CITY OF FREEPORT
<u>POLICE PENSION FUND</u>

ACTUARIAL VALUATION
AS OF MAY 1, 2015 FOR THE
<u>FISCAL YEAR ENDING APRIL 30, 2016</u>

November 6, 2015

Consulting Group, Ltd.
Northbrook, Illinois 60062-1855
847-509-7740 Fax: 847-509-7745
www.TepferConsulting.com

November 6, 2015

Ms. Linda L. Buss, Treasurer
Freeport Police Pension Fund
524 West Stephenson Street, Suite 200
Freeport, Illinois 61032

RE: Freeport Police Pension Fund

Dear Linda:

Enclosed is our actuarial valuation report for the **Freeport Police Pension Fund** for the fiscal year May 1, 2015 through April 30, 2016.

The results of our valuation indicate that the recommended minimum contribution from the City ("Sponsor") for the next tax year is **$2,195,150 or 77.05%** of current payroll. This contribution coupled with the anticipated $ 271,468 or 9.91% of current payroll to be collected from participating police officers will be sufficient to meet the State statutory requirements described in 40 ILCS 5/3. Further information is provided within our report.

Please note that, as a result of the implementation of GASB 67, the recommended contribution has been revised to provide a 100% funding target rather than the former 90%. This contribution is also the Actuarially Determined Employer Contribution (ADEC) in accordance with the adopted funding policy. The increase in recommended contribution because of this change is $335,976.

Additionally, as noted in the Valuation Commentary on page 3 of the report, we have changed the mortality assumption to a more modern and appropriate mortality table. The increase in recommended contribution because of this modification is $220,439.

Finally, the change in recommended contribution resulting from actual plan experience is $ 47,337 as shown in Exhibit 3-B.

Alternatively, under the current statute, our valuation results indicate the statutory minimum contribution from the City for the next tax year to be $1,373,008 or 48.19% of current payroll. This remains at a 90% target.

Statement No. 25 of the Governmental Accounting Standards Board is no longer applicable and, therefore, we have revised our report to remove the calculation of the unadjusted Annual Required Contribution. (ARC). GASB 67 and 68 information, if requested, is provided in a separate report.

Factors Influencing the Choice of Actuarial Assumptions

As part of the consulting process, it is our policy to talk with selected members of the Board of Trustees and the Sponsor's representatives for the **City of Freeport Police Pension Fund** in order to obtain information which will enable the Actuary to properly choose the actuarial assumptions which are most appropriate for the current cost determination for the pension fund.

As part of this process, statistics are compiled concerning historical investment returns, salary increases, retirement incidence and other factors which are influential in the actuarial assumption setting process. Based upon an analysis of the specifics as they relate to the **City of Freeport Police Pension Fund** and a general understanding of the inter-relationships of the actuarial assumptions, the Board, the Sponsor and the Actuary hopefully reach a mutual agreement as to the assumptions which will be used in the current actuarial valuation. The ultimate decision, nonetheless, remains with the actuary who must abide by his professional standards and judgment.

Published statistics regarding experience for police and firefighters are available from the State of Illinois Department of Insurance. These statistics form the basis of the actuarial assumptions selected by the State Actuary in the valuation of pension funds covered under the Downstate Pension System. We have found in our consulting, that whenever appropriate, the actuarial assumptions used by the State Actuary are relied upon as a **starting point**. However, in order to make the calculations more "***Freeport-sensitive***", the analysis of the actual historical performance is carefully examined.

*TCG Public Consulting, Ltd. is affiliated with Tepfer Consulting Group, Ltd.

Experience Analysis

Actuarial assumptions are not sacrosanct. In fact, it is not uncommon for actuarial assumptions to be changed to better reflect a plan's experience and prognosis. Each year the actuarial process examines the experience of the fund. General parameters indicate that a variance of less than 3% of the actuarial accrued liability is acceptable to assure that the assumptions used remain suitable. The measurement compares the actual unfunded liability to the expected unfunded liability. The total gain and loss developed is then analyzed by individual assumption, where available, to assure appropriateness. Based upon the results of this year's analysis, both in aggregate and individually, we have determined that many of the chosen assumptions remain suitable for continued use. A single year deviation is not an automatic trigger for a change in assumptions. Instead, multiple years are monitored and changes in assumptions generally occur only after trends are discovered.

