

**Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
December 7, 2011**

Bill Todd called the regular monthly meeting to order at 12:34 p.m. in the 5th Floor Conference Room at City Hall.

Present: Bill Todd, Steve Sather, Jon Snyder, Jerry McFarlane and Mike Coster

Staff: Leo Griffin, Christine Ellingson and Tim Szambelan

Guests: Jayson Davidson, Joe Cavanaugh, Joan Hamilton, Mike Cavanaugh, Brad Koller, John Bjork, Heather Lowe and Brian Brill

Vacant SERS Board Positions

Bill Todd informed the Board that he, Steve Sather, and Leo Griffin would be meeting with the Mayor tomorrow to review Board applications received by the Mayor's office. Leo Griffin introduced potential Board candidate Brian Brill.

Jayson Davidson, Hyas Group – 2011 3rd Qtr Investment Performance Report

Mr. Davidson reviewed the third quarter investment performance report. For the quarter ended September 30, 2011, SERS' investment return was negative (12.3%) compared to a policy index of negative (11.2%). Over three years, the Fund earned 2.6% compared to the policy index, which was 4.2%; however, over four years SERS earned negative (1.5%) compared to a policy index of negative (1.6%). Mr. Griffin pointed out that the portfolio is outperforming the benchmark over a four-year time period, which includes a rocky road through the credit crisis. He further stated that on a relative basis, compared to other pension funds, SERS continues to perform well given the continued high volatility that exists in the markets.

Hyas Group will maintain the watch status on the Hotchkis & Wiley Core Value Fund and Santa Barbara Large Cap Growth Fund.

Landmark Value Strategies Ltd.

Hyas Group recommended terminating Landmark Value Strategies, Ltd. (Landmark), as Landmark has not performed up to expectations in the long/short asset category. Additionally, there have been structural and personnel changes within Landmark that have raised concern. Some of the changes have led the Hyas Group to question whether Landmark will continue to have enough focus on the Value Strategies, Ltd. Fund.

Mike Coster moved and Steve Sather seconded the motion to accept Hyas Group's recommendation to terminate Landmark Value Strategies, Ltd. The motion passed unanimously.

Troob Capital Management

Hyas Group and Mr. Griffin recommended investing \$5 million in Troob Capital Management as a replacement for Landmark Value Strategies, Ltd. The initial funds will come from the Vanguard S&P Index as we wait for the proceeds from the liquidation of Landmark.

Troob Capital Management is a direct fund as opposed to a fund-of-funds. Their primary focus is on distressed companies across all classes of capital structure, including long, short and hedged. Mr. Griffin met with the managers on-site in their office in White Plains, NY in October, 2011 and supports Hyas' recommendation.

Mr. Snyder asked how this manager compares to some of our current managers. Mr. Davidson stated that Hyas Groups recommends smaller firms, which they believe give a unique edge. Hyas believes this gives SERS enough capacity in the manager to make a difference in the investment structure.

Jerry McFarlane moved and Mike Coster seconded the motion to accept the recommendation to invest \$5 million in Troob Capital Management. The motion passed unanimously.

Rimrock Low Volatility Fund, Ltd.

Hyas Group recommended additional funding to Rimrock of \$3 million to be taken from the Vanguard S&P Index to reduce equity exposure and increase non-traditional fixed income.

Steve Sather moved and Jon Snyder seconded the motion to accept Hyas Group's recommendation to move \$3 million from the Vanguard S&P Index to Rimrock Low Volatility Fund, Ltd. The motion passed unanimously.

Victory Proceeds

Hyas Group recommended MFS Blended Research Core Equity Fund as a replacement for Victory Capital Management. The proceeds from Victory are currently in the Vanguard S&P Index. Hyas recommended investing the full \$10 million from the Victory proceeds. This will not change the equity over-weight.

Jon Snyder moved and Jerry McFarlane seconded the motion to accept the recommendation of the Hyas Group to move \$10 million from the Vanguard Index to MFS Blended Research Core Equity I Fund. The motion passed unanimously.

Westwood

Hyas profiled four different managers-Phocas Small Cap Value, Sterling Small Cap Value, Vanguard Small Cap Value Index and Walthausen Small Cap Value as potential replacements for Westwood Small Cap Value (WHG). Hyas Group recommended the Phocas Small Cap Value Fund. Phocas is a very experienced manager. They recommended moving all proceeds from WHG into Phocas Small Cap Value Fund.

Steve Sather moved and Jerry McFarlane seconded the motion to accept the recommendation to terminate WHG and move all proceeds to Phocas Small Cap Value Fund. The motion passed unanimously.

