The Policemen's Annuity and Benefit Fund of Chicago

Response to Christopher B. Tobe's Report

Issued May 2022

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Executive Summary

In August 2021, Christopher Tobe issued a report ("Report") that he characterized as a "forensic investigation" and "forensic audit" of the Chicago Policemen's Annuity and Benefit Fund ("PABF" or "Fund") and its Board of Trustees ("Board"). The Report is neither a forensic investigation nor a forensic audit, both of which involve detailed examinations of financial records that are meant to generate evidence for use in legal proceedings. Rather, it is a heavily plagiarized 85-page appeal to authority that was always intended to criticize the Board, the Fund and its advisors, and to generate negative publicity in an attempt to advance the misguided agenda of the small group of Fund members who commissioned the Report.[1] Indeed, the author's $27,000 invoice shows he was hired to create a "critical report" that was "designed for the public and the media."[2] The author delivered on his promise, but only by misstating and omitting facts, overlooking governing law and relevant accounting standards, and ignoring his professional training and experiences as a former pension fund trustee and chief investment officer, and pension fund consultant.

As discussed in detail in the pages that follow, a fact-based analysis of the Fund and its operations shows the:

- Fund operates in a transparent manner consistent with applicable laws.
- Board does not award "no bid contracts" to investment managers.
- Board, Fund Staff, and the Fund's Investment Consultant understand and monitor investment fees.
- Board, Fund Staff, the Fund's Investment Consultant, and Auditor do not hide investment fees.
- Fund does not hide or use "ghost" investment managers.
- Fund's investments have not underperformed when compared against benchmarks that accurately reflects the Fund's holdings.
- Fund's investment performance has not been manipulated.[3]

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[1] Sections of the Report are copied directly from a June 7, 2021, report Benchmark Financial Services ("Benchmark") prepared criticizing the State Teachers Retirement System of Ohio, which can be found here. For example, compare: (1) the first two paragraphs in the "Lack of Transparency" section on page 5 of the Report with the "Lack of Transparency" discussion on the first and second pages of the Benchmark report; and (2) pages 63-65 of the Report with pages three and four of Benchmark's report.

[2] See the author's invoice for the Report, which is attached as Appendix A. The author stood to receive a "$3,000 bonus for additional media work."

[3] This response does not address all of the Report's allegations. Rather, it focuses on issues around funding levels, transparency, reporting and performance.

I. Funding

The PABF is severely underfunded. This is not a secret, and it is the only area addressed in the Report with which the Board agrees. At the end of 2020, the most recent year for which data are available, PABF's funded ratio was 23.1%.[4] The underfunding has taken place over several decades and is largely the result of past actions taken by elected officials, many of whom no longer serve in government.

The City of Chicago ("City") and Illinois legislature, to their credit, sought to address underfunding by amending Public Act 99-0506 to require the City "to make level percent of pay contributions for plan years 2020 through 2055 that along with member contributions and investment earnings are expected to generate a projected funded ratio of 90% by plan year end 2055."[5] This Board will work diligently toward reaching the 90% funded ratio by or before 2055. In the meantime, the Fund will continue to meet its obligations to its members.

II. Transparency

The PABF and its Board are committed to transparency. This is evident from the Fund's operations and is apparent to reasonable observers.

A. The PABF complies with all applicable statutes governing transparency

The Fund must comply with Illinois' Freedom of Information Act ("FOIA") and Open Meetings Act ("OMA").[6] These statutes reflect critical public policies -- FOIA ensures that "all persons are entitled to full and complete information regarding the affairs of government and the official acts and policies of those who represent them as public officials and public employees consistent with the terms of [FOIA]," while OMA guarantees "the actions of public bodies [are] taken openly and that their deliberations [are] conducted openly."[7]

While these statutes are broad, and rightfully so, they contain exemptions that protect both the operations of a public body and the disclosure of certain information.[8] Indeed, FOIA balances the need for transparency by giving a very broad and inclusive definition of "public records," while also providing very specific exemptions that allow public bodies to withhold certain types of documents from public inspection.[9] In this sense, FOIA itself provides the judicially required

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[4] Audited financials and actuarial reports from 2007 to 2020 can be found in the "Fund Reports" section of the PABF website. The 2021 reports will be posted on the website after they are completed.

[5] See Policemen's Annuity and Benefit Fund of Chicago Actuarial Valuation Report for the Year Ending December 31, 2020 at p.2, which can be found here.

[6] See The Illinois Freedom of Information Act, 5 ILCS 140/1 et seq., and the Open Meetings Act, 5 ILCS 120/1 et seq.

[7] See 5 ILCS 140/1 and 5 ILCS 120/1.

[8] See 5 ILCS 140/7 and 5 ILCS 120/2(c)1-38.

[9] See Illinois Attorney General Public Access Counselor Opinion 2010 PAC 8624 (June 14, 2012) ("in an effort to strike a balance between the interest in public disclosure of information about pension fund investments and the

balance for government accountability and the protection of specific confidential and proprietary information. This is not lost on the Report's author, who served as a trustee of a public pension fund that was governed by similar laws.[10] While the author understands the scope and purpose of FOIA and OMA, he deliberately ignores them so he can argue that '"all of the workings of the [Fund] must be open to fully public scrutiny," that PABF "long [ago] abandoned transparency" and chose "instead to collaborate with Wall Street firms and others to eviscerate Illinois public record laws and avoid accountability to stakeholders."[11] The Report's claims are false.

Many of the Report's criticisms around transparency revolve around the FOIA requests the author submitted to the Fund.[12] The Fund responded to those requests by producing over 200 responsive documents comprising approximately 7,500 pages. Consistent with FOIA, the Fund redacted private and personal information and "trade secrets and commercial or financial information" that was furnished under a claim the information was proprietary, privileged, or confidential.[13]

Finally, the Report's author found it "very disturbing" that the Fund did not produce a "single prospectus" in response to his FOIA requests. What is disturbing is that the author made this allegation despite *never* asking the Fund to produce prospectuses. This baseless allegation, which was lifted almost verbatim from the Benchmark report, further undermines the author's credibility and highlights the Report's slapdash nature.[14]

B. PABF's commitment to transparency extends to its process for selecting investment managers

The Report asserts that the Fund hires alternative investment managers through a "secret no-bid" process that allows the Fund and investment managers to bypass "basic control[s] for transparency and accountability."[15] These allegations are belied by reality and serve only to demonstrate the author's ignorance of Illinois law and the Fund's internal policies and practices. As discussed below, the Fund's process for selecting investment managers is transparent and complies with Illinois law.

Illinois pension funds must hire investment managers through a competitive bidding process.[16] The competitive bidding process starts with the Fund issuing a request for proposal ("RFP"). All RFPs are posted on the Fund's website. In addition, the Fund's investment consultant, NEPC,

desire of private equity firms to keep such information confidential, the Illinois General Assembly amended FOIA's trade-secret exemption in Public Act 94-508, effective January 1, 2006.").

[10] The Report's author was a trustee for the Kentucky Teachers' Retirement System.

[11] Report at p. 6.

[12] The Fund's author has filed suit against the Fund over its responses to his FOIA requests.

[13] See 5 ILCS 140/7(1)(b) and (c) (exemptions for private and personal information, respectively) and 5 ILCS 140/7(1)(g) (exemptions for trade secrets and commercial or financial information).

[14] The author lifted this allegation directly from the Benchmark report. Compare the last paragraph on page 64 of the Report with the first full paragraph on page 4 of the Benchmark report.

[15] Report at p. 34.

[16] 40 ILCS 5/1-113.14.

publishes the Fund's RFPs on its website and industry publications commonly report on the RFPs. After the Fund's Board approves issuing an RFP, a "quiet period" takes effect during which time investment managers are prohibited from contacting Board trustees.

Interested investment managers send their responses to the Fund, which then provides the responses to NEPC so it can conduct due diligence on each manager, rank the responses and offerings, and prepare written reports for the Board. NEPC then presents a list of the top candidates to the Board at its next regularly scheduled meeting.[17] Only then does the Board decide which investment managers will be invited to present to the Board at a future meeting that is open to the public.

After the manger presentations conclude, the Board typically, but not always, votes to enter closed session pursuant to 5 ILCS 120/2(c)(7) to discuss the investment managers and their presentations and offerings.[18] This provides trustees an additional opportunity to put questions to and solicit input from its investment consultant before selecting the winning manager. Once the discussion concludes the Board votes to return to open session, where a trustee will make a motion to award the mandate to a particular investment manager, subject to successful contract negotiations.[19] If the motion is seconded, then the Board votes on the motion. This process ensures transparency and accountability, and it complies with Illinois law.

PABF follows this process for every investment mandate, with one limited exception that is permitted by Illinois law. If a *current* PABF alternative asset investment manager launches a new fund that is substantially similar to one the Fund is currently invested in, then the Board can invest in the new fund without issuing an RFP. For example, if the Fund invested in Acme Investment Company's Commercial Real Estate Fund V after going through a competitive bidding process and is still invested in that fund, the Board can invest in Acme Investment Company's Commercial Real Estate Fund VI without going through a competitive bidding process. The Board will do this only after: (1) conducting further due diligence on the investment manager; (2) the Board votes in open session to invest in the new fund; and (3) successfully negotiating an investment contract that complies with Illinois law.

Contrary to the Report's "findings," the facts show the Fund and the Board are transparent and comply with Illinois law when responding to FOIA requests, conducting Board meetings pursuant to the OMA and selecting investment managers.

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[17] In addition to PABF's regular monthly Board meetings, the Fund's investment committee schedules approximately nine meetings per year. The investment committee meetings are open to the public and are held separately from the regular meetings, but they are sometimes combined with regular meetings when feasible.

[18] 5 ILCS 120/2(c)(7) is an exception to the OMA that allows public bodies to hold closed meetings to discuss the "sale or purchase of securities, investments or investment contracts."

[19] PABF's contracts with its investment managers comply with 40 ILCS 5/1-113.14(c). PABF will not enter into a contract with an investment manager if the manager does not agree to a statutorily required contract term or condition.

III. Fees

The Report contains a lengthy disclaimer in which the author states that he was not hired to detect or investigate fraud, concealment or misrepresentations, and that the Report was not intended to provide legal conclusions.[20] Nevertheless, the Report contains multiple allegations regarding the monitoring and disclosure of investment fees and carried interest that suggest the Board and others have violated their fiduciary duties, concealed information and violated the law. As discussed below, the Report's allegations are baseless.

A. The Board considers, understands, monitors investment fees

As fiduciaries, the Board's trustees have a duty to defray reasonable expenses and investment costs. To meet this duty, the Board must consider, understand, and monitor investment fees. The Board begins to meet this duty for all new investments when it issues an RFP. Every party that responds to an RFP must disclose its fee structure. This serves several important purposes. First, it allows the Board to consider the reasonableness and competitiveness of the proposed fees, which is one of the criteria the Board considers when selecting an investment manager. Second, the fee disclosures give the Board valuable information that can be used to negotiate fee reductions in cases where the preferred candidate's fee structure is higher than the competing managers. By requiring these disclosures in all RFPs, the Board knows the fee structure of every investment in the Fund's portfolio.

The Fund also regularly monitors its managers' fees. Most of the Fund's equity and bond managers charge fees on a quarterly basis. The fees are based on the average amount of Fund assets managed during the quarter, multiplied by the pro-rata share of the annual management fee. Each manager gives the Fund a quarterly accounting of fees, which are reviewed and confirmed by Fund staff. After the fees are confirmed, they are included in the Fund's itemized list of monthly administrative expenses that the Board reviews and approves at its monthly meetings.

Additionally, the Board reviews investment costs on a regular basis to ensure managers' fees are competitive. According to the Investment Company Institute, in 1996 the average actively managed equity mutual fund charged 1.06%, while the average index equity mutual fund charged 0.27%.[21] By 2020, those averages had dropped to 0.71% and 0.06%, respectively.[22] Because fees often decline over time, NEPC prepares fee analyses that compare the fees charged by the Fund's equity and bond managers and against the broader universe of equity and bond managers. Armed with this information the Board can identify current managers whose fees may have become less competitive over time and seek fee reductions where appropriate.

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[20] See the Report at p. 85.

[21] See https://www.ici.org/system/files/attachments/pdf/per27-03.pdf.

[22] Id.

Finally, the Fund, consistent with its reporting obligations, fully discloses the investment fees and expenses charged by its traditional asset managers. The fees are identified by dollar amount and manager in both the Annual Comprehensive Financial Report ("ACFR") and the Fund's annual audit, which is conducted by Mitchell Titus, the nation's largest minority-controlled accounting firm. The ACFRs and annual audits from 2007 to 2020 are posted on the Fund's website and can be found here.[23]

While the Report's claims that the Board does not monitor or disclose fees serve the goal of generating negative publicity about the Fund, they are at odds with Board practice. In practice, the Board meets its duty to defray reasonable expenses and investment costs by considering and understanding fees before making any investment decision, monitoring investment fees through the life of every investment, reviewing fees on a regular basis, and negotiating lower fees where appropriate. Finally, the fees paid to traditional investment managers are disclosed in the Fund's ACFRs and annual audits, which are available on the Fund's website.

B. PABF does not hide costs associated with its alternative investments

The Report's lack of seriousness is further evidenced by its discussion of fees paid to alternative managers, including hedge fund, private equity and private real estate managers, and the Fund's disclosure of those fees. The Report both overstates fees charged by alternative managers and ignores industry practices for reporting net income generated from alternative investments.

Before addressing the Report's allegations, it is helpful to understand the difference between traditional and alternative investments. Traditional investments include publicly traded stocks, bonds, and cash. Historically, an investor purchased individual shares of stock on a public stock exchange, such as the New York Stock Exchange or NASDAQ, or bonds from a broker. Today, most investors, including the Fund, get exposure to publicly traded stocks and bonds through mutual funds and exchange traded funds ("ETF"). The mutual fund or ETF manager charges an annual management fee that covers the costs of running the mutual fund or ETF. Mutual funds and ETFs are highly liquid because shares trade on public stock exchanges, they can be bought or sold on any day the relevant stock exchange is open for trading, and their prices can be easily ascertained.

Alternative investments differ from traditional investments in several material respects. Alternatives like hedge funds often invest in stocks and bonds, but they employ trading techniques not typically used with traditional investments, such as short-selling or using leverage. Other alternatives, like private equity, purchase or make investments in privately owned companies. Private real estate funds purchase physical properties, including office buildings, single or multi-family homes and warehouses while private debt funds make loans to businesses. Alternative investments provide investors an opportunity to diversify their investments and seek a higher risk-adjusted return.

[23] Both the 2021 ACFR and annual audit will be posted on the Fund's website once they are completed.

