POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

INVESTMENT POLICY MANUAL

Updated May 24, 2011

Section 1

TABLE OF CONTENTS

Section 2

STATEMENT OF INVESTMENT POLICY
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted July 22, 1983
Revised March 27, 1984
Revised October 29, 1986
Revised April 23, 1987
Revised November 22, 1991
Revised July 23, 1992
Revised August 22, 1996
Revised February 24, 2000
Revised August 22, 2000
Revised April 27, 2001
Revised December 27, 2002
Revised February 28, 2003
Revised June 23, 2005
Revised May 25, 2006
Revised August 1, 2007
Revised March 24, 2008
Revised September 22, 2008
Revised April 22, 2010
Revised January 25, 2011
Revised January 27, 2011
Revised March 24, 2011
Revised April 27, 2011
Revised May 24, 2011

The purpose of this Statement is to establish the investment policy for the Policemen's Annuity and Benefit Fund of Chicago (Fund).

Investment Philosophy

The Fund's overall investment policy is based upon the following principles established by the Trustees:

1. Maintain a long-term investment horizon for the Fund.
2. Emphasize equity investments to enhance long-term return.
3. Diversify investments across several asset classes.

Distinction of Responsibilities

The Retirement Board assumes the responsibility for establishing the investment policy (described in the following section) that is to guide the Fund's investments. The investment policy describes the degree of investment risk that the Trustees deem appropriate.

Investment managers appointed to execute the policy will invest pension assets in accordance with the policy and applicable statutes, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual investments and (2) construct portfolios to achieve the manager's individual objective for the Fund.

Allocation of Assets

It is the Trustees' **policy** to invest the Fund's assets in the following proportions:

	Long-Term Allocation Percentages		
Asset Class	**Long-Term**	**Min**	**Max**
U.S. Equity	21.0%	WIP	WIP
Non-US Equity	20.0%	WIP	WIP
Equity (Total)	**41.0%**	WIP	WIP
Fixed Income & Cash	**22.0%**	WIP	WIP
Tactical & Alpha Strategies	19.0%	WIP	WIP
Real Assets	4.0%	WIP	WIP
Alternatives (Total)	**23.0%**	WIP	WIP
Private Equity	7.0%	WIP	WIP
Infrastructure	2.0%	WIP	WIP
Real Estate	5.0%	WIP	WIP
Private Capital (Total)	**14.0%**	WIP	WIP

Diversification

In order to minimize the impact of large losses and to reduce annual variability of returns, Fund assets will be allocated across major asset classes and diversified broadly within each asset class.

Liquidity

Benefit payments are expected to exceed contributions for a number of years. When cash is needed to make benefit payments, marketable securities will be liquidated from those asset classes that are above their policy ranges to help bring the allocations closer to their targets. If all allocations are within the policy ranges, the availability of cash and the cost of liquidating securities will be used as primary determinants as to the source of liquidity.

Relatively illiquid investment media such as venture capital partnerships, real estate holdings, and private capital investments may be made within prescribed limits, with due consideration to their impact on overall liquidity requirements, and when the excess expected return is sufficient to compensate the Fund for reduced liquidity.

It is the Board’s intention to maintain the current allocation within the long-term allocation target ranges. However, the Board appreciates the illiquid nature of some of the Fund’s investments and acknowledges that several years may be needed to rebalance certain asset classes, especially in alternative investments (Opportunistic, Real Estate Private Equity and Infrastructure).

Asset Rebalancing

Maintenance of the Fund's investment policy may require a periodic adjustment, or rebalancing, of assets among asset classes and investment managers to control conformance with investment policy targets.

Rebalancing shall bring the allocation within range limits, assuming a target portfolio is available to transfer the funds.

The Trustees at times may choose to allow the actual asset allocation to remain outside the rebalancing ranges if they believe market conditions warrant. For risk control purposes, the absolute allocation will be limited to an additional +/- 2 percentage points outside the current rebalancing ranges.

Rebalancing is expected to take place within a reasonable amount of time to accommodate cost and liquidity constraints.

Active Equity Mandates:

- Rebalance to 5% when an equity active mandate allocation is more than 6.5% of the total Fund
- Rebalance to 7.5% when a fixed income active mandate strategy allocation is more than 9% of the total Fund
- Rebalance when the Fund has more than 10% exposure to a given firm/business entity

Investment Objectives and Performance Evaluation

The investment objective is to achieve a rate of return consistent with that of the investment policy stated above. Over reasonable measurement periods, the rate of total return earned on Total Fund assets will be compared with:

Starting January 2011, the return of the Policy Portfolio comprised S&P 500 - 15% - Large Cap, MSCI EAFE - 14% - Developed Non US, 60% MSCI World/ 40% Citi WGBI - 12% - Global Asset Allocation, BC Aggregate Bond - 13% - Core US Bonds, 1/3 each: BC Global Aggregate, ML Global High Yield, JPM EMBI - 9% - Multi Sector Fixed Income, Venture Economics All Private Equity - 9% - Private Equity and Infrastructure; HFRI Fund of Funds - 7% - Hedge Funds, Russell 2000 - 6% - Small Cap, MSCI Emerging Markets (net) - 6% - Emerging Markets Equity, NCREIF Property - 5% - Real Estate, Dow Jones – UBS Commodity TR - 2% - Real Assets, BC Global Inflation linked: US Tips - 2% - Real Assets

Prior to October 1, 2000: the return of a policy portfolio comprised of 45% of the Wilshire 5000 Stock Index, 15% of the Morgan Stanley Capital International EAFE-Free Index and 35% of the Barclays Aggregate Bond Index. If the Fund's actual investments in real estate are different from 0% at the beginning of the quarter, the benchmark will include only the actual percentage invested in real estate, with the adjustment being taken from the Wilshire 5000 Stock Index percentage.

Prior to April 1, 2000: the return of a policy portfolio comprised of 50% of the Wilshire 5000 Stock Index, 10% of the Morgan Stanley Capital International EAFE-Free Index and 35% of the Barclays Aggregate Bond Index. If the Fund's actual investments in real estate are different from 0% at the beginning of the quarter, the benchmark will include only the actual percentage invested in real estate, with the adjustment being taken from the Wilshire 5000 Stock Index percentage.

The returns of the Russell Mellon Public Fund Index.

For performance evaluation purposes, all rates of return will be calculated on a net-of-fee basis and returns for periods greater-than one year will be annualized.

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Section 3

GUIDELINES FOR ADMINISTERING THE FUND'S INVESTMENT POLICY

Adopted August 27, 1992
Revised March 21, 1994
Revised August 18, 1995
Revised August 22, 1996
Revised February 24, 2000
Revised April 27, 2001
Revised March 24, 2008
Revised April 22, 2010

This document outlines the procedures for rebalancing the Fund's assets to conform to the asset-allocation percentages established by the Trustees.

Responsibility
The Chief Investment Officer shall consult, as needed, with the consultant in reviewing and evaluating all relevant information and determining the appropriate reallocation of assets. The Chief Investment Officer shall be responsible for rebalancing Fund assets as needed to conform to asset-allocation percentages specified in the Fund's Statement of Investment Policy as follows:

	Long-Term Allocation Percentages		
Asset Class	Targets	Min	Max
Total U.S. Equity*	29%	25%	33%
Active Non-U.S. Equity	19%	17%	21%
Total Equity	48%	42%	54%
Total Fixed Income & Cash†	25%	22%	28%
Opportunistic	9%	7%	11%
Real Estate	7%	5%	9%
Private Equity	7%	5%	9%
Infrastructure	4%	2%	6%

* To the extent that, international equities, private equity, real estate, and opportunistic strategies allocations differ from those of their targets, the asset allocation target and range for U.S. common stock will be adjusted accordingly.
† To the extent that infrastructure allocation differs from its target, the asset allocation target and range for fixed income will be adjusted accordingly

Frequency
The Chief Investment Officer shall review the Fund's conformance with the investment policy on a monthly basis. The Chief Investment Officer shall obtain from the Fund's custodian -- The Northern Trust -- the most recent values for all investment accounts/managers employed by the Fund and shall review the asset allocation of the Total Fund investments as soon as practical after the previous month-end.

Objective
The overall objective of asset rebalancing is to ensure the Fund's asset allocation conforms closely to the policy targets established by the Trustees, while minimizing transactions costs. To accomplish the rebalancing, the Chief Investment Officer may employ the following:

- cash inflows and outflows
- allocation opportunities arising from manager hirings, terminations, reallocations in accordance with prior Board actions
- current income
- cost-free transfers to and from index funds

The Chief Investment Officer should use these devices to the extent they are available to bring the Fund's asset allocation back in line with the policy targets. If, however, transactions are required that would result in transactions costs to the Fund, the Chief Investment Officer would rebalance Fund assets to conform to the asset allocation range limits set forth in the investment policy.

Communication to the Trustees
The Chief Investment Officer shall notify the Trustees on a monthly basis of any rebalancing activity.

Transition Plan to implement Long-Term Targets – Effect on Policy Portfolio
For the opportunistic strategies, private equity, real estate, and infrastructure asset classes, we will continue to use a policy weight = actual weight as the Fund seeks to achieve its long-term target in these asset classes. The long term target less the remaining portion will be allocated according to the following:

To the extent that real estate, infrastructure, and private equity allocations differ from those of their targets, the asset allocation target and range for U.S. common stock will be adjusted accordingly.
To the extent that opportunistic strategies allocation differs from its target, the asset allocation target and range for bonds and U.S. equity will be adjusted pro-rata, with bonds making up 80% of the difference while U.S. equity making up the remaining 20%.

Section 4
ASSET STRATEGY STATEMENTS

STRATEGY FOR INVESTING IN U.S. EQUITY

Adopted September 25, 1992
Revised June 23, 2005
Revised April 22, 2010

The Fund will seek to participate in the long-term growth of U.S. industries by broad diversification in U.S. common stocks.

The Fund shall use passive investments to gain broad, highly diversified, low-cost market exposure to the domestic stock market. This core of passive investments will be supplemented with active managers in an attempt to add value above the market return. The current target for passive management is 50% of U.S. Equity assets.

The domestic stock component's overall exposure shall be similar to that of the overall market based on style (value, core and growth) as well as capitalization (small, mid and large). Such a structure will prevent significant biases developing in the portfolio that may increase the volatility of returns and hurt performance over certain periods. Passive style indices may also be used at times to alleviate style biases in the portfolio.

Performance Benchmark
The Dow Jones Total Market Index. The Dow Jones Total Market Index includes S&P 500 stocks plus essentially all other publicly-traded stocks. Individual managers may be measured against style-specific stock indices.

STRATEGY FOR INVESTING IN NON-U.S. EQUITY

Adopted July 23, 1992
Revised August 22, 2000
Revised April 22, 2010

- The Fund shall invest broadly within the non-U.S. stock market.
- The Fund shall not make an explicit policy commitment to invest in emerging markets, but will allow active managers that have skill and experience investing in these markets to do so on a limited basis.
- The current target for passive management is 33% of Non-U.S. Equity assets.

Performance Benchmark
The Morgan Stanley Capital International - All Country World ex-U.S. Index. The Index includes non-U.S. stocks representing 46 (developed and emerging) country markets.

STRATEGY FOR INVESTING IN PRIVATE EQUITY

Adopted July 23, 1992
Revised August 22, 1996
Revised April 22, 2010

- Private equity investments shall be managed under the discretionary control of a registered investment advisor who has responsibility for designing and diversifying the program, selecting and monitoring investments, and reporting to the Trustees.

- The Fund may invest in fund of funds, high-quality venture capital partnerships, private equity investments, direct private placements, and secondary interests in venture capital partnerships, small-capitalization able securities and corporate re-organization funds (i.e. LBO, management buy-out, and mezzanine financing funds).

- The Fund's private equity investments shall be diversified through time, as well as by investment stage, geography, and industry.

- The Fund may also invest in other forms of private equity on an opportunistic basis.

Performance Benchmark
The Fund's performance will be compared with the median return of a universe of private equity funds published by Thomson Financial.

STRATEGY FOR INVESTING IN FIXED INCOME

Adopted July 23, 1992
Revised May 23, 1993
Revised May 16, 1996
Revised June 23, 2005
Revised April 22, 2010

- The Fund shall invest broadly within the domestic bond market and allow active managers to opportunistically invest in non-U.S. bonds as set forth in the investment manager guidelines.
- The Fund's bond investments shall be primarily investment-grade quality (Baa or better). Certain active managers will be allowed to opportunistically invest in non-investment grade bonds on a tactical basis as set forth in the investment manager guidelines.
- The Fund shall use commingled vehicles for passive investments in order to obtain diversification and reduce investment management costs. The percentage of passive management shall be determined by the availability of appropriate active management strategies and the diversification level of the bond component. The current target of passive management is 40% of the bond component's assets.
- The Fund shall retain active managers to provide value added beyond the Barclays Aggregate Bond Index on a net-of-fees basis.

Performance Benchmark
The Barclays Capital Aggregate Bond Index. This index represents the broadest available measure of the domestic bond market, containing treasuries, agencies, corporates, mortgage-backed and asset-backed securities.

STRATEGY FOR INVESTING IN INFRASTRUCTURE

Proposed: March 24, 2008

- Infrastructure investments shall be managed under the discretionary control of a registered investment advisor who has responsibility for designing and diversifying the program, selecting and monitoring investments, and reporting to the Trustees.
- The Fund may invest in primary partnerships, fund-of-funds, secondary funds/transactions, and co-investments as it constructs its infrastructure portfolio.
- Over the long-term, the Fund's Infrastructure investments shall be diversified through strategy, manager, vintage, asset type, and liquidity.

Performance Benchmark
Over the long term, the infrastructure portfolio is expected to generate a minimum internal rate of return ("IRR") equal to the Consumer Price Index plus 500 basis points, net of all investment management fees and expenses. The Consumer Price Index plus 500 basis points will be used as the benchmark to reflect the opportunity cost of investing in infrastructure.

STRATEGY FOR INVESTING IN OPPORTUNISTIC STRATEGIES

Proposed: March 24, 2008
Revised April 22, 2010

- Opportunistic strategies encompass a broad range of alternative strategies with the exception of real estate, private equity, and infrastructure, which are separate and distinct asset classes.

- Investments in opportunistic strategies shall be managed under the discretionary control of a registered investment advisor who has responsibility for designing and diversifying the program, selecting and monitoring investments, and reporting to the Trustees.

- Over the long-term, the Fund's opportunistic strategies asset class may include such sub-strategies as hedge fund-of-funds, global macro, and other types of strategies that do not fit within other asset classes the Fund is invested in such as: direct investments with hedge funds, extension strategies, absolute return strategies, timberland, agriculture, etc.

    - Hedge Funds-of-Funds are collective investment vehicles that have multiple investors and the underlying investment portfolio is a collection of individual hedge funds selected and monitored by the Fund-of-Funds Manager. The investment vehicle is created and operates under an offering memorandum which contains all of the legal terms and conditions regarding participation.

    - Global macro strategies invest in a variety of underlying asset classes including, but not limited to equity, fixed income, currency, and commodities. Investment managers allocate to these asset classes based on a number of underlying economic variables. Managers employ a variety of techniques, both discretionary and systematic analysis, combinations of top down and bottom up theses, quantitative and fundamental approaches and long and short term holding periods.

Performance Benchmark
Due to the diverse types of strategies that could be deployed in this asset class, we propose a match-and-weight approach, as opposed to a singular index, to constructing the asset class benchmark. We will identify appropriate benchmarks and apply target weights once the Fund has identified the types of sub-strategies to invest in addition to declaring allocation percentages to each type of sub-strategy.

GUIDELINES FOR INVESTING IN SHORT-TERM SECURITIES

Adopted June 19, 1993

- Short-term investing is done through the City Treasurer's office. The investments to be used should be as follows:
- Interest-bearing general obligations of the United States, State of Illinois, and City of Chicago;
- United States treasury bills and other non-interest bearing general obligations of the United States when offered for sale in the open market at a price below the face value, so as to afford the fund a return on such investment in lieu of interest;
- Tax anticipation warrants issued by the City of Chicago;
- Short-term discount obligations of the United States government or United States government agencies;
- Certificates of deposit in banks located within the City of Chicago;
- Certificates of deposit of national banks fully collateralized at least 110 percent by marketable U.S. government securities marked to market at least monthly;
- Bankers acceptance of bank holding companies and commercial paper of companies rated A1, P1 or the equivalent by two national rating agencies and maintaining such rating during the term of such investment;
- Tax-exempt securities exempt from federal arbitrage provisions applicable to investments of proceeds of the city's tax-exempt debt obligations;
- Domestic money market mutual funds regulated by and in good standing with the Securities and Exchange Commission;
- Any other suitable investment instrument permitted by state laws governing municipal investments generally, subject to the reasonable exercise of prudence in making investments of public funds.

