

A meeting of the Retirement Board was held on Wednesday, September 17, 2008 at 9:30 a.m. in the Boardroom of the Commissioner's office.

Commissioner Zapotosky called the meeting to order at 9:37 a.m.

1. Roll Call

Roll call was taken and the following members were present:

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

The following member was absent:

ABSENT: Vince Vicites, Commissioner

The following were also in attendance during the meeting:

ALSO PRESENT: Frank Burnette, Morrision Fiduciary Advisors, Inc.
Betty Stutzman, Administrative Assistant, Controller's Office

2. Public Comment

Let the record reflect there was no public comment.

3. Authorize payment of actuarial fees to the Hay Group

Moved by Commissioner Zimmerlink, seconded by Treasurer Danko to authorize payment of actuary fees for the month of August 2008 to the Hay Group in the amount of \$2,254.00.

The vote was:

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

MOTION CARRIES UNANIMOUSLY

4. Distribute minutes of the August 20, 2008 meeting

A draft of the August 20, 2008 meeting minutes was distributed to the board members for their review prior to the scheduled November 19, 2008 meeting.

Controller Lally informed the Board he has a call into his solicitor regarding issues that were discussed during the last meeting.

5. Discuss analysis of proposals and select firms to be interviewed for large cap equities manager

Frank Burnette of Morrison Fiduciary Advisors, Inc., the pension fund consultant, stated he has gotten an estimate from the actuary, the Hay Group, of the anticipated 2009 ARC payment, the Annual Required Contribution to keep the pension plan fund on target to being properly funded.

Let the record reflect that Commissioner Vicites arrived at 9:40 a.m.

Frank stated the 2008 ARC payment was around \$125,000 and Hank Stiehl suggested the 2009 ARC will be \$675,000.

Commissioner Zapotosky stated he has asked several times over the past 9 months what the 2009 ARC payment would be, and has gotten various answers from \$100,000 to maybe nothing at all. Commissioner Zimmerlink stated the last time this issue was brought up, three different amounts were given and she does not understand the reasoning for this. Frank Burnette stated the reason is the function of the market value changes.

Commissioner Zapotosky stated his concern is that the value 2 or 4 months ago would have given the Board a figure; now in the 9th month of the calendar year and seeing a figure of \$675,000, he would have liked to have had some idea if the fund was going up or down.

Commissioner Zimmerlink stated last year the Board was quoted \$200,000, but it went down to \$140,000; but this year to go from \$200,000 to \$675,000 is a big concern.

Frank Burnette stated until the actuary puts live data into his estimate, this would be a true actuarial generated estimate. Frank stated that between now and the end of the year a couple of things could happen with the market. Frank stated Hank Stiehl will take a greater look at the payroll numbers and retiree life experiences and this number could change; however, in every one of his accounts, the estimated number of ARC payments has tripled. Frank stated the actuary uses a calculation called smoothing, in which they take the asset value of the fund for this year's end and the previous 4 year's end and they average the 5 years together; therefore, we will be losing a year that was reasonably good and picking up a year that was reasonably bad, which is a factor to be considered. Frank also stated that when Hank Stiehl called to discuss this, he did not fully take into account this fund is net paying out for benefits versus what the County and the employees are putting in, and he feels this would give the County a little bit of relief; however, he will not give the Board a figure amount as he feels if the number should lower it would be great, but feels Hank Stiehl will be sending a letter stating it will be \$675,000.

Commissioner Zimmerlink stated another thing to keep in mind that Frank Burnette may not be aware of is the draft of the audit has a question regarding what the actual amount is and she thought it was actually listed higher than what it actually is. Commissioner Zimmerlink and Commissioner Zapotosky both stated this is going to put a negative impact on the fund, but may also have something to do with the ARC contribution.

Frank Burnette informed the Board a response will have to be prepared for this draft and he will help with this response. Frank Burnette stated the information the actuary uses is from a report that he sends to the Controller's office, which would have been filled out by the previous administration. Frank Burnette stated he does not feel there is an error, because he reconciled to the penny off the custodian statements; however, the \$675,000 figure is based on the market value as of June 30th, 2008. Frank stated if they were right or wrong six or twelve months ago, it washes out because this is a real number now.

