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

Performance Summary

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Macroeconomic Environment

Ripple Effects from Central Bank Action

The Fed encountered a hiccup on its path to combat inflation. Nine consecutive rate hikes, the most rapid in its history, took the Fed Funds rate from roughly 0% to 5% in one year's time. While higher rates are a welcome outcome for fixed income investors (on a going-forward basis), they have had deleterious effects on the longer-term balance sheet holdings of some banks. In March, word of losses at a few banks sparked fears for depositors and led to a bank run that resulted in regulators seizing regional lenders Silicon Valley Bank and Signature Bank. The U.S. Treasury, Federal Reserve, and Federal Deposit Insurance Corporation quickly stepped in and announced measures to provide additional liquidity to banks that needed it and further guaranteed depositors would have access to funds (beyond the $250,000 insured amount) at both banks. A third regional lender, First Republic, also came under significant pressure, and a group of larger banks came together in a spirit of unity to provide liquidity.

As of quarter-end, nerves around the health of the U.S. banking system were frayed but fears of contagion were largely allayed. That said, the full impact of the "hiccup" is unknown as lending conditions are expected to tighten and will likely have an adverse effect on businesses and consumers. Despite these events, views are generally that large banks in the U.S. are in reasonably good shape and that this is not a repeat of 2008.

The Fed's 0.25% hike in March was seen as a "dovish" hike reflecting the uncertainty around the degree to which tighter lending conditions for consumers and businesses could lead to slower growth. This hike brought the Fed Funds rate to 4.75% – 5.0% with a unanimous vote. The last time that the Fed Funds rate was at this level was the fall of 2007. Notably, Chairman Jerome Powell softened language around the potential for future rate hikes, raising the possibility that the Fed may take a pause to assess the fallout from the stress seen in small/mid-sized banks. That said, the Fed's median expectation for the Fed Funds rate at year-end remains 5.1%, while market expectations are lower. At quarter-end, futures markets were pricing in rate cuts of 0.50-0.75% before year-end.

Growth is expected to slow; the questions are how much, for how long, and, more importantly, what the impact on inflation will be. The U.S. economy grew 2.6% in 4Q, down slightly from the initial estimate of 2.9%. As of quarter-end, the Atlanta Fed's GDPNow forecast for 1Q GDP growth was 2.5%. Fed projections released at its March meeting show a 0.4% GDP real growth rate for the full year, implying a sharp slowdown in future quarters from the likely 1Q print. The Congressional Budget Office (CBO) projects a similar paltry 0.1% rate for the full year. The Fed expects inflation to fall; the median expectation for the Core PCE Index is 2.6% in 2024 and 2.1% in 2025. Markets also expect inflation to trend lower; the five-year breakeven spread (the difference in yields between five-year U.S. Treasuries and five-year U.S. Treasury Inflation Protected Securities) was 2.4% as of quarter-end.

While inflation has moderated, it remained well above the Fed's 2% target. The CPI rose 6.0% in February (year-over-year), but this was the lowest since September 2021. Ex-food and energy, the Index climbed 5.5% over the past 12 months, also the least since fall of 2021. The Fed's favored measure (Core PCE) was up 4.6% for the same period, down just a tad from 4.7% in January. Much of the inflation has come from the services sector as consumers have been spending money saved during the pandemic. February service sector inflation was 7.6%, the highest since 1982, and it accounts for about 60% of the broad index. Shelter costs, which comprise a significant part of the CPI, were up 8.1%.

The labor market continued to show resilience despite large layoffs in the tech sector. Unemployment was 3.6%, not far from the February 54-year low of 3.4%. Employers added 311,000 jobs in February, well above expectations though less than the massive 504,000 gain in January. The Fed expects unemployment to climb; the median projection is 4.5% in 2023 and 4.6% in 2024 and 2025. Over the past 12 months, average hourly earnings grew 4.6%, but the February increase was the smallest in one year.

The World Bank estimates that global growth will slow to 1.7% for 2023, about half of the rate expected just six months ago and the third weakest in nearly 30 years. The outlook is driven largely by the global effort to tame inflation through higher policy rates and the potential for negative shocks. That said, so far economies have weathered the impact of higher rates reasonably well, outside of the recent hiccups in the banking sector, but inflation remains elevated around the globe.

