

Chicago Teachers' Pension Fund



Chicago Teachers' Pension Fund

Annual Report Diversity and Inclusion for the Fiscal Year Ending June 30, 2010

*Presented to Governor Patrick J. Quinn
December 2010*

Commitment to Diversity and Inclusion



Chicago Teachers' Pension Fund (CTPF) provides retirement benefits for over 35,000 active and 24,000 retired Public School Teachers in Chicago. This demographic represents a vast population of ethnicities and genders. In light of our diverse membership population, CTPF is committed to encouraging diversity and equality in all arenas.

CTPF has prided itself on being at the forefront among pension and retirement systems throughout the United States in providing access and opportunities to minorities, women and persons with disabilities. This commitment is evident in our employees, vendors, investment managers and community involvement.

On behalf of the Fund and our Board of Trustees, we present to Governor Pat Quinn CTPF's annual Diversity and Inclusion Report for the fiscal year ending June 30, 2010.



Chicago Teachers' Pension Fund



Chicago Teachers' Pension Fund

Annual Report of Fiduciary, Staff and Vendor Diversity Fiscal Year Ending June 30, 2010

Chicago Teachers' Pension Fund Diversity Policy

Fiduciary, Consultant, Procurement, and Staff Diversity Goals and Guidelines

Public School Teachers' Pension Fund and Retirement Fund of Chicago (CTPF) is an Equal Opportunity Employer and fully embraces the public policies of the State of Illinois regarding the benefits of inclusion and diversity.

Commitment to Diversity:

CTPF has historically demonstrated its commitment to diversity and has been at the forefront among state pension and retirement systems in assuring access and opportunities to minorities and women. CTPF supports the public policy considerations of the State of Illinois codified in SB364 (Public Act 96-0006) which mandates establishment of incremental goals for the inclusion of minority, female, and disabled persons when pension funds recruit staff and seek services. Accordingly, CTPF establishes this Diversity Policy which broadly encompasses diversity considerations in the recruitment of staff, consultants, fiduciaries and other providers of goods and services and sets specific goals to be reviewed annually.

The Goal of CTPF's Diversity Policy is that CTPF be recognized by employees, service providers, members and the public as an inclusive organization that places a high value on diversity.

This Statement of Diversity Policy serves the following purposes:

- Provides a written document of the Board's commitment to diversity in the recruitment of staff, and utilization of fiduciaries and service providers to the Fund.
- Establishes objectives and guidelines for Trustees, management and staff to achieve CTPF's diversity goals in the recruitment of staff, and retention of fiduciaries and service providers.

- Outlines procedures to provide notice and equal access to information regarding employment and contract services to the Fund, and insure equitable opportunities for minorities, women, and disabled persons seeking employment or to provide goods and services to the Fund.
- Establishes the 4 northeast counties of the state of Illinois as CTPF's recruitment area for purposes of staff.

The statement is intended to be dynamic in nature and will be updated and revised as appropriate to reflect the Board's incremental achievement of diversity goals.

Governing Law: Provisions, procedures, and all agreements for the rendering of services to the Public School Teachers' Pension and Retirement Fund of Chicago are subject to the Illinois Pension Code, [40 ILCS 1, 5, and 17), Public Act 96-06 and the Ethics Policy of the Chicago Teachers' Pension Fund which extend and apply to all potential and selected service providers.

Diversity of the Board of Trustees:

Governance of the pension fund rests with the diverse 12 member Board of Trustees. 10 trustees are elected and 2 are appointed by the primary employer. The composition of the Board of Trustees as of November 30, 2009 is shown in Table 1 below.

Table 1

	<u>Gender</u>		<u>African Am.</u>	<u>Race/Ethnicity</u>		
	<u>Female</u>	<u>Male</u>		<u>Asian</u>	<u>Caucasian</u>	<u>Latino</u>
Trustees	5	7	3	0	7	2

Due in large part to its own diversity, the Board of Trustees of the CTPF is particularly cognizant of the value of diversity and inclusion and adopts this staff recruitment policy to reflect its commitment.

Staff Diversity Policy:

CTPF currently has a diverse work force as depicted in Table 2 and Table 3 below.

Table 2. Staff Diversity: Position, Gender and Ethnicity

Staff	<u>Gender</u>		<u>African Am.</u>	<u>Race/Ethnicity</u>		
	<u>Female</u>	<u>Male</u>		<u>Asian</u>	<u>Caucasian</u>	<u>Latino</u>
Sr. Management	3	1	1	0	2	1
Management	3	1	2	0	1	1
Supervisory	3	1	0	1	2	1
Professional	0	1	0	0	1	0
Technical	1	3	0	0	4	0
Clerical	49	7	24	5	21	6
Total	59	14	27	6	32	7

Table Data as of November 1, 2010

Table 3 Staff Diversity: Gender and Ethnicity

Classification	Female	Male	Female	Male	Total
African American	25	2	42.4%	14.3%	37.0%
Asian	6	0	10.2%	-	8.2%
Caucasian	22	10	37.3%	71.4%	43.8%
Latino	6	2	10.2%	14.3%	11.0%
Total	59	14			

Table Data as of November 1, 2010

Goal: It is CTPF's goal to develop a workforce that more closely reflects the minority and female demographics of the CTPF's metropolitan Chicago recruiting area. The metropolitan recruiting area includes Cook, DuPage, Lake, and Will counties in Illinois.

