

STATEMENT OF INVESTMENT POLICY

I. INTRODUCTION

This statement of investment policy was adopted by the Illinois Municipal Retirement Fund Board of Trustees on April 22, 2005. This policy will be reviewed annually by the Board of Trustees.

The Illinois Municipal Retirement Fund (the Fund) was established in 1941 by an Act of the Illinois Legislature. The purpose of the Fund is the accumulation of assets exclusively for the benefit of the members and their beneficiaries and for the payment of retirement, disability and death benefits as defined in Article 7 Chapter 40 of the Illinois Compiled Statutes. The Fund is administered by an eight member Board of Trustees (the Board) who are authorized to carry out the provisions of such Article.

Article 1 Chapter 40 Section 109 of the Illinois Compiled Statutes provides the key legal criteria regarding investment policy as follows:

“Duties of Fiduciaries. A fiduciary with respect to a retirement system or pension fund established under this Code shall discharge his or her duties with respect to the retirement system or pension fund solely in the interest of the participants and beneficiaries and:

- A. For the exclusive purpose of:
 - (1) Providing benefits to participants and their beneficiaries.
 - (2) Defraying reasonable expenses of administering the retirement system or pension fund.
- B. 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.
- C. By diversifying the investments of the retirement system or pension fund so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and
- D. In accordance with the provisions of the Article of the Pension Code governing the retirement system or pension fund.”

The purpose of this statement of investment policy is to formalize the Board’s investment objectives, policies and procedures and to define the duties and responsibilities of the various entities involved in the investment process. The Guidelines incorporated into the Fund’s Investment Management Agreements, and the Fund’s Investment Department Management Directions, are to be considered extensions of this statement of investment policy, individually and in total.

No provision of this statement of investment policy shall be construed in contravention of the enabling legislation found in the Illinois Pension Code.

II. INVESTMENT POLICY

The members of the Board, employees of the Board, and agents thereof stand in a fiduciary relationship to the members of the system regarding the investment and disbursement of any of the monies in the Fund. In exercising this fiduciary responsibility, the Board is governed by the prudent man rule.

Within this framework the Board seeks to optimize the total return on the Fund's portfolio through a policy of diversified investment to achieve maximum rates of return within a parameter of prudent risk as measured on the total portfolio.

A. INVESTMENT MANAGER SELECTION POLICY

The Board has a responsibility to its members and participating employers to make investments with the objective of obtaining superior total long-term rates of return while using acceptable levels of risk and reasonable control of costs. The strategy of the Board is to achieve superior long-term rates of return through the use of a diversified investment portfolio. The Board engages various investment managers to implement this strategy. The availability of qualified minority and women-owned business enterprises is recognized by the Board. The characteristic of being a minority or woman-owned business enterprise is not a barrier to employment by the Board.

It is the policy of the Board to include qualified minority and women-owned business enterprises in the Fund's investment manager selection process and to objectively evaluate all qualified investment manager candidates regardless of race, gender or handicap.

The Board will evaluate all qualified investment manager candidates with emphasis on: demonstrated professional performance; organizational depth; institutional investment management capability; and reasonableness of fee structure, regardless of the amount of investment assets under management, or age of the investment management firm.

The Board will use professional consultants that do not use discriminatory practices in the creation and maintenance of their investment manager databases and will require the consultants used by the Fund to affirm their use of nondiscriminatory practices when recommending investment manager candidates to the Board.

B. MINORITY AND WOMEN-OWNED BUSINESS ENTERPRISE INVESTMENT MANAGER GOAL

It shall be the goal of the Board that, subject to its fiduciary responsibility, 20 percent of actively managed investment assets be managed by minority and women-owned business enterprise investment managers. This goal shall be reviewed annually.

