



# ILLINOIS POLICE OFFICERS' PENSION INVESTMENT FUND

## FEBRUARY 2024 NEWSLETTER

### **Illinois Supreme Court Affirms the Constitutionality of Public Act 101-0610 *Legislation Established the Illinois Police Officers' Pension Investment Fund***

On Friday, January 19, 2024, the Illinois Supreme Court affirmed the constitutionality of Public Act 101-0610, which provided for the mandatory consolidation of the investment assets of the state's public safety pension funds into two investment funds, the Illinois Police Officers Pension Investment Fund (IPOPIF) and one for firefighters, the Illinois Firefighters Pension Investment Fund (IFPIF).

To date, 333 of the 357 Article 3 police pension funds have transferred approximately \$8.9 billion in assets to the IPOPIF consolidated fund. Twenty-four 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. The October date allows time for communication and Article 3 Board actions (e.g. appointing Authorized Agents, Cash Management), provides economies of scale, and minimizes cost and risk. Article 3 funds that have yet to be transitioned can expect communications forthcoming regarding the steps needed to be taken in the interim. Once those transfers are completed, the IPOPIF consolidated fund is expected to exceed \$11 billion in assets under management.

### **IPOPIF Continues to Diversify the Investment Portfolio**

At its February 9, 2024, meeting the Board of Trustees of the IPOPIF approved investments in the Ares Management LLC's Ares Institutional Loan Fund and the Aristotle Pacific Capital, LLC's PAM Bank Loan Fund LP. Both of the firms were recommended by the IPOPIF investment team and consultant, Verus. While the two strategies displayed similar performance history, their method of achieving success differs significantly providing the potential for performance diversification.

The Board agreed to allocate 2.0% of the total portfolio to the Aristotle Bank Loan Fund and 1.0% to the Ares Institutional Loan Fund. Together the allocations equate to roughly \$300 million of IPOPIF's current total fund size of \$10 billion. Funding for the bank loan strategies will come from a passive high-yield debt fund which has a current allocation of 10% and a long-term allocation of 3%. These new investments will provide portfolio diversification while modestly reducing interest rate risk.



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**Investment Performance**

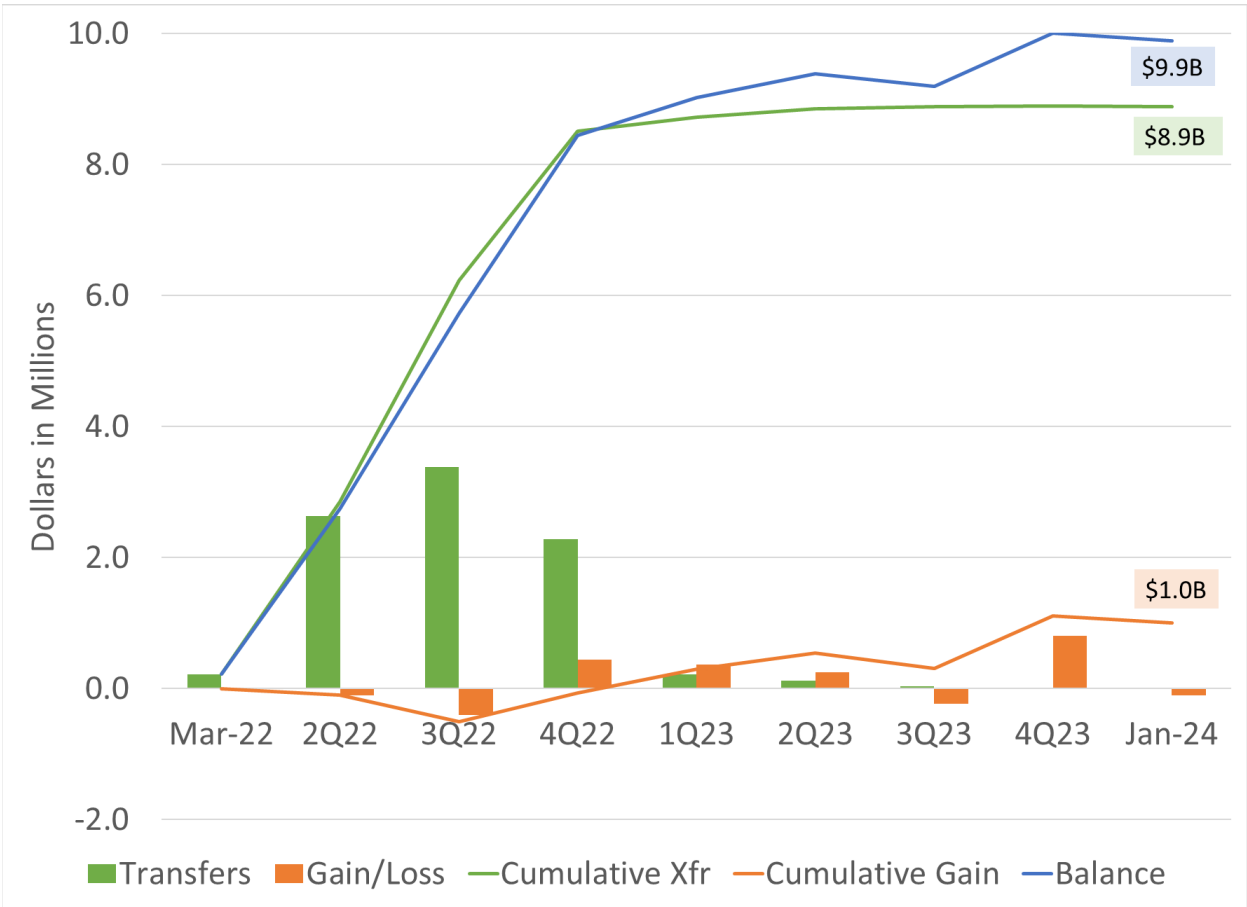
The Verus preliminary investment performance report as of January 31, 2024, can be found [here](#) and final quarterly investment performance reports are available [here](#).

