# Village of Carol Stream

# POLICE PENSION FUND INVESTMENT POLICY

1.0 **Policy:**

The fundamental goal of the Carol Stream Police Pension Fund is to provide retirement and other benefits to fund participants. As such, the Pension Fund Board of Trustees (Board) will invest fund assets solely in the interests of fund participants and beneficiaries for the exclusive purpose of providing retirement and other benefits to fund participants and beneficiaries. This criterion applies to specific investments and to the entire investment policy established by the Fund.

2.0 **Scope:**

This investment policy applies to the assets of the Police Pension Fund of the Village of Carol Stream.

3.0 **Prudence:**

Investments shall be made with 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. (Prudent Expert Rule)

3.1 The standard of prudence to be used shall be the "**prudent investment expert**" standard and shall be applied in the context of managing an overall portfolio. Pension Fund Trustees acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4.0 **Investment Philosophy:**

The Board believes that fund assets should be managed in a fashion that reflects the fund's unique liabilities and funding resources, incorporating accepted investment theory and related, empirical evidence. Specifically, the Board has adopted the following principles:

A. That Asset allocation is the key determinant of return and, therefore, commitments to asset allocation targets will be maintained through a disciplined rebalancing program.

B. That diversification, both by and within asset classes, is the primary control element.

C. That passive fund portfolios are suitable investment strategies, especially in highly efficient markets.

D. That "market timing" (defined as bringing an asset class below policy minimums) is precluded as an acceptable investment strategy.

5.0 **Goals and Objectives:**

For total fund assets, the goals are as follows:

A. To preserve the actuarial soundness of the fund in order to meet benefit obligations.

B. Long-term (one to two market cycles) rate of return, net of fees, in excess of the policy benchmarks.

C. The assets of the Fund shall be invested in a manner that is consistent with generally accepted standards of

fiduciary responsibility. The safeguards which would guide a prudent expert will be observed. All transactions undertaken on behalf of the Fund will be for the sole benefit of the participants and beneficiaries of the Fund.

D. The investment portfolio shall remain sufficiently liquid to meet all cash flow requirements that may be reasonably anticipated.

E. The investment program shall be operated in conformance with federal, state and other legal requirements.

## 6.0 **Delegation of Authority:**

Authority to manage the Village of Carol Stream Police Pension Fund's investment program is derived from the following:

The establishment of investment policies is the responsibility of the Police Pension Board (Board). Management and administrative responsibility for the investment program is the responsibility of the Board who has established written procedures for the operation of the investment program as defined in this policy. Included procedures are: safekeeping, delivery vs. payment, investment accounting, wire transfer agreements and collateral/depository agreements. Such procedures include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Board. The Board shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. The Board may from time to time amend the written procedures in a manner not inconsistent with this policy or with state statutes.

## 7.0 **Ethics and Conflicts of Interest:**

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Officers shall refrain from undertaking personal investment transaction with the same individual with whom business is conducted on behalf of their entity.

## 8.0 **Authorized Financial Dealers and Institutions:**

The Village Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness. All authorized firms must be "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except on a qualified public depository as established by state statutes.

Unless transacted by the Investment Manager, all financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Treasurer with the following:

- audited financial statements
- Proof of FINRA certification
- proof of state registration
- completed broker/dealer questionnaire
- certification of having read the Pension Fund's investment policy
- depository contracts

A periodic review of the financial condition and registration of qualified bidders will be conducted by the Treasurer.

