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

Performance Summary

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2020—Good Riddance

Most of us are happy to say good-bye to 2020. And, there are reasons for optimism as we head into 2021. These include a roll-out of vaccinations, probable fiscal stimulus on top of the recently passed package, and pent-up demand from consumers in addition to lean inventories that will need to be rebuilt. Further, a last-minute Brexit deal thwarted uncertainty on that front (though it will take time to iron out the details) and a contentious U.S. election is nearly behind us. That said, for those of you who would self-categorize as "glass half empty" folks, there is plenty of fodder to support that sentiment. A new super-contagious coronavirus strain has emerged, hospitals are struggling with capacity, important pockets of the economy remain depressed, and the inequality gap continues to worsen.

Markets seemingly defied much of the anguish imposed on society during the year, leaving some to question whether they are "priced to perfection." After the precipitous sell-off in the spring, risk assets have rallied with some U.S. stock indices hitting record highs going into year-end and yields on high yield bonds reaching record lows. As a result, investment return projections leave little room for enthusiasm.

Third quarter real GDP rose 33.4%, a record quarterly increase, following the 2Q20 record drop of 31.4% (both annualized). As of Sept. 30, the year-over-year decline was 2.8%. Fourth quarter and 2021 GDP projections vary and are dependent on the degree to which lockdowns are reinstated, the timeline for broad distribution of a vaccine, and the nature and timing of additional fiscal and/or monetary stimulus. The Conference Board estimate for 4Q real GDP is 2.8% (annualized), bringing its full-year estimate to -3.6%. Broadly, projections for 2021 growth generally fall between 3.5% and 4.0%. The recent passage of the aptly titled Coronavirus Response and Relief Supplemental Appropriations Act provides a needed boost, but many economists feel that more is needed. The roughly $900 billion package includes more aid for small businesses, an 11-week extension of federal unemployment benefit programs with an additional $300 per week, and a $600 stimulus payment for qualified individuals. Notably, aid for states and municipalities was not included.

The unemployment rate, which peaked at 14.7% in April, fell to 6.7% in November. However, 22 million jobs were lost from February to April, while only 12 million have been added since. Lower-income, less-skilled, and tourism-related jobs have been the hardest hit, increasing concerns about the widest income inequality gap in history, further fueled by climbing stock prices. On the hopeful front, the need to replenish low inventory and a positive outlook for capital spending may support employment growth in coming months.

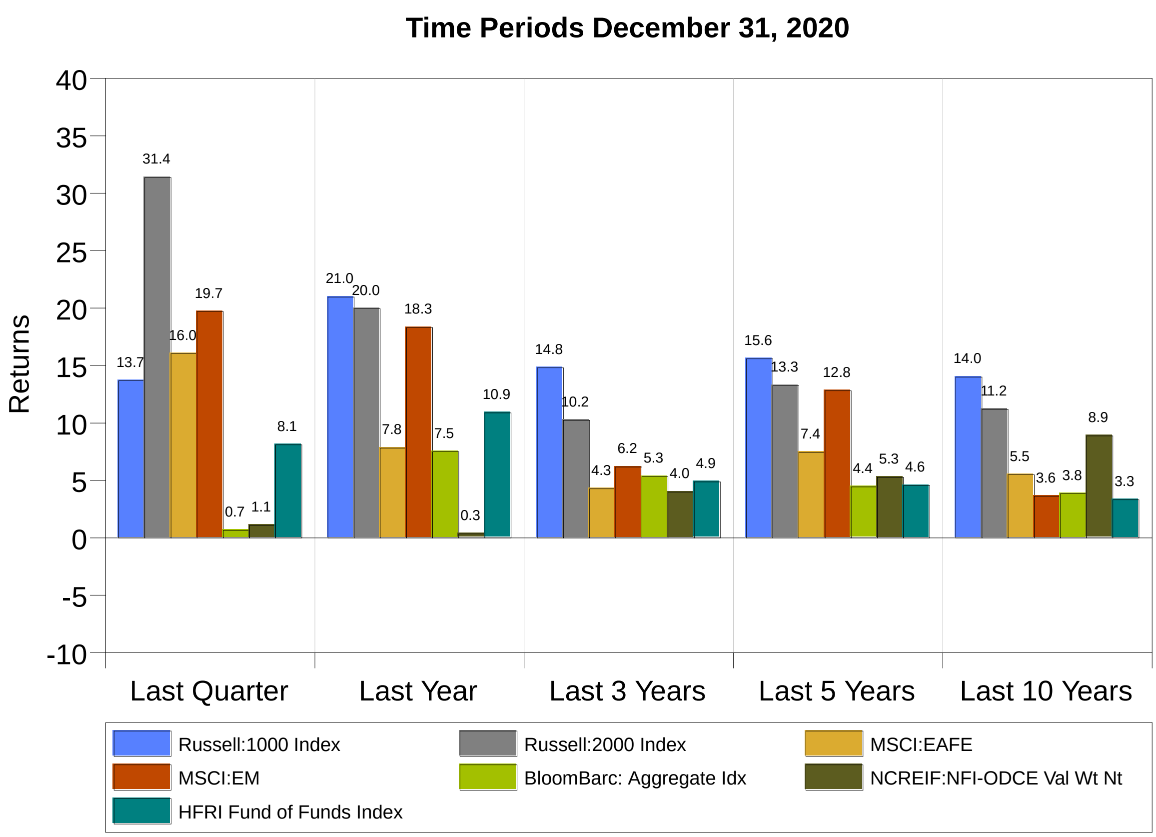
The Federal Reserve Board left its Fed funds target rate unchanged (0.00% to 0.25%) at the December meeting and reiterated its belief that the course of the economy depends on the pandemic, which continues to "pose considerable risks to the economic outlook over the near term." It further committed to continue monthly purchases of both U.S. Treasuries ($80 billion per month) and mortgages ($40 billion per month) for the foreseeable future. Current projections remain for no hikes until 2023.

