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OFFICE OF THE MAYOR
AND TRUSTEES

October 20, 2016

William D. McLeod, Mayor
Village of Hoffman Estates
1900 Hassell Road
Hoffman Estates, IL 60169

Via First Class Mail

Re: Village of Hoffman Estates Police Pension Fund – Tax Levy and Municipal Compliance Report

Mayor McLeod,

The undersigned is legal counsel for the Hoffman Estates Police Pension Board. Section 3-143 of the Pension Code requires the Pension Board to annually certify the amount necessary for the Village to meet its required contribution to the pension fund pursuant to Section 3-125 and 3-127 of the Pension Code.

Pursuant to the actuarial report issued by Lauterbach & Amen the Village's Tax Levy for the Hoffman Estates Police Pension Fund for the upcoming tax year should be **$3,380,781**. Accordingly, during its quarterly meeting on October 18, 2016 the Pension Board voted to certify this amount as the recommended Tax Levy for the police pension fund. Enclosed please find a copy of the actuarial report. Please notify the Pension Board or me if the Village will not be levying the certified amount.

Also, Rachel Musiala, Director of Finance, has a copy of the Pension Board's Municipal Compliance Report for the fiscal year ended December 31, 2015. This report is provided to you in accordance with Section 3-143 of the Pension Code.

As always, the Pension Board thanks the Village for its commitment to properly fund the police pension fund. Please contact me if you have any questions regarding this matter.

Sincerely,

Jerry J. Marzullo

Cc: Joseph Crimmins, President
Hoffman Estates Police Pension Fund

Lauterbach & Amen, LLP
27W457 Warrenville Road
Warrenville, IL 60555-3902

Actuarial Valuation
as of January 1, 2016

HOFFMAN ESTATES POLICE PENSION FUND

Utilizing Data as of December 31, 2015
For the Contribution Year January 1, 2016 to December 31, 2016

LAUTERBACH & AMEN, LLP

Actuarial Valuation – Funding Recommendation

Lauterbach & Amen, LLP

CERTIFIED PUBLIC ACCOUNTANTS

HOFFMAN ESTATES POLICE PENSION FUND

Contribution Year Ending: December 31, 2016
Actuarial Valuation Date: January 1, 2016
Utilizing Data as of December 31, 2015

Submitted by:

Lauterbach & Amen, LLP
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Contact:

Todd A. Schroeder

May 10, 2016

LAUTERBACH & AMEN, LLP

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ACTUARIAL CERTIFICATION

This report documents the results of the Actuarial valuation of the Hoffman Estates Police Pension Fund. The purpose is to report the actuarial contribution requirement for the contribution year January 1, 2016 to December 31, 2016. Determinations for purposes other than meeting the employer's actuarial contribution requirements may be significantly different from the results herein.

The results in this report are based on information and data submitted by the Hoffman Estates Police Pension Fund including studies performed by prior actuaries. We did not prepare the actuarial valuations for the years prior to January 1, 2016. Those Valuations were prepared by other actuaries whose reports have been furnished to us, and our disclosures are based upon those reports. An audit of the information was not performed, but high-level reviews were performed for general reasonableness, as appropriate, based on the purpose of the valuation. The accuracy of the results is dependent upon the accuracy and completeness of the underlying information. The results of the actuarial valuation and these supplemental disclosures rely on the information provided.

The valuation results summarized in this report involve actuarial calculations that require assumptions about future events. The Hoffman Estates Police Pension Fund selected certain assumptions, while others were the result of guidance and/or judgment. We believe that the assumptions used in this valuation are reasonable and appropriate for the purposes for which they have been used.

To the best of our knowledge, all calculations are in accordance with the applicable funding requirements, and the procedures followed and presentation of results conform to generally accepted actuarial principles and practices. The undersigned of Lauterbach & Amen, LLP, with actuarial credentials, meets the Qualification Standards of the American Academy of Actuaries to render this Actuarial Opinion. There is no relationship between the Hoffman Estates Police Pension Fund and Lauterbach & Amen, LLP that impairs our objectivity.

The information contained in this report was prepared for the use of the Hoffman Estates Police Pension Fund and the Village of Hoffman Estates, Illinois in connection with our actuarial valuation. It is not intended or necessarily suitable for other purposes. It is intended to be used in its entirety to avoid misrepresentations.

Respectfully Submitted,

LAUTERBACH & AMEN, LLP

Todd A. Schroeder

Todd A. Schroeder, EA

MANAGEMENT SUMMARY

Contribution Recommendation
Funded Status
Management Summary

MANAGEMENT SUMMARY

CONTRIBUTION RECOMMENDATION

	Prior Valuation*	Current Valuation
Contribution Requirement	$3,178,239	$3,380,781
Expected Payroll	$8,378,076	$8,630,890
Contribution Requirement as a Percent of Expected Payroll	37.94%	39.17%

Recommended Contribution has Increased $202,542 from Prior Year.

FUNDED STATUS

	Prior Valuation*	Current Valuation
Normal Cost	$1,622,588	$1,343,833
Market Value of Assets	$68,082,883	$66,014,912
Actuarial Value of Assets	$68,532,708	$71,324,002
Actuarial Accrued Liability	$111,118,939	$114,067,127
Unfunded Actuarial Accrued Liability	$42,586,231	$42,743,125
Percent Funded		
Actuarial Value of Assets	61.68%	62.53%
Market Value of Assets	61.27%	57.87%

Funded Percentage has Increased 0.85 on an Actuarial Value of Assets Basis.

*Prior Valuation Completed by Timothy W. Sharpe.

MANAGEMENT SUMMARY – COMMENTS AND ANALYSIS

Contribution Results

The contribution recommendation is based on the funding policies and procedures that are outlined in the "Actuarial Funding Policies" section of this report.

The State of Illinois statutes for pension funds contain parameters that should be used to determine the minimum amount of contribution to a public pension fund. Those parameters and the resulting minimum contribution can be found in the "Illinois Statutory Minimum Contribution" section of this report.

Defined Benefit Plan Risks

Asset Growth

Pension funding involves preparing plan assets to pay benefits for the members when they retire. During their working careers, assets need to build with contributions and investment earnings, and then the pension fund distributes assets during retirement. Based on the fund's current mix of employees and funded status, the fund should be experiencing positive asset growth on average if requested contributions are made and expected investment earnings come in. In the current year the fund asset growth was negative by approximately $2.0 million dollars.

Asset growth is important long-term. Long-term cash flow out of the pension fund is primarily benefit payments. Expenses make up a smaller portion. The fund should monitor the impact of expected benefit payments and the impact on asset growth in the future. In the next 5 years, benefits payments are anticipated to increase 55-60%, or approximately $2.3 million dollars. In the next 10 years, the expected increase in benefit payments is 120-125%, or approximately $5.0 million dollars.

Unfunded Liability:

Unfunded liability represents dollars we expect to be in the pension fund already for the fund members based on funding policy. To the extent dollars are not in the pension fund the fund is losing investment returns on those dollars going forward. Payments to unfunded liability pay for the lost investment earnings, as well as the outstanding unfunded amount. If payment is not made, the unfunded liability will grow.

In the early 1990s, many pension funds in Illinois adopted an increasing payment to handle unfunded liability due to a change in legislation. The initial payments decreased, and payments were anticipated to increase annually after that. In many situations, payments early on may be less than the interest on unfunded liability, which means unfunded liability is expected to *increase* even if contributions are at the recommended level.

The current contribution recommendation includes a payment to unfunded liability that is approximately $414,000 less than interest on the unfunded liability. All else being equal and contributions being made, unfunded liability would still be expected to increase. The employer and the fund should anticipate currently that improvement in the funded percent will be mitigated in the short-term. The employer and the fund should understand this impact as we progress forward to manage expectations.

Actuarial Value of Assets:
The pension fund smooths asset returns that vary from expectations over a five-year period. The intention over time is that asset returns for purposes of funding recommendations are a combination of several years. The impact is intended to smooth out the volatility of contribution recommendations over time, but not necessarily increase or decrease the level of contributions over the long-term.

When asset returns are smoothed, there are always gains or losses on the Market Value of Assets that are going to be deferred for current funding purposes, and recognized in future years. Currently, the pension fund is deferring approximately $5.3 million dollars in losses on the Market Value of Assets. These are asset losses that will be recognized in upcoming periods, independent of the future performance of the Market Value of Assets.

Plan Assets
The results in this report are based on the Assets held in the pension fund. Assets consist of funds held for investment and for benefit payments as of the Valuation Date. In addition, Assets may be adjusted for other events representing dollars that are reasonably expected to be paid out from the pension fund or deposited into the pension fund after the Actuarial Valuation Date as well.

The current funds Assets are audited.

The actuarial value of assets under the funding policy is equal to the fair market value of assets, with unexpected gains and losses smoothed over 5 years. More detail on the Actuarial Value of Assets can be found in the funding policy section of the report.

The Plan Assets Used in this Report are Audited.

<u>Demographic Data</u>

Demographic factors can change from year to year within a pension fund. Changes in this category include hiring new employees, employees retiring or becoming disabled, retirees passing away, and other changes. Demographic changes can cause an actuarial gain (contribution that is less than expected compared to the prior year) or an actuarial loss (contribution that is greater than expected compared to the prior year).

