

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

Performance Summary

September 30, 2023

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Forest Preserve District Employees' Annuity & Benefit Fund of Cook County
Performance Evaluation Executive Summary
Third Quarter 2023

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Macroeconomic Environment

The Fed's Delicate Walk on a Tightrope

This quarter's well-publicized mantra—higher for longer—conjures up images of a tightrope, an apt descriptor of the Federal Reserve's current challenge. Markets and the Fed expect interest rates to be higher for longer than we all anticipated at the start of the year. The economy has been resilient in the face of sharply rising rates, and while inflation has come down, it remains above the Fed's 2% target. The Fed must carefully balance the risks of too-high inflation with the impact of sharply higher rates on the global economy in 3Q23 while analyzing the ever-changing economic landscape. Plus, throw in a handful of variables that are out of the Fed's control: supply-driven energy prices, strikes, an October resumption of student loan payments, and a looming government shutdown (thwarted at the 11th hour but only through mid-November). These economic headwinds make balancing on a tightrope challenging.

The Fed held short-term rates steady (5.25% – 5.50%) at its September meeting, in what has been labeled a “hawkish pause.” While the vote was unanimous, the “dot plot” revealed that the median forecast for year-end rates was 5.6%, signaling that one more hike could be in the cards. Expectations for rate cuts in 2024 declined, with the median projection for year-end 2024 being 5.1% versus the 4.6% projection from the June meeting. The markets reflect a slightly less hawkish view. As of Sept. 30, the CME FedWatch tool revealed a 62% probability of the Fed Funds rate being below 4.75% at the end of 2024.

Inflation continued to show signs of moderating from its June 2022 peak of 9.1%. The Fed's favored measure, the Personal Consumption Expenditures Price Index, was up 3.5% year-over-year in August, the lowest since September 2021 but still above the 2% target. Excluding food and energy, the PCE index was up 3.9%. The Consumer Price Index rose 3.7% year-over-year in August. Gasoline was the biggest driver for the 0.6% monthly increase, accounting for more than half of the gain. Gasoline prices were up 10.6% month-over-month in August. Going into quarter-end, oil spiked to one-year highs on news that stockpiles at the largest storage hub in the U.S. had dropped to the lowest level since July 2022 and were close to “operational minimums.” Forecasters expect oil prices to reach \$100 / barrel in the coming months. Core CPI remained sticky; up 4.3% over the same period. Shelter costs (+7.3%) have had the biggest impact on the core measure over the past year.

The U.S. economy has been surprisingly resilient in the face of sharp rate hikes while inflation has moderated but remains above the Fed's 2% target. A “soft landing” scenario is looking more likely. Against this backdrop, equity markets have held up well, until recently, while rising yields have hurt the bond market. The widespread consensus is for rates to remain “higher for longer.” That said, several thorny issues outside of the Fed's control make its ongoing mission more difficult. A government shutdown was avoided—at least until Nov. 17—but the outcome is far from certain. Rising energy prices pose another threat to inflation/economic growth. The resumption of student loan payments in October may take a bite out of consumer spending, which has been a pillar of support for the U.S. economy.

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Global Equities

U.S. stock indices posted negative returns in 3Q. The S&P 500 Index declined 3.3% while the tech-heavy Nasdaq Composite dropped 3.9%. Year-to-date results remain positive with the Nasdaq (+27.1%) well ahead of the S&P 500 (+13.1%). Within the S&P 500, Utilities (-9.2%), Real Estate (-8.9%), and Technology (-5.6%) performed the worst in 3Q while Energy (+12.2%) and Communication Services (+3.1%) led sector returns. In small caps, value stocks (Russell 2000 Value: -3.0%) outperformed growth (Russell 2000 Growth: -7.3%). Growth and value posted similar returns in the large cap space, down 3.1% and 3.2%, respectively. Small cap stocks underperformed large (Russell 2000: -5.1%; Russell 1000: -3.2%). Index concentration continued to have a notable impact on returns in 3Q. The Magnificent Seven stocks helped (Alphabet: +9.3%; NVIDIA: +2.8%) and hurt (Apple: -11.6%; Microsoft: -7.1%; Tesla: -4.4%).

