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

Performance Summary

March 31, 2021

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2021—Off with Gusto!

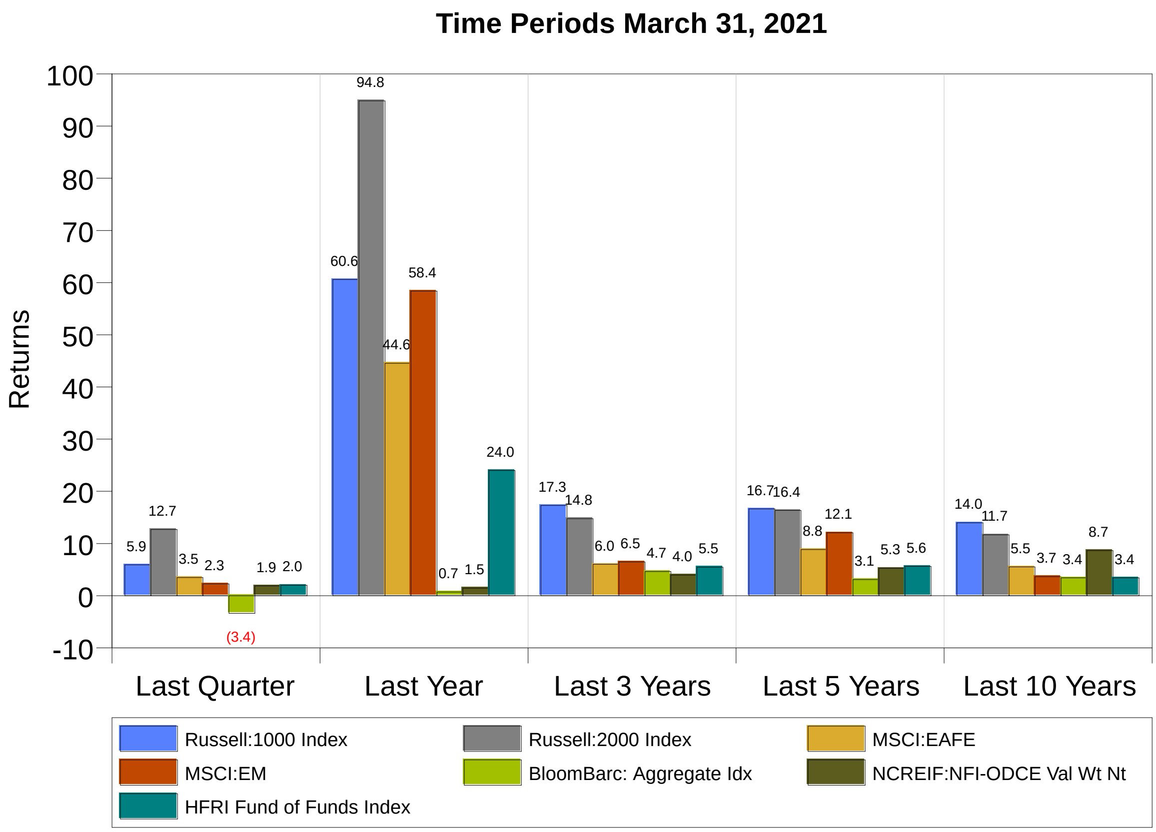
The roll-out of vaccines and ongoing central bank stimulus fueled optimism and drove equity prices higher during the quarter but also spurred concerns over inflation, pushing U.S. Treasury yields higher during the first three months of the year. A $1.9 trillion stimulus package was signed into law, and an additional $2-plus trillion infrastructure proposal lies in the wings. The S&P 500 Index hit an intra-day record high going into quarter-end and is in "overvalued" territory by a number of valuation metrics, reflecting robust earnings expectations. Overseas markets generally outperformed the U.S. in local terms, but a strengthening U.S. dollar eroded much of the relative gains. The U.S. Treasury 10-year yield closed the quarter at 1.74%, above the S&P 500 dividend yield (+1.5%) for the first time since mid-2019.

