

**STATEMENT OF INVESTMENT POLICY FOR THE  
CHAMPAIGN POLICE PENSION FUND  
(UPDATED October 2018)**

This document serves as the Statement of Investment Policy for the Champaign Police Pension Fund (“the Pension Fund”). This document is to be revised and updated periodically, as needed. The Pension Fund has been established by the City of Champaign, Illinois and is governed by the Statutes of the State of Illinois. It is a qualified tax-exempt trust designed to provide the Fund members and/or their beneficiaries a pension benefit at the time of retirement or incurred disability.

**Distinction of Responsibility**

Pursuant to the Illinois Pension Code and Illinois Public Funds Investment Act (30 ILCS 235/0.01), a Board of Trustees (“the Trustees”) has been established to oversee the operation of the Pension Fund. The Trustees are responsible for establishing asset allocation guidelines, selecting and monitoring investment managers to carry out the investment program, and monitoring the performance results for the Pension Fund on an on-going basis. The Trustees shall utilize a standard of care in accord with the “prudent person rule” when making decisions regarding the investments. Qualified investment managers retained by the Trustees will exercise discretion within the parameters set forth in these guidelines for the portfolio(s) they manage on behalf of the Fund (see Addendum A).

**Investment Policy**

In establishing investment policy for the Pension Fund, the Trustees have considered the long-term nature of the asset pool as well as the needs and desires of the participants. In addition, the Trustees considered the risk and return characteristics of the various asset classes available to institutional investors, and sought the guidance of outside consultants. The Trustees have established the target asset allocation and permissible percentage ranges shown in the table set forth below.

**Asset Allocation**

Asset Class	Minimum %	Target %	Maximum %
<b>Total Equity</b>	<b>45</b>	<b>64</b>	<b>65</b>
Domestic Equity	38	48	56
US Large Cap Core Equity	15	18	20
US Large Cap Growth Equity	15	18	20
US Mid Cap Value Equity	4	6	8
US Small Cap Growth Equity	4	6	8
International Equity	8	11	14
Real Estate Equity	0	5	10
<b>Total Fixed Income + Cash + Cash Equivalents</b>	<b>35</b>	<b>36</b>	<b>55</b>
US Fixed Income	35	36	55
Cash & Cash Equivalents	0	0	10

Minimums and maximums may not add up to 100%

\* In accord with the interpretation of the Illinois Pension Code, adopted by the Trustees, the book value of total equities, at time of the investment, may not exceed the following percentage of the market value of the Pension Fund provided in the most recent annual report on file with the Department of Insurance. (40 ILCS 5/1-113.4a and 5/1-113-10 et. Seg.)

### **Rebalancing**

The Independent Investment Consultant will review the asset allocation of the Pension Fund at least each quarter and when cash flows in excess of \$300,000 occur. The Independent Investment Consultant will coordinate with the Trustees to adjust the portfolio to comply with the guidelines above as necessary. The Trustees anticipate that the on-going natural cash flow needs of the Pension Fund (contributions and withdrawals) will be sufficient to maintain the allocation of the Pension Fund within policy guidelines under most market conditions.

### **Fee Disclosure**

All investment professionals contractually agree and shall provide, at least quarterly, full disclosure of direct and indirect fees, commissions, penalties, and any other compensation that may be received by the investment adviser, including reimbursement for expenses (40 ILCS 5/1-113.5). Rates of return will be provided to the Trustees net of all fees.

### **Investment Objective**

The primary objectives of the Fund are to: (a) earn the highest possible total return consistent with levels of risk prudent to the cash flow requirements of the Fund, and (b) to create a stream of investment returns to insure the systematic and adequate funding of actuarially determined benefits through contributions and professional management of the Fund assets.

