

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

AUGUST 18, 2016

Members present: Fiore Leone
 Mary E. Schaaf
 James Sparber

Also present: Kevin Plymyer, FNB
 Jeff Schlegel, FNB
 Michael Consorte, Capital Group/ American Funds
 Greg Fernzca, Pleasant Ridge Manor
 Jack Walburn, Pleasant Ridge Manor
 Deedra Pfeffer, Pleasant Ridge Manor
 Doug Smith, Council Clerk
 Michael Bee, Boyd Watterson

Chairman Leone called the Erie County Employees' Retirement Board to order at 12:15 PM in Room 114A, Erie County Courthouse. The roll call reflects there are two members absent, Mr. Horton and Dr. Foust.

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

Approval of Minutes of Special Meeting on 6/16/16 was unanimous.

Chairman Leone called for the report of Morrison Fiduciary Advisors. Frank Burnette stated the Fund is 53 % in equities. Money Market changes have been put into effect that will keep the value stable. We do have some manager underperformance which is affecting the total fund. Earlier year in the year it was C.S. McKee and Philadelphia Trust which were terminated but their numbers are still reflected in current performance. Attention is now on Boston Advisors who has been with us about 10 years and have been a good long-term manager. Over the last year they have had a really bad year and trailed the benchmark by about 7%. We have placed this manager on watch status. Large-cap manager DFA, a value equity portfolio whose process does not include REITs and other high dividend sectors, also trailed their index . We have had a conversation with them concerning their underperformance. Emerald Advisors who is also been with us since 1998 and have been a really good friend of the fund, this year trailed their benchmark by about 6%. They have always been a manager with some pretty big ups and downs but it is worth noting. The manager who was put on watch and the two on our radar are more of your significantly weighted managers, therefore, the total Fund missed its benchmark by several percent.

Ms. Schaaf asked Mr. Burnett to discuss the performance numbers on the Templeton International Portfolio which has very low rankings. As difficult as the international markets have been, 90% of other international managers in this universe have outperformed them. For the past seven years, their ranking is 84. Even in December 31,

2015 their seven year ranking was 93. She requested that Templeton be on watch also considering these low rankings have been going and the one year ranking was 97.

Mr. Burnett stated we were previously monitoring the two international managers as core international managers but recognized they were growth and value orientated. When we terminated Wentworth, we specifically went out looking for a growth manager. When we went to the new manager, we converted over to growth and value indices but failed to change the peer group. Since March 2016, the Euro Pacific Fund has been compared to the MSCI EAFE Growth Index and Templeton is compared to MSCI EAFE Value Index instead of the MSCI EAFE Index.

Ms. Schaaf stated these are gross performance numbers which show that Templeton lost 14.38% over the one year period and when you subtract out the 80 bp fee, which includes the 10 bp consulting fee to Greg Orlando at Wells Fargo, and obtain the net return, we have lost a lot of money for a considerable period of time versus the MSCI EAFE Index. Templeton is one of our most expensive managers. As we've seen with the Pleasant Ridge Pension, when an international index fund is employed, the cost is reduced down to about 9 bp versus 80 basis points.

Mr. Burnett stated he will issue an email with a follow-up on the change of the MSCI EAFE Index to the MSCI EAFE Value Index to make the index change more clear. All the previous comparisons were a bit of a mismatch.

Mr. Sparber asked if this ranking was based upon a core universe but it should be value which Mr. Burnette confirmed. He also asked if the EuroPacific growth Index was correct.

Ms. Schaaf asked the Europacific Fund representative, Michael Consorte, which index he felt was appropriate for his portfolio since his one page summary listed the MSCI All Country World Index (ACWI) ex US as their benchmark. Mr. Consorte replied that 25% of the portfolio is in emerging markets which corresponds with ACWI Index. The majority of his clients measure against the ACWI but he leaves it up the client to choose. Chairman Leone asked Mr. Burnette to resolve this benchmark issue before the next meeting.

Michael Bee from Boyd Watterson brought detailed packets on the Real Estate portfolio and the Fixed Income portfolio to present. The Fixed Income portfolio is \$40.7 million and is ahead of benchmark at 4.28% vs 3.73% this year. Duration is shorter than the benchmark. The Real Estate portfolio is \$6.2 million versus the \$6 million the County invested earlier this year and its objective is to provide a higher income return than appreciation. Total return for investors for one year is 9.25% net. Erie County's return since inception is 3.57% net. 90% of the portfolio is invested in Federal Government buildings. The FBI leases one of the large facilities.

Mr. Burnette if the liquidity has been provided to any investors. Mr. Bee replied there was one investor who received liquidity to meet an unexpected need this past year.

Michael Consorte from the American Funds presented the Europacific Fund report. The Fund's objective is to return long term growth of capital. The performance has been below the index through June 30th for all periods. It has been a terrible year with a negative 10% return. The markets favored defense stocks with yield not growth.

Mr. Burnette spoke about the MLP Portfolio improving their performance. Still need to increase 10% to 15% to return to the original investment amount. Miller Howard has been placed on watch due to the underperformance.

PNC Bank has changed its personnel servicing the Pension. He thanked Joyce Fyrderick From PNC for her long years of good service to Erie County.

Chairman Leone called for new business.

Ms .Schaaf drew attention to a memo in the packets marked United States District Court of Minnesota. Last February she was deposed for two days in Philadelphia order for the Erie County Pension to become a lead plaintiff in a shareholders class action suit against Tile Shop. Kessler, Topaz, Meltzer and Check, the Pension litigation firm, prepared her for that deposition. The Court named Erie County Pension and Beaver County Pension as lead plaintiffs. This makes the Pension eligible as a lead plaintiff to receive any excess funds from the settlement which must be donated to charities per the Court. It may take several years for a settlement to occur.

Chairman Leone called for adjournment.