

Metropolitan Water Reclamation District Retirement Fund

Minutes Regular Meeting Board of Trustees May 30, 2018

Meeting#: 1144

Called to order: 10:07 a.m.

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

Presiding: Mr. John P. Dalton, Jr, President

		<u>Present</u>
Trustees:	John P. Dalton, Jr, President	X
	Robert T. Regan, Vice-President	
	Mariyana T. Spyropoulos, Secretary	X
	Joseph F. Kennedy	X
	Barbara J. McGowan	X
	Stephen J. Carmody	X
	Kathleen T. Meany	
Staff present:	Susan Boutin, Executive Director	
	Mary Wilson, Operations Manager	
	Ksenija Hrvojevic, Benefits Manager	
	Brian Gillespie, Financial Analyst	
Also present:	Mr. Kweku Obed, Marquette Associates	
	Members of the staff	
	Members of the public	

Regular Business:

Public Comments

Mr. Dalton solicited public comments; Mr. George Blakemore, a concerned citizen, addressed the Board.

Approval of Minutes

A motion was made by Mr. Kennedy, seconded by Mr. Carmody, to approve the minutes of the Regular Board Meeting held on April 25, 2018. The motion was unanimously approved.

Consent Agenda

Expenses

Administrative expenses to be paid in June 2018 in the amount of \$927,555.08 were presented for approval.

A motion was made by Mr. Carmody, seconded by Mr. Kennedy to approve the Administrative Expenses.

Regular Business, continued:

Consent Agenda continued:

Employee Annuitants

The applications for 46 new employee annuitants with a total monthly annuity benefit of \$272,442.29 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>
Baez, Ariel	Operating Engineer I	5/1/2018	31.85	0.00
Bredemann, Leonard V.	Budget & Management Analyst	5/1/2018	10.00	0.00
Bullock, Phaedra D.	MLAS	5/1/2018	30.64	0.00
Burns, Dennis R.	Supervising Environmental Chemist	5/1/2018	31.50	0.00
Cloonan, James M.	Assistant Chief Operating Engineer	5/1/2018	29.12	0.00
Daniel, Paul F.	Engineering Draftsman II	5/1/2018	27.00	0.00
Ellis, John R.	Former Associate Civil Engineer	4/1/2018	9.00	15.00
Eswani, Alnawaz S.	Senior Engineer	05/01/18	28.00	0.00
Faught, Will M.	Electrical Operator II	05/01/18	29.00	0.00
Fefles, Andrew G.	Laboratory Technician I	05/01/18	31.68	0.00
Goetzen, Karen J.	EI & TM	05/01/18	29.70	0.00
Grillo, Dann V.	Truck Driver	05/01/18	28.86	0.00
Gulick, Michael J.	Machinist	05/01/18	19.00	0.00
Haidacher, Martin J.	Plumber Foreman	05/01/18	31.00	0.00
Heneghan, Mark C.	Chief Operating Engineer I	05/01/18	30.00	0.00
Holmes, Brenda F.	Secretary to Officer	05/01/18	31.73	0.00
Johnson, Dan C.	Treatment Plant Operator II	05/01/18	17.00	0.00
Joiner, Michael	Laborer Foreman	05/01/18	31.25	0.00
Jones, Henry	Treatment Plant Operator II	05/01/18	24.75	0.00
Klecki, Philip A.	Sheet Metal Worker	05/01/18	34.88	0.00
Kogucki, Elizabeth	Principal Civil Engineer	05/01/18	29.93	0.00
Krzos, John J.	Systems Dispatcher	05/01/18	21.00	0.00
LaFlame, Gregory A.	Engineering Technician V	05/01/18	26.00	0.00
Lazicki, John J.	AETPO II	05/01/18	30.03	0.00
Luhrs-Draper, Lisa	Head Assistant Attorney	05/01/18	32.00	0.00

Regular Business, continued:

Consent Agenda continued:

Employee Annuitants, continued:

<u>Employee Name</u>	<u>Position</u>	<u>Annuity Begins</u>	<u># Years @ MWRD</u>	<u># Years Reciprocal</u>
MacDonald, Dale G.	Environmental Research Scientist	05/01/18	29.00	0.00
McNamara, Robert G.	Operating Engineer II	05/01/18	28.75	0.00
Migalski, Carol J.	Environmental Specialist	05/01/18	30.00	0.00
Mixan, Joseph T.	Electrical Mechanic Sub-Foreman	05/01/18	30.00	0.00
Moe, Diane M.	Senior Environmental Chemist	05/01/18	29.00	0.00
O'Brien, Michael A.	Environmental Specialist	05/01/18	29.04	0.00
Patel, Vinod C.	Engineering Technician IV	05/01/18	20.79	0.00
Pilar, Victor A.	Associate Civil Engineer	05/01/18	29.00	0.00
Qureshi, Shakeela	Environmental Chemist	05/01/18	31.00	0.00
Schlitt, John C.	Senior Laboratory Technician	05/01/18	21.00	0.00
Searcy, Michaun Y.	Administrative Specialist	05/01/18	30.00	0.00
Shaikh, Amanullah	Engineering Technician V	05/01/18	26.00	0.00
Shapiro, Naum	EI & TM	05/01/18	18.00	0.00
Sharp, Deborah A.	Administrative Specialist	05/01/18	31.66	0.00
Skipton, Dorothea M.	Environmental Specialist	05/01/18	25.79	0.00
Stewart, Joseph W.	Operating Engineer II	05/01/18	30.00	0.00
Stokes, William R.	Operating Engineer I	05/01/18	7.00	0.00
Trend, Thomas J.	Machinist	05/01/18	20.00	0.00
Tyson, Elana D.	Administrative Specialist	05/01/18	31.00	0.00
Vosburg, Mark L	Operating Engineer II	05/01/18	29.00	0.00
Zuhr, Scott R.	Machinist	05/01/18	13.00	0.00

A motion was made by Mr. Kennedy, seconded by Mr. Carmody to approve the Employee Annuitant applications.

Surviving Spouse & Child Annuitants

The applications for 2 new surviving spouses with a total monthly annuity benefit of \$13,874.27 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>
Sakamoto, Ann K.	S	Sakamoto, Larry S.	5/1/2018
Vukits, Kathleen A.	S	Vukits, Steven J	5/1/2018

A motion was made by Mr. Carmody, seconded by Mr. Kennedy to approve the Surviving Spouse and Child Annuitant applications. The motion was unanimously approved.

Regular Business, continued:

Consent Agenda continued:

Refunds and Final Payments

The applications for 17 Refunds and Final Payments with a total amount of \$456,468.84 were presented with the recommendation that they be approved and granted as follows:

<u>Employee/Annuitant Name</u>	<u>Date</u>	<u>Remarks</u>
Burns, Dennis R.	04/30/18	Excess Optional Refund
Gulick, Michael J.	04/30/18	No Spouse Refund
Johnson, Dan C.	04/30/18	No Spouse Refund
Klecki, Philip A.	04/30/18	No Spouse Refund
Klecki, Philip A.	04/30/18	Excess Optional Refund
Kogucki, Elizabeth	04/30/18	Excess Optional Refund
Lazicki, John J.	04/30/18	Excess Optional Refund
Mixan, Joseph T.	04/30/18	No Spouse Refund
Moe, Diane M.	04/30/18	No Spouse Refund
O'Brien, Michael A.	04/30/18	No Spouse Refund
Sharp, Deborah A.	04/30/18	Excess Optional Refund
Sharp, Deborah A.	04/30/18	No Spouse Refund
Skipton, Dorothea M.	04/30/18	No Spouse Refund
Smith, Martie R.	04/06/18	Resignation
Stokes, William R.	04/30/18	No Spouse Refund
Trend, Thomas J.	04/30/18	No Spouse Refund
Tyson, Elana D.	04/30/18	No Spouse Refund

A motion was made by Mr. Kennedy, seconded by Mr. Carmody to approve the Refunds applications. 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. Carmody, seconded by Mr. Kennedy to approve the Duty Disability applications. The motion was unanimously approved.

Ordinary Disability

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

A motion was made by Mr. Kennedy, seconded by Mr. Carmody to approve the Ordinary Disability applications. The motion was unanimously approved.

