

**PITT COUNTY BOARD OF COMMISSIONERS
MINUTES FOR JUNE 12, 2000**

The Pitt County Board of Commissioners met in a recessed session on Monday, June 12, 2000, at 8:30 a.m. in the Commissioners' Auditorium, Pitt County Office Building, 1717 W. 5th Street, Greenville, North Carolina. The purpose of the meeting is to consider public business as indicated on the following agenda.

Commissioners present:

Charles P. Gaskins, Chairman
David Hammond, Vice Chairman
Glenn Bowen, Commissioner
Ann Huggins, Commissioner
Eugene James, Commissioner
Thomas H. Johnson, Commissioner
Mark W. Owens, Jr., Commissioner
M. Theresa Shank, Commissioner
Beth B. Ward, Commissioner

Others present were:

Thomas B. Robinson, County Manager
JoAnne Burgdorff, County Attorney
Susan J. Banks, Clerk to the Board
Melonie Bryan, Director of Financial Services
Arlen Holt, Public Information Officer

Call to Order – Chairman Gaskins

The Invocation was offered by Vice Chairman Hammond.

The Pledge of Allegiance was led by Commissioner James.

Approval of Agenda – Chairman Gaskins

UPON MOTION by Commissioner Bowen, seconded by Commissioner James, the Board voted unanimously to approve the agenda.

Opening Comments & Introductions – Melonie Bryan, Director of Financial Services

Ms. Bryan stated there are five firms that will be presenting today. She explained the format for the presentations. The Board was provided a ranking form for their convenience.

Equity Investment Manager Presentations & Follow-Up Questions

Wedge Capital Management – Pete Bridge

Mr. Pete Bridge and Brad Horstmann were presenters. Mr. Horstmann gave an introduction to the investment part of their firm. NC League of Municipalities and PCMH portfolios are two of the agencies for which they make investments. They manage with a team approach, 16 professionals. The two individuals, Pete Bridge and Martin Robinson, working for Pitt County should they be selected would make recommendations to committee.

Mr. Bridge said they are value managers and bargain searchers. They are willing to pay a higher price for that growth and spend a considerable amount of time forecasting on short-term growth. They

analyze companies from top to bottom before making a recommendation. They would be looking at a broad investment with over 1100 securities in this process. The firm picks the ones with good sound financial strength from the ones that offer the greatest profit. They try to limit your risk by thorough evaluation of investments. They rate companies and take the top 40% of the deciles to be considered for purchase. They will evaluate investments based on the following:

- growth and earnings
- profitability
- leverage factors
- liquidity - cash flow

They rank each characteristic and if a company falls in the lower 30% they will not invest in them. Then the analyst takes over and forecast the earnings, shareholder values, economy, and industry, products and services offered by company. Financial stability should be in place for the future. They limit their investments with diversification and limit their risks. If a company falls within the lower 30%, they sell that security. The firm believes the market is going towards value stocks with value outperforming the growth stocks. Wedge has consistently stuck to their discipline of Low P/E stocks outperform in the long term. Independent firm with Capital and depth is offered and their approach is ideally suited for the County. Large cap value stocks show the ability to preserve principal. Mr. Bridge said it would be an honor to serve Pitt County. They provide for Pitt County Memorial Hospital (PCMH) pension assets; operating reserves with equity in stocks and bonds. They have four different portfolios for PCMH.

The Standard and Poor's 500 Index is the one of the indexes used to judge their performance. The other is the Barra Value Index. When diversifying you look at value versus growth and you look at benchmarks when value was in favor. If market is based on value, they have outperformed the market. They have been working for PCMH for three years. They have not worked with Davenport and Company prior to this proposal. Their fee schedule is for first \$10 million, ¾ of 1% for first 10 million and then .65 for assets between \$10 and \$25 million and then .5 percent for excess of \$25 million. They report based on the client's request or the schedule that they agree upon. They would put together a value and growth manager and give half to each and see how they perform based on the market. If value has outperformed then put them in growth stocks. The firm offers a three-year contract that can be terminated whenever the customer feels the need. The Securities Exchange Commission regulates them and they have been audited. The fees are not based on the length of the contracts.

