STATEMENT

OF

INVESTMENT POLICY

Amended: December 18, 2015

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.

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IMRF™

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STATEMENT OF INVESTMENT POLICY

I. Introduction and Purpose

A. About IMRF

The Illinois Municipal Retirement Fund ("IMRF") is a defined benefit plan created in 1939 by the Illinois General Assembly for the exclusive purpose of providing retirement, death and disability benefits to employees of local units of government and school districts in Illinois. IMRF serves over 2977 employers and over 399,000 active and retired members. IMRF is separate and apart from the Illinois state government. Benefits are funded by employer and member contributions and investment returns.

IMRF is governed by a Board of eight elected trustees. Four are elected by employers, three are elected by participating members and one is elected by annuitants (individuals receiving retirement benefits). The Board appoints an Executive Director who is responsible for all administrative functions and supervision of staff employees.

Mission Statement
To efficiently and impartially develop, implement, and administer programs that provide income protection to members and their beneficiaries on behalf of participating employers in a prudent manner.

Vision
To provide the highest quality retirement services to our members, their beneficiaries and employers.

B. Legal Authority

IMRF was created by Article 7 of Chapter 40, Act 5 of the Illinois Pension Code in order to provide a sound and efficient system for the payment of annuities and other benefits to officers and employees, and to their beneficiaries, of municipalities of the State of Illinois.

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; and
- (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."

C. Investment Philosophy

IMRF's investment philosophy has been developed with careful consideration of its primary purpose, fiduciary obligations, statutory requirements, liquidity needs, income sources, benefit obligations, and other general business conditions. The investment philosophy embraces the following:

- Strategic asset allocation is the most significant factor attributable to the long-term total return of the Fund. Diversification is the primary risk control element. Commitments to asset allocation targets and ranges will be maintained through a disciplined rebalancing program. The asset allocation policy will be periodically reexamined to ensure its appropriateness to the then prevailing liability considerations.

- The Fund's liabilities are long-term and therefore the strategic investment horizon will, at a minimum, be 10-years. Strategic decisions will prevail in determining asset allocation rather than tactical or short-term market timing decisions.

- Active management may be utilized to add value beyond broad market benchmarks by exploiting market inefficiencies.

- Passive investment vehicles consisting of index funds may be utilized to complement actively managed portfolios as an efficient way to provide benchmark return, adjust risk within the overall fund, and provide a liquid and low cost pool to facilitate timely fund rebalancing, especially in highly efficient markets.

- Due diligence and monitoring the investment managers are critical elements integral to safeguarding the Fund's assets.

D. Roles and Responsibilities

The Board of Trustees and internal Investment Staff have specific responsibilities in the management and oversight of IMRF's investment activities. The Board of Trustees may allocate duties among themselves and designate others as fiduciaries to carry out specific fiduciary activities.

External advisors, investment managers and contractors may be retained, as fiduciaries, to execute certain investment or related activities.

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.

The following section outlines the roles and responsibilities for the Board of Trustees, Investment Staff, Investment Managers and Investment and Performance Consultants involved with executing this Policy.

1. Board of Trustees

The members of the Board are responsible, as trustees and fiduciaries, for the proper oversight of the IMRF assets. Trustees shall carry out their functions solely in the interest of the members and benefit recipients and for the exclusive purpose of providing benefits and defraying reasonable expenses incurred in performing such duties, as required by law.

Trustees shall act in accordance with the provisions of State Statute and with 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 like character with like aims by diversifying the investment of the Fund so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

The Board of Trustees is responsible for the following investment related activities:

- Set the policies, objectives, and guidelines for investment of the Fund's assets and oversee compliance with investment policy and the laws of Illinois.

- Study thoroughly each issue affecting the Fund's investments to make educated and prudent decisions.

- Select qualified professionals to assist in implementing investment policies and evaluate their services.

- Consider Staff recommendations for selecting or terminating investment managers.

- Evaluate total fund performance including performance of all investment managers.

2. Investment Staff

The Chief Investment Officer (CIO) is charged with the coordination of all investment activities and matters involving the Fund's assets.

The CIO is responsible for continuous review and analysis of the Fund's assets and to recommend adjustments which are appropriate to take optimum advantage of new conditions and strategies as they arise in the marketplace.

The CIO is responsible for overseeing all investment activities required to implement the IMRF Statement of Investment Policy. The CIO will advise the Board of Trustees and Investment Committee on any investment related matters.

Staff 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.

Staff, with guidance and direction from the CIO, is responsible for the following:

- On an annual basis, review and recommend to Investment Committee of the Board: a) Investment Committee Charter, b) Statement of Investment Policy, and c) Real Estate Statement of Investment Policy.

- Ensure compliance with investment policies and procedures established by the Board of Trustees.

- Manage cash flow by buying or selling passive and/or active manager investments to pay benefits and expenses and/or fund Board approved investments.

- Recommend investment actions to the Investment Committee of the Board of Trustees and/or to the Board of Trustees.

- Staff is responsible for managing each asset class, as described by the IMRF Investment Policy, on an on-going basis, including monitoring the investment managers and reporting to the Board of Trustees.

- Conduct all necessary due diligence relating to the selection of investment managers and consultants. Negotiate and approve guidelines and contracts for each investment manager and consultant.

- Monitor and report to the Board of Trustees as applicable, on programs related to securities lending, proxy voting, minority manager and minority broker utilization.

- Respond to inquiries from the state legislature, the membership, the press, other governmental representatives and the public concerning the investments of the Fund.

- Coordinate communications between master trustee, investment managers, brokers and consultants.

