

MEMORANDUM

To: Board of Trustees, Fresno County Employees' Retirement Association
From: Jeffrey MacLean, Senior Consultant
Date: November 25, 2008
Re: WAMCO Incentive Fee Amendment

Enclosed is a revised fee schedule for Western Asset Management Company ("WAMCO"). The revised schedule amends the existing fee arrangement and places WAMCO on an incentive schedule which contains a lower base fee along with the ability for WAMCO to earn higher compensation provided they outperform their benchmark substantially after accounting for the last 12 months of subpar returns.

FCERA currently compensates WAMCO on a schedule of 30 basis points for the first \$100 million and 15 basis points for all assets over \$100 million. As of September 30, 2009, WAMCO managed approximately \$204.5 million. This equates to a blended annual fee of approximately 22.3 basis points.

The enclosed fee schedule (which has been agreed to by WAMCO) lowers the base fee to 15 basis points, saving FCERA approximately 7.3 basis points (\$150,000 per annum). WAMCO will earn their normal fee of 22.3 basis points provided they outperform the Barclays Capital Aggregate Index (new name of Lehman Brothers Aggregate Index) by 75 basis points. They must achieve this hurdle after overcoming the severe underperformance of the last 12 months where they underperformed the index by approximately 770 basis points.

The agreement provides for a rolling five year measurement of returns relative to the index. Prior to the five year anniversary, the incentive fee is calculated after the first 12 months and then on a since inception basis until five years has been reached.

Please feel free to call me anytime at 310.297.1777 should you have any questions.

EXHIBIT 1
PERFORMANCE BASED FEE AGREEMENT

WESTERN ASSET MANAGEMENT COMPANY

Effective October 1, 2008

The components of the Investment Management Fee are defined below:

1. Base Fee (annual): 0.15%

The base fee is paid each quarter in arrears based on the Average Market Value of the portfolio during the quarter, multiplied by the base fee percentage divided by 4, and prorated for periods of less than a full calendar quarter.

2. Benchmark Return: Lehman Brothers Aggregate Index (Total Return), as reported by the Investment Manager, to two decimal places (e.g. x.xx%).

3. Required Excess Return: 75 basis points (0.75%) per year above the benchmark return, net of Base Fee.

4. Normal Fee: 0.30% on the first \$100 million
0.15% thereafter

5. Portfolio Return: Time weighted total return before investment management fees, as calculated by the Investment Manager, to two decimal places (e.g. x.xx%)

6. Performance Fee:
$$\frac{[(\text{Normal Fee} - \text{Base Fee}) / \text{Required Excess Return}] \times (\text{Portfolio Return} - \text{Benchmark Return} - \text{Base Fee})}{1}$$

With the exception of the first four (4) quarters after the performance fee inception date, the Performance Fee is calculated and billed quarterly in arrears by calculating the applicable Average Market Value and applying 25% of the Performance Fee.

7. Average Market Value: For the Base Fee calculation, an average of the beginning and the ending market values of each quarter. For the Performance Fee

calculation, an average of the quarter-end market values comprising the period over which the Performance Fee is calculated. The Investment Manager will provide the market values.

8. Total Fee: $[\text{Performance Fee} \times \text{Average Market Value}] + \text{Base Fee}$
This fee is paid quarterly in arrears.

9. Minimum Fee: The minimum fee is the Base Fee.

10. Maximum Fee: $[(2 \times \text{Normal Fee}) - \text{Base Fee}]$

This is the maximum Total Fee the Manager can be paid in any one year (defining the year to be consistent with the performance fee inception date).

11. Phase-in Provision: The Performance Fee and Maximum Fee are subject to the following phase in provisions.

At the end of each of the first three (3) quarters after the performance fee inception date, the Investment Manager will receive a fee equal to the Base Fee. At the end of the fourth (4th) quarter after the performance fee inception date, performance for the four (4) quarters will be used to compute the Performance Fee due for the entire four (4) quarter period. The Performance Fee and Maximum Fee will be computed using the Average Market Value for the four (4) quarters. For the fifth (5th) through twentieth (20th) quarters the Performance Fee calculation shall be based upon cumulative annualized returns from the performance fee inception date. Thereafter, the calculation will be made on an annualized rolling twenty (20) quarter basis.

12. Calculation: The Total Fee shall be calculated by the Investment Manager and submitted to Client for verification. Discrepancies in the elements of calculation will be reconciled between the Investment Manager and Client, as required.

13. Performance Fee Inception Date: Inception date for purposes of calculating the performance fee shall be October 1, 2008 (performance fee inception date). However, the performance fee calculation shall include the performance returns for the October 1, 2007 through September 30, 2008 period. (i.e., for the initial performance fee calculation period October 1, 2008 through September 30, 2009; performance returns for the October 1, 2007 through September 30, 2009 will be used).
14. Termination: In the event of a termination of the investment management agreement, the fee for any period less than a normal quarterly billing cycle shall be the Normal Fee, prorated from the most recent calculation of the Total Fee to the date of termination. If the investment management agreement is terminated within the first four quarters of the agreement, the Normal Fee shall apply for the entire period, prorated to the date of termination.

AMENDMENT TO INVESTMENT MANAGEMENT AGREEMENT

This AMENDMENT ("Amendment") to the INVESTMENT MANAGEMENT AGREEMENT ("Agreement") dated April 6, 2005 as amended, by and between the Fresno County Employees' Retirement Association ("the Plan") and Western Asset Management Company ("Investment Manager") is made effective this ____ day of November, 2008.

RECITALS

WHEREAS, the Agreement provides that the parties may supplement or amend any provision of the Agreement;

WHEREAS, the Investment Manager manages certain investments on behalf of the Plan under the Agreement, as amended, with respect to the following accounts:

Fresno County Employees' Retirement Association (WA #1621) ("Account")

WHEREAS, the Plan and Investment Manager wish to amend the Agreement as provided herein.

AGREEMENT

NOW THEREFORE, in consideration of the promises and mutual agreements set forth herein, the parties hereby agree to amend the Agreement, as follows:

1. The Scheduled Annual Rate, attached to the Agreement as Exhibit 1, shall be deleted in their entirety and replaced with the Performance Based Fee Agreement attached hereto as Exhibit 1. The Performance Based Fee Agreement shall be retroactively effective as of October 1, 2008.
2. All other terms and provisions of the Agreement and Guidelines shall remain in full force and effect, except as modified hereby.

WESTERN ASSET MANAGEMENT COMPANY

By: _____
Title:
Date:

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

By: _____
Title:
Date: