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

Performance Summary

June 30, 2023

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Macroeconomic Environment

The Global Economy: Too Good to Be True?

A recession in the U.S. does not appear imminent, despite the most aggressive rate hikes since the 1980s over the past 15 months. The labor market remains strong, expectations for 2Q23 GDP growth are positive, consumer spending has exceeded expectations, and even housing has shown signs of life. Further good news comes from inflation, which has moderated, though largely due to falling energy prices. We have also successfully weathered a couple of storms this year; regional bank worries have abated after the collapse of Signature Bank, Silicon Valley Bank, and First Republic, and the debt ceiling saga is behind us.

Higher interest rates have a lagged effect but the impact can already be seen in some areas. In April, nearly 50% of U.S. banks reported tightening lending standards for loans to small businesses. Rising payments for credit card debt, auto loans, commercial mortgage payments, and corporate debt all have the potential to put the brakes on economic growth. While the default rate for corporations has not ticked up materially, a June report from S&P Global was a bit ominous: "…the tally of companies that have gone bankrupt so far in 2023 is higher than the first four months of any year since 2010." Commercial real estate woes, especially office and retail, are also on the radar of the more pessimistic crowd. The resumption of student loan payments in August could also temper growth later this year. Americans owe roughly $1.8 trillion in federal and private student loan debt.

And there is mixed news: Headline CPI was up 4.0% over the past 12 months (as of May), the lowest since March 2021, with Core up 5.3% (down from a 6.6% cycle high in September). Headline CPI has benefited from falling energy prices (-12% YOY) while Core has not moderated as much and has the Fed's attention. Within Core, shelter costs (+8% YOY) have been particularly sticky and comprise around 40% of the measure. The Fed's favored inflation metric, the Personal Consumption Expenditures Index, showed progress with a +3.8% gain in May (YOY), down from 5.4% in January. As with CPI, the Core measure remains more stubborn and was up 4.6% in May (YOY), down only slightly from January's 4.7%.

The Fed took a pause at its June meeting, leaving the Fed Funds target at 5.00% – 5.25%, citing uncertainty over the effects of tighter credit conditions and the lags with which monetary policy affects the economy and inflation. However, more hikes are likely this year. The median projection from the Federal Reserve Board for Fed Funds is 5.6% at the end of 2023, up from the March projection of 5.1%. The Fed's median prediction is 4.6% for the end of 2024, but the distribution reflects a wide range of views that range from 3.6% to 5.9%. The Fed remains committed in its goal to tame inflation and it believes it will be successful. The median projection is for Core PCE inflation to be 2.6% in 2024 and 2.2% in 2025. Markets agree, at least over longer periods. The five-year breakeven spread (a market measure of expected inflation over the next five years) was 2.2% as of quarter-end.

Most of the globe continues to be in "tightening" mode (except for China and Japan) as inflation remains stubbornly high. The Bank of England raised rates 50 bps in June, above expectations, in response to May's 7.1% (YOY) inflation print for core CPI, the highest since 1992. Central banks in Norway, Switzerland, and Turkey also raised rates in June. In the euro zone, inflation has moderated but remains high (6.1% YOY in May). Further hikes from the ECB are also expected. However, the impact has already been felt as the euro zone is in a technical recession, as measured by two consecutive quarters of negative growth. GDP in the 20-nation euro zone fell 0.1% in 1Q23 and 4Q22, hurt by declines in household spending amid higher prices.

Global Equities

The S&P 500 Index rose 8.7% while the tech-heavy Nasdaq Composite returned +13.1%. Within the S&P 500, Technology (+17.2%), Communication Services (+13.1%), and Consumer Discretionary (+14.6%) rose sharply while Energy (-0.9%) and Utilities (-2.5%) fell. Growth stocks trounced value for the quarter (Russell 1000 Growth: +12.8%; Russell 1000 Value: +4.1%) due largely to the sharp outperformance of Technology relative to Health Care, Energy, and Financials. Small cap stocks underperformed large (Russell 2000: +5.2%; Russell 1000: +8.6%) across the style spectrum. Index concentration continued to have a significant impact on returns in 2Q. The aptly named "Magnificent Seven" (Nvidia, Meta Platforms, Amazon, Tesla, Apple, Microsoft, Alphabet) comprise roughly 25% of the S&P 500 and have accounted for the vast majority of S&P 500 gains in 2023 (up 64% versus 3% for the rest of the Index).

