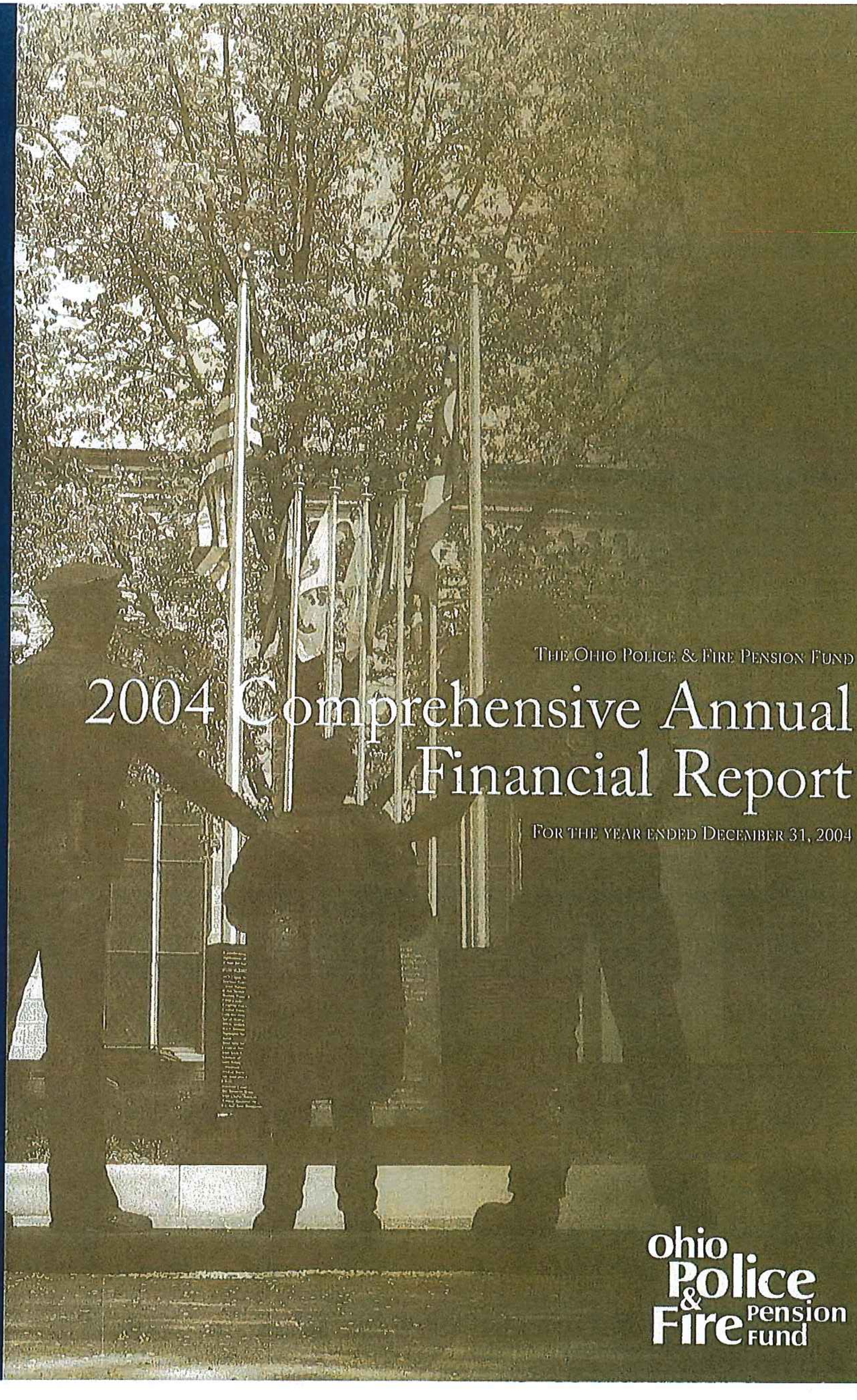


The Ohio Police & Fire Pension Fund

2004 Comprehensive Annual Financial Report

For the year ended December 31, 2004

Ohio Police & Fire Pension Fund

The Ohio Police & Fire Pension Fund

Comprehensive Annual Financial Report

For the year ended December 31, 2004

Prepared through the combined efforts of the OP&F Staff.

ohio Police & Fire Pension Fund

The Ohio Police and Fire Pension Fund
140 East Town Street
Columbus, Ohio 43215
www.op-f.org

Contents

Board of Trustees

Robert Beck, Chairman, Cleveland Police *(center)*
Board members, left to right
William Deighton, Retired, Cleveland Fire
Ken Gehring, Vice Chair, Toledo Fire
William Gallagher, Retired, Cleveland Police
Robert Baker, Investment Member, appointed by the Governor
Gerald R. Williams, Investment Member, appointed by the Ohio Senate and House of Representatives
David L. Gelbaugh, Investment Member, appointed by the Treasurer of State
Lawrence Deck, Columbus Division of Police
Lawrence Petrick, Jr., Shaker Heights Fire

ABOUT THE BOARD OF TRUSTEES

Ohio law provides for the Ohio Police & Fire Pension Fund Board of Trustees to be comprised of nine members. There are six employee members elected to four-year terms by their respective member groups: two representatives of police departments, two representatives of fire departments, one retired firefighter and one retired police officer. The Board also includes three statutory members, which have changed with the enactment of Senate Bill 133 in September 2004. Each statutory member—one appointed by the Governor, one by the Treasurer of State, and one appointed jointly by the Senate President and Speaker of the House—must have professional investment expertise.

Prior to Senate Bill 133, the three statutory members of the OP&F Board of Trustees were a municipal fiscal officer appointed by the Governor, the Ohio Attorney General and the Ohio Auditor of State.

Administrative Staff

William J. Estabrook, Executive Director *(center)*
Executive Staff, left to right
Kay Penn, Interim Health Services Director
Keith Byrd, Information Services Director and Interim Deputy Executive Director
Ted Hall, Chief Investment Officer
Scott Miller, Internal Auditor
Mary Spencer, Interim Member Services Director
Stewart Smith, Chief Financial Officer
Diane Lease, General Counsel

Professional Consultants

ACTUARY

Mellon Human Resources and Investor Solutions

LEGAL COUNSEL

Ohio Attorney General, the Honorable Jim Petro

INDEPENDENT ACCOUNTANTS

Clark, Schaefer, Hackett & Co.

INVESTMENT CONSULTANTS & MANAGERS

(See page 42)

Letter of Transmittal

Ohio Police & Fire Pension Fund

140 East Town Street / Columbus, Ohio 43215 / (614) 228-2975 / www.op-f.org

June 8, 2005

Dear Chairman and Members of the Board of Trustees:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the Ohio Police & Fire Pension Fund (OP&F) for the year ended December 31, 2004. This CAFR was prepared to aid interested parties in assessing OP&F's status at December 31, 2004, and its results of operations for the year then ended. Responsibility for both the accuracy of the data, as well as the completeness and fairness of the presentation, rests with OP&F management. We believe this report reflects our adherence to the OP&F Board of Trustees' directives specifically, that OP&F management maintains the highest standards of prudent stewardship of OP&F's assets and delivers dedicated service to our members and our retirees.

The report is divided into five sections:

(1) The Introductory Section contains this Letter of Transmittal, along with the identification of the administrative organization of OP&F;
(2) The Financial Section includes Management's Discussion and Analysis (MD&A), Independent Auditors' Report and the basic financial statements, required supplementary information (RSI), notes to RSI, and additional information of OP&F;
(3) The Investment Section contains the investment report, portfolio summary, and the investment policy and guidelines;
(4) The Actuarial Section includes significant actuarial data pertaining to OP&F and the certification letter from Mellon Human Resources and Investor Solutions and results of their annual actuarial valuation; and
(5) The Statistical Section includes historical data reporting progress of OP&F.

Accounting System and Internal Controls

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America applicable to governmental units, including the pronouncements of the Governmental Accounting Standards Board (GASB). Additional information on OP&F's significant accounting policies are contained in the Notes to Basic Financial Statements in the Financial Section.

Management is responsible for establishing and maintaining an effective internal control structure designed to ensure that the assets of OP&F are protected from loss, theft, or misuse; and to ensure that adequate accounting data is compiled to allow for the preparation of combining financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. Management believes its internal control structure meets these objectives.

Plan History and Overview

OP&F is a cost sharing multiple–employer public employee retirement system and was created by the Ohio General Assembly in 1965, replacing 454 separate local police and firefighter relief and pension funds in Ohio. The statewide Fund began operating on January 1, 1967. On that date, the local pension funds transferred their assets and liabilities to OP&F. Assets transferred to OP&F totaled approximately $75 million, while OP&F's actuary computed the liabilities accrued up to 1966 at approximately $490 million. Employers are paying the remaining unfunded accrued liability over a 67–year period, which began in 1969 and totaled nearly $36.8 million as of December 31, 2004.

OP&F provides pension, disability, and health care benefits to qualified participants. In addition, survivor, death and health care benefits are provided to qualified spouses, children and dependent parents. Please refer to the Plan Summary in the Actuarial Section for further information on plan benefits.

Membership in OP&F is mandatory under Ohio law for all full–time police officers employed by Ohio municipalities. Full–time firefighters employed by townships, municipalities, township joint fire districts or other political subdivisions must become members of OP&F if satisfactory completion of a firefighter training course approved under former Section 3303.07, Section 4765.55, or conducted under Section 3737.33 of the Ohio Revised Code is required for employment. The table below is a tabulation of current participating employers at December 31, 2004:

Participating Employers

	Police	Fire	Total
Municipalities	252	225	477
Townships	—	109	109
Villages	288	29	317
TOTAL	**540**	**363**	**903**

Major Initiatives and Accomplishments

OP&F continued its project to redesign our member information system and clean up member data. That initiative enabled OP&F to kick–off a New Pension Administration System (NPAS) project in January 2003. Significant changes to current processes and procedures are anticipated from the project allowing OP&F to better serve its members. The completion date for this project is expected to be December 2005.

Many months were spent studying our health care costs, which have risen consistent with nationally observed trends. Accordingly, a new health care plan was implemented on January 1, 2004 incorporating plan design changes, member contribution levels, and eligibility requirements. Those changes were aggressively communicated to our membership with numerous mailings as well as scheduling 130 statewide meetings to communicate plan changes and to answer questions from our active and retiree membership. The changes implemented led to a 6.1 % decrease in health care expenses for 2004 and helped insure that the Health Care Stabilization Fund remains solvent for 10 years, as required by the Board's Benefit Funding Policy.

Senate Bill 134, which would allow OP&F to offer a Deferred Retirement Option Plan (DROP) to members, was passed in 2002. Enrollment in DROP began in January 2003. At the close of 2004, approximately 2,200 members have enrolled in the program.

Financial Overview

OP&F receives virtually all of its funds from the following sources: member contributions, employer contributions, health care contributions, state subsidies and reimbursements, and investment earnings. Additions to net assets totaled $1.761 billion in 2004. The member and employer contribution rates for 2004 were 10% for members, 19.5% for police employers and 24% for fire employers, and remained unchanged from the prior year.

Additions to Plan Net Assets	2004	2003
(in thousands)	Amount	Amount
Net Investment Income (loss)	$ 1,152,391	$ 1,745,179
Contributions	592,523	540,643
Interest on Local Funds Receivable	1,580	1,609
Other	14,686	16,989
TOTAL	**$ 1,761,180**	**$ 2,304,420**

Investment earnings were positive with returns of 13.3% for 2004 and 24.9% for 2003. Both figures are significant recoveries from the historic market lows noted in 2002.

Deductions to Plan Net Assets	2004	2004	2003	2003
(in thousands)	Amount	Percent	Amount	Percent
Benefits	$ 839,816	96%	$ 793,022	96%
Administrative Expenses	15,850	2%	16,672	2%
Refund of Employee Contributions	15,307	2%	16,802	2%
Other	210	—	1,182	—
TOTAL	**$ 871,183**	**100%**	**$ 827,678**	**100%**

Significant increases in the Benefits expense line are attributable to the inclusion of DROP expenses for 2004, normal trend increases in the number of retirees and disability grants are offset by decreases in health care costs related to OP&F's comprehensive redesign of our health care plans during the year and member's participation in DROP.

Please refer to the MD&A in the Financial Section of this report for additional financial details.

Funding Practices and Actuarial Overview

Funds are derived from the excess of additions over deductions and are accumulated by OP&F in order to meet current and future benefit obligations to retirees and other beneficiaries. Due to recoveries experienced in global equity markets over the past couple years, OP&F experienced an increase in plan net assets in 2004 by approximately $890 million. Health care currently operates on a pay–as–you–go basis with a minimal amount of reserves being held to operate the program.

In 2002, the number of years required to amortize OP&F's unfunded actuarial accrued liability (funding period) was 28 years. Accordingly, OP&F met the statutory requirement for 30 year funding. However, the most recent valuation dated January 1, 2004 showed the actuarial value of liabilities exceeded the actuarial value of assets by $1.4 billion. Accordingly, OP&F's funding period is infinite.

Even though 2003 and 2004 were excellent years for investment returns and the unfunded actuarial accrued liability improved by $364 million, the historic losses of the bear market continue to negatively impact OP&F. It should be noted that the funded ratio (the ratio of actuarial assets to the actuarial accrued liability) is 86.5%, which is an improvement from funding ratio in 2003, which was 82.6%. The current actuarial analysis performed on the health care program projects a solvency period of 10 years.

Investment Policy

OP&F invests all available funds in order to maximize both current income and long–term appreciation.

The primary objective of OP&F's investment policy is to assure that OP&F meets its responsibilities for providing retirement and other benefits. The portfolio is diversified to provide adequate cash flow and to provide the highest possible total return on OP&F's assets with the least exposure to risk. Over the past two years, OP&F's total rate of return on its investment portfolio increased significantly due to the market recoveries from the historical bear market of 2000 through 2002. OP&F's return was 13.3% for 2004 and 24.9% in 2003, which stands in stark contrast to decreases of (9.9%) in 2002, and (3.9%) in 2001. Our most recent rates of return compare favorably to our actuarial rate of return of 8.25%.

Details of portfolio composition, rates of return, analysis of significant economic conditions, and additional information concerning OP&F's investment policy are provided in the Investment Section of this report.

Material Plan Amendments

There were no material plan amendments in 2004. See the "Actuarial Section" for the assumption used within this report.

Independent Audit

Clark, Schaefer, Hackett and Company, independent certified public accountants, audited the financial statements of OP&F for the year ended December 31, 2004, and their opinion thereon is included in the "Financial Section."

Notes to Basic Financial Statements

The notes to basic financial statements, which follow the combining financial statements, contain additional information and are an integral part of such statements.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to OP&F for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2002. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this report reflects the combined efforts of OP&F's staff under the direction of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, to disclose compliance with legal provisions, and as a means of determining responsible stewardship for the assets contributed by the members and their employers.

The cooperation of OP&F's employers is vital to our success and is greatly appreciated.

Respectfully submitted,

William J. Estabrook
Executive Director

Stewart A. Smith, CPA
Chief Financial Officer

Financial Section

ohio Police & Fire Pension Fund

THE OHIO POLICE AND FIRE PENSION FUND
140 East Town Street
Columbus, Ohio 43215
www.op-f.org

Independent Auditor's Report

Clark,Schaefer,Hackett&Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS
www.cshco.com

Independent Auditors' Report

To the Board of Trustees of
Ohio Police and Fire Pension Fund

We have audited the accompanying basic financial statements of Ohio Police and Fire Pension Fund (OP&F) as of and for the years ended December 31, 2004 and 2003, which collectively comprise OP&F's basic financial statements as listed in the table of contents. These financial statements are the responsibility of OP&F's management. 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of OP&F, as of December 31,2004 and 2003, and the respective changes in fiduciary net assets, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described on page 12 of the notes to financial statements, OP&F has implemented for the year ended December 31, 2004, GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2005 on our consideration of OP&F's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

2525 N. Limestone Street, Suite 103, Springfield, OH 45503, 937/399-2000, FAX 937/399-5433
CINCINNATI COLUMBUS DAYTON MIDDLETOWN SPRINGFIELD

The management's discussion and analysis and required supplementary information on pages 4 through 6 and 28 through 29 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America.. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise OP&F's basic financial statements. The introductory section, the schedule of administrative expenses, the schedule of investment expenses, investment section, actuarial section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of administrative expenses and the schedule of investment expenses have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
May 23, 2005

Management's Discussion and Analysis (Unaudited)

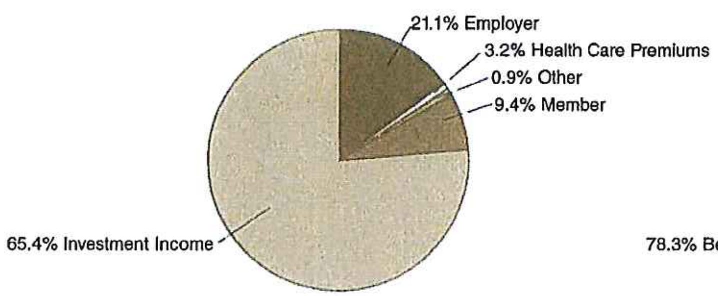
This Management Discussion and Analysis (MD&A) of the Ohio Police & Fire Pension Fund's financial performance provides a narrative overview of financial activities for the fiscal year ended December 31, 2004. The MD&A is designed to focus on the current year's activities, resulting changes, and currently known facts. We encourage you to read it in conjunction with OP&F's financial statements, notes to the financial statements, and the letter of transmittal included in the Introduction section of OP&F's Comprehensive Annual Financial Report.

FINANCIAL HIGHLIGHTS

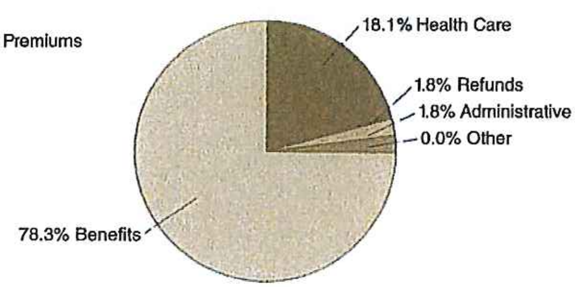
Plan additions are received primarily from employer and member pension contributions and investment income. For fiscal year 2004 these additions totaled $1,761,179,857 and were $2,304,419,675 in 2003, which is a 23.6% decrease. This amount fluctuates dramatically because it includes realized and unrealized investment gains and losses based on domestic and international market performance. The employer and member contribution rates during 2004 remained unchanged from the prior year. Member contributions are 10% for all members, while employer contributions are 19.5% and 24% for police and fire employers, respectively.

Plan deductions are incurred primarily for the purpose for which OP&F was created, the payment of pension and survivor benefits. Included in the deductions from plan net assets for 2004 were benefits for retirement, deferred retirement, disability, health care, and survivor benefits. Also included were contribution refunds, administrative and other expenses. Pension benefits are funded through a combination of member and employer contributions, and investment income. Health care expenses are funded on a pay–as–you–go–basis through a portion of employer contributions, benefit recipient contributions, and investment income. Deductions totaled $871,183,377 in 2004 and were $827,678,380 in 2003, which is a 5.3% increase over 2003.

2004 Plan Additions



2004 Plan Deductions



OVERVIEW OF FINANCIAL STATEMENTS

Following the MD&A are the Combining Financial Statements of Fiduciary Net Assets and the Combining Statements of Changes in Fiduciary Net Assets. OP&F's financial statements are prepared using the accrual basis of accounting and are in compliance with applicable Governmental Accounting Standards Board Statements.

The Combining Statements of Fiduciary Net Assets provides a snap–shot view at year–end for the amount the plan has accumulated in assets to pay for benefits. The Combining Statements of Changes in Fiduciary Net Assets show what has happened to the plan assets during the fiscal year. If net assets increased, then additions were greater than the deductions. If net assets decreased, then additions to the plan were less than the deductions from the plan.

In addition to the combining financial statements and accompanying notes, certain required supplementary information (RSI) is provided. The schedule of funding progress shows on an actuarial basis whether OP&F's ability to pay for benefits is improving or deteriorating over time. Also included in the required supplementary information is a schedule of employer contributions and notes to the required supplementary information. Both schedules provide data over the past six years. Following the RSI are schedules of administrative and investment expenses.

A condensed version of our financial information is being provided as part of this discussion.

CONDENSED FIDUCIARY NET ASSET INFORMATION

(in millions)	2004	2003	2002	2004 Change Amount	2004 Change Percent	2003 Change Amount	2003 Change Percent
Cash and Short–Term Inv.	$ 521.7	$ 517.9	$ 419.2	$ 3.8	0.7%	$ 98.7	23.5%
Total Receivables	201.9	276.1	193.8	(74.2)	(26.9)%	82.3	42.5%
Investments, at fair value	9,413.5	8,549.5	7,196.1	864.0	10.1%	1,353.4	18.8%
Capital Assets, net of depreciation	27.3	26.6	24.6	0.7	2.6%	2.0	8.1%
Other	0.2	0.1	0.4	0.1	100.0%	(0.3)	(75.0)%
Total Assets	**10,164.6**	**9,370.2**	**7,834.1**	**794.4**	**8.5%**	**1,536.1**	**19.6%**
Benefits and Accounts Payable	198.7	103.8	48.8	94.9	91.4%	55.0	112.7%
Investments Payable	158.1	348.6	344.2	(190.5)	(54.6)%	4.4	1.2%
Total Liabilities	**356.8**	**452.4**	**393.0**	**(95.6)**	**(21.1)%**	**59.4**	**15.1%**
NET ASSETS AVAILABLE	**$ 9,807.8**	**$ 8,917.8**	**$ 7,441.1**	**$ 890.0**	**10.0%**	**$ 1,476.7**	**19.8%**

CONDENSED CHANGES IN FIDUCIARY NET ASSET INFORMATION

(in millions)	2004	2003	2002	2004 Change Amount	2004 Change Percent	2003 Change Amount	2003 Change Percent
Contributions	$ 592.5	$ 540.6	$ 523.7	$ 51.9	9.6%	$ 16.9	3.2%
Net Investment Income/(Loss)	1,152.4	1,745.2	(870.4)	(592.8)	(34.0)%	2,615.6	300.5%
Other	16.3	18.6	15.7	(2.3)	(12.4)%	2.9	18.5%
Total Additions	**1,761.2**	**2,304.4**	**(331.0)**	**(543.2)**	**(23.6)%**	**2,635.4**	**796.2%**
Benefits	839.8	793.0	697.1	46.8	5.9%	95.9	13.8%
Refunds	15.3	16.8	16.8	(1.5)	(8.9)%	—	0%
Administration and Other	16.1	17.9	15.9	(1.8)	(10.1)%	2.0	12.6%
Total Deductions	**871.2**	**827.7**	**729.8**	**43.5**	**5.3%**	**97.9**	**13.4%**
Net Increase (Decrease)	**890.0**	**1,476.7**	**(1,060.8)**	**(586.7)**	**(39.7)%**	**2,537.5**	**239.2%**
NET ASSETS, BEGINNING OF YEAR	**8,917.8**	**7,441.1**	**8,501.9**	**1,476.7**	**19.8%**	**(1,060.8)**	**(12.5)%**
NET ASSETS, END OF YEAR	**$ 9,807.8**	**$8,917.8**	**$7,441.1**	**$ 890**	**10.0%**	**$ 1,476.7**	**19.8%**

FINANCIAL ANALYSIS

Fiduciary Net Assets

Net assets available for benefits and expenses in 2004 were $9,807,810,088 versus $8,917,813,608 in 2003, which represents a 10% overall net increase. This increase can be primarily attributed to appreciation on the fair value of investments, and a decrease in investment commitments payable at the end of the year. Please refer to the Investment Section for additional information on our investment activities in 2004.

