

**Laborers' and Retirement Board Employees'  
Annuity and Benefit Fund of Chicago  
Minutes of Regular Board Meeting No. 1007**

**March 19, 2019**

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**LABORERS' & RETIREMENT BOARD EMPLOYEES'  
ANNUITY & BENEFIT FUND OF CHICAGO**

**March 19, 2019**

Report of Meeting No. 1007 held on March 19, 2019, starting at 1:09 p.m. at the office of the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago ("Fund" or "LABF"). The following notes attendance:

**Board Members:**

Victor Roa	– President (Union Appointed Member)
Erin Keane	– Vice President (City Comptroller, City of Chicago)
Michael LoVerde	– Secretary (Active Employee Elected Member)
Carol Hamburger	– Trustee (Managing Deputy Comptroller, City of Chicago)
James Capasso, Jr.	– Trustee (Annuitant Elected Member)
James Joiner	– Trustee (Active Employee Elected Member)

**Staff & Consultants:**

Joseph Burns	– Jacobs, Burns, Orlove & Hernandez, Fund Counsel
Taylor Muzzy	– Jacobs, Burns, Orlove & Hernandez, Fund Counsel
Marisel A. Hernandez	– Jacobs, Burns, Orlove & Hernandez, Fund Counsel
Dr. Terence Sullivan	– Fund's Physician
James Wesner	– Marquette Associates, Fund's Investment Consultant
Kweku Obed	– Marquette Associates, Fund's Investment Consultant
Neil Capps	– Marquette Associates, Fund's Investment Consultant
Michael Walsh	– Executive Director and Chief Investment Officer
Peggy Grabowski	– Comptroller
John Carroll	– Compliance Administrator
Sheila Jones	– Administrative Coordinator
Nadia Oumata	– Manager of Accounting and Investments
Tina Rhoten	– Benefits Manager

**Absent:**

Carole Brown – Trustee (Chief Financial Officer, City of Chicago)  
Kurt Summers, Jr. – Trustee (City Treasurer, City of Chicago)

**Observer:** Mary-Christine Jackman, City Treasurer's Office

President Roa determined that a quorum was present after Secretary LoVerde took attendance.



*Laborers' and Retirement Board Employees'  
Annuity and Benefit Fund of Chicago*

Board Members:

I am transmitting herewith the minutes for the meeting of the Retirement Board which was held on March 19, 2019. The minutes are comprised of the following:

- Public Participation
- Approval of Minutes from Prior Meetings
- Schedule A: Applications for Refunds
  1. Refund of Contributions Due to Separation from Service
  2. Miscellaneous Refunds
- Schedule B: Applications for Annuities
  1. Employee Annuities
  2. Spouse and Child Annuities
- Schedule C: Adjustment Refunds to New Annuitants
- Schedule D: Applications for Duty Disability Benefits
- Schedule E: Applications for Ordinary Disability Benefits
- Schedule F: Applications for Extension of Duty Disability Benefits
- Schedule G: Applications for Extension of Ordinary Disability Benefits
- Schedule H: Payment of Uncashed Checks of Deceased Members
- Schedule I: Payment of Administrative Expenses
- Investments Report
- Administrative Report
- Legal Report
- Administrative Report Continued
- Executive Session No. 1
- Administrative Report Continued
- Adjournment

All the foregoing matters were checked upon receipt in the office of the Retirement Board and were found to be hereinafter set forth.

Sincerely,

Michael R. LoVerde  
Retirement Board Secretary

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**PUBLIC PARTICIPATION**

None.

**APPROVAL OF MINUTES FROM PREVIOUS MEETINGS**

It was moved by Trustee LoVerde, seconded by Trustee Hamburger, that the regular minutes of the Special Meeting held on February 6, 2019 be approved as submitted.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Hamburger, Capasso and Joiner.  
Against -- None

It was moved by Trustee LoVerde, seconded by Trustee Joiner, that the minutes of Executive Sessions 1 and 2 of the Special Meeting held on February 6, 2019 be approved as submitted.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Hamburger, Capasso and Joiner.  
Against -- None

It was moved by Trustee LoVerde, seconded by Trustee Capasso, that the regular minutes of Meeting No. 1006 held on February 19, 2019 be approved as submitted.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Hamburger, Capasso and Joiner.  
Against -- None

It was moved by Trustee LoVerde, seconded by Trustee Joiner, that the minutes of Executive Sessions 1, 2, 3, 4 and 5 of Meeting No. 1006 held on February 19, 2019 be approved as submitted.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Hamburger, Capasso and Joiner.  
Against -- None

**SCHEDULE A – APPLICATIONS FOR REFUNDS**

1. Refund of Contributions Due to Separation from Service

None

2. Miscellaneous Refunds

It was moved by Trustee Capasso, seconded by Trustee LoVerde that the applications presented for Miscellaneous Refunds of Contributions be approved and ordered paid.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Hamburger, Capasso and Joiner.  
Against -- None

**SCHEDULE B – APPLICATIONS FOR ANNUITIES**

1. Employee Annuities

It was moved by Trustee LoVerde, seconded by Trustee Joiner, that the applications for Employee Annuities be approved and ordered paid.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Hamburger, Capasso and Joiner.  
Against -- None

2. Spouse and Child

It was moved by Trustee LoVerde, seconded by Trustee Capasso, that the applications for Spouse and Child Annuities be approved and ordered paid.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Hamburger, Capasso and Joiner  
Against -- None

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**SCHEDULE C – ADJUSTMENT REFUNDS TO NEW ANNUITANTS**

It was moved by Trustee LoVerde, seconded by Trustee Capasso, that the Adjustment Refunds to New Annuitants be approved and ordered paid.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Hamburger, Capasso and Joiner.  
Against -- None

**SCHEDULE D – APPLICATIONS FOR DUTY DISABILITY BENEFITS**

It was moved by Trustee Joiner, seconded by Trustee Capasso, that the applications for Duty Disability Benefits be approved and ordered paid.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Hamburger, Capasso and Joiner.  
Against -- None

**SCHEDULE E – APPLICATIONS FOR ORDINARY DISABILITY BENEFITS**

It was moved by Trustee LoVerde, seconded by Trustee Joiner, that the applications for Ordinary Disability Benefits be approved and ordered paid.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Hamburger, Capasso and Joiner.  
Against -- None

**SCHEDULE F – EXTENSION OF DUTY DISABILITY BENEFITS**

It was moved by Trustee Joiner, seconded by Trustee LoVerde, that the applications for Extension of Duty Disability Benefits be approved and ordered paid.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Hamburger, Capasso and Joiner.  
Against -- None

**SCHEDULE G – EXTENSION OF ORDINARY DISABILITY BENEFITS**

It was moved by Trustee LoVerde, seconded by Trustee Joiner, that the applications for Extension of Ordinary Disability Benefits be approved and ordered paid.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Hamburger, Capasso and Joiner.  
Against -- None

**SCHEDULE H – PAYMENT OF UNCASHED CHECKS OF DECEASED MEMBERS**

None

**SCHEDULE I – PAYMENT OF EXPENSES**

It was moved by Trustee Joiner, seconded by Trustee LoVerde, that Administrative Expenses be approved and ordered paid.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Hamburger, Capasso and Joiner.  
Against -- None

**INVESTMENTS REPORT**

**Market Tracker**

Mr. Wesner provided a summary market update for the month of February, 2019.

