
**MEMORANDUM
FINANCE DEPARTMENT**

TO: Thomas Thomas, City Manager
SUBJECT: December 31, 2015 Municipal Compliance Reports

Number: 022-16
Date: 06/29/2016

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, 2015 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, 2015 for the Police Pension Fund and the Fire Pension Fund.

Submitted by: Stephanie Masson, Finance Director

Linda Barnes, Accounting Supervisor

Approved by: Thomas Thomas, City Manager

CITY OF ROCK ISLAND, IL
POLICE PENSION FUND

House Bill 5088 (Public Act 95-950) – Municipal Compliance Report
For the Fiscal Year Ending December 31, 2015

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>\$32,622,701</u>	<u>\$ 33,810,852</u>
Market Value	<u>\$32,622,701</u>	<u>\$33,810,852</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>\$593,461</u>
Estimated Receipts - All Other Sources	
Investment Earnings	<u>\$814,870</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>\$4,096,181</u>
(b) Annual Requirement of the Fund as Determined by:	
Illinois Department of Insurance	<u>N/A</u>

Private Actuary

Recommended Municipal Contribution	<u><u>\$2,687,850</u></u>
Statutory Municipal Contribution	<u><u>\$2,331,365</u></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><u>\$-268,045</u></u>	<u><u>\$1,323,105</u></u>
Assumed Investment Return		
Illinois Department of Insurance	<u><u>NA</u></u>	<u><u>NA</u></u>
Private Actuary	<u><u>7.5%</u></u>	<u><u>7.5%</u></u>
Actual Investment Return	<u><u>6.5%</u></u>	<u><u>6.0%</u></u>

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

Number of Active Members:	<u><u>83</u></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	59	\$3,076,315
(ii) Disability Pension	14	\$452,115
(iii) Survivors and Child Benefits	20	\$403,555

(iv) Terminated Vesteds	<u>8</u>	<u>\$0.00</u>
Totals	<u>101</u>	<u>\$3,931,985</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>42.4%</u>	<u>46.5%</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>\$45,595,920</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

Please see Notes Page attached

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 29 day of June, 2016

President *[Signature]* Date 06-28-16

Secretary *[Signature]* Date 6/29/16

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.

<u>STATUS</u>	<u>DESCRIPTION</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. 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

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

CITY OF ROCK ISLAND, IL
 FIREFIGHTER'S PENSION FUND

House Bill 5088 (Public Act 95-950) – Municipal Compliance Report
 Period Ended January 1, 2015 through December 31, 2015

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>\$22,235,850</u>	<u>\$ 23,581,665</u>
Market Value	<u>\$22,235,850</u>	<u>\$ 23,581,665</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>\$407,605</u>
Estimated Receipts - All Other Sources	
Investment Earnings	<u>\$819,118</u>
Municipal Contributions	<u>\$2,803,150</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>\$4,029,873</u>
(b) Annual Requirement of the Fund as Determined by:	
Illinois Department of Insurance	<u>N/A</u>

Private Actuary

Recommended Municipal Contribution \$3,059,212

Statutory Municipal Contribution \$2,645,438

- 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>\$-107,315</u>	<u>\$790,678</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>5.0%</u>	<u>4.3%</u>

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

Number of Active Members: 58

- 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>53</u>	<u>\$2,772,558</u>
(ii) Disability Pension	<u>11</u>	<u>\$308,658</u>
(iii) Survivors and Child Benefits	<u>25</u>	<u>\$776,454</u>

Totals	<u>89</u>	<u>\$3,857,670</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>34.4%</u>	<u>39.4%</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>\$43,760,484</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.

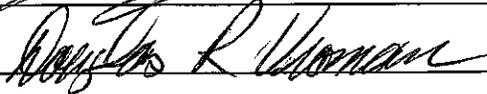
9) The investment policy of the Pension Board under the statutory investment restrictions imposed on the fund.

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 28 day of June, 2016

President		Date	<u>6-28-16</u>
Secretary		Date	<u>6/28/16</u>

Rock Island, Illinois
Firefighter's Pension Fund
Investment Policy Statement

September 2015

The Statement of Purpose

The Pension Fund's Purpose

The Pension Fund has been established by the City of Rock Island, Illinois, under Section 4-101 of the Illinois Pension Code (40 ILCS 5/4-101). 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 Statement

This investment policy statement is adopted by the Board of Trustees (the Board) of the City of Rock Island, Illinois, Firefighter's Pension Fund (the Pension Fund) in order to codify the principles to be followed by the Board, its investment consultant, and its investment managers in the execution of their responsibilities. The Board is obliged to discharge its ongoing fiduciary responsibility to evaluate the performance of the Pension Fund and its investment managers, to review periodically the selection of investment managers and, at least annually, to readopt this Policy with such changes as may be appropriate. The purpose of this document is 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 the Pension Fund
- Establish the relevant investment horizon for which the Pension Fund's assets will be managed
- Establish a target asset allocation and re-balancing 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's assets
- Establish a basis of evaluating investment results

In general, this policy is designed 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, the investment consultant, and the outside investment professionals.

