

**ARLINGTON COUNTY VIRGINIA  
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees Meeting Minutes  
June 2, 2016**

The President of the Board, Mr. Peter Maier, called the meeting to order at 8:00 AM, in Conference Room 511C at 2100 Clarendon Boulevard.

Voting Members Present:           Mr. Peter Maier, President  
  Mr. Richard Alt, Vice President  
  Ms. Sandy DeGray, Secretary  
  Ms. Michelle Cowan, Treasurer  
  Mr. Michael Brunner  
  Mr. Ken Dennis  
  Mr. Jon Kinney

Substitute Member Present:       Mr. Jimmie Barrett, Asst. Treasurer  
  Mr. Alex Iams  
  Mr. Wayne Rhodes (arrived 8:03 AM)

Various Times:                     Mr. Daniel Zito, Executive Director  
  Ms. Randee Stenroos, Assistant Director  
  Ms. Katrina Milne, Investment Analyst  
  Ms. Susan Bomberg, Accountant  
  Mr. Rob Gooderham, ACG  
  Mr. Seth Yablonovitz, ACG  
  Mr. Samuel Keith Grierson (via teleconference)  
  Mr. Brian Lynch  
  Mr. Nick Krechting

**CONSENT LIST**

A motion to approve the consent list, consisting of the May 5, 2016 meeting minutes and the Fiscal Year 2017 budget, was offered by Mr. Kinney and seconded by Mr. Dennis. The motion passed by a vote of 7-0.

**DISABILITY APPEAL**

Mr. Grierson and his representatives, Messrs. Krechting and Lynch, appeared before the Board to appeal the discontinuance of his service connected disability benefits by the County Manager.

A motion was offered by Mr. Maier, seconded by Mr. Brunner, and passed by a vote of 7-0, to enter into closed session for discussion or consideration of medical and mental records excluded from this chapter pursuant to subdivision 1 of §2.2-3711(A) (7). The closed session began at 8:03 AM.

The Board returned to open session at 10:09 AM. On a motion by Ms. DeGray, seconded by Mr. Brunner, and carried by a vote of 7-0, the voting recorded as follows:

<u>Member</u>	<u>Vote</u>
Mr. Maier	Aye
Mr. Alt	Aye
Ms. Cowan	Aye
Mr. Brunner	Aye
Ms. DeGray	Aye
Mr. Dennis	Aye
Mr. Kinney	Aye

The Board certified that only public matters lawfully exempted from open meeting requirements by Virginia law and identified in the motion convening the closed session were heard, discussed or considered by the Board.

Upon returning to open session, Mr. Alt, seconded by Mr. Dennis, offered a motion that the Board obtain an independent medical opinion regarding Mr. Grierson’s case, including both psychological testing and psychiatric evaluation, performed by practitioners with expertise in the matter, with the stipulation that the reviewing physician be able to make a definitive assessment based on the definition of Service Connected Disability in Section 46-41 of the Arlington County Code, at a place to be determined by Staff and Mr. Grierson, and to direct Human Resources to continue disbursing service connected disability benefits until the matter is resolved by the Board. The motion failed by a vote of 3-4, with Mr. Maier, Mr. Kinney, Ms. Cowan and Ms. DeGray dissenting.

Mr. Kinney, seconded by Mike Brunner, offered a motion that the Board allow 60 days for both parties to submit any additional evidence or reports supporting their respective arguments to the Board, after which time the Board will make a determination at the next regularly scheduled meeting. A friendly amendment was offered by Ms. Cowan, and accepted by the makers, to direct Human Resources to continue disbursing service connected disability benefits until the matter is resolved by the Board. The motion carried by a vote of 4-3, with Mr. Alt, Mr. Dennis and Ms. Cowan dissenting.

## **ASHFORD QUARTERLY REVIEW AND MARKET UPDATE**

Ashford Consulting reviewed the fund’s performance for the quarter year ended March 31, 2016. Fund returns for various time periods were:

(%)	Quarter	1 Year	5 Years	10 Years
Total Fund (Gross)	1.2	-2.0	6.5	5.8
Total Fund (Net)	1.2	-2.3	6.2	5.5
Policy Benchmark**	1.7	-0.8	6.2	5.4
CPI + 3.5% Annualized	1.6	4.4	4.8	5.3

\* Gross returns adjusted downwards for current annual fee rate per annual fee review and analysis, assuming all fees deducted quarterly.