An investor in alternatives does not purchase individual shares in stocks, mutual funds or ETFs. Rather, the investor becomes a limited partner in a partnership and commits capital to the partnership. The committed capital is invested pursuant to the partnership agreement. Private equity and private real estate partnerships commonly last seven to 10 years and are managed by a general partner, who commits its own capital to the partnership, that is responsible for investing the committed capital and running day-to-day operations.[24] Alternatives charge an annual management fee – usually 0.75% to 2% - to cover operating costs, and the general partner shares in profits that exceed a preferred rate of return, which is usually five to nine percent per year.[25] Alternative investments are less liquid than traditional investments, with limited partners normally committing to keep their capital invested for a contractually agreed upon period of time. In exchange for the reduced liquidity, alternatives seek annual returns that are three to four percentage points above equities' historical average returns.

Returning to the Report, the author "assumes" the Fund pays 5% annually in management fees to alternative managers, or $70 million per year, not because that figure is remotely accurate, but because it is sensational and serves the Report's goals. The Report's author is a former pension fund trustee and chief investment officer, and a current pension fund consultant, so he knows that alternative management fees are not 5%. Furthermore, the author knows that these fees cover day-to-day operating costs, including due diligence costs and legal and accounting fees, and are not "money for nothing" as the Report asserts.[26]

The Fund currently pays alternative managers between 0.75% and 1.75% annually, depending on the type of alternative fund. This is consistent with the industry. So, too, are the annual management fees the Fund pays to its managers. In 2020, the last year for which complete information is available, the Fund's management fees across *all* investments, traditional and alternative, were **0.59%** of Fund assets, which was in line with the average public pension fund.[27] This means the Fund paid a total of approximately $15.7 million in management fees in 2020 on $2.65 billion in assets, or approximately $61 million *less* than the Report claimed.[28]

[24] Unlike private equity and private real estate funds, hedge funds typically are not designed to end after a specific period of time.

[25] The general partner's share of profits is commonly referred to as "carried interest." In most limited partnerships, the general partner receives 15%-20% of profits that *exceed* the preferred rate of return, which is commonly called the "hurdle rate." For example, in a fund with an annual 8% hurdle rate, the limited partners receive 100% of the profits up to 8%. If the fund's returns exceed the 8% hurdle rate, then, and only then, does the general partner receive its carried interest - 15%-20% of the return above 8%. The limited partners receive the other 80%-85% of profits above the hurdle rate. This profit sharing structure aligns the interests of the general partner and limited partners and incentivizes the general partner, which has a fiduciary duty to the limited partners, to seek investments that will generate returns in excess of the hurdle rate.

[26] See, e.g., Report at p. 25.

[27] In February 2022, the National Conference on Public Employee Retirement Systems reported that in 2020 the average public pension fund paid 0.60% of assets in management fees. https://www.ncpers.org/files/ncpers-public-retirement-systems-study-2021.pdf.

[28] See Report at p. 21.

The Report accuses the Fund and its auditor of "hiding 100% of the fees" from its investments in alternative assets. This accusation is false and ignores relevant reporting standards. As partnerships, alternative investment funds report their results net of fees. Under Governmental Accounting Standards Board ("GASB") Statement No. 25, as amended by GASB Statement No. 67, public pension funds are not required to include in the reported amount of investment expenses those investment-related costs that are not readily separable from investment income.[29]

As shown above, there is no merit to the Report's claims concerning either the amount of alternative investment fees or the Fund's reporting of those fees. The Fund's fees for traditional and alternative investments are in line with the average public pension fund, and its audited statements comport with relevant reporting standards.

IV. "Ghost" or "Lost" Managers

The Report suggests trustees have breached their fiduciary duties by hiding the identity of dozens of alternative investment managers, presumably in an effort to hide fees. As discussed below, these allegations are not true.

As an initial matter, the author's claim that he identified "hidden" or "ghost" managers by comparing the names of fund managers listed in various documents found on the Fund's website or produced to him in response to FOIA requests defies logic. The fact that the managers names appear in Fund records is *prima facie* evidence their identities are not hidden.

The suggestion that the Fund may have over 100 "ghost managers" in its fund of funds investments further underscores the Report's lack of seriousness. For the uninitiated, a fund of funds is typically a hedge fund or private equity fund that invests in other hedge funds or private equity funds, respectively. A fund of funds allows an investor to build out a diversified alternative investment portfolio without increasing administrative burdens and provides access to funds the investor might not otherwise be able to access.

In a fund of funds, an investor becomes a limited partner in a top-line fund (the "fund" in "fund of funds") and contributes capital to that fund. The top-line fund's general partner identifies underlying funds (the "funds" in "fund of funds") in which to invest and conducts due diligence on the funds. The top-line fund then becomes a limited partner in the underlying funds in which it invests. The top-line fund manager monitors the underlying fund managers, manages those relationships, and reports to the top-line fund's limited partners about the underlying investments. Contrary to what the Report says, investing in a fund of funds neither decreases transparency nor makes it difficult to determine fees.

[29] In 2016, California enacted a law requiring California's public pension funds to report investment expenses from their alternative investments.

While the Fund has not recently invested in any fund of funds, when it has, it has done so according to the RFP and due diligence processes described in Section II.B. As with all of its other investments, the Fund, its staff and advisors know the identities of underlying fund managers and the fees charged.

V. Performance

The Report makes inapposite comparisons and misrepresents facts to support its conclusion that the Fund's investments have underperformed.

