FIRST QUARTERLY MEETING
ERIE COUNTY EMPLOYEES' RETIREMENT BOARD

FEBRUARY 16, 2017

Members present:	Fiore Leone Andre Horton Mary E. Schaaf James Sparber
Also present:	Tony Keim, PNC Bank Deedra Pfeffer, PRM Jusan Potter, PRM Jack Walburn, PRM Deanna Helmbreck, PRM Kevin Plymer, FNB Wealth Management Cindi Marzka, Northwest Retirement Services Melissa Grucza, PNC Tony Keim, PNC Andrew Dylewski, PNC Rita Yannayou Michael Keim, RBC James Gaul, Boston Advisors

Chairman Leone called the Erie County Employees' Retirement Board to order at 12:14 PM in Room 114A, Erie County Courthouse and noted Dr. Foust was absent.

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

Motion to approve the minutes for the Fourth Quarterly Meeting held November 17, 2016 made by Chairman Leone, seconded by Mr. Sparber and carried unanimously.

Chairman Leone called for the report of Morrison Fiduciary Advisors. Frank Burnette stated that the Fund overcame a slow start of 2016 and finished with the funds best year since 2013 and that in 2016 the fund's total return was 8.4%. He accounts the return on having a large exposer to equities and advoiding poor performer sectors such as hedge funds. Mr. Burnette stated that in the future he may bring to the Board's attention the possibility of moving some funds from fixed income into a private equity fund.

Frank Burnette then updated the Board on the status of the two mangers on watch. He stated that Miller Howard (MLP) trailed its fourth quarter by 19 basis points, return for 2016 was close to 6% and currently YTD the account is up over 9%. Mr. Burnette stated that the account is close to being whole again at which time the board should discuss how to handle the account going forward. At this time he believes with President Trump energy and infrastructure plans the board should consider keeping this manager going forward.

Frank Burnette stated that Boston Advisors will be presenting later and he will address their Watch Status at that time.

Frank then turned it over to John Thompson from Emerald Advisers.

Mr. Thompson stated that since inception of the average rate of return 11% well above the bench mark. However Mr. Thompson that the fund did miss their benchmark by 1% with returns of 10%. Mr. Thompson stated that the first half of 2016 was down and the returns for 2016 came in the second half.

Frank Burnette then turned the floor over James Gaul and Boston Advisors. Boston Advisors presented a letter to the board stating that they had discovered an error in which two of their 26 inputs where entered incorrectly which caused their model to show Bear/Chaotic readings in their model when the model should have been Bull state in the model. Mr. Gaul claimed this mistake should have a minimal effect on the portfolio due to their fundamental research before the buying or selling of any company. James Gaul then offered to take any questions from the board.

Mary Schaaf asked why this mistake took so long to identify.

Mr. Gaul stated the model team had a feeling the something was off with in the model but were not able to identify it, and that he personally was not on the model team. Mr. Gaul also stated the Boston Advisor will be using two separate model teams going forward in order to avoid this from repeating. Boston Advisors also will be hiring an independent consultant to review this error.

Jim Sparber asked how two data points not being changed caused the model to shift from bull to bear market so easily.

Mr. Gaul stated the efficient regimes are not common and that it does not take much to shift from Bull to Bear markets.

Jim Sparber stated that he respects Mr. Gaul for being these issues to light for the board.

Frank Burnette stated that the current return for Boston Advisors is 6.97 % short of the 7.5 % benchmark.

Boston Advisors is currently on the watch list

Chairman Leone asked if there were any items under Other Business.

Ms. Schaaf read the announcement of our securities litigation firm, Kessler Topaz Meltzer & Check, of a $9.5 million settlement with Tile Shop Holdings. The Erie County Retirement Fund participated as one of the lead plaintiffs seeking recovery of the Fund's loss of approximately $60,000. As a class action suit, all shareholders are able to file claims so we do not know yet the final recovery amount for the Erie County Fund. Due to Ms. Schaaf's testimony and approximately 200 hours devoted to this litigation, the Court may compensate accordingly.

