A meeting of the Retirement Board was held on Wednesday, October 29, 2008 at 9:30 a.m. in the Boardroom of the Commissioner's office.

Commissioner Zimmerlink called the meeting to order at 9:45 a.m.

1. Roll Call

Roll call was taken and the following members were present:

PRESENT:

Angela Zimmerlink, Commissioner
Sean P. Lally, Controller
Robert Danko, Treasurer

The following members were absent:

ABSENT: Vince Zapotosky, Commissioner
Vince Vicites, Commissioner

2. Public Comment

Let the record reflect there was no public comment.

3. Discuss the state of the pension fund and the possible selection of a large cap fund manager

Commissioner Zimmerlink stated for the record that today a prison board meeting was held prior to this meeting whereas both Commissioner Zapotosky and Commissioner Vicites were available; however, they indicated to their Administrative Assistants they had to leave and therefore are not present at this retirement board meeting. Commissioner Zimmerlink informed the members that Frank Burnette, the fund's consultant, indicated he would be available by telephone for a meeting; therefore this meeting was called because of the importance of selecting a large cap fund manager. Commissioner Zimmerlink stated interviews were done several weeks ago and as Controller Lally pointed out, everyday that we do not take action can affect the pension fund.

Commissioner Zimmerlink stated that the state of the pension fund is also to be discussed and Controller Lally has some voluminous information for the Board. Commissioner Zimmerlink stated she feels that no official action should probably be taken unless it is detrimental to the fund for not doing so.

Treasurer Danko stated he feels he would like to have the entire Board here to make a decision, which was concurred by Controller Lally and Commissioner Zimmerlink agreed as well.

Treasurer Danko stated he would like all Board members to be available when pension costs are distributed in order to prevent Board members from stating they never received the information.

Controller Lally stated he did some data bases with numbers that are relevant to the pension fund, and possibly some different ideas with everybody's approval, he has no problem handing them out when the time comes. Commissioner Zimmerlink stated that actually Controller Lally's spreadsheet is dated October 24, 2008, listed as confidential, and is just a revised estimated pension cost, and she sees no reason why they cannot receive the information now. Commissioner Zimmerlink stated she feels the other two commissioners should be at this meeting, but having Controller Lally distribute this information now gives her an opportunity to be more informed.

Controller Lally stated one thing he wanted to touch on, and he will reiterate this to the other Commissioners, is the breakdown in their packet of information that states County class and managers; that basically is all the counties in Pennsylvania, the value of their pension fund as of 2007 year end, and the number of managers they have for said fund. Controller Lally stated he cannot put a discernable finger on why some funds have multitudes of managers and other funds do not, but if you look at the 4th class counties (the same as Fayette); most of them have more money than Fayette, with less fund managers. For instance Beaver County has $193M, which is triple what Fayette has in its pension fund currently, and they have 3 fund managers. Butler County has $105M with 4 fund managers; Cambria County has $70M with 7 fund managers; therefore, is Fayette County being consistent having 7 managers with $48M is the question he wants to bring to the Board as he does not have an answer for that question. Controller Lally stated he thinks the fund may be over-managed, because the second page on his spreadsheet shows that in 2007 the Fund's managerial fees were $323, 784.44, which was an increase over the previous year when there were 5 managers of almost $80,000.00. Controller Lally stated there are fluctuations in the amount of managerial fees because it is determined based on the end of year volume, the amount of money in the fund and various other factors; therefore, there are variations. Controller Lally stated the fee structure could absolutely be reduced with 2-3 managers, and it would be a way to save money as it would be a direct reduction in cost because with each manager comes different fee structures, different basis points, and more costs.

Commissioner Zimmerlink questioned Controller Lally on the procedure to reduce the number of managers. Controller Lally responded he would have to discuss this with Frank Burnette, but the best way to do this would to pick the best performing managers at this present time.

Let the record reflect that Frank Burnette of Morrision Fiduciary Advisors, Inc. was teleconferenced at this time.

Commissioner Zimmerlink informed Frank Burnette of the members present which did make a quarum, and it was decided no official action would be taken on the selection of the large cap fund manager because it was the consensus of the present board members that they felt the other two commissioners should be present as well. Commissioner Zimmerlink also informed Frank Burnette the Controller has given information on the 4th class counties and number of managers.

Controller Lally informed Frank Burnette that he took the data from the Controller's convention, based on pension fund assets ending fiscal year 2007 versus the number of managers that are managing that fund. Controller Lally stated that there is no rhyme or reason as to the number of managers versus the monetary value of the fund; in the 4th class counties that are in comparison, i.e., Washington County has double our assets with 6 managers, Schuylkill has $84M in funds with 6 managers, Cumberland surprisingly has $108M with 3

managers. Controller Lally stated the list varies, Cambria County with $170M in management with 7 managers. Therefore, there doesn't seem to be a rhyme or reason as to how we arrived at 7 managers for our fund and if it's the most effectual means of management for our fund this hasn't been shown to him. He also constructed the Dow Jones Industrial average closing numbers for each fiscal year on the 31st from 00 to present, and basically the market had some fluctuation over the periods of 03, 04, and 05, but it was very miniscule when you look at the moving average. In those periods of time, our pension fund did not increase in value, but what did increase was the number of managers and the number of fees. In our drawdown structure, it also has been increasing over the years, and he as Controller is concerned about this. Controller Lally stated he is open for suggestions or possible means to try to recapture some of the tremendous loss the fund has had this year.

