

BUFFALO GROVE FIREFIGHTERS PENSION FUND INVESTMENT POLICY

PURPOSE

The investment of pension funds is the responsibility of the members of the Board of Trustees of the Buffalo Grove Firefighters 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 Fund.

SCOPE

This policy governs the investment practices and applies to all financial transactions of the Buffalo Grove Firefighters Pension Fund (Pension Fund).

OBJECTIVES

The Pension Board has a fiduciary responsibility to discharge its duties with respect to the Pension Fund solely in the interest of the participants and beneficiaries as set forth in the Illinois Pension Code.

Preservation of Principal – Preservation of principal is the foremost objective of the Pension Board. Investment transactions shall seek to first ensure that large capital losses are avoided. Additionally, the objective of the Pension Board is to avoid erosion of principal resulting from securities defaults.

Return on Investments – The Pension Board seeks to attain or exceed market rates of return on investments consistent with constraints imposed by safety objectives, cash flow considerations and Illinois Laws that restrict the placement of public funds.

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

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

RESPONSIBILITY

Management of the investment program is the responsibility of the Pension Board. No person may engage in an investment transaction except as provided under terms of this policy established by the Pension Board.

The Treasurer of the Pension Fund shall be responsible for establishing internal controls and written procedures for the operation of the investment program. (30 ILCS 230/2.5(a)(7)).

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. The investment manager shall acknowledge, in writing, that he or she is a fiduciary with respect to the Pension Fund. Any such written acknowledgement shall be attached to this policy or included in the agreement between the Pension Board and the investment manager.

The Pension Board will meet with the investment manager quarterly to review market conditions and to determine investment strategy. This review will include analysis of the investment portfolio, its effectiveness in meeting the Pension Fund's needs for safety, liquidity, rate of return, and diversification, and its general performance.

PRUDENCE

The standard of prudence to be used by investment officials shall be the "prudent investor" and shall be applied in the context of managing the portfolio. Investments shall be made with the care, skill, prudence and diligence that a prudent

person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of like character with like aims.

PROHIBITED TRANSACTIONS

A Fiduciary with respect to the Pension Fund shall not:

1. Deal with the assets of the Pension Fund in his or her own interests or for his or her own account.
2. In their individual or other capacity effect any transaction involving the Pension Fund on behalf of a party whose interests are adverse to the interests of the Pension Fund or the interests of its participants or beneficiaries.
3. Receive any consideration for his or her own personal account from any party dealing with the Pension Fund in connection with a transaction involving the assets of the Pension Fund.
4. Knowingly cause or advise the Pension Fund to engage in an investment transaction when the fiduciary (i) has any direct interest in the income, gains, or profits of the investment advisor through which the investment transaction is made or (ii) has a business relationship with that investment advisor that would result in a pecuniary benefit to the fiduciary as a result of the investment transaction. (40 ILCS 5/1-110)

INVESTMENT INSTRUMENTS

The Pension 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 5/1-113.2 through 113.4a. 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.
 - 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. Corporate bonds managed through an investment advisor must meet all of the following requirements:
 - a. The bonds must be rated as investment grade by one of the 2 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.
5. 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.
6. Interest bearing bonds of the State of Illinois or interest bearing bonds or tax anticipation warrants of any county, township, or municipal corporation of the State of Illinois.

7. Pooled interest bearing accounts managed by the Illinois Public Treasurer's Investment Pool in accordance with the deposit of state moneys act.
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 or its agencies.
 - b. Bonds, notes, debentures, or other similar obligations of the United States of America or its agencies.
10. Not to exceed 10% of the portfolio, 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 requirement as outlined in item 11 below.
11. In addition to the items listed above, if the Pension Fund has net assets of \$2,500,000 or more it may invest a portion of its net assets in 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.
12. In addition to the items listed above, if the Pension Fund has net assets of \$5,000,000 or more it may invest a portion of its net assets in common and preferred stocks that meet the following requirements:
 - a. Investments made through an investment advisor with a written contract.
 - b. Stocks of U.S. Corporations that have been in existence for 5 years.
 - c. Corporations not in arrears in payment of dividends in the last 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 in the corporation.
 - f. Stocks listed on national securities exchange or quoted in NASDAQNMS.
13. In addition to the items in mentioned above, if the Pension Fund has net assets of at least \$10,000,000 may, through that investment adviser, invest an additional portion of its assets in common and preferred stocks and mutual funds.

If the Pension Fund has net assets of at least \$2,500,000 but less than \$10,000,000, the Pension Fund's investment in the above equity investments (# 10, 11 and 12) shall not exceed 45% 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.

