

INVESTMENT POLICY STATEMENT CITY OF DES PLAINES POLICE PENSION FUND

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

I. STATEMENT OF PURPOSE

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

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

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

II. INVESTMENT OBJECTIVES

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

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

Within this framework the primary objective is:

PRESERVATION OF CAPITAL

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

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

III. INVESTMENT GOALS

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

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

The secondary goal of the Fund is:

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

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

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

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

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

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

IV. INVESTMENT INSTRUMENTS

As a unit of local government in the State of Illinois, the Des Plaines Police Pension Fund is restricted by the Illinois Revised Statutes, Article 3-135, Sec. 1-113.2 "to draw and invest funds" to the following types of securities:

1. Interest bearing bonds or tax anticipation warrants of the United States of America, or the State of Illinois, or of any county, township, or municipal corporation of the State of Illinois.
2. Insured withdrawable capital accounts of state chartered savings and loan associations.

3. Insured withdrawable capital accounts of a federally chartered savings and loan association if the withdrawable capital accounts are insured by the Federal Savings and Loan Corporation, which is now The Savings Association Insurance Fund.
4. Insured investments in credit unions if the investments are insured by the National Credit Union Administration.
5. In savings accounts or certificates of deposit of a national or state bank. These accounts must be insured by The Bank Insurance Fund which in the past was called The Federal Deposit Insurance Corporation (FDIC).
6. Contracts and agreements supplemental thereto providing for investments in the general account of a life insurance company authorized to do business in the State of Illinois.
7. Separate accounts of a life insurance company authorized to do business in the State of Illinois, comprised of common or preferred stocks, bonds, or money market instruments.
8. Separate accounts of a life insurance company authorized to do business in the State of Illinois, comprised of real estate or loans upon real estate secured by first or second mortgages.

In addition to the preceding investments as stated in Article 3-135, Sec. 1-113.2, the following investments will be allowed as of January 1st, 1998:

- A. Separate accounts that are managed by life insurance companies authorized to transact business in Illinois. These accounts are comprised of diversified portfolio consisting of common, preferred, or convertible preferred stocks, bonds or money market instruments.
- B. Mutual funds that meet the following criteria:
 - (i) the mutual fund is managed by an investment company as defined and registered under the Illinois Securities Law of 1953;
 - (ii) the mutual fund has been in operation for at least 5 years.
 - (iii) the mutual fund has total net assets of \$250 million or more; and
 - (iv) the mutual fund is comprised of a diversified portfolio of common, preferred or convertible preferred stocks, bonds, or money market instruments.

- C. Through an investment advisor the purchase of common, preferred or convertible preferred stocks will be allowed contingent upon meeting the following requirements:
- (i) the common stocks are listed on a national securities exchange or board of trade or quoted in the National Association of Securities Dealers Automated Quotation System National Market System (NASDAQ NMS).
 - (ii) the stock represents a U.S. Corporation and has been in existence for at least 5 years.
 - (iii) the corporation has not been in arrears on payment of dividends or its preferred stock during the preceding five years.
 - (iv) the pension fund may not own more than 5% of the outstanding stock of any one company.
 - (v) the market value of any one stock in a pension fund portfolio may not exceed 5% of the cash and invested assets of the pension fund.

Please note that pursuant to Article 3-135, and Sec. 1-113.10 of the Illinois State Statutes, the total allowable investments in equities is limited to 35% of the net asset of the pension fund at the most current Department of Insurance annual report, with an additional 10% (maximum) allowed to be invested in equities through a mutual fund or separate account of a life insurance company to do business in the State of Illinois.

V. INVESTMENT PERFORMANCE REVIEW

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

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

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

VI. INVESTMENT PARAMETERS

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

	<u>MINIMUM</u>	<u>MAXIMUM</u>
Equities	20%	35%
Equities/Mutual Funds only	5%	10%
Fixed Income	55%	75%
Cash	0%	25%

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

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

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

Pursuant to Article 3-135, and Sec. 1-113.10 of the Illinois State Statutes, the total allowable investments in equities is limited to 35% of the net asset of the pension fund at the most current Department of Insurance annual report, with an additional 10% (maximum) allowed to be invested in equities through a mutual fund or separate account of a life insurance company to do business in the State of Illinois.

VII. ALLOCATION AND DELEGATION OF INVESTMENT DUTIES

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

The investment advisor hired by the Des Plaines Police Pension Fund must:

- acknowledge in writing that they are a fiduciary.
- be registered under the Investment Advisors Act of 1940.
- have a written contract with the investment policy as part of the contract.

A copy of the contract must be submitted to the Department of Insurance within 30 days after being signed.

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

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

VIII. COMMUNICATIONS

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

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|----|--------------------------------------|--|
| A. | Trade confirmations | City Finance Director and Investment Consultant |
| B. | Monthly Statements | City Finance Director, Board President and Investment Consultant |
| C. | Quarterly Performance | All Trustees |
| D. | Investment Advisor Quarterly Reports | City Finance Director, Board President and Investment Consultant |

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

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

IX. SAFEKEEPING OF INVESTMENT

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

Custody at a national brokerage firm is allowed if the account is insured by the Security Investor Protection Corp. (SIPC). Additional amounts of insurance will be necessary to cover the total asset value of the pension fund.

