

November 26, 1990

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

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 November 26, 1990.

PRESENT: Crist, Frierson, Masuoka, Friery, DeCamilla

ABSENT: None

CONSENT CALENDAR

MINUTES OF REGULAR MEETING HELD OCTOBER 29, 1990

APPROVED

The Board received and reviewed the minutes of the regular meeting held October 29, 1990. Mr. Friery moved the minutes be approved. The motion was seconded by Ms. Frierson and was carried by the following vote:

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

INVESTMENTS - TREASURER'S ACTIVITY REPORT

ACCEPTED

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

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

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

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REPORTS OF CONSULTANTS AND ADVISORSCITY TREASURER'S UTILITY STOCK, SEPTEMBER 30, 1990 QUARTERLY REPORT
ACCEPTED

The Board received the Treasurer's Utility Stock Fixed Income Alternative Portfolio results for the quarter ending September 30, 1990. Mr. Friery reviewed the report with the Board.

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

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

REAL ESTATE ADVISOR'S REPORT
ACCEPTED

The Board received the November, 1990 Real Estate Advisor's Report, submitted by W. Jim Smith of WJS & Associates. Mr. Smith reviewed the report with the Board.

Mr. Smith reported that he attended an Adjacent Property Owners Input Meeting on October 31, 1990 regarding the expansion of the Community Convention Center and invited the architects and the City Facilities Project Officer to make a presentation to the Board.

Mr. Smith reported that the potential buyer for the Enterprise Building has withdrawn the proposal. Mr. Smith recommended not placing the property back on the market because of current market conditions.

Mr. Smith reported he had received bids to remove several trees on the Discovery Plaza property because the tree roots are raising the sidewalk. The approximate removal cost will be \$2,800 plus \$3,000 to repair the sidewalk. Mr. Smith recommended the removal of the trees.

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After discussion, the Board recommend that Mr. Smith contact the City to determine if the original building permit had specific requirements and conditions regarding landscaping and explore replanting the area with a different type of tree.

Mr. Friery moved to accept the report with the recommendation that Mr. Smith report back to the Board on the removal of the trees on the Discovery Plaza property. The motion was seconded by Mr. Crist and was carried by the following vote:

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

COMMUNITY CONVENTION CENTER EXPANSION PRESENTATION
INFORMATIONAL

On the invitation from Mr. Smith, Real Estate Advisor, the architects from Vitiello & Associates and the City's Facilities Project Officer, Keith Kramer, gave a verbal and visual presentation to the Board on the proposed Community Convention Center expansion, specific to the loading dock area.

The Board reiterated their concerns about the placement of the loading docks and the negative impact on the system's investment, located at 1414 K Street, because of increased traffic, excessive noise and fumes, restricted on street parking and restricted access to the system's building. Currently, tenants and visitors of the system's building have access to on street parking and are within comfortable walking distance to a City garage, located at 13th and J. The expansion project will make parking inconvenient for the tenants and visitors.

The Board was informed that a second EIR will be released for public comment and that this report will address parking and traffic management issues.

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The Board inquired about the construction of an underground parking facility and was informed that an underground parking facility was too costly and would not provide sufficient parking spaces; however, the City is studying constructing a parking garage several blocks north of the center but because of budget constraints the construction would not be for several years.

The Board was informed that the City is trying to be a good neighbor and wants the adjacent property owners' input as to present and future development plans.

The Board thanked Mr. Kramer and Vitiello and Associates for the presentation.

DELAWARE INVESTMENT ADVISERS SEPTEMBER 30, 1990 QUARTERLY REPORT
ACCEPTED

The Board received the September 30, 1990 quarterly report from Delaware Investment Advisers. Mr. Deming introduced Mr. Bernard Schaffer, Vice President, Portfolio Manager. Mr. Schaffer will be working with Mr. Deming on our account. Mr. Deming and Mr. Schaffer reviewed the report with the Board.

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

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

NEWBOLD'S ASSET MANAGEMENT SEPTEMBER 30, 1990 QUARTERLY REPORT
ACCEPTED

The Board received the September 30, 1990 quarterly report from Newbold's Asset Management. Harry Hiestand reviewed the report with the Board.

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

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

Ms. Masuoka left the meeting at 3:00 p.m.

TOWERS, PERRIN, FORSTER & CROSBY, JUNE 30, 1990 ACTUARIAL VALUATION REPORT
ACCEPTED WITH ADOPTION OF RATES CONTINUED

The Board received the June 30, 1990 Actuarial Valuation report from Towers, Perrin, Forster & Crosby. David LeSueur, Actuary, reviewed the report with the Board. Mr. LeSueur distributed a handout which summarized the valuation.

