

**Metropolitan Water Reclamation  
District Retirement Fund**

**Minutes  
Regular Meeting  
Board of Trustees  
March 22, 2017**

Meeting#: 1130  
Called to order: 10:03 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	X
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  
Mary Wilson, Operations Manager  
Ksenija Hrvojevic, Benefits Manager

Also present: Mary Ann Boyle, Treasurer, MWRDGC  
Kweku Obed, Marquette Associates  
Mike Ni, Marquette Associates  
Taylor Muzzy, Jacob Burns Orlove & Hernandez  
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 February 15, 2017. The motion was unanimously approved.*

### **Consent Agenda**

#### ***Expenses***

Administrative expenses to be paid in April 2017 in the amount of \$48,712.35 were presented for approval.

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

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

The applications for two new employee annuitants with a total monthly annuity benefit of \$2,627.99 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>
Green, Jennifer C.	MLB	09/01/16	20.61	0.00
Wass, Marina	Facilities Administrator	04/01/17	11.62	1.00

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

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

The applications for two new surviving spouse annuitants with a total monthly annuity benefit of \$12,727.82 were presented with the recommendation that they be approved and granted as follows:

<u>Name</u>	<u>Spouse (S) Child (C)</u>	<u>Deceased EE/Retiree</u>	<u>Annuity Begins</u>
Alexopoulos, Pola	S	Alexopoulos, George	03/01/17
Urlacher, Nancy A.	S	Urlacher, Michael A.	04/01/17

*A motion was made by Ms. Spyropoulos, seconded by Ms. Meany to approve the Surviving Spouse/Child Annuitant applications. The motion was unanimously approved.*

## **Regular Business, continued:**

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

The applications for two refunds and final payments in the amount of \$26,137.08 were presented with the recommendation that they be approved and granted as follows:

<u>Employee/Annuitant Name</u>	<u>Date</u>	<u>Remarks</u>
Green, Jennifer	09/18/13	No Spouse Refund
Pawlowicz, Julie R.	01/19/17	Resignation

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

### ***Duty Disability***

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

*A motion was made by Mr. Dalton, seconded by Mr. Regan to approve the Duty Disability applications. The motion was unanimously approved.*

### ***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 Mr. Regan, seconded by Mr. Carmody 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 Withdrawals and Approvals**

Ms. Boutin reported that due to tax levy receipts, no additional funds are needed for the May 2017 payroll and expenses estimated to be \$13.2 million.

### **Cash Transfers**

Ms. Boutin reported on the March Annuity Payroll transfers.

<b><i>March 2017 Transfers (in Millions)</i></b>	<b><u>Approved</u></b>	<b><u>Transferred</u></b>	<b><u>Difference</u></b>
Wasatch SCV	\$6.1	\$3.3	(\$2.8)
LSV LCV	5.1	0.0	( 5.1)
Total	\$11.2	\$3.3	(\$7.9)

## **Administrative, continued:**

### **Novitas PBWeb Project Monthly Status**

Ms. Boutin presented a monthly status update on the PBWeb project. Novitas is currently working on Employee Module which includes the personal information, address and contact screens. There is a copy of the screens portal and in your handouts; the project is on track. Ms. Boutin responded to inquiries by Ms. Spyropoulos regarding hours worked and billing.

### **Trustee Training and Education**

Ms. Boutin reported on an upcoming opportunity for Trustee education and training:

- **P&I Conference – The Future of Emerging Markets** – May 2<sup>nd</sup> at the Four Seasons Chgo, 120 E. Delaware St. Time is 8:30 am to 12:00 pm. No cost.

Mr. Carmody, Mr. Regan, Ms. Meany, Ms Spyropoulos and Ms. McGowan stated that they would like to attend the P&I Conference on May 2<sup>nd</sup>.

## **Legal and Legislative**

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

Mr. Taylor Muzzy, attorney at Jacob Burns Orlove & Hernandez, gave an update on the revisions to the BNYM Master Custody Agreement as recently negotiated. The Fund had two agreements with the Bank of New York Mellon which include a domestic agreement signed in 1966 and a global custody agreement signed in 2006. *(Note: An opportunity for a revision recently arose when public fund was able to secure terms more favorable to a public pension plan. That agreement was used as a foundation.)* Joseph Burns was able to negotiate a consolidated and updated agreement that 's much more favorable to the Fund.

