

# **ARLINGTON COUNTY VIRGINIA EMPLOYEES' RETIREMENT SYSTEM**

## **Board of Trustees Meeting Minutes April 6, 2017**

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. Jonathan Kinney, President  
Ms. Michelle Cowan, Treasurer  
Mr. William Ross  
Ms. Sara Teyema (arrived 8:03 AM)

Substitute Member Present: Mr. Wayne Rhodes  
Mr. Jimmie Barrett, Assistant Treasurer  
Mr. Wilfredo Calderon (departed early)

Voting Member Absent: Mr. Richard Alt, Vice President  
Mr. Ken Dennis, Secretary

Various Times: Ms. Randee Stenroos, Assistant Director  
Ms. Katrina Milne, Investment Analyst  
Mr. Scott Nisbet, Ballie Gifford  
Mr. Rob Gooderham, ACG  
Mr. Garry Musto, ACG

### **CONSENT LIST**

Mr. Ross, seconded by Mr. Calderon, made a motion to approve the March 2, 2017 Board meeting minutes. This motion passed by a vote of 6-0.

### **BAILLIE GIFFORD RELATIONSHIP REVIEW**

Mr. Nisbet reviewed ACERS' investment in the Long Term Global Growth strategy, totaling \$76.3 million. Mr. Nisbet stated there were no significant changes in the team at Baillie Gifford. The firm experienced their second year of negative cash flows due largely to clients deciding to de-risk their portfolios. LTGG not owning banks and energy stocks hurt the fund from the US election through year end 2016. LTGG rebounded in the first quarter of 2017. Mr. Nisbet noted that Brexit's largest impact would likely be on attracting talent to the firm. Discussion on several companies including NVIDIA and Under Armour ensued.

### **ASHFORD FEE ANALYSIS REVIEW**

Mr. Musto reviewed Ashford's annual fee analysis, highlighting that total fees as a percentage of assets decreased to 0.34% at the end of 2016 from 0.42% at the end of 2015. This was primarily due to the reallocation of assets from active management to passive investment vehicles. Public market mandate manager fees fell while the alternative manager fees increased. This was expected as the private equity program is

being built. Compared to the eVestment manager universe, ACERS' public mandate manager fees are approximately \$600,000 lower than the universe's median fee would suggest. Board members discussed the ability to reduce fees further.

## **2008 – 2009 INVESTMENT LOOK BACK AND CURRENT IMPLICATIONS**

Ms. Stenroos presented Staff's analysis of investment decisions made during the financial crisis. Three conclusions were highlighted: appropriate sizing of reallocations, having investment vehicles that can be accessed quickly on a cost effective basis and realization of having to make quick decisions within the context of a longer term plan. During the discussion, several Trustees noted that the decisions made under difficult circumstances were generally effective. An updated analysis to provide insight on potential asset class behavior under different market scenarios will be presented at the May meeting.

## **ASHFORD REALLOCATION RECOMMENDATION**

Given Ashford's view of current capital markets and economic backdrop, Mr. Gooderham made a recommendation that ACERS trim its risk posture through the transfer of certain assets from Focused Investors and Vanguard Dividend Growth to new manager AJO Partners and the reduction of the Harvest MLP and Vanguard 500 index fund in favor of Vanguard Short Term Federal Fund (STFF) and NTGI Aggregate Bond index fund. At the Board's request, three additional options had also been presented.

Staff, while concurring with Ashford's market outlook, recommended the second option, which was different than Ashford's recommendation in that it called for the termination of the Focused Investors account, with those proceeds to be allocated to new manager AJO, and no reduction of Vanguard Dividend Growth. Reasons for Staff's recommendation were based on no discernable difference in key portfolio statistics, additional potential fee savings and Trustee concerns about Focused Investors' performance. Mr. Kinney recommended separating the vote on the termination of Focused and funding of AJO from the vote on adding to the Vanguard STFF and Northern Trust Aggregate Bond Index. Mr. Rhodes, seconded by Ms. Teyema, made a motion to terminate Focused Investors and use the proceeds to fund a new mandate in AJO's Managed Volatility Strategy, subject to successful negotiation of a contract, and to authorize staff to take the actions necessary to implement this reallocation. This motion passed by a vote of 6-0.

Mr. Kinney expressed reservations at reducing the Harvest mandate which he views as a high yield bond substitute. While Messrs. Musto and Gooderham both agreed in the long term case for MLP investment, Mr. Gooderham noted that that MLPS' correlation to oil prices has increased, thus making it a candidate for risk reduction. Mr. Kinney requested that Ashford bring a list of the investment sectors in the Harvest account to the next Board meeting. Mr. Ross, seconded by Ms. Cowan, made a motion to reduce the Vanguard S&P 500 Index by \$40 million, and to authorize staff to take the necessary actions. This motion passed by a vote of 6-0.

Mr. Ross, seconded by Ms. Teyema, made a motion to allocate the \$40 million proceeds from the Vanguard S&P 500 Index reduction equally between Vanguard Short Term Federal and Northern Trust Aggregate Bond Index, and to authorize staff to take the actions necessary. This motion passed by a vote of 6-0.

## **KEY INITIATIVES (UPDATE/OTHER BUSINESS)**

- Ms. Stenroos noted that the fiduciary insurance policy had been renewed at the same rate.
- Ms. Stenroos noted that actuarial RFP interviews had been scheduled and the finalists would attend the May 4, 2017 Board Meeting
- Ms. Stenroos discussed Arsenal's 4Q16 valuations.
- Ms. Stenroos noted that she and Mr. Alt would not be in attendance at the May 4, 2017 Board meeting.
- Ms. Stenroos noted that the Vanguard paperwork for the Collective Trust was completed and the Northern Trust Aggregate Bond Index's fee reduction was effective March 1, 2017.
- Ms. Stenroos noted that the paperwork for BV Partners Fund IX had been completed.

## **INVESTMENT RELATED**

- A. Fund Balance for February

## **ADMINISTRATIVE ITEMS**

- A. Calendar of Events
- B. Investment Consultant SEC Filings
- C. March 1, 2017 Training Session Minutes
- D. Future Meeting Dates/Locations on reverse of Agenda

## **ADJOURNED**

Mr. Barrett, seconded by Mr. Rhodes, offered a motion to adjourn the meeting. The motion passed with a vote of 6-0. There being no further business, the meeting adjourned at 10:14 AM.

Respectfully submitted,  
Ranee Stenroos