

Metropolitan Water Reclamation District Retirement Fund

Minutes Regular Meeting Board of Trustees December 19, 2018

Meeting#: 1151
Called to order: 10:05 a.m.
Place: Boardroom, 100 E. Erie St., Chicago, IL
Presiding: John P. Dalton, President

| | <u>Present</u> |
|--|----------------|
| Trustees: | |
| John P. Dalton, President | X |
| Robert T. Regan, Vice-President | X |
| Hon. Mariyana T. Spyropoulos, Secretary | X |
| Hon. 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 | |
| Mr. Alberto Ribero, Marquette Associates | |
| 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 Ms. Meany, to approve the minutes of the Regular Board Meeting held on November 28, 2018. The motion was unanimously approved by roll call vote.

Consent Agenda

Expenses

Administrative expenses to be paid in December 2018 in the amount of \$21,419.30 were presented for approval.

A motion was made by Mr. Kennedy, seconded by Ms. Meany 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 two new employee annuitants with a total monthly annuity benefit of \$11,249.44 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> |
|---------------------------|---------------------------------|-----------------------|-----------------------|---------------------------|
| Pulaski, Clifford A. | Senior Environmental Specialist | 12/01/2018 | 39.00 | 0.00 |
| Wilcoxon-Goodwin, Laura J | Administrative Specialist | 11/01/2018 | 15.00 | 0.00 |

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.

Surviving Spouse & Child Annuitants

The application for four new surviving spouse annuities with a total monthly annuity benefit of \$18,023.02 was presented with the recommendation that they be approved and granted as follows:

| <u>Name</u> | <u>Spouse (S) Child (C)</u> | <u>Deceased Retiree/EE</u> | <u>Annuity Begins</u> |
|----------------------|---------------------------------|--------------------------------|---------------------------|
| Francis, Cynthia J. | S | Francis, David R. | 12/01/2018 |
| Kelada, Faiza | S | Kelada, Nabih P. | 12/01/2018 |
| Natividad, Evelyn D. | S | Natividad, Cornelio R. | 12/01/2018 |
| Semaszczuk, Beata | S | Semaszczuk, Wladimir | 12/01/2018 |

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

Refunds and Final Payments

The applications for two refunds and final payments in the amount of \$28,027.51 were presented with the recommendation that they be approved and granted as follows:

| <u>Employee/Annuitant Name</u> | <u>Date</u> | <u>Remarks</u> |
|--------------------------------|-------------|------------------------|
| Byrnes, Marc R. | 10/12/2018 | No Spouse Refund |
| Pulaski, Clifford A. | 11/30/2018 | Excess Optional Refund |

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

Duty Disability

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

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

Ordinary Disability

The two 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. Kennedy to approve the Ordinary Disability applications. The motion was unanimously approved by roll call vote.

Legal and Legislative:

Executive Session for Potential Litigation in accordance with 5 ILCS 120/2(c)(11), for Personnel Matters in accordance with 5 ILCS 120/2(c)(1) and for a Semi Annual Review of Executive Session Minutes in accordance with 5 ILCS 120/2.06

Mr. Regan made the motion to go into Executive session to discuss Personnel Matters, to approve the minutes of the Executive Sessions, and for the Semi-Annual Review of Executive Session Minutes. Ms. Meany seconded the motion which was unanimously approved by roll call vote.

(Whereupon President Dalton recessed the Regular Meeting at 10:11 and recovered the Regular Meeting at 10:20 a.m.)

Approve minutes of the Executive Sessions

Commissioner Spyropoulos made the motion to approve the Executive Session minutes for June 27, 2018, July 25, 2018, August 22, 2018, September 26, 2018, October 2, 2018, October 24, 2018 and November 28, 2018. Mr. Kennedy seconded the motion which was unanimously approved by roll call vote.

Maintain confidential or release the minutes

Mr. Kennedy made the motion to maintain the Executive Session minutes confidential. Mr. Regan seconded the motion which was unanimously approved by roll call vote.

Personnel Matters - Amended Employee Handbook

Mr. Dalton requested a motion to approve the revised version of the employee handbook, which includes a new section on confidentiality and nondisclosure.

A motion was made by Mr. Kennedy to approve the amended employee handbook. Mr. Regan seconded the motion which was unanimously approved by roll call vote.

Administrative:

Cash Allocation for January 1, 2019 Annuitant Payroll

Ms. Boutin made the recommendation for the January 2nd transfers required to fund the annuity, staff and disability payrolls to be paid in January 2019.

