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

Performance Summary

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Macroeconomic Environment

Cautiously Optimistic Forecast on the Economy, Tempered by Clouds

While a number of challenges loomed as we closed out 2021, prospects remain relatively good for the U.S. economy going into 2022. Consensus estimates for GDP growth in 2022 hover around a healthy 4% rate. Consumers and corporations are both in relatively good shape, job openings are more than plentiful, and wages are growing. Supply chain issues have abated (though not disappeared), averting a holiday crisis. Yet the outlook is somewhat clouded by uncertainty regarding the pace and degree of tighter fiscal and monetary policy, the path of inflation, lofty valuations across markets, and, of course, COVID.

Stimulus measures, which have made a significant contribution to the economic recovery, are dwindling. Stimulus checks have stopped, unemployment benefits have faded, and bond purchases are ending over the next few months. President Biden's nearly $2 trillion Build Back Better plan waits in the wings, having stalled in the Senate at the end of the year. Child tax credits, which were received by more than 35 million families in 2021, stopped as of January 1 and remain a controversial part of this plan. Further, rate hikes are all but assured in 2022.

A relatively unusual disconnect between consumer sentiment and stock market gains / job availability was evident as we closed the year. While the S&P 500 Index was up 28.7% in 2021, the University of Michigan Consumer Sentiment Index sank 13%. What gives? Inflation worries, perhaps. Inflation has proven to be sticky, and the consumer has noticed. It remains to be seen if the 5.9% cost-of-living adjustment in Social Security benefits (the highest since 1982) will assuage these concerns. COVID-related fatigue has also taken a toll on sentiment. Just when society was beginning to enjoy a more "normal" existence—preparing to head back to work, to travel, and to attend concerts and other large gatherings—the Omicron variant thwarted many of these plans. While thought to be mild in relative terms, cases are surging and causing renewed angst. Growth will likely be impacted. GDP for 3Q21 rose at an annualized 2.3% rate, hampered by the impact of the Delta variant on consumer spending over the summer. Growth is widely expected to rebound in 4Q, with expectations ranging from 6%-8%, but 1Q22 growth is expected to fall closer to 2%, thanks to Omicron.

The Federal Open Market Committee (FOMC) left rates on hold at its December meeting, but there was a notable pivot in rhetoric around inflation, with the word "transitory" officially retired. The taper of bond purchases was accelerated as anticipated and is now expected to end by March 2022. All FOMC members now project at least one rate hike in 2022, with the majority expecting three hikes. The shift is notable given that at the September meeting roughly half of the members expected no hikes in 2022. Several new regional bank presidents will be voting in 2022, replacing outgoing voting members. Some view the new members as more inclined to support higher rates than the members who are leaving the Committee.

The FOMC lowered real growth expectations from 5.9% to 5.5% for 2021 but raised its 2021 forecast for the Personal Consumption Expenditures index, its preferred inflation gauge, from 4.2% to 5.3%, while projecting it to fall to 2.6% in 2022. As of November, the U.S. headline Consumer Price Index was up 6.8% year-over-year (+4.9% ex food and energy), with energy up 33% over the period. The 6.8% increase was the largest one-year gain since 1982. The Producer Price Index soared 9.6% (+7.7% ex food and energy).

Job openings remain at record levels. According to the U.S. JOLTS report, there were 11 million openings as of October 2021. The unemployment rate dropped to 4.2% in November. The "Great Resignation" phenomenon gained media attention, with a record 4.5 million leaving their jobs in November. Food service, retail, and health care are among the hardest-hit industries; the pandemic, work conditions, and shifting long-term goals are the key reasons cited. While some of these workers jumped to new jobs rather than left the workforce, hiring remains a problem for many organizations. The most recent National Federation of Independent Business (NFIB) Small Business Jobs Report found that 48% of owners had job openings they could not fill, more than double the 22% average over the report's 48-year history. Further, labor costs are the chief concern for these employers, and increasingly owners are passing on these costs to consumers. Average hourly earnings grew 4.8% YOY as of November, and that is expected to trend higher as companies are raising wages and offering bonuses to attract workers.

