POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)

Financial Statements and Supplementary Information
For the Years Ended December 31, 2012 and 2011
With Report of Independent Auditors

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
December 31, 2012 and 2011

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MITCHELL & TITUS

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Policemen's Annuity and Benefit Fund of Chicago

We have audited the accompanying financial statements of Policemen's Annuity and Benefit Fund of Chicago (the Fund), a component unit of the City of Chicago, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the basis financial statements listed in the table of contents.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the statements of plan net assets of the Policemen's Annuity and Benefit Fund of Chicago as of December 31, 2012 and 2011, and the changes in plan net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

Required supplementary information

U.S. generally accepted accounting principles require that management's discussion and analysis and the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other supplementary information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fund's basic financial statements. The supplementary schedules of administrative expenses, consulting costs, and investment fees are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of administrative expenses, consulting costs, and investment fees are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, based on our audits, the procedures performed as described above, the schedules of administrative expenses, consulting costs, and investment fees are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Mitchell & Titus, LLP

June 26, 2013

The Management's Discussion and Analysis section of this report is intended to serve as an introduction to the financial statements of the Policemen's Annuity and Benefit Fund of Chicago (the Fund) and to supplement the information contained therein.

Overview of Financial Statements and Accompanying Information

The basic financial statements are prepared in accordance with generally accepted accounting principles as established by the Governmental Accounting Standards Board (GASB) and are described below:

- **The Statements of Plan Net Assets** report the Fund's assets, liabilities, and the resultant net assets where assets minus liabilities equal net assets available held in trust for pension benefits at the end of the year.

- **The Statements of Changes in Plan Net Assets** show the sources and uses of funds during the calendar year, where additions minus deductions equal the net increase (or decrease) in net assets held in trust for pension benefits available for the year.

- **The Notes to the Financial Statements** are an integral part of the financial statements and include important information and schedules to provide a more comprehensive understanding of the data provided in the financial statements. Information contained in the note disclosures includes the Fund's accounting policies, descriptions of pension and health benefits and related liabilities, detail of investments and related risks, fund reserves, and various other relevant topics.

- **Required Supplementary Information** presents detailed required historical information and is presented after the Notes to the Financial Statements. This supplementary information includes data on funding progress and employer contributions, along with other information useful in evaluating the financial condition of the Fund.

Financial Highlights

- The net assets of the Fund increased by $38 million, or 1.2%, to $3.213 million during 2012. At December 31, 2011, the net assets of the Fund decreased by $264 million, or 7.7%, to $3,176 million from the December 31, 2010 balance of $3,440 million.

- Fund investment income earned, net of investment-related expenses was approximately $352.0 million during 2012, compared with a gain of approximately $32.5 million during 2011. The returns reflect strong performance across all asset classes. Equities in general and non-U.S. Equities in particular showed exceptionally strong returns. Private Capital, especially Private Equity and Real Estate also showed robust increases in values. On a relative basis, non-U.S. Equities, Fixed Income, and Private Equity significantly outperformed their respective benchmarks. On the other hand, U.S. Equity, Infrastructure, and Real Estate somewhat lagged their respective indices. From an allocation perspective, it is worth noting that in late 2011, 10% of the total allocation was reallocated from U.S. Equity to Global Tactical Asset Allocation strategies in order to render the overall allocation somewhat more reactive to rapidly evolving markets.

Financial Highlights *(continued)*

- The Fund received contributions of $95.9 million from members and $207.2 million from the City of Chicago in 2012, compared to contributions of $98.2 million from members and $183.5 million from the City of Chicago in 2011. The number of active members declined 1.7% from 2011 to 2012; which resulted in a decline in member contributions. Employer contributions are mandated by a statutorily set multiplier of 2.0 times member contributions collected two years prior. In August of 2010, a retroactive wage increase was provided to active members. The one-time payment of retroactive wages resulted in $12.3 million of additional member contributions in 2010. Consequently, the increase in employer contributions of $23.7 million in 2012 is reflective of the statutory multiplier of 2.0 times these 2010 member wages.

- Benefit payments, excluding death benefits, increased by approximately $34.7 million in 2012, from $566.5 million in 2011 to $601.2 million in 2012. The number of retirees and beneficiaries increased in 2012 by 303 members, or 2.4%, thus contributing to the increase. Since January 1, 2010, the Fund has experienced approximately 1,600 retirements of active members, which resulted in significant increases in benefits in 2010, 2011 and 2012. Another reason for the increase is the annual cost of living adjustments provided to retirees born prior to January 1, 1955. Death benefits and refunds of employee deductions increased from 2011 to 2012 by approximately $3.9 million, from $8.8 million to $12.7 million, respectively. The increase is due to the large volume of retirements in 2012, with a greater number of retiring officers with a single, unmarried status at retirement, thus receiving a refund of spousal contributions.

- Administrative expenses increased in 2012 by approximately $0.5 million. The increase is almost entirely relating to a one-time rise in legal fees relating to Fund investment matters. Outside of consultant fees, Fund management has worked vigorously to maintain and control administrative expenses, including a reduction in $0.1 million in salaries and related benefits.

- The funding objective of the Fund is to meet its long-term defined pension benefit obligations. The funding ratio of the Fund on a fair value basis experienced a decrease, from 32.8% at December 31, 2011 to 31.4% at December 31, 2012. The decrease reflects a significant increase in the actuarial liability at December 31, 2012, as compared to December 31, 2011, primarily due to a decrease in the investment return assumption from 8.0% at December 31, 2011 to 7.75% at December 31, 2012.

- Under GASB numbers 25 and 43, the Fund uses a five-year actuarial smoothing method in valuing its assets to determine its funded status and the contributions required to fund the plan going forward. This actuarial valuation method reduces the effect of short-term market volatility and provides a more stable trend valuation for the Fund's long-term planning needs. The funding ratio of the Fund using an actuarial value of assets experienced a decrease, from 35.6% at December 31, 2011 to 30.8% at December 31, 2012.

Financial Highlights *(continued)*

- In compliance with GASB No. 45, the Fund recognizes a liability for other post-employment benefits (OPEB), which represents health insurance coverage for active and retired Fund employees. Expense of $0.463 million and $0.492 million was recognized in 2011 and 2012, respectively, resulting in a total accrued liability of $1,160 million and $1,482 million as of December 31, 2011, and 2012, respectively.

Plan Net Assets

A summary of Plan net assets is presented below:

Plan Net Assets
(In millions)
As of December 31, 2012, 2011, and 2010

				2012–2011 Change	
	2012	2011	2010	$	%
Receivables	$ 221.1	$ 196.7	$ 212.9	$ 24.4	12.4
Brokers–unsettled trades	159.4	194.0	276.4	(34.5)	(17.8)
Investments, at fair value	3,066.8	3,094.8	3,301.1	(28.0)	(0.9)
Invested securities lending collateral	255.4	312.1	295.7	(56.6)	(18.1)
Total assets	$ 3,702.8	3,797.6	4,086.1	(94.8)	(2.5)
Brokers–unsettled trades	227.7	304.4	344.2	(76.7)	(25.2)
Securities lending payable	255.4	312.1	295.7	(56.6)	(18.1)
OPEB obligation	1.5	1.2	0.8	0.3	27.7
Refunds and accounts payable	4.7	4.4	5.7	0.3	6.7
Total liabilities	489.4	622.1	646.4	(132.7)	(21.3)
Net assets	$ 3,213.4	$ 3,175.5	$ 3,439.7	$ 37.9	1.2

The increase in net assets of $37.9 million in 2012 was driven primarily by investment earnings, which were significantly offset by immediate benefit funding needs. The assets available for investment earned 12.39% in 2012, compared to an investment gain of 0.78% in 2011. Mitigation of some of the tail risks associated with the global economy in general and European concerns in particular lifted sentiment towards risky assets. Specifically, global equities showed extremely strong performance, which boosted the overall portfolio during the measurement period.

Changes in Plan Net Assets

The following table reflects a comparative summary of various changes in Plan net assets.

