MUNICIPAL EMPLOYEES' ANNUITY AND BENEFIT FUND
SPECIAL INVESTMENT MEETING
NO. 2020-09-01

STENOGRAPHIC REPORT OF PROCEEDINGS had at the audio conference meeting of the above-entitled matter, held at 321 North Clark Street, Suite 700, in the City of Chicago, County of Cook, State of Illinois, on Thursday, September 10, 2020, commencing at the hour of 9:00 a.m.

APPEARANCES

VERMA R. THOMPSON, President
RESHMA SONI, Vice-President
THOMAS J. McMAHON, Trustee
JEFFREY J. JOHNSON, Recording Secretary
MELISSA CONYEARS-ERVIN, Treasurer

ATTORNEY FOR THE BOARD:
BURKE, BURNS AND PINELLI, LTD.
BY: MS. MARY PATRICIA BURNS

ALSO PRESENT:

DENNIS WHITE, Executive Director
STACEY RUFFOLO, Deputy Executive Director
DONNA HANSEN, Office Manager
STEVE YOON, Investment Officer
CRAIG SLACK, Deputy City Treasurer
SANDRA SELBY, Comptroller
MAURICIO BANUELOS, City Treasurer's Office
JAMIE WESNER, Marquette Associates
NEIL CAPPS, Marquette Associates
BRIAN WRUBEL, Marquette Associates
SCOTT DECATUR, Segall, Bryant and Hamill
CLARK KOERTNER, Segall, Bryant and Hamill
NICHOLAS FEDAKO, Segall, Bryant and Hamill
PATRICK SILVESTRI, Attucks Asset Management
LES BOND, Attucks Asset Management
MARIYA NIKOLOVA, Attucks Asset Management
RYAN O'BRIEN, Financial Investment News

PRESIDENT THOMPSON: Donna, please call the roll.

MS. HANSEN: Madam Treasurer.

TRUSTEE CONYEARS-ERVIN: Good morning. Here.

MS. HANSEN: Trustee Johnson.

TRUSTEE JOHNSON: Yes, ma'am.

MS. HANSEN: Trustee McMahon.

TRUSTEE MCMAHON: Yes.

MS. HANSEN: Trustee Soni.

TRUSTEE SONI: Good morning. Yes.

MS. HANSEN: Trustee Thompson.

PRESIDENT THOMPSON: Yes.

MS. HANSEN: We have a quorum.

PRESIDENT THOMPSON: We have a quorum.

Public Act 101-0640 allows this meeting to be conducted by video audio conference. The Act requires a roll call vote to be taken on each matter. I ask that the Trustees please be prepared to unmute their microphones and clearly respond to the roll call vote on each matter that we consider for approval.

Further, consistent with Public Act 101-0640 I note for the record that the Executive

Director, Trustee Johnson and I are physically present in our office.

We are proceeding by video and audio conference because we continue to believe that due to the pandemic it is prudent to not all be physically present in the same place.

We have posted notice of this meeting in accordance to 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 to the public on the Fund's website.

Consistent with Public Act 91-0715 and reasonable constraints determined by the Board of Trustees at each 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 on relevant matters within its jurisdiction.

Is there any request for public comment today?

MS. HANSEN: There are no requests to address the Board.

PRESIDENT THOMPSON: Hearing none, we will move on.

We are having a performance review presentation by Segal, Bryant and Hamill.

MR. YOON: Yes, President Thompson. Before we begin, we wanted to give you a synopsis of who is on the agenda today.

First we have Segall Bryant Hamill on the agenda, who has been with us since September of 2016. They have two strategies with us. Intermediate core fixed income strategy as well as the international small cap strategy.

Today we will discuss the international small cap strategy, which has been on watch since November, 2019 due to poor performance.

Here to discuss the performance as well as a backdrop of what took place will be Clark Koertner and Scott Decatur.

So I will hand it over to Clark. If you could introduce who is on from Segall Bryant Hamill to the rest of the Trustees and then you can begin

MR. KOERTNER: Good morning, everyone.

Sorry it is a little cooler. We are all in Chicago and that 90-degree heat is no longer here and we are in a pretty rainy fall.

With me today is Dr. Scott Decatur, the

lead portfolio manager and founder of this strategy.

First and foremost, thank you. We will get into it but we acknowledge it's been a really hard market for our type of investment stock style.

We plan to address those performance issues and also really discuss that has really lead us to a great opportunity for our strategy.

We do believe that it is a really complicated world for investors such as yourself. There are sub-factors that are going on. There is Covid. There is a lot going on in this market and we believe that this approach over a full market cycle is geared to do very well.

So, on Page 2, if we slide the screen up, just a quick reintroduction of the firm because I think it is very important.

One of the things that I think is Marquette's job is that they do a very good job on and get a lot of phone calls is firm health.

I think one of the things that happens at asset managers there is -- you can see we are 19.8 billion and there is a fee applied to that.

Well, fixed costs have really risen. Fee compression is real and the market volatility has hurt a lot of our competition. We remain in a really good state in terms of firm health. A lot of that has to do with what Steve talked about in the opening today and that is fixed income.

Much like your asset allocation, our ability to have fixed income protects our business model and that allows Dr. Decatur to really focus on just investing the portfolio. He's not worried about the business operations that a company is doing.

So we are doing very well in today's environment. That number 19.8 is actually a little light right now as we pressed it over 21 billion and we do see a lot of growth in our strategies.

One of the things I think is very important to you is that there's been no team turnover. We're going to move ahead to the SBH Vision and Guiding Principles to Page 5.

More than anything, this is just to state that there have been no changes to the team. The team has been consistent, that is not why we're here.

Dr. Decatur launched this strategy a

decade plus ago in 2008. I think why that is important is he is going to talk about some of the 2008 factors that this strategy was alive in and it gives it prospective.

While it doesn't feel great to be where we are at right now, we did get hired by you guys with great performance numbers post 2008. Why that is, Dr. Decatur will discuss this, people will ultimately overpay for growth and that sets up a great opportunity for value.

And when we came out in 2008, we did exceptionally well but it is being able to maximum that opportunity that is so important.

I think it is very important for you to understand that this team has been around for almost 20 years, but has had a live track record the last time there was a dispersion of returns like we're in today.

On Page 7, as I have alluded to, this is the performance page. As you can see, we won't spend much time here. It is not a pretty picture.

We would have loved to have done better for you, but we are going to spend more of our time today talking about why we have seen a huge opportunity in terms of where we are investing and then the headwinds that we face we have done a good job because they have been at a historic pace.

I am not going to linger here. They are what they are and we are going to address it through some charts later on in the presentation.

On Page 8, we also know and we report to Steve and Marquette about the brokerage commission. We obviously understand that that is very important to the Board.

Our client goal, you know, the goal is 25 percent and as you can see on this report we're at about 75 percent. So this is an area that we have been able to find great execution and been able to accomplish one of the subset goals that the Fund has.

And then finally before I turn it over to Scott, it is going to be Page 9, one thing is that we really appreciate this relationship. It's been longstanding with fixed income. We do believe that we are at a great spot for investing and we really want to make sure that you guys stick around to benefit with where that positioning is.

We worked with Steve and Marquette and we have come up with a one year fee reduction and you can see it here. It is 30 basis points on all amounts versus the previous fee at 55 basis points and the balance at 50. That 55 basis points is an exceptional fee in the universe, that is really a great fee. That 30 basis points, you know, the annual savings for that one year is about $227,000, depending on whatever the market value is.

So we do believe that we are giving a really good opportunity for you guys to stay with us, to have some flexibility over the next year and benefit from what we are trying to accomplish and not just face these historic headwinds.

I am going to turn it over to Scott on Page 12. Again, thank you so very much.

DR. DECATUR: Thanks, Clark and thanks everyone for having us in today to discuss the international small cap strategy.

As Clark said, on Page 12, I want to take a step back and discuss our core beliefs on investing. You know, in general and on this strategy in particular.

