

100641

VILLAGE OF LOMBARD
REQUEST FOR BOARD OF TRUSTEES ACTION
For Inclusion on Board Agenda

DISTRICT # _____

_____ Resolution or Ordinance (Blue) Waiver of First Requested _____
_____ Recommendations of Boards, Commissions & Committees (Green)
 X Other Business (Pink)

TO : PRESIDENT AND BOARD OF TRUSTEES
FROM: David A. Hulseberg, Village Manager *DAH*
DATE : November 9, 2010 B of T November 18, 2010
SUBJECT: Police Department Pension Report
SUBMITTED BY: David A. Hulseberg, Village Manager

BACKGROUND/POLICY IMPLICATIONS:

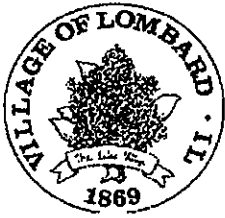
Attached is the Lombard Police Pension Fund's Municipal Compliance Report for the year ended May 31, 2010. This report is advisory as it brings many pieces of information together under one document. The Village of Lombard utilizes an actuarial service to assist in determining the fire pension tax levy for the year for which the report is made.

We ask that the Village Board accept and file the report.

Fiscal Impact/Funding Source:

Review (as necessary):
Finance Director _____ Date _____
Village Manager *DAH* _____ Date 11/10/10

NOTE: All materials must be submitted to and approved by the Village Manager's Office by 12:00 noon, Wednesday, prior to the Agenda distribution.



The Police Pension Fund

VILLAGE OF LOMBARD

235 EAST WILSON AVE.

LOMBARD, IL 60148

TO: Board of Trustees, Village of Lombard
Village President - Bill Mueller
Village Clerk - Brigitte O'Brien

THROUGH: Village Manager - David A. Hulseberg, AICP, ICMA-CM

FROM: Benny Ranallo, Secretary-Lombard Police Pension Fund

DATE: November 9th, 2010

SUBJECT: House Bill 5088 (Public Act 95-950) Municipal Compliance Report for the Year Ended May 31, 2010

All police pension funds under Article 3 are required by law to provide to their Village Board of Trustees on an annual basis a report (Municipal Compliance Report) compiling nine pieces of information as described in 40 ILCS 5/3-143.
(Excerpt below)

The pension board shall certify and provide the following information to the city council or board of trustees of the municipality:

(1) the total assets of the fund in its custody at the end of the fiscal year and the current market value of those assets;

(2) the estimated receipts during the next succeeding fiscal year from deductions from the salaries of police officers, and from all other sources;

(3) the estimated amount required during the next succeeding fiscal year to (a) pay all pensions and other obligations provided in this Article, and (b) to meet the annual requirements of the fund as provided in Sections 3-125 and 3-127;

(4) the total net income received from investment of assets along with the assumed investment return and actual investment return received by the fund during its most recently completed fiscal year compared to the total net income, assumed investment return, and actual investment return received during the preceding fiscal year;

(5) the total number of active employees who are financially contributing to the fund;

(6) the total amount that was disbursed in benefits

during the fiscal year, including the number of and total amount disbursed to (i) annuitants in receipt of a regular retirement pension, (ii) recipients being paid a disability pension, and (iii) survivors and children in receipt of benefits;

(7) the funded ratio of the fund;

(8) the unfunded liability carried by the fund, along with an actuarial explanation of the unfunded liability; and

(9) the investment policy of the pension board under the statutory investment restrictions imposed on the fund.

Before the pension board makes its report, the municipality shall have the assets of the fund and their current market value verified by an independent certified public accountant of its choice.

