Callan

Forest Preserve District Employees' Annuity and Benefit Fund of Cook County

Performance Summary

June 30, 2016

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Table of Contents

General Market and Economic Conditions

The second quarter was reasonably uneventful and markets were relatively placid until June 23rd, when British voters narrowly approved the Brexit referendum. Investor complacency was replaced with shock, and markets reacted fiercely. Volatility spiked, global bond yields fell sharply, the pound hit a 31-year low with a record intra-day swing of more than 10%, stock markets plunged, and gold surged. Two trillion dollars were erased from global equity markets in one day, marking the largest daily loss ever. While markets stabilized to some degree in ensuing days, much uncertainty remains around this unexpected outcome. Following the vote, the UK was downgraded by S&P and Fitch to AA and while the full implications of this decision will be unknown for some time, economic conditions in the UK are widely expected to deteriorate with monetary easing likely sometime this summer.

While Brexit took a near-term Fed hike off the table, the US economy appeared to gain some momentum after a sluggish first quarter. First quarter GDP was revised to +1.1% from +0.8%, but remained weaker than the +2.4% rate in 2015. Retail sales rose 0.5% in May following a 1.3% jump in April and housing remained a bright spot with existing home sales up 4.5% in May, the highest since 2007. Manufacturing continued to strengthen following last quarter's weakness. The ISM Composite Index of manufacturing activity increased to 53.2 marking a 16-month high. However, inflation remained tame with the Fed's favored measure, the Personal Consumption Expenditures (PCE) Index up only 0.9% year-over-year through May. Core CPI (ex-Food & Energy) was also benign at +2.2% year-over-year. In stark contrast to most economies overseas, the Atlanta Fed predicts a healthy +2.7% GDP print for the second quarter of 2016.

At the June meeting *(prior to the Brexit vote)*, the FOMC opted to leave rates unchanged given worries over a surprisingly weak labor report in May and amid an uncertain global economic picture. While a June rate hike seemed plausible in May, the employment report results released in early June was unexpected. For example, non-farm payrolls increased by only 38,000, which was the smallest since 2010 and well below estimates for a gain of 155,000. Given a shrinking labor force participation rate (62.6%), the unemployment rate actually fell to 4.7%. The Fed's most recent "dot plot" continues to imply two rate hikes in 2016, but the number of hikes expected in 2017 and 2018 was modestly reduced. Further, longer-term projections for the Fed Funds rate came down from 3.25% to 3.0%.

While Brexit was the main event during the quarter, continued efforts by the European Central Bank to stimulate euro zone economies should not go unnoticed. As a part of its asset purchase program, the ECB began buying corporate bonds on June 8 and had invested nearly €5 billion as of quarter-end, including purchases from troubled issuers such as Volkswagen and Telecom Italia.

Global bond yields across many developed markets also hit all-time lows. The yield on the German 10-year bund for example closed the quarter at -0.13%. In Switzerland, the entire stock of government debt now trades at negative yields, and negative-yielding government debt swelled to nearly $12 trillion in the wake of the results of the referendum. The average yield on investment grade European corporate debt dropped to less than 1%, a record low, according to data from BofA Merrill Lynch.

While Japan posted a relatively strong first quarter GDP number (+1.9%), the country faces growing challenges amid a strengthening yen and 2% inflation goal. Japanese core consumer prices fell 0.4% in May (year-over-year), the biggest drop since April 2013.

Second Quarter 2016 Market Performance

Following the Brexit outcome, US equity benchmark performance remained volatile, but positive for the quarter. The S&P 500 staged a strong recovery in the wake of the sharp Brexit-related decline in late June, and closed up 2.5% for the quarter. At quarter end, the S&P 500 Index stood just 1.5% below its all-time high (May 21, 2015). Mid and small capitalization stocks outperformed by a modest margin in the quarter as the Russell Mid Cap gained 3.2% and the Russell 2000 rose 3.8%. Value indices exceeded Growth indices across market capitalizations. The largest difference was in large caps as the Russell 1000 Value outperformed its growth index counterpart by 4.0%.

