

MINUTES
REGULAR MEETING OF THE
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD
January 23, 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 1:50 p.m. on January 23, 1989.

PRESENT: McAdler, Friery, DeCamilla

ABSENT: Frierson, Wolford

CONSENT CALENDAR

ELECTION OF CHAIRMAN FOR CALENDAR YEAR 1989

Chairman David DeCamilla opened the nominations for Chairman of the Board for calendar year 1989. Mr. Friery nominated David DeCamilla. The nomination was seconded by Mr. McAdler. Mr. DeCamilla was re-elected Chairman by the following vote:

AYES: McAdler, Friery, DeCamilla

NOES: None

ELECTION OF VICE-CHAIRMAN FOR CALENDAR YEAR 1989

Chairman David DeCamilla opened the nominations for Vice Chairman of the Board for calendar year 1989. Mr. DeCamilla nominated Thomas Friery. The nomination was seconded by Mr. McAdler. Mr. Friery was re-elected Vice Chairman by the following vote:

AYES: McAdler, Friery DeCamilla

NOES: None

Ms. Frierson arrived at 1:53 p.m.

MINUTES OF REGULAR MEETING HELD JANUARY 9, 1989
APPROVED AS AMENDED

The Board received and reviewed the minutes of the regular meeting

held January 9, 1989. Mr. DeCamilla requested that the minutes be amended to include the system's quarterly investment performance ranking at the 29th percentile of SEI's balanced funds universe for the year ending September 30, 1988.

Mr. Friery requested that the Investment Report be amended to include that a "detailed report on the fixed income swap is on file for review".

Mr. Friery moved the minutes be approved. The motion was seconded by Mr. DeCamilla and was carried by the following vote:

AYES: Frierson, McAdler, Friery, DeCamilla

NOES: None

INVESTMENTS - TREASURER'S ACTIVITY REPORT

ACCEPTED

The Board received the November 1988 Treasurer's Investment Activity Report. Deborah Carter, Investment Officer, reviewed the investment report with the Board.

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

AYES: Frierson, McAdler, Friery, DeCamilla

NOES: None

REPORTS OF CONSULTANTS AND ADVISORS

REAL ESTATE ADVISOR'S REPORT

ACCEPTED

The Board received the January 1989 Real Estate Advisor's Report, submitted by W. Jim Smith of WJS & Associates. Mr. Smith reviewed the report with the Board.

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

AYES: Frierson, McAdler, Friery, DeCamilla

NOES: None

AXE-HOUGHTON MANAGEMENT, INC. REPORT
ACCEPTED AS INFORMATIONAL

The Board accepted as informational Axe-Houghton Management, Inc. report.

SCERS ANNUAL FINANCIAL REPORT, JUNE 30, 1988
ACCEPTED AS INFORMATIONAL

Rick Elkin, Department of Finance, Mark Rodebaugh and Louis Paletta of Touche Ross, appeared before the Board to answer any questions on the annual financial report. Mr. Friery stated he would like the report to come to the Board in draft form prior to being released as final. Mr. Rodebaugh briefly explained the responsibilities of the auditor and stated that Touche Ross would be glad to meet with the Board or its representatives prior to the start of the audit. This would get dialogue going between the two parties. Jim McAdler expressed his thanks and appreciation to the staff of Employee Services, Treasurer and Finance in putting the report together. The Board accepted the report.

POLICY MATTERS TO BE CONSIDERED AND ACTED UPON

ASSET ALLOCATION AND DIVERSIFICATION
ACCEPTED

The Board received and reviewed Mr. Friery's recommendation on asset allocation and estimated redistribution. At this time, Mr. Friery recommended no change in the Board's current asset allocation policy. Mr. Friery reminded the Board that investment allocation might be directed towards greater fixed income investments when the phenomenon of plan payouts exceeds the sum of contributions and investment income. When this occurs, interest income earned on fixed income securities will take on a more important role than total performance. The actuary has estimated that plan payouts may exceed contributions during this calendar year, but it will be several years before plan payouts will exceed contributions and investment income.

Should interest rates rise sharply, Mr. Friery would recommend the Board reconsider asset diversification. The Treasurer's office will present a report on the effects of increasing fixed income allocation by June 30, 1989.

At the February 1989 meeting the Board will be informed of the actual amount of fund redistribution.

The Board accepted the report.

REPORTS OF SECRETARY

AUTOMATIC RENEWAL OF WJS & ASSOCIATES CONTRACT

The Secretary informed the Board that the real estate advisor's contract with WJS & Associates automatically renewed January, 1989.

The Secretary invited the Board to attend CALAPRS General Assembly on April 2 and 3, 1989.