Changes in Plan Net Assets
(In millions)
Years Ended December 31, 2012, 2011 and 2010

	2012	2011	2010	2012–2011 Change $	2012–2011 Change %
ADDITIONS					
Member contributions	$ 95.9	$ 98.2	$ 108.4	$ (2.3)	(2.4)
Employer contributions	207.2	183.5	183.8	23.7	12.9
Net investment gains (losses) and investment income	352.0	32.5	368.7	319.5	982.4
Securities lending income (loss)	1.2	1.2	0.9	0.0	3.5
Miscellaneous income	0.4	0.1	0.0	0.3	305.1
Total additions	656.7	315.5	661.8	341.2	108.1
DEDUCTIONS					
Annuity, disability, and death benefits	602.8	568.0	536.3	34.8	6.1
Refunds of contributions	11.2	7.3	7.6	3.8	52.0
OPEB expense	0.5	0.5	0.4	0.0	0.0
Administrative expenses	4.4	3.9	3.9	0.5	12.9
Total deductions	618.8	579.7	548.2	39.1	6.8
Net increase/(decrease)	$ 37.9	$ (264.2)	$ 113.6	$ 302.1	114.4

The Fund experienced a net increase in net assets in 2012. The increase reflects strong investment returns of 12.39%, which were offset significantly by increasing benefit payments. The Fund continues to liquidate assets as contributions from members and the employer are approximately $311 million less than benefits to members. This liquidation of assets is consistent with 2011 activity, in which contributions from members and the employer were approximately $294 million less than benefits to members. The Fund continues to experience retirement levels in 2012, 2011 and 2010 significantly above levels in 2009 and 2008. The increased retirement levels are partially attributed to some early retirement health care benefits offered to members by the City of Chicago. Retirements of over 1,600 active members occurred during the three years of 2012, 2011 and 2010.

Investment Activities

The strategic allocation was unchanged in 2012. Long-term targets include: 21% for U.S. Equity, 20% for non-U.S. Equity, 22% for Fixed Income and Cash, 19% for Tactical and Alpha Strategies, 4% for Real Assets, 7% for Private Equity, 5% for Real Estate, and 2% for Infrastructure.

The Fund continues to prudently implement the revised strategic allocation approved by the Board of Trustees in late 2010. U.S. Equity exposure was reduced through the year because of immediate benefit funding requirements. Also, the structure of the U.S. Equity allocation was reviewed in the second half of the year. A few managers were terminated and the portfolio was consolidated in a more efficient configuration.

Investment Returns
Years Ended December 31, 2012, 2011 and 2010

	2012	2011	2010
Total fund (%)	12.39	0.78	12.72
Equities	17.66	(4.68)	15.60
Fixed income	6.72	7.88	7.91
Alternatives	12.05	(2.91)	5.29
Private capital	8.01	12.78	11.40
Cash and cash equivalents	0.14	0.13	0.19

Private capital consists of investments in private equity, real estate and infrastructure. Alternative investments consist of fund of hedge fund investments and global tactical allocations.

Plan Membership

The following table reflects the Plan membership as of December 31, 2012, 2011 and 2010.

Changes in Plan Membership
As of December 31, 2012, 2011 and 2010

				2012–2011	
	2012	2011	2010	Change	%
Retirees and beneficiaries receiving benefits	12,966	12,663	12,380	303	2.4
Active employees	12,026	12,236	12,737	(210)	(1.7)
Terminated (inactive members) employees entitled to benefits or refunds of contributions	664	624	620	40	6.4
Total	25,656	25,523	25,737	133	0.5

Funding Status

The actuarial value of assets, using the GASB 25 and 43 methods, for the December 31, 2012 valuation was $3,149 million and the actuarial liability was $10,221 million. The actuarial liability increased by approximately $532 million in 2012, from $9,688 million in 2011 to $10,221 million in 2012. The assets currently fund 30.8% of this liability, a decrease from the 35.6% funded ratio in 2011. The decrease in the funded ratio resulted largely from the change in the investment return assumption in 2012 from 8.0% in 2011 to 7.75% in 2012. Additionally, the significant excess of benefit payments over contributions on an annual basis continues to speed the decline in the funded ratio. Also, the Fund uses a five-year actuarial smoothing method in valuing its assets to determine its funded status, thus investment losses experienced in 2008, which were $1,104 million, are reflected in the actuarial value of assets over a five-year period, concluding in 2012. Likewise, actuarial investment gains and losses from 2008 through 2012 are also amortized over a five-year period.

The Board of Trustees is very concerned with the funded level of actuarial liabilities. The unfunded accrued actuarial liability for pension benefits and for the health insurance supplement increased from 2011 to 2012. Additionally, the annual required contribution for these benefits, as computed under GASB 25 and 43, was not reached in 2012 or 2011. However, the Board has taken steps to ensure a sufficient level of liquidity within the portfolio to fund monthly benefits, while pursuing its long-term goal of maximum investment performance.

On December 30, 2010, Governor Pat Quinn signed into law, SB 3538, as part of Public Act 096-1495. This new legislation included provisions, which will significantly change the method by which contributions to the Fund by the Employer are determined, as well as the level of benefits afforded police officers hired by the City of Chicago after January 1, 2011.

Police officers hired after January 1, 2011, are subject to different provisions in their defined benefit pension plan provisions. The changes are similar to other revisions made to various state and local pension systems in Illinois, including a change in the minimum retirement age for a non-reduced benefit, changes in the method of determining final average salary, changes in the calculation of the annual cost of living increase for retirees, changes in survivor benefits, and a salary cap on compensation included in the calculation of pension benefits.

The formula by which the Employer, the City of Chicago, will fund members' pension benefits was significantly changed, effective with the City of Chicago tax levy beginning in 2015. Previously, the City of Chicago met its fiduciary obligation for funding through a tax multiplier calculation that was based upon active member contributions. Public Act 096-1495 changes that funding obligation such that annually actuarially determined employer contributions will be calculated and required. Such actuarially determined contributions will be established with a funding goal of 90% by the end of 2040, based upon the actuarial value of Fund assets and application of certain required actuarial assumptions and methodologies. The Public Act also provides an enhancement mechanism such that failure by the City of Chicago to remit the required contributions can result in withholding of certain grants owed by the State of Illinois Comptroller to the City of Chicago, and direct deposit of such monies to the Fund.

Funding Status *(continued)*

The financing for the Fund, as measured and reported for the City of Chicago tax levy beginning in 2015 requires that assets are marked-to-market at March 30, 2011 and the actuarial value of assets be based upon a five-year smoothing of investment gains and losses incurred in fiscal years ending after March 30, 2011. The actuarial value of assets as defined in Public Act 096-1495 will affect the actuarial valuation as of January 1, 2015, and the development of contributions for Plan year-ending December 31, 2015. The Fund intends to adopt the statutory change in the actuarial value of assets, effective for the plan year beginning January 1, 2015. Consequently, the financial statements included herein continue the five-year smoothing method already in place prior to this legislation without a reset of asset values at March 30, 2011.

Contact Information

This financial report is designed to provide the employer, plan participants, and others with a general overview of the Fund's finances and to show accountability for the monies received. Questions concerning any data provided in this report can be submitted to:

Ms. Regina M. Tuczak
Acting Executive Director
Policemen's Annuity and Benefit
Fund of Chicago
221 N. LaSalle
Suite 1626
Chicago, IL 60601

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Statements of Plan Net Assets
As of December 31, 2012 and 2011

	2012	2011
ASSETS		
Cash	$ 250	$ 250
Receivables		
Employer tax levies, net of allowance for loss of $18,678,661 in 2012 and $17,953,633 in 2011	209,436,721	184,153,465
Member contributions	4,519,144	4,588,788
Interest and dividends	7,137,650	7,995,119
Accounts receivable—due from brokers	159,429,849	193,960,667
	380,523,364	390,698,039
Investments, at fair value		
U.S. common stock and other equity	564,104,261	764,633,977
Collective investment funds, stock	315,897,623	159,441,205
Collective investment funds, international equities	32,031,415	25,893,101
Collective investment funds, fixed income	308,491,943	376,262,936
International equity	667,303,919	554,553,305
Bonds and notes	598,489,579	625,957,258
Short-term instruments	93,899,392	136,445,651
Infrastructure	39,609,925	42,980,775
Forward contracts and swaps	44,645,959	11,243,614
Hedge fund-of-funds	85,754,714	79,205,340
Real estate	125,923,043	120,609,791
Venture capital and private equity	190,685,937	197,576,112
	3,066,837,710	3,094,803,065
Invested securities lending cash collateral	255,434,143	312,160,256
Total assets	3,702,795,467	3,797,661,610
LIABILITIES		
Refunds and accounts payable	4,734,680	4,437,278
Trade accounts payable—due to brokers	227,710,970	304,394,921
Securities lending cash collateral	255,434,143	312,160,256
OPEB obligation	1,482,440	1,160,474
Total liabilities	489,362,233	622,152,929
Net assets held in trust for pension benefits	$ 3,213,433,234	$ 3,175,508,681

