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 December 13, 2021, commencing at the hour of 2:30 p.m.

APPEARANCES

BOARD MEMBERS:

DANIEL FORTUNA, President and
Annuitant Trustee

ROBERT TEBBENS, Active Trustee

WILLIAM MURPHY, Secretary and Active Trustee

ANTHONY MARTIN, Active Trustee

MELISSA CONYEARS-ERVIN, City Treasurer

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
MARK MYSLINSKI, City Treasurer's Office
BRADY O'CONNELL, Callan Associates

MEMBER MARTIN: Roll call of the Committee members.

Trustee Fortuna

MEMBER FORTUNA: Here.

MEMBER MARTIN: Trustee Sheridan.

MEMBER SHERIDAN: I am present but not a member of the committee.

MEMBER MARTIN: Trustee Murphy.

MEMBER MURPHY: Here.

MEMBER MARTIN: Trustee Tebbens.

MEMBER TEBBENS: Here but not a member of the committee.

MEMBER MARTIN: Trustee Soni. She is not present.

Trustee Conyears-Ervin. She is not present.

Trustee Valencia. She is not present either.

We have a quorum for the Investment Committee.

Public Act 101-0640 and the Governor's recent Disaster Proclamation dated December 10, 2021 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 be physically present in the same space.

We have posted notice of this committee 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 approved will be made available on the Fund's website.

I would like to now turn things over to Lorna to proceed to our agenda.

MS. SCOTT: On the Agenda today is a review of the Asset Liability Study and the proposed asset allocation model and some additional investment reporting related to December.

What I'd like to do is actually request that we go into Executive Session to discuss specific investment contracts.

MEMBER FORTUNA: I make the motion to go into Executive Session pursuant to Section 2(c)(7).

MEMBER TEBBENS: Second.

MS. SCOTT: Trustee Martin.

MEMBER MARTIN: Yes.

MS. SCOTT: Trustee Murphy.

MEMBER MURPHY: Yes.

MS. SCOTT: Trustee Fortuna.

MEMBER FORTUNA: Yes.

MS. SCOTT: Trustee Conyears-Ervin not here. Trustee Soni not here.

MS. BOECKMAN: The motion passes to go into Executive Session.

(Whereupon, the Board went into Executive Session off the record. No action was taken in Executive Session.)

MS. SCOTT: We are back in open session.

The record should reflect that Trustees Conyears-Ervin and Soni joined the meeting while the committee was in closed session.

MEMBER MARTIN: Sarah, could you frame the motion for me?

MS. BOECKMAN: It is a motion by the Committee to recommend to the Board, consistent with the recommendation from your CIO and your investment consultant, approval of the revised asset allocation, as presented.

MEMBER FORTUNA: I will make that motion.
MEMBER MURPHY: Second.
MS. SCOTT: Trustee Martin.
MEMBER MARTIN: Yes.
MS. SCOTT: Trustee Murphy.
MEMBER MURPHY: Yes.
MS. SCOTT: Trustee Fortuna.
MEMBER FORTUNA: Yes.
MS. SCOTT: Trustee Conyears-Ervin.
MEMBER CONYEARS-ERVIN: Yes.
MS. SCOTT: Trustee Soni.
MEMBER SONI: Yes.
MS. SCOTT: Motion carries.
As part of the investment report, Brady, do you want to cover the third-party review really quickly? Maybe a couple of highlights.
MR. O'CONNELL: The third quarter of 2021 was fairly tame compared to the past year, so if you look on the left-hand side of the page, the returns from the capital markets were very modest compared to the past year.
I think there is one slide that speaks to the question that came up earlier. For the quarter, our plan was up over 80 basis points, 0.81

percent. The benchmark was up .32. For the past 12 months, we were up over 26 percent.

This is me speculating about the answer to the question about how we performed relative to when the Fund changed the discount rate. I think it is going to be somewhere between the two and three year number here, which is either 15 or 10.78 percent.

We really had a strong long-term track record. The Fund has benefitted from being in risky investments.

