

## **Spokane Employees' Retirement System**

Fourth Quarter 2011 Performance Report

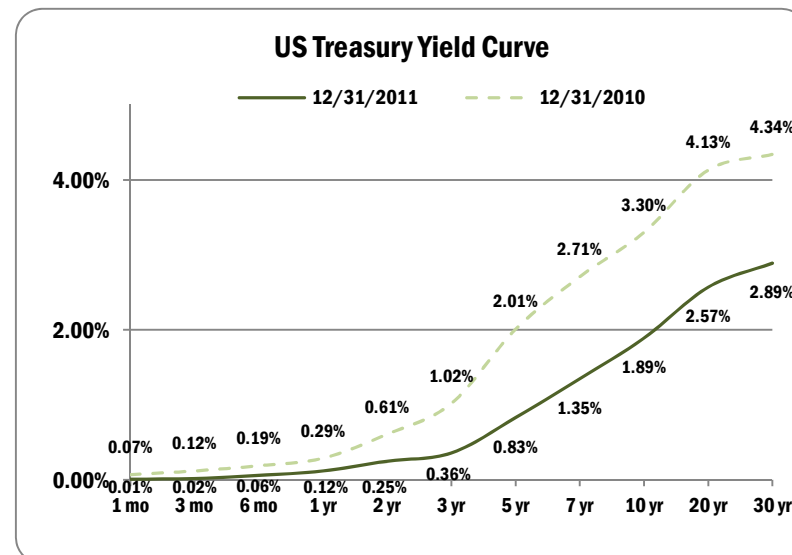
February 2012



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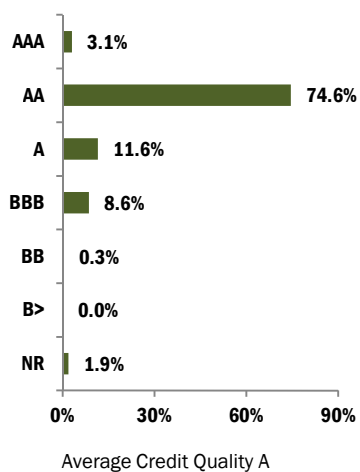
## 4Q2011 Bond Market Data

| Index                            | 4Q11  | YTD    | 1 yr.  | 3 yrs. | 5 yrs. | 10 yrs. |
|----------------------------------|-------|--------|--------|--------|--------|---------|
| 90-Day T-Bill                    | 0.00% | 0.06%  | 0.06%  | 0.12%  | 1.23%  | 1.83%   |
| Barclays US Treasury US TIPS     | 2.69% | 13.56% | 13.56% | 10.38% | 7.95%  | 7.57%   |
| Barclays US Treasury             | 0.89% | 9.81%  | 9.81%  | 3.88%  | 6.81%  | 5.71%   |
| Barclays US Treasury 1-3 Yr      | 0.19% | 1.55%  | 1.55%  | 1.58%  | 3.71%  | 3.27%   |
| Barclays US Treasury 5-10 Yr     | 1.32% | 13.22% | 13.22% | 5.42%  | 8.56%  | 6.71%   |
| Barclays US Govt/ Credit         | 1.18% | 8.74%  | 8.74%  | 6.60%  | 6.55%  | 5.85%   |
| Barclays 1-3 Yr Govt/ Credit     | 0.25% | 1.59%  | 1.59%  | 2.74%  | 3.99%  | 3.63%   |
| Barclays US Govt/ Credit 5-10 Yr | 1.61% | 10.79% | 10.79% | 8.89%  | 7.84%  | 6.88%   |
| Barclays US Aggregate            | 1.12% | 7.84%  | 7.84%  | 6.77%  | 6.50%  | 5.78%   |
| Barclays US Corp. High Yield     | 6.46% | 4.98%  | 4.98%  | 24.12% | 7.54%  | 8.85%   |
| Barclays Global Aggregate        | 0.23% | 5.64%  | 5.64%  | 6.04%  | 6.46%  | 7.16%   |
| Barclays Municipal               | 2.12% | 10.70% | 10.70% | 8.57%  | 5.22%  | 5.38%   |
| Barclays US Credit               | 1.70% | 8.35%  | 8.35%  | 10.90% | 6.80%  | 6.35%   |



