



Response to the
Illinois Senate Minority and
Female Investment
Questionnaire on
Behalf of the Chicago
Policemen's Annuity and
Benefit Fund

October 2018

**Minority and Female Investment Hearing Questionnaire
Special Committee on State and Pension Fund Investments**

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Emerging Manager Policy

- 1. Describe any changes made to the Emerging Manager Policy and its execution in the last year to improve minority and female-owned business enterprise participation. Are there any asset classes that do not have minority and women representation? Please provide a copy of the policy and describe the specific changes to that policy.**

There were no significant changes to CPABF's policy regarding MWDBE managers in 2018. A copy of the Fund's MWDBE Goals are attached as *Exhibit A*.

- 2. Describe any changes made to the MWDBE Broker/Dealer Policy and its execution in the last year to improve minority and female-owned business enterprise participation. Please provide a copy of the policy.**

There were no significant changes to CPABF's policy regarding MWDBE brokers in 2018. A copy of the Fund's MWDBE Goals are attached as *Exhibit A*.

- 3. Public Act 96-6 required funds to adopt goals across all asset classes. How has the Fund's goals changed since passage of the new law? Please complete Table #2: Asset Managers and Table #3: Brokerage, including the goals for each asset class.**

Yes, the Fund has adopted MWDBE goals for all asset classes. The referenced table #2 and #3 are attached as *Exhibit B*.

- 4. How are you modifying your goals/objectives to Emerging/Diverse firms and broker/dealers given the market/industry changes resulting from passive management vehicles? Are you bifurcating your goals based on active vs. passive management?**

At this time, the Fund does not have MWDBE goals for passive management. While market efficiencies will certainly increase the attractiveness of passive management in traditional asset classes, currently, the bulk of the Fund's investment portfolio is actively managed.

- 5. Please list the Emerging/Diverse firms that manage passive investments for your fund, the amount and the percentage of assets versus your Emerging Manager Program or portfolio.**

The Fund's passive allocation is not managed by a MWDBE manager.

- 6. Please describe the process used to evaluate the appropriate level for goals/objectives for each asset class on MWDBE/Emerging Manager utilization of investment managers and broker dealers. Please explain in detail.**

Annually, the Fund's goals for emerging managers are reviewed. During this review, the Fund's investment staff and consultant consider the appropriateness and attainability of each goal based on several factors including the Fund's asset allocation, future planned investment manager



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searches and the pools of MWDBE managers that could potentially be allocated assets by PABF in each asset class (based on the consultant database and the Staff and consultants' collective knowledge of the MWDBE space and investment managers). The goal on this annual analysis is to establish targets that are realistic, but equitable given industry knowledge and best practices. If it is determined that the Fund's goal should be increased, staff makes an official recommendation to the Board for approval.

Staff

- 1. Please complete Table #1: Staff related to Board of Trustees, investment staff and consulting staff provided in the separate attachment.**

The referenced table #1 is attached as *Exhibit B*.

Consulting Firms

- 1. Please attach a copy of the report required per the Illinois Pension Code Sections 1-113.22 and 1-113.23. If your consultant has not furnished the required report, please explain why.**

The Fund's investment consultant, NEPC submitted the required disclosure report during the January 2018 Investment Committee meeting, a copy of their report is attached as *Exhibit C*.

- 2. Does your consultant have a focus or preferred or approved or any similar manager list? How many Emerging/Diverse firms are on such list (both public and private markets)? What is the process of identifying and approving these managers for potential allocations?**

NEPC does maintain a preferred/focus placement list ("FPL"), currently there are 30 MWDBE investment strategies on NEPC's FPL, across several asset classes. Our main research focus is on the investment thesis of a strategy. The investment thesis serves as the bridge between the historical results of an investment strategy and conviction that strong investment performance will be delivered in the future. The people, philosophy and process of an investment will also play an important role in determining an investment thesis. Identification of an investment thesis focuses not simply on the historical returns, but also on the repeatable nature of the process. Simply put, we are looking for a sustainable and repeatable alpha source. In addition to our robust research process that is utilized for all managers, it is important to note the areas where there are augmentations made in the research process for emerging, minority and women owned firms. When evaluating these managers, we often relax or use slightly different metrics for qualitative factors. We do not however, relax quantitative factors such as performance and risk metrics. As an example, see the following areas to note:

- Investment experience versus length of track record
- Strength of investment process



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- Strength of investment team – acknowledge that the firm may be new and recognize that these professionals have been in the business with a majority firm for many years
- Solid firm infrastructure – potential usage of the outsourcing model for non-investment related activities
- Risk management across the investment portfolio and the business (organization). Ensure that the PM is not wearing too many hats, a phenomenon that often happens with smaller firms
- Ability to add value in the case of active managers

3. How many Emerging/Diverse firms did your consultant recommend in searches without a specific Emerging/Diverse participation mandate in 2017 & 2018? Please differentiate between public (e.g., equities, fixed income) and private markets (e.g., real estate, private equity). In addition, please specify whether the firm was MWDBE.