So central to this is that value wins in the long-term. This is not something just sort of in small cap. It is something that we find in all asset classes. Every asset classes that we and other researchers have looked at. But there are times when growth does temporarily go on a tear and gets put up to excessive valuations and that is where we are right now.

But every time this happened in the past value has come back, roaring back, in these situations. Usually with better than normal excess returns so even stronger on the back side of these things and that is what we're looking for at this current opportunity now.

So our overall approach is to seek to capitalize on values advantage by being a long-term investor.

To do so, we need to look through these temporary setbacks and be able to invest through these and not waiver in the settings where it feels uncomfortable.

Currently growth is having one of those charges. Our relative returns, as Clark said and as you saw and as you know, have suffered heavily. But the returns for growth stocks that we have been seeing in the market and have been avoiding, have come in part in the back of valuation multiple expansion. That's not from their fundamentals being any better than normal, it has been just put valuation getting more and more pricey. This has stressed them to levels that are extreme and at historical levels.

The great news again as Clark alluded to is that this has set up a historic opportunity for value and for our strategy.

And, obviously, in this situations, it's difficult when returns are tough in this part of the cycle, but it is crucial for long-term investors, ourselves, yourselves, Marquette, everyone, to maintain discipline when this pain and opportunity are at their greatest, that is where we are at right now.

Flip to Page 13, which is our philosophy page, I want to note two simple things here. One is that through our consistent systematic approach we look to buy stocks that are at attractive valuations and in particular focus on better stronger companies. We continue to rigorously execute this approach.

Nothing that has transpired is due to us changing anything that we're doing. Most environments, this combination of valuation and company strengthen, enhances performance even above a simplistic value strategy.

As you will see in a few minutes, in the current markets, we see stocks are moving purely on valuation lines. The cheaper you are the worse you are doing. The more expensive you are the better you're doing. We'll see that again in the coming days.

Page 22, we are going to jump forward to how aggressively we look to take advantage of the valuation discrepancy in the market.

Page 22, this diagram on the top left. This graph is showing two measures of valuation. On the vertical access, we see dividend yield and on the horizontal access we see price earnings ratio.

We are showing every manager in the peer group investment in gray as well as the value peer group in orange, and the index in red, the value index in purple, and our own portfolio in blue.

As you can see, our portfolio has a more attractive dividend yield in PE than almost any other portfolio. And, again not just against the overall peer groups, but even against value managers and clearly cheaper than the value index itself.

But the graph on the bottom right, highlights the fact when we go after cheaper companies, we are not just going after junkie companies, we go after stronger companies in particular.

So when we look there, you can see that the beige bars, which look at the exposures to certain other factors of a pure value portfolio, you can see those are negative for things like price and earnings momentum and quality and profitability. That is if you buy a pure value portfolio without thinking about the quality and strength of companies like we do.

The blue bars show what our portfolio -- what our top model stocks look like on these same measures.

You can see that even though they are cheap they also have strong positive exposures on these measures and that is the blend that we look to always put in our portfolio. Where we will combining very cheap companies but also companies that are strong and healthy at the same time.

We are not looking for some and some. We are looking for companies that have both those qualities simultaneously.

Again, as I said, in normal environments this actually helps not only in value markets but also in growth markets. As we have won in 2010, 2011, this strategy has outperformed in other growth markets.

What has happened more recently is a little bit different and I guess we will look and see that in a few minutes.

Looking on Page 24, I want to give a more complete view of the characteristics of the portfolio.

You can see here that if dividend yields trailing and forward on top and then price ratios and a number of other measures all for the portfolio and for the index.

You can see that the price ratios are at really great discounts to the overall market so 30 to 40 percent or more cheaper than the market. Even in absolute terms, these are fantastic numbers.

You are buying stocks on average in the portfolio in single digit fees, which is really a fantastic opportunity.

As I said, we're not just focusing on cheap companies, you can see you are getting 30 to 40 percent cheaper than the market on pricing but you are getting 10 percent better on profitability in the market. It is this combination of strength and attractive price that is a typical feature of our portfolio.

So given all the good stuff as described so what is going on? Let's look at Page 26 for a moment. And we're looking in particular here at the official MSCI indices for the EAFE small cap value index versus the EAFE small cap growth index.

The top chart shows ten years worth of the rolling one year return between value and growth. Value is winning when it is above the line and growth is winning when it is below the line.

You can see that over the last say five or so years growth has been dominating. Especially in the last year or so, growth has really gone on a huge tear all to value.

How normal is this? When you look at history, the bottom left shows that in the prior 21 years value would typically beat growth by on average by 3 percent per year.

What has happened in the last five years, well, it's been an almost 8 percent swing to growth winning by almost 5 percent a year. That's not just for one year, but that is for five straight years or in aggregate five years of almost 5 percent year per year.

What has caused this? It has not been that growth stocks have done so much better than value stocks, a bit better than they normally do. What we see is that at the bottom right shows the valuation that has happened.

The valuation between the two indices is looking at price between the value index and the growth index, which typically is around a 50 percent discount. The growth index has moved steadily down and dramatically down the last year or so to levels that have only been seen back at really the height of the growth market in the dot com bubble of 1999.

This really big move in valuation between the two indices has been what has driven those returns.

The second quarter of this year was the second largest ever quarter for growth over value in international small cap history. Second only to the fourth quarter of 1999, that final quarter of the tech bubble.

Subsequent to that fourth quarter of 1999, back in the dot com bubble, value subsequently then outperformed growth by on average over 3 percent per quarter, almost 3 and half percent per quarter. That is not per year, that is per quarter for the next five years. So for five years the average return per quarter of value over growth was over 3 percent per quarter and value won in 17 of 20 of those quarters.

The returns back from this kind of environment are just unbelievably dramatic in favor of value when you get to this kind of positioning.

Again, this is the excitement that Clark is talking about where we are at right now.

On Page 29, I am going to break into a little bit more precise way that we breakdown the world, not just the official indices but looking at valuation and strength.

The charts on this page, these four-by-four grids, which look at the international small cap space along two dimensions. The rows are valuations according to our valuation models and the cheapest stocks are at the top and the most expensive at the bottom.

And then the columns are looking at our measures of health and strength and the stronger companies are to the left and the weaker companies are to the right.

That red triangle on the top left of the first four-by-four is the area we like to look for companies that we invest in.

You can see in the second four-by-four why we do so because that is showing the returns historically. The returns are much stronger on the top left than they are anywhere else. Especially as you go towards the bottom right they get worse and worse.

It is interesting to note also that the top left stocks are stronger than the top row. It is better to buy stronger and healthier companies that are cheap than just cheap companies.

Similarly, it is better to buy cheap high quality companies than just high quality companies in general.

So the top left is stronger than the whole left column. That column will deal more often in growth markets and it is still better most of the time to hold that top left as we look at the left column in its entirety.

What has happened over the last couple of years has been something very different than a standard growth happens to be winning. What is happening now is that expensive is winning. The bottom row is the expensive stocks. It is not just the expensive stocks that are of higher quality it is actually often times some of these lower to middle quality companies that are also expensive that are winning.

You can see on the far right the return differential group, which shows how different the returns of the last three years have been as compared to typical markets so much stronger markets.

The most exceptional group is actually that medium low quality most expensive group. So one of the worse kind of groups you can own has done much, much better than normal.

We look at the bottom row that shows how recent quarters have been. The first two are 2019. So the first eight months similar to what I describing where expensive companies were winning. But then in the let's say four months of the year of last year after the sort of the weight of that whole situation, the weight on the market, investors realized that there were opportunities that they were missing. They were in the wrong companies. There was a return to our type of environment where the cheaper companies were being rewarded for the attractive pricing they were at.

That was going great until Covid landed on the scene. You can see from the first and second quarters that we had a return to basically what we have been seeing over say the last two or three years.