9.0 **Authorized and Suitable Investments:**

The Fund may invest in any type of security allowed for in Illinois Compiled Statutes (40 ILCS 5/1-113.1-113.4a), as it may be amended from time to time include:

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" includes: (i) the Federal National Mortgage Association; (ii) 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 Acts of 1971 or amendments to that Act; (iii) federal home loan banks and the Federal Home Loan Mortgage Corporation; and (iv) 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, to the extent that the deposits are insured by agencies or instrumentalities of the federal government.
5) Interest bearing savings accounts or certificates of deposit, issued 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) Investments in credit unions, to the extent that the investments are insured by agencies or instrumentalities of the federal government.
7) Interest bearing bonds of the State of Illinois.
8) Pooled interest bearing accounts managed by the Illinois Public Treasurer's Investment Pool (Illinois Funds) in accordance with the Deposit of State Moneys Act 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 laws of the State of Illinois.
9) Interest bearing bonds or tax anticipation warrants of any county, township, or municipal corporation of the State of Illinois.
10) Direct obligations of the State of Israel, subject to the conditions and limitations of item (5.1) of Section 1-113.
11) 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 the following: (i) 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; (ii) bonds, notes debentures, or other similar obligations of the United States of America or its agencies; and (iii) short term obligations of corporations organized in the United States with assets exceeding $400,000,000, provided that (A) the obligations mature no later than 180 days from the date of purchase, (B) 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 (C) the obligations held by the mutual fund do not exceed 10% of the corporation's outstanding obligations.

12) General accounts of life insurance companies authorized to transact business in Illinois.

13) Any combination of the following, not to exceed 45% of the pension fund's net assets: (1) 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 stocks, bonds, or money market instruments; (2) separate accounts that are managed by insurance companies authorized to transact business in Illinois, and are comprised of real estate or loans upon real estate secured by first or second mortgages and (3) Mutual Funds that meet the following requirements: (i) the mutual fund is managed by an investment company and registered under the Federal Investment Company Act of 1940 and registered under the Ilinois Secuities Law of 1953; (ii) the mutual fund has been in operation for at least 5 years; (iii) the mutual fund has total net assets of $250 million or more, and; (iv) the mutual fund is comprised of diversified portfolio of common or preferred stocks, bonds, or money market instruments. (4) through an investment adviser, invest a portion of the assets in common and preferred stocks authorized for investments of trust funds under the laws of the state of Illinois. The stocks must meet all of the following requirements: (a) The common stocks are listed on a national securities exchange or board of trade (as defined in the federal Securities Exchange Act of 1934 and set forth in Section 3.G of the Illinois Securities Law of 1953) or quoted in the national Association of Securities Dealers Automated Quotation System National Market System (NASDAQN MS), (b) The securities are of a corporation created or existing under the laws of the United States or any state, district, or territory thereof and the corporation has been in existence at least 5 years, (c) The corporation has not been in arrears on payment of dividends on its preferred stock during the preceding 5 years, (d) the market value of stock in any one corporation does not exceed 5% of the cash and invested assets of the pension fund, and the investments in the stock of any one corporation do not exceed 5% of the total outstanding stock of that corporation, (e) the straight preferred stocks or convertible preferred stocks are issued or guaranteed by a corporation whose common stock qualifies for investment by the board, (f) the issuer of the stocks has been subject to the requirements of Section 12 of the federal Securities Exchange Act of 1934 and has been current with the filing requirements of Sections 13 and 14 of that Act during the preceding 3 years.

14) Corporate bonds managed through an investment advisor must meet all of the following requirements:

(1) The bonds must be rated as investment grade by one of the 2 largest rating services at the time of purchase.

(2) If subsequently downgraded below investment grade, the bonds must be liquidated from the portfolio by the managers within 90 days after being downgraded.

The fund's total investment in separate accounts and mutual funds shall not exceed 50% effective 7/11 and 55% effective 7/1/12 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.

Except for pecuniary interests permitted under subsection (f) of Section 3-14-4 of the Illinois Municipal Code or under Section 3.2 of the Public Officer Prohibited Practices Act, no person acting as treasurer or financial officer or who is employed in any similar capacity by or for a public agency may do any of the following:

- have any interest, directly or indirectly, in any investments in which the agency is authorized to invest.
- have any interest, directly or indirectly, in the sellers, sponsors, or managers of those investments.
- receive, in any manner, compensation of any kind from any investments in which the agency is authorized to invest.