Commissioner Zimmerlink stated when she took office in 2004, there were 3 fund managers and the managerial fees were around $220,000; by the end of 2004, fund managers were increased by 2 additional managers and the fees were less ($215,000) and the fund kept 5 managers until the year 2007. Commissioner Zimmerlink asked Frank Burnette to bring Controller Lally up to speed as to what the rhyme or reason was for increasing the number of fund managers and also explain if there is a consensus of the Board that we would want to reduce the number of managers and how to go about doing that if it is possible.

Frank Burnette stated when calling other counties and asking the number of managers they have, one thing that gets overlooked is how many investment styles they may have; it is very possible they may have an investment manager that may be doing large cap equities, foreign equities, fixed income, and small cap equities; therefore, one manager can be doing more than one style. Controller Lally stated that is the point he is bringing to bear, is it in the Board's best interest to have firms that handle small cap, large cap, foreign equities, or is it better to have it housed under one investment plan; for example Lawrence County has $37M with one manager, and one of the larger counties Lackawanna has $98M with one manager, which is Merrill Lynch.

Frank Burnette stated he knows Lawrence County fairly intimately and he knows that situation. Merrill Lynch is the consultant in Lawrence County and Lawrence County through Merrill Lynch then has several fixed income managers and several equity managers.

Commissioner Zimmerlink stated to Frank Burnette that her understanding was that Frank's reasoning was to have the fund diversified and have small, mid and large cap managers, because that is what their expertise is in and apparently the Board accepted it; whereas, if you had a manager that did perhaps both large and small they were not honed in on one particular type of investment and we may not get the intensity of their experience and professional opinions. Commissioner Zimmerlink questioned Frank Burnette if her understanding was accurate.

Frank Burnette stated informal history that there was once a time when National City ran all of the money and they did not do very well, they were persistently behind the indexes by a couple percents and this went on for a long period of time. The trend in county government, going back 10-20 years ago is to have one manager that ran the whole fund, but the industry changed and it became less feasible for one manager to have the skills to run a diversified program because their specialty was somewhat limited. To make a long story short, the whole trend in the County market place was to diversify. Initially Fayette County started to diversify into 3 different managers that were different from one another. At that point, the Board had no consultant, and Frank Burnette was appealing to be one of the managers when he worked for RRZ. Commissioner Zimmerlink stated she wasn't here at the time, but Scott Dascani was the consultant. Frank Burnette stated he is talking pre-Scott

Dascani. The County kept National City, hired RRZ and hired FNB. About this time, Mark Roberts came into office and after interviewing all the firms and picking these 3 firms to serve the fund, frankly based on relationship; Mark Roberts wrote an investment policy statement that told all the managers to manage money the same way. The County had 3 different investment managers, but each manager owned blue-chip domestic stocks, and if you look at all three portfolios, they all owned the same stocks.

Commissioner Zimmerlink stated this was before her time, but in all fairness to the former controller, he may have written an investment policy, but unless it was agreed upon by the full Board it would not have gone through. Frank Burnette informed Commissioner Zimmerlink it was agreed by the full Board and was imposed. Frank Burnette stated it did not hurt RRZ, because they were always intended to be that core blue-chip stock manager, but he felt it deprived the Fund of any small cap, foreign equity, value and growth oriented investing. Frank Burnette stated this was not catastrophic as the fund did reasonably well for 2 to 3 years; therefore, that division of assignment and diversification actually worked out well for Fayette County.

Frank Burnette informed the Board that the County then hired a consultant, Scott Dascani, which also was a trend in the County marketplace. Frank Burnette feels that Scott Dascani originally came in as a broker driven consultant; but there also was some desire to use managers that also produced brokerage commissions, and at that point the fund was restructured further and Sector Capital, Muhlenkamp, and Federated were hired. Frank Burnette stated that was the first time the fund went to more style specific managers and that created more diversification of investment style. Frank Burnette stated the text book answer on why you diversify investment style as opposed to having all managers managing to a large domestic blue chip stock portfolio is simply it creates more diversification, even though 20 and 30 years ago people thought the only thing to do was to invest in blue chip stocks, there were periods when blue chip stocks considerably underperformed, i.e., in the years 2000, 2001 and 2002. The trend in the market place was to substantially diversify, so one manager was clearly growth, middle of the road, and one was value. In fixed income, there were two different styles, one was more of an interest rate anticipation style and the other was much more of a credit risk corporate bond style. Therefore, you always had some managers that were doing well, some were trailing, but the volatility of the fund on an annual and quarterly basis was muted so the returns were more steady and more fiduciary acceptable and explainable. Frank Burnette stated when he came in he made an additional diversification move to add small cap and foreign equity, because historically they have been slight out-performers versus domestic large cap, but more so, fiduciary speaking that created further diversification and further smoothing of the returns. Frank Burnette stated that strategy is probably universally accepted in the institutional investment market place, but it doesn't mean it is right for Fayette County as there are ways to do it with fewer managers.

