

September 25, 1989

MINUTES
REGULAR MEETING OF THE
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD
September 25, 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 1:35 p.m. on September 25, 1989.

PRESENT: Masuoka, Friery, DeCamilla

ABSENT: Frierson, Wolford

CONSENT CALENDAR

MINUTES OF REGULAR MEETING HELD AUGUST 28, 1989
APPROVED AS AMENDED

The Board received and reviewed the minutes of the regular meeting held August 28, 1989. Mr. Friery requested the minutes reflect that a report dated August 29, 1979 on asset diversification be attached to the minutes. Ms. Masuoka moved the amended minutes be approved. The motion was seconded by Mr. Friery and was carried by the following vote:

AYES: Masuoka, Friery, DeCamilla

NOES: None

INVESTMENTS - TREASURER'S ACTIVITY REPORT
ACCEPTED

The Board received the July 1989 Treasurer's Investment Activity Report. Deborah Carter, Investment Officer, reviewed the investment report with the Board.

Ms. Carter informed the Board that this is the first report that isolates the money to be transferred to PERS and is identified as PERS Trust Account. Mr. Friery commented that the future safety contributions

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for the transferring members should be included in the PERS Trust Account as presented to the AIFM Board at the March 3, 1989 meeting. However, it was stated that including these contributions in the PERS Trust Account would require significant staff time to complete all the necessary steps between now and January. The Treasurer's office and the Finance Department will review this situation and present a workable solution.

Mr. Friery informed the Board that because of the favorable market approximately \$21 million in the PERS Trust Account will not be transferred to PERS but will be returned to SCERS for reinvestment.

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

AYES: Masuoka, Friery, DeCamilla

NOES: None

REPORTS OF CONSULTANTS AND ADVISORS

UTILITY STOCK FIXED INCOME ALTERNATIVE PORTFOLIO AND PORTFOLIO RESULTS
-CONTINUED
ACCEPTED

The Board received the Treasurer's written report on the Utility Stock Fixed Income Alternative Portfolio and Portfolio Results for the quarter ending June 30, 1989. An oral report was presented to the Board on August 26, 1989.

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

AYES: Masuoka, Friery, DeCamilla

NOES: None

REAL ESTATE ADVISOR'S REPORT
ACCEPTED

The Board received the September, 1989 Real Estate Advisor's

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report, submitted by W. Jim Smith of WJS & Associates. Mr. Smith was unable to attend the meeting.

Mr. Friery moved to accept the Real Estate Advisor's Report. The motion was seconded by Ms. Masuoka and was carried by the following vote:

AYES: Masuoka, Friery, DeCamilla

NOES: None

SEI JUNE 30, 1989 QUARTERLY PERFORMANCE REPORT
ACCEPTED

The Board received SEI's performance reports for the quarter ending June 30, 1989. Jim Blachman, from SEI, reviewed the report with the Board.

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

AYES: Masuoka, Friery, DeCamilla

NOES: None

SEI'S PERFORMANCE REVIEW FOR THE SECOND QUARTER
ACCEPTED AS INFORMATIONAL

The Board accepted as informational SEI's Performance Review for the second quarter of 1989.

LEXINGTON CAPITAL MANAGEMENT, INC. JULY, 1989 PERFORMANCE
ACCEPTED AS INFORMATIONAL

The Board accepted as informational Lexington Capital Management, Inc., July, 1989 performance report.

GENERAL COMMUNICATIONS

Deborah Carter, Investment Officer, informed the Board that a press release had been received from Delaware Investment Advisers regarding Tokio Marine and Fire Insurance Company, Ltd., part of the Mitsubishi Group acquiring 10% interest in Delaware Investment.

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IDEAS AND QUESTIONS, MEMBERS OF THE BOARD

The Board discussed the current policy on asset allocation and the pending report from the Treasurer's office which will be submitted in January 1990.

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 JULY 31, 1989

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	CASH		INVESTMENTS @ COST	AMOUNT 1/ AVAILABLE FOR INVESTMENT
	POOL A	PAC HOR		
EXTERNAL CONTRIBUTIONS	492,161			492,161
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	(752,173)	784,535	117,939,768	117,972,130
REAL ESTATE MORTGAGE	184,063		5,571,140	5,755,203
UTILITY STOCKS	883,763	952,599	9,880,949	11,717,312
TOTAL FIXED	<u>315,654</u>	<u>1,737,134</u>	<u>133,391,858</u>	<u>135,444,645</u>
EQUITY:				
AXE-HOUGHTON	107,329	688,367	8,529,408	9,325,104
BATTERYMARCH		215,612	18,668,588	18,884,199
DELAWARE		2,877,890	18,149,239	21,027,129
LEXINGTON	23,050	188,129	8,740,046	8,951,225
NEWBOLDS	2,184,688	1,461,284	16,994,919	20,640,890
GOLD & SILVER	299,243		2,049,044	2,348,288
REAL ESTATE EQUITY	1,846,461		22,855,784	24,702,245
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	<u>4,460,771</u>	<u>5,431,282</u>	<u>89,987,028</u>	<u>99,879,081</u>
SUB-TOTAL	5,268,586	7,168,415	223,378,886	235,815,887
PERS TRUST ACCOUNT 2/		3,301,881	112,977,894	116,279,775
GRAND TOTAL	<u>5,268,586</u>	<u>10,470,296</u>	<u>336,356,780</u>	<u>352,095,662</u>

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 have been liquidated as of June 30, 1989. During the month of July 1989, \$116,217,073 was transferred to a separate account at Security Pacific National Bank and have been invested in various short term securities until January 12, 1990, when the transfer to PERS will take place.