As a final "cloud" on the horizon, valuations across asset classes remain quite full. The S&P 500 posted 70 record highs in 2021, and its nearly 30% jump marked the third consecutive year of double-digit gains (and the fifth in the past six years). Stock prices were bolstered by strong earnings as well as record-breaking share repurchases ($1 trillion). While revenues for companies in the S&P 500 grew roughly 17% in 2021, margins improved by 55% and the number of shares outstanding declined modestly. Yields in fixed income remain ultra-low, and given the uptick in inflation, real yields are negative across many sectors (including "high yield" corporates). Spreads are also below historical averages, and while corporate fundamentals are strong, it is reasonable to expect muted returns from both equity and fixed income in coming quarters.

Global Equities

The S&P 500 Index was one of the best-performing major indices for the quarter (+11.0%) and the year (+28.7%). While every sector posted double-digit results for the year, returns were mixed in 4Q. For the quarter, Communication Services (0%) was the laggard, while Real Estate (+18%) and Tech (+17%) took the top slots. For the year, the worst sector was Utilities (+18%) and the best was Energy (+55%). Since the market low in March 2020, the S&P 500 is up over 100%. Growth stocks outperformed value for the quarter and the year in the large cap space, but mid cap and small cap growth underperformed value for both periods. The difference in full-year performance across market cap and styles is especially stark. From a pure capitalization standpoint, small cap (Russell 2000: +14.8%) underperformed large (Russell 1000: +26.5%). Even more pronounced was the difference between small cap value and small cap growth (Russell 2000 Growth: +2.8%; Russell 2000 Value: +28.3%).

Global ex-U.S. stocks were hurt by U.S. dollar strength; the MSCI ACWI ex-USA Index was up 1.8% for the quarter and 7.8% for the year but in local terms it was up 13.0% for the year. The yen sank 10% in 2021 vs. the U.S. dollar, the largest drop since 2014. Japan was up nearly 14% in local terms in 2021 but only 2% in dollar terms. Emerging markets (MSCI EM: -1.3%; -2.5%) did not participate in the stock rally the rest of the world enjoyed. China's weight in the Index (35%) and poor performance (-6%; -22%) was a key driver. China stocks were hurt by slowing growth and heightened regulation. Brazil (-6%; -17%) was also a notable underperformer. India (-0.2%; +26%) and Russia (-9%; +19%) fell in 4Q but were up for the year. Turkey (-11%; -28%) was the worst performer and the 44% decline in the Turkish lira was also notable. The country is battling high inflation (36% in December) with unconventional monetary policy (lowering rates).

Global Fixed Income

U.S. fixed income returns were literally flat in 4Q (0.0%) and the Bloomberg US Aggregate Bond Index posted an unusual negative result for the calendar year (-1.5%), for only the fourth time since the inception of the Index in 1976. The 10-year U.S. Treasury yield closed the year at 1.52%, up from 0.93% on 12/31/20 but flat over the course of the quarter. TIPS sharply outperformed the Aggregate for the quarter and the year (Bloomberg US TIPS Index: +2.4%; +6.0%) as expectations for inflation rose. The yield-to-worst for the Aggregate Index ended the year at 1.75%. High yield corporates were top performers for the quarter and the year (Bloomberg US High Yield: +0.7%; +5.3%) and the yield-to-worst for this Index was 4.21% as of year-end. Real yields, it goes without saying, are negative for the Aggregate and High Yield indices given the recent surge in inflation. In general, lower-quality securities outperformed in 2021 across the fixed income spectrum.

Developed ex-U.S. market returns were hurt primarily by U.S. dollar strength for the quarter and the year (Bloomberg Global Aggregate ex-US: -1.2%; -7.0%). On a hedged basis (+0.1%; -1.4%), returns were similar to those in the U.S. Emerging market debt indices posted negative returns for the quarter and year. The JPM EMBI Global Diversified Index (-0.4%; -1.8%) performed better than the local currency JPM GBI-EM Global Diversified Index (-2.5%; -8.7%) as emerging market currencies suffered relative to the U.S. dollar.

