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City of Sacramento

QUARTERLY INVESTMENT REPORT ***S&P / Barra Value*** ***SCERS***

December 31, 2007

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INTRODUCTION

On February 24, 2004, the AIFM Board authorized the City Treasurer's Office to manage S&P 500/BARRA Value Index fund. This was inline with the strategy to move away from volatile small-cap segment of the market into less volatile large-cap value segment of the market to reduce the over all portfolio risk exposure of the SCERS equity portfolio. Per Board's approval of the SCERS asset allocation for fiscal year 2004-2005, initial investment of \$22.513 million was allocated with the purchase of 390,420 shares of Exchange Traded Fund (ETF) iShares at \$57.6291 per-share value on April 1, 2004. To date, net allocations to the fund totaled \$35.858 million.

STRATEGY

ETFs can be thought of as top-down investment tools that have some level of diversification, along with portfolio level characteristics such as a trailing P/E, forecast P/E, P/B, ROE, Quality, dividend yield etc. In 2003 US large-cap value equity fund returned 26%. The S&P 500/BARRA Value Index Fund is a capitalization-weighted index of all the stocks in the S&P 500 that have low P/B. The index is rebalanced semi-annually on January 1st and July 1st. It is designed so that approximately 50% of the SPX market capitalization is in the Value Index. Through this investment vehicle SCERS seeks investment results that correspond to the performance of the S&P500/BARRA Value Index. The Fund uses a replication strategy to obtain its objective.

OBJECTIVES

The S&P 500/BARRA Value Index Fund (iShares with symbol: IVE) seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the S&P 500/BARRA Value Index. There is no assurance that the performance of the S&P500/BARRA Value Index can be fully matched. The index measures the performance of the large-capitalization value sector of the US equity market.

HIGHLIGHTS

The rates of return for SCERS S&P Barra Value Portfolio as of December 31, 2007 were: -1.58% for month-to-date, -3.86% for the quarter-to-date, -3.35% for fiscal-year-to-date, and 9.28% for inception-to-date (see table on page 7 for comparison with its benchmark). Rates are annualized for periods greater than 12 months.

The portfolio was 96.20% invested with 3.8% or \$1.687 million in cash. Purchases and sales totaled \$26.693 million and \$28.224 million respectively.

>>> *ECONOMIC COMMENTARY* <<<

OVERVIEW

After November's turbulence, U.S. financial markets are closing the year on a quieter note. There are still concerns about liquidity at year-end, but recent actions by central banks around the world have at least halted the ongoing deterioration in financial markets. However, the level of uncertainty remains high and further negative headlines about losses and asset write-offs among the major U.S. banks and brokers remains likely. Still, there is also encouraging news, such as continued foreign investment in U.S. financial firms, which helps to replenish the bank equity affected by the collapse of the subprime mortgage-backed securities market.

Stock markets started December on a strong note, but have already given back most of those early gains. For the year, U.S. stocks are still showing a slight increase. Following a sharp rally in November, Treasury yields staged a tentative rebound in the past few weeks. Fixed income credit markets have also shown signs of stabilizing after the Lehman Credit Index experienced one of the worst months in its history in November. Finally, the U.S. dollar benefitted from weaker economic news abroad, as well as rate cuts in other developed markets, extending November's positive returns into December.

ECONOMY AND POLICY

The major economic event of the quarter was the concerted action by a number of major central banks to address the sharp deterioration in global liquidity conditions, which rattled financial markets in November. Following a third cut in both the Funds and Discount rates since the crisis started in August, the Federal Reserve decided to make billions of U.S. dollars available, not just to U.S. banks, but also to foreign institutions that need dollars. These institutions would otherwise tap into U.S. inter-bank for their funding.

While the Federal Reserve is addressing the tense liquidity situation on Wall Street, the real economy continues to produce positive surprises and has, thus far, failed to support the more bearish outlook by a number of economists. Retail sales rebounded strongly in November, job growth continued to expand at a moderate pace, and even home sales posted a tentative rebound in October. More troublesome, however, was the surprise inflation pick-up in November in both the producer and consumer sectors, which was more broad-based than previously expected, and not driven solely by energy prices.

