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 March 14, 2022, commencing at the hour of 9:00 a.m.

APPEARANCES

BOARD MEMBERS:

DANIEL FORTUNA, President and
Annuitant Trustee

WILLIAM MURPHY, Secretary and Active Trustee

ANTHONY MARTIN, Active Trustee

MELISSA CONYEARS-ERVIN, City Treasurer

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
BRADY O'CONNELL, Callan Associates

MEMBER MARTIN: I hereby convene this Investment Committee meeting for March 14, 2022.

Lorna, please call the roll.

MS. SCOTT: Trustee Murphy.

MEMBER MURPHY: Here.

MS. SCOTT: Trustee Conyears-Ervin.

MEMBER CONYEARS-ERVIN: Here.

MS. SCOTT: Trustee Fortuna.

MEMBER FORTUNA: Here.

MS. SCOTT: Trustee Martin.

MEMBER MARTIN: Here.

Thank you. We have a quorum for today's meeting.

Public Act 101-0640 and the Governor's Disaster Proclamation dated March 4, 2022 allows this meeting to be conducted by audio and videoconference. 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 physically be 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 these proceedings will be prepared and ultimately after approval will be made available on the Fund's website.

I'd like to now turn things over to Lorna to proceed with our agenda.

MS. SCOTT: The first item on our agenda is the Private Credit RFP. I'd like to turn that over to Brady.

MR. O'CONNELL: Thank you, Lorna.

I will just spend a couple minutes here with a quick review of what Private Credit is, why we're talking about it and what why it was added to the portfolio.

We have a few slides from the educational session that we conducted on Private Credit and what we're showing here on the first page is that this is a new asset class.

So we have got an investment portfolio that is well diversified. A lot of it is things like stocks and bonds that we have had for a very long period of time. But as time passes capital markets evolve, new asset classes come into being and Private Credit is one of those.

So after the Global Financial Crisis in

2008 and into 2009 banks severely cut back on the amount of capital. Banks stopped lending to small and middle market businesses. Businesses that were typically too small to issue bonds or get bank loans. So banks were over levered going into the Financial Crisis. There were new regulations placed on the amount that they can lend so it created a new market that asset managers stepped into. So that evolved into what we are calling Private Credit these days.

It is basically asset management firms lending to businesses in areas that used to be banks and other financial institutions.

If we turn to the next page, there is a couple of different sub-strategies that we will talk about as this RFP progresses. The core of it will be what we call direct lending, which is what I just described. Issuing a loan to a business and getting interest and then eventually principal repayment on those loans.

We may talk about structured credit within that as well, which is pooling of different types of have securities.

Then to a lesser extent, we may make an

allocation to opportunistic or niche investments. It does involve managers that will allocate to distressed businesses.

So think about as we go through the economic cycle and even now as we kind of maybe we are moving towards an economic pullback, some businesses will go through a cycle of being under stress. If you loan them money, you may want a higher interest rate or some equity in return. We will look at the managers that may do some distressed lending.

Then to a lesser extent something called specialty financing, which is lending to certain industries in particular. There is some that lend to the shipping industry. Some that do aviation finance. More kind of niche or specialty areas of lending.

Then on the bottom right at the kind of peer niche, there are things like life settlements and lending for the purchase of royalties. We will probably avoid that. Those are a little too specialized but you will hear some of these terms as we progress through the RFP. Direct lending, distressed. Multi strategy is a manager who will allocate to a lot of these different buckets.

Page 3 is a kind of a high level summary of the pros and cons. We went over this when we did this educational session. I think it's worth repeating here again.

Why are we even talking about this? First and foremost, you can get a higher interest rate when you do direct lending then you can be from buying bonds. This is in many ways a replacement for traditional fixed income, except we get a higher interest rate. It has a lower correlation to some of the traditional asset classes and because of that it gives us a better risk adjusted return at the total portfolio level.

Some of the things that we need to worry about or consider as we move forward with private credit one is liquidity.

One of the reasons we are talking about this now and one of the reasons we talk about infrastructure is because the cash flow position of the plan has improved considerably over ten years ago.

In the past, we probably wouldn't have been able to consider something like Private Credit but now since we have cash flow coming in we can invest in some of these illiquid asset classes and earn a return premium that comes with that.

