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**MEMORANDUM  
FINANCE DEPARTMENT**

**TO:** Thomas Thomas, City Manager  
**SUBJECT:** December 31, 2014 Municipal Compliance Reports

**Number:** 014-15  
**Date:** 07/02/2015

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House Bill 5088 (Public Act 95-950) requires the Police Pension Board and the Fire Pension Board to certify to City Council on the condition of the Pension Fund(s) at the end of the completed fiscal year. Attached please find the December 31, 2014 Compliance Reports as certified by each fund.

**Recommendation:**

Staff recommends that City Council accept the Municipal Compliance Reports for the Fiscal Year Ending December 31, 2014 for the Police Pension Fund and the Fire Pension Fund.

**Submitted by:** Cynthia Parchert, Finance Director

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**Approved by:** Thomas Thomas, City Manager

CITY OF ROCK ISLAND, IL  
 FIREFIGHTER'S PENSION FUND

House Bill 5088 (Public Act 95-950) – Municipal Compliance Report  
 Period Ended April 1, 2014 through December 31, 2014

The Firefighter's Pension Board certifies to the Board of Trustees of the City of Rock Island, Illinois on the condition of the Firefighter's 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 assets:

	<u>Current Fiscal Year</u>	<u>Preceding Fiscal Year</u>
Total Assets	<u>\$23,581,665</u>	<u>\$ 25,333,204</u>
Market Value	<u>\$23,581,665</u>	<u>\$ 25,333,204</u>

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

Estimated Receipts - Employee Contribution	<u>\$390,866</u>
Estimated Receipts - All Other Sources	
Investment Earnings	<u>\$802,356</u>
Municipal Contributions	<u>\$2,676,324</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>\$3,971,817</u>
(b) Annual Requirement of the Fund as Determined by:	
Illinois Department of Insurance	<u>N/A</u>

Private Actuary

Recommended Municipal Contribution	<u>\$2,803,150</u>
Statutory Municipal Contribution	<u>\$2,415,713</u>

- 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>\$790,678</u>	<u>\$1,879,283</u>
Assumed Investment Return		
Illinois Department of Insurance	<u>NA</u>	<u>NA</u>
Private Actuary	<u>7.50%</u>	<u>7.50%</u>
Actual Investment Return	<u>4.3%</u>	<u>7.3%</u>

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

Number of Active Members:	<u>58</u>
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- 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 receipts 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>58</u>	<u>\$2,345,775</u>
(ii) Disability Pension	<u>11</u>	<u>\$280,566</u>
(iii) Survivors and Child Benefits	<u>21</u>	<u>\$526,603</u>

Totals	<u>90</u>	<u>\$3,152,944</u>
7) The funded ratio of the fund:		
	<u>Current Fiscal Year</u>	<u>Preceding Fiscal Year</u>
Illinois Department of Insurance	<u>NA</u>	<u>NA</u>
Private Actuary	<u>39.4%</u>	<u>39.3%</u>

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

Unfunded Liability:

Illinois Department of Insurance	<u>NA</u>
Private Actuary	<u>\$38,886,952</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.

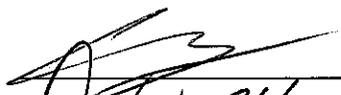
9) The investment policy of the Pension Board under the statutory investment restrictions imposed on the fund.

Investment Policy – See attachment

CERTIFICATION OF MUNICIPAL FIREFIGHTER'S  
PENSION FUND COMPLIANCE REPORT

The Board of Trustees of the Rock Island Firefighter's Pension Fund, based on 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 25<sup>th</sup> day of June, 2015

President	 _____	Date	<u>6-25-2015</u>
Secretary	 _____	Date	<u>6-25-2015</u>

# **ROCK ISLAND FIREFIGHTERS PENSION FUND**

## **Investment Policy Guidelines**

**Dated: December 1, 2011**

**Amended April 15, 2014**

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## **Definition of Terms**

### **"Illinois Pension Code" Defined**

In this Policy, "Illinois Pension Code" refers to the Illinois Pension Code (40 ILCS 5).

### **"Fiduciary" Defined**

In this Policy, "Fiduciary" shall mean a "Fiduciary" as defined under Illinois law including, but not limited to, the definitions of Section 1-101.2 of the Illinois Pension Code and shall include any person who exercises any discretionary authority or control over the Pension Fund's management or the disposition of its assets, or renders investment advice for a fee or other compensation with respect to the Pension Fund's assets or property or has any discretionary authority or responsibility in the Pension Fund's administration, including but not limited to, investment consultant(s), investment manager(s), and custodian(s) as defined herein.

### **"Pension Fund" Defined**

In this Policy, the "Pension Fund" refers to the pool of assets held in trust under the terms of the Illinois Pension Code for the benefit of Rock Island Firefighters and their surviving spouses, children, and certain other dependents (see Addendum B).

### **"Board of Trustees" Defined**

In this Policy, the "Board of Trustees" refers to the governing board established to administer and control the Pension Fund as specified in the Illinois Pension Code (see Addendum D).

### **"Investment Professionals" Defined**

In this Policy, the "investment professionals" refers to investment manager(s), the investment consultant(s), and the custodian(s).

### **"Investment Manager" Defined**

In this Policy, the "investment manager" refers to any firm, fund, or individual that analyzes, selects, and executes the purchase or sale of individual securities and has agreed to its appointment as an investment manager as defined in Section 1-101.4 of the Illinois Pension Code.

### **"Investment Consultant" Defined**

In this Policy, the "investment consultant" refers to any firm that provides investment advice and information and assists the Board of Trustees in fulfilling their fiduciary responsibilities as Trustees.

## **"Custodian" Defined**

In this Policy, the "custodian" refers to any third party firm that safe-keeps the assets of the Pension Fund.

## **The Statement of Purpose**

### **The Pension Fund's Purpose**

The Pension Fund has been established by the City of Rock Island, Illinois and is governed by the Statutes of the State of Illinois. The Pension Fund is a qualified tax-exempt trust designed to provide the Pension Fund members and/or their spouses a pension benefit at the time of retirement or incurred disability.

### **The Purpose of the Investment Policy**

This investment policy is set forth by the Board of Trustees in order to:

- Define and assign the responsibilities of all involved parties.
- Establish a clear understanding of all involved parties of the investment goals and objectives of Pension Fund.
- Establish the relevant investment horizon for which the Pension Fund assets will be managed.
- Establish a target asset allocation and rebalancing procedures.
- Establish a methodology and criteria for hiring and firing investment professionals.
- Offer guidance and limitations to all investment managers regarding the investment of Pension Fund.
- Establish a basis of evaluating investment results.

In general, the purpose of this policy is to outline a philosophy which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical. This document is intended to serve as a reference tool, an operating code, and a communications link between the Board of Trustees, its staff, and its investment professionals.

## **Distinction of Responsibilities**

### **The Board of Trustees' Authority and Responsibilities**

The Board of Trustees will conduct their responsibilities with the care, skill, and caution under the circumstances then prevailing which a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an activity of like character and purpose. The Board of Trustees may delegate functions that a prudent entity acting in a like capacity and familiar with those matters could properly delegate under the circumstances. The Board of Trustees shall discharge their duties with respect to the Pension Fund solely in the interest of the Pension Fund.