The accompanying notes are an integral part of these financial statements.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Statements of Changes in Plan Net Assets
For the Years Ended December 31, 2012 with and 2011

	2012	2011
ADDITIONS		
Contributions		
Employer	$ 207,228,022	$ 183,521,526
Plan member salary deductions	95,892,052	98,222,258
Total contributions	303,120,074	281,743,784
Investment income		
Net appreciation (depreciation) in fair value of investments	300,497,700	(20,412,408)
Interest	22,830,852	23,149,998
Dividends	32,217,299	36,153,795
Real estate income	5,690,917	3,298,599
	361,236,768	42,189,984
Investment activity expenses		
Investment management fees	(8,448,610)	(8,899,000)
Custodial fees	(190,575)	(186,900)
Investment consulting fees	(596,499)	(583,351)
Total investment activity expenses	(9,235,684)	(9,669,251)
Net income from investing activities	352,001,084	32,520,733
From securities lending activities		
Securities lending income	989,371	963,567
Borrower rebates	479,540	455,422
Bank fees	(293,649)	(283,613)
Net income from securities lending activities	1,175,262	1,135,376
Total net investment income	353,176,346	33,656,109
Miscellaneous income	423,216	104,468
Total additions	656,719,636	315,504,361
DEDUCTIONS		
Pension and disability benefits	601,213,032	566,457,386
Death benefits	1,543,000	1,510,800
Refunds of employee deductions	11,150,565	7,337,234
	613,906,597	575,305,420
Administrative expenses	4,396,638	3,895,731
OPEB expense	491,848	463,226
Total deductions	618,795,083	579,664,377
Net increase (decrease)	37,924,553	(264,160,016)
Net assets held in trust for pension benefits		
Beginning of year	3,175,508,681	3,439,668,697
End of year	$ 3,213,433,234	$ 3,175,508,681

The accompanying notes are an integral part of these financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Accounting principles generally accepted in the United States, as established by the Governmental Accounting Standards Board (GASB), define a financial reporting entity as consisting of the primary government and its component units, for which the primary government is financially accountable. Financial accountability includes appointing a voting majority of a component unit's governing board, the ability of the primary government to impose its will on the component unit, or a potential for the component unit to provide specific financial benefits to or impose specific financial burdens on the primary government. A primary government may also be financially accountable for its component units.

Based on the above criteria, the Policemen's Annuity and Benefit Fund of Chicago (the Fund, or PABF) is considered to be a component unit of the City of Chicago (the City). The Fund is part of the City's financial reporting entity and is included in the City's fiduciary statement of net assets as pension trust funds.

Basis of Accounting

The Fund's financial statements are prepared on the accrual basis of accounting. Employee and employer contributions are recognized as additions in the period in which employee services are performed. Benefits and refunds are recognized as deductions when payable. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Investments

The Fund is authorized to invest in bonds, notes, and other direct obligations of the U.S. Government and U.S. Government agencies; corporate bonds, debentures, and notes; certain notes secured by mortgages, including pass-through securities; common and preferred stocks; certain pooled funds; limited partnerships; real estate; derivatives; currencies and other types of investment vehicles as set forth in the Illinois Compiled Statutes.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Method Used to Value Investments

Investments are reported at fair value. Short-term investments are reported at fair value, which approximates cost. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Fixed-income securities are valued principally using quoted market prices provided by independent pricing services. For collective investments, net asset value is determined and certified by the investment managers as of the reporting date. Real estate investments are valued at estimated fair value as determined by the general partner, based upon appraisals provided by the investment manager. Hedge fund, venture capital, private equity, infrastructure, and certain opportunistic investments are reported at estimated fair value as determined by the general partner of the investment vehicle.

Furniture and Office Equipment

Furniture and office equipment are not capitalized as they are immaterial and are charged to expenses in the year of purchase.

Administrative Expenses

Administrative expenses are recorded as incurred and are budgeted and approved by the Fund's Board of Trustees. Administrative expenses are funded by employer contributions.

Income Taxes

Income earned by the Fund is not subject to Federal income tax.

Securities Lending Transactions

Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets in the statements of plan net assets at fair value. Securities received as collateral are reported as assets only if the Fund is able to pledge or sell them without a borrower default. Liabilities resulting from these transactions are reported in the statements of plan net assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Recent Accounting Pronouncements

The following standards were adopted by the Fund during 2012 and their adoption did not have any material impact on the financial statements:

GASB's codification standard on *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows or Resources, and Net Position* was effective for the Fund beginning with its year ending December 31, 2012. The objective of this Statement is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effect on the net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed.

Other accounting standards that the Fund is currently reviewing for applicability and potential impact on the financial statements include:

GASB's codification standard on *Items Previously Reported as Assets and Liabilities* will be effective for the Fund beginning with its year ending December 31, 2013. The objective of this statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

GASB's codification standard on *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62* will be effective for the Fund beginning with its year ending December 31, 2013. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance in previously issued standards.

GASB's codification standard on *Financial Reporting for Pension Plans* establishes improved reporting by state and local governmental pension plans through enhanced note disclosures and schedules of required supplementary information. The provisions of the new standard will be effective for the Fund beginning with its year ending December 31, 2014.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Recent Accounting Pronouncements *(continued)*

GASB's codification standard on *Accounting and Financial Reporting for Pensions* establishes new financial reporting requirements for most governments that provide their employees with pension benefits through these types of plans. The new standard will be effective for the Fund beginning with its year ending December 31, 2015. The new standard replaces the previous standards relating to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The new standard requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The standard also enhances accountability and transparency through revised and new note disclosures and required supplementary information.

NOTE 2 PENSION PLAN

Plan Description and Contribution Information

Policemen's Annuity and Benefit Fund of Chicago is the administrator of a defined benefit, single-employer pension plan with a defined contribution minimum for the purpose of providing benefits to the police officers of the City of Chicago and their widows and children. Any City employee employed under the provisions of the municipal personnel ordinance as police service is covered by the Fund. The defined benefits, as well as the employer and employee contribution levels, are mandated in Illinois Compiled Statutes (40 ILCS Act 5, Article 5) and may be amended only by the Illinois State Legislature. The Fund is governed by an eight-member Board of Trustees (four appointed by the City, three elected by the policemen, and one elected by the annuitants) whose duties are to administer the Fund under the Illinois Pension Code.

NOTE 2 PENSION PLAN *(continued)*

Plan Description and Contribution Information *(continued)*

The City of Chicago payrolls for employees covered by the Fund for the years ended December 31, 2012 and 2011 were $1,015,170,686 and $1,034,403,526, respectively. At December 31, 2012 and 2011, the Fund membership consisted of the following:

	2012	**2011**
Active employees	12,026	12,236
Retirees and beneficiaries currently receiving benefits	12,966	12,663
Terminated employees entitled to benefits or a refund of contributions, but not yet receiving them	664	624
	25,656	25,523

The Fund provides retirement benefits as well as death and disability benefits. Employees age 50 or older with at least 10 years of service are entitled to receive a money purchase annuity and partial City contributions if less than 20 years of service have been completed. Effective 2003, the mandatory retirement age for a participant is 63. Employees age 50 or older with at least 20 years of service are entitled to receive a minimum formula annuity of 2.5% per year for the first 20 years of service, plus 2.5% per year for each following year or fraction thereof times the final average salary (highest average annual salary for any four consecutive years within the last 10 years of service immediately preceding the date of retirement). The annuity shall not exceed 75% of the highest average annual salary.

The monthly annuity increases by 3% of the original annuity at the first of the month following the later of the attainment of age 55 or the first anniversary of retirement, and by 3% on each January 1 thereafter, if the recipient was born before January 1, 1955.

If the recipient was born after January 1, 1955, the monthly annuity increases by 1.5% of the original annuity at the first of the month following the later of the attainment of age 60 or the first anniversary of retirement, and 1.5% on each January 1 thereafter, but will not exceed a total of 30%.

NOTE 2 PENSION PLAN *(continued)*

Plan Description and Contribution Information *(continued)*

Members first hired after January 1, 2011 are subject to different provisions within their defined benefit pension plan. The new provisions include a minimum retirement age of 55, a final average salary calculation based upon 96 consecutive months within the last 120 months of employment, an annual salary cap for purposes of calculating a pension benefit, and cost-of-living increases for a pension benefit that include considerations related to the consumer price index for urban consumers.