In Europe, a warm winter helped to avoid the potentially devastating impact of higher energy prices, but inflation remains stubbornly high. According to Eurostat, inflation in the euro zone was 8.5% (year-over-year) and the estimate for March is 6.9%. The decline reflects a drop in energy inflation from 13.7% in February to -0.9% in March (both year-over-year). In March, the European Central Bank raised its benchmark deposit rate 0.5%, bringing it to 3.0%. The U.K. central bank has raised rates 11 times since December 2021, with a 0.25% increase in March bringing its rate to 4.25%. Inflation in the country surged 10.4% in February (year-over-year). Even Japan has experienced inflation, though modest in comparison. Japan’s annual inflation rate fell to 3.3% in February, down from a 41-year high of 4.3%. Core inflation was up 3.1%, above the Bank of Japan’s 2% target for the 11th consecutive month.

China is recovering and benefiting from the end of its “zero-COVID” policy in December 2022. The International Monetary Fund projects that China’s economy will expand 5.2% in 2023, one of the world’s few growth engines this year and, importantly, contributing roughly one-third of global growth. However, challenges remain in the beleaguered property sector and over longer periods in China’s slowing population growth and declining productivity.

Global Equities

U.S. stock indices posted positive returns in 1Q but it was not smooth sailing; strong returns in January were followed by negative results in February and mixed performance across sectors and styles in March. The S&P 500 Index rose 7.5% for the quarter and the tech-heavy Nasdaq 100 soared 20.8%. Within the S&P 500, Technology (+22%) and Communication Services (+21%) were the top performing sectors. Growth stocks trounced value for the quarter (Russell 1000 Growth: +14.4%; Russell 1000 Value: +1.0%) due largely to the sharp outperformance of Technology relative to Financials. Within the Russell 1000 Index, just five stocks: Apple (+27%), Meta (+76%), Microsoft (+21%), NVIDIA (+90%), and Tesla (+68%) accounted for 60% of the 1Q return and made up about 15% of the Index. Small value (Russell 2000 Value: -0.7%) was the one sector to post negative returns, hurt by its exposure to smaller banks. Banks comprise just under 20% of this Index and were down 17% for the quarter. Small cap stocks underperformed mid and large (Russell 2000: +2.7%; Russell MidCap: +4.1%; Russell 1000: +7.5%) across the style spectrum.

Global ex-U.S. markets also posted solid results. The MSCI ACWI ex USA Index gained 6.9% (Local: +6.2%). Results were mixed across developed markets but most delivered positive returns. Europe ex-U.K. (+12%) outperformed Japan (+6%), the U.K. (+6%), and Canada (+4%). Emerging markets (MSCI Emerging Markets: +4.0%; Local: +3.8%) were mixed; India (-6%) and Brazil (-3%) weighed on broad market returns while China (+5%) and Korea (+10%) outperformed. Quarterly returns were positive across regions: Latin America (+3.9%), Emerging Europe (+1.5%), and Emerging Asia (+4.8%).

Global Fixed Income

Following the worst year ever for core fixed income, the Bloomberg US Aggregate Bond Index rose 3.0% in 1Q. As with equities, it was a bumpy ride with solid returns in January and March sandwiching a negative February. The yield curve remained inverted as of quarter-end, by 0.58% for the 2-year/10-year and 1.16% for the 1-year/10-year. Historically, a yield curve inversion has been a good indicator of a coming recession. High yield (Bloomberg High Yield Index: +3.6%) performed well as defaults remained low, supply subdued, and equity markets climbed.

While short-term rates were broadly higher, longer-term rates fell across developed markets in 1Q. The Bloomberg Global Aggregate ex USD Index rose 3.1% (hedged: +2.9%). Emerging markets debt indices were also up (JPM EMBI Global Diversified: +1.9% and the local currency JPM GBI-EM Global Diversified: + 5.2%). Emerging market currencies, broadly, did well vs. the U.S. dollar during the quarter.

