

# **Illinois Metropolitan Investment Fund**

**Comprehensive Annual Financial Report  
Year ended September 30, 2010**

# ILLINOIS METROPOLITAN INVESTMENT FUND

Comprehensive Annual Financial Report  
Year Ended September 30, 2010

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## **INTRODUCTORY SECTION**



# Illinois Metropolitan Investment Fund

Investing together for  
our communities

**Elizabeth Holleb**  
Director of Finance  
City of Highland Park  
*Chairman*

**Robert Nowak**  
Director of Finance  
Village of Skokie  
*Vice Chairman*

**Gary Szott**  
Director of Finance/Treasurer  
Village of Bloomingdale  
*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*

**John Marquart**  
City Administrator  
City of Oak Forest  
*Trustee*

**Christy Powell**  
Superintendent of Finance  
& Personnel  
Geneva Park District  
*Trustee*

**Laura F. Allen**  
*Executive Director*

**Debra A. Zimmerman**  
*Associate Director*

December 22, 2010

Dear IMET Participants:

We hereby submit to you the fourteenth Comprehensive Annual Financial Report of the Illinois Metropolitan Investment Fund (IMET), which covers the fiscal year of October 1, 2009 through September 30, 2010. The 2010 fiscal year was one of continued economic uncertainty on a national level with the federal funds interest rate languishing at record lows between zero and 0.25 percent for the entire fiscal year and economic recovery remaining subdued relative to the depth of the downturn. With the backdrop of excessive debt, wealth destruction, and high unemployment in the U.S., IMET participants benefited from proactive and strong leadership in the continued negotiation of our enhanced yield on the Convenience Fund and, bolstered by Federal Stimulus Programs, the strong performance on the 1-3 Year Fund.

The 1-3 Year Fund returns experienced some volatility in FY 2010, but the economic recovery programs proved beneficial for investors in U.S. Government Securities, and IMET's portfolio managers at JP Morgan Asset Management positioned the portfolio to take advantage of yield enhancements while remaining ever vigilant against the possibility of rising interest rates. The IMET 1-3 Year Fund finished the year with a rate of 2.54% for FY 2010, an impressive return given the investment environment. In addition, IMET's Convenience Fund continued to offer members the highest rate available in a local government investment pool in the state of Illinois, finishing the year with a rate of 0.43% for FY 2010. We are pleased to report that these successes resulted in the achievement of an asset-balance milestone as we completed FY 2010 with combined assets exceeding \$880 million. IMET also welcomed 21 new members in fiscal 2010 and now serves more than 220 units of government, including municipalities, pension funds, park districts, library districts, school districts, and other public agencies.

The 2009-2010 fiscal year was a busy and productive year, with IMET accomplishing many objectives. IMET staff completed a seamless move of the Downstate office from Flora, Illinois, to Louisville, Illinois. The move provides members with better efficiencies in the Downstate area, with Associate Director Deb Zimmerman continuing to provide our member services in that marketplace. Additionally, an improvement in IMET operations occurred in May 2010 when IMET's website was enhanced to provide members with a yield calculator. The yield calculator allows participants to calculate the holding period return for their investments in IMET. Finally, IMET introduced legislation to amend the Local Government Debt Reform Act and, on July 2, 2010, the Governor signed HB 4945, which became Public Act 096-0964.

The amendment allows governmental units to authorize the treasurer of any governmental unit to “join with the treasurers of other governmental units for the purpose of jointly investing the funds of which the treasurer has custody.” This amendment enhances the implicit authority that existed previously by providing explicit authority, in addition to the authority granted by the Constitution of the State of Illinois and the Intergovernmental Cooperation Act along with the Illinois Municipal Code.

As IMET looks forward to fiscal 2011 and beyond, we are pleased to announce future improvements in the Convenience Fund with our new business partner, JP Morgan Chase Bank, beginning on January 1, 2011. IMET issued a Request for Proposal for Convenience Fund services in August 2010 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 2011. Following a thorough evaluation of the proposals, the IMET Board of Trustees selected JPMorgan Chase Bank as the new provider of Convenience Fund services. IMET’s previous partner, Charter One Bank, provided Convenience Fund services to IMET from January 1, 2009 through December 31, 2010. As a result of the new partnership, IMET can continue to offer the minimum rate guarantee of the Federal Funds Rate to members through December 31, 2012. IMET’s multiyear agreement with JPMorgan Chase Bank to provide Convenience Fund services will mitigate the uncertainty of rate fluctuations to members and provide for consistency over a longer period of time with a strong rate guarantee. The Convenience Fund will continue to be a fully collateralized (at 105%), 100% liquid investment providing members with the safety, liquidity, and yield necessary for government fund investments.

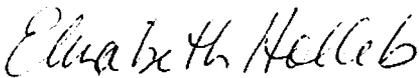
IMET’s New Products Committee has been working diligently on the development of a third longer-term investment option for IMET members. This third option was identified in previous member surveys and focus group meetings, and we look forward to introducing this product in fiscal 2011.

IMET’s 1-3 Year Fund 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 its ‘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 members.

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 today and will continue to be. Your continued participation in this joint endeavor is sincerely appreciated.

On behalf of the IMET Board and staff, we look forward to continuing to work with participants for the long-term success of IMET. We are proud to offer IMET’s services to all units of government in the state of Illinois.

In service with you,



Elizabeth Holleb  
IMET Chair



Laura F. Allen  
IMET Executive Director

# ILLINOIS METROPOLITAN INVESTMENT FUND

Board of Trustees  
September 30, 2010

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## ILLINOIS METROPOLITAN INVESTMENT FUND

1220 Oak Brook Road  
Oak Brook, Illinois 60523  
Telephone: (630) 571-0480, ext. 229  
Facsimile: (630) 571-0484

### **BOARD OF TRUSTEES**

Chairman: Elizabeth Holleb  
City of Highland Park

Vice Chair: Robert Nowak  
Village of Skokie

Treasurer: Gary Szott  
Village of Bloomingdale

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: John Marquart  
City of Oak Forest

Executive Director: Laura F. Allen

# **ILLINOIS METROPOLITAN INVESTMENT FUND**

Supporting Chicago Area Councils of Government  
and External Advisors  
September 30, 2010

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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, Inc.  
Naperville, Illinois

