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, 2014 and 2013
With Report of Independent Auditors

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
December 31, 2014 and 2013

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

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, which comprise the statements of fiduciary net position as of December 31, 2014 and 2013, and the related statements of changes in net fiduciary position for the years then ended, and the related notes to the financial statements.

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 an 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund at December 31, 2014 and 2013, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

Adoption of GASB Statement No. 67

As discussed in Note 1 to the financial statements, the Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, in 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied 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, the supplementary 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 24, 2015

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:

- **Statements of Fiduciary Net Position** report the Fund's assets, liabilities, and the resultant net position where assets minus liabilities equal net position held in trust for pension benefits at the end of the year.
- **Statements of Changes in Fiduciary Net Position** show the sources and uses of funds during the calendar year, where additions minus deductions equal the net increase or decrease in net position held in trust for pension benefits for the year.
- **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 required supplementary information includes data on the employer's net pension liability and changes thereof, employer's contribution and money-weighted rate of return for the pension plan; and information on funding progress and employer's contributions for the Health Insurance Supplement and Staff Retiree Health Plan; along with the other information useful in evaluating the fiduciary net position of the Fund.
- **Supplementary Information** presents the detail on costs of maintaining a defined benefit pension plan.

Financial Highlights

- The fiduciary net position of the Fund decreased by $203.2 million, or 6.2%, to $3,062.0 million at December 31, 2014. At December 31, 2013, the fiduciary net position of the Fund increased by $51.8 million, or 1.6%, to $3,265.2 million from the December 31, 2012 balance of $3,213.4 million.

- Fund investment income earned, net of investment-related expenses was approximately $180.7 million during 2014, compared to a gain of approximately $414.4 million during 2013. Despite limited opportunities in the marketplace in 2014, the Fund's investment portfolio performed well relative to its peer group of public pension funds. Asset classes with performance stronger than designated benchmarks include Fixed Income, Private Equity, Infrastructure and Real Estate. The overall positive return of 6.24% reflects improvement in U.S. Equities, as in 2014, investors sought relative safety in the marketplace by investing in U.S. Large Cap Equities, as volatility increased throughout

Financial Highlights *(continued)*

the year against the backdrop of falling oil prices and other geopolitical activity. The return, however, was offset by non-U.S. Equities which delivered a negative return on both a relative and absolute basis, which was largely due to strong U.S. dollar appreciation. From an allocation perspective, in late 2013, 9% of the total allocation was reallocated from non-U.S. Large Cap to non-U.S. Small Cap and Emerging Market Equity in order to diversify this part of the allocation.

- The Fund received contributions of $95.7 million from members and $187.1 million from the City of Chicago in 2014, compared to contributions of $93.3 million from members and $188.9 million from the City of Chicago in 2013. The number of active members decreased by 1.2% from 2013 to 2014. Despite the decrease in active members, contributions from members actually increased by 2.6%. This increase is due to a change in the mix of active members; as members with in excess of 20 years of service increased by approximately 13% from 3,041 to 3,449. Correspondingly, average salaries increased, resulting in an increase in contributions to the Fund. Additionally, retroactive wage increases were provided to all Sergeants, Lieutenants and Captains in 2014, which were reflective of new employment contracts between the City of Chicago and collective bargaining groups for the respective ranks within the City Police Department, with salary increases effective July 1, 2012. Employer contributions from the City of Chicago experienced a decline of 1.0% from 2013 to 2014. Employer contributions are mandated by a statutorily set multiplier of 2.0 times member contributions collected two years prior. The decrease in contributions is reflective of member contributions from 2012, which had declined from the prior year.

- Benefit payments, excluding death benefits, increased by approximately $21.6 million in 2014, from $632.2 million in 2013 to $653.8 million in 2014. The number of retirees and beneficiaries increased in 2014 by 71 members, or 0.5%, thus contributing to the increase. Since January 1, 2012, the Fund has experienced approximately 1,330 retirements of active members, which has resulted in significant increases in benefits in 2012, 2013 and 2014. In 2014, over 390 active members retired, resulting in an increase in annuities of over $20 million in 2014. Also contributing to 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 2013 to 2014 by approximately $0.8 million, from $9.7 million to $10.5 million. The increase is due to a large volume of resignation refunds granted in 2014, which were $1.1 million greater than in 2013. Administrative expenses decreased in 2014 by approximately $0.1 million. The Fund's management has worked vigorously to maintain and control administrative expenses, including a reduction of $0.07 million in salaries and related benefits in 2014.

- 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, for purposes of statutory funding, experienced a decrease, from 32.4% at December 31, 2013 to 27.7% at December 31, 2014. The decrease reflects a significant increase in the actuarial liability at December 31, 2014, as compared to December 31, 2013, primarily due to a decrease in

Financial Highlights *(continued)*

the investment return assumption from 7.75% at December 31, 2013 to 7.5% at December 31, 2014, along with a change in the mortality tables used for disability, pre-retirement and post-retirement members. Additionally, in 2014, the City of Chicago completed negotiations with collective bargaining groups representing various ranks within the Chicago Police Department. The actuarial liability reflects the new salary tables.

- The Fund adopted GASB Statement No. 67, "Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25", during the year ended December 31, 2014. Adoption of this GASB Statement had no effect on the Fund's fiduciary net position, but changed the approach for measuring pension liabilities. As of December 31, 2014 and 2013, the Fund's funded ratio was 26.0% and 30.8%, respectively.

- 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 $0.42 million and $0.41 million was recognized in 2014 and 2013, respectively, resulting in a total accrued liability of $2.08 million and $1.78 million as of December 31, 2014 and 2013, respectively.

Fiduciary Net Position

A summary of fiduciary net position is presented below:

Fiduciary Net Position
(In millions)
As of December 31, 2014, 2013, and 2012

	2014	2013	2012	2014–2013 Change $	2014–2013 Change %
Receivables	$ 195.3	$ 201.6	$ 221.1	$ (6.3)	(3.1)%
Brokers–unsettled trades	117.3	146.6	159.4	(29.3)	(20.0)
Investments, at fair value	2,970.4	3,097.3	3,066.8	(126.9)	(4.1)
Invested securities lending cash collateral	288.5	271.9	255.4	16.6	6.1
Total assets	3,571.5	3,717.4	3,702.8	(145.9)	(3.9)
Brokers–unsettled trades	214.1	173.2	227.7	40.9	23.6
Securities lending payable	288.5	271.9	255.4	16.6	6.1
OPEB obligation	2.1	1.8	1.5	0.3	16.7
Refunds and accounts payable	4.8	5.3	4.7	(0.5)	(9.4)
Total liabilities	509.5	452.2	489.4	57.3	12.7
Net position	$ 3,062.0	$ 3,265.2	$ 3,213.4	$ (203.2)	(6.2)%

Fiduciary Net Position *(continued)*

The decrease in fiduciary net position of $203.2 million in 2014 was due primarily to a decrease in the net appreciation in the fair value of investments. The assets available for investment earned 6.24% in 2014, compared to an investment gain of 14.51% in 2013. The relative strength of the U.S. economy could not overcome the pullback experienced across global markets. As a result, the portfolio experienced a sound return, albeit lower than the previous years.

