

# **Illinois Metropolitan Investment Fund**

**Comprehensive Annual Financial Report  
Year ended September 30, 2008**

# ILLINOIS METROPOLITAN INVESTMENT FUND

Comprehensive Annual Financial Report  
Year Ended September 30, 2008

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**INTRODUCTORY SECTION**



# Illinois Metropolitan Investment Fund

Investing together for  
our communities

**Scott Bordui**

Director of Finance  
Village of Flossmoor  
*Chairman*

**Elizabeth Holleb**

Director of Finance  
City of Highland Park  
*Vice Chairman*

**Robert Nowak**

Director of Finance  
Village of Skokie  
*Treasurer*

**Sue Stanish**

Director of Finance  
Village of Willowbrook  
*Secretary*

**Kevin Barr**

Village Manager  
Village of Schiller Park  
*Trustee*

**Jerry Ducay**

Village Administrator  
Village of Frankfort  
*Trustee*

**Christy Powell**

Superintendent of Finance  
& Personnel  
Geneva Park District  
*Trustee*

**Gary Szott**

Director of Finance/Treasurer  
Village of Bloomingdale  
*Trustee*

**Laura F. Allen**

*Executive Director*

**Debra A. Zimmerman**

*Associate Director*

Dear Fellow IMET Participants:

We hereby submit to you the twelfth Comprehensive Annual Financial Report of the Illinois Metropolitan Investment Fund (IMET), which covers the fiscal year of October 1, 2007 through September 30, 2008. The 2008 fiscal year was both a challenging and a rewarding year, as IMET dealt with unprecedented market conditions. The fact that IMET is completing fiscal year 2008 with over \$400 million in combined assets is a notable achievement, largely accomplished through the skillful management and teamwork of board, staff, advisors, and the members themselves. Staff's contact with members, along with corresponding member confidence in IMET's board and staff, have contributed significantly to members remaining invested in IMET and sustaining IMET through the markets of the past year. We are pleased to report that IMET continued to serve and add value to the investment portfolios of its members, and we are grateful that the IMET membership responded favorably and worked together in continuing our mission to provide safety, yield, and liquidity for our members' investment portfolios.

The economy was particularly volatile in fiscal 2008, as what started as turmoil in the US real estate market during the prior fiscal year quickly amplified into the sub-prime crisis. The federal funds rate fell from 4.75% at the beginning of fiscal 2008 to 2.00% at the end of the fiscal year. This interest rate environment, and resulting flight to safety, proved beneficial for investors in both the IMET Convenience Series and the IMET 1-3 Year Series. The IMET Convenience Series return is fixed to the federal funds target rate, which was at or greater than 2.00% for the entire fiscal year. The IMET Convenience Series finished the year with a rate of 3.01% for fiscal year 2008. Interest rates also proved beneficial for the IMET 1-3 Year Series, particularly due to the flight to safety in U.S. Government Securities. IMET's portfolio managers at JP Morgan Asset Management continued to look for value and return in duration of investments. The IMET 1-3 Year Series finished the year with an outstanding rate of 5.28% for fiscal year 2008. Combined net assets for both series increased by 4.2 percent during the fiscal year from \$386,933,372 to \$403,046,631. IMET proudly welcomed 8 new members in fiscal 2008 and now serves more than 180 municipalities, pension funds, and other public agencies.

During this fiscal year, IMET showed proactive and strong leadership in negotiating an enhanced interest rate for the Convenience Fund in January 2008. Further, IMET issued a Request for Proposal for Convenience Fund services in August 2008 to ensure the ongoing ability to provide the best service possible to IMET participants at a reasonable pooled rate of return beginning in calendar year 2009. In accordance with the evaluation of the proposals, the IMET Board of Trustees selected Charter One Bank as the new provider of Convenience Fund services. IMET's previous partner, JPMorgan Chase Bank, provided Convenience Fund services to IMET from the inception of the fund in September 2003 through December 31, 2008.

As a result of the new partnership, IMET benefits from several important enhancements:

- IMET was able to obtain a multiyear agreement with Charter One Bank to provide Convenience Fund services to our members. This will mitigate the uncertainty of rate fluctuations to members and provide for consistency over a longer period of time, with a strong rate guarantee.
- Marketing support has been enhanced through our new relationship with Charter One Bank, enabling a greater outreach of IMET services to current bank customers.
- Members will experience improved efficiencies through Charter One Bank's commitment to IMET, with their dedicated team of professionals servicing the Convenience Fund.

IMET has had several other accomplishments during fiscal year 2008, such as the creation of our member outreach program. The goal of the member outreach program is to connect with our members through direct telephone contact to share information about IMET's products, services, and performance. To that end, additional marketing materials and charts were developed to help illustrate IMET's outstanding ability to consistently outperform competition, while we continue to offer the safety of a triple-A rated fund. Another important endeavor that began in fiscal year 2008 is our renewed work with our sponsoring Councils of Governments to research ways to enhance our working relationship, strengthen our affiliation, and be more mutually supportive organizations. Finally, through the expertise and oversight of our Board and staff, we were able to improve our reporting mechanisms with our business partners to provide additional detailed fund information. These additional controls have reduced some redundancy of work and improved the overall effectiveness of the Fund's operation.

Our Committees were active during the year. Our New Products Committee was very active this past year reviewing proposals in an effort to provide value-added products and services. The New Products Committee continues to explore options such as a longer-term investment pool to offer to our members. The RFP Committee was also very active in issuing Requests for Proposals for our Convenience Fund services and reviewing the corresponding responses. This process resulted in improved efficiencies for the Fund and an enhanced relationship with our new business partner.

IMET's 1-3 Year Series continues to qualify for the highest ratings available from Standard & Poor's rating service for its credit and market risk ratings. Standard & Poor's continues to assign IMET its 'AAAF' credit quality rating, based on the extremely high quality of the Fund's portfolio as well as the adviser's strong risk management and compliance oversight capabilities, and 'S1' volatility rating due to its low sensitivity to changing market conditions. To receive the highest ratings possible in these difficult economic times is a continuing source of pride and security for IMET and its members.

Finally, in fiscal year 2008, IMET extended a warm goodbye and best wishes to Board member Chris Minick (formerly Village Administrator of the Village of Plainfield). We recognize Chris with appreciation for his service to IMET during its transition of the Executive Director position and are indebted to Chris for his contributions to IMET's success. IMET also welcomed the arrival of new trustee Jerry Ducay, Village Administrator of the Village of Frankfort, who replaced Chris as the appointed representative of the Will County Governmental League. Each member of the board, each volunteer on IMET's standing committees, and each participant make IMET the strong, creative, and cooperative membership organization that it is and will continue to be.

The IMET Board and staff look forward to continuing to work with IMET participants for the long-term success of the IMET fund. We are happy to offer IMET's services to all the public agencies in the state of Illinois.

In service with you,



Scott Bordui  
IMET Chair



Laura F. Allen  
IMET Executive Director

# **ILLINOIS METROPOLITAN INVESTMENT FUND**

Board of Trustees  
September 30, 2008

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## **ILLINOIS METROPOLITAN INVESTMENT FUND**

1616 E. Golf Road  
Des Plaines, IL 60016  
Telephone: (847) 296-9200, ext. 38  
Facsimile: (847) 296-9207

### **BOARD OF TRUSTEES**

Chairman: Scott Bordui  
Village of Flossmoor

Vice Chair: Elizabeth Holleb  
City of Highland Park

Treasurer: Robert Nowak  
Village of Skokie

Secretary: Sue Stanish  
Village of Willowbrook

Trustee: Kevin Barr  
Village of Schiller Park

Trustee: Jerry Ducay  
Village of Frankfort

Trustee: Christy Powell  
Geneva Park District

Trustee: Gary Szott  
Village of Bloomingdale

Executive Director: Laura F. Allen

# **ILLINOIS METROPOLITAN INVESTMENT FUND**

Supporting Chicago Area Councils of Government  
and External Advisors  
September 30, 2008

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## **SUPPORTING CHICAGO AREA COUNCILS OF GOVERNMENT**

### **DUPAGE MAYORS AND MANAGERS CONFERENCE**

Mark Baloga  
Executive Director

### **NORTHWEST MUNICIPAL CONFERENCE**

Mark Fowler  
Executive Director

### **SOUTH SUBURBAN MAYORS AND MANAGERS ASSOCIATION**

Ed Paesel  
Executive Director

### **WEST CENTRAL MUNICIPAL CONFERENCE**

Richard F. Pellegrino  
Executive Director

### **WILL COUNTY GOVERNMENTAL LEAGUE**

Steven Quigley  
Executive Director

## **EXTERNAL ADVISORS**

**INVESTMENT ADVISOR**  
JP Morgan Asset Management  
Chicago, Illinois  
Columbus, Ohio

**FUND ACCOUNTANT**  
PMA Financial Network  
Warrenville, Illinois

**CUSTODIAN**  
Harris Bank  
Chicago, Illinois

## **EXTERNAL PERFORMANCE MONITORING**

The Consulting Group of Smith Barney  
Deerfield, Illinois

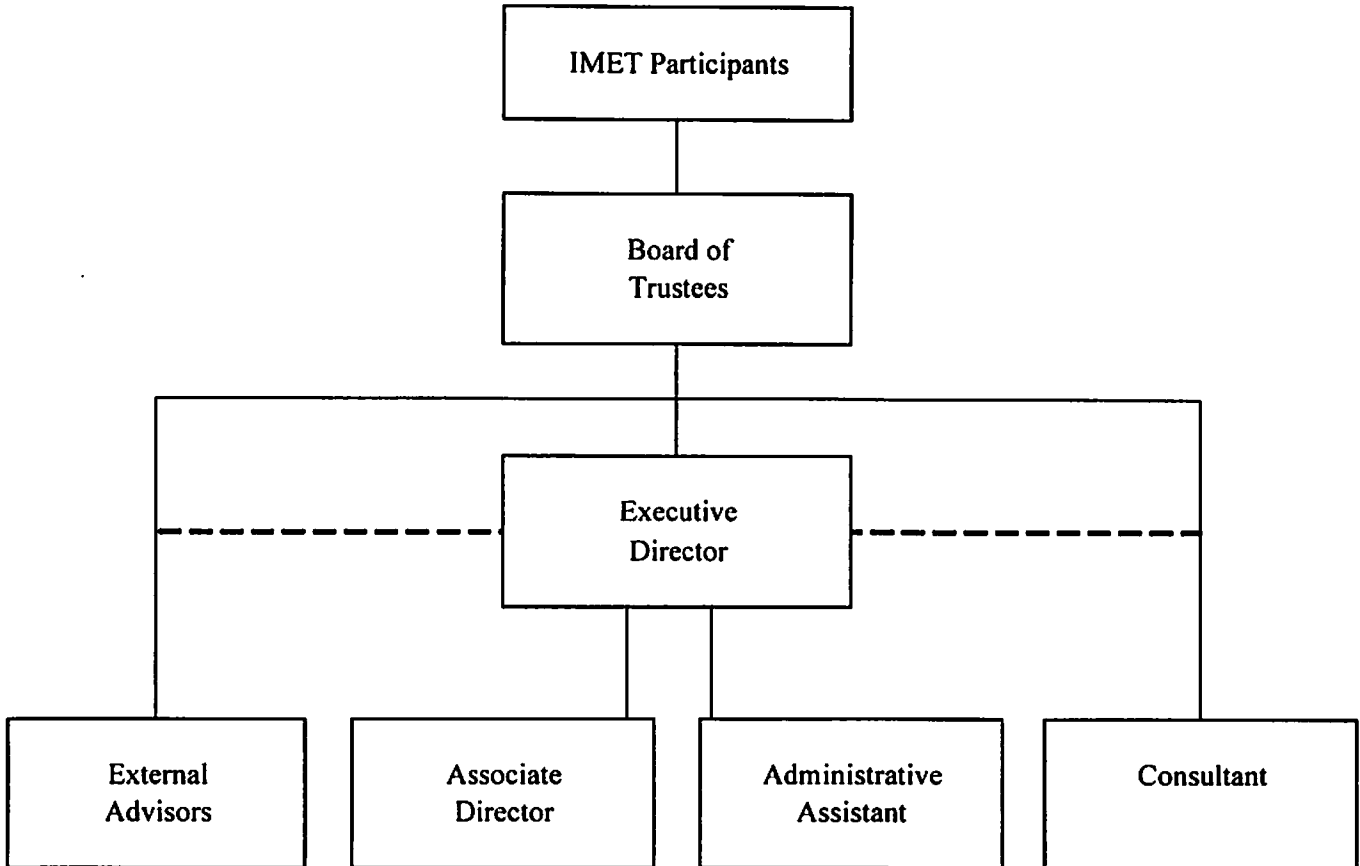
**LEGAL COUNSEL**  
Chapman and Cutler LLP  
Chicago, Illinois



