MUNICIPAL EMPLOYEES' ANNUITY & BENEFIT FUND OF CHICAGO
INVESTMENT POLICY DOCUMENT

INTRODUCTION

The Retirement Board of the Municipal Employees' Annuity and Benefit Fund of Chicago adopted this investment policy document on **JUNE 1, 2009**. The Retirement Board will review this document at a minimum annually.

The Municipal Employees' Annuity & Benefit Fund of Chicago (the "Fund")
The Fund is a single-employer defined benefit public employee retirement system (PERS) created in 1922 by virtue of an Act of the State of the Illinois Legislature. The Fund is administered in accordance with Illinois Pension Code, Chapter 40, Act 5, Articles 1,8, and 20. The complete text that governs the Fund can be reviewed at the State of Illinois' website, www.state.il.us.
This investment policy document applies solely to the investment assets of the Municipal Employees' Annuity and Benefit Fund of Chicago.

STATEMENT OF PURPOSE

The purpose of this document and its attached appendices is to set forth the Retirement Board's (the "Board") investment objectives and procedures to invest the reserves of the Fund in accordance with the Illinois Pension Code, Article 1, and to define the duties and responsibilities of the Board and all agents acting on their behalf. This document is intended to be a reflection of the Board's duties and responsibilities in regards to the investment of Fund reserves under the Illinois Pension Code. In the event of a conflict between this document and the Illinois Pension Code, the Illinois Pension Code prevails.

INVESTMENT GOALS AND OBJECTIVES

The Board sets the goals and objectives of the investment portfolio solely in the interest of the participants and beneficiaries of the Fund. Steps include:

1) Determine an appropriate rate of return objective within an acceptable level of risk.
2) Incorporate an allocation of assets focused on achieving the determined risk/return objectives over time.
3) Ensure the necessary liquidity to meet monthly member benefits.
4) Retain the necessary advisors and staff to implement, monitor, and evaluate the Board's investment goals and objectives.

Based on these steps, the Board set the following performance goals and objectives for the Fund's investment portfolio:

1) Achieve, net of fees, an actuarially assumed annual rate of return over time.
2) Outperform, net of fees, a policy benchmark over a market cycle (3 to 5 years) within an acceptable level of risk.
3) Rank in the top half of the Investment Consultant's universe of institutional investors with similar risk/return parameters consistently over time.
4) In conjunction with receiving the actuarially required contributions, to fully fund the actuarially accrued liability – entry age, over time.

INVESTMENT GUIDELINES

Prudent Person Rule

The Board invests Fund assets under the 'Prudent Person Rule', which states:

" A fiduciary with respect to a retirement system or pension fund… shall discharge his or her duties with respect to the retirement system or pension fund solely in the interest of the participants and beneficiaries and…" Will invest Fund reserves *"with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matter would use in the conduct of an enterprise of a like character with like aims…"*

Investment Guidelines

Guidelines are established in concurrence with the goals and objectives of the investment portfolio. Example guidelines include:

1) Credit quality requirements for fixed income securities
2) Interest rate risk parameters
3) Allowable securities
4) Country / Geographic exposure
5) Property type exposure
6) Residual Cash caps
7) Limited exposure to specific investment category
8) Limit on individual holding size
9) Income generation requirements
10) Utilization of derivative or synthetic products
11) Utilization of leverage

Each manager's guidelines shall be set at the time of hiring and are included in their contractual agreement. Any manager deviation from the guidelines without the approval of the Board may lead to the dismissal of the investment manager.

Restriction on Investments

Iran's Energy Sector

Subject to an investment manager's exercise of fiscal and fiduciary duty, investment managers should refrain from purchasing or holding securities where the company has been identified as doing business in Iran's energy sector if the manager determines that the same investment goals concerning risk, return and diversification can be achieved through the purchase or holding of another security.

These provisions governing restrictions on investment expire, by their terms, on January 1, 2014, unless extended by further Board action.

Assault Weapon Manufacturers

Subject to an investment manager's exercise of fiscal and fiduciary duty, investment managers should refrain from purchasing or holding securities of an assault weapon manufacturer if the manager determines that the same investment goals concerning risk, return and diversification can be achieved through the purchase or holding of another security. For purposes of this policy, "assault weapon" shall mean a weapon identified as an assault weapon the civilian possession of which is prohibited by the Municipal Code of Chicago or the laws of the State of Illinois and "assault weapon manufacturer" shall mean any entity that derives revenue from the sale of such prohibited assault weapons for civilian use.

