

**A meeting of the Retirement Board was held on Wednesday, February 20, 2008 at 9:30 a.m. in the boardroom of the Commissioner's office.**

**Commissioner Zapotosky called the meeting to order at 9:41 a.m.**

### **1. Roll Call**

Roll call was taken and the following members were present:

PRESENT: Vincent Zapotosky, Commissioner  
Vince Vicites, Commissioner  
Sean Lally, Controller  
Dianne Rossini, Chief Deputy Treasurer

The following members were absent:

ABSENT: Angela Zimmerlink, Commissioner  
Robert Danko, Treasurer

The following were in attendance during the meeting:

ALSO PRESENT: Betty Stutzman, Administrative Assistant, Controller's Office  
Frank Burnette, Morrison Fiduciary Advisors, Inc.  
Patty Parrucci, National City Bank (Allegiant)  
Greg Volitich, US Asset Management, Inc.  
Liz Zemba, Tribune Review  
Amy Zalar, Herald Standard

### **2. Public Comment**

There was no public comment.

### **3. Presentation by US Asset Management, Inc.**

Frank Burnette stated he wanted to give an introduction on the issues with US Asset Management, Inc. One issue is they had an unexpected change in personnel of Steve Maslek, who had covered this account for at least 5 years. US Asset Management, Inc. called and informed Frank Burnette that Steve Maslek is no longer President. Frank Burnette stated he thinks Steve Maslek is terminating with US Asset Management, Inc. Frank Burnette also stated that US Asset Management is the firm that brought up Muhlenkamp, which is our one materially under-performing manager which needs to be discussed. Commissioner Zapotosky asked Frank Burnette how many quarters has Muhlenkamp been weak and Frank Burnette responded for several years. Frank Burnette stated the other issue is when MDL went out of business we did not have a manager at a time when the fixed income markets were highly controversial. Frank Burnette stated in the absence of a RFP, we

had our existing managers come in and tell us what they could do to take over those assets. Federated Investors, Inc. could have taken over those assets; however, US Asset Management, Inc. came in and said he can do investment work with BlackRock. Frank Burnette stated BlackRock tends to be one of the five largest, most sophisticated money managers in the country and their credentials would be of the highest possible esteem; therefore, the money was basically moved from MDL to BlackRock with the understanding that we might revisit that decision with this Board. US Asset's representative indicated when this money was moved there would be no transactions costs because BlackRock would take our existing MDL securities without having to sell them off to purchase new securities. The representative was unable to deliver that part of his promise, and there were some transaction costs; therefore, Frank Burnette is going to ask Greg Volitich to report on exactly how those transactions took place, what type of competitive pricing he got, and what the commissions were. Commissioner Zapotosky asked Frank Burnette if these costs were warranted, and Frank Burnette stated they would be standard as anytime you change investment managers, you will incur some costs. Frank Burnette stated on the \$10M, the transaction costs were \$10,000 which Frank Burnette felt was high. Frank Burnette stated he feels they will offer half of the costs back to the fund. Frank Burnette stated the pricing they achieved during these transactions were fair and competitive.

Patty Parrucci, representative from National City Bank/Allegiant, the custodian of the Retirement Fund, wanted to introduce herself to the new Board and attend this presentation as part of the fixed income assets were under their control.

### **US Asset Management, Inc. /Muhlenkamp Presentation**

Greg Volitich, Chief Investment Officer, of US Asset Management stated they work a lot of different areas with pension funds in southwestern Pennsylvania.

Greg Volitich stated the equity portion of their firm which is their sub-advisor for this portion is Muhlenkamp & Company, Inc. Greg Volitich stated this portfolio is made up of a little greater than 65% U.S. equity, a little over 8% international equity, and currently sits on about 25% cash of the money markets now. The fund capitalization is primarily large cap, with 20% in value, 19% in core and 34% growth and barely touches into the small cap arena.

In this particular account, which has been in place since April 2005, the last calendar year of 2006 to 2007 was down 8.58%. This was primarily due to the downward spiral of the financial sector, in which this sector alone lost 25.6% of the cost of the investments that currently reside in the fund now. This particular sector accounted for about 30% of any unrealized gains in the portfolio; consequently the portfolio has been changed and altered going into the 4<sup>th</sup> quarter. Over the long haul the fund has performed on the positive side of 4.62% annualized compared to the Russell 1000 (which is the bench mark for this sector) at 8.56%.

Greg Volitich asked if anyone had any questions so far, and Frank Burnette stated the assignment was for large cap value index and it sounds as if there was a disconnect between what the Board wanted US Asset Management, Inc. to do and what they were doing, giving that we already have small cap managers and foreign managers covering those angles. Greg Volitich stated that the manager during the time of being initially hired, the value of his style resided in large cap value. Then Muhlenkamp, and US Asset Management, Inc. acting as an advisor to them, have drifted away from the mandate; consequently they are in a position that they have been

negotiating with another value cap manager that they would like to recommend. When Mr. Muhlenkamp was doing large cap, he was doing well for the fund, and now that the environment has changed in the market and valuations are looking better in different areas, that does not meet the mandate of the Investment Policy Statement; therefore, they have done some research and they will be presenting to Mr. Burnette an option to switch sub-advisors on this particular account with a style specific value manager who specializes in separate accounts that is earmarked only to the Russell 1000 value index. Frank Burnette asked if they knew who that manager is now and Greg Volitich stated he has an idea, but due to contract issues that haven't been ironed out and once that has been done, he will share that with Frank Burnette. Greg Volitich stated he would certainly share the information with the advisor before he engages anybody at any level.