# ILLINOIS METROPOLITAN INVESTMENT FUND

Organizational Chart  
September 30, 2008

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**FINANCIAL SECTION**

# MILLER COOPER & Co., Ltd

ACCOUNTANTS AND CONSULTANTS

## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Illinois Metropolitan Investment Fund  
Des Plaines, Illinois

We have audited the accompanying combining statement of net assets of the Illinois Metropolitan Investment Fund (IMET) as of September 30, 2008, and the related combining statement of changes in net assets for the year then ended. These financial statements are the responsibility of IMET's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Illinois Metropolitan Investment Fund as of September 30, 2008, and the changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 7 and the schedule of funding progress on page 20 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise IMET's financial statements. The accompanying schedule of investments, listed in the table of contents as supplementary information, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

(Continued)

The Board of Trustees  
Illinois Metropolitan Investment Fund  
Des Plaines, Illinois

(Continued)

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The accompanying introductory and other statistical information sections, as listed in the table of contents, are presented for the purposes of additional analysis and are not a required part of the financial statements. This information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

MILLER, COOPER & CO., LTD.

*Miller, Cooper & Co., Ltd.*

Certified Public Accountants

Deerfield, Illinois  
January 9, 2009

**ILLINOIS METROPOLITAN INVESTMENT FUND**  
**Management's Discussion and Analysis**  
**Year ended September 30, 2008**

Management is pleased to provide this overview and analysis of the financial activities of the Illinois Metropolitan Investment Fund (IMET) for the years ended September 30, 2008 and September 30, 2007. This information is intended to supplement the financial statements, which begin on page eight of the report.

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*Financial Highlights*

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The 2008 fiscal year saw an increase in assets, as total assets increased by \$16,143,722 to a balance of \$403,167,866 as of September 30, 2008. Total assets of the IMET 1-3 Year Series increased by \$49,526,747 to a balance of \$182,010,662 during fiscal year 2008, while total assets of the IMET Convenience Series decreased by \$33,383,025 to a balance of \$221,157,204 as of September 30, 2008.

During fiscal year 2007, total assets of IMET (including the IMET 1-3 Year Series and the IMET Convenience Series) increased by \$37,215,272 to a balance of \$387,024,144 as of September 30, 2007. Total assets of the IMET 1-3 Year Series increased by \$1,684,506 to a balance of \$132,483,915, while total assets of the IMET Convenience Series increased by \$35,530,766 to a balance of \$254,540,229 as of September 30, 2007.

Participants' equity in IMET was \$386,933,372 (\$132,424,610 in the IMET 1-3 Year Series and \$254,508,762 in the IMET Convenience Series) as of September 30, 2007 and \$403,046,631 (\$181,920,272 in the IMET 1-3 Year Series and \$221,126,359 in the IMET Convenience Series) as of September 30, 2008.

During fiscal year 2007, IMET's 1-3 Year Series successfully accomplished its investment objective of meeting or exceeding the return on the benchmark Lehman 1-3 Year Government Bond Index on a gross-of-fees basis while also outperforming the 90-Day Treasury Bill rate. Although IMET's 1-3 Year Series did not outperform the benchmark Lehman 1-3 Year Government Bond Index on a gross-of-fees basis in fiscal year 2008, IMET's 1-3 Year Series did outperform the 90-Day Treasury Bill rate, providing an outstanding net return to members of 5.28 percent. Due to an extremely volatile market environment and declining interest rate scenario throughout fiscal year 2008, the IMET Convenience Series provided a highly competitive investment option for members with a net 12 month return of 3.01 percent.

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*Overview of the Financial Statements*

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The two basic financial statements of the Fund are the *Combining Statement of Net Assets* and the *Combining Statement of Changes in Net Assets*. The statements are prepared in conformity with accounting principles generally accepted in the United States of America.

The *Combining Statement of Net Assets* is a measure of the Fund assets and liabilities at the close of the fiscal year. Total assets less liabilities equal net assets held in trust for IMET participants.

**ILLINOIS METROPOLITAN INVESTMENT FUND**  
**Management's Discussion and Analysis**  
**Year ended September 30, 2008**

The following table is a Condensed Statement of Net Assets for the years ended September 30, 2008 and September 30, 2007.

|                   | <b>Condensed Statement of Net Assets</b> |                                    |                                       |                                       |                       |                       |
|-------------------|--|------------------------------------|---------------------------------------|---------------------------------------|-----------------------|-----------------------|
|                   | IMET<br>1-3 Year<br>Series<br>2008       | IMET<br>1-3 Year<br>Series<br>2007 | IMET<br>Convenience<br>Series<br>2008 | IMET<br>Convenience<br>Series<br>2007 | Total<br>2008         | Total<br>2007         |
| Total assets      | \$ 182,010,662                           | \$ 132,483,915                     | \$ 221,157,204                        | \$ 254,540,229                        | \$ 403,167,866        | \$ 387,024,144        |
| Total liabilities | \$ 90,390                                | \$ 59,305                          | \$ 30,845                             | \$ 31,467                             | \$ 121,235            | \$ 90,772             |
| Total net assets  | <u>\$ 181,920,272</u>                    | <u>\$ 132,424,610</u>              | <u>\$ 221,126,359</u>                 | <u>\$ 254,508,762</u>                 | <u>\$ 403,046,631</u> | <u>\$ 386,933,372</u> |

The *Combining Statement of Changes in Net Assets* shows purchases to and redemptions (withdrawals) from the Fund, as well as additions and deductions due to operations during the fiscal year. The net increase (or decrease) is the change in net assets owned by participants since the end of the previous fiscal year. The following table is a Condensed Statement of Changes in Net Assets for the years ended September 30, 2008 and September 30, 2007.

|   | <b>Condensed Statement of Changes in Net Assets</b> |                                    |                                       |                                       |                       |                        |
|---|---|------------------------------------|---------------------------------------|---------------------------------------|-----------------------|------------------------|
|   | IMET<br>1-3 Year<br>Series<br>2008                  | IMET<br>1-3 Year<br>Series<br>2007 | IMET<br>Convenience<br>Series<br>2008 | IMET<br>Convenience<br>Series<br>2007 | Total<br>2008         | Total<br>2007          |
| Total additions from operations   | \$ 8,523,439  | \$ 7,531,491                       | \$ 7,628,873                          | \$ 12,907,429                         | \$ 16,152,312         | \$ 20,438,920          |
| Total operating expenses  | \$ 432,838  | \$ 406,101                         | \$ 387,639                            | \$ 412,780                            | \$ 820,477            | \$ 818,881             |
| Net additions from operations   | <u>\$ 8,090,601</u>                                 | <u>\$ 7,125,390</u>                | <u>\$ 7,241,234</u>                   | <u>\$ 12,494,649</u>                  | <u>\$ 15,331,835</u>  | <u>\$ 19,620,039</u>   |
| Total distributions   | <u>\$ -</u>   | <u>\$ -</u>                        | <u>\$ (7,241,234)</u>                 | <u>\$ (12,494,649)</u>                | <u>\$ (7,241,234)</u> | <u>\$ (12,494,649)</u> |
| Net additions (deductions) from capital share and individual account transactions | <u>\$ 41,405,061</u>                                | <u>\$ (5,465,484)</u>              | <u>\$ (33,382,403)</u>                | <u>\$ 35,544,563</u>                  | <u>\$ 8,022,658</u>   | <u>\$ 30,079,079</u>   |
| Net increase (decrease)   | <u>\$ 49,495,662</u>                                | <u>\$ 1,659,906</u>                | <u>\$ (33,382,403)</u>                | <u>\$ 35,544,563</u>                  | <u>\$ 16,113,259</u>  | <u>\$ 37,204,469</u>   |
| Net assets held in trust for participants:  |   |                                    |                                       |                                       |                       |                        |
| Beginning of year   | <u>\$ 132,424,610</u>                               | <u>\$ 130,764,704</u>              | <u>\$ 254,508,762</u>                 | <u>\$ 218,964,199</u>                 | <u>\$ 386,933,372</u> | <u>\$ 349,728,903</u>  |
| End of year   | <u>\$ 181,920,272</u>                               | <u>\$ 132,424,610</u>              | <u>\$ 221,126,359</u>                 | <u>\$ 254,508,762</u>                 | <u>\$ 403,046,631</u> | <u>\$ 386,933,372</u>  |

**ILLINOIS METROPOLITAN INVESTMENT FUND**  
**Management's Discussion and Analysis**  
**Year ended September 30, 2008**

The *Notes to the Financial Statements* are a fundamental part of the financial statements and provide important information to augment the figures in the financial statements. The notes describe accounting policies and other financial information.

A *Schedule of Investments* is included to detail the types and amounts of investment instruments held by the IMET 1-3 Year Series.

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*Financial Statement Analysis*

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*Net Assets*

The interest rate environment stabilized for most of fiscal year 2007, as rates were kept constant until the end of fiscal 2007, when they were lowered once in September 2007. Total net assets of IMET increased by \$37,204,469 to a total balance of \$386,933,372 during fiscal year 2007. This net increase in total assets, in large part, was the result of participants investing bond proceeds and available short-term funds in IMET's shorter-term investment alternative, the IMET Convenience Series. However, some members sensed a buying opportunity towards the end of fiscal 2007 for the 1-3 Year Series when interest rates started to fall in September of 2007. Participants made net purchases in the IMET 1-3 Year Series of \$1,659,906 during fiscal year 2007, and participants made corresponding purchases in the IMET Convenience Series of \$35,544,563. The IMET Convenience Series was introduced in September 2003 in anticipation of a prolonged rising interest rate environment, and it provides participants with an additional investment alternative and greater predictability of returns.

