FPIF

FIREFIGHTERS' PENSION INVESTMENT FUND
1919 S. HIGHLAND AVE. • BUILDING A, SUITE 237 • LOMBARD, IL 60148

ADOPTED

Amendments to
Chapters 9 and 10 of FPIF Rules

May 9, 2025

FIREFIGHTERS' PENSION INVESTMENT FUND
1919 S. Highland Ave.◦ Building A, Suite 237 ◦ Lombard, IL 60148

Subject: Proposed Amendments to Chapters 9 and 10 of FPIF
Rules Date: April 1, 2025

Attached are proposed amendments to Chapters 9 and 10 of FPIF Rules.

Chapter 9: Participating Pension Funds (pages 1-4)

Proposed Changes:

- Codify that FPIF may rely on Participating Pension Fund board minutes or the fund's most recent annual statement on file with the Department of Insurance to verify the current board president and board secretary.
- Expand the duties of Authorized Agents to include executing forms for the appointment of Account Representatives.
- Require FPIF to provide standardized forms for appointing Account Representatives.
- Codify that FPIF may rely on the appointed Account Representatives on record as of the date of any recurring withdrawal request.
- Encourage, rather than require, each Participating Pension Fund to determine an estimated cash flow projection.

Chapter 10: Investment Policy (pages 5-8)

Proposed Changes Provide a General Monitoring Framework

- Public and Private Markets teams collaborate with the master custodian, Consultants, and Investment Managers to mitigate risks from firm-level to portfolio-level.

Public Markets Monitoring

- **Monthly Asset Allocation Monitoring**: Staff and Consultants review asset allocation; CIO rebalances as needed per the Investment Policy.
- **Portfolio Reviews**: Staff meets with each Investment Manager at least twice a year; performance is monitored monthly.
- **Portfolio Analytics**: Software is used for performance attribution, focusing on sector, industry, regional allocation, security selection, and currency effects.
- **Guideline Compliance Monitoring**: Investment Staff reviews compliance quarterly; violations require written explanations and may lead to increased monitoring, asset reduction, termination, or exclusion from new mandates.
- **Regulatory Compliance**: Investment Managers registered as advisors must submit Form ADV annually for Staff review.

Private Markets Monitoring

- **Quarterly & Annual Reviews**: Staff reviews quarterly reports and annual audited financials; increased monitoring if necessary.
- **Regulatory Compliance**: Registered investment advisors must submit Form ADV annually for Staff review.

Proposed Changes Provide Various Custodial and Investment Risk Policies

Custodial Credit Risk for Deposits

- Ensure cash in the Fund's operating account is covered by FDIC insurance.
- Utilize multiple titled accounts to maximize FDIC coverage when possible.
- Maintain operating cash balances below available FDIC coverage.

Custodial Credit Risk for Investments

- Limit exposure to transactions with custodial risk.
- Require all transactions to be processed on a delivery versus payment (DVP) basis.
- Ensure investments are held by a third-party custodian, separate from the purchasing entity, and registered in the Fund's name.

Credit and Interest Rate Risk

- Mitigate risk through diversification across multiple asset classes.
- Assess credit, currency, and interest rate risk in asset allocations.
- CIO, investment staff, consultant, and custodian continuously monitor risk exposure.
- Board provides policy guidance on managing risk through allocation ranges.
- Adjust portfolio allocations as needed to stay within policy guidelines.

Concentration of Credit Risk for Investments

- Prevent excessive exposure to specific asset types or investment managers.
- Require professional investment management firms to follow specific risk management guidelines.
- Limit individual investments to no more than 5% of the total portfolio.

Foreign Currency Risk

- Build an international portfolio based on diversification, quality, growth, and value principles.
- Allow International Investment Managers to engage in currency hedging but prohibit speculative currency trading.

Derivative Risk

- Allow Investment Managers to use derivatives within approved guidelines.
- Implement counterparty credit evaluations, limits, and exposure monitoring.
- CIO approves and periodically reviews guidelines to ensure compliance.
- Prohibit purchasing derivative instruments with borrowed funds.
- Derivative instruments may include:
    - Foreign currency forward contracts (hedging currency risk).
    - Financial futures, options, and swaps (enhancing yield, adjusting fixed-income duration, and hedging interest rate fluctuations).

