

**A meeting of the Retirement Board was held on Wednesday, November 18, 2009 at 9:30 a.m. in the boardroom of the Commissioner's office.**

**Commissioner Zapotosky called the meeting to order at 10:33 a.m.**

### **1. Roll Call**

Roll call was taken and the following members were present:

**PRESENT:** Vince Zapotosky, Commissioner  
Vince Vicites, Commissioner  
Robert Danko, Treasurer

**ABSENT:** Angela Zimmerlink, Commissioner (**arrived at 10:38 a.m.**)  
Sean P. Lally, Controller

The following were also in attendance during the meeting:

**ALSO PRESENT:** Jeanine Wrona, Chief Deputy Controller  
Frank Burnette, Morrision Fiduciary Advisors  
Betty Stutzman, Administrative Assistant, Controller's Office  
Gregory Volitich, President & CIO, U.S. Asset Management  
Thomas B. Kinney, Senior Vice President, U.S. Asset Management  
Sarah Wilson, 1<sup>st</sup> Vice-President & CCO, U.S. Asset Management  
John T. Gentry, Vice President, Portfolio Manager, Federated Investors  
Jed Robie, Marketing Representative, Federated Investors

### **2. Public Comment**

Let the record reflect there was no public comment.

**Please note the Board went out of the Agenda order to Item # 18**

### **18. Discuss and select a manager for the consultant position**

Commissioner Zapotosky asked the Board members if there was any objection to move out of the Agenda order to this item and all Board members present agreed.

Commissioner Zapotosky asked Frank Burnette the courtesy of discussing this matter in his absence. Frank Burnette agreed, and asked the Board to have the next item of discussion be the telephone conference with the Actuarial, Hank Stiehl, of the Hay Group.

Commissioner Zapotosky stated that after review of all the applicants he felt there was a good group to select from; however, one of the reasons he initially agreed to RFP this position was to get clarification on many items, specifically where the Fund stood with Morrision Fiduciary and their costs as there were some gray areas regarding the submission of their bills. Commissioner Zapotosky stated that the RFP was done for just that purpose, but the Board saw some very competent firms, but sometimes you don't have to leave your own backyard to find the best firms.

Commissioner Zapotosky stated he wished Commissioner Zimmerlink were present for this discussion and he did not feel comfortable without her presence; therefore, Chief Deputy Controller Wrona left the meeting to see if she were available to meet upon his request.

**Let the record reflect that Commissioner Zimmerlink arrived at the meeting at 10:38 a.m.**

Commissioner Zapotosky stated he did not want to do anything without Commissioner Zimmerlink's presence.

Commissioner Zapotosky asked the Board if there was any discussion on this item.

Commissioner Zimmerlink asked where was the fund consultant, Frank Burnette, and Commissioner Zapotosky informed her he had asked him to leave as the Board was discussing his firm.

Commissioner Zimmerlink asked if an executive session was called. Commissioner Zapotosky informed her executive session was not called, but felt this was a conflict if Frank Burnette were present as he is one of the parties vying for this position.

Commissioner Zimmerlink stated that if any of the companies present are vying for this position they should be present as this is a public meeting.

Commissioner Zimmerlink stated there could be objections later on and that is her reason for bringing this issue to the Board.

Commissioner Zapotosky stated he had no problem discussing this issue in a public forum; therefore, Commissioner Zimmerlink informed Federated Investors, U.S. Asset/BlackRock, and Frank Burnette it was their call if they wanted to attend this discussion.

Commissioner Zapotosky asked if there was any discussion regarding the selection of the consultant position.

Commissioner Zimmerlink stated that the following firms were called back for final presentations: Morrision Fiduciary, U.S. Asset, Pierce Park, and Smith Barney/Bo Stone.

