

COOK COUNTY/FOREST PRESERVE
ANNUITY AND BENEFIT FUND
EMERGING MANAGER INVESTMENT SUB-COMMITTEE MEETING

REPORT OF PROCEEDINGS conducted by video conference of the
above entitled meeting, held at 70 West Madison Street, Suite
230, in the City of Chicago, County of Cook, State of Illinois,
on Thursday, November 5, 2020, commencing at the hour of 8:30
a.m.

APPEARANCES

TRUSTEES:

LAWRENCE L. WILSON, President
DIAHANN GOODE, Secretary
JOHN BLAIR
STEPHEN HUGHES
JOSEPH NEVIUS
KEVIN OCHALLA

STAFF:

REGINA TUCZAK, Executive Director
MARGARET FAHRENBACH, Legal Advisor
CAROLINE VULLMAHN, Deputy Executive Director
MICHAEL MARATEA, Director of Finance and Administration
FERNANDO VINZONS, Director of Investments
VIRGILIO CALAHONG, Senior Investment Analyst

ALSO PRESENT:

CALLAN ASSOCIATES

JOHN JACKSON
ANN O'BRADOVICH

RONAN O'BRIEN

GAR CHUNG

TRUSTEE GOODE: Can I have a motion for Trustee Ochalla to participate virtually? Can he hear us now?

TRUSTEE OCHALLA: I can.

TRUSTEE WILSON: I move that Trustee Ochalla be allowed to participate remotely, consistent with the Governor's Executive order, which is permitted, I won't read the order verbatim because of time but will be put in the minutes.

TRUSTEE BLAIR: I'll second that.

TRUSTEE GOODE: All in favor?

(Chorus of ayes.)

TRUSTEE GOODE: Any opposed?

(No nays.)

TRUSTEE GOODE: Motion passes.

I hereby convene the Emerging Manager Investment Sub-Committee Meeting of Cook County and Forest Preserve District Annuity and Benefit Fund Board of Trustees for Thursday, November 5th, 2020.

Because of the uncertainty surrounding the COVID-19 pandemic, the Board is adhering today to the guidance provided most recently by the Governor's October 16, 2020, Disaster Proclamation, the Governor's Executive Order Number 59, as well as the provisions of Public Act 101-0640. There may not be a quorum of the committee members physically present at the meeting location. Some trustees however are present at the

public meeting location as is the Executive Director and Fund counsel. The remaining committee members will participate by video conference as allowed by the Governor's Executive Orders.

For the public, for the record the public has received notice of this meeting and their ability to participate by video conference or to be physically present at the meeting. In addition, the Fund is recording the meeting and a transcript of the proceedings will further after future approval by the Board, be made available on the Fund's website.

Thank you.

We have a quorum today for today's committee meeting.

Do we have any public comment?

No public comment. We will proceed with review and approval of June 20th, 2018 Emerging Manager Investment Sub-Committee Meeting minutes.

TRUSTEE NEVIUS: Move approval.

TRUSTEE BLAIR: Second.

TRUSTEE GOODE: All in favor?

(Chorus of ayes)

Any opposed?

MS. TUCZAK: Excuse me, one matter, I'm sorry to interrupt. I just want to make sure from a technical perspective, since Trustee Blair is not on the committee, can he second a motion? I don't know that he can second the motion.

TRUSTEE Wilson: No you are right, he is not on committee.

TRUSTEE Blair: You're right.

MS. TUCZAK: My apologies to interrupt.

TRUSTEE BLAIR: No, it's good.

TRUSTEE WILSON: So Goode and Trustee Nevius was second.

TRUSTEE GOODE: Well, he's first for the minute.

TRUSTEE WILSON: Oh, I second. I beg your pardon.

MS. TUCZAK: Thank you

MR. VINZONS: Duly noted.

TRUSTEE GOODE: All in favor?

(Chorus of ayes)

TRUSTEE GOODE: Any opposed?

Motion passes. Next item is the Emerging manager portfolio and utilization review.

MR. VINZONS: So, I'll take over.

Turning to the presentation that we sent out that's in your packet for today's agenda I'm going to go over, turning to page two, the agenda is to provide a brief review of the portfolio and then we'll review the state of the manager of managers industry now that Progress is closed and what implications that may have for us in terms of our minority utilization. And then, we'll talk about some ideas on how we can bring our utilization numbers back up.

