

November 23, 1992

MINUTES
REGULAR MEETING OF THE
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD
November 23, 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 November 23, 1992.

PRESENT: Crist, Frierson, Friery, DeCamilla

ABSENT: Masuoka

CONSENT CALENDAR

MINUTES OF REGULAR MEETING HELD OCTOBER 26, 1992
APPROVED

The Board received and reviewed the minutes of the regular meeting held October 26, 1992. Mr. Friery moved to approve the minutes. The motion was seconded by Mr. Crist and was carried by the following vote:

AYES: Crist, Frierson, Friery, DeCamilla

NOES: None

INVESTMENTS - TREASURER'S ACTIVITY REPORT
ACCEPTED

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

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

AYES: Crist, Frierson, Friery, DeCamilla

NOES: None

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REPORTS OF CONSULTANTS AND ADVISORSREAL ESTATE ADVISOR'S REPORT
ACCEPTED

Ms. Masuoka arrived at 1:45 p.m.

The Board received and reviewed the November, 1992 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, in accordance with the State of California requirements, the asbestos abatement sampling along with the preparation of a management program for any existing asbestos in the 1414 K building has been completed. McLaren Hart Environmental Engineering Corporation has submitted the low bid of \$16,179 with an ongoing surveillance cost of \$1,300 annually for the management program. Mr. Smith recommended the expenditure.

At the request of the Board, Mr. Smith has prepared a draft letter to the Sacramento City Design Review and Preservation Board requesting 1414 K be removed from the City's Historical Preservation List. The draft letter is currently being reviewed by Leslie Lopez, Counsel to the Board.

Regarding the Discover Plaza property, Mr. Smith informed the Board that the City of Sacramento requires an approved Reduced Pressure Principle Backflow Prevention Assembly be installed at this property. Mr. Smith recommended the Board approve \$4,680.00 to install the equipment. Also, he is in the final stages of discussions with Bel Air Markets relative to putting in additional customer parking at the center. The total cost is \$202,800.00 which is offset with \$92,000.00 from the Insurance Company as the result of the Great American Pizza Parlor fire and \$50,000.00 from Bel Air Markets, leaving an expenditure of \$60,800. Mr. Smith recommended the expenditure.

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Mr. Smith informed the Board that he received the letter from the Insurance Company relative to the continuance of fire insurance on the Enterprise Buildings at current rates even though the buildings are now considered as non-sprinklered due to the City of West Sacramento reducing the water pressure to the buildings. The insurance will remain in effect until January 1, 1993. Mr. Smith recommended the Board install a booster pump at an estimated cost of \$85,000.00.

Mr. Smith informed the Board that he inspected the Modesto CHP project and it is currently running ahead of schedule. Mr. Smith will continue to inspect this project and the Indio CHP project and report its progress to the Board.

Mr. Friery moved to accept the report and approve the expenditures for the asbestos management program at 1414 K Street, installing a reduced pressure assembly at the Discovery Plaza Center, providing additional customer parking at Discovery Plaza Center and installing a booster pump at the Enterprise Buildings. The motion was seconded by Ms. Frierson and carried by the following vote:

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

DELAWARE INVESTMENT ADVISERS, SEPTEMBER 30, 1992, QUARTERLY REPORT
PRESENTATION
ACCEPTED

The Board received the September 30, 1992, quarterly report from Delaware Investment Advisers. Bernard P. Schaffer, Vice President, from Delaware reviewed the report with the Board.

Mr. Friery 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

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NEWBOLD'S ASSET MANAGEMENT, SEPTEMBER 30, 1992, QUARTERLY REPORT
PRESENTATION
ACCEPTED

The Board received the September 30, 1992, quarterly report from Newbold's Asset Management. Lynn Wharton from Newbold's reviewed the report with the Board.

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

AXE-HOUGHTON MANAGEMENT, INC., SEPTEMBER 30, 1992, QUARTERLY REPORT
ACCEPTED

The Board received and reviewed the September 30, 1992, quarterly report submitted by Axe-Houghton Management.

Mr. Friery commented that their performance was extremely strong. Mr. Friery 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

LEXINGTON CAPITAL MANAGEMENT, INC., SEPTEMBER 30, 1992, QUARTERLY REPORT
ACCEPTED

The Board received and reviewed the September 30, 1992 quarterly report submitted by Lexington Capital Management.