Changes in Fiduciary Net Position

The following table reflects a comparative summary of various changes in fiduciary net position:

Changes in Fiduciary Net Position
(In millions)
Years Ended December 31, 2014, 2013 and 2012

	2014	2013	2012	2014–2013 Change $	2014–2013 Change %
ADDITIONS					
Member contributions	$ 95.7	$ 93.3	$ 98.2	$ 2.4	2.6%
Employer contributions	187.0	188.9	207.2	(1.9)	(1.0)
Net investment gains and investment income	180.7	414.4	352.0	(233.7)	(56.4)
Securities lending income	1.2	0.9	1.2	0.3	33.3
Miscellaneous income	0.7	0.5	0.4	0.2	40.0
Total additions	465.3	698.0	656.7	(232.7)	(33.3)
DEDUCTIONS					
Annuity, disability, and death benefits	655.3	633.8	602.8	21.5	3.4
Refunds of contributions	9.0	8.1	11.2	0.9	11.1
OPEB expense	0.4	0.4	0.5	0.0	0.0
Administrative expenses	3.8	3.9	4.4	(0.1)	(2.6)
Total deductions	668.5	646.2	618.8	22.3	3.5
Net increase/(decrease)	$ (203.2)	$ 51.8	$ 37.8	(255.0)	(492.3)%

The Fund experienced a net decrease in fiduciary net position in 2014, after two years of increases in both 2013 and 2012. The decrease reflects an investment return of 6.24%, which were offset significantly by increasing benefit payments. The Fund continues to liquidate assets as contributions from members and the employer are approximately $381.6 million less than benefits to members. This liquidation of assets is consistent with 2013 activity, in which contributions from members and the employer were approximately $359.7 million less than benefits to members. The Fund continues to experience significant retirement levels in 2014, 2013 and 2012. The significant retirement levels are partially attributed to some early retirement health care benefits offered to members by the City of Chicago. Retirements of over 1,330 active members occurred during the three years of 2014, 2013 and 2012.

Investment Activities

The strategic allocation was unchanged in 2014. 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. exposures were reduced through the year because of immediate benefit funding requirements. The Fund did not experience many changes in the current allocation from 2013; however, the Fund did hire three new managers in 2014 within the Fixed Income allocation. New fixed income managers will invest in two unconstrained bond funds and a strategic fixed income fund. These new mandates will replace two fixed income managers that held core fixed income products. In 2013, restructuring of the Equity portfolio occurred, which was rebalanced to include non-US Small Cap and Emerging Market Equity. Specifically, three managers were terminated and three managers were hired to improve the portfolio's overall diversification.

Investment Returns
Years Ended December 31, 2014, 2013 and 2012

	2014	2013	2012
Total fund (%)	6.24%	14.51%	12.39%
Equities	4.26	25.75	17.66
Fixed income	6.03	(1.19)	6.72
Alternatives	1.87	8.47	12.05
Private capital	18.03	13.04	8.01
Cash and cash equivalents	0.07	0.11	0.14

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, 2014, 2013 and 2012.

Plan Membership
As of December 31, 2014, 2013 and 2012

	2014	2013	2012	2014–2013 Change	2014–2013 %
Retirees and beneficiaries receiving benefits	13,230	13,159	12,966	71	0.5%
Active employees	12,020	12,161	12,026	(141)	(1.2)
Terminated (inactive members) employees entitled to benefits or refunds of contributions	630	654	664	(24)	(3.7)
Total	25,880	25,974	25,656	(94)	(0.4)

Funding Status

The valuation as of December 31, 2014 reflects the results of an experience review of the economic and demographic assumptions for the period from January 1, 2009, through December 31, 2013. This experience review was completed by the Fund's actuaries. Based upon the results of the experience review, several actuarial assumptions were changed in 2014. The change in assumptions increased actuarial liabilities by $553.5 million, or 5.3% of total liabilities. Two significant actuarial assumptions that were changed included the investment return, which was changed from 7.75% at December 31, 2013 to 7.5% at December 31, 2014, and the mortality tables for pre-retirement, post-retirement healthy and disability. The new mortality rates used are the 2014 Total Employee mortality table weighted 85% for males and 115% for females; the Retirement Plans 2014 Healthy Annuitant mortality table weighted 108% for males and 97% for females, and the Retirement Plans 2014 Healthy Annuitant mortality table weighted 115% for males and 115% for females.

In addition to the assumption changes, the Fund adopted GASB No. 67 for the year ended December 31, 2014. This accounting standard requires that projected benefit payments are required to be disclosed to their actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating. Using this methodology, the Fund's Single Discount Rate is 7.15% at December 31, 2014 and 7.56% at December 31, 2013. The funded ratios at December 31, 2014, and 2013, were 30.8% and 26.0%, respectively.

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

Funding Status *(continued)*

Before Public Act 096-1495, the City of Chicago met its statutory obligation for funding through a tax multiplier calculation that was based upon active member contributions. Public Act 096-1495 changes the City of Chicago funding obligation, effective with tax levy year 2015, such that each year annual actuarially determined employer contributions will be calculated. Such actuarially determined contributions will be established that produce a projected funding goal of 90% by the end of 2040, based upon the projected actuarial value of Fund assets and liabilities and application of certain required actuarial 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.

The calculation of the statutory contributions mandated by PA 096-1495 required that the actuarial cost method of the actuarial liability be changed from entry age normal to projected unit credit. This change is reflected in the statutory funding calculations for 2013 and all market value funding calculations. For GASB purposes, the actuarial cost method continues to be entry age normal, which satisfies the requirements of GASB No. 25 for plan year ended December 31, 2013, and GASB No. 67 for plan year ended December 31, 2014.

Based upon the statutory provisions of PA 096-1495, which was in effect at December 31, 2014, and related calculations provided by the Fund's actuarial consultant, contributions from the City of Chicago are expected to significantly increase from $592.9 million in 2015 to $675.8 million in 2016. These are significant funding contributions compared with previous years. In 2014 and 2013, the annual required contribution for the pension and health insurance benefits, as computed under GASB Nos. 25 and 43, was not reached, despite the City of Chicago meeting its fiduciary obligation for funding through a 2 times multiplier of active member contributions.

