

A meeting of the Retirement Board was held on Wednesday, May 21, 2008 at 9:30 a.m. in the boardroom of the Commissioner's office.

Commissioner Zapotosky called the meeting to order at 9:34 a.m.

1. Roll Call

Roll call was taken and the following members were present:

PRESENT: Vincent Zapotosky, Commissioner
Angela Zimmerlink, Commissioner
Vince Vicites, Commissioner
Robert Danko, Treasurer

The following member was absent:

ABSENT: Sean P. Lally, Controller

The following were in attendance during the meeting:

ALSO PRESENT: Jeanine Wrona, Chief Deputy Controller
Betty Stutzman, Administrative Assistant, Controller's Office
Frank Burnette, Morrision Fiduciary Advisors, Inc.
Sam Piccioni, FNB Wealth Management
John Ayre, FNB Wealth Management
Amy Zalar, Herald Standard

2. Public Comment

Betty Stutzman, Administrative Assistant in the Controller's office, asked that an invoice for the 1st quarter management fees to Federated Investors be added to the agenda as it was just received May 20, 2008 and the agenda had already been distributed. Commissioner Zimmerlink motioned to add 1st quarter 2008 invoice for Federated Investors as Item #16 this to the Agenda, seconded by Commissioner Zapotosky. No further discussion.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Treasurer Danko	Yes
Chief Deputy Controller Wrona	Yes

MOTION CARRIES UNANIMOUSLY

Let the record reflect that Commissioner Vicites arrived at 9:36 a.m.

Frank Burnette stated he would like to explain what he would like to do with the Board's permission. He has people in his office that help him administer Fayette County's accounts, and he has found when he takes his notes from the meetings he is about 80% correct. Frank stated he has gotten into the habit of having an administrative person listen to the meeting, via conference call. Frank stated they usually don't participate, but they take notes; therefore when he returns to the office the follow up is substantially started, maybe even half-way complete and it makes for a more efficient process and their awareness of what is actually going on in the meetings is better. Frank asked with the permission of the board, if his office would be permitted to listen in and Commissioner Zapotosky stated he had no objection.

3. Presentation by FNB Wealth Management

Frank Burnette stated that FNB Wealth Management is here to do a presentation on two different accounts. They have always been a large cap equity manager for Fayette County, specifically the growth portion of the portfolio for many, many years. Recently through the RFP process, FNB submitted a proposal with Gannet, Welsh and Kottler to manage the small cap core position, and were funded within the last month or two; therefore, they will be giving a presentation for that account as well.

Sam Piccioni, Senior Relationship Manager stated that FNB Wealth Management consists of FNB Trust Company, FNB Investment Advisors, and First National Investment Services. Recently their organization is continuing to expand in Pennsylvania. Things are going very well communication wise as they continue to work with Frank Burnette on a day to day basis, Controller Lally, and with Betty Stutzman in the Controller's office.

John Ayre, Senior Portfolio Manager discussed the market overview. John stated last week was a tremendous week in the markets; the stock markets were up anywhere from 2% to 4.5%, depending on what part of the market you were exposed to. On a year to date basis, the markets are basically down anywhere from 1% to 5.5%, again depending on where you are located in the markets. Year to date worst sectors hit have been the health care and financials, as well as telecom; the best performing sector is the energy sector. John stated energy stocks have benefited tremendously so far this year as they are up over 12%, along with the basic material sector.

John stated some of their concerns are with the dollar. The dollar is actually down 6% versus the euro and is down 7% versus the yen year to date. John stated the dollar has started to strengthen over the past month and based on the research and everything they have read, the experts on the financial side tend to believe the dollar should actually strengthen about 9% this year.

John stated that as far as commodities, one of the hottest areas in the market is oil which is up 32%; commodities as a whole are up 18%, almost 19%, and gold is up about 7%. The bond portfolio market

which is measured by the Lehman industries is up about 2% year to date. John stated that if you have a good mix between stocks and bonds, you are pretty much neutral.

John stated they manage the large cap growth and small cap portfolios for Fayette County. John stated it is important to keep multiple asset classes within your portfolio. John stated real estate has been the best performing asset class over the last 15 years at an average return of 15%. John stated that inflation is running about 2.6% which is important when looking at your allocation and where you want your assets to be.

John stated the Russell 1000 growth is the portfolio they manage. John explained that returns for the 5 year period are down 3.59% and the measure of risk (standard deviation) means the market can fluctuate 21.70% one way or the other around this point, which shows a lot of variability in any given year. John also explained the Sharpe ratio, which is a risk adjusted measure of how the performance of the portfolio has been. John stated that by diversifying your assets by adding one class instead of holding one asset to two different groups, you add a small cap exposure to it, then you can see the returns went from a -3.5% to a +5%. At the same time, the risk was reduced to a standard deviation of 20%, and actually turned to a positive Sharpe ratio of .13% which is a good number. John stated that basically the concept is the same; if you diversify more, you reduce the risk and actually increase the overall return on the portfolio, which is the whole basis behind this premise. John stated this is the concept of building a portfolio and the importance of diversifying among the different asset classes.