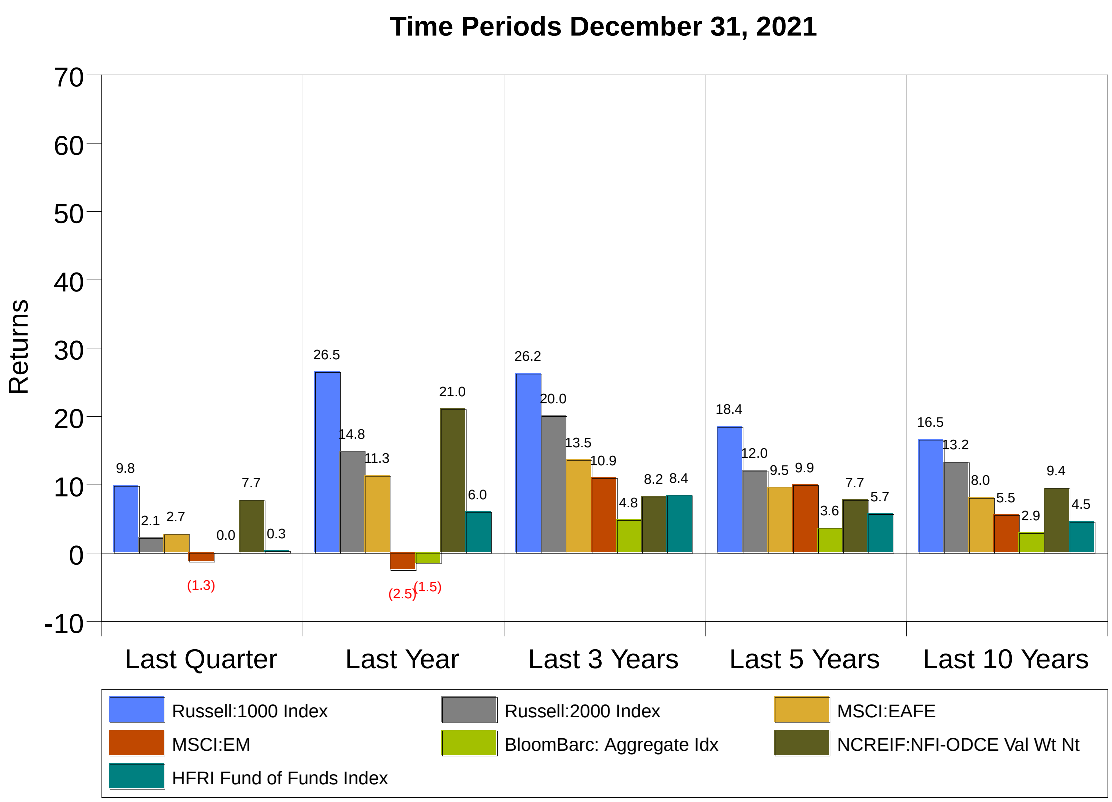
Real Assets

Broadly, real assets performed well in 2021. The Bloomberg Commodity Index declined 1.6% for the quarter but was up 27.1% for the year. WTI Crude Oil closed at roughly $75/barrel (the low was $12 in April 2020!) and was about flat for the quarter but up over 50% for the year. TIPS (Bloomberg TIPS Index: +2.4%; +6.0%) performed relatively well for both the quarter and the year. REITs (MSCI US REIT: +16.3%; +43.1%) and infrastructure (DJB Global Infrastructure: +7.5%; +19.9%) were up sharply for the quarter and the year. Gold (S&P Gold Spot Price Index: +4.1%; -3.5%) was up for the quarter but down for the year.

Closing Thoughts

While the economy is doing well on many fronts, hurdles lie ahead that may thwart expectations for a solid year of growth. Valuations, inflation, Fed tightening, and a seemingly unending battle with COVID top the list. As the year closes, we are mindful of the many things to be thankful for, and our clients, colleagues, and families top that list. We hope that 2022 will allow more in-person contact and that the "clouds" on the horizon do not storm. 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.