(Enter Commissioner Spyropoulos at 10:14 a.m.)

Entire Consent Agenda

Mr. Dalton 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 – July 2018

Ms. Boutin made the recommendations for transfers to fund July 2018 payrolls.

Mr. Kennedy made the motion to transfer a maximum of \$11.6 million from the overweights in the following portfolios: approximately \$5.6 million from the LSV Non-US Small Cap Portfolio, \$5.0 million from the O'Shaughnessy Large Cap Value portfolio and the remaining balance of approximately \$1.0 from the Wasatch Small Cap Value portfolio to supplement funds available to cover the July 2018 payroll and expenses estimated to be \$14.1 million. Mr. Carmody seconded the motion which was unanimously approved by roll call vote.

Novitas PBWeb Project Monthly Status

Ms. Boutin gave an update on the Novitas PBWeb project. She reported that work on the RF data file for the retiree health insurance module, which includes data for retirees with COBRA dental, has been completed. The MWRD is awaiting approval of the data file from the vendor Blue Cross Blue Shield. In response to an inquiry by Mr. Kennedy she explained that the COBRA dental for retirees is administered by the MWRD HR department, while the retiree health insurance is administered by the RF, and BCBS cannot accept multiple records for one member.

2017 Comprehensive Annual Financial Report (CAFR)

Ms. Boutin reported the 2017 CAFR has been completed and will be submitted to the GFOA. It will also be entered into the permanent record of the MWRD at the June 21st 2018 Board of Commissioners meeting. She thanked Vrinda Kulkarni and Mr. Gillespie for their work on the document.

2017 Illinois Department of Insurance Report

Ms. Boutin reported the annual Illinois Department of Insurance Report was submitted on May 23rd.

Mr. Kennedy made the motion to approve the execution and signing of the 2017 Illinois Department of Insurance annual statement by Mr. Dalton as President, Commissioner Spyropoulos as Secretary, and Ms. Boyle as Treasurer. Mr. Carmody seconded the motion which was unanimously approved by roll call vote.

2017 Actuarial Report

A roll call vote was conducted to accept the 2017 Actuarial Valuation Report which implies acceptance of the actuarial assumptions contained therein.

Commissioner Spyropoulos made the motion to accept the fiscal 2017 actuarial statement prepared by Foster & Foster Consulting Actuaries and presented by Jason Franken at the April 25, 2018 Board meeting. Mr. Kennedy seconded the motion which was unanimously approved by roll call vote.

Experience Study

Ms. Boutin reported that the Fund's consulting actuary is recommending an experience study be performed in 2018. This would cover 12/31/2013 – 12/31/2017 (4 years) experience; the last study covered the period 12/31/2008 -12/31/2013 (5 years).

Commissioner McGowan inquired if the Fund put out an RFP for the experience study. Ms. Boutin explained that the RFP for actuarial services was done last in 2017, and included a number of services including the experience study.

Commissioner McGowan requested to review the RFP responses and to defer this agenda item.

Commissioner McGowan made the motion to defer the decision to have Foster & Foster Consulting Actuaries complete an experience study for the period of 2014 to 2017 pending review of the Actuary RFP results from 2017. Mr. Kennedy seconded the motion which was unanimously approved by roll call vote.

Administrative, continued:

Internal Controls and Fiduciary Risk Project

Ms. Boutin reported that the initial outline of a long-term project was distributed to Trustees in March. This project was recommended by Joseph Burns of JBOH, to enhance the Fund's best practices relating to internal controls focusing on IT, cybersecurity practices, benefit payments and fund administrative rules.

Due to the length and complexity of the IT/Cyber Policy, Ms. Boutin recommended creating a committee of two Trustees to review the policy with staff. It was determined that Mr. Carmody and Mr. Regan will serve on that committee.

Staff Training and Education

Ms. Boutin requested approval for Brian Gillespie to attend the International Foundation's 64th Annual Employee Benefits Conference which will be held in New Orleans, Louisiana on October 14th to 17th. The cost of the conference is \$1,565. Estimated cost for transportation meals and hotel is estimated to be approximately \$1,500 or a total amount of \$3,065. Conference topics include investments, retirement security, public plans & pension.

