FUNDAMENTALS

IMRF

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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 $2.8 billion to close at $41.5 billion at the end of February.

"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 these 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.

In recent years, IMRF has made it a

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> "We are still among the best-funded public pension funds in the country, at 90%."
> *—Brian Collins, IMRF Executive Director*

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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 in order 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 or not 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 Pre-Retirement Workshop and learn more about your benefits.
- Update your tax withholding, direct deposit, and beneficiary information.
- Estimate your future IMRF pension.
- Make sure your IMRF contributions were reported correctly.
- Apply for a refund of your IMRF contributions.

...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.

IMRF reduces assumed rate of return—what this means for members

In December 2018, the IMRF Board of Trustees reduced the return it assumes that IMRF will earn on its investments from 7.5% to 7.25%. How does the change affect IMRF members?

The change DOES affect interest on IMRF Voluntary Additional Contributions (VAC).

Interest paid on VAC is linked to the IMRF assumed rate of return. A decrease to the assumed rate of return also lowers the rate of interest earned on VAC.

IMRF credits VAC interest on December 31 each year, based on the VAC in the member's account on January 1 of the same year. Interest credited on December 31, 2018, was 7.5%. Due to the change, interest credited on December 31, 2019, will be 7.25%. If the IMRF assumed rate of return changes again in the future, the VAC interest rate will change as well.

The change DOES affect interest on member contribution refunds paid either at retirement or as death benefits.

Member contributions may be refunded with interest in certain circumstances at retirement, or they may be refunded with interest in certain circumstances in the form of death benefits. In these instances, the rate of interest paid will be affected. In the vast majority of IMRF retirements, member contributions are not refunded but returned to members through pension payments.

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.

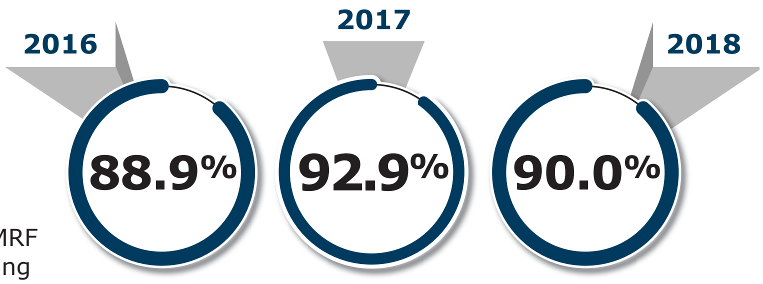
The portfolio lost 4.41% after investment management fees during 2018, decreasing the value of the portfolio by $2.7 billion from December 31, 2017.

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.

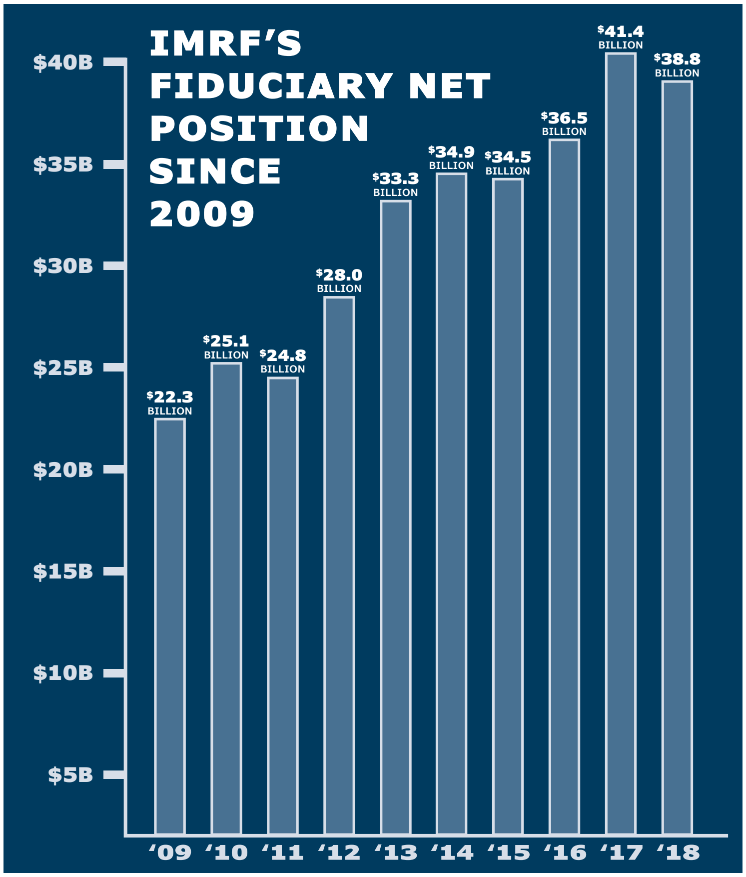
IMRF's long-term goal is to earn an annualized total fund return greater than the assumed rate of return, after investment management fees. While IMRF did not achieve this goal in 2018, IMRF does achieve its investment return goal over longer time horizons.

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.

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FUNDAMENTALS

is published once a year for inactive members of IMRF.

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Don't leave money on the table!

You might think it is better to wait until age 60 or 62 to start your IMRF pension. But in most cases, you will end up losing money by waiting.

IMRF urges you to apply for your pension now if you are an inactive Tier 1 member who is:

- Vested
- At least age 55
- Not working for a reciprocal system

The earlier you start taking your pension, the more total payments you will receive.

If you are between 55-60:

Your pension will be reduced since you are under age 60. However, you will receive more total payments by starting earlier.

You will get more money over time, even with the reduced amount. The longer you wait, the more payments you will miss out on.

If you are at least 60:

You have reached full IMRF retirement age. Your pension probably won't increase if you wait until age 62 or later.

IMRF's rules are not the same as Social Security's. You will miss out on years of monthly payments if you wait to apply.

Visit **www.imrf.org** or call 1-800-ASK-IMRF (275-4673) if you have any questions.