TRUSTEE JOHNSON: Scott, I have a question for you. So you said your core product is tilting value even almost more than the value index. What corrections have you made to try and make it more of a core product because I think we hired you for core, right?

DR. DECATUR: That is a great question. I think that the distinction is the fact that we are always aggressively going for those cheaper companies as seen on page -- flip back to Page 22.

We are always more aggressively in that left-hand corner, the top left-hand corner, more than the value index, more than most of the peers. But that bottom right that shows the health and strength of our companies is what allows us to behave more core like allowing us to outperform both value and growth markets, that is maybe 80 percent of the markets. The other 20 percent is -- 10 percent is what we are seeing now and the other 10 percent is what we are going to see on the other side of this when value returns.

When the market decides that it is not going to be about the companies, it is going to be about some very coherent valuation factor like it is now, then we're going to behave like the valuation factor that all the market is behaving.

Basically what it is saying is that the market is ignoring the bottom right of Page 22 and it is only focusing on the top left chart on Page

22. It is not usually the case but when it does happen we behave like what we behave like.

We think back to the middle years between '08 and now, we were behaving like a core with a value tilt portfolio.

When you look at the first year or so of our performance in '08 that we behaved like we're doing right now. We look at '09 we behaved like again we're looking at it on the coming side.

There are these parts of the market cycle -- and again it is not even every market cycle. But when you get a situation like '08/'09, we're going to behave very dramatically like the cheapness of the companies that we are owning.

So we are owning companies that are very cheap and normally that is buying companies that are mispriced in the market relative to even stronger companies. They don't have to be a big value market for them to do well, they do well because they are mispriced.

While companies are mispriced right now, but the point is the market doesn't want to hear it. So now we behave what looks like a very coherently value portfolio.

I think that explains it. Does that answer your question?

TRUSTEE JOHNSON: Yes, it does.

DR. DECATUR: If we were to change something to sort of tilt more core like, what we would be doing is we would be diluting the opportunity and you would lock in sort of value losses that have occurred. So we're doing everything we can to insure that we are maximally continuing what we are doing so that we fully capture the benefit of being a value investor that you guys have chosen to put in your portfolio.

MR. KOERTNER: Scott, why don't we show them that opportunity on like Page 31. Why we are so excited. Those last couple of pages.

DR. DECATUR: So if we jump to Page 31, this is looking at the expensive companies. So the green line, it is that bottom row, the green line, those expensive companies that are leading the market and have made everyone jealous of those returns that they have been having, those guys have been doing the valuations. The green line shows the valuations of those guys relative to the overall market.

So they are at expensive levels that they had gotten at the peak of '09 and the peak in '99.

The blue line behind the green line shows the typical return -- shows the historical return of those companies. The blue line going down means they are underperforming and they underperformed dramatically. They destroyed huge amounts of capitals to own these companies, except a few periods punctuated in this chart. You can see in '99 they shoot up and in '07/'08 they shoot up and right now they are shooting up.

But you can see that once they crash, they crash back down even back to trend or even past trend. So again these companies are incredibly vulnerable to have even much more worse than their normal bad performance.

If we flip to Page 32, the next page, shows not those expensive companies but the companies that we invest in. These are looking at our top model stocks that we invest in. Again, it is the exact mirror image of everything you saw on the prior page.

The green line again shows the valuation of these companies versus the overall market and you can see that they are actually at even better -- a slightly better position than even the '99 or '09 situations relative to the market in their current valuations.

Similarly, the blue line shows their historical returns. The reason that we do this, the reason that you invested in this strategy, is that blue line. That blue line is not a perfect line up, straight line up, but it is a pretty darn good one.

What we have seen is that in periods after '99 that line shoots straight right up again. In periods after '08, it shoots straight up again.

Again, we're in a position right now where it is really uncomfortable. If you just look at the last three or so years, you say this is horrible. Who wants this? Why would you invest in this? But the point is that you invest in it so that even though when you have a couple of years like we are seeing right now, you get the full benefit of this blue line on this page. That is what we are doing and that is what our whole process is about.

The next page, Page 33, I will leave it

after Page 33, which is what actually happened in the portfolio in '09 after the '08 bottom.

The orange line is the actual portfolio returns. The darker orange line there is the actual portfolio returns around the trough in February of '09 at the bottom there. The green is the current situation.

We're not looking to get back some of the losses, we're looking to have a massive multiyear return from that.

So the trickiest question is when is this going to happen? We are very confident this will happen. The timing is the part that becomes uncertain.

There is no way to say that it has to stop here or it will turn there. We did see that last year actually, even before the last four months of the year, when the overall market returns were getting much better for our approach. We actually saw twice as many of our companies bought by other companies, taken out, than any other prior year.

Since 2019, we had twice as many of those takeouts of our portfolio companies bought by other companies in the market.

What that was was those companies recognizing -- the acquiring companies were recognizing the mispricing of these companies. Even though the market hadn't realized that, the other companies were realizing the opportunities.

Again, we believe that the growth companies that are winning here, not only are they not -- not only are they much more expensive than normal but they are actually delivering lower excess growth versus the market than they typically do. Typically they deliver a growth premium to the market but they are delivering -- they have delivered and they are forecasted to deliver even smaller premiums on growth than they historically have.

The reason they are being bid up higher and higher because in a low growth world people are clinging to something they think they want and are willing to pay anything for it. Even they are delivering less, they are paying more for them.

So, again, as we have seen in the last week or so, this month, the portfolio is outperforming. Is it the start of it? It may be.

The point is that at some point investors say there is no way that I can get a fair return from this company. There is no way this companies can generate enough earnings growth in the future to justify the prices that are being paid for them. And that is when people say, wait a second, this is a pretty bad idea and it ends real badly for those companies. That is the point that we have gotten to at this point now.

MR. YOON: Scott and Clark, in the interest of time, if you could wrap up your comments and open up for Q&A.

DR. DECATUR: I think this is a great time for Q&A.

TRUSTEE CONYEARS-ERVIN: This is for Steve or Marquette. Can you all show us since inception the performance or tell us what has been the performance since inception? You said the inception was what year?

DR. DECATUR: That is shown on Page 7.

TRUSTEE CONYEARS-ERVIN: Does it also show the performance relative to the index?

DR. DECATUR: It does.

TRUSTEE CONYEARS-ERVIN: Okay. Let's

look at that. So we have had this strategy since when? 2016?

DR. DECATUR: 2016.

TRUSTEE CONYEARS-ERVIN: Okay. And since inception the index has been positive?

DR. DECATUR: Correct.

TRUSTEE CONYEARS-ERVIN: Yet your strategy has been negative.

DR. DECATUR: Yes. The strategy after fees is basically flat and the benchmark is up 6 and a half percent.

TRUSTEE CONYEARS-ERVIN: Okay. So I guess I am trying to understand, after looking at this presentation, it sounds like you have a great strategy. I am trying to understand since 2016, we, as Trustees, are held accountable for what we do in investments because we are talking about taxpayers dollars.

I am just trying to understand, based upon everything that you have said today, what could we say in response to this strategy, if we had to defend it?

DR. DECATUR: It is a good question because it is not even just like a year or two.

This is a multiyear period where you have the shortfall with the index.

I think that the point is that this is a plan that is a long-term plan. It is not an investment for a five year kind of usage. This is a long-term investment.

I think the way that I would defend it to anyone that I would speak to, we could talk about the fact it is a long-term investment. We are trying to generate as much long-term gains for our investors as possible.

If one were to go with something that doesn't take advantage of the long-term benefits of value, your long-term gains would not be as strong as they could be.

Therefore, at the end of multiple decades, you will have less and less money than if you approached a strategy like we use which capitalizes on buying cheaper companies.

Now in any given window of time, even in a multiyear one, that can look like a shortfall. But when viewed over a longer course of history, this is something which is going to be to the benefit of investors.

I think that this is not something which is solely in international, you can see this in the U.S.

You have investments I am sure all over the place and your U.S. managers that are in value are seeing similar situations.

