



Chicago Teachers' Pension Fund

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December 2011
Annual Report Diversity and Inclusion



Chicago Teachers' Pension Fund

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Annual Report
Diversity and Inclusion*

*Presented to Governor Pat Quinn
December 2011*

Commitment to Diversity

1

Chicago Teachers' Pension Fund (CTPF) provides retirement benefits for over 30,000 active and 26,000 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.

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 Report for 2011.

Since Public Act 96-0006...

CTPF has enhanced its MWDBE diversity goals to the following:

2

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

- ***Additionally***
- 30% of all equity assets will be invested with MWDBE firms
 - 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
 - 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
 - 10% being managed by Minority owned firms
 - Best efforts for Women owned firms

Since Public Act 96-0006...

CTPF has enhanced its MWDBE diversity goals to the following:

3

- 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 international equity trades are to be executed with CTPF approved MWDBE brokers, non direct trading is not allowed to meet the Fund's goals
- 20% of all small cap international equity 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

Changes to the Fund's Portfolio during fiscal year 2011

4

Equity

- One minority owned international equity firm received additional assets of \$280M

Fixed Income

- Two minority owned fixed income firm were awarded mandates of \$75M

Alternatives

- One women owned hedge fund of funds firm was awarded a \$25M mandate
- Of the \$40M committed to the Illinois pension fund consortium which invests in MWDBE real estate firms, \$6M has been called

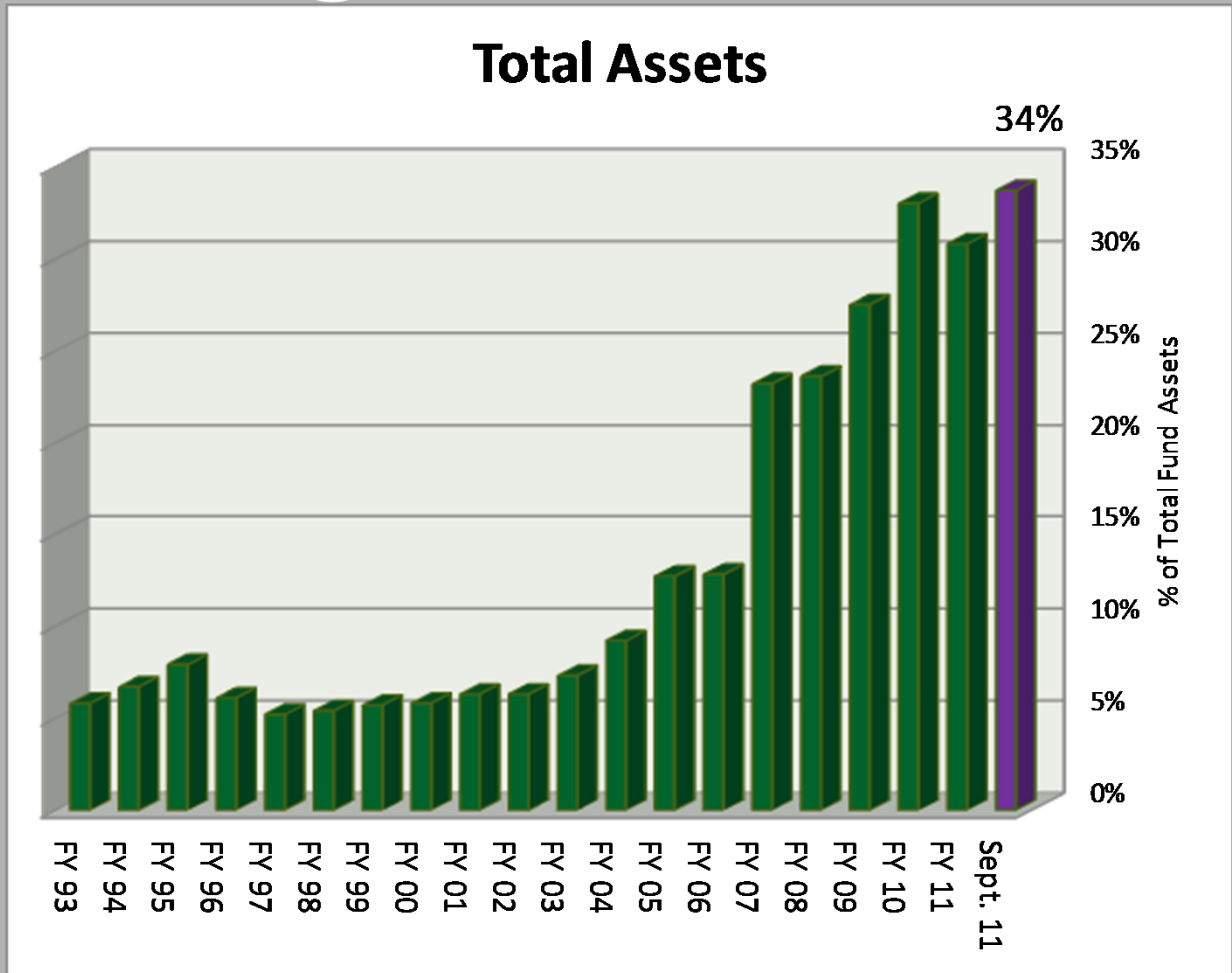
CTPF began investing with MWDBE firms in the early 1990's.

