



**STATEMENT
OF
INVESTMENT POLICY**

**IMRF
INVESTMENT DEPARTMENT
MISSION STATEMENT**

Under the guidance and direction of the Board of Trustees, and governed by the Prudent Man Rule, it is the mission of the Investment Department to optimize the total return of the IMRF investment portfolio through a policy of diversified investment using parameters of prudent risk management.

**Illinois Municipal Retirement Fund
STATEMENT OF INVESTMENT POLICY**

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STATEMENT OF INVESTMENT POLICY

I. Introduction

This statement of investment policy was adopted by the Illinois Municipal Retirement Fund Board of Trustees on January 22, 2010. 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:

1. For the exclusive purpose of:
 - (a) Providing benefits to participants and their beneficiaries.
 - (b) Defraying reasonable expenses of administering the retirement system or pension fund.
2. 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.
3. 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
4. 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. Policy for the Selection of Investment Managers

1. Purpose

This policy defines the process used by the Board to procure investment managers.

2. Philosophy

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 female owned business enterprises and businesses owned by a person with a disability is recognized by the Board. The characteristic of being a minority- or female owned business enterprise or a business owned by a person with a disability is not a barrier to employment by the Board.

It is the policy of the Board to include qualified minority and female owned business enterprises and businesses owned by a

person with a disability 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.

3. Procurement Process

IMRF staff in conjunction with an investment consultant shall receive approval from the Board to conduct a search necessary to fill a need in the investment portfolio (e.g. termination of a manager or addition of a new mandate to the portfolio). A Request for Proposal (RFP) shall be prepared based on criteria defining the need in the investment portfolio. The search will be advertised in the State newspaper and industry publications, and a notice will be posted on the IMRF website. The RFP shall be made available on the IMRF website at least fourteen days before the response is due. When appropriate, the RFP shall also be made available on the investment consultant's website.

4. RFP Specifications

The RFP will provide background information on IMRF and will request detailed information on matters relevant to the investment manager search being conducted. The RFP will generally be organized as follows:

- (a) Introduction and Goal of the RFP
- (b) Background Information on IMRF
- (c) Services to be Performed
- (d) Qualifications for the Assignment
- (e) Specifications for the Assignment

- (f) Requirements and Instructions for RFP Completion
- (g) General Terms and Conditions of the Contract Including Performance Review Criteria
- (h) Selection Process and Criteria
- (i) Projected Timeline for Completion of the Manager Search

5. Quiet Period

The Quiet Period is the period of time beginning when the investment manager search RFP is issued and ends when the investment manager is selected by the Board or the process is declared to be complete.

Investment manager respondents shall not contact IMRF Board members during the Quiet Period and should direct all communications to the Chief Investment Officer, or the Investment Department Manager, or the Executive Director.

The purpose of the Quiet Period is to ensure that all prospective investment managers have equal access to information regarding the search objective and requirements; to be certain that communications are consistent and accurate; and to make the search process and selection process efficient, diligent and fair.

The Quiet Period will be posted to the IMRF website to prevent inadvertent violations by investment managers responding to the RFP.

IMRF Board members and members of the staff not directly involved in the investment manager search shall refrain from communicating with the respondents regarding any product or service related to the search during the Quiet Period unless this communication takes place during a formal site visit or interview conducted as part of the investment manager search.

An investment manager respondent shall be disqualified for violating the Quiet Period.

6. Selection Process

Staff and consultant shall objectively review the RFP's to identify qualified candidates based solely on the criteria presented in the RFP. Staff, consultant and members of the Board may interview all, some or none of the RFP respondents, undertake site visits to respondent offices and conduct such other due diligence as is

prudent under the circumstances. The process may end at this point if there are no qualified candidates among the respondents.

The staff and consultant will present the results of the RFP process to the Investment Committee in the form of a written report. This report will be presented during a public meeting of the Investment Committee and may include a recommendation of finalists to be interviewed by the Investment Committee.

The Investment Committee will interview finalists and determine if a recommendation for the award of a contract will be made to the Board of Trustees. The Board of Trustees shall then act on the recommendation of the Investment Committee.

During the selection process all respondents to the RFP will be evaluated and ranked on four primary factors:

- (a) **People** - stability of the organization, ownership structure and documented experience of key professionals
- (b) **Process** - clearly defined, reasonable and repeatable investment strategy
- (c) **Performance** - documented ability to meet investment performance benchmarks
- (d) **Pricing** - fee schedule and associated costs

Staff and consultant are required to identify all minority and female owned firms and firms owned by a person with a disability in the report presented to the Investment Committee. Staff and consultant must specify the reasons when these firms are not brought forward as finalists.

IMRF reserves the right to reject respondents due to noncompliance with the requirements and instructions in the RFP.

IMRF also reserves the right to not hire or defer the hiring of any investment manager.

7. Contract Execution

When the contract has been awarded by action of the IMRF Board of Trustees, staff will take the steps necessary to retain the investment manager including negotiations and execution of the contract.

Upon execution of the contract, a summary of the contract will be posted on the IMRF website.

B. Emerging Investment Manager Utilization Goal

The Illinois Municipal Retirement Fund is committed to providing opportunities for emerging minority and female owned investment management firms and emerging investment management firms owned by a person with a disability. The Illinois Municipal Retirement Fund Board of Trustees has adopted the following minimum goals for the utilization of these emerging investment management firms.

Goals For Utilization of Emerging Investment Managers
By Emerging Investment Manager Classification

<u>Emerging Investment Manager Classification</u>	<u>Minimum Goal as a Percentage of Total Portfolio</u>
Minority Owned Businesses	9% to 13%
Female Owned Businesses	2% to 6%
Businesses Owned by a Person with a Disability	0.5% to 1%

Goals For The Utilization of Emerging Investment Managers By Asset Class

<u>Asset Class</u>	<u>Minimum Goal as a Percentage of Asset Class</u>
Equities	10% to 12% of the asset class
Fixed-Income	15% to 20% of the asset class
Alternatives	5% to 10% of the asset class

These goals will 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.

D. Policy Requiring Certification of Compliance with the Requirements of the Illinois High Risk Home Loan Act

1. It is the policy of the Illinois Municipal Retirement Fund (IMRF) that, unless otherwise inconsistent with any fiduciary duties that may apply, no Illinois finance entity may receive deposits or investments from IMRF unless it certifies that it complies with the requirements of the Illinois High Risk Home Loan Act (815 ILCS 137/1 et seq.) and the rules adopted pursuant to that Act that are applicable to that finance entity. This certification is required before an Illinois finance entity receives a deposit or any assets to invest from IMRF and annually thereafter. For Illinois finance entities with whom IMRF is investing or depositing assets on the effective date of this policy, the initial certification required shall be completed within 6 months after the effective date.
2. If an Illinois finance entity fails to submit an annual certification, then IMRF shall notify that Illinois finance entity. The Illinois finance entity shall, within 30 days after the date of notification, either (i) notify IMRF of its intention to certify and complete certification or (ii) notify IMRF of its intention not to complete certification. If an Illinois finance entity fails to provide certification, then IMRF shall, within 90 days, divest, or attempt in good faith to divest, its assets with that Illinois finance entity. IMRF shall immediately notify the Public Pension Division of the Department of Financial and Professional Regulation of the Illinois finance entity's failure to provide certification.
3. IMRF shall annually submit copies of the certifications to the Public Pension Division of the Department of Financial and Professional Regulation.

- 4.** For purposes of this policy, "Illinois finance entity" means any entity chartered under the Illinois Banking Act, the Savings Bank Act, the Illinois Credit Union Act, or the Illinois Savings and Loan Act of 1985 and any person or entity licensed under the Residential Mortgage License Act of 1987, the Consumer Installment Loan Act, or the Sales Finance Agency Act.
- 5.** The required certification (see Exhibit A, attached hereto) must be submitted.

