

FUNDAMENTALS

IMRF

ACTIVE MEMBER UNDER 40 EDITION

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Staying the course in a volatile market

No matter what turns the market takes, IMRF's long-term investment strategy ensures our financial health by balancing risk and reward.

Investment returns down in 2018

2018 was an unusually rocky year for investments. The markets seesawed between enthusiasm and caution, sometimes swinging as much as 1,000 points in a single session. Then, at year's end, prices dropped sharply across many broad asset classes amid trade tensions and inflation concerns.

"The S&P 500 and the Dow Jones Industrial Averages were both down 5% and 6%," said IMRF Executive Director Brian Collins. "We were down right along with them, about 4.4%."

By year's end, the IMRF total portfolio had fallen by \$1.76 billion to \$38.8 billion. However, during the first two months of 2019, the portfolio bounced back by \$2.2 billion to close at \$41 billion at the end of May.

"So it's not all bad news," Collins said. "We are still among the best-funded public pension funds in the country, at 90%."

Investing for the long haul

As a long-term investor, IMRF's investment approach is about making strong returns over time rather than responding to short-term market ups and downs.

For example, during the 2008 stock market crash, IMRF's portfolio saw losses of 24%. Knowing that downturns in the market are followed by upturns, IMRF weathered the tough times and stayed invested. The following year, IMRF's investments earned more than 24%.

By contrast, many individuals panicked and sold their investments at a loss, then

missed the upturn in the markets. If IMRF had done the same, we would have locked in those losses rather than benefiting from later market gains.

In March 2019, Bloomberg reported that losses during a bear market average 28%. By comparison, gains during a bull market average 129%. Selling off investments when times get tough means missing out on much larger gains when the market recovers.

A diverse investment portfolio

Diversification in investments is essential for guarding against market fluctuations and balancing high returns with reduced risk. Even if one asset class is underperforming at a given time, others will compensate for the loss. This strategy guards against excessive losses over the long term.

To mitigate risk while maximizing return, IMRF invests in a wide range of equities both domestic and international. Additionally, our position as a long-term institutional investor offers investment opportunities an individual investor couldn't afford to pursue.

"We are still among the best-funded public pension funds in the country, at 90%."

—Brian Collins, IMRF Executive Director

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Staying the course in a volatile market

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In recent years, IMRF has made it a priority to increase our investment allocation in illiquid but profitable asset classes like private equity and real estate. IMRF's alternative assets also include agriculture holdings. We invest in vineyards and timberland as well as food products like pistachios and walnuts. These investments make the most of our long-term time horizon and the world's expanding population.

Expanding investments

During IMRF's early history, the law restricted the investments of public sector pension funds primarily to bonds and government securities to limit risk. This investment restriction sharply limited IMRF's investment income to around 2-1/2% to 3% annually.

Back then, the Board of Trustees decided on individual shares of bonds and stocks

to purchase. IMRF hired consultants but did not do business with any investment firms.

In 1982, public sector pension funds, including IMRF, gained the ability to invest largely without restriction. This change allowed the pension funds to make any investment that a prudent person would make. They could also hire money managers bound to the same standards as the fund.

At first, IMRF hired just a few managers. But the growth of IMRF's assets demanded that our investment management become more sophisticated.

Today the search casts a far wider net. IMRF staff researches managers with the aid of databases. They solicit bids from potential managers, customizing each search to the asset class under

management (fixed income, equity, private markets, etc.). Then, they narrow down the list through interviews and office visits. Finally, they present a manager to the Board, which votes on whether to hire them.

IMRF now partners with about 90 investment firms to invest our assets.

Looking ahead

As IMRF looks to the future, we will continue to look for the best ways to invest our capital. Sometimes that means exploring new strategies and asset classes. Sometimes that means fine-tuning existing practices. Every investment decision will be guided by our vision statement: "To provide the highest quality retirement services to our members, their beneficiaries and employers." ■

Member Access

LETS YOU SAFELY & EASILY...



Protect your loved ones by updating your IMRF beneficiaries



Sign up for a "Your Glass is Half Full" workshop to learn about your benefits



File for IMRF disability or apply to reinstate past service



Ask us a question day or night and hear back in 48 hours



Estimate your future IMRF pension



Make sure your IMRF contributions were reported correctly

...AND SO MUCH MORE!

Sign up today at www.imrf.org! Look for the green box in the upper right corner and click "Register" to begin.

Board of Trustees

Reminder: Trustee election this fall

Active members like you will elect one Employee Trustee for a five-year term, which will run from January 1, 2020, through December 31, 2024.

If there is more than one candidate for Employee Trustee, you will receive a ballot this fall. It will arrive in an envelope with your fourth quarter issue of *Fundamentals*, which will include voting procedures and candidate biographies. If there is only one candidate, the Board will confirm that candidate as your new Trustee.

Interested in running for Trustee? You must:

- Be vested in IMRF as of December 31, 2019;
- Gather at least 350 signatures from those who participated in IMRF during July 2019; and
- Submit your nominating petition by September 16, 2019, 4:30 PM CST.

Visit www.imrf.org/en/about-imrf/board-of-trustees/2019-board-elections to learn more about running for Trustee and to download the materials you'll need.

IMRF stays strong despite tough market

Although 2018 was a rough year for the stock market and our investment portfolio, IMRF remains one of the nation's best-funded retirement systems.