\*\*Effective 10/1/07: 40% Ru3000, 17.5% MSCI ACWI ex-US, 39% BC Universal, 1.5% Barclays TIPS, 2% T-Bills

Net performance for the quarter and the last twelve months lagged the benchmark by (0.5%) and by (1.5%), respectively, both driven primarily by the fund's overweight exposure to the energy sector, specifically, weak MLP performance. Relative to the TUCS universe of public plans, ACERS performance was in the 75<sup>th</sup>, 63<sup>th</sup> and 35<sup>th</sup> percentile on a one, five and ten year basis, respectively. The fund's estimated diversified risk level at March 31, 2016 was 63. This compares to a benchmark estimated risk of 57 and the top of the policy risk band at 65.

## **STRESS TEST ANALYSIS**

Mr. Yablonovitz discussed ACERS' long-term objectives and current asset allocation, noting that ACERS's actuarial assumption of a 7.25% nominal return is likely to be challenging based on Ashford's current capital markets assumptions. Mr. Yablonovitz noted that ACERS' significant equity overweight and corresponding fixed income underweight, particularly in investment grade securities, has benefited the fund. However, the current positioning warrants reevaluation as market signals seem to indicate late cycle conditions, potentially altering the available risk/return tradeoffs. A discussion ensued.

The results of the stress test analysis will be discussed further at the July meeting. Mr. Kinney requested that Ashford prepare a few actionable allocations based on the analysis for the Board's consideration.

## **LIQUIDITY FUNDING RECOMMENDATION**

Ms. Stenroos presented a detailed, ongoing cash management plan which included cash flow projections through 2018. She noted that operating cash inflows average \$5 million per month while cash outflows average \$8 million; ACERS' private equity investment related cash flows vary and are more difficult to project. Ms. Stenroos presented three options for funding liquidity and stated staff's recommendation.

After discussion, a motion was offered by Mr. Brunner, and seconded by Mr. Maier, to accept Staff's recommendation authorizing Staff to take the actions necessary to fund liquidity from either the Vanguard Short Term Federal Fund or the Vanguard S&P 500 index fund, as necessary, at Staff's discretion, unless the Board directs the use of other funds. The motion passed by a vote of 6-0, with Ms. Cowan absent. Following the vote, Mr. Alt requested that staff provide an additional five years of cash flow projections.

## **CONSULTANT REVIEW**

Staff presented consultant review summaries for Ashford Consulting and Franklin Park based on the completed review forms that Board members submitted. Overall, the Board remains pleased with the services of both consultants.

## **KEY INITIATIVES UPDATE/OTHER BUSINESS**

- Based on Ms. Milne's Foreign Exchange (FX) analysis, and staff's due diligence on five firms, Mr. Brunner, seconded by Mr. Dennis, offered a motion to accept the recommendation to retain FX Transparency, subject to satisfactory negotiation and documentation, to perform an analysis of ACERS FX trades for the period covering FY14-16. The motion passed with a vote of 6-0, with Ms. Cowan not present.
- Ms. Stenroos noted that ACERS' FY 2015 Comprehensive Annual Financial Report received a Certificate of Achievement for Excellence in Financial Reporting from the Government Financial Officers' Association.
- Mr. Zito discussed the July and September Retirement Board meeting dates. The July meeting will be July 14, the second Thursday of the month instead of the first. He also suggested that the Board consider moving the September 1 meeting to September 8 to minimize Labor Day conflicts.

## **INVESTMENT RELATED**

- A. April Fund Balance Report
- B. County Board Update as of March 31, 2016

## **ADMINISTRATIVE ITEMS**

- A. Calendar of Events
- B. Trip Report (Philadelphia)
- C. April 6, 2016 Training Session Minutes

## **ADJOURNED**

Mr. Brunner, seconded by Mr. Alt, offered a motion to adjourn the meeting. The motion passed with a vote of 6-0, with Ms. Cowan not present. There being no further business, the meeting adjourned at 11:25 AM.

Respectfully submitted,  
Susan Bomberg