

**THIRD QUARTER MEETING
ERIE COUNTY EMPLOYEES' RETIRMENT BOARD**

August 14, 2018

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

Also present: Cindi Marzka, Boetger
 Deanna Helmbreck, PRM
 Melissa Goncza, PNC
 Tony Keim, PNC
 Chermkine Fullinck, Dimensional Fund
 James Gaul, Boston Advisors
 Mark Schlegel, Emerald Advisors
 Mark Orlop, County Controller's Office
 Daniel Bayletts, County Controller's Office

Chairman Leone called the Erie County Employees' Retirement Board to order at 12:16 PM in Room 114A, Erie County Courthouse. Roll call showed all members present.

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

Chairman Leone called for motion to approve the minutes from the 5-17-18 and they were approved

Chairman Leone turned the floor over Frank Burnette from Morrison Fiduciary. Mr. Burnette stated that this quarter two managers are going through ownership changes that the board needs to approve of for Emerald and Mr. Burnette recommends that the board approves. Chairman Leone calls for a motion to approve these changes for Emerald Advisers, Dr. Foust moves for the motion, Seconded by Mr. Horton, Roll Call Vote.

Mr. Sparber: Yes

Dr. Foust: Yes

Chairman Leone: Yes

Mr. Horton: Yes

Ms. Schaaf: Yes

Mr. Burnette then states that Miller Howard is going through ownership changes as well with its senior partners selling equity to employees. Mr. Burnette recommends the Board vote to approve these changes, Mr. Horton motions to approve and seconded by Dr. Foust, Roll Call Vote:

Mr. Sparber: Yes; Dr. Foust: Yes; Chairman Leone; Yes; Mr. Horton: Yes; Ms. Schaaf: Yes

Mr. Burnette states that he would like to move on to Private Equity, he believes that stocks are not going to do as well going forward as they have in the past and that he believes it is time to rebalance the fund. He wants to rebalance to get equity down to 50% and get more conservative.

Mr. Burnette states the Fund is up about 4% YTD. The Golden Large Cap Core Equity account trailed their benchmark by 1% since inception and that he recommends that this manager be placed on watch. Chairman Leone opens the floor for a motion to place Golden Large Cap Core Equity on the watch list, Ms. Schaaf moved, Dr. Foust seconded, and it passed unanimously.

Mr. Burnette stated that he would like to take Boston Advisers off watch. Chairman Leone opens the floor for a motion to remove Boston Advisers from the watch list. Mr. Horton moved, and Mr. Sparber seconded, and it passed unanimously.

Mr. Burnette states the Miller Howard who is on the watch list has improved and the fund is no longer negative in that account. BMO revenues are back up to \$100,000 for the year.

Mr. Burnette states that the fund's current asset allocation is 60% Equity, 26% Fixed Income, and 14.5% Real Estate (Non-Traditional). If the Fund were to invest into Public Equity, the Fund would move \$5-6 million from publicly traded stocks, taking most if not all of the money in Miller Howard and move a little from the Bentall Kennedy Real Estate fund. The Investment Policy Statement changes have been proposed. In total the rebalancing would move a total of \$20 million from those accounts into Private Debt and Private Equity. The time frame for Private Debt is about seven years. Mr. Burnette quoted the yields on the Private Debt at 8-10%. The Private Equity is purchased at returns of 10% or 10 times the earnings. In five years or so, they will sell the companies at 15 times the earnings. These Private Equity returns would be 4% over public equity resulting in 10%, 11, or 12 % returns. Mr. Burnette states that these funds will be closing starting September 15, 2018, he then turns the floor over to Chairman Leone for questions.

Mr. Sparber asked how to expect the Private Equities to act while public traded equities are cooling off. Mr. Burnette states that the market cool down has to do with high valuations and not the overall economy

Chairman Leone states that he believes it doesn't matter if they are in public or private equities the stock market is going to do what the market is going to do and he is in favor of the rebalancing into private equity.

Ms. Schaaf states she is concerned with the Fixed Income part of it, the Private Debt or loans, because we are loaning our money outside the banking system which is more regulated. She is concerned that Private Equity firms are using these Private Loans to

finance their own buy outs setting up the potential for conflicts of interest. They also finance other Private Equity firm's deals. She is concerned with stacking leverage upon leverage upon leverage. And also, most of these loans have floating rates which may rise. The borrowers could default on the loans when the interest rates rise.

Mr. Burnette states that this practice does happen but these fund managers that he has chosen disclosed the strategies they used and he would recommend a fund that has multiple layers of leverage. These funds do run lines of credits for capital calls, but those lines are not long term. Mr. Burnette also states that at this time none of the funds are reporting deterioration in credit.

Dr. Foust states that trust Mr. Burnette and if there is no other comment he would like move to rebalance the portfolio on the lines that Mr. Burnette has recommended. Mr. Sparber seconded, Roll Call Vote:

Mr. Sparber- Yes
Dr. Foust- Yes
Chairman Leone- Yes
Mr. Horton- No
Ms. Schaaf- No

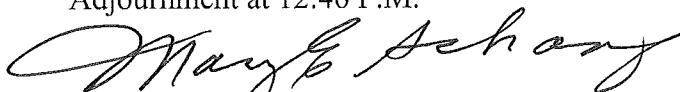
Mr. Horton leaves the meeting at 12:47

Mr. Burnette turned the floor over to Michael Keim from RBC, Mr. Keim states that through the first 6 months of the year NASDAQ lead the markets with a 9.38 % Return, S&P 500 with 2.65% return and the DOW was down .73%. US Treasury's were down 1.08 % based on two rate hikes from the Federal Reserve.

Mr. Keim turned the floor over to James Gaul of Boston Advisors, Mr. Gaul states that the trailing 12 months ending June 30th the portfolio is up 150 basis points over the benchmark. Half of the outperformance is from energy.

The Floor was then turned over to Mark Schlegel of Emerald Adviser; Mr. Schlegel states that Emerald is being acquired by 1251 Capital who is taking a 51% stake in the firm. 1251 is a financial services holding company who invests in insurance companies and asset management companies. In terms of performance small cap outperformed large cap, all performance has outperformed the benchmarks, since inspection Emerald is performing 3.5% above the benchmark.

Adjournment at 12:46 P.M.



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