C. INVESTMENTS IN ILLINOIS BUSINESSES

The Board recognizes that investments made in businesses operating in Illinois and in real estate and other assets in the state may contribute to an improved economic climate in the state. Therefore, where investment characteristics such as competitive rate of return in relation to the risks involved, minimum quality standards, liquidity considerations, and other investment objectives of the Board are equivalent, the Board favors investments which will have a positive impact on the economy of Illinois. However, nothing in this paragraph shall be construed to favor the foregoing of investment return in order to provide a subsidy to a particular group to the detriment of the Fund members, their beneficiaries, or their public employers.

III. INVESTMENT OBJECTIVES

To assure an adequate accumulation of assets in the Fund at the least cost to the taxpayers of the state and to provide some protection against the erosion of principal by inflation, the investment objectives are:

- A. Achieve and maintain the Illinois Municipal Retirement Fund in excess of the present value of accrued benefits.
- B. Achieve for the total Fund a total rate of return in excess of inflation as measured by the GDP Price Deflator.
- C. Achieve a total rate of return in excess of the assumed investment rate of return.

IV. INVESTMENT PORTFOLIO OBJECTIVES

- A. Achieve in domestic equity securities a total return that exceeds the total return of the Dow Jones Wilshire 5000 Index. In addition, the Board expects to earn a minimum of 5 percent in excess of inflation over a moving 5 year period.
- B. Achieve in international equities a total return that exceeds the total return of the Morgan Stanley Capital International, All Country World Index ex-US (MSCI ACWI ex-US). In addition, the Board expects to earn a minimum of 5 percent in excess of inflation over a moving 5 year period.
- C. Achieve in fixed income securities a total return that exceeds the Lehman Aggregate Bond Index over a moving 5 year period. In addition, the Board expects to earn a minimum of 2 percent in excess of inflation over a moving 5 year period.

- D. Achieve in the alternative investment portfolio a total return equal to one and one-half times the expected equity return over a moving 5 year period.
- E. Achieve in the real estate portfolio a return of 5 percent in excess of inflation over a moving 5 year period.
- F. Achieve in the internally managed cash portfolio performance in excess of 30-day U.S. Treasury Bills.

The Board seeks to meet these objectives within acceptable risk parameters through adherence to a policy of diversification of investments by type, industry, investment manager style and geographical location.

V. BROKERAGE

The firms that are to act as a securities broker-dealer with respect to the purchase and sale of assets for the Fund shall be selected by the investment manager in its sole discretion. The investment manager or any entity controlled by or controlling it, or affiliated with it, shall not act as a securities broker-dealer with respect to purchases and sales of assets allocated to the investment manager unless the Board specifically approves such action.

In the selection of broker-dealers with whom to place orders for the purchase or sale of securities for the Fund, the primary objective of the investment manager shall be to obtain the most favorable results for the Fund. The investment manager's selection of broker-dealers may take into account such relevant factors as (1) price and/or commission; (2) the broker-dealer's facilities, reliability and financial responsibility; (3) the ability of the broker-dealer to effect securities transactions, particularly with respect to such aspects as timing, order size, execution of orders

and the ability to complete a transaction through clearance, settlement and delivery; and (4) the research and other services provided by such broker-dealer to the investment manager which are expected to enhance general portfolio management capabilities, notwithstanding the fact that the Fund may not be the direct or exclusive beneficiary of such services. The investment manager's selection of such broker-dealers shall be in accordance with Article I of the Illinois Pension Code (40 ILCS 5/1-101 et seq.), the Investment Advisors Act of 1940 and any other applicable securities laws, rules and regulations.

A. COMMISSION RECAPTURE

The Board specifically reserves to itself the right to direct through certain investment managers up to 25 percent of the brokerage commissions paid for the purpose of purchasing research and other services required by the Fund.

B. MINORITY AND WOMEN-OWNED BUSINESS ENTERPRISE BROKER-DEALER GOAL

It shall be the goal of the Board that, subject to best execution, 20 percent of brokerage from actively managed separate account portfolios, excluding high yield bond portfolios, be executed by minority and women-owned business enterprise broker-dealers. This goal will be reviewed annually.