If we go back, as long as we have numbers, the returns are a little more modest and close to the actuarial discount rate.

I would remind you that this includes the full global financial crisis as well as the Covid market drop. There were a couple of bear markets as well as one big bull market during the time period.

So the Fund has done well. Lately, active management has done well. The one number I did want to reiterate is at the bottom of the report. For the past year, we were up over 26 percent. The benchmark was about 22. Active management within domestic equity, fixed income and international really drove that outperformance.

This plan uses more active management than peers and we have been rewarded over the past 12 months for that active management.

MS. SCOTT: I will pick it up with more investment reports.

I am going to start with the extra reports that I create quarterly. These reports are really linked to the Callan quarterly report and they are really designed to answer two questions. One question is on the manager peer universe chart. It is how much is each asset class invested with top quartile managers. Those managers that are outperforming their peer groups.

Whereas Callan's reports look at each individual manager versus their peer group, I like to sum up those individual managers and look at the asset class as a whole.

Dark green are the managers at the very top of their peer group all the way to dark red that are the managers at the bottom of their peer group.

Of course, we want to see a lot of green.

With U.S. equities, we do see a lot of green, particularly over the longer term time period.

It is not unusual to have managers in the red because of different market cycles. They favor different approaches, but longer term we do want to see and we do expect our managers to outperform their peers.

In this one, it is nice to see the managers who are ranking high in their peer group for the longer term. In the U.S. equity space, we have Neuberger and Mellon that are kind of continuously up there over the three, five and ten year time periods.

The next slide is the international equity. Here we are generally fine as well. There is no dark red. The black boxes are the assets of current managers where we don't have a longer time period with us.

I would say it is William Blair's account ranking high against the peer group consistently over the longer term. Again, a lot of green.

The next slide is fixed income. Here you can see our core managers are also ranking very well against their peer groups. That is Loomis and

Western, our Core Plus managers. Earnest is consistently at the bottom. They are lagging their peer group. That makes a lot of sense because Earnest doesn't take a lot of risk and they are a nice compliment to the Loomis and Western portfolios so they serve a purpose.

That report covers the manager peer universes and that was my question there. The next question relates more to securities and holding.

That says from a holdings perspective, do we really look different from the benchmark or have we have combined a bunch of managers who is active that is all offset looking at the index but paying for active managers.

By looking at the holdings, we can get an answer to that and the answer is for U.S. equity, no, we don't look like the index. We definitely are positioned differently than the index and at the end of the day your active managers are not all looking the same way.

So here you can see that we are overweight in small and mid-cap versus the index.

Then on the next slide, from a sector perspective, you can see that we have got overweight to healthcare, more industrial, more underweight technology which is more of a growth sector. Again, positioned differently than the index.

Then the next slide is international. Again, you are seeing that same overweight to small and mid-cap. Again, different than the index.

Next slide looks at our sectors. Overweights in health care, technology. Underweights in financials and consumer discretionary.

Next slide actually shows from a country perspective. You can see that we have got more in Europe, United Kingdom, overweight in emerging markets. With underweights to Japan and Pacific ex-Japan and underweights to Asia.

Lastly, on fixed income, this is just looking at the holdings and various kinds of bonds that we are invested in.

You can see we have a sizable allocation to corporate bonds and then from a country perspective we have got a large amount invested in North America but we do have some exposure to foreign markets and some exposure to emerging markets.

At the end of the day, looking at the holdings, the take away is, yes, we are different than the index and we are paying for active management and we're getting active management.

So those are kind of the extra quarterly reports that I prepare that are tied to the Callan report.

Now let's move straight into the December reporting. This first slide is the summary slide. We are going to jump right into details.

We start by looking at the market. Here we are looking at 11 months year-to-date index returns for the asset classes where we are invested.

Really despite a very rough November, these year-to-date returns for 2021 are looking very, very strong.