As previously noted, the statutory provisions of PA 096-1495 also required that assets be marked to market at March 30, 2011. The actuarial value of assets at December 31, 2014, reflects that assets were marked to the market value of assets at January 1, 2012, and all related investment gains and losses through January 1, 2012, were recognized. For purposes of the actuarial asset valuation, resetting the actuarial value of assets to the market value of assets at January 1, 2012, instead of March 30, 2011, does not impact the statutory contribution requirement for 2015.

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
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Policemen's Annuity and Benefit
Fund of Chicago
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POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Statements of Fiduciary Net Position
As of December 31, 2014 and 2013

	2014	**2013**
ASSETS		
Cash	$ 250	$ 250
Receivables		
Employer tax levies, net of allowance for loss of $18,177,719 in 2014 and $19,677,411 in 2013	184,457,332	190,071,158
Member contributions	4,739,959	4,513,521
Interest and dividends	6,099,084	7,027,508
Accounts receivable—due from brokers	117,341,100	146,643,193
	312,637,475	348,255,380
Investments, at fair value		
U.S. common stock and other equity	474,142,865	489,961,707
Collective investment funds, stock	355,092,681	430,949,971
Collective investment funds, international equities	28,588,836	29,596,278
Collective investment funds, fixed income	191,250,913	284,158,454
International equity	635,744,045	655,118,654
Bonds and notes	719,987,510	580,084,746
Short-term instruments	135,835,426	187,366,569
Infrastructure	36,538,895	35,538,660
Forward contracts and swaps	16,059,481	3,845,772
Hedge fund-of-funds	100,368,762	95,941,758
Real estate	94,281,030	119,140,822
Venture capital and private equity	182,463,748	185,569,567
	2,970,354,192	3,097,272,958
Invested securities lending cash collateral	288,542,319	271,856,279
Total assets	3,571,534,236	3,717,384,867
LIABILITIES		
Refunds and accounts payable	4,756,525	5,312,489
Trade accounts payable—due to brokers	214,140,603	173,235,185
Securities lending cash collateral	288,542,319	271,856,279
OPEB obligation	2,080,467	1,780,360
Total liabilities	509,519,914	452,184,313
Net position held in trust for pension benefits	$ 3,062,014,322	$ 3,265,200,554

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 Fiduciary Net Position
For the Years Ended December 31, 2014 with and 2013

	2014	2013
ADDITIONS		
Contributions		
Employer	$ 187,074,950	$ 188,889,240
Plan member salary deductions	95,675,538	93,328,944
Total contributions	282,750,488	282,218,184
Investment income		
Net appreciation in fair value of investments	136,126,859	364,545,293
Interest	19,452,054	20,352,113
Dividends	31,592,777	32,815,167
Real estate income	3,547,612	5,327,641
	190,719,302	423,040,214
Investment activity expenses		
Investment management fees	(9,304,806)	(7,989,489)
Custodial fees	(183,532)	(190,592)
Investment consulting fees	(495,364)	(493,265)
Total investment activity expenses	(9,983,702)	(8,673,346)
Net income from investing activities	180,735,600	414,366,868
From securities lending activities		
Securities lending income	984,565	936,295
Borrower rebates	429,565	221,980
Bank fees	(248,437)	(231,531)
Net income from securities lending activities	1,165,693	926,744
Total net investment income	181,901,293	415,293,612
Miscellaneous income	740,305	479,328
Total additions	465,392,086	697,991,124
DEDUCTIONS		
Pension and disability benefits	653,779,124	632,204,674
Death benefits	1,566,933	1,634,600
Refunds of employee deductions	8,991,636	8,087,018
	664,337,693	641,926,292
Administrative expenses	3,817,256	3,891,329
OPEB expense	423,369	406,183
Total deductions	668,578,318	646,223,804
Net (decrease) increase	(203,186,232)	51,767,320
Net position held in trust for pension benefits		
Beginning of year	3,265,200,554	3,213,433,234
End of year	$ 3,062,014,322	$ 3,265,200,554

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 cost, which approximates fair value. 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 taxes.

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 fiduciary net position 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 fiduciary net position.

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

Recent Accounting Pronouncements

The following standards were adopted by the Fund during 2014 and 2013:

GASB's codification standard on *Items Previously Reported as Assets and Liabilities* was 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. The adoption of this standard did not have any material impact on the financial statements.

GASB's codification standard on *Technical Corrections—2014—an amendment of GASB Statements No. 10 and No. 62* was 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. The adoption of this standard did not have any material impact on the financial statements.

GASB Statement No. 67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, was established to provide improved financial reporting by state and local government pension plans. The Fund adopted GASB Statement No. 67 for its December 31, 2014 financial statements. The adoption of this statement had no effect on the Fund's fiduciary net position, but changed the approach for measuring the pension liability and required certain changes to note disclosures and required supplementary information. The adoption of GASB Statement No. 67 resulted in elimination of certain actuarial disclosures related to the pension plan's funding progress, and the addition of disclosures related to pension plan's net pension liability and changes thereof, employer's contribution and money-weighted rate of return for the pension plan investments.

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

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 governmental employers 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.

GASB's codification standard on *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* addresses issues regarding application of transition provisions and amounts associated with contributions, if any, made by a government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The new standard will be effective for the Fund beginning with its year ending December 31, 2015.

GASB's codification standard on *Fair Value Measurement and Application* addresses accounting and financial reporting issues related to fair value measurements. The Statement also provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of the new standard will be effective for the Fund beginning with its year ending December 31, 2016.

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. The City of Chicago payrolls for employees covered by the Fund for the years ended December 31, 2014 and 2013 were $1,074,333,318 and $1,015,426,128, respectively. At December 31, 2014 and 2013, the Fund membership consisted of the following:

	2014	2013
Active employees	12,020	12,161
Retirees and beneficiaries currently receiving benefits	13,230	13,159
Terminated employees entitled to benefits or a refund of contributions, but not yet receiving them	630	654
	25,880	25,974

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. 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.

NOTE 2 PENSION PLAN *(continued)*

Plan Description and Contribution Information *(continued)*

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%.

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 two 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.

NOTE 2 PENSION PLAN *(continued)*

Plan Description and Contribution Information *(continued)*

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.

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 at December 31, 2014, reflects that assets were marked to the market value of assets at January 1, 2012, and all related investment gains and losses through January 1, 2012, were recognized. Investment gains and losses for the years ended December 31, 2012, 2013 and 2014, are recognized at a rate of 20% per year over a five-year period. For purposes of the actuarial asset valuation, resetting the actuarial value of assets to the market value of assets at January 1, 2012, instead of March 30, 2011, does not impact the statutory contribution requirement for 2015.