Commissioner Vicites stated prices varied greatly based on the type of approach of the firms and firms taking fiduciary responsibility without consulting with the Board concerns him, because if something were to go wrong with the Fund, the Board is still ultimately responsible; therefore, he was not in favor of the firms that suggested that particular approach. Commissioner Vicites stated it is his belief that the Board be actively involved in this,

but not to say the Board cannot improve things with response times on decisions and getting things done quicker through the Fund’s Investment Policy Statement. Commissioner Vicites stated there was one firm that was going to do things in a combined fashion that might have saved the Fund some money, but the more he looked into it the more he was concerned about conflicts; even if you are saving money, you might be in a situation where you don’t have that check and balance which he feels the Fund needs.

Commissioner Vicites stated the Fund is on the upswing, but the Board needed to find out through this process where the market was bearing in the way of how much the Board should be paying the consultant. Commissioner Vicites stated that the strategy and diversification that the Fund has might need some tweaking, but it is the right approach.

Commissioner Vicites stated that his feeling is that Frank Burnette has done a good job and the Board needs to consider retaining him in the future, and as Frank Burnette knows, he will have a contract if voted in for this position and it will have a 30 day notice for lack of performance. Frank Burnette responded the Board can give a 30 day notice for any reason at the Board’s sole discretion.

Treasurer Danko stated he did not get to sit in on all the presentations, but his big concern was always the back and forth money situation, but was always pleased with Frank Burnette’s performance.

Commissioner Zapotosky informed the Board of his position earlier, and again he stated the Board has great concern based on the trauma of 2008, and there were questions regarding financial costs which is why the Board sent out the RFP to see what the market did bear regarding a consultant. Commissioner Zapotosky stated that there were some good presentations and he feels that at this point in time he is prepared to make a decision that he feels would be in the best interest of the Fund.

Commissioner Zapotosky stated he will make a motion or refer to the Board members to discuss this issue further.

Commissioner Zimmerlink stated she had no discussion.

Chief Deputy Controller Wrona stated she has nothing to say, but she has been instructed what to vote.

Commissioner Zapotosky made a motion that the County of Fayette enter into an agreement with Morrison Fiduciary Advisors, Inc. as the consultant for the Fayette County Pension Fund, seconded by Treasurer Danko.

Commissioner Zapotosky asked if there was any further discussion.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	No
Commissioner Vicites	Yes
Treasurer Danko	Yes
Chief Deputy Controller Wrona	No

## **MOTION CARRIES 3 - 2**

Commissioner Zimmerlink stated this was a long drawn out process and obviously you look to RFP's for the purpose of not only cost-wise, but also what other individuals and consultants can bring to the table.

Commissioner Zimmerlink stated she is not surprised it turned out this way; actually there was always that question of whether or not Morrison Fiduciary Advisors were paid enough and it was an exercise in futility and now it is unfortunate that the Board could not look at it in a different manner; there were many good consultants and different ideas and she feels the Board should have taken another approach and she emphasized to Frank Burnette to not take it personally.

Commissioner Zaposky stated to Frank Burnette that he has expectations of him and his firm and hopes he will live up to those expectations. Commissioner Zaposky informed Frank Burnette that if he does not, he will be the first one to step up and tell him he is not pleased.

### **Let the record reflect that Commissioner Zimmerlink left the meeting at 10:55 a.m.**

Commissioner Zaposky stated that the Board has seen the market take a different turn and he is guilty of first-term-Commissioner trauma to the County's Pension Plan and he has never experienced anything like this before, and the Board is looking for solutions and sometimes that solution is no further than your backyard; therefore, he does embrace this contract. Commissioner Zaposky stated he felt the other firms brought unique aspects, but he did not feel the Board is ready for that; he has discovered in his 2 years as a Commissioner that he is more of a traditionalist and sometimes weathering the storm is better than trying to drive through it and he is looking forward to a good approach of managing our Pension Plan, and nothing personal to anyone else, but he feels the right decision was made and the numbers will bear that out; he hopes the descending votes will understand that as the numbers bear out a very solid return by the County in the next 2, 3, or 4 years under Frank Burnette's guidance and leadership.

Commissioner Vicites stated that from this whole process the Board has learned that we have the right foundation of what we are doing, but we may need to enhance and improve it and Frank Burnette has that same feeling where to take the Fund and how to improve it.

