

THE VILLAGE OF WINNETKA, ILLINOIS  
POLICE PENSION FUND

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PUBLIC ACT 95-0950  
MUNICIPAL COMPLIANCE REPORT

FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2021



November 29, 2022

Members of the Pension Board of Trustees  
Winnetka Police Pension Fund  
Winnetka, Illinois

Enclosed please find a copy of your Municipal Compliance Report for the Winnetka Police Pension Fund for the fiscal year ended December 31, 2021. We have prepared the report with the most recent information available at our office. Should you have more current information, or notice any inaccuracies, we are prepared to make any necessary revisions and return them to you.

The President and Secretary of the Pension Fund are required to sign the report on page 3. If not already included with the enclosed report, please also include a copy of the Pension Fund's most recent investment policy.

The signed Public Act 95-0950 - Municipal Compliance Report must be provided to the Municipality before the tax levy is filed on the last Tuesday in December. We are sending the report via email to promote an environmentally-friendly work atmosphere.

If you have any questions regarding this report, please contact your Client Manager or PSA.

Respectfully submitted,

*Lauterbach & Amen, LLP*

LAUTERBACH & AMEN, LLP

**THE VILLAGE OF WINNETKA, ILLINOIS  
POLICE PENSION FUND**

**Public Act 95-950 - Municipal Compliance Report  
For the Fiscal Year Ending December 31, 2021**

The Pension Board certifies to the Board of Trustees of the Village of Winnetka, Illinois on the condition of the Pension Fund at the end of its most recently completed fiscal year the following information:

- 1) The total cash and investments, including accrued interest, of the fund at market value and the total net position of the Pension Fund:

	<u>Current Fiscal Year</u>	<u>Preceding Fiscal Year</u>
Total Cash and Investments (including accrued interest)	<u>\$41,249,632</u>	<u>\$38,147,156</u>
Total Net Position	<u>\$41,249,632</u>	<u>\$38,147,156</u>

- 2) The estimated receipts during the next succeeding fiscal year from deductions from the salaries of police officers and from other sources:

Estimated Receipts - Employee Contributions	<u>\$281,700</u>
Estimated Receipts - All Other Sources	
Investment Earnings	<u>\$2,784,400</u>
Municipal Contribution	<u>\$1,236,103</u>

- 3) The estimated amount required during the next succeeding fiscal year to (a) pay all pensions and other obligations provided in Article 3 of the Illinois Pension Code, and (b) to meet the annual requirements of the fund as provided in Sections 3-125 and 3-127:

(a) Pay all Pensions and Other Obligations	<u>\$3,118,000</u>
(b) Annual Requirement of the Fund as Determined by:	
Illinois Department of Insurance	<u>\$771,950</u>
Private Actuary - Foster & Foster	
Recommended Municipal Contribution	<u>\$1,236,103</u>
Statutory Municipal Contribution	<u>\$775,669</u>

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**Public Act 95-950 - Municipal Compliance Report  
For the Fiscal Year Ending December 31, 2021**

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

	<u>Current Fiscal Year</u>	<u>Preceding Fiscal Year</u>
Net Income Received from Investment of Assets	<u>\$4,067,163</u>	<u>\$6,019,470</u>
Assumed Investment Return		
Illinois Department of Insurance	<u>6.50%</u>	<u>6.50%</u>
Private Actuary - Foster & Foster	<u>6.75%</u>	<u>6.25%</u>
Actual Investment Return	<u>12.66%</u>	<u>16.44%</u>

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

Number of Active Members	<u>26</u>
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- 6) The total amount that was disbursed in benefits during the fiscal year, including the number of and total amount disbursed to (i) annuitants in receipt of a regular retirement pension, (ii) recipients being paid a disability pension, and (iii) survivors and children in receipt of benefits:

	<u>Number of</u>	<u>Total Amount Disbursed</u>
(i) Regular Retirement Pension	<u>24</u>	<u>\$2,157,506</u>
(ii) Disability Pension	<u>1</u>	<u>\$42,829</u>
(iii) Survivors and Child Benefits	<u>7</u>	<u>\$261,357</u>
Totals	<u>32</u>	<u>\$2,461,692</u>

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7) The funded ratio of the fund:

	<u>Current Fiscal Year</u>	<u>Preceding Fiscal Year</u>
Illinois Department of Insurance	<u>81.53%</u>	<u>76.89%</u>
Private Actuary - Foster & Foster	<u>80.41%</u>	<u>69.22%</u>

8) The unfunded liability carried by the fund, along with an actuarial explanation of the unfunded liability:  
Unfunded Liability:

Illinois Department of Insurance	<u>\$8,498,183</u>
Private Actuary - Foster & Foster	<u>\$9,101,843</u>

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

9) The investment policy of the Pension Board under the statutory investment restrictions imposed on the fund.

Investment Policy - See Attached.

Please see Notes Page attached.

CERTIFICATION OF MUNICIPAL POLICE  
PENSION FUND COMPLIANCE REPORT

The Board of Trustees of the Pension Fund, based upon information and belief, and to the best of our knowledge, hereby certify pursuant to §3-143 of the Illinois Pension Code 40 ILCS 5/3-143, that the preceding report is true and accurate.

Adopted this \_\_\_\_\_ day of \_\_\_\_\_, 2022

President \_\_\_\_\_ Date \_\_\_\_\_

Secretary \_\_\_\_\_ Date \_\_\_\_\_

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INDEX OF ASSUMPTIONS

- 1) Total Cash and Investments - as Reported at Market Value in the Audited Financial Statements for the Years Ended December 31, 2021 and 2020.

Total Net Position - as Reported in the Audited Financial Statements for the Years Ended December 31, 2021 and 2020.

- 2) Estimated Receipts - Employee Contributions as Reported in the Audited Financial Statements for the Year Ended December 31, 2021 plus 3.25% Increase (Actuarial Salary Increase Assumption) Rounded to the Nearest \$100.

Estimated Receipts - All Other Sources:

Investment Earnings - Cash and Investments as Reported in the Audited Financial Statements for the Year Ended December 31, 2021, times 6.75% (Actuarial Investment Return Assumption) Rounded to the Nearest \$100.

Municipal Contributions - Recommended Tax Levy Requirement as Reported by Foster & Foster, Actuarial Valuation for the Year Ended December 31, 2021.

- 3) (a) Pay all Pensions and Other Obligations - Total Non-Investment Deductions as Reported in the Audited Financial Statements for the Year Ended December 31, 2021, plus a 25% Increase, Rounded to the Nearest \$100.

(b) Annual Requirement of the Fund as Determined by:

Illinois Department of Insurance - Suggested Amount of Tax Levy as Reported in the December 31, 2021 Actuarial Valuation.

Private Actuary - Foster & Foster:

Recommended Amount of Tax Levy as Reported by Foster & Foster in the December 31, 2021 Actuarial Valuation.

Statutorily Required Amount of Tax Levy as Reported by Foster & Foster in the December 31, 2021 Actuarial Valuation.

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INDEX OF ASSUMPTIONS

- 4) Net Income Received from Investment of Assets - Investment Income (Loss) net of Investment Expense, as Reported in the Audited Financial Statements for the Years Ended December 31, 2021 and 2020.

Assumed Investment Return:

Illinois Department of Insurance - Current and Preceding Fiscal Year Interest Rate Assumption as Reported in the Years Ended December 31, 2021 and 2020 Actuarial Valuations.

Private Actuary - Current and Preceding Fiscal Year Interest Rate Assumption as Reported in the Years Ended December 31, 2021 and 2020 Actuarial Valuations.

Actual Investment Return - Money Weighted Rate of Return under GASB Pronouncements 67 and 68, as Reported in the Audited Financial Statements for the Fiscal Years Ended December 31, 2021 and 2020.