Table 4

	CTPF Current		Metro Recruiting
	Headcount	Ratio	Area Ratio
African American	27	37%	12.2%
Asian	6	8%	6.9%
Caucasian	32	44%	63%
Latino	8	11%	17.5%
Female	59	81%	50.3%
Male	14	19%	49.7%

Table Data as of November 1, 2010

Staff Diversity Recruitment Guidelines: Management is directed to pursue diversity in the future recruitment of staff that contribute to the goal of a workforce that reflects area demographics.

The Board of Trustees recognizes that knowledge and understanding of the need and benefits of diversity is the cornerstone of a successful diversity strategy and towards that end it shall be the policy of the Fund to encourage and provide Diversity Training to Human Resources and management staff.

The Board of Trustees recognizes that achievement of the Fund's diversity goals is contingent upon the Fund gaining exposure to a large and broad pool of qualified candidates. To achieve exposure to the largest possible group of qualified candidates, the following shall be the policy of the Fund relative to recruitment:

- (i) All positions shall be advertised in-house for a period of no less than two weeks to allow all internal staff applying and meeting the minimum posted requirements for a new or vacant position to be interviewed for those positions.
- (ii) No external interview shall take place prior to the completion of the interview of all internal applicants/candidates.
- (iii) When no internal candidate applies for, and/or no internal candidate is identified as the best candidate for a position, CTPF shall expand the pool of candidates or increase its exposure to more candidates by:
 - a. Announcing the vacancy, posting the job description, and soliciting application and resumes from qualified individuals on the Fund's website.
 - b. Posting or advertising the vacancy in appropriate trade or other periodicals,
 - c. Posting or advertising the vacancy on major on-line or web based employment search sites and university placement offices, where appropriate.

d. Considering referrals of qualified candidates from internal staff.

(iv) In all cases, CTPF will seek to hire the best qualified candidate for each position.

(v) When two or more candidates have comparable qualifications for a position, CTPF will seek to hire the qualified candidate that lends to achievement of the State of Illinois' public policy goals and the Fund's diversity goals.

Diversity Procurement and Purchasing Policy:

CTPF fully supports the public policy considerations of SB364 (Public Act 96-0006) which among other provisions, mandates establishment of procurement policies by all major public pension funds in Illinois that promote inclusion and diversity. The law also mandates establishment of incremental goals for the inclusion of minorities, females, and disabled persons when pension funds seek fiduciaries and services.

Policy Objectives

The overriding objective of the CTPF diversity policy is to ensure that minorities, females and disabled persons are provided an equal opportunity to provide services to and do business with CTPF.

Diversity Policy Objectives promote and ensure:

- Prospective service providers competing to become employed by CTPF have an equal opportunity to compete and access to information regarding the search parameters;
- Fair competition among qualified fiduciaries and service providers;
- Communications related to the selection are accessible, consistent and accurate;
- The process of selecting service providers is efficient, diligent, and fair;
- Transparency in the process of selection and retention of service providers.

Fiduciaries and Service Providers				
Service	Total Expenses	MWDBE Expenses	MWDBE Status and Allocation	
Actuarial Services	68,000			
Independent Auditor	165,275			
Investment Consulting and Services				
Master Custodian	400,000			
Investment Consulting	405,000			
Real Estate Investment Consulting	160,000			
Health Insurance Consulting	35,093			
Legal Services	210,496			
Information Services Consulting	580,698	110,950	WBE	3.88%
Communications and Publications	128,357	96,517	WBE	3.38%
Printing	108,329	39,638	WBE	1.39%
Document Processing and Mailing	220,114			
Election Administration	250,358			
Legislative Lobbyists	127,138	54,489	MBE	1.91%
Total	\$2,858,858			
Total MWDB Participation		\$301,594		10.55%
Total Investment Manager Fees	37,879,768			
Total Fees Paid to MWDBE		9,124,648	MWDBE	24.08%

Table Data as of June 30, 2010

Of those currently providing services to CTPF, minorities and female businesses received 10.55% of the business expenditures made by the fund for goods and services, a 12% increase over the 9.41% spent with MWDB enterprises last year.

Of those currently paid investment manager fees by CTPF, minorities and female businesses received 24.08% of the amount spent, a slight increase over the 23% paid to MWD investment managers last year.

Goal: It is CTPF's goal is to have 20% of all fund expenditures for fiduciaries, suppliers, consultants and service providers paid to firms owned by minorities, females and persons with disabilities in 2010. This goal is comparable to the percentage of investment related allocations to MWDBE investment professionals.

Policy Guidelines below apply to the future selection of all fiduciaries and service providers.