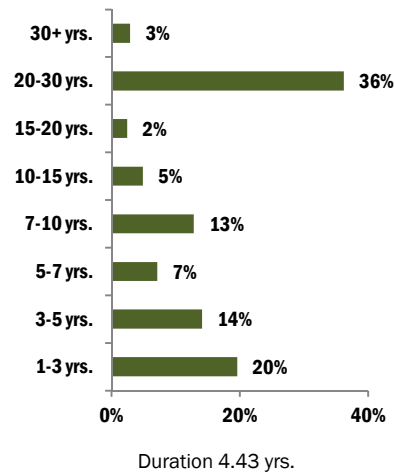
Source: Department of US Treasury

### Barclays US Aggregate Index Credit Quality



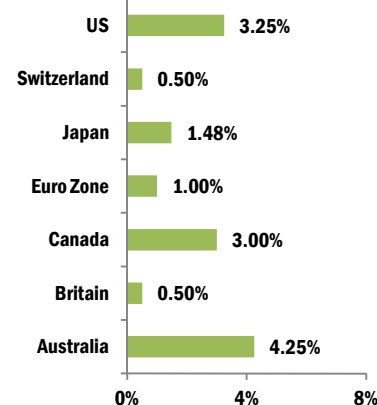
Source: Morningstar

### Barclays US Aggregate Index Maturity Breakdown



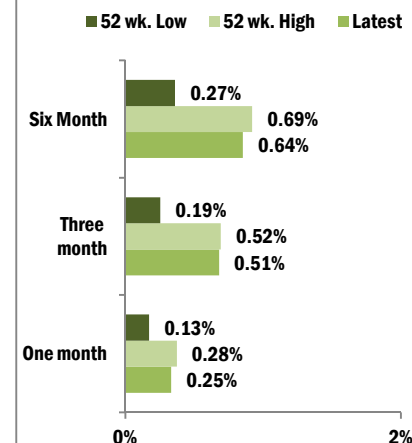
Source: Morningstar

### Prime Rates



Source: Wall Street Journal

### CD Rates



Source: Federal Reserve

## 4Q2011 US Equity Market Data

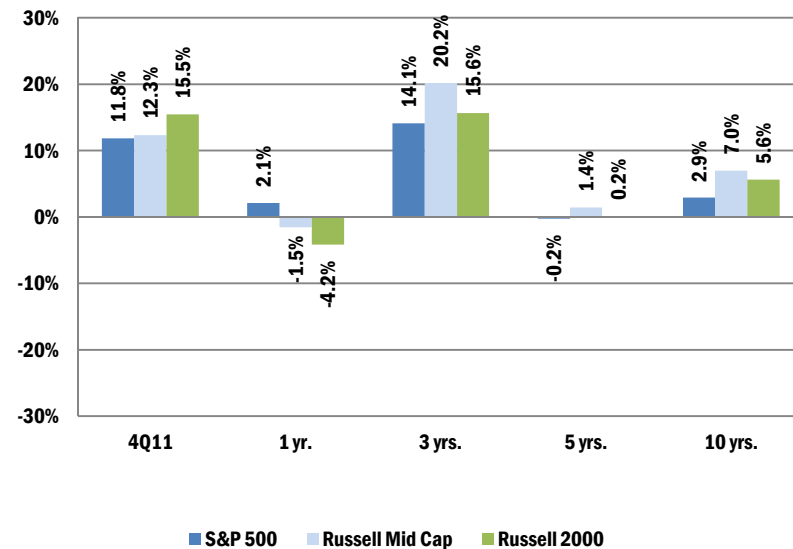
### Sectors Weights/Returns (ranked by quarter performance)