Covered employees are required to contribute 9.0% of their salary to the Fund. If an employee leaves covered employment without qualifying for an annuity, accumulated contributions are refunded with interest. The City is required by state statutes to contribute the remaining amounts necessary to finance the requirements of the Fund. It is required to levy a tax at a rate not more than an amount equal to the total amount of contributions by the employees to the Fund made in the calendar year two years prior to the year for which the annual applicable tax is levied, multiplied by 2.00 annually.

The total annual actuarial required contribution to the Fund (financed by the employees and the City) is equal to the normal cost plus interest only on the unfunded actuarial accrued liabilities determined using the entry age normal method. This actuarial cost method amortizes the costs of the participants' benefits over the entire career of each member as a level of percentage of compensation. The employer contribution required for interest only on the unfunded actuarial accrued liabilities results in a decreasing annual employer cost expressed as a percentage of payroll as future payrolls increase. Since the tax levy is expressed as a multiple of the total salary deductions made two years prior, the City is effectively contributing a level annual percentage of payrolls.

The financing by which the City will fund members' pension benefits will significantly change, effective with the City of Chicago tax levy beginning in 2015. New legislation changes that funding obligation such that annually actuarially determined employer contributions will be calculated and required. Such actuarially determined contributions will be established with a funding goal of 90% by the end of 2040, based upon the actuarial value of Fund assets and application of certain required actuarial assumptions and methodologies.

NOTE 2 PENSION PLAN *(continued)*

Plan Description and Contribution Information *(continued)*

The actuarial calculation utilized and reported to the City of Chicago for its tax levy beginning in 2015 requires that assets are marked-to-market at March 30, 2011, and the actuarial value of assets be based upon a five-year smoothing of investment gains and losses incurred in fiscal years ending after March 30, 2011. The actuarial value of assets as defined in the new legislation (Public Act 096-1495) will affect the actuarial valuation as of January 1, 2015, and the development of contributions for plan year end December 31, 2015. The Fund intends to adopt the statutory change in the actuarial value of assets effective for the plan year beginning January 1, 2015. Consequently, the 2012 and 2011 financial statements continue the five-year smoothing method already in place prior to this legislation without a reset of asset values at March 30, 2011.

Funded Status and Funding Progress

The funded status of the Fund as of December 31, 2012 and 2011, the most recent actuarial valuation dates, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
12/31/12	$ 3,148,929,770	$ 10,051,827,391	$ 6,902,897,621	31.33%	$ 1,015,170,686	679.97%
12/31/11	3,444,690,362	9,522,395,036	6,077,704,674	36.17	1,034,403,526	587.56

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information regarding the actuarial values of Fund assets and the ratio to the AAL for benefits.

NOTE 2 PENSION PLAN *(continued)*

Funded Status and Funding Progress *(continued)*

Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2012 and 2011
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions	
Investment rate of return	8.0% - 2011; 7.75%-2012
Projected salary increases	4.0% per year, plus additional percentage related to service
Cost of living allowance	3.0% (1.50% for retirees born after January 1, 1955)
General inflation rate	3.0%

NOTE 3 HEALTH INSURANCE SUPPLEMENT

Plan Description and Contribution Information

The City offers group health benefits to annuitants and their eligible dependents through the City's health care plans.

Premiums are established by the City, with the City paying 50% of the claims or premiums, whichever are applicable, and the remaining amount to be paid by all annuitants participating in the City's health care plans. Currently, the Fund pays the City on behalf of each of the annuitants who chooses to participate in any of the City's health care plans, up to a maximum of $95 per month from July 1, 2009 through June 30, 2013 for each annuitant who is not qualified to receive Medicare benefits; and up to a maximum of $65 per month from July 1, 2009 through June 30, 2013 for each annuitant who is qualified to receive Medicare benefits. These subsidy rates expire on June 30, 2013. As of December 31, 2012, a renewal agreement with the City of Chicago for continuation of the subsidy is not in place.

NOTE 3 HEALTH INSURANCE SUPPLEMENT *(continued)*

Plan Description and Contribution Information *(continued)*

The disclosures herein assume continuation of the agreement and the current subsidy amounts. Should the agreement not be renewed or should the subsidy rates change, differences in the liabilities disclosed could be materially significant.

These supplemental payments by the Fund are included in employer contributions on the statements of changes in plan net assets. The supplemental health care benefits are not dependent upon inflation, as the benefits paid are a fixed dollar amount.

The health insurance supplement is financed with current contributions on a pay-as-you-go basis. There is no separate healthcare account or assets to pay the health insurance supplement.

At December 31, 2012 and 2011, the number of annuitants or surviving spouses who had subsidized health insurance totaled 10,738 and 10,368, respectively. Of the 2,228 and 2,295 remaining annuitants or surviving spouses, at December 31, 2012 and 2011, respectively, substantially all were eligible for subsidized health insurance, subject to their election of such benefits at a future date, and successful completion of the City's enrollment procedures, which includes certificate of insurability or an annual exam. Additionally, of the 664 and 624 terminated employees entitled to benefits or a refund, at December 31, 2012 and 2011, respectively, approximately 203 and 123 of the terminated employees were eligible for subsidized health insurance, subject to their election of such benefits at a future date and successful completion of the City's enrollment procedures. The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The estimated City contribution represents the expected benefit payments for the health insurance supplement. In 2012 and 2011, the Fund received contributions of $9,765,686 and $9,591,394, respectively, from the City, and remitted contributions of insurance premiums to the City of $9,765,686 and $9,591,394, respectively. Contributions to the health insurance supplement are equal to insurance premium payments to the City. There were no net assets to report for the health insurance supplement at December 31, 2012 or 2011.

NOTE 3 HEALTH INSURANCE SUPPLEMENT *(continued)*

Funded Status and Funding Progress

The funded status of the Fund's health care plans as offered by the City as of December 31, 2012 and 2011, which are the most recent actuarial valuation dates, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
12/31/12	$ -	$ 168,811,118	$ 168,811,118	0.00%	$ 1,015,170,686	16.63%
12/31/11	-	165,954,869	165,954,869	0.00	1,034,403,526	16.04

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, present multi-year trend information regarding the actuarial values of Fund assets and the ratios to the AALs for benefits.

Additional information as of the latest actuarial valuation follows:

Valuation dates	12/31/2012 and 12/31/2011
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Remaining amortization period	30 years
Asset valuation method	No assets (pay-as-you-go)
Actuarial assumptions	
OPEB investment rate of return	4.5%
Projected salary increases	4.0% per year, plus additional percentage related to service
Health cost trend rate	0.0% (fixed dollar subsidy)

NOTE 4 CASH AND INVESTMENT RISK

Cash

The bank balance and carrying amount of the Fund's deposits at December 31, 2012 were $1,028,256 and ($751,337), respectively; and $493,439 and ($1,261,343) at December 31, 2011, respectively. These balances excluded $250 of petty cash. The bank balance at December 31, 2012 and 2011 is on deposit with the City Treasurer and is insured or collateralized by securities held by the City Treasurer in the Fund's name.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Policy

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

- Maintain a long-term investment horizon for the Fund
- Diversify investments across several asset classes

The Board has indicated interest in developing a risk policy statement in parallel to the Fund's investment policy. The policy would highlight those risks managed at the Fund level and those managed by external managers. The risk policy would also state the types of risks that are monitored and how they are measured. Until such policy is developed by PABF staff and adopted by the Board, there is no formal policy relating to specific investment-related risk.

In order to minimize the impact of large losses and reduce annual variability of returns, the Fund's assets are allocated across several different asset classes and diversified broadly within each asset class.

Investment Summary

The following table presents a summary of the Fund's investments by type at December 31, 2012 and 2011.

	2012	2011
U.S. Government and agency fixed income	$ 280,359,077	$ 371,075,296
U.S. corporate fixed income	318,130,502	254,881,962
U.S. common collective fixed income funds	179,601,366	266,262,936
Global common collective fixed income funds	128,890,577	110,000,000
U.S. equities	564,104,261	764,633,977
U.S. common collective stock funds	315,897,623	159,441,205
International equity common collective fund	32,031,415	25,893,101
Foreign equities	667,303,919	554,553,305
Pooled short-term investment funds	58,023,962	71,017,150
Infrastructure	39,609,925	42,980,775
Real estate	125,923,043	120,609,791
Venture capital	190,685,937	197,576,112
Forward contracts and swaps	44,645,959	11,243,614
Hedge fund-of-funds	85,754,714	79,205,340
Cash and cash equivalents	35,875,430	65,428,501
Total investments at fair value	$ 3,066,837,710	$ 3,094,803,065

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Summary

There are no individual investments held by the Fund that represent 5% or more of net assets held in trust for pension benefits, except for the Fund's investment in the MFO GMO Global Asset Allocation Fund, which amounted to $176,026,045 and $159,441,205 at December 31, 2012 and 2011, respectively.

