

A meeting of the Retirement Board was held on Wednesday, May 27, 2009 at 9:30 a.m. in the boardroom of the Commissioner's office.

Commissioner Zapotosky called the meeting to order at 9:36 a.m.

## **1. Roll Call**

Roll call was taken and the following members were present:

PRESENT:           Vince Zapotosky, Commissioner  
                  Angela Zimmerlink, Commissioner  
                  Vince Vicites, Commissioner  
                  Robert Danko, Treasurer  
                  Sean P. Lally, Controller

The following were also in attendance during the meeting:

ALSO PRESENT:    Sam Piccioni, FNB Wealth Management, Sr. Relationship Manager  
                      Michael Basile, FNB Investment Advisors, VP, Portfolio Manager  
                      Betty Stutzman, Administrative Assistant, Controller's Office  
                      Warren Hughes, County Manager (arrived 9:55 a.m.)

## **2. Public Comment**

Betty Stutzman, Administrative Assistant in the Controller's office, asked to have the following bills added to the agenda for approval of payment as these were received after the agenda was distributed:

Postage fees for the Retirement Fund from October 2008 to April 2009 for a total amount of \$616.23.

Advertising fees for RFQ #09-02 Retirement Fund Consultant, in the amount of \$244.14 to the Tribune Review.

Moved by Commissioner Zapotosky, seconded by Commissioner Vicites to amend the agenda to add the payment of bills as listed by Betty Stutzman, including the postage fees for the Retirement Fund from October 2008 to April 2009 for a total of \$616.23 and advertising fees for the RFQ for consultant in the amount of \$244.14 to the Tribune Review.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Controller Lally	Yes

Treasurer Danko Yes

**MOTION CARRIES UNANIMOUSLY**

**3. Approve the meeting minutes**

Moved by Controller Lally, seconded by Commissioner Zimmerlink to approve the February 18, 2009 meeting minutes.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Treasurer Danko	Yes

**MOTION CARRIES UNANIMOUSLY**

**Authorize payment of postage and advertising fees**

Moved by Commissioner Zapotosky, seconded by Commissioner Vicites to authorize payment of the postage fees for the Retirement Fund from October 2008 to April 2009 for a total of \$616.23 and advertising fees for the RFQ for consultant to the Tribune Review in the amount of \$244.14.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Treasurer Danko	Yes

**MOTION CARRIES UNANIMOUSLY**

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

Moved by Controller Lally, seconded by Commissioner Zimmerlink to authorize payment of the 2<sup>nd</sup> quarter actuarial fees for the period of April 1, 2009 to June 30, 2009 to the Hay Group in the amount of \$6,261.00.

The vote was:

Commissioner Zapotosky	Yes
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Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Treasurer Danko	Yes

**MOTION CARRIES UNANIMOUSLY**

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

Moved by Controller Lally, seconded by Commissioner Vicites to authorize payment of the 1<sup>st</sup> quarter 2009 management fees for the period of January 1, 2009 to March 31, 2009 to Sector Capital Management in the amount of \$5,302.88.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Treasurer Danko	Yes

**MOTION CARRIES UNANIMOUSLY**

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

Moved by Controller Lally, seconded by Commissioner Zimmerlink to authorize payment of the 1<sup>st</sup> quarter 2009 management fees for the period of January 1, 2009 to March 31, 2009 to FNB Wealth Management in the amount of \$5,040.73.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Treasurer Danko	Yes

**MOTION CARRIES UNANIMOUSLY**

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

Moved by Controller Lally, seconded by Commissioner Zimmerlink to authorize payment of the 1<sup>st</sup> quarter 2009 management fees for the period of January 1, 2009 to March 31, 2009 to FNB Wealth Management/GWK in the

amount of \$6,079.01.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Treasurer Danko	Yes

**MOTION CARRIES UNANIMOUSLY**

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

Moved by Controller Lally, seconded by Commissioner Zimmerlink to authorize payment of the 1<sup>st</sup> quarter 2009 management fees for the period of January 1, 2009 to March 31, 2009 to CIM in the amount of \$5,563.08.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Treasurer Danko	Yes

**MOTION CARRIES UNANIMOUSLY**

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

Moved by Controller Lally, seconded by Commissioner Zimmerlink to authorize payment of the 1<sup>st</sup> quarter 2009 management fees for the period of January 1, 2009 to March 31, 2009 to U.S. Asset Management, Inc./BlackRock in the amount of \$3,276.36.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Treasurer Danko	Yes

