The Ohio Police & Fire Pension Fund

2003 Comprehensive Annual Financial Report

For the year ended December 31, 2003

Ohio Police & Fire Pension Fund

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Comprehensive Annual Financial Report

For the year ended December 31, 2003

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

ohio Police & Fire pension fund

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

Contents

Board of Trustees

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—one municipal fiscal officer, the Ohio Attorney General and the Ohio Auditor of State. The Governor appoints the municipal fiscal officer for a three-year term and the attorney general and auditor serve by virtue of their offices.

Administrative Staff

William J. Estabrook, Executive Director

Administrative Staff, left to right:
Keith Byrd, *Director of Information Services*
Robert Hartsook, *Director of Health Services*
George Kaitsa, *Chief Operating Officer*
Theodore Hall, *Chief Investment Officer*
Kay Penn. *Director of Member Services*
Diane M. Lease, *General Counsel*
Stewart Smith, *Chief Financial Officer*
Scott Miller, *Internal Auditor*

Professional Consultants

ACTUARY

The Segal Company

LEGAL COUNSEL

Ohio Attorney General, the Honorable Jim Petro

INDEPENDENT ACCOUNTANTS

Clark, Schaefer, Hackett & Co.

INVESTMENT CONSULTANTS & MANAGERS

(See page 34)

GFOA Certificate of Achievement

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Ohio Police & Fire Pension Fund

For its Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Letter of Transmittal

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

May 23, 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, 2003. This CAFR was prepared to aid interested parties in assessing OP&F's status at December 31, 2003 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 Trustee's 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 and the Certificate of Achievement for Excellence in Financial Reporting;
(2) The Financial Section includes Management's Discussion and Analysis (MD&A), Independent Auditors' Report, 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 of The Segal Company 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. The remaining unfunded accrued liability is being paid by employers over a 67–year period, which began in 1969 and totaled nearly $37.7 million as of December 31, 2003.

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, 2003:

Participating Employers

	Police	Fire	Total
Municipalities	252	223	475
Townships	—	110	110
Villages	289	29	318
TOTAL	**541**	**362**	**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 30–month 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.

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 changes to plan design, 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 help 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 2003, over 1,600 members have enrolled in the program.

Financial Overview

OP&F receives virtually all of its funds from the following sources: employer contributions, member contributions, health care contributions, state subsidies and reimbursements and investment earnings. Additions to net assets totaled $2.304 billion in 2003. The member and employer contribution rates during 2003 remained unchanged from the prior year at 19.5% for police employers, 24% for fire employers and 10% for members.

Additions to Plan Net Assets	2003	2002
(in thousands)	Amount	Amount
Net Investment Income (loss)	$ 1,745,179	$ (870,448)
Contributions	540,643	523,723
Interest on Local Funds Receivable	1,609	1,633
Other	16,989	14,079
TOTAL	**$ 2,304,420**	**$ (331,013)**

Investment income increased due to the dramatic gains in global equity markets in 2003.

Deductions to Plan Net Assets	2003	2003	2002	2002
(in thousands)	Amount	Percent	Amount	Percent
Benefits	$ 793,022	96%	$ 697,095	96%
Administrative Expenses	16,672	2%	14,887	2%
Refund of Member Contributions	16,802	2%	16,838	2%
Other	1,182	—	1,015	—
TOTAL	**$ 827,678**	**100%**	**$ 729,835**	**100%**

Significant increases in the Benefits expense line are attributable to the inclusion of DROP expenses for 2003 and growth in health care costs, which increased 9.4%, largely due to the rising costs of prescription drugs.

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, OP&F experienced an increase in plan net assets in 2003 by approximately $1,477 million. Health care currently operates on a pay–as–you–go basis with a minimal amount of reserves being held to operate the program.

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. OP&F's total rate of return on its investment portfolio increased significantly due to the market recoveries from the historical bear market. OP&F's return was 25.0% in 2003 in contrast to decreases of 9.9% in 2002 and 3.9% in 2001.

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.

Material Plan Amendments

The only material plan amendment in 2003 was related to the new, optional DROP program. See the "Actuarial Section" for the assumption changes.

Independent Audit

Clark, Schaefer, Hackett & Co. independent certified public accountants, audited the financial statements of OP&F for the year ended December 31, 2003 and their opinion thereon is included in the "Financial Section." KPMG, LLP, independent certified public accountants audited the 2002 year end.

Notes to Basic Financial Statements

The notes to basic financial statements, which follow the basic 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 CAFR 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.

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

William J. Estabrook
Executive Director

Stewart A. Smith, CPA
Chief Financial Officer

THE 2003 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Financial Section

ohio Police & Fire Pension Fund

THE OHIO POLICE & 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

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 year ended December 31, 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. The financial statements of OP&F as of December 31, 2002, were audited by other auditors whose report dated May 9, 2003, expressed an unqualified opinion on those statements.

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 2003 basic financial statements referred to above present fairly, in all material respects, the respective financial position of OP&F, as of December 31, 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, 2003, Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB No. 14, GASB Statement No. 41, Budgetary Comparison Schedules –Perspective Differences – an amendment of GASB Statement No. 34,* and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.*

In accordance with Government Auditing Standards, we have also issued our report dated May 23, 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 21 through 22 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)

MANAGEMENT'S DISCUSSION AND ANALYSIS

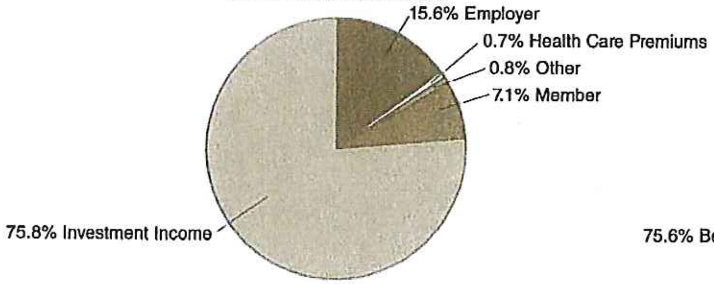
This Management Discussion and Analysis (MD&A) of the Ohio Police & Fire Pension Fund's financial performance provides a narrative overview of financial activities for the fiscal year ended December 31, 2003. The MD&A is designed to focus on the current year's activities, resulting changes, and currently 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 CAFR.

FINANCIAL HIGHLIGHTS

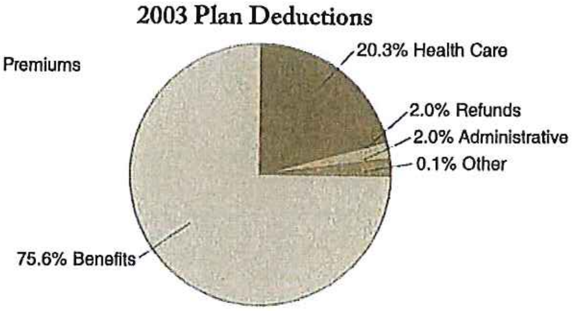
Plan additions are received primarily from employer and member pension contributions, and investment income. For fiscal year 2003, these additions totaled $2,304,419,675 compared to ($331,013,464) in 2002, which is a 796.2% year over year increase. This is a significant improvement from the 1,021.2% decrease experienced from 2001 to 2002. This amount fluctuates dramatically because it includes realized and unrealized investment gains and losses. The employer and member contribution rates during 2003 remained unchanged from the prior year. Employer contributions are 19.5% and 24% for police and fire employers, respectively and have not changed since 1986. Member contributions are 10% of salary for all members and have not changed since 1988.

Plan deductions are incurred primarily for the purpose for which OP&F was created, the payment of pension, disability and survivor benefits. Included in the deductions from plan net assets for 2003 were benefits for retirement, deferred retirement, disability, survivor benefits and health care expenses. 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 $827,678,380 in 2003 compared to $729,834,758 in 2002 and $649,904,410 in 2001, which is a 13.5% increase from 2002 to 2003 and a 12.3% increase from 2001 to 2002.

2003 Plan Additions



2003 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 reported. 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 basic 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 RSI 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)	2003	2002	2001	2003 Change Amount	2003 Change Percent	2002 Change Amount	2002 Change Percent
Cash and Short–Term Inv.	$ 517.9	$ 419.2	$ 331.9	$ 98.7	23.5%	$ 87.3	26.3%
Receivables	276.1	193.8	208.3	82.3	42.5%	(14.5)	(7.0)%
Investments	8,549.5	7,196.1	8,210.8	1,353.4	18.8%	(1,014.7)	(12.4)%
Capital Assets, net	26.6	24.6	22.1	2.0	8.1%	2.5	11.3%
Other	0.1	0.4	0.8	(0.3)	(75.0)%	(0.4)	(50.0)%
Total Assets	**9,370.2**	**7,834.1**	**8,773.9**	**1,536.1**	**19.6%**	**(939.8)**	**(10.7)%**
Benefits and Accounts Payable	103.8	48.8	40.2	55.0	112.7%	8.6	21.4%
Investments Payable	348.6	344.2	231.8	4.4	1.2%	112.4	48.5%
Total Liabilities	**452.4**	**393.0**	**272.0**	**59.4**	**15.1%**	**121.0**	**44.5%**
NET ASSETS AVAILABLE	**$ 8,917.8**	**$ 7,441.1**	**$ 8,501.9**	**$ 1,476.7**	**19.8%**	**$ (1,060.8)**	**(12.5)%**

CONDENSED CHANGES IN FIDUCIARY NET ASSET INFORMATION

(in millions)	2003	2002	2001	2003 Change Amount	2003 Change Percent	2002 Change Amount	2002 Change Percent
Contributions	$ 540.6	$ 523.7	472.4	$ 16.9	3.2%	$ 51.3	10.9%
Net Investment Income/(Loss)	1,745.2	(870.4)	(443.5)	2,615.6	300.5%	(426.9)	(96.3)%
Other	18.6	15.7	7.0	2.9	18.5%	8.7	124.3%
Total Additions	**2,304.4**	**(331.0)**	**35.9**	**2,635.4**	**796.2%**	**(366.9)**	**(1,021.2)%**
Benefits	793.0	697.1	621.6	95.9	13.8%	75.5	12.1%
Refunds	16.8	16.8	10.4	—	0%	6.4	61.5%
Discount on Early Payoff	—	—	3.7	—	—	(3.7)	(100.0)%
Administration and Other	17.9	15.9	14.2	2.0	12.6%	1.7	12.0%
Total Deductions	**827.7**	**729.8**	**649.9**	**97.9**	**13.4%**	**79.9**	**12.3%**
Net Increase (Decrease)	**1,476.7**	**(1,060.8)**	**(614.0)**	**2,537.5**	**239.2%**	**(446.8)**	**(72.8)%**
NET ASSETS, BEGINNING OF YEAR	**7,441.1**	**8,501.9**	**9,115.9**	**(1,060.8)**	**(12.5)%**	**(614.0)**	**(6.7)%**
NET ASSETS, END OF YEAR	**$ 8,917.8**	**$ 7,441.1**	**8,501.9**	**$ 1,476.7**	**19.8%**	**$ (1,060.8)**	**(12.5)%**

FINANCIAL ANALYSIS

Fiduciary Net Assets—Fiduciary net assets available for benefits and expenses in 2003 were $8,917,813,608 versus $7,441,072,313 in 2002 and $8,501,920,535 in 2001, which represents a 19.8% overall net increase from 2002 to 2003 and a 12.5% decrease from 2001 to 2002. The increase in 2003 can be primarily attributed to appreciation on the fair value of investments. Please refer to the Investment Section for additional information on our investment activities in 2003.

Revenue Additions to Fiduciary Net Assets—Pension contributions from employers and members increased $16.9 million or 3.2% in 2003 due to the increases in the number of active members and average annual salary earned, which is the base used to determine the contributions due. In 2002 contributions increased $51.3 million or 10.9% over 2001. The active member population increased by 140 to 28,480 in 2003 and the average annual salary earned increased by 4%. Separately, member contributions decreased 1.6% due to the fact that DROP participants are eligible to accrue 50% of their 10% contributions into their individual account during the first year of participation.

