

**ARLINGTON COUNTY VIRGINIA
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees
Meeting Minutes
February 1, 2018**

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. Jon Kinney, President
 Mr. Rich Alt, Vice President
 Ms. Michelle Cowan, Treasurer (arrived at 8:04 AM)
 Mr. Jimmie Barrett, Secretary
 Mr. William Ross, Assistant Treasurer
 Ms. Sara Teyema

Substitute Members Present: Ms. Michael-dharma Irwin
 Mr. Wayne Rhodes (arrived at 8:05 AM)

Substitute Members Absent: Mr. Brian Lynch

Various Times: Mr. Daniel Zito, Executive Director
 Ms. Randee Stenroos, Assistant Director
 Ms. Katrina Milne, Investment Analyst
 Mr. Stephen Euell, Accountant
 Mr. Rob Gooderham, WIP
 Mr. Garry Musto, WIP
 Mr. Jim McGovern, Franklin Park
 Mr. Matt Castaldo, Franklin Park

CONSENT LIST

A motion to approve the consent list, consisting of the January 6, 2018 Board meeting minutes was offered by Mr. Barrett and seconded by Mr. Ross. This motion passed by a vote of 5-0, with Ms. Cowan not yet present.

PRIVATE EQUITY PROGRAM UPDATE

Messrs. McGovern and Castaldo of Franklin Park reviewed ACERS' private equity program. Mr. McGovern provided a brief overview of the private equity sector, investment thesis and objective. Specifically, he noted that private equity offers a potential premium return to public markets but carries additional risk due to several factors, including the illiquid nature of the assets class. Discussing the dispersion of private equity returns, Mr. McGovern noted that general

partner selection is a key success factor. Finally, he reiterated the long-term nature of the asset class, remarking that with fund lives of 10 years or more, performance figures based on less than 3 or 4 years are not meaningful. Mr. Castaldo reviewed the pacing analysis for 2018, concluding that approximately \$40-50 million in annual commitments remains a reasonable objective to methodically build out the program. Mr. McGovern briefly reviewed the quarterly private equity reporting package and invited the trustees to Franklin Park's annual conference to be held in June 2018.

INVESTMENT REALLOCATION RECOMMENDATION

Messrs. Gooderham and Musto of Windmark Investment Partners (WIP, formerly known as Ashford Consulting Group) recommend trimming ACERS' overall equity exposure and risk levels based on the recent equity market strength, driven significantly by large cap global growth stocks. Specifically, it was recommended to reduce Baillie Gifford Long Term Global Growth and T. Rowe Price Global Growth by \$10 million and \$20 million, respectively, with the proceeds directed to Northern Trust STIF. Staff concurred with the recommendation, noting the exposure of these managers to the top performing stocks. A discussion of economic fundamentals, corporate earnings projections, market valuation metrics, the size of the reallocation and the possibility of future trimming ensued.

Mr. Alt, seconded by Mr. Ross, made a motion to authorize staff to take the actions necessary to reduce Baillie Gifford LTGG mandate by \$10 million and T. Rowe Price Global Growth mandate by \$20 million. The motion passed with a vote of 6-0.

Mr. Barrett, seconded by Mr. Alt, made a motion to authorize staff to take the actions necessary to reallocate the \$30 million in proceeds from the previously approved reductions to the Northern Trust STIF. The motion passed with a vote of 6-0.

Staff responded to a question on the implementation time frame of the reduction, noting that the managers would be notified immediately and the transactions should be straightforward given the large cap nature of the portfolios.

LIQUIDITY FUNDING RECOMMENDATION

Ms. Stenroos noted that a liquidity funding authorization needed to be updated to replace the Vanguard Short Term Federal Fund with the Northern Trust Short Term Investment Fund.

Ms. Cowan, seconded by Mr. Barrett, made a motion to authorize staff to take the actions necessary to meet liquidity needs from either the Northern Trust Short Term Investment Fund or the Vanguard 500 Index Fund, as necessary, at staff's discretion, unless the Board directs the use of other funds. The motion passed with a vote of 6-0.

KEY INITIATIVES

- Ms. Stenroos updated the Board on the transaction cost analysis for the Harvest MLP reallocation.
- Ms. Stenroos noted the Retirement Office was under budget by 7% for the 6 months ended December 31, 2017 due to less than anticipated private program fees and lower travel expenses.
- Ms. Milne presented a summary of the investment beliefs survey done for the January 6, 2018 training session. She discussed the top beliefs and how they can be used as a foundation for investment and governance policies. Mr. Zito discussed potential next steps for an outside facilitator to review fund governance best and worst practices and the process of adopting an investment belief statement.
- Mr. Zito noted that he and Mr. Kinney had briefed the County Board members on the current status of Arlington County Employees' Retirement System and that the feedback was generally positive.

INVESTMENT & ADMINISTRATIVE RELATED

- A. November 2017 Fund Balance Report
- B. December 2017 Fund Balance Report
- C. Securities Lending Summary 2017
- D. Class Action Summary
- E. Foreign Tax Reclaim Status Summary
- F. Retirement Office Quarterly Budget Report
- G. Calendar of Events

ADJOURNED

Ms. Cowan, seconded by Mr. Barrett, 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 9:45 AM.

Respectfully submitted,
Ranee Stenroos