The Fund's investments were managed by approximately 47 external investment managers during 2012 and 2011, with additional services provided by an external investment consultant. The Fund does not employ any internal investment managers, therefore its investments are not managed internally. The Fund does not have a formal policy regarding the credit risk of its external managers or investment consultant.

Investment Risks

The Fund's investments are subject to certain types of risks, including interest rate risk, credit risk, custodial credit risk, and foreign currency risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of plan net assets.

Interest rate risk—Interest rate risk is the risk that the fair value of debt securities decreases due to increases in the prevailing market interest rate. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Fund does not have a formal policy regarding interest rate risk. The Fund attempts to mitigate its exposure to fair value loss arising from increasing interest rates by diversifying its fixed income investment strategy and by allocation to several investment managers. The Fund employed six such managers in 2012 and 2011. Each investment manager is required to determine the maturities of all fixed-income securities in their portfolio. Additionally, guidelines are provided to the external investment managers, including a target duration range that is consistent with each investment manager's respective strategy.

The following tables show the segmented time distribution of the Fund's investments into time periods of maturities based on the investments' cash flows.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Risks *(continued)*

At December 31, 2012, the Fund had the following investments and maturities related to certain fixed-income securities (bonds and notes):

		Investment Maturities			
Investment Type	**Fair Value**	**Less than 1 Year**	**1 to 6 Years**	**7 to 10 Years**	**More than 10 Years**
Asset-backed securities	$ 47,798,976	$ 291,613	$ 26,543,996	$ 5,717,005	$ 15,246,362
Commercial mortgage-backed securities	36,329,804	-	-	1,364,644	34,965,160
Corporate bonds	214,147,732	7,307,768	93,550,357	61,737,267	51,552,340
Government agency securities	7,062,520	-	4,012,116	2,716,877	333,527
Government bonds	124,557,627	3,498,379	72,551,751	15,908,891	32,598,607
Government mortgage-backed securities	133,510,864	-	345,525	1,930,326	131,235,013
Government issued commercial mortgage-backed securities	3,623,240	-	440,742	3,182,498	-
Guaranteed fixed income	337,433	-	337,433	-	-
Index-linked government funds	11,604,827	-	5,729,171	5,875,656	-
Municipal principal bonds	8,080,612	-	1,054,531	1,167,229	5,858,852
Non-government-backed collateralized mortgage obligations	11,435,944	-	37,026	1,696,211	9,702,707
	$ 598,489,579	$ 11,097,760	$ 204,602,648	$ 101,296,604	$ 281,492,568

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Risks *(continued)*

At December 31, 2011, the Fund had the following investments and maturities related to certain fixed-income securities (bonds and notes):

		Investment Maturities			
Investment Type	**Fair Value**	**Less than 1 Year**	**1 to 6 Years**	**7 to 10 Years**	**More than 10 Years**
Asset-backed securities	$ 35,752,259	$ -	$ 18,017,079	$ 2,884,423	$ 14,850,756
Commercial mortgage-backed securities	30,262,053	-	-	257,092	30,004,961
Corporate bonds	172,368,570	3,299,204	72,208,005	52,633,404	44,227,957
Government agency securities	7,027,300	-	5,565,767	1,074,122	387,411
Government bonds	140,236,547	-	79,531,167	20,425,055	40,280,325
Government mortgage-backed securities	212,973,337	-	1,317,988	3,564,253	208,091,096
Government issued commercial mortgage-backed securities	3,488,511	-	-	3,488,511	-
Guaranteed fixed income	790,733	790,733	-	-	-
Index-linked government funds	7,349,601	560,421	1,294,361	5,494,819	-
Municipal principal bonds	7,608,318	-	155,552	1,942,872	5,509,894
Non-government-backed collateralized mortgage obligations	8,100,029	-	166,745	2,128,022	5,805,262
	$ 625,957,258	$ 4,650,358	$ 178,256,664	$ 93,892,573	$ 349,157,662

Credit risk: Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. One measure of credit risk is the quality ratings issued by national ratings agencies such as Moody's Investors Services and Standard & Poor's Financial Services (S&P). The Fund does not have a formal policy in regard to aggregate credit quality of fixed income holdings. The Fund utilizes external investment management firms to invest in fixed income securities and credit quality is addressed within the guidelines of the mandate for each of the managers. If a holding falls below specific guideline requirements, the manager will either sell the security or will inform the Fund of the lower rating and why they believe that it is prudent to continue to hold the security as they believe that the security will return to minimum constraints.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

The following table provides information on the credit ratings associated with the Fund's investments in debt securities. Rates were obtained from S&P:

	Fair Value	
	2012	**2011**
Quality Rating		
AAA	$ 44,665,030	$ 42,043,466
AA	33,840,143	19,942,594
A	83,462,424	66,680,101
BBB	96,908,753	85,993,665
BB	12,408,998	9,247,168
B	2,125,064	2,765,016
Not rated	35,375,518	20,716,106
CCC through D	9,344,572	7,493,846
Total credit risk of U.S. corporate fixed income	318,130,502	254,881,962
U.S. Government and agency fixed income securities	280,359,077	371,075,296
	$ 598,489,579	$ 625,957,258

Custodial credit risk: Custodial credit risk applies to investments, cash, and certificates of deposit. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. For cash and certificates of deposit, custodial credit risk is the risk that in the event of a bank failure, the Fund's deposits may not be returned. As of December 31, 2012 and 2011 deposits of $7,422,728 and $5,597,226, respectively, were exposed to custodial credit risk as uninsured and uncollateralized. The Fund does not have a formal policy regarding custodial credit risk.

Foreign currency risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

The Fund does not have a formal investment policy governing foreign currency risk, but does manage its exposure to loss in the fair value of investments by requiring managers of foreign investments to maintain diversified portfolios. The Fund's equity and fixed-income portfolios include investments that are subject to foreign currency risk. Such investments include non-U.S. equities, government bonds, corporate bonds, and derivative instruments. Additionally, some of the Fund's investment managers at least partially hedge foreign currency exchange risk. The Fund's exposure to foreign currency risk is as follows:

	Fair Value	
	2012	**2011**
Currency		
Australian Dollar	$ 11,763,761	$ 9,930,392
Brazilian Real	7,120,637	7,198,246
British Pound Sterling	106,139,596	104,128,663
Canadian Dollar	24,745,718	26,997,593
Chinese Yuan Renminbi	(604,634)	1,904,861
Czech Koruna	319	91,170
Danish Krone	4,500,501	4,250,216
Euro Currency Unit	154,870,339	115,151,982
Hong Kong Dollar	60,149,973	39,076,595
Hungarian Forint	189	172
Indian Rupee	7,993,682	2,840,703
Indonesian Rupiah	6,528,444	5,575,641
Japanese Yen	75,714,367	62,513,696
Malaysian Ringgit	2,469,364	1,682,800
Mexican Peso	5,582,891	7,129,667
New Israeli Shekel	1,202,667	703,127
New Taiwan Dollar	6,684,631	4,274,584
Nigerian Naira	355,138	782
Norwegian Krone	7,005,742	3,814,658
Polish Zloty	1,623,069	1,782,972
Singapore Dollar	8,035,118	5,656,373
South African Rand	5,020,198	5,974,553
South Korean Won	14,478,173	11,744,146
Swedish Krona	10,611,473	10,459,335
Swiss Franc	42,018,747	35,246,370
Taiwan Dollar	-	-
Thai Baht	5,376,538	3,399,319
Turkish Lira	1,397,633	916,122
Total investments in foreign currency	$ 570,784,274	$ 472,444,738

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Derivatives

The Fund's investment managers may enter into derivative transactions as permitted by their guidelines. A derivative financial instrument is an investment whose payoff depends on the value of an underlying instrument such as bond or stock prices, a market index, or commodity prices. Derivative financial instruments involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in the underlying element of the derivative will cause the value of a financial instrument to decrease or become more costly to settle. Most of the derivative transactions executed by the Fund's investment managers are related to currency through foreign exchange contracts, the vast majority of which is for hedging purposes, and interest rates through interest rate futures and forward contracts, the purpose of which is mostly duration management. In addition to derivative transactions executed directly by the Fund's investment managers, the Fund also holds interests in collective funds, hedge funds, and private equity funds, which may engage in derivative transactions. The Fund does not directly purchase derivatives with borrowed funds.

