

**ARLINGTON COUNTY VIRGINIA
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees Meeting Minutes
October 5, 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
 Ms. Michelle Cowan, Secretary
 Mr. Jimmie Barrett, Secretary & Assistant Treasurer
 Mr. William Ross

Substitute Member Present: Mr. Wayne Rhodes (arrived at 8:13 AM)
 Ms. Michael-dharma Irwin

Voting Members Absent: Mr. Richard Alt
 Ms. Sara Teyema

Substitute Member Absent: Mr. Brian Lynch

Various Times: Mr. Daniel Zito, Executive Director
 Ms. Randee Stenroos, Assistant Director
 Mr. Craig Watson, Kiltearn
 Mr. Ed Clarke, Kiltearn
 Mr. Scott Berg, T. Rowe Price
 Mr. Kurt Umbarger, T. Rowe Price
 Mr. Brad Meeker, T. Rowe Price
 Mr. Kevin Woodrich, Cheiron
 Mr. Patrick Nelson, Cheiron
 Mr. Rob Gooderham, ACG
 Ms.Carolynn Kane, County Attorney's Office

CONSENT LIST

A motion to approve the consent list, consisting of the September 7, 2017 Board meeting minutes, was offered by Mr. Barrett and seconded by Mr. Ross. This motion passed by a vote of 5-0, with Mr. Rhodes not yet present.

KILTEARN REVIEW

Messrs. Watson and Clarke provided an overview of the firm and discussed ACERS' \$98.2 million dollar investment in the global value strategy. Mr. Clarke noted that the firm is currently managing a wait list after closing the fund earlier this year at \$10 billion in client investments. Two junior investment analysts were added to Kiltearn's team. Kiltearn's process was reviewed and discussed. As of August 31, 2017, performance has

lagged the MSCI ACWI benchmark since ACERS' initial investment in May of 2014. The shortfall was primarily attributed to growth outperforming value over the period, the related underweight to the US market, not holding Chinese stocks and an overweight to the UK and Europe. A manager specific fee discussion expanded into a robust discussion of fee philosophy. Ashford and staff reiterated confidence in the manager and its process, underscoring the role the value strategy played within the broader portfolio context and noting that ACERS' overall global allocation has outperformed over time.

T. ROWE PRICE GLOBAL LARGE CAP REVIEW

Messrs. Berg, Umbarger and Meeker provided an overview of the firm and discussed ACERS' \$178.5 million investment in the Global Large Cap portfolio. Performance since inception, as of August 31, 2017, was ahead of the MSCI ACWI benchmark. The investment process was discussed; Mr. Berg reiterated that the strategy was a global growth, best ideas portfolio based on T. Rowe Price's significant research resources. Mr. Berg stated that tax and infrastructure reform, interest rates and geo-political unrest will likely have the biggest impact on markets going forward. Discussion about the companies that added and detracted from returns for the period ending June 30, 2017 followed.

ACTUARIAL VALUATION STUDY REVIEW AND ASSUMPTION DISCUSSION

Cheiron presented the findings of the June 30, 2017 actuarial valuation analysis, based on an actuarial assumed rate of 6.75%, consisting of a 3.75% real return and a 3.0% inflation component. Based on these assumptions, the actuarial funded ratio increased to 103% at fiscal year-end compared to 100% in the prior year primarily due to the year's investment returns, continued recognition of prior investment gains, and favorable liability experience. On a market value basis, the ratio increased from 96% to 102%. The resulting fiscal year 2019 County blended contribution rate as a percent of covered payroll was 21.0%. Mr. Woodrich emphasized that the funded level, based on a reasonable rate of return assumption, positioned the System very favorably to its peer group. No changes to the economic assumptions were recommended.

Mr. Kinney offered a motion, seconded by Ms. Cowan, that the Board accept the actuarial recommendation of a 21.0% County blended contribution for Fiscal Year 2019. The motion passed by a vote of 6-0.

INVESTMENT REALLOCATION DISCUSSION

Prior to discussing the reallocation analysis, Mr. Gooderham updated the Board on the generational change in ownership of Ashford Consulting Group, which was effective October 1, 2017, noting Mr. Ashford's retirement and significant contributions to the firm. The firm's name will be changed, but all personnel remain.

Mr. Gooderham then presented an overview of Ashford's investment process which includes, among other factors, capital markets research, identifying opportunity sets, exploring asset combinations, manager due diligence and a feedback loop.

Addressing Mr. Kinney's request from the September meeting, Ashford presented research on alternatives for a \$50 million reallocation from high quality fixed income. Pros

and cons of MLPs, preferred securities, REITs and a short term liquidity option, requested by staff, were reviewed and discussed with the Board. After a robust discussion, the Board requested an educational session on REITs in the near future.

ELECTION OF BOARD OFFICERS

In accordance with the Arlington County Code, the Board held its annual election of officers. Mr. Rhodes conducted the election process. The nominees, motion makers and votes, by officer position, were recorded as follows with nominees, if present, abstaining from voting for their respective position:

Position	Nominee	By	Second	Votes
President	Mr. Kinney	Mr. Rhodes	Ms. Irwin	5-0-1
Vice President	Mr. Alt	Mr. Rhodes	Ms. Irwin	6-0-0
Treasurer	Ms. Cowan	Mr. Rhodes	Ms. Irwin	5-0-1
Asst. Treasurer	Mr. Ross	Mr. Barrett	Ms. Irwin	5-0-1
Secretary	Mr. Barrett	Mr. Rhodes	Ms. Irwin	5-0-1

KEY INITIATIVES (UPDATE/OTHER BUSINESS)

- Ms. Stenroos presented a draft copy of the FY17 CAFR and stated that final field work for the audit was scheduled for the week of October 9, 2017.
- Mr. Zito stated that he and Ms. Stenroos attended the Baillie Gifford conference in Arizona earlier in the week.

DISABILITY DISCUSSION

A motion was offered by Ms. Cowan, seconded by Mr. Barrett, and passed by a vote of 6-0, to enter into closed session for discussion or consideration of medical records excluded from this chapter pursuant to Virginia Code subdivision 1 of §2.2-3705.5. The closed session began at 11:37 AM.

The Board returned to open session at 12:00 PM. 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. Rhodes	Aye
Ms. Cowan	Aye
Mr. Barrett	Aye
Mr. Ross	Aye
Ms. Irwin	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.

INVESTMENT & ADMINISTRATIVE RELATED

- A. August Fund Balance Report
- B. FY17 budget Variance Report
- C. July 12, 2017 Education Session Minutes
- D. September 6, 2017 Education Session Minutes
- E. Calendar of Events

ADJOURNED

Ms. Cowan, seconded by Mr. Rhodes, 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 12:05 PM.

Respectfully submitted,
Ranee Stenroos