While year-over-year inflation remained low (CPI: +1.2%; Core: +1.7% as of November), the breakeven spread for 10-year Treasury Inflation Protected Securities widened to 2% at year-end, the highest since 2018 and sharply higher than the 0.5% level hit in March 2020. Concerns over the Fed's ballooning balance sheet, approaching $8 trillion, as well as expectations for increased stimulus, have fueled worries over future inflation. The Congressional Budget Office projects that the 2020 U.S. fiscal deficit will be roughly 15% of GDP, the largest since 1945.

Outside of the U.S., recoveries have been mixed with Asian countries being the furthest along. Purchasing Manager Composites, which gauge activity in both manufacturing and services, remain at or below 50 (signaling contraction) in many areas (Japan, the U.K., and the euro zone). According to projections from the Organization for Economic Cooperation and Development (OECD), several countries are expected to experience real GDP declines for 2020 of roughly 10% (U.K., Argentina, France, Italy, Mexico, and India); China is an outlier at +1.8%. At its December meeting, the OECD released its new predictions: -4.2% in 2020 and +4.2% for 2021. While the 2020 forecast is slightly improved from the -4.5% September projection, the 2021 outlook has worsened (from 5.0%). China (+8.0%) and India (+7.9%) have the brightest prospects for 2021, according to the OECD.

Renewed lockdowns were announced throughout Europe and the U.K. as post-Thanksgiving cases rose. Exacerbating the situation, a new super-contagious variant of the virus emerged in the U.K. and has since spread to more than 30 countries. Plans for distributing vaccines were in the works as the year ended, but timing remains uncertain. In recognition of the continued pandemic toll on economies, the European Central Bank announced that it will increase the size of its asset purchases by €500 billion to a total of €1.85 trillion ($2.21 trillion) and will continue asset purchases at least through March 2022. With respect to Brexit, the last minute "EU-UK Trade and Cooperation Agreement"—passed on Christmas Eve—paves the way forward but leaves much uncertainty. While hotly debated issues around fishing and the border in Northern Ireland were resolved, the agreement does not cover the financial services sector, an industry with one of the largest trade surpluses in the U.K. Further, implementation is likely to cause some disruptive snags given new customs and regulatory checks, and many details still need to be worked out—including a trade deal with the U.S.