### **EXTERNAL PERFORMANCE MONITORING**

The Consulting Group of Smith Barney  
Deerfield, Illinois

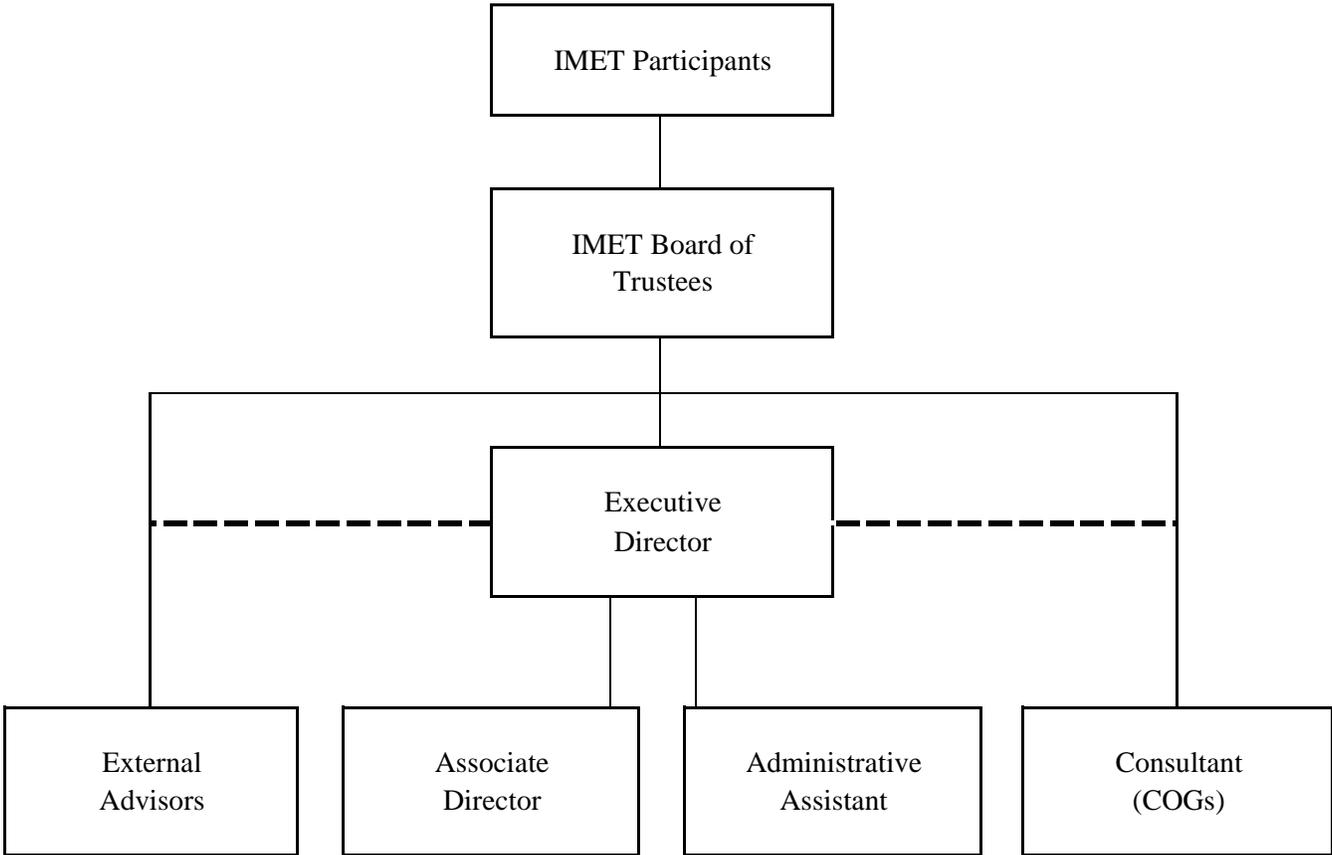
### **LEGAL COUNSEL**

Chapman and Cutler LLP  
Chicago, Illinois

# ILLINOIS METROPOLITAN INVESTMENT FUND

Organizational Chart  
September 30, 2010

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## **FINANCIAL SECTION**

# MILLER COOPER & Co., Ltd

ACCOUNTANTS AND CONSULTANTS

## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Illinois Metropolitan Investment Fund  
Oak Brook, Illinois

We have audited the accompanying combining statement of net assets of the Illinois Metropolitan Investment Fund (IMET) as of September 30, 2010, 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, 2010, 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 6 and the schedule of funding progress on page 19 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.

(Continued)

The Board of Trustees  
Illinois Metropolitan Investment Fund  
Oak Brook, Illinois

(Continued)

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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.

The accompanying introductory, other statistical information, and investment policies 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 basic financial statements and, accordingly, we express no opinion on it.

MILLER, COOPER & CO., LTD.

*Miller, Cooper & Co., Ltd.*

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Certified Public Accountants

Deerfield, Illinois  
December 22, 2010

# ILLINOIS METROPOLITAN INVESTMENT FUND

## Management's Discussion and Analysis

Year ended September 30, 2010

Management is pleased to provide this discussion and analysis of the financial activities of the Illinois Metropolitan Investment Fund (IMET) for the years ended September 30, 2009 and September 30, 2010. This information is intended to supplement the financial statements, which begin on page seven of the report.

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### *Financial Highlights*

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The 2010 fiscal year saw an increase in assets, as total assets (including the IMET 1-3 Year Series and the IMET Convenience Series) increased by \$234,499,507 to a balance of \$885,052,958 as of September 30, 2010. Total assets of the IMET 1-3 Year Series increased by \$56,518,715 to a balance of \$376,126,003 during fiscal year 2010, while total assets of the IMET Convenience Series increased by \$177,980,792 to a balance of \$508,926,955 as of September 30, 2010.

During fiscal year 2009, total assets of IMET (including the IMET 1-3 Year Series and the IMET Convenience Series) increased by \$247,385,585 to a balance of \$650,553,451 as of September 30, 2009. Total assets of the IMET 1-3 Year Series increased by \$137,596,626 to a balance of \$319,607,288, while total assets of the IMET Convenience Series increased by \$109,788,959 to a balance of \$330,946,163 as of September 30, 2009.

Participants' equity in IMET was \$650,334,909 (\$319,459,941 in the IMET 1-3 Year Series and \$330,874,968 in the IMET Convenience Series) as of September 30, 2009 and \$884,694,857 (\$375,985,312 in the IMET 1-3 Year Series and \$508,709,545 in the IMET Convenience Series) as of September 30, 2010.

During fiscal year 2009, IMET's 1-3 Year Series successfully accomplished its investment objective of meeting or exceeding the return on the benchmark Barclay's 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 Barclay's 1-3 Year Government Bond Index on a gross-of-fees basis in fiscal year 2010, IMET's 1-3 Year Series did outperform the 90-Day Treasury Bill rate, providing an outstanding gross return to members of 2.54 percent. While the federal funds rate continued to languish at historically low levels in fiscal 2010, the IMET Convenience Series provided a highly competitive investment option for members with a net 12-month return of 0.43 percent, exceeding the federal funds rate range of zero to 0.25 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, as applied to governmental units.

