reports to the Board. It was suggested by Board members that perhaps the contract should be reviewed.

Following the discussion, Mr. Friery moved to accept the real estate report. The motion was seconded by Jack Crist and was carried by the following vote:

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

BATTERYMARCH, JUNE 30, 1990 QUARTERLY REPORT
ACCEPTED

The Board received the June 30, 1990 quarterly report from Batterymarch. Since no representatives from Batterymarch were present, Tom Friery spoke on their performance. Deborah Carter also reported to Board members on her briefing with Batterymarch.

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

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

LEXINGTON CAPITAL MANAGEMENT, INC., JUNE 30, 1990 QUARTERLY REPORT
ACCEPTED

The Board received the June 30, 1990 quarterly report from Lexington Capital Management, Inc.

Ralph D'Agostini reviewed the quarterly report for Board members.

Mr. Friery questioned Mr. D'Agostini regarding his thoughts on the frequency of investment manager presentations. Mr. D'Agostini noted that since his firm is local, there is no real problem with making quarterly presentations. He added, however, that with long-term funds, semiannual

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presentations would be more beneficial.

Mr. Friery moved to accept the quarterly report. The motion was seconded by Ms. Frierson and the vote carried as follows:

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

AXE-HOUGHTON MANAGEMENT, INC., JUNE 30, 1990 QUARTERLY REPORT
ACCEPTED

The Board received the June 30, 1990 quarterly report from Axe-Houghton Management, Inc.

Porter Sutro and Stephen Darby reviewed the report. They discussed the current market situation.

Mr. Crist questioned what percentage of the portfolio is not domestic. It was reported that 23% of the portfolio is invested in Canadian stocks and 2% in other non-domestic stocks.

Mr. Sutro and Mr. Darby were questioned for input on the issue of frequency of presentations. They stated that they felt semiannual presentations were adequate.

Mr. Friery moved to accept the quarterly report and the motion was seconded by Jack Crist and carried with the following vote:

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

POLICY MATTERS TO BE CONSIDERED AND ACTED UPON

FREQUENCY OF INVESTMENT MANAGERS PRESENTATIONS
DISCUSSED - RECOMMENDATION MADE

Board members discussed the input they had received from the various investment managers. Mr. Crist suggested that perhaps the presentations should be semiannual, with the different managers rotated. Staff was

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requested to draft a manager rotation schedule for the next meeting.

Ms. Masuoka stated that she felt having all the managers make presentations at the same time provided for a better opportunity to make comparisons.

Mr. Friery moved that the Board authorize staff to develop a schedule to take into account advisors presentation format so that managers meet on a rotation basis no more than twice a year, excluding the real estate manager who would provide quarterly reports. The motion was seconded by Mr. DeCamilla and carried with the following vote:

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

There being no further business, the meeting was adjourned at 3:20 p.m. to meet again at the call of the chair.

ATTACHMENT A-1

SCERS - STATEMENT OF ASSETS AVAILABLE FOR INVESTMENT
AS OF JUNE 30, 1990

	CASH		INVESTMENTS @ COST	AMOUNT 1/ AVAILABLE FOR INVESTMENT
	POOL A	PAC HOR		
OPERATING CASH	(1,543,054)			(1,543,054)
FIXED:				
BONDS, 2ND TD'S, & MFG. BK. CERTS.	373,273	1,139,202	142,175,315	143,607,070
REAL ESTATE MORTGAGE	2,757,017		8,274,761	11,031,778
UTILITY STOCKS	908,412	1,073,747	11,642,957	13,625,115
TOTAL FIXED	4,038,702	2,213,029	162,093,033	168,344,763
EQUITY:				
AXE-HOUGHTON	11,405	2,791,533	7,631,441	10,434,379
BATTERMARCH		430,273	9,434,159	9,864,432
DELAWARE		3,651,758	24,347,934	27,999,692
LEXINGTON	764	1,694,803	11,104,102	12,799,670
NEWBOLDS	51,508	2,206,081	21,044,112	23,302,502
GOLD & SILVER	0		0	0
REAL ESTATE EQUITY	2,801,378		23,039,904	25,841,281
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	2,865,054	10,775,249	90,601,653	104,241,955
SUB-TOTAL	5,360,692	12,980,278	252,694,685	271,043,655
SCERS SAFEKEEPING II 2/	0	0	0	0
GRAND TOTAL	5,360,692	12,980,278	252,694,685	271,043,655

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 were liquidated as of June 30, 1989. During the month of July 1989, the amount representing these assets was transferred to a separate account at Security Pacific National Bank and invested in short term securities. During the month of January 1990, \$103,339,314.34 was transferred to PERS.

