August 24, 2001

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 Holland Capital Management and MDL 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 that is a woman-owned business enterprise. These firms do not qualify as emerging as defined by Public Act 87-1265 but are minorities under the statute.

2. Percentage of Assets Under Control of Emerging Investment Managers

As of June 30, 2001, the IMRF had 1.4% of its total investment assets, equaling $219 million, under the management of emerging investment firms. This is an increase of $56.7 million over 2000. As of June 30, 2001, Holland Capital Management managed $102.7 million and MDL Capital Management managed $116.3 million.
The Honorable George Ryan  
August 24, 2001  
Page two

Oak Associates, a business owned by a person with a disability, managed $145.1 million, or 0.9% of the total IMRF investment portfolio. This is a decrease of 1.1%, or $185.2 million from 2000. The decrease is solely due to market declines.

The woman-owned business enterprise, Payden & Rygel, managed 4.5% of the total portfolio. This amounts to $689.2 million, which is an increase of $64.8 million over 2000. This increase is due to market appreciation.

As of June 30, 2001, 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 6.9% of IMRF’s assets.

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 a consultant who uses non-discriminatory practices when recommending investment manager candidates and who maintains a database of minority and woman-owned investment management firms. This consultant database contains 43 firms that qualify as emerging investment managers under Public Act 87-1265. Exhibit A, attached, lists the 102 minority and woman-owned firms on this database. It also identifies the 43 firms that qualify as emerging investment managers, under Public Act 87-1265, with an asterisk.
C. Between July 1, 2000 and June 30, 2001, IMRF investment managers placed $291,108 of commission business through minority and woman-owned broker-dealers. This is an increase of $46,313 over last year. Exhibit B, attached, lists these broker-dealers and the commissions they received.

D. In May 2001, the IMRF Board of Trustees increased the assets allocated to Holland Capital Management by $50 million, thereby increasing their total assets under management to $102.7 million as of June 30, 2001.

***

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,

[Signature]

Louis W. Kosiba
Executive Director

LWK/jr
Attachments
Exhibit A

MINORITY AND WOMAN-OWNED COMPANIES ON CONSULTANT DATABASE

* Denotes Emerging Company

1. Abacus Financial Group, Inc.*
2. Aberdeen America*
3. Advent Capital Management
4. Albrond Capital Management*
5. Alpha Capital Management*
6. Amerindo Investment Advisors Inc.
8. Apodaca Investment Group, Inc.*
9. Argus Investors’ Counsel
10. Ariel Capital Management
11. Artemis Investment Management
12. Bay Isle Financial
13. Brown Capital Management*
14. C & G Global Management
15. Cardinal Advisors, Inc.
17. Carr & Associates*
18. Chandler Asset Management*
19. Chapman Capital Management*
20. Charter Financial Group
21. CIC/HCM Asset Management, Inc.*
22. Citizens Funds*
23. Clemente Capital, Inc.*
24. Cordillera Asset Management*
25. Cypress Asset Management
26. Danson & Neuhar, LLC
27. Denali Advisors
28. Dennis Wong & Associates*
29. Desai Capital Management, Inc.
30. Diaz-VERSION Capital Investments
31. Edgar Lomax Company
32. EDMP
33. EverGreen Capital Management, Inc.*
34. First Honolulu Asset Management
35. Fortaleza Asset Management, Inc.*
36. GEI Financial Services
Exhibit A

MINORITY AND WOMAN-OWNED COMPANIES ON CONSULTANT DATABASE

* Denotes Emerging Company

37. Greaves Capital Management, Inc.
38. Greystone Capital Management
39. Gries Financial*
40. GW Capital, Inc.*
41. Havell Capital Management
42. Holland Capital Management*
43. Holt-Smith & Yates Advisors*
44. Hoover Investment Management Co.
45. Howard & McInnes
47. Hughes Capital Management
48. Hutchens Investment Management
49. Investment Placement Group*
50. John Hsu Capital Group Inc.*
51. Kenwood Group, Inc.*
52. Kit Cole Investment Advisory Services*
53. LM Capital Management, Inc.*
54. Malley Associates Capital Management
55. McLaughlin Investment Group
56. MDL Capital Management*
57. MFR Advisors
58. Milestone Capital Management
59. Mitchell & Henry Inc.
60. MPI Investment Management
61. NCM Capital Management Group, Inc.
62. New Amsterdam Partners LLC*
63. Newgate
64. P. G. Corbin Asset Management
65. Palladium Capital Management
66. Paradigm Asset Management Company, LLC*
67. Paradigm Capital Management
68. Pareto Partners
69. Payden & Rygel
70. Penn Capital Management*
71. Piedmont Investment Advisors
72. Piedra Capital, Ltd.
Exhibit A

