



Michael W. Frerichs
ILLINOIS STATE TREASURER



2023 Annual Report

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A Message from the Treasurer



Infrastructure is essential for economic growth and community development. Despite its importance, infrastructure investment in the United States, including Illinois, has declined in recent decades.

To address this, in 2023 I launched the FIRST Fund, a \$1.5 billion impact investment fund aimed at enhancing Illinois' infrastructure and real estate.

Investing in local infrastructure yields numerous benefits, such as clean water, internet access, healthcare, quality education, and disaster resilience. National efforts to increase federal infrastructure spending, through the Inflation Reduction Act and the Infrastructure Investment and Jobs Act, are supported by the FIRST Fund, which bridges the gap between project needs and local financing.

The FIRST Fund aims to provide a blueprint for successful infrastructure investment, balancing financial returns with sustainability, diversity, and local development. This model can improve infrastructure quality, access, and resilience across the nation. We look forward to sharing our progress and inspiring similar initiatives in other states. The Office of the Illinois State Treasurer is excited about the positive impact the FIRST Fund will have on Illinois.

Illinois' FIRST Fund is the first state-run real assets fund focused on local economic development. Our priori-

ties include sustainable development, fair wages, and benefits for workers, all while delivering market returns. A well-compensated and trained workforce ensures higher-quality products and services. This innovative structure can serve as a model for other states to drive local investment and economic development.

Beyond financial returns, these investments offer social benefits by promoting diversity, equity, and inclusion. The FIRST Fund will prioritize investments in minority, woman, veteran, or persons with disabilities (MWVD)-owned firms and partnerships with diverse local stakeholders. True economic development is inclusive and comprehensive.

Looking to the future of the FIRST Fund, we will invest with the goal to diversify the State investment portfolio, create local impact, support sustainable investments, champion diversity and inclusion, and uphold worker-centric practices.

Sincerely,

Michael W. Frerichs
Illinois State Treasurer



FIRST Fund Overview

Overview

Established by Illinois Treasurer Michael W. Frerichs, the FIRST Fund is a first-of-its-kind, evergreen, \$1.5 billion impact investment fund dedicated to building and strengthening Illinois' infrastructure and real estate.

Legally named the Infrastructure Development Act, the act was proposed by Illinois Treasurer Michael W. Frerichs to address the need for investment within the State of Illinois.

The authority allows for the Illinois State Treasurer to allocate up to 5% of the State portfolio to invest in, create, and maintain infrastructure and real estate assets within the State through Illinois infrastructure development firms. Infrastructure firms must maintain a significant presence in Illinois as defined in the bill and have a track record of development in Illinois.

Objectives

Through the FIRST Fund, the Treasurer's Office will partner with investment firms that deploy capital into Illinois development projects. Desired outcomes for the FIRST Fund include but are not limited to:

- **Local Impact:** Investing with a unique regional focus, enabling financial returns while supporting investments that grow the local economy and generate additional impact in the State through improved infrastructure and high-quality job creation. All funds that we invest in are required to invest 2x our commitment amount to the fund into Illinois-based projects to ensure our capital has the intended impact in Illinois .
- **Investment Diversification:** Expanding the pool of assets in which the State Investment portfolio can be invested to diversify the portfolio, mitigate risk, and increase State investment earnings potential.
- **Sustainable Investments:** Encouraging sustainable development while also improving financial outcomes.
- **Diversity and Inclusion:** Expanding the manager pool, diversifying investor perspectives, and meeting the needs of all communities to promote more equitable and inclusive infrastructure development within the State of Illinois.
- **Worker-Centric:** An adequately compensated and trained worker delivers a higher-quality product and service. Through the Treasurer's Responsible Contractor Policy, the office supports and encourages fair wages and fair benefits for workers.

Illinois Infrastructure & Real Estate Landscape



Infrastructure is the backbone of our daily lives and communities. Physical structures like roads, bridges, airports, electrical grids, schools, housing, and hospitals are essentials in a successful and prosperous society; however, capital spending in infrastructure has fallen in recent decades across the United States.

