

THE RETIREMENT BOARD
of the
FIREMEN'S ANNUITY AND BENEFIT FUND OF
CHICAGO

Suite 1400
20 South Clark Street Chicago, IL 60603-1899
(312) 726-5823 Fax (312) 726-2316
Marshall Line 9261 <http://www.fabf.org>
(800) 782-7425

ELECTED TRUSTEES

DANIEL A. FORTUNA, President
ANTHONY MARTIN, Secretary
WILLIAM MURPHY, Active Trustee
TIMOTHY MCPHILLIPS, Active Trustee

EX-OFFICIO TRUSTEES

First Deputy Fire Commissioner, ANNETTE NANCE-HOLT
City Treasurer, MELISSA CONYEARS-ERVIN
City Comptroller, RESHMA SONI
City Clerk, ANNA VALENCIA

December 13, 2019

The Honorable JB Pritzker
Governor of Illinois
207 State House
Springfield, IL 62706

Dear Governor Pritzker:

In accordance with Illinois Compiled Statutes, Chapter 40, Act 5, Article 1, Section 109.1, the Firemen's Annuity and Benefit Fund of Chicago (the "Fund") is hereby filing its report. We have enclosed copies of the policies adopted under subsections (4), (5), (6), (7) and (9) of the Act by the Retirement Board of the Firemen's Annuity and Benefit Fund of Chicago (the "Board").

We are also enclosing a schedule indicating the names and addresses of the emerging investment manager used and the percentage of the assets under the investment control of the emerging manager corresponding to the policy adopted under subsection (4).

Including emerging managers in each of the Fund's formal searches for investment management services continues to be a priority of the Retirement Board which remains committed to reviewing a diversified group of investment firms. From these searches, the Board has considered and hired several well qualified emerging managers. Fund investment staff meets with all MWDBE managers that contact the Fund and they are provided with access to the Fund's external investment consultant, Callan Associates. The Board has used many emerging firms over the years. Several investments with these firms have reached successful maturity and those firms are not currently utilized.

Additionally, the Fund's investment policies require each of its investment managers to be proactive in utilizing minority, women and disabled owned firms when conducting investment transactions on behalf of the Fund. Without sacrificing their fiduciary requirement to obtain best price and execution, the Fund's managers have consistently met or exceeded their utilization targets with these brokerage firms on an aggregate basis.

The Board requires each management firm to submit a quarterly report as to the utilization of MWDBE firms. The Board monitors this activity quarterly and evaluates each managers' actual brokerage activity to goals over calendar year periods. Each investment manager organization that does not submit its quarterly reporting, or in the opinion of the Board is not utilizing its best efforts to meet its targeted goals is requested to appear before the Board to provide further information.

If we can be of further assistance, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'S Swanson', with a long, sweeping horizontal line extending to the right.

Steve Swanson
Executive Director



Firemen's Annuity and Benefit Fund of Chicago
Annual Report to Governor and General Assembly
In Accordance with 40 ILCS 5/1-109.1(8)

As of November 30, 2019

(i) Policy adopted under subsection (4): Statement of Investment Policy (attached)

- **Names and Addresses of Emerging Investment Managers Used**

- **GlobeFlex Capital**

- 4365 Executive Drive, Suite 720
San Diego, CA 92121

- **Percentage of Assets Under Investment Control of Emerging Investment Managers for the Three Separate Goals**

	<u>Percentage of Assets Invested</u>
Emerging - Minority Owned	0.0%
Emerging - Women Owned	6.7%
Emerging - Disabled	0.0%

- **Actions Undertaken to Increase Use of Emerging Investment Managers**

- Require broad advertising of RFPs through various channels: FABF's website, Consultant's website, industry periodical, and state newspaper
- Implemented extended response time (6-8 weeks) on RFPs to ensure maximum distribution of RFP via word-of-mouth by Staff, Consultants, and Trustees.
- Require proactive approach by Consultant to ensure all known minority managers are aware of RFPs.
- Maintain open door policy, agreeing to meet with any minority managers.
- Facilitate introductions of minority managers to Consultant and to peers.
- Participate in conferences and other networking events for increased exposure to minority investment firms.