**February 28, 2019 Preliminary Performance Report**

Mr. Obed reviewed the Fund's February 28, 2019 Preliminary Performance Report.

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Asset Allocation Follow-Up/Implementation Discussion

This item was taken out of order.

Mr. Wesner reviewed a summary document outlining some of the actions and changes made to the investment portfolio since the hiring of Marquette Associates in May 2017 and the adoption of the new target asset allocation in October 2017. Mr. Wesner also discussed outstanding action items, including potential searches for a Liquid Opportunistic Credit manager and an Equity-Hedged manager, and indicated that Marquette Associates will provide educational sessions prior to recommending the commencement of these searches.

Updated Investment Policy

This item was taken out of order.

Mr. Walsh highlighted the revisions made to the Investment Policy Statement ("IPS") that were suggested by the Board at the Special Meeting held on March 7, 2019, and re-iterated the benefits of combining all of the existing Board policies and resolutions pertaining to investments into one document, the new IPS. The Trustees further reviewed the draft IPS. Mr. Walsh suggested an additional change to the sunset provision under Appendix E of the IPS. See attached document.

It was moved by Trustee LoVerde, seconded by Trustee Capasso, to approve the presented Investment Policy Statement as amended.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Hamburger, Capasso and Joiner.  
Against -- None

**ADMINISTRATIVE REPORT**

LABF Financing Request (Tax Levy)

Mr. Walsh reported that he and Trustee Roa attended a meeting with the City of Chicago's Budget Director and Chief Financial Officer, as well as other key personnel from the City's Office of Budget and Management, Department of Finance and Department of Law, on February 20, 2019, to discuss the historical contribution shortfalls attributable to losses associated with property tax collections. Mr. Walsh explained to the Board the historical and statutory context for LABF's position that it should not be required to absorb losses associated with the property tax collections (see attached letter).

Mr. Walsh conveyed the City's position, presented by its Chief Financial Officer, that the "dynamic" funding mechanism created by the enactment of Public Act 100-0023 renders the property tax collection loss a moot point. He explained that representatives from the City's Law Department asked that LABF wait until there is a resolution in the Firemen's Annuity and Benefit Fund of Chicago's (the "FABF") lawsuit regarding a similar matter before taking any further action.

Mr. Walsh explained that he had briefed Fund Counsel regarding the meeting with the City and that he and counsel had discussed several possible courses of action. Mr. Walsh recommended certifying the contribution shortfall amount to the State Comptroller in an attempt to intercept State monies flowing to the City. He noted that utilizing the intercept provision built into the Illinois Pension Code protects the Trustees from a fiduciary standpoint and that this option may allow the Fund to collect the shortfalls in the most efficient and economic manner. The Trustees and Mr. Walsh discussed how to quantify the amount to be certified. Mr. Burns suggested that the Board pass a motion approving this approach.

This motion was taken out of order. It was moved by Trustee Capasso, seconded by Trustee LoVerde, to use the intercept provision to recover the shortfall in contributions from the City of Chicago.

Roll-call: For -- Trustees Roa, LoVerde, Hamburger, Capasso and Joiner.  
Against -- None.

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Public Act 100-0023 Employer Contribution Mechanics

This item was taken out of order and discussed in executive session.

**EXECUTIVE SESSION NO. 1**

At 2:25 p.m., Trustee LoVerde requested an executive session under 5 ILCS 120/2(c)(11) to discuss pending or probable litigation against, affecting or on behalf of the Fund. Trustee Capasso seconded the motion.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Hamburger, Capasso and Joiner.  
Against -- None

Trustee Keane left after the roll call.

At 3:20 pm, Trustee LoVerde made a motion, seconded by Trustee Hamburger that the executive session be adjourned and that the Board return to open session.

Roll-call: For -- Trustees Roa, LoVerde, Hamburger, Capasso and Joiner.  
Against -- None

Legislative Matters

Senate Bill 1264 – By way of background, Mr. Walsh explained that prior to the enactment of certain 2017 legislation amending Illinois' Revised Uniform Unclaimed Property Act, the Fund had been exempt from having to escheat abandoned funds to the State; however, the 2017 legislation purportedly eliminated such exemption.

Senate Bill 1264, introduced on February 6, 2019, would amend the Revised Uniform Unclaimed Property Act to exempt certain retirement systems from having to escheat certain unclaimed property to the State of Illinois, but would still require that such retirement systems report the "abandoned" property to the State Treasurer's Office. Mr. Walsh explained that escheated property in the State of Illinois is ultimately used to subsidize the State retirement systems, particularly SURS, and that it made no sense to send LABF assets to the State. Mr. Walsh noted that the State Treasurer's Office indicated that they wanted to be comfortable that LABF is making a reasonable effort to contact the owners of the unclaimed property, or their heirs, prior to supporting LABF's exemption from the escheatment requirement. Mr. Walsh suggested sending the State of Illinois Treasurer's Office a document which outlines LABF's processes and procedures for locating missing participants who are owed a benefit or refund. The Trustees supported sending a letter to the State Treasurer's Office in an effort to be included in SB 1264.

Trustee LoVerde suggested that the Fund adopt a formal policy for locating lost participants. Mr. Burns offered to provide Mr. Walsh with other required minimum distribution and lost payee policies as samples that will help with the creation of internal policies.

Statement of Economic Interest – This item was taken out of order. Mr. Carroll let the Trustees know that the Statement of Economic Interest filings are due by May 1, 2019.

**LEGAL REPORT**

Mr. Walsh referred the Trustees to a memo prepared by Taft Stettinius & Hollister LLP summarizing the status of ongoing litigation matters.

In the Underwood matter, Mr. Walsh reported that there are still some issues that need to be resolved regarding the notices that will be sent to members who may be eligible for the healthcare subsidy. He also

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noted that an issue has arisen regarding the taxability of the healthcare subsidy. Finally, Mr. Walsh mentioned that Taft Stettinius & Hollister will be seeking guidance from Judge Cohen regarding the payment of subsidies to the heirs of participants who have died .

**ADJOURNMENT**

With no further business, at 3:27 PM, Trustee LoVerde made a motion to adjourn the meeting. Trustee Capasso seconded the motion.

Roll-call: For -- Trustees Roa, Keane, LoVerde, Hamburger, Capasso and Joiner.  
Against -- None





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**INVESTMENT POLICY STATEMENT**

**Adopted March 19, 2019**

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## **INTRODUCTION**

The Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago ("LABF") is a single-employer, defined benefit public pension fund. The LABF was created in 1935 by virtue of an act of the Illinois General Assembly to provide retirement and disability benefits to its members and their beneficiaries. The LABF is administered in accordance with the Illinois Pension Code (40 ILCS 5/Arts. 1, 1A, 11, 20, and 22) (as amended from time to time, the "Illinois Pension Code"). The LABF is governed by an eight-member Board of Trustees (the "Board").

## **STATEMENT OF PURPOSE**

The purpose of this Investment Policy Statement ("IPS" or "Policy"), including the attached Appendices, is to set forth the Board's investment objectives, policies, and procedures relating to the investment of the LABF's assets in accordance with the Illinois Pension Code. The IPS will define the duties and responsibilities of the Board, acting in a fiduciary capacity, and of all persons or entities acting on the Board's behalf. The objectives, policies, and procedures outlined in this IPS were created as a general framework to guide the management of the LABF. This Policy replaces and supersedes any and all other LABF policies, resolutions, or practices covering the subject of investments, whether written or verbal.

