

September 28, 1992

MINUTES
REGULAR MEETING OF THE
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD
September 28, 1992

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 September 28, 1992.

PRESENT: Crist, Friery, DeCamilla

ABSENT: Frierson, Masuoka

CONSENT CALENDAR

MINUTES OF REGULAR MEETING HELD AUGUST 24, 1992
APPROVED

The Board received and reviewed the minutes of the regular meeting held August 24, 1992. Mr. Friery moved to approve the minutes. The motion was seconded by Mr. Crist and was carried by the following vote:

AYES: Crist, Friery, DeCamilla

NOES: None

As Mr. Crist was not present at the August 24, 1992 meeting, Mr. Crist wanted to discuss further the issue of removing the 1414 K Street property from the historic preservation list. Mr. Crist requested that Mr. Smith, Real Estate Advisor, determine why the property is on the list and that Mr. Smith continue to explore removing the property from the preservation list. It was Mr. Crist's contention that it would be prudent to pursue removing the building from the preservation list now rather than waiting until there is a pending transaction on the property.

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Ms. Leslie Lopez, Counsel to the Board, informed the Board that it was her understanding that the City inventoried all buildings and if a building was 50 years or older it was placed on the list. Ms. Lopez informed the Board that the request to remove the building from the list would go before the Design Board. If the Design Board denied the request the AIFM Board would have to appeal the denial before the City Council.

Mr. Crist moved that Mr. Smith, Real Estate Advisor, continue to explore the formal process to remove the 1414 K building from the Historic Preservation List. The motion was seconded by Mr. Friery and was carried by the following vote:

AYES: Crist, Friery, DeCamilla

NOES: None

INVESTMENTS - TREASURER'S ACTIVITY REPORT
ACCEPTED

The Board received the July, 1992 Treasurer's Investment Activity Report. Mr. Friery, City Treasurer, reviewed the investment report with the Board.

Mr. Crist moved to accept the July, 1992 investment activity report. The motion was seconded by Mr. DeCamilla and was carried by the following vote:

AYES: Crist, Friery, DeCamilla

NOES: None

REPORTS OF CONSULTANTS AND ADVISORS

UTILITY STOCK FIXED INCOME ALTERNATIVE PORTFOLIO AND PORTFOLIO RESULTS,
JUNE 30, 1992 - CONTINUED
ACCEPTED

The Board received the June 30, 1992 Utility Stock Fixed Income Alternative Portfolio report. Mr. Friery, City Treasurer, reviewed the

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report with the Board.

Mr. Crist moved to accept the June 30, 1992 Utility Stock Fixed Income Alternative report. The motion was seconded by Mr. DeCamilla and was carried by the following vote:

AYES: Crist, Friery, DeCamilla

NOES: None

ANNUAL PROXY REPORT
ACCEPTED AS INFORMATIONAL

The Board received the FY 1991-92 Report of Proxies. Mr. Friery, City Treasurer, briefly reviewed the report with the Board. The Board accepted the report as informational.

REAL ESTATE ADVISOR'S REPORT SEPTEMBER 1992
ACCEPTED

The Board received and reviewed the July, 1992 Real Estate Advisor's report submitted by W. Jim Smith of WJS & Associates.

The Board requested that the Secretary, Margaret Allen, remind Mr. Smith that the Board, at counsel's request, needs a letter from the insurance carrier on the Enterprise property stipulating the insurance's company's position concerning the lack of appropriate water pressure available in West Sacramento and the effect this has on the sprinkler system in the Enterprise Buildings.

Mr. Friery moved to accept the real estate advisor's report. The motion was seconded by Mr. Crist and carried by the following vote:

AYES: Crist, Friery, DeCamilla

NOES: None

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RESOLUTION REGARDING THE MODESTO AND INDIO TRANSACTIONS
ADOPTED

The Board received and reviewed the resolution which ratifies all actions taken by the Board regarding investments in two real property transactions relating to the purchase of property in Indio and Modesto, California, for the purpose of constructing California State Highway Patrol office buildings.