Mr. Kennedy made the motion to transfer a maximum of \$12.0 million from the over-weights in the following portfolios: \$8.0 million from the SSgA Bond Market Index, \$3.3 million from the Neuberger Berman Core Plus portfolio and the balance of approximately \$700 thousand from the Standish Global Fixed Income portfolio to supplement funds available to cover the January 2019 payroll and expenses estimated to be \$14.0 million. Ms. Meany seconded the motion which was unanimously approved by roll call vote.

Cash Allocation for February 1, 2019 Payroll

Due to volatility in the market, and fluctuations in manager balances, the recommendation for funding of the February payrolls was deferred until the January meeting.

Cash Transfers

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

| <i>December 1, 2018 Transfers (In Millions)</i> | <i>Approved</i> | <i>Transferred</i> | <i>Difference</i> |
|--|------------------------|---------------------------|--------------------------|
| SSGA Bond Market Index | \$6.9 | \$6.9 | \$0.0 |
| Ariel MCV | 3.3 | 3.4 | (0.1) |
| LSV LCV | 2.3 | 2.0 | 0.3 |
| Total | \$12.5 | \$12.3 | \$0.2 |

Administrative, continued:

Election of Board Officers for 2019

Mr. Kennedy made the motion to retain Mr. Dalton as President, Mr. Regan as Vice President, and Commissioner Spyropoulos Secretary of the Fund for 2019. Ms. Meany seconded the motion which was unanimously approved by roll call vote.

2019 Meeting Schedule

Ms. Boutin led a short discussion with Trustees on their availability for meeting attendance, to finalize the 2019 Board meeting schedule.

Mr. Regan made the motion to approve the amended 2019 Board Meeting schedule. Mr. Kennedy seconded the motion which was unanimously approved by roll call vote.

Novitas 2019 Recommendation

Ms. Boutin reported that on August 31, 2018, development ceased on the PBWeb project. Since that time, there have been discussions about future development of the Fund's benefit administration system and Novitas' role going forward.

In his 2019 Support Service Agreement with the Fund, Jim Chang proposes work by Novitas totaling an estimated 80 hours monthly at an hourly rate of \$175.00 or a maximum not to exceed \$168,000. Work would be about 60% technical support, 30% business analysis, and 10% project management. Potential projects would include Tier 2 Final Average Salary calculation modification, data clean-up, database application documentation, and migration of staff payroll and vendor payments to Great Plains.

Jim Chang recently informed the Fund that he entered into subcontractor agreements with Bradley Consulting on December 1st and Chicago Software Solutions on December 14th. The current agreement with Novitas requires written approval of subcontractor agreements by the Fund. The agreements with the subcontractors and our 2013 agreement with Novitas are being reviewed by Joseph Burns, Fund attorney.

Any work performed is limited to performance by Novitas employees until the legal review of the current agreement is completed.

Discussion about impending work requiring Novitas' involvement, the 2019 proposed services, and the effect thereon of the time required for legal review followed.

Mr. Regan made the motion to approve the Novitas support service proposal for 2019 at an hourly rate of \$175 in an amount not to exceed \$168,000, pending the legal review of subcontractor agreements. Mr. Kennedy seconded the motion which was unanimously approved by roll call vote.

Actuarial Services

Ms. Boutin made the recommendation to renew the Fund's contract with Foster & Foster to provide comprehensive actuarial services in 2019 for the reporting year ending 12/31/18 at an annual fee of \$48,000 plus an additional \$6,300 for anticipated actuarial projections

Mr. Kennedy made the motion to extend the Fund's contract with Foster & Foster to provide comprehensive actuarial services at an annual fee of \$48,000 plus an additional \$6,300 for three actuarial projections or a total not to exceed \$54,300. Mr. Carmody seconded the motion which was unanimously approved by roll call vote.

Administrative, continued:

Annual Audit

Ms. Boutin made the recommendation to retain Legacy Professional's to perform the 2018 annual audit for an annual fee not to exceed \$32,000.

Mr. Regan made the motion to retain Legacy Professionals LLP to perform the 2018 annual audit in 2019 for an annual fee not to exceed \$32,000.00. Mr. Kennedy seconded the motion which was unanimously approved by roll call vote.

Extension of Services – Legislative Lobbyist

Ms. Boutin made the recommendation to extend the agreement with Thomas Walsh to serve as the Fund's lobbyist in Springfield for six months of active legislative activity for a monthly fee of \$3,500 or a total not to exceed \$21,000.

Ms. Meany made the motion to extend the agreement with Thomas Walsh to serve as the Fund's lobbyist in Springfield for six months of active legislative activity for a monthly fee of \$3,500 or a total not to exceed \$21,000.00. Mr. Kennedy seconded the motion which was unanimously approved by roll call vote.

