

INVESTMENT POLICY STATEMENT VILLAGE OF WILMETTE POLICE PENSION FUND

The Village of Wilmette Police Pension Fund is a defined benefit, single employer pension plan. Although a single employer pension plan, the defined benefits, as well as the employee and employer contribution levels are mandated by Illinois State Statutes and may be amended only by the Illinois State Legislature. The Plan provides retirement, death and disability benefits for its participants.

I. STATEMENT OF PURPOSE

The purpose of this statement is to establish a clear understanding between the trustees of the Wilmette Police Pension Fund and investment consultants, advisors and brokers regarding investment objectives, goals and guidelines for the portfolio.

This statement is intended to provide a road map for the implementation of an investment strategy for the Fund's assets and is not meant to be overly restrictive given the changing economic, business, political and investment market conditions.

This document should be reviewed on an annual basis by the Board and all modifications should be conveyed to the investment related advisors working with the Plan, i.e., consultants, investment advisors, brokers.

II. INVESTMENT OBJECTIVES

The foremost purpose of the Fund is to provide for the payment of pension benefits to current eligible beneficiaries and future beneficiaries over an infinite period of time.

In this context, the Fund should be managed in a prudent manner as it relates to such issues as expected long-term rates of return, return volatility, investment vehicles, and diversification among individual securities.

Within this framework the primary objective is:

PRESERVATION OF CAPITAL

It is important that over the long-term, the assets of the plan and their purchasing power should be preserved. To preserve the Plan's assets we need to take into account the significant eroding effect that inflation has on all financial assets.

This objective does not exclude the possibility of short-term losses in individual securities but rather embraces preservation of asset valuation on a long-term basis. Asset growth, exclusive of contributions and withdrawals, should be positive and will come from interest, dividend income or capital gains. Within this framework, the plan's objective is to maximize its return, while minimizing its risk.

III. INVESTMENT GOALS

Based on the investment objectives stated above, the primary goal of the Fund is:

A total return over a 5-year investment horizon that exceeds the rate of inflation plus 3% (300 basis points) as measured by the Consumer Price Index (CPI).

The secondary goal of the Fund is:

To achieve a rate of return that best represents the asset allocations of the Fund. The indices to be used will include (but are not limited to) the Russell 3000 index, Barclays Capital Government/Corporate Index, and the 90-day Treasury Bill Index.

The Fund shall generally display an overall level of risk (volatility) in the aggregate portfolio which is comparable to the risk (volatility) associated with the benchmarks specified above. Risk will be measured by the annualized standard deviation of monthly returns.

The Board of Trustees understands that in order to achieve its objectives for the Plan's assets, the Plan will experience volatility of returns and fluctuations of market value as well as periods of negative total return. Negative total return will be reviewed in relation to the appropriate market indices.

Performance will be reviewed for the following periods: The most current quarter, year-to-date, one, three, and five years, and since inception.

These goals are expected to be achieved over a 3 to 5 year time horizon.

These investment goals are not meant to be imposed on each investment advisor. Each investment advisor shall receive a written set of manager guidelines outlining their specific goals and constraints as they may differ from those of the overall plan.

IV. INVESTMENT INSTRUMENTS

As a unit of local government in the State of Illinois, the Wilmette Police Pension Fund is restricted by 40 ILCS 5/1-113.2 through 5/1-113.4 "to draw and invest funds" to the following types of securities:

1. Interest bearing direct obligations of the United States of America.
2. Interest bearing obligations to the extent that they are fully guaranteed or insured as to payment of principal and interest by the United States of America.
3. Interest bearing bonds, notes, debentures, or other similar obligations of agencies of the United States of America. For the purposes of this Section, "agencies of the United States of America" 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.
4. 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
 5. Interest bearing savings accounts or certificates of deposit, issued by State of Illinois chartered banks or savings and loan associations, to the extent that the deposits are insured by agencies or instrumentalities of the federal government.
 6. Investments in credit unions, to the extent that the investments are insured by agencies or instrumentalities of the federal government.
 7. Interest bearing bonds of the State of Illinois.
 8. Pooled interest bearing accounts managed by the Illinois Public Treasurer's Investment Pool in accordance with the Deposit of State Moneys Act, 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.
 9. Interest bearing bonds or tax anticipation warrants of any county, township, or municipal corporation of the State of Illinois.
 10. Direct obligations of the State of Israel, subject to the conditions and limitations of item (5.1) of Section 1-113.
 11. Money market mutual funds managed by investment companies that are registered under the federal Investment Company Act of 1940 and the Illinois Securities Law of 1953 and are diversified, open-ended management investment companies; provided that the portfolio of the money market mutual fund is limited to the following:
 - i. bonds, notes, certificates of indebtedness, treasury bills, or other securities that are guaranteed by the full faith and credit of the United States of America as to principal and interest;
 - ii. bonds, notes, debentures, or other similar obligations of the United States of America or its agencies; and
 - iii. short term obligations of corporations organized in the United States with assets exceeding \$400,000,000, provided that (A) the obligations mature no later than