During the year ended September 30, 2008, IMET's total net assets increased by \$16,113,259, to a total balance of \$403,046,631. Fiscal year 2008 saw an aggressive continuation of a multiyear campaign to lower interest rates in an effort to get the U.S. economy out of a recession. This resulted in a significant increase in the assets of the 1-3 Year Series, as many members transferred money from the Convenience Series into the 1-3 Year Series. IMET also benefited from the flight to safety in its 1-3 Year Series performance returns, resulting in additional new dollar investments.

*Operations*

During the current fiscal year ended September 30, 2008, total additions from operations consisted of \$14,381,032 in interest income and net appreciation in the fair value of investments of \$1,771,280. These amounts may be compared with \$18,792,132 of interest income and net appreciation in fair value of investments of \$1,646,788 during the prior fiscal year, for total additions of \$16,152,312 in fiscal year 2008 compared to \$20,438,920 in fiscal year 2007.

Operating expenses of IMET were \$820,477 for the current fiscal year compared with \$818,881 for the prior fiscal year.

**ILLINOIS METROPOLITAN INVESTMENT FUND**  
**Management's Discussion and Analysis**  
**Year ended September 30, 2008**

*Summary of IMET Operations*

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During fiscal year 2008, IMET issued a Request for Proposals for Convenience Fund services to ensure the ongoing ability to provide the best service possible to IMET participants for a new term beginning in 2009. As a result of the new partnership, IMET members will experience improved efficiencies through Charter One Bank's commitment to IMET, with its dedicated team of professionals servicing the Convenience Fund. IMET's previous partner, JPMorgan Chase Bank, provided Convenience Fund services to IMET from the inception of the Fund in September 2003 until the conversion date of December 31, 2008.

Other accomplishments during fiscal year 2008 include the creation of our member outreach program to help us connect with our members to share important information about IMET's products, services, and performance. Additionally, new marketing materials and charts were developed to help illustrate IMET's outstanding ability to consistently outperform competition while we continue to offer the safety of a triple-A rated fund. These marketing materials will be utilized in our renewed efforts to work directly with our sponsoring Councils of Governments to enhance our working relationship, strengthen our affiliation, and be more mutually supportive organizations. Lastly, through the expertise and oversight of our Board and staff, we were able to improve our reporting mechanisms with our business partners to provide additional detailed fund information. These additional controls have reduced some redundancy of work and improved the overall effectiveness of the Fund's operation.

*Investment Performance*

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In fiscal year 2007, the IMET 1-3 Year Fund outperformed both the benchmark and the 90-Day Treasury Bill rate, and provided a gross return of 5.90 percent versus 5.72 percent for the Lehman Index, 5.60 percent for IMET's *net* 12 month return, and 5.22 percent for 90-Day Treasury Bills. The IMET Convenience Fund rate held steady for most of fiscal 2007, with a decline in the rate once during the fiscal year in the month of September. IMET's Convenience Fund provided a return of 5.47 percent for fiscal year 2007.

During fiscal year 2008, IMET did not outperform the benchmark Lehman 1-3 Year Government Bond Index on a gross-of-fees basis. However, IMET's 1-3 Year Series did outperform the 90-Day Treasury Bill rate. IMET ended the fiscal year with a gross one-year return of 5.56 percent versus a one-year return of 5.90 percent for the Lehman Index, 5.28 for IMET's *net* 12 month return, and 2.90 percent for 90-Day Treasury Bills. The IMET Convenience Fund outperformed the 90-Day Treasury Bill rate as well, with a return of 3.01 percent to participants for the fiscal year ended September 30, 2008.

For additional information regarding performance returns of IMET and asset allocation, please refer to the Other Statistical Information (Unaudited) section on page 26 of this report.



**ILLINOIS METROPOLITAN INVESTMENT FUND**  
**Management's Discussion and Analysis**  
**Year ended September 30, 2008**

*Requests for Information*

Questions about any information provided in this report should be addressed to:

**The Illinois Metropolitan Investment Fund (IMET)**  
**ATTN: Executive Director**  
**1616 E. Golf Road**  
**Des Plaines, Illinois 60016**

**Illinois Metropolitan Investment Fund**  
Combining Statement of Net Assets  
September 30, 2008

|   | <u>IMET<br/>1 - 3 Year<br/>Series</u> | <u>IMET<br/>Convenience<br/>Series</u> | <u>Total</u>          |
|---|---------------------------------------|--|-----------------------|
| <b>ASSETS</b>   |                                       |  |                       |
| Cash and short-term investments   | \$ 475,004                            | \$ 221,157,204                         | \$ 221,632,208        |
| Interest receivable   | 1,650,136                             | -                                      | 1,650,136             |
| Securities sold receivable  | 46,545                                | -                                      | 46,545                |
| Investments at fair value:  |                                       |  |                       |
| U.S. Treasury obligations   | 93,907,722                            | -                                      | 93,907,722            |
| U.S. Government agency obligations  | 78,237,590                            | -                                      | 78,237,590            |
| Mortgage backed securities  | 5,108,310                             | -                                      | 5,108,310             |
| Money market mutual funds   | 2,585,355                             | -                                      | 2,585,355             |
| Total assets  | <u>182,010,662</u>                    | <u>221,157,204</u>                     | <u>403,167,866</u>    |
| <b>LIABILITIES</b>  |                                       |  |                       |
| Payables:   |                                       |  |                       |
| Management fee  | 47,875                                | -                                      | 47,875                |
| Administrative and other  | 42,515                                | 30,845                                 | 73,360                |
| Total liabilities   | <u>90,390</u>                         | <u>30,845</u>                          | <u>121,235</u>        |
| <b>NET ASSETS</b>   |                                       |  |                       |
| Net assets held in trust for participants<br>(units outstanding: 10,279,838 and 221,126,359<br>at September 30, 2008 for IMET 1-3 Year<br>Series and IMET Convenience Series,<br>respectively; equivalent to \$17.70 and \$1.00<br>per unit outstanding at September 30, 2008<br>for IMET 1-3 Year Series and IMET<br>Convenience Series, respectively) |                                       |  |                       |
| Total net assets  | <u>\$ 181,920,272</u>                 | <u>\$ 221,126,359</u>                  | <u>\$ 403,046,631</u> |

The accompanying notes are an integral part of this statement.

**Illinois Metropolitan Investment Fund**  
Combining Statement of Changes in Net Assets  
Year ended September 30, 2008

|   | IMET<br>1 - 3 Year<br>Series | IMET<br>Convenience<br>Series | Total          |
|---|------------------------------|-------------------------------|----------------|
| <b>Additions from operations:</b>   |                              |                               |                |
| Investment income   |                              |                               |                |
| Interest  | \$ 6,752,159                 | \$ 7,628,873                  | \$ 14,381,032  |
| Net appreciation in fair value of investments                                     | 1,771,280                    | -                             | 1,771,280      |
| Total additions from operations   | 8,523,439                    | 7,628,873                     | 16,152,312     |
| <b>Deductions from operations:</b>  |                              |                               |                |
| Operating expenses:   |                              |                               |                |
| Management and administrative services  | 331,965                      | 387,639                       | 719,604        |
| Compensation and related expenses   | 161,919                      | -                             | 161,919        |
| Professional services   | 15,000                       | -                             | 15,000         |
| Insurance   | 33,127                       | -                             | 33,127         |
| Audit   | 18,867                       | -                             | 18,867         |
| Marketing   | 35,648                       | -                             | 35,648         |
| Administrative and other  | 81,516                       | -                             | 81,516         |
| Less reimbursements for operating expenses  | (245,204)                    | -                             | (245,204)      |
| Total operating expenses  | 432,838                      | 387,639                       | 820,477        |
| Net additions from operations   | 8,090,601                    | 7,241,234                     | 15,331,835     |
| <b>Distributions</b>  |                              |                               |                |
| Distributions of income to participants   | -                            | (7,241,234)                   | (7,241,234)    |
| Total distributions   | -                            | (7,241,234)                   | (7,241,234)    |
| <b>Capital share and individual account transactions:</b>                         |                              |                               |                |
| Proceeds from sale of units to participants                                       | 59,565,003                   | 104,123,895                   | 163,688,898    |
| Distributions reinvested by participants  | -                            | 7,241,234                     | 7,241,234      |
| Cost of units redeemed by participants  | (18,159,942)                 | (144,747,532)                 | (162,907,474)  |
| Net additions (deductions) from capital share and individual account transactions | 41,405,061                   | (33,382,403)                  | 8,022,658      |
| Net increase (decrease) in net assets held in trust for participants              | 49,495,662                   | (33,382,403)                  | 16,113,259     |
| <b>Net assets held in trust for participants:</b>                                 |                              |                               |                |
| Beginning of year   | 132,424,610                  | 254,508,762                   | 386,933,372    |
| End of year   | \$ 181,920,272               | \$ 221,126,359                | \$ 403,046,631 |

The accompanying notes are an integral part of this statement.

# **Illinois Metropolitan Investment Fund**

## **Notes to the Financial Statements**

September 30, 2008

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### **NOTE A - NATURE OF OPERATIONS**

The Illinois Metropolitan Investment Fund (IMET) is a quasi-governmental investment fund created under the Illinois Municipal Code. IMET, which was formed on July 17, 1996, actively manages two investment funds for municipal treasurers, official custodians of municipal funds, and other public agencies in the state of Illinois. These funds are the IMET 1-3 Year Series and the IMET Convenience Series. IMET also offers arbitrage rebate calculation services for participants whose bond proceeds are subject to federal arbitrage restrictions.

The IMET 1-3 Year Series is designed as an investment vehicle for funds not required for immediate expenditure and which are available for investment in securities with average maturities and returns generally greater than those for money market instruments.

The objectives of the IMET 1-3 Year Series are to provide a high current yield while maintaining safety and liquidity and to offer participation in a diversified portfolio of high-quality fixed income instruments permitted for investment under the Public Funds Investment Act of the State of Illinois. The IMET 1-3 Year Series seeks to ensure the preservation of capital with the objective of obtaining an appropriate market rate of return in relation to the prevailing monetary environment as measured by the Lehman Brothers 1-3 year Government Bond Index.

The IMET Convenience Series was established on September 2, 2003 as an investment alternative exclusively for IMET participants. All IMET participants have immediate access to an IMET Convenience Series account; no additional application is needed. The IMET Convenience Series is a fully collateralized, short-term money market instrument with one-day liquidity. It currently provides a return that is pegged to the federal funds target interest rate. It is intended for use as a short-term investment for funds that may or may not be needed for near-term disbursement.