Commissioner Zapotosky asked how much did the fund lose with the Muhlenkamp fund and Greg Volitich stated the fund lost 8% this past year. Greg Volitich stated that 8% of \$9.2M would be a loss of \$720,000. Frank Burnette stated that since they were hired on April 26, 2005, they have made 4.5% per year each year, so they are making \$500,000 each year, but other managers that manage to the Russell 1000 value produce 11.23% per year. Frank Burnette stated that during that time period, this account has under-performed about 7% a year, which is about \$700,000 a year of under-performance. Commissioner Zapotosky asked if that was significant and Frank Burnette stated it is a dramatic significance. Commissioner Vicites stated our goal is to make sure each manager stays as close, if not exceeds, the benchmark as possible. Commissioner Vicites stated if they are not doing that, then the Board needs to take that seriously. Frank Burnette stated they started out with a very, very good year, they were the best manager in 2005, and in 2006 and 2007 they were the worst. Frank Burnette stated their style does not match what they were asked to do. Frank Burnette stated the Board needs to decide if they are going to make a change independent of US Asset Management, Inc. or continue to use the relationship person and have him and Frank Burnette work together to find a suitable solution.

Controller Lally asked if US Asset was losing \$700,000 for 2 years running, do we not have preventative procedures as a Board to stop that, and fundamentally how do we determine what is an acceptable loss? Controller Lally also asked if losing \$1.4 over 2 years running, at what point do you make the determination to liquidate that portion of the portfolio that is losing the most money. Frank Burnette stated that the word "losing" is not correct; putting it into prospective, this fund broke even on an absolute return for 2 years, but it underperformed other large cap value managers by the number Controller Lally is referring to. Greg Volitich stated that given withdrawals, there was still a positive 4.5% a year over the time frame, and it just so happens that 2006 the -8.5% is dramatic.

Frank Burnette stated to Controller Lally the Investment Policy Statement was recently re-written as the original that governs the Board and manager's under-performance was not very clear. Frank Burnette stated so many agenda items were not getting done, two searches that took 18 months, and he couldn't get the deck cleared to put a new project on the Board's table as the other projects were jammed up. Commissioner Vicites stated the board was trying to diversify further, but the key is to have a better overall increase asset allocation and to look at all the manager's benchmarks and make sure they are above that for all the different specialties. Commissioner Vicites stated he felt that the fund on a whole has done this and grown. Frank Burnette stated the new Investment Policy Statement that was approved is much more specific about what managers are expected to perform, what measurement time period is, how they are to rank in the manager data base, how a manager is put on a watch status, what characters are to be considered and ultimately then decide how to hire a new manager. Frank Burnette stated the Board now has more structure than they once had. Commissioner Vicites stated the

fund is ahead of the total benchmark with all the different money managers, and we need to maximize our effort and make as much as we can.

### **BlackRock**

Greg Volitich stated US Asset Management took in MDL holdings which were individual securities and cash that totaled \$9,370,657.64. US Asset Management then took the individual securities and transferred them to the BlackRock enhanced index. Greg Volitich stated the value of the securities at the time US Asset Management took them in was \$9,247,148.52, and there was a general institutional commission of \$13,499.11, bringing the net proceeds to \$9,233,499.41. Frank Burnette stated the custodian (National City) said there was \$9.225M and when it was done being sold there was \$9.33M, which says it was a good transaction effect. Greg Volitich stated the total amount invested (\$9,528,097.92) includes any accrued interest and shares of pooled mortgage accounts that had matured that also came into cash as well. Greg Volitich stated this transfer netted a positive of \$158,250.28 to the fund. Greg Volitich stated he talked to the Northeast Securities Commission and they are going to rebate ½ of the commission (\$6,824.56) which would make the transaction \$165,074.84. Frank Burnette stated it could be rebated back by way of a check, or a reduction in their fees on their next invoice. Greg Volitich stated they would put a credit on US Asset Management, Inc.'s next invoice.

Frank Burnette stated the BlackRock transaction was done using the contract on their existing equity product, and he has asked for a new contract specifically addressing the fixed income at a 25 basis points fee. The Board will discuss this issue.

### **US Asset Management, Inc. personnel issue**

Greg Volitich stated that Steve Maslek is still an owner of the company, but no longer partakes in the annual or quarterly meetings for clientele. Greg Volitich stated that as they move forward they are expanding the executive team of US Asset Management, Inc.'s investment management team and hope to continue good service or increased service to their clientele going into 2008 and beyond. Greg Volitich stated their search is for additional money managers, unique and productive accounts that would be helpful to counties and townships.

Commissioner Vicites stated the Board should have known sooner about the personnel change of Steve Maslek. Greg Volitich stated they didn't know about the request for the change until 30 days ago; however, it's not final and still in negotiations, but the Board will be notified once it is final.

### **Please note Frank Burnette asked to discuss #13**

### **13. Consider specimen signatures for National City Bank**

Patty Parrucci, National City Bank, asked the Board to sign a new Specimen Signatures page since there are new Board members.

Frank Burnette asked when a Board legally makes a decision to do something, whether unanimous or 5-0, 4-3,

etc., who then has to sign to make that Board approval authorized? Frank Burnette stated documents and contracts are being sent to vendors that are signed by 3 of the 5 board members, and vendors are confused by this. Frank Burnette stated that truthfully he feels that is why Mondrian backed out of their contract. Commissioner Zapotosky asked if the Board is required to have 3 out of the 5 signatures for documents and Frank Burnette responded the Board's past practice has been to have all voters sign every contract. Frank Burnette stated it is very common to have just the Chairman or Secretary of the Retirement Board signs these things. Frank Burnette suggested the Chairman and the Secretary are authorized to execute documents that represent authorized transactions of the Board.

Commissioner Vicites asked if the Board could do this and Frank Burnette stated it could absolutely be done. Commissioner Vicites stated the problem in that case was that one member voted and didn't sign the contract. Frank Burnette stated that getting signatures slows up an already slow process unnecessarily. Commissioner Vicites stated he would like to defer for legal piece of mind, and ask that question to the solicitor. Frank Burnette stated it would be effective on the legal document that the Board determines who is authorized to sign.

Patty Parrucci from National City Bank stated that in the past she was getting 3 out of 5 signatures on documents. Patty Parrucci also stated she received letters from Mark Roberts and they would act upon them. Frank Burnette asked Patty Parrucci if she had authorization that she could accept just a letter from Mark Roberts, and she responded yes, that was the way it always was done. When new managers were hired, new management accounts were set up by the letter received from Mark Roberts. Frank Burnette stated he felt it was good to give Controller Lally the ability to sign unilaterally to move money around within the account. Patty Parrucci stated any legal documents were signed by at least 3 board members.