180 days from the date of purchase, (B) at the time of purchase, the obligations are rated by at least 2 standard national rating services at one of their 3 highest classifications, and (C) the obligations held by the mutual fund do not exceed 10% of the corporation's outstanding obligations.

12. 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
- ii. If subsequently downgraded below investment grade, the bonds must be liquidated by the manager from the portfolio within 90 days after being downgraded by one of the 2 largest rating services.
(Source: P.A. 96-1495, eff. 1-1-11.)

In addition to the preceding investments as stated in 40 ILCS 5/1-113.2 through 5/1-113.4, the following investments will be allowed as of January 1st, 1998:

- A. Separate accounts that are managed by life insurance companies authorized to transact business in Illinois. These accounts are comprised of diversified portfolio consisting of common, preferred, or convertible preferred stocks, bonds or money market instruments.
- B. Mutual funds that meet the following criteria:
 - (i) the mutual fund is managed by an investment company as defined and registered under the Illinois Securities Law of 1953;
 - (ii) the mutual fund has been in operation for at least 5 years.
 - (iii) the mutual fund has total net assets of \$250 million or more; and
 - (iv) the mutual fund is comprised of a diversified portfolio of common, preferred or convertible preferred stocks, bonds, or money market instruments.
- C. Through an investment advisor the purchase of common, preferred or convertible preferred stocks will be allowed contingent upon meeting the following requirements:
 - i. the common stocks are listed on a national securities exchange or board of trade or quoted in the National Association of Securities Dealers Automated Quotation System National Market System (NASDAQ NMS).

- ii. the straight preferred stocks or convertible preferred stocks are issued or guaranteed by a corporation whose common stock qualifies for investment by the board.
- iii. the pension fund may not own more than 5% of the outstanding stock of any one company.
- iv. the market value of any one stock in a pension fund portfolio may not exceed 5% of the cash and invested assets of the pension fund

V. INVESTMENT PERFORMANCE REVIEW

The Fund and the Investment Manager's performance results will be measured on a quarterly basis by a third-party, independent consultant. The Fund's performance will be measured against commonly accepted market comparisons (Indexes). This review should answer the following five basic questions:

- 1. Did the Fund's results meet the stated objectives?
- 2. What market conditions existed during the review period?
- 3. How much risk did the Fund's manager take in achieving results?
- 4. Did the manager add real value to the Fund?
- 5. How did other similarly managed funds perform during the same period?

This review will verify if the investment results are consistent with the objectives and goals set forth in the Investment Policy Statement.

VI. INVESTMENT PARAMETERS

- 1. The Board of Trustees has adopted the asset allocation policy shown below for Plan assets. Target percentages have been determined for each asset class along with allocation ranges. Percentage allocations are intended to serve as guidelines; the Board will not be required to remain strictly within the designated ranges. Market conditions or an investment transition may require an imbalance in asset mix.

	MINIMUM	MAXIMUM
Equities (separate account)	20%	55%
Equities/Mutual Funds only	0%	10%
Fixed Income	33%	68%
Cash	2%	20%

2. Cash investments shall be defined as funds which can be quickly liquidated without loss of principal (normally, maturities of 3 months or less). A 20% cash position is allowed only under the assumption of extreme market conditions and should be limited to a 6-month time period. Before or at that point, the investment advisor is obligated to address the Board concerning the cash position. Please note that a 2% cash position will be held outside of the investable funds subject to cash flow needs.
3. Fixed Income investments shall be defined as bonds, certificates of deposit, fixed annuities or guaranteed investment contracts of an insurance company and commingled trust accounts which only invest in the above described investment vehicles.

The fixed income portfolio should be structured allowing for duration between 3 and 8 years.

4. Equity investments shall be defined as investments in common, preferred, or convertible preferred stocks, mutual funds or separate accounts of a life insurance company.