Much like Private Equity, Private Credit has higher fees, so we are going to want managers that will do a good job for us on a net of fees basis. That is something we will look at as we evaluate our fee responses.

And then this is a new asset class. As I mentioned, it is about ten years old. It has grown in popularity and interest so we always just want to be cautious about whether or not there is too much capital flooding in and lowering returns. We don't think that is the case but we still want to be prudent in moving forward with this asset class.

The last page, Page 4, it just shows where this category fits in with the new asset allocation that was adopted in calendar year 2021.

You can see towards the bottom, under Alternatives, we added a 3 percentage point allocation to Private Credit. As a result of this RFP, we will be looking to find managers to fund that. The overall objective, if you remember from when we adopted that new asset allocation, was finding a return, a portfolio, a new mix of asset classes that gives us a better return at the same unit of risk that we had with the previous target and that is summarized at the bottom of the table on Page 4 here.

I will pause and see if there is any questions about the Private Credit background before speaking to the RFP summary.

All right. So we have got a quick summary here and we'll be seeking the Committee's approval of a RFP for Private Credit as I just mentioned. A 3 percent target in the investment policy, that equates to about $30 million. We're looking for commingled funds either closed end or evergreen funds. We will be talking about targeting direct lending, structured credit, distressed and special situations, as well as some specialty finance and multi strategy.

The fund size that we're looking for is about a billion dollars minimum so we want managers that have a certain scale so that they can deliver a diversified portfolio. We are not looking for fund to fund products at this point.

We have established some minimum

requirements as we always do with these RFPs. We want managers with at least $3 billion and a three year track record. So track record is in this space because a new asset class tends to be shorter. We want them to have at least two other public pension clients and have at least two prior funds and be raising at least a billion dollars in the current fund. The fund's investment should represent no more than 20 percent of the firm assets or the product assets.

As always with these searches, these minimum requirements are relaxed for diverse firms so if those respond they don't have to meet these minimum requirements. We don't anticipate a large amount of that but obviously we're going to be open to that.

As we always do with these RFPs, we did this with infrastructure, once the Fund issues it, it is posted on your website, it is posted on Callan's website. We reach out to managers that we have high regard for that we think are strong candidates as well as any diverse candidates and make sure that they are aware the RFP has been issued and encourage them to respond.

That is the summary. We have got a timeline laid out at the bottom. We would like to issue it this week. The submissions would be due in about five weeks and we would target presentations and selections for some time this summer.

Again, last month we issued an Infrastructure RFP. We are talking about Private Credit now. Callan will do a lot of the heavy lifting for this. We have two separate teams that cover those. We have no problem dealing with kind of working these concurrently or in parallel to some extent.

With that, again, I will pause and see if there are any questions about the RFP summary or the RFP itself.

MEMBER CONYEARS-ERVIN: Good morning, Brady.

MR. O'CONNELL: Good morning.

MEMBER CONYEARS-ERVIN: I was going to just let my fellow trustees know this is a topic that has occurred with I believe every Pension Fund in recent months so certainly a timely conversation. Glad to know we're getting some additional funds in. I don't know if I should say additional or appropriate but funds that are being received that we are able to make some investments to be able to receive some hopefully additional returns.

Just wanted to let everyone know that this is a topic that has been discussed in just about every Pension Fund.

MR. O'CONNELL: Thank you, Madam Treasurer. I think that is a good point.

We did the Asset Liability Study in 2021. The last time we did it in 2017 our outlook was a lot different. We weren't certain whether contributions were coming in and we were ramping to the ARC. Now we're up there and we're getting incremental cash flow, that really opens up the investment opportunity set. We can now use tools like Infrastructure and Private Credit that we couldn't in the past and as Madam Treasurer said these are asset classes are used by a lot of our peer funds.

We just want to make our initial allocations there and kind of continue operating in a way that our peers have been able to but we haven't historically but now can going forward.

It is really an outgrowing of the fact that we now have much more foresight into the contributions. The contributions have come in and we have shifted to cash flow positive, which is a huge change.

MEMBER MARTIN: Right. I think it is good to go over the cash flow. I don't know if Lorna or Jackie want to do that but our audited Financial Statements are pretty clear. The City contributions do exceed, not greatly but they do exceed, our benefit payments. The growth that we are seeing is mainly from about the size of employee contributions and our investment returns. The investment returns right now are kind of a little bit challenged because of our current environment. So that is something to consider as we move forward.