Lacking the U.S. market's exuberance for any company associated with artificial intelligence, style impacts in developed ex-U.S. equity were more muted with value (MSCI World ex USA Value: +3.1%) in line with growth (MSCI World ex USA Growth: +3.0%). Illustratively, Industrials (EAFE Industrials: +6.4%) outperformed Technology (EAFE Technology: +5.9%). Japan (+6.4%) was a top performer and the Nikkei 225 Index hit its highest level since 1990. Emerging Europe (+11.2%) and Latin America (+14.0%) posted double-digit results while Emerging Asia (-0.8%) was hurt by poor performance from China (-9.7%) offsetting results from India (+12.2%). The recovery in China appears to be sputtering and economic news has been disappointing and remains uncertain. Poland (+24.5%) boosted the performance of emerging Europe while Turkey (-10.7%) weighed on the region's results. In Latin America, Brazil (+20.7%) and Colombia (+11.7%) were top performers.

Global Fixed Income

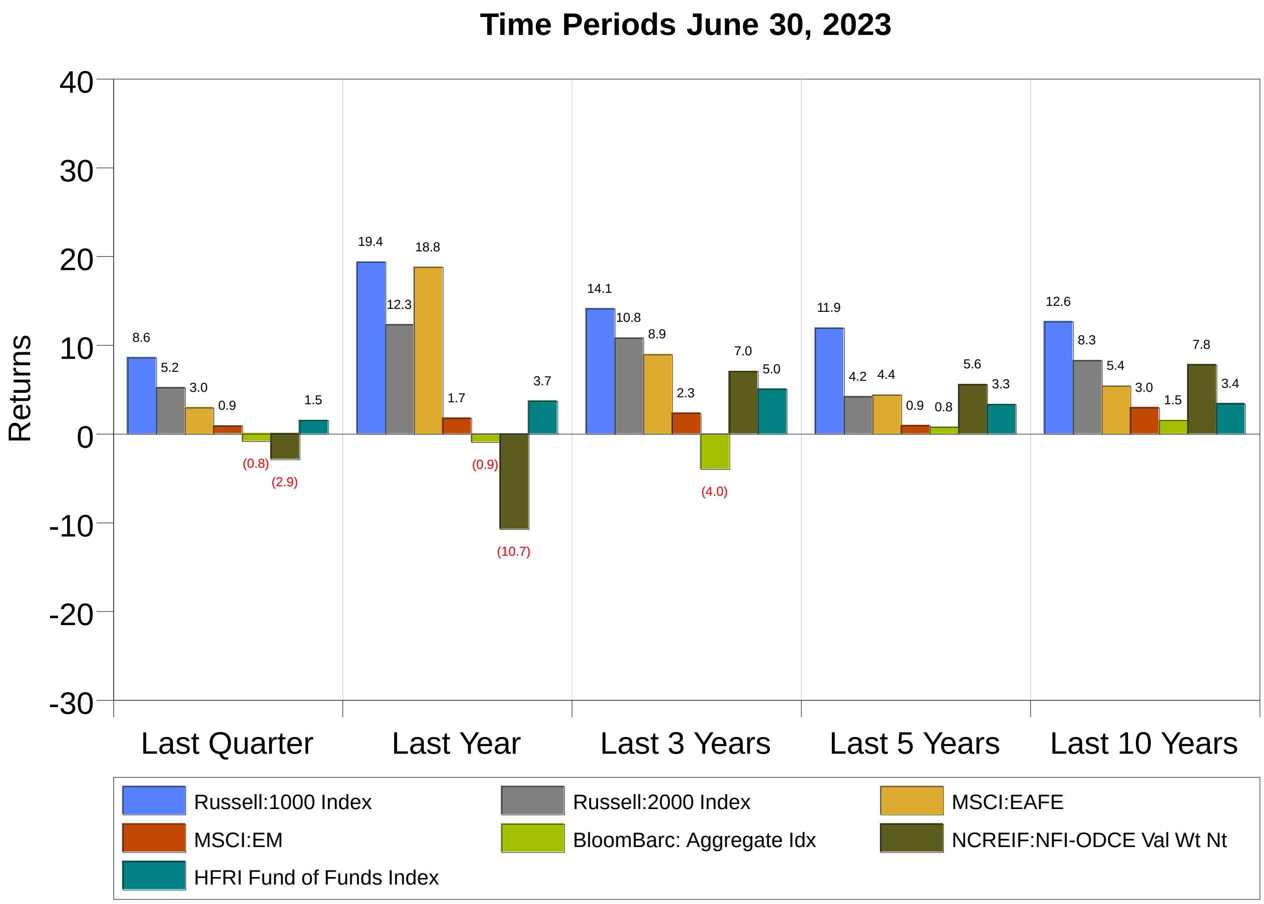
The Bloomberg US Aggregate Bond Index fell 0.8% in 2Q as interest rates rose. The 10-year U.S. Treasury yield was 3.81% as of quarter-end, up from 3.48% as of 3/31. The yield curve was sharply inverted at quarter-end with the 2-year U.S. Treasury yielding 4.87%. High yield (Bloomberg High Yield Index: +1.8%) performed well amid robust risk appetite, muted issuance, and promising economic news.