Large Cap Portfolio

John stated Fayette County's portfolio is fully invested; 98% in stocks and 2% in money markets. John stated there is no restriction as far as what types of stock can be added to the portfolio as long as they meet the large cap growth criteria. John stated the benchmark is the Russell 1000 growth index, and the market value as of the quarter ending March 31, 2008 is \$6,680,391.

John stated the performance results at the beginning of the year were rough. The Russell 1000 index was -10% and Fayette County's portfolio was -9.65%. John stated the rolling past year was a tough performance number for them, but if you even it out over time they are right in line with the benchmark, adding some value over the long haul, in this case adding about 300 basis points in performance.

John stated in almost all cases they are in line with the benchmark from the different sector weighings. They have some slight under-weighs and over-weighs which were mainly due to market performance. John stated that when they built Fayette County's portfolio, they designed it with the same parameters as the benchmark they are tracking. John stated they take on less risk in a portfolio by design and is supposed to give a slightly more outperformance than the benchmark itself. In the standard deviation, they have less deviation than the benchmark and have higher returns on a 3 year, 5 year, and 10 year basis. John stated if you look at the numbers and the structure of Fayette County's portfolio, they are taking on a little less risk in the market, and theoretically they should show a 2% - 3% out performance.

John explained the stocks being held in Fayette County's account. John stated most of the

underperformance last year came from two holdings in particular, both in the healthcare sector, Schering Plough and United Healthcare. John explained that Schering Plough lost about 45% value in the matter of a day due to a cholesterol drug issue, and they are in the process of selling that stock. John stated that in those are two areas they are going to tweak and make minor adjustments and changes. John stated on the positive side, Apple was a stellar performer in the portfolio.

Commissioner Zimmerlink asked John if all the stocks listed for Fayette County are in our portfolio, and John replied that yes all the stocks listed, are in Fayette County's portfolio.

Gannett Welsh & Kottler – Small Cap

John stated this portfolio was just started approximately 2 months ago. This small cap portfolio is 98% invested with 2% in cash. The market value of this portfolio as of March 31, 2008 is \$3,934,954. John stated since they have had this account, it was off about 1% versus the index. John stated to put this in perspective; the Russell 1000 was down about 9% for the quarter. John stated that Gannett Welsh and Kottler are the actual managers of this fund, and FNB is not managing this account internally. John stated they are a firm that has proven themselves over the years in the small cap arena and are one of the best performers. John stated that small caps have been out of favor this past year, but typically when the economy has turned around showing signs that we are going to come out of the recessionary type environment, small cap stocks lead the way out of it; therefore we should receive a tremendous upside benefit from the small cap arena. John stated that when the economy starts to recover, small cap stock performance tends to accelerate. John stated the market will reward the different market segments at different times; therefore, if you maintain a small cap exposure it will benefit the portfolio as a whole in the long run as it continues growing.

4. Approve the February 20, 2008 meeting minutes

Moved by Commissioner Vicites, seconded by Commissioner Zapotosky to approve the February 20, 2008 meeting minutes.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Abstain
Commissioner Vicites	Yes
Treasurer Danko	Yes
Chief Deputy Controller Wrona	Yes

MOTION CARRIES 4-1

5. Authorize payment of actuarial fees to Hay Group

Moved by Commissioner Zimmerlink, seconded by Commissioner Zapotosky to authorize payment of the 1st quarter actuarial fees for the period of January 1, 2008 to March 31, 2008 to the Hay Group in the amount of \$6,762.00.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Treasurer Danko	Yes
Chief Deputy Controller Wrona	Yes

MOTION CARRIES UNANIMOUSLY

6. Authorize payment of actuarial fees to Hay Group

Moved by Commissioner Zimmerlink, seconded by Commissioner Zapotosky to authorize payment of actuarial fees for the month of April 2008 to the Hay Group in the amount of \$2,254.00

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Treasurer Danko	Yes
Chief Deputy Controller Wrona	Yes

MOTION CARRIES UNANIMOUSLY

7. Authorize payment of actuarial fees to Hay Group

Moved by Commissioner Zimmerlink, seconded by Commissioner Zapotosky to authorize payment of actuarial fees for the month of May 2008 to the Hay Group in the amount of \$2,254.00

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Treasurer Danko	Yes
Chief Deputy Controller Wrona	Yes

MOTION CARRIES UNANIMOUSLY

8. Authorize payment of management fees to Sector Capital Management

Moved by Commissioner Zimmerlink, seconded by Commissioner Zapotosky to authorize payment of the 4th quarter management fees for the period of October 1, 2007 to December 31, 2007 to Sector Capital Management in the amount of \$13,658.74.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Treasurer Danko	Yes
Chief Deputy Controller Wrona	Yes

MOTION CARRIES UNANIMOUSLY

9. Authorize payment of management fees to Sector Capital Management

Moved by Commissioner Zimmerlink, seconded by Commissioner Zapotosky to authorize payment of the 1st quarter management fees for the period of January1, 2008 to March 31, 2008 to Sector Capital Management in the amount of \$12,353.60.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Treasurer Danko	Yes
Chief Deputy Controller Wrona	Yes

