

March 26, 1990

MINUTES
REGULAR MEETING OF THE
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD
March 26, 1990

CALL TO ORDER AND ROLL CALL

The Administration, Investment and Fiscal Management Board met in regular session in Conference Room 101, 921 - 10th Street, at 1:35 p.m. on March 26, 1990.

PRESENT: Frierson, Masuoka, Wolford, Friery, DeCamilla

ABSENT: None

CONSENT CALENDAR

MINUTES OF REGULAR MEETING HELD FEBRUARY 26, 1990

APPROVED

The Board received and reviewed the minutes of the regular meeting held February 26, 1990. Mr. Friery moved the minutes be approved. The motion was seconded by Ms. Frierson and was carried by the following vote:

AYES: Frierson, Masuoka, Wolford, Friery, DeCamilla

NOES: None

INVESTMENTS - TREASURER'S ACTIVITY REPORT

ACCEPTED

The Board received the January 1990 Treasurer's Investment Activity Report. Mr. Friery reviewed the investment report with the Board.

This is the first report since the transfer of \$103 million from SCERS to PERS and reflects the new asset allocation policy adopted by the Board. Mr. Friery informed the Board that in accordance with the new asset allocation policy the hard asset program has been terminated.

March 26, 1990

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

AYES: Frierson, Masuoka, Wolford, Friery, DeCamilla

NOES: None

REPORTS OF CONSULTANTS AND ADVISORS

REAL ESTATE ADVISOR'S REPORT

APPROVED

The Board received the March, 1990 Real Estate Advisor's report, submitted by W. Jim Smith of WJS & Associates. Mr. Smith was unable to attend the meeting.

As there was nothing unusual in the report, Mr. Wolford moved to accept the real estate report. The motion was seconded by Ms. Frierson and was carried by the following vote:

AYES: Frierson, Masuoka, Wolford, Friery DeCamilla

NOES: None

POWER INN INDUSTRIAL PARK REAL ESTATE PROPOSAL

APPROVED

As Mr. Smith was unable to attend the meeting the Board received and reviewed a letter from Mr. Smith strongly recommending the approval of this loan. Currently the borrowers, Jackson & Ekstrom, have a loan with SCERS. Since inception, the payments on this loan have been made on time.

Mr. Friery informed the Board that he had an opportunity to discuss this loan with Mr. Smith.

After discussion, Mr. Friery moved the loan be approved subject to the borrowers paying any attorneys fees if outside counsel is employed,

March 26, 1990

complete review of leases and other legal documents by System counsel, a complete due diligence of mechanical equipment by the proper engineers and a check by an environmental firm to be sure the property is free of any asbestos/toxic material. The motion was seconded by Mr. Wolford and was carried by the following vote:

AYES: Frierson, Masuoka, Wolford, Friery, DeCamilla

NOES: None

SEI DECEMBER 31, 1989 QUARTERLY PERFORMANCE REPORT
ACCEPTED

The Board received SEI's performance report for the quarter ending December 31, 1989. John McLaughlin, from SEI, reviewed the report with the Board.

The Board reviewed and discussed Batterymarch's investment performance.

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

AYES: Frierson, Masuoka, Wolford, Friery DeCamilla

NOES: None

BATTERYMARCH, JANUARY AND FEBRUARY 1990 PERFORMANCE
ACCEPTED AS INFORMATIONAL

The Board accepted as informational Batterymarch's January and February 1990 performance reports.

BATTERYMARCH INVESTMENT PROCESS
ACCEPTED AS INFORMATIONAL

The Board accepted as informational Batterymarch's booklet on their investment process.

March 26, 1990

LEXINGTON CAPITAL MANAGEMENT, INC., JANUARY 1990 PERFORMANCE
ACCEPTED AS INFORMATIONAL

The Board accepted as informational Lexington Capital Management's January, 1990 performance report.

DELAWARE INVESTMENT ADVISERS, FEBRUARY 1990 PERFORMANCE
ACCEPTED AS INFORMATIONAL

The Board accepted as informational Delaware's February, 1990 performance report.

POLICY MATTERS TO BE CONSIDERED AND ACTED UPON
RESOLUTION ESTABLISHING NEW ASSET ALLOCATION

The Board accepted as informational the corrected resolution establishing the new asset allocation policy.

IDEAS AND QUESTIONS, MEMBERS OF THE BOARD

Now and in the future, benefit payments and investment expenses of the system are greater than the contributions made by active members and the City. The Board discussed offsetting this imbalance by periodically transferring the interest earned from the fixed income program.

There being no further business, the meeting was adjourned at 3:00 p.m. to meet again at the call of the chair.

