

FPIF

THE FIREFIGHTERS' PENSION INVESTMENT FUND

*Report on the Statutory Transition Period
January 1, 2020 - June 30, 2022*

December 16, 2022



Table of Contents

Introduction	1
Enabling Legislation.....	2
Consolidation: Challenges and Opportunities.....	3
Consolidation: A Quarter-by-Quarter Recap	6
Conclusion.....	11
FPIF: Transition Board of Trustees	12
FPIF: Board of Trustees	13
FPIF: Staff.....	14

Introduction

When firefighters retire, their pensions should be as reliable as was their service to their communities. Illinoisans know they can count on these public servants to both battle flames that threaten life and render medical aid that saves life. In 2019, when Governor JB Pritzker and the Illinois General Assembly established the Firefighters' Pension Investment Fund (FPIF), their intent was clear: They sought to protect and enhance the pension assets of these first responders who selflessly serve and sacrifice.

The responsibility for funding the pensions of firefighters lies with firefighters themselves, local taxpayers, and investment returns. In ensuring retirement security for firefighters, FPIF provides municipalities and fire protection districts the opportunity for fiscal relief by easing the cost paid by Illinois residents.

A look at FPIF's creation – the statutory consolidation under one umbrella of suburban and downstate firefighters' pensions – encompasses 296 firefighter pension funds, totaling investment assets of approximately \$8 billion.

This report summarizes January 1, 2020, to June 30, 2022, the 30-month transition period created by Public Act 101-0610 to establish FPIF. (The Act also directs a similar but separate undertaking for police officers' pensions, not addressed herein.) As the pages ahead reveal, FPIF had to attend to far-ranging tasks; those undertakings, both ambitious and numerous, included seating board members, securing legal counsel and financial houses, retaining office space and staff, issuing notices of transfer dates to the affected pension funds, determining actuarial parameters, setting asset allocations, communicating with local fund boards, complying with statutory requirements, and – finally – receiving and managing billions of dollars in pension investment funds.

This report captures the many specific, chronological steps taken by FPIF through the statutory transition period, with an “Open for Business” sign on full display.

Enabling Legislation

The Illinois General Assembly adopted a new law establishing the Firefighters' Pension Investment Fund, enacted by Governor Pritzker. Just six weeks later, a transition board of trustees – consisting of nine one-year gubernatorial appointees – convened to begin the 30-month creation of FPIF.

At its first meeting on January 31, 2020, the transition board elected Chuck Sullivan (president of the Associated Fire Fighters of Illinois) as its chairperson and Brad Cole (executive director of the Illinois Municipal League) as its vice chairperson. From its inception the transition board appreciated the ambitious task before it: that of consolidating approximately \$8 billion in assets from 296 local Article 4 firefighter pension funds.

The transition board also fully recognized another aspect: that accomplishing the consolidation within the 30-month statutory timeline meant swiftly procuring highly capable services (both internally and externally) in the areas of investing, accounting, auditing, and operations. Securing such start-up needs could come only with funding, which was addressed through the legislature's authorization for the transition board to borrow up to \$7.5 million from the Illinois Finance Authority at below market rates.

The transition board moved quickly to retain three law firms as external counsel, secure William R. Atwood as interim executive director and adopt the first FPIF budget.

Laying the groundwork of FPIF dominated the first six months of 2020 for the transition board. Tasks included adopting bylaws and rules (especially election rules), setting up committees, leasing office space, and hiring staff. In the latter half of 2020, FPIF continued assembling its operations infrastructure, by retaining an external auditor, investment consultant, custodian, and an actuary.

The COVID-19 pandemic hit the U.S. and FPIF quickly adapted. Throughout FPIF's transition, the disease would continue to rage -- but it would not stop the ambitious new law on firefighters' pensions from taking effect.

Consolidation: Challenges and Opportunities

Although the law creating FPIF was clear about the intended outcome, it was less clear about the road map to use to achieve that outcome. Transition board members knew the consolidation of the nearly 300 firefighters' pension funds would be complex, difficult, and potentially risky.

Unique situational factors included that:

- such a consolidation had never been attempted;
- there was no acceptable margin of error;
- policies and processes had to be developed and codified, ensuring that they were auditable and honored Generally Accepted Accounting Principles (GAAP); and,
- all local Article 4 assets had to be consolidated by June 30, 2022.

Challenges and solutions emerged in four distinct areas: operations, budget and cost savings, investments, and accounting and auditing.

Indeed, the transition board came to view its approach as being two-pronged. First, to prepare for and prudently consolidate the pension assets. Second, to build a permanent organization so it would continue to meet the needs of its constituent funds, active employees and beneficiaries, employers and the public.