Mr. LeSueur reported the system's plan provisions were the same as for 1989. However, this valuation excluded active safety members since they transferred to PERS. All liabilities for their service in the SCERS plan shifted to PERS, and assets to offset the liabilities transferred to PERS. The City's normal contribution rate and unfunded liability contribution rate significantly decreased. The primary reasons for the reductions were as follows:

- actual investment income earned during the fiscal year were greater than the actuarial assumptions.
- actual salary increases, withdrawal rates, and retirement rates were more favorable.
- active safety members transferred to PERS.

Mr. LeSueur gave a comprehensive explanation on how the transfer of the active safety members from SCERS to PERS affected the SCERS fund.

Mr. LeSueur informed the Board that TPF&C has continued to use the same assumptions employed since the 1980 valuation. These assumptions continue to be reasonable; however, the experience of the plan has been more favorable than the assumptions. As a result, and for the Board's

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consideration, Mr. LeSueur calculated valuation results using PERS assumptions as outlined in Section V of the report.

After a discussion the Board decided to remain with the current assumptions but not adopt the recommended employer rates until Ms. Masuoka has an opportunity to comment.

The Board requested that Mr. LeSueur provide a brief report showing the age of retirement for miscellaneous and safety members during the last five years.

Mr. Crist moved to accept the report, remain with the current assumptions but postpone adopting the recommended employer rates until the next meeting, when Ms. Masuoka has an opportunity to comment and have the report presented to the City Council as soon as possible. The motion was seconded by Mr. Friery and was carried by the following vote:

AYES: Crist, Frierson, Friery, DeCamilla

NOES: None

AXE-HOUGHTON MANAGEMENT SEPTEMBER 30, 1990 QUARTERLY REPORT
ACCEPTED

The Board received the September 30, 1990 quarterly report from Axe-Houghton. In accordance with the Board's new policy on semi-annual presentations from investment managers, Axe-Houghton submitted their quarterly report for review but were not present to make a verbal presentation.

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

AYES: Crist, Frierson, Friery, DeCamilla

NOES: None

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LEXINGTON CAPITAL MANAGEMENT SEPTEMBER 30, 1990 QUARTERLY REPORT
ACCEPTED

The Board received the September 30, 1990 quarterly report from Lexington Capital. In accordance with the Board's new policy on semi-annual presentations from investment managers, Lexington submitted their quarterly report for review but were not present to make a verbal presentation.

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

AYES: Crist, Frierson, Friery, DeCamilla

NOES: None

BATTERYMARCH, SEPTEMBER 1990 PERFORMANCE
ACCEPTED AS INFORMATIONAL

The Board accepted as information BatteryMarch's September 1990 performance report.

REPORTS OF THE SECRETARY

SCHEDULE FOR 1990-91 ACTUARIAL REPORT

Margaret Allen, Secretary to the Board, informed the Board that the Finance Department has requested that the actuarial process be accelerated so that future actuarial reports be presented to the Board in the month of October rather than in November. This minor change would assist the Finance Department and enable the City to comply with state requirements to produce the annual City Financial report by the end of each year.

Ms. Allen informed the Board that she had discussed this request with David LeSueur, the system's actuary, and he would comply with this request.

The Board agreed to comply with the request.

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TERMS OF APPOINTED BOARD MEMBERS

Ms. Allen informed the Board that the City Council recently adopted Ordinance No. 90-040 limiting board and commission appointments to two consecutive terms.

The Board instructed the Secretary to research and report back to the Board if an exemption could be made for the AIFM Board appointees.

For the record Mr. David DeCamilla served his first term from January 1988 to January 1991 and he is now serving his second term which will be from January 1991 to January 1994. Ms. JoAnn Frierson served her first term from January 1987 to January 1990 and she is now serving her second term which will be from January 1990 to January 1993.

TRANSMITTAL LETTER FOR SCERS 1989-90 ANNUAL REPORT

Ms. Allen informed the Board that staff is preparing the transmittal letter for the 1989-90 Annual Report.

IDEAS AND QUESTIONS, MEMBERS OF THE BOARD

After discussion the Board agreed to schedule an executive session to discuss and determine an action plan regarding the Community Center expansion project and its impact on the system's investment property located at 1414 K

There being no further business, the meeting was adjourned at 4:10 p.m. to meet again at the call of the chair.

