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

Performance Summary

June 30, 2021

Ann O'Bradovich
Senior Vice President

John Jackson, CFA
Senior Vice President

Table of Contents

Forest Preserve District Employees' Annuity & Benefit Fund of Cook County
Performance Evaluation Executive Summary
Second Quarter 2021

Macroeconomic Environment

Tran-si-to-ry (adj.) — of brief duration: temporary (Merriam-Webster)

There was not a lot for investors to complain about in 2Q21, especially when compared to 2Q20. Fueled by rapid progress in vaccinations and re-opening economies, pent-up demand, and continued monetary and fiscal stimulus, consumer sentiment climbed and economic data were broadly positive. This spurred sharp gains in global stock markets, commodities, and real estate. Atypically, bonds were even well-behaved and delivered positive quarterly returns in spite of rising inflation and buoyant economic growth. Markets were seemingly undisturbed by the ongoing debate as to whether recent increases in inflation will be short-lived or not, with most of Wall Street being in the Fed's "transitory" camp. Investors were also unperturbed by the Fed's move to a more "hawkish" stance coming out of its recent June meeting (more on both topics later).

According to the Centers for Disease Control, nearly 60% of the U.S. population (ages 18 and over) has been vaccinated (more than 150 million). Aside from the U.K., most developed markets are making slower but steady progress. Japan is an exception. According to the World Health Organization, less than 8% of its population has been vaccinated as it prepares for the Olympics this summer. Japan has faced a shortage of doctors and nurses and, further, has had to import all of its vaccines. Emerging market countries have had mixed success but have generally lagged developed markets.

Consumer demand for goods and services has been robust, spurred by stimulus and months of forced solitude, while supply in some channels has been constrained by labor shortages and other bottlenecks. Real GDP growth in 1Q surged 6.4% (annualized) and some expect growth to exceed 9% in 2Q. The most recent prediction from the Congressional Budget Office was for GDP growth to be 7.4% in 2021, the fastest pace since 1984 and double its forecast of 3.7% issued in February 2021. Under the hood of the headline GDP figure, personal consumption and business investment grew 11.4% and 11.7%.

Manufacturing and services indices remained strong in spite of supply bottlenecks and widespread labor shortages. The July 1 release of the Institute for Supply Management (ISM) Manufacturing Index was 60.6 (above 50 signals expansion) and the prices-paid component jumped to 92.1, the highest since 1979. The Conference Board Consumer Confidence Index reached a 13-month high, and the "jobs gap," which measures the difference between those indicating that jobs are "easy" versus "hard" to get, reached 43.5%, near an all-time high. Unemployment fell to 5.8% as of the end of May. There are still nearly 10 million people unemployed, yet job openings are at record levels (9.3 million in April according to the Labor Department's JOLTS report) and labor shortages are widespread. There are a number of theories for this, all of which likely have some element of truth. These range from employees' fear of returning to the workforce given concerns over the virus, to difficulties finding childcare, to a simple reassessment of priorities (early retirements have accelerated) and quality-of-life considerations (did I really like my job?). Further, continued jobless benefits have likely made the choice possible, though this contributor could be short-lived as federal benefits are slated to expire in September and a number of states have already ended theirs. A mismatch in skill requirements is an issue in some industries as well.

Housing prices have been on a tear. The S&P CoreLogic Case-Shiller U.S. National Home Price Index showed a 14.6% increase over the past year (as of April), the highest reading since data began to be collected more than 30 years ago. Demand for houses has surged throughout the country while inventory has never been lower, and builders have been hampered by high costs and labor shortages. Craig Lazzara, managing director and global head of index investment strategy at S&P DJI, summarized it well, "April's performance was truly extraordinary…. Housing prices in all 20 cities rose; price gains in all 20 cities accelerated; price gains in all 20 cities were in the top quartile of historical performance. In 15 cities, price gains were in the top decile. Five cities—Charlotte, Cleveland, Dallas, Denver, and Seattle—joined the National Composite in recording their all-time highest 12-month gains."