SCERS - STATEMENT OF ASSETS @ MARKET VALUE
AS OF JUNE 30, 1990

	CASH		INVESTMENTS @ MARKET	TOTAL ASSETS @ MARKET
	POOL A	FAC HOR		
OPERATING CASH	(1,543,064)			(1,543,064)
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	373,273	1,139,202	140,969,674	142,482,229
REAL ESTATE MORTGAGE	2,757,017		8,633,078	11,390,095
UTILITY STOCKS	908,412	1,073,747	11,192,563	13,174,721
TOTAL FIXED	4,038,702	2,213,029	160,796,114	167,047,845
EQUITY:				
AXE-HOUGHTON	11,405	2,791,533	9,150,824	11,953,762
BATTERY-MARCH		430,273	10,281,737	10,712,010
DELAWARE		3,651,758	26,133,413	29,705,171
LEXINGTON	764	1,694,003	12,010,050	13,705,617
NEWBOLDS	51,508	2,206,081	22,963,023	25,221,412
GOLD & SILVER	0		0	0
REAL ESTATE EQUITY	2,801,370		22,580,000	25,381,370
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	2,855,054	10,775,249	97,119,047	110,759,350
SUB-TOTAL	5,360,692	12,988,270	257,915,162	276,264,131
SCERS SAFEKEEPING II	0	0	0	0
GRAND TOTAL	5,360,692	12,988,270	257,915,162	276,264,131

SCERS - STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR INVESTMENT
FOR THE PERIOD 5/31/90 - 6/30/90

	BALANCE 5/31/90	INTEREST INCOME				GAIN (LOSS) ON SALES	NET RENTAL INCOME	INTEREST EXPENSE	NET EXTERNAL CONTRIB.	CONTRIB. TRANSFER	BALANCE 6/30/90
		POOL A	PAC INC	INVESTMENT	DIV						
OPERATING CASH	(3,110,091)								636,607	930,420	(1,543,064)
FIXED:											
BONDS, BND TO'S, & HTG. CK. CERTS	143,230,243	445,418	3,522	919,643		4,209				(923,165)	143,607,809
REAL ESTATE MORTGAGES	10,860,560	87,586		83,230							11,031,780
UTILITY STOCKS	13,601,105	(23,479)	11,431			0					13,625,115
EQUITY:											
AXE-HOUGHTON	10,345,911	1,612	13,077			5,735	68,046				10,434,381
BATTERYFORD	9,811,792		32,938			14,258	5,444				9,864,432
DELAWARE	27,063,262		26,869			109,561	0				27,999,692
LOCKINGTON	12,756,505	1,187	23,956			18,320	0				12,799,668
MENCOLOG	23,049,314	841	148,531			7,607	96,003				23,302,502
GOLD & SILVER	23,382	(15,498)		7,370			0			(15,254)	(0)
REAL ESTATE EQUITY LOAN PAYABLE	25,018,597 (6,600,000)	(62,316)						134,375	(49,375)		25,841,281 (6,600,000)
CLD-TOTAL	260,250,660	435,751	260,324	1,010,246	191,359	173,700	134,375	(49,375)	636,607	(0)	271,043,654
SCERS SAFEGUARDING II	0		0	0	0				0		0
GRAND TOTAL	260,250,660	435,751	260,324	1,010,246	191,359	173,700	134,375	(49,375)	636,607	(0)	271,043,654
YEAR TO DATE:											
PERMANENT ASSETS	349,384,263	1,022,290	1,774,205	11,475,238	3,083,265	8,233,679	1,735,071	(592,500)	11,145,197	(116,217,074)	271,043,654
SCERS SAFEGUARDING II			211,432	3,971,457	900,693	27,267			(121,325,923)	116,217,074	0
TOTAL YEAR TO DATE	349,384,263	1,022,290	1,985,637	15,446,695	3,983,958	8,260,946	1,735,071	(592,500)	(110,180,726)	0	271,043,654

ATTACHMENT A-3

SCERS - STATEMENT OF ESTIMATED INCOME & RATES OF RETURN
AS OF JUNE 30, 1990

	COST	MARKET	ESTIMATED ANNUAL INCOME	EST. RATE AT COST	EST. RATE AT MARKET
CASH					
CITY POOL A	5,360,692	5,360,692	455,659	8.50%	8.50%
PAC HORIZONS MONEY MARKET FUND	12,988,278	12,980,278	1,020,879	7.86%	7.86%
FIXED:					
BONDS, 2ND TD'S & MTG. BK CERTS	142,175,315	140,969,674	13,036,316	9.17%	9.25%
REAL ESTATE MORTGAGE	8,274,761	8,633,878	842,711	10.18%	9.76%
UTILITY STOCKS	11,642,957	11,192,563	718,402	6.17%	6.42%
EQUITY:					
AXE-HOUGHTON	7,631,441	9,150,824	16,530	0.22%	0.10%
BATTERYMARCHE	9,434,159	10,281,737	252,241	2.67%	2.45%
DELAWARE	24,347,934	26,133,413	1,264,811	5.19%	4.84%
LEXINGTON	11,104,102	12,010,050	338,017	3.04%	2.81%
NEWBOLDS	21,044,112	22,963,023	1,078,120	5.12%	4.70%
GOLD & SILVER	0	0			
REAL ESTATE EQUITY	23,039,904	22,580,000	1,941,500 1/	8.43%	8.60%
LOAN PAYABLE	(6,000,000)	(6,000,000)			
SUB-TOTAL	271,043,655	276,264,131	20,965,185 2/	7.73%	7.59%
SCERS SAFERKEEPING II	0	0	0	0.00%	0.00%
GRAND TOTAL	271,043,655	276,264,131	20,965,185	7.73%	7.59%