Approach to Setting Actuarial Assumptions (please see the section in the report beginning on Page 2)

The complete actuarial assumptions used in this valuation are contained in Appendix 1. Although specific assumptions must be used in the mathematical exercise, actuarial assumptions are better viewed as a range. Actuarial Professional Standards indicate that in the selection of economic assumptions, a "best-estimate" range should be developed. Based upon our analysis of Downstate Police and Fire Pension funds we have developed the following best estimate ranges for economic assumptions:

Investment Return	6.50% - 7.50%
Inflation:	1.50% - 2.50%
Compensation Scale	Rates ranging from 4.86% to 1.12% varying by age, plus an inflation factor
Payroll Growth	3.50% - 4.50%

Actuarial Professional Standards indicate that in the selection of non-economic assumptions, a reliance upon published tables and/or individual experience studies pertinent to the group are acceptable procedures. Based upon our analysis of experience for approximately 70 Downstate Police and Fire Pension funds we have developed the following general rates for non-economic assumptions:

Mortality Rates (active and disabled) - Published tables projected to the current valuation date loaded for public safety employee experience
Termination rates – aged based rates ranging from 7% to 1%
Disability rates - aged based rates ranging from 0.13% to 0.16%
Retirement rates – aged based rates ranging from 36% to 100%

At this point in time, these rates are applied to all participants without regard to tier. It is anticipated that once experience is developed, the retirement rates for tier 2 employees may be modified

Demographic considerations

For this valuation, it was noted that the force continues to remain stable as to its size and demographic composition. In the current valuation, it was observed that the ratio of the number of inactive participants (55, exclusive of terminated employees who are due a refund of their contributions) to the active participants 45 in the Fund is **122.22** which is above many other funds in the State. However, the average age and service of the active participating group is not unreasonable for a fund of this size. As a percentage of the total pension liabilities, the liabilities for inactive participants represent over 73% of the total liabilities. ***This is a moderately disturbing statistic.***

As would be expected in this situation, a very large portion of the assets available for investment has been committed to provide benefits for existing pensioners and beneficiaries. Essentially then, all of the assets in the plan are already dedicated to cover the liabilities for the currently retired participants. Additionally, pension disbursements on an annual basis total over $2.2 million, yet this year, unlike many prior years, investment earnings were insufficient to provide for these payments on an ongoing basis. Therefore, this year municipal contributions and contributions by active police officers were used to pay current expenses. These funds are generally the major source of new funds for investment purposes to accumulate reserves. Even with improved investment returns, the maturing of the employee group requires that the fund be carefully monitored during the next few years to assure that an orderly funding progress is maintained. If investment income remains insufficient to pay the existing pensioners, then municipal and participant contributions will continue to be used.

Financial considerations

In these uncertain times, the fund continues to experience very limited short-term investment growth. Furthermore, the fund continues to maintain less than adequate funded ratios. **The fund has earned strong rates of return over the short term. As shown in Exhibit 5-C of our report, the composite rate of return for the fund since 2010 is 8.78%.** The investment smoothing method adopted initially by the fund and now mandated by statute serves to level the contribution and shield against annual investment volatility. However, it is not unnoticed that annual pension payments far exceeded the investment income during fiscal year ending 2015 and an annual investment return of **10.22%** would be needed to cover the outgoing benefit expenses. The Trustees should be advised that this is a potentially dangerous situation regarding the fund. Clearly municipal contributions will remain at high levels until the fund can annually increase its investment return.

The ongoing commitment of the City toward making recommended contributions has served the fund well and the generally positive investment return by the Plan's fiduciaries have provided a strong platform for continued stability and growth,

We ask that you review the section entitled "Actuarial experience since the last actuarial valuation" beginning on page 3 for a further explanation of what has occurred since the last actuarial valuation.

Please do not hesitate to contact us if you have any questions concerning our report.

Sincerely,

TCG PUBLIC CONSULTING, LTD.

Arthur H. Tepfer, A.S.A., M.A.A.A.
Consulting Actuary

AHT/lf
Encl.

GENERAL VALUATION RESULTS FOR FISCAL YEAR MAY 1, 2015 THROUGH APRIL 30, 2016

Recommended Minimum Contribution

1.	Entry Age Normal Cost:	$ 589,828
2.	Unfunded Actuarial Accrued Liability (or Surplus):	21,390,841
3.	Actuarial Value of Assets:	20,504,447
4.	Annual Salaries of Active Police Officers:	2,739,339
5.	Recommended Minimum Contribution from the City:	2,195,150
	Contribution Percentage:	77.05%*

Statutory Minimum Contribution

1.	Projected Unit Credit Normal Cost:	$ 704,425
2.	Unfunded Actuarial Accrued Liability (or Surplus):	19,065,443
3.	Actuarial Value of Assets:	20,504,447
4.	Annual Salaries of Active Police Officers:	2,739,339
5.	Statutory Minimum Contribution from the City:	1,373,008
	Contribution Percentage:	48.19%*

* Projected for the fiscal year ending April 30, 2016.