The Board of Trustees will generally be responsible for the following:

- 1) Complying with applicable laws, regulations, and rulings.
- 2) Selecting all qualified investment professionals.
- 3) Monitoring and evaluating investment performance and compliance with this Policy.
- 4) Reviewing and suggesting changes, as needed, to this Policy.
- 5) Establishing and reviewing the appropriateness of the Pension Fund's asset allocation policy.
- 6) Taking action according to this Policy.

### **The Investment Committees' Authority and Responsibilities**

All investments of the Rock Island Firefighters Pension Fund are to be acted upon by the full Board of Trustees.

### **The Investment Manager's Authority and Responsibilities**

The Board of Trustees will hire competent, registered professional investment managers to manage the assets of the Pension Fund. Investment managers will conduct their responsibilities with the care, skill, and caution under the circumstances then prevailing which a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an activity of like character and purpose. Investment managers have the following responsibilities:

- 1) Vote proxy issues on securities held. All proxies will be voted exclusively for the best interests of the Pension Fund and their participants. Investment managers will maintain written policies for proxy voting and keep a proper record of all proxies to which the Program is entitled. A written report will be provided annually.
- 2) Provide written reports to the Board of Trustees and the investment consultant on at least a quarterly basis detailing performance for the most recent period as well as the current outlook of the equity and fixed income markets.
- 3) Notify the Board of Trustees and the investment consultant on a timely basis of any significant changes in the ownership, organizational structure, investment strategy, portfolio design, or configuration of the investment team.
- 4) All qualified investment managers retained by the Board of Trustees will exercise discretion within the parameters set forth in these guidelines for the portfolio(s) they manage on behalf of the Pension Fund (see Addendum A).
- 5) Act as fiduciary.

#### **The Investment Consultant's Authority and Responsibilities**

The Board of Trustees may hire an investment consultant to assist the Board of Trustees in fulfilling their Fiduciary responsibilities and in fulfilling their responsibilities in accord with this Policy. The investment consultant will conduct his responsibilities with the care, skill, and caution under the circumstances then prevailing which a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an activity of like character and purpose. The investment consultant will generally be responsible for the following:

- 1) Complying with applicable laws, regulations, and rulings.
- 2) Maintaining databases of qualified investment managers and custodians.
- 3) If needed, the investment consultant will assist the Board of Trustees with the search and selection of investment managers and custodians.
- 4) Calculate investment performance and reconcile that performance with the investment managers.
- 5) Providing written reports that summarize the performance and analysis of the Pension Fund's investments to the Board of Trustees no later than 45 days after of the end of each calendar quarter and/or maintain compliance with state regulations.
- 6) Monitoring and evaluating investment performance and compliance with this Policy. This includes meeting with the Pension Fund's investment managers on the Pension

Fund on a regular basis or review public independent analysis of the fund manager on a regular basis including but not limited to: all related fees of manager, consultant, custodian, and other professional services' fees as required by state statute. It is the responsibility of the Investment Consultant to monitor the separate managed accounts to meet (not exceed) any of the requirements of this overall general policy.

- 7) Make long-term assumptions on the capital markets for the purpose of evaluating the Pension Fund's asset allocation policy.
- 8) Establishing and reviewing the appropriateness of the Pension Fund's asset allocation policy.
- 9) Reviewing and suggesting changes, as needed, to this Policy.
- 10) Review the holdings of investment managers to ensure that no investments are made in high risk or impermissible investments and are in compliance with Illinois Statutes where applicable.
- 11) That all investment managers provide accurate updated contracts with the Pension Fund and confirm that all investment managers provide fees on at least a quarterly basis.
- 12) That all contracts with custodians are reviewed and confirmed if changes in custodian's corporate name or structure and all contracts are reviewed for compliance with Illinois Statutes.
- 13) Acknowledge that they are a fiduciary and insure that all investment managers acknowledge they are fiduciaries.
- 14) That all investments are properly collateralized and/or insured or guaranteed.

The investment consultant retained by the Board of Trustees will exercise prudence (i.e. fiduciary) within the parameters set forth in these guidelines on behalf of the Fund (see Addendum A).

### **The Custodian's Authority and Responsibilities**

The Board of Trustees will select a third party custodian to safe-keep the assets of the Pension Fund, consisting of either the Treasurer of the City, a bank or trust company authorized to conduct a trust business in Illinois, or the Illinois Public Treasurer's Investment Pool. The custodian will comply with all of the provisions of the Illinois Pension Code relating to Custody of Investments (40 ILCS 5/1-113.7). The custodian will perform (but not limited to) the following:

- 1) hold and safeguard the assets of the Pension Fund,

- 2) collect the interest, dividends, distributions, redemptions or other amounts due,
- 3) provide monthly reporting to all necessary parties,
- 4) forward any proxies to the investment managers, the Board of Trustees, or their designee,
- 5) sweep all interest and dividend payments and any other un-invested cash into a short-term money market fund for redeployment, and
- 6) other duties as detailed in the respective custodial agreement

The custodian retained by the Board of Trustees will exercise discretion within the parameters set forth in these guidelines on behalf of the Pension Fund (see Addendum A).

## **Investment Objectives**

### **Return Objectives**

The primary return objectives of the Pension Fund are to:

- (a) preserve the safety of principal per the Illinois Pension Code and diversification of the Pension Fund,
- (b) earn the highest possible total return consistent with prudent levels of risk, and
- (c) create a stream of investment returns to insure the systematic and adequate funding of actuarially determined benefits through contributions and professional management of the Pension Fund assets.

To achieve these goals, the Pension Fund has been optimized to meet its actuarial assumed rate of return (see Addendum B). The performance objective for the Pension Fund is to exceed, after investment management fees, a customized blended benchmark. To evaluate success, the Board of Trustees will compare the performance of the Pension Fund to the actuarial assumed rate of return and the performance of a custom benchmark. This benchmark represents a passive implementation of the historical investment policy targets and it is re-balanced regularly.

### **Risk Tolerance**

While achieving the return objectives, the Pension Fund is able to tolerate certain levels of risk, which are:

- (a) to accept prudent levels of short and long-term volatility consistent with the near-term cash flow needs, funding level, and long-term liability structure of the Pension Fund,
- (b) to tolerate appropriate levels of downside risk relative to the Pension Fund's actuarial assumed rate of return (see Addendum B). In doing so, the Board of the Trustees will attempt to minimize the probability of underperforming the Pension Fund's actuarial

- assumed rate of return over the long-term and to minimize the shortfall in the event such underperformance occurs,
- (c) to accept certain variances in the asset allocation structure of the Pension Fund relative to the broad financial markets and peer groups, and
  - (d) to tolerate certain levels of short-term underperformance by the Pension Fund's investment managers.

### **Constraints on the Investment Objectives**

The investment objectives of the Pension Fund are constrained by the Illinois Pension Code, time, taxes, and liquidity. The Pension Fund will operate in accord with the applicable provisions of the Illinois Pension Code, as amended. The Pension Fund is a tax-exempt entity, but can be subject to taxes involving to unrelated business taxable income ("UBTI"). UBTI is income earned by a tax-exempt entity that does not result from tax-exempt activities. The liquidity needs of the Pension Fund are to meet the regular cash flow requirements of the Pension Fund.

## **Asset Allocation and Rebalancing Procedures**

### **General Methods and Frequency of Evaluating the Asset Allocation**

The Board of Trustees, with the assistance of the investment consultant, will review the target asset allocation of the Pension Fund at least every three years. They will take into consideration applicable statutes, the actuarial rate of return of the Pension Fund, the long-term nature of the asset pool, the cash flow needs of the Pension Fund, and the general asset allocation structure of their peers. They will make assumptions on the capital markets over the long-term and optimize the asset allocation to best meet the actuarial and cash flow needs of the Pension Fund at a prudent level of risk.

