



Illinois Municipal Retirement Fund

Suite 500 2211 York Road Oak Brook IL 60523-2337

Service Representatives 1-800-ASK-IMRF (1-800-275-4673)

www.imrf.org

August 25, 2006

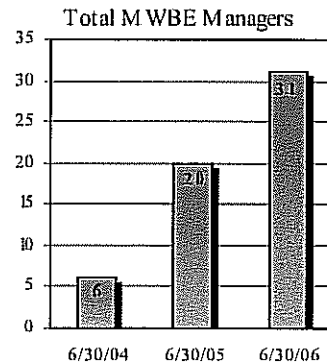
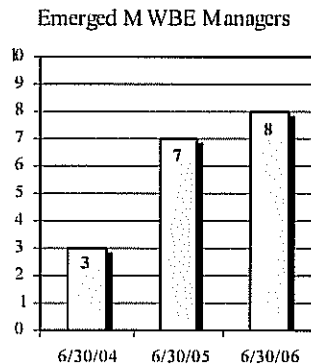
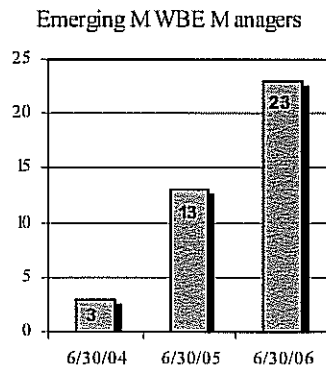
The Honorable Rod R. Blagojevich
Governor of Illinois
James R. Thompson Center
100 West Randolph, Suite 16-100
Chicago, Illinois 60601

Dear Governor Blagojevich:

The Illinois Municipal Retirement Fund (IMRF) Board of Trustees is pleased to submit its annual report on the emerging investment managers used by this retirement system as directed in Public Act 94-0471. As of June 30, 2006, IMRF had \$2.6 billion, or 12.7% of the total investment portfolio, allocated to minority and female owned investment managers. Of this amount, \$519 million was managed by emerging minority and female owned firms and \$2.1 billion was managed by emerged minority and female owned firms. For the twelve months ended June 30, 2006, \$4.4 million, or 20.2% of the total commissions paid by IMRF, were executed by minority and female owned broker/dealers.

As stated in Public Act 94-0471, an emerging investment manager is a qualified minority owned business or female owned business managing at least \$10 million but less than \$2 billion. As of June 30, 2006, IMRF employed twenty-three emerging investment managers. This is an increase of ten managers over the number reported last year. IMRF also employed eight emerged investment managers, an increase of one manager over the number reported last year. In total, IMRF employed thirty-one emerging and emerged minority and female owned investment managers, an increase of eleven managers over the number reported last year.

The charts below show the three-year change in the number of emerging, emerged, and total minority and female owned investment managers used by IMRF to manage its assets.





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The following tables identify the emerging and emerged minority and female owned investment managers used by IMRF and the dollar amounts and percentage of total assets under their control.

EMERGING MINORITY AND FEMALE OWNED MANAGERS

AS OF JUNE 30, 2006

<u>Manager Name</u>	<u>IMRF Dollars Under Management (millions)</u>	<u>Percentage of Total IMRF Assets Under Management</u>
Ambassador Capital Management	\$40.1	0.20%
Apex Capital Management	13.9	0.07%
Atlanta Life Investment Advisors	26.2	0.13%
Blue Creek Investment Partners	8.4	0.04%
Channing Capital Management	6.8	0.03%
Cypress Asset Management	40.2	0.20%
Denali Advisors	21.0	0.10%
EH Williams Capital Management	20.2	0.10%
GW Capital	16.1	0.08%
High Pointe Fund Management	9.4	0.05%
Lynmar Capital Group	23.3	0.11%
Muller & Monroe	25.0	0.12%
Ascend Ventures	*	*
ICV Capital Partners	*	*
Nogales Investors	*	*
Smith Whiley	*	*
New Century Advisors	20.3	0.10%
Palisades Investment Partners	26.0	0.13%
Paradigm Asset Management	6.0	0.03%
Piedmont Investment Advisors	131.0	0.64%
Profit Investment Management	10.9	0.05%
Pugh Capital Management	70.4	0.34%
Rutland Dickson Asset Mgmt.	4.2	0.02%
Subtotal:	\$519.40	2.54%