Employment gains, consumer spending and confidence, and housing were among the bright spots during the quarter. And on April 1 the ISM manufacturing print (64.7) was the highest since 1983 (a reading over 55 signals "exceptional growth"). Fourth quarter real GDP was revised up to 4.3%, bringing the 2020 figure to -3.5%. A survey of economists by *The Wall Street Journal* revealed that the average 2021 forecast was boosted to 6%, which would be the fastest pace since 1983. In further good news, the Conference Board's U.S. consumer confidence index hit a one-year high in March and posted the largest one-month gain in 18 years. As for housing, the S&P CoreLogic Case-Shiller National Home Price Index, which measures average home prices in major cities, gained just over 11% y-o-y as of Jan. 31, its highest annual rate since 2006. The surge in housing prices has been fueled by low mortgage rates and record low inventory.

The recently passed stimulus package represents roughly 10% of U.S. GDP; with last year's stimulus, the total is about $5 trillion or 25% of U.S. GDP. The recent package included $1,400 checks to qualified individuals, an extension of unemployment insurance, and aid to state and local governments. The Congressional Budget Office projects that the federal budget deficit will reach $2.3 trillion in 2021, just over 10% of GDP and the second highest level since 1945, exceeded only by last year's figure. In the 2020 fiscal year, which ended Sept. 30, the deficit hit a record $3 trillion. Note also that the CBO's 2021 projection does not include the recent $2 trillion stimulus package.

At its March meeting, the FOMC increased its GDP projection for 2021 from 4.2% to 6.5% (falling to 2.2% in 2023), and its median projection for year-end unemployment fell to 4.5%. However, expectations for PCE core inflation remain muted (2.2% in 2021; 2.0% in 2022). The Fed funds rate was kept on hold at close to 0%, and asset purchases are slated to continue. And, importantly, expectations for rate hikes remain on the distant horizon. The Fed's statement that "the ongoing public health crisis continues to weigh on economic activity, employment, and inflation and poses considerable risks to the economic outlook" indicated that it is in no rush to raise rates or taper its asset purchases and re-confirmed the view that is willing to let inflation run above its long-term target of 2%. It also acknowledges that full employment will take time to achieve. While market participants worry that rapid economic growth combined with prospects for increased Treasury supply to fund a growing deficit will lead to additional inflation, the numbers have yet to reflect that concern. As of February, headline CPI was 1.7% y-o-y and core CPI was 1.3% y-o-y in spite of higher energy and food prices. Some expect that any rise in inflation will be short-lived. The recent stimulus package is a one-time injection that is not expected to fuel long-term inflation; likewise, pent-up demand will likely have a short-term effect on price gains but not necessarily a protracted impact. Finally, secular changes including technology innovation and shifting demographics continue to temper inflationary pressures. As the Fed has repeatedly made clear, it is willing to accept inflation that runs above 2% in order to reach a longer-term average of its 2% target.

First Quarter 2021 Market Performance



U.S. equity indices delivered mostly positive results (Russell MidCap Growth was the lone exception with a 0.6% loss). The S&P 500 Index (+6.2%) was led by Energy (+30.9%) and Financials (+16.0%), while Information Technology (+2.0%) and Consumer Staples (+1.1%) lagged. Value sharply outperformed growth; R1000V: +11.3%; R1000G: +0.9%. Value stocks have underperformed growth since the market peak in February 2020, but the gap has narrowed significantly over the last two quarters. Small cap stocks sharply outperformed large cap during the quarter (R2000: +12.7%; R1000: +5.9%), benefiting from less exposure to the Technology sector as well as strong performance from Retail. Certain sectors have experienced sharp double-digit increases in recent months as vaccine-induced optimism has fueled a rebound. Data from JP Morgan shows that from Nov. 6, 2020 (reflecting the last business day before it was announced that a vaccine candidate had better than 90% efficacy against COVID-19), airlines, energy, retail REITs, and cruise lines/hotels/resorts have soared more than 50%.

