
METROPOLITAN WATER RECLAMATION DISTRICT RETIREMENT FUND

**A COMPONENT UNIT OF THE
METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO
CHICAGO, ILLINOIS**



ANNUAL COMPREHENSIVE FINANCIAL REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2022**

PREPARED BY THE ADMINISTRATIVE STAFF OF THE MWRDRF

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TABLE OF CONTENTS	Page
● INTRODUCTORY SECTION	1
Certificate of Achievement for Excellence in Financial Reporting	2
Letter of Transmittal	3
Organization:	
Board of Trustees	9
Executive Staff, Advisors, and Investment Managers	10
Organizational Chart	11
Responsibilities of Board and Staff	12
 ● FINANCIAL SECTION	 13
Independent Auditor’s Report	14
Management’s Discussion and Analysis	17
Basic Financial Statements:	
Statement of Fiduciary Net Position	23
Statement of Changes in Fiduciary Net Position	24
Notes to Financial Statements	25
Required Supplementary Information:	
Schedule of Changes in the District’s Net Pension Liability and Related Ratios	47
Schedules of District Contributions and Related Note	48
Schedules of Investment Returns	49
Supplementary Information:	
Schedule of Administrative Expenses	51
Schedule of Investment Expenses	52
Schedule of Payments to Consultants	52
Postemployment Healthcare Disclosure	53
 ● INVESTMENT SECTION	 55
Custodian Report	56
Investment Consultant Report	57
Investment Preface:	
Authority	59
Responsibility	59
Policy & Objectives	59
Allocation	60
Management	60
Performance	61
Investment Portfolio Analytics - Assets:	
Portfolio Asset Allocation and Historic Asset Allocation (graph)	62
Portfolio Performance	63
Investment Returns (10 years)	64
Equity Diversification	65
Top 10 Holdings - Equities	66
Fixed Income Diversification	67
Top 10 Holdings - Fixed Income	68
Assets Under Management – By Asset Type and Manager	69

TABLE OF CONTENTS (CONTINUED)

Page

● INVESTMENT SECTION (CONTINUED)	
Investment Portfolio Analytics - Expenses:	
Investment Manager Compensation	70
Custodial Fees	70
Investment Consultant Fees.....	70
U.S. Brokerage Commissions.....	71
Non-U.S. Brokerage Commissions	72
● ACTUARIAL SECTION	73
Actuarial Certification	74
Actuarial Report:	
Preface	77
Summary of Valuation Results.....	79
Actuarial Liability and Funded Ratio	80
Employer’s Normal Cost.....	81
Actuarially Determined Contribution.....	82
Unfunded Actuarial Liability	83
Participant Data	84
Actuarial Assumptions and Methods.....	85
Plan Provisions	89
Analysis of Funding:	
Schedule of Funding Progress (with graph)	95
Solvency Test	96
History of Change in Unfunded Liability.....	97
Historical Valuation Data:	
History of Active Member Valuation Data	98
History of Employer Contributions	98
History of Employee Annuitants and Survivor Annuitants Added to and Removed from Benefit Payroll	99
● STATISTICAL SECTION	101
Membership Information:	
Change in Participant Counts	102
Employee Age and Service Distribution	103
Annuitant and Beneficiary Information:	
Distribution of Annuitants by Annual Benefit	104
History of Annuitants by Type of Benefit.....	104
History of Annuity Payments	105
Distribution of Retirement Annuities by Age and Gender	106
Distribution of Surviving Spouse Annuities by Age and Gender	106
Annuitant by Age and Gender (graph)	107
History of Average Annuities at Retirement	107
Schedule of Average Benefit Payments at Retirement.....	108
Financial Information (10 years):	
Additions by Source and Deductions by Type	109
Employee and Employer Contributions	110
Benefit Expenses by Type	111
Refunds by Type.....	112
Statement of Changes in Fiduciary Net Position	114
● LEGISLATIVE CHANGES SECTION	117

