



# **Illinois Police Officers' Pension Investment Fund**

## **Investment Update**

July 19, 2024

# Performance Update

	1Q24	Apr 2024	May 2024	FYTD 7/23 – 5/24	YTD 1/24 – 5/24
IPOPIF Pool	+4.1%	-2.6%	+2.9%	10.8%	4.4%
Policy Benchmark	+4.2%	-2.5%	+2.9%	11.0%	4.5%
Broad Benchmark	+4.8%	-3.1%	+3.2%	11.6%	4.8%
Actuarial Assumption (fiscal year)				+6.8%	

- IPOPIF Performance is net of fees.
- Policy Benchmark – Weighted average of asset class benchmarks; gauges success of implementation (currently less stock exposure than the broad benchmark).
- Broad Benchmark – 70/30 global stocks/bonds; gauges success of asset allocation.
- Returns for periods longer than one year are annualized.
- IPOPIF Actuarial Assumed Rate of Return is 6.8% per year.

June 2024 – Preliminary data indicates that the Fund was up approximately 0.9% in June which would increase FY24 performance (July 2023 – June 2024) to 11.7%.

# Performance Commentary

- Prior trends continued in May and June with strong equity returns and respectable contributions from credit and risk mitigation asset classes.
- The largest of the US stocks continue to dominate earnings growth and valuation expansion (higher price to earnings) have magnified returns.
- IPOPIF took advantage of the Russell 1000 index reconstitution on June 28 to trim US large cap gains and top off international equity and US TIPS.
- Recent allocation adjustments have been beneficial as EME ex China and US Treasuries outperformed EME and Short-Term Debt, respectively.
- Initial active manager contributions have been mixed but positive overall; +\$4.7 million net of \$1.4 million of fees.
- Participant fund aggregate net cash flows appear to be stabilizing at near zero.

# Funding and Rebalancing

Date	Account	Flow \$ mil	Trading Cost \$
25-Jun	Short Term Bonds	-92	-2,464
25-Jun	US Treasury	+110	-5,003
25-Jun	Non-US Developed	+48	0
25-Jun	US TIPS	+29	0
28-Jun	EME	-100	0
28-Jun	EME ex China	+100	-3,439
28-Jun	Rhumblin US Large	-74	-6,921
28-Jun	Rhumblin US Small	+0	-22,558

- Recent allocation adjustments have been beneficial as EME ex China and US Treasuries outperformed EME and Short-Term Debt, respectively.

