

**REPORT TO GOVERNOR  
AND GENERAL ASSEMBLY**

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**USE OF EMERGING INVESTMENT  
MANAGERS**

**December 1, 2016**



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**State Universities Retirement System of Illinois  
1901 Fox Drive, P.O. Box 2710  
Champaign, IL 61820**

**As Required by Public Act 96-0006**



December 1, 2016

The Honorable Bruce Rauner  
Governor of Illinois  
207 Statehouse  
Springfield, Illinois 62706

Dear Governor Rauner:

The State Universities Retirement System (SURS) is pleased to provide the Report to the Governor and General Assembly regarding the Use of Emerging Investment Managers for Fiscal Year 2016 as required by Public Act 96-0006.

SURS continues to be committed to providing opportunities for investment management firms and broker/dealers owned by minorities, females, and persons with a disability. The SURS Board of Trustees has long had an established policy that formally addresses the initiative to increase the participation of minority-, female- or persons with a disability-owned (MFDB) firms.

Included below are some key points highlighting the progress of the SURS diversity initiative over the past decade as well as more recent activities. SURS recognizes that additional work remains to be accomplished in this area.

#### Summary of Key Points

- Assets managed by emerging firms have increased from 13.4% of total assets, as of June 30, 2006, to 27.4% of total assets, as of June 30, 2016.
- Assets with emerging firms increased from \$1.9 billion to \$4.2 billion over the same time period, an increase of approximately \$2.3 billion.
- SURS employed one investment intern during the Summer of 2016. The intern, from Eastern Illinois University, was placed with the assistance of the Toigo Foundation. The intern was recently hired as a permanent, full-time member of SURS' investment staff.
- On September 10, 2015, the Board of Trustees increased the diversity goal for new allocations to Alternative Investments from 10% to 20%.
- During the last 18 months, SURS committed \$90 million to a non-core real estate provider for investment in funds owned by minorities, women and persons with a disability.
- In October 2015, the SURS Board retained two hedge fund-of-funds providers. Each provider has a goal that at least 20% of the SURS assets be allocated to funds owned by persons of diversity.
- In March 2016, SURS committed \$100 million to Muller & Monroe Asset Management for investment in a portfolio of private equity funds managed by general partners owned by

minorities, females and persons with a disability. This allocation builds on the existing program in this area managed on behalf of SURS by Fairview Capital Partners and Muller and Monroe Asset Management.

Thirty-seven percent (19 of 52) of SURS' current investment managers are owned by minorities, females, or persons with a disability, as of June 30, 2016. SURS assets managed by these 19 firms total \$4.17 billion, representing 24.7% of the total investment portfolio.

The Manager Diversity Program (MDP) is one of the key initiatives developed by SURS aimed at increasing the utilization of MFDB investment managers. The MDP, approved by the Board in March 2004, is managed with program oversight by internal investment staff, allowing investment managers to have a direct contractual relationship with SURS. The program currently consists of 17 managers with 19 assignments across the asset classes of domestic equities, international equities, fixed income, Treasury Inflation-Protected Securities, private equity, and real estate. The program continued to expand during FY 2016. As of June 30, 2016, the total assets under management in the Manager Diversity Program total \$2.7 billion.

SURS has several diversity policies in place to comply with Public Act 96-0006. Quantifiable goals have been set and are reviewed annually for the management of assets and utilization of broker dealers owned by minorities, females and persons with a disability. Over the past year, SURS has continued to reach for these goals and will continue to do so in the coming year.

SURS continues to make its investment managers aware of trading opportunities with MFDB brokerage firms. The System's Investment Policy, subject to best execution, requires its investment managers to meet certain minimum levels of trading with MFDB brokerage firms. SURS investment managers in each asset class are, in aggregate, exceeding the minimum brokerage expectations set by the Board of Trustees. Minority brokerage utilization rates for U.S. equity, non-U.S. equity, and fixed income investment managers were 43%, 40%, and 35%, respectively, for fiscal year 2016.

SURS places the utmost importance on promoting diversity among its investment advisors and investment professionals. We will continue to strive to implement and evaluate the strategies developed to date and will make a conscious effort to continue our focus on serving our members to the best of our ability.

Sincerely,

  
Douglas C. Wesley, CFA  
Interim Chief Investment Officer

cc: Martin M. Noven, Executive Director



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## **INTRODUCTION**

The State Universities Retirement System of Illinois (SURS) is committed to providing opportunities for emerging investment managers<sup>1</sup>, including those firms owned by minorities, females and persons with a disability. SURS has taken and is continuing to take important and appropriate actions to provide increased opportunities for minority-, female- and persons with a disability-owned (MFDB) investment managers. This program has been and will continue to be of utmost importance to the SURS Board of Trustees and has received the highest priority.

The SURS Board of Trustees has adopted a Policy seeking increased inclusivity in the investment program. The most recent version of the Policy, approved by the Board in September 2015, can be found in Tab 1, Exhibit A.

## **OVERVIEW OF SURS INVESTMENT PROGRAM**

As of June 30, 2016, the SURS investment portfolio is valued at approximately \$16.9 billion. SURS has engaged the services of 52 investment managers in nine major asset classes - U.S. Equities, Non-U.S. Equities, Global Equities, Private Equity, Fixed Income, Real Estate, Commodities, Hedged Strategies, and Infrastructure. These investment managers have been hired through a competitive search process to identify the best qualified managers in each asset class. Managers are selected to invest their portfolios in a specific strategy or style. More generally, SURS seeks a diversified mix of investment managers, each having different styles in different asset classes. Thirty-seven percent (19 of 52) of SURS' current investment managers are minority-, female- or persons with a disability-owned businesses.

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<sup>1</sup> The phrase "emerging investment manager" is used throughout the text of this document. The current definition applicable to SURS is found in 40 ILCS 5/1-109.1(4) and is defined 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', 'female owned business' or 'business owned by a person with a disability' as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act."



## **INVESTMENT MANAGER SELECTION**

SURS' manager search process begins with defining the need for a specific type of investment to augment the risk/return profile of the overall portfolio, and presenting the rationale to the Board of Trustees for approval. Generally, once approval has been obtained for retaining investment managers, the investment staff, along with SURS' investment consultant, conducts a search.

In April 2009, in accordance with Public Act 96-0006, the SURS Board of Trustees adopted an investment procurement policy. The selection and appointment of an investment adviser or consultant for investment services must be the result of a competitive process that is substantially similar to the process required for the procurement of professional and artistic services under the Illinois Procurement Code. Section VIII of the Investment Policy, entitled, "Selection and Retention", includes the selection criteria and search process established by the Board of Trustees. SURS does not use any criteria that would be considered a barrier to an MFDB manager such as a minimum number of years in business or a minimum level of assets under management. If an emerging investment manager meets the criteria established for a specific search, then that emerging investment manager shall receive an invitation by the Board or Investment Committee to present his or her firm for final consideration of a contract. In the case where multiple emerging investment managers meet the criteria of the search, the internal investment staff may choose the most qualified firm(s) to present to the Board or Investment Committee.



## **DEDICATED PROGRAMS FOR MFDB INVESTMENT MANAGERS**

SURS has managed a dedicated program for minority-, female- and persons with a disability-owned investment management firms since fiscal year 1997. Initially, SURS utilized the services of external manager of emerging managers providers, such as Progress Investment Management Company. In 2004, SURS expanded its program with the launch of an internal manager of emerging managers program, the Manager Diversity Program.

