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 Payden & Rygel, a woman-owned business enterprise. Payden & Rygel does not qualify as an emerging investment manager as defined by Public Act 87-1265, but is a minority firm as defined by statute.

2. Percentage of Assets Under Control of Emerging Investment Managers

On June 30, 2002, emerging minority investment firms managed $478.3 million for the IMRF. This represents 3.3% of the total investment portfolio and is an increase of $259.3 million over 2001. Holland Capital Management manages $181.9 million and MDL Capital Management manages $296.4 million.

August 26, 2002
The Honorable George Ryan
August 26, 2002
Page two

On June 30, 2002, Payden & Rygel, managed 5.2% of the total IMRF portfolio. This amounts to
$741.9 million, which is an increase of $52.7 million over 2001.

Total assets of $1.22 billion were managed by our two emerging investment managers and by a
woman-owned business enterprise. This amount represents 8.5% of the IMRF investment portfolio.

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

IMRF has undertaken the following actions to increase the use of emerging investment managers.

A. In May 2002, the IMRF Board of Trustees increased the assets allocated to Holland Capital
Management by the amount of $92 million. The assets allocated to MDL Capital
Management were increased by $167 million. These firms are emerging investment
managers as defined by Public Act 87-1265.

B. Between July 1, 2001 and June 30, 2002, IMRF investment managers placed $209,129 of
commission business through minority and woman-owned broker-dealers. This is a decrease
of $81,979 from last year. Exhibit A, attached, lists these broker-dealers and the commissions
they received.

C. 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.
D. 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 44 firms that qualify as emerging investment managers under Public Act 87-1265. Exhibit B, attached, lists the 113 minority and woman-owned firms currently on this database. It also identifies the 44 firms that qualify as emerging investment managers, under Public Act 87-1265, with an asterisk:

E. When conducting a search for a new investment manager, the IMRF Board of Trustees requires that all minority and women-owned business enterprises evaluated in the search process be specifically identified in the investment manager search report presented to them. This procedure confirms that qualified minority and woman-owned business enterprises are being considered in the IMRF investment manager search process.

***

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 managers, minority investment managers and minority broker-dealers in the IMRF investment process continues to be in place.

Sincerely,

[Signature]
Louis W. Kosiba
Executive Director

LWK:en

Attachments
Exhibit A

MINORITY AND WOMAN-OWNED COMPANIES
BROKERAGE COMMISSIONS PAID
July 1, 2001 - June 30, 2002

Gardner Rich & Company .......................... $ 27,678
311 S. Wacker Drive, Suite 6060
Chicago, IL 60606
CONTACT: Mike Manning, Maria Rodriguez
(800) 437-7333

Guzman & Company .......................... $ 7,865
1200 Brickell Avenue, 14th Floor
Miami, FL 33131
CONTACT: Andrew Buckner
(305) 374-3800

Loop Capital Markets .......................... $ 61,580
175 West Jackson Blvd., Suite A635
Chicago, IL 60604
CONTACT: Dennis Ignarski
(312) 813-4908

M. Ramsey King Securities, Inc. .......................... $ 2,865
93 Tomlin Circle
Burr Ridge, IL 60527
CONTACT: Mary Ramsey King
(630) 789-0607

Maria Florini Ramirez, Inc. ......................... $ 19,749
One Liberty Plaza, 46th floor
New York, NY 10006
(212) 416-5000

Melvin Securities .......................... $ 22,651
141 W. Jackson Boulevard
Chicago, IL 60604
CONTACT: Dennis Sotos, Mark Skorey
(800) 341-8584
### Exhibit A