The Consumer Price Index (CPI) rose 5.0% over the last 12 months (as of May), exceeding expectations and notching the largest increase since 2008. Core CPI (ex food and energy) was up 3.8% year-over-year, the largest increase since 1992. The Fed's favored measure, core PCE, climbed 3.9% (3.4% core) for the period, well above its long-term 2% target. While leaving the Fed Funds rate alone at 0.0%-0.25% at its June meeting, the Federal Open Market Committee turned a bit more hawkish. Seven of the 18 committee members see the first hike in 2022 and thirteen members expect a hike in 2023. In March, there were four members expecting a 2022 hike and seven expecting a hike in 2023. The Fed also sharply raised its expectation for inflation, measured by the PCE, in 2021 (from 2.4% in March to 3.4%). Asset purchases of $120 billion per month continue, but Chairman Jerome Powell did acknowledge that "tapering" had been a discussion item at the meeting. It would not be a surprise to see asset purchases tempered at some point this year.

A wide-ranging debate around whether inflation increases will be short-lived is ongoing. Supporting arguments for this include:

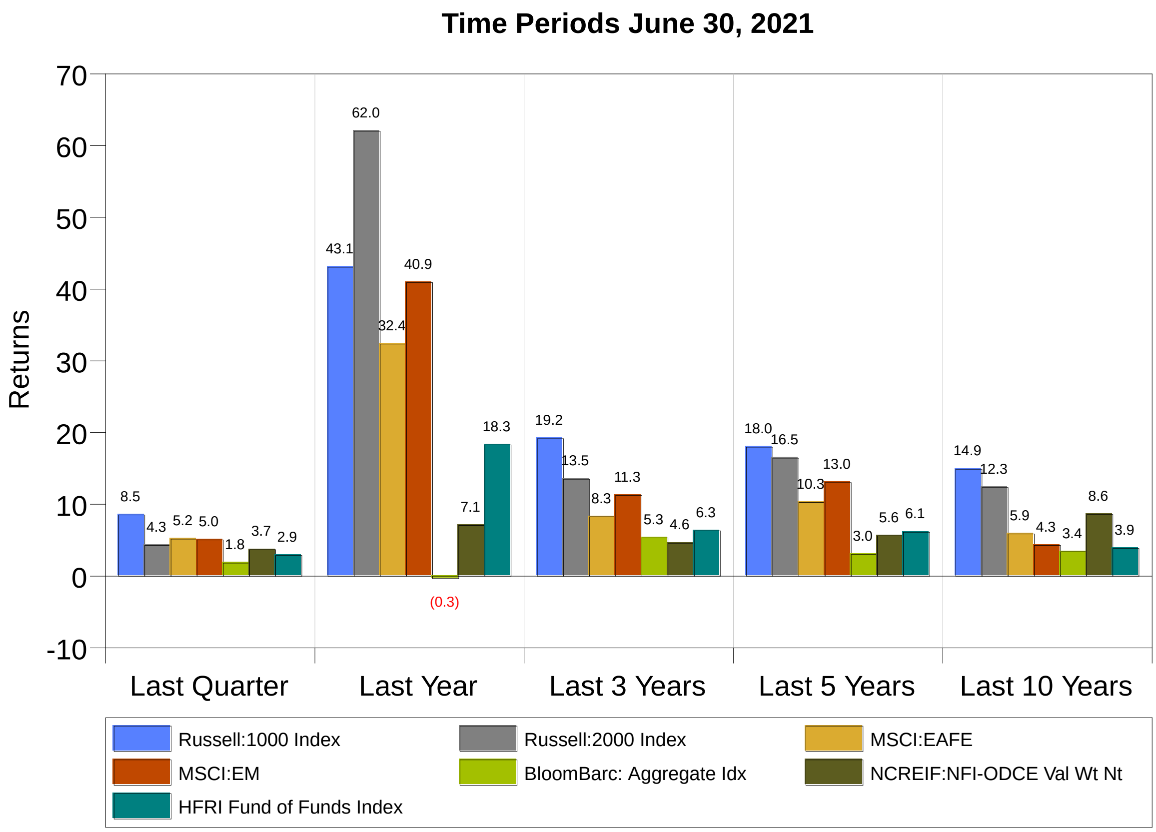
- Current inflation figures are off of a low pandemic-induced base and thus unsustainable
- Downward price pressures from secular themes such as globalization and an aging workforce will resurface
- Intensity/pace of this economic rebound has created short-term supply-related price pressures that will subside

For those concerned about more stubborn inflation increases, the following points are cited:

- Wage pressures can be expected to climb as workers demand higher compensation
- Price increases have been broad-based (used cars, food, energy, construction, car rentals, airfare, appliances)
- Supply constraints could be longer lasting and lead to "cost-push" inflation

Interestingly, the bond market appears to be unfazed and yields fell steadily throughout the quarter after rising sharply in 1Q. One may wonder what the bond market is seeing that others are missing.

