August 27, 2004

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 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 three emerging investment managers as defined by the Act. Our emerging investment managers are Brown Capital Management, Holland Capital Management, and MDL Capital Management. Additionally, IMRF employs Payden & Rygel, EARNEST Partners, and Muller & Monroe Asset Management, LLC. These firms do not qualify as emerging investment managers under the Act, but they are minority or woman-owned investment managers.
2. Percentage of Assets Under Control of Emerging Investment Managers

As of June 30, 2004, emerging minority investment firms managed $749.1 million for the IMRF. This represented 4.42% of the total investment portfolio. Additionally, $816.1 million was invested with minority and women business enterprise (MWBE) investment managers that are not defined as emerging by the Act. This represented 4.83% of the total investment portfolio. As of June 30, 2004, total assets of $1.57 billion were invested with MWBE investment managers. This amount represented 9.25% of the total IMRF investment portfolio, and is an increase of $322 million over the amount reported in 2003.

On June 30, 2004, IMRF’s emerging investment manager allocations were $50 million to Brown Capital Management, $316.4 million to MDL Capital Management, and $382.7 million to Holland Capital Management. Non-emerging MWBE investment manager allocations were $50 million to EARNEST Partners, $25 million to Muller & Monroe Asset Management, and $741.1 million to Payden & Rygel.

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

A.

In January 2004, the IMRF Board of Trustees established a goal of 20% of actively managed investment assets being managed by MWBE money managers. As of June 30, 2004, 15.9% of actively managed assets were allocated to MWBE money managers.

Since our 2003 report, an additional allocation of $160 million has been given to Holland Capital Management, new allocations of $50 million each have been given to Brown Capital Management and EARNEST Partners, and $25 million has been committed to Muller & Monroe. The Muller & Monroe commitment will be placed in a private equity fund-of-funds that will focus on investing in MWBE private equity partnerships, and in Illinois and Midwest-based MWBE partnerships. The fund-of-funds was jointly established with the Public School Teachers’ Pension and Retirement Fund of Chicago and the Illinois State Universities Retirement System.

In addition to the above actions, the Board of Trustees is presently conducting a search to place $100 million with a manager-of-managers that will invest with MWBE money managers. This $100 million allocation will increase our commitment to MWBE managers from 15.9% to 16.9% of actively managed investment assets.
The balance of the allocation necessary to achieve our 20% goal will be placed directly with MWBE investment managers during the normal course of investment manager searches.

In January 2004, the IMRF Board of Trustees also established a goal of 20% of actively managed brokerage being executed by MWBE broker/dealers. For the six months ended June 30, 2004, 14.09% of actively managed brokerage had been executed with MWBE broker/dealers.

Brokerage commissions executed through MWBE brokerage firms have increased significantly. Between July 1, 2003 and June 30, 2004, IMRF investment managers placed $1,555,818 of commission business with MWBE broker/dealers. This is an increase of $1,164,639 over the MWBE commissions reported last year. Exhibit A, attached, lists these broker/dealers and the commissions that they received. It should be noted that $1,246,847 of these commissions were placed with MWBE broker/dealers during the period from February 1, 2004, through June 30, 2004. This is coincidental with the establishment of the MWBE brokerage goal.

In addition to these steps, the Board of Trustees has appointed the Chairman of the Investment Committee as the Trustee responsible for monitoring the progress towards achieving our MWBE investment manager and brokerage goals. The Board of Trustees will also monitor and review these goals.

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.
The IMRF Board of Trustees employs a consultant who uses non-discriminatory practices when recommending investment manager candidates and who maintains a database of MWBE investment management firms. Mercer’s database is accessible to any investment manager online and there is no fee for listing information. This consultant database contains 40 firms that qualify as emerging investment managers under Public Act 87-1265. Exhibit B, attached, lists the 182 MWBE firms currently in this database. It also identifies the 40 firms that qualify as emerging investment managers under Public Act 87-1265 with an asterisk.

Mercer increased its efforts to add MWBE investment management firms to its global investment manager database (GIMD). Using external sources such as Nelson’s Institutional Marketplace, Mercer identified several MWBE investment firms that were not previously included in GIMD. These firms were then invited to enter their information directly into Mercer’s GIMD system. As a result, fifteen additional MWBE firms have been added to Mercer’s database since January 1, 2004.

When conducting a search for a new investment manager, the IMRF Board of Trustees requires that all MWBE investment firms evaluated in the search process be specifically identified in the investment manager search report presented to them. In addition, any reasons for eliminating a MWBE investment manager candidate from further consideration must also be provided in this report. This procedure confirms that qualified MWBE investment firms are being considered in the IMRF investment manager search process.

