Chapter 10. Investment Policy

10-1. INVESTMENT RULES

FPIF, including its Board and staff members, is responsible for managing, investing, and reinvesting the assets of the Participating Pension Funds (the "Member Funds") created pursuant to Article 4 of the Pension Code (40 ILCS 5/4 et seq.) as set forth in Article 5/22C of the Pension Code (40 ILCS 5/22C et seq.). The Board and Staff have fiduciary responsibilities for managing and investing assets belonging to the Member Funds (collectively, the "Fund").

10-1.1. Purpose of the Investment Policy

The purpose of this Investment Policy is to formalize FPIF's investment objectives, policies, and procedures, as well as to provide broad operational direction to the Board, Staff, agents, and representatives of FPIF with respect to the management of FPIF's assets.

10-1.2. Investment Objectives

The investment strategy of the Fund seeks to maximize the likelihood of meeting long-term return objectives, while (i) maintaining prudent risk exposure, (ii) controlling fees and expenses related to management of the Fund and (iii) complying with the governing provisions of the Pension Code (40 ILCS 5 et seq.) and other applicable laws and regulations. Long-term return objectives are based on an assumed rate of return as set forth by FPIF's actuary.

The Fund is managed with a long-term investment horizon and endeavors to maintain sufficient liquidity, as projected by Staff and the Member Systems, to meet disbursement needs.

10-1.3. Investment Philosophy

FPIF invests for the long-term value of its beneficiaries and, therefore, does not evaluate managers or its portfolio exclusively through short-term (less than three years) performance metrics. The Board and Staff recognize that the diversification of funds across asset classes is the primary determinant of the Fund meeting its risk-adjusted return objective over time. Therefore, the Board, with input from Staff and investment service providers, sets target allocations (the "Targets") for the various asset classes and the portfolio is periodically rebalanced to continue to meet those Targets (the "Strategic Asset Allocation"). Upon establishment of a private markets portfolio, FPIF will seek to maintain a consistent commitment pacing model within the private markets portfolio to ensure appropriate vintage year diversification.

While certain pockets of market inefficiencies may exist, public securities markets tend to be efficient. Therefore, when making investment decisions, FPIF defaults to low-fee, passive strategies and evaluates active investment manager performance relative to appropriate benchmarks.

Active investment managers are considered for FPIF's portfolio when FPIF's retained investment professionals and Staff can (i) demonstrate that a manager can reasonably be expected to add value to the Fund through improved returns and/or mitigated risk (ii) demonstrate a track record of investment performance relative to appropriate benchmarks (iii) provide an opinion with regard to the reasonableness of the proposed investment management fees (iv) provide an informed thesis in support of the strategy and (v) express confidence to the Board in the investment manager's firm, personnel, investment process, and suitability for the Fund.

The Board determines the asset classes and high-level investment guidelines (the "Investment Guidelines") pursuant to which the investment managers may invest. Within the bounds set by the Board, the Staff has discretion to refine guidelines and negotiate more favorable terms, subject to its fiduciary obligation to FPIF, in the best interests of the Fund's beneficiaries and subject to applicable laws.

10-1.4. Strategic Asset Allocation

(a) **General**. The Board, with input from Staff and investment service providers, sets the Strategic Asset Allocation. The Targets are to be reviewed and approved, at least, every five years.

The Targets set forth in the Strategic Asset Allocation are expressed as a percentage of the Fund's overall market value, with ranges of permissible variations. It is permissible for certain asset classes within the overall Fund's Strategic Asset Allocation to deviate from the Targets during manager transitions, asset class restructurings and other temporary changes in the Fund's portfolio.

Consistent with academic research on the futility of market timing, the Targets will not be changed in response to current market conditions or short-term projections.

The Board will approve the public market funding source (passive benchmark) for any shortfalls to target allocations in private market asset classes.

(b) **Rebalancing**. Daily market movements, cash flows to and from the Member Funds, and other factors may lead to deviations from the Targets set forth in the Strategic Asset Allocation. The Board recognizes that failing to rebalance the Fund in line with the Strategic Asset Allocation could change the Fund's risk exposure and expected returns. Therefore, the Board accords Staff discretion to take those rebalancing actions which, in the judgment of Staff, are consistent with this Investment Policy and in the best interest of the Fund. If Staff rebalances as a result of being outside of the permissible ranges, Staff will report the results of rebalancing activity to the Board at its next regularly scheduled meeting following such rebalancing.

Staff will rebalance assets to reconcile asset levels with the Targets. In rebalancing, Staff will consider (i) the cash flow needs of the Fund and Member Funds, (ii) relative proportion of overweight or underweight in each specific asset class, and (iii) trading costs. Staff will monitor asset class weights on a daily basis.