Formal Bid Process:

Procurement of all goods and services budgeted or proposed individually or in the annual aggregate for an amount in excess of \$25,000, shall be subject to a formal bid process including:

- (1) Announcement of issuance of a Request for Proposals in appropriate trade journals and periodicals as applicable and when possible
- (2) Issuance of a formal Request for Proposals in the format appropriate for the goods or services being sought and including all selection criteria to be considered in evaluation of proposals.
- (3) Formation of a Proposal Evaluation Committee, made up of organizational stakeholders in the goods or services being sought , which shall develop criteria and an objective tool for proposal evaluation.
- (4) Posting of the formal Request for Proposals on the Fund's website
- (5) Observance of a quiet period during which communications with potential providers is limited.
 - A quiet period will commence upon the initiation of a search for goods or services and end once a selection has been made by the Board and accepted by the service provider.

- Initiation, continuation and conclusion of the quiet period shall be publicly communicated to prevent inadvertent violations
 - All Board members, and Staff not directly involved in the search process, shall refrain from communicating with provider candidates regarding any product or service related to the search offered by the candidate throughout the quiet period and shall refrain from accepting meals, travel, hotel, or other value from the candidates.
 - Throughout the quiet period, if any Board member is contacted by a candidate, the Board member shall refer the candidate to CTPF Staff directly involved in the search process.
 - Authority related to the search process shall not be exercised by management or by individual staff members, but shall be exercised solely by the bid evaluation committee.
 - All information related to the search process shall be communicated by Staff to the relevant Committee as a whole, and not to individual staff members
 - The quiet period does not prevent due diligence, or communications with an existing service provider that happens to be a candidate in the ordinary course of services provided by such service provider; however, discussions related to the pending selection shall be avoided during those activities.
 - The provisions of this policy will apply to service provider candidates throughout the quiet period and shall be communicated to candidates in conjunction with any Request For Proposal or Request For Information
 - A service provider may be disqualified from a search process for a knowing violation of this policy.
- (6) Evaluation of submitted bids by the Proposal Evaluation Committee by use of an objective evaluation tool.
- (7) Submission of a statement of due diligence and recommendation to the Board of Trustees by CTPF management and staff.

- (8) Approval of selected service provider by the Board of Trustees.
- (9) Retention in the organizational archives of all materials distributed, created, collected and evaluated in the search process for a period of at least 5 years.

Contract Duration:

The duration of contracts for services made pursuant to the formal bid process shall be limited to an initial three year period. At the end of the initial three year period, the services shall be re-bid using the formal bid process.

Informal Bid Process:

Procurement of all goods and services budgeted or anticipated individually for an amount between \$10,000 and \$24,999 shall be subject to an informal bid process including but not limited to:

- (1) Development of a Needs, Requirements and Evaluative Criteria document prior to the initiation of discussion with potential providers or issuance of a request for information.
- (2) Posting of a Request for Information on the fund website.
- (3) Documentation of the need for services, criteria used in the evaluative process, and basis for selection of a particular vendor or service provider.
- (3) Retention in the purchasing records of CTPF of all written materials for a period of at least 5 years.

Service Agreement Duration:

The duration of contracts for services made pursuant to the informal bid process shall be limited to an initial three year period. At the end of the initial three year period, the services shall be re-bid using the informal bid process.

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Annual Report of Investments Diversity and Inclusion for the Fiscal Year Ending June 30, 2010

In accordance with Public Act 96-0006, the Fund enhanced its MWDBE (minority, women and disabled business enterprises) diversity goals to the following:

1

- 20% of Total Fund Assets will be invested with MWDBE firms
and
- 25% of actively managed assets will be invested with MWDBE firms

Additionally

- 30% of all equity assets will be invested with MWDBE firms with
 - *25% being managed by Minority owned firms
 - *5% being managed by Women owned firms
- 15% of all fixed income assets will be invested with MWDBE firms with
 - *12% being managed by Minority owned firms
 - *3% being managed by Women owned firms
- 10% of all alternative assets will be invested with MWDBE firms with
 - *10% being managed by Minority owned firms
 - *best efforts for Women owned firms

During FY 2009, the Board of Trustees amended the Fund's brokerage policy to preclude or limit the use of non direct trading by firms to meet the Fund's brokerage goals.

The Fund's current brokerage policy is:

2

-50% of all large cap and mid cap trades are to be executed with CTPF approved MWDBE brokers, non direct trading is not allowed to meet the Fund's goals;

-35% of all small cap and passive trades are to be executed with CTPF approved MWDBE brokers, non direct trading is not allowed to meet the Fund's goals;

-25% of all fixed income volume is to be executed with CTPF approved MWDBE brokers, non direct trading is not allowed to meet the Fund's goals;

-25% of all international equity trades are to be executed with CTPF approved MWDBE brokers, 50% of MWDBE trades must be traded directly.

Beginning January 2011, all CTPF investment managers, regardless of asset class will be required to trade 100% directly with CTPF's approved MWDBE brokerage firms.