INTRODUCTORY SECTION

Certificate of Achievement for Excellence in Financial Reporting

Letter of Transmittal

Organization

Board of Trustees

Executive Staff, Advisors, and Investment Managers

Organizational Chart

Responsibilities of Board and Staff



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Metropolitan Water Reclamation
District Retirement Fund
Illinois**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

December 31, 2021

Christopher P. Morill

Executive Director/CEO



METROPOLITAN WATER RECLAMATION DISTRICT RETIREMENT FUND

Jim Mohler
Executive Director

Board of Trustees
Kevin Young
President
Bonnie T. Kennedy
Vice President
Hon. Mariyana Spyropoulos
Secretary
John P. Dalton, Jr.
John R. Markovich
Robert C. Quezada

June 30, 2023

Board of Trustees of the
Metropolitan Water Reclamation
District Retirement Fund
111 E. Erie Street
Chicago, Illinois 60611

Dear Trustees:

Submitted herewith is the Annual Comprehensive Financial Report (ACFR) of the Metropolitan Water Reclamation District Retirement Fund (Fund) for the year ending December 31, 2022. This ACFR provides a comprehensive overview of the Fund's activities and operations for the year. The management of the Fund is responsible for the completeness and accuracy of the information presented in this report. In accordance with the Illinois Pension Code, the Fund's financial statements for the fiscal year ended December 31, 2022, have been subject to an audit by independent auditors selected by the Board of Trustees. The unmodified opinion of Legacy Professionals, LLP has been included in the Financial Section of this report.

Management has established and maintained a system of internal accounting controls designed to safeguard Fund assets and ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments by management. To the best of our knowledge and belief, the enclosed financial statements, supporting schedules and statistical tables are accurate in all material respects and are reported in a manner designed to present fairly the financial position and the results of operations of the Fund.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found in the Financial Section following the report of the independent auditor.

FUND PROFILE

The Fund was established in 1931 by the State of Illinois legislature and is administered in accordance with Articles 1, 13, and 20 of the Illinois Pension Code (40 ILCS Act 5).

At the direction of the Board of Trustees (Board), the mission of the Fund is to provide earned benefits to the Fund membership with excellent customer service and to preserve the fiscal integrity and financial stability of the Fund.

The Fund is led by a Board of Trustees, that administers a single employer defined benefit public employee retirement fund sponsored by the Metropolitan Water Reclamation District of Greater Chicago (MWRD or District) to provide retirement, survivor, and disability benefits for certain employees of the District, Fund employees, and qualified beneficiaries. The Fund is a pension trust fund of the District and as such, is included in their financial statements.

As of December 31, 2022, the Fund serves a total of 4,358 members; 1,747 active members, 2,480 benefit recipients, and 131 inactive members. A further description of the Fund membership and Plan information is provided within the notes to the financial statements in the Financial Section and within the Actuarial Section of this report.

FINANCIAL CONDITION**Financial Position**

In 2022, the Net Position of the Fund decreased by \$286.5 million, reflecting negative returns on Fund assets and the necessary liquidation of Fund assets to pay required benefits. For a more detailed analysis of the Fund's financial position, please refer to the Financial and Investment Sections of this report.

Objective and Sources of Funding

The objective of the Fund is to administer the benefits codified within the Illinois Pension Code (Code) to present and future members. Benefits earned are funded by contributions from the employer (the District), employees, and earnings on Fund assets.

Earnings on Fund assets typically provide the largest portion of total additions in any given year, but due to negative returns, this was not the case in 2022. In 2022, the invested assets of the Fund earned a rate of return of -14.4% net of fees, compared to the 2021 rate of return of 15.2%. The ten-year annualized rate of return on the Fund's investments is 6.8% net of fees, falling below the actuarially assumed rate of return of 7.25%.