*(Enter Ms. McGowan 10:10 a.m.)*

Changes include:

- BNYM has now agreed to act with the care, skill, and diligence that a professional custodian for hire acting in a like capacity and familiar with such matters would exercise.
- Law/venue - the agreement is now governed by Illinois law; prior agreements were governed by the laws of New York.
- Other references to Illinois law: new sections relating to, *inter alia*, BNY's obligations under Illinois Freedom of Information Act and Pension Code.
- Removed the requirement that the Fund bring an action against BNY within 2 years of the act giving rise to the litigation.
- Fees: in prior agreement, BNY had right to unilaterally change fees after providing 60 days' notice. Fees must now be mutually agreed upon.
- Stronger indemnification language - Fund less likely to indemnify BNY under the new agreement.
- Deletion of BNY's broad waivers of warranties included in 2006 global agreement
- General restyling of the agreement to reflect nature of public pension fund, as opposed to other corporate entities

Discussion followed.

*Ms. Spyropoulos made the motion to approve and execute the Master Custody Agreement between the Board of Trustees of the Metropolitan Water Reclamation District Retirement Fund and The Bank of New York Mellon. Mr. Dalton seconded the motion which was approved by roll call vote. (1 abstain; McGowan)*

## **Legal and Legislative, continued**

### **Legislative Update**

Mr. Taylor Muzzy reviewed the District's House Bill 164 which relates to benefits to annuitants in same-sex marriages and civil unions, and remedies their ineligibility for spousal benefits prior to the Illinois Civil Union Act and the Marriage Act of 2014.

*(Background note: On March 2, 2017, the MWRD Board of Commissioners approved a legislative initiative to provide pension benefits to the surviving spouse of a retiree who retired prior to June 1, 2011 and received a refund of their spouse contributions and subsequently entered into a Civil Union or were married under the Illinois Marriage and Dissolution of Marriage Act on or after February 26, 2014. Currently HB164.)*

Details of the manner in which the previously taken "no-spouse refunds" would be repaid to the Fund were discussed. Further discussion followed on the number of annuitants and monetary impact of this legislation, as well as impact of its retroactive component.

Mr. Muzzy also gave a synopsis of SB 16, Cullerton's lengthy and complex pension bill. SB 16 amends the General Assembly Retirement System, State Employees Retirement System, State Universities Retirement System, Teachers Retirement System, Chicago Teachers Pension Fund and Judges Retirement System. The bill would also allow the governing body of the unit of local government of 7 other pensions funds, including the Metropolitan Water Reclamation District Retirement Fund to adopt a resolution or ordinance establishing the new Optional Tier 2 benefits for new hires 6 months after the effective date of the resolution or ordinance.

Employees first hired 6 months after the effective date of the legislation *(or resolution or ordinance if adopted)* may elect within 30 days to receive the current Tier 2 benefits. If the member does not make such an election, then the members shall receive an Optional Tier 2 Benefit which is essentially a Tier 3 Hybrid Benefit consisting of a Defined Benefit Plan and a Defined Contribution Plan.

Mr. Carmody expressed concern over the possible implications of the proposed bill on the future funding status of the MWRDRF pension fund. Further discussion on likely funding outcomes followed.

MWRD Treasurer Mary Ann Boyle commented that the legislation is in the spirit of cost containment for governments, since pensions are an expensive benefit. She stated that the District has engaged the Fund's actuary to look at what it would mean converting new hires to a form of defined contribution plan, partly to look at cost savings, and partly to offer a richer plan to new hires than the current Tier II benefits provide; the District would like to be able to continue to attract top talent to work at the District.

*Mr. Carmody made a motion to have Foster & Foster Actuaries and Consultants provide a projection based on the legislative changes in SB16 which would show the effect of this change on our funded ratio over the next 33 years. The projection would assume that no new employees would participate in the defined benefits plan and that participants would contribute to a defined contribution plan that was implemented January 1, 2018. Ms. Spyropoulos seconded the motion which was unanimously approved by roll call vote (pending review of price).*

## **Investments, continued**

### **Manager Update**

Mr. Kirie presented a performance update on Decatur Capital Management. Report is on file.

### **Custodian Report**

Mr. Kirie presented the BNYM Custodial Report which showed assets as of February 28th totaling \$1.3B. He also presented the report of purchases and sales of securities in February. Reports are on file.

### **Reports by Investment Managers**

Decatur Capital Management – Ms. Elizabeth Crenshaw and Mr. Degas Wright presented an update on the firm and the recent performance of the large cap growth portfolio.

In response to an inquiry by Mr. Obed, Mr. Wright discussed his observations on sectors that performed in 2016, and how they differ in 2017.