* Included in Muller & Monroe dollars under management total. This is a Private Equity Fund-of-Funds



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EMERGED MINORITY AND FEMALE OWNED MANAGERS

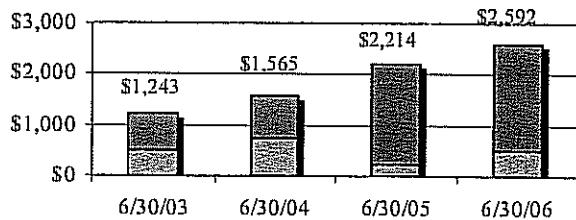
AS OF JUNE 30, 2006

<u>Manager Name</u>	<u>IMRF Dollars Under Management (millions)</u>	<u>Percentage of Total IMRF Assets Under Management</u>
Brown Capital Management	\$77.6	0.38%
EARNEST Partners	211.5	1.03%
GlobeFlex Capital	105.9	0.52%
Holland Capital Management	404.4	1.98%
LM Capital Group	293.6	1.44%
Payden & Rygel Investment Management	684.8	3.35%
Progress Investment Management	**	**
Taplin, Canida & Habacht	294.8	1.44%
Subtotal:	\$2,072.60	10.14%
Total Minority and Female owned:	\$2,592.00	12.68%

** This is a Manager-of-Managers receiving a fee to execute an emerging manager-of-managers program for IMRF.

IMRF's \$2.6 billion allocation to emerging and emerged investment managers represents an increase of \$376.8 million, or 17%, over the amount that was reported in 2005. The following chart displays the increase in emerging and emerged investment managers' assets under management over the last four years.

Emerging and Emerged
MWBE Assets Under Management
(in millions of dollars)



□ Emerging MWBE Managers ■ Emerged MWBE Managers



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As part of the reporting requirements under Public Act 94-0471, the IMRF must report actions taken to increase the use of emerging investment managers. Our progress toward accomplishing this objective is presented below.

In January 2004, the Board of Trustees established a goal that 20% of actively managed investment assets be managed by minority and female owned investment managers. As of June 30, 2006, 20.5% of actively managed assets, or 12.7% of total assets under management, were allocated to minority and female owned investment managers. This compares favorably to the 20% of actively managed assets, or 12% of total assets under management, allocated to minority and female owned investment managers in 2005. This increase is the result of the following actions that were undertaken since June 30, 2005.

In July 2005, \$230 million was withdrawn from a liquidated fixed income portfolio and allocated to three existing minority owned fixed income managers. These funds were allocated to: EARNEST Partners fixed income portfolio (\$50 million); LM Capital (\$90 million); and Taplin, Canida & Habacht (\$90 million).

In November 2005, Progress Investment Management Company was retained to manage a new emerging manager fixed income portfolio using \$100 million withdrawn from the same liquidated fixed income portfolio. A total of six emerging managers were added as a result of this reallocation. The emerging managers were: Ambassador Capital Management; Cypress Asset Management; EH Williams; GW Capital; New Century Advisors and Pugh Capital Management.

In February 2006, an additional \$30 million was allocated to one of our existing minority owned managers, EARNEST Partners, using funds withdrawn from a liquidated international equity portfolio. In addition, GlobeFlex – a female owned investment firm – was hired by the Board to manage a \$100 million international large cap equity portfolio using funds withdrawn from the same liquidated portfolio. The GlobeFlex allocation demonstrates IMRF's recognition of this manager's investment capabilities and exemplifies an emerging manager graduation. GlobeFlex's relationship with IMRF began as a participant in our domestic equity manager-of-managers program. After receiving our \$100 million mandate, GlobeFlex was moved out of our manager-of-managers program and assumed a direct relationship with IMRF as an emerged female owned business enterprise.