Controller Lally stated that was his next question and he will put this in the most simplistic of terms. Controller Lally stated his 401K is managed with Wachovia and he has elections that can be made towards small cap, large cap, foreign equities and different choices of that nature; but it is all housed under one particular manager with one particular fee structure. Any of the moves within that fund do not cost more; therefore, Controller Lally questions with seven managers, incurring seven different sets of fees, could one manager handling large cap growth (maybe that's 3 different funds that are large cap based) would our fee structure decrease by having one manager handling 3 of our entities versus having 3 separate managers?

Frank Burnette clarified Controller Lally's question in order to make sure he understood the question correctly as being does having 7 different investment managers cause increased fees to the fund as opposed to having 3

investment managers that have multiple assignments. Frank Burnette responded that generally speaking, an institutional size of assets under management at the bare minimum is $5M, but at $10M per manager assignment of the fee schedules become very competitive, no matter how many managers; therefore, Fayette County has 5 positions where you are asking the managers to run small pieces of money and it puts pressure on the fee schedules. But for some reason Fayette County's fee schedules are some of the lowest he has ever encountered for a plan this size. In your large cap space where you are running money at about 40 basis points, he thinks that is a $10-$20M rate, so he doesn't think having 3 large cap managers cost the County more money; but in small cap and foreign where there is a total of $6M split between two managers, those fee schedules are a little higher than what could be achieved with more money with those managers. You can't void small cap or foreign managers in an effort to save fees, because the textbook says they are very important assets to have for diversification. In the fixed income area, the County has two managers and both of those fees are very reasonable. The County might be able to get a slightly better fee schedule, but he feels the County is getting a very significant institutional fee on both of those managers. If the County went to one fixed income manager and two large cap equities mangers, the County could conceivably reduce management by two managers and maybe save a little in fees. The problem is to keep properly diversified between growth and value, but you can't give up growth and just keep value. You don't want to give up Sector as they are doing the best, so you could conceivably have terminated Sector and then rolled their money equally between growth and value and the fund would be properly diversified between the two, but Sector is your best manager and he doubts the Board would do that. If the Board gets rid of FNB and doesn't have a growth manager, the Fund will be materially over-weighted in value which may or may not work out. If the County got rid of FNB and Muhlenkamp and hired a second large cap core manager, the Fund would at least be properly allocated, but you now have two managers holding a lot of the same stocks.

Commissioner Zimmerlink inquired if what she is hearing is that Frank Burnette believes having 7 investment managers, having 3 types of investment style being growth, value and core, with our present type of funds at this time, we should keep the status quo. The Board could make some changes, it may or may not have a savings in the fees itself and not only by looking at the cost of perhaps the managerial fees, you are looking more at perhaps taking away from their more conscientious review and expertise of how they manage a fund.
Frank Burnette responded that yes, that is the case.

Frank Burnette stated they did a fee schedule survey on March 31, 2008 and they will do another on March 31, 2009. He is basically using March 31 valuations where the fund had more money, but the best way to look at fees is not total cost, but fees as a percentage of the total plan assets.

Commissioner Zimmerlink stated that overall Frank Burnette should answer the question are the managerial fees conducive to the number of funds the County has.

Controller Lally stated that looking at the historical dial from 2000 to present, in 2000 it was at 11,000; at the end of 2007 it was at 14,000; therefore, during that period of time whether you had 3 managers or 7, there was growth and always a positive direction. On the 22nd of this month, the Fund is sitting at 8500 in the Dow; we have only maintained 61% of the value from the previous year. Controller Lally stated that at this point, he starts to evaluate the need for 7 managers with more fees; and he understands everyone is taking a hit and he is not turning a blind eye; but when its an up market and you are making money and you are not having ARC contributions, and things are going well, 7 managers seems like a good decision; however, when the market

turns sour, it doesn't seem like such a good decision to increase fees during economic trouble.

Frank Burnette stated if it helps Controller Lally on a fee schedule basis, your total fees in this count are 42 basis points, which is very competitive for a $38M fund. At the current market value, obviously fees have dropped dramatically; the total fees paid now are $158,000. Controller Lally stated to date the County has paid $183,469.66. Frank Burnette stated if you take the 42 basis point rate times the current market value of October 20, 2008 ($37,632,000.) you are only paying $158,000 in investment management fees. Frank Burnette stated there is one quirk to consider when calculating investment fees, if they are using a mutual fund approach where the management fee is charged to the fund assets and not paid by invoice; it's possible that your accounting records won't acknowledge the fee that was incurred on that particular investment. Frank Burnette also stated he did not know if the County had any mutual funds in that scenario or not historically, but when he does that calculation even if fees are charged to a mutual fund approach, he still pulls the fees out of the mutual fund and reports them in the total investment management fees. But because the County did not write a check for a fee schedule, he still thinks it's important to capture that in the analysis.