## **Administrative, continued**

### **Tave Risk Management Insurance Proposal**

Ms. Boutin reviewed in detail the March 22<sup>nd</sup> proposal for various insurance coverages from Tave Risk Management. Short discussion followed.

*Mr. Regan made a motion to purchase Privacy & Network Security (cyber liability) insurance from AIG for a one-year term at a cost not to exceed \$17,732. Mr. Dalton seconded the motion which was unanimously approved by roll call vote.*

*(Exit Ms. McGowan and Mr. Carmody at 11:39 a.m.)*

*(Whereupon discussion of the Investment Agenda items was continued)*

## **Other Investment Related Issues**

### **February 2017 Flash Report and Market Environment**

Mr. Obed reviewed the current market environment. He responded to Mr. Dalton's inquiry about the estimated PE multiple, which represents earnings sustainability, going down.

Mr. Obed also reviewed the February 2017 Flash Report; he highlighted the Fund's strong positive year-to-date performance and cash flows. He reported details of the various mandates in the portfolio.

Mr. Kirie inquired about Decatur's performance trailing the benchmark for all reporting periods. Mr. Obed expressed no concerns as the manager is not deviating from their process or strategy, and occasional underperformance is expected. At Mr. Kirie's request he also commented on Decatur's recent loss of a manager of manager program client, similar to that reported by Mesirov last month; Mr. Obed expressed no concerns as Decatur's assets are not significantly invested with manager of manager programs, their AUM is approximately \$700 million, and they are looking to incubate some other products.

## **Other Investment Related Issues, continued**

### **Asset Allocation Rebalancing**

Mr. Obed commented that the Fund is in line with the target allocation policy and will not be withdrawing funds for the May Annuity payroll due to tax receipts.

### **Real Estate Investments - Overview**

Mr. Obed presented a review of the various types of real estate investments, highlighting that Marquette's recommendation to the Fund is an investment in core open-end real estate. This type of investment typically has a lower risk than other types of real estate investment, some of which can be speculative like the so called "dirt deals". Mr. Obed explained that core open-end real estate is an equity investment in high quality, fully leased properties in prime locations using low leverage. Discussion followed. Mr. Kirie and Mr. Obed further noted that the investments are mark-to-market, appraised on a quarterly basis, and that performance reporting will lag by one quarter.

*(Whereupon discussion of the Administrative Agenda Items was resumed)*

## **Administrative, continued**

### **Tave Risk Management Insurance Proposal, continued**

Ms. Boutin requested direction on the purchase of additional insurance products.

*Mr. Dalton made a motion to purchase a Commercial Property and Casualty Package from CNA which includes 1<sup>st</sup> Party, 3<sup>rd</sup> Party, and Crime Coverage for one year term at a cost not to exceed \$2,863. Ms. Spyropoulos seconded the motion which was unanimously approved by roll call vote.*

*Mr. Dalton made the motion to purchase Hired and Non-Owned Auto Coverage with a \$1 million combined single limit from CNA at an annual premium of \$915. Ms. Meany seconded the motion which was unanimously approved by roll call vote.*

### **Adjournment:**

Ms. Spyropoulos moved that the meeting be adjourned, seconded by Mr. Dalton. The meeting was adjourned by Mr. Kennedy at 12:22 p.m.

Respectfully submitted,

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Hon. Mariyana T. Spyropoulos / Secretary

\_\_\_\_\_  
Susan A. Boutin / Executive Director

Prepared by:

\_\_\_\_\_  
Debra Kozlowski / Office Services Asst.

\_\_\_\_\_  
Vrinda Kulkarni / Accountant

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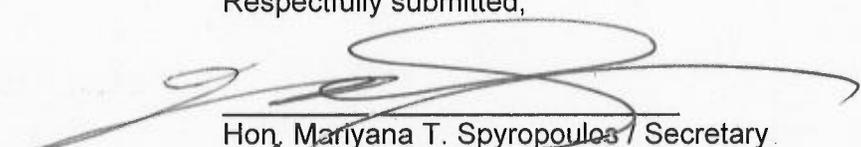
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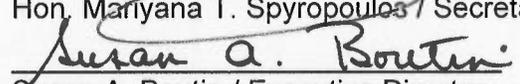
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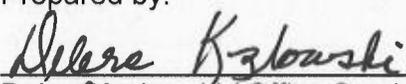
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Respectfully submitted,

  
Hon. Maryana T. Spyropoulos / Secretary

  
Susan A. Boutin / Executive Director

Prepared by:

  
Debra Kozlowski / Office Services Asst.

  
Vrinda Kulkarni / Accountant