In May 2006, an additional \$200 million was given to Progress Investment Management Company, our manager-of-managers. To fund Progress, \$100 million was withdrawn from the Northern Trust Market Cap Index Fund and allocated to the Progress domestic equity manager-of-managers portfolio. A total of three emerging minority owned firms were added to Progress as a result of this allocation. These managers were: Paradigm Asset Management; GW Capital and Blue Creek Investment Partners. Additionally, \$100 million was withdrawn from Payden &



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Rygel, an active fixed income portfolio, and allocated to the Progress fixed income manager-of-managers portfolio. These additional allocations increased the Progress mandates by 100%, from \$200 million to \$400 million. Following these allocations, the number of emerging minority and female owned equity managers increased from 10 to 13 and the number of emerging minority and female owned fixed income managers remained at six.

IMRF's allocation to minority and female owned business enterprise investment firms was further increased in May. As part of the plan to rebalance the fixed income and international equity allocations, an additional \$50 million each was allocated to LM Capital and to Taplin, Canida & Habacht. Both managers are emerged minority owned firms.

In aggregate, IMRF's allocations to emerging and emerged minority and female owned business enterprises increased from \$2.2 billion to \$2.6 billion during the twelve-month period ended June 30, 2006. This represents an increase of 17% over last year. Of the \$2.6 billion allocation to minority and female owned business enterprise firms, \$519 million is being managed by emerging firms and \$2.1 billion is being managed by emerged firms. The \$519 million allocation to emerging minority and female owned business enterprise managers represents an increase of 127.5% over the same period last year. The \$2.1 billion allocation to emerged minority and female owned business enterprise managers represents an increase of 4.3% as compared to the same period last year.

Also, the number of minority and female owned business enterprise money managers has increased year-over-year from 20 to 31. Of this total, 23 are emerging minority and female owned business enterprise firms, and 8 are emerged minority and female owned business enterprise firms. The number of emerging minority and female owned firms has increased from 13 to 23 as of June 30, 2006. This represents a 77% increase from the number of emerging minority and female owned firms that were used by IMRF in 2005. The number of emerged minority and female owned investment managers increased from 7 to 8, representing a 14% increase over last year.

*

*

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The IMRF Board of Trustees has also adopted a policy establishing a goal for the use of minority and female owned business enterprise broker/dealers. The Policy specifies that, subject to best execution, 20 percent of brokerage from actively managed separate account portfolios, excluding high yield bond portfolios, micro-cap equity portfolios, and emerging market portfolios, be executed by minority and women owned business enterprise broker/dealers. For the twelve months ended June 30, 2006, 24.8% of actively managed brokerage was executed by minority and female owned firms. For the twelve months ended June 30, 2006, total commissions placed with minority and female owned



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brokerage firms were \$4,369,083. This is an increase of \$1,313,519, or 43%, over the amount reported last year.

To ensure that progress is continuously made toward achieving our minority and female owned brokerage goals, our money managers are required to report their use of minority and female owned business enterprise broker/dealers on a monthly basis. If a manager fails to achieve the 20% minority and female owned business enterprise brokerage objective during a given month, they must provide written notification to IMRF explaining why this goal was not achieved. Managers who fail to meet the 20% minority and female owned business enterprise brokerage objective over a quarter receive notice from IMRF reminding them of our 20% minority and female owned brokerage goal and our expectations that they take steps to achieve our goal.

The following chart displays the increase in IMRF's use of minority and female owned broker/dealers over the last four years ending June 30.

