

City of Elmhurst, Illinois

Report By the Firefighters Pension Board to City Council

FY 2012

The board shall report to the city council of the municipality on the condition of the pension fund at the end of its most recently completed fiscal year. The report shall be made prior to the council meeting held for appropriating and levying taxes for the year for which the report is made.

The pension board in the report shall certify and provide the following information to the city council of the municipality:

- 1) The total assets of the fund and their current market value of those assets:

	FY 2012 Total Assets
Book Balance	\$ 26,382,632
Market Value	\$ 29,901,852

- 2) The estimated receipts during the next succeeding fiscal year from deductions from the salaries or wages of firefighters, and from all other sources:

	Est. FY 2013 Receipts
Employee Contributions	\$ 372,400
Interest Income	\$ 618,000
Property Taxes	\$ 1,279,770
Replacement Taxes	\$ 39,200

- 3) The estimated amount necessary during the fiscal year to meet the annual actuarial requirements of the pension fund as provided in Sections 4-118 and 4-120:

	Est. FY 2013 Obligations
Pension Payments	\$ 2,070,500
Annual Required Contribution	\$ 1,279,770

- 4) The total net income received from investment of assets along with the assumed investment return and actual investment return received by the fund during its most recently completed fiscal year compared to the total net income, assumed investment return, and actual investment return received during the preceding fiscal year:

	Current Fiscal Year (2012)	Prior Fiscal Year (2011)
Net Income	\$ 1,379,425	\$ 2,915,978
Actual Investment Return	4.83%	11.34%
Assumed Investment Return	7.25%	7.25%

- 5) The increase in employer pension contributions that results from the implementation of the provisions of this amendatory Act of the 93rd General Assembly (PA 93-0689);

Estimated employer pension contribution increase \$ 63,989

- 6) The total number of active employees who are financially contributing to the fund:

FY 2012 total number of employees financially contributing to fund 44

- 7) The total amount that was disbursed in benefits during the fiscal year, including the number of and total amount disbursed to (i) annuitants in receipt of a regular retirement pension, (ii) recipients being paid a disability pension, and (iii) survivors and children in receipt of benefits:

	Amount	Number
Regular Retirement Pensions	\$ 1,517,071	29
Disability Pensions	\$ 95,378	3
Survivor/Children Pensions	\$ 233,387	8
Total Pension Benefit Payments	\$ 1,845,836	40

- 8) The funded Ratio of the fund:

FY 2012 Funded Ratio 72.06%

- 9) The unfunded liability carried by the fund, along with an actuarial explanation of the unfunded liability:

FY 2012 Unfunded Liability \$ 11,596,703

The accrued liability is the actuarial present value of the portion of the projected benefits that has been accrued as of the valuation date based upon the actuarial valuation method and the actuarial assumptions employed in the valuation. The unfunded accrued liability is the excess of the accrued liability over the actuarial value of assets.

- 10) The investment policy of the pension board under the statutory investment restrictions imposed on the fund:

See attached

CERTIFICATION OF MUNICIPAL FIREFIGHTERS PENSION FUND COMPLIANCE REPORT

The Board of Trustees of the Firefighters Pension Fund, based upon information and belief, and to the best of our knowledge, hereby certify pursuant to §4-134 of the Illinois Pension Code 40 ILCS 5/4-134, that the preceding report is true and accurate.

Adopted this 11 day of November, 2012

President Richard R. Leeman

Date 11/7/12

Secretary Michael Carceto

Date 11/7/12

ELMHURST FIREFIGHTERS PENSION FUND INVESTMENT POLICY

PURPOSE AND OBJECTIVE

The investment of pension funds is the responsibility of the members of the Board of Trustees of the **Elmhurst Firefighter's Pension Fund** (Pension Board). The purpose of this investment policy is to indicate a conscious, formal effort by the Pension Board to develop, implement and monitor the investment of pension funds. It shall be considered an important means to communicate the Pension Board's policy views on management of pension funds to the public, participants, and beneficiaries of the **Elmhurst Firefighter's Pension Fund** (Fund).

The Pension Board has a fiduciary responsibility to discharge their duties with respect to the pension fund solely in the interest of the participants and beneficiaries as set forth in the Illinois Pension Code at 40 ILCS 5/1-109.

Safety of principal is the foremost objective of the Pension Fund. Each investment transaction shall seek to first ensure that large capital losses are avoided whether they are from securities defaults or erosion of market value. The Pension Board seeks to attain market rates of return on its investments consistent with constraints imposed by its safety objectives, cash flow considerations and Illinois state laws that restrict the placement of public funds.