Global ex-U.S. equities (MSCI ACWI ex USA: -3.8%) fell in 3Q. The stronger U.S. dollar was a notable headwind (MSCI ACWI ex USA Local: -1.4%). Value (MSCI ACWI ex-USA Value: -0.1%) outperformed growth (MSCI ACWI ex-USA Growth Index: -7.3%) by a wide margin. Only Energy (+9.0%) posted a positive return, while Technology saw the biggest decline (-8.7%). Oil prices surged on supply cuts and falling reserves in the U.S. European equities (MSCI Europe ex-UK: -5.9%) fell though returns were mixed across countries. Japan (MSCI Japan: -1.6%) performed well in relative terms and even better in local terms (+1.6%).

Global Fixed Income

The Bloomberg US Aggregate Bond Index sank 3.2% in 3Q and is down 1.2% year-to-date. The U.S. Treasury 10-year yield soared nearly 80 bps during the quarter, closing at 4.59%, its highest since 2007. The yield curve “bear-steepened” with long-term rates rising more than short-term rates. As a result, the inversion between the 2-year and 10-year U.S. Treasury yields shrank from 106 bps to 44 bps. TIPS outperformed as 10-year breakeven spreads widened from 2.22% to 2.35% over the quarter. Corporates outperformed U.S. Treasuries with excess returns of 84 bps while agency-backed mortgages underperformed (-85 bps of excess return). High yield corporates continued to post strong relative returns (Bloomberg Corporate High Yield Index: +0.5%) and are up 5.9% year-to-date.

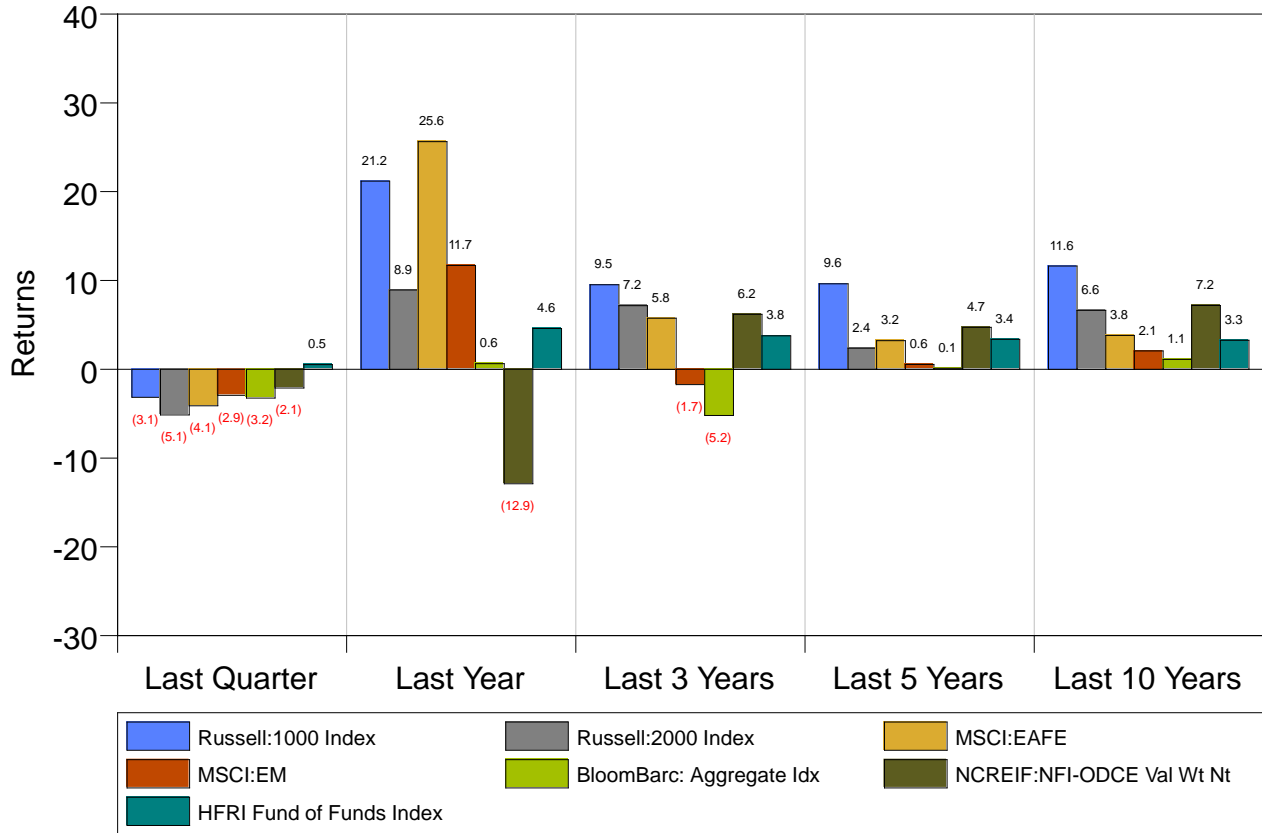
The Bloomberg Global Aggregate ex USD Index fell 4.0% (hedged: -0.8%). Currency played a key role in results with strong performance from the U.S. dollar. The dollar gained just over 3% versus a basket of six trade-weighted developed market currencies (DXY). Emerging market debt indices were also negative (JPM EMBI Global Diversified: -2.2%; local currency JPM GBI-EM Global Diversified: -3.3%).

