

**REPORT TO GOVERNOR  
AND GENERAL ASSEMBLY**

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**USE OF EMERGING INVESTMENT  
MANAGERS**

**December 1, 2017**



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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, 2017

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 2017 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 MFDB firms have increased from 14.1% of total assets, as of June 30, 2007, to 28.0% of total assets, as of June 30, 2017.
- Assets with emerging firms increased from \$2.3 billion to \$3.5 billion over the same time period, an increase of approximately \$1.6 billion.
- SURS employed three investment interns during the summers of 2016 and 2017. Two interns, from Eastern Illinois University, were placed with the assistance of the Toigo Foundation. One of the interns 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.

- In June 2017, SURS launched a search for emerging U.S. equity managers which resulted in the recent hiring of two emerging managers with total new allocations of \$150 million.

Thirty-two percent (16 of 50) of SURS' current investment managers are owned by minorities, females, or persons with a disability, as of June 30, 2017. SURS assets managed by these 16 firms total \$5.07 billion, representing 28.0% 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 14 managers with 16 assignments across the asset classes of domestic equities, international equities, fixed income, private equity, and real estate. The program continued to expand during FY 2017. As of June 30, 2017, the total assets under management in the Manager Diversity Program total \$3.0 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 2017.

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  
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 June 2017, can be found in Tab 1, Exhibit A.

## **OVERVIEW OF SURS INVESTMENT PROGRAM**

As of June 30, 2017, the SURS investment portfolio is valued at approximately \$18.1 billion. SURS has engaged the services of 50 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-two percent (16 of 50) 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, 2017, 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, 2017, the total value of assets under management by Progress is \$428 million.

***Manager Diversity Program***

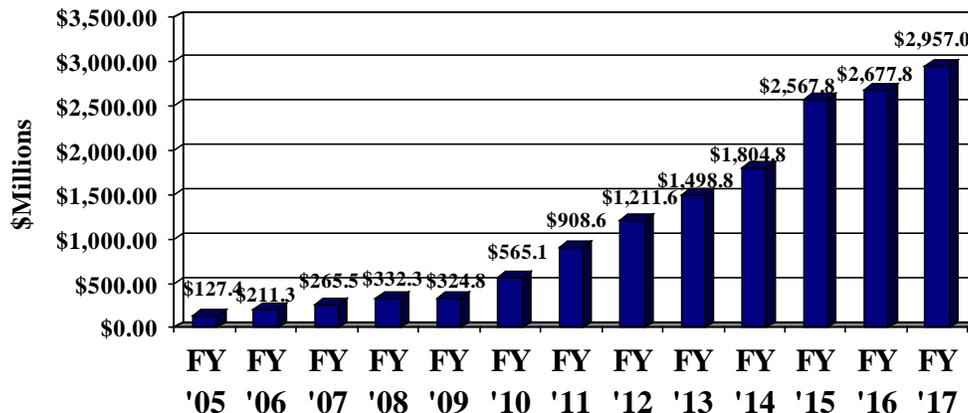
- Creation of the MDP

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, 2017, the program consists of 14 managers with 16 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 \$3.0 billion at the end of fiscal year 2017. 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 2017**



<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.
- In June 2017, SURS initiated a search for emerging U.S. equity managers resulting in the recent hiring of two emerging managers, with new allocations totaling \$150 million.

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, 2017, the total assets under management in the Manager Diversity Program are approximately \$3.0 billion, an increase in market value of approximately \$300 million from last year's report.

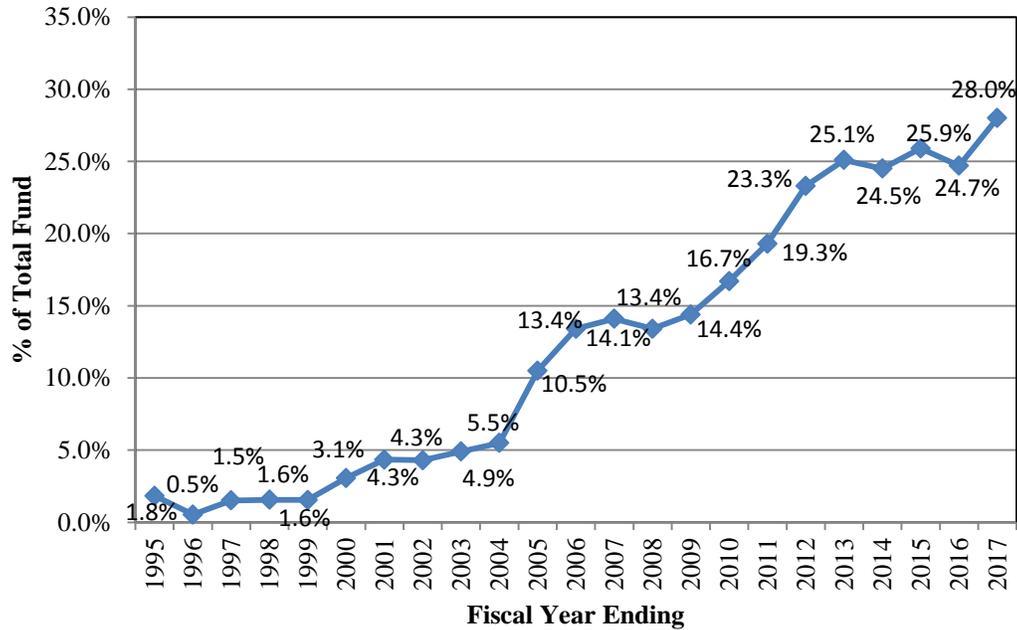
The MDP is managed with program oversight by SURS internal investment staff, allowing investment managers to have a direct contractual relationship with SURS. Significant staff resources continue to be dedicated to the construction, management, and evaluation of the program.