This Policy is intended to comply with the provisions of the Illinois Pension Code. In the event of a conflict between this Investment Policy Statement and the applicable sections of the Illinois Pension Code, the Illinois Pension Code governs.

## **FIDUCIARY DUTY**

Per the Illinois Pension Code, the Board and certain LABF staff members have a fiduciary obligation to the LABF's participants and their beneficiaries. In summary, the provisions of the Illinois Pension Code specifically referring to the definitions, duties, and responsibilities of a fiduciary are:

- a fiduciary is anyone who has discretion in managing pension fund assets or in administering the pension fund, or who renders investment advice for direct or indirect compensation. [40 ILCS 5/1-101.2]
- a fiduciary must discharge its duties to the pension fund for the exclusive purposes of providing benefits to participants and beneficiaries, and defraying reasonable administrative expenses of the pension fund. [40 ILCS 5/1-109(a)]
- a fiduciary must discharge its duties to the pension fund with the same care, skill, prudence and diligence that a prudent person would use in a similar enterprise. [40 ILCS 5/1-109(b)]
- a fiduciary must discharge its duties to the pension fund by diversifying the investments to minimize the risk of large losses, unless prudence dictates otherwise. [40 ILCS 5/1-109(c)]
- a fiduciary must discharge its duties to the pension fund in accordance with Articles 1, 1A and 11 of the Illinois Pension Code. [40 ILCS 5/1-109(d)]
- a fiduciary must not cause the pension fund to engage in prohibited transactions. A fiduciary must not deal with the pension fund's assets for its own interest, or on behalf of any party whose interests are adverse to the pension fund or its participants or beneficiaries. [40 ILCS 5/1-110]

## **INVESTMENT RELATED AUTHORITIES AND RESPONSIBILITIES**

The following provides the general scope of the investment-related authorities and responsibilities of each party involved in making investment-related decisions. This IPS is not intended to serve as a comprehensive statement relating to all investment-related matters. The Board reserves the right to limit or extend the terms of this IPS.

### **Responsibilities of the Board**

The Board is responsible for adhering to the requirements of the laws governing the LABF, developing policies for the LABF's administration, and creating goals and objectives. The Board shall:

- Adopt an Investment Policy Statement, amend it as necessary, and monitor its implementation.
- Set investment goals, objectives, and guidelines.
- Diversify the LABF's assets to minimize idiosyncratic risk.
- Select and retain one or more investment consultants and outside legal counsels that will assist the Board and the LABF's investment staff in making investment-related decisions.
- Use available information and resources, including advice from the investment consultants, outside legal counsels, and the LABF's investment staff, to select and retain investment managers and other third-party service providers as needed to assist in the administration and implementation of the investment program.
- On at least a quarterly basis, review total investment portfolio and investment manager performance; on at least an annual basis, review performance of other third-party service providers associated with the investment of LABF's assets.
- Periodically direct the LABF's investment staff and investment consultant(s) to review fees related to investment management, brokerage, foreign exchange, and other third-party services to ensure that the fees paid by the LABF are competitive.
- Initiate an asset/liability study and asset allocation review at least every three to five years.
- Periodically review and update the LABF's Authorized Signatory List authorizing Board-approved staff to sign certain documents on behalf of the LABF.
- Comply with LABF's Ethics Policy and Bylaws.

In accordance with Section 1-109.1 of the Illinois Pension Code, the Board has the authority to delegate fiduciary duties to other parties as it relates to the prudent investment of the LABF's assets.

### **Responsibilities of the Investment Staff**

The Executive Director, as a fiduciary, is appointed to oversee the administration of the LABF and to execute Board policies and other directives as the Board may set. The internal investment staff reports to the Executive Director, who also serves as the Chief Investment Officer (collectively, the "Investment Staff").

The Executive Director, or the Executive Director's designee, has the following responsibilities:

- Communicate with the Board regarding important investment-related matters.
- Monitor investment-related activities to ensure compliance with Board objectives and that the Investment Staff's responsibilities are being carried out prudently.
- Provide recommendations and/or direction to the Investment Staff as necessary.
- Ensure that proper internal and external controls are in place to safeguard the LABF's assets.
- Upon successful negotiations, execute contracts with Board-approved investment service providers.
- Execute contract amendments with existing Board-approved investment service providers; provided that the Executive Director prior to execution informs the Board of amendments that materially alter an existing contractual arrangement.
- Aid the Board in reviewing the performance and conduct of all investment service providers.
- Serve on advisory boards for the LABF's investments when appropriate and vote on issues in a manner consistent with a fiduciary duty to the LABF, its participants, and their beneficiaries.
- Comply with the LABF's Ethics Policy and Bylaws.

The Investment Staff has the following responsibilities:

- Act as a liaison between the Board and the LABF's external investment managers and investment consultant(s).
- Monitor the performance of the investment portfolio and communicate with the Board concerning investment performance and other matters of importance relating to the investment portfolio.
- Make certain that proper liquidity is in place to cover the LABF's expenditures.
- Work closely with the Board to ensure its goals and objectives are met.
- Ensure that performance reports from the investment managers and investment consultant(s) are received in a timely fashion and provide the information required by the LABF.
- Set up procedures to ensure proper monitoring of investment service providers' compliance with the LABF's policies.
- Comply with the LABF's Ethics Policy and Bylaws.

## **Responsibilities of the Investment Consultant(s)**

The Board may retain one or more investment consultants, acting in a fiduciary capacity, to provide expert advice, counsel, and support to the investment program. The investment consultant(s) shall:

- Aid the Board in determining the most effective investment program and the proper allocation of assets.
- Measure investment performance results, evaluate the investment program, and advise the Board as to the performance and continued appropriateness of each investment.
- Aid the Board and Investment Staff in reviewing other investment-related service providers, such as securities lending agent(s), custodian(s) and transition manager(s).
- Provide the Board and Investment Staff with regular and timely performance reporting including, but not limited to, comprehensive quarterly reports and monthly summary reports, and ensure the accuracy of such reports.
- Recommend modifications to the investment policies, objectives, and guidelines as appropriate.
- Promptly inform the Board and Investment Staff regarding significant matters pertaining to the investment of the LABF's assets.
- Conduct, or assist in conducting, searches for investment managers and other investment-related service providers.
- Ensure proper oversight of investment managers placed on "watch" status by the Board.
- Aid the Board in limiting investment-related expenses.
- Periodically, or as directed by the Board, review all investment management fee structures to confirm that they compare favorably with prevailing industry fees.
- Provide reasonable additional support to the Board and Investment Staff on an as-needed basis.
- Serve on advisory boards for the LABF's investments when appropriate and vote on issues in a manner consistent with its fiduciary duty to the LABF, its participants and their beneficiaries.