Fourth Quarter 2021 Market Performance



The Callan Periodic Table of Investment Returns
Fourth Quarter 2021

2012	2013	2014	2015	2016	2017	2018	2019	2020	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%**	Cambridge:PE Idx **10.3%**	Russell:1000 Index **31.4%**	Cambridge:PE Idx **30.2%**	Russell:1000 Index **26.5%**
MSCI:EAFE **17.3%**	Russell:1000 Index **33.1%**	Cambridge:PE Idx **11.8%**	Cambridge:PE Idx **8.6%**	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%**	NCREIF:NFI-ODCE Val Wt Nt **21.0%**
Russell:1000 Index **16.4%**	MSCI:EAFE **22.8%**	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%**	Russell:2000 Index **14.8%**
Russell:2000 Index **16.3%**	Cambridge:PE Idx **21.2%**	BC Aggregate **6.0%**	BC Aggregate **0.5%**	Cambridge:PE Idx **9.5%**	Cambridge:PE Idx **19.7%**	HFRI Fund of Funds Index (4.0%)	MSCI:EM **18.4%**	MSCI:EM **18.3%**	MSCI:EAFE **11.3%**
Cambridge:PE Idx **13.7%**	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%)**	Cambridge:PE Idx **16.3%**	HFRI Fund of Funds Index 10.9%	HFRI Fund of Funds Index 6.0%
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%**	BC Aggregate **(1.5%)**
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 **(2.5%)**
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%**	PE Idx **Not Yet Reported**

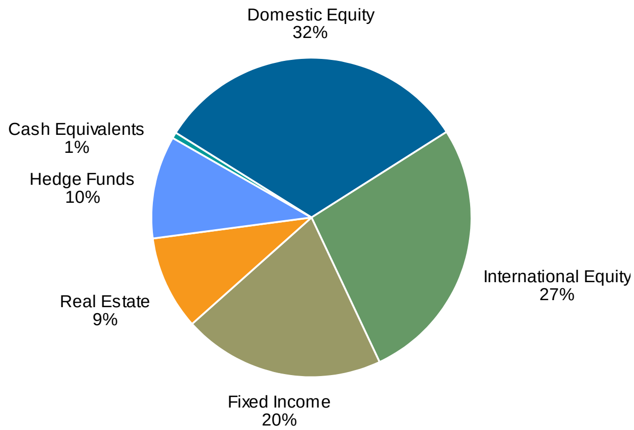
Through the fourth quarter of 2021, Large Cap Equity was the top performing asset class (Russell 1000 Index: +26.5%), leading Small Cap Equity (Russell 2000 Index: +14.8%). Developed International Equities (MSCI EAFE Index: +11.3%) outperformed Emerging Markets (MSCI Emerging Markets: -2.5%). Real Estate (NCREIF: NFI-ODCE Value Weighted Net Index: +21.0%) outperformed Hedge Funds (HFRI Fund of Funds Index: +6.0%). Fixed Income (Bloomberg US Aggregate Bond Index: -1.5%) and Emerging Markets are the two asset classes appearing above to earn negative returns over the period.

Forest Preserve Pension Fund Commentary

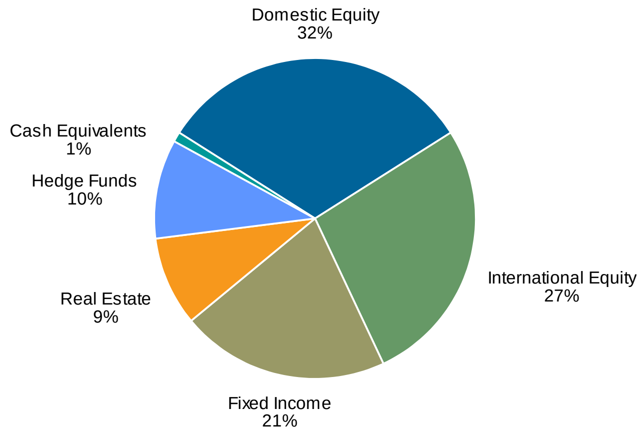
Asset Allocation

The Forest Preserve Fund ("Fund") ended the fourth quarter with a market value of $229.7 million, a $5.7 million increase from the third quarter-end value of $224.0 million. The Fund gained approximately $10.4 million from investment returns and experienced net withdrawals of $4.7 million. All asset classes were weighted within one percent of their target allocation.

