

February 25, 1991

MINUTES  
REGULAR MEETING OF THE  
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM  
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD  
February 25, 1991

CALL TO ORDER AND ROLL CALL

The Administration, Investment and Fiscal Management Board met in regular session in Conference Room 101, 921 Tenth Street, at 1:30 p.m. on February 25, 1991.

PRESENT: Friery, Masuoka, Crist, DeCamilla

ABSENT: Frierson

CONSENT CALENDARELECTION OF VICE CHAIRMAN FOR 1991

Mr. Crist nominated Thomas Friery to be Vice Chairman for 1991. The nomination was seconded by Ms. Masuoka. Mr. Friery was elected Vice Chairman by the following vote:

AYES: Friery, Masuoka, Crist, DeCamilla

NOES:

MINUTES OF REGULAR MEETING HELD JANUARY 28, 1991

## APPROVED

The Board received and reviewed the minutes of the regular meeting held January 28, 1991. Mr. Friery moved the minutes be approved. The motion was seconded by Mr. Crist and was carried by the following vote:

AYES: Crist, Masuoka, Friery, DeCamilla

NOES: None

INVESTMENTS - TREASURER'S ACTIVITY REPORT

## ACCEPTED

The Board received the December 1990 Treasurer's Investment Activity Report. Michelle Stenoski, Investment Officer, reviewed the investment report with the Board.

Minutes amended at 3/25/91 meeting to reflect Mr. Crist resigned.

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

AYES: Crist, Masuoka, Friery, DeCamilla

NOES: None

REPORTS OF CONSULTANTS AND ADVISORS

CITY TREASURER'S UTILITY STOCK, DECEMBER 31, 1990 QUARTERLY REPORT  
ACCEPTED

The Board received the Treasurer's Utility Stock Fixed Income Alternative Portfolio results for the quarter ending December 30, 1990. Mr. Friery reviewed the report with the Board.

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

AYES: Crist, Masuoka, Friery, DeCamilla

NOES: None

REAL ESTATE ADVISOR'S REPORT  
ACCEPTED

The Board received the February, 1991 Real Estate Advisor's Report, submitted by W. Jim Smith of WJS & Associates. Mr. Smith reviewed the report with the Board.

Currently there is \$3.4 million in cash in the Real Estate Equity Pool A fund. Mr. Smith informed the Board that he is hesitate to purchase any real estate during this current market economics.

Mr. Smith informed the Board that he is awaiting the Board's decision on removing the three trees and repairing the sidewalk on the Discovery Plaza property.

After a brief discussion, Mr. Friery moved the trees be removed

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and replaced with the type of tree the City's arborist recommended, proceed with the repair of the damaged sidewalk and to accept the Real Estate Advisor's Report. The motion was seconded by Mr. DeCamilla and was carried by the following vote:

AYES: Crist, Masuoka, Friery, DeCamilla

NOES: None

Mr. DeCamilla informed the Board that he is still working on the draft letter to the City Council regarding the Community Center Expansion project.

CHANGE OF SERVICE AGREEMENT ON D. B. FITE LOAN  
APPROVE

The Board received a consent to assignment from Old Stone Mortgage Corporation to Meridian Mortgage Corporation.

Mr. Smith, Real Estate Advisor, informed the Board that currently the Old Stone Mortgage Corporation is servicing the the D. B. Fite Loan. The Old Stone Mortgage Corporation has been sold to the Meridian Mortgage Corporation. The Meridian Mortgage is a quality loan servicer active within the mortgage banking field and he recommended the Board execute the documents giving consent to the assignment.

Mr. Crist moved to execute the documents giving consent to the assignment. The motion was seconded by Mr. Friery and was carried by the following vote:

AYES: Crist, Masuoka, Friery, DeCamilla

NOES: None

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AXE-HOUGHTON MANAGEMENT, INC., DECEMBER 31, 1990 QUARTERLY REPORT  
ACCEPTED

The Board received the December 31, 1990 quarterly report from Axe-Houghton Management. Stephen J. Darby, President and CEO, and Porter Sutro, Vice President, reviewed the report with the Board.

Mr. Darby spoke on Axe-Houghton's recent reorganization and wanted to assure the Board that even though USF&G Financial Services is having problems, Axe-Houghton a subsidiary of USF&G, is a profitable organization.