Frank Burnette stated any transfers within the custody account at Allegiant can be signed by Controller Lally, and any contract or board resolutions need to be signed by 3 out of 5 board members. Frank Burnette stated that up until now there was never a board resolution that formalized the signature issue and when a contract was received, they didn't feel it was authorized because there was no board resolution.

Controller Lally stated to him it would be acceptable to have an authorized signer and also just as acceptable if it was a board voted on contract, for himself and Commissioner Zapotosky to sign. Commissioner Vicites again stated he felt a legal opinion was needed on this.

Commissioner Zapotosky asked if they could label the motion pending legal approval so there is no unnecessary delay.

Patty Parrucci wanted to clarify that at times they do sometimes have money that goes from the trust account into a checking account.

Commissioner Zapotosky made a motion to authorize Controller Lally to unilaterally authorize transfers and activities within the custody account, including transfers to the checking account to pay retirees and vendor invoices. Additionally, any contracts or documents relating to any other matters of the pension fund require the signature of 3 of the 5 trustees, effective of the opinion of the solicitor that this is legal. Controller Lally will get the legal opinion from Joe Ferens. Chief Deputy Treasurer, Dianne Rossini, seconded the motion.

Commissioner Vicites stated he was opposing as he feels it is important to sign every document; he feels the people elected him to sign and look at things, and he has never not done that. Commissioner Vicites stated when he votes for something he signs it.

Commissioner Zapotosky stated that this does not preclude Commissioner Vicites from signing; it just reduces the potential of unnecessary delays.

Patty Parrucci asked how long it would take to get a decision from the solicitor and Commissioner Vicites told her it should be done in a day or two.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Vicites	NO
Controller Lally	Yes
Chief Deputy Treasurer Dianne Rossini	Yes

**MOTION CARRIES 3 - 1**

**4. Approve the December 19, 2007 and January 16, 2008 meeting minutes**

Moved by Controller Lally, seconded by Commissioner Vicites to approve the December 19, 2007 and January 16, 2008 meeting minutes.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Chief Deputy Treasurer Dianne Rossini	Yes

**MOTION CARRIES UNANIMOUSLY**

**5. Authorize payment of quarterly management fees to Federated Investors, Inc.**

Moved by Commissioner Zapotosky, seconded by Controller Lally to authorize payment of the 3<sup>rd</sup> quarter management fees for the period of July 1, 2007 to September 30, 2007 to Federated Investors, Inc. in the amount of \$7,131.82.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Vicites	Yes

Controller Lally	Yes
Chief Deputy Treasurer Dianne Rossini	Yes

**MOTION CARRIES UNANIMOUSLY**

**6. Authorize payment of quarterly management fees to Federated Investors, Inc.**

Moved by Controller Lally, seconded by Commissioner Zapotosky to authorize payment of the 4<sup>th</sup> quarter management fees for the period of October 1, 2007 to December 31, 2007 to Federated Investors, Inc. in the amount of \$7,526.11.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Chief Deputy Treasurer Dianne Rossini	Yes

**MOTION CARRIES UNANIMOUSLY**

**7. Authorize payment of quarterly management fees to FNB Wealth Management**

Moved by Controller Lally, seconded by Commissioner Zapotosky to authorize payment of the 4<sup>th</sup> quarter management fees for the period of October 1, 2007 to December 31, 2007 to FNB Wealth Management in the amount of \$12,010.38.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Chief Deputy Treasurer Dianne Rossini	Yes

**MOTION CARRIES UNANIMOUSLY**

**8. Authorize payment of quarterly management fees to US Asset Management, Inc.**

Moved by Controller Lally, seconded by Commissioner Zapotosky to authorize payment of the 4<sup>th</sup> quarter management fees for the period of October 1, 2007 to December 31, 2007 to US Asset Management, Inc. in the amount of \$10,747.10.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Chief Deputy Treasurer Dianne Rossini	Yes

**MOTION CARRIES UNANIMOUSLY**

**9. Authorize payment of quarterly custodian fees to National City Bank (Allegiant)**

Moved by Commissioner Zapotosky, seconded by Controller Lally to authorize payment of the 4<sup>th</sup> quarter custodian fees for the period of October 1, 2007 to December 31, 2007 to National City Bank in the following amounts:

FNB	\$1,326.04
Federated Investors	\$1,379.35
MDL	\$1,305.62
National City	\$125.47
Sector Capital	\$1,490.87
US Asset	\$1,241.38

The vote was:

Commissioner Zapotosky	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Chief Deputy Treasurer Dianne Rossini	Yes

**MOTION CARRIES UNANIMOUSLY**

**10. Authorize payment of custodian (account base fees) to National City Bank (Allegiant)**

Moved by Controller Lally, seconded by Commissioner Zapotosky to authorize payment of the 4<sup>th</sup> quarter custodian fees (account base fees) for the period of November 1, 2007 to December 31, 2007 to National City Bank in the following amounts:

Gannet	\$82.88
Mondrian	\$82.88

The vote was:

Commissioner Zapotosky	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Chief Deputy Treasurer Dianne Rossini	Yes

**MOTION CARRIES UNANIMOUSLY**

Frank Burnette informed Patty Parrucci that the Mondrian account was set up, but the contract was not issued for foreign equities manager. Patty Parrucci stated she would close the account until a manager is chosen.