The Bloomberg Global Aggregate ex USD Index fell 2.2% (hedged: +0.7%). Japan (-8.0%) was the worst-performing constituent, due largely to yen deprecation. Emerging market debt indices performed well (JPM EMBI Global Diversified: +2.2%; local currency JPM GBI-EM Global Diversified: +2.5%). Returns were mixed in the local currency index; Latin America (+11%) performed well with double-digit returns from Brazil (+12%) and Colombia (+23%) while Asia (-2%) was hurt by China (-4%) and Malaysia (-4%). Turkey (-29%) also posted a sharp decline.

Real Assets

The S&P GSCI fell 2.7% in 2Q. WTI Crude ended the quarter at $70.64/barrel, down from $75.67/barrel on 3/31. Copper (-8%) fell on concerns over ebbing global demand and a slowdown in China, and gold (S&P Gold Spot Price: -2.9%) was hurt by lowered expectations for inflation and reduced safe-haven demand. REITs were a bright spot (MSCI US REIT: +2.7%) while TIPS (Bloomberg TIPS: -1.4%) were hurt by rising interest rates.

Second Quarter 2023 Market Performance



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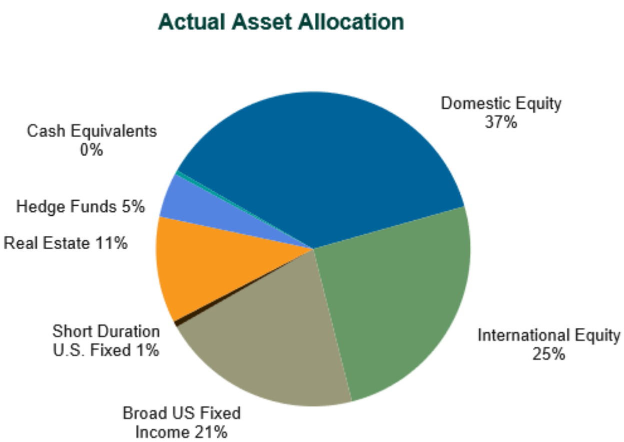
The Callan Periodic Table of Investment Returns
Second Quarter 2023

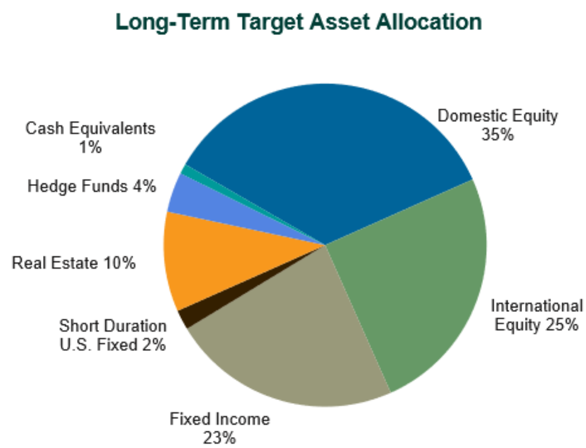
2014	2015	2016	2017	2018	2019	2020	2021	2022	2 Qtrs. 2023
Russell:1000 Index 13.2%	NCREIF:NFI-ODCE Val Wt Nt 14.0%	Russell:2000 Index 21.3%	MSCI:EM 37.3%	Cambridge:Gl PE & Cred 10.0%	Russell:1000 Index 31.4%	Cambridge:Gl PE & Cred 29.8%	Cambridge:Gl PE & Cred 37.0%	NCREIF:NFI-ODCE Val Wt Nt 6.5%	Russell:1000 Index 16.7%
Cambridge:Gl PE & Cred 11.9%	Cambridge:Gl PE & 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%)	MSCI:EAFE 11.7%
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%	Cambridge:Gl PE & Cred (7.8%)	Russell:2000 Index 8.1%
BC Aggregate 6.0%	BC Aggregate 0.5%	Cambridge:Gl PE & Cred 9.6%	Cambridge:Gl PE & Cred 20.0%	HFRI Fund of Funds Index (4.0%)	MSCI:EM 18.4%	MSCI:EM 18.3%	Russell:2000 Index 14.8%	BC Aggregate (13.0%)	MSCI:EM 4.9%
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:Gl PE & Cred 16.3%	HFRI Fund of Funds Index 10.9%	MSCI:EAFE 11.3%	MSCI:EAFE (14.5%)	Cambridge:Gl PE & Cred 3.7%
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 2.3%
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%)	BC Aggregate 2.1%
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%)	PE Idx Not Yet Reported