Revenue Additions to Fiduciary Net Assets

Pension contributions from employers and members increased $13.7 million or 2.7% in 2004 due to the increase in covered payroll, which is the contribution base. The active member population or contributing members actually decreased by 39 to 28,441 while the average annual salary remained relatively flat. As a result, member contributions increased only slightly by .9%.

Contributions paid by members and beneficiaries for their share of the health care costs increased $38.5 million or 223.5% in 2004. This reflects the first full year of implementation of the new health care plan design changes and an increased level of cost sharing associated with this benefit.

Net investment income/appreciation decreased by 34.1% in 2004 over 2003 as the U.S. and international markets found positive territory but not to the same levels as in 2003. Investment net appreciation totaled $993,851,900 in 2004, which represented 35.8% of this decrease and can be directly attributed to the overall 13.29% return on investments experienced on our assets versus the 24.96% return of 2003.

Expense Deductions from Fiduciary Net Assets

Benefit deductions for retirement, deferred retirement, disability and survivors increased $57.1 million or 9.4% in 2004. The majority of the increase is due to our second year DROP offering, which allows active members to begin accruing pension benefits in a separate account. Other increases are due to the increase in the retirees and beneficiaries rolls by 266 or 1.1%, plus a 3% cost of living adjustment for eligible recipients.

Health care benefits decreased in total by 6.1% in 2004 versus a 9.4% increase in 2003. Health care payments totaled $157.8 million in 2004 and represented nearly 18.1% of all plan deductions. The Board of Trustees has made progress to preserve these benefits by addressing the continual rise in health care costs with major changes in the program adopted in 2004. These benefits are not guaranteed or prepaid so cost sharing is required to offset costs.

Refunds to members decreased by 8.9% in 2004. This includes actual refunds of pension contributions and liabilities incurred for inactive members who are non–vested and who have accumulated contributions on deposit with OP&F.

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Combining Statements of Fiduciary Net Assets *as of December 31, 2004 and 2003*

2004

	Pensions	Post–employment Health Care	Death Fund Benefit	2004 Total
ASSETS:				
Cash and Short–term Investments	$ 491,747,305	$ 14,388,362	$ 15,532,874	$ 521,668,541
RECEIVABLES:				
Employers' Contributions	58,115,618	32,339,360	—	90,454,978
Members' Contributions	11,669,666	—	—	11,669,666
Accrued Investment Income	26,542,461	776,624	—	27,319,085
Investment Sales Proceeds	34,620,465	1,012,983	—	35,633,448
Local Funds Receivable	36,844,808	—	—	36,844,808
TOTAL RECEIVABLES	**167,793,018**	**34,128,967**	—	**201,921,985**
INVESTMENTS, AT FAIR VALUE:				
Bonds	1,285,046,396	37,600,028	—	1,322,646,424
Mortgage & Asset Backed Securities	345,591,915	10,111,904	—	355,703,819
Stocks	4,633,772,576	135,582,635	—	4,769,355,211
Real Estate	540,631,011	15,818,683	—	556,449,694
Commercial Mortgage Funds	94,899,417	2,776,725	—	97,676,142
Venture Capital	184,319,141	5,393,116	—	189,712,257
International Securities	2,061,602,173	60,321,790	—	2,121,923,963
TOTAL INVESTMENTS	**9,145,862,629**	**267,604,881**	—	**9,413,467,510**
Collateral on Loaned Securities	1,975,299,672	57,796,607	—	2,033,096,279
CAPITAL ASSETS:				
Land	3,109,031	90,969	—	3,200,000
Building and Improvements	20,585,440	602,323	—	21,187,763
Furniture and Equipment	4,356,845	127,480	—	4,484,325
Computer Software and Hardware	6,370,928	186,411	—	6,557,339
Accumulated Depreciation	(7,857,784)	(229,916)	—	(8,087,700)
Total Capital Assets, Net	26,564,460	777,267	—	27,341,727
Prepaid Expenses and Other	217,979	6,379	—	224,358
TOTAL ASSETS	**11,807,485,063**	**374,702,463**	**15,532,874**	**12,197,720,400**
LIABILITIES:				
Health Care Payable	—	14,028,550	—	14,028,550
Investment Commitments Payable	153,656,185	4,495,929	—	158,152,114
Accrued Administrative Expenses	9,336,563	273,185	—	9,609,748
Death Benefit Fund	—	—	15,532,874	15,532,874
Other Liabilities	11,127,215	325,579	—	11,452,794
DROP Liabilities	143,829,549	4,208,404	—	148,037,953
Obligations Under Securities Lending	1,975,299,671	57,796,608	—	2,033,096,279
TOTAL LIABILITIES	**2,293,249,183**	**81,128,255**	**15,532,874**	**2,389,910,312**
Net assets held in trust for pension and Post–employment health care benefits	**$ 9,514,235,880**	**$ 293,574,208**	—	**$ 9,807,810,088**

(An unaudited schedule of funding progress is presented on page 28.) See Notes to Basic Financial Statements

2003

Pensions	Post–employment Health Care	Death Fund Benefit	2003 Total
$ 490,935,645	$ 12,374,503	$ 14,628,997	$ 517,939,145
55,899,785	30,437,614	—	86,337,399
11,565,635	—	—	11,565,635
28,789,857	725,676	—	29,515,533
108,228,932	2,728,014	—	110,956,946
37,688,676	—	—	37,688,676
242,172,885	**33,891,304**	**—**	**276,064,189**
1,143,738,470	28,829,022	—	1,172,567,492
505,896,567	12,751,608	—	518,648,175
4,113,218,947	103,677,623	—	4,216,896,570
493,900,899	12,449,245	—	506,350,144
110,341,197	2,781,256	—	113,122,453
119,056,321	3,000,929	—	122,057,250
1,853,146,596	46,710,335	—	1,899,856,931
8,339,298,997	**210,200,018**	**—**	**8,549,499,015**
1,558,340,655	39,279,469	—	$1,597,620,124
3,121,324	78,676	—	3,200,000
20,660,193	520,760	—	21,180,953
4,378,465	110,363	—	4,488,828
4,109,116	103,574	—	4,212,690
(6,361,485)	(160,347)	—	(6,521,832)
25,907,613	653,026	—	26,560,639
136,343	3,437	—	139,780
10,656,792,138	**296,401,757**	**14,628,997**	**10,967,822,892**
—	15,683,065	—	15,683,065
339,983,218	8,569,603	—	348,552,821
7,143,566	180,060	—	7,323,626
—	—	14,628,997	14,628,997
9,272,107	233,712	—	9,505,819
55,300,919	1,393,913	—	56,694,832
1,558,340,655	39,279,469	—	1,597,620,124
1,970,040,465	**65,339,822**	**14,628,997**	**2,050,009,284**
$ 8,686,751,673	**$ 231,061,935**	**—**	**$ 8,917,813,608**

Combining Statements of Changes in Fiduciary Net Assets

for the years December 31, 2004 and 2003

2004

	Pensions	Post–employment Health Care	Death Fund Benefit	2004 Total
ADDITIONS:				
FROM CONTRIBUTIONS:				
Employers'	$224,246,896	$125,183,522	—	$349,430,418
Members'	165,948,955	—	—	165,948,955
State of Ohio—Subsidies	2,501,471	—	$ 18,977,176	21,478,647
Health Care	—	55,665,341	—	55,665,341
TOTAL CONTRIBUTIONS	**392,697,322**	**180,848,863**	**18,977,176**	**592,523,361**
FROM INVESTMENT INCOME:				
Net Appreciation (Depreciation) Value of Investments	964,189,258	29,662,642	—	993,851,900
Bond Interest	88,291,038	2,716,215	—	91,007,253
Dividends	63,898,508	1,965,795	—	65,864,303
Real Estate Operating Income, net	17,757,584	546,300	—	18,303,884
Foreign Securities	183,459	5,644	—	189,103
Other Investment Income	6,701,565	206,169	—	6,907,734
Less Investment Expenses	(26,229,644)	(806,937)	—	(27,036,581)
NET INVESTMENT INCOME	**1,114,791,768**	**34,295,828**	—	**1,149,087,596**
FROM SECURITIES LENDING ACTIVITIES:				
Securities Lending Income	29,265,733	900,341	—	30,166,074
Securities Lending Expense, Borrower Rebates	(25,052,271)	(770,716)	—	(25,822,987)
Securities Lending Expense, Management Fees	(1,008,298)	(31,020)	—	(1,039,318)
Total Securities Lending Expense	(26,060,569)	(801,736)	—	(26,862,305)
Net Income from Securities Lending	3,205,164	98,605	—	3,303,769
Interest on Local Funds Receivable	1,579,547	—	—	1,579,547
Other Income	7,364,880	7,320,704	—	14,685,584
TOTAL ADDITIONS	**1,519,638,681**	**222,564,000**	**18,977,176**	**1,761,179,857**
DEDUCTIONS:				
Retirement Benefits	360,015,084	—	—	360,015,084
DROP Benefits	86,462,085	—	—	86,462,085
Disability Benefits	162,151,716	—	—	162,151,716
Health Care Benefits	—	157,839,137	—	157,839,137
Survivor Benefits	54,371,041	—	—	54,371,041
Death Benefit Fund	—	—	18,977,176	18,977,176
Contribution Refunds	15,306,505	—	—	15,306,505
Administrative Expenses	13,637,634	2,212,590	—	15,850,224
Other Expenses	210,409	—	—	210,409
TOTAL DEDUCTIONS	**692,154,474**	**160,051,727**	**18,977,176**	**871,183,377**
Net Increase	827,484,207	62,512,273	—	889,996,480
NET ASSETS HELD IN TRUST FOR PENSION AND POST–EMPLOYMENT HEALTH CARE BENEFITS:				
Balance, Beginning of year	8,686,751,673	231,061,935	—	8,917,813,608
Balance, End of year	**$ 9,514,235,880**	**$ 293,574,208**	—	**$ 9,807,810,088**

(An unaudited schedule of funding progress is presented on page 28.) See Notes to Basic Financial Statements

2003

Pensions	Post–employment Health Care	Death Fund Benefit	2003 Total
$216,639,642	$120,601,889	—	$337,241,531
164,475,228	—	—	164,475,228
2,635,910	—	$ 19,082,750	21,718,660
—	17,207,506	—	17,207,506
383,750,780	**137,809,395**	**19,082,750**	**540,642,925**
1,500,541,998	48,380,419	—	1,548,922,417
120,973,975	3,900,439	—	124,874,414
30,922,919	997,016	—	31,919,935
29,781,454	960,213	—	30,741,667
19,571,763	631,032	—	20,202,795
6,096,884	196,575	—	6,293,459
(19,866,204)	(640,525)	—	(20,506,729)
1,688,022,789	**54,425,169**	—	**1,742,447,958**
19,085,278	615,347	—	19,700,625
(15,504,208)	(499,886)	—	(16,004,094)
(935,399)	(30,159)	—	(965,558)
(16,439,607)	(530,045)	—	(16,969,652)
2,645,671	85,302	—	2,730,973
1,608,548	—	—	1,608,548
13,502,784	3,486,487	—	16,989,271
2,089,530,572	**195,806,353**	**19,082,750**	**2,304,419,675**
350,498,175	—	—	350,498,175
53,736,996	—	—	53,736,996
149,624,796	—	—	149,624,796
—	168,060,654	—	168,060,654
52,018,586	—	—	52,018,586
—	—	19,082,750	19,082,750
16,802,458	—	—	16,802,458
14,502,107	2,169,777	—	16,671,884
1,182,081	—	—	1,182,081
638,365,199	**170,230,431**	**19,082,750**	**827,678,380**
1,451,165,373	25,575,922	—	1,476,741,295
7,235,586,300	205,486,013	—	7,441,072,313
$ 8,686,751,673	**$ 231,061,935**	—	**$ 8,917,813,608**

Notes to Financial Statements *December 31, 2004 and 2003*

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies followed by the Ohio Police & Fire Pension Fund (OP&F).

Basis of Accounting—OP&F's financial statements have been prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred.

New Accounting Pronouncement—In March 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 40: Deposit and Investment Risk Disclosures, which revised the necessary disclosures that address risks related to deposits and investments and amended Statement No. 3: Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements. Statement No. 40 involves required disclosures about:

- Custodial credit risk
- Credit risk
- Concentration of credit risk
- Interest rate risk, and
- Foreign currency risk

Additional disclosures are required regarding investment policies related to disclosed risks, and for investments with fair values that are highly sensitive to interest rate changes. The requirements of Statement No. 40 are effective for financial statements for periods beginning after June 15, 2004. Early adoption is encouraged by the GASB. OP&F has elected to adopt Statement No. 40 effective as of January 1, 2004.

During the year ended December 31, 2003, OP&F adopted the provisions of Governmental Accounting Standards Board Statement No. 39 Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14, Statement No. 41 Budgetary Comparison Schedules—Perspective Differences—an amendment of GASB Statement No. 34 and Statement No. 42 Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. Implementation of these new accounting principals have no effect on these financial statements.

The preparation of the financial statements requires management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the market value of certain investments, carrying amount of capital assets and assets and obligations related to employee and member benefits. Actual results could differ from those estimates.

Reclassifications—Foreign securities investment income contains dividends and interest income related to foreign securities in 2003, and only interest on foreign securities in 2004. Foreign security income related to dividends in 2004 was reclassified to dividends.

Investments—Investment purchases and sales are recorded on a trade date basis. Dividend income is recognized on the dividend date, while interest and rental income are recognized when earned.

Investments are reported at fair value. Short-term investments are valued 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. Mortgages are valued on the basis of future principal payments discounted at prevailing interest rates for similar instruments. The fair value of real estate is based on independent appraisals and internal valuations. Investments that do not have an established market are reported at estimated fair value. Private equity limited partnership interest is based on values established by valuation committees.

Net appreciation is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less the cost of investments purchased, plus sales of investments at fair value. Investment expense consists of administrative expenses directly related to the OP&F's investment operations and a proportional amount of all other administrative expenses allocated based on the ratio of OP&F's investment staff to total OP&F staff.

OP&F has no individual investment that exceeds 5% of net assets available for benefits.

Federal Income Tax Status—OP&F was determined to be exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code.

Property and Equipment—Property and equipment are recorded at cost. Depreciation is computed using the straight–line method over the estimated useful lives of the related assets. The range of estimated useful lives is as follows:

Buildings and improvements:	40 years
Furniture and equipment:	3 to 10 years
Computer software and hardware:	2 to 10 years

Capital Assets	January 1, 2004	Additions	Deductions	December 31, 2004
Land	$ 3,200,000	—	—	$ 3,200,000
Building & Improvements	21,180,953	$ 6,810	—	21,187,763
Furniture & Equipment	4,488,828	—	$ (4,503)	4,484,325
Computer Software & Hardware	4,212,690	2,344,649	—	6,557,339
Total Gross Capital Assets	**33,082,471**	**2,351,459**	**(4,503)**	**35,429,427**
Accumulated Depreciation				
Building & improvements	(2,462,685)	(546,583)	—	(3,009,268)
Furniture & Equipment	(2,806,231)	(465,091)	12,833	(3,258,489)
Computer Software & Hardware	(1,252,916)	(620,238)	53,211	(1,819,943)
Total Accumulated Depreciation	**(6,521,832)**	**(1,631,912)**	**66,044**	**(8,087,700)**
TOTAL CAPITAL ASSETS, NET	**$ 26,560,639**	**$ 719,547**	**$ 61,541**	**$ 27,341,727**

Contributions and Benefits—Employer and member contributions are recorded in the period the related member salaries are earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

DESCRIPTION OF THE SYSTEM

Organization—OP&F is a cost–sharing, multiple–employer public employee retirement system established by Chapter 742 of the Ohio Revised Code (ORC) in 1967 to consolidate the various individual local police and firefighter's relief and pension funds into one statewide plan. OP&F is administered by a nine member Board of Trustees, consisting of four active members, two retired members, and three statutory members, which have changed with the enactment of Senate Bill 133 in September 2004. Each statutory member—one appointed by the Governor, one by the Treasurer of State, and one appointed jointly by the Senate President and Speaker of the House—must have professional investment expertise. OP&F administers pension, disability and health care benefits to qualified participants. In addition, OP&F administers survivor benefits, death benefits and sponsors health care programs for qualified retirees, survivors, spouses, children and dependent parents. OP&F is a separate financial reporting entity in accordance with criteria established by Governmental Accounting Standards Board Statement No. 14. Because OP&F is legally separate, a voting majority of the governing board is not appointed by the State and it is fiscally independent of other state and local governments.

Plan Membership—Employer and member data as of January 1, 2004 and 2003, based on the most recent actuarial valuation, is as follows:

	2004			2003		
Employee Members	**Police**	**Fire**	**Total**	**Police**	**Fire**	**Total**
Retirees and beneficiaries						
currently receiving benefits	13,662	10,474	24,136	13,527	10,396	23,923
Terminated members entitled to						
benefits but not yet receiving them	150	61	211	106	52	158
Total Benefit Members	**13,812**	**10,535**	**24,347**	**13,633**	**10,448**	**24,081**
Current Members:						
Vested	5,374	4,574	9,948	5,201	4,295	9,496
Nonvested	10,372	8,121	18,493	10,723	8,261	18,984
Total Current Members	15,746	12,695	28,441	15,924	12,556	28,480
TOTAL EMPLOYEE MEMBERS	**29,558**	**23,230**	**52,788**	**29,557**	**23,004**	**52,561**
Employer Members						
Municipalities	252	225	477	252	223	475
Townships	0	109	109	0	110	110
Villages	288	29	317	289	29	318
TOTAL EMPLOYER MEMBERS	**540**	**363**	**903**	**541**	**362**	**903**

Benefits—Plan benefits are established under ORC Chapter 742. Members are eligible for normal retirement benefits at age 48 with 25 years of service credit or at age 62 with 15 years of service credit. The normal retirement benefit is equal to 2.5% of annual earnings for each of the first 20 years of service, 2.0% for each of the next 5 years of service and 1.5% for each year of service thereafter. However, this normal retirement benefit is not to exceed 72% of the member's "average annual salary" or "recalculated average salary" as the case may be, for the three 12/consecutive months during which the total "salary" was greatest. With 15 years of service credit, retirement with reduced benefits is available upon reaching age 48, and 25 years from the date the member became a qualified employee in a police or fire department, whichever date is later.

In addition to retirement benefits, OP&F also provides disability, survivor, and death benefits. Disability benefits are available to all members and vary by length of service and type of disability. Statutory survivor benefits are specified dollar amounts paid to eligible survivors, children and dependent parents upon the death of an active member or retiree. A death benefit of $1,000 is payable to the surviving spouse, designated beneficiary, or estate of each deceased or retired member.

An eligible spouse or dependent of a member whose death resulted from being killed in the line of duty or who dies from injuries or disease incurred in the performance of official duties as a police officer or firefighter is entitled to receive the member's full monthly salary, which will be reduced at the member's retirement eligibility date. The dependent's benefit will be terminated at the dependent's attainment of age 18 (or 23 if attending school). The spouse's benefit is a lifetime benefit. These death benefit payments are in addition to any optional payment plan benefits elected by the member. Funding for death benefits is received from the State of Ohio.

Deferred Retirement Option Plan (DROP)—Effective January 2003, the Deferred Retirement Option Plan (DROP) is an optional benefit that allows eligible police officers and firefighters to accumulate a lump sum of money for retirement, subject to the member meeting certain criteria. OP&F is proud to offer this benefit to its membership, which has been the most requested addition to OP&F's benefit offerings in many years.

OP&F members who are eligible for a normal service retirement (48 years of age or older with 25 years or more of service credit) can enter the DROP program by delaying retirement and continuing to work as police officers or firefighters. Upon the DROP effective date, a member's pension is calculated as if that were the date of retirement. While the member continues to work and draw their normal salary, the amount they would have received in retirement benefits, plus annual 3% cost–of–living adjustments (COLAs), accumulate tax–deferred at OP&F on their behalf. As the DROP participant continues to work, a portion of their OP&F member contribution, plus 5% interest, also accumulates into DROP.

When members end their active employment and retire, which terminates their DROP participation, they begin to receive their monthly pension that was determined on their DROP effective date (plus COLAs) and will be eligible for health care benefits based on the eligibility guidelines in place at the time of their retirement. Members can begin to withdraw funds from their DROP accrual in a lump–sum payment or installments, as long as three full years have elapsed from their DROP effective date. To receive the benefit of DROP, members must work at least three more years in an OP&F–covered position and they must terminate employment and retire within eight years.

Health Care—OP&F sponsors a comprehensive health care program for eligible benefit recipients and their eligible dependents. This program is not guaranteed and the benefits are subject to change at any time upon action of the Board of Trustees. The program includes prescription drugs and reimbursement of Medicare Part B premiums. Benefit recipients pay a portion of the health care cost through a monthly contribution.

Under Ohio law, medical costs paid from the funds of the plan are included in the employer contribution rates, which are currently 19.5% and 24% of salaries for police and fire employers, respectively. The Board of Trustees allocated employer contributions equal to 7.75% of annual covered payroll to the Health Care Stabilization Fund within the Pension Reserve Fund for 2004 and 2003.

Refunds—Upon termination of employment, members may withdraw accumulated contributions to OP&F. Acceptance of a refund cancels the member's rights and benefits in OP&F. Employer contributions to OP&F are not refundable.

CONTRIBUTIONS AND RESERVES

Contributions—The ORC requires contributions by active employers and their members. The contribution requirement was not actuarially determined, but rather established by law in the ORC. Contribution rates are, however, subject to annual review by the Ohio Retirement Study Council. Additionally, an actuary is used to determine the actuarial implications of the requirement. The adequacy of contribution rates is determined annually using the entry age normal with frozen initial liability actuarial cost method.

Rates established by the ORC at December 31, 2004 and 2003:

	Police	Fire
(% of active member payroll)		
Employer	19.50	24.00
Member	10.00	10.00
TOTAL STATUTORY RATE	**29.50**	**34.00**

Senate Bill 82 established the length of the amortization period for unfunded pension liability as the primary measure of OP&F's financial status, with a period of 30 years or less being considered satisfactory. This 30–year target is to be attained by the year 2007 and maintained thereafter. As of January 1, 2004, the amortization period under the current statutory rates is infinite.

Combined employer and member contributions as a percentage of the total active member payroll required and made for 2004 and 2003 represented 29.50% for police and 34.00% for firefighters. Employer and member contributions were $173,622,144 and $90,731,062 respectively, for police and $175,808,274 and $75,217,893, respectively, for firefighters for the year ended December 31, 2004. Employer and member contributions were approximately $168,254,881 and $91,475,139, respectively, for police and $168,986,650 and $73,000,089, respectively, for firefighters for the year ended December 31, 2003.

In accordance with the ORC, the State of Ohio is required to contribute additional amounts to finance the cost of certain state–legislated benefit improvements. The total amount contributed by the State of Ohio was $2,501,471 and $2,635,910 for the years ended December 31, 2004 and 2003, respectively.

Local Funds Receivable—Local governments are required by state statute to pay the unfunded portion of the actuarially determined liability of the local police and firefighter's relief and pension funds that were merged to form OP&F in 1967. The ORC designates this obligation of the local governments the "Employers' Accrued Liability." Interest on the outstanding balance is being accrued at a rate of 4.25%, compounded semiannually. Local governments began repayment in 1969 and payments are required to be made until 2035. Between 1969 and 1973, payments of principal and interest were received at incremental semiannual rates ranging from 1% to 2% of the original receivable balance. Between 1973 and 2035, semiannual payments of principal and interest are required to be made by the local governments at a rate of 2.5% of the original receivable balance. The underpaid balance due at December 31, 2004 and 2003, respectively, includes $260,614 and $263,112 due from local governments which had previously underpaid their semiannual payment and from local governments that joined OP&F subsequent to 1967 according to a 20–year payment plan.