**11. Authorize payment of custodian (account base fees) to National City Bank (Allegiant)**

Moved by Commissioner Zapotosky, seconded by Controller Lally to authorize payment of the 4<sup>th</sup> quarter custodian fees (account base fees) for the period of December 1, 2007 to December 31, 2007 to National City Bank in the following amount:

US Asset / BlackRock	\$42.12
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The vote was:

Commissioner Zapotosky	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Chief Deputy Treasurer Dianne Rossini	Yes

**MOTION CARRIES UNANIMOUSLY****12. Authorize payment of quarterly consultant fees to Morrision Fiduciary Advisors, Inc.**

Moved by Controller Lally, seconded by Commissioner Zapotosky to authorize payment of the 4<sup>th</sup> quarter consultant fees for the period of October 1, 2007 to December 31, 2007 to Morrision Fiduciary Advisors, Inc. in the amount of \$5,469.22.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Chief Deputy Treasurer Dianne Rossini	Yes

**MOTION CARRIES UNANIMOUSLY****14. Consider accepting Hay Group's professional fees for 2008**

Frank Burnette stated this is an engagement letter that is sent every year by the Hay Group and they have been

the retirement fund's actuary for about 25 years and he sees no reason why this would not be approved.

Moved by Controller Lally, seconded by Commissioner Zapotosky to accept Hay Group, Inc.'s professional fees for 2008 per their letter of January 17, 2008 with monthly actuarial fees of \$2, 254.00 and pension benefit statements at a cost of \$1.85 per statement. These amounts are the same as the 2007 fees.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Chief Deputy Treasurer Dianne Rossini	Yes

## **MOTION CARRIES UNANIMOUSLY**

### **15. Discuss drafting a retirement fund budget**

Frank Burnette stated that this issue was a suggestion of Mark Roberts at the last meeting that the fund should have a budget. Frank Burnette stated the report showing year-to-date for last year is not going to be very representative as this year we have a couple new managers and things going on that are different.

Controller Lally stated he didn't follow how a budget could be adopted for a pension fund. Controller Lally stated what if you lose money in one fiscal year and the next year you make money, he didn't feel it would be a true reflection, and asked could a budget be set up allowing for loss and gain.

Commissioner Zapotosky asked Frank Burnette if in his dealings with other counties if this is common place to adopt a budget within its retirement fund. Frank Burnette stated it probably makes sense to have a budget and to allow himself and Controller Lally to work on this issue. Frank Burnette stated with the management fees from vendors, it's not a bad budget to have.

Betty Stutzman, Administrative Assistant to the Controller's office, stated because of no budget being in our accounting system, it was difficult getting money transferred into a line item in order to advertise the meeting schedule in the Herald Standard; therefore, she asked if Warren was going to over-ride each invoice that needs to be paid until a budget is finalized. Commissioner Vicites stated we never had a budget before and invoices were never held up for payment in the past. Betty Stutzman then informed there has always been an issue about over-riding the accounting system to pay the invoices. Frank Burnette stated to go ahead and over-ride the system to get the current invoices paid and they will get a budget entered that will make the system run better and he stated the budget would be fairly broad so the categories aren't cumbersome. Frank Burnette stated that he and Controller Lally would work on it.

Commissioner Zapotosky made a motion to table discussing the drafting of a retirement fund budget. Controller Lally seconded the motion.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Chief Deputy Treasurer Dianne Rossini	Yes

**MOTION CARRIES UNANIMOUSLY**

**16. Discuss hiring a solicitor for the retirement fund**

Frank Burnette stated that this Board has a few more legal issues than most and questions come up they are presented to the solicitor at least once a quarter. Frank Burnette stated that a solicitor is definitely needed in response to these issues, and sometimes the solicitor responds that he is not really hired by the retirement board and he doesn't get a stipend or doesn't know if he can bill for his time; therefore, it gets wrapped into their county contract as an add on. Frank Burnette stated he doesn't think the board has ever been 100% committed as to who the retirement board attorney is as we have had opinions from more than one attorney on the same issue. Frank Burnette stated he has no problem working with any of the current county solicitors, but there are attorneys out there who are specialists in pension law and know these rules to the point where you can call them and they can answer on the phone for you which would go even faster. Frank Burnette stated the board should pick one solicitor, agree to pay him, and have this taken care of.

Commissioner Zapotosky agreed, but questioned if this should be put out for an RFQ. Controller Lally stated that from he understands of the County Code that a request for professional services does not require an RFQ to be made by the Commissioners or row officers, but if you feel it will bring down a political gauntlet, one should be issued. Controller Lally questioned if the stipend would be \$1200 annually, and he felt that not a lot of people would respond for that stipend, especially if it becomes tedious at any point. Commissioner Vicites stated if this cost is not consistent every other solicitor for the county would want an increase. Controller Lally stated he would not object to putting out an RFQ for a solicitor. Frank Burnette stated he had no problem in issuing an RFQ; however, he felt it was completely unreasonable to expect a person to answer 20 questions for \$1200 per year. Commissioner Vicites stated that right now Mr. Ferens is answering as many as we ask him for free, so this is not a bad deal. Frank Burnette stated every time we sign a contract (probably 3 contracts and 6 questions in the last year) he has to get Mr. Ferens to review it and his response time was such that he prioritized the project. Commissioner Vicites stated he gets it done the next day if he makes the call. Commissioner Vicites stated he gets many things thrown at him, and if it's priority, just to call him and he does it. Commissioner Vicites stated he would do that for any commissioner.

Commissioner Zapotosky asked if Commissioner Vicites would prefer to keep Mr. Ferens as the solicitor on as an as needed basis, and not put out an RFQ. Commissioner Vicites stated he is open-minded on this issue and felt there was no rush for an RFQ. Frank Burnette questioned if a \$1200 stipend was standard for all solicitors for all departments and Commissioner Vicites and Controller Lally both informed him it was and that has been the going rate for years. Commissioner Vicites stated that the board needs to be cautious because if you change it for one, everyone else will expect changes. Commissioner Vicites clarified that the commissioner's solicitor's

salary is based on a regular basis of doing things every day, and their salary is greater than the \$1200. Chief Deputy Treasurer Rossini stated that this salary is not unreasonable as most of the office solicitors are not frequently called, and it meets the requirement of the County Code to have a separate solicitor.