**MOTION CARRIES UNANIMOUSLY**

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

Moved by Controller Lally, seconded by Commissioner Zimmerlink to authorize payment of the 1<sup>st</sup> quarter 2009 management fees for the period of January 1, 2009 to March 31, 2009 to Federated Investors, Inc. in the amount of \$6,586.42.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Treasurer Danko	Yes

**MOTION CARRIES UNANIMOUSLY**

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

Moved by Commissioner Zimmerlink, seconded by Controller Lally to authorize payment of the 1<sup>st</sup> quarter 2009 custodian fees for the period of January 1, 2009 to March 31, 2009 to National City Bank in the following amounts:

CIM	\$ 638.61
FNB	\$ 697.85
Federated Investors	\$1,235.22
Sector Capital	\$ 729.28
US Asset/BlackRock	\$ 785.56
FNB/GWK	\$ 552.27
Delaware	\$ 536.71

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Treasurer Danko	Yes

**MOTION CARRIES UNANIMOUSLY**

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

Moved by Controller Lally, seconded by Commissioner Zimmerlink to authorize payment of the 4<sup>th</sup> quarter 2008 consulting fees for the period of October 1, 2008 to December 31, 2008 to Morrison Fiduciary Advisors, Inc. in the amount of \$4,051.62.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Treasurer Danko	Yes

**MOTION CARRIES UNANIMOUSLY**

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

Moved by Controller Lally, seconded by Commissioner Zimmerlink to authorize payment of the 1<sup>st</sup> quarter 2009 consulting fees for the period of January 1, 2009 to March 31, 2009 to Morrison Fiduciary Advisors, Inc. in the amount of \$3,832.96.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Treasurer Danko	Yes

**MOTION CARRIES UNANIMOUSLY**

**Please note the Board went out of the Agenda order to Item #19**

Commissioner Vicites requested the Board move to Item #19 to which the other Board members had no objection.

**19. Discuss RFP #09-02 for Pension Plan Investment Performance Consultant**

Commissioner Vicites questioned Controller Lally if he had reviewed the responses to the RFP. Controller Lally responded that he went through each booklet and studied them in depth. Controller Lally stated many of them did not really bring anything to the table, but they did bring more expensive fees and less service and some of them brought some interesting ideas that he feels they need to explore as a Board. Controller Lally stated the two firms he thought were the most interesting were U.S. Asset Management and Peirce Park Group. Controller Lally informed the Board that what they are offering that is different and unique from the other firms that were

listed in the RFQ is an all inclusive fee service base; not only will they be managing our money, they will be directing managers of how to apply it so it will illuminate a fundamental fee structure that we have currently which is we pay brokers to move our money back and forth to the tune of \$48,000 last year and that is one of the big fees that can be eliminated. Controller Lally stated that both of these companies also offer incentive-based pay; if our pension fund loses money their compensation drops and if we make money their compensation increases on the multiplier of basis points times the amount of money in the fund.

Controller Lally stated the example he is talking about is U.S. Asset Management and their all inclusive fee would be around \$180,000 if they get the contract next year which sounds like a lot, but we actually paid out \$276,000 in fees last year; therefore, it is approximately \$100,000 a year savings.

Controller Lally informed the Board that Peirce Park Group offered the same as U.S. Asset Management, but they almost tripled their basis points; therefore, their fees would be approximately \$575,000 on a balance of \$36 M.

Controller Lally stated the two companies are comparable in service; however, the difference is U.S. Asset Management has 42 clients with \$3.3 billion in management and Peirce Park Group has 16 clients with \$2.1 billion in management.

Controller Lally stated if that is not the way the Board wants to go, look at the basic fee for Frank Burnette's duties, exclusive of anything else he has just discussed, Mr. Burnette is coming in at one of the cheaper options, but it is an increase over what the Board discussed with him. Controller Lally informed the Board that Frank Burnette came in at \$43,200 all inclusive fee structure which is \$9000 or \$10,000 more than what the Board discussed.

Controller Lally informed the Board that PFM Advisors of Philadelphia came in at \$65,000 per year all inclusive fee schedule to only do what Frank Burnette does.

Controller Lally informed the Board that the Simakas Group came in for \$25,000 per performance and evaluation only, \$50,000 if it is a comprehensive fee and they do everything.

