

# Metropolitan Water Reclamation District Retirement Fund

## Minutes Regular Meeting Board of Trustees February 15, 2017

Meeting#: 1129

Called to order: 10:00 a.m.

Place: Boardroom, 100 E. Erie St., Chicago, IL

Presiding: Mr. Joseph Kennedy, President

|   | <u>Present</u> |
|---|----------------|
| Trustees:                               |                |
| Joseph F. Kennedy, President            | X              |
| Robert T. Regan, Vice-President         | X              |
| Hon. Mariyana T. Spyropoulos, Secretary |                |
| Hon. Barbara J. McGowan                 | X              |
| John P. Dalton, Jr.                     | X              |
| Stephen J. Carmody                      | X              |
| Kathleen T. Meany                       | X              |

Staff present: Susan Boutin, Executive Director  
George Kirie, Financial Analyst  
Ksenija Hrvojevic, Benefits Manager

Also present: Kweku Obed, Marquette Associates  
Mike Ni, Marquette Associates  
Members of the staff  
Members of the public

## **Regular Business:**

### **Public Comments**

Mr. Kennedy solicited public comments; none responded.

### **Approval of Minutes**

*A motion was made by Mr. Dalton, seconded by Mr. Regan, to approve the minutes of the Regular Board Meeting held on January 25, 2017. The motion was unanimously approved.*

### **Consent Agenda**

#### ***Expenses***

Administrative expenses to be paid in March 2017 in the amount of \$20,424.93 were presented for approval.

*A motion was made by Mr. Dalton seconded by Mr. Regan to approve the Administrative Expenses. The motion was unanimously approved.*

#### ***Employee Annuitants***

The applications for four new employee annuitants with a total monthly annuity benefit of \$17,140.82 were presented with the recommendation that it be approved and granted as follows:

| <u>Name</u>          | <u>Position</u>          | <u>Annuity Begins</u> | <u># Years @ MWRD</u> | <u># Years Reciprocal</u> |
|----------------------|--------------------------|-----------------------|-----------------------|---------------------------|
| Durden, Julia        | MLA                      | 02/01/17              | 22.00                 | 0.00                      |
| Haynes, Joyce        | Fireman-Oiler            | 01/01/17              | 30.43                 | 8.57                      |
| Litwinko, Tadeusz Z. | Operating Engineer II    | 02/01/17              | 33.86                 | 0.00                      |
| Maka, Andrea         | Laboratory Technician II | 02/01/17              | 24.26                 | 0.00                      |

*A motion was made by Mr. Regan, seconded by Ms. McGowan to approve the Employee Annuitant applications. The motion was unanimously approved.*

#### ***Surviving Spouse Annuitants***

None.

#### ***Refunds and Final Payments***

The applications for four refunds and final payments in the amount of \$72,572.25 were presented with the recommendation that they be approved and granted as follows:

| <u>Employee/Annuitant Name</u> | <u>Date</u> | <u>Remarks</u>   |
|--------------------------------|-------------|------------------|
| Haynes, Joyce                  | 12/30/16    | No Spouse Refund |
| Litwinko, Tadeusz Z.           | 01/31/17    | Excess Optional  |
| Magallanes, Miguel             | 09/14/16    | Resignation      |
| Maka, Andrea                   | 01/31/17    | No Spouse Refund |

*A motion was made by Ms. McGowan, seconded by Mr. Carmody to approve the Refund application. The motion was unanimously approved.*

## **Regular Business, continued:**

### ***Duty Disability***

The ten applications for Duty Disability benefits were presented with the recommendation that they be approved and granted.

*A motion was made by Mr. Carmody, seconded by Ms. Meany to approve the Duty Disability applications.*

### ***Ordinary Disability***

The eleven applications for Ordinary Disability benefits were presented with the recommendation that they be approved and granted.

*A motion was made by Ms. Meany, seconded by Mr. Dalton to approve the Ordinary Disability applications. The motion was unanimously approved.*

### ***Entire Consent Agenda***

*Mr. Kennedy conducted a roll call vote on the entire Consent Agenda. The Consent Agenda was unanimously approved. The itemized reports are on file.*

## **Administrative:**

### **Cash Allocation**

Ms. Boutin made the recommendation for investment withdrawals to fund the April 2017 Annuitant Payroll.

*Mr. Regan made the motion to transfer a maximum of \$11.8M from the over-weights in the following portfolios: approximately \$6.9M from the LSV non-US SC portfolio and the difference of approximately \$4.9M from the Ariel MCV portfolio to supplement funds available to cover the April 2017 payroll and expenses estimated to be \$13.3 million. Mr. Carmody seconded the motion which was unanimously approved by roll call vote.*

### **Cash Withdrawals and Approvals**

| <b><i>February 2017 Transfers<br/>(in Millions)</i></b> | <b><u>Approved<br/>12/21/2016</u></b> | <b><u>Transferred</u></b> | <b><u>Difference</u></b> |
|---|---------------------------------------|---------------------------|--------------------------|
| LSV non-US SC   | \$7.0                                 | \$5.3                     | (\$1.7)                  |
| LSV LCV   | 5.1                                   | 0.00                      | (5.1)                    |
| Total   | \$12.1                                | \$5.3                     | (\$6.8)                  |

### **GFOA Award for 2015 CAFR**

Ms. Boutin reported the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting for our Comprehensive Annual Financial Report for the fiscal year ended December 31, 2015 will be presented to our staff at the Board of Commissioner's meeting on March 16, 2017. She acknowledged the hard work of Vrinda Kulkarni and George Kirie on the Fund's financial reporting.

