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

Performance Summary

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Macroeconomic Environment

Geopolitical Upheaval and Unsettled Markets

Capital markets abhor uncertainty, and there is no greater human-generated uncertainty than war. The Russian invasion of Ukraine upended expectations for an orderly slowdown in economic growth from the surge in 2021, and for the spike in inflation to subside as pandemic-induced supply chain bottlenecks cleared.

Amid this geopolitical upheaval and humanitarian catastrophe, the equity and fixed income markets were both down in 1Q22. How often does that happen? More than we expected. Looking at data back to 1926, there have been 37 quarters in which returns on stocks and bonds were both negative, almost 10% of all quarters over that period. Before now, the most recent quarter was 1Q18, and before that, the 2nd and 3rd quarters of 2008, as the Global Financial Crisis (GFC) began unfolding. In case you were wondering, the S&P 500 plunged 19.6% in 1Q20, while the Bloomberg Aggregate rose 3.1%. The frequency of down quarters for both stocks and bonds has been much lower since 1990 than in the first 60 years of the data set.

Looking at annual returns, there have been only two calendar years when stocks and bonds were both down, 1931 and 1969 (with a near-miss in 2018). The point: Over more recent history, stocks and bonds down together is relatively unusual.

1Q22 Trends in the Economy

The war also hit business and consumer confidence, and the 1Q GDP report surprised all with a 1.4% drop, following a 6.9% surge in 4Q21. The 8.3% swing in growth came from a huge drop in inventory investment and net exports. Imports surged 17.7% while exports declined 5.9%, a sharp reversal from 22.4% growth in 4Q21. The drop in GDP is a surprise because the economy is otherwise healthy, with a strong job market. Final sales to the private sector grew 3.7% in 1Q, up from 2.6% in 4Q21, suggesting strength in aggregate demand.

The concern going forward is that the confidence to spend and invest will be tested by rising interest rates, skyrocketing inflation, war uncertainty, and the prospect of a recession.

The Fed raised rates at its March meeting, bringing the Fed Funds rate up to 0.25%-0.50%. The median projection by FOMC members for the Fed Funds rate was 1.90% at the end of 2022, rising to 2.80% in 2023. However, the range of projections (1.4% to 3.2% by year-end) from Committee members reflected a high degree of uncertainty. As of quarter-end, the market was anticipating nine hikes in 2022, three more than expected by the Fed.

The war in Ukraine and the sanctions imposed on Russia are now piling on to supply bottlenecks, with particular concerns about food and energy supplies, and putting into question the assumption that inflation would ease later in 2022 and into 2023. CPI-U for the U.S. hit 8.5% for the 12 months ending in March, the highest rate since the period ending December 1981. Driving the increase were prices for gasoline, shelter, and food. The energy index rose 32%, with gasoline prices up 48% year over year. The food price index rose 8.8%, and like the broad CPI, it was the biggest surge since 1981.

Russia and Ukraine are vital suppliers to regional and global food supplies. In addition to price inflation, the war has raised serious concerns about the 2022 spring planting and harvest later in the year, and the potential for disaster in food-insecure parts of the globe.

The impact of the war is most direct and dramatic in eastern Europe and central Asia (EECA). The economic ties with Russia and Ukraine are extensive for many countries in the EECA bloc. Russia is the largest market for some countries, and the largest source of goods and energy for others. Tourism and foreign direct investment from Russia is substantial, and salary remittances from foreign workers in Russia are a vital source of income for many EECA countries. Poland attracted a substantial number of Ukrainian workers.

Even without close ties, countries within the EECA, western Europe, Africa, and the Americas are vulnerable to disruptions in the flow of goods, services, and energy stemming from the conflict.

If recession is often identified by consecutive quarterly declines in GDP, why wouldn't the 1Q22 decline signal a potential downturn? First, aggregate demand remains robust. Second, household balance sheets are healthy. A labor market characterized by high employer demand, low unemployment (3.6% and falling), and rising compensation suggests continuing growth in consumer spending. Business investment will respond to this strong consumer demand. High frequency data show resilient growth in spending on travel and entertainment, and a recovery from the sharp drop in activity during the Omicron wave.

Global Equities

The S&P 500 Index fell 4.6% for the quarter, but it was down more than 12% early in March before staging a rally into quarter-end. Value stocks sharply outpaced growth across capitalizations, with the spread exceeding 10% in both mid and small caps and just over 8% in large caps. Not surprisingly, Energy (+39%) was the best-performing sector given a 33% spike in WTI crude oil prices. The defensive Utilities sector (+5%) also posted a positive result. Communication Services (-12%), Consumer Discretionary (-9%), and Information Technology (-8%) were the worst-performing sectors. Small cap stocks (Russell 2000: -7.5%) underperformed large (Russell 1000: -5.1%).