A. The Fund's benchmark accurately reflects the Fund's portfolio

A benchmark is a standard against which things can be compared or judged. Investors use benchmarks to analyze the risk and return of a portfolio to understand its performance. To be useful, a benchmark must replicate as closely as possible the relevant investment portfolio. In short, a benchmark permits an apples-to-apples comparison. This is yet another area where the Report falls down. Instead of comparing the Fund's performance against its actual benchmark, the Report uses a benchmark - 70% S&P 500 / 30% Barclays Intermediate Bond Index Fund - that bears little resemblance the Fund's portfolio.[30] Based on this misleading and meaningless comparison, the Report falsely concludes the Fund experienced a $403 million investment "shortfall."[31]

As reflected in the table below, when the Fund's net of fee performance is compared to its *actual* benchmark, which accurately replicates the Fund's portfolio, it shows the Fund has outperformed its benchmark over the one, three, five and ten years through December 31, 2021.

As of December 31, 2021	**1 Year**	**3 Years**	**5 Years**	**10 Years**
PABF Portfolio *(Net of Fees)*	13.1	14.0	10.5	9.1
PABF Policy Index	12.9	13.4	10.3	8.8

Overall, the fund has performed above its benchmark and has not experienced any "shortfall," as the Report contends.

[30] The Fund's Investment Policy and relevant benchmarks can be found here. The Fund has a 15% target for large cap publicly traded equities, and a 45% overall target for publicly traded equities, including domestic, developed international and emerging markets. The Report's benchmark, on the other hand, has a 70% allocation to publicly traded equities, all to large cap domestic equities. This means the large cap public equity allocation in the Report's benchmark is nearly five times larger than the Fund's 15% target. Additionally, the Report's benchmark's overall allocation to publicly traded equities is approximately 45% higher than the Fund's.

[31] Report at p. 50.

B. The Fund’s alternative investments have added to the Fund’s overall returns

The Report next declares that the Fund’s alternative investments were a “disaster” for the three-year period ending December 31, 2020.[32] This conclusion is misleading for at least two reasons. First, the Report again uses an inappropriate benchmark to compare performance – this time to the Russell 1000 Stock Index, which represents the 1,000 largest publicly traded companies in the United States by market capitalization. Second, the Report looks at the alternative investments’ three-year performance even though most of these investments are analyzed on their likelihood to generate excess returns over a seven to 10 period.

To see how the Report deceives the reader, one need only look at its discussion of Lone Star funds X and XI. The Report claims these funds experienced “incredible losses” through 2019.[33] What the Report did not mention is that private equity investments typically experience negative returns early on in their existence. This is known as the “J curve,” which:

> represents the tendency of private equity funds to post negative returns in the initial years and then post increasing returns in later years when the investments mature. The negative returns at the onset of investments may result from investment costs, management fees, an investment portfolio that is yet to mature, and underperforming portfolios that are written off in their early days.[34]

Lone Star X was created in 2017 and Lone Star XI in 2019, so at the end of 2019 the former fund had been in existence for two full years and the latter *less* than one. In other words, in 2019 both funds were at points in their lives where investors would have *expected* the funds to post negative returns. The author knew this, but acknowledging that fact would have negated his argument. Both Lone Star funds have experienced stellar returns as they have matured. Through the third quarter of 2021, the most recent period for which returns are available, Lone Star X returned 18.18% while Lone Star XI returned 84.42%.

Overall, PABF’s alternative investments have performed well. The table below shows the net of fee performance of the Fund’s hedge fund portfolio, which began in August of 2016.

As of December 31, 2021	**1 Year**	**3 Years**	**5 Years**
PABF Hedge Fund *(Net of Fees)*	19.76	6.34	5.80
PABF Policy Index	6.05	8.42	5.68

Except for the 3-year period, the Fund’s hedge fund portfolio has outperformed its actual benchmark.

[32] See Report at p. 51.
[33] See Report at p. 55.
[34] See https://corporatefinanceinstitute.com/resources/knowledge/economics/j-curve/.

The Fund's private market portfolio's returns are measured using a metric know as an Internal Rate of Return ("IRR"). Generally, speaking a positive IRR means the investment has generated profit for the investor. As of September 30, 2021,[35] the Fund's private market portfolios (private equity, privately held real estate and privately held real assets) have generated positive IRRs for the Fund.

As of September 30, 2021	**IRR Since Inception**
Private Equity	45.96%
Private Debt	9.65%
Real Estate	4.46%
Real Assets	9.63%

Far from being a "disaster," the Fund's alternative investments have performed well since the Fund resumed investing in these assets in 2016.

C. The Fund's investment returns are not manipulated.

In a report replete with misrepresentations and bald assertions, perhaps the most egregious is the claim that the Fund and its investment consultant and auditors committed fraud by manipulating 2020's investment performance to "miraculously" generate $45 million in additional returns.[36] This fantastical assertion is based on statements NEPC and the Fund's auditor, Mitchell Titus, made to the Board. Specifically, the Report says NEPC reported in April 2021 that the Fund's portfolio returned 10.64% in 2020, while Mitchell Titus reported in June 2021 that the portfolio returned 12.9%.[37] Rather than take the next step and explain the reason for the disparity in reported returns, the Report ignored it altogether.

