

MINUTES
REGULAR MEETING OF THE
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD
JANUARY 4, 1988

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 1:35 p.m. on January 4, 1988. Because of Board members' vacation schedules, the regular December meeting was rescheduled for January 4, 1988.

PRESENT: DeCamilla, Friery, Wolford

ABSENT: Frierson, Masuoka

CONSENT CALENDAR

MINUTES OF REGULAR MEETING HELD NOVEMBER 23, 1987
APPROVED

The Board received and reviewed the minutes of the regular meeting held November 23, 1987. Mr. Wolford moved the minutes be approved. The motion was seconded by Mr. DeCamilla and was carried by the following vote:

AYES: DeCamilla, Friery, Wolford

NOES: None

INVESTMENTS - TREASURER'S ACTIVITY REPORT
ACCEPTED

The Board received the October, 1987 Treasurer's Investment Activity Report. Deborah Carter, Investment Officer, reviewed the investment report with the Board.

The Board received a report, prepared by Mr. Friery, on the Price Club commercial paper investment in the amount of \$2,450,000 purchased with SCERS fixed monies. Mr. Friery reviewed and discussed, in length, this issue and distributed to the Board a copy of an additional report

sent to all recognized City employee organizations. The investment is at the rate of 10.5%, payable monthly, with a maturity date of 210 days from date of issuance. The investment is not a real estate purchase since the land is not owned by SCERS but by the Price Club with pledged assets. Mr. DeCamilla and Mr. Wolford supported the investment, stating it was prudent and adequately secured.

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

AYES: DeCamilla, Friery, Wolford

NOES: None

REPORTS OF CONSULTANTS AND ADVISORS

REAL ESTATE ADVISOR'S REPORT ACCEPTED

The Board received the November, 1987 Real Estate Advisor's Report, submitted by W. Jim Smith of WJS & Associates. Mr. Smith reviewed the report with the Board.

In the event of Mr. Friery's absence, Mr. Smith requested the Board consider designating another authorized person to sign routine real estate transaction papers. After discussion, the Board decided to designate the Vice-Chairman as the other authorized person and directed Richard E. Snyder, Secretary to the Board, to formalize this action by resolution.

After the January regular meeting, Mr. Smith has arranged a tour of the recently renovated SCERS property located at 1414 K Street.

Mr. Wolford moved to accept the Real Estate Advisor's Report. The motion was seconded by Mr. DeCamilla and was carried by the following vote:

AYES: DeCamilla, Friery, Wolford

NOES: None

SEI SEPTEMBER 30, 1987 QUARTERLY PERFORMANCE REPORT
ACCEPTED

The Board received SEI's performance reports for the quarter ending September 30, 1987. John McLaughlin, from SEI, reviewed the report, the system's current investment policies, objectives of each equity manager, and the current asset allocations.

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

AYES: DeCamilla, Friery, Wolford

NOES: None

CONSENT AND AGREEMENT OF REORGANIZATION OF ALLIANCE CAPITAL MANAGEMENT CORPORATION TO A MASTER LIMITED PARTNERSHIP
APPROVED

The Board received and reviewed correspondence from Alliance Capital regarding their reorganization as a master limited partnership.

After discussion and on the advice of William Carnazzo, Counsel to the Board, Mr. Wolford moved to approve the agreement. The motion was seconded by Mr. DeCamilla and was carried by the following vote:

AYES: DeCamilla, Friery, Wolford

NOES: None

BATTERYMARCH OCTOBER 1987 AND NOVEMBER 1987 PERFORMANCE
INFORMATIONAL

The Board accepted as informational Batterymarch's October and November 1987 Performance reports.

ALLIANCE CAPITAL NOVEMBER 1987 PERFORMANCE
INFORMATIONAL

The Board accepted as informational Alliance Capital's November 1987 Performance report.

POLICY MATTERS TO BE CONSIDERED AND ACTED UPONASSET ALLOCATION AND DIVERSIFICATION
CONTINUED

The Board received the Estimated Asset Redistribution Report submitted by the Treasurer's office based on October 31, 1987 values. Alen Keang, Treasury Operations Supervisor, reviewed the report with the Board and informed the Board that under current asset allocation policy the asset redistribution would be transferred on February 29, 1988 based on December 31, 1987 book/market value, in accordance with Resolution 84-007.