The MSCI ACWI ex-USA Index fell 5.4% for the quarter but saw mixed performance from its constituents. Norway (+10%), Australia (+7%), and Canada (+5%) were helped by soaring commodity prices while Japan (-7%) and Europe ex-U.K. (-10%) posted sharp declines. Europe was hit hard by the war in Ukraine, which led to higher energy prices and worries over the impact on its economic recovery. Japan suffered from higher import costs as a result of surging energy prices. As in the U.S., value outperformed growth by a wide margin (EAFE Value: +0.3%; EAFE Growth: -11.9%) and small cap (EAFE Small Cap: -8.5%) also underperformed. The yen (-5%), euro (-2%), and pound (-3%) weakened vs. the U.S. dollar. The MSCI Emerging Markets Index fell 7.0% for the quarter but results were mixed across regions. Latin America (+27%) fared well on the back of rising oil prices while Emerging Europe (-71%) plunged, reflecting Russia's -100% return before it was removed from the Index. As in developed markets, value outperformed growth (EM Value: -3.4%; EM Growth: -10.3%).

Global Fixed Income

The Bloomberg US Aggregate Bond Index sank 5.9% over the quarter, the third-worst quarter since the index's inception in 1976 (the other two being in 1980). Rates rose sharply on worries over inflation and expectations for Fed rate hikes. The 10-year U.S. Treasury closed the quarter at 2.32%, up from 1.52% at year-end. Notably, the yield curve flattened meaningfully and as of quarter-end the relationship between the 5-year yield (2.42%) and the 10-year yield (2.32%) was inverted. Against this backdrop, TIPS (Bloomberg TIPS: -3.0%) did relatively well as inflation expectations rose. High yield corporates (Bloomberg High Yield: -4.8%) outperformed investment grade corporates given less sensitivity to interest rates, and bank loans (S&P LSTA Leveraged Loan: -0.1%) were helped by their floating rate coupons and low duration.

Rates rose across most developed markets and led to broad-based negative returns. The U.S. dollar strengthened vs. most developed market currencies. The Bloomberg Global Aggregate ex-US Bond Index fell 6.1% unhedged and 4.1% hedged. The U.S. dollar-denominated JPM EMBI Global Diversified Index fell 10.0% over the quarter as rates in the U.S. rose. Latin America (-6%) and Africa (-4%) were among the better-performing regions as commodity prices soared. The local currency-denominated JPM GBI-EM Global Diversified fell 6.5%, helped in relative terms by currency appreciation from commodity exporters (Latin America: +7%; Middle East/Africa: +8%). Emerging Europe (-32%) reflected Russia's removal at $0 (-100%).