- 5) Number of Active Members - Illinois Department of Insurance Annual Statement for December 31, 2021 - Schedule P.
- 6) (i) Regular Retirement Pension - Illinois Department of Insurance Annual Statement for December 31, 2021 - Schedule P for Number of Participants and Expense page 1 for Total Amount Disbursed.
- (ii) Disability Pension - Same as above.
- (iii) Survivors and Child Benefits - Same as above.

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INDEX OF ASSUMPTIONS

7) The funded ratio of the fund:

Illinois Department of Insurance - Current and Preceding Fiscal Year Net Present Assets as a percentage of Total Assets as Reported in the December 31, 2021 and 2020 Actuarial Valuations.

Private Actuary - Current and Preceding Fiscal Year Net Present Assets as a percentage of Total Assets as Reported in the December 31, 2021 and 2020 Actuarial Valuations.

8) Unfunded Liability:

Illinois Department of Insurance - Deferred Asset (Unfunded Accrued Liability) as Reported in the December 31, 2021 Actuarial Valuation.

Private Actuary - Deferred Asset (Unfunded Accrued Liability) as Reported by Foster & Foster in the December 31, 2021 Actuarial Valuation.



**Investment Policy Statement  
Village of Winnetka  
Police Pension Fund**

Approved April 24, 2020

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## **I. Introduction**

The Village of Winnetka Police Pension Fund is a defined benefit, single employer pension plan. Although a single employer pension plan, the defined benefits, as well as the employee and employer contribution levels are mandated by Illinois State Statutes and may be amended only by the Illinois State Legislature. The Plan provides retirement, death, and disability benefits for its participants.

## **II. Statement of Purpose**

**Mission statement** The fundamental goal of the Village of Winnetka Police Pension Fund is to provide pension benefits to plan participants. As such, the Board of Trustees will invest plan assets solely in the interests of plan participants and beneficiaries, for the exclusive purpose of providing pension benefits to plan participants and beneficiaries.

**Investment philosophy** The Board of Trustees believes that plan assets should be managed in a fashion that reflects the plan's unique liabilities and funding resources, incorporating accepted investment theory and reliable, empirical evidence. Specifically, the Board has adopted the following principles:

- That asset allocation is the key determinant of return and, therefore, commitments to asset allocation targets will be maintained through a disciplined rebalancing program.
- That diversification, both by and within asset classes, is a primary risk control element.
- That the investment program is ultimately for the purpose of meeting the pension plan's obligations for benefit payments.
- That the investment program must be cognizant of the total pension plan's cash flow obligations.

**Goals and objectives** For total plan assets, the goals and objectives are as follows:

- The foremost purpose of the Fund is to provide for the payment of pension benefits to current eligible beneficiaries and future beneficiaries over an infinite period of time.
- Over the long-term, the assets of the plan should be preserved thus the preservation of capital is a primary objective.
- To preserve and/or improve the actuarial soundness of the plan in order to meet benefit obligations.
- To prudently manage the inherent investment risks that are related to the achievement of investment goals.
- Overall level of risk (volatility) in the total plan is comparable to the risk associated with the target benchmarks specified below. Risk may be measured by the annualized standard deviation of returns.
- A long-term (one to two market cycles) rate of return, net of fees, of at least the actuarial earnings rate.
- A long-term (one to two market cycles) rate of return, net of fees, in excess of its policy benchmark and/or appropriate peer groups. The policy benchmark is a hypothetical portfolio of index funds weighted by asset allocation targets.