3. Investment Managers

The Board of Trustees continually seeks to employ investment managers who possess superior capabilities in the management of assets of public retirement funds.

Investment managers, as fiduciaries selected by the Board of Trustees and monitored by Staff, have the power to manage, acquire, or dispose of any assets of the Fund within their mandate. Investment managers will acknowledge in writing that they are a fiduciary with respect to the Fund, and is a least one of the following: (1) registered as an investment adviser under the federal Investment Advisers Act of 1940; (2) a bank, as defined in the Investment Advisers Act of 1940.

The Board of Trustees requires investment managers to meet the following set of conditions as stated in their respective investment management agreements with IMRF.

- All investment managers will construct and manage investment portfolios that are consistent with IMRF's investment guidelines. The investment manager will select, buy and sell specific securities or investments within the parameters specified by their investment management agreement with IMRF.

- Public market investment managers will 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.

- Public market investment managers will report to the Fund monthly, and the Private market investment managers will report to the fund quarterly. All investment managers will report 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;
    - 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.

- The public market investment manager will 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.

- All investment managers will adhere to any additional responsibilities as detailed in each investment manager's agreement with the Fund.

Note: Limited Partnership Investments, typically in private market asset classes, are not considered investment managers as defined by Illinois Pension Code.

4. Investment and Performance Consultants

Investment Consultant

Investment Consultant are persons or entities selected by the Board of Trustees, as fiduciaries and advisers, to make recommendations in developing an investment strategy, assist with finding appropriate investment managers, or monitor the Fund's assets.

The Investment Consultant will:

- In conjunction with the CIO, provide reports to the Board of Trustees on emerging trends and issues of concern to public pension funds generally and to the Fund in particular.

- Provide education to the Board of Trustees and Staff, which includes but is not limited to analyzing and summarizing relevant publications, discussions, meetings and research on current investment related topics.

- Evaluate investment manager candidates using non-discriminatory practices when engaged by IMRF for a RFP search.

  When conducting a search for a new investment manager, the Board of Trustees requires that all minority owned, female owned businesses and businesses owned by a person with a disability (MFPDOB) enterprise investment management firms evaluated during the search process be specifically identified in the search report presented to them. The most qualified MFPDOB candidate(s) will be invited to present to the Investment Committee of the Board or the Board of Trustees. Any reasons for eliminating a MFPDOB candidate(s) from further consideration must also be provided in the report.

- Serve as a resource to Staff by analyzing and making recommendations with respect to the IMRF Investment 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.

Performance Evaluation Consultant
The Performance Evaluation Consultant shall provide monthly and quarterly investment performance evaluation and analysis to the Board of Trustees. Total Fund performance and each investment manager employed by the Fund shall be measured against appropriate indices and benchmarks. The quarterly investment performance report shall include IMRF returns for the total fund, asset classes and investment managers against universes of pension funds.

II. Investment Objectives and Goals

A. Investment Objectives

All investment transactions undertaken will be for the sole benefit of IMRF's members and benefit recipients. The Board has a responsibility to make investment decisions with the objective of obtaining superior total long-term rates of return while using parameters of prudent risk management and reasonable control of costs. To assure an adequate accumulation of assets in the Fund, the investment objectives are to:

1. Achieve and maintain the Illinois Municipal Retirement Fund assets in excess of the present value of accrued benefits.

2. Achieve for the total Fund a rate of return in excess of inflation.

3. Achieve for the total Fund a rate of return in excess of the assumed actuarial investment rate of return of 7.5%.

4. Achieve for the total Fund a rate of return in excess of the Total Fund Benchmark. The Total Fund Benchmark is a blend of the asset class benchmark returns weighted by the target allocation for each asset class.

The Total Fund Benchmark is equal to the sum of:

- 38% Russell 3000 Index
- 27% Barclays Capital Aggregate Bond Index
- 17% Morgan Stanley Capital International All Country World Index ex-US
- 8% National Council of Real Estate Investment Fiduciaries Open-End Diversified Core Index
- 9% of the 9% Annual Alternatives Benchmark
- 1% 3-month Treasury Bills

B. Aspirational Goals: Emerging Investment Managers and Investment Advisors (In Compliance with Section 1-109.1 (10) of the Illinois Pension Code)

The Illinois Municipal Retirement Fund is committed to diversity in the hiring of emerging and minority owned investment managers.

The Illinois Municipal Retirement Fund Board of Trustees adopts 2 aspirational goals: (i) to utilize emerging investment managers for at least 20% of the total Fund's assets under management and (ii) to utilize firms owned by minorities, females and persons with disabilities for at least 20% of the total Fund's assets under management.

Note: Emerging investment managers have a $10 billion asset limitation.

Policy to Achieve Aspirational Goals

The Illinois Municipal Retirement Fund Board of Trustees adopts a policy to ensure progress towards achieving the aspirational goals. The policy directs the IMRF Investment Staff:

- to build relationships with the emerging investment manager community by attending and /or speaking at emerging manager conferences,
- to launch targeted RFP's that specifically focus on emerging and/or minority owned firms,
- to hire emerging investment managers for active strategies as opposed to lower revenue generating passive strategies,
- to utilize manager of managers and fund of funds programs to hire underlying emerging investment managers,
- to graduate underlying emerging investment managers for direct mandates.

The Illinois Municipal Retirement Fund Board of Trustees will evaluate the Executive Director on the efforts to achieve the aspirational goals.

