

**ARLINGTON COUNTY VIRGINIA
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees
Meeting Minutes
July 12, 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. Richard Alt, Vice President
 Ms. Michelle Cowan, Treasurer
 Mr. Jimmie Barrett, Secretary (left at 9:45 AM)
 Mr. William Ross, Assistant Treasurer (arrived at 8:03 AM)
 Ms. Sara Teyema (arrived at 8:08 AM)

Voting Members Absent: Ms. Barbara Donnellan

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

Substitute Members Absent: 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. Richard McConville, Northern Trust
 Ms. Ashley Hartman Alson, Northern Trust
 Mr. David Alongi, Northern Trust
 Mr. Rob Gooderham, Windmark Investment Partners
 Mr. Dan Barner, Windmark Investment Partners
 Mr. Jim McGovern, Franklin Park
 Mr. Matt Castaldo, Franklin Park

CONSENT LIST

A motion to approve the consent list, consisting of the June 7, 2018 Board meeting minutes, cancellation of August meeting (unless circumstances warrant otherwise), Loomis Sayles Schedule A revision and the OPEB Trusts Investment Policy Statement, was offered by Mr. Barrett and seconded by Ms. Cowan. This motion passed by a vote of 5-0, with Mr. Ross and Ms. Donnellan not present.

NORTHERN TRUST INVESTMENTS REVIEW

Ms. Alson and Mr. Alongi with Northern Trust reviewed ACERS investments in the Northern Trust Aggregate Bond Index Fund and the Northern Trust Russell 1000 Value Index Fund.

After Ms. Alson provided an overview of Northern Trust's asset management organization and capabilities, Mr. Alongi discussed the Northern Trust Aggregate Bond Index Fund. Specifically, he highlighted Northern Trust's use of underlying component index funds to build the Aggregate Bond Fund. A discussion of the sampling process used to construct the underlying funds and related, decision making processes followed. Mr. Alongi noted the slight differences in metrics between the fund and the index are primarily due to pricing differences between the index provider and Northern Trust and the inability of the fund to hold all the issues represented in the index.

Ms. Alson reviewed the Northern Trust Russell 1000 Value Index Fund. As an equity fund, with fewer holdings in a more transparent and active market than fixed income, the fund attempts to fully replicate the index.

Additional discussion about performance relative to the benchmark, sampling, full replication and pricing methodologies used by the funds followed.

REAL ESTATE INVESTMENT TRUSTS ANALYSIS

Messrs. Gooderham and Barner with Windmark Investment Partners reviewed an analysis they performed in response to a Trustee inquiry, specifically examining the attractiveness of lower leveraged REITs as a potential investment.

Due to the volatility of the asset class, and the nature of the securities, Windmark views REITs as equities. Windmark currently views the REIT asset class as unattractive, though increasingly less so, due to premium valuations and slower earnings growth compared to the broad equity market. However, relative to underlying asset values, REITs appear fairly valued to slightly inexpensive.

Mr. Gooderham noted that while higher interest rates are often associated with inflation and higher economic growth which is beneficial to real estate values, REITs tend to have higher yield as compensation for higher risk and slower growth. Analysis of changes in Treasury bond yields over history shows mixed results in terms of the subsequent performance of REITs relative to stocks.

Mr. Barner reviewed Windmark's analysis of the broader REIT asset class sorted into leverage quintiles based on three metrics: debt/EBITDA, debt/total market capitalization and debt/private market value. He noted low leverage REITs are generally more expensive than the larger REIT universe, trading at a premium to net asset value and at higher multiples. He also noted that the lower leverage REITs have higher exposure to sectors with short lease durations.

There was discussion with the Trustees on how REITs should be viewed in the overall portfolio and what metrics needed to change to view REITs as a potentially attractive addition to the overall portfolio.

PRIVATE EQUITY MARKET UPDATE & PORTFOLIO REVIEW

Messrs. McGovern and Castaldo reviewed ACERS' investments in the direct private equity space. Mr. McGovern reviewed Franklin Park's due diligence process and Staff's active involvement in the various stages of the development of a recommendation.

He also noted that the early IRRs on ACERS' portfolio were tracking ahead of expectations with a combined since inception IRR of 36.1%. Early performance is being driven by ACERS' first private equity investments.

Mr. Castaldo discussed a possible recommendation for the September meeting. Staff and Franklin Park need to complete the due diligence before bringing the recommendation to the Trustees.

KEY INITIATIVES

- Ms. Stenroos updated the Board on the completion of the investments into Orbis, T. Rowe Price Asia Opportunities, Northern Trust TIPS and addition to T. Rowe Price Floating Rate funds.
- Ms. Stenroos noted there has been an initial meeting with the new audit firm.
- Mr. Zito noted a training session on custody and transition management was held on July 11.

INVESTMENT & ADMINISTRATIVE RELATED

- A. May 2018 Fund Balance Report
- B. Inventory Listing
- C. Calendar of Events
- D. Trip Report (Franklin Park Conference)

CLOSED SESSION – PERSONNEL DISCUSSION

A motion was offered by Mr. Alt, seconded by Mr. Lynch, and passed by a vote of 6-0, with Ms. Donnellan not present, to enter into closed session for discussion, consideration or interviews of prospective candidates for employment; assignment, appointment, promotion, performance, demotion, salaries, disciplining or resignation of specific public officers, appointees or employees of any public body pursuant to Virginia Code §2.2-3711(A0(1)). The closed session began at 10:40 AM.

The Board returned to open session at 10:53 AM. On a motion by Mr. Ross, and carried by a vote of 6-0, the voting recorded as follows:

<u>Member</u>	<u>Vote</u>
Mr. Kinney	Aye
Mr. Alt	Aye
Ms. Cowan	Aye
Mr. Ross	Aye
Ms. Teyma	Aye
Mr. Lynch	Aye

The Board certified that only public matters lawfully exempted from open meeting requirement by Virginia law and identified in the motion convening the closed session were heard, discussed or considered by the Board.

After the Board reentered open session, a motion was offered by Ms. Teyema, seconded by Mr. Lynch, to approve the Executive Director’s FY19 salary increase consistent with the Executive Director Compensation Policy adopted by the Board on October 1, 2015. The motion passed by a vote of 6-0 with Ms. Donnellan not present.

OTHER BUSINESS

Mr. Alt made a motion to consult with the Treasurer’s Office about severing ties with Wells Fargo due to recent events. After discussion, the motion failed due to no second.

Mr. Alt shared his largely favorable impressions of the Franklin Park Annual Conference with the Board.

ADJOURNED

Ms. Cowan, seconded by Ms. Teyema, offered a motion to adjourn the meeting. The motion passed with a vote of 6-0, with Ms. Donnellan not present. There being no further business, the meeting adjourned at 11:17 AM.

Respectfully submitted,
Ranee Stenroos