



**Municipal Employees' Annuity and
Benefit Fund of Chicago**
A Pension Trust Fund of the City of Chicago
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Dennis White, Executive Director

Retirement Board
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Trustee (Elective Member)

December 31, 2019

The Honorable J.B. Pritzker
Governor, State of Illinois
Office of the Governor
207 State House
Springfield, IL 62706

VIA EMAIL/U.S. MAIL

Dear Governor Rauner:

In accordance with Section 109.1 of Article I of the Illinois Pension Code (the "Allocation and Delegation Section") (See 40 ILCS 5/1-109.1), the Municipal Employees' Annuity and Benefit Fund of Chicago ("MEABF") is hereby filing its annual report regarding the utilization of minorities, women, and persons with disabilities and business owned by the same (collectively, "MWDBEs"). As required pursuant to subsection (8) of the Allocation and Delegation Section, enclosed please find the policies adopted by the Retirement Board of the MEABF (the "MEABF Board") under subsections (4), (5), (6), (7), and (9). We have also enclosed a report that includes the names and addresses of the emerging investment managers used and percentage of the assets under the investment control of emerging investment managers for the three separate goals in the policy adopted under subsection (4).

Despite the fact that the MEABF's actuarial funding value basis decreased from 28% to 23.3 % (as of December 31, 2018), the MEABF's MWDBE utilization is at an all-time high with 37% of our assets investing with these managers with diversity in thoughts and human capital. Major contributing factors are; Rock Creek repurchasing their ownership (Female) and hiring of Garcia Hamilton (Hispanic). Because of its commitment to review a diversified group of investment firms, the Board has considered and hired many quality emerging managers. In 2019, MEABF was able to maintain percent utilization of MWDBE manager despite the double digit operating cash flow deficits, which has depleted investment assets considerably. In conjunction with our cash flow deficit, it is difficult for us to make long term lock-up investments in these asset classes, hence reducing our exposure.

Furthermore, the Board expects its investment managers to be inclusive as well when searching for best execution in trading assets on its behalf. The Board has set utilization goals to help promote inclusion and ensure its investment managers are reviewing a diversified group of broker-dealers. The Board monitors brokerage utilization quarterly and compares managers' brokerage activity to goals over calendar year periods. In almost all cases, managers have met or exceeded the Board's goals.

We hope the above and the information attached is helpful. If we can be of further assistance, please let us know.

Respectfully submitted,

Dennis White
Executive Director
Enc.

cc: **Honorable Michael J. Madigan, House Speaker**
Honorable John J. Cullerton, Senate President
Honorable Iris Martinez, Co-Chairperson, Senate Committee on Public Pensions & State Investments
Honorable Dan McConchie, Co-Chairperson, Senate Committee on Public Pensions & State Investments

MWDBE Utilization Disclosure

PUBLIC ACT 96-0006 ADMINISTRATIVE POLICY REQUIREMENTS

2) 40 ILCS 5/1-109.1(5) Each retirement system, pension fund, or investment board subject to this Code, except those whose investments are restricted by Section 1-113.2 of this Code, shall establish a policy that sets forth goals for increasing the racial, ethnic, and gender diversity of its fiduciaries, including its consultants and senior staff. Each system, fund, and investment board shall annually review the goals established under this subsection.

In the procurement of consulting services for consultants who act as fiduciaries on behalf of the Fund as defined by 40 ILCS 5/1-101.2, the Retirement Board shall require the inclusion of qualified service providers who are minority owned businesses, female owned businesses, and businesses owned by a person with a disability, as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act.

The Retirement Board shall direct the Executive Director to take affirmative steps to reflect racial, ethnic, and gender diversity in his/her senior staff.

The Retirement Board shall review these goals annually.

MWDBE Utilization Disclosure

40 ILCS 5/1-109.1(6) On or before January 1, 2010, a retirement system, pension fund, or investment board subject to this Code, except those whose investments are restricted by Section 1-113.2 of this Code, shall adopt a policy that sets forth goals for utilization of businesses owned by minorities, females, and persons with disabilities for all contracts and services. The goals established shall be based on the percentage of total dollar amount of all contracts let to minority owned businesses, female owned businesses, and businesses owned by a person with a disability, as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act. The retirement system, pension fund, or investment board shall annually review the goals established under this subsection.

In the procurement for contractual services, the Retirement Board shall direct the Executive Director to seek to procure 15% to 20% of contractual services to qualified minority owned businesses, female owned businesses, and businesses owned by a person with a disability, as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act.

Sole source procurements, emergency procurements, and non-renewable contracts of less than one-year in duration that do not exceed \$20,000, shall be excluded at the discretion of the Retirement Board.

The Executive Director shall report to the Retirement Board annually on contracts let for contractual services.