The U.S. macroeconomic outlook for 2008 depends in large part on short term evolution of the financial market crisis. A significant decline in bank lending as a result of their losses and balance sheet contraction could adversely impact business investment and consumer spending, which are otherwise supported by loan inventories, growing capacity utilization and tight labor markets. While we see this as the single greatest risk to our macro outlook, we believe there is

still an abundance of global capital, and the Federal Reserve has demonstrated the willingness to ensure the proper functioning of the financial system.

Another challenge for the economy in 2008 will be the housing market crisis. We expect new construction activity to continue to contract through most of the year. However, demand should stabilize in the first half and rebound later in the year. Coupled with a sharp drop in newly completed homes coming to the market, this should help to reduce the excess capacity of unsold homes.

Given our baseline scenario for next year, we would expect U.S. equities to have a moderately positive 2008. Lower interest rates and a recovering economy should support higher stock prices. However, profit growth is unlikely to rebound to 2005 levels. The main risks to our forecast are a continuation of the financial markets crisis into next year and an intensification of the housing crisis with even greater declines in both sales and new construction. The longer the two crises last, the more they undermine the offsets that have prevented a more serious slowdown in the U.S. As with so many things in life, timing is everything. We believe that the central banks will take the necessary steps to address the issues still plaguing the financial system.

City of Sacramento
Performance Summary
S&P / Barra Value
SCERS
December 31, 2007

PORTFOLIO COMPOSITION

December 31, 2007

Asset Class	Market Value	Pct Assets	Yield
Equities	42,686,910	96.20	1.91
Cash and Equiv.	1,687,196	3.80	4.92
TOTAL PORTFOLIO	44,374,106	100.00	2.02

PORTFOLIO ACTIVITY SUMMARY

From 09-30-07 to 12-31-07

Portfolio Value on 09-30-07	46,434,314
Contributions	0
Withdrawals	-277,873
Realized Gains	-860,867
Unrealized Gains	-1,063,088
Interest	54,964
Dividends	86,655
Portfolio Value on 12-31-07	44,374,106

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**ANNUALIZED
GROSS OF FEES**

December 31, 2007

	Month To Date	Quarter To Date	Year To Date	Inception To Date	Since 06-30-07
Portfolio	-1.58	-3.86	2.49	9.28	-3.35
iShares S&P 500 Value	-2.79	-6.26	-0.69	8.06	-6.54

City of Sacramento
PORTFOLIO SUMMARY
S&P / Barra Value
SCERS
December 31, 2007

<u>Security Type</u>	<u>Total Cost</u>	<u>Market Value</u>	<u>Pct. Assets</u>	<u>Cur. Yield</u>	<u>Est. Annual Income</u>
Equities					
COMMON STOCK					
MATERIALS	2,250,356	1,937,150	4.37	1.64	31,800
INDUSTRIALS	9,213,496	9,277,840	20.91	1.42	131,590
CONSUMER DISCRETIONARY	3,130,038	3,069,450	6.92	1.81	55,425
CONSUMER STAPLES	2,759,700	2,843,000	6.41	3.14	89,160
ENERGY	1,084,498	1,282,190	2.89	1.18	15,080
HEALTHCARE	2,726,507	2,853,400	6.43	0.77	22,000
INFORMATION TECHNOLOGY	1,113,734	1,188,480	2.68	0.00	0
PASSIVE INDEX	<u>21,031,542</u>	<u>20,235,400</u>	<u>45.60</u>	<u>2.32</u>	<u>468,554</u>
COMMON STOCK	<u>43,309,870</u>	<u>42,686,910</u>	<u>96.20</u>	<u>1.91</u>	<u>813,609</u>
	43,309,870	42,686,910	96.20	1.91	813,609
Cash and Equiv.					
CASH AND EQUIVALENTS	1,687,196	1,687,196	3.80	4.92	83,081
	<u>1,687,196</u>	<u>1,687,196</u>	<u>3.80</u>	<u>4.92</u>	<u>83,081</u>
TOTAL PORTFOLIO	44,997,067	44,374,106	100.00	2.02	896,690

