

**ARLINGTON COUNTY VIRGINIA  
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees  
Meeting Minutes  
December 3, 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 and Arlington County rules allowing such electronic meetings during the COVID-19 pandemic.

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

Voting Members Present:                    Mr. Jonathan Kinney, President  
   Mr. Richard Alt, Vice President  
   Ms. Michelle Cowan, Treasurer (left at 10:00 AM)  
   Mr. Jimmie Barrett, Secretary (left at 10:00 AM)  
   Mr. William Ross, Assistant Treasurer  
   Ms. Barbara Donnellan  
   Ms. Michael-dharma Irwin

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

Others Present:                                Mr. Daniel Zito, Executive Director  
   Ms. Rande Stenroos, Assistant Director  
   Ms. Katrina Milne, Analyst  
   Mr. Stephen Euell, Accountant  
   Mr. Rob Gooderham, Windmark Investment Partners  
   Mr. Garry Musto, Windmark Investment Partners  
   Mr. Dan Barner, Windmark Investment Partners  
   Ms. Krista Edoff, Cherry Bekaert  
   Ms. Molly Morneault, Cherry Bekaert

**CONSENT LIST**

A motion to approve the consent list, consisting of the November 5, 2020 meeting minutes was offered by Mr. Barrett and seconded by Mr. Ross. The motion passed by a vote of 7-0.

**INTEREST RATE OF MEMBER CONTRIBUTIONS**

Staff recommended an interest rate of 1.006%, calculated per policy established by the Retirement Board of Trustees in February 2015, be applied to member contribution balances.

A motion to approve the crediting interest rate of 1.006% was offered by Mr. Barrett and seconded by Ms. Donnellan. The motion passed with a vote of 7-0.

## **FY 2020 AUDIT FINDINGS AND CAFR SUBMISSION**

Ms. Edoff presented Cherry Bekaert’s report on the audit of ACERS’ financial statements for the fiscal year ended June 30, 2020. Cherry Bekaert issued an unmodified opinion that the financial statements are presented fairly, in all material respects, and in conformity with U.S. Generally Accepted Accounting Principles. She also noted that management was very cooperative and professional during the audit process.

Ms. Edoff described the differences between a financial audit and a fraud audit and reviewed FY20’s financial highlights. Ms. Edoff noted that an understanding of internal controls is part of the audit and discussed which sections of the CAFR subject to the full audit and which were reviewed for consistency.

After the ensuing discussion, a motion was offered by Mr. Barrett, and seconded by Ms. Donnellan, to approve the 2020 Comprehensive Annual Financial Report (CAFR) as submitted. This motion passed unanimously by a vote of 7-0.

## **QUARTERLY INVESTMENT PERFORMANCE REVIEW**

Messrs. Gooderham and Musto of Windmark Investment Partners reviewed System investment performance for the quarter ended September 30, 2020. Fund returns for various time periods were:

(%)	Quarter	1 Year	5 Years	10 Years
Total Fund (Gross)	6.6	13.0	9.7	8.8
Total Fund (Net) *	6.5	12.9	9.5	8.5
Policy Benchmark**	5.2	9.9	8.6	7.9
CPI + 3.5% Annualized	1.9	5.1	5.5	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

Relative outperformance versus the benchmark over the past year was driven by strong returns for the public equity section, particularly growth-oriented global equity managers.

Relative to the TUCS universe of public plans, ACERS’ performance was in the 1<sup>st</sup>, 7<sup>th</sup> and 23<sup>rd</sup> percentile on a one, five and ten-year basis, respectively. WIP estimates the fund’s diversified risk level at September 30, 2020 was 61. 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 contributors to, and detractors from, relative return over the most recent three- and five-year periods.

## **INVESTMENT RECOMMENDATION**

Messrs. Gooderham and Musto presented an updated asset class analysis, focusing on relative valuations between growth and value as well as small cap versus large cap. They concluded that growth equities are less suited to participate in the likely pandemic recovery while US small cap equities are as attractively priced as they have been in more than a decade. Accordingly, it was recommended that ACERS should remain above benchmark risk value while eliminating the overweight to growth and underweight US small cap. The view is

Specifically, three reallocations options were presented. The first, detailed below, was noted as the preferred recommendation of Windmark and Staff as detailed below:

Reductions:

- \$60 million from Vanguard Dividend Growth
- \$40 million from both T. Rowe Price Global Growth Equity and Baillie Gifford Long Term Global Growth
- \$40 million from Vanguard S&P 500 Index

Allocations:

- \$70 million to NTGI Value Index
- \$55 million to Vanguard or Blackrock S&P Small Cap 600 Index, at Staff's discretion
- \$55 million to Kiltearn Global Equity

Mr. Musto discussed the S&P Small Cap 600 investment vehicles, highlighting the pros and cons of each offering.

After much discussion amongst trustees, a motion to accept Option 1, and authorize Staff to take the actions necessary to implement, was offered by Mr. Ross and seconded by Mr. Lynch. This motion passed by a vote of 6-0, with Ms. Cowan not present.

## **COMMITTEE READOUTS**

Ms. Donnellan reported for the Executive Search Committee, noting the job had been posted across a variety of platforms. She expected candidates to be interviewed by the recruiter starting in January 2021 with the Search Committee talking with a preferred list of candidates shortly thereafter.

Mr. Newby and Mr. Ross reported for the Governance Committee. They noted existing policies had been reviewed and were considering hiring an outside consultant for review. Trustees requested a copy of their review for further discussion. It was agreed to add a Governance item to the January agenda.

## **KEY INITIATIVES**

- Mr. Zito updated the Board on the elections for the general employee trustee and substitute trustee, noting Ms. Irwin and Ms. Hughes had been re-elected to their present positions.

- Ms. Stenroos updated the Board on the transitions to GQG US Equity and Baillie Gifford Health Innovations.
- Ms. Stenroos noted the annual Retirement Summary was available for review and would be sent to all plan participants in January 2021.
- Mr. Zito discussed the January 9, 2021 trustee training session.

**ADJOURNMENT**

Ms. Irwin, seconded by Mr. Alt, offered a motion to adjourn the meeting. The motion passed by a vote of 6-0, with Ms. Cowan not present. The meeting ended at 11:16 AM.

Respectfully Submitted,  
Ranee Stenroos  
Assistant Director