

**ARLINGTON COUNTY VIRGINIA
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees
Meeting Minutes
December 6, 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 9:40 AM;
 departed at 11:35 AM)
 Mr. Jimmie Barrett, Secretary (departed at 11:30 AM)
 Mr. William Ross, Assistant Treasurer
 Ms. Barbara Donnellan
 Ms. Michael-dharma Irwin

Substitute Member Present: Ms. Emily Hughes
 Mr. Wayne Rhodes
 Mr. Brian Lynch

Various Times: Mr. Daniel Zito, Executive Director
 Ms. Randee Stenroos, Assistant Director
 Ms. Katrina Milne, Investment Analyst (via telephone)
 Ms. Krista Edoff, Cherry Bekaert
 Ms. Mandy Grivnovics, Cherry Bekaert
 Mr. Jim McGovern, Franklin Park
 Mr. Matt Castaldo, Franklin Park
 Ms. Ashley Stanton, Franklin Park
 Mr. Rob Gooderham, Windmark Investment Partners
 Mr. Garry Musto, Windmark Investment Partners

CONSENT LIST

Mr. Kinney welcomed Emily Hughes as the Substitute Trustee for General Employees. A motion to approve the consent list, consisting of the November 1, 2018 Board meeting minutes and the Rhodes Recognition Resolution was offered by Mr. Kinney and seconded by Ms. Donnellan. This motion passed by a vote of 6-0, with Ms. Cowan not yet present.

INTEREST RATE ON MEMBER CONTRIBUTIONS

Staff recommended an interest rate of 1.091%, calculated per policy established by the Retirement Board of Trustees in February 2015, be applied to member contribution balances for 2019. Mr. Lynch expressed concerns about the policy and subsequently made a motion it be amended to include a 0.75% illiquidity premium. The motion was seconded by Mr. Alt. After significant discussion, the motion was tabled and the decision deferred to the business section of the January meeting. The Board requested Staff secure a legal opinion from the County Attorney's Office concerning code § 46-35 C. and that Human Resources address specific questions concerning the plan's death benefits under various scenarios at the January meeting.

FY 2018 AUDIT FINDINGS & CAFR SUBMISSION

Ms. Edoff presented Cherry Bekaert's report on the audit of ACERS' financial statements for the fiscal year ended June 30, 2018. Cherry Bekaert 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. She also noted that management was very cooperative and professional during the audit process.

Ms. Grivnovics discussed financial highlights of fiscal year 2018. She also discussed the differences between a financial audit and a management audit. It was stated that the auditors should feel free to contact the Trustees directly with any questions or findings as part of the audit process.

A motion was offered by Mr. Ross, and seconded by Mr. Barrett, to approve the 2018 Comprehensive Annual Financial Report (CAFR) as submitted. This motion passed unanimously by a vote of 6-0, with Ms. Cowan not yet present.

PRIVATE EQUITY PROGRAM UPDATE

Messrs. McGovern and Castaldo with Franklin Park reviewed ACERS private equity program results. They discussed the reasoning behind using the S&P 500 + 300 bps as a benchmark. They reviewed the programs results since inception overall and broke out the investments made since Franklin Park's engagement. They also reviewed trends and provided their insights on the current state of the private equity market.

Ms. Stanton with Franklin Park reviewed how private equity fees are calculated in detail. She showed examples of management fees with and without offsets. She also discussed carried interest and how much carried interest has been accrued and paid on ACERS private equity program.

Mr. Castaldo previewed a private equity fund offering. He reviewed the fund's creation, experience of the principal partners and Franklin Park and staff's due diligence of the fund which is continuing.

WINDMARK QUARTERLY PERFORMANCE REVIEW

Mr. Musto of Windmark Investment Partners reviewed System investment performance for the quarter ended September 30, 2018. Fund returns for various time periods were:

(%)	Quarter	1 Year	5 Years	10 Years
Total Fund (Gross)	3.0	7.8	7.7	8.7
Total Fund (Net) *	2.9	7.6	7.5	8.4
Policy Benchmark**	3.1	6.8	7.2	7.7
CPI + 3.5% Annualized	1.1	6.0	5.2	5.0

* Gross returns adjusted downwards for current annual fee rate per annual fee review and analysis, assuming all fees deducted quarterly.

**40% Ru3000, 17.5% MSCI ACWI ex-US, 39% BC Universal, 1.5% Barclays TIPS, 2% T-Bills

The outperformance over the past year was driven by the credit tilt and an underweighted allocation to fixed income as well as strong returns from growth-oriented global equity managers.

Relative to the TUCS universe of public plans, ACERS' performance was in the 56th, 61st and 23rd percentile on a one, five and ten-year basis, respectively. WIP estimates the fund's diversified risk level at September 30, 2018 was 65. This compares to WIP's estimated benchmark risk of 54 and the top of the policy risk band at 65. Mr. Gooderham discussed the fund's position at the top of the risk band, highlighting the reallocations in June and July of 2018.

Mr. Musto reviewed the manager roster and noted there were reviews underway on certain strategies.

PORTFOLIO POSITIONING DISCUSSION

Mr. Gooderham provided an overview of market developments since 9/30/18, focusing on a potentially softening global growth outlook and financial market volatility.

Messrs. Gooderham and Musto presented Windmark Investment Partner's response to the Meketa review of ACERS investment strategy. They noted that, with the exception of Small Cap equities, WIP is in general agreement with the views Meketa expressed at the November Board meeting. Meketa's review was based on June 30, 2018 data and some suggested asset classes have already been implemented, specifically an increased exposure to emerging markets and an exposure to TIPS (Treasury Inflation Protected Securities).

WIP also agreed with the assessment that ACERS has a large tolerance for greater exposure to illiquid investments. There was discussion around types of illiquid investments, i.e. private equity, real estate, energy, infrastructure, etc. WIP discussed various vehicles for accessing these types of investments. The Trustees requested additional education sessions around these types of investments. There was further discussion on the pacing of this education and evaluating potential investment opportunities. Most Trustees expressed that the training should be completed by the end of May, if not earlier.

DOUBLELINE® UPDATE

Mr. Zito updated the Board on the continuing contract negotiations with DoubleLine®. He noted issues related to the fee, most favored nation clause and relationship support for the client. In the ensuing discussion, the Board noted it was not supportive of the contract under the currently proposed terms and conditions. A motion to authorize staff to continue negotiations and take the actions necessary to implement the investment assuming the successful conclusion of those negotiations, was made by Mr. Kinney, seconded by Mr. Rhodes. The motion passed with a vote of 7-0.

KEY INITIATIVES/OTHER BUSINESS

- Ms. Stenroos presented the draft of the employee newsletter which is due to be distributed in January 2019.
- Mr. Alt shared his research on the process for remote meeting attendance. Mr. Zito provided a brief review of recent changes to Virginia's Open Meeting Laws which enable remote participation under certain circumstances. Staff will draft a policy for further discussion.
- The training session, scheduled for January 5th, 2019, was discussed.

INVESTMENT & ADMINISTRATIVE RELATED

- A. October 2018 Fund Balance Report
- B. County Board Update (as of 9/30/18)
- C. OPEB Quarterly Update (as of 9/30/18)
- D. Retirement Office Budget Variance
- E. Calendar of Events

ADJOURNED

Ms. Donnellan, seconded by Mr. Lynch, offered a motion to adjourn the meeting. The motion passed with a vote of 6-0, with Ms. Cowan being absent. There being no further business, the meeting adjourned at 11:50 AM.

Respectfully submitted,
Ranee Stenroos