

**Spokane Employees' Retirement System (SERS)**  
**Board Meeting Minutes**  
**August 25, 2010**

Bill Todd called the regular monthly meeting to order at 12:37 p.m. in the 5<sup>th</sup> Floor Conference Room at City Hall.

**Present:** Bill Todd, Steve Sather, Tom Brown, Jon Snyder and Jerry McFarlane

**Absent:** Dave Walker and Mike Coster

**Staff:** Leo Griffin, Diana Hart and Christine Ellingson

**Guests:** Jayson Davidson, Joe Cavanaugh, Joan Hamilton and John Bjork

**Jayson Davidson, Hyas Group – 2010 2nd Quarter Investment Performance Report**

Mr. Davidson reviewed the second quarter investment performance report. For the quarter ended June 30, 2010, SERS' investment return was negative (6.65%). Over three years, the fund earned negative (3.24%). He discussed the Fund's relative performance and recent portfolio allocation decisions that have slightly hindered short-term performance, relative to the benchmark. On a relative basis, the longer-term, three-year performance is strong and mostly likely in the top quartile. Hyas Group will continue to be diligent in their assessment of the current market environment and will recommend changes to the overall portfolio as appropriate.

Mr. Davidson provided information related to the recent Sterling Capital Management, LLC ownership change and the senior staff departure at Berens. In regard to these changes, Hyas Group recommended no action be taken at this time.

Although recent performance improvements were noted, Hyas Group recommended maintaining the watch status on the Hotchkis & Wiley Core Value Fund and the Essex Small/Micro Fund. Additionally, Hyas Group will maintain the watch status on the Santa Barbara Large Cap Growth Fund and will continue to evaluate the most appropriate timing for replacing this option. The recent market pull back appears to have worked in favor of Santa Barbara's more conservative approach and Hyas Group will continue to assess the timing of the replacement of this option.

Mr. Davidson updated the Board on the conclusion of the in-house bond liquidation project. Rimrock has completed the liquidation and the proceeds from the bond sales have been directed to the SERS cash account. Mr. Griffin stated he reviewed the transactions and was pleased with the prices received on the bond sales.

The Principal partial (\$4 million) liquidation should be completed at the end of August. In August, 2009, the Board voted to allow the transition into Principal's commingled REIT product contingent on Hyas Group's final analysis. After further review, Hyas Group recommended staying in the separate account fund.

### **Investment Policy Statement**

A draft, prepared by Mr. Davidson and Mr. Griffin, of the SERS' Investment Policy Statement was provided to the Board. Mr. Davidson pointed out that in addition to a completely new policy, he and Mr. Griffin are recommending an increase in the alternative investment target allocation from 23% to 28% for diversification purposes. Most of the increase is in the long/short investment space and most of the decrease is in global equity, specifically international.

Steve Sather moved and Tom Brown seconded the motion to approve the Investment Policy Statement and the new asset allocation as presented to the Board. The motion passed unanimously.

### **Common Sense Redemption**

Hyas Group recommended liquidating SERS' position in Common Sense Partners. The fund of funds has not performed as expected. Hyas Group will work with staff to provide formal notification to Common Sense Partners in compliance with their year-end, 100-day notification requirement. The fund will hold back \$1 million until the audit is complete, June 30, 2011.

Tom Brown moved and Jon Snyder seconded the motion to liquidate SERS' position in Common Sense Partners. The motion passed unanimously

### **2011 WA Legislative Session – RCW 42.56.270**

Mr. Griffin presented a City of Seattle e-mail that requests SERS' support of a RCW change to allow for the protection of investment manager trade secrets and proprietary information from public disclosure. The Board discussed the pros and cons behind such an action. The Board is in favor of full disclosure; however, because the RCW limits the type of manager that SERS can engage, then it is in the best interest of the Fund that investment decisions be un-tethered. The Fund should not be restricted in the type of investments that can be made as long as the decision passes the prudent man rule. Mr. Griffin and Mr. Davidson pointed out that in 2007, one manager declined to enter into contract with SERS due to Washington State's sunshine laws. According to the Seattle e-mail, both the Washington State Investment Board and the University of Washington have won an exemption from

the RCW; the cities of Spokane, Seattle and Tacoma are not exempt. The Board expressed support of the resolution and gave direction to proceed with a letter formally acknowledging the support. Additionally, the Board suggested that the City's legislative liaison, Sheila Collins, be contacted and appraised of the letter.

Jerry McFarlane moved and Steve Sather seconded the motion to write a letter of support. The motion passed unanimously.

### **Minutes of the July 28, 2010 Meeting**

Steve Sather moved and Tom Brown seconded the motion to approve the minutes of the July 28, 2010 meeting as distributed. The motion passed unanimously.

### **Service Retirements**

<b>Name</b>	<b>Age</b>	<b>Retirement Date</b>	<b>Years of Service</b>	<b>Option</b>	<b>30-day Notice</b>
Dennis P. Larson	62	8/21/2010	20.3	D	N
Uncha Kim	60	9/4/2010	30.4	ST	Y
Thomas H. Starks	62	9/10/2010	36.6	D	Y

Tom Brown moved and Steve Sather seconded the motion to approve the service retirements as presented on the August Retirement Transaction Report. The motion passed unanimously.

### **Withdrawals for August 2010**

<b>Name</b>	<b>Termination Date</b>
Michael Pogue	1/15/2010
Judy Noll	2/10/2010
Lourie Harrington	4/15/2010
Connie Humphrey	5/26/2010

Steve Sather moved and Tom Brown seconded the motion to approve the requests for withdrawal as presented on the August Retirement Transaction Report. The motion passed unanimously.

### **Vesting**

<b>Name</b>	<b>Department</b>	<b>Years of Service</b>
Karen T. Terpak	Water	5.08

## **Deaths**

<b>Name</b>	<b>Date of Death</b>	<b>Age</b>	<b>Information</b>
Janet Miller	7/18/2010	94	No further benefits
Teresa A. Scholz	7/23/2010	51	No further benefits
Angelo L. Bomben	7/29/2010	84	'E' pension continues

The reports were provided to the Board as information only.

## **Director's Report**

### **Expenditure Summary Report – July 2010**

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

Jerry McFarlane moved and Steve Sather seconded the motion to approve the July 2010 Expenditure Summary Report. The motion passed unanimously.

### **Schedule of Investments – July 2010**

The monthly investment report was presented to the Board for review.

### **Update on Interest Rate Resolution No. 10-53**

Mr. Griffin informed the Board that Interest Rate Resolution No. 10-53, which lowered the annual interest rate paid on employee contributions from 5% to 4% effective July 1, 2010, was unanimously passed by the City Council.

## **Other Business**

Mr. Griffin explained that it has been approximately seven years since the Board and the City engaged its outside counsel, Davis Wright Tremaine, LLP. The original attorney that the Board engaged, Ralph Hawkins, retired from the firm a few years ago. Furthermore, with the addition of alternative assets to the portfolio, an attorney that specializes in reviewing limited partnership agreements is needed. It is possible that Mr. Griffin may recommend a split in the work between multiple attorneys/firms; one firm for IRS compliance issues and a separate attorney or firm for alternative asset reviews. Mr. Griffin has drafted a Request for Quotes and Qualifications (RFQQ) and plans to issue it.

There being no other business, the meeting adjourned at 2:03 p.m.

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**Leo F. Griffin, Retirement Director**