Operations

The transition board of trustees quickly determined they wanted a small in-house staff. For that to be successful, only highly skilled professionals with short learning curves could be recruited. A staff of five was employed, encompassing an executive director, chief operating officer, chief financial officer, portfolio officer, and member services officer. This staff has consistently displayed professionalism, productivity, and skill in managing external professional services firms.

FPIF retained eight external professional services firms for specific tasks, based on selections following published requests for proposals. Those included: accounting and auditing consultant Ernst & Young LLP; fund custodian Northern Trust; investment consultant Marquette Associates; law firms Mayer Brown LLP, Reinhart Boerner Van Deuren, and Jacobs Burns Orlove & Hernandez LLP; accounting firm Lauterbach & Amen LLP; audit firm Sikich LLP; and, actuarial advisors Foster & Foster.

Both statute and industry best practices dictated that a variety of rules and procedures be adopted before the transition board began the actual consolidation of funds. Key among them are:

- Transition Project Plan (adopted March 2021)
- Investment Policy and Asset Allocation Policy (adopted June 2021)
- Retention of initial investment management firms (June 2021)

- Transfer of Assets Rule, Cash Management Policy, and Calculation of Net Asset Value and Allocation of Cost Rule (June 2021)
- Delivery of Notice of Transfer Dates (June 2021)

The consolidation of Article 4 local pension assets began on October 1, 2021.

Budget and Cost Savings

The Act authorized FPIF to execute a loan of up to \$7.5 million from the Illinois Finance Authority to cover transition costs. Ultimately, FPIF would borrow slightly less than \$5 million.

In the crucial area of investment management fees, meaningful cost savings were and are expected to be realized.¹

The total passive investment management fee for the portfolio is 0.0087% (less than one basis point), or about \$620,000 annually.

The total investment management fee (including one active manager) is 0.034% (3.4 basis points), or about \$2.56 million annually.

Total investment fees, from all local funds combined to the single consolidated fund, have been reduced by more than \$34 million annually.

If the initial annual fee savings of \$34 million is compounded at FPIF's actuarially assumed rate of return, the consolidation will have saved nearly \$470 million after 10 years and approximately \$3.2 billion after 30 years.

Securities lending more than compensates for FPIF's passive investment management fees. It is estimated to yield a net annual gain of about \$200,000 beyond passive investment fee expenses.

The consolidation has been delivered with material and demonstrable cost savings and is well positioned to add significant value through improved investment returns.

Investments

The transition board of trustees is focused on making decisions that strengthen the portfolio and add value to the funds.²

Principal U.S. Property Account, the only active management strategy from local funds, has proven to be a high-performing investment, returning more than 21%.

¹ All investment and cost savings data referenced herein are as of June 30, 2022.

² *Id.*

FPIF has a 3% asset allocation to Treasury Inflation-Protected Securities (TIPS) currently valued at \$214 million. The TIPS allocation has allowed the portfolio to earn \$22 million in excess of what would have been without TIPS returns.

FPIF has a 30% asset allocation to fixed income, currently valued at about \$2.1 billion. This allocation outperformed its benchmark by 1.3% (130 basis points) despite a rising rate environment, which typically is negative for fixed income.

Accounting and Auditing

From the beginning, priority has been given to transparency and accounting best practices as defined by GAAP. Attention was given to producing and monitoring custody provisions, developing monthly account statements, and memorializing the consolidation process.

State-of-the-art technology was applied to ensure that the entire process was both secure and fully documented. The use of a contracted global cash movement portal to transfer funds safely and securely between local pension funds and the consolidated fund has been well-received, efficient and effective.

Consolidation: A Quarter-by-Quarter Recap

Q1 2020

The FPIF transition board of trustees held its first meeting on January 31, 2020. Nine gubernatorial appointees comprised the transition board: Kevin Bramwell (active duty firefighter, Bolingbrook); Steve Chirico (mayor, Naperville); Brad Cole (executive director, Illinois Municipal League); Russ Hunt (beneficiary, Bolingbrook); Matt Kink (active duty firefighter, Springfield); Patrick Nichting (treasurer, Peoria); Jeff Rowitz (finance director, Northbrook); George Schick (active duty firefighter, Orland Fire Protection District); and Chuck Sullivan (president, Associated Fire Fighters of Illinois). The Board elected Chuck Sullivan as chairperson and Brad Cole as vice chairperson.

On February 28, 2020, the transition board met and retained firms for outside legal counsel: Mayer Brown LLP; Reinhart Boerner Van Deuren; and, Jacobs Burns Orlove & Hernandez LLP. Also retained at that meeting was interim executive director and chief investment officer, William R. Atwood.