Attached is the Lombard Police Pension Fund's Municipal Compliance Report for the Year Ended May 31, 2010. This report is advisory as it brings many pieces of information together under one document. The Village of Lombard utilizes an actuarial service to assist in determining the police pension tax levy for the year for which the report is made. This material is in support of your November 18th, 2010 Village Board Agenda item

Providing for the levy and assessment of taxes for the fiscal year beginning June 1, 2010 and ending May 31, 2011 for the Village of Lombard

Benny Ranallo

Secretary

LOMBARD POLICE PENSION BOARD

C: Police Pension Board Members

(40 ILCS 5/3-143) (from Ch. 108 1/2, par. 3-143)

Sec. 3-143. Report by pension board.

(a) The pension board shall report annually to the city council or board of trustees of the municipality on the condition of the pension fund at the end of its most recently completed fiscal year. The report shall be made prior to the council or board meeting held for the levying of taxes for the year for which the report is made.

The pension board shall certify and provide the following information to the city council or board of trustees of the municipality:

(1) the total assets of the fund in its custody at the

end of the fiscal year and the current market value of those assets;

(2) the estimated receipts during the next succeeding fiscal year from deductions from the salaries of police officers, and from all other sources;

(3) the estimated amount required during the next succeeding fiscal year to (a) pay all pensions and other obligations provided in this Article, and (b) to meet the annual requirements of the fund as provided in Sections 3-125 and 3-127; and

(4) the total net income received from investment of assets along with the assumed investment return and actual investment return received by the fund during its most recently completed fiscal year, compared to the total net such income, assumed investment return, and actual investment return received during the preceding fiscal year; and

(5) the total number of active employees who are financially contributing to the fund;

(6) the total amount that was disbursed in benefits during the fiscal year, including the number of and total amount disbursed to (i) annuitants in receipt of a regular retirement pension, (ii) recipients being paid a disability pension, and (iii) survivors and children in receipt of benefits;

(7) the funded ratio of the fund;

(8) the unfunded liability carried by the fund, along with an actuarial explanation of the unfunded liability;

and

(9) the investment policy of the pension board under the statutory investment restrictions imposed on the fund.

Before the pension board makes its report, the municipality shall have the assets of the fund and their current market value verified by an independent certified public accountant of its choice.

(b) The municipality is authorized to publish the report submitted under this Section. This publication may be made, without limitation, by publication in a local newspaper of general circulation in the municipality or by publication on the municipality's Internet website. If the municipality publishes the report, then that publication must include all of the information submitted by the pension board under subsection (a).

(Source: P.A. 90-507, eff. 8-22-97.)

VILLAGE OF LOMBARD, ILLINOIS
POLICE PENSION FUND

HOUSE BILL 5088 – MUNICIPAL COMPLIANCE REPORT

FOR THE YEAR ENDED

MAY 31, 2010

**VILLAGE OF LOMBARD, ILLINOIS
POLICE PENSION FUND**

**House Bill 5088 (Public Act 95-950) - Municipal Compliance Report
For the Year Ended May 31, 2010**

The Pension Board certifies to the Board of Trustees of the Village of Lombard on the condition of the Pension Fund at the end of its most recently completed fiscal year the following information:

- 1) The total assets of the fund and their current market value of those assets:

	<u>Current Fiscal Year</u>	<u>Preceding Fiscal Year</u>
Total Assets	<u>\$ 39,721,261</u>	<u>\$ 35,227,665</u>
Market Value	<u>\$ 39,721,261</u>	<u>\$ 35,227,665</u>

- 2) The estimated receipts during the next succeeding fiscal year from deductions from the salaries of police officers and from other sources:

Estimated Receipts - Employee Contributions	<u>\$ 640,000</u>
Estimated Receipts - All Other Sources	
Investment Earnings	<u>\$ 2,979,100</u>
Municipal Contributions	<u>\$ 1,712,424</u>

- 3) The estimated amount required during the next succeeding fiscal year to (a) pay all pensions and other obligations provided in Article 3 of the Illinois Pension Code, and (b) to meet the annual requirements of the fund as provided in Sections 3-125 and 3-127:

(a) Pay all Pensions and Other Obligations	<u>\$ 3,557,400</u>
(b) Annual Requirement of the Fund as Determined by:	
Illinois Department of Insurance - Actuarial Report	<u>\$ 2,377,735</u>
Private Actuary	<u>\$ 1,712,424</u>

**VILLAGE OF LOMBARD, ILLINOIS
POLICE PENSION FUND**

**House Bill 5088 (Public Act 95-950) - Municipal Compliance Report
For the Year Ended May 31, 2010**

- 4) The total net income received from investment of assets along with the assumed investment return and actual investment return received by the fund during its most recently completed fiscal year compared to the total net income, assumed investment return, and actual investment return received during the preceding fiscal year:

	<u>Current Fiscal Year</u>	<u>Preceding Fiscal Year</u>
Net Income Received from Investment of Assets	<u>\$ 4,957,467</u>	<u>\$ (4,876,576)</u>
Assumed Investment Return		
Illinois Department of Insurance - Actuarial Report	<u>7.00%</u>	<u>7.00%</u>
Private Actuary	<u>7.50%</u>	<u>7.50%</u>
Actual Investment Return	<u>13.23%</u>	<u>-12.86%</u>

- 5) The total number of active employees who are financially contributing to the fund:

Number of Active Members	<u>72</u>
--------------------------	-----------

- 6) The total amount that was disbursed in benefits during the fiscal year, including the number of and total amount disbursed to (i) annuitants in receipt of a regular retirement pension, (ii) recipients being paid a disability pension, and (iii) survivors and children in receipt of benefits:

	<u>Number of</u>	<u>Total Amount Disbursed</u>
(i) Regular Retirement Pension	<u>46</u>	<u>\$ 2,371,641</u>
(ii) Disability Pension	<u>4</u>	<u>\$ 184,291</u>
(iii) Survivors and Child Benefits	<u>6</u>	<u>\$ 172,510</u>
Totals	<u>56</u>	<u>\$ 2,728,442</u>

**VILLAGE OF LOMBARD, ILLINOIS
POLICE PENSION FUND**

**House Bill 5088 (Public Act 95-950) - Municipal Compliance Report
For the Year Ended May 31, 2010**

7) The funded ratio of the fund:

	<u>Current Fiscal Year</u>	<u>Preceding Fiscal Year</u>
Illinois Department of Insurance - Actuarial Report	<u>52.36%</u>	<u>65.19%</u>
Private Actuary	<u>62.60%</u>	<u>58.80%</u>

8) The unfunded liability carried by the fund, along with an actuarial explanation of the unfunded liability:

Unfunded Liability:

Illinois Department of Insurance - Actuarial Report	<u>\$ 31,126,092</u>
Private Actuary	<u>\$ 23,764,021</u>

The accrued liability is the actuarial present value of the portion of the projected benefits that has been accrued as of the valuation date based upon the actuarial valuation method and the actuarial assumptions employed in the valuation. The unfunded accrued liability is the excess of the accrued liability over the actuarial value of assets.

9) The investment policy of the Pension Board under the statutory investment restrictions imposed on the fund.

Investment Policy - See Attached

Please see Notes Page attached

CERTIFICATION OF MUNICIPAL POLICE
PENSION FUND COMPLIANCE REPORT

The Board of Trustees of the Pension Fund, based upon information and belief, and to the best of our knowledge, hereby certify pursuant to §3-143 of the Illinois Pension Code 40 ILCS 5/3-143, that the preceding report is true and accurate.