Contributions paid by members and beneficiaries for their share of the health care costs increased $4.6 million or 36.3% in 2003. Due to the rising costs of health care, OP&F has had to increase the contributions due from its covered participants for health care and the need to sustain funding for the health care stabilization fund.

Net investment income/appreciation increased significantly by 300.5% in 2003 as the U.S. stock market and international markets found positive territory. This is dramatically different from the decreases seen in 2002 and 2001 of 96.3% and 169.5% respectively. Investment net appreciation totaled $1,742,447,958 in 2003, which represented over two thirds of the overall increase and directly contributed to the 24.96% return on investments experienced on our assets.

Expense Deductions from Fiduciary Net Assets—Benefit deductions for retirement, deferred retirement, disability and survivors increased $95.9 million or 13.8% in 2003 and $75.5 million or 12.2% in 2002. The majority of the increase or 56% in 2003 is due to our new DROP offering, which allows active members to begin accruing pension benefits as part of the DROP benefit. Other increases in 2003 are due to the increase in the number of retirees and beneficiaries expenses by 510 individuals or 2.2%, plus a 3% cost of living adjustment for eligible recipients.

Health care expenses continue to rise and did so by 9.4% in 2003 versus 19% in 2002, and 15.5% in 2001. Health care payments totaled $168.1 million in 2003 and represented over 20% of all plan deductions. The Board of Trustees is actively and aggressively trying to preserve and stabilize the level of OP&F funding 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 by participants is required to offset costs.

Refunds to members decreased only slightly in 2003 compared to 2002 and increased $6.4 million or 61.3% in 2002 over 2001. This includes actual refunds of pension contributions and liabilities incurred for inactive former OP&F 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, 2003 and 2002*

2003

	Pensions	Post–employment Health Care	Death Fund Benefit	2003 Total
ASSETS:				
Cash and Short–term Investments	$ 490,935,645	$ 12,374,503	$ 14,628,997	$ 517,939,145
RECEIVABLES:				
Employers' Contributions	55,899,785	30,437,614	—	86,337,399
Members' Contributions	11,565,635	—	—	11,565,635
Accrued Investment Income	28,789,857	725,676	—	29,515,533
Investment Sales Proceeds	108,228,932	2,728,014	—	110,956,946
Local Funds Receivable	37,688,676	—	—	37,688,676
TOTAL RECEIVABLES	**242,172,885**	**33,891,304**	—	**276,064,189**
INVESTMENTS, AT FAIR VALUE:				
Bonds	1,143,738,470	28,829,022	—	1,172,567,492
Mortgage & Asset Backed Securities	505,896,567	12,751,608	—	518,648,175
Stocks	4,113,218,947	103,677,623	—	4,216,896,570
Real Estate	493,900,899	12,449,245	—	506,350,144
Commercial Mortgage Funds	110,341,197	2,781,256	—	113,122,453
Venture Capital	119,056,321	3,000,929	—	122,057,250
International Securities	1,853,146,596	46,710,335	—	1,899,856,931
TOTAL INVESTMENTS	**8,339,298,997**	**210,200,018**	—	**8,549,499,015**
Collateral on Loaned Securities	1,558,340,655	39,279,469	—	1,597,620,124
CAPITAL ASSETS:				
Land	3,121,324	78,676	—	3,200,000
Building and Improvements	20,660,193	520,760	—	21,180,953
Furniture and Equipment	4,378,465	110,363	—	4,488,828
Computer Software and Hardware	4,109,116	103,574	—	4,212,690
Accumulated Depreciation	(6,361,485)	(160,347)	—	(6,521,832)
Total Capital Assets, net	25,907,613	653,026	—	26,560,639
Prepaid Expenses and Other	136,343	3,437	—	139,780
TOTAL ASSETS	**10,656,792,138**	**296,401,757**	**14,628,997**	**10,967,822,892**
LIABILITIES:				
Health Care Payable	—	15,683,065	—	15,683,065
Investment Commitments Payable	339,983,218	8,569,603	—	348,552,821
Accrued Administrative Expenses	7,143,566	180,060	—	7,323,626
Death Fund Benefit	—	—	14,628,997	14,628,997
Other Liabilities	9,272,107	233,712	—	9,505,819
DROP Liabilities	55,300,919	1,393,913	—	56,694,832
Obligations Under Securities Lending	1,558,340,655	39,279,469	—	1,597,620,124
TOTAL LIABILITIES	**1,970,040,465**	**65,339,822**	**14,628,997**	**2,050,009,284**
Net assets held in trust for pension and Post–employment health care benefits	**$ 8,686,751,673**	**$ 231,061,935**	**—**	**$ 8,917,813,608**

(An unaudited schedule of funding progress is presented on page 21.) See Notes to Basic Financial Statements

2002

Pensions	Post–employment Health Care	Death Fund Benefit	2002 Total
$ 394,014,091	$ 10,619,850	$ 14,524,899	$ 419,158,840
54,899,392	30,086,258	—	84,985,650
13,218,708	—	—	13,218,708
31,550,538	850,381	—	32,400,919
24,311,538	655,268	—	24,966,806
38,237,439	—	—	38,237,439
162,217,615	31,591,907	—	193,809,522
1,035,130,100	27,899,830	—	1,063,029,930
778,750,771	20,989,646	—	799,740,417
3,141,082,280	84,661,495	—	3,225,743,775
595,142,720	16,040,864	—	611,183,584
117,338,544	3,162,622	—	120,501,166
91,737,796	2,472,606	—	94,210,402
1,248,064,009	33,639,031	—	1,281,703,040
7,007,246,220	**188,866,094**	—	**7,196,112,314**
1,149,670,663	30,987,039	—	1,180,657,702
3,116,014	83,986	—	3,200,000
20,589,279	554,942	—	21,144,221
4,378,667	118,018	—	4,496,685
1,653,571	44,569	—	1,698,140
(5,742,896)	(154,788)	—	(5,897,684)
23,994,635	646,727	—	24,641,362
404,117	10,892	—	415,009
8,737,547,341	**262,722,509**	**14,524,899**	**9,014,794,749**
—	16,754,185	—	16,754,185
335,210,696	9,034,924	—	344,245,620
6,345,484	171,030	—	6,516,514
—	—	14,524,899	14,524,899
10,734,198	289,318	—	11,023,516
—	—	—	—
1,149,670,663	30,987,039	—	1,180,657,702
1,501,961,041	**57,236,496**	**14,524,899**	**1,573,722,436**
$ 7,235,586,300	**$ 205,486,013**	—	**$ 7,441,072,313**

Combining Statements of Changes in Fiduciary Net Assets

for the years December 31, 2003 and 2002

2003

	Pensions	Post–employment Health Care	Death Fund Benefit	2003 Total
ADDITIONS:				
FROM CONTRIBUTIONS:				
Employers'	$ 216,639,642	$ 120,601,889	—	$ 337,241,531
Members'	164,475,228	—	—	164,475,228
State of Ohio—Subsidies	2,635,910	—	$ 19,082,750	21,718,660
Health Care	—	17,207,506	—	17,207,506
TOTAL CONTRIBUTIONS	**383,750,780**	**137,809,395**	**19,082,750**	**540,642,925**
FROM INVESTMENT INCOME:				
Net Appreciation (Depreciation) of Fair Value of Investments	1,500,541,998	48,380,419	—	1,548,922,417
Bond Interest	120,973,975	3,900,439	—	124,874,414
Dividends	30,922,919	997,016	—	31,919,935
Real Estate Operating Income, net	29,781,454	960,213	—	30,741,667
Foreign Securities	19,571,763	631,032	—	20,202,795
Other	6,096,884	196,575	—	6,293,459
Less Investment Expenses	(19,866,204)	(640,525)	—	(20,506,729)
NET INVESTMENT INCOME	**1,688,022,789**	**54,425,169**	—	**1,742,447,958**
FROM SECURITIES LENDING ACTIVITIES:				
Securities Lending Income	19,085,278	615,347	—	19,700,625
Securities Lending Expense, Borrower Rebates	(15,504,208)	(499,886)	—	(16,004,094)
Securities Lending Expense, Management Fees	(935,399)	(30,159)	—	(965,558)
Total Securities Lending Expense	(16,439,607)	(530,045)	—	(16,969,652)
Net Income from Securities Lending	2,645,671	85,302	—	2,730,973
Interest on Local Funds Receivable	1,608,548	—	—	1,608,548
Other Income	13,502,784	3,486,487	—	16,989,271
TOTAL ADDITIONS	**2,089,530,572**	**195,806,353**	**19,082,750**	**2,304,419,675**
DEDUCTIONS:				
Retirement Benefits	350,498,175	—	—	350,498,175
DROP Benefits	53,736,996	—	—	53,736,996
Disability Benefits	149,624,796	—	—	149,624,796
Health Care Expenses	—	168,060,654	—	168,060,654
Survivor Benefits	52,018,586	—	—	52,018,586
Death Fund Benefit	—	—	19,082,750	19,082,750
Contribution Refunds	16,802,458	—	—	16,802,458
Administrative Expenses	14,502,107	2,169,777	—	16,671,884
Other Expenses	1,182,081	—	—	1,182,081
TOTAL DEDUCTIONS	**638,365,199**	**170,230,431**	**19,082,750**	**827,678,380**
Net Increase	1,451,165,373	25,575,922	—	1,476,741,295
NET ASSETS HELD IN TRUST FOR PENSION AND POST–EMPLOYMENT HEALTH CARE BENEFITS:				
Balance, Beginning of year	7,235,586,300	205,486,013	—	7,441,072,313
Balance, End of year	**$ 8,686,751,673**	**$ 231,061,935**	**—**	**$ 8,917,813,608**

(An unaudited schedule of funding progress is presented on page 21.) See Notes to Basic Financial Statements

2002

Pensions	Post-employment Health Care	Death Fund Benefit	2002 Total
$ 203,212,482	$ 118,459,642	—	$ 321,672,124
167,137,216	—	—	167,137,216
2,780,378	—	$ 19,508,877	22,289,255
—	12,623,875	—	12,623,875
373,130,076	**131,083,517**	**19,508,877**	**523,722,470**
(1,064,620,964)	(28,953,650)	—	(1,093,574,614)
141,784,564	3,856,002	—	145,640,566
28,801,907	783,303	—	29,585,210
43,783,624	1,190,748	—	44,974,372
12,867,207	349,939	—	13,217,146
6,410,299	174,336	—	6,584,635
(18,939,352)	(515,078)	—	(19,454,430)
(849,912,715)	**(23,114,400)**	—	**(873,027,115)**
22,315,727	606,903	—	22,922,630
(18,729,088)	(509,360)	—	(19,238,448)
(1,075,615)	(29,253)	—	(1,104,868)
(19,804,703)	(538,613)	—	(20,343,316)
2,511,024	68,290	—	2,579,314
1,633,254	—	—	1,633,254
11,316,623	2,761,990	—	14,078,613
(461,321,738)	**110,799,397**	**19,508,877**	**(331,013,464)**
335,997,524	—	—	335,997,524
—	—	—	—
137,566,788	—	—	137,566,788
—	153,651,881	—	153,651,881
50,369,762	—	—	50,369,762
—	—	19,508,877	19,508,877
16,838,054	—	—	16,838,054
12,640,585	2,246,504	—	14,887,089
1,014,783	—	—	1,014,783
554,427,496	**155,898,385**	**19,508,877**	**729,834,758**
(1,015,749,234)	(45,098,988)	—	(1,060,848,222)
8,251,335,534	250,585,001	—	8,501,920,535
$ 7,235,586,300	**$ 205,486,013**	—	**$ 7,441,072,313**

Notes to Financial Statements *December 31, 2003 and 2002*

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 Pronouncements—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 principles have no effect on these financial statements.

During the year ended December 31, 2002, OP&F adopted the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements—and Managers' Discussion and Analysis—for State and Local Governments and Statement No. 37, Basic Financial Statements and Managers' Discussion and Analysis for State and Local Governments: Omnibus, effective January 1, 2001. The Statements required the presentation of management's discussion and analysis which is presented on pages 4 through 6.