**Changes to
the Fund's
Portfolio
during
fiscal year
2010**

3

Equity

Two minority owned domestic equity firms were graduated with \$50M each

One international minority owned equity firm received additional assets of \$85M

Two minority owned domestic equity firms received additional assets totaling \$100M

One minority owned passive firm received additional assets totaling \$300M

Fixed Income

One minority owned fixed income firm received additional assets of \$35M

Alternatives

\$40M committed to the Illinois pension fund consortium which will invest in MWDBE real estate firms

\$25M commitment has been made to a minority owned real estate firm





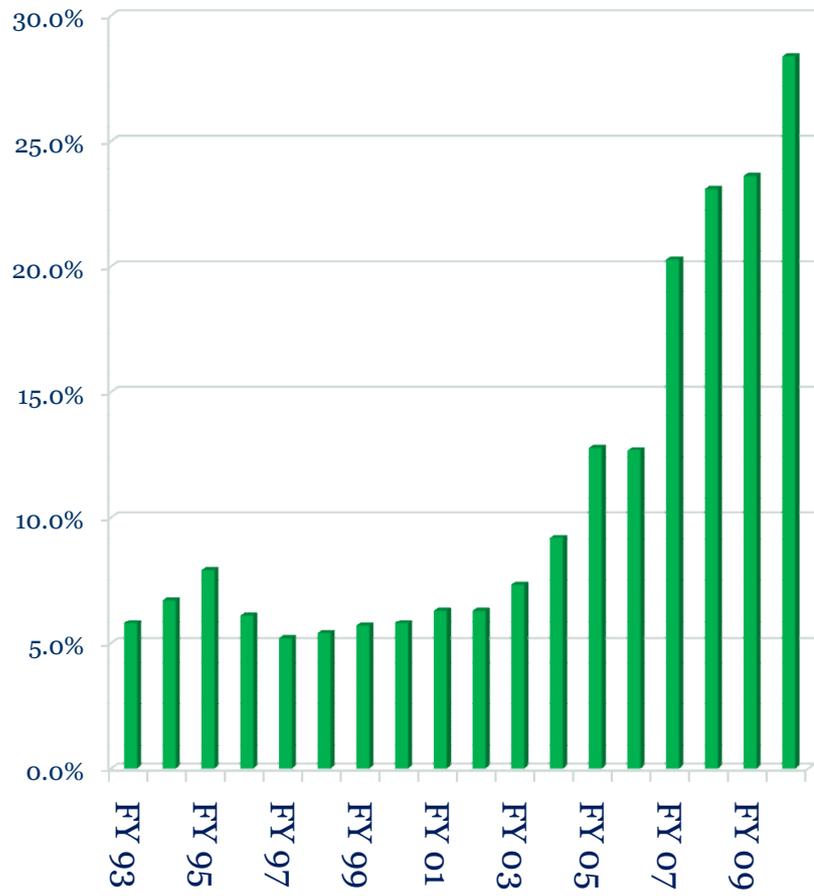
CTPF began investing with MWDBE firms in the early 1990's.

Some of CTPF's earliest MWDBE dollars were invested with firms such as Ariel Investment (African American), New Amsterdam Partners (Female) and Taplin, Habatch & Canida (Latino).

The Fund's invested dollars with MWDBE firms has increased from \$298.5M in 1993 to \$2.5B in June of 2010.