**MINORITY AND WOMAN-OWNED COMPANIES**

**BROKERAGE COMMISSIONS PAID**

**July 1, 2001 - June 30, 2002**

<table>
<thead>
<tr>
<th>Company</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Muriel Siebert</td>
<td>$ 6,504</td>
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<tr>
<td>855 Third Avenue</td>
<td></td>
</tr>
<tr>
<td>New York, NY 10022</td>
<td></td>
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<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>$ 23,791</td>
</tr>
<tr>
<td>440 S. LaSalle, 4th Floor</td>
<td></td>
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<tr>
<td>Chicago, IL 60605</td>
<td></td>
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<tr>
<td>CONTACT: Steve Marchese</td>
<td></td>
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<tr>
<td>(800) 444-0603</td>
<td></td>
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<tr>
<td>Pacific American Securities</td>
<td>$ 11,565</td>
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<tr>
<td>9191 Town Centre Drive, Suite 406</td>
<td></td>
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<tr>
<td>San Diego, CA 92122</td>
<td></td>
</tr>
<tr>
<td>(858) 320-8888</td>
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<tr>
<td>P.C.S. Securities</td>
<td>$ 1,660</td>
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<tr>
<td>121 Lakeside Avenue, Suite 301</td>
<td></td>
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<tr>
<td>Seattle, WA 98122</td>
<td></td>
</tr>
<tr>
<td>CONTACT: Suzanne Pruitt</td>
<td></td>
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<tr>
<td>(206) 224-9848</td>
<td></td>
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<tr>
<td>Pryor Counts &amp; Company.</td>
<td>$ 2,760</td>
</tr>
<tr>
<td>1515 Market Street, Suite 819</td>
<td></td>
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<tr>
<td>Philadelphia, PA 19102</td>
<td></td>
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<tr>
<td>CONTACT: Michael Chappel</td>
<td></td>
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<tr>
<td>(877) 762-6937</td>
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<tr>
<td>Seslia Securities</td>
<td>$ 10,869</td>
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<tr>
<td>325 Chestnut Street, Suite 1110</td>
<td></td>
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<tr>
<td>Philadelphia, PA 19106</td>
<td></td>
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<tr>
<td>CONTACT: Brian Hill</td>
<td></td>
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<tr>
<td>(800) 727-4170</td>
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</tr>
</tbody>
</table>
Exhibit A

MINORITY AND WOMAN-OWNED COMPANIES
BROKERAGE COMMISSIONS PAID
July 1, 2001 - June 30, 2002

Sturdivant & Company ................................ $ 3,286
Plaza 1000 at Main Street, Suite 200
Vocehes, NJ 06043
(656) 927-3071

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

TOTAL COMMISSIONS PAID ........................... $ 209,126

Note: Net Trades also done with:

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

Loop Capital Markets
175 West Jackson Blvd., Suite A535
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) 797-2680

Williams Capital Group
650 Fifth Avenue, 10th Floor
New York, NY 10019
CONTACT: Jancie Williams, Janice Savin
(212) 830-4532, (800) 924-1311
Exhibit B