Frank Burnette thanked the Board and stated he will do everything he can to meet the Board's expectations and satisfy all five trustees and their supporting staff and hopefully they will be successful and they will definitely make their best effort.

### **Please note the Board went out of the Agenda order to Item # 16**

#### **16. Presentations**

##### **Hay Group – Actuary – Via telephone conference call**

Frank Burnette informed the Board that Hank Stiehl, Actuary of the Hay Group, is prepared to make an ARC

estimate for next year. Frank Burnette stated that each year they go through all the financial analysis at the actuarial level and look at their assumptions; there are so many things that have changed from last year to this year; primarily inflation is zero or negative and some of the State legislation which has passed has steered some of the municipalities toward a different valuation method and he is prepared to make an estimate somewhere around \$1,050,000 total ARC for the calendar year coming forward.

Commissioner Zapotosky stated to Hank Stiehl that the Board realizes they have a requirement regarding the ARC payment and at this point in time financially we have to look at the budget and last year was a shock. Commissioner Zapotosky stated that obviously the Board wants to make sure the Fund is protected for our workers and retirees, but also they have a concern for the taxpayer.

Commissioner Zapotosky stated he has no problems if the Board goes with the low end and contribute \$1,050,000. Commissioner Zapotosky inquired of Hank Stiehl if that number is doable.

Hank Stiehl responded that yes, that is an estimate and they came up with that number by changing three items; basically they would take the asset valuation method in Act 44 that just passed. Hank Stiehl informed the Board that if the Board does that, it makes the actuarial value of assets a little over \$47 M as opposed to a little over \$42 M if the Board would use the current method we are using.

The second item would be to move to the entry age funding method from the arrogate funding method. The reason this makes your ARC payment lower is basically because some of your liability you are calculating the accrued liability that you don't do under the aggregate and you are comparing that to your assets and when you subtract the two you come up with what is called unfunded actuarial accrued liability, which is calculated in the front of your report on Schedule A. Hank Stiehl informed the Board that the max created by that method in their profession under Act 205, when you first move to that method you can take it unfunded, once you define the actuarial accrued liability you can take that unfunded and amortize it over 30 years; however, you don't have to amortize it over 30 years.

Frank Burnette interrupted Hank Stiehl and asked the Board members if there was anyone who was unreceptive to an ARC payment of \$1,050,000.

Commissioner Vicites stated he is never receptive to spending that much of the taxpayer's money, but the Board has to be fiducially responsible as well.

Hank Stiehl informed the Board that no matter what they do today to lower it, you're not really saving the money but pushing it to the cost of the future.

Commissioner Zapotosky stated that from a standpoint of budgeting and taxpayer purposes, it's fiscally responsive.

Hank Stiehl responded that these things that are being discussed are reasonable, not unreasonable.

Frank Burnette asked Hank Stiehl to hold for a moment, as Commissioners Zapotosky and Vicites were about to leave and he wanted to bring some things to their attention.

**Other Items of Discussion:**

Frank Burnette informed the Board he has a proposed Investment Policy Statement which upgrades what he is doing with many discussion points.

Frank Burnette stated he feels the Fixed Income Managers are material and there is an issue with U.S. Asset/BlackRock and the Federated Investors have an aggressive proposal to make.

Frank Burnette suggested having these firms make their presentations now, but in the absence of 4 board members there would not be a quorum. Frank Burnette asked the Board members present if he could ask them to maybe come back in December and the Board will spend more time on the presentations and this Investment Policy Statement.

Commissioner Vicites directed Frank Burnette to have the firms make their presentations today since they are here as he did not want to have them come back.

**Please note the Board went out of the Agenda order to Item #3 through Item #13**

**3. Approve the August 19, 2009 meeting minutes**

Moved by Commissioner Zapotosky, seconded by Commissioner Vicites to approve the August 19, 2009 meeting minutes.

The vote was:

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

**MOTION CARRIES UNANIMOUSLY**

**4. Authorize payment of actuarial fees to the Hay Group**

Moved by Commissioner Zapotosky, seconded by Commissioner Vicites to authorize payment of the 4<sup>th</sup> quarter 2009 actuarial fees for the period of October 1, 2009 to December 31, 2009 to the Hay Group in the amount of \$6,261.00.