Total MWDBE % Growth since 1993

4

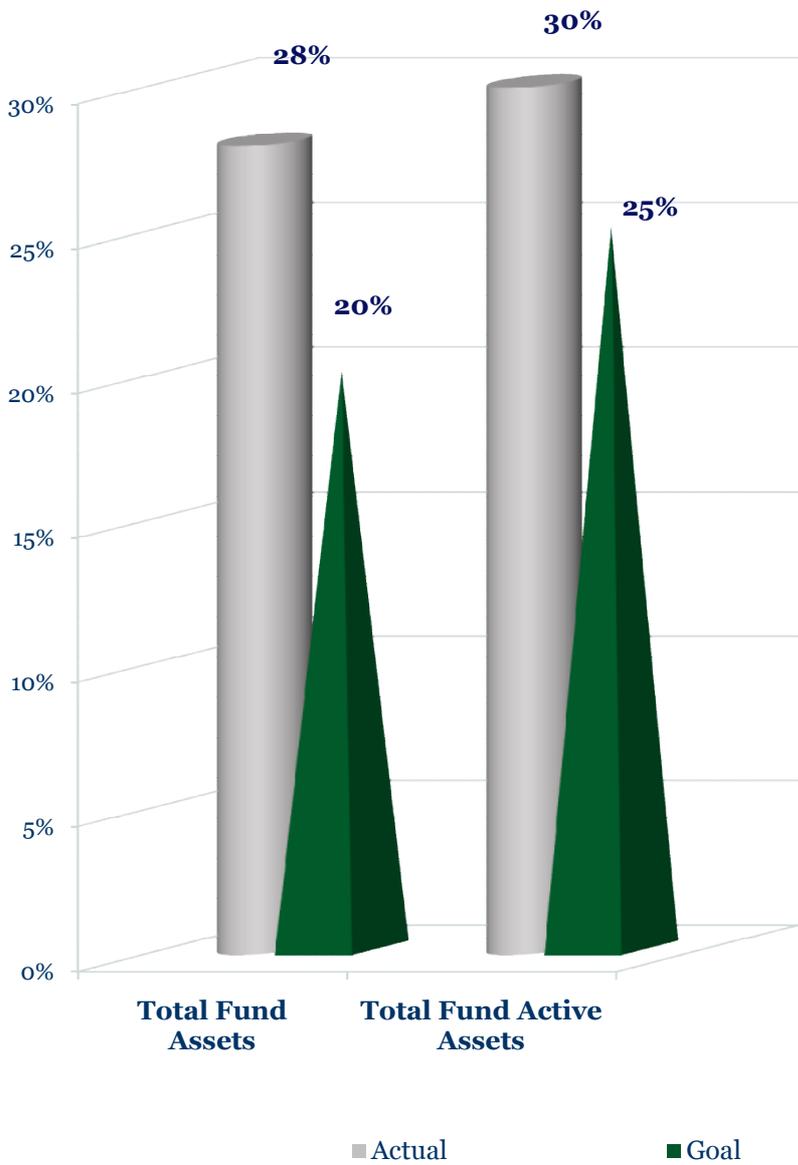




Total Fund MWDBE Assets

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As of June 30, 2010, \$2.5B of total assets and \$1.6B of active assets invested managed by MWDBE firms.





Fund Breakdown by MWDBE Status

6

As of June 30, 2010

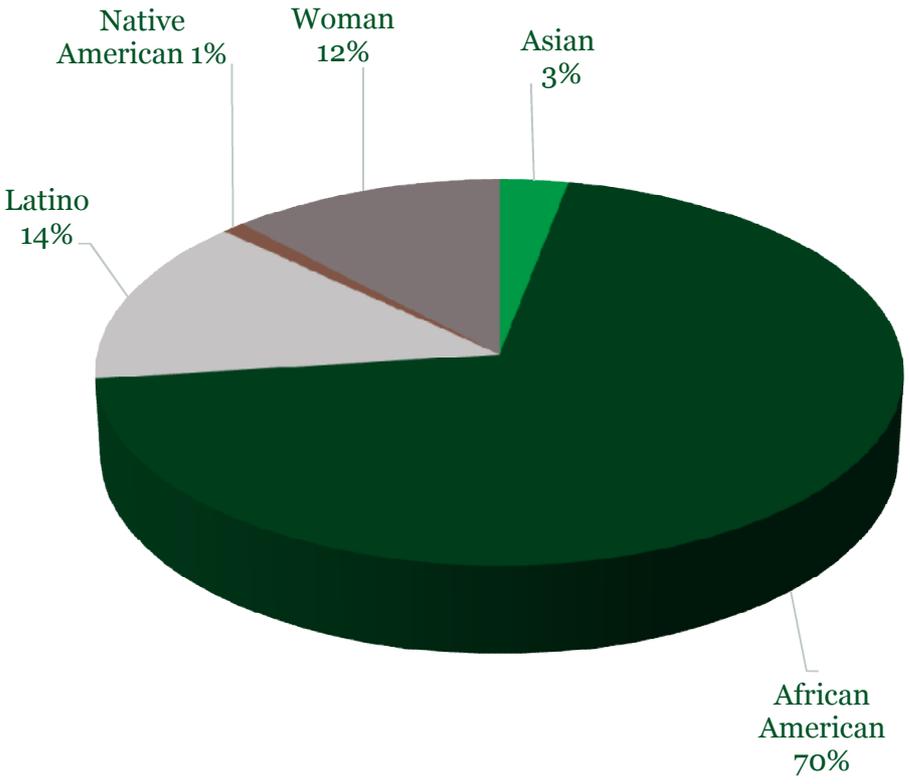
-\$1.7B was managed by African American firms