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

The Fund's invested dollars with MWDBE firms has increased from \$298.5M in 1993 to \$3.4B in June of 2011.

As of Sept, 2011, Fund's invested dollars with MWDBE firms stood at \$3.0B or 34% of total Fund assets.

Total MWDBE % Growth since 1993



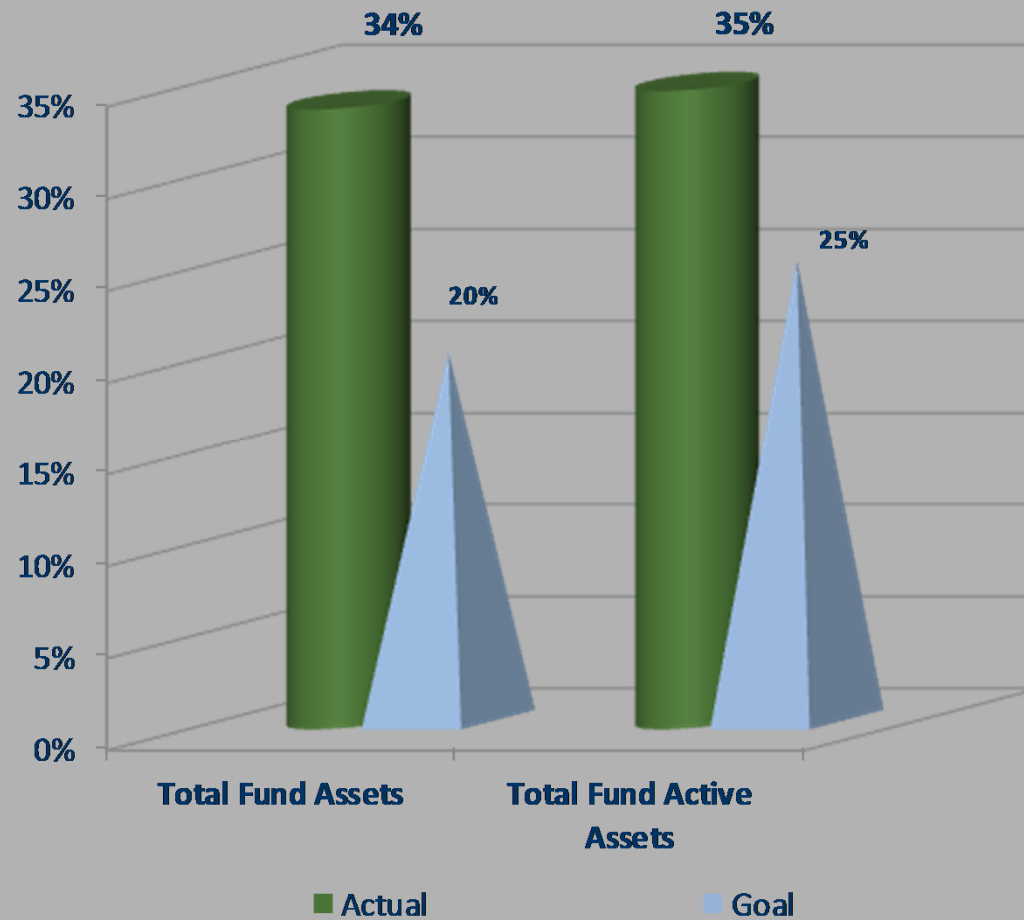


As of Sept. 30, 2011
CTPF had \$3.0B of
total assets and
\$2.2B of active
assets invested with
MWDBE firms

- ✓ MWDBE goal for total assets is 20%; results at Sept. 30, 2011 are 34%
- ✓ MWDBE goal for active assets is 25%; results at Sept. 30, 2011 are 35%

