

**ARLINGTON COUNTY VIRGINIA
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees
Meeting Minutes
April 5, 2018**

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. Jon Kinney, President
 Mr. Rich Alt, Vice President
 Mr. William Ross, Assistant Treasurer
 Ms. Barbara Donnellan
 Ms. Sara Teyema (arrived at 8:04 AM)

Voting Members Absent: Ms. Michelle Cowan, Treasurer
 Mr. Jimmie Barrett, Secretary

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

Various Times: Mr. Daniel Zito, Executive Director
 Ms. Randee Stenroos, Assistant Director
 Ms. Katrina Milne, Investment Analyst
 Mr. Stephen Euell, Accountant
 Mr. Garry Musto, Windmark Investment Partners
 Mr. Gene Kalwarski, Cheiron
 Mr. Patrick Nelson, Cheiron
 Mr. Dan Dynan, Meketa Investment Group
 Ms. Mary Mustard, Meketa Investment Group

CONSENT LIST

A motion to approve the consent list, consisting of the March 1, 2018 Board meeting minutes was offered by Ms. Donnellan and seconded by Mr. Ross. This motion passed by a vote of 6-0, with Ms. Cowan not present.

MANAGER FEE ANALYSIS

Mr. Musto reviewed Windmark Investment Partners' annual manager fee analysis.

ACERS' manager fees are lower than or equal to the eVestment universe median of similarly sized mandates in 10 of the 11 relevant asset classes. The analysis illustrated that ACERS' fees for traditional, public asset classes are approximately \$1.3 million, or 18% lower than the eVestment median universe would suggest. Traditional asset management fees were 0.26% of assets, down from 0.27% at the prior year's end.

The analysis showed that non-traditional manager fees increased to 2.89% of net asset value, up from 2.44% at prior year's end, based on headline fee rates, excluding any offsets or carried interest impacts. The increase is expected and is driven by the continued build out of the private equity program. Discussion arose regarding private equity fee structures.

Acknowledging the fee reductions to date, Mr. Kinney suggested potential areas of further opportunity. Staff and WIP agreed to follow up as appropriate.

CUSTODIAL SERVICES SELECTION

Ms. Stenroos updated the Board on the custodial services request for proposal review process. Noting that the System's experience with Northern Trust since 2013 has been consistent and valuable, it was recommended to retain the firm. Ms. Stenroos also discussed further fee reductions and Staff's analysis of the total relationship pricing, concluding it remains competitive.

A motion to retain Northern Trust as the Fund's custodial services provider as offered by Mr. Lynch and seconded by Mr. Alt. This motion passed by a vote of 6-0, with Ms. Cowan not present.

ASSESSING DEFINED BENEFIT PLAN SUSTAINABILITY

Messrs. Kalwarski and Nelson presented research Cheiron has done on defined benefit plan sustainability looking at factors other than the funded ratio. Mr. Kalwarski noted that while the funded ratio is a good measure, defined benefit plans should also consider negative cash flow and the support ratio of active participants to beneficiaries.

He noted that the "red zone" for these three metrics are less than 80% funded, negative cash flow exceeding 5% of fund assets and a support ratio of greater than 2.5. ACERS currently compares well in these three areas with a funded ratio of 102.4%, negative cash flow of 2.1% and a support ratio of 1.3.

A discussion on sustainability, the various metrics, and potential investment implications ensued.

KEY INITIATIVES

- Mr. Zito presented an overview of the County and School OPEB trusts. There was a discussion of fiduciary responsibility of ACERS' trustees related to investment of trust assets.
- Ms. Stenroos noted the System's fiduciary liability insurance was renewed. The pricing increased by 6.7% versus the prior year and was locked in for two years.

GOVERNANCE BEST PRACTICES & INVESTMENT BELIEFS

Mr. Dan Dynan and Ms. Mary Mustard with Meketa Investment Group provided an overview of fund governance best practices. Areas covered included:

- Characteristics of effective boards
- Fund governance best practices
- Roles & Responsibilities
- Board dynamics in decision making
- Importance of a Statement of Investment Beliefs

Mr. Dynan and Ms. Mustard emphasized the importance of starting with the goals of the System and then developing an investment belief statement. This leads to an Investment Policy Statement that guides the Board in its consideration of investment decisions.

Meketa presented a proposal for an independent review of the System including two phases:

- Phase I – Governance Review & Development of Statement of Investment Beliefs
- Phase II – Fund Review and Asset Allocation Study

There was robust discussion among the trustees on the value of having a third party conduct a review of the System; a range of opinions were expressed. Some trustees noted a preference for Phase I over Phase II, or vice versa, others saw value in both phases. Project pricing was also discussed.

A motion to approve engaging Meketa Investment Group to facilitate Phase I and Phase II of the study, at stated pricing terms or better, and authorizing Staff to take the necessary actions, was offered by Mr. Ross and seconded by Ms. Teyema. This motion passed by a vote of 5 – 1, with Mr. Kinney dissenting and Ms. Cowan not present.

INVESTMENT & ADMINISTRATIVE RELATED

- A. February 2018 Fund Balance Report
- B. Consultant ADV/SEC Questionnaire Review
- C. February 28, 2018 Training Session Minutes
- D. Calendar of Events

ADJOURNED

Mr. Ross, seconded by Mr. Rhodes, offered a motion to adjourn the meeting. The motion passed with a vote of 6-0, with Ms. Cowan not present. There being no further business, the meeting adjourned at 11:55 AM.

Respectfully submitted,
Ranee Stenroos