



DIVERSITY POLICY

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DIVERSITY POLICY

This Diversity Policy (this “**Policy**”) is adopted by the Board of Trustees (the “**Board**”) of the Illinois Firefighters’ Pension Investment Fund (“**FPIF**”) established under Article 22C of the Illinois Pension Code, 40 ILCS 5/1-101 et seq. (the “**Pension Code**”), to realize the value of a diversified portfolio of investment professionals and to promote opportunities for investment managers, brokers, vendors, and employees who are minorities, women and persons with a disability as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act and the Pension Code. In the event of any inconsistency between this Policy and the provisions of applicable law, including the Pension Code, the provisions of applicable law will prevail.

1. DEFINITIONS

When used in this Policy, the following terms have the following meaning given to them, respectively.

“**Business Enterprise for Minorities, Females, and Persons with Disabilities Act**” means the Business Enterprise for Minorities, Females, and Persons with Disabilities Act, 30 ILCS 575/ et seq.

“**Emerging Investment Manager**” means, as defined in Section 5/1-109(4) the Pension Code, a qualified investment adviser that manages an investment portfolio of at least \$10,000,000 but less than \$10,000,000,000 and is a “minority owned business,” “female owned business,” or “business owned by a person with a disability,” as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act.

“**Illinois-based**” means a business, including an investment adviser, that is headquartered in Illinois. This defined term is consistent with the definition of “Illinois business” in Section 5/1A-108.5(a) of the Pension Code.

“**Minority Investment Manager**” means an Emerging Investment Managers or a “minority owned business,” “female owned business,” or “business owned by a person with a disability,” as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act.

“**Minority-Owned Broker/Dealer**” means a qualified broker/dealer who meets the definition of “minority owned business,” “female owned business,” or “business owned by a person with a disability,” as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act. This defined term is consistent with the definition of “minority broker-dealer” in Section 5/1-109.1(7) of the Pension Code.

“**Pension Code**” means the Illinois Pension Code, 40 ILCS 5/1-101 et seq.

2. EMERGING AND MINORITY INVESTMENT MANAGERS

FPIF was founded to develop and maintain an investment program that enhances returns, reduces costs, and secures the retirement benefits for its participating Article 4 pension funds’ beneficiaries. In order to achieve its objectives, FPIF will select investment advisers based on long-term records of performance, depth of investment staff, and consistency of approach, among other characteristics.

FPIF recognizes that large, experienced, and successful investment organizations began as small firms with few assets under management. Today, many smaller investment firms are owned by minorities, women, and persons with a disability. These firms are often started by experienced investment professionals, who show great promise, though find it difficult to compete with large majority owned organizations. Further, these investors offer the potential of increasing returns and reducing risk through perspectives and approaches that are different from those of more mainstream or conventional firms.

In order to gain exposure to emerging and minority organizations, FPIF has established the aspirational goals of utilizing Emerging Investment Managers and firms owned by minorities, females, and persons with a disability for no less than 20% of FPIF’s total fund assets.¹

2.1 Goals for Utilization of Emerging and Minority Investment Managers, Minority-Owned Businesses, Female-Owned Businesses, and Businesses Owned by Persons with a Disability

It is the goal of FPIF that, subject to its fiduciary responsibility, minority investment managers will be considered for each of the broad asset classes in which it is invested.

FPIF has adopted the following minimum goals for the utilization of Emerging Investment Managers and Minority Investment Managers:²

Goals for Utilization of Emerging Investment Manager and Minority Investment Managers
By Investment Manager Classification

Classification	Percent of Total Portfolio	
	Emerging	Minority
Minority-Owned	10%	10%
Female-Owned	10%	10%
Disabled	2%	2%

¹ 40 ILCS 5/1-109.1(10) requires FPIF to establish certain aspirational goals for the utilization of Minority Investment Managers.