The total pension liability at December 31, 2014, and 2013, was $11,773,430,559 and $10,596,153,366, respectively. The plan fiduciary net position at December 31, 2014, and 2013, was $3,062,014,322 and $3,265,200,554, respectively. The net pension liability at December 31, 2014, and 2013, was $8,711,416,237, and $7,330,952,812, respectively. The increase in the net liability is primarily due to several significant assumption changes, including a decrease in the long-term expected rate of return on pension plan investments. The Single Discount Rate required by GASB Statement No. 67 as of December 31, 2014, was based on a long-term expected rate of return on pension plan investments of 7.50% and a long-term municipal bond rate of 3.56%. The Single Discount Rate as of December 31, 2013, was based on a long-term expected rate of return on pension plan investments of 7.75% and a long-term municipal bond rate of 4.73%. Additionally, mortality tables for pre-retirement, post-retirement and disability members changed from 1994 tables to 2014 tables.

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 a significant portion of the cost of health coverage and the remaining amount 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 December 31, 2016, 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 December 31, 2016, for each annuitant who is qualified to receive Medicare benefits. These subsidy rates expire on December 31, 2016.

The disclosures herein assume that for valuation purposes the health insurance supplement in effect at December 31, 2014 and 2013, will end on December 31, 2016.

The supplemental payments by the Fund are included in employer contributions on the statements of changes in fiduciary net position. 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.

NOTE 3 HEALTH INSURANCE SUPPLEMENT *(continued)*

Plan Description and Contribution Information *(continued)*

At December 31, 2014 and 2013, the number of annuitants or surviving spouses who had subsidized health insurance totaled 10,676 and 10,809, respectively. Of the 2,554 and 2,350 remaining annuitants or surviving spouses, at December 31, 2014 and 2013, 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 630 and 654 terminated employees entitled to benefits or a refund, at December 31, 2014 and 2013, respectively, approximately 57 and 89 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 2014 and 2013, the Fund received contributions of $9,657,123 and $9,847,310, respectively. Contributions to the health insurance supplement are equal to the insurance premium payments to the City. There were no net assets available for the health insurance supplement at December 31, 2014 or 2013.

Funded Status and Funding Progress

The funded status of the Fund's health care plans as offered by the City as of December 31, 2014 and 2013, 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)
12/31/14	$ -	$ 18,762,125	$ 18,762,125	0.00%	$ 1,074,333,318	1.75%
12/31/13	-	28,375,681	28,375,681	0.00	1,015,426,128	2.79

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.

NOTE 3 HEALTH INSURANCE SUPPLEMENT *(continued)*

Funded Status and Funding Progress *(continued)*

Additional information as of the latest actuarial valuation follows:

Valuation dates	December 31, 2014 and 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Remaining amortization period	December 31, 2014: 3 year closed–period for FY 2014 and beyond; December 31, 2013: 4 year closed period for FY 2013 and beyond
Asset valuation method	No assets (pay-as-you-go)
Actuarial assumptions	
OPEB investment rate of return	4.5%
Projected salary increases	(3.75% - 2014; 4.0% - 2013) per year, plus additional percentage related to service
Healthcare cost trend rate	0.0% (fixed dollar subsidy)
General inflation rate	3.0%

NOTE 4 CASH AND INVESTMENT RISK

Cash

The bank balance and carrying amount of the Fund's deposits at December 31, 2014 were $553,685 and ($748,533), respectively; and $552,755 and ($205,473) at December 31, 2013, respectively. These balances excluded $250 of petty cash. The bank balance at December 31, 2014 and 2013 is on deposit with the City Treasurer and is insured or collateralized by securities held by the City Treasurer in the Fund's name.

Investment Policy

The Trustees assume the responsibility for establishing the Fund's 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

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Policy *(continued)*

The Trustees have 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 risks.

Money-Weighted Rate of Return

For the year ended December 31, 2014, the annual money-weighted rate of return on the plan investments, net of investment expense, was 6.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Investment Summary

The following table presents a summary of the Fund's investments by type at December 31, 2014 and 2013.

	2014	2013
U.S. Government and agency fixed income	$ 352,303,045	$ 262,696,101
U.S. corporate fixed income	367,684,464	317,388,645
U.S. common collective fixed-income funds	60,605,016	154,432,010
Global common collective fixed-income funds	130,645,897	129,726,444
Global common collective equity funds	200,696,300	198,103,231
U.S. equities	474,142,865	489,961,707
U.S. common collective stock funds	154,396,381	232,846,740
International equity common collective fund	28,588,836	29,596,278
Foreign equities	635,744,045	655,118,654
Pooled short-term investment funds	55,097,459	160,600,280
Infrastructure	36,538,895	35,538,660
Real estate	94,281,030	119,140,822
Venture capital	182,463,748	185,569,567
Forward contracts and swaps	16,059,481	3,845,772
Hedge fund-of-funds	100,368,762	95,941,758
Cash and cash equivalents	80,737,968	26,766,289
Total investments at fair value	$ 2,970,354,192	$ 3,097,272,958

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Summary *(continued)*

There are no individual investments held by the Fund that represented 5% or more of net position held in trust for pension benefits, except for the Fund's investment in the MFO GMO Global Asset Allocation Fund, which amounted to $200,696,300 and $198,103,231 at December 31, 2014 and 2013, respectively, and the NTGI Collective Russell 1000 Index Fund which amounted to $154,396,381 and $232,846,740 at December 31, 2014 and 2013, respectively. There are no insurance contracts excluded from plan assets.

The Fund's investments were managed by approximately 46 external investment managers during 2014 and 2013, 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 fiduciary net position.