ATTACHMENT A-1

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

| | CASH | | INVESTMENTS @ COST | AMOUNT 1/ AVAILABLE FOR INVESTMENT |
|------------------------------------|------------------|-------------------|-----------------------|--|
| | POOL A | PAC HOR | | |
| OPERATING CASH | (4,342,962) | | | (4,342,962) |
| FIXED: | | | | |
| BONDS, 2ND TD'S, & MTG. BK. CERTS. | 1,904,214 | 821,074 | 120,454,032 | 123,179,321 |
| REAL ESTATE MORTGAGE | 736,941 | | 5,378,050 | 6,114,991 |
| UTILITY STOCKS | 907,022 | 1,760,250 | 10,246,202 | 12,913,474 |
| TOTAL FIXED | 3,548,178 | 2,581,324 | 136,078,284 | 142,207,786 |
| EQUITY: | | | | |
| AXE-HOUGHTON | 5,474 | 3,093,419 | 8,061,485 | 11,160,378 |
| BATTERYMARCH | | 1,607,804 | 18,367,014 | 19,974,818 |
| DELAWARE | | 3,560,524 | 18,794,037 | 22,354,561 |
| LEXINGTON | 733 | 158,498 | 11,025,747 | 11,184,978 |
| NEWBOLDS | 121,398 | 871,623 | 22,129,984 | 23,123,005 |
| GOLD & SILVER | 26,431 | | 2,331,799 | 2,358,230 |
| REAL ESTATE EQUITY | 2,410,013 | | 22,980,262 | 25,390,274 |
| LESS: LOAN PAYABLE | | | (6,000,000) | (6,000,000) |
| TOTAL EQUITY | 2,564,049 | 9,291,867 | 97,690,328 | 109,546,244 |
| SUB-TOTAL | 1,769,264 | 11,873,191 | 233,768,612 | 247,411,067 |
| SCERS SAFEKEEPING II 2/ | (892,528) | 273,946 | 18,000,000 | 17,381,418 |
| GRAND TOTAL | 876,736 | 12,147,137 | 251,768,612 | 264,792,485 |

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 were liquidated as of June 30, 1989. During the month of July 1989, the amount representing these assets was transferred to a separate account at Security Pacific National Bank and invested in short term securities. During the month of January 1990, \$103,339,314.34 was transferred to PERS.

ATTACHMENT A-1A

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

| | CASH | | INVESTMENTS @ MARKET | TOTAL ASSETS @ MARKET |
|------------------------------------|------------------|-------------------|-------------------------|--------------------------|
| | POOL A | PAC HOR | | |
| OPERATING CASH | (4,342,962) | | | (4,342,962) |
| FIXED: | | | | |
| BONDS, 2ND TD'S, & MTG. BK. CERTS. | 1,904,214 | 821,074 | 117,774,824 | 120,500,113 |
| REAL ESTATE MORTGAGE | 736,941 | | 5,720,616 | 6,457,557 |
| UTILITY STOCKS | 907,022 | 1,760,250 | 9,899,356 | 12,566,628 |
| TOTAL FIXED | 3,548,178 | 2,581,324 | 133,394,796 | 139,524,298 |
| EQUITY: | | | | |
| AXE-HOUGHTON | 5,474 | 3,093,419 | 8,018,175 | 11,117,068 |
| BATTERY MARCH | | 1,607,804 | 19,122,721 | 20,730,525 |
| DELAWARE | | 3,560,524 | 20,575,097 | 24,135,621 |
| LEXINGTON | 733 | 158,498 | 10,792,406 | 10,951,637 |
| NEWBOLDS | 121,398 | 871,623 | 23,606,943 | 24,599,964 |
| GOLD & SILVER | 26,431 | | 1,633,770 | 1,660,201 |
| REAL ESTATE EQUITY | 2,410,013 | | 22,580,000 | 24,990,013 |
| LESS: LOAN PAYABLE | | | (6,000,000) | (6,000,000) |
| TOTAL EQUITY | 2,564,049 | 9,291,867 | 100,329,112 | 112,185,028 |
| SUB-TOTAL | 1,769,264 | 11,873,191 | 233,723,908 | 247,366,364 |
| SCERS SAFEKEEPING II | (892,528) | 273,946 | 18,000,000 | 17,381,418 |
| GRAND TOTAL | 876,736 | 12,147,137 | 251,723,908 | 264,747,782 |

