August 25, 2003

The Honorable Rod R. Blagojevich
Governor of Illinois
Office of the Governor
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 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, 2003, emerging minority investment firms managed $503.2 million for the IMRF. This represents 3.4% of the total investment portfolio and is an increase of $24.9 million over 2002. Holland Capital Management managed $182.8 million and MDL Capital Management managed $320.4 million.
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On June 30, 2003, Payden & Rygel, managed 5.0% of the total IMRF portfolio. This amounts to $740 million, which is a decrease of $1.9 million over 2002.

Total assets of $1.24 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. Between July 1, 2002 and June 30, 2003, IMRF investment managers placed $391,179 of commission business through minority and woman-owned broker-dealers. This is an increase of $182,050 over last year. Exhibit A, attached, lists these broker-dealers and the commissions they received.

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

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.
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 minority and woman-owned investment management firms. This consultant database contains 42 firms that qualify as emerging investment managers under Public Act 87-1265. Exhibit B, attached, lists the 114 minority and woman-owned firms currently on this database. It also identifies the 42 firms that qualify as emerging investment managers under Public Act 87-1265 with an asterisk.

D. 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.

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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,

Louis W. Kosiba
Executive Director

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Attachments
MINORITY AND WOMEN-OWNED COMPANIES
BROKERAGE COMMISSIONS PAID
July 1, 2002 - June 30, 2003

Cabrera Capital Markets .................. $ 43,017
208 South LaSalle Street, Suite 1230
Chicago, IL 60603
CONTACT: Martin Cabrera, Jr.
(312) 236-8888

Capital Securities of America .............. $ 1,781
523 South Louisiana Street
Little Rock, AR 72201
CONTACT: Darryl Henderson
(501) 244-2341

CL. King & Associates .................. $ 3,528
9 Elk Street
Albany, NY 12207
(518) 431-3500

Gardner Rich & Company ................. $ 161,311
311 S. Wacker Drive, Suite 6060
Chicago, IL 60606
CONTACT: Mike Manning, Stephanie Wansley
(800) 437-7333, (800) 462-7324

Guzman & Company ...................... $ 9,444
1200 Brickell Avenue, 14th Floor
Miami, FL 33131
CONTACT: Andrew Buckner
(305) 374-3800

Loop Capital Markets .................. $ 60,958
175 West Jackson Blvd., Suite A635
Chicago, IL 60604
CONTACT: Dennis Ignarski, Todd Mayfield
(312) 913-4908, (312) 913-4901

Malvin Securities ...................... $ 25,986
141 W. Jackson Boulevard
Chicago, IL 60604
CONTACT: Dennis Solos, Mike Mehleck
(800) 341-8584
Exhibit A

MINORITY AND WOMEN-OWNED COMPANIES
BROKERAGE COMMISSIONS PAID
July 1, 2002 - June 30, 2003

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

Nutmeg Securities
440 S. LaSalle, 4th Floor
Chicago, IL 60605
CONTACT: Steve Marchese
(800) 444-0803

Percival Partners
5100 Falls Road Village Square
Baltimore, MD 21210
CONTACT: Tigar McKinnon
(410) 323-5333

P.C.S. Securities
121 Lakeside Avenue, Suite 301
Seattle, WA 98122
CONTACT: Jennifer Waffler
(206) 224-9448

Pryor Counts & Company
1515 Market Street, Suite 819
Philadelphia, PA 19102
CONTACT: Michael Chappel
(215) 762-6837

Robert Van Securities
350 Frank Ogawa Plaza, 10th floor
Oakland, CA 94612
CONTACT: Tim O'Brien
(510) 625-1065

Seslia Securities
325 Chestnut Street, Suite 1110
Philadelphia, PA 19106
CONTACT: Brian Hill
(800) 727-4170

$ 10,138
$ 22,774
$ 15,603
$ 2,425
$ 3,110
$ 2,523
$ 2,109
Exhibit A

MINORITY AND WOMEN-OWNED COMPANIES
BROKERAGE COMMISSIONS PAID
July 1, 2002 - June 30, 2003

Sturdivant & Company ................. $ 8,860
Plaza 100 at Main Street, Suite 200
Voorhees, NJ 08043
CONTACT: Harvey deKraft, Debbie
(856) 627-3071

Williams Capital Group ............... $ 17,612
650 Fifth Avenue
New York, NY 10019
CONTACT: Robert Ridgway, Jancie Williams
(212) 830-4566, (212) 830-4532