Ms. Schaaf then read the January 18, 2017 press release titled "PA Treasurer Joe Torsella Bans Middleman Fees for Treasury Investment Contracts" which was included in the Board members packets for this meeting.

> "PA Treasurer Torsella today announced that as his first official act in office, he has instituted a formal ban on all investment contracts that include third-party agreement that pay middleman finder's fees as a reward for acquiring Treasury investment contracts. The ban, taking effect immediately, covers all current and future agreements. Any current investment manager that has an agreement containing a finder's fee must end that provision within 30 days to continue to manage money on behalf of the Treasury." These finder's fees do not provide improved investment performance for taxpayers, have only served to undermine public trust and add a layer of unnecessary expenses. The fees associated with these arrangements, which are also known as placement or solicitor agreements, are paid by investment companies to individuals who solicit investment contracts with government organizations with whom they have some past or current relationship. Eliminating the cost of these agreements should reduce investment costs for taxpayers by capturing the savings associated with solicitor agent expenses."

Ms. Schaaf then made the following motion:

> I make a motion that Erie County Employees' Retirement Board follow the lead by State Treasurer Torsella and ban all investment contracts that include third-party agreements paying an advisory or consulting fee effective immediately covering all current and future agreements. Any current manager that has a contract containing a middleman fee must end that provision within 30 days to continue to manage funds for the Pension. This Policy will give the Pension members and taxpayers' confidence that their hard earned money is being invested for their exclusive benefit.

Chairman Leone asked if it is part of the law why we need a motion. Ms. Schaaf replied that it is totally up to the Board.

Mr. Burnette, the Consultant, asked to clarify that the State Treasurer is Chairman to the PA State Pension Board so he is establishing that this rule within his own Board but would be not a general State law.

Chairman Leone said to Ms. Schaaf that this goes back long time when she was the consultant for the Fund and also trading also for the city, county, etc.

Ms. Schaaf replied that was this was different.

Mr. Leone said he could show her what he had from the past records.

Ms. Schaaf replied that it was a misunderstanding that occurred by the Controller at that time regarding one account in which the County had a relationship with a managed account that processed their trades through numerous firms including her firm. The County had directed brokerage placing relationships which are now eliminated.

Mr. Leone stated that the County had three directed brokerage agreements carried over from previous periods.

Ms. Schaaf appreciated that the directed brokerage has been eliminated. That particular management firm was placing not Erie County directly but trades for all their clients. It was different because it was not a direct relationship such as the advisory contracts with fees which have been signed with the County with certain brokers here locally.

Mr. Leone said we have no brokers.

Ms. Schaaf replied that there are local brokers receiving advisory fees currently on three contracts. There were five contracts but one manager was terminated and in the other one, the broker voluntarily terminated the advisory agreement last year. There are still three that are part of an advisory agreement that pays them an additional fee, one of which we have to cut a check directly. In other words, it is not a commission, it is a direct fee.

Mr. Burnette stated that we have local representation on Boston Advisors vis-a-vis a one contract at 60 b.p. We have a Wells Fargo office in Erie where Wells Fargo is the money manager but within Wells Fargo a team manages the money but not in the local office. They use global representation and internally they share that fee. Also the Wells Fargo office is an advisor on the Templeton relationship which is a dual contract where the local advisor charges a fee and Templeton charges a fee.

Mr. Sparber asked Mr. Burnette if this was a common practice or is this unusual. Mr. Burnette replied that ten years ago it was common but he looks at each relationship as unique. One relationship is getting long in the tooth and not as common now. More and more of these contracts are not being renewed are ones where the money manager charges an invoice directly to the client then a local advisor charges a separate fee on a separate contract on the same cell of money so there are two contract fees associated with one money management agreement. Theatrically, the money manager should be charging less to make way for the local guy wants to charge something so on total that amount of money has to make sense.