Frank Burnette stated if the board can get Mr. Ferens to be responsive to the retirement board, and he will do it for the \$1200 annually, and then let's make that declaration so the board isn't confused as to who the solicitor is going forward. Commissioner Zapotosky stated it is not so much as hiring a solicitor as it is identifying one for the retirement board. Frank Burnette stated the Mondrian contract was such a big project, that it didn't get done very well as he felt it wasn't as important to Mr. Ferens as everything else. Commissioner Vicites stated it is a separate entity with extra work and Mr. Ferens has done it without complaint. Frank Burnette stated he is concerned that these legal issues be done correctly, and if paying more for it might be in the best interest of the retirement fund. Chief Deputy Treasurer Rossini agreed with Frank Burnette and stated if the other row offices are aware it is to protect their money, they would have a big concern; however, many of the offices have felt their solicitors should have more money. Frank Burnette suggested advertising this RFQ for 15 to 100 hours per year, then anyone can propose their rate, then it will be set and the complaining would stop. Commissioner Vicites stated why he liked using the commissioner's solicitors is because they understand the County Code as well as the pension aspect of it; therefore there is consistency.

Commissioner Zapotosky stated the language would have to include X number of hours per year. Frank Burnette stated the RFQ would also have to include specific requirements of county pension law, county code, employee benefit plans, and the capacity to service the account, with a certain number of hours per year to be decided, a statement of qualifications and how they would price out that service.

Commissioner Vicites stated he would oppose until he knew the particulars of what they would charge and what they would be paid. Commissioner Zapotosky stated they would get that information in response to the RFQ, and this is not binding. Frank Burnette stated the RFQ would include a fee schedule section.

Frank Burnette stated he felt hiring Mr. Ferens at more money would be the perfect solution.

Controller Lally made a motion to have an RFQ with the above language and specifications, seconded by Commissioner Zapotosky.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Vicites	NO
Controller Lally	Yes
Chief Deputy Treasurer Dianne Rossini	Yes

**MOTION CARRIES 3 – 1**

Controller Lally made a motion that Mr. Ferens would be the retirement fund solicitor until further notice, seconded by Commissioner Vicites.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Chief Deputy Treasurer Dianne Rossini	Yes

**MOTION CARRIES UNANIMOUSLY**

**17. Discuss/authorize payment of MDL to Dollar Bank**

Frank Burnette stated these invoices were approved in past meetings, subject to a legal opinion which was received from Mr. Ferens on February 12, 2008. Betty Stutzman, Administrative Assistant in the Controller's office, stated the invoices needed approved as there are new board members. Commissioner Vicites stated that since it is a new board, there should be a motion on paying the invoices.

Moved by Commissioner Zapotosky, seconded by Commissioner Vicites to authorize payment of the 3<sup>rd</sup> quarter management fees for the period of July 1, 2007 to September 30, 2007 in the amount of \$6,983.09, and for the period of October 1, 2007 to October 31, 2007 in the amount of \$2,327.76 which have been approved by the new board members for MDL Capital Management, Inc. to Dollar Bank per the opinion of the solicitor.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Chief Deputy Treasurer Dianne Rossini	Yes

**MOTION CARRIES UNANIMOUSLY**

**18. Discuss payment of services to Morrison Fiduciary Advisors, Inc.**

Commissioner Zapotosky stated the invoice from Morrison Fiduciary Advisors, Inc. for services performed in addition to ongoing performance analysis; review and update of the Plan's Investment Policy Statement in the amount of \$4,000.00 was tabled from a previous meeting, but was voted to be paid in the August 1, 2007 meeting (a copy of the minutes were distributed to the board members prior to the meeting with their agenda).

Controller Lally stated this should be paid as it was discussed many times.

Commissioner Vicites stated this invoice needs to be paid as this was brought up previously and he needs to be paid for the work he did. Commissioner Vicites stated the board needs to consider in the future an all-inclusive type of amount Frank Burnette gets for pension and consulting monitoring which would be better for the County dollar-wise.

Moved by Controller Lally, seconded by Commissioner Vicites to authorize payment for services performed in addition to ongoing performance analysis; review and update of the Plan's Investment Policy Statement to Morrision Fiduciary Advisors, Inc. in the amount of \$4,000.00.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Chief Deputy Treasurer Dianne Rossini	Yes

### **MOTION CARRIES UNANIMOUSLY**

**Let the record reflect that Chief Deputy Treasurer Rossini left the meeting at 10:52 a.m.**

### **19. Discuss Mondrian contract**

Frank Burnette stated it was not necessary to go into all the background issues, but this company resigned from the foreign equities manager because they could not get comfortable with signing of the contract, responsiveness of the contract, and it was just one problem after another. Frank Burnette did point out they are an English firm, they do business in a very formal manner and they are much more lawyer-oriented about their contracts than other firms, and he felt there was no doubt the lawyers contributed to this. Frank Burnette told the board he called them and told them it was the most unprofessional thing he has ever seen that they would have taken so much time to work on the contracts and then resign at the end. Commissioner Zapotosky asked Frank Burnette if he recalled correctly, the signatures were the issue. Frank Burnette responded that their contracts were completely overly burdensome and some of the mechanics of their contract relate to English investment standards which are not common in the United States. Also, the paperwork, documentation and authorizations that were provided to them, i.e. a certification that we were indeed an entity that had legal standing in the United States, who was authorized on the Board to sign contracts, the fact that a contract was signed by 3 out of 5 people, were items they could just not understand or be comfortable with, so they eventually backed out of the contract. Frank Burnette stated he did not want to hire them, but others did and we ended up hiring them not knowing much about them except that they made a good proposal. Frank Burnette stated they do have an office in Philadelphia; however, all the staff there left and went to work for Delaware Investments which is the firm that originally was wanted to be hired, but couldn't get the vote.

Frank Burnette stated that after the original presentations, the firm the board liked after Mondrian was Delaware Investments and that is who he recommended originally. Frank Burnette informed the board that Delaware will still do the contract at the original proposal amount. Frank Burnette suggested the board should just go ahead and now hire Delaware Investments as the foreign equities manager. Commissioner Vicites agreed and stated that going through the RFP process again will cause a lot of extra time, effort, and the money will set dormant again for a longer period of time and since Frank Burnette has already done the homework, made the recommendation, Commissioner Vicites stated he feels we should go with Delaware.