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

POLICY MATTERS TO BE CONSIDERED AND ACTED UPON

ASSET ALLOCATION
ADOPTED

As directed by the Board at the October 26, 1992, meeting

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Mr. Friery submitted a report recommending reallocation for the SCERS assets formerly allocated to Lexington Capital Management. Mr. Friery reviewed the report with the Board.

Mr. Friery reported that on October 27, 1992 Lexington Capital Management was informed of the Board's determination to terminate their services and on October 28 and 29, 1992, Lexington's equity positions were liquidated. This action resulted in raising approximately \$14.7 million in cash which was invested in short-term money market instruments until the Board could consider investment alternatives.

Mr. Friery stated staff considered several investment alternatives and after careful consideration staff recommends that the Board place some of the money with the City Treasurer's office to be managed as a large capital/growth portfolio with performance to be measured using the same performance criteria applied to external managers. If the performance does not meet the Board's needs, an external manager could be hired at a later time.

Mr. Friery recommended the Board take the following actions:

1. Adopt a resolution allocating the \$14.7 million formerly managed by Lexington Capital Management as follows:
 - A. \$3 million to fixed investments, and
 - B. \$6 million to Axe-Houghton Associates, Inc., and
 - C. \$5.7 million to the City Treasurer to establish a large capital/growth equity portfolio;
2. Adopt a resolution which reduces the real state equity assets by \$1.3 million and directs WJS & Associates to present to the Board on January 4, 1993 a proposal which will result in a \$6 million reduction in assets allocated to real estate equity; and,
3. Adopt a resolution which appoints the City Treasurer as manager of the SCERS large capital/growth equity portfolio.

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After a lengthy discussion Mr. Crist moved to adopt the three resolutions presented by Mr. Friery. The motion was seconded by Ms. Frierson and was carried by the following vote:

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

SCERS FY 1992-93 CONTRIBUTION RATES-CONTINUED

ADOPTED

As direct by the Board, Leslie Lopez, Counsel to the Board, prepared a report clarifying the Board's role in setting the contribution rates for SCERS. This question arose as the result of the actuarial's report submitted on October 26, 1992 informing the Board of the nearly extinguished unfunded liability. In conclusion Ms. Lopez's report stated the City Charter and City Code do not prohibit the Board from setting contribution rates which would amortize a surplus, or negative unfunded liability.

After discussion Mr. Crist moved to adopt a resolution setting the City's contribution rate for normal cost at 6.1% of miscellaneous payroll and the City's contribution rate for amortization of the unfunded liability at .03% of total miscellaneous payroll or the equivalent of \$26,000.00. The motion was seconded by Ms. Frierson and was carried by the following vote:

AYES: Crist, Frierson, Masuoka, Friery, DeCamilla

NOES: None

MID-YEAR ACTUARIAL VALUATION

CONTINUED

As a result of the actuarial report informing the Board of the virtual elimination of the unfunded liability, the Board considered having a mid-year actuarial valuation performed.

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Margaret Allen, Secretary to the Board, reported that Mr. LeSueur, system's actuary, could perform a mid-year valuation at a cost of less than \$5,000.00 and to perform the valuation would require an update on the value of the system's assets. If Mr. LeSueur received the updated information by mid February the valuation could be completed by March.

After discussion, Ms. Masuoka felt that she could work with the Treasurer's staff to do a mid-year analysis and at this time she felt a mid-year actuarial valuation was not necessary.

It was the consensus of the Board that this item be taken off the agenda at this time.

REPORTS OF SECRETARY

TERMS OF APPOINTED BOARD MEMBERS
ACCEPTED AS INFORMATIONAL

Margaret Allen, Secretary to the Board, informed the Board that on November 5, 1992 the City Council amended Ordinance #90-040 to exclude the AIFM Board from the two consecutive term limitation. As Ms. Frierson's second term expires on January 4, 1993, this action permits Ms. Frierson to submit an application to be considered for reappointment to the Board.

SCERS ANNUAL FINANCIAL REPORT, JUNE 30, 1992
ACCEPTED AS INFORMATIONAL

The Board accepted as informational the annual SCERS Financial Report for fiscal year ending June 30, 1992. Mr. DeCamilla and Mr. Friery will make their annual presentation of the report to the City Council and Mr. Friery will also prepare a media release regarding the virtual elimination of the unfunded liability.

There being no further business the meeting was adjourned at 3:10 p.m. to meet again at the call of the chair.