MOTION CARRIES UNANIMOUSLY

10. Authorize payment of management fees to FNB Wealth Management

Moved by Commissioner Zimmerlink, seconded by Commissioner Zapotosky to authorize payment of the 1st quarter management fees for the period of January1, 2008 to March 31, 2008 to FNB Wealth Management in the amount of \$8,456.68.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Treasurer Danko	Yes
Chief Deputy Controller Wrona	Yes

MOTION CARRIES UNANIMOUSLY

11. Authorize payment of management fees to U.S. Asset Management, Inc.

Moved by Commissioner Zimmerlink, seconded by Commissioner Zapotosky to authorize payment of the 1st quarter management fees for the period of January 1, 2008 to March 31, 2008 to U.S. Asset Management, Inc. in the amount of \$461.59. Please note a rebated commission of \$6,824.56 was received.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Treasurer Danko	Yes
Chief Deputy Controller Wrona	Yes

MOTION CARRIES UNANIMOUSLY

12. Authorize payment of management fees to U.S. Asset Management, Inc. /BlackRock

Moved by Commissioner Zimmerlink, seconded by Commissioner Zapotosky to authorize payment of the 1st quarter management fees for the period of January 1, 2008 to March 31, 2008 to U.S. Asset Management, Inc. /BlackRock in the amount of \$6,520.17.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Treasurer Danko	Yes
Chief Deputy Controller Wrona	Yes

MOTION CARRIES UNANIMOUSLY

13. Authorize payment of management fees to FNB Wealth Management/GWK

Moved by Commissioner Zimmerlink, seconded by Commissioner Zapotosky to authorize payment of the 1st quarter management fees for the period of January 1, 2008 to March 31, 2008 to FNB Wealth Management/GWK in the amount of \$7,237.91.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Treasurer Danko	Yes
Chief Deputy Controller Wrona	Yes

MOTION CARRIES UNANIMOUSLY

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

Moved by Commissioner Zimmerlink, seconded by Commissioner Zapotosky to authorize payment of the 1st quarter custodian fees for the period of January 1, 2008 to March 31, 2008 to National City Bank in the following amounts:

FNB	\$ 970.67
Federated Investors	\$1,454.17
Sector Capital	\$1,360.36
US Asset	\$ 853.62
US Asset/BlackRock	\$1,311.56
FNB/GWK	\$ 620.75

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Treasurer Danko	Yes
Chief Deputy Controller Wrona	Yes

MOTION CARRIES UNANIMOUSLY

15. Authorize payment of quarterly consultant fees to Morrision Fiduciary Advisors, Inc.

Moved by Commissioner Zimmerlink, seconded by Commissioner Zapotosky to authorize payment of

the 1st quarter consulting fees for the period of January 1, 2008 to March 31, 2008 to Morrison Fiduciary Advisors, Inc. in the amount of \$5,240.86.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Treasurer Danko	Yes
Chief Deputy Controller Wrona	Yes

MOTION CARRIES UNANIMOUSLY

Commissioner Vicites asked why a corrected amount is listed on the invoice. Frank Burnette stated that when BlackRock was funded, the amount did not show up on the normal custodian statement, and his administrative person missed that on the statement.

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

This invoice is an amendment to the agenda. Moved by Commissioner Zimmerlink, seconded by Commissioner Zapotosky to authorize payment of the 1st quarter management fees for the period of January 1, 2008 to March 31, 2008 to Federated Investors, Inc. in the amount of \$7,975.04.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Treasurer Danko	Yes
Chief Deputy Controller Wrona	Yes

MOTION CARRIES UNANIMOUSLY

16. Discuss Fee Schedule of Morrison Fiduciary Advisors, Inc.

Frank Burnette stated that at the last meeting he made a request to change the schedule fee and it did not pass; therefore, he added it to this agenda. Frank stated the fundamental problem he is having is that the original contract, which they assumed, covered services that they are currently performing but they are doing considerably more than what the original contract provided. Frank stated that the original searches for managers take normally 60-120 days, and one took 2 years due to the fact they had a very elaborate contract process and it had to be restarted. Frank stated a foreign equities manager search had to be restarted when the first company stated they weren't interested in serving Fayette

County. Frank listed other items they worked on: the solicitor RFP was initiated, but was never finished; MDL/BlackRock conversion was a project; a small contribution was made to the pension fund budget; assisted with 3 transfers and rebalancing of funds; performed an extended evaluation of Muhlenkamp and the U.S. Asset Management proposal; worked diligently on Federated Investor's contract addendums which were incorporated into the original contract; at the request of one board member, spent considerable time evaluating Stonebridge Partner's proposal; worked on MDL's final invoice which was discussed and approved. Frank stated with all his accounts, and with virtually all consultants, almost everyone is charging one universal comprehensive fee to do all the work they are doing. Frank stated secondly, he doesn't have anyone he charges less than \$30,000; his average charge is in the \$40,000 to \$50,000 range. Frank stated with his requested fee increase, they would include anything they've done on the fund, without limitations and there would be no additional charges or fees for any projects. Frank stated he wanted to point out to the board that the original contract that existed with the original consultant allowed that person to also generate commission revenues from the managers to supplement their fee amount; but Morrision is legally prohibited from having any conflicts of interest or getting any other sources of revenue; therefore the consultant fee paid is the only amount being compensated to Morrision.