Futures contracts: The Fund's external investment managers enter into futures contracts in the normal course of investing activities to manage market risk associated with the Fund's fixed-income investments and to achieve overall investment portfolio objectives. These contracts involve elements of market risk in excess of amounts recognized in the statements of plan net assets. The credit risk associated with these contracts is minimal, as they are traded on organized exchanges and settled daily.

At December 31, 2012, the Fund had interest rate futures contracts to purchase Australian Treasury securities and U.S. Treasury securities with notional amounts of $3,230,547 and $22,010,552, respectively. At December 31, 2012, the Fund also had interest rate future contracts to (sell) U.S. Treasury securities and German Treasury securities with notional amounts of $3,592,696 and $3,045,744, respectively. At December 31, 2011, the Fund had interest rate futures contracts to purchase LIBOR/Euro dollars, U.K. Treasury securities, and U.S. Treasury securities with notional amounts of $54,609,434, $2,847,910, and $6,577,730, respectively. At December 31, 2011, the Fund also had interest rate future contracts to (sell) Australian treasury securities, Canadian treasury securities, LIBOR/Euro dollars, and U.S. Treasury securities with notional amounts of ($2,828,955), ($4,339,073), ($7,863,552), and ($26,498,150), respectively.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Derivatives *(continued)*

The fair value of futures contracts in the statements of plan net assets was zero at December 31, 2012 and 2011, as settlements are by cash daily. The Fund had net investment earnings (losses) of $751,333 and ($3,841,888) on futures contracts in 2012 and 2011, respectively. These losses are accounted for as net appreciation (depreciation) in fair value of investments.

Interest rate and credit default swaps: The Fund's external investment managers utilize interest rate and credit default swaps in the management of the Fund's fixed-income portfolio. Swap agreements are contractual agreements between two or more parties in which each party agrees to exchange sets of cash flows based on certain agreed-upon parameters. The holder is exposed to credit risk for nonperformance and to market risk for changes in interest rates. Gains and losses on swaps are determined based on fair values and are recorded in the statements of changes in plan net assets. The notional value of credit default swaps was $64,941,778 and $38,150,729 as of December 31, 2012 and 2011, respectively. The Fund did not hold any interest rate swaps as of December 31, 2012 and 2011. The fair value of swaps outstanding at December 31, 2012 and 2011 was a net asset (liability) of $898,322 and ($386,497), respectively. Investment (loss) from holdings and sales of interest rate and credit default swaps was ($1,436,465) and ($159,145) in 2012 and 2011, respectively. These earnings are included in net (depreciation) appreciation in the fair value of investments in the statements of changes in net assets.

Foreign exchange contracts: The Fund's external investment managers utilize foreign currency forward contracts, primarily for hedging purposes. Foreign currency forward contracts are contractual agreements to buy or sell a specific amount of a foreign currency at a certain date for an agreed price. As the fair value of the underlying foreign currency varies from the contractual agreed price, the Fund records an unrealized gain or loss. The holder is exposed to credit risk for nonperformance and to market risk for changes in interest rates. The Fund had pending foreign currency purchases and sales that included positions with various currencies primarily including Australian dollars, Brazilian real, British pound sterling, Canadian dollars, Chinese yuan renminbi, Danish krone, Euros, Hong Kong dollars, Indian rupee, Japanese yen, Malaysian ringgit, Mexican pesos, New Israeli shekel, New Taiwan dollar, Norwegian krone, Polish zloty, Singapore dollars, South African rand, South Korean won, Swedish krona, Swiss francs, Thai baht, Turkish lira and U.S. dollars at December 31, 2012 and 2011. Total pending foreign currency purchases and (sales) were $60,132,136 and ($60,041,639), respectively, at December 31, 2012, and $94,810,186 and ($94,383,075), respectively, at December 31, 2011.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Derivatives *(continued)*

Thus, the Fund had a net unrealized gain on pending foreign currency forward contracts of $90,497 and $427,111 at December 31, 2012 and 2011, respectively. Investment income from holdings and sales of foreign currency forward contracts was $1,994,441 and $322,791 in 2012 and 2011, respectively.

Forward interest rate contracts: The Fund's external investment managers entered into forward contracts to purchase or sell bond securities during 2012 and 2011. Forward contracts are contracts for delayed delivery of securities in which the seller agrees to make delivery at a specified future date of a specified instrument, at a specified price or yield. The holder is exposed to credit risk for nonperformance and to market risk for changes in interest rates.

These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the statements of plan net assets. The Fund's external investment managers attempt to mitigate this credit risk through structured trading with reputable parties.

At December 31, 2012, the Fund held forward contracts to buy Swedish government bonds and US TIPS (Treasury Inflation Protected Securities) with fair values of $36,334,577, and the Fund also held forward contracts to (sell) German government bonds and U.S. Treasury notes with fair values of $43,421,600. At December 31, 2011, the Fund held forward contracts to buy U.S. Treasury notes and (sell) U.S. TIPS (Treasury Inflation Protected Securities) with fair values of $9,570,276 and ($9,231,257), respectively. The unrealized (loss) on these contracts was $1,511,176 and $217,289 at December 31, 2012 and 2011, respectively. Investment (loss) income from holdings and sales of interest rate forwards was ($1,442,350) and $488,154 in 2012 and 2011, respectively. These earnings are included in net (depreciation) appreciation in the fair value of investments in the statements of changes in net assets.

Investment Management Fees

Investment management fees from equity and fixed income managers, including most of the collective funds, are included in investment management fees on the statements of changes in plan net assets. Investment management fees from funds of short-term investments, infrastructure, hedge, real estate, venture capital and private equity are reflected in the net investment income from such investment products. Such investment management fees are not significant to the financial statements.

NOTE 5 SECURITIES LENDING PROGRAM

State statutes and Board of Trustees policies permit the Fund to lend some of its securities to broker/dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Fund's master custodian, Northern Trust Bank, lends securities of the type on loan at year end for collateral that may include cash, U.S. government securities, and irrevocable letters of credit at 102% of the fair market value of the loaned securities plus any accrued interest for U.S. securities and 105% for non-U.S. securities. The contract with the Fund's master custodian requires it to indemnify the Fund if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) due to insolvency of the borrower or if the master custodian fails to live up to its contractual responsibilities relating to the lending of those securities.

All securities loans can be terminated on demand by either the Fund or the borrower, although the average term of the loans is 131 days and 108 days, as of December 31, 2012 and 2011, respectively. Cash open collateral is invested in the lending agent's Core USA Collateral Pool, which at December 31, 2012 and 2011, had a weighted-average life, as measured by interest sensitivity, of 45 days and 31 days, respectively. The relationship between the maturities of the investment pool and the Fund's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Fund cannot determine. The Fund cannot pledge or sell collateral securities received unless the borrower defaults.

Loans outstanding as of December 31, 2012 and 2011 were as follows:

	2012	2011
Fair market value of securities loaned	$ 258,285,331	$ 309,349,594
Fair market value of cash collateral from Borrowers	255,434,143	312,160,256
Fair market value of non-cash collateral from borrowers	7,679,609	5,446,514

As of December 31, 2012 and 2011, the Fund had limited credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts owed to the Fund.

NOTE 6 UNFUNDED INVESTMENT COMMITMENTS

The Fund had unfunded commitments of approximately $103 million and $133 million at December 31, 2012 and 2011, respectively, in connection with real estate, infrastructure, and private equity investments.

NOTE 7 POST-RETIREMENT BENEFITS OF THE FUND—STAFF RETIREE HEALTH PLAN

Plan Description

The Policemen's Annuity and Benefit Fund of Chicago (PABF), as an employer, administers a single-employer defined benefit post-retirement healthcare plan (Staff Retiree Health Plan). The Staff Retiree Health Plan provides lifetime health and dental insurance for eligible retirees and their spouses through PABF's group health insurance plan, which covers both active and retired members. As of December 31, 2012, nine retirees were in the Staff Retiree Health Plan and 20 active employees could be eligible at retirement. As of December 31, 2011, seven retirees were in the Staff Retiree Health Plan and 21 active employees, respectively, could be eligible at retirement. Benefit subsidy provisions have been established by PABF's Board of Trustees. The amount of the subsidy varies according to a retiree's years of service with PABF and the coverages elected. These benefit subsidy provisions can be modified or terminated at the sole discretion of the PABF Board.

Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements. For 2012 and 2011, PABF contributed approximately $159,011 and $126,431, respectively, to the Staff Retiree Health Plan for current premiums, with an implicit subsidy of $10,871 and $6,942, for 2012 and 2011, respectively. Members receiving benefits contributed approximately $29,000, or 18%, of the total premiums, for 2012, and approximately $27,000, or 21%, of the total premiums, for 2011.

Annual OPEB Cost and Net OPEB Obligation

PABF's annual Other Post-Employment Benefit (OPEB) expense is calculated based on the Annual Required Contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The amortization period is open.

NOTE 7 POST-RETIREMENT BENEFITS OF THE FUND—STAFF RETIREE HEALTH PLAN *(continued)*

Annual OPEB Cost and Net OPEB Obligation *(continued)*

The following table shows the components of PABF's annual OPEB cost for 2012 and 2011, the amount actually contributed to the Staff Retiree Health Plan, and changes in PABF's net OPEB obligation to the Staff Retiree Health Plan:

	2012	2011
Annual required contribution	$ 478,309	$ 453,535
Interest on net OPEB obligation	52,221	37,378
Adjustment to annual required contribution	(38,682)	(27,687)
Annual OPEB expense	491,848	463,226
Employer contributions made	(169,882)	(133,373)
Increase in net OPEB obligation	321,966	329,853
Net OPEB obligation at beginning of year	1,160,474	830,621
Net OPEB obligation at end of year	$ 1,482,440	$ 1,160,474

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Staff Retiree Health Plan, and the net OPEB obligation for 2012 and 2011 is as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2012	$ 491,848	34.5%	$ 1,482,440
12/31/2011	463,226	28.8	1,160,474

NOTE 7 POST-RETIREMENT BENEFITS OF THE FUND—STAFF RETIREE HEALTH PLAN *(continued)*

Funded Status and Funding Progress

The funded status of PABF's Staff Retiree Health Plan as of December 31, 2012, and 2011, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
12/31/12	$ -	$ 6,376,689	$ 6,376,689	0.00%	$ 1,623,675	392.7%
12/31/11	-	5,971,137	5,971,137	0.00	1,553,756	384.3

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Staff Retiree Health Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, present multi-year trend information on the actuarial values of assets of the Staff Retiree Health Plan and its ratio to the AAL for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members), which include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations.

For the December 31, 2012 and 2011 actuarial valuations, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return based on the employer's assumed return on its assets and at December 31, 2012 and 2011, an annual healthcare cost trend rate of 8.5% initially, reduced by increments of 0.5 percentage point per year to an ultimate rate of 5.0% after eight years. At December 31, 2012 and 2011, the wage inflation assumption was 4.5%. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a 30-year period.

NOTE 8 RESERVES

The Fund maintains several reserves, as required by the Illinois Pension Code and Board policy. The following are brief descriptions of the reserves:

City Contribution Reserve

	2012	2011
Balances at December 31	$ 1,900,644,977	$ 1,756,616,672

The City Contribution Reserve is maintained for the payment of the City's portion of future retirement benefits for active and inactive participants. Interest at 3% is credited to this reserve annually. When the amount of annuity for a policeman or widow is fixed, the City Contribution Reserve is charged with the amount of the present value of retirement benefit and the Annuity Payment Reserve is credited with such amount.

The City Contribution Reserve does not equal the present value of expected retirement benefits. The reserve is maintained on a cost basis, in accordance with the Illinois Pension Code.

Salary Deduction Reserve

	2012	2011
Balances, at December 31	$ 1,304,605,726	$ 1,288,178,539

The Illinois Pension Code requires the Fund to maintain separate accounts for each policeman for the amounts of salary deductions with interest at 3% per year. When a policeman retires, the amount of his annuity is charged to the Salary Deduction Reserve and credited to the Annuity Payment Reserve. If a policeman takes a separation refund, his salary deductions are refunded to him and charged to the Salary Deduction Reserve. This reserve is fully funded.

NOTE 8 RESERVES *(continued)*

Annuity Payment Reserve

	2012	2011
Balances, at December 31	$ 2,152,547,904	$ 2,011,129,797

When the amount of annuity has been fixed, the present value of expected benefit is transferred from the City Contribution Reserve and the Salary Deduction Reserve to the Annuity Payment Reserve for the payment of annuity. All age and service annuities, widow's annuities, and refunds are charged to this reserve.

Annually, the actuary calculates the present value of all annuities. The Investment and Interest Reserve will transfer amounts to the Annuity Payment Reserve to ensure that the balance in the Annuity Payment Reserve equals the present value of annuities. This reserve is fully funded.

Prior Service Annuity Reserve

	2012	2011
Balances, at December 31	$ (1,173,789,394)	$ (1,031,063,600)

The Prior Service Annuity Reserve is increased by the City's contributions for policemen and widows' prior service annuities and all prior service annuities payable to policemen and widows are charged to this reserve. This reserve included an unfunded liability of $7,267,764,193 and $6,614,740,813 as of December 31, 2012 and 2011, respectively.

Gift Reserve

	2012	2011
Balances, at December 31	$ 13,114,372	$ 13,390,856

The Gift Reserve is maintained for gifts, grants, bequests, or other amounts received by the Fund. The Board of Trustees determines the use of these funds. Interest is credited to the Gift Reserve annually.

NOTE 8 RESERVES *(continued)*

Investment and Interest Reserve

All gains and losses from investments and investment earnings are recorded in the Investment and Interest Reserve. Interest due to the City Contribution Reserve, Salary Deduction Reserve, Prior Service Annuity Reserve, Gift Reserve, and Supplementary Payment Reserve is transferred from the Investment and Interest Reserve to those reserves.

Ordinary Death Benefit Reserve

	2012	2011
Balances, at December 31	$ (22,350,262)	$ (20,166,678)

Amounts contributed by policemen and the City for death benefits are credited to the Ordinary Death Benefit Reserve. Death benefit payments are charged to this reserve. The Ordinary Death Benefit Reserve had a deficit.

Automatic Increase Reserve

	2012	2011
Balances, at December 31	$ (961,787,490)	$ (843,024,309)

The Automatic Increase Reserve is credited with amounts deducted from the salaries of policemen and matching contributions by the City for automatic increase in annuity with interest thereon. Payments of increased annuities and salary deduction refunds for increase in annuity are charged to this reserve. At December 31, 2012 and 2011, the Automatic Increase Reserve had a deficit.

Supplementary Payment Reserve

	2012	2011
Balances, at December 31	$ 447,402	$ 447,402

The Supplementary Payment Reserve receives amounts transferred from the Investment and Interest Reserve for supplemental increases in annuity for certain eligible retirees. This reserve is fully funded.

NOTE 8 RESERVES *(continued)*

The following reserves have a $0 balance at December 31, 2012 and 2011. City contributions are allocated to these reserve accounts in amounts equal to payments made on an annual basis.

<u>Child's Annuity Reserve</u>

Amounts contributed by the City for child's annuity are credited to the Child's Annuity Reserve, and payments of child's annuity are charged to this reserve.

<u>Duty Disability Reserve</u>

The Duty Disability Reserve is increased by the City's contributions for duty disability benefits, child's disability benefits, and compensation annuities and is decreased by the payments of these benefits.

<u>Ordinary Disability Reserve</u>

Amounts contributed by the City for ordinary disability benefits are credited to the Ordinary Disability Reserve. Payments of ordinary disability benefits are charged to this reserve.

<u>Hospitalization Fund Reserve</u>

The health care premiums are paid from the tax levies and are credited to the reserve for Group Hospitalization Fund. Premium payments to the City are charged against this reserve.

<u>Expense Reserve</u>

Amounts contributed toward the cost of administration are credited to the Expense Reserve, while expenses of administration are charged to this reserve.

NOTE 9 DEFERRED COMPENSATION PLAN

The Fund offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees of the Fund, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan is managed by a third-party administrator.

NOTE 9 DEFERRED COMPENSATION PLAN *(continued)*

The assets of the plan were placed in trust accounts with the plan administrator for the exclusive benefit of participants and their beneficiaries and are not considered assets of the Fund.