Section 5

INVESTMENT MANAGER ADMINISTRATION

BROKERAGE POLICY

RESOLUTION

Adopted May 25, 1993
Revised November 26, 2002
Revised June 23, 2005
Revised October 29, 2009
Revised March 24, 2011

WHEREAS, the trustees of the Retirement Board of the Policemen's Annuity and Benefit Fund of Chicago recognize a commitment to the success of minority-, women-, and person with disability-owned businesses, and to promoting opportunities to minority-, women-, and person with disability-owned businesses in the City of Chicago and within the State of Illinois;

WHEREAS, while recognizing this initiative, the trustees acknowledge their fiduciary responsibilities to the Fund regarding best price and execution for all brokerage business executed on behalf of the Policemen's Fund;

WHEREAS, we support the aims of the Equal Employment Opportunity Commission, and acknowledge the desirability of open access to competition on the part of minority-, women-, and person with disability-owned businesses for the opportunity to provide brokerage services to the Fund;

WHEREAS, minority-, women-, and person with disability-owned business enterprises (MWDBE); are defined as a sole proprietorship, partnership, or corporation owned, operated, and controlled by minority group members who have at least 51% ownership. The minority group member(s) must have day to day operational and managerial control, and an interest in capital and earnings commensurate with his or her percentage of ownership. In addition, the brokerage firm and its operating members must be registered with the appropriate federal and state agencies and must have an established record of business performance through a history of having provided good execution and reporting services.

WHEREAS, the policy of the trustees regarding brokerage business is as follows[3]:

U.S. Equity Managers

Subject to best execution and where funds are not commingled, each active U.S. Equity manager shall, if possible, direct the following amount of commission dollars:

A. All managers are to execute trades at an average per share cost not to exceed 3.5¢ per share.

B. 35% or more of the total commission dollars shall be directed to minority-, women-, and person with disability-owned business enterprises with a significant presence in Chicago, and preferably have an office located within the City of Chicago, or in the State of Illinois.

[3] The Board shall review its brokerage policy annually by March 31st

C. Each investment manager shall submit a quarterly progress report, including:

  i. WMDBE utilization in dollars and as a percentage of total brokerage, the breakdown of commission dollars and percentage of total commissions allocated to a) minority-, b) women-, and c) person with disability owned-business enterprises (please highlight double-counting), and
  ii. dollar amount and percentage of total brokerage that is stepped out, and
  iii. dollar amount and percentage of total brokerage that is allocated to a) enterprises with a significant presence in Chicago, and b) enterprises with a significant presence in Illinois

D. Step outs are *tolerated* until 12/31/2010 under special circumstances only. The reason behind *each trade* that is stepped out should be documented, and provided to the board on a separate schedule.

E. If an investment manager fails to comply with the above guidelines two quarters in a row, the manager will be scheduled to appear before the trustees to explain why it was unable to achieve its targets.

Non-U.S. Equity Managers

Subject to best execution and where funds are not commingled, each active Non-U.S. Equity manager shall, if possible, direct the following amount of commission dollars:

A. All managers are to execute trades at an average per share cost not to exceed 25bps per share.

B. 10% or more of the total commission dollars shall be directed to minority-, women-, and person with disability-owned business enterprises with a significant presence in Chicago and Illinois, and preferably have an office located within the City of Chicago, or in the State of Illinois.

C. Each investment manager shall submit a quarterly progress report, including:

  i. WMDBE utilization in dollars and as a percentage of total brokerage, the breakdown of commission dollars and percentage of total commissions allocated to a) minority-, b) women-, and c) person with disability owned-business enterprises (please highlight double-counting), and
  ii. dollar amount and percentage of total brokerage that is stepped out, and
  iii. dollar amount and percentage of total brokerage that is allocated to a) enterprises with a significant presence in Chicago, and b) enterprises with a significant presence in Illinois

D. Step outs are *tolerated* until 12/31/2010 under special circumstances only. The reason behind *each trade* that is stepped out should be documented, and provided to the board on a separate schedule.

E. If an investment manager fails to comply with the above guidelines two quarters in a row, the manager will be scheduled to appear before the trustees to explain why it was unable to achieve its targets.

Fixed Income Managers

Subject to best execution and where funds are not commingled, each active Fixed Income manager shall, if possible, direct the following amount of commission dollars:

A. 25% or more of the total nominal amount transacted shall be directed to minority-, women-, and person with disability-owned business enterprises with a significant presence in Chicago, and preferably have an office located within the City of Chicago, or in the State of Illinois.

B. Each investment manager shall submit a quarterly progress report, including:

   i. Each investment manager shall submit a quarterly progress report, WMDBE utilization in dollars and as a percentage of total brokerage, the breakdown of commission dollars and percentage of total commissions allocated to a) minority-, b) women-, and c) person with disability owned-business enterprises (please highlight double-counting), and
   ii. dollar amount and percentage of total brokerage that is stepped out, and
   iii. dollar amount and percentage of total brokerage that is allocated to a) enterprises with a significant presence in Chicago, and b) enterprises with a significant presence in Illinois
   iv. The manager's process and assumptions in estimating trading costs

C. If an investment manager fails to comply with the above guidelines two quarters in a row, the manager will be scheduled to appear before the trustees to explain why it was unable to achieve its targets.

D. Step outs are *tolerated* until 12/31/2010 under special circumstances only. The reason behind *each trade* that is stepped out should be documented, and provided to the board on a separate schedule.

NOW THEREFORE BE IT RESOLVED: that the trustees of the Retirement Board of the Policemen's Annuity and Benefit Fund of Chicago approve a policy of offering to minority,- women-, and person with disability-owned business enterprises, opportunities to provide brokerage business throughout Chicago and the State of Illinois for the efficient and continued operation of the Fund.

SECURITIES LENDING POLICY

Adopted June 19, 1993
Revised September 30, 1995

- Securities lending activities shall be administered by the Fund's custodian, The Northern Trust, who is responsible for all recordkeeping, monitoring and reporting of loans of the Fund's securities.

- The Trustees delegate the investment of collateral cash received from securities lending activities to the custodian. The custodian may invest in:

- Short-term obligations of companies whose commercial paper is rated A1, P1 or the equivalent by at least two national rating agencies,

    - Short-term obligations (up to 15%) that the custodian classifies as second-tier,

    - Short-term obligations of banks whose certificates of deposit are rated A1, P1 or the equivalent by at least two national rating agencies,

    - Short-term obligations (up to 15%) that the custodian classifies as second-tier,

    - Short-term obligations of the United States government or its agencies, including repurchase agreements,

    - Money market mutual funds,

    - The Northern Trust's Short Term Investment Fund (STIF) for Employee Benefit Trusts

- The custodian maintains a list of eligible borrowers in the securities lending program. The Fund's staff must give the custodian written authorization as to which borrowers the custodian may lend securities. The Fund's staff may revoke authorization to lend to a certain borrower at any time by giving the custodian notice of such change.

- All loans are to be collateralized a minimum of 102%. Non-U.S. securities are collateralized at 105%.

- Revenues received as a result of securities lending will be proportionately divided between the Fund and the custodian as agreed upon by the two parties.

- The Fund may withdraw from the securities lending program at any time by giving the custodian written notice.

INVESTMENT MANAGER SELECTION POLICY

Adopted June 23, 2005
Revised October 29, 2009

Whereas, the Retirement Board of the Policemen's Annuity and Benefit Fund of Chicago (the Fund), was created by an Act of the General Assembly of the State of Illinois for the express purpose of administering the Fund for benefit of its participants and their beneficiaries (40 ILCS 5/5-101), and

Whereas the Retirement Board has the authority to invest the reserves of the Fund (40 ILCS 5/5-187), and

Whereas, the Retirement Board (the Trustee's), as fiduciaries, is required to exercise investment authority with skill, prudence and diligence under the circumstances then prevailing such that a prudent person 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 (40 ILCS 5/1-109), and

Whereas, the Board, to promote investment opportunities, has retained and as prudent and necessary delegated its investment authority to appointing well recognized investment managers, as fiduciaries, to manage assets of the Fund (40 ILCS5/1-109.1), and

Whereas, it is and continues to be the intention of the Retirement Board to administer a portion of the Fund assets in compliance with the declared public policy of the State of Illinois, to wit: to encourage the trustees of public employee retirement systems to use emerging investment managers in managing their system's assets to the greatest extent feasible within the bounds of financial and fiduciary prudence, and to take affirmative steps to remove any barriers to the full participation of emerging investment managers in investment opportunities afforded by those retirement systems (40 ILCS 5/1-109.1(4), and

Whereas, it is also the intention of the Retirement Board, within the bounds of financial and fiduciary prudence, to afford opportunities for managing the Fund's assets to Illinois emerging investment management firms.

In the event of an investment manager funding, termination, or transfer of assets, the Fund will periodically utilize transition management services. The Board has retained and delegated ongoing transition management authority to investment managers acting in a fiduciary capacity to the Fund. The transition manager selected for a specific transition event is based on the ability of the manager to minimize the costs and risks associated with the event.

THEREFORE, BE IT RESOLVED THAT IT SHALL BE THE POLICY OF THE RETIREMENT BOARD OF THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO,

To use emerging investment management firms, as defined in 40 ILCS 5/1-109.1(4), to the greatest extent feasible within the bounds of financial and fiduciary prudence, which among other things shall include the advice and consultation with the Fund investment advisors.

Further, no barrier shall exist to the full participation of emerging investment managers in the investment opportunities afforded by this retirement system, as follows:

The investment advisor to the Retirement Board shall include no less than three qualified emerging management firms, in any investment manager search, to provide the investment product or strategy sought. If less than three qualified emerging investment management firms are recommended the investment advisor shall notify the Retirement Board of the reason(s) for non-inclusion.

Further, the investment advisor to the Retirement Board shall also advise the Retirement Board annually of the emerging investment managers that have been added to the advisors database used in the conduct of searches.

Further, the Board investment advisor shall also include in all manager searches no less than three Illinois firms that provide the investment product or strategy sought. If less than three qualified Illinois firms are found the investment advisor shall notify the Board of the reason(s) for non-inclusion.

Further, The Retirement Board will take significant steps to contract with MWDBE either through one or more of the following relationships: retaining qualified MWDBE firms directly as an active or passive portfolio manager as a result of a generalized or special search, retain a consultant to assemble a portfolio of MWDBE firms on a fully discretionary and/or collaborative basis and or through a fund of fund structure.

Further, the Board, always mindful of its fiduciary obligation to its past, present and future annuitants, will strive to achieve the following goals4 in allocating the fund assets:

By Asset Class	Range	
	Low	High
Equity	11%	13%
Fixed Income	3%	5%
Alternatives	4%	5%
By Category	Range	
	Low	High
Minority-owned	8%	10%
Women-owned	0%	1%
Person with disability-owned	0%	1%

A qualified manager is defined as one who meets the selection criteria upon which the search is organized.

An emerging management firm is a “minority owned business,” “female owned business” or “business owned by person with disability’ as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act. (30 ILCS 575)

An Illinois firm is defined as one registered to do business, and having a principal office in the State of Illinois.

Once the Board of Trustees determines to have selected a manager(s) for hire, a motion shall be made, in executive session, to “retain the services of ______________________(name of firm) to manage a ______________________(product offering) account with a ______________________$ Level of commitment

Subject to contract negotiations completed to the satisfaction of the Executive Director, Chief Investment Officer and Board Counsel (staff). Once negotiations are complete the Executive Director shall notify the Chairman of the investment committee that a contract(s) has been approved for retention and at that point, should transition services be needed to fund such commitment, the Executive Director and Investment Officer are hereby authorized and directed to work with the Investment consultant to obtain the services to be used for transition management. At the discretion of management, a bid process may or may not be used depending on the transition needs of the Fund at the time of the proposed action to be taken. Once a new mandate has been funded in whole or in part, the Executive Director will report to the trustees in open session the pertinent terms of the agreed to contractual relationship, the manner in which such mandate was funded in whole or in part, and any other details deemed appropriate. The Board, in enacting this policy, understands that their fiduciary responsibility can best be met by closing from the record any investment activity to public scrutiny until such time as staff has been able to execute board investment initiatives and once complete, a full report in open session will be reported by staff for public record.

4 The Board shall review these goals annually by June 30th

INVESTMENT MANAGER MEETINGS (PROCEDURES FOR CONDUCTING)

Adopted November 21, 1989
Revised May 17, 2002
Revised April 22, 2010

The Chief Investment Officer plans to meet with each of the Fund's managers on an annual basis. Reviews, however, should take place no less than biennially and reported to the Board of Trustees in a timely manner. The investment manager presentations should contain the following information:

- **Organization and Product Overview**. Provide a brief overview of the current and historic ownership, management, and senior level staffing of your organization. Include your current assets under management, number of clients, and number of investment professionals you employ. Provide information regarding any change in the ownership and/or management structure of your firm in the past three years.

- **Performance**. Provide performance data relative to the agreed upon benchmark. Performance information should be shown on a calendar quarter, net of fees, with annual and cumulative (3-year, 5-year, and since inception, as applicable) summaries compared to the benchmark. Also include relevant portfolio characteristics compared to the benchmark. All data should be as of the most recent calendar quarter-end. You may provide more current up-to-date performance information as supplemental information.

- **Client and Personnel Turnover**. Provide the number and size of all accounts that were gained or lost in each of the last three years. Provide the names of all investment professionals who either joined or left your firm in each of the last three years who were involved in the investment decision making process, research or client servicing function. In addition, please detail any other information about your staff that the Board would consider material, such as reassignments of responsibility, prospective additions, etc.

- **Investment Guidelines**. Please provide an affirmative statement that your portfolio has been in compliance with all Board guidelines. If there have been any violations, disclose the violation and how it was resolved. Describe the compliance process you employ to insure policy adherence. Are there any provisions in the current investment guidelines or benchmarks that constrain or impair your investment process? If so, please suggest alternatives.

- **Trading Practices**. Provide a report on the firm’s trading practices including:

    - A description of your trading practices and personnel

    - A list of all broker/dealers used over the past 12 months, the amount of trading done with each and the average commission cost for each.

    - For the firm as a whole, a complete report of all services received from broker/dealers (including any third-party services or material) paid for with commissions (either by “paying up” or through formal soft dollar arrangements), and the dollar value of all items (cost of item or soft dollars spent on its acquisition). What portion of this amount is borne by the Police account?

- A report of all directed brokerage activity for the Police account over the past 12 months. Include a clear statement regarding whether you believe this practice has negatively impacted the portfolio's net performance.

- **Regulatory and Legal Issues**. Report on any and all litigation involving your firm or any of its investment professionals. Include any SEC (or other regulatory agency) actions, suits, sanctions, citations, or censures. Also mention any other events that the Board would consider material.

- **Additional Information**. Please provide any additional information or material that you feel would help the Board to understand your firm, the investment management team, your investment philosophy, outcomes, the economy, or the market environment.

- **Topical Subject**. From time to time the Board may ask you to spend 15-20 minutes covering a topic of general interest as an educational session with the trustees. Feel free to suggest possible topics to the Board's consultant, EnnisKnupp.

- **Materials**. The Fund office should receive presentation materials a minimum of 7 days before the meeting for distribution to the Board. Additionally, copies of your presentation materials should be sent to the Fund's consultant.

PROXY VOTING POLICY

Adopted ?xx
Revised July 2009

Proxy Voting

The Fund has instructed its investment managers to vote all proxies solely in the best interests of plan beneficiaries. Proxy voting activities will be monitored by the Police Fund staff.

The Trustees of the Policemen's Annuity and Benefit of Chicago have delegated the voting of proxies to the Fund's stock investment managers. The Trustees have informed all stock investment managers in writing that the Fund expects proxies to be voted vigorously and in the best interests of its beneficiaries.