DEVELOPMENT OF RECOMMENDED MINIMUM CITY CONTRIBUTION

		Fiscal Year May 1, 2015 through April 30, 2016
1.	Entry Age Normal Cost:	$589,828
2.	Recommended Minimum Payment to Amortize 100 % of the **Entry Age Normal Unfunded Accrued Liability** **as a level dollar amount** over 25.00205 Years from May 1, 2015:	1,715,422
3.	Interest on (1) and (2):	161,368
4.	Credit for Surplus:	0
5.	Total Recommended Minimum Contribution for Fiscal Year 2016: [(1) + (2) + (3) + (4)], but not less than Statutorily Required	2,466,618
6.	Active Member Contributions (9.91% of Salaries):	271,468
7.	Net Recommended Minimum City Contribution: [(5) - (6)]	2,195,150

Amount being requested

DEVELOPMENT OF STATUTORILY REQUIRED CITY CONTRIBUTION
(NOTE THAT THIS CONTRIBUTION CALCULATION IS NOT RECOMMENDED)

		Fiscal Year May 1, 2015 through April 30, 2016
1.	Projected Unit Credit Normal Cost:	$704,425
2.	Minimum Payment to Amortize **90% of the Projected Unit Credit Unfunded Accrued Liability** **as a level percentage of payroll** over 25.00205 Years from May 1, 2015:	832,468
3.	Interest on (1) and (2):	107,583
4.	Credit for Surplus:	0
5.	Total Statutorily Required Contribution for Fiscal Year 2016: [(1) + (2) + (3) + (4)]	1,644,476
6.	Active Member Contributions (9.91% of Salaries):	271,468
7.	Net Statutorily Required City Contribution: [(5) - (6)]	1,373,008

RECONCILIATION OF THE CHANGE
IN THE RECOMMENDED MINIMUM CITY CONTRIBUTION

1.	Recommended Minimum Contribution for Year ending 4/30/2015:	$1,591,398
2.	Increase in Normal Cost and Amortization Payment due to anticipated pay changes:	74,397
3.	Increase/ (Decrease) in Normal Cost resulting from actual pay changes:	(8,180)
4.	Effect of Asset Smoothing:	(53,297)
5.	Increase/ (Decrease) resulting from changes in assumptions:	220,439
6.	Increase/ (Decrease) resulting from other demographic and financial sources (retirements, deaths, new entrants, salary changes, etc.):	370,393
7.	Recommended Minimum Contribution for Year ending April 30, 2016:	$2,195,150

DERIVATION OF EXPERIENCE GAIN (LOSS) AND COST METHOD CHANGE
AS OF MAY 1, 2015

1.	EANC Unfunded Actuarial Accrued Liability at May 1, 2014:	$18,622,327
2.	Entry Age Normal Cost due at May 1, 2014:	564,184
3.	Interest on (1) and (2) to May 1, 2015 (at 7.00% per year):	1,343,056
4.	Contributions made for the prior year with interest to May 1, 2015:	1,762,855
5.	Expected EANC Unfunded Actuarial Accrued Liability at May 1, 2015 Before Assumption Changes [(1) + (2) + (3) - (4)]:	18,766,712
6.	Change in EANC Unfunded Actuarial Accrued Liability due to Assumptions Change at May 1, 2015:	2,748,812
7.	Expected EANC Unfunded Actuarial Accrued Liability at May 1, 2015 [(5) + (6)]:	21,515,524
8.	Actual EANC Unfunded Actuarial Accrued Liability at May 1, 2015:	21,390,841
9.	Gain (Loss) for the prior Plan Year [(7) – (8)]:	$124,683

The experience gain (loss) reported above is the net result of the following:

1.		FINANCIAL SOURCES	
	a)	Investment experience (based upon market value of assets):	$ (58,045)
	b)	Contribution experience:	(169,293)
	c)	Benefit Payments experience:	(5,379)
	d)	Salary increases (greater)/lower than expected:	93,030
		Total from Financial Sources:	(139,687)
2.		DEMOGRAPHIC SOURCES	
		Mortality, retirement, disability, termination, etc.:	(400,235)
3.		ACTUARIAL ADJUSTMENTS	
		Market value adjustment for asset smoothing, including expenses	664,605
4.		GAIN (LOSS) ALL SOURCES	
		Total Gain (Loss) for the prior Plan Year [(1) + (2) + (3)]	$124,683