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. The following table is a Condensed Statement of Net Assets for the years ended September 30, 2010 and September 30, 2009.

**Condensed Statement of Net Assets**

	IMET 1-3 Year Series 2010	IMET 1-3 Year Series 2009	IMET Convenience Series 2010	IMET Convenience Series 2009	Total 2010	Total 2009
Total assets \$	376,126,003	319,607,288	508,926,955	330,946,163	885,052,958	650,553,451
Total liabilities	140,691	147,347	217,410	71,195	358,101	218,542
Total net assets	<u>\$ 375,985,312</u>	<u>\$ 319,459,941</u>	<u>\$ 508,709,545</u>	<u>\$ 330,874,968</u>	<u>\$ 884,694,857</u>	<u>\$ 650,334,909</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 in net assets 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, 2010 and September 30, 2009.

**Condensed Statement of Changes in Net Assets**

	IMET 1-3 Year Series 2010	IMET 1-3 Year Series 2009	IMET Convenience Series 2010	IMET Convenience Series 2009	Total 2010	Total 2009
Total additions from operations	\$ 8,071,275	10,101,038	2,577,858	1,687,833	10,649,133	11,788,871
Total operating expenses	387,718	629,845	977,919	438,182	1,365,637	1,068,027
Net additions from operations	<u>7,683,557</u>	<u>9,471,193</u>	<u>1,599,939</u>	<u>1,249,651</u>	<u>9,283,496</u>	<u>10,720,844</u>
Total distributions	<u>-</u>	<u>-</u>	<u>(1,599,939)</u>	<u>(1,249,651)</u>	<u>(1,599,939)</u>	<u>(1,249,651)</u>
Net additions from capital share and individual account transactions	<u>48,841,814</u>	<u>128,068,476</u>	<u>177,834,577</u>	<u>109,748,609</u>	<u>226,676,391</u>	<u>237,817,085</u>
Net increase	56,525,371	137,539,669	177,834,577	109,748,609	234,359,948	247,288,278
Net assets held in trust for participants:						
Beginning of year	<u>319,459,941</u>	<u>181,920,272</u>	<u>330,874,968</u>	<u>221,126,359</u>	<u>650,334,909</u>	<u>403,046,631</u>
End of year	<u>\$ 375,985,312</u>	<u>\$ 319,459,941</u>	<u>\$ 508,709,545</u>	<u>\$ 330,874,968</u>	<u>\$ 884,694,857</u>	<u>\$ 650,334,909</u>

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 and the Convenience Series.

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### *Financial Statement Analysis*

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#### *Net Assets*

During the year ended September 30, 2009, IMET's total net assets increased by \$247,288,278, to a total balance of \$650,334,909. Fiscal year 2009 brought a year of continued economic uncertainty and declining interest rates with the federal funds rate plunging to an historic low between zero and 0.25 percent. This interest rate environment, and resulting flight to quality and safety, proved beneficial for investors in both the IMET Convenience Series as well as the IMET 1-3 Year Series. The IMET Convenience Series return is pegged to the federal funds target rate as a minimum rate guarantee and is fully collateralized at 110%. In June 2009, IMET was able to enhance the yield in the Convenience Series with the addition of a unique CD product with our banking business partner. The membership response to this change and positive yields on the 1-3 Year Series was significant, with IMET proudly achieving several milestones in asset balances to end the year with over \$650 million in combined assets.

Fiscal year 2010 saw a continuation of historically low interest rates along with the effects of several federal stimulus programs in its campaign to revive the U.S. economy. Total net assets of IMET increased by \$234,359,948 to an ending balance of \$884,694,857 during fiscal year 2010. This net increase in total assets, in large part, was the result of IMET's enhanced Convenience Fund yield allowing IMET to offer members the highest rate available in a local government investment pool in the state of Illinois. Additionally, the effects of the economic recovery programs proved beneficial for investors in U.S. Government securities. Bolstered by these federal stimulus programs, IMET's 1-3 Year Series was positioned to take advantage of yield enhancements and continued to offer value to our members, resulting in additional new dollar investments. This significant asset growth resulted in IMET achieving yet another milestone in its investment balances to end the year with over \$880 million in combined assets.

#### *Operations*

During the current fiscal year ended September 30, 2010, total additions from operations consisted of \$9,162,775 in interest income and net appreciation in the fair value of investments of \$1,486,358. These amounts may be compared with \$8,765,178 of interest income and net appreciation in the fair value of investments of \$3,023,693 during the prior fiscal year, for total additions of \$10,649,133 in fiscal year 2010, compared to \$11,788,871 in fiscal year 2009.

Operating expenses of IMET were \$1,365,637 for the current fiscal year compared with \$1,068,027 for the prior fiscal year. This nearly 28 percent increase in operating expenses was due to an increase in investment advisory, record keeping, and custodial fees that are calculated as a percentage of IMET's total assets. Total assets increased by more than 36 percent in fiscal year 2010.

### *Summary of IMET Operations*

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Fiscal year 2010 was a busy and productive year, with IMET accomplishing many objectives. IMET staff completed a seamless move of the Downstate office from Flora, Illinois, to Louisville, Illinois. The move provides members with better efficiencies in the Downstate area with Associate Director Deb Zimmerman continuing to provide our member services in that marketplace. Additionally, an improvement in IMET operations occurred in May 2010 when IMET's website was enhanced to provide members with a yield calculator. The yield calculator allows participants to calculate the holding period return for their investments in IMET. Finally, IMET introduced legislation to amend the Local Government Debt Reform Act and, on July 2, 2010, the Governor signed HB 4945, which became Public Act 096-0964. The amendment allows governmental units to authorize the treasurer of any governmental unit to "join with the treasurers of other governmental units for the purpose of jointly investing the funds of which the treasurer has custody." This amendment enhances the implicit authority that existed previously by providing explicit authority, in addition to the authority granted by the Constitution of the State of Illinois and the Intergovernmental Cooperation Act along with the Illinois Municipal Code.

### *Investment Performance*

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In fiscal year 2009, the IMET 1-3 Year Series outperformed both the benchmark and the 90-Day Treasury Bill rate, and provided a gross return of 4.61 percent versus 4.40 percent for the Barclay's Capital 1-3 Year Government Bond Index, 4.32 percent for IMET's *net* 12 month return, and 0.39 percent for 90-Day Treasury Bills. The IMET Convenience Series rate declined in the first quarter from 2.00 percent to .25 percent as a result of the lowered federal funds rate and then held steady until the enhanced rate program was introduced in June 2009. IMET's Convenience Series provided a return of .60 percent for fiscal year 2009.