You have some themes you can can see here. You have commodities doing very well. U.S. equity, on the left-hand side of the chart, also very strong. Within U.S. equities, you can see that growth stocks are outperforming value. Large cap is outperforming small. We just talked about our overweights to small cap. This kind of outperformance at an index level is going to impact us.

In other areas, just within the middle of the chart there, you can see the non-U.S. developed markets are outperforming emerging. Emerging is negative. I talked about our overweight to emerging markets as well.

Again, using this chart for broad themes that are coming out of the market, because what the markets are doing is how we are going to perform as well.

Looking at the next chart is our fund performances. Like I said, a rough November. The fund was down 2.6 percent. We did underperform the benchmark but year-to-date we are up 11 percent but we are now underperforming the benchmark which is up 11.5.

The next slide kind of digs into that underperformance and explains why. I talk about we are underperforming by 0.5. From this slide you can see most of that underperformance is coming from this asset allocation a minus 0.6.

This is really having weights different

than the benchmark. Being off policy is costing us performance-wise 0.6 percent return.

Normally asset allocation wouldn't be a big part of performance differentials because it is so small but going to the next slide we can look at why and how.

Column number 3, the Fund is up 11. Column number 4, the policy is up 11.5 percent.

What we want to do is look at that allocation column where you can see the minus .6.

We can see on that column that line is coming from private equity. If we look over, we can see that we have 1.8 percent as a weight in private equity versus the policy which has 4 percent. But then we can look at the returns, we can see our fund return is 50 percent versus the policy return of 39 percent. These are really, really outsized returns but we were underweight this asset class. We didn't have nearly as much as the policy target. Not having enough of something in a very, very strong market, with these strong returns, is going to cost us.

So that is what it is. Being underweight is really, really high performing assets hurt us versus the policy benchmark.

MEMBER CONYEARS-ERVIN: That is why we are having these discussions now because we recognize that we need to make a change in the allocation.

MS. SCOTT: It is a reminder that we actually do have commitments for private equity. We did those searches. We were committed to get our allocation up but right now we are waiting for that capital to be called.

Meanwhile, when you have these kind of returns, we are waiting, we can carefully calculate what is this costing us from a relative performance prospective.

The other thing I want to highlight on this chart is the negative 1.2 at the top next to U.S. equities and that cost is really due to the small cap allocation. It is due to the allocation to value. And, if you recall, you saw those performance differences versus the policy benchmark on the first slide.

We did have some manager underperformance as well from Brown, from Neuberger, and Jackson

Square.

I will end on a positive note here and say, well, look at the 1 percent, that is the global ex-U.S. equity contribution positive 1 percent and that is due to strong outperformance by our emerging market LSV.

At the end of the day, the manager selection and outperformance that Brady highlighted at the end of September, it kind of went away with October and November. We'll see where it goes from here.

The next slide is our MWDBE allocation. No changes here. Also, we have discussed we are underweight in our goals for emerging managers and we're exceeding our targets on a total basis and we will be looking at these allocations as we structure the U.S. equity and restructure fixed income under the new asset allocation model.

The next slide performance. I always include these reports for granular for more detail. I did want to perform a little more background on them today.

Number one, these returns are calculated by Northern Trust so that is an independent third-party calculation of the performance numbers that are coming from our managers.

What is important, too, is what do we do to make sure these returns are good numbers? That is where Brady and I do have a process to review around the Northern Trust calculated returns.

What I do, the managers send me monthly performance reports and accounting reconciliations every month.

If I see performance discrepancies between Northern and what the manager has, I can look at that accounting to help identify why I am getting differences.

In U.S. equity, I really don't feel a lot of performance difference. The pricing is all good. It is all matching. I will say this year there were a couple of mispriced corporate actions, which created some weird flows, which created some performance differences. That required restating and rerunning performance. The accounting was fixed and then Northern's performance numbers were good.

On the international side, I pick up a little more differences on pricing sources. On FX rates that are used, the timing of when those FX rates are pooled. I also see difference in tax reclaims but the managers don't always reflect those. All that will create performance differences but they are small.