THIRTY - YEAR PROJECTION OF PAYMENTS

Year	Payouts from Active Group Upon: Termination: Lump Sum	Termination: Deferred Pension	Death	Retirement	Disability	Payouts from: Retired Group	Deferred Pensioners	Total
2015	10,320	0	4,397	37,245	9,250	2,140,696	46,789	2,248,697
2016	12,930	0	5,026	79,720	18,791	2,155,552	0	2,272,019
2017	13,128	0	5,241	142,133	27,373	2,161,565	0	2,349,440
2018	10,725	0	7,307	196,172	36,527	2,158,354	0	2,409,085
2019	11,554	0	8,699	232,647	46,165	2,164,280	0	2,463,345
2020	6,269	0	11,663	266,096	55,948	2,166,739	0	2,506,715
2021	1,450	0	12,870	310,395	66,369	2,162,492	0	2,553,576
2022	0	0	15,562	364,330	77,089	2,156,057	0	2,613,038
2023	0	0	18,026	426,109	88,263	2,147,296	0	2,679,694
2024	0	0	19,659	518,125	100,138	2,136,063	0	2,773,985
2025	0	0	21,475	610,014	112,550	2,122,253	0	2,866,292
2026	0	0	23,228	705,150	125,124	2,105,578	0	2,959,080
2027	0	0	25,565	809,882	138,273	2,085,785	11,821	3,071,326
2028	0	0	27,272	904,172	150,949	2,099,313	12,085	3,193,791
2029	0	0	29,263	992,547	162,278	2,074,428	12,344	3,270,860
2030	0	0	31,056	1,115,449	173,078	2,045,781	12,594	3,377,958
2031	0	0	32,791	1,220,095	183,966	2,013,188	12,835	3,462,875
2032	0	0	34,260	1,302,324	194,432	1,998,095	23,769	3,552,880
2033	0	0	35,901	1,387,810	205,199	1,957,772	24,226	3,610,908
2034	0	0	37,241	1,475,838	218,934	1,912,850	24,661	3,669,524
2035	0	0	38,637	1,593,957	231,034	1,862,977	25,073	3,751,678
2036	0	0	39,749	1,677,293	242,787	1,808,087	25,457	3,793,373
2037	0	0	41,018	1,745,651	255,207	1,748,366	25,809	3,816,051
2038	0	0	41,834	1,869,109	266,019	1,683,768	26,118	3,886,848
2039	0	0	42,895	1,975,666	275,394	1,614,462	26,383	3,934,800
2040	0	0	43,297	2,094,898	290,414	1,540,563	26,601	3,995,773
2041	0	0	44,206	2,186,425	299,261	1,462,548	26,766	4,019,206
2042	0	0	44,324	2,279,022	304,971	1,381,110	26,866	4,036,293
2043	0	0	44,902	2,366,324	311,199	1,297,007	26,891	4,046,323
2044	0	0	44,797	2,431,445	316,537	1,210,883	26,837	4,030,499

ANALYSIS OF INVESTMENT RETURN

Fiscal Year Ending April 30	Annual Rate of Return
2015	**6.27%**
2014	11.06%
2013	11.06%
2012	3.01
2011	11.14
2010	10.42
Composite	
2010-2015	**8.78%**

REQUIRED REPORTING TO MUNICIPALITY BY PENSION BOARD
As of 4/30/2015 fiscal year end

(40 ILCS 5/3-143) (from Ch. 108 1/2, par. 3-143)
Sec. 3-143. Report by pension board.
The pension board shall report annually to the city council or board of trustees of the municipality on the condition of the pension fund at the end of its most recently completed fiscal year. The report shall be made prior to the council or board meeting held for the levying of taxes for the year for which the report is made.

1.
Total Trust Assets (see attachment 1 for complete listing)

Total Assets (market value):	**$22,392,645**
Actuarial Value of Assets (see item 8 for explanation):	**$20,504,447**

2.
Estimated receipts during the next succeeding fiscal year from:

Participant Contributions deducted from payroll:	**$271,468**
Employer Contributions and all other sources:	**$1,373,008**

3.
Estimated amount required during the next succeeding fiscal year to:

(a) pay all pensions and other obligations provided in this Article:	**$2,248,697**
(b) meet the annual requirements of the fund as provided in Sections 3-125 and 3-127:	**$1,644,476**

4.