Distinction of Responsibilities

The Board of Trustees' Authority and Responsibilities

Ultimate responsibility for investment of the Pension Fund's assets resides with the Board. The Board will conduct its 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 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 shall discharge its duties with respect to the Pension Fund solely in the interest of the Pension Fund.

The Board will generally be responsible for the following:

- Complying with applicable laws, regulations, and rulings
- Reviewing and monitoring all costs pertaining to investment management
- Selecting and monitoring qualified investment professionals
- Monitoring and evaluating investment performance and compliance with this Policy
- Reviewing and suggesting changes, as needed, to this Policy.
- Establishing and periodically reviewing the appropriateness of the Pension Fund's asset allocation policy
- Taking action according to this Policy.
- Avoiding prohibited transactions and conflicts of interest

The Investment Manager's Authority and Responsibilities

The Board will hire competent, registered professional investment managers to manage the assets of the Pension Fund. Investment managers have the following responsibilities:

- 1) Vote proxies on securities held, unless a third party proxy voting service provider has been retained by the Pension Fund. All proxies will be voted exclusively for the best interests of the Pension Fund and their participants. Managers will maintain written policies for proxy voting and keep a proper record of all proxies to which the Pension Fund is entitled.

- 2) Provide written reports to the investment consultant, (and Board of Trustees if applicable) on at least a quarterly basis detailing fund performance for the most recent period.
- 3) Notify the investment consultant, (and Board of Trustees if applicable) 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 for investment within a registered mutual fund structure (Investment Company Act of 1940) shall invest the Pension Fund's assets in accordance with the prospectus provided. In the case of an investment outside of a mutual fund structure, the investment managers retained 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).

The Investment Consultant's Authority and Responsibilities

The Board has hired Marquette Associates as investment consultant to assist the Board in fulfilling its fiduciary responsibilities and in fulfilling its responsibilities in accord with this Policy. Marquette will generally be responsible for the following:

1. Complying with applicable laws, regulations, and rulings, specifically (40 ILCS 5/) of the Illinois Pension Code governing Firefighters Pension Fund Municipalities in the State of Illinois. At the end of each fiscal year, Marquette will provide the Board with written certification of compliance.
2. Maintaining databases of qualified investment managers, custodians, securities lending providers, and third party proxy voting service providers.
3. Assisting the Board with the search and selection of investment managers and custodians.
4. Calculating 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 no later than 30 days after of the end of each calendar quarter in compliance with state regulations.
6. Monitoring and evaluating investment performance and compliance with this Policy. This includes meeting with the Board and the Pension Funds' investment managers on a regular basis, to ensure that both continue to operate under the guidelines set forth by this policy.

7. Making long-term assumptions on the capital markets for the purpose of evaluating the Pension Fund's asset allocation policy.
8. Reviewing and suggesting changes, as needed, to the Pension Fund's asset allocation, investment managers and strategies, and this Investment Policy Statement.

Marquette Associates, the Investment Consultant retained by the Board will exercise discretion within the parameters set forth in these guidelines on behalf of the Pension Fund (see Addendum A).

The Custodian's Authority and Responsibilities

The Board of Trustees will utilize a third party custodian that is authorized to conduct a trust business in the State of Illinois in order to safe-keep the assets of the Pension Fund. 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 manager,
- 5) sweep all interest and dividend payments and any other un-invested cash into a short-term money market for re-deployment, and
- 6) other duties as detailed in the respective custodial agreement

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

Internal Controls

The Treasurer of the Fund shall be responsible for establishing internal controls and procedures for the operation of the investment program, designed to prevent losses of funds that might arise from fraud, employee error, misrepresentations by third parties, or imprudent actions. (30 ILCS 235/2.5(a)(6) and (a)(7)).

Ethics and Conflict of Interest

Any fiduciary with respect to the 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.

Investment Objectives

Return Objectives

The primary return objectives of the Pension Fund are to:

- Preserve the safety of principal while utilizing permissible investments as set forth by the Illinois Pension Code
- Earn the highest possible total return consistent with prudent levels of risk
- Create a stream of investment returns, that together, with contributions to the Pension fund, will insure the systematic and adequate funding of actuarially determined benefits

To achieve these goals, the Pension Fund's asset allocation has been optimized to meet a target assumed rate of return (7.5%). The performance objective for the Pension Fund is to exceed, after investment management fees, a customized blended benchmark. To evaluate success, the Board will compare the performance of the Pension Fund to the target rate of return and the performance of a custom benchmark. This benchmark represents a passive implementation of the historical investment policy targets and is re-balanced regularly in accordance with the target asset allocation.

