BEFORE

THE RETIREMENT BOARD

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

IN THE MATTER OF)
INVESTMENT COMMITTEE)

STENOGRAPHIC REPORT OF PROCEEDINGS had at the videoconference meeting of the above-entitled matter, held at 20 South Clark Street, Suite 300, in the City of Chicago, County of Cook, State of Illinois, on February 15, 2022.

APPEARANCES

BOARD MEMBERS:

DANIEL FORTUNA, President and
Annuitant Trustee

WILLIAM MURPHY, Secretary and Active Trustee

ANTHONY MARTIN, Active Trustee

RESHMA SONI, City Comptroller

MARY SHERIDAN, Active Trustee

ATTORNEYS FOR THE BOARD:

BURKE, BURNS AND PINELLI, LTD.
BY: MS. SARAH A. BOECKMAN

ALSO PRESENT:
KELLY WELLER, Executive Director
LORNA SCOTT, Chief Investment Officer
JACLYN VLAHOS, Comptroller
JOHN CONNESS, Fund Accountant
MARK MYSLINSKI, City Treasurer's Office
BRADY O'CONNELL, Callan Associates

MEMBER MARTIN: I hereby convene the Investment Committee for February 15, 2022.

Lorna, please call the roll.

MS. SCOTT: Trustee Martin.

MEMBER MARTIN: Here.

MS. SCOTT: Trustee Fortuna.

MEMBER FORTUNA: Here.

MS. SCOTT: Trustee Murphy.

MEMBER MURPHY: Here.

MS. BOECKMAN: You have a quorum.

MS. SCOTT: I'd like to acknowledge that Trustee Sheridan appears to be here.

Trustee Sheridan, for the record, would you like to say that you are present?

MEMBER SHERIDAN: I am here.

MS. SCOTT: Thank you. Always happy to have non-committee members attend.

MEMBER MARTIN: Public Act 101-0640 and the Governor's recent Disaster Proclamation dated February 4, 2022 allows this meeting to be conducted by audio and video conference. The Act requires a roll call vote on each matter acted upon. We are proceeding by videoconference because we continue to believe that due to the pandemic it is prudent to not be physically present in the same space. We have posted notice of this meeting in accordance with the Open Meetings Act and the meeting is being recorded. A transcript of the proceedings will be prepared and ultimately, after approval, will be made available on the Fund's website.

I'd like to now turn this over to Lorna to proceed through our agenda.

MS. SCOTT: The first item is the MWDBE brokerage report. Before we look at our minority brokerage utilization, this first slide looks at total brokerage and some other trading characteristics of our managers.

This table is a reminder that brokerage is an expense. It is actually cash paid to our counterparties to execute trades. It is really important to monitor how much our managers are incurring and how much trading they are actually doing.

Looking at this table, a couple of highlights. We can see that total commissions in 2021 actually decreased compared to 2020 and 2019. That is primarily due to the fact that we only had one manager transition in 2021. If you recall, we did sell out of Wells and got into Rhumbline so there was a little bit of commissions incurred there compared to the trading that we did in 2020 with Brown being hired.

We have a reduction in commissions just due to fewer portfolio changes and also keep in mind in 2021 we didn't have to sell as many assets to raise cash for benefit benefits so that also reduced our trading.

Just operations in general reduced trading, which probably lead to a reduction in expenses.

Looking at our turnover, we are definitely a low turnover portfolio. Most of our managers are just buying and selling. They are buying and holding their positions as opposed to turning and selling their portfolio.

Looking at this table, we can see Mellon is one of our higher turnover managers, Globeflex and Kennedy.

On a cost per share basis, we really look for the one or two cents in execution. We are seeing that in the large cap managers. Anybody who is spending more than one or two cents in execution is receiving research as well as execution. That's causing a little bit of higher trades or higher commissions.

Generally, our managers don't trade a lot and we don't incur a lot in commissions.

Now let's move to MWDBE utilization. Our goal is 22 percent and in 2021 our managers on a total fund allocation basis allocated 40.9 percent to minority brokers. So overall the Fund achieved its goal and it surpassed prior years.