ATTACHMENT A-1A

SCERS - STATEMENT OF ASSETS @ MARKET VALUE
AS OF JULY 31, 1989

	CASH		INVESTMENTS @MARKET	TOTAL ASSETS @ MARKET
	POOL A	PAC HOR		
EXTERNAL CONTRIBUTIONS	492,161			492,161
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	(752,173)	784,535	120,054,024	120,086,386
REAL ESTATE MORTGAGE	184,063		5,988,068	6,172,131
UTILITY STOCKS	883,763	952,599	10,500,216	12,336,578
TOTAL FIXED	315,654	1,737,134	136,542,308	138,595,095
EQUITY:				
AXE-HOUGHTON	107,329	688,367	10,652,125	11,447,821
BATTERYMARCH		215,612	22,306,051	22,521,663
DELAWARE		2,877,890	21,270,739	24,148,629
LEXINGTON	23,050	188,129	11,555,200	11,766,379
NEWBOLDS	2,184,688	1,461,284	20,483,429	24,129,401
GOLD & SILVER	299,243		1,360,070	1,659,313
REAL ESTATE EQUITY	1,846,461		22,580,000	24,426,461
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	4,460,771	5,431,282	104,207,614	114,099,667
SUB-TOTAL	5,268,586	7,168,415	240,749,922	253,186,923
PERS TRUST ACCOUNT		3,301,881	112,977,894	116,279,775
GRAND TOTAL	5,268,586	10,470,296	353,727,816	369,466,698

SCERS - STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR INVESTMENT
FOR THE PERIOD 6/30/89 - 7/31/89

	BALANCE 6/30/89	INTEREST INCOME			DIV	GAIN (LOSS) ON SALES	NET RENTAL INCOME	INTEREST EXPENSE	NET EXTERNAL CONTRIB.	CONTRIB. TRANSFER	BALANCE 7/31/89
		POOL A	PAC INC	INVESTMENT							
EXTERNAL CONTRIBUTION	51,501								440,660		492,161
FIXED:											
BONDS, 2ND TD'S, & MTG. BK. CERTS	175,005,624	0	8,021	683,844		(683)				(57,724,477)	117,972,130
REAL ESTATE MORTGAGES	8,312,668	0		54,181						(2,611,646)	5,755,203
UTILITY STOCKS	17,232,719	0	27,913		78,788	0				(5,622,108)	11,717,312
EQUITY:											
AXE-HOUGHTON	14,551,993	0	29,357		1,360	(56,104)				(5,201,502)	9,325,104
BATTERYMARCH	31,548,481		64,945		56,622	56,431				(12,842,279)	18,884,199
DELAWARE	32,738,298		83,080		85,024	449,530				(12,328,803)	21,027,129
LEXINGTON	14,754,337	0	42,252		8,264	22,509				(5,876,137)	8,951,225
NEWSOLDS	31,829,107	0	66,274		54,812	209,017				(11,518,320)	20,640,690
GOLD & SILVER	3,047,806			3,050		0				(702,568)	2,348,288
REAL ESTATE EQUITY	26,311,729	0					229,125	(49,375)		(1,789,234)	24,702,245
LOAN PAYABLE	(6,000,000)										(6,000,000)
SUB-TOTAL	349,384,263	0	321,841	741,076	284,870	680,501	229,125	(49,375)	440,660	(116,217,074)	235,815,687
PERS TRUST ACCOUNT				62,701						116,217,074	116,279,775
GRAND TOTAL	349,384,263	0	321,841	803,777	284,870	680,501	229,125	(49,375)	440,660	0	352,095,662

YEAR TO DATE:

PERMANENT ASSETS	349,384,263	0	321,841	741,076	284,870	680,501	229,125	(49,375)	440,660	(116,217,074)	235,815,687
PERS TRUST ACCOUNT				62,701						116,217,074	116,279,775
TOTAL YEAR TO DATE	349,384,263	0	321,841	803,777	284,870	680,501	229,125	(49,375)	440,660	0	352,095,662