Adopted this 5TH day of NOV, 2010

President R. Shaper Date 11-5-10

Secretary [Signature] Date 11/5/10

**VILLAGE OF LOMBARD, ILLINOIS
POLICE PENSION FUND**

**House Bill 5088 (Public Act 95-950) - Municipal Compliance Report
For the Year Ended May 31, 2010**

INDEX OF ASSUMPTIONS

- 1) Total Assets - as Reported in the Audited Financial Statements for the Years Ended May 31, 2010 and 2009

Market Value - Same as Above

- 2) Estimated Receipts - Employee Contributions as Reported in the Audited Financial Statements for the Year Ended May 31, 2010 plus 5.25% Increase (Actuarial Salary Increase Assumption) Rounded to the Nearest \$100

Estimated Receipts - All Other Sources

Investment Earnings - Cash and Equivalents and Investments as Reported in the Audited Financial Statements for the Year Ended May 31, 2009, times 7.5% (Actuarial Investment Return Assumption) Rounded to the Nearest \$100

Municipal Contributions - Tax Levy Requirement as Reported by Timothy W. Sharpe Actuarial Valuation for the Year Ended May 31, 2009

- 3) (a) Pay all Pensions and Other Obligations - Total Deductions as Reported in the Audited Financial Statements for the Year Ended May 31, 2010, plus a 25% Increase, Rounded to the Nearest \$100

(b) Annual Requirement of the Fund as Determined by:

Illinois Department of Insurance - Suggested Amount of Tax Levy as Reported in the May 31, 2009 Actuarial Valuation

Private Actuary - Tax Levy Requirement as Reported in the May 31, 2009 Timothy W. Sharpe Actuarial Valuation

**VILLAGE OF LOMBARD, ILLINOIS
POLICE PENSION FUND**

**House Bill 5088 (Public Act 95-950) - Municipal Compliance Report
For the Year Ended May 31, 2010**

INDEX OF ASSUMPTIONS - Continued

- 4) Net Income Received from Investment of Assets - Investment Income (Loss) net of Investment Expense, as Reported in the Audited Financial Statements for the Years Ended May 31, 2010 and 2009

Assumed Investment Return

Illinois Department of Insurance - Interest Rate Assumption as Reported in the May 31, 2009 and 2008 Actuarial Valuations

Private Actuary - Interest Rate Assumption as Reported in the May 31, 2009 and 2008 Timothy W. Sharpe Actuarial Valuations

Actual Investment Return - Net Income Received from Investments as Reported Above as a Percentage of the Average of the Beginning and End of Year Cash and Cash Equivalents and Investments as Reported in the Audited Financial Statements for the Years Ended May 31, 2010, 2009 and 2008

- 5) Number of Active Members - Illinois Department of Insurance Annual Statement for May 31, 2010 - Schedule P
- 6) (i) Regular Retirement Pension - Illinois Department of Insurance Annual Statement for May 31, 2010 - Schedule P for Number of Participants and Expense page 1 for Total Amount Disbursed
- (ii) Disability Pension - Same as above
- (iii) Survivors and Child Benefits - Same as above

**VILLAGE OF LOMBARD, ILLINOIS
POLICE PENSION FUND**

**House Bill 5088 (Public Act 95-950) - Municipal Compliance Report
For the Year Ended May 31, 2010**

INDEX OF ASSUMPTIONS - Continued

7) The funded ratio of the fund:

Illinois Department of Insurance - Net Present Assets as a percentage of Total Assets as Reported in the May 31, 2009 and 2008 Actuarial Valuations

Private Actuary - Percent Funded as Reported in the May 31, 2009 and 2008 Timothy W. Sharpe Actuarial Valuations

8) Unfunded Liability:

Illinois Department of Insurance - Deferred Asset (Unfunded Accrued Liability) as Reported in the May 31, 2009 Actuarial Valuation

Private Actuary - Unfunded Accrued Liability as Reported in the May 31, 2009 Timothy W. Sharpe Actuarial Valuation

VILLAGE OF LOMBARD POLICE PENSION FUND INVESTMENT POLICY

PURPOSE

The investment of pension funds is the responsibility of the members of the Board of Trustees of the Village of Lombard Police Pension Fund (Pension Board). The purpose of this investment policy is to indicate a conscious, formal effort by the Pension Board to develop, implement and monitor the investment of pension funds. It shall be considered an important means to communicate the Pension Board's policy views on management of pension funds to the public, participants, and beneficiaries of the Fund.

