

October 26, 1992

MINUTES
REGULAR MEETING OF THE
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD
October 26, 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 October 26, 1992.

PRESENT: Masuoka, Friery, DeCamilla

ABSENT: Crist, Frierson

CONSENT CALENDAR

MINUTES OF REGULAR MEETING HELD SEPTEMBER 28, 1992
APPROVED

The Board received and reviewed the minutes of the regular meeting held September 28, 1992. Mr. Friery moved to approve the minutes. The motion was seconded by Ms. Masuoka and was carried by the following vote:

AYES: Masuoka, Friery, DeCamilla

NOES: None

INVESTMENTS - TREASURER'S ACTIVITY REPORT
ACCEPTED

The Board received the August 1992 Treasurer's Investment Activity Report. Tony Ives, Investment Officer, reviewed the investment report with the Board.

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

AYES: Masuoka, Friery, DeCamilla

NOES: None

October 26, 1992

REPORTS OF CONSULTANTS AND ADVISORS

REAL ESTATE ADVISOR'S REPORT
ACCEPTED

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

The report informed the Board that the Indio CHP and Modesto CHP offices continue on schedule. Mr. Smith will be doing another inspection later this month.

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

AYES: Masuoka, Friery, DeCamilla

NOES: None

TOWERS, PERRIN, FORSTER & CROSBY, JUNE 30, 1992, ACTUARIAL VALUATION
ACCEPTED

The Board received the June 30, 1992 Actuarial Valuation report from Towers, Perrin, Forster & Crosby. David LeSueur, system's actuary, reviewed the report with the Board. Mr. LeSueur distributed a handout which summarized the valuation.

Mr. LeSueur informed the Board that TPF&C continued to use the same assumptions employed since the 1980 valuation as they continue to be reasonable in the aggregate.

Mr. LeSueur informed the Board that because the investment experience was more favorable than expected, salary increase for members were less than expected and contribution for amortization of the unfunded actuarial accrued liability made by the City was greater than expected he is recommending an amortization of the UAAL of 0.03%.

October 26, 1992

Because the unfunded liability is nearly extinguished Mr. LeSueur questioned what the contribution policy is if the UAAL is negative, the plan having a surplus rather than an unfunded liability. Mr. LeSueur suggested alternatives as follows: 1) amortize surplus over period to 2007, just like UAAL; 2) use surplus to offset current City normal contribution; and, 3) some combination of (1) and (2).

The Board discussed the recommended rates. Ms. Masuoka asked Leslie Lopez, Counsel to the Board, to clarify the responsibility of the Board versus the responsibility of the City Council. It was Ms. Masuoka's understanding that the Board, based on the actuarial report, recommends to the City Council the rates but the City Council has to adopt and decided how to implement the recommendation. Ms. Lopez stated the City Council has the final decision the Board only makes the recommendation.

Ms. Masuoka asked if the Board has the flexibility to request a mid-year actuarial valuation to determine the amortization rate as of December 30, 1992. If the information could be available in February, 1992, the Board could make a recommendation to the City Council during the Mid-Year Budget Review.

Mr. LeSueur recommended not to perform a full valuation but a mini valuation with with updated asset information. Ms. Masuoka requested staff discuss the issue with Mr. LeSueur and report back to the Board.

Mr. LeSueur recommended that Ms. Lopez, Counsel to the Board, review the City Charter requirements and prohibitions applicable to the Board setting rates.

October 26, 1992

Before adopting new City contributions rates the Board requested Ms. Lopez to review the City Charter relative to the Board's role in setting contribution rates.

Mr. Friery moved to accepted the actuarial report and continue the adoption of the new City contribution rates to the next meeting. The motion was seconded by Ms. Masuoka.

AYES: Masuoka, Friery, DeCamilla

NOES: None

SEI DOMESTIC AND INTERNATIONAL MARKET INDICES
ACCEPTED AS INFORMATIONAL

The Board accepted as informational a domestic and international market indices report for the month ending August 31, 1992.

LEXINGTON CAPITAL MANAGEMENT, INC., AUGUST 31, 1992 PERFORMANCE REPORT
ACCEPTED

The Board accepted as informational Lexington Capital Management's August 31, 1992 performance report.

POLICY MATTERS TO BE CONSIDERED

RESOLUTION TERMINATING INVESTMENT MANAGER - LEXINGTON CAPITAL MANAGEMENT, INC.
ADOPTED

The Board received a report prepared by the City Treasurer's staff regarding the performance of Lexington Capital Management and recommending the termination of agreement with Lexington. Mr. Friery reviewed the report with the Board.

The report recommended the Board adopt a resolution to terminate the services of Lexington Capital Management effective November 30, 1992, direct staff to immediately serve the required written notice of termination and recommended that the City Treasurer provide the Board with a recommended investment program for the monies at the November 23, 1992 meeting.

October 26, 1992

Mr. Friery suggested that since SCERS has no current commitment to "large capital/growth stocks", as pointed out by SEI in previous discussions, it would be in the best interest of SCERS to terminate Lexington and seek an investment style which introduces large cap growth stocks. The City Treasurer believes that this investment style could be implemented by the the City Treasurer's staff.