Within the State of Illinois, the percentage change of spending in infrastructure as a share of GDP dropped 0.62% from 2002 to 2016. Deferred maintenance backlogs at state facilities and educational institutions alone have reached \$24 billion in the State – one of many reasons the American Society of Civil Engineers rated Illinois’ infrastructure as a C- in 2018. We see this as a risk for the State and an opportunity to invest in ways that better position the State while improving the quality of life for our citizens by improving access to food, clean water, broadband, healthcare, and quality education, to buttressing our communities against environmental disaster.

Infrastructure

The infrastructure market managed to maintain steady performance despite the broader economic environment characterized by high interest rates and inflation.

Although returns moderated to single digits, the asset class showed strong cash generation and relative stability compared to other sectors.

As in other private markets strategies, transactions became more difficult to complete as rising interest rates caused traditional credit markets to freeze and exacerbated a valuation gap between buyers and sellers.

The dislocation between private and public infrastructure markets opened opportunities to take listed companies private at attractive multiples and for infrastructure funds to acquire private clean energy developers struggling with funding costs and excessive leverage.

The renewables sector stood out with significant investment growth, driven by policies supporting decarbonization and energy transition. Renewable energy projects, including wind, solar, and battery storage, continued to attract substantial capital.

Looking ahead, sectors with strong policy support, like renewables, are expected to continue attracting significant investment. The infrastructure market is likely to

focus on strategic investments in energy transition and digital infrastructure.

Illinois is witnessing a surge in solar energy initiatives, with 27 GW currently installed and an additional 65 GW expected to be operational within the next five years, as reported by the Solar Energy Industries Association. This growth is bolstered by the state's robust renewable portfolio standard, mandating that 25% of energy must come from renewable sources by 2025. Adapture Renewables is gearing up to commence construction on two 128 MW utility-scale solar projects in central Illinois in 2025, with commercial operation slated for early 2026.

According to the American Clean Power Association (ACP) Q2 2023 Report, Illinois ranked first among 11 Midwest states for clean power capacity under construction and second in those same states for new clean power capacity additions and for operating clean power for the quarter. Illinois added 485 Megawatts (MW) of clean power to the grid in the first two quarters of 2023. Its operating clean power capacity is now 8,643 MW of wind, solar, and battery storage. Currently, wind, solar, and energy storage plants provide 13.8% of all the electricity produced in Illinois, and 3.1 million homes can be powered by the clean energy generated in Illinois.



Real Estate

In 2023, the U.S. private real estate market faced significant challenges and shifts due to the economic environment marked by high interest rates, inflation, and changing market dynamics.

Global commercial real estate investment volume fell by 37% year-over-year in Q4 2023 to \$157 billion. This made it challenging to determine asset pricing accurately, contributing to further valuation uncertainties.

The rise in interest rates led to increased discount and exit cap rates, resulting in declining asset values and negative quarterly returns across all property types. Valuation adjustments were significant as higher costs of capital required buyers to demand price concessions.

Demand for new data center developments will attract more institutional investment as investors reallocate capital from the office sector to real estate alternatives. Moreover, the biggest wave of new apartment supply in decades should temper rent growth and improve affordability.

The private real estate market is anticipated to undergo further re-pricing in the near term. However, the longer-term outlook remains positive, with expectations for strong performance once economic conditions stabilize.

In Illinois, a bright spot within the commercial real estate market was multi-family as the market continues to exhibit robust demand, adding another 7,800 units over the past 12 months. Every class in Chicago's multifamily market has shown an increase in absorption over the same period.

The Illinois industrial market ended the year softening as developers and landlords realized that they overshot their predictions for demand, leaving an abundance of high-rent, speculative space empty. The fourth quarter saw leasing totals below 10 million for the third straight quarter. With lower leasing volume and the lowest net absorption figures since 2011 (with 1.2 million square feet of positive absorption) the market is in flux. Vacancy is still near the record low, sitting at 4.3% with triple net rents increased to \$8.01.



