

August 28, 1989

MINUTES
REGULAR MEETING OF THE
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD
August 28, 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 1:30 p.m. on August 28, 1989.

Ms. Margaret Allen was introduced to the Board as the new Retirement System Manager and Secretary to the AIFM Board.

PRESENT: Masuoka, Friery, DeCamilla

ABSENT: Frierson, Wolford

CONSENT CALENDAR

MINUTES OF REGULAR MEETING HELD JULY 24, 1989
APPROVED

The Board received and reviewed the minutes of the regular meeting held July 24, 1989. Mr. Friery moved the minutes be approved. 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 June 1989 Treasurer's Investment Activity Report. Deborah Carter, Investment Officer, reviewed the investment report with the Board.

An addendum to the June 1989 Treasurer's Report on the sale of SCERS assets to accommodate the transfer of active safety members to PERS was distributed to the Board and reviewed by Thomas P. Friery.

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

AYES: Masuoka, Friery, DeCamilla

NOES: None

ANNUAL PROXY REPORT
ACCEPTED AS INFORMATIONAL

As per AIFM Board Resolution #79-002, the Treasurer is to vote proxy proposals of corporations owned by SCERS and report the results of the proxy voting to the Board annually.

Deborah Carter, Investment Officer, presented a summary of the proxies voted last fiscal year. Also, a complete listing of each proxy voted is on file with the AIFM Secretary and the Treasurer's office.

REPORTS OF CONSULTANTS AND ADVISORS

CITY TREASURER'S UTILITY STOCK, JUNE 30, 1989 QUARTERLY REPORT
ACCEPTED

The Board received a summary report of the Treasurer's Utility Stock Fixed Income Alternative Portfolio Results for the quarter ending June 30, 1989. Thomas P. Friery, City Treasurer, briefly reviewed the report with the Board.

A complete report will be presented to the Board at a later date.

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

HARD ASSET PROGRAM JUNE 30, 1989 QUARTERLY REPORT
ACCEPTED

The Board received the Hard Asset, June 30, 1989 Quarterly

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Report. Deborah Carter, Investment Officer, reviewed the report with the Board.

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

Mr. Smith reported the system's outside attorney has received the first two payments and the Promissory Note from the Diamond Lumber Company, former tenants of the Enterprise Buildings, along with 2,932 shares of Michigan General Corporation, parent company of Diamond Lumber. The note is for five years and is in the amount of \$23,452 which is full settlement of our claim in Bankruptcy Court.

Also, the Bankruptcy Trustee in the Clothing Company case, former tenants of Discovery Plaza Shopping Center, has notified the system that he is willing to turn the property back to the System. Mr. Smith will keep the Board informed on this issue.

Ms. Frierson arrived at 1:48 p.m.

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

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AYES: Frierson, Masuoka, Friery, DeCamilla

NOES: None

DELAWARE INVESTMENT ADVISERS JUNE 30, 1989 QUARTERLY REPORT

ACCEPTED

The Board received the June 30, 1989 quarterly report from Delaware Investment Advisers. George Deming reviewed the report with the Board.

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

AYES: Frierson, Masuoka, Friery, DeCamilla

NOES: None

AXE-HOUGHTON MANAGEMENT JUNE 30, 1989 QUARTERLY REPORT

ACCEPTED

The Board received the June 30, 1989 quarterly report from Axe-Houghton. Porter H. Sutro reviewed the report with the Board.

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

AYES: Frierson, Masuoka, Friery, DeCamilla

NOES: None

NEWBOLD'S ASSET MANAGEMENT JUNE 30, 1988 QUARTERLY REPORT

ACCEPTED

The Board received the June 30, 1989 quarterly report from Newbold's Asset Management. Harry K. Hiestand reviewed the report with the Board.

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

AYES: Frierson, Masuoka, Friery, DeCamilla

NOES: None

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LEXINGTON CAPITAL MANAGEMENT JUNE 30, 1989 QUARTERLY REPORT
ACCEPTED

The Board received the June 30, 1989 quarterly report from Lexington Capital. Ralph D'Agostini reviewed the report with the Board.

