



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 JUNE 4, 2015

COMMITTEE ON PENSION, HUMAN RESOURCES & CIVIL SERVICE

Mr. David St. Pierre, Executive Director

Authority to Amend the Investment Policy for the Metropolitan Water Reclamation District of Greater Chicago Deferred Compensation Plan and Trust, effective June 4, 2015

Dear Sir:

The Investment Policy for the District's Deferred Compensation Plan and Trust (Plan) was first adopted in 1999, and has undergone several revisions over the years. Segal Advisors (Segal) currently serves as the investment consultant for the Plan and assists the Deferred Compensation Committee (Committee) in its periodic review of the investment policy. Any recommended changes to the policy are brought to the Board of Commissioners, as Trustees of the Plan, for approval.

In 2014 Segal completed a review of the investment policy for the Plan and has recommended some changes to the Committee. The first recommendation made by Segal is related to the investment option categories included in the investment policy. The investment policy currently divides the investment options into very specific categories, particularly in the equity category. For example, equity categories include a Large Cap Value Equity Option, a Large Cap Growth Equity Option and a Large Cap Index Equity Option. These options repeat for the mid cap and small cap categories. There is also an international equity category and categories for stable value, bond and balanced options. There are 13 investment categories in total listed in the investment policy. Segal believes that this number is too large and that these categories are unnecessarily narrow. These narrower categories limit the Committee's flexibility in building the fund line-up. Segal recommends the use of broader investment categories such as: Stable Value, Fixed Income, Balanced, U.S. Equity and International Equity. Appendix A shows a comparison of the current categories and the new categories recommended by Segal. These new categories allow the Committee to select the best investment options available across these broader categories without unnecessarily inflating the number of options available in the fund line-up. It will also eliminate duplication in the available fund options, allowing participants to better diversify their investments.

Another recommendation made by Segal was the addition of a separate section to describe the lifecycle (target-date) fund option offered by the Plan. Although the investment policy details the various fixed income and equity categories that will be offered through the Plan, it does not specifically mention the inclusion of lifecycle funds in the investment line-up. A lifecycle mutual fund invests in a combination of underlying equity and fixed income mutual funds. It can be described as a "fund of funds." These funds are designed to adjust investment strategy based on the targeted retirement date of the employee. The employee would select a lifecycle fund whose "maturity date" matches the employee's anticipated retirement date. The fund reallocates its investments over time to be more conservative as the retirement date approaches. The addition of a series of lifecycle funds was approved by the Board of Commissioners on July 14, 2011. Segal has recommended that a separate section in the investment policy be dedicated to lifecycle funds to specify the objectives and performance standards for these investment options.

Finally, Segal recommended some clarification to the "Fund Governance" section of the investment policy. This section provides the objectives of the Committee in determining the selection of investment options for the Plan. It describes the general criteria that each investment option will meet. Segal has recommended the criteria include: maintain asset management fees that are reasonable and consistent with the industry; operate in full accordance with its current published prospectus or "fact sheet," and have its performance results measured against the applicable performance standards described herein for that investment category. These are included in the current criteria, in addition to evaluation of the fund manager's tenure and how the investment addresses rapid trading or market timing issues. While Segal believes these additional criteria are important considerations, they are addressed in the "Periodic Investment Fund Evaluation" section of the policy and therefore are not necessary here. To further clarify this, Segal is recommending the addition of language to this section making reference to the fund evaluation procedures and the ability of the Committee to replace an investment option should it no longer meet these criteria. The addition reads as follows: "If the Committee determines an investment option no longer meets the performance standards, it may replace that option with a suitable alternative pursuant to the investment fund evaluation procedure outlined herein."

The Deferred Compensation Committee requests that the Board of Commissioners, as Trustee for the Plan, approve the revisions described above to the Investment Policy (attached) for the Metropolitan Water Reclamation District of Greater Chicago Deferred Compensation Plan and Trust.

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 June 4, 2015

Attachments