Fourth Quarter 2020 Market Performance



U.S. stocks continued their upward trajectory in 4Q20, and the S&P 500 Index hit a record high going into year-end. The Index was up 12.1% for the quarter, bringing its 2020 gain to 18.4%. Since the market low in March, the benchmark is up over 70%, with all sectors posting increases greater than 40%. The quarter's winner, Energy (+28%), however, remains down 34% for the year. Technology (+12% in 4Q) was the best-performing 2020 sector with a 44% gain. Laggards for the quarter and the year were Utilities (+7%; +1%) and Real Estate (+5%; -2%). The pandemic has cast a pall over certain sectors while rewarding others; online retail stocks soared 69% in 2020, but hotels/cruise lines, airlines, and retail REITs dropped roughly 30%. Megacaps continue to account for a disproportionate amount of the index and returns; the five largest stocks (Apple, Microsoft, Amazon, Facebook, Alphabet) made up 22% of the S&P 500 Index as of 12/31, and for 2020, this group accounted for 12.1% of the 18.4% Index return. In 4Q, value outperformed growth across the capitalization spectrum but trails by a significant margin for the full year. Small cap value (R2000 Value: +33.4%) was the best-performing style group for the quarter but its 2020 gain is a mere 4.6%. Small cap outperformed large for the quarter (R2000: +31.4%; R1000: +13.7%) but 2020 performance was roughly even (+20.0%; +21.0%).

Developed ex-U.S. and emerging market indices (MSCI ACWI ex-USA: +17.0%; MSCI Emerging Markets: +19.7%) also posted robust returns for the quarter and the year (+10.7%; +18.3%). Double-digit returns were broad-based across both developed and emerging market countries for the quarter.

The U.S. dollar continued to weaken versus developed and emerging market currencies. Relative to a basket of developed market currencies, the greenback lost just over 4% for the quarter and more than 7% for the year. While emerging market currencies broadly rallied in 4Q, some have not recovered from poor performance earlier in the year.

U.S. Treasury yields rose steadily over the course of 4Q; the 10-year U.S. Treasury yield closed the quarter at 0.93%, up 24 basis points from Sept. 30, but off sharply from the year-end level of 1.92%. TIPS (Bloomberg Barclays US TIPS: +1.6%) strongly outperformed nominal U.S. Treasuries for the quarter as 10-year breakeven spreads widened from 163 bps to 199 bps. The Bloomberg Barclays US Aggregate Bond Index gained 0.7%, bringing its 2020 gain to 7.5%. Corporates strongly outperformed U.S. Treasuries for the quarter and the year (Bloomberg Barclays US Treasury: -0.8%; +8.0%; Bloomberg Barclays US Corporate: +3.0%; +9.9%) in spite of record 2020 issuance. High yield corporates (Bloomberg Barclays High Yield: +6.5%; +7.1%) outperformed investment grade for the quarter but trailed for the year. High yield default rates (6.2% y-o-y as of December) continued to trend higher but are expected to peak far below levels reached in the Global Financial Crisis. Separately, municipal bonds (Bloomberg Barclays Muni Bond Index: +1.8%; +5.2%) outperformed U.S. Treasuries for the quarter but trailed for the year.

Outside of the U.S., broad-based U.S. dollar weakness dampened hedged returns for the quarter. The Bloomberg Barclays Global Aggregate Bond Index rose 3.3% (unhedged) and 0.9% (hedged). Emerging market debt indices posted solid results in the risk-on environment (EMBI Global Div: +5.8%; GBI-EM Gl Div: +9.6%) with emerging market currencies doing especially well; full-year returns are now in positive territory (+5.3%; +2.7%).

Real assets posted strong returns in 4Q though most indices remain in the red for the full year. The Bloomberg Commodity Index gained 10.2% and the more energy-heavy S&P GSCI Index rose 14.5%. Full-year returns for these indices are -3.1% and -23.7%, respectively. Gold took a breather and was roughly flat for the quarter but is up over 20% for the year. Oil prices continued to recover from the spring plunge; Brent Crude closed the year at over $50, a sharp increase from the $20 level hit in April. The Alerian MLP Index benefited, gaining 32.4%, but it is down nearly 30% for 2020. REITs also did well during the quarter but fell over the year (FTSE Nareit: +11.6%; -

8.0%). TIPS (Bloomberg Barclays TIPS: +1.6%; +11.0%) outperformed nominal Treasuries for the quarter and the year.