During fiscal year 2010, IMET was unable to outperform the benchmark Barclay's Capital 1-3 Year Government Bond Index on a gross-of-fees basis due to the benchmark's slightly longer duration and the 1-3 Year Series' conservative position against rising interest rates. 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 2.54 percent versus a one-year return of 2.62 percent for the Barclay's Index, 2.26 for IMET's *net* 12-month return, and 0.13 percent for 90-Day Treasury Bills. The IMET Convenience Series outperformed the 90-Day Treasury Bill rate as well, with a return of 0.43 percent to participants for the fiscal year ended September 30, 2010.

For additional information regarding performance returns of IMET and asset allocation, please refer to the Other Statistical Information (Unaudited) section on page 27 of this report.

#### *Requests for Information*

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

The Illinois Metropolitan Investment Fund (IMET)  
ATTN: Executive Director  
1220 Oak Brook Road  
Oak Brook, IL 60523

## Illinois Metropolitan Investment Fund

Combining Statement of Net Asset

September 30, 2010

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	IMET 1 - 3 Year Series	IMET Convenience Series	Total
<b>ASSETS</b>			
Cash and short-term investments	\$ 1,113,829	\$ 508,596,610	\$ 509,710,439
Interest receivable	2,001,623	330,345	2,331,968
Securities sold receivable	6,895	-	6,895
Other receivables	73,056	-	73,056
Investments at fair value:			
U.S. Treasury obligations	231,546,847	-	231,546,847
U.S. Government agency and agency-guaranteed obligations	114,088,724	-	114,088,724
Mortgage-backed securities	2,959,772	-	2,959,772
Money market mutual funds	24,335,257	-	24,335,257
	<u>376,126,003</u>	<u>508,926,955</u>	<u>885,052,958</u>
<b>LIABILITIES</b>			
Payables:			
Dividends payable to participants	-	113,775	113,775
Management fees	60,114	23,313	83,427
Consultant fee	69,246	-	69,246
Administrative fee	-	72,656	72,656
Other	11,331	7,666	18,997
	<u>140,691</u>	<u>217,410</u>	<u>358,101</u>
<b>NET ASSETS</b>			
Net assets held in trust for participants (units outstanding: 19,910,917 and 508,709,545 at September 30, 2010 for IMET 1-3 Year Series and IMET Convenience Series, respectively; equivalent to \$18.88 and \$1.00 per unit outstanding at September 30, 2010 for IMET 1-3 Year Series and IMET Convenience Series, respectively			
	<u>\$ 375,985,312</u>	<u>\$ 508,709,545</u>	<u>\$ 884,694,857</u>

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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, 2010

	IMET 1 - 3 Year Series	IMET Convenience Series	Total
<b>Additions from operations:</b>			
Investment income			
Interest	\$ 6,584,917	\$ 2,577,858	\$ 9,162,775
Net appreciation in fair value of investments	1,486,358	-	1,486,358
Total additions from operations	8,071,275	2,577,858	10,649,133
<b>Deductions from operations:</b>			
Operating expenses:			
Management and administrative services	679,686	977,919	1,657,605
Compensation and related expenses	256,891	-	256,891
Professional services	43,279	-	43,279
Insurance	30,049	-	30,049
Audit	20,500	-	20,500
Marketing	21,623	-	21,623
Administrative and other	78,911	-	78,911
Less reimbursements for operating expenses	(743,221)	-	(743,221)
Total operating expenses	387,718	977,919	1,365,637
Net additions from operations	7,683,557	1,599,939	9,283,496
<b>Distributions</b>			
Distributions of income to participants	-	(1,599,939)	(1,599,939)
Total distributions	-	(1,599,939)	(1,599,939)
<b>Capital share and individual account transactions:</b>			
Proceeds from sale of units to participants	161,712,850	553,727,334	715,440,184
Distributions reinvested by participants	-	1,486,176	1,486,176
Cost of units redeemed by participants	(112,871,036)	(377,378,933)	(490,249,969)
Net additions from capital share and individual account transactions	48,841,814	177,834,577	226,676,391
Net increase in net assets held in trust for participants	56,525,371	177,834,577	234,359,948
<b>Net assets held in trust for participants:</b>			
Beginning of year	319,459,941	330,874,968	650,334,909
End of year	\$ 375,985,312	\$ 508,709,545	\$ 884,694,857

The accompanying notes are an integral part of this statement.

# **Illinois Metropolitan Investment Fund**

Notes to the Financial Statements

September 30, 2010

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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 Barclay's 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 comprises a fully collateralized, short-term money market instrument with same day or next day liquidity, and certificates of deposit. The money market instrument 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 intermediate funds, and/or for cash management and liquidity purposes.

# Illinois Metropolitan Investment Fund

Notes to the Financial Statements

September 30, 2010

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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. Basis of Accounting

The IMET 1-3 Year Series and Convenience Series operate as enterprise funds, which report on the accrual basis of accounting.

### 3. Cash and Short-term Investments

At September 30, 2010, the IMET 1-3 Year Series had \$1,113,829 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.

### 4. 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. If there were securities for which quotations were not available, they would be stated at fair value as determined by the Board of Trustees. Currently there are none.

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

# Illinois Metropolitan Investment Fund

Notes to the Financial Statements

September 30, 2010

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

### 5. 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.

### 6. 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 same day or next 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.

### 7. 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, 2010, the bank balance and carrying amount of the IMET 1-3 Year Series' deposits were \$1,122,820 and \$1,113,829, 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, 2010, the bank balance and carrying amount of the IMET Convenience Series' deposits was \$508,596,610. 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, 2010

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### 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, 2010.

	<u>Fair Value</u>	<u>Duration (in years)</u>
U.S. Treasury obligations	\$ 231,546,847	1.79
U.S. Government agency and agency-guaranteed obligations	114,088,724	1.19
Mortgage-backed securities	2,959,772	4.92
Money market mutual funds	<u>24,335,257</u>	<u>-</u>
Total investments	<u>\$ 372,930,600</u>	1.51

The following table presents a summarization of the cash and short-term investments in the IMET Convenience Series at September 30, 2010.

	<u>Fair Value</u>
Interest-bearing bank accounts	\$ 353,443,093
Certificates of deposit	<u>155,153,517</u>
Total cash and short-term investments	<u>\$ 508,596,610</u>

#### 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 Barclay's 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 Barclay's 1-3 Year Government Bond Fund was 1.86 years as of September 30, 2010.