6

Total Fund MWDBE Assets

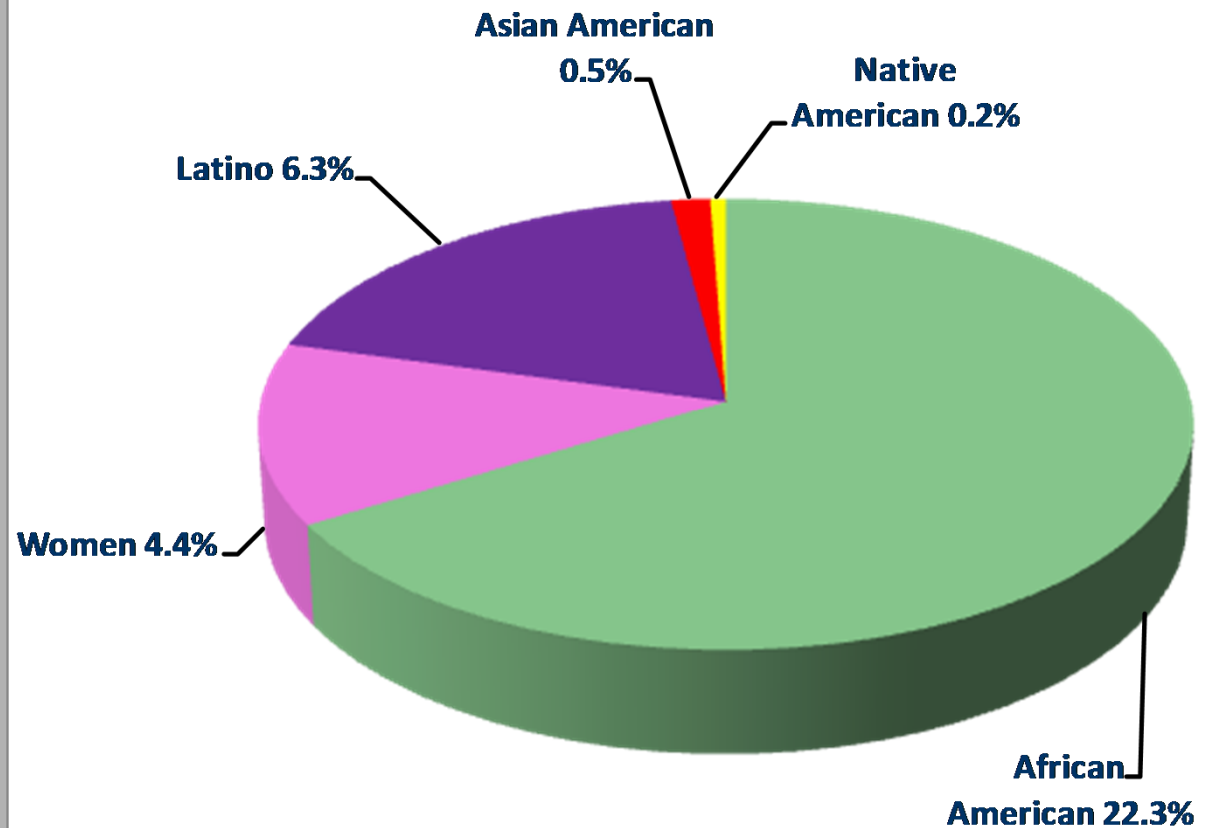


As of Sept. 30, 2011

- ✓ \$2.0B was managed by African American firms
- ✓ \$562M was managed by Latino owned firms
- ✓ \$390M was managed by Women owned firms
- ✓ \$46M was managed by Asian American owned firms