### ***Progress Investment Management Company***

Progress Investment Management Company, as manager of emerging managers provider, selects, retains, and compensates the investment managers that are managing the assets within their program. By teaming with Progress, SURS is able to establish a relationship with a larger number of emerging investment managers. Currently, the Progress program consists of 12 managers across publicly traded non-U.S. equities, core fixed income, and emerging market debt. As of June 30, 2016, all 12 managers providing investment services to SURS through Progress Investment are MFDB investment managers. Tab II, Exhibit C, details the managers that are a part of the Progress program. The performance of these managers is closely monitored by SURS staff, with the goal of identifying highly successful managers that can potentially be funded directly by SURS. Progress also partners with SURS staff to share research in an effort to enhance the System's line-up of deserving MFDB investment managers.

As of June 30, 2016, the total value of assets under management by Progress is \$383 million.

***Manager Diversity Program***

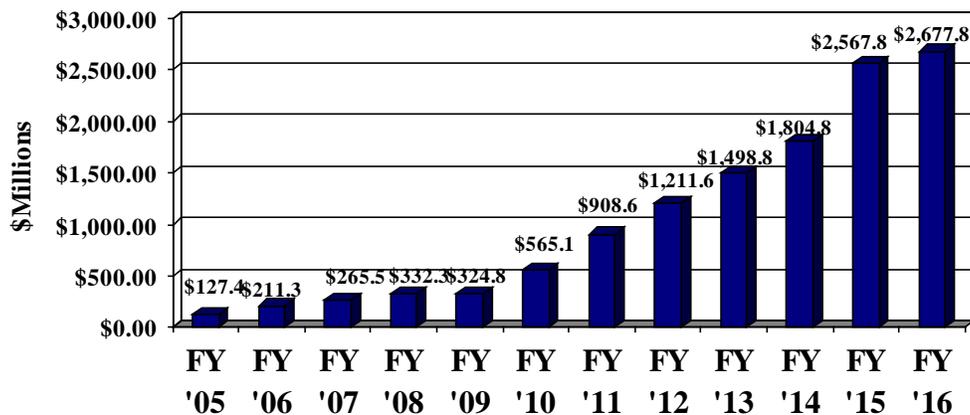
- Creation of the MDP

The Manager Diversity Program (MDP), initially known as the Manager Development Program, was created by the SURS Board of Trustees in March 2004 as one of four initiatives<sup>2</sup> designed to further increase the utilization of MFDB investment management firms. As of June 30, 2016, the program consists of 17 managers with 19 assignments across domestic equities, international equities, fixed income, Treasury Inflation-Protected Securities (TIPS), private equity, and real estate. Investment firms selected for participation in the MDP contract directly with SURS. Ultimately, the goal of the MDP is to identify highly successful managers and meaningfully increase the firm’s allocation, if consistent with the structure of the overall SURS portfolio.

- Expansion of the MDP

Due to the success of the MDP, the program has significantly expanded since its creation. As the chart below illustrates, MDP assets have grown from \$127.4 million in fiscal year 2005 to approximately \$2.7 billion at the end of fiscal year 2016. As part of the expansion, the structure has been strategically modified to be more consistent with the overall SURS investment program, including allocations to private equity and real estate.

**Manager Diversity Program Assets  
FY 2005 - FY 2016**



<sup>2</sup> The other three initiatives involved creation of a private equity fund-of-funds focused on minority- and female-owned partnerships, a search for minority- or female-owned equity index fund providers, and expansion of the existing roster of minority- and female-owned firms. Each of the four initiatives has been successfully implemented.



The MDP continues to expand, as discussed below.

- SURS committed \$100 million to Muller & Monroe for a new MFDB mandate. This Board-approved allocation will assist SURS in meeting its goal that 20% of new commitments in alternative investments be awarded to qualified firms owned by minorities, females and persons with a disability, as documented in the Investment Policy. The mandate will focus exclusively on private equity funds with greater than 51% ownership held by minorities, females, or persons with a disability, as defined by statute.
- The Private Equity Emerging Manager Providers continue to make commitments to qualified private equity funds.
- The Real Estate Emerging Manager Provider continues to make commitments to qualified real estate funds.
- In October 2015, the Board retained two firms to provide hedge fund-of-fund services. While not directly a component of the MDP, each hedge fund-of-funds provider will have a goal that at least 20% of the SURS assets be allocated to funds owned by persons of diversity.

Tab II, Exhibit D, details the managers in the MDP along with the current level of assets under management for the System. As of June 30, 2016, the total assets under management in the Manager Diversity Program are approximately \$2.7 billion, an increase in market value of approximately \$110 million from last year's report.

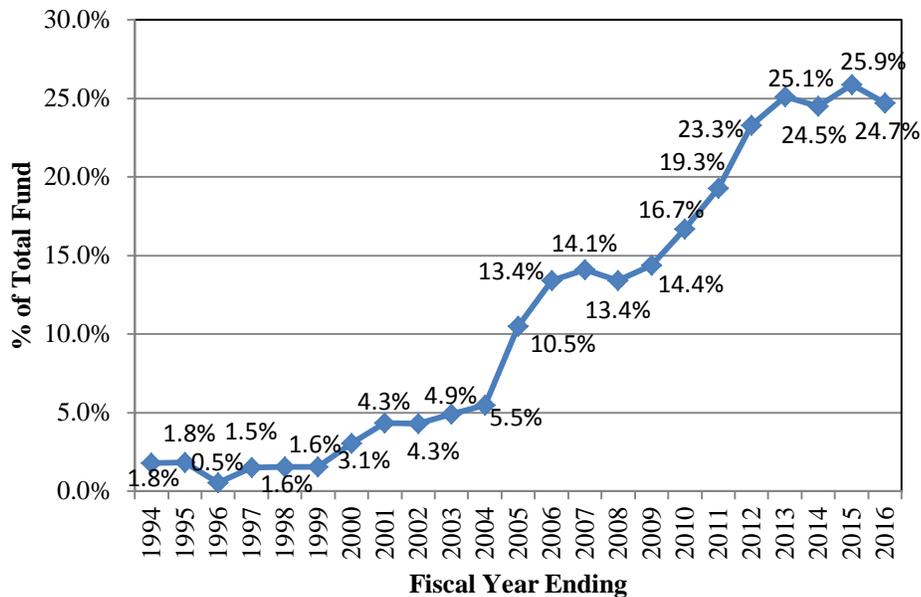
The MDP is managed with program oversight by SURS internal investment staff, allowing investment managers to have a direct contractual relationship with SURS. Significant staff resources continue to be dedicated to the construction, management, and evaluation of the program.

**CURRENT ROLE OF INVESTMENT MANAGERS OWNED BY  
MINORITIES, FEMALES, AND PERSONS WITH A DISABILITY**

*Defined Benefit Plan*

SURS investment program totaled \$16.866 billion as of June 30, 2016. Of this amount, \$4.17 billion, or 24.7%, is managed by investment management firms owned by minorities, females or persons with a disability. SURS assets with MFDB firms have grown steadily over time, as seen in the chart that follows.

**SURS Assets with MFDB Investment Management Firms  
FY 1994 – FY 2016**



Tab II, Exhibit E includes name and address information for SURS’ MFDB investment managers along with the percent of assets managed by the various investment management firms.

