

**ARLINGTON COUNTY VIRGINIA  
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees Meeting Minutes  
December 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  
  Ms. Michelle Cowan, Treasurer (departed at 11:02)  
  Mr. Jimmie Barrett, Secretary (departed at 10:05)  
  Mr. William Ross, Assistant Treasurer  
  Ms. Sara Teyema

Substitute Member Present:       Mr. Wayne Rhodes  
  Mr. Brian Lynch  
  Ms. Michael-dharma Irwin

Various Times:                       Mr. Daniel Zito, Executive Director  
  Ms. Randee Stenroos, Assistant Director  
  Mr. Stephen Euell, Accountant  
  Mr. David Tooley, Vanguard  
  Mr. Tom Teneza, Vanguard  
  Mr. Thomas Rey, CliftonLarsonAllen  
  Mr. Rob Gooderham, ACG  
  Mr. Garry Musto, ACG  
  Mr. Eric Conklin, Harvest Advisors  
  Mr. Anthony Merhige, Harvest Advisors

**CONSENT LIST**

A motion to approve the consent list, consisting of the November 2, 2017 Board meeting minutes was offered by Mr. Ross and seconded by Mr. Alt. This motion passed by a vote of 6-0.

**INTEREST RATE ON MEMBER CONTRIBUTIONS**

Staff recommended an interest rate of 1.31%, calculated per policy established by the Retirement Board of Trustees in February 2015, for member contributions for 2018. After discussion the decision was deferred to the business section of the January training meeting.

## VANGUARD FIDUCIARY FUNDAMENTALS AND BEST PRACTICES

Mr. Tooley and Mr. Teneza provided an overview of fiduciary best practices. Mr. Tooley stated that fiduciary status is based on the functions performed for the plan, not a person's title. He provided an overview of the four principal fiduciary best practices; well-organized and effective committee, select and monitor plan investments, oversee plan administrative operations and be attentive to plan costs. Mr. Tooley noted that trustees should focus on value of service received vs. lowest cost overall. There was an in depth discussion amongst trustees and Vanguard.

## FY 2017 AUDIT FINDINGS & CAFR SUBMISSION

Mr. Rey presented Clifton Larson Allen's report on the audit of ACERS' financial statement for the fiscal year ended June 30, 2017. Clifton Larson Allen issued an unmodified opinion that the financial statements are presented fairly, in all material respects, and in conformity with U.S. Generally Accepted Accounting Principles. He also noted that management was very cooperative and professional during the audit process.

Mr. Rey discussed financial highlights of fiscal year 2017, focusing on a variety of disclosures required by GASB.

Staff left the room and the Board had further discussions with Mr. Rey. Upon staff's return, a motion was offered by Mr. Kinney and seconded by Ms. Cowan to approve the 2017 Comprehensive Annual Financial Report (CAFR) as submitted. This motion passed unanimously by a vote of 6-0.

## QUARTERLY INVESTMENT PERFORMANCE REVIEW

Mr. Gooderham reviewed the fund's performance for the quarter ended September 30, 2017. Fund returns for various time periods were:

(%)	Quarter	1 Year	5 Years	10 Years
Total Fund (Gross)	3.2	12.2	8.9	5.9
Total Fund (Net) *	3.1	12.0	8.6	5.6
Policy Benchmark**	3.3	11.0	7.9	5.5
CPI + 3.5% Annualized	1.7	6.0	4.9	5.3

\* 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

The over performance over the past year is attributable to an underweight allocation to fixed income and strong returns from the equity section, particularly global equity managers.

Relative to the TUCS universe of public plans, ACERS' performance was in the 55<sup>th</sup>, 50<sup>th</sup> and 32<sup>nd</sup> percentile on a one, five and ten-year basis, respectively. Ashford estimates the fund's diversified risk level at September 30, 2017 was 62. This compares to Ashford's estimated benchmark risk of 54 and the top of the policy risk band at 65.

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

- Ms. Stenroos presented the Annual Financial Disclosure forms for trustees. She noted the forms should be signed after January 1<sup>st</sup> and are due in the County Manager's office no later than February 1<sup>st</sup>.
- Ms. Stenroos presented a draft of the Annual Employee newsletter.
- Ms. Stenroos presented the budget variance report for 3Q17.
- Mr. Zito noted that the annual training session will be held on Saturday, January 6<sup>th</sup> in the Azalea conference room. He shared a preliminary agenda with the Board.