- ✓ \$19M was managed by Native American owned firms

7

Fund Breakdown by MWDBE Status

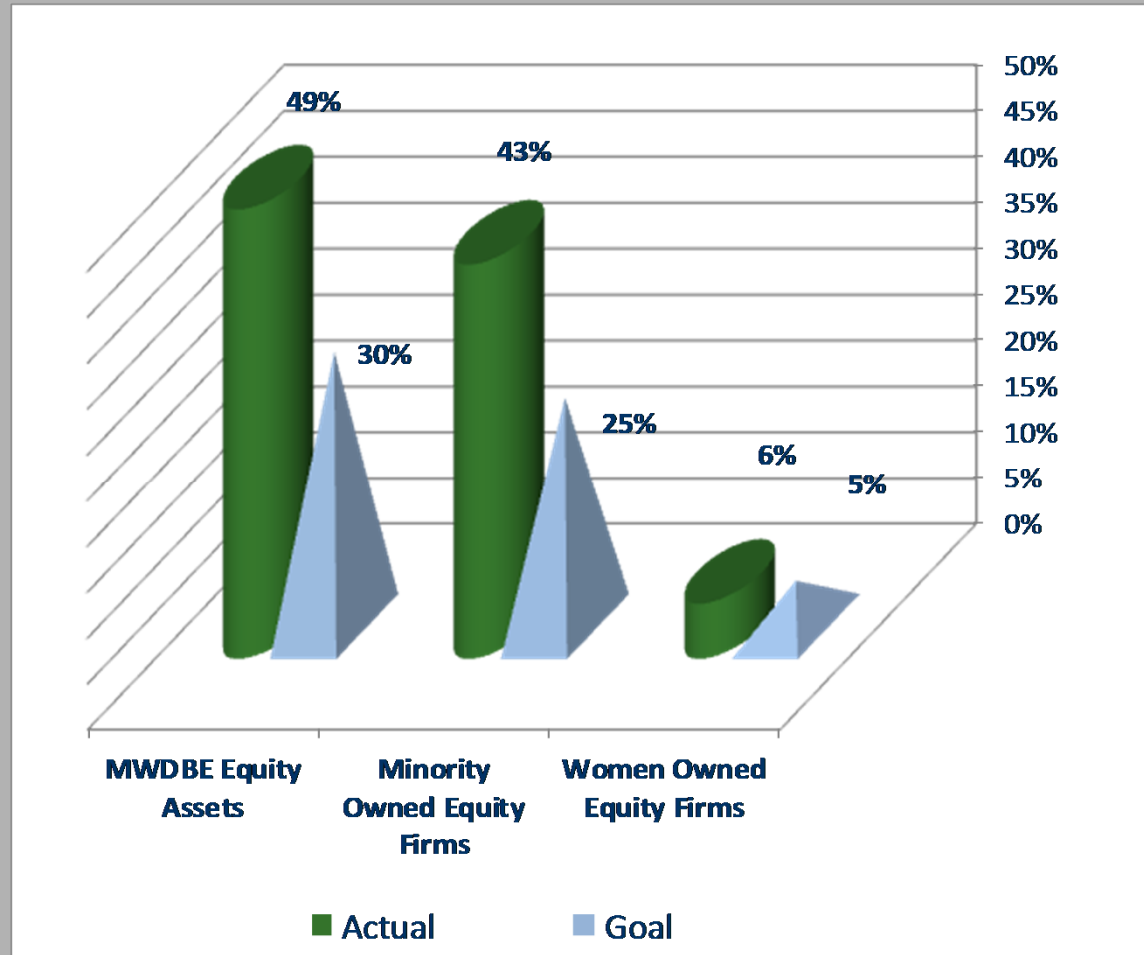




MWDBE Equity Managers

For domestic and international equity, as of Sept. 30 2011, CTPF had \$2.6B assets invested with MWDBE firms.