C. Emerging Investment Manager Utilization (In Compliance with Section 1-109.1 (4) of the Illinois Pension Code)

The Illinois Municipal Retirement Fund is committed to providing opportunities for emerging investment managers. An emerging investment manager is defined as a qualified investment advisor that manages an investment portfolio of at least $10,000,000 but less than $10,000,000,000 and is a "minority owned business", "female owned business" or "business owned by a person with a disability as defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act.

Emerging Investment Management firms must be 51% or more owned by individuals that are minorities, females or persons with a disability and are citizens or lawful permanent residents of the United States. For a complete definition go to the following website: http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=550&ChapterID=7

The Illinois Municipal Retirement Fund Board of Trustees has adopted 3 separate goals for: (i) emerging investment managers that are minority owned businesses; (ii) emerging investment managers that are female owned businesses; and (iii) emerging investment managers that are businesses owned by a person with a disability.

Goals for Utilization of Emerging Investment Managers
by Emerging Investment Manager Classification

Emerging Investment Manager Classification	Minimum Goal as a Percentage of Total Portfolio
Minority Owned Businesses	13%
Female Owned Businesses	6%
Businesses Owned by a Person with a Disability	1%

Goals for Utilization of Emerging Investment Managers
by Asset Class

Asset Class	Minimum Goal as a Percentage of Asset Class
Domestic Equity	8%
International Equity	15%
Fixed Income	20%
Real Estate*	4%
Private Equity*	10%
Hedge Funds	15%
Timberland	Best Efforts
Agriculture	Best Efforts

* based on committed amounts

D. Minority Investment Manager Utilization (In Compliance with Section 1-113.2109.1 (9) of the Illinois Pension Code)

The Illinois Municipal Retirement Fund is committed to providing opportunities for minority investment managers. A minority investment manager is defined as a qualified investment manager that manages an investment portfolio and meets the definition of "minority owned business", "female owned business", or "business owned by a person with a disability", as defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act.

Minority Investment Management firms must be 51% or more owned by individuals that are minorities, females or persons with a disability and are citizens or lawful permanent residents of the United States. For a complete definition go to the following website: http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=550&ChapterID=7

The Illinois Municipal Retirement Fund Board of Trustees has adopted 3 separate goals for: (i) minority investment managers that are minority owned businesses; (ii) minority investment managers that are female owned businesses; and (iii) minority investment managers that are businesses owned by a person with a disability.

Goals for Utilization of Minority Investment Managers by Investment Manager Classification

Investment Manager Classification	Minimum Goal as a Percentage of Total Portfolio
Minority Owned Businesses	13%
Female Owned Businesses	6%
Businesses Owned by a Person with a Disability	1%

Goals for Utilization of Minority Investment Managers by Asset Class

Asset Class	Minimum Goal as a Percentage of Asset Class
Domestic Equity	8%
International Equity	15%
Fixed Income	20%
Real Estate*	4%
Private Equity*	10%
Hedge Funds	15%
Timberland	Best Efforts
Agriculture	Best Efforts

*based on committed amounts

E. 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.

F. Minority Broker/Dealer Utilization

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.

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 (MFPDOB). The Illinois Municipal Retirement Fund Board of Trustees has adopted a policy which sets forth goals for increasing the utilization of MFPDOB broker/dealers.

The minimum expectations for the utilization of MFPDOB broker/dealers are based on commission dollars. Investment managers of separately managed investment portfolios, in the following asset classes, must meet the minimum goals:

Asset Class	2016 Minimum Goal
U.S. Equities	25%
International Equities	20%
Fixed Income	22%
High-Yield Bonds	5%
U.S. Micro-Cap Equities	7%
International Small-Cap Equities	5%
Emerging Market Equities	5%
Emerging Market Debt	Best Efforts
Bank Loans	Best Efforts
Opportunistic Strategies	Best Efforts
Hedge Funds	Best Efforts

Note: This broker/dealer utilization goal will be reviewed annually. IMRF may allow current investment managers a limited transition period when MFPDOB broker/ dealer utilization goals are increased.

Investment managers are prohibited from using indirect methods such as step-outs to achieve these goals.

Investment managers of pooled/commingled investment portfolios are directed to use their best efforts to execute trades with MFPDOB broker/dealers.

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 MFPDOB broker/dealers. 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 MFPDOB broker/dealers. Investment managers not meeting the MFPDOB broker/dealer utilization goal will be identified in the report. An investment manager's ability to meet an MFPDOB brokerage goal is an integral part of the manager monitoring process.

G. Policy Regarding Minority Owned Business Utilization Disclosures (In Compliance with Section 1-113.21 of the Illinois Pension Code)(See Appendix G for Disclosure Form)

The Illinois Municipal Retirement Fund requires the following disclosure from the investment advisor, consultant or private market fund:

1. The number of its investment and senior staff and the percentage of its investment and senior staff who are (i) a minority person (ii) a female, and (iii) a person with a disability;

2. The number of contracts, oral or written, for investment services, consulting services and professional and artistic services that the investment advisor, consultant, or private market fund has with (i) a minority owned business, (ii) a female owned business, or (iii) a business owned by a person with a disability; and

3. The number of contracts, oral or written, for investment services, consulting services, and professional and artistic services that the investment advisor, consultant, or private market fund has with a business other than (i) a minority owned business, (ii) a female owned business or (iii) a business owned by a person with a disability, if more than 50% of services performed pursuant to the contract are performed by (i) a minority person, (ii) a female, and (iii) a person with a disability.

H. Policy Regarding the Illinois High Risk Home Loan Act

1. It is the policy of 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 Appendix F, attached hereto) must be submitted.

