

Metropolitan Water Reclamation District Retirement Fund

Minutes Regular Meeting Board of Trustees October 24, 2018

Meeting#: 1149
Called to order: 10:05 a.m.
Place: Boardroom, 100 E. Erie St., Chicago, IL
Presiding: Mr. John P. Dalton, President

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

Regular Business:

Public Comments

Mr. Dalton solicited public comments; none responded.

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 September 26, 2018. The motion was unanimously approved by roll call vote.

Consent Agenda

Expenses

Administrative expenses to be paid in November 2018 in the amount of \$273,787.03 were presented for approval.

A motion was made by Mr. Carmody, seconded by Mr. Kennedy to approve the Administrative Expenses. The motion was unanimously approved by roll call vote.

Regular Business, continued:

Consent Agenda continued:

Employee Annuitants

The applications for seven new employee annuitants with a total monthly annuity benefit of \$39,383.32 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>
Bell, Bobby E.	Electrical Mechanic	11/01/2018	11.53	0.00
Cannici, Joseph	Former Assistant Director of Information	11/01/2018	27.50	3.00
Deschamps, Lawrence A.	Electrical Mechanic	10/01/2018	28.94	0.00
Gorski, Sheryl K.	Laborer Foreman	10/01/2018	24.85	0.00
McMath, Darryl L.	Engineering Technician V	07/01/2018	31.50	2.25
McShane, Kevin J.	Maintenance Laborer Class A Shift	10/01/2018	27.00	0.00
Smith, Jacqueline	Fireman-Oiler	09/01/2018	32.00	3.50

A motion was made by Ms. Meany, seconded by Mr. Kennedy to approve the Employee Annuitant applications. The motion was unanimously approved by roll call vote.

(Enter Commissioner McGowan at 10:07 a.m.)

Surviving Spouse & Child Annuitants

The application for four new surviving spouse annuities with a monthly annuity benefit of \$25,992.72 was presented with the recommendation that it be approved and granted as follows:

<u>Name</u>	<u>Spouse (S) Child (C)</u>	<u>Deceased Retiree/EE</u>	<u>Annuity Begins</u>
Bilar, Jurate	S	Bilar, Kenneth J.	09/01/2018
Heil, Jane	S	Heil, Richard W.	10/01/2018
Rogalski, Sheila J.	S	Rogalski, Eugene C.	10/01/2018
Polito, Kimberly	S	Polito, Dominic C.	11/01/2018

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

Refunds and Final Payments

The applications for nine refunds and final payments in the amount of \$224,061.78 were presented with the recommendation that they be approved and granted as follows:

<u>Employee/Annuitant Name</u>	<u>Date</u>	<u>Remarks</u>
Bell, Bobby E.	11/09/2011	No Spouse Refund
Cannici, Joseph	05/31/2018	No Spouse Refund
Delk, Alvin A.	01/12/2018	Termination
McMath, Darryl L.	06/30/2018	Excess Optional
McShane, Annabelle C.	09/06/2018	Resignation
Pudzimis, Michael	09/14/2018	Resignation
Quigley, Matthew T.	08/14/2015	Termination
Smith, Jacqueline	08/31/2018	No Spouse Refund
Smith, Jacqueline	08/31/2018	Excess Optional

A motion was made by Mr. Regan, seconded by Ms. Meany to approve the Refund applications. The motion was unanimously approved by roll call vote.

Regular Business, continued:

Consent Agenda continued:

Duty Disability

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

A motion was made by Mr. Kennedy, seconded by Ms. Meany to approve the Duty Disability applications. The motion was unanimously approved by roll call vote.

Ordinary Disability

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

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

Administrative:

Revised Cash Allocation - November Payroll & Expenses

Ms. Boutin reported that at the September Board meeting, the Trustees approved withdrawal of \$13.0M from the over-weights in the following portfolios: approximately \$7.2M from the SSgA S&P 500 Index, \$5.1M from the Decatur LCG portfolio and the balance of approximately \$700K from the SSgA S&P 400 Index to fund the November payroll and expenses estimated to be \$14.6M. Due to the volatility in the market, she recommended that the motion be revised.

Mr. Kennedy made the motion to revise the cash allocation motion approved at the September Board Meeting. Revised motion is to transfer a maximum of \$12.6 million from the overweights in the following portfolios; approximately \$6.1M from the SSgA S&P 500 Index, \$3.5 M from the Decatur LCG portfolio, and the balance of approximately \$3.0 from the SSgA US Aggregate Bond Index to supplement funds available to cover the November 2018 payroll and expenses estimated to be \$14.6 million. Mr. Regan seconded the motion which was unanimously approved by roll call vote.

Cash Allocation - December Payroll & Expenses

Recommendation to transfer a maximum of \$12.5 million from the over-weights in the following portfolios approximately \$6.9M from the SSgA Bond Market portfolio, \$3.3M from the Ariel MCV portfolio and the balance of approximately \$2.3 million from the LSV LCV portfolio to supplement funds available to cover the December 2018 payroll and expenses estimated to be \$14.8 million.

