

**ARLINGTON COUNTY VIRGINIA  
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees  
Meeting Minutes  
September 5, 2019**

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

Voting Members Present: Mr. Rich Alt, Vice President (via Skype from Southport, NC)  
Ms. Michelle Cowan, Treasurer (departed at 10:15 AM)  
Mr. Jimmie Barrett, Secretary  
Mr. William Ross, Assistant Treasurer  
Ms. Michael-dharma Irwin

Substitute Members Present: Ms. Emily Hughes  
Mr. Brian Lynch (departed at 11:00 AM)  
Mr. Carl Newby

Voting Members Absent: Mr. Jonathan Kinney, President  
Ms. Barbara Donnellan

Others Present: 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. Scott Nisbet, Baillie Gifford  
Ms. Gemma Barkhuizen, Baillie Gifford  
Mr. Jim McGovern, Franklin Park  
Mr. Louis Mintz, JFL Partners  
Mr. Alex Harmon, JFL Partners  
Mr. Gene Kalwarski, Cheiron  
Mr. Patrick Nelson, Cheiron

**CONSENT LIST**

A motion to approve the consent list, consisting of the July 11, 2019 meeting minutes was offered by Ms. Irwin and seconded by Mr. Ross. This motion passed by a vote of 4-0, with Mr. Barrett abstaining due to his absence at the July meeting and Mr. Kinney and Ms. Donnellan not present.

## **BAILLIE GIFFORD UPDATE**

Mr. Nisbet and Ms. Barkhuizen with Baillie Gifford reviewed ACERS' \$108 million investment in the Long Term Global Growth strategy. Mr. Nisbet provided an update on the firm, noting that the firm has opened offices in Shanghai and Dublin. Responding to a query concerning the impact of Brexit, Mr. Nisbet noted that the primary concern was being able to attract and retain diverse employees which are foundational to the firm's success but that having the Dublin office mitigates the concern to a degree. Ms. Barkhuizen reviewed several changes to the portfolio, summarizing the investment theses supporting the moves. A discussion ensued.

## **CLOSED SESSION – INVESTMENT RECOMMENDATION**

A motion was offered by Ms. Cowan, seconded by Ms. Irwin, and passed by a vote of 5-0, with Mr. Kinney and Ms. Donnellan not present, to enter into closed session for discussion by the Board regarding the acquisition, holding or disposition of a security or other ownership interest in an entity, where such security or ownership interest is not traded on a governmentally regulated securities exchange, to the extent that such discussion (i) concerns confidential analyses prepared for the Board under a promise of confidentiality, of the future value of such ownership interest or the future financial performance of the entity, and (ii) would have an adverse effect on the value of the investment to be acquired, held, or disposed of by the retirement system pursuant to Virginia Code §2.2-3711 A (20) & (38) and §2.2-3705.7 (24). The closed session began at 8:40 AM.

The Board returned to open session at 9:42 AM. On a motion by Ms. Cowan, and carried by a vote of 5-0, with Mr. Kinney and Ms. Donnellan not present, the voting recorded as follows:

<u>Member</u>	<u>Vote</u>
Mr. Alt	Aye
Ms. Cowan	Aye
Mr. Barrett	Aye
Mr. Ross	Aye
Ms. Irwin	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 Mr. Barrett, seconded by Ms. Cowan, to approve a commitment of \$15 million to JFL Equity Investors V, LP, subject to satisfactory negotiation of documentation, to be funded via the Northern Trust Short Term Investment Fund or the Vanguard 500 Index Fund, as necessary, at staff's discretion, and authorize staff to take the actions necessary to implement the investment. The motion passed by a vote of 5-0.

## QUARTERLY PERFORMANCE REVIEW

Mr. Gooderham of Windmark Investment Partners reviewed System investment performance for the quarter ended June 30, 2019. Fund returns for various time periods were:

(%)	Quarter	1 Year	5 Years	10 Years
Total Fund (Gross)	3.1	6.9	6.0	9.7
Total Fund (Net) *	3.1	6.8	5.8	9.4
Policy Benchmark**	3.6	7.5	5.9	9.0
CPI + 3.5% Annualized	1.7	5.4	5.1	5.3

\* 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

Relative performance versus the benchmark over the past year was driven by the net underperformance of active public equity managers and the underweighted exposure to duration and high quality in the fixed income allocation.

Relative to the TUCS universe of public plans, ACERS' performance was in the 42<sup>nd</sup>, 58<sup>th</sup> and 42<sup>nd</sup> percentile on a one, five and ten-year basis, respectively. WIP estimates the fund's diversified risk level at June 30, 2019 was 60. This compares to WIP's estimated Fund benchmark risk of 54 and the top of the policy risk band at 65.

Mr. Gooderham reviewed the manager roster and noted that certain strategies were under review. In response to a prior Trustee question concerning the simulated performance of the Fund in historical bear and bull markets, Mr. Gooderham stated that these simulations estimate that, on average, the System's portfolio today would have captured 58% of the S&P 500's drawdown in bear markets and 73% of the S&P 500's upside in bull markets. He noted there were several limitations to this analysis.

## ACTUARIAL EXPERIENCE STUDY

Messrs. Kalwarski and Nelson with Cheiron presented the results of the Actuarial Experience Study covering the period from July 1, 2014 through June 30, 2019. The discussion focused on the demographic assumptions.

Mr. Kalwarski noted that over the past several years the System has experienced liability gains consistently. Mr. Nelson discussed each of the key demographic assumptions versus actual experience in detail for termination rates, retirement rates, disability rates, mortality rates and merit salary increases. Modified assumptions were proposed. Except for mortality, none of the assumption adjustments had a significant impact on the liability. Changing the mortality assumption as recommended by Cheiron would increase the liability by approximately 4-5%; however, the contribution rate for FY 2021 would be consistent with the current rate, assuming no further changes to assumptions.

There was robust discussion between the trustees and Cheiron on changes to the demographic assumptions and the reasoning for the changes. Mr. Zito stated that further discussion and potential action on the demographic and economic assumptions would be considered at the October meeting when Cheiron presents the Annual Valuation Study in detail.

#### **KEY INITIATIVES**

- Ms. Stenroos provided an update of the FY19 audit.
- Ms. Stenroos said an initial investment in Highclere Smaller Companies Fund was completed at the end of August for \$6.5 million.
- Mr. Zito briefly reviewed an analysis provided via e-mail that compared the performance ACERS' portfolio to the Wellington Fund in which the OPEB assets are invested.

#### **ADJOURNMENT**

Mr. Ross, seconded by Ms. Irwin, offered a motion to adjourn the meeting. The motion passed with a vote of 4-0, with Mr. Kinney, Ms. Donnellan and Ms. Cowan not present. The meeting ended at 11:19 AM.

Respectfully Submitted,  
Ranee Stenroos  
Assistant Director