Demographic gains and losses occur when the assumptions over the one-year period for employee changes do not meet our long-term expectation. For example, if no employees become disabled during the year, we would expect a liability gain. If more employees become disabled than anticipated last year, we would expect a liability loss. Generally, we expect short-term fluctuations in demographic experience to create 1%-3% gains or losses in any given year, but to balance out in the long-term.

In the current report, the key demographic changes were as follows:

New hires: The fund added 7 new active members in the current year through hiring. When a new member is admitted to the pension fund, the employer contribution will increase to reflect the new member. The increase in the recommended contribution in the current year for new fund members is approximately $31,500.

Disability: There was 1 member of the fund who became disabled during the year. When a member becomes disabled, the fund will often experience a decrease in normal cost, but an increase in unfunded liability. The increase in the recommended contribution in the current year for the new disability was approximately $3,500.

Retirement: There were 5 members of the fund who retired during the year. When a fund member retires the normal cost will decrease. Any change in the actuarial liability will be considered when determining the amount to pay towards unfunded liability each year. The net decrease in the recommended contribution in the current year due to the retirement experience is approximately $23,500.

Mortality: There was 1 retiree and 1 disabled member who passed away during the year, both with an eligible surviving spouse. When a retiree or disabled member passes away, the fund liability will decrease as the pension fund no longer will make future payments to the member. If there is an eligible surviving spouse, the fund liability will increase to represent the value of the expected payments that will be made to the spouse. The net decrease in the recommended contribution in the current year due to the passing of the beneficiaries is approximately $19,500.

Salary Increases: Salary increases were less than anticipated in the current year. About half the active members received an increase of 3.00% or less. This caused a decrease in the recommended contribution in the current year of approximately $72,000.

Assumption Changes

We performed a comprehensive study of Police pension funds in the State of Illinois. We reviewed the results of the study in addition to the experience in the current fund. The actuarial assumptions were changed in the current year. The changes were made to better reflect the future anticipated experience in the fund. See the table on the following page for the impact of these changes.

Funding Policy Changes

The funding policy was not changed from the prior year.

ACTUARIAL CONTRIBUTION RECOMMENDATION - RECONCILIATION

Actuarial liability is expected to increase each year for both interest for the year and as active employees earn additional service years towards retirement. Similarly, actuarial liability is expected to decrease when the fund pays benefits to inactive employees.

Contributions are expected to increase as expected pay increases under the funding policy for the Fund.

Other increases or decreases in actuarial liability (key changes noted below) will increase or decrease the amount of unfunded liability in the plan. To the extent unfunded liability increases or decreases unexpectedly, the contribution towards unfunded liability will also change unexpectedly.

	Actuarial Liability	Contribution Recommendation
Salary Increase Less than Expected	(1,051,532)	(72,105)
Demographic Changes	803,932	1,120
Assumption Changes	(1,085,376)	103,120
Asset Return Less than Expected *	-	112,201
Contributions Less than Expected	-	25,235
Total Actuarial Experience	$ (1,332,976)	$ 169,571

*The impact on contribution due to asset performance is based on the Actuarial Value of Assets.

Key demographic changes were discussed in the prior section.

VALUATION OF FUND ASSETS

Market Value of Assets
Actuarial Value of Assets

MARKET VALUE OF ASSETS

Statement of Assets

	Prior Valuation	Current Valuation
Cash and Cash Equivalents	$ -	$ 662,203
Money Market	643,995	498,279
Fixed Income	25,096,318	24,093,986
Mutual Funds	42,170,398	40,579,033
Receivables (Net of Payables)	172,171	181,411
Net Assets Available for Pensions	$ 68,082,883	$ 66,014,912

The Total Value of Assets has Decreased $2,067,971 from Prior Valuation.

Statement of Changes in Assets

Total Market Value - Prior Valuation	$ 68,082,883
Plus - Employer Contributions	2,670,802
Plus - Employee Contributions	852,743
Plus - Return on Investments	(1,410,523)
Less - Benefit and Related Payments	(4,131,392)
Less - Other Expenses	(49,601)
Total Market Value - Current Valuation	$ 66,014,912

The Return on Investment on the Market Value of Assets for the Fund was Approximately (2.2%) Net of Administrative Expenses.

The return on investments shown has been determined as the Return on Assets from the statement of changes in assets, as a percent of the average of the beginning and ending Market Value of Assets. Return on Investment is net of the Other Expenses as shown. The Return on Investments has been excluded from the Total Market Value of Assets at the end of the year for this calculation.

Market Value of Assets (Gain)/Loss

Current Year (Gain)/Loss on Market Value of Assets

Total Market Value - Prior Valuation	$ 68,082,883
Contributions	3,523,545
Benefit Payments	(4,131,392)
Expected Return on Investments	5,083,422
Expected Total Market Value - Current Valuation	72,558,458
Actual Total Market Value - Current Valuation	66,014,912
Current Market Value (Gain)/Loss	$ 6,543,546

Expected Return on Investments	$ 5,083,422
Actual Return on Investments (Net of Expenses)	(1,460,124)
Current Market Value (Gain)/Loss	$ 6,543,546

The Return on the Market Value of Assets was Lower than Expected Over the Most Recent Year.

The (Gain)/Loss on the Market Value of Assets has been determined based on expected returns at the actuarial rate.

DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS

Total Market Value - Current Valuation		$ 66,014,912
Adjustment for Prior (Gains)/Losses		
	Full Amount	
First Preceding Year	$ 6,543,546	5,234,837
Second Preceding Year	3,331,225	1,998,735
Third Preceding Year	(3,995,248)	(1,598,099)
Fourth Preceding Year	(1,631,915)	(326,383)
Total Deferred (Gain)/Loss		5,309,090
Initial Actuarial Value of Assets - Current Valuation		71,324,002
Less Contributions for the Current Year and Interest		-
Less Adjustment for the Corridor		-
Actuarial Value of Assets - Current Valuation		$ 71,324,002

The Actuarial Value of Assets is Equal to the Fair Market Value of Assets with Unanticipated Gains/Losses Recognized over 5 Years. The Actuarial Value of Assets is Currently 108% of the Market Value.

(GAIN)/LOSS ON THE ACTUARIAL VALUE OF ASSETS

Total Actuarial Value - Prior Valuation	$ 68,532,708
Plus - Employer Contributions	2,670,802
Plus - Employee Contributions	852,743
Plus - Return on Investments	3,448,742
Less - Benefit and Related Payments	(4,131,392)
Less - Other Expenses	(49,601)
Total Actuarial Value - Current Valuation	$ 71,324,002

The Return on Investment on the Actuarial Value of Assets for the Fund was Approximately 5.0% Net of Administrative Expenses.

The Actuarial Value of Assets incorporates portions of gains and losses over multiple years.

HISTORICAL ASSET PERFORMANCE

The chart below shows the historical rates of return on plan assets for both Market Value of Assets and Actuarial Value of Assets.

	Market Value	Actuarial Value
First Preceding Year	-2.2%	5.0%

The returns on assets shown above were calculated based on the annual return on investment for the year, as a percentage of the average value of the assets for the year.

For purposes of determining the average value of assets during the year, the ending market value of assets has been adjusted to net out to the portion related to the investment returns themselves. All other cash flows are included.

For purposes of determining the annual return on investment we have adjusted the figures shown on the preceding pages. The figures shown on the preceding pages are net of investment expenses. We have made an additional adjustment to net out administrative expenses. Netting out administrative expenses allows us to capture returns for the year that can be used to make benefit payments as part of the ongoing actuarial process.

The adjustment we make is for actuarial reporting purposes only. By netting out administrative expenses and capturing return dollars that are available to pay benefits, it provides us a comparison to the estimated rate of return on assets, but does not provide a figure that would be consistent with the return rates that are determined by other parties. Therefore, this calculated rate of return should not be used to analyze investment performance of the Fund or the performance of the investment professionals.

RECOMMENDED CONTRIBUTION DETAIL

Actuarial Accrued Liability
Funded Status
Development of the Normal Cost
Recommended Contribution
Actuarial Methods – Recommended Contribution

ACTUARIAL ACCRUED LIABILITY

	Current Valuation
Active Employees	$ 48,836,352
Inactive Employees	
Terminated Employees - Vested	628,212
Retired Employees	52,032,941
Disabled Employees	9,217,443
Other Beneficiaries	3,352,179
Total Inactive Employees	65,230,775
Total Actuarial Accrued Liability	$ 114,067,127

The Total Actuarial Liability has Increased from Prior Valuation. (See Management Summary)

FUNDED STATUS

	Current Valuation
Total Actuarial Accrued Liability	$ 114,067,127
Total Actuarial Value of Assets	71,324,002
Unfunded Actuarial Accrued Liability	$ 42,743,125
Total Market Value of Assets	$ 66,014,912
Percent Funded	
Actuarial Value of Assets	62.53%
Market Value of Assets	57.87%

Funded Percentage as of the Valuation Date is Subject to Volatility on Assets and Liability in the Short-Term.