Exhibit A



Illinois Municipal Retirement Fund

Certification of Compliance *Illinois High Risk Home Loan Act*

I, _____, serving in the capacity of _____, on this ____ day of _____, 20 ____, being duly sworn and having knowledge of all matters set forth herein, state, affirm and certify as follows:

1. I represent _____, and I am duly authorized to provide this certificate on its behalf.
2. I am aware of the requirements of Section 1-110.10 of the Illinois Pension Code (40 ILCS 5/1-110.10), as well as the requirements of the High Risk Home Loan Act, (Act), and any rules adopted pursuant thereto.
3. Under the terms of the Illinois Pension Code, _____ is deemed an Illinois Finance Entity. (Firm)
4. I am aware that no pension fund assets may be handled by the Illinois Finance Entity if it is not in compliance with the provisions of the High Risk Home Loan Act, including the filing of a completed certification with the Illinois Municipal Retirement Fund.
5. I certify that _____ is in compliance with all the requirements of the High Risk Loan Act and the rules adopted pursuant to the Act.

(Firm)

(Signature)

(Name of Officer)

(Title)

State of _____)

County of _____)

Subscribed and sworn before me by _____ on this ____ day of _____, ____.

Notary

(Seal)

My Commission Expires: _____

E. Policy for the Selection of Investment Consultants

1. Purpose

This policy defines the process used by the Board to procure investment consultants.

2. Philosophy

The Board will use professional investment consultants that are fiduciaries to make recommendations on investment strategy and asset allocation; report on the performance of the investment portfolio and investment managers; assist with the selection of investment managers; and recommend new investment opportunities.

3. Procurement Process

The process for selecting investment consultants will be competitive and open. To procure investment consultants, IMRF staff will receive approval from the Board to begin the process of a search. A search may be started due to the expiration of a contract, termination of an investment consultant or a need to add an investment consultant. A Request for Proposal (RFP) shall be prepared based on the investment consultant need. The RFP shall be advertised in the State newspaper and industry publications, and a notice will be posted on the IMRF website. The RFP shall be made available on the IMRF website at least fourteen days before the response is due.

4. RFP Specifications

The RFP will provide background information on IMRF and will request detailed information on matters relevant to the investment consultant search being conducted. The RFP will generally be organized as follows:

- (a)** Introduction and Goal of RFP
- (b)** Background Information on IMRF
- (c)** Services to be Performed
- (d)** Qualifications for Assignment
- (e)** Specifications for Assignment
- (f)** Requirements and Instruction for RFP Completion

- (g) General Terms and Conditions of the Contract Including Criteria for the Evaluation of Performance
- (h) Selection Process
- (i) Projected Timeline for Completion of the Investment Consultant Search

5. Quiet Period

The Quiet Period is the period of time beginning when the investment consultant search RFP is issued and ends when the investment consultant is selected by the Board or the process is declared to be complete.

Investment consultant respondents shall not contact IMRF Board members during the Quiet Period and should direct all communications to the Chief Investment Officer, or the Investment Department Manager, or the Executive Director.

Incumbent investment consultant respondents may communicate with IMRF Board members during the Quiet Period, but may not discuss the investment consultant search with the Board during the Quiet Period.

The purpose of the Quiet Period is to ensure that all prospective investment consultants have equal access to information regarding the search objective and requirements; to be certain that communications are consistent and accurate; and to make the search process and selection process efficient, diligent and fair.

The Quiet Period will be posted to the IMRF website to prevent inadvertent violations by investment consultants responding to the RFP.

IMRF Board members and members of the staff not directly involved in the investment consultant search shall refrain from communicating with the respondents regarding any product or service related to the search during the Quiet Period unless this communication takes place during a formal site visit or interview conducted as part of the investment consultant search.

An investment consultant respondent shall be disqualified for violating the Quiet Period.