The excess return of value over growth was largely attributable to sector performance. The two largest growth sectors, Technology (29% of the Russell 1000 Growth Index) and Consumer Discretionary (21%) were the only two sectors to post negative returns in the quarter. The two sectors were down 2.8% and 0.9%, respectively. Conversely, Energy, with a 14% weight in the Russell 1000 Value Index and minimal representation in the Growth Index, was the strongest performing sector, up 12%. Interest rate-sensitive sectors such as Utilities and Telecom, more prominently represented in value indices, benefited from the sharp decline in interest rates and were up roughly 7% for the quarter. Financials (+2.1%) nearly matched the S&P 500 return, a positive considering the impact of Brexit on most large UK banks. Barclays, Royal Bank of Scotland and Lloyds Banking Group all posted sharp declines; -12%, -26% and -22%, respectively. REITs (+7.4%) benefited from the decline in interest rates and US economic stability.

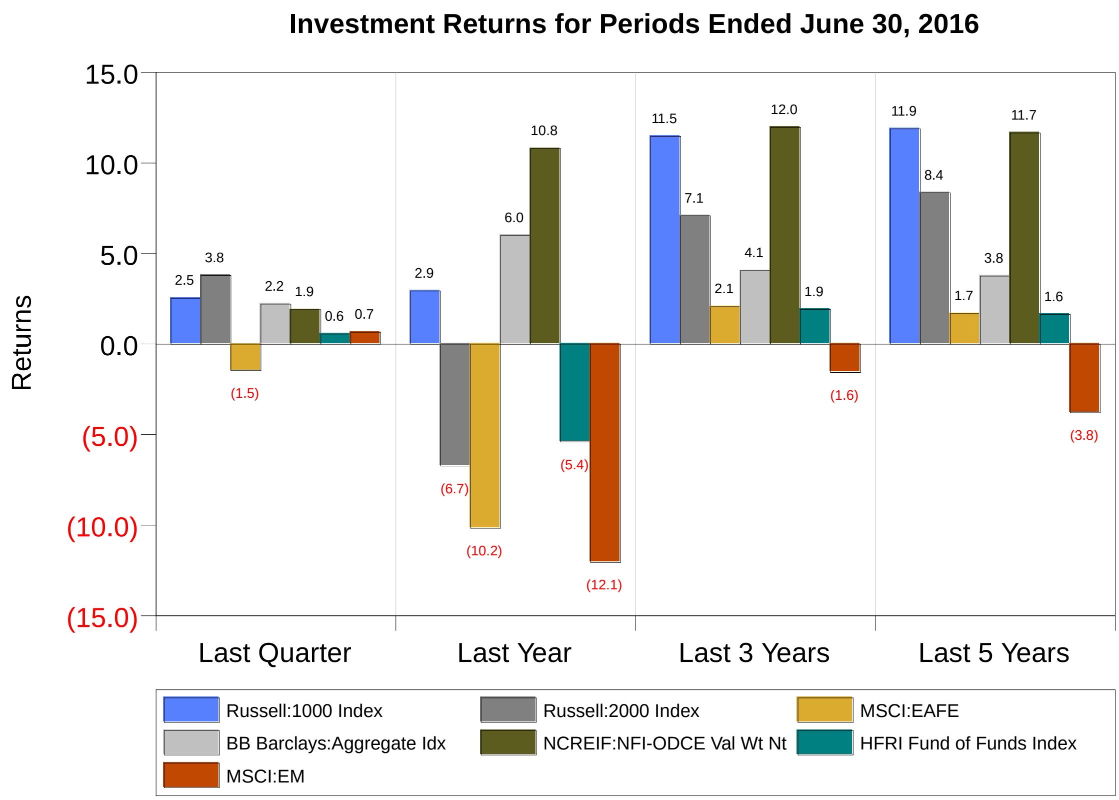
International developed markets returned -1.5% return (MSCI EAFE Index) while emerging markets held on to post a +0.7% (MSCI Emerging Markets Index). Switzerland was the strongest performing European country (+2%) while Italy (-10%) and Spain (-8%) were among the worst performers. Canada (+3.4%) was the best performing country in the EAFE. Year-to-date, emerging markets have outperformed both international developed and US stocks yet maintain a price-to-book value near the financial crisis low. Among the emerging markets, commodity producers such as Brazil (+14%) and Russia (+4%) benefited from the rebound in oil prices.

Interest rates were range-bound for much of the quarter, but fell sharply after the surprise outcome from the referendum in the UK. The 10-year US Treasury yield approached record lows, closing the quarter at 1.49%, nearly 30 bps lower than the first quarter and nearly 80 bps below the 2015 year-end level. The 10-year Treasury returned 3.0% for the quarter and is up nearly 8% year-to-date. The Barclays Aggregate Index gained 2.2%, bringing its 2016 year-to-date result to +5.3%. Long duration assets posted double-digit returns with the Barclays Long US Government/Credit +6.6% for the quarter and +14.3% for six months. Given strong performance in April, high yield was the best performer for the quarter as the Barclays High Yield Index returned +5.5% for the quarter and is up 9.1% thus far year-to-date.