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—Certain amounts from the 2002 financial statements have been reclassified to conform to the 2003 presentation.

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, 2003	Additions	Deductions	December 31, 2003
Land	$ 3,200,000	—	—	$ 3,200,000
Building & Improvements	21,144,221	$ 94,618	$ (57,886)	21,180,953
Furniture & Equipment	4,496,685	190,710	(198,567)	4,488,828
Computer Software & Hardware	1,698,140	2,961,094	(446,544)	4,212,690
Total Gross Capital Assets	**30,539,046**	**3,246,422**	**(702,997)**	**33,082,471**
Accumulated Depreciation				
Building & Improvements	(1,974,855)	(545,716)	57,886	(2,462,685)
Furniture & Equipment	(2,520,992)	(457,285)	172,046	(2,806,231)
Computer Software & Hardware	(1,401,837)	(297,623)	446,544	(1,252,916)
Total Accumulated Depreciation	**(5,897,684)**	**(1,300,624)**	**676,476**	**(6,521,832)**
TOTAL CAPITAL ASSETS, NET	**$ 24,641,362**	**$ 1,945,798**	**$ (26,521)**	**$ 26,560,639**

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.

ADDITIONAL DISCLOSURE

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.

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, two ex–officio members (the State Auditor and Attorney General) and a municipal finance officer appointed by the Governor of Ohio. 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 membership data as of January 1, 2003 and 2002, based on the most recent actuarial valuation, is as follows:

	2003			2002		
Employee Members	**Police**	**Fire**	**Total**	**Police**	**Fire**	**Total**
Retirees and beneficiaries currently receiving benefits	13,527	10,396	23,923	13,174	10,239	23,413
Terminated members entitled to benefits but not receiving them	106	52	158	93	40	133
Current members:						
Vested	5,201	4,295	9,496	5,092	4,219	9,311
Nonvested	10,723	8,261	18,984	10,785	8,232	19,017
Total Current Members	15,924	12,556	28,480	15,877	12,451	28,328
TOTAL EMPLOYEE MEMBERS	**29,557**	**23,004**	**52,561**	**29,144**	**22,730**	**51,874**
Employer Members						
Municipalities	252	223	475	252	219	471
Townships	0	110	110	0	106	106
Villages	289	29	318	307	29	336
TOTAL EMPLOYER MEMBERS	**541**	**362**	**903**	**559**	**354**	**913**

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 if a death occurs in the line of duty or as a result of a line of duty cause. A death benefit of $1,000 is payable to the surviving spouse, designated beneficiary, or estate of each deceased retired or disabled 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 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, calculated on the account balance, also accrues to their benefit.

When members end their active employment within the statutory period 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 additional years in an OP&F–covered position, and they must terminate employment and retire within eight years or the DROP benefits will be forfeited.

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 health care, 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, health care 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 2003 and 2002.

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—Ohio law requires contributions to be paid to OP&F by active employers and their members. The contribution rate is not actuarially determined, but rather established by law. Contribution rates are, however, subject to annual review by the Ohio Retirement Study Council. Additionally, an actuary is used during this annual review 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, 2003 and 2002:

	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 of the 121st General Assembly 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, 2003, 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 2003 and 2002 represented 29.50% for police and 34.00% for firefighters. Employer and member contributions were $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. Employer and member contributions were $162,402,893 and $94,114,866, respectively, for police and $159,269,231 and $73,022,350, respectively, for firefighters for the year ended December 31, 2002.

In accordance with the Ohio law, 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 $2,635,910 and $2,780,378 for the years ended December 31, 2003 and 2002, respectively.

Local Funds Receivable—Local governments are required by Ohio law to pay the unfunded portion of the actuarially determined liability of the local police and firefighters' relief and pension funds that were merged to form OP&F in 1967. The law designates this obligation of the local governments as 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 4% 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 5% of the original receivable balance. The underpaid balance due at December 31, 2003 and 2002, respectively, includes $263,112 and $280,360 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, 2004	$ 2,271,976
Year ending December 31, 2005	2,207,882
Year ending December 31, 2006	2,207,882
Year ending December 31, 2007	2,207,882
Year ending December 31, 2008	2,196,908
Thereafter	56,880,342
Total projected payments	**67,972,872**
Less interest portion	30,284,196
BALANCE AT DECEMBER 31, 2003	**$ 37,688,676**

Reserves—As required by ORC Section 742.59, 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:

	2003	2002
Members' Contribution	$ 1,431,523,680	$ 1,339,747,923
Employers' Contribution	1,785,279,928	725,729,390
Pension Reserve	5,701,010,000	5,375,595,000
TOTAL	$ 8,917,813,608	$ 7,441,072,313

CASH AND INVESTMENTS

Cash Deposits—The carrying amount of OP&F's cash deposits at December 31, 2003 was $42,031,950 and the depository balance was $24,806,565. Of the depository balance, $1,270,074 was insured by the Federal Depository Insurance Corporation and $6,864,693 was covered by collateral held in the name of OP&F's pledging financial institutions, as required by the state statute (Category 1 as defined by the Governmental Accounting Standards Board). The remaining depository balance of $16,671,798 was uninsured and uncollateralized and was held in the name of OP&F's pledging financial institution, as required by the Ohio Revised Code (Category 3).

The carrying amount of OP&F's cash deposits at December 31, 2002 was $58,183,973 and the depository balance was $34,719,435. Of the depository balance, $1,533,415 was covered by federal depository insurance and $16,501,461 was covered by collateral held in the name of OP&F's legally–designated custodian, the Treasurer of the State of Ohio (Category 1 as defined by the Governmental Accounting Standards Board). The remaining depository balance of $16,684,559 was uninsured and uncollateralized and was held in the name of OP&F's pledging financial institution, as required by the Ohio Revised Code (Category 3).

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.

Statement No. 3 of the Governmental Accounting Standards Board requires OP&F to categorize its investments to give an indication of the level of collateral risk assumed by OP&F. Category 1 includes investments that are insured or registered or for which the securities are held by OP&F or its agent in OP&F's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in OP&F's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or its trust department or agent, but not in OP&F's name.

All investments subject to categorization met the criteria of Category 1 at December 31, 2003 and 2002 and are held in the name of OP&F or its nominee by the Treasurer of State of Ohio as custodian. Investments in domestic pooled common stocks, real estate, commercial mortgage funds and private equity, by their nature, are not required to be categorized.

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

	2003	2002
Commercial paper	$ 475,907,195	$ 360,974,867
U.S. government bonds	362,971,029	265,858,290
Corporate bonds and obligations	809,596,463	797,171,640
Mortgage & asset backed obligations	518,648,175	799,740,417
Domestic stocks	2,627,640,670	1,943,517,574
Domestic pooled stocks	1,589,255,900	1,282,226,201
International securities	1,899,856,931	1,281,703,040
Real estate	506,350,144	611,183,584
Commercial mortgage funds	113,122,453	120,501,166
Venture capital	122,057,250	94,210,402
TOTAL	**$ 9,025,406,210**	**$ 7,557,087,181**

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 $1,556,741,136 and $1,149,833,011 at December 31, 2003 and 2002, respectively. The fair value of the associated collateral received as of December 31, 2003 and 2002, totaled $1,597,620,124 and $1,180,657,702, respectively and the net income for the same time periods totaled $2,730,973 and $2,579,314, 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, 2003 Balance	Dec. 31, 2002 Balance
The Loop	April 16, 2002	May 11, 2032	6.41%	$ 27,250,000	$ 26,693,257	$ 27,004,287
Tower Place	Dec. 22, 2000	July 1, 2009	8.05%	25,625,000	24,263,545	24,757,219
The Pointe	April 16, 1999	June 1, 2004	6.59%	22,250,000	—	22,204,221
St. Andrew's	Oct. 29, 1998	Dec. 1, 2006	7.91%	16,152,000	14,974,000	15,266,830
Vista Ridge	Nov. 16, 1995	Dec. 1, 2005	7.80%	15,145,000	13,531,000	13,925,570
Oak Brook	June 15, 1997	June 15, 2007	6.40%	10,500,000	9,164,805	9,486,137
Remington	May 24, 2002	June 1, 2009	6.25%	9,200,000	9,061,203	9,134,014
Frazee Road	Mar. 29, 1999	April 1, 2009	6.75%	9,100,000	9,243,053	9,050,863
St. Andrew's	Nov. 12, 1998	Dec. 1, 2006	6.50%	5,000,000	5,000,000	5,000,000
TOTAL				**$ 140,222,000**	**$ 111,930,863**	**$ 135,829,141**

As of December 31, 2003, scheduled annual principal payments on the mortgage loans are as follows:

Year ending December 31, 2004	$ 1,907,123
Year ending December 31, 2005	14,821,241
Year ending December 31, 2006	20,793,045
Year ending December 31, 2007	9,639,841
Year ending December 31, 2008	1,316,965
Thereafter	63,452,648
TOTAL PAYMENTS	**$ 111,930,863**

In August 2003, OP&F repaid the $22,250,000 loan payable with proceeds from the sale of The Pointe. A roll–forward of the mortgage note payable is as follows:

Balance at December 31, 2002	135,829,141
Additional debt assumed in 2003	—
Principal payments made in 2003	(23,898,278)
BALANCE AT DECEMBER 31, 2003	**111,930,863**

DEFINED BENEFIT PENSION PLAN

OP&F contributes to the Ohio Public Employees Retirement System of Ohio, (OPERS), a cost–sharing, multiple–employer defined benefit pension plan based on salary paid to its employees. OPERS 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, 2003, 2002 and 2001 were $1,186,569, $1,074,938 and $925,516, 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 age and service retirants with 10 or more years of qualifying Ohio service credit. 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, 2003, the plan had 364,881 active participants.

A portion of each employer's contribution to OPERS is set aside for the funding of post–retirement health care. The 2003 employer rate was 13.55% of covered payroll, of which 5.0% was the portion used to fund health care for the year. For the year ended December 31, 2003, approximately $437,848 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, 2002 were $10 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $18.7 billion and $8.7 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's latest Actuarial Review performed as of December 31, 2002 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, 2003.

OP&F is committed to making additional capital contributions of $280,297,252 towards our private equity program. Our private equity program had $122,057,250 and $94,210,402 in fair value at December 31, 2003 and 2002, 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 $14,628,997 and $14,524,899 and the related liability for unpaid benefits are included in the accompanying financial statements as of December 31, 2003 and 2002, respectively.

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
1997	$ 6,231,419,000	$ 7,697,677,000	$ 1,466,258,000	81.0%	$ 1,190,878,000	123.1%
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%**

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, 1997	$ 176,567,663	100%
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%**

Contributions include funding from the State of Ohio to finance the cost of certain benefit improvements. Amounts do not include contributions for post–employment health care benefits sponsored by OP&F.

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, 2003
Actuarial cost method .... Entry Age Normal
Amortization method .... Level percent of payroll, open
Remaining amortization period .... 40 years
Asset valuation method .... 5–year adjusted market value with a corridor of 10% of the market value for 2003 and a corridor of 20% thereafter.

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

Supplementary Information

SCHEDULE OF ADMINISTRATIVE EXPENSES*

For the year ended December 31, 2004 and 2003	2003	2002
PERSONNEL SERVICES:		
Salaries and Wages	$ 9,144,764	$ 7,667,914
Retirement Contributions	1,186,569	1,074,938
Employee Benefits	1,932,589	1,716,488
Total Personnel Services	**12,263,922**	**10,459,340**
PROFESSIONAL SERVICES:		
Auditing	172,078	109,599
Actuarial	188,984	296,452
Medical	727,785	723,978
Legal	373,729	108,648
Investment	16,738,506	16,096,293
Treasurer of State Charges	17,664	8,332
Other Professional Services	1,770,190	1,970,331
Total Professional Services	**19,988,936**	**19,313,633**
BUILDING RENT:		
Total Building Rent	**1,150,265**	**1,085,245**
OPERATIONS:		
Telephone	97,361	122,959
Postage	312,580	300,043
Transportation and Travel	318,509	315,676
Employee Training–Registration	118,076	130,913
Temporary Employees	111,394	254,807
Office Supplies	222,993	179,401
Printing and Publications	236,138	203,332
Dues and Subscriptions	68,005	66,027
Equipment and Maintenance	758,422	626,525
Retirement Study Council	38,761	42,746
Insurance—Administrative	192,242	156,872
Depreciation Expenses	1,301,009	1,084,000
Total Operations	**3,775,490**	**3,483,301**
TOTAL ADMINISTRATIVE EXPENSES	**$ 37,178,613**	**$ 34,341,519**

SCHEDULE OF INVESTMENT EXPENSES**

For the year ended December 31,	2003	2002
Investment Manager Services	$ 15,320,429	$ 15,046,390
Custodial Fees	1,427,756	1,049,903
Other Professional Services	725,000	665,334
Other Direct Investment Department Expenses	1,792,915	1,368,696
Allocation of Other Administrative Expenses	1,240,629	1,324,107
TOTAL INVESTMENT EXPENSES	**$ 20,506,729**	**$ 19,454,430**

* 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.

