

Spokane Employees' Retirement System (SERS)
Board Meeting, 1:00 p.m. January 5, 2022
WebEx Meeting

AGENDA

- 1) Election of Chairperson
 - Motion
- 2) Minutes of the December 1, 2021
 - Motion
- 3) Director's Report
 - a. Retirements
 - Motion
 - b. Withdrawals
 - Motion
 - c. Vesting
 - Information
 - d. Deaths
 - Information
 - e. Expenditure Summary Report – November 2020
 - Motion
 - f. Schedule of Investments – November 2020
 - Information
 - g. Monthly Cash Reconciliation
 - Information
 - h. Other Business
- 4) 2022 Investment Outlook Review
 - Information
- 5) OrbiMed Partners Redemption
 - Motion
- 6) Other Business
- 7) Next Meeting – **Wednesday February 2, 2022 at 1:00 p.m.**

****Please note:** The January Board meeting will be held via [WebEx Meeting](#).

<https://spokanecity.webex.com/spokanecity/j.php?MTID=m1f20c97dab0aa8a0f945455c6bd4d724>

Meeting dial-in number: 1-408-418-9388

Meeting number (access code): 2487 489 2256

Meeting password: spVm2A3Pxn7

**Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
December 1, 2021**

The meeting was called to order at 1:03 p.m. via WebEx conference call.

Present: Mike Coster, Jim Tieken, Joe Cavanaugh, Michael Cathcart, Brian Brill

Absent: J.D. Morscheck

Staff: Phill Tencick, Christine Shisler, Donald Brown, Tim Szambelan

Guests: Jayson Davidson & Tom Breaden (Hyas Group), Richard Czernik, Justin Anderson, Teri Stripes, Lauren Albanese (Financial News), Joe Ebisa (Pageant Media)

Hyas Group, 2021 3rd Quarter Investment Performance Report

Hyas Group reviewed Third Quarter 2021 Performance Report and Mr. Davidson noted that, year-to-date, equity markets have largely maintained their strong absolute numbers across all capitalization ranges. The Third Quarter did, however, bring increased volatility as markets weighed the prospects of continued economic expansion against rising inflation fears. These inflation fears coupled with the Federal Reserve communicating its continued intent to slow, and eventually end, the asset purchase program have caused interest rates to increase measuredly since the end of the Second Quarter. Supply chain constraints continue to weigh on global economic expansion and have added to the upward pricing pressure. Policy makers will continue to wrestle with how to reduce some of this pricing pressure without slowing economic growth. The rise of a new coronavirus variant will mean policy decisions as well as ensuing market and economic reaction should be monitored closely as we move to the end of the year. In keeping with the rather flat returns for markets in general, the SERS portfolio posted a -0.60% return for the quarter, behind the -0.20% for the policy benchmark.

The following funds were on watch status as of quarter-end: Hotchkis & Wiley High Yield, Polar Long/Short Fund, OrbiMed Partners, Rimrock Low Volatility, Allspring (formerly Wells Fargo) Small Cap Value, and Bridge City Small Cap Growth. Polar was placed on watch due to the announcement that one of its employees is accused of front running clients while trading in personal accounts. The investigation into this matter continues but the Fund has concluded that SERS is due a 0.09% adjustment to the NAV, which was applied in October. Hyas Group is recommending that the watch status be retained for at least another quarter. The Allspring product has been on watch due to the recent ownership change. Hyas Group will maintain the watch recommendation on that product

through the end of this year. The Bridge City Small Cap Growth Fund again posted policy compliant numbers and Hyas Group is expecting to formally revisit the watch designation at our next quarterly meeting. All other noted options will also remain on watch.

Hyas Group and the Board spent additional time talking about the on watch status for the OrbiMed Partners product and whether SERS wanted to continue to remain invested in it. At this point the inclination is to move away from the funding and Hyas Group will work with staff in the coming weeks to prepare a formal motion for the Board's January meeting. Hyas Group's analytics group will provide a summary of necessary exit actions and will evaluate alternatives for the transferring assets.

The Morrison Street Debt Opportunities Fund was structured to provide investors with a liquidity event within its first four to seven years. To provide the liquidity Morrison Street will restructure the Fund without changing the fundamental strategy. In doing this, the Fund will transfer to the newly created Morrison Street Income Fund (MSIF). MSIF will raise the necessary capital to provide liquidity to those seeking it. Those not wishing to take liquidity can remain invested in MSIF.