Actual Asset Allocation



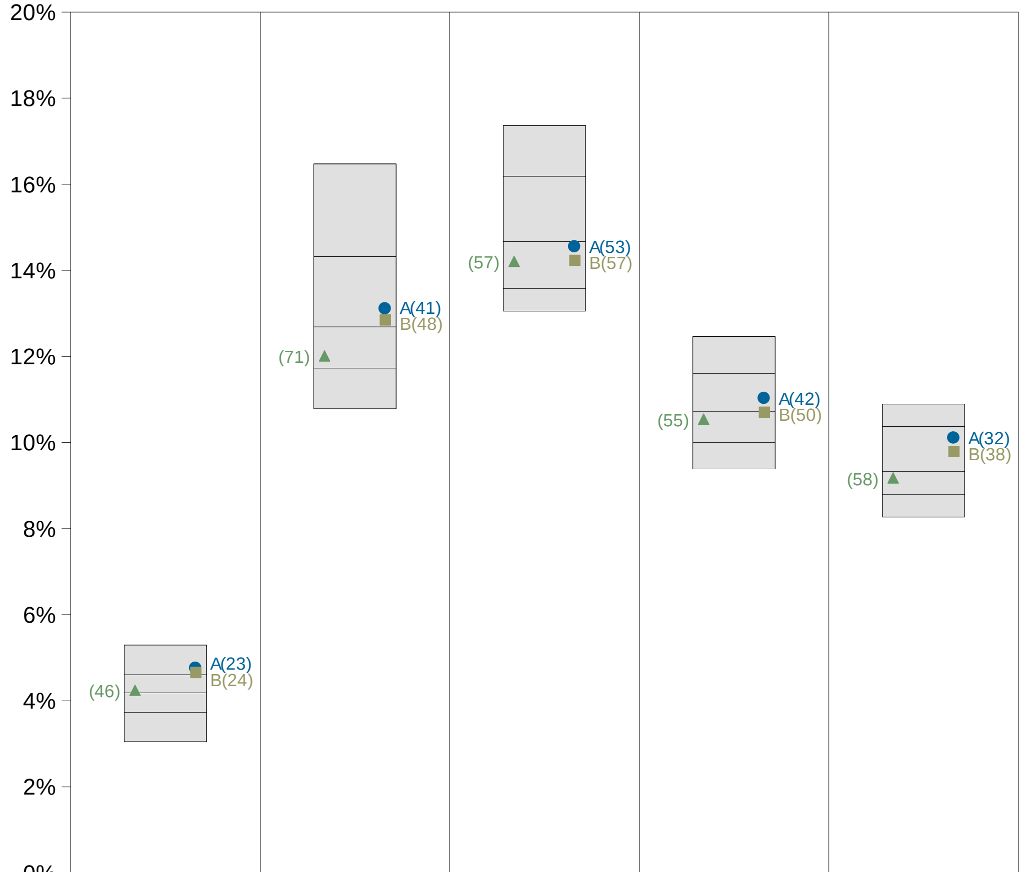
Target Asset Allocation



Asset Class	$000s Actual	Weight Actual	Min Target	Target	Max Target	Percent Difference	$000s Difference
Domestic Equity	73,775	32.1%	28.0%	32.0%	36.0%	0.1%	276
International Equity	62,019	27.0%	23.0%	27.0%	31.0%	0.0%	4
Fixed Income	46,821	20.4%	17.0%	21.0%	25.0%	(0.6%)	(1,413)
Real Estate	21,717	9.5%	5.0%	9.0%	13.0%	0.5%	1,045
Hedge Funds	23,878	10.4%	6.0%	10.0%	14.0%	0.4%	909
Cash Equivalents	1,475	0.6%	0.0%	1.0%	5.0%	(0.4%)	(822)
Total	229,684	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 4.66%, leading its benchmark by 0.41%. Active management and asset allocation decisions added value. During the last year, the Fund generated a net return of 12.85%, leading its benchmark. On a long-term basis, the Fund has outperformed its benchmark and peer median over the trailing one, five- and ten-year periods.