The objective of the IMET Convenience Series is to provide a high current return while maintaining the safety and liquidity of public funds. The IMET Convenience Series serves as a companion vehicle to the IMET 1-3 Year Series and Arbitrage Rebate Calculation service. It provides a money market vehicle for the convenient investment of bond proceeds, for the temporary investment of longer-term intermediate funds, and/or for cash management and liquidity purposes.

**Illinois Metropolitan Investment Fund**  
Notes to the Financial Statements  
September 30, 2008

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Illinois Metropolitan Investment Fund (IMET) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of IMET's accounting policies are described below.

1. **Reporting Entity**

The financial reporting entity consists of a primary government as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Based upon the required criteria, IMET has no component units and is not a component unit of any other entity.

2. **Cash and Short-term Investments**

At September 30, 2008, the IMET 1-3 Year Series had \$475,004 segregated for administrative costs and future investment activity. These funds are invested in money market funds and included as cash and short-term investments on the statement of net assets.

3. **Security Valuation**

Investments of the IMET 1-3 Year Series are reported at fair value based on market quotations obtained from a third-party provider. Securities for which quotations are not available are stated at fair value as determined by the Board of Trustees.

The IMET Convenience Series' investments are reported at cost, which approximates fair value based on the nature of the investment.

4. **Security Transactions and Income**

Security transactions are accounted for no later than one business day after the securities are purchased or sold. Gains and losses on investments are realized at the time of the sale and the cost of securities sold is determined on the first-in, first-out basis. Interest income from fixed income and money market investments is accrued on a daily basis. Discounts and premiums on all fixed income securities are amortized or accreted on a constant-yield basis.

**Illinois Metropolitan Investment Fund**  
Notes to the Financial Statements  
September 30, 2008

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

5. **Subscriptions and Redemptions**

Participants may subscribe to either of the funds on any business day. Purchase instructions received by IMET before 12:00 noon are credited to accounts at the net asset value as of the close of business that day. Participants may redeem shares of the IMET 1-3 Year Series with five days' notice at the net asset value as of the close of business on the third business day following the day of notification. Participants may redeem from the IMET Convenience Series with one day notice at the net asset value as of the day following notification. Redemptions from the IMET Convenience Series that are requested by noon central time will be completed on the same day.

6. **Use of Estimates**

In preparing IMET's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE C - DEPOSITS AND INVESTMENTS**

At September 30, 2008, the bank balance and carrying amount of the IMET 1-3 Year Series' deposits were \$473,181 and \$475,004, respectively, representing the balance of cash and short-term investments. The deposits of the IMET 1-3 Year Series are insured, registered, or collateralized by securities recorded in the IMET 1-3 Year Series' name and held by the IMET 1-3 Year Series' agent.

At September 30, 2008, the bank balance and carrying amount of the IMET Convenience Series' deposits was \$221,157,204. The deposits of the IMET Convenience Series are insured, registered, or collateralized by securities recorded in the IMET Convenience Series' name and held by the IMET Convenience Series' agent.

**Illinois Metropolitan Investment Fund**  
Notes to the Financial Statements  
September 30, 2008

**NOTE C - DEPOSITS AND INVESTMENTS** (Continued)

The following table presents a summarization of the fair values and duration of the IMET 1-3 Year Series investments at September 30, 2008.

|                                    | Fair Value     | Duration<br>(in years) |
|------------------------------------|----------------|------------------------|
| U.S. Treasury obligations          | \$ 93,907,722  | 1.67                   |
| U.S. Government agency obligations | 78,237,590     | 1.54                   |
| Mortgage backed securities         | 5,108,310      | 2.95                   |
| Money market mutual funds          | 2,585,355      | -                      |
| Total investments                  | \$ 179,838,977 | 1.64                   |

1. **Interest Rate Risk**

Through its investment policy, IMET manages its exposure to fair value losses of the IMET 1-3 Year Series arising from increasing interest rates by limiting the duration of its investment portfolio to within 25% of that of the Lehman Brothers 1-3 Year Government Bond Fund, under normal conditions. The duration for total investments represents the weighted average of the durations for the respective categories of investments. The duration for the Lehman Brothers 1-3 Year Government Bond Fund was 1.71 years as of September 30, 2008.

2. **Credit Risk**

The investments in U.S. Treasury and Agency obligations carry the explicit guarantee of the United States Government. The investments in mortgage-backed securities are rated in the top rating category issued by nationally recognized statistical rating organizations. The investment in the Fidelity Institutional Money Market is not subject to credit risk categorization.

3. **Concentration of Credit Risk**

IMET's investment policy for the IMET 1-3 Year Series does not restrict the allowable concentration of total assets invested in the securities of the United States Government, its agencies, or mortgage pass-through securities.

**Illinois Metropolitan Investment Fund**  
Notes to the Financial Statements  
September 30, 2008

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**NOTE D - FUND EXPENSES - IMET 1-3 YEAR SERIES**

The total expenses, including consulting fees, for the IMET 1-3 Year Series were approximately 0.4% of the average daily net assets for the year ended September 30, 2008. The average daily net assets of the IMET 1-3 Year Series were approximately \$170.2 million for the year ended September 30, 2008. The contractually obligated expenses are described below.

1. **Fund Management**

IMET pays a management fee to JP Morgan Asset Management, which acts as the investment advisor.

In accordance with the amended advisory agreement effective January 1, 2005, the management fee is calculated each day and paid monthly based upon the average daily net assets of the fund as follows:

|                                  | <u>Fee Rate</u> |
|----------------------------------|-----------------|
| Average daily net assets:        |                 |
| Until Fund reaches \$500 million | 0.105%          |
| After Fund reaches \$500 million | 0.080%          |

Effective November 1, 2006, IMET entered into an agreement with PMA Financial Network, Inc. to provide administrative services including fund accounting and transfer agent services. The fee associated with these services is calculated at an annual rate of 0.06% of the average daily net assets within the fund.

Also effective November 1, 2006, IMET entered into an agreement with Harris, N.A. to provide custody services. The fee associated with these services is calculated at an annual rate of 0.01% of the average daily net assets within the fund.

For the year ended September 30, 2008, the IMET 1-3 Year Series incurred expenses of \$178,787 for services provided by JP Morgan Asset Management, \$102,164 for services provided by PMA Financial Network, and \$17,027 for services provided by Harris, N.A.



**Illinois Metropolitan Investment Fund**  
Notes to the Financial Statements  
September 30, 2008

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**NOTE D - FUND EXPENSES - IMET 1-3 YEAR SERIES (Continued)**

2. **Consultant**

The DuPage Mayors & Managers Conference, Northwest Municipal Conference, South Suburban Mayors & Managers Association, West Central Municipal Conference, and the Will County Governmental League act collectively as the IMET 1-3 Year Series' Consultant. Services provided by the Consultant typically include identification and solicitation of potential investors. The IMET 1-3 Year Series pays the Consultant an annual fee in arrears equal to 0.02% of the IMET 1-3 Year Series' average daily net assets for each fiscal year, not to exceed \$125,000 in any fiscal year. No annual fee shall be payable for any fiscal year unless the assets of the IMET 1-3 Year Series exceed \$100 million for at least 31 consecutive calendar days during such fiscal year and the total return to fund participants for such fiscal year equals or exceeds the average 90-day Treasury bill rate during such fiscal year. For fiscal year 2008, the IMET 1-3 Year Series' return exceeded the average 90-day Treasury bill rate. Accordingly, the IMET 1-3 Year Series incurred consulting fees expense of \$33,987 for the year ended September 30, 2008.

3. **Administrative and Other Expenses**

In accordance with the various agreements, the IMET 1-3 Year Series calculates a daily accrual, at a rate of 0.105% , applied to the Series' net assets. The amounts accrued are deposited monthly in a money market fund and are withdrawn as needed to cover actual administrative expenses incurred to operate and market the IMET 1-3 Year Series, including the cost of the Executive Director and staff of IMET. To the extent that the accrued amounts exceed the actual expenses in any period, the IMET 1-3 Year Series may use these amounts to pay future expenses. The amount accrued in fiscal year 2008 totaled \$178,787. Amounts remaining in the money market fund are included in net assets, and, accordingly, the amount accrued and the related expense have been eliminated within the Statement of Net Assets of the 1-3 Year Series.

**NOTE E - FUND EXPENSES - IMET CONVENIENCE SERIES**

1. **Fund Management**

Effective November 1, 2006, IMET entered into an agreement with PMA Financial Network, Inc. to provide administrative services including fund accounting and transfer agent services. The fee associated with these services is calculated at an annual rate of 0.06% of the average daily net assets within the fund.

**Illinois Metropolitan Investment Fund**  
**Notes to the Financial Statements**  
September 30, 2008

**NOTE E - FUND EXPENSES - IMET CONVENIENCE SERIES (Continued)**

1. **Fund Management (Continued)**

For the year ended September 30, 2008, the IMET Convenience Series incurred expenses of \$141,356 for services provided by PMA Financial Network, Inc.

2. **Administrative and Other Expenses**

In accordance with the various operating agreements, the IMET Convenience Series calculates a daily accrual, at a rate of 0.11% (0.09% through December 31, 2007), applied to the Series' net assets. The amounts accrued are deposited monthly in a separate money market fund and are withdrawn as needed to cover actual administrative expenses incurred to operate and market the IMET Convenience Series, including the cost of the Executive Director and staff of IMET. To the extent that the accrued amounts exceed the actual expenses in any period, the IMET Convenience Series may use these amounts to pay future expenses. The amount accrued in fiscal year 2008 totaled \$246,283.

**NOTE F - UNIT TRANSACTIONS**

A summary of participants' unit transactions for the year ended September 30, 2008 is as follows:

|                          | <u>IMET<br/>1 - 3 Year<br/>Series</u> | <u>IMET<br/>Convenience<br/>Series</u> |
|--------------------------|---------------------------------------|--|
| Unit transactions:       |                                       |  |
| Issued                   | 3,435,928                             | 104,123,895                            |
| Distributions reinvested | -                                     | 7,241,234                              |
| Redeemed                 | <u>(1,033,723)</u>                    | <u>(144,747,532)</u>                   |
| Change in units          | 2,402,205                             | (33,382,403)                           |
| Unit outstanding:        |                                       |  |
| Beginning of year        | <u>7,877,633</u>                      | <u>254,508,762</u>                     |
| End of year              | <u>10,279,838</u>                     | <u>221,126,359</u>                     |

**Illinois Metropolitan Investment Fund**  
Notes to the Financial Statements  
September 30, 2008

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**NOTE G - RETIREMENT FUND COMMITMENTS - ILLINOIS MUNICIPAL RETIREMENT FUND**

IMET's defined benefit pension plan provides retirement and disability benefits, postretirement increases, and death benefits to plan members and beneficiaries. IMET's plan is affiliated with the Illinois Municipal Retirement Fund (IMRF), an agent multiple-employer plan. Benefit provisions are established by statute and may only be changed by the General Assembly of the State of Illinois.

IMRF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained on-line at [www.imrf.org](http://www.imrf.org).

As set by statute, plan members are required to contribute 4.5% of their annual covered salary. The statutes require IMET to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The employer contribution rate for calendar year 2007 was 19.08% of annual covered payroll. IMET also contributes for disability benefits, death benefits, and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by the IMRF Board of Trustees, while the supplemental retirement benefits rate is set by statute.

