

**ARLINGTON COUNTY VIRGINIA
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees Meeting Minutes
June 1, 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
 Ms. Michelle Cowan, Treasurer (arrived 8:25 AM)
 Mr. Jimmie Barrett, Assistant Treasurer
 Mr. William Ross
 Ms. Sara Teyema (arrived 8:10 AM)

Substitute Member Present: Mr. Wayne Rhodes
 Mr. Wilfredo Calderon

Various Times: Mr. Daniel Zito, Executive Director
 Ms. Randee Stenroos, Assistant Director
 Ms. Katrina Milne, Investment Analyst
 Mr. Jim McGovern, Franklin Park
 Mr. Seth Yablonovitz, ACG
 Mr. Rob Gooderham, ACG
 Mr. Daniel Tully, Altaris Health Partners

CONSENT LIST

Mr. Calderon, seconded by Mr. Alt, made a motion to approve the consent list which included the May 4, 2017 Board meeting minutes and the Fiscal Year 2018 Budget. This motion passed by a vote of 5-0, with Ms. Cowan not yet present.

CALDERON APPRECIATION RESOLUTION

Mr. Kinney expressed the Board's appreciation for Mr. Calderon's service to the Retirement Board. Mr. Alt made a motion to accept the Calderon Appreciation Resolution. The motion was seconded by Mr. Kinney and passed by a vote of 4-0, with Ms. Cowan and Ms. Teyema not yet present and Mr. Calderon abstaining.

PRIVATE EQUITY PROGRAM UPDATE

Mr. McGovern reviewed ACERS private equity investments, including legacy investments. He noted ACERS overall exposure to private equity along with individual investment IRRs and the quartile rankings by vintage year. The Board then discussed some of the legacy investments and were updated by Staff and Ashford on recent developments.

CLOSED SESSION

A motion was offered by Mr. Barrett, seconded by Mr. Ross, and passed by a vote of 6-0, 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 8:27 AM.

The Board returned to open session at 9:25 AM. On a motion by Mr. Barrett, seconded by Mr. Ross, and carried by a vote of 6-0, the voting recorded as follows:

<u>Member</u>	<u>Vote</u>
Mr. Kinney	Aye
Mr. Alt	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, Mr. Alt made a motion to commit \$15 million to Altaris Health Partners Fund IV subject to satisfactory review and negotiation of documentation. The motion was seconded by Ms. Cowan and passed by a vote of 6-0. Mr. Ross made a motion to fund related capital calls via distributions from existing private equity investments and the Vanguard Institutional Index Fund, as necessary, unless the Board directs use of other funds before installments are due. The motion was seconded by Ms. Cowan and passed by a vote of 6-0.

ASHFORD QUARTERLY REVIEW

Mr. Gooderham reviewed the fund's performance for the quarter ended March 31, 2017. Fund returns for various time periods were:

(%)	Quarter	1 Year	5 Years	10 Years
Total Fund (Gross)	4.3	12.2	8.3	6.0
Total Fund (Net) *	4.2	11.9	8.0	5.6
Policy Benchmark**	4.1	10.2	7.2	5.4
CPI + 3.5% Annualized	1.9	6.1	4.9	5.4

* 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 and year outperformed the benchmark by 0.1% and 1.7%, respectively. Strong performance for the quarter and year were primarily attributable to over-weight allocations to domestic equity and to credit within fixed income.

Relative to the TUCS universe of public plans, ACERS' performance was in the 27th, 41st and 29th percentile on a one, five and ten-year basis, respectively. Ashford estimates the total fund's risk level at March 31, 2017 was 61, an increase of 2 risk points versus December 31, 2016. This compares to Ashford's estimated benchmark risk of 54 and the top of the policy risk band at 65.

INTERNATIONAL AND EMERGING MARKETS DISCUSSION

Mr. Yablonovitz discussed Ashford's investment thesis on international and emerging markets. International equities are becoming attractive due to relative valuations coupled with improving fundamentals and the near-term catalysts of a recovery in earnings and increased capital flows. Mr. Yablonovitz also noted that risks remain in these markets including volatility, risk of economic crisis, liquidity, currency and less mature capital markets and legal infrastructure. Ashford believes the Board should consider increasing the exposure to international and emerging markets. Ashford will be bringing actionable asset reallocation recommendation options to the next meeting.

INFLATION AND REAL ASSET DISCUSSION

Mr. Yablonovitz discussed the various types, and measures, of inflation. He noted that US headline inflation has been steady, hovering around the Fed's 2% inflation target. Inflation remains low in other parts of the developed world and is moving lower in emerging markets. Market expectations of inflation have risen, but remain modest. ACERS portfolio is positioned for modest inflation. Mr. Yablonovitz discussed inflation sensitive assets and viewed that Natural Resources and MLPs were better assets to be in during inflationary times. In the discussion that ensued, Mr. Kinney requested that Ashford and Staff develop a proactive plan to shorten the reallocation decision making time frame should there be evidence of softening in the capital markets.

BOARD SECRETARY ELECTION

Mr. Kinney asked for nominations for the position of Board Secretary. A motion for Mr. Barrett to become Secretary was made by Ms. Teyema. The motion was seconded by Ms. Cowan and passed by a vote of 5-0, with Mr. Barrett abstaining.

KEY INITIATIVES (UPDATE/OTHER BUSINESS)

- Mr. Kinney shared insights gleaned while attending the Mid-Atlantic Institutional Investor Forum which he attended.
- Ms. Stenroos presented the results of the consultant reviews. Both consultant ratings were higher compared to last year.
- Ms. Stenroos noted that she and Mr. Alt had attended the IFEBP Wharton Investment Program. They recommended the class to the other trustees.
- Ms. Stenroos noted that the termination of Focused Investors and the funding of AJO was completed near the end of May.
- Ms. Stenroos noted that the part time accounting position had been posted and interviews were being scheduled for the following week.

- Mr. Zito provided a performance comparison of ACERS portfolio vs. the OPEB Trust. He noted that the Wellington Fund is more aggressive and volatile than ACERS. ACERS outperformed the Wellington Fund on a relative to benchmark basis over the 1,3 and 5 year periods. Mr. Alt requested additional analysis of the funds' relative performance.
- Mr. Zito noted that emerging markets was the topic of the May 31, 2017 trustee training session.
- Mr. Zito noted a 3 bps fee reduction on the Vanguard Dividend Growth Fund investment.
- Mr. Zito updated the Board on the election process to fill Mr. Dennis and Mr. Calderon's seats. Human Resources is running the election process which will be completed by the end of June, allowing new trustees to attend the July Board meeting.

INVESTMENT RELATED

- A. Fund Balance for April
- B. County Board Update as of March 31, 2017

ADMINISTRATIVE ITEMS

- A. Calendar of Events
- B. Trip Report (New York City)

ADJOURNED

Mr. Calderon, seconded by Mr. Ross, offered a motion to adjourn the meeting. The motion passed with a vote of 6-0. There being no further business, the meeting adjourned at 11:58 AM.

Respectfully submitted,
Ranee Stenroos