Independent Contractor – Elizabeth Cataudella

Ms. Boutin reported that Elizabeth Cataudella has been working as an independent contractor with the Fund since June 2011 on special projects 2 days per week; due to the current Office Services Assistant position vacancy, her services would be beneficial 3 days per week until the vacancy is filled.

Ms. Boutin made the recommendation to extend the independent contractor agreement with Elizabeth Cataudella for the period of January 1, 2019 to December 31, 2019 at the same hourly rate of \$48.80 for a maximum of 21 hours per week for the first 13 weeks of the year and 14 hours per week in the subsequent 39 weeks of the year in an amount not to exceed \$39,967.20.

Mr. Kennedy made the motion to extend the independent contractor agreement with Elizabeth Cataudella for the period of January 1, 2019 to December 31, 2019 at the same hourly rate of \$48.80 for an amount not to exceed \$39,967.20. Mr. Regan seconded the motion which was unanimously approved by roll call vote.

Crestwood Associates

Ms. Wilson reported that at the IT study session on December 5, 2018, the possibility of moving some PBMS functionality, namely staff payroll processing, and accounts payable (vendor payments) processing, from the PBMS database to (MS Dynamics) Great Plains accounting software was discussed. Crestwood Associates, the Fund's vendor for MS Dynamics, has provided a ballpark cost estimates of the proposed implementations. Estimates are \$10,000 for staff payroll and \$4,800 for accounts payable (vendor payments); estimates include licensing and labor required, and assume a high level of RF staff involvement and may be speculative. Discussion followed.

Mr. Regan made the motion to approve the transition to the Great Plains accounting software for the accounts payable and Retirement Fund staff payroll modules at a cost not to exceed \$14,800.00. Mr. Carmody seconded the motion which was unanimously approved by roll call vote.

Administrative, continued:

Retirement Fund General Salary Increase

Mr. Dalton reported the historical method of determining RF Staff salary increases was to follow the MWRD's increase; he proposed alternate methods, including following Social Security, or CPI. For the 2019 salary increase, to follow Social Security would result in an increase higher than the MWRD's, but in previous years it would have resulted in an increase lower than the MWRD's.

Mr. Dalton made a motion, seconded by Mr. Regan to provide a general salary increase to RF employees of 2.8% (in line with Social Security); discussion followed. Commissioner Spyropoulos stated the MWRD BOC approved a salary increase for MWRD employees of 2.0% for 2019; Ms. Meany commented that the proposal is fine this year, since this year the Social Security increase is higher, but she would not want to see the RF employees receive an increase lower than MWRD employees in other years; she requested clarification. Mr. Dalton clarified that the precedent he was proposing is to follow Social Security, either case.

Mr. Kennedy suggested a deeper discussion on the matter was warranted; Commissioner Spyropoulos proposed a 2.0% increase, in line with the MWRD increase. Mr. Dalton rescinded his motion.

Commissioner Spyropoulos made the motion to approve a general salary increase of 2.0% in 2019 for Retirement Fund employees. Commissioner McGowan seconded the motion which was unanimously approved by roll call vote.

Retirement Fund Annual Budget

Ms. Boutin responded to questions from Mr. Dalton about the proposed RF 2019 Budget.

Mr. Carmody made the motion to approve the Retirement Fund Annual Budget which includes a general salary increase in 2019 to Retirement Fund employees of 2.0%. Mr. Kennedy seconded the motion which was unanimously approved by roll call vote.

Banking Services - BMO Harris Bank

Ms. Boutin reported that subsequent to an RFP, the MWRD is in the process of changing their banking services provider from JPM Chase to BMO Harris Bank; this change will result in a change for the RF as well.

Ms. Boutin gave a history of where the Fund has invested its short-term cash. Prior to 2016, the Fund invested its short term cash in the Illinois Funds (IPTIP). In 2016 changes to the Securities and Exchange accounting rules and banking regulations changed the operations of the Illinois Funds. In February 2016, IPTIP informed us that they would accept wires for tax levy receipts but would not accept ACH's for employee contributions. We researched other options such as Amalgamated bank but they could not offer the required collateralization required on a long term basis. Mary Ann Boyle, MWRD Treasurer, recommended that we bank with Chase since they would offer the required collateralization due to the District relationship. At the April 27, 2016 meeting, the Trustees approved the change to Chase for our short term cash needs. On November 15, 2018, the District made the decision to enter into an agreement with BMO Harris Bank for banking services for a five-year period. Due to this change Chase will no longer offer us the required collateralization.