Any public agency may also invest any public funds in a Public Treasurers' Investment Pool (Illinois Funds) created under Section 17 of the State Treasurer Act. Any public agency may also invest any public funds in a fund managed, operated, and administered by a bank, subsidiary of a bank, or subsidiary of a bank holding company or use the services of such an entity to hold and invest or advise regarding the investment of any public funds.

To the extent a public agency has custody of funds not owned by it or another public agency and does not otherwise have authority to invest such funds, the public agency may invest such funds as if they were its own. Such funds must be released to the appropriate person at the earliest reasonable time, but in no case exceeding 31 days, after the private person becomes entitled to the receipt of them. All earnings accruing on any investments or deposits made pursuant to the provisions of this Act shall be credited to the public agency by or for which such investments or deposits were made, except as provided otherwise in Section 4.1 of the State Finance Act or the Local Governmental Tax Collection Act, and except where by specific statutory provisions such earnings are directed to be credited to and paid to particular fund.

## 10.0 **Collateralization:**

It is the policy of the Fund and in accordance with the GFOA's Recommended Practices on the Collateralization of Public Deposits (attachment 1), the Fund requires that funds on deposit in excess of FDIC limits be secured by some form of collateral. The Fund will accept any of the following assets as collateral:

- Government Securities
- Obligations of Federal Agencies
- Obligations of Federal Instrumentalities
- Obligations of the State of Illinois

(The Fund reserves the right to accept/reject any form of the above named securities.)

The Fund also requires that all depositories that hold the Fund's deposits in excess of the FDIC limit must provide and sign a Collateralization Agreement (attachment 2).

The amount of collateral provided will not be less than 110% of the fair market value of the net amount of public funds secured. The ratio of fair market value of collateral to the amount of funds secured will be reviewed monthly, and additional collateral will be required when the ratio declines below the level required and collateral will be released if the fair market value exceeds the required level. Pledged collateral will be held in safekeeping, by an independent third party depository, or the Federal Reserve Bank of Boston designated by the Fund and evidenced by a safekeeping agreement. Collateral agreements will preclude the release of the pledged assets without an authorized signature from the Fund.

## 11.0 **Safekeeping and Custody:**

All fixed income security transactions entered into by the Fund shall be conducted on a delivery-verses-payment (DVP) basis. Securities will be held by one third party custodian designated by

the Treasurer and evidenced by safekeeping receipts plus any tri-party arrangements utilized by mutual funds and/or repurchase agreements.

12.0 **Diversification:**

In order to reduce the risk of default, the investment portfolio of the Fund shall not exceed the following diversification limits unless specifically authorized by the Board:

- No financial institution shall hold more than 40% of the Fund's investment portfolio, exclusive of U.S. Treasury securities in safekeeping.
- Monies deposited at a financial institution shall not exceed 75% of the capital stock and surplus of that institution.
- Deposits in the Illinois Public Treasurer's Investment Pool (Illinois Funds) shall not exceed 50% of the Fund's investment portfolio.
- Brokered certificates of deposit shall not exceed 25% of the Fund's investment portfolio.

13.0 **Equity Selection Criteria:**

The following criteria will be used in selecting an Equity Fund or investment consideration. Criteria may be added to, deleted from, or modified as agreed by the Board provided at a minimum all statutory requirements are met.

Equity selection criteria include style, manager longevity, fund longevity, MorningStar rating, net asset size, performance over comparable index, consistency of style, positive risk adjusted return and competitive fees.

- Style: The style will be consistent with the asset allocation mix as previously identified.
- Manager Longevity: The lead manager must have a minimum of five years managing the fund. Consistency of the underlying team should be documented.
- Fund Longevity: The fund must have been in existence for at least five years.
- Morningstar Rating: Four or Five star Morning-star rating.
- Net Asset Size: The net asset size of the individual equity fund must be at least $500,000,000.
- Consistency of Style: The fund must demonstrate a five-year consistency of style. Minimal "style drifting" will be accepted.
- Positive Risk Adjusted Return: The fund will demonstrate a five-year positive risk adjusted return.
- Competitive Fees: Annual expenses, consulting fees, front load, transaction costs and all other fees associated with the purchase and maintenance of the investment will be competitive as compared to like investment. All fees will be fully disclosed.