#### 2. Credit Risk

The investments in U.S. Treasury and agency and agency-guaranteed 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.

# Illinois Metropolitan Investment Fund

Notes to the Financial Statements

September 30, 2010

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## NOTE C - DEPOSITS AND INVESTMENTS (Continued)

### 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. All cash and short-term investments in the IMET Convenience Series are either collateralized, or insured by the Federal Deposit Insurance Corporation, in accordance with IMET's investment policy.

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

The total expenses, including consulting fees, for the IMET 1-3 Year Series were approximately 0.33% of the average daily net assets for the year ended September 30, 2010. The average daily net assets of the IMET 1-3 Year Series were approximately \$346.2 million for the year ended September 30, 2010. 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.

# Illinois Metropolitan Investment Fund

Notes to the Financial Statements

September 30, 2010

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

### 1. Fund Management (Continued)

For the year ended September 30, 2010, the IMET 1-3 Year Series incurred expenses of \$363,517 for services provided by JP Morgan Asset Management, \$207,724 for services provided by PMA Financial Network, Inc., and \$34,620 for services provided by Harris, N.A.

### 2. Consultant

The DuPage Mayors and Managers Conference, Northwest Municipal Conference, South Suburban Mayors and 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 2010, 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 \$69,246 for the year ended September 30, 2010

### 3. Administrative 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, IMET may use these amounts to pay future expenses. The amount incurred in fiscal year 2010 totaled \$363,517. 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.

# Illinois Metropolitan Investment Fund

Notes to the Financial Statements

September 30, 2010

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## 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.

For the year ended September 30, 2010, the IMET Convenience Series incurred expenses of \$234,698 for services provided by PMA Financial Network, Inc.

### 2. Administrative Expenses

In accordance with the various operating agreements, the IMET Convenience Series calculates a daily accrual, at a rate of 0.19%, 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, IMET may use these amounts to pay future expenses. The amount incurred in fiscal year 2010 totaled \$743,221.

Fund management and administrative expenses are included in management and administrative services expense on the Combining Statement of Changes in Net Assets.

## NOTE F - UNIT TRANSACTIONS

A summary of participants' unit transactions for the year ended September 30, 2010 is as follows:

	<u>IMET 1 - 3 Year Series</u>	<u>IMET Convenience Series</u>
Unit transactions:		
Issued	8,668,442	553,727,334
Distributions reinvested	-	1,486,176
Redeemed	(6,057,785)	(377,378,933)
Change in units	2,610,657	177,834,577
Unit outstanding:		
Beginning of year	17,300,260	330,874,968
End of year	19,910,917	508,709,545

# Illinois Metropolitan Investment Fund

Notes to the Financial Statements

September 30, 2010

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

*Plan Description* 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).

*Funding Policy* 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 2009 was 8.51% of annual covered payroll. The employer contribution rate for calendar year 2010 was 9.36%. 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.

*Annual Pension Cost* For calendar year ended December 31, 2009, IMET's annual pension cost of \$13,946 was equal to IMET's required and actual contributions. The required contribution for 2009 was determined as part of the December 31, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at December 31, 2007 included: (a) 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% 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 the December 31, 2007 valuation was 28 years.

# Illinois Metropolitan Investment Fund

## Notes to the Financial Statements

September 30, 2010

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

(Continued)

#### Trend Information

<u>Calendar Year Ending</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2009	\$ 13,946	100%	\$ -
12/31/2008	23,654	100%	-
12/31/2007	27,848	100%	-

*Funded Status and Funding Policy* As of December 31, 2009, the most recent actuarial valuation date, the plan was 73.79% funded. The actuarial accrued liability for benefits was \$301,506 and the actuarial value of assets was \$222,470, resulting in an underfunded actuarial accrued liability (UAAL) of \$79,036. The covered payroll (annual payroll of active employees covered by the plan) was \$163,880 and the ratio of the UAAL to the covered payroll was 48%. In conjunction with the December 2009 actuarial valuation, the market value of investments was determined using techniques that spread the effect of short-term volatility in the market value of investments over a five-year period with a 20% corridor between the actuarial and market value of assets. In 2010, the unfunded actuarial accrued liability is being amortized on a level percentage of projected payroll on an open 30-year basis.

IMET elected to use a blended contribution rate for the nine month period between the valuation date and year end, resulting in a net pension obligation of \$2,465, which is included in other liabilities at September 30, 2010.

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.

### NOTE H - SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 22, 2010, the date that these financial statements were available to be issued. Management has determined that no events or transactions have occurred subsequent to the combining statement of net assets date that require disclosure in the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

## Illinois Metropolitan Investment Fund

Required Supplementary Information - Schedule of Funding Progress

Illinois Municipal Retirement Fund

September 30, 2010

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Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) - Entry Age	(2) - (1) Unfunded AAL (UAAL)	(1) / (2) Funded Ratio	(3) Covered Payroll	UAAL as a Percentage of Covered Payroll ((2-1)/3)
12/31/2009	\$ 222,470	\$ 301,506	\$ 79,036	73.79%	\$ 163,880	48.23%
12/31/2008	197,559	222,554	24,995	88.77%	113,288	22.06%
12/31/2007	168,549	183,139	14,590	92.03%	145,953	10.00%

On a market value basis, the actuarial value of assets as of December 31, 2009 is \$218,223. On a market value basis, the funded ratio would be 72.38%.

**SUPPLEMENTARY INFORMATION**

## Illinois Metropolitan Investment Fund

Schedule of Cash and Investment:

