

**ARLINGTON COUNTY VIRGINIA
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees
Meeting Minutes
October 4, 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. Richard Alt, Vice President
 Ms. Michelle Cowan, Treasurer (arrived at 8:03 AM)
 Mr. Jimmie Barrett, Secretary
 Mr. William Ross, Assistant Treasurer
 Ms. Barbara Donnellan
 Ms. Michael-dharma Irwin

Substitute Member Present: Mr. Wayne Rhodes

Substitute Member Absent: Mr. Brian Lynch

Various Times: Mr. Daniel Zito, Executive Director
 Ms. Randee Stenroos, Assistant Director
 Ms. Katrina Milne, Investment Analyst (via telephone)
 Mr. Stephen Euell, Accountant
 Mr. Kevin Woodrich, Cheiron
 Mr. Patrick Nelson, Cheiron
 Mr. Rob Gooderham, Windmark Investment Partners
 Mr. Dan Barner, Windmark Investment Partners
 Mr. Fred Schachinger, DoubleLine
 Mr. Phil Barach, DoubleLine

CONSENT LIST

A motion to approve the consent list, consisting of the September 6, 2018 Board meeting minutes, was offered by Ms. Donnellan and seconded by Ms. Irwin. This motion passed by a vote of 5-0-1, with Ms. Cowan not yet present and Mr. Barrett abstaining due to his absence at the September meeting.

ACTUARIAL VALUATION REVIEW

Messrs. Woodrich and Nelson of Cheiron presented the findings of the June 30, 2018 actuarial valuation analysis. Based on an assumed actuarial rate of return 6.75%, comprised of a 3.75%

real return and a 3.0% inflation component, the actuarial funded ratio increased to 104.4% at fiscal year-end compared to 102.7% in the prior year. The increase in the funded ratio was 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 102.4% to 104.3%. Based on the analysis, the resulting fiscal year 2020 County blended contribution rate as a percent of covered payroll was calculated at 21.0%. Mr. Woodrich emphasized that the funded level, based on a reasonable rate of return assumption, positioned the System very favorably relative to its peer group. No changes to the economic assumptions were recommended.

Mr. Woodrich presented the potential impact of several hypothetical market scenarios and different rate of return assumptions on the level of fund assets and the System's funded ratio. Discussion followed, focused on the relevant time frame of key actuarial assumptions. It was noted that an experience study is planned coincident with next year's valuation study and that this would be an appropriate time for further discussion of both the economic and demographic assumptions underlying the actuarial analysis.

Mr. Alt offered a motion to accept the economic assumptions included in the June 30, 2018 Actuarial Valuation Analysis and, consistent with the study's conclusions, recommend a 21% County contribution rate for fiscal year 2020 to the County Board. The motion was seconded by Ms. Donnellan and subsequently passed by a vote of 7-0.

INVESTMENT RECOMMENDATION

Messrs. Gooderham and Barner of Windmark Investment Partners discussed the proposed reallocation to DoubleLine's Total Return strategy, highlighting its complementary nature to the fund's existing fixed income positions, potentially providing a higher expected rate of return in a variety of interest rate scenarios, while offering enhanced diversification relative to equities. Risks noted included the uncertainty in the supply of non-agency and agency securities and the complexity of a strategy that utilizes multiple asset types and, at times, derivatives, to construct the portfolio; however, it was noted, no leverage is employed. The firm, its founding, organizational structure and the stability of investment staff were also discussed.

DOUBLELINE TOTAL RETURN STRATEGY

Messrs. Schachinger and Barach of DoubleLine presented the Total Return Strategy.

After Mr. Schachinger discussed the firm philosophy and continuity of the team, Mr. Barach explained the Total Return Strategy in detail, highlighting the use of both agency and non-agency mortgage securities in a barbell structure that enables the strategy to potentially earn higher returns than traditional fixed income investments while managing duration exposure as appropriate within the context of the broader interest rate environment. A robust discussion of interest rates, the nature of mortgage backed securities, the implementation of the strategy and how it might perform in both rising and falling interest rate environments ensued. There were several questions from trustees regarding the firm's founding and its CEO.

INVESTMENT REALLOCATION

Windmark Investment Partners recommended that ACERS retain DoubleLine as an investment manager and fund a \$100 million Total Return Strategy separate account to be funded from the existing Northern Trust Aggregate Bond Fund and Loomis Sayles account. There was further discussion concerning the firm and its CEO.

After the discussion, a motion to allocate \$100 million to DoubleLine Total Return Strategy was offered by Mr. Barrett and seconded by Ms. Donnellan. This motion passed by a vote of 7-0.

A motion to fund the above allocation by reducing Northern Trust Aggregate Bond Index by \$75 million and Loomis Sayles by \$25 million was offered by Mr. Barrett and seconded by Mr. Ross. This motion passed by a vote of 7-0.

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	Ms. Donnellan	Ms. Irwin	6-0-1
Vice President	Mr. Alt	Ms. Donnellan	Ms. Irwin	6-0-1
Treasurer	Ms. Cowan	Ms. Donnellan	Ms. Irwin	6-0-1
Asst. Treasurer	Mr. Ross	Ms. Donnellan	Ms. Irwin	6-0-1
Secretary	Mr. Barrett	Ms. Donnellan	Ms. Irwin	6-0-1

KEY INITIATIVES

- Ms. Stenroos noted that the audit is progressing with an anticipated wrap up in October; a draft of several CAFR sections was included in the Board package.
- Ms. Stenroos noted that the System was under budget by 23% in FY18 due to lower than budgeted investment fees and fewer, new private equity investments than planned.
- Mr. Zito noted that a trustee education session on Mortgage Backed Securities was held on October 3 and was well attended.
- Mr. Zito stated that he and Mr. Alt addressed ACREA at the group's October 2 meeting, highlighting that Mr. Alt provided a thorough overview of the System and specifically, the Board's functions and responsibilities, for the attendees.

INVESTMENT & ADMINISTRATIVE RELATED

- A. August 2018 Fund Balance Report
- B. FY18 Budget Variance Report

- C. September Training Session Minutes
- D. Calendar of Events

ADJOURNED

Ms. Donnellan, seconded by Ms. Irwin, offered a motion to adjourn the meeting. The motion passed with a vote of 7-0. There being no further business, the meeting adjourned at 11:10 AM.

Respectfully submitted,
Ranee Stenroos