Commissioner Zapotosky inquired of the amount Frank is seeking. Frank responded they are currently at 4.5 basis points, and are proposing 9.0 basis points. Commissioner Zimmerlink asked what that would be in dollar figures and Frank replied in dollar figures it is \$22,000 versus \$38,000 as the fund is currently valued, but of course if the fund slides up it would be higher. Commissioner Zapotosky asked Frank if he was asking not for a fixed rate, but for a variable rate based on the fund and Frank replied yes. Commissioner Zapotosky asked out of curiosity based on his list of extra detail, obviously Frank has not billed for those services, but if he were inclined to do an hourly rate what would that be? Frank responded he has never charged an hourly rate. Commissioner Zapotosky inquired if the services are worth an additional \$18,000. Frank stated he felt yes they were as he spent more time doing the extra services than he spent on performance monitoring. Frank stated if he looked at those time periods and was charging \$200 per hour, which is what investment consultant's charge, (they charge like attorneys) he is easily doing 100 hours of work, probably 200 hours when you factor in all the meeting times per year. Frank stated what he does for one account, draws in the resources of what he does for another account.

Commissioner Zimmerlink inquired of Frank the term of his contract and how long has he been with Fayette County. Frank stated it is basically a 3 year contract with a 30 day notice to cancel the contract, and the contract renews annually unless notified. Frank stated Morrision took over Scott Dascani's Millennium Capital Management's contract in 2004. Frank stated there is still a Millennium Capital Management, but they do mostly mortgage brokerage and they are doing most of their business in Florida. Frank stated that when Scott Dascani signed one account, Fayette County, he then saw how sophisticated and complex the account was, he then called Frank asking him if he could do the work for him; therefore Frank was doing the accounting and performance measurement as a sub to him. Frank stated Scott was having trouble scheduling meetings, etc., so in order for Fayette County to get the service needed, he approached Frank and Frank purchased the business of Millennium relative to Fayette County at a small token price, absorbed that into Morrision and offered to continue under the existing contract, and Fayette County agreed.

Commissioner Vicites stated he felt he has not changed his position since the last meeting. Commissioner Vicites explained to the board that he made a motion to consolidate everything to a flat fee of \$30,000 in order to not keep getting the \$5,000 fees for searches, etc. and it did not get support from the Board. Commissioner Vicites also stated that at the last meeting Frank Burnette wanted to be considered for this at \$40,000, and at that time Commissioner Vicites told Frank Burnette that he thought \$30,000 was something he could agree to as he felt it would be beneficial to the County to pay one lump sum. Commissioner Vicites stated he is concerned about the fund as far as the expenditure side and what is being paid out in fees and feels the need to strike a balance, which Frank Burnette agreed. Frank Burnette asked the board if anyone was opposed to this idea of striking a balance.

Commissioner Zimmerlink stated she disagrees as some of these items, in her opinion, is part of the process. An orientation for a new board member, which is every 4 years, should not be that difficult to complete and is part of anybody's process. Secondly, Commissioner Zimmerlink stated Frank Burnette initiated the RFQ work for a board solicitor, and apparently she was out-voted on this issue; however, there are three solicitors on the board and she didn't feel an RFQ process was needed. Commissioner Zimmerlink stated in her first 4 years, the board did not utilize the services of any attorney, if any it was very minimal which is why she did not support the RFQ process. Commissioner Zimmerlink stated she knew that involved time and money, but the vote was a majority to do that. Commissioner Zimmerlink stated the BlackRock issue, again, she feels this is part of the process; no one knew this was going to happen with one of managers. Commissioner Zimmerlink stated that Muhlenkamp was an investor who was very well known and it was decided that Frank Burnette needed to do some work on it, and again that was part of the normal process. Commissioner Zimmerlink stated at the last meeting the pension budget was prepared by the Controller's office to facilitate the county's invoice payment process, and basically the Controller's office should have been the office to do that initiation as it is the County's billing process, not Frank Burnette's. Frank Burnette stated the Controller's office did about 80% of it. Commissioner Zimmerlink stated that Frank Burnette had it listed as part of his duties. Frank Burnette stated that if he had to list these items, this would be at the bottom of the list. Commissioner Zimmerlink stated to change the terms of a contract, if the board wants to increase fees on a contract it should be done on an RFQ process to see if that would be the time to see if the board wants to seek other individuals to see what their fees are as it is not fair to have Morrison Fiduciary on board and then during the term of the contract increase the fees. Commissioner Zimmerlink pointed out that how does the County know if they are getting the best; Frank Burnette makes a good presentation obviously, and the County may be getting the best, but the County has not gone through this process this year or her prior four years. Commissioner Zimmerlink stated she did not know how Muhlenkamp and Millennium Capital came to be and how long they were with the County prior to her being a Commissioner; she was not aware if that was an RFQ process or how it occurred, but at any rate if the County is going to look at it should be done under an RFQ process and not just modifying a contract.

Frank asked if he took these items and listed them on an invoice and submitted them as a project, is that acceptable? Commissioner Zaposky replied that as long as it was in the contract. Frank Burnette stated the contract was not well written from the beginning, but it basically says that he receives \$5,000 for any search initiated, and additional projects beyond performance and measurement

in searches are billed on a project basis.