- ✓ 49% of all equity assets were managed by MWDBE firms
- ✓ 43% of these assets were managed by minority firms
- ✓ 6% of these assets were managed by women owned firms

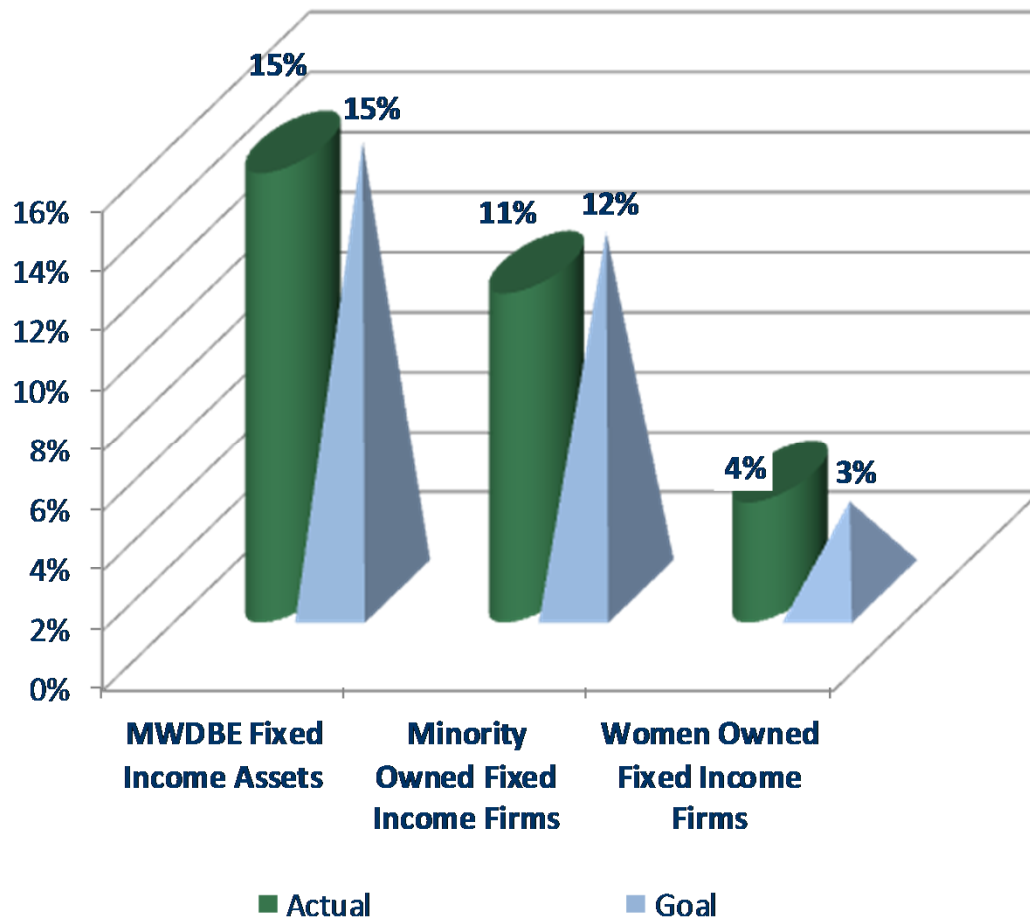


MWDBE Fixed Income Managers

For fixed income assets, as of Sept. 30, 2011 CTPF had \$286M invested with MWDBE firms.

