

Metropolitan Water Reclamation District Retirement Fund

Minutes Regular Meeting Board of Trustees January 24, 2018

Meeting#: 1140

Called to order: 10:01 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	
John P. Dalton, Jr.	X
Stephen J. Carmody	X
Kathleen T. Meany	X

Staff present: Susan Boutin, Executive Director
Mary Wilson, Operations Manager
Ksenija Hrvojevic, Benefits Manager
Brian Gillespie, Financial Analyst

Also present: Mary Ann Boyle, Treasurer, MWRDGC
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 December 13, 2017. The motion was unanimously approved.

Consent Agenda

Expenses

Administrative expenses to be paid in February 2018 in the amount of \$811,181.91 were presented for approval.

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

Regular Business, continued:

Consent Agenda continued:

Employee Annuitants

The applications for nine new employee annuitants with a total monthly annuity benefit of \$31,663.70 were presented with the recommendation that they be approved and granted as follows:

<u>Employee Name</u>	<u>Position</u>	<u>Annuity Begins</u>	<u># Years @ MWRD</u>	<u># Years Reciprocal</u>
Arce, Ruth T.	Secretary to Officer	1/1/2018	14.00	0.00
DePass, Martin A.	Operating Engineer I	8/1/2017	11.00	0.00
Durden, Andrew D.	MLA	1/1/2018	27.00	0.00
Gibbs, Alicia M.	MLAS	1/1/2018	10.00	0.00
Harris, Henry	Police Officer	8/1/2017	16.00	2.00
Hawkins, Diane	MLAS	8/1/2017	27.00	0.00
Lynch, John J.	Operating Engineer II	9/1/2017	30.00	0.00
Molony, Patrick J.	Environmental Specialist	12/1/2017	29.00	0.00
Schury, George J.	Carpenter Leadman	1/1/2018	11.00	0.00

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

Surviving Spouse & Child Annuitants

The applications for three new surviving spouse annuitants with a total monthly annuity benefit of \$15,208.96 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>
Kubes, Sandra	S	Kubes, Frank A.	1/1/2018
Meade, Kathleen F.	S	Meade, John P.	1/1/2018
Payton, Ernest	S	Payton, Rita	1/1/2018

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

Refunds and Final Payments

The applications for nine refunds and final payments in the amount of \$55,926.00 were presented with the recommendation that they be approved and granted as follows:

<u>Employee/Annuitant Name</u>	<u>Date</u>	<u>Remarks</u>
Gibbs, Alicia M.	12/18/17	No Spouse Refund
Hoskins Jr., William K.	07/22/17	Refund to Estate (Christine V. L. McCorker)
Hoskins Jr., William K.	07/22/17	Refund to Estate (Kenard D. Williams)
Hoskins Jr., William K.	07/22/17	Refund to Estate (Kandice N. Watkins-Hill)
Hoskins Jr., William K.	07/22/17	Refund to Estate (Lydell C. Hoskins)
Jefferson, Dai'Shaun D.	11/17/17	Resignation
Kinney, James W.	11/24/17	Refund to Estate (Sally A. Kinney)
Walsh-James, Rose Rita L.	02/18/15	Resignation
Winski, Albert	05/05/17	Resignation

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

Regular Business, continued:

Consent Agenda continued:

Duty Disability

The nine 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 twenty-one 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 Allocation – February

Ms. Boutin made the recommendation for funding of the February 1st Annuitant Payroll.

Mr. Regan made the motion to transfer a maximum \$4.2 million from the Ariel MCV portfolio to supplement funds available to cover the Feb 2018 payroll and expenses estimated to be \$13.9 million. Mr. Dalton seconded the motion which was unanimously approved by roll call vote.

Cash Allocation – March

Ms. Boutin made the recommendation for funding of the March 1st Annuitant Payroll

Mr. Dalton made the motion to transfer a maximum \$12.0 million from the over-weights in the following portfolios: approximately \$6.4 million from SSgA MSCI ACWI ex USA Fund and the difference of approximately \$5.6 million from DFA Emerging Market Fund to supplement funds available to cover the Mar 2018 payroll and expenses estimated to be \$13.6 million. Mr. Regan seconded the motion which was unanimously approved by roll call vote.

Cash Withdrawals and Approvals

Ms. Boutin reported the approved vs. actual transfers.

January 1, 2018 Transfers (In Millions)	Approved 11/15/17	Transferred	Difference
LSV LCV	\$5.1	\$5.1	\$0.0
SSGA S&P 400 Index	6.7	6.5	0.2
Total	\$11.8	\$11.6	\$0.2

Administrative, continued:

Novitas PBWeb Project Update & 2017 Support Invoice

Ms. Boutin reported that last month, Jim Chang completed the PBWeb modules approved in 2017 except for the data file revisions required by the Blue Cross and UnitedHealthcare. A file was sent on January 16, 2018 but we have not received comments about any issues with the file as of yet. Therefore we have not paid the balance of \$19,872. We're hoping that the issues can be resolved in the near future so Novitas can focus on the 2018 payroll modules approved by the Trustees. In 2017, the budget included \$12,800 for projects, enhancements and bug remedies of which \$7,600 was billed in 2017 leaving a balance of \$5,200. Recently Jim Chang realized that he did not bill us for 16.25 hours of work for the 2017 enhancements or a total of \$2,600. Since we were just made aware of this balance, it was not rolled into the 2018 budget; approval is required to pay Novitas for these enhancements.

