MEETING OF THE INVESTMENT COMMITTEE OF THE RETIREMENT BOARD OF THE COUNTY EMPLOYEES' AND OFFICERS' ANNUITY AND BENEFIT FUND OF COOK COUNTY AND EX OFFICIO FOR THE FOREST PRESERVE DISTRICT EMPLOYEES' ANNUITY AND BENEFIT FUND OF COOK COUNTY
70 W Madison St, Room 230
Chicago, Illinois 60602

Minutes for the January 25, 2022, IC Meeting

CONDUCTED BY VIDEO CONFERENCE AS PERMITTED BY THE ILLINOIS GOVERNOR'S JANUARY 7, 2022 DISASTER PROCLAMATION as well as the PROVISIONS OF PUBLIC ACT 101-0640

The County Employees' and Officers' Annuity and Benefit Fund of Cook County and the Forest Preserve District Employees' Annuity and Benefit Fund of Cook County Fund are herein collectively referred to as the "Fund."

Call to Order and Roll Call at 9:30 a.m.

Investment Committee Members in attendance:	Mr. Kevin Ochalla (Chair), Mr. John Blair, Mr. Stephen Hughes, Mr. Patrick McFadden, Mr. Joseph Nevius, Ms. Tracy Reed, Mr. Lawrence Wilson
Staff Present:	Regina Tuczak, Executive Director; Michael Maratea, Director, Finance and Administration; Gary LeDonne, Director, Benefits Administration; Fernando Vinzons, Director, Investments; Virgilio Calahong, Senior Investment Analyst; Jodi Weinstein, Jr. Systems Administrator
Others Present:	John Jackson, Callan LLC; Jay Kloepfer, Callan LLC; Ann O'Bradovich, Callan LLC; John Pirone, Callan LLC; Ronan O'Brien, FIN News; Kevin Balaod, Pageant Media

Trustee Ochalla, Chair of the Investment Committee, presided over the meeting. He stated that a quorum of the Committee was present, three in-person and four participating via video or audio conference pursuant to the guidance provided most recently by the Governor's January 7, 2022 Disaster Proclamation, as well as the provisions of Public Act 101-0640.

Public Comment
Mr. Ochalla opened the meeting for public comment and, with no one having requested to address the Committee, considered the next item of business on the agenda.

1. Review and Approval of November 21, 2021, Investment Committee Meeting Minutes

Motion for Approval and Adoption of Minutes. It was moved by Trustee Blair and seconded by Trustee Reed that the minutes of the November 21, 2021, Investment Committee meeting be approved and adopted.

Roll Call Vote:	
AYES:	Blair, Hughes, McFadden, Nevius, Ochalla, Reed, Wilson
NAYS:	None
Vote Result:	MOTION ADOPTED

2. Asset Liability Study Presentation and Possible Recommendation

Cook County Fund

Ms. O'Bradovich of Callan LLC prefaced the discussion with an overview of the goals and objectives of the asset-liability study. She noted that the study quantifies the impact that different asset allocation policies have on expected return, risk, and funded ratio under three scenarios:

a) **Statutory Funding Policy -** 1.54x Employees Contribution (lagged 2 years)
b) **Statutory Funding Policy plus supplementary contribution under the Intergovernmental Agreement ("IGA")** – Seeks to supplement the current statutory funding to achieve 100% funding target for pension benefits by 2045
c) **Proposed Board Legislation** – Targets 90% funding for both the pension and retiree health benefits by 2064

She continued with a recap of the Fund's previous asset-liability study, Callan's methodology for conducting such studies, and an executive summary, stating that the investment program cannot generate sufficient return to prevent depletion of assets under the Statutory Funding Policy. However, funding via the IGA or the Board Proposal would improve expected funded status and relieve net cash outflows. Liquidity is an ongoing concern, as benefit payments are a high percentage of Fund assets, but the projected net cash outlay would be lower under either the IGA or Board Proposal. Current asset policy is consistent with the need for continued growth while monitoring liquidity needs. This has implications for new private equity commitments, which are reviewed each year in consideration of continued IGA contributions.