Pursuant to 40 ILCS/Individual 5/1-113.2 through 5/1-113.4 of the Illinois State Statutes, effective July 1, 2011 the total allowable investments in equities is limited to 50%(will be 55% effective July 1, 2012) of the net asset of the pension fund at the most current Department of Insurance annual report, with an additional 10% (maximum) allowed to be invested in equities through a mutual fund or separate account of a life insurance company to do business in the State of Illinois. Please note that as of July1, 2012, the maximum allowable equity investment is 65% of the portfolio.

VII. ALLOCATION AND DELEGATION OF INVESTMENT DUTIES

Pursuant to the Illinois Pension Code, the trustees of the Wilmette Police Pension Fund may appoint one or more investment advisors as fiduciaries to manage any assets of the Pension Fund only after expressed written direction by the trustees. The delegation of authority may be allowed only after a diligent review of the investment advisor's background as it relates to: depth of the organization, investment management style, client service, communication, investment performance and risk. The manager will be obligated to provide reports monthly of all transactions and valuations to the Finance Officer. The performance of managers will be reviewed and monitored by an independent, third-party consultant as indicated in the investment performance review section.

- A. No contract for consulting services may exceed five (5) years with any consultant, nor may a contract for consulting services be renewed or extended. The foregoing

restrictions do not, however, prohibit a contracting consultant to compete for a new contract at the end of the term of a consulting contract.

B. No person other than a trustee or employee of the Fund may act as a consultant or investment adviser to the Board unless that person is at least one of the following:

1. Registered as an investment adviser under the federal Investment Advisers Act of 1940 (15 U.S.C. § 80b-1, *et seq.*);
2. Registered as an investment adviser under the Illinois Securities Act of 1953;
3. A bank, as defined in the Investment Advisers Act of 1940; or
4. An insurance company authorized to transact business in Illinois.

C. Appointment of Investment Advisors and Consultants

The Board may appoint one or more investment advisors and/ or consultant to manage assets of the Police Pension Fund.

All investment advice and services provided to the Board by an investment adviser or consultant shall only be rendered pursuant to a written contract between the adviser or consultant and the Board. All offers from an investment adviser or consultant who submits an offer to provide such services shall be accompanied by a disclosure of the names and addresses of the offeror, any entity that is a parent of, or owns a controlling interest in, the offeror, or any entity that is a subsidiary of, or in which a controlling interest is owned by, the offeror. Any contract between the Board and an investment adviser or consultant shall include all of the following:

1. An acknowledgment in writing by the investment adviser that he or she is a fiduciary with respect to the Fund. [Applicable to investment adviser contract only].
2. An acknowledgement of the Board's investment policy.
3. Full written disclosure of direct and indirect fees, commissions, penalties, and any other compensation that may be received, including reimbursement for expenses.
4. A requirement that the investment adviser submit periodic written reports on at least a quarterly basis for the Board's review at its regularly scheduled meetings.
5. A requirement that the adviser or consultant provide the Board a full written disclosure of the direct and indirect fees that may be paid by or on behalf of the investment adviser or consultant in connection with the provision of services to the Fund, including the date and amount of each payment and the name and address of each recipient of a payment, and a requirement that

the adviser or consultant update the disclosure promptly after modification of those payments or an additional payment.

The Board shall provide a copy of any contract entered into pursuant to this subsection E to the Division of Insurance of the Department of Financial and Professional Regulation within 30 days after appointing an investment adviser or consultant.

The Board shall provide a copy of any contract entered into pursuant to this subsection 503(5) to the Division of Insurance of the Department of Financial and Professional Regulation within 30 days after appointing an investment adviser or consultant.

It shall be noted that the ultimate authority and responsibility for all investments of the Wilmette Police Pension Fund belongs solely to the trustees. Any other person acting without the Board's approval would be violating the Illinois State Statutes.

These procedures should be established to avoid fraud, error and any breach of fiduciary duties by individuals, trustees or any entity associated with the investment of the Fund's assets.

VIII. COMMUNICATIONS

Listed below are the reports required and the appropriate individuals who will receive copies of these reports.

- | | | |
|----|---|--|
| A. | Trade confirmation | Village Finance Director and Investment Consultant |
| B. | Monthly Statements | Village Finance Director, |
| C. | Quarterly Performance | All Trustees |
| D. | Investment Advisor
Quarterly Reports | Village Finance Director, Board President and
Investment Consultant |
| E. | Determination of
Benefits | Village Finance Director |

The Pension Board, at a minimum, expects to meet with the investment consultant and the investment advisor quarterly.

It is the Pension Board's responsibility to relate to the Investment Consultant and Investment Advisor any changes that might affect the investment of the Fund's assets.