Jim Tieken moved and Joe Cavanaugh seconded the motion to stay with Morrison Street Debt Opportunities Fund through the transition event, consistent with the Hyas Group recommendation. The motion passed unanimously.

Mr. Davidson informed the Board of an announced portfolio manager change for the American Funds EuroPacific Growth option. On December 31st, Jesper Lyckeus will be retiring. Mr. Lyckeus is one of eleven managers on the strategy and is responsible for managing about 4% of the assets. EuroPacific Growth, like many of the American Fund's products, employs the large number of co-managers. It is not uncommon for there to be turnover amongst these managers and this one is consistent with prior practices. As such, Hyas Group does not view this change as significant and are not recommending any action as a result.

Mr. Davidson also noted that Bridge City Capital has announced the addition of a new member to the investment team. Brant Demuth joined the firm in November and will assume investment management and portfolio allocation responsibilities. Hyas does not view this as requiring any action.

Mr. Davidson will connect with staff in advance of the next quarterly meeting to discuss alternatives to the current benchmarking and peer groups being used within the Real Estate category. Hyas Group's analytics and reporting groups will assist in the further

evaluation of different peer groups and benchmarks to be used within the category broadly and for the Prime Property Fund more specifically.

Minutes of the November 3, 2021 Meeting

Joe Cavanaugh moved and Jim Tieken seconded the motion to approve the minutes of the November 3, 2021 meeting as amended. The motion passed unanimously.

Director's Report

Service Retirements

<i>Name</i>	<i>Age</i>	<i>Retirement Date</i>	<i>Years of Service</i>	<i>Option</i>
Jeffrey L. Jensen	66	01/01/2022	15.7	E
Cheryl A. Pritchard	63	01/01/2022	17.4	ST
Steven E. Rhodes	67	01/01/2022	29.5	E
Donald W. Skow	67	01/01/2022	23.1	D
Mark W. O'Donnell	53	01/04/2022	20.0	E
Michael F. Coster	69	01/07/2022	44.6	E
Mark W. Davis	62	01/07/2022	33.5	ST

Jim Tieken moved and Joe Cavanaugh seconded the motion to approve the service retirements as presented on the December Retirement Transaction Report. The motion passed unanimously.

Withdrawals for November 2021

<i>Name</i>	<i>Years of Service</i>	<i>Termination Date</i>
Cupid S. Alexander	0.7	07/31/2021
Michele L. Anderson	3.2	07/06/2019
Shawn D. Eller	4.9	08/27/2021
Matthew D. Eveland	5.9	09/11/2021
Holly A. Hocking	5.2	05/14/2021
Michael Y. Krupko	3.0	10/02/2021
Scotty A. Nicol	0.8	10/02/2021
Sean R. Scoggin	1.3	08/27/2021
Codey E. Stevens	1.0	10/02/2021

Joe Cavanaugh moved and Jim Tieken seconded the motion to approve the requests for withdrawal as presented on the December Retirement Transaction Report. The motion passed unanimously.

Deaths

<i>Name</i>	<i>Date Retired</i>	<i>Age</i>	<i>Date of Death</i>	<i>Information</i>
Ellis L. Shupe	02/03/2015	71	10/17/2021	E Option Continues

Death information provided to the Board for review.

Expenditure Summary Report – October 2021

The Expenditure Summary Report was presented to the Board and discussed.

Jim Tieken moved and Brian Brill seconded the motion to approve the October 2021 Expenditure Summary Report. The motion passed unanimously.

Schedule of Investments – October 2021

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on October 31, 2021 was \$369.7 million with an estimated rate of return of 1.7% for the month.

Monthly Cash Reconciliation

The monthly cash reconciliation report was presented to provide the Board with additional insight into the ongoing liquidity, transactions, and cash position of the plan.

Other Business

Mr. Tencick discussed the annual First Class Cities' Pension Plans Meeting. The topics covered were operations, focusing on systems and managing work from home, and investments, focusing on inflation, priorities for 2022, and liability aware investing.

Mr. Tencick informed the Board the City Council has approved the contribution rate change. The contribution rate will change from 10.0% to 10.25%.

Other Business

Mike Coster informed the Board that he will be resigning his position on the Board after today's meeting.

There being no other business, the meeting adjourned at 2:23 p.m.

