

**Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
September 13, 2023**

The regular meeting was called to order at 1:06 p.m.

Present: Jim Tieken, Joe Cavanaugh, Richard Czernik, Jonathan Bingle, Brian Brill, Brian Myers

Staff: Christine Shisler, Donald Brown, Tim Szambelan

Guests: Jayson Davidson, Tom Breaden, Jon Barnhart, Dave Hanshaw

Hyas Group, 2023 2nd Quarter Investment Performance Report

Mr. Davidson presented the Second Quarter 2023 Performance Report and discussed the quarter's overall market and economic conditions as well as expectations for the remainder of the year. The quarter provided for a strong, but somewhat unexpected, equity market rally. Economic and market themes remain largely the same since the start of this year, but economic and subsequent market resilience has been different than forecast. The U.S. economy is growing ahead of expectations and seems far removed from any sort of recessionary concern. U.S. equity markets continued to march in a positive direction even with the drop in quarterly earnings numbers and the continued focus on controlling inflation by the Federal Reserve. International markets are marching in step with the U.S. and themes are generally the same across the global landscape. In this backdrop, the SERS Portfolio performed well, posting a 3.3% total return relative to the policy benchmark's 2.6%. This leaves the SERS portfolio with a 7.3% return year-to-date and a 1.3% premium to the benchmark. During the quarter, several categories were additive to performance with International Equity, Long Biased, Private Credit, and Real Estate all contributing in excess of 1% to their respective category benchmarks.

At quarter-end, there were three managers on watch for performance in violation of underlying policy benchmarks. The Hotchkis & Wiley High Yield Fund and Sterling Mid Cap Value Fund remain in violation of policy parameters and will remain on watch. Mr. Davidson did note that each of these options posted strong performance numbers relative to benchmarks during the quarter. The position in the third watch status option, Rimrock Low Volatility, was liquidated in July and thus the manager will no longer be on the watch list going forward. SERS also held the MFS Large Growth Fund on qualitative watch as a result of the recently announced departure of one of the senior portfolio managers on the strategy. Hyas Group will likely hold this watch status until then end of this year. Mr. Davidson also noted that MFS Growth's performance relative to policy benchmarks has been weak and the option risks tipping into performance related investment policy violation if they do not improve over the remainder of the year.

Contrarian Emerging Markets Fund

Hyas Group recommend placing the Contrarian Emerging Markets strategy on watch for performance in violation of investment policy parameters. While the fund enjoyed a strong quarter and trailing one-year relative to its benchmark, the significant performance shortfall in 2020 has moved the 5-year policy performance into violation.

Richard Czernik moved, and Brian Myers seconded the motion to place Contrarian Emerging Markets Fund on watch due to performance issues. The motion passed unanimously.

Asset Allocation Implementation

Hyas Group presented what is effectively the second phase of the recently approved SERS asset allocation implementation. With this presentation, Hyas Group recommended transitioning all but \$6 million from the liquidation of Sterling Mid Cap Value, Fidelity Mid Cap Index, Westfield Mid Cap Growth CIT, Fidelity Small Cap Index, and Champlain Small Cap into the Black Rock US Small/Mid Index. The \$6 million residual will be used to fund a newly implemented position in the AllSpring Special Small Value Fund. Additionally, we proposed liquidating the Victory Trivalent International Small Cap position and transitioning the current Vanguard Emerging Markets Stock Index position to a lower cost share class at Vanguard. The proceeds from the Victory Trivalent liquidation would be used to fund the Black Rock International Small Cap CIT. Once implemented, these changes will serve to simplify overall portfolio holdings and reduce portfolio costs by approximately 11 bps.

Joe Cavanaugh moved, and Brian Myers seconded the motion to implement the modifications listed in the Asset Allocation Implementation presentation. The motion passed unanimously.

Equity Investment Modification/Allocation

With the presentation of the performance report, Hyas Group noted several categories that maintain an overweight position relative to policy targets. Specifically, Hyas Group is recommending moving \$5.6 million from the Fidelity S&P 500 Index Fund and \$1.6 million from the MFS Growth Fund in order to bring the Domestic Equity category back to target. We would split the proceeds of the aforementioned transfers equally between the Loomis Sayles Core Plus Fund and the Sterling Core Bond Fund. That allocation will bring the underweight in the Capital Preservation category closer to target. Additionally, Hyas Group believes the risk premium to be better for Fixed Income strategies relative to Domestic Equity, which has benefited from a significant market run-up this year.