The Trustees have delegated the responsibility for monitoring the managers' proxy voting activities to the Police Fund Staff.

As part of the monitoring process, the Trustees have required that all managers provide the following information annually, on June 30th regarding the managers' proxy voting activities:

1. The investment managers' current proxy voting policies.
2. Summary and detailed records of all proxies voted.
3. A statement indicating whether the investment managers' voted in conformance with its proxy voting guidelines.
4. A statement indicating whether the investment managers' voted in the best interests of all Fund participants.

The Fund Staff will review the managers' reports to determine if the managers' actions are in compliance with the Fund's instructions and the managers' policies. The Staff will report the findings of the review annually to the Board of Trustees.

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Section 6
INVESTMENT MANAGER GUIDELINES

U.S. EQUITY MANAGERS

INVESTMENT GUIDELINES FOR
ARIEL INVESTMENTS
SMALL/MID (`SMID') CAP VALUE EQUITY STRATEGY
POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted November 16, 2005
Revised: September 2, 2009

These investment guidelines extend the "Statement of Investment Policy for the Policemen's Annuity and Benefit Fund of Chicago" as adopted and most recently revised September 2, 2009.

Guidelines

1. The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

2. Investments are limited to equity securities of domestically listed companies that are traded on U.S. exchanges.

3. Ariel Investments, LLC defines small/mid ("Smid") cap securities as those companies with market capitalizations primarily from $1 billion to $10 billion at the time of initial purchase in the model portfolio. That said, Ariel does allow stocks to grow beyond this market capitalization as long as the valuation of the company remains compelling. The portfolio's market capitalization will be "similar" to the market capitalization of the benchmark. "Similar" is defined as +250%/-50% of the weighted average market capitalization of the Russell 2500 Value Index.

4. The portfolio will be well diversified and will typically contain 35-50 issues.

5. For purposes of diversification, no individual security will have a weight in the portfolio greater than 6% and the portfolio will hold no more than a 10% allocation to companies engaging in the exact same line of business.

6. Generally, an annual turnover of 25 percent is deemed to be consistent with this investment strategy.

7. Prohibited transactions include the following:

    - investments in non-marketable securities
    - private equity securities
    - private or direct placement securities
    - commodities
    - real estate investment (REITs are permitted)
    - short sales
    - margin purchases
    - securities lending
    - options or other derivative securities (except futures)
    - Futures may be used for the sole purpose of hedging portfolio cash flows.

- The use of any form of derivative security or investment strategy that leverages the portfolio is prohibited.

Investment Objective

1. To exceed the annualized rate of return of the Russell 2500 Value Index, net of fees, over reasonable measurement periods.

2. To achieve an above-median ranking within a universe of managers with similar small/mid-cap value style.

INVESTMENT GUIDELINES FOR
ATTUCKS ASSET MANAGEMENT
MID CAP CORE EQUITY STRATEGY
POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted June 30, 2007

Guidelines

The objective of the investment is to match the risk and return characteristics of the benchmark, S&P 500 Index subject to the public company screening. The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

The Investment Manager will manage the portfolio so that resulting expected annual tracking error (defined as the standard deviation of excess returns) relative to the S&P 500 Index will be plus or minus 15 basis points (bps) annually. Notwithstanding the foregoing, pursuit by the Investment Manager of the public company screening described below may impact the performance and tracking variance of the Account versus the S&P 500 Index.

The Investment Manager may employ the use of derivatives for the purpose of equitizing cash in its Standard and Poor's 500 Index Fund portfolio provided the following three criteria are met:

1. No more than 5% of Fund's portfolio assets shall be invested in derivatives;

2. Derivatives shall not be used for speculative purposes;

3. At no time shall the use of derivatives have the effect of leveraging the portfolio.

INVESTMENT GUIDELINES FOR
CHANNING CAPITAL MANAGEMENT INC.
MID CAP CORE EQUITY STRATEGY
POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted November 30, 2005

Guidelines

1. The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

2. Investments are limited to equity securities of domestically listed companies that are traded on U.S. exchanges.

3. Overall risk characteristics, such as portfolio yield, beta, earnings per share growth, return on equity and market capitalization should be similar to that of the Russell Mid-Cap Value Index.

4. The portfolio will be well diversified and will typically contain 30-40 issues.

5. Sector weights will be constrained to no more than 2X the benchmark weight in any sector. No individual security will have a weight in the portfolio greater than 6%.

6. Generally, an annual turnover of 30-40% is deemed to be consistent with this investment strategy.

7. Prohibited transactions include the following:

    - investments in non-marketable securities
    - private equity securities
    - private or direct placement securities
    - commodities
    - real estate investment (REITs are permitted)
    - short sales
    - margin purchases
    - securities lending
    - options or other derivative securities (except futures)

INVESTMENT GUIDELINES FOR
CHICAGO EQUITY PARTNERS, LLC
MID CAP CORE EQUITY STRATEGY
POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted October 27, 2004
Revised June 23, 2005

These investment guidelines extend the "Statement of Investment Policy for the Policemen's Annuity and Benefit Fund of Chicago" as adopted and most recently revised June 23, 2005.

Guidelines

1. The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

2. Investments are limited to equity securities of domestically listed companies that are traded on U.S. exchanges.

3. Overall risk characteristics, such as portfolio yield, beta, earnings per share growth, return on equity and market capitalization should be similar to that of the S&P 400 Index. Relative to the S&P 400 Index, the total portfolio will typically have a historical beta between .9 and 1.1 and have an R-squared above .90.

4. The portfolio will be well diversified and will typically contain over 100 issues.

5. Sector weights will be similar to those of the S&P 400. No individual security will have a weight in the portfolio greater than the securities' weighting in the benchmark plus 4%.

6. Generally, an annual turnover of 100 percent is deemed to be consistent with this investment strategy.

7. Prohibited transactions include the following:

   - investments in non-marketable securities
   - private equity securities
   - private or direct placement securities
   - commodities
   - real estate investment (REITs are permitted)
   - short sales
   - margin purchases
   - securities lending
   - options or other derivative securities (except futures)
   - Futures may be used for the sole purpose of hedging portfolio cash flows. The use of any form of derivative security or investment strategy that leverages the portfolio is prohibited.

Investment Objective

1. To exceed the annualized rate of return of the S&P 400 Index, net of fees, over reasonable measurement periods.

2. To achieve an above-median ranking within a universe of managers with a similar mid cap core style.

INVESTMENT GUIDELINES FOR
DENALI ADVISORS, LLC.
LARGE CAP VALUE EQUITY STRATEGY
MID CAP CORE EQUITY STRATEGY
POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted November 30, 2005

Guidelines

1. The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

2. Securities must be listed on the New York Stock Exchange, American Stock Exchange or the NASDAQ and registered with the Securities and Exchange Commission.

3. No security may represent more than 10% of the market value of the portfolio. Positions should be in issues with sufficient float so as to facilitate, under most market conditions, prompt sale without severe market impact.

4. The portfolio will not hold more than 1% of a single issuer's total outstanding equity capital and may not invest in shares of any company where the Portfolio Manager holds greater than 5% of the issuer's total outstanding equity capital across the aggregate of all client accounts.

5. The percentage of the portfolio (based on market value) in any one sector shall not exceed the greater of 2x the weight of that sector in the benchmark or the benchmark sector weight plus 5% (five percentage points).

6. A maximum of 5% of the portfolio may be held in cash.

If market price movements cause the portfolio to violate any of these guidelines, the Portfolio Manager will have 30 days to move the portfolio back into compliance

Investment Objective

1. To exceed the annualized rate of return of the Russell 1000 Value Index, net of fees, over reasonable measurement periods.

2. To achieve an above-median ranking within a universe of managers with a similar large-cap value style.

INVESTMENT GUIDELINES FOR
GREAT LAKES ADVISORS
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted September 30, 1989
Revised April 26, 1990
Revised August 24, 1993
Revised June 23, 2005

These investment guidelines extend the "Statement of Investment Policy for the Policemen's Annuity and Benefit Fund of Chicago" dated July 22, 1983, and most recently revised June 23, 2005.

Guidelines

1. The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

2. Great Lakes Advisors is to invest the portfolio under management up to a maximum of 100% in common stock.

3. The manager shall be responsible for determining the amount of the portfolio's assets to be invested in stock and cash equivalents.

4. The investment manager will have full discretion in determining the level of diversification within the portfolio.

Investment Objectives

1. To exceed the rate of return of the S&P/BARRA Large Value Stock Index over reasonable measurement periods, net of fees. Prior to September 30, 1993, the performance benchmark was the Wilshire 5000 Stock Index. Prior to September 30, 1989, the performance benchmark was the S&P 500 Stock Index.

2. To achieve an above-median ranking within a universe of common stock funds.

INVESTMENT GUIDELINES FOR
HOLLAND CAPITAL MANAGEMENT, L.P.
LARGE CAP GROWTH EQUITY STRATEGY
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted December 30, 2005

Guidelines

1. The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

2. Investments are limited to equity securities of domestically listed companies that are traded on U.S. exchanges, American Depository Receipts (ADRs) and/or dollar-denominated foreign securities, cash equivalents and/or fixed income securities including short-term collective funds administered by the Custodian/Trustee, obligations issued or guaranteed by the U.S. government, federal agencies, and government sponsored entities, obligations of domestic commercial banks and bank holding companies, including commercial paper, bankers acceptances, certificates of deposit, time deposits, notes and bonds.

3. The portfolio is generally to be fully invested with 95%-100% in equity securities and no more than 10% in cash equivalents and/or fixed income securities.

4. No single market sector shall represent more than 30% of the market value of the portfolio, or its comparable representation of the S&P 500 Index, whichever is larger.

5. No individual security holding shall constitute more than 5% of the portfolio at cost, or its equivalent representation in the S&P 500 Index, whichever is greater.

6. ADR's and/or other foreign U.S. dollar denominated common stocks and related equity securities traded on major U.S. stock exchanges or the U.S. over-the-counter market shall not represent more than 15% of the portfolio.

7. Prohibited transactions include the following:

    - investments in non-marketable securities
    - private equity securities
    - private or direct placement securities
    - commodities
    - real estate investment (REITs are permitted)
    - short sales
    - margin purchases
    - securities lending
    - options or other derivative securities (except futures)

8. Futures may be used for the sole purpose of hedging portfolio cash flows. The use of any form of derivative security or investment strategy that leverages the portfolio is prohibited.

9. Holland Capital shall direct the Custodian in the voting of all proxies on behalf of the Policemen's Annuity and Benefit Fund of Chicago.

Investment Objective

1. To exceed the annualized rate of return of the Russell 1000 Growth Index, net of fees, over reasonable measurement periods.

2. To achieve an above-median ranking within a universe of managers with a similar large-cap growth style.

INVESTMENT GUIDELINES FOR
MONTAG & CALDWELL
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted November 21, 1996
Revised June 23, 2005

These investment guidelines extend the "Statement of Investment Policy for the Policemen's Annuity and Benefit Fund of Chicago" dated July 22, 1983, and most recently revised June 23, 2005.

Guidelines

1. The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1
2. Montag & Caldwell is to invest the portfolio under management up to a maximum of 100% in common stock.
3. The manager shall be responsible for determining the amount of the portfolio's assets to be invested in bonds and cash equivalents. The manager may invest in fixed-income securities of any maturity at any time in a percentage that is at the manager's sole discretion.
4. The investment manager will have full discretion in determining the level of diversification within the portfolio.

Investment Objectives

1. To exceed the rate of return of the Russell 1000 Growth Stock Index over reasonable measurement periods, net of fees.
2. To achieve an above-median ranking within a universe of common stock funds.

INVESTMENT GUIDELINES FOR
NORTHERN TRUST INVESTMENTS
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted March 27, 1984
Revised January 17, 1992

These investment guidelines extend the "Statement of Investment Policy for the Policemen's Annuity and Benefit Fund of Chicago" dated July 22, 1983, and most recently revised June 23, 2005.

Guidelines

1. The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1
2. The portfolio will be invested in Northern Trust Investments' commingled U.S. MarketCap Equity Index Fund. The fund's objective is to match the returns of the Wilshire 5000 Stock Index over time.
3. The portfolio shall be diversified in a manner that is at the discretion of the portfolio manager.
4. Administrative duties, such as custody of assets, security settlement, and dividend collection, are the responsibility of the portfolio manager.

Investment Objective

1. To match the rate of return of the Wilshire 5000 Stock Index, net of fees.

INVESTMENT GUIDELINES FOR
PIEDMONT INVESTMENT ADVISORS, LLC
STRATEGIC CORE EQUITY STRATEGY
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted November 30, 2005

Guidelines

1. The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

2. Investments are limited to equity securities of domestically listed companies that are traded on U.S. exchanges.

3. Overall risk characteristics, such as portfolio yield, beta, earnings per share growth, return on equity and market capitalization should be similar to that of the S&P 500 Index.

4. The portfolio will be well diversified and will typically contain 30-40 issues.

5. No individual security will have a weight in the portfolio greater than the securities' weighting in the benchmark plus 4%.

6. Generally, an annual turnover of 75% is deemed to be consistent with this investment strategy.

7. Prohibited transactions include the following:

    - investments in non-marketable securities

    - private equity securities
    - private or direct placement securities
    - commodities
    - real estate investment (REITs are permitted)
    - short sales
    - margin purchases
    - securities lending

8. Options or other derivative securities (except futures) Futures may be used for the sole purpose of hedging portfolio cash flows. The use of any form of derivative security or investment strategy that leverages the portfolio is prohibited.

Investment Objective

1. To exceed the annualized rate of return of the S&P 500 Index, net of fees, over reasonable measurement periods.

2. To achieve an above-median ranking within a universe of managers with a similar large-cap core style.

INVESTMENT GUIDELINES FOR
UBS GLOBAL ASSET MANAGEMENT (U.S. STOCK)
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted August 18, 1995
Revised May 15, 2006

These investment guidelines extend the "Statement of Investment Policy for the Policemen's Annuity and Benefit Fund of Chicago" dated July 22, 1983, and most recently revised May 15, 2006.

Guidelines

1. The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

2. The portfolio will not invest in any forbidden entity as defined by Illinois Public Act 094-0079.

3. The portfolio shall consist of primarily equity investments, but is permitted to hold fixed income securities and cash equivalents on a limited basis. Equity investments include securities of U.S. entities, convertible bonds and preferred stocks, and listed American Depository Receipts traded on the principal U.S. exchanges or over-the-counter.

4. Equity securities shall be diversified by industry and in number so that no investment in the securities of a single issuer shall exceed 7.5% of the portfolio.

5. Fixed income, cash, and cash equivalents will be minimized and normally will not exceed 5% of the portfolio value except as a result of contributions or withdrawals.

6. Prohibited transactions:

   - No assets shall be invested in Letter Stock
   - No assets shall be committed to short sale contracts
   - No assets shall be committed to option contracts (for speculative purposes)
   - No assets shall be committed to commodities
   - No assets shall be invested with the use of leverage
   - No securities shall be purchased on margin

Investment Objectives

1. To exceed the annualized rate of return of the Russell 3000 Index, over reasonable measurement periods, net of fees.

2. To achieve an above-median ranking within a universe of managers with a similar all cap/core style.

INVESTMENT GUIDELINES FOR
WILLIAM BLAIR (SMID CAP GROWTH)
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted October 28, 2004

These investment guidelines extend the "Statement of Investment Policy for the Policemen's Annuity and Benefit Fund of Chicago" dated July 22, 1983, and most recently revised June 23, 2005

Guidelines

1. The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1. In accord with the applicable portions of the Pension Code, above referenced, the Adviser may invest in the following equity securities:
   - The common stocks are listed on a national securities exchange or board of trade or quoted in the National Association of Securities Dealers Automated Quotation System National Market System.
   - The Adviser may invest at least 80% of the assets in stocks of small and medium-sized domestic companies which have market capitalizations of $12 billion or less at time of purchase. Up to 20% of the assets may be invested in companies with market capitalizations greater than $12 billion or in cash equivalents.
   - The Adviser may invest up to 15% of the portfolio in American Depository Receipts or substantially similar instruments that are based on foreign securities or in securities exempt from registration under the Securities Act of 1933 such as rule 144A securities.