***

The IMRF Board of Trustees is mindful of the objective to increase MWBE participation in the area of public pension fund investment management and brokerage. The structure and goals 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 meb
Attachments
### Exhibit A

**MINORITY AND WOMEN-OWNED ENTERPRISES**

**BROKERAGE COMMISSIONS PAID**

**July 1, 2003 - June 30, 2004**

<table>
<thead>
<tr>
<th>Company</th>
<th>Commission</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berean Capital Markets</td>
<td>$20,355.00</td>
</tr>
<tr>
<td>300 South Wacker Drive, Suite 2450, Chicago, IL 60606</td>
<td></td>
</tr>
<tr>
<td>CONTACT: Elizabeth Tolomeo</td>
<td>Phone: (312) 986-8200</td>
</tr>
</tbody>
</table>

| Blaylock & Partners            | $77,379.21 |
| 10 South Wacker Drive, Suite 2175, Chicago, IL 60606 |
| CONTACT: Robert J. Graff       | Phone: (312) 436-0970 |

| BOE Securities                | $1,160.00  |
| 440 South LaSalle Street, Chicago, IL 60602 |
| CONTACT: Eugene Maddred, Jr.  | Phone: (312) 653-2002 |

| Cabrera Capital Markets       | $145,631.32 |
| 208 South LaSalle Street, Suite 1230, Chicago, IL 60604 |
| CONTACT: George Dychton      | Phone: (312) 236-8888 |

| CL King                       | $2,325.00  |
| One Liberty Square, 5th floor, Boston, MA 02109 |
| CONTACT: Peter Schultz        | Phone: (866) 349-4640 |

| Gardner Rich & Company       | $163,223.68 |
| 401 South Financial Place, Chicago, IL 60605 |
| CONTACT: Dennis Dunn         | Phone: (312) 786-4362 |

| Guzman & Company             | $65,530.85 |
| 1200 Brickell Avenue, 14th Floor, Miami, FL 33131 |
| CONTACT: Andrew Buckner      | Phone: (305) 374-3600 |
Exhibit A

MINORITY AND WOMEN-OWNED ENTERPRISES
BROKERAGE COMMISSIONS PAID
July 1, 2003 - June 30, 2004

Loop Capital Markets ....................... $ 312,862.55
200 West Jackson Boulevard, Suite 1600
Chicago, IL 60606
CONTACT: Todd Mayfield, Dennis Ignarski
Phone: (312) 913-4900, (312) 913-4908

M. Ramsey King Securities, Inc. .......... $  29,187.00
93 Tomlin Circle
Burr Ridge, IL 60527
CONTACT: Mary King
Phone: (630) 789-0607

MAGNA Securities Corp ..................... $ 343,913.00
420 Lexington Avenue, Suite 2220
New York, NY 10170
CONTACT: Val Guilford
Phone: (212) 547-3700

Melvin Securities .......................... $ 165,758.03
111 West Jackson Boulevard, Suite 2110
Chicago, IL 60604
CONTACT: Dennis Sotos, Mike Mehleck
Phone: (800) 341-8584

Muriel Siebert ................ ............... $  3,436.00
885 Third Avenue
New York, NY 10022
CONTACT: Joseph Costello
Phone: (212) 644-2400

Nutmeg Securities ......................... $ 20,302.34
440 South LaSalle, 4th Floor
Chicago, IL 60605
CONTACT: Steve Marchese
Phone: (800) 444-0603