Global ex-U.S. indices posted positive results but generally lagged the U.S., due largely to U.S. dollar strength. The MSCI ACWI ex-USA Index gained 3.5% but was up 6.5% in local currency terms. The greenback gained 6.6% vs. the yen and nearly 4% vs. the euro over the quarter on bright prospects for economic growth in the U.S. and rising interest rates. The U.K. (+6.2%) delivered relatively strong results while Europe (+3.5%) and Japan (+1.6%) lagged. As in the U.S., small cap stocks outperformed large; value outperformed growth; and Financials did especially well. Emerging markets lagged developed markets; the MSCI Emerging Markets Index gained 2.3% and 4.0% in local terms. China (-0.4%) and Brazil (-10.0%) were laggards as President Xi intensified regulation of China's tech sector, pressuring share prices, and Brazil struggled to contain COVID-19. Taiwan (+10.9%) was a top performer, and the country is up more than 90% over the last 12 months, boosted by its heavy weighting in and strong performance from Technology stocks. In contrast, South Korea posted a muted 1.6% gain.

Concerns over future inflation drove the 10-year U.S. Treasury yield to an intraday high of 1.77% in March, a 15-month high, before closing the quarter at 1.74%, up from 0.93% at year-end. The Bloomberg Barclays US Treasury Index fell 4.3%, and the long-term US Treasury Index (-13.5%) suffered its harshest decline since 1980. TIPS (-1.5%), outperformed nominal Treasuries as 10-year breakeven spreads widened from 1.99% at year-end to 2.37% as of March 31. The Bloomberg Barclays US Aggregate Bond Index fell 3.4%, with spread sectors outperforming Treasuries and lower quality faring the best. High yield corporates posted a 0.8% gain, as measured by Bloomberg Barclays, amid a record-making spate of issuance. The CCC-rated sector gained 3.6%, benefiting from risk-on sentiment, rising stock markets, and the recovery of some COVID-19 victims (airlines, retail, energy). Bank loans, which have floating rate coupons and a relatively short duration, gained 1.8% (S&P LSTA). Municipals outperformed U.S. Treasuries against a favorable supply/demand backdrop (Bloomberg Barclays Municipal Bond: -0.4%). In addition, the market was supported by the $350 billion allocated to support state and local governments in the recent stimulus package.

Rates also rose overseas and a strengthening U.S. dollar further eroded foreign bond returns for U.S. investors. The Bloomberg Barclays Global Aggregate ex-US Bond Index fell 5.3% (-1.9% hedged). The dollar gained nearly 4% versus a basket of currencies. Emerging market debt returns were also negative. The JP Morgan EMBI Global Diversified fell 4.5% and the local currency JP Morgan GBI-EM Global Diversified sank 6.7%.

Real assets posted strong returns in 1Q on prospects for a robust recovery as well as a potential hedge against coming inflation. Oil prices continue to climb with Brent Crude oil closing at over $60/barrel. The Alerian MLP Index was up 22% for the quarter. The S&P GSCI Index soared 13.5% although gold (spot price: -9.5%) declined. REITs, as measured by the MSCI U.S. REIT Index, rose 8.8%. The Bloomberg Barclays 1-10 Yr. US TIPS Index posted a muted 0.6% result, but outperformed nominal U.S. Treasuries as inflation expectations rose.

Closing Thoughts

What a difference a vaccine makes! Pent-up demand for restaurants, movies, travel, and shopping are expected to unleash consumer spending and support a robust economic recovery in 2021. Stock markets appear to be priced for this scenario. With that, rising rates and simmering concerns over inflation are clouds on the horizon. So far, the Fed is unwavering in its commitment to remain accommodative until it meets its full employment and inflation objectives. The 2021 path of the economy, the pandemic, and the markets is likely to provide some twists and turns, and while the start has been bright, Callan continues to advise adherence to a disciplined investment process that includes a well-defined long-term asset allocation policy and, if applicable, to understand the risks undertaken to improve expected investment returns.