SCERS - STATEMENT OF ASSETS AVAILABLE FOR INVESTMENT
AS OF SEPTEMBER 30, 1990

	CASH		INVESTMENTS @ COST	AMOUNT 1/ AVAILABLE FOR INVESTMENT
	POOL A	PAC HOR		
OPERATING CASH	(1,719,553)			(1,719,553)
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	(1,458,618)	1,580,360	143,400,225	143,521,967
REAL ESTATE MORTGAGE	3,032,792		8,253,140	11,285,932
UTILITY STOCKS	914,935	979,037	11,931,597	13,825,568
TOTAL FIXED	2,489,108	2,559,397	163,584,962	168,633,467
EQUITY:				
AXE-HOUGHTON	11,487	1,094,852	9,240,895	10,347,234
BATTERYMARCH		404,061	9,547,898	9,951,959
DELAWARE		3,529,927	24,940,795	28,470,722
LEXINGTON	769	4,359,882	7,971,920	12,332,571
NEWBOLDS	51,878	3,097,932	20,971,705	24,121,515
REAL ESTATE EQUITY	3,166,180		23,039,904	26,206,083
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	3,230,313	12,486,655	89,713,117	105,430,085
GRAND TOTAL	3,999,869	15,046,052	253,298,079	272,343,999

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 SEPTEMBER 30, 1990

	CASH		INVESTMENTS @MARKET	TOTAL ASSETS @ MARKET
	POOL A	PAC HOR		
OPERATING CASH	(1,719,553)			(1,719,553)
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	(1,458,618)	1,580,360	139,248,745	139,370,486
REAL ESTATE MORTGAGE	3,032,792		8,530,087	11,562,879
UTILITY STOCKS	914,935	979,037	10,714,100	12,608,071
TOTAL FIXED	2,489,108	2,559,397	158,492,932	163,541,437
EQUITY:				
AXE-HOUGHTON	11,487	1,094,852	9,245,134	10,351,473
BATTERYMARCH		404,061	8,680,116	9,084,177
DELAWARE		3,529,927	22,885,516	26,415,443
LEXINGTON	769	4,359,882	7,520,103	11,880,754
NEWBOLDS	51,878	3,097,932	19,954,857	23,104,667
REAL ESTATE EQUITY	3,166,180		22,580,000	25,746,180
LESS: LOAN PAYABLE			(6,000,000)	(6,000,000)
TOTAL EQUITY	3,230,313	12,486,655	84,865,726	100,582,694
GRAND TOTAL	3,999,869	15,046,052	243,358,658	262,404,578

SCERS - STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR INVESTMENT
FOR THE PERIOD 8/31/90 - 9/30/90

	BALANCE 8/31/90	INTEREST INCOME			DIV	GAIN (LOSS) ON SALES	NET RENTAL INCOME	INTEREST EXPENSE	NET INTERNAL CONTRIB.	CONTRIB. TRANSFER	BALANCE 9/30/90
		POOL A	PAC HOR	INVESTMENT							
OPERATING CASH	(914,505)	(14,019)							(2,120,230)	1,329,201	(1,719,553)
FIXED:											
BONDS, 2ND TD'S, & MTC. BK. CERTS	143,525,814	(6,410)	10,498	1,318,703		2,563				(1,329,201)	143,521,967
REAL ESTATE MORTGAGES	11,163,275	20,939		101,718							11,285,932
UTILITY STOCKS	13,776,902	6,523	6,017		36,126	0					13,825,568
EQUITY:											
AIX-HOUGHTON	10,588,275	82	12,460		5,423	(259,004)					10,347,235
BATTERYMARCH	9,959,892		2,765		41,560	(51,458)					9,951,959
DELAWARE	28,314,486		21,911		134,326	0					28,470,723
LEIGHTON	12,610,570	5	15,382		29,163	(322,550)					12,332,571
NEUBOLDS	23,961,661	370	140,219		19,265	0					24,121,515
REAL ESTATE EQUITY LOAN PAYABLE	26,097,281 (6,000,000)	21,802					136,375 (49,375)				26,206,083 (6,000,000)
GRAND TOTAL	273,082,851	29,292	209,253	1,420,421	265,862	(630,449)	136,375 (49,375)	(2,120,230)	0	272,343,999	
YEAR TO DATE:	271,043,656	29,292	422,603	3,983,446	728,274	(343,598)	491,125 (148,125)	(3,862,674)	0	272,343,999	