Frank Burnette stated he knows BlackRock and Federated are in basically in co-mingled products and he has to find those fees and report them to the Board and he is not sure the County is writing a check for them.

Controller Lally inquired of Frank Burnette that as our advisor, what his best recommendation is at this time. Controller Lally stated that people are gravitating towards him inquiring if their pension is safe and are they going to get their cost of living increase. At this point, as the Controller of this County, what does he say to the dismal performances economy based, but what is his recommendation on how to proceed.

Frank Burnette discussed the response that as trustees they should use when talking to employees, the general public and the newspapers. Frank Burnette listed the following talking points which he feels are easy to capture.

1. What happened to the County's fund happened to all funds and simply reflects the economy that we are all faced with. The County's fund did not have an over-weighted position in equities, exposure to any of these faulting financial institutions, any hedge funds or venture capital or any derivatives that has caused the majority of the nightmare. Generally speaking, the County's fund was invested in safe blue chip stocks and investment grade bonds; therefore, it is important to somewhat insulate the trustees' performance and the fund's performance and not let anyone point a finger to the Board that they did not do a good job because what is going on here is the general market.

   Commissioner Zimmerlink stated for this talking point, if the Board would say the County's funds were not similar to the type of actions that occurred throughout the market, meaning a hedge fund, venture capital, etc., and instead the County was investing in safe blue chip and investment grade funds, then why did the County have the same effect?

   Frank Burnette responded the answer would be that the fund year to date is down about 25%, the markets are down 40%, and some segments of the market are down 80%. Frank Burnette stated that putting it in common terms, the 25% that the County's fund is down is driven by the economy, not Wall Street.

2. The County's employees are 100% guaranteed in the obligation of this pension fund to them when they retire. The County is financially liable to fund this; therefore, the County and the taxpayers may find themselves with some additional responsibilities that were not intended or planned. Any employee who is a beneficiary and has properly accrued benefits in this plan, is 100% guaranteed; the fund guarantees it, the County guarantees it, and frankly in the bizarre case that Fayette County would file Chapter 9, which is effectively bankruptcy for a municipal entity, all the properties within Fayette County are pledged to payment of the County debt which would include the pension fund. Frank Burnette stated he understands why employees are concerned, but they have a guaranteed annuity.

   Controller Lally inquired of Frank Burnette if there were any instances when somebody's pension check could actually reduce; if the number that is agreed upon at the date of their retirement; their permanent number minus the cost of living allowances over the life of their benefits. Frank Burnette responded that in some doomsday scenario it might be possible, but right now there is nothing the County Commissioners or the County Pension Board could do with that respect. County law and federal law dictates that any benefit previously accrued cannot be amended; however, if the County filed Chapter 9 a bankruptcy judge could order anything, including a reduced level of benefit, but that is a very extreme case and that would only be necessary if the real estate in Fayette County did not serve as sufficient collateral for those liabilities. The second place where potentially a change could occur is if the PA state legislature revised Act 96 and on a forward going basis he doesn't think they are able to go backwards and change anything; therefore, any retiree who is receiving a check pretty much gets it. It is possible the state legislature on a forward going basis could change the benefit formula (the percentage employees contribute or the age to retire could change).

   Commissioner Zimmerlink asked Frank Burnette if it is a requirement of our 4th class county code to fully fund the pension. Frank Burnette responded that yes, the County is required, but he doesn't think there is a penalty if the County doesn't. If the County does not fund the pension fund for its reimbursable employees, then you can't be reimbursed for the expense. Frank Burnette stated the County is not expected to have the pension plan fully funded at all times; but the County is expected to make contributions as the actuary defines, the County will always be closer to being fully funded. Commissioner Zimmerlink asked Frank Burnette that at the end of 2007 versus today, what the value is of the pension fund. Frank Burnette responded that you have to remember the County is also paying out benefits that reduce the fund balance and at the same time is reducing liability; therefore, the fund is currently at $37, 632,000 and in 2007 the fund was $48,500,000 which is about 25% less. Frank Burnette stated that generally speaking, the County pays out more benefits than the employees put in through payroll withholding; therefore, there would be a positive adjustment before the number is final. Controller Lally stated he did calculate the retirement payroll; in 2000 it was $80,469 monthly and January of 2008 it was $123,225 monthly; therefore there has been an increase in expenses coming out of the fund. Controller Lally also stated that this year, our drawdown is estimated to be $1,345,000; but in 2007 the fund had $1,300,000 and $1,200,000 in 2006; therefore, costs are staying relatively constant.

   Frank Burnette asked Controller Lally if he was also taking into consideration that periodically employees will ask for and receive a lump sum distribution. Controller Lally stated that yes that was taken into consideration. Commissioner Zimmerlink stated that at the end of 2005 the drawdown was around $675,000; whereas 2006, 2007 and 2008 drawdowns are $1.2M, so that reflects that more

employees retired. Controller Lally stated that he was told by his Chief Deputy that in one year someone took out over $500,000 from the fund as they were one of the longest sitting county employees of 38 years. Frank Burnette stated that when an employee takes $500,000 of assets, the County is reducing it's liabilities by $500,000 at the same time.