All participants in the investment process shall seek to act prudently as custodians of pension funds. Investment officials shall avoid any transactions that might reasonably impair Fund participant's confidence in the Pension Board's ability to manage the Fund.

The assets shall be sufficiently liquid to meet the Fund's disbursement requirements for the payment of operating expenses and benefits.

RESPONSIBILITY

Management of the investment program is the responsibility of the Pension Fund Board of Trustees. No person may engage in an investment transaction except as provided under terms of this policy established by the Pension Board. The Pension Board may appoint an investment manager (as defined in 40 ILCS 5/1 - 101.4) to assist in the management of the investment program. Any such appointment shall be made in accordance with the requirements of Section 1-113.5 of the Illinois Pension Code (40 ILCS 5/1-113.5). The investment manager shall acknowledge, in writing, that it is a fiduciary with respect to the Pension Fund. Any such written agreement shall be attached to this policy.

The Pension Board will meet with the investment manager at least quarterly to review market conditions, review the investment portfolio, and determine investment strategy. The Treasurer of the Pension Fund is responsible for ensuring that all investment transactions undertaken are consistent with the Fund's investment strategy.

PRUDENCE

Investments shall be made with judgment and care, under circumstances prevailing, which person of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the primary objective of safety as well as the secondary objective of the attainment of market rates of return. The standards of prudence to be used by investment officials shall be the "Prudent Person" and shall be applied in the context of managing the portfolio.

PROHIBITED TRANSACTIONS

A Fiduciary with respect to the Fund shall not:

1. Deal with the assets of the Fund in their own interests or for their own account.
2. In their individual or other capacity act in any transaction involving the Fund on behalf of a party whose interests are adverse to the interests of the Fund or the interests of its participants or beneficiaries.
3. Receive any consideration for their own personal account from any party dealing with the Fund in connection with a transaction involving the assets of the Fund.

INVESTMENT INSTRUMENTS

The Fund may invest in any type of investment instrument permitted by Illinois law, as described in Chapter 40 of the Illinois Compiled Statutes, 40 ILCS 5/1-113.1 through 113.4. Permitted investment instruments include, but are not limited to:

1. Interest bearing direct obligations of the United States of America.
2. Interest bearing obligations to the extent that they are fully guaranteed or insured as to payment of principal and interest by the United States of America.
3. Interest bearing bonds, notes, debentures, or other similar obligations of agencies of the United States of America. For the purposes of this section, "Agencies of the United States of America" include:
 - a. The Federal National Mortgage Association and the Student Loan Marketing Association
 - b. Federal Land Banks, Federal Intermediate Credit Banks, Federal Farm Credit Banks, and any other entity authorized to issue direct debt obligations of the United States of America under the Farm Credit Act of 1971 or amendments to

that Act

- c. Federal Home Loan Banks and the Federal Home Loan Mortgage Corporation
 - d. Any agency created by Act of Congress that is authorized to issue direct debt obligations of the United States of America.
4. Interest bearing savings accounts or certificates of deposit, issued by federally chartered banks or savings and loan associations, or by State of Illinois chartered banks or savings and loan associations, to the extent that the deposits are insured by agencies or instrumentalities of the federal government.
 5. Interest bearing bonds of the State of Illinois.
 6. Pooled interest bearing accounts managed by the Illinois Public Treasurer's Investment Pool in accordance with the Deposit of State Moneys act, interest bearing funds or pooled accounts of the Illinois Metropolitan Investment Funds, and interest bearing funds or pooled accounts managed, operated, and administered by banks, subsidiaries of banks, or subsidiaries of bank holding companies in accordance with the law of the State of Illinois.
 7. Interest bearing bonds or tax anticipation warrants of any county, township, or municipal corporation of the State of Illinois.
 8. Direct obligations of the State of Israel.
 9. Money Market Mutual Funds managed by investment companies that are registered under the Federal Investment Company Act of 1940 and the Illinois Securities Law of 1953 and are diversified, open-ended management investment companies; provided that the portfolio of the money market mutual fund is limited to:
 - a. Bonds, notes, certificates of indebtedness, treasury bills, or other securities that are guaranteed by the full faith and credit of the United States of America as to principal and interest.
 - b. Bonds, notes, debentures, or other similar obligations of the United States of America or its agencies.
 - c. Short term obligations of corporations organized in the United States with assets exceeding \$400,000,000, provided that i) the obligations mature no later than 180 days from the date of purchase, ii) at the time of purchase, the obligations are rated by at least 2 standard national rating services at one of their 3 highest classifications, and iii) the obligations held by the mutual fund do not exceed 10% of the corporation's outstanding obligations.
 10. Not to exceed 10% of the portfolio; any combination of separate accounts that are managed by life insurance companies authorized to transact business in Illinois and are comprised of diversified portfolios consisting of common or preferred stock, bonds or money market instruments or mutual funds that meet the following requirements:

- a. The mutual fund is managed by an investment company as defined and registered under the Federal Investment Company Act of 1940 and registered under the Illinois Securities Law of 1953.
 - b. The mutual fund has been in operation for at least five years.
 - c. The mutual fund has total net assets of \$250 million or more.
 - d. The mutual fund is comprised of diversified portfolios of common or preferred stocks, bonds, or money market instruments.
11. Corporate bonds, managed through an investment advisor, and the bonds meet the following requirements:
 - a. The bonds must be rated as investment grade by one of the two largest rating services at the time of purchase.
 - b. If subsequently downgraded below investment grade, the bonds must be liquidated from the portfolio within 90 days after being downgraded by the manager.
12. In addition to the items listed above, a pension fund with net assets of \$2,500,000 or more may invest a portion of its net assets (not to exceed 35% of the market value of the pension fund's net present assets as stated in its most recent annual report on file with the Illinois Department of Insurance) in separate accounts that are managed by life insurance companies authorized to transact business in Illinois and are comprised of diversified portfolios consisting of common or preferred stock, bonds or money market instruments or mutual funds that meet the following requirements:
 - a. The mutual fund is managed by an investment company as defined and registered under the Federal Investment Company Act of 1940 and registered under the Illinois Securities Law of 1953.
 - b. The mutual fund has been in operation for at least five years.
 - c. The mutual fund has total net assets of \$250 million or more.
 - d. The mutual fund is comprised of diversified portfolios of common or preferred stocks, bonds, or money market instruments.
13. In addition to the above, a pension fund with net assets of \$5,000,000 or more and has appointed an investment adviser under Section 1-113.5, may invest in common and preferred stocks that meet the following requirements:
 - a. The common stocks are listed on a national securities exchange or board of trade or quoted in the NASDAQSNM System.
 - b. Stocks of U.S. Corporations that have been in existence for 5 years.
 - c. The corporation has not been in arrears on payment of dividends on its preferred stock during the preceding 5 years.
 - d. Market value of stock in any one corporation does not exceed 5 % of cash and invested assets of pension fund.
 - e. Stock in any one corporation does not exceed 5% of the total outstanding stock of that corporation.

- f. The straight preferred stocks or convertible preferred stocks are issued or guaranteed by a corporation whose common stock qualifies for investment by the board.

The Fund's investment in the above equity investments shall not exceed 35% of the market value of the pension fund's net present assets stated in its most recent annual report on file with the Illinois Department of Insurance.

14. In addition to the above, a pension fund with net assets of \$10,000,000 or more and has appointed an investment adviser under Sections 1-101.4 and 1-113.5, may, through that investment adviser, invest an additional portion of its assets in common and preferred stocks and mutual funds that meet all of the requirements outlined in # 12 and #13 above.

The Fund's investment in the above equity investments shall not exceed 50% effective July 1, 2011 and 55% effective July 1, 2012 of the market value of the pension fund's net present assets stated in its most recent annual report on file with the Illinois Department of Insurance.

The Board of Trustees may register the investments of the Fund in the name of the Pension Fund, in the nominee name of a bank or trust company authorized to conduct trust business in Illinois, or in the nominee name of the Illinois Public Treasurer's Investment Pool.

PERFORMANCE MEASUREMENTS

Performance will be calculated using professional standards as established by the Association for Investment Management Research. The Pension Board shall utilize the following benchmarks for evaluating the Fund's performance:

<u>Application</u>	<u>Benchmark</u>
Cash Equivalents	90 - day U.S. Treasury Bills
Fixed Income (excludes Corporate Bonds)	B of A Merrill Lynch Treasury/Agency Index
Corporate Bond	B of A Merrill Lynch 1-10 Year Corporate
Large Capitalization Equities	Standard & Poor's 500 Stock Index
Mid Capitalization Equities	Standard & Poor's 400 Stock Index
Small Capitalization Equities	Russell 2000 Stock Index
International Equities (includes developed and emerging markets)	Morgan Stanley Capital International Europe/Australia/Far East Index

CONTROLS

The Fund maintains its books and records in conformance with generally accepted accounting principles. The internal controls shall be established by the Treasurer and reviewed by the Pension Board and an independent auditor. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by employees and officers of the Pension Board.