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

*Defined Benefit Plan*

SURS investment program totaled \$18.117 billion as of June 30, 2017. Of this amount, \$5.07 billion, or 28.0%, 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 2017**





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 nineteenth anniversary on April 1, 2017. There are over 20,400 participants currently invested and assets are approximately \$2.16 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 2017, there were twenty-seven investment options available to the participants, one of which is managed by a minority-owned firm. As of June 30, 2017, plan participants have allocated over \$35 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, 2017, SURS had retained eleven Illinois-based investment management firms, with collective assets managed for SURS of approximately \$3.7 billion (20.3% of SURS Total Fund). Four of the eleven 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, 2017.

**Trading with Firms Owned by Minorities, Females or Persons with a Disability  
Year Ending June 30, 2017**

Asset Class	Actual Utilization	Goal
<b>EQUITY</b>		
U.S. Equity	50.99%	30.0%
Non-U.S. Equity	35.33%	15.0%
Global Equity	32.00%	20.0%
<b>FIXED INCOME</b>		
Fixed Income	30.42%	20.0%

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 goals as well as the percentage of assets under management for each of the three separate goals, as of June 30, 2017, 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, 2017, 22.9% 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, 26.6% 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 XIII of the Investment Policy, entitled, “Emerging Investment Managers and Broker/Dealers”, is attached as Tab I, Exhibit A for your review. Section XIII 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

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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.”



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**

Date	Vendor Diversity Goal
December 2009	12%
FY 2012	20%
FY 2013	25%
FY 2014	25%
FY 2015	25%
FY 2016	25%
FY 2017	25%

For Fiscal Year 2017, 13.2% 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 2018 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), 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 XIII of SURS Investment Policy (06/2017)**

**XIII. Emerging Investment Managers, MFDB Managers and Minority-Owned Broker/Dealers**

SURS is committed to providing opportunities for Emerging Investment Managers and Minority Owned Broker/Dealers. SURS is also committed to providing ongoing opportunities for minority-, female-, and persons with a disability-owned (“**MFDB**”) Managers that have advanced beyond the statutory definition of Emerging Investment Managers. 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 Board 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 Fund-of-Fund Managers to use Emerging Investment Managers as subcontractors when the opportunity arises.

**A. Goals for Utilization of Emerging Investment Managers and MFDB Managers**

Beginning January 1, 2016, the Illinois Pension Code, in 40 ILCS 5/1-109.1, established aspirational goals of 20% for pension funds, with respect to assets under management by Emerging Investment Managers and the percentage number of MFDB Managers.

Since late 2014, the Board (subject to its fiduciary responsibility) has established goals for both the percent of assets under management and actively managed assets under management by Emerging Investment Managers. Furthermore, with the intent of having MFDB Managers significantly represented in each broad Asset Class and not concentrated in any particular Asset Class, the Board has established additional goals for actively managed assets specific to Minorities, Females, and Persons with Disabilities.

A summary of the Board’s goals are set forth in Appendix 8. These goals shall be reviewed annually.

**B. Goals for Utilization of Minority-Owned Broker/Dealers**

The Board has set minimum expectations for the use of qualified Broker/Dealers that meet the definition of a minority-owned business, female-owned business or a business owned by a person with a disability (“**Minority-owned Broker/Dealer**”) by the System’s Managers. Only trades executed directly with Minority-owned

Broker/Dealers will be considered in the achievement of these goals.

Summary goals for Minority-owned Broker/Dealer Utilization have been established for the aggregate U.S. equity, Non-U.S. Equity and Fixed Income Asset Classes as set forth in Appendix 9. SURS seeks to have its Managers consistently meet or exceed these goals, while achieving best execution.

