

**ARLINGTON COUNTY VIRGINIA
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees
Meeting Minutes
November 1, 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
 Ms. Michelle Cowan, Treasurer (departed at 9:28 AM)
 Mr. Jimmie Barrett, Secretary (arrived at 8:09 AM)
 Mr. William Ross, Assistant Treasurer
 Ms. Barbara Donnellan
 Ms. Michael-dharma Irwin

Voting Member Absent: Mr. Richard Alt, Vice President

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

Various Times: Mr. Daniel Zito, Executive Director
 Ms. Randee Stenroos, Assistant Director
 Ms. Katrina Milne, Investment Analyst
 Mr. Rob Gooderham, Windmark Investment Partners
 Mr. Garry Musto, Windmark Investment Partners
 Mr. Ted Aronson, AJO Partners
 Ms. Gina Moore, AJO Partners
 Mr. Dan Dynan, Meketa Investment Group
 Mr. Frank Benham, Meketa Investment Group

CONSENT LIST

A motion to approve the consent list, consisting of the October 4, 2018 Board meeting minutes, a Letter to the County Board on FY2020 Contribution Rate and an updated Non-Corporate Resolution was offered by Mr. Ross and seconded by Ms. Donnellan. This motion passed by a vote of 6-0-1, with Mr. Barrett not yet present and Mr. Lynch abstaining due to his absence at the October meeting.

ANALYSIS OF LOWER RISK EQUITY MANDATES

Messrs. Gooderham and Musto with Windmark Investment Partners (WIP) presented an analysis of the role lower risk equity managers and mandates play in the fund. The analysis included a

review of the fund's current equity exposures, by manager, geography and style, along with a view of the total fund's allocation of assets, risk and return. It was noted that including lower risk equity mandates permits a higher overall equity allocation and, correspondingly, a lower allocation to fixed income. This combination has performed well in the decade since the 2008 crisis. Finally, they demonstrated that two of ACERS' three lower risk equity mandates outperformed a risk equivalent stock-bond mix since their respective inception dates.

AJO PARTNERS MANAGEMENT REVIEW

Mr. Aronson and Ms. Moore with AJO Partners reviewed ACERS \$182 million investment in AJO's managed volatility strategy. Mr. Aronson noted the underperformance of the strategy to its benchmark was largely driven by the strategy not owning the FANG stocks during the period.

Ms. Moore reviewed the investment process. She discussed the four pillars--value, management, momentum and sentiment--that guide investments in the portfolio. She also stated the strategy remains fully invested as the goal is not to time the markets. Mr. Aronson reiterated that minimizing trading costs remains a focus of the firm.

There was discussion and questions from Trustees; a full listing of the strategy's holdings was requested.

KEY INITIATIVES/OTHER BUSINESS

- Ms. Stenroos updated the Board on the FY 2018 CAFR and audit process. The final CAFR will be in the December package and the auditors will present at the December Board meeting.
- Mr. Zito noted that the elections for Retiree and General Employee Substitute Trustees will take place from November 16th through December 5th.
- Mr. Lynch inquired on the feasibility of establishing a reserve bank account to be used in the event of a debilitating cyberattack on the System's custodial bank.
- The January Training session was discussed briefly; there was general agreement among the Trustees to utilize training budget dollars for programming the day.

MEKETA FUND REVIEW AND ASSET ALLOCATION STUDY

Messrs. Dynan and Benham, with Meketa Investment Group, presented the results of the detailed examination of ACERS' current asset allocation, structure and investment strategy.

Mr. Dynan presented the Investment Strategy review noting that Meketa reviewed Fund governance, asset allocation and portfolio construction. Meketa did not identify any significant deficiencies. While noting the System's strong financial condition and solid performance over the preceding 10 years, he did highlight some areas for consideration to potentially enhance the System's risk/return profile. Mr. Dynan stated that the review should serve as a platform to address and discuss with staff and consultants.

Mr. Benham presented the Asset Allocation review. He stated that while the Fund is well diversified in terms of asset classes, the portfolio's risk is highly concentrated within public equities. Since the System is well funded with a low target return, equities may represent an outsized portion of the overall risk budget. He noted that by expanding into other asset classes, the System may be able to increase its expected return for a given level of risk.

Various asset classes were discussed in detail including emerging markets, TIPS, US small cap equities and real assets. There was a robust discussion on the appropriateness and types of vehicles available for accessing these asset classes. Meketa will present potential model allocations at a future meeting for Trustee further consideration with staff and the System's general consultant, Windmark Investment Partners.

INVESTMENT & ADMINISTRATIVE RELATED

- A. September 2018 Fund Balance Report
- B. Final Actuarial Valuation Report
- C. October Training Session Minutes
- D. Calendar of Events

ADJOURNED

Mr. Ross, seconded by Mr. Rhodes, offered a motion to adjourn the meeting. The motion passed with a vote of 6-0, with Ms. Cowan being absent. There being no further business, the meeting adjourned at 11:30 AM.

Respectfully submitted,
Randee Stenroos