RECOMMENDED CONTRIBUTION DETAIL

DEVELOPMENT OF THE EMPLOYER NORMAL COST

	Current Valuation
Total Normal Cost	$ 1,343,833
Estimated Employee Contributions	(855,321)
Employer Normal Cost	$ 488,512

At a 100% Funding Level, the Normal Cost Contribution is Still Required.

NORMAL COST AS A PERCENTAGE OF EXPECTED PAYROLL

	Current Valuation
Expected Payroll	$ 8,630,890
Employee Normal Cost Rate	9.910%
Employer Normal Cost Rate	5.66%
Total Normal Cost Rate	15.57%

Ideally, the Employer Normal Cost Rate will Remain Stable.

CONTRIBUTION RECOMMENDATION

	Current Valuation
Employer Normal Cost*	$ 589,299
Amortization of Unfunded Accrued Liability/(Surplus)	2,791,482
Funding Requirement	$ 3,380,781

*Employer Normal Cost Contribution includes interest through the end of the year.

The Recommended Contribution has Increased from the Prior Valuation (See the Management Summary).

ACTUARIAL METHODS – RECOMMENDED CONTRIBUTION

Actuarial Valuation Date	January 1, 2016
Data Collection Date	December 31, 2015
Actuarial Cost Method	Entry Age Normal (Level % of Pay)
Amortization Method	Level % Pay (Closed)
Amortization Target	100% Funded over 25 years
Asset Valuation Method	5-Year Smoothed Market Value

The contribution and benefit values of the Pension Fund are calculated by applying actuarial assumptions to the benefit provisions and census information furnished, using the actuarial cost methods described. The actuarial cost and amortization method allocates the projected obligations of the plan over the working lifetimes of the plan participants.

The recommended contribution amount shown in this report is based on the methods summarized above. The Actuarial Funding Policies section of the report will include a more detail description of the funding methods being used.

The Actuarial Funding Methods are meant to provide a systematic process for determining contributions on an annual basis. The methods do not impact the expectation of future benefit payments. The methods only impact the way dollars are contributed towards future benefit payments.

Different Actuarial Funding Methods may achieve funding goals with differing levels of success. Certain methods are more efficient and more stable on an annual basis.

ILLINOIS STATUTORY MINIMUM CONTRIBUTION

Minimum Contribution
Methods and Assumptions

STATUTORY MINIMUM CONTRIBUTION

	Minimum Contribution
Contribution Requirement	$2,681,614
Expected Payroll	$8,630,890
Contribution Requirement as a Percent of Expected Payroll	31.07%

FUNDED STATUS – STATUTORY MINIMUM

	Minimum Contribution
Normal Cost	$2,291,187
Market Value of Assets	$66,014,912
Actuarial Value of Assets	$71,324,002
Actuarial Accrued Liability	$97,519,636
Unfunded Actuarial Accrued Liability	$26,195,634
Percent Funded	
Actuarial Value of Assets	73.14%
Market Value of Assets	67.69%

ILLINOIS STATUTORY MINIMUM CONTRIBUTION

The Statutory Minimum Contribution is based on funding methods and funding parameters in the Illinois statutes for pension funding. The resulting contribution is lower than the recommended contribution for the current plan year. The lower contribution amount is not recommended because it represents only a deferral of contributions when compared to the recommended contribution method.

Actuarial Funding methods for pensions are best applied to provide a balance between the long-term goals of a variety of stakeholders:

1. Beneficiaries – the fund participants are interested in benefit security and having the dollars there to pay benefits when retired.

2. Employers – cost control and cost stability over the long-term

3. Taxpayers – paying for the services they are receiving from active employees

The Statutory Minimum Contribution methods are not intended to provide a better system in any of the above categories long-term. The parameters are not recommended for a long-term funding strategy.

The Statutory Minimum methods put into place in 2011 were intended to provide short-term budget relief for Employer contributions. An employer using the Statutory Minimum parameters for current funding should view the contributions as short-term relief. Our recommendation in this situation is for a pension fund and an employer to work towards a long-term funding strategy that better achieves the long-term funding goals, over a period that does not exceed 3-5 years.

The Securities and Exchange Commission in 2013 used the phrase “Statutory Underfunding” to describe situations where contributions appear to be more manageable in the short-term, but set up future contribution requirements that are less likely to be manageable.

ACTUARIAL METHODS – ILLINOIS STATUTORY MINIMUM CONTRIBUTION

Actuarial Valuation Date	January 1, 2016
Data Collection Date	December 31, 2015
Actuarial Cost Method	Projected Unit Credit (Level % of Pay)
Amortization Method	Level % Pay (Closed)
Remaining Amortization Period	90% Funded over 25 years
Asset Valuation Method	5-Year Smoothed Market Value

The contribution and benefit values of the Pension Fund are calculated by applying actuarial assumptions to the benefit provisions and census information furnished, using the actuarial cost methods described. The actuarial cost and amortization method allocates the projected obligations of the plan over the working lifetimes of the plan participants.

The recommended contribution amount shown in this report is based on the methods summarized above. The Actuarial Funding Policies section of the report will include a more detail description of the funding methods being used.

The Actuarial Funding Methods are meant to provide a systematic process for determining contributions on an annual basis. The methods do not impact the expectation of future benefit payments. The methods only impact the way dollars are contributed towards future benefit payments.

Different Actuarial Funding Methods may achieve funding goals with differing levels of success. Certain methods are more efficient and more stable on an annual basis.

ACTUARIAL VALUATION DATA

Active Employees
Retirees and Beneficiaries

ACTUARIAL VALUATION DATA

ACTIVE EMPLOYEES

	Current Valuation
Vested	72
Nonvested	19
Total Active Employees	91
Total Payroll	$ 8,482,447

INACTIVE EMPLOYEES

	Current Valuation
Terminated Employees - Vested	1
Retired Employees	49
Disabled Employees	15
Other Beneficiaries	10
Total Inactive Employees	75

SUMMARY OF BENEFIT PAYMENTS

	Current Valuation
Terminated Employees - Vested	$ 3,816
Retired Employees	287,958
Disabled Employees	48,802
Other Beneficiaries	31,439
Total Inactive Employees	$ 372,014

Benefits shown for terminated employees under deferred retirement are not currently in pay status.

ACTUARIAL FUNDING POLICIES

Actuarial Cost Method
Financing Unfunded Accrued Liability
Actuarial Value of Assets

ACTUARIAL FUNDING POLICIES

ACTUARIAL COST METHOD

The actuarial cost method allocates the projected obligations of the plan over the working lifetimes of the plan participants.

In accordance with the Pension Fund's Funding Policy the actuarial cost method for the recommended contribution basis is Entry Age Normal (Level Percent of Pay). The Entry Age Normal Cost Method is a method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age. The portion of this actuarial present value allocated to a valuation year is called normal cost. The portion of the actuarial present value not provided at a valuation date by the actuarial present value of future normal costs is called the actuarial liability.

FINANCING UNFUNDED ACTUARIAL ACCRUED LIABILITY

The Unfunded Actuarial Accrued Liability may be amortized over a period either in level dollar amounts or as a level percentage of projected payroll.

In accordance with the Pension Fund's Funding Policy for the recommended contribution the unfunded actuarial accrued liabilities are amortized by level percent of payroll contributions to 100% funding target over the remaining 25 future years.

ACTUARIAL VALUE OF ASSETS

The pension fund is an ongoing plan. The employer wishes to smooth the effect of volatility in the market value of assets on the annual contribution. The Actuarial Value of Assets is equal to the Market Value of Assets with unanticipated gains/losses recognized over five years.

The asset valuation method is intended to create an Actuarial Value of Assets that remains reasonable in relation to the Market Value of Assets over time. The method produces results that can fall above and below the Market Value of Assets. The period of recognition is short.

It is intended that the period of recognition is short enough to keep the Actuarial Value of Assets within a decent range of the Market Value. The employer has not placed a specific corridor around the Market Value of Assets.

ACTUARIAL ASSUMPTIONS

Nature of Actuarial Calculations
Actuarial Assumptions in the Valuation Process
Actuarial Assumptions Utilized

NATURE OF ACTUARIAL CALCULATIONS

The results documented in this report are estimates based on data that may be imperfect and on assumptions about future events. Certain plan provisions may be approximated or deemed immaterial, and, therefore, are not valued. Assumptions may be made about participant data or other factors. Reasonable efforts were made in this valuation to ensure that significant items in the context of the actuarial liabilities or costs are treated appropriately, and not excluded or included inappropriately.

Actual future experience will differ from the assumptions used in the calculations. As these differences arise, the expense for accounting purposes will be adjusted in future valuations to reflect such actual experience.

A range of results different from those presented in this report could be considered reasonable. The numbers are not rounded, but this is for convenience only and should not imply precision which is not inherent in actuarial calculations.

ACTUARIAL ASSUMPTIONS IN THE VALUATION PROCESS

The contribution and benefit values of the Pension Fund are calculated by applying actuarial assumptions to the benefit provisions and census information furnished, using the actuarial cost methods described in the previous section.

The principal areas of financial risk which require assumptions about future experience are:

- Long-term Rates of Investment Return
- Patterns of Pay Increases for Members
- Rates of Mortality Among Members and Beneficiaries
- Rates of Withdrawal of Active Members
- Rates of Disability Among Members
- Age Patterns of Actual Retirement

Actual experience of the Pension Fund will not coincide exactly with assumed experience. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments to the computed contribution requirement.