Total Net Income received from investment of net assets:	**$1,432,748**
Assumed Investment Return:	**7.00%**
Actual Investment Return:	**6.27%**
Total Net Income received from investment of net assets (FYE 4/30/2014):	**$2,261,236**
Assumed Investment Return (FYE 4/30/2014):	**7.00%**
Actual Investment Return (FYE 4/30/2014):	**11.06%**

5.

Total number of Active Employees that are financially contributing to the fund:	**45**

6.
Disbursements to:

(i) Annuitants in receipt of a regular retirement pension:	
Total number of annuitants:	**35**
Total amount that was disbursed in benefits:	**$1,580,080**
(ii) Recipients being paid a disability pension:	
Total number of annuitants:	**5**
Total amount that was disbursed in benefits:	**$160,522**
(iii) Survivors and children in receipt of benefits:	
Total number of annuitants:	**13**
Total amount that was disbursed in benefits:	**$352,447**

7.
Funded ratio of the fund: **48.94%**

8.
Unfunded Actuarial Accrued Liability: **$21,390,841**

The Unfunded Actuarial Accrued Liability is the excess of the Actuarial Accrued Liability over the Actuarial Value of Assets.

The Actuarial Accrued Liability is the portion of the present value of future plan benefits reflecting projected credited service and salaries determined by the actuarial cost method based upon the plan's actuarial assumptions and not provided for at a valuation date by the actuarial present value of future normal costs. The normal cost is the portion of this present value which is allocated to the current valuation year.

The Actuarial Value of Assets is the asset value derived by using the plan's asset valuation method which is a 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 municipal contributions.

9.
Investment Policy of the pension board under the statutory investment restrictions imposed on the fund. (See attachment 2)

Certification

I, Thomas Dyra, President of the Freeport Police Pension Board, City of Freeport, Stephenson County, Illinois, do hereby certify that this document is a true and correct copy of: "Required Reporting to Municipality By Pension Board" as outlined in 40 ILCS 5/3-143.

Witness my hand this ______ day of _________, 2015.

*

Thomas Dyra
President of Freeport Police Pension Board

Source: P.A. 95-950, eff. 8-29-08

* To be signed at Special meeting of the Police Pension Board on Friday, Nov. 13 @ 3:00 p.m.

Freeport Police Pension Fund

Investment Policy Statement

Updated January 2014

Approved at
Special Board
Meeting on
Fri Feb 7, 2014

Table of Contents

Definition of Terms

"Illinois Pension Code" Defined

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

"Fiduciary" Defined

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

"Pension Fund" Defined

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

"Board of Trustees" Defined

In this Policy, the "Board of Trustees" refers to the governing board established to administer and control the Fund as specified in Section 3-128 of the Illinois Pension Code (see Addendum D).

"Investment Professionals" Defined

In this Policy, the "Investment Professionals" refers to investment managers, the investment consultant(s), the custodian, the securities lending provider, commission re-capturing agent, and third party proxy voting service provider.

"Investment Manager" Defined

In this Policy, the "Investment Manager" refers to any firm, fund, or individual that analyzes, selects, and executes the purchase or sale of individual securities and has agreed to its appointment as an investment manager as defined in Section 1-101.4 of the Illinois Pension Code. The investment manager may manage the assets of the Pension Fund in separate accounts held by a third party custodian, a commingled fund, or a mutual fund.

"Investment Consultant" Defined

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

"Custodian" Defined

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

"Commission Re-capturing Agent" Defined

In this Policy, the "Commission Re-Capturing Agent" refers to any broker/dealer that credits or rebates in cash the Pension Fund for transactions directed to its firm by the Pension Fund's investment managers. The rebate represents a portion of the commissions (for equity transactions) or spreads (for fixed-income transactions) charged on the investment transaction.

"Third Party Proxy Voting Service Provider" Defined

In this Policy, the "Third Party Proxy Voting Service Provider" refers to any third party firm that votes the proxies of the stocks held by the Pension Fund.

"Party in Interest" Defined

In this Policy, the "Party in Interest" refers to the term described in the ERISA, as amended, and other federal laws. In general, the term refers to persons who have a close relationship with the Pension Fund or a particular transaction.

The Statement of Purpose

The Pension Fund's Purpose

The Pension Fund is a qualified tax-exempt trust designed to provide the Fund members and/or their spouses a pension benefit at the time of retirement or incurred disability.

The Purpose of the Investment Policy

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

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

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

Distinction of Responsibilities

The Board of Trustees' Authority and Responsibilities

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

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

1) Complying with applicable laws, regulations, and rulings.

2) Selecting all qualified investment professionals.