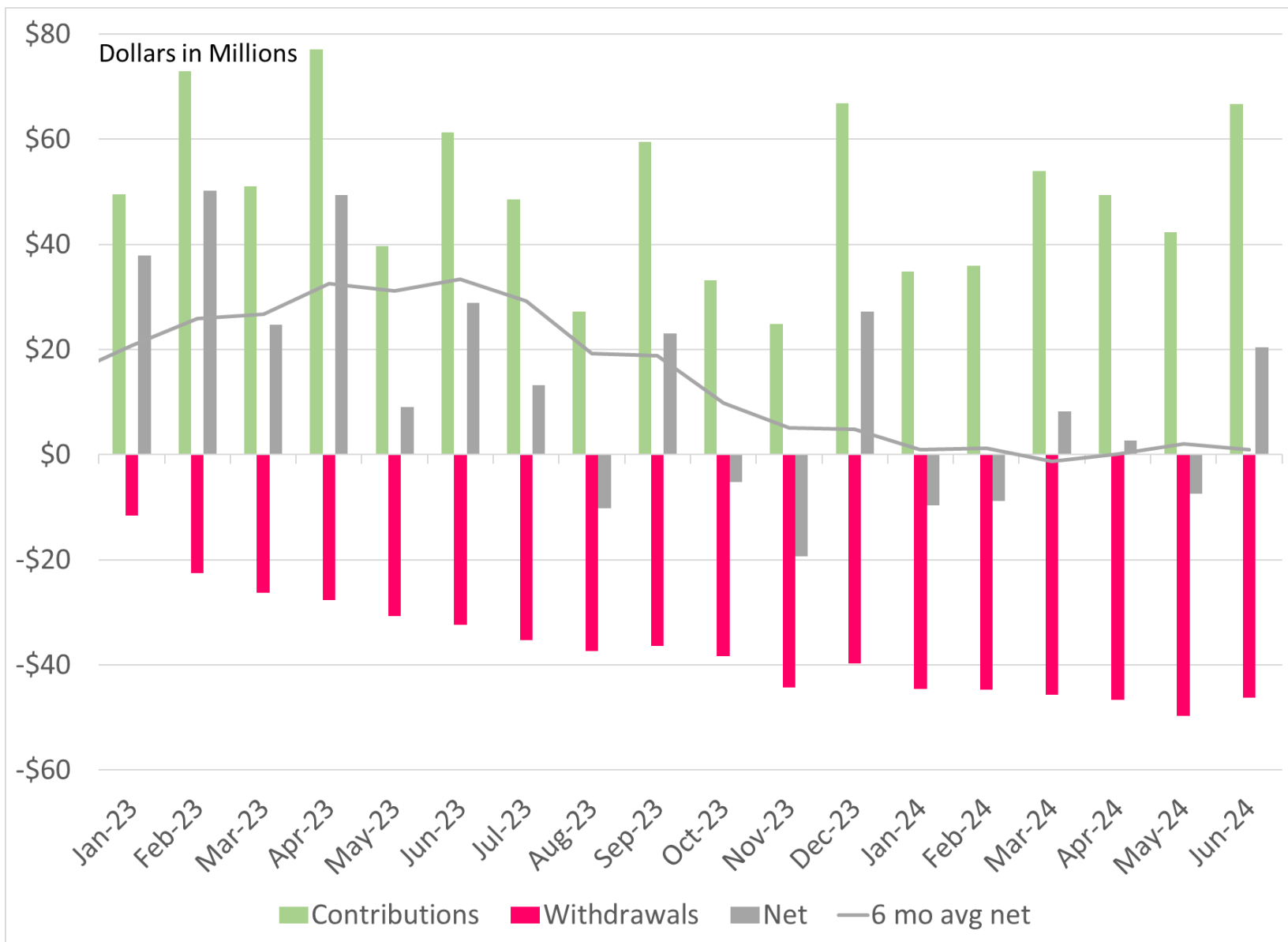
- The new 3% allocation to US Treasury Bonds was funded gradually from Short term bonds and is now complete.
- The new Emerging Market Equity (EME) ex China index fund is being funded gradually from the existing EME fund and will continue in 3Q24.
- Rhumblin activity was related to the annual Russell index reconstitution on June 28th.

IPOPIF/SSGA % Returns	May	June	May- June
EME	1.5	3.4	5.0
EME ex China	-0.2	5.8	5.6
ST Debt	0.7	0.6	1.3
UST	1.5	1.0	2.5