After a lengthy discussion, realizing the importance and necessity to focus on this issue to meet the long-term goals of the system and to receive full Board consideration, this matter was deferred until receipt of the December 31, 1987 quarterly performance reports from the managers.

EQUITY MANAGERS' PERFORMANCE AND SELECTION PROCESS
CONTINUED

The Board received the report submitted by Mr. Friery regarding equity managers' performance and selection process. Mr. Friery reviewed the report with the Board. Since the Board will be considering asset allocation and diversification policy and since Alliance Capital and Batterymarch are not achieving the performance objectives of the Board, Mr. Friery suggested that the Board consider hiring a new equity manager and that if a new manager is selected, they be hired prior to dismissal of one of the current managers. Also, Mr. Friery suggested, if the Board considers hiring a new manager, that the Board conduct the selection process rather than retaining SEI. Mr. Friery submitted names of three firms as potential candidates.

The Board discussed the following:

1. As the system reaches a negative external contribution position, the Board should consider reducing equity investments and increasing fixed income investments.

2. Not hiring a new equity manager and reallocating funds between current managers.
3. Dismissing a current investment manager and reallocating funds between remaining managers.
4. Dismissing a current investment manager and hiring a new equity manager.

This matter was continued to the next regular meeting for full Board consideration.

SELECTION OF SYSTEM ACTUARY

Richard E. Snyder, Secretary to the Board, informed the Board that the contract with Towers, Perrin, Forster and Crosby will terminate on June 30, 1988 and that under current Board policy a new actuarial firm must be selected.

The Board directed Mr. Snyder to prepare and issue a Request for Proposal (RFP), to review and screen all responses with two selected Board members, and to submit to the Board a list of the top five qualified firms.

DAY AND TIME OF MONTHLY BOARD MEETINGS CONTINUED

Due to the December holidays, the Board discussed not scheduling a regular meeting for the month of December and scheduling two regular meetings in the month of January.

Following discussion, the Board requested William Carnazzo, Counsel to the Board, to review the Charter and Code Sections for language requiring the Board to meet monthly. If there is no language requiring monthly meetings, the Board requested Richard E. Snyder, Secretary to the Board, to prepare a resolution formalizing this action.

REPORTS OF SECRETARYSACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM JUNE 30, 1987 ANNUAL REPORT
TRANSMITTAL LETTER
CONTINUED

Since the transmittal letter has not been finalized, the Board continued this matter to the next regular meeting.

IDEAS AND QUESTIONS, MEMBERS OF THE BOARD

Mr. Friery distributed copies of a report, that James P. Jackson, City Attorney prepared at the request of the City Council, regarding the SCERS investment standards for retirement funds.

There being no further business the meeting was adjourned at 4:12 p.m. to meet again at the call of the chair.

ATTACHMENT A-1

SCERS - STATEMENT OF ASSETS AVAILABLE FOR INVESTMENT
AS OF OCTOBER 30, 1987

	CASH		SCERS INVESTMENT POOLS	INVESTMENTS @ COST	AMOUNT 1/ AVAILABLE FOR INVESTMENT
	POOL A	PAC HOR			
EXTERNAL CONTRIBUTIONS	517,396	0	0	0	517,396
FIXED:					
BONDS, 2ND TD'S, & MTG. BK. CERTS.	(500,935)	2,340,902	0	139,226,640	141,066,607
REAL ESTATE MORTGAGE	828,367	0	0	5,938,315	6,766,682
UTILITY STOCKS	0	702,481	0	13,728,519	14,431,000
TOTAL FIXED	327,432	3,043,383	0	158,893,474	162,264,289
EQUITY:					
ALLIANCE	0	1,008,538	0	30,896,374	31,904,912
BATTERYMARCH	0	1,199,358	0	27,944,879	29,144,237
DELAWARE	0	2,254,106	0	26,530,069	28,784,175
NEHBOLD'S	0	4,144,417	0	23,050,151	27,194,568
GOLD & SILVER	263,476	0	0	3,104,300	3,367,776
REAL ESTATE EQUITY	1,719,502	0	0	21,157,172	22,876,674
LESS: LOAN PAYABLE	0	0	0	(6,000,000)	(6,000,000)
TOTAL EQUITY	1,982,978	8,606,419	0	126,682,945	137,272,342
TOTAL	2,827,806	11,649,802	0	285,576,419	300,054,027