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 engaged five such managers in 2014 and six in 2013. 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.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Risks *(continued)*

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

At December 31, 2014, 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	$ 72,626,358	$ 2,963	$ 29,990,646	$ 12,883,729	$ 29,749,020
Collateralized bonds	436,832	-	-	-	436,832
Commercial mortgage-backed securities	48,792,690	-	374,937	1,250,816	47,166,937
Corporate bonds	221,247,437	11,516,205	82,380,828	54,000,807	73,349,597
Government agency securities	6,656,486	-	3,668,954	2,870,381	117,151
Government bonds	160,910,542	2,009,218	110,608,974	20,692,986	27,599,364
Government mortgage-backed securities	173,300,033	-	916,127	4,325,715	168,058,191
Index-linked government funds	11,435,983	-	8,947,303	1,600,202	888,478
Municipal principal bonds	8,030,968	302,082	589,051	217,640	6,922,195
Non-government-backed collateralized mortgage obligations	16,550,180	-	941,962	1,545,178	14,063,040
	$ 719,987,509	$ 13,830,468	$ 238,418,782	$ 99,387,454	$ 368,350,805

At December 31, 2013, 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	$ 43,742,110	$ 35,339	$ 23,234,549	$ 6,232,211	$ 14,240,011
Commercial mortgage-backed securities	33,078,814	-	-	337,121	32,741,693
Corporate bonds	220,547,091	15,411,751	89,242,861	59,779,605	56,112,874
Government agency securities	5,062,004	-	4,211,470	618,228	232,306
Government bonds	102,513,315	-	65,153,093	14,954,644	22,405,578
Government mortgage-backed securities	127,117,580	-	204,660	2,022,654	124,890,266
Government issued commercial mortgage-backed securities	424,569	-	424,569	-	-
Index-linked government funds	27,578,633	949,799	21,991,392	2,723,670	1,913,772
Municipal principal bonds	8,423,139	-	1,036,445	467,123	6,919,571
Non-government-backed collateralized mortgage obligations	11,597,491	-	566,493	685,180	10,345,818
	$ 580,084,746	$ 16,396,889	$ 206,065,532	$ 87,820,436	$ 269,801,889

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Risks *(continued)*

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.

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	
	2014	**2013**
Quality Rating		
AAA	$ 59,158,096	$ 41,006,879
AA	28,186,144	28,200,907
A	81,049,905	83,193,875
BBB	110,584,681	111,297,039
BB	14,973,493	10,744,191
B	1,244,601	31,456
Not rated	62,044,871	33,736,175
CCC through D	10,442,673	9,178,123
Total credit risk of U.S. corporate fixed income	367,684,464	317,388,645
U.S. Government and agency fixed income securities	352,303,045	262,696,101
	$719,987,509	$580,084,746

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Risks *(continued)*

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, 2014, and 2013, cash deposits of $1,131,708 and $956,773, 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.

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:

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Risks *(continued)*

	Fair Value	
	2014	**2013**
Currency		
Australian Dollar	$ 11,050,417	$ 15,848,310
Brazilian Real	15,237,093	19,899,117
British Pound Sterling	67,095,129	89,281,171
Canadian Dollar	15,725,060	11,775,603
Chinese Yuan Renminbi	(1,492,774)	313,459
Colombian Peso	1,015,869	1,491,743
Czech Koruna	2,340,050	2,496,940
Danish Krone	3,260,712	4,870,828
Dominican Peso	4	-
Euro Currency Unit	96,577,715	112,860,881
Hong Kong Dollar	69,390,154	67,211,924
Hungarian Forint	576,211	193
Indian Rupee	9,929,822	5,896,837
Indonesian Rupiah	5,990,184	4,698,752
Japanese Yen	89,830,272	81,319,319
Malaysian Ringgit	1,859,817	2,528,327
Mexican Peso	9,686,030	9,845,592
New Israeli Shekel	2,847,974	2,495,275
New Romanian Leu	377,183	-
New Taiwan Dollar	16,350,000	9,859,013
New Zealand Dollar	131,100	367,215
Nigerian Naira	(34,439)	580,245
Norwegian Krone	3,695,179	4,684,530
Peruvian Nuevo Sol	2,809	-
Philippine Peso	-	701,188
Polish Zloty	1,576,467	914,677
Qatari Rial	50,708	1,235,292
Russian Ruble	337,017	-
Singapore Dollar	2,232,781	2,674,492
South African Rand	9,406,880	9,630,972
South Korean Won	18,104,930	18,865,496
Swedish Krona	11,542,308	6,228,217
Swiss Franc	26,591,749	24,837,407
Thai Baht	2,356,705	1,766,998
Turkish Lira	8,393,434	6,639,716
Uruguayan Peso	465,710	-
Total investments in foreign currency	$502,500,260	$521,819,729

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 fiduciary net position. The credit risk associated with these contracts is minimal, as they are traded on organized exchanges and settled daily.

At December 31, 2014, the Fund had interest rate futures contracts to purchase U.S. Treasury securities and UK Treasury securities with notional amounts of $46,748,633 and $729,441, respectively. At December 31, 2014, the Fund also had interest rate futures contracts to sell U.S. Treasury securities and German Treasury securities with notional amounts of $13,384,984 and $759,391, respectively. At December 31, 2013, the Fund had interest rate futures contracts to purchase U.S. Treasury securities with notional amounts of $37,468,080. At December 31, 2013, the Fund also had interest rate future contracts to sell U.S. Treasury securities, Japanese Government Bonds, and UK Treasury securities with notional amounts of $8,824,675, $6,980,177 and $5,504,524, respectively.

The fair value of futures contracts in the statements of fiduciary net position was zero at December 31, 2014 and 2013, as settlements are by cash daily.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Derivatives *(continued)*

The Fund had net investment earnings of $1,508,682 and $125,157 on futures contracts in 2014 and 2013, respectively. These earnings are accounted for as net appreciation 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 fiduciary net position. The notional value of credit default swaps was $105,811,288 and $104,865,202 as of December 31, 2014 and 2013, respectively. The Fund did not hold any interest rate swaps as of December 31, 2014 and 2013. The fair value of swaps outstanding at December 31, 2014 and 2013 was a net (liability) asset of $(378,304) and $1,983,310, respectively. Investment loss from holdings and sales of interest rate and credit default swaps was $2,428,100 and $2,331,082 in 2014 and 2013, respectively. These losses are included in net appreciation in fair value of investments in the statements of changes in fiduciary net position.

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, Colombian pesos, Danish krone, Euros, Hong Kong dollars, Hungarian forint, Indian rupee, Indonesian rupiah, Japanese yen, Malaysian ringgit, Mexican pesos, New Israeli shekel, New Taiwan dollar, Nigerian naira, Norwegian krone, Polish zloty, Romanian new leu, Russian ruble, Singapore dollars, South Korean won, Swedish krona, Swiss francs, Taiwan dollar, Thai baht, Turkish lira, U.S. dollars and Yuan renminbi at December 31, 2014 and 2013. Total pending foreign currency purchases and (sales) had notional values of $48,425,836 and $(48,450,832), respectively, at December 31, 2014, and $110,623,648 and $(110,533,355), respectively, at December 31, 2013.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Derivatives *(continued)*

The Fund had a net unrealized gain (loss) on pending foreign currency forward contracts of $(14,996) and $90,293 at December 31, 2014 and 2013, respectively, which is reflected in the fair value of the investments on the statements of fiduciary net position. Investment income from holdings and sales of foreign currency forward contracts was $503,997 and $1,525,509 in 2014 and 2013, respectively.

