

**ARLINGTON COUNTY VIRGINIA
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees Meeting Minutes
February 2, 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
 Mr. Ken Dennis, Secretary (departed early)
 Ms. Michelle Cowan, Treasurer (departed early)
 Mr. William Ross
 Ms. Sara Teyema (arrived 8:04 AM)

Substitute Member Present: Mr. Wayne Rhodes (arrived 8:11 AM)
 Mr. Wilfredo Calderon

Substitute Member Absent: Mr. Jimmie Barrett, Assistant Treasurer

Various Times: Mr. Daniel Zito, Executive Director
 Ms. Randee Stenroos, Assistant Director
 Ms. Katrina Milne, Investment Analyst
 Mr. Rich McConville, Northern Trust
 Ms. Melissa Galla, Northern Trust
 Mr. Don Anderson, Northern Trust
 Mr. Jim McGovern, Franklin Park
 Mr. Matt Castaldo, Franklin Park
 Mr. Rob Gooderham, ACG
 Mr. Garry Musto, ACG

CONSENT LIST

Staff briefed the Board on the consent list which included the meeting minutes of the December 1, 2016 Board meeting and an amendment to the BVIP Fund VIII limited partnership agreement. Mr. Alt asked staff and Franklin Park for additional details on the amendment. After a robust discussion, Mr. Kinney made a motion to defer action on the BVIP Fund VIII amendment and approve the December 1, 2016 Board meeting minutes. This motion passed by a vote of 6-0.

NORTHERN TRUST RELATIONSHIP REVIEW

Mr. McConville reviewed ACERS' asset servicing relationship with Northern Trust. Mr. Anderson then provided a general overview of the securities lending process, specific details on ACERS' program, including lender and collateral requirements, and his current views on the lending market. Ms. Galla discussed ACERS \$544.3 million investments in the Northern Trust Russell 1000 Value Index fund and the Northern Trust Aggregate Bond Index fund. During the ensuing discussion, Mr. Zito noted that Mr. McConville was in the

process of evaluating the current pricing relationship and Mr. McConville agreed to provide additional analysis as part of the review. It was suggested that Northern Trust provide a summary of all fees earned due to their relationship with ACERS at future meetings.

PRIVATE EQUITY PROGRAM UPDATE

Mr. McGovern reviewed the current investments in ACERS' private equity portfolio noting that pre-2012 commitments have generated mixed performance while more recent commitments are performing ahead of expectations. Mr. Castaldo reviewed the 2017 pacing analysis. Given ACERS' current 6.6% exposure to private equity as a percent of total assets, Franklin Park is recommending targeting \$40-\$50 million in commitments per year over a 4 to 6 year horizon. Mr. McGovern noted that staff would be meeting with BVIP regarding their Fund IX offering as well as analyzing the 2017 Franklin Park Venture fund.

LARGE CAP VALUE ANALYSIS INVESTMENT OPTIONS

Mr. Gooderham and Mr. Musto reviewed ACERS' large cap value allocation. After presenting the rationale for hiring one of the current managers, Focused, and other analyses, Ashford reiterated that the manager has executed as represented and the firm continues to support the strategy. Ashford introduced AJO Managed Volatility as a potential replacement mandate, providing the Board with details on the firm and the specific strategy.

Should the Board decide to reallocate, Ashford presented three risk neutral options for the Board's consideration:

- Terminate existing manager and reallocate to an equity index fund and a bond index fund
- Reduce two existing managers and fund a new manager/mandate
- Terminate existing manager and fund a new manager/mandate

After discussion the Board requested that AJO present at the March 2, 2017 Board meeting. The Board also requested Ashford prepare a comprehensive asset allocation analysis for presentation at the March or April meeting.

KEY INITIATIVES (UPDATE/OTHER BUSINESS)

- Mr. Alt expressed interest in process oriented auditing as a means to determine if ACERS could be doing things better relative to best practices. During the discussion that followed, Mr. Alt offered to provide clarification in writing and staff noted it would inquire if other Virginia jurisdictions have pursued such initiatives.
- Mr. Alt discussed concerns with the OPEB trusts and retiree medical benefits. A discussion ensued noting that these benefits are the purview of the County Manager as are the actuarial assumptions and that ACERS is responsible for investing the OPEB trust's assets.

- Ms. Stenroos noted that the reallocation of Thornburg was almost complete with approximately \$140 thousand remaining.
- Ms. Stenroos noted that the actuarial RFP was being issued and asked if any trustees wanted to join the review committee.
- Ms. Stenroos discussed the 4Q16 budget and noted that the Plan was under budget primarily due to lower manager fees from moving a portion of the portfolio from active to passive strategies.
- Mr. Zito noted that ACERS is sponsoring the AMRS-VA Spring conference, which includes trustees from other Virginia municipalities, on April 23 – 25. The conference will be held in Arlington.

INVESTMENT RELATED

- A. Fund Balance for November
- B. Fund Balance for December
- C. OPEB Performance Report
- D. Securities Lending Summary 2016
- E. Commission Recapture Summary 2016
- F. Class Action Summary
- G. Foreign Tax Reclaim Status Summary

ADMINISTRATIVE ITEMS

- A. Retirement Office Budget Variance Report
- B. Calendar of Events
- C. January 7, 2017 Annual Training Session Minutes
- D. Future Meeting Dates/Locations on reverse of Agenda

ADJOURNED

Mr. Ross, seconded by Ms. Teyema, offered a motion to adjourn the meeting. The motion passed with a vote of 4-0, with Ms. Cowan and Mr. Dennis absent. There being no further business, the meeting adjourned at 11:08 AM.

Respectfully submitted,
Ranee Stenroos