III. <u>Asset Allocation</u>

Asset allocation is generally recognized to have the largest impact on a pension fund's investment performance. Allocating across multiple asset classes avoids concentration risk in any single asset type. Historically, no single asset type has provided consistent superior long-term performance in all market environments. The well-diversified approach positions the portfolio to produce more consistent results over time and generates superior long-term returns.

The Fund's liabilities are long term in nature and the investment strategy will therefore be long term with due consideration of the use of short-term investments to meet cash flow requirements.

Staff and the Investment Consultant(s) shall conduct an Asset Liability Study every three to five years and present the results to the Board. The study will consider the asset class mix, future benefit payments, liabilities, required funding, the appropriateness of the actuarial interest rate assumption, and the prospective funded status of liabilities. Through quantitative asset/liability modeling and qualitative evaluation, an appropriate strategic asset allocation mix will be selected.

Staff and the Investment Consultant will prepare and present an asset allocation review to the Board annually. The asset allocation review will include capital market expectations (10 year horizon), risk/return expectations for major asset classes, appropriate benchmarks, asset class and style targets, and diversification. In addition to achieving diversification by asset class, careful attention shall be paid to diversification within each asset class and sub-allocation and manager concentration at a total fund level.

The table below shows the target asset allocation, including a ± 4% range for each asset class with the exception of cash equivalents.

Asset Class	Asset Allocation Targets	Asset Class Ranges	Policy Benchmark Index
Domestic Equities	38%	34% - 42%	Russell 3000
International Equities	17%	13% - 21%	MSCI ACWI Ex-U.S. Index
Fixed Income	27%	23% - 31%	Barclays Aggregate Index
Real Estate	8%	4% - 12%	NCREIF ODCE
Alternative Investments	9%	5% - 13%	9%
Cash Equivalents	1%	0% - 2%	3 Month Treasury Bills

Actual allocations that exceed their target by ± 4% will be noted at the next scheduled Board meeting. If deemed necessary by the Chief Investment Officer and Consultant, recommendations for rebalancing strategies will be presented to the Board for their approval.

IV. Benchmarks

1. The Board seeks to achieve for the total Fund a rate of return in excess of the Total Fund Benchmark. The Total Fund Benchmark is a blend of the asset class benchmark returns weighted by the target allocation for each asset class.

The Total Fund Benchmark is equal to the sum of:

- 38% Russell 3000 Index
- 27% Barclays Capital Aggregate Bond Index
- 17% Morgan Stanley Capital International All Country World Index ex-US
- 8% National Council of Real Estate Investment Fiduciaries Open-End Diversified Core Index
- 9% of the 9% Annual Alternatives Benchmark
- 1% 3-month Treasury Bills

2. IMRF invests in domestic equities to earn an equity risk premium in order to enhance the long-term returns of the Fund. The objective of the domestic equity portfolio is to achieve a total return that exceeds the total return of the Russell 3000 Index net of fees.

3. IMRF invests in international equities to earn an equity risk premium and to diversify the equity exposure within the Fund. The objective of the international equity portfolio is to achieve a total return that exceeds the total return of the Morgan Stanley Capital International All Country World Index ex-US net of dividends (MSCI ACWI ex-US) net of fees.

4. IMRF invests in fixed income to provide stable income and to diversify the market risk in the investment portfolio. The objective of the fixed income portfolio is to achieve a total return that exceeds the total return of the Barclays Capital Aggregate Bond Index net of fees.

5. IMRF invests in real estate to provide diversification, inflation protection, and income generation in the investment portfolio. The objective of the real estate portfolio is to achieve a total return that exceeds the total return of the National Council of Real Estate Investment Fiduciaries (NCREIF) Open-End Diversified Core gross of fees (ODCE) Index over a rolling three year period.

6. IMRF invests in alternative investments to diversify the Fund’s assets and to enhance the investment portfolio return through long-term capital appreciation. These investments can be highly illiquid and IMRF seeks to be compensated for such illiquidity by earning returns substantially greater than those available from publicly traded equity markets. The objective of the alternative investments portfolio is to achieve an annualized return of 9%.

7. Cash is held primarily for paying benefits and administrative expenses and funding Board approved investments. The objective of the internally managed cash portfolio is to achieve a total return in excess of 3-month U.S. Treasury Bills.

V. Investment Guidelines

The Board of Trustees recognizes the following investment guidelines for each asset class. The guidelines presented here are intended to be summarizations. The Board requires public market investment managers to meet specific contractual guidelines detailed in each investment manager's agreement with the Fund.

Public Markets

A. Domestic Equity Securities

1. 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 Russell 3000.

2. 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.

3. IMRF shall generally not hold more than 5 percent of the outstanding shares of any one company.

4. No individual security shall comprise more than 15 percent of a manager's portfolio market value without prior approval from the CIO.

5. Generally, no individual security shall comprise more than 5 percent of the total domestic equity portfolio.

6. 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.

B. International Equity Securities

1. Generally, international equity managers shall only invest in equity securities of companies domiciled outside of the U.S.

International equity managers may be allowed to invest a portion of their portfolio in U.S. domiciled companies which have the majority of their operations and/or revenues domiciled outside of the U.S.

2. Generally, no individual security shall comprise more than 6 percent of the total international equity portfolio at market value.

3. 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.

4. The exposure to any one country shall not exceed the higher of 25 percent or two times the benchmark weighting at market value.

5. The exposure to any one sector shall not exceed the higher of 25 percent or two times the benchmark weighting at market value.

6. International equity managers may engage in various transactions to manage currency. Forward contracts, futures and options may be used for currency management purposes. Managers are not permitted to utilize these transactions for speculative purposes unless otherwise specified in individual manager guidelines.