Controller Lally informed the Board that BPU Investments of Pittsburgh wanted \$15,000 just to come in and look at the Fund's current structure and evaluate it; they then wanted \$25,000 per year for not all inclusive fees and \$350 per hour for anything such as a fund manager search and things of that nature; therefore, he put them down, but he did not think it was fair.

Controller Lally informed the Board that Raulin Inc. of Bridgeville wanted \$40,000 quarterly per year all inclusive.

Controller Lally informed the Board that what sent out a red flag to him about Yanni Partners was that they had 8 public funds and lost 4 of them last year due to bad performance and he considered that to be significant. Yanni Partners' compensation structure is \$34,000 per year for the first two years, \$37,000 for additional years, but if they have to do manager searches the first one is \$12,500, the next is \$10,000 and the third would be \$20,000; therefore, he did not consider them to be a viable option for the Fund as they are more expensive than

everyone else on the list.

Controller Lally stated that as he has said many times, the Board needs to make a determination if they want to separate fund management from consulting fees and brokerage fees or do they want to include it in one fee. Controller Lally said the benefits are a reduction in almost \$100,000 a year in fees which is pretty significant being the ARC contribution was \$900,000. Commissioner Zapotosky stated the ARC contribution was over \$1 M.

Commissioner Zapotosky asked Controller Lally if the firms that we have representing us would basically no longer be in existence because they would be managing the funds. Controller Lally responded that if the Board went with an all inclusive fee structure, they would have the discretion of hiring and firing managers as they see fit and it would benefit our Fund, with the Board's approval of course. Controller Lally stated that it doesn't mean our current management structure would change; it would be dependent on their professional recommendations. Controller Lally informed the Board that the Fund has some managers that are performing quite well; Sector Capital Management out of Tennessee is running 18% positive for this quarter.

Commissioner Vicites asked about Smith Barney and Controller Lally responded that he started to go through their proposal and he could not find anything that was clearly defined; therefore, he did not pursue them any further; however, he did see one number of \$86,000 so they were more than anybody else on the list. Commissioner Vicites stated he thinks they have an all inclusive fee structure. Controller Lally responded that it does, but it is not as clearly defined as Peirce Park or U.S. Asset. Commissioner Vicites stated they have worked with Beaver County and a few other counties, he has seen them at conferences, and that is how he knew they did have an all inclusive fee structure.

Commissioner Zimmerlink stated she thinks the Board should consider calling these firms in for a meeting as it was a lot of information to go through. Commissioner Zapotosky stated he has no objections to be fair and equitable. Commissioner Zimmerlink suggested scheduling the firms for a half hour, and by then the Board may have a list of questions.

Controller Lally stated he does feel it is really important as a Board that the members take the time to review the fee structures in the manuals as he is not perfect by any stretch of the imagination and he may have missed something; he is just giving the brass tacks of it. Controller Lally also stated that as a Board they are looking for the nominal costs to have these managers. Controller Lally stated when someone comes in at \$180,000 vs. \$276,000 that is a tangible savings right off the bat.

Commissioner Vicites stated the savings is good, but you don't want to throw the complete process out of the water and what bothered him was it would be at their discretion to keep managers or not. Commissioner Vicites stated there might be an extreme or middle of the road way of doing it, but we have to look at all options without going to a different kind of structure.

Commissioner Zapotosky stated he felt it was crucial that all of the Board is comfortable with the firm because they will experience a surge back and it is important that the Fund recoup or recover as much as it can, based on the losses the Fund has incurred over the last 18 months.

Commissioner Zimmerlink stated with the firm's responses, we could also tell them the Board does not want to give them the authority to make any management changes without first coming to the Board; these are things we can discuss with them when they come in for a presentation. Controller Lally asked what if the situation would occur like the Muhlenkamp situation which carried forever. Commissioner Zimmerlink agreed there are differences, but what she is saying is that in the proposal it states they have the exclusive right to terminate a manager, the Board can talk with each of these ten firms and look at scenarios; if it is a situation where decisions have to be made in a prompt manner and can't wait for a Wednesday meeting, then e-mails and telephone calls would be necessary. Commissioner Zimmerlink stated these are questions that all the Board members have and perhaps they would say yes, they do want the Board members to discuss and determine this. Controller Lally responded that he can't imagine that they wouldn't, to which Commissioner Zimmerlink agreed that they probably are offering that benefit, rather than not realizing that this Board wants to take more of a hands on approach and have that information presented before the Board before those types of decisions are made.