Appendix D: M/W/DBE Investment Manager Utilization Policy

In accordance with 40 ILCS 5/1-109.1(4), the Board has set forth the following quantifiable goals for percentage of total assets under management managed by emerging investment managers:

| | Goal Range |
|-----------------------------|------------|
| Total investment assets | 20% to 30% |
| By asset class | |
| a. Equity | 15% to 25% |
| b. Fixed income | 15% to 25% |
| c. Alternatives | 10% to 20% |
| By ownership classification | |
| a. Minority | 12% to 18% |
| b. Woman | 03% to 07% |
| c. Disabled | 01% to 02% |

40 ILCS 5/1-109.1(4) defines "emerging investment manager" as "a qualified investment adviser that manages an investment portfolio of at least \$10,000,000 but less than \$10,000,000,000 and is a 'minority owned business', 'female owned business' or 'business owned by a person with a disability' as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act."

In accordance with 40 ILCS 5/1-109.1(9), the Board has set forth the following quantifiable goals for percentage of total assets under management managed by minority investment managers:

| | Goal Range |
|-----------------------------|------------|
| By ownership classification | |
| a. Minority | 14% to 20% |
| b. Woman | 03% to 07% |
| c. Disabled | 01% to 02% |

40 ILCS 5/1-109.1(9) defines "minority investment manager" as "a qualified investment manager that manages an investment portfolio and meets the definition of 'minority owned business', 'female owned business', or 'business owned by a person with a disability', as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act."

These goals shall be reviewed annually.

Amended January 22, 2015.

MWDBE Utilization Disclosure

Municipal Employees' Annuity & Benefit Fund of Chicago

| MWDBE Active Manager | Address | Market Value 09/30/19 | % of Total Active Mandates | % of Total Mandates |
|---|---|--------------------------|-------------------------------|------------------------|
| Ariel Investments | 200 E. Randolph St., Suite 2900 Chicago, IL 60601 | 99,455,027 | 3.54% | 2.73% |
| Ativo Capital | 120 N LaSalle Street, Suite 2150 Chicago, IL 60602 | 18,486,946 | 0.66% | 0.51% |
| Channing | 10 South LaSalle Street, Suite 2424 Chicago, IL 60603 | 27,633,672 | 0.98% | 0.76% |
| Garcia Hamilton^ | 1401 McKinney St # 1600 Houston, TX 77010 | 81,311,993 | 2.90% | 2.23% |
| GlobeFlex Capital | 4365 Executive Dr # 720 San Diego, CA 92121 | 24,241,018 | 0.86% | 0.67% |
| HCP | 200 W. Madison St, Suite 970 Chicago, IL 60606 | 2,240,601 | 0.08% | 0.06% |
| Levine Leichtman Capital Partners | 335 North Maple Drive, Suite 240 Beverly Hills, CA 90210 | 14,241,339 | 0.51% | 0.39% |
| Lisanti Capital Growth | 475 Park Ave S New York, NY 10016 | 27,030,254 | 0.96% | 0.74% |
| LM Capital | 750 B Street, Suite 3010 San Diego, CA 92101 | 187,133,581 | 6.67% | 5.14% |
| Muller & Monroe | 180 N. Stetson Avenue, Suite 1320, Chicago, IL 60601 | 4,111,389 | 0.15% | 0.11% |
| Nogales Investors | 9229 W. Sunset Blvd., Suite 900 Los Angeles, CA 90069 | 23,146 | 0.00% | 0.00% |
| Redwood Investments | 1117 S. Robertson Blvd Los Angeles, CA 90035 | 26,834,535 | 0.96% | 0.74% |
| Rock Creek^ | 1133 Connecticut Ave NW # 810 Washington, DC 20036 | 216,584,884 | 7.72% | 5.95% |
| Strategic Global | 100 Bayview Circle, Suite 650 Newport Beach, CA 92660 | 18,497,118 | 0.66% | 0.51% |
| Total | | 747,825,503 | 26.64% | 20.55% |
| MWDBE Passive Manager | | | | |
| RhumbLine Advisors*^ | 265 Franklin Street, 21st Floor, Boston MA 02110 | 624,883,665 | | 17.17% |
| Total Active Assets Under Management | | 2,807,136,961 | | |
| Total Assets Under Management | | 3,639,192,815 | | |

^Manager has more than \$10,000,000,000 in assets under management.

*Manages a passive index account and is not included in the Total Active Mandates percentages.

