

**ARLINGTON COUNTY VIRGINIA  
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees  
Meeting Minutes  
May 3, 2018**

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

Voting Members Present:            Mr. Jon Kinney, President  
   Mr. William Ross, Assistant Treasurer  
   Ms. Michelle Cowan, Treasurer (departed 10:48 AM)  
   Mr. Jimmie Barrett, Secretary (departed 11:00 AM)  
   Ms. Barbara Donnellan  
   Ms. Sara Teyema

Voting Members Absent:            Mr. Richard Alt, Vice President

Substitute Members Present:        Ms. Michael-dharma Irwin  
   Mr. Brian Lynch  
   Mr. Wayne Rhodes

Various Times:                        Mr. Daniel Zito, Executive Director  
   Ms. Randee Stenroos, Assistant Director  
   Ms. Katrina Milne, Investment Analyst  
   Mr. Stephen Euell, Accountant  
   Mr. Brad Meeker, T. Rowe Price  
   Mr. Paul Massaro, T. Rowe Price  
   Mr. Stephen Finamore, T. Rowe Price  
   Mr. Rob Gooderham, Windmark Investment Partners  
   Mr. Garry Musto, Windmark Investment Partners

**CONSENT LIST**

A motion to approve the consent list, consisting of the April 5, 2018 Board meeting minutes, was offered by Mr. Barrett and seconded by Ms. Donnellan. This motion passed by a vote of 7-0.

**T. ROWE PRICE FLOATING RATE FUND REVIEW**

Messrs. Massaro, Finamore and Meeker provided an overview of the firm and discussed ACERS' \$91.9 million-dollar investment in Institutional Floating Rate Fund. Mr. Massaro reiterated the fund focuses on higher quality loans. Though the fund has underperformed the benchmark slightly due to the quality bias and its liquidity reserves, on a risk adjusted basis, it outperforms

the Lipper peer group with a lower risk. The attribution analysis illustrated that avoiding problem credits in the retail segment added the most to the fund's relative performance. Mr. Massaro believes the fund will perform well in a rising rate environment with low defaults. He observed that terms and conditions on new issuances continue to favor issuers.

Responding to a question about LIBOR replacement, Mr. Massaro said plans were to replace LIBOR by the end of 2021, however, he expects the transition to take longer.

## **ASSET ALLOCATION DECISION REVIEW**

Messrs. Gooderham and Musto with Windmark Investment Partners presented an investment decision review covering five allocation decisions from 2011 through 2017. Two asset allocation decisions, two sector allocation decisions and one manager decision were analyzed in detail. Rationales supporting the recommendations, outcomes were reviewed with a primary focus on lessons learned for future asset allocation decisions. A robust discussion ensued.

## **ASSET ALLOCATION RECOMMENDATION**

Messrs. Gooderham and Musto with Windmark Investment Partners recommended the following asset allocation changes:

- Allocate \$50 million to T. Rowe Price Asia Opportunities, funded from:
  - \$30 million from Vanguard S&P 500 Index fund
  - \$20 million from NTGI Value Index fund
- Allocate ~\$103 million to Orbis International, funded from:
  - \$~53 million from Vanguard Total International Stock Index Fund
  - \$50 million from DFA World ex-US International Equity fund

Mr. Gooderham noted several factors favoring investments in Asia including higher expected returns, strengthening earnings, China A Share market opening, attractive valuations and strong fundamentals. Despite higher levels of risk, China and SE Asia equities are attractive relative to domestic markets on a valuation and fundamental basis. WIP feels T. Rowe Price Asia Opportunities can perform well in this market due to their high conviction approach to fast growing, well-governed Chinese and Southeast Asian companies trading at reasonable valuations.

Mr. Gooderham noted that Orbis would provide the Fund a more targeted and active approach to investing in the international equity space than an index fund. Mr. Musto briefly reviewed Orbis as the manager and strategy were presented in detail at an earlier meeting. While Orbis has more potential to add value, its approach is often contrarian and more volatile than the market, with a history of lengthy drawdown periods. Orbis has an in-depth process, unique culture and performance-only fee which makes them a good complement to other active managers ACERS currently employs in this space.

Mr. Musto then reviewed the T. Rowe Price Asia Opportunity Fund in detail, remarking that the commingled trust vehicle was not yet open, but should be by the end of May. He stated that the rationale supporting these investments is predicated on taking risk where they think it will be rewarded. Mr. Musto reiterated that, based on the investment strategies and areas of concentration, both funds will have high tracking error and volatility and thus, patience is required to allow these managers to perform over a full investment cycle. Mr. Zito noted that legal review and documentation of both vehicles may take more time than usual given their structures.

After some discussion, a motion to approve a \$50M investment in the T. Rowe Price Asia Opportunities Trust, subject to satisfactory review and negotiation of documentation, and authorize Staff to take the actions necessary to implement the investment, was offered by Ms. Donnellan and seconded by Mr. Rhodes. This motion passed by a vote of 5 – 1, with Ms. Teyema dissenting and Ms. Cowan not present.

A motion to fund the previously approved T. Rowe Price Asia Opportunities investment by authorizing Staff to take the actions necessary to liquidate \$30M from the Vanguard Institutional Index Fund and \$20M from the NTGI Russell 1000 Value Index was offered by Mr. Barrett and seconded by Ms. Donnellan. After discussion, Mr. Ross offered an amendment to the motion to fund the full \$50 million from the Vanguard Institutional Index Fund and authorize Staff to take the necessary actions. The amendment was accepted by the makers. The amended motion passed by a vote of 6 – 0, with Ms. Cowan not present.

A motion to approve an approximate \$103M investment in the Orbis International Equity Fund, LP, zero base refundable reserve fee class, subject to satisfactory review and negotiation of documentation, and authorize Staff to take the actions necessary to implement the investment, was offered by Mr. Barrett and seconded by Mr. Rhodes, contingent on confirming that the fee arrangement would not change if the market caused the balance to move below the \$100 million minimum for the class. The motion passed by a vote of 6 – 0, with Ms. Cowan not present.

A motion was made to fund the previously approved Orbis International Equity Fund investment with one third each from DFA World ex-US, Vanguard Total International Stock Fund and Sanderson Asset Management was offered by Mr. Lynch and seconded by Ms. Donnellan. Upon clarification during the ensuing discussion, Ms. Donnellan rescinded her second and offered a replacement motion to fund \$50 million from DFA World ex-US and the balance of the Vanguard Total International Stock Fund of approximately \$53 million. This motion was seconded by Ms. Teyema and passed by a vote of 5 – 1, with Mr. Lynch dissenting and Ms. Cowan not present.

## **KEY INITIATIVES**

- Ms. Stenroos presented the 1Q18 Budget variance report and the proposed FY19 Budget. Mr. Zito noted that Staff will adjust the investment manager fees line item to reflect the just approved asset allocation and present the final proposal for approval at the June Board meeting.

- Ms. Stenroos noted the investment consultants' reviews were included in the package are due no later than May 25<sup>th</sup>.
- Mr. Lynch, Ms. Teyema and Ms. Irwin gave a brief overview of the IFEBP Wharton Investment class they attended in April.

#### **INVESTMENT & ADMINISTRATIVE RELATED**

- A. March 2018 Fund Balance Report
- B. Calendar of Events

#### **ADJOURNED**

Ms. Teyema, seconded by Mr. Rhodes, offered a motion to adjourn the meeting. The motion passed with a vote of 6-0, with Ms. Cowan not present. There being no further business, the meeting adjourned at 11:35 AM.

Respectfully submitted,  
Ranee Stenroos