Commissioner Zimmerlink asked Frank Burnette if the employee contribution rate could be increased for 2009 and would that have a positive effect on the fund. Controller Lally stated there is currently a 10% maximum before taxes, and anything over 10% is taxed. Frank Burnette stated he cannot answer that question, the actuary is scheduled for the November meeting, and specifically those questions can be directed to him. Frank Burnette stated that unfortunately, statutorily the actuary defines what the contribution rate is and they are very picky about it.

3. Frank Burnette stated that based on the October 23, 2008 market values, the County has an estimated actuarial required contribution of $900,000 next year. Controller Lally stated that amount is actually less than the amount that Hank Stiehl of the Hay Group originally told him via the telephone that by doing a quick calculation it would be $1.2 M. Commissioner Zimmerlink stated the amount may even go lower, as on the expenses and revenues side, monies are coming in and going out on a daily basis; therefore, if a budget is proposed and adopted in early December, that means they have not calculated any of the expenses for the month of December and at times even November.

   Frank Burnette stated the Board can respond by stating something to the effect that the County recognizes that the fund had a bad year, and we are going to increase our contribution and we are pledging to ensure that the County makes the required contribution to keep the fund healthy. Frank stated that he felt that if the Board is going to follow through with talking point #3, the $900,000 has to be put in the budget somehow.

   Controller Lally asked Frank Burnette that at this point is it possible that he could devise a plan to show the Board tangible costs of reducing the managers by 2 and how would that impact the fund economically speaking as far as the fees being paid out. Frank Burnette responded that Federated Investors' fee is 30 basis points and the BlackRock fee is 25 basis points; if both of those managers were combined with BlackRock (25 basis points) and the County saves 5 basis points on $8M, it would be a savings of $4,000 per year.
   Commissioner Zimmerlink asked Frank Burnette if what he is saying is that it is not that much cost savings considering the work that would have to be done plus what the Board may be taking away from their individual oversight of the fund. Frank Burnette stated it is thoroughly immaterial.

   Frank Burnette stated in going to 2 large cap managers versus 3 managers, all the managers charge 50 basis points; therefore, even combining the managers you still have a 50 basis points fee schedule.

   Frank Burnette stated that per Commissioner Zimmerlink's question, if the Board did the reduction in managers and then asked the managers to lower their fees since there is more money involved. Frank Burnette stated if he could reduce the entire fund by 10 basis points, which is a 25% reduction in professional fees, then the 10 basis point fee schedule savings is only $37,000 per year. The fund's contribution is $900,000; the expected annual return of the fund is approximately $2.5M. Frank

Burnette stated if the Board is going to take time and effort on the pension fund, he feels the Board needs to work on something that has more of an impact than $37,000 a year, because there are other things that the Board does not spend time on that are a lot more material. Frank Burnette stated that the fact the entire fund is being run for 42 basis points is fiduciary speaking good.

Commissioner Zimmerlink asked Frank Burnette if he could categorize the 7 managers and the type of fund they manage as employees have asked who monies are invested with. Frank Burnette responded Federated is shorter term fixed income (intermediate); BlackRock is longer term fixed income which means BlackRock's assets can be as long as 30 years and Federated's assets can be as long as 10 years; Delaware Investment Advisors is the foreign equities manager; Gannet, Welsh & Kottler (GWK) is the small cap manager; FNB is the large cap growth manager; Sector Capital is the large cap core manager; Muhlenkamp is large cap value manager (which is being replaced).

Treasurer Danko asked if Muhlenkamp monies is only receiving interest and Frank Burnette responded he doesn't want to say anything that causes anyone on the Board to feel uncomfortable, but the fund has lost over $1M in staying with Muhlenkamp as they have underperformed in the last 12 months. They are still in large cap value stocks, and the 20-30 large cap value stocks they think are really good, have done horribly. Commissioner Zimmerlink stated that again the Board went through the process of changing and selecting a manager for the large cap fund, and she could make a decision today. As far as the loss of money, the Board talked about the process to go through the selection of the large cap fund manager and the full Board agreed to do it, and now decisions need to be made. Frank Burnette stated the answer to Treasurer Danko's question is that Muhlenkamp is still fully invested in their stock.

Controller Lally inquired of Frank Burnette what does U.S. Asset manage for the County. Frank Burnette stated that Muhlenkamp is a firm that doesn't have a really big marketing division, so they go to brokers and investment firms and tell them if they market Muhlenkamp's product, Muhlenkamp will share their fee with them. Commissioner Zimmerlink stated that U.S. Asset and Muhlenkamp are one and the same. Frank Burnette agreed with this and stated that FNB and GWK are one and the same and U.S. Asset Management and BlackRock are one and the same also; after the dual relationships, the other firms are direct relationships and they manage the money in-house.

Commissioner Zimmerlink inquired of Frank Burnette that if Muhlenkamp had not underperformed, would the County still be in their current ARC position. Frank Burnette stated that the ARC payment is due to 90% responsibility of Muhlenkamp's performance.