In response to inquiries by Mr. Dalton, Ms. Wilson explained the 1099 file extract, and confirmed the 2017 hourly billing rate.

A motion was made by Mr Dalton to approve the 2017 invoice submitted by Novitas Business & Technology for the period of January 1, 2017 to December 31, 2017 for 16.25 hours of PBMS support at a rate of \$160 per hour or a total of \$2,600. Mr. Carmody seconded the motion which was unanimously approved by roll call vote.

Trustee Education Certification for 2017

Ms. Boutin reported that in accordance with PA 96-0006, all Board members of a retirement system must attend ethics training of at least 8 hours per year. Each board shall annually certify its members' compliance and submit an annual certification to the Division of Insurance of the Department of Financial and Professional Regulation. For 2017, Ms. Boutin asked each trustee to sign a certification form which states that you have attended at least 8 hours of training. This form will be sent to the Dept of Financial and Professional Regulation.

Ms. Boutin clarified for Ms. Spyropoulos that the term "ethics training" in the statute is misleading, and in actuality any training related to Investments qualifies for the 8 hour annual requirement.

Trustee Training and Education

Ms. Boutin reported the upcoming opportunities for education and training.

- **P&I Conference** – Global Fixed Income – March 6, 2018 at the Gleacher Center. 7:45 am to 4:35 pm. No fee to Attend. (Bob Regan, Steve Carmody, Joe Kennedy, Ms Spyropoulos, Brian Gillespie & Susan Boutin)
- **Institutional Investors Forum - 4th Annual Redefining Fixed Income** on May 17th & 18th at the Four Seasons Hotel. Cost is \$125. (Bob Regan & Ms Spyropoulos) Total cost = \$250
- **Midwest Institutional Investor Forum** – June 12, 2018 at the Chicago Board of Options Exchange 400 S. LaSalle St. Cost is \$195 (Bob Regan, Ms Spyropoulos & Steve Carmody) Total cost = \$585

Mr. Carmody made the motion to approve trustee training with a total cost of \$835.00. \$585.00 for Ms. Spyropoulos, Mr. Carmody, and Mr. Regan to attend the Midwest Institutional Investor Forum. \$250.00 for Mr. Regan & Ms. Spyropoulos to attend the Institutional Investors Forum- 4th annual redefining fixed income conference. Ms. Meany seconded the motion which was unanimously approved by roll call vote.

Legal and Legislative

Legislative Initiative Tier 1 Final Average Salary – Procedure & Section 13-208 Change

Ms. Wilson reviewed in detail the current Tier I final average salary calculation, the current Tier I statute language and potential legislative initiatives.. She recommended adopting an administrative procedure for the calculation method, and a technical correction to the statutes. Discussion followed.

A motion was made by Mr. Dalton to approve the method for calculating the Tier I monthly final average salary as the sum of the pensionable salary for the highest 520 consecutive paid days over the last ten years of service divided by 24. If the employee is paid for any portion of the workday, the fraction of the day worked and the salary for that fraction of the day shall be counted. Mr. Regan seconded the motion which was unanimously approved by roll call vote.

Mr. Carmody made the motion to approve a legislative agenda for a pension initiative which includes a technical correction to the Illinois Compiled Statutes, Section 5/13-208 Average final salary to state that the monthly salary is calculated based on the highest 520 consecutive paid days of service within the last 10 years. If the employee is paid for any portion of a work day, the fraction of the day worked and the salary for that fraction of the day shall be counted in accordance with the administrative rules. Ms. Meany seconded the motion which was unanimously approved by roll call vote.

Trustee directed staff to send the Tier 1 initiative to the Fund's Lobbyist, Tom Walsh and to request direction as to when the bill should be introduced.

Reminder: PA 97-0651 Requirement to Report Fraud

Ms. Boutin made the annual reminder that Trustees and staff are required to report any fraud of which they become aware to either the Board or to the State's Attorney.

Investments

Reports by Staff

Manager Profiles

Mr. Gillespie presented performance and organizational updates on the two managers scheduled to make presentations today – Ariel Investments and Garcia Hamilton & Associates.

Custodian Report

Mr. Gillespie presented the BNYM Custodial Report which showed assets as of December 31st of \$1.4B. He also presented the report of purchases and sales of securities in December. Reports are on file.

Reports by Managers

Ariel Investments – Ms. Roopa Weber and Mr. Charles Bobrinsky presented an organizational update and discussed the recent performance of the mid cap value portfolio.

