SPECIAL MEETING
ERIE COUNTY EMPLOYEES' RETIREMENT BOARD
AND
PLEASANT RIDGE MANOR EMPLOYEES' RETIREMENT COMMITTEE

JUNE 22, 2012
9:30 A.M.

Members Present:	Fiore Leone, Chairman Joseph Giles, Vice-Chairman Mary E. Schaaf, Secretary Whitey Cleaver, Member James Sparber, Member
Also Present:	Bryan Spratt, Miller/Howard Inv. Deedra Pfeffer, Pleasant Ridge Manor Sue Teudhope, Pleasant Ridge Manor Frank Burnette, Morrison William Amick, Controller's Office Marie Lewis, Controller's Office

The Special Meeting of the Erie County Employees' Retirement Board and Pleasant Ridge Manor Employees' Retirement Committee was called to order at 9:30 A.M., in Room #114A, Erie County Courthouse.

Chairman Leone called for the hearing of the public. Deedra Pfeffer introduced Sue Tuedhope as a new member of the Pleasant Ridge Manor Pension Committee.

Chairman Leone called on Frank Burnette regarding formulating and proposing a revised Investment Policy for Pleasant Ridge Manor. Mr. Burnette stated that the Erie County Fund has consistently outperformed Pleasant Ridge's plan and he feels it is because the asset allocation decisions in Erie County have been more successful. He stated what he would like to do is use the existing managers and have them manage specific asset classes where they have some level of specialty and generate some fee schedule savings. He stated once the asset classes are identified then they would model the asset allocation moves and shifts as they do for the Erie County Fund. Shifting the existing managers into their strengths, he positioned the portfolio into a 60% equity and 40% fixed income model. He stated we have always had good relationships with our managers and out of respect for these existing managers; they will be positioned in the new model. He gave the caveat that if we did a clean slate and went out to hire managers, we might not normally pick some of the managers as the premier managers in their assigned asset style. They are all qualified managers but perhaps not the best. He stated that having Manning & Napier as the only Large Cap manager would be a heavy concentration with one manager.

Ms. Schaaf thanked Mr. Burnette for addressing these issues brought up at the last meeting. She expressed concern that we are using existing managers who are qualified but not the best performers. It would behoove us not to be so committed to current managers but look for managers who are the best of the best in order to benefit the pension and to benefit the taxpayers. She was interested in diversifying the intermediate fixed income by using the short term high yield strategy previously proposed by Mr. Burnette. Also, the concentration in Large Cap with Manning & Napier could be diversified with a second manager. Having all your eggs in one basket is not a good strategy.

Mr. Giles questioned why the model was not using the same International manager as the County Plan since it does have an outstanding track record. Mr. Burnette replied that he didn't know if the Wentworth past performance was repeatable. Mr. Giles stated past performance is a predictor of future performance. Ms. Schaaf stated that she had compared the past performance of the DFA International Fund with Wentworth International and their three year returns were both over 20%.

Mr. Leone stated he doesn't want to get into being the Consultant. We are all guessing in regard to future performance. We should not interfere with the Consultant's role.

Mr. Giles reiterated that he was asking for the initial logic of why we would not use the same managers as the County Plan since the County Plan has done extremely well. Mr. Burnette stated it was out of respect for the existing managers but over time we would evolve to considering other managers.

Mr. Giles asked about the PNC Treasury Bill allocation since the County does not use it. Mr. Burnette said it was a money market for cash.

Mr. Giles third question was if there would be an impact on cost by implementing this plan. Mr. Burnette stated that the termination charges would be insignificant and the managers' fees in fixed income will be less.

Mr. Sparber spoke of the disparity in size of the Pleasant Ridge Manor Pension plan at $34myn and the County Pension at $175myn. People with bigger funds do better because of lower fees and more diversification. Mr. Burnette did not agree and said size could be a disadvantage.

Mr. Giles said he was comfortable with the recommendation and would like to make a motion to adopt. Mr. Leone stated that the Board of Trustees would have to approve the new allocation plan not the Board. Mr. Sparber asked if the motion is to send a recommendation to the Board of Trustees, he stated he is not sure what the role of the Retirement Board is relative to the Board of Trustees. Mr. Leone stated to tell the truth he is not sure either, he stated that since three Trustees were present, the Board could adopt it and he would bring it to the Trustees.