## **Responsibilities of the Investment Manager(s)**

The investment manager(s) retained by the LABF shall acknowledge a fiduciary status and shall:

- Comply with all applicable laws, regulations, rulings, and contract documents; and promptly inform the Board, Investment Staff, and the appropriate investment consultant regarding any instance of non-compliance.
- Act as a fiduciary to the LABF in managing the portion of the LABF's assets under its control in accordance with this Policy, the Illinois Pension Code, and the terms of the contract or agreement with the LABF.
- Exercise full investment discretion, within the bounds of this Policy, the Illinois Pension Code, and the contract or agreement with the LABF, with regard to buy, hold, and sell decisions for the assets under management.
- On at least a quarterly basis, reconcile the account's positions with the LABF's master custodian.
- Promptly inform the Board, Investment Staff, and the appropriate investment consultant regarding significant matters pertaining to the investment of the LABF's assets, including, but not limited to, changes in firm ownership, affiliation, organizational structure, key personnel, financial condition, investment strategy, portfolio design, composition of the investment team, and pertinent legal issues, as well as other matters affecting the investment of the assets in accordance with the contract or agreement with the LABF.
- Provide timely reporting to the LABF regarding account activity, performance results (net and gross of fees), and any other information requested by the LABF.
- Comply with the LABF's brokerage policy, as applicable (see: *Appendix E: M/W/DBE Broker-Dealer Utilization Policy*).
- Vote proxies on behalf of the LABF, as applicable, in a manner consistent with its fiduciary duty to the LABF.

## **Responsibilities of the Transition Managers(s)**

Transition managers, acting as fiduciaries, are utilized to transition a portfolio of securities as a result of portfolio liquidations, investment manager changes, asset allocation shifts, and portfolio rebalancing. Transition management centralizes the coordination of activities and parties involved with the purpose of eliminating unnecessary transactions, reducing costs, and maintaining market exposure during the transition period. The transition manager is entrusted to prudently manage the process.

The LABF utilizes a pool of approved transition managers and reserves the right to select a transition manager outside of the pool of approved transition managers, as necessary, with the approval of the Board. The LABF may also utilize its master custodian for transition activities when appropriate.

Transition managers will be selected from the pool through a bid process. Once selected, the transition manager(s) retained by the LABF shall:

- Comply with all applicable laws, regulations, rulings, and respective contract documents.
- Act as a fiduciary to the LABF as dictated in the contract documents with the LABF and perform the transition with the utmost care and prudence.
- Act only in an agency capacity at a firm level for all security transactions, unless otherwise agreed upon.
- Coordinate the transition trading activity with the LABF's investment managers (both legacy and target portfolios) and the LABF's custodian.
- Comply with the LABF's brokerage goals, as applicable (see: Appendix E: M/W/DBE Broker-Dealer Utilization Policy).
- Provide a detailed pre-trade analysis report to the Investment Staff before beginning the transition that shall include the timeframe required to achieve the desired objective of liquidating the legacy portfolio(s) and developing and/or funding the target portfolio(s). The pre-trade analysis report should illustrate expected explicit costs (e.g. commissions, taxes, fees, etc.) and implicit costs (e.g. bid-offer spread, market impact, etc.).
- Report to the Investment Staff during the transition period regarding trade activity from commencement of the process to its completion.
- Provide Investment Staff with a post-trade analysis report after the completion of the transition that should include, at a minimum, the actual explicit costs, implicit costs, and full trading/transaction reports.
- Provide any other reasonable information requested by Investment Staff, investment consultant, or the LABF's custodian.

### **Responsibilities of the Master Custodian(s)**

The LABF's master custodian(s) shall:

- Comply with all applicable laws, regulations, rulings, and the custodial agreement with the LABF.
- Hold, safeguard, and, when applicable, accurately price the assets of the LABF.
- Collect interest, dividends, distributions, redemptions, and any other amounts due to the LABF.
- Monitor all necessary investment activity.
- Provide periodic summaries of transactions, asset valuations, and other related reports as deemed appropriate.
- Sweep all residual cash in each account on a daily basis into an investment-grade short-term money market fund, cash vehicle, or cash-equivalent vehicle.
- Perform other services customarily performed by a custodian and as described in the custodial agreement (e.g. foreign exchange, U.S. class action filing, etc.)

### **Responsibilities of the Securities Lending Agent(s)**

The LABF participates in a securities lending program with respect to its separately managed accounts and may have additional securities lending exposure via its commingled fund investments. The purpose of the securities lending program is to provide incremental income by lending securities to qualified borrowers.

The LABF's securities lending agent(s) shall:

- Comply with all applicable laws, regulations, rulings, and contract documents.
- Limit loan periods to a maximum of one year.
- Perform appropriate due diligence on borrowers.
- Ensure that adequate collateral is provided to the LABF for the securities that are lent and that the income generated by the securities lending program is fair and reasonable.
- Make every reasonable attempt to recall securities on loan before any transactions involving the lent securities settle.

- Manage the investment of cash collateral in a manner consistent with the guidelines agreed to by contract and consistent with the risk/return characteristics of the LABF with the predominant focus being capital preservation.
- Provide necessary reporting on a periodic basis (usually monthly or quarterly) to Investment Staff, investment consultant(s), and the LABF's custodian.

### **Responsibilities of Outside Legal Counsel(s)**

As it pertains to investment-related matters, the Board's outside legal counsel has the following responsibilities:

- Proactively provide the Board and Investment Staff with advice regarding compliance with applicable laws and regulations.
- Review and provide advice with respect to investment management agreements, limited partnership agreements, side letters, and other contractual agreements with investment managers.
- Review and provide advice with respect to contracts with investment service providers.
- Provide assistance on an as-needed basis with respect to any other legal matters related to investments.

### **Responsibilities of the City Treasurer**

The Treasurer of the City of Chicago shall be *ex-officio* treasurer and custodian of the LABF. The Board may supplement the Treasurer's responsibility by utilizing the services of a master custodian, or another custodian for a specific investment, for the safekeeping of cash and securities.

## **RISK MANAGEMENT**

All investment decisions have a risk component. The Board, with assistance from the Investment Staff and its investment consultant(s), shall determine an appropriate risk level for the LABF. Determining the risk tolerance level shall serve as the first step in crafting an appropriate target asset allocation, setting investment goals and objectives, and making other investment-related decisions. Understanding that risks evolve over time based on a number of factors including, but not limited to, changes in the market environment and the LABF's financial situation, the Investment Staff and investment consultant(s) shall monitor risks and report any material changes in the LABF's overall risk profile to the Board.

## **INVESTMENT GOALS AND OBJECTIVES**

The Board sets the goals and objectives of the investment portfolio solely in the interest of the LABF's participants and their beneficiaries. The performance objectives of the investment program are threefold:

1. Meet or exceed the actuarial return assumption (see Appendix B: Assumed Investment Rate of Return and Policy Benchmark), net-of-fees, over time with a level of risk deemed appropriate by the Board while maintaining liquidity sufficient to cover benefit payments and other financial obligations.
2. Outperform the policy benchmark (see Appendix B: Assumed Investment Rate of Return and Policy Benchmark), net of fees, on a risk-adjusted basis over a market cycle (typically a three- to five-year period).
3. Rank in at least the top half of the peer universe of comparable institutional investors with similar risk/return parameters consistently over time.

## **PORTFOLIO EVALUATION AND REPORTING**

The investment consultant(s) and Investment Staff will evaluate the investment portfolio on, at least, a quarterly basis. The investment consultant(s) and Investment Staff will meet with the various investment managers and the Board on a regular basis to review any changes to the investment guidelines and to analyze the investment performance and structure of the investment program.

Investment Manager Performance Goals and Objectives:

- Each investment manager is expected to outperform the agreed-upon benchmark, net-of-fees, on a risk-adjusted basis over a market cycle (typically a three- to five-year period).
- The total net-of-fees return for the mandate should rank above the median within the respective peer universe.
- The investment manager shall attempt to achieve its return objectives while maintaining an appropriate level of risk as specified in the investment manager's guidelines.