<b>Policy Benchmark</b>		
<b>Asset Class</b>	<b>Index</b>	<b>Target Weight</b>
US Equity – large cap value	Russell 1000 Value	15%
US Equity – large cap growth	Russell 1000 Growth	15%
US Equity – mid cap value	Russell Mid Cap Value	5%
US Equity – small cap value	Russell Small Cap Value	4%
US Equity – small cap growth	Russell Small Cap Growth	4%
Non-US Equity	MSCI AC World ex USA	16%
Real Estate Equity	NCREIF ODCE	5%
US Fixed Income	Bloomberg Barclays Intermediate Aggregate	36%
		100%

### **III. Roles and Responsibilities**

**Board of Trustees** Within the parameters established under Illinois Statutes, the Board has the responsibility of establishing and maintaining broad policies and objectives for all aspects of the Fund's operation. In keeping with their obligation to serve as governing fiduciaries, changes to any of the following will require the Board's involvement and approval.

- The investment policy statement and appendices;
- The strategic asset allocation;
- Performance benchmarks for the strategic asset allocation; and
- All other issues of the investment policy statement not specifically enumerated here.

#### **Investment Consultant**

1. Assists the Board of Trustees in developing investment policy guidelines, including asset class choices, asset allocation targets, and risk diversification.
2. Conducts investment manager searches when requested by the Board of Trustees.
3. Provides the Board of Trustees with objective information on a broad spectrum of investment decisions and assists in evaluating the merits of each particular investment product or investment manager, as to their track records, management styles, and quality.
4. Monitors the performance of the aggregate plan and the investment managers and provides regular quarterly reports to the Board of Trustees, which aids them in determining the progress toward the investment objectives.
5. Serves as a fiduciary to the Pension Fund.
6. Monitors investment managers to ensure compliance with the Illinois Pension Code.

#### **Investment Managers**

- **Duties** – Investment managers will select, buy, and sell specific securities pursuant Illinois Statutes or prospectus, and the investment policy and guidelines contained in contractual agreements, which may be amended from time to time. Discretion is delegated to the investment managers to carry out investment actions as directed by the Fund.
- **Standard of care** – The standard of prudence applied to investment managers shall be the prudent expert standard and shall be applied in the context of managing an overall portfolio.
- **Acknowledgement of fiduciary obligations** – Separately managed investment managers will acknowledge in writing that they are a fiduciary of the pension plan.

- **Disclosure of fees** – Separately managed investment managers must fully disclose on a quarterly basis any direct or indirect fees, commissions, and any other compensation that was received by them, including reimbursement for expenses paid by or on behalf of the investment manager in connection with its services to the Fund.
- **Communication** – Separately managed investment managers will provide the Board with reporting on, at least a quarterly basis, the market value of all holdings as well as the gross of fees and net of fees rates of return. Net of fees rates of return are to be calculated after the payment of investment fees, and any other compensation. Investment managers must also promptly communicate any major changes in policy, in the investment organization or investment team.
- **Conflicts of interest** – Investment managers are prohibited from knowingly causing or advising the Fund to engage in any investment transaction in which they have any direct interest in the income, gains or profits of the broker or other entity through which the investment transaction is made or has a business relationship with the broker or other entity that would result in a pecuniary benefit to the investment manager as a result of the transaction.

**Other external providers** The Fund shall retain custodians, actuaries, accounting professionals, investment consultants, depository/financial institutions, and attorneys to implement its investment program.

- The custodian(s) will hold cash and securities. The custodian will be responsible for providing a records maintenance system, fund accounting on a trade date basis, and other services as defined in the contract.
- A depository/financial institution(s) may be utilized to accept and hold cash prior to allocating it to the investment managers, and to invest such cash in liquid, interest-bearing instruments.
- The Fund will retain an actuary to prepare actuarial valuations and periodically analyze the actuarial assumptions and experience of the plan.
- The Fund will retain accounting professionals and ensure an independent audit of the financials is performed and review internal controls.
- The Fund may retain an investment consultant to independently prepare performance reports on the total plan and each investment manager, as well as conduct investment manager and custodial searches, prepare investment policy/asset allocation analysis, and assist in associated investment related issues.
- **Standard of care** – The standard of prudence applied to other external providers shall be the prudent expert standard.
- **Acknowledgement of fiduciary obligations** – The external providers will acknowledge in writing that they are fiduciaries of the pension plan.