From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends (but not random year-to-year fluctuations).

Details behind the selection of the actuarial assumptions can be found in the assumption document provided to the client. The client has reviewed and approved the assumptions as a reasonable expectation of the future anticipated experience under the plan.

ACTUARIAL ASSUMPTIONS UTILIZED

Expected Return on Investments 7.50% net of adminstrative expenses.

CPI-U 2.50%

Total Payroll Increases 3.50%

Individual Pay Increases 3.50% - 10.33%

Individual salary increases include a long-term average increase for inflation, average annual increases for promotions, and any additional increases for a step program. Sample Rates as Follows:

Service	Rate	Service	Rate
0	5.06%	8	4.00%
1	7.01%	9	4.00%
2	8.83%	10	4.00%
3	8.45%	15	4.00%
4	8.12%	20	4.00%
5	6.14%	25	3.50%
6	10.33%	30	3.50%
7	4.00%	35	3.50%

Retirement Rates 100% of the L&A Assumption Study Cap Age 65 for Police 2016. Sample Rates as Follows:

Age	Rate	Age	Rate
50	0.117	53	0.139
51	0.124	54	0.147
52	0.131	55	0.156

Withdrawal Rates

100% of the L&A Assumption Study for Police 2016. Sample Rates as Follows:

Age	Rate	Age	Rate
25	0.041	40	0.027
30	0.039	45	0.014
35	0.036	50	0.000

Disability Rates

100% of the L&A Assumption Study for Police 2016. Sample Rates as Follows:

Age	Rate	Age	Rate
25	0.0005	40	0.0028
30	0.0010	45	0.0043
35	0.0018	50	0.0064

Mortality Rates

L&A Assumption Study for Police 2016. Sample Male Rates as Follows:

Age	Rate	Age	Rate
25	0.00054	40	0.00071
30	0.00052	45	0.00108
35	0.00061	50	0.00187

L&A Assumption Study for Police 2016. Sample Female Rates as Follows:

Age	Rate	Age	Rate
25	0.00017	40	0.00040
30	0.00023	45	0.00065
35	0.00030	50	0.00111

Mortality improvement to 5 years past the valuation date using MP 2014 is assumed. Active mortality (pre-retirement) and disabled mortality follow RP 2014.

Married Participants

80% of Active Participants are Assumed to be Married. Female Spouses are Assumed to be 3 Years Younger than Male Spouses.

SUMMARY OF PRINCIPAL PLAN PROVISIONS

Establishment of the Fund
Administration
Employee Contributions
Normal Retirement Pension Benefits
Pension to Survivors
Termination Benefits
Disability Benefits

ESTABLISHMENT OF THE FUND

The Police Pension Fund is established and administered as prescribed by "Article 3. Police Pension Fund – Municipalities 500,000 and Under" of the Illinois Pension Code.

ADMINISTRATION

The Police Pension Fund is administered by a Board of Trustees located in each municipality maintaining a pension fund for its police officers. Its duties are to control and manage the pension fund, to hear and determine applications for pensions, to authorize payment of pensions, to establish rules, to pay expenses, to invest funds, and to keep records.

EMPLOYEE CONTRIBUTIONS

Employees contribute 9.910% of salary.

NORMAL RETIREMENT PENSION BENEFIT

Hired Prior to January 1, 2011

Eligibility: Age 50 with at least 20 years of creditable service and no longer a police officer.

Benefit: 50% of final salary is payable commencing at retirement for 20 years of service. An additional 2.5% of final salary is added for each additional year of service in excess of 20 years of service (not to exceed 75% of final salary). "Final salary" is the salary attached to rank held on the last day of services or for 1 year prior to the last day, whichever is greater.

Annual Increase in Benefit: An officer will receive an initial increase of 1/12 of 3% for each month that has elapsed since retirement. The initial increase date will be the later of the first day of the month following the attainment of age 55, or the first anniversary of the date of retirement. Subsequent increases of 3% of the current pension amount (including prior increases) will be provided in each January thereafter.

NORMAL RETIREMENT PENSION BENEFIT - CONTINUED

Hired on or After January 1, 2011

Eligibility: Age 55 with at least 10 years of creditable service and no longer a police officer.

Benefit: 2.5% of final average salary for each year of service is payable at retirement (not to exceed 75% of final average salary). "Final average salary" is determined by dividing the highest total salary over 96 consecutive months of service in the last 120 months of service by the total number of months of service in the period. Annual salary for this purpose will not exceed $106,800, indexed by the lesser of 3% or ½ of the CPI-U for the 12 months ending with the September preceding each November 1. The salary cap will not decrease.

Annual Increase in Benefit: The initial increase date will be the January 1st following the later of the attainment of age 60, or the first anniversary of the date of retirement. Subsequent increases will occur on each subsequent January 1st. The first increase and subsequent increases will be the lesser of 3% of the original benefit or ½ of the CPI-U for the 12 months ending with the September preceding each November 1, applied to the original benefit.

EARLY RETIREMENT PENSION BENEFIT

Hired Prior to January 1, 2011

None

Hired on or After January 1, 2011

Eligibility: Age 50 with at least 10 years of creditable service and no longer a police officer.

Benefit: The normal retirement pension benefit reduced by ½ of 1% for each month that the police officer's age is under age 55.

Annual Increase in Benefit: The initial increase date will be the January 1st following the later of the attainment of age 60, or the first anniversary of the date of retirement. Subsequent increases will occur on each subsequent January 1st. The first increase and subsequent increases will be the lesser of 3% of the original benefit or ½ of the CPI-U for the 12 months ending with the September preceding each November 1, applied to the original benefit.

PENSION TO SURVIVORS

Hired Prior to January 1, 2011

Death - Line of Duty

Surviving spouse is entitled to 100% of the salary attached to the rank of the police officer on the last day of service, payable immediately.

Death - Non-Duty

Current Pensioners (Including Disabled Pensioners): Surviving spouse to receive continuation of the pension.

Active Employee with 20+ Years of Service: Surviving spouse is entitled to the full pension earned by the police officer at the time of death.

Active Employee with 10-20 Years of service: Surviving spouse is entitled to 50% of the salary attached to the rank of the police officer on the last day of service, payable immediately

Annual Increase in Benefit: None.

Hired on or After January 1, 2011

Death - Line of Duty

Surviving spouse is entitled to 100% of the salary attached to the rank of the police officer on the last day of service, payable immediately.

Death - Non-Duty

Current Pensioners (Including Disabled Pensioners), Active Employee with 20+ Years of Service, and Active Employee with 10-20 Years of service: Surviving spouse to receive 66 ⅔% of the police officer's earned pension at the date of death.

Annual Increase in Benefit: The initial increase date will be the January 1st after the attainment of age 60 by the recipient of the survivor's pension. Subsequent increases will occur on each subsequent January 1st. The first increase and subsequent increases will be the lesser of 3% of the original benefit or ½ of the CPI-U for the 12 months ending with the September preceding each November 1, applied to the original survivor's benefit amount.

TERMINATION BENEFIT

Hired Prior to January 1, 2011

Eligibility: At least 8 years but less than 20 years of creditable service.

Benefit: 2.5% of final salary for each year of service is payable beginning at age 60. “Final salary” is based on the greater of salary during the last year of service prior to termination of employment or the pay rate for the police officer at termination of employment.

Annual Increase in Benefit: An officer will receive an initial increase of 3% on the first anniversary of the date of start of payments. Subsequent increases of 3% of the current pension amount will be provided in each January thereafter.

Hired on or After January 1, 2011

Eligibility: At least 10 years but less than 20 years of creditable service.

Benefit: 2.5% of final salary for each year of service is payable beginning at age 60. “Final salary” is based on the greater of salary during the last year of service prior to termination of employment or the pay rate for the police officer at termination of employment. Annual salary for this purpose will not exceed $106,800, indexed by the lesser of 3% or ½ of the CPI-U for the 12 months ending with the September preceding each November 1. The salary cap will not decrease.

Annual Increase in Benefit: The initial increase date will be the January 1st following the first payment. Subsequent increases will occur on each subsequent January 1st. The first increase and subsequent increases will be the lesser of 3% of the original benefit or ½ of the CPI-U for the 12 mos. ending with the September preceding each November 1, applied to the original benefit amount.

DISABILITY BENEFIT

Hired Prior to January 1, 2011

Eligibility: Disability (duty or non-duty).

Benefit: A police officer who becomes disabled on duty is entitled to receive a pension equal to the greater of 65% of final salary or the pension they would have been entitled to upon retirement at the time of disability. For a non-duty disability, the police officer is entitled to 50% of final salary. “Final salary” is based on the pay rate for the police officer on the last day of service.

Annual Increase in Benefit: The initial increase date will be the January 1st following the attainment of age 60. Subsequent increases will occur on each subsequent January 1st. The first increase is 3% of the original benefit for each full year that has passed since the pension began. Subsequent increases will be the 3% of the original pension benefit amount.

Hired on or after January 1, 2011

Eligibility: Disability (duty or non-duty).