The vote was:

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

**MOTION CARRIES UNANIMOUSLY**

**5. Authorize payment of management fees to Sector Capital Management**

Moved by Commissioner Zapotosky, seconded by Commissioner Vicites to authorize payment of the 3<sup>rd</sup> quarter 2009 management fees for the period of July 1, 2009 to September 30, 2009 to Sector Capital Management in the amount of \$7,188.73.

The vote was:

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

**MOTION CARRIES UNANIMOUSLY**

**6. Authorize payment of management fees to FNB Wealth Management**

Moved by Commissioner Zapotosky, seconded by Commissioner Vicites to authorize payment of the 3<sup>rd</sup> quarter 2009 management fees for the period of July 1, 2009 to September 30, 2009 to FNB Wealth Management in the amount of \$6,529.32.

The vote was:

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

**MOTION CARRIES UNANIMOUSLY**

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

Moved by Commissioner Zapotosky, seconded by Commissioner Vicites to authorize payment of the 3<sup>rd</sup> quarter

2009 management fees for the period of July 1, 2009 to September 30, 2009 to FNB Wealth Management/GWK in the amount of \$8,009.66.

The vote was:

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

**MOTION CARRIES UNANIMOUSLY**

**8. Authorize payment of management fees to CIM**

Moved by Commissioner Zapotosky, seconded by Commissioner Vicites to authorize payment of the 3<sup>rd</sup> quarter 2009 management fees for the period of July 1, 2009 to September 30, 2009 to CIM in the amount of \$5,946.20.

The vote was:

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

**MOTION CARRIES UNANIMOUSLY**

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

Moved by Commissioner Zapotosky, seconded by Commissioner Vicites to authorize payment of the 3<sup>rd</sup> quarter 2009 management fees for the period of July 1, 2009 to September 30, 2009 to U.S. Asset Management, Inc. /BlackRock in the amount of \$3,426.20.

The vote was:

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

**MOTION CARRIES UNANIMOUSLY**

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

Moved by Commissioner Zapotosky, seconded by Commissioner Vicites to authorize payment of the 3<sup>rd</sup> quarter 2009 management fees for the period of July 1, 2009 to September 30, 2009 to Federated Investors, Inc. in the amount of \$6,867.31.

The vote was:

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

**MOTION CARRIES UNANIMOUSLY**

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

Moved by Commissioner Zapotosky, seconded by Commissioner Vicites to authorize payment of the 3<sup>rd</sup> quarter 2009 management fees for the period of July 1, 2009 to September 30, 2009 to National City Bank in the following amounts:

CIM	\$ 809.69
FNB	\$ 875.21
Federated Investors	\$1,279.25
Sector Capital	\$ 959.32
US Asset/BlackRock	\$ 821.26
FNB/GWK	\$ 696.03
Delaware	\$ 709.19

The vote was:

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

**MOTION CARRIES UNANIMOUSLY**

**12. Authorize payment of quarterly consulting fees to Morrison Fiduciary Advisors, Inc.**

Moved by Commissioner Zapotosky, seconded by Commissioner Vicites to authorize payment of the 3<sup>rd</sup> quarter 2009 consulting fees for the period of July 1, 2009 to September 30, 2009 to Morrision Fiduciary Advisors, Inc. in the amount of \$4,611.61.

The vote was:

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

**MOTION CARRIES UNANIMOUSLY**

**13. Authorize payment of advertising fees to the Herald Standard**

Moved by Commissioner Zapotosky, seconded by Commissioner Vicites to authorize payment of advertising fees for RFP #09-02 for a pension plan investment performance consultant to the Herald Standard in the amount of \$57.47.

The vote was:

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

**MOTION CARRIES UNANIMOUSLY**

**Let the record reflect that Commissioner Zapotosky, Commissioner Vicites and Chief Deputy Controller Wrona left the meeting at 11:05 a.m.**

**Please note the Board went out of the Agenda order to finish Item #16**

**16. Presentations (Continued)**

**Hay Group – Actuary – Via telephone conference call (continued)**

Frank Burnette informed Hank Stiehl that he felt his comments were well received by the Board and he should proceed as he described and thanked him for his time.