Phillip Tencick, Retirement Director

SERS Retirement Transaction Report

January 2022

Retirements

	Name	Age	Retirement Date	Years of Service	Department	Option
1	Leonora L. Wamsley	58	01/01/2022	15.9	Solid Waste Disposal	ST
2	Lynn D. Franke	68	01/07/2022	13.6	Public Works & Utilities	ST
3	Willard H. Dornquast	60	01/08/2022	29.5	Sewer Maintenance	D
4	Riva H. Dean	65	01/22/2022	13.3	Library	ST
	Retirements YTD	0				
	2021 Total Retirements	66				

Withdrawals

	Name	Years of Service	Department	Termination Date
1	Dustin C. Scott	5.0	Parks & Recreation	01/03/2021
2	Kathleen M. Myers	4.7	Civil Service	10/02/2021
3	Debra K. Cato	1.3	CD/HS Operations	10/16/2021
4	Matthew R. Saltsman	0.1	Fleet Services	11/06/2021
5	Shaun C. Mashtare	5.9	Combined Communications Center	12/04/2021

Vesting

	Name	Department	Years of Service
1	Stephen M. Burns	Water	20.5
2	Rebecca A. Menzel	Library	15.7
3	Matthew J. Bailey	EMS Fund	14.2
4	Sally A. Stopher	Finance	6.1 Portability
5	Saydee A. Wilson	CD/HS Operations	3.2 Portability

Deaths

	Name	Date Retired	Age	Date of Death	Information
1	Wilford B. Hardy, Jr.	07/04/2017	79	07/13/2021	D Option Continues
2	Marilynn L. Ellingson	01/08/1987	99	11/25/2021	No Further Benefits
3	Rita S. Giebel	09/10/2005	84	12/02/2021	No Further Benefits
4	Garold R. Blair	04/05/1995	58	12/02/2021	D Option Continues

SERS Schedule of Cash and Investments
November 30, 2021

12/27/2021

	Type		Allocation		
			Target	Current	Diff.
Cash Held by Treasurer	Cash	\$ 46,047			
US Bank	Short-term Inv	36,965			
Total Cash		83,012	0.0%	0.0%	0.0%
Sterling Capital	Total Return	27,581,486			
Total Total Return		27,581,486	10.0%	7.6%	-2.4%
Hotchkis & Wiley	High Yield - Mutual Fund	15,965,068			
Total High Yield		15,965,068	5.0%	4.4%	-0.6%
PIMCO Dynamic	Absolute Return	6,947,680			
Polar	LLC	8,596,760			
Post Limited Term High Yield	Ltd Partnership	6,882,088			
Rimrock Low Volatility	Ltd Partnership	10,639,848			
Total Absolute Return		33,066,376	8.0%	9.1%	1.1%
Total Capital Preservation		76,695,942	23.0%	21.0%	-2.0%
Hotchkis & Wiley	LC Value - Mutual Fund	17,270,835			
MFS Growth	LC Growth - Mutual Fund	18,959,596			
Fidelity S&P 500 Index	LC Core - Mutual Fund	42,129,384			
Total US Large Cap		78,359,815	21.0%	21.5%	0.5%
Sterling	MC Value	6,280,759			
Westfield MC Growth	MC Growth	6,052,042			
Fidelity MC Index	MC Core - Mutual Fund	4,259,091			
Champlain	SC Core	9,339,547			
Bridge City	SC Growth	8,447,966			
Allspring (FKA: Wells Fargo)	SC Value - Mutual fund	5,480,604			
Fidelity SC Index	SC Core - Mutual Fund	571,144			
Total US Small/Mid Cap		40,431,153	11.0%	11.1%	0.1%
Total US Equities		118,790,968	32.0%	32.6%	0.6%
Artisan	SMID Value - Mutual Fund	27,708,849			
Euro Pacific	LC Blend - Mutual Fund	24,954,396			
Fidelity International	LC Index - Mutual Fund	-			
Total International Large Cap		52,663,245	15.0%	14.5%	-0.5%
Trivalent	SC Value - Mutual Fund	14,331,823			
Total International Small/Mid		14,331,823	4.0%	3.9%	-0.1%
Vanguard EM Index	EM - Mutual Fund	534,041			
ABS Emerging Markets	Ltd Partnership	11,529,516			
Total Emerging Markets		12,063,557	3.0%	3.3%	0.3%
Total International Equities		79,058,625	22.0%	21.7%	-0.3%
Weatherlow Offshore	Ltd Partnership	22,303,431			
Royalty Opportunities I	Ltd Partnership	1,120,622			
Royalty Opportunities II	Ltd Partnership	514,064			
Total Long Biased		23,938,117	7.0%	6.6%	-0.4%
Metropolitan Real Estate Partners	Ltd Partnership	76,827			
Morrison Street Fund V	LP	318,783			
Morrison Street Fund VI	LP	2,885,194			
Morrison Street Debt Opportunities	LP	2,792,785			
Morgan Stanley Prime	LLC	7,837,683			
Principal (REITs)	REITs	18,122,952			
Total Real Estate		32,034,224	9.0%	8.8%	-0.2%
Contrarian Capital Fund I	Ltd Partnership	10,611,194			
Beach Point	Ltd Partnership	14,301,622			
Total Opportunistic Credit		24,912,816	7.0%	6.8%	-0.2%
Contrarian EM Credit	LLC	5,122,282			
OrbiMed II	Ltd Partnership	3,830,027			
Total Special Opportunities		8,952,309	0.0%	2.5%	2.5%
Total Cash and Investments		\$ 364,383,001	100.0%	100.0%	0.0%
	Monthly Contributions	1,700,156			
	Monthly Pension	\$ (2,977,853)			
	As of October 31, 2021	\$ 373,759,700			
	Estimated Rate of Return	-2.2%			
Abs. Return and Total Return FI Equity and Special Situations	Thesis 2017.1	60,647,862	18.0%	16.6%	-1.4%
	Thesis 2017.3	206,801,902	54.0%	56.8%	2.8%

