August 25, 2000

The Honorable George Ryan
Governor of Illinois
207 State House
Springfield, Illinois 62706

Dear Governor Ryan:

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 two emerging investment managers as defined by Public Act 87-1265. These emerging investment managers are Abacus Financial Group and Holland Capital Management.

Additionally, IMRF employs Oak Associates, an equity investment management firm entirely owned by a person with a disability. IMRF also utilizes Payden & Rygel, a fixed-income investment management firm which is a woman-owned business enterprise. These firms do not qualify as emerging.

2. Percentage of Assets Under Control of Emerging Investment Managers

As of June 30, 2000, the IMRF had 1.0% of its total investment assets, equaling $162.3 million, under the management of emerging investment firms. This is an increase of $9.2 million over 1999. As of June 30, 2000, the Abacus Financial Group managed $104.2 million and Holland Capital Management managed $58.1 million.
Oak Associates, a business owned by a person with a disability, managed $330.3 million, or 2% of the total IMRF investment portfolio. This is an increase of 0.7%, or $143.9 million over 1999.

The woman-owned business enterprise, Payden & Rygel, managed 3.8% of the total portfolio. This amounts to $624.4 million, which is an increase of $105.7 million over 1999. The IMRF allocated an additional $80 million to Payden & Rygel in May 2000.

As of June 30, 2000, assets totaling $1.1 billion were managed by our two emerging investment managers, by a firm owned by a person with a disability, and by a woman-owned business enterprise. This amount represented 6.8% of IMRF's assets. This is an increase of $258.8 million over 1999.

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

Since passage of Public Act 87-1265, IMRF has undertaken the following actions to increase the use of emerging investment managers.

A. 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

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.

***

B. The IMRF Board of Trustees employs consultants who use non-discriminatory practices when recommending investment manager candidates and who maintain databases of woman and minority-owned investment management firms. This consultant database contains forty-nine firms, which qualify as emerging investment managers under Public Act 87-1265. Exhibit A, attached, lists the eighty-eight minority and woman-owned firms on this database. It also identifies the forty-nine firms that qualify as emerging investment managers, under Public Act 87-1265, with an asterisk.
The Honorable George Ryan
August 25, 2000
Page four

C. Between July 1, 1999 and June 30, 2000, IMRF investment managers placed $244,795 of commission business through minority and woman-owned broker-dealers. Exhibit B, attached, lists these broker-dealers and the commissions they received.

D. In May 2000, the IMRF Board of Trustees increased the assets allocated to Payden & Rygel by $80 million, thereby increasing their total assets under management to $624.4 million as of June 30, 2000.

***

The IMRF Board of Trustees is mindful of the objective to increase minority and woman-owned business enterprise participation in the area of public pension fund investment management. The structure for including emerging investment manager, minority investment manager and minority broker-dealer participation in the IMRF continues to be in place.

Sincerely,

Heidi Baxter
President

HB/jr
Attachments
Exhibit A

MINORITY AND WOMAN OWNED COMPANIES
ON CONSULTANT DATABASES

* Denotes Emerging Company

1. Abacus Financial Group, Inc.*
2. Aberdeen America*
3. Advent Capital Management
4. Albion Capital Management*
5. Alpha Capital Management*
6. Amerindo Investment Advisors Inc.
8. Apodaca Investment Group, Inc.*
9. Ariel Capital Management
10. Avanti Investment Advisors, Inc.
11. Bay Isle Financial
12. Bond, Procope Capital Management*
13. Brown Capital Management*
14. C & G Global Management
15. Capri Capital Management
17. Carr & Associates*
18. Chandler Asset Management*
19. Chapman Capital Management*
20. CIC Asset Management, Inc.*
21. Citizens Funds*
22. Clemente Capital, Inc.*
23. Cordillera Asset Management*
24. Cypress Asset Management
25. Danson & Neuhar, LLC
26. Dennis Wong & Associates*
27. Desai Capital Management, Inc.
28. Edgar Lomax Company*
30. Ewng Capital, Inc.*
31. First Honolulu Asset Management
32. Fortaleza Asset Management, Inc.*
33. GEI Financial Services
34. Globalt*
35. Greaves Capital Management, Inc.
36. Gries Financial*
### Exhibit A