The Callan Periodic Table of Investment Returns
First Quarter 2021

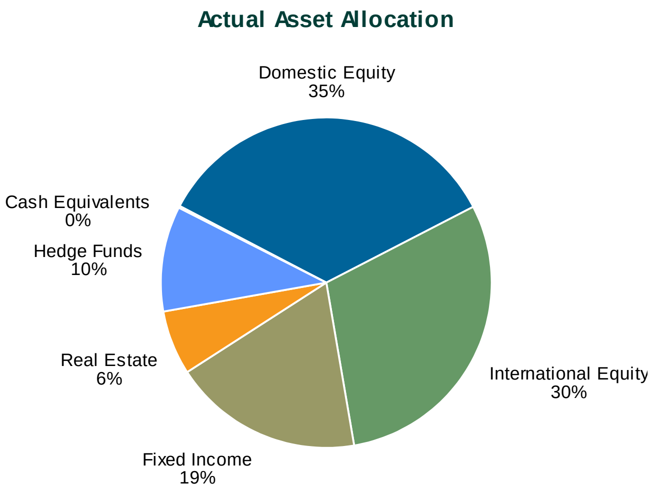
2012	2013	2014	2015	2016	2017	2018	2019	2020	1 Qtr. 2021
MSCI:EM **18.2%**	Russell:2000 Index **38.8%**	Russell:1000 Index **13.2%**	NCREIF:NFI-ODCE Val Wt Nt **14.0%**	Russell:2000 Index **21.3%**	MSCI:EM **37.3%**	NCREIF:NFI-ODCE Val Wt Nt **7.4%**	Russell:1000 Index **31.4%**	Russell:1000 Index **21.0%**	Russell:2000 Index **12.7%**
MSCI:EAFE **17.3%**	Russell:1000 Index **33.1%**	NCREIF:NFI-ODCE Val Wt Nt **11.5%**	Russell:1000 Index **0.9%**	Russell:1000 Index **12.1%**	MSCI:EAFE **25.0%**	BC Aggregate **0.0%**	Russell:2000 Index **25.5%**	Russell:2000 Index **20.0%**	Russell:1000 Index **5.9%**
Russell:1000 Index **16.4%**	MSCI:EAFE **22.8%**	BC Aggregate **6.0%**	BC Aggregate **0.5%**	MSCI:EM **11.2%**	Russell:1000 Index **21.7%**	HFRI Fund of Funds Index (4.0%)	MSCI:EAFE **22.0%**	MSCI:EM **18.3%**	MSCI:EAFE **3.5%**
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%)	NCREIF:NFI-ODCE Val Wt Nt **7.8%**	Russell:2000 Index **14.6%**	Russell:1000 Index **(4.8%)**	MSCI:EM **18.4%**	HFRI Fund of Funds Index 10.9%	MSCI:EM **2.3%**
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%)**	BC Aggregate **2.6%**	HFRI Fund of Funds Index 7.8%	Russell:2000 Index **(11.0%)**	BC Aggregate **8.7%**	MSCI:EAFE **7.8%**	HFRI Fund of Funds Index 2.0%
HFRI Fund of Funds Index 4.8%	BC Aggregate **(2.0%)**	MSCI:EM **(2.2%)**	Russell:2000 Index **(4.4%)**	MSCI:EAFE **1.0%**	NCREIF:NFI-ODCE Val Wt Nt **6.7%**	MSCI:EAFE **(13.8%)**	HFRI Fund of Funds Index 8.4%	BC Aggregate **7.5%**	NCREIF:NFI-ODCE Val Wt Nt **1.9%**
BC Aggregate **4.2%**	MSCI:EM **(2.6%)**	MSCI:EAFE **(4.9%)**	MSCI:EM **(14.9%)**	HFRI Fund of Funds Index 0.5%	BC Aggregate **3.5%**	MSCI:EM **(14.6%)**	NCREIF:NFI-ODCE Val Wt Nt **4.4%**	NCREIF:NFI-ODCE Val Wt Nt **0.3%**	BC Aggregate **(3.4%)**