Overall, I think the story today is that I can say that we've got a very successful program. The seeds that we planted years ago are now starting to bear fruit and we're harvesting that. But again, we'll go into this but our numbers have gone down because of several factors that are outside of our control, so we'll, we'd like to, and I'd like to discuss some ideas on how to bring those numbers back up.

Page 3, presents an overall summary of the portfolio. We used to have a very healthy direct and indirect portfolio, but because of the closure of Progress, most of our over 1.3 billion in assets with emerging managers are now direct. We have a little bit of indirect with Mesirow's private equity portfolio and I'll talk a little bit about that later on too. Not included here, and just to let you know, we do also have over 2.8 billion dollars with minority, and female owned managers that are not counted as part of the emerging managers. These are names like Rock Creek, Garcia Hamilton, Ariel and Rhumblin. But because they are over 10 billion, they're not considered "emerging managers" anymore from an Illinois pension code standpoint.

On Page 4, this is just a summary snapshot of the portfolio and the performance of the traditional asset class managers in the direct portion of our portfolio. Callan has reviewed this on a quarterly basis, but I think the overall message here again, since most of their strategies are more value, they have

underperformed as overall value has underperformed relative to growth. But there are some notables, for instance Channing Small Cap Value has outperformed its benchmark on a 1, 3 and 5 year basis. LM and New Century Fixed Income Managers have held up well, over their ten year and have outperformed their benchmark. On the flip side, as Callan has pointed out in several performance updates this year, Piedmont, which is now called Xponance, has taken a hit because of the correction in the market earlier this year.

Page 5, on Real Estate. We have two managers in Real Estate now. Adelante that's been with us for a while has on a 1, 3 and 5 year basis has outperformed its benchmark since inception is ahead of its benchmark. And Artemis, the new entrant on the private side is starting to, has started to call its capital. So, that manager is just getting started and we will continue to update you on that as we get more detail and performance data from them.

Page 6, Private Equity. This is where I think we are really gaining momentum. Both Muller & Monroe and Mesirow's portfolios are maturing and showing good returns. If you look to the bottom right, Mesirow's fund of funds 7 emerging manager funds that they've invested in, their total value to paid in capital, are all above 1 meaning, eventually their market values are well above what we what we paid in and their gross IRRs are all

positive. As well, MPEFF II which is the Muller & Monroe Fund-of-Funds of Emerging Managers that net IRR is very positive. That has a TVPI of 1.23 times. So, we're getting money back and it's helping the Fund quite a bit lately.

And then Page 7, I just wanted to look back again as I mentioned, we no longer have Progress in our portfolio but I think it's worth looking back to see what that program did for us. In 2009, we funded that portfolio with 105 million and we followed with a 27 million follow on allocation in 2011 for a total of 132 million. That allocation grew to almost 375 million right before we liquidated. So, while they were slightly behind since inception on a benchmark basis that almost tripled in size. So, and not, there are other, non-financial reasons for why it was a success. We graduated two managers, New Century and Strategic Global, and we were able to invest with over 20 emerging managers. We got to actually take a look and experience 20 other emerging managers over the life of the mandate so I think that was a worthwhile endeavor. And then finally, again, we have objectives and they helped achieve expanded channels of access to much smaller managers that we normally couldn't reach and it created opportunities for graduation as well as helped us with our overall minority utilization numbers. So now that Progress is no longer in business, what has happened to the industry since they vacated the space is worth noting.

So on Page 9, it's just a summary of some of the Progress clients and what they did right after or as soon as Progress announced that they were closing in the month since then. We cobbled this together from news sources, from discussions with the people that we know in the industry and essentially there are a couple of things that Progress' clients did. Some did what we did which was liquidated, some hired managers directly while others went out and put out RFPs looking for other emerging manager of managers or either similar mandates or they just reassigned it directly to other manager of managers. There are others who also have found temporary caretakers of the assets until such time as they can decide what to do with the money on a longer term basis.

Page 10, depicts the players remaining. In my review of the industry, there are five remaining decent sized players - Attucks, Bivium, Xponance, Leading Edge and Legato and I think, the three key takeaways from this summary is that there remains a viable group of manager of managers for us to choose from if we so decide to go out and look for a replacement to Progress. Secondly, Illinois remains an important source of business for these managers. Combined, these five managers had over 1.5 billion in mandates from Illinois funds, that's about 10% of their collective assets under management. So, Illinois remains very important. And third, what I've noticed from my discussions

is that ownership by these firms remains very concentrated with the founders, and that's an issue always with emerging managers trying to determine succession planning. So that's something to keep in mind.