City of Sacramento
PORTFOLIO APPRAISAL
S&P / Barra Value
SCERS
 December 31, 2007

Quantity	Security Symbol	Security	Unit Cost	Total Cost	Price	Market Value	Accrued Interest	Market Value + Accrd. Int.	Pct. Assets	Cur. Yield	S & P	Moody
CASH AND EQUIVALENTS												
	divacc	Dividend Accrual		26,015		26,015		26,015.00	0.06	4.00		
	miscintrec	Misc Interest Receivable		10,317		10,317		10,316.73	0.02	4.00		
	PoolA	Pool A Cash		1,549,709		1,549,709		1,549,709.14	3.49	4.93		
	intreceiv	Pool A Interest Receivable		101,156		101,156		101,155.61	0.23	5.11		
				<u>1,687,196</u>		<u>1,687,196</u>		<u>1,687,196.48</u>	<u>3.80</u>	<u>4.92</u>		
COMMON STOCK												
MATERIALS												
53,000	aa	Alcoa	42.46	2,250,356	36.55	1,937,150		1,937,150.00	4.37	1.64	B+	
INDUSTRIALS												
17,000	mmm	3m Company	86.81	1,475,755	84.32	1,433,440		1,433,440.00	3.23	2.28	A	
37,000	adm	Archer Daniels Midland Com	40.57	1,500,973	46.43	1,717,910		1,717,910.00	3.87	0.99	A	
18,000	gd	General Dynamics Corp	90.93	1,636,785	88.99	1,601,820		1,601,820.00	3.61	1.62	B+	
25,000	hon	Honeywell	60.82	1,520,594	61.57	1,539,250		1,539,250.00	3.47	1.22	B	
10,000	lmt	Lockheed Martin Corp	108.20	1,082,050	105.26	1,052,600		1,052,600.00	2.37	0.95	B	
13,000	noc	Northrop Grumman Corp	79.71	1,036,233	78.64	1,022,320		1,022,320.00	2.30	1.17	A-	
15,000	rtn	Raytheon Company	64.07	961,105	60.70	910,500		910,500.00	2.05	1.68	B	
				<u>9,213,496</u>		<u>9,277,840</u>		<u>9,277,840.00</u>	<u>20.91</u>	<u>1.42</u>		
CONSUMER DISCRETIONARY												
30,000	avp	Avon Products Inc	38.28	1,148,295	39.53	1,185,900		1,185,900.00	2.67	1.42	A	
20,000	ccl	Carnival Corp Com	50.06	1,001,262	44.49	889,800		889,800.00	2.01	3.60	A+	
25,000	cvs	Cvs Corp Com	39.22	980,481	39.75	993,750		993,750.00	2.24	0.67	B	
				<u>3,130,038</u>		<u>3,069,450</u>		<u>3,069,450.00</u>	<u>6.92</u>	<u>1.81</u>		
CONSUMER STAPLES												
23,000	mo	Altria Group Inc	73.40	1,688,260	75.58	1,738,340		1,738,340.00	3.92	3.97	A+	
18,000	ko	Coca Cola Co Com	59.52	1,071,439	61.37	1,104,660		1,104,660.00	2.49	1.82	A-	
				<u>2,759,700</u>		<u>2,843,000</u>		<u>2,843,000.00</u>	<u>6.41</u>	<u>3.14</u>		
ENERGY												
13,000	apd	Air Prods & Chems Inc Com	83.42	1,084,498	98.63	1,282,190		1,282,190.00	2.89	1.18	A	
HEALTHCARE												
20,000	abt	Abbott Laboratories Com	51.73	1,034,620	56.15	1,123,000		1,123,000.00	2.53	1.96	A-	
30,000	tmo	Thermo Electron Corp Com	56.40	1,691,887	57.68	1,730,400		1,730,400.00	3.90	0.00	B-	
				<u>2,726,507</u>		<u>2,853,400</u>		<u>2,853,400.00</u>	<u>6.43</u>	<u>0.77</u>		
INFORMATION TECHNOLOGY												
6,000	aapl	Apple Inc.	185.62	1,113,734	198.08	1,188,480		1,188,480.00	2.68	0.00	B	
PASSIVE INDEX												
265,000	ive	Ishares Tr S&p500/Bar Val	79.36	21,031,542	76.36	20,235,400		20,235,400.00	45.60	2.32		
				<u>43,309,870</u>		<u>42,686,910</u>		<u>42,686,910.00</u>	<u>96.20</u>	<u>1.91</u>		

