

**FIRST QUARTERLY MEETING  
ERIE COUNTY EMPLOYEES' RETIREMENT BOARD**

**MAY 21, 2015**

Members present:     Fiore Leone  
                              Phil Fatica  
                              Dr. Kyle Foust  
                              Mary E. Schaaf  
                              James Sparber

Also present:           Mark J. Orlop, Controller's Office  
                              Frank Burnette, Morrison Associates  
                              Jean Langer, Controller's Office  
                              Tony Keim, PNC  
                              Deanna Holtz, Pleasant Ridge Manor  
                              Jack Walburn, Pleasant Ridge Manor  
                              Melissa Gruzca, PNC  
                              Deedra Pfeffer, Pleasant Ridge Manor  
                              Kevin Plymyer, First National Trust Co  
                              Jeff Schlegel, First National Bank  
                              Mike Crofton, The Philadelphia Trust Co  
                              Matt Walker, The Philadelphia Trust Co  
                              Bob Beichner, Vanguard  
                              Chris Dall, PNC  
                              John Thompson, Emerald

Chairman Leone called the Erie County Employees' Retirement Board to order at 12:08 PM in Room 114A, Erie County Courthouse.

Chairman Leone called for hearing of the public. No one spoke.

Motion to approve the minutes for the First Quarterly Meeting held February 19, 2015 made by Mr. Fatica, seconded by Dr. Foust and carried unanimously.

Chairman Leone called for the report of Morrison Fiduciary Advisors. Frank Burnette gave the report. Frank Burnette reviewed the economic strategy at this time. Frank Burnette stated that the Fund was up 3.5% year to date as of April 30, 2015 and one year 8%, 2 year 11%, 3 year 11%, and 5 year 10%. We continue to have some underperformance and reacted to it by indexing about half the Large Cap strategy which during the ensuing time period, has been favorable. We reduced several underperforming managers' portfolios when the March rebalancing was done. The underperforming money managers will be discussed in detail later.

Mr. Burnette stated that he had prepared The Projected Investment Returns for the Actuary due to the new Federal Law Requirement. The projected 7.07% net return was slightly lower than the current actuarial return of 7.5% and may have a slight impact on the funding requirement. Chairman Leone discussed the risk and returns of the portfolio

at this time and stated the Board is somewhat conservative and will continue to be so as we cannot risk that much.

Mr. Burnette asked the Board to vote on a transfer of the SEIX Fund to new class of the Fund that was identical with lower fees that would save \$12,000/year. Dr. Foust made the motion with Mr. Fatica seconding it. The Board passed the motion unanimously.

Mr. Burnette recommended the Securities Lending Program through the Bank of Montreal due to the richness of the return and the indemnification by BMO from loss of the securities. The expected return is \$217,000.

Ms. Schaaf asked Mr. Burnette to review the indemnification of the BMO Securities Lending and the lending to hedge funds. Mr. Burnette spoke of the collateral in the 2A7 like Money Fund has some implied risk. She questioned if the Securities Lending Guidelines for Erie County in our Investment Policy calling for government guaranteed or investment grade money markets investment of the collateral would be met. Mr. Burnette stated this 2A7 Like Money Market meets these guidelines. She asked if we had to worry about hedge funds defaulting and not getting our securities back. Mr. Burnette replied that risk is mitigated by the BMO's AA rating and the ability of BMO to execute. Ms. Schaaf expressed her concern that the Pension would be trusting 100% that BMO has the ability to fulfill their obligations to all their clients even in a financial meltdown like in 2008. Mr. Burnette stated that it was a 22 bp spread for the 2A7 Money Market Fund managed by BMO. She stated that we were trusting BMO too much with BMO guaranteeing the securities as well as managing the Money Fund. Ms. Schaaf voiced her opinion that the potential income is not commensurate with the additional risk. She stated that if we simply improved the performance of our current managers we could have generating a higher return without adding another level of risk; she cited one of the international managers who have underperformed the EAFE index by more 500 bp per year. She felt that this very complicated BMO Securities Lending Program returning less than a ¼% return per year is not worth the risk.

Mr. Sparber voiced his approval for the BMO program. Chairman Leone asked for a poll of the Board to be taken for BMO Securities Lending. Option 1 consists of 180k at 50 basis points and Option 2 consists of 217k with 22 basis points. The Consultant recommends Option 2. A motion for the BMO Securities Lending Program utilizing Option 2 was moved by Dr. Foust and seconded by Mr. Fatica. Mary Schaaf voted no. All other members voted yes. The motion carried.

Chairman Leone called for the report of Emerald. John Thompson reported Emerald's domestic small cap growth portfolio outperformed since inception which added substantial value to the Russell small cap growth index at over 300 bp per annum and 400 bp to the S & P 500 Index per annum.

Frank Burnette called for the report of Vanguard. Bob Beichner gave the report and reviewed the three Index portfolios at this time. The Institutional S & P 500 Index fee is 4 bp and the one year return is 12.71% with 5 year return at 14.44%. The Growth Index is priced at 8 bp. The Short Term Bond Index returned 2.34% one year and 5 year at 3.4% with a 9 bp fee.

Frank Burnette called for the report of Philadelphia Trust. Mike Crofton introduced Matt Walker as manager of the portfolio as while as Mr. Crofton. Mr. Crofton presented their economic report and portfolio character. Return for the First Quarter was 3.66% Net versus the S&P 500 Index at .95%. Equities returned 287.3% Net since inception in 2002 versus the S&P 500 return of 226.29% and that's 60% more than the Index as a low risk manager.

Mr. Burnette reviewed the investment recommendations at this time, which included the following:

1. Reduce investment equities in the next 3 quarters. Move money into Fixed Income from Equity, this would bring the percentages to:

Currently	60% Equity	33% Fixed Income	7% Real Estate
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Next Quarter	57% Equity	36% Fixed Income	7% Real Estate
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Chairman Leone asked that an email be sent by Frank describing this reallocation and if the Board is in agreement no further action is needed, if the Board is in disagreement another meeting would be held.

2. Frank went over the performance of the money managers. CS McKee has been trailing their benchmark. Wentworth has had highly disappointing 3, 5 year returns.

Adjournment at 1:00 P.M.

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

jml