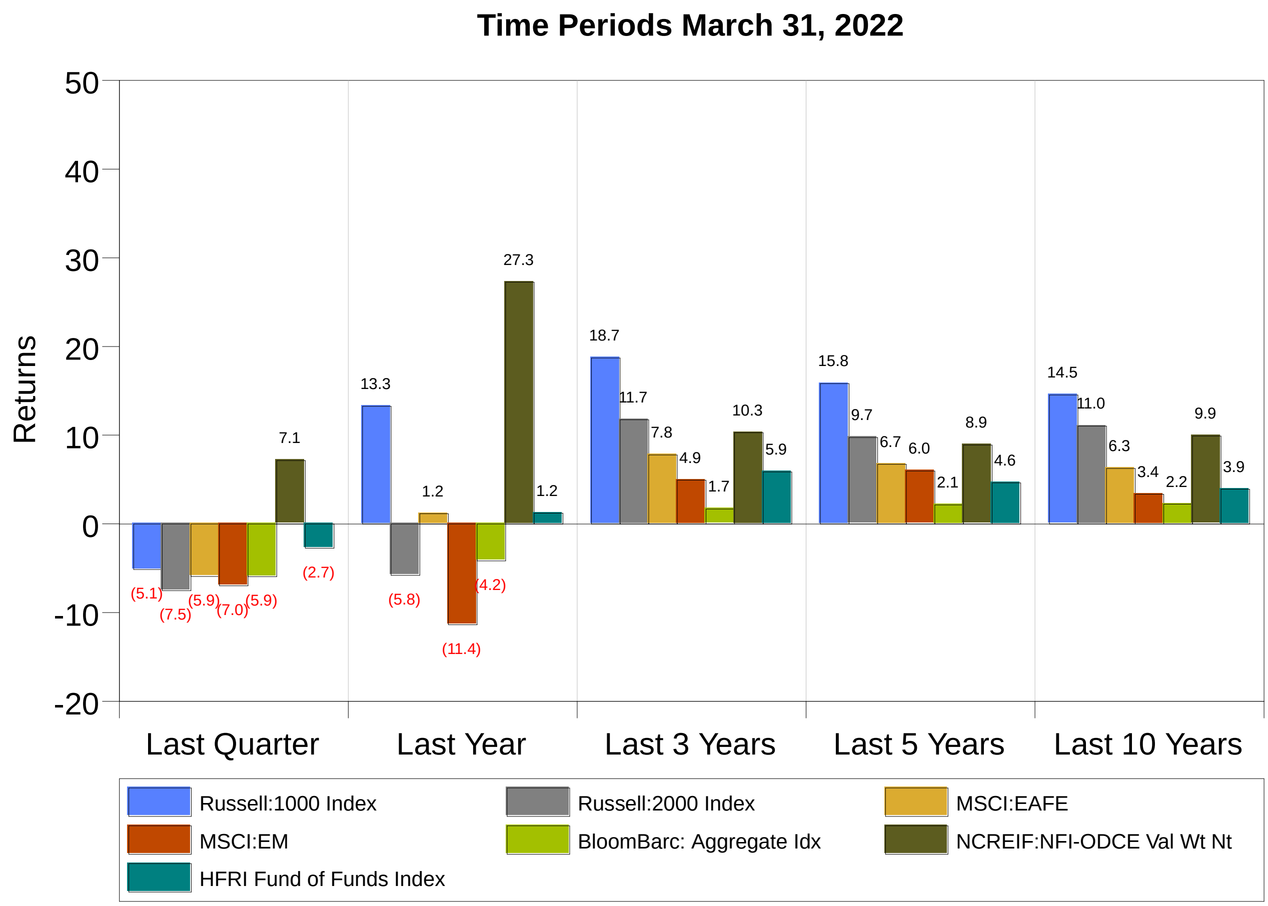
Real Assets

Commodities were a rare bright spot given their inflation-protection properties as well as war-induced supply concerns. The Bloomberg Commodity TR Index soared 25.5% and the energy-heavy S&P GSCI climbed 33.1%. Gold (S&P Gold Spot Price Index: +6.9%) and listed infrastructure (DJB Global Infrastructure: +3.2%) outperformed global stocks and bonds. TIPS (Bloomberg TIPS: -3.0%) fell but outpaced nominal U.S. Treasuries as inflation expectations rose.

Closing Thoughts

While expectations for economic growth in the U.S. are clearly lower since the Russian invasion, with GDP projections for 2022 down from 4% to 3% or lower, they are still positive. The impact of the war may be more consequential for Europe, with its greater dependence on energy imports. Risk of recession is higher, but not yet the expected case for 2022.