The investment consultant(s) and or Investment Staff will promptly review with the Board any material shortfall in performance relative to the performance objectives.

The investment managers shall also provide written reports to the Board, Investment Staff, and investment consultant(s) on a quarterly basis. An investment manager's quarterly reports shall typically include:

- Portfolio and market commentary/outlook
- Organizational updates (e.g. changes in personnel, management, ownership, etc.)
- Market value of investments
- List of all client-directed cash flows in and out of the account since inception (i.e. allocations to and redemptions from the LABF's account)
- Gross and net-of-fees performance versus the benchmark for the most recent quarterly, year-to-date and relevant longer-term periods
- Calendar year returns (net of fees) versus the benchmark for all periods since inception
- Attribution analysis
- Investment fees for quarterly, year-to-date and inception-to-date periods
- If applicable, brokerage activity data for quarterly and year-to-date periods
- If applicable, capital account statement for quarterly, year-to-date and inception-to-date periods
- Additional reasonable information as requested by the Board, Investment Staff, or investment consultant

## INVESTMENT MANAGER WATCH LIST

When evaluating an investment manager, the Board utilizes a "watch list" process to identify managers that require closer monitoring. Circumstances that may trigger the Board to place a manager on watch include:

- Poor performance of account relative to stated goals and objectives over a market cycle (typically a three- to five-year period)
- Material violations of the investment guidelines
- Failure to comply with the terms of the contract or agreement with the LABF
- Sale or merger of the investment management firm
- Changes in key personnel
- Material changes in investment philosophy, process, or style
- Legal or regulatory action taken against the investment management firm
- Unsatisfactory client service
- Noncompliance with the Board's M/W/DBE Broker-Dealer Utilization Policy (See: *Appendix E: M/W/DBE Broker-Dealer Utilization Policy*)

While on watch, investment managers may be required to meet with the Board and submit regular status reports. Removal from the watch list usually results from either the manager resolving the issue(s) that led to it being placed on watch or the Board deciding to terminate the account.

The Board will evaluate investment managers placed on watch for performance-related issues based on the manager's risk-adjusted performance versus their stated benchmark. Investment managers will also be evaluated versus the appropriate peer universe and are expected to maintain net-of-fees performance above the peer median for three- and five-year time periods.

Understanding that every situation is unique, the Investment Staff and investment consultant may recommend to the Board additional criteria and a reasonable period over which to evaluate an investment manager while on the watch list.



## **INVESTMENT GUIDELINES**

The Board retains external investment managers to implement the target asset allocation. The investment guidelines for a separate account are set at the time the Board retains the manager and are included in the contract or agreement between the LABF and the investment manager. The Board and the investment manager may amend the guidelines in writing. No deviation from the investment guidelines and objectives established in the contract or agreement between the LABF and the investment manager shall occur unless agreed to in writing by the LABF. Each investment manager must immediately inform the Board, Investment Staff, and the appropriate investment consultant in writing regarding any deviation from the guidelines in the contract or agreement, as well as any material changes in investment strategy or portfolio structure.

## **INVESTMENT MANAGER AND INVESTMENT CONSULTANT SEARCH PROCESS**

With respect to an investment manager or investment consultant search, the Board will follow the procedures identified in *Appendix C: Procurement Policy for Investment Advisers and Consultants*.

In accordance with Illinois Pension Code (40 ILCS 5/1-109.1), the Board has adopted a policy setting forth goals for utilization of investment management firms that are businesses owned by minorities, women, and persons with disabilities. The Board's policy is included in *Appendix D: M/W/DBE / Emerging Investment Manager Utilization Policy*.

In consideration of Section 1A-108.5 of the Illinois Pension Code (40 ILCS 5/1A-108.5) encouraging pension funds to promote the economy of the State of Illinois through the use of economic opportunity investments, the LABF will consider such investments to the greatest extent feasible within the bounds of financial and fiduciary prudence.

## **ASSET ALLOCATION**

The Board shall maintain an appropriate asset allocation. The current target asset allocation is included in this Policy as *Appendix A: Target Asset Allocation*. The Board, Investment Staff, and investment consultant(s) will review the asset allocation at least annually and consider changes as deemed prudent.

Although it is the Board's intention to maintain an allocation within the long-term allocation target ranges, the Board may choose to allow the actual allocation to remain outside the target range if it believes market conditions warrant doing so. The Board recognizes that certain allocations are illiquid in nature (e.g. private equity, real estate, etc.) and may remain outside the target allocation range for extended periods of time.

In implementing the target asset allocation, the Board may utilize both active and passive management. Active management is utilized in an attempt to exceed the performance of a certain index by a mutually agreed upon level, net of fees. Passive management is utilized to mimic the performance of a specific index. Active management is generally more expensive than passive management. Therefore, the Board utilizes active management when it believes there is inefficiency in the market or there is a reasonable probability of achieving a net-of-fees return premium over the associated index. Assets may be held in commingled funds or separate accounts.

## **LIQUIDITY NEEDS AND PORTFOLIO REBALANCING**

The Board delegates to the Executive Director the authority to liquidate assets, as necessary, to cover benefit payments and other financial obligations, including capital calls pertaining to certain closed-ended investment funds. Liquidity will be primarily drawn from asset classes that exceed their respective allocation targets to help move the LABF's overall asset allocation closer to target allocations specified in *Appendix A*. The Executive Director will report such liquidity events to the Board.

Additionally, due to fluctuations in asset values, the investment portfolio may need to be rebalanced occasionally by shifting assets from one asset class or investment account to another in order to maintain asset allocations that are in line

with the approved target ranges. In these instances, the investment consultant and Investment Staff will bring a rebalancing plan to the Board for its approval. Upon approval by the Board, the Investment Staff will work to transition the assets.

## **CORPORATE GOVERNANCE**

### **Proxy Voting**

The LABF delegates the responsibility of voting proxies to the investment manager who purchased the security on its behalf. Each investment manager shall have full discretionary authority to vote the proxies. As fiduciaries, investment managers shall exercise voting rights solely in the best interest of LABF, its participants and their beneficiaries. In fulfilling its obligation, the manager will act in a manner deemed to be prudent and diligent, and which is intended to enhance the economic value of the underlying security held.

On an annual basis (by January 31<sup>st</sup> of each year), each investment manager shall provide the Investment Staff with a copy of the manager's proxy voting policy and a written report detailing each proxy vote made during the prior calendar year.

### **Securities Litigation (Class Actions) Policy**

The LABF monitors pending and potential securities litigation cases and participates as appropriate to protect its members' interests.

Monitoring and reporting of potential litigation is carried out by the LABF's outside securities litigation firms. The firms may make recommendations to the LABF and to the LABF's legal counsel(s) in situations where explicit legal action may be taken by the LABF, such as petitioning for status as a lead plaintiff in a class action lawsuit, bringing a derivative action against a corporation, or participating in any form of collective litigation related to securities purchased or sold outside of the United States. Depending on the merits of the recommendation, the matter will be referred to the Board for consideration. Board approval is required before such action can be taken.

The LABF utilizes class action claim filing services offered by the master custodian. The master custodian will pursue the LABF's interest through the claim process and will complete the appropriate forms and provide the proper supporting documents to protect the LABF's claims. The LABF's master custodian will provide periodic reporting related to the pending and settled class action litigation in which the LABF has an interest.

