



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

**INVESTMENT POLICY STATEMENT**

**Adopted March 19, 2019  
Amended October 19, 2021**

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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 Policy 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 managers 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, (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 Policy Statement, objectives, and guidelines as appropriate and assist with monitoring compliance with the Investment Policy Statement.
- 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.

## SUSTAINABILITY INVESTING

Pursuant to the Illinois Pension Code (40 ILCS 5/1-113.6 and 40 ILCS 5/1-113.17), effective January 1, 2020, the LABF shall consider material, relevant, and decision-useful sustainability factors, within the bounds of financial and fiduciary prudence, in evaluating investment decisions.

The Illinois Sustainable Investing Act (Public Act 101-0473) defines "sustainability factors" as "*factors that may have a material and relevant financial impact on the safety or performance of an investment and which are complementary to financial factors and financial accounting.*" Such factors include, but are not limited to:

- **Corporate governance and leadership factors**, such as the independence of boards and auditors, the expertise and competence of corporate boards and executives, systemic risk management practices, executive compensation structures, transparency and reporting, leadership diversity, regulatory and legal compliance, shareholder rights, and ethical conduct.
- **Environmental factors** that may have an adverse or positive financial impact on investment performance, such as greenhouse gas emissions, air quality, energy management, water and wastewater management, waste and hazardous materials management, and ecological impacts.
- **Social capital factors** that impact relationships with key outside parties, such as customers, local communities, the public, and the government, which may impact investment performance. Social capital factors include human rights, customer welfare, customer privacy, data security, access and affordability, selling practices and product labeling, community reinvestment, and community relations.
- **Human capital factors** that recognize that the workforce is an important asset to delivering long-term value, including factors such as labor practices, responsible contractor and responsible bidder policies, employee health and safety, employee engagement, diversity and inclusion, and incentives and compensation.
- **Business model and innovation factors** that reflect an ability to plan and forecast opportunities and risks, and whether a company can create long-term shareholder value, including factors such as supply chain management, materials sourcing and efficiency, business model resilience, product design and life cycle management, and physical impacts of climate change.

## 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 and 113.17]

# APPENDICES

## APPENDIX A. TARGET ASSET ALLOCATION

	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
<b>Fixed Income:</b>			
Core U.S. Fixed Income	05.0%	10.0%	15.0%
Liquid Opportunistic Credit	02.0%	07.0%	12.0%
Emerging Markets Debt	0.0%	03.0%	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%	09.0%	14.0%
International Developed Markets Large Cap	5.0%	10.0%	15.0%
International Developed Markets Small Cap	0.0%	05.0%	10.0%
Emerging Markets	0.0%	05.0%	10.0%
Global Equity	0.0%	05.0%	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%	03.0%	06.0%
Private Equity	1.0%	04.0%	07.0%
Private Debt	0.0%	03.0%	06.0%
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*

**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)

## **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;
4. At the discretion of the Board, contracts for follow-on funds with the same fund sponsor through closed-end funds; and
5. Effective 01/01/2022, pursuant to Section 1-113.24 of the Illinois Pension Code, the Board may select or appoint an emerging investment manager that provides investment services through a qualified manager of emerging investment managers services. This exception requires a written recommendation from the investment adviser providing qualified manager of emerging investment managers services for the selection or appointment of an emerging investment manager that has been providing investment services in the multimanager portfolio for at least 24 months.

All exceptions granted shall be published on LABF's website, shall name the person authorizing the procurement, 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.

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- f. Evaluation factors, including the factors set forth in Sections 1-113.6 and 1-113.17 of the Illinois Pension Code.
  - 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), 1-113.15, 1-113.21, and 1-113.23 of the Illinois Pension Code.
  - j. Statement that contingent and placement fees are prohibited.
  - 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.
  - g. Commitment to Sustainability – the investment adviser's ability to implement material, relevant, and decision-useful sustainability factors in its investment decisions, including, but not limited to (1) corporate governance and leadership factors; (2) environmental factors; (3) social capital factors; (4) human capital factors; and (5) business model and innovation factors.

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

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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 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:

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1. 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.
2. 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.
3. Pursuant to Section 113.22 of the Illinois Pension Code, a requirement that the candidate for investment consultant shall disclose for the prior calendar year:
  - a. The total number of searches for investment services;
  - b. The total number of searches for investment services that included Diverse Investment Advisers;
  - c. The total number of searches for investment services in which the candidate recommended for selection a Diverse Investment Advisers;
  - d. The total number of searches for investment services that resulted in the selection of a Diverse Investment Advisers; and
  - e. The total dollar amount of investment made with a Diverse Investment Advisers that was selected after a search for investment services performed by the candidate.

## 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	18% to 20%
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 August 18, 2020.

### **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*

*Last amended May 18, 2021*

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.