

**REPORT TO THE
GOVERNOR AND
GENERAL ASSEMBLY**

Annual Diversity Report



December 16, 2020

**Illinois State Board of Investment
180 N. LaSalle St., Suite 2015
Chicago, IL 60601**

As Required by Public Act 096-0006



Date: December 16, 2020

To: Governor J.B. Pritzker and the General Assembly

From: Johara F. Farhadieh, Executive Director/Chief Investment Officer
Alex Somolski, Assistant Investment Officer
Mary Cahill, Business Operations and Government Affairs Analyst
Illinois State Board of Investment

Subject: Annual Diversity Report (Public Act 96-0006)

In accordance with Public Act 96-0006 (the “Act”), the Illinois State Board of Investment (“ISBI”) and its Board of Trustees (the “Board”), which directs the investments for the General Assembly Retirement System, the Judges Retirement System of Illinois, the State Employees’ Retirement System of Illinois, and the Power Agency Trust, submits the following report to the Governor and the Illinois General Assembly.

In furtherance of the law governing emerging and minority utilization under the Act, the Board adopted the Diversity Policy (the “Policy”) encouraging emerging¹ and minority utilization. The Policy is continuously reviewed by ISBI Staff and updated accordingly.

A copy of the Policy is attached to this report and a brief explanation is provided below.

To take advantage of emerging and minority organizations, the Board has adopted the Policy, which seeks to increase participation by emerging and minority investment managers. The Policy also sets forth minimum goals for the utilization of minority-owned broker/dealers, pledges to use best efforts to increase the racial, ethnic, and gender diversity of ISBI’s fiduciaries and sets forth goals for the utilization of businesses owned by minorities, women, and persons with a disability for all contracts and services of the Board.

Currently, ISBI either meets or exceeds all of the Policy goals with respect to minority investment managers². Please refer to the charts on the following pages for further detail and the enclosure titled, “Listing of Emerging and Minority Investment Managers,” for the names, addresses, and

¹ Public Act 96-0006, effective April 3, 2009, and Public Act 100-0391, effective August 25, 2017, revised the definition of “emerging investment manager.” As a result, the current definition applicable to ISBI is found in 40 Ill. Comp. Stat. § 5/1-109(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’, ‘women-owned business’ or ‘business owned by a person with a disability’ as those terms are defined in the Business Enterprise for Minorities, Women, and Persons with Disabilities Act.”

² For purposes of this Policy, the term “Minority Investment Manager” includes emerging investment managers and/or minority-owned business, women-owned business, or business owned by a person with a disability as those terms are defined in the Business Enterprise for Minorities, Women, and Persons with Disabilities Act.

the percentage of assets under management for each of the Board's current emerging and/or minority investment managers.

Emerging and Minority Utilization By Classification

Category	Emerging Mgrs. \$	Minority Mgr. \$*	ISBI Goals	Emerging Mgrs. %	Minority Mgr. %*
Minority-Owned	483,267,461	1,743,833,196	5-10%	2.3%	8.4%
Asian American	103,355,752	456,504,398		0.5%	2.2%
African American	211,048,492	407,640,458		1.0%	2.0%
Latino	168,863,216	879,688,340		0.8%	4.2%
Disabled	-	-	0-2%	0.0%	0.0%
Woman-Owned	18,122,067	6,460,160,010	3-8%	0.1%	31.2%
Total	501,389,527	8,203,993,206		2.4%	39.6%

By Asset Class

Asset Class	Emerging Mgrs. \$	MWDBE Mgr. \$*	ISBI Goals	Emerging Mgrs. %	Minority Mgr. %*
Equity	186,597,347	4,133,875,222	8-10%	1.8%	40.5%
Fixed Income	-	1,654,669,698	10-12%	0.0%	26.0%
Alternatives**	314,792,181	2,415,448,285	1-5%	7.6%	58.3%
Total	501,389,527	8,203,993,206			

^Ending public market values as of 09.30.20, private market ending values as of 06.30.20.

*For the purposes of the Policy, the term "minority investment manager" ("minority mgrs.") includes emerging investment managers ("emerging mgrs."), investment managers with less than \$10M in AUM, and investment managers with over \$10B in AUM.

**Alternatives investments include allocations to real assets, real estate, opportunistic debt, and private equity

ISBI's total allocation to emerging and minority-owned firms is approximately \$8.2 billion, 39.6% of the total fund, as of September 30, 2020.

