

**ARLINGTON COUNTY VIRGINIA
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees
Meeting Minutes
September 6, 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. Richard Alt, Vice President (arrived at 8:16 AM)
 Ms. Michelle Cowan, Treasurer (arrived at 8:13 AM)
 Mr. William Ross, Assistant Treasurer
 Ms. Barbara Donnellan (arrived at 8:10 AM)
 Ms. Michael-dharma Irwin

Voting Members Absent: Mr. Jimmie Barrett

Substitute Members Present: 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. Rob Gooderham, Windmark Investment Partners
 Mr. Garry Musto, Windmark Investment Partners
 Ms. Amy Rozier, Human Resources
 Ms. Rasheeda El-Amin, Human Resources
 Mr. Dan Dynan, Meketa Investment
 Ms. Mary Mustard, Meketa Investment (via telephone)

CONSENT LIST

A motion to approve the consent list, consisting of the July 12, 2018 Board meeting minutes, was offered by Mr. Ross and seconded by Mr. Lynch. This motion passed by a vote of 5-0, with Ms. Cowan and Ms. Donnellan not present.

WINDMARK QUARTERLY PERFORMANCE REVIEW

Messrs. Gooderham and Musto of Windmark Investment Partners reviewed System investment performance for the quarter ended June 30, 2018. Fund returns for various time periods were:

(%)	Quarter	1 Year	5 Years	10 Years
Total Fund (Gross)	1.5	8.0	8.2	7.1
Total Fund (Net) *	1.4	7.9	7.9	6.8
Policy Benchmark**	1.0	7.1	7.5	6.5
CPI + 3.5% Annualized	1.9	6.6	5.2	5.0

* Gross returns adjusted downwards for current annual fee rate per annual fee review and analysis, assuming all fees deducted quarterly.

** 40% Ru3000, 17.5% MSCI ACWI ex-US, 39% BC Universal, 1.5% Barclays TIPS, 2% T-Bills

The outperformance over the past year was driven by strong returns from growth-oriented global equity managers as well as the credit tilt and an underweighted allocation to fixed income.

Relative to the TUCS universe of public plans, ACERS' performance was in the 70th, 60th and 43rd percentile on a one, five and ten-year basis, respectively. The makeup and relevance of the peer group was discussed along with possible alternatives. WIP estimates the fund's diversified risk level at June 30, 2018 was 64. This compares to WIP's estimated benchmark risk of 54 and the top of the policy risk band at 65. Mr. Gooderham discussed the fund's position at the top of the risk band, highlighting the reallocations in June and July of 2018. There was robust discussion on the risk band and the timing of de-risking the Fund.

Mr. Musto reviewed the manager roster and noted there were reviews underway on certain strategies.

FY18 DISABILITY ACTIVITY & TRUSTEE ELECTION PROCESS

Ms. Rozier reviewed the ordinary and service connected disability applications and approvals in FY18. She noted that activity was generally in line with previous fiscal years.

Ms. Rozier discussed the trustee election process for the public safety trustee and substitute trustee, retiree trustee and substitute trustee and the special election for the general employees' substitute trustee. She noted communications will be sent out to the applicable groups in September with nominations in October and elections in November. She also noted the same system is being used for the trustee election process.

KEY INITIATIVES

- Ms. Milne reviewed an investment manager fee analysis for FY12 – FY18, concluding that fees for ACERS public equity and fixed income managers have come down 23% over the period driven by industry wide fee pressure, a portfolio shift toward passive investments and the use of performance-based fee models.
- Ms. Stenroos noted that the audit is progressing with an anticipated wrap up in October.
- Mr. Zito noted a training session on Environmental, Social and Governance investing was held on September 5.
- Mr. Zito provided an update on the Arsenal project and timing of the expected sales.

INVESTMENT BELIEFS DISCUSSION

Mr. Dynan and Ms. Mustard of Meketa Investment Group presented the initial results of the independent review of the System approved by the Board in April, focusing on Phase I, Governance Review & Development of Statement of Investment Beliefs.

Mr. Dynan and Ms. Mustard reviewed the results of the fund governance and the investment beliefs Trustee and staff survey. Responses were received from nine trustees and three staff members. Mr. Dynan noted the broad agreement on the roles and responsibilities of the trustees, staff and consultants. Mr. Dynan discussed that the challenge facing many plans is acting in a way that is consistent with the roles and responsibilities as described in the fund's documents. An active discussion on fiduciary responsibility and stakeholder groups ensued.

The discussion then turned to the investment belief survey results. The results were reviewed across five categories: investment objectives, financial markets, investment process, organizational beliefs and sustainability. There was robust discussion, specifically on the topics of risk tolerance, time horizons, manager selection, tactical vs. strategic allocations and illiquid asset exposure.

Next steps for the review include 1) presentation of a sample investment belief statements for further discussion and 2) an analysis of the System's current asset allocation against various alternatives, including scenario and stress testing within the context of the liability.

INVESTMENT & ADMINISTRATIVE RELATED

- A. July 2018 Fund Balance Report
- B. June 2018 Fund Balance Report
- C. County Board Update FY18
- D. Class Action Recoveries FY18
- E. Securities Lending Earnings FY18
- F. Soft Dollars FY18
- G. International Tax Reclaim Status FY18
- H. OPEB Update
- I. July Training Session Minutes
- J. Calendar of Events

ADJOURNED

Ms. Donnellan, seconded by Mr. Lynch, offered a motion to adjourn the meeting. The motion passed with a vote of 7-0. There being no further business, the meeting adjourned at 11:25 AM.

Respectfully submitted,
Ranee Stenroos