For calendar year 2007, IMET's annual pension cost of \$27,848 was equal to IMET's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at December 31, 2005 included: (a) 7.5% investment rate of return (net of administrative and direct investment expenses), (b) projected salary increases of 4% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4% to 10.0% per year depending on age and service, attributable to seniority/merit, and (d) postretirement benefit increases of 3% annually. The actuarial value of plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period with a 15% corridor between the actuarial and market value of assets. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2007 was 30 years.

## Illinois Metropolitan Investment Fund

### Notes to the Financial Statements

September 30, 2008

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#### NOTE G - RETIREMENT FUND COMMITMENTS - ILLINOIS MUNICIPAL RETIREMENT FUND (Continued)

##### 1. Trend Information

| <u>Calendar<br/>Year<br/>Ending</u> | <u>Annual<br/>Pension<br/>Cost</u> | <u>Percentage<br/>of APC<br/>Contributed</u> | <u>Net<br/>Pension<br/>Obligation</u> |
|-------------------------------------|------------------------------------|--|---------------------------------------|
| 12/31/2007                          | \$ 27,848                          | 100%   | \$ -                                  |
| 12/31/2006                          | 26,410                             | 100%   | -                                     |
| 12/31/2005                          | 19,931                             | 100%   | -                                     |
| 12/31/2004                          | 20,870                             | 100%   | -                                     |
| 12/31/2003                          | 8,082                              | 100%   | -                                     |

IMET began participating in the Illinois Municipal Retirement Fund during the calendar year ended December 31, 2003. Accordingly, only five years of trend information have been presented.

##### 2. Funding Status and Funding Progress

As of December 31, 2007, the most recent actuarial valuation date, the plan was 92.03% funded. The actuarial accrued liability for benefits was \$183,139 and the actuarial value of assets was \$168,549, resulting in an underfunded actuarial accrued liability (UAAL) of \$14,590. The covered payroll (annual payroll of active employees covered by the plan) was \$145,953 and the ratio of the UAAL to the covered payroll was 10%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Illinois Metropolitan Investment Fund**  
Required Supplementary Information - Schedule of Funding Progress  
Illinois Municipal Retirement Fund  
September 30, 2008

| Actuarial<br>Valuation<br>Date | (1)<br>Actuarial<br>Value of<br>Assets | (2)<br>Actuarial Accrued<br>Liability (AAL)<br>- Entry Age | (2) - (1)<br>Unfunded<br>AAL<br>(UAAL) | (1) / (2)<br>Funded<br>Ratio | (3)<br>Covered<br>Payroll | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>((2-1)/3) |
|--------------------------------|--|--|--|------------------------------|---------------------------|---|
| 12/31/2007                     | \$ 168,549                             | \$ 183,139   | \$ 14,590                              | 92.03%                       | \$ 145,953                | 10.00%  |
| 12/31/2006                     | 125,560                                | 257,833  | 132,273                                | 48.70%                       | 168,429                   | 78.53%  |
| 12/31/2005                     | 88,603                                 | 207,086  | 118,483                                | 42.79%                       | 161,387                   | 73.42%  |
| 12/31/2004                     | 49,367                                 | 135,388  | 86,021                                 | 36.46%                       | 162,665                   | 52.88%  |
| 12/31/2003                     | 12,072                                 | 57,025   | 44,953                                 | 21.17%                       | 62,993                    | 71.36%  |

IMET began participating in the Illinois Municipal Retirement Fund during the calendar year ended December 31, 2003. Accordingly, only five years of information have been presented in the schedule of funding progress.

On a market value basis, the actuarial value of assets as of December 31, 2007 is \$175,863. On a market basis, the funded ratio would be 96.03%.

Digest of Changes

The actuarial assumptions used to determine the actuarial accrued liability for 2007 are based on the 2002-2004 Experience Study. The principal changes were:

- The 1994 Group Annuity Mortality implemented.
- Fewer normal and more early retirements are expected to occur.

**SUPPLEMENTARY INFORMATION**

**Illinois Metropolitan Investment Fund**  
Schedule of Investments  
IMET 1-3 Year Series  
September 30, 2008

| Units/<br>par value                              | Description                                   | Rate   | Maturity   | Market<br>value   |
|--|---|--------|------------|-------------------|
| <b>U.S. Treasury Obligations: 52.2%</b>          |   |        |            |                   |
| \$ 5,000,000                                     | U.S. Treasury Note                            | 4.875% | 5/15/2009  | \$ 5,094,900      |
| 5,000,000  | U.S. Treasury Note                            | 4.875% | 8/15/2009  | 5,127,750         |
| 1,500,000  | U.S. Treasury Note                            | 4.875% | 8/15/2009  | 1,538,325         |
| 5,000,000  | U.S. Treasury Note                            | 3.375% | 9/15/2009  | 5,071,100         |
| 3,500,000  | U.S. Treasury Note                            | 3.375% | 10/15/2009 | 3,554,145         |
| 3,000,000  | U.S. Treasury Note                            | 3.375% | 10/15/2009 | 3,046,410         |
| 2,000,000  | U.S. Treasury Strips                          | None   | 11/15/2009 | 1,960,800         |
| 3,000,000  | U.S. Treasury Note                            | 4.625% | 11/15/2009 | 3,091,410         |
| 2,000,000  | U.S. Treasury Note                            | 3.250% | 12/31/2009 | 2,033,120         |
| 3,000,000  | U.S. Treasury Note                            | 3.250% | 12/31/2009 | 3,049,680         |
| 3,000,000  | U.S. Treasury Note                            | 3.625% | 1/15/2010  | 3,068,430         |
| 1,000,000  | U.S. Treasury Note                            | 6.500% | 2/15/2010  | 1,063,050         |
| 1,500,000  | U.S. Treasury Note                            | 6.500% | 2/15/2010  | 1,594,575         |
| 2,500,000  | U.S. Treasury Note                            | 6.500% | 2/15/2010  | 2,657,625         |
| 2,000,000  | U.S. Treasury Note                            | 1.750% | 3/31/2010  | 1,995,460         |
| 3,000,000  | U.S. Treasury Note                            | 1.750% | 3/31/2010  | 2,993,190         |
| 2,000,000  | U.S. Treasury Note                            | 4.000% | 4/15/2010  | 2,065,320         |
| 2,000,000  | U.S. Treasury Note                            | 2.625% | 5/31/2010  | 2,022,340         |
| 3,000,000  | U.S. Treasury Note                            | 2.625% | 5/31/2010  | 3,033,510         |
| 8,500,000  | U.S. Treasury Note                            | 2.750% | 7/31/2010  | 8,632,175         |
| 4,500,000  | U.S. Treasury Note                            | 2.750% | 7/31/2010  | 4,569,975         |
| 2,500,000  | U.S. Treasury Note                            | 4.375% | 12/15/2010 | 2,627,550         |
| 1,000,000  | U.S. Treasury Strips                          | None   | 2/15/2011  | 952,050           |
| 1,000,000  | U.S. Treasury Strips                          | None   | 2/15/2011  | 952,050           |
| 3,000,000  | U.S. Treasury Note                            | 4.500% | 2/28/2011  | 3,173,670         |
| 3,000,000  | U.S. Treasury Note                            | 4.750% | 3/31/2011  | 3,197,340         |
| 1,106,470  | U.S. Treasury Inflation-Protected<br>Security | 2.375% | 4/15/2011  | 1,119,095         |
| 2,500,000  | U.S. Treasury Note                            | 4.875% | 4/30/2011  | 2,675,400         |
| 2,500,000  | U.S. Treasury Note                            | 4.875% | 4/30/2011  | 2,675,400         |
| 1,650,000  | U.S. Treasury Note                            | 5.125% | 6/30/2011  | 1,780,317         |
| 2,000,000  | U.S. Treasury Note                            | 5.125% | 6/30/2011  | 2,157,960         |
| 3,000,000  | U.S. Treasury Note                            | 4.625% | 8/31/2011  | 3,200,160         |
| 2,000,000  | U.S. Treasury Note                            | 4.625% | 8/31/2011  | 2,133,440         |
|  |   |        |            | <b>93,907,722</b> |
| <b>U.S. Government Agency Obligations: 43.5%</b> |   |        |            |                   |
| 3,000,000  | Federal Farm Credit Bank                      | 3.625% | 10/24/2008 | 3,000,930         |
| 2,000,000  | Federal Home Loan Mortgage Corp.              | 4.625% | 12/19/2008 | 2,005,620         |

(Continued)



**Illinois Metropolitan Investment Fund**  
Schedule of Investments (Continued)  
IMET 1-3 Year Series  
September 30, 2008