THE 2003 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Investment Section

ohio Police & Fire pension fund

THE OHIO POLICE & 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 OP&F. 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 2003

Most of our efforts last year were spent on maintaining our asset allocation near policy target weights and on structural issues within several asset classes. Toward those ends, our focus was on finding ways to optimize the expected return and risk on our assets to achieve our ongoing goal of meeting the Fund's statutory funding targets and to help defray growing health care costs. During the year, the Board decided to outsource the management of our entire core fixed income portfolio and conducted a search for a new manager. At that time, the Board also decided to further diversify the fixed income portfolio through a distinct allocation to Treasury inflation protected securities (TIPS). Following are these and other noteworthy investment accomplishments and issues addressed by the Fund last year:

- Completed searches and implemented investment managers for:
  - Real estate separate account;
  - International developed markets equity;
  - Core fixed income;
  - TIPS; and
  - Real estate commingled fund.
- Completed a domestic custody conversion.
- Completed a large cap equity manager transition:
- Rebalanced US equity to be style neutral; and
- Shifted $930 million among nine US equity managers.
- Completed an international equity manager transition.
- Closed on four private equity deals.
- Implemented managed discretion for real estate acquisitions.
- Adopted a real estate commingled fund search policy.
- Sold three properties.
- Completed evaluations of all managers in all asset classes according to policy.

ECONOMIC ENVIRONMENT

While economic activity was still sluggish during the first half of 2003, the pace of economic expansion strengthened considerably in the second half of the year after almost two years of uneven and, on balance, sluggish growth. In early 2003, accommodative monetary policy and stimulative fiscal policies were in place, but economic activity was still weighed down by a number of factors that had restrained the recovery earlier: Geopolitical tensions were again heightened, this time by the impending war in Iraq, businesses remained unusually cautious about the strength of the expansion and economic activity abroad was still weak crimping demand for U.S. exports. However, consumer spending grew moderately, housing activity retained considerable vigor and defense spending picked up. Real GDP rose at an annual rate of just 2% in the first quarter. With output growth remaining tepid and labor productivity rising at a fairly robust pace, firms continued to trim payrolls in the first half of 2003. The tax cuts that became effective at midyear provided a significant boost to disposable income. The very low level of interest rates also encouraged household spending. In the succeeding months, the macroeconomic stimulus began to show some traction in sales and production increases and some of the business caution seemed to recede. The growing confidence of business executives in the durability of the expansion, strong final sales, profitability and cash flows, the desire to renew capital stocks after replacements had been postponed and favorable financial conditions all contributed to a turnaround in equipment spending. Overall, the economy made impressive gains in output and real incomes; however, progress in creating jobs was limited. Last year appears to have marked a transition from an extended period of sub par economic performance to one of more vigorous growth. After a tepid first quarter, real GDP gained 3.1% in the second quarter, rocketed to an exceptional 8.2% rate in quarter three and settled back to a comfortable 4.1% annual pace for the fourth quarter. For all of 2003, real GDP increased at an annual rate of 4.3%. In contrast, in 2002 real GDP rose at annual rate of only 2.8% and was flat for all of 2001.

Consumer price inflation in 2003 showed a modest increase of 1.9% led by acceleration in food prices and another sizable increase in energy prices, but core rates of inflation fell for a second year to roughly 1%. Although the strong upturn in economic activity in the second half of last year began to reduce unemployment and to boost industrial utilization rates, considerable slack in labor and product markets continued to restrain inflation throughout the year. A further moderation in the costs of production also helped keep inflation in check. Reflecting the swing from dollar appreciation to dollar depreciation, the dollar prices of goods and services imported into the United States began to rise after declining on balance for several years, but the turnaround to date has been mild. A broader measure of inflation, the GDP deflator, increased 1.4% last year, the same modest pace as in 2002 and roughly a percentage point lower than in 2001.

Interest rates fell for most of the first half of 2003, primarily in response to continuing weak economic data and expectations for the federal funds rate to remain unchanged. Global uncertainty ran high, particularly surrounding the timing of military intervention in Iraq, which increased risk aversion and depressed yields on Treasury securities. Moreover, the weak February and March payroll reports and other disappointing news about economic activity seemed to cause a substantial shift in the outlook for monetary policy. Even as geopolitical tensions eased, weaker than expected economic data continued to hold down Treasury yields. The Federal Open Market Committee's statement following its May meeting that an "unwelcome fall in inflation" remained a risk reinforced the notion that monetary policy would stay accommodative. Mortgage rates followed Treasury yields lower, precipitating a huge surge of mortgage refinancing. Interest rates on corporate bonds also declined in the first half of the year, prompting many firms to issue long–term debt to pay down other, more expensive forms of debt and build up cash assets. Growing confidence that the frequency and severity of corporate accounting scandals were waning likely contributed to the narrowing in risk spreads. By the end of spring, default rates on corporate bonds had begun to decline and corporate credit quality appeared to stabilize.

Broad equity price indexes ended the year 25% to 30% higher. Early in the year, stock prices were buffeted by mixed news about the pace of economic expansion and by heightened geopolitical tensions. Rising oil prices boosted the shares of energy companies very early in the year while, by and large, stocks in other sectors were stumbling. By spring, however, positive news on corporate earnings, often exceeding expectations and easing of geopolitical tensions associated with the initiation and success of military action in Iraq boosted equity prices significantly. Over the rest of the year, increasingly positive earnings results contributed to a sustained rally in stock prices. Corporate scandals, albeit on a smaller scale than in previous years, continued to emerge in 2003, but these revelations appeared not to have a lasting impact on broad measures of stock prices. For the year as a whole, the Russell 2000 index of small–cap stocks and the technology–laden Nasdaq composite index, which rose 45% and 50%, respectively, clearly outpaced broader indexes.

Economic growth abroad rebounded in the second half of last year as factors that weighed on the global economy in the first half, including the SARS epidemic and uncertainty surrounding the war in Iraq, dissipated. Foreign growth also was boosted by the strong rebound in the U.S. economy, the revival of the global high–tech sector and, in many countries, ample policy stimulus. Strong second–half growth in China stimulated activity in other emerging Asian economies and Japan by raising the demand for their exports. Growth in Japan was also spurred by a recovery in private spending there on capital goods. Economic activity in Europe picked up in the second half, as export growth resumed. Economic growth in Latin America has been less robust; the Mexican economic upturn has lagged that of the United States and Brazil's economy has only recently begun to recover from the effects of its 2002 financial crisis.

In foreign financial markets, equity prices fell, on average, until mid–March, but since then have risen in reaction to indications of stronger than expected global economic activity. Emerging market equity indexes outpaced those in the industrial countries in 2003, with markets in Latin America posting particularly strong gains. Around midyear, long–term interest rates declined to multi–year lows in many countries as economic growth slowed and inflationary pressures diminished, but those rates moved higher in the second half as growth prospects improved. Yield spreads fell substantially during the year, both for industrial country corporate debt and for emerging market sovereign debt.

Looking forward, the prospects are good for sustained US economic expansion. The household sector's financial condition is stronger and the business sector has made substantial strides in bolstering balance sheets. Narrowing credit risk spreads and a considerable rally in equity prices have reduced financing costs and increased household wealth, which should provide substantial support for spending by businesses and consumers. With short–term real interest rates close to zero, monetary policy remains highly accommodative and it appears that the impetus from fiscal policy will stay expansionary, on balance, through this year. These circumstances all should spur the expansion of the economy in 2004. At the same time, increases in efficiency and a significant level of underutilized resources should help keep a lid on inflation. Although the future looks encouraging, one cannot ignore the major ongoing risks to this positive outlook: increasing federal and trade deficits, increasing inflation and interest rates, a weak dollar and continuing geopolitical turmoil.

TOTAL FUND

Due to our significant equity exposure, our performance largely reflects that of the global equity markets. As a result, 2003 was one of the best years ever for our portfolio. However, as the year began, expectations were muted due to the possibility of a US led war in Iraq. Having started the year at $7.4 billion, our portfolio, along with the domestic equity market, trended downward in value during much of the first quarter. After reaching a low on March 11, the domestic equity market, as measured by the S&P 500, climbed 40.9% through the end of the year. International equity markets fared even better throughout 2003 as a result of a falling dollar. Thanks to significantly positive returns from equities and high yield, large positive returns from real estate and modest returns from fixed income, our portfolio ended the year at $8.8 billion, net of mortgage loans. Although our portfolio enjoyed a strong absolute return of 24.96% for the year, it underperformed both its interim and long–term policy benchmarks on a relative basis. Specifically, our portfolio trailed our Interim Policy Benchmark by 151 basis points and our Long–Term Policy Benchmark by 158 basis points. However, our 3– and 5–year annualized returns have exceeded both the 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. In addition, we continue to evaluate non–correlated, non–traditional asset classes in search for optimal risk–adjusted returns.

EQUITIES

The S&P 500, after three calendar–year declines, had its strongest single–year return since 1997. The S&P 500 posted a total return of 28.69% for 2003. The fact that 93% of the stocks in the S&P 500 had positive total returns for the year was impressive. The top performing stocks in 2003 tended to be low quality, high beta (risk) issues with little or no earnings. Specifically, stocks in the highest beta decile within the S&P 500 outperformed those in the lowest beta decile by 55.0 percentage points. Coincidently, among S&P 500 sectors, technology emerged as the sector leader in 2003, posting a return of 47.2%. In addition, small cap stocks, which tend to be of lower quality than their mid– and large–cap brethren, outperformed for the year. Specifically, the Russell 2000, a small cap stock index, had its strongest calendar–year return in the index's twenty–five year history, posting a 47.25% gain while the Russell Midcap Index returned 40.06% and the Russell 1000 Index, a large cap stock index, posted a return of 29.89%. Based on Russell style indices, growth stocks outperformed value stocks in the small–cap segment of the market, while value just barely topped growth in larger stocks. The Nasdaq Composite Index, heavy in technology stocks, had an even more impressive year in 2003 by returning 50.93%, the strongest showing among the major equity indices. Factors contributing to the market's strong performance during the past year include: an accelerating economy, rising corporate profitability, accommodative monetary and fiscal policy and easing geopolitical concerns. On the economic front, the U.S. economy grew at an annual pace of 8.2% in the third quarter, the strongest GDP growth rate in twenty years. Consumer spending, accounting for nearly two thirds of GDP, increased in each of the first three quarters of the year. Capital spending by businesses continued to increase throughout 2003 and by the fourth quarter, spending on equipment and software rose by double–digit growth rates. Capacity utilization also made a slight improvement during 2003 and improved to its highest level in more than a year during the fourth quarter. As a result of the strong rebound in the economy, sustained productivity gains and corporate restructuring efforts, corporate earnings grew by an estimated 63.54% per S&P 500 share in 2003. The strong rebound in GDP growth was fueled in part by accommodative monetary and fiscal policy. In terms of monetary policy, the Federal Reserve's mid–year cut of the federal funds rate to 1%, its lowest level in forty–five years, allowed consumers and businesses to restructure their existing debt obligations, which provided increased cash flow and boosted consumer and business spending. Low interest rates coupled with increased corporate profits kept equity valuations fairly reasonable and helped make their returns more competitive. Increased government spending and new rounds of tax cuts also boosted GDP growth. On the geopolitical front, the relatively swift end to the war in Iraq as well as easing tensions with North Korea over nuclear arms production calmed investor's anxieties and helped increase their appetite for riskier albeit higher return assets such as stocks. After starting the year at its highest level ever recorded, the average daily gain/loss (volatility) for the S&P 500 fell by over 40% during the course of the year. Taking all of these factors and market conditions into consideration, our domestic equity composite returned 30.00% in 2003. While encouraging, this return underperformed its Wilshire 5000 benchmark by 1.64%. This 164 basis points underperformance was mainly attributable to the fact that our domestic equity managers tended to make investments in higher quality, low beta stocks compared to the holdings in their relative market indices. Although investors remain optimistic for the market's prospects for 2004, there are many potential headwinds the market may face including: the ongoing threat of terrorism, possible re–inflation, a presidential election, elevated energy prices and a muted jobless recovery.