Looking at this, some of our managers did not achieve that 22 percent. We have got Mellon, who was a lagger, and Jackson Square and Brown Capital.

I asked each one of these managers to comment on why they failed to achieve the utilization.

According to Mellon, they primarily attributed their lack of achievement to the market environment. They said they will continue to work towards that goal.

Jackson Square primarily runs a very concentrated portfolio with a higher AUM. So they said they will continue to seek liquidity wherever they can find it but no promises on achieving with MWDBE brokers. They say they try very hard. For the most part, it is the bigger brokers that kind of accommodate them.

Lastly, we have Brown Capital, who said it is really due to low turnover in their portfolio. So given the recent market and the higher volatility, they went with wherever they could find the flow and that wasn't with the minority brokers, but they will work and make sure they make it up in 2022.

Our next slide is fixed income. Our goal is 12 percent. In 2021, our managers in aggregate achieved a 42.9 percent, that surpassed our goal.

There is only one manager who did not achieve this goal and that is Loomis. We have heard from Loomis before. I did ask Loomis to comment. They said they will continue to seek out opportunities to utilize minority brokers but something we will have to continue to monitor.

That is our MWDBE utilization for 2022. Our recommendation is to not change our goals. These targets are challenging for some of our managers and other managers aren't using our goals as maximums. They continue to push beyond our goal. Our current goals are really a nice balance between a goal that is achievable for some strategies and a goal that is a stretch goal for other strategies.

I will pause for any comments.

MEMBER MARTIN: Trustee Soni has joined the meeting. Trustee Soni, will be marked as present.

MS. SCOTT: Moving on to the next slide, which is our Investment Policy Statement. I do have a few changes to the Investment Policy Statement to summarize on this slide. There are really three categories.

The biggest change is the update to the asset allocation model that was approved at December's board meeting.

Secondly, I am reorganizing the document a little bit.

Thirdly, there are some minor edits and clarifications.

What I'd like to do is just page through and kind of highlight these changes.

That is a date change. This is the reorganization. Here it looks like a lot of red but what I really want to do is make this Definitions and Conclusions to be the last item on the Table of Contents. So these items right here are just getting shifted up.

Paging through, clarification here, the Board that conducts the searches, adding in the Board. Providing education to the Investment Committee and to the Board. Again, these are just minor clarifications, minor edits. This part of that reorganization. I have shifted these categories to different pieces. This is a clarification.

We do our allocations here by manager type not by the underlying holdings so I struck that language.

This is the big one where I am taking away the old asset allocation model and adding in the new one.

Minor edits and clarifications.

This is part of that reorganization that was below the Conclusions. I am adding it up here.

This one is a clarification

simplification. Here the policy is that if a manager deviates from its guidelines, they should notify the Board, so I am simplifying it to just be the policy. I am actually removing all the extra language on how they should notify and when they should notify. The main point here is that if a manager deviates from the policy, they must report the deviation, and I am just removing the extra language.

I think the rest of these are just minor reorganizations and clarifications. We can see this is all the sections that are getting moved around at the end.

With that, I will pause for any questions. Otherwise, I will be looking for a motion to recommend to the Board to approve the revised Statement of Investment Policy.

MEMBER MARTIN: I have had the opportunity to review these with Fund counsel and our Chief Investment Officer.

MEMBER MURPHY: I will make the motion.

MEMBER SONI: Second.

MEMBER MARTIN: Motion by Trustee Murphy. Seconded by Trustee Soni.

Roll call vote. Trustee Murphy.

MEMBER MURPHY: Yes.

MEMBER MARTIN: Trustee Fortuna.

MEMBER FORTUNA: Yes.

CHAIRMAN FORTUNA: Trustee Soni.

MEMBER SONI: Yes.

MEMBER MARTIN: I vote yes.

Motion carries so it will be recommended to the Board tomorrow.

The next item, Lorna.

MS. SCOTT: The Infrastructure RFP.

Brady, did you want to walk us through this?

MR. O'CONNELL: Sure. Good morning, everyone.