C. Fixed Income Securities

1. Bonds, notes or other obligations of indebtedness issued or guaranteed by the U.S. government, its agencies or instrumentalities may be held without restriction.

2. The average credit quality of the total fixed income portfolio must be investment grade.

3. An individual manager's portfolio shall generally have an effective duration between 80-120 percent of the index for mandates benchmarked against the Barclays Cap Aggregate or Merrill Lynch High Yield Cash Pay indices.

4. Debt obligations of any single U.S. corporation shall generally be limited to a maximum of 5 percent of the total fixed income 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 outside of core and core plus mandates will not be subject to above restriction.

6. Private placements are authorized by the Board on an individual manager basis. Securities issued under rule 144A will not be considered private placements.

7. Bonds or other debt obligations of foreign countries and corporations payable in U.S. dollars and foreign currency are authorized, but in general will not exceed 15 percent of the total fixed income portfolio.

8. 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. Managers are not permitted to utilize these transactions for speculative purposes. Leverage is not allowed except as permitted for rolling mortgage pass-through securities.

9. No assets shall be committed to short sale contracts.

Private Markets

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 asset class can encompass different and distinct asset categories within U.S. and Non-U.S. markets. The investments will be made to generate long-term returns in a diversified manner. It generally consists of limited partnerships in which IMRF commits a fixed amount that the General Partner will invest over several years. The partnership structure may cover periods of 10 years or more. IMRF understands and recognizes that the alternative asset class will not be structured in a way to provide short term cash flow needs for the Fund.

Exposure to dedicated non-U.S. strategies will be limited to 30% of the total alternative investment portfolio value plus unfunded commitments at the time of due diligence. Alternative investment managers may or may not hedge currency risk. The IMRF alternative portfolio will not implement currency hedges and accepts currency risks consistent with the geographic exposures of the underlying investments.

The maximum commitment to any direct alternative manager shall be 40% of the total alternatives portfolio value plus unfunded commitments at the time of due diligence.

Capital will be deployed to alternatives over an extended period of time and may take several years before reaching the current target.

Permissible alternative asset categories include but are not limited to:

- Agriculture
- Infrastructure
- Hedge funds
- Private equity investments
- Timber

Structures within these categories include but are not limited to:

- Separate accounts
- Commingled funds
- Limited Partnerships
- Limited Liability Companies
- Joint Ventures
- Co-Investments
  The Board may pre-approve co-investment opportunities at the time of the approval of an alternative investment fund. Staff will generally accept co-investment opportunities on a pro-rata basis under this scenario. If the General Partner offers a compelling and appropriate co-investment opportunity to IMRF which was not pre-approved, staff may present this opportunity to the Board for their approval.

<u>Internally Managed Assets</u>

F. Short-Term Investments

Permissible short-term investments include but are not limited to:

- U.S. Treasury Bills and Notes
- Commercial paper rated A-2 or P-2 or better as defined by a recognized rating service
- Repurchase Agreements
- Bankers Acceptances
- Certificates of Deposits
- Short Term Investment Fund (STIF) available through the Master Trustee

No more than $50 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.

VI. Selection of Investment Managers and Consultants

A. Selection of Investment Managers

1. Purpose

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

2. Philosophy

The Board recognizes the availability of qualified minority, female, and person with a disability owned business enterprises.

It is the policy of the Board to include qualified MFPDOB managers in the selection process and to objectively evaluate all qualified investment manager candidates regardless of race, gender or handicap.

All qualified investment manager candidates will be evaluated based 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 evaluating investment manager candidates.

3. Procurement Process

When a search is 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. 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.

An RFP process is not required to place additional assets with an investment management firm that already manages IMRF assets. Upon termination of a manager, assets may be placed with any appropriate investment management firm pending a decision for final disposition by the Board.

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 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 manager presentation related to the search recommendation.

IMRF staff shall refrain from communicating with the respondents regarding any product or service related to the search during the Quiet Period unless this communication is initiated by Staff for information related to the 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 and consultant 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.

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. Staff and consultant will make a recommendation to the Board or the Investment Committee of the Board. The Board will consider the recommendation from staff and consultant and determine if the award of a mandate will be made.

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 (MFPDOB) in the report presented to the Investment Committee. The most qualified MFPDOB candidate(s) will be invited to present to the Board or the Investment Committee of the Board. Staff and consultant must specify the reason when these firms are not included in the recommendation.

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.

8. Website Postings required by Section 1-109.1 and Section 1-113.14 of the Illinois Pension Code.

Upon execution of an investment management agreement, a summary of the contract will be posted on the IMRF website in the Investments portal under Investment Managers. Results of manager searches conducted by RFP will be posted under Business Opportunities. Investments made without a formal RFP will be posted under Business Opportunities and shall name the person(s) authorizing the procurement and the reason for the exception.

B. 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. 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 by staff based on the investment consultant services needed. 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. An RFP will be done every 5 years as required by Section 1-109.1.

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 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 Consultant presentation related to the search recommendation.

IMRF Staff shall refrain from communicating with the respondents regarding any product or service related to the search during the Quiet Period unless this communication is initiated by Staff for information related to the 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 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 make a recommendation to the Investment Committee during a public meeting of the Investment Committee.

The Investment Committee will consider Staff's recommendation 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 included in the recommendation.

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, as required by Illinois Section 1-109.1.

VII. 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.

Appendix A

Definitions

Core Fixed Income: A fixed income portfolio that closely tracks the broad publicly traded fixed income market with a focus on current income generation while protecting capital. The most common benchmark for a core fixed income portfolio is the Barclay's Capital US Aggregate Index. Common metrics such as yield, duration, etc. are typically held with within a tight range of the index.