Commissioner Zimmerlink stated if you want to pick out things that are only part of the process or perhaps should not have even occurred or were a one-time, such as a search for a new investment manager, should maybe be a separate fee and not incorporated to go from \$22,000 to \$30,000 to \$40,000; because her guess what the board did what they should have done which is diversify and they chose with his assistance the best managers. Commissioner Zimmerlink stated there was a lot of discussions on not doing the full RFQ process, but it turned out it was the best thing to do for the County's purposes; however, the board is not going to be doing this on a yearly basis. Commissioner Vicites stated the board is going to actually make a decision on that issue shortly.

Frank Burnette stated the investment world is such that if you're not doing these things all the time, you will get a fund that is a little bit out-dated and out of touch. Commissioner Zimmerlink replied that the small cap core fund was just started. Frank Burnette stated that a large value cap manager is horribly under-performing and he is recommending the board do a search on that manager. Commissioner Zimmerlink stated she understands the line item cost, as with any contract, you hire someone to do it either hourly or a lump sum. Frank Burnette stated that in the investment business it is usually by basis points. Commissioner Zimmerlink replied that she understands, but she feels the board should do an RFQ to see if this is the best company and the best rate, but not only doing an RFQ it is for professional services and it does not necessarily mean price is the determining factor.

Frank Burnette stated he is very comfortable in so many ways, but he just doesn't think what we have now works. Frank stated he can go ahead and invoice these projects and it will be \$30,000 plus per year on an average over the next 5 years or we can change the unified fee. Frank stated he has no problem with doing an RFQ as there have been 15 done over the last 3 years in the c-cap market, so he feels he knows who is out there and what they will charge; therefore, he doesn't think the County will get any \$30,000 proposals that is comprehensive and does everything. Frank feels he is cheaper than most as he doesn't pay \$100,000 a year to the people to work for him; therefore, he tends to be at the lower end of the scale. Frank stated one thing the RFQ process does is it freezes the process at the board, and might take 3-6 months to get processed, but at the end of the day, these types of fees are going to be reasonable. Frank stated he hasn't heard of anyone doing anything in the \$20,000 range for a long time. Frank stated the county has a \$50 million fund with 7 managers. Frank stated some charge \$10,000 plus \$5,000 a manager and you end up being close to what people charge in the business and that is the number people are going to bid; that number is very consistent and you get very fancy firms from Boston (full scale investment companies) that charge twice what he is talking about. Frank stated he has heard three suggestions and he is willing to do whatever the Board decides.

Commissioner Zapotosky stated the terms of the contract indicate Frank's scope of work. Commissioner Zapotosky stated Frank's laundry list of projects he has referred to would be in poor subject to invoicing as they would be subject to approval prior to performing them by the board. Frank replied that the contract does not say that, but he agrees with the board that it should be an authorized project. Frank stated that sometimes the project was authorized, but a dollar amount wasn't specified; therefore, it wasn't considered a good motion and had to come back and clarify the motion.

Commissioner Vicites asked Frank Burnette if what he is doing for the County, besides the searches, is

covered under the contract. Frank replied that to prepare the back of their report with the performance and measurement relative to benchmarks and peer groups, the charges of 4.5 basis points per year was for \$22,000.

Commissioner Zapotosky stated that apparently the language of the contract isn't detailed enough or specific enough which is the gist of the problem. Frank stated at that time of the contract, there were 3 managers and was a simple process with little changes and one meeting per quarter and was probably the right fee at that point. Frank stated a lot has happened with the fund in the last 5 years. Commissioner Vicites stated that Frank has been compensated with searches, as a result which is over and above the \$22,000 which needs to be said. Commissioner Zapotosky stated that has been Frank's annual rate with the addition of the searches. Commissioner Zapotosky asked Betty Stutzman of the Controller's office to find out what Morrison has been paid over the years for searches. Frank Burnette stated he has charged for 2 searches at \$5000 each, has done projects that were approaching \$10,000, divided by 5 years, averaging about \$26,000. Commissioner Vicites felt there were more than 2 searches since we now have 7 managers and had 3 managers then.

Commissioner Zapotosky asked if the board was moving on this fee schedule. Commissioner Vicites stated he felt that would be a better way of doing it, because the County doesn't have to continuously pay the \$5,000 for searches, it would be fair. As far as the dollar amount, Commissioner Vicites stated that's where he thinks it should be. Commissioner Vicites stated as far as the RFQ, Frank is currently working with the County and has helped with direction of the fund to where it is today, and he feels Frank has done a good job and it's not like it's the end of a term of a contract that needs to be re-done. Commissioner Vicites stated the need to RFQ is something that is done a lot in the County, but when you bring in someone new, they have no idea what the fund is about or what is the history of the fund and you can suffer in those areas. Again, Commissioner Vicites stated he felt the fee was reasonable, even all in one the County benefits more by keeping Frank's expertise and knowledge from the past up to the present and he feels comfortable in that situation. Commissioner Vicites stated he is very frugal and wants to do what he can to keep the fund cost effective.