² 40 ILCS 5/1-109.1(4) requires FPIF to establish three separate goals for (i) Emerging Investment Managers that are minority owned businesses; (ii) Emerging Investment Managers that are female owned businesses; and (iii) Emerging Investment Managers that are businesses owned by a person with a disability.

Goals for the Utilization of Emerging and Minority Investment Managers
By Asset Class

Asset Class	Percent of Asset Class	
	Emerging	Minority
Equities	10%	10%
Fixed Income	15%	15%
Alternatives*	5%	5%

These goals will be reviewed annually by Staff and the Board.

For purposes of this Policy, Emerging Investment Managers and Minority Investment Managers must provide documentation of a current State of Illinois certification,³ documentation of a current state issued certification, or documentation of certification issued by a unit of local government. For Emerging Investment Managers and/or Minority Investment Managers without a government issued certification, the FPIF will require an attestation by the investment manager or General Partner stating that the investment manager or adviser is a “minority owned business,” “female owned business,” or “business owned by a person with a disability,” as those terms are defined by the Business Enterprise for Minorities, Females and Persons with Disabilities Act. The Emerging Investment Manager or Minority Investment Manager is required to immediately notify FPIF as to any change in the matters covered by any such attestation. In the event it is discovered that an investment manager has misrepresented information to FPIF, such misrepresentation will be grounds for termination of the relationship.

Minority Investment Managers may represent any asset class within FPIF’s asset allocation. Allocations to Minority Investment Managers will be made in accordance with the fiduciary standards under which all FPIF investment advisers operate.

2.1.1 Asset Management

1. Staff will use reasonable best efforts to include at least one Minority Investment Manager in final Staff interviews, consistent with the requirements of the Pension Code. Staff will inform the Board of all Minority Investment Manager candidates.
2. Staff will regularly meet with Illinois-based Minority Investment Managers and learn more about the Illinois-based Minority Investment Manager community.
3. Staff will encourage FPIF consultants to be proactive and use creative approaches in achieving the Board’s objectives with respect to the use of Minority Investment Managers.

³ A “State of Illinois certification” is a certification granted by the Illinois Department of Central Management Services to a Minority Business Enterprise, a Female Business Enterprise or a Person with Disabilities Enterprise under the Business Enterprise Program for Minorities, Females, and Persons with Disabilities.

2.2 Minority and Illinois Brokerage

FPIF seeks to promote access to business opportunities for state or local government certified, Minority-Owned Broker/Dealers and Illinois-based broker/dealers; therefore, FPIF, as a part of this Policy, has established goals for the use of Minority-Owned Broker/Dealers by investment advisers. The minimum expectations are established based on the asset class in which the investment adviser invests. In addition, FPIF will encourage its investment advisers to direct trades to Illinois-based broker/dealers. It is further the policy objective of FPIF to encourage its investment advisers to seek to obtain best price execution to ensure that all transactions are executed in a manner such that total implicit and explicit costs of transactions are the most favorable available under the circumstances.

For purposes of this Policy, in order to be considered a Minority-Owned Broker/Dealer, documentation of a current State of Illinois certification, documentation of a current state issued certification, or documentation of certification issued by a unit of local government must be provided to the Board.

Transactions completed with Minority-Owned Broker/Dealers on behalf of FPIF must be completed at rates fully competitive with the market. Subject to best execution, investment advisers for FPIF's separately managed investment portfolios are strongly encouraged to direct the below percentages of total eligible commission dollars or eligible trading volume to Minority-Owned Broker/Dealers.

<u>Asset Class</u>	<u>Minimum Goal as a Percentage</u>
U.S. Equity	30%
International Developed Equity	20%
Emerging Market Equity	5%
Domestic Investment Grade Fixed Income	20%
Domestic Below Investment Grade Fixed Income	5%
International Developed and Emerging Market Fixed Income	5%

These goals will be reviewed annually by Staff.