Page 11, so what does that mean for us? Again, as I mentioned, I think the manager of managers option remains a viable alternative for us for sourcing new emerging managers. With the Fund being above 11 billion, we can't invest under 50 million with smaller managers, we'll just be a big chunk of their business. So, I think it might be worthwhile pursuing that down the road.

There are challenges, however, as you know that in the past the members of the Senate Committee have asked all Illinois pension plans about their exposure with Hispanic managers. That remains a very sparse group especially on the traditional side. They're out there, but they're not a significantly growing group so, we have to be cognizant of that. And again, I mentioned that succession planning for these emerging firms is an issue, so we always have to keep an eye out for that. And, Callan also helps us with managing and tracking that issue.

And then the third challenge is, over the past 10 years, allocations have greatly, have switched from traditional to alternatives as more and more public pension plans are trying to keep up with their expected rate of return going more towards

higher return expectation asset classes. So, that has kind of kept industry asset growth lagging for manager-of-managers. But, I think there are also opportunities with what's happened over the summer. I think its cast a new light overall on diversity and inclusion initiatives. I've heard from numerous peers about looking into how do they increase their exposure, how do they look at it and allocate maybe to more diversity. So I think that may help the industry overall.

Secondly, and this is anecdotal, I'm hearing from entrepreneurs that are starting new businesses to try to address it, and help emerging managers. Now, it's pretty nascent at this point, it's probably nothing substantial yet that we would want to chase or explore, but it's I think it's an interesting development to keep an eye on it.

And then again, there's a potential for the existing manager of managers to partner with other firms to introduce alternative solutions. They want a seat at the table, when public pensions are reallocating from traditional asset classes to alternatives so we want to be able to offer a product when that's happening.

So, the net takeaway is there's a lot of moving pieces post Progress. I think the tremors are still being felt and dust is still settling in the industry. I think, what I would like to do and what I recommend as we continue to monitor, we continue to

engage these managers in a dialogue. We see how their businesses evolve because there's still, there's a little bit of musical chairs going on post Progress, with those dollars they managed and to whom those dollars are going to go to. And so, I think it's worth keeping an eye out. What I would like to do is report back to you either early next year or mid year in terms of the next steps with the manager of managers.

Okay, so turning to utilization. So what has Progress done to our numbers? Page 13, again, just a brief history, we started with our goals in 2009 even though before we had exposure to Emerging Managers. But, Illinois Legislature asked us to put together goals as with everyone else, we set about looking and revisiting these goals every two years and we're on pace with that. We're looking at every two to three years as you just approved the minutes from 2018 and as you know, we changed targets for Fixed Income and Women owned firms. So I think it's a good time to visit and affirm those objectives now.

But with that said, again for Progress, liquidation along with the market correction earlier this year, as well as some of the reclassification of the managers that are no longer emerging managers have impacted our numbers. As an example, top table, if you look at Domestic Equity, we were at 12% at the end of 2018 and we're down mid-year to 7.1 as a percent of asset class. International Equity took a big hit at end of 2019 as it was at

13.7 and is down to 4.7%. So I think we have some work cut out for us, but you know we have ideas, so we'll be discussing that in a few minutes.

Page 15, just graphically shows what has happened to our numbers. The Green Line is the total minority exposure of the Fund. So, that has grown, we're at 38.7 again because we had to reclassify Garcia Hamilton, Ariel and Rock Creek from emerging to minority. We're no longer getting credit for them as emerging managers, so that number has grown.

On the flip side, with the loss of Progress and again, with a market correction earlier this year, our numbers have compressed to be closer to 12.8%, so we're kind of almost back to 2011 numbers.

Page 16, so how do we narrow or potentially narrow that gap? We have some ideas, we've been talking to Callan over the past couple of months on some short, medium, and long-term ideas. One of which, which is one we've already embarked on, is this International Equity Search that they will provide an update on in a few minutes. But again, we'd like to revisit and take a look at what the manager of manager industry looks like to see if it's something that we want to go back into sometime next year. And then longer term, I think the alternative space, I think presents some really compelling and interesting opportunities given what COVID has done to the market. So, areas

like Private Credit, Infrastructure and maybe pick up an Emerging Manager on the Private Real Estate side could be interesting. But all that will require education because we don't have an asset allocation to Private Credit and Infrastructure so Callan will help with education on that and take a look at the asset liability study and then how that would impact our asset allocation. So that's on the longer term side.