Real Assets

Private real estate indices fell again in 3Q23, continuing a trend throughout the year, and U.S. real estate investment trusts (REITs) also dropped, unlike last quarter. But their performance lagged comparable public equity benchmarks, as they did last quarter. The NCREIF Property Index, a measure of U.S. institutional real estate assets, fell 1.4% during 3Q23. The income return was 1.1% while the appreciation return was -2.4%.

Third Quarter 2023 Market Performance

Time Periods September 30, 2023



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The Callan Periodic Table of Investment Returns
Third Quarter 2023

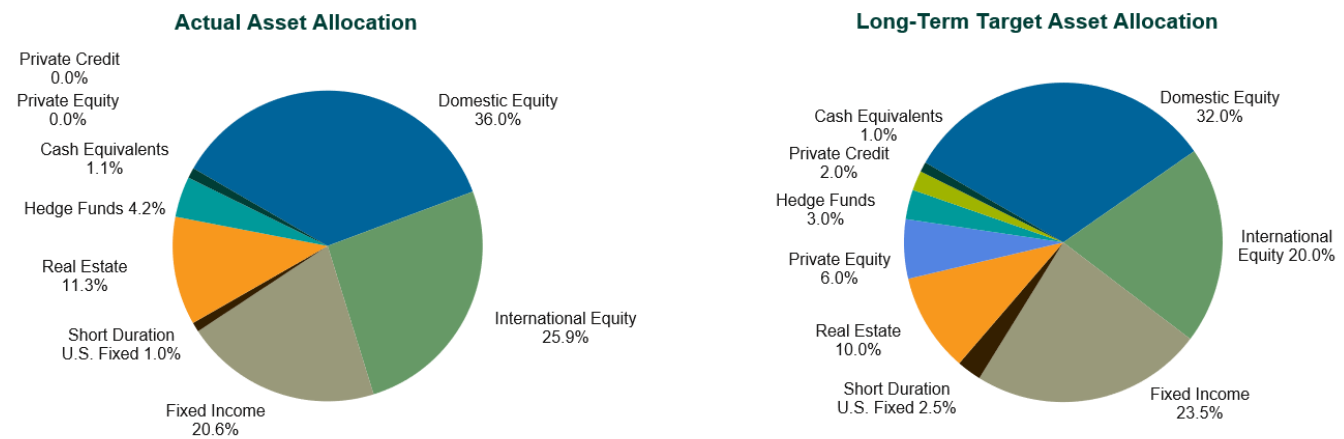
2014	2015	2016	2017	2018	2019	2020	2021	2022	3 Qtrs. 2023
Russell:1000 Index 13.2%	NCREIF:NFI-ODCE Val Wt Nt 14.0%	Russell:2000 Index 21.3%	MSCI:EM 37.3%	Cambridge:GI PE & Cred 10.0%	Russell:1000 Index 31.4%	Cambridge:GI PE & Cred 29.8%	Cambridge:GI PE & Cred 37.0%	NCREIF:NFI-ODCE Val Wt Nt 6.5%	Russell:1000 Index 13.0%
Cambridge:GI PE & Cred 11.9%	Cambridge:GI 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 7.1%
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:GI PE & Cred (7.8%)	HFRI Fund of Funds Index 2.8%
BC Aggregate 6.0%	BC Aggregate 0.5%	Cambridge:GI PE & Cred 9.6%	Cambridge:GI 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%)	Russell:2000 Index 2.5%
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:GI PE & Cred 16.3%	HFRI Fund of Funds Index 10.9%	MSCI:EAFE 11.3%	MSCI:EAFE (14.5%)	MSCI:EM 1.8%
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%)	BC Aggregate (1.2%)
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 (8.1%)
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

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Forest Preserve Pension Fund Commentary

Asset Allocation

The Total Fund ended September with a market value of \$186.7 million, an \$11.4 million decrease from the second quarter ending value of \$198.1 million. The Fund experienced investment losses of approximately \$6.3 million and net outflows of \$5.1 million. The Forest Preserve Fund's largest overweights are International Equity (+5.9%) and Domestic Equity (+4.0%). These are mostly offset by the underweights to Private Equity (-6.0%) and Private Credit (-2.0%), which are yet to be implemented.