### **Asset Allocation/Rebalancing**

The Board of Trustees has established the target asset allocation and permissible percentage ranges shown in the table set forth in Addendum E.

In accord with the interpretation of the Illinois Pension Code, adopted by the Trustees, the book value of total equities, at time of the investment, may not exceed the following percentage of the market value of the Pension Fund provided in the most recent annual report on file with the Department of Insurance: 55% for mutual funds, separate account of an insurance company, or separate accounts of a money manager. (40 ILCS 5/1-113.4 and 5/1-113-10 et. Seg.)

The Board of Trustees, with the assistance of the investment consultant, will review the asset allocation of the Pension Fund on a regular basis and adjust the portfolio to comply with the guidelines above. The Board of Trustees anticipates that the on-going natural cash flow needs of the Pension Fund (contributions and withdrawals) will be sufficient to maintain the asset allocation of the Pension Fund within policy guidelines under most market conditions.

# **Investment Professional Selection, Communication, and Evaluation**

## **Investment Manager Selection**

No investment managers shall be hired who are a party in interest or who have not, by their record and experience, demonstrated their Fiduciary responsibility, their investment expertise, their investment experience, and their capacity to undertake the mandate for which they are being considered. Investment managers are required to comply with the following:

- 1) Acknowledge in writing a Fiduciary and investment manager relationship with respect to the Pension Fund as defined by Illinois law as well as receipt of the Policy.
- 2) Be currently registered and maintain registration as an investment advisor under the Investment Advisors Act of 1940, a bank (as defined in the Act), or an insurance company qualified to perform investment management services under the law of more than one state unless otherwise approved on an exception basis, and
- 3) Be granted by the Pension Fund the power to manage, acquire or dispose of any assets of the Pension Fund pursuant to the Pension Fund documents.

The Pension Fund will establish investment guidelines for the investment managers and, with the assistance of the investment consultant, will conduct due diligence before the appointment of all investment managers.

Mutual funds or commingled funds will be approved by the Trustees as a separate item based on review of the prospectus and the Trustees specific approval of such fund as an amendment to this policy.

The Board of Trustees will attempt to retain service providers within the City of Rock Island whenever possible, not precluded by other standards of this policy. However, the Board of Trustees may approve qualified service providers regardless of location. A review of all service fees shall be performed on a periodic basis.

## **Frequency of Measurement and Meetings**

General meetings will be scheduled each year in advance in accordance with the Open Meetings Act and published for beneficiaries to note. Any investment activity shall be discussed at each meeting and appear as an item on the agenda.

The Board of Trustees, with the assistance of the investment consultant, expects to measure investment performance quarterly.

## **Investment Manager Communication and Evaluation Terminology**

The following terminology has been developed to facilitate efficient communication between the investment managers, investment consultant, and the Pension Fund staff. Each term signifies a particular status with the Pension Fund and any conditions that may require improvement. In each case, communication is made only after consultation with the Board of Trustees.

<u><i>STATUS</i></u>	<u><i>DESCRIPTION</i></u>
<i>"In Good Standing"</i>	The investment manager states it is acting in accordance with the Investment Policy Guidelines.
<i>"Watch"</i>	The investment manager is notified of a problem in performance (usually related to a benchmark or volatility measure), a change in investment characteristics, an alteration in management style or key investment professionals, and/or any other irregularities.
<i>"On Probation"</i>	The investment manager is notified of continued concern with one or more Alert issues. Failure to improve upon stated issues within a specific time frame justifies termination. The investment manager will begin a quarterly search for replacement for up to 1 year.
<i>"Termination"</i>	The program's management has decided to terminate the investment manager. The investment manager is notified and transition plans are in place.

Causes for considering termination of a fund

1. Change in manager's philosophy.
2. Failure to meet performance objectives over the time period or under performance of 5% for any quarter compared to the appropriate benchmark index.
3. Changes in key personnel.
4. Revision to fee schedule.
5. Changes in management process.

## **Operational Guidelines**

### **Investment Policy Guidelines for the Separately-Managed Active Management Intermediate Government Fixed Income Manager(s)**

This document contains the guidelines and restrictions that apply to the active management intermediate government fixed income investment manager(s) of the Pension Fund invested in separately managed accounts (see addendum A).

- 1) The Investment Manager shall comply with all of the provisions of the Illinois Pension Code relating to Article 4 Pension Funds, specifically Sections 1-113.1, 1-113.2, 1-113.3, 1-113.4,

and 1-113.4a relating to Permissible Investments (40 ILCS 5/1-113.1 et. seq.). In accord with the applicable portions of the Pension Code, above referenced, the investment manager may invest in the following fixed income securities:

- (a) Interest bearing direct obligations of the United States of America.
  - (b) 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.
  - (c) 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" includes: (i) the Federal National Mortgage Association and the Student Loan Marketing Association; (ii) 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 or amendments to that Act; (iii) federal home loan banks and the Federal Home Loan Mortgage Corporation; and (iv) any agency created by Act of Congress that is authorized to issue direct debt obligations of the United States of America.
  - (d) Interest bearing savings accounts or certificates of deposit, issued by federally chartered banks or savings and loan associations, to the extent that the deposits are insured by agencies or instrumentalities of the federal government.
  - (e) Investments in credit unions, to the extent that the investments are insured by agencies or instrumentalities of the federal government.
  - (f) Interest bearing bonds of the State of Illinois.
  - (g) Pooled interest bearing accounts managed by the Illinois Public Treasurer's Investment Pool in accordance with the Deposit of State Moneys Act, interest bearing funds or pooled accounts of the Illinois Metropolitan Investment Funds, 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.
  - (h) Interest bearing bonds or tax anticipation warrants of any county, township, or municipal corporation of the State of Illinois.
  - (i) Direct obligations of the State of Israel, subject to the conditions and limitations of item (5.1) of Section 1-113.
  - (j) 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. (See Section 1-113.2(11) for restrictions)
  - (k) Corporate bonds managed through an investment advisor must meet all of the following requirements: (i) the bonds must be rated as investment grade by one of the 2 largest rating services at the time of purchase; and (ii) if subsequently downgraded below investment grade, the bonds must be liquidated from the portfolio within 90 days after being downgraded by the manager.
- 2) No single security should comprise more than 10% of the portfolio's overall allocation after accounting for price appreciation.

- 3) The average duration of the portfolio is not to vary more than +/-25% of the duration of the appropriate index (see Addendum A).
- 4) All corporate bonds held within the portfolio must be rated as investment grade.
- 5) The manager may invest up to 10% of its portfolio in cash or cash equivalents.

### **Investment Objective**

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should exceed the return of the appropriate benchmark index (see Addendum A).

### **Investment Policy Guidelines for the Mutual Fund Passive Management U.S. Equity Investment Manager(s)**

This document contains the guidelines and restrictions that apply to the passive management U.S. equity investment manager(s) of the Pension Fund invested in mutual fund vehicles (see Addendum A).

### **Permissible Investments**

- 1) These funds are governed by the guidelines and restrictions contained in their prospectuses or participation agreements and in accordance with the Illinois Statutes.

### **Investment Objective**

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should meet or exceed the return of the appropriate benchmark index (refer to Addendum A).

### **Investment Policy Guidelines for the Separately-Managed Active Management U.S. Equity Manager(s)**

This document contains the guidelines and restrictions that apply to the active management U.S. equity investment manager(s) of the Pension Fund invested in separately managed accounts (see Addendum A).