During 2003, OP&F transitioned assets among our domestic equity managers in order to reduce style and capitalization differences between our overall US equity structure and its benchmark, the Wilshire 5000.

In terms of the international equity markets, 2003 was a standout year as the MSCI EAFE Index, representing non–US developed markets, increased 38.58%, while the MSCI Emerging Markets Free Index increased 56.27%. The positive returns for the non–US developed markets were enhanced by a weak dollar, which benefited US investors' holdings in foreign currencies. In fact, the MSCI EAFE Index was up only 20.28% in local currencies. Non–US developed markets enjoyed most of the same favorable conditions that existed in the US: economic expansion, low interest rates, increased capital spending and fiscal stimulus. In addition, high beta stocks, especially small and mid–cap stocks, significantly outperformed the broad market as in the US. Like the US, European markets had to overcome several obstacles throughout the year including rising budget deficits and the threat of terrorism. Several high profile business scandals also were revealed as had happened in the US a year before. As a group, our active and passive non–US developed markets managers posted a return of 35.92% compared to the benchmark return of 38.58%. Two main reasons behind our under performance were that our managers did not own a high percentage of high beta stocks as did the index and secondly, we incurred transition costs on a significant amount of assets during the second quarter in which the index was up 19.27%. Emerging markets enjoyed stellar performance in 2003 buoyed by declining interest rates, solid corporate earnings and market friendly outcomes in several presidential elections. Our emerging markets managers posted a 58.23% return, 196 basis points greater than their benchmark, the MSCI Emerging Markets Free Index.

During 2003, OP&F terminated two non–US developed markets managers and replaced them with two style specific mandates run by Fidelity Management Trust Company and Causeway Capital Management.

FIXED INCOME

2003 proved to be a modest year in the fixed income market in comparison to the past three years in which the market experienced strong returns. The Lehman Aggregate Index posted a return of 4.11% and this marked the first year in four that fixed income did not outperform equities. As for our performance, our core fixed income composite returned 5.35%, 124 basis points above its benchmark. As mentioned previously, investors were attracted to riskier, higher yielding assets during 2003. This was not only evident at the asset class level, but within the fixed income market as well. For example, within the Lehman Aggregate Index, the credit sector outperformed Treasuries by over 500 basis points. In addition, the BBB (lowest quality) segment of the credit sector outperformed single A credits by over 500 basis points. Factors contributing to the credit sector's outperformance were an improving economy, declining default rates, improving corporate balance sheets, declining credit option–adjusted spreads and a significant slowdown in corporate scandal announcements. Industries enjoying strong performance during 2003 were telecommunications, electric utilities and the auto sector, the top contributor to the performance of the BBB segment of the credit sector. The mortgage sector of the Lehman Aggregate Index experienced one of its most volatile years due to record refinancing activity which was fueled by the Federal Reserve's mid–June federal funds rate cut to 1.00%, a 45 year low. Such refinancing activity caused the effective duration of the mortgage sector to increase from 1.0 to 3.0 years, thereby shifting risk from prepayment to extension risk. For the year, the mortgage sector outperformed Treasuries by 83 basis points. As for

US Treasuries, improving economic conditions caused their yields to rise by 32 basis points on average. The most noticeable rise occurred within the intermediate part of the curve. Growing optimism about prospects for economic growth helped fuel investor's expectations of future rate increases by the Federal Reserve. On the other hand, inflation expectations remained muted due to continued weakness in payroll reports, near record low corporate compensation costs and continued productivity gains. Looking forward, it will be interesting to see if these scenarios persist or if the increase in oil and commodities prices and the falling dollar lead to increases in inflation. If employment and inflation do in fact rise, one would expect the Federal Reserve to begin raising rates. Whether or not higher borrowing costs from these low absolute levels would derail the current economic expansion remains to be seen.

During 2003, the Board made the decision to move our internally managed core fixed income account to external managers. As a result, we now have the assets divided among three managers, one existing and two new hires. Banc One Investment Advisors was hired to manage a core investment grade bond portfolio and Bridgewater Associates was retained to manage a TIPS portfolio. While we have used TIPS tactically in our core portfolios, this is OP&F's first dedicated, strategic exposure to TIPS. We believe TIPS offer numerous benefits including diversification, high correlation to inflation sensitive retirement benefits and, are arguably considered the safest asset class in the financial marketplace.

HIGH YIELD

During 2003, the high yield bond market was a direct recipient of investors' appetite for riskier albeit higher yielding assets as the market posted its best performance since 1991. Specifically, the high yield bond market as measured by the CSFB Developed Countries High Yield Index returned 27.90% for the year. Our three active high yield bond managers combined to return 24.46% for the year, 344 basis points shy of the benchmark. This 344 basis points underperformance can be explained by analyzing the performance of the high yield market by rating category. In 2003, double–Bs (the highest quality segment of the high yield market) returned 19.5% whereas the triple–C segment (lower quality) returned 61.0%. By historical standards, this 4,150 basis point differential is atypical. Over the last thirteen years, the average differential is just 1,177 basis points. Per our investment managers' guidelines, OP&F currently allows only one of our three high yield bond managers to purchase high yield issues rated lower than single B. In addition to the factors and market conditions discussed earlier, a tightening of credit spreads vs. Treasuries also fueled the high yield bond market. Having said that, the primary driver of the market's performance in 2003 was the record influx of individual investors' money into high yield mutual funds and the additional or new high yield allocations by pension funds. Simply put, demand outstripped supply and drove the market's return. Although we believe 2004 performance will be lower and more in line with long–term results, the prospects for the high yield bond market look promising as long as the risks we have described earlier do not come to fruition.

REAL ESTATE

Real estate fundamentals remained soft in 2003 as the nation continued to face a weak job market and an uncertain geopolitical environment. Weak tenant demand, new supply, competitive leasing markets and economic uncertainty caused vacancy levels to rise and rents to fall on most property types. Despite this weakness in real estate fundamentals, property values remained strong as interest in the asset class strengthened from buyers including pension funds, leveraged private investors, offshore investors and private REITS. The increased demand was exacerbated by a decrease in properties available for sale as sellers opted to wait to maximize value, refinanced to cash out their equity, or were uncertain about where to reinvest sales proceeds to match returns being generated from their real estate holdings.

Apartment fundamentals remained weak due to slow employment growth. Renters doubled up or stayed at home and corporate leasing declined significantly. Furthermore, demand declined as falling mortgage rates expanded the home buying capability of moderate–income families who would otherwise rent. As a result, vacancy rates increased to almost 7% in 2003 from 3% in 2000. Conversely, cap rates for apartments fell 172 basis points reflecting strong investor interest in the segment.

The industrial property market was weakened as a result of the collapse in technology, manufacturing job losses, sluggish trade flows and efficiencies in inventory management practices. The vacancy rates for this property type doubled to 12% in 2003 compared to 6% in 2000. Despite this weakness, cap rates fell by 40 basis points from 8.90% in 2001 to 8.50% in 2003, fueled by the strength in the real estate capital markets.

The office sector has been the property type worst hit by the weak employment fundamentals. Vacancy rates more than doubled across the nation from 8% in 2000 to 17% in 2003. On average, rents declined 20% or more, but investor interest pushed cap rates down slightly to 8.33% in 2003 from 8.81% in 2000.

Retail properties remained relatively immune from recessionary pressures, as consumer spending continued to support the weakened economy. Vacancy rates were up slightly from 5% in 2000 to 6.5% in 2003, giving retail the lowest vacancy rate among all property types. Accordingly, cap rates moved down by 30 basis points to 8.5% in 2003 from 8.8% in 2000.

Despite weakened real estate fundamentals, the NCREIF return for calendar year 2003 was a strong 9.0%, consisting of 8.0% income and 1% appreciation. For the same time period, the OP&F real estate portfolio generated a return of 14.3%, consisting of 9.7% income and 4.6% appreciation. This return exceeded the benchmark by 530 basis points.

In 2003, OP&F made a $30 million commitment to CB Richard Ellis Strategic Partners III. This is an enhanced return fund with a value added strategy to invest in office, multifamily and industrial properties. OP&F also funded previous commitments to opportunistic funds, but did not acquire a single property for its separate accounts portfolio. Instead, OP&F took advantage of investors' enthusiasm for real estate and declining capitalization rates by selling three properties in 2003. Aurora Corporate Plaza, an office building in suburban Denver, was sold in January 2003, generating a 9.6% IRR before fees. Bernards 78, an office building in suburban New Jersey, was sold in January 2003, generating a 12.4% IRR before fees. The Pointe, a multifamily project in suburban Washington DC, was sold in August 2003, generating a 26% IRR before fees.

OP&F is positioned for acquisitions in 2004. The outlook for economic growth and employment growth are still uncertain making it difficult to predict their impact on the real estate market. Therefore, our investment strategy for 2004 will be that of extreme caution and selectivity in the acquisition process. Regardless of the economic climate, OP&F will continue to seek well leased, stable and superior quality assets in major metropolitan markets that will provide stability to our portfolio.

Private Equity

For the year ended December 2003 (private equity returns are lagged by one quarter), our small allocation to private equity provided a return of (13.15)% versus its benchmark (Wilshire 5000 + 5%) return of 31.25%. Although our composite return trailed the benchmark by 44.40%, we are mindful of the fact that private equity returns, on average, lag the public markets by approximately twelve months. As a result, we expect to see private equity returns improve going forward. Last year, with regard to private equity, may well be remembered as an inflection point by investors. Improved economic conditions, increased merger and acquisition activity, expanded exit markets and stabilized, or in some cases, increased portfolio valuations all point to the private equity market being on the mend. Fundraising continued to decline, albeit at a slower pace, ensuring that a more appropriate supply of capital will not outstrip demand and lead to lower returns. The fact that the industry remains committed to its origins, to nurture and build viable businesses, leaves us convinced of the attractive risk/return benefits that this asset class will provide over the long term. One potential concern that emerged in 2003 was that purchase multiples in certain sectors of the market increased slightly from 2002, which forced investors to put money to work at higher costs.

We continued to work toward our 3% target allocation by committing capital to various Ohio and non–Ohio based venture capital, buyout and fund of funds vehicles. OP&F made six new commitments to the following firms in 2003: $10 million to Riverside Capital Appreciation Fund (Ohio based buyout fund), $10 million to Peppertree Fund II (Ohio based fund of funds), $15 million to Adams Street Partnership Fund—2004 Non–U.S. Fund (international fund of funds), $12 million to HarbourVest Partners VII—Buyout Partnership Fund (buyout fund of funds), $3 million to HarbourVest Partners VII—Venture Partnership Fund (venture fund of funds) and $3 million to Northgate Venture Partners II (venture fund of funds). This brought our total capital committed since the inception of our private equity program to $515.3 million, of which $253.7 still has yet to be called. Distributions since the inception of the program have totaled $93.4 million.

In the future, we will continue to work toward our 3% target by reviewing and monitoring our 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.

2004 DEVELOPMENTS AND CHALLENGES AHEAD

The Board and staff have been active in 2004. While it is still early in the year, we are off to a good start in our efforts to evaluate and implement ways to provide prudent and competitive returns for our membership.