Chapter 9. Participating Pension Funds

Section 9-1 shall be amended as follows:

9-1 AUTHORIZED AGENTS

9-1.1 Appointment

Each Participating Pension Fund, by a resolution of its board of trustees, shall appoint two Authorized Agents, who shall have the powers and duties set forth in this Section 9-1. ~~In the absence of such appointments, the board president and board secretary of the Participating Pension Fund shall be deemed Authorized Agents.~~ The Participating Pension Fund may change its Authorized Agents at any time upon written notice to the FPIF supported by a resolution of its board of trustees appointing a different individual(s). A board resolution appointing an Authorized Agent shall include the person's name, employer, business address, phone number, fax number (if applicable), and email address.

In the absence of such appointments, the board president and board secretary of the Participating Pension Fund shall be deemed Authorized Agents. FPIF may rely on Participating Pension Fund board minutes or the Participating Pension Fund's most recent annual statement on file with the Department of Insurance to identify the current board president and board secretary of a Participating Pension Fund.

9-1.2 Powers

The Authorized Agent shall have the following powers and duties:

(a) To promptly forward to the board of trustees of their Participating Pension Fund all communications, notices, reports, and other documents delivered to the Authorized Agent by the FPIF; and

(b) To execute authorizations and consents for the treasurer, custodian, investment professionals, and other vendors to share with the FPIF and/or its agents, including but not limited to the FPIF's custodian, investment consultant, and transition manager, all investment account related information and such other information relating to the Participating Pension Fund as is necessary for the administration of the FPIF.

(c) To execute forms for the appointment of Account Representatives.

9-1.3 Communications

The delivery of any communication or document by the FPIF to an Authorized Agent shall constitute delivery to the Participating Pension Fund.

Section 9-4 shall be amended as follows:

9-4 CASH MANAGEMENT RULES

The purpose of this Section 9-4 is to set up the procedures and best practices for interaction between Participating Pension Funds and FPIF. This Section aims to ensure an efficient working process that allows Participating Pension Funds to meet monthly benefit obligations and transfer excess funds to FPIF for investment while also allowing FPIF to effectively plan for the liquidity needs of Participating Pension Funds.

9-4.1 Objectives

The following are the specific objectives of this Section.

- Outline procedure for FPIF to transfer cash to Participating Pension Funds.
- Outline procedure for Participating Pension Funds to transfer cash to FPIF.
- Provide recommendations (non-binding) to Participating Pension Funds related to cash flow for expenses.
- Outline reporting requests for cash transfers to maintain transparency and accountability.
- Maintain compliance with Article 22C of the Pension Code (40 ILCS 5/22C).

9-4.2 Account Representatives

FPIF staff under the direction of the Chief Financial Officer will process all transfer requests and transfers properly submitted by Account Representatives of Participating Pension Funds through the FPIF custodian.

Participating Pension Funds shall appoint up to four Account Representatives ~~by resolution of the board of trustees of the Participating Pension Fund~~. All appointed Account Representatives must be members of the Participating Pension Fund's board of trustees or serve as the Participating Pension Fund's Treasurer, except that one Account Representative from each Participating Pension Fund is not required to be a member of the Participating Pension Fund's board of trustees. FPIF shall provide Participating Pension Funds with standardized forms for appointing Account Representatives, which must be signed by Authorized Agents. The appointment of a non-voting board trustee who does not serve as treasurer shall be made by board resolution, in addition to any other required forms. If a Participating Pension Fund has not appointed Account Representatives, the Participating Pension Fund's Authorized Agents and Treasurer shall serve as Account Representatives until other Account Representatives are appointed.

Only Account Representatives will have authority to facilitate transfers. A Participating Pension Fund is responsible for promptly providing FPIF with any updates or revisions to its authorized Account Representatives, and FPIF is entitled to rely on the appointed Account Representatives that it has received from a Participating Pension Fund as of the date of any transfer ~~or~~, withdrawal request, or recurring withdrawal request. FPIF is not responsible for any claim or liability related to an unauthorized transfer or withdrawal in which FPIF reasonably relied on the information regarding authorized Account Representatives provided by a Participating Pension Fund. Any individual who submits transfer or withdrawal requests or instructions to FPIF will be deemed to be making a representation and warranty to FPIF that they have been, and remain, duly designated as Account Representatives of the Participating Pension Fund and that they are authorized to execute and deliver the withdrawal or transfer request or instructions to FPIF on behalf of that Participating Pension Fund.

