

ARLINGTON COUNTY VIRGINIA EMPLOYEES' RETIREMENT SYSTEM

Board of Trustees Meeting Minutes September 7, 2017

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

Voting Members Present: Mr. Jonathan Kinney, President
Mr. Richard Alt, Vice President
Mr. Jimmie Barrett, Secretary & Assistant Treasurer
Mr. William Ross
Ms. Sara Teyema

Substitute Member Present: Mr. Wayne Rhodes
Mr. Brian Lynch (arrived 8:25 AM)
Ms. Michael-dharma Irwin

Voting Members Absent: Ms. Michelle Cowan

Various Times: Mr. Daniel Zito, Executive Director
Ms. Randee Stenroos, Assistant Director
Mr. Jonathan Roth, Abbott Capital
Mr. Daniel Kettner, Abbott Capital
Ms. Amy Rozier, Human Resources
Mr. Rob Gooderham, ACG
Mr. Garry Musto, ACG

CONSENT LIST

Prior to asking for a motion to approve the consent list, Mr. Kinney welcomed Ms. Michael-dharma Irwin, who was recently appointed as the General Employee Substitute Trustee.

A motion to approve the consent list, consisting of the July 14, 2017 Board meeting minutes and the Harvest Fund Advisors' assignment consent was offered by Mr. Ross and seconded by Mr. Barrett. This motion passed by a vote of 5-0, with Ms. Cowan not present.

ABBOTT CAPITAL REVIEW

Messrs. Roth and Kettner provided an overview of the firm and discussed ACERS' \$30.7 million dollar investments in ACE IV, ACE V and ACE VI, fund-of-funds private equity vehicles. Mr. Roth noted that Abbott's investment due diligence and decision making process remains unchanged and that Abbott seeks to invest in general partners that have demonstrated success in weathering economic cycles. Mr. Roth addressed the robust fundraising environment for private equity which he attributed to a decent economy coupled with continued low interest rates and a demand to put distributed capital back to work in the space. Mr. Roth noted that ACE IV, V & VI capital calls have been flat since

2016 while distributions have accelerated. Further questions and discussion included the relative attractiveness of private equity, the impact of crowd sourcing, the IPO market and general partner discipline.

FY17 DISABILITY ACTIVITY AND PROPOSED CODE CHANGES

Ms. Rozier reviewed disability activity for Fiscal Year 2017. She noted there were three permanent disability approvals and one temporary disability approval. Human Resources is presenting several code changes to the County Board. Per Section 46-9 of the Arlington County code, the Retirement Board's actuary, Cheiron, reviewed the changes and concluded there would be minimal impact to the Retirement System resulting from the proposed changes. A discussion ensued.

ASHFORD QUARTERLY PERFORMANCE REVIEW

Messrs. Gooderham and Musto reviewed Fiscal Year 2017 performance results, noting that the fund remains within all of its policy guidelines. The year's outperformance was largely attributable to net active equity manager outperformance and an underweight allocation to fixed income. Within fixed income high yield and floating rate loans had a positive impact. Fund returns for various time periods:

(%)	Quarter	Fiscal Year	5 Years	10 Years
Total Fund (Gross)	3.2	12.9	9.3	5.8
Total Fund (Net) *	3.1	12.7	9.0	5.5
Policy Benchmark**	2.8	11.1	8.2	5.3
CPI + 3.75% Annualized	1.4	5.4	4.9	5.2

Mr. Musto discussed Harvest Fund Advisors acquisition by Blackstone, noting Blackstone's reputation of integrating firms and spreading team incentives over longer periods versus upfront. He did note that pressure to grow assets is a possible issue in the future and will be monitored closely.

ASSET CLASS OVERVIEW AND BOND SUBSTITUTES

Messrs. Gooderham and Musto presented a draft report of a Marketable Asset Class Overview. This report summarizes various asset classes' key metrics, returns and valuations. It is used as a dashboard to monitor and assess both the absolute and relative attractiveness of an asset class. Critically, it is not determinative, but highlights areas of potential opportunity that merit further study.

In response to Mr. Kinney's request at the July meeting, Ashford presented possible alternatives to high quality fixed income. In looking at desirable features in alternatives, several asset classes met some criteria, but no one asset class met all the criteria. Several asset classes were reviewed and discussed by Ashford and the Board.

Mr. Kinney requested that Ashford prepare a proposal for the reinvestment of \$50 million sourced from the Aggregate Bond Fund into one or more alternative fixed income asset classes discussed.

KEY INITIATIVES (UPDATE/OTHER BUSINESS)

- Ms. Stenroos noted that the reallocation from the Vanguard 500 Institutional Index Fund Trust to Dimensional Fund Advisors' ex-US Core Equity strategy and the Vanguard Total International Stock Fund had been completed.
- Ms. Stenroos stated that final field work for the audit was scheduled for the week of October 9, 2017, the CAFR was in process and a draft would be included in the October Board package.
- Ms. Stenroos discussed the Arsenal investment and possible extension of the fund.
- Ms. Stenroos noted a training session on Direct Lending was held on September 6, 2017.
- Mr. Zito reviewed a fee trend analysis produced by Ms. Milne which found that fees for managing public market assets have declined from 0.34% in FY12 to 0.28% in FY17 due to exiting higher fee mandates, aggregating assets to achieve fee breaks, reallocation to more passive mandates and industry wide pressure on average expense ratios in many asset classes.

PERSONNEL DISCUSSION

A motion was offered by Mr. Alt, seconded by Mr. Kinney, and passed by a vote of 5-0 with Ms. Cowan absent, to enter into closed session for discussion, consideration or interviews of prospective candidates for employment; assignment, appointment, promotion, performance, demotion, salaries, disciplining or resignation of specific public officer, appointees or employees of any public body pursuant to Virginia Code §2.2-3711(A)(1). The closed session began at 11:35 AM.

The Board returned to open session at 11:52 AM. On a motion by Mr. Alt, seconded by Mr. Ross, 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. Barrett	Aye
Mr. Ross	Aye
Ms. Teyema	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 reentered open session, a motion was offered by Mr. Barrett, seconded by Mr. Alt, to approve the Executive Director's FY18 salary increase consistent with the Executive Director Compensation Policy adopted by the Board on October 1, 2015. The motion passed by a vote of 5-0 with Ms. Cowan absent.

INVESTMENT & ADMINISTRATIVE RELATED

- A. July Fund Balance Report
- B. June Fund Balance Report
- C. County Board Update FY 2017
- D. Class Action Recoveries FY 2017
- E. Securities Lending Earnings FY 2017
- F. Soft Dollars FY 2017
- G. Commission Recapture FY 2017
- H. International Tax Reclaim Status FY 2017
- I. OPEB Update
- J. Calendar of Events

ADJOURNED

Mr. Lynch, 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 12:10 PM.

Respectfully submitted,
Ranee Stenroos