Real estate gained 1.91% during the second quarter as measured by the preliminary return of the NFI-ODCE Index during the second quarter, comprised of a 0.90% income return and 1.01% appreciation return. Publicly traded U.S. REITS as measured by the FTSE NAREIT Equity Index rallied returned 6.96% as rate-hike expectations eased and commercial real estate fundamentals remained constructive. Private real estate was not immune to the effects of volatility as year to date transaction volume was down approximately 16% year over year. The U.S. real estate market has become increasingly attractive and has captured nearly 30% of global capital allocations in 2016.

Hedge funds eked out modest gains amid the disorder caused by Brexit. The HFRI Index returned 0.6% for the quarter. The Credit Suisse Hedge Fund Index (CS HFI) gained 0.59% while the median manager in the Callan Hedge Fund-of-Funds Database edged ahead at 0.78%, net of fees.

As measured by the CS Hedge Fund Indices, returns across the underlying strategies were varied. The strongest performers were Convertible Arbitrage (+2.65%), Event-Driven Multi-Strategy (+2.24%) and Distressed (+1.95%). Global Macro generated a modest 0.71% during the quarter. Short Bias managers trailed (-6.32%) while Equity Market Neutral managers (-3.17%) were caught flat-footed by the shifting risk appetites surrounding the Brexit. The average Long/Short equity fell (-1.21%) and trailed the S&P 500 Index (+2.46%) for the third consecutive quarter.



Domestic equities as measured by the Russell Indices were positive for the quarter. Developed non-U.S. equity markets were negative (MSCI EAFE) while emerging markets posted positive returns (MSCI EM). Fixed income, real estate, and hedge funds were also positive as measured by the representative market indices.

The Callan Periodic Table of Investment Returns
Second Quarter 2016

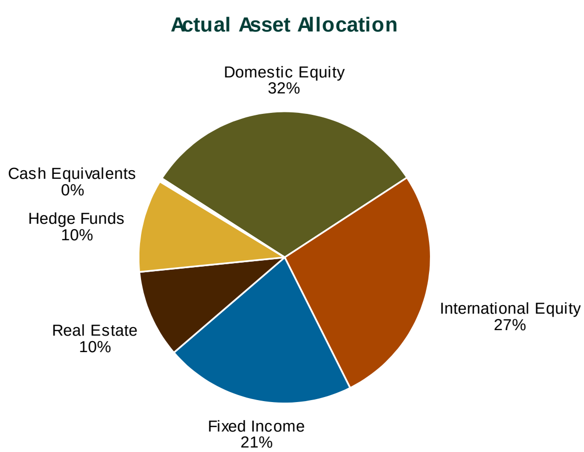
2007	2008	2009	2010	2011	2012	2013	2014	2015	2 Qtrs. 2016
MSCI:EM 39.4%	BC Aggregate 5.2%	MSCI:EM 78.5%	Russell:2000 Index 26.9%	NCREIF:NFI-ODCE Val Wt Nt 15.0%	MSCI:EM 18.2%	Russell:2000 Index 38.8%	Russell:1000 Index 13.2%	NCREIF:NFI-ODCE Val Wt Nt 14.0%	MSCI:EM 6.4%
NCREIF:NFI-ODCE Val Wt Nt 14.8%	NCREIF:NFI-ODCE Val Wt Nt (10.7%)	MSCI:EAFE 31.8%	MSCI:EM 18.9%	BC Aggregate 7.8%	MSCI:EAFE 17.3%	Russell:1000 Index 33.1%	NCREIF:NFI-ODCE Val Wt Nt 11.5%	Russell:1000 Index 0.9%	BC Aggregate 5.3%
MSCI:EAFE 11.2%	HFRI Fund of Funds Index (21.4%)	Russell:1000 Index 28.4%	Russell:1000 Index 16.1%	Russell:1000 Index 1.5%	Russell:1000 Index 16.4%	MSCI:EAFE 22.8%	BC Aggregate 6.0%	BC Aggregate 0.5%	NCREIF:NFI-ODCE Val Wt Nt 3.9%
HFRI Fund of Funds Index 10.3%	Russell:2000 Index (33.8%)	Russell:2000 Index 27.2%	NCREIF:NFI-ODCE Val Wt Nt 15.3%	Russell:2000 Index (4.2%)	Russell:2000 Index 16.3%	NCREIF:NFI-ODCE Val Wt Nt 12.9%	Russell:2000 Index 4.9%	HFRI Fund of Funds Index (0.3%)	Russell:1000 Index 3.7%
BC Aggregate 7.0%	Russell:1000 Index (37.6%)	HFRI Fund of Funds Index 11.5%	MSCI:EAFE 7.8%	HFRI Fund of Funds Index (5.7%)	NCREIF:NFI-ODCE Val Wt Nt 9.8%	HFRI Fund of Funds Index 9.0%	HFRI Fund of Funds Index 3.4%	MSCI:EAFE (0.8%)	Russell:2000 Index 2.2%
Russell:1000 Index 5.8%	MSCI:EAFE (43.4%)	BC Aggregate 5.9%	BC Aggregate 6.5%	MSCI:EAFE (12.1%)	HFRI Fund of Funds Index 4.8%	BC Aggregate (2.0%)	MSCI:EM (2.2%)	Russell:2000 Index (4.4%)	HFRI Fund of Funds Index (2.6%)
Russell:2000 Index (1.6%)	MSCI:EM (53.3%)	NCREIF:NFI-ODCE Val Wt Nt (30.4%)	HFRI Fund of Funds Index 5.7%	MSCI:EM (18.4%)	BC Aggregate 4.2%	MSCI:EM (2.6%)	MSCI:EAFE (4.9%)	MSCI:EM (14.9%)	MSCI:EAFE (4.4%)