2. The Adviser may invest up to 10% of its portfolio in cash or cash equivalents.

3. Options, financial futures, private placements, or venture capital may not be purchased.

4. No single security in the Adviser's portfolio will comprise more than 5% of the portfolio's 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 appreciation.

5. The following investment activities are prohibited
   - Naked call options, puts or straddles
   - Futures or options except when acquired to hedge portfolio risk
   - Margin buying, short selling or any strategy or instrument involving the use of leverage
   - Over-the-counter derivative securities
   - Commodities and commodity contracts
   - Lease-backs and conditional sales contracts
   - Private Real Estate (publicly traded REITs are allowed)
   - Limited partnerships
   - Non-dollar denominated equity securities
   - Letter stock
   - Other investments with characteristics similar to those above

Investment Objectives

1. To exceed the annualized rate of return of the Russell 2500 Growth Index over reasonable measurement periods, net of fees.

2. To achieve an above-median ranking within a universe of managers with a similar small/mid cap growth style.

Section 7

NON-U.S. EQUITY MANAGERS

INVESTMENT GUIDELINES FOR
ARTISAN PARTNERS
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted June 23, 2005
Revised June 29, 2006
Revised January 28, 2008

These investment guidelines extend the "Statement of Investment Policy for the Policemen's Annuity and Benefit Fund of Chicago" dated July 22, 1983, and most recently revised on January 28, 2008.

Guidelines

1. The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

2. The Account shall be invested at the discretion of Artisan Partners with regard to individual security selection, subject to compliance with the applicable standards under the Employee Retirement Income Security Act of 1974, as amended, and these guidelines.

3. Holdings will generally consist of publicly traded corporate equities (including common and preferred stocks, warrants, and ADRs) of companies domiciled or whose primary business activities or principal trading markets are outside the United States.

4. Holdings in emerging market countries (as defined by MSCI) will be kept to a maximum of 2X the emerging markets exposure of the MSCI All-Country World ex-U.S. Index.

5. The Account will generally be diversified across a minimum of eighteen (18) countries. The maximum allocation to any one country will not generally exceed thirty percent (30%) of the value of the Account.

6. Investment in any one industry will not generally exceed twenty-five percent (25%) of the value of the Account.

7. No single security will exceed five percent (5%) of the market value of the Account at the time of purchase.

8. The Account will not employ leverage, purchase securities on margin, sell securities short, purchase securities in private placements (except Rule 144A securities), or write or sell options.

9. Currency hedging may be utilized for defensive purposes to protect the Account's value in U.S. dollars but may not exceed 20% of the total market value of the Account.

10. The cash portion of the Account shall be invested in short-term investment funds to be designated by Client or Client's custodian from time to time. Cash will not generally exceed ten percent (10%) of the value of the Account.

11. The manager should select and weight international common stock investments in the account in order to achieve the highest possible long-term total rate of return while managing portfolio risk.

12. The Account may invest in listed or over-the-counter un-leveraged, equity-linked instruments; provided, however, that the Account will not invest (i) more than 10% of its total assets in such instruments, and (ii) more than 5% of its total assets in such instruments issued by a single counterparty (in each case measured at market value at the time of purchase).

Investment Objectives

1. To exceed the annualized rate of return of the MSCI All-Country World ex-U.S. Index over reasonable measurement periods, net of fees.

2. To achieve an above-median ranking within a universe of managers with a similar small/mid cap growth style.

INVESTMENT GUIDELINES FOR
CAPITAL GUARDIAN TRUST COMPANY
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted August 22, 2000
Revised May 15, 2006
Revised May 29, 2007

These investment guidelines extend the "Statement of Investment Policy for the Policemen's Annuity and Benefit Fund of Chicago" dated July 22, 1983, and most recently revised May 29, 2007.

Guidelines

1. The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

2. The portfolio will be non-U.S. equity oriented and will have up to 100% exposure in equity-type investments. These investments include, but are not limited to, common stock, securities convertible into common stock, warrants, rights, American Depository Arrangements. U.S. issuers are not permitted.

3. Investments in international (non-dollar) fixed income securities, including cash or cash equivalents, either as an equity substitute or for defensive purposes, will be permitted up to 15% of the portfolio.

4. The portfolio's allocation will not exceed the following:

   - 5% in any single non-ACWI ex-U.S. country,
   - 10% in cash equivalent investments, or
   - 10% in securities of a single issuer.

5. The portfolio's currency exposure may be hedged but short positions in any one currency will not exceed 100% of the underlying exposure to a single currency. Cross hedging is permitted for defensive purposes.

6. Options, futures and forward contracts are allowed only to the extent that they are used in a manner that does not materially increase portfolio volatility, create leverage at the total portfolio level or relate to speculative activities. Forward contracts are used in a manner that is not intended to materially increase volatility

7. Investments in private placement securities eligible for resale pursuant to Rule 144A under the Securities Act of 1933 are permitted.

8. All limitations are considered at the time of purchase; the sale of a security is not required due to a subsequent change in circumstances.

9. Use of leverage is not permitted in the portfolio. Partially paid securities are not considered leverage for the purposes of this guideline.

Diversification

The portfolio shall be diversified to reduce the impact of large losses in individual investments on the Capital Guardian portfolio.

Risk Control
It is the responsibility of the manager to maintain adequate risk management controls in order to ensure assets are invested in compliance with the policies and guidelines as represented by the manager to the Fund's Investment Committee and with the policies and guidelines set out in this Agreement.

Liquidity
The investment manager is to presume no need for liquidity other than that requested by the Fund's Staff periodically.

Performance Measurement

1. The portfolio's return is targeted to exceed the rate of return of the MSCI All Country World ex-U.S. Index (ACW ex-U.S. Index), over reasonable measurement periods, net of fees.

2. The portfolio's risk-adjusted performance will be compared with that of the MSCI ACW ex-U.S. Index over reasonable measurement periods.

The portfolio's returns are targeted to exceed those of the median international equity manager over reasonable measurement periods.

INVESTMENT GUIDELINES FOR
JP MORGAN ASSET MANAGEMENT
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted June 23, 2005
Revised January 25, 2010

These investment guidelines extend the "Statement of Investment Policy for the Policemen's Annuity and Benefit Fund of Chicago" dated July 22, 1983, and most recently revised June 23, 2005.

Guidelines

1. The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

2. The portfolio is permitted to invest in a diversified range of securities in the International equity markets. Although the Fund holds primarily common stocks, from time to time the Fund may invest in other types of investments on an opportunistic basis.

3. The EAFE Plus portfolio will normally be fully invested in equity securities. The following security types (Type A) will be held principally for temporary liquidity: bank deposits, CDs, commercial paper, repos, fixed rate bonds, floating rate CDs, fixed rate notes, variable rate notes, asset backed securities, and money market mutual funds.

4. The following security types (Type B) are also permitted: common shares (including depository receipts and 144a securities), ordinary shares, prefs, convertible bonds, warrants, and ERISA qualified commingled funds.

5. Security and currency futures and options may be used to position the Fund in accordance with the guidelines. Exposure is the underlying cash equivalent represented by the instrument at maturity. The writing of uncovered options with unlimited risk is prohibited.

6. In managing the portfolio no distinction is made between principal and income.

7. No leverage is permitted within the portfolio. However, the portfolio may be temporarily overdrawn for settlement purposes.

Security Attributes

8. Up to 25% of the portfolio may be invested in Type A securities, with normal exposure of 0-10%.

9. No more than 10% of the portfolio may be invested in any issuer of Type A securities that is not a government, government-guaranteed or supranational.

10. Investments in Type A securities must have a minimum rating of A3/A- (long term) or A1/P1 (short term) by Moody's or S&P.

11. Weighted average maturity of Type A securities must not exceed one year. Maturity for forward rate notes is determined by the next reset date; fixed income maturity is determined by the first redemption available to the investor; maturity for asset backed securities is based on average life of the security.

12. Up to 5% of the portfolio may be invested in any individual issuer of Type B securities. Should an individual company's weighting in the benchmark exceed 5%, the maximum exposure in the portfolio shall be 1.5 times benchmark weight. The fund is expected to be invested in mostly common/ordinary shares, other type B securities, under normal circumstances should account for 0-20% of the portfolio.

Currency Hedging

13. The neutral currency exposure for the portfolio is each currency's weighting in the MSCI ACWI ex US Index (expressed in US Dollar terms).

14. Hedging instruments may include spot and forward foreign exchange contracts (currency futures and/or options in all the currencies in the relevant index and/or the Fund).

Liquidity

The investment manager is to presume no need for liquidity other than that requested by the Fund's Staff periodically.

Performance Measurement

15. The portfolio's return is targeted to exceed the rate of return of the MSCI All Country World ex-U.S. Index (ACW ex-U.S. Index), over reasonable measurement periods, net of fees.

16. To achieve an above-median ranking within the Frank Russell Company universe of international stock portfolios.

INVESTMENT GUIDELINES FOR
McKINLEY CAPITAL
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted June 23, 2005
Modified March 24, 2011

These investment guidelines extend the "Statement of Investment Policy for the Policemen's Annuity and Benefit Fund of Chicago" dated July 22, 1983, most recently revised June 23, 2005.

Guidelines

1. The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

2. Country Exposure

   - The Investment Account shall have companies incorporated or headquartered in minimum of 10 countries.
   - The Investment Account shall have no more than 2 times the benchmark weight or 10%, whichever is greater, invested in companies incorporated or headquartered in Emerging Market countries.

3. Sector Exposure: The Investment Account shall have a maximum of 2 times the benchmark weight or 10%, whichever is greater, invested in any one sector.

4. Issuer Diversification

   - The Investment Account shall have no more than 6% or 150% of the index whichever is greater of its total market value invested in eligible equity securities of a single corporation.
   - No more 5% of the outstanding shares of a single corporation.

5. Asset Class Exposure

   - Fully invested equity-only assignment.
   - Maximum cash balance of 5% of the portfolio’s market value. The account should remain as close to fully invested as practical.
   - Maximum exposure of 10% of the portfolio’s market value in preferreds, convertibles, rights, warrants or other equity equivalents.

Liquidity

The investment manager is to presume no need for liquidity other than that requested by the Fund's Staff periodically.

Performance Measurement

1. The portfolio's return is targeted to exceed the rate of return of the MSCI All Country World ex-U.S. Growth Index, over reasonable measurement periods, net of fees.

2. The portfolio's risk-adjusted performance will be compared with that of the MSCI All Country World ex-U.S. Growth Index over reasonable measurement periods.

INVESTMENT GUIDELINES FOR
UBS GLOBAL ASSET MANAGEMENT (INTERNATIONAL EQUITY)
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted March 27, 1984
Revised August 21, 1984
Revised July 28, 1987
Revised September 30, 1989
Revised October 31, 1991
Revised June 23, 2005
Revised May 15, 2006

These investment guidelines extend the "Statement of Investment Policy for the Policemen's Annuity and Benefit Fund of Chicago" dated July 22, 1983, and most recently revised May 15, 2006.

Guidelines

1. The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

2. The portfolio will not invest in any forbidden entity as defined by Illinois Public Act 094-0079.

3. UBS will construct a diversified portfolio that will typically hold between 100-200 securities. The only bias of the portfolio is toward stocks in which, according to the adviser, a material discrepancy exists between its market price and its intrinsic value.

Permissible Investments

1. Common or preferred shares of foreign corporations listed and traded on nationally recognized exchanges or over the counter markets.

2. Convertible bonds, debentures or preferred shares which are convertible into corporate stock.

3. Warrants or rights to equity securities.

4. Cash or cash-equivalent securities, including money market mutual funds and equivalent commingled funds; U.S. Treasury Bills; commercial paper; certificates of deposit; bankers' acceptances and repurchase agreements collateralized by US Treasury or Agency Securities.

5. SEC Rule 144A securities

6. The investment manager may engage in various transactions to hedge against currency risk. Forward contracts, futures and options may be used for currency hedging purposes.

7. The investment manager may use futures and exchange traded funds in order to equitize cash.

Prohibited Investments

1. Letter or restricted stock

2. Short sales of any type

3. Share purchases involving the use of margin

Portfolio Construction Guidelines

1. The portfolio will be diversified by sector, region, and country.

2. The maximum allocation to any one security will be limited to the greater of 5% of portfolio assets (at market value) or the issuer's benchmark (MSCI All Country World Ex-U.S. Index) weighting plus 5% of portfolio assets. Notwithstanding this limitation, no immediate liquidation of investment shall be required solely due to changes in market value.

3. Investment in emerging market companies will be limited to the greater of 25% or 2 times the emerging markets allocation in the MSCI All Country World Ex-U.S. Index.

4. The amount of cash and cash equivalents will not exceed 10% of the portfolio, except during periods of cash contributions and withdrawals.

If the manager breaches the portfolio construction guidelines due to market movements, it must notify the client regarding this matter.

Performance Measurement

1. The benchmark for this strategy is MSCI All Country World Ex-U.S. Index.

2. To achieve an above-median ranking within the Frank Russell Company universe of international stock portfolios.

INVESTMENT GUIDELINES FOR
WILLIAM BLAIR
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted June 23, 2005
Revised October 31, 2006
Revised April 20, 2007
Revised February 25, 2008

These investment guidelines extend the "Statement of Investment Policy for the Policemen's Annuity and Benefit Fund of Chicago" dated July 22, 1983, and most recently revised February 25, 2008.

Guidelines

1. The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

2. William Blair will invest in a growth-oriented, diversified portfolio that will typically hold between 140 - 200 securities. The firm's investment philosophy is to focus on companies with above-average growth prospects where growth can be sustained through leading or franchise positions in terms of proprietary products, marketing dominance, or cost/asset base advantage. Portfolio candidates typically have above-average prospective growth, evidence of sustainability of future growth, above average profitability and reinvestment of internal capital, and conservative capital structure relative to sector norms.

Permissible investments

1. Common or preferred shares of foreign corporations listed and traded on nationally recognized exchanges or over the counter markets.

2. Convertible bonds, debentures or preferred shares which are convertible into corporate stock

3. Warrants or rights to equity securities

4. Cash or cash-equivalent securities, including money market mutual funds and equivalent commingled funds; U.S. Treasury Bills; commercial paper; certificates of deposit; bankers' acceptances and repurchase agreements collateralized by US Treasury or Agency Securities

5. SEC Rule 144A securities

6. The investment manager may engage in various transactions to hedge against currency risk. Forward contracts, futures and options may be used for currency hedging purposes. The investment manager may hedge a maximum of 50% of the portfolio at market value.

7. The investment manager may use futures and exchange traded funds in order to equitize cash.

Prohibited Investments

1. Letter or restricted stock

2. Short sales of any type

3. Share purchases involving the use of margin

Portfolio Construction Guidelines

1. The portfolio will be diversified by region and country.
   - The minimum allocation to the UK, Europe ex-UK, and Japan, respectively, is 5% and the maximum allocation is 55%
   - The portfolio may invest a minimum of 5% of the portfolio up to a maximum of 35% in emerging markets companies
2. The portfolio will be diversified by sector as defined by the investment manager, with no individual sector representing over 35% of the portfolio, based on market value.
3. The maximum allocation to any one security is 5% of the portfolio (at market value). Notwithstanding this limitation, no immediate liquidation of investment shall be required solely due to changes in market value.
4. The amount of cash and cash equivalents will not exceed 10% of the portfolio, except during periods of cash contributions and withdrawals.
5. There are no market capitalization restrictions for securities in the portfolio.
6. If the manager breaches the portfolio construction guidelines due to market movements, it must notify the client regarding this matter.

Performance Measurement

1. The benchmark for this strategy is MSCI ACWI ex-US Index
2. A secondary benchmark is the MSCI ACWI ex-US Growth Index
3. To achieve an above-median ranking within the Frank Russell Company universe of international stock portfolios.

Section 8

FIXED INCOME MANAGERS

INVESTMENT GUIDELINES FOR
DEARBORN PARTNERS (BAIRD ADVISORS)
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted May 25, 2004
Revised June 23, 2005

These investment guidelines extend the "Statement of Investment Policy for the Policemen's Annuity and Benefit Fund of Chicago" dated July 22, 1983, and most recently revised June 23, 2005.

Guidelines
The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

The total portfolio may invest in the following types of securities, subject to the restrictions listed below.