You can look forward on Page 27, it shows actually how what has been happening in international small cap is very similar to what has happened in the U.S.

So Page 27 shows over almost 100 years of data of value versus growth in the U.S., at the top left diagram, value versus growth, value winning with the lines going up.

In the recent years, growth has won in the U.S. as well. In the top right, you can see the dark blue line, we overlay the international small cap history with the U.S. history. You can see top left just U.S. Top right U.S. plus international small cap.

The bottom shows valuation of the U.S. on the left and valuation of U.S. international small cap on the right.

In both cases, you can see that back in

'99 and currently valuations got incredibly stretched in favor of value.

In the long run, this is a great advantage. That line going up on the top left is the benefit that you get as a value investor overtime.

If you are a growth investor, you're going to lose money overtime because value relative to the index and doubly relative to value.

TRUSTEE CONYEARS-ERVIN: When you say over time, so now we have been in this for four years, since September, 2016 and you say long-term. What are you thinking?

DR. DECATUR: Well, it has been multiple years. If you look at that chart on the top right, if you were to compress the last ten years of the chart, from like 2020 to 2010, it would look just like the '98/'99 situation. What happened it has been a more drawn out version of '98/'99.

If you were in this type of strategy in '98/'99, you would see the same kind of cumulative shortfall but over a shorter period of time.

So different market cycles are different lengths. What we can say is the fact that while this has taken a more drawn out period and it has been accelerated in the last year, it's gotten to levels that only have been seen back in '99. Prior to that, we have not seen anything like this since the Depression in terms of the opportunity of value versus growth.

It is a little hard because it is not a normal type environment. It feels unusual to see a shortfall like we are talking about right now, but if you have had been in the same situation in December of '99, or February of 2000, again, we would feel very uncomfortable. But the road ahead of you would have been -- you know -- the coming years which were some of the best years ever for value. And so it is the kind of thing where you -- the best way to look at it is to understand how it is played out in history. Different durations, different depths, but to try and put it in those perspectives. That is what we have done in our prior research and we have done the research over the last couple of years to determine why we believe this is one of the best opportunities you can get. The best opportunity you can get in decades in this kind of strategy.

MR. KOERTNER: I think one of the things that Scott briefly touched on it but I think we were moving pages when he said it. The last time we got to these true levels was the end of the tech bubble. And that last quarter, the worse growth over value quarter, was the fourth quarter of '99.

From that point forward, for the next 20 quarters value outperformed 17 of the next 20 quarters so for five years value outperformed.

Over each the average outperformance over those 20 quarters was 3 and a half percent each quarter. Not annualized, each quarter.

So it just set up this tremendous run that Scott is talking about the angles and I think he was really profound when we came off of levels last time in the tech bubble.

TRUSTEE CONYEARS-ERVIN: So I ask the question again. You talk about long-term. We have seen four years of underperformance since inception. How long do you want us to go on like this?

DR. DECATUR: Again, I do apologize for not having an answer for exact timing. So it is a great question. It is the question everyone wants to know the answer to.

There is a lot of research we have done and others have done. Again, it is looking at the timing. Can you determine when this will happen? Can you determine how long it will last?

The last time this happened to this degree it happened over a much shorter timeframe. Again but a similar cumulative difference.

Page 28 actually is interesting to look at because again that is sort of what Clark just said is that you don't know the timing but the returns from this point, on Page 28, show that --

TRUSTEE CONYEARS-ERVIN: Can someone go to Page 28, whoever is guiding the screen. Thank you.

DR. DECATUR: This is looking at the red line shows every point in time what the cumulative three year trailing returns were. The annualized three year trailing returns. Right now we are at the point where the three year trailing returns were 7 percent annual for growth over value. And the blue lines above that show the forward looking returns are for value versus growth on that.

When it happens, when the turn happens,

it happens much more powerfully for value than the pain was for growth but each of these times is different.

I don't have again a timeframe for it. I think that one of the benefits or one encouraging point along the way is that each quarter a year that there has been underperformance, the valuation opportunities has gotten better.

So when we have underperformed, we have stored up more future outperformance. It is not like we bought a company that somehow didn't workout or there is some fraud and it is just a dead loss. The point is that the rubber band keeps getting stretched each time.

If you look at a year ago, we didn't have as much underperformance as there is now, but there wasn't as good an opportunity.

In this last year's worth of underperformance, we have accumulated a much better even position than it was before.

So, if it were the case, if you look on Pages 31 or 32, if those pages were sort of back to normal and we hadn't delivered something, then there would be a question to be asked. As long as they are in the position that they are, that means that you are well positioned for that recovery, to take advantage of that recovery.

TRUSTEE CONYEARS-ERVIN: Let me say these two points and I will let us go on to other questions.

As you know our Fund, and not that our Fund is any different than any other Pension Fund that we are experiencing in Chicago, that we are severely underfunded.

So, obviously, we have to have conversations like this because we just don't have that luxury to wait, to be honest with you. I don't know if we do.

So I have to tell you I am a little concerned with underperformance now, outperformance later.

I wonder if the way that it has underperformed the past four years, once it gets to the point of performance, a better performance, I don't know if it is going to even payoff for the underperformance that has existed for years so I even question that. Is it worth waiting?

DR. DECATUR: That is a great question.

I understand the funding levels. It is obviously a complicated process that you guys and Marquette think about.

Page 33 to some degree addresses that. Page 33 shows what happened in '08/'09. It was more than -- much more than the relative losses. These are underperformance and outperformance.

Even from the peak prior to that zero point, that orange line is dropping a certain amount, and the gains are much stronger than what those losses were.

If we look back on Page 32, 32 is looking at again there are downdrafts but then there are upshots in the blue line that more than erase the downdrafts.

So, again, obviously, I can't promise a given number but we're in the most attractive positioning for this strategy that you can have.

If you were to change this to something else, you're going to something else that is more expensive, that has done better, that has on the back of these valuation expansions of Page 31.

So as I said at the very beginning, it is incredibly uncomfortable in this environment and at this point in the cycle. This is the point where it is most uncomfortable, pain, want to not see better returns, want better returns.

But this is the point where you get maximum payoff for sticking with the investment strategy that one is invested in in the first place.

TRUSTEE CONYEARS-ERVIN: I tell you, you guys sound very sure of yourselves so I commend you for that and compliment that. You know, you are very influential. I am not all the way there but I have to think about this; we have no idea how long we will have to wait. This has underperformed since inception, four years and -- I don't know.

MR. KOERTNER: Sometimes I think if you think about it from the personal standpoint of like real estate. Like hindsight is 20/20. If you would have gone and bought a house in 2006 because you thought real estate was a really good investment at that point in time because everybody was making money in 2006.

Looking back at that, would you have made that switch right now, right, because you knew the pain. That is what Page 31 is saying. If you think about that green line as being real estate. It is real to you. You are buying -- the things that worked in real estate -- this is a theoretical. You are buying the real estate property at an ultimate high.

Whereas, what Scott is showing on Page 32, now you are buying at the bottom of 2008.

MR. YOON: Any other questions Trustees?

TRUSTEE CONYEARS-ERVIN: Also, Steve, I just got this packet yesterday so I don't know if it was included or if we asked but is there an employee diversity chart included?

MR. YOON: No, that wasn't part of this process but we can certainly get that for you. Clark can provide that for us. We typically collect those during the RFP process and we will certainly get that data for you.

TRUSTEE CONYEARS-ERVIN: Thank you.

MR. YOON: Absolutely.

If there is no other questions, thank you, Clark. Thank you, Scott.

DR. DECATUR: Thank you everyone.

MR. KOERTNER: Thank you everyone. Have a great weekend.

Trustee CONYEARS-ERVIN: Thank you. You as well.

MR. YOON: Before we go on to the next one, Trustees, did you want to discuss further regarding the manager?