SCOPE

This policy governs the investment practices and applies to all financial transactions of the Village of Lombard Police Pension Fund (Pension Fund).

OBJECTIVES

The Pension Board has a fiduciary responsibility to discharge its duties with respect to the Pension Fund solely in the interest of the participants and beneficiaries as set forth in the Illinois Pension Code.

Preservation of Principal – Preservation of principal is the foremost objective of the Pension Board. Investment transactions shall seek to first ensure that large capital losses are avoided. Additionally, the objective of the Pension Board is to avoid erosion of principal resulting from securities defaults.

Return on Investments – The Pension Board seeks to attain or exceed market rates of return on investments consistent with constraints imposed by safety objectives, cash flow considerations and Illinois Laws that restrict the placement of public funds.

Maintenance of Public Trust – All participants in the investment process shall seek to act responsibly as custodians of the Pension Fund. Investment officials shall avoid any transactions that might reasonably impair Pension Fund participant's confidence in the Pension Board's ability to manage the Pension Fund.

Liquidity – The assets shall be sufficiently liquid to meet the Pension Fund's disbursement requirements for the payment of operating expenses and benefits.

RESPONSIBILITY

Management of the investment program is the responsibility of the Pension Board. No person may engage in an investment transaction except as provided under terms of this policy established by the Pension Board.

The Treasurer of the Pension Fund shall be responsible for establishing internal controls and written procedures for the operation of the investment program. (30 ILCS 230/2.5(a)(7)).

The Pension Board may, in accordance with 40 ILCS 5/1-113.5, appoint an investment manager (as defined in 40 ILCS 5/1 – 101.4) to assist in the management of the investment program. The investment manager shall acknowledge, in writing, that he or she is a fiduciary with respect to the Pension Fund. Any such written acknowledgement shall be attached to this policy or included in the agreement between the Pension Board and the investment manager.

The Pension Board will meet with the investment manager quarterly to review market conditions and to determine investment strategy. This review will include analysis of the investment portfolio, its effectiveness in meeting the Pension Fund's needs for safety, liquidity, rate of return, and diversification, and its general performance.

PRUDENCE

The standard of prudence to be used by investment officials shall be the "prudent investor" and shall be applied in the context of managing the portfolio. Investments shall be made with the care, skill, prudence and diligence that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of like character with like aims.

PROHIBITED TRANSACTIONS

A Fiduciary with respect to the Pension Fund shall not:

1. Deal with the assets of the Pension Fund in his or her own interests or for his or her own account.
2. In their individual or other capacity effect any transaction involving the Pension Fund on behalf of a party whose interests are adverse to the interests of the Pension Fund or the interests of its participants or beneficiaries.
3. Receive any consideration for his or her own personal account from any party dealing with the Pension Fund in connection with a transaction involving the assets of the Pension Fund.
4. Knowingly cause or advise the Pension Fund to engage in an investment transaction when the fiduciary (i) has any direct interest in the income, gains, or profits of the investment advisor through which the investment transaction is made or (ii) has a business relationship with that investment advisor that would result in a pecuniary benefit to the fiduciary as a result of the investment transaction. (40 ILCS 5/1-110)

INVESTMENT INSTRUMENTS

The Pension Fund may invest in any type of investment instrument permitted by Illinois law, as described in Chapter 40 of the Illinois Compiled Statutes, 40 ILCS 5/1-113.1 through 113.40. Permitted investment instruments include, but are not limited to:

1. Interest bearing direct obligations of the United States of America.
2. Interest bearing obligations to the extent that they are fully guaranteed or insured as to payment of principal and interest by the United States of America.
3. Interest bearing bonds, notes, debentures, or other similar obligations of agencies of the United States of America. For the purposes of this section, "Agencies of the United States of America" include:
 - a. The Federal National Mortgage Association and the Student Loan Marketing Association.
 - b. Federal Land Banks, Federal Intermediate Credit Banks, Federal Farm Credit Banks, and any other entity authorized to issue direct debt obligations of the United States of America under the Farm Credit Act of 1971.
 - c. Federal Home Loan Banks and the Federal Home Loan Mortgage Corporation.
 - d. Any agency created by act of Congress that is authorized to issue direct debt obligations of the United States of America.
4. Interest bearing savings accounts or certificates of deposit, issued by federally chartered banks or savings and loan associations, or by State of Illinois chartered banks or savings and loan associations, to the extent that the deposits are insured by agencies or instrumentalities of the federal government.
5. Interest bearing bonds of the State of Illinois or interest bearing bonds or tax anticipation warrants of any county, township, or municipal corporation of the State of Illinois.
6. Investments in credit unions, to the extent that the investments are insured by agencies or instrumentalities of the federal government.
7. Interest bearing bonds of the State of Illinois
8. Pooled interest bearing accounts managed by the Illinois Public Treasurer's Investment Pool in accordance with the Deposit of State Moneys Act and interest bearing funds or pooled accounts managed, operated, and administered by banks, subsidiaries of banks, or subsidiaries of bank holding companies in accordance with the laws of the State of Illinois.
9. Interest bearing bonds or tax anticipation warrants of any county, township, or municipal corporation of the State of Illinois.

10. Direct obligations of the State of Israel, subject to the conditions and limitations of item (5.1) of Section 1-113 (40 ILCS 5/1-113).
11. Money Market Mutual Funds managed by investment companies that are registered under the Federal Investment Company Act of 1940 and the Illinois Securities Law of 1953 and are diversified, open-ended management investment companies; provided that the portfolio of the money market mutual fund is limited to:
 - a. Bonds, notes, certificates of indebtedness, treasury bills, or other securities that are guaranteed by the full faith and credit of the United States of America or its agencies.
 - b. Bonds, notes, debentures, or other similar obligations of the United States of America or its agencies.
 - c. Short term obligations of corporations organized in the United States with assets exceeding \$400,000,000, provided that (A) the obligations mature no later than 180 days from the date of purchase, (B) at the time of purchase, the obligations are rated by at least 2 standard national rating services at one of their 3 highest classifications, and (C) the obligations held by the mutual fund do not exceed 10% of the corporation's outstanding obligations.
12. General accounts of life insurance companies authorized to transact business in Illinois.
13. Any combination of the following, not to exceed 10% of the pension fund's net assets:
 - a. Separate accounts that are managed by life insurance companies authorized to transact business in Illinois and are comprised of diversified portfolios consisting of common or preferred stocks, bonds, or money market instruments;
 - b. Separate accounts that are managed by insurance companies authorized to transact business in Illinois, and are comprised of real estate or loans upon real estate secured by first or second mortgages; and
 - c. Mutual funds that meet the following requirements:
 - i. the mutual fund is managed by an investment company as defined and registered under the federal Investment Company Act of 1940 and registered under the Illinois Securities Law of 1953;
 - ii. the mutual fund has been in operation for at least 5 years;
 - iii. the mutual fund has total net assets of \$250 million or more; and
 - iv. the mutual fund is comprised of diversified portfolios of common or preferred stocks, bonds, or money market instruments.
14. In addition to the items listed above, if the Pension Fund has net assets of \$2,500,000 or more it may invest a portion of its net assets in the following items:
 - a. Separate accounts that are managed by life insurance companies authorized to transact business in Illinois and comprised of diversified portfolios consisting of common or preferred stocks, bonds, or money market instruments.
 - b. mutual funds that meet the following requirements:
 - i. The mutual fund is managed by an investment company as defined and registered under the Federal Investment Company Act of 1940 and registered under the Illinois Securities Law of 1953.
 - ii. The mutual fund has been in operation for at least five years.
 - iii. The mutual fund has total net assets of \$250 million or more.
 - iv. The mutual fund is comprised of diversified portfolios of common or preferred stocks, bonds, or money market instruments.
15. In addition to the items listed above, if the Pension Fund has net assets of \$5,000,000 or more it may invest a portion of its net assets in common and preferred stocks that meet the following requirements:
 - a. Investments made through an investment advisor with a written contract.
 - b. Stocks of U.S. Corporations that have been in existence for 5 years.
 - c. Corporations not in arrears in payment of dividends in the last 5 years.
 - d. Market value of stock in any one corporation does not exceed 5% of cash and invested assets of pension fund.