Also in fixed income, there is pricing differences there that will create slight performance differences.

I will say the one other area that can create performance differences between Northern and the managers are really due to cash flows and the timing around when they are processed. Normally returns are close.

The other thing I would say is private markets. I do have to stay on Northern to get those valuations updated. If the accounting isn't updated, then my performance isn't good.

I spend a lot of time with them to try to get the valuations updated to make sure that we have cash flows and that they are processed.

Brady also has a process on top of this. Callan gets the monthly numbers as well and Callan reviews what Northern has calculated and then Callan does another review at quarter end when they are doing the quarterly report. We crosscheck everything again.

My point being these numbers are here and they are thoroughly vetted and reviewed.

That is kind of the background on the numbers. I would say this format, yes, this format is mine and this report is really designed to be a very quick reference on what is going on performance in the portfolio.

For example, the three year number, you can see 12.7 is the Fund. The target is 12.9. We are underperforming.

Maybe your question is well why are we underperforming? So what is highlighted in yellow are the largest allocations of the fund. 80 percent of the fund is invested in the highlighted asset classes. And performance on these asset classes will primarily drive the performance of the fund.

When you see that end of performance, you can start by looking at the yellow highlighted asset classes. You start at fixed income. 6.3 to 5.5. Fixed income is outperforming so that is not why we are underperforming at the three year mark.

Globeflex ex-U.S. 11.8 to 10.3, that is not why we are underperforming. But you see it in U.S. equity, right. You can say we are underperforming for the three year return primarily due to our U.S. equity investments. Then you can use this report to dig a little deeper.

If the benchmark is at 20.2, you can look at the underlying categories and pick out which categories are actually underperforming that 20.2. Russell 1000 value is 11.5. That is under 20.2 but our active managers are at 14. Better than the benchmark so active management was great but large value as a whole was under the policy so that hurt us.

But then you can look at growth. The index, Russell 1000 gross, is up 29. 29 versus 20 being in large growth was a good thing, right, that was a good allocation. Then our asset active managers were 28.3. Our active managers underperformed. Active management didn't help us there.

That is a way to use this report. But, of course, you can always just call me, too. I will gladly walk you through any of this.

This report is designed around major themes and looking at what categories were contributing to performances.

Actually, I will point out on the next page, my policy benchmarks, the policy changed over time. It is customary to link those changes together to create a linked benchmark. They are totally footnoted here as to what is composed in each of those policy benchmarks.

The next report really steps away from the assets classes and looks more at the manager performances. This report is really designed to highlight over/under performance versus the managers. The managers versus their benchmark.

It is really the green is good, the red is not so good.

If you look at, for instance, we were just talking about the three year number for large growth, our two large growth managers are Logan Capital and Brown Advisory.

If you look at the three year number, you can see that Logan was outperforming, but Brown actually was underperforming.

You can kind of say, okay, the three year number is underperforming primarily due to U.S. equity and we can come in here and say, okay, Brown Advisory was underperforming. They were part of that underperformance.

What is interesting also on this report, though, just looking at large growth over the long-term, you can see both of these managers since inception have been underperforming the Russell 1000 growth. That is one of those questions that Brady and I will be looking at as we restructure the U.S. equity portfolio is reevaluating does asset management makes sense in large growth, for example.

If you want to page on down, I want to highlight the private markets as well. With our private equity performance, what is reported here is IRR, Internal Rate of Return. The IRR is really the industry standard in the reporting of private market returns. It is a return calculation that captures the timing of the cash flows and it is the manager that determines those cash flows like we talked about. They are the ones that initiate the draws.

Here I am also really focusing on the

since inception number because some of the returns get a little bit wonky in the short-term. The valuations and the cash flows don't always line up early-on. They do self-correct by the end of the fund's term. I just want to highlight it is a little bit different for private equity. That covers performance.

The next slide is the rebalancing slide, which is also our asset allocation review. The first column shows our position as of December 7th. We are not expecting any rebalancing in December so this is how we can now just compare against our targets.