Thank you. Lorna, do you have any comment on that?

MS. SCOTT: I have nothing more to add, no.

MEMBER MARTIN: Thank you, Madam Treasurer. We are moving forward, Lorna.

MS. SCOTT: I think we're looking for a motion then.
MEMBER MARTIN: Does someone want to make that motion?
MS. SCOTT: A motion to recommend to the Board to approve the issuance of the RFP.
MEMBER MURPHY: I will make the motion.
MS. SCOTT: Do I have a second?
MEMBER FORTUNA: Second.
MS. SCOTT: Trustee Martin.
MEMBER MARTIN: Yes.
MS. SCOTT: Trustee Murphy.
MEMBER MURPHY: Yes.
MS. SCOTT: Trustee Conyears-Ervin.
MEMBER CONYEARS-ERVIN: Yes.
MS. SCOTT: Trustee Fortuna.
MEMBER FORTUNA: Yes.
MEMBER MARTIN: Motion carries. We will have that for the Board on Wednesday. Thank you.
MS. SCOTT: So the next item on the agenda is a Review of Manager Guidelines. Brady, do you want to take this one?
MR. O'CONNELL: Yes. Jackson Square is a SMID cap growth manager. One of two that is in the

portfolio. Up until the last four or five months when technologies pulled back, they have been one of the Fund's strongest managers. Very good stock picker. Really added a lot of value.
When we work with managers, we establish guidelines that define what stocks they can buy and how much risk they can take relative to the benchmark.

Lorna has been spearheading a conversation with Jackson Square about their guidelines and they have requested some of that be amended to allow them to purchase securities that are larger in market capitalization then the previous set of guidelines would require.

So it is struck out here in red. Previously there was a hard cap of $10 billion in market cap that the manager had to abide by so they couldn't buy any securities that had a market capitalization of over $10 billion.

Now, if you think about how well the US Stock Market has done, when we have just the static dollar amount, the market is growing over time but that dollar limit stays the same. It's effectively limiting their ability to buy securities that they want to buy.

So we worked with them, Lorna in particular, and what we would like to propose is the language here that ties their limit to the range of their benchmark, which is the Russell 2500 Growth Index.

The new language is "stocks may be purchased and/or held as long as the market capitalization is within the range of the Russell 2500 Growth Index at the time of initial purchase and the weighted average market cap of resulting portfolio is within plus or minus 50 percent of the weighted average market cap of the index".

Translating that in English a little bit, they can buy anything that is the same size of the Index, but we want to make sure when it is added to your portfolio that it doesn't move us too far from the Index. It is kind of a belt and suspenders type of approach to making sure that this portfolio stays similar to the benchmark that we are using to track them against.

MEMBER CONYEARS-ERVIN: Brady, let me ask you this, and Lorna, is this an anomaly?

MR. O'CONNELL: I wouldn't say so. This is a change that aligns our guidelines with the other guidelines that the manager has for portfolios like this that they manage on behalf of other clients.

So we have had them for a while and they made this request to align with their other small mid growth portfolios.

Lorna and I are comfortable endorsing this because we do think this is a tool that they should have the ability to use. That they have shown themselves as strong stock pickers, the last several months notwithstanding, we think they have the skills. We think they deserve this discretion and we're comfortable amending the guidelines to allow them to purchase securities that are larger in market cap than they would have historically.

MEMBER CONYEARS-ERVIN: So, Sarah, I was thinking in the motion that, if the other Trustees did want to go ahead with the motion with this, we would say per the advice of the investment consultant and Investment Officer.

MS. BOECKMAN: Yes, ma'am. The Committee Chairman has a draft motion that includes that language. Thank you for that recommendation.

MEMBER CONYEARS-ERVIN: Thank you.

MEMBER MARTIN: Lorna, do you have any other comments?

MS. SCOTT: I do not. Brady covered everything. I think we're looking for the motion then.

MEMBER MARTIN: Any other trustees have any comments on this issue?

Since there is no other comments, I'd like to make a motion to approve the recommendation to the Board to modify the Investment Manager Guidelines as presented and recommended by staff and our investment consultant. Is there a second?

MEMBER MURPHY: Second.

MEMBER MARTIN: Seconded by Trustee Murphy.

Trustee Conyears-Ervin.

