ANNE ARUNDEL COUNTY
RETIREMENT AND PENSION SYSTEM

Board of Trustees
Minutes of January 17, 2017
Meeting

Members Present: John Hammond, Howard Brown, Jay Cuccia, Jennifer Gilbert-Duran, Mark Hartzell, Alan Hyatt, Jay Middleton, Rick Napolitano, Ande Rhodes, Laureen Toney, Jim Thomas, Leroy Wilkison

***Members Excused*:** M. Kathleen Sulick

Staff Present: Anne Budowski

Guests: Mark Andrew, Rhett Humphreys

Recorder: Laura C. Jackson, Audio Associates

The meeting of the Board of Trustees of the Anne Arundel County Retirement and Pension System (Board) was called to order at 12:10 p.m. by John Hammond.

Minutes

Mr. Hyatt moved to approve the minutes of the December 9, 2016, meeting. Mr. Napolitano seconded the motion, and the board approved the minutes.

Investment Committee

Lexington Partners
Mark Andrew

The county pension system invests in three funds with Lexington Partners. A leader in the secondary market, this Boston-based firm has $31 billion of original committed capital since inception and offices in New York, London, Hong Kong and other private investment centers around the world.

As a secondary fund of funds, Lexington buys into other private equity funds typically when those investments are 5 to 7 years old. Purchasing mature assets helps investors enjoy quick distributions. Further, Lexington makes these purchases at a discount of the value. As the largest independent secondary manager, Lexington has the capital to negotiate with large banks and state pension plans.

Mr. Andrew reported no turnovers, noting that the team continues to grow internally, primarily at the junior level. Lexington has relationships with more than 650 general partners in 1,400 different funds. The firm has enjoyed net returns of just over 16 percent during the past 25 years.

Mr. Andrew noted that global secondary transaction volume fell in 2016 due to changes in bank regulations. Up to $175 billion should come through the global secondary market during the next five years, giving Lexington an annual opportunity of $3-$4 billion. Due to a slowdown in the cash flow to limited partners, Lexington should see an increase in secondary sales.

Anne Arundel County participates in Funds VI, VII and VIII. The county invested $5 million in Fund VI, a $3.8 billion fund that experienced intense volatility and high purchase price discounts. As a vintage 2006 portfolio affected by the global financial crisis, Fund VI saw net returns of 1.3x and a 6.7 percent internal rate of return (IRR). This mature, fully invested fund has distributed $4.6 billion. With about $1 billion of remaining value, managers expect to see additional returns. Most of the investments in this U.S.-based fund were buyouts.

Fund VII is a fully committed fund that managers invested during a better time. This $7 billion portfolio launched in 2010 still has considerable value left. Current net returns of 1.5x should increase to 1.8x. The IRR should stay in the high teens. The county put $15 million into Fund VII. Managers expect significant upside from the remaining value in this portfolio, which primarily includes buyouts and venture capital in the United States and the United Kingdom (U.K.)/Western Europe.

The county also invested $15 million in Fund VIII, a $9.2 billion fund that closed in 2014. This fund is just under 60 percent committed. Lexington used debt for the early deals so the net IRR should come down. The credit will mature in 2018 but may extend out a year. Public pensions made up 40 percent of the seller type in this fund, driven by two large deals with Texas and Florida. Fund VIII is off to a good start, said Mr. Andrew, and managers expect to invest at a moderate pace.

New England Pension Consultants
Rhett Humphreys

The flash report for the period ending December 31, 2016, showed composite returns of 7.3 percent year to date. Domestic equities rallied with year-to-date returns of 10.8 percent, said Mr. Humphreys. The international equity composite was -0.8 for that same time period. The emerging market equity composite returned 19.8 percent year to date. Mr. Humphreys noted that passively managed funds saw better results than active management.

Bonds had a performance of 7.1 percent for the year. Core fixed income investments were up 4.1 percent during that time period versus the benchmark's 2.6 percent. Non-core fixed income showed even better results, with a performance of 9.5 percent for the year. In that sector, PIMCO beat its benchmark 12 percent versus 10.3 percent. In the Global Asset Allocation composite, Bridgewater reported 8.9 percent for the year. The all-weather portion of the Bridgewater fund returned 8.7 percent. The hedge fund piece was up 3.9 percent. Overall, NEPC was pleased with the county's performance during 2016.

Managers from Chartwell will attend the Investment Committee meeting on February 16.

Because of financial deregulation at the federal level, State Street Bank has set up a trust for its S&P 500 Fund. Mr. Hammond requested board approval to authorize moving county pension funds into the State Street Global Asset Management Trust.

MOTION: Mr. Cuccia made a motion to move the pension system's investment in the S&P 500 Fund from the State Street Bank portfolio to the State Street Global Asset Management Trust. Mr. Wilkison seconded, and the board unanimously passed the motion.

Administrative Report

The pension system is on track to have about 200 retirements this year, about 50 more than last year, said Ms. Budowski. Letters have gone out regarding the four seats on the Pension Oversight Commission that are up for election. Staff members also continue to prepare for the pension audit. In response to a request from Mr. Wilkison, staff will send out a letter to retirees regarding life insurance updates.

The meeting ended at 1:08 p.m. The next meeting will take place February 21, 2017.

I hereby certify that, to the best of my knowledge, the foregoing minutes are accurate and complete.

Ande Rhodes Date
Secretary to the Board