The executive director worked in concert with outside legal counsel to craft a governance structure, which was subsequently adopted by the transition board. Of strategic importance was approval of a loan agreement with the Illinois Finance Authority that provided FPIF with operating capital. The transition board retained Steve Zahn and Zahn Governmental Solutions to provide staffing support, Zahn would be hired on staff as chief operating officer later in 2020.

The transition board adopted proposed bylaws and created an Elections Committee (chaired by Trustee Schick) and an Audit and Compliance Committee (chaired first by Trustee Hunt, then by Trustee Kink).

The March 30, 2020, meeting held the distinction of being the first gathering of the transition board with strict COVID-19 protocols being enforced due to gubernatorial orders. COVID-19 continued throughout the entire transition period, although specific response and meeting protocols varied across that timeline.

Q2 2020

Establishing the framework for FPIF continued in earnest throughout the spring and beginning at the April 20, 2020, meeting. The transition board elected Jeff Rowitz as treasurer and Russ Hunt as secretary. The transition board created an Ad Hoc Committee on Near-term Operations (chaired by Trustee Hunt) to continue to develop policies and procedures to ensure FPIF's responsible management.

By June 2020, rules were proposed by the Elections Committee for the December 2020 election of a permanent board of trustees. A voter file for the election was developed by a third party retained through competitive procurement. In a separate procurement, Lauterbach & Amen LLP

was selected to provide accounting and administrative support, including assigning a professional services administrator, Robina Amato. Amato would be hired on staff later.

To find suitable permanent office space, the executive director reviewed more than 20 suburban office locations, and presented three finalists to the Ad Hoc Committee for Near-term Operations. A South Highland Avenue property in Lombard was selected, as it offered convenient and adequate space at the lowest cost; outside counsel oversaw the lease process for this space.

Hiring of staff continued, with FPIF employing David Zaloga as chief financial officer and Mitchell Green as portfolio officer.

Q3 2020

Although the permanent office opened in July 2020, the pandemic required many staff to work remotely.

The transition board changed the name and purpose of the Ad Hoc Committee on Near-term Operations to the Investments and Operations Committee (chaired first by Trustee Hunt, then by Trustee Bramwell).

The summer of 2020 brought the organization's first external audit of administrative finances, performed by Sikich LLP. The audit resulted in an unqualified (or "clean") opinion and revealed no material deficiencies.

By statute, December 31, 2020 was the deadline to elect a permanent board of trustees. The transition board retained Survey & Ballot Systems election management consultants to execute the process. An election panel was appointed for oversight, including Pat Devaney (beneficiary representative), Steve Shetsky (participant representative), and Patrick Hayes (employer representative).

Q4 2020

During the fall of 2020, the transition board adopted a diversity policy and selected a minority-owned company as its first investment firm. Also, four finalist firms for investment consultant were interviewed, resulting in the selection of Marquette Associates.

Ernst & Young was competitively selected as audit and accounting consultant.

Preparing for the upcoming year and permanent board of trustees, appointments and elections were completed. Governor JB Pritzker appointed Chuck Sullivan and Brad Cole to serve in designated positions the election results were certified for permanent board members, including: Kevin Bramwell (active duty firefighter, Bolingbrook); Matthew Kink (active duty firefighter,

Springfield); Greg Knoll (beneficiary, Homewood); Patrick Nichting (treasurer, Peoria); Herb Roach (mayor, O'Fallon); Jeff Rowitz (finance director, Northbrook); and, George Schick (active duty firefighter, Orland Fire Protection District).

Q1 2021

Following the swearing-in of the newly elected board of trustees on January 4, 2021, the board elected Chuck Sullivan as chairperson; Brad Cole as vice chairperson; Matthew Kink as secretary; and Jeff Rowitz as treasurer. A Legislative Committee was also created.

At its March 2021 meeting, the board of trustees outlined decisions specific to the transition and consolidation of Article 4 pension assets. Approval was given to establish a group of transition managers, consisting of five firms: BlackRock Institutional Trust Company N.A; Loop Capital Markets LLC; Macquarie Capital (USA) Inc.; Northern Trust Investments Inc.; and, Russell Investment Implementation Services LLC.

A detailed Transition Project Plan was developed and approved. Following a comprehensive procurement process to contract for a fund custodian, Northern Trust, was approved and engaged.