INVESTMENTS

IMRF's investment portfolio was valued at \$38.5 billion on December 31, 2018.

The portfolio lost 4.41% after investment management fees during 2018, decreasing the value of the portfolio by \$2.7 billion from December 31, 2017.

Investors' appetite for risk, while elevated for much of 2018, evaporated as the year drew to a close and wiped out positive returns for the year across many broad assets classes.

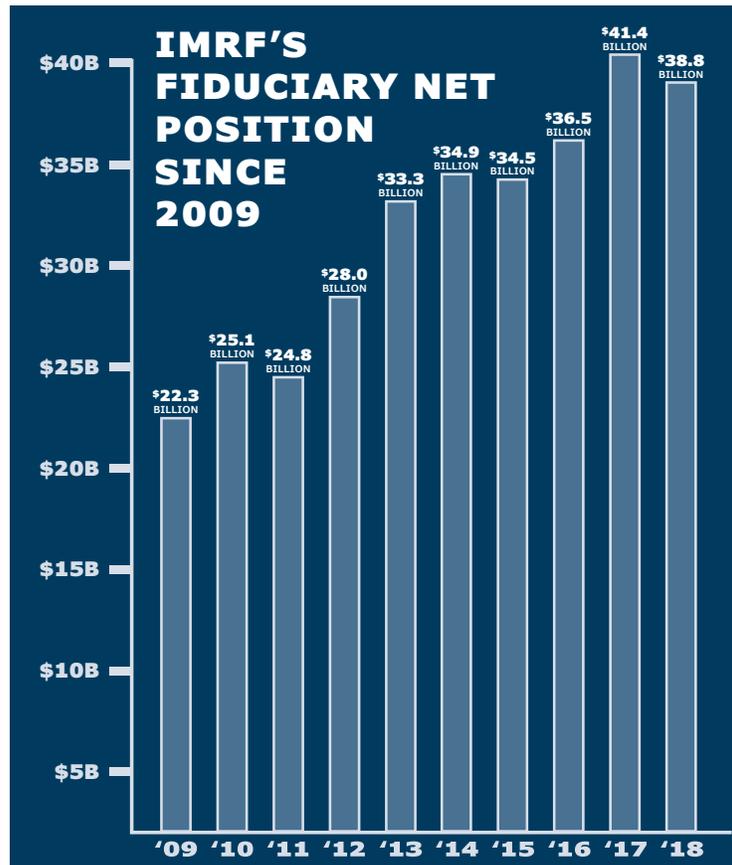
IMRF's domestic equity portfolio lost 6.3% after fees while the international equity portfolio lost 14.4% after fees in 2018. Conversely, IMRF's real estate portfolio returned 8.4% after fees and the alternative investments portfolio returned 17.1% after fees in 2018.

IMRF's long-term goal is to earn an annualized total fund return greater than the assumed rate of return, after investment management fees. While IMRF did not achieve this goal in 2018, IMRF does achieve its investment return goal over longer time horizons.

FUNDING STATUS

IMRF's funding status is a key indicator of our overall financial health. It reflects the percentage of benefit promises that IMRF has assets to pay. IMRF strives toward 100% funding because it guarantees that the system can meet its obligations and is most cost effective for taxpayers.

As of December 31, 2018, IMRF was 90% funded on an actuarial basis. IMRF's actuarial funding status is determined by independent actuaries using a "smoothing" technique that recognizes investment gains and losses over a five-year period. The actuarial funding status is used to set IMRF contribution rates for participating units of government.



FIDUCIARY NET POSITION

IMRF's fiduciary net position—total assets and deferred outflow of resources minus liabilities and deferred inflow of resources—was \$38.8 billion as of December 31, 2018. This was a decrease of \$2.6 billion, or about 6.3%, from 2017. The decrease reflects the decline in investment returns in 2018.

IMRF's financial position remains strong. With 74% growth from 2009 to 2018—an addition of \$16.5 billion—IMRF will continue to provide secure and stable retirements for thousands of public employees in Illinois long into the future. ■

Excerpted from our 2018 Popular Annual Financial Report. See the full report at www.imrf.org/2018PAFR.



PRESORTED STANDARD
U.S. POSTAGE PAID
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RETIREMENT FUND

IMRF

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2211 York Road
Oak Brook, IL 60523-2337

Locally funded, financially sound.

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FUNDAMENTALS

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**Your Glass is Half Full:
Understanding Your IMRF Benefits**

At this two-hour workshop for young and new members, an IMRF Field Representative will explain:

- The terrific savings opportunity of IMRF's Voluntary Additional Contributions (VAC) program
- How IMRF disability benefits can protect your income
- How buying back refunded IMRF service credit could increase your future pension

...and other ways IMRF can benefit you right now!

2019 Workshop Dates & Locations

	DATE	LOCATION	STARTS AT
SEP	9/03 (Tue)	Joliet	1 PM
	9/05 (Thu)	Springfield	5 PM
	9/17 (Tue)	Oak Park	5 PM
	9/17 (Tue)	Peoria	6 PM
OCT	10/01 (Tue)	Naperville	6 PM
DEC	12/03 (Tue)	Gurnee	6 PM

Visit www.imrf.org/glass-half-full for the most current list of workshops. If you have a Member Access account, you can register online! If not, call IMRF at 1-800-ASK-IMRF (275-4673).