These provisions governing restrictions on investment expire, by their terms, on January 1, 2015, unless extended by further Board action.

ASSET ALLOCATION

Diversification

The Board sets an optimal risk/return profile and employs multiple asset classes and management styles to achieve it. By diversifying Fund assets, the Board reduces the correlation of portfolio assets, which reduces the level of risk taken and increases the probability of achieving desired returns.

Target Allocation Mix

To ensure desired diversification, the Board establishes a **Target Allocation**. This mix defines the targeted exposure from a macro level; equities (domestic and international), fixed income securities, real estate, and alternatives, and to a more micro level; investment styles (growth stocks vs. value stocks) or capitalization (large-cap stocks vs. small-cap stocks). The Board's current Target Allocation Mix can be found in Appendix A.

LIQUIDITY NEEDS & REBALANCING PROCEDURES

The operating cash flow needs of the Fund normally require the liquidation of investment assets monthly. To help minimize transition costs, the Board attempts to coincide these liquidity needs with proper rebalancing procedures to move asset allocations closer to determined targets. To incorporate this process, the Board has delegated to the Chief Investment Officer, in conjunction with the Investment Consultant the ability to liquidate assets, as necessary, to meet the monthly operating requirements, subject to fiduciary and fiscal prudence. Liquidity opportunities will focus on allocations that exceed their target to help move them closer to target. Since the Funds operating cash flow needs are known well in advance, Fund staff generally will present the Board the plan of action for required liquidity for their concurrence prior to the liquidation of assets. In the event prior Board approval is not obtained, Fund staff will notify the Board of the liquidation at the next regularly scheduled Board meeting.

REPORTING / PERFORMANCE MONITORING

Timely reporting of manager activity and performance is required for monitoring the portfolio management process to ensure it is in unison with the Board's investment objectives. The Fund is a long-term investor. All other factors held constant, managers will be reviewed based on their performance over an investment cycle, usually three to five years. Even with a long-term investment horizon, manager performance is formally reviewed on a quarterly basis. The Board relies on the investment consultant and Fund staff to provide timely reporting.

Performance Benchmarks & Review

Market indices are considered a reflection of a broad group of investments sharing certain characteristics. Indices are utilized to evaluate a manager's ability to add value over that index (alpha) over time. The Board and the investment manager mutually agree upon indices utilized and performance goals over reasonable time periods to evaluate manager performance.

Performance objectives are negotiated at time of contract and are included within the investment management agreement. Performance of active mandates are reviewed over a market cycle (3 to 5 years) in comparison to an appropriate index and a mutually agreed upon performance objective expressed in terms of value added over the index, net of management fees. Over a market cycle an active manager should rank above median in comparison to their peers within the investment consultant's performance universe. Portfolio volatility shall stay within mutually agreed upon levels.

When evaluating performance of an investment manager, the Board utilizes a **"watch list"** process to identify managers that require closer monitoring. Actions the Board may consider in determining if a manager should be placed on watch include:

1) Performance of account compared to stated goals and objectives
2) Material violations of the guidelines of the account
3) Failure to comply with the terms of the contract
4) Sale or merger of the management firm
5) Change in key personnel related to the portfolio management of the investment strategy.
6) Legal action taken against the management firm
7) Unsatisfactory client service

Management firms placed on watch may be required to meet with the Board and will submit monthly activity reports throughout the time they are on watch. Removal from the watch list is usually because the manager has resolved the issue that led to the designation or the Board has determined to terminate the account. Watch periods normally will not exceed four quarters or one year.

ROLES AND RESPONSIBILITIES

To minimize risk and maximize return, the Board diversifies Fund assets by employing a multi-strategy / multi-manager approach. The Board utilizes external advisors and investment staff to help carry out the prudent investment of Fund reserves. An agent acting on behalf of the Board will act as a fiduciary and shall discharge his or her duties with respect to the Fund solely in the interest of the Fund's participants and beneficiaries.