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

AYES: Frierson, Masuoka, Friery, DeCamilla

NOES: None

BATTERYMARCH JUNE 30, 1989 QUARTERLY REPORT
ACCEPTED

The Board received the June 30, 1989 quarterly report from Batterymarch. Richard Gula reviewed the report with the Board.

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

AYES: Frierson, Masuoka, Friery, DeCamilla

NOES: None

SEI PERFORMANCE SUMMARY AND MARKET INDEXES, JUNE 1989
ACCEPTED AS INFORMATIONAL

The Board accepted as informational SEI's June 1989 Performance Summary and Market Indexes.

POLICY MATTERS TO BE CONSIDERED AND ACTED UPON

ACTION PLAN FOR ASSET DIVERSIFICATION OF A MATURED RETIRED SYSTEM
ACCEPTED AS INFORMATIONAL

The Board received a report submitted by Thomas P. Friery regarding an action plan for asset diversification of a matured "closed" retirement system. Mr. Friery reviewed the report with the Board.

Mr. Friery stated that in previous years he has reported to the Board that, as the years pass, decisions would have to be made in

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consideration of a cash yield portfolio rather than a total return portfolio. Since there are no new members, the ability to cover required member benefit payments and expenses for all remaining retirees with plan assets will be the primary issue facing the system. A portfolio more heavily weighted in fixed income securities was suggested for further study.

As a result, Mr. Friery stated that the Treasurer's office will prepare an indepth report for the purposes of structuring the SCERS portfolio to meet the needs of a "closed" pension fund and anticipated that the report would be presented to the Board at the January 1990 meeting.

IDEAS AND QUESTIONS, MEMBERS OF THE BOARD

The Board unanimously decided to adopt the resolution, which was presented to Richard E. Snyder at his retirement dinner, recognizing Mr. Snyder's commitment and contribution to the City, to the retirement system and, most especially, to the AIFM Board.

There being no further business, the meeting was adjourned at 3:15 p.m. to meet again at the call of the chair.

	CASH 2/		INVESTMENTS @ COST	AMOUNT 1/ AVAILABLE FOR INVESTMENT
	POOL A	PAC HOR		
EXTERNAL CONTRIBUTIONS	51,501			51,501
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	7,380,962	53,394,527	114,230,135	175,005,624
REAL ESTATE MORTGAGE	2,722,682		5,589,986	8,312,668
UTILITY STOCKS	1,550,735	5,801,035	9,880,949	17,232,720
TOTAL FIXED	<u>11,654,380</u>	<u>59,195,562</u>	<u>129,701,070</u>	<u>200,551,012</u>
EQUITY:				
AXE-HOUGHTON	2,107,329	4,440,576	8,004,087	14,551,993
BATTERYMARCH		14,092,552	17,455,928	31,548,481
DELAWARE		15,268,582	17,469,716	32,738,298
LEXINGTON	23,050	6,714,468	8,016,819	14,754,337
NEWBOLDS	3,384,688	11,462,984	16,981,435	31,829,107
GOLD & SILVER	998,764		2,049,044	3,047,808
REAL ESTATE EQUITY	3,621,402		22,690,327	26,311,729
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	<u>10,135,233</u>	<u>51,979,162</u>	<u>86,667,358</u>	<u>148,781,753</u>
TOTAL	<u>21,841,114</u>	<u>111,174,724</u>	<u>216,368,428</u>	<u>349,384,266</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. It is envisioned, as of July 3, 1989, approximately \$113,000,000.00 will be transferred to a separate account at Security Pacific National Bank until January 12, 1990 when the transfer to PERS will take place.