MEMBER CONYEARS-ERVIN: Yes.

MEMBER MARTIN: Trustee Fortuna.

MEMBER FORTUNA: Yes.

MEMBER MARTIN: Trustee Murphy.

MEMBER MURPHY: Yes.

MEMBER MARTIN: I vote yes. Motion carries.

We are going to give an update regarding world events and foreign investment exposure discussion and possible action regarding recommendation to the Board regarding foreign investment exposure.

Lorna, do you want to take this away to start with?

MS. SCOTT: Yes. Given the recent world events, I want to talk about our investments in Russia. This first slide sums up our total investments in Russia.

We have four managers across five portfolios that have positions in Russian stocks and bonds.

You will note that William Blair macro allocation fund is a fund holding. It is not a separate account. It is an indirect holding and we can't tell a manager what to buy and sell in this one. We don't control the position.

We have been asked what is our exposure to Russia, that is answered by this last column. As of March 10th, our market value of our positions in Russia was about $1.2 million, that represents 0.13 percent of the total fund. It is a very small amount.

But this answer reflects the recent write down of the market value. It doesn't really tell you how much we really invested in Russia's stocks. That is more captured by this book cost number.

As of March 10th, we had about $5 million invested in Russia, that is now worth $1.2 million. That has been a lot of value that has been written off. It is mainly unrealized at this point in time so meaning it is paper losses. Even then this $1.2 million is actually being priced by Northern Trust who uses the last trade price. So this number could be very, very high. But at least gives us a starting point as where we were as of March 10th.

I also looked at our position as of January 31st. I used values of what we had invested, what our exposure was prior to the invasion. We had positions valued at $9 million or just less than 1 percent of the total fund.

You will notice as risk increased in the market, we had one manager William Blair who acted very quickly to sell down their positions.

To recap, we have a very small amount invested in Russia. Again, we invested $5 million. It is not worth as much now.

So what can we do? I reached out to the three managers, LSV, Brandes and Western, for their views.

LSV said the only option we can do is to hold. We can't trade and they have no intention of adding any new investments in Russia at this point in time.

Brandes as well said you can't do anything but hold. They agree that risk has increased and so therefore they won't be making any new investments in Russia either.

Western, same line, hold. They will do no new investments either. At this point they believe that most of the pain has been felt by the market and they actually hope to manage the exits in a way they can recoup some of the value that has been written off. They'd like to be able to trade into a rally. The ultimate goal, of course, is to sell down and not hold any more Russia.

If we look at the market, just a recap where it stands today. Foreign holders are blocked from trading. The index providers have removed the Russian securities and debt from the various indices. And all payments, all dividends, coupons and settlements is all blocked to nonresidents.

It is back to that question so what can we do? We can't transact or we're very limited in what we can do. We can continue to monitor our positions and stay in contact with our investment managers. Prudently exit these positions as they hope to recapture some of the written off value.

As legal likes to remind me, our managers are our fiduciaries so we can respect their process and let them execute in a way that maximizes the value for our participants.

To recap one more time, we have a very small position and we all are monitoring these positions.

So, Brady, do you want to talk about what you see other clients doing?

MR. O'CONNELL: Yes. A lot of public funds out there, you know, the first order of business was understanding the exposure, working with managers to figure out how to handle those going forward and then there's been statements as to kind of how to handle these going forward.

You are like all other institutional holders of equities of Russia or bonds. The market in Russia has been closed. There's been no way to transact. It has really been a symbolic gesture to say our managers have indicated they don't want to initiate any further exposure so we're not going to allocate any more. If you say you're going to divest, it is really like I said symbolic. You can't actually sell these things right now.

We suspect once the market is open they may be written down further. They may be written off entirely. These positions in Russian stocks and bonds are being removed from the benchmarks that the managers use. So we heard a comment from LSV that they are not going to initiate new allocations because it is not in the benchmark anymore.

It is not necessarily going to impact the managers' performance relative to the benchmark but we may have to look at these holdings on our books for a little while until we figure out a way to sell them and it's just not possible in the market today.

The losses that we have had in this due to direct exposure I think are a small part of the way that this event has impacted our portfolio. We have a much bigger allocation to stocks that trade in the U.S. Domestic equities, those have even sold off.