The Board

The Board is responsible for carrying out the requirements of the law governing the Fund, developing policies for Fund administration, and creating goals and objectives for the exclusive benefit of Fund members. The Board will:

1) Create an investment policy document
2) Create necessary ancillary directives to augment the investment policy
3) Set investment goals, objectives, and guidelines
4) Diversify Fund assets to minimize non-systematic risk
5) Select and retain outside professionals acting as fiduciaries related to the proper investment of Fund assets
6) Ensure proper liquidity
7) Monitor performance and make necessary changes to the portfolio if deemed prudent
8) Defray reasonable expense
9) Initiate an Asset/Liability Study and Asset Allocation review when prudent; minimal 3 to 5 years

All authority related to the Board shall be exercised solely by the Board as a whole, and not by individual Board members.

Board Advisors

The Board utilizes external investment advisors to provide professional services to prudently invest the assets of the Fund in the sole interest of the participants and beneficiaries of the Fund. Board advisors acknowledge that they are fiduciaries and will act in the sole interest of the Fund. Utilization of external investment advisors include:

1) Investment Consultants
2) Investment Management Firms
3) Custodial Service Providers

Investment consultant(s) are retained by the Board to provide advice and counsel in establishing the Fund's investment goals, objectives, and guidelines, setting a prudent allocation of assets, the monitoring of investment manager's performance, assist in the hiring or termination of investment managers when necessary, and the timely notification to the Board and Fund staff regarding matters pertinent to the proper investment of Fund assets. Investment consultant(s) are also responsible for a formal quarterly report of all the Fund's investment managers and the Fund's portfolio as a whole. Performance is compared to performance objectives, market indices, and peer group comparison from the consultant's manager universe of institutional investors with similar objectives. The Investment Consultant presents their report to the Board on a quarterly basis.

Investment managers are used at the Board's discretion to select, purchase, hold and dispose of investment assets pursuant to their contractual mandate and guidelines. The Board reviews investment managers based on an evaluation of their investment philosophy, their process and experience, long-term performance, and ability to provide diversification. Investment managers will report in a timely fashion all account activity, performance results, and any other reasonably requested information made by the

Fund. The Fund shall be notified in writing of any matters of contract pertaining to the account or the investment management firm within at least five business days.

The Treasurer of the City of Chicago shall be ex-officio the treasurer and custodian of the Fund. The Board may supplement that responsibility by utilizing the services of a **master custodian** for the safekeeping of all cash and securities. The master custodian, in accordance with the trust agreement, provides for the proper accounting of portfolio activity, direct access to account information, performance reporting, and other necessary services.

Fund Staff
The **Executive Director** is appointed to oversee the administration of the Fund (Benefits, Investment, Accounting, etc.) and to execute Board policy and other direction as the Board may set. The Director, with the assistance of the **Investment Staff**, acts as a liaison with the Fund's external investment advisors, monitors the performance of the investment portfolio, ensures that assets are invested in accordance with Board policies, makes certain that proper liquidity is in place to pay benefits, records investment activity to the Fund's account ledger in a timely fashion, and ensures that proper controls are in place to safeguard Fund assets. The Director and Investment Staff work closely with the Board to ensure goals and objectives are met. **Accounting Staff** is responsible for the proper recording of Fund activity and the preparation of annual financial statements for independent audit and submission to the City of Chicago. Fund staff is also responsible for ensuring that performance reports from the investment managers and the custodian are received in a timely fashion and are an accurate reflection of performance. Staff is responsible at regular Board meetings to update the Board concerning investment performance and other matters of importance relating to the portfolio.

AMENDING THE INVESTMENT POLICY DOCUMENT
This document may be amended from time to time by the Board.

CONCLUSION
This document sets forth the Board's investment policy in regards to the investment of Fund reserves under the Illinois Pension Code and their fiduciary responsibility to the Fund membership. This document and its attached appendices are effective as of the date adopted by the Board. This document is available on our website at meabf.org or to receive a hard copy of this document or for further inquiries, please contact:

Executive Director
Municipal Employees' Annuity and Benefit Fund of Chicago
321 North Clark Street, Suite 700
Chicago, Illinois 60654
(312) 236-4700
execdir@meabf.org

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Investment Policy Document Appendices

In conjunction with the investment policy document of the Fund, the Board has put into place procedures and supplementary policies to handle the required responsibilities of a governing body investing an institutional investment portfolio.
They include:

1) Target Allocation Mix (Appendix A)
2) Selection of an Investment Adviser or Consultant (Appendix B)
3) Cost Management (Appendix C)
4) Securities Lending (Appendix D)
5) Emerging Investment Adviser Utilization (Appendix E)
6) Brokerage Utilization (Appendix F)
7) Corporate Governance (Appendix G)

Appendix A – Target Allocation Mix

The Fund's Target Allocation Mix set as of **MARCH 2012**.

