

ARLINGTON COUNTY VIRGINIA EMPLOYEES' RETIREMENT SYSTEM

Board of Trustees Meeting Minutes March 2, 2017

The President of the Board, Mr. Jonathan Kinney, called the meeting to order at 8:00 AM, in the Cherry/Dogwood Conference Room at 2100 Clarendon Boulevard.

Voting Members Present: Mr. Jonathan Kinney, President
Mr. Richard Alt, Vice President
Mr. Kenneth Dennis, Secretary
Mr. William Ross
Ms. Sara Teyema (arrived 8:03 AM)

Substitute Member Present: Mr. Wayne Rhodes
Mr. Jimmie Barrett, Assistant Treasurer (departed early)
Mr. Wilfredo Calderon

Voting Member Absent: Ms. Michelle Cowan, Treasurer

Various Times: Mr. Daniel Zito, Executive Director
Ms. Randee Stenroos, Assistant Director
Ms. Katrina Milne, Investment Analyst
Mr. Tom Teneza, Vanguard
Mr. Hugh Waters, Vanguard
Mr. Ted Aronson, AJO
Ms. Gina Moore, AJO
Mr. Justin Harrison, BV Partners
Mr. Matthew Kinsey, BV Partners
Mr. Jim McGovern, Franklin Park
Mr. Matt Castaldo, Franklin Park
Mr. Rob Gooderham, ACG
Mr. Garry Musto, ACG

CONSENT LIST

Mr. Kinney, seconded by Mr. Alt, made a motion to approve the February 2, 2017 Board meeting minutes. This motion passed by a vote of 5-0.

VANGUARD RELATIONSHIP REVIEW

Mr. Teneza and Mr. Waters reviewed ACERS' investments, totaling \$589.6 million, in the Vanguard Short-Term Federal Fund, Vanguard Dividend Growth Fund and the Vanguard Institutional Index Fund and the County and School OPEB trusts investments, totaling \$147.4 million, in the Vanguard Wellington Fund. Mr. Teneza discussed the cash flows into Vanguard and explained that, given Vanguard's structure, economies of scale would allow Vanguard to lower fees to clients. Mr. Waters discussed Vanguard's use of external managers for the Dividend Growth Fund and the Wellington Fund, both of which are sub-

advised by Wellington Investment Management. He stated that Vanguard evaluates sub-advisors primarily on people and processes with a focus on long-term performance. Vanguard was asked to provide staff with performance on a rolling one, three and five-year basis for the Dividend Growth Fund. Mr. Teneza also discussed Vanguard's new collective trust offerings relative to the Institutional Index Fund and an Aggregate Bond Fund.

AJO MANAGED VOLATILITY REVIEW

Mr. Aronson and Ms. Moore presented AJO's Managed Volatility strategy. Mr. Aronson reviewed the firm and current clients as well as the product offerings. Mr. Aronson emphasized the importance of low transaction costs and AJO's policy to not use soft dollars or commission recapture. Ms. Moore discussed the decision making process and how the model has evolved over twenty years. Performance based fee structures were also discussed. A discussion ensued with the Board over the managed volatility strategy as well as emerging markets and international equities.

ASHFORD QUARTERLY REVIEW

Mr. Gooderham and Mr. Musto reviewed ACERS' performance for the quarter ending December 31, 2016. In addition, they discussed the status of their current research on several asset classes. Mr. Kinney inquired whether ACERS' should reduce its equity allocation by five percent out of equities and apply the proceeds to another asset class. Mr. Gooderham responded he is comfortable with the current allocation considering the risk premium on equities relative to bonds. A discussion about the agility and pros and cons of ACERS' decision making process followed. Ashford noted that a comprehensive asset allocation analysis will be presented at the April meeting. Mr. Alt requested Ashford update the scenario analysis illustrating the impact to various asset classes under several assumed economic scenarios at a meeting in the near future

CLOSED SESSION

A motion was offered by Mr. Dennis, seconded by Ms. Teyema, and passed by a vote of 5-0, to enter into closed session regarding the acquisition, holding or disposition of a security or other ownership interest in an entity, where such security or ownership interest is not traded on a governmentally regulated securities exchange, to pursuant to Virginia Code §2.2-3711(A)(20) and where 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) and where discussion or consideration of information excluded from Chapter §2.2-3711 pursuant to subdivision 25 of §2.2-3705.7 . The closed session began at 10:29 AM.

The Board returned to open session at 11:30 AM. On a motion by Mr. Dennis, seconded by Ms. Teyema, and carried by a vote of 5-0, the voting recorded as follows:

<u>Member</u>	<u>Vote</u>
Mr. Kinney	Aye
Mr. Alt	Aye
Mr. Dennis	Aye
Ms. Teyema	Aye
Mr. Ross	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. Kinney, seconded by Mr. Dennis, offered a motion to commit up to \$15 million to BV Partners IX, LP, subject to satisfactory negotiation of documentation, funded via distributions from the Vanguard Institutional Index Fund or its successor, 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 5-0.

After the Board returned to open session, Mr. Kinney, seconded by Mr. Dennis, offered a motion to transfer the entire balance of ACERS' investment in the Vanguard Institutional Index Fund Institutional Plus Shares to the Vanguard Institutional 500 Index Trust, subject to satisfactory review and negotiation of documentation, and to authorize staff to take the actions necessary to implement the investment. The motion passed by a vote of 5-0.

KEY INITIATIVES (UPDATE/OTHER BUSINESS)

- Ms. Stenroos noted that final funds from the termination of Brahman Capital have been received.
- Ms. Stenroos noted that the actuarial RFP had been issued and asked if any trustees wanted to join the review committee.
- Mr. Zito noted that a trustee training session was held on March 1, 2017.
- Mr. Zito noted that he would not be in attendance at the April 6, 2017 Board meeting.
- Mr. Zito noted that ACERS is sponsoring the AMRS-VA Spring conference, which includes trustees from other Virginia municipalities, on April 23 – 25. The conference will be held in Arlington.

INVESTMENT RELATED

- A. Fund Balance for January
- B. County Board Update (as of 12/31/17)

ADMINISTRATIVE ITEMS

- A. Trip Report - Boston

- B. Calendar of Events
- C. Future Meeting Dates/Locations on reverse of Agenda

ADJOURNED

Mr. Dennis, seconded by Mr. Alt, offered a motion to adjourn the meeting. The motion passed with a vote of 5-0. There being no further business, the meeting adjourned at 11:42 AM.

Respectfully submitted,
Ranee Stenroos