IMRF's Use of MWBE Broker/Dealers

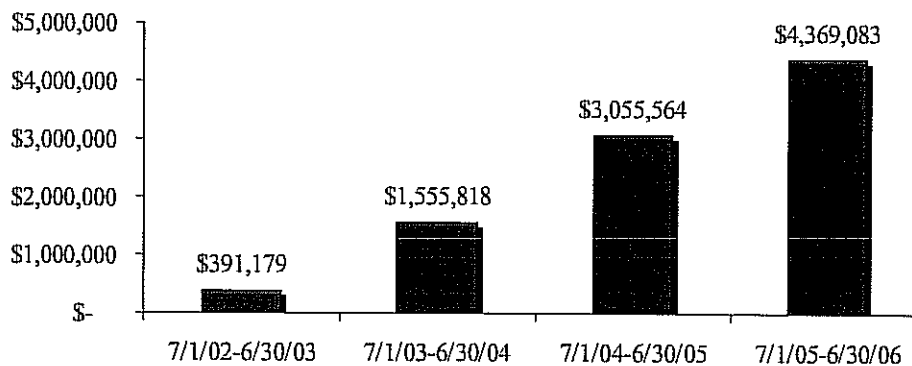


Exhibit A, attached, lists the minority and female owned broker/dealers and the commissions they received between July 1, 2005 and June 30, 2006.

In addition to adopting goals for minority and female owned money managers and brokerage, the IMRF Board of Trustees has appointed the President of the Board as the Trustee responsible for monitoring the progress toward achieving these goals.

To ensure a responsible non-discriminatory investment manager search procedure, the IMRF Board of Trustees has adopted the following manager selection policy:



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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

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.



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To require professional consultants used by the IMRF to affirm their use of non-discriminatory 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.

To require that all MWBE investment firms evaluated in the search process be specifically identified in the investment manager search report. In addition, any reasons for eliminating an MWBE investment manager candidate from further consideration must also be provided in this report. This procedure has been implemented to confirm that qualified MWBE investment firms are being considered in the IMRF investment manager search process.

* * *

The IMRF Board of Trustees requires that its consultant, Ennis Knupp & Associates, use non-discriminatory practices when recommending investment manager candidates and that they maintain a database of emerging and emerged minority and female owned investment managers. The Ennis Knupp database contains 105 minority and female owned investment managers. Of this number, 79 are currently classified as emerging. A list of these investment managers is attached as Exhibit B.

IMRF continues to seek out and employ minority and female owned investment managers and broker/dealers. The increase in the number of emerging and emerged minority and female owned firms used by IMRF, as well as the increase in the dollars allocated to these firms and the increase in the commissions paid to these firms, demonstrates our commitment to diversity.

Sincerely,

Louis W. Kosiba
Executive Director

LWK:ens
Attachments

EXHIBIT A

MINORITY AND WOMEN-OWNED BUSINESS ENTERPRISES
BROKERAGE COMMISSIONS PAID

July 1, 2005 - June 30, 2006

Acento Securities.	\$	56,572.75
53 West Jackson Blvd., Suite 1302		
Chicago, IL 60604		
Apex Pryor.	\$	30,165.00
333 Clay Street		
Houston, TX 77002		
Blaylock & Partners	\$	179,493.94
10 South Wacker Drive, Suite 2175		
Chicago, IL 60606		
BOE Securities	\$	19,915.86
440 South LaSalle Street		
Chicago, IL 60605		
Cabrera Capital Markets.	\$	412,696.92
10 South LaSalle Street, Suite 1050		
Chicago, IL 60603		
Capital Management Group Securities.	\$	2,782.87
123 North Wacker Drive, Suite 810		
Chicago, IL 60606		
Cheevers & Co.	\$	2,857.28
40 South LaSalle Street, Suite 415		
Chicago, IL 60605		
CL King & Associates.	\$	19,684.00
1600 Stewart Ave., Suite 400		
Westbury, NY 11590		
Divine Capital Markets.	\$	13,295.50
39 Broadway, 36th floor		
New York, NY 10006		
FinaCorp Securities	\$	57,530.00
4100 MacArthur Blvd., Suite 315		
Newport Beach, CA 92660		