Controller Lally asked Frank Burnette what rate of return would we have to have to compensate for this year's payment and any future payments to bring that number back to zero. Frank Burnette responded that the actuarially assumption is 7.5% positive and we are 6% negative, so a 13.5% return would be needed between now and the end of the year.

Large Cap Value Manager Search

Frank Burnette informed the board that 18 proposals were received and were analyzed. Frank Burnette stated some proposals were incomplete, some were poorly priced, and some did not appear to be even minimally qualified.

Let the record reflect that Commissioner Zimmerlink left the meeting at 9:45 a.m.

Frank Burnette passed out sheets highlighting the firms he paid more attention to, plus he did additional research on these firms. Frank Burnette's ratings on 7 of the firms are as follows:

Allegiant Asset Management

Had a very good proposal, plus they are the firm that does the fund's custodian work. Frank Burnette stated that he gave consideration to any current vendor of the fund.

The Boston Company

Had a good proposal.

CIM

Had a decent proposal, but he gave them more attention because Steve Maslek, formerly with U.S. Asset Management, Inc. is now with this firm and he gave his proposal an opportunity to make it into his final cut.

CS McKee

This is a good firm and also a local firm.

Fifth Third Asset Management

This is a good firm.

Lazard Asset Management

This is a good firm.

Robeco Boston Partners

This is an excellent firm.

Sector Capital Management

This firm is a current vendor and they have done a very good job; however, he is not convinced they are right for this assignment.

Frank Burnette stated CIM and Sector Capital Management are probably in his final list, but if there had not been a relationship with them, he may or may not have included them as finalists.

Commissioner Vicites stated the threshold of \$1B is pretty high and some companies may not have this, but are eager to build their business; anytime you set a threshold you will eliminate somebody, but you have to look at how well they are doing and how much they are growing.

Frank Burnette stated that if any firm came in to make a presentation, the relevance of assets under management would become clearer to the Board as they made their presentations. The assets the firms run in the style and product the County is looking for is not terribly significant, and that is a footnote to the whole process which would be discussed if they make a presentation.

Commissioner Vicites stated that CIM is in most counties in western Pennsylvania and throughout the state and Sector Capital Management was the best manager percentage-wise the County has. Frank Burnette responded that this is a great example of where a small asset firm has done very, very well for the County.

Frank Burnette stated that on the basis point area, everyone listed is negotiable. He is certain CIM and CS McKee is negotiable. Some proposals are at 50 basis points and some of the managers said they were negotiable; therefore, he feels that for all practical purposes these firms will end up at 50 basis points or below which he thinks is reasonable as we currently pay 40 basis points.

Commissioner Vicites stated the reason CS McKee is not a manager now is because in the past when the County wanted them for one of our equity managers they would not come down in basis points.

Frank Burnette stated from an assets under management or a fee schedule point of view, he is not particularly worried about any firm on this list in terms of interviewing them. As far as the number of stocks in the portfolio, he feels 50 is a minimum number, and all the firms pass that criteria and they all do separate accounts, etc.

Frank Burnette stated when you look at investment performance history it doesn't end up being a highly important criteria for predicting future performance and he likes the idea there is some discipline in their process. From a performance point of view, the 5 year track record and the 1 year track record indicates the firms are qualified and the discipline in the process they are practicing works.

Controller Lally asked Frank Burnette to explain the upside captures and downside capture ratio. Frank Burnette stated the upside and downside capture ratio is a measure that if the market is up a certain amount, how much of that up-market this manager historically captures. In a down-market how much of the downside they participate in. Controller Lally stated for example with Allegiant Asset Management, 105% they captured 5% over the baseline of over 100%. Frank stated if the market went up 10%, on average you could expect on the upside they would go up an extra ½ %.

Commissioner Vicites inquired of Frank Burnette why CS McKee was not listed on his financial performance and fees sheet, and Frank responded it was mistakenly left off and he will e-mail their numbers. Frank Burnette stated CS McKee also has great upside and downside projection.

Frank Burnette stated the other statistic that is important is how many stocks they hold that are part of the Russell 1000 index. Controller Lally stated this was one of the pretenses in the RFQ.

Frank Burnette stated he did a quantitative analysis weighing the 1, 3 and 5 year performance with the fee schedule, and came up with a quantitative score from a numbers point of view on how the firms rank.