Q2 2021

On April 16, 2021, FPIF was named a defendant in litigation filed in Kane County challenging the constitutionality of P.A. 101-0610. Several other defendants were named as well, specifically: Governor JB Pritzker; the Illinois Finance Authority and its director; the Illinois Department of Insurance and its director; and, the Police Officers' Pension Investment Fund. FPIF directed Mayer Brown to act as its attorney of record in this case, while FPIF's executive director managed the process and communications with the board of trustees.

Board members Patrick Nichting and Jeff Rowitz separately announced their resignations due to retirements, prompting the adoption of rules for a special election set for September 24. The board reappointed to the Election Panel Pat Devaney, Steve Shetsky, and Patrick Hayes. Robina Amato joined FPIF as member services officer.

The board of trustees acted to adopt a Transfer of Assets rule, a Calculation of Net Asset Value rule, an Allocation of Cost Rule and a Cash Management Policy. In addition, the board of trustees adopted an Investment Policy, to formally establish both interim and long-term asset allocations. This later ensured the quick and efficient investment of assets received through the transition, along with stronger, risk-adjusted results for the long term.

FPIF retained two passive asset managers for the build-out and investment of interim allocations: RhumbLine Advisers Limited Partnership and State Street Global Advisors Trust Company. The approved fee structure was set at less than one basis point (0.0087%).

The consolidation of Article 4 pension assets, as required by law began on June 25, 2021. On that day, all 296 Article 4 pension funds received notices of a proposed transfer date. Four dates were designated in consecutive months for the asset transfers, including October 1, 2021, November 1, 2021, December 1, 2021 and January 4, 2022.

Q3 2021

As required by the Act and in order to properly account for anticipated fund transfers, a process was established to develop a Certified Asset List (CAL) for each firefighters' pension fund prior to the transfer of assets, to be prepared by independent entities and certified public accountants. Following a competitive procurement, FPIF contracted with the Illinois Department of Insurance and retained three private accounting firms. The firms were: Baker Tilly US LLP; Kerber Eck and Braeckel LLP; and, Lauterbach & Amen LLP.

The board adopted an operating budget and authorized personnel levels for Fiscal Year 2022.

Northern Trust was selected as transition manager for scheduled transfer tranches, and Foster & Foster was retained as actuary. FPIF retained Principal as its only active manager in the initial portfolio; total of 27 local funds were invested with Principal, and the consolidation of those local accounts into a single account reduced annualized fees by approximately \$800,000.

In August 2021, Village President Tom Dailly, of Schaumburg, was elected via acclamation to the board of trustees. In October 2021, John Perry, treasurer of the Lisle-Woodridge Fire Protection District, was elected to the board of trustees.

Q4 2021

Transfer tranches began earnestly as FPIF began receiving local assets into the consolidated fund.

- October: \$1.6 billion was transferred from 75 local pension funds
- November: \$650 million was transferred from 49 local funds
- December: \$550 million was transferred from 33 local funds

The total assets transferred equaled \$2.8 billion.

The board of trustees approved William Atwood's appointment as executive director and chief investment officer; he had been serving in those roles in an interim capacity.

The board of trustees approved the Fiscal Year 2021 audit of operating accounts, which resulted in an unmodified, or "clean" opinion without material deficiencies.

The board of trustees approved an assumed rate of return of 7.125% for investments, which completed the necessary actuarial assumptions needed to calculate future required contributions from employer entities.

Q1 2022

January 4, 2022 marked a highlight for the consolidation efforts. On that date, a transfer of assets totaling \$3.2 billion, drawn from 76 local funds, was placed into the consolidated portfolio. This was the single-largest transfer of funds in the transition.

Funds that had been scheduled for October and November transfers but that had not taken place, occurred in February, totaling \$330 million.

The board of trustees also acted on various organizational policies and approved permanent election rules, to start with the 2022 trustee election.

Q2 2022

Fund transfers continued with FPIF executing at least one tranche each month, for a total of four tranches; the month of June had two tranches.

The board of trustees selected Sikich LLP as both external auditor for FY 2023 and provider of the statutorily-required audit of FPIF's transition period.

On May 25, 2022, Kane County Circuit Judge Robert Villa issued a ruling and opinion in the pending litigation over the constitutionality of P.A. 101-0610. Judge Villa ruled in favor of the consolidation on all counts. The plaintiffs in the suit had initially brought three counts in their complaint, one of which had been previously dismissed. The remaining two counts alleged that the Act violated (1) the Pension Benefits Clause and (2) the Takings Clause, each of the Illinois Constitution.

Judge Villa granted the defendants', which included FPIF, motion for summary judgment and denied the plaintiffs' motion on both counts. The judge ruled that the Pension Benefits Clause does not extend broadly to the types of rights asserted by the plaintiffs. The judge also ruled that the Takings Clause does not apply to speculative changes in benefits, unrelated to real property interests. The plaintiffs filed an appeal.