If the Pension Fund has net assets of at least \$10,000,000, the Pension Fund's total investment in the above equity investments (#'s 10, 11 and 12) 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.

Investments of the Pension Fund will be registered in the name of the Pension Fund and placed with a custodian approved by the Pension Board so long as the custodian meets the requirements of state statutes.

PERFORMANCE MEASUREMENTS

Performance will be calculated using professional standards as established by the CFA Institute. The Pension Board shall include (but is not limited to) the following benchmarks for evaluating the Pension Fund's performance:

<u>Application</u>	<u>Benchmark</u>
Cash Equivalents	90 – day U.S. Treasury Bills
Fixed Income	Barclay's Capital Government Bond Index
Large Capitalization Equities	Standard & Poor's 500 Stock Index
Small Capitalization Equities	Russell 2000 Stock Index
International Equities	Morgan Stanley Capital International Europe/Australia/Far East Index

CONTROLS

The Pension Board maintains Pension Fund books and records in conformance with generally accepted accounting principals. Internal controls shall be reviewed by the Pension Board and may be reviewed by an independent auditor. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, 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 average maturity and 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 often result in increasing the maturity/duration of the portfolio when interest rates are rising and decreasing the maturity/duration of the portfolio when interest rates are declining. The investment manager may change the duration of the portfolio as market conditions permit.

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

	<u>Normal Allocation</u>	<u>Range of Allocation</u>
U.S. Treasury Bills/Notes/Bonds:	30%	0-100%
U.S. Government Agency Securities (non-MBS):	35%	0-70%
U.S. Government Agency Securities – Callable:	20%	0-30%
U.S. Government Agency Securities (MBS):	5%	0-10%
Taxable Municipal Securities:	10%	0-20%
Certificates of Deposit:	0%	0-20%
Investment Grade Corporate Bonds:	0%	0-30%

Under normal market conditions the structure of the portfolio will be within these limits. However, the portfolio manager may diverge from the above guidelines due to abnormal market conditions.

Equities:

Once the Pension Fund reaches the equity allocation approved by the Pension 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	70%	+/-	30%
U.S. Small Company Stocks	20%	+/-	20%
International Stocks	10%	+/-	10%

The Pension Fund asset allocation should be rebalanced at least annually when the equity allocation rises above the maximum allowable as a percentage of assets as defined by Illinois State Statute.

COLLATERALIZATION

Pension Fund assets may be invested in savings accounts or certificates of deposit of a national or state bank, even if fund assets on deposit in such institution will exceed federal deposit insurance or guarantee limits for invested principal and accrued interest, but only if the amount by which the fund's investment exceeds such insurance or guarantee limits is collateralized by the fund which shall be maintained and credited to the fund on the records of the custodial bank. The Pension Fund shall have a perfected security interest in such securities which shall be free of any claims to the rights to these securities other than any claims by the custodian which are subordinate to the Pension Fund's claims to rights to these securities.

CUSTODY AND SAFEKEEPING OF INVESTMENTS

1. Third party safekeeping is required for all securities owned by the Pension Fund. (40 ILCS 5/1-113.7)
2. Custody arrangements 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.

ETHICS AND CONFLICTS OF INTEREST

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

REPORTING

At least quarterly, 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 Pension Fund and its activity.

MEETING SCHEDULE

The Pension Board shall schedule periodic meetings for the purposes of portfolio and investment manager review. Special meetings may be called from time-to-time by the Pension Board.

AUDIT

The Pension Fund is subject to periodic examination by the Illinois Department of Insurance, Public Pension Division.

FILING

The Board shall file a copy of this policy with the Illinois Department of Insurance, Public Pension Division within thirty (30) days of its adoption. The Board shall make a copy of this Policy available to the public at the main administrative office of the Pension Fund. (40 ILCS 5/1-113.6; 30 ILCS 235/2.5(c))

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.

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 Pension Fund.

Market Value – the present price of a given security.

Barclay's Capital Government Bond Index - The Barclay's Capital Government Bond 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.

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 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 in one year or less at the time of original issuance.

Treasury Note – debt obligations of U.S. government which will mature in ten years or less 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.

Current Yield – percentage derived by taking annual interest from an investment and dividing by current market value.

AMENDMENT

This policy may be amended from time to time by the Pension Board.

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.

ADOPTION

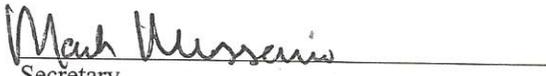
Adopted by the Buffalo Grove Firefighters Pension Fund Board of Trustees on this 27th day of JULY, 20 11



President

N/A

Treasurer



Secretary



Trustee



Trustee



Trustee