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
2021 EXPENDITURE SUMMARY REPORT
NOVEMBER 30, 2021

	2020 ACTUAL	2021 BUDGET	NOVEMBER ACTUAL EXPENDITURES	2021 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
OPERATING EXPENDITURES						
Departmental Salaries	315,165.09	313,354.00	22,992.00	260,101.43	53,252.57	83.0%
Departmental Benefits	85,294.40	89,760.00	6,951.55	77,782.40	11,977.60	86.7%
Reserve for Budget Adjustment	-	10,000.00	-	-	10,000.00	0.0%
Administrative Income	(16,886.25)	(10,000.00)	-	(11,883.77)		
Postage/Supplies/Other	3,997.66	5,200.00	82.68	2,379.43	2,820.57	45.8%
State Audit Charges	12,990.88	15,000.00	2,376.67	10,702.78	4,297.22	71.4%
Contractual Services	142,161.60	175,000.00	-	119,077.37	55,922.63	68.0%
Travel	109.09	15,000.00	-	-	15,000.00	0.0%
Registration/Schooling	5,995.00	16,000.00	-	500.00	15,500.00	3.1%
Other Dues/Subscriptions/Membership	1,752.80	2,500.00	207.35	1,308.55	1,191.45	52.3%
Other Miscellaneous Charges	1,179.23	2,200.00	-	1,706.57	493.43	77.6%
Amortization	17,649.00	-	-	1,470.75	(1,470.75)	
TOTAL OPERATING EXPENDITURES	569,408.50	634,014.00	32,610.25	469,083.86	168,984.72	74.0%
INTERFUND EXPENDITURES						
Interfund - Office Performance Mgmt Services	389.00	-	-	-	-	
Interfund - Centralized Purchasing	448.85	5,000.00	-	369.00	4,631.00	7.4%
Interfund - Centralized Accounting	1,377.27	1,764.00	-	1,764.00	-	100.0%
Interfund - My Spokane	970.64	756.00	-	535.77	220.23	70.9%
Interfund - Risk Management	293.00	607.00	151.75	607.00	-	100.0%
Interfund - Worker's Compensation	134.00	134.00	33.50	134.00	-	100.0%
Interfund - Reprographics	5,043.80	9,412.00	-	2,793.15	6,618.85	29.7%
Interfund - IT	39,242.59	39,237.00	3,270.34	32,711.36	6,525.64	83.4%
Interfund - IT Replacement	1,827.00	3,003.00	250.25	2,502.50	500.50	83.3%
TOTAL INTERFUND EXPENDITURES	49,726.15	59,913.00	3,705.84	41,416.78	18,496.22	69.1%
TOTAL ADMINISTRATIVE EXPENDITURES	619,134.65	693,927.00	36,316.09	510,500.64	187,480.94	73.6%