Conclusion

With the enactment of P.A. 101-0610 by Governor Pritzker and the General Assembly, Illinois addressed a long-overdue reform of downstate and suburban pensions for police officers and firefighters. As this report captures, the newly established Firefighters' Pension Investment Fund offers a critical means for material improvement and strengthening of firefighter pension funds by lowering costs and raising returns for invested assets.

The Act specified a 30-month deadline for creating FPIF. While acknowledged as an ambitious goal, it was achievable. Indeed, the FPIF board of trustees and staff have met that goal – driven by the knowledge that the previous structure for firefighters' pensions entailed too many hard costs and forfeited opportunities.

Now, fully established and looking forward to a productive future, FPIF is committed to the continued professional stewardship of firefighters' pension funds through strong governance, investment performance, transparency, and client service.

ifpif.org

Illinois Firefighters' Pension Investment Fund: Transition Board of Trustees

	Term
Charles Sullivan, Chair President, Associated Fire Fighters of Illinois Appointed by Governor	1/31/2020 – 1/4/2021
Brad Cole, Vice Chair Executive Director, Illinois Municipal League Appointed by Governor	1/31/2020 – 1/4/2021
Jeff Rowitz, Treasurer Chief Financial Officer, Village of Northbrook Employer Executive Trustee	1/31/2020 – 1/4/2021
Russell Hunt, Secretary Bolingbrook Firefighters' Pension Fund Beneficiary Trustee	1/31/2020 – 1/4/2021
Kevin Bramwell Bolingbrook Firefighters' Pension Fund Participant Trustee	1/31/2020 – 1/4/2021
Steve Chirico Mayor, City of Naperville Employer Executive Trustee	1/31/2020 – 1/4/2021
Matthew Kink Springfield Firefighters' Pension Fund Participant Trustee	1/31/2020 – 1/4/2021
Patrick Nichting Treasurer, City of Peoria Employer Executive Trustee	1/31/2020 – 1/4/2021
George Schick Orland Fire Protection District Firefighters' Pension Fund Participant Trustee	1/31/2020 – 1/4/2021

Illinois Firefighters' Pension Investment Fund: Board of Trustees

	Term
Charles Sullivan, Chair President, Associated Fire Fighters of Illinois Appointed by Governor	1/4/2021 – 1/2/2025
Brad Cole, Vice Chair Executive Director, Illinois Municipal League Appointed by Governor	1/4/2021 – 1/2/2025
Jeff Rowitz, Treasurer Chief Financial Officer, Village of Northbrook Employer Executive Trustee (Elected)	1/4/2021 – 5/20/2021 Resigned
Greg Knoll, Treasurer* Homewood Firefighters' Pension Fund Beneficiary Trustee (Elected)	1/4/2021 – 1/3/2023
Matthew Kink, Secretary Springfield Firefighters' Pension Fund Participant Trustee (Elected)	1/4/2021 – 1/2/2025
Kevin Bramwell Bolingbrook Firefighters' Pension Fund Participant Trustee (Elected)	1/4/2021 – 1/2/2025
Patrick Nichting Treasurer, City of Peoria Employer Executive Trustee (Elected)	1/4/2021 – 5/4/2021 Resigned
Herb Roach Mayor, City of O'Fallon Employer Executive Trustee (Elected)	1/4/2021 – 1/2/2025
George Schick Orland Fire Protection District Firefighters' Pension Fund Participant Trustee (Elected)	1/4/2021 – 1/3/2023
Tom Dailly Mayor, Village of Schaumburg Employer Executive Trustee (Elected)	8/12/2021 – 1/2/2025 Elected to fill Trustee Nichting's vacancy
John Perry Lisle-Woodridge Fire Protection District Employer Executive Trustee (Elected)	9/30/2021 – 1/3/2023 Elected to fill Trustee Rowitz's vacancy

*Effective 5/28/2021

Illinois Firefighters' Pension Investment Fund: Staff

	Employment Date
William R. Atwood Executive Director	3/2/2020
Steve Zahn Chief Operating Officer	7/1/2020
David Zaloga Chief Financial Officer	7/1/2020
Erin White Executive Assistant/Office Manager	7/16/2020 – 10/14/2020
Mitchell Green Portfolio Officer	8/1/2020
Robina Amato Member Services Officer/Office Manager	5/24/2021



Firefighters' Pension Investment Fund
1919 South Highland Avenue, Building A, Suite 237
Lombard, Illinois 60148
ifpif.org