#### IV. Asset Allocation

The purpose of Section IV is to manage risk associated with investment in an asset class (i.e., systematic risk). Risk associated with an investment in an individual security (non-systematic risk) is addressed in Section V.

**Role and importance of asset allocation** The asset allocation decision is generally regarded as the most important decision to be made in the investment management process. The purpose of a strategic asset allocation is to provide an optimal mix of investments that has the potential to produce the desired returns with the least amount of fluctuation in the overall value of the investment portfolio. By spreading funds among several styles or investment types, there is an increased probability that if one investment type is decreasing in value, another is increasing in value.

**Asset allocation range** To further the long-term goals and objectives of the Fund set forth in Section II, the following asset allocation guidelines are established.

<b>Asset Allocation Range</b>			
<b>Asset Class</b>	<b>Minimum*</b>	<b>Target</b>	<b>Maximum*</b>
	<b>%</b>	<b>%</b>	<b>%</b>
<b>Total Equity</b>	<b>45</b>	<b>64</b>	<b>65</b>
Total US Equity	40	43	53
US Equity – large cap	25	30	40
US Equity – mid cap	2	5	8
US Equity – small cap	4	8	12
Total Non-US Equity	6	16	20
Non-US Equity	6	16	20
Total Real Estate Equity	0	5	10
Real Estate Equity	0	5	10
<b>Total Fixed Income and Cash</b>	<b>35</b>	<b>36</b>	<b>45</b>
US Fixed Income	30	36	50
Cash and Cash equivalents	0	0	10

\*Minimum and Maximum may not add up to 100%.

**Rebalancing policy** The primary purpose of rebalancing is to ensure that the Fund adheres to its strategic asset allocation, which is the Fund’s explicit statement of its investment approach.

The Fund will carry out rebalancing in a cost-effective manner. If feasible, cash flow, as well as indexed and mutual fund investment strategies, will be used to maintain target allocations. Securities may be liquidated from the over-funded investment managers until the desired allocations are met.

The Board and investment consultant will review the portfolio at least twice a year to determine if rebalancing is required.

## **V. Investment Guidelines**

The purpose of Section V is to limit the risk associated with an investment in an individual security (e.g., non-systematic risk). The selection of investments will be guided by the prudent person and prudent expert standards.

**Prohibited investments** As a unit of local government in the State of Illinois, the Village of Winnetka Police Pension Fund is regulated by 40 ILCS 5/1-113.1 through 5/1-113.10.

**Permissible investments** For separately managed investment managers, permissible investments include those investments permitted by Illinois Statutes and this policy. As a unit of local government in the State of Illinois, the Village of Winnetka Police Pension Fund is regulated by 40 ILCS 5/1-113.1 through 5/1-113.10.

### **Sustainable Investment Policy**

Per the provisions of the Illinois Pension Code relating to Public Act 101-0473 Illinois Sustainable Investing Act, the Pension Fund may consider sustainability factors such as:

- (1) corporate governance and leadership factors;
- (2) environmental factors;
- (3) social capital factors;
- (4) human capital factors; and
- (5) business model and innovation factors.

## **VI. Reporting / Performance Monitoring**

The purpose of monitoring and reporting on investment performance is for the Board to be able to (a) ensure compliance with plan's policy and applicable law, (b) manage the risk of the portfolio, and (c) assess the performance of the total plan and investment managers retained by the Fund.

**Quarterly reporting by investment manager** On a quarterly basis, the Finance Director shall receive the following information:

- An outline of current strategy and investments;
- Investment managers' performance relative to the assigned benchmark index; and
- Separately managed investment managers' performance reported gross of fee and net of fee.



**Quarterly reporting by the investment consultant** On a quarterly basis the Board of Trustees shall receive the following information:

- Portfolio performance relative to the assigned benchmark/index and peer group; and
- Portfolio composition relative to the asset allocation policy.