The following is a summary of the amounts due on the local funds receivable:

Year ending December 31, 2005	$ 2,198,028
Year ending December 31, 2006	2,198,028
Year ending December 31, 2007	2,198,028
Year ending December 31, 2008	2,187,054
Year ending December 31, 2009	2,167,826
Thereafter	54,644,214
Total projected payments	**65,593,178**
Less interest portion	28,748,370
BALANCE AT DECEMBER 31, 2004	**$ 36,844,808**

Reserves—As required by the ORC, the following accounts have been established for the reserves held for current and future benefits and are separated between police and fire:

The Police Officers' and Firefighters' Contribution Fund accumulates the contributions deducted from the salaries of members. Upon retirement, a member's accumulated contributions are transferred to the Police Officers' or Firefighters' Pension Reserve Fund.

The Police Officer and Firefighter Employers' Contribution Fund is the depository for employer contributions. Based on actuarial valuations, amounts are transferred from this account to the Police Officers' and Firefighters' Pension Reserve Fund.

The Police Officers' and Firefighters' Pension Reserve Fund is the accounts from which all retirement, disability, health care and survivor benefits are paid. Included in this Fund is the Health Care Stabilization Fund from which payments for health care benefits are made. Amounts are transferred into the Pension Reserve Fund from the Contribution Fund and the Guarantee Fund.

The Guarantee Fund records all investment earnings of OP&F. In addition, contributions from the State of Ohio, exclusive of death benefit contributions, are recorded in this fund. Annually, investment earnings are transferred to the Pension Reserve Funds and the Expense Fund.

The Expense Fund is used to record all expenses for the administration and management of OP&F. Annually, funds are transferred from the Guarantee Fund to cover expenses incurred.

Net assets available for benefits for the various funds were as follows:

	2004	2003
Members' Contribution	$ 1,532,127,004	$ 1,431,523,680
Employers' Contribution	2,437,476,084	1,785,279,928
Pension Reserve	5,838,207,000	5,701,010,000
TOTAL	**$ 9,807,810,088**	**$ 8,917,813,608**

CASH AND INVESTMENTS

Custodial Credit Risk—The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a system will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the failure of the counterparty to a transaction, a system will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

In accordance with Ohio Revised Code 135.18 and 135.181, OP&F requires that demand deposit accounts be fully collateralized with U.S.Treasuries at 102% of the value of the cash. OP&F's domestic custodial bank collateralizes the demand deposit accounts for all Ohio pension funds, under its custody, in one pool and held in its name with rights to the Treasurer of the State of Ohio. OP&F's policy is to adhere to this statutory guideline for the domestic deposit accounts. The international custodial bank is allowed to hold cash in foreign local banks for immediate settlement of pending trade transactions. The cash held in these foreign local banks are not collaterized. Excess cash received in OP&F's trust accounts is invested in a Short Term Investment. All OP&F's domestic Depository Trust Company and Fed–eligible securities are held in the custodial bank's nominee name for the benefit of OP&F. The custodial bank provides book entry accounting for OP&F's real estate and private equity assets.

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ohio Revised Code section 742.11(A) provides that: "the board and other fiduciaries shall discharge their duties with respect to OP&F solely in the interest of the participants and beneficiaries." These duties shall be carried out "with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and like aims."

Core Fixed Income—OP&F has three core fixed income portfolios, all managed externally, which contain government, mortgage and asset–backed securities and corporate bonds. These external managers invest in securities based on guidelines provided by the OP&F Board of Trustees. It is the policy of OP&F that securities in the core fixed income portfolio shall be rated BBB– or better by two standard rating services at the time of purchase. OP&F allows its investment managers to purchase securities that are "not rated" as long as they deem these securities to be at least equivalent to the minimum ratings.

- Government instruments include those issued by the U.S. Treasury as well as fixed income instruments, other than mortgage–backed securities, of an agency or instrumentality of the United States government.
- Mortgage–backed instruments include collateralized mortgage obligations and real estate mortgage investment conduits (REMICs), whose payment of principal and interest is insured by the full faith and credit of the United States government, or an agency or instrumentality thereof. Also included in this category are GNMA project loans, pools and participation certificates, FNMA and FHLMC.
- Corporate bonds consist of debt instruments issued by domestic corporations or U.S. dollar–denominated debt issued by foreign entities and managed by a U.S. based investment manager.

High Yield Fixed Income—OP&F has three high yield fixed income portfolios, all managed externally. The high yield bond asset class consists of the portion of the U.S. corporate bond market that is rated below BBB– by S&P or below Baa3 by Moody's. Accordingly, credit risks associated with these bonds are greater than with core fixed income bonds. OP&F's policy is to invest in high yield bonds issued by U.S. Corporations with a minimum credit rating of CCC or equivalent. OP&F allows its investment managers to purchase securities that are "not rated" as long as they deem these securities to be at least equivalent to the minimum ratings.

The following tables show ratings by asset class in OP&F's fixed income portfolio as of December 31, 2004 and 2003:

RATINGS BY ASSET CLASS—2004

Moody's / S&P Rating	A3/A– and Above	Baa3/BBB– to A3/A–	B3/B– to Baa3/BBB–	C/C to B3/B–	Full Faith & Credit	Not Rated	Grand Total
Corporate Bond Obligations	$ 175,393,108	$ 83,617,852	$ 412,502,174	$ 56,894,750	—	$ 23,930,833	$ 752,338,717
Mortgage and Asset–Backed Securities	324,245,076	—	—	—	$ 31,458,743	—	355,703,819
U.S.Government Agencies	41,007,377	—	—	—	—	—	41,007,377
U.S.Government Treasury STRIPS	14,142,330	—	—	—	5,518,144	—	19,660,474
U.S.Government Treasury Notes	5,174,810	—	—	—	504,465,046	—	509,639,856
GRAND TOTAL	**$ 559,962,701**	**$ 83,617,852**	**$ 412,502,174**	**$ 56,894,750**	**$ 541,441,933**	**$ 23,930,833**	**$ 1,678,350,243**

RATINGS BY ASSET CLASS—2003

Moody's / S&P Rating	A3/A– and Above	Baa3/BBB– to A3/A–	B3/B– to Baa3/BBB–	C/C to B3/B–	Full Faith & Credit	Not Rated	Grand Total
Corporate Bond Obligations	$ 155,680,919	$ 98,514,116	$ 452,666,015	$ 48,397,648	—	$ 35,129,147	$ 790,387,845
Mortgage and Asset–Backed Securities	328,672,554	73,732,965	3,989,096	10,615,010	$ 101,638,550	—	518,648,175
U.S.Government Agencies	13,822,754	—	—	—	2,111,210	—	15,933,964
U.S.Government Treasury STRIPS	—	—	—	—	3,436,080	—	3,436,080
U.S.Government Treasury Notes	—	—	—	—	362,809,603	—	362,809,603
GRAND TOTAL	**$ 498,176,227**	**$ 172,247,081**	**$ 456,655,111**	**$ 59,012,658**	**$ 469,995,443**	**$ 35,129,147**	**$ 1,691,215,667**

Short-Term Investments—The short-term investment portfolio consists of commercial paper. At the time of purchase, the commercial paper must be rated within the two highest classifications established by two standard rating services. However, it is possible that after the purchase the ratings could change. The security with the A3/P2 rating, in the table below, was rated within the two highest classifications at the time of purchase but it was downgraded at year-end. The following table lists the ratings as of December 31, 2004 and 2003:

S&P/Moody's Rating	Fair Value 2004	% 2004	Fair Value 2003	% 2003
AI/PI	$ 156,997,877	33.65	$ 68,704,660	14.44
AI/P2	45,857,367	9.83	75,686,538	15.90
A2/P2	249,332,617	53.44	331,515,997	69.66
A3/P2	14,357,894	3.08	—	—
GRAND TOTAL	**$ 466,545,755**	**100.00**	**$ 475,907,195**	**100.00**

Convertible Bonds—OP&F allows its active international investment managers to hold 7% to 15% of their entire portfolio in convertible bonds with no minimum credit rating specified. These percentages vary by manager depending on their investment style and OP&F's overall investment objectives. For the periods ending December 31, 2004 and 2003 OP&F held two international convertible bonds. The following table lists the ratings for the two periods:

S&P/Moody's Rating	Fair Value 2004	% 2004	Fair Value 2003	% 2003
BBB+ / AI	$ 491,812	10.48	$ 451,191	14.64
Not rated	4,198,302	89.52	2,631,333	85.36
GRAND TOTAL	**$ 4,690,114**	**100.00**	**$ 3,082,524**	**100.00**

INTEREST RATE RISK

Collateralized Mortgage Obligation

During 2003, OP&F held two interest-only bonds, collateralized by residential and manufactured homes, that had a total fair value of $ 8,140,262. In 2004, OP&F held one interest-only bond that was secured by credit card receivables with a fair value of $762,338. These securities are based on cash flows from interest payments on underlying loans. Therefore, they are sensitive to prepayments by the debtor, which may result from a decline in interest rates.

In general, mortgage-backed securities entitle their holds to receive both principal and interest payments from the payments made by the borrowers of the underlying mortgages over the lives of those loans. The life of the mortgage that underlies a mortgage-backed security can be shortened by several economic events, including borrower refinancing. When interest rates fall and remain very low a growing number of borrowers will refinance their existing loans causing mortgage-backed security holder to be repaid more quickly than anticipated. This early repayment is a form of market risk assumed by OP&F and other owners of mortgage-backed securities.

To the contrary, when interest rates begin to rise, the refinancing of existing mortgages begins to slow. If the rates remain high for long periods of time, fewer borrowers refinance their mortgages. This causes mortgage-backed security holders to be repaid over longer periods of time. This prolonged repayment is known as extension risk and is another form of market risk assumed by OP&F and other owners of mortgage-backed securities.

Variable Rate Securities

OP&F's core fixed income and high yield managers are permitted to hold variable–rate coupons whose rates may vary directly or inversely with changes in a related interest rate. As of December 31, 2004 and 2003 OP&F did not hold any securities with such variable–rate coupons.

Duration is a measure of a fixed income security's cash flows using present values, weighted for cash flows as a percentage of the investment's full price. The duration measurement used is "effective duration" and is provided for each Core fixed income portfolio and for the composite of all portfolios. All Core fixed income managers are given a range of permissible durations around the duration of their benchmark index. Since portfolio level duration is the best measure of interest rate risk, OP&F does not require our managers to measure or report on the duration of each security sector. OP&F does not measure the duration of our high yield portfolios because interest rate risk is a very small part of the total risk of high yield securities. The major risks are credit risk and interest rate spread risk. The following table lists the effective duration for OP&F's fixed income portfolio as of December 31, 2004 and 2003:

Investment Type	Fair Value 2004	Effective Duration 2004	Fair Value 2003	Effective Duration 2003
U.S.Government Obligations	$ 507,155,098	6.04	$ 360,261,240	7.55
U.S.Government STRIPS	19,660,474	7.07	3,436,080	8.29
U.S.Government Agencies	41,007,377	3.28	15,933,964	3.66
Mortgage and Asset–Backed Securities	355,703,819	3.38	518,648,175	2.38
Corporate Bonds Obligations	252,507,938	4.74	252,878,840	4.95
TOTAL PORTFOLIO EFFECTIVE DURATION	**$ 1,176,034,706**	**4.88**	**$ 1,151,158,299**	**5.37**

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. OP&F does not permit more than 10% of the core fixed income portfolio to be invested in the securities of any one issuer, and no more than 5% in any one issue on a dollar duration basis, with the exception of United States Government or Agency securities. For the high yield portfolio, no more than 10% of the entire portfolio at market shall be invested in securities of a single issue or issuer, unless otherwise approved by the Board of Trustees. At December 31, 2004 and 2003, OP&F did not hold investments in any one issuer that represented 5% or more of the fiduciary net assets.

SECURITIES LENDING

The following represents the balances relating to the securities lending transactions at December 31, 2004 and 2003:

SECURITIES LENT AS OF DECEMBER 31, 2004

Securities Lent	Underlying Security	Collateral Received	Collateral Fair Value	Type of Collateral
U.S.Government and Treasuries	$ 673,512,258	$ 686,123,458	$ 686,123,458	Cash
Domestic Corporate Fixed Income	260,969,913	266,975,188	266,975,188	Cash
Domestic Equities	1,011,686,502	1,045,773,640	1,045,773,640	Cash
International Equities	32,969,531	34,223,993	34,223,993	Cash
TOTAL SECURITIES LENT	**$ 1,979,138,204**	**$ 2,033,096,279**	**$ 2,033,096,279**	

SECURITIES LENT AS OF DECEMBER 31, 2003

Securities Lent	Underlying Security	Collateral Received	Collateral Fair Value	Type of Collateral
U.S.Government and Treasuries	$ 400,736,191	$ 410,271,690	$ 410,271,690	Cash
Domestic Corporate Fixed Income	215,625,865	220,336,561	220,336,561	Cash
Domestic Equities	874,192,170	897,696,568	897,696,568	Cash
International Equities	54,855,964	57,315,700	57,315,700	Cash
International Equities	11,330,946	11,999,605	11,999,605	Int'l Equities
TOTAL SECURITIES LENT	**$ 1,556,741,136**	**$ 1,597,620,124**	**$ 1,597,620,124**	

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. OP&F 's target allocation for international equity is 20% of the total investment assets with 17% in developed markets and 3% in emerging markets. Cash equivalents are limited to no more than 5% of the portfolio's market value. Cash or cash equivalents shall be invested in the OP&F custodian's STIF account, except for local non–U.S.currencies held pending settlement of transactions. For the years ending December 31, 2004 and 2003, OP&F 's exposure to foreign currency risk is as follows:

2004 EXPOSURE TO FOREIGN CURRENCY RISK

Currency	Maturity Date	Fair Value Cash Deposits	Fair Value Common Stock	Fair Value Bonds	Total Fair Value Cash Deposits and Securities
Argentina Peso	Not Applicable	—	$ 1,135,919	—	$ 1,135,919
Australian Dollar	Not Applicable	$ 71,231	29,273,067	—	29,344,298
Brazilian Real	Not Applicable	344,818	22,677,619	—	23,022,437
Canadian Dollar	Not Applicable	4,895	23,863,966	—	23,868,861
Swiss Franc	12/23/2005	1,216,457	—	$ 491,812	1,708,269
Swiss Franc	Not Applicable	—	99,232,213	—	99,232,213
Chilean Peso	Not Applicable	4,287	418,827	—	423,114
Czech Koruna	Not Applicable	—	2,464,463	—	2,464,463
Danish Kroner	Not Applicable	4,495	7,510,269	—	7,514,764
Euro	Not Applicable	6,701,296	414,371,791	—	421,073,087
British Pound	Not Applicable	1,316,926	269,936,837	—	271,253,763
Hong Kong Dollar	Not Applicable	201,316	37,854,690	—	38,056,006
Hungarian Forint	Not Applicable	—	3,432,218	—	3,432,218
Indonesian Rupiah	Not Applicable	317,813	2,271,506	—	2,589,319
Israeli Shekel	Not Applicable	—	3,810,664	—	3,810,664
Indian Rupee	Not Applicable	1,225,736	4,652,746	—	5,878,482
Japanese Yen	7/11/2005	781,408	—	4,198,302	4,979,710
Japanese Yen	Not Applicable	—	223,658,099	—	223,658,099
South Korean Won	Not Applicable	72	30,134,652	—	30,134,724
Mexican Peso	Not Applicable	—	10,261,947	—	10,261,947
Malaysian Ringgit	Not Applicable	123,308	11,448,956	—	11,572,264
Norwegian Krone	Not Applicable	123,046	12,963,509	—	13,086,555
New Zealand Dollar	Not Applicable	209	8,690,359	—	8,690,568
Philippine Peso	Not Applicable	—	2,570,484	—	2,570,484
Polish Zloty	Not Applicable	—	1,292,221	—	1,292,221
Swedish Krona	Not Applicable	241,077	27,082,914	—	27,323,991
Singapore Dollar	Not Applicable	19,608	13,029,485	—	13,049,093
Thailand Baht	Not Applicable	45,130	5,125,318	—	5,170,448
Turkish Lira	Not Applicable	—	5,449,442	—	5,449,442
Taiwanese New Dollar	Not Applicable	203,979	22,642,522	—	22,846,501
South African Rand	Not Applicable	40	33,447,457	—	33,447,497
TOTAL		**$12,947,147**	**$ 1,330,704,160**	**$ 4,690,114**	**$ 1,348,341,421**

2003 EXPOSURE TO FOREIGN CURRENCY RISK

Currency	Maturity Date	Fair Value Cash Deposits	Fair Value Common Stock	Fair Value Bonds	Total Fair Value Cash Deposits and Securities
Argentina Peso	Not Applicable	$ 455,757	$ 880,501	—	$ 1,336,258
Australian Dollar	Not Applicable	58,016	24,537,322	—	24,595,338
Brazilian Real	Not Applicable	(116,722)	19,630,272	—	19,513,550
Canadian Dollar	Not Applicable	317	23,667,728	—	23,668,045
Swiss Franc	12/23/2005	—	—	$ 451,191	451,191
Swiss Franc	Not Applicable	—	78,365,436	—	78,365,436
Chilean Peso	Not Applicable	1,651,297	549,568	—	2,200,865
Czech Koruna	Not Applicable	—	1,166,262	—	1,166,262
Danish Kroner	Not Applicable	—	6,093,543	—	6,093,543
Euro	Not Applicable	4,393,644	341,289,193	—	345,682,837
Egyptian Pound	Not Applicable	559	—	—	559
British Pound	Not Applicable	7,281,743	228,252,208	—	235,533,951
Hong Kong Dollar	Not Applicable	—	34,393,645	—	34,393,645
Hungarian Forint	Not Applicable	—	1,328,951	—	1,328,951
Indonesian Rupiah	Not Applicable	—	2,506,708	—	2,506,708
Israeli Shekel	Not Applicable	(594,142)	1,359,268	—	765,126
Indian Rupee	Not Applicable	(18,283)	5,691,563	—	5,673,280
Japanese Yen	7/11/2005	—	—	2,631,333	2,631,333
Japanese Yen	Not Applicable	803,040	182,276,845	—	183,079,885
South Korean Won	Not Applicable	3	22,827,222	—	22,827,225
Mexican Peso	Not Applicable	—	7,234,099	—	7,234,099
Malaysian Ringgit	Not Applicable	—	3,800,393	—	3,800,393
Norwegian Krone	Not Applicable	—	18,218,880	—	18,218,880
New Zealand Dollar	Not Applicable	—	5,772,974	—	5,772,974
Philippine Peso	Not Applicable	—	515,618	—	515,618
Polish Zloty	Not Applicable	—	557,808	—	557,808
Swedish Krona	Not Applicable	53	29,047,323	—	29,047,376
Singapore Dollar	Not Applicable	75	12,698,055	—	12,698,130
Thailand Baht	Not Applicable	—	16,635,142	—	16,635,142
Turkish Lira	Not Applicable	—	2,031,810	—	2,031,810
New Taiwanese Dollar	Not Applicable	793,772	25,570,305	—	26,364,077
South African Rand	Not Applicable	34,397	21,847,709	—	21,882,106
TOTAL		**$ 14,743,526**	**$ 1,118,746,351**	**$ 3,082,524**	**$ 1,136,572,401**

Investments—Section 742.11 of the Ohio Revised Code grants the Board of Trustees full power to invest the assets of OP&F. This statute requires that investments be made with care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like nature and with like aims.

A summary of short-term securities and investments at fair value is as follows:

	2004	2003
Commercial paper	$ 466,545,755	$ 475,907,195
U.S. government bonds	529,300,330	362,971,029
Corporate bonds and obligations	793,346,094	809,596,463
Mortgage & asset backed obligations	355,703,819	518,648,175
Domestic stocks	2,568,569,700	2,627,640,670
Domestic pooled stocks	2,200,785,511	1,589,255,900
International securities	2,121,923,963	1,899,856,931
Real estate	556,449,694	506,350,144
Commercial mortgage funds	97,676,142	113,122,453
Venture capital	189,712,257	122,057,250
TOTAL	**$ 9,880,013,265**	**$ 9,025,406,210**

Commercial paper is included in cash and short-term investments on the Combining Statements of Fiduciary Net Assets.

Securities Lending—OP&F participates in domestic and international securities lending programs, as authorized by the Board of Trustees. Securities are loaned to investment brokers/dealers (borrower). Securities loaned are collateralized by the borrower at 102% of the domestic and 105% of the international loaned securities' fair value. OP&F has minimized its exposure to credit risk due to borrower default by having the lending agent bank determine daily that required collateral meets the specified collateral requirements. There are no restrictions on the amount of the securities that can be loaned. Contracts with lending agents require them to indemnify OP&F if the borrowers fail to return the securities or fail to pay OP&F for income distributions by the securities' issues while the securities are on loan. All securities loans can be terminated on demand and the maturities of the investments made with an acceptable form of collateral generally match the maturities of the securities loans.

OP&F has not experienced any losses due to credit or market risk on securities lending activity since implementation of the program. OP&F does have the ability to pledge or sell collateral securities absent a borrower default.

The fair value of the loaned securities totaled $1,979,138,204 and $1,556,741,136 at December 31, 2004 and 2003, respectively. The fair value of the associated collateral received as of December 31, 2004 and 2003, totaled $2,033,096,279 and $1,597,620,124, respectively and the net income for the same time periods totaled $3,303,769 and $2,730,973, respectively.

Derivatives—OP&F invested in Planned Amortization Class and Sequential Pay Real Estate Mortgage Investment Conduit bonds issued by GNMA, FHLMC and FNMA. Planned Amortization Class bonds are retired according to a payment schedule so as to have a stable average life and yield even if expected prepayment rates change within a specified broad range of prepayment possibilities. Sequential Pay bonds begin to pay principal when classes with an earlier priority have paid to a zero balance. Such bonds enjoy uninterrupted payment of principal until paid to a zero balance. In terms of credit risk, the United States government explicitly backs GNMA mortgage securities programs and implicitly backs FHLMC and FNMA mortgage securities programs. OP&F has not violated any legal, regulatory, or contractual provisions by such participation and there is no undue credit, market, or legal risk. These securities were purchased in order to enhance OP&F's overall total rate of return.

OP&F also has invested in one commingled EAFE (Europe, Australia, Far East) and one commingled S&P 500 index fund. Those funds to a minor extent utilized futures contracts to maintain a fully invested posture and also utilized certain derivative money market instruments in their short–term investment funds. OP&F's exposure represented less than 1% of the total portfolio market value at year–end. OP&F has not violated any legal, regulatory, or contractual provisions by such participation and there is no undue credit, market, or legal risk.

MORTGAGE NOTES PAYABLE

OP&F has undertaken mortgage loans collateralized by real estate properties for the purchase of the secured properties. The balances of these notes are included in the investment commitments payable on the statements of plan net assets. The details for the various notes are as follows:

Secured Property	Inception Date	Maturity Date	Interest Rate	Original Balance	Dec. 31, 2004 Balance	Dec. 31, 2003 Balance
The Loop	Apr 16, 2002	May 11, 2032	6.41%	$ 27,250,000	$ 26,404,138	$ 26,693,257
Tower Place	Dec 22, 2000	Jul 01, 2009	8.05%	25,625,000	23,731,880	24,263,545
St. Andrews	Oct 29, 1998	Dec 01, 2006	7.91%	16,152,000	14,692,000	14,974,000
Vista Ridge	Nov 16, 1995	Dec 01, 2005	7.80%	15,145,000	13,146,000	13,531,000
Remington	May 24, 2002	Jun 01, 2009	6.25%	9,200,000	9,154,654	9,164,805
Frazee Road	Mar 29, 1999	Apr 01, 2009	6.75%	9,100,000	8,981,986	9,061,203
Oak Brook	Jun 15, 1997	Jun 15, 2007	6.40%	10,500,000	8,981,716	9,243,053
St. Andrews	Nov 12, 1998	Dec 01, 2006	6.50%	5,000,000	5,000,000	5,000,000
TOTAL				**$ 117,972,000**	**$ 110,092,374**	**$ 111,930,863**

As of December 31, 2004, scheduled annual principal payments on the mortgage loans are as follows:

Year ending December 31, 2005	$ 14,825,000
Year ending December 31, 2006	20,847,000
Year ending December 31, 2007	9,644,000
Year ending December 31, 2008	1,323,000
Year ending December 31, 2009	30,957,000
Thereafter	32,496,374
TOTAL PAYMENTS	**$ 110,092,374**

A roll–forward of the mortgage notes payable is as follows:

Balance at December 31, 2003	$ 112,181,267
Additional debt assumed	—
Principal payments made	(2,088,893)
BALANCE AT DECEMBER 31, 2004	**$ 110,092,374**

DEFINED BENEFIT PENSION PLAN

OP&F contributes to the Ohio Public Employees Retirement System of Ohio (OPERS), a cost–sharing, multiple–employer plan for all staff. OPERS administers three separate pension plans, provides retirement and disability benefits, annual cost–of–living adjustments and death benefits to plan members and qualified beneficiaries. Benefit provisions and contribution requirements are established by the Ohio legislature and are codified in Chapter 145 of the Ohio Revised Code. OPERS issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215–4642 or by calling (614) 466–2085 or 1–800–222–7377.