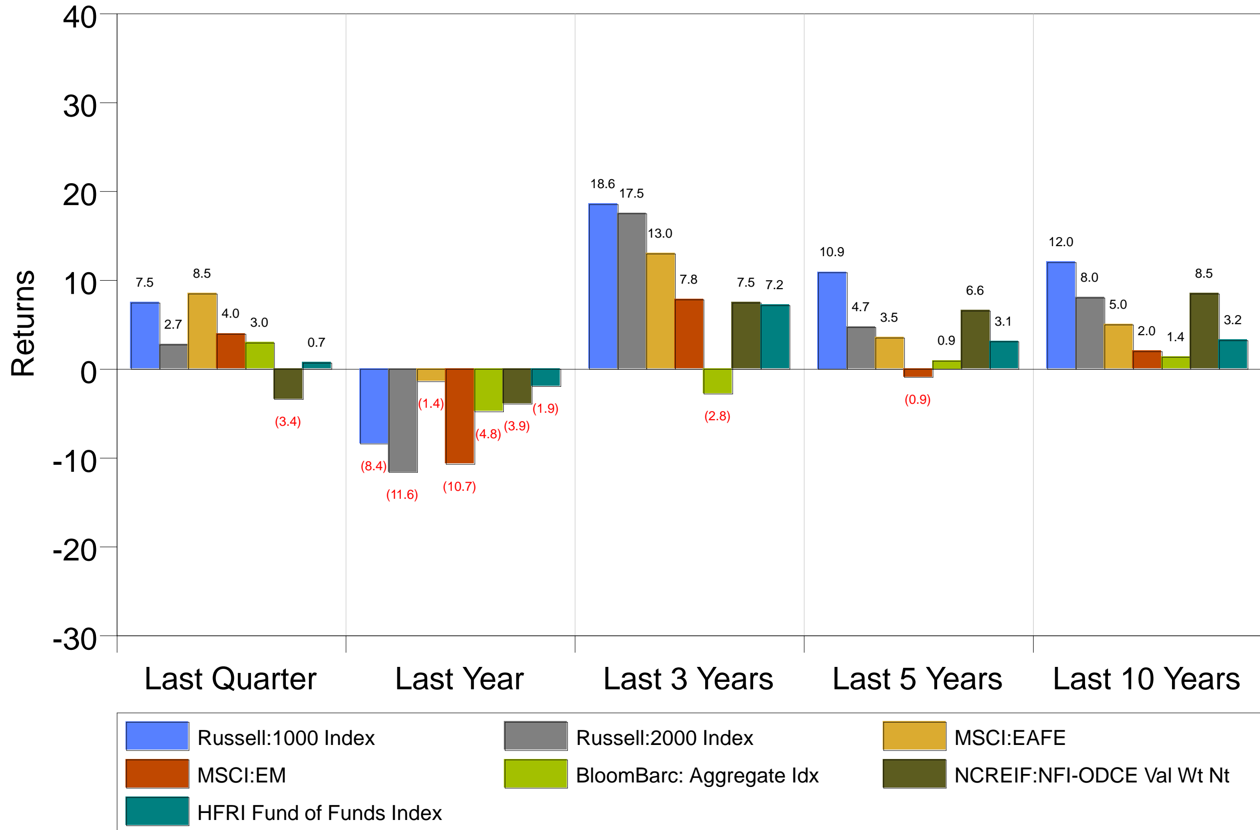
Real Assets

Real assets were mixed in 1Q but generally underperformed global equities. Gold (S&P Gold Spot Price Index: +8.8%), REITs (MSCI US REIT: +2.7%), infrastructure (DJB Global Infrastructure: +2.5%), and TIPS (Bloomberg TIPS: +2.0%) all posted positive returns. The S&P GSCI Index fell 4.9% with oil down about 7%. WTI Crude closed the quarter at $74/barrel, just before OPEC announced its intention to cut production in May.

Closing Thoughts

After a grim 2022, stock and bond markets provided a reasonable start to the year despite the unforeseen swoon in the banking sector that muddies the picture going forward as it relates to both the impact of tighter lending conditions for businesses and consumers and the Fed's next moves. Perhaps not surprising, equity and fixed income markets appear to differ in their views, with equity investors being more sanguine/optimistic than bond investors. Thus far, the economy appears to have weathered the most rapid Fed rate hikes in history with only a hiccup, but it remains to be seen if deeper and more profound effects will be revealed. At the very least, the Fed has been forced to add a third consideration to its twin mandates of managing inflation and employment—financial stability. Further, geopolitical tensions, weakness in Europe, a continuing war in Ukraine, and a looming debt ceiling provide additional fodder for an uncertain and likely volatile remainder of the year. With this in mind, Callan continues to recommend a disciplined investment process that includes a well-defined long-term asset-allocation policy.