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2021 EXPENDITURE SUMMARY REPORT
NOVEMBER 30, 2021

	2020 ACTUAL	2021 BUDGET	NOVEMBER ACTUAL EXPENDITURES	2021 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
PENSIONS						
Pensions-Annuity Benefit Payments	29,378,701.18	31,500,000.00	2,625,668.20	28,369,826.09	3,130,173.91	90.1%
Pensions-Disability Payments	114,579.60	135,000.00	9,548.30	105,031.30	29,968.70	77.8%
Pensions-Survivor Annuity Benefits Payments	2,101,833.92	2,500,000.00	182,859.86	1,967,198.48	532,801.52	78.7%
TOTAL PENSIONS	<u>31,595,114.70</u>	<u>34,135,000.00</u>	<u>2,818,076.36</u>	<u>30,442,055.87</u>	<u>3,692,944.13</u>	89.2%
Refunds	513,758.34	1,000,000.00	159,776.99	610,747.20	389,252.80	61.1%
TOTAL EXPENSES	<u><u>32,728,007.69</u></u>	<u><u>35,828,927.00</u></u>	<u><u>3,014,169.44</u></u>	<u><u>31,563,303.71</u></u>	<u><u>4,269,677.87</u></u>	88.1%
INVESTMENT EXPENSE*						
Advisory Technical Service	449,834.07	550,000.00	67,094.83	428,404.99	121,595.01	77.9%

** investment expenses are netted against investment income in the statement of changes of plan net assets to arrive at a net investment income amount.*

Cash Recon - Dec

Date	Transactions	Sources	Uses	Balance
11/24/2021	Beginning Balance			2,064,808.83
11/30/2021	Sale - Fidelity S&P500 Index	950,000.00		3,014,808.83
11/30/2021	December Pension Payments		(2,977,853.35)	36,955.48
12/1/2021	Interest	9.87		36,965.35
12/2/2021	Dividend - Fidelity Money Market	0.37		36,965.72
12/6/2021	Payroll Contributions	870,694.90		907,660.62
12/6/2021	Wire - City Operating Account		(35,000.00)	872,660.62
12/7/2021	Redeposit Pension Check	317.08		872,977.70
12/8/2021	Return/Reissue Pension Check	2,502.96	(2,767.19)	872,713.47
12/14/2021	Distribution - Royalty Opps II	54,112.55		926,826.02
12/16/2021	Return/Reissue Lump Sum Payment	27,772.05	(27,772.05)	926,826.02
12/16/2021	Wire - City Operating Account		(250,000.00)	676,826.02
12/20/2021	Distribution - Morrison Street VI	836,793.00		1,513,619.02
12/24/2021	Distribution - Morrison Street VI	287,425.88		1,801,044.90
12/28/2021	Return/Reissue Lump Sum Payment	27,772.05	(27,772.05)	1,801,044.90
12/28/2021	Ending Balance	3,057,400.71	(3,321,164.64)	1,801,044.90
	<u>Upcoming</u>			
12/31/2020	December Pension Payments		(2,721,832.24)	

2022 INVESTMENT OUTLOOK SURVEY

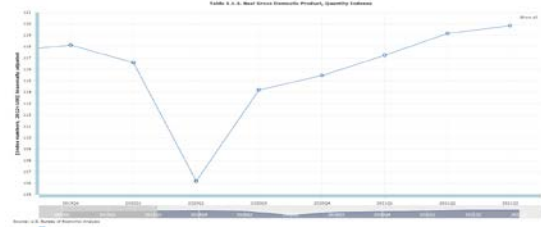
January 5, 2022



Broad Themes

1) Economic Recovery in 2021

- Impact of COVID Recedes – Economically, yes; Prevalence, no
- Size, Timing, and Breadth Varies
- Alphabet Soup: V, W, K, Square Root



2) Fiscal and Monetary Support Remains in Place

- Continued Deficits – 2019 \$984B, 2020 \$3,132B, \$2,772B
- Low Interest Rates – 10yr UST Jan 1 0.93% (low), Dec 31 1.51%

3) Risk On for 2021

- Prices ahead of fundamentals, but start of cycle – 72% increase in S&P 500 EPS, 28.7% S&P 500 return
- Low yields provide less buffer for safe assets

Risks

1) COVID Containment – Variants eluded containment

- Vaccine
- Testing
- Restrictions

2) Inflation – Yes, but not for reasons expected, +6.9%

- Fiscal and Monetary Policy Stimulus
- Rebuild with Resilience Over Efficiency
- Wage Pressures