Plan members are required to contribute 8.5% of their annual covered salary, while employers are required to contribute 13.55%. OP&F's contributions to OPERS for the years ending December 31, 2004, 2003 and 2002 were $1,300,742, $1,186,569 and $1,074,938, respectively, equal to the required contributions for each year.

OTHER POST–EMPLOYMENT BENEFITS

In addition to the pension benefits, OPERS provides post–retirement health care coverage to qualifying members based on years of service at retirement. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by OPERS is considered an Other Post–employment Benefit (OPEB), as described in GASB Statement No. 12. At December 31, 2004, the plan had 369,885 active participants.

A portion of each employer's contribution to OPERS is set aside for the funding of post–retirement health care. The 2004 employer rate was 13.55% of covered payroll, of which 4.0% was the portion used to fund health care for the year. For the year ended December 31, 2004, approximately $383,979 of employer contributions OP&F made to OPERS was the portion used to fund health care.

The Ohio Revised Code provides statutory authority requiring public employers to contribute to the post–retirement health care through their contributions to OPERS.

The actuarial value of OPERS net assets available for OPEB at December 31, 2003 were $10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $26.9 billion and $16.4 billion, respectively.

The actuarial present value of accrued post–employment benefits was determined based on the entry age normal method of funding. Significant actuarial assumptions based on OPERS latest Actuarial Review performed as of December 31, 2003 and are as follows: an investment rate of return of 8.0%, investments valued at market value, adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets, no change in the number of active members, base pay rate increases of 4.0% and annual pay increases over and above the 4.0% base increase ranging from .50% to 6.30% and health care costs assume an increase of 4.0% annually.

Commitments and Contingencies

OP&F is a defendant in a number of lawsuits pertaining to matters that are incidental to performing routine business functions. OP&F management is of the opinion that ultimate resolution of such claims will not result in a material, adverse effect on OP&F's financial position as of December 31, 2004.

OP&F is committed to making additional capital contributions of $250,061,891 towards our private equity program. Our private equity program had $189,712,257 and $121,974,666 in fair value at December 31, 2004 and 2003, respectively.

State of Ohio Death Benefit Fund

Pursuant to ORC Section 742.62, the Board of Trustees of the Ohio Police & Fire Pension Fund administers the State of Ohio Public Safety Officers Death Benefit Fund. This program was established by the State of Ohio to provide monthly benefit payments to surviving family members of Ohio firefighters and law enforcement officers who have been killed in the line of duty or die of a duty–related accident or illness. Funds are disbursed to OP&F each State fiscal year (July 1–June 30) and are paid monthly by OP&F to eligible recipients. The unused balance at June 30 is returned to the State. The Death Benefit Fund is considered to be an agency fund administered by the Ohio Police & Fire Pension Fund and, accordingly, its assets of $15,532,874 and $14,628,997 and the related liability for unpaid benefits are included in the accompanying financial statements as of December 31, 2004 and 2003, respectively.

Additional Disclosures

The Ohio Ethics Commission and the Franklin County Prosecutor's Office each have on–going investigations regarding the activities of former Board of Trustees members and specific staff members of the Ohio Police & Fire Pension Fund (OP&F). OP&F management believes the Ethics Commission investigation is focusing on the lack of disclosures made by staff members, as required by the Ohio Revised Code. It is also management's belief that the Franklin County Prosecutor's Office investigation focuses on the actions of former Board members in the evaluation and retainment process relating to the performance of outside investment managers hired by OP&F. While the results of these investigations are not known as of the date of the audit report, management does not believe the outcome of either investigation will have a material effect on the organization's financial statements taken as a whole.

Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS

Valuation Year	Valuation Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as Percentage of Active Member Payroll
1998	7,306,814,000	8,452,622,000	1,145,808,000	86.44%	1,249,114,000	91.73%
1999	7,988,578,000	8,995,564,000	1,006,986,000	88.81%	1,338,514,000	75.23%
2000	8,498,069,000	9,506,283,000	1,008,214,000	89.39%	1,407,542,000	71.63%
2001	9,076,469,000	9,785,766,000	709,297,000	92.75%	1,534,336,000	46.23%
2002	8,682,704,000	10,508,367,000	1,825,663,000	82.63%	1,606,274,000	113.66%
2003	9,337,103,000	10,798,378,000	1,461,275,000	86.47%	1,644,399,000	88.86%

The amounts reported in this schedule do not include assets or liabilities for post–employment health care benefits.

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

	Annual Required Contributions *	Percentage Contributed
Year ended December 31, 1998	$ 185,548,447	100%
Year ended December 31, 1999	191,646,415	100%
Year ended December 31, 2000	206,796,608	100%
Year ended December 31, 2001	205,979,830	100%
Year ended December 31, 2002	205,992,860	100%
Year ended December 31, 2003	277,724,840	79%

*The amounts reported in this schedule do not include contributions for post–employment health care coverage. The Government Accounting Standards Board (GASB) required disclosure of the Annual Required Contributions (ARC) using a maximum amortizations period of 40 years. Amounts shown as the ARC for each year may be different from the contributions required by state statute. The information here was determined as part of the actuarial valuations for the date indicated. Additional information as of the latest actuarial valuation is shown in the table below.

NOTES TO THE REQUIRED SUPPLEMENTARY SCHEDULES

The information presented in the required supplemental schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date .... January 1, 2004
Actuarial cost method .... Entry Age
Amortization method .... Level percent of payroll, open
Remaining amortization period .... 40 years
Asset valuation method .... 5–year adjusted market value with a corridor of 20% of the market value.

Actuarial assumptions:
- Investment rate of return 8.25%
- Projected salary increases 5.0–11.0%
- Cost–of–living adjustments .... 3.0% simple
- Inflation 3.0%

Supplementary Information

SCHEDULE OF ADMINISTRATIVE EXPENSES*

For the year ended December 31, 2004 and 2003	2004	2003
Personnel Services		
Salaries and wages	$ 9,037,805	$ 9,543,596
OPERS contributions	1,300,742	1,186,569
Insurance	1,306,501	1,468,540
Fringe benefits/employee recognition	29,600	31,504
Tuition reimbursement	41,630	33,713
Total Personnel Services	**11,716,278**	**12,263,922**
Professional Services		
Actuarial	322,125	188,984
Audit	187,747	172,078
Custodial Banking Fees	1,756,717	1,418,077
Investment Fees & Consulting	22,893,998	16,045,429
Other Consulting	1,130,957	2,107,216
Banking Expense	66,427	—
Total Professional Services	**26,357,971**	**19,931,784**
Communications Services		
Printing and Postage	607,935	548,718
Telephone	72,639	124,286
Member/Employer Education	67,719	102,333
Other Communications	76,200	77,118
Total Communications Services	**824,493**	**852,455**
Other Operating Expenses		
Conferences and Education	167,831	118,076
Travel	148,924	211,057
Computer Technology	299,658	524,306
Other Operating	546,650	736,817
Warrant Clearing	7,705	17,664
ORSC Expense	59,308	38,761
Depreciation Expense—Capital	1,631,912	1,301,009
Total Other Operating Expenses	**2,861,988**	**2,947,690**
Net Building Expense (includes rent)	**1,126,075**	**1,182,762**
TOTAL ADMINISTRATIVE EXPENSES	**$ 42,886,805**	**$ 37,178,613**

SCHEDULE OF INVESTMENT EXPENSES**

For the year ended December 31,	2004	2003
Investment Manager Services—Direct Paid	$ 22,236,735	$ 15,320,429
Custodial Fees	1,756,717	1,427,756
Other Professional Services	672,262	725,000
Other Direct Investment Department Expenses	1,379,271	1,792,915
Allocation of Other Administrative Expenses	991,596	1,240,629
TOTAL INVESTMENT EXPENSES	**$ 27,036,581**	**$ 20,506,729**

* Includes investment related administrative expenses

** A portion of the non–Investment Department administrative expenses of OP&F is allocated to Investment Expense based on the ratio of OP&F's investment staff to total Fund staff.

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THE 2004 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Investment Section

Ohio Police & Fire Pension Fund

THE OHIO POLICE AND FIRE PENSION FUND
140 East Town Street
Columbus, Ohio 43215
www.op-f.org

Investment Report

INTRODUCTION

The investment authority of OP&F is specified in Section 742.11 of the Ohio Revised Code, which requires that the Board and other fiduciaries discharge their duties solely in the interest of the participants and beneficiaries, for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the Fund. Within the guidelines of the Code, OP&F has developed an internal investment policy that provides for appropriate diversification of assets and an acceptable expected return on investments after consideration of investment risks. Performance returns are prepared by Wilshire Associates in accordance with the Association for Investment Management and Research (AIMR) standards.

SIGNIFICANT DEVELOPMENTS IN 2004

While 2004 proved to be another good year for investment results, the Board and investment staff were busy working on a number of fronts to improve our chances of providing solid, competitive returns well into the future. Toward that end, we focused much of our time last year on consultant searches and on an asset/liability study. Although these labors resulted in no changes in our general consultant or our asset allocation targets, subsequent structural work did result in recommendations for substantial changes within a number of asset classes. We undertook a review of hedge funds, which included a number of educational sessions for the Board and staff and conducted a search for a hedge fund consultant. Ultimately, the Board decided to rely upon our general consultant to advise us on any potential investment in hedge funds. As a result of our asset allocation and investment structure work, hedge funds may play a role in our new portable alpha allocation. The Board and staff also spent a great deal of time working with the other Ohio retirement systems to implement changes required by new "pension reform" legislation that, among other things, seeks to have the pension funds increase their use of Ohio brokers and Ohio money managers. Meanwhile, our investment operations staff was for the second straight year given the unenviable task of transitioning to a new custodian, this time for our international securities, as mandated by the Treasurer of the State of Ohio. Following are these and other noteworthy investment accomplishments and issues addressed by OP&F last year:

- Completed an asset/liability study
  - » Long–term asset allocation targets reaffirmed
- Completed investment structure review
  - » Discontinue active style bets in large cap U.S. equity
  - » Introduce portable alpha into U.S. equity
    - – Derivatives–based enhanced indexing
    - – Active currency management
    - – Global macro
    - – Long/short equity
  - » Eliminate passive international equity component
  - » Combine developed and emerging markets mandates into ACWI ex–U.S. mandates
  - » Increase allocation to inflation protected securities and expand mandate beyond U.S. Treasury Inflation Protected Securities (TIPS)
  - » Move S&P 500 Index fund to Russell 1000 Index fund
- Completed manager structure review
  - » Change a U.S. large cap growth mandate to a large cap core mandate
  - » Eliminate U.S. large cap equity growth and value style mandates
  - » Change a non–U.S. equity mandate from EAFE to ACWI ex–U.S.
  - » Expand a TIPS mandate to allow global inflation protected securities
- Completed searches
  - » General investment consulting
  - » Hedge fund consulting (no consultant was hired)
  - » Real estate separate account (no manager was hired)
  - » Real estate commingled funds
- Transitioned a terminated U.S. large cap growth portfolio to our index fund
- Completed a transition to a new international custodian
- Initiated a program to implement the requirements of Senate Bill 133 of the 125th General Assembly
  - » Worked with other Ohio funds on a common approach
  - » Adopted an Ohio–Qualified Broker Policy
  - » Adopted an Ohio–Qualified Manager Policy
  - » Modified our Investment Manager Search Policy
  - » Received Investment Officer licenses for affected staff
  - » Worked with Institutional Fiduciary Services on a required fiduciary audit
- Transitioned two real estate properties to new managers
- Sold one property realizing a return of 11.8%
- Acquired one property
- Committed $81 million to four commingled real estate funds

- Revised our Proxy Policy with an aim toward increasing board independence and eliminating conflicts of interest
- Portfolio value increased by $900 million
- Portfolio return gross of fees was 13.3%

ECONOMIC ENVIRONMENT

Although economic activity improved considerably in 2003, the expansion nevertheless appeared tentative early in 2004, largely because businesses still seemed hesitant to increase hiring. Over the course of the spring, however, it became clear that the economy was gaining momentum. Businesses added significantly to their payrolls, boosted capital spending, and started restocking inventories. While household spending growth slowed somewhat, residential construction picked up. In the end, 2004 was marked by continued expansion in economic activity and significant gains in employment. With stimulative fiscal and monetary policies in place and financial conditions favorable, household spending continued while businesses increased investment in equipment and inventories, despite sizable increases in oil prices. In fact, when all was said and done, consumer spending grew at an above average pace, home sales hit record highs, and capital spending grew at a double–digit pace. Labor market conditions improved significantly and productivity continued to increase. Although gains in the payrolls numbers were uneven, 2.2 million jobs were added to payrolls, as reported by the Bureau of Labor Statistics. This resulted in an unemployment rate of 5.4% by year–end, making 2004 the best year for job creation since 1999. In fact, 2004 turned out to be a year of solid, fairly even economic performance with the U.S. economy reported to have grown at an annual rate of 3.9% year over year, versus 4.4% in 2003. This growth brought with it a trend of rising prices, particularly commodities, and most notably, oil. Consumer price inflation accelerated to a 3.3% pace for the year up from 1.9% in 2003, but expectations are for reasonable price stability going forward.

As the year progressed, the durability of economic growth and rising concerns about expected inflation rates led to a shift in policy. The Federal Reserve began to steadily remove some of the excess liquidity "the Fed" had put in place over the prior three years to help stimulate the economy. The Fed began to raise the short–term federal funds rate at the end of June and continued with quarter point increases in August, September, November and December as the economy continued to expand. By year–end the fed funds rate stood at 2.25%, up from a 47–year low of 1.0% when the Fed began tightening.

World economic growth increased by 4% in 2004, compared to 2.8% in 2003. This growth was fueled mainly by growth in the U.S. and China. Growth in the developing countries was the fastest in more than two decades. The widespread nature of growth in developing countries last year was attributable to the fact that most countries benefited from rapid growth of trade in manufactured goods, increased prices for oil and commodities and calmer conditions in financial markets. Among developed countries, performance was more varied. Growth was strong in North America, moderate in Japan but weak in Europe. With the exception of its new members and a few other countries, the European Union has replaced Japan as the lagging economy. One of the universal weaknesses in the world economy continues to be the slow growth of employment and the persistence of high unemployment in most developing countries. Even in the most rapidly growing region, East Asia, unemployment remains a problem in several economies.

One of biggest surprises of the year was the surge in crude oil prices to above $50 a barrel. This increase was largely because of the persistent growth in demand as contrasted with the oil crises of the 1970s, when record prices resulted from reduced supplies. Following the October surge above $50, prices eased somewhat toward the end of 2004. However, since oil producing countries are not likely to be able to respond to the underlying growth of demand in the near–term, oil prices are not expected to retreat to levels seen just a few years ago. The world economy dealt with this upward shift in the price of oil without major disruptions. The impact of higher oil prices is expected to continue to be limited in 2005, although it is possible that non–economic factors could disrupt international oil markets and hurt global economic growth. Even without a major shock, oil prices are likely to remain volatile.

Like other economic and financial factors, exchange rates followed a bumpy road during 2004. The dollar rose slightly in the first half of the year on the belief that monetary policy would tighten more quickly in the U.S. than abroad. However, the dollar resumed the decline it started in 2002, as market participants focused on the implications of financing the large and growing U.S. current account deficit. In 2004, the dollar fell about 7% against the euro, the U.K. pound, and the Canadian dollar. The dollar declined 4% against the Japanese yen and 13% against the Korean won, but some other Asian central banks, most notably the People's Bank of China, kept their currencies stable against the dollar.

For the rest of 2005, the outlook for the U.S. economy is cautiously optimistic with most signs pointing towards continued steady growth. The fundamental factors underlying the strength of the economy last year should carry forward through this year and next, promoting both healthy activity and low inflation. Investment spending, continued job growth, and hopefully a narrowing in the U.S. trade deficit should support the growth outlook. The decline in the value of the dollar since late last year and continued foreign economic growth should boost the demand for U.S. exports. The consumer should continue spending, though probably at a slower pace, as jobs and income growth increase. Supporting this outlook are increasing corporate profits, low borrowing costs, and rising household net worth from the continued climb of real estate values and gains in equity prices. While inflation should stay at acceptable levels, improving job growth and a slowing productivity could increase concern about inflationary pressures, although a retreat in energy costs would provide some relief. The Federal Reserve is still focused on inflation risks and employment, so they should continue to boost short–term rates through the first half of 2005, barring any signs of economic softening. On balance, 2005 should be another good year for the U.S. economy.

TOTAL FUND

Due to our significant equity exposure, our performance largely reflects that of the global equity markets. As a result of strong equity performance, 2004 was another double–digit return year for our portfolio. Our fund investments, net of mortgage loans, were valued at $8.9 billion at the beginning of the year and ended the year at $9.8 billion. For the first three quarters of the year, U.S. equity markets were essentially directionless with most of the return coming in the fourth quarter. International equity markets fared better throughout 2004 both in local and U.S. dollar terms. Our portfolio enjoyed a strong absolute return of 13.29% gross of fees for the year compared to interim and long–term policy benchmark returns of 12.84% and 13.19%, respectively. These returns brought the 3–year annualized gross of fees return to 8.45% and the 5–year annualized gross of fees return to 3.93%. The 3–year returns exceeded our interim and equaled our long–term policy benchmark while the 5–year returns exceeded both our interim and long–term benchmarks.

Having the belief that a well–diversified portfolio should serve OP&F well over the long–term, we continue our efforts to rebalance the portfolio as dictated by policy allocation ranges in order to remove human emotion from the decision making process. As stated in past reports, we continue to evaluate non–correlated, non–traditional asset classes in search for optimal risk–adjusted returns.

EQUITIES

After surging as much as 30% in 2003, broad U.S. stock market indices climbed modestly over the first half of 2004. Stocks struggled for much of the year as investors weighed robust earnings growth against significant economic and geopolitical uncertainty. Stock prices then dipped early in the second half in response to softer economic data, further concerns about energy prices, and guidance from corporations that pointed to a less optimistic path for earnings than investors had been expecting. The year's solid index returns came almost entirely in the fourth quarter, with oil prices receding from their peak, the conclusion of the presidential election, reassuring economic data and a spate of mergers and acquisitions. Small–cap stocks outperformed large–cap stocks for the sixth consecutive year as the Russell 2000 index provided a total return of 18.3% in 2004. Large capitalization stocks as measured by the S&P 500 and the Russell 1000 returned 10.9% and 11.4%, respectively. For the year, the Dow Jones Industrial Average was a major laggard rising only 5%, reflecting difficulties among specific constituents, including AIG and Merck. Value stocks outperformed growth stocks, with the Russell 3000 Value Index returning 16.9% compared to just a 6.9% return for the Russell 3000 Growth Index. Our domestic equity composite after fees return of 12.87% exceeded its benchmark, the Dow Jones Wilshire 5000 Index, return of 12.48%. While two of our domestic equity managers underperformed during 2004, six exceeded their individual benchmark index. One of the two underperforming managers was terminated, the account was transitioned during the year and the second manager will be eliminated in the upcoming structural transitions.

Non–U.S. developed equity markets, as measured by the MSCI EAFE Index, recorded excellent gains last year for dollar–based investors with a return of 20.25%. The return expressed in local currencies was 12.67%, reflecting the weak U.S. dollar. Equity markets started the year strong, but prices declined in the spring as interest rates rose. The run–up in oil prices between July and October appeared to weigh on foreign equity prices, but the subsequent decline in oil helped support a rise in equity prices late in the year. Overall, foreign long–term interest rates declined during 2004. Rates rose in the second quarter as new data (including reports from the U.S.)

showed faster growth, and higher inflation led market participants to expect more aggressive monetary tightening. However, foreign long–term interest rates slipped after midyear, when foreign growth slowed and foreign currencies appreciated against the dollar. European markets were up 12.14% in local currencies with the smaller countries by market weight generally turning in the best performances. Austria registered the best return at 59.17% in the local currency and 78.5% in U.S. dollars. The best return in the larger European markets was in the U.K. at 19.6% in U.S. dollars. Pacific equity markets enjoyed strong gains as a region, although the largest market, Japan, was a laggard. Economic optimism gave way to concern among Japanese equity investors. Foreign investment flows in 2003 and early 2004 were fueled by excitement about the economic recovery. However, much of the data released from April onward disappointed the market. China's attempt at slowing its economy had a negative effect on Japanese exports. Stock market returns and currency appreciation in the commodity–oriented markets of Australia and New Zealand were substantial. The stock markets and economies of Hong Kong and Singapore rebounded in 2004 and managed to overcome concerns about the spread of avian flu across Asia. Although a slowdown in the global economy was a concern later in the year, trade with and tourists from mainland China steadily buoyed Hong Kong's economy. Our international developed markets equity composite net of fees returned 20.94% in 2004, beating its benchmark, the MSCI EAFE Index, return of 20.24%. Two of our three managers exceeded their benchmark index, while the one underperforming manager was terminated during the year.

Emerging markets, as measured by the MSCI Emerging Markets Index rose 25.95% in U.S. dollar terms during 2004, advancing in the first quarter, declining in the second, and then climbing steadily from mid–August to the end of the year. This sharp gain marked the fourth straight year of outperformance for emerging markets relative to developed markets. Sound fiscal and monetary policies and appreciating currencies in several economies led to declining bond yields and rising stock prices. Currency appreciation also contributed to the year's equity gains, as the Emerging Markets Index return in local currencies was 16.45%. Corporate profits were robust in many markets, helping to fuel the rally. A powerful tsunami in late December hit many coastal areas in Southeast Asia and left death and destruction in its wake. However, the financial damage was contained by the fact that industries were generally located away from coastal areas. Although the human toll was enormous, the inflow of aid to the region actually bolstered the markets. On a regional basis, equity markets in Latin America, Eastern Europe, the Middle East and Africa had better results than the benchmark, but Asia lagged. The economic cycle diverged across markets, with the resource–rich Latin American economies in the early stages of an economic upturn; South Korea struggling to revive its economy following the bursting of its consumer credit bubble; Taiwan attempting to bring some vigor to an expanding economy; India trying to extend what appeared to be the peak of a growth cycle; and Chinese authorities making an effort to cool overheated areas without pulling down the entire economy. As a result, monetary policies also diverged. The small stock markets of Hungary, Poland, and the Czech Republic made spectacular gains, as investors focused on their higher economic growth rates versus old Europe and their entry into the European Union in May 2004. Our international emerging markets equity composite net of fees return was 21.73% in 2004, underperforming its benchmark, MSCI Emerging Markets, return of 25.95%. Both of our emerging markets managers lagged their benchmark index. One of these managers was terminated in 2004 for performance reasons.