Reports should contain the following:

- A review of performance relative to assigned benchmarks and peer groups for the most recent quarter end, for one-, three-, and five-year periods ending with the most recent quarter. Performance relative to assigned benchmarks will be reported for the total portfolio, for each asset class, and for each investment manager.
- Both gross of fee and net of fee performance calculations shall be presented for separately managed investment managers.

**Communications** Listed below are the reports required and the appropriate individuals who will receive copies of these reports:

- |   |  |
|---|--|
| A. Custodial Monthly Statements             | Village Finance Director and Investment Consultant |
| B. Consultant Quarterly Performance Reports | All Trustees and Village Finance Director          |
| C. Investment Manager Quarterly Reports     | Village Finance Director and Investment Consultant |
| D. Determination of Benefits                | Village Finance Director and all Trustees          |

The Board, at minimum, expects to meet with the investment consultant quarterly.

It is the Board's responsibility to relate to the investment consultant and investment managers any changes that might affect the investment of the Fund's assets.

## **Appendix A Ethics and Conflicts of Interest**

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

In addition, the Board of Trustees or staff managing the investment manager contract should comply with the following ethical considerations:

- Adherence to all jurisdiction's and pension board's ethics laws, rules, and regulations related to procurement and involvement with contractors, including those related to political contributions; and
- Disclosure to Board of Trustees of any inherent or potential conflicts of interest in dealing with specific investment advisers prior to taking any official action.

## **Appendix B**

### **Village of Winnetka Internal Control Procedures Promulgated by the Finance Director as of April 2020**

#### **Authorized Persons:**

Persons authorized to purchase investments and release collateral:

Finance Director  
Assistant Finance Director  
Village Manager

#### **Investment Transactions and Security Measures:**

All investment transactions shall be processed, as delivery versus payment or DVP, to ensure that the Village ownership of securities purchased or sold is always clear. All Village investments shall be:

- 1) Held by a third party financial institution and evidenced by a safekeeping agreement in a form acceptable to the Village and the Village's independent auditors.
- 2) Purchased, sold, and held such that the lowest possible level of risk, as defined by the Governmental Accounting Standards Board (GASB), can be maintained for the investment.

The Village shall utilize security codes mutually agreed to by the Village and financial institutions to process investment transactions, collateral transactions, and wire transfers. At a minimum, these procedures shall include at least one of the following: passwords, taped phone conversations, call back on non-repetitive wire transfers, limiting authorized account numbers, and designation of repetitive transaction types.

#### **Internal Controls:**

The internal controls as stated in the policy will be performed monthly.

The Village Accountant or Assistant Finance Director shall prepare and initial monthly bank reconciliations within 60 days of the cut off statement date. The Finance Director shall approve of the monthly reconciliations by initialing and dating them.

The Village's investment consultant, who serves as a fiduciary of the Fund, shall prepare quarterly performance reports of the investment portfolio. The December investment performance reports shall be retained by the Pension Fund for a period of at least 5 years.

**List of Authorized Investment Advisors, Investment Money Managers, and Financial Institutions**

**As of April 2020**

- 1) Harris Bank
- 2) Any Federal Reserve Bank
- 3) Wells Fargo Bank
- 4) Wintrust Financial Corporation
- 5) AndCo Consulting
- 6) J.P. Morgan Chase
- 7) Seizert Capital Partners, LLC
- 8) ClearBridge Investments
- 9) T. Rowe Price Associates
- 10) Virtus Investment Partners
- 11) Hood River Capital Management LLC
- 12) American Funds
- 13) CS McKee Investment Managers
- 14) Garcia Hamilton & Associates
- 15) Principal Real Estate Investors

Approved this 24<sup>th</sup> day of APRIL, 2020 by the  
Village of Winnetka Police Pension Board of Trustees

President John D. O'Malley Jr