The IPOPIF Investment portfolio is up 5.7% in FY24 to date (7/1/23 – 1/31/24), which slightly lags the Policy Index (+6.0%), related to transitioning to increased equity exposure. Large-cap US Equities are leading the charge (+9.9%) while emerging market equity (-0.6%) and private real estate (-6.0%) have struggled recently.

While pleased with the strong returns from US Equities, we note that valuation metrics are relatively high, and we would not be surprised to see a period of moderation and consolidation.

**IPOPIF Fund Growth**

The following exhibit displays the growth of the IPOPIF Fund since the initiation of asset transfers in March 2022.





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## **Investment Policy Review**

The IPOPIF Board of Trustees reviewed the [Investment Policy Statement](#) at the February 9, 2024, meeting and approved minor revisions as proposed by investment staff, consultant, and legal counsel. The policy is required to be reviewed annually by the Board. A copy of the investment policy is available for review on the IPOPIF website.

## **Certified Public Accounting Firms Hired to Audit Article 3 Funds**

Per approval by the Board of Trustees at its October 13, 2023, meeting, a Request for Proposals (RFP) for independent certified public accounting (CPA) firms to conduct Agreed Upon Procedures of police pension funds established under Article 3 of the Illinois Pension Code was issued on Monday, October 16th, and posted on the Fund's website. Subsequent to posting, an email was sent to representatives of 16 independent certified public accounting firms inviting their respective firms to respond to the RFP.

Selection of the 16 firms included all Illinois Government Finance Officers Association (IGFOA) member firms and firms that perform year-end audit services for Illinois pension funds established under 40 ILCS 5. In response to the RFP, four proposals were received from quality firms. This is the first time that IPOPIF is engaging independent CPA firms to perform these procedures. Before the transfer of the investment assets of each Article 3 Fund to IPOPIF, the Illinois Department of Insurance had the sole responsibility for completing these procedures.

At its February 9, 2024, meeting the IPOPIF board heard presentations from four firms and hired RSM US LLP, Lauterbach & Amen, LLP, and Kerber, Eck & Braeckel. Legal reviews of each firm's engagement letters are underway. Once letters of engagement are executed, discussions amongst the firms, the IDOI, and IPOPIF staff will begin. It is anticipated that all firms will be utilizing similar procedures, scoping methodology, and reporting formats. To ensure that Agreed Upon Procedures commence by May 1, 2024, well before the end of the fiscal year for the State of Illinois, communication to the first group of Article 3 Funds is targeted for April 1.

## **Stakeholder Meeting**

IPOPIF staged our third Stakeholder Meeting on February 21 in Naperville. More than 25 active members, beneficiaries, elected and appointed government officials attended and heard presentations from Executive Director Richard White, Chief Investment Officer Kent Custer, and Chief Financial Officer Regina Tuczak. Topics covered ranged from the mission and values of IPOPIF to investment policy to a financial overview of the fund.



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## What's Ahead

Following Board education in January, we anticipate a search request for an active Emerging Market Debt Manager at the March Board meeting. Additionally, we are planning to review the asset allocation and conduct education regarding emerging market equities.

As has been the case since our inception, the IPOPIF team will remain a transparent, trusted, and financially responsible steward of the pension assets entrusted to our care, and we will diligently serve all our stakeholders. We are laser-focused on investment excellence, which means achieving the best risk-adjusted returns possible through the prudent investment of contributions and investment income.

As noted in previous newsletters, 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.

If you have any questions, please feel free to reach out to us at [info@ipopif.org](mailto:info@ipopif.org).

## Links to Key Resources

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