IMET 1-3 Year Series

September 30, 2010

Units/ par value	Description	Rate	Maturity	Market value
U.S. Treasury Obligations: 61.9%				
\$ 2,500,000	U.S. Treasury Note	4.375%	12/15/2010	\$ 2,521,396
5,000,000	U.S. Treasury Note	0.875%	12/31/2010	5,008,200
3,000,000	U.S. Treasury Note	4.500%	2/28/2011	3,053,550
1,765,000	U.S. Treasury Note	4.750%	3/31/2011	1,804,642
2,197,040	U.S. Treasury Inflation-Protected Security	2.375%	4/15/2011	2,223,998
2,500,000	U.S. Treasury Note	4.875%	4/30/2011	2,567,375
2,500,000	U.S. Treasury Note	4.875%	4/30/2011	2,567,375
3,000,000	U.S. Treasury Note	4.875%	4/30/2011	3,080,850
1,000,000	U.S. Treasury Note	4.875%	4/30/2011	1,026,950
2,000,000	U.S. Treasury Note	5.125%	6/30/2011	2,072,580
1,650,000	U.S. Treasury Note	5.125%	6/30/2011	1,709,879
5,350,000	U.S. Treasury Note	1.000%	9/30/2011	5,387,397
5,350,000	U.S. Treasury Note	1.000%	10/31/2011	5,389,911
1,235,000	U.S. Treasury Note	1.750%	11/15/2011	1,254,785
2,095,000	U.S. Treasury Note	1.750%	11/15/2011	2,128,562
5,000,000	U.S. Treasury Note	1.750%	11/15/2011	5,080,100
1,500,000	U.S. Treasury Note	1.750%	11/15/2011	1,524,030
2,265,000	U.S. Treasury Note	1.750%	11/15/2011	2,301,285
10,000,000	U.S. Treasury Note	1.125%	1/15/2012	10,103,100
5,000,000	U.S. Treasury Note	1.125%	1/15/2012	5,051,550
5,000,000	U.S. Treasury Note	1.125%	1/15/2012	5,051,550
1,000,000	U.S. Treasury Strips	None	2/15/2012	994,760
500,000	U.S. Treasury Strips	None	2/15/2012	497,380
1,000,000	U.S. Treasury Strips	None	2/15/2012	994,760
3,710,000	U.S. Treasury Note	1.000%	3/31/2012	3,746,655
539,255	U.S. Treasury Inflation-Protected Security	2.000%	4/15/2012	557,962
2,000,000	U.S. Treasury Note	4.500%	4/30/2012	2,131,560
1,500,000	U.S. Treasury Note	1.375%	5/15/2012	1,524,315
5,000,000	U.S. Treasury Note	1.375%	5/15/2012	5,081,050
5,000,000	U.S. Treasury Note	1.375%	5/15/2012	5,081,050
3,500,000	U.S. Treasury Note	1.375%	5/15/2012	3,556,735
200,000	U.S. Treasury Note	1.875%	6/15/2012	205,132
1,800,000	U.S. Treasury Note	1.875%	6/15/2012	1,846,188
2,000,000	U.S. Treasury Note	1.875%	6/15/2012	2,051,320
2,000,000	U.S. Treasury Note	1.875%	6/15/2012	2,051,320
2,000,000	U.S. Treasury Note	1.875%	6/15/2012	2,051,320
2,000,000	U.S. Treasury Note	4.375%	8/15/2012	2,149,760
5,000,000	U.S. Treasury Note	1.750%	8/15/2012	5,125,600

(Continued)

## Illinois Metropolitan Investment Fund

### Schedule of Cash and Investments (Continued)

IMET 1-3 Year Series

September 30, 2010

Units/ par value	Description	Rate	Maturity	Market value
U.S. Treasury Obligations (Continued)				
\$ 2,850,000	U.S. Treasury Note	1.750%	8/15/2012	\$ 2,921,592
1,000,000	U.S. Treasury Strips	None	8/15/2012	991,990
500,000	U.S. Treasury Strips	None	8/15/2012	495,995
2,000,000	U.S. Treasury Note	1.375%	9/15/2012	2,036,800
3,000,000	U.S. Treasury Note	1.375%	9/15/2012	3,055,200
3,000,000	U.S. Treasury Note	1.375%	9/15/2012	3,055,200
6,300,000	U.S. Treasury Note	1.375%	9/15/2012	6,415,920
2,000,000	U.S. Treasury Note	1.375%	9/15/2012	2,036,800
3,500,000	U.S. Treasury Note	1.375%	9/15/2012	3,564,400
1,500,000	U.S. Treasury Note	1.375%	9/15/2012	1,527,600
1,690,000	U.S. Treasury Note	1.375%	10/15/2012	1,721,688
3,000,000	U.S. Treasury Note	1.375%	10/15/2012	3,056,250
1,265,000	U.S. Treasury Note	1.375%	11/15/2012	1,289,415
1,500,000	U.S. Treasury Note	1.375%	11/15/2012	1,528,950
1,000,000	U.S. Treasury Note	1.375%	11/15/2012	1,019,300
2,500,000	U.S. Treasury Note	1.375%	11/15/2012	2,548,250
3,735,000	U.S. Treasury Note	1.375%	11/15/2012	3,807,086
3,000,000	U.S. Treasury Note	1.125%	12/15/2012	3,042,180
2,000,000	U.S. Treasury Note	1.125%	12/15/2012	2,028,120
1,500,000	U.S. Treasury Note	1.125%	12/15/2012	1,521,090
3,500,000	U.S. Treasury Note	1.125%	12/15/2012	3,549,210
2,000,000	U.S. Treasury Note	1.125%	12/15/2012	2,028,120
3,000,000	U.S. Treasury Note	1.375%	1/15/2013	3,059,310
3,000,000	U.S. Treasury Note	1.375%	1/15/2013	3,059,310
2,000,000	U.S. Treasury Note	1.375%	1/15/2013	2,039,540
2,000,000	U.S. Treasury Note	1.375%	1/15/2013	2,039,540
5,300,000	U.S. Treasury Note	1.375%	1/15/2013	5,404,781
2,000,000	U.S. Treasury Note	1.375%	2/15/2013	2,040,160
5,350,000	U.S. Treasury Note	1.375%	2/15/2013	5,457,428
900,000	U.S. Treasury Strips	None	2/15/2013	889,083
3,350,000	U.S. Treasury Strips	None	2/15/2013	3,309,365
750,000	U.S. Treasury Strips	None	2/15/2013	740,903
6,000,000	U.S. Treasury Note	1.750%	4/15/2013	6,181,380
3,000,000	U.S. Treasury Note	1.750%	4/15/2013	3,090,690
3,000,000	U.S. Treasury Note	1.750%	4/15/2013	3,090,690
6,000,000	U.S. Treasury Note	1.375%	5/15/2013	6,125,640
6,000,000	U.S. Treasury Note	1.125%	6/15/2013	6,085,320
4,000,000	U.S. Treasury Note	1.125%	6/15/2013	4,056,880
2,000,000	U.S. Treasury Note	1.125%	6/15/2013	2,028,440

(Continued)