6. Selection Process

Staff shall objectively review the RFP's to identify qualified candidates based solely on the criteria presented in the RFP. Staff and members of the Board may interview all, some or none of the RFP respondents, undertake site visits to respondent offices and conduct such other due diligence as is prudent under the circumstances.

Staff will prepare a report and present the report to the Investment Committee during a public meeting of the Investment Committee.

The Investment Committee may interview finalists and will determine if a recommendation for the award of a contract will be made to the Board. The Board shall then act on the recommendation of the Investment Committee.

During the selection process all respondents to the RFP will be evaluated and ranked based upon:

- (a)** Organization - stability, ownership, documented experience of key professionals
- (b)** Consulting Skill - investment philosophy, investment manager information collection and monitoring systems, risk management tools, performance measurement systems and breadth of consulting expertise and experience.
- (c)** Fees - Consulting fees for services requested and associated costs.

Staff is required to identify all minority and female owned firms and firms owned by a person with a disability in the report presented to the Investment Committee. Staff must specify the reasons when these firms are not brought forward as finalists.

IMRF reserves the right to reject any respondents due to noncompliance with the requirements and instructions in the RFP.

IMRF also reserves the right to not hire or defer the hiring of any investment consultant.

7. Contract Execution

When the contract has been awarded by action of the IMRF Board of Trustees, staff will take the steps necessary to retain the investment consultant including negotiations and execution of the contract. The term of the contract shall not exceed five years.

Upon execution of the contract, a summary of the contract will be posted on the IMRF website.

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:

1. Achieve and maintain the Illinois Municipal Retirement Fund in excess of the present value of accrued benefits.
2. Achieve for the total Fund a total rate of return in excess of inflation.
3. Achieve a total rate of return in excess of the assumed investment rate of return.

IV. Investment Portfolio Objectives

1. Achieve in domestic equity securities a total return that exceeds the total return of the Dow Jones U.S. Total Stock Market Index. In addition, the Board expects to earn a minimum of 5 percent in excess of inflation over a moving 5 year period.
2. 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.
3. Achieve in fixed income securities a total return that exceeds the Barclays Capital 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.
4. Achieve in the real estate portfolio a return that exceeds the NCREIF-NPI plus 1 percent over a moving three year period.

5. 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.
6. 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. Minority Broker/Dealer Utilization Goal

The Illinois Municipal Retirement Fund is committed to providing opportunities for minority owned and female owned broker/dealers and broker/dealers owned by a person with a disability. The Illinois Municipal Retirement Fund Board of Trustees has adopted a policy which sets forth goals for increasing the utilization of these broker/dealers.

The minimum expectations for the utilization of these broker/dealers by investment managers of separately managed investment portfolios, based on asset class, shall be as follows:

<u>Asset Class</u>	<u>Minimum Goal</u>
U.S. Equities	20%
International Equities	20%
Fixed Income	20%
High-Yield Bonds	5%
U.S. Micro-Cap Equities	5%
International Small-Cap Equities	5%
Emerging Market Equities	5%

Investment managers should not use indirect methods such as step-outs to achieve these goals.

Investment managers of pooled investment portfolios are directed to use their best efforts to execute trades with minority owned and female owned broker/dealers and broker/dealers owned by a person with a disability.

All investment managers executing brokerage on behalf of the Illinois Municipal Retirement Fund are directed to meet these minimum goals in their specific portfolios and shall report monthly on their utilization of minority owned and female owned broker/dealers and broker/dealers owned by a person with a disability. Any investment manager failing to meet the minimum goal during the reporting month must provide a written explanation disclosing the reasons for not meeting the goal.

Staff will report to the Board of Trustees annually on the utilization of minority owned and female owned broker/dealers and broker/dealers owned by a person with a disability. Investment managers not meeting the utilization goal will be identified in the report. Failure by an investment manager to meet brokerage expectations will be considered as a factor when evaluating overall performance of the investment manager.