3) Monitoring and evaluating investment performance and compliance with this Policy.

4) Reviewing and suggesting changes, as needed, to this Policy.

5) Establishing and reviewing the appropriateness of the Pension Fund's asset allocation policy.

6) Taking action according to this Policy.

The Investment Manager's Authority and Responsibilities

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

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

2) Provide written reports to the plan sponsor and consultant on at least a quarterly basis detailing performance for the most recent period as well as the current outlook of the equity and fixed income markets.

3) Notify the client and the investment consultant on a timely basis of any significant changes in the ownership, organizational structure, investment strategy, portfolio design, or configuration of the investment team.

4) The investment firm shall notify the client annually when, in aggregate as a firm, the organization owns more than 5% of the outstanding shares in a single stock.

5) All qualified investment managers retained by the Board of Trustees will exercise discretion within the parameters set forth in these guidelines for the portfolio(s) they manage on behalf of the Pension Fund (see Addendum A).

The Investment Consultant's Authority and Responsibilities

The Board of Trustees will hire an investment consultant to assist the Board of Trustees in fulfilling their fiduciary responsibilities and in fulfilling their responsibilities in accord with this Policy. The investment consultant will generally be responsible for the following:

1) Complying with applicable laws, regulations, and rulings.

2) Maintaining databases of qualified investment managers, custodians, securities lending providers, and third party proxy voting service providers.

3) If needed, the investment consultant will assist the Board of Trustees with the search and selection of investment managers, custodians, securities lending providers, and third party proxy voting service providers.

4) Calculate investment performance and reconcile that performance with the investment managers.

5) Providing written reports that summarize the performance and analysis of the Pension Fund's investments to the Board of Trustees no later than 45 days after of the end of each calendar quarter.

6) Monitoring and evaluating investment performance and compliance with this Policy. This includes meeting with the Pension Fund's investment managers on the Pension Fund on a regular basis.

7) Make long-term assumptions on the capital markets for the purpose of evaluating the Pension Fund's asset allocation policy.

8) Establishing and reviewing the appropriateness of the Pension Fund's asset allocation policy.

9) Reviewing and suggesting changes, as needed, to this Policy.

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

The Custodian's Authority and Responsibilities

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

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

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

The Commission Recapturing Agent's Authority and Responsibilities

The Board of Trustees may utilize a commission recapturing agent to create income through the direction of brokerage. The commission recapturing agent will execute all trades on a best execution basis. Periodic reports detailing the commissions recaptured will be provided to the client and the investment consultant monthly. The commission recapturing agent retained by the Board of Trustees will exercise discretion within the parameters set forth in these guidelines on behalf of the Pension Fund (see Addendum A).

The Third Party Proxy Voting Service Provider's Authority and Responsibilities

The Board of Trustees may utilize a third party proxy voting service provider to vote the proxies of the stocks held by the Pension Fund in the best interest of the Pension Fund. Proxy voting guidelines are attached in Addendum E. The third party proxy voting service provider retained by the Board of Trustees will exercise discretion within the parameters set forth in these guidelines on behalf of the Pension Fund (see Addendum A). The service provider is required to provide annual written reports detailing the voting record specific for the Pension Fund's assets.

Investment Objectives

Return Objectives

The primary return objectives of the Pension Fund are to:

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

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

Risk Tolerance

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

(a) to accept prudent levels of short and long-term volatility consistent with the near-term cash flow needs, funding level, and long-term liability structure of the Pension Fund,
(b) to tolerate appropriate levels of downside risk relative to the Pension Fund's actuarial assumed rate of return (see Addendum B). In doing so, the Board of the Trustees will attempt to minimize the probability of underperforming the Pension Fund's actuarial assumed rate of return over the long-term and to minimize the shortfall in the event such underperformance occurs,
(c) to accept certain variances in the asset allocation structure of the Pension Fund relative to the broad financial markets and peer groups, and
(d) to tolerate certain levels of short-term underperformance by the Pension Fund's investment managers.