City of Sacramento
PORTFOLIO APPRAISAL
S&P / Barra Value
SCERS
 December 31, 2007

<u>Quantity</u>	<u>Security Symbol</u>	<u>Security</u>	<u>Unit Cost</u>	<u>Total Cost</u>	<u>Price</u>	<u>Market Value</u>	<u>Accrued Interest</u>	<u>Market Value + Accrd. Int.</u>	<u>Pct. Assets</u>	<u>Cur. Yield</u>	<u>S & P</u>	<u>Moody</u>
TOTAL PORTFOLIO				44,997,067		44,374,106	0	44,374,106.48	100.00	2.02		

City of Sacramento
PURCHASE/SALE AND GAIN/LOSS
S&P / Barra Value
SCERS
From 10-01-07 To 12-31-07

<u>Trade Date</u>	<u>Settle Date</u>	<u>Quantity</u>	<u>Security</u>	<u>Unit Price</u>	<u>Amount</u>	<u>12-31-07 Price</u>	<u>Difference</u>
<u>Purchases</u>							
COMMON STOCK							
12-11-07	12-14-07	11,000	3m Company	86.84	955,281	84.32	-3
12-21-07	12-27-07	6,000	3m Company	86.75	520,475	84.32	-2
10-23-07	10-26-07	20,000	Abbott Laboratories Com	51.73	1,034,620	56.15	4
10-23-07	10-26-07	15,000	Altria Group Inc	71.77	1,076,550	75.58	4
12-18-07	12-21-07	8,000	Altria Group Inc	76.46	611,710	75.58	-1
10-03-07	10-09-07	20,000	American Intl Group Com	69.03	1,380,565	58.30	-11
10-23-07	10-26-07	6,000	Apple Inc.	185.62	1,113,734	198.08	12
12-18-07	12-21-07	15,000	Archer Daniels Midland Com	40.38	605,755	46.43	6
12-18-07	12-21-07	10,000	Archer Daniels Midland Com	39.99	399,892	46.43	6
12-19-07	12-24-07	6,000	Archer Daniels Midland Com	41.18	247,051	46.43	5
12-19-07	12-24-07	6,000	Archer Daniels Midland Com	41.38	248,275	46.43	5
10-03-07	10-09-07	30,000	Avon Products Inc	38.28	1,148,295	39.53	1
10-03-07	10-09-07	20,000	Carnival Corp Com	50.06	1,001,262	44.49	-6
10-23-07	10-26-07	18,000	Coca Cola Co Com	59.52	1,071,439	61.37	2
12-18-07	12-21-07	15,000	Cvs Corp Com	39.18	587,731	39.75	1
12-18-07	12-21-07	10,000	Cvs Corp Com	39.27	392,750	39.75	0
12-11-07	12-14-07	10,000	General Dynamics Corp	93.10	930,996	88.99	-4
12-19-07	12-24-07	8,000	General Dynamics Corp	88.22	705,789	88.99	1
12-18-07	12-21-07	8,000	Honeywell	61.01	488,080	61.57	1
12-18-07	12-21-07	8,000	Honeywell	60.72	485,754	61.57	1
12-21-07	12-27-07	9,000	Honeywell	60.75	546,760	61.57	1
10-31-07	11-05-07	12,000	Ishares Tr S&p500/Bar Val	81.80	981,600	76.36	-5
11-29-07	12-04-07	20,000	Ishares Tr S&p500/Bar Val	76.97	1,539,382	76.36	-1
11-30-07	12-05-07	20,000	Ishares Tr S&p500/Bar Val	78.77	1,575,496	76.36	-2
12-21-07	12-27-07	25,000	Ishares Tr S&p500/Bar Val	77.63	1,940,825	76.36	-1
10-23-07	10-26-07	10,000	Lockheed Martin Corp	108.20	1,082,050	105.26	-3
10-23-07	10-26-07	13,000	Northrop Grumman Corp	79.71	1,036,233	78.64	-1
10-23-07	10-26-07	15,000	Raytheon Company	64.07	961,105	60.70	-3
10-03-07	10-09-07	50,000	Schwab Charles Cp New Com	22.67	1,133,715	25.55	3
10-23-07	10-26-07	15,000	Thermo Electron Corp Com	59.34	890,106	57.68	-2
					26,693,277		
Total Purchases					26,693,277		