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 NOVEMBER 30, 1988

	CASH		INVESTMENTS @ COST	AMOUNT 1/ AVAILABLE FOR INVESTMENT
	POOL A	PAC HOR		
EXTERNAL CONTRIBUTIONS	7,384,259			7,384,259
FIXED:				
BONDS, 2ND TD'S. & MTG. BK. CERTS.	6,016,166	1,003,253	156,623,480	163,642,899
REAL ESTATE MORTGAGE	2,334,389		5,718,044	8,052,433
UTILITY STOCKS	2,006,767	228,799	13,729,723	15,965,279
TOTAL FIXED	<u>10,357,312</u>	<u>1,232,052</u>	<u>176,071,248</u>	<u>187,660,611</u>
EQUITY:				
AXE-HOUGHTON	2,750,000	858,060	8,025,457	11,633,517
BATTERYMARCH		659,107	28,050,786	28,709,893
DELAWARE		2,687,644	26,706,918	29,394,562
LEXINGTON	2,000,000	3,347,991	6,383,435	11,731,426
NEWBOLDS	3,675,053	1,161,505	24,204,741	29,041,299
GOLD & SILVER	12,562		3,020,675	3,033,237
REAL ESTATE EQUITY	1,674,575		22,402,854	24,077,429
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	<u>10,112,190</u>	<u>8,714,307</u>	<u>112,794,865</u>	<u>131,621,362</u>
TOTAL	<u>27,853,761</u>	<u>9,946,359</u>	<u>288,866,113</u>	<u>326,666,233</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.

ATTACHMENT A-1A

SCERS - STATEMENT OF ASSETS @ MARKET VALUE
AS OF NOVEMBER 30, 1988

	CASH		INVESTMENTS @MARKET	TOTAL ASSETS @ MARKET
	POOL A	PAC HOR		
EXTERNAL CONTRIBUTIONS	7,384,259			7,384,259
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	6,016,166	1,003,253	148,806,204	155,825,623
REAL ESTATE MORTGAGE	2,334,389		6,143,340	8,477,729
UTILITY STOCKS	2,006,757	228,799	12,301,538	14,537,094
TOTAL FIXED	10,357,312	1,232,052	167,251,082	178,840,446
EQUITY:				
AXE-HOUGHTON	2,750,000	858,060	8,079,350	11,687,410
BATTERYMARCH		659,107	30,037,081	30,696,188
DELAWARE		2,687,644	26,597,253	29,284,897
LEXINGTON	2,000,000	3,347,991	6,860,775	12,208,766
NEWBOLDS	3,675,053	1,161,505	23,438,213	28,274,771
GOLD & SILVER	12,862		2,343,480	2,356,042
REAL ESTATE EQUITY	1,674,575		22,580,000	24,254,575
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	10,112,190	8,714,307	113,936,152	132,762,649
TOTAL	27,853,761	9,946,359	281,187,234	318,987,353

SCDS - STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR INVESTMENT
FOR THE PERIOD 10/31/88 TO 11/30/88

	BALANCE 10/31/88	INTEREST INCOME			DIV	GAIN (LOSS) ON SALES	NET RENTAL INCOME	INTEREST EXPENSE	NET EXTERNAL CONTRIB.	CONTRIB. TRANSFER	BALANCE 11/30/88
		POOL A	PAC HOR	INVESTMENT							
EXTERNAL CONTRIBUTION	5,087,515								2,296,744		7,384,259
FIXED:											
BONDS, 2ND TD'S, & MTG. BK. CERTS	162,780,788	0	5,030	861,586		(4,504)					163,642,899
REAL ESTATE MORTGAGES	7,997,164	0		55,269							8,052,433
UTILITY STOCKS	15,990,413	0	4,322		55,994	(85,450)					15,965,279
EQUITY:											
AXE-HUGHTON	11,622,650		3,118		8,706	(957)					11,633,517
BATTERYMARCH	28,821,989		10,963		46,555	(169,614)					28,709,893
DELAWARE	29,221,579		18,043		85,700	69,240					29,394,562
LEXINGTON	11,762,210		21,478		2,912	(55,175)					11,731,426
MENOLDS	28,524,838	0	17,385		61,336	437,740					29,041,298
GOLD & SILVER	3,033,153	0		84							3,033,237
REAL ESTATE EQUITY	24,012,429						114,375.00	(49,375)			24,077,429
LOAN PAYABLE	(6,000,000)										(6,000,000)
TOTAL	322,854,728	0	80,339	916,939	261,202	191,280	114,375	(49,375)	2,296,744	0	326,666,232
YEAR TO DATE	315,753,098	334,817	392,848	5,428,855	1,624,867	289,855	531,875	(248,875)	2,556,892		326,666,232