Benefit: A police officer who becomes disabled on duty is entitled to receive a pension equal to the greater of 65% of final salary or the pension they would have been entitled to upon retirement at the time of disability. For a non-duty disability, the police officer is entitled to 50% of final salary. “Final salary” is based on the pay rate for the police officer on the last day of service.

Annual Increase in Benefit: The initial increase date will be the January 1st following the attainment of age 60. Subsequent increases will occur on each subsequent January 1st. The first increase and subsequent increases will be the lesser of 3% of the original benefit or ½ of the CPI-U for the 12 months ending with the September preceding each November 1, applied to the original benefit amount.

GLOSSARY OF TERMS

GLOSSARY OF TERMS

Actuarial Accrued Liability –The actuarial present value of future benefits based on employees' service rendered to the measurement date using the selected actuarial cost method. It is that portion of the Actuarial Present Value of plan benefits and expenses allocated to prior years of employment. It is not provided for by future Normal Costs.

Actuarial Cost Method – The method used to allocate the projected obligations of the plan over the working lifetimes of the plan participants.

Actuarial Value of Asset – The value of the assets used in the determination of the Unfunded Actuarial Accrued Liability. The Actuarial Value of Assets is related to Market Value of Assets, with adjustments made to spread unanticipated gains and losses for a given year over a period of several years. Actuarial Value of Assets is generally equally likely to fall above or below the Market Value of Assets, and generally does not experience as much volatility over time as the Market Value of Assets.

Asset Valuation Method – A valuation method designed to smooth random fluctuations in asset values. The objective underlying the use of an asset valuation method is to provide for the long-term stability of employer contributions.

Funding Policy – A set of procedures for a Pension Fund that outlines the "best practices" for funding the pension benefits based on the goals of the plan sponsor. A Funding Policy discusses items such as assumptions, Actuarial Cost Method, assets, and other parameters that will best help the sponsor meet their goal of working in the best interest of the plan participant.

Market Value of Assets – The value of the cash, bonds, securities and other assets held in the pension trust as of the measurement date.

Normal Cost –The present value of future benefits earned by employees during the current fiscal year. It is that portion of the Actuarial Present Value of benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

Unfunded Actuarial Accrued Liability – The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. The Unfunded Actuarial Accrued Liability is amortized over a period either in level dollar amounts or as a level percentage of projected payroll

VILLAGE OF HOFFMAN ESTATES, ILLINOIS
POLICE PENSION FUND

HOUSE BILL 5088 - MUNICIPAL COMPLIANCE REPORT

FOR THE FISCAL YEAR ENDED

DECEMBER 31, 2015

VILLAGE OF HOFFMAN ESTATES, ILLINOIS
POLICE PENSION FUND

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

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

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

	Current Fiscal Year	Preceding Fiscal Year
Total Cash and Investments	$ 66,009,936	$ 68,083,657
Total Net Position	$ 66,014,912	$ 68,082,883

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

Estimated Receipts - Employee Contributions	$ 887,100
Estimated Receipts - All Other Sources	
Investment Earnings	$ 4,950,700
Municipal Contributions	$ 3,380,781

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	$ 5,226,200
(b) Annual Requirement of the Fund as Determined by:	
Illinois Department of Insurance	$ 3,843,531
Private Actuary- Lauterbach & Amen, LLP	
Recommended Municipal Contribution	$ 3,380,781
Statutory Municipal Contribution	$ 2,681,614

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

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:

	Current Fiscal Year	Preceding Fiscal Year
Net Income Received from Investment of Assets	$ (1,410,523)	$ 1,656,435
Assumed Investment Return		
Illinois Department of Insurance	6.75%	6.75%
Private Actuary- Lauterbach & Amen, LLP	7.50%	7.50%
Actual Investment Return	(2.08)%	2.49%

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

Number of Active Members	91

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

	Number of	Total Amount Disbursed
(i) Regular Retirement Pension	49	$ 3,237,837
(ii) Disability Pension	15	$ 549,443
(iii) Survivors and Child Benefits	10	$ 268,952
Totals	74	$ 4,056,232

VILLAGE OF HOFFMAN ESTATES, ILLINOIS
POLICE PENSION FUND

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

7) The funded ratio of the fund:

	Current Fiscal Year	Preceding Fiscal Year
Illinois Department of Insurance	59.52%	60.41%
Private Actuary- Lauterbach & Amen, LLP	62.53%	62.40%

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

Unfunded Liability:

Illinois Department of Insurance	$ 47,979,225
Private Actuary- Lauterbach & Amen, LLP	$ 42,743,125

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

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

Investment Policy - See Attached.

Please see Notes Page attached.

CERTIFICATION OF MUNICIPAL POLICE
PENSION FUND COMPLIANCE REPORT

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

Adopted this 18th day of October, 2016

Vice President [signature] Date 10/20/2016

Secretary [signature] Date 10/20/2016

VILLAGE OF HOFFMAN ESTATES, ILLINOIS
POLICE PENSION FUND

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

INDEX OF ASSUMPTIONS

1) Total Cash and Investments - as Reported in the Audited Financial Statements for the Years Ended December 31, 2015 and 2014.

   Total Net Position - as Reported at Market Value in the Audited Financial Statements for the Years Ended December 31, 2015 and 2014.

2) Estimated Receipts - Employee Contributions as Reported in the Audited Financial Statements for the Year Ended December 31, 2015 plus 4.29% Increase (Actuarial Salary Increase Assumption) Rounded to the Nearest $100.

   Estimated Receipts - All Other Sources

   Investment Earnings - Cash and Investments as Reported in the Audited Financial Statements for the Year Ended December 31, 2015, times 7.5% (Actuarial Investment Return Assumption) Rounded to the Nearest $100.

   Municipal Contributions - Recommended Tax Levy Requirement as Reported by ~~Lauterbach & Amen, LLP, Actuarial Valuation for the Year Ended December 31, 2015.~~

3) (a) Pay all Pensions and Other Obligations - Total Deductions as Reported in the Audited Financial Statements for the Year Ended December 31, 2015, plus a 25% Increase, Rounded to the Nearest $100.

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

   Illinois Department of Insurance - Suggested Amount of Tax Levy as Reported in the December 31, 2015 Actuarial Valuation.

   Private Actuary

   Recommended Amount of Tax Levy as Reported by Lauterbach & Amen, LLP in the December 31, 2015 Actuarial Valuation.

   Statutorily Required Amount of Tax Levy as Reported by Lauterbach & Amen, LLP in the December 31, 2015 Actuarial Valuation.

INDEX OF ASSUMPTIONS - Continued

4) Net Income Received from Investment of Assets - Investment Income (Loss) net of Investment Expense, as Reported in the Audited Financial Statements for the Years Ended December 31, 2015 and 2014.

   Assumed Investment Return

   Illinois Department of Insurance - Current and Preceding Fiscal Year Interest Rate Assumption as Reported in the December 31, 2015 and 2014 Actuarial Valuations.

   Private Actuary - Current Interest Rate Assumption as Reported in the Lauterbach & Amen, LLP, December 31, 2015 Actuarial Valuation. Preceding Fiscal Year Interest Rate Assumption as Reported in the Timothy W. Sharpe, Actuary, December 31, 2014 Actuarial

   Actual Investment Return -Net Income Received from Investments as Reported Above as a Percentage of the Average of the Beginning and Ending Balances of the Fiscal Year Cash Investments, Excluding Net Investment Income, Gains, and Losses for the Fiscal Year Return Being calculated, as Reported in the Audited Financial Statements for the Fiscal Years Ended December 31, 2015, 2014 and 2013.

5) Number of Active Members - Illinois Department of Insurance Annual Statement for December 31, 2015 - Schedule P.

6) (i) Regular Retirement Pension - Illinois Department of Insurance Annual Statement for December 31, 2015 - Schedule P for Number of Participants and Expense page 1 for Total Amount Disbursed.

   (ii) Disability Pension - Same as above.

   (iii) Survivors and Child Benefits - Same as above.

INDEX OF ASSUMPTIONS - Continued

7) The funded ratio of the fund:

Illinois Department of Insurance - Current and Preceding Fiscal Year Net Present Assets as a percentage of Total Assets as Reported in the December 31, 2015 and 2014 Actuarial Valuations.

Private Actuary - Current Fiscal Year Net Present Assets as a percentage of Total Assets as Reported in the Lauterbach & Amen, LLP, December 31, 2015 Actuarial Valuation. Preceding Fiscal Year Net Present Assets as a percentage of Total Assets as Reported in the

8) Unfunded Liability:
Illinois Department of Insurance - Deferred Asset (Unfunded Accrued Liability) as Reported in the December 31, 2015 Actuarial Valuation.

Private Actuary - Deferred Asset (Unfunded Accrued Liability) as Reported by Lauterbach & Amen, LLP in the December 31, 2015 Actuarial Valuation.