FIRST Fund Portfolio Snapshot

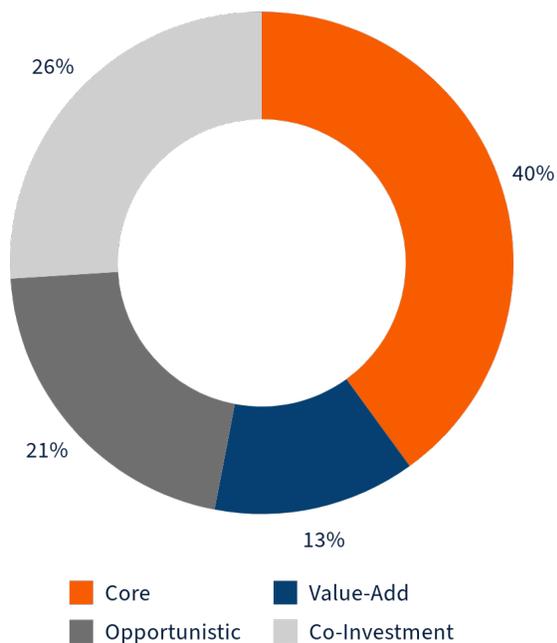
As of December 31, 2023, the FIRST Fund invested **\$190M** across **four strategies**, all which seek to create a more resilient future for Illinois.

SCHEDULE OF INVESTMENTS

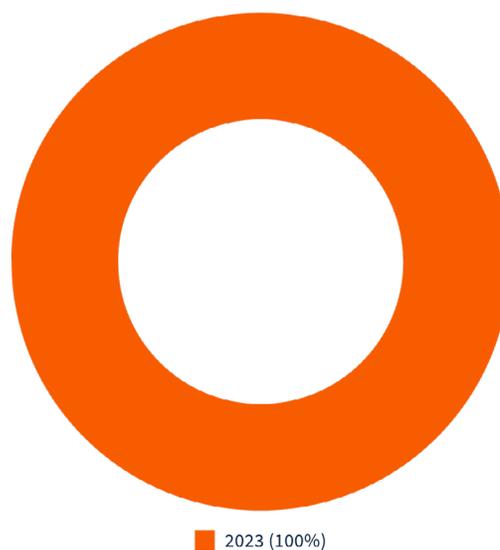
INVESTMENT	ASSET CLASS	INVESTMENT STRATEGY	SECTOR	VINTAGE
Ullico Infrastructure Fund	Infrastructure	Core	Diversified	2023
Grain Communications Opportunity Fund IV	Real Estate	Value-Add	Telecom	2023
Rose Affordable Housing Preservation Fund VI	Infrastructure	Opportunistic	Affordable Housing	2023
Inclusive Futures - Series 2023	Co-Investment	Co-Investment	Diversified	2023

FIRST Fund Portfolio Snapshot (cont.)