Mr. Friery moved to adopt the resolution. The motion was seconded by Mr. Crist and was carried by the following vote:

AYES: Crist, Friery, DeCamilla

NOES: None

SEI JUNE 30, 1992 PERFORMANCE REPORT
ACCEPTED

The Board received SEI's performance report for the quarter ending June 30, 1992. Bruce Pflug reviewed the report with the Board.

The Board had a lengthy discussion regarding Lexington Capital Management's performance. The Board reiterated that they were not pleased with Lexington's performance and felt that Lexington was not meeting the objectives of the investment style for which they were hired.

Mr. Friery informed the Board that Lexington had complied with the Board's request of August 23, 1992 and submitted an additional report regarding their performance and style of management. Mr. Friery informed the Board that his staff will be preparing and presenting a report to the Board regarding Lexington's performance.

Mr. Friery moved to accept SEI's June 30, 1992 report. The motion was seconded by Mr. DeCamilla and was carried by the following vote:

AYES: Crist, Friery, DeCamilla

NOES: None

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NEWBOLD'S ASSET MANAGEMENT FEE
ACCEPTED AS INFORMATIONAL

The Board accepted as informational a letter from Newbold's Asset Management informing the Board that they have lowered their fee to the SCERS in order to remain competitive in the Public Funds Market.

DELAWARE INVESTMENT ADVISERS, AUGUST, 1992 PERFORMANCE REPORT
ACCEPTED AS INFORMATIONAL

The Board accepted as informational Delaware Investment Advisers' August, 1992 performance report.
REPORTS OF SECRETARY

UNEMPLOYMENT COMPENSATION AMENDMENTS OF 1992 - PENSION ROLLOVER RULES
ACCEPTED AS INFORMATIONAL

The Board received several informational items from Margaret Allen, Secretary to the Board, regarding new pension rollover rules for lump sum disbursements.

Ms. Allen informed the Board that effective January 1, 1993, SCERS, as a qualified plan, must comply with the new rollover rules for lump sum distributions. Ms. Allen stated that SCERS, with the assistance of the system's actuary, will be preparing all necessary documents and amending the City Code to be in compliance with the new rules.

AIFM BOARD MEETING SCHEDULE FOR 1993
ACCEPTED AS INFORMATIONAL

The Board accepted the 1993 meeting schedule as informational.

IDEAS AND QUESTIONS, MEMBERS OF THE BOARD

TERM LIMITATION OF APPOINTED BOARD MEMBERS

Margaret Allen, Secretary to the Board, informed the Board that staff will prepare a report recommending amending City Ordinance #90-040 to exclude appointed AIFM Board members for the two consecutive term limitation.

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There being no further business the meeting was adjourned at 3:30 p.m. to meet again at the call of the chair.

ATTACHMENT A-1

SCERS - STATEMENT OF ASSETS AVAILABLE FOR INVESTMENT
AS OF JULY 31, 1992

	CASH		INVESTMENTS	AMOUNT 1/ AVAILABLE FOR INVESTMENT
	POOL A	PAC HOR	@ COST	
OPERATING CASH	2,979,526			2,979,526
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	864,801	1,172,572	157,778,744	159,816,117
REAL ESTATE MORTGAGE	86,091	728,823	14,635,405	15,450,319
UTILITY STOCKS	288,054	1,408,539	13,030,429	14,727,021
TOTAL FIXED	1,238,946	3,309,935	185,444,578	189,993,458
EQUITY:				
AXE-HOUGHTON		2,665,924	8,695,987	11,361,911
DELAWARE		142,968	32,878,263	33,021,230
LEXINGTON		4,011,529	9,265,782	13,277,311
NEWBOLDS		2,219,464	25,190,618	27,410,082
REAL ESTATE EQUITY	0	2,890,823	24,567,735	27,458,558
LESS: LOAN PAYABLE			(5,988,961) 2/	(5,988,961)
TOTAL EQUITY	0	11,930,708	94,609,424	106,540,131
GRAND TOTAL	4,218,472	15,240,642	280,054,001	299,513,115

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/ Balance is an outstanding loan on Discovery Plaza. Loan payments commenced 4/1/92.