MS. BURNS: Maybe if you are going to do that, you might want to think about going into closed session and that might complicate the meeting process. It is up to the Trustees, of course, but you may want to hold your thoughts on this topic and then maybe at the end we can go into closed session to make it a little smoother so you are not going out and coming back in.

MR. YOON: Sure.

MS. BURNS: It's up to the Trustees, whatever is best for them.

PRESIDENT THOMPSON: For continuity, that's fine.

MR. YOON: We will move on to the next topic. Next we have Attucks Asset Management, who is our emerging manager of managers, our partner, to provide an update as well as a background on the current state of emerging managers as well as the opportunities.

We have Mimi and Patrick and Les. I will hand it over to Mimi, if you could kick it off, introduce your team and then your presentation.

MS. NIKOLOVA: Good morning, everyone. I hope everybody is doing well and staying healthy. It's good to see you even though it is digitally today but hopefully in the near future we will be able to see you again in person.

Thank you for having us today. As Steve mentioned, we will be discussing kind of the state of the emerging manager industry.

We also wanted to thank you again for choosing Attucks to be a partner within the emerging manager space.

This month actually we marked two years since we started our partnership so that is very exciting and thank you again.

Here with me today, we have our Chief Executive Officer, Les Bond. Les is also joined by Patrick Silvestri. Pat is the CIO of the company.

My name is Mariya Nikolova. I am a VP with Attucks.

As Steve touched on, we plan on providing you a background and an update on the current events that have taken place in the emerging manager industry and touch on the opportunities and some of the challenges that we continue to see and then we thought it would be useful to wrap up the discussion with just providing you some information on kind of the composition of the universe.

As usual, please, feel free to chime in with questions as we go.

With that, I will turn it over to Les to start us.

MR. BOND: Good morning. As always I'd like to begin by saying thank you to the Municipal Employees' Annuity and Benefit Fund of Chicago for your business. We certainly appreciate it and we have had a great experience working with you.

I'd like to just start out by saying that even though we have a lot of fatigue in the investment management business this year, we see opportunities in a larger echo system for new opportunities because of a lot of the macro events that have occurred this year.

At the very beginning of the year, we saw the largest manager of manager in the emerging manage space, Progress Investment Management

Company, close its doors.

This wasn't really due to -- at least from our understanding, this wasn't really due to a severe downturn in their business. They just decided that they were going to close their doors. Which is sort of 180 degrees opposite to what we see in the space and because we see these opportunities to work with diverse firms not just in investment management but across the larger ecco system.

This created a lot of opportunities for Attucks and for some of the other manager of managers, which of course resulted in new opportunities for emerging managers in the emerging manager space.

We have been fortunate enough to realize some of the 6 billion dollars in assets that were left by Progress.

I am happy to report that the Illinois Municipal Retirement Fund has hired Attucks for fixed income mandate as of last Friday.

So we continue to find new opportunities, not just with public pension plans now but also in the corporate space and in the foundations and endowment space.

The Black Lives Matter movement has, of course, moved far beyond the discussion of police practices and just into a discussion about equality in America and about the realization of equality for people of color in our country.

So we are as busy as I can remember ever in terms of responding to inquiries about what is it we do, how we do it and what the affect of that has been.

The pandemic, of course, has had an affect on the market but then also in terms of entrepreneurs and that was a continuing trend anyway in our space.

So what we have seen is an interest in more intentional programs that for example are funding venture capital efforts to create new managers. None of these have really come to fruition yet but we are actually working on that idea with several public pension plans across the country so it is very exciting.

But we all know that we have some economic travails ahead of us and so this is where we really earn our keep I think with our managers in trying to help them draft their budgets and to look at their costs and to look at how they might grow their business in this environment.

We have seen this market volatility and a steep decline followed by a rebound, but we also know that given what we expect to happen in the economy that we will also have another decline in the future, but that is just my own view. I think Pat shares that, but if there are no questions, I will turn it over to Pat to take over Page 3.

MR. SILVESTRI: Thanks, Les. So in this meeting again we really put it together to convey what's been going on in the emerging space this year.

We spent the past year or so talking with our underlying managers who have had a higher touch approach. Especially during the decline in the first quarter of the year, where a lot of people were rightfully concerned about quite frankly managers surviving through that period. That is really when we saw the strength of the emerging marketplace. Only a handful of firms that closed because of the stress during earlier in the year.

It really speaks to the entrepreneurship of the underlying managers. During times of stress, the people at the top take a cut to keep their team together and that is exactly what we saw.

In the marketplace as a whole, you can see on Page 3, what we have seen is clients reevaluating their emerging manager programs.

As Les said, we have been doing a number of prospective work. It has been extremely busy this year, which has been very gratifying.

But it is also not just clients saying, hey, we want a large cap manager. It is clients asking how can we do this better?

One of our largest clients, the State of Connecticut, recently launched their 3C initiative, which is a formalized version of how to invest in inclusive and diverse managers. You can read about it. They launched it about two or three weeks ago. It includes everything from using manager to managers to graduation, but actually putting pen to paper and putting down procedures and processes to implement a formalized emerging program. An emerging manager program is great progress in this space. It's been very exciting.

The other items we have been dealing with, and this is not as big a problem here because there is a state definition, but talking to clients about what are emerging managers. A lot of clients have different definitions and for us we always tilt towards diverse firms but size is a factor as well.

Finally, the opportunities for emerging managers has been expanding and we talked about this with you a couple of years ago as we were discussing this business.

You are positioned I think forward looking. The best in class, multi asset class approach that you have, provides opportunity inclusion in your entire portfolio.

Not a lot of clients have done that but we received significant movement towards that space. In fact, during this prospective process, it really has been our best in class portfolio, best ideas portfolio, and international equity that has garnered the greatest amount of interest because that is really where active management has been going and we have been building those out for years because of that.

The one other item I'd like to talk about is graduation. It is something in the context of reviewing the overall plans clients have been really focusing on.

Graduation is not an easy issue. There are clients who don't have room to graduate. Graduation sometimes is not a goal of the overall program. There are other clients that have a lot of room and they should be graduating. So it is really on a case by case basis on how a client should apply for graduation process as a whole.

For us, and this is the advice I give every client, if you want to be inclusive and you have an emerging manager to manager program like you have, the best route is to -- if you are ever doing a search in an asset class for which is funded in your underlying emerging manager to manager program, include that manager in the search. You don't have to hire him, but give him a chance and that will have an impact on the space. That is something that we talk to all clients about.

The second bullet you can see and it is something we have been keeping an eye on is possible mergers and consolidation of the universe.

As Les mentioned briefly at the top, we did purchase a competitor earlier this year and smoothly it is going exactly as we discussed. But other managers out there have been looking. In fact, I have been contacted by three or four firms in the past six months to help play investment banker. Essentially, we don't get paid.

But we really take a look at who would match. In our experience with our purchase of capital prospects is really being transferred to these managers as well. Because whenever a manager comes up and asks, well, we are thinking of merging with another firm to put us in a better position. The first thing I always tell them make sure the culture matches. If the culture does not match between the two firms it is going to blowup.

That is something Attucks took two years to match ourselves and what we will see if mergers do happen, there is a lot of powerful individuals, strong voices in the emerging space. You have to have that type of approach in order to start your own firm. But there is a lot of people that don't get along so that is something we're looking at very closely.

With that, again, ask questions if you have any specific questions. I will turn it over Mimi to talk about asset classes and just what we have done with your portfolio on the next page.

MS. NIKOLOVA: Page 4, we thought it would be also useful to provide you with some information on what is the actual composition of the manager universe right now and kind of compare that to the opportunities out there.

So for your benefit we have included here a snapshot of equity managers because the program that we manage for you consists of global equities. And we also defined the universe with managers that have assets in their management of less than 10 billion and they have MWDBE ownership greater than 50 percent so this is consistent with the Illinois definition.

So it is about 80 firms that we are looking at right now with close to 240 strategies across various asset classes.