Frank Burnette stated he personally would have the most input and the strongest opinion. Frank Burnette stated he rates the firms on a 3-5 scale via the proposals, the professional staff, the firm's organizational strength, the experience of the people running the money, how long they have been in place, how knowledgeable and well trained, and their background. The second thing he does is look at the investment process and makes sure the product they are recommending to us very much in deed does represent the style in what we want the manager performing.

Controller Lally questioned if this was the fundamental problem with Muhlenkamp in that they did not run the set objectives, and Frank Burnette responded yes it was.

Commissioner Zapotosky asked Frank Burnette what his overall #1 ranked firm and Frank Burnette stated he ranked the firms in the following order: Robeco Boston Partners, CS McKee, Fifth Third Asset Management, Lazard Asset Management, CIM, and Sector Capital Management.

Controller Lally stated his question to the other Board members present, when it becomes public knowledge that the County has a \$675,000 ARC payment, would it be in the County's best interest to take a day and interview all of the applicants so that the Board can truly get a good feel of who is in the playing field.

Commissioner Zapotosky stated he has no problem interviewing all the firms. Commissioner Vicites stated this is a scary time with banks collapsing and the Board needs to watch what is going on but didn't know if the Board has any control over it.

Controller Lally asked Frank Burnette what can be done in market times like this, other than tightening the belt; is it even feasible to take assets and put them into something safe. Frank Burnette stated the problem is the safe returns these days are at 3-4% at the most. Commissioner Vicites stated the Board has to keep the fund solvent. Commissioner Zapotosky stated obviously the Board cannot control the market, but inquired if there is anything administratively the Board can do to enhance performance. Frank Burnette responded that he thinks the process and the way the Board makes decisions is just mired in detail, steps, approvals and documentations. Frank Burnette stated in Pennsylvania, pension boards are permitted to take expedited roles. Commissioner Zapotosky stated he is humble enough to admit this is not his greatest strength, but he relies on people like Frank Burnette who have pursued this professionally to provide the Board with the information to go in the right direction. Commissioner Zapotosky stated that quarterly meetings to him are a day late and a dollar short most of the time.

Let the record reflect that Commissioner Zimmerlink returned to the meeting at 10:00 a.m.

Frank Burnette stated the Muhlenkamp firm probably underperformed their benchmark 6-8% over the last year. Commissioner Zapotosky stated this is an example and the board doesn't realize it. Frank Burnette stated in Erie County when they vote to get rid of a manager, it is a 60 day process. Commissioner Zapotosky stated the Board's fiduciary responsibility to the pensioners and the tax payers should mandate the Board to make decisions that are in their best interest, and some of those decisions should be made by professionals who understand when it is time to move quickly and expediently for the benefit of the plan and the tax payers, then the Board should yield to that. Commissioner Zapotosky stated that if the Muhlenkamp fund move had been made earlier, the Board may have captured some of the ARC payment, but instead the taxpayers, the Board and the budget will be looking at this payment.

Controller Lally stated that admittedly everything in county government moves very slow, but asked Frank Burnette what his recommendations would be to expedite the decision making process. Frank Burnette replied that this discussion has been made before and he does not want to push his agenda too aggressively, but in other Pennsylvania counties, many of which he consults, the larger counties are more aggressive; basically, as much as possible is delegated to the consultant and he monitors the process not in a public meeting but through e-mails and documentations; therefore, the process moves from the time a decision to make the change is made to the time to hire someone. Basically, from the time the Board makes a decision to the time you have firms interviewing is 3-4 weeks. At that time, you make a decision and vote on it and the vote is such that the firm is hired, engaged at a fee schedule, and the contract can be signed as soon as the solicitor approves the contract as executable; therefore you don't have to come back with public meetings to sign contracts and this gets done in 3-6 weeks which is still a long time.

Frank Burnette stated the other thing the Board can do is when it is decided to terminate a manager, at that point the next day you terminate that manager and drop the monies into an index fund, but you might spend \$1500 in commissions to liquidate the firm. When you take a more leisurely pace in hiring a new manager, at least the money is insulated for money underperformance is fully invested and when you get ready to make a decision you take the money from the index fund and put it into the new manager. Frank Burnette stated he feels the Board takes too long to implement decisions.