Lorna just touched on some of the major changes that were included in the IPS, which is really one of the most important guiding documents of the investment program.

As a result of the Asset Liability Study that we conducted last year, we made a couple of additions from an asset class perspective to the target strategy that is now included in that IPS.

One of those is the introduction of a new asset class infrastructure. We adopted a 3 percent target and we would like to propose a RFP in order to find managers to implement that position on our behalf.

As the summary page here indicates, that is about $32 million. We will be looking for what we call private or unlisted open-end infrastructure funds. These will function similar in operations to the open-end core funds that we have. There is some slight differences that we will tease out for you throughout the evaluation process.

Basically, it is an ongoing fund. Once we commit capital into it, they will return income to us over time and then we will also experience the appreciation of the underlying assets.

Callan's research specialists will be involved. They have identified some of these attributes that are ideal for managers, including a minimum fund size of $2 billion. Infrastructure assets are very large so we want to make sure any fund has a big enough scale to buy assets and diversify their portfolio.

We won't be looking at fund-to-fund products. We won't look at anything that is sector specific so we want it to be well diversified across a lot of different type of infrastructure investments.

Then we have also established a set of minimum criteria or requirements. We need somebody that is registered. These are all consistent with minimum requirements we have established for searches in the past. They need to be a fiduciary to the Board and to the Fund. We're looking for a three year track record and at least $2 billion as I mentioned.

As we have done before, those requirements will be relaxed if a firm can demonstrate that they are MWDBE.

We do not anticipate any of those responding just based on our knowledge of the marketplace. It is fairly small and all the managers in this space are part of larger investment organizations. So we don't anticipate getting a ton of participation from small or diverse owned firms but we are certainly open to consider those as we have done with RFPs in the past.

And then, lastly, any manager that is

selected, we don't want to be more than 20 percent of their portfolio and they will have to adhere to all the policies and requirements, including some of those that we heard earlier today just like all the other managers that work on behalf of the FABF.

Our goal would be to issue the RFP upon approval by the Committee and ultimately the Board. So we'd like to issue this tomorrow. Managers will be asked to submit by April 1st and then as we have done these searches in the past, Lorna and I will work with Callan's research time to evaluate all the RFP responses that have interested managers that submit. We will narrow that list down to a subset that will come in to make presentations to the Investment Committee. And then we would ultimately like to have you select the manager or managers and then work on getting our capital allocated whenever contracting and all the paperwork is complete and the manager is willing and able to take capital.

Like real estate, sometimes there can be what we call entry and exit queues so people lining up to contribute money, the manager doesn't take that until they have identified assets.

As part of the search process, we'll also spend a little time understanding which managers have effectively lines to get in and we will make sure we all understand the flip side of that. Which is when people want to redeem money, the process that is involved in getting our capital back out.

So that is the RFP summary. Happy to entertain any questions about it.

MEMBER MARTIN: Is this universe large enough to get a pretty diverse or large response from the investment community?

MR. O'CONNELL: We think there are some strong candidates out there. The number of responses we anticipate is probably somewhere between 9 and 15.

This is a space similar to core real estate where there is not a ton of firms. When we have done searches in more conventional asset classes, like international small cap, we do expect to receive sometimes 20, 30 or 40 RFP responses.

Here the universe of products is rather small, that's due to the fact that it is a fairly specialized asset class. Also, it is a fairly new asset class so that is one of the reasons why we are adding it now. There is not a lot of products in the marketplace. So I would suspect we will get kind of high single digits, maybe 10 or 12 responses. So there won't be as many as we have seen in searches for maybe the traditional stock or bond managers.

MEMBER MARTIN: Since it is such a small universe, are you going to reach out to some of these managers to advise them or encourage them to respond?

MR. O'CONNELL: That is correct. The practice has been when we have issued RFPs on your behalf is to post it on Callan's website and also proactively reach out to managers that we think have a strong product offering to make sure that they are aware that the RFP is here and encourage them to respond.

Two, we also reach out to any diverse or female owned firms to make sure they are aware of the opportunity and that they respond.