In addition to the reports set forth above, the Board shall, on an annual basis, and no later than as required by statute, certify and provide the following information about the Fund to the Village Board:

1. The total assets of the Fund at the end of the fiscal year and the current market value of those assets.
2. The estimated receipts during the next succeeding fiscal year from deductions from the salaries of Police officers, and from all other sources;
3. The estimated amount required during the succeeding fiscal year to pay all pensions and other Fund obligations, and to meet the annual requirements of the fund as required by the Pension Code;
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 year;
5. The total number of active employees who are financially contributing to the fund;
6. The total amount that was disbursed in benefits during the fiscal year, including the number of and total amount disbursed to annuitants in receipt of a regular retirement pension, recipients being paid a disability pension, and survivors and children in receipt of benefits;
7. The funded ratio of the Fund;
8. The unfunded liability carried by the Fund, along with an actuarial explanation of the unfunded liability; and
9. The investment policy of the Board under the statutory investment restrictions imposed on the Fund.

IX. SAFEKEEPING OF INVESTMENT

As stated in Illinois State Statutes, all investments shall be clearly held and accounted for to indicate ownership by such Board. The Board may direct the registration of securities in their own name or in nominee name for the expressed purpose of registration of securities by a national or state bank or trust company authorized to conduct a trust business in the State of Illinois.

A Broker/Dealer may maintain possession of or control over securities of a pension if it is registered as a broker dealer with the U.S. Securities and Exchange Commission and is a member in good standing of the National Association of Securities Dealers and is compliant with the provisions of (40 ILCS 5/1 113.7) Sec. 1 113.7., regarding registration of investments; custody and safekeeping. The broker//dealer would be required to have Excess Security Investor

Protection Corp. (SIPC) insurance to protect the assets of the Pension Fund.

X. PARTIES ASSOCIATED WITH THE PLAN

A. Board of Trustees for the Wilmette Police Pension Fund:

1. Holds ultimate responsibility for the Fund and the appropriateness of its investment policy and its execution.
2. Retains consultants, money managers, and other advisors to implement and execute investment policy as it relates to the Fund. Trustees shall not engage in any investment transaction with any advisor with which he or she has any direct interest in the income, gains or profits of that advisor through which the investment transaction is made or has a business relationship with that advisor that would result in a pecuniary benefit to the trustee as a result of the investment transaction.
3. Reviews the adequacy or need for change of this statement.
4. Meets quarterly and reviews reports concerning the Fund's asset management.
5. Engages a custodian.
6. Defines investment policy, objectives and guidelines for the Fund including risk tolerance.
7. Administers the Fund in accordance with the Illinois Pension Code, Illinois Compiled Statutes Chapter 40, Act 5, Articles 1, 3, and 4, and the Public Investment Act, Illinois Compiled Statutes, Chapter 30, Act 235.
8. The signature of the president and secretary will be required in all documents related to the engagement of investment contracts. All administrative documents may be signed by the Finance Director (i.e., bank custody, brokerage, wire transfer).

B. Custodian

1. Accepts possession of securities for safekeeping; collects and disburses income; collects principal of sold, matured or called items; and provides accurate, timely market value pricing, including accrued interest, for all securities under their care.
2. Provides timely monthly statements which accurately detail all transactions in the

accounts, as well as accurately describe all of the securities owned.

3. Effects receipt and delivery following purchases and sales of securities on a timely basis.
4. Ensures that all cash is productively employed at all times.
5. Meets as required with the Board of Trustees and provides reports relative to the status of the Plan.

C. Investment Consultant

1. Assists the Board of Trustees in developing investment policy guidelines, including asset class choices, asset allocation targets and risk diversification.
2. Conducts money manager searches when requested by the Board of Trustees.
3. Provides the Board of Trustees with objective information on a broad spectrum of investment decisions, and assists in evaluating the merits of each particular investment product and money manager as to the track records, management styles and quality.
4. Monitors the performance of the Aggregate Plan Investment Managers and provides regular quarterly reports to the Board of Trustees, which aids them in determining the progress toward the Fund's investment objectives.

D. Investment Advisors

1. Has full discretion of the management of the assets allocated to the Investment Managers, subject to overall investment guidelines set by the Board of Trustees.
2. Serves as fiduciaries responsible for specific securities decisions.
3. Abides by the Illinois Pension Code which governs the Illinois Downstate Police and Fire Pension Funds, and will abide by duties, responsibilities and guidelines detailed in any specific investment manager agreement entered into by the manager and Board of Trustees.
4. Reports at least quarterly, the current investments held in their account, their current market value and all transactions within the account.
5. Communicates any major changes in economic outlook, investment strategy, or any other factors which affect implementation of their investment process, or the investment objective of the Plan.
6. Informs the Board in regards to any qualitative change in the investment management

organization. Examples include: changes in portfolio management, personnel, ownership structure, investment philosophy, etc.