If you look at the opportunities set in terms of how managers are divided by ownership type, the largest component of the universe right now within again the equity space is women owned firms. About 40 percent of the universe is within this category. That is followed by Asian American at 22 percent and African American at about 13 percent afterwards.

TRUSTEE CONYEARS-ERVIN: Is this the managers that you are working with or is this the industry?

MS. NIKOLOVA: This is the industry. This is not just the managers we work with. This is the overall industry that we are looking at right now.

One thing to point out that we have seen that has been the case for a while now is the Hispanic owned manager sleeve has been the smallest part of the universe if you will. That continues to be the case and we are really trying hard to identify more managers within that space as well.

TRUSTEE CONYEARS-ERVIN: The same with African American?

MS. NIKOLOVA: Yes, absolutely.

Trustee CONYEARS-ERVIN: It is not as low as the Hispanic but it is very low compared to the others.

MS. NIKOLOVA: Yes, that is true.

Even if you look at the asset distribution, I think there is just a correlation among the ownership type and how many firms are available out there.

If we look at just how assets are distributed among these managers, the women owned firms continue to be kind of the highest with about 30 percent of the assets and then followed again by Asian American and then African American firms.

If we take a look at the actual asset classes now more the strategy types, in terms of how many managers offer various asset classes or various strategies, we can look at the pie chart on the right-hand side.

The majority of offerings continue to be kind of between large cap domestic equity to small SMID and then followed by developed international equity.

As Pat mentioned, the industry with emerging managers has followed a similar pattern like we have seen just in the overall investment industry with active management moving towards the less efficient asset classes which is international equities, small cap and so forth.

This is evident here as well. In terms of number of offerings, but also if you look at how assets are distributed among these strategies within the emerging managers space, it is a similar situation.

We continue to see kind of the international sleeve, the emerging markets growing, in terms of percent of assets and number of offerings here.

The line asset class that has somewhat of an underrepresentation is the mid-cap equity. There are fewer offerings there.

And, again, we compliment you as a board, staff and the consultant when we were implementing the portfolio on the strategy for your plan, they provided us with flexibility on a case by case basis to kind of evaluate single strategies where there might be some capacity constraints in terms of availability options and to have active discussions.

So, for example, one of the managers that we included in your portfolio with a SMID product, kind of lead from these flexibility issues that I alluded to, has been the greatest contributor year-to-date to the portfolio performance.

So I just wanted to pause here and see if you have any questions. There is a lot of ways to slice and dice the universe. I am happy to provide more characteristics or more details, but I just wanted to give you kind of a snapshot of where things are today as compared to what has been the case in the past so you can see where the opportunities are and where we have seen the asset flows within the space.

TRUSTEE CONYEARS-ERVIN: I see you show the industry. Are you going to show your 79 managers?

MS. NIKOLOVA: So the 79 managers this is actually the industry. If you take the universe of the managers that we look at and look at only the ones that have assets in their management of less than 10 billion and they have diverse ownership, within the equity space we narrow it down to 79 managers. These are not the managers that we work with per se. We work with fewer managers within the equity space. This is just the available universe given these characteristics.

TRUSTEE CONYEARS-ERVIN: I guess I was asking about the ones that you work with. The reason that I ask that is because Municipal -- I think that this Pension Fund has done a really good job as far as being inclusive. Especially in areas where you are looking at African American and Hispanics where in the industry the ownership is so low. But I think that the Fund -- I have to give our consultants credit, obviously, and our staff in assuring that we are diverse as much as possible.

And I guess I will ask this question as well. What can we do as trustees? I will tell you this is something, a topic, that keeps me up at night. I always think about what more can I do as a trustee so that we can help more African American and Hispanic firms. Because when you think about the population of the U.S., I mean these are pitiful numbers and I am trying to think what can we do as trustees to be more inclusive. Again, our pension fund has done a great job but what more can we do?

MR. BOND: That is a great question. I think at the top I would just say is to be more intentional. And that in my remarks I noted that we have interest from some public pension plans and from some corporations in creating venture capital to promote this. Because it is very much different now starting an investment management firm then what I started my first firm 25 years ago. The barriers to entry are much higher.

And so I think as trustees you have done a great job. The State of Illinois is a leader across the country in the emerging manager space in terms of creating these opportunities.

In terms of being more intentional of looking at and asking us, or any other emerging manager that functions in this space, like where are the opportunities?

I think that is why this slide that Mimi just went through is important because we see firms being started but they are being started in different asset classes.

We have been on an extraordinary run so it is not likely that you would see someone start a mega cap firm that would be their flagship strategy.

You're going to see people focus -- for example, in real estate, there is less than five in real estate investment managers that I can think of. There are very few minority owned venture capital firms or private equity firms for that matter.

But what we are seeing because of the Black Lives Matter movement, we are seeing people starting to look at that and to ask why and how can we change that.

So as a trustee I think you're doing a great job now but never hesitate to reach out and ask us about what we see in the industry and where there might be an opportunity for Municipal to perhaps co-invest with other pension plans to create something new. To create a new vehicle that would increase and enlarge the opportunities and the number of firms in the space.

MR. SILVESTRI: And there are two areas that we have been working on specifically to help increase opportunities in the marketplace.

First is fixed income. It is a boring asset class for a lot of people, but it is one of the most exciting ones in the emerging manager space and something we just won with RMF. We have a very large allocation with the State of Maryland.

Because it is not just a matter of hiring a couple of core managers and making a core fixed income portfolio. It is about truly segmenting the fixed income universe. Hiring experts in mortgages who are diverse. Experts in CMBS who are diverse. Experts in municipal bonds. And putting together an overall portfolio that not only is diverse but longer term has an outstanding performance profile.

You are getting in early and you are taking advantage of the expertise that is in the space that is getting ignored.

Then on the other side we have what we call a DMP program that we have been talking to a couple of clients about because one thing lacking in this space is the chicken and the egg seed money.

Someone who started a great firm, has a great process, but because of a firm risk, people don't invest in.

We have been observing this over the past five years and we have been designing a strategy that quite frankly allows a client to take investment in those underlying firms because it gives the client something back in the longer run.

That is the ability to have a very cheap option with that manager going forward if they are successful.

So we are going to continue to try to find better investment options and better ways to foster the growth of diverse managers in the space.

MS. NIKOLOVA: Can I just say in our quarterly meetings with Steve that was the questions he asked as well. We continue that discussion. He definitely carries the message of the Board. And we have been talking about also opportunities for smaller managers in the program. Something that we will discuss with him as the program evolves and continues within the plan.

TRUSTEE CONYEARS-ERVIN: Thank you.

MS. NIKOLOVA: Absolutely. Any other questions from anybody else?

MR. YOON: Thank you.

MS. NIKOLOVA: Thank you so much. We are very close to you. Whenever you have questions, obviously, reach out. I am glad we are able to get a few minutes of your time. Enjoy the rest of your meeting. Thank you, very much.

MR. YOON: Thank you.

Trustees, thank you for hanging in there. I know it's been a long day already. We wanted to bring on Attucks to give a presentation on the current state and educate the trustees on what's been going on in the industry of emerging managers. You heard about progress and other things that has been going in the industry so hopefully that was useful and continue to rely on us to communicate with Attucks as we have been doing.

We are currently working with them on possibly looking at different ways to expand our relationship with the emerging managers, without sacrificing return risk objectives as well as putting the fund at a certain risk prospective.

With that, we can move on to the next topic. I know we have jumped around the agenda but we will leave the RFP as well as the discussion of Segall Bryant Hamill until the end.

We can go to the cash flow analysis. Here nothing out of the ordinary. We just wanted to showcase our current state towards the end of the year on our current cash flows.

As you can see for the remainder of the year, we will have to redeem from managers. Which manager will depend on each month and how each asset class performs, but as you can see towards the end of the year we are redeeming close to 70 plus million from each managers.

I want to highlight the real estate numbers in December. That is tentative given that there's been a redemption queue from all of our real estate managers. So even though we have 45 million in queue, that does not mean that we will get all of the monies from the managers.