Current policy has an expected return of 5.67% over the next 10 years, lower than the long-term actuarially-assumed return of 7.25%, which is based on a timeframe longer than 10 years. Ms. O'Bradovich noted that alternative asset policies may be considered under the IGA or Proposed Board Legislation. Either is considered the optimistic case and would enable the Investment Committee to consider increased allocations to private equity and diversifying strategies such as private credit or infrastructure. Statutory Funding is considered the base case and the Fund would need to discontinue new commitments to private strategies and focus on liquid strategies.

Mr. Pirone continued the discussion with an overview of the Fund's liability model and key actuarial assumptions. He drew attention to improved funding status and net cash outflows under either the IGA or Board Proposal. He then discussed different asset mix alternatives, stressing the importance of liquidity and the trade-off between risk and return for different asset allocation mixes. He stressed that the Fund requires a growth-oriented portfolio to meet the needs of participants, and that further diversification of growth assets is a reasonable consideration. He then presented a range of alternative asset mixes for consideration. In discussing the mixes, Mr. Pirone outlined the potential range of outcomes and risks over the next 10 years.

In discussing the alternatives, he noted that the Fund can accommodate the current level of illiquid asset exposure, or increase it a few percentage points, if the IGA or Board Proposal contributions are made over the forecasted horizon. Should this new allocation be adopted, the Fund would have to conduct searches for new asset classes such as private credit and infrastructure, develop a transition plan for implementation, and conduct manager structure review for public equities and fixed income. However, if the Committee believes the Statutory Funding scenario is more likely, then Callan would recommend an approach that would include maintaining the current asset allocation policy, discontinuing new commitments to private investments, reconsidering use of hedge funds, increasing liquidity within each asset class, reconsidering the risk/reward trade off of the growth orientation, and examining the role of active vs. passive management.

<u>Forest Preserve District Fund</u>

Ms. O'Bradovich noted that the Forest Preserve Fund has only two potential funding scenarios, due to the absence of an Intergovernmental Agreement (IGA):

a) **Statutory Funding Policy -** 1.30x Employees Contribution (lagged 2 years)
b) **Proposed Board Legislation** – Targets 90% funding for both the pension and retiree health benefits by 2064

Like the Cook County Fund, the Forest Preserve Fund's investment program is also not sufficient to prevent eventual asset depletion under the Statutory Funding policy. However, the Board Proposal would improve expected funding status and relieve net cash outflows. The base case assumes Statutory Funding only, and would require the Fund to focus on liquid public market strategies. The optimistic view assumes funding under the Board Proposal and would give the Investment Committee the opportunity to maintain a growth-oriented policy and consideration of illiquid strategies to increase expected return.

Mr. Pirone continued the conversation with an overview of the Fund's liability model and key actuarial assumptions. He drew attention to improved funding status and net cash outflows under the Board Proposal. He then discussed different asset mix alternatives, stressing the importance of liquidity and the trade-off between risk and return for different asset allocation mixes. He stressed that the Fund requires a growth-oriented portfolio to meet the needs of participants, and that further diversification of growth assets is a reasonable consideration, but that any allocation to illiquid assets merits reconsideration. He then presented a range of alternative asset mixes for consideration. In discussing the mixes, Mr. Pirone outlined the potential range of outcomes and risks over the next 10 years.

In discussing the alternatives, he noted that under either the Statutory or Board Proposal funding policies, the Fund would need substantial exposure to growth assets in order to meet future benefit obligations and funding goals. Statutory Funding is expected to result in pay-as-you-go by 2041, regardless of asset mix. However, the Board Proposal would relieve the Fund of the threat of depletion of assets and reduces annual cash flow needs substantially in later years of the projection. Callan's recommended asset allocation changes are applicable to both the Statutory Funding and Board Proposal funding scenarios, as it addresses the needs for higher expected returns and increased liquidity, albeit with somewhat higher risk.

The Committee noted that an Actuarial Experience Study is expected to be presented at the next Retirement Board meeting on February 3, 2022. Ms. Tuczak noted that the investment rate of return assumption will be discussed as part of the study results. Chairman Ochalla indicated that the Committee will further evaluate the investment mix alternatives presented after the Board has had an opportunity to review the Experience Study results, most notably the recommendations surrounding any changes to the assumed investment rate of return.

3. Adjournment.

It was moved by Trustee Blair and seconded by Trustee Reed that the meeting be adjourned.

Vote Result: MOTION ADOPTED UNANIMOUSLY BY VOICE VOTE