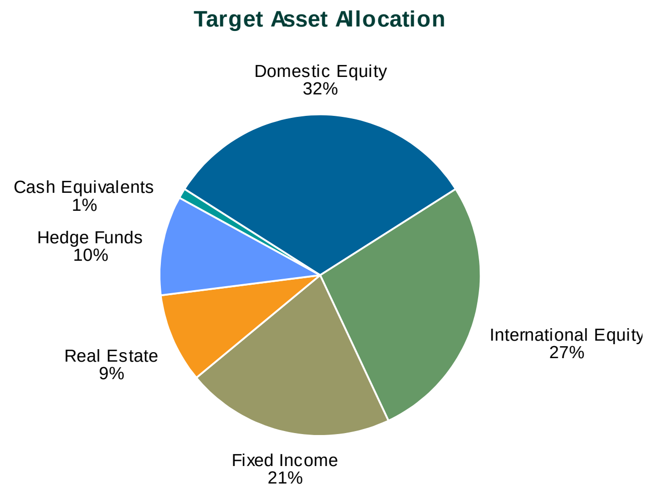
In the first quarter of 2021, Small Cap Equity was the top performing asset class (Russell 2000 Index: +12.7%), leading Large Cap Equity (Russell 1000 Index: +5.9%). Developed International Equities (MSCI EAFE Index: +3.5%) outperformed Emerging Markets (MSCI Emerging Markets: +2.3%). Hedge Funds (HFRI Fund of Funds Index: +2.0%) modestly outperformed Real Estate (NCREIF: NFI-ODCE Value Weighted Net Index: +1.9%). Fixed Income (Bloomberg Barclays US Aggregate Bond Index: -3.4%) was the only asset class to earn negative returns for the quarter.

Forest Preserve Pension Fund Commentary

Asset Allocation

The Forest Preserve Fund ("Fund") ended the first quarter with a market value of $220.6 million, a $4.1 million increase from the fourth quarter-end value of $216.5 million. The Fund gained approximately $6.3 million from investment returns and experienced net withdrawals of approximately $2.3 million.





Asset Class	$000s Actual	Weight Actual	Min Target	Target	Max Target	Percent Difference	$000s Difference
Domestic Equity	76,646	34.8%	28.0%	32.0%	36.0%	2.8%	6,068
International Equity	65,881	29.9%	23.0%	27.0%	31.0%	2.9%	6,330
Fixed Income	40,918	18.6%	17.0%	21.0%	25.0%	(2.4%)	(5,399)
Real Estate	13,956	6.3%	5.0%	9.0%	13.0%	(2.7%)	(5,894)
Hedge Funds	22,731	10.3%	6.0%	10.0%	14.0%	0.3%	676
Cash Equivalents	425	0.2%	0.0%	1.0%	5.0%	(0.8%)	(1,781)
Total	220,557	100.0%		100.0%			

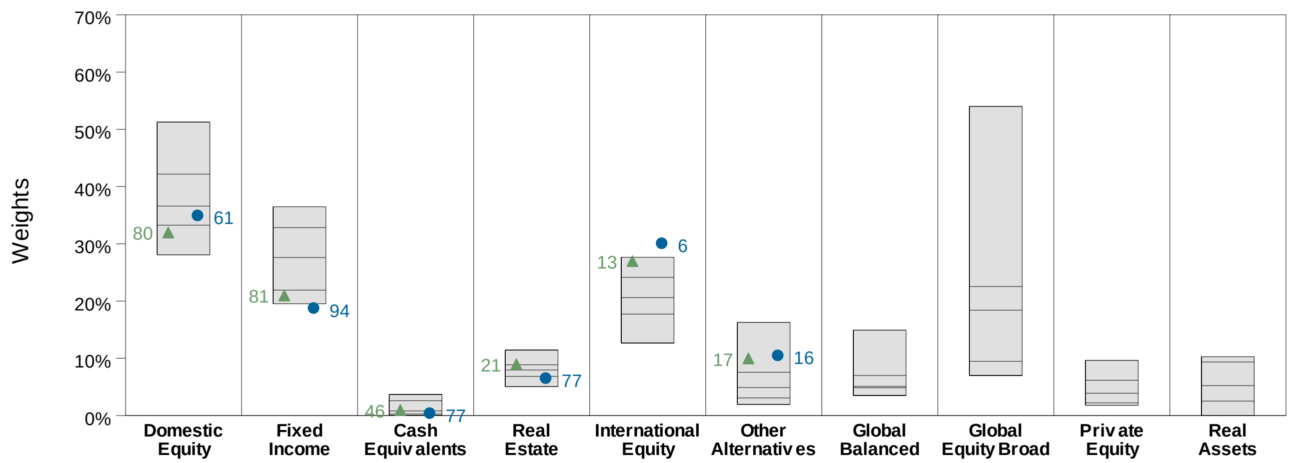
Forest Preserve Pension Fund Performance vs. Target

