

**ARLINGTON COUNTY VIRGINIA
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees
Meeting Minutes
June 7, 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
 Mr. William Ross, Assistant Treasurer
 Mr. Jimmie Barrett, Secretary
 Ms. Barbara Donnellan
 Ms. Sara Teyema

Voting Members Absent: Ms. Michelle Cowan, Treasurer

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. Rob Gooderham, Windmark Investment Partners
 Mr. Garry Musto, Windmark Investment Partners
 Mr. Tom Teneza, Vanguard
 Mr. Drew Schneider, Vanguard

CONSENT LIST

A motion to approve the consent list, consisting of the May 3, 2018 Board meeting minutes and the Fiscal Year 2019 Retirement Office budget, was offered by Mr. Ross and seconded by Ms. Donnellan. This motion passed by a vote of 6-0, with Ms. Cowan not present.

WINDMARK QUARTERLY REVIEW AND MARKET UPDATE

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

(%)	Quarter	1 Year	5 Years	10 Years
Total Fund (Gross)	-0.6	9.8	8.0	7.0
Total Fund (Net) *	-0.6	9.7	7.7	6.7
Policy Benchmark**	-1.0	9.0	7.2	6.3
CPI + 3.5% Annualized	2.2	6.1	5.0	5.2

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

**Effective 10/1/07: 40% Ru3000, 17.5% MSCI ACWI ex-US, 39% BC Universal, 1.5% Barclays TIPS, 2% T-Bills

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

Relative to the TUCS universe of public plans, ACERS' performance was in the 61st, 58th and 35th percentile on a one, five and ten-year basis, respectively. The makeup and relevance of the peer group was discussed. WIP estimates the fund's diversified risk level at March 31, 2018 was 62. This compares to WIP's estimated benchmark risk of 54 and the top of the policy risk band at 65.

ASSET ALLOCATION RECOMMENDATION

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

- Allocate \$75 million to NTGI TIPS bond index fund
- Allocate \$25 million to T. Rowe Price Institutional Floating Rate fund

Proposed funding for both investments was the NTGI Aggregate Bond Index fund.

Mr. Gooderham discussed that inflation pressures appear to be mounting in the US and globally. Mr. Gooderham noted ACERS' low exposure to inflation-sensitive assets and that the recommended asset allocation would maintain the fund's current duration exposure.

After some discussion, a motion to approve the liquidation of \$100M from the Northern Trust Aggregate Bond Index fund offered by Ms. Donnellan and seconded by Mr. Ross. This motion passed by a vote of 6 – 0, with Ms. Cowan not present.

A motion to approve a \$75M investment in the Northern Trust TIPS Index fund and a \$25M investment in the T. Rowe Price Institutional Floating Rate fund, subject to satisfactory review and negotiation of documentation, and to authorize Staff to take the actions necessary to implement the investment, was offered by Ms. Donnellan and seconded by Mr. Barrett.

Mr. Kinney offered a substitute motion to allocate \$50M to T. Rowe Price Institutional Floating Rate fund and \$50M to a low leverage REIT fund. In the ensuing discussion, the Board requested more information on REITs; however, the substitute motion failed to get a second. Subsequently, the original motion passed by a vote of 6 – 0, with Ms. Cowan not present.

CONSULTANT REVIEW

Ms. Stenroos presented the results of the consultant reviews for Windmark and Franklin Park. She noted that the results were similar to the prior year's.

Several trustees stated their appreciation to Windmark for their consistency, transparency and thoughtfulness over the past 21 years of service.

VANGUARD INVESTMENT MANAGER REVIEW

Messrs. Teneza and Schneider reviewed ACERS' investments in the Vanguard Dividend Fund, 500 Index Trust, International Equity fund and Wellington fund. Mr. Teneza briefly reviewed Vanguard's structure and confirmed that ACERS is in the lowest cost class on all the funds.

Mr. Schneider reviewed the Dividend Growth fund and the Wellington fund. He discussed the fund's characteristics and the drivers and detractors of performance over a 1, 3, 5 and 10-year time horizon. Trustees had questions on inflows to Vanguard and the effects on the pricing of certain equities. Mr. Teneza offered to share a white paper Vanguard had written on the subject with the trustees.

KEY INITIATIVES

- Ms. Stenroos updated the Board on the investments into Orbis and T. Rowe Price Asia Opportunities funds.
- Ms. Milne summarized staff's meeting with the County DMF Director and discussed proposed changes to the OPEB Investment Policy Statement. The final draft will be included on the July 12, 2018 consent list.
- Mr. Zito briefed the trustees on the status to of the third party review and survey.

INVESTMENT & ADMINISTRATIVE RELATED

- A. April 2018 Fund Balance Report
- B. County Board Update as of March 31, 2018
- C. OPEB Performance as of March 31, 2018
- D. Calendar of Events
- E. May 2, 2018 Training Session Minutes

ADJOURNED

Mr. Ross, seconded by Ms. Donnellan, 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 10:50 AM.

Respectfully submitted,
Ranee Stenroos