Forest Preserve Pension Fund Commentary

Asset Allocation

The Total Fund ended June with a market value of $198.1 million, a $2.7 million increase the first quarter ending value of $195.4 million. The Fund experienced investment returns of approximately $6.5 million and net outflows of $3.7 million. All asset classes are within the allowable ranges from their long-term target allocation.





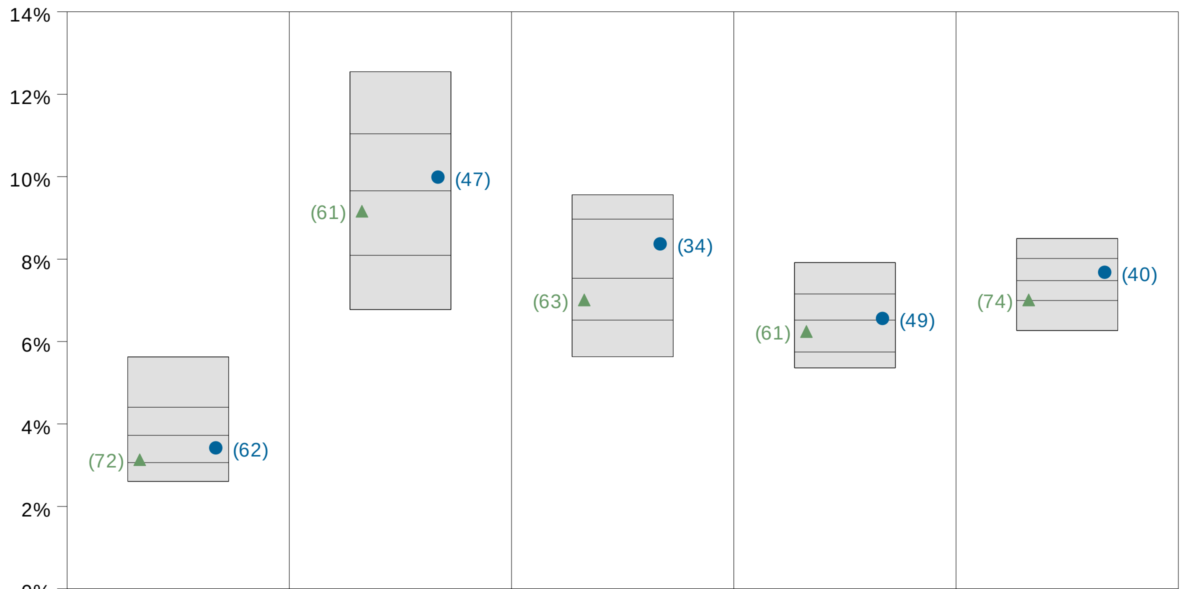
Asset Class	$000s Actual	Weight Actual	Min Target	Long-Term Target	Max Target	Percent Difference	$000s Target	$000s Difference
Domestic Equity	73,897	37.3%	31%	35%	39%	2.3%	69,351	4,546
International Equity	50,341	25.4%	21%	25%	29%	0.4%	49,537	804
Broad US Fixed Income	41,043	20.7%	19%	23%	27%	(2.3%)	45,574	(4,531)
Short Duration U.S. Fixed	1,247	0.6%	0%	2%	4%	(1.4%)	3,963	(2,716)
Real Estate	21,697	10.9%	6%	10%	14%	0.9%	19,815	1,882
Hedge Funds	9,100	4.6%	0%	4%	8%	0.6%	7,926	1,174
Cash Equivalents	822	0.4%	0%	1%	5%	(0.6%)	1,981	(1,159)
Total	198,147	100.0%		100%				