| S&P 500 Index          | Wgt. | Sector                 | 4Q11   | 1 Yr.   |
|------------------------|------|------------------------|--------|---------|
|                        | 12%  | Energy                 | 18.20% | 4.72%   |
|                        | 11%  | Industrials            | 16.52% | -0.59%  |
|                        | 4%   | Materials              | 15.39% | -9.75%  |
|                        | 11%  | Consumer Discretionary | 12.58% | 6.13%   |
|                        | 14%  | Financials             | 10.82% | -17.06% |
|                        | 12%  | Consumer Staples       | 10.26% | 13.99%  |
|                        | 12%  | Health Care            | 9.96%  | 12.73%  |
|                        | 19%  | Information Technology | 8.72%  | 2.41%   |
|                        | 4%   | Utilities              | 8.28%  | 19.91%  |
|                        | 3%   | Telecom Services       | 7.90%  | 6.27%   |
| S&P Midcap 400 Index   | Wgt. | Sector                 | 4Q11   | 1 Yr.   |
|                        | 17%  | Industrials            | 22.18% | -1.17%  |
|                        | 7%   | Materials              | 20.16% | 1.06%   |
|                        | 1%   | Telecom Services       | 19.56% | -9.76%  |
|                        | 7%   | Energy                 | 16.64% | -9.86%  |
|                        | 21%  | Financials             | 14.54% | -4.98%  |
|                        | 13%  | Consumer Discretionary | 14.16% | 2.07%   |
|                        | 6%   | Utilities              | 11.32% | 16.78%  |
|                        | 15%  | Information Technology | 8.09%  | -11.54% |
|                        | 10%  | Health Care            | 5.88%  | 1.05%   |
|                        | 4%   | Consumer Staples       | -4.13% | 22.18%  |
| S&P Smallcap 600 Index | Wgt. | Sector                 | 4Q11   | 1 Yr.   |
|                        | 4%   | Energy                 | 26.75% | 2.61%   |
|                        | 20%  | Information Technology | 19.64% | -4.02%  |
|                        | 20%  | Financials             | 19.32% | 1.98%   |
|                        | 16%  | Industrials            | 18.38% | -5.07%  |
|                        | 11%  | Health Care            | 15.12% | 13.75%  |
|                        | 15%  | Consumer Discretionary | 14.99% | -2.43%  |
|                        | 5%   | Materials              | 14.93% | -8.27%  |
|                        | 5%   | Utilities              | 11.97% | 19.33%  |
|                        | 1%   | Telecom Services       | 7.89%  | -13.93% |
|                        | 4%   | Consumer Staples       | 7.76%  | 8.47%   |

### Index Performance Data

| Index                         | 4Q11   | YTD    | 1 yr.  | Annualized |        |         |
|-------------------------------|--------|--------|--------|------------|--------|---------|
|                               |        |        |        | 3 yrs.     | 5 yrs. | 10 yrs. |
| <b>S&amp;P 500</b>            | 11.82% | 2.11%  | 2.11%  | 14.11%     | -0.25% | 2.92%   |
| <b>Russell 1000 Value</b>     | 13.11% | 0.39%  | 0.39%  | 11.55%     | -2.64% | 3.89%   |
| <b>Russell 1000 Growth</b>    | 10.61% | 2.64%  | 2.64%  | 18.02%     | 2.50%  | 2.60%   |
| <b>Russell Mid Cap</b>        | 12.31% | -1.55% | -1.55% | 20.17%     | 1.41%  | 6.99%   |
| <b>Russell Mid Cap Value</b>  | 13.37% | -1.38% | -1.38% | 18.19%     | 0.04%  | 7.67%   |
| <b>Russell Mid Cap Growth</b> | 11.24% | -1.65% | -1.65% | 22.06%     | 2.44%  | 5.29%   |
| <b>Russell 2000</b>           | 15.47% | -4.18% | -4.18% | 15.63%     | 0.15%  | 5.62%   |
| <b>Russell 2000 Value</b>     | 15.97% | -5.50% | -5.50% | 12.36%     | -1.87% | 6.40%   |
| <b>Russell 2000 Growth</b>    | 14.99% | -2.91% | -2.91% | 19.00%     | 2.09%  | 4.48%   |
| <b>DJ US Select REIT</b>      | 15.36% | 9.37%  | 9.37%  | 21.63%     | -2.04% | 10.12%  |