*Defined Contribution Plan*

Public Act 90-448 established a defined contribution retirement plan for SURS participants. This plan, known as the Self-Managed Plan (SMP), became available to



SURS participants on April 1, 1998, and marked its eighteenth anniversary on April 1, 2016. There are over 20,100 participants currently invested and assets are approximately \$1.82 billion. SURS has retained two investment service providers which offer mutual funds and variable annuity products to plan participants. At the end of fiscal year 2016, there were twenty-seven investment options available to the participants, one of which is managed by a minority-owned firm. As of June 30, 2016, plan participants have allocated over \$27 million to this particular fund.

### **CURRENT ROLE OF ILLINOIS-BASED INVESTMENT MANAGERS**

In addition to our commitment to minority-, female- and persons with a disability-owned firms, SURS is committed to Illinois-based firms. Historically, SURS has partnered with local investment management firms to a significant extent. As of June 30, 2016, SURS had retained thirteen Illinois-based investment management firms, with collective assets managed for SURS of approximately \$3.9 billion (23.0% of SURS Total Fund). Five of the thirteen firms are either minority- or female-owned. Tab II, Exhibit F details the Illinois-based firms utilized by SURS.

### **CURRENT ROLE OF MFDB BROKERAGE FIRMS**

SURS requires all of its public markets investment managers to use minority-, female- or persons with a disability-owned (MFDB) brokerage firms. Annually, a communication is distributed to the investment service providers regarding the use of MFDB brokerage firms. Throughout the year, SURS receives numerous inquiries from MFDB brokerage firms regarding the opportunity to execute trades for the portfolio. SURS investment staff, at a minimum, meets with interested firms when requested and provides a listing of its current investment managers, which is available online at [www.surs.org](http://www.surs.org). If requested, SURS staff will send a letter of introduction along with the firm's marketing materials.



Since fiscal year 2004, SURS has had in place a brokerage policy designed to increase the utilization of MFDB brokerage firms, subject to best execution. The policy is asset class-specific and calls for SURS' investment managers to meet certain minimum levels of usage over continually rolling twelve-month periods. The current version of the brokerage policy is included in Tab I, Exhibit A. Summary goals for the utilization of minority-owned broker/dealers have been established for the aggregate U.S. equity, non-U.S. equity and fixed income asset classes as shown in the table below. SURS seeks to consistently exceed these high level goals while achieving best execution.

<b>Asset Class</b>	<b>Goal</b>
U.S. Equity	30.0%
Non-U.S. Equity	15.0%
Fixed Income	20.0%

SURS continuously monitors managers' compliance with this revised policy and has established a series of consequences for those managers who repeatedly fail to meet expectations, up to and including termination. Initially, a follow-up letter will be distributed to the investment managers not achieving the minimum level of MFDB broker/dealer usage. The investment managers are expected to achieve the desired levels over continually rolling twelve-month periods. Only trades executed directly with minority-owned broker/dealers will be considered in the achievement of these goals. The table that follows lists the goals for each asset class as well as actual utilization for the year ending June 30, 2016.



**Trading with Firms Owned by Minorities, Females or Persons with a Disability**  
**Year Ending June 30, 2016**

<b>Asset Class</b>	<b>Actual Utilization</b>	<b>Goal</b>
<b>EQUITY</b>		
U.S. Equity	42.52%	30.0%
Non-U.S. Equity	40.26%	15.0%
Global Equity	22.99%	20.0%
Real Estate Investment Trust Securities (REITS)	47.54%	10.0%
<b>FIXED INCOME</b>		
Fixed Income	34.88%	20.0%
Treasury Inflation-Protected Securities (TIPS)	14.52%	10.0%

In the aggregate, SURS investment managers are currently exceeding the minimum expectations levels established by the Board of Trustees. SURS, on an ongoing basis, continues to emphasize the importance of this program to all of its new and existing investment managers, and given the established minimum levels of utilization, expects to see continued meaningful usage of MFDB brokers in future years.

**PUBLIC ACT 96-0006**

On April 3, 2009, Governor Quinn signed into law Public Act 96-0006 (PA 96-0006), which addresses pension ethics and reform. The legislation required the development of numerous diversity policies.

- Quantifiable Goals for Management of Assets

First, P.A. 96-0006 requires the development of quantifiable goals for the management of assets in specific asset classes by emerging investment managers. Annually, the Board of Trustees reviews and approves the Investment Policy, which includes, among other things, goals for utilization of emerging investment managers owned by minorities, females, and persons with a disability.<sup>3</sup> A table highlighting these

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<sup>3</sup> P.A. 96-0006 requires the establishment of “3 separate goals for (i) emerging investment managers that are minority owned businesses; (ii) emerging investment managers that are female owned businesses; and (iii) emerging investment managers that are businesses owned by a person with a disability.”



goals as well as the percentage of assets under management for each of the three separate goals, as of June 30, 2016, can be found as Tab II, Exhibit G.

In September 2014, the Board established a new goal that 20% of total assets be managed by MFDB investment managers meeting the statutory definition of a minority-owned business. As of June 30, 2016, 18.1% of total assets were managed by MFDB firms meeting the statutory definition. This new goal is in addition to the existing goal that 25% of total actively managed assets be managed by MFDB firms. Currently, 25.3% of actively managed assets are managed by MFDB firms. SURS strives, on an ongoing basis, to improve and increase its relationships with MFDB managers and broker/dealers.

Section XIV of the Investment Policy, entitled, “Emerging Investment Managers and Broker/Dealers”, is attached as Tab I, Exhibit A for your review. Section XIV also contains language encouraging investment managers to use emerging investment managers as subcontractors when the opportunity arises. A list of the names and addresses of the minority-, female- and persons with a disability-owned investment managers utilized by SURS is included as Tab II, Exhibit E. Actions undertaken to increase the use of emerging investment managers were previously discussed in the section entitled, “Dedicated Programs for Emerging Investment Managers.”

- Goals for Increasing Diversity of Fiduciaries
- Goals for Utilization of Businesses Owned by Minorities, Females, and Persons with a Disability

Public Act 96-0006 also requires the development of goals for increasing the diversity of fiduciaries and for utilization of businesses owned by minorities, females, and persons with a disability. The Board of Trustees adopted an Inclusion Policy in December 2009 to establish guidelines for inclusion of minority, women or disabled owned businesses in SURS procurement processes consistent with 40 ILCS 5/1-109 and 40 ILCS 5/1-109.1. A copy of the SURS Inclusion Policy is included as Tab I, Exhibit B. The goal adopted at that time for all contracts and purchases from businesses owned by minorities,

women, and persons with a disability was 12%. The goals have been subsequently reviewed and increased over time, as shown in the table below.

**History of SURS' Vendor Diversity Goals**

<b>Date</b>	<b>Vendor Diversity Goal</b>
December 2009	12%
FY 2012	20%
FY 2013	25%
FY 2014	25%
FY 2015	25%
FY 2016	25%

For Fiscal Year 2016, 17.4% of the contracts and purchases included businesses owned by minorities, women and persons with a disability, falling short of the goal of 25%. The plan for Fiscal Year 2017 is to maintain the goal at 25%, with the intent to continue expanding our minority-, female-, and persons with a disability-owned vendor group. The SURS staff will continue to be proactive during Fiscal Year 2017 in seeking minority-, female-, and persons with a disability-owned businesses in our procurement opportunities.