X. PARTIES ASSOCIATED WITH THE PLAN

A. Board of Trustees for the Des Plaines Police Pension Fund:

1. Holds ultimate responsibility for the Fund and the appropriateness of its investment policy and its execution.
2. Retains consultants, money managers, and other advisors to implement and execute investment policy as it relates to the Fund.
3. Reviews the adequacy or need for change of this statement.
4. Meets quarterly and reviews reports concerning the Fund's asset management.
5. Engages a custodian.
6. Defines investment policy, objectives and guidelines for the Fund including risk tolerance.
7. Administers the Fund in accordance with the Illinois Pension Code, Illinois Compiled Statutes Chapter 40, Act 5, Articles 1, 3, and 4, and the Public Investment Act, Illinois Compiled Statutes, Chapter 30, Act 235.
8. The signature of the president and secretary will be required in all documents related to the engagement of investment contracts. All

administrative documents may be signed by the Finance Director (i.e., bank custody, brokerage, wire transfer).

B. Custodian

1. Accepts possession of securities for safekeeping; collects and disburses income; collects principal of sold, matured or called items; and provides accurate, timely market value pricing, including accrued interest, for all securities under their care.
2. Provides timely monthly statements which accurately detail all transactions in the accounts, as well as accurately describe all of the securities owned.
3. Effects receipt and delivery following purchases and sales of securities on a timely basis.
4. Ensures that all cash is productively employed at all times.
5. Meets as required with the Board of Trustees and provides reports relative to the status of the Plan.

C. Investment Consultant

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

D. Investment Advisors

1. Has full discretion of the management of the assets allocated to the Investment Managers, subject to overall investment guidelines set by the Board of Trustees.

2. Serves as fiduciaries responsible for specific securities decisions.
3. Abides by the Illinois Pension Code which governs the Illinois Downstate Police and Fire Pension Funds, and will abide by duties, responsibilities and guidelines detailed in any specific investment manager agreement entered into by the manager and Board of Trustees.
4. Reports at least quarterly, the current investments held in their account, their current market value and all transactions within the account.
5. Communicates any major changes in economic outlook, investment strategy, or any other factors which affect implementation of their investment process, or the investment objective of the Plan.
6. Informs the Board in regards to any qualitative change in the investment management organization. Examples include: changes in portfolio management, personnel, ownership structure, investment philosophy, etc.

XI. APPROVED INVESTMENTS

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

PERMISSIBLE INVESTMENTS

1. U.S. Treasury bills, notes and bonds
2. Federal Housing Authority bonds
3. Government National Mortgage Association (GNMA)
4. Federal Home Loan Mortgage Corp.
5. Farmers Home Administration bonds
6. General Services Administration bonds (GSA)
7. Federal Farm Credit Corp.
8. Federal Intermediate Credit Banks
9. Tennessee Valley Authority
10. Federal Land Banks
11. Certificates of Deposit
12. Zero Coupon U.S. Treasury Bonds - Strips Only
13. Guaranteed Investment Accounts of an insurance company
14. Credit Unions, if insured
15. Federal National Mortgage Associates bonds (Fannie Mae)
16. Federal Home Loan Bank bond (FHLB)

17. Student Loan Marketing Association (Sallie Mae)
18. Common stocks through a mutual fund or an investment advisor
19. State Investment Pools

20. Bank Pool Funds - must follow state statutes regarding approved investments
21. Money Market Mutual Funds - U.S. Government Securities only
22. Commercial Paper - with restrictions on quality
23. Mutual Funds
24. Preferred stock (through a registered investment advisor)
25. Separate accounts of life insurance companies (stocks, bonds, and real estate)
26. Convertible preferred stock (through a registered investment advisor)

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

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

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

XII. INVESTMENT RESTRICTIONS

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

1. Any margin (borrowing) of securities
2. Purchase or sale of commodities or options
3. Purchase of individual common stock without the use of a registered Investment Advisor.
4. Purchase of individual corporate bonds
5. Any investment that would jeopardize the integrity of the Des Plaines Police Pension Fund or cause the trustees to violate their fiduciary duties.
6. Any investment made without the express written approval of the trustees of the Des Plaines Police Pension Fund.

XIII. SUMMARY

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

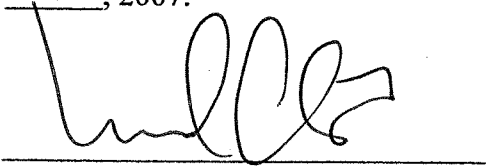
The trustees are required to conduct themselves faithfully and exercise sound direction and to perform those duties in the same fashion as other persons of like intelligence and discretion.

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

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

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

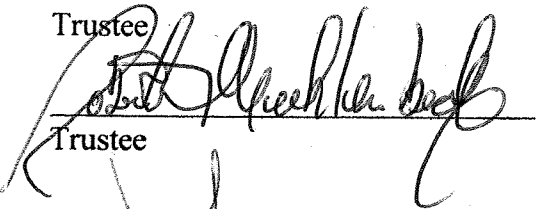
We adopt this statement as our investment policy this 8th day of JUNE, 2007.



President
Trustee



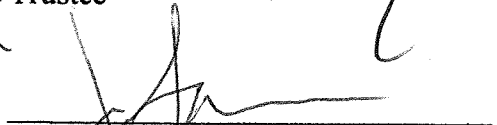
Secretary
Trustee



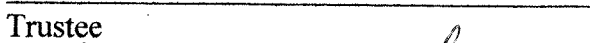
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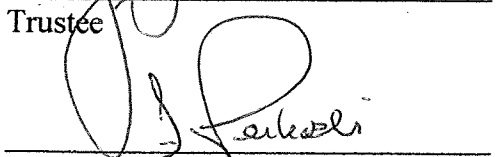
Trustee



Trustee



Trustee



Attorney



Investment Consultant *Thomas McShane*

Investment Advisor

Investment Advisor