VI. DUTIES AND RESPONSIBILITIES

The members of the Board are responsible, as trustees, for the proper management of the assets of the Fund. In discharging this responsibility the Board has delegated certain functions to the staff and to various contractors who provide professional services to the Board. All persons who act as agents of the Board shall adhere to the highest standards of professional integrity and honesty and are prohibited by law from profiting directly or indirectly from the investments of the Fund. However, this shall not preclude an agent of the Board from acting as principal participant or servicer in transactions with the Fund when that interest is fully disclosed and approved by the Board.

A. INVESTMENT MANAGERS

The Board continually seeks to employ investment managers who possess superior capabilities in the management of assets of public retirement funds. The Board further requires those investment managers selected and working on its behalf to meet the following set of conditions:

1. To recommend actions which in their best professional judgment are in the best interests of the Fund to meet the investment objectives. Such recommendations include but are not limited to (a) the allocation of funds among alternative types of investments; (b) specific investment opportunities regarding the acquisition, retention or disposition of investments; and (c) the addition, deletion or modification of authorized investments.
2. To execute all investment transactions on behalf of the Fund at the best net price, utilizing such brokers and dealers as they deem appropriate to obtain the best execution capabilities and/or valuable information with respect to the economy and the affairs of corporations at the lowest cost to the Fund.
3. To report to the Fund in most instances monthly, but at least quarterly, on the composition and relative performance of the investments in their designated portfolios; the economic and investment outlook for the near and long term; significant changes in the portfolio under their management during the quarter; and the reasons for any significant differences between the performance of their portfolios and the appropriate market indices or other performance benchmarks established by the Fund and the investment managers.

4. To report to the Fund monthly on the use of minority and women-owned business enterprise broker-dealers.
5. Additional responsibilities as detailed in each investment manager's agreement with the Fund.

B. INVESTMENT CONSULTANT

The Board's Investment Consultant shall provide reports to the Board on emerging trends and issues of concern to public pension funds generally and to the Fund in particular. The Investment Consultant shall also analyze and make recommendations with respect to the Board's policy, the investment plan, each investment manager's implementation of policy and strategy, the appropriate investment horizon for the Fund given its actuarial characteristics, and such other research as may be required from time to time.

The Investment Consultant shall use non-discriminatory practices when recommending investment manager candidates. When conducting a search for a new investment manager, the Board requires that all minority and women-owned business enterprise investment management firms evaluated during the search process be specifically identified in the search report presented to them. In addition, any reasons for eliminating a minority or woman-owned business enterprise investment manager from further consideration must also be provided in the report.

C. STAFF

The Executive Director and the Director of Investments are charged with the coordination of all investment activities and matters within the system. They shall report to the Board on emerging trends and issues of concern to public pension funds generally and to the Fund in particular. The staff is responsible

to the Board for a continuous review and analysis of the current investment climate and to recommend adjustments with respect to the Board's policy and investment plan which are appropriate to take optimum advantage of new conditions and strategies as they arise in the marketplace.

The staff also continually reviews and analyzes the philosophies, policies and strategies employed by the Fund's investment managers taking an in-depth look at their decision-making process and their investment style in relation to present and projected investment horizons and to ensure that the goals and objectives of the Board are being met and accomplished.

The Director of Investments is responsible for the following:

1. Investing cash until it is needed to acquire permanent investments or to pay benefits or expenses.
2. Coordinating investment transaction communications between master trustee, investment managers, brokers and staff.
3. Monitoring the securities lending program.
4. Coordinating the development or modification of investment reports with the master trustee and staff.
5. Reporting investment manager activities to the Board.
6. Ensuring compliance with investment policies and procedures established by the Board.