Mr. Kennedy made the motion to approve Brian Gillespie attending the International Foundation's 64th Annual Employee Benefits Conference to be held in New Orleans, Louisiana from October 14th to 17th at a maximum amount not to exceed \$3,065.00 for conference registration and expenses. Commissioner Spyropoulous seconded the motion which was unanimously approved by roll call vote.

Investments

Reports by Staff

Investment Reports - Fund Investment Comments

Mr. Gillespie presented a performance and organizational update on the manager scheduled to make a presentation today – Standish Mellon Asset Management. Report is on file.

Custodian Report

Mr. Gillespie presented the BNYM Custodial Report which showed assets as of April 30th of \$1.39B. He also presented the report of purchases and sales of securities in April. Reports are on file.

Minority Broker/Dealer Commissions for 1st Quarter ending March 31, 2018

Mr. Gillespie presented the Q1 2018 Commissions Summary report which showed that overall our managers are exceeding the Fund's minority brokerage goals. Year-to-date in 2018 managers directed 61.6% of commissions for domestic equity trades, 22.3% for international equity trades, and 27.4 % of par value for fixed income trades, to MWDVOB broker-dealers. Goals are 30%, 10% and 20% of par, respectively. Report is on file.

He stated commissions are down over the same period prior year due to reduced trading volume.

Investments, continued

Reports by Staff, continued

Securities Lending Report

Mr. Gillespie presented the Q1 2018 Securities Lending Report which showed income from the BNYM securities lending program was \$45,588. Income from the SSgA lending program in the Aggregate Bond Fund was \$16,993. Report is on file.

Mr. Gillespie noted that SSgA will no longer be providing information on the dollars or percentage out on loan for the commingled fund. Discussion followed; per the request of Mr. Kennedy, Mr. Gillespie agreed to follow up with Joseph Burns on the legality of SSgA not providing this information. Mr. Kennedy stated that at the time of investing in the SSgA Aggregate Bond fund, there was no option to choose a non-lending fund; Mr. Gillespie agreed to inquire of SSgA as to the existence of a non-lending fund. Trustees agreed that transparency was of key importance in securities lending matters.

Reports by Managers

Standish Mellon Asset Management – Mr. Mike Houle, Sr. Relationship Manager and Mr. Hugh Tuomey, global investment strategist, presented an organizational update, and discussed the recent performance and construction of the global fixed income portfolio.

Mr. Tuomey recommended adding China to the approved emerging markets list, and to increase the current 25% allowable allocation to emerging markets to 30%, to take advantage of opportunities they identify. Discussion followed about the implications of adding China (vs. not adding China) and/or not changing the allowable allocation. Standard market opening documents would have to be signed and executed by BNYM.

At the request of Mr. Dalton, Mr. Tuomey commented on the yield spread and duration numbers within the portfolio. To address an inquiry by Mr. Obed, he also commented on the positioning of the portfolio given the disparate interest rate environments globally. In response to Mr. Kennedy's inquiry, Mr. Tuomey commented on Italy's recent move to lower interest rates and its limited impact on Europe as a whole.

In response to comments by Commissioner Spyropoulos about reports focusing on the lack of reliable numbers coming out of China, Mr. Tuomey stated that he is recommending the RF open the China market to investing, in order to have the ability to eventually invest. He commented that Standish would be looking to invest in Chinese government bonds as opposed to corporate bonds due to more transparency and greater comfort level with the information.

Commissioner McGowan requested Mr. Tuomey comment on the minority brokerage, and that it be reported in larger font. He also agreed to provide the details on the currency exposure category named "Other", in response to an inquiry by Commissioner Spyropoulos. Pursuant to an inquiry by Mr. Dalton, Mr. Tuomey stated their assumption is the Fed will raise rates a total of four times in 2018, at 25 bps apiece.

Other Investment Related Issues

Reports by Consultant

Marquette Market Environment and Performance Report for April 2018

Mr. Obed commented on Standish's recommendation to open the China market for investing, and the recent inclusion of China A shares in the MSCI indices. He stated that Marquette could put together a memo and analysis of Standish's recommendation. He reviewed the recent market environment and commented on the performance of the Fund as presented in the April 2018 Performance Report.