Commissioner Zimmerlink informed Frank Burnette that the Muhlenkamp issue was the former board and they were hesitant and their reasons to hold off are on record, and even a former commissioner stated he wanted to check with his people; therefore, it is not as if the board dragged their feet, they were being cautious. The hesitation wasn't due to lack of any fiduciary responsibility, and the decisions were made on this issue as quickly as possibly could be done. Commissioner Zimmerlink also stated that the Board is dealing with employee's funded monies and she is hesitant in doing things through an e-mail because you don't have the opportunity to fully discuss the issue and you need to know the mind-set of the other Board members as well, which is the whole reason for having a public forum. Commissioner Zimmerlink stated the Board has certain responsibilities to do in a public meeting and if some things that are administrative could be done, then it should always be done, but other matters have to have discussion.

Commissioner Zapotosky asked Frank Burnette to come up with some recommendations in regards to how to better enhance what is done as a Board. Commissioner Zapotosky stated the meetings scheduled at the beginning of the year between himself and Frank Burnette were more than the 4 scheduled and not accepted by the Board, which was a disappointment because he feels the Board needs to meet more than it does as the Board is always discussing problems after the fact. Commissioner Zapotosky stated he suggests/recommends that maybe the number of meetings be doubled, if not, then special meetings need scheduled at Frank Burnette's recommendation.

Commissioner Zimmerlink stated this was discussed and she recalled it was Commissioner Vicites and herself who wanted to keep the meetings every Wednesday at the call of the Board. Controller Lally stated that today's meeting for example was not a planned meeting. Commissioner Zimmerlink stated the reason this was done, as like the Salary Board meetings so it can be more easily scheduled and put on individual's calendars.

Commissioner Vicites stated he wanted Wednesdays because he thought the time slot was good; however, he did not care about the frequency, they could be every week.

Commissioner Zimmerlink stated that is why she and Commissioner Vicites wanted the meetings scheduled for Wednesdays, every week if need be, especially when you have things like this and that is why she has that slot set aside on her calendar. Commissioner Zimmerlink stated the reason some of those things and the selection process of who we had before was time consuming, check the minutes, it was the manner in which it was done; the confusion; now that is rectified by the solicitor's opinion and things will get done in a more timely manner. Quite honestly, in her 4 years, she feels everything was running smooth and why all of a sudden other than Frank wanting to take on the total responsibility of the RFQ, and she will go on record again that she feels the Board should not do that; it needs to be coupled with the Controller's office as ultimately that is who is responsible for the RFQ. Quite honestly, Frank can come and go, but the Controller's office and the elected officials are here, and even though we rely on the consultant, the Board members are ultimately responsible.

Commissioner Vicites stated the Board can look at the system within, but this is the economy we are in. Even if the Board could have saved money, he feels we would still have a significant ARC payment. Commissioner Vicites stated the fund has solid managers, have broadened the diversification, and have done a lot of good for the plan and when the economy gets better, the fund will get better.

Commissioner Zimmerlink stated that before she became commissioner, the Board was patting themselves on the back, and probably rightfully so, taking into consideration the economy that they didn't have to put monies aside for the ARC. But it's not the fault of the Board, but all the time you can make some improvements. She feels the board took the right approach by diversifying.

Commissioner Vicites stated the fund is all balanced, and when one manager goes bad, another can pick up the slack which is what Frank Burnette recommended. Frank Burnette stated the fund is spread out nicely and there is no need to spread it out any further.

Controller Lally stated in the basis of over-diversification, his thought is the fact that it involves more fees, more meetings, more planning and things of that nature, but if it insulates the Board in any way from the issues of what just happened in our economy, then he is all for it. Frank Burnette stated that at the end of the day, diversification is your best defense for a bad experience.

Commissioner Zimmerlink stated there is a lot to say for diversifying too much, not with just the number of managers and taking into consideration what Controller Lally just said, she feels the fund is where it should be.

Commissioner Vicites agreed with Commissioner Zimmerlink with this.

Frank Burnette stated the fund has 3 large cap managers, and the fund could probably survive very comfortably with 2, but the problem is the perfect scenario is getting rid of your core manager and put it in value and growth. The problem is the core manager is Sector and the firm is doing well and the value and growth managers are not doing so well; therefore, it is just not convenient to make that type of a change.

Commissioner Vicites asked Frank Burnette if he was going to come up with some recommendations and Frank replied he would give the Board 2 or 3 options. Frank Burnette stated he feels where the Board could be more efficient is from the minute the RFQ is issued to the point that the Board interviews. Commissioner Zimmerlink stated that as long as all the information goes to one body such as the Controller's office, then the Controller can contact Frank with scheduling the interviews.