### Market Returns

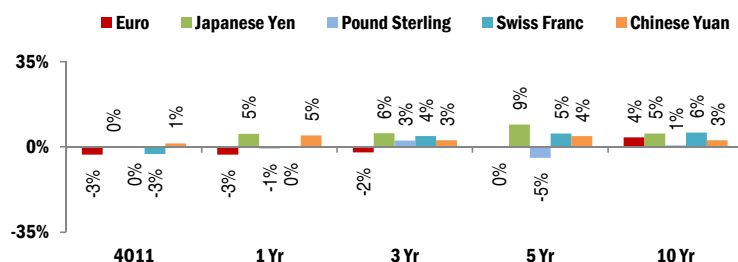


## 4Q2011 International Market Data

### Index Performance Data (net)

| Index (US\$)               | 4Q11  | YTD    | 1 yr.  | 3 yrs. | 5 yrs. | 10 yrs. |
|----------------------------|-------|--------|--------|--------|--------|---------|
| MSCI ACWI ex-US            | 3.7%  | -13.7% | -13.7% | 10.7%  | -2.9%  | 6.3%    |
| MSCI EAFE                  | 3.3%  | -12.1% | -12.1% | 7.6%   | -4.7%  | 4.7%    |
| Europe                     | 5.4%  | -11.1% | -11.1% | 7.9%   | -5.2%  | 4.4%    |
| United Kingdom             | 9.1%  | -2.6%  | -2.6%  | 14.9%  | -3.2%  | 4.8%    |
| Germany                    | 3.9%  | -18.1% | -18.1% | 3.6%   | -4.0%  | 4.5%    |
| France                     | 2.7%  | -16.9% | -16.9% | 1.7%   | -7.6%  | 2.7%    |
| Pacific                    | -0.3% | -13.7% | -13.7% | 7.5%   | -3.6%  | 5.5%    |
| Japan                      | -3.9% | -14.3% | -14.3% | 1.7%   | -6.6%  | 3.0%    |
| Hong Kong                  | 6.3%  | -16.0% | -16.0% | 18.3%  | 2.7%   | 8.6%    |
| Australia                  | 7.5%  | -11.0% | -11.0% | 21.6%  | 2.6%   | 12.8%   |
| Canada                     | 5.0%  | -12.7% | -12.7% | 18.0%  | 3.0%   | 11.1%   |
| MSCI EM                    | 4.4%  | -18.4% | -18.4% | 20.1%  | 2.4%   | 13.9%   |
| MSCI EM Latin America      | 8.7%  | -19.4% | -19.4% | 23.5%  | 6.6%   | 18.7%   |
| MSCI EM Asia               | 3.3%  | -17.4% | -17.4% | 19.5%  | 2.5%   | 12.1%   |
| MSCI EM Eur/Mid East       | 0.4%  | -23.7% | -23.7% | 17.0%  | -5.1%  | 10.9%   |
| MSCI ACWI Value ex-US      | 3.3%  | -13.2% | -13.2% | 10.5%  | -3.7%  | 7.0%    |
| MSCI ACWI Growth ex-US     | 4.1%  | -14.2% | -14.2% | 10.8%  | -2.2%  | 5.6%    |
| MSCI AC World Sm Cap ex-US | 0.4%  | -18.5% | -18.5% | 18.5%  | -1.7%  | 10.6%   |

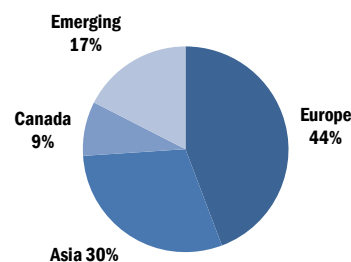
### Foreign Currency v. US\$ Returns



| Exchange Rates | 3Q10  | 4Q10  | 1Q11  | 2Q11  | 3Q11  | 4Q11  |
|----------------|-------|-------|-------|-------|-------|-------|
| Japanese yen   | 83.54 | 81.11 | 82.88 | 80.76 | 77.08 | 76.94 |
| Euro           | 0.73  | 0.75  | 0.70  | 0.69  | 0.75  | 0.77  |
| British pound  | 0.63  | 0.64  | 0.62  | 0.62  | 0.64  | 0.64  |
| Swiss franc    | 0.98  | 0.93  | 0.91  | 0.84  | 0.91  | 0.94  |
| Chinese Yuan   | 6.69  | 6.59  | 6.55  | 6.46  | 6.39  | 6.29  |