During 2017, CPABF conducted 4 investment manager/vendor searches, none of these searches were specifically for emerging/diverse managers. However, in line with the requirements of Public Act 96-06, MWDBE managers were encouraged to apply and exempt from all assets under management and firm/team tenure minimum qualifications. With the exception of one search (micro-cap), CPABF received RFP submissions from MWDBE manager(s) and MWDBE manager(s) were invited to a finals presentation. For one of these searches, an Illinois based woman owned hedge fund firm was retained.

Search	MWDBE Firm Hired?	MWDBE Finalist?	Firm
Domestic Equity - SMID Value	No	Yes – 2	
Domestic Equity - Micro Cap	No	No	
Hedge Fund - Long/Short Equity	Yes	Yes – 1	
Vendor Search - Secondaries Broker	No	Yes – 1	

The Fund currently has 3 outstanding RFPs for 2018, more information on the finalists and the outcome of these search can be made available to the committee once the searches have concluded.

4. What ways does your consultant help in creating capacity for Emerging/Diverse managers within the industry?

We seek to increase diversity in the financial services arena by engaging with the MWDBE investment community. We are frequently in attendance at conferences specifically targeted at increasing visibility for diverse managers, such as National Association of Securities Professionals (“NASP”), New American Alliance (“NAA”), National Association of Investment Companies



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(NAIC) and Diverse Asset Managers Initiative (“DAMI”). Additionally, our emerging manager research at NEPC is led by our Manager Diversity Program Advisory Committee. This committee helps to set the strategic direction of our efforts in this area, provide thought leadership, and assist in identifying and vetting top performing MWDBE managers. It is through this committee we have hosted several events specifically for MWDBE firms, giving these firms opportunities to network and engage with members of our team both on the consulting and manager research side. Lastly, when possible we actively seek to include MWDBE firms in investment searches for clients.

Asset Managers

1. How does your plan account for a MWDBE firm that has been sold and is no longer minority-owned?

Once a MWDBE firm is sold or no longer considered MWDBE owned, they are no longer included in the Fund’s diversity numbers.

2. What is your process to verify MWDBE status with managers and broker/dealers?

NEPC uses eVestment to identify MWDBE managers. Additionally, all firms submitting an RFP response to the Fund is required to submit a copy of their MWDBE certification with their response. With respect to brokers, this decision is outsourced to the Fund's investment managers.

RFPs

1. Have you issued any RFPs which preclude MWBE firms from responding due to the minimum requirements of a RFP? For example, have you had minimum levels of insurance or minimum or maximum assets? Please list details and include all RFPs issued across all asset classes from January 1, 2017 to March 31, 2018.

The Fund has not issued any RFPs that would exclude MWDBE firms from responding. In accordance with PA 96-006, the Fund does not exclude any MWBE firms based on assets levels (“AUM”) or inception date of the firms or the proposed products. MWBE firms under consideration for a mandate are required to provide a MWDBE certification.

Search	MWDBE Firm Hired?	MWDBE Finalist?	Firm
Domestic Equity - SMID Value	No	Yes – 2	
Domestic Equity - Micro Cap	No	No	
Hedge Fund - Long/Short Equity	Yes	Yes – 1	
Vendor Search - Secondaries Broker	No	Yes – 1	



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2. What is the process in developing search criteria for RFP searches? If the consultant develops the search criteria, does your staff make adjustments or is the process entirely dictated by your consultant?

The criteria for each RFP is developed on a case by case basis, together PABF's investment staff and consultant consider performance expectation, strategy concentrations (value vs growth, if a concentrated portfolio is appropriate, quantitative vs. fundamental, etc) and the role the potential manager(s) will play in the portfolio (correlation with current managers, diversification factors, etc) these factors are used to flesh out the RFP's scope of services and minimum qualifications. This is a collaborative process, with both Staff, the Fund's investment consultant and Board of Trustees having input. The Board of Trustees must approve all RFPs prior to them being issued.

3. In what ways do you believe that search criteria can be restrictive in RFP search opportunities that limit the universe of Emerging/Diverse manager candidates? What recommendations would you propose to make a search process more inclusive?

Historically, minimum qualifications that have excluded MWDBE firms from being considered for RFPs are minimum assets under management requirement or tenure of firm/team requirements, in each RFP the Fund issues MWDBE firms that are certified are exempt from meeting these requirements.

4. What percent of assets were allocated to MWBE firms in searches not specifically designated for Emerging/Diverse managers?

During 2017 the Fund conducted 4 searches for investment managers. For each of these RFPs, MWDBE managers are excluded from assets under management and firm/team tenure minimum requirements. None of the RFPs the Fund issued were specifically for MWDBE firms.