Ms. Masuoka suggested that the Board seek the advice of SEI on this issue not just to perform a manager search but to confirm the type of management style that is needed. It was Mr. Friery's and Mr. DeCamilla's opinion that it may not be necessary to solicit the assistance of SEI.

Mr. Friery stated that staff would prepare a report outlining all the Board's options regarding reallocating assets formerly managed by Lexington Capital Management and present the report at the November meeting.

Mr. Friery moved to adopt the resolution to terminate the services of Lexington Capital Management effective November 30, 1992, directed staff to advise Lexington Capital Management and request the City Treasurer provide a recommended reallocation for the SCERS assets formerly allocated to Lexington Capital Management. The motion was seconded by Ms. Masuoka and carried by the following vote:

AYES: Masuoka, Friery, DeCamilla

NOES: None

REPORTS OF SECRETARY

JUNE 30, 1992 ANNUAL TRANSMITTAL LETTER
ACCEPTED AS INFORMATIONAL

The Board accepted as information the June 30, 1992 Annual Transmittal letter.

October 26, 1992

REPORT ON TERMS OF APPOINTED BOARD MEMBERS
ACCEPTED AS INFORMATIONAL

Ms. Margaret Allen, Secretary to the Board, informed the Board that a report will go to City Council on October 27, 1992 recommending an amendment to City Council Ordinance #90-040 to exclude appointed AIFM Board members from the two consecutive term limitation.

Ms. Allen will keep the Board informed on this issue.

There being no further business the meeting was adjourned at 3:45 p.m. to meet again at the call of the chair.

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

	CASH		INVESTMENTS	AMOUNT 1/ AVAILABLE FOR INVESTMENT
	POOL A	PAC HOR	@ COST	
OPERATING CASH	3,049,879			3,049,879
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	1,290,820	1,104,891	157,305,622	159,701,334
REAL ESTATE MORTGAGE	123,578	728,823	14,597,918	15,450,319
UTILITY STOCKS	288,054	1,477,623	13,030,429	14,796,105
TOTAL FIXED	1,702,452	3,311,338	184,933,970	189,947,759
EQUITY:				
AXE-HOUGHTON		1,385,583	9,967,934	11,353,517
DELAWARE		511,946	32,630,335	33,142,281
LEXINGTON		5,915,227	7,538,119	13,453,346
NEWBOLDS		2,800,093	24,795,029	27,595,121
REAL ESTATE EQUITY		782,823	26,675,735	27,458,558
LESS: LOAN PAYABLE			(5,986,144) 2/	(5,986,144)
TOTAL EQUITY		11,395,672	95,621,008	107,016,679
GRAND TOTAL	4,752,331	14,707,009	280,554,977	300,014,317

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.

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

	CASH		INVESTMENTS @MARKET	TOTAL ASSETS @ MARKET
	POOL A	PAC HOR		
OPERATING CASH	3,049,879			3,049,879
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	1,290,820	1,104,891	170,162,795	172,558,507
REAL ESTATE MORTGAGE	123,578	728,823	15,268,078	16,120,479
UTILITY STOCKS	288,054	1,477,623	15,352,225	17,117,901
TOTAL FIXED	1,702,452	3,311,338	200,783,098	205,796,887
EQUITY:				
AXE-HOUGHTON		1,385,583	10,684,906	12,070,489
DELAWARE		511,946	35,276,800	35,788,746
LEXINGTON		5,915,227	8,283,513	14,198,740
NEWBOLDS		2,800,093	27,001,691	29,801,784
REAL ESTATE EQUITY		782,823	26,235,831	27,018,654
LESS: LOAN PAYABLE			(5,986,144)	(5,986,144)
TOTAL EQUITY		11,395,672	101,496,597	112,892,269
GRAND TOTAL	4,752,331	14,707,009	302,279,695	321,739,035

ATTACHMENT A-2

SCERS - STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR INVESTMENT
FOR THE PERIOD 07/31/92 - 08/31/92

	BALANCE 7/31/92	INTEREST INCOME			DIV	GAIN (LOSS) ON SALES	NET RENTAL INCOME	INTEREST/ PRINCIPAL PAYMENTS	NET EXTERNAL CONTRIB.	CONTRIB. TRANSFER	BALANCE 8/31/92
		POOL A	PAC HOR	INVESTMENT							
OPERATING CASH	2,979,526	0							(1,322,000)	1,392,353	3,049,879
FIXED:											
BONDS, 2ND TD'S, & MTC. BK. CERTS	159,816,117	0	4,513	1,091,151		(2,340)				(1,208,106)	159,701,534
REAL ESTATE MORTGAGES	15,450,321	0		115,395						(115,395)	15,450,321
UTILITY STOCKS	14,727,020	0	3,750		65,335	0				0	14,796,104
EQUITY:											
AXE-HOUGHTON	11,361,909		6,776		2,572	(17,742)					11,353,516
DELAWARE	33,021,232		780		78,777	41,494					33,142,203
LEWINGTON	13,277,311		10,033		4,363	161,639					13,453,346
NEWBOLDS	27,410,002		65,938		7,994	111,108				0	27,595,121
REAL ESTATE EQUITY LOAN PAYABLE	27,458,558 (5,988,961)	0	0	8,852			109,284	(49,284) 2,817		(68,852)	27,458,558 (5,986,144)
GRAND TOTAL	299,513,115	0	91,789	1,215,397	159,040	294,158	109,284	(46,467)	(1,322,000)	(0)	300,014,317
YEAR TO DATE:	299,604,557	0	302,619	2,072,864	320,302	432,322	256,591	(92,980)	(2,881,958)	0	300,014,317

