

**ARLINGTON COUNTY VIRGINIA
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees Meeting Minutes
September 8, 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
 Ms. Sandy DeGray, Secretary (arrived 8:40 AM)
 Ms. Michelle Cowan, Treasurer (arrived 8:12 AM)
 Mr. Michael Brunner
 Mr. Ken Dennis
 Mr. Jon Kinney (arrived 8:02 AM)

Voting Members Absent: Mr. Richard Alt, Vice President

Substitute Member Present: Mr. Wayne Rhodes

Substitute Members Absent: Mr. Jimmie Barrett, Asst. Treasurer
 Mr. Alex Iams

Various Times: Mr. Daniel Zito, Executive Director
 Ms. Randee Stenroos, Assistant Director
 Ms. Katrina Milne, Investment Analyst
 Ms. Susan Bomberg, Accountant
 Mr. Garry Musto, ACG
 Mr. Jim McGovern, Franklin Park
 Mr. Matthew Castaldo, Franklin Park
 Mr. Josh Yafa, Thornburg
 Mr. Shawn Hogan, Thornburg
 Mr. Peter Macdonald, Bison Capital Partners
 Mr. Andreas Hildebrand, Bison Capital Partners
 Ms. Amy Rozier, Human Resources

CONSENT LIST

A motion to approve the consent list, consisting of the July 14, 2016 meeting minutes and the Investment Policy Illiquid Investment Revision, was made by Mr. Brunner and seconded by Mr. Rhodes. The motion passed by a vote of 4-0 with Ms. Degray, Ms. Cowan and Mr. Kinney not yet present.

THORNBURG MANAGER REVIEW

Messrs. Yafa and Hogan discussed ACERS' \$59 million investment in the Thornburg Multisector Opportunistic Strategy. Investment performance for various periods ending June 30, 2016 is summarized below:

(%)	Quarter	YTD	1 Year	Since Inception (11/28/13)
ACERS (Net)	2.9	5.0	2.0	2.3
Blended Index*	3.8	7.0	3.3	3.3

*50% Barclays U.S. Aggregate Credit – Intermediate Index and 50% Barclays U.S. Corporate High Yield Index. Source:AdventAPX

Mr. Hogan noted that Jason Brady, a co-portfolio manager of the strategy, was promoted to CEO in December 2015 and will continue to serve in both roles; there were no other changes to the portfolio management team or investment strategy which is characterized as opportunistic.

Mr. Yafa noted that recent underperformance has resulted primarily from volatility in emerging markets and foreign currency translation issues offset by security selection. On a macro level, he noted a challenging environment in which fixed income has been expensive, good deals have been oversubscribed and opportunities have been limited. As a result, the strategy holds 11% in cash.

There was robust questioning and discussion during and after the presentation.

QUARTERLY PERFORMANCE REVIEW AND OUTLOOK

Mr. Musto reviewed the fund's performance for the quarter year ended June 30, 2016. Fund returns for various time periods were:

(%)	Quarter	1 Year	5 Years	10 Years
Total Fund (Gross)	2.5	0.3	6.8	6.2
Total Fund (Net)	2.4	0.0	6.5	5.8
Policy Benchmark**	2.0	1.5	6.4	5.7
CPI + 3.5% Annualized	2.1	4.5	4.8	5.2

* 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 outperformed the benchmark by 0.4% while the last twelve months lagged the benchmark by (1.5%). The quarter's over performance was attributable to strong fixed income performance, continued recovery of oil prices impacting the energy sector holdings, and a strong rally at the end of June following heightened volatility resulting from the Brexit referendum. Underperformance over the last year is primarily attributable to active manager net underperformance, an underweight to fixed income and the energy sector allocation. Relative to the TUCS universe of public plans, ACERS performance was in the 73rd, 51st and 28th percentile on a one, five and ten year basis, respectively. The fund's estimated diversified risk level at June 30, 2016 was 63. This compares to a benchmark estimated risk of 57 and the top of the policy risk band at 65.

BISON CAPITAL PARTNERS V, LP

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 the investment of public funds where competition or bargaining is involved, where, if made public initially, the financial interest of the governmental unit would be adversely affected pursuant to Virginia Code §2.2-3711(A)(6). The closed session began at 9:14 AM.

The Board returned to open session at 10:21 AM. On a motion by Ms. Degray, seconded by Mr. Maier, and carried by a vote of 7-0, the voting recorded as follows:

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

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

After the Board returned to open session, Mr. Rhodes, seconded by Mr. Dennis, offered a motion to commit \$15 million to Bison Capital Partners V, LP, subject to satisfactory negotiation of documentation, funded via distributions from the Vanguard Institutional Index Fund, as necessary, unless the Board directs use of other funds before installments are due, and to authorize staff to take the actions necessary to implement the investment. The motion passed by a vote of 6-1 with Mr. Maier in dissent.

DISABILITY APPEAL DISCUSSION

Appellant FY17-01 and his representatives, Messrs. Krechting and Lynch, appeared before the Board to offer additional testimony concerning his appeal of the discontinuance of service connected disability benefits by the County Manager.

A motion was offered by Ms. Degray, seconded by Mr. Maier, 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 §2.2-3705.5. The closed session began at 10:24 AM.

The Board returned to open session at 11:14 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. Brunner	Aye
Ms. Cowan	Aye

Ms. DeGray	Aye
Mr. Dennis	Aye
Ms. Kinney	Aye
Mr. Maier	Aye
Mr. Rhodes	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, Ms. Cowan, seconded by Mr. Brunner, offered a motion that the Board obtain an independent medical opinion regarding Appellant FY17-01 case from a qualified practitioner with the stipulation that the reviewing practitioner be able to make a definitive assessment based on the definition of Service Connected Disability in Section 46-41 of the Arlington County Code, and to direct Human Resources to continue disbursing service connected disability benefits until the matter is resolved by the Board. The motion passed by a vote of 5-2, with Mr. Dennis and Mr. Rhodes dissenting.

KEY INITIATIVES UPDATE/OTHER BUSINESS

- Ms. Stenroos noted the reallocation authorized at the July 14, 2016 is complete with the exception of reallocating funds associated with Brahman’s termination.
- Ms. Rozier updated the Board on the upcoming trustee election process to fill the General Trustee and Substitute General Trustee positions which expire at the end of January 2017, noting that targeted communications will be sent to all eligible general employees. Nominations and elections will be held during two week periods in October and November, respectively.
- Ms. Stenroos discussed changes in liquidity accounts related to the OPEB trusts as a result of new SEC rules pertaining to money market accounts. A motion was offered by Mr. Kinney, seconded by Mr. Brunner, to accept the revisions to the OPEB Investment Policy Statement, as proposed by Staff, to replace the Vanguard Prime Money Market Fund with the Vanguard Federal Money Market Fund. The motion carried with a vote of 7-0.

INVESTMENT & ADMINISTRATIVE RELATED

- A. July Fund Balance Report
- B. June Fund Balance Report
- C. County Board Update FY 2016
- D. Class Action Recoveries FY 2016
- E. Securities Lending Earnings FY 2016
- F. Soft Dollars FY 2016
- G. Commission Recapture FY 2016
- H. International Tax Reclaim Status FY 2016
- I. Trip Report: Los Angeles, July 6, 2016
- J. Calendar of Events

ADJOURNED

Mr. Dennis, seconded by Mr. Brunner, offered a motion to adjourn the meeting. The motion passed with a vote of 7-0. There being no further business, the meeting adjourned at 11:20 AM.

Respectfully submitted,
Susan Bomberg