Search	MWDBE Firm Hired?	MWDBE Firm Finalist?
SMID Value	No	Yes - 2
Micro Cap	No	No
Long/Short Equity	Yes	Yes - 1
Secondaries Broker	No	Yes - 1

Brokers and Transition Managers

1. Please list all underlying managers that did not meet MWBE brokerage goals or have violated your MWBE Brokerage Policy between January 1, 2017 and March 31, 2018, note each instance they did not meet MWBE brokerage goals or have violated your MWBE Brokerage during this time period, note the total commissions paid between January 1,



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2017 and March 31, 2018 and note what if any consequences these managers faced for not meeting those goals and for their violations.

At the end of each calendar year, CPABF's managers report their usage of MWDBE broker commissions. Investment managers who have failed to meet the Fund's brokerage goals are required to submit a formal response explaining why they have failed to meet the brokerage requirement and outline steps the firm is taking to ensure the brokerage goals are met for the next calendar year. Managers are also placed on the Fund's Watch List if they fail to meet the brokerage goals. If the situation is not remedied, they are requested to present to the Board of Trustees, termination or reduction of assets are considered on a case-by-case basis.

For the 2017 calendar year one firm (Artisan) did not meet the fund brokerage goal. In total, the firm allocated 32% of total commissions to MWDBE brokerage firms, this is 3% shy of the brokerage target. For the YTD period ending March 31, 2018, the firm has allocated 42% of its brokerage commission dollars to MWDBE firms, this exceeds the Fund's policy by 7%.

Please see Exhibit C for specific broker and commissions details.

- 2. Are the Fund's transition managers required to meet or exceed the Fund's minority/women owned brokerage firm utilization goals, if the Fund has goals, when conducting open market trades during transitions? Please explain.***

Yes, transition managers are required to meet or exceed the Fund's brokerage goals. Following the completion of a transition, the selected transition manager is required to submit a report on their brokerage commissions paid during the transition event. If the firm has failed to meet the Fund's brokerage target, this failure will be taken into consideration when evaluating the TM during future transition bids.

- 3. Is there a minimum allocation your plan can allocate to trade with an MWBE firm? Is there a minimum volume or percent your plan can trade with a MWBE firm for each asset class? If so, please note the minimum(s). Please provide more detail by completing Table #2: Asset Managers and Table #3: Brokerage, including the goals for each asset class.***

The minimum brokerage goals are outlined in the Fund's investment policy. The Board of Trustees expects all managers to meet or exceed the established brokerage goals. A copy of the goals has been provided as Exhibit A. The referenced table is attached as Exhibit D.

Fees

- 1. What are your fee negotiation practices/policies? How do they differ from your traditional managers vs. your Emerging/Diverse managers?***



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Newly retained investment managers are asked to submit their best fee proposal, this fee proposal is compared to their peers for appropriateness. This is typically discussed during contract negotiations and memorialized in the manager's investment management contract. This process is used regardless of the firm's ownership. Additionally, during annual asset class reviews, each manager (currently managing assets for the Fund) are reviewed for appropriateness based on their peers managing similar investment strategies for other public fund clients. If a manager's fees are found to be significantly higher than their peers, the manager is asked to propose a more attractive fee for the Fund. This process is used for all investment vendors regardless of ownership.

- 2. Are there separate fee models given to your traditional managers vs. the Emerging/Diverse managers? If so, please describe how the fee models differ.**

No.

- 3. Have you made any recent decisions on firing and hiring an asset manager in the last 3 years solely based upon fees? If so, please give the MWBE status of the manager fired and the manager hired.**

No.

- 4. If you have hired a Manager of Managers, what fees are paid to your manager of managers? What amount of the manager of managers fees are paid to the underlying managers? Please be specific and request this information from your Manager of Managers if necessary.**

The Fund does not utilize Manager of Managers programs.

Graduation

- 1. Does your plan have a formal graduation policy for the Emerging/Minority Managers in your program? If so, please provide and summarize the policy. If not, please state whether your plan is interested in creating such a policy and if so, please describe the criteria that would be included in such a policy. If you are not interested in developing a formal graduation policy, please explain why.**

The Fund does not utilize Manager of Managers programs.

- 2. Does your plan have a direct Emerging/Diverse managers program or is your exposure to these types of managers by way of Manager of Managers platforms?**

The Fund does not utilize Manager of Managers programs.



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- 3. To the extent a Manager of Managers platform is utilized to access Emerging/Diverse managers, is there a process in place to graduate underlying managers from the Fund of Fund program?**

The Fund does not utilize Manager of Managers programs.

- 4. When conducting a manager search, are the managers in your Emerging/Diverse manager program given first consideration before initiating a search? If they are not given first consideration, please explain in detail why not and note if there are any legal considerations prohibiting this practice.**

The Fund does not utilize Manager of Managers programs.