We look at the last column and that shows our variance versus our policy. Within equities, you can see we are overweight. Overweight primarily -- or U.S. equities. Overweight small cap and then slight overweight small cap but underweight private, which gives us a total overall equity allocation of 0.4 versus policy. Very close to policy.

And then looking on down, we are under real assets under fixed income, under liquid diversifying, that is offset by an overweight in cash.

The takeaway here we're very close to policy and these differences are very small and they are all within range.

The next report this is just a lookback. This is our report card for 2021. This is designed to be a one-page summary reminder of what we do, what the Board does, to monitor our investments.

What we do we look at the market. We look at fund performance. We look at attribution. We raise cash, if we need to. We consider any manager issues that came up. As a reminder, we did have three happen in 2021. We had a PM retire, we had a PM depart and then we had a reorganization.

We do monthly and then on quarterly we add in the extras. We add in the MWDBE broker utilizations. We look at the private market cash flows. We look at security lending exposures. We look at our income. And then Callan provides a quarterly review as well that covers the peer comparisons of the managers as well as the fund.

Annually, we review the investment policy statement and we look at the required exposures for Callan. My point is there is structure around what we are doing in investments.

Then just a recap of what we did in 2021. 2021 we conducted an investment consultant search. We issued an RFP. We heard finalist presentations. We hired Callan.

After that we launched the Asset Liability Study. We had education sessions on private credit and infrastructure. Then we have been hearing the results of the study as well.

Also one thing to mention is as part of the monitoring, we do try to have time to hear directly from the managers. This is what we call our investment symposium and the form of the symposiums has varied over time.

It went from manager presentations at board meetings to offsite multiday events. To in 2019, you recall we had a half day event at Northern Trust, a local venue. We missed presentations in 2020 but this year in 2021 we made an effort to get back and have those managers come back and present for us. We had some manager presentations in real estate and fixed income via Zoom.

Trustee Martin has indicated that we need to revisit the form of this and it is important for the trustees to hear from the managers so we will be discussing what the best way to do that is going forward. That is 2021 in a nutshell.

The next report is really just in case anyone is curious. I do answer a lot of FOIA's. In 2021, I answered 39. So this is just a short report to share with the Board on who is asking for the data and the kind of data they are asking for. You can see there is a lot of data requests from the data suppliers, the Bloombergs, there is requests from news providers. So I store all these reports in a centralized document management system. It is easily accessible by anyone who wants to look at them. It is easy to sort and it is easy to review what historical requests have been asked and how they are answered.

Of course, it is easy to create a report for the Board and share who is exactly asking for what data and the frequency.

One more report. The last report is the 2021 emerging manager and diversity report. That is in BoardPac so I didn't even give it to Brady. That report is due January 1st and it is in

BoardPac for anyone that wants to see it.

That covers performance and attribution. We reviewed the asset allocation and I recapped 2021 for you. That concludes the investment piece, Trustee Martin.

MEMBER MARTIN: Can I have a motion to recommend approving the investment report by our Chief Investment Officer? Do I have a motion?

MEMBER SONI: I can make the motion.

MS. BOECKMAN: There is no real actions surrounding the investment report. If you want to just note it to the Board and spread it on the record, I am fine what that.

MEMBER MARTIN: Just spread it on the record, so we can do it Wednesday.

MS. BOECKMAN: Exactly.

MEMBER MARTIN: Under Item 4, Public Comment. We have to provide an opportunity for public comment.

MR. WELLER: If there is public comment please hit star six on your phone.

MEMBER MARTIN: Seeing that there is no public comment, I would move to Item 5. Old business/new business? Is there any old business

/new business that we need to discuss?

I don't see any.

Given that, I'd like a motion to adjourn.

MEMBER MURPHY: Motion to adjourn.

MEMBER SONI: Second.

MEMBER MARTIN: Seconded by Trustee Soni.

All in favor?

(Chorus of ayes.)

MEMBER MARTIN: Everyone have a great day and we will see you 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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