# Asset Allocation 7/18/24

Account	Current		Target		Variance	
	\$M	%	\$M	%	\$M	%
<b>Growth</b>	<b>6,281</b>	<b>58.3%</b>	<b>6,247</b>	<b>58.0%</b>	<b>34</b>	<b>0.3%</b>
RhumbLine US Large	2,463	22.9%	2,477	23.0%	(15)	-0.1%
RhumbLine US Small	561	5.2%	539	5.0%	23	0.2%
SSGA Non-US Developed	2,063	19.2%	2,046	19.0%	17	0.2%
Intl. Small Cap (3 mgrs)	531	4.9%	539	5.0%	(8)	-0.1%
Acadian	275	2.6%	269	2.5%	6	0.1%
LSV (1 day lag)	132	1.2%	135	1.25%	(2)	0.0%
WCM (monthly)	123	1.1%	135	1.25%	(11)	-0.1%
EM Equity	663	6.0%	646	6.0%	17	0.0%
SSGA EM Equity ex China	318	3.0%	323	3.0%	(5)	0.0%
SSGA EM Equity	345	3.2%	323	3.0%	22	0.2%
<b>Income</b>	<b>1,679</b>	<b>15.6%</b>	<b>1,723</b>	<b>16.0%</b>	<b>(44)</b>	<b>-0.4%</b>
SSGA High Yield	738	6.9%	754	7.0%	(16)	-0.1%
SSGA EM Debt	634	5.9%	646	6.0%	(12)	-0.1%
Bank Loans (2 mgrs)	307	2.8%	323	3.0%	(16)	-0.2%
Ares (monthly)	102	1.0%	108	1.0%	(5)	0.0%
Aristotle (monthly)	204	1.9%	215	2.0%	(11)	-0.1%
<b>Real Assets</b>	<b>607</b>	<b>5.6%</b>	<b>646</b>	<b>6.0%</b>	<b>(40)</b>	<b>-0.4%</b>
SSGA REITS	449	4.2%	431	4.0%	18	0.2%
PRINCIPAL USPA	158	1.5%	215	2.0%	(57)	-0.5%
<b>Risk Mitigation</b>	<b>2,204</b>	<b>20.5%</b>	<b>2,154</b>	<b>20.0%</b>	<b>50</b>	<b>0.5%</b>
Cash Accounts	168	1.6%	108	1.0%	60	0.6%
SSGA ST GOV-CREDIT	1,057	9.8%	1,077	10.0%	(21)	-0.2%
SSGA TIPS	317	2.9%	323	3.0%	(6)	-0.1%
SSGA US TREASURY	317	2.9%	323	3.0%	(6)	-0.1%
SSGA CORE BONDS	346	3.2%	323	3.0%	22	0.2%
Transition account	0.103	0.0%	-	0.0%	0	0.0%
<b>Total Investment Pool</b>	<b>10,771</b>	<b>100.0%</b>	<b>10,771</b>	<b>100.0%</b>	<b>(0)</b>	<b>0.0%</b>

# Monthly Participant Fund Cash Flow



# Current RFPs

- The Emerging Market Debt (EMD) manager search is proceeding on plan. Semifinalist interview with Staff and Verus were conducted on July 11 and 12. Board interviews and selection are planned for the September Board meeting.
- The Emerging Market Equity (EME) ex China manager search is underway. We are seeing robust manager engagement on the inHub RFP platform. Proposals are due by August 16th. Final interviews and selection are targeted for the October 18 Board meeting.

# Looking forward

- July 2024
  - Private Credit Search Request
  - Special Investment Principles
- September 2024
  - EMD finalist interviews and selection
  - Private equity strategic plan and search request
  - Real Estate/Principal US Property review
- October 2024
  - EME ex China finalist interviews selection
- December 2024
  - Private credit finalist interviews and selection
  - US Small Cap search request
  - Custodian review
- January 2025
  - IPS and SAA review
- March 2025
  - IPS and SAA adoption
  - International small cap manager reviews
  - Consultant review
- April 2025
  - Bank loan manager reviews
- June 2025
  - US Small cap finalist interviews and selection
  - Passive manager reviews
- TBD
  - High Yield Search
  - Real assets strategic plan and search
  - Large cap equity structure review (active manager potential)

For discussion and planning purposes. Subject to revision.



# Manager Tracking Error as March 2024

Return and tracking error information is provided below to supplement the passive manager review conducted at the June Board meeting.