Mr. Burnette referenced PNC's internal compensation structure and then stated Wells Fargo Small cap Value engages a team in North Carolina to manage the money and have a local branch office relationship team. Internally there is one contract and how they pay out to the branch office is within their business. We evaluate relative to what other small cap value managers charge accordingly. Boston Advisors is a gray one where they are an independent money manager using brokerage firms for distribution. There is one Boston Advisors invoice with the stated fee that should be competitive in the market place and then disclosed within the contract is how much of the revenue they share with a local person. Wells Fargo small cap value was hired through an RFP process. Boston Advisors, he was 99% sure was an RFP, and came in a when that of kind of relationship was acceptable at that time and the total economics of the deal was acceptable. The Templeton one came in later when we were terminating a Wells Fargo manager but we did not want to terminate Wells Fargo so to keep things whole we allowed the Wells Fargo representative to find a suitable replacement. So that contract was inherited with in dual contract approach. Going forward, the pressure on the industry has become tighter. To the layman, it does sound odd. Managers with local relationships are under the same fiduciary supervision as all the managers. Wells Fargo small cap value guys have been outstanding. You see the performance of Boston Advisors long term. The Templeton guys have done at least average and have not blown it up.

Mr. Burnette commented that the State Pension funds have had egregious conduct, significant fees and bad performance resulting in a firestorm. Many of them would not have gotten off the turnpike if not for political connections. He then stated prudent practices are clearly migrating away from dual contracts. In order for PNC and Wells Fargo to be cost effective, it is harder for them to put multiple layers of fees into the contract these days. It is harder to get a deal done with these big organizations when different costgos want to get a piece of the revenue.

Mr. Burnette asked if Ms. Schaaf agreed with that assessment.

Ms. Schaaf replied that in this day and age and going back quite some time, institutional investors do not normally go into an advisory relationship. We hired you as our Consultant. You are our advisor. You are the one who monitors the performance. We have managers who run the Portfolio. These advisory relationships are not the norm for institutional accounts. Our fiduciary responsibility is to make sure all the money in the Pension is dedicated solely towards the pension participants and taxpayers. She asked the Board members to look at the numbers that she passed out to the Board going back to 2004 just for advisory fees not management fees. These are additional fees on top of the normal management fees. These fees total $1.7 million.
She expressed concern that there is a fiduciary issue at large here that if the Board does not take action and follow the lead by the State Treasurer. The Board members are putting themselves out there as not being responsive to this day and age of not tying in personal relationships with money management.

Chairman Leone stated he does not have any problem and will go and talk to all of them but he is going to look at everything and start reviewing it all. He not going to be here much longer and will talk to those that involved as far as additional fees that we are paying. At the next meeting, he is certain he is going to be able to talk that and ask them that they are not going to get those additional fees. He wants to see what everyone makes, even the Pleasant Ridge Manor area.

Mr. Leone asked Michael Keim from RBC if he wished to speak.

Mr. Keim stated RBC's relationship with Boston Advisors is not a dual contract and it goes back to 2004 when Boston Advisors was owned by Advest and the time the County wanted to use local vendors if they passed the RFP. He has discussed this with Boston Advisors as they were aware of the changes in the law or least the expectation. He doesn't believe the fee will change whether or not he is part of the Boston Advisors relationship.

Mr. Leone stated that he was lead to believe that even from Wells Fargo it would be the same basis points no matter what.

Mr. Keim said he did have a dual contract last year that he voluntarily resigned from for that specific reason as he saw it coming. He stated he has to certify quarterly to the municipal securities regulators that he has not made political contributions to political persons within his district.

Mr. Sparber stated that if what we are being charged is in line with if we did not have a local representative, that is a win-win. But if we are being charged more than we should be, then we should deal with that.

Chairman Leone said that he will guarantee to have some answers at the next meeting by reviewing all records.

Mr. Horton asked if in the some of those relationships for the State, or locally with us, whether the second party of that dual relationship was charging exorbitant fees.

Mr. Burnette stated that he did not know the details but assumed that was the case, but here we always looked at the total cost and said if that was a fair price compared to other managers in the State. At several points, these relationship fees have been lowered to stay in line with industry standards.

Adjournment at 1:07 PM.

Mary E Schaaf

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

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