In order to achieve the aggregate U.S. Equity, Non-U.S. Equity and Fixed Income goals, minimum expectations have been established for individual Managers within a number of Sub-Asset Classes. Subject to best execution, SURS requires its Managers to meet the minimum expectations set forth in Appendix 10 for each rolling twelve (12) month period.

### **Reporting Guidelines**

Each 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**

Failure to meet Minority-owned Broker/Dealer Utilization Goals will lead to the following:

- 1) Staff notification to the non-compliant Manager;
- 2) Placement of the Manager on Reassessment status;
- 3) Staff examination of reasons for non-compliance; and
- 4) Remediation plan acceptable to the Staff or recommendation to the Board to Terminate.

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

#### Program Description

SURS has implemented a Manager Diversity Program (“**MDP**”) to identify highly successful MFDB firms. The criteria used to determine the minimum qualifications of Potential Managers to be selected for an assignment and the search process is discussed in Section VII., 2 entitled “Investment Manager Selection.” Manager Benchmarks are identified in the Manager Guidelines for each Manager in the program. Benchmarks and Performance Targets for the MDP for each applicable Asset Class are the same as those set forth in the applicable Appendix. Managers in the MDP will be evaluated in the same manner as that set forth in Section VII (‘Selection and Retention’). Managers will be placed on Reassessment status as described in Section VII. Termination decisions will follow the guidelines set forth in Section VIII (‘Investment Manager Termination Guidelines’). An evaluation of each Manager shall be conducted annually.

### **D. Manager-of-Managers Program**

## **Program Description**

SURS utilizes a Manager-of-Managers program, overseen by SURS Staff. The program's primary goal is to identify MFDB Managers that will be initially awarded smaller allocations within the program. Staff may recommend, for the Board's approval, one or more Manager-of-Managers to play an active role in identifying emerging MFDB Managers and maintain an ongoing involvement in the evaluation and performance oversight of such Managers. Staff shall work with the Manager-of-Managers to identify, recruit, and monitor Managers in the program.

## **Graduation Program**

On an annual basis, SURS Staff and the Manager-of-Managers will identify one underlying Manager to be considered for a meaningful, direct allocation. The following factors are considered in determining when an underlying Manager should be awarded a larger allocation in the SURS Portfolio:

- Acceptable measure of performance over a three year period;
- Stability in Manager's organization;
- Institutional quality infrastructure;
- Growth in Assets Under Management;
- Confidence in Manager's investment process;
- Meeting its Performance Target; and
- Product Fit.

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

Notwithstanding this provision, the Board, in its sole discretion, may decide not to make any award in any given year, if it determines that such an allocation would not be in the best interests of the Members.

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; December 9, 2016; June 9, 2017.

# **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, 2017**

<u>Asset Class/Manager Name</u>	<u>Market Value</u> <u>(in \$Millions)</u>
Non-U.S. Equity	
Affinity Investment Advisors	50
Arga Investment Management	20
Brown Capital Management	33
Denali Advisors	24
Glovista Investments	21
Strategic Global Advisors	58
Fixed Income	
Garcia Hamilton & Associates	15
GIA Partners	68
LM Capital Management	74
New Century Advisors	32
Piedmont Investment Advisors	18
Ramirez Asset Management	17
<b>Total Assets</b>	<b><u>\$428<sup>1</sup></u></b>

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



**SURS Manager Diversity Program  
As of June 30, 2017**

<u>Manager Name</u>	<u>Market Value (in \$Millions)</u>
U.S. Equity	
Active Managers:	
Channing Capital Management	\$182
EARNEST Partners	138
Gladius	377
Piedmont Investment Advisors	550
Fixed Income: Core	
Garcia Hamilton & Associates	311
LM Capital Group	163
Pugh Capital Management	162
Smith Graham & Co. Investment Advisors	105
Non-US Equity	
Ativo Capital Management	266
GlobeFlex Capital	295
Strategic Global Advisors	315
Private Equity	
Fairview Capital Partners <sup>1</sup>	33
Muller & Monroe Asset Management <sup>2</sup>	17
Real Estate	
Franklin Templeton Emerging Manager Real Estate Fund of Funds <sup>3</sup>	43
<b>Total Assets</b>	<b><u>\$2,957<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, 2017**