Employer contributions have grown steadily since 2012 due to the passage of PA 97-0894 and the establishment of a funding policy by the District Board of Commissioners in 2014. Since then, the Fund has received employer contributions that have met or exceeded the annual determined contribution required by the Code.

Employee contributions are withheld from employee's salaries in accordance with the Code. Since 2015, Tier I employees have contributed 12% of salary, which will continue until the Fund reaches 90% funded. Contributions from Tier II employees, hired after December 31, 2010, are set at 9% of salary, with a pensionable salary capped at \$119,892 in 2022.

Funding Status

An important measure of the long-term financial stability of a pension fund is its funded ratio which compares the actuarial value of assets to the actuarial accrued liability. The greater the funded ratio, the greater assurance is given to participants that the Fund shall be able to pay pension benefits in the future. The Fund engages an independent actuary to perform an annual actuarial valuation of the Fund. The December 31, 2022, valuation report stated the actuarial value of assets (AVA) at \$1.624 billion, the actuarial accrued liability (AAL) at \$2.812 billion, leaving an unfunded AAL of \$1.188 billion and resulting in a funded ratio of 57.8%.

A funded ratio is a measure at one point in time but is best viewed in the context of its historical trend to assess a fund's progress towards being fully funded. For a more complete understanding of the Fund's funding status, the reader is encouraged to review the Actuarial section of this report which contains a summary of valuation results, schedules that analyze funding, and details about the data used in the valuation. Ten-year trend information is available in both the Actuarial and Statistical sections.

Investments

The Board utilizes an investment consulting firm who assists with investment manager searches, manager selection and oversight, performance reporting, attribution analysis, and the development of an investment policy that establishes a prudent level of risk to attempt to achieve an assumed rate of return. Invested assets are diversified to reduce the effect of non-systematic risk on returns.

At year end, the Board utilized 14 investment management firms to manage 18 separate mandates that totaled \$1.336 billion in investment assets at fair value.

The Investment section of this ACFR contains details regarding the Fund's investment policy, performance, diversification, investment expenses and a summary of the investment activities that took place in 2022. Also included are the Custodian's report and the Investment Consultant's report.

MAJOR ACTIVITIES AND HIGHLIGHTS

- Changes to the Retirement Board in 2022 by appointment or election:
 - In January 2022 the MWRD BOC re-appointed Commissioner Spyropolous to the Retirement Board for a 3-year term ending January 2025.
 - John P. Dalton Jr. retired effective May 1, 2022, after 29 years of employment with the MWRD and 17 years of dedicated service to the Fund membership as an Employee Trustee, including 4 years serving as President.
 - Following the retirement of President Dalton, Board Officers for 2022 were elected as follows: Kevin Young, President; Bonnie T. Kennedy, Vice President; and Hon. Mariyana Spyropoulos, Secretary.
 - In May 2022 the MWRD BOC appointed John P. Dalton Jr. as Retiree Trustee, to fill the vacancy resulting from the resignation of Retiree Trustee Avila in November 2021, to complete the unexpired term ending January 2023.
 - In June 2022 John Markovich was appointed by the Retirement Board to fill the Trustee vacancy resulting from the retirement of John P. Dalton Jr., to complete the unexpired term through November 30, 2025.
 - In the October 2022 Trustee election, three candidates ran and Robert Quezada was duly elected as Trustee for a four-year term beginning December 1st.