Taking the next step would have shown that the returns NEPC reported in April 2021 were *preliminary* while the returns Mitchell Titus reported in June 2021 were *final*.[38] The reason for this is simple: there is an inherent lag in reporting alternative investments' quarterly and annual returns. Unlike stock returns, which can be determined at any time because they trade on public exchanges and are priced after every trade and at the end of each trading day, an alternative manager's returns cannot be determined until after its or the underlying portfolio companies' quarterly and annual financial statements are finished, which can take 45 and 90 days, respectively. The alternative managers' 2020 returns were not available when NEPC reported returns at the April 2021 meeting, so NEPC identified the returns as preliminary, not final. The alternative managers subsequently reported their 2020 returns, which *were* available to Mitchell Titus. As a result, Mitchell Titus included the final returns in the Fund's audited financial

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[35] Due to the valuations methods used for private market investments, performance metrics are reported on a 1 quarter lag.

[36] See Report at pp. 53-54.

[37] See Report at pp. 53-54.

[38] The transcript from the Fund's April 2021 meeting shows that NEPC described returns as "preliminary" eight separate times. See Attachment B.

statements. What the Report characterized as manipulation was nothing more than responsible parties using the information that was then available to them.

Conclusion

By the author's own admission, he always intended to prepare a report that was critical of the Board, the Fund and its advisors. He succeeded, but only by subverting the truth. As set forth in detail throughout this response, the truth shows that the Board, Fund and its advisors are committed to transparency and satisfying their respective obligations to the Fund and its members. This means the Board and Fund comply with their obligations under FOIA and the OMA, they select investment managers in a transparent process that adheres to Illinois law, and they diligently monitor the Fund's investment expenses. It also means that the Board, Fund and its advisors do not hide information about fund managers or manipulate investment performance. This should not come as a surprise to anyone, including the Report's author.

APPENDIX A

PAID IN FULL

INVOICE

Christopher B. Tobe, CFA
11801 E. Arbor Drive
Louisville, KY 40223
502-648-1303

Invoice Date:
September 13, 2021

Report on Chicago Police Retirement Plan

Company:	**Chicago Police Participant Group**	Company:	Research Various Plans
Name	Eugene Roy, Charles Salvatore Wayne Metcalf Rosemarie Giambalvo	Name	
Address		Address	
City,State,Zip	Chicago, IL	Final invoice	**$ 24,000**

Description	Date	Amount
Forensic Fiduciary Audit: I propose to produce a critical report of the administration and investment practices of the fund. This will be a big picture of the Solvency and Governance of the plan. It will look at Board transparency and response to stakeholders. Procurement practices. Transparency of investments. Performance and fees of investments. General comments on the actuarial solvency of the plan. Administrative cost. It will not be a detailed our duplicate current reports. It will primarily rely on public documents. It will be designed for the public and the media, and for participants to get a picture of the shortcomings of the culture and governance of the plan. I anticipate it will run 10-15 pages with an executive summary.		
I propose a total cost of $24,000 with $12,000 up front and $12,000 after delivery of the report. This is all inclusive cost including phone / zoom media after the release of the report.		
I am not obligated to travel to Chicago, but may do so at my own expense.		
$ 3,000 bonus paid for additional media work.		
FLAT RATE Negotiated		
Total $ Paid		**$27,000**

Bills can be paid directly to Commonwealth Bank 083002177 Account #166004226 Tax ID # 316 68 5990

Make Checks payable to Christopher B. Tobe

APPENDIX B

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1 you will, of the funds that we know and then anyone
2 else that meets minimum criteria will be able to
3 submit RFPs.
4 So the recommendation is to issue an RFP
5 for growth equity, special situation and co-invests.
6 That will be one RFP defining the categories.
7 We're looking with the intention to
8 allocate $40 million.:
9 MR. LAPPE: Does this need a --
10 MR. LEONARD: I think we would need a motion.
11 MS. JONES: We don't. We don't need a motion.
12 TRUSTEE BEYNA: I don't think we need a motion,
13 but just for he record, unless there's any questions
14 or further discuss, the Board authorizes NEPC to
15 prepare a draft RFP for private debt and private
16 equity RFPs to be presented at the May meeting.
17 MR. LEONARD: So the other recommendation
18 before I jump into the performance -- and there's no
19 deck for this -- is you have an allocation to
20 opportunistic credit.
21 So you have private debt, you have
22 private equity and you have opportunistic credit.
23 Today you're underallocated to
24 opportunistic credit by about 1 percent of the

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1 overall portfolio, and that certainly that's a
2 moving piece.
3 We're making a recommendation that you
4 allocate an additional $5 million to the Beachpoint
5 Select Fund that you're already invested in.
6 You allocated to Beachpoint back in 2016.
7 This is an opportunistic credit fund. They've done
8 very well for you.
9 This is an open-end structure, so you can
10 allocate money. This is not going to require a new
11 contract. It's just allocating additional monies
12 into the fund that you're already invested in.
13 So we're recommending an additional
14 $5 million contribution. That would come out of
15 your current cash portfolio, so it wouldn't come out
16 of any other investment managers. It would come out
17 of cash and allocated into the Beachpoint Fund.
18 So, certainly, I can go into more detail
19 if anyone has any further questions on what
20 Beachpoint does for you, but, I guess, for time,
21 I'll stay high level.
22 And, again, the recommendation is
23 $5 million out of cash into Beachpoint.
24 MR. LAPPE: So I'll make a motion then to allow