## **HARVEST ADVISORS MANAGER REVIEW**

Mr. Conklin and Mr. Merhige reviewed ACERS \$70 million investment in the Harvest MLP mandate. Mr. Merhige noted that Harvest completed its merger with BlackStone in October 2017 and the firm will remain an independent group within BlackStone.

Mr. Conklin discussed the positive and negative aspects of the MLP sector. He noted that cash flows and possible infrastructure investments were positive headwinds for the sector while a majority of retail owners and a drag on financing were causing a drag on the sector. Certain features in the tax reform bill could provide a positive push for MLPs.

Mssrs. Conklin and Merhige and the Trustees discussed various aspects of MLPs and where growth in the sector was possible.

## **MLP RECOMMENDATION**

At the November 2, 2017 Board Meeting, Ashford had informed the Board that they were re-evaluating the MLP sector. From a fundamental perspective, while volume growth remains strong, the growth does not appear to be accretive to distributable cash flow, which is expected to slow.

In light of growing risks and the Fund's overweight to energy positions, Ashford had recommended re-allocating the MLP mandate across the remaining domestic equity managers. The Board voted to postpone voting on the recommendation and have Harvest Advisors present at the December meeting.

Ashford brought the same recommendation to the December 7, 2017 meeting. Mr. Ross made a motion to accept Ashford's recommendation to exit the MLP position and authorize staff to make the redemption which was seconded by Ms. Teyema and passed by a vote of 4-1, with Mr. Kinney dissenting and Ms. Cowan absent.

After further discussion, Mr. Ross made a motion to reallocate the proceeds from Harvest as follows:

- 38% to Vanguard S&P 500 index fund
- 22% to Northern Trust Value index fund
- 20% to Vanguard Dividend Growth fund
- 20% to AJO Managed Volatility fund

The motion was seconded by Mr. Alt, but after much discussion was rescinded by Mr. Ross and the recension was seconded by Mr. Alt.

Mr. Ross then made a motion to reallocate the proceeds of Harvest into the Northern Trust STIF account. Mr. Alt made a substitute motion to reallocate the proceeds with 50% moving pro rata into the three index funds listed above and the remaining 50% to the Northern Trust STIF account. The vote was seconded by Ms. Teyema.

Mr. Lynch made an amendment motion to reallocate the proceeds as follows and authorize staff to make the purchases:

- 38% to Vanguard S&P 500 index fund
- 22% to Northern Trust Value index fund
- 20% to Vanguard Dividend Growth fund
- 20% to Northern Trust STIF account

The motion was seconded by Mr. Ross and passed by a vote of 4-1, with Mr. Kinney dissenting and Ms. Cowan absent.

## **INVESTMENT RECOMMENDATION**

Ashford presented an investment reallocation calling for the Vanguard STFF to be terminated and reallocated to the Northern Trust STIF. The rationale for the recommendation was short-term interest rates have been rising on favorable economic data and expectations are the Federal Reserve will proceed with additional rate hikes. The duration of the Vanguard STFF is 2.4 years while the Northern Trust STIF is 36 days. The shorter duration allows for participation in rate increases and less exposure to a rate related market value decline.

Ashford stated that with expectations that short rates remain likely to increase the net yield advantage of the Vanguard STFF is not viewed as sufficient compensation for the incremental duration risk.

Mr. Alt made a motion to terminate the Vanguard STFF index and move the proceeds into the Northern Trust STIF produce and authorize staff to make these moves. The motion was seconded by Mr. Ross and passed by a vote of 5-0, with Ms. Cowan absent.

## **INVESTMENT & ADMINISTRATIVE RELATED**

- A. October Fund Balance Report
- B. County Board Update (as of 9/30/17)
- C. OPEB Quarterly Update (as of 9/30/17)
- D. November 1, 2017 Training Minutes
- E. Retirement Office Budget Variance Report
- F. Calendar of Events

## **ADJOURNED**

Mr. Lynch, seconded by Mr. Alt, offered a motion to adjourn the meeting. The motion passed with a vote of 4-0, with Mr. Ross and Ms. Cowan absent. There being no further business, the meeting adjourned at 12:31 PM.

Respectfully submitted,  
Ranee Stenroos