The Pension Fund has been optimized to meet its actuarial assumed rate of return of 7.25%. The performance objective for the Pension Fund is to exceed, after investment management fees, a customized blended benchmark. To evaluate success, the Trustees will compare the performance of the Pension Fund to the actuarial assumed rate of return and the performance of a custom benchmark. This benchmark represents a historical passive implementation of the investment policy targets. The data for this benchmark will be rebalanced quarterly and consist of a weighted average of the investment policy targets, utilizing the appropriate quarterly performance of the market indices and weights of the indices as defined in the investment policy at the time of the performance measurement.

### **Diversification**

The Trustees understand their responsibility to diversify the Pension Fund. By investing the Pension Fund's assets in multiple asset classes and using outside investment managers with well-diversified portfolios, diversification accomplishes its goal of insulating the portfolio from the effects of substantial losses in any single security or sector of the market.

### **Proxy Voting**

The Trustees recognize that proxies are assets of the Pension Fund. The Trustees delegate the responsibility for voting proxies to each equity investment manager retained to manage the Pension Fund's assets. The Trustees will receive periodic reports from each equity investment manager for separate or commingled accounts acknowledging that they have voted the proxies.

## **Custody**

The Trustees will select a third party custodian to safe keep the assets of the Pension Fund. The custodian will comply with all of the provisions of the Illinois Pension Code relating to Custody of Investments (40 ILCS 5/1-113.7). Please see Addendum A for the current Custodian of the Pension Fund.

## **Portfolio Evaluation**

The Pension Fund will be evaluated by an Independent Investment Consultant on a quarterly basis. Written reports will be provided to the Trustees no later than 45 days after the end of each calendar quarter. The Investment Consultant will meet with the trustees on a quarterly basis to review any difference to the investment guidelines and analyze the performance and general liability structure of the Fund. The investment managers shall also provide written reports to the plan sponsor and consultant on a quarterly basis detailing performance for the most recent period as well as the current outlook of the equity and/or fixed income markets. If needed, the Independent Investment Consultant will assist the Trustees with the selection of investment managers and custodians. Please see Addendum A for the current Independent Investment Consultant of the Pension Fund.

## **Investment Manager Evaluation Terminology**

The following terminology has been devised to facilitate accurate communication between the Investment Manager, Investment Consultant, and the Plan Sponsor. Each term signifies a particular status with the Fund and any conditions which may require improvement. In each case, communication is made only after consultation with the Trustees of the Plan.

STATUS	DESCRIPTION
A. "In Compliance"	The investment manager is acting in full compliance with the Investment Policy Guidelines and is performing up to the expectations of the Fund.
B. "Alert"	The investment manager is notified of a difficulty in his/her performance (usually related to a benchmark, or volatility measure), change in investment characteristics or management style, or any other irregularities for the purpose of improving performance and investment discipline.
C. "On Notice"	The investment manager is notified of a concern with a continued problem in any of the above issues, which if not improved upon over a specific time frame (usually at least 2 quarters) may be cause for termination.
D. "Termination"	The Trustees have decided to terminate the manager, a letter has been sent on behalf of the Trustees and transition plans are in place.

## **INVESTMENT MANAGER GUIDELINES** **US Fixed Income Management**

This document contains the guidelines and restrictions that apply to the US fixed income managers of the Pension Fund (see addendum A). The investment managers shall, to the extent possible, comply with the dictates of Article III of the Illinois Pension Code, as amended. Upon discovering the security outside the parameters set forth in Article III of the Illinois Pension Code, the manager is required to sell the security immediately.