Controller Lally asked Frank Burnette who he was leaning towards for the large cap value manager. Commissioner Zimmerlink stated there is a quarum present even without the other two commissioners and they can sign off on who they want today, and ratify it at the next meeting. Frank Burnette stated that if this group had a consensus, he could go to that firm and try to get a fee schedule concession as it is better to get that negotiation before you vote for the firm. Commissioner Zimmerlink asked Frank Burnette if he couldn't get a better fee schedule on all of the firms. Frank Burnette stated that usually you go back to the firm and tell them the Board is favoring them and another firm, but the Board wants to take one more look at your fee schedule and tell them if they go at a lower basis point, the Board would be inclined to hire them.

Commissioner Zimmerlink asked Frank Burnette who he believes the other two commissioners are favoring and Frank stated Vince Zapotosky thought that the CS McKee proposal was good. Commissioner Zimmerlink questioned if Commissioner Zapotosky had a second choice, and Frank Burnette stated he never indicated a second choice.

Frank Burnette stated that Commissioner Vicites has said it would be really nice if we could use someone with a local orientation, and that basically says CS McKee and CIM.

Frank Burnette stated that originally he said he didn't think Sector was appropriate as they really don't do a value style for the County; he felt that Fifth Third and Allegiant were both in a fairly difficult financial condition and described them as being unstable. Frank Burnette stated that since Allegiant has merged with PNC, he would put them back on the table as being an acceptable choice, because PNC is a strong outfit. Frank Burnette stated that two out of the area firms, Robeco and Lazard, he felt they both made very good presentations, but he felt the Robeco firm was superior. In terms of the local firms that made really good presentations, Frank Burnette stated he felt CS McKee did fine and was better than CIM due to the fact they have more assets, people, etc. Frank Burnette stated he felt CIM would follow the benchmark in a disappoint manner and generate reasonable performance for the County.

Commissioner Zimmerlink confirmed with Frank Burnette that the local choice would be CS McKee and CIM, in that order, if it is decided to choose local. Frank Burnette stated he would put Allegiant second in that list as well. Commissioner Zimmerlink confirmed with Frank Burnette the local choices would be CS McKee, Allegiant, and CIM; and if not taking into consideration local it would be Robeco and Lazard. Frank Burnette stated he would disqualify Fifth Third because of organizational instability and Sector because they don't manage the style the County advertised for. Commissioner Zimmerlink asked Frank Burnette that not taking into consideration locality how would he choose the firms and Frank Burnette stated he would choose Robeco first; he would be hard-pressed to rank CS McKee, Allegiant and Lazard much differently from each other and then CIM; however, Frank stated all the firms are qualified bidders.

Commissioner Zimmerlink questioned Frank Burnette if Commonwealth Securities and CIM is the same firm to which Frank agreed. Frank Burnette also informed the Board that Steve Maslek who was previously with U.S. Asset is currently with CIM. Frank Burnette stated it is a small world and he gives the Board his most objective, straight forward research opinions, and he feels it is very important that this type of conversation is confidential and stays amongst the Board. Commissioner Zimmerlink stated each Board member brings something different to the table and that is why it is good to know what the other is thinking.

Controller Lally asked Frank Burnette if he could get Allegiant, CIM and CS McKee's numbers as of September 30, 2008 by the end of the week so a decision can be made at the latest by next Wednesday. Controller Lally stated he is being 100% honest that he had no idea until recently that the money was still being held by Muhlenkamp; he thought it was in a cash account. The explanation he had was they were a problem and he thought the Board had acted to get rid of them. Commissioner Zimmerlink stated when it was said they were a problem; it was looking at their figures, so the Board did take action to get rid of them by searching out another large cap fund manager. Frank Burnette stated the next time it is determined to terminate a manager, he is going to recommend to terminate the manager, sell the investments, and put it into an index fund that tracks the index they should be managing to so the Fund is insulated from poor performance, but are fully invested; therefore,

the Board is not on the clock to get this thing done quickly.

Commissioner Zimmerlink asked if there is anything that can be done now to move the money before we make a selection of a large cap manager. Controller Lally asked if there is anything that can be done to preserve that capital that is there now to give the Board a little more time to make a decision, because he feels that is in the Board's best interest; rushing into a decision at this point when the fund is 40% down in the Dow may not be in our best interest, but preserving capital definitely is. Commissioner Zimmerlink stated she is ready to make a decision now, but if Frank Burnette comes back with the information Controller Lally is requesting, it may change her mind. Commissioner Zimmerlink stated what can be done if anything to take the monies rather than keeping Muhlenkamp in control of the investment and putting it into a more safe account.

Controller Lally asked Frank Burnette what the possibilities are that the Board could move the monies into a T-bill account. Frank Burnette stated the problem with going from a fully invested position into T-bills, is that he doesn't know if the market is going to go up or down while we wait, but if the fund goes up 10% and this fund isn't invested, it is going to cost the fund $1M; however, if the market goes down 10% and we're not invested that saves the fund $1M, but Frank stated he doesn't like taking that type of risk.

