

**ARLINGTON COUNTY VIRGINIA
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees
Meeting Minutes
May 7, 2020**

The President of the Board, Mr. Jonathan Kinney, called the meeting to order at 8:00 AM.

The meeting was held electronically via Microsoft Teams, consistent with the Virginia General Assembly allowing such electronic meetings without a physical quorum if “the purpose of meeting is to discuss or transact the business statutorily required or necessary to continue operations of the public body...and the discharge of its lawful purposes, duties, and responsibilities.”

All participants attended from their respective offices or homes. The meeting was open and available to the public via Microsoft Teams.

Voting Members Present:

- Mr. Jonathan Kinney, President
- Mr. Richard Alt, Vice President
- Ms. Michelle Cowan, Treasurer (departed at 11 AM)
- Mr. Jimmie Barrett, Secretary (departed at 10 AM)
- Mr. William Ross, Assistant Treasurer
- Ms. Barbara Donnellan
- Ms. Michael-dharma Irwin (departed at 11:30 AM)

Substitute Members Present:

- Ms. Emily Hughes (departed at 11:30 AM)
- Mr. Brian Lynch
- Mr. Carl Newby

Others Present:

- Mr. Daniel Zito, Executive Director
- Ms. Randee Stenroos, Assistant Director
- Ms. Katrina Milne, Analyst
- Mr. Stephen Euell, Accountant
- Mr. Rob Gooderham, Windmark Investment Partners
- Mr. Garry Musto, Windmark Investment Partners
- Mr. Drew Dinger, Windmark Investment Partners
- Mr. Dan Barner, Windmark Investment Partners
- Mr. Jim McGovern, Franklin Park
- Mr. Matt Castaldo, Franklin Park
- Mr. Peter Hill, County Manager's Office

CONSENT LIST

A motion to approve the consent list, consisting of the April 2, 2020 meeting minutes was offered by Ms. Donnellan and seconded by Mr. Ross. The motion passed by a vote of 7-0.

CAPITAL MARKETS UPDATE

Messrs. Gooderham and Musto with Windmark Investment Partners provided an update on their views related to the economic and market impact of pandemic, highlighting several possible outcomes and recovery scenarios. He discussed the fiscal and monetary support being provided by central banks.

With respect to the asset reallocation approved in April, Mr. Gooderham noted \$25 million was allocated to the Vanguard 500 Index fund and \$15 million to the T. Rowe Price Asia Opportunities fund before the markets moved sharply higher. Accordingly, the remaining \$45 million and \$15 million, respectively, were not invested given the structure of the approved recommendation which expired effectively May 7, 2020 and was not recommended for renewal.

Mr. Gooderham noted ACERS preliminary performance for April was 7.4%, equal to the benchmark; estimated fiscal year to date through April was 0.2% versus a benchmark of -0.7%.

ASSET REALLOCATION RECOMMENDATION

Windmark offered a recommendation to terminate the AJO Managed Volatility mandate and reallocate the proceeds to GQG US Equities Fund.

Mr. Musto discussed management and personnel changes at AJO and the performance of the strategy over the three years since their hire. He also reviewed the process of identifying replacement managers and the characteristics that moved GQG to the top of the list.

Mr. Dinger discussed GQG, the firm, its founder, Rajiv Jain, and its investment approach in detail. As the Portfolio Manager, Mr. Jain makes all the investment decisions and is supported by a team of analysts. Analysts are encouraged to disagree with Mr. Jain and support their ideas and are compensated on the correctness of those ideas. Messrs. Musto and Dinger acknowledged the firm's limited track record as well as the key man risk associated with Mr. Jain as the sole decision maker. They noted the fund out performed both gross and net of fees and showed a quality bias which has helped protect assets during downturns.

A robust discussion ensued on both the termination of AJO and GQG as a potential replacement. Key questions raised included the timing for exiting AJO, GQG's strategy and the rationale for active management in the efficient, US mega cap space, key man risk, fee structure and Windmark's level of conviction on the manager. During the discussion, staff acknowledged discussing, and resolving, many of these questions with Windmark during its due diligence and concurred with the recommendation.

Mr. Kinney polled the trustees on the termination of AJO as well as the reallocation to GQG. A motion to terminate AJO, and to authorize staff to take the necessary actions, was offered by Mr. Ross and seconded by Ms. Irwin. The motion passed by a vote of 7-0.

A motion to allocate the AJO funds to GQG US Equities fund was offered by Ms. Irwin and seconded by Ms. Donnellan. After further discussion, the motion failed by a vote of 3-4, with Messrs. Alt, Kinney, Lynch and Ross voting nay.

After additional discussion, a motion to allocate the AJO proceeds to the Vanguard 500 Index Fund, and to authorize staff to take the necessary actions, was offered by Mr. Ross and seconded by Mr. Lynch. Mr. Kinney made a friendly amendment to allocate \$125 million of the AJO proceeds to the Vanguard 500 Index Fund with the remainder to Cash. Mr. Ross and Mr. Lynch accepted the friendly amendment. The motion passed with a vote of 5-2, with Mr. Alt and Ms. Donnellan voting nay.

The Board requested Windmark and staff address the Board's remaining questions concerning GQG at the June meeting.

PRIVATE EQUITY REVIEW AND IMPACTS

Messrs. McGovern and Castaldo discussed the impact of the economic downturn due to the COVID-19 pandemic on ACERS private equity portfolio. They reviewed the risk assessment for each fund based on revenue risk, supply chain risk, margin risk, balance sheet risk and funded risk. The results of a survey Franklin Park of General Partners was also shared.

KEY INITIATIVES

Ms. Stenroos introduced the annual reauthorization of the funding policy which allows staff to fund liquidity from the Vanguard 500 Index Fund or the Short Term Investment Fund at staff's discretion. A motion to reauthorize the policy was offered by Mr. Ross and seconded by Ms. Donnellan. The motion passed with a vote of 5 – 0, with Ms. Cowan and Ms. Irwin absent.

Ms. Stenroos updated the Board on the proposed FY 2021 budget and noted it would be on the June consent list. She also updated the Board on the consultant RFP process. The respondents had been narrowed to four and were under review by the committee.

ADJOURNMENT

Ms. Donnellan, seconded by Mr. Ross, offered a motion to adjourn the meeting. The motion passed by a vote of 5-0, with Ms. Cowan and Ms. Irwin absent. The meeting ended at 11:42 AM.

Respectfully Submitted,
Ranee Stenroos
Assistant Director