### Regional Exposure

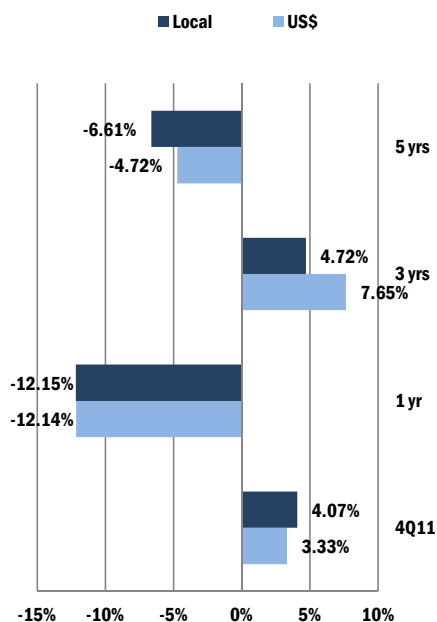
MSCI ACWI ex-USA



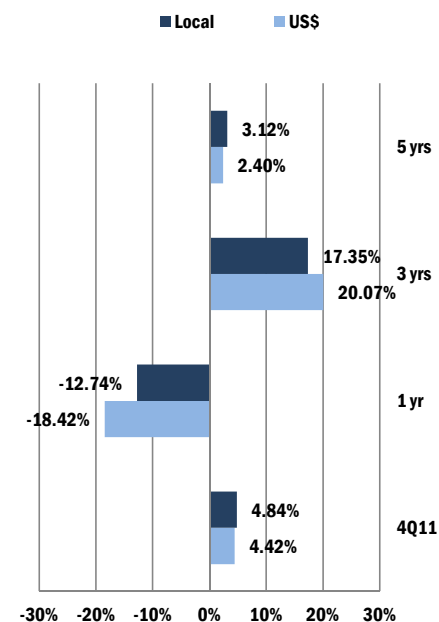
### Top 10 Countries (MSCI AC World ex-USA)

|             |     |
|-------------|-----|
| UK          | 16% |
| Japan       | 15% |
| Canada      | 9%  |
| Australia   | 6%  |
| France      | 6%  |
| Switzerland | 6%  |
| Germany     | 6%  |
| China       | 4%  |
| Brazil      | 4%  |
| South Korea | 3%  |