(ii) Policy adopted under subsection (5): Diversity Policy for Fiduciaries, Consultants, and Senior Staff (attached)

(iii) Policy adopted under subsection (6): Policy Regarding Business Enterprises Owned by Minorities, Females and Persons with Disabilities (attached)

(iv) Policy adopted under subsection (7): Statement of Investment Policy (attached)

- **Actions Undertaken to Increase Use of Minority Broker-Dealers**
 - Require directed minority brokerage utilization as a minimum requirement for participation in all RFPs.
 - Require monthly/quarterly commission reporting from investment managers, including minority brokerage utilization.
 - Report minority brokerage utilization to Board at monthly meetings.
 - Participate in conferences and other networking events for increased exposure to minority brokerage firms.
 - Maintain open door policy, agreeing to meet with any minority brokers.
 - Facilitate introductions of minority brokers to Consultant and to peers.
 - Participate in conferences and other networking events for increased exposure to minority brokerage firms.

(v) Policy adopted under subsection (9): Statement of Investment Policy (attached)

Statement of Investment Policy

The Retirement Board of the Firemen's Annuity and Benefit Fund of Chicago

20 South Clark Street – Suite 300

Chicago, Illinois 60603

(312) 726-5823

(800) 782-7425

Adopted: March 18, 2019

Revised: September 18, 2019

TABLE OF CONTENTS

	<u>PAGE</u>
I. STATEMENT OF INVESTMENT POLICY.....	1
Introduction	
Responsibilities of the Retirement Board	
Scope and Purpose of Investment Policy	
Duties of Fiduciaries	
Investment Consultant	
Discretionary Investment Managers	
Custodian	
Additional Professionals	
Investment Contracts	
II. INVESTMENT GOALS AND OBJECTIVES	6
Funding Levels, Liquidity Requirements and Asset Allocation Considerations	
Target Allocations	
Rebalancing Procedures	
Securities Lending	
III. GUIDELINES FOR ACTIVELY MANAGED FUND ASSETS	11
Risk Aversion	
Fully Invested	
Portfolio Diversification	
Investment Discipline Objectives	
Brokerage and Execution of Transactions	
Minority, Women and Disabled Persons Enterprise Investment Manager Utilization Policy	
Sustainable Investing Principles	
IV. MINORITY, WOMEN, and DISABLED PERSONS BROKERAGE	14
V. SELECTION AND REVIEW OF INVESTMENT MANAGERS.....	15
Investment Manager Selection	
Performance Review and Evaluation	
VI. DEFINITIONS AND CONCLUSION.....	19
Conclusion	
VII. SPECIFIC OBJECTIVES AND GUIDELINES FOR INDIVIDUALLY MANAGED PORTFOLIOS.....	20
Investment Objectives and Guidelines	
Board Restrictions	
Total Fund – Objectives and Guidelines	
VIII. REQUIRED REPORTING OF ACTIVELY MANAGED INVESTMENT PORTFOLIOS	22

- SECTION III -
GUIDELINES FOR ACTIVELY MANAGED FUND ASSETS

Each Investment Manager within the Fund will be chosen for a specific discipline and will be required to adhere to these general investment guidelines:

1. **Risk Aversion:** Investment Managers are to make reasonable efforts to control risk and will be evaluated regularly to ensure that the return of the portfolio under management is commensurate with the level of risk that is assumed within any given discipline.
2. **Fully invested:** The Board has adopted a long term Asset Allocation Policy and grants Investment Managers discretion over assets within the portfolios they manage. The Board has set specific guidelines concerning the allowable levels of cash that may be maintained in each actively managed portfolio. The Board will closely monitor the use of cash by any manager. If a manager believes that a change in its specific guideline is in the interest of the Fund, the manager should bring this recommendation, in writing, immediately to the attention of the Board. Under conditions of extreme market duress and upon a majority vote of the Board, cash level guidelines may be altered, as is prudent, for defensive purposes.
3. **Portfolio Diversification:** In order to achieve a prudent level of portfolio diversification, the manager's investment guidelines will articulate any constraints regarding concentration of positions by sector and limits that must be adhered to in attempting to exceed the returns of the performance benchmark.
4. **Investment Discipline Objectives:** Each separately managed portfolio will have specific guidelines and objectives established by the Board. Investment Managers are expected to adhere to the investment discipline for which they were hired. Managers will be evaluated for adherence to their stated investment discipline.