Exhibit A:
Investment
Managers and
Brokers Diversity
Goals

1 **INVESTMENT MANAGER SELECTION POLICY**

2
3 Adopted June 23, 2005
4 Revised October 29, 2009
5 Revised July 25, 2011
6 Revised November 17, 2014
7 Revised July 27, 2015

8
9 Whereas, the Retirement Board of the Policemen’s Annuity and Benefit Fund of Chicago (the “Board”) was
10 created by an Act of the General Assembly of the State of Illinois for the express purpose of administering the
11 Policemen’s Annuity and Benefit Fund of Chicago (the “Fund”) for the benefit of the Fund’s participants and their
12 beneficiaries (40 ILCS 5/5-101); and

13
14 Whereas, the Board has the authority to invest the reserves of the Fund (40 ILCS 5/5-187); and

15
16 Whereas, the Board, as fiduciaries, is required to exercise investment authority with the care, skill, prudence and
17 diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with
18 such matters would use in the conduct of an enterprise of a like character with like aims (40 ILCS 5/1-109); and

19
20 Whereas, the Board, to promote investment opportunities, has, as prudent and necessary, retained and
21 delegated its investment authority to appoint well-recognized investment managers, as fiduciaries, to manage
22 the assets of the Fund (40 ILCS 5/1-109.1(a)); and

23
24 Whereas, it is and continues to be the intention of the Board to administer a portion of the Fund’s assets in
25 compliance with the declared public policy of the State of Illinois, to wit: to encourage the trustees of public
26 employee retirement systems to use emerging and minority investment managers in managing their system’s
27 assets to the greatest extent feasible within the bounds of financial and fiduciary prudence, and to take
28 affirmative steps to remove any barriers to the full participation of emerging and minority investment managers in
29 investment opportunities afforded by those retirement systems (40 ILCS 5/1-109.1(4) and (9)); and

30
31 Whereas, it is also the intention of the Board, within the bounds of financial and fiduciary prudence, to afford
32 opportunities for managing the Fund’s assets to Illinois emerging and minority investment management firms;
33 and

34
35 Whereas, it is the intention of the Board, in the event of the funding or termination of an investment manager, or
36 a transfer of assets, that the Fund utilize transition investment management services. To this end, the Board has
37 retained and delegated ongoing transition investment management authority to investment managers acting in a
38 fiduciary capacity to the Fund, and such transition investment manager selection for specific transition events is
39 based on the ability of the transition investment manager to minimize the costs and risks associated with such
40 events; and

41
42 Whereas, it is the intention of the Board that during such interim periods wherein there may be, or are, funds and
43 assets that periodically are not under the management and supervision of transition investment managers or
44 investment managers, including during any transition of investment management services or rebalancing of
45 assets, that in accordance with Section 1(b) of 40ILCS 5/1-109.1, the Fund’s Executive Director or Chief
46 Investment Officer, as fiduciaries, take such actions they deem necessary and prudent, including the executing
47 of contracts and trading of securities and the Fund’s assets, until such funds and assets are transitioned to a
48 transition investment manager or under the management of an investment advisor, as the case may be, or the
49 rebalancing of assets has taken place.

50
51

1 **THEREFORE, BE IT RESOLVED THAT,**

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3 It shall be the policy of the Board to use emerging investment management firms, as defined in 40 ILCS 5/1-
4 109.1(4), and minority investment management firms, as defined in 40 ILCS 5/1-109.1(9), to the greatest extent
5 feasible within the bounds of financial and fiduciary prudence, which among other things shall be achieved
6 through consultation and pursuant to the advice of the Fund's investment advisors.

7
8 It shall be the policy of the Board to ensure that no barrier exists to the full participation of emerging and minority
9 investment managers in the investment opportunities afforded by the Fund. The Board shall attempt to achieve
10 full participation of emerging and minority investment managers as follows:

11
12 (1) The Fund's investment advisor shall include in any investment manager search no less than
13 three qualified emerging or minority management firms to provide the investment product or strategy sought, and
14 if less than three qualified emerging or minority investment management firms are recommended, the investment
15 advisor shall notify the Board of the reason(s) for the non-inclusion. A qualified manager is defined as one who
16 meets the selection criteria upon which the search is organized; and

17
18 (2) The Fund's investment advisor shall annually advise the Board of the emerging and minority
19 investment managers that have been added to the database used by the investment advisor in the conduct of
20 searches; and

21
22 (3) The Fund's investment advisor shall include in all manager searches no less than three Illinois
23 firms that provide the investment product or strategy sought. If less than three qualified Illinois firms are
24 recommended, the investment advisor shall notify the Board of the reason(s) for the non-inclusion. An Illinois
25 firm is defined as one registered to do business, and having a principal office in the State of Illinois; and

26
27 (4) The Board shall take significant steps to contract with minority owned businesses⁸, female
28 owned businesses⁹ and businesses owned by a person with a disability¹⁰ (collectively minority, women and
29 disability business enterprise or "MWDBE")¹¹ through one or more of the following relationships: retaining
30 qualified MWDBE firms directly as active or passive portfolio managers as a result of a generalized or special
31 search, or retaining a consultant to assemble a portfolio of MWDBE firms on a fully discretionary and/or
32 collaborative basis and or through a fund-of-fund structure.