This broker/dealer utilization 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
 - (b) 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 female owned business enterprise broker/dealers and broker/dealers owned by a person with a disability.
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 owned, female owned businesses and businesses owned by a person with a disability 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 owned, female owned businesses or businesses owned by a person with a disability enterprise investment manager from further consideration must also be provided in the report.

C. Staff

The Executive Director and the Chief Investment Officer 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 Chief Investment Officer 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. Acting as liaison on behalf of the Board with all investment managers and consultants.
8. Reviewing all investment proposals presented by the investment managers and reviewing and summarizing same for action by the Board.
9. Analyzing and summarizing relevant publications, discussions, meetings and research on current investment related topics for the Board.
10. Responding to inquiries from the state legislature, the membership, the press, other governmental representatives and the public concerning the investments of the Fund.
11. Preparing recommendations for action necessary to implement Board policy.
12. 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 Chief Investment Officer 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 U.S. Total Stock Market Index.
- 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. 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 the 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

A separate Real Estate Statement of Investment Policy has been adopted by the Board of Trustees. This Policy is an extension of the Statement of Investment Policy. It will be reviewed by the Board of Trustees annually.

E. Alternative Investments

The Alternative Investment portfolio will consist of venture capital, buyout, mezzanine, special situation, absolute return, agriculture and timber investments. The investments will be made for long-term returns, generally through the use of limited partnership vehicles, separate account vehicles and commingled funds. 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, securities, or government obligations which may be accepted without limit. 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 as defined by the master trustee:
- (a)** U.S. Government Securities – Obligations issued or guaranteed as to principal and interest by the United States Government or its agencies or instrumentalities and custodial receipts with respect thereto.
 - (b)** Bank Obligations – Obligations of U.S. or non-U.S. banks and bank holding companies including but not limited to commercial paper, banker’s acceptances, certificates of deposit, time deposits, notes and bonds.
 - (c)** Corporates – Obligations of U.S. or non-U.S. corporations including commercial paper, notes, bonds and debentures.
 - (d)** Foreign Governments – Obligations issued or guaranteed by OECD (Organization for Economic Cooperation and Development), governments, or political subdivisions and their agencies and instrumentalities.
 - (e)** Money Market Funds – Units or shares of registered or unregistered money market funds or institutional cash funds, global liquidity funds, or other pooled investment vehicles including those funds in which the Agent or its affiliates act as investment advisor, custodian, sponsor, administrator, transfer agent or similar capacity.
 - (f)** Repurchase Agreements – Fully collateralized repurchase agreements with counterparties approved by the master trustee’s Trust Credit Committee at the time of purchase.
 - (g)** Floating and Variable Rates – Adjustable rate securities will be limited to those securities whose rates are reset based upon an appropriate money market index including LIBOR, the Fed Fund Rate or Treasury Bills, Certificate of Deposit Composite, and Commercial Paper Composite.
 - (h)** Daily Residual Cash Balances – End of day residual cash balances, which cannot be invested in the market place, will be swept into a short-term investment with The

Northern Trust Company or any of its worldwide branches or affiliated U.S. or non-U.S. banks or bank holding companies.

- (i) Asset-Backed Commercial Paper – Asset-backed commercial paper, excluding structured investment vehicles (SIV) or extendable commercial notes (ECN and liquidity notes (LN), with a maturity no longer than 97 days.

4. When cash collateral is used the following maturity/liquidity investment restrictions shall apply as defined by the master trustee:

- (a) A minimum of 60% of the Cash Collateral fund shall be invested in securities which have a maturity (as herein defined) of 97 days or less.
- (b) A minimum of 20% of the Cash Collateral fund shall be available each business day. This may be satisfied by maturities (as herein defined), or demand features.
- (c) The rate sensitivity or weighted average maturity, as measured to the shorter of the remaining time until the interest rate reset (if applicable) or maturity, of the Cash Collateral fund will be limited to 60 days.
- (d) The weighted average maturity, as measured to maturity (as herein defined), of the Cash Collateral fund shall not exceed 120 days.
- (e) Floating rate and variable rate investments must have interest rates that may be reset at least every 97 days.
- (f) Except for asset-backed commercial paper and variable rate eligible government securities, the maturity of investments may not exceed 13 months from the date of purchase. The maturity of asset-backed commercial paper shall not exceed 97 days. The maturity of variable rate eligible government securities may not exceed 762 days.