7. Preparing an annual report of investment highlights.
8. Acting as liaison on behalf of the Board with all investment managers and consultants.
9. Reviewing all investment proposals presented by the investment managers and reviewing and summarizing same for action by the Board.
10. Analyzing and summarizing relevant publications, discussions, meetings and research on current investment related topics for the Board.
11. Responding to inquiries from the state legislature, the membership, the press, other governmental representatives and the public concerning the investments of the Fund.
12. Preparing recommendations for action necessary to implement Board policy.
13. Performing such other duties as may be required to implement the Board's statement of investment policy and the investment plan.

D. PERFORMANCE EVALUATION CONSULTANT

The Performance Evaluation Consultant shall provide quarterly investment performance evaluation and analysis to the Board, which shall include performance measurement for the total fund against a universe of pension funds, and/or public pension funds and statewide pension funds. Furthermore, each investment manager employed by the Fund shall be measured against appropriate indices and benchmarks.

VII. INVESTMENT GUIDELINES

The Illinois Municipal Retirement Fund is a mature fund. The appropriate investment horizon is intermediate to long-term with due consideration of the use of short-term investments to meet cash flow requirements. Investment horizon, as used in this context, does not refer to maturities of securities in fixed income portfolios nor the periods over which investment managers are measured.

The allocation of funds to various asset classes is of utmost importance in structuring an efficient portfolio which is expected to meet the total Fund investment objectives. In order to assure the most beneficial allocation of funds, the Board shall, with the advice of its Investment Consultant, draft and adopt an asset allocation plan with target investment allocations, as a percent of the total Fund, for each identified major asset class. Should the investment allocations of the major asset classes vary from the stated targets by more than ± 4 percent, it shall be the responsibility of the Director of Investments and the Investment Consultant to recommend rebalancing strategies to the Board for their approval.

The asset allocation of the Fund shall be reviewed annually by the Board with the assistance of the Investment Consultant. Further, the Board shall, with the assistance of the Investment Consultant, conduct a periodic review of the asset allocation targets considering the current and expected future liabilities of the Fund.

A. DOMESTIC EQUITY SECURITIES

1. The equity portfolio as a whole shall be constructed on four fundamental principles: diversification, quality, growth, and value.
2. Exposure of the total domestic equity portfolio to any one sector shall generally not differ by more than 5 percentage points from the sector exposure of the Dow Jones Wilshire 5000.

3. The amount of cash and cash equivalents held in the domestic equity portfolio generally shall not exceed 5 percent of the total portfolio except during periods of cash contributions or withdrawals.
4. IMRF shall generally not hold more than 5 percent of the outstanding shares of any one company.
5. No individual security shall comprise more than 15 percent of a manager's portfolio market value without Fund approval.
6. Generally, no individual security shall comprise more than 5 percent of the total domestic equity portfolio.
7. Equity securities must be listed on the principal U.S. exchanges or traded over the counter. ADRs (either listed or traded over the counter) of foreign companies are permissible.
8. The use of convertible debt instruments shall be considered part of the equity portfolio.

B. INTERNATIONAL EQUITY SECURITIES

1. The international equity portfolio as a whole shall be constructed on four fundamental principles: diversification, quality, growth, and value.
2. International equity managers shall only invest in equity securities of companies domiciled outside of the U.S.

3. Generally, no individual security shall comprise more than 6 percent of the total international equity portfolio at market value.
4. The amount of cash and cash equivalents shall not exceed 10 percent of the total international equity portfolio except during periods of cash contributions or withdrawals.
5. The exposure to any one country shall not exceed the higher of 25 percent or two times the benchmark weighting at market value.
6. The exposure to any one sector shall not exceed the higher of 25 percent or two times the benchmark weighting at market value.
7. Investments in emerging market securities will not exceed 25 percent of the total international equity portfolio at market value.
8. International equity managers may engage in various transactions to hedge currency. Forward contracts, futures and options may be used for currency hedging purposes. Managers are not permitted to utilize these transactions for speculative purposes.