As discussed elsewhere, our domestic and international manager structure will undergo significant changes during 2005. The major changes will be the elimination of active U.S. large cap equity style management, the introduction of portable alpha strategies to enhance S&P 500 Index returns with 10% of OP&F's total investment portfolio, the merging of our developed and emerging market mandates into All Country World ex–U.S. mandates, and the elimination of our passive mandate in international developed markets. In addition, we will be transitioning the assets of several managers terminated in 2004.

Fixed Income

Contrary to consensus expectations at the beginning of the year, absolute returns in the fixed income market were positive in 2004. On a relative basis, most non–Treasury sectors posted positive returns versus equal duration Treasuries. Lower volatility and an increased appetite for risk especially benefited high yield corporate bonds and lower rated investment grade corporates. The Treasury yield curve flattened significantly in 2004, with actual and expected monetary policy tightening sending short–term yields higher, while the prospect of subdued inflation left longer–term yields little changed from their year–end 2003 levels. In fact, the two–year yield rose 123 basis points, whereas the ten-year yield actually edged down five basis points.

Inflation worries were prominent in the first half of the year, leading to a mid-year widening in the spreads between nominal and inflation indexed Treasury yields. All during the year, the resilience of the economic expansion was questioned, since it was based primarily upon the consumer. With lackluster payroll reports, higher oil prices and an expected bursting of the real estate bubble, continued robust consumer spending was suspect.

The current expansion can continue to be characterized as consumer led, supported by historically low interest rates, with only recently growing participation by the business sector evidenced by the cautious rate of job creation and lack of pricing power. This slow progress fueled doubts about the state of the economy and prevented yields from making new highs. While a stable economic environment helped to keep long-term yields in a trading range, a very important factor in lower interest rate volatility was the steady, predictable .25% increases in the federal funds rate by the Federal Reserve and their accompanying statements which emphasized improving job creation, contained inflation, and continued gradual tightening. Investors' faith in the Fed's strategy of gradual interest rate increases helped mute the reaction of bond yields to the falling U.S. dollar during the year. Despite deterioration in the investment environment for U.S. dollar assets, unprecedented foreign buying of U.S. fixed income securities continued. Foreign central bank holdings of U.S. Treasuries and agencies reached new highs. Like their U.S. counterparts, international investors increasingly focused on higher yielding products such as corporate and mortgage securities. The hunt for higher yields in a low interest rate environment became a global one. International capital flows are helping to keep U.S. interest rates low and U.S. credit spreads tight.

Our core fixed income composite returned 4.58% net of fees versus the total return for the Lehman Aggregate of 4.34% for the year. The Lehman U.S. TIPS Index return was 8.46% for the year. Our TIPS return was below the Index return at 6.82% net of fees. As a result of our structural work, we will be increasing our allocation to inflation protected securities and will be expanding the mandate of our current manager to allow for investment in non-U.S. inflation protected securities.

HIGH YIELD

High yield ended the year with another solid performance, generating positive returns across each ratings category, industry, and sector. The CSFB Developed Countries High Yield Index returned 11.72% in 2004. High yield outperformed investment grade fixed income securities and again delivered equity like returns. Although investors continued searching for yield in a low interest rate environment and mutual fund inflows into high yield were significant during the second half of 2004, it was not enough to offset the heavy outflows at the beginning of the year. In 2004, $1.7 billion flowed out of the high yield market. Mutual funds currently make up about 20% of this market. Demand elsewhere for high yield was more than sufficient to absorb the record amount of supply for the year as insurance companies, investment grade managers, and hedge funds seeking yield put money to work in the asset class. The stable Treasury market and improving credit fundamentals led investors to become increasingly comfortable with risk and to bid up the entire fixed income market. With default rates hovering around 1%, improving corporate earnings, real GDP growth at 4.0%, and the rolling 12-month ratio of upgraded companies to downgraded companies at 0.85:1 (the highest since September of 1998), investors became comfortable taking on and, in some cases, seeking out more risk. The high yield market should continue to be supported by strong fundamentals as long as the U.S. economy expands and demand remains stable. Growing interest in the market by hedge funds, pension and insurance funds should further fuel healthy demand. However, spreads are currently at historically low levels and interest rates should rise further as the Fed continues to tighten, limiting absolute returns in the asset class. Returns will likely come from coupon income with limited opportunity for price appreciation in this sector.

Our composite high yield net of fee return was 10.18% during 2004, significantly lagging the benchmark, CSFB Developed Countries HY Index, return of 11.72%. Only one of our three high yield managers exceeded their benchmark index. Subsequent to the year-end, the Board decided to terminate our two underperforming managers and to initiate a high yield manager search.

REAL ESTATE

Despite rising interest rates and concerns about inflation, real estate did not show signs of slowing down in 2004. Pension funds, leveraged investors, offshore investors and private REITS continued to compete intensely for core assets, thereby pushing prices higher and driving cap rates and internal rates of return lower. Recovering property markets and the threat of continued rising interest rates created more incentive for buyers and sellers to complete transactions. A record high $418 billion flowed into the U.S. real estate market in 2004.

Of the four property types, retail remained the top performer, generating returns of 23% for the year. Much of this was the result of declining cap rates, as a tremendous amount of capital was committed to this sector. However, its strength was supported by real growth in disposable household income, which encouraged healthy consumer spending. The national vacancy rate for retail was 7%, marginally higher than the 6.5% posted in 2003. Sales increased an estimated 8.1% in 2004 compared to 5.2% in 2003. Steady sales growth also helped the sector realize modest rent increases in institutionally held neighborhood and community shopping centers.

Last year saw a turnaround for the industrial sector. After three years of lagging performance, vacancy was down, lease–up times were shorter and rental concessions declined. Tenants that had been on the sidelines for the last few years leased space at attractive rents as the economy improved. Rising export and import trade flows, healthy consumer spending and gains in business spending supported the rising demand in this sector. The national vacancy rate for industrial properties in 2004 was 10.9%, down from 11.6% in 2003.

The multi–family sector continued to face challenges brought about by low mortgage rates, increasing the ability of families to buy instead of rent. Renters doubled up or stayed at home longer and corporate leasing continued to decline. In 2004, construction outpaced absorption, but vacancy rates remained at 7.4%, unchanged from 2003, as condominium conversions reduced available inventory.

Conditions in the office sector improved throughout the U.S. in 2004. Steady job growth, strong corporate profits and attractive rents all increased demand for office space. As net absorption increased and construction completions declined, office vacancy nationally fell to 15.8%, down from 16.8% posted in 2003. Sublease space also declined and rents exhibited signs of stabilization, especially in prime office properties and markets.

At the end of 2004, the market value of the OP&F real estate portfolio was approximately $440 million or 4.5% of total OP&F assets. The portfolio return was 22.7%, outperforming the National Counsel of Real Estate Investment Fiduciaries (NCREIF) index return of 14.5% by 820 basis points. Portfolio returns consisted of 9.3% income and 12.5% appreciation.

In 2004, OP&F made commitments totaling $81 million to four enhanced return and high return funds: Heitman Value Partners, GMAC Commercial Realty Partners, Fremont Strategic Partners II, and Lone Star Fund V. OP&F acquired Treeridge/Seven Pines, a multi–family asset located in Alpharetta, Georgia, which is a suburb of Atlanta. We sold the Great Southwest Industrial Portfolio located in Dallas, Texas for $27.6 million, generating an 11.8% return for OP&F.

In 2004, the Board accepted the resignation of one of its separate account managers, Lowe Enterprises, and approved the transfer of the assets Lowe managed. We transferred to RREEF the management of an office building located in San Francisco and transferred to INVESCO's care a second office building located in Buckhead, Georgia.

OP&F is positioned to increase the size of our real estate portfolio in 2005. The Board affirmed existing allocations to its two current separate account managers and allocated an additional $150 million to be committed to a new separate account manager. A search for this new manager is already underway. Our investment strategy for 2005 will be that of extreme caution and selectivity in the acquisition process. We will continue to seek well leased, stable and superior quality assets in markets that will provide stability to our portfolio.

PRIVATE EQUITY

For the year ended September 2004 (private equity returns are lagged by one quarter), our small allocation to private equity provided a return of 7.15% versus its public markets–based benchmark (Wilshire 5000 + 5%) return of 19.76%. Although our composite return trailed its benchmark by a whopping 12.61%, our returns have turned positive, the negative return spread versus our benchmark is declining and we are mindful that private equity returns, on average, lag the public markets by approximately 12 months. As a result, we expect to see private equity returns continue to improve. Last year, we said that private equity investors would remember 2002 as an inflection point. A year removed from that statement, we continue to see signs that the private equity market is on the mend from the bubble years of 1999–2000. For calendar year 2004, the private equity asset class returned 16.4% as reported by Thompson Venture Economics. Within private equity, venture capital returned 19.3% while buyouts returned 14.3%. Increased merger and acquisition activity coupled with improved

IPO markets drove performance within the private equity asset class. Increased merger and acquisition activity was buoyed by Corporate America's desire to put to work the significant amount of cash on their balance sheets. The improvement in exit markets resulted from investors' increased appetite for risk as interest rates stayed historically low and strong economic growth continued throughout the year. Three areas of concern within the private equity asset class prevalent in 2004 were increased valuation multiples, aggressive lending by financial institutions and increased demand for the asset class by institutional investors.

We continue to work steadily toward our 3% target allocation. On an invested basis, private equity comprised 1.6% of OP&F's assets vs. 1.2% at the end of 2003. Our total committed capital in dollars since the inception of our private equity program was $493.8 million, of which $225.5 has yet to be called. In addition, we have 25.0 million in Euro commitments, of which 18.2 million has yet to be called. Distributions since the inception of the program total $119.9 million.

In the future, we will continue to work toward our 3% target by reviewing and monitoring existing relationships for further investment and by looking at a limited number of new managers. In addition, we will continue to look for ways to diversify our private equity program in order to achieve the highest risk adjusted return.

2005 DEVELOPMENTS AND CHALLENGES AHEAD

Given the numerous structural changes approved last year, the Board and investment staff have been quite active in 2005 as we issued three RFPs on the first business day of the year. While it is still early, we are off to a good start in our efforts to evaluate and implement new ways to provide prudent and competitive returns for our membership.

- Manager searches completed
  - » Derivatives–based enhanced indexing
  - » ACWI ex–U.S.
  - » U.S. mid–cap core equity
  - » Real estate commingled funds
- Manager searches underway or still to be initiated
  - » Real estate separate account
  - » High yield
  - » Portable alpha
    - – Currency
    - – Global macro
    - – Long/short equity
- Structural changes completed or underway
  - » Transitioned S&P 500 Index fund to Russell 1000 Index fund
  - » Transitioned a U.S. large cap growth portfolio to a large cap core portfolio
  - » Transitioning an EAFE portfolio to an ACWI ex–U.S. portfolio
- Structural changes still to be completed
  - » Transition passive EAFE portfolio to active ACWI ex–U.S. portfolios
  - » Transition active U.S. large cap growth and value style mandates to other U.S. equity based strategies
  - » Fund portable alpha strategies
  - » Expand TIPS mandate to global inflation protected mandate and increase funding level
- Revised our proxy voting policy to cover certain board related and compensation related proposals
- Updated our Investment Policy to incorporate structural changes mentioned above
- Created and adopted a Derivatives Policy
- Evaluate alternative methods to add value
  - » Derivatives use
  - » Timber
  - » Currency overlay
  - » Secondary real estate funds
- Rebuild our real estate portfolio to its target allocation
- Encouraged our U.S.equity and fixed income managers to increase their use of Ohio–qualified brokers subject to best execution
- Awaiting fiduciary audit report from IFS

We have always stated our intention to earn at least an 8.25% return over time, which is our actuarial assumption rate. As mentioned earlier, we are looking for ways to enhance our return expectations so as to help meet our statutory funding requirements and to lessen the impact of rising health care costs. Like many other plan sponsors, we will continue to review our return and risk assumptions to determine if we need to modify our asset allocation plan. We will also explore new investment ideas and look for ways to improve the efficiency of and reduce the costs of our operations.

Investment Portfolio Summary

INVESTMENT PORTFOLIO SUMMARY

Investment Type	% of Fair Value	Fair Value
Commercial paper	4.72%	$466,545,755
U.S. government bonds	5.36%	529,300,330
Corporate bonds and obligations	8.03%	793,346,094
Mortgage & asset backed obligations	3.60%	355,703,819
Domestic stocks	26.00%	2,568,569,700
Domestic pooled stocks	22.27%	2,200,785,511
International stocks	21.48%	2,121,923,963
Real estate	5.63%	556,449,694
Commercial mortgage funds	0.99%	97,676,142
Venture capital	1.92%	189,712,257
TOTAL	**100.00%**	**$9,880,013,265**

TEN LARGEST COMMON STOCKS (BY FAIR VALUE)

Stock	Shares	Fair Value
Pfizer Inc	1,421,530	$ 38,224,942
Vodafone Airtouch PLC	12,956,488	35,074,009
Citigroup Inc	661,289	31,860,904
Microsoft Inc	1,126,100	30,078,131
Federal Home Loan Mrtg Corp	392,100	28,897,770
General Electric	713,669	26,048,919
Berkshire Hathaway "B"	8,855	25,998,280
Santofi–Synthelabo SA	305,614	24,425,857
Transocean Sedco Forex Inc	555,750	23,558,243
Novartis AG—Reg	422,752	21,303,042

TEN LARGEST BONDS AND OBLIGATIONS (BY FAIR VALUE)

	Coupon	Maturity Date	Par Value	Fair Value
U.S.Treasury Inflation Indexed Bond	3.875	04/15/29	48,110,000	$ 76,741,541
U.S.Treasury Note	3.000	11/15/07	69,330,000	68,902,095
U.S.Treasury Bond	5.375	02/15/31	51,765,000	55,974,944
U.S.Treasury Note	3.250	01/15/09	42,700,000	42,329,791
FNMA POOL	4.000	09/01/18	35,162,635	34,391,167
U.S.Treasury Inflation Indexed Note	4.250	01/15/10	23,400,000	30,802,075
U.S.Treasury Note	3.500	11/15/09	30,120,000	29,978,797
U.S.Treasury Note	4.250	11/15/14	25,105,000	25,170,700
U.S.Treasury Note	3.500	08/15/09	22,620,000	22,558,157
GNMA POOL	5.000	05/15/34	20,517,583	20,542,816

TEN LARGEST REAL ESTATE HOLDINGS (BY FAIR VALUE)

Property	Fair Value
The Loop	$ 72,000,000
Vista Ridge	53,680,000
200 Tower Place	46,200,000
St. Andrews Apartments	44,000,000
Tempe Commerce	43,000,000
Inland Empire	32,200,000
Oakbrook	30,000,000
Frazee Road	27,900,000
49 Stevenson	27,500,000
Treeridge Apartments	24,109,824

A complete listing of the portfolio's holdings can be obtained by contacting the Ohio Police & Fire Pension Fund at (614) 228-2975.

Schedule of Investment Results

	Annualized Rates of Return		
	1–Year	3–Year	5–Year
U.S. Equity			
OP&F	13.11%	5.65%	1.15%
DJ Wilshire 5000	12.48%	5.43%	–1.45%
Int'l Equity			
OP&F	21.18%	10.67%	–3.32%
MSCI EAFE	20.24%	11.89%	–1.13%
Emerging Markets			
OP&F	22.68%	21.02%	3.71%
MSCI EMF Index	25.95%	22.76%	4.62%
Fixed Income			
OP&F—Core	4.75%	6.22%	8.40%
Lehman Aggregate	4.34%	6.20%	7.71%
OP&F—High Yield	10.65%	12.76%	N/A
CSFB Developed Countries HY	11.72%	13.77%	N/A
OP&F—TIPS	6.97%	N/A	N/A
Lehman U.S.TIPS Index	8.46%	N/A	N/A
OP&F—Commercial Mortgages *	4.82%	6.64%	9.36%
Lehman Mortgage Index *	4.35%	5.06%	6.95%
Real Estate *			
OP&F	14.14%	10.90%	10.77%
Wilshire Real Estate Fund	14.52%	8.89%	7.37%
NCREIF	12.40%	8.60%	9.50%
Private Equity *			
OP&F	7.15%	–9.98%	–2.72%
Wilshire 5000 + 5%	19.76%	11.12%	4.24%
Total Portfolio			
OP&F	13.29%	8.45%	3.93%
Policy Index**	12.84%	8.46%	2.16%

* One quarter in arrears.

** Blended return: 10 months @ Interim Policy Benchmark—48% DJ Wilshire 5000, 18% Lehman Aggregate, 17% MSCI EAFE Index, 8% NCREIF Property Index, 3% MSCI Emerging Markets Free, 5% CSFB Dev. Countries HY, 1% DJ Wilshire 5000 + 5%. 2 months @ Long Term Policy Benchmark—46% DJ Wilshire 5000, 18% Lehman Aggregate, 17% of MSCI EAFE Index, 8% NCREIF Property Index, 3% MSCI Emerging Markets Free, 5% CSFB Dev. Countries HY, 3% DJ Wilshire 5000 + 5%.

Note: Time Weighted methodology is used when calculating performance

Investment Consultants and Money Managers

INVESTMENT CONSULTANTS

Wilshire Associates
The Townsend Group

INVESTMENT MANAGERS—PRIVATE EQUITY

Abbott Capital Management, LLC
Adams Street Partners
Alpha Capital Partners Ltd.
Athenian Venture Partners
Blue Chip Venture Partners, LP
Blue Point Capital Partners, LP
Brantley Venture Partners
Chemicals & Materials Enterprise Associates
Harbourvest Partners LLC
Horseley Bridge Partners, LLC
Kirtland Capital Partners
Landmark Equity Partners
Lexington Capital Partners
Linsalata Capital Partners
MV Economic Development, Ltd.
Morgenthaler Venture Partners
Northgate Capital Group
Park Street Capital
Peppertree Partners, LLC
Primus Venture Partners
Riverside Capital Associates
Wilshire Private Markets, LLC

INVESTMENT MANAGERS—FIXED INCOME

JPMorgan Investment Advisors, Inc.
Bridgewater Associates
MacKay Shields LLC
Shenkman Capital Management, Inc.
Western Asset Management
W.R. Huff Asset Management Co., LLC

INVESTMENT MANAGERS—U.S.EQUITY

American Express Asset Management Group, Inc.
Boston Partners Asset Management, L.P.
Columbia Asset Management
Enhanced Investment Technologies, LLC
Fidelity Management Trust Co.
Harris Investment Management, Inc.
State Street Global Advisors
Waddell & Reed Investment Management Co.

INVESTMENT MANAGERS—REAL ESTATE

AEW Capital Management
CB Richard Ellis Investors, LLC
DLJ Real Estate Capital Partners, Inc.
Fremont Realty Capital
Heitman Value Partners
INVESCO Realty Advisors
GMAC Institutional Advisors
Lone Star
Lowe Enterprises
Lubert-Adler Management Co., LLC
Prima Capital Advisors, LLC
Stockbridge Real Estate Fund
The RREEF Funds
Walton Street Capital LLC
Westbrook Partners, LLC

INVESTMENT MANAGERS—INTERNATIONAL EQUITY

Capital Guardian Trust Company
Capital International Inc.
Causeway Capital Management LLC
Fidelity Management Trust Company
State Street Global Advisors
Wells Capital Management

Schedule of Brokers' Fees Paid *for the year December 31, 2004*

Broker Name	Fees Paid	Units Traded	Average Cost Per Unit
Capital Institutional Services	$ 630,744.00	14,231,000	$ 0.0443
Merrill Lynch	403,951.00	253,329,000	0.0016
UBS Securities	338,397.00	262,175,000	0.0013
Credit Suisse First Boston	308,282.00	18,566,000	0.0166
Boston Institutional Services	289,930.00	6,216,000	0.0466
Citigroup	287,868.00	11,692,000	0.0246
Morgan Stanley	280,062.00	242,616,000	0.0012
Lehman Brothers	250,720.00	10,047,000	0.0250
Goldman Sachs	245,452.00	10,057,000	0.0244
Bear Stearns	208,393.00	6,665,000	0.0313
JP Morgan	188,853.00	15,050,000	0.0125
Jefferies & Co., Inc.	184,612.00	8,042,000	0.0230
Deutsche Bank	181,935.00	162,157,000	0.0011
Instinet	138,512.00	6,353,000	0.0218
Prudential Securities	135,480.00	2,842,000	0.0477
Weeden	121,114.00	5,289,000	0.0229
State Street Bank & Trust	100,969.00	6,625,000	0.0152
Thomas Weisel Partners	92,162.00	1,835,000	0.0502
Fidelity Capital Markets	90,808.00	3,867,000	0.0235
Factset Data Systems	84,467.00	1,689,000	0.0500
Investment Technology Group	81,037.00	5,289,000	0.0153
BancAmerica	80,826.00	1,617,000	0.0500
SG Cowen Securities Corp	79,236.00	1,582,000	0.0501
McDonald & Co. Securities	78,063.00	1,561,000	0.0500
Liquidnet Inc.	66,391.00	3,320,000	0.0200
Rosenblatt Securities Inc	65,780.00	3,289,000	0.0200
Knight Securities	63,484.00	1,525,000	0.0416
B–Trade Services LLC	62,423.00	2,165,000	0.0288
BNY, ESI & Company	61,767.00	3,691,000	0.0167
CIBC World Markets Co.	58,637.00	1,263,000	0.0464
Robert Baird	57,841.00	1,158,000	0.0499
Charles Schwab	56,312.00	1,173,000	0.0480
Citation Group	54,874.00	1,268,000	0.0433
HSBC Securities Inc.	51,813.00	6,463,000	0.0080
BT Alex Brown	51,123.00	1,174,000	0.0435
Standard & Poors	43,957.00	1,022,000	0.0430
Broadcort Capital Corp.	41,223.00	824,000	0.0500
Keefe Bruyette And Woods	40,151.00	803,000	0.0500
Legg Mason	39,733.00	894,000	0.0444
Adams Harkness & Hill	39,710.00	794,000	0.0500
ABN Amro	39,110.00	3,000,000	0.0130
Banco Santander	33,226.00	5,360,000	0.0062
First Union Capital	31,106.00	622,000	0.0500
C. L. King	30,806.00	623,000	0.0494
RBC Capital Markets	30,424.00	608,000	0.0500
Fox Pitt Kelton Inc.	30,370.00	616,000	0.0493
Midwest Research	30,288.00	676,000	0.0448
ING Bank London	28,931.00	768,000	0.0377
Warburg Dillon Read	28,262.00	5,826,000	0.0049

(Continued on page 44)

(Continued from page 43)

Broker Name	Fees Paid	Units Traded	Average Cost Per Unit
Sanford C. Bernstein	$ 28,233.00	647,000	$ 0.0436
Dresdner Kleinwort Benson	26,660.00	1,943,000	0.0137
Credit Lyonnais	26,627.00	12,312,000	0.0022
Fulcrum Global Partners	25,904.00	567,000	0.0457
Morgan Keegan	24,095.00	482,000	0.0500
Pershing	24,028.00	2,810,000	0.0086
SantanderInvestment Secs	23,360.00	1,614,000	0.0145
A.G. Edwards & Sons, Inc.	23,235.00	465,000	0.0500
Guzman & Co.	22,378.00	1,006,000	0.0222
First Analysis Securities	22,285.00	446,000	0.0500
Broker's Fees Less Than $20,000 each	890,702.00	558,829,000	0.0016
TOTAL	**$ 7,157,122.00**	**1,689,438,000**	**$ 0.0042**

Investment Policy and Guidelines

I. Introduction

The purpose of this Statement of Investment Policy and Guidelines is to define the framework for investing the assets of the Ohio Police & Fire Pension Fund (OP&F). This Statement is intended to provide general principles for establishing the goals of OP&F, the allocation of assets and the employment of outside asset management. The statutory investment authority of the Board is set forth in ORC Sections 742.11 to 742.113 and sections 742.114, 742.116, as more fully outlined in this Policy and Guidelines.