✓ 11% of fixed income assets were managed by minority owned firms

✓ 4% of fixed income assets were managed by women owned firms



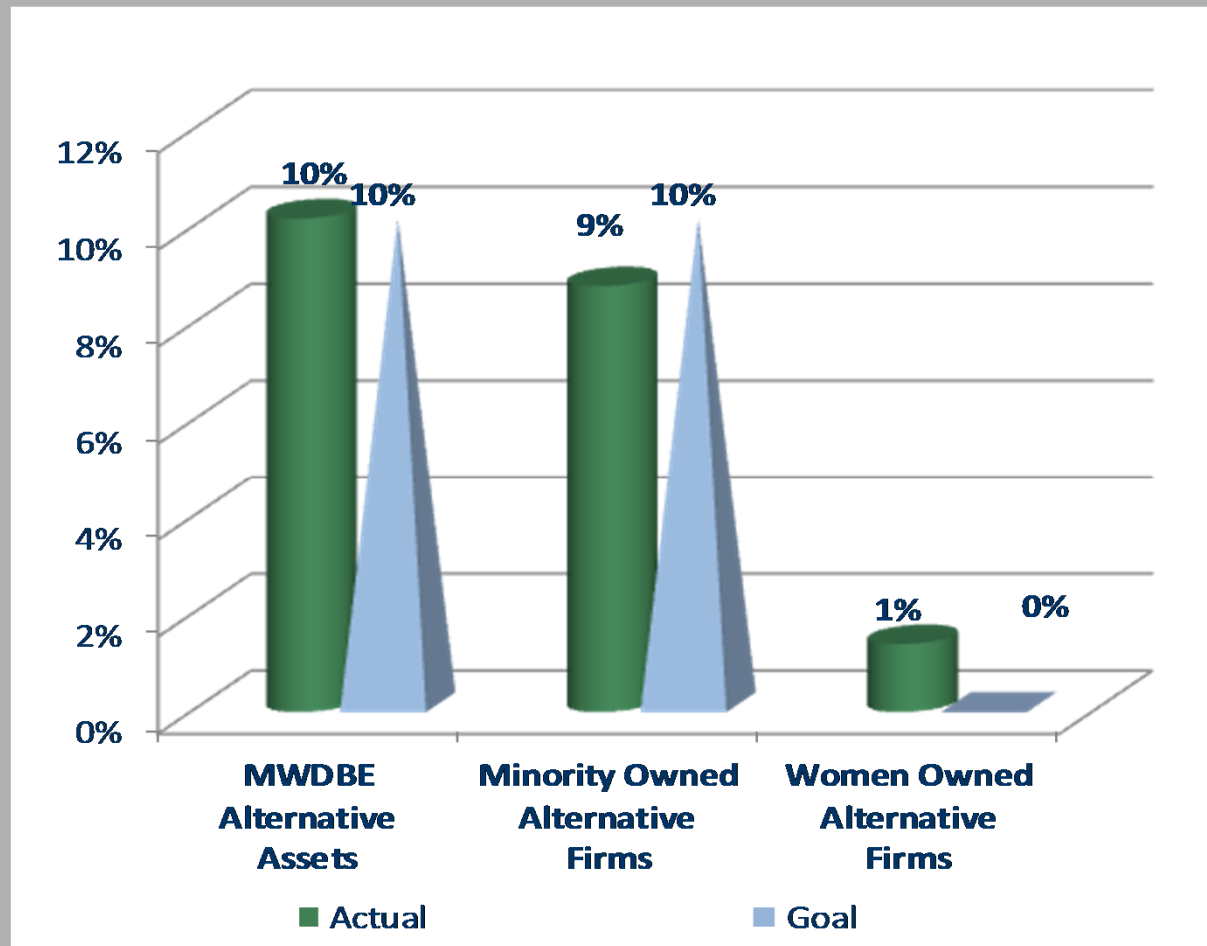


For alternative assets, as of Sept. 30, 2011 CTPF had \$177M invested with MWDBE firms.