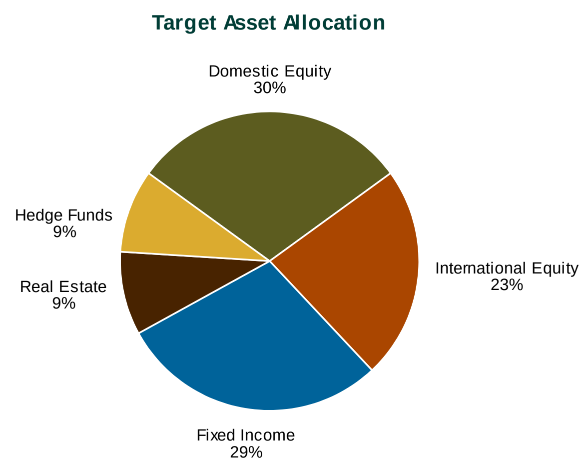
Forest Preserve Commentary

Asset Allocation

The portfolio value at the end of June was $188.87 million, representing a net increase of $38.77 thousand from the prior quarter end. Investments returned $3.39 million for the quarter while net cash outflows to fund benefit payments were $3.35 million.

Currently, the portfolio's assets are underweight to fixed income and overweight to the other asset classes.





Forest Preserve Performance vs. Target

The portfolio has finished ahead of its benchmark return and finished in the top quartile of its peer universe over the last three- and five-year periods. Over these periods, the portfolio has generated annualized returns of 7.47% and 7.62%, respectively. These returns exceed those of its custom benchmark by 1.17% and 1.29%, respectively. Active management in the equity, fixed income and hedge fund asset classes have provided a positive contribution to outperformance.

During the volatile second quarter, the portfolio generated a return of 1.81%. The portfolio outpaced its benchmark by 0.19% and ranked in the 37th percentile of its peer universe. In the last year, the portfolio trailed its benchmark, but outperformed the median fund in its peer universe.