MAJOR ACTIVITIES AND HIGHLIGHTS, continued

- Retirement Fund benefits-related activity:
 - 31,600 benefit payments were paid to retirees and beneficiaries totaling \$188.2 million; over 99% were paid via electronic funds transfer.
 - 80 new retirees and 37 new spouse/child annuitants were added to the annuity payroll; 83 retirees and 33 spouse/child annuitants were removed from payroll due to death or termination of annuity.
 - Annuity estimates were prepared for 325 active employees.
 - \$1.09 million of ordinary and duty disability benefits were processed for 57 and 44 individuals, respectively.
 - Procedures for delivering refund checks to members and updating the banking information of annuitants were tightened to mitigate risks of fraud.
- Retirement Fund investment activity:
 - The Fund received a \$30.0 million special contribution from the District in March, which was invested with two fixed income managers.
 - Subsequent to an RFP process in 2021, funds in a Developed International Small Cap portfolio were transitioned to two new Developed International Small Cap managers. Finalists for the Developed International Large Cap RFP were selected by year-end; funding of two new managers took place in early 2023.
 - Redemptions from a Core Real Estate manager continued in 2022, with a total of \$12.5M received. Those funds, along with other liquidations from the investment portfolio totaled \$118.8M which was used to pay required benefits and administrative expenses during the year.
- Retirement Fund capital projects
 - Following an RFP process managed by Provaliant in 2021, Levi, Ray & Shoup (LRS) was selected in February to develop a new Pension Administration System (PAS); contract negotiations were completed in June, and Project Ascent began in December. Implementation of the LRS Pension Gold product is expected to continue over the next 2 years.
 - Staff continued working with MBS for data management and transformation services, and with Provaliant for ongoing Project Oversight services.
- Retirement Fund IT-related activity:
 - During the year much progress was made toward modernizing the Fund's Information Technology platforms. The increase in IT needs was communicated to the Board, who approved a mid-year increase in the 2022 Budget; the IT goals were also reflected in the preparation of the 2023 Budget. The Fund has greatly expanded its IT and security capabilities by partnering with experts and contracting for subscription services.
 - Began transition from physical servers to the Azure cloud environment with assistance from two outside vendors, one of which also now provides monthly subscription services for Office 365 and Azure Cloud Services and annual Adobe Creative Cloud licenses.

MAJOR ACTIVITIES AND HIGHLIGHTS, continued

- Began transition of shared files from physical servers to SharePoint cloud storage with the assistance of two outside vendors; initially a prototype of a SharePoint Site was created, then an RFP for SP migration consulting services was issued in June. A consulting firm was hired to execute the SP project including designing folder structure, setting permissions and migrating data.
- Began migration of other digital assets (PBMS the current PAS system and GP Dynamics accounting software) to the Azure cloud environment.
- Following the 2021 Cyber Security Audit by an outside vendor, the Fund engaged a consultant for one-time comprehensive security services, as well as for ongoing Managed Detection and Response and help desk services.
- During the year laptops were purchased for use by Trustees.
- Retirement Fund administrative activity:
 - In June 2022, the Board submitted the 2023 funding resolution to the District Board of Commissioners (BOC) in the amount of \$86,440,000 to be funded by the District in accordance with their funding policy adopted on October 2, 2014. This amount was slightly lower than the prior year amount of \$87,915,000 which was enhanced by a special contribution of \$30 million in March 2022.
 - The Fund's Office Services Assistant (OSA) position became open mid-year, and following a job posting, exam and interview process, the position was filled in late 2022.
 - To prepare for the October Trustee Election, staff reviewed and updated the Rules of Elections for Board approval at the July Board meeting, began monitoring voting eligibility of members in August, prepared Election Packets for pickup by prospective candidates in early September; and verified signatures on the returned petition for three candidates.
 - Responses were prepared and sent to fulfill 48 commercial and non-commercial FOIA requests.
 - At year-end staff position titles were updated to more properly reflect current roles.
- Member communications in 2022:
 - Fund staff continued to serve members by phone, email, and regular mail, as well as in-person with expanded office hours beginning in May 2022.
 - Staff provided a summary of Fund benefits to the 113 new hires of the District via the Fund's Benefit Brochure which was mailed to the new members; staff participated in three District new employee orientations which were held virtually.
 - In late January, IRS Form 1099-R was prepared and mailed to approximately 2,900 benefit and refund recipients for 2021.
 - Issues of Vested Interest, the Fund's newsletter, were prepared and distributed by email or regular mail to all members in June and September, and periodic updates were posted on the Fund's website.
 - Ballots were mailed for the upcoming Trustee Election at the end of September to 1,764 active members as per the Rules of Election.