ASSET ALLOCATION – TARGET ALLOCATON MIX			
Asset Class	**Minimum**	**Target**	**Maximum**
Domestic Equity	**18%**	**25%**	**35%**
Large Cap	10%	15%	19%
Growth	*3%*	*4%*	*6%*
Core	*3%*	*4%*	*6%*
Value	*3%*	*4%*	*6%*
Small & Mid Cap	8%	10%	12%
Hedged Equity	**8%**	**10%**	**12%**
International Stocks	**15%**	**20%**	**25%**
Fixed Income	**20%**	**25%**	**30%**
Real Estate	**8%**	**10%**	**12%**
Private Equity	**3%**	**5%**	**7%**
Mezzanine	**3%**	**5%**	**7%**
Cash Equivalents*	**0%**	**0%**	**0%**

** A cash allocation is not targeted, but residual cash can lead to an overall exposure of 1% to 10% at any given time.*

Rebalancing / Transition of Assets

The Board is responsible for setting an allocation of assets that has a strong probability of achieving their long-term goals and objectives within an acceptable level of risk. By setting a target allocation of assets, the Board ensures that the investment focus of the portfolio is long-term. This discipline prevents the Board from making decisions based on short-term market occurrences (market timing) that could have a detrimental effect on the portfolio over the long-term. The Board attempts to stay within the acceptable target areas by *rebalancing* the portfolio, when needed, back to the target allocation. Procedures for rebalancing are based on maximizing the value of transitioned assets and minimizing transitional costs.

Target ranges act as a guide for rebalancing and are also utilized to reduce the need for frequent rebalancing and the transition costs that it entails.

Rebalancing portfolio assets leads to purchasing and/or selling securities. In an attempt to minimize costs, The Board establishes a direction of what assets are to be transitioned, how they will be transitioned, and when the transition will occur. A pre-planning process helps keep transition costs at a minimum.

Steps to minimize costs include:

1) Utilizing external fiduciaries when prudent to manage the process
2) Rebalancing at periods when transitional needs are minimal
3) Transition as many assets as possible "in-kind"
4) Utilize lower cost trading platforms when prudent
5) Utilizing cross-trade opportunities when prudent

6) Utilize discount brokerage opportunities when prudent

Transitions are evaluated by comparing post-trade analysis reports to pre-trade estimations and objectives.

Even though it is the Board's intention to maintain the current allocation within the long-term allocation target ranges, they may choose to allow the current allocation to remain outside the target range if they believe market conditions warrant. For risk control purpose though, current allocations will be limited to +/- 2% outside target allocation ranges.

The Board recognizes that certain allocations are illiquid in nature (Private Equity, Real Estate). Because of this, these allocations at times may be out of target range for extended periods.

Board revised and approved on March 2012.

Appendix B – Selection and Appointment (Investment Adviser or Consultant)

The Board has established a procurement policy for the selection and appointment of Investment Advisers and Consultants in providing investment services to the Board. This policy (a) outlines the competitive process established by the Board in selecting Investment Advisers and Consultants and (b) specifies the respective roles of the Board, Fund staff and investment professionals utilized in each stage of the selection process. The policy also incorporates their goal of inclusion of woman, minority, or persons with disabilities and disabled veterans owned businesses within the selection process. This policy is not meant to limit the Board's right to modify assets under management of a current mandate, rebalance the Fund's portfolio when prudent, or make follow-on investments to current mandates.

Exceptions

The following investment services shall be exempt from this policy:

A) Sole source procurements
B) Emergency procurements
C) Non-renewable, one-year contracts not exceeding $20,000

Exceptions shall be posted on the Fund's website, which shall include the person authorizing the procurement and a brief explanation of the reason for the exception.

Selection and Appointment Process for Investment Advisers [1]

A) **Uniform Documentation:** Uniform documents shall be used for the solicitation and evaluation of Investment Advisers. Documents shall be posted on the Fund's website and may slightly differ based on the investment services being solicited. Documents shall include provisions mandated by applicable law, including, without limitation, the requirements set forth in Section 1-113.14(c) of the Illinois Pension Code.