Commissioner Vicites stated it would obviously be great to save money, but he doesn't want to put all our eggs in one basket where the Fund is not diversified. Controller Lally responded that in both proposals from Peirce Park and U.S. Asset Management, they were not talking about under-diversifying the Fund; they call it a market gravity test where they would keep the same amount of management the Fund has, but by putting it under one umbrella the fee structure gets significantly reduced. Controller Lally also stated that one thing they talk about is reaching breakpoints; the more money you have, the lower commissions, fees, etc. and they would tie the Fund in with other public sector policy places to get the Fund to the break point of cheaper fees and that is how they are able to do this. Controller Lally informed the Board that U.S. Asset Management has \$3.3 billion and they get a much lower break point.

Commissioner Vicites questioned if U.S. Asset Management is one of our managers now and Controller Lally responded they could change that rule. Commissioner Vicites stated he would have to hear their proposal to which all the Board members agreed.

Commissioner Zaposky made a motion to schedule presentations for the 10 firms responding to RFP #09-02, seconded by Commissioner Zimmerlink.

The vote was:

Commissioner Zaposky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Treasurer Danko	Yes

#### **MOTION CARRIES UNANIMOUSLY**

Controller Lally informed the Board of one point of information before the presentations, Mr. Burnette's contract is scheduled for renewal on September 1<sup>st</sup>, 2009 and it is irrelevant that the Board can give him 30 days notice, but it would be nice to have this process concluded before that deadline to which the Board members

agreed as it is not fair to Mr. Burnette or any one else. Controller Lally stated he did not think the Board should hear all 10 presentations in one day. Commissioner Vicites and Commissioner Zimmerlink suggested 5 presentations each day to which Controller Lally agreed so the Board members can get questions and answers without being tired or overwhelmed.

### **18. Discuss the transfer of monies to the general fund for administrative fees**

The discussion of transferring monies to the general fund for administrative fees for the years 2008 and 2009 was tabled from the February 18, 2009 meeting (in prior years the amount of \$25,000 was transferred and this was last paid on December 26, 2007 check #2225).

Commissioner Vicites stated that was something that was done because it was able to be picked up in the budget. Controller Lally stated that Betty Stutzman, Administrative Assistant in the Controller's office, can better explain this than he as he is not totally familiar with this issue, but he did know it was a budgeted item in past budgets. Commissioner Vicites stated he thought it was budgeted this year, but Commissioner Zimmerlink stated she did not think it was budgeted.

Betty Stutzman informed the Board that the Retirement Fund does not have a budget, but these funds would be for paying for items such as postage, etc.

Controller Lally stated it is a soft cost associated with fund accounting which is pension administration, agenda preparation, minute transcribing, etc.

Commissioner Zimmerlink stated she did not think it was budgeted in the general fund for 2009; it is permitted, but was not budgeted.

### **Let the record reflect that Commissioner Vicites called Warren Hughes, County Manager, to come to the meeting at 9:55 a.m.**

Commissioner Vicites explained the agenda item to which Warren Hughes responded that it is the cost of the Controller's office to do retirement fund work. Commissioner Zimmerlink questioned Warren Hughes on the December 2003 memo from the previous Controller and if this amount was budgeted for the years 2004 through 2007. Warren Hughes stated he didn't know if it was budgeted for the last two years, but he thought it was budgeted for the previous years and he would have to check to make sure. Commissioner Zimmerlink stated it was not budgeted for 2008 or 2009.

Commissioner Vicites stated this is something that the Board could use from the Fund to help our budget and it is allowable by law to which Warren Hughes agreed. Commissioner Vicites stated that is why it was done in the first place, because it was a legitimate expense. Warren Hughes stated the funds can be drawn down two different ways; one is directly the way it was done in past years or it can be done through central services and they will accumulate the time when they do their study each year and the money can be drawn down that way too. Warren Hughes explained that what he does is send out what is similar to an invoice to all the offices that aren't general fund offices.

Commissioner Vicites stated he feels it is a missed opportunity if the Board does not do this.

