



# Illinois Municipal Retirement Fund

Suite 500 2211 York Road Oak Brook IL 60523-2337

Service Representatives 1-800-ASK-IMRF

[www.imrf.org](http://www.imrf.org)

August 27, 2004

The Honorable Rod R. Blagojevich  
Governor of Illinois  
James R. Thompson Center  
100 West Randolph, Suite 16-100  
Chicago, Illinois 60601

Dear Governor Blagojevich:

The Illinois Municipal Retirement Fund (IMRF) Board of Trustees hereby submits its annual report on the emerging investment managers used by this retirement system, as directed in Public Act 87-1265 (Act). In accordance with the provisions of this Act the following information is provided:

1. Identification of emerging investment managers used by the system;
2. Percentage of the system's assets under the investment control of emerging investment managers;
3. Actions undertaken to increase the use of emerging investment managers, including encouraging other investment managers to use emerging investment managers as subcontractors when the opportunity arises.

## **1. Emerging Investment Managers Used by the System**

IMRF presently uses three emerging investment managers as defined by the Act. Our emerging investment managers are Brown Capital Management, Holland Capital Management, and MDL Capital Management. Additionally, IMRF employs Payden & Rygel, EARNEST Partners, and Muller & Monroe Asset Management, LLC. These firms do not qualify as emerging investment managers under the Act, but they are minority or woman-owned investment managers.



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## **2. Percentage of Assets Under Control of Emerging Investment Managers**

As of June 30, 2004, emerging minority investment firms managed \$749.1 million for the IMRF. This represented 4.42% of the total investment portfolio. Additionally, \$816.1 million was invested with minority and women business enterprise (MWBE) investment managers that are not defined as emerging by the Act. This represented 4.83% of the total investment portfolio. As of June 30, 2004, total assets of \$1.57 billion were invested with MWBE investment managers. This amount represented 9.25% of the total IMRF investment portfolio, and is an increase of \$322 million over the amount reported in 2003.

On June 30, 2004, IMRF's emerging investment manager allocations were \$50 million to Brown Capital Management, \$316.4 million to MDL Capital Management, and \$382.7 million to Holland Capital Management. Non-emerging MWBE investment manager allocations were \$50 million to EARNEST Partners, \$25 million to Muller & Monroe Asset Management, and \$741.1 million to Payden & Rygel.

## **3. Action Undertaken to Increase the Use of Emerging Investment Managers**

- A. In January 2004, the IMRF Board of Trustees established a goal of 20% of actively managed investment assets being managed by MWBE money managers. As of June 30, 2004, 15.9% of actively managed assets were allocated to MWBE money managers.

Since our 2003 report, an additional allocation of \$160 million has been given to Holland Capital Management, new allocations of \$50 million each have been given to Brown Capital Management and EARNEST Partners, and \$25 million has been committed to Muller & Monroe. The Muller & Monroe commitment will be placed in a private equity fund-of-funds that will focus on investing in MWBE private equity partnerships, and in Illinois and Midwest-based MWBE partnerships. The fund-of-funds was jointly established with the Public School Teachers' Pension and Retirement Fund of Chicago and the Illinois State Universities Retirement System.

In addition to the above actions, the Board of Trustees is presently conducting a search to place \$100 million with a manager-of-managers that will invest with MWBE money managers. This \$100 million allocation will increase our commitment to MWBE managers from 15.9% to 16.9% of actively managed investment assets.



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The balance of the allocation necessary to achieve our 20% goal will be placed directly with MWBE investment managers during the normal course of investment manager searches.

In January 2004, the IMRF Board of Trustees also established a goal of 20% of actively managed brokerage being executed by MWBE broker/dealers. For the six months ended June 30, 2004, 14.09% of actively managed brokerage had been executed with MWBE broker/dealers.

Brokerage commissions executed through MWBE brokerage firms have increased significantly. Between July 1, 2003 and June 30, 2004, IMRF investment managers placed \$1,555,818 of commission business with MWBE broker/dealers. This is an increase of \$1,164,639 over the MWBE commissions reported last year. Exhibit A, attached, lists these broker/dealers and the commissions that they received. It should be noted that \$1,246,847 of these commissions were placed with MWBE broker/dealers during the period from February 1, 2004, through June 30, 2004. This is coincidental with the establishment of the MWBE brokerage goal.