Core Plus Fixed Income: A fixed income portfolio in which the majority of the portfolio tracks the broad publicly traded fixed income market, and a portion of the portfolio is allocated to higher risk sectors or securities which are not typically found in the broad fixed income market indices. Examples include, but are not limited to, Non-US Debt, Global Debt, Emerging Market Debt, High Yield, etc.

Hedge Funds: A private, actively managed investment fund that seek to provide returns to their investors by investing in a diverse range of markets, investment instruments and strategies. Most common strategies include: long/short equity, event driven, credit, relative value, macro and opportunistic.

Infrastructure: Refers to assets and services that a society requires to operate its economy including both economic assets and social assets. Economic infrastructure includes, but is not limited to roads, airports, regulated utilities, power generation and cell towers. Social infrastructure includes but is not limited to hospitals, schools, and waste management. Investments in infrastructure tend to have high barriers to entry, relatively stable and predictable cash flows often linked to inflation, long lifespans and low demand elasticity.

NCREIF Property Index: A quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors - the great majority being pension funds. As such, all properties are held in a fiduciary environment.

NCREIF-ODCE: A capitalization-weighted, gross of fee, time-weighted return index with an inception date of December 31, 1977. Index returns are calculated on a leveraged basis and are reported at the fund level. As of September 30, 2014, the NFI-ODCE was composed of 34 open-end commingled funds pursuing a core investment strategy.

Opportunistic Fixed Income: A specific type of Non-Core Fixed Income portfolio which attempts to exploit the inefficiencies of one particular market or niche. Examples include, but are not limited to, Convertible Bonds, Mortgage Arbitrage, Distressed, etc. An opportunistic fixed income portfolio may also tactically allocate between various sectors of the fixed income market to generate alpha.

Private Equity: Refers to companies that are not quoted on the stock exchange. Investments are typically illiquid in nature. Ownership consists of limited partnership interest. Most common strategies include: venture capital, growth capital, leveraged buyouts, distressed investments, special situations and mezzanine capital.

Appendix B

Proxy Voting Policy

Objectives
The IMRF Board of Trustees acknowledges that proxies are a significant and valuable tool in corporate governance and therefore have economic value. The Fund recognizes its fiduciary responsibility and commits to managing its proxy voting rights with the same care, skill, prudence and diligence as is exercised in managing its other assets. In accordance with the "exclusive benefit rule" the primary objective is to act solely in the economic interest of the Fund's members and beneficiaries and vote with the intent to maximize the long-term value of IMRF's investments. Through its proxy voting policy, IMRF supports management and board of directors who act in the best interest of shareowners by promoting corporate accountability, financial transparency and responsibility.

Delegation
The responsibility for voting IMRF's domestic proxies is delegated to IMRF investment staff. Staff utilizes a third party proxy voting advisor to vote domestic proxies in accordance with the IMRF proxy voting policy. Staff retains the ability to manually vote any proxy at all times.

The responsibility for voting IMRF's international proxies is delegated to IMRF's international investment managers for their respective mandates. Each international investment manager must vote in accordance with the IMRF proxy voting policy and use reasonable judgment as a fiduciary to IMRF.

Monitoring and Reporting
Staff reports on the proxy voting program to the Board annually.

The third party proxy voting advisor must maintain records of any domestic proxy votes cast and allow staff access to the records through its online platform.

International investment managers with the responsibility to vote on behalf of IMRF must maintain records of any proxy votes cast and provide reports at least quarterly and upon request.

Securities out on Loan
IMRF utilizes a securities lending program and securities may be out on loan during the time when proxies must be voted. Recalling loaned securities for proxy voting purposes is an exception rather than the general rule and will only be utilized when the CIO determines that the proxy voting issue clearly outweighs the cost of recalling the security.

Loaned securities held by an international investment manager will be recalled for purposes of voting proxies only when the international investment manager determines there is a significant reason to recall the loan in order to vote the proxy.

Case-by-Case Exceptions
Case-by-case exceptions are proxy issues that are not addressed by IMRF's proxy voting policy. When these exceptions arise, staff will review the proposals, company recommendations and third party proxy voting advisor research and provide a voting recommendation to the CIO for final determination before voting the proxy.

Proxy Voting Guidelines
The following proxy voting guidelines provide the basis for staff, an international investment manager or a designated third party proxy voting advisor to vote IMRF's proxies. The IMRF proxy voting policy centers on issues relating to Corporate Governance; Compensation; Takeover Defenses; Capital Structure; Corporate Restructurings; Political Expenditures; and Routine Management Issues.

A. 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 (majority of votes cast in the previous year)

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

B. 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. annual advisory votes on executive compensation (management say on pay)

2. reasonable compensation plans included in management sponsored say on pay proposals for executives and directors*

3. reasonable compensation for directors

4. complete disclosure of executive and director compensation

5. 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

6. specified option holding periods for executives paid with stock options*

7. reasonable stock ownership requirements*

8. putting executive benefit agreements to a shareowner vote

9. putting supplemental retirement plans for executives to a shareowner vote

10. 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 shareholder value transfer*

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)

C. 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)

D. 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

E. 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.

F. 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.

G. Political Expenditures

IMRF believes that all political expenditures should be approved by the board of directors and disclosed to shareowners. IMRF will vote for proposals that require board approval and disclosure of all political expenditures.