### **Permissible Fixed Income Investments**

1. The manager is expected to comply with all of the provisions of the Illinois Pension Code relating to Article 3 Pension Funds, specifically Sections 113.1, 113.2, 113.3, and 113.4a, relating to Permissible Investments (40 ILCS 5/1-113.2 et. Seg.). In accord with the applicable portions of the Pension Code, above referenced, the manager may invest in the following fixed income securities:
  - a) US Treasury Securities
  - b) Government Agencies (This includes bonds issued by the Federal National Mortgage Association, Student Loan Marketing Association, federal land banks, federal intermediate credit banks, entities allowed by the Farm Credit Act of 1971, federal home loan banks, Federal Home Loan Mortgage Association, and any other agency allowed by Act of Congress)
  - c) Bonds or tax anticipation warrants of any county, township, or municipal corporation of the State of Illinois, provided the issuer has received from a major credit rating agency, a quality rating of at least "AA"
  - d) Bonds issued by a corporation, provided the issuer has received from a major credit rating agency, a quality rating of at least "AA"
  - e) Certificates of Deposit
  - f) Money Market Mutual Funds (See 40 ILCS 5/113.2(11) for restrictions)
2. No single security should comprise more than 10% of the portfolio's overall allocation after accounting for price appreciation.
3. The manager may invest up to 10% of its portfolio in cash or cash equivalents.
4. The duration of the portfolio shall not be below 80% of the Barclays Capital Aggregate Intermediate Bond Index and shall not exceed 105% of the Barclays Capital Aggregate Intermediate Bond Index.

### **Investment Objective**

Over reasonable measurement periods (3 to 5 years), the Trustees expect the portfolio return to exceed that of the return of the Barclays Capital Aggregate Intermediate Bond Index.

For performance evaluation purposes, the manager returns will be calculated on an after-fee basis.

## **INVESTMENT MANAGER GUIDELINES** **US Large Capitalization Core Equity Management**

This document contains the guidelines and restrictions that apply to the US large capitalization core equity manager of the Pension Fund (see addendum A). The investment managers shall, to the extent possible, comply with the dictates of Article III of the Illinois Pension Code, as amended. Upon discovering the security outside the parameters set forth in Article III of the Illinois Pension Code, the manager is required to sell the security immediately.

### **Permissible Equity Investments**

1. The manager is expected to comply with all of the provisions of the Illinois Pension Code relating to Article 3 Pension Funds, specifically Sections 113.1, 113.2, 113.3, and 113.4a, relating to Permissible Investments (40 ILCS 5/1-113.4 et. Seg.).
2. The manager may invest up to 5% of its portfolio in cash or cash equivalents.
3. Private placements, venture capital, options, or financial futures may not be purchased. The purchase of securities on margin is prohibited.
4. No single security in the manager's portfolio will comprise more than 8% of its equity allocation at the time of purchase, nor will it be more than 10% of the equity allocation of the portfolio after accounting for price changes.
5. The account's equity managers will vote all proxies in the best long-term interest of the Pension Fund.
6. All interest and dividend payments must be swept on a daily basis into a short-term money market fund for redeployment.

### **Investment Objective**

Over reasonable measurement periods (3 to 5 years), the Trustees expect the portfolio return to exceed that of the return of the S&P 500 Index.

For performance evaluation purposes, the manager returns will be calculated on an after-fee basis.

**INVESTMENT MANAGER GUIDELINES**  
**US Large Capitalization Growth Equity Management**

This document contains the guidelines and restrictions that apply to the US large capitalization growth equity manager of the Pension Fund (see addendum A).

**Permissible Equity Investments**

1. This fund is governed by the guidelines and restrictions contained in its prospectus.
2. The fund must be primarily invested in US large cap growth equities.

**Investment Objective**

Over reasonable measurement periods (3 to 5 years), the Trustees expect the portfolio return to exceed that of the return of the Russell 1000 Growth Index.

For performance evaluation purposes, the manager returns will be calculated on an after-fee basis.

**INVESTMENT MANAGER GUIDELINES**  
**US Mid Capitalization Value Equity Management**

This document contains the guidelines and restrictions that apply to the US mid capitalization value equity manager of the Pension Fund (see addendum A).

**Permissible Equity Investments**

1. This fund is governed by the guidelines and restrictions contained in its prospectus.
2. The fund must be primarily invested in US mid cap value equities.