<b>RHUMBLINE US LARGE</b>	1 year	2 years	Since Inc.
Net Return	29.82	8.93	8.93
Benchmark Return	29.87	9.07	9.07
Excess Return	-0.05	-0.14	-0.14
Tracking Error	0.05	0.14	0.14

<b>RHUMBLINE US SMALL</b>			
Net Return	19.58	2.66	2.66
Benchmark Return	19.71	2.87	2.87
Excess Return	-0.13	-0.21	-0.21
Tracking Error	0.08	0.19	0.19

<b>SSGA NON-US DEVELOPED</b>			
Net Return	15.75	6.32	6.32
Benchmark Return	15.29	5.89	5.89
Excess Return	0.46	0.43	0.43
Tracking Error	0.17	0.16	0.16

<b>SSGA EM EQUITY</b>			
Net Return	7.71	-1.38	-1.38
Benchmark Return	8.15	-1.73	-1.73
Excess Return	-0.44	0.35	0.35
Tracking Error	0.71	1.71	1.71

<b>SSGA HIGH YIELD</b>			
Net Return	11.46	3.28	3.28
Benchmark Return	11.06	3.33	3.33
Excess Return	0.40	-0.05	-0.05
Tracking Error	0.18	0.23	0.23

<b>SSGA EM DEBT</b>	1 year	2 years	Since Inc.
Net Return	11.45	0.71	0.71
Benchmark Return	11.28	1.39	1.39
Excess Return	0.17	-0.68	-0.68
Tracking Error	0.20	0.92	0.92

<b>SSGA REITS</b>			
Net Return	10.43	-6.58	-6.58
Benchmark Return	10.45	-6.57	-6.57
Excess Return	-0.02	-0.01	-0.01
Tracking Error	0.02	0.18	0.18

<b>SSGA ST GOV-CREDIT</b>			
Net Return	3.46	1.88	1.88
Benchmark Return	3.49	1.86	1.86
Excess Return	-0.03	0.02	0.02
Tracking Error	0.05	0.09	0.09

<b>SSGA CORE BONDS</b>			
Net Return	1.67	-1.65	-1.65
Benchmark Return	1.70	-1.60	-1.60
Excess Return	-0.03	-0.05	-0.05
Tracking Error	0.14	0.21	0.21

<b>SSGA TIPS</b>			
Net Return	3.26	1.19	1.19
Benchmark Return	3.20	1.42	1.42
Excess Return	0.06	-0.23	-0.23
Tracking Error	0.16	0.37	0.37

# October 1 Transition Milestones

1/19/24 – IL Supreme Court ruling affirms consolidation.

2/9/24 – IPOPIF Board approves 10/1/24 transfer date.

3/14/24 – Transfer Date notification and instructions distributed to all transferring pension funds.

6/30/24 – Deadline for Boards to adopt Authorized Agent Resolutions (Exhibit A).

July – Establish data feeds with legacy custodians.

September – Asset Certification.

10/1/24 – Asset Transfer.

10/31/24 – Complete reconciliations and provide receipts to transferring pension funds.

November – First monthly reports.