Commissioner Zimmerlink stated the 2003 memo states it is taken from the retirement fund and put into the general fund to which Warren Hughes agreed. Commissioner Zimmerlink inquired why Warren Hughes was talking about central services and Warren Hughes responded that anything that is not paid out of the general fund, central services calculates the value for each County department. Warren Hughes explained that this has nothing to do with the ARC payment. Commissioner Zimmerlink stated she understands the central services, but questioned Warren Hughes why he would take the central services breakdown from the Retirement Fund. Warren Hughes responded that central services will calculate how much time the Controller's office spends on the Retirement Fund.

Commissioner Zapotosky inquired if this was for accuracy and auditing purposes to which Commissioner Zimmerlink and Warren Hughes responded yes and it is to make it fair. Commissioner Zimmerlink stated that in doing that breakdown the money is not coming to the Treasurer's or Commissioner's office. Warren Hughes responded that the money goes into the general fund revenue. Commissioner Zimmerlink stated in this request the money is to be given to the Controller's office only. Warren Hughes replied that has never been done, it goes into the general fund revenue.

Commissioner Zimmerlink stated she understands the central services, but what is before the Board is to transfer monies to the Controller's budget one \$25,000 to cover the services provided by his office. Warren Hughes stated that general fund revenue does not go to a particular office, it goes to the general fund in general and the expenses are charged to income. Commissioner Vicites and Warren Hughes agreed that this has never been done by central services, but the process has been done of giving the \$25,000 for services. Warren Hughes responded that actually at that time it was never actually given to the Controller's office, it went into the general fund as revenue.

Commissioner Zapotosky asked where the expenses would be derived to which Warren Hughes explained an expense line item would have to be inserted for costs and then drawdown on this amount.

Commissioner Vicites stated if there is nothing in the budget for this year it would be hard to do this year, but it is something the Board should think about in the future. Warren Hughes responded that the Board could still draw against the retirement money and make it as a deposit into the general fund and over the year you have a lot of revenues that come into the general fund that are not budgeted in the general fund such as new grant money.

Commissioner Zapotosky stated that what he is hearing now is the Board has not taken out for any administrative costs for the Controller's office associated with the Retirement Board, and historically the Board has taken this money out of the Retirement Fund and put it in as general fund dollars and questioned if it was drawn down by the Controller's office in a lump sum or over time. Warren Hughes explained there are expenses to what the Controller's office does; expenses for each person and there is no particular line item. Commissioner Zapotosky stated it is a percentage; 5% secretarial, 25% computer, etc. which is similar to what Goodwill does when they receive their grants to which Warren Hughes agreed, stating there is no particular one line item. Commissioner Zapotosky stated he understands and questioned Betty Stutzman if there is a formula in place and how was it done in previous years. Betty Stutzman responded that she was not aware of any

formula. Warren Hughes stated he did not know how the \$25,000 was arrived at for previous years; it was a number that was given to the Commissioners from the Controller's office but chances are they looked at central service costs and that is where the Controller's office derived their number. Commissioner Zapotosky questioned for the purpose of satisfying liability if the Controller's office has not been paid since 2007, to which Controller Lally agreed. Commissioner Vicites asked if this was a big issue for the Controller's office and if it is something that the Board needs to do. Commissioner Zapotosky stated that obviously they have to correct the budget for this purpose next year. Warren Hughes explained to the Board that the Controller's office does not get any of that money as it goes into the general fund and is a revenue item.

Commissioner Zimmerlink stated that the \$25,000 as per the memo was derived for the purpose of taking into consideration the taking of minutes, agenda preparation and things of that nature. Warren Hughes said it is adding to general fund revenue from the expense side.

Controller Lally stated that this cannot be done this fiscal year. Commissioner Zimmerlink stated that not only can it be done, but the question is whether or not it should be done.

**Let the record reflect that Warren Hughes, County Manager, left the meeting at 10:00 a.m.**

Commissioner Vicites stated it should definitely be done as it is an expense to the general fund for work that is being done for the retirement fund.

Commissioner Zimmerlink stated this will be determined at a later date.

Commissioner Zimmerlink stated her reason for stating this is yes, it is part of the duty. Controller Lally admitted he does not know that much about this, and Betty Stutzman brought this to his attention about a month ago.

Commissioner Zimmerlink moved to not take any action at this time on the transfer of monies to the general fund for administrative fees for the years 2008 and 2009, seconded by Controller Lally.