We plan to do that in this case. And, again, based on preliminary indications talking to our infrastructure specialists, in the open-end core infrastructure space, there is not female or diverse owned firms that we are aware of but we will take another hard look. We also fully encourage responses from those managers even if they don't satisfy some of these minimum requirements that are illustrated here.

MEMBER MARTIN: Are there any other questions?

If there are no other questions, I'd like a motion to recommend to the full board tomorrow to issue the RFP on infrastructure.

MEMBER MURPHY: I will make the motion.

MEMBER FORTUNA: Second.

MEMBER MARTIN: Seconded by Trustee Fortuna.

On the vote, Trustee Murphy.

MEMBER MURPHY: Yes.

MEMBER MARTIN: Trustee Soni.

MEMBER SONI: Yes.

MEMBER MARTIN: Trustee Fortuna.

MEMBER FORTUNA: Yes.

MEMBER MARTIN: I am a yes.

Motion carries. Tomorrow we will recommend to the full board to approve the issuance of that infrastructure RFP.

Moving on to the next item on the agenda, Lorna.

MS. SCOTT: It is the Investment report. Actually, I will have Brady continue to talk about the fourth quarter review.

MR. O'CONNELL: I would just like to maybe make six or seven high level observations about the fourth quarter.

Markets have turned a little bit south as we have heard from Lorna in the report on January. Kind of subsequent to fourth quarter. But I think it is always good to go through these quarterly reports and understand how the portfolio performed and what things we're looking out for.

Just kind of going back in time a little bit, the fourth quarter of 2021 was a good one from a risky asset standpoint. As we show here in these bar charts, the bars on the left were up fairly big for the quarter. So that is the S&P 500 and the Russell 1000 Growth up over 11 percent. So the fourth quarter was a strong quarter for equities.

If you look at the trailing year, so all of 2021, we had equities up over 20 percent.

Extraordinarily favorable results from the equity markets.

The flip side of that is bond markets. Bonds for the fourth quarter, you can't even see the bar, it is flat at 0.0 for the Bloomberg aggregate and for the trailing year bonds were down about 1 and a half percent.

We saw interest rates come up a little bit and that always has a negative performance impact on bonds.

The backdrop was big strong results in equities. Growth outperforming value and importantly small underperforming large cap.

As I will show you in a second, that had a bit of an adverse impact on our results during the fourth quarter.

Flip forward and give you a sense of just how the portfolio performed during the fourth quarter. We were up 3.57 percent on a gross of fees basis. That was about 1.1 percentage points behind the policy target so we had some underperformance. Compared to other public pension plans, we were right at the bottom of the third quartile.

I think compared to what we have seen in the past, compared to what we expect going forward, this was a disappointing quarter. So we underperformed and we ranked below the median of the peer universe.

The good news is these quarterly observations flip around a lot more frequently than do the longer term and the longer term results are still favorable on a number of different levels.

If you look at that ten year column, we're looking at an annualized return of 10.68 percent, which was ahead of the target policy of 9.88. That return had us in the top quartile of public pension plans.

A bit of a disappointing quarter, but we don't expect this portfolio to outperform every single quarter. We are looking for the long-term trends.

Just to unpack what happened during the quarter, we show these attribution charts down here at the bottom.

Really the story was this negative 1.10 underperformance from active managers particularly in equities. You can see domestic equity at negative 0.84. These numbers total to the combined impact of active management decisions. In aggregate for the plan, those were negative during the quarter. I will make a few observations on some of the managers that we're looking at more specifically.

Before I touch on the managers, there is one other point that is worth emphasizing as we review the structure of the FABF domestic equity portfolio.

So, Trustee Martin, this is something you and I have discussed. We talked about it with Lorna as well.

The Fund historically has had an overweight allocation to small and mid-cap, including microcap.