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 1988/89 was \$8.6 million. Administrative Expenses for this same period were \$82,000 for Banking and Trustee Fees, \$665,000 for Investment Manager Fees, \$592,500 for Interest Expense on Note Payable (Discovery Plaza) \$1,060,000 for Real Estate Maintenance and Repair Expenses. Although we are unable to estimate Capital Gains for Fiscal Year 1989, 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 JUNE 30, 1990

	1/ COST	1/ MARKET	% AUTHORIZED	DOLLARS AUTHORIZED	2/ OVER (UNDER) INVESTED, BASED UPON COST/MARKET
OPERATING CASH	(1,543,064)	(1,543,064)			(1,543,064)
FIXED:					
BONDS, 2ND TD'S, & MTG BK. CERTS.	143,687,870	142,482,229	51.00%	138,232,264	5,455,606
REAL ESTATE MORTGAGE	11,031,778	11,390,895	4.00%	10,841,746	549,149
UTILITY STOCKS	13,625,115	13,174,721	5.00%	13,552,183	72,932
TOTAL FIXED	<u>168,344,763</u>	<u>167,047,845</u>	<u>60.00%</u>	<u>162,626,193</u>	<u>6,077,687</u>
EQUITY:					
AXE-HOUGHTON	10,434,379	11,953,762	4.00%	10,841,746	1,112,016
BATTERY MARCH	9,864,432	10,712,010	4.00%	10,841,746	(129,737)
DELAWARE	27,999,692	29,705,171	11.00%	29,814,802	(29,631)
LEXINGTON	12,799,670	13,705,617	5.00%	13,552,103	153,434
NEWBOLDS	23,302,502	25,221,412	9.00%	24,333,929	827,403
GOLD & SILVER	0	0	0.00%	0	0
REAL ESTATE EQUITY	25,041,281	25,381,378	7.00%	18,973,056	868,225
LESS: LOAN PAYABLE	(6,000,000)	(6,000,000)			
TOTAL EQUITY	<u>104,241,955</u>	<u>110,759,350</u>	<u>40.00%</u>	<u>108,417,462</u>	<u>2,801,792</u>
SUB-TOTAL	<u>271,043,655</u>	<u>276,264,131</u>	<u>100.00%</u>	<u>271,043,655</u>	<u>7,336,415</u>
SCERS SAFEGUARDING II	0	0	100.00%	0	0
GRAND TOTAL	<u>271,043,655</u>	<u>276,264,131</u>	<u>100.00%</u>	<u>271,043,655</u>	<u>7,336,415</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 12/31/89 and became effective 2/28/90.

Should the Board reallocate as of June 30, 1990, \$7,336,415 would be allocated to the managers according to the percentages authorized.

SCERS - STATEMENT OF PURCHASES AND SALES ACTIVITY
FOR JUNE 1990

1]

PORTFOLIO MANAGER	PURCHASES (COST)	(PROCEEDS)	SALES (COST)	GAIN/(LOSS)
FIXED:				
BONDS	\$0	\$88,307	(\$85,882)	\$2,425
MTG BACKED		\$129,218	(\$127,435)	\$1,783
2ND TD'S	\$0	\$0	\$0	\$0
REAL ESTATE MORTGAGES	\$0	\$0	\$0	\$0
UTILITY STOCKS	\$0	\$0	\$0	\$0
TOTAL FIXED	\$0	\$217,525	(\$213,317)	\$4,208
EQUITY:				
AXE-HUGHTON	\$922,124	\$2,220,778	(\$2,152,732)	\$68,046
BATTERYMARCH	\$492,830	\$651,014	(\$645,570)	\$5,444
DELAWARE	\$515,255	\$0	\$0	\$0
LEXINGTON	\$544,479	\$0	\$0	\$0
NEWBOLDS	\$964,740	\$1,130,910	(\$1,034,902)	\$96,009
GOLD & SILVER	\$0	\$0	\$0	\$0
TOTAL EQUITY	\$3,439,428	\$4,002,702	(\$3,033,203)	\$169,499
SUB -TOTAL	\$3,439,428	\$4,220,227	(\$4,046,520)	\$173,707
SCERS SAFEKEEPING II	\$0	\$0	\$0	\$0
GRAND TOTAL	\$3,439,428	\$4,220,227	(\$4,046,520)	\$173,707

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