Specific investment goals and constraints for each Investment Manager shall be established in the investment contract documentation between the Fund and the Investment Manager.

The goal of each Investment Manager, over the investment horizon, shall be to:

- A. Exceed the market index, or blended market index, selected and agreed upon by the Board and Investment Manager that most closely corresponds to its style of investment management.
- B. Unless otherwise agreed to by the Board and Investment Manager, display an overall level of risk in the portfolio which is consistent with the risk associated with the benchmark specified. Typically, risk will be primarily measured by the standard deviation of returns, secondarily by tracking error.

The Investment Managers are charged with the responsibility of maintaining their portfolios in compliance with the investment guidelines. Under no circumstances shall an Investment Manager take an action which causes the portfolio to be in conflict with the guidelines without prior written consent of the Board. If there is a deviation from the guidelines because of an Investment Manager's action, the manager will be reviewed by the Board at the next meeting following notification of the deviation. If there is a deviation from the guidelines because of a change in the market value of an Investment Manager's portfolio or a particular holding, or a change in quality rating of a particular holding, the Investment Manager shall take action that is prudent and appropriate to the intended purpose of the portfolio. If for any reason a portfolio deviates from the guidelines, the Investment Manager is responsible for reporting the deviation from the guidelines to the Board and its Investment Consultant in writing within 30 days of when the manager should have known the deviation occurred. The Investment Manager is required to give this notice even if they have taken immediate action to correct the deviation. The Investment Manager will explain the deviation from the guidelines and suggest appropriate action. Within 60 days after receiving notification of a deviation from the investment policy guidelines, the Board will respond to the manager's recommendation and will direct appropriate action. Depending upon the severity of the circumstances, the consequences of deviating from the investment policy guidelines could range from an Investment Manager appearing before the Board up to and including the manager's termination.

- 5. **Brokerage and Execution of Transactions:** Investment Managers with authority over Fund assets must use sound professional judgment in conducting each transaction to obtain the best possible unit price and terms of execution, in accordance with Section 1-113.20 of the Code.

Additionally, as outlined in *SECTION IV – MINORITY, WOMEN AND DISABLED PERSONS BROKERAGE*, it is the policy of the Fund to utilize Minority, Women and Disabled Persons owned brokerage services, as defined in the Illinois Business Enterprise for Minorities, Women and Persons with Disabilities Act, whenever possible.

- 6. **Minority, Women and Disabled Persons Business Enterprise Investment Manager Utilization Policy** In accordance with 40 ILCS 5/1-109(10), the Board supports the aspirational goal that not less than 20% of investment advisors be minorities, women, and persons with disabilities.

- I. Emerging Managers
In accordance with 40 ILCS 5/1-109.1(4), the Board has set forth the following quantifiable goals for percentage of total assets under management managed by emerging investment managers:

	<u>Goal Range</u>
Total investment assets	7% to 10%
A.) <u>By asset class</u>	
Equity	3% to 10%
Fixed Income	2% to 10%
Real Assets	2% to 10%

B.) By ownership classification

Minority	7% to 10%
Women	3% to 7%
Disabled Persons	0% to 2%

II. Minority Managers

In accordance with 40 ILCS 5/1-109.1(9), the Board has set forth the following quantifiable goals for percentage of total assets under management managed by minority investment managers:

Goal Range

Total investment assets	12% to 24%
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A.) By ownership classification

Minority	8% to 12%
Women	4% to 8%
Disabled Persons	0% to 4%

These goals shall be reviewed annually.