Essex

Hyas Group recommended replacing Essex Small/Micro Cap Growth Fund with Bridge City Capital Small Cap Growth Fund from Portland, OR. This is a small fund however, they have three senior member dedicated to research, which rivals a larger firm. Their total assets today are approximately \$5 million. Hyas recommended an investment in Bridge City equivalent to approximately the balance in Essex, which is the \$2.5 – 2.6 million range today. Bridge City would be a separately managed account with an attractive fee structure, which is considerably less than what we pay Essex today as a mutual fund. Hyas Group recommended that Mr. Griffin meet with the managers on-site before funding. Mr. Griffin expects that he could travel to Portland in the month of December for a due diligence meeting with Bridge City.

Mr. Snyder asked about Summit Creek. Mr. Davidson explained that they are less “growth” and more “value.” Hyas Group believes that Bridge City is a more strategic replacement for Essex.

Mike Coster moved and Steve Sather seconded the motion to terminate Essex and, at the discretion of the Chief Investment Officer, to fund Bridge City Small Cap Growth Fund or Loomis Sayles Small Cap Growth Fund or revisit at the February, 2012 Board meeting. The motion passed unanimously.

Rebalancing to Policy Target

SERS is currently over-weighted in equities. Hyas Group would like to work with the CIO, Mr. Griffin, to rebalance the portfolio closer to policy. Mr. Griffin and the Hyas Group have been tracking the over-weighted position closely and will continue to monitor it and recommend changes as appropriate.

Jon Snyder moved and Mike Coster seconded the motion to authorize the CIO and Investment Consultant to rebalance the portfolio, as necessary. The motion passed unanimously.

Minutes of the October 26, 2011 Meeting

Jon Snyder moved and Steve Sather seconded the motion to approve the minutes of the October 26, 2011 meeting as distributed. The motion passed unanimously.

Service Retirements

Name	Age	Retirement Date	Years of Service	Option	30-day Notice
Bradley T. Shrum	53	12/10/2011	25.6	D	N
Lawrence D. Nelson	63	12/29/2011	18.1	D	Y
Alexander J. Shogan, Jr.	63	01/01/2012	8.0	E	Y
William C. Emery, Jr.	65	01/07/2012	25.0	D	Y
Bradley J. Scott	58	01/07/2012	19.7	ST	Y
Terry L. Montgomery	59	01/12/2012	35.0	D	Y
Carolyn A Brakel	67	01/12/2012	15.6	ST	Y
Garvin F. Brakel	65	01/21/2012	18.2	D	Y

Steve Sather moved and Jerry McFarlane seconded the motion to approve the service retirements as presented on the December Retirement Transaction Report. The motion passed unanimously.

Withdrawals

Name	Termination Date
Jean O'Donnell	09/25/2011
Ty Little	10/02/2011

Steve Sather moved and Jon Snyder seconded the motion to approve the requests for withdrawal as presented on the December Retirement Transaction Report. The motion passed unanimously.

Deaths

Name	Date of Death	Age	Information
Wayne A. Brown	11/19/2011	62	'D' Option Continues
Violet M. Danielson	11/21/2011	85	No Further Benefits
Francis P. Reynolds	11/21/2011	58	No Further Benefits
Angeline P. Anderson	11/25/2011	96	No Further Benefits

The report was provided to the Board as information only.

Director's Report**Expenditure Summary Report – October 2011**

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

Mike Coster moved and Steve Sather seconded the motion to approve the October 2011 Expenditure Summary Report. The motion passed unanimously.

Schedule of Investments – October 2011

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

SERS Ordinance for IRS Determination Letter

The Board was provided with an Ordinance amending SMC sections 3.05.130 and 3.05.290. They are housekeeping changes required by the IRS as they issued a favorable Determination Letter on the conditions that SERS adopt these changes. Mr. Snyder feels there will be no issues at the City Council meeting.

Jerry McFarlane moved and Steve Sather seconded the motion to send the Ordinance to Spokane City Council for approval. The motion passed unanimously.

Other Business

At 2:22 pm, Bill Todd called an executive session and asked all but the SERS Board and the Retirement Director to exit the room.

Executive Session

At 2:27 pm, Bill Todd called the meeting into open session.

Open Session**Personnel Matters**

Jon Snyder moved and Mike Coster seconded the motion to recommend, to the Mayor, the appointment of Christine Ellingson as Assistant Retirement Director and that it be effective December 12, 2011. The motion passed unanimously.

There being no other business, the meeting adjourned at 2:28 p.m.

/s/

Leo F. Griffin, Retirement Director