

**ARLINGTON COUNTY VIRGINIA
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees Meeting Minutes
July 13, 2017**

The President of the Board, Mr. Jonathan Kinney, called the meeting to order at 8:05 AM, in Conference Room 511C at 2100 Clarendon Boulevard.

Voting Members Present: Mr. Jonathan Kinney, President
 Mr. Jimmie Barrett, Assistant Treasurer
 Mr. William Ross

Substitute Member Present: Mr. Wayne Rhodes
 Mr. Brian Lynch

Voting Members Absent: Mr. Richard Alt
 Ms. Michelle Cowan
 Ms. Sara Teyema

Various Times: Mr. Daniel Zito, Executive Director
 Ms. Randee Stenroos, Assistant Director
 Ms. Katrina Milne, Investment Analyst
 Mr. Matt Eagan, Loomis Sayles
 Mr. Seth Yablonovitz, ACG
 Mr. Garry Musto, ACG
 Mr. Ashish Bhagwanjee, DFA
 Mr. Chip Tatlow, DFA

CONSENT LIST

The consent list consisted of the June 1, 2017 Board meeting minutes and the cancellation of the August meeting. Mr. Kinney suggested an amendment to the August meeting cancellation to retain the ability to call a meeting with reasonable notice should circumstances warrant. Mr. Rhodes, seconded by Mr. Barrett, made a motion to approve the consent list, as amended. This motion passed by a vote of 4-0, with Ms. Cowan and Ms. Teyema not present.

LOOMIS SAYLES REVIEW

Mr. Matt Eagan discussed ACERS \$161 million dollar investment in Loomis Sayles Full Discretion Fixed Income strategy. Mr. Eagan stated the fund's underperformance relative to the benchmark was primarily due to having a shorter duration along with some currency drag. Mr. Kinney asked about the role of bonds in the portfolio over the next two years in light of a rising interest rate environment. Mr. Eagan responded that he believes the portfolio will provide positive nominal return and coupon income.

Following the presentation, the Board discussed ACERS' bond exposure, the role it plays in the overall portfolio and the appropriate allocation level. Ashford was requested to

consider other potential investments that could be included as functional bond substitutes in the opportunity set. Further conversation focused on the fund's overall risk posture given ACERS' 100% actuarial funded ratio; various opinions on the topic were expressed.

INVESTMENT REALLOCATION RECOMMENDATION

Mr. Musto briefly reviewed the due diligence process leading to the recommendation of Dimensional Fund Advisors and the World ex-US Core strategy. Mr. Kinney expressed concern that the specific strategy being recommended was not more focused on the emerging markets and given more than 7000 names was very index like in its exposures. Mr. Musto explained that Ashford's thinking had evolved and concluded that broader international exposure was appropriate and the recommendation struck a balance between simplicity and lower fees while reducing the fund's domestic equity exposure.

DIMENSIONAL FUND ADVISORS

Mr. Bhagwanjee and Mr. Tatlow presented Dimensional Fund Advisors World ex-US Core strategy. DFA utilizes a quantitative approach focusing on four premiums that the firm's research suggests drive a stock's expected return: equity premium, small cap premium, value premium and profitability premium. The resulting portfolio tends to have lower relative price, higher profitability and lower market cap than the ACWI ex-US benchmark. In response to a question about stock specific conviction, Mr. Bhagwanjee explained that targeting factor premiums and not specific stocks implies the strategy can be implemented in a patient and flexible manner, allowing the traders to minimize trading costs and add value when building or exiting positions.

INVESTMENT REALLOCATION

Mr. Yablonovitz recommended an investment allocation of \$100 million to Dimensional Fund Advisors' World ex-US Core strategy to be funded with proceeds from the Vanguard 500 Index Trust. The recommended vehicle was viewed as a low cost, liquid way to access international markets and allow flexibility to cost efficiently re-allocate as other opportunities emerge from Ashford's research. Ashford also included three international index fund options in the allocation recommendation.

After robust discussion, Mr. Ross, seconded by Mr. Rhodes, made a motion to reduce the Vanguard 500 Index Fund Trust by \$100 million and authorizing staff to implement the sale. This motion passed by a vote of 4-0 with Ms. Cowan and Ms. Teyema not present.

In the subsequent discussion about reinvesting the \$100 million proceeds, the Board concluded an additional \$25 million would be appropriate in light of current and expected relative fundamentals and valuations. Accordingly, Mr. Ross, seconded by Mr. Rhodes, made a motion to increase the prior \$100 million reduction to the Vanguard 500 Index Fund Trust to \$125 million and authorize staff to implement the sale. This motion passed by a vote of 4-0 with Ms. Cowan and Ms. Teyema not present.

Discussion on the reinvestment of the proceeds included a review of the mutual fund options, associated fees and other considerations. Mr. Ross, seconded by Mr. Rhodes, made a motion to fund the DFA World ex US Core with \$75 million and the Vanguard Total International Stock Fund with \$50 million and to authorize staff to implement the purchases. This motion passed by a vote of 4.0, with Ms. Cowan and Ms. Teyema not present.

KEY INITIATIVES (UPDATE/OTHER BUSINESS)

- Ms. Stenroos noted that the County and Schools had made contributions to their respective OPEB funds for FY17.
- Ms. Stenroos noted that the paperwork for BV Fund IX and Altaris Fund IV were completed.
- Ms. Stenroos noted that the custody fee had been reduced by an additional \$10K bring the total fee reduction to \$30K.
- Mr. Zito provided a performance comparison of ACERS portfolio vs. the OPEB Trust over longer periods as requested at the June Board Meeting. He noted that the Wellington Fund is more aggressive and volatile than ACERS.
- Ms. Stenroos noted that the actuarial process was the topic of the July 12, 2017 trustee training session.

INVESTMENT RELATED

- A. Fund Balance for May
- B. May 31, 2017 Training Session Minutes

ADMINISTRATIVE ITEMS

- A. Inventory Listing
- B. Calendar of Events
- C. Trip Reports (Franklin Park Conference; Harvest)

ADJOURNED

Mr. Barrett, seconded by Mr. Rhodes, offered a motion to adjourn the meeting. The motion passed with a vote of 4-0. There being no further business, the meeting adjourned at 11:55 AM.

Respectfully submitted,
Ranee Stenroos