

**ARLINGTON COUNTY VIRGINIA  
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees Meeting Minutes  
October 6, 2016**

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

Voting Members Present:            Mr. Richard Alt, Vice President  
   Ms. Sandy DeGray, Secretary  
   Ms. Michelle Cowan, Treasurer (arrived 8:10 AM)  
   Mr. Michael Brunner  
   Mr. Ken Dennis (arrived 8:05 AM)  
   Mr. Jon Kinney (arrived 8:02 AM)

Voting Members Absent:            Mr. Peter Maier, President

Substitute Member Present:        Mr. Alex Iams (arrived 8:07 AM)  
   Mr. Jimmie Barrett, Asst. Treasurer

Substitute Members Absent:        Mr. Wayne Rhodes

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. Kevin Woodrich, Cheiron  
   Mr. Patrick Nelson, Cheiron

**CONSENT LIST**

A motion to approve the consent list, consisting of the September 8, 2016 meeting minutes and the JFL Equity Investors IV, LP Agreement Amendment was made by Mr. Brunner and seconded by Ms. DeGray. The motion passed by a vote of 5-0, with Ms. Cowan not yet present and Mr. Maier absent.

**CASH SWEEP VEHICLE RECOMMENDATION**

Mr. Gooderham noted that ACERS currently uses the Northern Trust Government Short Term Investment Fund (GSTIF) as its cash sweep vehicle. New money market rules becoming effective in mid-October encourage investors to transfer funds from the Short Term Investment Funds (STIF) to the GSTIF to avoid a variable net asset value and possible fees and gates. However, Ashford believes that these new rules are increasing the yield spread between the STIF and GSTIF; recently the STIF yield was approximately 20 basis points higher with little additional risk. Mr. Gooderham recommended that ACERS utilize Northern Trust's STIF as the cash sweep vehicle. A

motion was offered by Mr. Alt and seconded by Mr. Dennis, to authorize staff to take the necessary actions to change the cash sweep vehicle from the Northern Trust's GSTIF to the STIF. The motion passed by a vote of 5-0, with Ms. Cowan not yet present and Mr. Maier absent.

## **REAL RATES OF RETURN AND INFLATION**

To provide context for the Board's actuarial valuation assumption setting discussion, Mr. Gooderham reviewed ACERS' applicable historical total returns and real returns. In addition, Ashford's current capital market forecasts, related fund forecasts, peer group comparisons and inflation data from the Philadelphia Federal Reserve Survey of Economists were reviewed. Based on the review of the data, Mr. Gooderham suggested that the Board consider raising the real rate of return from the current 3.5% and lowering the inflation rate from the current 3.75%.

## **ACTUARIAL VALUATION STUDY REVIEW AND ASSUMPTION DISCUSSION**

Cheiron presented the findings of the June 30, 2016 actuarial valuation analysis, based on an actuarial assumed rate of 7.25%, consisting of a 3.5% real return and a 3.75% inflation component. Based on these assumptions, the actuarial funded ratio increased to 101% at fiscal year-end compared to 99% in the prior year primarily due to the continued recognition of past investment gains and favorable liability experience. On a market value basis, the ratio fell from 101% to 97%. The resulting fiscal year 2018 County contribution rate as a percent of covered payroll was 20.5%. Mr. Woodrich emphasized the strong position of the fund compared to its peer group.

Cheiron presented the County contribution rates under various scenarios with the discount rate between 6.75% and 7.25% and the inflation component between 3.0% and 3.75%. Staff recommended a 0.25% increase in the real rate to 3.75%, and a 0.75% decrease in the inflation component to 3.0% yielding a total 0.5% decrease in the discount rate to 6.75%. These assumptions, would result in a fiscal year 2018 County contribution rate as a percent of covered payroll of 21.0% without significantly impacting the 10 year sum of projected County contribution dollars. Cheiron and Ashford concurred that a reduction to the discount rate was prudent.

A robust discussion ensued among the Trustees, Cheiron, Ashford and staff. After discussion, Mr. Alt offered a motion, seconded by Mr. Brunner, that the Board approve the reduction of the actuarial assumed discount rate to 6.75%, consisting of a 3.75% real return assumption and a 3% inflation assumption concurrent with the June 30, 2016 valuation and accept the associated actuary recommendation for a 21.0% County contribution. The motion passed by a vote of 5-1, with Mr. Dennis dissenting and Mr. Maier absent.

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

- A draft of the Comprehensive Annual Financial Report for FY 2016 was presented to Board members for review.

- Katrina Milne updated the Board on the results of a foreign exchange analysis of FY 2014 – 2016 conducted by FX Transparency (FXT). Nearly 14,000 FX trades with an approximate value of \$1.1 billion were analyzed. Both ACERS' negotiated and standing instruction trades ranked above the FXT universe median and no significant issues were found with the less than 2% of the trades identified as outliers. Given the results, staff recommended completing another study in approximately 3 years.
- Arsenal Update- Closed Session

A motion was offered by Mr. Alt, seconded by Mr. Brunner, and passed by a vote of 6-0, 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 9:29 AM.

The Board returned to open session at 9:41 AM. On a motion by Mr. Alt, seconded by Mr. Dennis, and carried by a vote of 6-0, the voting recorded as follows:

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

## **ELECTION OF BOARD OFFICERS**

In accordance with the Arlington County Code, the Board held its annual election of officers. Mr. Brunner conducted the election process. The nominees, motion makers and votes, by officer position, were recorded as follows with nominees abstaining from voting for the respective position and Mr. Maier absent:

<b>Position</b>	<b>Nominee</b>	<b>By</b>	<b>Second</b>	<b>Votes</b>
President	Mr. Kinney	Mr. Dennis	Ms. DeGray	5-0-1
Vice President	Mr. Alt	Mr. Dennis	Ms. DeGray	5-0-1
Treasurer	Ms. Cowan	Mr. Dennis	Ms. DeGray	5-0-1
Asst. Treasurer	Mr. Barrett	Mr. Dennis	Ms. DeGray	6-0-0
Secretary	Mr. Dennis	Mr. Alt	Ms. DeGray	5-0-1

## **INVESTMENT RELATED**

- A. August Fund Balance Report
- B. FY16 OPEB Report

## **ADMINISTRATIVE ITEMS**

- A. FY16 Budget Variance Report
- B. July 13, 2016 Education Session Minutes
- C. Calendar of Events

## **ADJOURNED**

Mr. Brunner, seconded by Mr. Dennis, offered a motion to adjourn the meeting. The motion passed with a vote of 6-0, with Mr. Maier absent. There being no further business, the meeting adjourned at 10 AM.

Respectfully submitted,  
Susan Bomberg