This exhibit at the top of Page 10 of our report just tries to plot this on what we call a style chart or a style map. Where we plot from a style standpoint as well as a capital standpoint, where the Russell 3000 index is, which is a broad measure of the U.S. stock market, and that is the green bar. And then we plot where our combined domestic equity portfolio is. You can see that when we add up all the holdings across all the managers, we wind up more as a mid-cap manager. That is because we have a higher allocation and we put some numbers behind this in this complicated table at the bottom.

We have got about 45, 46 percent in large cap holdings. The index has about 78 percent.

Where we are underweight to large cap, we are overweight to mid, small and micro.

Over long periods of time, we think that is still a good way to add value. In periods like the fourth quarter, where I mentioned large cap outperformed small, that had a negative impact on our results.

This is one thing that we will be revisiting as part of just a re-evaluation of U.S. equity strategy. Just making sure we understand this and confirming we want to continue with this strategy or adopt one that is more like the market.

I will pause there before touching on maybe four managers that we think require kind of a direct comment this morning.

All right. Let's touch on some of the managers. One that I'd like to touch on first is

Brown Advisory. This is a large cap growth manager. This is one where Lorna in particular and myself to a lesser extent have had a number of conversations with them of late.

You can see their portfolio. It was still positive in the fourth quarter but behind the benchmark, the Russell 1000 Growth. So this is a manager who tries to invest in securities in the large cap growth space. They had a difficult quarter. For the year, they are still behind the benchmark by a fairly wide margin. They have got a distinct approach to portfolio construction which is causing them to lag. So they have decided that in order to maintain diversified portfolios, they will not allocate more than 5 percentage points of the portfolio to any one security.

But the Russell 1000 Growth now is dominated by technology and telecom type names. In fact, Apple is the biggest holding in that index and it is now around 11 or 12 percent of that particular index.

So the manager says we're not going to hold more than 5 percent in any single security but the benchmark has 11 percent in Apple alone.

Brown is underweight to a lot of these big tech names and when they have rallied the manager has lagged. They have got a corresponding overweight to mid-cap so those factors have caused the manager to underperform a bit.

We have had a number of conversations with them about this. I think as you see names like Apple, they don't hold any allocation to Tesla, as these names experience big gains the manager by nature will underperform. So really they have struggled as a result more of what they don't own rather than what they do own. That is a manager that we are keeping an eye on. They haven't made any changes. There has been no changes in personnel that are significant. There's been no changes in style. These portfolio construction attributes that they have are not new. It's just the benchmark has shifted and the market has become even more concentrated. And like most managers, they claim that the market will be eventually be proven wrong and their diversified approach to portfolio construction will be proven correct. That is something we will be watching very closely.

Just the flip side of that on the large cap value side, we have got Mellon Investments here. Just an administrative update for the Committee. This is the organization that used to be known as the Boston Company. They are part of the BNY Mellon Asset Management. And BNY Mellon recently reorganized some of the boutique investment firms under their umbrella. It is now called Mellon Investments. I think in the coming quarter you may even see it as Newton going forward.

It is the same team in place and they have managed to post some pretty strong outperformance during this same period of time.

I'd like to touch quickly on the watchlist managers and then maybe open it up for questions.

Globeflex is one of those. You can see Globeflex, the small mid portfolio, for the fourth quarter was up over 11 percentage points. Well ahead of the benchmark that was up 0.20 percent. That strong fourth quarter contributed to a strong year so they are up over 33 percent while the benchmark was up over 5.

Really a strong rebound in performance because the longer term track record here is still behind the benchmark. They have still got some ground to make up.

But the fourth quarter has reiterated some of the reasons that we have the number of managers that we do. If you look just above Globeflex, who is on the watch list, we have Jackson Square who is not. Jackson Square coming into 2021 was really kind of a performance super start. They had exceeded their benchmark consistently. They ranked well ahead of peers regularly. And then they came into a period of underperformance and that is illustrated here.

We have got one SMID growth manager who is underperforming and we have got Globeflex who has a different approach to that same style and capitalization who has been able to do better to compensate for that.

We will continue to keep an eye on Globeflex but we are certainly encouraged that we saw a rebound in performance.

Keeley Teton is another manager on the watchlist. Some slight underperformance here but nothing major to report. This is a manager who kind of earns their value added in kind of big chunks over time.

