

**ARLINGTON COUNTY VIRGINIA
EMPLOYEES' RETIREMENT SYSTEM**

**Board of Trustees
Meeting Minutes
December 5, 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. Jonathan Kinney, President
 Mr. Rich Alt, Vice President
 Ms. Michelle Cowan, Treasurer (arrived at 8:36 AM)
 Mr. Jimmie Barrett, Secretary
 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. Randee Stenroos, Assistant Director
 Mr. Stephen Euell, Accountant
 Ms. Amy Rozier, Human Resources
 Mr. Craig Collins, Kiltearn Partners
 Mr. Ed Clarke, Kiltearn Partners
 Mr. Brad Hensler, Kiltearn Partners
 Ms. Krista Edoff, Cherry Bekaert
 Mr. Rob Gooderham, Windmark Investment Partners

CONSENT LIST

A motion to approve the consent list, consisting of the November 7, 2019 meeting minutes, with one revision, was offered by Mr. Kinney and seconded by Mr. Alt. The motion passed by a vote of 6-0, with Ms. Cowan not present.

INTERST RATE ON MEMBER CONTRIBUTIONS

Staff recommended an interest rate of 1.165%, 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 1.165% was offered by Mr. Kinney and seconded by Mr. Barrett. The motion passed with a vote of 6-0, with Ms. Cowan not present.

CLOSED SESSION

A motion was offered by Mr. Barrett, seconded by Ms. Donellan, and passed by a vote of 6-0, to enter into closed session for discussion, consideration or interview of prospective candidates for employment, assignment, appointment, promotion, performance, demotion, salaries, disciplining or resignation of specific public officers, appointees or employees of any public body pursuant to Virginia Code §2.2-3711(A)(1). The closed session began at 8:01 AM.

The Board returned to open session at 8:48 AM. On a motion by Ms. Barrett, and carried by a vote of 7-0, the voting recorded as follows:

<u>Member</u>	<u>Vote</u>
Mr. Kinney	Aye
Mr. Alt	Aye
Ms. Cowan	Aye
Ms. Donnellan	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 Ms. Donnellan, seconded by Ms. Irwin, to authorize interest be paid on the correction of underpayments specific to the individual circumstances discussed, calculated by applying the previously approved annual interest rates on member contributions to the annual payment shortfalls. After some discussion, Mr. Lynch made an alternate motion to authorize an annual interest rate of 6% be utilized in calculating applicable interest. This motion failed for lack of a second. After further discussion, a Mr. Alt offered an amended motion, which was seconded by Mr. Ross, that the interest rate credited be the greater of the previously approved annual interest rates on member contributions or the rates of the VOYA Stable Value Fund, or its predecessor. This motion was unanimously accepted as the main motion and subsequently passed by a vote of 5-1-1, with Ms. Cowan abstaining and Ms. Donnellan voting against.

KILTEARN MANAGER REVIEW

Messrs. Clarke and Collins reviewed ACERS \$97.1 million investment in Kiltearn Partners Global Equity Strategy. Mr. Clarke discussed the fund's underperformance versus its MSCI ACWI benchmark, noting Kiltearn's deep value strategy left the portfolio significantly underweight both the US equity markets and technology stocks.

During the discussion, it was noted that the discrepancy between value and growth PE valuations is the widest since December of 1999. Mr. Collins stated the portfolio’s valuation is the most compelling it has been since Kiltearn’s inception and the quality of the stocks held is among the highest it has been. Accordingly, Kiltearn believes that the portfolio is well positioned to benefit from the value and growth valuation relationship reverting to the mean. Mr. Collins reviewed some of the specific equities held and the regional and sector allocations, which result from a bottom up approach.

Following the presentation, Kiltearn’s function within ACERS’ global allocation was discussed by Windmark and staff. It was further noted that Kiltearn is executing the strategy for which they were hired. During a discussion of the manager’s peer group, Mr. Gooderham noted the potential value in Kiltearn’s current portfolio. Fees were discussed in detail.

FY 2019 AUDIT FINDINGS & CAFR SUBMISSION

Ms. Edoff presented Cherry Bekaert’s report on the audit of ACERS’ financial statements for the fiscal year ended June 30, 2019. 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 noted the differences between a financial audit and a fraud audit and reviewed FY19’s financial highlights. A discussion of which types of retired participants were included in the sample testing was raised. Ms. Edoff stated that the sample would include participants from various groups who retired under each type of circumstances.

A motion was offered by Ms. Cowan, and seconded by Mr. Barrett, to approve the 2019 Comprehensive Annual Financial Report (CAFR) as submitted. This motion passed unanimously by a vote of 7-0.

QUARTERLY PERFORMANCE REVIEW

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

(%)	Quarter	1 Year	5 Years	10 Years
Total Fund (Gross)	0.7	4.6	6.3	8.6
Total Fund (Net) *	0.7	4.4	6.1	8.3
Policy Benchmark**	1.0	5.4	6.3	7.9
CPI + 3.5% Annualized	1.2	5.5	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

Relative underperformance versus the benchmark over the past year was driven by the underperformance of global and international equity managers and an underweighted allocation to strongly performing fixed income assets.

Relative to the TUCS universe of public plans, ACERS' performance was in the 52nd, 61st and 49th percentile on a one, five and ten-year basis, respectively. WIP estimates the fund's diversified risk level at September 30, 2019 was 59. This compares to WIP's estimated Fund benchmark risk of 54 and the top of the policy risk band at 65.

During the discussion, Mr. Zito shared an analysis by Cheiron comparing ACERS to a group of approximately 190 public plans in which an actuarial assumed rate of 6.75% was applied to all plans to calculate the plans' funded ratios. The analysis illustrated that since 2001, ACERS was consistently in the top quartile, and in the top 5% over the last several years.

Mr. Gooderham reviewed the contributors to, and detractors from, relative return over the most recent three- and five-year periods. He reviewed the managers and noted some strategies are being reviewed due to performance and portfolio manager changes.

INVESTMENT POLICY STATEMENT (IPS)

The Board received a revised Investment Policy Statement (IPS) inclusive of all changes discussed earlier in the year. Mr. Zito reviewed the key changes. A motion was offered by Mr. Ross, and seconded by Mr. Barrett, to accept the updated Investment Policy Statement. The motion passed with a vote of 7-0.

KEY INITIATIVES

- Ms. Stenroos noted an additional \$10 - \$13.5 million will be available in Highclere Small Companies Fund in December. After a brief discussion, a motion was offered by Mr. Kinney, and seconded by Ms. Donnellan, to extend the funding window for Highclere Small Companies Fund from December 31, 2019 to on or before January 31, 2020. The motion passed with a vote of 7-0.
- Ms. Stenroos provided a draft of the annual employee newsletter which will be sent to participants in January 2020.
- Ms. Stenroos reviewed the office budget variance.
- Mr. Zito discussed the offsite meeting which will be held on January 11, 2020.

ADJOURNMENT

Mr. Alt, seconded by Ms. Irwin, offered a motion to adjourn the meeting. The motion passed with a vote of 7-0. The meeting ended at 11:20 AM.

Respectfully Submitted,
Ranee Stenroos
Assistant Director