SCSIS - STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR INVESTMENT
FOR THE PERIOD 12/31/89 - 1/31/90

| | BALANCE 12/31/89 | POOL A PAC INC | INVESTMENT | DIV | GAIN (LOSS) ON SALES | NET RENTAL INCOME | NET INTEREST EXPENSE | EXTERNAL CONTRIB. | CONTRIB. TRANSFER | BALANCE 1/31/90 |
|--------------------------------------|---------------------|-------------------|------------|------------|-------------------------|-------------------------|----------------------------|----------------------|----------------------|--------------------|
| OPERATING CASH | (3,110,343) | | | | | | | | | (4,342,962) |
| FIXED: | | | | | | | | | | |
| BONDS, 2ND TD'S, & MFG. BK. CERTS | 122,570,981 | 0 | 6,201 | 584,138 | 18,022 | | | | | 123,179,321 |
| REAL ESTATE MORTGAGES | 6,062,280 | 0 | 52,112 | | | | | | | 6,114,392 |
| UTILITY STOCKS | 12,642,691 | 0 | 18,895 | | 51,888 | | | | | 12,913,474 |
| EQUITY: | | | | | | | | | | |
| AC-HOLDING | 11,151,395 | 0 | 14,064 | 10,860 | (15,940) | | | | | 11,160,379 |
| BATTERMANCH | 19,835,543 | 6,728 | 51,747 | 80,800 | | | | | | 19,974,618 |
| DELMAR | 22,260,927 | 24,620 | 69,014 | | | | | | | 22,354,561 |
| LEXINGTON | 10,349,917 | 0 | 7,663 | 12,645 | 814,552 | | | | | 11,184,976 |
| MERCURY | 22,989,755 | 0 | 32,559 | 13,499 | 87,190 | | | | | 23,123,004 |
| GOLD & SILVER | 2,359,345 | 0 | | | 0 | | | | | 2,359,321 |
| REAL ESTATE EQUITY | 25,328,452 | (39,022) | | | | 152,219 | (49,375) | | | 25,389,274 |
| LOAN PAYABLE | (6,000,000) | | | | | | | | | (6,000,000) |
| SUB-TOTAL | 246,037,923 | (39,022) | 110,930 | 636,736 | 209,653 | 984,624 | (49,375) | (632,619) | 0 | 247,411,067 |
| SCSIS SUFFERING II | 117,874,876 | 5,225 | 2,841,431 | 0 | | | | | | 17,381,418 |
| GRAND TOTAL | 363,911,999 | (39,022) | 116,155 | 3,478,166 | 209,653 | 984,624 | (49,375) | (103,971,633) | 0 | 264,792,486 |
| PERMANENT ASSETS | 349,384,263 | 674,956 | 804,409 | 6,235,858 | 1,961,755 | 8,240,823 | (345,625) | (4,382,516) | (116,217,074) | 247,411,068 |
| SCSIS SUFFERING II | 142,340 | | 4,361,318 | | | | | | | 17,381,418 |
| TOTAL YEAR TO DATE | 349,384,263 | 674,956 | 946,749 | 10,597,176 | 1,961,755 | 8,240,823 | (345,625) | (107,121,630) | 0 | 264,792,486 |

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

| | COST | MARKET | ESTIMATED ANNUAL INCOME | EST. RATE AT COST | EST. RATE AT MARKET |
|------------------------------------|--------------------|--------------------|-------------------------------|----------------------|------------------------|
| CASH | | | | | |
| CITY POOL A | 1,769,264 | 1,769,264 | 150,387 | 8.50% | 8.50% |
| PAC HORIZONS MONEY MARKET FUND | 11,873,191 | 11,873,191 | 997,348 | 8.40% | 8.40% |
| SCERS INVESTMENT POOLS | | | | | |
| FIXED: | | | | | |
| BONDS, 2ND TD'S & MTG. BK CERTS | 120,454,032 | 117,774,824 | 10,976,917 | 9.11% | 9.32% |
| REAL ESTATE MORTGAGE | 5,378,050 | 5,720,616 | 636,845 | 11.84% | 11.13% |
| UTILITY STOCKS | 10,246,202 | 9,899,356 | 577,928 | 5.64% | 5.84% |
| EQUITY: | | | | | |
| AXE-HOUGHTON | 8,061,485 | 8,018,175 | 38,775 | 0.48% | 0.48% |
| BATTERYMARCH | 18,367,014 | 19,122,721 | 446,044 | 2.43% | 2.33% |
| DELAWARE | 18,794,037 | 20,575,097 | 941,699 | 5.01% | 4.58% |
| LEXINGTON | 11,025,747 | 10,792,406 | 298,140 | 2.70% | 2.76% |
| NEWBOLDS | 22,129,984 | 23,606,943 | 933,959 | 4.22% | 3.96% |
| GOLD & SILVER | 2,331,799 | 1,633,770 | | | |
| REAL ESTATE EQUITY | 22,980,262 | 22,580,000 | 1,855,500 1/ | 8.07% | 8.22% |
| LOAN PAYABLE | (6,000,000) | (6,000,000) | | | |
| SUB-TOTAL | 247,411,067 | 247,366,364 | 17,853,542 2/ | 7.22% | 7.22% |
| SCERS SAFEKEEPING II | 17,381,418 | 17,381,418 | 1,477,421 | 8.50% | 8.50% |
| GRAND TOTAL | 264,792,485 | 264,747,782 | 19,330,963 | 7.30% | 7.30% |

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.