The Russian holdings are small. We'd like to get rid of them but we can't. These losses I think are really just part of the overall portfolio and when we think about these being written off we just want to think about them in the broader context of the diversified portfolio of assets that we have.

MS. BOECKMAN: Is it fair to say, Brady, that your recommendation right now is that we continue to oversee our managers in their process that they currently have in place to exit these positions and make sure that they are doing it in a fiduciarily prudent manner? But really other than that, we are just going to continue to oversee and you will continue to report back to the Committee and the Board with respect to what the situation is and how it continues to evolve?

MR. O'CONNELL: That is correct.

MEMBER MARTIN: They are going to monitor it and they can report to us on a monthly basis.

Are there any comments by Trustees?

MEMBER CONYEARS-ERVIN: I would say thank you because this is an extremely important topic. Certainly one of my priorities right now. So this was a really good conversation to have and I appreciate the press statement.

I think something Lorna said, going on to Page 3 on this slide, I think our managers have suggested to us that they really need to hold anyway because as Brady said the restriction of the transactions right now at this point that if we even wanted to trade we would not be able to.

Every manager I have noticed have stated the invasion of Ukraine has changed their view and they will not consider any new Russian investments at this time. I think the previous manager said the same thing. We will not make new purchases. We will not make new purchases of Russian securities on behalf of clients.

So each manager one after one is saying that very same thing. So I think that is important and as long as our investment consultants are continuing to follow this and our Investment Officer and reporting back to the Board, that is helpful. It's good to know the commitment from our managers because that is where we stand as a board.

MS. SCOTT: Perfect.

MEMBER MARTIN: I wanted to say I think staff and our investment consultant and fund counsel when this first came up a couple of weeks ago we were on it. We have had long discussions on it. I think we were prepared for any inquiries that came our way and for the most part this is where we have been. Everybody did great. Thank you.

With that, the statement that we have is the current statement for anybody that has any inquiries. "Our members are dedicated to serving and protecting the public so of course the Board stands in solidarity with the brave people of Ukraine. Consistent with our fiduciary duties, the Board has directed its investment staff and investment consultant to report to the Board as to the nature and extent of any holdings that the Fund may have in Russia owned or domiciled companies. As of today, we believe that the Fund has less than 0.3 percent of its assets invested in Russian companies and we will continue to monitor this very important subject."

With that, I think we can move on to the next item the Investment Report. Lorna, do you want to go through that?

MS. SCOTT: We are into the Investment Report. This first report kind of falls under the review of the Investment Policy Statement that we do on an annual basis.

Within the Investment Policy Statement and within the Manager Guidelines, we have performance targets for our managers. These targets are typically discussed when there is under performance and then that manager is put on watch. Or, if a manager is doing really, really well, it is highlighted as part of Callan's quarterly report.

I thought we needed a formal review to review the specific targets in the IPS and the Manager Guidelines. This report is this kind of formal review.

We will start by looking at the objectives that are stated in the Guidelines.

For the most part, our Guidelines require the managers to outperform the benchmark and we actually have specific hurdles by how much they should outperform the benchmark. Most of these are between 50 and 100 basis points. Global REITS is 200 basis points. Also within the Guidelines, we're asking our managers to rank in the upper 50 percentile or the 33 percentile of their peer group.

Then within the Investment Policy Statement, there is a statement there that we ask our managers to display an overall level of risk consistent with the benchmark.

We have multiple objectives. There is performance, there is peer group rankings, there is risk.

My approach was to assign each manager a grade. This is the criteria of how an order of importance. Any manager with performance less than five years did not get graded. After that I gave more importance to the achievement of the objective over the long-term versus the short-term. And as far as risk goes, I was looking for a risk differential of around 2 percent.

After that all I had to do was create a spreadsheet. Download the data. Setup traditional formatting so that anything in red is under achieving and anything in green is achieving. Then after that I assigned a grade just based on the amount of green and red that you see. Of course, a reminder that the longer term criteria is more important than the shorter term criteria.

Looking at U.S. equity, the most important thing is are they outperforming since inception net of fees. We have three managers that are not.

Globeflex is already on watch. Then there is Logan and Brown Advisory and I have talked about these managers before and they are showing pretty consistent underperformance since inception. This is something that Callan and I will be talking about as we are considering the U.S. equities structure review. In the short term, I have given those managers D's.