## Illinois Metropolitan Investment Fund

### Schedule of Cash and Investments (Continued)

IMET 1-3 Year Series

September 30, 2010

Units/ par value	Description	Rate	Maturity	Market value
U.S. Treasury Obligations (Continued)				
\$ 5,000,000	U.S. Treasury Note	1.750%	1/31/2014	\$ 5,163,300
2,000,000	U.S. Treasury Strips	None	2/15/2014	1,944,000
2,000,000	U.S. Treasury Strips	None	2/15/2014	1,944,000
				231,546,847
U.S. Government Agency and Agency-Guaranteed Obligations: 30.5%				
2,000,000	Federal Home Loan Mortgage Corp.	5.000%	10/18/2010	2,004,337
1,130,000	Federal Home Loan Bank	6.625%	11/15/2010	1,138,791
1,400,000	Federal Home Loan Mortgage Corp.	4.750%	12/8/2010	1,411,816
150,000	Federal Home Loan Mortgage Corp.	4.750%	12/8/2010	151,266
1,500,000	Federal Home Loan Bank	4.750%	12/10/2010	1,513,035
850,000	Federal Home Loan Bank	4.750%	12/10/2010	857,387
1,500,000	Federal Farm Credit Bank	4.050%	12/21/2010	1,512,780
693,000	Federal Farm Credit Bank	5.750%	1/18/2011	704,462
2,350,000	Federal Home Loan Mortgage Corp.	4.550%	1/20/2011	2,380,856
2,500,000	Federal Home Loan Bank	1.625%	1/21/2011	2,511,175
2,200,000	Federal Home Loan Bank	4.850%	2/4/2011	2,234,452
1,240,000	Federal Home Loan Bank	5.875%	2/15/2011	1,265,693
800,000	Federal Home Loan Bank	4.000%	2/15/2011	811,272
1,440,000	Federal Home Loan Bank	4.000%	2/15/2011	1,460,290
900,000	Federal Home Loan Mortgage Corp.	4.125%	2/24/2011	913,653
1,600,000	Federal Home Loan Mortgage Corp.	4.125%	2/24/2011	1,624,272
1,600,000	Federal Home Loan Bank	2.875%	3/11/2011	1,618,480
1,350,000	Federal Home Loan Mortgage Corp.	5.625%	3/15/2011	1,383,210
1,500,000	Federal Home Loan Mortgage Corp.	5.125%	4/18/2011	1,539,720
2,000,000	Federal Home Loan Mortgage Corp.	5.125%	4/18/2011	2,052,960
1,415,000	Federal Home Loan Mortgage Corp.	3.500%	5/5/2011	1,441,857
1,750,000	Federal Home Loan Bank	2.625%	5/20/2011	1,775,760
1,750,000	Federal Home Loan Bank	2.625%	5/20/2011	1,775,760
1,000,000	Federal Home Loan Bank	5.250%	6/10/2011	1,032,800
1,000,000	Federal Home Loan Bank	5.250%	6/10/2011	1,032,800
1,195,000	Federal Home Loan Bank	5.250%	6/10/2011	1,234,196
1,555,000	Federal Home Loan Bank	5.375%	6/10/2011	1,609,332
1,000,000	Federal Home Loan Bank	3.375%	6/24/2011	1,021,030
2,000,000	Federal Home Loan Bank	3.625%	7/1/2011	2,050,700
1,500,000	Federal Home Loan Bank	4.375%	9/9/2011	1,556,790
5,000,000	Federal Home Loan Bank	3.750%	9/9/2011	5,160,000
1,150,000	Federal Home Loan Bank	4.750%	12/9/2011	1,207,972
1,060,000	Federal Home Loan Bank	4.750%	12/9/2011	1,113,435

(Continued)

## Illinois Metropolitan Investment Fund

### Schedule of Cash and Investments (Continued)

IMET 1-3 Year Series

September 30, 2010

Units/ par value	Description	Rate	Maturity	Market value
U.S. Government Agency and Agency-Guaranteed Obligations (Continued)				
\$ 2,500,000	Federal Home Loan Bank	1.125%	5/18/2012	\$ 2,526,200
500,000	Federal Farm Credit Bank	3.875%	6/4/2012	527,850
1,500,000	Federal Farm Credit Bank	3.875%	6/4/2012	1,583,550
300,000	Federal Farm Credit Bank	3.875%	6/4/2012	316,710
1,850,000	Federal Farm Credit Bank	2.125%	6/18/2012	1,899,932
2,800,000	Federal Home Loan Mortgage Corp.	4.625%	10/25/2012	3,035,116
2,000,000	Federal Home Loan Bank	1.625%	11/21/2012	2,043,480
2,190,000	Federal Home Loan Bank	1.625%	11/21/2012	2,237,611
3,000,000	Federal Farm Credit Bank	1.875%	12/7/2012	3,078,300
2,000,000	Federal Home Loan Bank	1.750%	12/14/2012	2,047,240
2,000,000	Federal Home Loan Mortgage Corp.	4.500%	1/15/2013	2,175,120
2,000,000	Federal Home Loan Mortgage Corp.	3.500%	5/29/2013	2,145,260
980,000	Federal Home Loan Bank	3.470%	3/10/2014	1,061,908
1,000,000	PNC Funding Corp.	1.875%	6/22/2011	1,011,830
3,000,000	Goldman Sachs Group Inc.	1.625%	7/15/2011	3,033,840
2,000,000	Citibank NA	1.250%	9/22/2011	2,017,560
2,000,000	Regions Bank	3.250%	12/9/2011	2,064,940
3,000,000	New York Community Bank	3.000%	12/16/2011	3,089,580
2,500,000	Tennessee Valley Authority	None	2/15/2012	2,467,600
1,500,000	General Electric Capital Corporation	2.250%	3/12/2012	1,538,265
3,000,000	USAA Capital Corp.	2.240%	3/30/2012	3,077,100
500,000	USAA Capital Corp.	2.240%	3/30/2012	512,850
3,000,000	Citigroup Inc.	2.125%	4/30/2012	3,076,050
1,500,000	Citigroup Inc.	2.125%	4/30/2012	1,538,025
3,000,000	General Electric Capital Corporation	2.200%	6/8/2012	3,084,120
2,400,000	Sovereign Bancorp	2.500%	6/15/2012	2,480,088
950,000	Sovereign Bancorp	2.500%	6/15/2012	981,702
2,000,000	Citigroup Inc.	2.125%	7/12/2012	2,055,760
2,000,000	Citigroup Inc.	1.875%	11/15/2012	2,050,520
2,500,000	General Electric Capital Corporation	2.625%	12/28/2012	2,606,625
1,565,000	Overseas Private Investment Corporation	4.050%	11/15/2014	1,621,653
				114,088,724
Mortgage Backed Securities: 0.8%				
231,447	Federal Home Loan Mortgage Corp.	4.000%	11/1/2013	238,013
91,250	Federal Home Loan Mortgage Corp.	5.000%	4/1/2014	94,603
36,015	Federal Home Loan Mortgage Corp.	6.500%	7/1/2014	38,979
115,027	Federal Home Loan Mortgage Corp.	7.000%	12/1/2014	124,229
77,736	Federal Home Loan Mortgage Corp.	7.000%	3/1/2016	84,150