Hoffman Estates Police Pension Fund

STATEMENT OF INVESTMENT POLICY, OBJECTIVES AND GUIDELINES

JANUARY 20, 2016

General Information

The Hoffman Estates, Illinois, Police Pension Fund is a defined benefit contributory pension plan, created under Article 3 of the Illinois Pension Code (40 ILCS 5/3-101 et seq.) The Fund was created for the purpose of providing retirement and/or disability benefits to Police, their surviving spouses and dependents. Contributions to the plan come from active duty Police and from taxes upon the City. This Statement of Investment Policy, Objectives and Guidelines applies to all assets of the Hoffman Estates Police Pension Fund. All Investment Consultant(s), Investment Manager(s), and the Hoffman Estates Police Pension Fund Board of Trustees, shall affix their signatures on the last page hereof and hereby acknowledge that

(a) they have read, understood, and agreed to adhere to this statement;

(b) they are a "fiduciary" with respect to the Fund as provided under Illinois law including Section 1-101.2 of the Code;

(c) investments of the Fund are restricted to those investments permitted under the provisions of the Code applicable to the Fund, including Section 1-113 thereof; and

(d) all investments shall be made in the name of the Pension Fund and shall be clearly held and accounted for to indicate ownership by the Pension Fund.

Definitions

The following terms used herein have the meanings stated below.

1. "Code" shall mean the "Illinois Pension Code (40 ILCS 5/3-101 et seq.)
2. "Plan" shall mean the pension plan of Hoffman Estates Police Pension Fund. Plan shall also mean the Fund as defined herein.
3. "Fund" shall mean the Hoffman Estates Police Pension Fund. Fund shall also mean the Plan as defined herein.
4. "Pension Fund Board of Trustees" shall refer to the governing body established to administer and control the Fund as specified in Section 3-128 of the Code.
5. "Fiduciary" shall mean any individual or group of individuals as defined in the Illinois Pension Code, 40 ILCS 5/1-101, et seq. as may be applicable to investments under Article 3 (Police Pension Code), including, but not limited to, Investment Consultant(s), Investment Manager(s), and Custodian(s) as defined herein.
6. "Investment Manager" shall mean an "Investment Manager" as defined the Section 1-101.4 of the Code and shall include any person employed to manage the investment of all or part of the Plan's assets.
7. "Investment Consultant" shall mean any person employed to provide advisory services, including advice on investment objectives, asset allocation, manager search, and performance monitoring.

8. "Custodian" shall mean any person employed to maintain possession of securities or funds owned by the plan as custodian always identified as Custodian(s) of the Fund defined herein subject to the direction of the Pension Fund Board of Trustees. "Securities" shall refer to the marketable investment securities which are defined as acceptable in this Statement.
9. "Investment Horizons" shall be the time period over which the investment objectives, as set forth in this Statement, are expected to be met. The investment horizon for this Fund is in excess of 10 years. Investment horizons may differ for individual equity and fixed income investments.
10. "Statement" shall mean this Statement of Investment Policy, Objectives and Guidelines.

Primary Purpose of this Statement

This Statement is set forth by the Pension Fund Board of Trustees in order to achieve the following primary purposes:

1. Define and assign the responsibilities of all involved parties.
2. Ensure that Fund assets are managed in accordance with the Illinois Pension Code (40 ILCS 5/1-101 et seq. and 5/1A-101 et seq.) and other laws as may be applicable to investments under Article 3 of the Code (40 ILCS 5/3-101 et seq.), and as such statutes may be amended hereafter.
3. Establish a clear understanding for all involved parties of the investment goals and objectives for Plan assets.
4. Offer guidance and limitations to all Investment Managers regarding the investment of Plan assets.
5. Establish a basis for evaluating investment results.
6. Establish the relevant Investment Horizons for which Plan assets will be managed.
7. To achieve a target rate of return over the investment horizon that meets or exceeds the actuarially assumed rate of return.

Investment Philosophy

The Pension Fund Board of Trustees believes that Plan assets should be managed in a fashion that reflects the Plan's unique liabilities and funding resources, incorporating accepted investment theory and reliable, empirical evidence. Specifically, the Pension Fund Board of Trustees has adopted the following principles:

1. That asset allocation is the key determinant of return and, therefore, commitments to asset allocation targets will be maintained through a disciplined rebalancing program.
2. That diversification, both by and within asset classes, is the primary risk control element.
3. That passive fund portfolios are suitable investment strategies, especially in highly efficient markets.

4. That "market timing" is precluded as an acceptable investment strategy.

Responsibilities of the Pension Fund Board of Trustees

The Pension Fund Board of Trustees is charged by law with the responsibility for the management of the Plan's assets. As provided in Section 1-113.1 of the Code, the Pension Fund Board of Trustees shall discharge its duties solely in the interest of the Plan, with the care, skill, prudence and diligence under the circumstances then prevailing, that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. The specific responsibilities of the Pension Fund Board of Trustees relating to the investment management of the Plan's assets include, but are not limited to, the following:

1. Adhering to the guidelines as defined in the Illinois Pension Code.
2. Projecting the Plan's financial needs, and communicating such needs to the Investment Consultant and Investment Managers as the Pension Fund Board of Trustees deems appropriate.
3. Determining the Plan's risk tolerance and Investment Horizons, Investment Policy, and communicating these to other appropriate parties.
4. Establishing reasonable and consistent investment objectives and policies to direct the investment of the Plan's assets.
5. Prudently and diligently selecting qualified investment professionals, including Investment Consultant(s), Investment Manager(s), and Custodian(s).
6. Informing Investment Managers and Investment Consultants of expected changes in cash flow requirements.
7. Regularly evaluating the performance of the Investment Manager(s) to assure adherence to policy guidelines and to monitor investment objective progress.
8. Regularly evaluating the performance of the Fund as a whole to assure adherence to policy guidelines and to monitor investment objective progress.
9. Developing and enacting proper control procedures.

Delegation of Authority

As provided in Section 1-109.1 of the Code, the Pension Fund Board of Trustees as a fiduciary is responsible for directing and monitoring the investment management of the Plan's assets, and is authorized to delegate certain responsibilities to professional experts in various fields, including, but not limited to:

1. The Investment Consultant, who may assist the Pension Fund Board of Trustees in establishing investment policy, objectives, and guidelines; selecting investment managers,

reviewing such managers over time; measuring and evaluating investment performance on a continuing basis; and other tasks as deemed appropriate by the Pension Fund Board of Trustees.

2. The Investment Manager, who has discretion to direct the purchase, sale or holding of the specific securities or funds that will be used to meet the Plan's investment objectives.

3. The Custodian(s), who as custodian(s) will always be identified as Custodian(s) of the Pension Fund, will maintain possession of securities or funds owned by the Plan, collect dividend and interest payments, redeem maturing securities, effect receipt and delivery following purchases and sales, and also perform regular accounting of all assets owed, purchased, or sold, as well as move assets into and out of the Plan accounts.

4. The Investment Committee, if the committee has been constituted by the Pension Fund Board of Trustees.

Additional specialists such as attorneys, auditors, actuaries, retirement plan consultants, and others may be utilized by the Pension Fund Board of Trustees to assist in meeting its responsibilities and obligations to administer Plan assets prudently.

If such experts have discretionary investment authority or other powers, duties and responsibilities which make them a "Fiduciary" they must acknowledge their fiduciary status in writing. Such fiduciary status shall exist to all such experts including but not limited to the Pension Fund Board of Trustees, Investment Consultant(s), Investment Manager(s) and Custodian(s) regardless of whether such acknowledgment is given.

The Pension Fund Board of Trustees will have ultimate control of Fund assets and in Investment Manager allocations. The Pension Fund Board of Trustees will not reserve any control over daily investment decisions; those decisions will be the responsibility of the Investment Managers selected. Managers will be held responsible and accountable to achieve the objectives herein stated and operate within the Illinois Pension Code. As provided in section 1-110(b) a fiduciary of this fund shall not:

1. Deal with the assets of the retirement system or pension fund in his own interest or for his own account.

2. In his own individual or any other capacity act in any transaction involving the fund on behalf of a party whose interest is adverse to the interests of the fund or the participants or beneficiaries.

3. Receive any consideration for his own personal account from any party dealing with the fund in connection with a transaction involving the fund.

Responsibilities of Investment Consultant(s)

The Pension Fund Board of Trustees may hire or retain an Investment Consultant. The Investment Consultant's role is that of a non-discretionary advisor to the Pension Fund Board of Trustees. Nevertheless, the Investment Consultant has fiduciary status as may be defined under the applicable provisions of 40 ILCS 5/1-101, et seq. with respect to any advice or consultation provided to the Pension Fund Board of Trustees. Advice concerning the investment management of Plan assets will be offered by the Investment Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this Statement. The Investment Consultant shall assume such responsibilities as directed by the Pension Fund Board of Trustees, and as detailed in the Investment Consultant's contract. Specific responsibilities of the Investment Consultant include:

1. Complying with applicable laws, regulations, and rulings.
2. Maintain a list of qualified investment managers.
3. Assist in the development and periodic review of the investment policy.
4. Conduct investment manager searches when requested by the Pension Fund Board Of Trustees.
5. Monitor investment performance of investment managers and of the Fund as a whole.
6. Report to the Pension Fund Board of Trustees on market conditions and the impact on investments.
7. Calculate investment performance, and reconcile performance with investment managers.
8. Provide quarterly written reports that summarize the performance of the pension fund as a whole, and of investment managers and mutual funds.
9. Meet with investment managers periodically and confirm compliance with the investment policy.
10. Make long term assumptions on the capital markets for the purpose of evaluating the Pension Fund's asset allocation policy.
11. Establish and review the Pension Fund's asset allocation policy.
12. Review the holdings of investment managers to ensure that investments are in compliance with Illinois Statutes.
13. Ensure that investment managers provide updated contracts as necessary and disclose fees on a quarterly basis.
14. Ensure that investments are properly collateralized, to the extent that they are required to be collateralized.
15. Acknowledging that they are a fiduciary to the fund.