Forest Preserve Pension Fund Performance vs. Target

The Total Fund generated a return of 3.40% gross of fees (GOF) for the quarter and outperformed the benchmark return of 3.13%. Over the last year, the Total Fund gained 9.97% and outperformed the benchmark return of 9.16%. The Fund has performed well on a relative basis over longer periods, outpacing its benchmark over the trailing three-, five-, 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	5.63	12.54	9.56	7.92	8.50
25th Percentile	4.41	11.04	8.97	7.15	8.02
Median	3.72	9.65	7.54	6.52	7.48
75th Percentile	3.06	8.09	6.52	5.75	7.00
90th Percentile	2.61	6.78	5.63	5.36	6.27
Total Forest Preserve Fund ●	3.40	9.97	8.35	6.54	7.66
Total Fund Benchmark ▲	3.13	9.16	7.01	6.24	7.01

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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	**$73,896,698**	**37.29%**	**8.46%**	**18.77%**	**14.23%**	**10.71%**	**12.09%**
Domestic Equity Benchmark (2)	-	-	8.39%	18.95%	13.89%	11.39%	12.23%
International Equity	**$50,340,833**	**25.41%**	**3.50%**	**15.35%**	**8.34%**	**4.42%**	**6.38%**
International Equity Bnmk (4)	-	-	2.44%	12.72%	7.22%	3.52%	4.75%
Fixed Income	**$42,290,008**	**21.34%**	**(0.86%)**	**(0.69%)**	**(2.85%)**	**1.14%**	**1.70%**
Fixed Income Benchmark (3)	-	-	(0.81%)	(0.74%)	(3.64%)	0.91%	1.59%
****Real Estate**	**$21,697,024**	**10.95%**	**(2.96%)**	**(3.57%)**	**7.59%**	**6.77%**	**7.29%**
NFI-ODCE Value Weight Net	-	-	(2.88%)	(10.73%)	7.04%	5.56%	7.77%
****Hedge Funds**	**$9,100,076**	**4.59%**	**0.05%**	**5.67%**	**6.35%**	**4.04%**	**4.73%**
90-Day Average SOFR + 4% (5)	-	-	2.33%	8.53%	5.73%	5.91%	5.32%
HFRI Fund of Funds Index (6)	-	-	(0.36%)	1.12%	5.32%	2.99%	3.13%
Cash Equivalents	**$822,301**	**0.41%**	**1.26%**	**3.86%**	**1.37%**	**1.87%**	**1.20%**
3-month Treasury Bill	-	-	1.17%	3.59%	1.27%	1.55%	0.98%
Total Forest Preserve Fund	**$198,146,941**	**100.00%**	**3.36%**	**9.78%**	**8.13%**	**6.28%**	**7.36%**
Total Fund Benchmark (1)	-	-	3.13%	9.16%	7.01%	6.24%	7.01%

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

The Fund's Domestic Equity allocation returned 8.46% for the quarter, exceeding the benchmark return of 8.39%. Domestic Equity outperformed the benchmark over the last three-year period but has modestly underperformed over longer periods shown above.

International Equity gained 3.50% for the quarter and outpaced the benchmark return of 2.44%. Over longer periods, International Equity has fared well relative to the benchmark due to positive contributions from active managers.

Fixed Income declined 0.86% for the quarter, modestly trailing the benchmark return of -0.81%. Over the past year, Fixed Income experienced a decline of 0.69%, yet it performed better than the benchmark (-0.74%). 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 fell 2.96%, while the benchmark experienced a drawdown of 2.88%. Real Estate outperformed the benchmark over the trailing one-, three-, and five-year periods.

Hedge Funds achieved a 0.05% return for the quarter, falling behind the absolute return benchmark (+2.33%). For the year, Hedge Funds recorded a return of 5.67%, trailing the target return of 8.53%. Hedge Funds trail the benchmark over the last 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.