- Goals for Increasing the Utilization of Minority Broker-Dealers

Public Act 96-0006 requires the adoption of a policy that sets forth goals for increasing the utilization of MFDB broker-dealers. As mentioned previously, the Board of Trustees has adopted such a policy (Tab I, Exhibit A). Actions undertaken to increase the use of minority broker-dealers were previously discussed in detail in the section entitled, “Current Role of MFDB Brokerage Firms.”

**CONCLUSION**

SURS places the utmost degree of importance on promoting diversity among its investment advisors and investment professionals. SURS is an active member in the National Association of Securities Professionals (NASP), the New America Alliance (NAA), and the Association of Asian American Investment Managers (AAAIM), which promote diversity in the investment industry. In addition, meaningful goals have been



established for the use of investment management firms owned by minorities, females, and persons with a disability in each asset class. SURS has significantly increased assets with MFDB firms over the past several years. Emphasis will continue to be placed on brokerage activity with minority-, female- or persons with a disability-owned (MFDB) firms, especially with regard to increasing direct trade execution activity. SURS looks forward to continued implementation of the strategies developed to date and further strengthening of the relationships already in place with firms owned by minorities, females or persons with a disability.

## State Universities Retirement System Emerging Investment Managers and Broker/Dealers Policy

### Section XIV of SURS Investment Policy (09/2015)

#### XIV. Emerging Investment Managers and Broker/Dealers

The State Universities Retirement System of Illinois (SURS) is committed to providing opportunities for emerging investment managers and broker/dealers. SURS has taken and is continuing to take important and appropriate actions to provide increased opportunities for emerging investment managers, as well as minority-, female-, and persons with a disability-owned (MFDB) investment managers that have advanced beyond the statutory definition of emerging investment managers.<sup>1</sup> This program has been and will continue to be important to the SURS Board of Trustees and has received the highest priority. In determining the status of a business enterprise, SURS will use the definitions found in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act, 30 ILCS 575/2(A), (B).

The Illinois Pension Code, in 40 ILCS 5/1-109.1, encourages the trustees of the System to use emerging investment managers in managing the System's assets to the greatest extent feasible within the bounds of financial and fiduciary prudence, and to take affirmative steps to remove any barriers to the full participation of emerging investment managers in investment opportunities afforded by the System. Furthermore, in accordance with the Illinois Pension Code, SURS encourages its investment managers to use emerging investment managers as subcontractors when the opportunity arises.

##### **A. Goals for Utilization of Minority-, Female-, and Persons with a Disability-Owned (MFDB) Investment Management Firms**

It is the goal of the Board that, subject to its fiduciary responsibility, 20% of total assets be managed by emerging investment managers and MFDB investment managers. Further, an additional goal, subject to fiduciary responsibility, is that 25% of total actively managed investment assets be managed by emerging investment managers and MFDB investment managers. This goal shall be reviewed annually. SURS strives, on an ongoing basis, to improve and increase its relationships with and use of MFDB managers and broker/dealers.

It is also the goal of the Board that, subject to its fiduciary responsibility, the use of MFDB investment managers be significant in each of the broad asset classes in which SURS is invested and not concentrated in any particular asset class. In accordance with 40 ILCS 5/1-109.1, SURS has established the following goals for the management of assets in specific asset classes by emerging investment managers.<sup>2</sup>

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<sup>1</sup> The phrase "emerging investment manager" is used throughout the text of this document. 40 ILCS 5/1-109.1(4) defines "emerging investment manager" to mean "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', 'female owned business' or 'business owned by a person with a disability' as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act."

<sup>2</sup> 40 ILCS 5/1-109.1 requires the establishment of "3 separate goals for (i) emerging investment managers that are minority owned businesses; (ii) emerging investment managers that are female owned businesses; and (iii) emerging investment managers that are businesses owned by a person with a disability." Beginning January 1,

The table that follows identifies utilization goals for actively managed assets in each of the major asset classes. While these objectives may not be immediately achieved, the desire is to show meaningful progress toward these goals over time. These goals shall be reviewed annually.

<b><u>Asset Class</u></b>	<b><u>Goal for Minorities</u></b>	<b><u>Goal for Females</u></b>	<b><u>Goal for Persons with a Disability</u></b>	<b><u>Overall Active Goal</u></b>
<b>Equities</b>	<b>20%</b>	<b>10%</b>	<b>0-2%</b>	<b>30%</b>
<b>Fixed Income (includes TIPS)</b>	<b>12%</b>	<b>8%</b>	<b>0-1%</b>	<b>20%</b>
<b>Alternative Investments</b>	<b>0-20% of new allocations</b>	<b>0-20% of new allocations</b>	<b>0-20% of new allocations</b>	<b>20% of new allocations</b>
<b>Total Fund</b>	<b>16%</b>	<b>8%</b>	<b>1%</b>	<b>25%</b>

### **B. Minority-Owned Broker/Dealer Usage Policy**

The Board of Trustees of the State Universities Retirement System has an established policy that seeks increased participation of investment management firms owned by minorities, females, and persons with a disability. As part of this policy, the Board also adopts minimum expectations for the use of minority-owned broker/dealers<sup>3</sup> by the System's investment managers. Only trades executed directly with minority-owned broker/dealers will be considered in the achievement of these goals.

Summary goals for the utilization of minority-owned broker/dealers have been established for the aggregate U.S. equity, non-U.S. equity and fixed income asset classes as shown in the table below. SURS seeks to consistently exceed these high level goals while achieving best execution.

<b>Asset Class</b>	<b>Goal</b>
U.S. Equity	30.0%
Non-U.S. Equity	15.0%
Fixed Income	20.0%

In order to achieve the goals at the asset class level, minimum expectations have been established for individual investment managers. These levels are based on the asset class in which the investment manager invests. SURS encourages its investment managers to strive to exceed the minimum expectations shown in the table that follows.

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2016, per 40 ILCS 5/1-109.1(10), it shall be the aspirational goal for SURS to use emerging investment managers for not less than 20% of the total funds under management, and that not less than 20% of investment advisors be minorities, females, and persons with disabilities as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act.

<sup>3</sup> For purposes of this section and in accordance with 40 ILCS 5/1-109.1, "minority-owned broker dealer" means "a qualified broker-dealer who meets the definition of 'minority owned business', 'female owned business', or 'business owned by a person with a disability', as those terms are defined in the Business Enterprise for Minorities Females, and Persons with Disabilities Act."

<b>Asset Class</b>	<b>Minimum Expectation</b>
<b>EQUITY</b>	
Active U.S. Equity	30.0%
Passive U.S. Equity	35.0%
Structured Active U.S. Equity	10.0%
Non-U.S. Equity	15.0%
Structured Active Non-U.S. Equity	10.0%
Global Equity	20.0%
Real Estate Investment Trusts (REITS)	10.0%
<b>FIXED INCOME</b>	
Fixed Income	20.0%
Treasury Inflation-Protected Securities (TIPS)	10.0%

### **U.S. Equity Separate Accounts**

Subject to best execution, active U.S. equity investment managers for SURS are required to direct 30% of the total eligible commission dollars to minority-owned broker/dealers. Trades executed using electronic trading platforms are excluded from this requirement.

Subject to best execution, passive U.S. equity investment managers for SURS are required to direct 35% of the total eligible commission dollars to minority-owned broker/dealers. Trades executed using electronic trading platforms are excluded from this requirement.