Responsibilities of Investment Manager(s)

The Pension Fund Board of Trustees may hire or retain an Investment Manager(s). The terms and conditions of any such appointment shall be in writing. Each Investment Manager must acknowledge in writing its acceptance of responsibility as a fiduciary under Illinois law. The Investment Manager has fiduciary status as may be defined under the applicable provisions of 40

ILCS 5/1-101, et seq. Subject to the requirements thereof and to the authority of the Pension Fund Board of Trustees, each Investment Manager will have full discretion to make investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this Statement. Specific responsibilities of the Investment Manager(s) include, but are not limited to, the following:

1. Discretionary investment management, within the guidelines set forth by the Pension Fund Board of Trustees, including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines set forth in this Statement.
2. Reporting, on a timely basis, accurate quarterly investment performance results, net of fees.
3. Communicating any major changes in economic outlook, investment strategy, or any other factors which affect implementation of investment process, or the investment objective progress of the Plan's investment management.
4. Informing the Pension Fund Board of Trustees regarding any qualitative change in the investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
5. Voting proxies on behalf of the Plan if directed to do so by the Pension Fund Board of Trustees and communicating such voting records to the Pension Fund Board of Trustees on a timely basis.
6. Have a written contract, with the Investment Policy as part of the contract, and acknowledging that they are a fiduciary to the Pension Fund.
7. Provide full disclosure of fees, both direct, and indirect.

Investment Managers will be held responsible and accountable to achieve the objectives of this Statement. It is not the intent of this Policy to hamper Investment Managers and they should request modifications when they deem it appropriate.

Responsibility of the Custodian

The Custodian exercises specified authority or control respecting management or disposition of the Fund's assets, among other things. The Custodian accepts possession of securities and/or funds in a manner which insures their safety and ownership. In view of Section 1-101 et seq. of the Code, the Custodian acts as a "Fiduciary" with respect to the Fund. Additional specific responsibilities of the Custodian include, but are not limited to, the following:

1. Providing accurate, timely market value pricing, including accrued interest, for all securities under their care.
2. Collecting dividends and interest payments on a timely basis.
3. Redeeming of maturing securities on a timely basis.
4. Effecting receipt and delivery following purchases and sales on a timely and accurate basis.

5. Providing timely monthly statements which accurately detail all transactions in the accounts, as well as detail all of the securities owned.
6. Ensuring that all cash is productively employed at all times.

The Investment Committee

The Pension Fund President may create an Investment Committee of at least two individuals. Upon a vacancy during the year the Pension Fund Board of Trustees may select an alternate to fill the vacancy for the remainder of the term. The Investment Committee may meet as required to carry out the provisions of this policy. All actions of the investment committee are to be ratified and approved by the Pension Fund Board of Trustees at the appropriate meeting. The Pension Fund Board of Trustees shall establish a system of internal controls to regulate the activities of the investment committee.

In the event of an emergency, the President of the Board of trustees may authorize transactions, trades, reallocations or such investment matters as required upon obtaining consent from at least two other Trustees and any action must be ratified at the next Board of Trustees meeting.

Fees

All charges by professional experts must be at rates charged by such experts for comparable work, and will be borne by the Fund. Any fees for investment services provided by a professional expert shall be detailed in a written disclosure of all fees and compensation, both direct and indirect, prior to providing the services, or at any time the Pension Fund Board of Trustees requests, subsequent to providing investment services. Any fee increases shall be submitted in a proposal to the Pension Fund Board of Trustees, and shall not become effective until Pension Fund Board of Trustee authorization is given.

General Investment Principles

General investment principles of the Plan include, but are not limited, to the following:

1. Investments shall be made in the name of and clearly held and accounted for to indicate ownership by the Pension Fund.
2. All investments shall be made solely in the interest of the participants and beneficiaries of the Plan and for the exclusive purpose of providing benefits accrued thereunder and defraying the reasonable expenses of administration.
3. The Plan shall be invested with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use in the investment of a fund of a like character and with like aims.
4. Understanding that risk is present in all types of securities and investment styles, the Pension Fund Board of Trustees recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Plan's objectives. However, the Investment

Managers are to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.

5. Investment Managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to their investment discipline.
6. Investment managers should make reasonable efforts to preserve capital, consistent with their investment style, understanding that losses may occur in individual securities.
7. Investments of the Plan shall be diversified so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
8. The Pension Fund Board of Trustees may employ one or more investment managers of varying styles and philosophies to attain the Plan's objectives.
9. Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity and return.
10. The Pension Fund Board of Trustees shall require that deposits in banks are collateralized to the extent required.

Investment Objectives

The investment objective of the Fund is to reduce the need for the funding of retirement benefits from employees and taxpayers. The paramount goal of the fund is to have investment returns carry as much of this financial load as possible within the boundaries of prudent risk. To this end, it is the policy of the Fund to use total return; that is, the aggregate return of capital appreciation, dividend income, and interest income. To minimize investment costs, and to aid the total return of the fund, passive or index investment products may be used. To evaluate success, the Trustees will compare the performance of the Pension Fund to the actuarial assumed rate of return and the performance of a custom benchmark.

Definition Of Risk

The Pension Fund Board of Trustees realizes that there are many ways to define risk. It believes that any person or organization involved in the process of managing the Pension Fund assets understands how it defines risk so that the assets are managed in a manner consistent with the Fund's objectives and investment strategy as designed in this statement of investment policy. The Pension Fund Board of Trustees defines risk as:

1. The possibility of losing money over any time period.
2. The possibility of losing money over the Fund's investment time horizon.
3. The possibility of not maintaining purchasing power over the Fund's investment time horizon.
4. The possibility of not meeting the Fund's investment objectives.

5. The possibility of not meeting the Fund's liabilities or cash flow requirements.
6. The possibility that the investment returns of the Fund's assets fail to meet or exceed the return of the specified investment goals.
7. High volatility (fluctuation) of investment returns.
8. The possibility of surprises (upside or downside) in investment returns.
9. Credit risk: The possibility of loss due to the failure of the security issuer or backer. The Fund seeks to mitigate credit risk by limiting investments to those listed in the Permitted Investments section of this policy. Investments of the Fund shall be made with a firm authorized to provide investment management services. No more than 20% of the portfolio shall be invested in any debt issuer to the exclusion of US Treasury securities, and issues of FNMA, FHLMC, FHLB, and GNMA.
10. Interest rate risk: The risk that the market value of securities in the portfolio will fall due to changes in general interest rates. The fund seeks to limit interest rate risk by investing in securities that would give the fixed income portfolio a duration of within +/- 25% of the bond benchmark index. The investment manager(s) are to make reasonable efforts to control risk and will be evaluated regularly to insure that the risk assumed is commensurate with the given styles and objectives.

Specific Investment Goal

Over the investment horizons, or statutory defined time period for funding, established in this Statement, it is the goal of the Pension Fund Board of Trustees that aggregate Plan market value returns meet or exceed the actuarial assumption of the Fund. The investment goals above are the objectives of the aggregate Plan, and are not meant to be imposed on each investment account (if more than one account is used). The investment horizon for investment managers is assumed to be five years. The goal of each Investment Manager, over the investment horizon, shall be to:

1. Generate returns that meet or exceed, net of fees, the market index or benchmark, or blended market index or benchmark, selected and agreed upon by the Pension Fund Board of Trustees that most closely corresponds to the style of investment management. It is expected that investments that are made in passive or index funds will match the appropriate benchmark consistent with the fee charged.
2. Display an overall level of risk in the portfolio which is consistent with the risk associated with the benchmark specified above.

Specific investment goals and constraints for each Investment Manager, if any, shall be incorporated as part of this Statement. Each Manager shall receive a written statement outlining specific goals and constraints if they differ from those objectives of the entire Plan.

Losses

The Pension Fund Board of Trustees understands that in order to achieve its objectives for Plan assets, the Plan will experience volatility of returns and fluctuations of market value as well as periods of losses. Losses will be viewed within the context of appropriate market indices or benchmarks.

Liquidity

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Pension Fund Board of Trustees will periodically provide Investment Managers with an estimate of expected net cash flow with sufficient advance notice to allow the orderly build-up of necessary liquid reserves.

Marketability of Assets

Based on the Plan's long-term investment horizon, the Pension Fund Board of Trustees has determined that, as appropriate, up to 5% of Plan assets may be invested in non-liquid, long-term investments. Any other Plan holding which would have a noticeable impact on market price if traded in whole or in part is also defined as non-liquid.