ATTACHMENT A-4

SCERS - STATEMENT OF OVER (UNDER) INVESTMENT BASED UPON COST/MARKET AS OF JANUARY 31, 1990

| | 1/ COST | 1/ MARKET | % AUTHORIZED | DOLLARS AUTHORIZED | 2/ OVER (UNDER) INVESTED, BASED UPON COST/MARKET |
|-----------------------------------|--------------------|--------------------|----------------|--------------------|--|
| OPERATING CASH | (4,342,962) | (4,342,962) | | | (4,342,962) |
| FIXED: | | | | | |
| BONDS, 2ND TD'S, & MTG BK. CERTS. | 123,179,321 | 120,500,113 | 50.50% | 124,942,589 | (1,763,268) |
| REAL ESTATE MORTGAGE | 6,114,991 | 6,457,557 | 2.50% | 6,185,277 | 272,280 |
| UTILITY STOCKS | 12,913,474 | 12,566,628 | 5.00% | 12,370,553 | 542,920 |
| TOTAL FIXED | 142,207,786 | 139,524,298 | 58.00% | 143,498,419 | (948,067) |
| EQUITY: | | | | | |
| AXE-HOUGHTON | 11,160,378 | 11,117,068 | 4.00% | 9,896,443 | 1,263,935 |
| BATTERYMARCH | 19,974,818 | 20,730,525 | 9.00% | 22,266,996 | (1,536,471) |
| DELAWARE | 22,354,561 | 24,135,621 | 9.00% | 22,266,996 | 1,868,625 |
| LEXINGTON | 11,184,978 | 10,951,637 | 4.00% | 9,896,443 | 1,288,535 |
| NEWBOLDS | 23,123,005 | 24,599,964 | 9.00% | 22,266,996 | 2,332,968 |
| GOLD & SILVER | 2,358,230 | 1,660,201 | 1.00% | 2,474,111 | (115,880) |
| REAL ESTATE EQUITY | 25,390,274 | 24,990,013 | 6.00% | 14,844,664 | 4,545,610 |
| LESS: LOAN PAYABLE | (6,000,000) | (6,000,000) | | | |
| TOTAL EQUITY | 109,546,244 | 112,185,028 | 42.00% | 103,912,648 | 9,647,322 |
| SUB-TOTAL | 247,411,067 | 247,366,364 | 100.00% | 247,411,067 | 4,356,293 |
| SCERS SAFEKEEPING II | 17,381,418 | 17,381,418 | 100.00% | 17,381,418 | 0 |
| GRAND TOTAL | 264,792,485 | 264,747,782 | 100.00% | 264,792,485 | 4,356,293 |

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 January 31, 1990, \$4,356,293 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.

1]

SCERS - STATEMENT OF PURCHASES AND SALES ACTIVITY
FOR JANUARY 1990

| PORTFOLIO MANAGER | PURCHASES (COST) | (PROCEEDS) | SALES (COST) | GAIN/(LOSS) |
|-----------------------|---------------------|----------------------|------------------------|------------------|
| FIXED: | | | | |
| BONDS | \$0 | \$100,000 | (\$82,150) | \$17,850 |
| MTG BACKED | | \$131,947 | (\$131,775) | \$172 |
| 2ND TD'S | | | | \$0 |
| REAL ESTATE MORTGAGES | | | | \$0 |
| UTILITY STOCKS | \$0 | \$0 | \$0 | \$0 |
| TOTAL FIXED | \$0 | \$231,947 | (\$213,925) | \$18,022 |
| EQUITY: | | | | |
| AXE-HOUGHTON | \$2,142,026 | \$877,817 | (\$893,757) | (\$15,940) |
| BATTERYMARCH | \$2,717,001 | \$2,715,912 | (\$2,635,108) | \$80,804 |
| DELAWARE | \$0 | \$0 | \$0 | \$0 |
| LEXINGTON | \$5,030,662 | \$4,711,166 | (\$3,896,615) | \$814,552 |
| NEWBOLDS | \$507,403 | \$606,188 | (\$518,997) | \$87,190 |
| GOLD & SILVER | | | | \$0 |
| TOTAL EQUITY | \$10,397,092 | \$8,911,083 | (\$7,944,477) | \$966,606 |
| SUB -TOTAL | \$10,397,092 | \$9,143,030 | (\$8,158,402) | \$984,628 |
| SCERS SAFEKEEPING II | \$34,200,000 | \$106,178,639 | (\$106,178,639) | (\$0) |
| GRAND TOTAL | \$44,597,092 | \$115,321,669 | (\$114,337,041) | \$984,628 |

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