First Quarter 2023 Market Performance



The Callan Periodic Table of Investment Returns
First Quarter 2023

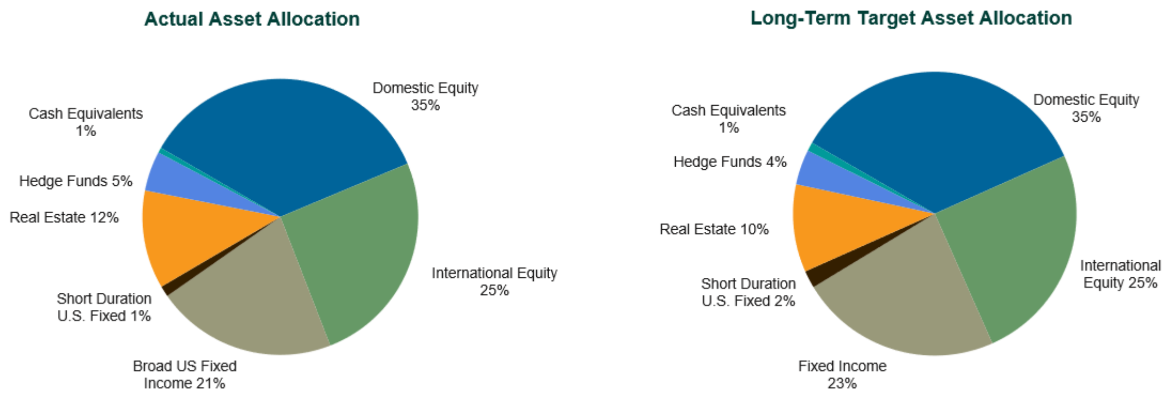
2014	2015	2016	2017	2018	2019	2020	2021	2022	1 Qtr. 2023
Russell:1000 Index 13.2%	NCREIF:NFI-ODCE Val Wt Nt 14.0%	Russell:2000 Index 21.3%	MSCI:EM 37.3%	Cambrdg:Gl Pvt Eq & Cred 10.0%	Russell:1000 Index 31.4%	Cambrdg:Gl Pvt Eq & Cred 29.8%	Cambrdg:Gl Pvt Eq & Cred 36.9%	NCREIF:NFI-ODCE Val Wt Nt 6.5%	MSCI:EAFE 8.5%
Cambrdg:Gl Pvt Eq & Cred 11.8%	Cambrdg:Gl Pvt Eq & Cred 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 (5.3%)	Russell:1000 Index 7.5%
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%	Cambrdg:Gl Pvt Eq & Cred (7.8%)	MSCI:EM 4.0%
BC Aggregate 6.0%	BC Aggregate 0.5%	Cambrdg:Gl Pvt Eq & Cred 9.5%	Cambrdg:Gl Pvt Eq & Cred 19.9%	HFRI Fund of Funds Index (4.0%)	MSCI:EM 18.4%	MSCI:EM 18.3%	Russell:2000 Index 14.8%	BC Aggregate (13.0%)	BC Aggregate 3.0%
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%)	Cambrdg:Gl Pvt Eq & Cred 16.2%	HFRI Fund of Funds Index 10.9%	MSCI:EAFE 11.3%	MSCI:EAFE (14.5%)	Russell:2000 Index 2.7%
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%	Russell:1000 Index (19.1%)	HFRI Fund of Funds Index 0.7%
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%)	MSCI:EM (20.1%)	NCREIF:NFI-ODCE Val Wt Nt (3.4%)
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%)	Russell:2000 Index (20.4%)	

In the first quarter of 2023, Developed International Equities (MSCI: EAFE Index: +8.5%) were the top performing asset class, outperforming Emerging Markets (MSCI: EM: +4.0%). For U.S. Equities, Large Caps (Russell: 1000 Index: +7.5%) led Small Caps (Russell: 2000 Index: +2.7%). Fixed Income (Bloomberg Aggregate Index: +3.0%) started the year on a positive note after a challenging 2022. Real Estate (NCREIF: NFI-ODCE Value Weighted Net Index: -3.4%) declined for the quarter and trailed Hedge Funds (HFRI Fund of Funds Index: +0.7%).