Second Quarter 2021 Market Performance



Global Fixed Income

The 10-year U.S. Treasury yield declined steadily throughout the quarter, from 1.74% as of 3/31 to 1.45%. TIPS outperformed nominal Treasuries for the quarter given strong relative performance in April and May. The Bloomberg Barclays US Aggregate Bond Index rose 1.8% but remains down 1.6% YTD. Strong equity performance and robust economic data fueled risk appetites, and lower-quality securities were the best performers again this quarter. Corporates outperformed Treasuries as investors continued to reach for yield in spite of the paltry yield advantage (the average option-adjusted spread on the Corporate Index was 80 bps as of quarter-end, the lowest since 1998). The Bloomberg Barclays High Yield Index was up 2.7%. The absolute yield-to-worst for the Index reached an all-time low of 3.75% and its option-adjusted spread hit 268 bps, the lowest since 2007. Municipals (Bloomberg Barclays Municipal Bond Index: +1.4%) performed in line with Treasuries for the quarter.

The U.S. dollar was mixed versus developed market currencies but shifts were fairly modest. Thus, currency was not a major contributor to relative results for global ex-U.S. indices. The Bloomberg Barclays Global Aggregate ex-US Bond Index rose 0.9% (+0.4% hedged). Emerging market debt performed well; the JPM EMBI Global Diversified Index gained 4.1% and the local currency JPM GBI-EM Global Diversified Index was up 3.5%. Both remain down YTD, however; -0.7% and -3.4%, respectively.

Global Equities

The S&P 500 Index closed the quarter at a record high and registered an 8.5% gain in 2Q, bringing its YTD return to 15.3%. The Index is up 40.8% over the past year and the annualized return over the past 10 years is a healthy 14.8%. The S&P 500 Index hit 34 record highs in the first half of the year. First quarter earnings were up over 50%, according to FactSet, and second quarter earnings are projected to grow more than 60% (YOY). Real Estate was the strongest-performing sector in the S&P 500 for the quarter (+13.1%) with Technology close behind (+11.6%). Utilities was the only sector to post a negative result (-0.4%). Growth stocks outperformed value (R1000 Growth: + 11.9%; R1000 Value: + 5.2%) but lag for the YTD period (+13.0% vs. +17.0%) Small cap lagged large (R2000: +4.3% vs. R1000: +8.5%) but is ahead by a modest margin YTD (17.5% vs 15.0%).

Developed ex-U.S. stocks also had a strong quarter with virtually all developed market countries posting positive returns. The MSCI ACWI ex-USA Index rose 5.5% for the quarter and is up 9.2% YTD. As in the U.S., Utilities (-0.4%) was the lone sector to produce a negative return. Health Care (+9.9%) and Energy (+8.2%) were the top-performing sectors. Canada (+10.0%) was a strong performer and Japan (-0.3%) was notable as the lone country to deliver a negative return. The U.S. dollar was mixed against developed market currencies and thus shifts were not a major contributor to relative results. The MSCI EM Index performed in line with developed markets (MSCI EM USD: +5.0% and +7.4% YTD), but country returns were mixed. Brazil (+23%) and Russia (+14%) were top performers while Chile (-14%) was at the bottom of the pack. China was up 2% and China A-shares (+9.2%) did especially well as softer economic data in May appeared to ease investors' concerns over potential policy tightening.

Real Assets

Real assets did very well as the economy continued to gain traction. The Bloomberg Commodities TR Index rose 13.3%. Oil prices continued to climb, closing at more than $73 per barrel, the highest in almost three years. The Alerian MLP Index was up 21.2% for the quarter and 47.8% YTD. The S&P GSCI Index climbed 15.7% and is up 31.4% YTD. REITs, as measured by the MSCI U.S. REIT Index, rose 12.0%. The Bloomberg Barclays US TIPS Index gained 3.2% and the Dow Jones Global Infrastructure Index climbed 6.9%. Gold (S&P Gold Spot Price: +3.3%) was an underperformer for the quarter.

Closing Thoughts

The recent rise in inflation may indeed be transitory, but so may the pace and longevity of the economic recovery. Consumer and investor exuberance may also be transitory, especially when considering base effects (very low one year ago—not so low today!), the potential for the dangerous Delta variant to cause disruption, and a slow-to-heal labor market. On the flipside, inflation increases may prove not to be transitory and rate hikes could be needed sooner than expected. In either scenario, there are a variety of paths that markets could take. Meanwhile, there are few (any?) investment options that can be argued to have "attractive" valuations and thus it is sensible to temper going-forward return expectations. In this vein, it will come as no surprise that Callan continues to advise adherence to a disciplined investment process that includes a well-defined long-term asset allocation policy.