✓ 9% of all alternative assets were managed by minority owned firms

✓ 1% of all alternative assets were managed by women owned firms

MWDBE Alternative Managers



How we invest in Emerging Managers

The Fund invests in MWDBE firms in three ways:

11

➤ **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*
- *Through the MoM program the Fund has relationships with MWDBE firms via 28 investment portfolios*

➤ **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

12

CTPF Outreach

- **CTPF's First Friday Meeting**
 - Opportunity to meet with Investment Consultant, CTPF Trustees, CTPF Investment Staff and Executive Director
- **Manager of Managers Programs**
- **Publications**
 - Emerging Manager Monthly
 - Fund Fire
 - Pensions & Investments
- **Conferences**
 - Emerging Manager Conferences (Opal, IMN)
 - MBDA: Minority Investment Management Forum
 - New America Alliance
 - National Association of Securities Professionals
- **Organizations and Involvement**
 - Robert Toigo Foundation
 - Rising Farmworker Dream Fund
 - Women Investment Professionals



Chicago Teachers' Pension Fund

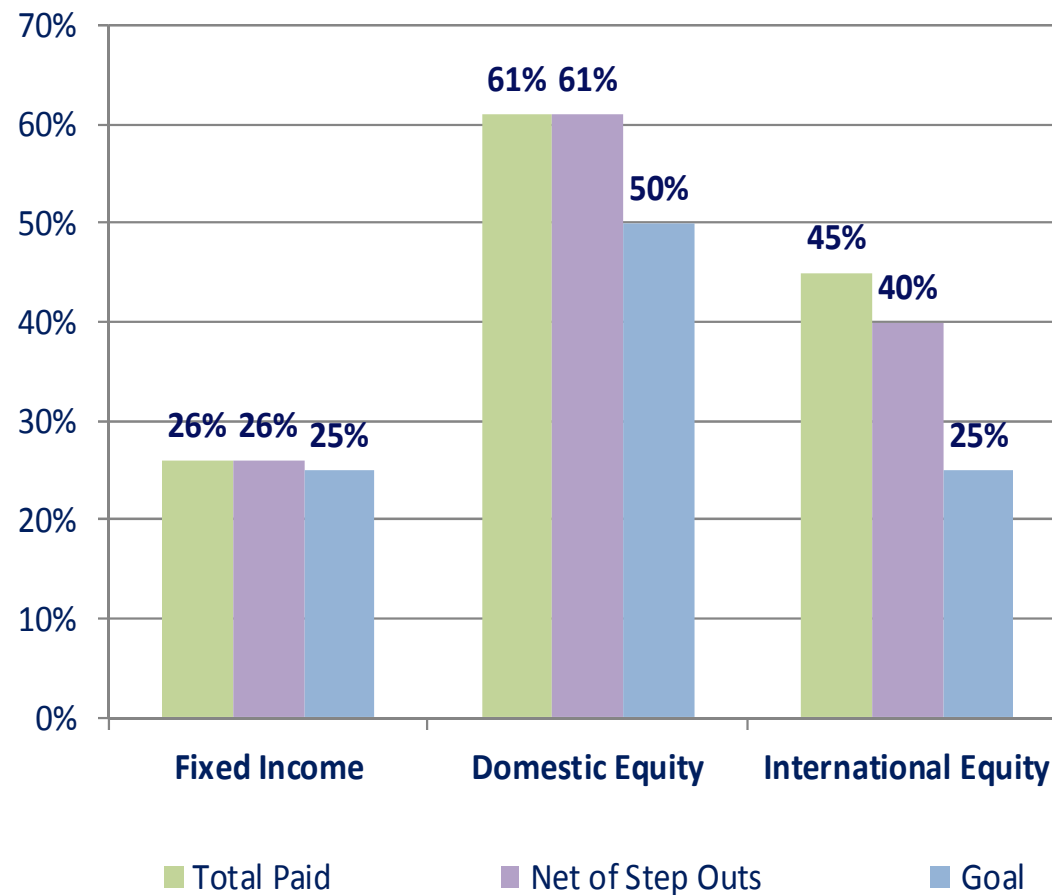


Brokerage Commissions for FYE 2011

13

For fiscal year 2011, the Fund paid over \$5.5M in domestic equity and international equity commissions and \$2.7 M was directed to MWDBE brokers.