Commissioner Zapotosky stated that basically \$400,000 was basically sitting, and Frank Burnette informed him the money was back invested. Commissioner Zapotosky inquired how much did we not make and Frank Burnette replied the markets were not doing well and he doesn't think it crushed us.

Frank Burnette informed the board that about 20 proposals were originally received for the RFQ, narrowed it down to 6 or 7 exceptional firms and had 3 of them fly in to Fayette County to do presentations. Frank Burnette stated to go through the RFQ process again would be an unnecessary duplication.

Commissioner Vicites stated he disagreed with Mondrian's logic on not going with us because they didn't get 5 signatures, and he doesn't think they understood as long as you had a majority with boards such as ours, it would rule. Frank Burnette also stated that the contracts were sat on for 6 weeks waiting for signatures. Commissioner Zapotosky stated that needs to be avoided as it is unnecessary and costing money.

Controller Lally made a motion to accept Delaware Management Business Trust as foreign equities manager as per their proposal from the RFQ process, seconded by Commissioner Vicites.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Vicites	Yes
Controller Lally	Yes

## **MOTION CARRIES UNANIMOUSLY**

Frank Burnette stated he will now inform Delaware Management Business Trust in getting a good draft of the contract and he will forward to Controller Lally to distribute copies to everyone.

Patty Parrucci of Allegiant said she would not close the account, but she would change the name of the account and will not charge until the account is funded.

### **20. Distribute BlackRock information letter**

A letter from BlackRock dated January 14, 2008 explaining the transfer agent will be PFPC, Inc. was distributed to all board members with their agenda. Frank Burnette stated there was no motion needed from the Board on this issue.

### **21. Discuss issues with Frank Burnette of Morrison Fiduciary Advisors, Inc.**

#### **FNB Automated IRA rollover agreement / Abel Noser**

Frank Burnette stated that Controller Roberts on his last day of office signed two contracts that were dating back into 2006; one was with National City as an IRA rollover, which was no problem. The other contract was with a broker in New York where the fund managers can send their trades to this particular broker and conceivably

be able to get rebates back from that broker to the fund; however, if the managers charged a commission rate which is a little higher than what is generally available. Frank Burnette stated Controller Roberts really liked this idea, but the market has changed now and you want to give your managers the ability to trade anywhere they want at the best possible price. Frank Burnette stated he didn't think the managers should have to trade with this company in New York. Frank Burnette stated the contract reads that managers can trade there if they want, but he has no problem if they want to trade there; however, the board is going to continue to follow the existing Investment Policy Statement that says the managers can trade where they want to trade in the best interest of the fund. Frank Burnette stated he will inform the managers accordingly.

### **Federated Investors**

Frank Burnette informed the board that Federated wanted additional paperwork and wanted the board to sign additional contract documentation due to the new Investment Policy Statement. Frank Burnette informed the board that the prior board said they would not do that. All managers have to follow the fund's Investment Policy Statement, and if it doesn't work for them, then they can't be a manager; you can't have managers using their own as this would negate the purpose of having the Investment Policy Statement. Frank Burnette informed the board that Federated Investors has agreed to now follow the fund's Investment Policy Statement.

### **US Asset / BlackRock**

Frank Burnette informed the board the MDL monies was moved over to BlackRock without doing an RFP, and he personally feels this is a good fixed income manager and 25 basis points are reasonable and he has no problem with this decision. Frank Burnette asked if anyone felt the need to have other fixed income managers make proposals and potentially make BlackRock a short-term solution.

Commissioner Vicites stated to give them a chance and be flexible. Commissioner Vicites stated that because of MDL's demise, we had money sitting there and something needed done, therefore he felt the board made the right decision.

Frank Burnette suggested a motion be made to permanently engage BlackRock and he and Controller Lally will now process the contract.

Commissioner Vicites stated he thought this was previously approved. Frank Burnette stated it was approved and they have now sent a contract which was not previously done, and there was a discussion that this was a short-term decision that would be re-visited with the new board. Frank Burnette stated this is in all fairness to Commissioner Zimmerlink as it was a significant issue with her as she didn't feel it was right to turn this money over to BlackRock, even understanding the issues, without a RFP; therefore, the board is revisiting this issue.

Commissioner Vicites stated this is a professional service we need to move on with and asked how they are doing so far. Frank Burnette stated they have been with us for a month or two and they have done fine. Frank Burnette stated there is nothing about BlackRock's organization that is in anyway below standard, and they are clearly a top notch firm. Commissioner Vicites stated that if the board had waited to do an RFP, money would have been sitting unmanaged for at least 6 months and that wasn't a prudent thing to do.

Controller Lally made a motion to keep BlackRock under supervision and revisit them. Frank Burnette suggested re-visiting them after one year. Commissioner Vicites stated to be consistent and visit them regularly. Frank Burnette stated everyone is reviewed on a quarterly basis and is reported to the board. Commissioner Vicites stated to monitor their performance and if they start going down hill, get rid of them and not wait a year, but in 30 days which would be consistent with the other managers.

Controller Lally stated that the trouble is in a market that is dynamic as we are experiencing, and an economy that is as flat as it is, you could not judge a fund on quarterly performance; it would be a very bad measure, but you could judge them on annual performance if they have 4 consecutive quarters of not losing money, but if money was not being appreciated, then that is something to be considered. Controller Lally also stated that on a quarterly basis, how could you predict a 500 drop point in marketing. Commissioner Vicites said he understands what Controller Lally is saying and he doesn't disagree.