	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile	5.30	16.47	17.36	12.46	10.89
25th Percentile	4.61	14.32	16.18	11.61	10.37
Median	4.19	12.69	14.67	10.72	9.32
75th Percentile	3.73	11.73	13.58	10.00	8.79
90th Percentile	3.05	10.78	13.05	9.39	8.27
Total Forest Preserve (Gross) ● A	4.75	13.10	14.54	11.02	10.10
Total Forest Preserve (Net) ■ B	4.66	12.85	14.23	10.70	9.79
Total Fund Benchmark ▲	4.25	12.01	14.21	10.54	9.18

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	**$73,775,177**	**32.12%**	**9.32%**	**25.77%**	**24.95%**	**17.30%**	**16.04%**
Domestic Equity Benchmark (2)	-	-	9.28%	25.66%	25.79%	17.97%	16.22%
International Equity	**$62,019,081**	**27.00%**	**1.19%**	**7.68%**	**13.25%**	**10.50%**	**9.74%**
International Equity Bnmk (4)	-	-	1.82%	7.82%	13.18%	9.61%	7.28%
Fixed Income	**$46,820,966**	**20.38%**	**(0.09%)**	**(1.25%)**	**4.32%**	**3.23%**	**2.73%**
Fixed Income Benchmark (3)	-	-	(0.05%)	(1.43%)	4.69%	3.51%	2.86%
****Real Estate**	**$21,716,538**	**9.45%**	**10.92%**	**20.42%**	**9.19%**	**7.94%**	**8.83%**
NFI-ODCE Value Weight Net	-	-	7.66%	21.02%	8.23%	7.74%	9.43%
****Hedge Funds**	**$23,877,689**	**10.40%**	**1.06%**	**5.92%**	**4.65%**	**4.81%**	**-**
LIBOR + 4%	-	-	1.03%	4.16%	5.05%	5.35%	-
HFRI Fund of Funds Index (5)	-	-	0.14%	9.65%	7.71%	5.81%	4.46%
Cash Equivalents	**$1,474,846**	**0.64%**	**0.01%**	**0.05%**	**1.13%**	**1.52%**	**0.82%**
3-month Treasury Bill	-	-	0.01%	0.05%	0.99%	1.14%	0.63%
Total Forest Preserve Fund	**$229,684,298**	**100.00%**	**4.66%**	**12.85%**	**14.23%**	**10.70%**	**9.79%**
Total Fund Benchmark (1)	-	-	4.25%	12.01%	14.21%	10.54%	9.18%

**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. For the fourth quarter, active management in Domestic Equity, Real Estate, and Hedge Funds contributed to the relative return while Fixed Income and International Equity detracted.

The Fund's Domestic Equity allocation (+9.32%) was in line with its benchmark return for the quarter. In the last year, the Domestic Equity allocation has outperformed its benchmark by 0.11% due in part to strong performance in its Small/Mid Cap allocation.

The Fund's International Equity allocation returned 1.19% in the fourth quarter versus the benchmark return of 1.82%. Long term performance remains strong, as active management contributed to outperformance versus the benchmark for the trailing three-, five-, and ten-year periods.

The Fixed Income allocation returned -0.09% in the fourth quarter, keeping pace with its custom benchmark. Over longer periods, the fixed income allocation has underperformed.

The Real Estate allocation is comprised of investments to private real estate. The Real Estate allocation posted strong performance relative to the benchmark (+7.66%) in the fourth quarter, returning 10.92%. Active management added value during the quarter. Over longer periods, the Real Estate allocation leads its benchmark over the trailing three- and five-year periods.

The Hedge Fund allocation returned 1.06% during the quarter, in line with its absolute return benchmark (+1.03%). The Fund's Hedge Fund allocation has struggled versus hedge fund peers as measured by the HFRI Fund-of-Funds Index due a more-credit oriented, low equity beta approach.

Performance over longer periods has been strong relative to peers, as the Fund ranks ahead of its peer group median (GOF basis) over the trailing one-, five-, and ten-year periods.

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