| Units/<br>par value                            | Description                      | Rate   | Maturity   | Market<br>value |
|--|----------------------------------|--------|------------|-----------------|
| U.S. Government Agency Obligations (Continued) |                                  |        |            |                 |
| \$ 3,366,000                                   | Federal Home Loan Mortgage Corp. | 4.875% | 2/17/2009  | \$ 3,385,994    |
| 1,700,000                                      | Federal Home Loan Bank           | 5.885% | 3/30/2009  | 1,722,321       |
| 1,500,000                                      | Federal Home Loan Bank           | 2.375% | 4/21/2009  | 1,492,965       |
| 4,000,000                                      | Federal Home Loan Mortgage Corp. | 5.250% | 5/21/2009  | 4,046,240       |
| 1,100,000                                      | Federal Home Loan Bank           | 5.250% | 6/12/2009  | 1,115,466       |
| 1,000,000                                      | Federal Farm Credit Bank         | 4.125% | 7/17/2009  | 1,007,500       |
| 1,000,000                                      | Federal Farm Credit Bank         | 5.250% | 8/3/2009   | 1,017,190       |
| 2,000,000                                      | Federal Home Loan Bank           | 5.125% | 8/5/2009   | 2,032,500       |
| 1,500,000                                      | Federal Home Loan Mortgage Corp. | 6.625% | 9/15/2009  | 1,548,750       |
| 1,500,000                                      | Federal Home Loan Mortgage Corp. | 6.625% | 9/15/2009  | 1,548,750       |
| 2,000,000                                      | Federal Home Loan Mortgage Corp. | 6.625% | 9/15/2009  | 2,065,000       |
| 1,235,000                                      | Federal Home Loan Bank           | 6.500% | 11/13/2009 | 1,279,386       |
| 2,000,000                                      | Federal Home Loan Bank           | 4.250% | 11/20/2009 | 2,022,500       |
| 2,000,000                                      | Federal Home Loan Mortgage Corp. | 5.000% | 12/11/2009 | 2,041,880       |
| 1,250,000                                      | Federal Home Loan Bank           | 5.000% | 3/12/2010  | 1,280,075       |
| 1,500,000                                      | Federal Home Loan Bank           | 5.000% | 3/12/2010  | 1,536,090       |
| 1,000,000                                      | Federal Home Loan Mortgage Corp. | 3.050% | 4/28/2010  | 996,060         |
| 1,500,000                                      | Federal Home Loan Bank           | 2.375% | 4/30/2010  | 1,478,910       |
| 500,000  | Federal Farm Credit Bank         | 2.750% | 5/4/2010   | 495,780         |
| 1,000,000                                      | Federal Home Loan Bank           | 7.625% | 5/14/2010  | 1,067,500       |
| 1,500,000                                      | Federal Home Loan Bank           | 7.625% | 5/14/2010  | 1,601,250       |
| 1,000,000                                      | Federal Home Loan Bank           | 4.250% | 6/11/2010  | 1,015,310       |
| 600,000  | Federal Home Loan Bank           | 3.510% | 6/24/2010  | 602,064         |
| 1,025,000                                      | Federal Farm Credit Bank         | 4.875% | 8/6/2010   | 1,053,188       |
| 415,000  | Federal Home Loan Bank           | 6.875% | 8/13/2010  | 441,456         |
| 1,110,000                                      | Federal Home Loan Bank           | 4.750% | 8/13/2010  | 1,138,449       |
| 1,965,000                                      | Federal Home Loan Bank           | 4.125% | 8/13/2010  | 1,993,257       |
| 1,500,000                                      | Federal Home Loan Mortgage Corp. | 5.125% | 8/23/2010  | 1,554,840       |
| 1,330,000                                      | Federal Home Loan Bank           | 4.500% | 9/10/2010  | 1,357,850       |
| 1,500,000                                      | Federal Home Loan Bank           | 5.125% | 9/10/2010  | 1,550,160       |
| 2,000,000                                      | Federal Home Loan Mortgage Corp. | 5.000% | 10/18/2010 | 2,066,520       |
| 1,130,000                                      | Federal Home Loan Bank           | 6.625% | 11/15/2010 | 1,203,800       |
| 1,400,000                                      | Federal Home Loan Mortgage Corp. | 4.750% | 12/8/2010  | 1,442,000       |
| 1,500,000                                      | Federal Home Loan Bank           | 4.750% | 12/10/2010 | 1,543,125       |
| 1,500,000                                      | Federal Farm Credit Bank         | 4.050% | 12/21/2010 | 1,520,625       |
| 693,000  | Federal Farm Credit Bank         | 5.750% | 1/18/2011  | 728,731         |
| 2,350,000                                      | Federal Home Loan Mortgage Corp. | 4.550% | 1/20/2011  | 2,412,534       |
| 1,240,000                                      | Federal Home Loan Bank           | 5.875% | 2/15/2011  | 1,305,484       |
| 1,440,000                                      | Federal Home Loan Bank           | 4.000% | 2/15/2011  | 1,458,000       |
| 800,000  | Federal Home Loan Bank           | 4.000% | 2/15/2011  | 810,000         |
| 900,000  | Federal Home Loan Mortgage Corp. | 4.125% | 2/24/2011  | 915,471         |

(Continued)

## Illinois Metropolitan Investment Fund

Schedule of Investments (Continued)

IMET 1-3 Year Series

September 30, 2008

| Units/<br>par value                                   | Description                         | Rate   | Maturity   | Market<br>value |
|---|-------------------------------------|--------|------------|-----------------|
| <b>U.S. Government Agency Obligations (Continued)</b> |                                     |        |            |                 |
| \$ 1,600,000  | Federal Home Loan Mortgage Corp.    | 4.125% | 2/24/2011  | \$ 1,627,504    |
| 1,600,000   | Federal Home Loan Bank              | 2.875% | 3/11/2011  | 1,576,496       |
| 1,350,000   | Federal Home Loan Mortgage Corp.    | 5.625% | 3/15/2011  | 1,425,101       |
| 2,000,000   | Federal Home Loan Mortgage Corp.    | 5.125% | 4/18/2011  | 2,089,380       |
| 1,000,000   | Federal Home Loan Bank              | 3.500% | 4/25/2011  | 995,940         |
| 1,555,000   | Federal Home Loan Bank              | 5.375% | 6/10/2011  | 1,627,898       |
| 1,000,000   | Federal Home Loan Bank              | 3.375% | 6/24/2011  | 991,250         |
| 2,000,000   | Federal Home Loan Bank              | 3.625% | 7/1/2011   | 2,002,500       |
|   |                                     |        |            | 78,237,590      |
| <b>Mortgage Backed Securities: 2.8%</b>               |                                     |        |            |                 |
| 19,937  | Federal Home Loan Mortgage Corp.    | 7.500% | 8/1/2009   | 20,130          |
| 4,678   | Federal Home Loan Mortgage Corp.    | 7.500% | 9/1/2010   | 4,723           |
| 4,483   | Federal Home Loan Mortgage Corp.    | 7.500% | 11/1/2011  | 4,586           |
| 523,923   | Federal Home Loan Mortgage Corp.    | 4.000% | 11/1/2013  | 517,966         |
| 180,969   | Federal Home Loan Mortgage Corp.    | 5.000% | 4/1/2014   | 183,039         |
| 68,777  | Federal Home Loan Mortgage Corp.    | 6.500% | 7/1/2014   | 71,259          |
| 234,262   | Federal Home Loan Mortgage Corp.    | 7.000% | 12/1/2014  | 241,290         |
| 206,595   | Federal Home Loan Mortgage Corp.    | 7.000% | 3/1/2016   | 212,793         |
| 249,394   | Federal Home Loan Mortgage Corp.    | 7.000% | 9/1/2021   | 260,423         |
| 44,583  | Government National Mortgage Assoc. | 9.500% | 12/15/2024 | 50,098          |
| 30,966  | Government National Mortgage Assoc. | 8.500% | 5/20/2025  | 34,133          |
| 11,139  | Government National Mortgage Assoc. | 8.000% | 11/20/2026 | 12,183          |
| 51,241  | Government National Mortgage Assoc. | 8.000% | 11/20/2027 | 56,023          |
| 210,158   | Federal Home Loan Mortgage Corp.    | 6.549% | 12/1/2027  | 213,916         |
| 3,975   | Government National Mortgage Assoc. | 8.000% | 3/20/2028  | 4,347           |
| 2,764   | Government National Mortgage Assoc. | 8.000% | 8/20/2028  | 3,022           |
| 8,332   | Government National Mortgage Assoc. | 8.000% | 9/20/2028  | 9,110           |
| 1,224   | Government National Mortgage Assoc. | 8.000% | 11/20/2028 | 1,339           |
| 299,336   | Federal Home Loan Mortgage Corp.    | 5.140% | 1/1/2030   | 306,685         |
| 978,435   | Federal Home Loan Mortgage Corp.    | 4.311% | 12/1/2034  | 985,783         |
| 682,558   | Federal Home Loan Mortgage Corp.    | 4.660% | 3/1/2035   | 689,479         |
| 575,723   | Federal Home Loan Mortgage Corp.    | 5.144% | 1/1/2036   | 580,018         |
| 304,450   | Federal Home Loan Mortgage Corp.    | 5.618% | 5/1/2037   | 307,226         |
| 334,745   | Federal Home Loan Mortgage Corp.    | 5.457% | 7/1/2037   | 338,739         |
|   |                                     |        |            | 5,108,310       |
| <b>Money Market Mutual Funds: 1.4%</b>                |                                     |        |            |                 |
| 2,585,355   | Fidelity Institutional Money Market | 0.700% | None       | 2,585,355       |
|   |                                     |        |            | \$ 179,838,977  |

(Concluded)

**OTHER STATISTICAL INFORMATION (UNAUDITED)**

**Illinois Metropolitan Investment Fund**  
 Select Comparative Data - IMET 1-3 Year Series  
September 30, 2008

|  | One<br>Year * | Three<br>Year * | Since<br>Inception<br>July 17,<br>1996 |
|--|---------------|-----------------|--|
| IMET 1-3 Year Series Net Return                | 5.28%         | 4.85%           | 4.79%                                  |
| IMET 1-3 Year Series Gross Return **           | 5.57%         | 5.15%           | 5.14%                                  |
| Lehman Brothers 1-3 Year Government Bond Index | 5.90%         | 5.14%           | 5.08%                                  |
| Merrill Lynch 3-Month Treasury Bill Index      | 2.90%         | 4.20%           | 3.88%                                  |

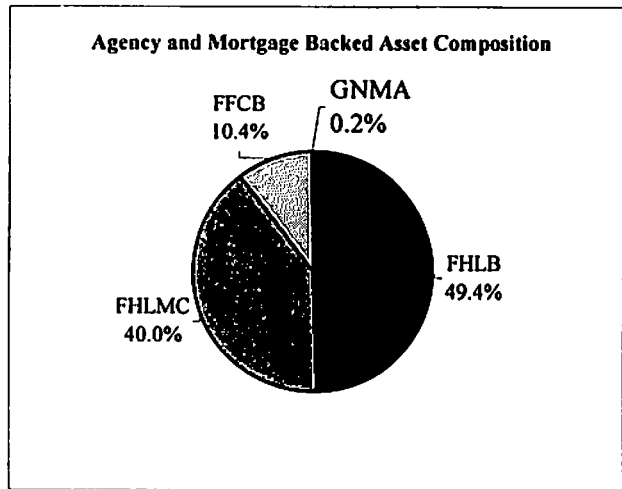
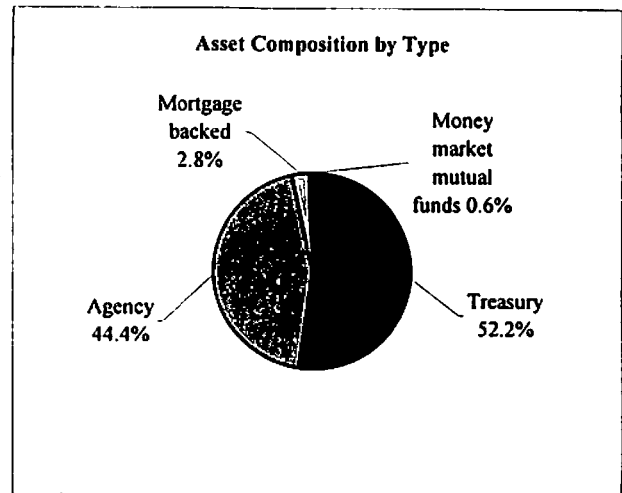
\* Annualized return

\*\* Returns exclude expenses of the fund

|                         | Fund<br>Profile | Index<br>Profile |
|-------------------------|-----------------|------------------|
| Gross yield to maturity | 2.64%           | 2.51%            |
| Duration                | 1.53 years      | 1.71 years       |
| Average maturity        | 1.64 years      | 1.88 years       |

| Sectors                  | Fund<br>Profile | Index<br>Profile |
|--------------------------|-----------------|------------------|
| Treasury                 | 52.2%           | 63.3%            |
| Agency                   | 44.4%           | 36.7%            |
| Mortgage backed          | 2.8%            | -                |
| Money market mutual func | 0.6%            | -                |

| Quality | Fund<br>Profile | Index<br>Profile |
|---------|-----------------|------------------|
| AAA     | 100%            | 100%             |



## INVESTMENT POLICIES

# **Illinois Metropolitan Investment Fund**

Investment Policy - IMET 1-3 Year Series

September 30, 2008

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The Illinois Metropolitan Investment Fund ("*IMET*" or "*Fund*") is an actively managed investment fund for Illinois local governments. The IMET 1-3 Year Fund has a fluctuating net asset value and an average maturity of one-to-three years. Designed for public funds that may be invested for more than one year, IMET invests exclusively in U.S. government-backed securities (Treasuries and agencies).