The vote was:

Commissioner Zapotosky	Yes
Commissioner Zimmerlink	Yes
Commissioner Vicites	Yes
Controller Lally	Yes
Treasurer Danko	Yes

**MOTION CARRIES UNANIMOUSLY**

## **14. Presentations**

### **FNB Wealth Management**

Sam Piccioni, Senior Relationship Manager introduced Mike Basile, stating he has been on the account for some time and has most of the accounts in the Pittsburgh/Uniontown market and he is a Vice President and Portfolio Manager on the account.

Sam Piccioni stated if they can add any value, in addition to being a money manager; please feel free to ask any questions during their presentation.

Mike Basile stated he is responsible for the large cap growth portion and small cap core portion of the account, so their mandate as an equity manager is to be fully invested in that particular equity style for the plan.

Mike Basile gave the Board their macro overview of the economy in the markets and what they see, and informed the Board of their performance in the large cap growth portfolio and the small cap portfolio.

Mike Basile reviewed their presentation booklet with the Board and stated that two things FNB always looks at is unemployment and where they stand today to give them an idea of where FNB stands in the economic cycle. Mike Basile informed the Board that FNB has out performed benchmarks.

Commissioner Vicites inquired how long they have been a manager for the Fund, to which Mike Basile informed the Board that the performance numbers they have go back to the year 2000.

Mike Basile reviewed with the Board how the assets are invested and informed the Board that their portfolio is well over \$5 M as of today, and positive for 2009 which is a good sign.

Mike Basile reviewed the FNB/GWK small cap core account with the Board.

Controller Lally inquired what are FNB's expectations on where the Fund needs to be in the market; the Fund has recovered almost 19.5% on the S&P 500, but where does FNB see a number or range where this tops out? Mike Basile responded that FNB is in the range now and they have been re-setting the trading range of the S&P a little higher during the recent bounce, but Controller Lally is correct that most sharp recessions create a sharp bounce back. Mike Basile explained that demand has been pulled out of the system by the consumer, so eventually inventories will have to be rebuilt as they have been depleted, so you will see some sort of return to growth. Mike Basile stated that instead of getting back to a trend growth of 3-3.5% that the economy usually sees, he feels it will be along the lines of about a 2% type of trend growth.

Controller Lally asked what is FNB's take on Wells Fargo, which is one of his personal holdings? Mike Basile responded will you get an opportunity to sell it today and buy it back at a cheaper price and his answer was probably, but then again what is the holding period going to be? Mike Basile stated he feels the market has finally started to heal, at least from the wide volatility that was seen in the fall; there is a measure called the

“fix” that has come in significantly from a volatility perspective; it is still high historically, but financial insolvency is off the table and the financial part of the economy has healed to an extent where we are now dealing with back-lashes which is the economic slow down.

Controller Lally also stated that Mr. Burnette mentioned to the Board that if AIG would have been a failure that the long term implications would have taken decades to get out of and does he agree with that statement and how does that play into where the Fund is now with all the stimulus that has been pumped out now as a nation? Mike Basile responded that obviously it would be difficult to tell what kind of long-term effects that would have, but he feels what we are in now will have decades of recovery. Mike Basile stated that AIG ended up being a funnel for government money going into it to try to prop up the rest of the counter-parties they were dealing with and it was a significant problem; just because of the amount of leverage that was in the system could have brought the financial system to its knees. Mike Basile stated he thinks we will still be in a decade long recovery from the financial system.

Mike Basile informed the Board that he is a little more cautious of an investor, to which Sam Piccioni can attest to, and he is usually not a cheerleader for the equity markets. Sam Piccioni informed the Board that Mike Basile is the Chair of FNB’s fixed income sub-committee and he leans towards fixed income; also, he manages all aspects of the market, but he does a lot of study and analysis and makes his presentations to FNB’s sub-committees. Mike Basile stated that the trouble really started in the debt-markets and AIG was basically selling insurance that had no reserves, so it was basically a leverage problem. Mike Basile stated if AIG was not saved, there is no telling how slow of a halt it would have grounded to, but the ramifications of this entire leveraging process has been significant and the good news is that the market really discounted that in the fall; we saw a significant correction in the markets to put FNB at valuations that are definitely much more attractive for the long term and prices now are fairly reflected of the risk that people are taking. Mike Basile stated the risk came out of the market and now you are actually getting paid to take risks; therefore, equity investors can look forward to being paid rightfully so for taking the risks in the equity market.

Sam Piccioni stated per the Board’s request, they reduced an additional discount of 5% on their fees and hopefully that was helpful.

