



ILLINOIS POLICE OFFICERS' PENSION INVESTMENT FUND

MARCH 2024 NEWSLETTER

Illinois Police Officers' Pension Investment Fund Adding Active Management to Emerging Market Portfolios

During its March 8, 2024, meeting, the Board of Trustees of the Illinois Police Officers' Pension Investment Fund (IPOPIF), approved a search for an active investment manager for emerging markets debt (EMD) investments. Manager interviews and selection are targeted for the September 13, 2024, board meeting.

Emerging markets debt is an asset class that provides attractive yield and diversified income comparable to high yield and bank loans. It provides high-income potential from a wide range of developing countries and regions with less correlation to equities and bonds.

IPOPIF staff recommended a structure of 1.5% allocation equating to approximately \$150 million, to a single active blended manager with the remainder allocated to the current passive SSgA Emerging Markets Debt strategy.

The Request for Proposal (RFP) is available on the IPOPIF website by clicking [here](#).

In a related initiative, IPOPIF investment staff and Verus, its investment consultant, are evaluating emerging market equity (EME) as the next asset class for a search. Anticipating a search request for EME active management to be presented at the June 2024 Board meeting, Verus presented a comprehensive overview of the asset class and answered questions from the Board.

During the presentation, Verus explained that the case for investing in EME has been driven by emerging countries continuing to open their financial markets to foreign investors and the desire by foreign investors to access markets with faster economic growth and favorable demographics.

Investment Performance

Verus presented an [Investment Performance Review Report](#) that provided detailed observations and analysis of the investment landscape and IPOPIF investment performance through December 31, 2023.

The Executive Summary of the report noted:

- Total assets grew from \$9.2 billion to just over \$10.0 billion through the end of the fourth quarter of 2023, responding to a strong market environment across most asset classes.
- The market reacted favorably to a continued steady decline in inflation, as the Fed softened its language regarding the prospect of future interest rate moves. This, combined with strong fundamentals, such as continued economic growth, labor market stability, and consumer resilience

led to higher prices in risk assets. The S&P 500 returned 11.7% in the fourth quarter, and the Bloomberg U.S. Aggregate Bond Index returned 6.8%.

- The IPOPIF Investment Portfolio returned 8.8% for the quarter, slightly behind the Policy Benchmark return of 9.0%. This was the result of a modest underweight to equity relative to policy (56.4% vs. 58.0% at quarter-end) in a strong equity environment. The same is true for underperformance relative to the Broad Benchmark (70% global stocks, 30% global bonds), which returned 10.3% for the quarter.
- Since its inception in April 2022, the IPOPIF Portfolio has returned 2.3% through the end of the fourth quarter, in line with the Policy Index and meaningfully ahead of the Broad-Based Index of 1.4%.

The IPOPIF portfolio performance ranked in the sixth percentile relative to a representative universe of public pensions with assets greater than \$1 billion for the quarter. Like similarly strong rankings in previous quarters, the favorable ranking in the fourth quarter continues to be attributable to a relatively high public markets equity allocation relative to peers.

The fund was up an additional 1.8% for the first two months of 2024. Total fund value stood at \$10.3 billion as of March 26.

The Verus preliminary monthly investment reports can be found [here](#) and final quarterly investment performance reports are available [here](#).

Strategic Asset Allocation Review

As stated by IPOPIF's Chief Investment Officer Kent Custer, strategic asset allocation (SAA) is, by far, the greatest determinant of long-term investment performance and thus the most crucial decision set for the investment program. In recent months, staff and Verus dedicated considerable time and resources to reviewing the global capital markets, identifying, and researching IPOPIF SAA issues and opportunities. Although there have been substantial changes in the investment markets, the IPOPIF SAA remains robust. Modest adjustments, as follows, were recommended by staff and Verus and approved by the Board:

- Move 1% from Emerging Markets Equity (7% to 6%) to International Developed Equity (18% to 19%) for Interim and Long-term allocation. This small adjustment will bring IPOPIF EME exposure in line with the global stock universe.
- Move 3% long-term core plus bond allocation to core bonds. This structural move will maintain core bond exposure in a passive index fund.
- Change the Composite roll-up structure to eliminate the "Inflation Protection" category in favor of the "Real Assets" category.
- Separate the 8% long-term allocation to Real Estate/Infrastructure into 5% Real Estate and 3% infrastructure.
- Move Treasury Inflation Protection Securities (TIPS) to the "Risk Mitigation" asset class category.

2024 Transition Planning

As noted in last month's newsletter, 24 Article 3 local police pension funds have not yet transferred investment assets to IPOPIF. On February 9, 2024, the IPOPIF Board approved a transition plan with a single transfer date of October 1, 2024, for the remaining funds. Since then, the IPOPIF staff have been

busy taking steps to ensure a smooth transition this fall. Executive staff prepared documents and communications regarding the transition process with a notification package distributed to the twenty-four funds this month. An immediate goal was to ensure that the Boards of Trustees of all these Article 3 funds complete the following actions during second-quarter meetings:

- Appoint Authorized Agents.
- Appoint Account Representatives (for cash mgt)
- Adopt local cash management policy (optional).

Transferring funds are encouraged to contact IPOPIF staff at info@ipopif.org or 309-280-6464 with any questions regarding the transfer process.

Stakeholder Meeting

IPOPIF's fourth Stakeholder Meeting is set for May 8, 2024, at 1 pm in conjunction with the [Illinois Public Pension Fund Association's \(IPPFA\) 2024 Illinois Pension Conference in Galena, IL](#). Attendees will hear presentations from Executive Director Richard White, Chief Investment Officer Kent Custer and Chief Financial Officer Regina Tuczak. Topics to be covered span the mission and values of IPOPIF to investment policy to a current financial overview of the fund. Those interested in attending must be registered attendees of the IPPFA conference.

What's Ahead

As noted above, the Board and staff of IPOPIF will be busy in the coming months working on the diversification of the investment portfolio and executing the transition of assets from 24 local police pension funds.

As the consolidated asset pool that exists for the exclusive purpose of protecting and investing the assets of the pension funds covering police officers serving and protecting all downstate and suburban Illinois municipalities, always feel free to reach out to us at info@ipopif.org.

As noted in previous newsletters and above, key investment information is posted to the IPOPIF website and is reviewed and discussed at the IPOPIF Board meetings which are open to the public and available via Zoom. Check for meeting dates and times [here](#). The link to the Zoom call is included in the [meeting agendas](#) which also are posted on our website.

Links to Key Resources

- [Monthly statement overview](#)
- [Monthly financial reports](#)
- [Monthly and quarterly investment reports](#)
- [Meeting Calendar](#)