Ormes Capital Markets ................... $  55.00
45 Broadway, 22nd floor
New York, NY 10006
CONTACT: Dan O’Grady
Phone: (212) 361-1310
<table>
<thead>
<tr>
<th>Company</th>
<th>Commission Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>PCS Securities</td>
<td>$1,983.00</td>
</tr>
<tr>
<td>121 Lakeside Avenue, Suite 301</td>
<td></td>
</tr>
<tr>
<td>Seattle, WA 98122</td>
<td></td>
</tr>
<tr>
<td>CONTACT: Jennifer Wallier</td>
<td></td>
</tr>
<tr>
<td>Phone: (206) 224-9848</td>
<td></td>
</tr>
<tr>
<td>Pacific American Securities</td>
<td>$45,581.20</td>
</tr>
<tr>
<td>50 Broadway, 22nd floor</td>
<td></td>
</tr>
<tr>
<td>New York, NY 10004</td>
<td></td>
</tr>
<tr>
<td>CONTACT: Gigi Gueli</td>
<td></td>
</tr>
<tr>
<td>Phone: (800) 809-2349</td>
<td></td>
</tr>
<tr>
<td>Pryor Counts &amp; Co.</td>
<td>$74.80</td>
</tr>
<tr>
<td>111 West Washington, Suite 747</td>
<td></td>
</tr>
<tr>
<td>Chicago, IL 60602</td>
<td></td>
</tr>
<tr>
<td>CONTACT: Carol Mackoff</td>
<td></td>
</tr>
<tr>
<td>Phone: (312) 357-0157</td>
<td></td>
</tr>
<tr>
<td>Robert Van Securities</td>
<td>$661.63</td>
</tr>
<tr>
<td>350 Frank Ogawa Plaza, 10th floor</td>
<td></td>
</tr>
<tr>
<td>Oakland, CA 94612</td>
<td></td>
</tr>
<tr>
<td>CONTACT: Tim O'Brien</td>
<td></td>
</tr>
<tr>
<td>Phone: (510) 208-6101</td>
<td></td>
</tr>
<tr>
<td>SBK Brocks</td>
<td>$4,888.75</td>
</tr>
<tr>
<td>840 Terminal Tower</td>
<td></td>
</tr>
<tr>
<td>50 Public Square</td>
<td></td>
</tr>
<tr>
<td>Cleveland, OH 44113</td>
<td></td>
</tr>
<tr>
<td>CONTACT: Dan Raftery</td>
<td></td>
</tr>
<tr>
<td>Phone: (800) 878-6950</td>
<td></td>
</tr>
<tr>
<td>Samuel Ramirez &amp; Company</td>
<td>$226.00</td>
</tr>
<tr>
<td>61 Broadway, 29th floor</td>
<td></td>
</tr>
<tr>
<td>New York, NY 10006</td>
<td></td>
</tr>
<tr>
<td>CONTACT: Robin Marchand</td>
<td></td>
</tr>
<tr>
<td>Phone: (212) 248-0505</td>
<td></td>
</tr>
<tr>
<td>Sturdivant &amp; Company</td>
<td>$8,800.00</td>
</tr>
<tr>
<td>Plaza 1000 at Main Street, Suite 200</td>
<td></td>
</tr>
<tr>
<td>Voorhees, NJ 08043</td>
<td></td>
</tr>
<tr>
<td>CONTACT: Harvey deKraft</td>
<td></td>
</tr>
<tr>
<td>Phone: (856) 751-1331, ext. 224</td>
<td></td>
</tr>
</tbody>
</table>
Exhibit A

MINORITY AND WOMEN-OWNED ENTERPRISES
BROKERAGE COMMISSIONS PAID
July 1, 2003 - June 30, 2004

Utendahl Capital Partners .......... $ 100,165.00
30 Broad Street, 42nd Floor
New York, NY 10004
CONTACT: Derrick Burns
Phone: (212) 797-2660

Williams Capital Group .......... $ 42,338.46
650 Fifth Avenue, 10th floor
New York, NY 10019
CONTACT: John Ghize
Phone: (212) 830-4500

