

MINUTES
SPECIAL MEETING OF THE
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD
FEBRUARY 14, 1986

The Administration, Investment and Fiscal Management Board met in special session at 801 - 9th Street, Conference Room 103, at 9:00 a.m. on February 14, 1986.

PRESENT: Crist, DeCamilla, Friery, Moore, Wolford

POLICY MATTERS TO BE CONSIDERED AND ACTED UPON

INVESTMENT MANAGERS' PERFORMANCE REVIEW

ASSET REALLOCATION

The Chairman opened the discussion regarding the performance of the system's investment managers and the asset reallocation policy of the Board. Also present were Joseph Perna of SEI, Deputy City Attorney William Carnazzo and Assistant City Treasurer Donald Sperling.

Each member presented his views on the performances of the investment managers and the various asset allocations.

Mr. Moore was excused from the meeting at 10:15 a.m.

Following lengthy discussion, Mr. Crist moved that effective immediately the Board

- 1) retain the current asset mix of 56% fixed and 44% equities;
- 2) direct the Secretary and legal counsel to begin negotiating a contract with SEI for a long-term planning asset diversification study;
- 3) direct the Secretary and legal counsel to negotiate a contract agreement with SEI for an investment manager search for up to two new equity managers, such contract fee not to exceed \$20,000., and authorize the Chairman to sign such contract;
- 4) terminate the Loomis, Sayles & Company contract for stock options services at the earliest legal date;

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- 5) increase the real estate equity allocation from 3% to 6%;
- 6) increase the Alliance Capital allocation from 14% to 15%;
- 7) direct the City Treasurer to submit a plan to implement a bond substitute program;
- 8) hold Lehman Management to their current investments in stocks and have any cash at 12/31/85 (or report date, whichever cash value is higher) to be returned to the system for the near term;
- 9) combine the allocations for corporate bonds, second trust deeds and mortgage backed certificates into one fixed income category.

The motion was seconded by Mr. Wolford.

Considerable discussion ensued regarding the motion. The following should clarify the intent of the motion made: The Board concurred that Lehman Management as emerging growth manager would be replaced and that potentially 2 additional equity core managers would be retained by the Board. Under such a plan the Board's investment strategy would be to have the following for equity investment:

Alliance Capital	15%
Selected equity core manager 1	11%
Selected equity core manager 2	11%
Real Estate Equity	6%
Hard Assets	1%
TOTAL	<u>44%</u>

However, after discussion it was commented that it would not be prudent to terminate existing managers at this time and leave the money in cash reserves at lower levels of earnings than currently available in the market place. Rather, it was the Board's intention to permit existing managers a time period while the Board was reviewing new managers for consideration to continue investment in the equity market as opposed to cash reserves. Therefore, as a result of the time lag necessary to retain new equity managers, it would not functionally be possible to establish the

desired longer term investment asset diversification percentages until all new managers were on board. Therefore, pending the ultimate selection of new managers, the Board's strategy will be:

Alliance Capital	15%
Batterymarch Financial	14%
Lehman Management Brothers	7%
Real Estate Equity	6%
Hard Assets	1%
Miscellaneous Equity	1%
TOTAL	<u>44%</u>

It was understood by the Board that it will be merely a matter of time until the emerging growth manager will be terminated and the possibility that Batterymarch might either be eliminated or retained at a lower level of money than currently authorized.

Further, the City Treasurer was requested to submit a plan to develop an in-house investment management program to invest in electric utility common stocks as a diversification measure to supplement the fixed income bond investments. The program was referred to as a bond substitute program and as such was not envisioned to be greater than 5.5% of portfolio assets at this time.

Finally, it was pointed out that after discussion with legal counsel, the Board voted to terminate the existing contract with Loomis, Sayles and Company as a result of the previous performance of the full options management program. However, the Board desired to continue a covered call options program and the Chairman was directed to discuss this with the current options manager and encourage him to submit a proposal to continue a covered call program at the upcoming February Board meeting.

After discussion, the motion was carried by the following vote:

AYES: Crist, DeCamilla, Friery, Wolford

NOES: None

Mr. Carnazzo informed the Board that he will present a proposed resolution which will cover the motion of the Board and draft a letter terminating the services of Loomis, Sayles & Company for the Chairman's signature.

There being no further business, ~~the meeting was adjourned at 11:25 a.m. to~~ meet again at the call of the chair.