Page 17 is just more of a pro-forma what the numbers could look like if we embark on these initiatives. Currently, again, we're at 12.4% of total AUM, but if we do some of these things, or all of these things, I should say, we could go back up to 16.7 percent. But this is all pro-forma, nothing is firm, except for the International Equity search. You know, we haven't approved anything so, this is what it could look like if we decide to take on these initiatives.

I'll stop there if there are any questions.

TRUSTEE GOODE: Does anybody have any questions?

MR. VINZONS: Okay.

TRUSTEE GOODE: Are you ready to review and consideration of Emerging Manager?

MR. VINZONS: Yes. So, page 18. Let me just talk briefly about the brokerage. SO, we also have brokerage targets and annually we review them and I think overall, our portfolio of manager's, total, not just emerging but everyone else, they have

to meet these targets and they've been doing a pretty good job. There are some that aren't able to meet it because of constraints as in let's say emerging markets. They just don't have, there are not that many good viable sources for trading with minority broker dealers on an emerging market side, so that's an issue or it's a challenge. But I think that given that they've been able to meet the goals, this is a good opportunity to again, increase the targets once more.

So, on page 19, I've reordered the pages. I apologize for some of the slightly older version of the presentation. This is my recommendation in terms of Targets. For Emerging Managers, I don't recommend changing targets right now for the traditional asset classes, but I think on the alternative side we could tweak it a little bit going from 10 to 15% or 20%. We're slightly below that. But I think this new range recognizes where we are currently and also anticipating where we could be in a couple of years. So again, because we look at it on a two to three year basis.

The second table is my recommendation for new brokerage targets. Domestic equity would go from 35% to 40%. International Equity would go from 10 to 15. Small Cap International Equity would go from 3 to 5% and Fixed Income would go from 10 to 15% while Transitions, there are no changes and I think again, I think most if not all of them can rise to the occasion and meet

these. A lot of managers are already exceeding these targets anyway, so. And then finally, just outlining next steps again, we're here to hopefully improve these new targets, today. And then, I wanted to give you an update. We did submit our questionnaire to the Senate Committee a few weeks ago, so we're waiting to hear on when the Zoom hearings for that if, they'll happen because you know, as you know, Senator Martinez is a co-chair, is now taking on, she's going to be the new County Clerk but we're waiting to hear on that. And then, again, in a couple of weeks, we'll finalize the International Equity Emerging Manager Search. And then in concert with that, we continue to assess the viability of Loop as part of the transition bench, and I don't know, I think we may have an update at the next Investment Committee for that.

MS. TUCZAK: Yeah we will.

MR. VINZONS: And then as I mentioned earlier, maybe discuss, you know what we're going to do as the next step for manager of managers sometime early to mid 2021 and then some of the other things that we outlined in terms of Real Estate and maybe Private Credit and Infrastructure. Again, we would have to conduct education for those investments as we do not currently have an allocation for that.

And then lastly, Page 21. These were some of the pending legislation that was introduced by Senator Martinez that would

impact Emerging Managers. I don't know where the legislature is at. I don't think the legislation moved since then, but this is just a list of what was outstanding that could impact us assuming if someone else sponsors and takes it to the next step.

TRUSTEE GOODE: Does anybody have any questions for Fernando about his recommendations to increase some of our utilization targets?

TRUSTEE OCHALLA: I have a question on one of the legislative proposals, on SB 3750.

MR. VINZONS: Yes?

TRUSTEE OCHALLA: Fernando, does that, does the 20 billion cap instead of 10 billion, does that move some of our former emerging managers that priced out, back into the category then?

MR. VINZONS: It would. It would bring Ariel and I think Garcia Hamilton back into the emerging category. I'm not sure about Rock Creek. Maybe, Rock Creek as well.

TRUSTEE OCHALLA: So then, does that change our calculation on what utilization we're going to need in order to meet that goal?

MR. VINZONS: It could.

TRUSTEE OCHALLA: Or are you considering to count them as not emerging since they have prospered so well.

MR. VINZONS: Right. It could change. But again, given that the sponsor of the Bill is leaving the state legislature, I

don't know if, it's been awhile since we've got an update on this. And, I checked with, I think Gary checked with John McCabe to see if there's been any updates and there's been no movement on this legislation.

TRUSTEE WILSON: What are their assets under management, the two that you're suggesting?

MR. VINZONS: You mean?

TRUSTEE WILSON: The two firms you said that might now, may be eligible.