- 1) The investment manager is expected to comply with all of the provisions of the Illinois Pension Code relating to Article 4 Pension Funds, specifically Sections 1-113.1, 1-113.2, 1-113.3, and 1-113.4, and 1-113.4a relating to Permissible Investments (40 ILCS 5/1-113.1 et. seq.). In accord with the applicable portions of the Pension Code, above referenced, the investment manager may invest in the following equity securities:
  - (a) The common stocks are listed on a national securities exchange or board of trade (as defined in the Federal Securities Exchange Act of 1934 and set forth in paragraph G of Section 3 of the Illinois Securities Law of 1953) or quoted in the National Association of Securities Dealers Automated Quotation System National Market System.

- (b) The securities are of a corporation created or existing under the laws of the United States or any state, district, or territory thereof and the corporation has been in existence for at least 5 years.
  - (c) The corporation has not been in arrears on payment of dividends on its preferred stock during the preceding 5 years.
  - (d) The market value of stock in any one corporation does not exceed 5% of the cash and invested assets of the Pension Fund, and the investments in the stock of any one corporation does not exceed 5% of the total outstanding stock of the corporation.
  - (e) The straight preferred stocks or convertible preferred stocks are issued or guaranteed by a corporation whose common stock qualifies for investment by the Trustees.
  - (f) The issuer of the stocks has been subject to the requirement of Section 12 of the federal Securities Exchange Act of 1934 and has been current with the filing requirement of the Sections 13 and 14 of that Act during the proceeding 3 years.
- 2) The Investment Manager may invest up to 10% of its portfolio in cash or cash equivalents.
  - 3) Options, financial futures, private placements, or venture capital may not be purchased. The purchase of securities on margin is prohibited.
  - 4) Securities listed on pink sheets may not be purchased or held at any time within the portfolio.
  - 5) No single security in the Investment Manager's portfolio will comprise more than 5% of its equity allocation at the time of purchase, nor will it be more than 10% of the equity allocation of the portfolio after accounting for price appreciation.
  - 6) All interest and dividend payments must be swept on a daily basis into a short-term money market fund for re-deployment.

**Investment Objective**

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should meet or exceed the return of the appropriate benchmark index (see Addendum A).

**Investment Policy Guidelines for the Mutual Fund Active Management International Equity Manager(s)**

Mutual funds or commingled funds will be approved by the Trustees as a separate item based on review of the prospectus and the Trustees specific approval of such fund as an amendment to this policy.

This document contains the guidelines and restrictions that apply to the active management international equity investment manager(s) of the Pension Fund invested in mutual fund vehicles (see Addendum A).

### **Permissible Investments**

- 1) These funds are governed by the guidelines and restrictions contained in their prospectuses or participation agreements and in accordance with the Illinois Statutes.

### **Investment Objective**

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should exceed the return of the appropriate benchmark index (see Addendum A).

## **Investment Policy Modification and Revision**

### **Policy Modification**

The Board of Trustees, with the assistance of the Investment Consultant, will review this Policy annually. Key environmental or operational occurrences, which could result in a Policy modification, include:

- (a) significant changes in expected patterns of the Pension Fund's liability stream,
- (b) impractical time horizons or changes,
- (c) change in the Pension Fund's priorities,
- (d) convincing arguments for change presented by investment professionals,
- (e) legislation or case law, and
- (f) areas found to be important, but not covered by the Policy.

### **Modification of Addendums**

Changes to investment professionals, the Board of Trustees, or Pension Fund information contained within Addendums A-E can and should be modified, as necessary, with a complete review by all Trustees.

**Addendum A - Defining the Investment Professionals and Benchmark Indexes  
As of December 1, 2011**

<u>Asset Class</u>	<u>Investment Manager</u>	<u>Benchmark Index</u>
Real Estate	Vanguard Reit Index	WREIT
Emerging Markets	DFA Emerging Markets Value	MS-EM
Emerging Markets	Fidelity Emerging Markets	MS-EM
International	Oakmark International	EAFE
International	Vanguard International Growth	EAFE
Small Cap	The Delafield Fund	RMCVA
Small Cap	Perkins Small Cap Value T	R200V
Small Cap	DFA US Small Cap Value	R2000
Large Cap Growth	Vanguard Primecap Admiral	SP500
Large Cap Blend	Vanguard 500 Index Signal	SP500
Large Cap Value	Dodge & Cox Stock Fund	R10VA
Large Cap Value	Vanguard Windsor II Admiral	R10VA
Fixed Income	DFA-Intermediate Index	BCIGB
Fixed Income	DFA-Variable Maturity	BCIGB
Fixed Income	PNC Capital	BCIGB
Fixed Income	Rock Island City Bonds	MUNI6
Money Market	Money Market	TBILL

<u>Investment Professional</u>	<u>Service Provider</u>
Custodian	US Bank
Investment Consultant	Investment Consulting Group, Inc. Donald R. Stanforth

## Addendum B - Summary of Plan Information

<b>Plan Name:</b>	<u>Pension Plan</u>
<b>Type of Plan:</b>	<u>Defined Benefit</u>
<b>Plan Adoption Date:</b>	_____
<b>Plan Year-End Date:</b>	<u>March 31</u>
<b>Plan Number:</b>	_____
<b>Employer Identification Number:</b>	_____
<b>Tax Identification Number:</b>	_____
<b>Assumed Actuarial Rate of Return:</b>	<u>7.5%</u>

## **Addendum C – Investment Professional Adoption of Policy**

This Policy document was adopted by the Board of Trustees for the Rock Island Firefighters Pension Fund on December 1, 2011 .

### **Investment Professional's Acknowledgments:**

The firm has received this copy of the Pension Fund's Investment Policy. The firm has studied its provisions and believes that we can both abide by its restrictions and fulfill its goals and expectations over the timetables set forth in the Policy.

PNC Financial Services Group, Inc.

Refer to Manager Specific Policy

## Addendum D - Board of Trustees Adoption of Policy

This Policy document was adopted by the Board of Trustees for the Rock Island Firefighters Pension Fund on \_\_\_\_\_.

### Board of Trustees' Acknowledgments:

We have received this copy of the Pension Fund's Investment Policy. We have studied its provisions and believe that we can both abide by its restrictions and fulfill its goals and expectations over the timetables set forth in the Policy.

  
\_\_\_\_\_  
Finance Director

  
\_\_\_\_\_  
President

6/5/2012  
\_\_\_\_\_  
Date

## Addendum E – Asset Allocation/Rebalancing

April 15, 2014

<u>Percent of Portfolio</u>			
<u>Asset Class</u>	<u>Target</u>	<u>Minimum</u>	<u>Maximum</u>
Real Estate	5%	4.0%	6.0%
Emerging Markets	5%	4.0%	6.0%
Large Cap International	10%	8.0%	12.0%
Small/Mid Cap	13%	10.4%	15.6%
Large Growth	3%	2.4%	3.6%
Blend Core	3%	2.4%	3.6%
Large Value	11%	8.8%	13.2%
Government & Corporate Bonds	49%	39.2%	58.8%
Cash	1%	0.8%	1.2%

In accord with the interpretation of the Illinois Pension Code, adopted by the Trustees, the book value of total equities, at time of the investment, may not exceed the following percentage of the market value of the Pension Fund provided in the most recent annual report on file with the Department of Insurance: 55% for mutual funds, separate account of an insurance company, or separate accounts of a money manager. (40 ILCS 5/1-113.4 and 5/1-113-10 et. Seg.)