C. FIXED INCOME SECURITIES

1. Bonds, notes or other obligations of indebtedness issued or guaranteed by the U.S. government, its agencies or instrumentalities are permissible investments and may be held without restriction.
2. The average credit quality of the total portfolio must be investment grade.

3. An individual manager's portfolio shall generally have an effective duration between 80-120 percent of the effective duration of the appropriate index.
4. Debt obligations of any single U.S. corporation shall generally be limited to a maximum of 5 percent of the total portfolio at market value.
5. Generally, no more than 30 percent of a manager's assets at market value may be invested in securities rated below investment grade at the time of purchase. Investment managers using high yield disciplines will not be subject to above restriction.
6. U.S. corporate bond allocations must be well-diversified by industry. Debt obligations of any U.S. industry shall generally be limited to a maximum of 25 percent of the total portfolio at market value.
7. Private placements are authorized by the Board on an individual manager basis. Securities issued under rule 144A will not be considered private placements.
8. Bonds or other debt obligations of foreign countries and corporations payable in U.S. and in non-U.S. funds are authorized, but in general will not exceed, 15 percent of total portfolio.
9. The use of swaps, exchange traded financial futures, exchange traded options on financial futures, and over the counter options is subject to individual manager guidelines. Leverage is not allowed except as permitted for rolling mortgage pass-through securities.
10. No assets shall be committed to short sale contracts.

D. REAL ESTATE INVESTMENTS

Real estate is an authorized investment of the Fund.

E. ALTERNATIVE INVESTMENTS

The Alternative Investment portfolio will consist of venture capital, buyout, mezzanine, special situation, and absolute return investments. The investments will be made for long-term returns, generally through the use of limited partnership vehicles and separate account vehicles. Investments will be diversified in a manner that will broaden the portfolio exposure to a wide range of opportunities and provide a means of controlling the inherent risks of new and different investment areas.

F. SHORT-TERM INVESTMENTS

Permissible short-term investments are U.S. Treasury Bills and Notes, high-grade commercial paper, repurchase agreements, banker's acceptances, and certificates of deposit. Commercial paper investments shall be made in instruments rated "A-2" or "P-2" or better as defined by a recognized rating service. Comparable ratings are required for banker's acceptances and certificates of deposit. No more than \$20 million of current market value shall be invested in the securities of any one issuer, with the exception of the U.S. government and its agencies.

VIII. SECURITIES LENDING

The practice of institutions lending securities is well established among many public pension funds. The Board, recognizing that lending securities can provide valuable incremental income, directs that a security lending program be established and operated by the master trustee on behalf of the Fund under the following guidelines and principles:

1. Securities Loan Agreements shall be entered into with borrowers whose credit and expertise have been reviewed by the master trustee.
2. All security loans shall be collateralized by cash, irrevocable letters-of-credit or securities. The amount of collateral, subject to de minimis rules, for U.S. securities must be equal to at least 102 percent of the loaned securities market value and all interest accrued through the date of such market value determination. For non-U.S. securities, the amount of collateral must be equal to at least 105 percent of the loaned securities market value and all interest accrued through the date of such market value determination.
3. When cash collateral is used the following shall be eligible investments:
 - (a) U.S. Government Securities – Obligations issued or guaranteed as to principal and interest by the United States Government or its agencies or instrumentalities.
 - (b) Bank Obligations – Obligations of domestic and foreign banks and bank holding companies including commercial paper, banker's acceptances, certificates of deposit, time deposits, notes and bonds.
 - (c) Corporates – Obligations of domestic and foreign corporations including commercial paper, notes, bonds and debentures.

