

**ARLINGTON COUNTY VIRGINIA  
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees Meeting Minutes  
May 4, 2017**

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

Voting Members Present:           Mr. Jonathan Kinney, President  
                                                  Ms. Michelle Cowan, Treasurer (arrived 8:05 AM)  
                                                  Mr. William Ross  
                                                  Ms. Sara Teyema

Substitute Member Present:       Mr. Jimmie Barrett, Assistant Treasurer  
                                                  Mr. Wilfredo Calderon

Voting Member Absent:           Mr. Richard Alt, Vice President  
                                                  Mr. Ken Dennis, Secretary  
                                                  Mr. Wayne Rhodes

Various Times:                       Mr. Daniel Zito, Executive Director  
                                                  Ms. Katrina Milne, Investment Analyst  
                                                  Ms. Tammy Dixon, Segal Consulting  
                                                  Mr. Rocky Joyner, Segal Consulting  
                                                  Mr. Chad Brown, Segal Consulting  
                                                  Mr. Gene Kalwarski, Cheiron  
                                                  Mr. Kevin Woodrich, Cheiron  
                                                  Mr. Jim McGovern, Franklin Park  
                                                  Mr. Matthew Castaldo, Franklin Park  
                                                  Mr. Seth Yablonovitz, ACG  
                                                  Mr. Garry Musto, ACG

**CONSENT LIST**

Mr. Barrett, seconded by Ms. Teyema, made a motion to approve the consent list which included the April 6, 2017 Board meeting minutes and the Dennis Appreciation Resolution. This motion passed by a vote of 4-0, with Ms. Cowan not yet present.

**CLOSED SESSION**

A motion was offered by Mr. Barrett, seconded by Ms. Cowan, and passed by a vote of 5-0, to enter into closed session for the discussion and consideration of certain matters exempt from open meeting requirements pursuant to Virginia Code sections 2.2-3711 (A) (6). The closed session began at 8:16 AM.

The Board returned to open session at 9:55 AM. On a motion by Mr. Ross, seconded by Ms. Cowan, and carried by a vote of 5-0, the voting recorded as follows:

<u>Member</u>	<u>Vote</u>
Mr. Kinney	Aye
Mr. Barrett	Aye
Ms. Cowan	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.

When the Board returned to open session, Ms. Cowan made a motion that Board retain Cheiron as its actuarial consultant and authorize staff to take the actions to negotiate and execute the necessary contract. The motion was seconded by Mr. Barrett and passed by a vote of 5-0.

#### **PRIVATE INVESTMENT RECOMMENDATION**

Staff recommended a \$15 million commitment to the Franklin Park Venture Series 2017, LP, noting the vehicle provides ACERS diversified access to venture capital managers with no incremental management fees or carry charged by Franklin Park. Staff further noted that prior Franklin Park Venture Series have demonstrated compelling performance, reinforcing staff's favorable view of the firm's investment research and general partner selection process. Staff noted that while venture capital investing had the potential to generate returns substantially in excess of those available in the public market, it involves a very long time horizon and entails significant risks as one is taking positions in small, rapidly developing companies.

Messrs. McGovern and Castaldo of Franklin Park reviewed the rationale for investing in venture capital, namely that top tier venture managers can enhance the returns of an overall private equity portfolio. Franklin Park's approach to identifying, researching and underwriting venture funds for the vehicle was discussed. Prior venture series performance, sector exposures and along with a portfolio summary of Venture Series 2015, in which ACERS is invested, were reviewed.

After discussion, Ms. Cowan made a motion to commit \$15 million to Franklin Park Venture Series 2017, LP, subject to satisfactory review and negotiation of documentation, funded via distributions from existing private investments and 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 was seconded by Ms. Teyema and passed by a vote of 5-0.

## **SCENARIO ANALYSIS**

Mr. Yablonovitz discussed ACERS long term total fund objectives, noting the 3.75% actuarial assumed real rate of return and 3.0% inflation assumption and Ashford's base economic case of modest GDP growth coupled with 1-3% inflation. After reviewing the portfolio's current asset positioning versus the benchmark, he discussed the role of stress testing a fund's asset allocation mix as a means to examine the potential behavior of the fund under different scenarios. Specifically, a matrix encompassing an economic boom, a recession, a high inflation and depression environments was utilized to illustrate how each asset class, and ACERS current portfolio as a whole, might fare.

Mr. Yablonovitz observed that ACERS current overweight to equities and underweight to high-quality fixed income, have served the fund well in the "higher growth" period since 2009, but that the portfolio lacks assets that might provide downside protection in an equity bear market or a high inflation environment.

Mr. Yablonovitz noted that should the current administration's economic policies be enacted, there is an increased possibility that inflationary pressures might surface. Mr. Kinney queried Mr. Yablonovitz on the potential usefulness of adding real estate, commodities and/or TIPS to the portfolio. A robust discussion ensued. International and emerging market equities were noted as increasingly interesting from a fundamental perspective.

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

Mr. Zito:

- Reviewed the forecast for FY 2017 and proposed a budget of \$8.9 million for FY 2018, a decrease of \$1 million versus the FY 2017 budget driven primarily by investment management fee reductions. After discussion, it was agreed to include the budget on the June meeting consent list.
- Noted that the reallocation of \$40 million from the Vanguard Institutional Index Fund in equal parts to the NTGI Aggregate Bond Fund and the Vanguard Short Term Federal Fund was completed; the investment management agreement for the AJO Managed Volatility strategy is in process.
- Shared that Human Resources was planning the election for the Public Safety Substitute position in the wake of Mr. Dennis' entering DROP.
- Requested that the Trustees complete and return the annual consultant review forms by May 24.
- Noted that the part time accountant position would be posted the week of May 8.
- Provided details on the Harvest MLP portfolio holdings.

## **INVESTMENT RELATED**

- A. Fund Balance for March
- B. County and School OPEB Performance

## **ADMINISTRATIVE ITEMS**

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

## **ADJOURNED**

Mr. Ross, seconded by Ms. Teyema, 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 11:15 AM.

Respectfully submitted,  
Daniel Zito