Following personnel changes within our general investment consultant, the Board decided to issue a request for proposals for general investment consulting services. The RFP was released on April 1 and our current general consultant was invited to participate.

- We undertook a review of hedge funds, including a number of educational sessions for the Board and staff. We concluded that we should further explore the use of hedge funds to increase the long–term investment returns of the fund with lower total risk. Toward that end, on April 1, we issued a request for proposal for hedge fund consulting services.
- We terminated one of our international emerging markets equity managers and will be reviewing alternatives regarding the redeployment of these funds.
- In an effort to increase our real estate acquisition deal flow, the Board decided to undertake a search for an additional real estate separate account manager.
- We reviewed our proxy voting policy and implemented changes primarily aimed at increasing board independence and eliminating conflicts of interest.
- As mandated by the Treasurer of the State of Ohio, we are working toward a May 3rd transition to a new international custodian, The Bank of New York.

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 targeting an 8.75% return to meet statutory funding requirements and to lessen the impact of rising health care costs. Like many other plan sponsors, we will review our return assumptions to determine if we need to modify our asset allocation plan. We will continue to explore new investment ideas and hope to improve the efficiency of and reduce the costs of our operations. As we look ahead, we intend to tackle a number of issues related to these goals.

- Conduct an asset allocation/liability study.
- Evaluate alternative methods to add value, e.g., derivative use for asset allocation rebalancing, cash equitization and manager transitions, currency overlay strategies, enhanced index products, alternative investments such as timber and hedge funds.
- Review investment products that do not fit neatly into our traditional categories.
- Implement our transition to a new international custodian.
- Reallocate the assets from the terminated emerging markets equity manager.
- Establish an overall risk management program, independent of OP&F managers, which will facilitate timely identification of potential risks and ensure appropriate investment strategies are in place.
- Implement the compliance and performance functions of our investment accounting software.
- Formalize a securities class action policy and related procedures.

Investment Portfolio Summary

INVESTMENT PORTFOLIO SUMMARY

Investment Type	% of Fair Value	Fair Value
Commercial paper	5.27%	$ 475,907,195
U.S. government bonds	4.02%	362,971,029
Corporate bonds and obligations	8.98%	809,596,463
Mortgage & asset back obligations	5.75%	518,648,175
Domestic stocks	29.11%	2,627,640,670
Domestic pooled stocks	17.61%	1,589,255,900
International stocks	21.05%	1,899,856,931
Real estate	5.61%	506,350,144
Commercial mortgage funds	1.25%	113,122,453
Venture capital	1.35%	122,057,250
TOTAL	**100.00%**	**$ 9,025,406,210**

TEN LARGEST COMMON STOCKS (BY FAIR VALUE)

Stock	Shares	Fair Value
Pfizer Inc.	1,991,980	$ 70,376,653.40
Citigroup Inc.	917,189	44,520,354.08
Microsoft Corp.	1,556,950	42,878,403.00
Vodafone Group PLC	12,533,188	31,074,279.51
General Electric	887,700	27,500,946.00
Procter & Gamble	261,900	26,158,572.00
ChevronTexaco Corp.	300,200	25,934,278.00
Berkshire Hathaway "B"	8,855	24,926,825.00
Intel Corp.	747,700	24,075,940.00
Federal Home Loan Mtg. Corp.	392,500	22,890,600.00

TEN LARGEST BONDS AND OBLIGATIONS (BY FAIR VALUE)

Bond	Rate	Maturity Date	Par Value	Fair Value
U.S. Treasury Bond	3.875	04/15/2029	$ 48,180,000.00	$ 70,064,073.41
GNMA TBA	7.000	01/01/2034	60,000,000.00	63,918,720.00
U.S. Treasury Note	4.250	11/15/2013	57,555,000.00	57,492,034.83
FNMA Pool	4.000	09/01/2018	39,174,326.40	38,223,565.50
U.S. Treasury Bond	5.375	02/15/2031	36,535,000.00	38,100,597.82
GNMA TBA	5.000	01/01/2034	33,340,000.00	33,027,437.50
FNMA TBA	6.000	01/01/2034	31,250,000.00	32,294,937.50
U.S. Treasury Note	4.250	01/15/2010	23,500,000.00	30,032,177.50
FNMA TBA	7.000	01/01/2034	25,350,000.00	26,839,312.50
U.S. Treasury Note	3.375	11/15/2008	24,795,000.00	24,991,624.35

TEN LARGEST REAL ESTATE HOLDINGS (BY FAIR VALUE)

Property	Fair Value
The Loop 5060	$ 58,700,000
200 Tower Place	51,000,000
Vista Ridge	48,500,000
St. Andrew's Apartments	47,400,000
Tempe Commerce	39,700,000
Inland Empire	27,000,000
Great Southwest	26,850,000
Oak Brook	22,850,000
Walton Street III 5161	22,640,000
49 Stevenson	22,000,000

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	30.00%	–1.20%	1.91%
Wilshire 5000	31.64%	–2.47%	0.42%
Int'l Equity			
OP&F	35.92%	–5.08%	–0.33%
MSCI EAFE	38.58%	–2.91%	–0.05%
Emerging Markets			
OP&F	58.23%	11.47%	N/A
MSCI EMF Index	56.27%	12.77%	N/A
Fixed Income			
OP&F—Core	5.35%	8.21%	7.48%
Lehman Aggregate	4.11%	7.57%	6.62%
OP&F—High Yield	24.46%	11.97%	N/A
CSFB Developed Countries HY	27.90%	11.88%	N/A
Real Estate (one quarter in arrears)			
OP&F	13.06%	10.15%	10.69%
Wilshire Real Estate Fund	8.97%	5.02%	6.91%
NCREIF	7.80%	7.90%	9.50%
Private Equity (one quarter in arrears)			
OP&F	–13.15%	–20.48%	1.85%
Wilshire 5000 + 5%	31.25%	–4.54%	6.39%
Total Portfolio			
OP&F	24.96%	2.67%	4.03%
Interim Policy Index*	26.47%	1.69%	3.43%

* Interim Policy Benchmark – 48% of Wilshire 5000, 18% of Lehman Aggregate, 17% of MSCI EAFE Index, 8% of Wilshire Real Estate Fund, 3% MSCI Emerging Markets Free, 5% CSFB Dev. Countries HY, 1% 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
Northcoast Fund, L.P.
Northwest Ohio Venture Fund General
Park Street Capital
Peppertree Partners, LLC
Primus Venture Partners
Riverside Capital Associates
Wilshire Private Markets, LLC

INVESTMENT MANAGERS—FIXED INCOME

Banc One Investment Advisors
MacKay Shields LLC
Shenkman Capital Management, Inc.
Western Asset Management
W.R. Huff Asset Management Co., LLC

INVESTMENT MANAGERS—US EQUITY

Alliance Capital Management, LP
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.
Oak Associates Ltd
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.
GMAC Institutional Advisors
Lend Lease Real Estate Investments, Inc.
Lowe Enterprises
Lubert-Adler Management Co., LLC
Paine Webber Real Estate
Prima Capital Advisors, LLC
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
Lombard Odier Darier Hentsch
State Street Global Advisors
SSB Citi Asset Management Group
Wells Capital Management
Zurich Scudder Investments

Schedule of Brokers' Fees Paid *for the year December 31, 2003*

Broker Name	Fees Paid	Units Traded	Average Cost Per Unit
Goldman Sachs	$ 2,064,292.00	80,800,000	$ 0.0255
Deutsche Bank	754,197.00	313,790,000	0.0024
BT Alex Brown	732,253.00	28,592,000	0.0256
Merrill Lynch	491,479.00	159,730,000	0.0031
Capital Institutional Services	472,313.00	10,465,000	0.0451
Citigroup Global Markets	384,931.00	55,171,000	0.0070
UBS Securities	327,935.00	336,910,000	0.0010
Bear Stearns	326,527.00	8,039,000	0.0406
Morgan Stanley	319,026.00	397,465,000	0.0008
Boston Institutional Services	310,806.00	6,902,000	0.0450
Lehman Brothers	269,748.00	15,440,000	0.0175
Credit Suisse First Boston	259,349.00	20,421,000	0.0127
Investment Technology Group	244,453.00	12,245,000	0.0200
JP Morgan	231,520.00	76,645,000	0.0030
Instinet	136,724.00	7,551,000	0.0181
B–Trade Services LLC	100,354.00	3,531,000	0.0284
Jefferies & Co., Inc.	99,110.00	2,429,000	0.0408
BancAmerica	96,867.00	1,896,000	0.0511
Weeden	90,405.00	3,806,000	0.0238
HSBC	88,628.00	14,323,000	0.0062
Sanford C. Bernstein	85,868.00	2,058,000	0.0417
Liquidnet Inc.	75,348.00	3,767,000	0.0200
Legg Mason	72,483.00	1,543,000	0.0470
SG Cowen Securities Corp	66,637.00	1,331,000	0.0501
Warburg Dillon Read	66,542.00	65,638,000	0.0010
Bridge Co.—Clearing	59,876.00	1,217,000	0.0492
Prudential Securities	54,434.00	1,104,000	0.0493
BHF Securities Corporation	52,178.00	1,233,000	0.0423
Robert Baird	50,642.00	1,030,000	0.0492
Citation Group	49,842.00	1,312,000	0.0380
Cantor Fitzgerald & Co. Inc	49,735.00	1,040,000	0.0478
Factset Data Systems	49,015.00	980,000	0.0500
CIBC Worldmarkets Corp.	48,812.00	1,000,000	0.0488
Nomura Securities Int'l	43,593.00	1,414,000	0.0308
ABN Amro	42,483.00	1,407,000	0.0302
Knight Securities	39,968.00	1,134,000	0.0352
Dresdner Kleinwort Benson	38,929.00	1,733,000	0.0225
Santander Investment Secs	38,726.00	78,090,000	0.0005
Credit Agricole Indosuez	38,529.00	1,011,000	0.0381
Mid West Research	37,480.00	750,000	0.0500
McDonald & Company Securities	36,825.00	737,000	0.0500
First Union Capital	34,405.00	688,000	0.0500
Fidelity Capital Markets	34,112.00	1,252,000	0.0272
Cazenove & Co.	31,440.00	2,873,000	0.0109
Soundview	31,058.00	927,000	0.0335
Fox Pitt Kelton Inc.	30,903.00	1,422,000	0.0217
C. L. King	30,667.00	617,000	0.0497
Keefe Bruyette And Woods	28,614.00	572,000	0.0500

(Continued on page 36)

(Continued from page 35)

Broker Name	Fees Paid	Units Traded	Average Cost Per Unit
Raymond James & Associates	$ 28,241.00	577,000	$ 0.0489
Julius Baer	26,679.00	567,000	0.0471
Bank Austria Creditans	25,517.00	152,701,000	0.0002
Thomas Weisel Partners	25,334.00	489,000	0.0518
Broadcort Capital Corp.	24,285.00	486,000	0.0500
First Analysis Securities	23,785.00	476,000	0.0500
Standard & Poors	23,201.00	464,000	0.0500
Edwards (A.G.) & Sons, Inc	22,712.00	474,000	0.0479
U. S. Clearing	22,446.00	517,000	0.0434
Needham	22,300.00	446,000	0.0500
Dain Rauscher Incorporated	21,440.00	429,000	0.0500
Societe Generale Securities	20,683.00	917,000	0.0226
Wedbush Morgan	20,655.00	413,000	0.0500
Adams Harkness & Hill	20,110.00	402,000	0.0500
Nomura International Plc	20,064.00	732,000	0.0274
Broker's Fees Less Than $20,000 each	742,711.00	275,475,000	0.0027
TOTAL	**$ 10,210,224**	**2,169,596,000**	**$ 0.0047**

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 authority of the Board is set forth in ORC Sections 742.11 to 742.113 and these policies are established and adopted as required under that authority.

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 Fund assets.
- To achieve and maintain a fully funded status with regard to the accumulated benefit obligation.
- To control 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 Sec. 742.11 of the Ohio Revised Code: "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 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. The Board shall adopt in regular meetings, policies, objectives or criteria for the operation of the investment program at least annually.