- U.S. Treasury and Agency bonds
- U.S. corporate bonds
- U.S. Government Agency pass-through securities (MBS) and TBAs
- Sequential and Planned Amortization Class collateralized mortgage obligations (CMOs)
- Commercial mortgage-backed securities (CMBS)
- A1P1 or A2P2 commercial paper
- Asset-backed securities
- Municipal bonds
- Cash equivalents
- Futures, options and forward contracts
- Rule 144(a) securities
- Commingled funds investing in fixed income securities (that do not violate portfolio guidelines)
- Dollar denominated

Risk Control
1. Futures, options and forward contracts are allowed to the extent that they are used in a manner that does not materially increase total portfolio volatility or relate to speculative activities. Unleveraged derivatives are permitted for the purpose of hedging investment risk, to replicate an investment that would otherwise be made directly in the cash market or to modify asset exposure in tactical portfolio shifts. Use of derivatives should not materially alter the characteristics, including the investment risk, of the portfolio.

2. The use of short sales, margin purchases or leverage is prohibited.

3. Investments in mortgage-backed securities that a manager classifies as exhibiting unusually high interest rate sensitivity relative to typical U.S. Government agency mortgage pass-through issues is prohibited. Examples of securities likely to qualify as “highly interest rate sensitive” include IOs, POs and inverse floaters.

Benchmark
The benchmark is the Barclays Capital Aggregate Index (the “Index”).

Duration
Maintain an effective duration of plus or minus 20% of the benchmark.

Diversification

1. The Total Account will maintain a minimum average credit quality rating of A.

2. A maximum of 25% of the portfolio may be invested in BBB-rated securities.

3. At time of purchase, no issuer, except for U.S. Government and Agency issues, may be greater than the higher of (a) 3% above its weighting in the Index or (b) 3% of the Account's market value for securities outside of the Index.

4. Maximum of 5% of the portfolio value per issuer unless the issuer is the U.S. government or its Agencies, in which case there is no limit.

5. 144(a) securities shall not exceed 10% of the total portfolio.

6. At the time of purchase, all securities must have a minimum credit quality of BBB- (or comparable). If a security is downgraded below investment grade ("fallen angel"), the manager must communicate the downgrade and the expectation for sale or recovery in writing to the client and its consultant. The manager is not forced to sell upon a downgrade.

Performance Measurement

The performance objective of the portfolio is to:

1. Exceed the rate of return of the Barclays Aggregate Bond Index over reasonable measurement periods, net of fees.

2. Achieve an above-median ranking within a universe of fixed-income funds.

Investment Objectives

1. The goal of the core fixed income portfolio is to provide above-average total return in a manner that is consistent with the typical rate-of-return volatility exhibited by broad market fixed income portfolios.

2. The fixed income portfolio should be broadly diversified across markets, sectors, securities and maturities in a manner consistent with accepted standards of prudence.

3. The portfolio must be managed in accordance with the following guidelines and restrictions.

INVESTMENT GUIDELINES FOR
LM CAPITAL GROUP, LLC
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted June 26, 2006

These investment guidelines extend the "Statement of Investment Policy for the Policemen's Annuity and Benefit Fund of Chicago" dated July 22, 1983, and most recently revised June xx, 2006.

Guidelines

The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

The portfolio will not invest in any forbidden entity as defined by Illinois Public Act 094-0079.

The total portfolio may invest in the following types of securities, subject to the restrictions listed below.

- U.S. Government bonds
- U.S. corporate bonds
- Mortgage-backed securities
- Asset-backed securities
- Bonds and preferred stock convertible into common stock
- Preferred stock
- Municipal bonds
- Structured notes
- Cash equivalents
- Closed end bond funds
- Derivative mortgage-backed securities
- Bonds of developed non-U.S. issuers
- Bonds of emerging non-U.S. issuers
- Fixed income and currency futures, options, forward contracts and swaps
- Private placement bonds
- Rule 144(a) securities
- Commercial mortgage-backed securities
- Capital notes/Preferred trust certificates
- Commingled funds investing in fixed income securities

Restrictions

The total portfolio must comply with the restrictions listed on the following page on the basis of both percentage of assets and percentage contribution to total portfolio duration.

Security Type Qualifications

1. The Portfolio may buy and sell exchange-traded and over-the-counter interest rate, credit, index and currency futures; currency, interest rate, total rate of return, and credit default swaps; currency, bond, and swap options; currency and bonds for forward settlement and other derivative instruments for risk management purposes and in pursuit of the Portfolio's investment objectives.

2. Futures, options and forward contracts are allowed to the extent that they are used in a manner that does not materially increase total portfolio volatility or relate to speculative activities.

3. Structured notes are permitted provided that the note's investment characteristics are of a fixed income nature.

4. Preferred stock and bonds convertible into common stock are permitted provided that they exhibit bond-like characteristics.

Credit Quality

1. The total fixed income portfolio will maintain a minimum average credit quality rating of A-. The rating used to determine the quality of the individual securities will be the median of the ratings supplied by S&P, Moody's, and Fitch.

2. A maximum of 5% of the portfolio may be invested in unrated securities. These unrated securities will be deemed investment grade quality by LM Capital Group's internal credit analysis group.

3. The minimum allowable rating for any security at the time of purchase will be B3/B-.

4. Any securities that are downgraded below the minimum credit rating described above may be held at the manager's discretion. Policemen's Annuity and Benefit Fund, City of Chicago will be notified in writing of all such downgrades and/or bankruptcies, including the reasons behind these events as well as the manager's retention plan for these securities within the immediate time horizon.

Duration

The portfolio may be invested in securities covering the full range of available maturities. The average weighted effective duration of the portfolio shall not vary by more than +/- 20% of the average weighted effective duration of the Barclays Aggregate Bond Index.

Concentration Limits (all limits refer to the total market value of the portfolio)

1. Up to 20% of the portfolio may be invested in issues rated below BBB/Baa2.

2. Up to 5% of the portfolio may be invested in issues rated below B/B2.

3. Up to 10% of the portfolio may be invested in issues rated below BB+/Ba1.

4. Up to 20% of the portfolio may be invested in U.S. Dollar-denominated emerging market securities.

5. UP to 10% of the portfolio may be invested in non- U.S. Dollar-denominated securities.

6. Up to 10% of the portfolio may be invested in Private Placements (excluding securities eligible for resale under rule 144A).

Diversification Requirements

1. No more than 25% of the Portfolio's assets may be invested in securities of issuers in any one industry excluding U.S. government and U.S. government agencies.

2. Obligations of other issuers or issues are subject to a limit of 5% of portfolio.

3. U.S. government, U.S. government agencies, or U.S. government-sponsored corporations and agencies, and obligations issued by other national governments may be held without limit.

4. The cumulative allocation to US High Yield, Non-US Dollar denominated bonds and emerging market debt shall not exceed 30% at any time.

Currency Hedging

LM Capital Group, LLC may engage in transactions to hedge against currency risks. Forward contracts, Futures and Options may be used for currency hedging purposes. LM Capital Group, LLC is not permitted to utilize these transactions for speculative purposes.

Prohibited Transactions

5. The portfolio shall not be invested in interest only or principal only securities.

6. The portfolio shall not be invested in mortgage residuals or direct real estate.

7. The portfolio shall not be invested in common stocks or commodities or derivatives thereof.

8. The portfolio shall not be invested in derivative instruments (including leveraged structured notes) except as authorized for currency hedging purposes.

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

10. The portfolio shall not use leverage except for rolling mortgage pass-through securities.

Performance Measurement

The performance objective of the portfolio is to:

1. Exceed the rate of return of the Barclays Aggregate Bond Index over reasonable measurement periods, net of fees.

2. Achieve an above-median ranking within a universe of fixed-income funds.

Investment Objectives

1. The goal of the total fixed income portfolio is to provide above-average total return in a manner that is consistent with the typical rate-of-return volatility exhibited by broad market fixed income portfolios.

2. The fixed income portfolio should be broadly diversified across markets, sectors, securities, and maturities in a manner consistent with accepted standards of prudence.

INVESTMENT GUIDELINES FOR
NORTHERN TRUST INVESTMENTS
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted February 25, 1987
Revised March 31, 1987
Revised February 26, 1998

These investment guidelines extend the "Statement of Investment Policy for the Policemen's Annuity and Benefit Fund of Chicago" dated July 22, 1983, and most recently revised June 23, 2005

Guidelines

1. The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

2. The portfolio will be invested in Northern Trust Investments' commingled Bond Market Fund, which is structured to match the composition and performance of the Barclays Aggregate Bond Index.

3. The portfolio shall be diversified in a manner that is at the discretion of the portfolio manager.

4. Administrative duties, such as custody of assets, security settlement, and dividend collection, are the responsibility of the portfolio manager.

Investment Objective

To match the rate of return of the Barclays Aggregate Bond Index, net of fees.

INVESTMENT GUIDELINES FOR
TAPLIN, CANIDA & HABACHT ("TCH")
FOR THE
POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted June 29, 2006

These investment guidelines extend the "Statement of Investment Policy for the Policemen's Annuity and Benefit Fund of Chicago" dated July 22, 1983, and most recently revised June 29, 2006.

Guidelines
The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

The portfolio will not invest in any forbidden entity as defined by Illinois Public Act 094-0079.

The total portfolio may invest in the following types of securities, subject to the restrictions listed below.

- U.S. Government bonds
- U.S. corporate bonds
- Mortgage-backed securities
- Asset-backed securities
- Bonds and preferred stock convertible into
- common stock
- Preferred stock
- Municipal bonds
- Yankee bonds
- Cash equivalents
- Closed end bond funds
- Derivative mortgage-backed securities
- Rule 144(a) securities
- Commercial mortgage-backed securities
- Capital notes/Preferred trust certificates
- Commingled funds investing in fixed income securities
- Structured notes

Restrictions
The total portfolio must comply with the restrictions listed on the following pages on the basis of both percentage of assets and percentage of total portfolio duration.

Security Type Qualifications
Structured notes are permitted provided that the note's investment characteristics are of a fixed income nature. Preferred stock and bonds convertible into common stock are permitted provided that they exhibit bond-like characteristics.

Credit Quality
1. The total fixed income portfolio will maintain a minimum average credit quality rating of A- (A minus or equivalent). Issues that are unrated by any major credit rating agency shall be rated by the investment manager, who shall compare an unrated bond's fundamental financial characteristics with those of rated bonds to determine the appropriate rating.

2. All securities will be rated investment grade by one of the Nationally Recognized Statistical Rating Organization (NRSRO) at time of purchase. In the case of a split rating, the higher rating will be used. No more than 5% of the Portfolio's total assets shall be invested in securities that have been downgraded below the minimum allowable Credit Rating (at Time of Purchase) as shown in the Permissible Investments section. In the event that such downgraded securities comprise more than 5% of the market value of the Portfolio, the Company will have thirty (30) days to bring the Portfolio into compliance with this 5% limit.

Additional Sector and Position Limits

1. The Portfolio's overall duration shall be within the range of the duration of the Benchmark Index plus or minus 10%.

2. Mortgage-backed securities that a manager classifies as exhibiting unusually high interest rate sensitivity relative to typical U.S. Government agency mortgage pass-through issues shall not exceed 5% of the total portfolio. Examples of securities likely to qualify as "highly interest rate sensitive" include IOs, POs, and inverse floaters. Individual issues of such securities shall be restricted to no more than 2% of the portfolio at the time of purchase.

3. Preferred stock and bonds convertible into common stock shall not exceed 5% of the total portfolio.

4. Excluding U.S. government and agency issues the portfolio is limited to a 5% allocation in any single investment grade U.S. issuer.

Prohibited Securities

Any security not expressly permitted by these Guidelines is prohibited.

Performance Measurement

The performance objective of the portfolio is to:

1. Exceed the rate of return of the Barclays Aggregate Bond Index over reasonable measurement periods, net of fees.

2. Achieve an above-median ranking within a universe of fixed-income funds.

Investment Objectives

1. The goal of the total fixed income portfolio is to provide above-average total return in a manner that is consistent with the typical rate-of-return volatility exhibited by broad market fixed income portfolios.

2. The fixed income portfolio should be broadly diversified across markets, sectors, securities, and maturities in a manner consistent with accepted standards of prudence.

INVESTMENT GUIDELINES FOR
WELLINGTON MANAGEMENT COMPANY
FOR THE POLICEMEN'S ANNUITY & BENEFIT FUND OF CHICAGO

Adopted May 25, 2004
Revised June 23, 2005
Revised April 26, 2006

These investment guidelines extend the "Statement of Investment Policy for the Policemen's Annuity and Benefit Fund of Chicago" dated July 22, 1983, and most recently revised April 26, 2006.

Guidelines
The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

The total portfolio may invest in the following types of securities, subject to the restrictions listed below.

- U.S. Government bonds
- U.S. corporate bonds
- Mortgage-backed securities
- Asset-backed securities
- Bonds and preferred stock convertible into common stock
- Preferred stock
- Municipal bonds
- Structured notes
- Cash equivalents
- Closed end bond funds
- Derivative mortgage-backed securities
- Bonds of developed non-U.S. issuers
- Bonds of emerging non-U.S. issuers
- Fixed income and currency futures, options, forward contracts and swaps
- Private placement bonds
- Rule 144(a) securities
- Commercial mortgage-backed securities
- Capital notes/Preferred trust certificates
- Commingled funds investing in fixed income securities

Restrictions
The total portfolio must comply with the restrictions listed below on the basis of both percentage of assets and percentage contribution to total portfolio duration.

Security Type Qualifications

1. The Portfolio may buy and sell exchange-traded and over-the-counter interest rate, credit, index and currency futures; currency, interest rate, total rate of return, and credit default swaps; currency, bond, and swap options; currency and bonds for forward settlement and other derivative instruments for risk management purposes and in pursuit of the Portfolio's investment objectives.

2. Futures, options and forward contracts are allowed to the extent that they are used in a manner that does not materially increase total portfolio volatility or relate to speculative activities.

3. Structured notes are permitted provided that the note's investment characteristics are of a fixed income nature.

4. Preferred stock and bonds convertible into common stock are permitted provided that they exhibit bond-like characteristics.

Credit Quality

1. The total fixed income portfolio will maintain a minimum average credit quality rating of BB. Issues that are unrated by any major credit rating agency shall be rated by the investment manager, who shall compare an unrated bond's fundamental financial characteristics with those of rated bonds to determine the appropriate rating.

2. Bonds rated investment grade by either Moody's or Standard & Poor's must comprise at least 80% of the total portfolio.

3. The portfolio's below-investment grade holdings are limited to a maximum of 1% in any single issuer.

Duration

The average duration of the Portfolio ranges between +/- 25% of the average duration of the Index.

Non-U.S. Exposure

1. Bonds issued by any non-U.S. entity shall not exceed 20% of the total portfolio. Examples of securities included in this restriction include the following:

   - Yankee bonds
   - Non-U.S. sovereign bonds
   - Non-U.S. non-sovereign bonds
   - Structured notes linked to non-U.S. markets
   - Emerging market sovereign bonds
   - Emerging market non-sovereign bonds
   - Supranational bonds

2. Non-US dollar currency exposure is at times entirely unhedged, partially hedged, or fully hedged, depending upon the investment outlook. Currency forwards, options, and futures are also employed to adjust and hedge the Portfolio's currency exposure. Within the limit of the 20% non-US dollar-denominated exposure the Portfolio may take currency positions unrelated to underlying portfolio holdings.

3. Not more than 10% of the portfolio will be held in bonds issued by entities not domiciled in the J.P. Morgan Government Bond Index. This restriction is meant to limit the portfolio's emerging market exposure to no more than 10%.

4. Not more than 1% of the portfolio will be held in bonds issued by any single entity domiciled in a country not included in the J.P. Morgan Government Bond Index.

Additional Sector and Position Limits

1. To the extent that the portfolio holds an allocation to non-investment grade emerging market bonds, that exposure shall also count against the total portfolio's 20% high yield maximum and 20% non-U.S. maximum.

2. In total, the exposure to non- US dollar denominated investment grade, high yield domiciled in developed countries, and emerging market debt securities will not exceed 30%.

3. 144(a) securities shall not exceed 5% of the total portfolio.