2.2.1 Brokerage

1. Staff will strongly encourage, verbally and in writing, FPIF's public markets investment advisers to directly utilize Minority-Owned Broker/Dealers. Staff will add additional asset classes when appropriate.
2. Staff will strongly encourage, verbally and in writing, investment advisers to direct trades to Illinois-based broker/dealers.
3. FPIF requires investment advisers to obtain best price execution to ensure that all transactions are executed in a manner that the total implicit and explicit costs of such transactions are the most favorable under the circumstances.

4. Staff will provide to Minority-Owned Broker/Dealers the contact information for FPIF's public markets' investment advisers.
5. Staff will monitor the use of Illinois-based broker/dealers and Minority-Owned Broker/Dealers by FPIF's investment advisers, and report results to the Board on an annual basis. If an investment adviser reports less than their encouraged percentage of Minority-Owned Broker/Dealer utilization, Staff will require the adviser to state the reason for the shortfall. The Board will decide if the adviser's practices are in accordance with this Policy.
6. Staff will consider the use of Illinois-based broker/dealers and Minority-Owned Broker/Dealers when evaluating existing investment advisers.

2.2.2 Consequences of Non-Compliance

FPIF continuously monitors investment advisers' compliance with this Policy, and FPIF has established a series of consequences for those advisers who continually fail to meet expectations. The investment advisers are expected to achieve the desired levels of brokerage usage over a fiscal year period. The following steps will occur if the investment adviser continues to fall short of expectations:

1. A follow-up letter will be distributed to the investment advisers not achieving the minimum level of Minority-Owned Broker/Dealer usage. The investment advisers will be reminded of the brokerage usage expected by the Board.
2. Staff will conduct a meeting with the investment adviser to discuss the reasons for not achieving the desired level of brokerage usage.
3. Investment advisers not achieving the expected levels of Minority-Owned Broker/Dealer usage may be subject to a moratorium on additional funding.
4. If an investment adviser fails to comply with the request, they may be invited to appear before the Board to explain why they are unable to achieve the desired level of brokerage usage.
5. The investment adviser may be placed on the Investment Advisers Watch List.

3. MINORITY CONTRACT AND SERVICE UTILIZATION

Section 5/1-109.1 of the Pension Code states that FPIF shall adopt a policy that sets forth goals for the utilization of businesses owned by minorities, females, and persons with disabilities for all contracts and services. As required by the Pension Code, "The goals shall be based on the percentage of total dollar amount of all contracts let to minority-owned businesses, women-owned businesses, and businesses owned by a person with a disability, as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act."

In furtherance of the Pension Code, and subject to its fiduciary responsibility, FPIF has set forth a minimum goal of 0-5% of the total dollar amount for all contracts for the utilization of businesses owned by minorities, females, and persons with disabilities.

In addition, pursuant to Pension Code, FPIF has set an aspirational goal to have no less than 20% of the total service contracts awarded for information technology, accounting, insurance brokerage, and legal services to be let to businesses owned by minorities, females, and persons with a disability, as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act.

4. FIDUCIARY DIVERSIFICATION

FPIF acts as fiduciary for its participating Article 4 pension funds in Illinois. As a fiduciary, FPIF is responsible for managing, investing, reinvesting, preserving, and protecting fund assets.

FPIF will comply with all federal and state statutes, rules, and regulations pertaining to FPIF's investments. The Pension Code encourages FPIF to increase the racial, ethnic, and gender diversity of its fiduciaries, to the greatest extent feasible within the bounds of financial and fiduciary prudence.

In furtherance of the Pension Code, the FPIF will use its best efforts to increase the racial, ethnic, and gender diversity of its fiduciaries, including its consultants, within the bounds of financial and fiduciary prudence.

Additionally, the FPIF will use its best efforts to ensure that the racial and ethnic makeup of its senior administrative staff represents the racial and ethnic makeup of its membership. FPIF will ensure that a diverse pool of candidates are considered for all internal staffing needs.

As vacancies occur, FPIF will consider the racial, ethnic, and gender diversity of its consultants and senior staff in accordance with this Policy and within the bounds of financial and fiduciary prudence.