Mr. Carmody made the motion to transfer a maximum of \$12.5 million from the overweights in the following portfolios; approximately \$6.9M from the SSgA US Aggregate Bond Index, \$3.3 M from the Ariel Midcap Value portfolio, and the balance of approximately \$2.3M from the LSV Large Cap Value portfolio to supplement funds available to cover the December 2018 payroll and expenses estimated to be \$14.8 million. Mr. Kennedy seconded the motion which was unanimously approved by roll call vote.

Cash Transfers

Ms. Boutin reported on the actual vs. planned transfers as follows:

<i>October 2018 Transfers (in Millions)</i>	<u>Approved</u>	<u>Transferred</u>	<u>Difference</u>
SSgA S&P 500 Index	\$2.1	\$0.6M	\$1.5

Administrative, continued:

Report on Candidate for Trustee Election

Ms. Boutin reported on October 18, 2016, the Judges of Election tabulated the ballots for the Trustee Election and prepared a report certifying the results of the election. A copy of the election certification can be found in your packets and on the portal. The final vote was Robert Regan – 444 votes, & Richard Peslak – 163 votes. A motion is required to certify Robert T. Regan's election to the Board to serve a four-year term to begin December 1, 2018. The Oath of Office will be administered to Mr. Regan at the November Board meeting.

Mr. Kennedy made the motion to certify Robert Regan's election to the Board to serve a four-year term to begin December 1, 2018. Ms. Meany seconded the motion which was unanimously approved by roll call vote.

Trustees congratulated Mr. Regan on his re-election.

Health Insurance Newsletter

Ms. Boutin reported that on October 18, 2018 a newsletter was sent to 2,354 (email:1,842 & mail: 512) retirees and surviving spouses notifying them about the Insurance Open Enrollment period which runs from October 22nd to November 16th. Any changes to benefits for 2019 must be made during this open enrollment period. A copy of this newsletter can be found in the Trustee meeting packets.

She reported that premiums for health insurance increased between 7.3% (UHC) and 9.5% (BC) due to the contribution rate increase and the increase in claims last year. The annuitant contribution rate in 2019 has increased 2.5 percentage points to 45%, while the District picks up the remaining 55% of the cost of premiums. This year there will be no coverage changes to the existing annuitant plans.

Report on International Foundation of Employee Benefit Plans Conference

Mr. Gillespie reported on the IFEBP Conference that he attended in New Orleans on October 14 – 17, 2018. He attended sessions on investments and public funds; common themes in the presentations were diversification and reduction in the assumed return on investments. He also attended sessions showing the case for, and against going into alternative investments.

Investments

Reports by Staff

Investment Reports - Fund Investment Comments

Mr. Gillespie presented a performance and organizational update on the two managers scheduled to make a presentation today – UBS Realty Investors, and DWS. Reports are on file.

Custodian Report

Mr. Gillespie presented the BNYM Custodial Report which showed assets as of September 30th of \$1.4B. He also presented the report of purchases and sales of securities in September. Reports are on file.

Investments, continued

Reports by Managers

UBS Realty Investors

Mr. Dan Hynes and Ms. Maria Bascetta, presented an organizational update and reported on the recent performance of the UBS Trumbull Property Fund, an actively managed core open-end real estate fund.

Mr. Hynes opened his comments by speaking about the ongoing labor issue involving one of their holdings, the Baltimore Marriott, stating that UBS has made it clear to Marriott that UBS would like the dispute resolved quickly and efficiently, and that UBS supports the right of workers to organize and unionize.

In response to a question by Mr. Dalton regarding the 10 and 20-year Competitor Risk/Return charts, Ms. Bascetta confirmed that returns have moderated, and currently the objective of the fund is a 5% real return.

Ms. Bascetta also responded to an inquiry by Mr. Gillespie regarding vacancy rates across the different sectors.

In response to inquiries by Mr. Carmody and Ms. Boutin, Ms. Bascetta further commented that home ownership is slowing down, which supports the apartment market, and that work-from-home arrangements and capital required to remodel office space both contribute to UBS's reducing their office space holdings.

In response to Mr. Kennedy's comments about transitioning mall retail space to other uses, Ms. Bascetta commented that UBS TPF will not re-develop property, which would be opportunistic, but rather would generally invest in a completed re-developed property.

(Exit Ms. Bascetta and Mr. Hynes at 10:45 a.m.)

DWS

Mr. Kevin Sheehan and Mr. Norton O'Meara presented a firm overview, market update, team review and performance update for the DWS RREEF America REIT II core open-end real estate fund.

In response to an inquiry by Mr. Gillespie about challenges in finding deals/transactions that meet their criteria, Mr. O'Meara commented that foreign investors capital is active in major metro areas, along with some from private investors, which helps on the sell side, and presents a challenge on the buy side, but overall it's a very liquid market.

In response to a question from Mr. Dalton about mall ownership, Mr O'Meara commented they invested in one unique dominant regional mall in Jacksonville, Florida that has an expert operator, but generally their retail investments are grocery anchored (daily needs type) shopping centers.

Other Investment Related Issues

Reports by Consultant

Rebalancing to Preferred Asset Allocation

Mr. Obed expressed no concerns with the planned transfers to fund the December 2018 payrolls.