**MINORITY AND WOMAN OWNED COMPANIES ON CONSULTANT DATABASES**

* Denotes Emerging Company

<table>
<thead>
<tr>
<th></th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>37</td>
<td>GW Capital, Inc.*</td>
</tr>
<tr>
<td>38</td>
<td>HCM Capital Management, Inc.*</td>
</tr>
<tr>
<td>39</td>
<td>Holland Capital Management*</td>
</tr>
<tr>
<td>40</td>
<td>Holt-Smith &amp; Yates Advisors*</td>
</tr>
<tr>
<td>41</td>
<td>Howard &amp; McInnes</td>
</tr>
<tr>
<td>42</td>
<td>Huff Capital Management, Inc.</td>
</tr>
<tr>
<td>43</td>
<td>Hughes Capital Management</td>
</tr>
<tr>
<td>44</td>
<td>Huntington Capital Partners</td>
</tr>
<tr>
<td>45</td>
<td>IBEX Institutional Advisors, Inc.</td>
</tr>
<tr>
<td>46</td>
<td>Investment Placement Group*</td>
</tr>
<tr>
<td>47</td>
<td>John Hsu Capital Group Inc.*</td>
</tr>
<tr>
<td>48</td>
<td>Kenwood Group, Inc.*</td>
</tr>
<tr>
<td>49</td>
<td>Kit Cole Investment Advisory Services*</td>
</tr>
<tr>
<td>50</td>
<td>LM Capital Management, Inc.*</td>
</tr>
<tr>
<td>51</td>
<td>MDL Capital Management*</td>
</tr>
<tr>
<td>52</td>
<td>Mitchell &amp; Henry Inc.</td>
</tr>
<tr>
<td>53</td>
<td>MPI Investment Management</td>
</tr>
<tr>
<td>54</td>
<td>NCM Capital Management Group, Inc.</td>
</tr>
<tr>
<td>55</td>
<td>New Amsterdam Partners LLC*</td>
</tr>
<tr>
<td>56</td>
<td>P.G. Corbin Asset Management</td>
</tr>
<tr>
<td>57</td>
<td>Paradigm Asset Management Company, LLC*</td>
</tr>
<tr>
<td>58</td>
<td>Pareto Latin American Partners</td>
</tr>
<tr>
<td>59</td>
<td>Payden &amp; Rygel</td>
</tr>
<tr>
<td>60</td>
<td>Penn Capital Management*</td>
</tr>
<tr>
<td>61</td>
<td>Pledra Capital, Ltd.</td>
</tr>
<tr>
<td>62</td>
<td>Pugh Capital Management, Inc.*</td>
</tr>
<tr>
<td>63</td>
<td>RhumbLine Advisers*</td>
</tr>
<tr>
<td>64</td>
<td>Rittenhouse Advisors, Inc.*</td>
</tr>
<tr>
<td>65</td>
<td>RM Investment Management, Inc.</td>
</tr>
<tr>
<td>66</td>
<td>Runnymede Capital Management</td>
</tr>
<tr>
<td>67</td>
<td>SCI Capital Management</td>
</tr>
<tr>
<td>68</td>
<td>Seix Investment Advisors, Inc.</td>
</tr>
<tr>
<td>69</td>
<td>Slt Investment Associates, Inc.</td>
</tr>
<tr>
<td>70</td>
<td>Slt Investment Fixed Income Advisors</td>
</tr>
<tr>
<td>71</td>
<td>Slt/Kim International Investment Associates, Inc.</td>
</tr>
<tr>
<td>72</td>
<td>Smith, Graham &amp; Company Asset Managers*</td>
</tr>
</tbody>
</table>
Exhibit A

MINORITY AND WOMAN OWNED COMPANIES
ON CONSULTANT DATABASES

* Denotes Emerging Company

73. Sturdivant & Company, Inc.*
74. Swarthmore Group*
75. Tanaka Capital Management*
76. Taplin, Canida & Habacht*
77. Tiffany Capital Advisors, Inc.
78. Trias Capital Management, Inc.
79. Union Heritage Capital Management
80. Utendahl Capital Partners
81. Utendhal Capital Management, LP
82. V.A. Reid & Associates*
83. Valenzuela Capital Partners, LLC*
84. ValueQuest/TA*
85. Wagner Investment Management*
86. Wedgewood Capital Management, Inc.
87. Woodford Capital Management, Inc.*
88. Zevenbergen Capital*
Exhibit B