Lastly, the third watchlist manager is Kennedy Capital. You may recall we provided the Committee or the Board an update on some portfolio manager changes that were made midway through last year. They made some subsequent changes to the microcap portfolio. The early results of that are very encouraging. So they are up 9 percentage points for the fourth quarter. Ahead of the Russell Microcap Index which was down over 2 percent. The new people in place have added value. They have changed the portfolio around. The results look encouraging but it is still a fairly short period of time. It is just six months under this new approach.

Those are some of the things that we are watching. I will pause and see if there are any questions from the Committee about the managers or any other aspects of the investment program.

MS. SCOTT: Brady, do you want to touch on the next item which is the annual conference? Do you want to highlight that?

MR. O'CONNELL: Thank you, Lorna.

We have provided an invitation to Callan's annual conference that is taking place April 25th through 27th at The Palace Hotel in San Francisco.

As all our events are, it is educational and focused, including a number of speakers that address topics of broad interest to the investment world as well as more sessions more tailored to your particular specific portfolio.

We are encouraged to be able to continue to offer in-person events. So, if the Board or the Committee are interested, we would love to host you at that event in April.

MEMBER MARTIN: Thank you.

MS. SCOTT: Next the manager update.

MR. O'CONNELL: More of an informational item. PIMCO is the sole manager of the commodity allocation. This is an announcement from our research team about the retirement of Nick Johnson who is a named Portfolio Manager on that account.

PIMCO as an organization does tend to have higher than average turnover. But the good news is they attract a lot of talent and they have got a lot of redundancies built into the manager of portfolios.

So while Nick Johnson is retiring, they do have capable people taking over and we're comfortable continuing to maintain the investment in the PIMCO commodity strategy despite this impending change. More of an informational item for the Committee.

MS. SCOTT: There are a couple of reports from the January report that I wanted to touch on that I didn't get a chance to talk about at the January meeting.

This first slide captures the dollar change in the portfolio. It translates the 13.3 percent net return into dollar terms, which can sometimes be a little bit more meaningful.

Looking at the 2021 column, we started the year with $921 million. Throughout the year we received contributions and we paid benefits. It resulted in a net addition to the investment account of $19.6 million.

So this is funds flowing into the investment account. This is a huge difference compared to prior years where we were always selling assets and transferring money to the operating account to pay benefit payments. This year was a big exception in that we received money and it was a positive contribution in.

Then we had gross earnings around 14 and a half percent, which translates to $134 million. We paid fees of around $5.6 million, which resulted in a net increase from investment earnings of $128 million.

Contributions, plus earnings, is a net increase of $147 million for the year. It was a very, very strong year.

The other report I wanted to touch on was the private market cash flows given the 2021 underperformance and some of that was due to being unallocated to private equity.

This slide shows cash flows from private market investments for 2021. You are seeing an increase in capital calls, that was about $6.9 million. That was offset with distributions of around 4.7, which was a net cash outflow for private equity of $2.17 million.

Again, unfunded commitments for $46.3 million. Again, highlighting that we have funds allocated to private equity. We're just waiting for that cash to be called in and invested. It is a reminder that capital can be called, like it was in 2021, but that is offset against distributions. We have an increase to our allocation coming here, which turns around and is offset by distributions which decrease our allocation.

This next slide provides a little more detail on our private market investments. Specifically, these are our closed in funds and that is capital that is locked up.

Here I am showing the Fund's commitments, the unfunded amount, and this is the ratio of how much was drawn versus commitment.

If you draw this line at the older vintages, you can see that looking at the PIC, the PIC, the managers generally don't draw 100 percent of the capital.

Looking at the new funds after 2012, you see our capital is still starting to be drawn but there are still a ways to go. Everybody is drawn, except for Pomona X, which still hasn't called anything yet.

Probably the more interesting ratio on

this page is this DPI, distribution of capital. This is the ratio of how much cash we have received in distributions over what we have contributed.

At minimum we want to get all of our money back. So at minimum we are looking for at least 100 percent. Anything over 100 percent.