(Continued)

## Illinois Metropolitan Investment Fund

Schedule of Cash and Investments (Continued)

IMET 1-3 Year Series

September 30, 2010

Units/ par value	Description	Rate	Maturity	Market value
Mortgage Backed Securities (Continued)				
\$ 137,163	Federal Home Loan Mortgage Corp.	7.000%	9/1/2021	\$ 147,822
32,579	Government National Mortgage Assoc.	9.500%	12/15/2024	38,187
24,748	Government National Mortgage Assoc.	8.500%	5/20/2025	29,340
7,750	Government National Mortgage Assoc.	8.000%	11/20/2026	9,081
34,494	Government National Mortgage Assoc.	8.000%	11/20/2027	40,500
156,477	Federal Home Loan Mortgage Corp.	6.549%	12/1/2027	163,707
2,502	Government National Mortgage Assoc.	8.000%	3/20/2028	2,943
2,548	Government National Mortgage Assoc.	8.000%	8/20/2028	2,997
7,780	Government National Mortgage Assoc.	8.000%	9/20/2028	9,150
1,139	Government National Mortgage Assoc.	8.000%	11/20/2028	1,340
171,491	Federal Home Loan Mortgage Corp.	5.140%	1/1/2030	179,956
520,886	Federal Home Loan Mortgage Corp.	4.311%	12/1/2034	544,295
531,800	Federal Home Loan Mortgage Corp.	4.660%	3/1/2035	557,411
255,781	Federal Home Loan Mortgage Corp.	5.144%	1/1/2036	266,511
200,982	Federal Home Loan Mortgage Corp.	5.618%	5/1/2037	210,157
169,165	Federal Home Loan Mortgage Corp.	5.457%	7/1/2037	176,401
				<u>2,959,772</u>
Cash and Money Market Mutual Funds: 6.8%				
	Cash	0.440%	None	7,691
	Charter One Money Market	0.440%	None	1,106,138
	Fidelity Institutional Money Market	0.010%	None	24,335,257
				<u>25,449,086</u>
				<u>\$ 374,044,429</u>

(Concluded)

**OTHER STATISTICAL INFORMATION (UNAUDITED)**

**Illinois Metropolitan Investment Fund**  
 Select Comparative Data - IMET 1-3 Year Series  
September 30, 2010

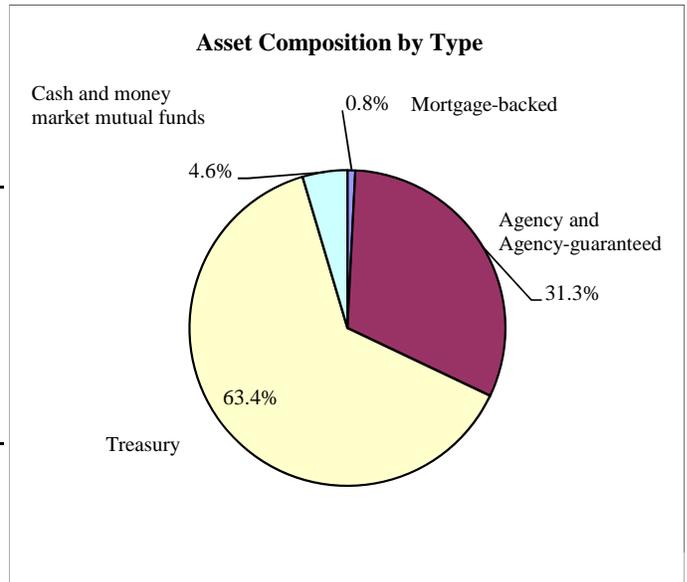
	<u>One Year *</u>	<u>Three Year *</u>	<u>Since Inception July 17, 1996</u>
IMET 1-3 Year Series Net Return	2.26%	3.94%	4.57%
IMET 1-3 Year Series Gross Return**	2.54%	4.22%	4.90%
Barclays Capital 1-3 Year Government Bond Index	2.62%	4.29%	4.86%
Merrill Lynch 3-Month Treasury Bill Index	0.13%	1.13%	3.36%

\* Annualized return

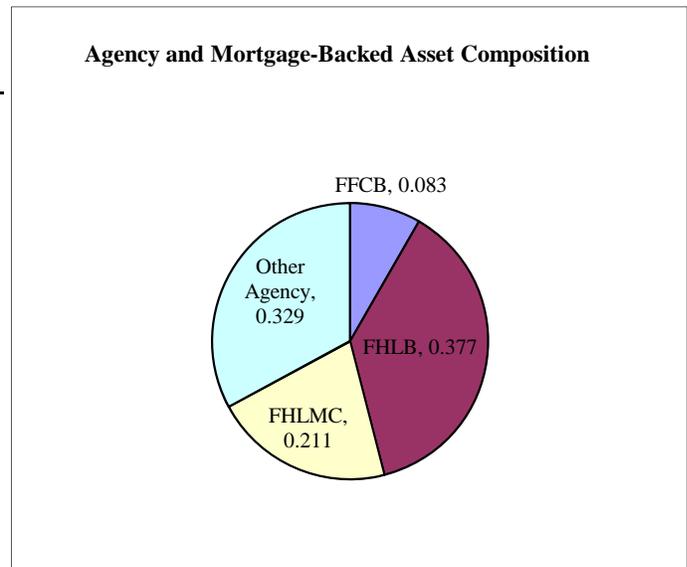
\*\* Returns exclude expenses of the fund

	<u>Fund Profile</u>	<u>Index Profile</u>
Gross yield to maturity	0.46%	0.46%
Duration	1.51 years	1.86 years
Average maturity	1.57 years	1.90 years

<u>Sectors</u>	<u>Fund Profile</u>	<u>Index Profile</u>
Treasury	63.4%	73.4%
Agency and Agency-guaranteed	31.3%	26.6%
Mortgage-backed	0.8%	-
Cash and money market mutual fund	4.6%	-



<u>Quality</u>	<u>Fund Profile</u>	<u>Index Profile</u>
AAA	100%	100%



## **INVESTMENT POLICIES**

# Illinois Metropolitan Investment Fund

Investment Policy - IMET 1-3 Year Series

September 30, 2010

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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, 2010

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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, 2010

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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, 2010

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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, 2010

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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, 2010

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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 Barclay's Capital 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, 2010

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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, 2010

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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, 2010

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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, 2010

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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, 2010

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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, 2010

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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, 2010

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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)