H. 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.

Appendix C

Securities Lending Policy

Purpose
The IMRF Board recognizes that lending securities can provide incremental income and directs that a securities lending program be operated by a third party on behalf of the Fund. IMRF's master trustee, Northern Trust, is the third party administrator of this program. IMRF's Securities Lending Policy governs the securities lending activities of the Fund. It applies to the lending of publicly traded securities directly owned by IMRF. It does not address securities held in commingled investments, which are not held solely by IMRF.

Objectives
The objectives of the securities lending program are to:

- Safely generate income from lending the Fund's securities to qualified borrowers;
- Ensure that income generated from securities lending is sufficient to justify the risk associated with counterparty borrowers and the investment of cash and non-cash collateral;
- Minimize risk to a reasonable and acceptable level with respect to both the broker/borrower and the collateral;
- Ensure that the operation of the securities lending program will not interfere with overall portfolio management activities.

Securities Lending Program Overview
Securities lending occurs when a security is transferred from IMRF to a borrower, such as a broker-dealer or bank, for cash or non-cash collateral pursuant to an agreement to return the identical security in the future. Securities are borrowed for a variety of reasons including: settlement of short sales; covering hedges, options, arbitrage positions; and settlement fails. Consequently, the borrower receives custody of the transferred security and has the right to resell it. The borrower, however, is obligated to return an identical security (comparable security in fixed income lending) at the end of the loan period and make IMRF whole for dividends, interest, and other distributions received during the borrowing period. IMRF, as lender, is obligated to return the collateral and a portion of the interest earned on collateral (known as rebate amount) to the borrower.

Staff Responsibilities

1. Staff is responsible for monitoring the third party securities lending program administrator.

2. On an annual basis, Staff will meet with the third party securities lending program administrator to review the securities lending program. Staff will make recommendations to the Chief Investment Officer as necessary.

3. If deemed necessary by the Chief Investment Officer and Consultant, recommendations regarding a third party securities lending program administrator will be presented to the Board for their approval.

4. Monitor the daily cash collateral levels against margin requirements for the US (102%) and International (105%).

5. Ensure that all income and fees directly attributable to the securities lending program are posted to the Fund's cash flow account.

6. Instruct the third party securities lending program administrator to recall a specific security when necessary.

Risk Management

IMRF utilizes a third party securities lending program administrator to invest cash collateral and manage counterparty risk.

a. <u>Cash Reinvestment Risk</u>

The primary risk associated with securities lending is the risk that the principal and earnings of the invested cash collateral will not be sufficient to cover the rebate amount owed to the borrowers by IMRF.

Cash reinvestment risk is mitigated by prudently investing cash collateral received.

The key investment goals for investing cash collateral are to: a) safeguard principal; b) maintain adequate liquidity; and c) optimize the spread between the collateral earnings and the rebate paid to the borrowers.

b. <u>Counterparty Risk</u>

Counterparty risk is the risk that a borrowing broker will not return a loaned security.

This risk is mitigated and managed by activities such as monitoring the loan amount with each broker, holding excess collateral, marking collateral to market daily, and having indemnification from lending agents against borrower default, as appropriate. Northern Trust, as third party securities lending program administrator, is responsible for managing counterparty risk, and will only utilize borrowers that agree to acceptable make-whole or indemnification provisions in the event a borrower has failed to return the loaned securities within the standard settlement period.

The counterparty risk is assumed by the third party securities lending program administrator who will make IMRF whole in the event of a borrower default.

Reinvestment of Cash Collateral
Cash collateral will be invested by Northern Trust, the third party securities lending program administrator, in the Northern Trust Collective SL Core Short Term Investment Fund, on behalf of IMRF.

The third party securities lending program administrator's guidelines for investing cash collateral in Northern Trust's Collective SL Core Short Term Investment Fund are as follows:

1. Securities Loan Agreements shall be entered into with borrowers whose credit and expertise have been reviewed by the third party securities lending program administrator.

2. All security loans shall be collateralized by cash 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 third party securities lending program administrator:

(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 constant $1 Net Asset Value (NAV) short-term investment vehicle 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 Cash Collateral Fund may be invested in securities or instruments of any one issuer or obligor. Exceptions are as follows:

(i) 100% of the Cash Collateral Fund may be invested in obligation issued or guaranteed by the U.S. Government or its agencies/instrumentalities.

(ii) 25% of the Cash Collateral Fund 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 Cash Collateral Fund 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 Cash Collateral Fund 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 Cash Collateral Fund may be invested in each type of repo collateral. No more than 25% of the Cash Collateral Fund 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 Cash Collateral Fund.

(e) A maximum percentage of the Cash Collateral Fund which may be exposed to the risks of any one country shall be established from time to time by Agent.

Non-Cash Collateral
Non-cash collateral will be retained in a separate account for IMRF.

IMRF has instructed the third party securities lending program administrator to only accept U.S. Government Securities as non-cash collateral.

Investment Staff, in conjunction with the Consultant and the third party securities lending program administrator, will periodically review non-cash collateral types and determine if changes for eligible non-cash collateral are needed.

Appendix D

Securities Litigation Policy

Purpose
IMRF has a fiduciary duty to preserve trust assets to meet the retirement obligations to its members. Included in this duty is the obligation to recover losses in public securities as a result of corporate mismanagement and/or fraud. To preserve Fund assets, the Board has adopted this securities litigation policy to guide the Fund's involvement in securities litigation.

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. Decisions regarding securities litigation will be reviewed and approved by the Executive Director.

Monitoring
Securities fraud claims within the investment portfolio are monitored by qualified securities litigation legal service providers and a third party portfolio monitoring service provider.