5. Cash Collateral Diversification

- (a) Subject to the following exceptions, a maximum of 5% of the Collateral Section may be invested in securities or

instruments of any one issuer or obligor. Exceptions are as follows:

- (i)** 100% of the Collateral Section may be invested in obligation issued or guaranteed by the U.S. Government or its agencies/instrumentalities.
 - (ii)** 25% of the Collateral Section may be invested with any one counterparty in repurchase agreements collateralized by U.S. Government or U.S. Government agency securities.
 - (iii)** 10% of the Collateral Section may be invested with any one counterparty in repurchase agreements collateralized by securities other than U.S. Government or U.S. Government agency securities.
- (b)** A maximum of 25% of the Collateral Section may be invested in obligations of issuers having their principal business in the same industry with the exception of the banking industry.
 - (c)** For repurchase agreements collateralized by securities other than U.S. Government or U.S. Government agencies, no more than 10% of the Collateral Section may be invested in each type of repo collateral. No more than 25% of the Collateral Section may consist of repurchase agreements collateralized by non U.S. Government or U.S. Government agency securities.
 - (d)** Asset-backed commercial paper shall comprise no more than 10% of the Collateral Section.
 - (e)** A maximum percentage of the Collateral Section which may be exposed to the risks of any one country shall be established from time to time by Agent.
- 6.** When cash collateral is used in the master trustee's short-term investment fund the following investment restrictions shall apply as defined by the master trustee:
- (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 60 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 97 days. The weighted average maturity of floating rate and variable rate instruments may not exceed 3 years from the date of purchase; however, 15 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.

- (1) 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).
7. 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.

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.

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.

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 Trustees 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
9. a stipulation that directors need to be elected with an affirmative majority of votes cast, provided it does not conflict with the state law where the company is incorporated. However, binding resolutions need to allow for a carveout for a plurality vote standard when there are more nominees than board seats.
10. a call for non-binding shareholder ratification of the compensation of the Named Executive Officers and the accompanying narrative disclosure of material factors (i.e. say-on-pay proposals)

(*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 are not majority independent (withhold from the non-independent directors)
4. boards that have non-independents serving on key committees (withhold from the non-independents on such committees)
5. boards that fail to replace poor management
6. boards that lack accountability and oversight, coupled with sustained poor performance relative to peers

- 7.** boards that adopt or renew poison pills without shareholder approval
- 8.** boards that adopt or renew egregious anti-takeover devices such as dead-hand pills
- 9.** boards that employ auditors who also receive excessive non-audit fees from the company
- 10.** auditors who receive substantial fees for non-auditing services
- 11.** audit committees who pay substantial fees for non-audit services
- 12.** audit committees who receive an adverse opinion on the company's financial statements from the external auditor
- 13.** audit committees or boards where there are poor accounting practices, which rise to a level of serious concern, such as: fraud; misapplication of GAAP; and material weaknesses identified in Section 404 disclosures, are identified
- 14.** audit committees where there is persuasive evidence that the audit committee entered into an inappropriate indemnification agreement with its auditor that limits the ability of the company, or its shareholders, to pursue legitimate legal recourse against the audit firm
- 15.** compensation committees when there is a negative correlation between the chief executive's pay and company performance
- 16.** compensation committees when the company has poor compensation practices
- 17.** boards that ignore shareowner proposals that are approved by a majority of shareowners (votes outstanding for one year and votes cast for two years)
- 18.** boards that fail to act on takeover offers where a majority of shareowners tendered their shares
- 19.** limited liability for directors who violate their fiduciary duty to shareowners
- 20.** indemnification of directors for intentional or criminal acts beyond negligence