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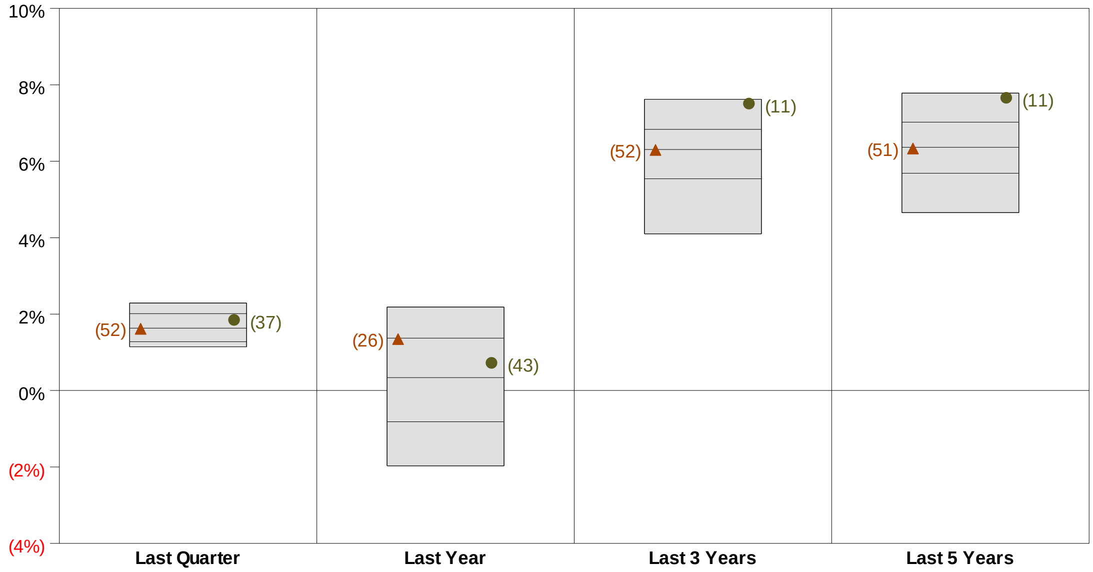
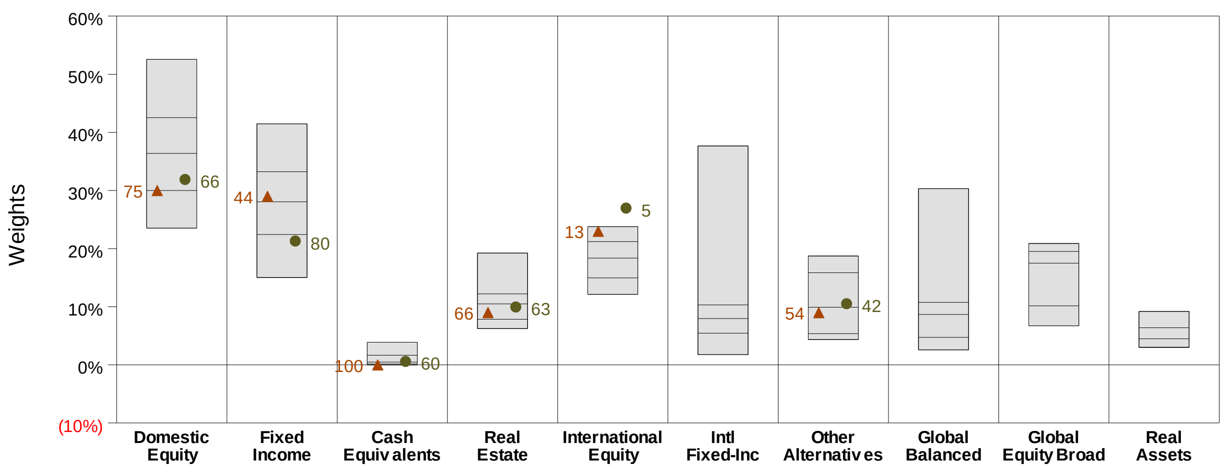
Performance Evaluation Executive Summary
Second Quarter 2016

Performance vs CAI Public Fund Sponsor - Mid (100M-1B) (Gross)



	Last Quarter	Last Year	Last 3 Years	Last 5 Years
10th Percentile	2.29	2.18	7.62	7.78
25th Percentile	2.01	1.37	6.83	7.02
Median	1.63	0.34	6.31	6.37
75th Percentile	1.28	(0.81)	5.54	5.69
90th Percentile	1.15	(1.97)	4.10	4.66
Total Forest Preserve Fund ●	1.81	0.69	7.47	7.62
Total Fund Benchmark ▲	1.62	1.35	6.30	6.33

Asset Class Weights vs CAI Public Fund Sponsor - Mid (100M-1B)



	Domestic Equity	Fixed Income	Cash Equivalents	Real Estate	International Equity	Intl Fixed-Inc	Other Alternatives	Global Balanced	Global Equity Broad	Real Assets
10th Percentile	52.58	41.48	3.89	19.25	23.77	37.67	18.72	30.32	20.89	9.21
25th Percentile	42.53	33.22	1.65	12.22	21.20	10.33	15.86	10.76	19.51	6.39
Median	36.39	28.06	0.49	10.48	18.38	7.97	9.91	8.68	17.50	4.48
75th Percentile	29.99	22.43	0.16	7.85	14.98	5.46	5.38	4.74	10.15	3.05
90th Percentile	23.53	15.03	0.01	6.24	12.15	1.77	4.36	2.59	6.73	3.00
Fund ●	31.68	21.10	0.38	9.75	26.76	-	10.33	-	-	-
Target ▲	30.00	29.00	0.00	9.00	23.00	-	9.00	-	-	-