EXHIBIT A

MINORITY AND WOMEN-OWNED BUSINESS ENTERPRISES
BROKERAGE COMMISSIONS PAID

July 1, 2005 - June 30, 2006

Gardner Rich & Company	\$	100,930.62
401 South Financial Place Chicago, IL 60605		
Guzman & Company	\$	137,245.23
1200 Brickell Avenue, 14th Floor Miami, FL 33131		
Jackson Securities (formerly Berean Capital) . . .	\$	536.00
300 South Wacker Drive, Suite 2450 Chicago, IL 60606		
Lambright Financial.	\$	131,872.30
55 West Monroe, Suite 2360 Chicago, IL 60603		
Loop Capital Markets	\$	1,693,600.31
200 West Jackson Boulevard, Suite 1600 Chicago, IL 60606		
M.R. Beal.	\$	36,958.55
203 N. LaSalle, Suite 2100 Chicago, IL 60601		
M. Ramsey King Securities, Inc.	\$	85,856.31
93 Tomlin Circle Burr Ridge, IL 60527		
MAGNA Securities Corp	\$	339,281.66
420 Lexington Avenue, Suite 2220 New York, NY 10170		
Melvin Securities	\$	148,053.43
111 West Jackson Boulevard, Suite 2110 Chicago, IL 60604		
Montrose Securities.	\$	324,993.42
50 California Street, Suite 3270 San Francisco, CA 94111		

EXHIBIT A

MINORITY AND WOMEN-OWNED BUSINESS ENTERPRISES
BROKERAGE COMMISSIONS PAID

July 1, 2005 - June 30, 2006

Muriel Siebert & Co	\$	26,692.67
885 Third Avenue, Suite 1720		
New York, NY 10022		
Nutmeg Securities	\$	28,941.41
440 South LaSalle, 4th Floor		
Chicago, IL 60605		
PCS Securities.	\$	2,055.00
121 Lakeside Avenue, Suite 301		
Seattle, WA 98122		
Pacific American Securities	\$	178,434.19
50 Broadway, 22nd floor		
New York, NY 10004		
Podesta & Company.	\$	94.00
208 South LaSalle Street, Suite 766		
Chicago, IL 60604		
Robert Van Securities.	\$	2,191.25
350 Frank Ogawa Plaza, 10th floor		
Oakland, CA 94612		
Samuel Ramirez & Company.	\$	3,388.44
61 Broadway, 29th floor		
New York, NY 10006		
SBK Brooks.	\$	15,502.60
840 Terminal Tower		
Cleveland, OH 44113		
Sterling Financial Investment Group.	\$	139,198.44
1200 North Federal Highway, Suite 400		
Boca Raton, FL 33432		
Sturdivant & Co.	\$	6,158.00
Plaza 1000 at Main St., Suite 200		
Voorhees, NJ 08043		

EXHIBIT A

MINORITY AND WOMEN-OWNED BUSINESS ENTERPRISES
BROKERAGE COMMISSIONS PAID

July 1, 2005 - June 30, 2006

Utendahl Capital Partners	\$	68,964.15
30 Broad Street, 42nd Floor		
New York, NY 10004		
Williams Capital Group, L.P.	\$	103,140.94
650 Fifth Avenue, 10th floor		
New York, NY 10019		
<hr/>		
TOTAL COMMISSIONS PAID	\$	<u>4,369,083.04</u>