Ms. Boutin recommended that the Fund change its banking to BMO Harris Bank. The expected date of the transition is February 1, 2019. Motion required to open accounts for our short-term cash needs at BMO Harris Bank.

Administrative, continued:

Banking Services - BMO Harris Bank, continued

Ms. Boyle commented that the new agreement with BMO Harris will grant the District very competitive rates, better than the current provider, on their short-term investments. She stated that the IT Department conducted a cybersecurity review of the internet banking platform, and Treasury will work with the RF to ensure that proper internal controls such as dual authorizations that are in place at Chase will be replicated at BMO Harris.

Commissioner Spyropoulous made the motion to approve the change in banking services for the Retirement Fund to BMO Harris Bank. Mr. Kennedy seconded the motion which was unanimously approved by roll call vote.

Investments

Reports by Staff

Custodian Report

Mr. Gillespie presented the BNYM Custodial Report which showed assets as of November 30th of \$1.3B. He also presented the report of purchases and sales of securities in November. Reports are on file.

Reports by Managers

Standish Mellon Asset Management – Mr. Michael Houle, Head of Relationship Management and Mr. Hugh Tuomey, Managing Director of Relationship and Product Management, discussed the inclusion of local China securities in the Bloomberg Barclays Global Aggregate benchmark, and the implications for the existing Global Fixed Income strategy. Mr. Houle reported details, including that the China securities will be phased into the Index over a period of 20 months, at 5% per month to an ultimate target allocation of approximately 5.66% of the Index.

In response to an inquiry by Mr. Dalton about risk/reward, Mr. Tuomey stated the additional exposure will be a diversifier, which is a positive from the perspective of portfolio management. He stated if the Trustees have desire not to invest in China, a benchmark adjustment could be made. In response to an inquiry by Mr. Obed, Mr. Tuomey stated they have no backward looking pro-forma data to backtest what performance would have been like had the allocation and benchmark included 6% China bonds in 2018.

Mr. Tuomey made various recommendations to help Trustees progressively develop a comfort level and cautiously proceed toward inclusion of China bonds. Mr. Tuomey responded to Mr. Gillespie's inquiry about possible currency impact, stating that since the portfolio is largely a dollar-hedged portfolio, they would not expect much currency exposure. Further discussion about possible changes to our guidelines for the manager followed.

Other Investment Related Issues

Reports by Consultant

Comments on Standish Mellon and China Bonds

Mr. Obed recommended that Marquette prepare a memo for presentation at the January meeting.

The memo would summarize the discussion about the inclusion of China bonds in the Bloomberg Barclays Global Aggregate benchmark, and discuss the broader issue of whether the inclusion of a global fixed income portfolio is currently fulfilling the role that was envisioned three years ago at time of hire.

Other Investment Related Issues, continued:

November 2018 Market Environment & Performance Report

Mr. Obed reviewed the recent market environment and performance. Discussion followed, including the topics of recent market volatility and views on indicators of a slowdown in growth.

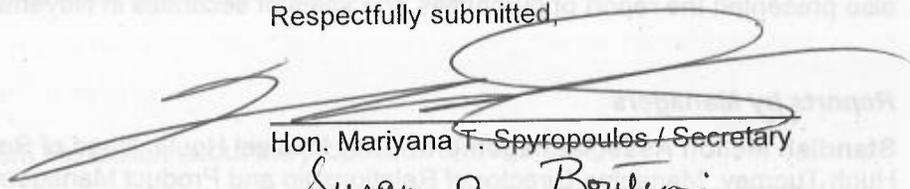
Investment Consultant RFP

Mr. Gillespie reported that the current investment consultant agreement with Marquette ends in 2019. He presented a draft document and timeline of the RFP, highlighting the changes he had made from the prior published RFP from 2014. Mr. Dalton requested the Trustees review the draft document, prior to the planned posting date of January 2, 2019. Discussion of where the RFP will be posted followed

Adjournment

Commissioner Spyropoulos motioned to adjourn, seconded by Mr. Carmody; motion was approved by roll call vote, whereupon the meeting was adjourned by Mr. Dalton at 11:52 a.m.

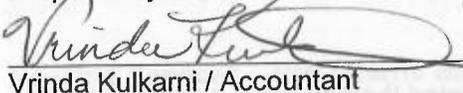
Respectfully submitted,



Hon. Mariyana T. Spyropoulos / Secretary

Susan A. Boutin
Susan A. Boutin / Executive Director

Prepared by:



Vrinda Kulkarni / Accountant