So we wanted to use this opportunity to see if there is anything trustees wanted to discuss, you know, bring to the rest of the trustees as well as to staff.

And there is another sheet that shows you all the employer contribution. It just says for your own edification.

TRUSTEE CONYEARS-ERVIN: Steve, or anyone can answer this, how many employees are in this Municipal Pension Fund again?

MR. YOON: I believe from my recollection it is about 32,000.

MS. HANSEN: 32,000.

MR. YOON: 32,000 active.

TRUSTEE CONYEARS-ERVIN: Okay. Thank you.

MR. YOON: It is about 50/50. 32,000 and then 20 something thousand --

MS. HANSEN: 25,000, 26,000 retired. Approximately 17,000 inactive employees are members.

TRUSTEE CONYEARS-ERVIN: So over 30,000 active, though, you said?

MR. YOON: Correct.

TRUSTEE CONYEARS-ERVIN: I asked that because I was looking -- I mean, when you look at the employee contributions versus the City contributions, obviously, the City contributions is the bulk of it which is taxpayer's dollars which is why we are so intentional. But we obviously don't want to make light of the employees contributions as well because those are dollars taken away from their paychecks. We just want to make sure we protect everyone in this experience so that is why I asked that.

MR. WESNER: Again, one of the reasons that we have this in the deck for discussion today, and it even ties back a little bit to the Segall

Bryant Hamill discussion, it is all about the cash flows.

And as this board makes decisions on what most prudent actions are with the portfolio, this is always one of those items that is kind of hanging over your head as we are going through the process in exercising some asset allocation to rebalancing to determining actions on an underperforming manager. Because the time that you have to wait for a manager to start to outperform again, for example, is potentially less because there is this constant demand on assets.

So the idea of the pre-funding and the when that pre-funding is prudent to utilize versus raising assets from the investments I think is what part of the discussion potentially was today just to understand and get a better feeling for what that timing could be. Because the liquidity is there with your underlying investments. We are focusing having the assets be liquid, but it is just the timing and rebalancing of the portfolio every time we are having to raise 75 million dollars for the next month's benefits certainly creates performance headwinds in terms of cash drags, in terms of transaction charges. All those things do factor into the overall performance of the plan.

TRUSTEE JOHNSON: What are your thoughts on that whole aspect going into the end of the year? Even with the market volatility, normally at the end of year is a little rough to begin with. What are you thinking as far as possibly looking at pre-funding again or trim from our winners like we normally do. What are your thoughts?

MR. WESNER: Again, it is one of those things where we don't obviously have a crystal ball to be able to determine what performance is going to be. But as you go into the end of this year, we can look at the facts. Is that historically as you go into a presidential election cycle there is increased volatility. I think this presidential election will be the same way. It will create market volatility.

We have the uncertainty around the Covid pandemic and potential vaccines and improved therapeutics so that is another factor that is out there.

And we have seen with the equity markets at least several parts of the equity markets be at relatively stretched valuations.

We saw over the last week we saw a pretty quick snapback in terms of the equity markets after they got a little frothy. The last couple of days we are continuing to move higher.

So just a lot of -- I guess what I am saying is there is still a lot of uncertainty there. So ideally you don't want to have to be redeeming and selling investments, but in the real world I would say that some combination of pre-funding and selling assets to get through the end of the year will be prudent.

Because if you look at the bottom of the page on the screen right now, you can see that currently, it's in aggregate, it is about 220 million dollars that would need to be raised. You see the cash from investments at the bottom.

But as Steve correctly pointed out, you also have that 45 million dollar real estate redemption. There is a lot of uncertainties surrounding how much money we will get there.

If we only get 10 or 20 million of that, we potentially at the end of the year would be redeeming another 250 million from investments and that is challenging to redeem from managers and to continue to keep the portfolio at its asset allocation target but raise all of that cash flow for benefit payments.

TRUSTEE SONI: So I had a question in terms of let's say we did another pre-funding request with the City. There's a limit as to how much they can probably provide based upon what they have setup.

So let's say the limit is that they can provide another 80 million. Then in terms of like your experience talking about politically what it looks like in an election year coming up is that better for us to probably hold onto for more of the end of year like November, December because of the market volatility? Or is it better for us to try to use that now and then figure out what is going to happen later?

MR. WESNER: I would tend to go with the former, which would be holding onto that potential pre-funding for later and in the current months using sale of potentially equity assets to rebalance the portfolio and to keep risk off the table.

Your portfolio overall has always been less exposed to equity risk than other portfolios. Your portfolio has always been relatively conservatively positioned.

That being said, the largest risk in your portfolio is equity risk. So if we were to redeem, as you see at the bottom of the page here, 76 million dollars for the end of September, that potentially would be coming from a mix of asset classes but there certainly will be a healthy allocation of equities if that capital was raised from the portfolio.

TRUSTEE SONI: Thank you.

MR. WHITE: Just from a planning standpoint, because you mentioned cash drag and certain fees for transactions, is there a window or a minimum amount of time from a planning perspective that you think would be helpful in order to minimize this cash drag, if we were fortunate enough to obtain pre-funding?

MR. WESNER: Again, in your portfolio the capital raises have always been done very efficiently. So when the board approves cash raising for a period, Steve works with the managers to get that executed in a very efficient manner. But, again, it is that the last week of the month that you are holding some extra cash before benefit payments go out that does create a little bit of a cash drag.

It is always great to give managers a heads up so they can, you know, not have to do short settlement. They can trade into liquidity and strengthen the market to get better execution.

And then the biggest cash drag, and we have talked about this before but I think it is always worth mentioning, is just with the uncertainty around making sure we have of cash need benefit payments.

If we look back at March, for example, this board definitely did what was prudent in making sure that there was enough cash to meet April and May's benefit payments. But you had a large amount of cash because of the funding from the City in late February and March. And then when the markets rebounded in April or May, that creates a little bit of a cash drag. You had as much as 4, 5 percent, maybe even at one point even 6 percent, in cash so that creates that cash drag.

Again, balancing out and being prudent with liquidity and making sure we have enough to make benefit payments, number one. Also being able to invest assets accordingly.

TRUSTEE JOHNSON: Jamie, how much have we liquidated this year so far?

MR. YOON: Let me pull it up for you.

TRUSTEE JOHNSON: I know in January, February, we had those large payments came in. We kind of made it halfway through basically almost through the summer.

MR. YOON: In total, we have liquidated 115 million.

TRUSTEE JOHNSON: 115?

MR. YOON: Yes.

TRUSTEE JOHNSON: That's actually not that bad.

MR. YOON: If you look at our August presentation, staff presentation, at Page 6, highlights all the managers that we have redeemed from, that is including K2 termination which are still paying out, and year-to-date we have liquidated 115 million.

TRUSTEE JOHNSON: We liquidated 115 million and then we are back loaded for these next months is basically kind of where we are getting killed in, right?

MR. YOON: Yes.

MR. WESNER: To your point, Trustee Johnson, historically there have been -- so if we had to redeem everything to meet the rest of this year's benefit payments, we would be less than 400 million in redemptions of the investment portfolio.

If you think of the year's past, earlier in the ramp, for the years we were well in excess of 500 million. Even though 375 million, or whatever this would leave us, is a large number, it is an improved number from where you have been historically.

TRUSTEE SONI: That doesn't include the pre-funding that was already done, right, when you mentioned 375?

MR. WESNER: Correct.

TRUSTEE SONI: That is more like 435?

MR. WESNER: 435. Still about 100 million dollars less. Just the idea of the ramp is that the contribution -- we all know the contributions from the City has gotten larger each year, which has reduced the negative cash flow of the plan by about 100 million dollars per year.