Frank Burnette stated that at the risk of having one board member object to the discussion, he asked if the board would take Commissioner Vicites suggestion, making a slight modification to it, and see if there is a willingness of the Board to go that way. Frank stated when it comes to contract time, he has never gotten split votes, and it is not a good account when everyone does not have confidence in their advisor.

Commissioner Vicites stated he brought this up a couple of years ago for the same amount of money, and it would have saved money. Frank stated when the fund was \$38 M, there was a basis point fee proposed at that time, and in 5 years the fund has become a bigger sell of money, so the original \$32,000 that Commissioner Vicites is in favor of, contractually has pretty much stayed the same, but the problem is the fund has gotten bigger and just like any vendor of the fund, everyone's basis point fee has risen with the size of the plan. Frank explained he didn't want the board to feel they were jumping their proposal from \$30,000 to \$40,000; it's consistent with the growth of the fund assets. Commissioner Vicites replied he didn't mean to debate with Frank on this, but when the County does RFQ's with people, they still try to get a better fee which is what he is trying to do. Frank replied that

he totally respects that.

Commissioner Zapotosky asked Commissioner Vicites if he was suggesting getting a better indicator as to what the rate the County should be paying, the County should RFQ this. Commissioner Vicites stated no that was not what he was implying. Commissioner Vicites stated he sees disadvantages as well if it were to be an RFQ because Frank Burnette has been our consultant and has done a good job and he doesn't see where we are actually going up in price because the County is paying for searches anyway.

Commissioner Zimmerlink stated that you have to remember the tasks that Frank Burnette had listed, were a one-time task as well.

Frank Burnette stated as a fiduciary, this is why he feels so strongly; to be a good shepherd of the fund you have to be un-tethered; at any given time you can start work on evaluating any given manager, consider fee schedules, or making asset allocation changes. Frank stated when he has to come back to the board on a quarterly meeting or schedule a monthly meeting, hoping to get a vote. When you have to approve each step you take in the pension fund, the world moves much faster than we can as a Board.

Commissioner Vicites stated you don't know when a search will have to be done, and if the Board wants to keep doing RFQ's, they will have to continue doing searches. Commissioner Vicites stated he felt this gives it an all in one fee and is cost effective.

Frank Burnette stated if the fund is \$46 M, and he charges 8 basis points that would be approximately \$35,000, and he will give the Board the option as to whether it is basis points or hard dollars.

Commissioner Vicites asked Frank Burnette what was the standard. Commissioner Zimmerlink stated it sounds like a negotiation. Commissioner Zapotosky stated he would like to look at the contract before making a decision on this and he realizes Frank is probably not making what he should based on the fixed dollar amount; but he wants to look at the contract to find out if it is soft in language which a problem.

Frank Burnette suggested not doing anything at this meeting, but have the Controller's office distribute the contract and get some historical fees showing what they have been paid. Frank stated he has no problem with the Board getting a survey from other counties to see what they are paying. Frank stated he felt that shy of an RFQ, the Board would have a lot of information that they don't have now.

Commissioner Vicites stated he didn't know if that would change his feeling on what the pay should be, but would not mind resuming that as he would like to be cost effective.

Commissioner Zapotosky stated he felt a flat rate fee is much better than charging for everything Frank Burnette does.

Treasurer Danko stated it was a shock when Frank Burnette first gave a \$5,000 fee for a search as it

was not expected at the time. Frank Burnette stated the Board was used to and the Controller's office doing in their style most of the processing for managing the fund and Scott Dascani came in and provided performance data. Frank Burnette stated some of the Board did not see much of that, but it was a completely different service than what Morrison Fiduciary is doing now, plus Scott Dascani had the ability to get commissions off the managers they hired. Commissioner Vicites inquired what was different, without getting into a lengthy discussion. Frank Burnette stated Scott Dascani didn't get as involved as he does. Commissioner Vicites stated Scott Dascani did monitor the managers, but Frank replied that Scott Dascani didn't go to the managers and find out why they were underperforming, work through contracts, and do asset allocations. Commissioner Vicites stated that Scott Dascani did do the monitoring that was required of him and gave reports on where managers stood, made sure managers were performing to the benchmark, and helped with any questions the Board may have had, but also stated that is similar to what Frank Burnette does and that Frank Burnette may do it a little more in depth due to more managers than Scott Dascani; however, he felt Scott Dascani did what was expected under that contract and it was a good growth time in the fund during that time period.

Commissioner Zapotosky stated again it appears the board is not going to make any significant headway on this, and the board should get the language of the contract and the annual/average amounts that Morrison Fiduciary has received based on searches, etc. Commissioner Zapotosky stated without any further discussion could the board move on. Commissioner Vicites stated he is willing to look at other data, but questioned who is going to come up with the data. Commissioner Zapotosky stated the Controller's office would provide the data.

Commissioner Zapotosky stated he would like to look at the contract, the language of the contract and what the scope of work is based on the core, and see what services can be billed or what the case might be.

