

**ARLINGTON COUNTY VIRGINIA
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees
Meeting Minutes
March 7, 2019**

The President of the Board, Mr. Jonathan Kinney, called the meeting to order at 8:00 AM, in the Cherry/Dogwood Conference Room, 2100 Clarendon Boulevard, Arlington VA.

Voting Members Present: Mr. Jon Kinney, President
 Mr. Rich Alt, Vice President
 Ms. Michelle Cowan, Treasurer (departed at 10:25AM)
 Mr. Jimmie Barrett, Secretary
 Mr. William Ross, Assistant Treasurer
 Ms. Barbara Donnellan (arrived at 8:07AM)
 Ms. Michael-dharma Irwin

Substitute Members Present: Ms. Emily Hughes
 Mr. Brian Lynch
 Mr. Carl Newby

Others Present: Mr. Daniel Zito, Executive Director
 Ms. Randee Stenroos, Assistant Director
 Ms. Katrina Milne, Investment Analyst (*via phone*)
 Mr. Stephen Euell, Accountant
 Mr. Rob Gooderham, Windmark Investment Partners
 Mr. Garry Musto, Windmark Investment Partners

CONSENT LIST

A motion to approve the consent list, consisting of the February 7, 2019 meeting minutes was offered by Mr. Ross and seconded by Mr. Alt. This motion passed by a vote of 6-0, with Ms. Donnellan not yet present.

QUARTERLY PERFORMANCE REVIEW

Mr. Musto of Windmark Investment Partners reviewed System investment performance for the quarter ended December 31, 2018. Fund returns for various time periods were:

(%)	Quarter	1 Year	5 Years	10 Years
Total Fund (Gross)	-7.8	-4.3	4.8	9.2
Total Fund (Net) *	-7.9	-4.4	4.5	8.9
Policy Benchmark**	-7.4	-4.5	4.5	8.3
CPI + 3.5% Annualized	0.5	5.7	5.2	5.4

* 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 one-year -4.3% return was slightly better than the -4.5% of the benchmark due to positive returns from the non-traditional investments and some contribution from active equity managers, partially offset by fixed income underperformance.

Relative to the TUCS universe of public plans, ACERS' performance was in the 56th, 66th and 28th percentile on a one, five and ten-year basis, respectively. WIP estimates the fund's diversified risk level at December 31, 2018 was 62. This compares to WIP's estimated benchmark risk of 54 and the top of the policy risk band at 65.

Mr. Musto reviewed the drivers of the underperformance for the quarter and the manager roster and noted there were reviews underway on certain strategies. There was discussion on time to be allotted to the quarterly review at future meetings.

ASSET ALLOCATION REVIEWS

Mr. Gooderham with Windmark Investment Partners presented the firm's views on the current state of the economic cycle. Windmark believes that after nine years of actively taking a higher than benchmark risk posture, ACERS should consider taking advantage of market strength and move towards a more neutral risk position.

Mr. Gooderham noted that while the near-term risk of a US recession is low and equities were still preferred to bonds, there were signs that prospects were starting to shift. Namely, a slowdown in earnings growth combined with high equity risk premia suggests that high quality long duration bonds may become more attractive should the cycle continue to mature. Outside the US, Mr. Gooderham noted that the global economic outlook has become more clouded with slowing growth in Europe and Japan despite monetary policy support.

ASSET ALLOCATION RECOMMENDATION

Mr. Gooderham presented an asset allocation recommendation to take advantage of recent market strength and reduce the portfolio's overall risk exposure. In the ensuing discussion of the two options presented, staff noted its preference for the more aggressive risk reduction given the System's funded position and forward return assumptions. After further discussion of the proposed sources and uses, a slightly modified option was adopted.

Specifically, a motion was made by Mr. Alt and seconded by Ms. Irwin to terminate the Sanderson Asset Management mandate and authorize staff to take the actions necessary to make the redemption. The motion passed by a vote of 7-0.

After further discussion, Mr. Barrett made a motion to reallocate the proceeds from Sanderson as follows:

- 50% to Northern Trust Aggregate Bond Index Fund
- 50% to DoubleLine® Total Return

The motion was seconded by Ms. Irwin. The motion passed by a vote of 6 – 1, with Mr. Kinney dissenting, noting the difference in yields between the Aggregate Bond Fund and cash did not adequately compensate for the loss of optionality that cash provides.

ASSET CLASS ANALYSIS

Messrs. Gooderham and Musto presented Windmark Investment Partners' analysis of the international small cap asset class. Windmark believes the asset class is attractive due to its diversification properties, lower risk level and greater market inefficiencies. The asset class has similar return expectations to the broad international market, but has historically been a better diversifier of US equities. It also has lower sensitivity to the global economy.

The key risks noted included moderately higher volatility and downside risk relative to the broad international equity market, currency and political risk and higher fees and transaction costs that can negatively impact returns. There was robust discussion around the forward-looking risk and return for the asset class. Staff noted it is meeting with a portfolio manager investing in the asset class later in March and an invitation was given to trustees to attend (limited to two trustees).

KEY INITIATIVES

- Ms. Stenroos noted that the Gallant I contract negotiations were completed.
- Ms. Stenroos notified the Board that the Fiduciary Insurance renewal was taking place with a pre-negotiated price equal to the current fiscal year pricing.
- Mr. Zito noted the Trustee training session on Windmark's investment process was held on Wednesday, March 6th.

ADJOURNMENT

Mr. Alt, seconded by Mr. Barrett, offered a motion to adjourn the meeting. The motion passed with a vote of 6-0, with Ms. Cowan not present. The meeting ended at 10:50 AM.

Respectfully Submitted,
Ranee Stenroos
Assistant Director