## **1.0 Policy**

It is the policy of IMET to invest public funds of Illinois governments in a manner which seeks to provide the best return while pursuing the preservation of capital. IMET is designed as an investment vehicle for funds not required to be spent immediately and available for investment in securities with maturities and returns generally greater than those for money market instruments. IMET will conform to Illinois state statutes governing the investment of public funds.

## **2.0 Funds**

Monies invested in this Fund will be those of participating Illinois governments whose treasurers become members of the Fund. Any funds that an Illinois government can invest in under Illinois state statutes are eligible for investment in IMET. This is an intermediate investment fund, however, and short-term cash monies which are needed for immediate liquidity demands will not be encouraged to be invested in this Fund.

## **3.0 Prudence**

The standard of prudence to be used for all investment activities shall be the following "prudent person" standards, as stated below, and shall be applied while conducting all investment transactions.

"Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable preservation of their capital as well as the probable income to be derived."

## **4.0 Objective**

This actively managed portfolio will be invested in certain fixed income securities and cash equivalents. In summary, the investment objectives of IMET are:

- A. **Preservation of Principal:** Preservation of principal is the foremost objective of IMET. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET 1-3 Year Series (Continued)  
September 30, 2008

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**4.0 Objective (Continued)**

- B. **Liquidity:** IMET will seek to remain sufficiently liquid to allow for withdrawals by Fund members with five business days' notice of that withdrawal to the Fund, and will otherwise remain sufficiently liquid in accordance with prudent fund management.
- C. **Return on Investment:** IMET's assets will be invested with the objective of obtaining an appropriate market rate of return in relation to the prevailing monetary environment. See also "Performance Standards" herein.

**5.0 Delegation of Authority**

The Board of Trustees of IMET (the "*Board*") seeks to employ an investment advisor who possesses superior capabilities in the management of assets of the Councils of Governments' governmental bodies. The Board further requires the investment advisor selected and working on its behalf to meet the following set of conditions.

- A. To take, in its discretion, actions which in its best professional judgment are in the best interests of IMET, in accordance with this Investment Policy and the Investment Circular distributed by the Fund, to meet IMET investment objectives. Such actions include but are not limited to (A) the allocation of funds among alternative types of investments; (B) specific investment opportunities regarding the acquisition, retention, or disposition of investments; and (C) the recommendation of the addition, deletion, or modification of authorized investments.
- B. To execute all investment transactions on behalf of the Fund at the best net price, utilizing such brokers and dealers as they deem appropriate to obtain the best execution capabilities and/or valuable information with respect to the economy and the affairs of corporations at the lowest cost to the Fund.
- C. Additional responsibilities as detailed in each investment advisor's agreement with the Board.

**6.0 Ethics and Conflicts of Interest**

Officers and employees of the Fund involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the IMET chairperson any material financial interests in financial institutions that conduct business with IMET, and they shall further disclose any large personal financial/investment positions that could be related to the performance of IMET, particularly with regard to the time of purchases and sales.

**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET 1-3 Year Series (Continued)  
September 30, 2008

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**7.0 Authorized Financial Dealers and Institutions**

The Board will maintain a list of financial institutions authorized to provide investment advisor, administrative, and distributive investment services. The advisor will make investments only in those investments specifically authorized in the Public Investment Act of the State of Illinois (30 ILCS 235/1) (the “*Investment Act*”). The administrator shall perform its duties in conformance with the Declaration of Trust, By-Laws, and Investment Circular of the Fund. The distributor shall be competent and fully qualified under federal and state securities laws and the rules and regulations of the Comptroller of the Currency or the National Association of Securities Dealers, as applicable, to engage in marketing and sales efforts.

A current audited financial statement is required to be on file for each financial institution which provides the above mentioned services.

**8.0 Authorized and Suitable Investments**

All investments shall be made in compliance with the Investment Act, including, without limitation, the definition of “agency” contained therein. In seeking to achieve its investment objective, the Fund intends to invest under normal market conditions at least fifty percent (50%) in (i) obligations issued or secured by the U.S. Government and/or its agencies and/or (ii) money market mutual funds that are permitted investments under the Investment Act. In extraordinary circumstances, such as when the investment advisor believes that market conditions indicate that the Fund should adopt a temporary defensive position, the Fund may invest up to one hundred percent (100%) in cash and/or such money market mutual funds.

The Fund portfolio is restricted to a maximum dollar weighted-average maturity of five years or less, under normal conditions. The net asset value will fluctuate on a daily basis according to the change in market value of its underlying portfolio obligations.

The following are additional investment restrictions:

- (i) All fixed income securities (other than obligations of the U.S. or its agencies) at the time of purchase shall be rated at the highest rating classification established by at least two standard rating services (without regard to any refinement or gradation of rating category by numerical modifier or otherwise). However, issues that are reclassified after purchase so that they are no longer at the highest classifications established by at least two standard rating services may be sold by the advisor to the Fund after the date of the security’s reclassification or held to maturity, in either case based on the investment advisor’s discretion.



**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET 1-3 Year Series (Continued)  
September 30, 2008

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**8.0 Authorized and Suitable Investments (Continued)**

- (ii) Mortgage pass-through securities must be issued by an agency of the United States government. There are three major types of such agency pass-throughs, guaranteed by three organizations: Government National Mortgage Association ("*Ginnie Mae*"), Federal Home Loan Mortgage Corporation ("*Freddie Mac*"), and Federal National Mortgage Association ("*Fannie Mae*"). Pass-through securities or collateralized mortgage obligations of Fannie Mae are not permitted investments under Illinois law. In addition, privately structured and issued mortgage pass-through securities or collateralized mortgage obligations are not permitted investments.
  
- (iii) All investments are required to be made in compliance with the Investment Act, including, without limitation, the definition of "agency" contained therein.

The following transactions are prohibited in the portfolio managed by the investment advisor.

- 1) Reverse repurchase agreements.
- 2) Common or preferred stocks.
- 3) Futures and options.
- 4) Margin purchases or intentional use of leverage.
- 5) Private or direct placements.
- 6) Commodities.
- 7) Direct ownership of real estate or mortgages.
- 8) Non-U.S. dollar-denominated securities.
- 9) Stripped mortgage-backed securities (*i.e.*, interest-only (IO) and principal-only (PO) securities).
- 10) Convertible notes or bonds.

**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET 1-3 Year Series (Continued)  
September 30, 2008

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**8.0 Authorized and Suitable Investments (Continued)**

- 11) Purchase, participation, or other direct interest in gas, oil, or other mineral exploration or development programs.
- 12) Collateralized mortgage obligations.
- 13) Lending of Fund securities.
- 14) Structured notes—however, the Portfolio may invest in federal government agency securities whose coupon rates are scheduled to “step up” (*i.e.* increase) one or more times before they mature.
- 15) Investments not allowed under the Investment Act.

The advisor shall indemnify and make whole the Fund and its shareholders for any losses incurred by the Fund as a result of the advisor’s own or any subadvisor’s gross negligence or its failure to comply with the provisions of the Investment Act as those provisions are communicated to the investment advisor in writing by IMET or by IMET’s legal counsel.

**9.0 Safekeeping and Custody**

Securities purchased for IMET, as well as collateral for repurchase agreements, shall be delivered against payment and held in a custodial safekeeping account with the trust department of a bank acting as custodian. The bank will be designated by the Board and all transactions will be evidenced by safekeeping receipts or confirmations.

**10.0 Diversification**

Fixed income securities in the Fund will have the following characteristics:

- A) United States Treasury, agency, and agency mortgage pass-through securities may be used without limitation. Under normal market conditions, such obligations, along with money market mutual funds that are permitted investments under the Investment Act, will constitute at least 50% of the portfolio.
- B) Commercial paper investment, pursuant to Illinois law, must mature within 180 days from the date of purchase and cannot exceed 10% of the corporation’s total commercial paper. The Fund will have no more than one-third of its monies invested in commercial paper.

**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET 1-3 Year Series (Continued)  
September 30, 2008

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10.0 Diversification (Continued)

- C) At no time may the portfolio own more than 5% of the outstanding amount of any one fixed income issue (other than securities of the United States Government or its agencies) or have more than 7% of its total assets invested in the securities (including cash equivalents) of any permissible fixed income issuer (other than securities of the United States government or its agencies) without prior notification and approval of the Board.

11.0 Maturities

Portfolio duration is to be maintained within 25% of that of the Lehman Brothers 1-3 Year Government Bond Index under normal conditions; *provided, however,* that the portfolio's dollar weighted-average maturity will not exceed five years under normal conditions. Individual securities may have remaining maturities of greater than five years, but in any event not greater than ten years from the date of the Fund's purchase thereof. The remaining life of any agency mortgage pass-through security will be determined based on the weighted-average life of the security.

12.0 Internal Control

The advisor shall establish a system of internal controls, which shall be documented in writing. The controls shall be annually reviewed by their auditor and shall be designed to prevent losses of public funds arising from failure to comply with the provisions of the Investment Act, fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers of the firm. The advisor shall at all times have in place a fidelity bond or bonds covering the actions of its employees and officers relating to fraud, theft, dishonesty, and other willful acts which may result in the loss of Fund assets. Such bond or bonds shall be maintained in amounts not less than \$5,000,000 per occurrence and \$10,000,000 in the annual aggregate, covering its duties. The advisor will also maintain a fidelity bond against employee theft, dishonesty, and related risk, and cover its duties in an amount not less than \$10,000,000 in the annual aggregate.

13.0 Performance Standards

IMET's investment strategy is targeted active management. The performance objective for this portfolio is to meet or exceed the Lehman Brothers 1-3 Year Government Bond Index (the benchmark) prior to payment of Fund expenses.

**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET 1-3 Year Series (Continued)  
September 30, 2008

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**14.0 Reporting**

The advisor shall report to the Board at least quarterly on:

- A) Performance as compared to the benchmark.
- B) Asset allocation and duration as compared to the benchmark.
- C) Any deviation from the guidelines herein established.
- D) Significant changes in the portfolio under their management during the quarter.
- E) Economic and investment outlook for the near and long term.
- F) Monthly purchase and sale transactions.
- G) Any change in key personnel.

**15.0 Investment Policy Adoption**

IMET's investment policy shall be adopted by resolution of the Board. The policy shall be reviewed annually by the Board and any modifications made thereto must be approved by the Board.