MINORITY AND WOMAN OWNED COMPANIES
BROKERAGE COMMISSIONS PAID
July 1, 1999 - June 30, 2000

Gardner Rich & Company .................. $ 1,014
311 S. Wacker Drive, Suite 6060
Chicago, IL 60606
CONTACT: Mike Manning, Maria Rodriguez
(800) 437-7333

Guzman & Company ..................... $ 18,600
1200 Brickell Avenue, 14th Floor
Miami, FL 33131
CONTACT: Andrew Buckner
(305) 374-3600

Harris Capital ............................ $ 28,506
15 Lewis Street
Hartford, CT 06103
CONTACT: Brian Harris
(203) 522-6700

Jackson Partners & Associates ........ $ 4,920
381 Park Avenue, Suite 621
New York, NY 10016
CONTACT: Ronald Jackson
(800) 932-9883

M. Ramsey King Securities, Inc. ........ $ 1,611
93 Tomlin Circle
Burr Ridge, IL 60521
CONTACT: Mary Ramsey King
(630) 789-0807

M.R. Beal & Co. .......................... $ 6,317
565 Fifth Avenue
New York, NY 10017
CONTACT: Howard Mackey
(212) 983-3900
### Exhibit B

**MINORITY AND WOMAN OWNED COMPANIES**
**BROKERAGE COMMISSIONS PAID**
**July 1, 1999 - June 30, 2000**

<table>
<thead>
<tr>
<th>Company</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Mogavero &amp; Lee</td>
<td>$924</td>
</tr>
<tr>
<td>25 Broad St., Apt. PHE</td>
<td></td>
</tr>
<tr>
<td>New York, NY 10004</td>
<td></td>
</tr>
<tr>
<td>CONTACT: Doreen Mogavero</td>
<td></td>
</tr>
<tr>
<td>(212) 943-0235</td>
<td></td>
</tr>
<tr>
<td>Muriel Siebert &amp; Co., Inc.</td>
<td>$8,487</td>
</tr>
<tr>
<td>885 Third Avenue</td>
<td></td>
</tr>
<tr>
<td>New York, NY 10022</td>
<td></td>
</tr>
<tr>
<td>CONTACT: Bryce Young</td>
<td></td>
</tr>
<tr>
<td>(212) 644-2440</td>
<td></td>
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<tr>
<td>Nutmeg Securities</td>
<td>$104,608</td>
</tr>
<tr>
<td>440 S. LaSalle, 4th Floor</td>
<td></td>
</tr>
<tr>
<td>Chicago, IL 60605</td>
<td></td>
</tr>
<tr>
<td>CONTACT: Steve Marchese</td>
<td></td>
</tr>
<tr>
<td>(800) 444-0603</td>
<td></td>
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<tr>
<td>Pacific American Securities</td>
<td>$43,108</td>
</tr>
<tr>
<td>9191 Town Centre Drive, Suite 406</td>
<td></td>
</tr>
<tr>
<td>San Diego, CA 92122</td>
<td></td>
</tr>
<tr>
<td>(858) 320-8888</td>
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<tr>
<td>Pacific American Securities</td>
<td>$474</td>
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<tr>
<td>50 Broadway, Suite 2601</td>
<td></td>
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<tr>
<td>New York, NY 10004</td>
<td></td>
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<tr>
<td>CONTACT: Frank Bararo</td>
<td></td>
</tr>
<tr>
<td>(212) 809-1300</td>
<td></td>
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<tr>
<td>Pankey &amp; Associates</td>
<td>$2,085</td>
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<tr>
<td>2 Wall Street, Suite 1904</td>
<td></td>
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<tr>
<td>New York, NY 10005</td>
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<tr>
<td>CONTACT: Gail Pankey</td>
<td></td>
</tr>
<tr>
<td>(800) 628-9826</td>
<td></td>
</tr>
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</table>
### Exhibit B