# October 1 Transition Status

PPF Fund Name	AUM \$	AUM date	Ex A	Ex B	Invest Contacts	Comments
ARLINGTON HEIGHTS	178,404,689.90	12/31/23	4/24/24	Yes	Yes	
AURORA	313,933,932.82	12/31/23	3/28/24	Yes	Yes	
CHAMPAIGN	152,642,496.73	6/30/23	5/13/24	Yes	Yes	
CHICAGO HEIGHTS	55,202,969.51	4/30/23	4/11/24	Yes	Yes	
CHICAGO RIDGE	31,214,363.16	12/31/23	4/24/24	Yes	Yes	
DEKALB	49,828,233.14	12/31/23	4/26/24	Yes	Yes	
EAST ST LOUIS	21,333,132.25	12/31/23	5/30/24	Yes	Yes	
ELGIN	171,574,063.44	12/31/23	4/17/24	Yes	Yes	
ELMHURST	80,898,927.35	12/31/23	5/30/24	Yes	Yes	
EVANSTON	175,754,505.94	12/31/23	4/25/24	Yes	Yes	
FAIRVIEW HEIGHTS	35,764,565.38	4/30/23	4/29/24	Yes	Yes	
MARYVILLE	5,425,545.29	4/30/23	6/6/24	Yes	Yes	
MOKENA	27,818,580.70	6/30/23	4/10/24	Yes	Yes	
PALOS HEIGHTS	32,681,848.33	12/31/23	4/25/24	Yes	Yes	
RANTOUL	33,856,979.42	4/30/23	4/24/24	Yes	Yes	
VILLA PARK	37,909,632.47	12/31/23	4/30/24	Yes	Yes	
<b>At Risk</b>						
WASHINGTON PARK	620,451.89	4/30/23			Yes	
WOODRIDGE	55,499,334.38	12/31/23	4/17/24			
WOOD DALE	30,278,703.62	4/30/23				
<b>Special Situations</b>						
SOUTH CHICAGO HEIGHTS	3,618,616.86	12/31/23	4/11/24	N/A		MMF and annuity
STONE PARK	4,075,735.86	4/30/23	10/11/22	N/A		MMF and annuity
MONTICELLO	2,006,921.93	12/31/22	1/25/23	N/A		Only MMFs and CDs
ROBBINS	247,002.00	4/30/16		N/A		Only MMFs and CDs
VENICE	614,381.77	4/30/23		N/A		Only MMFs and CDs



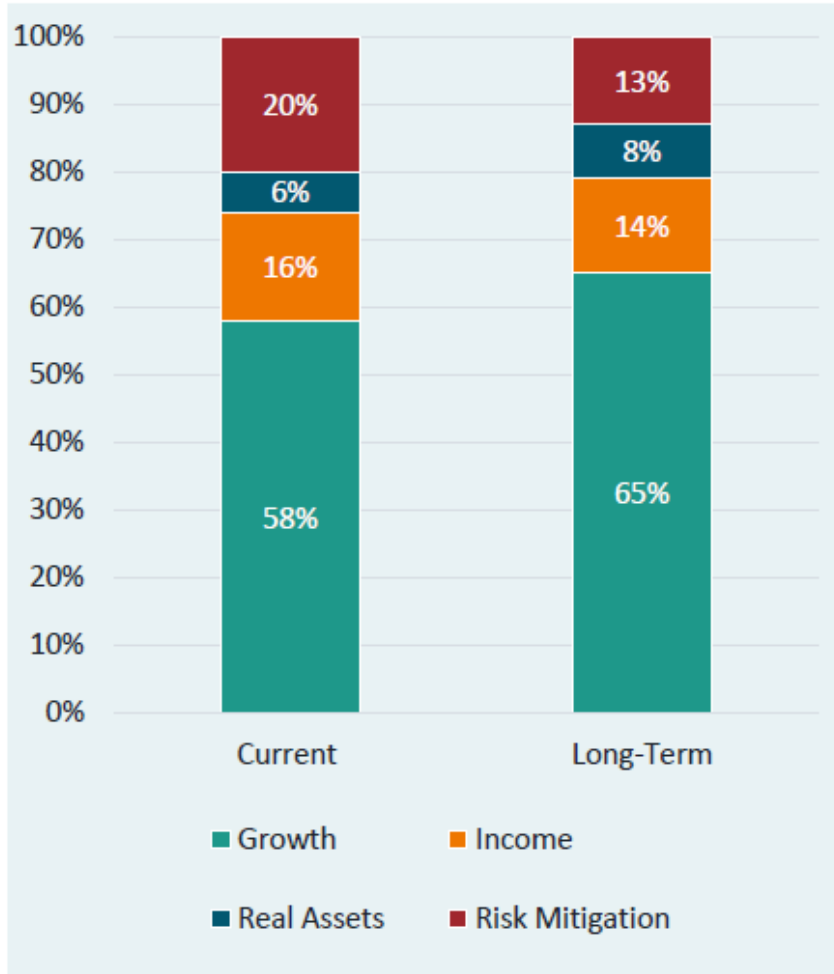
# **Illinois Police Officers' Pension Investment Fund**