MR. VINZONS: I'll have to check back on that, Trustee Wilson. I don't have the exact numbers but I can take a look.

TRUSTEE GOODE: Is that Ariel and what else?

MR. VINZONS: Ariel, Rock Creek and Garcia Hamilton. Because at the time for instance with Garcia Hamilton, when we hired them, they were just below 10 billion and then, you know not soon after they started managing for us they crossed over with more than 10 billion. But I don't think they've doubled in size since then.

TRUSTEE GOODE: I need a motion to recommend to the Investment Committee that the target range for alternative investments be reviewed and affirm the other categories for utilization of Emerging Investment Managers as proposed by Fund Investment staff.

TRUSTEE Wilson: Motion moved.

TRUSTEE OCHALLA: Then I'll second. Ochalla will second

TRUSTEE GOODE: All in favor?

(Chorus of ayes.)

TRUSTEE GOODE: Any opposed?

(No nays.)

TRUSTEE GOODE: Motion passes.

Are there any questions about the recommendation to increase MWDBE brokerage targets as detailed on page 19?

Okay. Can I have a motion to recommend to the Investment Committee that the trading targets for Domestic Equity, International Equity, International Small Cap Equity, dollar commissions and Fixed Income Values be revised for utilization of MWDBE broker dealers as proposed by Fund Investment staff?

TRUSTEE NEVIUS: So moved.

TRUSTEE WILSON: Second.

TRUSTEE GOODE: All in favor.

(Chorus of ayes.)

TRUSTEE GOODE: Any opposed?

(No nays.)

Motion passes.

Okay. Next item on the agenda is International Equity RFP update.

John, can you take over?

MR. JACKSON: Certainly, thank you.

Good morning all. This is John Jackson from Callan and I'm joined by my colleague, Ann O'Bradovich who will be listening in as well. You should have the slide that's labeled International Developed Markets Equity Emerging.

MR. VINZONS: John?

MS. TUCZAK: John?

MR. JACKSON: Yes.

MS. TUCZAK: Trustee Wilson has a question.

TRUSTEE WILSON: If we are going to talk about the RFP, do we need to go in closed session for this conversation?

MR. JACKSON: Trustee Wilson, the idea here was to provide the Committee with an update without including any detailed information on the candidates. So this is a high level and it's consistent with the timetable that's been shared in public forum, in the past. It is just kind of identifying the winnowing process and what resulted. So there's no managers defined within this update unless it's the intention of this Committee to inquire about individual candidates and then we would go into executive session.

TRUSTEE WILSON: Thank you.

MR. JACKSON: With that, as we turn to the slide that is presented, this is following, get, offering you a time frame, a schedule of events that took place in connection with this search. You may recall that the RFP was created for this search

back in August and this information was issued in, on August 10th for public consumption. So again, the Board of Trustees approved the RFP on August 6th. August 10th it was issued. Responses were due on the 28th of August. We received 24 responses. As a result of that, we began the winnowing process. 11 firms were selected for further consideration. So again, 24 firms were screened out. Again, this is Callan's Global Management Research Group working with the Consultant Team and Cook County staff. So, the 11 firms that were selected for future consideration and then from that, we had a further screening. These 11 firms were presented to Callan's Manager Search Committee winnowed the list down to a pool of six candidates. So in terms of this, the winnowing process of the 24, 2 were eliminated due to failing to meet the minimum qualifications, and then 11 strategies all in were reduced due to organizational concerns and strategy fit. You may recall that the mandate was prompted by JP Morgan's news to exit the strategy that you're currently invested in, which is a core developed non-US equity mandate of approximately 170 million. The pool of 6 candidates was interviewed by Cook County staff and Callan last week, and the outcome of those interviews were to winnow the list down to three candidates that would be presented to the Investment Committee on November 24th. So that is the high level description of the search process to date.

I'd be happy to entertain any questions.

TRUSTEE GOODE: Alright, no questions?

TRUSTEE GOODE: Do we have any old or new business to discuss?

Can I get a motion to adjourn?

TRUSTEE WILSON: Moved.

TRUSTEE NEVIUS: Second.

TRUSTEE GOODE: All in favor?

(Chorus of ayes.)

TRUSTEE GOODE: Any opposed?

(No nays.)

Motion passes.

Thank you everyone.

MS. TUCZAK: Thank you.

MR. VINZONS: Thank you.

MS. TUCZAK: Thank you trustees for being so early.

MR. JACKSON: Thank you all.