*(Discussion of Administrative Agenda items was discontinued and resumed after discussion of Legal & Legislative and Investment Agenda items, at the end of meeting)*

## **Legal and Legislative**

### **Master Custody Agreement – The Bank of New York Mellon**

Ms. Boutin reported that the Fund currently has two agreements with the Bank of New York Mellon, due to the longstanding relationship with BNYM and their predecessor organizations. The first agreement for our domestic accounts, which were originally at the Continental Illinois National Bank, was signed in 1966. In 2006, as the Fund began investing in international equities, a Global Custody Agreement was signed with the Bank of New York. In the last several years, BNYM has expressed they would like the Global Custody Agreement to be the agreement in force for both our domestic and international accounts. However Fund's consulting attorney Joseph Burns felt that it wasn't in the Fund's best interest, and at that time he recommended that we keep the two agreements.

She further reported that an opportunity for a revision recently arose when another public fund was able to secure terms more favorable to a public pension plan. Using that agreement as a foundation, we were able to negotiate a single agreement and make a number of changes. Joseph Burns and BNYM have agreed on the language in the custody agreement with the exception of Section 6.8. Joe would also like to reference the fee schedule 1-1-15 in the fees paragraph. Recommendation to defer discussion until the March meeting at which time Ms. Boutin expects to present the draft document.

Some discussion followed, where Mr. Kirie and Trustees recapped the history of the various bank acquisitions leading to the current custodian being Bank of New York Mellon.

## **Investments**

### **Manager Update**

Mr. Kirie presented a performance update on Matarin Capital Management and Garcia Hamilton & Associates. Report is on file.

### **Custodian Report**

Mr. Kirie presented the BNYM Custodial Report which showed assets as of January 31st totaling \$1.28B. He also presented the report of purchases and sales of securities in January. Reports are on file.

### **Securities Lending Report**

Mr. Kirie presented the Q4 2016 Securities Lending Report which showed income from BNYM securities lending program of \$79,868, from 9% of assets out on loan. Income from the SSGA lending program in the Aggregate Bond Fund was \$26,887, from 17% of the securities out on loan.

### **Minority Broker/Dealer Commissions**

Mr. Kirie presented the 2016 commissions summary which showed that overall our managers are exceeding the Fund's minority brokerage goals. In 2016, managers directed 56.2% of commissions for domestic equity trades, 21.0% for international equity trades, and 24.2% of par for fixed income trades to MWDOB broker-dealers. Goals are 30%, 10% and 20% of par, respectively. Report is on file.

## **Investments, continued**

### **Reports by Investment Managers**

Matarin Capital Management – Ms. Valerin Malter and Mr. Ralph Coutant presented an update on the firm and the recent performance of the emerging small cap core portfolio since their hiring 18 months ago.

At the request of Mr. Kennedy, they spoke about the possible impact (of changes in Washington regarding taxes) for small cap stocks. At the request of Mr. Kirie, Mr. Coutant spoke about benchmarking to the S&P600 as they do for this portfolio.

Garcia Hamilton & Associates – Mr. Gilbert Garcia and Stephanie Roberts presented an update on the firm and recent performance of the core fixed income portfolio.

At Mr. Carmody's request, Mr. Garcia agreed to include a portfolio summary that includes credit ratings and duration. He also addressed Mr. Kirie's inquiry about the sensitivity of the portfolio to a possible interest rate hike; discussion followed.

### **Other Investment Related Issues**

#### **Asset Allocation Rebalancing**

Mr. Obed presented the rebalancing schedule that showed recent overweights and underweights; he expressed agreement with the staff recommendation to fund the April 1<sup>st</sup> annuity payroll.

#### **January 2017 Flash Report and Market Tracker**

Mr. Obed reviewed the current market environment as presented in the Market Tracker report. Discussion followed. He also reviewed the January 2017 Flash Report which showed strong recent overall performance, and reported performance details of the various mandates in the portfolio. Mr. Obed stated that Marquette is in communication with Mesirov (formerly FMA) who is showing expected underperformance, and is confident that there have been no changes in the manner in which the portfolio is being managed. Discussion followed.

At the request of Mr. Carmody, Mr. Obed agreed to revisit the fee arrangement with Decatur Capital Management.

#### **Real Estate Investment Review**

Mr. Obed presented a review of real estate investments. He is recommending a core open-end, low leverage investment in real estate which may mitigate some of the sensitivity to rising interest rates of our core fixed income portfolio. Lengthy discussion followed.

*(Ms. McGowan exited the meeting)*

*(at which point discussion of Administrative Agenda items was resumed)*

**Administrative, continued**

**Tave Risk Management Insurance Proposal**

Ms. Clara Gable of Tave Risk Management Insurance reviewed their recommendations and proposal for the types of insurance the Fund should consider obtaining. Discussion included the following coverages:

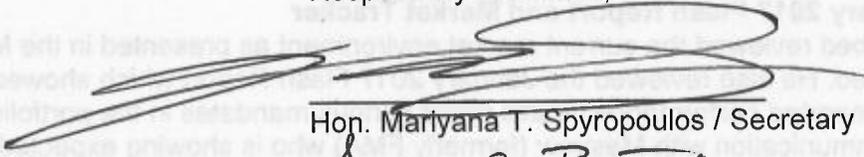
- Property and General Liability
- Hired and Non-owned Auto
- Worker's Compensation
- Cyber Coverage
- Fiduciary Liability
- Umbrella Liability

Lengthy discussion followed. Trustees requested additional information regarding the insurance, to be presented by Ms. Boutin at the March Board Meeting.

**Adjournment:**

Mr. Carmody moved that the meeting be adjourned. The meeting was adjourned by Mr. Kennedy at 12:45 p.m.

Respectfully submitted,



Hon. Mariyana T. Spyropoulos / Secretary

Susan A. Boutin  
Susan A. Boutin / Executive Director

Prepared by:

Vrinda Kulkarni  
Vrinda Kulkarni / Accountant