9-4.3 Transition Cash Management Procedures

Notwithstanding any other provision of this Chapter to the contrary, each Participating Pension Fund shall keep no less than 60 days of expenses in a local account for payment of benefits and other expenses during the 60-day period following the Participating Pension Fund's Transfer Date. FPIF shall not make transfers to Participating Pension Funds during the 60-day period following the Participating Pension Fund's Transfer Date.

For purposes of this Chapter, "Transfer Date" means the date at which FPIF will assume fiduciary control of the Participating Pension Fund's assets included on the certified investment asset list determined for the Participating Pension Fund.

9-4.4 Cash Management Procedures

The use of any cash management system utilized by FPIF for cash transactions, including both one-time transactions and recurring monthly withdrawals, will be subject to standard requirements, terms, and conditions for such system. By utilizing such a system, a Participating Pension Fund agrees to abide by any applicable requirements, terms, and conditions.

FPIF recommends that Participating Pension Funds comply with guidance from the Illinois Department of Insurance concerning the amount of cash to be kept in local accounts: monies not imminently needed to make benefit payments or cover reasonable imminent expenses must be held at FPIF. The amount of cash kept in the local account will fluctuate and will necessitate transfers to and from FPIF. Requests to redeem cash from FPIF can be made on a monthly basis.

Requests for transfers from FPIF to a Participating Pension Fund must be sent to FPIF by 5:00 pm central time on the 1st day of each month. Requests properly submitted on or before the 1st day of each month, will be processed for transfer by the 14th day of the month. The request for transfer must be made in the manner prescribed by FPIF.

If a Participating Pension Fund has a surplus of dollars in the local account, it should transfer the funds to FPIF for investment. Transfers from a Participating Pension Fund to FPIF will be invested on scheduled investment dates. For the purpose of this Chapter, "investment dates" mean the 7th, 14th, 21st, 28th days and the last business day of each month, or the business day immediately preceding the 7th, 14th, 21st, or 28th day of the month if the date falls on a weekend or bank holiday. FPIF recommends that Participating Pension Funds initiate the transfer of funds to FPIF at least three business days in advance of an investment date in order to ensure the transfer of funds is invested on the investment date. The Account Representative shall send transfers to FPIF in the manner prescribed by FPIF.

It is the responsibility of the Participating Pension Fund to ensure enough money is kept on hand to meet benefit obligations and to act in their fiduciary capacity as board members in the administration and payment of monthly retirement benefits and expenses. If a Participating Pension Fund believes an unforeseen circumstance dictates an expedited transfer from FPIF in a manner inconsistent with this Chapter, the Participating Pension Fund shall submit a request for an expedited transfer in the manner prescribed by FPIF. A request for an expedited transfer shall include a detailed explanation of the need for an expedited transfer and FPIF shall, in its sole discretion, determine whether the reason provided is sufficient cause for an expedited transfer.

9-4.5 Cash Flow Planning

Each Participating Pension Fund ~~shall provide~~is encouraged to develop an estimated cash flow projection by the end of each calendar year for the upcoming calendar year. This cash flow projection at a minimum should include the following:

- Estimated cash balance for 12 months.
- Estimated employee contributions.
- Estimated employer contributions.
- Estimated pension benefits.
- Estimated administrative expenses.
- Estimated monthly net inflow or outflow.
- Estimated monthly funding request / money transfer.

~~An example of a cash flow projection shall be provided to Account Representatives and made available on the FPIF website. The cash flow projection is not meant to be exact, though will act as guide for FPIF to properly plan investments to ensure sufficient liquidity.~~

Section 10-2 shall be amended as follows:

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.

The Fund has established a framework for monitoring total Fund risk and manager allocations. Both the Public and Private Markets teams work in conjunction with the master custodian, Consultants, and Investment Managers to help mitigate firm-level to portfolio-level related risks. Monitoring activities for the public markets portfolio and private markets portfolio are summarized below.

Public Markets

A. Staff and Consultants monitor the asset allocation of the Fund on a monthly basis. The CIO shall rebalance the portfolio consistent with the Investment Policy.