- (d) Foreign Governments – Obligations issued or guaranteed by foreign governments or political subdivisions and their agencies and instrumentalities.
- (e) Mortgage and Asset Backed Securities – Mortgage and asset backed securities issued by governmental and non-governmental entities.
- (f) State Governments – Obligations issued by states or political subdivisions thereof, including DC, and any possession of the U.S.
- (g) Repurchase Agreements – Fully collateralized repurchase agreements with counterparties approved by the master trustee’s Trust Credit Committee at the time of purchase.
- (h) Short-Term Investment Funds – Units of the master trustee’s short-term investment fund or other money market funds that determine net asset value based on Securities Exchange Commission Rule 2a-7.
- (i) Adjustable Rates – Adjustable rate securities will be limited to those securities whose rates are based upon an appropriate money market index including LIBOR, the Fed Fund Rate or Treasury Bills.
- (j) Guaranteed Investment Contracts – Guaranteed investment contracts and funding agreements issued by insurance companies.

4. When cash collateral is used in the master trustee's short-term investment fund the following investment restrictions shall apply:
- (a) Short-term investments (maturity less-than 366 days) are limited to Tier one Securities. Tier one Securities are those rated in the highest credit quality category by at least two Nationally Recognized Statistical Rating Organizations at the time of purchase.
 - (b) Long-term investments (maturity greater-than 366 days) are limited to securities rated in one of the three highest rating categories by at least two Nationally Recognized Statistical Rating Organizations at the time of purchase.
 - (c) Obligations of foreign issuers must be in countries with a risk rating of A or B by the master trustee's Country Risk Management Council at the time of purchase.
 - (d) Investments in guaranteed investment contracts or funding agreements must be with insurance companies rated A or better by A.M. Best & Company.
 - (e) A maximum of 40 percent of the fund may be invested in securities that have a maturity or put date greater than 97 days.
 - (f) A minimum of 20 percent of the fund should be made available each business day.

- (g) The rate sensitivity of the cash collateral fund will be limited to 60 days.
- (h) Floating and variable rate securities must have interest rates that may be reset at least every 94 days. The weighted average maturity of floating rate and variable rate instruments may not exceed 3 years from the date of purchase; however, 5 percent of the total fund may have a weighted average maturity of no greater than 5 years from the date of purchase.
- (i) All securities (except floating and variable rate) must have a maturity or demand feature of 18 months or less from the date of purchase.
- (j) A maximum of 25 percent of the fund may be invested in repurchase agreements with any one issuer; 10 percent of the fund if the repurchase agreements are not collateralized by the U.S. government or its agencies.
- (k) Except for the banking industry and mortgage and asset backed securities, a maximum of 25 percent of the fund may be invested in any one industry.
- (l) A maximum of 5 percent of the fund may be invested in securities of any one issuer (exceptions include securities issued by the U.S. government, its agencies and instrumentalities, and repurchase agreements collateralized by the U.S. government or its agencies).

5. Cash collateral may be invested separately in term loans. Term loan investments will meet the same guidelines as other cash collateral investments with these exceptions: (1) more than 40 percent of the cash invested separately can be in securities with a maturity or put date exceeding 3 months, (2) 20 percent of the cash invested separately does not need to be made available each business day, and (3) the rate sensitivity of such collateral may exceed 60 days.
6. When non-cash collateral is used the following shall be eligible investments:
 - (a) U.S. Government Securities – Obligations issued or guaranteed by the U.S. government or its agencies or instrumentalities may be accepted without limit.
 - (b) Letters of Credit – Irrevocable letters of credit approved by the master trustee’s Trust Credit Committee. Letters of credit are subject to the same issuer, credit and country restrictions as cash collateral investments.
7. All income, net of fees and expenses directly attributable to the security lending program, shall be transferred into the Fund’s cash flow account monthly.
8. The Fund’s staff shall retain the right to instruct the master trustee to terminate any outstanding loans of securities in accordance with the terms of any loan agreement or to terminate the loan agreement itself.
9. The security lending program must in no way interfere with any investment manager’s ability to trade securities.

IX. INVESTMENT PERFORMANCE EVALUATION

Normally the Board shall not make any final decision about the retention of any investment manager on the basis of performance for at least three years from the original date of the engagement with the manager in the absence of any compelling circumstances. This policy recognizes that investment strategies must be assessed over full market cycles.