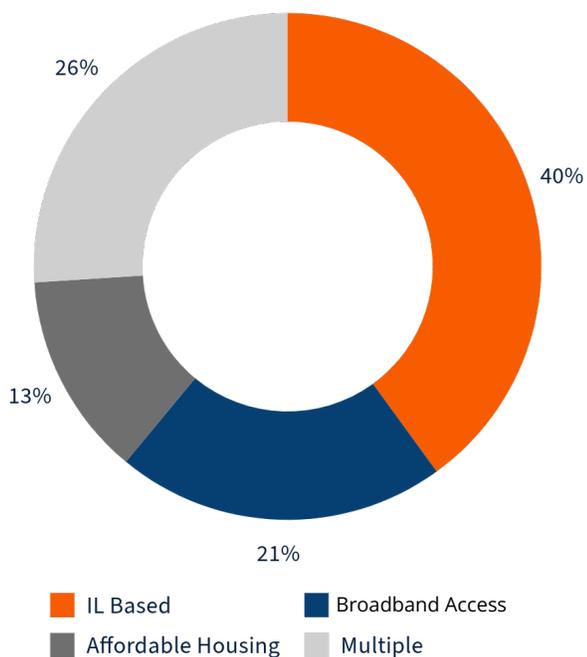
Investment Strategy



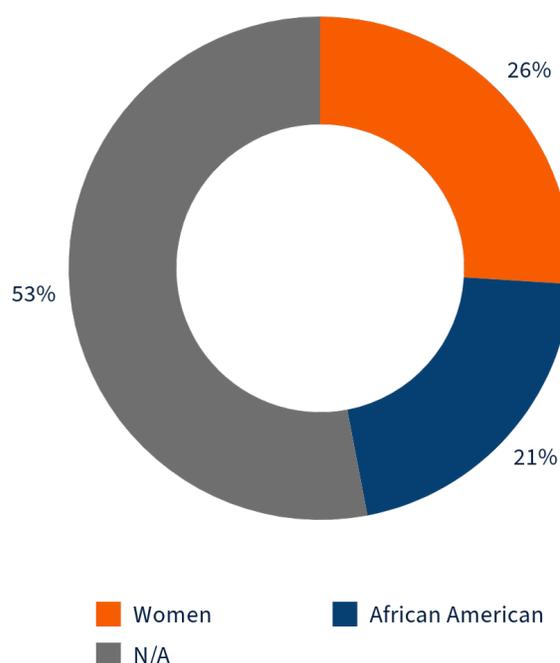
Vintage



Impact Diversification



MWVD Representation



As of December 31, 2023. Diverse investments are those with at least 51% ownership or carry is with minority persons, women, qualified veterans, and persons with disabilities (“MWVD Persons”). Based on committed capital.

FIRST Fund Portfolio Snapshot (cont.)

Objectives Progress



Local Impact

Throughout 2023, the FIRST Fund has invested in four strategic areas across various sectors to advance its mission: Affordable Housing, Broadband Access, Renewable Energy, and Illinois-Based Managers. A unique requirement for all investments within the FIRST Fund is that they must invest twice the amount of our commitment into Illinois-based projects. This ensures that our capital is continually reinvested to maximize its impact within the state. As investments by our underlying partners are made, we will monitor and report how the FIRST Fund creates a positive feedback loop for capital, job creation and sustainability in Illinois.



Investment Diversification

The FIRST Fund committed \$190 million to real assets, broadening the State investment portfolio's exposure to infrastructure, real estate, and direct/co-investments in 2023. By incorporating a mix of core, value-add, and opportunistic strategies, the Fund aims to capitalize on growth opportunities across different sectors while effectively mitigating risks to the broader portfolio.



Sustainable Investments

The FIRST Fund has strategically invested in sectors such as sustainably developed and managed power, utilities, energy, transportation, digital infrastructure (including dark fiber networks), data centers, and affordable living communities to advance this goal. Over the next year, we will closely monitor and report on the carbon, water, and waste footprint of these investments, as well as any net positive environmental initiatives, such as renewable energy generation, emissions reduction, and waste remediation.



Diversity & Inclusion

The FIRST Fund is dedicated to incorporating the perspectives of all communities while building a more equitable and inclusive infrastructure for the State of Illinois. To support this mission, the Fund allocated \$90 million—47% of its annual deployment—to diverse-owned funds. In the coming year, we will be closely tracking Minority, Women, Disabled, and Veteran (MWDV) ownership and leadership at both the investment and operator levels.



Worker-Centric

Worker rights have been a central focus in the development and launch of the FIRST Fund. In May 2023, the Office of the Illinois State Treasurer established a [Responsible Contractor Policy \(RCP\)](#) for the Fund. The RCP promotes and encourages fair wages and equitable benefits for workers employed by the Fund's managers, contractors, and subcontractors. This policy is implemented while maintaining the fiduciary duties of loyalty and prudence, which require competitive returns on the Treasurer's real estate and infrastructure investments.

Investment Spotlight



As an open-ended fund with no terminal date, Ullico makes long-term investments in U.S.- and Canada-based infrastructure businesses that provide essential services to communities, governments, and corporations.

The Fund's investments span across the spectrum of infrastructure space, including **power, utilities, energy, transportation** and **digital infrastructure**— many of which are in Illinois. The investments aim to offer a competitive return while also creating family- sustaining union jobs.

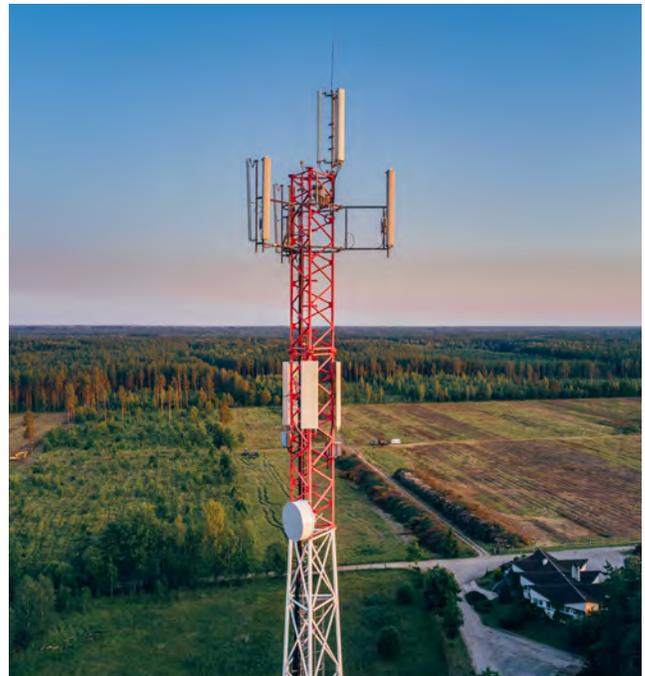
Ullico is headquartered in Washington, D.C., with additional offices in Chicago and New York City.