Commissioner Zimmerlink stated that didn't Frank just say that the next time a fund manager is terminated, he would make the suggestion of moving the money somewhere while the Board was making these decisions. Frank Burnette stated yes he did, but Controller Lally suggested a T-bill account and what he is saying is if this is a Russell 1000 value manager, he would put it into a Russell 1000 value index fund, or an ETF. Controller Lally stated that is fine, he just used the T-bill account as a hypothetical situation.

Controller Lally inquired how the Board makes this happen. Frank Burnette responded someone from the Board would make a motion, it would be seconded, voted on if a quarum were present; that authorization would cause Controller Lally and himself to instruct Muhlenkamp to stop trading; 3 days later the custodian would sell the assets and the following day the money would be moved to the index fund that would be selected. Commissioner Zimmerlink questioned what index fund would be selected and who would be doing the selection. Frank Burnette stated he would make the selection with Controller Lally's concurrence, and most likely in all practical purposes pick a Vanguard fund or an ETF which is the equivalent of an index fund. Controller Lally stated a Vanguard fund is a good thing as he has that in his own personal investments and he has no problem with that.

Controller Lally stated the real question today is are the other Board members comfortable in making this happen at this meeting, minus the presence of the two other Commissioners. Controller Lally questioned Treasurer Danko and Commissioner Zimmerlink if they would be comfortable making this happen and they both responded yes.

Frank Burnette stated he will make a recommendation and the Board can act on it. Commissioner Zimmerlink stated the point is that the Board is present and they have fiduciary responsibility to the fund.

Frank Burnette stated his recommendation is to inform Muhlenkamp that they are terminated effective today and that they will be asked to cease trading effective today; once all the trades settle in 2-3 days, the Board will ask PNC or Muhlenkamp to liquidate those securities to cash and Controller Lally will be authorized to select a

Vanguard investment option with the concurrence of the consultant that reflects the Russell 1000 index and Controller Lally is authorized to sign and document anything necessary to implement this action.

Commissioner Zimmerlink stated this is Frank Burnette's recommendation and is he confident as the fund's advisor that by doing this, in the next 5 days the investment policies of Muhlenkamp isn't going to be such that they make a very positive jump in our fund. Frank Burnette responded he cannot say that, but he can totally insulate the fund from any further underperformance.

Treasurer Danko asked how the 30 day out of the contract works. Controller Lally stated once the Board has this resolution, Muhlenkamp is done and Frank Burnette agreed with this. Frank Burnette stated the Board will give them 3 days' notice, but if their contract requires something different, then the Board has to adhere to that contract and terminate them at the earliest possible time.

Controller Lally stated this will take the pressure off the Board in picking a fund manager immediately and will give Frank Burnette more time to get the Board actual numbers concurrent with October's debacle in the market. Frank Burnette stated also the entire contract review phase is no longer on a stop watch.

Commissioner Zimmerlink asked the Board if there were any other questions on this recommendation and there were none made.

Commissioner Zimmerlink moved to inform Muhlenkamp of their termination, effective today or at the earliest time provided under their contract and they are asked to cease trading effective today or at the earliest time provided under their contract and within a 2-3 day period PNC and/or Muhlenkamp will be asked to liquidate to cash and the Controller is hereby authorized to select a Vanguard investment option with concurrence which would be reflective of the Russell 1000 index value with the consultation of our advisor, which is Frank Burnette, and further the Controller is authorized to execute and file all necessary and required documents to implement this action. Seconded by Controller Lally.

The vote was:

Commissioner Zimmerlink	Yes
Controller Lally	Yes
Treasurer Danko	Yes

Motion Carries 3-0

<u>Other Items of Discussion</u>

Frank Burnette informed the Board that the fund has an investment policy benchmark where 60% equities are targeted, but the fund with all the market downturn is only 54% equities. This means the fund is over-weighted in bond and under-weighted in stocks, but if stocks were to start to make a recovery then that under-weighting would cost the fund relative performance; although frankly that under-weighting has helped the fund in relative performance in the last six months. Frank Burnette stated the question is should the Board rebalance to the policy, and if so, should it be done quickly, slowly, or very slowly.

Controller Lally responded that a lot of economists are saying the market is close to a bottom; traditionally when the market bottoms and you get a 1500 point increase over a period of time, what happens to the Dow Jones stocks during that time is they usually increase by 20% or more. Frank Burnette agreed with Controller Lally's statement; therefore, Controller Lally stated it would be foolish to have 6% deficiency in stocks and have an increased amount in T-bills because as the market rises, the bond value goes down. Frank Burnette expanded on that statement by saying the Board is really assessed with asset allocation decisions that are 3 and 5 year in time frame; therefore, any action taken by the Board in this regard would be judged on a 3 to 5 year basis and his recommendation that on a 3 to 5 year basis, the Board should do this. Frank Burnette also stated he is not saying this is the perfect time for this, but the fund is close enough that it should be done. Commissioner Zimmerlink suggested putting this on the agenda for the next retirement board meeting.