You will note our A's. Newton is doing very well. Almost all green. Their volatility is just slightly higher than what I was looking for as far as the 29 percent. Not that high that I would not given them an A.

Then we have Neuberger Berman who is solid green all the way across. You will notice their volatility is less than the benchmark. They are actually not as volatile as the benchmark and they are still giving us solid performance and ranking very high against their peer group. Again an A.

Kennedy, they are also all green, but they are currently on watch due to a Portfolio Manager change.

So we will keep all of the managers on watch and that on watch status will be discussed in line with the U.S. equity structure review.

Looking at the non-U.S. managers, we have two managers who have under five years performance so we won't give them a grade.

We have William Blair who is all green but I am gave them a B and that is primarily because they are not meeting that 50 basis point outperformance here.

Fixed income. Again, all green for the most part. Ernest is showing up red versus their peer groups. That's not unexpected given their strategy is much more conservative and it is more conservative versus the Loomis and Westerns of the world, which is a nice counterbalance to the more riskier areas that Loomis and Western will go into. Also, against their peer group, they are more conservative so this isn't unexpected. It works well with our portfolio given how Loomis and Western trade.

We have PIMCO. Here I rated them a C and it is primarily due to their ranking is lower than we want them to be and they take on more volatility than the benchmark as well. That covers that review.

MEMBER CONYEARS-ERVIN: You said there will be more discussion in regards to Logan and Brown?

MS. SCOTT: Yes. Part of the asset allocation review is a consideration of how we want to structure our U.S. equity managers. Whether it is the number of managers, whether we want to go active or passive.

So this kind of performance in large growth is a factor to consider whether perhaps we should be more passively oriented in large growth. That is kind of where the discussion will come up.

MEMBER MARTIN: I think this is a really good comment. I think Brady can reference this.

The markets like in large cap are much more efficient than they are in both mid-cap and small cap. That is where you get the inefficiency and the greater opportunity for return. It is a good discussion to have, Lorna. It's just a matter when you want to address that.

MS. SCOTT: Yes.

MR. O'CONNELL: That project is under way. We have been meeting with the managers on watchlist.

This phenomenon of large growth managers underperforming isn't unique to this fund. That is the one asset class where you mentioned, Tony, is the absolute hardest. About 80 percent of large cap growth managers have lagged the benchmark.

I think in the past we talked about Brown Advisory. They said we're not going to invest any more than 5 percent of the portfolio in one holding. We want to be diversified.

Right now the Russell 1000 Growth has about 11 or 12 percent in Apple. They could own 5 percent and still be underweight. They think that is going to turn around and eventually they will be rewarded for being more prudent from a diversification standpoint.

MEMBER MARTIN: That goes into the discussion that we have had with Lorna. We have had these longs discussions on growth versus value. Historically, it's been a great run for growth over the last ten or so years. Maybe there will be a reversion. Just a matter of how this plays out.

I am sure we're going to get there, Lorna. This is really a great discussion. Just a matter of when and how we're going to get there. When do you think we will be ready to have that discussion?

MR. O'CONNELL: I did make a note to check on the status of that. We are talking about in a month or four to six weeks.

MEMBER MARTIN: Okay. Four to six weeks and we'll be in the middle of these RFPs as we are moving forward. Okay.

Does any Trustee have any comments on this subject or this area or any other comments on performance?

MS. SCOTT: This is performance as of December. I am going to jump into performance as of February.

As I move into the March investment report, a reminder that we did issue the RFP for Infrastructure. We're in a quiet period.

As he said, the RFP was posted to his website, to our website. I also posted an ad in P&I.

We did receive four RFP questions. Those answers have been posted on our website. We do get questions on the fiduciary requirements, that can be a really sticky point during contracting. Hopefully, maybe we won't have as much sticking points this time but we will see. Hopefully, we will get a lot of responses. Those responses are due April 1st.

From performance, I am not going to spend a lot of time on performance since we are only two months in. I will plan on doing a more detailed attribution at April's meeting.

This slide shows you the year-to-date performance for the asset classes where we are invested. There is clearly one standout asset class and that is commodities. It's up 15.6 percent year-to-date.

Looking at equities, you can see U.S.

equities are underperforming the non-U.S. equities positions and within U.S. equities you can see how growth is way underperforming value.