Controller Lally stated any little bit was helpful after the hit that the Fund took last year.

Mike Basile stated that FNB will continue to focus on the high quality, good balance sheets, and opportunities for growth for the Fund and they want to make sure they are getting paid appropriately for the risk they are taking.

Controller Lally inquired which companies Mike Basile would define as excessively risky, and would they be the financials? Mike Basile responded that they own a little bit of financials in the portfolio, but they keep it to a minimum, obviously because from a relative benchmark perspective, it’s not a big piece of the Russell 1000. Mike Basile informed the Board that the financials are difficult to value and if you look at FNB from a yield curve perspective, it is a great environment for banks to make money.

**Let the record reflect that Commissioner Vicites left the meeting at 10:30 a.m.**

Mike Basile informed the Board that FNB likes J.P. Morgan and they own it in the portfolio, but they watch it closely. Commissioner Zimmerlink stated they are the only ones that didn't lose and Mike Basile responded that is because FNB just bought them.

Commissioner Zimmerlink asked which companies FNB looks at when they are looking at their percentage of gains and losses? Mike Basile responded that anytime you run a portfolio, you want to run a value of the portfolio from this point in time going forward as it is a viable investment.

Commissioner Zimmerlink asked at what percentage rate does FNB get nervous on individual stock or as a grouping. Mike Basile responded that FNB keeps the sectors relatively close to the benchmarks and they get nervous about anything that is getting over about 5% of the portfolio for an individual stock. Mike Basile stated the energy spider (a collection of energy stock), does not concern FNB because it does not have individual stock risk in it.

Commissioner Zimmerlink stated what she is looking at is some are individual and they have 15%. Mike Basile explained that it is a technology basket, and it is a collection of securities and is not one stock and it gives FNB the ability to round out an asset allocation in the technology sector, but FNB does not want to significantly overweigh a lot of them, they just want to buy the basket for the rest of their allocation and it keeps FNB relatively close to the benchmark. Mike Basile explained that FNB's biggest holding, on an individual basis, continues to be Apple, of which he is a big fan and FNB still thinks it is a pretty viable company going forward; it is a company that can still grow, has a lot of cash on their balance sheet and is still growing earnings significantly.

Sam Piccioni informed the Board that FNB would like to take that and put it in an allocation so that it would give the Fund the exact percentage of the fixed income, the percentage of the growth and value in order to control your risk better from a total standpoint of a committee.

Commissioner Zimmerlink asked if the Manager/Fund Performance document is done internally and not by Frank Burnette. Controller Lally informed the Board it is done internally and the numbers come from the National City monthly reports, and these are actual, net of fee. Betty Stutzman informed the Board that any draw downs from the Retirement Fund are included.

Mike Basile informed the Board that most pension retirement plans start with a 60-40 allocation, with the idea being that the different managers and their specialties beat their relative benchmarks to add value.

Controller Lally stated the best firm the Fund has now as far as the rate of return is Sector Capital Management which is running about 18% positive for this quarter.

Sam Piccioni informed the Board that FNB has fixed income for Cambria County and value for Somerset County so they have different aspects also.

Commissioner Zimmerlink inquired of FNB that based on their dealings with other counties, comparing the amount of employees and the amount in their overall pension fund; do they see Fayette County as similar to other counties with respect to diversification? Mike Basile replied that the 60-40 allocation is a standard type of approach. Mike Basile asked what the fund was down in 2008. Controller Lally informed him the Fund started

at \$48.5M and is now \$36.5M which is about 23% total. Mike Basile stated that most 60-40 allocation plans they have dealt with, that was probably about average; they have some plans that they run a little more conservative, but still in the 60-40 type mix, were a little less than the international market, were down about 16-17-18%, and they have seen as bad as 25%. Fayette County is right in the ball park. Mike Basile stated FNB works with Federated a lot and they do a nice job on the fixed income side.

Mike Basile recommended the Board might want to consider widening the Investment Policy Statement as far as asset allocation is concerned. Controller Lally informed Mike Basile that the consultant cannot move money without the Board's approval.

Commissioner Zapotosky inquired what type of latitude do you give the consultant; complete total? Mike Basile replied that you build a Policy Statement that you as a Board ultimately own; and someone like FNB can help the Board craft that Policy Statement; he has personally managed pension plans that their mandate is 60-40 and that is where they need to be from a strategic, normal perspective; they have given FNB latitude to be as low as 50 and as high as 70 without getting Board approval so you have a 20% range in the equities side where the manager you hired has the discretion to move money; you're not shifting your fiduciary responsibilities to the manager, you're shifting some of those decisions to the managers to be able to do that in a timely manner.