Motion by Mr. Giles, seconded by Mrs. Schaaf to approve a restructuring of the Pleasant Ridge Manor Investment Policy to use individual asset class managers rather than balanced managers.

Mr. Cleaver	-	Yes	
Mr. Giles	-	Yes	
Mr. Sparber	-	Yes	
Mrs. Schaaf	-	Yes	
Chairman Leone	-	Yes	Motion Passed.

Frank Burnette presented his proposal for a change in the Erie County Employees' Retirement Fund's Asset Allocation Policy. The Fund year to date performance is 5.5% through 6/19/12. He feels due to the concerns over Europe and the U.S. fiscal budget mandates in the near future, now is the time to reduce equity risk by reducing equity policy by 5% to 50% from 55%. As of 6/18/12, the Fund has 59.6% equities. The rest would come from the market overweight of about 5%. A 5% weighting in a non-traditional asset class would be initiated. The four non-traditional asset classes possibilities are Dividend-Paying Stocks, Short Term High Yield Income Strategy, Preferred Stock strategy, and Master Limited Partnership Strategy. Mr. Burnette stated that the Master Limited Partnership Strategy generates rent or return of 6% plus from their oil and gas energy pipelines. Fixed Income only generates 1% or 2% yields.

He wants to move about 8% out of equities into nontraditional assets reducing Equities from 60% to 52%.

Ms. Schaaf stated that an 8% reduction in equities was more than she had anticipated when she asked about rebalancing when the market was up in March. She doesn't want to be counterproductive by taking money out of equities while the market is down and move into a new asset class. Fixed income is dead in the water. Since the market has rebalanced itself, these assets have to have potential for recouping in the future.

Mr. Leone stated that we have a 60/40 Policy we should stick with. Mr. Burnette stated the Policy went to 55% when Real Estate was added two years ago. Mr. Leone stated since these funds are employee funds, we should stay with the 60/40 allocation and not go into risks of any kind.

Mr. Sparber stated lowering equities generally would be considered to be more conservative. He agreed fixed income is going nowhere. Our actuarial assumption looks like a fantasy. The markets could have serious downside. We have to look at something that produces some return. The options are very limited.

Ms. Schaaf said we are in unchartered waters. She would like to continue with the current equity allocation but carve out a High Dividend Stock Strategy as part of it. Manning & Napier has a Dividend Focus Portfolio generating a 4% or 5% yield & could be a bond substitute in the equity category. However, it is the Consultant's role to present strategies and he has stated we do own some of these stocks.

Mr. Giles asked if we could have flexibility in using these innovative classes in fixed income rather than equities. We've done well in our past choices.

Mr. Burnette stated that past performance is so useless. We picked a good time to purchase Real Estate but it may not continue to perform at that pace. High Yield did well in the past but may be leveling off. We have enough of both of those and are looking for another asset class.

Bryan Spratt presented the Miller Howard Master Limited Partnership Strategy which is a high yielding portfolio composed of high-quality pipelines and energy facilities, with strong prospects for growth of distributions. Miller Howard started in 1991 as a dividend focused manager. In 1997, they started adding MLPs to their Income-Equity Strategy. 2009 was the inception of the Miller Howard MLP Strategy. MLPs pay no corporate tax and are able to offset income with tax deductions. Basically, Energy MLPs are midstream infrastructure assets that transport, process, and store natural gas, crude oil, and refined petroleum products. They receive as cash flow or rental income which is shielded from current taxation by depreciation. Their correlation is the S&P 500 is

historically low .The cash distributions have the potential to grow in excess of inflation and are currently in the 6% range. He concluded and asked for questions.
Ms. Schaaf asked about proposed changes by Congress to remove MLPs tax advantage which would make their attractiveness decline due to large numbers of investors who pay tax and their market prices could decline.

Mr. Spratt stated it is an unlikely headline risk that he does not anticipate happening.

Mr. Sparber asked about the General Partner structure of the MLPs.

Frank Burnette stated there will not be any decision made today.

Adjournment at 10:55 A.M.

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