3) Temporary vs. Permanent Changes – TBD

- Work from Home
- E-commerce
- Travel

Tactical vs. Strategic

- Tactical

- Overweight stocks – S&P 500 +28.7%

- Non-US for Valuations – ACWI ex-US +8.3%

- Emerging for Relative Growth Rate – MSCI EM -2.2%

- Value vs. Growth Divided – Value +25.2%, Growth +27.6%

- Hunt for Yield

- Emerging Markets Debt – Yield: Jan 1 4.91%, Dec 31 5.27%; -1.8% Net

- Real Assets – Yield: Jan 1 2.87%, Dec 31 1.96%; +1.1% Net; REITs +41.3%

- Credit – Yield: Jan 1 1.74%, Dec 31 2.33%; -1.0% Net

- Strategic

- Lower Return Environment – Strong returns decrease future expectations

Asset Class Forecasts

S&P 500 Forecasts														
						Average	4,179							
	CITI		WELLS			BTIG							OPP	
	BAML		MS	DEU	BARC	CSUI	CFRA	UBS		BMO			GS	JPM
3,756	3,800	3,850	3,900	3,950	4,000	4,050	4,080	4,100	4,150	4,200	4,250	4,300	4,350	4,400
12/31/2020	1.2%	2.5%	3.8%	5.2%	6.5%	7.8%	8.6%	9.2%	10.5%	11.8%	13.2%	14.5%	15.8%	17.1%

12/31/21
4,766
+27.7%

Asset Class Forecasts

			Russell	
			VanGuard	
			Nuveen	
			Principal	
			BlackRock	
		Meketa	Invesco	
++	+	Neutral	-	--
Government Fixed Income				

-3.3%

			Meketa	
			Russell	
			Nuveen	BlackRock
		Principal	Invesco	
++	+	Neutral	-	--
Investment Grade Fixed Income				

-1.0%

			Principal	
			BlackRock	Meketa
			Invesco	Russell
++	+	Neutral	-	--
High Yield Fixed Income				

+5.3%

			Russell	
			BlackRock	Meketa
++	+	Neutral	-	--
TIPS				

+6.0%

Asset Class Forecasts

Meketa
 Russell
 VanGuard
 Nuveen
 Principal
 BlackRock
 Invesco

++	+	Neutral	-	--
Equities				

+20.0%

Nuveen
 BlackRock
 Invesco Meketa Principal

++	+	Neutral	-	--
Small Cap Equities				

+14.8%

Meketa
 Russell
 Nuveen
 Principal
 BlackRock
 Invesco

++	+	Neutral	-	--
Emerging Equities				

-2.2%

Meketa
 Nuveen
 Russell Principal
 Invesco BlackRock

++	+	Neutral	-	--
Value Equities				

+29.2%

Asset Class Forecasts

	Meketa Principal BlackRock		Russell	
	++	+	Neutral	--
	US Equities			

+28.7%

	Meketa Russell		Principal BlackRock	
	++	+	Neutral	--
	European Equities			

+16.5%

	Meketa Russell BlackRock		Principal	
	++	+	Neutral	--
	Asian Equities			

-5.9%



HYAS GROUP

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December 30, 2021

Phillip Tencick
Retirement Director
City of Spokane
808 W. Spokane Falls Blvd.
Spokane, WA 99201

RE: ORBIMED PARTNERS II

The Spokane Employees’ Retirement System (SERS) invests approximately \$4.5 million (1.2% of total Plan assets as of September 30, 2021) in the Orbimed Partners II Fund (Fund). The Fund’s strategy is to employ many premier Healthcare specialists to identify companies whose product and market positioning warrants either a long or short position in their equity. Management tends to focus on small- or mid-sized companies with an emphasis on the United States but may hold significant exposure to developed and emerging markets. The rationale for including the Fund within SERS is that the high degree of scientific expertise its staff possess offers the ability to add value through stock selection in a sector that is difficult to analyze but offers very high upside potential and generally low correlation to the broader market. The Fund is categorized as part of the Special Opportunities asset class, which serves as an alternative to more traditional equity investments. Special Opportunities in turn has a target allocation of 0% and is generally reserved for tactical use.