CITY OF ROCK ISLAND, IL  
POLICE PENSION FUND

House Bill 5088 (Public Act 95-950) – Municipal Compliance Report  
Period Ending April 1, 2014 through December 31, 2014

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The Police Pension Board certifies to the Board of Trustees of the City of Rock Island, Illinois on the condition of the Police 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 assets:

	<u>Current Fiscal Year</u>	<u>Preceding Fiscal Year</u>
Total Assets	<u>\$34,916,768</u>	<u>\$ 34,916,768</u>
Market Value	<u>\$34,916,768</u>	<u>\$34,916,768</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 Contribution	<u>\$552,861</u>
Estimated Receipts - All Other Sources	
Investment Earnings	<u>\$1,358,625</u>
Municipal Contributions	<u>\$2,687,850</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>\$4,095,614</u>
(b) Annual Requirement of the Fund as Determined by:	
Illinois Department of Insurance	<u>N/A</u>

Private Actuary

Recommended Municipal Contribution \$2,893,079

Statutory Municipal Contribution \$2,501,191

- 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>\$1,323,105</u>	<u>\$3,148,443</u>
Assumed Investment Return		
Illinois Department of Insurance	<u>NA</u>	<u>NA</u>
Private Actuary	<u>7.5%</u>	<u>7.5%</u>
Actual Investment Return	<u>6.0%</u>	<u>8.6%</u>

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

Number of Active Members: 83

- 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 receipts 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>62</u>	<u>\$2,561,757</u>
(ii) Disability Pension	<u>15</u>	<u>\$397,845</u>
(iii) Survivors and Child Benefits	<u>17</u>	<u>\$ 266,337</u>

Totals	<u>94</u>	<u>\$3,225,939</u>
7) The funded ratio of the fund:		
	<u>Current Fiscal Year</u>	<u>Preceding Fiscal Year</u>
Illinois Department of Insurance	<u>NA</u>	<u>NA</u>
Private Actuary	<u>46.5%</u>	<u>46.3%</u>

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

Unfunded Liability:

Illinois Department of Insurance	<u>NA</u>
Private Actuary	<u>\$40,117,157</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.

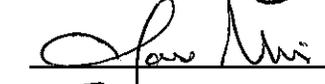
9) The investment policy of the Pension Board under the statutory investment restrictions imposed on the fund.

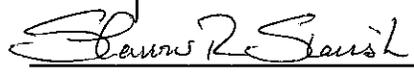
Investment Policy – See attachment

CERTIFICATION OF MUNICIPAL POLICE  
PENSION FUND COMPLIANCE REPORT

The Board of Trustees of the Rock Island Police Pension Fund, based on 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 28<sup>TH</sup> day of June, 2015

President  Date 06-29-15

Secretary  Date 29 JUNE 2015

# **Rock Island Illinois Police Pension Fund**

## **Investment Policy Guidelines**

**Dated: October 27, 2011**

**Amended April 15, 2014**

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## **Definition of Terms**

### **"Illinois Pension Code" Defined**

In this Policy, "Illinois Pension Code" refers to the Illinois Pension Code (40 ILCS 5).

### **"Fiduciary" Defined**

In this Policy, "Fiduciary" shall mean a "Fiduciary" as defined under Illinois law including, but not limited to, the definitions of Section 1-101.2 of the Illinois Pension Code and shall include any person who exercises any discretionary authority or control over the Pension Fund's management or the disposition of its assets, or renders investment advice for a fee or other compensation with respect to the Pension Fund's assets or property or has any discretionary authority or responsibility in the Pension Fund's administration, including but not limited to, investment consultant(s), investment manager(s), and custodian(s) as defined herein.

### **"Pension Fund" Defined**

In this Policy, the "Pension Fund" refers to the pool of assets held in trust under the terms of the Illinois Pension Code for the benefit of Rock Island Police and their surviving spouses, children, and certain other dependents (see Addendum B).

### **"Board of Trustees" Defined**

In this Policy, the "Board of Trustees" refers to the governing board established to administer and control the Pension Fund as specified in the Illinois Pension Code (see Addendum D).

### **"Investment Professionals" Defined**

In this Policy, the "investment professionals" refers to investment manager(s), the investment consultant(s), and the custodian(s).

### **"Investment Manager" Defined**

In this Policy, the "investment manager" refers to any firm, fund, or individual that analyzes, selects, and executes the purchase or sale of individual securities and has agreed to its appointment as an investment manager as defined in Section 1-101.4 of the Illinois Pension Code.

### **"Investment Consultant" Defined**

In this Policy, the "investment consultant" refers to any firm that provides investment advice and information and assists the Board of Trustees in fulfilling their fiduciary responsibilities as Trustees.

## **"Custodian" Defined**

In this Policy, the "custodian" refers to any third party firm that safe-keeps the assets of the Pension Fund.

## **The Statement of Purpose**

### **The Pension Fund's Purpose**

The Pension Fund has been established by the City of Rock Island, Illinois and is governed by the Statutes of the State of Illinois. The Pension Fund is a qualified tax-exempt trust designed to provide the Pension Fund members and/or their spouses a pension benefit at the time of retirement or incurred disability.

### **The Purpose of the Investment Policy**

This investment policy is set forth by the Board of Trustees in order to:

- Define and assign the responsibilities of all involved parties.
- Establish a clear understanding of all involved parties of the investment goals and objectives of Pension Fund.
- Establish the relevant investment horizon for which the Pension Fund assets will be managed.
- Establish a target asset allocation and rebalancing procedures.
- Establish a methodology and criteria for hiring and firing investment professionals.
- Offer guidance and limitations to all investment managers regarding the investment of Pension Fund.
- Establish a basis of evaluating investment results.

In general, the purpose of this policy is to outline a philosophy which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical. This document is intended to serve as a reference tool, an operating code, and a communications link between the Board of Trustees, its staff, and its investment professionals.

## **Distinction of Responsibilities**

### **The Board of Trustees' Authority and Responsibilities**

The Board of Trustees will conduct their responsibilities with the care, skill, and caution under the circumstances then prevailing which a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an activity of like character and purpose. The Board of Trustees may delegate functions that a prudent entity acting in a like capacity and familiar with those matters could properly delegate under the circumstances. The Board of Trustees shall discharge their duties with respect to the Pension Fund solely in the interest of the Pension Fund.

The Board of Trustees will generally be responsible for the following:

- 1) Complying with applicable laws, regulations, and rulings.
- 2) Selecting all qualified investment professionals.
- 3) Monitoring and evaluating investment performance and compliance with this Policy.
- 4) Reviewing and suggesting changes, as needed, to this Policy.
- 5) Establishing and reviewing the appropriateness of the Pension Fund's asset allocation policy.
- 6) Taking action according to this Policy.

### **The Investment Committees' Authority and Responsibilities**

All investments of the Rock Island Police Pension Fund are to be acted upon by the full Board of Trustees.