The Board's time horizon to review performance trends shall normally be over full market cycles, although the trend in investment experience over other time periods may be judged important. Any unusual events or trends will be considered when evaluating intermediate and short-term investment results.

X. PUBLIC ACCESS TO RECORDS

All records of investment transactions maintained by the Fund are available for public inspection and copying as provided by the rules and regulations adopted by the Board pursuant to the Illinois Freedom of Information Act.

XI. PROXY POLICY

The Board of the Illinois Municipal Retirement Fund (IMRF) recognizes its fiduciary responsibility to prudently manage the assets of the Fund. The assets include common stock in many different companies and, as a shareowner, the Board also owns proxy voting rights. The Board acknowledges that it not only has a right to vote proxies, but also a duty to vote them. Proxies have economic value and, therefore, the Board has the duty to prudently oversee the management of them as it does all other Fund assets.

To that end, the Board has established this Policy that sets forth the official position of IMRF with regard to proxy voting. It contains both general and specific direction on proxy issues and addresses the proxy voting process and recordkeeping.

A. EXCLUSIVE BENEFIT RULE

This Policy was developed in accordance with the “exclusive benefit rule”, which requires the Board to act solely in the economic interest of the Fund’s members and beneficiaries.

B. DELEGATION

Pursuant to this Policy, the responsibility for voting IMRF’s domestic proxies has been delegated to the staff and responsibility for voting international proxies has been delegated to IMRF’s international investment managers. The Executive Director and staff are instructed to verify that proxies are voted in accordance with the Policy and to ensure that proper recordkeeping of proxy votes is maintained. The staff is to report to the Board annually on proxy voting and policy compliance.

C. CORPORATE GOVERNANCE

IMRF believes that corporate boards should act in the best interest of shareowners, therefore, IMRF will vote in favor of the following shareholder-sponsored proposals:

- 1) boards with a majority of independent directors
- 2) audit, nominating and compensation committees that are made up of all independent directors
- 3) a separation of the Chairman and CEO positions
- 4) restrictions on exercising options (3 – 5 years) if directors are paid with options
- 5) the rotation of outside auditors at least every 5 years*

- 6) disclosure of each director's attendance at board and committee meetings
- 7) a fixed size board
- 8) a declassified board

(*can be decided on a case-by-case basis)

To further enhance good corporate governance IMRF will vote in opposition to or withhold votes on the following:

- 1) directors with poor attendance, missing 75% of the meetings
- 2) directors who serve on too many boards
- 3) boards that fail to replace poor management
- 4) boards that employ auditors who also receive excessive non-audit fees from the company
- 5) auditors who receive substantial fees for non-auditing services
- 6) boards that ignore shareowner proposals that are approved by a majority of shareowners
- 7) boards that fail to act on takeover offers where a majority of shareowners tendered their shares
- 8) limited liability for directors who violate their fiduciary duty to shareowners
- 9) indemnification of directors for intentional or criminal acts beyond negligence
- 10) mandatory retirement age for directors
- 11) term limits for directors

- 12) proposals requiring two candidates per board seat
- 13) proposals restricting shareowners' ability to elect directors

D. DIRECTOR, EXECUTIVE, AND EMPLOYEE COMPENSATION

IMRF believes that compensation plans should motivate directors, executives, and employees to achieve high performance for the long term benefit of all shareowners, therefore, IMRF will vote in favor of the following:

- 1) reasonable compensation for directors
- 2) complete disclosure of executive and director compensation
- 3) non-excessive pay plans that award cash, stock, or a combination of the two based upon company and individual performance if the plans are approved by shareowners
- 4) specified option holding periods for executives paid with stock options*
- 5) reasonable stock ownership requirements*
- 6) expensing stock options granted to directors, executives, or employees
- 7) putting executive benefit agreements to a shareowner vote
- 8) putting supplemental retirement plans for executives to a shareowner vote
- 9) employee stock purchase plans and 401(k) plans