The Callan Periodic Table of Investment Returns
Second Quarter 2021

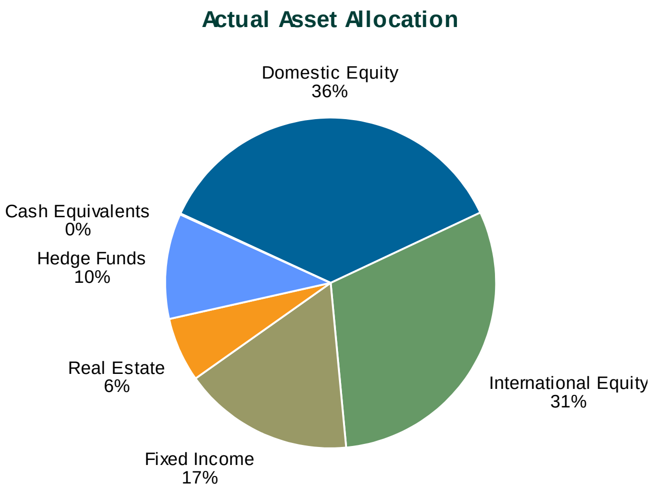
2012	2013	2014	2015	2016	2017	2018	2019	2020	2 Qtrs. 2021
MSCI:EM 18.2%	Russell:2000 Index 38.8%	Russell:1000 Index 13.2%	NCREIF:NFI-ODCE Val Wt Nt 14.0%	Russell:2000 Index 21.3%	MSCI:EM 37.3%	NCREIF:NFI-ODCE Val Wt Nt 7.4%	Russell:1000 Index 31.4%	Russell:1000 Index 21.0%	Russell:2000 Index 17.5%
MSCI:EAFE 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 15.0%
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 8.8%
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 7.4%
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%	NCREIF:NFI-ODCE Val Wt Nt 5.6%
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%	HFRI Fund of Funds Index 4.9%
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 (1.6%)

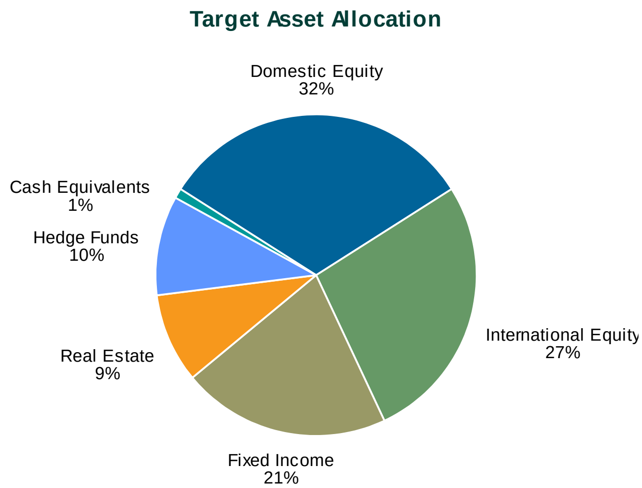
Through the second quarter of 2021, Small Cap Equity was the top performing asset class (Russell 2000 Index: +17.5%), leading Large Cap Equity (Russell 1000 Index: +15.0%). Developed International Equities (MSCI EAFE Index: +8.8%) outperformed Emerging Markets (MSCI Emerging Markets: +7.4%). Real Estate (NCREIF: NFI-ODCE Value Weighted Net Index: +5.6%) outperformed Hedge Funds (HFRI Fund of Funds Index: +4.9%). Fixed Income (Bloomberg Barclays US Aggregate Bond Index: -1.6%) was the only asset class to earn negative returns over the period.

Forest Preserve Pension Fund Commentary

Asset Allocation

The Forest Preserve Fund ("Fund") ended the second quarter with a market value of $227.7 million, a $7.1 million increase from the first quarter-end value of $220.6 million. The Fund gained approximately $10.7 million from investment returns and experienced net withdrawals of approximately $3.6 million.