Controller Lally made a motion to engage BlackRock via contract, with subject to a quarterly review. Commissioner Vicites seconded the motion.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Vicites	Yes
Controller Lally	Yes

## **MOTION CARRIES UNANIMOUSLY**

### **Unified Fee Schedule with Morrision Fiduciary Advisors**

Frank Burnette stated that when they were hired by the fund, they basically assumed the contract of Scott Dascani of Millennium Capital Management. Scott Dascani was a broker dealer and he charged a certain rate to do performance measurement, all projects on top of that were to be extra, and Frank Burnette stated he felt Scott Dascani originally thought he would have some opportunity to earn some commissions through his broker dealer on the account as well. Frank Burnette stated when he inherited Scott Dascani's contract, he does not have a broker license and therefore he cannot get any payments from managers or commissions. Frank Burnette stated there is so much more work that he does besides doing performance measurement, which is a quarter of what he does along with administrative tasks. Frank Burnette stated he never felt comfortable putting an invoice in the mail every time they do something and charging for the work. Frank Burnette stated they have charged for searches, investment policy statements, fee schedule negotiations, and since they have been working on the fund their average annual fee has been in the \$30,000 plus range. Frank Burnette stated he should have charged for more things that he didn't.

Frank Burnette stated the original contract does not apply to what he is doing. When they were originally hired they gave the County two choices, existing contract provisions and a unified fee that includes the cost of everything they do in the fund such as contracts, fee schedule negotiations, manager searches, investment policy statements, and anything else that comes up. This just ends up being higher, almost twice as much, but it doesn't at the end of the year end up more money, but less paperwork, less invoices, etc. and he feels

comfortable answering the phone with any questions Fayette County may have. Frank Burnette stated he should not really start projects unless the board authorizes it, it's all fee scheduled out, and approved in advance, in which you end up with a process that is very slow. Frank Burnette stated all of his accounts are a unified fee schedule, and at this time he would respectfully ask the board to consider this.

Controller Lally asked Frank Burnette how many searches does he anticipate doing this year, if any, and Frank Burnette stated it seems like they do one or two. Controller Lally asked Frank Burnette if receiving \$22,000 annually as his base fee and \$5,000 for each additional search, if his concern is he is not being fully compensated for his amount of work and energies that he puts into his work. Controller Lally stated that if the board continued on this path, Frank Burnette's fees would be greater than a \$40,000 annual allotment. Frank Burnette stated it probably ends up being about the same, but administratively it starts to flow more smoothly.

Commissioner Zapotosky asked Frank Burnette if what he is saying is that the County is restricting him as he is taking for granted that subsequently the board will approve his search. Frank Burnette stated this is a difficult and uncomfortable conversation for both himself and the board, and frankly he doesn't keep track of time but that is not how firm work is and they just charge a stated fee which is somewhat how the industry operates these days.

Frank Burnette stated he is looking to take version 2 of his contract which charges 9 basis points on the assets under advisement, billed quarterly as opposed to the roughly the 5 basis points they are currently charging. Frank Burnette stated at that point there would be project fees, no search fees, and would be all inclusive of what the board wants done for \$40,000 annually.

Controller Lally stated he would motion to make that payment as he feels a closed-in contract is a much better deal. Controller Lally stated if managers would drop out and Frank would have to do searches it would cost more, but Frank Burnette stated it would all average out.

Commissioner Vicites asked if this was negotiable. Frank Burnette stated it would be negotiable if it was important, but at this point he felt it was incredibly fair. Frank Burnette stated his minimum fee is \$30,000, and he charges more to Indiana County which is a \$30M fund.

Commissioner Zapotosky asked Frank Burnette what he was paid last year and he responded he was paid about \$30,000. Frank stated he did many things that he wasn't paid for doing.

Controller Lally stated with his experience in this area, this is not an unreasonable fee and quite frankly it is a low fee.

Commissioner Vicites stated he was hoping to get a better rate and that is his concern. Frank Burnette stated a portion of his fee goes to Wilshire for performance measurement data, plus he has employees that do all the grinding work so it's not like a solicitor who is doing all the work himself.

Commissioner Vicites stated he would be considerate of that concept, but not at that rate. Commissioner Zapotosky asked Frank Burnette if \$35,000 would be acceptable to him. Frank Burnette stated \$40,000 is fair a price and he is not overcharging Fayette County. Frank Burnette stated he has never seen a fund that didn't have

to make changes and manage the fund and be proactive to keep evolving as the market changes. Frank Burnette stated this is just not searches, but fee schedule negotiations, changing asset allocations, getting contracts approved, having a changes in managers, and monitoring brokerage commissions. Commissioner Vicites asked if this was part of his original contract and Frank Burnette responded that the contract reads to generate quarterly performance on the managers and bring that information to the meeting is the 5 basis point fee. Frank Burnette also stated the searches were \$5,000 each and the extras were additional projects beyond performance measurement and searches.

Commissioner Zapotosky stated there is a motion on the floor, but his concern is are we giving Frank Burnette the tools and the ability to manage this retirement fund in the interest needed. Commissioner Zapotosky stated this is his first full meeting and we are discussing a fund that has under-performed and a contract that was never entered into due to a bureaucratic delay; thus, this would give Frank Burnette some flexibility. Frank Burnette stated that price regardless, if going into a comprehensive service everything that moves would be his responsibility and would be addressed.

Commissioner Vicites stated he is for that concept, but at the right price. Commissioner Vicites stated the fund has not underperformed and has grown significantly, but expenses have continued to rise which is why there is an ARC payment this year. Commissioner Vicites stated this needs to be considered and not keep adding expenditures.

Commissioner Zapotosky asked Frank Burnette if he could elaborate a little on the ARC payment due this year for his and Controller Lally's benefits as they are new this year. Frank Burnette stated our actuary, who is a licensed accountant, looks at the pension plans every year; the biggest variable is what you promise to pay your employees in the future (known as the liabilities of the plan). The investment performance is the second variable as to whether you would or would not have enough money. In the case of Fayette County, the liabilities keep increasing every year at a reasonably strong clip, simply because people are living longer, you have more employees and the cost to provide that benefit in the future to these employees continues to go up. If the fund returns 7.5% after expenses, the actuary feels that given that rate of return the fund should be able to keep up with those liabilities. Over the last 5 years, the fund has returned 8.12%, but in the last 2 years the return was 6.74% per year, and last year was 5.78%; therefore, the fund slightly under-performed the 7.5% goal. Sector dramatically out-performed their benchmark and other managers trailed their benchmarks. The bottom line is the managers didn't out-perform the market as a whole. Nevertheless the liabilities to the employees continued to increase, but the assets of the fund didn't increase as fast. Frank Burnette stated what you pay employees, how many employees, how many promotions, and the cost of living numbers are projected over the next 20 or 30 years. Frank Burnette stated final benefits are calculated as a percentage of final salary. Frank Burnette stated this is how the fund ended up making an ARC contribution. Frank Burnette stated he felt \$120,000 ARC payment is a nominal amount given the size of the payroll and the size of the fund.