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1 that $5 million to be allocated into the Beachpoint
2 Fund per NEPC's recommendation.
3 TRUSTEE STISCAK: Trustee Stiscak will second
4 that motion.
5 TRUSTEE BEYNA: Roll call vote.
6 Trustee Bennett.
7 (No response.)
8 TRUSTEE BEYNA: Trustee Conyears-Ervin.
9 (No response.)
10 TRUSTEE BEYNA: Trustee Lally.
11 TRUSTEE LALLY: Yes.
12 TRUSTEE BEYNA: Trustee Lappe.
13 TRUSTEE LAPPE: Yes.
14 TRUSTEE BEYNA: Trustee Park.
15 TRUSTEE PARK: Yes.
16 TRUSTEE BEYNA: Trustee Skardon.
17 TRUSTEE SKARDON: Yes.
18 TRUSTEE BEYNA: Trustee Stiscak.
19 TRUSTEE STISCAK: Yes.
20 TRUSTEE BEYNA: And I'm a yes. The motion
21 passes.
22 MR. LEONARD: I'll move on to the Flash Report
23 as of March 31st, please.
24 MS. JONES: Is everybody able to see my screen?

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1 MR. LEONARD: No, it says "Deanna Ingram
2 Jones."
3 There we go. Great.
4 Deanna, just because of the time, I'll
5 skip my comments on the index page. If you want to
6 hop right into Page 2 -- well, I'll kind of just
7 maybe highlight couple of the -- perfect, right
8 there.
9 So if you can see here, Trustee, you can
10 see -- Deanna, can you make that a little bit bigger
11 for them, please?
12 Great.
13 So you can see the total assets on a
14 preliminary basis. I think this is an all-time
15 high, and I would assume by now it's over $3
16 billion.
17 You can see total assets at the end of
18 March were about $2.9 billion. I guess I'm not
19 allowed to round it up to three because it's below
20 the 2.948, but certainly you will see here strong
21 results across the board.
22 You can see here moving left to right,
23 we're showing you 1 mo and 3 mo. Those stands for
24 the one-month returns, so that first column is the

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1 month of March.
2 The second column would be the period of
3 January 1st through 3/31, so the quarter, the first
4 quarter, the three-month return.
5 And then the 1yr, 3 yrs is one year
6 trailing, three year trailing, five year and ten
7 year.
8 Anything over a one-year is an annualized
9 return.
10 So I think I'll focus on the one-year
11 column because you'll see here in the three-month
12 we're not including private debt, private equity,
13 infrastructure.
14 Again, there is a lag on those
15 reportings, so we don't have the updated market
16 values for those.
17 What we just simply do is take the
18 previous final audited market value and then make
19 any cash flow adjustments that you've made, and then
20 we just roll over the market value.
21 So being it's preliminary, we just hide
22 those returns.
23 But you can see on a top-line basis on a
24 very preliminary basis for the quarter, the overall

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1 portfolio was up 2.6 percent.
2 I think maybe one thing to point out is
3 if you look at the overall equity portfolio for the
4 quarter, up 5.2 percent versus the benchmark of 4.6,
5 so a couple of things, very strong results.
6 We just think from the index itself --
7 that's the All Country World Index, which represents
8 the global equity opportunity set, so think US
9 developed, non-US, emerging.
10 So for the quarter, global equities were
11 up 4.6. Your portfolio was up 5.2 percent.
12 Take a look at the fixed income
13 portfolio. Your portfolio was down 2.7 percent
14 outperforming the Barc Agg Index, which was down
15 3.4 percent.
16 So the Barc Agg Index is an index that
17 represents the US investment-grade market, so think
18 investment-grade credit, Treasuries, mortgage-backed
19 securities, et cetera, all investment grade.
20 So you can see investment-grade fixed
21 income did not do well for the quarter.
22 If you look at the opportunistic credit
23 portfolio, however -- and, again, this is very
24 preliminary -- that portfolio was up 4.54 percent.

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1 So I point that out as, as you know, we
2 spent a lot of time in the asset liability study
3 talking about the role of traditional fixed income
4 given the low interest rate environment and the
5 expected low rates of return in that environment
6 over the next ten years.
7 So as you build out your opp credit
8 portfolio and your private debt portfolio, think
9 about those portfolios as being alternatives to
10 traditional fixed income.
11 The one-year return -- again, this is
12 preliminary because it does not include the first
13 quarter, so I expect this return to probably go up.
14 But you can see the one-year return of
15 your portfolio, up 31 percent.
16 Get your pens out, Tom and Mike, because
17 you know a year ago if you would have told me that
18 this fund was going to be up 31 percent, I would
19 have thought you were crazy.
20 If you think about where we were a year
21 ago to where we are today, it's just -- anyone who
22 tells you they thought the markets were going to be
23 this strong -- now, certainly, obviously, a lot has
24 transpired, right, with the rollout of the vaccines,