-\$294.0M was managed by Women owned firms

-\$18.4M was managed by Native American firms

-\$71.0M was managed by Asian American firms

-\$366.1M was managed by Latino firms



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MWDBE Equity Managers

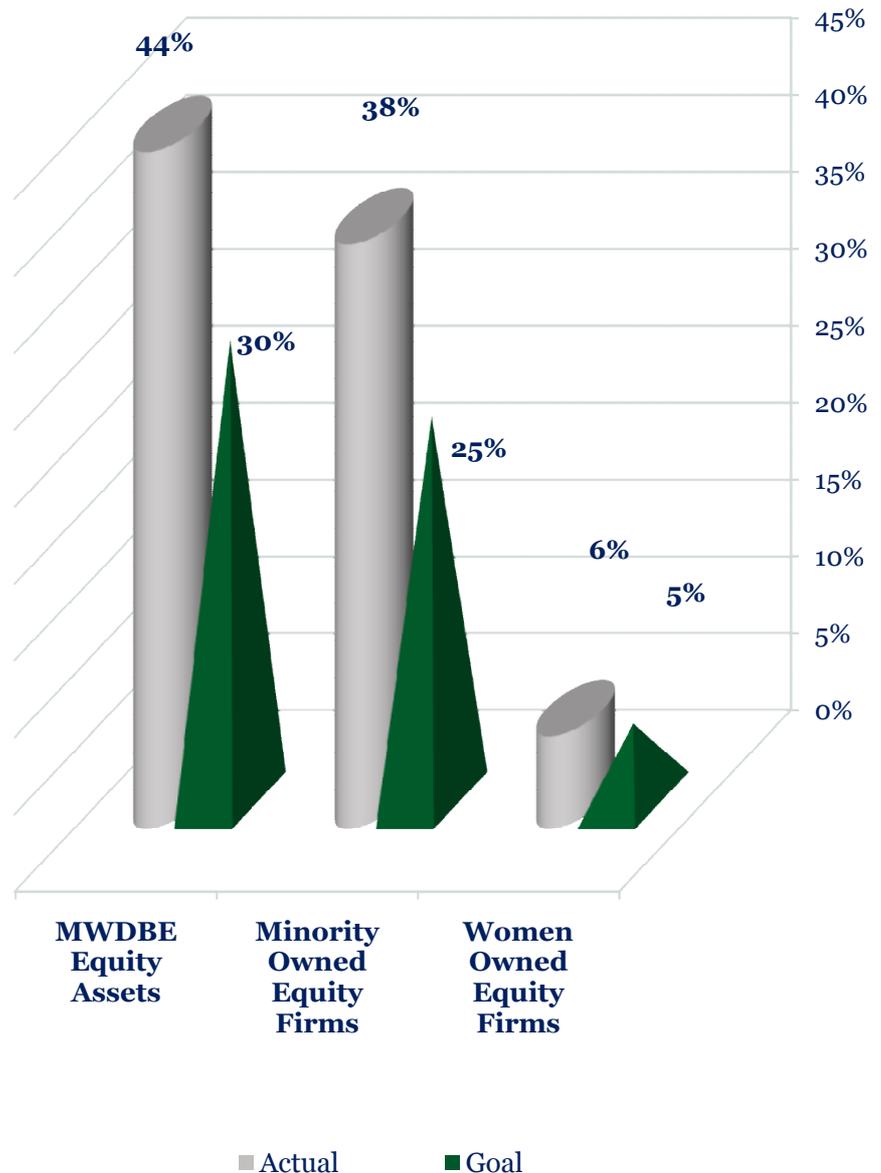
7

As of June 30, 2010 \$2.29B of CTPF's \$5.9B Equity assets were invested with MWDBE investment managers.