For fiscal year 2011, the Fund had 5.1B in fixed income volume and 1.3B was directed to MWDBE brokerage firms



CTPF's MWDBE Brokerage Programs

14

CTPF maintains 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 (Financial Industry Regulatory authority) 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*



Chicago Teachers' Pension Fund



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 December 1, 2011 is shown here.

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

Data as of December 1, 2011



CTPF Staff Diversity

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	<u>Gender</u>		<u>Race/Ethnicity</u>			
	Female	Male	African Am.	Asian	Caucasian	Latino
Sr. Management	4	1	1	0	3	1
Management	2	1	2	0	1	0
Supervisory	5	1	0	1	3	2
Professional	0	1	0	0	1	0
Technical	1	4	0	0	5	0
Clerical	48	10	26	4	23	5
Total	60	18	29	5	36	8

Data as of December 1, 2011



Chicago Teachers' Pension Fund



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.

CTPF Staff Diversity: Gender and Ethnicity

<u>Classification</u>	Female	Male	Female	Male	Total
African American	26	3	33.3%	3.8%	37.2%
Asian	5	0	6.41%	-	6.4%
Caucasian	23	13	29.5%	16.7%	46.2%
Latino	6	2	7.7%	2.6%	10.3%
Total	60	18			

Data as of December 1, 2011

CTPF's Metropolitan Chicago Recruiting Area

18

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.

	CTPF Current		Metro Recruiting
	<u>Headcount</u>	<u>Ratio</u>	<u>Area Ratio</u>
African American	26	37%	17.8%
Asian	5	6%	6.0%
Caucasian	23	46%	56.6%
Latino	6	10%	19.7%
Female	60	77%	51.3%
Male	18	23%	48.7%

Data as of December 1, 2011

Metro Data - 2010 U.S. Census



Chicago Teachers' Pension Fund

Staff Diversity Recruitment Guidelines

- Management is directed to pursue diversity in the future recruitment of staff that contributes 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 21 days to allow all internal staff applying and meeting the minimum posted requirements for a new or vacant position to be interviewed for those positions.

Staff Diversity Recruitment Guidelines (cont'd)

- (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:
 - ❖ Announcing the vacancy, posting the job description, and soliciting application and resumes from qualified individuals on the Fund's website.
 - ❖ Posting or advertising the vacancy in appropriate trade or other periodicals,
 - ❖ Posting or advertising the vacancy on major on-line or web based employment search sites and university placement offices, where appropriate.
 - ❖ 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

21

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

22

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

23

Of those currently providing services to CTPF, minorities and female businesses received 16.3% of the business expenditures made by the fund for goods and services, and 25.7% of the expenditures made to investment managers.

Service	Expenses	MWDBE Status and Allocation	
Actuarial Services	70,750		
Independent Auditor	175,000		
Investment Consulting and Services			
Master Custodian	400,000		
Investment Consulting	312,500		
Real Estate Investment Consulting	161,840		
Health Insurance Consulting	44,300		
Legal Services	435,000		
Information Services Consulting	541,000	WBE	2.97%
Communications and Publications	279,570	MWBE	6.19%
Printing	80,900		
Document Processing and Mailing	188,680	WBE	5.17%
Election Administration	174,140		
Legislative Lobbyists	136,000	MBE	1.94%
Total	\$2,999,680		
Total MWDB Participation	488,219		16.28%
Total Investment Manager Fees	40,630,242		
Total Investment Fees Paid to MWDB managers.	10,449,150		25.7%

Table Data as of June 30, 2011

Goal

24

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 2012. This goal is comparable to the percentage of investment related allocations to MWDBE investment professionals.

Formal Bid Process

25

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

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

Formal Bid Process (cont'd)

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.

Formal Bid Process (cont'd)

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

28

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.
4. Retention in the purchasing records of CTPF of all written materials for a period of at least 5 years.

Contract 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.