Forward interest rate contracts: The Fund's external investment managers entered into forward contracts to purchase or sell bond securities during 2014 and 2013. 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 fiduciary net position. The Fund's external investment managers attempt to mitigate this credit risk through structured trading with reputable parties.

At December 31, 2014, the Fund held forward contracts to buy Canadian government bonds, U.S. TIPS (Treasury Inflation Protected Securities) and U.S. government bonds with fair values of $14,089,070, and the Fund also held forward contracts to (sell) Canadian government bonds and U.S. Treasury notes with fair values of $14,540,430. At December 31, 2013, the Fund did not hold any forward contracts. The unrealized gain on these contracts was $38,144 and $0 at December 31, 2014 and 2013, respectively. Investment (loss) income from holdings and sales of interest rate forward contracts was $(358,584) and $1,170,592 in 2014 and 2013, respectively. These (losses) earnings are included in net appreciation in fair value of investments in the statements of changes in fiduciary net position.

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 fiduciary net position. 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 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 154 days and 128 days, as of December 31, 2014 and 2013, respectively. Cash collateral is invested in the lending agent's Core USA Collateral Pool, which at December 31, 2014 and 2013, had a weighted-average life, as measured by interest sensitivity, of 39 days. 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, 2014 and 2013 were as follows:

	2014	2013
Fair value of securities loaned	$ 282,464,957	$ 266,783,040
Fair value of cash collateral from borrowers	288,542,319	271,856,279
Fair value of non-cash collateral from borrowers	1,502,256	1,049,482

As of December 31, 2014 and 2013, 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 $84 million and $93 million at December 31, 2014 and 2013, 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, 2014, 10 retirees were in the Staff Retiree Health Plan and eighteen active employees could be eligible at retirement. As of December 31, 2013, nine retirees were in the Staff Retiree Health Plan and 18 active employees 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 2014 and 2013, PABF contributed approximately $123,263 and $108,262, respectively, to the Staff Retiree Health Plan for current premiums, inclusive of an implicit subsidy of $10,661 and $10,276, for 2014 and 2013, respectively. Members receiving benefits contributed approximately $50,197 or 40.7%, of the total premiums, for 2014, and approximately $26,172 or 24%, of the total premiums for 2013.

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 2014 and 2013, the amount actually contributed to the Staff Retiree Health Plan, and changes in PABF's net OPEB obligation to the Staff Retiree Health Plan:

	2014	2013
Annual required contribution	$ 409,004	$ 394,221
Interest on net OPEB obligation	80,116	66,710
Adjustment to annual required contribution	(65,751)	(54,748)
Annual OPEB expense	423,369	406,183
Employer contributions made	(123,263)	(108,262)
Increase in net OPEB obligation	300,106	297,921
Net OPEB obligation at beginning of year	1,780,361	1,482,440
Net OPEB obligation at end of year	$ 2,080,467	$ 1,780,361

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Staff Retiree Health Plan, and the net OPEB obligation for 2014 and 2013 is as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2014	$ 423,369	29.1%	$ 2,080,467
12/31/2013	406,183	26.7	1,780,361
12/31/2012	491,848	34.5	1,482,440

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, 2014, and 2013, 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)
12/31/14	$ -	$ 5,538,553	$ 5,538,553	0.00%	$ 1,304,207	424.7%
12/31/13	-	5,212,127	5,212,127	0.00	1,276,471	408.3

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, 2014 and 2013 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, 2014 and 2013, an annual healthcare cost trend rate of 8.5% starting 2015, reduced by increments of 0.5 percentage point per year to an ultimate rate of 5.0% after eight years. At December 31, 2014 and 2013, the wage inflation assumption was 3.75%. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a 30-year open 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

	2014	**2013**
Balances, at December 31	$ 2,046,631,796	$ 2,028,237,876

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

	2014	**2013**
Balances, at December 31	$ 1,412,729,397	$ 1,353,436,830

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

	2014	2013
Balances, at December 31	$ 2,291,357,499	$ 2,234,896,893

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

	2014	2013
Balances, at December 31	$ (1,442,209,251)	$ (1,248,229,524)

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 $8,093,873,233 and $7,026,723,767 as of December 31, 2014 and 2013, respectively.

Gift Reserve

	2014	2013
Balances, at December 31	$ 13,317,832	$ 12,853,284

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

	2014	**2013**
Balances, at December 31	$ (27,235,320)	$ (24,754,256)

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

	2014	**2013**
Balances, at December 31	$(1,233,025,033)	$(1,091,687,951)

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, 2014 and 2013, the Automatic Increase Reserve had a deficit.

Supplementary Payment Reserve

	2014	**2013**
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, 2014 and 2013. City contributions are allocated to these reserve accounts in amounts equal to payments made on an annual basis.

Child's Annuity Reserve

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.

Duty Disability Reserve

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.

Ordinary Disability Reserve

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.

Hospitalization Fund Reserve

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.

Expense Reserve

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

NOTE 9 NET PENSION LIABILITY OF THE FUND

The components of the net pension liability at December 31, 2014, were as follows:

Total pension liability	$ 11,773,430,559
Plan fiduciary net position	3,062,014,322
Fund's net pension liability	$ 8,711,416,237
Plan fiduciary net position as a percentage of total pension liability	26.01%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	3.75% per year, plus additional percentage related to service
Investment rate of return	7.5%
Cost of living adjustments	For members hired before January 1, 2011: 3.0% (1.50% for retirees born after January 1, 1955, to a maximum of 30%) For members hired on or after January 1, 2011: 1/2 CPI, maximum 3.0%; assumed rate of 1.5%

Mortality rates were based on the Sex Distinct Retirement Plans 2014 Total Employee and Healthy Annuitant mortality tables for males and females, as appropriate.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013.

NOTE 9 NET PENSION LIABILITY OF THE FUND *(continued)*

Actuarial Assumptions *(continued)*

The long-term expected rate of return on pension plan investments was determined under a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed or each major class. These rates are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target allocation as of December 31, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	21%	5.63%
Non-U.S. Equity	20	7.06
Fixed Income	22	1.08
Global Asset Allocation	12	4.00
Private Equity	7	8.96
Hedge Funds	7	3.74
Real Estate	5	4.11
Real Assets	4	4.34
Infrastructure	2	5.44
Total	100%	

Single Discount Rate

A Single Discount Rate of 7.15% was used to measure the total pension liability. This Single Discount Rate was based on an expected rate of return on pension plan investments of 7.50% and a municipal bond rate of 3.56%. The projection of cash flows used to determine this Single Discount Rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between statutory contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2063. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2063, and the municipal bond rate was applied to all benefit payments after that date.