Consistent with the requirements of Section 1-113.22 of the Code, no later than each January 1st, the Fund's Consultant(s) shall disclose to the Board: (i) the total number of searches for investment services made by the Consultant in the prior calendar year; (ii) the total number of searches for investment services made by the Consultant in the prior calendar year that included: (a) a minority-owned business, (b) a women-owned business, or (c) a business owned by a person with a disability; (iii) the total number of searches for investment services made by the Consultant in the prior calendar year in which the Consultant recommended for selection (a) a minority-owned business, (b) a women-owned business, or (c) a business owned by a person with a disability; (iv) the total number of searches for investment services made by the Consultant in the prior calendar year that resulted in the selection of (a) a minority-owned business, (b) a women-owned business, or (c) a business owned by a person with a disability; and (v) the total dollar amount of investment made in the previous calendar year with (a) a minority-owned business, (b) a women-owned business, or (c) a business owned by a person with a disability that was selected after a search for investment services performed by the Consultant.

7. **Sustainable Investing Principles** In accordance with 40 ILCS 5/1-113.6 and 40 ILCS 5/1-113.17, the Board will regularly consider material, relevant, and decision-useful sustainability factors, within the bounds of financial and fiduciary prudence, in evaluating investment decisions. Such factors include, but are 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 Fund, in conjunction with its Consultant, will perform periodic evaluations of those factors to ensure the factors are relevant to the investment portfolio and the evolving marketplace.

- SECTION IV -**MINORITY, WOMEN AND DISABLED PERSONS BROKERAGE**

The Board has determined that consistent with the public policy of the State of Illinois, it is the policy objective of the Fund to increase brokerage services provided to the Fund by minority, female and disabled person business enterprises as defined by the Illinois Business Enterprise for Minorities, Females, and Persons with Disabilities Act Women.

Minority, women and disabled person-owned business enterprises ("MWDBE") are defined as a sole proprietorship, partnership, or corporation owned, operated, and controlled by minority, women and disabled group members who have at least 51% ownership as those terms are defined in the Business Enterprise for Minorities, Women, and Persons with Disabilities Act. The defined group member(s) must have day to day operational and managerial control, and an interest in capital and earnings commensurate with his or her percentage of ownership. In addition, the brokerage firm and its operating members must be registered with the appropriate federal and state agencies and must have an established record of business performance through a history of having provided good execution and reporting services.

Subject to the Fund's policy that Investment Managers with authority over Fund assets must use sound professional judgment in conducting each transaction to obtain the best possible unit price and terms of execution in respect to placing brokerage consistent with Section 1-113.20 of the Code, the Investment Managers will be expected to use their best efforts to place brokerage business with minority, women and disabled person business enterprise firms as defined.

Each Investment Manager shall submit a quarterly report detailing the use of minority, women and disabled person business enterprise firms and the year to date amounts and type of brokerage placed with each firm.

Each Investment Manager that fails to submit a quarterly report or fails to use its best efforts (as determined by the Trustees) to assist the Fund in fulfilling the above stated policy will be scheduled to appear before the Trustees to explain its actions.

It is the goal of the Fund to have at least 12% of its fixed income transactional amounts and at least 22% of its equity related commissions be placed with MWDBE broker/dealers. Program success will be measured in aggregate.

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

When purchasing new issue securities, the manager will make every effort to utilize minority broker-dealers who are part of the underwriting syndicate sell the new issues.

**DIVERSITY POLICY FOR FIDUCIARIES,
CONSULTANTS AND SENIOR STAFF
(PUBLIC ACT 96-0006)**

WHEREAS, the Fireman’s Annuity & Benefit Fund of Chicago (the “Fund”) was created pursuant to Chapter 40, 5/6-101 *et seq.* (the “Pension Code”); and

WHEREAS, the Trustees elected or appointed to serve as members of the Retirement Board (the “Board”) of the Fund desire to enhance and promote the professional management of the Fund in order to ensure that the Fund continues to provide retirement and other benefits to participants and beneficiaries who have served the City of Chicago and its citizens; and