Asset Class	\$000s Actual	Weight Actual	Min Target	Long-Term Target	Max Target	Percent Difference	\$000s Target	\$000s Difference
Domestic Equity	67,153	36.0%	28.0%	32.0%	36.0%	4.0%	59,731.52	7,421
International Equity	48,326	25.9%	16.0%	20.0%	24.0%	5.9%	37,332.20	10,994
Fixed Income	38,362	20.6%	19.5%	23.5%	27.5%	(2.9%)	43,865.34	(5,503)
Short Duration U.S. Fixed	1,857	1.0%	0.0%	2.5%	4.5%	(1.5%)	4,666.53	(2,810)
Real Estate	21,049	11.3%	6.0%	10.0%	14.0%	1.3%	18,666.10	2,383
Private Equity	-	0.0%	0.0%	6.0%	10.0%	(6.0%)	11,199.66	(11,200)
Hedge Funds	7,883	4.2%	0.0%	3.0%	6.0%	1.2%	5,599.83	2,283
Private Credit	-	0.0%	0.0%	2.0%	4.0%	(2.0%)	3,733.22	(3,733)
Cash Equivalents	2,031	1.1%	0.0%	1.0%	5.0%	0.1%	1,866.61	164
Total	186,661	100.0%		100%				

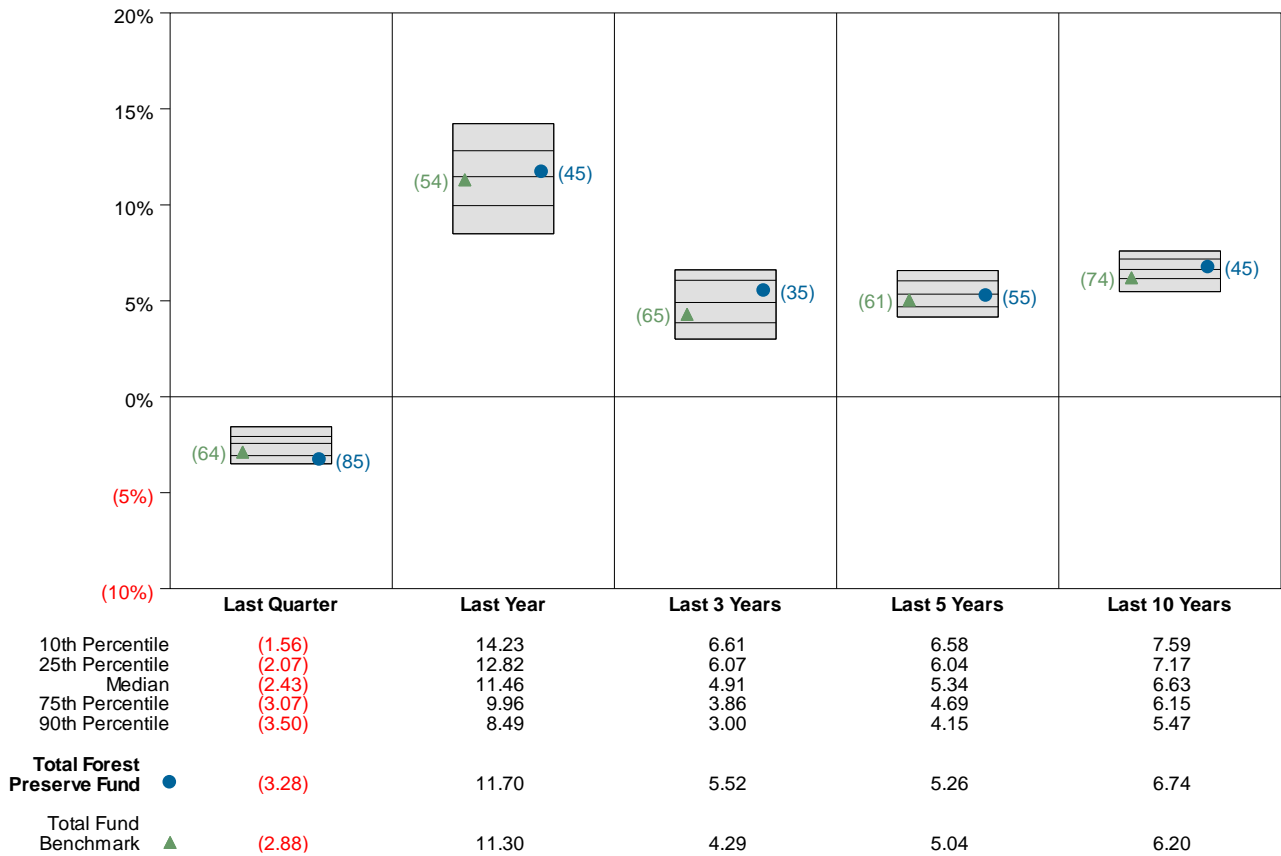
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Forest Preserve Pension Fund Performance vs. Target