### MSCI EAFE Index Return



### MSCI Emerging Index Return



# Historical Market Returns

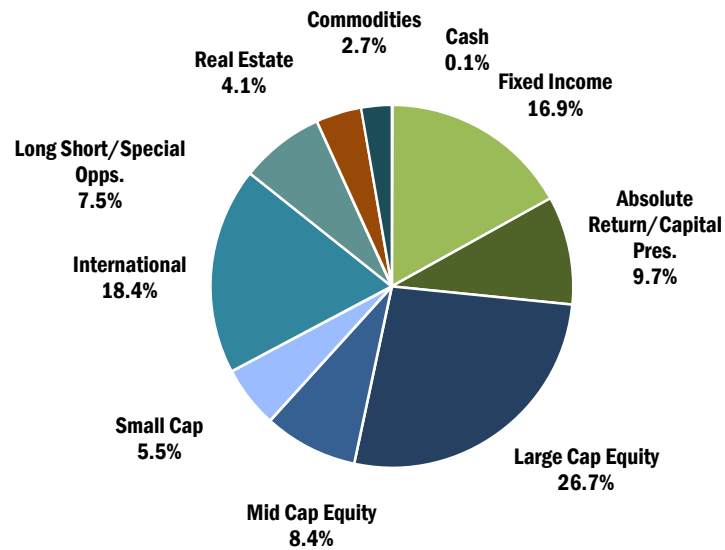
Ranked by Performance

| 1996                       | 1997                       | 1998                       | 1999                       | 2000                        | 2001                        | 2002                        | 2003                       | 2004                       | 2005                      | 2006                       | 2007                       | 2008                        | 2009                       | 2010                       | 4Q11                       | YTD                        |
|----------------------------|----------------------------|----------------------------|----------------------------|-----------------------------|-----------------------------|-----------------------------|----------------------------|----------------------------|---------------------------|----------------------------|----------------------------|-----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Large Cap Growth<br>23.12% | Large Cap Value<br>35.18%  | Large Cap Growth<br>38.71% | Emerging Mkt.<br>66.64%    | Small Cap Value<br>22.83%   | Small Cap Value<br>14.02%   | Global Bonds<br>16.52%      | Emerging Mkt.<br>56.28%    | Emerging Mkt.<br>25.95%    | Emerging Mkt.<br>34.54%   | Emerging Mkt.<br>32.59%    | Emerging Mkt.<br>39.78%    | US Bonds<br>5.24%           | Emerging Mkt.<br>79.02%    | Small Cap Growth<br>29.09% | Small Cap Value<br>15.97%  | US Bonds<br>7.84%          |
| Large Cap Value<br>21.64%  | Mid Cap Value<br>34.37%    | Intl. Growth<br>22.47%     | Mid Cap Growth<br>51.29%   | Mid Cap Value<br>19.18%     | US Bonds<br>8.44%           | US Bonds<br>10.25%          | Small Cap Growth<br>48.54% | Intl. Value<br>24.88%      | Intl. Value<br>14.39%     | Intl. Value<br>31.05%      | Intl. Growth<br>16.84%     | Global Bonds<br>4.79%       | Mid Cap Growth<br>46.29%   | Mid Cap Growth<br>26.38%   | Small Cap Growth<br>14.99% | Global Bonds<br>5.64%      |
| Small Cap Value<br>21.37%  | Small Cap Value<br>31.78%  | Global Balanced<br>20.67%  | Small Cap Growth<br>43.09% | US Bonds<br>11.63%          | Mid Cap Value<br>2.33%      | Emerging Mkt.<br>-6.00%     | Small Cap Value<br>46.03%  | Mid Cap Value<br>23.71%    | Intl. Growth<br>13.64%    | Small Cap Value<br>23.48%  | Large Cap Growth<br>11.81% | Global Balanced<br>-24.51%  | Large Cap Growth<br>37.21% | Mid Cap Value<br>24.75%    | Mid Cap Value<br>13.37%    | Large Cap Growth<br>2.64%  |
| Mid Cap Value<br>20.26%    | Large Cap Growth<br>30.49% | Intl. Value<br>18.09%      | Large Cap Growth<br>33.16% | Large Cap Value<br>7.01%    | Global Bonds<br>1.57%       | Global Balanced<br>-6.58%   | Intl. Value<br>45.96%      | Small Cap Value<br>22.25%  | Mid Cap Value<br>12.65%   | Intl. Growth<br>22.69%     | Mid Cap Growth<br>11.43%   | Small Cap Value<br>-28.92%  | Intl. Value<br>35.06%      | Small Cap Value<br>24.50%  | Large Cap Value<br>13.11%  | Large Cap Value<br>0.39%   |
| Mid Cap Growth<br>17.48%   | Mid Cap Growth<br>22.54%   | Mid Cap Growth<br>17.86%   | Intl. Growth<br>29.71%     | Global Bonds<br>3.17%       | Emerging Mkt.<br>-2.37%     | Mid Cap Value<br>-9.64%     | Mid Cap Growth<br>42.71%   | Large Cap Value<br>16.49%  | Mid Cap Growth<br>12.10%  | Large Cap Value<br>22.25%  | Global Bonds<br>9.48%      | Large Cap Value<br>-36.85%  | Small Cap Growth<br>34.47% | Emerging Mkt.<br>18.88%    | Mid Cap Growth<br>11.24%   | Global Balanced<br>-0.97%  |
| Small Cap Growth<br>11.26% | Small Cap Growth<br>12.95% | Large Cap Value<br>15.63%  | Intl. Value<br>24.54%      | Intl. Value<br>-2.82%       | Large Cap Value<br>-5.59%   | Small Cap Value<br>-11.43%  | Mid Cap Value<br>38.07%    | Intl. Growth<br>16.48%     | Large Cap Value<br>7.05%  | Mid Cap Value<br>20.22%    | Global Balanced<br>9.07%   | Large Cap Growth<br>-38.44% | Mid Cap Value<br>34.21%    | Large Cap Growth<br>16.71% | Large Cap Growth<br>10.61% | Mid Cap Value<br>-1.38%    |
| Global Balanced<br>10.03%  | Global Balanced<br>11.09%  | Global Bonds<br>13.71%     | Global Balanced<br>12.98%  | Global Balanced<br>-6.70%   | Global Balanced<br>-9.04%   | Large Cap Value<br>-15.52%  | Intl. Growth<br>32.49%     | Mid Cap Growth<br>15.48%   | Large Cap Growth<br>5.26% | Global Balanced<br>14.53%  | Small Cap Growth<br>7.05%  | Mid Cap Value<br>-38.44%    | Intl. Growth<br>29.91%     | Large Cap Value<br>15.51%  | Global Balanced<br>4.64%   | Mid Cap Growth<br>-1.65%   |
| Intl. Value<br>9.22%       | US Bonds<br>9.65%          | US Bonds<br>8.69%          | Large Cap Value<br>7.35%   | Mid Cap Growth<br>-11.75%   | Small Cap Growth<br>-9.23%  | Intl. Value<br>-15.60%      | Large Cap Value<br>30.03%  | Small Cap Growth<br>14.31% | Small Cap Value<br>4.71%  | Small Cap Growth<br>13.35% | US Bonds<br>6.97%          | Small Cap Growth<br>-38.54% | Small Cap Value<br>20.58%  | Intl. Growth<br>12.60%     | Emerging Mkt.<br>4.42%     | Small Cap Growth<br>-2.91% |
| Emerging Mkt.<br>6.03%     | Global Bonds<br>3.78%      | Mid Cap Value<br>5.08%     | Mid Cap Value<br>-0.11%    | Large Cap Growth<br>-22.42% | Intl. Value<br>-18.22%      | Intl. Growth<br>-15.76%     | Large Cap Growth<br>29.75% | Global Balanced<br>12.18%  | Global Balanced<br>4.16%  | Mid Cap Growth<br>10.66%   | Intl. Value<br>6.49%       | Intl. Growth<br>-42.46%     | Global Balanced<br>20.49%  | Global Balanced<br>9.40%   | Intl. Growth<br>4.12%      | Small Cap Value<br>-5.50%  |
| Global Bonds<br>4.91%      | Intl. Growth<br>2.33%      | Small Cap Growth<br>1.23%  | US Bonds<br>-0.82%         | Small Cap Growth<br>-22.43% | Mid Cap Growth<br>-20.15%   | Mid Cap Growth<br>-27.41%   | Global Balanced<br>24.27%  | Global Bonds<br>9.27%      | Small Cap Growth<br>4.15% | Large Cap Growth<br>9.07%  | Large Cap Value<br>-0.17%  | Intl. Value<br>-43.68%      | Large Cap Value<br>19.69%  | US Bonds<br>6.54%          | Intl. Value<br>3.32%       | Intl. Value<br>-13.20%     |
| Intl. Growth<br>3.70%      | Intl. Value<br>1.82%       | Small Cap Value<br>-6.45%  | Small Cap Value<br>-1.49%  | Intl. Growth<br>-24.40%     | Large Cap Growth<br>-20.42% | Large Cap Growth<br>-27.88% | Global Bonds<br>12.51%     | Large Cap Growth<br>6.30%  | US Bonds<br>2.43%         | Global Bonds<br>6.64%      | Mid Cap Value<br>-1.42%    | Mid Cap Growth<br>-44.32%   | Global Bonds<br>6.93%      | Global Bonds<br>5.54%      | US Bonds<br>1.12%          | Intl. Growth<br>-14.21%    |
| US Bonds<br>3.63%          | Emerging Mkt.<br>-11.59%   | Emerging Mkt.<br>-25.34%   | Global Bonds<br>-5.17%     | Emerging Mkt.<br>-30.71%    | Intl. Growth<br>-24.41%     | Small Cap Growth<br>-30.26% | US Bonds<br>4.10%          | US Bonds<br>4.34%          | Global Bonds<br>-4.49%    | US Bonds<br>4.33%          | Small Cap Value<br>-9.78%  | Emerging Mkt.<br>-53.18%    | US Bonds<br>5.93%          | Intl. Value<br>3.81%       | Global Bonds<br>0.23%      | Emerging Mkt.<br>-18.42%   |