MAJOR ACTIVITIES AND HIGHLIGHTS, continued

- Trustees participated in several training sessions during 2022; many conferences were held in a virtual format. Training attended by Trustees included sessions sponsored by:
 - International Foundation of Employee Benefit Plans
 - National Conference on Public Employee Retirement Systems
 - Pensions & Investments
 - Investment service providers such as Marquette Associates, Ariel Investments, and Dimensional Fund Advisors

AWARDS

The Government Financial Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to our Fund for its annual comprehensive financial report for the fiscal year ended December 31, 2021. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports. The Metropolitan Water Reclamation District Retirement Fund has received a Certificate of Achievement for the last 29 years.

To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized annual comprehensive financial report, whose contents meet or exceed the program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

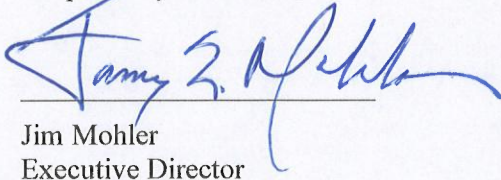
A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

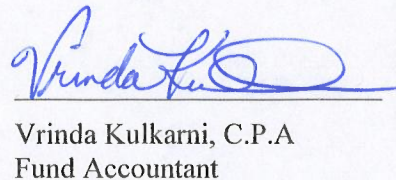
This report is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship of the assets of the Fund.

The preparation of this report reflects the combined efforts of the Fund staff under the leadership of the Board of Trustees. We thank the Fund staff for their commitment to serving the membership and thank all who participated in the preparation of this report.

Respectfully submitted,



Jim Mohler
Executive Director



Vrinda Kulkarni, C.P.A.
Fund Accountant

BOARD OF TRUSTEES

AS OF: 12/31/22

Kevin Young, Employee Trustee, President
Senior Applications Administrator
Term ending: November 2024

Bonnie T. Kennedy, Employee Trustee, Vice President
Principal Attorney
Term ending: November 2023

Honorable Mariyana T. Spyropoulos, Appointed Trustee, Secretary
Commissioner, Metropolitan Water Reclamation District
Term ending: January 2025

Honorable Kimberly Du Buclet*, Appointed Trustee
Commissioner, Metropolitan Water Reclamation District
Term ending: January 2024

John Markovich, Employee Trustee
Senior Budget & Management Analyst
Term ending: November 2025

Robert Quezada, Employee Trustee
Police Officer
Term ending: November 2026

John P. Dalton, Jr., Retiree Trustee
Term ending: January 2023

*Commissioner Du Buclet resigned from the RF Board as of June 2023.

**EXECUTIVE STAFF, ADVISORS, AND INVESTMENT MANAGERS
AS OF: 12/31/22****EXECUTIVE STAFF**

Jim Mohler, Executive Director

Mary T. Murphy, Operations Manager

ADVISORS

- Legal Counsel: Jacobs, Burns, Orlove, and Hernandez, Chicago, IL
- Investment Consultant: Marquette Associates, Chicago, IL
- Consulting Actuary: Foster & Foster, Naperville, IL
- Independent Auditor: Legacy Professionals, LLP, Chicago, IL
- Custodian: The Bank of New York Mellon Co., New York, NY
- Banking Services: Amalgamated Bank of Chicago, Chicago, IL

