

ARLINGTON COUNTY VIRGINIA EMPLOYEES' RETIREMENT SYSTEM

Board of Trustees Meeting Minutes November 3, 2016

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

Voting Members Present: Mr. Jon Kinney, President
Mr. Richard Alt, Vice President
Mr. Ken Dennis, Secretary
Mr. Michael Brunner
Ms. Sandy DeGray (left at 10:00 AM)
Mr. Peter Maier

Voting Members Absent: Ms. Michelle Cowan, Treasurer

Substitute Member Present: Mr. Jimmie Barrett, Asst. Treasurer
Mr. Wayne Rhodes

Substitute Members Absent: 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. Rob Gooderham, ACG
Mr. Garry Musto, ACG
Mr. Bruce Veaco, Focused
Mr. Kevin Jestice, Vanguard
Mr. Tom Teneza, Vanguard

CONSENT LIST

A motion to approve the consent list, consisting of the October 6, 2016 meeting minutes, a letter to the County Board recommending an FY18 contribution rate of 21% of covered payroll and an amendment to the Thornburg Investment Management Agreement, was made by Mr. Brunner and seconded by Mr. Kinney. The motion passed by a vote of 6-0, with Ms. Cowan absent.

FOCUSED INVESTORS MANAGER REVIEW

Mr. Veaco reviewed ACERS' \$122.2 million investment in Focused's Concentrated Value strategy, noting there have been no changes to the firm's fundamental research, valuation techniques, portfolio construction process or organization.

Performance as of September 30, 2016 is as follows:

(%)	Year-To-Date	Since Inception*
Focused Concentrated Value (Gross)	5.1	11.9
Focused Concentrated Value (Net)	4.7	11.3
Russell 1000 Value Index	10.0	12.4
S&P 500 Index	7.8	13.1

*November 18, 2010

Mr. Veaco noted that the strategy is designed for capital preservation in down markets, but since 2009, a generally strong equity market environment combined with low interest rate environment has created a difficult environment for the strategy. As a result, Focused has lagged its benchmark. Mr. Veaco did note that while performance has lagged, risk, as measured by standard deviation, has also been lower over the time period.

In the general discussion that followed the presentation, several Board members expressed concerns with performance. During the discussion, Mr. Veaco indicated that he planned to continue with consistent application of the firm's investment process.

Mr. Kinney requested Ashford Consulting prepare an analysis of the large cap value sector, including an ex-post view on the original decision to invest with Focused and potential alternative managers and strategies in the space.

VANGUARD INVESTMENT ROUNDTABLE

Messrs. Jestice and Teneza of Vanguard led a roundtable discussion including Vanguard, the Trustees, Ashford and staff. The goal was to focus on multiple forces at play in the investing marketplace and examine any related future implications. A robust discussion ensued and several Trustees expressed that they found the exercise informative, thought provoking and very useful.

HIGH YIELD AND CREDIT MARKET UPDATE

Mr. Gooderham provided the Board with an update on the high yield and credit market. After significant decline in credit markets in early 2016 driven largely by weak prices in the energy sector, high yield rebounded significantly with the Barclay's High Yield index up 15.1% year to date. In July, positions in Loomis, TRP Floating Rate and Thornburg were trimmed to reduce credit exposures. Currently, credit spreads are near historical average levels and default activity is easing. Therefore, Ashford recommends no change in the System's allocations at this time.

DISABILITY APPEAL DISCUSSION

A motion was offered by Mr. Dennis, seconded by Mr. Brunner, and passed by a vote of 5-0 with Ms. Cowan and Ms. DeGray absent, 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 10:29 AM.

The Board returned to open session at 10:31 AM. On a motion by Mr. Maier, seconded by Mr. Dennis, and carried by a vote of 5-0, the voting recorded as follows:

<u>Member</u>	<u>Vote</u>
Mr. Alt	Aye
Mr. Brunner	Aye
Mr. Dennis	Aye
Mr. Kinney	Aye
Mr. Maier	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 returning to open session, Mr. Maier, seconded by Mr. Dennis, moved the Board accept the report of the independent medical advisor concerning Appellant FY17-01, overturn the March 4, 2016 service connected disability retirement denial and direct Human Resources to continue the administration and payment of service connected disability retirement benefits in accordance with the County's Ordinance, Chapter 46. The motion passed by a vote of 5-0, with Ms. Cowan and Ms. DeGray absent.

KEY INITIATIVES (UPDATE/OTHER BUSINESS)

- Ms. Stenroos noted that an RFP for actuarial services will be issued in mid-January with finalists presenting at the March 2017 Board meeting.
- Ms. Stenroos noted that a draft of the Comprehensive Annual Financial Report (CAFR) was presented to the Board for review and comment. At the December meeting, the final report will be presented.
- Mr. Zito noted that beginning in March 2017, education sessions for the Board will be held every other month.
- Mr. Alt requested that Staff provide the Board with enough prior notice of planned manager visits so that members have ample time to consider joining Staff on visits.

INVESTMENT RELATED

- A. Fund Balance for September

ADMINISTRATIVE ITEMS

- A. October 5, 2016
- B. Final Actuarial Valuation Report
- C. Calendar of Events

ADJOURNED

Mr. Maier, seconded by Mr. Brunner, offered a motion to adjourn the meeting. The motion passed with a vote of 5-0, with Ms. Cowan and Ms. DeGray absent. There being no further business, the meeting adjourned at 10:40 AM.

Respectfully submitted,
Susan Bomberg