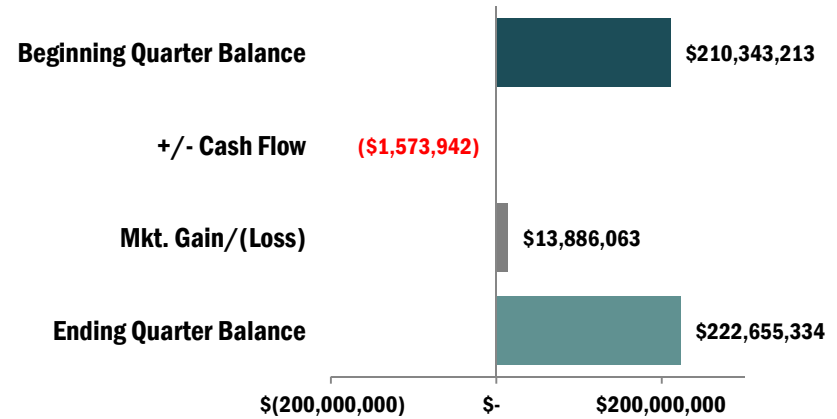
Global Balanced is composed of 60% MSCI World Stock Index, 35% Barclays Global Aggregate Bond Index, and 5% US 90-Day T-Bills

