

**SPECIAL MEETING
ERIE COUNTY EMPLOYEES' RETIREMENT BOARD**

October 10, 2017

Members present: Fiore Leone
 James Sparber
 Mary Schaaf
 Andre Horton (Via Conference Call)

Also present: Frank Burnette, Morrison Fiduciary
 Daniel Cahill, Constitution Capital
 Daniel Clare, Constitution Capital
 Eric Thuman, Portfolio Advisors
 Kenneth Binick, Portfolio Advisors

Chairman Leone called the Erie County Employees' Retirement Board to order at 12:00PM in Room 114A, Erie County Courthouse.

One member was absent, Dr. Foust.

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

Chairman Leone called for the approval of the minutes of the Third Quarterly Meeting of the Erie County Employees' Retirement Board held on August 17, 2017. Moved by Mr. Sparber, Controller Schaaf seconded, carried unanimously.

Chairman Leone turned the floor over to Frank Burnette from Morrison Fiduciary; Mr. Burnette stated that the fund is currently \$260 million; as of September 30, 2017 the 1 year return is currently 12.26% and YTD is 9.71%, the fund's performance is exceeding benchmarks by 258 basis points.

Mr. Burnette states that the asset allocation of the Fund has 8% Real Estate and 5% in Miller Howard MLP Fund for a total allocation of 13%. If the board were to approve one of these private equity plans, he proposed that the Pension Plan would move funds from the Millar Howard MLP Fund into the private equity funds. This would have the policy at 16% in nontraditional plans compared to the current 13% which would require Board approval for the Policy change.

Mr. Burnette states there are three bullet points to utilizing Private Equity. The reason we are doing this is that people in our industry believe that a Private Equity investment is similar to as public equity investment except for liquidity. Private Equity is invested at a

completely different valuation, With Private Equity you are purchasing an illiquid company at a 40% discount. This creates an advantage in that you are buying at a better multiple and Private Equity management teams who sometimes believe they can outmaneuver or out-manage a company and turn into a public multiple by selling the company or IPOing it. Historically, our industry believes that you end up with a higher rate of return and a lot less risk and volatility than publically traded stocks. The Holy Grail of investing is that if you can get into a different asset class that is not correlated with public stocks and increase your yield and reduce your risk that is a layup. The second bullet Mr. Burnette states is while private equity is illiquid; the Pension Fund has no restrictions regarding liquidity because our cash flows are not exceeding our funding. On a \$250,000,000 fund, the cash flow does not exceed \$10,000,000. The last thing is that even though Private Equity is illiquid, there are cash flows via interest from loans and the sale of companies which flows through to the Fund on a monthly or quarterly basis You have no liquidity but you have cash flow. As any capital transaction occurs such as a sale, restructuring or increasing leverage, cash flows back to the Fund.

Mr. Burnette opens the floor to questions.

Chairman Leone asked what the difference is between the public equity funds list of companies they invest in and the private equity list of companies. Mr. Burnette stated that the size of the companies is much smaller and they do not have the ability to access publicly traded markets. Mr. Burnette also stated that these companies are not traded on the NYSE or other stock exchanges. When purchasing these private companies, you sit in a conference room with attorneys, sign closing documents, purchase agreements and become the board of directors as purchaser.

Ms. Schaaf added that you cannot look up the daily value of the investments in the newspaper and we really won't know until they sell a company what the return was maybe 10 years in the future. Burnette stated that valuations are completed quarterly on these investments. The sale is usually in four or five years.

Chairman Leone asked what these valuations are compared to like the S&P 500 Index. Mr. Burnette states that you compare them with patience. He tends to compare them to an equity index plus a margin which what we are hoping they will do. These private investments tend to have lower returns in the first couple years and larger returns in the later years. The bigger returns are when these companies are sold later. Mr. Burnette also states that there is a benchmark which compares middle market buy-out funds that started the same year but are not as tight as the public benchmarks. We have been doing this for about five years and we have not had that problem yet.

Chairman Leone stated these sounded like a hedge fund type investment to him, Mr. Burnette stated emphatically that these are not related to hedge funds. They have the same metrics and characteristics of companies we are already invest in. They are completely different.

Ms. Schaaf referenced a recent Wall St. Journal article about heavy debt loads of private equity buy-outs tamping down on the regulators quest to prevent over leveraging and the risks associated with them. The volume of leveraged loans, a restively risky form of borrowing, has risen. Why do you say private equity is less risky?

Mr. Burnette stated that he didn't believe the WSJ article was representative of what is going on in the industry. He said they have not have those loses like the Toy-R-Us bankruptcy. It was also stated that you see over leveraging in large buy-outs where as these funds are focused on medium sized companies. He stated private equity is less risky because the returns so far have been higher and the volatility less than public equity.

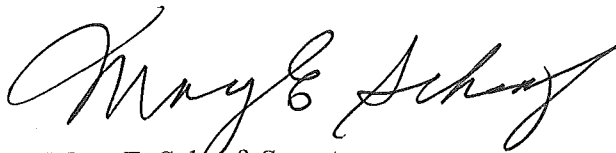
Mr. Burnette turned the floor over to Daniel Cahill and Daniel Clare from Constitution Capital Partners who provided presentation books and outlined their process, team, pricing terms and performance for their Ironsides Co-Investment Fund and Ironsides Opportunities Credit Fund. (20:39 min. on the audio recording)

Mr. Burnette turned the floor over to Eric Thuman and Kenneth Binick from Portfolio Advisors who presented PA Co-Investment Fund and PA Credit Strategies Fund in a presentation book also with process, team, pricing terms and performance. (59:30 min on audio recording)

Chairman Leone thanked them for their presentations and stated a decision will be made later after review.

Chairman Leone called for Adjournment.

Adjournment at 1:54 P.M.



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

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