Again, looking at our 2012 funds, you can see we have really got some nice distributions coming back. We received more than what we contributed.

Adams V 2012, I expect to receive more distributions from that fund. We should have that one up above 100 percent. I am not expecting Mesirow to get there and I am not expecting Apollo to get there either but generally some really good returns from our private market investments.

So this other report is class action claims. This is a new report. Securities class actions are another source of income for the Fund. Really at this point we don't take a position. We just participate in the settlements. How that happens is Northern files on our behalf. They file of course for a fee.

What happened in 2021, I was looking at

Northern's class action fees, and I noticed that their processing fees didn't line up with our custody contract. I was expecting $5.00 minimum. I was expecting a 2 percent max. I didn't see that so I asked Northern about it.

Also within our contract, there is a language that states that these fees may change over time in response to increased costs.

Yes, Northern had increased costs and yet they had increased their fees. As a gesture of goodwill, they apologized for not telling me about this increase and they refunded us some of those fees back. They added a credit of $3,500 to our custody bill but the increase in processing fees did go into effect on July 1st. That is new fees being allocated to our account.

Looking at 2021, we collected $62,000 in class action settlements. Most of those were filed by Northern but then there is this other category. These are primarily antitrust class actions. These are lawsuits not really associated with a specific security but it is a lawsuit against a group.

For example, a group of counterparties with some allocations with some antitrust behavior.

Like a price fixing or a rate fixing. An example of that would be when all the headlines were rate fixing from a few years ago.

Northern doesn't file these. That either leaves me to file them or our managers to file them.

This is where Robbins Geller really helps out. As a reminder, Robbins Geller is a security litigation firm that we hired back in 2018 to provide us some free class action monitoring reports. We didn't hire them to litigate. We hired them to help us with monitoring.

So I do receive monthly reports from them. I compare their report to what Northern has. They basically do file everything but this is a nice check.

What is more interesting on their report are these antitrust class actions. This is where again Northern doesn't file.

When I get this report, I look and I see Mexican government bonds, that is something we probably had exposure to.

I reached out to Western and Loomis, our fixed income managers. Western provided me with the transactions relevant to this class action and I filed that paperwork. Loomis on the other hand said they would file it for us. That is kind of how I use this report.

The other thing that was interesting was this Blue Cross Blue Shield class action and that one I emailed over to Jackie and John to let them know about in case that is something that we would want to participate in at the fund level.

In summary, we don't take a position on class actions at this point in time. We participate in the settlements. Northern and the managers and me, we all file where we can.

There could be a point where we would want to litigate, i.e., if we had really large losses. That is something that we would want to think about how we would go about doing that.

I am thinking that maybe that I should probably draft a security litigation policy to provide some guidelines around when we would want to litigate. That is something I am playing with and there is more to come on this.

MEMBER MARTIN: I think we are going to have to have discussions on that later. Thank you, very much, Lorna.

MS. SCOTT: Moving on is the performance report for January. So I am not going to spend a lot of time on this because January is just one month. Like Brady mentioned, it started off pretty rough.

Looking at this page, there is one little change here. On this first page, performance is shown net of fees. That is net of manager fees and net of operating fees.

Three years ago I worked with Matt Clark, who was the Fund's Assistant Comptroller, to establish a process where we would pay the manager fees directly from the manager's account. By doing so, we would be giving Northern the ability to calculate an accurate net of fees performance.

That process was effective January 1st of 2019. Here it is three years later and I can now provide Northern calculated net of fee returns up to the three year period. The one and three year numbers are exact. The five and ten year periods are estimates. I had used 55 basis points a year.

Looking at this value add, you can see we are not covering our fees for one, three and five year periods.

This is something that Brady and I will be looking into as we review the structure of our equity and our fixed income investments.

If our active managers aren't outperforming the index, maybe we shouldn't have active managers in certain areas of the market. So that is something we will be considering and more to come on this.