TOTAL COMMISSIONS PAID ............. $ 39,179

Note: Net Trades also done with:

Gardner Rich & Company
311 S. Wacker Drive, Suite 6050
Chicago, IL 60606
CONTACT: Mike Manning, Stephanie Wansley
(800) 437-7333, (800) 462-7324

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

Samanth Ramirez & Company
61 Broadway, 29th floor
New York, NY 10006
CONTACT: Robin Marchand
(212) 248-0505

Utenahl 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: Jancie Williams, Janice Savin
(212) 830-4532, (800) 924-1311

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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. ALIC Investment Advisors
5. Albricd Capital Management*
6. Allison Street Advisors
7. Alpha Capital Management*
8. Amerindo Investment Advisors Inc.
10. APS Asset Management
11. Argus Investors' Counsel
12. Ariel Capital Management
13. Arnold Investment Counsel
14. Artemis Investment Management
15. Ascent/Meredith Asset Management
16. Atucks Asset Management
17. Bay Isle Financial
18. Biscayne Advisors*
20. Carr & Associates*
21. Chandler Asset Management*
22. Chapman Capital Management*
23. Charter Financial Group
24. CIC/HCM Asset Management, Inc.*
25. Citizens Funds*
27. Cordilleran Asset Management*
28. Cutler & Company
29. Cypress Asset Management [CA]
30. Delancey Capital Group
31. Denali Advisors
32. Denis Wong & Associates*
33. DG Capital Management
34. Diaz-Verbon Capital Investments
35. EARNEST Partners
36. EDMP
37. Endex Capital Management
39. Fan Asset Management
40. FinArc
41. First Honolulu Asset Management
42. Fortaleza Asset Management, Inc.*
43. Garner Asset Management Company
44. GEI Financial Services
45. GlobeFlex Capital
46. Gries Financial*
47. GW Capital, Inc.*
48. Hahn Capital Management
49. Havell Capital Management
50. Holland Capital Management*
51. Holt-Smith & Yates Advisors*
52. Hoover Investment Management Co.
53. Howard And McInnes
55. Hughes Capital Management
56. Hutchens Investment Management
57. Investment Placement Group*
58. Ivory Capital Group
59. John Hsu Capital Group Inc.*
60. Kit Cole Investment Advisory Services*
61. Lakefront Capital Investors
62. Leo Capital Group
63. LM Capital Management, Inc.*
64. Malloy Associates Capital Management
65. McLaughlin Investment Group
66. MDL Capital Management*
67. MFR Advisors
68. Milestone Capital Management
69. Mitchell & Henry Inc.
70. NCM Capital Management Group, Inc.
71. NMF Asset Management
72. New Amsterdam Partners LLC*
73. Newgate
74. Opus Capital Management
75. P. G. Corbin Asset Management
76. Palladium Capital Management
77. Paradigm Asset Management Company, LLC*
78. Paradigm Capital Management
79. Pareto Partners
80. Payden & Rygel
81. Penn Capital Management*
82. Piedmont Investment Advisors
83. Piedra Capital, Ltd.
84. Podesta & Co.
85. Popular Asset Management
86. Presido Asset Management
87. Pugh Capital Management, Inc.*
88. RhumbLine Advisers*
89. Rittenhouse Advisors, Inc.*
90. RM Investment Management, Inc.
91. Rosenblum-Silverman-Sutton
92. Rutland Dickson Asset Management
93. Rutland, Smiley & McCain
94. Sanderson & Stocker
95. SCI Capital Management
96. Seix Investment Advisors, Inc.
97. Sit Investment Associates, Inc. (Equity & Balanced)
98. Smith, Graham & Company Asset Managers*
100. Tanaka Capital Management*
101. Taplin, Canida & Habacht*
102. The Edgar Lomax Company
103. The Kenwood Group, Inc.*
104. The Swarthmore Group*
105. Tiffany Capital Advisors, Inc.
106. Trias Capital Management, Inc.
107. Union Heritage Capital Management
108. Utendhal Capital Management, L.P.
109. Valenzuela Capital Partners, LLC*
110. Value Line Asset Management
111. Wagner Investment Management*
112. Washington Asset Management
113. Woodford Capital Management, Inc.*
114. Zekanbergen Capital*
ILLINOIS
COMPILED STATUTES

Chapter 40
Pensions
2000 Edition

As Amended through P.A. 91-686
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 these 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.


Another § 1-109 was renumbered § 1-112 and subsequently repealed by P.A. 62-776.

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 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-119 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...