10-1.5. Interim Allocation

FPIF has established an interim liquid asset allocation for the near-term investment of its assets. The purpose of the interim liquid asset allocation is to allow FPIF to strategically deploy capital in a consistent manner upon receipt of assets from the Fund's Member Systems, while taking into account existing market conditions, long-term return objectives, and a reasonable time frame to achieve long-term private market and alternative allocations.

10-1.6. Long Term Allocation

FPIF has established a long-term asset allocation for the ongoing management of the Fund. The long-term asset allocation reflects private market and alternative exposures, which FPIF will strive to achieve in the coming years.

Strategic Asset Allocation	Interim Asset	Long-Term Asset	Interim Ranges (%)	Long-Term Ranges (%)
Equity				
US Equity	36	25 ~~31~~	+/- 5	+/- 16 ~~10~~
Developed Market Equity (non-US)	19	13 ~~16~~	+/- 4	+/- 10 ~~7~~
Emerging Market Equity	10	7 ~~8~~	+/- 3	+/- 6 ~~5~~
Private Equity	0	10 ~~5~~	+/- 10 ~~5~~	+/- 10 ~~5~~
Credit				
Public Credit	3	3	+/- 1	+/- 1
Private Credit	0	7 ~~5~~	+/- 7 ~~5~~	+/- 7 ~~5~~
Rate Sensitive				
~~Cash Equivalents~~	~~0~~	~~0~~	~~+/- 3~~	~~+/- 3~~
Core Fixed Income~~Investment Grade Bonds~~	12 ~~21~~	9 ~~15~~	+/- 3	+/- 6 ~~9~~
Core Plus Fixed Income~~Long-Term Treasuries~~	12 ~~3~~	9 ~~3~~	+/- 3 ~~1~~	+/- 6 ~~1~~
Short Term Treasuries ~~TIPS~~	3	3 ~~4~~	+/- 1	+/- 1 ~~2~~
Real Assets				
Real Estate	5	10 ~~5~~	+/- 2	+/- 7 ~~2~~
Infrastructure	0	4 ~~5~~	+/- 4 ~~5~~	+/- 4 ~~5~~

10-1.7. Performance Monitoring

(a) **Fund Level**. The Board will evaluate the performance of the Fund relative to its return objectives, on at least a quarterly basis at its regularly scheduled meetings. Total Fund performance will be evaluated relative to a "custom benchmark" using weights of the returns of available market indices based on the Strategic Asset Allocation and net of all applicable fees.

The Fund's ranking relative to its applicable peer universe shall be evaluated with consideration given to the Fund's risk relative to that of the applicable peer universe.

Staff will periodically arrange education sessions on specific asset classes to assist the Board in monitoring market conditions and portfolio performance.

(b) **General Consultant**. The General Consultant shall act as a fiduciary to FPIF. Services will include, but not be limited to, assistance in the selection, oversight, and on-going due diligence of the fund's investment managers, investment performance reporting, asset allocation studies, and research as requested by the Board and/or Staff.

(c) **Benchmarking**. Each investment manager shall have an established benchmark(s) included in its Investment Guidelines, against which performance will be measured. Benchmarks will be consistent with the managers' investment portfolio. Performance will be evaluated net of all applicable fees on a (i) five-year basis, (ii) shorter and longer-term basis as appropriate, and (iii) dollar-weighted basis.

10-2. RISK MANAGEMENT

10-2.1. Investment Risk

In order to achieve the Assumed Rate of Return, the Fund must assume certain risks. The objective of the Fund's risk management is not to eliminate risk, but to ensure that market-based, strategic, and investment-specific risk is prudently managed across the Strategic Asset Allocation.

10-2.2. Operational Risk

Staff will implement internal procedures to minimize the risk of errors or fraud associated with transfers and to ensure financial reporting adheres to generally accepted accounting principles, or GAAP.

FPIF receives a SOC 1 Report (Systems and Organizational Controls Report) from its custodian on an annual basis. This report is based on a review of the entire control structure in place at the custodian. The review is performed by an external auditing firm. Any internal control weaknesses are identified and management's responses are documented in the SOC 1 Report.

FPIF's internal control processes in all areas of the organization are reviewed and updated on an annual basis. Internal control narratives are provided to external auditors as a part of the annual audit process, and the auditors test the controls by reviewing transactions in various areas. Any internal control weaknesses that are identified and management's responses are documented in FPIF's Annual Audit Report.

10-3. OTHER

10-3.1. Statutory Requirements

The Fund shall be managed in accordance with the governing provisions of Illinois law. For current investment-related statutory requirements, please refer to 40 ILCS 5/1 and 40 ILCS 5/22C et seq.

State and federal lawmakers have adopted laws directing the behavior of public investors, such as FPIF, and from time to time such lawmakers will amend those laws. FPIF acknowledges that fulfilling its fiduciary duty is contingent upon compliance with those laws.