### **Structured Active U.S. Equity Separate Accounts**

Subject to best execution, structured active U.S. equity investment managers for SURS are required to direct 10% of the total eligible commission dollars or eligible trading volume to minority-owned broker/dealers. Trades executed using electronic trading platforms are excluded from the 10% requirement.

### **Non-U. S. Equity Separate Accounts**

Subject to best execution, active non-U.S. equity investment managers for SURS are required to direct 15.0% of the total eligible commission dollars to minority-owned broker/dealers. Trades executed in emerging market countries<sup>4</sup> or using electronic trading platforms are excluded from this requirement.

### **Structured Active Non-U.S. Equity Separate Accounts**

Subject to best execution, structured active non-U.S. equity investment managers for SURS are required to direct 10% of the total eligible commission dollars or eligible trading volume to minority-owned broker/dealers. Trades executed in emerging market countries or using electronic trading platforms are excluded from the 10% requirement.

### **Global Equity Separate Accounts**

Subject to best execution, active global equity investment managers for SURS are required to direct 20.0% of the total eligible commission dollars to minority-owned

<sup>4</sup> As defined by Morgan Stanley Capital International

broker/dealers, effective January 1, 2015.<sup>5</sup> Trades executed in emerging market countries or using electronic trading platforms are excluded from the 20.0% requirement.

#### **Fixed Income Separate Accounts**

Subject to best execution, fixed income investment managers for SURS are required to direct 20% of eligible fixed income trading volume to minority-owned broker/dealers. Trades executed in emerging market countries or using electronic trading platforms are excluded from the minimum trading requirements.

#### **Treasury Inflation-Protected Securities (TIPS) Separate Accounts**

Subject to best execution, active TIPS investment managers for SURS are required to direct 10% of eligible TIPS trading volume to minority-owned broker/dealers. Trades executed in emerging market countries or using electronic trading platforms are excluded from the minimum trading requirements.

#### **Real Estate Investment Trust Securities (REITS) Separate Accounts**

Subject to best execution, active REITS investment managers for SURS are required to direct 10% of the total eligible commission dollars to minority-owned broker/dealers. Trades executed in emerging market countries or using electronic trading platforms are excluded from this requirement.

#### **Reporting Guidelines**

Each investment manager will submit a compliance report within 30 days after March 31, June 30, September 30 and December 31 of each year. Reporting will be monitored over a rolling twelve-month period.

#### **Consequences of Non-Compliance**

SURS continuously monitors investment managers' compliance with this policy and has established a series of consequences for those investment managers who continually fail to meet expectations. The investment managers are expected to achieve the desired levels over rolling twelve-month periods. The following steps will occur if the investment manager continues to fall short of expectations:

- 1) A follow-up letter will be distributed to the investment manager not achieving the minimum level of minority-owned broker/dealer usage. The investment manager will be reminded of the usage expected by SURS. Currently, as stated in the Annual Report to the Governor and General Assembly on the Use of Emerging Investment Managers, prepared as required in Public Act 87-1265, a letter is distributed to all of the investment managers on an annual basis listing the level of expectations.
- 2) Not achieving the desired level of minority-owned broker/dealer usage will be noted in the annual investment manager review presented to the SURS Board of Trustees. This could impact the evaluation of the firm.
- 3) SURS Staff will conduct a meeting with the investment manager to discuss the

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<sup>5</sup> The minimum expectation for global equity investment managers increases from 17.5% to 20.0%, effective January 1, 2015.

reasons for not achieving the desired level of trading.

- 4) Investment managers not achieving the expected levels of broker/dealer usage may be subject to a moratorium on additional funding.
- 5) If an investment manager fails to comply with the request, they may be invited to appear before the SURS Board of Trustees to explain why they are unable to achieve the desired level of trading.

### **C. Manager Diversity Program**

#### **Objectives and Goals**

The State Universities Retirement System (SURS) has implemented the Manager Diversity Program (MDP), formerly known as the Manager Development Program, in its proactive efforts to assist in the development of emerging investment management firms. The Manager Diversity Program is a manager of managers program that is overseen by SURS Staff.

The primary goal of the MDP is identifying highly successful minority-, female-, and persons with a disability-owned (MFDB) investment managers that can then be awarded meaningful allocations in the actively managed portfolio.

The performance objective of the MDP is to seek annualized investment returns, net of investment management fees, in excess of the market goal for 1, 3, 5, and 10-year periods. While individual investment managers may underperform in any given year, the diversification within the program should limit the underperformance at the program level.

#### **Benchmarks**

The Manager Diversity Program consists of five broad components, each of which is measured by a relevant benchmark. The table below identifies the benchmark for each program component. Individual investment manager benchmarks are identified in the investment guidelines for each investment manager.

<b><u>MDP Component</u></b>	<b><u>Benchmark</u></b>
Overall Program	Custom - based on the benchmarks of the underlying MDP components
U.S. Equity	Custom - based on the benchmarks of the underlying investment managers
Fixed Income (includes TIPS)	Custom – based on the benchmarks of the underlying investment managers
Non-U.S. Equity	Custom – based on the benchmarks of the underlying investment managers
Private Equity	Dow Jones U.S. Total Stock Market Index + 3%
Real Estate	NCREIF Fund Index - Open End Diversified Core Equity (NFI-ODCE) + 1.5%

#### **Search and Selection Process**

For searches affiliated with the SURS Manager Diversity Program (MDP), the Investment Staff conducts the search process with the Consultant providing an independent evaluation of the program annually. The criteria used to determine the

minimum qualifications of firms to be selected for an assignment are the same as the criteria generally applicable to investment manager selection, discussed in Section VIII(B), entitled “Investment Manager Selection.”

Using the criteria established by the Board of Trustees, the top firms are selected using a competitive proposal process based upon the experience and qualifications of the firm’s principals, the soundness of the firm’s investment philosophy and process, as well as the strength of the investment record and organization.

The search process for investment manager(s) shall be conducted in a substantially similar manner to that of the Consultant search process, discussed in Section VIII(A), entitled “Consultant Selection and Retention,” except that the Consultant may assist SURS staff in the search process. It is important to note that SURS does not use any criteria that would be considered a barrier to an emerging investment manager such as a minimum number of years in business or a minimum asset level under management. As a part of the selection process, SURS utilizes databases to ensure that qualified emerging investment managers are included in the pool of eligible candidates.

#### **Investment Manager Evaluation**

Investment managers in the MDP will be evaluated in the same manner as that set forth in Section VIII (Selection and Retention). Termination decisions will follow the guidelines set forth in Section X (Investment Manager Termination Guidelines). An evaluation of each investment manager shall be conducted annually.

#### **Authority to Hire/Retain/Terminate Investment Managers**

The MDP is a manager of managers program overseen by SURS staff. As such, SURS Staff has the responsibility to identify, recruit, and monitor MDP investment managers. SURS Staff will make recommendations on the selection, retention and termination of MDP investment managers, but the Board (acting through its Investment Committee) reserves the ultimate authority with respect to all investment manager hiring, retention and termination decisions. The SURS Staff has the responsibility to implement the Board decisions through negotiation, execution and enforcement of the investment management agreement and guidelines. All investment management agreements and amendments thereto must be executed by the Executive Director. In the event that termination of an investment manager is warranted under the Investment Manager Termination Guidelines, and prompt termination of the investment manager is necessary to protect and preserve System assets, SURS Staff may, with the prior approval of the Executive Director, terminate the investment manager prior to Board action. The Board shall be promptly notified of the decision to terminate the investment manager, and the decision shall be presented to the Investment Committee for ratification at its next meeting.