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. Ascent/Meredith Asset Management
13. Bay Isle Financial
14. Biscayne Advisors*
15. Brown Capital Management*
16. C & G Global Management
17. Cardinal Advisors, Inc.
18. Cardinal Capital Management
19. Carr & Associates*
20. Chandler Asset Management*
21. Chapman Capital Management*
22. Charter Financial Group
23. CIC/HCM Asset Management, Inc.*
24. Citizens Funds*
25. Clemente Capital, Inc.*
26. Cordillera Asset Management*
27. Cutler & Company
28. Cypress Asset Management*
29. Danson & Neuher, LLC
30. Denali Advisors
31. Dennis Wong & Associates*
32. Desai Capital Management, Inc.
33. Diaz-Verson Capital Investments
34. EARNEST Partners
35. Edgar Lomax Company
36. EDMP
<table>
<thead>
<tr>
<th></th>
<th>Company Name</th>
<th>Note</th>
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<tbody>
<tr>
<td>38.</td>
<td>Fan Asset Management</td>
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<td>39.</td>
<td>First Honolulu Asset Management</td>
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<td>40.</td>
<td>Fortaleza Asset Management, Inc.*</td>
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<td>41.</td>
<td>GEI Financial Services</td>
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<td>42.</td>
<td>GlobeFlex Capital</td>
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<td>43.</td>
<td>Greaves Capital Management, Inc.</td>
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<td>44.</td>
<td>Greystone Capital Management</td>
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<td>45.</td>
<td>Gries Financial*</td>
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<td>46.</td>
<td>GW Capital, Inc.*</td>
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<td>47.</td>
<td>Havell Capital Management</td>
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<td>48.</td>
<td>Holland Capital Management*</td>
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<td>49.</td>
<td>Holt-Smith &amp; Yates Advisors*</td>
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<td>50.</td>
<td>Hoover Investment Management Co.</td>
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<td>51.</td>
<td>Howard &amp; McInnes</td>
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<td>52.</td>
<td>Huff Capital Management, Inc.</td>
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<td>53.</td>
<td>Hughes Capital Management</td>
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<td>54.</td>
<td>Hutchens Investment Management</td>
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<td>55.</td>
<td>Investment Placement Group*</td>
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<td>56.</td>
<td>John Hsu Capital Group Inc.*</td>
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<td>57.</td>
<td>Kenwood Group, Inc.*</td>
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<td>58.</td>
<td>Kit Cole Investment Advisory Services*</td>
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<td>59.</td>
<td>Lakefront Capital Investors</td>
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<td>Leo Capital Group</td>
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<td>61.</td>
<td>LM Capital Management, Inc.*</td>
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<td>63.</td>
<td>McLaughlin Investment Group</td>
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<td>64.</td>
<td>MDL Capital Management*</td>
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<td>MFR Advisors</td>
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<td>66.</td>
<td>Milestone Capital Management</td>
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<td>67.</td>
<td>Mitchell &amp; Henry Inc.</td>
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<td>68.</td>
<td>MPI Investment Management</td>
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<td>69.</td>
<td>NCM Capital Management Group, Inc.</td>
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<td>70.</td>
<td>NMF Asset Management</td>
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<td>71.</td>
<td>New Amsterdam Partners LLC*</td>
<td></td>
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<tr>
<td>72.</td>
<td>Newgate</td>
<td></td>
</tr>
</tbody>
</table>
Exhibit B

MINORITY AND WOMAN-OWNED COMPANIES ON CONSULTANT DATABASE

* Denotes Emerging Company

73. Opus Capital Management
74. P. G. Corbin Asset Management
75. Palladium Capital Management
76. Paradigm Asset Management Company, LLC*
77. Paradigm Capital Management
78. Pareto Partners
79. Payden & Rygel
80. Penn Capital Management*
81. Piedmont Investment Advisors
82. Piedra Capital, Ltd.
83. Podesta & Company
84. Presido Asset Management
85. Pugh Capital Management, Inc.*
86. Rihumbline Advisers*
87. Rittenhouse Advisors, Inc.*
88. RM Investment Management, Inc.
89. Runnymede Capital Management
90. Rutland Dickson Asset Management
91. Rutland, Smiley & McCain
92. SCI Capital Management
93. Seix Investment Advisors, Inc.
94. SIT Investment Associates, Inc.
95. SIT Investment Fixed Income Advisors
96. SIT/Kim International Investment Associates, Inc.
97. Sloane, Weisman, Murray & Company
98. Smith, Graham & Company Asset Managers*
100. Swarthmore Group*
101. Tanaka Capital Management*
102. Taplin, Canida & Habacht*
103. Tiffany Capital Advisors, Inc.
104. Trias Capital Management, Inc.
105. Union Heritage Capital Management
106. Utenhail Capital Management, LP
107. Valenzuela Capital Partners, LLC*
108. ValueQuest/TA*
Exhibit B

MINORITY AND WOMAN-OWNED COMPANIES 
ON CONSULTANT DATABASE

* Denotes Emerging Company

109. Wagner Investment Management*
110. Washington Asset Management
111. Wedgewood Capital Management, Inc.
112. Woodford Capital Management, Inc.*
113. Zievenbergen Capital*.
(2) Defraying reasonable expenses of administering the retirement system or pension fund;
   (a) 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;
   (b) 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.


Another § 1-109 was renumbered § 1-112 and subsequently repealed by P.A. 82-763.

5/1-109.1. 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 funds 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 (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 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 $30,000,000 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 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.


5/1-109.2. Extent of cofiduciary duties

§ 1-109.2. Extent of Co-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 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 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 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 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.