



INFORMATION BULLETIN - April 2021 **2020 Investment Returns by Article 3/4 Funds**

Overview. IPPFA collected media reports on 2020 return-on-investment results for public pension funds and conducted online searches for similar information on Illinois and surrounding state funds. An effort was then made to collect information on Illinois local police/fire fund investment returns for the same period, the calendar year ending December 31, 2020. This effort, now completed, has led to the conclusion that Illinois police/fire funds performed very well compared to the large Illinois funds and similar funds throughout the country.

Methodology. News stories appearing online that reported calendar year investment returns were collected. A review of online information was undertaken for IMRF and the State of Wisconsin Board of Investment, Iowa Municipal Fire and Police, the Kentucky Pension Authority and several large public funds serving Chicago employees. Freedom of Information requests were made to the Illinois State Board of Investment, Illinois State University Retirement System (SURS) and the Arizona Public Safety Retirement System. An email inquiry was sent for 2020 investment return information to approximately 25 large Illinois police/fire funds, pension funds on which IPPFA Directors sit as Trustees, and other funds or investment managers who routinely provide IPPFA with information. Return information was received on total of 27 Illinois police and fire pension funds.

Article 3/4 information received. The Illinois local police/fire funds providing information to IPPFA ranged in investment return for 2020 from 8.23% to 16.53%. The average return reported was 14.1%. There was some inconsistency in reporting returns as to “gross of fees” or “net of fees.” However, because most funds invest in institutional mutual funds with imbedded fees, any fee differential is believed to be immaterial for purposes of comparison.

There were essentially two large “blocks” of similar returns reported. One group ranged from 15.2% to 15.8%. Another group ranged from 11.0% to 11.8%. In conducting a basic *attribution analysis*, IPPFA observed that the higher return group generally had (a) a lower allocation to international or foreign stocks and (b) no allocation to real estate. Conversely, the group in the 11-12% return range had more commitment to foreign stocks and between 5% and 10% of the portfolio in real estate. Foreign stocks underperformed the domestic stock market in 2020 and real estate returns were essentially flat, underperforming both the public stock and bond markets. Note that these positions could easily have been in reverse. In fact, for the year-to-date period in 2021, the bond market is negative and domestic stocks and foreign stocks are essentially equal in return.

We do not believe that the group in the 15% range did things “right” compared to the 11-12% group getting it “wrong” for 2020. These fund groups had different asset allocations based on their local risk/return analysis, allocations which can easily result in better performance in any given year. Most importantly, where the information was presented, all funds outperformed their benchmarks, meaning that their individual investment product or manager decisions added value. There were no “bad” investments observed where an analysis could be undertaken.

Other funds outside of Illinois. News reports or documents were obtained showing the following 2020 returns:

Massachusetts PRIT	12.1%	Rhode Island State	11.9%
North Carolina State	11.0%	New Jersey State	10.8%
Ohio State PERS	12.0%	Ohio HW Patrol	14.2%
Ohio Fire and Police	9.2%	Ohio School Employees	13.0%
Ohio Teachers	12.3%	Iowa Muni Police/Fire	13.4%
CalPERS	12.4%	Kentucky Pension Authority	9.4%
Wisconsin State Board	15.2%	Arizona Public Safety	9.7%

Other Illinois funds. Large Illinois funds have reported the below 2020 investment returns:

IMRF	14.9%	Ill State University SURS	10.1%
Ill Teachers TRS	7.9%	Chicago Fire	12.2%
Chicago Police	10.6%	Chicago Municipal	10.9%

The news report on Illinois TRS noted that non-public investment values from September 30, 2020 are reflected in the return-on-investment calculation at

December 31, 2020 and that the fund expects the final valuation to be higher once those investments are reset for December 30th.

Note also that the Illinois State Board of Investment for the State SERS system does not report investment results on a calendar year basis.

Comparison of Illinois local police/fire performance with other fund returns.

Comparisons are difficult because there is incomplete information. IPPFA does not have a full accounting of the Article 3/4 fund community. This will not be possible until the Illinois Department of Insurance releases the next biennial report more than one year from now. Continuing, there is not yet a “public fund universe” reporting on funds nationwide for 2020.

It should also be noted that the larger statewide funds most likely have alternative investments that lag the public markets when the public markets are “hot.” In 2020 the public markets were “hot” and Illinois police/fire funds, mostly limited to those markets, capitalized on the opportunity. This will not occur every year, so a one-year base for comparison is not definitive. Data was not universally available for a review of longer-term performance.

Still, incomplete information has two attributes: it is incomplete but *it is information* (in this case, it is accurate information). We don’t have a full accounting of Illinois police/fire returns but the investment returns submitted were reported by investment consultants and managers that have a substantial number of funds as clients and help trustees invest a substantial amount of Article 3/4 assets. A reasonable person can draw conclusions from this data on how well the typical police/fire fund with over \$10 million in assets performed in 2020.

Conclusions. IPPFA concludes the following:

Illinois local police/fire funds performed very well in 2020. An average return of 14.1% for those reporting to IPPFA.

Illinois local police/fire funds in the 11-12% return range beat their benchmarks and did well in comparison to large public funds performing in the mid-range. Their observed strategy including more international stocks and domestic real estate could pay off in 2021.

Illinois local police/fire funds in the 15% return range did extremely well in capitalizing on the 2020 investment market opportunities.

Funds earning in the 16% range in 2020 (Deerfield Police, Hoffman Estates Fire and Peoria Fire) and Park Ridge Police (18.7%) may have been some of the top performing public pension funds in the country.

Public funds other than Illinois local police/fire have portfolios that include non-public investments such as private equity and hedge funds, which may result in higher earnings in future years. Still, it is certainly unclear that these “alternatives,” over a period of years, will have the performance necessary to move the lower performing funds up to and ahead of the typical Illinois police/fire pension fund.

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