4. Mortgage-backed securities that a manager classifies as exhibiting unusually high interest rate sensitivity relative to typical U.S. Government agency mortgage pass-through issues shall not exceed 5% of the total

portfolio. Examples of securities likely to qualify as “highly interest rate sensitive” include IOs, POs and inverse floaters.

5. Preferred stock and bonds convertible into common stock shall not exceed 5% of the total portfolio.

6. Excluding U.S. government and agency issues the portfolio is limited to a 5% allocation in any single investment grade U.S. issuer.

7. The portfolio’s combined allocation to the security types listed below may not exceed 50%.

    - Bonds not receiving an investment-grade rating from either Moody’s or Standard & Poor’s
    - Bonds issued by non-U.S. entities
    - Preferred stock and bonds convertible into common stock
    - Privately placed debt, excluding 144(a) securities
    - Mortgage-backed securities that a manager classifies as exhibiting unusually high interest rate sensitivity relative to typical U.S. Government agency mortgage pass-through issues

Performance Measurement

The performance objective of the portfolio is to:

1. Exceed the rate of return of the Barclays Aggregate Bond Index over reasonable measurement periods, net of fees.

2. Achieve an above-median ranking within a universe of fixed-income funds.

Investment Objectives

1. The goal of the total fixed income portfolio is to provide above-average total return in a manner that is consistent with the typical rate-of-return volatility exhibited by broad market fixed income portfolios.

2. The fixed income portfolio should be broadly diversified across markets, sectors, securities, and maturities in a manner consistent with accepted standards of prudence.

INVESTMENT GUIDELINES FOR
WELLS CAPITAL MANAGEMENT (MONTGOMERY)
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted May 25, 2004
Revised June 23, 2005

These investment guidelines extend the "Statement of Investment Policy for the Policemen's Annuity and Benefit Fund of Chicago" dated July 22, 1983, and most recently revised June 23, 2005.

Guidelines
The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

The total portfolio may invest in the following types of securities, subject to the restrictions listed below.

- U.S. Treasury and Agency bonds
- U.S. corporate bonds
- U.S. Government Agency pass-through securities (MBS) and TBAs
- Sequential and Planned Amortization Class collateralized mortgage obligations (CMOs)
- Commercial mortgage-backed securities (CMBS)
- A1P1 or A2P2 commercial paper
- Asset-backed securities
- Municipal bonds
- Cash equivalents
- Futures, options and forward contracts
- Rule 144(a) securities
- Commingled funds investing in fixed income securities (that do not violate portfolio guidelines)
- Dollar denominated

Risk Control

1. The use of short sales, margin purchases or leverage is prohibited.

2. Investments in mortgage-backed securities that a manager classifies as exhibiting unusually high interest rate sensitivity relative to typical U.S. Government agency mortgage pass-through issues is prohibited. Examples of securities likely to qualify as “highly interest rate sensitive” include IOs, POs and inverse floaters.
   Securities convertible into common stock or other equity ownership are prohibited.

3. Private placement (excepting Rule 144(a) securities are prohibited.

Benchmark
The benchmark is the Barclays Brothers Aggregate Index (the “Index”).

Duration
Maintain an effective duration of plus or minus 10% of the benchmark.

Diversification

1. The Total Account will maintain a minimum average credit quality rating of A.

2. A maximum of 25% of the portfolio may be invested in BBB-rated securities.

3. At time of purchase, no issuer, except for U.S. Government and Agency issues, may be greater than the higher of (a) 3% above its weighting in the Index or (b) 3% of the Account's market value for securities outside of the Index.

4. Maximum of 5% of the portfolio value per issuer unless the issuer is the U.S. government or its Agencies, in which case there is no limit.

5. 144(a) securities shall not exceed 10% of the total portfolio.

6. At the time of purchase, all securities must have a minimum credit quality of BBB- (or comparable). If a security is downgraded below investment grade ("fallen angel"), the manager must communicate the downgrade and the expectation for sale or recovery in writing to the client and its consultant. The manager is not forced to sell upon a downgrade.

7. Up to 5% of the portfolio can be invested in securities rated below investment grade

Performance Measurement

The performance objective of the portfolio is to:

1. Exceed the rate of return of the Barclays Aggregate Bond Index over reasonable measurement periods, net of fees.

2. Achieve an above-median ranking within a universe of fixed-income funds.

Investment Objectives

1. The goal of the core fixed income portfolio is to provide above-average total return in a manner that is consistent with the typical rate-of-return volatility exhibited by broad market fixed income portfolios.

2. The fixed income portfolio should be broadly diversified across markets, sectors, securities and maturities in a manner consistent with accepted standards of prudence.

Section 9

PRIVATE EQUITY MANAGERS

INVESTMENT GUIDELINES FOR
ADAMS STREET PARTNERS U.S. PARTNERSHIP FUND
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted June 23, 2005

The Fund is invested in the Adams Street Partners U.S. Partnership Fund.

1. The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

2. The Fund will make commitments to private equity partnerships that will in turn typically invest these assets over a three- to four vintage year period.

3. No more than 10% of a participant's subscription to the Fund will be allocated to any one partnership investment.

4. Up to 40% of each participant's subscription to the Fund may be used to purchase interests in secondary private equity partnerships.

5. Typically 15-20 U.S. private equity partnership investments will be made during each year of the Fund's investment period.

6. The Fund will target the following allocations for partnership assets: venture capital (25-50%), buyouts (30-50%), and 'other' (including mezzanine/subordinated debt, restructuring/distressed debt and special situations partnerships) (10-25%).

7. Beginning in year eight, fees will be reduced to 90% of the regular fee, then 80% of the regular fee in year nine, 70% in year ten, etc.

Performance Benchmark -- The manager's performance will be compared with the appropriate vintage year median return of a universe of private equity funds published by Thomson Financial.

INVESTMENT GUIDELINES FOR
HARBOURVEST PARTNERS VII
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted June 23, 2005

The Fund is invested in the HarbourVest Partners Fund VII (Venture and Buyout).

<u>HarbourVest Partners VII-Venture Partnership Fund L.P</u>

1. The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

2. The Fund will invest in limited partnerships or other pooled investment vehicles which primarily invest in equity-oriented investments in young, growing or emerging companies or entities.

3. The Fund shall invest in portfolio entities which intend to invest principally in the United States, provided that up to 10% of commitments may be invested (measured on the basis of cost) in portfolio entities which intend to invest principally outside of the United States.

4. No more than 35% of commitments (measured on the basis of cost) may be invested in secondary partnership investments.

<u>HarbourVest Partners VII-Buyout Partnership Fund L.P.</u>

1. The Fund will invest in limited partnerships or other pooled investment vehicles which primarily invest in management buy-in, management buy-out, leveraged buy-out, mezzanine, special situation and recapitalization transactions.

2. The Fund shall invest in portfolio entities which intend to invest principally in the United States, provided that up to 10% of commitments may be invested (measured on the basis of cost) in portfolio entities which intend to invest principally outside of the United States.

3. No more than 35% of commitments (measured on the basis of cost) may be invested in secondary partnership investments.

4. Other than with respect to secondary transactions, the total amount invested (measured on the basis of cost) in portfolio entities with targeted committed capital of over $4 billion shall not exceed 25% of commitments. (Basically, no more than 25% of commitments in large LBO funds).

Performance Benchmark -- The manager's performance will be compared with the appropriate vintage year median return of a universe of private equity funds published by Thomson Financial.

Investment Guidelines FOR
AIM (INVESCO) PRIVATE CAPITAL
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted June 23, 2005

20% of the total commitment from Chicago Police will be allocated to INVESCO U.S. Venture Partnership Fund IV, L.P., 60% to INVESCO U.S. LBO & Corporate Finance Partnership Fund IV, L.P., and the remaining 20% to INVESCO International Partnership Fund IV, L.P.

<u>INVESCO U.S. Venture Partnership Fund IV, L.P.</u>

1. The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1
2. The venture sector fund is expected to include both early stage and later stage partnerships.
3. The manager expects to invest a significant proportion of the capital in software, specialized semiconductors and communications enabling technologies, with a smaller amount flowing into medical and healthcare projects.
4. A typical holding is currently expected to average 5% of the sector fund's total commitments with no single partnership holding comprising more than 20% of the venture sector fund's portfolio.
5. The targets and expectations may vary depending on market conditions.

<u>INVESCO U.S. LBO & Corporate Finance Partnership Fund IV, L.P.</u>

1. The buyout sector fund targets small and mid-sized U.S. buyout (50%), large U.S. buyout (30%), and U.S. expansion, distressed, turnaround and special situation groups (20%).
2. No single partnership holding would comprise more than 20% of the sector fund's commitments at the time of investment and the average commitment is currently expected to be 5% of the sector fund.
3. The targets and expectations may vary depending on market conditions.

<u>INVESCO International Partnership Fund IV, L.P.</u>

1. The international fund targets non-U.S. venture (20%) and non-U.S. buyout / corporate finance (80%). In addition, the manager is targeting 80% of the sector fund to groups focused on Europe and the remaining 20% to groups investing in Asia and Latin America.
2. No single partnership holding would comprise more than 20% of the sector fund and the average holding is expected to be 5% of the sector fund's portfolio.
3. The targets and expectations may vary depending on market conditions.

Performance Benchmark -- The manager's performance will be compared with the appropriate vintage year median return of a universe of private equity funds published by Thomson Financial.

Investment Guidelines FOR
MESIROW FINANCIAL PRIVATE EQUITY
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted June 23, 2005

The Fund is invested in the Mesirow Financial Private Equity Partnership Fund (Fund-of-Funds).

1. The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1
2. The Fund will make commitments to private equity partnerships over a three- to four vintage year period.
3. The Fund will allocate assets to venture capital (30-50%), corporate finance/buyout (30-50%), special situations – including mezzanine, industry-focused strategies, distressed and other (5-20%), and will also allocate a portion of the portfolio internationally (10-15%). In addition, limited, opportunistic purchases of secondary partnership interests will be permitted.
4. The Fund will be comprised of between 35-45 underlying managers.
5. The Fund will have an initial investment term of 12 years with three one-year extensions.
6. Beginning in year eight, fees will be reduced on an annual basis to 90% of the previous year's fee.

Performance Benchmark -- The manager's performance will be compared with the appropriate vintage year median return of a universe of private equity funds published by Thomson Financial.

Investment Guidelines FOR
MULLER & MONROE ASSET MANAGEMENT, LLC (“M^2” or “The Advisor”)
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO (“PABF”)

Adopted June 23, 2005
Modified: January 24, 2011

PABF is invested in the following partnerships: Illinois Private Equity Fund-of-Funds, L.P. (“ILPEFF”), M^2 Private Equity Fund-of-Funds, L.P. (“MPEFF”)

COMMON PROVISIONS FOR ALL PRODUCTS:

1. The Advisor will comply with all the applicable provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

2. ILPEFF and MPEFF are focused exclusively on emerging managers following the guideline definition of emerging manager to include managers with less than $1.0 billion total assets under management. (contractual provision)

3. Portfolio construction will be driven by deal flow in the market during the investment period and M^2’s internal due diligence process.

ILPEFF PROVISIONS:

1. ILPEFF made 14 commitments to Investee Funds.

2. ILPEFF targeted approximately 30% of assets towards earlier stage strategies (i.e. venture capital); the general partner is biased against very early stage venture partnerships.

3. Approximately 70% of assets are focused toward later stage strategies, including buyouts, special situations/distressed, and mezzanine. Approximately less than 11% of assets are mezzanine

4. 51% of assets were committed to minority or women managers. (contractual provision)

5. 49% of assets were committed to Midwest-based and Mid-west-focused managers (contractual provision).

MPEFF PROVISIONS:

1. MPEFF will make approximately 9 commitments to Investee Funds.

2. MPEFF will target approximately 1/3rd of assets towards earlier stage strategies (i.e. venture capital); the general partner is biased against very early stage venture partnerships.

3. Approximately 2/3 of assets will be focused toward later stage strategies, including buyouts, special situations/distressed, and mezzanine. Approximately less than 10% of assets will be mezzanine; approximately only 1 distressed manager 5-10% of assets if any; most of the investments in MPEFF will be middle market buyouts.

4. Some assets will be committed to minority or women managers but there is no contractual target.

5. Some assets will be committed to Midwest-based and Midwest-focused managers but there is no contractual target.

Performance Benchmark -- The underlying investee funds in the fund-of-funds portfolios will be compared with the appropriate vintage year median return of a universe of private equity funds published by Thomson Financial.

INVESTMENT GUIDELINES FOR
RCP ADVISORS, LLC
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted April 22, 2010

The Fund is invested in RCP Fund VI, L.P. (Fund-of-Funds).

- The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1
- The Fund will make commitments to private equity partnerships over a three vintage year period.
- The Fund will allocate assets to buyout funds, with a specific focus on small- to middle-market managers. The Fund will also allocate a portion of the portfolio internationally (up to 30%). In addition, limited, opportunistic purchases of the equity securities of certain individual, privately-held companies will be permitted (5%).
- The Fund will allocate no more than 20% of the committed capital to one or more underlying funds which are managed by the same team or affiliates.
- The Fund will be comprised of between 12-15 underlying funds.
- The Fund will have an initial investment term of 12 years with three one-year extensions.
- The management fee will be 1.00% of committed capital. After year five, the management fee will decrease to 0.75% of committed capital. No management fee will be charged after year ten.

Performance Benchmark -- The manager's performance will be compared with the appropriate vintage year median return of a universe of private equity funds published by Venture Economics, Inc.

Section 10

OPPORTUNISTIC STRATEGIES

Fund of Hedge Funds

INVESTMENT GUIDELINES FOR
AETOS ALTERNATIVES MANAGEMENT
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted April 22, 2010

The Policeman's Annuity and Benefit Fund of Chicago is invested in Aetos Capital Growth Portfolio.

- The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1
- The Aetos Capital Growth Portfolio utilizes four underlying strategy funds: Aetos Capital Long/Short Strategies Fund (45%), Aetos Capital Multi-Strategy Arbitrage Fund (30%), Aetos Capital Distressed Investments Strategies Fund (20%), and Aetos Capital Opportunities Fund (5%).
- The underlying strategy funds invest in a diversified set of absolute return strategies.
- Underlying portfolio managers generally invest in marketable securities, privately placed securities, and other investments that are illiquid. Interests in the portfolio funds are not themselves marketable and are extremely illiquid.
- Portfolio managers may invest and trade in a wide range of instruments and markets, including, but not limited to, domestic and foreign equities and equity-related instruments, currencies, financial futures, commodities, real estate bank loans and other fixed income and debt-related instruments.
- Underlying portfolio managers may employ a variety of sophisticated investment techniques that include, among other things, short sales of securities, use of leverage (i.e., borrowing money for investment purposes), and transactions in derivative securities and other financial instruments such as stock options, index options, futures contracts and options on futures.
- Each underlying strategy fund will not invest more than 40% of its total assets at the time of investment in any one Portfolio Fund or with any one underlying portfolio managers.

Underlying Strategy Funds

- The Aetos Capital Multi Strategy primarily invests in event driven arbitrage, relative value arbitrage, convertible arbitrage, and fixed income arbitrage funds.
- The Aetos Capital Distressed Investment Strategies Fund invests at least 80% of its net assets in funds that invest primarily in distressed securities. This investment policy is a non-fundamental policy of Aetos Capital Distressed Investment Strategies Fund and may be changed by the Board. Aetos Capital Distressed Investment Strategies Fund will notify investors at least 60 days prior to any change in this investment policy.
- The Aetos Capital Long/Short Strategies Fund primarily invests in long/short equity and fixed income funds.
- The Aetos Capital Opportunities Fund primarily invests in more specialized strategies and smaller and/or newer funds.

Performance Benchmark -- The manager's performance will be compared with the HFR Fund of Funds Index.

INVESTMENT GUIDELINES FOR
K2 ADVISORS
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted April 22, 2010

The Fund is invested in K2 Overseas Investors I, LTD.

- The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

- The objective of the investment is to provide equity-like returns over a full market cycle with low market correlation, reduced volatility, and limited risk.

- The Fund will invest through what is commonly known as a master-feeder structure by investing the net proceeds from the sale of shares of K2 Overseas Investors I, LTD. in limited partnership interests of a master fund, K2 Master Fund, L.P. or one or more other entities for which the Investment Manager or an affiliate serves or will serve as investment manager or in a similar capacity.

