

**ARLINGTON COUNTY VIRGINIA
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees Meeting Minutes
July 9, 2015**

The President of the Board, Mr. Michael Brunner, called the meeting to order at 8:00 AM, in Conference Room 511C at 2100 Clarendon Boulevard.

Voting Members Present: Mr. Michael Brunner, President
 Mr. Rich Alt, Vice President
 Ms. Michelle Cowan, Treasurer (arrived 8:50 AM)
 Ms. Sandy DeGray, Secretary (arrived 9:35 AM)
 Mr. Ken Dennis
 Mr. Jon Kinney
 Mr. Peter Maier

Substitute Member Present: Mr. Jimmie Barrett, Asst. Treasurer
 Mr. Alex Iams (arrived 8:30 AM)
 Mr. Wayne Rhodes

Various Times: Mr. Daniel Zito, Executive Director
 Ms. Randee Stenroos, Assistant Director
 Ms. Susan Bomberg, Accountant
 Mr. Rob Gooderham, ACG
 Mr. Craig Collins, Kiltearn
 Mr. Ed Clarke, Kiltearn
 Ms. Meredith Rerisi, Abbott
 Ms. Mona Marquardt, Abbott

CONSENT LIST

A motion to approve the consent list consisting of the June 4, 2015 meeting minutes was offered by Mr. Dennis and seconded by Mr. Alt. The motion passed by a vote of 5-0, with Ms. Cowan and Ms. DeGray not yet present.

KILTEARN GLOBAL EQUITY REVIEW

Mr. Clarke updated the Board on the firm, noting that assets under management are approaching \$7 billion; the strategy will close at \$10 billion in client investments, with a soft close at \$8.5 billion to accommodate additional investments from existing clients. The investment process was reviewed, underscoring its focus on average or above-average quality companies that have current bottom quartile valuations with respect to price-to-earnings, price-to-book and dividend yield. For a stock to be added to the benchmark agnostic portfolio, it must enhance both the portfolio's intrinsic value and overall quality.

The following table summarizes performance as of May 31, 2015.

(%)	YTD	1 Year	Since Inception (5/1/14)
ACERS (gross)	6.3	(0.7)	0.2
ACERS (net)	6.0	(1.5)	(0.6)
MSCI ACWI Index	5.1	5.1	6.7

The 7.3% net underperformance since inception was primarily driven by currency translation issues, limited exposure to the high-performing healthcare sector and the underperformance of several food retailers in the portfolio. Currency issues accounted for roughly half of the strategy's underperformance as the portfolio is overweight Europe and underweight the U.S. Kiltearn believes that over a 3 to 5 year holding period, the effect of currency fluctuations neutralizes. A discussion of the firm's sell strategy followed.

ABBOTT CAPITAL

Ms. Rerisi and Ms. Marquardt provided a firm update and reviewed the System's investments in Abbott Funds IV, V and VI. Ms. Marquardt highlighted Abbott's sole private equity focus, stability of staff, independent ownership, rigorous due diligence process and emphasis on staying the course. Abbott's high-conviction portfolios seek diversification by industry and geography, commitments over three to five vintage years and a concentration of 30-35 "best of breed" investments in venture capital, growth equity, buyouts and special situations. The following summary is as of December 31, 2014:

<u>Attribute</u>	<u>Abbott IV</u>	<u>Abbott V</u>	<u>Abbott VI</u>
ACERS Commitment	\$50.0 M	\$8.0 M	\$25.0 M
Latest Valuation	\$22.2 M	\$5.2 M	\$17.3 M
% Distributed	123.0%	65.5%	18.0%
Total Value	\$83.7 M	\$10.4 M	\$21.8 M
Net IRR	11.8%	7.5%	8.3%
Net Multiple	1.7X	1.4X	1.0X

Abbott shared its views on the private equity marketplace, and discussed expectations for each fund, highlighting some of the underlying investments. Ms. Marquardt noted that Abbott IV, originated in July 2001, is in extension until June 2016. If an extension is requested passed year 15, limited partner approval is required. If approved, no additional fees will be assessed to partners.

ASSET ALLOCATION DECISION REVIEW

Mr. Gooderham presented an analysis of several investment decisions, evaluating each decision to see if lessons could be learned and applied to future decisions to improve

the process. The analysis considered factors including if the Board's decision differed from Ashford's recommendation, key rationale supporting the decision, implementation timing and whether managers receiving assets outperformed the sources of those assets.

The overall conclusion was that the decisions were generally positive contributors to Fund's investment performance, with only one being a detractor. Key takeaways from the analysis are to 1) ensure that the sizing of a reallocation is commensurate with the conviction level supporting the recommendation, and 2) understand that the potential relative performance impact may be a cost of maintaining a risk discipline.

INVESTMENT POLICY REVIEW

Staff reviewed the Investment Policy Statement (IPS), consistent with the requirement it be done at least every three years or at Board direction. A draft with suggested clarifications was presented for the Board's consideration and input. In the general discussion that followed, staff noted that additional research was in process regarding the policy's emergency actions provision. Upon concluding that research, an updated version of the IPS will be presented for adoption at a future Board meeting.

PEER UNIVERSE OPTIONS

Mr. Gooderham reviewed three peer universe services for public funds, TUCS, Northern Trust and InvestorForce. Based on its analysis, Ashford recommended ACERS utilize TUCS as it has the most robust data set and analytics. Mr. Zito noted that TUCS was available via Northern Trust for a modest incremental fee. The Board concurred with the recommendation.

KEY INITIATIVES UPDATE/OTHER BUSINESS

Staff noted that:

- Three firms that responded to the investment consultant RFP will be interviewed in July. Board members are welcome to participate in these interviews. Two firms will be selected for presentations to the Board at the October meeting.
- The new analyst position was filled and the individual will start at the end of July.
- Trips to New York and Boston included meetings with existing managers, Abbott Capital, Altaris, Rutabaga, BV Partners and Loomis Sayles, and two potential private equity managers.
- ISS had been contracted to administer ACERS' class action monitoring and administration for the period in which the Bank of New York Mellon (BNYM) served as the System's custodian as BNYM is no longer providing this service to former clients.

CLOSED SESSION

A motion was offered by Mr. Brunner, seconded by Mr. Dennis, and passed 7-0, to enter into closed session for discussion, consideration or interviews of prospective candidates for employment; assignment, appointment, promotion, performance, demotion, salaries, disciplining or resignation of specific public offices, appointees or employees of any public body pursuant to Virginia Code 2.2-3711 (A)(1). The closed session began at 10:45 AM.

The Board returned to open session at 12:05 PM. On a motion by Mr. Brunner, seconded by Ms. Cowan, and carried by a vote of 4-0, the voting recorded as follows:

<u>Member</u>	<u>Vote</u>
Mr. Brunner	Aye
Mr. Alt	Aye
Mr. Barrett	Aye
Ms. Cowan	Aye

The Board certified that only public matters lawfully exempted from open meeting requirement by Virginia law and identified in the motion convening the closed session were heard, discussed or considered by the Board.

INVESTMENT RELATED

- A. Fund Balance Report (May)
- B. June 3, 2015 Training Session Minutes

ADMINISTRATIVE ITEMS

- A. New York City Trip Report
- B. Boston Trip Report
- C. Inventory Listing
- D. Calendar of Events

ADJOURNED

There being no further business, the meeting adjourned at 12:05 PM.

Respectfully submitted,

Susan Bomberg