TOTAL COMMISSIONS PAID .......... $ 1,555,817.82
Exhibit B

MINORITY AND WOMAN-OWNED COMPANIES ON CONSULTANT DATABASE

* Denotes Emerging Company

1. Aberdeen America*
2. Advent Capital Management
3. Affinity Investment Advisors
4. ALIC Investment Advisors
5. Albriond Capital Management*
6. Allison Street Advisors
7. Alpha Capital Management*
8. Alpha Partners
9. Amerindo Investment Advisors Inc.
10. Amervest Company, Inc.*
11. Apex Capital Management
12. APS Asset Management
13. Aravis Capital Advisers
14. Argus Investors' Counsel
15. Ariel Capital Management
16. Arnold Investment Counsel
17. Artemis Investment Management
18. Ascent/Meredith Asset Management
19. Ashfield & Co
20. Atlanta Life Investment Advisors
21. Attucks Asset Management
22. Avanti Investment Advisors
23. Biscayne Advisors*
24. Bivium Capital Partners
25. Blaylock-Abacus Asset Management
26. Bracebridge Capital
27. Bradford & Marzec
28. Brown Capital Management*
29. Campbell Newman Asset Management
30. Capital Advisors - Oklahoma
31. Capital Prospects
32. Cardinal Capital Management (USA)
33. Carr & Associates*
34. Centricity
35. Chandler Asset Management*
36. Channing Capital Management
37. Chapman Capital Management*
38. Charter Financial Group
39. CIC Asset Management
40. CIC/HCM Asset Management, Inc.*
Citizens Funds*
Clemente Capital, Inc.*
Coral Rock Investments
Corbin & Company
Cordillera Asset Management*
Credo Capital Management
Cutler & Company
Cypress Asset Management [CA]
Daedalus Capital
Daruma Asset Management
DBA SeaCap Investment Advisors
Dean Investment Associates
Delancey Capital Group
Denali Advisors
Denis Wong & Associates*
DG Capital Management
Diaz-Verzon Capital Investments
E.H. Capital/Williams Capital Management
EARNEST Partners
Eastover Capital Management
EDMP
Endex Capital Management
Estabrook Capital Management
EverGreen Capital Management, Inc.*
Fairfield Greenwich Group
FAM Global Investments
Fan Asset Management
FinArc
Finch Asset Management
First Honolulu Asset Management
FIS Funds Management
Fortaleza Asset Management, Inc.*
Galaviz Investment Management
Garner Asset Management Company
GEI Financial Services
GlobeFlex Capital
Gries Financial*
GW Capital, Inc.*
Hahn Capital Management
Hanseatic Group
Havell Capital Management
High Pointe Capital Management
HM Capital Management
Holland Capital Management*
Holt-Smith & Yates Advisors*
Hoover Investment Management Co.
Howard And McInnes
Hughes Capital Management
Investment Placement Group*
90  Ivory Capital Group
91  JMC Capital Management
92  John Hsu Capital Group Inc.*
93  John Shao Portfolio Management
94  Krr, Marbach & Company
95  Kit Cole Investment Advisory Services*
96  Lakefront Capital Investors
97  Leo Capital Group
98  LM Capital Management, Inc.*
99  Locke Capital Management
100  Lynmar Capital Group
101  Madison Investment Advisors
102  Malley Associates Capital Management
103  Manley Asset Management
104  McLaughlin Investment Group
105  MDL Capital Management*
106  Medius Capital Group
107  MFR Advisors
108  Milestone Capital Management
109  Mission Management & Trust Company
110  Mitchell & Henry Inc.
111  Muller & Monroe
112  NCM Capital Management Group, Inc.
113  New Amsterdam Partners LLC*
114  New Providence Advisors
115  Newgate
116  NewMarket Capital Partners
117  NMF Asset Management
118  Oak Associates
119  Opus Capital Management
120  Orleans Capital Management
121  P. G. Corbin Asset Management
122  Pacholder Associates
123  Pacific Alternative Asset Management Company
124  Pacific Global Investment Management Corporation
125  Palisades Investment Partners
126  Palladium Capital Management
127  Paradigm Asset Management Company, LLC*
128  Paradigm Capital Management
129  Pareto Partners
130  Parish Capital Advisors
131  Payden & Rygel
132  Penn Capital Management*
133  Philippe Investment Management
134  Piedmont Investment Advisors
135  Piedra Capital, Ltd.
136  Podesta & Co.
137  Popular Asset Management
138  Presido Asset Management
139  Profit Investment Management
Progress Investment Management Company
Pugh Capital Management, Inc.*
R. Meeder & Associates
RhumLine Advisers*
RM Investment Management, Inc.
Robert Van Securities
Roger H. Jenswold & Company
Rosenblum-Silverman-Sutton
Rutland Dickson Asset Management
Sanderson & Stocker
Sapourn Financial Services
Seix Investment Advisors, Inc.
Sit Investment Associates, Inc. (Equity & Balanced)
Smith Affiliated Capital Corp
Smith, Graham & Company Asset Managers*
Spectrum Asset Management (CA)
Spinel Capital
Sturdivant & Company, Inc.*
Suoritus Partners
Tanaka Capital Management*
Taplin, Canida & Habacht*
The Atlantic Alliance
The Barr Financial Group
The Edgar Lomax Company
The Kenwood Group, Inc.*
The Swarthmore Group*
Tiffany Capital Advisors, Inc.
Torshen Capital Management
Tree City Investments
Treesdale Partners
Trend Trader
Trias Capital Management, Inc.
Union Heritage Capital Management
United Investment Managers
Utendahl Capital Management, L.P.
Valenzuela Capital Partners, LLC*
Value Line Asset Management
Wagner Investment Management*
Washington Asset Management
William D. Witter
Wilmoco Capital Management
Woodford Capital Management, Inc.*
Zevenbergen Capital*
ILLINOIS
COMPILLED STATUTES

Chapter 40
Pensions
2000 Edition

As Amended through P.A. 91-686

WEST GROUP
(2) Defraying reasonable expenses of administering the retirement system or pension fund;

(b) 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 assets;

(c) 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 § 1-103 was renumbered § 1-112 and subsequently repealed by P.A. 83-781.

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 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. 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 (d) 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 $400,000,000 on January 1, 1983 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 (c) of this Section.


5/1-109.2. Extent of codisfiduciary duties

§ 1-109.2. Extent of Codisfiduciary 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-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...