(*can be decided on a case-by-case basis)

To further ensure that executive compensation is reasonable IMRF will generally vote in opposition to the following:

- 1) excessive compensation plans
- 2) re-pricing of stock options given to executives, when the option price is above the market price*
- 3) proposals to eliminate shareowner approval of option re-pricing
- 4) plans that increase supplemental retirement benefits for top executives*
- 5) compensation plans that would cause substantial dilution*
- 6) any compensation paid to directors beyond the time of their service on the board
- 7) unreasonable compensation, benefit packages, or club memberships for directors
- 8) reimbursement of unreasonable travel expenditures by directors

(*can be decided on a case-by-case basis)

E. TAKEOVER DEFENSES

IMRF believes that shareowners should be asked their opinion of certain anti-takeover devices and, therefore, will vote in favor of the following:

- 1) proposals that allow shareowners to vote on poison pills and golden parachutes

IMRF believes that attempts by corporate boards to block takeovers generally hurt shareowner value, therefore, IMRF will generally vote in opposition to the following:

- 1) “blank check” preferred stock giving the board very broad discretion in establishing voting, dividend, conversion, and other rights, that can be used as an anti-takeover device

- 2) issuance of stock with unequal voting rights
- 3) creation of new securities with superior voting rights
- 4) “golden and tin parachutes” (severance agreements) between a company and executive management contingent on a change in corporate control*
- 5) “poison pill” devices to make target companies financially unattractive*
- 6) “greenmail”, the purchase of a large block of stock at a premium price, by the company from shareowners seeking control
- 7) classified boards, preventing the possibility of all directors being replaced at once
- 8) proposals requiring a supermajority shareowner vote

(*can be decided on a case-by-case basis)

F. CAPITAL STRUCTURE

As long term shareowners IMRF is concerned about the capital structure of corporations in which it invests, therefore, IMRF will vote in favor of the following:

- 1) proposals requiring shareowner approval for a reasonable increase in shares necessary for business purposes

IMRF will generally vote in opposition to the following:

- 1) increases in the amount of preferred stock that dilutes the voting power of common shares
- 2) the creation of new classes of securities with superior voting rights

Because of the unique circumstances of individual companies, IMRF will vote on the following issues on a case by case basis:

- 1) recapitalizations and reverse stock splits
- 2) increases in common stock
- 3) private placement warrants and convertible debentures
- 4) proposals that preserve preemptive rights and the opportunity to purchase, pro rata, newly issued shares in the company
- 5) a change in a company's state of incorporation
- 6) increases in stock that significantly reduce shareowner value or voting power

G. MERGERS, ACQUISITIONS, AND CORPORATE RESTRUCTURINGS

Due to the complexity of issues that arise during mergers, acquisitions, and corporate restructurings (taking a company private or forming a joint venture) IMRF will vote proxies on a case-by-case basis after obtaining adequate information about what action is in the best interest of the Fund as a shareowner.

H. ROUTINE MANAGEMENT ISSUES

IMRF believes that most management issues, having either a direct or indirect effect on the conduct of business and corporate profitability, should remain management responsibility and, therefore, IMRF will generally support management's view on such issues.

I. SOCIAL, POLITICAL, AND ENVIRONMENTAL ISSUES

IMRF recognizes that many laudable social and political issues regularly come before the shareowners for a vote. In keeping with the Board's fiduciary duty to act solely in the economic interest of the Fund, and because empirical evidence is inconclusive about whether all social and political proposals enhance shareowner value, IMRF will abstain from voting on such proposals.

XII. PROCEDURES FOR AMENDING POLICY STATEMENT

This statement of investment policy may be amended from time to time by a majority vote of the Board. Recommendations for policy changes should be directed to the Director of Investments. The Director of Investments shall review all such recommendations in consultation with the Board's managers and consultants and submit same for Board consideration with a written staff recommendation for action.