(Concluded)

# **Illinois Metropolitan Investment Fund**

## **Investment Policy - IMET Convenience Series**

September 30, 2008

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The Illinois Metropolitan Investment Fund (“*IMET*” or “*Fund*”) is an actively managed investment fund for Illinois local governments. IMET’s Convenience Series (“Convenience Series”) is a short-term vehicle for use exclusively by members of IMET. This policy applies to the investment of Convenience Series funds. The Convenience Series is designed as an investment vehicle for: a) near-term investment of funds intended for eventual placement into the IMET 1-3 Year Series, b) the investment of bond proceeds, and c) any purpose deemed necessary and beneficial by Fund participants.

### **1.0 Governing Authority**

It is the policy of IMET to invest public funds of Illinois governments in a manner which seeks to provide the best return while pursuing the preservation of capital. The Convenience Series will conform to Illinois state statutes governing the investment of public funds.

### **2.0 Funds**

Monies invested in this Convenience Series will be those of participating Illinois governments whose treasurers are members of the IMET. Any funds that an Illinois government can invest in under Illinois state statutes are eligible for investment in the Convenience Series.

### **3.0 Prudence**

The standard of prudence to be used for all investment activities shall be the following “prudent person” standards, as stated below, and shall be applied while conducting all investment transactions.

"Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable preservation of their capital as well as the probable income to be derived."

### **4.0 Objective**

This portfolio will be invested in certain fixed income securities and cash equivalents. In summary, the investment objectives of the Convenience Series are:

- A. **Preservation of Principal:** Preservation of principal is the foremost objective of the Convenience Series. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET Convenience Series (Continued)  
September 30, 2008

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4.0 Objective (Continued)

- B. **Liquidity:** The Convenience Series will seek to remain sufficiently liquid to accommodate Convenience Series members and will otherwise remain sufficiently liquid in accordance with prudent fund management.
- C. **Return on Investment:** The Convenience Series' assets will be invested with the objective of obtaining an appropriate market rate of return in relation to the prevailing monetary environment. See also "Performance Standards" herein.

5.0 Delegation of Authority

The Board of Trustees of IMET and of the Convenience Series (the "*Board*") seeks to employ financial institutions possessing established capabilities in the management of assets of the Councils of Governments' governmental bodies. The Board further requires the financial institution(s) selected and working on its behalf to meet the following set of conditions.

- A. To take, in its discretion, to the extent allowed by the financial institution's agreement with IMET, actions which in its best professional judgment are in the best interests of the Convenience Series, in accordance with this Investment Policy distributed by IMET, to meet Convenience Series investment objectives. Such actions include but are not limited to (A) the allocation of funds among alternative types of investments; (B) specific investment opportunities regarding the acquisition, retention, or disposition of investments; and (C) the recommendation of the addition, deletion, or modification of authorized investments.
- B. To execute all investment transactions on behalf of the Convenience Series at the best net price, utilizing such brokers and dealers as deemed appropriate to obtain the best execution capabilities and/or valuable information with respect to the economy and the affairs of corporations at the lowest cost to the Convenience Series.
- C. Additional responsibilities as detailed in each financial institution's agreement with the Board.

**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET Convenience Series (Continued)  
September 30, 2008

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**6.0 Ethics and Conflicts of Interest**

Officers and employees of the Convenience Series involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Board chairperson any material financial interests in financial institutions that conduct business with IMET and the Convenience Series, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Convenience Series, particularly with regard to the time of purchases and sales.

**7.0 Authorized Financial Dealers and Institutions**

The Board will maintain a list of financial institutions authorized to provide investment advisor, administrative, and distributive investment services. The financial institution(s) will make investments only in those investments specifically authorized by the Public Investment Act of the State of Illinois (30 ILCS 235/1) (the "Investment Act") and by this Investment Policy. The financial institution(s) shall perform its duties in conformance with the IMET Declaration of Trust, the IMET By-Laws, and the Convenience Series Investment Policy. The distributor shall be competent and fully qualified under federal and state securities laws and the rules and regulations of the Comptroller of the Currency or the National Association of Securities Dealers, as applicable, to engage in marketing and sales efforts.

A current audited financial statement is required to be on file for each financial institution which provides the above mentioned services.

**8.0 Authorized and Suitable Investments**

The investments permitted by this policy are those defined by the Investment Act, including, without limitation, the definition of "agency" contained therein. In seeking to achieve its investment objective, the Convenience Series intends to invest under normal market conditions at least fifty percent (50%) in (i) interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits, or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act, or (ii) money market mutual funds that are permitted investments under the Investment Act, or (iii) securities now or hereafter issued that constitute direct obligations of the U.S. Treasury which are guaranteed by the full faith and credit of the United States of America as to principal and interest, or (iv) other similar obligations of the United States of America or its agencies. In circumstances when the investment advisor believes that market conditions indicate that the Convenience Series should adopt a defensive position, the Convenience Series may invest up to one hundred percent (100%) in bank obligations and/or such money market mutual funds.

**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET Convenience Series (Continued)  
September 30, 2008

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**8.0 Authorized and Suitable Investments (Continued)**

The Convenience Series portfolio is restricted to a maximum dollar weighted-average maturity of one year or less, under normal conditions. The Convenience Series will be managed so as to maintain a stable \$1.00 share price, although there is no guarantee that it will do so.

The following are additional investment restrictions:

- (i) All fixed income securities (other than obligations of the U.S. or its agencies) at the time of purchase shall be rated at the highest rating classification established by at least two standard rating services (without regard to any refinement or gradation of rating category by numerical modifier or otherwise). However, issues that are reclassified after purchase so that they are no longer at the highest classifications established by at least two standard rating services may be sold by the financial institution(s) maintaining the Convenience Series after the date of the security's reclassification or held to maturity, in either case based on the financial institutions' discretion.
- (ii) Mortgage pass-through securities must be issued by an agency of the United States government and must have a liquid market with a readily determinable market value. There are three major types of such agency pass-throughs, guaranteed by three organizations: Government National Mortgage Association ("Ginnie Mae"), Federal Home Loan Mortgage Corporation ("Freddie Mac"), and Federal National Mortgage Association ("Fannie Mae"). Pass-through securities or collateralized mortgage obligations of Fannie Mae are not permitted investments under Illinois law. In addition, privately structured and issued mortgage pass-through securities or collateralized mortgage obligations are not permitted investments.
- (iii) All investments are required to be made in compliance with the Investment Act, including, without limitation, the definition of "agency" contained therein.

The following transactions are prohibited in the portfolio:

- 1) Reverse repurchase agreements.
- 2) Common or preferred stocks.
- 3) Futures and options.
- 4) Margin purchases or intentional use of leverage.
- 5) Private or direct placements.



**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET Convenience Series (Continued)  
September 30, 2008

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**8.0 Authorized and Suitable Investments (Continued)**

- 6) Commodities.
- 7) Direct ownership of real estate or mortgages.
- 8) Non-U.S. dollar-denominated securities.
- 9) Stripped mortgage-backed securities (i.e., interest-only (IO) and principal-only (PO) securities).
- 10) Convertible notes or bonds.
- 11) Purchase, participation, or other direct interest in gas, oil, or other mineral exploration or development programs.
- 12) Collateralized mortgage obligations.
- 13) Lending of Convenience Series securities.
- 14) Structured notes—however, the Portfolio may invest in federal government agency securities whose coupon rates are scheduled to “step up” (*i.e.* increase) one or more times before they mature.
- 15) Investments not allowed under the Investment Act.

The advisor shall indemnify and make whole the Convenience Series and its shareholders for any losses incurred by the Convenience Series as a result of the advisor’s own or any subadvisor’s gross negligence or its failure to comply with the provisions of the Investment Act as those provisions are communicated to the investment advisor in writing by the Convenience Series or by the Convenience Series’ legal counsel.

**9.0 Collateralization**

Collateral will be pledged to the Convenience Fund with a market value equal to at least 105% of the obligations of the financial institution to the Convenience Fund’s deposits which exceed the sum of the Federal Deposit Insurance Corporation’s insurance limitation. The financial institution will monitor the market value of pledged securities on at least a daily basis, and make adjustments as necessary.

**Illinois Metropolitan Investment Fund**  
Investment Policy - IMET Convenience Series (Continued)  
September 30, 2008

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**10.0 Safekeeping and Custody**

Securities purchased for the Convenience Series, as well as collateral for repurchase agreements, shall be delivered against payment and held in a custodial safekeeping account with the trust department of a bank acting as custodian. The bank will be designated by the Board and all transactions will be evidenced by safekeeping receipts or confirmations.

**11.0 Diversification**

Fixed income securities in the Convenience Series will have the following characteristics:

- a) No more than 50 percent of the portfolio may be invested beyond 12 months, and the weighted-average maturity of the portfolio generally shall not exceed one year.
- b) The following instruments may be used without limitation:
  - i) Interest-bearing savings accounts, interest-bearing certificates of deposit or interest-bearing time deposits, or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act.
  - ii) Money market mutual funds registered under the Investment Company Act of 1940, provided that the portfolio of any such money market mutual fund is limited to obligations of the U.S. Treasury and its agencies as defined by Illinois law.

**12.0 Maturities**

At least 50 percent of the Fund's investments are expected to mature in the short-term (397 days or less), and the dollar-weighted average portfolio maturity of the Convenience Series will not exceed one year under normal conditions. Individual securities may have remaining maturities of greater than one year, but in any event not greater than five years from the date of the Convenience Series' purchase thereof. The remaining life of any agency mortgage pass-through security will be determined based on the weighted-average life of the security.

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**13.0 Internal Control**

The financial institution(s) shall establish a system of internal controls, which shall be documented in writing. The controls shall be annually reviewed by their auditor and shall be designed to prevent losses of public funds arising from failure to comply with the provisions of the Investment Act, fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers of the firm. The financial institution(s) shall at all times have in place a fidelity bond or bonds covering the actions of its employees and officers relating to fraud, theft, dishonesty, and other willful acts which may result in the loss of Convenience Series assets. Such bond or bonds shall be maintained in amounts not less than \$5,000,000 per occurrence and \$10,000,000 in the annual aggregate, covering its duties. The financial institution(s) will also maintain a fidelity bond against employee theft, dishonesty, and related risk, and cover its duties in an amount not less than \$10,000,000 in the annual aggregate.

**14.0 Performance Standards**

The Convenience Series' investment strategy is designed so that the Convenience Series may maintain a stable \$1.00 per share price, although there is no guarantee that it will do so. The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio shall be designed with the objective of regularly meeting or exceeding the selected performance benchmark of Fed Funds gross of fees. This index is considered a benchmark for lower risk investment transactions and, therefore, comprises an appropriate standard for the portfolio's rate of return.

**15.0 Reporting**

The financial institution(s) shall report to the Board at least quarterly on:

- a. Performance as compared to the benchmark.
- b. Asset allocation and duration as compared to the benchmark.
- c. Any deviation from the guidelines herein established.
- d. Significant changes in the portfolio under their management during the quarter.
- e. Economic and investment outlook for the near and long term.
- f. Monthly purchase and sale transactions.
- g. Any change in key personnel.

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16.0 Investment Policy Adoption

The Convenience Series' investment policy shall be adopted by resolution of the Board. The policy shall be reviewed annually by the Board and any modifications made thereto must be approved by the Board.

(Concluded)