The objectives of OP&F have been established in conjunction with a comprehensive review of the current and projected financial requirements. These objectives are:

- To have the ability to pay all benefit and expense obligations when due.
- To maintain the purchasing power of the current assets and all future contributions by maximizing the rate of return on OP&F's assets.
- To achieve and maintain a fully funded status with regard to the accumulated benefit obligation.
- To control the costs of administering OP&F and managing the investments.

In order to achieve these objectives, the Board of Trustees will conduct itself in accordance with ORC Section 742.11, which provides "The Board and other Fiduciaries shall discharge their duties with respect to OP&F solely in the interest of the participants and beneficiaries," and that duties shall also be carried out "with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and like aims." All aspects of this statement should be interpreted in a manner consistent with OP&F's objectives. At least annually, the Board shall adopt policies, objectives or criteria for the operation of the investment program.

Investment Policies and Manager Guidelines referenced in this document are not reproduced in their entirety, but the essence of each Policy and Manager Guideline is reflected herein.

II. Definition of Responsibilities

A. Investment Committee/Board of Trustees' Responsibilities

- Establish the strategic investment policy for OP&F (asset allocation) and periodically review policy in light of any changes in actuarial variables and market conditions.
- Select qualified consultants and investment managers to advise on and manage OP&F's assets, recognizing the goals set forth in ORC Sections 742.11, 742.114 and 742.116.
- Monitor and review the performance of selected managers to determine achievement of goals and compliance with policy guidelines.
- Monitor the costs of the investment operations at least annually.
- Review, on a continuing basis, the current Investment Policies of OP&F and make such changes as appropriate.
- Review the annual investment plan prepared by the staff. As conditions warrant, revise the annual investment plan as the year progresses.
- Review and approve or disapprove real estate transactions when required by Board policy.
- Monitor investment activity for compliance with Board policies and adherence by investment managers to strategy and direction.
- Review the overall investment performance to determine whether it meets established benchmarks.
- Evaluate and assign all investment managers to a rating category (except that only the Board may assign categories 4 and P4, termination), as outlined in the Investment Manager Monitoring and Evaluation Policy.
- Suggested changes or additions to the functions and operations regarding the Investment operations of similar institutional investors.
- Review the proposed Investment department annual operating budget and report its recommendations to the Finance Committee.

B. Staff Responsibilities

- Manage OP&F assets under its care, custody and/or control in accordance with the Investment Policy Statement objectives and guidelines set forth herein.
- Monitor both internally and externally managed assets to ensure compliance with guidelines set forth in this policy statement.
- Promptly vote all proxies and related actions in a manner consistent with OP&F's long-term interests and objectives set forth herein. Maintain detailed

records of said voting of proxies and related actions and comply with all regulatory objectives related thereto.

- Report to the Board quarterly regarding the status of the portfolio and its performance for various time periods. Meet with the Board at least annually to report on their performance and compliance with goals and objectives.
- Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire Investment Policy Statement set forth herein, and as modified in the future.

C. Investment Consultants' Responsibilities

- Provide independent and unbiased information
- Assist in the development of Investment Policy Statement
- Monitor compliance with Investment Policy Statement
- Assist in the development of strategic asset allocation targets
- Assist in development of performance measurement standards
- Monitor and evaluate manager performance on an ongoing basis
- Conduct due diligence when a manager fails to meet a standard
- Establish a procedural due diligence search process
- Conduct manager searches when needed for policy implementation

D. Investment Managers' Responsibilities

- Manage OP&F assets under its care, custody and/or control in accordance with the Investment Policy Statement objectives and guidelines set forth herein and its governing agreement with OP&F.
- Exercise full investment discretion over the assets in their care within the guidelines set forth in this policy statement and the specific guidelines established for the manager in the governing agreement with OP&F.
- Promptly inform the Board and staff in writing regarding all changes of a material nature pertaining to the firm's organization and professional staff.
- If directed, promptly vote all proxies and related actions in a manner consistent with OP&F's long-term interests and objectives set forth herein. Each manager designated to vote shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related thereto.
- Report to the Board quarterly regarding the status of the portfolio and its performance for various time periods. Meet with the Board at least annually to report on their performance and compliance with goals and objectives.
- Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire Investment Policy Statement set forth herein, and as modified in the future.

III. ASSET ALLOCATION

It is the responsibility of the Board to determine the allocation of assets among distinct capital and private markets. The allocation will be completed in a manner consistent with commonly recognized financial principles. Application of these principles is expected to lead to a portfolio with the highest level of return consistent with the risk tolerance of OP&F.

The procedure for determining the allocation will consider the relevant characteristics of the liabilities and potential assets of OP&F. The liability considerations shall include, but not be limited to, current and expected future values of the benefits, contributions and total assets. These factors are important for identifying the investment horizon of OP&F and its cash flow requirements. The asset characteristics considered shall include, but not be limited to, the potential return relative to the potential risk.

The asset allocation must be consistent with the investment standards specified in ORC Section 742.11.

Based on an asset allocation and liability study, which analyzed the expected returns of various asset classes, projected liabilities and the risks associated with alternative asset mix strategies, the Board has established the following asset allocation:

Asset Class	Target Allocation (%)	Range (%)
Domestic Equity	46	± 5
Non-U.S. Equity	20	± 3
Fixed Income	18	± 2
High Yield	5	± 2
Real Estate	8	± 2
Private Equity	3	± 2
Cash Equivalents	0	+ 0.5
TOTAL	**100%**	

The study has shown that this is a favorable asset mix for meeting longer–term goals under both good and bad market conditions.

The asset allocation represents a long term strategy. Short term market shifts may cause the asset mix to drift from the allocation targets. Should the target percentage fall out of the indicated range for a particular asset class, the Board will cause the staff and investment manager(s) to rebalance from the over–allocated class to the under–allocated class.

IV. Performance Expectations

The most important expectation is the achievement of results consistent with this Policy Statement and the analysis set forth in the asset allocation study of October 2004. A long term 4% annualized real rate of return (net of inflation as measured by the Consumer Price Index) is a reasonable expectation in light of this policy. Long term is defined as a market cycle (generally 3–5 years).

OP&F shall also strive to achieve a long–term rate of return, which is equal to or greater than the actuarial rate assumption. The Board expects the total fund to rank in the top half of a comparable public fund universe over the long–term.

OP&F shall attempt to achieve these return goals without unnecessary risk to principal. The risk/return characteristics of OP&F shall be reviewed on a periodic basis (no less than every five years) through a comprehensive asset allocation and liability study. The goal of the study shall be to formulate a portfolio which maximizes return while minimizing overall risk through the most efficient combination of legal asset classes.

V. Investment Implementation

The implementation of an investment portfolio designed to achieve the above objectives must be consistent with governing statutes as specified in ORC Sections 742.11 to 742.113, 742.114, 742.116, and with the Ohio–Qualified Investment Manager Policy and the Ohio–Qualified Broker Policy.

Where appropriate, OP&F will invest assets through the use of qualified investment managers. The allocations to these managers will be made in accordance with the results of the Asset Allocation process and established procedures.

The Board, in conjunction with the Investment Consultant, will establish specific search procedures, including the specification of minimum criteria for the selection of new qualified investment managers, to implement the strategic asset allocation plan. Among the criteria to be used for screening purposes will be assets managed, manager style, track record, staff, communication, fees, risk/reward statistics, etc. All managers, with the exception of emerging management firms that may warrant specialized criteria, must meet the criteria established by the Board. The Investment Manager Search Policy is included later in this Policy as Section XI.

The above–referenced statutes require the Board to give equal consideration to minority owned and controlled firms and firms owned and controlled by women which otherwise meet the criteria established by the Board. Ohio based firms shall also be given consideration, providing that specified criteria are met and such firm offers quality, services, and safety comparable to other investment managers otherwise available to the Board.

VI. Specific Guidelines

A. Domestic Equity

Investment Objectives

Total return of the domestic equity composite portfolio should exceed the return of the Dow Jones Wilshire 5000 Index over a three–year period on an annualized basis. Total return of each manager's portfolio should rank above the median when compared to their peer group over a three–year period on an annualized basis and should exceed their benchmark return as specified in each manager's guidelines.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in Ohio Revised Code Section 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. The main focus of investing will be on companies headquartered and/or domiciled in the United States.
2. The composite portfolio shall have similar portfolio characteristics as that of the Dow Jones Wilshire 5000 Index. Each individual manager's portfolio shall have similar characteristics to the manager's style benchmark.
3. For diversification purposes, each manager's portfolio has a maximum threshold for the amount of cash and individual security weightings that may be held at any one time. Each manager's portfolio is also required to hold a minimum number of issues.

4. Trading shall be left to the discretion of the investment manager with the exception that OP&F may direct a reasonable amount of commissions to help defray qualified Fund expenses.
5. The ability to purchase private placements, Rule 144A stock and purchase securities on margin is prohibited.

Investment Structure

The domestic equity allocation will have a target of forty–six percent (46%) of total fund assets. The structure of the domestic equity allocation will be diversified among passive and active capitalization managers as follows:

1. Passive Large Capitalization Core Exposure
   The passive large capitalization core component has a target allocation of thirty–seven and one–half percent (37.5%) of the domestic equity allocation. This is an index fund portfolio intended to provide broad market exposure for and diversification to OP&F's equity portfolio through holdings in large capitalization equities and is to be constructed so as to match the characteristics and return of the Russell 1000 Index.
2. Active Large Capitalization Core Exposure
   The active large capitalization core component has a target allocation of sixteen and one–half percent (16.5%) of the domestic equity allocation. The overall objective is to provide risk–adjusted returns greater than the return of the Russell 1000 Index. This exposure will be intended to provide diversification to OP&F's passive large capitalization core exposure.
3. Active Large Capitalization Alpha Transfer Exposure
   The active large capitalization alpha transfer component has a target allocation of twenty–one percent (21.0%) of the domestic equity allocation. The overall objective is to provide risk–adjusted returns greater than the return of the Standard & Poor's 500 Index. S&P 500 market exposure, obtained through the use of derivatives, will be combined with strategies that represent diversified sources of alpha with a broad range of risk characteristics. For a complete description of the appropriate use of derivatives, please see OP&F's Derivatives Policy Statement.
4. Active Small/Mid Capitalization Core Exposure
   The active small/mid capitalization core component has a target allocation of twenty–five percent (25.0%) of the domestic equity allocation. The diversification of the equity base into small/mid capitalization companies will lower overall portfolio risk while providing the opportunity for enhanced returns by exploiting the inefficiencies in this segment of the marketplace. This component shall consist of several complementary managers.

B. Non–U.S. Equity

Investment Objectives

Total return of the Non–U.S. equity composite portfolio should exceed the return of the Morgan Stanley Capital International All Country World Index ex–U.S.(MSCI ACWI–ex US) over a three–year period on an annualized basis. Total return of each manager's portfolio should rank above the median when compared to their peer group over a three–year period on an annualized basis and should exceed their benchmark return as specified in each manager's guidelines.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the Ohio Revised Code Sec. 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. The main focus of investing will be companies headquartered or domiciled in the MSCI ACWI–ex–U.S.countries.
2. The composite portfolio shall have similar portfolio characteristics as that of the MSCI ACWI–ex US. Each manager's portfolio shall have similar characteristics to the manager's style benchmark.
3. For diversification purposes, each manager's portfolio has a maximum threshold for the amount of cash and individual security weightings that may be held at any one time.
4. While the geographic and economic sector diversification will be left to the manager's discretion, each manager's portfolio shall be appropriately diversified with the manager's stated investment approach.
5. Trading shall be left to the discretion of the investment manager. OP&F may direct a reasonable amount of commissions to help defray qualified Fund expenses.
6. The ability to leverage the portfolio, sell securities short and purchase securities on margin is prohibited.
7. The use of swaps and the ability to purchase any type of unlisted security for which there is not a public market is prohibited.

8. The investment managers may enter into forward exchange or futures contracts on currency provided that use of such contracts is designed for defensive purposes.

Investment Structure

The Non–U.S. equity allocation will be managed solely on an active basis in order to exploit the perceived inefficiencies in the Non–U.S. equity markets. The Non–U.S. equity allocation will have a target of twenty percent (20%) of total fund assets. This allocation may be satisfied with any combination of ACWI–ex US, EAFE and Emerging Market managers.

C. Fixed Income

1. Investment Grade

Investment Objectives

Total return of the investment grade fixed income composite portfolio should exceed the return of the Lehman Aggregate Index over a three–year period on an annualized basis. Total return of each manager's portfolio should rank above the median when compared to their peer group over a three–year period on an annualized basis and should exceed their benchmark return as specified in each manager's guidelines.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the Ohio Revised Code Section 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. The main focus of investing will be on dollar denominated fixed income securities. Non–U.S. dollar denominated securities are prohibited.
2. The composite portfolio as well as each manager's portfolio shall have similar portfolio characteristics as that of the Lehman Aggregate Index.
3. Issues must have a minimum credit rating of BBB– or equivalent at the time of purchase.
4. Each manager's portfolio has a specified effective duration band.
5. For diversification purposes, sector exposure limits exist for each manager's portfolio. In addition, each manager's portfolio will have a minimum number of issues.
6. Each manager's portfolio has a maximum threshold for the amount of cash that may be held at any one time.
7. Each manager's portfolio must have a dollar–weighted average quality of A or above.

Investment Structure

The investment grade fixed income allocation will be managed solely on an active basis in order to exploit the perceived inefficiencies in the investment grade fixed income markets and will have a target of twelve percent (12%) of total fund assets. For diversification purposes, the allocation will be divided between at least two active managers.

2. Global Inflation Protected Securities (GIPS)

Investment Objectives

Total return of the GIPS composite portfolio should exceed the return of a custom weighted–average mix of the Barclays country indexes within the Global Inflation–Linked Bond Index over three–year period on an annualized basis. Total return of each manager's portfolio should exceed their benchmark return as specified in each manager's guidelines.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the Ohio Revised Code Section 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. Permitted countries include any country issuing Inflation Linked bonds with a sovereign local currency credit rating (S&P) of A– or better.
2. The net exposure to individual countries may vary between a specified duration band.
3. The net duration of each manager's portfolio may vary between a specified duration band.
4. No active foreign currency exposure is permitted. All foreign currency exposure must be fully hedged back to the USD.
5. Nominal U.S. Treasury bonds may be used as a substitute for Inflation Linked bonds up to a stated maximum amount. Non–U.S. nominal bonds may not be purchased.
6. The ability to leverage the portfolio, purchase securities on margin, purchase Rule 144A securities or private placements is prohibited.
7. The ability to purchase equity instruments or any securities that may convert to equity is prohibited.

Investment Structure

The GIPS allocation will be managed solely on an active basis in order to exploit the perceived inefficiencies in Inflation Protected Securities markets and will have a target of six percent (6%) of total fund assets.

3. Commercial Mortgages

Investment Objective

Total return of the commercial mortgage composite portfolio should equal a real rate of return of four percent, net of investment management fees, over rolling ten–year periods. The Board of Trustees has determined that inclusion of commercial mortgage investments secured by real estate, may, depending on market circumstances, enhance the risk/return characteristics of OP&F.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the Ohio Revised Code Section 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. The main focus of investing will be on commercial mortgage whole loans which provide for fixed income payments derived from underlying property cash flows.
2. Risk shall be controlled through diversification strategies and the retention of qualified managers with acceptable loan underwriting and/or commercial mortgage acquisition experience.

Investment Structure

The commercial mortgage allocation will be managed solely on an active basis in order to exploit the perceived inefficiencies in the commercial mortgage market. The commercial mortgage allocation will have a target of zero percent (0%) of total fund assets but will allow for up to a two percent (2%) allocation, which shall be included within the Fixed Income allocation. OP&F will utilize commingled fund investments to manage its commercial mortgage allocation.

D. High Yield

Investment Objectives

Total return of the high yield fixed income composite portfolio should exceed the return of the CS First Boston High Yield Index, Developed Countries Only over a three–year period on an annualized basis. Total return of each manager's portfolio should rank above the median when compared to their peer group over a three–year period on an annualized basis and should exceed their benchmark return as specified in each manager's guidelines.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the Ohio Revised Code Section 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. The main focus of investing will be on fixed income securities issued by U.S. corporations. Non–U.S. dollar denominated securities are prohibited.
2. The composite portfolio as well as each manager's portfolio shall have similar portfolio characteristics as that of the CS First Boston High Yield Index, Developed Countries Only.
3. Issues must have a minimum credit rating of CCC or equivalent at the time of purchase.
4. Each manager's portfolio will be diversified by economic industry.
5. Each manager's portfolio has a maximum threshold for the amount of cash that may be held at any one time.
6. Purchased issues must meet the minimum original issue size as stated in each manager's investment guidelines.
7. Each manager's portfolio must have a dollar–weighted average quality of B–/B3 or above.

Investment Structure

The high yield fixed income allocation will be managed solely on an active basis in order to exploit the perceived inefficiencies in the high yield markets and to minimize the probability of exposure to securities in default. The high yield fixed income allocation will have a target of five percent (5%) of total fund assets.

E. Real Estate

Investment Objectives

Total return of the real estate composite portfolio should exceed, prior to investment advisor fees, the NCREIF Property Index by 100 basis points measured over rolling three–year periods. The role of real estate in OP&F's portfolio is to provide an inflation hedge and a return that negatively correlates with stock and bond returns, thereby reducing the volatility and risk of the total portfolio. Real estate must also provide a total return that is competitive on a risk–adjusted basis with stocks and bonds.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the Ohio Revised Code Section 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. The main focus of investing will be on core properties (i.e., operating, substantially leased, well located, institutional quality in the traditional property types which include office, apartment, retail and industrial). OP&F will opportunistically make investments in non–core, institutional quality properties (i.e., hotels, senior housing, etc.) to capture superior risk–adjusted returns caused by imbalances in the real estate and capital markets.
2. For diversification purposes, properties will be diversified by type, location and size of investment and by advisor.
3. Leverage will be utilized only if acceptable debt service coverage, loan to value ratios and other protection can be provided.

Investment Structure

The real estate allocation will have a target of eight percent (8%) of total fund assets. The real estate allocation will be managed solely on an active basis in order to exploit the perceived inefficiencies in the real estate market. OP&F will utilize both separately managed accounts and commingled funds to manage its allocation to real estate. OP&F's preferred investment vehicle is a separate account because it affords OP&F the highest degree of control over its investments. OP&F also prefers to own 100% of each core property investment. Commingled fund investments will be made to allow OP&F to invest in higher return, higher risk assets and in extraordinarily large properties.

F. Private Equity

Investment Objective

Total return, net of fees, of the private equity composite portfolio should exceed the Wilshire 5000 by 500 basis points calculated over a rolling ten–year period. Returns shall be calculated on a time–weighted rate of return basis. Each partnership should rank in the top quartile when compared to their vintage year peer group. Returns for each partnership shall be calculated on an internal, or dollar–weighted, rate of return basis. The private equity allocation is designed to provide an attractive risk–adjusted rate of return to OP&F.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the Ohio Revised Code Section 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. For diversification purpose, OP&F will seek to maintain exposure to the following private equity asset classes as such: 30–50% venture capital, 45–70% buyouts and 0–10% distressed debt/others.
2. OP&F will seek to maintain geographic diversification as such: 75–100% U.S. and 0–25% Non–U.S.
3. OP&F will seek to maintain stage, vintage year, capitalization and industry diversification within the private equity composite portfolio.
4. OP&F shall not invest in any individual partnership in which the capital commitment of the general partner is not equal to or greater than 1% of the total capital committed at the time of the final closing of the partnership. OP&F shall not invest in any fund of funds in which the capital commitment of the general partner does not represent a significant commitment in relation to the financial circumstances of the general partner.
5. The maximum and minimum percentage interest and dollar amount of total capital committed for each partnership and fund of funds at the time of the final closing is as follows:

Partnerships

Guideline	Min	Max
Percentage Interest	n/a	10%
Dollar Amount	$5mm	n/a

Fund of Funds

Guideline	Min	Max
Percentage Interest	n/a	15%
Dollar Amount	$10mm	n/a

The minimum dollar amount shall not apply to individual partnerships or fund of funds which, due to over–subscription, choose to limit our capital commitment to less than $5 and $10 million, respectively.

Investment Structure

The private equity allocation will have a target of three percent (3%) of total fund assets. OP&F may utilize any of the following types of vehicles in implementing our private equity strategy: fund of funds, partnerships, limited liability companies or group trusts. OP&F may also participate in secondary offerings or purchase private equity placements from other investors on the secondary market. Individual partnerships will be used on an opportunistic basis and will either be partnerships also held by one of our fund of funds or partnerships with a significant presence in the state of Ohio. Significant presence will be defined as having a fully operational office within the state comprised of at least two investment professionals, one of which is a managing member of the general partner.

G. Cash Equivalents

Investment Objective

Total return of the portfolio should exceed the 91–day Treasury Bill rate of return over rolling twelve–month periods. To provide effective cash management when investing cash balances, emphasis is placed on the protection of principal through the purchase of higher quality money market instruments, while at the same time attempting to achieve the highest available return.

Investment Guidelines & Characteristics

Assets eligible to be managed in this class of investments will be found in the Ohio Revised Code Section 742.11. The following guidelines and characteristics shall apply unless otherwise approved by the Board of Trustees:

1. Authorized investments include: commercial paper rated A2/P2 or better, repurchase agreements, reverse repurchase agreements, agency discount notes and U.S. Treasury Bills. Repurchase agreements and reverse repurchase agreements shall be limited to instruments of the Fund's domestic sub–custodian bank. Certificates of deposit and banker's acceptances may also be purchased. All obligations shall mature within two hundred seventy days of the date of purchase.
2. Credit reviews of approved issuers of commercial paper shall be performed on a regular basis, but no less than every six months for issuers rated A1/P1 and every three months for issuers rated A2/P2 or split rated.
3. Total holdings of commercial paper in any one industry shall not exceed the greater of 0.50% of the total fund assets or $50 million.
4. Repurchase agreements and reverse repurchase agreements shall be limited to the greater of $50 million or 0.70% of total fund assets.
5. Agency discount notes and U.S. Treasury bills shall have no exposure limits.
6. Commercial paper exposure limits shall be based upon credit rating and current outlook as described in OP&F's Short Term Cash Management Policies and Guidelines.

Investment Structure

Cash or cash equivalents have a target allocation of zero percent (0%) of total fund assets but will allow for up to one–half percent (0.5%) allocation. Investment staff is responsible for the cash management function.

VII. Proxy Voting

OP&F's Board of Trustees believes that common stock proxies are valuable and should be voted in the long–term interests and objectives of the Plan set forth herein. Common stock proxies may be executed by the Sr. Investment Officer or the Chief Investment Officer, or their designees, and by designated outside money managers. Staff or any manager that exercises a proxy vote shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related thereto and the policies set forth in the Board's "Proxy Voting Policy Statement." The internal staff shall provide a semi–annual summary report of proxy voting actions to the Investment Committee/Board of Trustees.

VIII. Securities Lending

The investment objective for the securities lending program is to generate incremental income within a high quality investment program that safeguards the return of principal, maintains adequate daily liquidity, ensures diversification and tightly controls exposure to fluctuating interest rates. The program may be operated by a bank trustee or a third party lending agent. Marking to market shall be performed daily and a minimum of 102% collateral shall be diligently maintained. Securities lending reports shall be provided monthly by the agent to the staff. Staff will present a semi–annual summary report to the Investment Committee/Board of Trustees.

IX. Investment Manager Monitoring and Evaluation Policy

The purpose of the OP&F Investment Manager Monitoring and Evaluation Policy is to establish the process and discipline for managing the investment manager relationship. The policy states the process, responsibilities and important factors for consideration in the monitoring and evaluation process.