### **The Investment Manager's Authority and Responsibilities**

The Board of Trustees will hire competent, registered professional investment managers to manage the assets of the Pension Fund. Investment managers will conduct their responsibilities with the care, skill, and caution under the circumstances then prevailing which a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an activity of like character and purpose. Investment managers have the following responsibilities:

- 1) Vote proxy issues on securities held. All proxies will be voted exclusively for the best interests of the Pension Fund and their participants. Investment managers will maintain written policies for proxy voting and keep a proper record of all proxies to which the Program is entitled. A written report will be provided annually.
- 2) Provide written reports to the Board of Trustees and the investment consultant on at least a quarterly basis detailing performance for the most recent period as well as the current outlook of the equity and fixed income markets.
- 3) Notify the Board of Trustees and the investment consultant on a timely basis of any significant changes in the ownership, organizational structure, investment strategy, portfolio design, or configuration of the investment team.
- 4) All qualified investment managers retained by the Board of Trustees will exercise discretion within the parameters set forth in these guidelines for the portfolio(s) they manage on behalf of the Pension Fund (see Addendum A).
- 5) Act as fiduciary.

#### **The Investment Consultant's Authority and Responsibilities**

The Board of Trustees may hire an investment consultant to assist the Board of Trustees in fulfilling their Fiduciary responsibilities and in fulfilling their responsibilities in accord with this Policy. The investment consultant will conduct his responsibilities with the care, skill, and caution under the circumstances then prevailing which a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an activity of like character and purpose. The investment consultant will generally be responsible for the following:

- 1) Complying with applicable laws, regulations, and rulings.
- 2) Maintaining databases of qualified investment managers and custodians.
- 3) If needed, the investment consultant will assist the Board of Trustees with the search and selection of investment managers and custodians.
- 4) Calculate investment performance and reconcile that performance with the investment managers.
- 5) Providing written reports that summarize the performance and analysis of the Pension Fund's investments to the Board of Trustees no later than 45 days after of the end of each calendar quarter and/or maintain compliance with state regulations.
- 6) Monitoring and evaluating investment performance and compliance with this Policy. This includes meeting with the Pension Fund's investment managers on the Pension

Fund on a regular basis or review public independent analysis of the fund manager on a regular basis including but not limited to: all related fees of manager, consultant, custodian, and other professional services' fees as required by state statute. It is the responsibility of the Investment Consultant to monitor the separate managed accounts to meet (not exceed) any of the requirements of this overall general policy.

- 7) Make long-term assumptions on the capital markets for the purpose of evaluating the Pension Fund's asset allocation policy.
- 8) Establishing and reviewing the appropriateness of the Pension Fund's asset allocation policy.
- 9) Reviewing and suggesting changes, as needed, to this Policy.
- 10) Review the holdings of investment managers to ensure that no investments are made in high risk or impermissible investments and are in compliance with Illinois Statutes where applicable.
- 11) That all investment managers provide accurate updated contracts with the Pension Fund and confirm that all investment managers provide fees on at least a quarterly basis.
- 12) That all contracts with custodians are reviewed and confirmed if changes in custodian's corporate name or structure and all contracts are reviewed for compliance with Illinois Statutes.
- 13) Acknowledge that they are a fiduciary and insure that all investment managers acknowledge they are fiduciaries.
- 14) That all investments are properly collateralized and/or insured or guaranteed.

The investment consultant retained by the Board of Trustees will exercise prudence (i.e. fiduciary) within the parameters set forth in these guidelines on behalf of the Fund (see Addendum A).

### **The Custodian's Authority and Responsibilities**

The Board of Trustees will select a third party custodian to safe-keep the assets of the Pension Fund, consisting of either the Treasurer of the City, a bank or trust company authorized to conduct a trust business in Illinois, or the Illinois Public Treasurer's Investment Pool. The custodian will comply with all of the provisions of the Illinois Pension Code relating to Custody of Investments (40 ILCS 5/1-113.7). The custodian will perform (but not limited to) the following:

- 1) hold and safeguard the assets of the Pension Fund,

- 2) collect the interest, dividends, distributions, redemptions or other amounts due,
- 3) provide monthly reporting to all necessary parties,
- 4) forward any proxies to the investment managers, the Board of Trustees, or their designee,
- 5) sweep all interest and dividend payments and any other un-invested cash into a short-term money market fund for redeployment, and
- 6) other duties as detailed in the respective custodial agreement

The custodian retained by the Board of Trustees will exercise discretion within the parameters set forth in these guidelines on behalf of the Pension Fund (see Addendum A).

## **Investment Objectives**

### **Return Objectives**

The primary return objectives of the Pension Fund are to:

- (a) preserve the safety of principal per the Illinois Pension Code and diversification of the Pension Fund,
- (b) earn the highest possible total return consistent with prudent levels of risk, and
- (c) create a stream of investment returns to insure the systematic and adequate funding of actuarially determined benefits through contributions and professional management of the Pension Fund assets.

To achieve these goals, the Pension Fund has been optimized to meet its actuarial assumed rate of return (see Addendum B). The performance objective for the Pension Fund is to exceed, after investment management fees, a customized blended benchmark. To evaluate success, the Board of Trustees will compare the performance of the Pension Fund to the actuarial assumed rate of return and the performance of a custom benchmark. This benchmark represents a passive implementation of the historical investment policy targets and it is re-balanced regularly.

### **Risk Tolerance**

While achieving the return objectives, the Pension Fund is able to tolerate certain levels of risk, which are:

- (a) to accept prudent levels of short and long-term volatility consistent with the near-term cash flow needs, funding level, and long-term liability structure of the Pension Fund,
- (b) to tolerate appropriate levels of downside risk relative to the Pension Fund's actuarial assumed rate of return (see Addendum B). In doing so, the Board of the Trustees will attempt to minimize the probability of underperforming the Pension Fund's actuarial

assumed rate of return over the long-term and to minimize the shortfall in the event such underperformance occurs,

- (c) to accept certain variances in the asset allocation structure of the Pension Fund relative to the broad financial markets and peer groups, and
- (d) to tolerate certain levels of short-term underperformance by the Pension Fund's investment managers.

### **Constraints on the Investment Objectives**

The investment objectives of the Pension Fund are constrained by the Illinois Pension Code, time, taxes, and liquidity. The Pension Fund will operate in accord with the applicable provisions of the Illinois Pension Code, as amended. The Pension Fund is a tax-exempt entity, but can be subject to taxes involving to unrelated business taxable income ("UBTI"). UBTI is income earned by a tax-exempt entity that does not result from tax-exempt activities. The liquidity needs of the Pension Fund are to meet the regular cash flow requirements of the Pension Fund.

## **Asset Allocation and Rebalancing Procedures**

### **General Methods and Frequency of Evaluating the Asset Allocation**

The Board of Trustees, with the assistance of the investment consultant, will review the target asset allocation of the Pension Fund at least every three years. They will take into consideration applicable statutes, the actuarial rate of return of the Pension Fund, the long-term nature of the asset pool, the cash flow needs of the Pension Fund, and the general asset allocation structure of their peers. They will make assumptions on the capital markets over the long-term and optimize the asset allocation to best meet the actuarial and cash flow needs of the Pension Fund at a prudent level of risk.

### **Asset Allocation/Rebalancing**

The Board of Trustees has established the target asset allocation and permissible percentage ranges shown in the table set forth in Addendum E.

In accord with the interpretation of the Illinois Pension Code, adopted by the Trustees, the book value of total equities, at time of the investment, may not exceed the following percentage of the market value of the Pension Fund provided in the most recent annual report on file with the Department of Insurance: 55% for mutual funds, separate account of an insurance company, or separate accounts of a money manager. (40 ILCS 5/1-113.4 and 5/1-113-10 et. Seg.)