The Fund’s performance has been volatile, with instances of high out- and underperformance. For example, the Fund returned a cumulative 108% from 2019-2020 as biotechnology rallied strongly, compared to 40% for its performance benchmark, the MSCI World Healthcare Index. At other instances however returns have been starkly negative, such as in 2016 (-21.91%), 2018 (-18.43%) and year-to-date 2021 (-31.63%), and well below the policy index. The table below displays the calendar year returns of the Fund, its policy index (MSCI World Healthcare Index), and the policy index for Special Opportunities (the Russell 3000 Index). The “Averages” columns on the far right show how the Fund’s high volatility and occasional instances of steep losses have detracted from its long-term compounding or geometric (“Geo.”) return and indicate that investors have not been adequately compensated for the Fund’s volatility.

	Calendar Year Returns									Averages	
	2020	2019	2018	2017	2016	2015	2014	2013	Arith.	Geo.	
Orbimed Partners II	44.99	43.69	-18.43	25.30	-21.91	2.14	25.88	32.19	16.73	13.87	
MSCI World HC Index	13.52	23.24	2.51	19.80	-6.81	6.60	18.10	36.27	14.15	13.46	
Russell 3000 Index	20.89	31.02	-5.24	21.13	12.74	0.48	12.56	33.55	15.89	15.17	

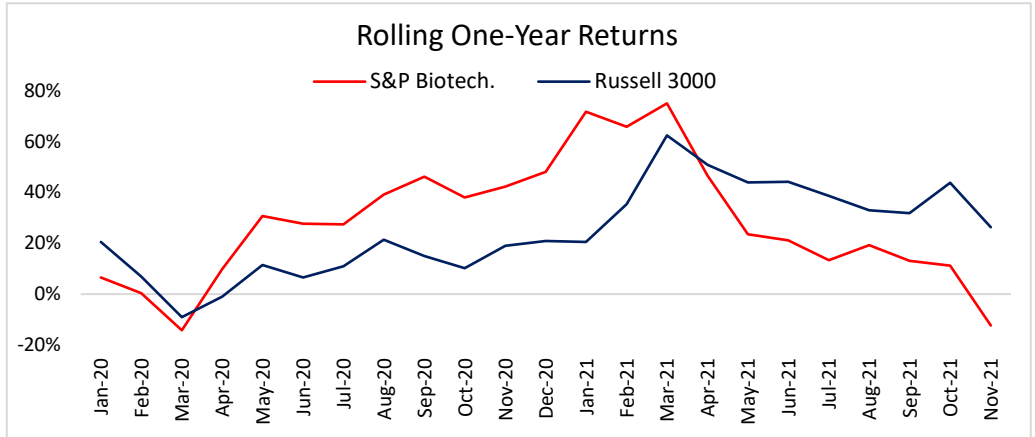
Recent performance has been extremely challenging, as the Fund has returned -31.63% year-to-date through September 30, 2021 versus 11.03% for the MSCI World Healthcare Index and 14.99% for the Russell 3000 Index. Orbimed has argued that factors such as a retracement of 2020’s strong winners, premature short positions in several COVID-related stocks, and general disfavor of biotechnology companies relative to the broader equity markets (illustrated in the following chart)



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has amounted to a substantial performance headwind but may allow for return-enhancing M&A activity as larger companies start to view out-of-favor smaller ones as attractively priced.



The Hyas Group does not contest Orbimed’s forward-looking assessment of the biotechnology sector’s prospects. Of greater relevance to SERS however is that although the Fund has at times handed in competitive returns, its overall volatility profile has repeatedly shown itself to be higher than what is appropriate, even considering its small allocation within a diversified portfolio. In comparison, SERS funds a range of diversified and high-quality investment managers that have demonstrated the ability to provide adequate returns with a substantially lower risk profile. As such, the Hyas Group recommends liquidating the position in Orbimed Partners II and allocating the proceeds to other currently funded growth-oriented investments (for clarity, no investment action is recommended for the separate Oribmed Royalty Opportunities investments also held within SERS).

Fund liquidations require a sixty-days advance notice of the liquidation date (the next being March 31). 95% of liquidated assets are then wired within thirty-days of that date, with the remainder held back for one year for auditing purposes. Should SERS elect to liquidate the Fund, it will need to provide notice by January 31, 2022. The Hyas Group can assist in this process as needed.

Thank you and please let me know if there are any questions.

Sincerely,

Jayson Davidson, CFA

cc: Christine Shisler, Tom Breaden, Michelle Ruppelt