33
34 It shall be the policy of the Board, always mindful of its fiduciary obligation to its past, present and future
35 annuitants, to strive to achieve the following goals¹² in awarding investment manager contracts:

36

By Asset Class (for Emerging Investment Managers)	Range	
	Low	High
Equity	7%	9%
Fixed Income	2%	4%
Alternatives	3%	4%

37
⁸ "Minority owned business" shall have the definition set forth in 30 ILCS 575/2(A)(3).

⁹ "Female owned business" shall have the definition set forth in 30 ILCS 575/2(A)(4).

¹⁰ "Business owned by a person with a disability" shall have the definition set forth in 30 ILCS 575/2(A)(5).

¹¹ "MWDBE" owners must, in addition to the definitions set forth in 30 ILCS 575/2(A)(3)-(5), have an interest in capital and earnings commensurate with his or her percentage of ownership.

¹² The percentage goals are based on the Fund's total dollar amount of the investment manager contracts. The Board shall review these goals annually by June 30th of each calendar year.

By Asset Class (for Minority Investment Managers)	Range	
	Low	High
Equity	2%	4%
Fixed Income	0%	2%
Alternatives	0%	1%
By Asset Class (for Emerging and Minority Investment Managers-TOTAL)		
	Range	
	Low	High
Equity	11%	13%
Fixed Income	3%	5%
Alternatives	4%	5%
By Category (for Emerging Investment Managers)		
	Range	
	Low	High
Minority-owned	4%	5%
Women-owned	1%	2%
Person with disability-owned	0.25%	0.5%
By Category (for Minority Investment Managers)		
	Range	
	Low	High
Minority-owned	2%	4%
Women-owned	0%	1%
Person with disability-owned	0%	0.25%
By Category (for Emerging and Minority Investment Managers)		
	Range	
	Low	High
Minority-owned	4%	5%
Women-owned	1%	2%
Person with disability-owned	0.25%	0.5%

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It shall be the policy of the Board, once it determines to select a manager(s) for hire, to make a motion in open session to retain the services of such manager(s) subject to finalization of the contract to the satisfaction of the Executive Director, Chief Investment Officer and Board Counsel.

It shall be the policy of the Board that the Executive Director or Chief Investment Officer, once negotiations are complete, to notify the Chairman of the investment committee that a contract(s) has been approved for retention. At that point, should transition investment management services be needed to fund such commitment, the Board further hereby delegates authority to and does direct the Executive Director or Chief Investment Officer to work with the Board's investment consultant to obtain transition investment management services. At the discretion of the Executive Director or Chief Investment Officer, a bid process may or may not be used depending on the transition needs of the Fund at the time of the proposed action.

The Board further hereby delegates authority to and does direct the Executive Director or Chief Investment Officer, once a new mandate has been funded in whole or in part, to report to the Board in open session, the pertinent terms of the agreed to contractual relationship, the manner in which such mandate was funded in whole or in part, and any other details deemed appropriate. The Board, in enacting this aforementioned policy, understands that its fiduciary responsibility can best be met by closing any investment activity from public

1 scrutiny until such time as the Fund's staff has been able to execute Board investment initiatives, and once
2 complete, a full report in open session shall be reported by the Fund's staff for the public record.

3
4 It shall be the policy of the Board, once it determines to terminate a manager(s), to make a motion in open
5 session to terminate such manager(s). Further, the Board hereby delegates authority to and does direct the
6 Executive Director or Chief Investment Officer, once the transfer of assets from such terminated manager(s) has
7 been completed, to report such fact to the Board in open session.

8
9 It shall be the policy of the Board that the Fund's Executive Director and Chief Investment Officer shall have
10 authority to execute contracts, upon completion of a legal review of any such contract, and trade securities and
11 the Fund's assets during any interim periods, which period should not exceed 45 days, wherein there may be, or
12 are, funds and assets that are not under the control and supervision of the transition investment managers or
13 investment managers, or the rebalancing of assets is being implemented. The Board hereby delegates authority
14 to and does direct the Fund's Executive Director or Chief Investment Officer, as fiduciaries, to take such actions
15 they deem necessary and prudent, including the executing of contracts and trading of securities and the Fund's
16 assets, during any such above-described interim periods.

17
18 It shall be the policy of the Board that all investment managers shall comply with all statutes currently applicable
19 to the Board and the Fund, as may be amended, supplemented, or added from time to time.