In addition to these steps, the Board of Trustees has appointed the Chairman of the Investment Committee as the Trustee responsible for monitoring the progress towards achieving our MWBE investment manager and brokerage goals. The Board of Trustees will also monitor and review these goals.

- B. The following statement of policy was adopted by the IMRF Board of Trustees on February 25, 1993 and continues to be in effect:

## **IMRF INVESTMENT MANAGER SELECTION POLICY**

WHEREAS The IMRF is a public retirement system with a responsibility to its members and participating employers to make investments with the objective of obtaining superior total long-term rates of return while using acceptable levels of risk and reasonable control of costs, and



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WHEREAS The strategy of the IMRF Board of Trustees is to achieve superior long-term rates of return through the use of a diversified investment portfolio, and

WHEREAS The IMRF Board of Trustees engages various investment managers to implement this strategy, and

WHEREAS The availability of qualified minority and woman-owned business enterprises is recognized by the IMRF Board of Trustees, and

WHEREAS The characteristic of being a minority or woman-owned business enterprise is not a barrier to employment by the IMRF,

**THEREFORE, IT SHALL BE THE POLICY OF THE BOARD OF TRUSTEES**

To include qualified minority and woman-owned business enterprises in the IMRF investment manager selection process.

To objectively evaluate all qualified investment manager candidates regardless of race, gender or handicap.

To evaluate all qualified investment manager candidates with emphasis on: demonstrated professional performance; organizational depth; institutional investment management capability; and reasonableness of fee structure, regardless of the amount of investment assets under management, or age of the investment management firm.

To use professional consultants that do not use discriminatory practices in the creation and maintenance of their investment manager databases.

To require professional consultants used by the IMRF to affirm their use of nondiscriminatory practices when recommending investment manager candidates to the IMRF Board of Trustees.

To require an annual report from each IMRF investment manager regarding its use of minority and woman-owned business enterprises as brokers.



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- C. The IMRF Board of Trustees employs a consultant who uses non-discriminatory practices when recommending investment manager candidates and who maintains a database of MWBE investment management firms. Mercer's database is accessible to any investment manager online and there is no fee for listing information. This consultant database contains 40 firms that qualify as emerging investment managers under Public Act 87-1265. Exhibit B, attached, lists the 182 MWBE firms currently in this database. It also identifies the 40 firms that qualify as emerging investment managers under Public Act 87-1265 with an asterisk.

Mercer increased its efforts to add MWBE investment management firms to its global investment manager database (GIMD). Using external sources such as Nelson's Institutional Marketplace, Mercer identified several MWBE investment firms that were not previously included in GIMD. These firms were then invited to enter their information directly into Mercer's GIMD system. As a result, fifteen additional MWBE firms have been added to Mercer's database since January 1, 2004.

- D. When conducting a search for a new investment manager, the IMRF Board of Trustees requires that all MWBE investment firms evaluated in the search process be specifically identified in the investment manager search report presented to them. In addition, any reasons for eliminating a MWBE investment manager candidate from further consideration must also be provided in this report. This procedure confirms that qualified MWBE investment firms are being considered in the IMRF investment manager search process.

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The IMRF Board of Trustees is mindful of the objective to increase MWBE participation in the area of public pension fund investment management and brokerage. The structure and goals for including emerging investment managers, minority investment managers and minority broker/dealers in the IMRF investment process continues to be in place.