Controller Lally stated that in his personal opinion, that is something the Board should probably do.

Sam Piccioni stated the Board does not manage money every day, so how can the Board be given the responsibility to make some of those decisions; the Board has to rely on the manager to do that.

Commissioner Zapotosky stated he looks at it from a time perspective; the Board meets quarterly, but he is sure the Board could meet in a hurry if necessary; again, he is no expert on the market, but he is sure there are quick decisions that need to be made.

Mike Basile stated that in this business you hire individual managers for different parts of the market, and you have the consultant that takes the role to oversee them; but you can combine some of that if you own the Policy Statement, you turn the consultancy and the investment management over to somebody that can oversee all of that for you and pay one fee. Mike Basile informed the Board he has managed a municipal plan in the western Pennsylvania region, and that is exactly what they did; FNB still oversees the entire plan from the investment policy perspective, and they still hire different managers, but they still have the fiduciary responsibility; when they talk to the Counties, they tell them what their total performance was, what they did, how they oversaw the fund for them, how each manager performed, and then ultimately it would be the Board's decision to hire and fire them if they get outside of the Policy Statement. Mike Basile informed that Board that in this business he firmly believes you need to hand over some of that lee-way to an investment manager and give them a little rope to have opportunities to make decisions for the Board; but as a Board you're not losing your fiduciary role as long as you draft a Policy Statement that is solid and give that manager lee-way, some things could be done a little different and quicker.

Both Sam Piccioni and Mike Basile thanked the Board for their time and told them if they have any questions to please call them.

**Let the record reflect that Commissioner Vicites returned to the meeting at 10:42 a.m.**

**15. Distribute Federated Investors, Inc.'s Investment Review Booklet for the 1<sup>st</sup> quarter 2009.**

Betty Stutzman informed the Board that Federated Investors, Inc. sends their review books automatically every quarter whether they have presentations or not, and she always includes it in the Board members' packet for their review.

Commissioner Vicites and Controller Lally both agreed that the members can go over this on their own and there is no reason to discuss it.

**16. Distribute Morrison Fiduciary Advisor's Investment Performance Booklet for the 1<sup>st</sup> quarter 2009.**

Controller Lally stated the Board members can review this on their own and there is no reason to discuss it at this time.

**17. Distribute the County Annual Required Contribution for 2009 booklets from the Hay Group, Inc.**

Controller Lally once again stated this is another manual that was distributed that talks about the ARC contribution for 2008 and is self-explanatory.

Controller Lally stated that on the positive side, if the Fund does get the re-bounce that all of the managers are talking about, our ARC contribution should not be that big this year.

Commissioner Zimmerlink stated the Controller's office has already processed the requisition for the ARC payment.

Controller Lally confirmed to Commissioner Vicites that the next budget for 2010 will be for the ARC contribution for 2009. Controller Lally stated that Hank Stiehl of the Hay Group stated that if the market recovers approximately 24-27% of its original down value, the ARC contribution could be cut in half; if we reach the term of 30%, it could cut it down to 250 K, but he also reiterated the point, that we as a Board should at no point not fund that pension; if we have the funds available we should be sinking money periodically into the pension fund to prevent a situation where we drop \$1M into the ARC contribution. Controller Lally stated that if you look at the historical data for the market for the Fund, we have not had an ARC contribution since 1983. Controller Lally stated the logic there is if the Fund maintains a 7.5% rate of investment, you don't have to contribute to the ARC.

**19. Discuss RFP #09-02 for Pension Plan Investment Performance Consultant (continued)**

The Board decided to divide the presentations into 3 days. Controller Lally stated that he and Betty Stutzman would coordinate the schedule.

Betty Stutzman asked the Board if these meetings would have to be advertised and she was instructed that yes, they have to be advertised. Commissioner Zimmerlink suggested that Betty Stutzman check with Joe Ferens if the presentation dates have to be advertised to which she agreed to do.

**20. Public Comment**

There was no public comment.

**21. Adjournment**

**Commissioner Zapotosky motioned to adjourn the meeting at 10:45 a.m. Controller Lally seconded the motion.**