-44% of all equity assets were managed by MWDBE firms

-38% of these assets were managed by minority firms

-6% of these assets were managed by female firms



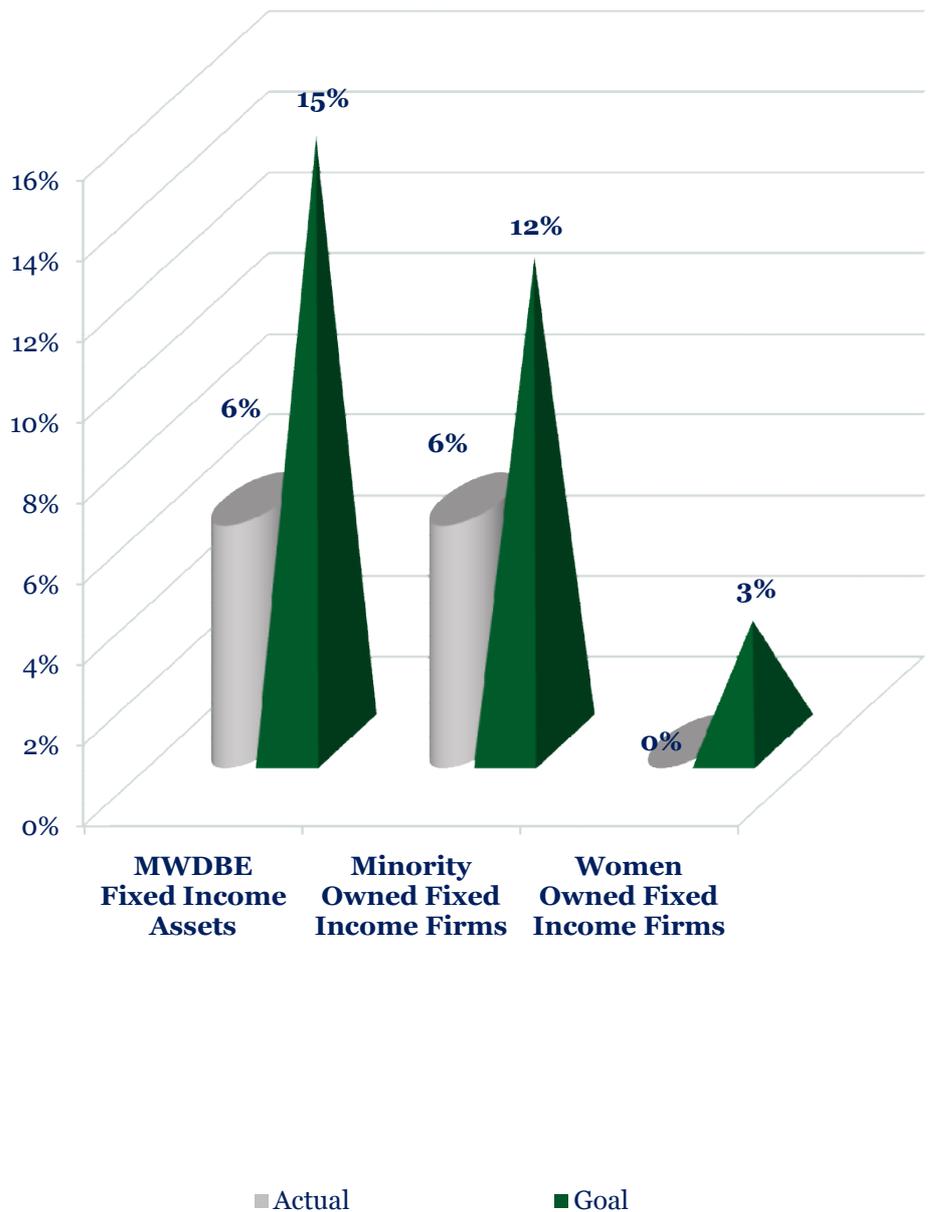


As of June 30, 2010 \$103.7M of CTPF's \$1.8B fixed income assets were invested with MWDBE investment managers.

All these assets were managed by one minority owned investment manager.

MWDBE Fixed Income Managers

8

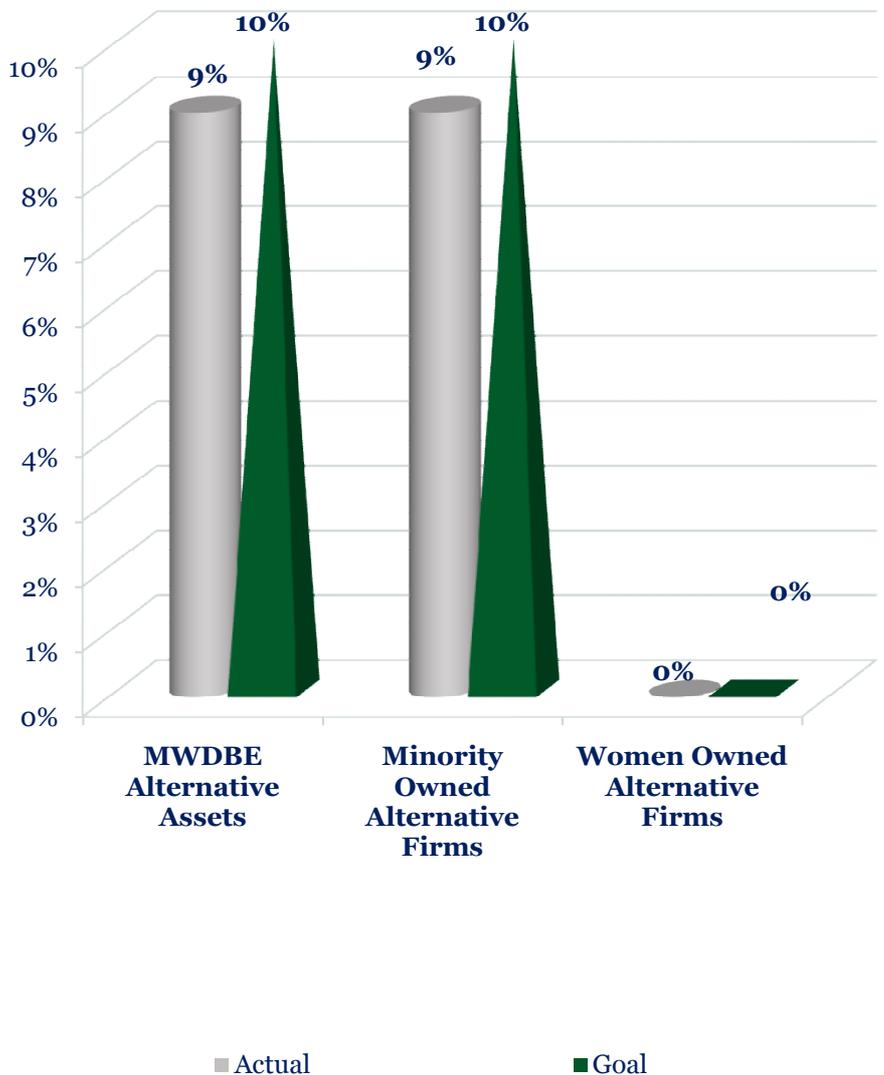


MWDBE Alternative Managers

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As of June 30, 2010 \$124.3M of CTPF's \$1.4B alternative assets were invested with MWDBE investment managers.