Closing Thoughts

Few are wistful over the end of 2020 as we hope for a more "normal" 2021 with respect to both personal and work lives. At the same time, markets seem fully priced and return expectations across asset classes are muted. Yields in U.S. fixed income remain unquestionably meager, with some questioning whether the asset class can play the role it has traditionally served. Negative-yielding debt has reached epic levels—the market value of the Bloomberg Barclays Global Negative Yielding Debt Index hit $18 trillion in December with just under 30% of the world's investment grade debt yielding less than 0%. Real yields on cash are the lowest since 1830 (according to data from JP Morgan). Stock valuations are also lofty, and market leadership, especially in the U.S., has been unquestionably narrow with momentum being a key driver of relative results. This paints a challenging backdrop for our clients, yet Callan's advice remains to adhere to a disciplined investment process that includes a well-defined long-term asset allocation policy and, if applicable, to understand the risks undertaken to improve expected investment returns.

The Callan Periodic Table of Investment Returns
Fourth Quarter 2020

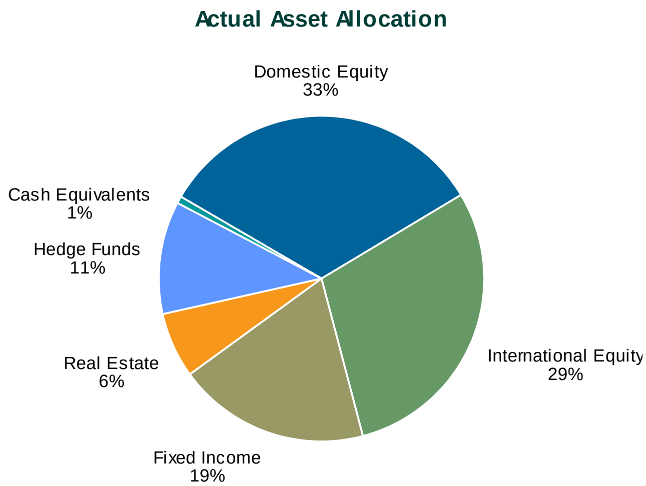
2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
NCREIF:NFI-ODCE Val Wt Nt 15.0%	MSCI:EM 18.2%	Russell:2000 Index 38.8%	Russell:1000 Index 13.2%	NCREIF:NFI-ODCE Val Wt Nt 14.0%	Russell:2000 Index 21.3%	MSCI:EM 37.3%	NCREIF:NFI-ODCE Val Wt Nt 7.4%	Russell:1000 Index 31.4%	Russell:1000 Index 21.0%
BC Aggregate 7.8%	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 1.5%	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%
Russell:2000 Index (4.2%)	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%
HFRI Fund of Funds Index (5.7%)	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%
MSCI:EAFE (12.1%)	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%
MSCI:EM (18.4%)	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%

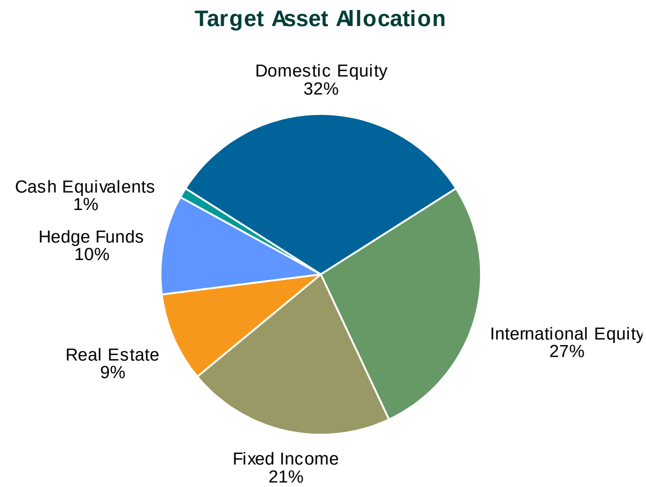
For the calendar year 2020, Large Cap Domestic Equity was the top performing asset class. Large Cap Equity (Russell 1000 Index: +21.0%) narrowly outperformed Small Cap Equity (Russell 2000 Index: +20.0%). Emerging Markets (MSCI Emerging Markets: +18.3%) outperformed Developed International Equity (MSCI EAFE: +7.8%). Hedge Funds (HFRI Fund of Funds Index: +10.9%) and Fixed Income (Bloomberg Barclays US Aggregate Bond Index: +7.5%) outperformed Real Estate (NCREIF: NFI-ODCE Value Weighted Net Index: +0.3%).