The Board of Trustees, with the assistance of the investment consultant, will review the asset allocation of the Pension Fund on a regular basis and adjust the portfolio to comply with the guidelines above. The Board of Trustees anticipates that the on-going natural cash flow needs of the Pension Fund (contributions and withdrawals) will be sufficient to maintain the asset allocation of the Pension Fund within policy guidelines under most market conditions.

## **Investment Professional Selection, Communication, and Evaluation**

### **Investment Manager Selection**

No investment managers shall be hired who are a party in interest or who have not, by their record and experience, demonstrated their Fiduciary responsibility, their investment expertise, their investment experience, and their capacity to undertake the mandate for which they are being considered. Investment managers are required to comply with the following:

- 1) Acknowledge in writing a Fiduciary and investment manager relationship with respect to the Pension Fund as defined by Illinois law as well as receipt of the Policy.
- 2) Be currently registered and maintain registration as an investment advisor under the Investment Advisors Act of 1940, a bank (as defined in the Act), or an insurance company qualified to perform investment management services under the law of more than one state unless otherwise approved on an exception basis, and
- 3) Be granted by the Pension Fund the power to manage, acquire or dispose of any assets of the Pension Fund pursuant to the Pension Fund documents.

The Pension Fund will establish investment guidelines for the investment managers and, with the assistance of the investment consultant, will conduct due diligence before the appointment of all investment managers.

Mutual funds or commingled funds will be approved by the Trustees as a separate item based on review of the prospectus and the Trustees specific approval of such fund as an amendment to this policy.

The Board of Trustees will attempt to retain service providers within the City of Rock Island whenever possible, not precluded by other standards of this policy. However, the Board of Trustees may approve qualified service providers regardless of location. A review of all service fees shall be performed on a periodic basis.

### **Frequency of Measurement and Meetings**

General meetings will be scheduled each year in advance in accordance with the Open Meetings Act and published for beneficiaries to note. Any investment activity shall be discussed at each meeting and appear as an item on the agenda.

The Board of Trustees, with the assistance of the investment consultant, expects to measure investment performance quarterly.

## **Investment Manager Communication and Evaluation Terminology**

The following terminology has been developed to facilitate efficient communication between the investment managers, investment consultant, and the Pension Fund staff. Each term signifies a particular status with the Pension Fund and any conditions that may require improvement. In each case, communication is made only after consultation with the Board of Trustees.

<b><u>STATUS</u></b>	<b><u>DESCRIPTION</u></b>
<b><i>"In Good Standing"</i></b>	The investment manager states it is acting in accordance with the Investment Policy Guidelines.
<b><i>"Watch"</i></b>	The investment manager is notified of a problem in performance (usually related to a benchmark or volatility measure), a change in investment characteristics, an alteration in management style or key investment professionals, and/or any other irregularities.
<b><i>"On Probation"</i></b>	The investment manager is notified of continued concern with one or more Alert issues. Failure to improve upon stated issues within a specific time frame justifies termination. The investment manager will begin a quarterly search for replacement for up to 1 year.
<b><i>"Termination"</i></b>	The program's management has decided to terminate the investment manager. The investment manager is notified and transition plans are in place.

### **Causes for considering termination of a fund**

1. Change in manager's philosophy.
2. Failure to meet performance objectives over the time period or under performance of 5% for any quarter compared to the appropriate benchmark index.
3. Changes in key personnel.
4. Revision to fee schedule.
5. Changes in management process.

## **Operational Guidelines**

### **Investment Policy Guidelines for the Separately-Managed Active Management Intermediate Government Fixed Income Manager(s)**

This document contains the guidelines and restrictions that apply to the active management intermediate government fixed income investment manager(s) of the Pension Fund invested in separately managed accounts (see addendum A).

- 1) The Investment Manager shall comply with all of the provisions of the Illinois Pension Code relating to Article 4 Pension Funds, specifically Sections 1-113.1, 1-113.2, 1-113.3, 1-113.4,

and 1-113.4a relating to Permissible Investments (40 ILCS 5/1-113.1 et. seq.). In accord with the applicable portions of the Pension Code, above referenced, the investment manager may invest in the following fixed income securities:

- (a) Interest bearing direct obligations of the United States of America.
  - (b) 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.
  - (c) 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" includes: (i) the Federal National Mortgage Association and the Student Loan Marketing Association; (ii) 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 or amendments to that Act; (iii) federal home loan banks and the Federal Home Loan Mortgage Corporation; and (iv) any agency created by Act of Congress that is authorized to issue direct debt obligations of the United States of America.
  - (d) Interest bearing savings accounts or certificates of deposit, issued by federally chartered banks or savings and loan associations, to the extent that the deposits are insured by agencies or instrumentalities of the federal government.
  - (e) Investments in credit unions, to the extent that the investments are insured by agencies or instrumentalities of the federal government.
  - (f) Interest bearing bonds of the State of Illinois.
  - (g) Pooled interest bearing accounts managed by the Illinois Public Treasurer's Investment Pool in accordance with the Deposit of State Moneys Act, interest bearing funds or pooled accounts of the Illinois Metropolitan Investment Funds, 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.
  - (h) Interest bearing bonds or tax anticipation warrants of any county, township, or municipal corporation of the State of Illinois.
  - (i) Direct obligations of the State of Israel, subject to the conditions and limitations of item (5.1) of Section 1-113.
  - (j) 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.(See Section 1-113.2(11) for restrictions)
  - (k) Corporate bonds managed through an investment advisor must meet all of the following requirements: (i) the bonds must be rated as investment grade by one of the 2 largest rating services at the time of purchase; and (ii) if subsequently downgraded below investment grade, the bonds must be liquidated from the portfolio within 90 days after being downgraded by the manager.
- 2) No single security should comprise more than 10% of the portfolio's overall allocation after accounting for price appreciation.

- 3) The average duration of the portfolio is not to vary more than +/-25% of the duration of the appropriate index (see Addendum A).
- 4) All corporate bonds held within the portfolio must be rated as investment grade.
- 5) The manager may invest up to 10% of its portfolio in cash or cash equivalents.

#### **Investment Objective**

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should exceed the return of the appropriate benchmark index (see Addendum A).

#### **Investment Policy Guidelines for the Mutual Fund Passive Management U.S. Equity Investment Manager(s)**

This document contains the guidelines and restrictions that apply to the passive management U.S. equity investment manager(s) of the Pension Fund invested in mutual fund vehicles (see Addendum A).

#### **Permissible Investments**

- 1) These funds are governed by the guidelines and restrictions contained in their prospectuses or participation agreements and in accordance with the Illinois Statutes.

#### **Investment Objective**

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should meet or exceed the return of the appropriate benchmark index (refer to Addendum A).

#### **Investment Policy Guidelines for the Separately-Managed Active Management U.S. Equity Manager(s)**

This document contains the guidelines and restrictions that apply to the active management U.S. equity investment manager(s) of the Pension Fund invested in separately managed accounts (see Addendum A).

- 1) The investment manager is expected to comply with all of the provisions of the Illinois Pension Code relating to Article 4 Pension Funds, specifically Sections 1-113.1, 1-113.2, 1-113.3, and 1-113.4, and 1-113.4a relating to Permissible Investments (40 ILCS 5/1-113.1 et. seg.). In accord with the applicable portions of the Pension Code, above referenced, the investment manager may invest in the following equity securities:
  - (a) The common stocks are listed on a national securities exchange or board of trade (as defined in the Federal Securities Exchange Act of 1934 and set forth in paragraph G of

Section 3 of the Illinois Securities Law of 1953) or quoted in the National Association of Securities Dealers Automated Quotation System National Market System.