The Fund's master trustee is responsible for monitoring and filing class action claims in all U.S. and Canadian based litigation settlements in which IMRF has an interest. For class action litigation in any country outside the U.S. and Canada, where the Fund's master trustee is not responsible for monitoring, IMRF will utilize a third party securities litigation legal service provider to represent IMRF. Decisions regarding non-U.S. based litigation will be made by the Chief Investment Officer in conjunction with the General Counsel, Investment Compliance Analyst, and Executive Director.

Case Identification
When the IMRF threshold level for estimated loss of $2.5 million is met, the securities litigation legal service provider will notify the General Counsel and the designated Investment Staff.

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 the General Counsel in conjunction with the Chief Investment Officer 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) If any applicant for lead plaintiff is an entity which appears to be of limited capability to effectively serve as class representative, the fund may seek to inform the court of its concerns, either formally or informally, or may support another applicant which appears to be more capable.

   (e) Seeking to control the litigation by applying for designation as lead plaintiff, either individually or with others.

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

Active Participation

1. The Chief Investment Officer and General Counsel will make a recommendation to the Executive Director for any course of action beyond filing claims and objecting to attorneys' fee petitions. The Executive Director will decide whether to approve actions beyond filing claims and objecting to fee petitions.

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.

Appendix E

Procedures for Amending Policy Statement

This statement of investment policy may be amended 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 conjunction with the Investment Consultant as necessary. The Chief Investment Officer is responsible for submitting necessary changes to the Board for approval.

The Statement of Investment Policy, Statement of Real Estate Investment Policy and Investment Committee Charter shall be reviewed annually.

Illinois Municipal Retirement Fund

Certification of Compliance

Illinois High Risk Home Loan Act

I, ___________________________, serving in the capacity of _______________________, on this ____ day of _______________, 2015, 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.
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)

Subscribed and sworn before me by ________________ on this ____ day of _______________, 2015.

____

Notary

*My Commission Expires:*___________________

(*Seal*)

(Firm)

State of _____________________)

County of ___________________)

Appendix G

Disclosures per Illinois Pension Code Section 1-113.21

Beginning January 1, 2015, section 1-113.21 of the Illinois Pension Code requires the following disclosure from the investment advisor, consultant or private market fund:

Name of investment advisor, consultant, or private market fund:

____

1. The number of its investment and senior staff and the percentage of its investment and senior staff who are (i) a minority person (ii) a female, and (iii) a person with a disability;

(If none, state "none")

Staff Classification	Number of Investment and Senior Staff Who Are	% Percentage of Investment and Senior Staff Who Are
Minority		
Female		
Person with a Disability		

2. The number of contracts, oral or written, for investment services, consulting services and professional and artistic services that the investment advisor, consultant, or private market fund has with (i) a minority owned business, (ii) a female owned business, or (iii) a business owned by a person with a disability; and

(If none, state "none")

Contracts	Number Contracts
Minority	
Female	
Person with a Disability	

The number of contracts, oral or written, for investment services, consulting services, and professional and artistic services the investment advisor, consultant, or private market fund has with a business other than (i) a minority owned business, (ii) a female owned business or (iii) a business owned by a person with a disability, if more than 50% of services performed pursuant to the contract are performed by (i) a minority person, (ii) a female, and (iii) a person with a disability.

(If none, state "none")

Contract	Number Contracts
Minority	
Female	
Person with a Disability	

INVESTMENT ADVISOR / CONSULTANT/ PRIVATE MARKET FUND:
Company Name:
Signature:
Printed Name
Title:
Dated:

Illinois Public Act 98-1022 website: http://www.ilga.gov/legislation/publicacts/98/PDF/098-1022.pdf

Definitions per Illinois Law

Illinois Legislation & Laws website: http://www.ilga.gov/

"Contract" means all types of [State] agreements, regardless of what they may be called, for the procurement, use, or disposal of supplies, services, professional or artistic services, or construction or for leases of real property where the [State] is the lessee, or capital improvements, and including renewals, master contracts, contracts for financing through use of installment or lease-purchase arrangements, renegotiated contracts, amendments to contracts, and change orders.

"Investment adviser", "investment advisor", or "investment manager" with respect to a pension fund or retirement system established under Illinois Code if the person:

(1) is a fiduciary appointed by the board of trustees of the pension fund or retirement system in accordance with Section 1-109.1;

(2) has the power to manage, acquire, or dispose of any asset of the retirement system or pension fund;

(3) has acknowledged in writing that he or she is a fiduciary with respect to the pension fund or retirement system; and

(4) is at least one of the following: (i) registered as an investment adviser under the federal Investment Advisers Act of 1940 (15 U.S.C. 80b-1, et seq.); (ii) registered as an investment adviser under the Illinois Securities Law of 1953; (iii) a bank, as defined in the Investment Advisers Act of 1940; or (iv) an insurance company authorized to transact business in this State.

"Minority person" means a person who is a citizen or lawful permanent resident of the United States and who is a member of a minority.

"Minority owned business" means a business concern which is at least 51% owned by one or more minority persons, or in the case of a corporation, at least 51% of the stock in which is owned by one or ore minority persons; and the management and daily business operations of which are controlled by one or more of the minority individuals who own it.

"Female owned business" means a business concern which is at least 51% owned by one or more females, or, in the case of a corporation, at least 51% of the stock in which is owned by one or more females; and the management and daily business operations of which are controlled by one or more of the females who own it.

"Business owned by a person with a disability" means a business concern that is at least 51% owned by one or more persons with a disability and the management and daily business operations of which are controlled by one or more of the persons with disabilities who own it. A not-for-profit agency for persons with disabilities that is exempt from taxation under Section 501 of the Internal Revenue Code of 1986 is also considered a "business owned by a person with a disability".