- The Fund invests primarily in limited partnerships or limited liability company interests issued by hedge funds which engage in a variety of investment strategies including, but not limited to long/short equity, equity market neutral, catalyst driven equity, short selling, non-U.S. securities, arbitrage trading, distressed and hedged distressed, convertible arbitrage, equity volatility arbitrage, diversified credit, bank debt and high yield investing, and equity driven. Other investments may include managed companies, separate accounts, registered and unregistered investment companies and unit trusts.

- The Fund seeks to achieve its investment objective by investing its assets in a diversified group of underlying funds that are managed by underlying managers who have had and can potentially provide the Fund with superior investment results.

- The Fund targets allocations of 60%-70% to long/short strategies and 30%/40% to low volatility strategies.

- The Investment Manager may, from time to time, hold certain of the Company's assets in cash or cash-equivalent securities. The Company may utilize credit facilities for short-term money management purposes in connection with the receipt of subscription proceeds, redemption requests, or portfolio reallocations, and the amount of the borrowing is expected to be less than 30% of the Company's Net Asset Value.

- The Investment Manager may conduct direct trading activities (*i.e.*, not through an Underlying Fund managed by an Underlying Manager) if it receives an in-kind distribution from an Underlying Fund. Otherwise, the Investment Manager does not intend to engage in direct trading.

Performance Benchmark -- The manager's performance will be compared with the HFR Fund of Funds Index.

INVESTMENT GUIDELINES FOR
OAKTREE SENIOR LOAN FUND, L.P
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
Senior Bank Loans

Adopted April 22, 2010

The Fund is invested in the Oaktree Senior Loan Fund, L.P.

Permissible Investments

- The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1
- Bank loans, debt securities, obligations including U.S. dollar denominated senior debt of companies domiciled in the United States and Canada, bridge loans for high yield commitments, U.S. dollar or non-U.S. dollar denominated debt instruments of companies domiciled in Europe, and debt instruments that are purchased or otherwise obtained in a financial restructuring of an existing investment.
- Equities purchased or otherwise obtained in a financial restructuring of an existing investment.
- “When-issued” securities
- Derivative and credit-linked securities including, swaps, credit-linked notes, deposits, and credit default swaps.
- Foreign currencies associated with the settlement of transactions in securities denominated in a foreign currency.
- Money market instruments pending the purchase of other permitted investments or provide reserves
- The Fund may engage in short sales.
- The Fund may lend money to debtors-in-possession to facilitate an investment.
- The Fund may utilize other investments that are consistent with the Fund’s investment objectives and limitations including financial instruments of all types, which exist now or are hereafter created.

Investment Limitations

- At least 80% of the Fund’s assets will be comprised of U.S. dollar denominated senior debt of borrowers that are organized or have a substantial portion of their operations in the U.S. or Canada, and derivatives used to enhance the risk/return tradeoff of senior debt.
- The maximum allocation to a single issuer is 3% of the Fund’s net assets at the time of purchase.

- The portfolio will be diversified by industry as defined by the General Partner, with no individual industry representing over 20% of the Fund's net assets at the time of purchase.

- The Fund will not invest in any foreign securities other than those issued by entities located in Europe. Up to 20% of the Fund's net assets may be invested in securities issued by European entities. This includes securities denominated in a currency other than U.S. dollars.

- The Fund will not purchase securities on margin or borrow funds for the purpose of purchasing securities. This does not limit the Fund's ability to enter into short sales or swaps (excluding total return swaps that are intended to serve as leverage), purchase credit-linked securities, or enter into transactions allowing the Fund to utilize the proceeds of its short sales or swaps.

Performance Benchmark -- The manager's performance will be compared with the Credit Suisse Leveraged Loan Index.

Section 11

INFRASTRUCTURE

INVESTMENT GUIDELINES FOR CARLYLE INFRASTRUCTURE PARTNERS, L.P. FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted April 22, 2010

The Fund is invested in Carlyle Infrastructure Partners, L.P.

- The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1
- The Fund will make commitments to infrastructure assets in the U.S. and Canada over a five year period from final close, with two possible one-year extensions.
- The Fund will focus on investments relating to transportation – toll roads, rail, ports and airports – or water, which encompasses water purification and distribution and wastewater treatment. It may also invest in “convenience” or “necessity” assets such as hospitals, schools or prisons. Unlike other infrastructure funds, CIP will not invest in energy assets such as power distribution lines.
- The Fund will allocate no more than 20% of the fund in a single investment.
- The Fund will allocate no more than 30% in assets located outside the U.S. and Canada.
- The Fund will have a term of 12 years with two one-year extensions.
- The management fee will be 1.5% of committed capital during the commitment period and 1.0% thereafter as well as a 20% carried interest over an 8% preferred return.

Performance Benchmark -- The manager’s performance will be compared with CPI + 500 basis points.

INVESTMENT GUIDELINES FOR
GLOBAL INFRASTRUCTURE PARTNERS, L.P.
FOR THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

Adopted April 22, 2010

The Fund is invested in Global Infrastructure Partners, L.P.

- The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1
- The Fund will make commitments to infrastructure assets globally over a six year period from final close.
- The Fund will focus on investments in transportation (40%), energy (40%) and water (20%) infrastructure assets in OECD and non-OECD countries.
- The Fund will seek to invest in 15 to 25 control-orientated positions.
- The Fund will allocate no more than 20% of the fund in a single investment.
- The Fund will allocate no more than 50% in non-OECD countries and no more than 20% in any one non-OECD country.
- The Fund will have a term of 10 years with two one-year extensions.
- The management fee will be 2.0% of committed capital during the commitment period and 2.0% thereafter as well as a 20% carried interest over an 8% preferred return.

Performance Benchmark -- The manager’s performance will be compared with CPI + 500 basis points.

Section 12

REAL ESTATE

ALEX BROWN REALTY CHESAPEAKE FUND III

- The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

- The Fund's investment strategy will focus on mid-sized real estate assets ($10-20 million), which represent the broadest sector of the U.S. commercial property market. The assets will be acquired through joint ventures with local and regional developers and operators.

- The Fund's expected return is 11-14% net.

- It is expected that the properties in the Fund's portfolio will have a loan-to-value ratio of not more than 65% in the aggregate and not more than 80% per property. The Fund does not intend to acquire commercial mortgage loans. The Fund may invest in residential development parcels these investments typically take the form of preferred equity or mezzanine loans.

- The management fee is 1.5% of committed capital during commitment period; thereafter 1.5% of unreturned capital. The preferred return is 9%. The carried interest is 20% of profit distributions, subordinated to the preferred return (cash flow 50%/50% after preferred return until the carry is satisfied; 80% to the LP's thereafter).

ANGELO GORDON CORE-PLUS REAL ESTATE FUND II

- The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-13 to 1-113.10, and 5-187 to 187.

- The Fund will acquire equity interests in high quality office, retail, multi-family, and industrial real estate predominantly located in the largest U.S. markets, focusing on real estate assets where Angelo Gordon can utilize its value-added expertise to enhance returns.

- The Fund will focus the majority, if not all, of its investment in the US. In addition, the Fund will focus on the 20 largest U.S. markets.

- The Fund's projected return is 12% net.

- There are no investment guidelines available for this manager.

- The management fee is 0.5% of committed capital until invested, then 0.5% of total asset cost (not to exceed 1.25% of equity). There is an incentive fee of 15% to the GP, subject to an 8% cumulative preferred return to the limited partners and a 50% catch-up.

APOLLO EUROPE III

- The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1
- The Fund will be a continuation of the successful investment strategy employed by its two predecessor funds and focus on investing in medium sized investments throughout Europe. Apollo will continue to originate transactions through its longstanding joint venture partner network. Apollo anticipates investing two thirds of the Fund in income producing assets and one third in development. By geography, Apollo anticipates investing 80% in Western Europe and 20% in Central and Eastern Europe. By product type, Apollo anticipates 40-50% in retail with the balance comprising office, residential, and warehousing.
- The Fund's targeted net IRR is 16% and greater.
- Fund investments must be in European real estate. No more than 20% of the Fund may be invested in speculative development. Not more than 10% of the Fund will be invested in raw land. The Fund will be subject to restrictions relating to hostile acquisitions.
- The term of the Fund will be eight years from the final closing. The term may be extended for up to a maximum of two consecutive one-year periods
- The management fee is 1.5% on committed capital during the commitment period and 1.5% on unreturned capital thereafter. There is a 9% preferred return.

DRA GROWTH & INCOME FUND VI

- The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1
- The Fund will invest in a diversified portfolio of office, retail, multi-family, industrial and other real-estate related properties in the U.S. and its territories. The Fund's strategy is the following 1) to use leverage reasonably (70% LTV), 2) diversify by property type and region, particularly investments perceived as out of favor by other investors, 3) negotiate off-market transactions with motivated sellers, and 4) buy assets with reasonable income yields through joint venture relationships.
- The Fund's expected target return is net IRR of 13-15%.
- No more than 20% may be invested in any one property and no more than 20% in development strategies.
- The management fee is 0.90% during the first three years on gross asset cost of properties acquired during acquisition period and 0.60% thereafter. There is an incentive fee of 15% to the GP, subject to an 8% preferred return to the LP's.

DV URBAN I

- The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1
- The Fund's strategy is to invest in real estate transactions in the greater Chicago metropolitan area. The Fund's objectives and purposes are to generate attractive risk-adjusted rates of return through investment in urban real estate in Chicago and, perhaps, in other select urban markets. The Fund will seek to create value through the acquisition, development, redevelopment and repositioning of real estate in its target markets.
- The Fund will not invest more than 30% of the aggregate capital commitments in real-estate related “mezzanine securities” or invest or commit, directly or indirectly, in or to any one project in excess of 15% of the aggregate capital commitments or $5 million, whichever is higher.
- The management fee is 1.5% on committed capital during the commitment period in addition to the management fee a development fee equal to 3% of the total cost (including capitalized interest expense, the cost of the land on which a project is located and all “soft” costs of the project).

EII GLOBAL PROPERTY FUND

- The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1
- The Fund will seek capital appreciation and income through investment in the real estate equity securities of companies worldwide. The strategy will be focused on investing in those countries and sectors with the greatest growth potential, where economic and real estate fundamentals are most attractive.
- The strategy is “benchmark agnostic.” It does not use the benchmark as a starting point for country allocation or stock selection. Instead the strategy focuses on a select portfolio of roughly 40 to 60 securities with the greatest growth potential.
- Overall, the management team targets total returns of 10%-12% over a market cycle.
- The management fee is equal to 75 basis points of the quarter end market value of the account.

Performance Benchmark: The manager's performance will be compared to the FTSE EPRA/NAREIT Developed (Global) Index.

ING GLOBAL REAL ESTATE SECURITIES FUND

- The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1
- The Fund invests in real estate equity securities of companies across North America, Europe and the Asia-Pacific regions. The Fund generally will contain between 80 to 100 securities with an emphasis on current income via the dividend.
- The Fund seeks to outperform the FTSE EPRA/NAREIT Developed (Global) Index over time on average per annum by 200 – 400 basis points gross with a targeted tracking error of approximately 200 – 400 basis points.
- The Fund may invest only in real estate securities. Eligible security types include common stock, preferred stock, convertible preferred stock, convertible debentures, warrants and rights.
- The Fund shall not own more than 10% of the value of its gross assets, at time of purchase, in securities on one issuer.
- The management fee is equal to 65 basis points of the average monthly net asset value of the account.
- Performance Benchmark: The manager's performance will be compared to the FTSE EPRA/NAREIT Developed (Global) Index.

LONE STAR REAL ESTATE FUND

- The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1
- The Fund will invest in a broad range of real estate and real estate related investments where the intention is to take title or control and actively manage, reposition, improve or otherwise add value to the assets, including direct equity investments, real estate debt investments, and real estate operating company investments.
- The Fund's projected return is 20%+ net (25% gross of fees).
- No more than 25% in any individual asset or portfolio. No more than 60% in Canada and the U.S. (of which no more than 50% in the U.S.). No more than 60% in Europe (of which no more than 20% outside of Western Europe, the Czech Republic, Poland and Hungary). No more than 60% in Japan. No more than 20% in South Korea. No more than 30% in other areas of the world, including Mexico and the Caribbean.
- The Fund's term is for eight years from the final closing with the option to extend for up to two one-year periods.

- The management fee during investment period is 1.5% of committed unreturned capital, after investment period: 1.0% of average outstanding capital contributions. There is an 8% preferred return with a 50/50 catch-up to 20%, 80/20 to 25% and 70/30 thereafter.

LONE STAR FUND VI

- The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

- The Fund will target investments in a broad range of financial and other investment assets including, but not limited to, investments in secured and corporate unsecured debt, financially-oriented operating companies, and operating companies with significant real estate assets, through the acquisition of portfolios of assets and entity-level debt and/or equity. Real estate investments will be made in a separate investment vehicle.

- The Fund's projected return is 20%+ net (25% gross of fees).

- No more than 25% in any individual asset or portfolio. No more than 60% in Canada and the U.S. (of which no more than 50% in the U.S.). No more than 60% in Europe (of which no more than 20% outside of Western Europe, the Czech Republic, Poland and Hungary). No more than 60% in Japan. No more than 20% in South Korea. No more than 30% in other areas of the world, including Mexico and the Caribbean.

- The Fund's term is for eight years from the final closing with the option to extend for up to two one-year periods.

- The management fee during investment period is 1.25% of committed unreturned capital, after investment period: 0.75% of average outstanding capital contributions. In addition there is a 50-50 catch-up after an 8% preferred return until a 20% total return on investment; 20% until a 25% total return and 30% thereafter.

MESA WEST REAL ESTATE INCOME FUND II

- The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

- The Fund intends to originate various commercial real estate finance structured products primarily focused on middle-market sized West Coast properties. The Fund's objectives are capital preservation and cash flow generation.

- Unless waived by the Investor Committee, the Fund may invest no more than 15% in any single investment, no more than 20% may be committed to non-real estate secured loans, and stabilized portfolio leverage cannot exceed 75% LTV, no more than 90% on a single transaction.

- The Fund's expected return is 12-14% levered IRR, net of fees and promote.

- The management fee 1.5% per annum on capital committed during the investment period, thereafter 1.5% per annum on total unreturned invested equity. There is an 8% preferred return, after preferred return and return of capital to LP'S, 20% to the GP and 80% to the LP's until LP's receive 12%, thereafter 50% to the GP and 50% to the LP's.

MGP ASIA FUND III

- The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

- The Fund will focus on investments in Japan (31%), South Korea (10%), Malaysia (5%), Singapore (12%), China (25%), and India (5%). Taiwan, Hong Kong, Australia, and Thailand will comprise approximately 12% with a small allocation possible to the emerging markets of Vietnam, Macau, Philippines and Indonesia. MGPA utilizes a ''top-down'' and ''bottom-up'' approach to analyze markets and to identify trends that may give rise to investment opportunities. The ''top-down'' approach focuses on regional macroeconomic trends to identify capital misalignments, structural changes in economies and economic trends. MGPA then combines its macro-economic research with local market data sourced by MGPA's strong local network and its alliances. The ''bottom-up'' approach allows MGPA to identify local trends and opportunities and to apply its macro-economic analysis on a local level.

- The Fund's projected gross IRR is 20-25% and net IRR is 17-20%.

- The Fund may not invest more than 25% in any single asset or more than 30% in any portfolio deal.

- The Fund's investment period will be 3-years from final close. The total term will be 9-years from final close. Two (2) one-year extensions with advisory committee consent. Additional two (2) one-year extensions are possible with the consent of the LPs representing 66.67% of the capital commitments in MGP Asia.

- The management fee is 1.0% of capital commitments plus 1.0% of adjusted net assets during the investment period. 2% on adjusted net assets after the investment period. Net asset value less accumulated unrealized gains plus accumulated unrealized losses equals adjusted net assets.

MORGAN STANLEY PRIME FUND

- The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

- Prime Property Fund's strategy is to maintain a high concentration of diversified investments in prime U.S. real estate that offers stable, highly predictable cash flow returns. The focus will remain on high quality office buildings, high demand multifamily product, warehouse distribution, storage facilities, and top tier super regional malls and power centers in targeted primary markets.