Sincerely,

Louis W. Kosiba  
Executive Director

LWK:meb  
Attachments

**Exhibit A**

**MINORITY AND WOMEN-OWNED ENTERPRISES  
BROKERAGE COMMISSIONS PAID  
July 1, 2003 - June 30, 2004**

Berean Capital Markets . . . . .	\$	20,355.00
300 South Wacker Drive, Suite 2450 Chicago, IL 60606 CONTACT: Elizabeth Tolomeo Phone: (312) 986-8200		
Blaylock & Partners . . . . .	\$	77,379.21
10 South Wacker Drive, Suite 2175 Chicago, IL 60606 CONTACT: Robert J. Graff Phone: (312) 436-0970		
BOE Securities . . . . .	\$	1,160.00
440 South LaSalle Street Chicago, IL 60602 CONTACT: Eugene Maddred, Jr. Phone: (312) 663-2002		
Cabrera Capital Markets . . . . .	\$	145,631.32
208 South LaSalle Street, Suite 1230 Chicago, IL 60604 CONTACT: George Dychton Phone: (312) 236-8888		
CL King . . . . .	\$	2,325.00
One Liberty Square, 5th floor Boston, MA 02109 CONTACT: Peter Schultz Phone: (866) 349-4640		
Gardner Rich & Company . . . . .	\$	163,223.68
401 South Financial Place Chicago, IL 60605 CONTACT: Dennis Dunn Phone: (312) 786-4362		
Guzman & Company . . . . .	\$	65,530.85
1200 Brickell Avenue, 14th Floor Miami, FL 33131 CONTACT: Andrew Buckner Phone: (305) 374-3600		

Exhibit A

**MINORITY AND WOMEN-OWNED ENTERPRISES  
BROKERAGE COMMISSIONS PAID  
July 1, 2003 - June 30, 2004**

Loop Capital Markets . . . . .	\$	312,862.55
200 West Jackson Boulevard, Suite 1600 Chicago, IL 60606 CONTACT: Todd Mayfield, Dennis Ignarski Phone: (312) 913-4900, (312) 913-4908		
M. Ramsey King Securities, Inc. . . . .	\$	29,187.00
93 Tomlin Circle Burr Ridge, IL 60527 CONTACT: Mary King Phone: (630) 789-0607		
MAGNA Securities Corp . . . . .	\$	343,913.00
420 Lexington Avenue, Suite 2220 New York, NY 10170 CONTACT: Val Guilford Phone: (212) 547-3700		
Melvin Securities . . . . .	\$	165,758.03
111 West Jackson Boulevard, Suite 2110 Chicago, IL 60604 CONTACT: Dennis Sotos, Mike Mehleck Phone: (800) 341-8584		
Muriel Siebert . . . . .	\$	3,436.00
885 Third Avenue New York, NY 10022 CONTACT: Joseph Costello Phone: (212) 644-2400		
Nutmeg Securities . . . . .	\$	20,302.34
440 South LaSalle, 4th Floor Chicago, IL 60605 CONTACT: Steve Marchese Phone: (800) 444-0603		
Ormes Capital Markets . . . . .	\$	55.00
45 Broadway, 22nd floor New York, NY 10006 CONTACT: Dan O'Grady Phone: (212) 361-1310		

Exhibit A

**MINORITY AND WOMEN-OWNED ENTERPRISES  
BROKERAGE COMMISSIONS PAID  
July 1, 2003 - June 30, 2004**

PCS. Securities. . . . .	\$	1,983.00
121 Lakeside Avenue, Suite 301 Seattle, WA 98122 CONTACT: Jennifer Waltier Phone: (206) 224-9848		
Pacific American Securities . . . . .	\$	45,561.20
50 Broadway, 22nd floor New York, NY 10004 CONTACT: Gigi Gueli Phone: (800) 809-2349		
Pryor Counts & Co. . . . .	\$	74.80
111 West Washington, Suite 747 Chicago, IL 60602 CONTACT: Carol Mackoff Phone: (312) 357-0157		
Robert Van Securities. . . . .	\$	661.63
350 Frank Ogawa Plaza, 10th floor Oakland, CA 94612 CONTACT: Tim O'Brien Phone: (510) 208-6101		
SBK Brooks . . . . .	\$	4,888.75
840 Terminal Tower 50 Public Square Cleveland, OH 44113 CONTACT: Dan Raftery Phone: (800) 878-6950		
Samuel Ramirez & Company . . . . .	\$	226.00
61 Broadway, 29th floor New York, NY 10006 CONTACT: Robin Marchand Phone: (212) 248-0505		
Sturdivant & Company . . . . .	\$	8,800.00
Plaza 1000 at Main Street, Suite 200 Voorhees, NJ 08043 CONTACT: Harvey deKraft Phone: (856) 751-1331, ext. 224		