## **BOARD AUTHORITY TO IMPOSE INVESTMENT RESTRICTIONS**

From time-to-time, the Board may establish certain investment restrictions at the overall LABF level that shall be instituted in addition to mandate-specific restrictions found in individual investment manager contracts. Subject to an investment manager's exercise of fiduciary duties, the investment manager shall comply with such restrictions. See *Appendix F: Restrictions on Investment* for a current list of such restrictions.

## **AMENDMENTS TO THE INVESTMENT POLICY STATEMENT**

The Board may amend this Investment Policy Statement at any time. If changes are made to the Investment Policy Statement, the Board shall file a copy of the new policy with the Illinois Department of Insurance within 30 days as specified in the Illinois Pension Code. [40 ILCS 5/1-113.6]

# APPENDICES

## APPENDIX A. TARGET ASSET ALLOCATION

	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
<b>Fixed Income:</b>			
Core U.S. Fixed Income	5.0%	10.0%	15.0%
Liquid Opportunistic Credit	2.0%	7.0%	12.0%
Emerging Markets Debt	0.0%	3.0%	6.0%
<b>Total Fixed Income</b>	<b>15.0%</b>	<b>16.0%</b>	<b>25.0%</b>
<b>Equity:</b>			
U.S. Large Cap	11.0%	16.0%	21.0%
U.S. Small/Mid Cap	4.0%	9.0%	14.0%
International Developed Markets Large Cap	5.0%	10.0%	15.0%
International Developed Markets Small Cap	0.0%	5.0%	10.0%
Emerging Markets	0.0%	5.0%	10.0%
Global Equity	0.0%	5.0%	10.0%
<b>Total Equity</b>	<b>40.0%</b>	<b>54.0%</b>	<b>60.0%</b>
<b>Alternatives</b>			
Real Estate	5.0%	10.0%	15.0%
Private Real Assets	0.0%	3.0%	6.0%
Private Equity	1.0%	4.0%	7.0%
Private Debt	0.0%	3.0%	6.0%
Hedge Funds	5.0%	10.0%	15.0%
<b>Total Alternatives</b>	<b>20.0%</b>	<b>30.0%</b>	<b>40.0%</b>

*Adopted October 5, 2017*

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**APPENDIX B. ASSUMED INVESTMENT RATE OF RETURN AND POLICY  
BENCHMARK**

***ASSUMED INVESTMENT RATE OF RETURN***

*Effective January 1, 2018*

7.25%

***POLICY BENCHMARK***

Adopted October 5, 2017

Effective November 1, 2018

10%	Barclays Capital U.S. Aggregate Index (Fixed Income)
03%	JPM GBI-EM Global Diversified Index (Fixed Income)
07%	50% Barclays High Yield/50% CSFB Leveraged Loan Index (Fixed Income)
16%	S&P 500 Index (U.S. Equity)
09%	Russell 2500 Index (U.S. Equity)
10%	MSCI EAFE (Non-U.S. Equity)
05%	MSCI EAFE Small Cap Index (Non-U.S. Equity)
03%	MSCI Emerging Markets Index (Non-U.S. Equity)
02%	MSCI Emerging Markets Small Cap Index (Non-U.S. Equity)
05%	MSCI ACWI Minimum Volatility (Global Equity)
03%	Credit Suisse FB Leveraged Loan Index (Private Debt)
03%	LIBOR + 4% (Infrastructure)
05%	HFRI Equity Hedge (Hedge Funds)
05%	HFRI Equity Relative Value Index (Hedge Funds)
04%	Cambridge All Private Equity (Private Equity)
05%	NCREIF ODCE (Real Estate)
05%	NCREIF Property Index (Real Estate)

LABORERS' AND RETIREMENT BOARD EMPLOYEES' ANNUITY AND BENEFIT FUND OF CHICAGO  
INVESTMENT POLICY STATEMENT

**APPENDIX C. PROCUREMENT POLICY FOR INVESTMENT ADVISERS AND  
CONSULTANTS**

**A. Introduction**

The Board of Trustees ("Board") of the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago ("LABF") establishes the following Procurement Policy ("Policy") so that decisions to procure investment services from an investment adviser/manager or investment consultant will be made based on the principles of competitive selection, full disclosure, objective evaluation, and proper documentation. This Policy is not meant to limit the Board's right to modify current mandates or rebalance the LABF portfolio when prudent.

Pursuant to Section 1-113.14(b) of the Illinois Pension Code, contracts for investment services shall be awarded by the Board using a competitive process that is substantially similar to the process required for the procurement of professional and artistic services under Article 35 of the Illinois Procurement Code (30 ILCS 500/35 et seq.). Exceptions to this requirement are allowed for:

1. Sole source procurements;
2. Emergency procurements;
3. At the discretion of the Board, contracts having a value of less than \$20,000 that are nonrenewable and one year or less in duration; and
4. At the discretion of the Board, contracts for follow-on funds with the same fund sponsor through closed-end funds.

All exceptions granted shall be published on LABF's website and shall include a brief explanation of the reason for the exception.

**B. Competitive Search Procedures for Investment Advisers**

1. Search Initiation
  - a. The Board shall approve a search for an investment adviser and the parameters of the search.
  - b. Uniform documents shall be used for the solicitation, evaluation, and hiring of investment advisers. Such documents shall include the requirements set forth in the Illinois Pension Code, including, but not limited to Section 1-113.14(c).
  - c. Notice of an investment adviser search shall be published on LABF's website in the form of a Request for Proposals ("RFP") at least 14 calendar days before the RFP responses are due.
2. Search Documents. At a minimum, RFP documents shall contain the following:
  - a. Scope of services.
  - b. Disclosure of the Quiet Period.
  - c. Amount of assets expected to be awarded.
  - d. Date by which responses to the search shall be submitted.
  - e. Description of the necessary qualifications.
  - f. Evaluation factors.
  - g. Copy of LABF's Investment Policy Statement, with notice that such Policy is subject to change.
  - h. Copy of LABF's Ethics Policy.
  - i. Requirement that the response to the RFP shall contain all required disclosures, as applicable, set forth in Sections 1-113.14(c) and 1-113.21 of the Illinois Pension Code.
  - j. Statement that contingent and placement fees are prohibited.

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- k. Statement that RFP responses are subject to the Illinois Freedom of Information Act (5 ILCS 140).
  - l. Delivery method of the RFP response.
3. Evaluation of Responses to the RFP. Responses will be evaluated initially by LABF Investment Staff and/or the investment consultant based, in general, on the following evaluation factors:
- a. Firm stability – including: legal structure, ownership, profitability, sufficiency of assets under management to sustain business, product offering diversity, capital flows, growth trends.
  - b. Team – including: tenure, experience working together, employment contracts, incentive structure, size of portfolio manager investment in the portfolios they manage, team member interviews, signs of problems (attrition, employee turnover, etc.).
  - c. Strategy/process – including: security screening process, portfolio construction methodology, style drift, decision making process, sell discipline.
  - d. Performance – including: consistency of returns, risk adjusted returns, consistency with regard to components adding alpha, risk levels, net-of-fees performance relative to benchmarks and peers.
  - e. Compliance – trading restrictions, auditors, technology infrastructure, security, disaster recovery, legal/regulatory.
  - f. Client servicing – team assigned, proper communication, responsiveness, accuracy.