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1 the amount of stimulus that's been pumped into the
2 US economy and globally, but, more particularly here
3 in the US and the commitment to keep rates low.
4 There has been a lot of wind in the sails
5 of risk assets.
6 So you can see your total equity
7 portfolio for the trailing one year was up
8 59 percent versus the benchmark of 54.6 percent, so
9 really, really strong results not only on an
10 absolute basis but on a relative basis.
11 Your fixed income portfolio for the
12 trailing one year was up 4 percent versus the Barc
13 Agg Index of .7.
14 Now that's -- certainly, a 4 percent
15 return doesn't even come close to comparing to
16 59, but when you take a look at that relative
17 outperformance, that's big outperformance for a
18 fixed income portfolio when you see 4 percent versus
19 the index of .7.
20 And then you can see under your op credit
21 portfolio, up 36 per versus its benchmark of
22 22.2 percent, so really, really strong results.
23 And I use that terminology "risk asset,"
24 so think about equities and on the fixed income

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1 side, anything more credit oriented, corporate
2 credit, and particularly below investment, think
3 high yield, distressed-type credit. They're doing
4 really, really well.
5 The hedge fund, the private debt, the
6 private equity and the infrastructure are all
7 preliminary, so I think because they're preliminary,
8 for time's sake I'm not going to spend a lot of
9 time.
10 Maybe I'll point out a couple of things
11 before I end my comments.
12 Deanna, if you can maybe turn to Page 3.
13 So if you look at the overall domestic
14 equity portfolio, we talked about the overall total
15 equity portfolio being up 59 percent for the one
16 year; your US equity portfolio, up 66.12 percent,
17 significantly outperforming the Russell 3000 Index
18 of 62.53 percent.
19 If you look at your SMID cap portfolio,
20 so that small-to-mid cap which comprises William
21 Blair and Ariel, although you just funded Ariel so
22 there's not a lot of performance here for Ariel,
23 that portfolio was up 70.18 percent.
24 Now, that portfolio did underperform the

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1 benchmark of the one year because, obviously, you
2 had terminated an underperforming manager.
3 Look at the microcap portfolio, 135.01
4 percent versus the benchmark of 120.33 percent.
5 So if you just think about the one-year
6 results in equities, microcap, which is the riskiest
7 part of this overall portfolio, up 135 percent,
8 followed by SMID cap, which was up 70 percent, and
9 hen large cap, up about 59 percent, so really,
10 really strong results across the portfolio.
11 And if we move in the non-US equity
12 portfolio on the next page, Deanna, please, you will
13 see that your overall non-US equity portfolio was up
14 58.3 percent versus it's benchmark of 49.41, so not
15 as strong as the US market, but on a relative basis
16 big, big outperformance.
17 In your developed international equity
18 portfolio, so think, you know Europe, primarily
19 Europe, up 56 percent versus the benchmark of 49.41.
20 Emerging markets up 64.4 versus its
21 benchmark of 59.39, so really strong.
22 And your non-US equity portfolio --
23 listen, I can't sit here and say a 58 percent rate
24 of return is not good. Obviously, it underperformed

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1 the US portfolio on an absolute basis, but the
2 strength of your managers over the last one year --
3 just take a look at that significant
4 outperformance -- was really, really strong.
5 And, again, I guess I'll go back -- you
6 know, Deanna, maybe just go back to Page 3 to say
7 that 31.05 percent return, once we get all the
8 private debt, private equity and private real estate
9 numbers in, I suspect that number will increase.
10 But particularly we've seen private
11 equity and private debt really rally from where it
12 was in kind of the middle of last year.
13 Because of that quarter lag methodology,
14 I think about it, we're still only seeing 9/30
15 market values, and what we've seen on a very
16 preliminary basis from private equity and private
17 debt managers through December is those numbers
18 increased pretty substantially.
19 So, again, I think that 31 percent will
20 increase once we get all of those final numbers in.
21 So really, really good results for the
22 overall portfolio. You know, certainly historic if
23 you think about it.
24 I've been doing this for thirty years. I

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1 don't think I've ever told a board that they had a
2 manager that was up 135 percent on a twelve-month
3 period of time.
4 I think, certainly, a lot of good news,
5 you know, from a recovery standpoint, but there's
6 still a lot of risk out there.
7 And, certainly, you know, we can talk
8 more about that maybe next month.
9 So I will stop and pause there and see if
10 there are any concerns or comments.
11 TRUSTEE SKARDON: At least Tom gets a pat on
12 the back for the 135 percent return from the
13 microcap, right?
14 TRUSTEE LAPPE: Good job, Tom.
15 MR. LEONARD: Really, really good results.
16 I think again, given all of the stimulus
17 and given sort of the continued, quote, recovery, I
18 think we continue to believe that risk assets should
19 continue to do well.
20 I certainly think we'll start seeing some
21 of these returns come down a little bit, but we
22 think risk assets should continue to significantly
23 outperform fixed income.
24 And those are all of the official