During the first quarter, the Forest Preserve Pension Fund posted a net return of 2.98%, outperforming its target benchmark by 0.40%, but ranking below the median of peers. During the last year, the Fund generated a return of 32.81%, leading its benchmark. On a long-term basis, The Fund has outperformed its benchmark over the trailing ten-year period. The Fund ranks ahead of the median of peers over the trailing one, five, and ten years on a gross of fee basis.

Performance vs Callan Public Fund Spons- Mid (100M-1B) (Gross)

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile	4.10	42.43	11.83	11.67	9.69
25th Percentile	3.65	37.34	10.55	10.99	9.00
Median	3.10	33.07	9.56	9.97	8.07
75th Percentile	2.56	30.42	8.92	9.31	7.58
90th Percentile	1.83	28.28	8.22	8.70	6.99
Total Forest (Gross) ● A	3.04	33.21	9.30	10.11	8.81
Total Forest (Net) ■ B	2.98	32.81	8.99	9.78	8.51
Total Forest Preserve Benchmark ▲	2.58	31.75	9.51	9.90	8.02

Asset Class Weights vs Callan Public Fund Spons- Mid (100M-1B)



	Domestic Equity	Fixed Income	Cash Equivalents	Real Estate	International Equity	Other Alternatives	Global Balanced	Global Equity Broad	Private Equity	Real Assets
10th Percentile	51.26	36.48	3.69	11.44	27.65	16.30	14.91	54.01	9.64	10.28
25th Percentile	42.16	32.83	2.61	8.86	24.14	7.55	7.01	22.55	6.16	9.37
Median	36.59	27.62	0.80	7.96	20.62	4.90	5.10	18.40	3.91	5.25
75th Percentile	33.25	21.91	0.26	6.85	17.74	3.07	4.86	9.48	2.23	2.53
90th Percentile	28.08	19.53	0.04	5.06	12.67	1.95	3.50	6.99	1.80	0.00
Fund ●	34.75	18.55	0.19	6.33	29.87	10.31	-	-	-	-
Target ▲	32.00	21.00	1.00	9.00	27.00	10.00	-	-	-	-

Table 1.1
Asset Class Performance vs. Target (Net of Fees)