B) **Notice of Solicitation**
   a. *Initiation* – The Board determines an investment adviser search by a motion at an open meeting of the Board.
   b. *Notice* – Notice for an investment adviser search shall be posted on the Fund's website fourteen (14) days prior to the solicitation response date.
   c. *Availability* – The solicitation document for a search shall be available on the Fund's website.

C) **Solicitation Document:** Document utilized to solicit for investment advisory services shall include:
   a. A description of the services being procured and an estimate of the amount of assets to be awarded
   b. Listing of relevant dates
   c. Identification of the point of contact
   d. Required qualifications
   e. Evaluation factors
   f. A copy of the Fund's Investment Policy Document and an acknowledgement of receipt

[1] Investment Advisers do not include investments in limited partnership agreements.

  g. The Fund's standard investment management agreement for separate accounts, and for commingled funds the standard content requirements to be incorporated in the agreement.
  h. Investment Adviser - Firm Disclosures
     i. Name and Headquarters
        1. Firm
        2. Parent company
        3. Subsidiary or Entity with a controlling interest
        4. Executive Officers
        5. Owner or receiver of distributive interest in excess of 7.5%
     ii. Subcontractor assignments
        1. Name and Headquarters
        2. Estimated size of assignment and fee structure
        3. Notification of change to subcontractor assignments
  i. Proposed management fee structure

D) **Solicitation Questions:** Questions regarding the solicitation process shall be directed to the designated point of contact and received **only in written form** by the closing date stated within the document.

E) **Evaluation Process:**
  a. Solicitations determined responsive and received by the stated deadline shall be recorded, receipted, and distributed to the Investment Consultant.
  b. Investment Consultant shall review and evaluate against search specifications.
  c. Investment Consultant shall identify the higher qualified firms.
  d. Investment Consultant and Fund staff will verify information submitted and resolve or confirm any discrepancies.
  e. Profiles for higher qualified firms are distributed to the Board for discussion and determination of finalists.
  f. Finalists present to the Board.

F) **Emerging Investment Advisers:** The Board encourages the Investment Consultant to proactively outreach to Emerging Investment Advisers and utilize qualification parameters that support the inclusion of Emerging Investment Advisers in search processes. Emerging Investment Adviser is defined in Section 1-109.1(4) of the Illinois Pension Code.

G) **Quiet Period:** To ensure that solicitors have equal access to information, that communications are consistent and accurate, and that the solicitation process is efficient, diligent and fair, a quiet period shall:
  a. Commence on the date the solicitation is posted on the Fund's website and shall conclude when the Board's selection is posted on the Fund's website.
  b. Prohibit communication between Board members (the decision-makers) and soliciting firms regarding any product or service relating to the solicitation.
  c. Prohibit the acceptance of any meals, travel, lodging, entertainment or any other good or service from the solicitor by the Board, Fund staff, or investment consultant.

d. Could potentially disqualify a solicitor if a willful material violation of the quiet period is determined.

This period does not prevent a Board member from attending Board approved meetings or conferences.

H) **Awarding, Negotiating, and Notice of Agreement:**

a. *Awarding of Mandate* – The Board shall select firm(s) after the evaluation process is completed. Their selection will be based on an evaluation of the firm's qualifications, governing law, and rendered solely in the interest of the Fund's members and their beneficiaries. Firm qualifications will include the quality of the investment team, the firm's investment philosophy, the firm's synergy in relation to other, existing mandates, the historical performance of the firm, and the total cost of services to be provided shall be analyzed to support their decision. The Board may select one or more finalists if deemed prudent.

b. *Negotiation of Agreement* – The Board authorizes the Executive Director to negotiate agreement(s) with the selected finalist(s). If unable to negotiate a satisfactory agreement, the Board may select another qualified finalist.

c. *Notice of Agreement* - After executing a contract and funding the mandate, the following information shall be posted on the Fund's website:

i. *Name of firm(s) receiving the award*
ii. *Size of mandate*
iii. *Estimated annual fees to be incurred*
iv. *Summary of factors that contributed to the Board's selection*

<u>Selection and Appointment Process for Limited Partnership Agreements</u>

Limited partnership agreements have fixed lives and may be made annually to maintain target allocations for alternative investments. The Board sets forth the following process for investments in limited partnerships:

A) **Notice of Intent:**

In the fourth quarter of each year the Board shall list on its website the following information:

a. Estimated capital to be committed to limited partnership agreements in the following year.
b. Allocation concentration:
   i. Fund of Funds
   ii. Direct Funds
c. Mandate(s) concentration:
   i. Private Equity (Buy-outs, Growth Equity, Mezzanine, Venture, etc.)
   ii. Real Estate (Core, Core +, Opportunistic)

B) Request For Information:

General partners meeting the Board's focus and actively raising capital during the year are encouraged to complete and submit requested information supplied on the Fund's website.