MWDBE Utilization Disclosure

Municipal Employees' Annuity & Benefit Fund of Chicago

| M/W/DBE Firms | Target | % of Total Active Mandates | % of Total Mandates |
|--|---------------|----------------------------|---------------------|
| Total Minority | 12-18% | 14.83% | 11.44% |
| Key Contributing Factors: Manager termination due to underperformance (African American), firm shut-down (Latino), and Emerging Manager of Managers asset rebalancing (Woman) | | | |
| Female | 3-7% | 11.81% | 26.28% |
| Key Contributing Factors: Terminated manager assets have moved to woman owned index manager | | | |
| Disabled Veteran | best efforts | 0.00% | 0.00% |
| Total | 20-30% | 26.64% | 37.72% |

| Emerging M/W/DBE Firms (AUM < \$10 Billion) | % of Total Mandates | Target |
|---|---------------------|--------------|
| Total Minority | 12.36% | 12-18% |
| Female | 3.16% | 3-7% |
| Disabled | 0.00% | best efforts |
| Total | 15.52% | |
| | | |
| Equity | 28.61% | 15-25% |
| Fixed Income | 21.69% | 15-25% |
| Alternative | 2.20% | 10-20% |

Appendix E: M/W/DBE Broker-Dealer Utilization Policy

Based on the Illinois Pension Code, the Fund must adopt a policy that sets forth goals increasing the utilization of “minority broker-dealers”. Minority broker-dealer shall mean a qualified broker-dealer who meets the definition of “minority owned business”, “female owned business”, or “business owned by a person with a disability”, as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act. The Board encourages the use of minority broker-dealers and sets goals, by asset class, regarding their use. In the event that new asset classes are added to the Fund’s portfolio, the Board will consider setting or revising applicable minority broker-dealer utilization goals prior to funding any new mandate associated with that asset class. Even where specific minority broker-dealer utilization goals are not set or do not apply, the Board encourages the investment managers to make a best-efforts attempt to utilize minority broker-dealers. Compliance with this policy will be considered part of an investment manager’s overall performance. Non-compliance may result in a manager being placed “on watch” for performance reasons. Continued non-compliance can result in the termination of the investment manager.

Investment managers are required to act as fiduciaries when investing Fund assets. As fiduciaries, investment manager decisions are made for the exclusive benefit of the Fund, its participant and their beneficiaries. Investment managers are required to search for “best execution” in selecting brokerage firms for trade execution services. The Board defines best execution as achieving the best possible terms of execution while taking into account both explicit and implicit trading costs. The investment manager’s selection of such brokers shall be in accordance with Article 1 of the Illinois Pension Code (40 ILCS 5/1-101 et seq.), the Investment Advisers Act of 1940 and any other applicable securities laws, rules and regulations.

The asset class specific utilization goals and reporting requirements are as follows:

Equity Managers: Subject to best execution, in accordance with the goals and objectives of the account agreement, each investment manager who manages equities on behalf of the Board in non-commingled accounts shall make every effort to adhere to the following policy goals of the Board:

40% of total domestic equity trading, measured in commission dollars, shall be executed with minority broker-dealers on a calendar year basis.

20% of total international equity trading within mandates dealing predominantly in developed market securities, measured in commission dollars, shall be executed with minority broker-dealers on a calendar year basis.

10% of total international equity trading within mandates dealing predominantly in emerging market securities, measured in commission dollars, shall be executed with minority broker-dealers on a calendar year basis

Managers shall not utilize indirect methods, such as “step-out” commissions, to achieve these goals. Trades executed utilizing electronic trading platforms that are not competitively provided by minority broker-dealers shall be excluded from the trading goals.

Each manager shall submit a monthly progress report to Fund’s Investment Staff following the end of each month that details all trading activity with minority broker-dealers. Progress reports shall also be included in the manager’s quarterly performance report to the Board. Annually, the manager will submit a compliance report that will be reported to the Board. The reports shall separate information by broker-dealer and include:

1. Total shares traded, total trading commissions and average commission cost per share
2. Total shares executed at a commission rate that includes services in addition to execution services; description of additional services provided.
3. List of all forms of payments made to minority broker-dealers, including but not limited to, trading execution commissions, step-out commissions, research purchased and soft dollar credits purchased.
4. Explanation if trading activity is not in compliance with Board objectives.

Fixed Income Managers: Subject to best execution, in accordance with the goals and objectives of the account agreement, each manager that manages fixed income securities on behalf of the Board in non-commingled accounts shall make every effort to initiate trading activity in accordance with the following policy objectives of the Board:

25% of trading volume (based on par value) in U.S. investment grade fixed income securities traded in secondary markets shall be with minority broker-dealers on a calendar year basis.

When purchasing new issue securities, the manager will make every effort to utilize minority broker-dealers who are part of the underwriting syndicate selling the new issues.

Each manager will submit a monthly progress report to Investment Staff following the end of each month that details trading activity with minority broker-dealers. Progress reports will also be included in the manager's quarterly performance report to the Board. Annually, the manager will submit a compliance report that will be reported to the Board. The reports shall separate information by broker-dealer and include:

1. Total volume of securities traded by broker-dealer, based on par value.
2. Explanation if trading activity is not in compliance with Board objectives.

MWDBE Utilization Disclosure

Municipal Employees' Annuity & Benefit Fund of Chicago

| M/W/DBE Brokers | As of 9/30/19 | Target |
|------------------------|----------------------|---------------|
| Domestic Equity | 56.2% | 40% |
| International Equity | | |
| Developed Market | 38.9% | 20% |
| Emerging Market | 27.9% | 10% |
| Fixed Income | 33.1% | 25% |