Commissioner Vicites stated he would like to note for the record on the solicitor issue that Commissioner Zimmerlink was not present at that meeting, and he voted no. Commissioner Zapotosky stated that Commissioner Vicites was correct, and a part of that discussion was primarily based on the fact that the board was dragging their feet on a couple of issues, specifically one being the foreign equity fund which sat idle since August of 2006 and was subject to ballpark around \$100,000 per year loss by virtue of that; so that was one of the reasons the board felt the need for a solicitor and Frank Burnette had made the recommendation of having a solicitor to handle some of the legality because of potential delay and getting information exchanged. Commissioner Zimmerlink stated that conversation took place at more than one meeting and that she was not present at the meeting where the actual vote took place and everyone knows she would have voted no anyway, prior to that there was a wide discussion, probably 25 pages, and she wasn't even at that meeting. Frank Burnette stated the Controller felt strongly that the Retirement Board should have a dedicated solicitor. Commissioner Zimmerlink stated she was aware of that and the discussion went even prior to the February meeting.

17. Distribute to the Board for their review the quarterly review books from Morrison Fiduciary Advisors

Frank Burnette reviewed his general comments from the booklet: the solicitor's RFQ was started and

now terminated; the small cap core equity manager was funded; the BlackRock/US Asset manager was funded; Delaware International Equities was funded. Frank Burnette stated it is nice to see the Board has the fund properly diversified in all the different asset classes and weighed in a 60% equity mix (previously it was at 50%). Frank stated the returns should get better and small cap and foreign equities have traditionally out-performed large cap and the 60 % equity weighing generally outperformed a 50% weighing. Frank reminded the Board that they had to stay at 50% because the fund was not very well diversified; however, now that the fund has become fully diversified, the Board felt comfortable taking the risk associated with a 60% weigh.

Frank Burnette stated there were two managers that were looked at over the last quarter and the Board voted to terminate Muhlenkamp, subject to the Board approving a new large cap value manager. In lieu of an RFQ, the gentleman from US Asset Management recommended a replacement manager who is really strong, and asked the Board to wait and look at his proposal. Frank Burnette stated the proposal was submitted to him for his review and he thought it was an o.k. proposal. Frank Burnette reminded the Board that MDL was a minority interest firm and this new firm is also a minority interest firm and Frank didn't think the Board has specified that the Board was looking for a minority interest firm, never the less that was the first marketing list they had in their brochure. Frank Burnette stated their performance was o.k., it wasn't a very large firm in terms of size, the firm barely met the County's minimum requirements; however, he could have had them come in and make a presentation, but he didn't get from the Chairman that the Board wanted to do that. Frank stated he probably would not have recommended them for engagement unless they made a very good proposal.

Commissioner Zimmerlink stated she did see where there was discussion, but not a vote to replace Muhlenkamp in the minutes. Commissioner Zimmerlink stated the minutes read the Board elected to consider a new large cap manager from U.S. Asset Management in lieu of the RFQ process. Frank Burnette clarified that basically Muhlenkamp is still engaged until there is a vote on the Board, but the Board is considering large cap value managers. Commissioner Vicites stated that Frank Burnette was to look at this scenario and it was to be discussed at this meeting. Commissioner Zimmerlink stated that after reading the minutes and reading Frank Burnette's report, Frank Burnette stated a consensus was reached to consider other large cap value proposals. Commissioner Zapotosky stated that if his memory serves him correctly, the Board left the meeting understanding that U.S. Asset Management was going to do the work behind making the recommendation based on the replacement of Muhlenkamp. Commissioner Vicites stated the Board was going to decide at that point whether or not the Board wanted to go with them or RFQ for a replacement manger. Commissioner Zapotosky stated the language needed clarified, but the consensus is different than vote and the Board basically discussed the fact that the Muhlenkamp fund has been has less than productive for a considerable period of time; therefore, it was appropriate for the Board to now take action. Commissioner Zapotosky stated the gentlemen from U.S. Management discussed that he would do his research on trying to find another manager for the replacement of Muhlenkamp. Frank Burnette stated he did take a look at their replacement and did not feel it was favorable, based on a minority interest firm and the size of their assets was not very large.

Commissioner Zapotosky asked Frank Burnette to elaborate on minority based interest firm and the size of their assets. Frank Burnette stated that in the pension business there are funds that are set up for

policy and say they want 20% of their money run by disadvantaged business entities, which is 100% owned by females, Afro-Americans, Indians, war veterans, etc. Frank stated that MDL was a firm that had a great portion of their business based on those set aside awards. Frank stated the new proposal comes in with a replacement of that type of manager, but the assets under management weren't very large and they didn't have a real deep experience staffing and the performance of that was o.k.; therefore, he didn't feel they had a strong proposal and felt there were stronger proposals out there; probably some fee schedules issues that had to be ironed out and that is why he didn't recommend them. Frank stated to circumvent the RFQ process, it would have had to be a very solid proposal beyond reproach and he didn't get that impression in dealing with them. Commissioner Zapotosky inquired if Frank's suggestion is to RFQ this and his reply was affirmative.

Commissioner Zapotosky stated his question to Frank Burnette would be if the Board knew the Muhlenkamp fund was suffering and not re-bounded since February, as our consultant and the person in charge of our revenues for our pension plan, why did we not RFQ this in February? Frank Burnette stated the U.S. Asset Management manager gave an argument that he was able to find a qualified replacement and the Board showed some respect to the fact that he had been the person involved in this account for some time.