II. Definition of Responsibilities

A. 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.
- 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 on a semi–annual basis.

B. Investment Committee Responsibilities

- Review, on a continuing basis, the current Investment Policies of OP&F and recommend changes to the Board, 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 the benchmarks established by the Board and report its findings to the Board.
- 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.
- Review suggested changes or additions to the functions and operations regarding the Investment operations of similar institutional investors and report any suggested changes to the Board.
- Report its activities and recommendations to the Board following each committee meeting.
- Review the proposed Investment department annual operating budget and report its recommendations to the Finance Committee.

C. 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 the long-term interests and objectives of the Plan 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.

D. 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

E. 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.
- 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.
- 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 the long-term interests and objectives of OP&F 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 Section 742.11 of the Ohio Revised Code.

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
International Equity	17	± 2
Domestic Fixed Income	18	± 2
High Yield	5	± 2
Real Estate	8	± 2
Emerging Markets	3	± 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 April 2000. 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 742.11.2.

An Investment Committee composed of three or more Board members shall be responsible for working closely with the Investment Staff in conjunction with the advisors and shall make recommendations to the Board on investment matters.

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 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 Investment Committee. The Investment Manager Search Policy is included later in this Policy as Section XI.

The Board shall 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.

VI. SPECIFIC GUIDELINES

A. Domestic Equity

Investment Objectives:

- Total return of the managed equity portfolio should exceed the return of the Wilshire 5000 Index over a three–year period on an annualized basis.
- Total return of each manager's portfolio should rank above median when compared to their peer groups (growth, value) over a three–year period on an annualized basis and should exceed their benchmark return as specified in each manager's guidelines.

- The structure of the domestic equity allocation will be diversified among passive large capitalization managers, active large capitalization managers and active small capitalization managers.

1. Large Capitalization Passive Manager

The passive component has a target allocation of one–half of the domestic large capitalization markets 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 Standard & Poor's 500 Index.

2. Large Capitalization Active Managers

The Board of Trustees has determined that diversification of the equity asset base into large capitalization companies will offer the opportunity for enhanced returns, while lessening overall risk through increased diversification.

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

- Eligible equity purchases include all US stocks.
- The main focus of investing will be on companies with market capitalizations included in commonly accepted large capitalization indices.
- No single holding shall account for more than 6% of the entire portfolio at market, or 5% of the outstanding common stock of any one corporation.
- Specialist managers shall be subject to all other investment provisions listed under Sec. 742.11 that are not specifically mentioned above.
- 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 Fund expenses.
- Cash equivalent positions shall be limited to a maximum of 5%.
- Derivatives whose underlying asset is allowed by statute may be used in the management of the portfolio.

3. Small/Mid Capitalization Active Managers

The Board of Trustees has determined that diversification of the equity asset base into small capitalization and mid–range capitalization companies will offer the opportunity for enhanced returns, while lessening overall risk through increased diversification. The structure of this asset class shall consist of several complementary style managers with a demonstrated 'growth', 'core' and 'value' style of investing.

The following objectives and guidelines shall apply to the asset class:

- The guidelines, which apply to the large cap specialist managers, shall also apply to the small/mid cap managers except that:
- The main focus of investing will be on companies with market capitalizations included in commonly accepted small to mid capitalization indices.

B. International

OP&F will allocate a portion of the investment portfolio to international securities in accordance with the Board's asset allocation policy. This is intended to enhance the overall return of the portfolio while lowering risk through increased diversification. The structure of the international equity allocation will be diversified among three approaches: passive and active developed markets and active emerging markets. Trading shall be left to the discretion of the investment manager.

1. Passive International Equity Investments

The passive component has a target allocation of one–third of the International developed markets allocation. This is an index fund portfolio intended to provide diversification to OP&F's U.S. investments through holdings in non–U.S. equities and is to be constructed so as to match the return of the Morgan Stanley Capital International Europe, Australia, Far East Index (MSCI–EAFE). Non–U.S. equity securities in EAFE countries are authorized. The manager will have the MSCI–EAFE Index as a benchmark.

2. Active International Equity Investment

The active component has a target allocation of two–thirds of the International developed markets allocation and will be divided among at least three managers. These will be discretionary portfolios intended to provide diversification to OP&F's U.S. investments as well as OP&F's passive EAFE Index manager.

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

- For each active manager, the use of American Depository Receipts (ADRSs) and Global Depository Receipts (GDRs) will be limited to 20% of the portfolio.
- While the geographic and economic sector diversification will be left to the manager's discretion, the portfolio shall be appropriately diversified as consistent with the manager's stated investment approach.
- 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 Objectives:

- Total return of the active equity portfolios should exceed the return of the MSCI EAFE Index over a three–year period on an annualized basis.
- Total return of each manager's portfolio should rank above median when compared to their peer groups over a three–year period on an annualized basis and should exceed their benchmark return as specified in each manager's guidelines.

3. Emerging Markets

The emerging markets allocation will be implemented as a distinct mandate with a separate allocation. The allocation will be divided between at least two active managers. In order to minimize the administrative and transaction costs of emerging market investing, commingled investment vehicles may be utilized when practicable. Sector and security selection, portfolio structure and timing of purchases and sales are delegated to the Manager subject to policies established by the commingled funds or as specified in the Manager's investment guidelines.

Investment Objectives:

- Total return of the active equity portfolios should exceed the return of the Morgan Stanley Capital International Emerging Markets Free Index over a three–year period on an annualized basis.
- Total return of each manager's portfolio should rank above median when compared to their peer groups over a three–year period on an annualized basis and should exceed their benchmark return as specified in each manager's guidelines.

C. Fixed Income

It shall be the responsibility of the Investment Managers to give careful consideration to the needs of the system in its recommendation for bond investments, emphasizing relative value, quality and, to a lesser extent, liquidity.

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

- The portfolio shall be actively managed in an effort to outperform the Lehman Aggregate Index over a market cycle. The effective duration of the portfolio shall not deviate beyond + or – 20% from that of the benchmark, unless otherwise approved by the Board of Trustees.
- In order to qualify for inclusion in the fixed income portfolio, securities shall be rated "BBB–" or better by two standard rating services at the time of purchase.
- No more than 10 percent of the fixed income portfolio may be invested in the securities of any one issuer and no more than 5 percent in any one issue on a dollar duration basis, with the exception of United States Government or Agency securities.
- Investments in high risk derivatives are prohibited. Low risk mortgage derivatives are permitted.
- Cash equivalents positions shall be included in the calculation of the portfolio's effective duration.

Investment Objectives:

- Total return of the active fixed income portfolios 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 median when compared to their peer groups over a three–year period on an annualized basis and should exceed their benchmark return as specified in each manager's guidelines.

D. Treasury Inflation Protected Securities (TIPS)

The Board of Trustees has determined that the inclusion of TIPS in the portfolio will enhance the portfolio's protection against unexpectedly high inflation, while lowering risk through increased diversification. The Board will utilize active management in this asset class to exploit inefficiencies in the market.

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

- Investments in this portfolio will be limited to inflation indexed and nominal U.S. Treasury securities.
- Cash equivalents will be included in the calculation of the portfolio's effective duration which can range between +/–4 years of the benchmark's duration.

Investment Objectives:

- Total return of the TIPS portfolio should exceed the return of the Lehman U.S. TIPS Index over a three–year period on an annualized basis.
- Total return of each manager's portfolio should rank above median when compared to their peer groups over a three–year period on an annualized basis and should exceed their benchmark return as specified in each manager's guidelines.

E. High Yield Bonds

The Board of Trustees has determined that the inclusion of high yield bonds into the portfolio will enhance the overall return of the portfolio while lowering risk through increased diversification. The Board will utilize active management in this asset class to minimize the probability of exposure to securities in default.

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

- The primary investment in the portfolio will be fixed income securities issued by US corporations with a minimum credit rating of CCC or equivalent. Investments are not allowed in emerging market debt or non–US dollar denominated bonds.
- 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.
- The portfolio will be diversified by economic sector; however, the diversification restrictions will be tailored for each investment manager consistent with the manager's stated investment approach.
- Investments in Rule 144A securities are allowed while investments in non–Rule 144A private placements are limited to 5% of the entire portfolio at market.

Investment Objectives:

- Total return of the high yield portfolio should exceed the return of the CS First Boston Domestic Plus High Yield Index over a three–year period on an annualized basis.
- Total return of each manager's portfolio should rank above median when compared to their peer groups over a three–year period on an annualized basis and should exceed their benchmark return as specified in each manager's guidelines.

F. Real Estate

OP&F has adopted Strategic and Investment Plans that provide for the completion of OP&F's allocation to real estate.

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. Also, real estate must provide a total return that is competitive on a risk–adjusted basis with stocks and bonds. OP&F is primarily interested in investing in core properties (i.e., operating, substantially leased, well located, institutional quality in the traditional property types which include office, apartment, retail and industrial). They generally offer relatively high and more predictable current income returns. OP&F will, however, consider investments in non–core properties to capture superior risk–adjusted returns caused by imbalances in the real estate and capital markets. To access these opportunities, OP&F will make investments in institutional properties, which may present a higher level of risk including leasing, renovation, development, re–positioning, distressed assets, international and a degree of business or operating risk (e.g., hotels, senior housing, etc.). The investment strategy typically is to cure the identified deficiency, increase cash flow and capture the premium through a short term hold. 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. OP&F employs a number of risk management strategies to minimize portfolio return volatility. These strategies include diversification by property type, by geographic location, by size of individual investments and by advisors. Leverage will be utilized only if acceptable debt service coverage, loan to value ratios and other protection can be provided. The maximum debt to equity ratio is 1:1 and 2:1 an individual asset.

Investment Objectives:

- The performance objective for real estate is to produce a total return, prior to investment advisor fees equal to the NCREIF Property Index plus 100 basis points measured over rolling three–year periods.

G. Commercial Mortgages

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. Therefore, the allocation to this asset class shall be targeted at 0% of OP&F's total investable assets, but will allow for up to a 2% allocation, which shall be included within the Fixed Income allocation.

Commercial Mortgage investments provide for fixed income payments derived from underlying property cash flows. Flexibility in investing in commercial mortgage backed securities or whole loans shall be provided. Risk shall be controlled through diversification strategies and the retention of qualified managers with acceptable loan underwriting and/or commercial mortgage acquisition experience.

Investment Objectives:

- The benchmark return for the commercial mortgage portfolio, consistent with investment risk, is a real rate of return of four percent, net of investment management fees, over rolling ten–year periods.
- The policies and guidelines set forth in OP&F's "Commercial Mortgage Strategic and Investment Plan" are incorporated herein by reference.

H. Private Equity Investments

The private equity class of investments is designed to provide an attractive risk adjusted rate of return to benefit OP&F. By its very nature, it possesses a long–term investment horizon, illiquidity and a high degree of risk.

To assist in diversifying the risks of this asset class, OP&F shall invest only in eligible private equity partnerships or funds and shall avoid individual direct company investments.

For these reasons, this asset class is limited to 3% of the overall Fund and expected returns should exceed those of other asset classes.

Investment Objectives:

- OP&F seeks a long–term target return of 5% greater than the Wilshire 5000 Index net of fees.

I. Cash Equivalents

To provide effective cash management when investing cash balances, emphasis shall be 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.

Short–term investments may be made in commercial paper, which shall at the time of purchase be rated within the two highest classifications established by two standard rating services. Treasury obligations, certificates of deposits, banker's acceptances, or repurchase agreements may be purchased with the responsibility resting on the Investment Staff regarding the selection of the specific type of investment at any given point in time. These obligations shall mature within 270 days of the date of purchase.

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. Each manager, staff or individual 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."

Common stock proxies may be executed by the Sr. Investment Officer and the Chief Investment Officer, or their designees and by designated outside money managers.

The internal staff shall provide a semi-annual summary report of proxy voting actions to the Investment Committee.

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 quarterly by the agent to the Investment Committee detailing investment instruments utilized and the appropriate breakdown of revenues.

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 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.

Board—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.