- The Fund favors investing in major metropolitan markets and secondary markets expected to benefit from strong population and employment growth.

- The Fund's expected return is 8-12% gross.

- There are no investment guidelines available for this manager.

- The management fee is comprised of a "Base Fee" and an "Incentive Fee." The Base Fee equals 90 basis points per annum of the NAV (as of the beginning of each calendar quarter) payable quarterly in arrears. The Incentive Fee payable at the end of each calendar year shall not exceed 45 basis points per annum of the "Average Monthly NAV" for the calendar year.

Performance Benchmark: The manager's performance will be compared to the NCREIF Property Index.

MSREF VI INTERNATIONAL

- The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

- The Fund will target investments in non-U.S. real estate portfolios, corporate spin-offs and liquidations, real estate operating companies, direct investments and developments. The Fund may also acquire a limited number of Non-Performing Loan ("NPL") portfolios. The Fund's projected allocation is as follows: Japan 40%, Western Europe (Italy, Germany, U.K., Spain and France) 30%, Other Developed Asian Markets (Hong Kong, South Korea, Taiwan) 5%, China 15%, and Other Emerging Markets (India, Turkey, Mexico, Russia and Brazil) 10%.

- The Fund's expected gross return is 20%+ (15% net).

- There are no investment guidelines available for this manager.
- The Fund's term is for eight years from the final closing with the option to extend for up to two one-year periods.

- The management fee is 1.0% of capital invested in all investments. There is a 1.0% acquisition fee. 0.75% of the acquisition fee is to be rebated making the effective fee 0.25%. In addition there is a 20% promote after return of capital and preferred return of 9%, 60/40 catch-up until GP receives 20% of profits.

PRUDENTIAL PRISA FUND

- The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

- PRISA invests primarily in existing, income producing properties with strong cash flow that is expected to increase over time, and thereby providing the potential for appreciation. PRISA makes investments in office, retail, industrial, apartment, self-storage, and hotel properties

- PRISA's strategy is to produce a total return each year that exceeds the NCREIF Property Index by at least 100 basis points (before fees), while maintaining the benefits of a broadly diversified, core portfolio.

- The Fund's expected return is 12-15% gross.

- There are no investment guidelines available for this manager.

- The management fees consist of annual base management fee, cash flow incentive fee and cash fee paid on quarterly basis, subject to a maximum annual fee. The maximum fee charged to each client is determined each December 31st based on the following schedule:

- Average Account Balance at 12/31: Maximum Fee Percentages:

\$0- \$25 million	120 bps
\$25-\$50 million	115 bps
\$50-\$100 million	110 bps
Over \$100 million	105 bps
Over \$200 million	100 bps
Over \$500 million	100 bps

Performance Benchmark: The manager's performance will be compared to the NCREIF Property Index.

QUADRANT FUND

- The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

- The strategy is constructed and managed to seek an attractive income and total return, a predicable income return, diversification and liquidity. This diversified portfolio will be composed of various real estate assets that fit into four basic groups: real estate equity securities, real estate fixed income securities, real estate private equity and real estate private debt.

- No real estate asset exposure will constitute more than 5% of overall strategy assets. Minimum of 60% in liquid sectors (REITs, CMBS). Maximum of 40% in less liquid, direct sectors (loans, mezzanine debt, equity).

- The Fund's expected target return includes a current return of 8%+ net of fees and a total return of 10%+ net of fees.

- The management fee is an annual rate of 1% of the average monthly net asset value (NAV) of the Fund.

- Performance Benchmark: The manager's performance will be compared to the NCREIF Property Index.

SHAMROCK-HOSTMARK HOTEL FUND

- The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

- The Fund will invest in hotel properties which require redevelopment, renovation, and/or repositioning. The Fund's investments will be in the form of equity and/or mezzanine debt.

- The Fund's projected return is 20%+ gross of fees.

- No more than 25% of the Fund's aggregate capital commitments in any single property or project, no more than $25 million in any single property or project, and no more than 25% of the Fund's aggregate capital in any single metropolitan statistical area.
  The Fund's term is for eight years from the final closing with the option to extend for up to two one-year periods.

- The management fee is 1.5% of capital committed during the commitment period and 1.5% of capital invested but not returned thereafter. There is a 10% preferred return, 20% to the GP after return of capital and preferred return. Next, 20% to LPs and 80% to GP, until GP receives 20% of profits. Thereafter, 70% to LPs and 30% to GP.

UBS TRUMBULL PROPERTY FUND

- The Advisor will comply with all the provisions relating to the Article 1 and 5 of the Illinois Pension Code, specifically Sections, 1-101.2 to 1-101.5, 1-109 and 1-109.1, 1-110, 1-113 to 1-113.10, and 5-187 to 5-187.1

- The Fund's focus is to acquire existing, well-leased properties, or properties with expansion and/or rehabilitation potential and, to a very limited extent, make forward commitments on to-be-built properties. The Fund is primarily a core fund; however, it may make "value added" investments in new development or redevelopment opportunities, properties with lease-up potential, investments with favorable financing in place or properties acquired at prices significantly below replacement cost.

- The long-term strategy for the Fund is to continue to provide broad diversification to maximize portfolio returns while minimizing risk. To ensure reasonable diversification, an asset allocation strategy is employed based on measurements of the market basket of institutional real estate.

- The Fund's expected return is 8-10% gross.

- There are no investment guidelines available for this manager.

- An incentive fee is linked to the Fund's investment objective of a 5% real rate of return. For every 1% over or under the Fund's investment objective, 7.5 basis points are added or subtracted ratably. For the first $100 million of assets, the fee is 90 bps. The minimum annual fee is 75 bps, and the maximum fee is 100 bps. The annual asset charge schedule shown below applies to all assets under the contract and is in addition to the fees described above5.

First $10 million	27.5 bps
Next $15 million	16.0 bps
Next $75 million	13.5 bps
Next $400 million	11.5 bps
Over $500 million	8.5 bps

Performance Benchmark: The manager's performance will be compared to the NCREIF Property Index.

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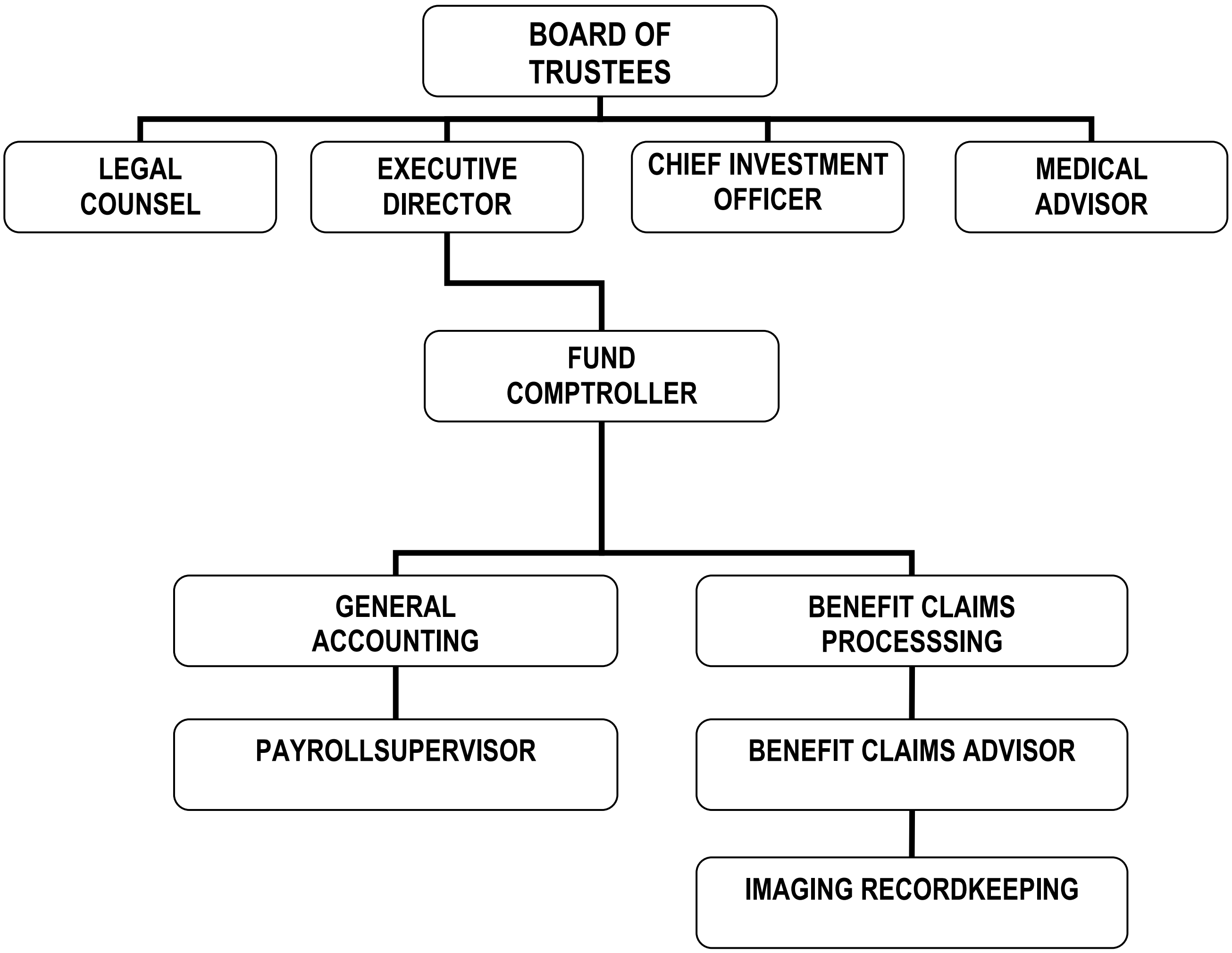
5 Plus an annual $1,200 flat fee

Section 13

SUPPLEMENTAL INFORMATION
POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
ORGANIZATIONAL CHART



POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO BOARD OF TRUSTEES

STAFF

- John J. Gallagher, Jr., (Executive Director)
- Sam Kunz (Chief Investment Officer)
- David Kugler (Legal Counsel)
- Regina Tuczak (Comptroller)
- Pacifico Panaligan (Assistant Comptroller)

THE NORTHERN TRUST COMPANY - CUSTODIAN
231 South LaSalle Street
Chicago, IL 60697

TELEPHONE: (312) 557-0124
FAX: (312) 557-2710

CONTACT: **Richard F. McConville**
Senior Vice President
Relationship Manager
Public Funds / Taft-Hartley

To the Board of Trustees and the Executive Director:

The Northern Trust Company, as custodian ("the Master Custodian") of assets of the Policemen's Annuity and Benefit Fund - City of Chicago (the "Fund"), has provided annual Statements of Account for the Fund's account held by the Master Custodian pursuant to an agreement, dated October 1, 1995 (the "Account") which provide a complete and accurate reflection of the Master Custodian's record of the investments, receipts, disbursements, purchases and sales of securities and other transactions pertinent to the Account.

In addition to the custody of assets, pursuant to and in accordance with the terms of the agreement establishing the Account, the Master Custodian provided and continues to provide the following services as custodian:

1. Receive and hold all amounts paid to the Account by the Board of Trustees.

2. Accept and deliver securities in connection with investment transactions in the Account in accordance with the instructions of appointed investment managers.

3. Collect dividends and registered interest payments.

4. Collect matured or called securities and coupons to the extent provided in the operating guidelines of The Northern Trust Company in effect from time to time.

5. Lend Securities in the Account pursuant to a Securities Lending Agreement entered into by and between the Board of Trustees and The Northern Trust Company.

6. Invest cash balances held from time to time in the individual investment management accounts of the Account in short term-cash equivalent securities.

7. Facilitate the exercising of rights of ownership with respect to securities held in the Account, including but not limited to, proxy voting as directed by the Fund or its appointed investment managers; responding to stock subscriptions, conversion rights, and other capital changes pursuant to procedures set forth in the operating guidelines of The Northern Trust Company in effect from time to time.

8. Hold securities in the Account in the name of the Fund or nominee form or other means as provided in the agreement establishing the Account.

9. Use the Federal Book Entry Account System for deposit of Treasury securities and clearing corporations as defined in Article 8 of the Illinois Uniform Commercial Code for the deposit of other securities.

10. Employ agents to the extent provided in the agreement establishing the Account.

11. Provide disbursement services.

12. Provide security fail float income to the extent provided in the operating guidelines of The Northern Trust Company in effect from time to time.

THE NORTHERN TRUST COMPANY

By:________________________________

Kathryn M. Stevenson, Senior Vice President

NEPC, LLC - INVESTMENT CONSULTANTS

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CONTACTS:

Mr. Kevin Leonard
Senior Consultant

Mr. Michael Cairns
Senior Consultant

NEPC, LLC is an independent, full-service investment consulting firm which provides leading edge investment ideas and proven results to institutional investors. Founded in 1986, the firm has grown currently serves nearly 300 retainer clients with total assets approaching $350 billion. Headquartered in Cambridge, Massachusetts the firm also has offices in Atlanta, Charlotte, Detroit, Las Vegas and San Francisco. NEPC is a 100% employee owned firm with 26 current partners. Through September 2010, the firm employs 168 total employees, of which 108 are investment professionals. The depth and breadth of the firm allows NEPC to consult to all client types including, but not limited to, public retirement systems, corporate pension plans, endowments, foundations, home offices, hospitals and defined contribution plans.

MITCHELL & TITUS, LLP – AUDITORS

116 South Michigan Avenue
Chicago, IL 60603

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CONTACTS: Elsa Trejo

Mitchell & Titus is a professional services firm that provides assurance, tax, transaction support, and advisory services. Founded in 1974 in New York, we have offices in Rutherford (NJ), Philadelphia, Baltimore, Washington, D.C., and Chicago. Bert N. Mitchell, CPA, MBA is the founder and chairman of Mitchell & Titus. Anthony S. Kendall, CPA, MBA, CFE is the chief executive office and Kwabina Appiah, CPA, MBA is the Chief Operating Officer. The Firm has 17 partners and 175 employees.

SCOPE OF OUR AUDIT
Mitchell & Titus LLP will perform an audit of the financial statements of the Policemen Annuity and Benefit Fund of Chicago (The Fund). The objective of our audit is to express an opinion on the fairness, in all material respects, of the presentation of the financial statements in conformity with accounting principles generally accepted in the United States.

We will conduct our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we will express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We will communicate in writing to management and to the Board of Trustees any significant deficiencies and material weaknesses identified during the audit. We will also communicate other opportunities we observe for economies in or improved controls over the Fund's operations.

GABRIEL, ROEDER, SMITH & CO - ACTUARY
20 North Clark Street
Chicago, IL 60602

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CONTACT: Alex Rivera

Gabriel, Roeder, Smith & Company (GRS) was incorporated in 1962 from a merger of A. G. Gabriel & Company, a sole proprietorship that was established in 1938, and another younger sole proprietorship, Roeder & Company. GRS is an independent Michigan corporation, which is 95% employee-owned. Their client base is national in scope. They have a staff of over 100 employees with offices in California, Florida, Illinois, Michigan, and Texas.

In 2001, GRS entered into an alliance with Watson Wyatt through which both firms have agreed to explore joint consulting opportunities. As part of the alliance, GRS acquired Watson Wyatt's U.S. based public sector retirement practice, and a group of Watson Wyatt's consultants and actuaries joined GRS. Watson Wyatt retains a small equity stake in GRS as part of this alliance.

GRS' focus is to provide actuarial and benefit consulting services to retirement systems and plan sponsors. Their clients include over 500 public-sector retirement systems located in over 30 states. Their lines of business include actuarial/retirement consulting, asset consulting, health care consulting, defined benefit administration services, defined contribution administration services, and retirement technologies.

The following reflects the various services that GRS provides to the Policemen's Annuity and Benefit Fund of Chicago:

Year-End Activities - Work with Staff and auditor in finalizing the year-end accounting, including assistance in preparation of the report for the Insurance Department and the CAFR.

Development and presentation of the annual actuarial valuation of the system.

Development of costs of legislative proposals as requested by Staff.

Provide consulting information as needed to the Staff on general situations affecting the Fund, such as GASB activity, Federal regulatory activity, Congressional mandated activity, etc.

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