Mr. Bobrinsky responded to inquiries about interest rates by Mr. Dalton and Mr. Kennedy. He voiced his thoughts on the long term impact of tax reform in response to an inquiry by Mr. Obed. He also responded to an inquiry by Mr. Gillespie about historical and current performance trends of value vs. growth.

Investments, continued

Reports by Managers, continued

Garcia Hamilton & Associates – Mr. Gilbert Garcia, Ms. Ruby Dang and Ms. Stephanie Roberts presented an organizational update and reported the recent performance of the core fixed income portfolio.

Mr. Garcia commented on the defensive position of the portfolio in response to an inquiry by Mr. Kennedy about possible Fed rate hikes. He also responded to Mr. Obed's inquiry about the impact of tax reform on fixed income.

Other Investment Related Issues

Emerging Investment Manager Utilization Program – Garcia Hamilton & Associates

Due to Garcia Hamilton's AUM reaching \$10.1B, Ms. Boutin led a discussion about the Emerging Manager Program which states that a manager is no longer eligible for the program (when they exceed \$10B) and that the Trustees may consider graduating the firm into the Funds general investment program. Discussion followed. Trustees directed staff to wait a few months to determine if Garcia's AUM continue to grow over \$10B.

Asset Allocation Rebalancing Schedule Review

Mr. Obed expressed agreement with the planned withdrawals for benefit payments.

Marquette Market Environment

Mr. Obed reviewed the recent market environment.

Marquette Report for 4th Quarter for Year Ended December 31, 2017

Mr. Obed reviewed the Marquette Q4 2017 Performance Report.

Mr. Obed commented on possible contributors to an end to the bull market in response to an inquiry by Mr. Gillespie. Mr. Dalton commented on the effect of the tax bill and how the possibility of on contributed to the runup in the market in Nov/Dec 2017.

In response to an inquiry by Ms. Spyropoulos, Mr. Obed commented that he expects real estate to add value going forward.

Ms Boutin asked Mr. Obed to comment on his conversation with Jason Franken of Foster & Foster regarding the actuarial rate of return; Mr. Franken recommended an experience study be performed later this year, which will include a review of the actuarial rate based on that study.

Other Investment Related Issues, continued

Ratify Core Open-End Real Estate Allocation Funding Motion Revision

Ms. Boutin reported that at the December Board meeting a motion was approved to allocate 2.5% of the Fund's total assets or approximately \$34.0 million to the UBS Core Real Estate investment to be funded from the overweights in the following portfolios:

- \$4.0 million from Mesirow Small Cap Value,
- \$4.0 million from Wasatch Small Cap Value,
- \$3.0 million from SSgA MSCI ACWI ex US Index, *(decreased to \$0)*
- \$3.0 million from Decatur Large Cap Core, *(increased \$1M)*
- \$5.0 million from Matarin Small Cap Core, and
- \$15.0 million from SSgA US Aggregate Bond Index. *(increased \$2M)*

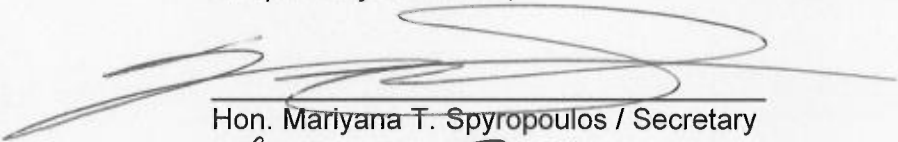
On December 22nd, Mr. Gillespie was informed by SSgA that the timing of a settlement from the SSgA MSCI would not work for the UBS funding since it will not settle until January 10th and we need the funds no later than January 5th.

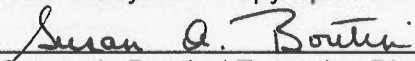
Mr. Regan made the motion to ratify the Core Open-End Real Estate funding revision. The original funding motion approved at the December Board meeting included \$3 million to be withdrawn from the SSgA MSCI ACWI ex US Fund as part of the approximately \$34.0 million allocation to the UBS Core Real Estate Investment representing approximately 2.5% of the Fund's total assets. Due to withdrawal limitations set by SSgA, we were unable to withdrawal funds from the SSgA MSCI ACWI ex US Fund. The \$3 million allocation was adjusted so an additional \$1 million was withdrawn from Decatur Large Cap Growth and an additional \$2 million was withdrawn from the SSgA US Aggregate Bond Index. Mr. Dalton seconded the motion which was unanimously approved by roll call vote.

Adjournment:

Ms. Spyropoulos made a motion to adjourn, whereupon the meeting was adjourned by Mr. Kennedy at 11:42 a.m.

Respectfully submitted,


Hon. Mariyana T. Spyropoulos / Secretary


Susan A. Boutin / Executive Director

Prepared by:


Debra Kozlowski / Office Services Asst.


Vrinda Kulkarni / Accountant

ORIGINAL