C) **Review Process:**

a. The Investment Consultant shall review submitted information to identify qualified investment opportunities.
b. The Investment Consultant shall update the Board of qualified investment opportunities identified, at a minimum, quarterly.

D) **Notice of Search:**
a. A request for beginning a search process shall be done by a motion at an open meeting of the Board.
b. The Investment Consultant shall notify qualified general partners of the Board's request.
c. A quiet period begins.

E) **Evaluation Process:**
a. Investment Consultant shall identify higher qualified firms for the Board's consideration.

F) **Awarding, Negotiating, and Notice of Agreement:**
Shall be substantially similar to the process for traditional investment management agreements.

<u>Selection and Appointment of Investment Consultant Process</u>

Selection process for investment consulting services shall be substantially similar to the selection process for an Investment Adviser. The search process for investment consulting services shall:

1) Be rendered pursuant to a written contract, which shall be compliant with all applicable laws, including, without limitation, the provisions of the Illinois Pension Code.
2) Shall require an annual disclosure by the Consultant of any and all direct or indirect fees, commissions, penalties, and other compensation, including reimbursement for expenses, that may be paid by or on behalf of the consultant in connection with the provision of services to the Fund,
3) Be for a term no greater than five (5) years, which may not be renewed or extended, however, current consultants may participate in future searches for investment consulting services.
4) Require each search participant to be a registered investment adviser under the Investment Advisers Act of 1940 or a bank, as defined by the Investment Advisers Act of 1940.

Appendix C – Cost Management

The Board utilizes both active management, which attempts to exceed the performance of a certain index by a mutually agreed level of out-performance net of management fees, and passive management, which attempts to mimic the performance of a specific index. Active management is more expensive than passive management. The Board utilizes active management when they believe there is inefficiency in the market and historical performance reflects that there is a strong probability of achieving a net return premium.

Management Fees

Fees for external investment management services are negotiated as part of the contractual process. The Fund requires the receipt of a 'most favored nation' agreement when negotiating the structure of the management fee. The Board will periodically require the review of all management fee structures to confirm that they compare favorably to prevailing market rates.

Appendix D – Securities Lending

To provide additional income to the Fund, the Board authorized the Master Custodian to include eligible Fund assets in their securities lending program. Proceeds from the program are contractually split between the Fund and the custodian. In their capacity, the custodian, in accordance with the securities lending agreement, is responsible for the record keeping, monitoring, and reporting of securities on loan.

Fund securities are loaned based upon mutually agreed upon terms, which include:

1) Fund shall retain the right to collect all dividends, interest or distributions that they would have been otherwise entitled to.
2) Borrower shall deposit collateral with the custodian equal to or greater than 102% of the market value of the securities on loan. Collateral adjustments will be made from time to time in conjunction with the custodian's collateral requirements of securities on loan.
3) Loan period not to exceed one year. Loan termination stated by mutually agreed upon conditions.
4) Eligible borrowers are approved via the due-diligence process of the custodian.
5) Cash collateral is invested in qualified short-term instruments determined by the custodian and approved by the Fund.

Income received from security lending activities is deposited in the Fund's general account to assist with Fund expenditures.

Appendix E – WMBE/Emerging Investment Adviser Utilization

In accordance with 40 ILCS 5/1-109.1(4) the Retirement Board has set forth the following quantifiable goal for percentage of total dollar amount of investment service 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.

	Target Range
Total investment assets	20% to 30%

The Retirement Board has also set forth the following quantifiable goals for percentage of total dollar amount of investment service contracts let to emerging investment advisers as defined by 40 ILCS 5/1-109.1(4):

		Target Range
Per asset class		
a.	Equity	15% to 25%
b.	Fixed income	15% to 25%
c.	Alternatives	10% to 20%
Per ownership classification		
a.	Woman	03% to 07%
b.	Minority	12% to 18%
c.	Disabled	best efforts

These goals shall be reviewed annually.