Constraints on the Investment Objectives

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

Asset Allocation and Rebalancing Procedures

General Methods and Frequency of Evaluating the Asset Allocation

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

Asset Allocation/Rebalancing

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

Asset Class	Target	Minimum*	Maximum*
Core Intermediate Bonds	35.0%	30.0%	40.0%
Total Fixed Income	35.0%	30.0%	40.0%
Large-Cap Core Equity	17.0%	13.0%	21.0%
Mid-Cap Growth Equity	9.0%	6.0%	12.0%
Small-Cap Value Equity	9.0%	6.0%	12.0%
Total Domestic Equity	35.0%	25.0%	45.0%
Large Cap International Equity	16.0%	12.0%	20.0%
Small Cap International Equity	4.0%	2.0%	6.0%
Total International Equity	20.0%	14.0%	26.0%
Global Tactical Asset Allocation	5.0%	0.0%	10.0%
Global Public REITs	5.0%	0.0%	10.0%
Total Cash	0.0%	0.0%	5.0%
TOTAL	100.0%		

*May not equal 100%

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

Investment Professional Selection, Communication, and Evaluation

Investment Manager Selection

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

1) Acknowledge in writing a fiduciary and investment manager relationship with respect to the Pension Fund as defined by Illinois law.

2) Be currently registered and maintain registration as an investment advisor under the Investment Advisors Act of 1940, a bank (as defined in the Act), or an insurance company qualified to perform investment management services under the law of more than one state unless otherwise approved on an exception basis, and

3) Be granted by the Pension Fund the power to manage, acquire or dispose of any assets of the Pension Fund pursuant to the Pension Fund documents.

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

Frequency of Measurement and Meetings

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

Investment Manager Communication and Evaluation Terminology

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

	STATUS	DESCRIPTION
A.	*"In Compliance"*	The investment manager states it is acting in accordance with the Investment Policy Guidelines.
B.	*"Alert"*	The investment manager is notified of a problem in performance (usually related to a benchmark or volatility measure), a change in investment characteristics, an alteration in management style or key investment professionals, and/or any other irregularities. The investment manager will be completing a monthly compliance checklist from the investment consultant to ensure thorough oversight.
C.	*"On Notice"*	The investment manager is notified of continued concern with one or more Alert issues. Failure to improve upon stated issues within a specific time frame justifies termination. The investment manager will be completing a monthly compliance checklist from the investment consultant to ensure thorough oversight.
D.	*"Termination"*	The program's management has decided to terminate the investment manager. The investment manager is notified and transition plans are in place.

Operational Guidelines

Core Intermediate Bond Management

This document contains the guidelines and restrictions that apply to the intermediate government bond and mortgage manager of the Pension Fund (see addendum A).

Permissible Investments

1. The manager shall comply with all of the provisions of the Illinois Pension Code relating to Article 3 Pension Funds, specifically Sections 113.1, 113.2, 113.3, 113.4, and 113.4a relating to Permissible Investments (40 ILCS 5/1-113.2 et. Seg.). In accord with the applicable portions of the Pension Code, above referenced, the manager may invest in the following fixed income securities:

    a) Investment Grade Corporate Bonds
    b) Treasury Bills
    c) Treasury Notes
    d) Government Agencies (This includes bonds issued by the Federal National Mortgage Association, Student Loan Marketing Association, federal land banks, federal intermediate credit banks, entities authorized to issue debt obligations of the United States of America under the Farm Credit Act of 1971, federal home loan banks, Federal Home Loan Mortgage Corporation, and any other agency created by Act of Congress that is authorized to issue direct obligations of the United States of America)
    e) Certificates of Deposit
    f) Investments in credit unions
    g) State of Illinois interest bearing Bonds
    h) Illinois Public Treasurers Investment Pool
    i) Interest bearing Bonds and Tax Anticipant Warrants of any county, township, or municipal corporation of the State of Illinois
    j) State of Israel - Direct Obligations
    k) Money Markets Mutual Funds (See Section 113.2(11) for restrictions)

2. No single security should comprise more that 10% of the portfolio's overall allocation after accounting for price appreciation.

3. The average duration of the portfolio is not to vary more than +/-30% of the duration of the BarCap Intermediate Government / Credit index.

4. The manager may invest up to 10% of its portfolio in cash or cash equivalents.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the Trustees expect the portfolio's net of fees return to exceed that of the return of the BarCap Intermediate Government / Credit Index.

Investment Guidelines for the Mutual or Commingled Fund Equity Managers

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

Permissible Investments

1. These funds are governed by the guidelines and restrictions contained in their prospectuses or participation agreements.

Investment Objective

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

Investment Policy Guidelines for the Passive Investment Manager(s)

This document contains the guidelines and restrictions that apply to the passive investment manager of the Pension Fund (see Addendum A).

Permissible Investments

1. This fund is governed by the guidelines and restrictions contained in its participation agreement or prospectus.

Investment Objective

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

Investment Policy Guidelines for the Separately-Managed, U.S. Equity Manager(s)

This document contains the guidelines and restrictions that apply to the separately-managed equity manager(s) of the Pension Fund (see Addendum A).