Frank Burnette inquired of the Board how married is the Board to this very strict submission criteria that has to be taped and sealed for RFQ's. Commissioner Zimmerlink stated the Board received a legal opinion on this that it must be sealed and taped and in bold. Controller Lally stated he bases his decision on Mr. Cupp's opinion, because he can see both sides of this equation, and our example it may not have been that critical, but if you have other vendors for this County that are submitting bids, not just proposals that are not sealed with tape, there could be collusion there. Commissioner Zimmerlink stated there has been problems and questions raised and the best thing our solicitor said was to put it in bold, sealed with tape. Controller Lally stated he did agree that there was validity with Frank Burnette's argument that larger corporations that had a mailroom person, who

never saw the RFQ, packaged the material and sent it out; therefore, it could have been an error. Frank Burnette stated that of every county he consults, he gets the proposals for the bigger counties. Commissioner Zimmerlink stated that is other counties. Commissioner Vicites stated we treat RFQ's like they are bids and that is the problem in a nutshell; RFQ's do not specifically go on price, but we still act like they do.

Commissioner Zimmerlink stated the way in which it was explained to the Board by Joe Ferens and John Cupp, an RFP is supposed to go on the price, but it also states that you can go with the higher amount if they have not met all the other qualifications and if there is reason, it has to be the responsible proposal. But with the RFQ, that as long as they meet all the qualifications, it doesn't matter what the price. Commissioner Vicites stated the need for the sealed situation is not nearly as critical as the bid. Commissioner Zimmerlink stated with the RFQ, you want to make certain that nobody does look at the amount, that information is not given out, that qualifications are equal and obviously the decision is going to go to the lowest, with everything else being equal, and that was the concern. Frank Burnette stated he would come up with some ideas for the Board.

Controller Lally asked Frank Burnette if the next time the Board goes through this process if a separate memo could be sent to the firms stating taped, sealed and bid numbers on the RFQ. Frank Burnette stated this cannot be done, because you do not know who is going to be responding as he puts the RFQ on his website, the trade journals pick up on the search, and this is where the firms get the advertisement.

Commissioner Zimmerlink said one of the problems was that Frank's website was not the same advertisement as the one the County advertised, but once Frank was aware of this problem, it was corrected.

Commissioner Vicites stated there was one company that told him they did seal their bid, but they were disqualified because their bid was not sealed.

Frank Burnette stated the Board is down to the seven firms he listed and how many did the Board want to interview. Commissioner Zimmerlink and Controller Lally proposed scheduling and interviewing all seven firms. Controller Lally stated the Board has a duty to talk to each firm.

Frank Burnette informed the Board they can interview as many firms as they would like. Commissioner Zapotosky asked for clarification purposes, why was the Boston Company taken off the list of firms to be interviewed. Frank Burnette responded that the Boston Company had a bad upside capture for one reason and the fees on the final list are materially negotiable.

Frank Burnette suggested giving each firm ½ hour for their presentations, scheduling them every 40 minutes to keep on schedule. Commissioner Zimmerlink reminded Frank Burnette that with the last administration he took into consideration where they were traveling from when scheduling the firms.

Moved by Commissioner Zimmerlink, seconded by Controller Lally to interview the 7 firms on October 1, 2008 starting at 9:30 a.m. Three firms will be scheduled in the morning and four firms will be scheduled in the afternoon.

The vote was:

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

MOTION CARRIES UNANIMOUSLY

Betty Stutzman, Administrative Assistant in the Controller's office, asked the Board if she was needed to record these presentations as presentations done in the previous administration were not recorded. Commissioner Zimmerlink suggested having the presentations recorded in the event anyone wanted to go back to review comments made, etc. and the board members can also take their own notes.

Frank Burnette stated the sheets he provided and the firm's books are sufficient documentation that their presentation was made, and Controller Lally agreed totally with this.

Commissioner Zimmerlink stated if any other business is conducted; the meeting would need to be recorded at that point.

6. Public Comment

Let the record reflect there was no public comment.

7. Adjournment

Commissioner Zimmerlink motioned to adjourn the meeting at 10:38 a.m. Controller Lally seconded the motion.