All these assets were managed by minority owned investment managers.



How we invest in Emerging Managers

The Fund invests in MWDBE firms in
three ways:

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Direct Mandates

*Currently the Fund has direct relationships
with 21 MWDBE firms*

Manager of Managers (MoM)

*The Fund has two domestic equity (both
African American) and one international
equity (Asian American) manager of
manager programs*

Graduation Program

*Since the inception of the Fund's MoM
programs, six firms have been graduated to
direct mandates with the Fund*



**How
Emerging
Managers
are
Identified**

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CTPF's First Friday Meeting

Manager of Managers Programs

Publications

Emerging Manager Monthly
Fund Fire

Conferences

Emerging Manager Conference (Opal
Conference)
NASP Conference

Organizations and Involvement

National Association of Securities Professionals
Women Investment Professionals
100 Women in Hedge Funds
New America Alliance



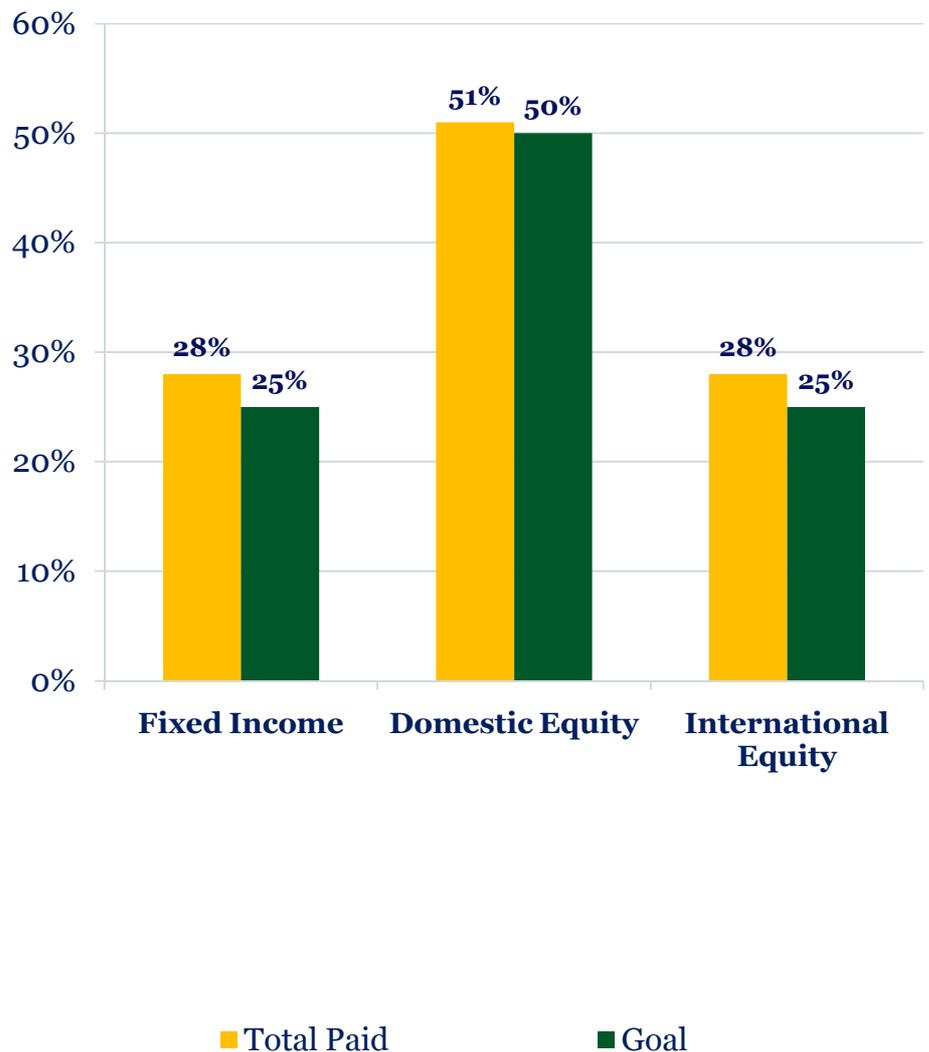
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Brokerage Commissions for FYE 2010

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At the end of fiscal year 2010, the Fund paid \$1.7M in domestic equity commissions, \$1.1M in international equity commissions were paid to CTPF's approved MWDBE brokerage firms. 2.6 M fixed income shares were traded by CTPF's approved MWDBE brokerage firms



CTPF's MWDBE Brokerage Programs

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CTPF maintain a list of approved MWDBE brokerage firms.

In order to be an approved MWDBE broker with CTPF, the following qualifications must be met:

- *Certified MWDBE brokerage firm*
- *Registered with FINRA for at no less than 1 year*
- *Have a Chicago or Chicago suburban office with at least one dedicated full time staff person that holds a Series 7 license*



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