**MINORITY AND WOMAN OWNED COMPANIES**

**BROKERAGE COMMISSIONS PAID**

**July 1, 1999 - June 30, 2000**

<table>
<thead>
<tr>
<th>Securities</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Saslia Securities</td>
<td>$96</td>
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<tr>
<td>7A Crystal Gade</td>
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<tr>
<td>St. Thomas, Vi</td>
<td></td>
</tr>
<tr>
<td>CONTACT: Michael Born, Brian Hill</td>
<td></td>
</tr>
<tr>
<td>(800) 727-4170</td>
<td></td>
</tr>
<tr>
<td>Whitehouse &amp; Company</td>
<td>$4,655</td>
</tr>
<tr>
<td>345 Hudson Street, 15th Floor</td>
<td></td>
</tr>
<tr>
<td>New York, NY 10014</td>
<td></td>
</tr>
<tr>
<td>CONTACT: Leila Jenkins</td>
<td></td>
</tr>
<tr>
<td>(212) 727-1190</td>
<td></td>
</tr>
<tr>
<td>Williams Capital Group, L.P.</td>
<td>$19,290</td>
</tr>
<tr>
<td>650 Fifth Avenue</td>
<td></td>
</tr>
<tr>
<td>New York, NY 10019</td>
<td></td>
</tr>
<tr>
<td>CONTACT: Janice Savin, Grant Wu</td>
<td></td>
</tr>
<tr>
<td>(800) 924-1311, (800) 924-1511</td>
<td></td>
</tr>
</tbody>
</table>

**TOTAL COMMISSIONS PAID**

$244,795

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Note: Net Trades also done with:

- **Gardner Rich & Company**
  - 311 S. Wacker Drive, Suite 6060
  - Chicago, IL 60606
  - CONTACT: Mike Manning, María Rodríguez
  - (800) 437-7333

- **Loop Capital**
  - 175 West Jackson Blvd., Suite A635
  - Chicago, IL 60604
  - CONTACT: Julie Karr
  - (312) 913-4942, (888) 294-8898
Exhibit B

MINORITY AND WOMAN OWNED COMPANIES
BROKERAGE COMMISSIONS PAID
July 1, 1999 - June 30, 2000

Pryor, McClendon, Counts & Co.
1515 Market Street, Suite 819
Philadelphia, PA 19102
CONTACT: Carol L. Mackoff
(215) 569-4544

Robert Van Securities
1980 Mountain Boulevard
Oakland, CA 94611
CONTACT: Tim O'Brien
(510) 339-7400

Utendahl Capital Partners
30 Broad Street
New York, NY 10004
CONTACT: Steve Gibson, Derrick Burns
(800) 945-2542, (212) 797-2660

Williams Capital Group
650 Fifth Avenue
New York, NY 10019
CONTACT: Janice Savin, Grant Wu
(800) 924-1311, (800) 924-1511
ILLINOIS
COMPILED STATUTES

Chapter 40
Pensions
2000 Edition

As Amended through P.A. 91–686
mand und indemnification of pension funds

(a) Defraying reasonable expenses of administering the retirement system or pension fund;
(b) With the care, skill, prudence, and diligence under the circumstances 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 and with like aims;
(c) By diversifying the investments of the retirement system or pension fund in order 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.


Another § 1-109 was renumbered § 1-112 and subsequently repealed by P.A. 87-783.

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


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

(1) 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
(2) 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.

(b) The board of trustees of a pension fund established under Article 5 of this Code, may not delegate investment authority 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.

(c) In subsections (b) and (c) 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 federal agency of any part of such investment authority is hereby specifically denied and preempted.

(d) For the purposes of this Code, "emerging investment manager" means a qualified investment manager 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.

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 steps to retain and to develop new and existing investment managers 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 General Assembly by September 1 of each year. The report shall identify the emerging investment managers used by the system, the percentages of the system's assets under the investment management of emerging investment managers, and the actions that have been taken to increase the use of emerging investment managers, including encouraging other investment managers to use emerging investment managers as substitutes when the market and other circumstances allow.

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


5/1-109.2. Extent of fiduciary duties

§ 1-109.2. Extent of Fiduciary Duties.

(a) 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 required to be designated or elected by a vote of contributors and pensioners 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.

(b) A fiduciary shall be required to act in the best interests of 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.

(c) In subsections (b) and (c) 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 federal agency of any part of such investment authority is hereby specifically denied and preempted.

(d) The purpose of this Code is 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 steps to retain and to develop new and existing investment managers 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 General Assembly by September 1 of each year. The report shall identify the emerging investment managers used by the system, the percentages of the system's assets under the investment management of emerging investment managers, and the actions that have been taken to increase the use of emerging investment managers, including encouraging other investment managers to use emerging investment managers as substitutes when the market and other circumstances allow.

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