Investment Management Fees Paid to MWDBE Firms

ISBI is very conscious of investment management fees paid and is seeking to pay at market rate or below for all investment managers. However, as a data reference point along with assets under management, ISBI monitors the percentage of fees paid to emerging and minority-owned investment firms. As of June 30, 2019, ISBI invested 68% of its total assets in low-cost passive index funds and over 22% of its passive assets were invested with an MWDBE firm. While the size of the mandate was substantial, passive MWDBE fees were very low and represented only 0.2% of total investment management fees. The remaining 32% of ISBI's assets were actively managed and subject to substantially higher expense ratios. Emerging and minority-owned firms

managing active strategies received over \$29.8 million in fees, a substantial portion of ISBI's total management fees. In aggregate, approximately \$30.1 million was paid to emerging and minority-owned investment firms in Fiscal Year 2019.

New MWDBE Commitments and Allocations

ISBI regularly commits and allocates capital to emerging and minority-owned investment firms and encourages its consultants and strategic partners to source new opportunities. A summary of commitments made to MWDBE firms in ISBI's Fiscal Year 2020 is provided below:

Investment Manager	Status	Commitment
Clearlake Capital Partners VI, LP	Latino-American	\$ 50,000,000
JLC Infrastructure Fund I, LP	African American	\$ 20,000,000
K5 Private Investors, LP	Asian-American	\$ 50,000,000
Long Wharf Real Estate Partners VI, LP	Latino-American	\$ 25,000,000
Oak Street Real Estate Capital Fund V, LP	Latino-American	\$ 35,000,000
Rubicon First Ascent, LP	Woman	\$ 9,083,333
Think India Opportunities Fund, LP	Asian-American	\$ 25,000,000
WindAcre Partnership International Fund	Asian-American	\$ 40,000,000

MWDBE Brokerage Utilization

ISBI's Diversity Policy established minimum goals for the utilization of minority-owned broker/dealers in ISBI's equity and fixed income portfolios. Investment managers that report less than the directed utilization target are required to submit written explanations for their shortfall to the Board. Further, managers in violation of the Policy may be brought before the Board. As of Fiscal Year-end 2020, all of ISBI's investment managers, as a whole, either met or exceeded their minority brokerage utilization goals established in the Policy. The chart below summarizes ISBI's minority brokerage utilization by asset class for Fiscal Year 2020:

Asset Class	MWDBE Utilization (%)	Goal (%)
Hedged Equity	100.0%	0-5%
U.S. Equity	56.2%	30%
International Developed Equity	35.3%	20%
Domestic Investment Grade Fixed Income	34.3%	20%
Emerging Market Equity	1.2%	0-5%
Domestic Below Investment Grade Fixed Income	0.8%	0-5%
International Developed and Emerging Market Fixed Income	0.2%	0-5%

Equity utilization calculated by commission. Fixed Income calculated using par value.

Additionally, the Policy sets forth best effort goals for the utilization of Illinois-based broker/dealers for the equity and fixed income portfolios. The chart below summarizes ISBI's utilization of Illinois-based brokerage firms as of June 30, 2020:

Asset Class	IL-based Utilization (%)	Goal (%)
Equities	7.3%	25%
Fixed Income	13.6%	25%

Equity utilization calculated by commission. Fixed Income calculated using par value.

Recent Diversity Initiatives

ISBI continues to improve upon its efforts related to diversity and inclusion. In addition to new investment commitments made to emerging and minority-owned firms, ISBI has implemented a variety of initiatives to improve upon its efforts in the space.

Recent initiatives include:

- Foundation and active participation on the BlackRock Emerging Broker Council
- Anticipated formation of the Diverse Manager Leadership Council with BlackRock in 2021
- Initiation of partnership with Stable Value, an investment option for ISBI's Deferred Compensation Plan, to begin work towards increasing use of diverse sub-advisors
- Serving as a resource to endowments, foundations, and other pension funds seeking to establish diverse manager programs
- Renewed efforts of the Staff Diversity committee to enhance internal efforts related to diversity
- Engagement of MWDBE vendors for background screening, catering, legal services, phone systems, staffing, supplies, technical support, and more, with concerted efforts to increase MWDBE vendor utilization, resulting in an increase from 3.4% utilization in FY 19 to 24.1% utilization in FY 20
- Consideration of a diverse pool of candidates for all positions within the organization
- Communication with the New America Alliance, National Association of Securities Professionals, Women Investment Professionals, and National Organization of Blacks in Government for searches including job vacancies, RFIs, and RFPs
- Participation of Executive Director & CIO in ENGAGE Advisory Committee

Fiduciary and Service Provider Diversity

Within the Policy, the Board pledged to use its best efforts to increase the racial, ethnic, and gender diversity of its fiduciaries, including consultants and senior investment staff. As of September 30, 2020, among the staff employed by ISBI, approximately 54% are female and 54% are minorities. Additionally, ISBI is led by a female Executive Director/Chief Investment Officer, the first female to hold either position. ISBI continues to make concerted efforts in its hiring practices, such as

posting job vacancies with diverse affinity organizations, mandating a diverse hiring slate, and ensuring ISBI uses an inclusive interview process.