Permissible Investments

1. The manager is expected to comply with all of the provisions of the Illinois Pension Code relating to Article 3 Pension Funds, specifically Sections 113.1, 113.2, 113.3, 113.4, and 113.4a relating to Permissible Investments (40 ILCS 5/1-113.4 et. Seg.). In accord with the applicable portions of the Pension Code, above referenced, the manager may invest in the following equity securities:

   a) 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.
   b) The securities are of a corporation created or existing under the laws of the United States or any state, district, or territory thereof and the corporation has been in existence for at least 5 years.
   c) The corporation has not been in arrears on payment of dividends on its preferred stock during the preceding 5 years.
   d) The market value of stock in any one corporation does not exceed 5% of the cash and invested assets of the Pension Fund, and the investments in the stock of any one corporation does not exceed 5% of the total outstanding stock of the corporation.
   e) The straight preferred stocks or convertible preferred stocks are issued or guaranteed by a corporation whose common stock qualifies for investment by the Trustees.
   f) The issuer of the stocks has been subject to the requirement of Section 12 of the federal Securities Exchange Act of 1934 and has been current with the filling requirement of the Sections 13 and 14 of that Act during the proceeding 3 years.

2. The manager may invest up to 5% of its portfolio in cash or cash equivalents.

3. Options, financial futures, private placements, or venture capital may not be purchased. The purchase of securities on margin is prohibited.

4. No single security in the manager's portfolio will comprise more than 5% of its equity allocation at the time of purchase, nor will it be more than 10% of the equity allocation of the portfolio after accounting for price appreciation.

5. All interest and dividend payments must be swept on a daily basis into a short-term money market fund for re-deployment.

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

Investment Policy Guidelines for the International Equity Manager

This document contains the guidelines and restrictions that apply to the international equity manager of the Pension Fund (see Addendum A).

Permissible Investments

1. This fund is governed by the guidelines and restrictions contained in its prospectus or participation agreement.

Investment Objective

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

Investment Policy Modification and Revision

Policy Modification

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

(1) Significant changes in expected patterns of the Pension Fund's liability stream,
(2) Impractical time horizons or changes,
(3) Change in the Pension Fund's priorities,
(4) Convincing arguments for change presented by investment professionals,
(5) Legislation, and
(6) Areas found to be important, but not covered by the Policy.

Modification of Addendums

Changes to investment professionals, Trustees, or plan information contained within Addendums A-D can and should be modified, as necessary, without a complete review by all Trustees.

Addendum A
Defining the Investment Professionals and Benchmark Indexes

Asset Class	Investment Manager	Benchmark Index
Intermediate Government / Credit Bonds	Mesirow Financial	Barclays Intermediate Govt./Credit
U.S. Large-Cap Core Equity	Vanguard	S&P 500
U.S. Mid-Cap Growth Equity	Vanguard	CRSP US Mid-Cap Growth
U.S. Small-Cap Value Equity	WCM Investment Management	Russell 2000 Value
Large Cap International Equity	Dodge & Cox	MSCI ACWI ex-US
Small Cap International Equity	Franklin International Small Cap Growth	MSCI ACWI ex-US Small Cap
Global Tactical Asset Allocation	PIMCO	Barclays 1-10 Yr. US TIPS
Global Public REITs	AllianceBernstein	FTSE NAREIT Developed Real Estate

Investment Professional	Service Provider
Custodian	US Bank
Investment Consultant	Marquette Associates
Securities Lending Provider	None
Commission Recapture Agent	None
Third Party Proxy Voting Service Provider	None

Addendum B – Summary of Plan Information

Plan Name:	Freeport Police Pension Fund
Type of Plan:	Defined Benefit
Plan Adoption Date:	March 21, 1921
Plan Year-End Date:	April 30
Plan Number:	001
Employer Identification Number:	36-4094537
Assumed Actuarial Rate of Return:	7.0%

Addendum C – Investment Professional Adoption of Policy

This Policy document was adopted by the Board of Trustees for the Freeport Police Pension Fund in January 2014.

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.

MARQUETTE ASSOCIATES, INC

Firm Name

, CFA

Investment Professional

Addendum D – Board of Trustees Adoption of Policy

This Policy document was adopted by the Board of Trustees for the Freeport Police Pension Fund in January 2014

Board of Trustees' Acknowledgments:

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

Thomas [illegible]	[illegible]
President	Secretary
[illegible]	Robert [illegible] Smith
Trustee	Trustee
Trustee	Trustee
Trustee	Trustee
Trustee	Trustee