✓ 14 mil cash

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 OCTOBER 31, 1987

	CASH		SCERS	INVESTMENTS	TOTAL ASSETS
	POOL A	PAC HOR	INVESTMENT POOLS	@ MARKET	@ MARKET
EXTERNAL CONTRIBUTIONS	517,396	0	0	0	517,396
FIXED:					
BONDS, 2ND TD'S, & MTG. 8K. CERTS.	(500,935)	2,340,902	0	131,283,062	133,123,029
REAL ESTATE MORTGAGE	828,367	0	0	6,167,942	6,996,309
UTILITY STOCKS	0	702,481	0	12,509,425	13,211,906
TOTAL FIXED	327,432	3,043,383	0	149,960,429	153,331,244
EQUITY:					
ALLIANCE	0	1,008,538	0	27,327,089	28,335,627
BATTERY MARCH	0	1,199,358	0	26,108,885	27,308,243
DELAWARE	0	2,254,106	0	23,903,975	26,158,081
NEUBOLD'S	0	4,144,417	0	20,782,481	24,926,898
GOLD & SILVER	263,476	0	0	2,742,000	3,005,476
REAL ESTATE EQUITY	1,719,502	0	0	21,435,098	23,154,600
LESS: LOAN PAYABLE	0	0	0	(6,000,000)	(6,000,000)
TOTAL EQUITY	1,982,978	8,606,419	0	116,299,528	126,888,925
TOTAL	2,827,806	11,649,802	0	266,259,957	280,737,565

ATTACHMENT A-2

SCERS - STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR INVESTMENT
FOR THE PERIOD 9/30/87 TO 10/31/87

	BALANCE 9/30/87	INTEREST INCOME			DIV.	GAIN (LOSS) ON SALES	NET RENTAL INCOME	INTEREST EXPENSE	NET EXTERNAL CONTRIB.	CONTRIB. TRANSFER	BALANCE 10/31/87
		POOL A	PAC HOR	INVESTMENT							
EXTERNAL CONTRIBUTION	621,513								(104,117)		517,396
FIXED:											
BONDS, 2ND TD'S, & MTG. BK. CERTS	140,215,259		8,250	738,924		104,174					141,066,607
REAL ESTATE MORTGAGES	6,729,030			37,652							6,766,682
UTILITY STOCKS	14,361,315		3,370		66,315						14,431,000
EQUITY:											
ALLIANCE	30,992,604		7,690		62,397	842,221					31,904,912
BATTERYMARCH	28,858,022		8,562		43,760	233,893					29,144,237
DELAWARE	28,481,062		15,970		109,377	177,766					28,784,175
NEUBOLD'S	27,122,169		33,243		39,156	0					27,194,568
GOLD & SILVER	3,365,932			1,844		0					3,367,776
REAL ESTATE EQUITY LOAN PAYABLE	22,881,049 (6,000,000)						45,000	(49,375)			22,876,674 (6,000,000)
TOTAL	297,627,955	0	77,085	778,420	321,005	1,358,054	45,000	(49,375)	(104,117)	0	300,054,027

TACHMENT A-3

SCERS - STATEMENT OF ESTIMATED INCOME & RATES OF RETURN
AS OF OCTOBER 31, 1987

	COST	MARKET	ESTIMATED ANNUAL INCOME	EST. RATE AT COST	EST. RATE AT MARKET
SH					
CITY POOL A	2,827,806	2,827,806	246,302	8.71%	8.71%
PAC HORIZONS MONEY MARKET FUND	11,649,802	11,649,802	667,534	5.73%	5.73%
SCERS INVESTMENT POOLS	0	0	0	0.00%	0.00%
XED:					
BONDS, 2ND TD'S, & MTG. BK. CERTS	139,226,640	131,283,062	12,233,327	8.79%	9.32%
REAL ESTATE MORTGAGE	5,938,315	6,167,942	686,282	11.56%	11.13%
UTILITY STOCKS	13,728,519	12,509,425	852,060	6.21%	6.81%
UITY:					
ALLIANCE	30,896,374	27,327,089	629,363	2.04%	2.30%
BATTERYMARCH	27,944,879	26,108,885	700,865	2.51%	2.68%
DELAWARE	26,530,069	23,903,975	1,351,829	5.10%	5.66%
NEUBOLD'S	23,050,151	20,782,481	911,748	3.96%	4.39%
GOLD & SILVER	3,104,300	2,742,000	0	0.00%	0.00%
REAL ESTATE EQUITY	21,157,172	21,435,098	1,478,500	6.99%	6.90%
LOAN PAYABLE	(6,000,000)	(6,000,000)	(592,500)	-9.88%	-9.88%
TOTAL	300,054,027	280,737,565	19,165,310	6.39%	6.83%

