

Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
February 29, 2012

Bill Todd called the regular monthly meeting to order at 12:30 p.m. in the 5th Floor Conference Room at City Hall.

Present: Bill Todd, Mike Coster, Jon Snyder, Jerry McFarlane, Dean Kiefer and Brian Brill

Absent: Steve Sather

Staff: Leo Griffin, Christine Ellingson and Tim Szambelan

Guests: Jayson Davidson, Joan Hamilton, Mike Cavanaugh, Joe Cavanaugh, Bob Olsen, Dave Hanshaw, Matthew Charbonneau, Tim Dunivant and John Bjork

Jayson Davidson, Hyas Group, 2011 4th Quarter Investment Performance Report

Mr. Davidson reviewed the fourth quarter investment performance report. For the quarter ended December 31, 2011, the fund earned 6.6%. One-year performance was negative 2.8%, three-year was 10.4% and five-year 1.8%. SERS five-year performance exceeded the policy index by 16 basis points.

In the shorter term, the fund underperformed the policy index for a number of reasons. SERS' international, small- and mid-cap exposure hurt overall performance in 2011. The big distracters from performance for the year, relative to the policy benchmark were the absolute return category and the long/short growth category. Absolute return had a positive 2.6% return, which is a number the Hyas Group is pleased with given the falling interest rate environment. However, its benchmark is the Barclays US Aggregate Bond Index, which had a 7.8% return. The duration on the fixed income portion of the SERS portfolio is short and the bond market favored a longer duration in 2011. Looking ahead to 2012, both Hyas and the Chief Investment Officer (CIO), Leo Griffin, feel that the portfolio is well positioned for 2012 and beyond. The fixed income portion of the SERS portfolio is positioned for flat or rising interest rates. Lastly, the Landmark Fund dragged on the overall portfolio's performance; Landmark is scheduled for termination in 2012.

The equity market had a good movement in the fourth quarter of 2011 and that momentum has continued through the beginning of 2012. For the fourth quarter of 2011, the S&P 500 was up 11.8%. Mr. Griffin reported that the S&P 500 index is up 9.0% year-to-date and mid-cap and small-cap indicies are up in the 11-13% range year-to-date. Additionally the absolute return managers are doing very well year so far

in 2012. As long as March continues this trend, the portfolio will have a good first quarter. Mr. Griffin and Mr. Davidson reported that SERS portfolio is up approximately 7% year-to-date.

The Board was informed of two reallocations that would be occurring within the next month. The first is moving \$5 million from the Vanguard Index to Weatherlow. The second is \$2 million from international equities moving to commodities.

Mr. Davidson briefed the Board on an underlying manager in the Weatherlow Fund, Greenlight Capital. In addition, Hyas Group recommended keeping Hotchkis & Wiley on watch. Essex, who was on watch, was terminated and replaced with Bridge City Capital.

Hyas Group will continue to be diligent in their assessment of the current market environment and will recommend changes to the overall portfolio and continue to work with the fund's CIO, Leo Griffin, on future strategies.

Minutes of the January 25, 2012 Meeting

Jon Snyder moved and Mike Coster seconded the motion to approve the minutes of the January 25, 2012 meeting as distributed. The motion passed unanimously.

Service Retirements

Name	Age	Retirement Date	Years of Service	Option	30-day Notice
Jennifer A. Nist	60	02/17/2012	15.7	ST	N
Claudia R. Bryan	59	02/18/2012	23.7	ST	N
Terry L. Cook	64	02/29/2012	12	E	N
Patricia E. Flynn	50	04/05/2012	10.3	ST	Y
Inez M. Hodge	73	04/20/2012	35	ST	Y
James L. Terry Jr.	50	05/29/2012	16.9	E	Y

Mike Coster moved and Jerry McFarlane seconded the motion to approve the service retirements as presented on the February Retirement Transaction Report. The motion passed unanimously.

Withdrawal for February 2012

Name	Termination Date
Anne Waite - Beneficiary of Robert Waite	DOD 12/29/2011

Jerry McFarlane moved and Jon Snyder seconded the motion to approve the request for withdrawal as presented on the February Retirement Transaction Report. The motion passed unanimously.

Vesting

Name	Department	Years of Service
Sheila Collins	Mayor	3.0 (portability)
Marshall Thompson	Water	10.4

Deaths

Name	Date of Death	Age	Information
Barbara Reimann	01/10/2012	68	No Further Benefits
Mary Rafferty	02/01/2012	86	No Further Benefits

Vesting and death information was provided to the Board for review.

Director’s Report

Schedule of Administrative Expenses – 2011

The 2011 Schedule of Administrative Expenses was presented to the Board and discussed. Mr. Griffin informed the Board that 2011 Administrative costs were less than the amount incurred seven years prior in 2004. Staff has worked hard on controlling costs for the fund.

Jon Snyder moved and Dean Kiefer seconded the motion to approve the 2011 Schedule of Administrative Expenses. The motion passed unanimously.

Expenditure Summary Report – January 2012

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

Jon Snyder moved and Jerry McFarlane seconded the motion to approve the January 2012 Expenditure Summary Report. The motion passed unanimously.

Schedule of Investments – January 2012

The monthly investment report was presented to the Board for review. The market value (MV) of the SERS portfolio on January 31, 2012 was \$231.3 million. Mr. Griffin stated that the February month-end portfolio MV would be in the \$237 million range.

Upcoming Board Election

Bill Todd's term on the Board runs up to the first Monday in July. Mr. Todd stated that he would be running for re-election.

There being no other business, the meeting adjourned at 1:55 p.m.

/s/

Leo F. Griffin, Retirement Director