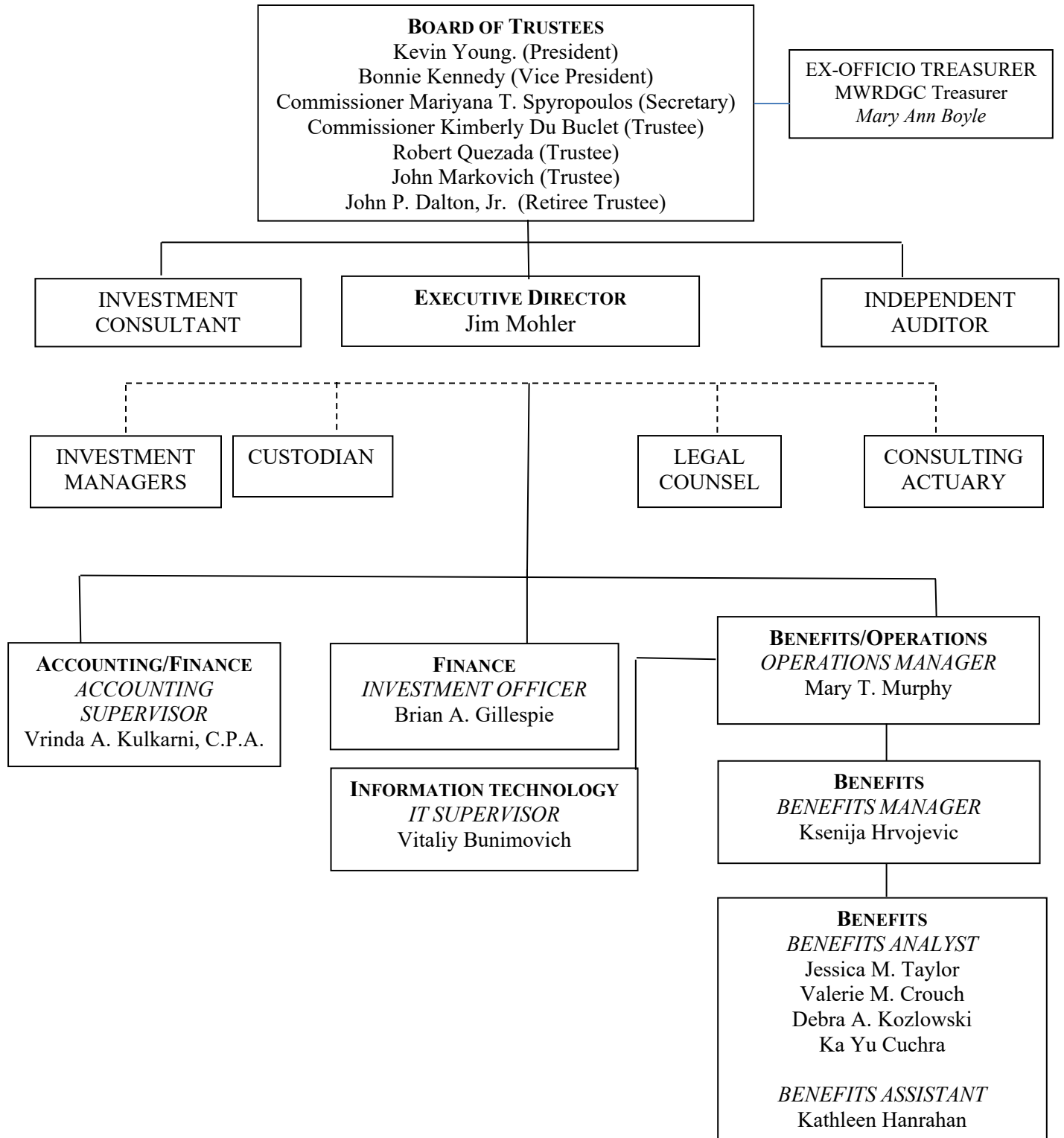
INVESTMENT MANAGERS

1. Ariel Investments, Chicago, IL
2. DWS RREEF, Chicago, IL
3. Driehaus Capital Management, Chicago, IL
4. Dimensional Fund Advisors, Austin, TX
5. Garcia Hamilton & Associates, Houston, TX
6. Kayne Anderson Rudnick Investment Management, Los Angeles, CA
7. MFS Investment Management, Boston, MA
8. Mesirow Financial, Chicago, IL
9. Neuberger Berman, New York, NY
10. Northern Trust Asset Management, Chicago, IL
11. Ramirez Asset Management, New York, NY
12. State Street Global Advisors, Boston, MA
13. UBS Realty Investors, Chicago, IL
14. Wasatch Advisors, Salt Lake City, UT