1
2 **Section 5**

3 **INVESTMENT MANAGER ADMINISTRATION**

4
5 **BROKERAGE POLICY**

6
7 **RESOLUTION**

8
9 Adopted May 25, 1993
10 Revised November 26, 2002
11 Revised June 23, 2005
12 Revised October 29, 2009
13 Revised March 24, 2011
14 Revised October 24, 2013
15 Revised November 17, 2014

16
17 Whereas, the Retirement Board of the Policemen's Annuity and Benefit Fund of Chicago (the "Board"), was
18 created by an Act of the General Assembly of the State of Illinois for the express purpose of administering the
19 Policemen's Annuity and Benefit Fund of Chicago (the "Fund") for the benefit of the Fund's participants and their
20 beneficiaries (40 ILCS 5/5-101); and

21
22 Whereas, the Board has the authority to invest the reserves of the Fund (40 ILCS 5/5-187); and

23
24 Whereas, the Board, as fiduciaries, is required to exercise investment authority with the care, skill, prudence and
25 diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with
26 such matters would use in the conduct of an enterprise of a like character with like aims (40 ILCS 5/1-109); and

27
28 Whereas, the Board recognizes a commitment to the success of minority owned businesses³, female owned
29 businesses⁴ and businesses owned by a person with a disability⁵ (collectively minority, women and disability
30 business enterprise or "MWDBE")⁶, and wishes to promote opportunities to MWDBE firms in the City of Chicago
31 and within the State of Illinois (40 ILCS 5/1-109.1(7)); and

32
33 Whereas, the MWDBE brokerage firm and its operating members must be registered with the appropriate federal
34 and state agencies and must have an established record of business performance through a history of having
35 provided good execution and reporting services; and

36
37 Whereas, the Board supports the aims of the Equal Employment Opportunity Commission, and acknowledges
38 the desirability of open access to competition on the part of MWDBE for the opportunity to provide brokerage
39 services to the Fund (40 ILCS 5/1-109.1(7)); and

40
41 Whereas, while recognizing this initiative, the Board acknowledges its fiduciary responsibilities to the Fund
42 regarding best price and execution for all brokerage business executed on behalf of the Fund (40 ILC/1-113.20).

43
44
³ "Minority owned business" shall have the definition set forth in 30 ILCS 575/2(A)(3).

⁴ "Female owned business" shall have the definition set forth in 30 ILCS 575/2(A)(4).

⁵ "Business owned by a person with a disability" shall have the definition set forth in 30 ILCS 575/2(A)(5).

⁶ "MWDBE" owners must, in addition to the definitions set forth in 30 ILCS 575/2(A)(3)-(5), have an interest in capital and earnings commensurate with his or her percentage of ownership.

1 **THEREFORE, BE IT RESOLVED THAT,**

2
3 The Board approves a policy of offering opportunities to MWDBE to provide brokerage business to the Fund.
4 This policy, which is established to promote the efficient and continued operation of the Fund, is as follows⁷:

5
6 **U.S. Equity Managers**

7
8 Subject to best execution and where funds are not commingled, each active U.S. Equity manager shall:

- 9
10 A. Execute trades at an average per share cost not to exceed 3.5¢ per share.
11
12 B. If possible, direct 35% or more of the total commission dollars to MWDBE with a significant presence in
13 Chicago, and preferably with an office located within the City of Chicago, or in the State of Illinois.
14
15 C. Submit a quarterly progress report, including:
16
17 i. MWDBE utilization in dollars and as a percentage of total brokerage, the breakdown of
18 commission dollars and percentage of total commissions allocated to a) minority-, b) women-,
19 and c) person with disability owned-business enterprises (please highlight double-counting);
20 ii. dollar amount and percentage of total brokerage that is stepped out; and
21 iii. dollar amount and percentage of total brokerage that is allocated to a) enterprises with a
22 significant presence in Chicago, and b) enterprises with a significant presence in Illinois.
23
24 D. If an U.S. Equity manager fails to comply with the above guidelines two quarters in a row, the U.S.
25 Equity manager shall be scheduled to appear before the Board to explain why it was unable to achieve
26 its targets.

27
28 **Non-U.S. Equity Managers**

29
30 Subject to best execution and where funds are not commingled, each active Non-U.S. Equity manager shall:

- 31
32 A. Except for dedicated Non-U.S. Small Cap and Emerging Market Equity mandates, execute trades at an
33 average per share cost not to exceed 25bps per share.
34
35 B. For dedicated Non-U.S. Small Cap Equity and Emerging Market Equity mandates, execute trades at
36 an average per share cost not to exceed 30bps per share.
37
38 C. If possible, direct 10% or more of the total commission dollars to MWDBE with a significant presence in
39 Chicago and Illinois, and preferably with an office located within the City of Chicago, or in the State of
40 Illinois.
41
42 D. Submit a quarterly progress report, including:
43

⁷ The Board shall review its brokerage policy annually by March 31st of each calendar year.

- 1 i. MWDBE utilization in dollars and as a percentage of total brokerage, the breakdown of
- 2 commission dollars and percentage of total commissions allocated to a) minority-, b) women-,
- 3 and c) person with disability owned-business enterprises (please highlight double-counting);
- 4 ii. dollar amount and percentage of total brokerage that is stepped out; and
- 5 iii. dollar amount and percentage of total brokerage that is allocated to a) enterprises with a
- 6 significant presence in Chicago, and b) enterprises with a significant presence in Illinois.