First Quarter 2022 Market Performance



The Callan Periodic Table of Investment Returns
First Quarter 2022

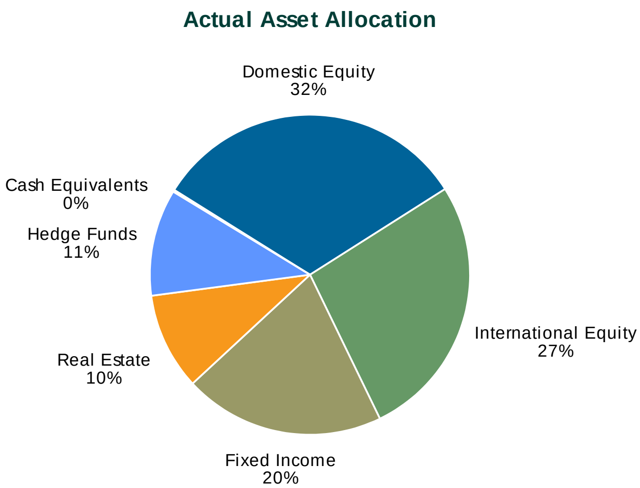
2013	2014	2015	2016	2017	2018	2019	2020	2021	1 Qtr. 2022
Russell:2000 Index **38.8%**	Russell:1000 Index **13.2%**	NCREIF:NFI-ODCE Val Wt Nt **14.0%**	Russell:2000 Index **21.3%**	MSCI:EM **37.3%**	Cambridge:PE Idx **10.0%**	Russell:1000 Index **31.4%**	Cambridge:PE Idx **29.4%**	Cambridge:PE Idx **36.0%**	NCREIF:NFI-ODCE Val Wt Nt **7.1%**
Russell:1000 Index **33.1%**	Cambridge:PE Idx **11.8%**	Cambridge:PE Idx **8.7%**	Russell:1000 Index **12.1%**	MSCI:EAFE **25.0%**	NCREIF:NFI-ODCE Val Wt Nt **7.4%**	Russell:2000 Index **25.5%**	Russell:1000 Index **21.0%**	Russell:1000 Index **26.5%**	HFRI Fund of Funds Index (2.7%)
MSCI:EAFE **22.8%**	NCREIF:NFI-ODCE Val Wt Nt **11.5%**	Russell:1000 Index **0.9%**	MSCI:EM **11.2%**	Russell:1000 Index **21.7%**	BC Aggregate **0.0%**	MSCI:EAFE **22.0%**	Russell:2000 Index **20.0%**	NCREIF:NFI-ODCE Val Wt Nt **21.0%**	Russell:1000 Index **(5.1%)**
Cambridge:PE Idx **21.1%**	BC Aggregate **6.0%**	BC Aggregate **0.5%**	Cambridge:PE Idx **9.5%**	Cambridge:PE Idx **19.9%**	HFRI Fund of Funds Index (4.0%)	MSCI:EM **18.4%**	MSCI:EM **18.3%**	Russell:2000 Index **14.8%**	MSCI:EAFE **(5.9%)**
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%)**	Cambridge:PE Idx **16.1%**	HFRI Fund of Funds Index 10.9%	MSCI:EAFE **11.3%**	BC Aggregate **(5.9%)**
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 6.2%	MSCI:EM **(7.0%)**
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%**	BC Aggregate **(1.5%)**	Russell:2000 Index **(7.5%)**
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%**	MSCI:EM **(2.5%)**	PE Idx **Not Yet Reported**

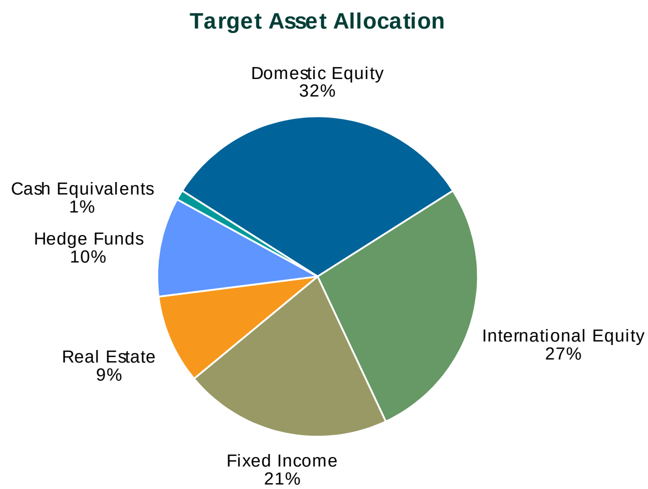
Through the first quarter of 2022, Real Estate was the top performing asset class (NCREIF: NFI-ODCE Value Weighted Net Index: +7.1%), leading Hedge Funds (HFRI Fund of Funds Index -2.7%). Developed International Equities (MSCI EAFE Index: -5.9%) outperformed Emerging Markets (MSCI Emerging Markets: 7.0%). Large Cap Equity (Russell 1000 Index: -5.1%) fared better than Small Cap Equity (Russell 2000 Index: -7.5%). Fixed Income was also negative for the quarter (Bloomberg Barclays US Aggregate Bond Index: -5.9%).

Forest Preserve Pension Fund Commentary

Asset Allocation

The Forest Preserve Fund ("Fund") ended the first quarter with a market value of $219.2 million, a $10.5 million decrease from 2021 year-end value of $229.7 million. The Fund experienced investment losses of $9.0 million and net withdrawals of $1.5 million. All asset classes were weighted within one percent of their target allocation.