ATTACHMENT A-3

SCERS - STATEMENT OF ESTIMATED INCOME & RATES OF RETURN
AS OF SEPTEMBER 30, 1990

	COST	MARKET	ESTIMATED ANNUAL INCOME	EST. RATE AT COST	EST. RATE AT MARKET
CASH					
CITY POOL A	3,999,869	3,999,869	343,989	8.60%	8.60%
PAC HORIZONS MONEY MARKET FUND	15,046,052	15,046,052	1,156,740	7.69%	7.69%
FIXED:					
BONDS, 2ND TD'S & MTG. BK CERTS	143,400,225	139,248,745	13,230,117	9.23%	9.50%
REAL ESTATE MORTGAGE	8,253,140	8,530,087	853,500	10.34%	10.01%
UTILITY STOCKS	11,931,597	10,714,100	746,562	6.26%	6.97%
EQUITY:					
AXE-HOUGHTON	9,240,895	9,245,134	20,140	0.22%	0.22%
BATTERYMARCH	9,547,898	8,680,116	261,104	2.73%	3.01%
DELAWARE	24,940,795	22,885,516	1,313,977	5.27%	5.74%
LEXINGTON	7,971,920	7,520,103	169,573	2.13%	2.25%
NEWBOLDS	20,971,705	19,954,857	1,071,570	5.11%	5.37%
REAL ESTATE EQUITY	23,039,904	22,580,000	1,985,500 1/	8.62%	8.79%
LOAN PAYABLE	(6,000,000)	(6,000,000)			
GRAND TOTAL	272,343,999	262,404,578	21,152,772	7.77%	8.06%

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. The estimated Capital Gains for the prior fiscal year 1989/90 was \$8.0 million. Administrative Expenses for this same period were \$119,000 for Banking and Trustee Fees, \$756,000 for Investment Manager Fees, \$592,500 for Interest Expense on Note Payable (Discovery Plaza), and \$1,008,000 for Real Estate Maintenance and Repair Expenses. Although we are unable to estimate Capital Gains for Fiscal Year 1990/91, 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 SEPTEMBER 30, 1990

	1/ COST	1/ MARKET	% AUTHORIZED	DOLLARS AUTHORIZED	2/ OVER (UNDER) INVESTED, BASED UPON COST/MARKET
OPERATING CASH	(1,719,553)	(1,719,553)			(1,719,553)
FIXED:					
BONDS, 2ND TD'S, & MTG BK. CERTS.	143,521,967	139,370,486	51.00%	138,895,440	4,626,527
REAL ESTATE MORTGAGE	11,285,932	11,562,879	4.00%	10,893,760	669,119
UTILITY STOCKS	13,825,568	12,608,071	5.00%	13,617,200	208,368
TOTAL FIXED	168,633,467	163,541,437	60.00%	163,406,400	5,504,014
EQUITY:					
AXE-HOUGHTON	10,347,234	10,351,473	4.00%	10,893,760	(542,287)
BATTERYMARCH	9,951,959	9,084,177	4.00%	10,893,760	(941,801)
DELAWARE	28,470,722	26,415,443	11.00%	29,957,840	(1,487,118)
LEXINGTON	12,332,571	11,880,754	5.00%	13,617,200	(1,284,629)
NEWBOLDS	24,121,515	23,104,667	9.00%	24,510,960	(389,445)
REAL ESTATE EQUITY	26,206,083	25,746,180	7.00%	19,064,080	1,142,003
LESS: LOAN PAYABLE	(6,000,000)	(6,000,000)			
TOTAL EQUITY	105,430,085	100,582,694	40.00%	108,937,600	(3,503,275)
GRAND TOTAL	272,343,999	262,404,578	100.00%	272,343,999	281,186

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 12/31/89 and became effective 2/28/90.

Should the Board reallocate as of September 30, 1990, \$281,186 would be allocated to the managers according to the percentages authorized.

ATTACHMENT A-5

1]
 SCERS - STATEMENT OF PURCHASES AND SALES ACTIVITY
 FOR SEPTEMBER 1990

PORTFOLIO MANAGER	PURCHASES (COST)	(PROCEEDS)	SALES (COST)	GAIN/(LOSS)
FIXED:				
BONDS	\$0	\$0	\$0	\$0
MTG BACKED	\$0	\$251,824	(\$249,261)	\$2,563
2ND TD'S	\$0	\$0	\$0	\$0
REAL ESTATE MORTGAGES	\$0	\$0	\$0	\$0
UTILITY STOCKS	\$0	\$0	\$0	\$0
TOTAL FIXED	\$0	\$251,824	(\$249,261)	\$2,563
EQUITY:				
AXE-HOUGHTON	\$857,563	\$579,533	(\$838,538)	(\$259,004)
BATTERYMARCH	\$0	\$128,618	(\$180,076)	(\$51,458)
DELAWARE	\$0	\$0	\$0	\$0
LEXINGTON	\$0	\$1,287,046	(\$1,609,596)	(\$322,550)
NEWBOLDS	\$714,592	\$0	\$0	\$0
TOTAL EQUITY	\$1,572,155	\$1,995,197	(\$2,628,210)	(\$633,012)
GRAND TOTAL	\$1,572,155	\$2,247,021	(\$2,877,470)	(\$630,449)

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