	Market Value $(Dollars)	Ending Weight	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
Domestic Equity	**$76,645,844**	**34.75%**	**7.16%**	**63.47%**	**15.76%**	**16.14%**	**13.46%**
Domestic Equity Benchmark (2)	-	-	6.35%	62.53%	17.12%	16.67%	13.74%
International Equity	**$65,880,721**	**29.87%**	**3.20%**	**49.05%**	**6.68%**	**9.80%**	**7.94%**
International Equity Bnmk (4)	-	-	3.49%	49.41%	6.51%	9.76%	4.93%
Fixed Income	**$40,918,326**	**18.55%**	**(2.45%)**	**1.76%**	**4.45%**	**2.86%**	**3.25%**
Fixed Income Benchmark (3)	-	-	(3.04%)	0.80%	4.64%	3.09%	3.38%
****Real Estate**	**$13,956,199**	**6.33%**	**0.00%**	**1.13%**	**5.00%**	**5.24%**	**8.14%**
NFI-ODCE Value Weight Net	-	-	1.89%	1.47%	3.96%	5.26%	8.67%
****Hedge Funds**	**$22,731,456**	**10.31%**	**0.83%**	**3.43%**	**3.54%**	**5.07%**	**-**
LIBOR + 4%	-	-	1.03%	4.28%	5.64%	5.44%	-
HFRI Fund of Funds Index (5)	-	-	5.83%	14.58%	5.32%	5.80%	3.43%
Cash Equivalents	**$424,574**	**0.19%**	**0.02%**	**0.17%**	**1.93%**	**1.59%**	**0.83%**
3-month Treasury Bill	-	-	0.02%	0.12%	1.49%	1.19%	0.63%
Total Forest Preserve Fund	**$220,557,120**	**100.00%**	**2.98%**	**32.81%**	**8.99%**	**9.78%**	**8.51%**
Total Fund Benchmark (1)	-	-	2.58%	31.75%	9.51%	9.90%	8.02%

**Represents trailing data.

Definitions for custom benchmarks can be found on the back page

Table 1.1 illustrates the Forest Preserve Pension Fund's asset class performance against associated benchmarks. The Fund's Domestic Equity allocation outperformed its benchmark in the first quarter and the trailing year. Success in the first quarter is attributed to successful active management decisions and an overweight asset class weighting. Over longer periods, the Domestic Equity allocation has underperformed its benchmark due to adverse active management decisions. The Fund's International Equity allocation trailed its benchmark (+3.49%) during the quarter, returning 3.20%. Strong active management led the International Equity allocation to beat its benchmark for the trailing three-, five-, and ten-year periods.

The Fixed Income allocation returned -2.45% in the first quarter, leading the benchmark return by 0.59%. Longer term, the allocation has consistently underperformed its benchmark due to its previous fully passive allocation to the Bloomberg Barclays Aggregate Index.

The Real Estate allocation is comprised of investments to private real estate. The Real Estate allocation trailed the benchmark (+1.89%) in the first quarter, returning 0.00%. Active management was a detractor in the first quarter. Over longer periods, the Real Estate allocation leads its benchmark over the trailing three years.

The Forest Preserve Pension Fund's Hedge Fund allocation underperformed its absolute return benchmark for the first quarter. The Fund's Hedge Fund allocation has struggled versus hedge fund peers as measured by the HFRI Fund-of-Funds Index.

The Forest Preserve Pension Fund posted a return of 32.81% in the last year, leading its benchmark, and ranking near the median of peers. Over the trailing five- year period, the fund trails its benchmark but ranks ahead of the median of peers on a gross of fee basis. Over the trailing ten-year period, the Fund leads its benchmark and ranks ahead of the median of peers.

Benchmarks

1. **Total Fund Benchmark:** Blend of asset class benchmarks at policy weights. Current Quarter benchmark: 32.0% Russell 3000 Index, 27.0% MSCI ACWI ex US, 21.0% Bloomberg Barclays Aggregate Index, 10.0% Libor-3 Month+4.0%, 9.0% NFI-ODCE Value Weight Net, and 1.0% 3-Month Treasury Bill.

2. **Domestic Equity Benchmark:** Russell 3000 Index; Prior to 6/30/2016 Blend of 70% S&P 500 and 30% Russell 2500 Index; Prior to 12/31/2012 Blend of 55.6% S&P 500, 11.0% Russell 2000 Value, 16.7% Russell 1000 Growth, and 16.7% Russell 1000 Value.

3. **Fixed Income Benchmark:** Russell 3000 Index; Prior to 6/30/2016 Blend of 70% S&P 500 and 30% Russell 2500 Index; Prior to 12/31/2012 Blend of 55.6% S&P 500, 11.0% Russell 2000 Value, 16.7% Russell 1000 Growth, and 16.7% Russell 1000 Value.

4. **International Equity Benchmark:** MSCI ACWI ex U.S.

5. **HFRI Fund of Funds Composite Index:** Returns are lagged 1 month.