Exhibit A

**MINORITY AND WOMEN-OWNED ENTERPRISES  
BROKERAGE COMMISSIONS PAID  
July 1, 2003 - June 30, 2004**

Utendahl Capital Partners . . . . .	\$	100,165.00
30 Broad Street, 42nd Floor New York, NY 10004 CONTACT: Derrick Burns Phone: (212) 797-2660		
Williams Capital Group . . . . .	\$	42,338.46
650 Fifth Avenue, 10th floor New York, NY 10019 CONTACT: John Ghize Phone: (212) 830-4500		
<b>TOTAL COMMISSIONS PAID . . . . .</b>	<b>\$</b>	<b><u>1,555,817.82</u></b>

Exhibit B

**MINORITY AND WOMAN-OWNED COMPANIES  
ON CONSULTANT DATABASE**

*\* Denotes Emerging Company*

- 1 Aberdeen America\*
- 2 Advent Capital Management
- 3 Affinity Investment Advisors
- 4 ALIC Investment Advisors
- 5 Albriond Capital Management\*
- 6 Allison Street Advisors
- 7 Alpha Capital Management\*
- 8 Alpha Partners
- 9 Amerindo Investment Advisors Inc.
- 10 Amervest Company, Inc.\*
- 11 Apex Capital Management
- 12 APS Asset Management
- 13 Aravis Capital Advisers
- 14 Argus Investors' Counsel
- 15 Ariel Capital Management
- 16 Arnold Investment Counsel
- 17 Artemis Investment Management
- 18 Ascent/Meredith Asset Management
- 19 Ashfield & Co
- 20 Atlanta Life Investment Advisors
- 21 Attucks Asset Management
- 22 Avanti Investment Advisors
- 23 Biscayne Advisors\*
- 24 Bivium Capital Partners
- 25 Blaylock-Abacus Asset Management
- 26 Bracebridge Capital
- 27 Bradford & Marzec
- 28 Brown Capital Management\*
- 29 Campbell Newman Asset Management
- 30 Capital Advisors - Oklahoma
- 31 Capital Prospects
- 32 Cardinal Capital Management (USA)
- 33 Carr & Associates\*
- 34 Centricity
- 35 Chandler Asset Management\*
- 36 Channing Capital Management
- 37 Chapman Capital Management\*
- 38 Charter Financial Group
- 39 CIC Asset Management
- 40 CIC/HCM Asset Management, Inc.\*

41 Citizens Funds\*  
42 Clemente Capital, Inc.\*  
43 Coral Rock Investments  
44 Corbin & Company  
45 Cordillera Asset Management\*  
46 Credo Capital Management  
47 Cutler & Company  
48 Cypress Asset Management [CA]  
49 Daedalus Capital  
50 Daruma Asset Management  
51 DBA SeaCap Investment Advisors  
52 Dean Investment Associates  
53 Delancey Capital Group  
54 Denali Advisors  
55 Denis Wong & Associates\*  
56 DG Capital Management  
57 Diaz-Verson Capital Investments  
58 E.H. Capital/Williams Capital Management  
59 EARNEST Partners  
60 Eastover Capital Management  
61 EDMP  
62 Endex Capital Management  
63 Estabrook Capital Management  
64 EverGreen Capital Management, Inc.\*  
65 Fairfield Greenwich Group  
66 FAM Global Investments  
67 Fan Asset Management  
68 FinArc  
69 Finch Asset Management  
70 First Honolulu Asset Management  
71 FIS Funds Management  
72 Fortaleza Asset Management, Inc.\*  
73 Galaviz Investment Management  
74 Garner Asset Management Company  
75 GEI Financial Services  
76 GlobeFlex Capital  
77 Gries Financial\*  
78 GW Capital, Inc.\*  
79 Hahn Capital Management  
80 Hanseatic Group  
81 Havell Capital Management  
82 High Pointe Capital Management  
83 HM Capital Management  
84 Holland Capital Management\*  
85 Holt-Smith & Yates Advisors\*  
86 Hoover Investment Management Co.  
87 Howard And McInnes  
88 Hughes Capital Management  
89 Investment Placement Group\*