XI. APPROVED INVESTMENTS

The following is a list of approved investments as reflected in the Illinois Pension Code. This list may not be all inclusive and may change as directed by the Department of Insurance. The purpose of this list is to be used as a guideline to what are permissible investments for the Wilmette Police Pension Fund. When in doubt, review with your consultant, advisor or the Department of Insurance.

PERMISSIBLE INVESTMENTS

1. U.S. Treasury bills, notes and bonds
2. Federal Housing Authority bonds
3. Government National Mortgage Association (GNMA)
4. Federal Home Loan Mortgage Corp.
5. Farmers Home Administration bonds
6. General Services Administration bonds (GSA)
7. Federal Farm Credit Corp.
8. Federal Intermediate Credit Banks
9. Tennessee Valley Authority
10. Federal Land Banks
11. Certificates of Deposit
12. Zero Coupon U.S. Treasury Bonds - Strips Only
13. Guaranteed Investment Accounts of an insurance company
14. Credit Unions, if insured
15. Federal National Mortgage Associates bonds (Fannie Mae)
16. Federal Home Loan Bank bond (FHLB)
17. Student Loan Marketing Association (Sallie Mae)
18. Common stocks through a mutual fund or an investment advisor
19. State Investment Pools
20. Bank Pool Funds - must follow state statutes regarding approved investments
21. Money Market Mutual Funds - U.S. Government Securities only
22. Mutual Funds
23. Preferred stock (through a registered investment advisor)
24. Separate accounts of life insurance companies (stocks, bonds, and real estate)
25. Convertible preferred stock (through a registered investment advisor)
26. Corporate Bonds

Through **separate accounts** with an insurance company registered to do business in the state of Illinois:

1. Common stocks

2. Preferred stocks
3. Bonds including corporate issues
4. Real Estate
5. Real Estate loans secured by first and second mortgages

Please note that the Fund is not obligated to use all of the above listed investment instruments. They are listed only as a reference.

XII. INVESTMENT RESTRICTIONS

The trustees of the Wilmette Police Pension Fund have determined the following actions to be inappropriate and totally prohibited:

1. Any margin (borrowing) of securities
2. Purchase or sale of commodities or options
3. Purchase of individual common stock without the use of a registered Investment Advisor.
4. Any investment made without the express written approval of the trustees of the Wilmette Police Pension Fund.

XIII. PROHIBITION ON GIFTS

No trustee shall intentionally solicit or accept any gift from any prohibited source as prescribed in Article 10 of the State Officials and Employees Ethics Act.

For purposes of this policy, “gift” shall be defined in the same manner set forth in Section 1-5 of the State Officials and Employees Ethics Act, but shall not include the solicitation or acceptance of educational materials by a trustee.

A “prohibited source” is any person or entity who”

1. Is seeking official action by the Board or an individual trustee;
2. Does business or seeks to do business with the Board or an individual trustee;
3. Has interests that may be substantially affected by the performance or non-performance of the official duties of a trustee; or
4. Is registered or required to be registered with the Secretary of State under the Lobbyist Registration Act.

An entity that is not otherwise a prohibited source does not become a prohibited source merely because a registered lobbyist is one of its members or serves on its board of

directors.

XIV. SUMMARY

All investments are to be made in a prudent manner. That is with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person would use considering the primary objective of preserving one's capital.

The trustees are required to conduct themselves faithfully and exercise sound direction and to perform those duties in the same fashion as other persons of like intelligence and discretion. Moreover, no trustee or employee of the Board shall knowingly make any false statement, falsify or permit to be falsified any record of the Fund in an attempt to defraud the Fund, nor shall any trustee or employee of the Board knowingly defraud the Fund in any manner.

It is expected that all assets will be managed so that the results will meet the objectives and goals set forth in this statement.

This statement is intended to be used as a guideline rather than a rigid statement of policy from which there can be no deviations. This statement should be reviewed annually and changes made only after review by the Board, consultants, and investment managers. It is the sole responsibility of the Board to establish and maintain this written policy.

We the trustees of the Wilmette Police Pension Fund affirm that the information contained in this Investment Policy Statement accurately reflects our Fund's investment profile and our investment objective and goals.

We adopt this statement as our investment policy this _____ day of _____ 2013

President
Trustee

Secretary
Trustee

Trustee

Trustee

Trustee

Trustee