- 7
- 8 E. If a Non-U.S. equity manager fails to comply with the above guidelines two quarters in a row, the Non-
- 9 U.S. equity manager shall be scheduled to appear before the Board to explain why it was unable to
- 10 achieve its targets.

11 **Fixed Income Managers**

12

13

14 Subject to best execution and where funds are not commingled, each active Fixed Income manager shall:

- 15
- 16 A. If possible, direct 25% or more of the total commission dollars to MWDBE with a significant presence in
- 17 Chicago, and preferably with an office located within the City of Chicago, or in the State of Illinois.
- 18
- 19 B. Submit a quarterly progress report, including:
 - 20
 - 21 i. MWDBE utilization in dollars and as a percentage of total brokerage, the breakdown of
 - 22 commission dollars and percentage of total commissions allocated to a) minority-, b) women-,
 - 23 and c) person with disability owned-business enterprises (please highlight double-counting);
 - 24 ii. dollar amount and percentage of total brokerage that is stepped out;
 - 25 iii. dollar amount and percentage of total brokerage that is allocated to a) enterprises with a
 - 26 significant presence in Chicago, and b) enterprises with a significant presence in Illinois; and
 - 27 iv. The Fixed Income manager's process and assumptions in estimating trading costs.
- 28
- 29 C. If a Fixed Income manager fails to comply with the above guidelines two quarters in a row, the Fixed
- 30 Income manager shall be scheduled to appear before the Board to explain why it was unable to achieve
- 31 its targets.
- 32
- 33



Exhibit B:
Tables 1-3
MWBDE Manager and
Brokerage Reporting

TABLE #1: STAFF

Please express the composition as a percentage.

Board of Trustees	
African-American	22%
Latino(a)	11%
Asian-American	0%
Non-Minority Female	11%

Investment Staff	
African-American	0
Latino(a)	0
Asian-American	0
Non-Minority Female	100%

Consultant Staff	Client Team	Firm Wide
African-American	40%	6%
Latino(a)	0%	3%
Asian-American	20%	8%
Non-Minority Female	0%	30%

Please identify both overall firm and client team.

TABLE #2: ASSET MANAGERS

The special committee recognizes that not all funds/systems invest in the same asset classes and/or have completed FY 18. Therefore, please change the asset classes and years below as you see fit while maintaining the overall format of the table.

EMERGING/DIVERSE PLAN GOALS							
	2011	2012	2013	2014	2015	2016	2017
Domestic Equity	12%	12%	12%	11-13%	11-13%	11-13%	11-13%
International Equity							
Fixed Income	4%	4%	4%	3-5%	3-5%	3-5%	3-5%
Private Markets							
Real Estate	4%	4%	4%	4-5%	4-5%	4-5%	4-5%
Private Equity							
Hedge Funds							
*If a goal was not set for specific private market asset classes, please input the goal for private markets in general							
% OF ASSET MANAGED							
	2011	2012	2013	2014	2015	2016	2017
African-American	9%	8%	7%	7%	7%	8%	4%
Latino(a)	1%	1%	1%	1%	4%	4%	4%
Asian-American	0%	0%	0%	0%	0%	0%	0%
Female	0%	0%	0%	0%	0%	1%	2%
Other	0%	1%	1%	2%	2%	2%	2%
% OF FEES PAID TO MWBE							
	2011	2012	2013	2014	2015	2016	2017
African-American	9%	6%	6%	7%	9%	9%	7%
Latino(a)	1%	1%	1%	1%	1%	1%	2%
Asian-American	0%	0%	0%	0%	0%	0%	0%
Female	0%	2%	2%	2%	1%	1%	2%
Other	1%	1%	1%	1%	2%	2%	2%
% OF ASSET MANAGED BY ILLINOIS MWDBE FIRMS							
	2011	2012	2013	2014	2015	2016	2017
Total	9%	8%	4%	4%	4%	5%	2%
% OF FEES PAID TO ILLINOIS MWDBE FIRMS							
	2011	2012	2013	2014	2015	2016	2017
Total	6%	6%	6%	3%	3%	6%	4%
% OF ASSETS MANAGED BY MWDBE FIRMS							
	2011	2012	2013	2014	2015	2016	2017
Large Cap Equity	7%	6%	4%	5%	5%	6%	3%
Mid Cap Equity				0%	0%	0%	0%
Small Cap Equity				0%	0%	0%	0%
Global Equity				0%	0%	0%	0%
International Equity	0%	0%	3%	3%	3%	4%	4%
International Small Cap Equity	0%	0%	0%	0%	0%	0%	0%
Emerging Markets Equity	0%	0%	0%	0%	0%	0%	0%
Fixed Income	1%	1%	1%	1%	4%	4%	4%
Real Estate	2%	1%	0%	0%	0%	0%	0%
Private Equity	1%	2%	2%	1%	1%	0%	0%
Hedge Funds	0%	0%	0%	0%	0%	1%	1%
Infrastructure	0%	0%	0%	0%	0%	0%	0%

Note:

Some numbers may not balance due to rounding

TABLE #3: BROKERAGE

The special committee recognizes that not all funds/systems invest in the same asset classes and/or have completed FY 18. Therefore, please change the asset classes and years below as you see fit while maintaining the overall format of the table.