ATTACHMENT A-1A

SCERS - STATEMENT OF ASSETS @ MARKET VALUE
AS OF JULY 31, 1992

	CASH		INVESTMENTS @ MARKET	TOTAL ASSETS @ MARKET
	POOL A	PAC HOR		
OPERATING CASH	2,979,526			2,979,526
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	864,801	1,172,572	170,232,260	172,269,633
REAL ESTATE MORTGAGE	86,091	728,823	15,306,558	16,121,472
UTILITY STOCKS	288,054	1,408,539	15,540,594	17,237,186
TOTAL FIXED	1,238,946	3,309,935	201,079,411	205,628,292
EQUITY:				
AXE-HOUGHTON		2,665,924	9,690,375	12,356,299
DELAWARE		142,968	36,599,225	36,742,193
LEXINGTON		4,011,529	10,521,711	14,533,240
NEWBOLDS		2,219,464	28,241,029	30,460,493
REAL ESTATE EQUITY	0	2,890,823	24,127,831	27,018,654
LESS: LOAN PAYABLE			(5,988,961)	(5,988,961)
TOTAL EQUITY	0	11,930,708	103,191,210	115,121,918
GRAND TOTAL	4,218,472	15,240,642	304,270,621	323,729,735

ATTACHMENT A-2

SCERS - STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR INVESTMENT
FOR THE PERIOD 06/30/92 - 07/31/92

	BALANCE 6/30/92	INTEREST INCOME			DIV	GAIN (LOSS) ON SALES	NET RENTAL INCOME	INTEREST/ PRINCIPAL PAYMENTS	NET EXTERNAL CONTRIB.	CONTRIB. TRANSFER	BALANCE 7/31/92
		POOL A	PAC HOR	INVESTMENT							
OPERATING CASH	3,198,062	0							(1,559,958)	1,341,422	2,979,526
FIXED:											
BONDS, 2ND TD'S, & MTO. BK. CERTS	160,164,450	0	8,638	752,220		1,780				(1,110,970)	159,816,117
REAL ESTATE MORTGAGES	15,451,558	0		105,247						(106,484)	15,450,321
UTILITY STOCKS	14,560,795	0	2,007		119,720	60,691				(16,193)	14,727,020
EQUITY:											
AKK-BOUGHTON	11,622,694		3,481		4,335	(268,600)					11,361,909
DELAWARE	33,081,281		102,936		0	(162,985)					33,021,232
LEWINGTON	13,176,625		7,813		27,604	65,269					13,277,311
HENHOLDS	26,881,739		76,618		9,602	442,010				113	27,410,082
REAL ESTATE EQUITY LOAN PAYABLE	27,459,108 (5,991,755)	0	9,337	0			147,307 (2,794)	(49,307)		(107,887)	27,458,558 (5,988,961)
GRAND TOTAL	299,604,557	0	210,830	857,467	161,262	138,163	147,307	(46,513)	(1,559,958)	0	299,513,114
YEAR TO DATE:	299,604,557	0	210,830	857,467	161,262	138,163	147,307	(46,513)	(1,559,958)	0	299,513,114

ATTACHMENT A-3

SCERS - STATEMENT OF ESTIMATED INCOME & RATES OF RETURN
AS OF JULY 31, 1992

	COST	MARKET	ESTIMATED ANNUAL INCOME	EST. RATE AT COST	EST. RATE AT MARKET
CASH					
CITY POOL A	4,218,472	4,218,472	280,950	6.66%	6.66%
PAC HORIZONS MONEY MARKET FUND	15,240,642	15,240,642	524,278	3.44%	3.44%
FIXED:					
BONDS, 2ND TD'S & MTG. BK CERTS	157,778,744	170,232,260	14,066,640	8.92%	8.26%
REAL ESTATE MORTGAGE	14,635,405	15,306,558	1,561,957	10.67%	10.20%
UTILITY STOCKS	13,030,429	15,540,594	810,166	6.22%	5.21%
EQUITY:					
AXE-HOUGHTON	8,695,987	9,690,375	30,940	0.36%	0.32%
DELAWARE	32,878,263	36,599,225	1,214,529	3.69%	3.32%
LEXINGTON	9,265,782	10,521,711	232,855	2.51%	2.21%
NEWBOLDS	25,190,618	28,241,029	1,191,358	4.73%	4.22%
REAL ESTATE EQUITY	24,567,735	24,127,831	1,785,891 1/	7.27%	7.40%
LOAN PAYABLE	(5,988,961)	(5,988,961)			
GRAND TOTAL	299,513,115	323,729,735	21,699,565 2/	7.24%	6.70%

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. Paydown for this loan started April 1992, with the annual interest expense to be approximately \$591,000.