Mr. Danko informed Frank Burnette that there no was no quorum, but he was willing to stay and listen to the presentations.

### **U.S. Asset / BlackRock**

Frank Burnette stated the Fund had a manager (MDL) that blew up and ceased to do business and forced the Board to either have an unsupervised account or make a non-traditional decision to move money to an existing manager with a product that the Board had not necessarily put out an RFP for. The presentation came in as an index solution with a very low fee schedule and it would be a holding place for those funds until the Board did an RFP later or whether it was just a long-term, low fee solution to index the fixed income account.

Frank Burnette stated that based on the fact it was an index account, an RFP was not necessary nor considered other proposals. Frank Burnette stated that after a year and a half, the account has not necessarily generated index-like returns. Frank Burnette informed U.S. Asset that he has not studied the performance numbers totally through October 31, 2009, but in all fairness it has not produced index-like returns from a volatility point of view, nor has it's overall return matched the benchmark according to his calculations.

Frank Burnette stated the Fund also has another fixed income manager, Federated Investors, Inc., who has done an extremely good job and they feel they should be the sole fixed income manager at a very low fee schedule for the Fund. Frank Burnette informed the representatives of U.S. Asset Management that this is the discussion that will be taken place with the Board members and he felt they should have this information.

Gregory Volitich, President & CIO, Sarah Wilson, 1<sup>st</sup> Vice-President & CCO, and Thomas B. Kinney, Sr. Vice President of U.S. Asset Management distributed their 3<sup>rd</sup> quarter report for 2009 and went through the booklet explaining their performance to date.

Frank Burnette asked Gregory Volitich to send him their updated figures through November 2009, along with their credentials for BlackRock. Frank Burnette explained the Board members asked that this information be brought to them in the December meeting, but to have them do their presentations today as opposed to having them come back for the December meeting. Frank Burnette explained that performance is not their only hurdle, but they should make the argument that their firm has great credentials and also has a great long-term track record.

Sarah Wilson informed the Board that there was restructuring at U.S. Asset; therefore, the person who chose BlackRock is no longer with the firm. Sarah Wilson also stated that there was one quarter since inception that they were below the market, and it has done extremely well year-to-date.

### **Federated Investors, Inc.**

Frank Burnette stated that Federated Investors has performed in the top percentile consistently since they were hired and they will discuss that as their assets under management increased, they would offer an additional fee

schedule concession. Frank Burnette stated that most importantly, they will discuss adding some other securities to this Fund that would be considered high yield or international bonds, basically in the bond world, more advanced fixed income products that they feel will add some value to the Fund and provide some more diversification.

John T. Gentry, Vice President & Portfolio Manager, and Jed Robie, Marketing Representative, of Federated Investors distributed their Investment Review for the period ending October 31, 2009 and went over the booklet with the Board member present.

The above representatives of Federated Investors also left for the Board members their presentation booklets for the Board's review at the December meeting.

#### **14. Distribute Hay Group's letter of August 18, 2009.**

This letter was in each Board member's packet of information for review at their convenience.

#### **15. Distribute Federated Investors, Inc.'s Investment Review Booklet for the 3<sup>rd</sup> quarter 2009**

The booklets were in each board member's packet of information to be reviewed at their convenience; however, the members of Federated Investors discussed this booklet in their presentation and left them for the Board to review at the December meeting.

#### **Other Issues**

Frank Burnette, Treasurer Danko, and Betty Stutzman of the Controller's office discussed dates for the December meeting. December 9<sup>th</sup> and December 16<sup>th</sup> were the dates that were chosen to present to the Board for their availability. Frank Burnette and Betty Stutzman stated they would both send an e-mail requesting the Board members' availability.

#### **19. Public Comment**

Let the record reflect there was no public comment.

#### **21. Adjournment**

**Treasurer Danko motioned to adjourn the meeting at 11:58 a.m.**