SCERS - STATEMENT OF ESTIMATED INCOME & RATES OF RETURN
AS OF JULY 31, 1989

	COST	MARKET	ESTIMATED ANNUAL INCOME	EST. RATE AT COST	EST. RATE AT MARKET
CASH					
CITY POOL A	5,268,586	5,268,586	463,635	8.80%	8.80%
PAC HORIZONS MONEY MARKET FUND	7,168,415	7,168,415	634,333	8.85%	8.85%
SCERS INVESTMENT POOLS					
FIXED:					
BONDS, 2ND TD'S & MTG. BK CERTS	117,939,768	120,054,024	10,717,009	9.09%	8.93%
REAL ESTATE MORTGAGE	5,571,140	5,988,068	653,454	11.73%	10.91%
UTILITY STOCKS	9,880,949	10,500,216	645,221	6.53%	6.14%
EQUITY:					
AXE-HOUGHTON	8,529,408	10,652,125	90,345	1.06%	0.85%
BATTERYMARCH	18,668,588	22,306,051	385,596	2.07%	1.73%
DELAWARE	18,149,239	21,270,739	893,167	4.92%	4.20%
LEXINGTON	8,740,046	11,555,200	202,147	2.31%	1.75%
NEWBOLDS	16,994,919	20,483,429	665,514	3.92%	3.25%
GOLD & SILVER	2,049,044	1,360,070			
REAL ESTATE EQUITY	22,855,784	22,580,000	1,614,500 1/	7.06%	7.15%
LOAN PAYABLE	(6,000,000)	(6,000,000)			
SUB-TOTAL	235,815,887	253,186,923	16,964,921 2/	7.19%	6.70%
PERS TRUST ACCOUNT	116,279,775	116,279,775	10,430,295	8.97%	8.97%
GRAND TOTAL	352,095,662	369,466,698	27,395,216	7.78%	7.41%

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.

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SCERS - STATEMENT OF OVER (UNDER) INVESTMENT BASED UPON
COST/MARKET AS OF JULY 31, 1989

	1/ COST	1/ MARKET	% AUTHORIZED	DOLLARS AUTHORIZED	2/ OVER (UNDER) INVESTED, BASED UPON COST/MARKET
EXTERNAL CONTRIBUTIONS	492,161	492,161			
FIXED:					
BONDS, 2ND TD'S, & MTG BK. CERTS.	117,972,130	120,086,386	50.50%	119,087,023	999,363
REAL ESTATE MORTGAGE	5,755,203	6,172,131	2.50%	5,895,397	276,734
UTILITY STOCKS	11,717,312	12,336,578	5.00%	11,790,794	545,784
TOTAL FIXED	135,444,645	138,595,095	58.00%	136,773,215	1,821,881
EQUITY:					
AXE-HOUGHTON	9,325,104	11,447,821	4.00%	9,432,635	2,015,186
BATTERYMARCH	18,884,199	22,521,663	9.00%	21,223,430	1,298,233
DELAWARE	21,027,129	24,148,629	9.00%	21,223,430	2,925,199
LEXINGTON	8,951,225	11,766,379	4.00%	9,432,635	2,333,743
NEWBOLDS	20,640,890	24,129,401	9.00%	21,223,430	2,905,971
GOLD & SILVER	2,348,288	1,659,313	1.00%	2,358,159	(9,871)
REAL ESTATE EQUITY	24,702,245	24,426,461	6.00%	14,148,953	4,553,292
LESS: LOAN PAYABLE	(6,000,000)	(6,000,000)			
TOTAL EQUITY	99,879,081	114,099,667	42.00%	99,042,673	16,021,753
SUB-TOTAL	235,815,887	253,186,923	100.00%	235,815,887	17,843,633
PERS TRUST ACCOUNT	116,279,775	116,279,775	100.00%	116,279,775	0
GRAND TOTAL	352,095,662	369,466,698	100.00%	352,095,662	17,843,633

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 July 31, 1989, \$18,335,794 (\$17,843,633 + \$492,161) 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 JULY 1989

PORTFOLIO MANAGER	PURCHASES (COST)	(PROCEEDS)	SALES (COST)	GAIN/(LOSS)
FIXED:				
BONDS	\$4,070,589			\$0
MTG BACKED		\$189,877	(\$190,760)	(\$883)
2ND TD'S				\$0
REAL ESTATE MORTGAGES				\$0
UTILITY STOCKS	\$0	\$0	\$0	\$0
TOTAL FIXED	\$4,070,589	\$189,877	(\$190,760)	(\$883)
EQUITY:				
AXE-HOUGHTON	\$800,044	\$218,620	(\$274,724)	(\$56,104)
BATTERYMARCH	\$1,468,901	\$311,859	(\$255,428)	\$56,431
DELAWARE	\$1,878,141	\$1,648,148	(\$1,198,618)	\$449,530
LEXINGTON	\$1,259,608	\$558,890	(\$536,381)	\$22,509
NEWBOLDS	\$850,666	\$1,046,199	(\$837,182)	\$209,017
GOLD & SILVER				\$0
TOTAL EQUITY	\$6,257,360	\$3,783,716	(\$3,102,332)	\$681,383
SUB-TOTAL	\$10,327,949	\$3,973,593	(\$3,293,092)	\$680,500
PERS TRUST ACCOUNT	\$162,415,195	\$94,437,299	(\$94,437,299)	\$0
GRAND TOTAL	\$172,743,144	\$98,410,892	(\$97,730,391)	\$680,500

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