21. mandatory retirement age for directors
22. term limits for directors
23. proposals requiring two candidates per board seat
24. 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. putting executive benefit agreements to a shareowner vote
7. putting supplemental retirement plans for executives to a shareowner vote
8. 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. poorly designed compensation plans that fail to align executive's interests with that of shareholders

3. re-pricing of stock options given to executives, when the option price is above the market price*
 4. proposals to eliminate shareowner approval of option re-pricing
 5. plans that increase supplemental retirement benefits for top executives*
 6. compensation plans that would cause substantial dilution*
 7. compensation plans that would result in excessive burn rate (also known as run rate)*
 8. any compensation paid to directors beyond the time of their service on the board
 9. unreasonable compensation, benefit packages, or club memberships for directors
 10. 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. increases in preferred stock
4. private placement warrants and convertible debentures
5. proposals that preserve preemptive rights and the opportunity to purchase, pro rata, newly issued shares in the company
6. a change in a company’s state of incorporation
7. increases in stock that significantly reduce shareowner value or voting power

G. Merger, 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. Securities Litigation Policy

A. Purpose

It is the policy of the IMRF Board of Trustees to actively monitor its investment portfolio for securities fraud claims using qualified securities litigation legal service providers and an independent portfolio monitoring service.

B. Principal Responsibilities

Overall coordination of monitoring and managing the securities class action activities shall be by the Chief Investment Officer, in coordination with the General Counsel. All activities and recommendations to the Investment Committee shall be reviewed and approved by the Executive Director.

C. Monitoring

IMRF will use the services of the Fund's custodian and consultants with expertise in this area chosen by staff, to include securities litigation counsel and an independent monitoring firm, to monitor pending securities cases which may involve a loss to IMRF. The Fund's custodian will be responsible for filing claims in all settlements in which IMRF has an interest.

D. Case Identification

1. The Investment Department shall be designated to receive communications from the securities litigation monitoring services and be responsible for accessing the services' websites for regular, periodic review of all cases posted.
2. When any IMRF staff member identifies, through general media reports or otherwise, events which may be likely to trigger securities litigation, the monitoring services' websites may be used to obtain a preliminary indication of potential impact on the IMRF. If the potential impact is at the IMRF threshold level, the Chief Investment Officer and the General Counsel shall be informed.
3. The IMRF threshold level shall be potential losses greater than \$2.5 million.

E. Case Evaluation

1. Cases in which the potential impact does not meet or exceed the IMRF threshold will not require additional internal evaluation unless other factors indicate some value in further analysis. Unless further analysis is undertaken, these cases will be monitored and reviewed to make sure all appropriate claims are filed and distributions collected in a timely manner.
2. Cases with the potential of meeting or exceeding the IMRF threshold shall be further evaluated by staff to determine which of the following alternative courses of action is appropriate:
 - (a) Monitoring the course of the litigation and filing a claim at its conclusion to participate in any class payment.
 - (b) Monitoring the course of the litigation and objecting to the attorneys' fee petition, if there are reasons to object.
 - (c) Monitoring the course of the litigation and objecting to the proposed settlement, if there are reasons to object.
 - (d) Seeking to control the litigation by applying for designation as lead plaintiff, either individually or with others.

- (e) Opting out of the class action litigation and filing a separate lawsuit, either individually or with others.

F. Active Participation

1. Staff will make a recommendation to the Investment Committee for any course of action beyond filing claims and objecting to attorneys' fee petitions. The Board of Trustees must approve actions beyond filing claims and objecting to fee petitions. If the Board approves active participation in the litigation, further authorization is not necessary to align with other potential plaintiffs in application for named plaintiff status.
2. Where the Board has determined that the interests of the Fund will be best served by seeking designation as lead plaintiff or by opting out of a class action, staff will choose legal counsel and will negotiate a fee agreement.

XIII. 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 Chief Investment Officer. The Chief Investment Officer 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.