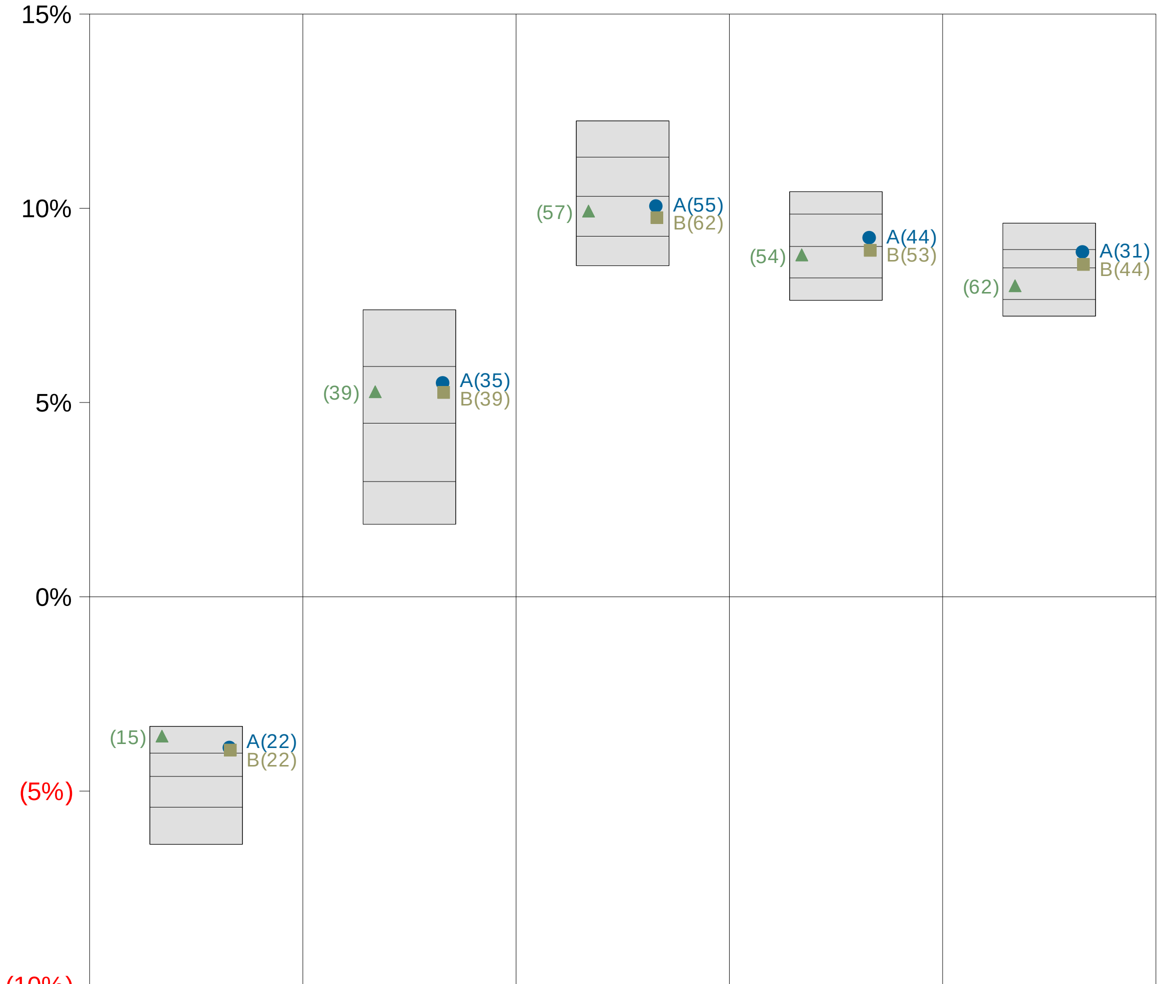




Asset Class	$000s Actual	Weight Actual	Min Target	Target	Max Target	Percent Difference	$000s Difference
Domestic Equity	70,370	32.1%	28.0%	32.0%	36.0%	0.1%	225
International Equity	58,639	26.8%	23.0%	27.0%	31.0%	(0.2%)	(546)
Fixed Income	44,596	20.3%	17.0%	21.0%	25.0%	(0.7%)	(1,436)
Real Estate	21,577	9.8%	5.0%	9.0%	13.0%	0.8%	1,849
Hedge Funds	23,715	10.8%	6.0%	10.0%	14.0%	0.8%	1,794
Cash Equivalents	306	0.1%	0.0%	1.0%	5.0%	(0.9%)	(1,886)
Total	219,204	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 -3.94%, trailing its benchmark return of -3.59%. Active management detracted, while asset allocation decisions were modestly positive for the quarter. During the last year, the Fund generated a net return of 5.26%, in line with its benchmark. On a long-term basis, the Fund has outperformed its benchmark and peer median over the trailing five- and ten-year periods.



		Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile		(3.33)	7.39	12.25	10.43	9.62
25th Percentile		(4.02)	5.93	11.32	9.85	8.94
Median		(4.62)	4.47	10.31	9.02	8.47
75th Percentile		(5.42)	2.97	9.28	8.21	7.65
90th Percentile		(6.37)	1.87	8.52	7.63	7.22
Total Forest Preserve (Gross)	● A	(3.91)	5.48	10.04	9.22	8.86
Total Forest Preserve (Net)	■ B	(3.94)	5.26	9.76	8.92	8.55
Total Fund Benchmark	▲	(3.59)	5.28	9.93	8.80	8.01

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First Quarter 2022

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	**$70,370,224**	**32.10%**	**(4.65%)**	**11.91%**	**17.67%**	**14.80%**	**14.14%**
Domestic Equity Benchmark (2)	-	-	(5.28%)	11.92%	18.24%	15.40%	14.23%
International Equity	**$58,639,070**	**26.75%**	**(5.48%)**	**(1.38%)**	**7.43%**	**7.96%**	**7.71%**
International Equity Bnmk (4)	-	-	(5.44%)	(1.48%)	7.51%	6.76%	5.55%
Fixed Income	**$44,596,442**	**20.34%**	**(4.26%)**	**(3.07%)**	**1.93%**	**2.16%**	**2.23%**
Fixed Income Benchmark (3)	-	-	(5.59%)	(4.03%)	1.72%	2.16%	2.23%
****Real Estate**	**$21,576,915**	**9.84%**	**0.00%**	**20.42%**	**8.77%**	**7.80%**	**8.11%**
NFI-ODCE Value Weight Net	-	-	7.14%	27.26%	10.30%	8.90%	9.91%
****Hedge Funds**	**$23,714,549**	**10.82%**	**(0.68%)**	**4.32%**	**3.86%**	**4.20%**	**-**
LIBOR + 4%	-	-	1.13%	4.27%	4.87%	5.33%	-
HFRI Fund of Funds Index (5)	-	-	(2.94%)	0.55%	5.99%	4.61%	3.87%
Cash Equivalents	**$306,401**	**0.14%**	**0.02%**	**0.06%**	**0.80%**	**1.48%**	**0.82%**
3-month Treasury Bill	-	-	0.04%	0.06%	0.81%	1.13%	0.63%
Total Forest Preserve Fund	**$219,203,601**	**100.00%**	**(3.94%)**	**5.26%**	**9.76%**	**8.92%**	**8.55%**
Total Fund Benchmark (1)	-	-	(3.59%)	5.28%	9.93%	8.80%	8.01%

**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. For the first quarter, active management in Domestic Equity and Fixed Income added value while Hedge Funds and Real Estate detracted.

The Fund's Domestic Equity allocation (-4.65%) outperformed the -5.28% return of the benchmark in the first quarter. In the last year, the Domestic Equity allocation returned 11.91%, in line with the benchmark.

The Fund's International Equity allocation returned -5.48% in the first quarter versus the benchmark return of -5.44%. Long term performance remains strong, as active management contributed to outperformance versus the benchmark for the trailing five- and ten-year periods.

The Fixed Income allocation returned -4.26% in the first quarter, outpacing the benchmark return of -5.59%. Over the trailing five- and ten-year periods, the fixed income allocation has matched the performance of its benchmark.

The Real Estate allocation is comprised of investments to private real estate. The Real Estate allocation trailed the benchmark (+7.14%) in the first quarter, returning 0.00%. Active management detracted during the quarter. The Real Estate allocation trails its benchmark over longer periods.

The Hedge Fund allocation returned -0.68% during the quarter, lagging its absolute return benchmark (+1.13%). Over longer periods, the Fund's Hedge Fund allocation has struggled versus hedge fund peers as measured by the HFRI Fund-of-Funds Index due a more-credit oriented, low equity beta approach.

Total Fund performance over longer periods has been strong relative to peers, as the Fund ranks ahead of its peer group median (GOF basis) over the trailing one-, five-, and ten-year periods.

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 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:** Blend of 90% Bloomberg Aggregate Index, and 10% Bloomberg Gov/Credit 1-3 Year Index; Prior to 12/31/2019 Bloomberg Aggregate Index; Prior to 12/31/2012 Blend of 75% Bloomberg Aggregate Index, and 25% Bloomberg Gov/Credit Intermediate Index.

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

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