NOTE 9 NET PENSION LIABILITY OF THE FUND *(continued)*

Single Discount Rate *(continued)*

Regarding the sensitivity of the net pension liability to changes in the Single Discount Rate, the following presents the plan's net pension liability, calculated using a Single Discount Rate of 7.15%, as well as what the plan's net pension liability would be if it were calculated using a Single Discount Rate that is 1-percentage-point lower or 1-percentage-point higher:

Sensitivity of Net Pension Liability
to the Single Discount Rate Assumption

1% Decrease 6.15%	Current Single Discount Rate Assumption 7.15%	1% Increase 8.15%
$ 10,123,094,063	$ 8,711,416,237	$ 7,524,223,623

NOTE 10 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.

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 11 LEASE AGREEMENT

The Fund leases its office facilities under a noncancellable agreement that expires June 30, 2016. Office rental expense amounted to $252,566 and $249,483 for the years ended December 31, 2014 and 2013, respectively.

NOTE 11 LEASE AGREEMENT *(continued)*

Future minimum rental payments under the office lease at December 31, 2014 are as follows:

Year	Amount
2015	$ 256,502
2016	129,073

NOTE 12 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 Changes in Net Pension Liability
For the Year Ended December 31, 2014
(Unaudited)

Total Pension Liability		
Service cost including pension plan administrative expense	$	199,435,084
Interest on the total pension liability		791,693,017
Assumption changes		845,070,287
Benefit payments		(645,688,934)
Refunds		(8,991,636)
Pension plan administrative expense		(4,240,625)
Net Change in Total Pension Liability		1,177,277,193
Total Pension Liability – Beginning		10,596,153,366
Total Pension Liability – Ending (a)	$	11,773,430,559
Plan Fiduciary Net Position		
Employer contributions	$	177,417,827
Employee contributions		95,675,538
Pension plan net investment income		181,901,293
Benefit payments		(645,688,934)
Refunds		(8,991,636)
Pension plan administrative expense		(4,240,625)
Other		740,305
Net Change in Plan Fiduciary Net Position		(203,186,232)
Plan Fiduciary Net Position – Beginning		3,265,200,554
Plan Fiduciary Net Position – Ending (b)	$	3,062,014,322
Net Pension Liability – Ending (a)-(b)	$	8,711,416,237

The above information is required beginning in 2014. Information for the next 10 years will be presented in future years.

Beginning of year total pension liability for 2014 uses a Single Discount Rate of 7.56% and the benefit provisions in effect as of the December 31, 2013 funding valuation. The Single Discount Rate of 7.56% was based on a long-term expected rate of return on pension plan investments of 7.75% used in the December 31, 2013 funding valuation, and a long-term municipal bond rate as of December 26, 2013 of 4.73%.

End of year total pension liability for 2014 uses a Single Discount Rate of 7.15% and the benefit provisions in effect as of the December 31, 2014 funding valuation. The Single Discount Rate of 7.15% was based on a long-term expected rate of return on pension plan investments of 7.50% used in the December 31, 2014 funding valuation, and a long-term municipal bond rate as of December 31, 2014 of 3.56%.

The increase in total pension liability for 2014 reflects the change in assumption resulting from the Experience Study for the period January 1, 2009, through December 31, 2013, and the change in the Single Discount Rate from 7.56% as of December 31, 2013 to 7.15% as of December 31, 2014.

Mortality rates were based on the Sex Distinct Retirement Plans 2014 Total Employee and Healthy Annuitant mortality tables for males and females, as appropriate.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)

Required Supplementary Information

Schedule of Net Pension Liability

As of December 31, 2014

(Unaudited)

Total pension liability	$ 11,773,430,559
Plan fiduciary net position	3,062,014,322
Net pension liability	$ 8,711,416,237
Plan fiduciary net position as a percentage of total pension liability	26.01%
Covered employee payroll	$ 1,074,333,318
Net pension liability as a percentage of covered employee payroll	810.87%

The above information is required beginning in 2014. Information for the next 10 years will be presented in future years.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Contributions—Pension
Last 10 Years

(Unaudited)

Year Ended	Actuarially Determined Contribution (a)	Actual Contribution (b)	Contribution Deficiency (Excess) (c) = (b)-(a)	Covered Payroll (d)	Actual Contribution as a % of Covered Payroll (e) = (b)/(d)	Statutory Contribution (f)	Statutory Contribution Deficiency/(Excess) (g) =(f)-(b)
12/31/05	$ 238,423,459	$ 178,278,371	$ 60,145,088	$ 948,973,732	18.79%	$ 159,633,000	$ (18,645,371)
12/31/06	262,657,025	150,717,705	111,939,321	1,012,983,634	14.88%	157,591,000	6,873,296
12/31/07	312,726,608	170,598,268	142,128,341	1,038,957,026	16.42%	170,112,293	(485,975)
12/31/08	318,234,870	172,835,805	145,399,065	1,023,580,667	16.89%	175,080,814	2,245,009
12/31/09	339,488,187	172,043,784	167,444,403	1,011,205,359	17.01%	177,333,569	5,289,785
12/31/10	363,624,570	174,500,507	189,124,063	1,048,084,301	16.65%	177,060,837	2,560,330
12/31/11	402,751,961	174,034,600	228,717,361	1,034,403,526	16.82%	176,068,606	2,034,006
12/31/12	431,010,173	197,885,552	233,124,621	1,015,170,686	19.49%	204,329,314	6,443,762
12/31/13	474,177,604	179,521,259	294,656,345	1,015,426,128	17.68%	182,716,690	3,195,431
12/31/14	491,651,208	178,158,132	313,493,076	1,074,333,318	16.58%	178,773,877	615,745

Valuation Date:	December 31, 2014
Notes:	Actuarially determined contribution rates are calculated as of December 31, which is 12 months prior to the end of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates as of the Valuation Date:

Actuarial Cost Method:	Projected-unit credit
Amortization Method:	Prior to 2015, the total City contribution is generated by a tax equal to double the contributions by the policemen to the Fund two years prior to the year of the tax levy. Beginning in tax levy year 2015, the Statutory Contributions are equal to a level percentage of pay contribution determined so that the Plan attains a 90% funded ratio by the end of 2040 on an open group basis.
Remaining Amortization Period:	Not applicable. An amortization payment is not directly calculated. The amortization payment is the difference between the total statutory contribution and the employer normal cost contribution.
Asset Valuation Method:	5-year smoothed market
Inflation:	3%
Salary Increases:	Salary increase rates based on age-related productivity and merit rates plus inflation.
Postretirement Benefit Increases:	A retiree born before January 1, 1955, with at least 20 years of service or receiving a mandatory retirement minimum annuity, receives an increase of 3% of the original annuity, starting on the first of the month following the first anniversary of his retirement or the first of the month following attainment of age 55, whichever is later, and shall not be subject to a 30% maximum increase. For retirees born after January 1, 1955, automatic increases are 1.5% of the original annuity, commencing at age 60, or the first anniversary of retirement, if later, to a maximum of 30%. For participants that first became members on or after January 1, 2011, increases are equal to the lesser of 3% and 50% of CPI-U of the original benefit, commencing at age 60.
Investment Rate of Return:	7.50% as of the December 31, 2014 valuation.
Retirement Age:	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the December 31, 2014 valuation pursuant to an experience study for the period January 1, 2009 through December 31, 2013.