After a lengthy discussion on the funds performance, and observations regarding the current equity environment from Mr. Sutro, Mr. Friery moved to accept the report. The motion was seconded by Ms. Masuoka and was carried by the following vote:

AYES: Crist, Masuoka, Friery, DeCamilla

NOES: None

BATTERYMARCH, DECEMBER 31, 1990 QUARTERLY REPORT  
ACCEPTED

The Board received the December 31, 1990 quarterly report from Batterymarch. Larry Spiedel reviewed the report with the Board.

The Board discussed in length their disappointment with the performance of Batterymarch since inception albeit a 10% compounded rate of return is nothing to be ashamed of; however, it does not meet the Board's investment objectives.

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

AYES: Crist, Masuoka, Friery, DeCamilla

NOES: None

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BATTERYMARCH, JANUARY, 1991 PERFORMANCE REPORT  
ACCEPTED AS INFORMATIONAL

The Board accepted as informational Batterymarch's January 1991 performance report.

LEXINGTON CAPITAL MANAGEMENT, INC., DECEMBER 31, 1990 QUARTERLY REPORT  
ACCEPTED

The Board received the December 31, 1990 quarterly report from Lexington Capital Management, Inc. Ralph D'Agostini reviewed the report with the Board.

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

AYES: Crist, Masuoka, Friery, DeCamilla

NOES: None

DELAWARE INVESTMENT ADVISERS, DECEMBER 31, 1990 QUARTERLY REPORT  
ACCEPTED

The Board received the December 31, 1990 quarterly report from Delaware Investment Advisers. In accordance with the Board's new policy on semi-annual presentations from investment managers, Delaware Investment Advisers submitted their quarterly report for review but were not present to make a verbal presentation.

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

AYES: Crist, Masuoka, Friery, DeCamilla

NOES: None

DELAWARE INVESTMENT ADVISERS, JANUARY 1991 PERFORMANCE REPORT  
ACCEPTED AS INFORMATIONAL

The Board accepted as informational Delaware Investment Advisers' January 1991 performance report.

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NEWBOLD'S ASSET MANAGEMENT, INC., DECEMBER 31, 1990 QUARTERLY REPORT  
ACCEPTED

The Board received the December 31, 1990 quarterly report from Newbold's Asset Management, Inc. In accordance with the Board's new policy on semi-annual presentations from investment managers, Newbold's Asset Management, Inc. submitted their quarterly report for review but were not present to make a verbal presentation.

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

AYES: Crist, Masuoka, Friery, DeCamilla

NOES: None

GENERAL COMMUNICATIONS

The Board accepted as informational an article from Pensions & Investments, January 7, 1991, issue regarding Batterymarch and an article from the December 1990 Institutional Investor regarding Axe-Houghton.

There being no further business, the meeting was adjourned at 4:10 p.m. to meet again at the call of the chair.

## ATTACHMENT A-1

SCERS - STATEMENT OF ASSETS AVAILABLE FOR INVESTMENT  
AS OF DECEMBER 31, 1990

	CASH		INVESTMENTS @ COST	AMOUNT 1/ AVAILABLE FOR INVESTMENT
	POOL A	PAC HOR		
OPERATING CASH	(2,431,232)			(2,431,232)
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	(2,236,876)	1,003,791	145,790,286	144,557,201
REAL ESTATE MORTGAGE	3,307,751		8,230,900	11,538,651
UTILITY STOCKS	420,427	178,813	13,437,347	14,036,587
TOTAL FIXED	1,491,302	1,182,605	167,458,532	170,132,439
EQUITY:				
AXE-HOUGHTON	8,861	364,769	9,840,668	10,214,298
BATTERYMARCH		1,206,725	8,318,394	9,525,119
DELAWARE		2,756,595	24,354,372	27,110,967
LEXINGTON	775	216,513	11,962,038	12,179,326
NEWBOLDS	52,264	3,646,098	21,313,341	25,011,704
REAL ESTATE EQUITY	3,492,787		23,039,904	26,532,690
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	3,554,686	8,190,700	92,828,718	104,574,104
GRAND TOTAL	2,614,756	9,373,304	260,287,250	272,275,311

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.