Actuarial
7% not
met

ATTACHMENT A-4

SCERS - STATEMENT OF OVER (UNDER) INVESTMENT BASED UPON
COST/MARKET AS OF OCTOBER 31, 1987

	COST	MARKET	% AUTHORIZED	DOLLARS AUTHORIZED	1/ OVER (UNDER) INVESTED BASED UPON COST	1/ OVER (UNDER) INVESTED BASED UPON MARKET
CASH						
CITY POOL A	2,827,806	2,827,806	0.00%	0	2,827,806	2,827,806
PAC HORIZONS MONEY MARKET FUND	11,649,802	11,649,802	0.00%	0	11,649,802	11,649,802
SCERS INVESTMENT POOLS	0	0	0.00%	0	0	0
FIXED:						
BONDS, 2ND TD'S, & MTG. BK. CERTS	139,226,640	131,283,062	48.50%	145,526,203	(6,299,563)	(14,243,141)
REAL ESTATE MORTGAGE	5,938,315	6,167,942	2.50%	7,501,351	(1,563,036)	(1,333,409)
UTILITY STOCKS	13,728,519	12,509,425	5.00%	15,002,701	(1,274,182)	(2,493,276)
EQUITY:						
ALLIANCE	30,896,374	27,327,089	10.00%	30,005,403	890,971	(2,678,314)
BATTERYMARCH	27,944,879	26,108,885	9.00%	27,004,862	940,017	(895,977)
DELAWARE	26,530,069	23,903,975	9.00%	27,004,862	(474,793)	(3,100,887)
NEUBOLD'S	23,050,151	20,782,481	9.00%	27,004,862	(3,954,711)	(6,222,381)
GOLD & SILVER	3,104,300	2,742,000	1.00%	3,000,540	103,760	(258,540)
REAL ESTATE EQUITY	21,157,172	21,435,098	6.00%	18,003,242	3,153,930	3,431,856
LOAN PAYABLE	(6,000,000)	(6,000,000)	0.00%	0	(6,000,000)	(6,000,000)
TOTAL	300,054,027	280,737,565	100.00%	308,054,027	(8)	(19,316,462)
	=====	=====	=====	=====	=====	=====

1/ These two columns represent 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 as of this date. The last reallocation was as of 12/31/86 and became effective 2/27/87. The cash position of each asset category is shown in Attachment A-1.

ATTACHMENT A-5

1]

SCERS - STATEMENT OF PURCHASES AND SALES ACTIVITY
FOR OCTOBER 1987

PORTFOLIO MANAGER	PURCHASES (COST)	(PROCEEDS)	SALES (COST)	GAIN/(LOSS)
FIXED:				
BONDS	\$4,353,307	\$2,557,864	(\$2,455,228)	\$102,636
MTG BACKED	\$0	\$211,216	(\$207,790)	\$3,426
2ND TD'S	\$0	\$1,060	(\$2,948)	(\$1,888)
REAL ESTATE MORTGAGES	\$2,250,000	\$14,545	(\$14,545)	\$0
UTILITY STOCKS	\$135,240	\$0	\$0	\$0
TOTAL FIXED	\$6,738,547	\$2,784,685	(\$2,680,511)	\$104,174
EQUITY:				
ALLIANCE	\$6,548,636	\$5,106,215	(\$4,263,994)	\$842,221
BATTERYMARCH	\$738,822	\$708,421	(\$474,527)	\$233,994
DELAWARE	\$1,645,589	\$572,751	(\$394,985)	\$177,766
NEWBOLD'S	\$283,504	\$0	\$0	\$0
GOLD & SILVER	\$0	\$0	\$0	\$0
TOTAL EQUITY	\$9,216,551	\$6,387,387	(\$5,133,506)	\$1,253,881
TOTAL	\$15,955,098	\$9,172,072	(\$7,814,017)	\$1,358,055

1] For detailed listings of activity, see Attachments 'B' through 'H'.