- (b) The securities are of a corporation created or existing under the laws of the United States or any state, district, or territory thereof and the corporation has been in existence for at least 5 years.
  - (c) The corporation has not been in arrears on payment of dividends on its preferred stock during the preceding 5 years.
  - (d) The market value of stock in any one corporation does not exceed 5% of the cash and invested assets of the Pension Fund, and the investments in the stock of any one corporation does not exceed 5% of the total outstanding stock of the corporation.
  - (e) The straight preferred stocks or convertible preferred stocks are issued or guaranteed by a corporation whose common stock qualifies for investment by the Trustees.
  - (f) The issuer of the stocks has been subject to the requirement of Section 12 of the federal Securities Exchange Act of 1934 and has been current with the filing requirement of the Sections 13 and 14 of that Act during the preceding 3 years.
- 2) The Investment Manager may invest up to 10% of its portfolio in cash or cash equivalents.
  - 3) Options, financial futures, private placements, or venture capital may not be purchased. The purchase of securities on margin is prohibited.
  - 4) Securities listed on pink sheets may not be purchased or held at any time within the portfolio.
  - 5) No single security in the Investment Manager's portfolio will comprise more than 5% of its equity allocation at the time of purchase, nor will it be more than 10% of the equity allocation of the portfolio after accounting for price appreciation.
  - 6) All interest and dividend payments must be swept on a daily basis into a short-term money market fund for re-deployment.

#### **Investment Objective**

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should meet or exceed the return of the appropriate benchmark index (see Addendum A).

#### **Investment Policy Guidelines for the Mutual Fund Active Management International Equity Manager(s)**

Mutual funds or commingled funds will be approved by the Trustees as a separate item based on review of the prospectus and the Trustees specific approval of such fund as an amendment to this policy.

This document contains the guidelines and restrictions that apply to the active management international equity investment manager(s) of the Pension Fund invested in mutual fund vehicles (see Addendum A).

### **Permissible Investments**

- 1) These funds are governed by the guidelines and restrictions contained in their prospectuses or participation agreements and in accordance with the Illinois Statutes.

### **Investment Objective**

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should exceed the return of the appropriate benchmark index (see Addendum A).

## **Investment Policy Modification and Revision**

### **Policy Modification**

The Board of Trustees, with the assistance of the Investment Consultant, will review this Policy annually. Key environmental or operational occurrences, which could result in a Policy modification, include:

- (a) significant changes in expected patterns of the Pension Fund's liability stream,
- (b) impractical time horizons or changes,
- (c) change in the Pension Fund's priorities,
- (d) convincing arguments for change presented by investment professionals,
- (e) legislation or case law, and
- (f) areas found to be important, but not covered by the Policy.

### **Modification of Addendums**

Changes to investment professionals, the Board of Trustees, or Pension Fund information contained within Addendums A-E can and should be modified, as necessary, with a complete review by all Trustees.

**Addendum A - Defining the Investment Professionals and Benchmark Indexes  
As of July 1, 2013**

<u>Asset Class</u>	<u>Investment Manager</u>	<u>Benchmark Index</u>
Real Estate	DFA Real Estate Securities	WREIT
Emerging Markets	Oppenheimer Developing Markets Y	MS-EM
Emerging Markets	DFA Emerging Markets Value	MEMVL
International	Harbor International	EAFE
International	Vanguard International Growth Admiral	EAFE
Small Mid Value	Vanguard Selected Value	R200V
Small Mid Value	Vanguard Small Cap Value Index Signal	CRSVL
Index	Vanguard 500 Index Signal	SP500
Large Value	Dodge & Cox Stock Fund	R10VA
Large Value	Vanguard Value Index Signal	CRVAL
Fixed Income	DFA-Intermediate Index	BCIGB
Fixed Income	DFA-Variable Maturity	BCIGB
Fixed Income	PNC Capital	BCIGC
Fixed Income	Rock Island City Bonds	MUNI6
Money Market	Money Market	TBILL

<u>Investment Professional</u>	<u>Service Provider</u>
Custodian	US Bank
Investment Consultant	Investment Consulting Group, Inc. Donald R. Stanforth

## Addendum B – Summary of Plan Information

<b>Plan Name:</b>	<u>Pension Plan</u>
<b>Type of Plan:</b>	<u>Defined Benefit</u>
<b>Plan Adoption Date:</b>	<u>October 27, 2011</u>
<b>Plan Year-End Date:</b>	<u>December 31</u>
<b>Plan Number:</b>	_____
<b>Employer Identification Number:</b>	_____
<b>Tax Identification Number:</b>	_____
<b>Assumed Actuarial Rate of Return:</b>	<u>7.5%</u>

## **Addendum C – Investment Professional Adoption of Policy**

This Policy document was adopted by the Board of Trustees for the Rock Island Police Pension Fund on October 27, 2011.

### **Investment Professional's Acknowledgments:**

The firm has received this copy of the Pension Fund's Investment Policy. The firm has studied its provisions and believes that we can both abide by its restrictions and fulfill its goals and expectations over the timetables set forth in the Policy.

PNC Financial Services Group, Inc.

Refer to Manager Specific Policy

## **Addendum C – Investment Professional Adoption of Policy**

This Policy document was adopted by the Board of Trustees for the Rock Island Police Pension Fund on October 27, 2011.

### **Investment Professional's Acknowledgments:**

The firm has received this copy of the Pension Fund's Investment Policy. The firm has studied its provisions and believes that we can both abide by its restrictions and fulfill its goals and expectations over the timetables set forth in the Policy.

DFA Intermediate Index

Refer to Manager Specific Policy

## **Addendum C – Investment Professional Adoption of Policy**

This Policy document was adopted by the Board of Trustees for the Rock Island Police Pension Fund on October 27, 2011.

### **Investment Professional's Acknowledgments:**

The firm has received this copy of the Pension Fund's Investment Policy. The firm has studied its provisions and believes that we can both abide by its restrictions and fulfill its goals and expectations over the timetables set forth in the Policy.

DFA Variable Maturity

Refer to Manager Specific Policy

## Addendum D – Board of Trustees Adoption of Policy

This Policy document was adopted by the Board of Trustees for the Rock Island Police Pension Fund on \_\_\_\_\_.

### Board of Trustees' Acknowledgments:

We have received this copy of the Pension Fund's Investment Policy. We have studied its provisions and believe that we can both abide by its restrictions and fulfill its goals and expectations over the timetables set forth in the Policy.



Finance Director



President

\_\_\_\_\_  
Date

**Addendum E – Asset Allocation/Rebalancing**  
 April 15, 2014

<u>Asset Class</u>	<u>Percent of Portfolio</u>		
	<u>Target</u>	<u>Minimum</u>	<u>Maximum</u>
Real Estate	2%	1.6%	2.4%
Emerging Markets	3%	2.4%	3.6%
International	6%	4.8%	7.2%
Small/Mid	14%	11.2%	16.8%
Index	5%	4.0%	6.0%
Large Value	20%	16.0%	24.0%
Fixed Income	49%	39.2%	58.8%
Cash	1%	0.8%	1.2%

In accord with the interpretation of the Illinois Pension Code, adopted by the Trustees, the book value of total equities, at time of the investment, may not exceed the following percentage of the market value of the Pension Fund provided in the most recent annual report on file with the Department of Insurance: 55% for mutual funds, separate account of an insurance company, or separate accounts of a money manager. (40 ILCS 5/1-113.4 and 5/1-113-10 et. Seg.)