## Spokane Employees' Retirement System

### Current Allocation



### Account Balance



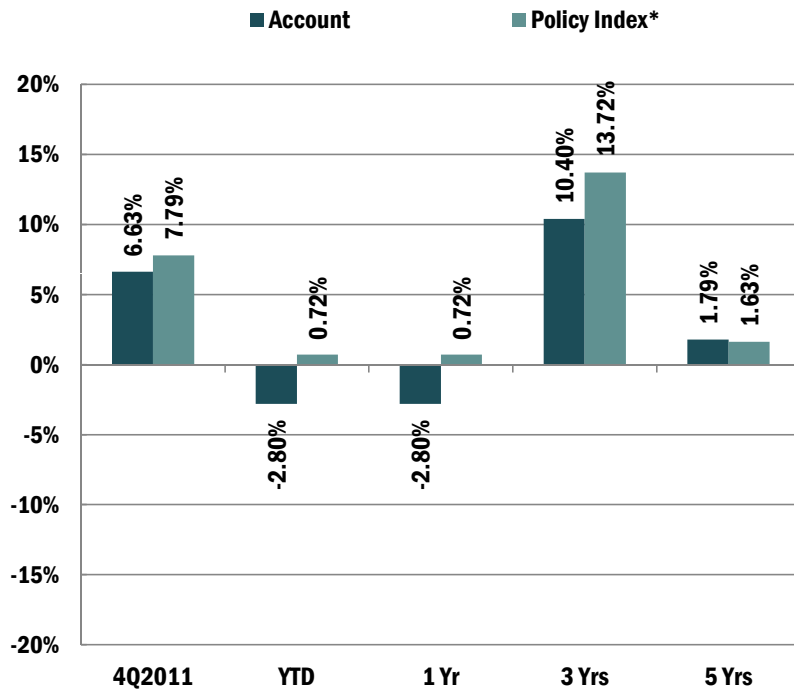
### Policy Index\*

| Index                                | Weight |
|--------------------------------------|--------|
| US 90 Day T-Bill                     | 1%     |
| Barclays US Aggregate Bond Index     | 15%    |
| Barclays Corporate High Yield Index  | 5%     |
| Barclays Global Aggregate Bond Index | 5%     |
| S&P 500 Index                        | 34%    |
| Russell Mid Cap Index                | 8%     |
| Russell 2000 Index                   | 5%     |
| MSCI ACWI ex-US                      | 17%    |
| S&P GSCI Index                       | 4%     |
| NAREIT Composite                     | 3%     |
| NCREIF Property Index                | 3%     |

\*As of 3Q2010 SERS adjusted the Fund's target asset allocation and policy index.

### Total Account Performance

December 31, 2011



### Asset Class Performance

|                                      | 4Q2011        | 1 Yr           | 2 Yrs         | 3 Yrs         |
|--------------------------------------|---------------|----------------|---------------|---------------|
| <b>Fixed Income</b>                  | <b>1.83%</b>  | <b>3.12%</b>   | <b>4.55%</b>  | <b>6.58%</b>  |
| Barclays US Aggregate Bond Index     | 1.12%         | 7.84%          | 7.19%         | 6.77%         |
| <b>Absolute Return/Capital Pres.</b> | <b>2.20%</b>  | <b>2.63%</b>   | <b>1.13%</b>  | <b>0.74%</b>  |
| Barclays US Aggregate Bond Index     | 1.12%         | 7.84%          | 7.19%         | 6.77%         |
| <b>Large Cap Equity</b>              | <b>11.73%</b> | <b>-0.61%</b>  | <b>7.26%</b>  | <b>13.66%</b> |
| S&P 500 Index                        | 11.82%        | 2.11%          | 8.39%         | 14.11%        |
| <b>Mid Cap Equity</b>                | <b>12.97%</b> | <b>-2.95%</b>  | <b>9.20%</b>  | <b>17.84%</b> |
| Russell Mid Cap Index                | 12.31%        | -1.55%         | 11.14%        | 20.17%        |
| <b>Small Cap</b>                     | <b>14.18%</b> | <b>-3.08%</b>  | <b>10.52%</b> | <b>15.14%</b> |
| Russell 2000 Index                   | 15.47%        | -4.18%         | 10.25%        | 15.63%        |
| <b>International</b>                 | <b>2.95%</b>  | <b>-13.72%</b> | <b>0.59%</b>  | <b>11.94%</b> |
| MSCI AC World Ex USA (net)           | 3.72%         | -13.71%        | -2.07%        | 10.70%        |
| <b>Commodities</b>                   | <b>9.24%</b>  | <b>-3.28%</b>  | <b>1.81%</b>  | <b>-</b>      |
| S&P GSCI                             | 8.86%         | -1.18%         | 3.75%         | -             |
| <b>Long Short/Special Opps.</b>      | <b>-0.67%</b> | <b>-6.31%</b>  | <b>0.41%</b>  | <b>5.91%</b>  |
| S&P 500 Index                        | 11.82%        | 2.11%          | 8.39%         | 14.11%        |
| <b>Real Estate</b>                   | <b>15.18%</b> | <b>9.44%</b>   | <b>16.18%</b> | <b>15.40%</b> |
| FTSE NAREIT Composite                | 14.05%        | 7.30%          | 17.00%        | 20.49%        |

\*As of 3Q2010 SERS adjusted the Fund's target asset allocation and policy index.