90	Ivory Capital Group
91	JMC Capital Management
92	John Hsu Capital Group Inc.*
93	John Shao Portfolio Management
94	Kirr, Marbach & Company
95	Kit Cole Investment Advisory Services*
96	Lakefront Capital Investors
97	Leo Capital Group
98	LM Capital Management, Inc.*
99	Locke Capital Management
100	Lynmar Capital Group
101	Madison Investment Advisors
102	Malley Associates Capital Management
103	Manley Asset Management
104	McLaughlin Investment Group
105	MDL Capital Management*
106	Medius Capital Group
107	MFR Advisors
108	Milestone Capital Management
109	Mission Management & Trust Company
110	Mitchell & Henry Inc.
111	Muller & Monroe
112	NCM Capital Management Group, Inc.
113	New Amsterdam Partners LLC*
114	New Providence Advisors
115	Newgate
116	NewMarket Capital Partners
117	NMF Asset Management
118	Oak Associates
119	Opus Capital Management
120	Orleans Capital Management
121	P. G. Corbin Asset Management
122	Pacholder Associates
123	Pacific Alternative Asset Management Company
124	Pacific Global Investment Management Corporation
125	Palisades Investment Partners
126	Palladium Capital Management
127	Paradigm Asset Management Company, LLC*
128	Paradigm Capital Management
129	Pareto Partners
130	Parish Capital Advisors
131	Payden & Rygel
132	Penn Capital Management*
133	Philippe Investment Management
134	Piedmont Investment Advisors
135	Piedra Capital, Ltd.
136	Podesta & Co.
137	Popular Asset Management
138	Presido Asset Management
139	Profit Investment Management

140 Progress Investment Management Company  
141 Pugh Capital Management, Inc.\*  
142 R. Meeder & Associates  
143 RhumbLine Advisers\*  
144 RM Investment Management, Inc.  
145 Robert Van Securities  
146 Roger H. Jenswold & Company  
147 Rosenblum-Silverman-Sutton  
148 Rutland Dickson Asset Management  
149 Sanderson & Stocker  
150 Sapourn Financial Services  
151 Seix Investment Advisors, Inc.  
152 Sit Investment Associates, Inc. (Equity & Balanced)  
153 Smith Affiliated Capital Corp  
154 Smith, Graham & Company Asset Managers\*  
155 Spectrum Asset Management (CA)  
156 Spinel Capital  
157 Sturdivant & Company, Inc.\*  
158 Suoritus Partners  
159 Tanaka Capital Management\*  
160 Taplin, Canida & Habacht\*  
161 The Atlantic Alliance  
162 The Barr Financial Group  
163 The Edgar Lomax Company  
164 The Kenwood Group, Inc.\*  
165 The Swarthmore Group\*  
166 Tiffany Capital Advisors, Inc.  
167 Torshen Capital Managment  
168 Tree City Investments  
169 Treesdale Partners  
170 Trend Trader  
171 Trias Capital Management, Inc.  
172 Union Heritage Capital Management  
173 United Investment Managers  
174 Utendhal Capital Management, L.P.  
175 Valenzuela Capital Partners, LLC\*  
176 Value Line Asset Management  
177 Wagner Investment Management\*  
178 Washington Asset Management  
179 William D. Witter  
180 Wilmoco Capital Management  
181 Woodford Capital Management, Inc.\*  
182 Zevenbergen Capital\*

# ILLINOIS COMPILED STATUTES

Chapter 40

Pensions

2000 Edition



As Amended through P.A. 91-686



(2) Defraying reasonable expenses of administering the retirement system or pension fund;

(b) With the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims;

(c) By diversifying the investments of the retirement system or pension fund so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and

(d) In accordance with the provisions of the Article of the Pension Code governing the retirement system or pension fund.

Laws 1963, p. 161, § 1-109, added by P.A. 81-948, § 1, eff. Sept. 22, 1979. Amended by P.A. 82-960, § 1, eff. Aug. 25, 1982.

Formerly Ill.Rev.Stat.1991, ch. 108 1/2, ¶ 1-109.

Another § 1-109 was renumbered § 1-112 and subsequently repealed by P.A. 82-783.

5/1-109.1. Allocation and delegation of fiduciary duties

§ 1-109.1. Allocation and Delegation of Fiduciary Duties.

(1) Subject to the provisions of Section 22A-113 of this Code and subsections (2) and (3) of this Section, the board of trustees of a retirement system or pension fund established under this Code may:

(a) Appoint one or more investment managers as fiduciaries to manage (including the power to acquire and dispose of) any assets of the retirement system or pension fund; and

(b) Allocate duties among themselves and designate others as fiduciaries to carry out specific fiduciary activities other than the management of the assets of the retirement system or pension fund.