DIVERSIFICATION / STRATEGY

Fixed Income:

The average maturity/duration of the portfolio will be managed based upon the current existing interest rate environment. Under most circumstances the maturity/modified duration of the portfolio will be maintained at approximately 5.0 years and will range from 2.0 years to 7.0 years. This type of strategy will result in increasing the maturity/duration of the portfolio when interest rates are rising and decreasing the maturity/duration of the portfolio if interest rates are declining. The investment manager may change the duration of the portfolio as the market conditions permit.

The allocation guidelines, by asset class, for the fixed income investments are as follows:

	<u>Normal Allocation 3</u>	<u>Range of Allocation</u>
Cash, Money Market, IPTIP accounts: 1	0%	0 - 10%
Bank Certificates of Deposit: 2	0%	0 - 10%
U.S. Treasury Securities:	10%	0 - 40%
U.S. Government Agency Securities:	50%	0 - 75%
U.S. Government Agency MBS's:	0%	0 - 20%
Taxable Municipal Securities:	10%	0 - 20%
Corporate Bonds:	30%	0 - 50%

Notes:

1. Cash will be maintained to manage cash flow of the Fund or as a transition asset.
2. Bank certificates of deposit will only be used if market returns are favorable. They will be used as a substitute for the Treasury and Agency portion of the portfolio.
3. Under normal market conditions the structure of the portfolio will be within these limits; however the portfolio manager may diverge from the above suggestions due to abnormal market conditions.

Equities:

Once the fund reaches the equity allocation approved by the Board and permitted by law, normal asset allocation range for equity portfolio allocation weightings should be:

	<u>Normal Allocation</u>		<u>Range of Allocation</u>
U.S. Large Company Stocks	65%	+/-	30%
U.S. Mid-Sized Company Stocks	10%	+/-	10%
U.S. Small Company Stocks	10%	+/-	10%
Foreign Stocks	15%	+/-	15%

Portfolio allocations should be rebalanced at least annually at the end of the fiscal year or when the portfolio allocation to equities rises above the limit established and confirmed at each board meeting.

COLLATERALIZATION - It is the policy of the Fund to require that all deposits in excess of FDIC insurable limits (applies to bank Certificates of Deposit) be secured by collateral in order to protect deposits from default.

1. Eligible collateral instruments and collateral ratios (market value divided by deposit) are as follows:

a.	U.S. Government Securities	= 110%
b.	Obligations of Federal Agencies	= 115%
c.	Obligations of the State of Illinois	= 115%
d.	Local and Municipal Bonds rated "A" or better by Moody's	= 115%

The ratio of fair market value of collateral to the amount of funds secured shall be reviewed at least quarterly and additional collateral shall be requested when the ratio declines below the level required.

2. Safekeeping of collateral

- a) Third party safekeeping is required for all collateral. To accomplish this, the securities can be held at the following locations:

1. A Federal Reserve Bank or branch office.
2. At another custodial facility - generally in a trust department through book-entry at the Federal Reserve, unless physical securities are involved. If physical securities are involved, at a third party depository in a suitable vault and insured against loss by fire, theft and similar causes.

- b) Safekeeping of collateral shall be documented by a written agreement approved by the Treasurer. This may be in the form of a safekeeping agreement, trust agreement, escrow agreement or custody agreement.
- c) Substitution or exchange of securities held in safekeeping as collateral may occur without prior written notice to the Treasurer provided that the market value of the replacement securities are equal to or greater than the market value of the securities being replaced. The Treasurer shall be notified in writing within two days of all substitutions.

CUSTODY AND SAFEKEEPING OF INVESTMENTS

1. Third party safekeeping is required for all securities owned by the Fund. To accomplish this, the securities shall be held in a trust department through book-entry at the Depository Trust Company.
2. Safekeeping shall be documented by an approved written agreement. The agreement may be in the form of a safekeeping agreement, trust agreement, escrow agreement or custody agreement. Fees for this service shall be mutually agreed upon by the Pension Board and the safekeeping bank.

ETHICS AND CONFLICTS OF INTEREST

Any fiduciary with respect to the Fund shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

INDEMNIFICATION

Pension Board members, investment officers, and the Treasurer acting in accordance with this Investment Policy and such written procedures as have been or may be established, in relation thereto, and exercising due diligence, shall be relieved of personal liability for an individual security's credit risk or market changes.

REPORTING

On a monthly basis, the Treasurer shall submit to the Pension board an investment report which shall describe the portfolio in terms of investment securities, maturity, cost, transactions and earnings for the current period. The Treasurer shall also submit a comprehensive annual report on the investment program and activity.