## **Private Credit Search Request**

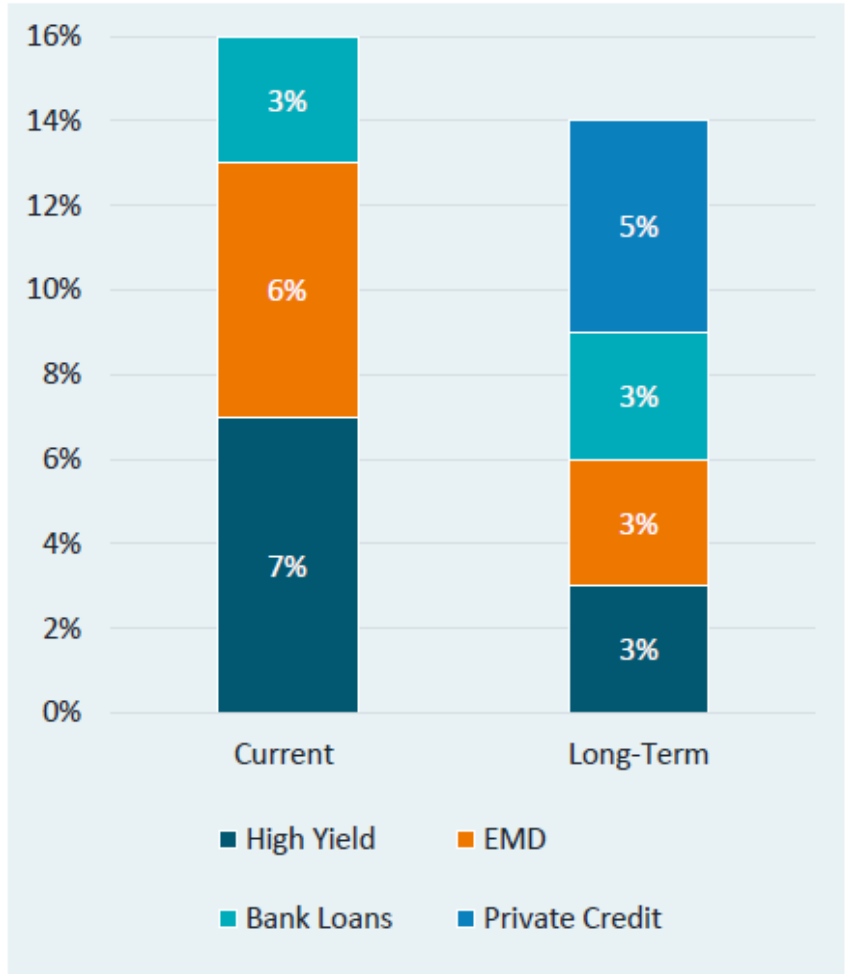
July 19, 2024

# Private Credit Allocation

## TOTAL FUND – POLICY TARGETS



## INCOME BUCKET – ASSET CLASS TARGETS



Source: Verus

# Private Credit Universe

Direct Lending	Mezzanine	Real Estate Credit	Real Assets Credit	Specialty Finance	Structured Credit	Distressed & Special Situations
<b>U.S. middle market lending</b> <ul style="list-style-type: none"> <li>— Sr. focus</li> <li>— Opportunistic</li> <li>— Lower middle market (sponsored focus)</li> <li>— Lower middle market (non-sponsored focus)</li> <li>— Private BDC's</li> </ul>	<b>U.S. mezzanine</b> <ul style="list-style-type: none"> <li>— Upper middle market</li> <li>— Middle market</li> <li>— Lower middle market</li> </ul>	<b>U.S. CRE lending</b> <ul style="list-style-type: none"> <li>— Bridge lending</li> <li>— Transitional lending</li> <li>— Core lending</li> </ul>	<b>Infrastructure lending</b> <ul style="list-style-type: none"> <li>— Sr. focus</li> <li>— Mezz focus</li> </ul>	<b>Consumer &amp; SME lending</b> <ul style="list-style-type: none"> <li>— Marketplace finance</li> <li>— Lender/platform finance</li> </ul>	<b>CLO</b> <ul style="list-style-type: none"> <li>— CLO debt</li> <li>— CLO multi</li> <li>— CLO risk retention</li> <li>— 3<sup>rd</sup> party CLO equity</li> </ul>	<b>Corporate distressed</b> <ul style="list-style-type: none"> <li>— U.S.</li> <li>— European</li> <li>— Emerging markets</li> <li>— Global</li> <li>— Single trade</li> </ul>
	<b>European mezzanine</b>	<b>European CRE lending</b> <ul style="list-style-type: none"> <li>— Bridge lending</li> <li>— Transitional lending</li> <li>— Core lending</li> </ul>	<b>Energy credit</b> <ul style="list-style-type: none"> <li>— Direct lending</li> <li>— Opportunistic credit</li> </ul>	<b>Factoring &amp; receivables</b>	<b>CRE</b> <ul style="list-style-type: none"> <li>— Non-agency CRE B-piece</li> <li>— Agency CRE B-piece</li> <li>— CMBS/CRE</li> </ul>	<b>Stressed credit</b>
<b>European middle market lending</b> <ul style="list-style-type: none"> <li>— Sr. focus</li> <li>— Opportunistic</li> <li>— Lower middle market</li> <li>— Country-specific funds</li> </ul>		<b>Emerging markets CRE lending</b>	<b>Trade finance</b>	<b>Regulatory capital relief</b>	<b>RMBS</b>	<b>Real estate distressed</b> <ul style="list-style-type: none"> <li>— U.S.</li> <li>— European</li> <li>— Global</li> </ul>