Forest Preserve Pension Fund Commentary

Asset Allocation

The Total Fund ended March with a market value of $195.4 million, a $6.9 million increase from the 4th quarter ending value of $188.5 million. The Fund experienced investment returns of $9.8 million and net outflows of -$2.9 million. All asset classes are within the allowable ranges from their long-term target allocation.



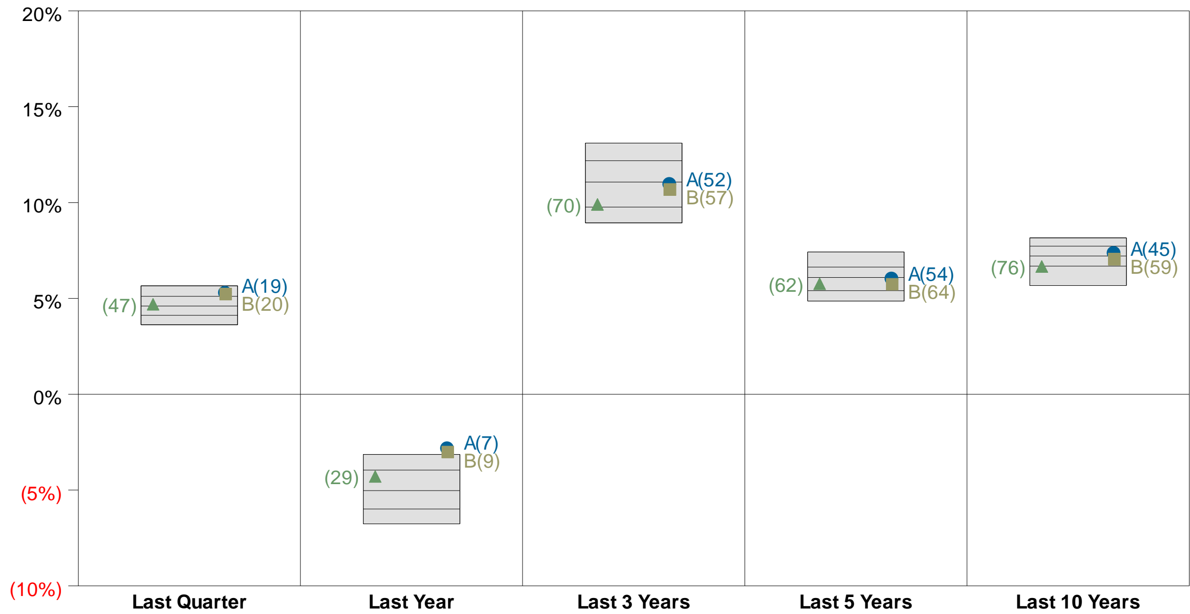
Asset Class	$000s Actual	Weight Actual	Min Target	Long-Term Target	Max Target	Percent Difference	$000s Target	$000s Difference
Domestic Equity	69,101	35.4%	28%	35%	36%	0.4%	68,391.75	709
International Equity	49,636	25.4%	23%	25%	31%	0.4%	48,851.25	785
Broad US Fixed Income	41,396	21.2%	19%	23%	27%	(1.8%)	44,943.15	(3,547)
Short Duration U.S. Fixed	2,503	1.3%	0%	2%	4%	(0.7%)	3,908.10	(1,405)
Real Estate	22,499	11.5%	6%	10%	14%	1.5%	19,540.50	2,959
Hedge Funds	9,096	4.7%	0%	4%	8%	0.7%	7,816.20	1,280
Cash Equivalents	1,174	0.6%	0%	1%	5%	(0.4%)	1,954.05	(780)
Total	195,405	100.0%		100%				

Forest Preserve Pension Fund Performance vs. Target

The Total Fund returned 5.23% for the quarter (Net of Fees), ahead of the benchmark return of 4.70%. Active management added value for the quarter. Over the trailing year, the Fund lost 3.02% but outperformed the benchmark return of -4.29%. The Fund has performed well on a relative basis over longer periods, outpacing its benchmark over the trailing three-, and ten-year periods.