The LABF investment staff and/or the investment consultant will identify to the Board the investment advisers that do not meet the minimum requirements as specified in the RFP, if any, and the investment advisers that are believed to be the most qualified, providing a basis for each determination. The Board will select the finalist(s) that will be invited to make a presentation to the Board.

4. Diverse Investment Advisers.
- a. For the purposes of this section, “emerging investment manager” means 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, Women-Owned Business, or Business Owned by a Person with a Disability, as those terms are defined in the Business Enterprise for Minorities, Women and Persons with Disabilities Act, 30 ILCS 575/2.
  - b. For purposes of this section, “minority investment manager” means a qualified Investment Adviser that manages an investment portfolio and is a Minority-Owned Business, Women-Owned Business, or Business Owned by a Person with a Disability, as those terms are defined in the Business Enterprise for Minorities, Women and Persons with Disabilities Act, 30 ILCS 575/2, (collectively, “Diverse Investment Advisers”).
  - c. The LABF makes every attempt to establish search criteria that encourage Diverse Investment Advisers to submit responses.
  - d. In accordance with Sections 1-109.1 (4) and (9) of the Illinois Pension Code, 40 ILCS 5/1-109.1 (4) and (9), if one or more Diverse Investment Advisers meet the criteria established by the Board for a search, the Board shall invite the most qualified firm or firms to make a presentation to the Board for consideration for a contract.
  - e. The Board shall verify the Investment Adviser’s status as a Minority Owned Business, Women Owned Business, or Business Owned by a Person with a Disability.
5. Quiet Period. There shall be a quiet period to ensure that: prospective investment advisers have equal access to information regarding the search; communications related to the selection are consistent and accurate; and the process of selecting an investment adviser is efficient, diligent, and fair. The quiet period shall commence upon the Board’s authorization of a search and end upon either the completion of all contracts or agreements associated with the search or cancellation of the search. During the quiet period, members of the Board and the LABF investment staff shall not knowingly communicate

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with any party financially interested in any prospective contract or agreement with the LABF regarding the contract or agreement, the services to be provided, or the selection process; however, the quiet period does not apply to communications that are:

- a. part of the process described in the RFP documents;
- b. part of a scheduled Board meeting;
- c. related to services currently provided by the prospective investment adviser under an existing contract or agreement with the LABF; or
- d. incidental or do not involve LABF or its investments.

Further, during the quiet period, Board members, LABF investment staff, or LABF investment consultant, shall not accept meals, travel, lodging, entertainment, or any other good or service of value from any candidate or from any firm that is reasonably known to be interested in being a candidate.

- 6. **Presentations.** One or more finalists will be invited to make a presentation to and interview with the Board at a scheduled Board meeting. The Board may, at its own discretion, require one or more finalists to supply additional information, make subsequent presentations, and/or attend subsequent interviews prior to awarding a contract.
- 7. **Award of Contract**
  - a. The Board shall determine which investment adviser(s), if any, will be awarded the contract and the amount of assets to be awarded.
  - b. The Board and its agents shall negotiate the terms of any contract or agreements with the investment adviser(s).
  - c. Nothing shall prohibit the Board from making a selection that in the Board's judgment represents the best value based on qualifications, fees, and other relevant factors established for the search being considered.
- 8. **Notice of Contract.** Following the execution of the contract(s), the Board's decision shall be posted on the LABF's website. Such notice shall include the name of the investment adviser(s) awarded a mandate, the total amount of the mandate, the basis for determining the total fees to be paid, and a disclosure describing the factors that contributed to the selection of the investment adviser.

**C. Competitive Search Procedures for Investment Consultant.**

The search procedures for an investment consultant shall mirror the search procedures for an investment adviser as specified above in all material respects, with the following exceptions:

- a. The responsibilities of the investment consultant with respect to a search for investment adviser shall be assumed by LABF Investment Staff with respect to a search for investment consultant.
- b. The LABF shall not enter into a contract with an investment consultant that exceeds five (5) years in duration. No contract to provide consulting services may be renewed or extended. At the end of the term of a contract, however, the investment consultant is eligible to compete for a new contract as provided in this section.



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**APPENDIX D. M/W/DBE / EMERGING INVESTMENT MANAGER UTILIZATION  
POLICY**

The Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago ("LABF") is committed to providing opportunities for minority owned business entities, women owned business entities, and business entities owned by a person with a disability as defined in the Business Enterprise for Minorities, Women, and Persons with Disabilities Act (30 ILCS 575/2).

Pursuant to Illinois Pension Code (40 ILCS 5/1-109.1(4)), the LABF Board of Trustees has adopted the following minimum goals for the utilization of Emerging Investment Managers.

**Goals for the Utilization of Emerging Investment Managers:**

**By Ownership:**

<u>Investment Manager Classification</u>	<u>As a Percentage of Total LABF Assets</u>
Minority Owned Business Entity	13% to 15%
Women Owned Business Entity	2% to 4%
Disabled Owned Business Entity	Best Efforts

**By Asset Class:**

<u>Asset Class</u>	<u>As a Percentage of Total Asset Class</u>
Equity	18% to 20%
Fixed Income	7% to 9%
Alternatives	11% to 16%

*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", "women-owned business" or "business owned by a person with a disability" as those terms are defined in the Business Enterprise for Minorities, Women, and Persons with Disabilities Act."*

Pursuant to Illinois Pension Code (40 ILCS 5/1-109.1(9)), beginning February 1, 2015, the LABF Board of Trustees has also adopted the following policy setting minimum goals for the utilization of Minority Investment Managers.

**Goals for the Utilization of Minority Investment Managers by Classification:**

<u>Investment Manager Classification</u>	<u>As a Percentage of Total LABF Assets</u>
Minority Owned Business Entity	15% to 23%
Women Owned Business Entity	2% to 5%
Disabled Owned Business Entity	Best Efforts

*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", "women-owned business", or "business owned by a person with a disability", as those terms are defined in the Business Enterprise for Minorities, Women, and Persons with Disabilities Act."*

These goals will be reviewed annually.

Pursuant to Illinois Pension Code (40 ILCS 5/1-109.1(10)), beginning January 1, 2016, it shall be the aspirational goal for LABF:

- to use emerging investment managers for not less than 20% of the total funds under management.
- that not less than 20% of investment advisers be minorities, women, and persons with disabilities.

Adopted November 17, 2009  
Last amended March 19, 2019.

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**APPENDIX E. M/W/DBE BROKER-DEALER UTILIZATION POLICY**

The Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago ("LABF") is committed to providing opportunities for minority owned business entities, women owned business entities, and business entities owned by a person with a disability as defined in the Business Enterprise for Minorities, Women, and Persons with Disabilities Act (30 ILCS 575/2).

Pursuant to the Illinois Pension Code (40 ILCS 5/1-109.1(7)), LABF Board of Trustees (the "Board") adopted the following M/W/DBE broker-dealer utilization policy. 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.

Investment managers of separately managed accounts, subject to best execution and their fiduciary duty to LABF in the management of LABF assets, shall make a best effort to adhere to the following minimum M/W/DBE broker-dealer utilization goals:

<u>Asset Class</u>	<u>As a Percentage of Total Commissions</u>
Domestic Equity (Large, Mid, and Small Cap Equity)	40%
Global Equity	30%
International Equity	20%
International Equity – Small Cap	10%
Emerging Markets Equity	10%
	<u>As a Percentage of Total Par Value Traded</u>
Fixed Income	25%

Investment managers shall not utilize indirect methods, such as "step-out" commissions, to achieve these goals. Therefore, to meet LABF's M/W/DBE goals, all trades must be executed directly with the M/W/DBE broker-dealers.