(2) The board of trustees of a pension fund established under Article 5, 6, 8, 9, 10, 11, 12 or 17 of this Code may not transfer its investment authority, nor transfer the assets of the fund to any other person or entity for the purpose of consolidating or merging its assets and management with any other pension fund or public investment authority, unless the board resolution authorizing such transfer is submitted for approval to the contributors and pensioners of the fund at elections held not less than 30 days after the adoption of such resolution by the board, and such resolution is approved by a majority of the votes cast on the question in both the contributors election and the pensioners election. The election procedures and qualifications governing the election of trustees shall govern the submission of resolutions for approval under this paragraph, insofar as they may be made applicable.

(3) Pursuant to subsections (h) and (i) of Section 6 of Article VII of the Illinois Constitution, the investment authority of boards of trustees of retirement systems and pension funds established under this Code is declared to be a subject of exclusive State jurisdiction, and the concurrent exercise by a home rule unit of any power affecting such investment authority is hereby specifically denied and preempted.

(4) For the purposes of this Code, "emerging investment manager" means a qualified investment adviser that manages an investment portfolio of at least \$10,000,000 but less than \$400,000,000 on January 1, 1993 and is a "minority owned business" or "female owned business" as those terms are

defined in the Minority and Female Business Enterprise Act.<sup>1</sup>

It is hereby declared to be the public policy of the State of Illinois to encourage the trustees of public employee retirement systems to use emerging investment managers in managing their system's assets to the greatest extent feasible within the bounds of financial and fiduciary prudence, and to take affirmative steps to remove any barriers to the full participation of emerging investment managers in investment opportunities afforded by those retirement systems.

Each retirement system subject to this Code shall prepare a report to be submitted to the Governor and the General Assembly by September 1 of each year. The report shall identify the emerging investment managers used by the system, the percentage of the system's assets under the investment control of emerging investment managers, and the actions it has undertaken to increase the use of emerging investment managers, including encouraging other investment managers to use emerging investment managers as subcontractors when the opportunity arises.

The use of an emerging investment manager does not constitute a transfer of investment authority for the purposes of subsection (2) of this Section.

Laws 1963, p. 161, § 1-109.1, added by P.A. 82-960, § 1, eff. Aug. 25, 1982. Amended by P.A. 83-970, § 1, eff. Dec. 2, 1983; P.A. 86-1488, § 1, eff. Jan. 14, 1991; P.A. 87-1266, § 1, eff. Jan. 25, 1993.

Formerly Ill.Rev.Stat.1991, ch. 108 1/2, ¶ 1-109.1.

<sup>1</sup> 80 ILCS 505/6 et seq.

5/1-109.2. Extent of cofiduciary duties

§ 1-109.2. Extent of Cofiduciary Duties. (a)(1) Except to the extent otherwise required in subsection (b) of this Section, a fiduciary of a retirement system or pension fund to whom a specified duty has not been allocated shall not be responsible or liable for an act or omission, in connection with that duty, by the fiduciary to whom that duty has been allocated, except to the extent that the allocation, or the continuation thereof, is a violation of Section 1-109 of this Code. Nothing in this paragraph (1) shall be construed to relieve a fiduciary from responsibility or liability for any act by that fiduciary.

(2) Except to the extent otherwise required in subsection (b) of this Section, a fiduciary shall not be responsible or liable for an act or omission, in connection with a specific fiduciary activity, by any other person who has been designated to carry out that fiduciary activity, except to the extent that the designation, or the continuation thereof at any time under the circumstances then prevailing, is a violation of Section 1-109 of this Code. Nothing in this paragraph (2) shall be construed to relieve a fiduciary from responsibility for any act by that fiduciary.

(b) With respect to any retirement system or pension fund established under this Code:

(1) Each trustee shall use reasonable care to prevent any other trustee from committing a breach of duty; and

(2) Subject to the provisions of Section 22A-113 of this Code, all trustees shall jointly manage and control the assets of the retirement system or pension fund.

Nothing in this subsection (b) shall be construed to attribute a duty to a trustee which would be inconsistent with the appointment of, and delegation of authority to, an investment



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