Retention and termination decisions will be fully documented and will include a full description of the reason for the action, including the specific elements serving as the basis for the evaluation and identification of the relevant issues from the System’s perspective.

SURS Staff has the authority to rebalance between MDP investment managers in order to maintain target allocations and style neutrality in each component of the MDP. Staff will report the results of rebalancing activity to the Investment Committee at the next regular Investment Committee meeting.

**Advancement**

The following factors are considered in determining when an investment manager should be advanced into the larger SURS portfolio:

- Stability in Organization
- Growth in Assets under Management
- Confidence in Investment Process
- Strong Investment Performance
- Product Fit

In addition to the factors mentioned above, the needs of the overall SURS investment program will be considered.

Initially adopted December 8, 2006; Revised April 26, 2007; September 21, 2007; September 12, 2008; April 23, 2009; September 11, 2009; December 2, 2009; September 3, 2010; September 16, 2011; October 25, 2012; September 13, 2013, September 19, 2014; September 11, 2015.

# **State Universities Retirement System (SURS)**

## **Inclusion Policy**

(09/11/2015)

**The purpose** of this policy is to establish a framework for the inclusion of businesses owned by minorities, females, and persons with a disability in SURS procurement processes and for the inclusion of increased diversity of SURS fiduciaries, consistent with 40 ILCS 5/1-109 and 40 ILCS 5/1-109.1.

**The goals** of this policy are to:

- promote competitive utilization of businesses owned by minorities, females, and persons with a disability in SURS contracts and services; and
- advance racial, ethnic, and gender diversity of SURS fiduciaries, including consultants and senior staff.

### **Policy**

SURS is responsible for the prudent administration of SURS members' trust fund. SURS strives to insure that members and taxpayers receive the maximum value for each dollar spent. To this end, SURS recognizes that promoting diversity of fiduciaries and vendors provides an open, competitive and diverse business environment.

SURS procurement and employment processes will further diversity in vendors and fiduciaries, including consultants and senior staff.

SURS employment processes to promote racial, ethnic and gender diversity of SURS fiduciaries, including senior staff must be developed to work in tandem with existing State University Civil Service System law when appropriate. To this end, SURS is committed to the ongoing efforts to seek job candidates from underrepresented groups, bring them into the organization, and offer additional growth/leadership opportunities with the intent of creating mutually beneficial long-term employment partnerships.

SURS procurement process includes a concerted effort to attract qualified minority, female owned business enterprises, and businesses owned by a person with disability (as defined by the Business Enterprise for Minorities, Females, and Persons with Disabilities Act: collectively, "MWDBE") to participate in the procurement process. SURS further commits to the objective evaluation of all qualified businesses regardless of race, gender or handicap in fair consideration of all suppliers and consultants in the acquisition of goods and services.

SURS stresses its goal of inclusion of MWDBE firms among prospective providers of purchased goods and services. Special efforts will be made to insure identification of eligible firms for inclusion in the bid process, including monitoring of MWDBE-related listings to identify possible MWDBE contractors and service providers. MWDBE firms will be identified using resources such as the United States Small Business Administration, Illinois Central Management Services Business Enterprise Program and other public agency resources. SURS will seek new ways to expand our efforts to do business with MWDBE suppliers and consultants.

If necessary, SURS will take proactive action to ensure that certified minority-owned, women-owned and disabled-owned business enterprises are provided notice of, and given the opportunity to demonstrate their ability to provide products and services at competitive prices. SURS staff who either directly or indirectly determine procurement needs or procurement decisions will seek and encourage MWDBE businesses to submit bids each time SURS publishes a request for bids or proposals.

SURS contracts require vendors to avoid unlawful discrimination in employment and to assure equality of employment opportunity and compliance with the Illinois Department of Human Rights' regulations concerning equal employment opportunities and affirmative action.

Pursuant to 40 ILCS 5/1-109.1 (10) SURS shall set an aspirational goal of no less than 20% utilization of businesses owned by minorities, females, and persons with disabilities of contracts awarded for "information technology", "accounting services", "insurance brokers", "architectural and engineering services", and "legal services". This information will be tracked, but is not required to be reported.

SURS has set a goal of 25% for purchases from businesses owned by minorities, women, and persons with a disability as a share of all of its contracts and purchases. This information will be tracked by the Chief Financial Officer and reported annually as required by Public Act 96-0006.

SURS has set a goal to promote diversity from the top down and the bottom up to ensure a culture of inclusivity. SURS will also recruit from a diverse, qualified pool of potential applicants to increase the racial, ethnic, and gender diversity of its senior staff. This information will be tracked by the Director of Human Resources and reported annually as required by Public Act 96-0006.

**(30 ILCS 575/2)**

**Sec. 2. Definitions.**

**(A) for the purpose of this Act, the following terms shall have the following definitions:**

(1) "Minority person" shall mean a person who is a citizen or lawful permanent resident of the United States and who is any of the following:

(a) American Indian or Alaskan Native (a person having origins in any of the original peoples of North and South America, including Central America, and who maintains tribal affiliation or community attachment).

(b) Asian (a person having origins in any of the original peoples of the Far East, Southeast Asia, or the Indian, including, but not limited to, Cambodia, China, India, Japan, Korea, Malaysia, Pakistan, the Philippine Islands, Thailand, and Vietnam).

(c) Black or African American (a person having origins in any of the black racial groups in Africa). Terms such as "Haitian" or "Negro" can be used in addition to "Black or African American".

(d) Hispanic or Latino (a person of Cuban, Mexican, Puerto Rico, South or Central American, or other Spanish Culture or origin, regardless of race).

(e) Native Hawaiian or Other Pacific Islander (a person having origins in any of the original peoples of Hawaii, Guam, Samoa, or other Pacific Islands).

(2) "Female" shall mean a person who is a citizen or lawful permanent resident of the United States and who is of the female gender.

(2.05) "Person with a disability" means a person who is a citizen or lawful resident of the United States and is a person qualifying as being disabled under subdivision (2.1) of this subsection (A).

(2.1) "Disabled" means a severe physical or mental disability that:

(a) results from: amputation, arthritis, autism, blindness, burn injury, cancer, cerebral palsy, Crohn's disease, cystic fibrosis, deafness, head injury, heart disease, hemiplegia, hemophilia, respiratory or pulmonary dysfunction, an intellectual disability, mental illness, multiple sclerosis,

muscular dystrophy, musculoskeletal disorders, neurological disorders, including stroke and epilepsy, paraplegia, quadriplegia and other spinal cord conditions, sickle cell anemia, ulcerative colitis, specific learning disabilities, or end stage renal failure disease; and

(b) substantially limits one or more of the person's major life activities.

Another disability or combination of disabilities may also be considered as a severe disability for the purposes of item (a) of this subdivision (2.1) if it is determined by an evaluation of rehabilitation potential to cause a comparable degree of substantial functional limitation similar to the specific list of disabilities listed in item (a) of this subdivision (2.1).