MEETING SCHEDULE

The Board shall schedule periodic meetings for the purposes of portfolio and investment performance review. Special meetings may be called as needed to conduct the business of the pension Board.

AUDIT

The Fund is subject to periodic examination by the Illinois Department of Insurance.

DEFINITIONS

Beneficiary - person eligible for or receiving benefits from a pension fund.

Book Entry Security - securities that can be transferred from institution to institution using the federal electronic wire system, thus eliminating the physical transfer of certificates. Records are maintained on a computer system at the Federal Reserve.

Collateral - the pledging of a security to guarantee performance of an obligation.

Commercial Paper - unsecured promissory notes of corporations issued for 270 days or less.

Fiduciary - person entrusted with the control of assets for the benefit of others.

Investment Manager - an individual or organization that provides investment management services for a fee, either on a discretionary or nondiscretionary basis. Under Illinois law, an investment manager is considered a fiduciary with respect to the Fund.

IL Funds (also known as the Illinois Public Treasurers' Investment Pool) - a short-term money market fund for public funds in Illinois.

Market Value - the present price of a given security.

B of A Merrill Lynch Corporate 1-10 Year Index - benchmark index based upon publicly issued intermediate corporate debt securities.

B of A Merrill Lynch Treasury Index - benchmark index that quantifies the price and yield performance of all U.S. Treasury obligations with a maturity of at least one year and an outstanding par value of at least \$100 million. The securities comprising the index are rebalanced on a daily basis.

B of A Merrill Lynch US Treasury/Agency Index: The U.S. Government/Agency Index tracks the performance of the combined U.S. Treasury and U.S. Agency Markets. It includes U.S. dollar- denominated U.S. Treasury and U.S. Agency Bonds, issued in the U.S. domestic bond

market, having at least one year remaining term to maturity, a fixed coupon schedule and a minimum amount outstanding of \$1 Billion for U.S. Treasuries and \$150 Million for U.S. Agencies. The index is re-balanced on the last calendar day of the month.

Morgan Stanley Capital International (EAFE) - Indices are based on the share prices of approximately 1,600 companies listed on stock exchanges in the twenty-two countries that make up the MSCI National Indices.

Return - the profit or interest as payment for investment.

Russell 2000 Stock Index - is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 11% of the Russell 3000 total market capitalization. The Index was developed with a base value of 135.00 as of December 31, 1986.

Security - any note, stock, bond, certificate of interest or certificate of deposit.

Separate Account - term used of variable annuities. Because the risk is borne by the investor in a variable annuity, the issuer may not commingle funds invested in the variable annuity with the general funds of the issuer.

Standard & Poor's 400 Midcap Stock Index - is comprised of 400 stocks chosen for market size, liquidity and industry group representation. All stocks within the S & P 500 are not eligible for inclusion.

Standard & Poor's 500 Stock Index - is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The index was developed with a base level of 10 for the 1941-43 base period.

Treasury Bill - short-term debt obligation of U.S. government which will mature within ten years at the time of original issuance.

Treasury Bond - longer debt obligations of U.S. government which will mature in ten years or longer at the time of original issuance.

Yield - percentage measured by taking annual interest from an investment and dividing by current market value.

AMENDMENT

The Board shall review this Policy periodically to ensure its effectiveness in meeting the Pension Fund's needs for safety, liquidity, rate of return, and diversification, and its general performance. Any changes shall be presented to the Pension Board for its approval. Whenever this policy is amended, the Board shall file a copy of the new policy with the Illinois Department of Financial and Professional Regulation within thirty (30) days.

CONFLICT


In the event of any conflict between this Policy and the Illinois Compiled Statutes or case decisions of the State of Illinois, the Statutes and case law decisions shall govern.

FILING OF POLICY; PUBLIC AVAILABILITY

The Board shall file this policy with the Illinois Department of Financial and Professional Regulation within thirty (30) days of its adoption. Pursuant to 30 ILCS 235/2.5(c), the Board shall make a copy of this Policy available to the public at the main administrative office of the Pension Fund.

ADOPTION

Adopted by the Elmhurst Firefighter's Pension Fund Board of Trustees, as amended, on this 16 day of February, 2011.



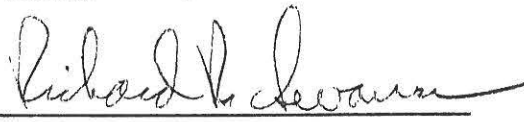
President



Trustee



Secretary



Trustee



Treasurer

Trustee