



Metropolitan Water Reclamation District of Greater Chicago

100 East Erie Street
Chicago, IL 60611

Legislation Text

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TRANSMITTAL LETTER FOR BOARD MEETING OF MARCH 19, 2015

COMMITTEE ON PENSION, HUMAN RESOURCES AND CIVIL SERVICE

Mr. David St. Pierre, Executive Director

Approval of a Change in the Fixed Income Fund Offered by the Deferred Compensation Plan

Dear Sir:

The Investment Policy for the Deferred Compensation Plan provides guidance regarding the types of investment options to be offered under the plan. It also gives the Deferred Compensation Committee (Committee) authority to periodically evaluate the performance of the funds offered by the plan and recommend changes to the investment options when necessary. The Committee meets with its investment advisor, Segal Rogerscasey, semi-annually to review the performance of each fund in the line-up. The Committee may also request the review of a fund at any time if it determines there has been an extraordinary event (i.e., manager change, ownership change, change in fund style, portfolio turnover, or regulatory violation) that warrants a closer look.

On September 26, 2014, mutual fund company PIMCO announced that its CIO, Bill Gross, had resigned and left the firm. In addition to being the CIO at PIMCO, Bill Gross was also the fund manager of the PIMCO Total Return Fund. This fund is included in the Deferred Compensation Plan as an investment option in the bond category. Segal Rogerscasey issued an alert to clients on September 29, 2014 stating that PIMCO would be placed on a watch list and would not be recommended in any new fund searches until further notice. Segal had concerns about the manager change and other organizational changes taking place at PIMCO and possible liquidity issues if investors began to move assets out of the PIMCO funds. Segal notified the District that it would research other fund options the District could consider in the bond category.

At the Committee meeting on February 24, 2015, Segal presented the results of its fund search to replace the PIMCO Total Return Fund. There were three funds that met the search parameters: the Dodge and Cox Income Fund, the TCW Core Fixed Income Fund and the Western Asset Core Bond Fund. The Investment Policy outlines the factors that would be considered in the actual selection of the new fund. These include performance data, historical statistics, peer group and benchmark comparisons, adherence to investment style and fees. These funds were analyzed based on these factors.

After a review of the Segal research, the Committee recommends that the Dodge and Cox Income Fund replace the PIMCO Total Return Fund as the bond option for the plan. The historical performance of this fund was exceptional, with its rate of return placing it in the top quartile of its peer group over the 1, 3, 7 and 10-year time periods. It also beat its benchmark, the Barclays US Aggregate, in each of those periods. It has performed very well in down markets, providing strong downside protection to investors. It has the lowest expense ratio (0.43%) of the recommended options and is slightly lower than the current PIMCO fund. The fund has a very stable management team with an average tenure of more than 18 years. For these reasons, the Deferred Compensation Committee recommends the Dodge and Cox Income Fund be selected as the replacement for the PIMCO Total Return Fund.

It is respectfully requested that the Board of Commissioners authorize and direct the Deferred Compensation Committee to take the actions necessary to effect the recommended revisions to the fund line-up outlined above.

Respectfully Submitted, Frank Avila, Chairman Deferred Compensation Committee; Mary Ann Boyle, Treasurer; Denice E. Korcal, Director of Human Resources

Disposition of this agenda item will be documented in the official Regular Board Meeting Minutes of the Board of Commissioners for March 19, 2015