City of Sacramento
PURCHASE/SALE AND GAIN/LOSS
S&P / Barra Value
SCERS
From 10-01-07 To 12-31-07

<u>Trade Date</u>	<u>Settle Date</u>	<u>Quantity</u>	<u>Security</u>	<u>Unit Price</u>	<u>Amount</u>	<u>Original Price</u>	<u>Gain/Loss</u>
<u>Sales</u>							
COMMON STOCK							
10-25-07	10-30-07	20,000	American Intl Group Com	59.48	1,189,654	69.03	-190,911
11-27-07	11-30-07	25,000	Bank New York Mellon Com	44.68	1,117,043	42.01	66,888
11-27-07	11-30-07	20,000	Bank Of America Corp	42.42	848,417	48.71	-125,875
10-03-07	10-09-07	7,000	Conocophillips Com	84.18	589,251	85.62	-10,083
10-03-07	10-09-07	7,000	Exxon Mobil Corporation	91.33	639,284	89.03	16,076
10-19-07	10-24-07	15,000	Federal Natl Mtg Assn Com	58.48	877,155	67.30	-132,289
10-19-07	10-24-07	16,000	Freeport-McMoran Cop & G Cl B	110.89	1,774,293	95.72	242,756
10-19-07	10-24-07	28,000	Halliburton Co	38.72	1,084,185	35.04	102,925
10-23-07	10-26-07	30,000	Hewlett Packard Co	51.23	1,536,825	49.14	62,595
10-03-07	10-09-07	30,000	Ishares Tr S&p500/Bar Val	82.46	2,473,813	79.67	83,593
10-03-07	10-09-07	12,000	Ishares Tr S&p500/Bar Val	82.51	990,095	79.67	34,007
10-23-07	10-26-07	35,000	Ishares Tr S&p500/Bar Val	80.13	2,804,493	79.67	15,903
12-17-07	12-20-07	20,000	Ishares Tr S&p500/Bar Val	76.23	1,524,623	79.54	-66,270
12-17-07	12-20-07	50,000	Ishares Tr S&p500/Bar Val	76.37	3,818,317	79.54	-158,916
12-17-07	12-20-07	50,000	Ishares Tr S&p500/Bar Val	76.23	3,811,277	79.54	-165,956
11-27-07	11-30-07	15,000	Pnc Bk Corp Com	67.76	1,016,404	70.59	-42,442
11-27-07	11-30-07	50,000	Schwab Charles Cp New Com	22.35	1,117,608	22.67	-16,107
10-19-07	10-24-07	9,000	Transocean Sedco Forex Inc	112.36	1,011,266	107.66	42,342
					28,224,003		-241,764
Total Sales					28,224,003		-241,764

City of Sacramento
COMMISSION PURPOSE

S&P / Barra Value

SCERS

From 10-01-07 to 12-31-07

	Commission Amount	Avg. Commission Per Share	Percent of Total Commission
Commission Purpose - Undefined			
Citicorp or Citigroup Global Markets Inc.	3,870	0.030	14.7%
Instinet	6,090	0.030	23.1%
JNK Securities	10,110	0.030	38.4%
Merrill Lynch	3,240	0.030	12.3%
Sutter Securities	3,030	0.030	11.5%
Subtotal	26,340	0.030	100.0%
TOTAL	26,340	0.030	100%