(3) "Minority owned business" means a business which is at least 51% owned by one or more minority persons, or in the case of a corporation, at least 51% of the stock in which is owned by one or more minority persons; and the management and daily business operations of which are controlled by one or more of the minority individuals who own it.

(4) "Female owned business" means a business which is at least 51% owned by one or more females, or, in the case of a corporation, at least 51% of the stock in which is owned by one or more females; and the management and daily business operations of which are controlled by one or more of the females who own it.

(4.1) "Business owned by a person with a disability" means a business that is at least 51% owned by one or more persons with a disability and the management and daily business operations of which are controlled by one or more of the persons with disabilities who own it. A not-for-profit agency for persons with disabilities that is exempt from taxation under Section 501 of the Internal Revenue Code of 1986 is also considered a "business owned by a person with a disability".

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(9) "Control" means the exclusive or ultimate and sole control of the business including, but not limited to, capital investment and all other financial matters, property, acquisitions, contract negotiations, legal matters, officer-director-employee selection and comprehensive hiring, operating responsibilities, cost-control matters, income and dividend matters, financial transactions and rights of other shareholders or joint partners. Control shall be real, substantial and continuing, not pro forma. Control shall include the power to direct or cause the direction of the management and policies of the business and to make the day-to-day as well as major decisions in matters of policy, management and

operations. Control shall be exemplified by possessing the requisite knowledge and expertise to run the particular business and control shall not include simple majority or absentee ownership.

(10) "Business concern or business" means a business that has average annual gross sales over the three most recent calendar years of less than \$31,400,000 as evidenced by the federal income tax return of the business. A firm with gross sales in excess of this cap may apply to the Business Enterprise Council for Minorities, Females, and Persons with Disabilities for certification for a particular contract if the firm can demonstrate that the contract would have significant impact on businesses owned by minorities, females, or persons with disabilities as suppliers or subcontractors or in employment of minorities, females, or persons with disabilities.

(b) When a business concern is owned at least 51% by any combination of minority persons, females, or persons with disabilities, even though none of the three classes alone holds at least a 51% interest, the ownership requirement for purposes of this Act is considered to be met. The certification category for the business is that of the class holding the largest ownership interest in the business. If 2 or more classes have equal ownership interests, the certification category shall be determined by the Department of Central Management Services.



**Progress Investment Management Company**  
**Minority-, Female- and Persons with a Disability-Owned (MFDB)**  
**Managers Program Status**  
**As of June 30, 2016**

<u>Asset Class/Manager Name</u>	<u>Market Value</u> <u>(in \$Millions)</u>
Non-U.S. Equity	
Affinity Investment Advisors	41
Apex Capital Management	17
Brown Capital Management	29
Glovista Investments	17
Lombardia Capital Partners	18
Strategic Global Advisors	47
Fixed Income	
Garcia Hamilton & Associates	15
GIA Partners	32
LM Capital Management	31
New Century Advisors	31
Piedmont Investment Advisors	18
Ramirez Asset Management	17
<b>Total Assets</b>	<b><u>\$383</u><sup>1</sup></b>

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<sup>1</sup> Totals may not add due to rounding.



**SURS Manager Diversity Program  
As of June 30, 2016**

<u>Manager Name</u>	<u>Market Value (in \$Millions)</u>
U.S. Equity	
Active Managers:	
Channing Capital Management	\$157
EARNEST Partners	111
Holland Capital Management	104
Lombardia Capital Partners	97
Piedmont Investment Advisors	461
Fixed Income: Core	
Garcia Hamilton & Associates	158
LM Capital Group	162
Pugh Capital Management	163
Smith Graham & Co. Investment Advisors	105
Fixed Income: Treasury Inflation Protected Securities (TIPS)	
Longfellow Investment Management	171
New Century Advisors	170
Non-US Equity	
Ativo Capital Management	235
GlobeFlex Capital	237
Strategic Global Advisors	261
Private Equity	
Fairview Capital Partners <sup>1</sup>	17
Muller & Monroe Asset Management <sup>2</sup>	19
Real Estate	
Franklin Templeton Emerging Manager Real Estate Fund of Funds <sup>3</sup>	52
<b>Total Assets</b>	<b><u>\$2,678<sup>4</sup></u></b>

<sup>1</sup> SURS has committed a total of \$75 million to Fairview Capital Partners.

<sup>2</sup> SURS has committed a total of \$150 million to Muller and Monroe Asset Management.

<sup>3</sup> SURS has committed a total of \$165 million to Franklin Templeton Real Asset Advisors to provide real estate fund of funds services. The mandate is to strive to identify capable emerging, minority- and women-owned real estate funds.

<sup>4</sup> Totals may not add due to rounding.

**Schedule of Minority-, Female- and Persons with a Disability- Owned (MFDB)  
Investment Management Firms  
As of June 30, 2016**

<u><b>Manager</b></u>	<u><b>Market Value *</b></u>	<u><b>% of MFDB Manager Funds</b></u>
Ativo Capital Management	\$234.9	5.6%
Channing Capital Management	156.6	3.8%
EARNEST Partners	110.9	2.7%
Fairview Lincoln Fund I <sup>1</sup>	16.9	0.4%
Franklin Templeton Real Asset Advisors <sup>2</sup>	48.6	1.2%
Franklin Templeton Real Asset Advisors <sup>2</sup>	3.1	0.1%
Garcia Hamilton & Associates	158.3	3.8%
GlobeFlex Capital	236.6	5.7%
Holland Capital Management	103.7	2.5%
LM Capital Group	161.6	1.4%
KKR Prisma MFDB	57.2	3.9%
Lombardia Capital Partners	96.9	2.3%
Longfellow Investment Management	171.4	4.1%
Muller & Monroe Asset Management <sup>3</sup>	18.9	0.5%
New Century Advisors	170.3	4.1%
Paamco MFDB	48.7	1.2%
Piedmont Investment Advisors	460.8	11.1%
Progress Investment Management Company	383.2	9.2%
Pugh Capital Management	162.6	3.9%
RhumbLine Advisers	998.0	24.0%
Smith, Graham & Co. Investment Advisors	104.6	2.5%
Strategic Global Advisors	261.2	6.3%
<b>Total MFDB Firms **</b>	<b><u>\$4,165.0<sup>4</sup></u></b>	<b><u>100.0%<sup>5</sup></u></b>

\*Market Value shown in millions

\*\*MFDB firms represent 37% (19 of 52) of firms within the SURS program.

**SURS Total Fund as of June 30, 2016** **\$16,865.9 Million**

<sup>1</sup> SURS has committed a total of \$75 million to the Fairview Lincoln Fund I

<sup>2</sup> SURS has committed a total of \$90 million to the Franklin Templeton Emerging Manager Real Estate Fund of Funds and \$90 million to the Franklin Templeton MDP RE 2015 Fund of Funds.

<sup>3</sup> SURS has committed a total of \$25 million to the Muller and Monroe Asset Management Illinois Private Equity Fund of Funds. In addition, in June 2007, SURS committed the greater of \$25 million or up to 10% of the total fund not to exceed \$30 million, in the Muller and Monroe Asset Management Private Equity Fund of Funds.

<sup>4</sup> Due to rounding, total AUM may not equal the sum of market values.

<sup>5</sup> Due to rounding, the sum of percentages and values may not equal total amount or 100%.