SCERS - STATEMENT OF ESTIMATED INCOME & RATES OF RETURN
AS OF NOVEMBER 30, 1988

	COST	MARKET	ESTIMATED ANNUAL INCOME	EST. RATE AT COST	EST. RATE AT MARKET
CASH					
CITY POOL A	27,853,761	27,853,761	2,109,546	7.57%	7.57%
PAC HORIZONS MONEY MARKET FUND	9,946,359	9,946,359	765,869	7.70%	7.70%
SCERS INVESTMENT POOLS					
FIXED:					
BONDS, 2ND TD'S & MTG. BK CERTS	156,623,480	148,806,204	14,107,960	9.01%	9.48%
REAL ESTATE MORTGAGE	5,718,044	6,143,340	666,642	11.66%	10.85%
UTILITY STOCKS	13,729,723	12,301,538	894,754	6.52%	7.27%
EQUITY:					
AXE-HOUGHTON	8,025,457	8,079,350	98,983	1.23%	1.23%
BATTERYMARCH	28,050,786	30,037,081	830,935	2.96%	2.77%
DELAWARE	26,706,918	26,597,253	1,351,087	5.06%	5.08%
LEXINGTON	6,383,435	6,860,775	132,067	2.07%	1.92%
NEWBOLDS	24,204,741	23,438,213	1,100,872	4.55%	4.70%
GOLD & SILVER	3,020,675	2,343,480			
REAL ESTATE EQUITY	22,402,854	22,580,000	1,384,500 1/	6.18%	6.13%
LOAN PAYABLE	(6,000,000)	(6,000,000)			
TOTAL	326,666,233	318,987,353	23,443,215 2/	7.18%	7.35%

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.

SCERS - STATEMENT OF OVER (UNDER) INVESTMENT BASED UPON
COST/MARKET AS OF NOVEMBER 30, 1988

	1/ COST	1/ MARKET	% AUTHORIZED	DOLLARS AUTHORIZED	2/ OVER (UNDER) INVESTED, BASED UPON COST/MARKET
EXTERNAL CONTRIBUTIONS	7,384,259	7,384,259			
FIXED:					
BONDS, 2ND TD'S, & MTG BK. CERTS.	163,642,899	155,825,623	50.50%	164,966,447	(1,323,548)
REAL ESTATE MORTGAGE	8,052,433	8,477,729	2.50%	8,166,656	311,073
UTILITY STOCKS	15,965,279	14,537,094	5.00%	16,333,312	(368,033)
TOTAL FIXED	187,660,611	178,840,446	58.00%	189,466,415	(1,380,508)
EQUITY:					
AXE-HOUGHTON	11,633,517	11,687,410	4.00%	13,066,649	(1,379,239)
BATTERYMARCH	28,709,893	30,696,188	9.00%	29,399,961	1,296,227
DELAWARE	29,394,662	29,284,897	9.00%	29,399,961	(5,399)
LEXINGTON	11,731,426	12,208,766	4.00%	13,066,649	(857,883)
NEWBOLDS	29,041,299	28,274,771	9.00%	29,399,961	(358,662)
GOLD & SILVER	3,033,237	2,356,042	1.00%	3,266,662	(233,425)
REAL ESTATE EQUITY	24,077,429	24,254,875	6.00%	19,599,974	(1,345,399)
LESS: LOAN PAYABLE	(6,000,000)	(6,000,000)			
TOTAL EQUITY	131,621,362	132,762,649	42.00%	137,199,818	(2,883,781)
TOTAL	326,666,233	318,987,353	100.00%	326,666,233	(4,264,289)

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 12/31/87 and became effective 2/29/88.

Should the Board reallocate as of 11/30/88, \$4,264,289 would be reallocated amongst the managers as listed above. In addition, of the remaining external contributions \$3,119,970 would be allocated 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 NOVEMBER 1988

1]

PORTFOLIO MANAGER	PURCHASES (COST)	(PROCEEDS)	SALES (COST)	GAIN/(LOSS)
FIXED:				
BONDS	\$7,954,383	\$7,996,989	(\$8,000,000)	(\$3,011)
MTG BACKED		\$132,381	(\$133,875)	(\$1,494)
2ND TD'S				\$0
REAL ESTATE MORTGAGES				\$0
UTILITY STOCKS	\$970,358	\$542,612	(\$628,062)	(\$85,450)
TOTAL FIXED	\$8,924,741	\$8,671,982	(\$8,761,937)	(\$89,955)
EQUITY:				
AXE-HOUGHTON	\$1,377,799	\$1,881,386	(\$1,882,343)	(\$957)
BATTERYMARCH	\$2,096,906	\$1,702,493	(\$1,872,106)	(\$169,613)
DELAWARE	\$954,255	\$263,654	(\$194,414)	\$69,240
LEXINGTON		\$149	(\$55,323)	(\$55,174)
NEWBOLDS	\$2,916,651	\$1,331,815	(\$894,075)	\$437,740
GOLD & SILVER				\$0
TOTAL EQUITY	\$7,344,611	\$5,179,497	(\$4,898,261)	\$281,236
TOTAL	\$16,269,352	\$13,851,479	(\$13,660,198)	\$191,281

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