Mr. Obed addressed Mr. Kennedy's question about the impact on fixed income markets of a possible trade war, stating that in theory that type of shock in the market should do well for fixed income, particularly domestic and treasury.

Mr. Obed responded to Mr. Gillespie's inquiry on the outperformance of value relative to growth in a "risk on" environment, stating that growth has outperformed for so long there is bound to be a mean reversion.

Mr. Obed responded to Commissioner Spyropoulos' inquires, and stated the recent news about Deutsche Bank cutting back 7,000 jobs would not have an effect on the team managing the real estate portfolio on the asset management side of the organization. He further commented on the historical instability of the Italian government, and the concerns of Italy exiting the EU, noting that the market does not like uncertainty.

Other Comments

Commissioner McGowan introduced the newly appointed MWRDGC commissioner, Ken Dunkin.

Deutsche Core Open-End Real Estate Allocation Funding

Mr. Obed reported that we have been informed by Deutsche that the expected capital call amount for 3rd Quarter for our Fund will be \$15M which will be due on July 2nd. He recommended taking the funds equally from equities and fixed income.

Commissioner McGowan asked if any of the firms we are withdrawing from, and adding to, are African American or Hispanic owned firms. Mr. Obed responded stating that the withdrawals will be from SSgA (mainstream), Matarin (female-owned) and Decatur (African American owned).

Mr. Kennedy made the motion to transfer a maximum of \$15 Million to meet the July 2, 2018 expected Capital Call for Deutsche Asset Management. The transfer will be split 50/50 between fixed income and equities. \$7.5 Million will be transferred from the SSgA Aggregate Bond Index, and approximately \$7.5 Million from equities which includes \$4.0 Million from Matarin Capital Small Cap Core and remaining \$3.5 Million from Decatur Capital Large Cap Core portfolio. Mr. Carmody seconded the motion which was unanimously approved by roll call vote.

Other Comments

Mr. Dalton commented on an emerging manager roundtable presented a couple years ago as Trustee training, and inquired if Trustees would like to revisit the subject in the next couple months. Mr. Obed stated that he would organize and follow up with progress at next month's meeting.

(Exit Commissioner McGowan at 11:51 a.m.)

Other Investment Related Issues, continued

Securities Monitoring –Labaton Sucharow

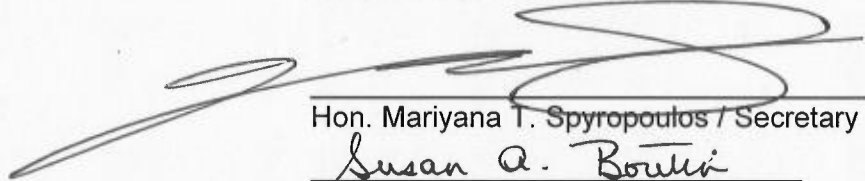
Mr. Gillespie reported that Mark Willis and Mark Bogen from the law firm Labaton Sucharow had met with staff to request being added to the Fund's list of securities monitoring firms. Mark Willis was responsible for building the non-U.S. monitoring arm of Spector Roseman, and is now with Labaton Sucharow. Ms. Boutin commented on the history of adding Spector Roseman to our list and on the capabilities of Labaton Sucharow. She made the recommendation to add the firm to our list.

Mr. Kennedy made the motion to add the law firm Labaton Sucharow to our list of securities monitoring firms. Mr. Carmody seconded the motion which was unanimously approved by roll call vote.

Adjournment:

Commissioner Spyropoulos motion to adjourn, seconded by Mr. Kennedy, whereupon the meeting was adjourned by Mr. Dalton at 11:56 a.m.

Respectfully submitted,



Hon. Mariyana T. Spyropoulos / Secretary

Susan A. Boutin
Susan A. Boutin / Executive Director

Prepared by:

Sandra Hernandez
Sandra Hernandez / Office Services Asst.

Vrinda Kulkarni
Vrinda Kulkarni / Accountant