Risk Tolerance

In order to achieve the return objectives, the Board must be aware of certain risks. The Pension Fund must be prepared to:

- (a) 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) tolerate appropriate levels of downside risk relative to the Pension Fund's target rate of return (7.5%). In doing so, the Board will attempt to minimize the probability of underperforming the Pension Fund's target rate of return over the long-term and to minimize the shortfall in the event such underperformance occurs,
- (c) accept certain variances in the asset allocation structure of the Pension Fund relative to the broad financial markets and peer groups, and
- (d) tolerate certain levels of short-term underperformance by the Pension Fund's investment managers.

Constraints on the Investment Objectives

- (a) In discharging their responsibilities with respect to the investment of assets of the Pension Fund, the Board and its Investment Consultant will act as prudent investors in accordance with this Policy. Assets will be invested with the care and

skill that a prudent individual would use in the investments of like character and goals.

- (b) Asset allocation ranges will be established and subject to the approval of the Board.
- (c) The Pension Fund will be invested in a mix of equities, fixed-income securities, mutual fund vehicles, cash and equivalents, and other types of marketable securities, set forth as permissible investments by the Illinois Pension Code
- (d) The Pension Fund will operate in accordance with the applicable provisions of the Illinois Pension Code, as amended.
- (e) The Pension fund is a tax-exempt entity, but can be subject to taxes involving unrelated business taxable income ("UBTI"). UBTI is income earned by a tax-exempt entity that does not result from tax-exempt activities.
- (f) The liquidity needs of the Pension Fund are to meet the regular cash flow requirements of the Pension Fund
- (g) Invested assets will remain in accordance with the asset allocation and acceptable ranges set forth in this Policy.

Investment Guidelines

The Board recognizes that asset allocation is the single largest determinant of a portfolio's long-term return. Accordingly, consistent with the prudent investor concept, the Board is deliberate in the formulation of its long-term strategic asset mix. It relies on (1) advice from its investment consultant and investment managers, (2) the experience and judgment of its members, and (3) a review of the asset allocation strategies of other successful peer institutions.

Asset Allocation and Re-Balancing Procedures

General Methods and Frequency of Evaluating the Asset Allocation

The Board will review the target asset allocation of the Pension Fund at least every three years. They will take into consideration the target rate of return of the Pension Fund, the long-term nature of the asset pool, cash flow needs, the general asset allocation structure of their peers, and all applicable State statutes as set forth by the Illinois Pension Code. They will make assumptions on the capital markets over the long-term and optimize the asset allocation to best meet the cash flow needs of the Pension Fund at a prudent level of risk.

Asset Allocation/Rebalancing

The Board has established the target asset allocation and permissible percentage ranges shown in the table set forth below:

ASSET CLASS	TARGET	MINIMUM*	MAXIMUM*
Intermediate Fixed Income	31.5%	30.0%	45.0%
Municipal Bonds	3.5%	0.0%	5.0%
Total Fixed Income	35.0%	35.0%	45.0%
U.S. Large-Cap Value Equity	6.0%	3.0%	9.0%
U.S. Large-Cap Core Equity	6.0%	3.0%	9.0%
U.S. Large-Cap Growth Equity	4.0%	0.0%	5.0%
U.S. Mid-Cap Growth Equity	7.0%	4.0%	10.0%
Small-Cap Value Equity	<u>7.0%</u>	7.0%	11.0%
Total U.S. Equity	30.0%	25.0%	35.0%
Non-U.S. Large-Cap Core Equity	13.0%	10.0%	16.0%
Non-U.S. Small-Cap Core Equity	6.0%	3.0%	9.0%
Emerging Markets Equity	<u>6.0%</u>	3.0%	9.0%
Total International Equity	25.0%	20.0%	30.0%
Publically Traded Real Estate	5.0%	0.0%	10.0%
Privately Held Real Estate	<u>0.0%</u>	0.0%	10.0%
Total Real Estate	5.0%	0.0%	10.0%
Global Tactical	<u>5.0%</u>	<u>2.0%</u>	<u>8.0%</u>
Total Alternative Assets	5.0%	2.0%	8.0%
TOTAL	100%		

*May not equal 100%

The Board 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 anticipates that the on-going natural cash flow needs of the Pension Fund (contributions and withdrawals) will be sufficient to maintain the asset allocation within policy guidelines

under most market conditions. The Board, along with its Investment Consultant, will review the current asset allocation of the Pension Fund on a quarterly basis and conduct any necessary rebalancing, should the natural cash activity of the Pension Fund prove insufficient to maintain the asset allocation within policy guidelines.