Appendix F- Brokerage Utilization

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. In trading Fund assets, 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 price at execution while at the same time incurring the lowest possible commission cost. 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 Advisors Act of 1940 and any other applicable securities laws, rules and regulations. Trading costs are reviewed on a monthly basis to ensure costs are in line with Board objectives.

Brokerage Policies

The Board is a strong supporter of the advancement of business owned and controlled by persons who are minority, women, or designated as disabled, particularly firms headquartered in the State of Illinois or firms with a material presence within the state (Target Firms). By resolution, dated December 19, 2002 and revised May 15, 2008, the Board incorporated a brokerage policy including objectives for investment managers, subject to best execution, to utilize woman, minority, or designated disabled-owned firms. The objectives of the policy are:

Equity Managers: *Subject to best execution*, in accordance with the goals and objectives of the account agreement, each manager who manages equities on behalf of the Board in non-commingled accounts shall be authorized to initiate trading activity in accordance with the following policy objectives of the Board:

40% of total domestic equity trading shall be with Targeted Firms over a calendar year basis.

20% of total international equity trading shall be with Targeted Firms over a calendar year basis.

If the manager, as a fiduciary on behalf of the Board, utilizes a commission for services other than trading execution only, those services must be approved within the Securities Exchange Act of 1934, section 28(e) and must be a cost that is fully competitive with the market.

Managers shall not utilize indirect methods such as "step-out" commissions to achieve these goals.

Each manager will submit a monthly progress report of their trading activity to Fund staff following month-end. 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 include:

1) Total shares executed, total trading commissions, 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 separately all forms of payments made to a targeted firm, including but not limited to, trading execution commissions, step-out commissions, research purchased, or soft dollar credits.
4) Explanation if trading activity is not in compliance with Board objectives.
5) Total shares executed with a firm who has a commission recapture agreement with the Fund.

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

25% of trading volume (par value) in investment grade fixed income securities traded in secondary markets shall be with Targeted Firms over a calendar year.

In purchasing new issue securities, the manager will make every effort to utilize targeted firms who are part of the underwriting syndicate selling the new issues.

Each manager will submit a monthly progress report of their trading activity to Fund staff following month-end. 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 include:

1) Total volume of securities traded, at par value.
2) Total volume traded with targeted firms.
3) Explanation if trading activity is not in compliance with Board objectives.

Trades executed utilizing electronic trading platforms that are not competitively provided by Targeted firms shall be excluded from the trading goals.

Compliance with policy will be considered as part of the overall performance. As such non-compliance may cause a manager to be placed "on watch" for performance reasons. Continued underperformance can result in the termination of the agreement.

Revised on 06/30/12

Appendix G – Corporate Governance

The Board requests that all our investment managers, who are fiduciaries on the Boards behalf, invest Fund assets in companies who are responsible corporate citizens. The Board implements this theme through their policies in the voting of proxies and, in worst-case scenarios, litigation options.

Proxy Voting Policy

The Board utilizes the investment manager, acting as a fiduciary on behalf of the Board, to vote all proxies on behalf of the Fund. The Board reserves the right to direct the voting of a certain proxy if they choose to. Proxy voting reports are received quarterly outlining the voting of proxies over that time period.

Securities Litigation (Class Actions) Policy

The Board invests in both equity and fixed income instruments of various public companies. As an investor in public companies, there are times when the Fund may be a shareholder in a company facing a class action lawsuit in regards to an accusation of violating federal or state security laws. If the Fund was a shareholder within the determined claim period in a company facing a class action lawsuit, the Fund becomes a putative member of the class action and would participate in any proceeds derived from the suit.

The Fund periodically receives solicitations from litigating law firms seeking to represent the Fund in filing for lead plaintiff status in a class action lawsuit. The Board currently has signed agreements with litigating law firms to review the Fund's assets monthly, and compare holdings to any filed class actions. Fund staff is apprised periodically of any filed class actions and receives an estimation of loss, if deemed material. The Board, after being informed of the specifics of the case and the Fund's estimated losses, makes the decision if they will submit the Fund's name for consideration of lead plaintiff status.