BB&T Institutional Trust – John Charles Thompson

Mr. Thompson introduced the others from BB&T as Steve Brennamen and Phil Duietsch, Sales Manager of BB&T, as well as Judy Leonard. Two senior managers, Mr. Brennamen manages high profile accounts and Judy Leonard would be the Account Manager for this account. Mr. Brennamen said Mr. Leonard is the administrator of the PCMH 401K plan. Information, education and time and performance of investments are what they will provide to their clients. Steve Brennamen is the Director for the growth equity products. He reviewed level of performance over last 14-20 years. They are an anchor in changing markets and believe in diversity. The firm manages value fixed income, and has 20 investment professionals on staff that evaluates research. Rick Jones would also work with the County and there is a tier of individuals working for the County. They believe 96% of the returns are from asset management. They have 2,145 companies that make up their package. They also use the S&P 500 Index. The firm runs the Columbus County Hospital's 401K plan. Within asset allocation, growth and value and then they determine the strategy based on the customers' criteria. They are at about 50/50 on value and growth, will invest quarterly, monthly and he reported that value products consistently perform 62% of the time. Growth may outperform in a larger way but it is inconsistent. The entire portfolio is what is they consider. They project to beat the market by 22% by December 2015. They use the Russell 1000 Index for evaluation. The portfolio will fit what the State of North Carolina requires and the portfolio would be reviewed every week. The FDIC regulates them and they are in compliance with all regulations. The assets will be investments with 100% securities that meet the requirements from S&P 500 and Russell 1000. They usually pick from the top 10-15%. If using individual equities, they will look at the benchmark. The firm will provide a monthly performance update that will be sent directly to the commissioners. There is a disciplined process for buying and selling. If a stock

does not meet earnings one time or other times, they may sell it. They are committed to providing good service. They have 25% of their money in foundations and endowments. The firm's goal is to achieve higher returns at lower risk. They would meet on a bi-weekly strategy for this account and the value and growth will be managed separately. Mr. Brennaman is located in Raleigh. They manage the State of North Carolina's 401K plan and all his accounts are in North Carolina. He would be glad to report to the Board quarterly and Judy Leonard would report monthly. There is a three-percent or \$46,000 fee for their service and then there would be additional commissions at six cents a share. He said the commissions are insignificant. All cost should be considered. He estimated \$5,000 - \$10,000 for the first year. They can not do in-house trades as a bank and he would like to have the money for 18 months. He stated that the investments would be based on 58 value /42 growth. Growth has outperformed the value investments in the last three years.

Chairman Gaskins called for a break at this time.

Sovereign Asset Management – Gile Baker

Mr. Gile Baker and Jim Morehead were the presenters. Mr. Baker said they invest about \$3 billion and they are owned by John Hancock Funds. They were acquired in 1991. Their investment philosophy is to run portfolios with growth and value. Growth investments at a reasonable price with dividend performers are their goal. The firm consists of six investment professionals in Philadelphia and sixty more professionals in another location. They have a team approach to run portfolios and each portfolio is run separately. The firm's principal goal is to grow the portfolio and protect the principal. The company must increase their dividend for five consecutive years. The companies like Coke and Pepsi who have increased their dividends multiple years are good investments. Realistic performance over a long period of time is what they look at for investments. There are only 500 companies in their plan and they monitor companies that fail to raise their dividends.

Mr. Morehead stated that the "Dividend Performers" means the company is a leader in their category. He reviewed the common characteristics of the Dividend Performers. These companies are strong companies with strong management teams. They have a team approach and they all bring ideas to the group and they reach a consensus for the portfolio. Only one out of twenty companies make it to their dividend performers list. The investment process was reviewed. Four categories for selling stock. If the company stops making dividends every year, they sell it. They use specific rules for valuation measures. If there is a shortfall their specialists look into it with urgency. They use S&P 500 Index and use large liquid companies in their portfolio. They buy stocks at good valuations. The firm's return on equity for the last five years has been 21.9%. They look at predictability and safety in the stocks they buy. He reviewed their top ten largest holdings as of 12/31/99. They categorize by Standard and Poor's criteria and their earnings are growing consistently every year. Preservation of principle is important. Sovereign continues to perform even when the market is down. They have consistent earnings growth, even during recessions and specialize in companies that pay dividends and even raise their dividends each year. It is guaranteed to have higher dividends since they only invest in companies that pay and raise dividends. There is a discipline investment process.

Mr. Baker said they would provide monthly reports and make quarterly appearances if the Board chooses. Their fee is .40 or 40 basis points or five or six cents per share. They would run trades at institutional rates and they can leverage any kind of discount offered. They use the Russell 1000 Value for their evaluations and have more value characteristics but there are growth companies involved. They do not have any public funds in their client list but their Hancock Company does have mutual fund accounts and retirement firms. Sovereign is a subsidiary of Hancock Company.