Commissioner Vicites stated that this is the first ARC payment since 1982, the board needs to be cognizant on what they are spending, and they need to get the maximum return in the future.

Commissioner Vicites stated he feels \$40,000 is too high. Frank Burnette asked Commissioner Vicites if he would be comfortable with 8 basis points which would be in the middle to high \$30,000. Commissioner Vicites stated he felt Frank Burnette does a good job and he satisfied with his work ethic, but wants to strike a balance.

Controller Lally stated Frank Burnette offered to come to his home to explain how this process works and to spend time with him that most certainly would have been off the books and he was appreciative of the offer.

Commissioner Zapotosky stated it is obvious that Frank Burnette is doing work that he is not billing for at this time. Frank Burnette stated he never considered sending an invoice if the project was not approved in advance.

Frank Burnette stated when the Investment Policy Statement was approved and he started working on it, the motion did not include the specific dollar amount and had to be approved a quarter later, and this is the second or third time the invoice has been submitted for payment.

Commissioner Vicites stated this issue needs to be negotiated and discussed. Commissioner Vicites stated he would like to table this and discuss what figure this should be. Commissioner Vicites stated he feels it should all be under one fee, which Commissioner Zapotosky agreed. Commissioner Zapotosky said this should act on this in a timely fashion.

Patty Parrucci of National City Bank stated she sees a lot of invoices from consultants for other plans, and 9 basis points is not unreasonable at all for a \$50M plan. Controller Lally agreed and stated he has seen 11-13 basis points for a fund of this size.

Frank Burnette stated if they are doing their job right, their fee becomes completely off-set by effective management of the fund.

Commissioner Zapotosky stated that obviously with Commissioner Zimmerlink not being present, it would behoove the board to table this issue for further discussion when all board members present.

Controller Lally rescinded his previous motion.

Controller Lally made the motion to table the unified fee schedule with Morrision Fiduciary Advisors, Inc., seconded by Commissioner Zapotosky.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Vicites	Yes
Controller Lally	Yes

## **MOTION CARRIES UNANIMOUSLY**

### **Asset Allocation**

Frank Burnette stated that the asset allocation is absolutely critical for maximum output. Frank Burnette stated the plan has to be adjusted between stocks and bonds, etc. for maximum output and in the past this has not been done, just mechanically rebalanced every year.

### **Muhlenkamp**

Frank Burnette asked the board if they wanted to wait to have Muhlenkamp propose a manager and evaluate this manager then have him show the board what he is proposing in solving the Muhlenkamp problem, or do they want to start a new search for an investment manager? Frank Burnette suggested getting their proposal on the table and see what they have to say. Frank Burnette stated he will forward this to the board and let them know if he does or does not like their proposal. Commissioner Zapotosky asked if the board was formally in agreement to look outside the Muhlenkamp fund and Frank Burnette stated yes. Frank Burnette stated he should have this in a week or two, and the board should know where they are headed by early March.

### **Meeting Schedule**

Frank Burnette stated that in the past, every manager attended meetings for presentations, but with 7 managers now, it would be very time consuming. Frank Burnette stated he would like to call managers in according to the following schedule; however, any one can call a manager to any meeting they wish. Frank Burnette stated he would like to have the managers come as he suggested in his schedule, and not each quarter.

Commissioner Zapotosky made a motion to adopt the following meeting schedule (per Frank Burnette's recommendation), seconded by Controller Lally.

Wednesday, May 21, 2008  
 FNB Bank, Large Cap Growth Equity  
 GWK, Small Cap Equity

Wednesday, August 20, 2008  
 FNB Bank, Large Cap Growth Equity  
 Muhlenkamp, Large Cap Value Equity  
 Review of Vendor Fee Schedules

Wednesday, November 19, 2008  
 Hay Group, Actuary  
 BlackRock, Fixed Income  
 Federated, Fixed Income

Wednesday, February 18, 2009  
 Sector Capital, Large Cap Core Equity  
 Foreign Equity  
 Review of Brokerage

The vote was:

Commissioner Zapotosky	Yes
Commissioner Vicites	Yes
Controller Lally	Yes

### **MOTION CARRIES UNANIMOUSLY**

Commissioner Zapotosky stated the reason he wanted to make this in a motion is so the board is bound to adhere to this schedule, and he feels it is imperative that the board start developing better habits as a retirement board.

### **22. Distribute investment review booklets from Federated Investors, Inc.**

Investment review booklets from Federated Investors, Inc. for the period ending December 31, 2007 were distributed to the board members for their review.

### **23. Other Matters**

#### **Agenda**

Commissioner Vicites asked if there was any way in which the agenda could be received a couple days ahead of time as he likes to review the items. Betty Stutzman, Administrative Assistant in the Controller's office, stated it was distributed a week ago; however, she just received an invoice yesterday and it was added to the agenda yesterday in order to not delay payment. Betty Stutzman said that was the only change to the agenda.

#### **Legal Advertisement**

Legal advertisement for the retirement board meetings was advertised in the Herald Standard on Monday, February 11, 2008. The cost for the ad was \$78.90. Commissioner Zapotosky asked if this needed approved and Betty Stutzman informed him that this was an informational item and the cost would be approved when the invoice is received.

### **24. Public Comment**

There was no public comment.

**Controller Lally motioned to adjourn the meeting at 11:40 a.m. Commissioner Zapotosky seconded the motion.**