NOTE 10 LEASE AGREEMENT

The Fund leases its office facilities under a noncancellable agreement that expires June 30, 2016. There is a renewal option for a 10-year extension on the lease, however, such option has not yet been exercised. Office rental expense amounted to $244,687 and $239,258 for the years ended December 31, 2012 and 2011, respectively.

Future minimum rental payments under the office lease at December 31, 2012 are as follows:

Year	Amount
2013	$ 248,626
2014	252,562
2015	256,502
2016	129,073

NOTE 11 RISK MANAGEMENT

The Fund is exposed to various risks of loss related to tort, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Fund carries commercial insurance to reduce its exposure to risk of loss. There is no significant change in insurance coverage from year to year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Funding Progress—Pension
For the Years Ended December 31, 2012 and 2011
(Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
12/31/08	$4,093,719,894	$ 8,482,574,033	$4,388,854,139	48.26	$1,023,580,667	428.77
12/31/09	3,884,978,241	8,736,101,666	4,851,123,425	44.47	1,011,205,359	479.74
12/31/10	3,718,954,539	9,210,056,428	5,491,101,889	40.38	1,048,084,301	523.92
12/31/11	3,444,690,362	9,522,395,036	6,077,704,674	36.17	1,034,403,526	587.56
12/31/12	3,148,929,770	10,051,827,391	6,902,897,621	31.33	1,015,170,686	679.97

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Employer Contributions—Pension
For the Years Ended December 31, 2012 and 2011
(Unaudited)

Year Ended December 31,	Contributions: Annual Required	Contributions: Actual Employee	Contributions: Actual Employer	Employer Percentage Contributed
2008	$318,234,870	$ 93,207,408	$172,835,805	54.31
2009	339,488,187	95,614,390	172,043,785	50.68
2010	363,624,570	108,402,353	174,500,507	47.99
2011	402,751,961	98,222,258	174,034,600	43.21
2012	431,010,173	95,892,052	207,228,022	48.08

Valuation date	December 31, 2012 and 2011, respectively
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Remaining amortization period	30 years
Actuarial value of assets	5-year smoothed market
Actuarial assumptions	
Pension investment rate of return	8.0%- 2011; 7.75%-2012
Projected salary increases	4.0% per year, plus additional percentage related to service
Cost of living allowance	3.0% (1.5% for retirees born after January 1, 1955)
General inflation rate	3.0%

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Funding Progress—Health Insurance Supplement
For the Years Ended December 31, 2012 and 2011
(Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
12/31/08	-	$169,972,156	$169,972,156	0.00	$1,023,580,667	16.61
12/31/09	-	164,799,819	164,799,819	0.00	1,011,205,359	16.30
12/31/10	-	164,796,449	164,796,449	0.00	1,048,084,301	15.72
12/31/11	-	165,954,869	165,954,869	0.00	1,034,403,526	16.04
12/31/12	-	168,811,118	168,811,118	0.00	1,015,170,686	16.63

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Required Supplementary Information

Schedule of Employer Contributions—Health Insurance Supplement

For the Years Ended December 31, 2012 and 2011

(Unaudited)

Year Ended December 31,	Contributions Annual Required	Contributions Actual Employee	Contributions Actual Employer	Percentage Contributed
2008	$11,348,959	$ -	$8,850,186	77.98
2009	11,810,766	-	9,266,431	78.46
2010	10,659,006	-	9,354,163	87.76
2011	10,538,116	-	9,591,394	91.02
2012	10,473,478	-	9,765,686	93.24

Valuation date	December 31, 2012 and 2011, respectively
Actuarial cost method	Entry age normal
Actuarial value of assets	No assets (pay-as-you-go)
Amortization method	Level percent open
Remaining amortization period	30 years
Actuarial assumptions	
OPEB investment rate of return	4.5%
Projected salary increases	4.0% per year, plus additional percentage related to service
Healthcare Cost Trend Rate	0.00% (fixed dollar subsidy)

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Funding Progress—Staff Retiree Health Plan
For the Years ended December 31, 2012 and 2011

(Unaudited)

Actuarial Valuation Date	**GASB Value of Assets (a)**	**Actuarial Accrued Liability (AAL) Entry Age (b)**	**Unfunded AAL (UAAL) (b-a)**	**Funded Ratio (a/b)**	**Covered Payroll (c)**	**UAAL as a Percentage of Covered Payroll ([b-a]/c)**
12/31/08	-	$3,239,700	$3,239,700	0.00	$1,202,700	269.4
12/31/09	-	3,474,800	3,474,800	0.00	1,256,800	276.5
12/31/10	-	5,588,688	5,588,688	0.00	1,486,848	375.9
12/31/11	-	5,971,137	5,971,137	0.00	1,553,756	384.3
12/31/12	-	6,376,689	6,376,689	0.00	1,623,675	392.7

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Employer Contributions—Staff Retiree Health Plan
For the Years Ended December 31, 2012 and 2011
(Unaudited)

Year Ended December 31,	Contributions Annual Required	Actual Employee	Actual Employer	Percentage Contributed
2008	$274,600	$ -	$104,700	38.1
2009	290,600	-	121,000	41.6
2010	434,005	-	127,630	29.4
2011	453,535	-	133,373	29.4
2012	478,309		169,882	35.5

(Unaudited)

Valuation date	December 31, 2012 and 2011
Actuarial cost method	Entry age normal
Actuarial value of assets	No assets (pay-as-you-go)
Amortization method	Level percent open
Remaining amortization period	30 years
Actuarial assumptions	
OPEB investment rate of return	4.5% per year
Wage inflation	4.5% per year
Healthcare trend	8.5% per year, graded down to 5.0% per year, ultimate trend in 0.5% increments

OTHER SUPPLEMENTARY INFORMATION

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Schedule of Administrative Expenses
For the Years Ended December 31, 2012 and 2011

	2012	2011
Administrative expenses		
Actuary services	$ 84,961	$ 104,774
Benefits disbursement	205,800	195,618
Equipment service and rent	188,844	73,007
External auditors	46,700	63,300
Fiduciary insurance	133,430	103,989
Legal services	753,508	270,867
Medical consultant	374,528	238,718
Miscellaneous	444,116	582,563
Occupancy and utilities	250,415	247,275
Personnel salaries and benefits	1,894,271	1,995,711
Postage	7,935	7,500
Supplies	12,130	12,409
	$ 4,396,638	$ 3,895,731

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Schedule of Consulting Costs
For the Years Ended December 31, 2012 and 2011

	2012	2011
Payments to consultants		
External auditors	$ 46,700	$ 63,300
Medical consultant	374,528	238,718
Legal services	753,508	270,867
Actuary service	84,961	104,774
Investment manager fees	8,448,610	8,899,000
Master trustee fees	190,575	186,900
Consulting fees	596,499	583,351
	$ 10,495,381	$ 10,346,910

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Schedule of Investment Fees
For the Years Ended December 31, 2012 and 2011

	2012	2011
Investment managers		
Ariel Capital Management	$ 320,577	$ 325,396
Artisan Partners	578,060	546,648
Attucks Asset Management	8,842	37,115
Capital Guardian Trust Co.	478,327	470,515
Channing Capital	32,296	136,453
Chicago Equity Partners	109,837	299,380
Dearborn Partners LLC	208,821	193,310
Denali Advisors	126,522	115,084
European Investors	54,491	46,976
Great Lakes Advisors	490,392	506,981
Holland Capital Management	256,263	254,010
ING Clarion	70,342	64,934
Invesco Capital Management	379,117	378,678
JP Morgan Fleming Asset Management	830,924	511,839
LM Capital Group	92,353	85,551
McKinley Capital	385,268	402,104
Montag & Caldwell	544,540	541,860
Northern Trust Global Investments - Index Funds	45,705	112,960
Piedmont Investment Advisors	51,599	228,920
PRISA Prudential	73,192	
Taplin, Canida, & Habacht	98,995	123,876
UBS Global Asset Management	1,100,114	1,357,377
Wellington Management	511,835	600,362
Wells Capital Management	475,510	437,678
William Blair & Co.	1,124,688	1,120,993
Total investment manager fees	8,448,610	8,899,000
Investment consultants		
Elkins McSherry Inc	20,000	20,000
NEPC LLC	465,354	451,800
The Townsend Group	5,109	5,515
Kolhberg & Associates	106,036	106,036
Total investment consultants fees	596,499	583,351
Master custodian		
The Northern Trust Company	190,575	186,900
Total investment fees	$ 9,235,684	$ 9,669,251