Joe Cavanaugh moved, and Richard Czernik seconded the motion accept Hyas Group's recommendation for rebalancing. The motion passed unanimously.

Black Rock High Yield Fund

Mr. Davidson informed the Board that Black Rock, the Plan's current High Yield Bond Fund manager, is making available a less expensive Commingled Investment Trust (CIT)

vehicle. The CIT could replace the current mutual fund vehicle and will bring with it a 9 bps expense ratio reduction.

Joe Cavanaugh moved, and Richard Czernik seconded the motion to accept Hyas Group’s recommendation and move from the Black Rock High Yield fund to the Black Rock Collective Investment Trust (CIT). The motion passed unanimously.

Hyas Group informed the Board that the recently approved adjustments to the Capital Preservation category manager allocations were completed at the end of June. The Loomis Sayles Core Plus Bond strategy and the Black Rock High Yield Bond Fund were added to the portfolio and funded from proceeds held in the fixed income index and Hotchkis & Wiley High Yield as short-term place holders.

Minutes of the August 2, 2023 Meeting

Joe Cavanaugh moved, and Richard Czernik seconded the motion to approve the minutes of the August 2, 2023 meeting as presented. The motion passed unanimously.

Director’s Report

Service Retirements

Name	Age	Retirement Date	Years of Service	Department
Christopher L. King	51	09/01/2023	8.4	Solid Waste Management
Kenneth Lamoreaux	50	09/01/2023	7.4	Accounting
Matthew R. Bayley	50	11/01/2023	8.1	IT
David J. Randolph	64	12/09/2023	38.8	Parks & Recreation
Thomas M. Smith	70	12/30/2023	12.4	Development Service Center
Frank B. Espinoza	67	01/06/2024	7.1	Reprographics

Richard Czernik moved, and Brian Myers seconded the motion to approve the service retirements as presented on the September Retirement Transaction Report. The motion passed unanimously.

Withdrawals for September 2023

<i>Name</i>	<i>Years of Service</i>	<i>Termination Date</i>
Gabriel O. Rivera	0.3	07/25/2018
Colin M. Martin	4.9	03/11/2023
RaMona M. Pinto	1.0	06/20/2023
Catherine M. Mangis	6.3	06/24/2023
Richard D. Olson	0.8	07/06/2023

Richard Czernik moved, and Jonathan Bingle seconded the motion to approve the requests for withdrawal as presented on the September Retirement Transaction Report. The motion passed unanimously.

Vesting

<i>Name</i>	<i>Department</i>	<i>Years of Service</i>
Hannahlee F. Allers	Council	7.0
Breean L. Beggs	Council	7.4
Franklyn J. Powell	Development Services Center	7.1

Deaths

<i>Name</i>	<i>Date Retired</i>	<i>Age</i>	<i>Date of Death</i>	<i>Information</i>
Eunice L. Sproul	09/02/1994	93	08/12/2023	No Further Benefits

Vesting and death information provided to the Board for review.

Expenditure Summary Report – July 2023

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

Richard Czernik moved, and Brian Myers seconded the motion to approve the July 2023 Expenditure Summary Report. The motion passed unanimously.

Jonathan Bingle left the meeting.

Schedule of Investments – July 2023

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on July 31, 2023 was \$336.3 million with an estimated rate of return of 2.4% 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

Joe Cavanaugh moved, and Richard Czernik seconded the motion to discuss the Retirement System makeup going forward in closed session at the October meeting. The motion passed unanimously.

2024 Budget

The 2024 Budget was presented to the Board and discussed.

Brian Myers moved, and Joe Cavanaugh seconded the motion to adopt the 2024 Budget, with the acknowledgement of the new Clerk III position, that the Board approved at its August 2023 meeting, not included. The motion passed unanimously.

Richard Czernik moved, and Brian Myers seconded the motion to adjourn at 2:05 p.m. The motion passed unanimously.

/s/

Christine Shisler, Interim Retirement Director