ATTACHMENT A-1A

SCERS - STATEMENT OF ASSETS @ MARKET VALUE  
AS OF DECEMBER 31, 1990

	CASH		INVESTMENTS @MARKET	TOTAL ASSETS @ MARKET
	POOL A	PAC HOR		
OPERATING CASH	(2,431,232)			(2,431,232)
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	(2,236,876)	1,003,791	146,087,704	144,854,620
REAL ESTATE MORTGAGE	3,307,751		8,604,645	11,912,397
UTILITY STOCKS	420,427	178,813	13,084,138	13,683,378
TOTAL FIXED	1,491,302	1,182,605	167,776,487	170,450,394
EQUITY:				
AXE-HOUGHTON	8,861	364,769	11,056,771	11,430,400
BATTERYMARCH		1,206,725	8,593,460	9,800,185
DELAWARE		2,756,595	25,509,973	28,266,568
LEXINGTON	775	216,513	12,392,659	12,609,947
NEWBOLDS	52,264	3,646,098	21,635,802	25,334,164
REAL ESTATE EQUITY	3,492,787		22,580,000	26,072,787
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	3,554,686	8,190,700	95,768,664	107,514,051
GRAND TOTAL	2,614,756	9,373,304	263,545,152	275,533,213



ATTACHMENT A-2

SCRS - STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR INVESTMENT  
FOR THE PERIOD 11/30/90 - 12/31/90

	BALANCE 11/30/90	INTEREST INCOME			DIV	GAIN (LOSS) ON SALES	NET RENTAL INCOME	INTEREST EXPENSE	NET EXTERNAL CONTRIB.	CONTRIB. TRANSFER	BALANCE 12/31/90
		POOL A	PAC HOR	INVESTMENT							
OPERATING CASH	(2,162,989)	(14,075)							(1,208,370)	954,202	(2,431,232)
FIXED:											
BONDS, 2ND TD'S, & MTG. BK. CRTS	143,606,217	(8,013)	20,165	934,037		958,997				(954,202)	144,557,201
REAL ESTATE MORTGAGES	11,438,585	23,843		76,223							11,538,651
UTILITY STOCKS	13,985,892	5,492	6,770		36,433	0					14,036,587
EQUITY:											
AIX-ROUGHTON	10,197,255	78	2,494		4,118	10,354					10,214,298
BATTERYMARCH	9,642,590		4,755		39,064	(161,290)					9,525,120
DELAWARE	27,388,664		21,187		123,399	(422,283)					27,110,967
LEXINGTON	12,144,925	6	2,299		32,096	0					12,179,326
NEWBOLDS	24,576,244	386	113,914		24,598	296,561					25,011,703
REAL ESTATE EQUITY LOAN PAYABLE	26,339,083 (6,000,000)	24,607					218,375	(49,375)			26,532,690 (6,000,000)
GRAND TOTAL	271,156,466	32,324	171,583	1,010,260	261,708	682,339	218,375	(49,375)	(1,208,370)	0	272,275,310
YEAR TO DATE:	271,043,656	61,616	891,321	7,103,077	1,431,252	(1,483,902)	941,250	(296,250)	(7,416,710)	0	272,275,310

ATTACHMENT A-3

SCERS - STATEMENT OF ESTIMATED INCOME & RATES OF RETURN  
AS OF DECEMBER 31, 1990

	COST	MARKET	ESTIMATED ANNUAL INCOME	EST. RATE AT COST	EST. RATE AT MARKET
<b>CASH</b>					
CITY POOL A	2,614,756	2,614,756	248,402	9.50%	9.50%
PAC HORIZONS MONEY MARKET FUND	9,373,304	9,373,304	707,684	7.55%	7.55%
<b>FIXED:</b>					
BONDS, 2ND TD'S & MTG. BK CERTS	145,790,286	146,087,704	13,532,319	9.28%	9.26%
REAL ESTATE MORTGAGE	8,230,900	8,604,645	801,211	9.73%	9.31%
UTILITY STOCKS	13,437,347	13,084,138	837,818	6.23%	6.40%
<b>EQUITY:</b>					
AXE-HOUGHTON	9,840,668	11,056,771	43,475	0.44%	0.39%
BATTERYMARCH	8,318,394	8,593,460	245,578	2.95%	2.86%
DELAWARE	24,354,372	25,509,973	1,228,382	5.04%	4.82%
LEXINGTON	11,962,038	12,392,659	273,687	2.29%	2.21%
NEWBOLDS	21,313,341	21,635,802	1,158,533	5.44%	5.35%
REAL ESTATE EQUITY	23,039,904	22,580,000	1,909,500 1/	8.29%	8.46%
LOAN PAYABLE	(6,000,000)	(6,000,000)			
<b>GRAND TOTAL</b>	<b>272,275,311</b>	<b>275,533,213</b>	<b>20,986,589 2/</b>	<b>7.71%</b>	<b>7.62%</b>