TRUSTEE JOHNSON: I kind of liked your hybrid plan sort of like, you know, with the last four months, you said roughly 220 million so that put us, what, 340 for the year I think you said. Some type of a hybrid plan maybe where we split some type of pre-funding. Looking at the water and sewer tax and what the City should have collected is roughly about 180 million last year. So thinking that they have that in escrow for us this year, you know, is there some way to split that between trimming from our winners possibly and maybe pre-funding. Have you guys gotten comfortable with the idea of pre-funding?

MR. WESNER: Is that a question to us or the other trustees?

TRUSTEE JOHNSON: It is a question to anybody who will answer it.

MR. WESNER: Taking from an investment perspective and a cash flow perspective, we have comfort with pre-funding as long as we are all mindful that to see the benefits that were illustrated with other plans around the country. For example, the folks at Steeple presented as an example to this board. Is that it works if it is continual so you don't create a gap.

Our concern is that if you do pre-funding, if you don't have any option, if you're going to have a gap for 36 months out or some period in the future, that creates a potential problem that we want to be mindful of.

TRUSTEE JOHNSON: Steve, what do you have to add to that?

MR. YOON: I echo Jamie's comments. From our perspective from investments being able to plan ahead certainly makes a lot of sense. I think this is not an investment decision, more on the trustees to decide whether this is a prudent action to take.

MR. WHITE: Does anybody have anything else to add to the cash flow discussion?

TRUSTEE CONYEARS-ERVIN: I know we have to pay one way or the other whatever we decide as a board.

TRUSTEE MCMAHON: The question is to probably to Mary Pat, Jamie and Trustee Soni is with the Federal Government looking like they are going to get ready to release a 1.5 or 2 trillion is there any way we can go in partnership with the City to get any of that money, low interest loan, to help us out?

TRUSTEE SONI: Just going off with what we see right now and what we are discussing in the Budget process, we don't see any inclination at this point of when and how and if we would get that funding. So we're not making any I guess projections off of receiving that at this point. We hope but it is so uncertain and it's been going on for almost two months in terms of going to Congress and not getting passed.

To Trustee Johnson's point, the City does have the water and sewer tax fund and we can look into that and see what we can provide.

I do think one thing that was being mentioned before by the our investment managers is that we should check the volatility of just the investments that we have.

Once you hold on, you think the market is going to go down at the end of the year and the beginning of next year, maybe it is better to liquidate some of those investments while we are in a stage of a higher return and then use that cash later on. There is so much of that that we have. I will have to double check exactly how much.

Let's say we go back to the City and say we need 100 million. I mean, 100 million might be possible but then if we needed another 60 that might not be possible, based upon how much cash we have.

I just want to make sure timing wise we're thinking about it properly. That we are doing the pre-funding when we think it would be best for us when it would be our low period. Quote unquote low period. And that is when we are getting the cash and using it and we don't have to liquidate and have a loss.

Steve, do you have additional thoughts on that?

MR. YOON: I think timing wise it's difficult for us to say whether which timing makes sense for us to redeem.

MR. WESNER: Just to add, if you look at the timing, there is so many scenarios, there is so many -- the certainty is that we have come a long way in equities. So doing potentially the

September cash flow out of the investment portfolio, I think makes sense.

Looking forward, we never want to be trying to time the market. There is different scenarios coming out that if Bidden wins with the Republicans keeping the Senate, it might help the equity markets.

There is others that say the Democratic sweep would hurt. Some say the Democrat sweep would help because we would have more fiscal stimulus coming in. There would be more fiscal stimulus for the municipalities and other groups that would help spur equity markets higher. There is just so much uncertainty right now.

I wish we had better predictive abilities. But I think right now, getting the feedback from Trustee Soni on how much liquidity could be available from the City. Because if we know that there is limited availability of liquidity, I think that is very important to save that liquidity or be mindful of the timing of utilizing that liquidity until election time. Until the November, December time periods.

TRUSTEE SONI: We can have those

conversations. I did start having those conversations earlier last week just to see what was the ability. Two things we also need to check. We investment that money out as well. We want to make sure that we are not doing something where we have to break an investment and there is loss over there. We will check that out and see what is the availability and then how much we can actually do.

I think some things that we should followup on just to be able to provide that information so we can make an informed decision. So we can definitely work on that.

MR. WESNER: For next week's meeting, consultant and staff, we can come back with a recommendation from the investment portfolio for September fundings.

And then Trustee Soni, if it is possible, just to get a very high level estimate on what the potential liquidity would be for pre-funding. I think that will help us, for lack of a better term, budget our utilization of pre-funding dollars going out the next four to six months. That will give us a better ability to give recommendations on where we might take money from investments.

TRUSTEE SONI: Okay, that sounds good.

PRESIDENT THOMPSON: If you don't mind, before we go on to the next topic, can we recess for about five minutes? Take a little break.

MS. HANSEN: Okay. Before we do that, do you want to the talk about the RFP for international small cap, Steve?

MR. YOON: I think we can do that in a closed session with the discussion of Segall Bryant Hamill.

MS. HANSEN: Okay. We will be in recess for five minutes. Thank you.

(Short recess in the meeting.)

MS. HANSEN: Mary Pat, should we go into closed session?

MS. BURNS: If the Trustees are ready, then we would want a motion to go into closed session pursuant to Section 217(c)7 of the Open Meetings Act to be able to discuss investment contracts.

Madam President, you would need a motion, a second and a roll call vote.

TRUSTEE MCMAHON: Motion.

TRUSTEE JOHNSON: Second.

MS. HANSEN: Madam Treasurer.

TRUSTEE CONYEARS-ERVIN: Yes.

MS. HANSEN: Trustee Johnson.

TRUSTEE JOHNSON: Yes, ma'am.

MS. HANSEN: Trustee McMahon.

TRUSTEE MCMAHON: Yes.

MS. HANSEN: Trustee Soni.

TRUSTEE SONI: Yes.

MS. HANSEN: Trustee Thompson.

PRESIDENT THOMPSON: Yes.

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

MS. BURNS: I think the only item that may be up for consideration is a motion to recommend to the Board the issuance of an RFP for international small cap.

TRUSTEE JOHNSON: Motion for international small cap investment managed services proposal for the board meeting.

PRESIDENT THOMPSON: Can I get a second, please?

MEMBER MCMAHON: Second.

MS. BURNS: Roll call vote, please.
MS. HANSEN: Madam Treasurer.
TRUSTEE CONYEARS-ERVIN: Yes.
MS. HANSEN: Trustee Johnson.
TRUSTEE JOHNSON: Yes, ma'am.
MS. HANSEN: Trustee McMahon.
TRUSTEE MCMAHON: Yes.
MS. HANSEN: Trustee Soni.
TRUSTEE SONI: Yes.
MS. HANSEN: Trustee Thompson.
PRESIDENT THOMPSON: Yes.
MS. HANSEN: Motion carries.
PRESIDENT THOMPSON: Old business/new business. Anything?
MEMBER MCMAHON: I have a question, Mary Pat. Are you and Sarah working on the differential pay for the plumbers union? The plumbers union was going to submit a writ and then you were going to submit a writ and that matter is supposed to be brought to us before next Thursday's meeting so we can go over it, correct?
MS. BURNS: Yes, sir. We haven't finalized the agenda but it is going to be on the agenda.

We talked to Mr. Trylovich's counsel yesterday afternoon and he is going to have his submission and we will have our submission ready by Friday. I don't know when we will get it from him, but certainly if you check Friday or Saturday, you will have it. And then if you're ready, we will be prepared to recommend you take action on that matter on Thursday.

MEMBER MCMAHON: Thank you.

PRESIDENT THOMPSON: If there is nothing else, ladies and gentleman, I will not be in attendance at the next meeting. I have a wedding in Denver, hopefully not in snow, on Thursday. Just to give you a heads up there.

But right now do we have a motion to adjourn the meeting?

TRUSTEE MCMAHON: Motion to adjourn.

TRUSTEE JOHNSON: Second.

PRESIDENT THOMPSON: Thank you. 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
License No. 084-001078

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