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Performance Evaluation Executive Summary
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Table 1.1
Asset Class Performance vs. Target

	Market Value $(Dollars)	Ending Weight	Last Quarter	Last Year	Last 3 Years	Last 5 Years
Domestic Equity	**$59,837,408**	**31.68%**	**2.37%**	**0.59%**	**11.22%**	**11.64%**
Domestic Equity Benchmark (2)	-	-	2.79%	1.67%	10.78%	11.54%
International Equity	**$50,543,124**	**26.76%**	**(0.13%)**	**(6.70%)**	**5.77%**	**5.57%**
MSCI ACWI ex US	-	-	(0.64%)	(10.24%)	1.16%	0.10%
Fixed Income	**$39,853,864**	**21.10%**	**2.11%**	**6.00%**	**4.20%**	**3.68%**
Fixed Income Benchmark (3)	-	-	2.21%	6.00%	4.06%	3.66%
****Real Estate**	**$18,408,478**	**9.75%**	**4.01%**	**13.98%**	**9.73%**	**11.53%**
NFI-ODCE Value Weight Net	-	-	1.91%	10.80%	11.97%	11.66%
****Hedge Funds**	**$19,506,099**	**10.33%**	**2.57%**	**(1.22%)**	**5.36%**	**-**
LIBOR + 4%	-	-	1.14%	4.49%	4.33%	-
HFRI Fund of Funds Index	-	-	0.56%	(5.40%)	1.92%	1.63%
Cash Equivalents	**$718,804**	**0.38%**	**0.08%**	**0.29%**	**0.17%**	**0.16%**
3-month Treasury Bill	-	-	0.07%	0.19%	0.09%	0.09%
Total Forest Preserve Fund	**$188,867,778**	**100.00%**	**1.81%**	**0.69%**	**7.47%**	**7.62%**
Total Fund Benchmark (1)	-	-	1.62%	1.35%	6.30%	6.33%

**Represents trailing data.

Definitions for custom benchmarks can be found on the back page

Table 1.1 illustrates the portfolio's asset class performance versus associated benchmarks. The portfolio's domestic equity allocation, trailed its benchmark in the last quarter and 12 month period due to allocation to smaller cap securities. For the longer periods, active management in the small cap equities drove the outperformance.

The portfolio's international equity allocation has significantly outperformed the composite passive index for all the periods measured above. In the past five years, the international equity allocation exceeded the passive benchmark index by over 5.4% per annum.

In the last five years, the fixed income allocation posted a similar return to the Barclays Aggregate Index which is comprised of U.S. investment grade securities.

Real estate has been the best performing asset class over the last five years with annual returns in excess of 11.5%. The real estate allocation is comprised of investments in public real estate securities (REITS) and private real estate. The REIT allocation has added significantly to performance in the last quarter.

The portfolio's hedge fund allocation outperformed its absolute return benchmark for the last quarter, and finished ahead of the benchmark for the last three years. During each period appearing above, the portfolio has significantly outdistanced hedge fund peers as measured by the HFRI Fund of Funds Index.

Notes and Observations
The portfolio continued its diversification with the additional funding of an open-ended core real estate fund in the last year.

Notes

1. **Total Fund Benchmark:** Blend of asset class benchmarks at policy weights. Second Quarter 2016 benchmark: 29.0% Barclays Aggregate Index, 9.0% Russell 2500 Index, 21.0% S&P 500, 23.0% MSCI ACWI ex US, 9.0% Libor-3 Month+4.0%, and 9.0% NFI-ODCE Value Weight Net.

2. **Domestic Equity Benchmark:** Blend of 21.0% S&P 500 and 9.0% Russell 2500 Index. Previously, blend of 25.0% S&P 500, 5.0% Russell 2000 Value, 7.5% Russell 1000 Growth, and 7.5% Russell 1000 Value through 12/31/12.

3. **Fixed Income Benchmark:** Barclays Aggregate; previously blend of 30.0% Barclays Aggregate,10% Barclays Gov/Credit Intermediate through 12/31/2012.