- e. Stock in any one corporation does not exceed 5% of the total outstanding stock in the corporation.
- f. Stocks listed on national securities exchange or quoted in NASDAQNMS.

The Pension Fund's investment in the above equity investments (# 13, 14 and 15) shall not exceed 45% (for funds of \$2,500,000 or more) of the market value of the pension fund's net present assets stated in its most recent annual report on file with the Illinois Department of Financial and Professional Regulation, Division of Insurance.

Investments of the Pension Fund will be registered in the name of the Pension Fund and placed with a custodian approved by the Pension Board so long as the custodian meets the requirements of state statutes.

PERFORMANCE MEASUREMENTS

Performance will be calculated using professional standards as established by the CFA Institute. The Pension Board shall include (but is not limited to) the following benchmarks for evaluating the Pension Fund's performance:

<u>Application</u>	<u>Benchmark</u>
Cash Equivalents	90 - day U.S. Treasury Bills
Fixed Income	Barclay's Capital Government Bond Index
Large Capitalization Equities	Standard & Poor's 500 Stock Index
Small Capitalization Equities	Russell 2000 Stock Index
International Equities	Morgan Stanley Capital International . Europe/Australia/Far East Index

CONTROLS

The Pension Board maintains Pension Fund books and records in conformance with generally accepted accounting principals. Internal controls shall be reviewed by the Pension Board and may be reviewed by an independent auditor. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers of the Pension Board.

DIVERSIFICATION / STRATEGY

Fixed Income:

The average maturity/duration of the portfolio will be managed based upon the current existing interest rate environment. Under most circumstances the average maturity and duration of the portfolio will be maintained at approximately 5.0 years and will range from 2.0 years to 7.0 years. This type of strategy will often result in increasing the maturity/duration of the portfolio when interest rates are rising and decreasing the maturity/duration of the portfolio when interest rates are declining. The investment manager may change the duration of the portfolio as market conditions permit.

The allocation guidelines, by asset class, for the fixed income investments are as follows:

	<u>Normal Allocation</u>	<u>Range of Allocation</u>
Cash / Money Market:	0%	0-40%
U.S. Treasury Bills/Notes/Bonds:	30%	0-100%
U.S. Government Agency Securities (non-MBS):	35%	0-70%
U.S. Government Agency Securities - Callable:	20%	0-30%
U.S. Government Agency Securities (MBS):	5%	0-10%
Taxable Municipal Securities:	10%	0-20%
Certificates of Deposit:	0%	0-20%

Under normal market conditions the structure of the portfolio will be within these limits. However, the portfolio manager may diverge from the above guidelines due to abnormal market conditions.

Equities:

Once the Pension Fund reaches the equity allocation approved by the Pension Board and permitted by law, normal asset allocation range for equity portfolio allocation weightings should be:

	<u>Normal Allocation</u>		<u>Range of Allocation</u>
U.S. Large Company Stocks	70%	+/-	30%
U.S. Small Company Stocks	20%	+/-	20%
International Stocks	10%	+/-	10%

The Pension Fund asset allocation should be rebalanced at least annually when the equity allocation rises above the maximum allowable as a percentage of assets as defined by Illinois State Statute.

COLLATERALIZATION

Pension Fund assets may be invested in savings accounts or certificates of deposit of a national or state bank, even if fund assets on deposit in such institution will exceed federal deposit insurance or guarantee limits for invested principal and accrued interest, but only if the amount by which the fund's investment exceeds such insurance or guarantee limits is collateralized by the fund which shall be maintained and credited to the fund on the records of the custodial bank. The Pension Fund shall have a perfected security interest in such securities which shall be free of any claims to the rights to these securities other than any claims by the custodian which are subordinate to the Pension Fund's claims to rights to these securities.