Assets under management and fees paid to investment professionals can be found in the Investment Section of this ACFR, on pages 69 - 72.

ORGANIZATIONAL CHART

As of: December 31, 2022



———— Full and direct authority and responsibility.

- - - - - Appointment by the Board of Trustees, direction and coordination by the Executive Director.

RESPONSIBILITIES OF THE BOARD OF TRUSTEES

The Board of Trustees of the Retirement Fund (Board) is composed of seven members. Three Trustees are appointed by the District Board of Commissioners (BOC), one of which must be a retired member approved by the Board, and four are employee members elected by the employee members of the Fund. Appointed members serve for terms of three years, and elected members serve for terms of four years on a rotating basis so that each year, one seat on the Board is up for election and another is up for appointment.

In accordance with the Illinois Pension Code, the Board has the powers and duties to collect all contributions due to the Fund, to direct the prudent investment of Fund assets, to authorize or suspend payment of any benefits, to make rules and regulations for the proper conduct of the affairs of the Fund, and to appoint employees and consultants. The Board approves an annual budget which is prepared by Fund staff and submits an annual report of the affairs of the Fund to the District and the State of Illinois Department of Insurance.

RESPONSIBILITIES OF THE STAFF

The Board of Trustees appoints an Executive Director who is responsible for all administrative functions, supervision of staff, and for the administration and payment of benefits to the members of the Fund under the direction of the Board. The Executive Director also works closely with the Investment Consultant and Investment Officer to develop and maintain the Fund's investment policy and bring recommendations to the Board for their consideration. The Executive Director oversees the work of the Consulting Actuary who brings recommendations to the Board for the actuarial assumptions used in the annual valuation, based on an experience analysis performed at least every five years. In addition, the Executive Director works with outside legal counsel to review contracts with service providers and solicits advice on various issues including statutory interpretations, determinations from the Internal Revenue Service, and potential legal actions.

The Operations Manager supports the Executive Director in the day-to-day running of the Fund, proposes and manages technology initiatives with the IT Supervisor, manages administrative projects, and assists the Benefits Manager in the oversight of the Benefits department.

The Benefits Manager supervises a staff of five that are responsible for the production of the monthly annuity payroll, computation of annuity and disability benefits, refunds of contributions, and payments to designate beneficiaries in accordance with the Illinois Pension Code. Throughout the year benefits staff prepare retirement estimates, participate in pre-retirement seminars, and distribute bi-annual newsletters to the Fund membership.

The Investment Officer provides monthly investment performance updates to the Board, assists with investment manager searches, asset transitions, investment monitoring, asset allocation studies, and confirms the accuracy of all investment expenses. The Investment Officer is responsible for the Fund's cash management to ensure there is proper liquidity to pay monthly benefit payments.

The Accounting Supervisor is responsible for the general accounting that serves as the basis for the annual financial statements and works closely with the Independent Auditor to complete the annual audit. The Fund Accountant also coordinates the preparation by staff of the ACFR, is responsible for the processing of monthly payments of administrative expenses, coordinates the Fund's Records Retention/Storage activities, and serves as is the Fund's designated FOIA Officer.

The IT Supervisor is responsible for the data processing that produces benefits payments and records employee contributions in the Fund's proprietary benefit management software, maintaining the pension database, maintaining software and hardware, and implementing various technology initiatives under the direction of the Operations Manager.