SCERS - STATEMENT OF ASSETS @ MARKET VALUE
AS OF JUNE 30, 1989

	CASH		INVESTMENTS @ MARKET	TOTAL ASSETS @ MARKET
	POOL A	PAC HOR		
EXTERNAL CONTRIBUTIONS	51,501			51,501
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	7,380,962	53,394,527	115,120,203	175,895,692
REAL ESTATE MORTGAGE	2,722,682		5,836,237	8,558,919
UTILITY STOCKS	1,550,735	5,801,035	9,928,300	17,280,070
TOTAL FIXED	11,654,380	59,195,562	130,884,740	201,734,682
EQUITY:				
AXE-HOUGHTON	2,107,329	4,440,576	8,975,875	15,523,780
BATTERYMARCH		14,092,552	19,988,893	34,081,445
DELAWARE		15,268,582	19,478,595	34,747,177
LEXINGTON	23,050	6,714,468	9,769,700	16,507,218
NEWBOLDS	3,384,688	11,462,984	19,110,932	33,958,604
GOLD & SILVER	998,764		1,335,490	2,334,254
REAL ESTATE EQUITY	3,621,402		22,580,000	26,201,402
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	10,135,233	51,979,162	95,239,485	157,353,880
TOTAL	21,841,114	111,174,724	226,124,225	359,140,063

	BALANCE 5/31/89	INTEREST INCOME			DIV	GAIN (LOSS) ON SALES	NET RENTAL INCOME	INTEREST EXPENSE	NET EXTERNAL CONTRIB.	CONTRIB. TRANSFER	BALANCE 6/30/89
		POOL A	PAC HOR	INVESTMENT							
EXTERNAL CONTRIBUTION	311,252	69,776							(329,527)		51,501
FIXED:											
BONDS, 2ND TD'S, & MTG. BK. CERTS	173,694,611	166,040	7,403	2,129,113		(1,011,543)					175,005,624
REAL ESTATE MORTGAGES	8,206,779	51,568		54,321							8,312,668
UTILITY STOCKS	17,079,773	32,488	11,311		70,200	38,947					17,232,719
EQUITY:											
AXE-HUGHTON	13,726,293	58,581	21,333		20,601	725,184					14,551,993
BATTERYMARCH	29,725,902		17,980		148,068	1,656,531					31,548,481
DELAWARE	31,218,479		30,574		151,186	1,338,060					32,738,298
LEXINGTON	13,169,033	164	26,847		41,728	1,516,564					14,754,337
HENBOLDS	30,503,820	72,767	38,472		139,371	1,074,678					31,829,107
GOLD & SILVER	3,340,391			5,673		(298,256)					3,047,808
REAL ESTATE EQUITY	26,186,834	61,270					113,000	(49,375)			26,311,729
LOAN PAYABLE	(6,000,000)										(6,000,000)
TOTAL	341,163,167	532,655	153,920	2,189,107	571,154	5,040,166	113,000	(49,375)	(329,527)	0	349,364,265
YEAR TO DATE	315,753,098	1,742,110	1,011,929	14,900,297	4,603,376	6,710,411	1,393,749	(592,500)	1,661,794		349,364,266

IN THE YEAR END 1989

BY THE BOARD OF DIRECTORS

SCERS - STATEMENT OF ESTIMATED INCOME & RATES OF RETURN
AS OF JUNE 30, 1989

	COST	MARKET	ESTIMATED ANNUAL INCOME	EST. RATE AT COST	EST. RATE AT MARKET
CASH					
CITY POOL A	21,841,114	21,841,114	2,042,144	9.35%	9.35%
PAC HORIZONS MONEY MARKET FUND	111,174,724	111,174,724	10,161,369	9.14%	9.14%
SCERS INVESTMENT POOLS					
FIXED:					
BONDS, 2ND TD'S & MTG. BK CERTS	114,230,135	115,120,203	10,306,960	9.02%	8.95%
REAL ESTATE MORTGAGE	5,589,986	5,836,237	655,148	11.72%	11.23%
UTILITY STOCKS	9,880,949	9,928,300	636,750	6.44%	6.41%
EQUITY:					
AXE-HOUGHTON	8,004,087	8,975,875	90,085	1.13%	1.00%
BATTERYMARCH	17,455,928	19,988,893	353,880	2.03%	1.77%
DELAWARE	17,469,716	19,478,595	879,319	5.03%	4.51%
LEXINGTON	8,016,819	9,769,700	182,377	2.27%	1.87%
NEWBOLDS	16,981,435	19,110,932	699,400	4.12%	3.66%
GOLD & SILVER	2,049,044	1,335,490			
REAL ESTATE EQUITY	22,690,327	22,580,000	1,548,500 1/	6.82%	6.86%
LOAN PAYABLE	(6,000,000)	(6,000,000)			
TOTAL	349,384,266	359,140,063	27,555,932 2/	7.89%	7.67%