10-3.2. Diversity

FPIF's diversity goals seek to increase access and opportunities for managers, brokers, and venders owned by minorities, women, and persons with a disability.

For specific details, including numeric goals for emerging service provider utilization and FPIF's process in monitoring these service providers' status as emerging, please refer Chapter 6.

10-3.3. Procurement

FPIF established a Procurement Policy for the selection and appointment of investment services providers, including but not limited to investment managers, consultants, and custodians (collectively, "Investment Service Providers"). For the current Procurement Policy, please refer to FPIF's website. For searches conducted by the Board and Staff related to Investment Service Providers, FPIF has a Request for Competitive Proposal ("RFP") process. To see current and ongoing RFP's, please refer to FPIF's website.

10-3.4. Sustainability and Corporate Governance

Shareholder voting related to public equity securities held directly by FPIF is performed by FPIF's contracted proxy voting service provider. Votes are based on guidelines which will be adopted by the Board. Staff monitors FPIF's proxy votes and reports to the Board, as necessary.

Pursuant to 40 ILCS 5/1-113.6 and 1-113.17, FPIF shall include material, relevant, and decision-useful sustainability factors that will be considered by the Board, within the bounds of financial and fiduciary prudence, in evaluating investment decisions. These factors consist of but are not limited to:

(a) Corporate governance and leadership factors

(b) Environmental factors

(c) Social Capital factors

(d) Human capital factors

(e) Business model and innovation factors

(f) In addition, FPIF's efforts will include the following:

  (i) Periodic evaluation of sustainability factors to ensure the factors are relevant to the FPIF's investment portfolio and the evolving marketplace;

  (ii) Periodic monitoring of investment managers to encourage implementation of the aforementioned factors.

10-3.5. Transition Management

Transition services are most commonly utilized in the movement of securities within the public markets portfolio. Transition management is defined as the professional management of trading out of one portfolio of marketable securities and into another portfolio of marketable securities, while controlling for the timeliness of trades, explicit and implicit costs, and market exposure relative to a predetermined benchmark.

Staff will monitor all costs associated with transition events. Such costs shall include, though not be limited to

(a) Commission Costs: Fees paid to brokers for execution of a transaction

(b) Bid/Ask Spread Cost: Amount by which the execution price exceeds the bid or ask price

(c) Market Impact: Effect that trading has on the market price of traded shares

(d) Opportunity Cost: Cost of market movements over the time it takes to trade

The Board's investment staff shall manage the transition manager bench selection process, in coordination with the Board's Consultant. The Board's transition management bench shall consist of no less than three Board approved transition managers. Each transition manager selected for the transition manager bench shall enter into a transition management agreement with the Board, which shall establish terms and conditions for the relationship.

The criteria for selecting a transition manager to execute a transition will vary, just as the circumstances and types of portfolios being transitioned will vary. Investment staff shall consider the fact that transition managers may over-emphasize the value that can be added by their trading desks. Further, investment staff shall also consider that a firm which offers inexpensive trade execution may be neglecting other important aspects of the transition. Staff shall also consider that a firm which focuses on maximizing crosses may accumulate excessive and unnecessary costs associated with time delays.

Prior to engaging in a transition, the Board's investment staff shall distribute a detailed transition work request to the transition manager bench, which shall include the following information, at a minimum: (i) a description of the specific need for the transition services, (ii) identification of the goals for the transition, (iii) custodial contact information, (iv) a request for a pre-trade analysis that estimates explicit (i.e., commissions, custody, taxes, duties, foreign exchange) and implicit (i.e., market impact, opportunity costs, bid/ask spread) costs of the transition. Transition managers on the bench shall submit specific proposals to investment staff based on the transition work request.

The Board's investment staff and Consultant shall review the proposals submitted by the transition manager pool and prudently craft a transition manager recommendation for the Executive Director's review, selecting the transition manager best suited to execute the particular transition. Each individual transition assignment established under a transition management agreement between the Board and a transition manager within the pool shall be documented in a transition work order, setting forth, at a minimum, the specific tasks, deliverables, schedules, and costs for the specific transition assignment. Each transition work order shall be subject to the terms of the transition manager's transition management agreement with the Board and incorporated as an attachment thereto. All transition work orders shall be approved in writing by the Executive Director or the Executive Director's designee. The Executive Director has the authority to execute the transition work order on the Board's behalf.

Investment staff shall evaluate each transition assignment, assessing the transition manager's performance, cost effectiveness, and implementation efficiency. The Board's Consultant may provide evaluation and reporting services regarding the performance of the Board's transition managers, as well as aid in the solicitation and evaluation of bids submitted by transition managers for specific transition.

10-3.6. Reporting; Additional Information

For the net asset balances and other financial information regarding the Fund, please refer to FPIF's most recent Financial Report on FPIF's website.