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

	COST	MARKET	ESTIMATED ANNUAL INCOME	EST. RATE AT COST	EST. RATE AT MARKET
CASH					
CITY POOL A	4,752,331	4,752,331	327,626	6.89%	6.89%
PAC HORIZONS MONEY MARKET FUND	14,707,009	14,707,009	485,331	3.30%	3.30%
FIXED:					
BONDS, 2ND TD'S & MTG. BK CERTS	157,305,622	170,162,795	14,032,390	8.92%	8.25%
REAL ESTATE MORTGAGE	14,597,918	15,268,078	1,558,125	10.67%	10.21%
UTILITY STOCKS	13,030,429	15,352,225	810,166	6.22%	5.28%
EQUITY:					
AXE-HOUGHTON	9,967,934	10,684,906	32,840	0.33%	0.31%
DELAWARE	32,630,335	35,276,800	1,213,797	3.72%	3.44%
LEXINGTON	7,538,119	8,283,513	203,933	2.71%	2.46%
NEWBOLDS	24,795,029	27,001,691	1,148,451	4.63%	4.25%
REAL ESTATE EQUITY	26,675,735	26,235,831	1,725,800 1/	6.47%	6.58%
LOAN PAYABLE	(5,986,144)	(5,986,144)			
	-----	-----	-----	-----	-----
GRAND TOTAL	300,014,317	321,739,035	21,538,459 2/	7.18%	6.69%
	=====	=====	=====	=====	=====

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 AUGUST 31, 1992

	1/ COST	1/ MARKET	2/ % AUTHORIZED	DOLLARS AUTHORIZED	3/ OVER (UNDER) INVESTED, BASED UPON COST/MARKET
OPERATING CASH	3,049,879	3,049,879			3,049,879
FIXED:					
BONDS, 2ND TD'S, & MTG BK. CERTS.	159,701,334	172,558,507	54.00%	173,739,079	(1,180,572)
REAL ESTATE MORTGAGE	15,450,319	16,120,479	5.00%	16,086,952	33,527
UTILITY STOCKS	14,796,105	17,117,901	5.00%	16,086,952	1,030,950
	-----	-----	-----	-----	-----
TOTAL FIXED	189,947,759	205,796,887	64.00%	205,912,983	(116,095)
	-----	-----	-----	-----	-----
EQUITY:					
AXE-HOUGHTON	11,353,517	12,070,489	4.00%	12,869,561	(799,072)
DELAWARE	33,142,281	35,788,746	11.00%	35,391,294	397,452
LEXINGTON	13,453,346	14,198,740	5.00%	16,086,952	(1,888,212)
NEWBOLDS	27,595,121	29,801,784	9.00%	28,956,513	845,271
REAL ESTATE EQUITY	27,458,558	27,018,654	7.00%	22,521,732	(1,049,319)
LESS: LOAN PAYABLE	(5,986,144)	(5,986,144)			
	-----	-----	-----	-----	-----
TOTAL EQUITY	107,016,679	112,892,269	36.00%	115,826,053	(2,493,880)
	-----	-----	-----	-----	-----
GRAND TOTAL	300,014,317	321,739,035	100.00%	321,739,035	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 AUGUST 1992

PORTFOLIO MANAGER	PURCHASES (COST)	(PROCEEDS)	SALES (COST)	GAIN/(LOSS)
FIXED:				
BONDS	\$0	\$325,000	(\$326,795)	(\$1,795)
MTG BACKED	\$0	\$125,935	(\$126,480)	(\$545)
2ND TD'S	\$0	\$0	\$0	\$0
REAL ESTATE MORTGAGES	\$0	\$0	\$0	\$0
UTILITY STOCKS	\$0	\$0	\$0	\$0
TOTAL FIXED	\$0	\$450,935	(\$453,275)	(\$2,340)
EQUITY:				
AXE-HOUGHTON	\$3,115,785	\$1,826,096	(\$1,843,837)	(\$17,742)
DELAWARE	\$320,726	\$610,147	(\$568,653)	\$41,494
LEXINGTON	\$0	\$1,889,302	(\$1,727,663)	\$161,639
NEWBOLDS	\$451,557	\$958,253	(\$847,146)	\$111,108
REAL ESTATE EQUITY	\$0	\$0	\$0	\$0
TOTAL EQUITY	\$3,888,067	\$5,283,798	(\$4,987,300)	\$296,499
GRAND TOTAL	\$3,888,067	\$5,734,733	(\$5,440,575)	\$294,159