Permitted Investments

Permitted investments are those allowed under Section 1-113.2, 1-113.3, 1-113.4, and 1-113.4a of the Code, including, but not limited to:

1. Interest bearing direct obligations of the United States of America.
2. Interest bearing obligations to the extent that they are fully guaranteed or insured as to payment of principal and interest by the United States of America.
3. Interest bearing bonds, notes, debentures, or other similar obligations of agencies of the United States of America. For the purposes of this Section, "agencies of the United States of America" includes:
    a. the Federal National Mortgage Association and the Student Loan Marketing Association;
    b. federal land banks, federal intermediate credit banks, federal farm credit banks, and any other entity authorized to issue direct debt obligations of the United States of America under the Farm Credit Act of 1971 or amendments to that Act;
    c. (iii)federal home loan banks and the Federal Home Loan Mortgage Corporation; and
    d. any agency created by Act of Congress that is authorized to issue direct debt obligations of the United States of America.
4. Interest bearing savings accounts or certificates of deposit, issued by federally chartered banks or savings and loan associations, 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 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:
    a. bonds, notes, certificates of indebtedness, treasury bills, or other securities that are guaranteed by the full faith and credit of the United States of America as
    b. to principal and interest;
    c. bonds, notes, debentures, or other similar obligations of the United States of America or its agencies; and
    d. short term obligations of corporations organized in the United States with assets exceeding $400,000,000, provided that
        i. the obligations mature no later than 180 days from the date of purchase,
        ii. 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
        iii. 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 he following requirements:
    a. They are rated as investment grade (currently BBB or higher) by one of the two largest rating agencies at the time of purchase;

b. They are held no longer than 90 days past the time of a subsequent downgrade if they are downgraded to a rating below investment grade

13. Equity Investments are allowed in the following as provided in accordance with 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.):
    a. An account managed by a life insurance company authorized to do business in Illinois, comprised of real estate loans or upon real estate secured by first or second mortgages.
    b. Mutual Funds that meet the following requirements: (1) managed by an investment company as defined and registered under the Federal Investment Act of 1940 and registered under the Illinois Securities Law of 1953; (2) has been in operation for 5 years; (3) has total net assets of $250 million or more; and (4) is comprised of stocks, bonds, or money market instruments.
    c. Common or preferred stocks in accordance with 40 ILCS 5/1-113.1, 1-113.2, 1-113.3, 1-113.4, and 1-113.4a.
    d. Separate accounts of a life insurance company authorized to do business in Illinois, comprised of common or preferred stocks, bonds, or money market instruments.

Prohibited Transactions

Prohibited transactions are those transactions prohibited under section 1-110 of the code and also include, but are not limited to, the following:

1. Short Selling
2. Margin Transactions
3. Purchase of commodities or options
4. Any borrowing or lending agreements

Asset Allocation Guidelines (at market value)

The Pension Fund Board of Trustees will establish the target asset allocation and permissible percentage ranges shown in an Addendum attached to this document as Appendix A:

Investment management of the Plan's assets shall be in accordance with the following asset allocation guidelines:

In accord with the interpretation of the Illinois Pension Code, adopted by the Trustees and incorporated into this document by reference, 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: 45%, or 65% as provided by Statute 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. seq.)

The Pension Fund 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.

Rebalancing Policy

The primary purpose of rebalancing is to ensure that the Plan adheres to its strategic asset allocation, which is the Plan's explicit statement of its investment approach. Secondly, historical analysis of portfolio returns when rebalancing is used indicates that rebalancing may reduce volatility in comparison to a similar portfolio that is not rebalanced.

The Plan will carry out rebalancing in a cost-effective manner, as detailed on Appendix A. If feasible, cash will be used to maintain target allocations. Securities will be liquidated from the over-allocated asset classes, and reinvested in the under-allocated asset classes until the target allocations are met.

Rebalancing will be considered when asset class allocations are +/- 5% from the allocation target, or when individual investment allocations are +/- 20% from the asset allocation target.

Selection of Investment Manager(s)

The Pension Fund Board of Trustees' selection of Investment Manager(s) will primarily be based upon matching the Fund's investment objectives with an Investment Manager's investment style. At a minimum and subject to the requirements of Section 1-101.2 and 1-113.5 of the Code, the following items will be required in the selection of an Investment Manager.

1. Investment professionals with a minimum of five (5) years of investment experience.
2. A registered investment advisor under the Investment Advisors Act of 1940, or bank or insurance company.
3. Investment Managers of separate accounts must be able to demonstrate knowledge of the Illinois Code governing police and fire pension funds.

As indicated above, the Pension Fund Board of Trustees requires that each Investment Manager provide, in writing, acknowledgment of fiduciary responsibility to the Plan, and receipt of this Investment Policy document.

Investment Manager Performance Review and Evaluation

Performance reports generated by the Investment Consultant shall be compiled at least quarterly and communicated to the Pension Fund Board of Trustees for review. The investment performance of total portfolios will be measured against commonly accepted performance benchmarks or against benchmarks set by the Pension Fund Board of Trustees which are comparable to the managers investment style. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement, with the intent to evaluate the portfolio(s) over an Investment Horizon of at least a five-year period. The Pension Fund Board of Trustees reserves the right to terminate an Investment Manager for any reason or may terminate an Investment Manager without cause. Among the causes for termination (but not limited to those causes) are the following:

1. Investment performance which is significantly less than anticipated, net of fees, given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this Statement of Investment Policy, including communication and reporting requirements.
3. Significant qualitative changes to the investment management organization, investment philosophy, or style.

Investment managers shall be reviewed at least semi-annually regarding performance, personnel, strategy, investment philosophy or style, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

Meeting Schedules

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.

Actuarial Study

The central element of this investment policy is to ensure plan funding. To this end the funding status of the pension fund is an important variable as it provides information on the financial health of the plan, as well as on the plan's ability to bear risk. An actuarial study of the fund shall be performed annually, or as needed.

Additional Rules and Procedures

The Pension Fund Board of Trustees may impose additional duties, obligations, and procedures under separate document as the need arises.

This Statement is adopted on January 20, 2016 by the Pension Fund Board of Trustees of the Fund whose signatures appear below.

Board of Trustees Acknowledgement:

We have received this Investment Policy and studied its provisions. We believe we can abide by its restrictions and fulfill its goals and expectations over the timetables set forth in this policy.

____

President

____

Secretary

____

Board Member

____

Board Member

____

Board Member

Appendix B – Summary of Plan Information

Plan Name:	Hoffman Estates Police Pension Fund
Type of Plan:	Defined Benefit
Plan Adoption Date:	
Plan Year-End Date:	December 31st
Tax Identification Number:	
Assumed Actuarial Rate of Return:	7.5%

Investment Professional Adoption of Policy

This Policy was adopted by the Board of Trustees of the Hoffman Estates Police Pension Fund January 20, 2016.

Investment Professional's Acknowledgments:

The firm has received this copy of the Pension Fund's Investment Policy. The firm has 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.

Fifth Third Bank
Firm Name

[signature]
Investment Professional

5/2/16
Date

Investment Professional Adoption of Policy

This Policy was adopted by the Board of Trustees of the Hoffman Estates Police Pension Fund January 20, 2016.

Investment Professional's Acknowledgments:

The firm has received this copy of the Pension Fund's Investment Policy. The firm has 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.

GREAT LAKES ADVISORS, LLC

Firm Name

Investment Professional

5/10/2016

Date

Investment Professional Adoption of Policy

This Policy was adopted by the Board of Trustees of the Hoffman Estates Police Pension Fund January 20, 2016.

Investment Professional's Acknowledgments:

The firm has received this copy of the Pension Fund's Investment Policy. The firm has 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.

AHC Advisors, Inc.

Firm Name

Craig Larsen

Investment Professional

5/4/16

Date

Hoffman Estates Police Pension Fund

Asset Allocation

APPENDIX A

Actuarial Assumed Rate of Return	7.50%

Asset Class	Investment Manager / Vehicle	Benchmark	Target Allocation	Range
Fixed Income			41%	30% to 80%
	Fifth Third	Barclays Intermediate Gov. Bond Index	18.0%	
	Great Lakes	Barclays Intermediate Gov./Credit Bond Index	18.0%	
	Vanguard Short-term Invest Grade	Barclays Gov/Credit 1-5 YR	5.0%	
Equity			58%	10 to 65%
Large Cap	Vanguard 500 Index	S&P 500	5.0%	
Large Cap Value	DFA Large Value	Russell 1000 Value	5.0%	
Mid Cap Value	DFA Vector Equity	Russell 2500 Value	6.0%	
Small Cap	DFA Small Company	Russell 2000	7.0%	
Small Cap Value	DFA Small Value	Russell 2000 Value	7.0%	
International Developed	Fidelity International	MSCI EAFE	4.0%	
International Value	DFA International Value	MSCI EAFE Value	7.0%	
International Small	DFA International Small	MSCI EAFE Small	7.0%	
Emerging Markets	DFA Emerging Markets	MSCI EM	8.0%	
US Real Estate	Vanguard REIT	DJ Select REIT	2.0%	
			58%	
Cash And Equivalent			1%	0% to 20%
		Barclays 1-3 Month T Bill		

Rebalancing will be addressed by the Board of Trustees when overall allocations are +/- 5% from target, or when individual asset class allocations are 20% away from target.

OK

Adopted 4/21/15

4/21/15

4/21/15

4-21-15

4/21/15

4/21/15