MINORITY AND WOMAN-OWNED COMPANIES ON CONSULTANT DATABASE

* Denotes Emerging Company

73. Presido Asset Management
74. Pugh Capital Management, Inc.*
75. RhumbLine Advisers*
76. Rittenhouse Advisors, Inc.*
77. RM Investment Management, Inc.
78. Runnymede Capital Management
79. Rutland Dickson Asset Management
80. Rutland, Smiley & McCain
81. SCI Capital Management
82. Seix Investment Advisors, Inc.
83. Sit Investment Associates, Inc.
84. Sit Investment Fixed Income Advisors
85. Sit/Kim International Investment Associates, Inc.
86. Sloate, Weisman, Murray & Company
87. Smith, Graham & Company Asset Managers*
88. Sturdivant & Company, Inc.*
89. Swarthmore Group*
90. Tanaka Capital Management*
91. Taplin, Canida & Habacht*
92. Tiffany Capital Advisors, Inc.
93. Tris Capital Management, Inc.
94. Union Heritage Capital Management
95. Utendhal Capital Management, LP
96. Valenzuela Capital Partners, LLC*
97. ValueQuest/TA*
98. Wagner Investment Management*
99. Washington Asset Management
100. Wedgewood Capital Management, Inc.
101. Woodford Capital Management, Inc.*
102. Zevenbergen Capital*
### Exhibit B

**MINORITY AND WOMAN-OWNED COMPANIES**

**BROKERAGE COMMISSIONS PAID**

**July 1, 2000 - June 30, 2001**

<table>
<thead>
<tr>
<th>Company</th>
<th>Amount</th>
<th>Address</th>
<th>City, State, Zip</th>
<th>Contact</th>
<th>Phone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gardner Rich &amp; Company</td>
<td>$7,303</td>
<td>311 S. Wacker Drive, Suite 6060</td>
<td>Chicago, IL 60606</td>
<td>Mike Manning, Maria Rodriguez</td>
<td>(800) 437-7333</td>
</tr>
<tr>
<td>Guzman &amp; Company</td>
<td>$43,042</td>
<td>1200 Brickell Avenue, 14th Floor</td>
<td>Miami, FL 33131</td>
<td>Andrew Buckner</td>
<td>(305) 374-3600</td>
</tr>
<tr>
<td>Harris Capital Corp.</td>
<td>$95,832</td>
<td>15 Lewis Street, Suite 621</td>
<td>Hartford, CT 06103</td>
<td>Brian Harris</td>
<td>(203) 522-6700</td>
</tr>
<tr>
<td>Jackson Partners &amp; Associates</td>
<td>$2,520</td>
<td>381 Park Avenue, Suite 621</td>
<td>New York, NY 10016</td>
<td>Ronald Jackson</td>
<td>(800) 932-9863</td>
</tr>
<tr>
<td>Loop Capital Markets</td>
<td>$5,706</td>
<td>175 West Jackson Blvd., Suite A635</td>
<td>Chicago, IL 60604</td>
<td>Dennis Ignarski</td>
<td>(312) 913-4908</td>
</tr>
<tr>
<td>M. Ramsey King Securities, Inc.</td>
<td>$4,218</td>
<td>93 Tomlin Circle</td>
<td>Burr Ridge, IL 60521</td>
<td>Mary Ramsey King</td>
<td>(630) 789-0807</td>
</tr>
</tbody>
</table>
Exhibit B

MINORITY AND WOMAN-OWNED COMPANIES
BROKERAGE COMMISSIONS PAID
July 1, 2000 - June 30, 2001

M.R. Beal & Co. ........................................ $ 37,930
67 Wall-Street, 17th Floor
New York, NY 10005
CONTACT: Mel Eubanks
(800) 727-8020

Melvin Securities ..................................... $ 153
141 W. Jackson Boulevard
Chicago, IL 60604
CONTACT: Dennis Sotos, Mark Storey
(800) 341-8584

Muriel Siebert ....................................... $ 16,470
885 Third Avenue
New York, NY 10022
CONTACT: Bryce Young
(212) 644-2440

Nutmeg Securities ................................. $ 63,726
440 S. LaSalle, 4th Floor
Chicago, IL 60605
CONTACT: Steve Marchese
(800) 444-0603

Pacific American Securities ....................... $ 2,610
9191 Town Centre Drive, Suite 406
San Diego, CA 92122
(858) 320-8888

Seslie Securities ................................. $ 5,292
325 Chestnut Street, Suite 1110
Philadelphia, PA 19106
CONTACT: Brian Hill
(800) 727-4170
Exhibit B

MINORITY AND WOMAN-OWNED COMPANIES
BROKERAGE COMMISSIONS PAID
July 1, 2000 - June 30, 2001

Williams Capital Group .......................... $ 6,306
650 Fifth Avenue
New York, NY 10019
CONTACT: Robert Ridgway
(212) 830-4556

TOTAL COMMISSIONS PAID ...................... $ 291,108

Note: Net Trades also done with:

Garner Rich & Company
311 S. Wacker Drive, Suite 6060
Chicago, IL 60606
CONTACT: Mike Manning, Stephanie Wansley
(800) 437-7333, (312) 462-7324

Loop Capital Markets
175 West Jackson Blvd., Suite A635
Chicago, IL 60604
CONTACT: Julie Karr, Todd Mayfield
(888) 294-8898, (312) 913-4901

Utendahl Capital Partners
30 Broad Street, 42nd Floor
New York, NY 10004
CONTACT: Rich Gordon, Derrick Burns
(212) 797-2860

Williams Capital Group
650 Fifth Avenue, 10th Floor
New York, NY 10019
CONTACT: Janie Williams, Janice Savin
(212) 830-4532, (800) 924-1311
ILLINOIS
COMPILED STATUTES

Chapter 40
Pensions
2000 Edition

As Amended through P.A. 91–686
5/1-109.2. Extent of Co-Fiduciary Duties

§ 1-109.2. Extent of Co-Fiduciary 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 is 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 manager.