B. Staff conducts portfolio reviews with each manager at least twice per year. Staff and Consultants may meet with Investment Managers more often as needed. Total Fund, asset class, and individual Investment Manager performance are monitored by Staff and Consultants on a monthly basis.

C. Portfolio analytics software is utilized for performance attribution of separate account mandates and shared with the investment staff. Discussions center on portfolio characteristics, performance, and stylistic attribution such as; sector/industry/regional allocation, security selection, and currency effects.

D. Investment Manager guideline compliance is monitored by Investment Staff each quarter. Investment Managers that violate their investment management guidelines are required to provide a written explanation detailing the cause of the violation and actions being taken to bring the portfolio into compliance. The Chief Investment Officer is notified of all portfolio violations. Consequences for violating investment management guidelines are situation specific and range from increased monitoring, asset reduction, termination, and exclusion from receiving additional allocations/mandates.

E. The Fund's Investment Managers that are registered investment advisors are required to provide Form ADV as part of the annual certification request. All ADVs are reviewed by Staff.

Private Markets

A. Staff reviews all quarterly reports and annual audited financial statements. Investment Managers may be monitored more closely if necessary.

B. The Fund's Investment Managers that are registered investment advisors are required to provide Form ADV as part of the annual certification request. All ADVs are reviewed by Staff.

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.

10-2.3 Custodial Credit Risk for Deposits

Staff will implement procedures to minimize custodial credit risk for deposits by ensuring that cash held in the Fund's operating account is covered by FDIC insurance. When possible, the Fund will utilize multiple titled accounts to maximize FDIC coverage. Additionally, balances in the operating cash account shall be maintained below available FDIC coverage.

10-2.4 Custodial Credit Risk for Investments

The Fund shall mitigate custodial credit risk associated with investments by limiting exposure to security transactions that involve such risk. All transactions will be processed on a delivery versus payment (DVP) basis, with the underlying investments held by a third-party agent, separate from the entity where the investment was purchased, and registered in the Fund's name.

10-2.5 Credit and Interest Rate Risk

The Fund shall adopt an investment strategy that mitigates credit and interest rate risk through prudent diversification across a broad range of distinct asset classes. Risk exposure—including credit, currency, and duration (interest rate risk)—shall be assessed, reflected in asset allocations, and continuously monitored by the Chief Investment Officer, investment staff, consultant, and custodian.

When preparing asset allocations, staff and the consultant shall evaluate the risk/reward trade-offs associated with various risks before advising the Board. The Board shall provide guidance for managing these risks through policy ranges for respective allocations.

The portfolio balance shall be continuously monitored by staff and the consultant, with adjustments made as needed to maintain allocations within policy guidelines and mitigate associated risks.

10-2.6 Concentration of Credit Risk for Investments

The Fund shall mitigate concentration or credit risk by avoiding excessive investment in a limited selection of asset types or investment managers. The Fund's portfolio will be managed by professional investment management firms, each of which must adhere to specific risk management guidelines outlined in their investment management agreement.

The Fund shall ensure that no single investment in any one organization represents 5% or more of the total portfolio, thereby maintaining diversification and reducing exposure to undue risk.

10-2.7 Foreign Currency Risk

The Fund shall mitigate foreign currency risk by constructing an international portfolio based on the principles of diversification, quality, growth, and value, thereby reducing the risk of losses due to currency exchange fluctuations and other factors. International Investment Managers may engage in currency hedging transactions at their discretion; however, currency trading for speculative purposes is prohibited.

10-2.8 Derivative Risk

The Fund's Investment Managers may engage in derivative transactions as permitted by their respective guidelines. To mitigate derivative risk, investment managers shall implement counterparty credit evaluations and approvals, credit limits, and exposure monitoring procedures. Market risk associated with derivatives—whose prices fluctuate constantly—shall be controlled through strict limits on the types, amounts, and levels of risk that investment managers may undertake. The Chief Investment Officer shall approve these guidelines, which will be reviewed periodically to ensure compliance. The Fund shall not purchase derivative instruments with borrowed funds.

The Fund's derivative investments may include foreign currency forward contracts, financial futures, options, and swaps. Foreign currency forward contracts are used to hedge currency risk within the Fund's foreign stock and fixed-income portfolios. Other derivative instruments may be used to enhance yield, adjust the duration of the fixed-income portfolio, or hedge against interest rate fluctuations.