Table 1.0

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	5.66	(3.14)	13.10	7.42	8.16
25th Percentile	5.11	(3.96)	12.19	6.63	7.73
Median	4.60	(5.03)	11.07	6.09	7.21
75th Percentile	4.12	(5.99)	9.77	5.40	6.68
90th Percentile	3.62	(6.76)	8.94	4.86	5.67
Total Forest (Gross) ● A	5.26	(2.86)	10.93	6.00	7.34
Total Forest (Net) ■ B	5.23	(3.02)	10.68	5.74	7.04
Total Forest Preserve Benchmark ▲	4.70	(4.29)	9.91	5.76	6.67

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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	**$69,100,951**	**35.36%**	**6.75%**	**(8.46%)**	**18.75%**	**9.70%**	**11.53%**
Domestic Equity Benchmark (2)	-	-	7.18%	(8.58%)	18.48%	10.45%	11.63%
International Equity	**$49,635,572**	**25.40%**	**8.08%**	**(3.23%)**	**12.46%**	**2.99%**	**5.93%**
International Equity Bnmk (4)	-	-	6.87%	(5.07%)	11.80%	2.47%	4.17%
Fixed Income	**$43,898,955**	**22.47%**	**2.90%**	**(3.31%)**	**(1.57%)**	**1.32%**	**1.52%**
Fixed Income Benchmark (3)	-	-	2.85%	(4.22%)	(2.51%)	1.04%	1.43%
****Real Estate**	**$22,499,484**	**11.51%**	**0.00%**	**6.87%**	**9.18%**	**8.30%**	**7.42%**
NFI-ODCE Value Weight Net	-	-	(3.38%)	(3.91%)	7.46%	6.56%	8.47%
****Hedge Funds**	**$9,095,745**	**4.65%**	**1.30%**	**7.12%**	**4.95%**	**4.40%**	**5.11%**
90-Day Average SOFR + 4% (5)	-	-	2.20%	7.44%	5.33%	5.75%	5.19%
HFRI Fund of Funds Index (6)	-	-	1.79%	(0.86%)	4.62%	3.14%	3.40%
Cash Equivalents	**$1,174,349**	**0.60%**	**1.15%**	**2.74%**	**0.98%**	**1.71%**	**1.08%**
3-month Treasury Bill	-	-	1.07%	2.50%	0.89%	1.41%	0.87%
Total Forest Preserve Fund	**$195,405,057**	**100.00%**	**5.23%**	**(3.02%)**	**10.68%**	**5.74%**	**7.04%**
Total Fund Benchmark (1)	-	-	4.70%	(4.29%)	9.91%	5.76%	6.67%

**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. In the third quarter, active management in Real Estate and Hedge Funds added value.

The Fund's Domestic Equity allocation returned 6.75% for the quarter, trailing the benchmark return of 7.18%. Domestic Equity outperformed the benchmark over the last one- and three-year periods, but has modestly underperformed over longer periods shown above.

International Equity gained 8.08% for the quarter and outpaced the benchmark return of 6.87%. Over longer periods, International Equity has fared well relative to the benchmark due to positive contributions from active managers.

Fixed Income generated a 2.90% return for the quarter, managing to edge out the benchmark return of 2.85%. Over the past year, Fixed Income experienced a decline of 3.31%, yet it performed better than the benchmark (-4.22%). Fixed Income has outperformed the benchmark over longer periods.

The Real Estate allocation is comprised of investments to private real estate. During the quarter, the Real Estate allocation remained unchanged (+0.00%), while the benchmark experienced a downward movement of 3.38%. Real Estate outperformed the benchmark over the trailing one-, three-, and five-year periods.

Hedge Funds achieved a 1.30% return for the quarter, falling behind the absolute return benchmark (+1.79%). For the year, Hedge Funds recorded a return of 7.12%, trailing the target return of 7.44%. Hedge Funds trail the benchmark over the trailing three-, five-, and ten-year periods.

Benchmarks

1. **Total Fund Benchmark:** Blend of asset class benchmarks at policy weights. This process reflects the practical implementation of non-publicly traded investments.

	Long Term Target	1Q 2023 Target
Russell 3000	35.0%	35.0%
MSCI ACWI ex US IMI	25.0	25.0
Bloomberg Aggregate	23.0	23.0
Blmbg Gov/Cred 1-3yr	2.0	2.0
90-Day Avg SOFR + 4.0%	4.0	4.0
Real Estate	10.0	10.0
Cash (90 day T-Bill)	1.0	1.0
Total Target	100.0%	100.0%

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. **Hedge Funds:** 90-Day Average SOFR + 4%; Prior to 12/31/2022 LIBOR + 4%.

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