CUSTODY AND SAFEKEEPING OF INVESTMENTS

1. Third party safekeeping is required for all securities owned by the Pension Fund. (40 ILCS 5/1-113.7)
2. Custody arrangements shall be documented by an approved written agreement. The agreement may be in the form of a safekeeping agreement, trust agreement, escrow agreement or custody agreement.

ETHICS AND CONFLICTS OF INTEREST

Any fiduciary with respect to the Pension Fund shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair his or her ability to make impartial investment decisions.

REPORTING

At least quarterly, the Treasurer shall submit to the Pension Board an investment report which shall describe the portfolio in terms of investment securities, maturity, cost, transactions and earnings for the current period. The Treasurer shall also submit a comprehensive annual report on the Pension Fund and its activity.

MEETING SCHEDULE

The Pension Board shall schedule periodic meetings for the purposes of portfolio and investment manager review. Special meetings may be called from time-to-time by the Pension Board.

AUDIT

The Pension Fund is subject to periodic examination by the Illinois Department of Financial and Professional Regulation, Division of Insurance.

FILING

The Board shall file a copy of this policy with the Illinois Department Insurance, within thirty (30) days of its adoption. The Board shall make a copy of this Policy available to the public at the main administrative office of the Pension Fund. (40 ILCS 5/1-113.6; 30 ILCS 235/2.5(c))

DEFINITIONS

Beneficiary – person eligible for or receiving benefits from a pension fund.

Book Entry Security – securities that can be transferred from institution to institution using the federal electronic wire system, thus eliminating the physical transfer of certificates. Records are maintained on a computer system at the Federal Reserve.

Collateral – the pledging of a security to guarantee performance of an obligation.

Fiduciary – person entrusted with the control of assets for the benefit of others.

Investment Manager – an individual or organization that provides investment management services for a fee, either on a discretionary or nondiscretionary basis. Under Illinois law, an investment manager is considered a fiduciary with respect to the Pension Fund.

Market Value – the present price of a given security.

Barclay's Capital Government Bond Index - The Barclay's Capital Government Bond Index tracks the performance of the combined U.S. Treasury and U.S. Agency markets. It includes U.S. dollar-denominated U.S. Treasury and U.S. Agency Bonds, issued in the U.S. domestic bond market.

Morgan Stanley Capital International (EAFE) – Indices are based on the share prices of approximately 1,600 companies listed on stock exchanges in the twenty-two countries that make up the MSCI National Indices.

Return – the profit or interest as payment for investment.

Russell 2000 Stock Index – is comprised of the smallest 2000 companies in the Russell 3000 index, representing approximately 11% of the Russell 3000 total market capitalization. The Index was developed with a base value of 135.00 as of December 31, 1986.

Security – any note, stock, bond, certificate of interest or certificate of deposit.

Separate Account – term used of variable annuities. Because the risk is borne by the investor in a variable annuity, the issuer may not commingle funds invested in the variable annuity with the general funds of the issuer.

Standard & Poor's 500 Stock Index – is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The index was developed with a base level of 10 for the 1941-43 base period.

Treasury Bill – short-term debt obligation of U.S. government which will mature in one year or less at the time of original issuance.

Treasury Note – debt obligations of U.S. government which will mature in ten years or less at the time of original issuance.

Treasury Bond – longer debt obligations of U.S. government which will mature in ten years or longer at the time of original issuance.

Current Yield – percentage derived by taking annual interest from an investment and dividing by current market value.

AMENDMENT

This policy may be amended from time to time by the Pension Board.

CONFLICT

In the event of any conflict between this Policy and the Illinois Compiled Statutes or case decisions of the State of Illinois, the Statutes and case law decisions shall govern.