Market Environment & Q3 2018 Performance Report

Mr. Obed reviewed the recent market environment commenting on GDP growth and the unemployment rate. In response to an inquiry by Mr. Carmody about the impact the gig economy might be having on those numbers, Mr. Obed guessed the impact is material, noting the impending Uber IPO valuation could be \$120B, and Lyft's IPO could be about three quarters of that amount.

At the request of Mr. Gillespie, Mr. Obed commented on growth in light of the expected Fed rate hikes. In response to an inquiry by Mr. Kennedy, he stated his belief is that U.S. and non-U.S. markets will become even more correlated over time.

After the review of manager performance, Mr. Obed commented on the performance of Matarin and Hexavest in response to inquiries by Mr. Dalton and Ms. Boutin, respectively.

Mr. Dalton called attention to a Marquette Associates document entitled Diverse Manager Analysis. Data from eVestments was combed and the report details the largest diverse managers across major asset classes. He also presented an Investment Perspective newsletter, where Marquette compared demand for asset flows with the availability of diverse managers, to help plan sponsors. He also presented a document detailing Marquette's staff diversity.

Garcia Hamilton – Emerging Manager Utilization Program

Ms. Boutin reported that Garcia Hamilton & Associates is an emerging manager that manages a core fixed income portfolio in the Fund's emerging manager program. As of September 30th, Garcia Hamilton & Associates had total Assets Under Management of \$11.0 billion, exceeding the prescribed range of \$10M to \$10B to be in the program. Ms. Boutin requested direction from the Board. Discussion followed regarding the letter vs. the intent of the statute.

Mr. Kennedy made the motion to graduate Garcia Hamilton & Associates from our emerging manager program into the Fund's general investment program. Mr. Carmody seconded the motion which was unanimously approved by roll call vote.

Senate Hearing Update

Ms. Boutin reported the Fund testified on October 17th before the Senate Special Committee on State and Public Pension Fund Investments. The focus of the committee this year was on diversity and inclusion not emerging. The committee asked what could be done with the search criteria to get minority & female-owned firms to respond. They felt that the funds needed to have a goal for utilization of minority and female-owned firms. Some of the Funds were asked if they adopted the Garcia Rule which requires at least one emerging manager be included in every search going forward. A suggestion was made for the funds to require each manager to have a minority co-relationship person who would be concerned about the diversity of the firm. Senator Martinez was upset with the Fund's numbers since she felt they have not changed. She directed the Fund to submit a corrective action plan within 30 days on how we will improve within the next 12 months. The plan should include goals and a plan on how we will get there. Discussion followed.

Legal and Legislative

Legislative Update

Mr. Tom Walsh, Fund Lobbyist, commented on the Senate Hearings which he attended. He stated that he can see that the Fund is balancing their responsibility to the retirees and employees while fulfilling the requirements of the statutes, and that he was disappointed in the very inappropriate comments that were made by a Committee member.

Mr. Walsh further commented on the upcoming Governor election and the upcoming veto session, recommending the Fund introduce new legislation (a technical correction on final average salary calculation) after the next regular legislative session begins.

Some discussion about the Senate Hearings requests to report back in 30 days followed.

Executive Session for Personnel Matters – In accordance with 5 ILCS 120/2(c)(1)

Mr. Kennedy made the motion to go into Executive Session to discuss personnel matters. Mr. Regan seconded the motion.

(The Regular Session was recessed at 12:06 p.m. The Executive Session was recessed and the Regular Session was reconvened at 12:22 p.m.)

Commissioner Spyropoulos made the motion to exit Executive Session and reconvene the regular session. Mr. Kennedy seconded the motion.

Discussion was had to determine the effective date of a new RF Employee Handbook.

Mr. Kennedy made the motion to approve the Employee Handbook for Retirement Fund staff effective November 1, 2018. Mr. Regan seconded the motion which was unanimously approved by roll call vote.

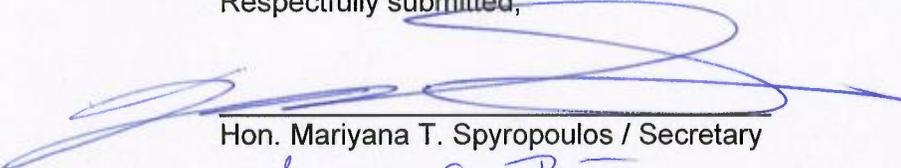
Reminders:

Mr. Dalton reminded the Trustees that they need to schedule a study session with staff for IT issues. After some discussion, Ms Boutin announced a change in the date of the next scheduled regular board meeting, from November 14, 2018 to November 28, 2018.

Adjournment

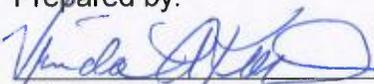
Mr. Kennedy motioned to adjourn, seconded by Mr. Carmody, whereupon the meeting was adjourned by Mr. Dalton at 12:29 p.m.

Respectfully submitted,


Hon. Mariyana T. Spyropoulos / Secretary


Susan A. Boutin / Executive Director

Prepared by:


Vrinda Kulkarni / Accountant