Forest Preserve Pension Fund Commentary

Asset Allocation

The Forest Preserve Fund ("Fund") ended the fourth quarter with a market value of $216.5 million, a $17.0 million increase from the third quarter value of $199.5 million. The Fund gained approximately $21.9 million from investment returns and experienced net withdrawals of approximately $4.9 million.





Asset Class	$000s Actual	Weight Actual	Min Target	Target	Max Target	Percent Difference	$000s Difference
Domestic Equity	71,496	33.0%	28.0%	32.0%	36.0%	1.0%	2,218
International Equity	63,816	29.5%	23.0%	27.0%	31.0%	2.5%	5,362
Fixed Income	41,366	19.1%	17.0%	21.0%	25.0%	(1.9%)	(4,098)
Real Estate	14,057	6.5%	5.0%	9.0%	13.0%	(2.5%)	(5,427)
Hedge Funds	24,227	11.2%	6.0%	10.0%	14.0%	1.2%	2,578
Cash Equivalents	1,532	0.7%	0.0%	1.0%	5.0%	(0.3%)	(633)
Total	216,494	100.0%		100.0%			

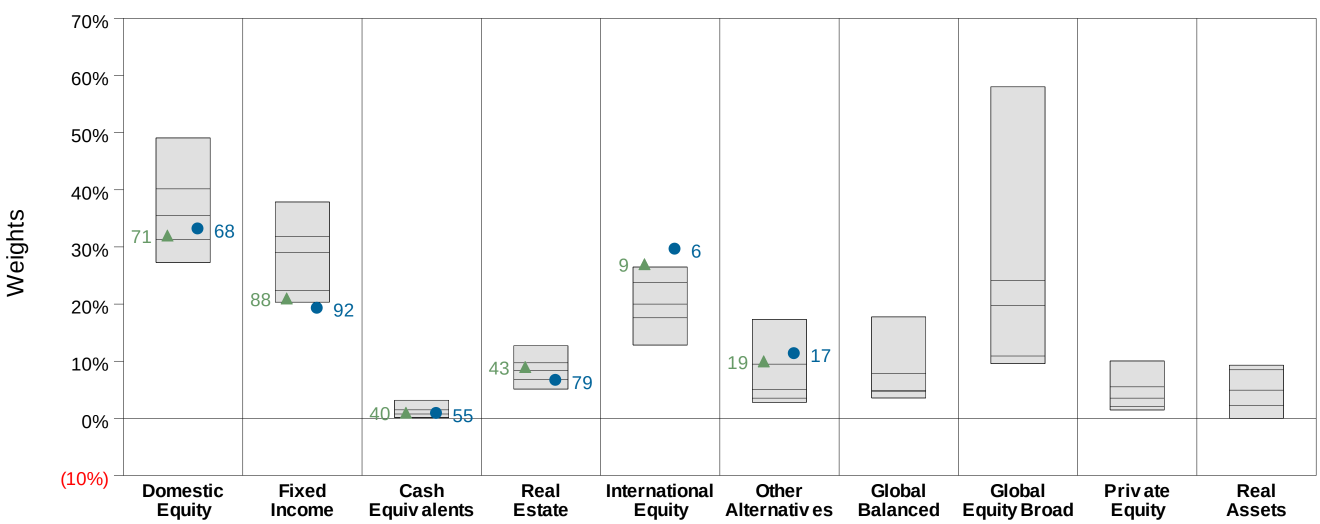
Forest Preserve Pension Fund Performance vs. Target

During the fourth quarter, the Forest Preserve Pension Fund posted a net return of 11.16%, outperforming its target benchmark by 1.58%, and ranking in the top quartile of peers. During the last year, the Fund generated a return of 11.38%, trailing its benchmark. 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 three, five, and ten years on a gross of fee basis.