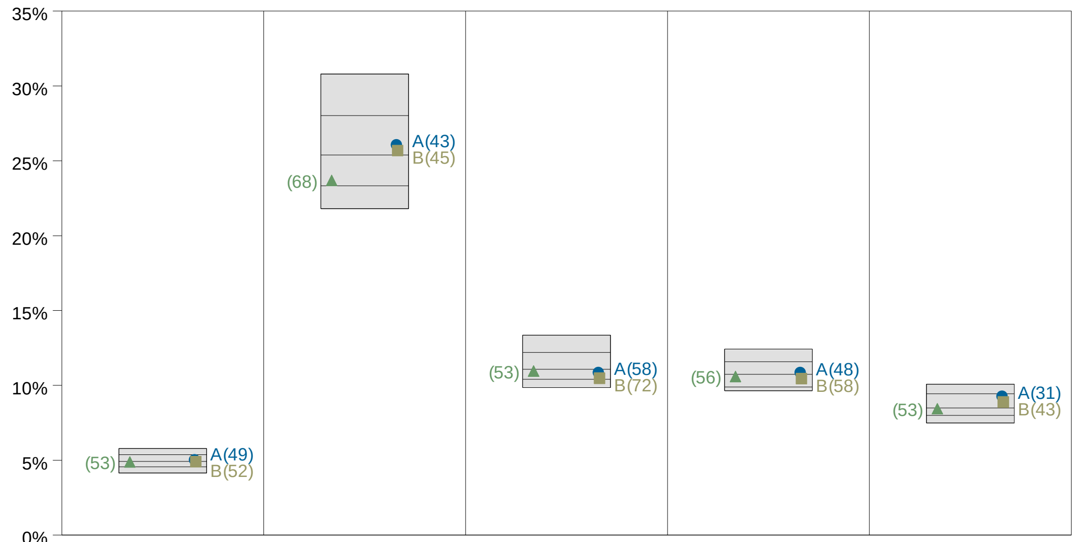
Asset Class	$000s Actual	Weight Actual	Min Target	Target	Max Target	Percent Difference	$000s Difference
Domestic Equity	82,206	36.1%	28.0%	32.0%	36.0%	4.1%	9,345
International Equity	69,469	30.5%	23.0%	27.0%	31.0%	3.5%	7,993
Fixed Income	38,119	16.7%	17.0%	21.0%	25.0%	(4.3%)	(9,696)
Real Estate	14,303	6.3%	5.0%	9.0%	13.0%	(2.7%)	(6,189)
Hedge Funds	23,359	10.3%	6.0%	10.0%	14.0%	0.3%	590
Cash Equivalents	233	0.1%	0.0%	1.0%	5.0%	(0.9%)	(2,043)
Total	227,690	100.0%		100.0%			

Forest Preserve Pension Fund Performance vs. Target

During the second quarter, the Forest Preserve Pension Fund posted a net return of 4.90%, narrowly leading the target benchmark by 0.01%. For the second quarter, asset allocation decisions added value, while active management detracted. During the last year, the Fund generated a return of 25.68%, leading its benchmark and median of peers. 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.

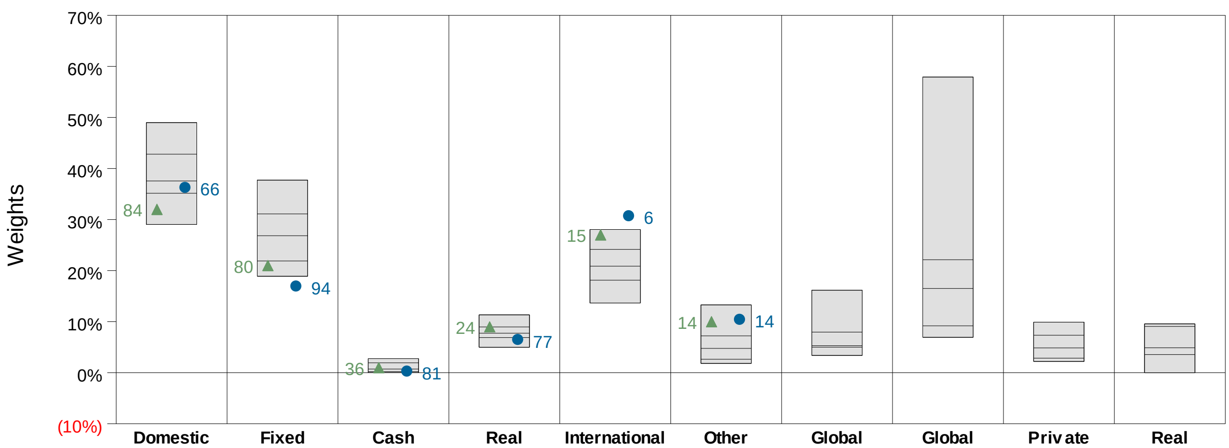
Forest Preserve District Employees’ Annuity & Benefit Fund of Cook County
Performance Evaluation Executive Summary
Second Quarter 2021