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 1990/91 was \$3.1 million. Administrative Expenses for this same period were \$87,000 for Banking and Trustee Fees, \$603,000 for Investment Manager Fees, \$592,500 for Interest Expense on Note Payable (Discovery Plaza), and \$1,025,000 for Real Estate Maintenance and Repair Expenses. All income and expense items are considered in determining the funds total performance.

ATTACHMENT A-4

SCERS - STATEMENT OF OVER (UNDER) INVESTMENT BASED UPON
COST/MARKET AS OF JULY 31, 1992

	1/ COST	1/ MARKET	2/ % AUTHORIZED	DOLLARS AUTHORIZED	3/ OVER (UNDER) INVESTED, BASED UPON COST/MARKET
OPERATING CASH	2,979,526	2,979,526			2,979,526
FIXED:					
BONDS, 2ND TD'S, & MTG BK. CERTS.	159,816,117	172,269,633	54.00%	174,814,057	(2,544,424)
REAL ESTATE MORTGAGE	15,450,319	16,121,472	5.00%	16,186,487	(65,014)
UTILITY STOCKS	14,727,021	17,237,186	5.00%	16,186,487	1,050,699
TOTAL FIXED	189,993,458	205,628,292	64.00%	207,187,030	(1,558,739)
EQUITY:					
AXE-HOUGHTON	11,361,911	12,356,299	4.00%	12,949,189	(592,891)
DELAWARE	33,021,230	36,742,193	11.00%	35,610,271	1,131,922
LEXINGTON	13,277,311	14,533,240	5.00%	16,186,487	(1,653,247)
NEWBOLDS	27,410,082	30,460,493	9.00%	29,135,676	1,324,817
REAL ESTATE EQUITY	27,458,558	27,018,654	7.00%	22,661,081	(1,191,484)
LESS: LOAN PAYABLE	(5,988,961)	(5,988,961)			
TOTAL EQUITY	106,540,131	115,121,918	36.00%	116,542,705	(980,883)
GRAND TOTAL	299,513,115	323,729,735	100.00%	323,729,735	439,904

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/ The present allocation was approved May 18, 1992 to be effective January 1, 1992.

3/ This column represents the amount over (under) invested for each category using the higher of Cost or Market based upon the Board's asset allocation policy.

SCERS - STATEMENT OF PURCHASES AND SALES ACTIVITY
FOR JULY 1992

PORTFOLIO MANAGER	PURCHASES (COST)	(PROCEEDS)	SALES (COST)	GAIN/(LOSS)
FIXED:				
BONDS	\$0	\$103,850	(\$102,625)	\$1,225
MTG BACKED	\$3,931,480	\$385,971	(\$385,416)	\$555
2ND TD'S	\$0	\$0	\$0	\$0
REAL ESTATE MORTGAGES	\$0	\$0	\$0	\$0
UTILITY STOCKS	\$0	\$368,977	(\$308,286)	\$60,691
TOTAL FIXED	\$3,931,480	\$858,798	(\$796,327)	\$62,471
EQUITY:				
AXE-HOUGHTON	\$1,009,284	\$2,386,550	(\$2,655,150)	(\$268,600)
DELAWARE	\$5,413,126	\$4,625,232	(\$4,788,217)	(\$162,985)
LEXINGTON	\$1,567,339	\$1,250,056	(\$1,184,787)	\$65,269
NEWBOLDS	\$1,878,309	\$1,034,888	(\$592,878)	\$442,010
REAL ESTATE EQUITY	\$0	\$0	\$0	\$0
TOTAL EQUITY	\$9,868,059	\$9,296,726	(\$9,221,033)	\$75,693
GRAND TOTAL	\$13,799,539	\$10,155,523	(\$10,017,360)	\$138,163