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 JUNE 30, 1989

	1/ COST	1/ MARKET	% AUTHORIZED	DOLLARS AUTHORIZED	2/ OVER (UNDER) INVESTED, BASED UPON COST/MARKET
EXTERNAL CONTRIBUTIONS	51,501	51,501			
FIXED:					
BONDS, 2ND TD'S, & MTG BK. CERTS.	175,005,624	175,895,692	50.50%	176,439,054	(543,362)
REAL ESTATE MORTGAGE	8,312,668	8,558,919	2.50%	8,734,607	(175,688)
UTILITY STOCKS	17,232,720	17,280,070	5.00%	17,469,213	(189,143)
TOTAL FIXED	200,551,012	201,734,682	58.00%	202,642,874	(908,193)
EQUITY:					
AXE-HOUGHTON	14,551,993	15,523,780	4.00%	13,975,371	1,548,410
BATTERYMARCH	31,548,481	34,081,445	9.00%	31,444,584	2,636,861
DELAWARE	32,738,298	34,747,177	9.00%	31,444,584	3,302,593
LEXINGTON	14,754,337	16,507,218	4.00%	13,975,371	2,531,847
NEWBOLDS	31,829,107	33,958,604	9.00%	31,444,584	2,514,020
GOLD & SILVER	3,047,808	2,334,254	1.00%	3,493,843	(446,034)
REAL ESTATE EQUITY	26,311,729	26,201,402	6.00%	20,963,056	(651,327)
LESS: LOAN PAYABLE	(6,000,000)	(6,000,000)			
TOTAL EQUITY	148,781,753	157,353,880	42.00%	146,741,392	11,436,370
TOTAL	349,384,266	359,140,063	100.00%	349,384,266	10,528,177

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 6/30/89, \$10,579,678 (\$10,528,177 + \$51,501) 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 JUNE 1989

PORTFOLIO MANAGER	PURCHASES (COST)	(PROCEEDS)	SALES (COST)	GAIN/(LOSS)
FIXED:				
BONDS	\$3,000,000	\$38,992,622	(\$39,716,155)	(\$723,533)
MTG BACKED		\$12,254,380	(\$12,542,390)	(\$288,010)
2ND TD'S				\$0
REAL ESTATE MORTGAGES				\$0
UTILITY STOCKS	\$0	\$4,708,393	(\$4,669,446)	\$38,947
TOTAL FIXED	\$3,000,000	\$55,955,395	(\$56,927,991)	(\$972,596)
EQUITY:				
AXE-HOUGHTON	\$2,407,821	\$3,282,335	(\$2,557,151)	\$725,184
BATTERYMARCH	\$878,569	\$12,859,518	(\$11,202,987)	\$1,656,531
DELAWARE	\$6,218	\$10,590,868	(\$9,252,809)	\$1,338,060
LEXINGTON	\$1,824,694	\$5,077,084	(\$3,560,519)	\$1,516,564
NEWBOLDS	\$921,251	\$7,385,946	(\$6,311,268)	\$1,074,678
GOLD & SILVER		\$673,375	(\$971,631)	(\$298,256)
TOTAL EQUITY	\$6,038,553	\$39,869,126	(\$33,856,366)	\$6,012,761
TOTAL	\$9,038,553	\$95,824,521	(\$90,784,356)	\$5,040,165

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