14.0 **Rebalancing Policy:**

The primary purpose of rebalancing is to ensure that the Fund adheres to its strategic asset allocation, which is the Fund's explicit statement of its investment approach. Secondly, historical analysis of portfolio returns when rebalancing is used indicates that rebalancing reduces volatility and may add modest value, in comparison to a similar portfolio that is not rebalanced.

To rebalance its portfolio cost-effectively, the Fund will carry out rebalancing in a hierarchical fashion. First, employee and employer contributions and withdrawals of cash will be used to maintain target allocations. Second, when capital distributions are required, income from dividends and interest payments will be used to re-establish target allocations. Third, manager securities will be liquidated from the over-funded manager(s) until the target allocations are met.

The Fund will review the portfolio annually for rebalancing and no more frequently than quarterly. Rebalancing shall be within the ranges as outlined in Section 12: Diversification.

15.0 **Internal Controls:**

The Board is responsible for establishing and maintaining an internal control structure designed to insure that the assets of the Fund are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of the control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits require estimates and judgments by management.

Accordingly, the Board shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record keeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members.
- Written confirmation of telephone transactions for investments and wire transfers
- Development of a procedure for making wire transfers

16.0 **Performance Standards:**

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. Portfolio performance should be compared to appropriate benchmarks on a regular basis. Over the investment horizon established in this statement, it is the goal to meet or exceed: The return of 50% Barclays Government Credit Index and 50% Russell 3000.

16.1 **Performance Benchmarks-Fixed:**

The fixed income assets shall be invested in one of two distinct strategies. (1) actively managed utilizing a professional money manager and (2) internally, utilizing a passive strategy that is managed per the policies and procedures established by the Board. The goal of the Board, over a market cycle, shall be to meet or exceed the returns of the Barclays Government Index.

16.2 **Performance Benchmarks - Equities:**

The goal of each investment manager mutual fund/separate account, over the investment horizon, shall be to:

1) Meet or exceed the market index, or blended market index, selected and agreed upon by the Trustees that most closely correspond to the style of investment management.
2) Display an overall level of risk in the portfolio which is consistent with the risk associated with the benchmark specified above. Risk will be measured by the standard deviation of quarterly returns.

17.0 **Investment Manager Performance Review and Evaluation:**

Performance reports generated by the Investment Consultant shall be compiled at least quarterly and communicated to the Trustees for review. The investment performance of total portfolios as

well as asset class components will be measured against commonly accepted performance benchmarks. Consideration shall be given to the investment objectives, goals and guidelines as set forth in this statement. The Trustees intend to evaluate the portfolio(s) over at least a three year period, but reserve the right to terminate a manager for any reason including the following:

- Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
- Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
- Significant qualitative changes to the investment management organization.

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

18.0 **Reporting:**

An investment report should be regularly provided to the Police Pension Board. The report will include the following:

- A listing of individual securities held at the end of the reporting period.
- Listing of investments by maturity date.
- The percentage of the total portfolio which each type of investment represents.
- The percentage of the total portfolio which each institution is holding.
- The percentage of the total portfolio broken down by defined maturity periods.
- Principal and type of investment by fund.

18.1 **Marking to Market:**

A statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that the minimal amount of review has been performed on the investment portfolio in terms of value and subsequent price volatility. Review should be consistent with the GFOA Recommended Practice on Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools (attachment 3).

19.0 **Investment Policy Adoption:**

The Fund's investment policy shall be adopted by resolution of the Carol Stream Police Pension Fund. This policy shall be reviewed on an annual basis and any modifications made thereto must be approved by the Police Pension Board and re-filed with the Department of Insurance.

Approved 04-20-11

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Village of Carol Stream Police Pension

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