The successful monitoring and evaluation of managers depends on synthesizing a multi–faceted array of investment factors, including historical data and forward looking characteristics that are often linked. The process must also examine the investment manager's business capabilities and ability to attract and retain investment and support professionals. The Policy seeks to examine all material information about OP&F's investment managers that may materially impact the relationship and investment objectives of the Board.

OP&F will consider, but not be limited to, the following factors in monitoring and evaluating its investment managers:

A. Stability and experience of firm in the investment product;

1. Stability of the firm, as measured by the quality of the organizational structure of the firm; the existence of, or potential for, significant developments in the firm; and the expected financial stability of the firm.
2. Experience of the firm in providing investment management services to similar institutional investors, as measured by the firm's history of providing such services.
3. Ownership of the firm, as measured by the depth and structure of the incentive programs and the ownership type for key investment professionals in the subject product.
4. Firm commitment to improvement as measured by whether or not there is a clear business plan/strategy, reinvestment in the firm with an overall commitment for enhancements/improvements.
5. Adverse organizational issues, as measured by the existence of litigation or other investigations; and the existence of financial problems.

B. Quality, stability, depth and experience of investment professionals;

1. Experience of portfolio manager(s) in providing similar services to similar institutional investors, as measured by the length of time the portfolio manager(s) has served as a portfolio manager to such investors; demonstrated expertise in providing such services to other such investors.
2. Stability of the firm's professional base, as measured by personnel turnover.
3. Depth of personnel, as measured by the firm's account/portfolio manager and account/investment management personnel ratios; and back–up procedures for providing services to OP&F in the absence of the portfolio manager(s).

C. Client service and relationships;

1. Assets under management, as measured by the amount in the subject product as well as the experience of managing other similar asset class products.
2. The similarity of a firm's clients to OP&F, as measured by the amount of institutional tax–exempt assets under management and the size of the individual accounts currently under management.
3. Stability of the firm's client base, as measured by the number of accounts gained or lost.
4. Procedures for client contact, timely reporting, compliance monitoring, reconciliation process with OP&F's custodian and responsiveness to reporting data and formatting requirements.

D. Investment philosophy and process;

1. Defined philosophy and process implementation, as measured by whether the philosophy is effectively communicated and what the process is and why it works. It should be identified as to whether the process is based on sound research and whether or not they are focusing on temporary or permanent inefficiencies in the market.
2. Portfolio construction process, as measured by whether or not the manager is benchmark oriented such that there are distinct portfolio objectives and on–going monitoring relative to these objectives. It should be identified as to whether the process contains risk controls, and if so, are they part of a disciplined process and who is performing the monitoring.
3. Research, as measured by whether there are appropriate resources given the product style, whether the research performed is qualitative or quantitative, and whether or not there are separate research departments by product type or one fully integrated research staff.
4. Sources of information, as measured by whether the data used in the process is collected and/or assimilated by outside organizations or generated internally and how the information is processed and interpreted.

E. Investment performance and risk control;

1. The investment manager's alpha for active managers and tracking error for passive managers relative to the target benchmark. Active managers will also be expected to rank in the top half of managers with similar objectives over a 3 to 5 year period, if available. Additional focus will be placed on return/risk ratios and information ratios which incorporate both absolute and manager specific risk.

F. Investment fees;

1. Investment management fees shall be competitive and of an appropriate structure for the product type and assets under management.

Monitoring Responsibilities

It is important for the roles of the participants in the implementation of this Policy to be clear and delineated. The following is intended as a guide to reflect the overall framework for the participants in the process. Participant responsibilities may vary from time to time.

Investment Committee/Board of Trustees—Responsible for the overall management of OP&F and investment manager relationship. Staff and consultant will provide the Board with periodic updates on the investment structure, overall investment manager performance and compliance with guidelines. Also responsible for the overall management of OP&F's investment program. This shall include ongoing review of the asset allocation plan, investment structure, investment performance and other related issues. The Committee/Board shall be responsible for approving investment policies and procedures and shall assign investment managers to a monitoring category (except that only the Board may assign categories 4 and P4, termination).

Staff

Responsible for the day–to–day management of this Policy and the investment manager relationship, including investment reporting and investment guideline compliance. Staff will report all material manager issues to the consultant for review and to the Board for its consideration.

Investment Consultant

Responsible for assisting the staff and Board in establishing strategic investment policy and strategy. The consultant will monitor the consistency of investment manager mandates with the investment objectives, investment manager guidelines and will prepare quarterly performance measurement reports. The consultant will report all material investment manager issues to the staff and Board.

Investment Manager

Responsible for managing the investment portfolio within the objectives and guidelines established by the Board. The investment manager is responsible for self–monitoring of the portfolio and notifying the staff when there are any deviations from the guidelines and when modifications to the guidelines may be appropriate. The investment manager is responsible for the quality and timeliness of its reporting, including the reconciliation of its portfolio with OP&F's custodian.

Frequency of Monitoring

The investment manager's performance, risk and portfolio characteristics will be monitored on a monthly/quarterly basis, or more frequently, and will be evaluated relative to the Board approved investment manager guidelines and objectives.

Manager Monitoring Conclusions

The Board seeks long term and successful relationships with its investment managers. The monitoring process is intended to ensure the success of the relationship. All investment managers will be assigned, as noted above, to one of the following categories, which will be reviewed by the Investment Committee/Board of Trustees at least annually:

1. Retain the investment manager with no material changes in the relationship;
2. Retain the investment manager with issues of a material nature to be noted and monitored on a regular basis;
3. Retain the investment manager and place on probation with specific material issues identified and a plan and time period developed to resolve issue; and
4. Terminate the investment manager relationship and redeploy the assets.

Where potentially material and adverse issues arise in OP&F's current investment manager relationships, the Investment Committee/Board of Trustees will review the issues and may re–assign the manager to another category in the case of 1–3 rating. The assignment of a 4 rating must be approved by the Board.

Once a manager has been downgraded, they may not be upgraded for at least 6 months. During this time period the reasons for the rating downgrade will be evaluated thoroughly by the staff and the manager's progress on their corrective action plans will be followed. Although managers will be prohibited from obtaining a rating upgrade within 6 months of a rating downgrade, a manager may be further downgraded or recommended for termination at any time.

In conjunction with the annual manager evaluation conducted by the staff and the Investment Committee/Board of Trustees, the following review schedule will be followed for managers rated either a '2' or '3':

'2'—The staff and the Investment Committee/Board of Trustees will review manager performance and the issues which resulted in the rating downgrade at least every 6 months until the rating has been upgraded to a '1'. Further downgrading to a '3' will result in the review schedule noted below:

'3'—Due to the severity of this rating, quarterly reviews will be conducted of managers rated a '3'.

When deemed necessary by the staff or Investment Committee/Board of Trustees, managers will be requested to attend these reviews.

In the case of investment managers or general partners who act as managers of private, essentially non–marketable, investment vehicles such as private equity and commingled real estate investment funds, all investment managers will be assigned, as noted above, to one of the following categories which will be reviewed by the Investment Committee/Board of Trustees at least annually:

P1. The investment manager may be considered for future assignments.
P2. The investment manager has specific material issues which need to be resolved before the manager may be considered for future assignments.
P3. The investment manager may not be considered for future assignments.
P4. Removal of the investment manager or sale of our interest should be actively pursued and acted upon if in the best interest of OP&F.

Where potentially material and adverse issues arise in OP&F's current investment manager relationships, the Investment Committee/Board of Trustees will review the issues and may re–assign the manager to another category in the case of a P1–P3 rating. The assignment of a P4 rating must be approved by the Board.

Termination of an Investment Manager

The Board will review the adverse material issues and circumstances prior to terminating an investment manager. The major issues to consider will include:

- Longer term prospects of the investment manager in correcting the issue;
- Potential changes in the relationship;
- The cost of termination;
- Replacement alternatives; and
- How the investment manager's assets will be redeployed.

Manager Due Diligence Visits

The staff will meet with those investment managers whose performance falls below the 70th percentile relative to their peers for all of the following: current quarter; year–to–date; and trailing one year time periods. The staff will also meet with investment managers for non–performance issues that are material to the relationship, including, but not limited to: firm or investment product stability, key professional turnover, client service and investment reporting.

X. COMMUNICATIONS

Each manager will provide hard copy reports at least quarterly, including performance measurement, asset inventories, transaction summaries, market commentary or anything else deemed significant at the time of reporting. Each manager is expected to meet with OP&F's Board at least annually, unless notified otherwise.

XI. INVESTMENT MANAGER SEARCH POLICY

The selection of investment managers will be conducted only under a Request for Proposal (RFP) process that will consider the following issues:

A. The investment strategy for the manager search will be considered within the strategic asset allocation plan, investment structure and other applicable investment policies and procedures approved by the Board, including the Ohio–Qualified Investment Manager Policy.
B. The RFP minimum criteria will be consistent with the search investment strategy and will be established by the Investment Committee/Board of Trustees of Trustees, with the assistance of staff and the investment consultant. The selection criteria may include such items as:

1. Stability and experience of firm in the investment product;
    a. Stability of the firm, as measured by the quality of the organizational structure of the firm; the existence of, or potential for, significant developments in the firm; and the expected financial stability of the firm.
    b. Experience of the firm in providing investment management services to similar institutional investors, as measured by the firm's history of providing such services.

c. Ownership of the firm, as measured by the depth and structure of the incentive programs and the ownership type for key investment professionals in the subject product.
d. Firm commitment to improvement as measured by whether or not there is a clear business plan/strategy, reinvestment in the firm with an overall commitment for enhancements/improvements.
e. Adverse organizational issues, as measured by the existence of litigation or other investigations; and the existence of financial problems.

2. Quality, stability, depth and experience of investment professionals;
   a. Experience of portfolio manager(s) in providing similar services to similar institutional investors, as measured by the length of time the portfolio manager(s) has served as a portfolio manager to such investors; demonstrated expertise in providing such services to other such investors.
   b. Stability of the firm's professional base, as measured by personnel turnover.
   c. Depth of personnel, as measured by the firm's account/portfolio manager and account/investment management personnel ratios; and back–up procedures for providing services to OP&F in the absence of the portfolio manager(s).

3. Client service and relationships;
   a. Assets under management, as measured by the amount in the subject product as well as the experience of managing other similar asset class products.
   b. The similarity of a firm's clients to OP&F, as measured by the amount of institutional tax–exempt assets under management and the size of the individual accounts currently under management.
   c. Stability of the firm's client base, as measured by the number of accounts gained or lost.
   d. Procedures for client contact, timely reporting, compliance monitoring, reconciliation process with OP&F's custodian and responsiveness to reporting data and formatting requirements.

4. Investment philosophy and process;
   a. Defined philosophy and process implementation, as measured by whether the philosophy is effectively communicated and what the process is and why it works. It should be identified as to whether the process is based on sound research and whether or not they are focusing on temporary or permanent inefficiencies in the market.
   b. Portfolio construction process, as measured by whether or not the manager is benchmark oriented such that there are distinct portfolio objectives and on–going monitoring relative to these objectives. It should be identified as to whether the process contains risk controls, and if so, are they part of a disciplined process and who is performing the monitoring.
   c. Research, as measured by whether there are appropriate resources given the product style, whether the research performed is qualitative or quantitative, and whether or not there are separate research departments by product type or one fully integrated research staff.
   d. Sources of information, as measured by whether the data used in the process is collected and/or assimilated by outside organizations or generated internally and how the information is processed and interpreted.

5. Investment performance and risk control;
   a. The investment manager's alpha for active managers and tracking error for passive managers relative to the target benchmark. Active managers will also be expected to rank in the top half of managers with similar objectives over a 3 to 5 year period, if available. Additional focus will be placed on return/risk ratios and information ratios which incorporate both absolute and manager specific risk.

6. Investment fees;
   a. The total cost of performing investment advisory services as measured by the Fee Proposal based on a total account size. The managers in the search will be evaluated relative to each other as well as to a representative peer universe.

C. The search may be on a closed or open manager universe basis. Closed universe searches shall be used only in circumstances where an expedited process is required to avoid material harm to OP&F or where there is approval to reconsider the finalists of a prior search concluded within the preceding two years, by an affirmative vote of at least 75% of the members of the Board of Trustees who have been elected or appointed and are serving on OP&F's Board at the time of the meetings. The retention of a manager in a closed universe search shall be subject to a due diligence review by the Investment Committee/Board of Trustees, staff and consultant. When reopening a prior search, due diligence shall be performed on those managers constituting the finalists of the original search.
D. RFPs will be sent to managers identified as likely to meet the stated qualifications and to those requesting the RFP in an open universe search. An advertisement will be placed in an investment industry or national business publication in open universe searches. In addition, as required by the statute, OP&F will provide public notice of an open universe search along with the search criteria through an advertisement issued in an industry publication and/or by a posting on OP&F's website. In closed universe searches, the Investment Committee/Board of Trustees shall approve all potential candidates with the assistance of the staff and consultant.
E. Staff and the Board's investment consultant will review all timely submitted RFPs to ensure that all search criteria have been met.
F. Staff and the Board's investment consultant will evaluate all RFPs having met established criteria and produce written reports summarizing the findings and manager rankings to the Investment Committee/Board of Trustees.
G. The Investment Committee/Board of Trustees will consider the staff and consultant reports as well as other material information when determining the list of managers for finalist interviews.
H. The Investment Committee/Board of Trustees will interview and evaluate the finalists with the assistance of staff and the investment consultant.
I. The staff, investment consultant and/or Investment Committee/Board of Trustees may conduct a due diligence visit with the finalists.
J. The Board may approve, fail to approve or modify the amount and/or timing of funding, investment guidelines and fees of the approved managers.

XII. REVIEW PROCEDURES

In addition to the regular performance reviews, the Board in conjunction with its consultant will review this policy statement at least once a year to determine if revisions are warranted.

It is not expected that investment policy will change frequently, in particular short term changes in the financial markets should generally not require an adjustment in the investment policy.

THE 2003 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Actuarial Section

ohio Police & Fire pension Fund

THE OHIO POLICE AND FIRE PENSION FUND
140 East Town Street
Columbus, Ohio 43215
www.op-f.org

Report of Actuary

Mellon

Mellon HR Solutions

March 24, 2005

Board of Trustees
Ohio Police & Fire Pension Fund
140 East Town Street
Columbus, Ohio 43215

Members of the Board:

This report presents the results of the annual actuarial valuation of the assets and liabilities of the Ohio Police & Fire Pension Fund ("Fund") as of January 1, 2004, prepared in accordance with Chapter 742 of the Ohio Revised Code. The valuation takes into account all of the promised benefits to which members are entitled, including pension and survivor benefits.

The valuation was based on the actuarial assumptions and methods as adopted by the Board of Trustees, including a valuation interest rate of 8% per annum compounded annually. The assumptions and methods are unchanged from the prior valuation.

The actuarial assumptions and methods comply with the parameters set forth in Governmental Accounting Standards No. 25.

Assets and Membership Data

The Fund reported to the actuary the individual data for members of the Fund as of the valuation date. While we did not verify the data at their source, we did perform tests for internal consistency and reasonableness. The amount of assets in the trust fund taken into account in the valuation was based on statements prepared for us by the Fund.

Funding Objectives and Progress

The actuary uses an actuarial cost method to determine the portion of the Fund's liabilities accrued by the members as of the valuation date and the portion that is attributable to future years of service. The rate of contribution necessary to systematically fund the future service liabilities, the normal cost rate, is calculated under the cost method to be a level percentage of active member payroll. The portion of the liabilities accrued as of the valuation date, the actuarial accrued liability, is compared to a market–related value of the Fund's assets. The amount of liabilities in excess of the assets is called the unfunded actuarial accrued liability. The actuary determines how many years is required by the Fund to completely amortize the unfunded actuarial accrued liability, using the member and employer contributions reduced by the amount of normal cost for the year.

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Ohio Police & Fire Pension Fund
March 24, 2005
Page 2

Section 742.16 of the Revised Code, as adopted by Senate Bill No. 82, sets forth an objective that the number of years required to amortize the unfunded actuarial accrued liability (the funding period) be no more than 30 years. If the funding period exceeds 30 years, a plan shall be developed and presented by the Board of Trustees to reduce the funding period to not more than 30 years by the 2007 plan year. The 2004 actuarial valuation results in a funding period of infinite years, which compares to the infinite period developed in the 2003 actuarial valuation. The infinite funding period is attributable to the less than assumed investment performance of the Fund during the period 2000 through 2002. It should be noted that the funded ratio (i.e., the ratio of actuarial assets to the actuarial accrued liability) is 86.5%. This funded ratio is an improvement over the 82.6% determined as of 2003.

Financial Results and Membership Data

The valuation report shows detailed summaries of the financial results of the valuation and membership data used in preparing this valuation. The actuary prepared supporting schedules included in the Actuarial and Statistical Sections of the Ohio Police & Fire Pension Fund Comprehensive Annual Financial Report. The actuary prepared the trend data schedules included in the Financial Section of the Ohio Police & Fire Pension Fund Comprehensive Annual Financial Report.

Qualified actuaries completed the valuations in accordance with accepted actuarial procedures as prescribed by the Actuarial Standards Board. The qualified actuaries are members of the American Academy of Actuaries and are experienced in performing actuarial valuations of public employee retirement systems. To the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practice.

Respectfully submitted,

Kim M Nicholl

Paul R. Wilkinson

Kim M. Nicholl, F.S.A.
Principal and Consulting Actuary

Paul R. Wilkinson, A.S.A.
Director, Consulting Actuary

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Summary of Actuarial Assumptions and Methods

INTEREST

A rate of 8.25% per annum, compounded annually, net of investment fees. Adopted by the Board of Trustees in 1989.

RATES AND OTHER ASSUMPTIONS

Mortality

Mortality is pre–retirement only based on the 1994 Group Annuity Mortality (sex distinct) Tables. Police include a five year set back for males and three year set forward for females. Fire include a seven year set forward for males and a three year set forward for females. The following rates at selected ages are illustrative:

Age	Police Male	Police Female	Fire Male	Fire Female
	Rate of Mortality			
20	0.034	0.029	0.025	0.029
30	0.066	0.042	0.059	0.042
40	0.085	0.088	0.085	0.088
50	0.158	0.191	0.135	0.191
55	0.258	0.336	0.210	0.336
60	0.442	0.668	0.358	0.668
62	0.558	0.864	0.442	0.864
65	0.798	1.176	0.630	1.176

Termination

The rates of termination are based upon the age and service tables. The following rates at selected ages are illustrative:

Withdrawal Rate (Police):

Age	Years of Service 0	1	2	3	4	5	6	7	8	9	10+
25	0.02440	0.02440	0.02475	0.02031	0.01745	0.01511	0.01420	0.01384	0.01218	0.01311	0.01311
30	0.02056	0.02056	0.02113	0.02012	0.01824	0.01608	0.01452	0.01355	0.01211	0.01168	0.01168
35	0.02309	0.02309	0.02400	0.02376	0.02158	0.01863	0.01601	0.01405	0.01230	0.01059	0.00959
40	0.03017	0.03017	0.03130	0.03043	0.02715	0.02279	0.01866	0.01532	0.01271	0.00969	0.00590
45	0.04104	0.04104	0.04204	0.03944	0.03458	0.02846	0.02247	0.01742	0.01337	0.00919	0.00311
50	0.05501	0.05501	0.05546	0.05012	0.04339	0.03543	0.02737	0.02041	0.01449	0.00957	0.00299
55	0.07155	0.07155	0.07112	0.06199	0.05322	0.04350	0.03327	0.02436	0.01621	0.01124	0.00737
60	0.09038	0.09038	0.08881	0.07480	0.06390	0.05259	0.04013	0.02931	0.01860	0.01438	0.01438

Withdrawal Rate (Fire):

Age	Years of Service 0	1	2	3	4	5	6	7	8	9	10+
25	0.00530	0.00749	0.00864	0.00903	0.00858	0.00749	0.00607	0.00510	0.00453	0.00434	0.00434
30	0.00912	0.00882	0.00824	0.00749	0.00684	0.00632	0.00588	0.00549	0.00515	0.00483	0.00483
35	0.01145	0.00989	0.00866	0.00767	0.00714	0.00699	0.00699	0.00679	0.00631	0.00547	0.00417
40	0.01277	0.01082	0.00978	0.00931	0.00916	0.00923	0.00925	0.00893	0.00799	0.00628	0.00359
45	0.01308	0.01159	0.01161	0.01242	0.01293	0.01307	0.01269	0.01193	0.01022	0.00729	0.00312
50	0.01242	0.01218	0.01412	0.01700	0.01846	0.01851	0.01731	0.01581	0.01302	0.00850	0.00282
55	0.01082	0.01257	0.01728	0.02306	0.02575	0.02557	0.02310	0.02057	0.01640	0.00993	0.00272
60	0.00831	0.01275	0.02109	0.03060	0.03480	0.03423	0.03008	0.02623	0.02038	0.01159	0.00285

Disability

The rates of disability mortality are based upon the 1994 Group Annuity Mortality Table (male only), Police include a six year set forward and Fire include a five year set forward. The following rates at selected ages are illustrative:

Age	Rate of Disability Mortality			
	Police		Fire	
	Male	Female	Male	Female
20	0.002	0.002	0.004	0.004
30	0.124	0.124	0.067	0.067
40	0.708	0.708	0.379	0.379
50	2.533	2.533	2.939	2.939
55	4.270	4.270	5.270	5.270
60	6.546	6.546	7.610	7.610
62	7.662	7.662	8.530	8.530

Note: The present values of future benefits for active members resulting from the use of these disability rates reflect the fact that the occurrence of disability by type approximates the following

	Police	Fire
On duty permanent and total	35%	35%
On duty partial	61	61
Off duty ordinary	4	4

Salary Increase Rate

Salary increases included an inflation rate of 3% plus a productivity increase of 1% and service–graded promotional increases. Annual total salary increase shown below:

Years of Service	Annual Total Salary Increase
1 and less	11.0%
2	9.5
3	8.5
4	6.5
5 and more	5.0

Retirement:

The rates of post–retirement mortality are based upon the 1994 Group Annuity Mortality Table (male only), set forward one year for all members. These rates are applicable after the member has satisfied the conditions for retirement. The following rates are rates of retirement (see DROP retirement rates for modifications):

Police		Fire	
Age(s)	Rate	Age(s)	Rate
48	0.30	48	0.30
49–58	0.20	49–52	0.20
59–64	0.25	53–58	0.25
		59–61	0.30
		62–64	0.30
65	1.00	65	1.00

Deferred Retirement Option Plan (DROP):

All members who do not retire when first eligible are assumed to elect DROP. DROP participants are assumed to retire at the same retirement rates as assumed, with the following exceptions:

- second and third years of DROP—0%; and
- eight years of DROP—100%.

PROBABILITIES AMONG SURVIVORS

Percent Married

85 percent of survivors are married.

Age of Spouse

Female (or male) spouses three years younger (or older) than their spouses.

Dependent Children

No specific allowance has been made, in the calculation of this benefit, for the probability of mortality prior to age 18, or the probability of disability at age 18 and thereafter. In valuing the benefit beyond age 18, it is assumed that all the dependent children will be students and eligible for payments to age 22.

Dependent Parents

Costs based upon allowance for mortality (same rate as for beneficiaries) but no specific allowance for change in dependency status.

Number of Dependent Children

Each member is assumed to have two children, born when the member was age 26. Dependency is assumed to cease when the child is 22.

COLA ANNUITIES

It has been assumed that where an election is possible, all members will elect the COLA annuity. It has also been assumed that the Consumer Price Index will increase each year at a rate equal to or greater than 3%.

ADMINISTRATIVE EXPENSES

The Normal Cost is increased by all pension administrative expenses budgeted, net of the State subsidy received.

ACTUARIAL VALUE OF ASSETS

The difference between actual market value and expected market value is recognized over five years (20% per year). The actuarial value is the market value adjusted by the total unrecognized gains or losses incurred during the five year period, further adjusted if necessary to be within 10% of the market value for the January 1, 2002 actuarial valuation and 20% of the market value for actuarial valuations beginning on or after January 1, 2003.