Mortality:	Post-Retirement Healthy mortality rates: Sex Distinct Retirement Plans 2014 Healthy Annuitant mortality table weighted 108% for males and 97% for females. Pre-retirement mortality rates: Sex Distinct Retirement Plans 2014 Total Employee mortality table weighted 85% for males and 115% for females. Disabled mortality: Sex Distinct Retirement Plans 2014 Healthy Annuitant mortality table weighted 115% for males and 115% for females.

Methods and Assumptions Used for Accounting Purposes as of the Valuation Date:

Actuarial Cost Method:	Entry age normal
Asset Method:	Market value
Discount Rate:	7.15% as of the December 31, 2014 valuation. 7.56% as of the December 31, 2013 valuation.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Money-Weighted Rate of Return—Pension
(Unaudited)

Year Ended	Annual Money-Weighted Rate of Return, Net of Investment Expense
12/31/14	6.24%

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

Last 6 Years

(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)
12/31/09	$ -	$ 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
12/31/13	-	28,375,681*	28,375,681	0.00	1,015,426,128	2.79
12/31/14	-	18,762,125	18,762,125	0.00	1,074,333,318	1.75

*Due to Public Act 98-0043 effective June 28, 2013, it is assumed for valuation purposes that the health insurance supplement in effect prior to June 30, 2013 will end on December 31, 2016 for all employee annuitants and their future surviving spouses.

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
Last 6 Years
(Unaudited)

Year Ended	Contributions Annual Required	Actual Employee	Actual Employer	Percentage Contributed
12/31/09	$ 11,810,766	$ -	$ 9,266,431	78.46%
12/31/10	10,659,006	-	9,354,163	87.76
12/31/11	10,538,116	-	9,591,394	91.02
12/31/12	10,473,478	-	9,765,686	93.24
12/31/13	10,429,882	-	9,847,310	94.41
12/31/14	9,723,621	-	9,657,123	99.32

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Notes to Required Supplementary Information—Health Insurance Supplement
For the Years Ended December 31, 2014 and 2013
(Unaudited)

Valuation date	December 31, 2014 and 2013
Actuarial cost method	Entry age normal
Actuarial value of assets	No assets (pay-as-you-go)
Amortization method	Level percent
Remaining amortization period	3 years closed-period for 2014 and beyond; 4 year closed-period for 2013 and beyond
Actuarial assumptions	
OPEB investment rate of return	4.5%
Projected salary increases	3.75% - 2014; 4.0% - 2013 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
Last 6 Years
(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)
12/31/09	$ -	$ 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
12/31/13	-	5,212,127	5,212,127	0.00	1,276,471	408.3
12/31/14	-	5,538,553	5,538,553	0.00	1,304,207	424.7

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
Last 6 Years
(Unaudited)

	Contributions			
Year Ended	**Annual Required**	**Actual Employee**	**Actual Employer**	**Percentage Contributed**
12/31/09	$ 290,600	$ -	$ 121,000	41.6%
12/31/10	434,005	-	127,630	29.4
12/31/11	453,535	-	133,373	29.4
12/31/12	478,309	-	169,882	35.5
12/31/13	394,221	-	108,262	27.5
12/31/14	409,004	-	123,263	30.1

(Unaudited)

Valuation date	December 31, 2014 and 2013
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	3.75% per year
Healthcare cost trend rate	8.5% per year, graded down to 5.0% per year, ultimate trend in 0.5% increments

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, 2014 and 2013

	2014	2013
Administrative expenses		
Actuary services	$ 125,038	$ 88,922
Benefits disbursement	209,764	206,072
Equipment service and rent	162,310	167,478
External auditors	37,000	50,000
Fiduciary insurance	139,794	141,653
Legal services	442,729	461,222
Medical consultant	403,884	448,196
Miscellaneous	274,843	292,516
Occupancy and utilities	258,427	254,668
Personnel salaries and benefits	1,741,726	1,764,179
Postage	10,702	5,000
Supplies	11,039	11,423
	$ 3,817,256	$ 3,891,329

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, 2014 and 2013

	2014	2013
Payments to consultants		
External auditors	$ 37,000	$ 50,000
Medical consultant	403,884	448,196
Legal services	442,729	461,222
Actuary service	125,038	88,922
Investment manager fees	9,304,806	7,989,489
Master trustee fees	183,532	190,592
Consulting fees	495,364	493,265
	$ 10,992,353	$ 9,721,686

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, 2014 and 2013

	2014	2013
Investment managers		
Acadian Asset Management	$ 744,370	$ 9,784
Ariel Capital Management	-	15,658
Artisan Partners	866,212	695,585
Capital Guardian Trust Co.	-	582,191
Dearborn Partners LLC	129,668	215,310
Denali Advisors	218,678	180,687
Earnest Partners	885,056	-
European Investors	69,698	60,057
Fisher Investments	821,926	670,903
Great Lakes Advisors	258,422	344,311
Holland Capital Management	302,741	262,531
ING Clarion	87,781	79,966
Invesco Capital Management	468,750	375,000
JP Morgan Fleming Asset Management	153,746	557,744
Lazard Asset Management	601,439	8,257
LM Capital Group	97,077	94,066
McKinley Capital	-	405,695
Montag & Caldwell	82,920	243,409
Northern Trust Global Investments - Index Funds	59,891	72,567
Taplin, Canida, & Habacht	168,804	137,137
UBS Global Asset Management	842,861	855,240
Wellington Management	529,415	390,821
Wells Capital Management	498,702	481,898
William Blair & Co.	1,416,649	1,250,672
Total investment manager fees	9,304,806	7,989,489
Investment consultants		
Elkins McSherry Inc	15,000	20,000
NEPC LLC	480,364	473,265
Total investment consultants fees	495,364	493,265
Master custodian		
The Northern Trust Company	183,532	190,592
Total investment fees	**$ 9,983,702**	**$ 8,673,346**