

Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
December 1, 2010

Bill Todd called the regular monthly meeting to order at 12:42 p.m. in the 5th Floor Conference Room at City Hall.

Present: Bill Todd, Steve Sather, Tom Brown, Jon Snyder, Dave Walker and Mike Coster

Absent: Jerry McFarlane

Staff: Leo Griffin, Diana Hart, Christine Ellingson and Tim Szambelan

Guests: Jayson Davidson, Joe Cavanaugh, Joan Hamilton and Dave Hanshaw

Jayson Davidson, Hyas Group – 2010 3rd Qtr Investment Performance Report

Mr. Davidson reviewed the third quarter investment performance report. For the quarter ended September 30, 2010, SERS' investment return was 9.06%. Over three years, the Fund earned negative (1.34%) compared to the policy index, which was negative (2.31%). 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 updated the Board on the intent to fund an \$8 million allocation into the PIMCO Global Advantage product. This was previously discussed and voted on at the September 30, 2009 board meeting. The assets for this allocation will come equally from SERS' two short-duration bond options and will be considered part of the international fixed income asset class. The PIMCO Global Advantage Fund is expected to be funded in early December.

Mr. Davidson informed the Board that the proceeds from the Common Sense Partners liquidation are expected in the early part of January 2011, minus a small portion held back until the completion of their audit. Hyas Group, in conjunction with the CIO, is working diligently to find acceptable replacement managers in the absolute return asset class. Until a new manager(s) is approved in that asset class, the allocation will be held in the SERS' intermediate fixed income bucket, which is currently funded with two short-duration fixed income mutual fund products. The allocation will be split equally between the two short-duration options.

Mr. Davidson provided additional review and commentary regarding the SERS' current, overall allocation relative to approved investment policy ranges. He discussed several of the broad and sub asset classes that are currently outside of

policy ranges and explained that several new investments and an asset class rebalancing will address a few of the policy range issues in the near term. From a longer-term perspective, Hyas Group will continue to work toward the policy allocation targets, but feel comfortable with the current asset classes that will remain outside of the target ranges for the time being. The current policy provides the Board with the discretion to allow the Fund to be allocated outside of these ranges as appropriate, as the SERS Investment Policy states, *“If an asset class is outside the allowable range, the Board, or its designee, may take appropriate action to redeploy assets. In any investment rebalancing situation the Board will consider market conditions, costs and other investment related factors. In certain circumstances, when appropriate and at the Board’s discretion, the Fund may be allocated outside the ranges provided in the Guidelines.”*

Although recent performance improvements were noted, Hyas Group will maintain the watch status on the Hotchkis & Wiley Core Value Fund and the Essex Small/Micro Fund. Additionally, they will maintain the watch status on the Santa Barbara Large Cap Growth Fund and will continue to evaluate the most appropriate timing for replacement of this fund.

Mr. Davidson updated the Board on the decision to reclassify the Post Limited Term High Yield Fund as an absolute return allocation. He explained that the product’s strategy is more consistent with the absolute return definition and that Hyas Group feels it is a more appropriate classification.

Mr. Davidson provided an update on the outcome of the partnership votes for the two Legacy proxies. The proxy to allow AIG, as co-general partner, out of the investment was approved and the proxy to allow any limited partner out of the investment failed.

OrbiMed Royalty Opportunities & OrbiMed Caduceus Limited Partnerships

Mr. Davidson presented a new investment for SERS: OrbiMed Caduceus, which is an alternative investment in the special opportunities category. Mr. Davidson discussed the fund and Hyas Group’s due diligence that was performed. Additionally, Mr. Griffin participated in a site visit along with the CIO from the Hyas Group.

Mike Coster moved and Tom Brown seconded the motion to accept the recommendation of the Hyas Group to invest \$5 million in OrbiMed Caduceus. The motion passed unanimously.

Mr. Davidson presented a second new investment for SERS: OrbiMed Royal Opportunities, which is also an alternative investment in the special opportunity category. Again, Mr. Davidson discussed the fund and the due diligence performed by Hyas Group. Mr. Snyder questioned the illiquidity of the investment in this limited partnership. Mr. Davidson explained that SERS would commit a dollar amount and the partnership would receive funding through capital calls.

Mike Coster moved and Steve Sather seconded the motion to accept the recommendation of the Hyas Group to commit \$5 million in OrbiMed Royal Opportunities. The motion passed unanimously.

Limited Partnership Legal Review

Mr. Griffin interviewed three (3) law firms -- Lane Powell, Barran Liebman, and K&L Gates. Brian Loesch, Hyas Group, sat in on the portion of the interviews that was related to limited partnership agreements. K&L Gates has the strongest depth and breadth of experience with regard to limited partnership agreements. Additionally, they are strong in other legal issues related to the Plan. Mr. Griffin explained to the Board that if they approve engaging K&L Gates, he would then seek approval of the City Attorney and City Council as per the SMC.

Jon Snyder moved and Tom Brown seconded the motion to approve engaging K&L Gates as outside legal counsel. The motion passed unanimously

Minutes of the October 27, 2010 Meeting

Steve Sather moved and Jon Snyder seconded the motion to approve the minutes of the October 27, 2010 meeting as distributed. The motion passed unanimously.

Service Retirements

Name	Age	Retirement Date	Years of Service	Option	30-day Notice
Allan J. Nordling	50	12/11/2010	22.8	E	Y
Kimberly Dowd-Vega	50	12/23/2010	19.5	E	Y
Denise S. Wiggins	56	12/25/2010	9.5	ST	Y
Perilee D. Howie	64	1/8/2011	11.0	ST	Y
Forrest V. Diehl	65	1/18/2011	17.9	ST	Y
Lorraine F. Keane	62	2/24/2011	18.5	ST	Y

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

Deaths

Name	Date of Death	Age	Information
Thomas J. Taylor	10/29/2010	56	'E' Option Continues
Cecil E. Ferguson	11/16/2010	76	No further benefits

The reports were provided to the Board as information only.

Director's Report

Expenditure Summary Reports – September and October 2010

The Expenditure Summary Reports were presented to the Board and discussed.

Mike Coster moved and Tom Brown seconded the motion to approve the September and October 2010 Expenditure Summary Reports. The motion passed unanimously.

Mr. Griffin left the meeting at 1:03pm.

Other Business

Mr. Todd presented to the Board a proposal to change the range classification of the Retirement Director's position. The Retirement Director has been a big part of the increase in the level of sophistication of the Fund. Mr. Todd believes that the compensation has not been reviewed since Mr. Bennett was the Retirement Director in the 1990s. Mr. Todd would like a formal motion by the Board. Mr. Snyder stated that he would be voting against the raise even though he believes it is deserved. He has had several opportunities, on various Boards that he serves on, to vote for raises. Each time he has voted against raises and he will not vote any differently on this Board. Discussion continued.

Steve Sather moved and Tom Brown seconded the motion to move the Retirement Director's salary range to the top step of Range 61. The motion passed 4 to 1 with Jon Snyder voting nay.

Mr. Griffin returned to the meeting at 1:20pm.

2011 Budget

Steve Sather moved and Jon Snyder seconded the motion to approve the 2011 budget. The motion passed unanimously.

Schedule of Investments – October 2010

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

Retiree Letter

Mr. Todd will send a letter in response to the retiree.

There being no other business, the meeting adjourned at 2:43p.m.

/s/

Leo F. Griffin, Retirement Director