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		5.79	30.80	13.35	12.43	10.08
25th Percentile		5.37	28.02	12.20	11.58	9.43
Median		4.93	25.39	11.08	10.74	8.50
75th Percentile		4.56	23.33	10.41	9.89	7.99
90th Percentile		4.15	21.81	9.86	9.64	7.49
Total Forest (Gross)	● A	4.95	25.99	10.78	10.78	9.19
Total Forest (Net)	■ B	4.90	25.68	10.47	10.46	8.89
Total Forest Preserve Benchmark	▲	4.89	23.69	10.96	10.60	8.44

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		48.99	37.75	2.76	11.35	28.05	13.28	16.16	57.92	9.91	9.57
25th Percentile		42.82	31.12	1.93	8.96	24.17	7.24	7.95	22.14	7.34	9.06
Median		37.58	26.84	0.74	7.75	20.87	4.77	5.31	16.51	4.85	4.88
75th Percentile		35.16	21.89	0.22	6.90	18.12	2.65	5.01	9.19	2.87	3.56
90th Percentile		29.04	18.89	0.02	4.99	13.65	1.82	3.40	6.93	2.21	0.00
Fund	●	36.10	16.74	0.10	6.28	30.51	10.26	-	-	-	-
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	**$82,206,113**	**36.10%**	**7.22%**	**43.85%**	**17.09%**	**17.23%**	**14.27%**
Domestic Equity Benchmark (2)	-	-	8.24%	44.16%	18.73%	17.89%	14.67%
International Equity	**$69,469,272**	**30.51%**	**5.45%**	**35.76%**	**9.84%**	**11.01%**	**8.13%**
International Equity Bnmk (4)	-	-	5.48%	35.72%	9.38%	11.08%	5.45%
Fixed Income	**$38,119,097**	**16.74%**	**1.36%**	**0.00%**	**4.90%**	**2.72%**	**3.16%**
Fixed Income Benchmark (3)	-	-	1.65%	(0.25%)	5.26%	2.98%	3.32%
****Real Estate**	**$14,303,071**	**6.28%**	**3.20%**	**2.91%**	**4.67%**	**5.08%**	**8.02%**
NFI-ODCE Value Weight Net	-	-	3.68%	7.09%	4.60%	5.62%	8.60%
****Hedge Funds**	**$23,358,568**	**10.26%**	**2.76%**	**10.55%**	**3.86%**	**5.17%**	**-**
LIBOR + 4%	-	-	1.02%	4.21%	5.46%	5.42%	-
HFRI Fund of Funds Index (5)	-	-	2.26%	20.05%	5.99%	5.93%	3.67%
Cash Equivalents	**$233,491**	**0.10%**	**0.01%**	**0.08%**	**1.77%**	**1.58%**	**0.82%**
3-month Treasury Bill	-	-	(0.00%)	0.09%	1.34%	1.17%	0.63%
Total Forest Preserve Fund	**$227,689,612**	**100.00%**	**4.90%**	**25.68%**	**10.47%**	**10.46%**	**8.89%**
Total Fund Benchmark (1)	-	-	4.89%	23.69%	10.96%	10.60%	8.44%

**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 underperformed its benchmark in the second quarter and the trailing year. For the second quarter, an overweight to Domestic Equity added value, but was offset by adverse active management. Over longer periods, the Domestic Equity allocation has underperformed its benchmark due to active management decisions. The Fund's International Equity allocation narrowly trailed its benchmark (+5.48%) during the quarter, returning 5.45%. Strong active management led the International Equity allocation to beat its benchmark for the trailing one-, three-, and ten-year periods.

The Fixed Income allocation returned 1.36% in the second quarter, trailing the benchmark return by 0.29%. 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 (+3.68%) in the second quarter, returning 3.20%. Active management was a detractor in the second 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 (+2.76%) outperformed its absolute return benchmark (+1.02%) for the second 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 25.68% in the last year, leading its benchmark, and ranking ahead of 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.

Forest Preserve District Employees' Annuity & Benefit Fund of Cook County
Performance Evaluation Executive Summary
Second Quarter 2021

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.