

**SPECIAL MEETING
ERIE COUNTY EMPLOYEES' RETIREMENT BOARD
AND
PLEASANT RIDGE MANOR EMPLOYEES' RETIREMENT COMMITTEE**

**JUNE 11, 2014
12:00 P.M.**

Members Present: Fiore Leone, Chairman
 Phil Fatica, Vice-Chairman
 Mary E. Schaaf, Secretary
 Dr. Kyle Foust, Member
 James Sparber, Member

Also Present: Tom Talarico, Solicitor
 Marie Lewis, Controller's Office
 Mark J. Orlop, Controller's Office
 Frank Burnette, Morrison Associates (by phone)
 Doug Smith, County Clerk

The Special Meeting of the Erie County Employees' Retirement Board and Pleasant Ridge Manor Employees' Retirement Committee was called to order at 12:00 P.M., in Room #114A, Erie County Courthouse.

Chairman Leone read a prepared statement (whose entirety may be heard on www.eriecountygov.org under Controller's Reports, Retirement meeting audio recordings) regarding what has transpired in the past regarding directed brokerage, Consultant responsibilities and Board authority. He stated that no one Board member has the right to influence the Consultant and cautioned the Consultant not to meet with any single member of the Board prior to the regularly scheduled Board meetings.

Chairman Leone called for discussion of the Asset Allocation Program spreadsheet prepared by Frank Burnette Morrison Advisors. Mr. Burnette stated that four changes were outlined: 1. A minor adjustment to the equity weighting 2. Eliminate the high yield portfolio, 3. Increase the balance in the Boyd Watterson liquidity account 4. Style equalization of the two foreign equity managers.

Mr. Foust asked if these decisions normally require Board approval. Mr. Burnette explained that if there is a reason to make changes to the allocation within the Policy guidelines, he e-mails the Board and if no one from the Board comments, he goes ahead with the changes. Mr. Fatica stated that he was confused by the lack of prior communication regarding these changes and asked for improved communication by the Consultant. Mr. Leone stated that he has requested the performance of these particular managers particularly since \$5.5 million was being taken out of Wentworth and placed with Templeton. Mr. Burnette stated that none of these adjustments were about performance even though Wentworth has trailed its benchmark by 4.5% for the past three years. He explained the style differences between the Wentworth and Templeton foreign equity portfolios with Templeton being more broadly diversified.

Mr. Leone stated that he had no problem with the proposed changes

Mr. Foust asked if these decisions were made outside of full Board approval.

Mr. Burnette stated that this was the exact worksheet that was prepared to send to the Board prior to calling Ms. Schaaf & Mr. Sparber to take a look and tell him what they think. The worksheet did not change. Mr. Sparber stated that due to industry experience and backgrounds, he and Ms. Schaaf share an exchange of ideas with Mr. Burnette but that only two Board members cannot enact any changes. Ms. Schaaf said that changes to the portfolio has always been a Board decision and taken to the full Board. While she appreciates Mr. Burnette's consideration and respect, Mr. Sparber and her do not dictate the Consultant's recommendations.

Mr. Leone stated that the Board did review this specific allocation sheet at the last Board meeting but that he was more concerned about the second spreadsheet with the Fee Analysis which was never discussed by the Board.

Ms. Schaaf stated that Mr. Burnette did ask the Board at the February 27, 2014 Retirement Meeting if due to the substantially increased size of the Pension, he should send a letter to all managers asking if they are willing to reduce their fees. Mr. Leone later approved and signed the letter. Mr. Burnette is simply reporting back with the results of that letter.

Mr. Leone stated again that he has always believed that these fees are appropriate as long as the basis points are commensurate with other areas such as Crawford and Butler. He has no problem paying them if that is what the going rate is.

Mr. Burnette stated this sheet is the result of that letter to managers. Ms. Schaaf had called him expressing her thought that the Board should be more assertive on reducing fees to the Pension. He wanted Board direction if they want a second request sent.

Ms. Schaaf asked Chairman Leone if she could share with the Board several fee spreadsheets she prepared as transparency is good for all members. She stated that the Board would be remiss in its fiduciary responsibility if it did not look at these fees growing substantially with the Fund. She pointed out that on Morrison Advisors' February 2014 Fee Report, there are two separate fees, which are "relationship fees" and investment management fees. She handed out a sheet showing "relationship fees" that are imbedded in the total fee paid to the manager. The second sheet showed separate "relationship fees" with separate Consulting Contracts that do not involve active management of the Fund. These "relationship fees" started in 2004 and have grown substantially. These were not done as one-time referral fees. They are annual and go up continuously as the Fund grows due to employee contributions, County contributions and performance. For the first quarter of 2014 "relationship fees" were over \$50,000. For the full year 2014, the Pension will pay over \$200,000 without receiving any active management.

Ms. Schaaf requested that the Board solicitor look at these contracts and see if it is appropriate to continue to have "relationship fees" compounding as the years go by.

Mr. Leone stated he doesn't particularly care who's getting what from that particular manager. He asked Mr. Burnette what was the going rate for Wentworth. Mr. Burnette said that was a quirky one in that the fee is 80 basis points but if we did not use Wells Fargo as an intermediary, the fee would be 110 bp. Mr. Leone stated that this is his problem with what would happen if we went right to the investment manager.

Mr. Leone referred to the Fee Analysis worksheet which stated the reductions in fees proposed by each investment manager totaling \$33,300 in savings.

Ms. Schaaf asked Mr. Burnette if he can explain the relationship fee of 22 bp with DFA which is a mutual Fund. Mr. Burnette stated this is a little gray. In that particular case, if we chose to go directly to DFA and not use a local broker, the local broker could conceivably be cut out of the deal. As competitive as it is, DFA is a firm that would deal directly with Erie County and simply charge the mutual fund fee without a relationship with a local broker. Ms. Schaaf asked if it would be reduced to 28 bp. Mr. Burnette stated that is correct. Ms. Schaaf asked Mr. Burnette to reconfirm that the DFA fee could be changed from 50bp to 28 bp because it is an institutional mutual fund with an internal management fee of 28 bp. Mr. Burnette stated of the five relationships, this one is the simplest to change and the Pension could own the DFA Fund directly.

Ms. Schaaf asked if she could ask another question and referred to the original 2004 standalone management contract for the County with Wentworth for international equity management. It states that the annual fee to be charged is 50 bp for first \$50,000,000 and there is no mention in this contract of any additional relationship fees to be paid. Wouldn't this contract bind Wentworth at the 50 bp? Mr. Burnette stated no, that's not the way they would look at that. Ms. Schaaf asked why not if it's an existing contract. Mr. Burnette stated there was an accompanying document from Wells Fargo. Ms. Schaaf stated that she has that contract and that's why she wanted the Pension Board solicitor to review it.

Mr. Burnette stated that it doesn't matter. Wentworth would resign within the 30 days. They have a most favored nation clause that they couldn't do it cheaper with us without impairing their ability to charge that rate with other clients.

Chairman Leone asked the Board if they wished to adopt the Asset Allocation change. Mr. Foust asked if it has already been executed.

Motion to make the changes as recommended by the Consultant made by Mr. Foust, seconded by Mr. Fatica and carried unanimously.

Chairman Leone called for adjournment at 12:36 P.M.

Mary E. Schaaf, Secretary
Erie County Employees' Retirement Board
Pleasant Ridge Manor Employees' Retirement Committee
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