<b>Emerging markets lending</b> <ul style="list-style-type: none"> <li>— Asia lending</li> <li>— Africa lending</li> <li>— CEE/Middle East lending</li> <li>— Latin America lending</li> <li>— Pan-EM lending</li> </ul>		<b>Residential mortgages</b> <ul style="list-style-type: none"> <li>— Residential NPLs</li> <li>— Single family rental</li> <li>— Mortgage servicing rights</li> <li>— U.S. resi origination</li> <li>— European resi origination</li> </ul>	<b>Metals &amp; mining finance</b>	<b>Royalties</b>	<b>Consumer ABS</b>	<b>Cross-asset</b> <ul style="list-style-type: none"> <li>— U.S.</li> <li>— European</li> <li>— Emerging markets</li> <li>— Global</li> </ul>
<b>Global middle market lending</b>			<b>Agriculture credit</b>	<b>Healthcare lending</b>	<b>Esoteric ABS</b>	
<b>SBIC lending</b>				<b>Venture lending</b>	<b>Europe structured credit</b>	
				<b>Insurance linked</b>	<b>Structured credit multi-sector</b>	
				<b>Litigation finance</b>		
				<b>Merger appraisal rights</b>		

Source: Verus

# Implementation Roadmap: Private Credit



**PHASE 1**

**PHASE 2**  
*(Optional)*

**PHASE 3**  
*(Non-Discretionary or Discretionary)*

	PHASE 1	PHASE 2 <i>(Optional)</i>	PHASE 3 <i>(Non-Discretionary or Discretionary)</i>
Objective	Establish Program – Build a Base	Enhance Diversification – Core Satellite	Enhance Diversification – Direct
Implementation	Evergreen Solution	Evergreen Solution combined with Direct Funds	Direct Funds
Timeline	Year 0 – 3	Future Years	Future Years
Pacing Analysis	None	Annually	Annually
Number of Commitments	1 initial commitment	1 – 3 per annum	Varies
Search Deliverable	Due Diligence Report	Due Diligence Report	Due Diligence Report
Performance Reporting	Standard Performance Reporting	Standard Performance Reporting	Standard Performance Reporting and Private Markets Reporting
Client Service Team	No Changes	Periodic Involvement of Private Markets Team Members	Ongoing Involvement of Private Markets Team Members
Costs (Verus)	No Changes	Evergreen Funds: No additional costs Direct Funds: \$30k per fund	Addendum to Existing Contract for Private Markets Consulting Services