Exhibit B

Emerging Minority and Female-Owned Firms On Consultant Database

- 1 Affinity Investment Advisors
- 2 AH Lisante Capital Growth, LLC
- 3 Alpha Partners, LLC
- 4 Ambassador Capital Management
- 5 AmeriCap Advisers, LLC
- 6 Apex Capital Management, Inc.
- 7 Argus Investors Counsel, Inc.
- 8 Artemis Investment Management LLC
- 9 Ativo Capital Management
- 10 Atlanta Life Investment Advisors, Inc.
- 11 Bermuda Asset Management Ltd.
- 12 Bivium Capital Partners, LLC
- 13 BlueCreek Investment Partners, LLC
- 14 Boston Common Asset Management, LLC
- 15 Buford, Dickson, Harper & Sparrow
- 16 Campbell Newman Asset Management, Inc.
- 17 Capital Management Associates, LLC
- 18 Cardinal Capital Management, LLC
- 19 Channing Capital Management, LLC
- 20 Citizens Advisers
- 21 Clearwater Asset Management, LLC
- 22 Cordillera Asset Management
- 23 Credo Capital Management, LLC
- 24 Cypress Asset Management
- 25 Daruma Asset Management, Inc.
- 26 Decatur Capital Management, Inc.
- 27 Denali Advisors, LLC.
- 28 DG Capital Management, Inc.
- 29 EDMP, Inc.
- 30 EH Williams Capital Management, LLC
- 31 ENDEX Capital Management, LLC
- 32 Fan Asset Management LLC
- 33 First Fiduciary Investment Counsel
- 34 Fortaleza Asset Management, Inc.
- 35 Goode Investment Management, Inc.
- 36 GW Capital, Inc.
- 37 Hahn Capital Management LLC
- 38 Hanseatic Management Services, Inc.
- 39 High Pointe Capital Management, LLC
- 40 Holt-Smith & Yates Advisors

41 Hoover Investment Management Co., LLC
42 Howland and Associates, LLC
43 Integrity Fixed Income Management
44 Investors Resource Group LLC
45 John Hsu Capital Group, Inc.
46 The Kenwood Group
47 Lynmar Capital Group, Inc.
48 Malley Associates Capital Management
49 Martin Investment Management, LLC
50 MDL Capital Management
51 Michael F. Carr & Associates, Inc.
52 Muller & Monroe Asset Management
53 Nichols Asset Management, LLC
54 NMF Asset Management
55 NorthShore Advisors LLC
56 New Century Advisors, LLC
57 Opus Capital Group, Inc.
58 Palisades Investment Partners, LLC
59 Paradigm Asset Management Co. LLC
60 Parnassus Investments
61 Philippe Investment Management, Inc.
62 Piedmont Investment Advisors, LLC
63 Piedra Capital, Ltd.
64 Pugh Capital Management, Inc.
65 Redwood Investments, LLC
66 Runde & Co. LLC
67 Runnymede Capital Management, Inc.
68 Rutland Dickson Asset Management, Inc.
69 Shah Capital Management
70 SIPCO
71 South Texas Money Management
72 The Swarthmore Group, Inc.
73 The Lara Group, Ltd.
74 Tsai Capital Corporation
75 Union Heritage Capital Management
76 Victoria Capital Management, Inc.
77 Vision Capital Management, Inc.
78 Wagner Investment Management, Inc.
79 William D. Witter, Inc.

Exhibit B
(continued)

Emerged Minority and Woman-Owned Firms
On Consultant Database

- 1 Adelante Capital Management LLC
- 2 Ariel Capital Management, LLC
- 3 Breckinridge Capital Advisors, Inc.
- 4 Brown Capital Management, Inc.
- 5 Chandler Asset Management
- 6 Daiwa SB Investments (USA) Ltd
- 7 Eagle Capital Management, LLC
- 8 EARNEST Partners, LLC
- 9 GlobeFlex Capital, LP
- 10 Hilliard Lyons Asset Management
- 11 Holland Capital Management
- 12 LM Capital Group, LLC
- 13 Longview Partners LP
- 14 New Amsterdam Partners LLC
- 15 Newgate Capital Management LLP
- 16 Paradigm Capital Management, Inc.
- 17 Payden & Rygel
- 18 PENN Capital Management Company, Inc.
- 19 Popular Asset Management
- 20 Rhumblin Advisers Corp
- 21 Sit Investment Associates, Inc.
- 22 Sky Investment Counsel, Inc.
- 23 Smith, Graham & Company Investment Advisors
- 24 SPARX Asset Management Co., Ltd.
- 25 Taplin, Canida & Habacht
- 26 Utendahl Capital Management, LP