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) 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
- 2) Be granted by the Pension Fund the power to manage, acquire or dispose of assets under management of their mandate pursuant to the Pension Fund documents.

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

Frequency of Measurement and Meetings

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

Investment Manager Communication and Evaluation Terminology

The following terminology has been developed to facilitate efficient communication between the investment managers, investment consultant, and the Board. 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 and staff.

	<u>STATUS</u>	<u>DESCRIPTION</u>
A.	<i>"In Compliance"</i>	The investment manager is acting in accordance with the Investment Policy Statement.
B.	<i>"Alert"</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.
C.	<i>"On Notice"</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.
D.	<i>"Termination"</i>	The Board has decided to terminate the investment manager. The investment manager is notified and transition plans are in place.

Operational Guidelines

Investment Policy Guidelines for the Separately-Managed, Active Fixed Income Manager

This document contains the guidelines and restrictions that apply to the actively managed fixed income investment manager(s) of the Pension Fund (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 accordance with the applicable portions of the above referenced Pension Code, the investment manager may invest in the following fixed income securities:
 - (a) Interest bearing direction 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 State 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, operate, and administered by banks, subsidiaries of banks, or subsidiaries of bank holdings 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 ILSC 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 receiving such downgrade.
- 2) No single security should comprise more than 5% of the portfolio's overall allocation after accounting for price appreciation.
 - 3) All corporate bonds held within the portfolio must be rated as investment grade.
 - 4) 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 Mutual, Commingled, or Institutional Manager(s)

This document contains the guidelines and restrictions that apply to the mutual, commingled, or institutional fund managers (see Addendum A).

Permissible Investments

- 1. Any Mutual Fund that is governed by the guidelines and restrictions contained in its prospectus or participation agreement in accordance with the Illinois State 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 Guidelines for Actively Managed Mutual Funds

This document contains the guidelines and restrictions that apply to the active management international equity 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.

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

- (1) significant changes in expected patterns of the Pension Fund's cash requirements,
- (2) impractical time horizons or changes,
- (3) change in the Fund's priorities,
- (4) convincing arguments for change presented by investment professionals,
- (5) legislation, and
- (6) areas found to be important, but not covered by the Policy.

Modification of Addendums

Changes to investment professionals or other information contained within this document can and should be modified, as necessary, by members of the Board.

Addendum A

Defining the Investment Professionals and Benchmark Indexes

ASSET CLASS	INVESTMENT MANAGER	BENCHMARK INDEX
Intermediate Fixed Income Municipal Bonds	PNC City of Rock Island	Barclays Int. Govt./Credit Barclays Municipal
U.S. Large-Cap Value Equity	Vanguard	CRSP US Large-Cap Value
U.S. Large-Cap Core Equity	Vanguard	S&P 500
U.S. Large-Cap Growth Equity	Vanguard	Russell 1000 Growth
U.S. Mid-Cap Growth Equity	Baird	Russell Mid-Cap Growth
U.S. Small-Cap Value Equity	DFA	Russell 2000 Value
Non-US Large-Cap Core Equity	Vanguard	FTSE Developed ex-US
Non-US Small-Cap Core Equity	Oppenheimer	MSCI ACWI ex-US Small-Cap
Emerging Markets	DFA	MSCI Emerging Markets
Publically Traded Real Estate	Vanguard	MSCI US REIT
Privately Held Real Estate	Principal	NCREIF Fund Index
Global Tactical	PIMCO	Barclays 1-10 Year US TIPS

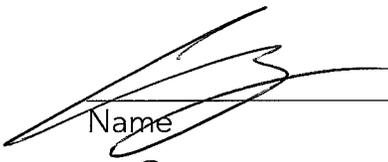
INVESTMENT PROFESSIONAL	SERVICE PROVIDER
Custodian	U.S. Bank
Investment Consultant	Marquette Associates

Addendum B – Board of Trustees Adoption of Policy

This Investment Policy Statement was adopted by the Board of Trustees of the City of Rock Island, Illinois, Firefighters Pension Fund on 1/19/2016.

Board of Trustees' Acknowledgments:

We have received this copy of the Program'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.

 Chad M. Jacobs
Name

President
Title

 Douglas D. Homan
Name

Board Secretary
Title

 Paul J. Agostini
Name

Trustee
Title

 Benjamin McCreedy
Name

Trustee
Title

 Aundrea J. Barnes
Name

Treasurer
Title

Name

Title

Addendum C – Investment Professional Adoption of Policy

This Investment Policy Statement was adopted by the Board of Trustees of the City of Rock Island, Illinois, Firefighters Pension Fund on 1/19/2016.

Investment Professional's Acknowledgments:

We have received this copy of the Program'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.

MARQUETTE ASSOCIATES

Firm Name



Investment Professional

CHRISTOPHER CAPARELLI