# Portfolio Construction

- IPOPIF desires broad exposure to the private credit universe. Diversification reduces risk.
- The phase 1 search seeks a single private credit platform with a wide spectrum of diversified strategies and an experienced track record.
- Allows IPOPIF to establish initial exposure efficiently and effectively.



# Phase 1 Search Scope and Objective

## Scope of Services

- Developing a cohesive plan for allocating assets across various private credit sectors and strategies to obtain broad diversification
- Building a comprehensive commitment deployment plan for the portfolio
- Providing administrative and operational support

## Objective

- Identify one manager that will be responsible for at least 3% of the private credit allocation.
- Additional managers may be considered if deemed necessary for diversification.

# Potential Platform Approaches

- Private credit fund
  - Single commingled fund providing broad diversification
  - Simple approach but universe is small
- Single manager platform
  - Single manager
  - Using multiple “house” funds to gain diversification
  - Best in class manager, platform scale, deal origination and sourcing, and single layer of fees.
  - Narrower opportunity set and single DNA
- Manager of managers platform
  - Overarching Fund of Funds manager
  - Using multiple third-party funds to gain diversification
  - Access to managers, wide range of opportunity set, advantageous economic terms, and diversification
  - Double layer of management fees

# Search Preferences

- A manager that can deliver diversified exposure to the private credit market.
- A manager with experience and strong underwriting capabilities in private credit strategies/funds.
- A manager with experience in deal origination and workout experience.
- Timely and comprehensive consolidated reporting.
- Monthly NAV.
- Low total fees. Double layers of performance fee/carried interest are discouraged.
- Administrative simplicity.
- Assets under management (AUM) of at least \$10 billion.
- 3 years of multi-strategy private credit SMA or fund-of-one management experience.
- 5 existing private credit SMA or fund-of-one.
- Experience working with institutional investors similar or larger in size to IPOPIF.

# Search Process

A phased approach will optimize the search process, allowing efficient consideration of the broadest pool of candidates.

- Phase 1 – Request for information – the candidates that meet the search preference and minimum qualifications will submit information on their firm and private credit capabilities.
- Phase 2 – Sample portfolio construction – the candidates are requested to build a model portfolio using their best ideas.
- Phase 3 – Request for proposal – highest caliber candidates are requested to submit their proposal. However, any firm may submit a full proposal.

# Search Timeline

Deadline	Milestone
7/19/24	RFP posted
8/2/24	Deadline for Phase 1 – Request for information
8/16/24	High caliber candidates are invited to propose a sample portfolio
9/6/24	Deadline for Phase 2 – Sample portfolio construction
9/27/24	Highest caliber candidates are invited to submit proposals
10/2/24	Deadline for written questions (by 5 pm central)
10/7/24	Final response to questions posted on IPOPIF website
10/11/24	Phase 3 – Proposal Due by 5 pm central
11/4/24 – 11/8/24	Semifinalist interviews with IPOPIF Staff and Investment Consultant
12/13/24	Board review, finalist interviews, and approval

The Fund reserves the right to amend the schedule at any time at its sole discretion.

# Fees

- Management fees
  - 1.0% to 1.5%
  - \$3.3 million to \$5.0 million for 3% (\$330 M) allocation
  - \$5.5 million to \$8.3 million for 5% (\$550 M) allocation
- Performance fees
  - 10% to 20%
  - After recapture of management fees
  - After achieving target “hurdle rate”
- There may be an additional management fee layer for manager of manager approaches.