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. The Capital Gains for the prior fiscal year 1989/90 was \$8.5 million. Administrative Expenses for this same period were \$119,000 for Banking and Trustee Fees, \$748,000 for Investment Manager Fees, \$592,500 for Interest Expense on Note Payable (Discovery Plaza), and \$1,008,000 for Real Estate Maintenance and Repair Expenses. Although we are unable to estimate Capital Gains for Fiscal Year 1990/91, 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 DECEMBER 31, 1990

	1/ COST	1/ MARKET	% AUTHORIZED	DOLLARS AUTHORIZED	2/ OVER (UNDER) INVESTED, BASED UPON COST/MARKET
OPERATING CASH	(2,431,232)	(2,431,232)			(2,431,232)
FIXED:					
BONDS, 2ND TD'S, & MTG BK. CERTS.	144,557,201	144,854,620	51.00%	138,860,408	5,994,211
REAL ESTATE MORTGAGE	11,538,651	11,912,397	4.00%	10,891,012	1,021,384
UTILITY STOCKS	14,036,587	13,683,378	5.00%	13,613,766	422,821
TOTAL FIXED	170,132,439	170,450,394	60.00%	163,365,186	7,438,417
EQUITY:					
AXE-HOUGHTON	10,214,298	11,430,400	4.00%	10,891,012	539,388
BATTERYMARCH	9,525,119	9,800,185	4.00%	10,891,012	(1,090,828)
DELAWARE	27,110,967	28,266,568	11.00%	29,950,284	(1,683,716)
LEXINGTON	12,179,326	12,609,947	5.00%	13,613,766	(1,003,818)
NEWBOLDS	25,011,704	25,334,164	9.00%	24,504,778	829,386
REAL ESTATE EQUITY	26,532,690	26,072,787	7.00%	19,059,272	1,473,418
LESS: LOAN PAYABLE	(6,000,000)	(6,000,000)			
TOTAL EQUITY	104,574,104	107,514,051	40.00%	108,910,124	(936,170)
GRAND TOTAL	272,275,311	275,533,213	100.00%	272,275,311	4,071,015

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 December 31, 1990, \$4,071,015 would be allocated to the managers according to the percentages authorized.

ATTACHMENT A-5

1]

SCERS - STATEMENT OF PURCHASES AND SALES ACTIVITY  
FOR DECEMBER 1990

PORTPOLIO MANAGER	PURCHASES (COST)	(PROCEEDS)	SALES (COST)	GAIN/(LOSS)
<b>FIXED:</b>				
BONDS	\$34,903,991	\$32,250,905	(\$31,292,122)	\$958,783
MTG BACKED	\$0	\$36,476	(\$36,262)	\$214
2ND TD'S	\$0	\$0	\$0	\$0
REAL ESTATE MORTGAGES	\$0	\$0	\$0	\$0
UTILITY STOCKS	\$699,880	\$0	\$0	\$0
<b>TOTAL FIXED</b>	<b>\$35,603,871</b>	<b>\$32,287,381</b>	<b>(\$31,328,384)</b>	<b>\$958,997</b>
<b>EQUITY:</b>				
AXE-HOUGHTON	\$1,278,877	\$1,351,869	(\$1,341,516)	\$10,354
BATTERYMARCH	\$220,512	\$410,706	(\$571,996)	(\$161,290)
DELAWARE	\$3,153,832	\$2,239,903	(\$2,662,186)	(\$422,283)
LEXINGTON	\$0	\$0	\$0	\$0
NEWBOLDS	\$1,013,741	\$1,161,187	(\$864,626)	\$296,561
<b>TOTAL EQUITY</b>	<b>\$5,666,962</b>	<b>\$5,163,665</b>	<b>(\$5,440,323)</b>	<b>(\$276,658)</b>
<b>GRAND TOTAL</b>	<b>\$41,270,833</b>	<b>\$37,451,046</b>	<b>(\$36,768,707)</b>	<b>\$682,339</b>