The Total Fund returned -3.28% for the quarter gross of fees (GOF) and trailed the benchmark return of -2.88%. Over the trailing year, the Fund notched an 11.70% return and outperformed the benchmark (11.30%). 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)



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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	\$67,152,501	35.98%	(3.78%)	20.08%	9.84%	8.41%	10.92%
Domestic Equity Benchmark (2)	-	-	(3.25%)	20.46%	9.38%	9.14%	11.17%
International Equity	\$48,326,486	25.89%	(4.00%)	23.09%	4.86%	3.38%	4.80%
International Equity Bnmk (4)	-	-	(3.77%)	20.39%	3.74%	2.58%	3.35%
Fixed Income	\$40,219,047	21.55%	(3.14%)	0.57%	(4.06%)	0.47%	1.30%
Fixed Income Benchmark (3)	-	-	(2.92%)	0.82%	(4.77%)	0.31%	1.23%
**Real Estate	\$21,048,926	11.28%	(2.33%)	(10.03%)	7.39%	5.98%	6.99%
NFI-ODCE Value Weight Net	-	-	(2.10%)	(12.88%)	6.19%	4.72%	7.19%
**Hedge Funds	\$7,882,787	4.22%	2.21%	5.07%	6.08%	4.34%	5.02%
90-Day Average SOFR + 4% (5)	-	-	2.25%	8.71%	6.00%	5.96%	5.40%
HFRI Fund of Funds Index (6)	-	-	2.15%	3.33%	3.86%	3.43%	3.46%
Cash Equivalents	\$2,030,762	1.09%	1.35%	4.75%	1.81%	2.00%	1.33%
3-month Treasury Bill	-	-	1.31%	4.47%	1.70%	1.72%	1.11%
Total Forest Preserve Fund	\$186,660,509	100.00%	(3.30%)	11.58%	5.32%	5.02%	6.46%
Total Fund Benchmark (1)	-	-	(2.88%)	11.30%	4.29%	5.04%	6.20%

**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 declined 3.78% for the quarter, trailing the benchmark return of -3.25%. Domestic Equity outperformed the benchmark over the last three-year period but has modestly underperformed over the longer periods shown above.

International Equity returned -4.00% for the quarter and trailed the benchmark return of -3.77%. Over longer periods, International Equity has fared well relative to the benchmark due to positive contributions from active managers.

Fixed Income declined 3.14% for the quarter, modestly trailing the benchmark return of -2.92%. Over the past year, Fixed Income returned 0.57% and trailed the benchmark return (0.82%). The allocation 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 2.33%, while the benchmark experienced a decline of 2.10%. Real Estate outperformed the benchmark over the trailing one-, three-, and five-year periods.

Hedge Funds achieved a 2.21% return for the quarter but slightly trailed the absolute return benchmark (2.25%). For the year, Hedge Funds recorded a return of 5.07% and underperformed the target return of 8.53%. Hedge Funds trail the benchmark over the last three-, five-, and ten-year periods.

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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 <u>Target</u>	3Q 2023 <u>Target</u>
Russell 3000	32.0%	35.0%
MSCI ACWI ex US IMI	20.0	25.0
Bloomberg Aggregate	23.5	23.0
Blmbg Gov/Cred 1-3yr	2.5	2.0
Private Equity	6.0	0.0
90-Day Avg SOFR + 4.0%	3.0	4.0
Private Credit	2.0	0.0
NCREIF NFI-ODCE Val Wt Nt	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.