Grain Management is leading innovative private investments in broadband technology.

This Fund will seek to make investments across the communications sector, including direct acquisition of **fiber-optic networks, radio frequency spectrum licenses, cell towers, data centers, ancillary systems,** and **other communications assets**, as well as equity investments in companies that own, operate or provide services to communications assets—some of which may be in Illinois.

These technologies are critical for local communities to develop the digital infrastructure needed for economic and social progress.





Jonathan Rose Companies

The Fund invests in **affordable, mixed-income multi-family housing** across U.S. metropolitan areas. These include fully affordable units, rent-stabilized or controlled properties, and those subsidized by the U.S. Department of Housing and Urban Development's Section 8 or restricted by Low-Income Housing Tax Credit regulations. Illinois is a key focus area for the Fund.

Jonathan Rose Companies is headquartered in New York City, NY and maintains regional offices in Chicago, IL; Stamford, CT; Oakland, CA; Manhattan Beach, CA; Independence, OH; Denver, CO; and Cold Spring, NY.



Inclusive Futures

Inclusive Futures centers on strategic capital deployment within Illinois, targeting a diversified portfolio of development projects. This investment strategy—a portion of the FIRST Fund—encompasses a dynamic blend of direct and co-investment opportunities, illustrating a collaborative approach to project financing.

With a dual focus on financial returns and broader socio-economic development, Inclusive Futures' investment choices are designed to yield robust financial returns and catalyze local economic growth in Illinois. Furthermore, the Fund aspires to catalyze high-quality job creation within Illinois.

The Fund seeks to foster infrastructure enhancements, with investments spanning a spectrum of public and private projects. This includes the development or re-

talization of public infrastructure, such as transportation networks, utilities, and public spaces, as well as private ventures like commercial and residential properties.

The overarching aim is to uplift the infrastructure landscape, thereby promoting regional development and improving the overall quality of life for the local population. Additionally, the Fund will diversify its investments across both real assets and operating company investments to maximize its impact and financial returns, with a specific focus on energy transition opportunities to support the transition to a cleaner and more sustainable energy future.



Smart cities—those with smart homes, smart grids, smart phones, smart cars, and IoT solutions making industry more efficient—require ubiquitous connectivity. However, broadband access in Chicago has historically been constrained and confined to select neighborhoods.

Lombard, IL-based Crosstown Fiber is changing that by building a **new fiber optic network** designed to enable **high-speed internet access throughout Chicago**, including schools, data centers, enterprises, government agencies, and residences. The network is expected to bridge the digital divide for **hundreds of thousands of students** throughout the City of Chicago.



Future Initiatives

Portfolio Construction

- Continue to identify Illinois development firms that are investing in Illinois development projects across the real estate and infrastructure sectors.
- Deploy \$250 million per year across 5-7 investments ranging from \$10-75 million per investment opportunity.
- Reach our desired portfolio mix in the following strategies: 35%-40% Opportunistic, 35%-40% Value Add, 20%-30% in Core/Core Plus, and 5%-10% debt.

Local Impact

- Identify funds that can invest 2x our commitment amount into Illinois-based projects to ensure our capital has the intended impact in Illinois.
- Encourage managers to create new jobs, retain existing jobs, and attract private capital into Illinois-based assets and projects.

Diversity & Inclusion

- Forty percent of our investments will have a focus toward promoting local minority, woman, veteran, or persons with disabilities (MWVD)-owned or managed investment firms.
- Encourage investments into and partnership opportunities with quality local diverse-owned stakeholders and communities in the Illinois development ecosystem.






FIRST FUND
TREASURER MICHAEL W. FRERICHS



Michael W. Frerichs
ILLINOIS STATE TREASURER