Frank Burnette stated his recommendation is to issue a RFQ. Commissioner Zimmerlink asked if the language for the RFQ can be duplicated from prior RFQ's. Commissioner Vicites questioned what would be the cost. Frank Burnette stated the Board could keep Muhlenkamp, but in general predicting a manager's investment performance in the future is really hard; if you take the managers 5 years ago that were in Wilshire's database, you will find that there is no correlation that they are the best now. Commissioner Vicites questioned Frank if U.S. Asset came to the Board and asked to replace Muhlenkamp, and Frank replied that effectively U.S. Asset Management said they weren't comfortable with Muhlenkamp either and wanted to make a replacement. Frank Burnette informed Commissioner Zimmerlink that the retail market of Morningstar is still up on Muhlenkamp, but the institutional market is not as they have gone from \$3 billion to \$1 billion in assets, they are very professionally run, resourceful, etc. but they have had 3 very bad years in the institutional market. Frank also stated that Muhlenkamp could have an outstanding recovery year, might even have 2 or 3 years in a row, he is the type of manager the way he runs his style and this is why the institutional men are not crazy about it, but he will have very wide ranges for his benchmark; however, even with his bad periods, coupled with his good periods, his very, very long term returns had been quite acceptable. Frank stated the institutional market place is moving away from Muhlenkamp, but it doesn't mean Fayette County has to by any means. Commissioner Vicites stated we have to be disciplined and if they are not meeting the benchmark over a period of time, they need to go. Frank Burnette stated the style of Muhlenkamp is difficult to swallow on a quarterly basis.

Commissioner Zimmerlink moved to recommend an RFQ for the large cap value manager, seconded by Commissioner Zapotosky.

The vote was:

Commissioner Zapotosky

Yes

Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Treasurer Danko	Yes
Chief Deputy Controller Wrona	Yes

MOTION CARRIES UNANIMOUSLY

Frank Burnette inquired that with this motion can he give the Controller a draft and have him distribute this draft to the Board for comments, come up with a final draft and can the Controller issue the RFQ or does it need to come back to the Board. Commissioner Zimmerlink stated the Controller can issue the RFQ as it is part of the process. Commissioner Zimmerlink stated that RFQ's and bids are issued by department heads on a weekly basis and the Controller's office has done this in the past and should be able to continue to do this.

Other Issues Discussed

Frank Burnette stated with the addition of the funding of the international equities manager which occurred after March 31, 2008, the fund is now 62% weighed to equities versus the target of 60%; substantially over-weighted in large cap at 45%; a little under-weighted in small cap and international because these are the first steps into that market place. Frank stated that the way the Investment Policy reads is that Morrison Fiduciary as a consulting firm will look at the asset allocation every month, and certainly every quarter, and there will be times they will send out an e-mail stating the Board needs to re-balance the account to keep the fund within the policy benchmarks and this may happen 1 – 3 times per year. Frank Burnette wanted the Board to be aware this may happen.

Frank Burnette stated that August 20, 2008 is set for the next meeting, probably with presentations from the result of the RFQ search if everything goes smoothly.

Frank Burnette stated investment performance of the fund for the quarter was -4.62; for the last 2 quarters the fund returned -5.75 which was during a time when the equity market sold off 20%; therefore the diversification holding a little cash, having 45% in fixed income, and having managers that were actively managing the fund gave the County the ability to cushion the blow of a down market. Frank stated that anytime you are investing in stocks, you are going to have some ups and downs and hopefully the fund is under some sort of protection when that down market occurs. Frank stated April was a good month, May so far is a good month and he felt the fund is back to -1% for the year, therefore the fund is generally on an upward trend and would like to think it will continue for the whole year, but it may be a year where the fund might not hit that actuarial assumption, but he would like to think the fund will be close to it.

Frank stated when you look at the individual managers, you can see Muhlenkamp since it's inception date has missed the index by 5.6% annually, which is a big number; FNB is off by 2% a year; Sector has been outstanding, obviously helping the fund tremendously; GWK is new; Federated has beat the index; BlackRock is too new to judge, but at this point, Muhlenkamp is in the process of possibly replacing and FNB is the next manager to discuss and get them to perform better going forward.

Commissioner Vicites stated Sector Capital has done very well and the Board has never considered giving them more of an allocation than what they are doing, and that might be something to consider. Frank Burnette stated if you give them more, you are going to take it from someone else and your asset allocation isn't logical. Commissioner Vicites stated all he is saying is they have managed money well and have done a good job.

Frank stated from a performance point of view, the performance of the fund has been the middle of the road and his goal has always been to be at the top of the heap and beat the benchmarks by at least 1% after fees. On a \$50M fund, 1% is \$500,000, and that is the difference between making these funding contributions and not; therefore, he encourages the Board to continue to be pro-active in the way the fund is managed. The more responsive and quickly we as a Board can act, the better the fund can be.

18. Distribute investment review booklets from Federated Investors, Inc.

Investment review booklets from Federated Investors, Inc. for the period ending March 31, 2008 were distributed to the board members for their review.

19. Public Comment

There was no public comment.

Commissioner Zapotosky motioned to adjourn the meeting at 11:00 a.m. Treasurer Danko seconded the motion.