UTILIZATION GOALS

	2011	2012	2013	2014	2015	2016	2017
Domestics Equity	35%	35%	35%	35%	35%	35%	35%
International Equity	10%	10%	10%	10%	10%	10%	10%
Fixed Income	25%	25%	25%	25%	25%	25%	25%
REITs	0%	0%	0%	0%	0%	0%	0%

DOMESTIC EQUITY

% of Commissions Paid to MWBE	2011	2012	2013	2014	2015	2016	2017
African-American	<i>During this period CPABF did not track brokerage activity by MWDBE Category</i>			33%	47%	37%	37%
Latino(a)				0%	0%	3%	3%
Asian-American				1%	5%	0%	0%
Female				9%	4%	0%	5%
Other				10%	0%	1%	0%
Total MWDBE	16%	26%	0%	54%	55%	41%	45%
IL Based	Information not available			46%	50%	34%	30%

INTERNATIONAL EQUITY

% of Commissions Paid to MWBE	2011	2012	2013	2014	2015	2016	2017
African-American	<i>During this period CPABF did not track brokerage activity by MWDBE Category</i>			10%	10%	10%	13%
Latino(a)				5%	6%	1%	0%
Asian-American				0%	0%	0%	0%
Female				0%	4%	11%	14%
Other				6%	0%	2%	0%
Total MWDBE	18%	18%	0%	20%	20%	24%	27%
IL Based	Information not available			20%	20%	20%	20%

FIXED INCOME

% of Commissions Paid to MWBE	2011	2012	2013	2014	2015	2016	2017
African-American	<i>During this period CPABF did not track brokerage activity by MWDBE Category</i>			7%	11%	12%	20%
Latino(a)				0%	0%	0%	3%
Asian-American				0%	0%	0%	0%
Female				0%	0%	0%	0%
Other				3%	11%	13%	5%
Total MWDBE	18%	29%	0%	11%	22%	25%	28%
IL Based	Information not available			10%	22%	12%	20%



Exhibit C: Investment Consultant Disclosure

Disclosure of Compensation and Economic Opportunity Disclosures

NEPC is providing the following disclosures as required in Illinois Public Act 100-0542. The data provided is as of January 1, 2018.

1. The total number of searches for investment services made by the consultant in the prior calendar year:

Number of Searches
416

2. The total number of searches for investment services made by the consultant in the prior calendar year that included (i) a minority owned business, (ii) a female owned business, or (iii) a business owned by a person with a disability:

Classification	Number of Searches
Minority	54
Female	35
Person with a Disability	none

3. The total number of searches for investment services made by the consultant in the prior calendar year in which the consultant recommended for selection (i) a minority owned business, (ii) a female owned business, or (iii) a business owned by a person with a disability:

Contract	Recommended for Selection
Minority	50
Female	35
Person with a Disability	none

4. The total number of searches for investment services made by the consultant in the prior calendar year that resulted in the selection of (i) a minority owned business, (ii) a female owned business, or (iii) a business owned by a person with a disability:

Contract	Selected
Minority	3
Female	7
Person with a Disability	none

5. The total dollar amount of investment made in the previous calendar year with (i) a minority owned business, (ii) a female owned business, or (iii) a business owned by a person with a disability that was selected after a search for investment services performed by the consultant:

Contract	Total \$ of Investment Made
Minority	\$89.8 million
Female	\$225.2 million
Person with a Disability	None

Note: Most of NEPC's clients hire NEPC on an advisory basis, so NEPC does not generally make an investment with any investment manager. We have reported the total dollars invested by our clients in each category following a search performed by NEPC.

6. All compensation and economic opportunity received in the last 24 months from investment advisors retained by the board of a retirement system, board of a pension fund, or investment board:

Total Compensation & Economic Opportunity
2016: \$384,524
2017: \$468,648

Note: NEPC does not accept compensation from any investment managers in connection with a recommendation to a client, however NEPC has four clients (out of approximately 400) that could be considered to be an "investment advisor," an affiliate or a holding company. Compensation from these four clients makes up less than one half of 1% of NEPC's annual revenue; the total is displayed above.

7. Any compensation or economic opportunity received in the last 24 months from an investment advisor that is recommended for selection by the consultant:

Total Compensation & Economic Opportunity
2016: \$304,524
2017: \$388,648

Note: The figures above represent the total compensation received by NEPC from three investment firms that may have been recommended to clients, however none of the compensation is connected to any individual product or strategy that is recommended to clients. (NEPC provides advice regarding the employee retirement plans of the companies, or research connected to the selection of third party investment managers.) Excludes one holding company that has sub-advisers that may have been recommended for selection.