So let's just look at January's performance very quickly. This is the one month return. One month return of the various asset classes where we are invested. So, again, not a very good start for the year at all. Commodities is the only positive asset class up 8 percent. U.S. equities as a whole underperformed the non-U.S. Underperformed emerging markets. Emerging markets is actually the standout in all the equities. Even within U.S. equities, small cap is still underperforming large cap. Then gross is underperforming value.

In this market, how did the Fund do? The Fund declined 4.9 percent underperforming its benchmark which is down 3.6. This is underperformance primarily due to the growth allocations that we have in the portfolio and underperformance by our growth managers. Longer return numbers still remain pretty strong with the Fund up 9.6 percent over ten years.

We look at our MWDBE allocation. Again, no changes here.

The additional performance is for reference. I will point out that our diversifying funds did have positive performance in January. We have positive performance in commodities, right here, and then illiquid diversifying.

I will leave this other performance information for reference.

Flipping to the last report. This is a draft report of the manager fees that we paid in 2021. This table shows the total fees paid by manager as a percentage of each manager's average market value for the year.

Private equity fees appear to be pretty high. That is because we pay fees on the commitment amount and not on what is invested. Those fees as a percentage will get lower over time.

From a total fund perspective, we paid about 60 basis points in management fees and that is a favorable comparison to funds of about our size. This is from Callan's 2021 Investment Management Fee Survey where they paid 63 basis points.

That is how we look compared to our peers. The next question is how do our managers look compared to their peers? Did we hire the most expensive large growth manager?

The next couple of charts show that. Again, this is using the Callan 2021 Investment Manager Fee Survey report. I just charted our managers.

The ideal spot is we want to be at the bottom of these universe charts. We want to be down with the cheaper managers. For the most part we are there.

Brown is at the higher end and that will be a discussion that we will have with them to see if we can get lower fees from them.

Also interesting to note how much cheaper the passive managers are compared to the active managers, that is large cap.

Next chart is small cap. Generally, all of our managers are down at the lower end. Neuberger is not but Neuberger I have talked to them in the past and they feel their fee is justified. They are outperforming for us over the long-term. But, again, having this kind of information is worthy of a conversation again.

I think micro cap Kennedy may appear at the high-end here but I think this is a small cap universe and not a micro cap universe. It is a small cap universe so I think the micro cap universe Kennedy may appear a little bit lower. We actually have a fee break with them right now as well.

Our global ex.US managers, not bad. These are a little high. I think that is a product of the mandate size. Our mandate size is $30 million. This universe is for mandates under $100 million. So we don't have the fee break that would show up in a $100 million mandate. This is a little bit skewed here.

I think LSV is also another manager that has done well for us. They are a little bit on the high end here.

Loomis appears to be a little bit high. This universe was very interesting to have TIPPS this wide. The more expensive managers are up here as well. It must be the amount of active management that someone is taking within that universe.

The takeaway is we are monitoring these fees and we do use the Callan survey to go back and have conversations with our managers about the level of fees that we are being charged.

Again, I pause for any questions or comments. Otherwise, I will turn it over to Trustee Martin.

MEMBER MARTIN: We will open it for public comment.

MR. WELLER: If there is public comment, please press star six to make yourself known.

MEMBER MARTIN: Given that there is no public comments, we will move on.

Old Business/New Business. Is there any old business to discuss today? Any new business?

MEMBER MURPHY: Motion to adjourn.

MEMBER FORTUNA: Second.

MEMBER MARTIN: All in favor?

(Chorus of ayes.)

(WHICH WERE ALL THE PROCEEDINGS
IN THE ABOVE-ENTITLED MEETING
AT THIS DATE AND TIME.)

STATE OF ILLINOIS)
) SS.
COUNTY OF DU PAGE)

DEBORAH TYRRELL, being a Certified Shorthand Reporter, on oath says that she is a court reporter doing business in the County of DuPage and State of Illinois, that she reported in shorthand the proceedings given at the taking of said cause and that the foregoing is a true and correct transcript of her shorthand notes so taken as aforesaid; and contains all the proceedings given at said cause.

Debbie Tyrrell
____
DEBBIE TYRRELL, CSR
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