<b>Various Emerging Manager Actual Utilization Levels and Goals</b>	<b>Actual</b>	<b>Goal</b>
% of Fund Managed by Minority, Female and Person with a Disability-Owned Firms	24.7%	
% of Fund Managed by Emerging Investment Manager Firms per P.A. 96-6	18.1%	20.0%
% of Actively-Managed Assets with Emerging Firms per P.A. 96-6	25.3%	25.0%

<b>Measurement Levels of Actively-Managed Assets per P.A. 96-6</b>	<b>Actual</b>	<b>Goal</b>
<i>% of Actively-Managed Assets with Minority-Owned Firms per P.A. 96-6</i>	17.1%	16.0%
<i>% of Actively-Managed Assets with Female-Owned Firms per P.A. 96-6</i>	8.1%	8.0%
<i>% of Actively-Managed Assets with Person with a Disability-Owned Firms per P.A. 96-6</i>	0.1%	1.0%
<i>% of Actively-Managed Assets with Latino-Owned Firms per P.A. 96-6</i> \$847.0 million	7.0%	-
<i>% of Total Assets with Latino-Owned Firms</i> \$847.0 million	5.0%	-

**State Universities Retirement System  
Schedule of Emerging, Minority, and Female-Owned Firms  
As of June 30, 2016**

**Manager**

**Contact Information**

Ativo Capital Management

Mr. Michael Brooks  
120 N. LaSalle Street, Suite 2150  
Chicago, IL 60602

Channing Capital Management

Mr. Rodney Herenton  
10 South LaSalle, Suite 2650  
Chicago, IL 60603

EARNEST Partners

Mr. Patmon Malcom  
1180 Peachtree Street, Suite 2300  
Atlanta, GA 30309

Fairview Capital Partners

Mr. Douglas Boains  
75 Isham Road  
Suite 200  
West Hartford, CT 06107

Franklin Templeton Real Asset Advisors

Ms. Julie Rost  
600 Fifth Avenue  
New York, NY 10020

Garcia Hamilton & Associates

Mr. Gilbert Garcia  
1401 McKinney Street, Suite 1600  
Houston, Texas 77010

GlobeFlex Capital

Mr. Noah D. Bretz  
4365 Executive Drive, Suite 720  
San Diego, CA 92121

Holland Capital Management

Ms. Monica Walker  
303 West Madison Street, Suite 700  
Chicago, IL 60606

Lombardia Capital Partners

Ms. Nora Harris  
30 North LaSalle Street, Suite 4030  
Chicago, IL 60602

LM Capital Group

Ms. Denise Madruga  
750 B Street, Suite 3010  
San Diego, CA 92101



**Manager**

**Contact Information**

Longfellow Investment Management

Ms. Barbara McKenna  
20 Winthrop Square  
Boston, MA 02110

Muller & Monroe Asset Management

Mr. Irwin Loud, III  
180 N. Stetson, Suite 1320  
Chicago, IL 60601

New Century Advisors

Ms. Ellen Safir  
2 Wisconsin Circle, Suite 940  
Bethesda, MD 20815

Piedmont Investment Advisors

Mr. Dennis McCaskill  
2605 Meridian Parkway, Suite 105  
Durham, NC 27713

Progress Investment Management Company

Ms. Mona Williams  
33 New Montgomery Street, Suite 1900  
San Francisco, CA 94105

Pugh Capital Management

Ms. Mary E. Pugh  
520 Pike Tower  
520 Pike Street, Suite 2900  
Seattle, WA 98101

RhumbLine Advisers

Ms. Denise D'Entremont  
30 Rowes Wharf, Suite 420  
Boston, MA 02110

Smith, Graham & Co. Investment Advisors

Mr. Jamie G. House  
6900 JPMorgan Chase Tower  
600 Travis Street  
Houston, TX 77002

Strategic Global Advisors

Ms. Cynthia Tusan, CFA  
100 Bayview Circle, Suite 650  
Newport Beach, CA 92660



**State Universities Retirement System  
Schedule of Illinois-Based Investment Managers<sup>1</sup>  
As of June 30, 2016**

<u>Manager</u>	<u>Market Value</u> <u>(\$Millions)</u>	<u>% of SURS</u> <u>Total Fund</u>
Adams Street Partners	\$473	2.8%
<b>Ativo Capital Management</b>	<b>235</b>	<b>1.4%</b>
Blue Vista Real Estate Partners	9	0.1%
CastleArk Management	140	0.8%
<b>Channing Capital Management</b>	<b>157</b>	<b>0.9%</b>
Chicago Equity Partners	340	2.0%
Mesirow Financial Investment	141	0.8%
Heitman America Real Estate Trust	185	1.1%
<b>Holland Capital Management</b>	<b>104</b>	<b>0.6%</b>
<b>Lombardia Capital Partners<sup>2</sup></b>	<b>97</b>	<b>0.6%</b>
<b>Muller &amp; Monroe Asset Management<sup>3</sup></b>	<b>19</b>	<b>0.1%</b>
Neuberger Berman	337	2.0%
Northern Trust Investments	<u>1,659</u>	<u>9.8%</u>
<b>Total Assets with Illinois-Based Investment Managers<sup>4</sup></b>	<b><u>\$3,896</u></b>	<b><u>23.0%</u></b>
 <b>SURS Total Fund as of June 30, 2016</b>	 <b><u>\$16,866</u></b>	

**Emerging managers shown in bold**

<sup>1</sup> Includes sub-managers in the Progress Investment Management Company manager- of-managers program.

<sup>2</sup> Although headquartered in Pasadena, the small cap value team of Lombardia Capital Management, which manages the SURS portfolio, is located in Chicago.

<sup>3</sup> SURS has committed a total of \$150 million to private equity funds managed by Muller and Monroe Asset Management.

<sup>4</sup> Totals may not add due to rounding.



State Universities Retirement System

Utilization of Active Emerging Investment Managers (as defined by P.A. 96-0006)<sup>1</sup>  
As of June 30, 2016

<u>Asset Class</u>	<u>Minorities</u>	<u>Women</u>	<u>Persons with a Disability</u>	<u>Overall Active Actual and Goal</u>
<b>Actual Active Equities</b>	<b>24.3%</b>	<b>12.5%</b>	<b>0.0%</b>	<b>36.8%</b>
<i>Target Active Equities</i>	<i>20.0%</i>	<i>10.0%</i>	<i>0-2%</i>	<i>30.0%</i>
<b>Actual Active Fixed Income</b>	<b>18.3%</b>	<b>8.9%</b>	<b>0.0%</b>	<b>27.2%</b>
<i>Target Active Fixed Income</i>	<i>12.0%</i>	<i>8.0%</i>	<i>0-1%</i>	<i>20.0%</i>
<b>Actual Alternative Investments</b>	<b>10.8%</b>	<b>1.2%</b>	<b>1.1%</b>	<b>13.1%</b>
<i>Target Alternative Investments</i>	<i>0-20% of new allocations</i>	<i>0-20% of new allocations</i>	<i>0-20% of new allocations</i>	<i>20% of new allocations</i>
<b>Actual Active Total Fund</b>	<b>17.1%</b>	<b>8.1%</b>	<b>0.1%</b>	<b>25.3%</b>
<i>Target Active Total Fund</i>	<i>16.0%</i>	<i>8.0%</i>	<i>1.0%</i>	<i>25.0%</i>

<sup>1</sup>P.A. 96-0006 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", "female owned business" or "business owned by a person with a disability" as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act.