WHEREAS, the Board as fiduciaries of the Fund and pursuant to Section 5/1-109 of the Pension Code are required to discharge and, do so discharge their duties, solely in the interests of the Fund’s participants and beneficiaries and in accordance with the Pension Code; and

WHEREAS, effective April 3, 2009, the General Assembly of Illinois amended Section 5/1-109.1 of the Pension Code to require entities subject to the Pension Code, including the Fund, to establish a policy that sets forth goals for increasing the racial, ethnic and gender diversity of its fiduciaries, consultants and senior staff and further required that such goals be reviewed annually; and

WHEREAS, in its efforts to enhance and promote the professional management of the Fund, the Board had retained fiduciaries, consultants and senior staff prior to April 3, 2009, that generally and collectively reflect the racial, ethnic and gender diversity of the Fund’s participants and beneficiaries and the citizens of the City of Chicago; and

WHEREAS, the Board acknowledges that the adoption of a formal policy with specific goals to be reviewed annually, is required by the Pension Code and will assist the Fund in continuing to retain fiduciaries, consultants and senior staff that are diverse based on race, ethnicity and gender.

NOW THEREFORE, BE IT RESOLVED THAT, it shall be the policy of the Retirement Board of the Fireman’s Annuity & Benefit Fund of Chicago to expend all reasonable and prudent efforts, consistent with the General Assembly’s amended Section 5/1-109.1 of the Pension Code, subject to applicable laws relating to discrimination, to use fiduciaries, consultants and senior staff that are collectively diverse based on race, ethnicity and gender with the goal of increasing such use over time. This policy shall be reviewed annually and reported to the Governor and the General Assembly as required by the Pension Code.

**POLICY REGARDING BUSINESS ENTERPRISES
OWNED BY MINORITIES, FEMALES AND
PERSONS WITH DISABILITIES
(PUBLIC ACT 96-0006)**

WHEREAS, the Fireman’s Annuity & Benefit Fund of Chicago (the “Fund”) was created pursuant to Chapter 40, 5/6-101, *et seq.* (the “Pension Code”); and

WHEREAS, the Trustees elected or appointed to serve as members of the Retirement Board (the “Board”) of the Fund desire to enhance and promote the professional management of the Fund in order to ensure that the Fund continues to provide retirement and other benefits to participants and beneficiaries who have served the City of Chicago and its citizens; and

WHEREAS, the Board as fiduciaries of the Fund and pursuant to Section 5/1-109 of the Pension Code are required to discharge and, do so discharge their duties, for the exclusive purpose of providing benefits to participants and their beneficiaries and to defray reasonable expenses of administration; and

WHEREAS, effective April 3, 2009, the General Assembly of Illinois amended Chapter 40, Section 5/1-101, *et seq.* of the Pension Code, by Public Act 096-0006, to require entities subject to the Pension Code, including the Fund, to establish a policy which sets forth goals to be reviewed annually for the utilization of businesses owned by minorities, females and persons with disabilities for all contracts and services as those terms are defined by the Business Enterprise for Minorities, Females, and Persons with Disabilities Act, 30 ILCS 575/1 *et seq.* (the “Minority Enterprise Act”); and

WHEREAS, the Board acknowledges that the formal adoption of such a policy and goals, which are to be reviewed annually, will assist the Fund in its practice of contracting with businesses owned by minorities, females and persons with disabilities.

NOW THEREFORE, BE IT RESOLVED THAT, it shall be the policy of the Retirement Board of the Fireman’s Annuity & Benefit Fund of Chicago to use all reasonable and prudent efforts, consistent with federal, state and local laws and regulations, to utilize businesses owned by minorities, females and persons with disabilities, within the bounds of fiduciary and financial prudence, when contracting for the purchase of goods or services. It shall be the goal of the Fund to expend between fifteen percent (15%) and twenty five percent (25%) of its discretionary spending on the purchase of goods or services from businesses owned by minorities, females and persons with disabilities. This policy shall be reviewed annually and reported to the Governor and the General Assembly as required by the Pension Code.