Investment Committee—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 shall be responsible for recommending 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 at least annually:

1. Retain the investment manager with no material changes in the relationship;
2. Retain the investment manager with issues of a non–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 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, the following review schedule will be followed for managers rated either a '2' or '3':

'2'—The staff and the Investment Committee 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, 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 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 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.

B. The RFP minimum criteria will be consistent with the search investment strategy and will be established by the Investment Committee, 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 by a super majority of the Board (7 or more) to reconsider the finalists of a prior search concluded within the preceding two years. The retention of a manager in a closed universe search shall be subject to a due diligence review by the Investment Committee, 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 closed universe searches, the Investment Committee shall approve all potential candidates with the assistance of the staff and consultant.

E. Staff, with the assistance of the Board's investment consultant, will review all timely submitted RFPs to ensure that all search criteria have been met.

F. Staff, with the assistance of the Board's investment consultant, will evaluate all RFPs having met established criteria and produce a written report summarizing the findings and manager rankings to the Investment Committee. The staff and consultant may produce separate reports to the Investment Committee where there may be material differences in findings or manager rankings.

G. The Investment Committee will consider the staff and consultant report as well as other material information when determining the list of managers for finalist interviews.

H. The staff and/or investment consultant may conduct a due diligence visit with the finalists prior to the finalist interviews.

I. The Investment Committee will interview and evaluate the finalists with the assistance of staff and the investment consultant.

J. Only the Investment Committee has authority to recommend managers to the Board for final consideration. The recommendations may also include information on the amount and timing of funding, investment guidelines and fees.

K. The Board will approve or fail to approve the manager recommendations of the Investment Committee. 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 & Fire Pension Fund
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Columbus, Ohio 43215
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Report of Actuary

SEGAL

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May 20, 2004

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Members of the Board:

This letter is to certify that The Segal Company's preparation of the January 1, 2003 actuarial valuation report for The Ohio Police & Fire Pension Fund ("Fund") presents the actual position of the Fund. Actuarial valuations are prepared annually for the Fund for the purpose of measuring the Fund's actuarial liabilities and determining the progress made toward the funding objectives of the Board.

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. A 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 determined as accrued by the members 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.

Section 742.16 of the Revised Code, as amended by Senate Bill No. 82, sets forth an objective that the number of years required to amortize the unfunded actuarial accrued liability (the amortization period) be not more than 30 years. If the amortization period exceeds 30 years, a plan shall be developed and presented by the Board of Trustees to reduce the period to not more than 30 years by the 2007 plan year.

The 2003 actuarial valuation results in an amortization period of infinite years, which compares to the 28–year amortization period developed in the 2002 actuarial valuation. The increase is primarily attributable to the less than assumed investment performance of the Fund during 2002.

Actuarial Assumptions and Methods

The actuarial assumptions and methods used in the January 1, 2003 actuarial valuation were recommended by The Segal Company and adopted by the Board. These assumptions and methods were developed in accordance with the applicable Actuarial Standards of Practice and meet the parameters proscribed in Government Accounting Standards Board Statement No. 25 for determining the annual required contribution.

Board of Trustees
May 20, 2004
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Actuarial Valuation Data

The actuarial valuations are based upon census data and audited financial information submitted by the Fund. The Segal Company reviews the data for reasonableness. Information suspected of being in error is submitted to the Fund for correction. The benefit provisions valued in the valuation report reflect the status of the Ohio Revised Code as of the valuation date.

Supporting Schedules

The required supplementary information and actuarial schedules listed below were prepared by the Fund for the 2003 Comprehensive Annual Financial Report and include information from the 2002 and 2003 actuarial valuation reports prepared by The Segal Company. The prior year information included in trend data schedules are from prior valuation reports prepared by Wyatt.

- Schedule of Funding Progress
- Schedule of Contributions from Employers and Other Contributing Entities
- Notes to the Required Supplementary Information

- Schedule 2: Summary of Actuarial Assumptions and Methods; provided in Section 4, Exhibit V of the 2003 actuarial report.
- Schedule 3: Active Member Valuation Data; provided in Segal's 2002 and 2003 actuarial reports and prior actuarial reports prepared by Wyatt.
- Schedule 4: Retirants and Beneficiaries Added to and Removed from Rolls; provided in Segal's 2002 and 2003 actuarial reports and prior actuarial reports prepared by Wyatt.

Respectfully Submitted,

Leslie L. Thompson

The Segal Company

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	Rate of Mortality: Police Male	Police Female	Fire Male	Fire Female
25	0.051	0.031	0.046	0.031
30	0.066	0.042	0.059	0.042
35	0.080	0.060	0.075	0.060
40	0.085	0.088	0.085	0.088
45	0.107	0.121	0.094	0.121
50	0.158	0.191	0.135	0.191
55	0.258	0.336	0.210	0.336

Termination

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

Withdrawal Rate (Police):

	Years of Service										
Age	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

Withdrawal Rate (Fire):

	Years of Service										
Age	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

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
25	0.020	0.020	0.015	0.015
30	0.124	0.124	0.068	0.068
35	0.344	0.344	0.143	0.143
40	0.708	0.708	0.380	0.380
45	1.304	1.304	1.166	1.166
50	2.533	2.533	2.939	2.939
55	4.270	4.270	5.270	5.270

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%
2	9.5
3	8.5
4	6.5
5 and more	5

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

- The only changes in actuarial assumptions since the prior valuation was the additional assumption due to DROP and the scheduled change in the corridor limit used in the determination of the actuarial value of assets.

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

The change in assumption of an age related table in the prior year to an age and service related table for the current year.

Retirement Rates

The rates decreased for some ages and increased for ages 59 and 60 under Police.

Disability Rates

The rates decreased from the prior valuation.

Occurrence of Disability

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

Disability Type	Prior Year	Current Year
On duty permanent and total	20%	35%
On duty partial	76	61
Off duty Ordinary	4	4

Salary Increases:

The assumptions changed from an age related table for the prior year to a service related table for the current year.

Dependent Children

Change in assumption from one–third of dependent children continue as students beyond age 18 to age 22, to all dependent children continue as students to age 22.

Administrative Expense Loading

Change in assumption of the expense load to Normal Cost from the amount of pension administrative expense budgeted in excess of .05% of market value assets and net of the State Subsidy received, to loading the Normal Cost by all pension administrative expense budgeted, net of the State Subsidy received.

Actuarial Cost Method

Change from the Fund to Decrement version of the Entry Age Normal Cost Method to the Fund to Maximum Retirement Age version of the Entry Age Normal Cost Method.

Annual Valuation Payroll

Change from assuming that the member pay reported for the prior year increased by one–half a year of salary increase to assuming a full year of salary increase.

Actuarial Value of Assets Methodology

The prior year method developed an actuarial value of assets under a four–year market Adjustment Method. The current year method calculates the assets under the five–year expected market value technique with a 10.0% corridor of the 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

Actuarial Valuation as of Jan. 1	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	
1997	582	316	14,851	10,972	$ 42,049	$ 42,509	2.5%	2.4%	$ 1,119.9
1998	616	354	15,247	11,316	43,561	44,077	3.6%	3.7%	1,190.9
1999	621	353	15,533	11,600	44,892	45,052	3.1%	2.2%	1,249.1
2000	590	350	15,775	11,867	47,241	47,416	5.2%	5.2%	1,338.5
2001	573	352	15,778	12,158	49,113	49,459	4.0%	4.3%	1,407.6
2002	559	354	15,877	12,451	54,335	54,402	7.8%	7.2%	1,534.3
2003	**541**	**362**	**15,924**	**12,556**	**56,661**	**56,687**	**4.3%**	**4.2%**	**1,606.3**

Retirants and Beneficiaries Added to and Removed from Rolls

Year at Jan. 1	Police		Fire		Total Members at Year End	
	Additions	Removals	Additions	Removals	Police	Fire
1997	760	400	666	358	11,537	9,297
1998	610	418	431	444	11,729	9,284
1999	878	445	636	348	12,162	9,572
2000	783	400	599	327	12,545	9,844
2001	842	455	614	377	12,932	10,081
2002	669	427	505	347	13,174	10,239
2003	**758**	**405**	**499**	**342**	**13,527**	**10,396**

Gains & Losses in Accrued Liabilities

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

Type of Risk Area	Gain (or Loss) for Year
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.*	$ 1,753,772
Retirement *If members retire at older ages than assumed, there is a gain. If younger, there is a loss.*	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.*	(74,518,956)
Disability Retirants *If disability claims are less than assumed, there is a gain. If greater increases, there is a loss.*	24,742,510
Salary increase/decrease *If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.*	3,332,436
Return to work *If participants return to work with previous service restored, there is a loss.*	(7,145,354)
New Entrants *If new entrants join OP&F, there is a loss.*	(4,759,520)
Deaths among actives *If claims costs are less than assumed, there is a gain. If more claims, a loss.*	98,967
Investment *If there is a greater investment return than assumed, there is a gain. If less, there is a loss.*	(1,677,356,919)
Miscellaneous *Gain and losses resulting from employment fluctuations, timing of financial transactions and miscellaneous unidentified sources as well as differences covered by changes in participant records.*	108,148
TOTAL GAIN (OR LOSS) DURING THE YEAR	**$ (1,694,548,935)**

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	1997	$ 524,911	$ 2,214,921	$ 1,634,939	$ 3,431,556	100%	100%	42%
Fire	1997	$ 405,865	$ 1,683,441	$ 1,233,600	$ 2,799,863	100%	100%	58%
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%

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;
- One municipal fiscal officer, as appointed by the Governor of the State of Ohio;
- The Auditor of State; and
- The Attorney General.

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. The municipal fiscal officer is appointed by the Governor.

The Auditor of State and State Attorney General serve by virtue of their office and are also members of other state retirement boards.

The Board appoints an executive director as the chief administrative officer of OP&F. The executive director oversees the daily activity of the staff.

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 satisfactory 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 the estate if there is no surviving spouse.

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.

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 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% 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 or it may be cancelled upon divorce with the consent of the member's spouse.

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. Monthly contributions ranged from $0 to $50 depending on the type and amount of the participant's pension. Effective January 1, 2002 these contributions were revised, with total contributions designed to equal 7.75% of payroll.

Tiered Retirement Plan—COLA or Terminal Pay

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. 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 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.

Statistical Section

THE OHIO POLICE & 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
1998	$ 128,673,433	$ 261,618,507	20.3%	$ 913,733,524	$ 19,282,940	$ 1,323,308,404
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	2,285,336,926

Expenses by Type*

Year	Benefit Payments	Administrative Expenses	Refund of Member Contributions	Discount on Early Payoff	Other Expenses	Total Expenses
1998	$ 482,070,798	$ 10,899,807	$ 5,685,196	$ 8,864,703	$ 591,938	$ 508,112,442
1999	542,653,929	11,548,719	11,389,439	12,470,563	887,352	578,950,001
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

Benefit Expenses by Type

Year	Service	DROP**	Disability	Health Care	Survivor	Total Benefits
1998	$ 263,238,748	—	$ 101,409,248	$ 83,928,305	$ 33,494,497	$ 482,070,798
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

* 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
1998	5,571	4,926	2,749	1,869	3,104	2,391	20,610
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

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

Service Retirement

Year	Normal	Service Commuted	Age Commuted	Age/ Service
1998	$ 2,780	$ 835	—	$ 2,091
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

Disability Retirement

Year	Permanent and Total	P&T Presumptive	Partial	Partial Presumptive	Off Duty
1998	$ 2,321	$ 2,968	$ 1,953	$ 2,134	$ 1,330
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

* 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
1998	269	214	—	107	347	33
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

** 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 Section 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, 2003 as an agency fund. The following is a schedule of DBF financial activity:

Balance January 1, 2003	$ 14,524,899
Less Survivor Benefits Paid January 1 to June 30, 2003	(9,711,747)
Balance returned to State of Ohio	(4,813,152)
State Funding Received July 2003	$ 24,000,000
Less Survivor Benefits Paid July 1 to December 31, 2003	(9,371,003)
BALANCE DECEMBER 31, 2003	**$ 14,628,997**

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
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Facsimile: (614) 628-1777
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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.