Looking at fund performance gross of fees, so the Fund declined 1.5 percent in February, that is in line with the benchmark. That brings our year-to-date return, we are down 6.3 percent underperforming the benchmark which is down 5.1 percent. Our underperformance is primarily due to domestic international equity performance.

Our MWDBE Summary. We have got no changes here. Again, MWDBE will be part of the U.S. equity structure review.

MEMBER CONYEARS-ERVIN: Hold on one second. You are just showing us the numbers.

MS. SCOTT: We have a goal of 7 to 10. We only have 3 percent allocated in emerging. From a total MWDBE perspective, we have a goal of 12 to 24 or actually 24.7 percent. So we are above goal in our total allocation but under target within our emerging allocation.

Part of the U.S. equity structure, we will consider if there are areas where we can pickup where there is good performance from emerging MWDBE managers.

MEMBER CONYEARS-ERVIN: Okay.

MS. SCOTT: Actually, this is a more detailed information on performances. We can actually use this table for a quick attribution.

What is highlighted in yellow are the Fund's largest allocations. These allocations will be the primary determinate of Fund performance.

When you look at the year-to-date number, we are pretty much in line with the benchmark for fixed income. Underperformed in Global ex-U.S. equity. Underperformed in U.S. equities. It is this underperformance that is contributing to our underperformance year-to-date.

If you want to break it down and look at the sub-asset classes, you can look at the benchmark here. The goal was negative 8.3 percent. Anything that is worse than that actually would hurt us. Looking at large value, being allocated to large value, which performed negative 3.5 was good versus the 8.3. Then we had strong manager performance that helped as well.

Compare that to growth, 8.3 to 12.5 being allocated in large growth hurt us and our active managers didn't do as well either. Being allocated to large growth and active management there detracted.

That same story applies for small SMID growth. Being allocated to small mid growth, again versus the 8.3, detracted. Our asset managers detracted there.

Again, this is a very quick way to figure out how we performed versus our benchmark.

Now we have additional information on the manager performance.

MEMBER CONYEARS-ERVIN: Can we expand that right there on that page?

MS. SCOTT: Yes. Logan and Brown that we talked about before that is a concern. These are all gross of fees. The net of fee number would be take this number and subtract it from this bottom.

MEMBER MARTIN: To some extent, Lorna, some of this is to be expected given the current environment. We know it is not just world events but in the rising interest rate environment generally value is going to outperform growth and it is kind of reflected in those numbers pretty well.

MEMBER CONYEARS-ERVIN: Actually, I have felt that -- you are right there right where I am at. I wanted Callan to chime in on this. We are just as a board seeing negative interest rates and we're all quiet because we also know with the market, and mind you I am looking at these negative numbers in all of the Pension Funds that I am a Trustee on, I don't like to take that for granted.

I think we should talk about what is the current market and how just about everyone is seeing these type of returns. I did want Callan to chime in on that.

MR. O'CONNELL: Thank you, Madam Treasurer. Seven out of ten years the S&P 500 has a positive return. So we know over the history, close to 100 years, that two-thirds of the time at least we are going to see a positive return from our stocks. A third of the time, three out of ten years roughly, we are going to see a negative return.

We are a long-term investor. We try not to get too excited when we had great returns in 2020 and 2021. We want to be patient when we look at the decline and know that since we are in a cash flow positive standpoint, we don't need to sell stocks that have gone down in price to pay benefits. In 2008/2009, we had to do that.

Now we're in a position where we can take some of those cash flows that are coming in and use those to pay benefit payments.

I would encourage the Board and the Investment Committee to embrace that long-term horizon, which is a strategic advantage that we have as investors.

Lorna and I and the team at Callan are monitoring the portfolio. We are certainly looking at how managers perform. Some of these managers we would expect to do well in down markets. You may recall, we have had that discussion about some of these active managers where when there is a year of negative returns they protect on the downside. Not all of them, some of them.

It is early days in this market and there are some unique circumstances so we have got the geopolitical events that we already discussed. We have interest rates that are set to start going up this week as the Federal Reserve takes action.

We are staying on top of things. We

don't think there is any need to adjust course at this point but I appreciate the question and we'll advise the Board if anything comes up.

MEMBER MARTIN: I would like just to comment on that. I know historically this fund over the past 30 years we have had a value tilt, right. And there is an awful lot of education and data. You can see the last 50 or 80 years it shows that value generally outperforms growth.