Trusco Capital Management – Bob Farmer

Mr. Bob Farmer, First Vice President and Marc Schneidau, Vice President, from Trusco in Atlanta, Georgia, were presenters. Mr. Schneidau has been working with PCMH Foundation for five years. Mr. Farmer said that they understand the North Carolina General Statute, which regulates Pitt County's investments. They understand the buy and sell discipline. They are investing about \$4 billion like Pitt

County's. He reviewed their depth and resources. The firm has a FCC advisor and there is a team of people that have been together 27 years. The employees have a vested interest in the firm and their compensation is directly tied to the performance of funds. Mr. Schneidau works with several of the governmental agencies and there are about eight entities in North Carolina that they work with. Mr. Schneidau said that their unique strategy would perform when growth or value is in place. They screen stocks by earnings characteristics and valuation. They have about eighty stocks and the investment policy group is the watchdog of the investments. Earnings per share growth are more than double of the S&P performance rate. The dividend growth shows more than double S&P. The stocks they presented do meet the County's requirements. They provided a sample portfolio for the Board to review. The firm focuses on the buy and the sell discipline and they know their performance. They sell when earnings trends deteriorate. Based on requirements, they can not be over 1.5% in stock. A lot of the major companies do not meet the County's criteria. They use brokerage firms and they have no conflict of interest with any of their firms. Mr. Farmer provided a comparison with S&P 500. Performance numbers are meaningless because of the County's restrictions on investments. He reviewed commitment/resources, understanding of regulatory requirements, stability of Staff and proven investment process, and service standards. They will meet with clients four times per year and they are willing to charge their fees at 40 basis points. They look at the best overall execution of the portfolio and they will work with Pitt County to figure an appropriate benchmark since the County can only have 1.5% in any one stock. They think they will outperform on growth and value. The firm does not require a client to sign a one-year contract and will serve the client as long as the client is happy.

Chairman Gaskins called for a break at this time.

Franklin Street Partners – Malcolm Trevillian

Ms. Bryan introduced Mr. Malcolm Trevillian with Franklin Street Partners. Bob Eubanks is manager of the firm. He founded a firm in Greensboro and started Franklin Street Partners in 1990. He is very informed about North Carolina General Statutes. Mr. Trevillian would be the County's contact. He managed money in the North Carolina Retirement System. Mr. Mackay Salley would also work on Pitt County's portfolio. They would regularly review their progress. They are core managers and manage a portion of the equities. They are hired to select growth at a reasonable price. The firm picks from stocks that meet the criteria and spend a lot of time developing which industry they want to be involved in. They focus on high returns on invested capital, stable to rising profit margins, excess cash flow, attractive valuations in relation to earnings power and stocks that are under valued. The companies in their portfolio have shown superior historical earnings growth and higher profit margins. Their companies have exhibited 16% growth per year, above average profitability with above average margins mean superior earnings. They also look at insider purchases and take a long-term investment view by identifying long term trends. Mr. Trevillian spoke about technology and communication, healthcare and finance. They provided a list of the companies that they would invest in for Pitt County. They are up five percent in spite of the S&P being only three percent. When they sell a stock at a loss, they refresh the portfolio and their performance consistently is over the S&P. Because of their team approach, they will be responsive to changing cash flow needs or risk management. They are a North Carolina company and they only manage money for clients. They have over twenty years of investment experience. Their minimum size account is \$1 million. Their fee schedule is 1% or .75 basis points. The return numbers are after the fee and the fee schedule is higher but they provide one on one service for clients. Mr. Trevillian said his proposal was based on a \$5 million fund package and he would re-evaluate if funds were higher. He will provide the returns on investment packages that they have worked on for the State with comparatives through March 30, 2000. The firm utilizes the S&P 500 Index and they report on a quarterly basis. They could provide an index with only the funds that meet the requirements. Their stocks include growth and value companies and they would look at technology and communications companies that fit this requirement.

Commissioners' Comments & Direction

Commissioner Bowen said he would like to pick out two companies out of the five companies they heard present today. Commissioner Owens said he would prefer to wait and hear from the Finance Office and the Manager, as well as Davenport and Company before making a decision.

The meeting was recessed at 12:20 p.m. until 7:00 p.m. tonight when there will be a public hearing on the 2000-2001 budget.

Respectfully submitted,

Susan J. Banks, CMC
Clerk to the Board