ATTACHMENT A-1

SCERS - STATEMENT OF ASSETS AVAILABLE FOR INVESTMENT
AS OF SEPTEMBER 30, 1992

	CASH		INVESTMENTS @ COST	AMOUNT 1/ AVAILABLE FOR INVESTMENT
	POOL A	PAC HOR		
OPERATING CASH	2,379,251			2,379,251
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	718,191	1,905,124	157,106,539	159,729,854
REAL ESTATE MORTGAGE	136,879	730,868	14,584,541	15,452,288
UTILITY STOCKS	292,977	2,295,733	12,386,861	14,975,571
TOTAL FIXED	1,148,046	4,931,725	184,077,942	190,157,714
EQUITY:				
AXE-HOUGHTON		730,123	10,802,830	11,532,953
DELAWARE		1,006,335	32,514,448	33,520,783
LEXINGTON		5,949,579	7,538,119	13,487,698
NEWBOLDS		1,955,935	25,771,412	27,727,346
REAL ESTATE EQUITY		478,373	26,980,735	27,459,108
LESS: LOAN PAYABLE			(5,983,304) 2/	(5,983,304)
TOTAL EQUITY		10,120,345	97,624,239	107,744,584
GRAND TOTAL	3,527,297	15,052,070	281,702,181	300,281,549

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.

ATTACHMENT A-1A

SCERS - STATEMENT OF ASSETS @ MARKET VALUE
AS OF SEPTEMBER 30, 1992

	CASH		INVESTMENTS @MARKET	TOTAL ASSETS @ MARKET
	POOL A	PAC HOR		
OPERATING CASH	2,379,251			2,379,251
FIXED:				
BONDS, 2ND TD'S, & MTG. BK. CERTS.	718,191	1,905,124	170,382,245	173,005,560
REAL ESTATE MORTGAGE	136,879	730,868	15,283,770	16,151,517
UTILITY STOCKS	292,977	2,295,733	14,479,463	17,068,172
TOTAL FIXED	1,148,046	4,931,725	200,145,477	206,225,249
EQUITY:				
AXE-HOUGHTON		730,123	12,327,750	13,057,873
DELAWARE		1,006,335	35,239,863	36,246,197
LEXINGTON		5,949,579	8,434,581	14,384,160
NEWBOLDS		1,955,935	28,072,137	30,028,072
REAL ESTATE EQUITY		478,373	26,540,831	27,019,204
LESS: LOAN PAYABLE			(5,983,304)	(5,983,304)
TOTAL EQUITY		10,120,345	104,631,858	114,752,202
GRAND TOTAL	3,527,297	15,052,070	304,777,335	323,356,702

SCERS - STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR INVESTMENT
FOR THE PERIOD 08/31/92 - 09/30/92

	BALANCE 08/31/92	INTEREST INCOME			DIV	GAIN (LOSS) ON SALES	NET RENTAL INCOME	INTEREST/ PRINCIPAL PAYMENTS	NET EXTERNAL CONTRIB.	CONTRIB. TRANSFER	BALANCE 09/30/92
		POOL A	PAC HOR	INVESTMENT							
OPERATING CASH	3,049,879	47,854							(2,149,381)	1,430,899	2,379,251
FIXED:											
BONDS, 2ND TD'S, & MTC. BK. CERTS	159,701,334	16,285	4,390	1,275,760		26,683				(1,294,597)	159,729,854
REAL ESTATE MORTGAGES	15,450,321	1,969		130,754						(130,754)	15,452,290
UTILITY STOCKS	14,796,104	4,923	49,130		4,100	121,313					14,975,570
EQUITY:											
AXE-HOUGHTON	11,353,516		4,153		6,180	169,102					11,532,952
DELAWARE	33,142,283		222,637		793	155,072					33,520,785
LEXINGTON	13,453,346		20,965		13,388						13,487,698
HEWBOLDS	27,595,121		6,746		125,479						27,727,346
REAL ESTATE EQUITY	27,458,558			6,098			49,261	(49,261)		(5,548)	27,459,108
LOAN PAYABLE	(5,986,144)							2,840			(5,983,304)
GRAND TOTAL	300,014,318	71,031	308,021	1,412,611	149,939	472,170	49,261	(46,421)	(2,149,381)		300,281,549
YEAR TO DATE:	299,604,557	71,031	610,640	3,485,475	470,241	904,492	305,852	(139,401)	(5,031,338)		300,281,549