Frank Burnette wanted to discuss the money market switch that was made. Frank Burnette stated that on his recommendation and from receiving input from some members of the Board, Controller Lally moved approximately $122,000 out of a commercial paper money market into a treasury only money market. Frank Burnette stated he thinks the situation was extreme and that a meeting could have been held, with a vote by the entire Board, etc., but National City eventually has been relieved of their responsibility of running a bank, so there was certainly something going on. Frank Burnette stated if the policies and procedures need re-written and amended so it's clear what the Board consensus is, that is fine; however, in this particular transaction, he feels badly that Controller Lally is out on a limb and he wants the Board to ratify what he did or not ratify and then move the money back into the commercial paper where it belongs. Commissioner Zimmerlink stated that neither she nor Treasurer Danko have any idea what Frank Burnette is talking about.

Controller Lally informed the other Board members that Frank Burnette called him approximately 3 weeks ago when National City was in the possibility of going into a receivership, and he informed Controller Lally that some of the fund's money was in a position that it could not be regained quickly if National City had gone into this receivership as this money would have been tied into an escrow account. Frank Burnette explained to the Board that if the money market broke the buck, the Board would no longer have access to the funds to pay things such as retiree payroll and vendor invoices. Treasurer Danko informed the Board that he and Controller Lally had discussed this issue.

Commissioner Zimmerlink stated this is the first she has heard of this, therefore questioned what is the issue. Commissioner Zimmerlink questioned Frank Burnette if this is the same thing where the Chairman of the Board has the authority to authorize this and Frank responded yes it was. Commissioner Zimmerlink stated this is regarding an e-mail that Frank Burnette had sent to the Board, and the question is #1, why was this not discussed at the time of the retirement board meeting; also, Commissioner Vicites was out of town and he wanted to know why this was not discussed so the entire Board could understand it. Commissioner Zimmerlink stated that Frank Burnette e-mailed back stating that under the investment policy that the Chairman had the authority to authorize this move; which apparently he did and Controller Lally, after receiving that authorization, did the transfer.

Commissioner Zimmerlink stated the issue was not whether it was the proper transaction, but it was the method of the transaction. Commissioner Zimmerlink stated it first should have been discussed at the meeting, and second, after that investment policy had actually been passed, she had abstained on the vote because of some of

those issues. Commissioner Zimmerlink stated that Commissioner Vicites stated through an e-mail that he did not realize that was part of the investment policy, even though he did vote for it; but she did not know what his position is now. Commissioner Zimmerlink stated the Board will have to decide if it wants to modify that part of the investment policy statement, but it was by no means any negative directed towards the Controller for doing what he was authorized to do via an investment policy. Commissioner Zimmerlink stated the issue is whether that section should remain in the investment policy statement. Commissioner Zimmerlink also stated that even though a Chairman does not have any more responsibility than any of it's Board members, be it commissioners, retirement board, or prison board; therefore, if power is given to do something, then at the very least, pick up the phone, walk to another office, or send an e-mail informing all of the individuals who have that same fiduciary responsibility.

Commissioner Zimmerlink stated that obviously the Board wants Controller Lally to take whatever action he is authorized to do, and secondly, if it was the right thing to do financially, there isn't anyone who would disagree.

Controller Lally stated he felt there was ambiguity and he appreciates that Frank Burnette addressed the issue.

Frank Burnette informed the Board the reason this issue was not brought to their attention at the meeting on Wednesday, was because that at the end of the day there were not that many people present, but when he came in on Thursday morning and discovered that three money funds had broken the buck and there was total chaos, this was not on the radar on Wednesday afternoon. Commissioner Zimmerlink informed Frank Burnette that what should happen, through e-mail and/or phone call, all members of the Board should be informed.

Treasurer Danko stated that the Board is very fortunate to have Controller Lally and Commissioner Zimmerlink aboard with their expertise and he feels the Board has come a long way with the involvement of these 2 board members. Treasurer Danko stated he has been a Board member for a long time, and feels he knows a little, but he is not as well versed as they.

Frank Burnette stated that for what it is worth, of all his accounts, most of his trustees have limited knowledge about investing institutionally and they tend to defer to the consultant, but they also have an in-house person that they defer to as well. Frank Burnette also stated that to the extent that the Board recognizes that Controller Lally as someone who puts in the time and effort and who does the homework that when he and Controller Lally come to the Board, it is fairly well researched and that is really helping the process. Controller Lally stated he agrees, the process is moving better than it has, but there are areas that need worked out and he likes it that they come together as a board and come into agreement; but he is a little disenchanted that the other 2 board members are not present today because a serious decision was made today. Frank Burnette stated he would have loved to have them present today, but if they couldn't be here that's ok as long as they respect the fact that we were here and actions were taken on the fund; where it becomes counter-productive is when someone doesn't attend the meeting and decisions were made at this meeting and later the board member doesn't agree with the decision. Commissioner Zimmerlink stated she didn't think that in this instance that is going to occur.

4. Public Comment

Let the record reflect there was no public comment.

7. Adjournment

Controller Lally motioned to adjourn the meeting at 11:18 a.m. Treasurer Danko seconded the motion.