**Investment Objective**

Over reasonable measurement periods (3 to 5 years), the Trustees expect the portfolio return to exceed that of the return of the Russell Midcap Value Index.

For performance evaluation purposes, the manager returns will be calculated on an after-fee basis.

## **INVESTMENT MANAGER GUIDELINES** **US Small Capitalization Growth Equity Management**

This document contains the guidelines and restrictions that apply to the US small capitalization growth equity manager of the Pension Fund (see addendum A). The investment managers shall, to the extent possible, comply with the dictates of Article III of the Illinois Pension Code, as amended. Upon discovering the security outside the parameters set forth in Article III of the Illinois Pension Code, the manager is required to sell the security immediately.

### **Permissible Equity Investments**

1. The manager is expected to comply with all of the provisions of the Illinois Pension Code relating to Article 3 Pension Funds, specifically Sections 113.1, 113.2, 113.3, and 113.4a, relating to Permissible Investments (40 ILCS 5/1-113.4 et. Seg.).
2. The manager may invest up to 5% of its portfolio in cash or cash equivalents.
3. Private placements, venture capital, options, or financial futures may not be purchased. The purchase of securities on margin is prohibited.
4. No single security in the manager's portfolio will comprise more than 5% of its equity allocation at the time of purchase, nor will it be more than 10% of the equity allocation of the portfolio after accounting for price changes.
5. The account's equity managers will vote all proxies in the best long-term interest of the Pension Fund.
6. All interest and dividend payments must be swept on a daily basis into a short-term money market fund for redeployment.

### **Investment Objective**

Over reasonable measurement periods (3 to 5 years), the Trustees expect the portfolio return to exceed that of the return of the Russell 2000 Growth Index.

For performance evaluation purposes, the manager returns will be calculated on an after-fee basis.

**INVESTMENT MANAGER GUIDELINES**  
**International Equity Management**

This document contains the guidelines and restrictions that apply to the international equity manager of the Pension Fund (see addendum A).

**Permissible Investments**

1. This fund is governed by the guidelines and restrictions contained in its prospectus.
2. The fund must be primarily invested in international equities.
3. The average capitalization of the fund must be no less than 10% and no more than 150% of the MSCI EAFE Index or MSCI AC World ex US Index.

**Investment Objective**

Over reasonable measurement periods (3 to 5 years), the Trustees expect the portfolio return to exceed that of the return of the MSCI EAFE Index or MSCI AC World ex US Index.

For performance evaluation purposes, the manager returns will be calculated on an after-fee basis.

## **INVESTMENT MANAGER GUIDELINES**

### **Real Estate Equity Management**

This document contains the guidelines and restrictions that apply to the real estate equity manager of the Pension Fund (see addendum A).

#### **Permissible Investments**

1. This fund is governed by the guidelines and restrictions contained in its fund documents.
2. The fund must be primarily invested in core real estate equity.
3. Real estate investments shall consist of open-end pooled funds. The fund should be diversified geographically, by property type and by size.

#### **Investment Objective**

Over reasonable measurement periods (3 to 5 years), the Trustees expect the portfolio return to exceed that of the return of the NCREIF (National Council of Real Estate Investment Fiduciaries) Open-Ended Diversified Core Equity Index.

For performance evaluation purposes, the manager returns will be calculated on an after-fee basis.

SIGNATURE PAGE

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10-24-18  
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## **Addendum A**

US Fixed Income	Segall Bryant & Hamill Hillswick Asset Management
US Large Capitalization Core Equity	Fiduciary Management
US Large Capitalization Growth Equity	MFS Growth Fund
US Mid Capitalization Value Equity	Victory Sycamore Established Value Fund
US Small Capitalization Growth Equity	Kayne Anderson
International Equity	DFA International Core Equity Fund American Funds EuroPacific Growth Fund
Real Estate Equity	Principal Real Estate Investors
Custodian	First Midwest Bank
Independent Investment Consultant	AndCo Consulting