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	12.30	16.28	10.26	11.04	9.62
25th Percentile	10.70	13.81	9.26	10.46	8.88
Median	9.88	12.27	8.30	9.48	8.12
75th Percentile	8.91	10.81	7.58	9.03	7.66
90th Percentile	8.16	9.19	6.91	8.35	7.15
Total Forest (Gross) ● A	11.26	11.70	8.44	9.59	8.89
Total Forest (Net) ■ B	11.16	11.38	8.12	9.26	8.59
Total Forest Preserve Benchmark ▲	9.58	12.27	8.42	9.67	8.11

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	49.09	37.89	3.19	12.73	26.49	17.32	17.76	58.04	10.05	9.32
25th Percentile	40.18	31.84	1.50	9.74	23.79	9.49	7.85	24.14	5.51	8.50
Median	35.49	29.05	0.77	8.38	20.00	5.07	4.89	19.81	3.55	4.93
75th Percentile	31.31	22.34	0.18	6.79	17.61	3.55	4.75	10.91	2.07	2.31
90th Percentile	27.29	20.33	0.10	5.12	12.84	2.82	3.59	9.59	1.47	0.00
Fund ●	33.02	19.11	0.71	6.49	29.48	11.19	-	-	-	-
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	**$71,495,605**	**33.02%**	**15.68%**	**19.05%**	**13.42%**	**14.58%**	**13.40%**
Domestic Equity Benchmark (2)	-	-	14.68%	20.89%	14.49%	15.49%	13.72%
International Equity	**$63,815,689**	**29.48%**	**17.82%**	**10.23%**	**6.09%**	**9.13%**	**7.86%**
International Equity Bnmk (4)	-	-	17.01%	10.65%	4.88%	8.93%	4.92%
Fixed Income	**$41,365,672**	**19.11%**	**0.58%**	**6.44%**	**4.72%**	**3.99%**	**3.55%**
Fixed Income Benchmark (3)	-	-	0.62%	7.09%	5.20%	4.35%	3.74%
****Real Estate**	**$14,057,489**	**6.49%**	**1.53%**	**1.13%**	**4.74%**	**5.75%**	**8.24%**
NFI-ODCE Value Weight Net	-	-	1.10%	0.34%	3.99%	5.27%	8.87%
****Hedge Funds**	**$24,227,485**	**11.19%**	**3.61%**	**2.17%**	**3.68%**	**4.12%**	**-**
LIBOR + 4%	-	-	1.04%	4.64%	5.78%	5.47%	-
HFRI Fund of Funds Index (5)	-	-	4.14%	8.74%	3.95%	3.73%	3.18%
Cash Equivalents	**$1,532,084**	**0.71%**	**0.02%**	**0.62%**	**2.10%**	**1.61%**	**0.83%**
3-month Treasury Bill	-	-	0.03%	0.67%	1.60%	1.20%	0.64%
Total Forest Preserve Fund	**$216,494,025**	**100.00%**	**11.16%**	**11.38%**	**8.12%**	**9.26%**	**8.59%**
Total Fund Benchmark (1)	-	-	9.58%	12.27%	8.42%	9.67%	8.11%

**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 outperformed its benchmark in the fourth quarter. Over longer periods, the Domestic Equity allocation has underperformed its benchmark due to adverse active management decisions. The Fund's International Equity allocation led its benchmark during the quarter by 81 basis points, returning 17.82%. Strong active management led the International Equity allocation to beat its benchmark for the trailing three-, five-, and ten-year periods.

The Fixed Income allocation returned 0.58% in the fourth quarter, modestly trailing the benchmark return by 0.04%. 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 led the benchmark (+1.10%) in the fourth quarter, returning 1.53%. Active management, as well as an underweight to the asset class, has contributed to the Fund's outperformance over the trailing quarter and year. The Real Estate allocation also leads its benchmark over the trailing three and five years.

The Forest Preserve Pension Fund's Hedge Fund allocation outperformed its absolute return benchmark for the fourth quarter. The Fund's Hedge Fund allocation has outperformed hedge fund peers as measured by the HFRI Fund-of-Funds Index over the trailing five-year period.

The Forest Preserve Pension Fund posted a return of 11.38% in the last year, trailing its benchmark and ranking below the median of peers. Over the trailing three- and five- year periods, 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.

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.