SUBSIDY STATE CREDIT

The subsidy received from the State of Ohio during the valuation year is an offset to the Administrative Expenses.

ACTUARIAL COST METHOD

Entry Age Normal Actuarial Cost Method. Entry Age is the age at the time the participant commenced participation if the plan had always been in existence. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by salary, with Normal Cost determined as if the current benefit accrual rate had always been in effect. The Actuarial Accrued Liability is net of the present value of employer accrued liability.

CHANGES IN ASSUMPTIONS AND ACTUARIAL COST METHOD

- There were no changes in actuarial assumptions since the prior valuation.

Mortality Rates

The 1994 Group Annuity Mortality Table was used for all rates. The assumption changes made were to the age adjustment and use of the female table.

Withdrawal Rates

Age and service related table for the current year (for causes other than death, disability, or retirement).

Retirement Rates

Rates remained the same from prior year.

Occurrence of Disability

The assumptions (which are the same for Police and Firefighters), stayed the same from the prior valuation as follows:

Disability Type	Prior Year	Current Year
On duty permanent and total	35%	35%
On duty partial	61	61
Off duty Ordinary	4	4

Salary Increases:

The assumptions stayed the same from the prior year.

Dependent Children

Each member is assumed to have two children, born when the member was age 26. Dependency is assumed to cease when the child is 22.

Administrative Expense Loading

The Normal Cost by all pension administrative expense budgeted, net of the State Subsidy received.

Actuarial Cost Method

The Fund to Maximum Retirement Age version of the Entry Age Normal Cost Method.

Annual Valuation Payroll

Assumes a full year of salary increase.

Actuarial Value of Assets Methodology

A five-year moving average value of assets that spreads the difference between the actual investment income and the expected income on the market value over a period of five years. The actuarial value of assets shall not be less than 80% or more than 120% of market value.

Present Value of Employer Accrued Liability

Future payments on the employer accrued liability (local fund receivable) are discounted at the valuation rate to determine the present value of the valuation date.

Active Member Valuation Data

Valuation Year	Number of Employers		Number of Active Members		Average Annual Salary		Percentage of Average Annual Salary Increases		Annual Payroll (Millions)
	Police	Fire	Police	Fire	Police	Fire	Police	Fire	
1998	621	353	15,533	11,600	44,892	45,052	3.1%	2.2%	1,249.1
1999	590	350	15,775	11,867	47,241	47,416	5.2%	5.2%	1,338.5
2000	573	352	15,778	12,158	49,113	49,459	4.0%	4.3%	1,407.6
2001	559	354	15,877	12,451	54,335	54,402	7.8%	7.2%	1,534.3
2002	541	362	15,924	12,556	56,661	56,687	4.3%	4.2%	1,606.3
2003	540	363	15,746	12,695	56,081	57,367	(1.0%)	1.2%	1,644.4

Retirants and Beneficiaries Added to and Removed from Rolls

Valuation Year	Police		Fire		Total Members at Year End	
	Additions	Removals	Additions	Removals	Police	Fire
1998	878	445	636	348	12,162	9,572
1999	783	400	599	327	12,545	9,844
2000	842	455	614	377	12,932	10,081
2001	669	427	505	347	13,174	10,239
2002	758	405	499	342	13,527	10,396
2003	568	433	407	329	13,662	10,474

Gains & Losses in Accrued Liabilities

Gains and losses in accrued liabilities resulting from differences between assumed and actuarial experience as of January 1, 2004 and January 1, 2003.

Type of Activity	Gain (or Loss) for Year 2004	2003
Turnover *If more liabilities are released by withdrawal separations from active membership than assumed, there is a gain. If smaller releases, there is a loss.*	$ 8,182,881	$ 1,753,772
Retirement *If members retire at older ages than assumed, there is a gain. If younger, there is a loss.*	22,866,956	39,195,981
Death among retired members and beneficiaries *If more deaths occur than assumed, there is a gain. If fewer deaths, there is a loss.*	(203,724,700)	(74,518,956)
Disability Retirants *If disability claims are less than assumed, there is a gain. If greater increases, there is a loss.*	(2,079,102)	24,742,510
Salary increase/decrease *If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.*	136,025,734	3,332,436
Return to work *If participants return to work with previous service restored, there is a loss.*	(11,091,673)	(7,145,354)
New Entrants *If new entrants join OP&F, there is a loss.*	(4,381,347)	(4,759,520)
Deaths among actives *If claims costs are less than assumed, there is a gain. If more claims, a loss.*	(6,222,218)	98,967
Investment *If there is a greater investment return than assumed, there is a gain. If less, there is a loss.*	203,193,961	(1,677,356,919)
Payroll Growth *If payroll increases more than assumed, there is a gain. If payroll does not increase as assumed, there is a loss.*	41,622,189	—
TOTAL GAIN (OR LOSS) DURING THE YEAR	**$ 184,392,681**	**$ (1,694,657,083)**

Short–Term Solvency Test

A short–term solvency test is one means of checking a system's progress under its funding program. In a short–term solvency test, the plan's valuation assets are compared with: 1) Active member contributions on deposit; 2) The liabilities for future benefits to present retired lives; 3) The liabilities for service already rendered by active members. In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of liability 3 will increase over time. Liability 3 being fully funded is very rare. Because OP&F changed its actuarial cost method from the aggregate method to the entry age normal method effective January 1, 1997, comparable solvency test data is not available for years prior to that date.

ACCRUED LIABILITIES ($ AMOUNTS IN THOUSANDS)

	Valuation Year	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active Members (Employer Financed Portion)	Valuation Assets	Portion of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
Police	1998	$ 548,372	$ 2,509,175	$ 1,751,789	$ 3,957,516	100%	100%	51%
Fire	1998	$ 423,342	$ 1,885,760	$ 1,334,184	$ 3,236,100	100%	100%	69%
Police	1999	$ 603,980	$ 2,674,691	$ 1,840,992	$ 4,330,425	100%	100%	57%
Fire	1999	$ 467,926	$ 1,987,723	$ 1,420,252	$ 3,574,761	100%	100%	79%
Police	2000	$ 644,164	$ 2,839,294	$ 1,914,232	$ 4,632,337	100%	100%	60%
Fire	2000	$ 508,155	$ 2,089,072	$ 1,511,366	$ 3,865,732	100%	100%	84%
Police	2001	$ 699,146	$ 3,099,628	$ 1,711,626	$ 5,110,052	100%	100%	77%
Fire	2001	$ 551,227	$ 2,275,967	$ 1,448,172	$ 3,966,417	100%	100%	79%
Police	2002	$ 746,520	$ 3,299,989	$ 1,894,086	$ 4,905,728	100%	100%	45%
Fire	2002	$ 593,228	$ 2,401,021	$ 1,573,523	$ 3,776,976	100%	100%	50%
Police	2003	$ 792,449	$ 3,390,164	$ 1,911,501	$ 5,269,436	100%	100%	57%
Fire	2003	$ 639,074	$ 2,448,043	$ 2,448,043	$ 4,067,667	100%	100%	61%

Plan Summary

Purpose

OP&F was established by the Ohio General Assembly to provide pension and disability benefits to members of OP&F and eligible benefits to their surviving spouses, children and dependent parents.

Administration

The administration, control and management of OP&F are vested in the Ohio Police & Fire Pension Board of Trustees which is comprised of the following nine members:

- Three representatives of police departments;
- Three representatives of fire departments;
- Three statutory members—one appointed by the Governor, one by the Treasurer of State, and one appointed jointly by the Senate President and Speaker of the House—must have professional investment expertise.

The representatives of police and fire departments are elected to four-year terms by the respective members, with one police and one fire position being a retired member or surviving spouse.

Membership

Membership in OP&F is mandatory under Ohio law for all full-time police officers employed by Ohio municipalities and appointed under the required statutory provisions. Full-time firefighters employed by townships, municipalities, joint fire districts or other political subdivisions who have satisfactorily completed a firefighter training course approved under former Section 3303.07, Section 4765.55 or conducted under Section 3737.33 of the Ohio Revised Code, are required to be OP&F members.

Contributions

Contributions are established by statute. Employers of police officers pay 19.5% of salary; employers of firefighters pay 24% of salary. Members contribute 10% of salary.

Benefits

Service Retirement

Upon attaining a qualifying age with sufficient service credit, a member of OP&F may retire and receive a lifetime monthly cash pension.

Normal Pension

Eligibility—Age 48 and 25 years of service.

Benefit—An annual pension equal to a percentage of the "average annual salary." The percentage equals 2.5% for each of the first 20 years of service, 2% for each of the next five years of service and 1.5% for each year of service in excess of 25 years, to a maximum of 72% of the "average annual salary."

Service Commuted

Eligibility—15 years of service.

Benefit—Commencing at age 48 plus 25 years from full-time hire date, whichever is later; an annual pension equal to 1.5% of the average annual salary multiplied by the number of full years of service.

Age/Service Commuted

Eligibility—Age 62 and 15 years of service

Benefit—The same formula applies as for the normal service pension.

Disability Benefits

Members who become unable to perform their official duties and whose earning capacities are impaired may qualify for disability benefits.

Disability benefits are classified as either service-incurred (on-duty) or non-service-incurred (off-duty) and differ in eligibility requirements and benefit formulas. Annual medical evaluations are required for disability benefit recipients who would not have met the age and service requirements for normal service retirement, unless the Board waives this requirement based upon an OP&F physician's certification that the disability is ongoing and further evaluation would not be cost effective.
OP&F further requires annual earnings statements to be submitted.

Permanent and Total Disability (On–Duty)

Eligibility—No age or service requirement.

Benefit—An annual benefit equal to 72% of the "average annual salary."

Partial Disability (On–Duty)

Eligibility—No age or service requirement.

Benefit—An annual benefit fixed by the Board of Trustees to be a certain percent of the "average annual salary" up to 60%. If the member has 25 or more years of service, the annual disability benefit is equal to the accrued normal service pension.

Non–service Incurred Disability (Off–Duty)

Eligibility—Any age and five years of service.

Benefit—An annual benefit is the percent awarded by the Board and may not exceed 60% of the "average annual salary." Service credit over 25 years cannot be used in calculating an off duty disability award.

Deferred Retirement Option Plan (DROP)

Eligibility—Normal Retirement.

Benefit—The Normal Retirement Benefit is determined at the date of DROP entry and receives annual cost–of–living adjustments (COLAs) during participation. DROP annual accrual is the sum of the Normal Retirement Benefit at DROP entry, with applicable COLA paid at DROP anniversary, member contributions credited to DROP and interest credited at a fixed rate of 5% compounded annually.

Member contributions are credited based on the number of years of DROP service under the following schedule:

Years 1 and 2
50% of member's contributions (5.0% of pay)

Year 3
75% of member's contributions (7.5% of pay)

Years 4–8
100% of member's contributions (10.0% of pay)

The minimum participation in DROP, without penalty, is three years and the maximum is eight years. If a member terminates within the first three years of joining DROP, then the member forfeits all of their DROP interest. If a member chooses to continue working after eight years in DROP, the member forfeits all DROP benefits and receives the Normal Retirement Benefit upon retirement, with service during the DROP period included.

At retirement, the member receives their Normal Retirement Benefit determined at the time of DROP entry, with the COLA adjustment to date of retirement when eligible and the DROP account balance as a lump sum or monthly annuity.

If the member dies while participating in DROP, the spouse or designated beneficiary will receive the entire DROP account balance determined at the time of death. The surviving spouse or contingent dependent beneficiary shall receive the greater of the retirement allowance made at the time of DROP entry or the Normal Retirement Benefit paid with COLA adjustments to the date of death, paid as if the member had elected a 50% joint and survivor option at death. All other statutory death benefits will apply.

If the member becomes disabled while in DROP, the member can choose either to receive a disability benefit or stay in DROP. If the member stays in DROP, the disability benefit is forfeited. If the member chooses the disability benefit, the member forfeits all DROP benefits and receives the disability benefit, with service during the DROP period included.

Rights Upon Separation From Service

Deferred Pension—If a member meets the service credit requirement for any service retirement pension but leaves service before attaining the required age, a pension becomes payable upon attainment of the qualifying age and filing the appropriate paperwork with OP&F.

Refund of contributions—Upon separation from service, a member can receive the contributions made to the plan by himself or, on his behalf, by his employer. Employer contributions are not refundable.

Statutory Survivor Benefits

Eligibility

Upon death of any member of OP&F, active or retired.

Benefit

Surviving Spouse's Benefit—An annual amount equal to $6,600, plus an annual cost of living allowance of 3% of the original base, paid each July 1, beginning July 1, 2000.

Surviving Child—An annual amount equal to $1,800, payable until such child attains age 18 or marries, whichever occurs first. The payment can continue to an unmarried full–time student until age 22. A dependent disabled child is entitled to a benefit regardless of age at time of member's death until marriage, death, or recovery. A cost–of–living allowance of 3% of the original base is payable each July 1.

Dependent Parents—If there is no surviving spouse or children, an annual amount of $2,400 is payable to one dependent parent or $1,200 each to two dependent parents for life or until dependency ceases or remarriage. A cost–of–living allowance of 3% of the original base is payable each July 1.

Lump Sum Death Benefit

On the death of a retired or disabled member of OP&F, a lump sum payment of one thousand dollars ($1,000) is paid to the member's surviving spouse or, if no surviving spouse, to a designated beneficiary. If no spouse or beneficiary, then to the member's estate.

Annuities

Effective February 28, 1980, for those retiring on either service pensions or disability benefits, optional annuity plans can be chosen. Members can elect actuarially reduced benefits under a joint and survivor annuity or life annuity certain and continuous plans.

Effective April 25, 1984, Pre–retirement Survivor Annuity was added to the plan, as discussed below.

Annuity Types

Pre–retirement Survivor Annuity

Eligibility—Upon death before retirement but after having satisfied the requirements for normal service retirement.

Benefit—The surviving spouse or contingent dependent beneficiary will receive the equivalent of a 50% joint and survivor annuity, calculated under the assumption that the decedent had retired effective the day following his/her death.

Single Life Annuity

For unmarried members, this is the standard annuity plan. Married members may elect this plan only if the spouse consents to the selection.

Joint and Survivor Annuity

For married members, this is the standard annuity plan at the 50% continuation level. Any percent between 1% and 100% (if less than 50%, requires spouses consent) of the members reduced pension may be continued to the surviving nominated beneficiary if not spouse, the percent continued may be limited based on the beneficiary's age (if someone other than the surviving spouse, only with the spouse's consent). This plan automatically terminates upon death of the beneficiary, to be effective the month following OP&F's receipt of notice of death, or it may be cancelled upon divorce with the consent of the member's spouse or a specific court order.

Life Annuity Certain and Continuous

The minimum guarantee is 5 years and the maximum is 20 years. 100% of the members' reduced pension continues to the beneficiary for the guarantee period selected.

Group Health Insurance and Medicare

Commencing January 1, 1974, the Board may contract for group health insurance on the basis of part or all of the cost of the premium for the coverage to be paid by OP&F. Medical and prescription drug coverage sponsored by OP&F are not rights vested and are subject to change at any time upon action of the Board of Trustees.

Effective January 1, 1977, OP&F is mandated to pay the premium for supplemental Medicare (Part B), upon obtaining the proper documentation from members of their enrollment in the medicare program.

Effective July, 1992, pensioners and survivors make monthly medical benefit contributions, which are credited to the Health Care Stabilization Fund. Effective July 1992, retirees and survivors began making monthly medical/prescription contributions, which are credited to the Health Care Stabilization Fund. These contributions are reviewed on an annual basis to determine adequacy with the rising cost of health care. In 2004, a new contribution strategy was implemented. Retirees and survivors now pay a percentage of the full cost of the benefit. The percentage ranges from 25% to 100% for themselves and dependents based on the year of retirement, age at retirement, number of years of service, and retirement type.

Tiered Retirement Plan—COLA or Terminal Pay (Non–COLA)

Members retiring on or after July 24, 1986, who had 15 or more years of service as of January 1, 1989, are allowed to select between two different pension calculation plans. Under the terminal pay method, a pension is calculated using terminal payments such as accrued sick leave and vacation compensation to increase the average annual salary, but subject to certain limitations, and these members do not receive cost of living adjustments. Under the COLA method, no terminal payments are added, but the pension is subject to annual increases equal to a 3% increase of the original base per year. The COLA method is the automatic calculation method for an active member with fewer than 15 years of service as of January 1, 1989.

The COLA percentage equals a fixed 3% increase of the original base benefit per year.

Post–Retirement Cost–of–Living Allowance (COLA)

Members who retired prior to July 24, 1986 or their surviving beneficiaries under optional plans are entitled to cost–of–living increases. The annual increase is paid on July 1st of each year. The annual COLA increase is $360 under a Single Life Annuity Plan with proportional reductions for optional payment plans.

Re–employed Retirants' Defined Contribution Plan Benefit

Effective June 30, 1991, every person who is retired under an Ohio public pension plan and who is re–employed in an OP&F covered position must contribute to OP&F at the same rate as other police officers or firefighters. The employer pays the normal rate as well. When the re–employed retirant terminates employment and becomes eligible, he or she has the option of receiving either a lump sum payment or a lifetime annuity paid monthly.

The lump sum payment is an amount equal to twice his/her contributions plus interest. The lifetime monthly cash payment is based on the value of the lump sum option. If the monthly annuity would be less than $25, then only the lump sum option is available.

The 2003 Comprehensive Annual Financial Report

Statistical Section

ohio Police & Fire pension fund

The Ohio Police and Fire Pension Fund
140 East Town Street
Columbus, Ohio 43215
www.op-f.org

Revenues by Source*

Year	Member Contributions and Purchases	Employer Contributions	Employer Contributions as a percentage of Covered Payroll	Investment and Securities Lending Income	Other Revenues	Total Revenues
1999	$ 135,814,320	$ 279,474,521	20.6%	$ 1,101,763,658	$ 18,829,767	$ 1,535,882,266
2000	144,967,340	304,889,375	21.0%	(165,140,849)	16,504,642	301,220,508
2001	150,531,967	312,085,249	20.7%	(443,461,307)	16,776,846	35,932,755
2002	167,137,216	321,672,124	19.2%	(870,447,801)	31,116,120	(350,522,341)
2003	164,475,228	337,241,531	20.5%	1,745,178,931	38,441,235	2,285,336,925
2004	165,948,955	349,430,418	21.2%	1,152,391,365	74,431,943	1,742,202,681

Expenses by Type*

Year	Benefit Payments	Administrative Expenses	Refund of Member Contributions	Discount on Early Payoff	Other Expenses	Total Expenses
1999	$ 542,653,929	$ 11,548,719	$ 11,389,439	$ 12,470,563	$ 887,352	$ 578,950,002
2000	573,783,703	13,224,510	11,069,721	22,321,629	713,134	621,112,697
2001	621,572,113	13,122,347	10,438,362	3,721,025	1,050,563	649,904,410
2002	677,585,955	14,887,089	16,838,054	—	1,014,783	710,325,881
2003	773,939,207	16,671,884	16,802,458	—	1,182,081	808,595,630
2004	820,839,063	15,850,224	15,306,505	—	210,409	852,206,201

Benefit Expenses by Type

Year	Service	DROP**	Disability	Health Care	Survivor	Total Benefits
1999	$ 282,847,246	—	$ 107,409,570	$ 100,522,731	$ 51,874,382	$ 542,653,929
2000	301,252,668	—	115,063,199	111,817,485	45,650,351	573,783,703
2001	319,641,712	—	125,003,758	129,173,470	47,753,173	621,572,113
2002	335,997,524	—	137,566,788	153,651,881	50,369,762	677,585,955
2003	350,498,175	$ 53,736,996	149,624,796	168,060,654	52,018,586	773,939,207
2004	360,015,084	86,462,085	162,151,716	157,839,137	54,371,041	820,839,063

* Tables do not include amounts reported in the Death Fund Benefit.

** Implementation date of January 1, 2003.

Retired Membership by Type of Benefits *(Source: Actuarial Valuation)*

	Service		Disability		Survivors		Total
Year	Police	Fire	Police	Fire	Police	Fire	Beneficiaries
1999	5,968	5,004	2,841	1,945	3,162	2,472	21,392
2000	6,204	5,125	2,947	2,021	3,211	2,451	21,959
2001	6,312	5,155	3,046	2,082	3,244	2,550	22,389
2002	6,321	5,155	3,055	2,088	3,798	2,996	23,413
2003	6,418	5,188	3,193	2,202	3,916	3,006	23,923
2004	**6,459**	**5,173**	**3,291**	**2,300**	**3,912**	**3,001**	**24,136**

Average Monthly Benefit Payments* *for Members Placed on Retirement Rolls*

SERVICE RETIREMENT

Year	Normal	Service Commuted	Age Commuted	Age/ Service
1999	2,828	653	—	1,300
2000	2,783	732	—	1,232
2001	2,987	830	—	1,500
2002	3,130	742	—	1,840
2003	3,150	990	—	1,569
2004	**3,128**	**1,081**	**—**	**1,673**

DISABILITY RETIREMENT

Year	Permanent and Total	P&T Presumptive	Partial	Partial Presumptive	Off Duty
1999	2,388	2,559	2,194	2,361	1,629
2000	2,380	2,061	2,380	2,258	1,760
2001	2,373	2,858	2,332	2,278	1,649
2002	2,970	3,029	2,672	2,965	1,993
2003	3,133	3,203	2,854	3,042	2,029
2004	**3,209**	**3,163**	**2,712**	**3,080**	**2,167**

* Source: Numbers calculated by taking an average of final placements for retirees as listed in OP&F Board of Trustees monthly reports.

Number of Employer Units**

	Municipalities		Townships		Villages	
Year	Police	Fire	Police	Fire	Police	Fire
1999	270	213	—	107	351	33
2000	258	213	—	105	332	32
2001	251	215	—	105	322	32
2002	252	219	—	106	307	29
2003	252	223	—	110	289	29
2004	252	225	—	109	288	29

** Source: Numbers obtained by adding the number of employers by type, as stored in OP&F's employer master file database.

Death Fund Benefit

Pursuant to Sections 742.62 and 742.63 of the Ohio Revised Code, the Board of Trustees of the Ohio Police & Fire Pension Fund administers the State of Ohio Public Safety Officers Death Benefit Fund (DBF). This program was established by the State of Ohio to provide monthly benefit payments to surviving family members of Ohio firefighters and law enforcement officers who have been killed in the line of duty or die of a duty-related accident or illness. Funds are disbursed to OP&F each State fiscal year (July 1–June 30) and are paid monthly by OP&F to eligible recipients. The unused balance at June 30 is returned to the State. The assets and liabilities of the DBF are included in OP&F's combining statement of plan net assets as of December 31, 2004 as an agency fund. The following is a schedule of DBF financial activity:

Balance January 1, 2004	$ 14,628,997
Less Survivor Benefits Paid January 1 to June 30, 2004	(9,510,051)
Balance returned to State of Ohio	(5,118,946)
State Funding Received July 2004	$ 25,000,000
Less Survivor Benefits Paid July 1 to December 31, 2004	(9,467,126)
BALANCE DECEMBER 31, 2004	**$ 15,532,874**

Ohio Police & Fire Pension Fund

140 East Town Street
Columbus, Ohio 43215

Active Membership: 888-864-8363
Retirees & Survivors: 800-860-9599
General Information: (614) 228-2975
TTY: (614) 221-3846
Facsimile: (614) 628-1777
Email: questions @ op-f.org

www.op-f.org

Prudence • Integrity • Empathy

The Ohio Police & Fire Pension Fund (OP&F) is dedicated to providing retirement and related benefits, accurate information, dependable communication and valuable educational assistance to our members. As responsible fiduciaries, we will professionally manage the resources of OP&F and implement its practices, plans and benefit services with the highest ethical standards.