In consideration of Section 1A-108.5 of the Illinois Pension Code (40 ILCS 5/1A-108.5), the Board encourages the utilization of qualified broker-dealers that have an office in Chicago or within the State of Illinois.

Each investment manager shall submit a compliance report to LABF on a quarterly basis in a format as reasonably requested by LABF. LABF investment staff will report to the Board annually on the utilization of M/W/DBE broker-dealers. If an investment manager fails to comply with the above guidelines on a calendar basis, they may be asked to appear before the Board and explain why they were unable to achieve the M/W/DBE utilization goals. Failure by an investment manager to meet the M/W/DBE brokerage goals will be considered a factor when evaluating overall performance of the investment manager.

This policy will be reviewed annually.

*Adopted December 17, 2002*  
Last amended March 19, 2019

## **APPENDIX F. RESTRICTIONS ON INVESTMENT**

The restrictions set forth below apply to separate accounts holding publicly traded equity and fixed-income securities. With respect to all other investments, the Board strongly encourages adherence to these restrictions.

Unless the LABF provides its investment managers with a list of specifically restricted investments, it shall be the responsibility of the investment manager to determine a reasonable basis by which to identify such restricted investments and make a reasonable effort to adhere to such restrictions.

### **List of current restrictions:**

#### **Assault Weapon Manufacturer** *Adopted February 18, 2014*

Subject to an investment manager's exercise of fiduciary duties, 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 the purposes of this policy, "assault weapon manufacturer" shall mean any entity that manufactures prohibited assault weapons for civilian use. "Prohibited assault weapon" shall have the same meaning as the term "assault weapon" in the Municipal Code of Chicago.

These Assault Weapon Manufacturer restrictions shall expire, by their terms, on May 31, 2020, unless extended by further Board action.



**LABORERS' AND RETIREMENT BOARD EMPLOYEES'  
ANNUITY AND BENEFIT FUND OF CHICAGO**

January 24, 2019

Ms. Samantha Fields  
Budget Director  
City of Chicago  
Office of Budget and Management  
121 North LaSalle Street, Room 604  
Chicago, IL 60602

Re: Historical Contribution Shortfall Due to Loss Associated with Property Tax Collections

Dear Ms. Fields:

I am writing on behalf of the Board of Trustees of the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago (the "LABF") to request that the City of Chicago remit to the LABF the amount representing the historical shortfalls in employer contributions due to losses associated with property tax collections. As you are aware, the LABF is required each year to "certify to the city council the annual amounts required under this Article [Article 11 of the Illinois Pension Code, 40 ILCS 5/11-101 et seq.], for which the tax herein provided shall be levied for the following year" [40 ILCS 5/11/169(b)]. However, since a portion of the property taxes that are levied are ultimately never collected and the City failed to levy an amount that takes into consideration these losses, the LABF has not received the full amount that was certified. The LABF therefore has absorbed a shortfall in City contributions based on the shortfall associated with the collection of property taxes levied by the City for many years. The LABF believes it is not obligated to absorb this shortfall.

Based on a recent accounting of estimated losses for tax levy years 2008 through 2017, LABF has absorbed aggregate losses of approximately \$3 million. This data serves only to illustrate the magnitude of the more recent losses and is not intended to limit the City of Chicago's obligations to this specific period. For levy year 2007, the City used sources other than the property tax to finance its contribution to the LABF and the LABF therefore suffered no loss associated with that specific year. For tax levy years 2000 through 2006 (payment years 2001 through 2007), the LABF received no employer contributions whatsoever. During this period, the City erroneously relied on language found in Section 11-178 which specifies that if certain conditions are met, "the city shall cease to contribute the sum stated in this Section [emphasis added]" as the basis for not making any contributions. However, Section 11-178 is used to determine only one component part of the City's total required contribution. If certain conditions are met, the City shall cease making just the contributions specified in 11-178, but not all other required contributions. Despite not receiving any contributions, the LABF continued to certify its annual financing requirement to the City. The amount the LABF certified for this seven-year period totaled approximately \$125 million. Additionally, the LABF suffered losses associated with the tax levy collection for levy years 1970 through 1999.

There are four primary reasons why the LABF believes it should not suffer losses associated with the property tax collections. They are as follows:

1. Precedent Exists for Levying an Amount in Anticipation of a Loss. At various points between 1945 and 1969, the Fund requested a tax levy amount (not exceeding the maximum authorized tax levy amount per the Statutes) that anticipated a tax levy loss ranging from 7.5% to 10% depending on the year. This amount was then levied and budgeted for by the City, demonstrating that the City has long been aware of and at times anticipated a shortfall in property tax collections.
2. The Plain Language of the Law Accounts for Losses Associated with Property Tax Collections. Public Act 76-1509 was enacted on September 22, 1969 and changed the tax levy cap calculation methodology, moving it from a flat percentage of taxable property to a multiple of the amount employees contributed two years prior. Prior to 1970, a limit existed with respect to the amount of property tax that could be levied. The law read that the tax "shall be not more than" a specified amount. [40 ILCS 5/11-169(a)]. The 1969 Act explicitly changed the methodology going forward. After PA 76-1509, the law clearly read that beginning in 1970, "the city shall levy a tax annually at a rate...that will produce, when extended, not to exceed an amount equal to the total amount of contributions by the employees to the fund made in the calendar year 2 years prior to the year for which the annual applicable tax is levied, multiplied by [applicable multiplier]". In other words, the limit, starting in 1970, was not on the amount of the tax levy; rather, the limit was on the amount produced by the tax levy. However, the fact is that the contributions to the LABF that are derived from the tax levy have been less than the levied amount due to losses and the cost of collections, which have been absorbed by the LABF up to the present.
3. The Original Drafters Accounted for Challenges Associated with Property Tax Collections. Since June 21, 1935, the date that House Bill 968 was enacted creating the LABF, at least two sources have existed that have been available to finance the City's employer contributions to the LABF. The first is obviously the property tax levy. However, presumably anticipating delays or shortfalls in property tax collections, the original law also stated that "[i]f the funds available for the purposes of this Act shall be insufficient during any year to meet the requirements of this Act, such city [the City of Chicago] may issue tax anticipation warrants, as provided by law, against the tax levy herein provided for, for the current year". This clearly demonstrates that the general intent was to prevent the LABF from suffering financially because of funding delays or shortfalls associated with property tax collections.
4. The City is No Longer Limited to Utilizing Property Tax Proceeds. On June 27, 1997, Public Act 90-0031 was enacted allowing the City "to use other lawfully available funds in lieu of all or part of the levy" in order to finance contributions to the LABF. If for no other reason, the ability to utilize other sources should have ended the practice of forcing the LABF to absorb the loss associated with the property tax collection. The City, however, has not used other funds in lieu of the levy to address the shortfall.

Based on the forgoing, I would appreciate the opportunity to meet with you to discuss how the City of Chicago will address these shortfalls in contributions to the LABF. I would also be happy to further explain or share evidence with you substantiating the points made above. Please feel free to contact me at your earliest convenience at (312) 236-2082.

Sincerely,

  
Michael Walsh  
Executive Director and Chief Investment Officer

cc: Kurt Peterson, First Deputy Budget Director