SCERS - STATEMENT OF ESTIMATED INCOME & RATES OF RETURN
AS OF SEPTEMBER 30, 1992

	COST	MARKET	ESTIMATED ANNUAL INCOME	EST. RATE AT COST	EST. RATE AT MARKET
CASH					
CITY POOL A	3,527,297	3,527,297	245,077	6.95%	6.95%
PAC HORIZONS MONEY MARKET FUND	15,052,070	15,052,070	492,203	3.27%	3.27%
FIXED:					
BONDS, 2ND TD'S & MTG. BK CERTS	157,106,539	170,382,245	13,996,977	8.91%	8.22%
REAL ESTATE MORTGAGE	14,584,541	15,283,770	1,556,642	10.67%	10.18%
UTILITY STOCKS	12,386,861	14,479,463	771,916	6.23%	5.33%
EQUITY:					
AXE-HOUGHTON	10,802,830	12,327,750	32,070	0.30%	0.26%
DELAWARE	32,514,448	35,239,863	1,238,847	3.81%	3.52%
LEXINGTON	7,538,119	8,434,581	205,893	2.73%	2.44%
NEWBOLDS	25,771,412	28,072,137	1,173,778	4.55%	4.18%
REAL ESTATE EQUITY	26,980,735	26,540,831	1,585,686 1/	5.88%	5.97%
LOAN PAYABLE	(5,983,304)	(5,983,304)			
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GRAND TOTAL	300,281,549	323,356,702	21,299,089 2/	7.09%	6.59%
	=====	=====	=====	=====	=====

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 1991/92 was \$10 million. Administrative Expenses for this same period were \$85,000 for Banking and Trustee Fees, \$639,000 for Investment Manager Fees, \$592,400 for Interest Expense on Note Payable (Discovery Plaza), and \$1,194,000 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 SEPTEMBER 30, 1992

	1/ COST	1/ MARKET	2/ % AUTHORIZED	DOLLARS AUTHORIZED	3/ OVER (UNDER) INVESTED, BASED UPON COST/MARKET
OPERATING CASH	2,379,251	2,379,251			2,379,251
FIXED:					
BONDS, 2ND TD'S, & MTG BK. CERTS.	159,729,854	173,005,560	54.00%	174,612,619	(1,607,059)
REAL ESTATE MORTGAGE	15,452,288	16,151,517	5.00%	16,167,835	(16,318)
UTILITY STOCKS	14,975,571	17,068,172	5.00%	16,167,835	900,337
TOTAL FIXED	190,157,714	206,225,249	64.00%	206,948,289	(723,040)
EQUITY:					
AXE-HOUGHTON	11,532,953	13,057,873	4.00%	12,934,268	123,605
DELAWARE	33,520,783	36,246,197	11.00%	35,569,237	676,960
LEXINGTON	13,487,698	14,384,160	5.00%	16,167,835	(1,783,675)
NEWBOLDS	27,727,346	30,028,072	9.00%	29,102,103	925,969
REAL ESTATE EQUITY	27,459,108	27,019,204	7.00%	22,634,969	(1,159,166)
LESS: LOAN PAYABLE	(5,983,304)	(5,983,304)			
TOTAL EQUITY	107,744,584	114,752,202	36.00%	116,408,413	(1,216,307)
GRAND TOTAL	300,281,549	323,356,702	100.00%	323,356,702	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.

1]

SCERS - STATEMENT OF PURCHASES AND SALES ACTIVITY
FOR SEPTEMBER 1992

PORTFOLIO MANAGER	PURCHASES (COST)	(PROCEEDS)	SALES (COST)	GAIN/(LOSS)
FIXED:				
BONDS	\$1,490,897	\$1,253,488	(\$1,224,159)	\$29,328
MTG BACKED	\$0	\$458,274	(\$460,920)	(\$2,645)
2ND TD'S	\$0	\$0	\$0	\$0
REAL ESTATE MORTGAGES	\$0	\$0	\$0	\$0
UTILITY STOCKS	\$0	\$764,881	(\$643,568)	\$121,313
TOTAL FIXED	\$1,490,897	\$2,476,642	(\$2,328,646)	\$147,996
EQUITY:				
AXE-HOUGHTON	\$2,411,371	\$1,745,578	(\$1,576,475)	\$169,102
DELAWARE	\$1,373,875	\$1,644,834	(\$1,489,762)	\$155,072
LEXINGTON	\$0	\$0	\$0	\$0
NEWBOLDS	\$976,383	\$0	\$0	\$0
REAL ESTATE EQUITY	\$0	\$0	\$0	\$0
TOTAL EQUITY	\$4,761,629	\$3,390,411	(\$3,066,237)	\$324,174
GRAND TOTAL	\$6,252,526	\$5,867,054	(\$5,394,884)	\$472,170

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