<u>Manager</u>	<u>Market Value</u>	<u>% of MFDB Manager Funds</u>
Ativo Capital	\$266.2	5.2%
Channing Capital Management	182.0	3.6%
EARNEST Partners	137.9	2.7%
Fairview Lincoln Fund I <sup>3</sup>	32.6	0.6%
Franklin Templeton Real Asset Advisors <sup>1</sup>	32.9	0.6%
Franklin Templeton Real Asset Advisors <sup>4</sup>	10.4	0.2%
Garcia Hamilton & Associates	311.3	6.1%
Gladius	377.3	7.4%
GlobeFlex Capital	295.3	5.8%
KKR Prisma MFDB	105.7	2.1%
LM Capital Group	163.0	3.2%
Muller & Monroe Asset Management <sup>2</sup>	17.3	0.3%
Paamco MFDB	119.2	2.4%
Piedmont Investment Advisors	549.7	10.8%
Progress Investment Management Company	428.8	8.5%
Pugh Capital Management	162.4	3.2%
RhumbLine Advisers	1,460.9	28.8%
Smith, Graham & Co. Investment Advisors	104.6	2.1%
Strategic Global Advisors	314.8	6.2%
<b><u>Total MFDB Firms**</u></b>	<b><u>\$5,072.3</u></b>	<b><u>100.0%</u></b>

\*Market Value shown in millions

\*\*MFDB firms represent 32% (16 of 50) of firms within the SURS program.

**SURS Total Fund as of June 30, 2017** **\$18,177.3 Million**

<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	28.00%	20.00%
% of Fund Managed by Emerging Investment Manager Firms per P.A. 96-6	22.93%	20.00%
% of Actively-Managed Assets with Emerging Firms per P.A. 96-6	26.55%	25.00%

<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>	20.31%	16.00%
<i>% of Actively-Managed Assets with Female-Owned Firms per P.A. 96-6</i>	6.08%	8.00%
<i>% of Actively-Managed Assets with Person with a Disability-Owned Firms per P.A. 96-6</i>	0.16%	1.00%
<i>% of Actively-Managed Assets with Latino-Owned Firms per P.A. 96-6</i> \$923.4 million	7.06%	-
<i>% of Total Assets with Latino-Owned Firms</i> \$923.4 million	5.10%	-

**State Universities Retirement System  
Schedule of Emerging, Minority, and Female-Owned Firms  
As of June 30, 2017**

<b><u>Manager</u></b>	<b><u>Contact Information</u></b>
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
Gladius Capital Management LP	Mr. Eric Magac, CFA 233 South Wacker Drive, Suite 5725 Chicago, IL 60606
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
LM Capital Group	Ms. Denise Madruga 750 B Street, Suite 3010 San Diego, CA 92101
Muller & Monroe Asset Management	Mr. Irwin Loud, III 180 N. Stetson, Suite 1320 Chicago, IL 60601
Piedmont Investment Advisors	Mr. Dennis McCaskill 2605 Meridian Parkway, Suite 105 Durham, NC 27713



**Manager**

**Contact Information**

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, 2017**

<u>Manager</u>	<u>Market Value</u> <u>(\$Millions)</u>	<u>% of SURS</u> <u>Total Fund</u>
Adams Street Partners	\$527	2.9%
<b>Ativo Capital Management</b>	<b>266</b>	<b>1.5%</b>
Blue Vista Real Estate Partners	18	0.1%
CastleArk Management	172	0.9%
<b>Channing Capital Management</b>	<b>182</b>	<b>1.0%</b>
<b>Gladius</b>	<b>377</b>	<b>2.1%</b>
Mesirow Financial Investment	<b>170</b>	<b>0.9%</b>
Heitman America Real Estate Trust	198	1.1%
<b>Muller &amp; Monroe Asset Management<sup>2</sup></b>	<b>17</b>	<b>0.1%</b>
Neuberger Berman	346	1.9%
Northern Trust Investments	<u>1,408</u>	<u>7.8%</u>
<b>Total Assets with Illinois-Based Investment Managers<sup>3</sup></b>	<b><u>\$3,681</u></b>	<b><u>20.3%</u></b>
 <b>SURS Total Fund as of June 30, 2017</b>	 <b><u>\$18,117</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> SURS has committed a total of \$150 million to private equity funds managed by Muller and Monroe Asset Management.

<sup>3</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, 2017

<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>25.97%</b>	<b>12.65%</b>	<b>0.00%</b>	<b>38.62%</b>
<i>Target Active Equities</i>	<i>20.00%</i>	<i>10.00%</i>	<i>0-2%</i>	<i>30.00%</i>
<b>Actual Active Fixed Income</b>	<b>23.25%</b>	<b>0.79%</b>	<b>0.00%</b>	<b>24.04%</b>
<i>Target Active Fixed Income</i>	<i>12.00%</i>	<i>8.00%</i>	<i>0-1%</i>	<i>20.00%</i>
<b>Actual Alternative Investments</b>	<b>12.83%</b>	<b>2.34%</b>	<b>1.10%</b>	<b>16.27%</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>
<hr/>				
<b>Actual Active Total Fund</b>	<b>20.31%</b>	<b>6.08%</b>	<b>0.16%</b>	<b>26.55%</b>
<i>Target Active Total Fund</i>	<i>16.00%</i>	<i>8.00%</i>	<i>1.00%</i>	<i>25.00%</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.