

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

MARCH 28, 2018

Members present: Fiore Leone
 Mary E. Schaaf
 Dr. Kyle Foust
 Andre Horton
 James Sparber

Also present: Thomas Talarico ESQ, Solicitor
 Daniel Bayletts, Controllers Office
 Mark Orlop, Controllers Office
 Thad Plascynski, Veteran Affairs

Chairman Leone called the Erie County Employees' Retirement Board to order at 12:00 PM in Room 114A, Erie County Courthouse. All members were present. Chairman Leone called for hearing of the public. No one spoke.

Chairman Leone tuned the floor over Frank Burnette from Morrison Fiduciary. Mr. Burnette gave a market and economic overview. He stated the fund is down 1-2% for the quarter, compared to the overall market being down 2.5 %. He does not expect a major market correction and it is normal to have negative a quarter during any calendar year. Stay the course and ride it out.

Mr. Burnette states what we are here today is to redo a meeting we have had a couple of times. We have had 2-3 vendor presentations on Private Investments and 3-4 discussions. Also, some input from our Solicitor. Whether we do or do not do this, we will be fine in the Pension Plan. It is not a make or break proposition.

At 12:09 PM, Atty. Talarico joined the meeting.

Mr. Burnette states that the reason why we are recommending it is our industry recommends it. The industry feels it probably would improve the funds returns by 35 to 50 basis points, while possibly reducing risk through diversification. We would pull the money from mostly public equities. 63% of the fund would be in risk on assets.

He is recommending \$20,000,000 in private investments. Mr. Burnette states how the fund will not reach a point where the fund has the full \$20 million invested at once in private equity. He also states that in previous experience he has with private equity most returns happened within five years.

Attorney Talarico asked if \$20 million stays in the retirement fund until it is used by the private equity firm or does the board give them the \$20 million and they invest it as they go along. Mr. Burnette says the money stays in the Retirement Fund in the current asset

allocation until the firms make calls for money. Atty. Talarico asked if the money in the Fund is encumbered in any way while waiting for the calls. Mr. Burnette said that if we don't fund the call, we forfeit.

Attorney Talarico asked if there is an end to these investments. Mr. Burnette states there are exit strategies at all of the private investments.

Atty. Talarico stated there is still a risk if you cannot sell them. Mr. Burnette states the risk they could legally fail on their contract exits but they are in a Trust. They are beyond the point where they steal money; they get annual audits and other supervision.

Mr. Sparber asked how long have private deals been around and has anyone lost money. General partners have taken money from the limited partners but not at this institutional level. Mr. Burnette stated that there has not been money lost from fraud.

Chairman Leone spoke of the risk in all of our investments.

Attorney Talarico asked if these investments are regulated. Mr. Burnette stated these are both SEC Regulated.

Ms. Schaaf asked if these will be leveraged buy outs, Mr. Burnette stated that the companies will borrow money to do buy outs but not on a fund level. She asked about the Credit Opportunities and the Credit Strategies Fund which are unrated loans and Mr. Burnette likened to high yield bonds, compounding the debt and leverage which exists in both private and public equities. Mr. Burnette stated that because the yield is so high the risk reward is favorable. He stated they are secured loans. They know how to liquidate these deals if needed. Ms. Schaaf questioned the securitization of the mezzanine debt, the secondary debt and the opportunistic debt as described in the private debt funds.

Mr. Burnette reviewed the highlights in the brochures on the four different private investments.

Chairman Leone left the meeting at 12:40 P.M.

Dr. Foust states that Chairman Leone and he believe that the best time to vote on this matter is at the next meeting. Dr. Foust stated his opinion that this has a lot of good things would further diversify the fund.

Mr. Sparber asked about the worst case scenario to get our funds out if it goes south a d how long it would take to extricate ourselves. Mr. Burnette stated you have no option to accelerate the time tables he described. They need their time to run. There are secondary markets but they disappear under distress.

Ms. Schaaf stated her concern is our fiduciary responsibility and would rather error on the side of being conservative. We do not need to make up losses and get greedy. Credit is a big deal as past financial crises in the markets have been related to debt such as the

subprime mortgage, savings and loan, and other downs in the markets. The public stock market has always rebounded over the long haul. Many other strategies have not.

Dr. Foust responded that he looks at it mathematically and it fits the bill.

Mr. Sparber stated he sees this as an opportunity to participate in companies that are not public.

Atty. Talarico asked if any other counties have invested. Mr. Burnette responded and named several but said other institutions such as colleges and foundations consider it as industry standard. Atty. Talarico stated that County pensions always been conservative and constrained by the State Pension Code.

Adjournment at 12:56P.M.

A handwritten signature in black ink, appearing to read "Mary E. Schaaf". The signature is fluid and cursive, with a large, sweeping flourish at the end.

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