Now, growth has done incredibly well. We have benefitted from it immensely while value has underperformed over the past several years.

I would like the discussion going forward where we were, where we are and what we should do going forward. Especially, because I do believe the pendulum is going to swing. We have a long time horizon and since one generally outperforms the other over a long time horizon, I'd like to see a pretty solid recommendation concerning the future direction of our allocation in those asset classes.

MR. O'CONNELL: Yes. It is a great point and a point well taken. This fund, as a reminder, you know, we have been looking at this for a long time. It may not be apparent to everyone that the way we differ from peers is our use of active management. In a lot of other pension plans, they have used index funds for most of the U.S. equity asset class.

We have opted for active managers for most of the categories. We have two managers that are paired up with different styles. If you look at Jackson Square and Globeflex, as an example, they have very different approaches to that same general style. We put them together on purpose so that when one is down the other might be up.

As part of this process of revisiting the asset class, we're going to look at growth versus value. We are going to look at active versus passive. We are going to take a fresh look at these managers that are on watchlist. Maybe some that should be.

And then, lastly, you may recall we had to terminate a manager a year and a half ago or maybe it was last year. We placed that money in an index fund temporarily. We are going to look at where we can redeploy money in active management.

As Lorna had indicated, a focus in that would be making sure that we can identify strong

MWDBE candidates to bring to the board for consideration when we do those searches.

MEMBER MARTIN: I like the Northern Trust Flash report for a reason. A few months ago I really had to smile. The reason I smiled is because every asset class you had one manager was black, they were outperforming the Index, and then the next manager was red. It was like perfect. That is exactly the way our portfolio was designed to operate. One was more concentrated than the other. It was good to see because we were doing well and the Fund has done well. I really respect the advice and the direction that we have taken. I just hope that as we move forward everyone needs to understand when you see red in a specific asset class, that actually might be by design the way this portfolio was constructed.

MR. O'CONNELL: I think that is as an excellent point. When you see underperformance, either at the manager level or an asset class, it is often by design. We diversify. We buy a bunch of different asset classes because we don't know which one is going to perform best. Some will underperform and others will outperform and our goal is to have a smoother ride within the asset classes as well with the portfolio over time. This is really when you see that underperformance that is what diversification looks like.

MEMBER MARTIN: Sounds great. That is why, Lorna, one of the reasons why I have always liked that report. Thank you. Moving on.

MS. SCOTT: I have one last report and this is the rebalancing template. We don't have to raise cash but I do use this report to show asset allocation.

Looking at this last column at the very end, that is the difference between our actual allocation versus the model. Just a remainder the model here is the new model that was adopted in December so we're going to be off target until some of these RFPs have been completed.

Where we stand today looking at the variance is that we have too much equity. Overweight 2.3 percent. That is offset by not enough fixed income. That is primarily due to this Private Credit 3 percent allocation that hasn't been completed.

So that is where we stand on asset

allocation. With that, now I am finished.

MEMBER MARTIN: Very good. Given that, consistent with Public Act 91-0715 and reasonable constraints determined by the Board of Trustees, at each regular meeting of the Board or its committees that is open to the public, members of the public may request a brief time to address the Board or committee on relative matters within its jurisdiction.

Are there any requests from the public to comment today?

MR. WELLER: In order to comment, please press star six.

MEMBER MARTIN: Hearing none, we will move on.

Is there any old business to discuss today or any new business from any Trustee?

MEMBER CONYEARS-ERVIN: Not to prolong, I heard Lorna say looking at the rebalancing template that we have don't have to raise cash. That just sounded great, that made my day, by the way.

MS. SCOTT: Just on that note, last month we received contributions. I did raise like 2 and a half million in cash. We didn't have to raise the full $25 million last month. We got contributions late in the month. It was a good month last month, too. But, yes, no cash this month.

MEMBER MARTIN: Very good. That is great news.

Given that there is no further old or new business, I'd like to entertain a motion to adjourn.

MEMBER MURPHY: Motion to adjourn.

MEMBER FORTUNA: Second.

MEMBER MARTIN: All in favor?

(Chorus of ayes.)

MEMBER MARTIN: Everybody have a great day and see everyone on Wednesday.

(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
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DEBBIE TYRRELL, CSR
License No. 084-001078

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