The Board's composition is 56% female and 33% minority as of September 30, 2020. The Board is chaired by Justice Mary Seminara-Schostok, the first female to be elected to the position of Chairperson in ISBI's history.

In accordance with the Policy, ISBI requests the racial, ethnic, and gender diversity of its consultants and investment managers, as well as their respective diversity plans, annually.

In furtherance of the Policy and of Public Act 98-1022, ISBI requires the following disclosures from its strategic partners, investment advisors, and consultants (collectively, the "Vendor") prior to contracting with or receiving a commitment directly from the Board:

- The number of the Vendor's investment and senior staff and the percentage of its investment and senior staff who are a (i) minority person, (ii) woman, or (iii) person with a disability;
- The number of contracts, oral or written, as well as fund expenses to date that the Vendor has in place for investment services, consulting services, and professional and artistic services that constitute a (i) minority-owned business, (ii) women-owned business, or (iii) business owned by a person with a disability; and
- The number of contracts, oral or written, as well as fund expenses to date that the Vendor has in place for investment services, consulting services, and professional and artistic services where more than 50% of services performed pursuant to contract are performed by a (i) minority person, (ii) woman, or (iii) person with a disability but do not constitute a business owned by a minority, woman, or person with a disability.

Lastly, the Policy sets forth goals for the utilization of businesses owned by minorities, women, and persons with a disability for all contracts and services of the Board. Staff reviews these goals annually and surveys the list of vendors currently servicing ISBI to determine areas for potential utilization of businesses owned by minorities, women, and persons with a disability.

ISBI will continue to comply with and improve upon its policies pertaining to emerging and minority utilization and will review the policies and ISBI's initiatives on an annual basis. Please do not hesitate to contact me with questions or concerns regarding this report.

Sincerely,

ILLINOIS STATE BOARD OF INVESTMENT

A handwritten signature in blue ink that reads "Johara Farhadieh". The signature is written in a cursive style with a small dash above the 'i' in "Farhadieh".

Johara Farhadieh
Executive Director/Chief Investment Officer

Enclosures: Listing of Emerging and Minority Investment Managers
ISBI Diversity Policy

Listing of Emerging and Minority Investment Managers

MWDBE Managers	Market Value (\$/9/30/2020)	Percent of Total	Emerging (<\$10 B)	MWDBE Status	Illinois	Asset Class	Active/Passive	Address
Ariel Investments	\$ 191,258,098	0.9%		African American	Illinois	Equity	Active	200 E. Randolph Dr., Ste. 2900 Chicago, IL 60601
Avanath Affordable Housing II, LLC	\$ 22,096,662	0.1%	Emerging	African American		Alternatives	Active	17901 Von Karman Ave., Ste. 150, Irvine, CA 92614
Castile Ventures III, LP	\$ 69,912	0.0%	Emerging	Female		Alternatives	Active	930 Winter Street, Suite 500 Waltham, MA 02451
Channing Capital	\$ 83,241,594	0.4%	Emerging	African American	Illinois	Equity	Active	10 S. LaSalle St., Ste. 2650, Chicago, IL 60603
Clearlake Capital Partners III, LP	\$ 5,872,757	0.0%	Emerging	Latino(a)		Alternatives	Active	233 Wilshire Blvd, Suite 800, Santa Monica, CA 90401
Clearlake Capital Partners IV, LP	\$ 20,665,385	0.1%	Emerging	Latino(a)		Alternatives	Active	233 Wilshire Blvd, Suite 800, Santa Monica, CA 90401
Clearlake Capital Partners V, LP	\$ 53,106,446	0.3%	Emerging	Latino(a)		Alternatives	Active	233 Wilshire Blvd, Suite 800, Santa Monica, CA 90401
Clearlake Capital Partners VI, LP	\$ 6,300,187	0.0%	Emerging	Latino(a)		Alternatives	Active	233 Wilshire Blvd, Suite 800, Santa Monica, CA 90401
Clearlake Opportunities Partners II, LP	\$ 10,792,660	0.1%	Emerging	Latino(a)		Alternatives	Active	233 Wilshire Blvd, Suite 800, Santa Monica, CA 90401
European Property Investors Special Opportunities Fund IV, LP	\$ 33,291,895	0.2%	Emerging	African American		Alternatives	Active	3 Bethesda Metro Center, Ste. 1000, Bethesda, MD 20814
European Property Investors Special Opportunities Fund V, LP	\$ 4,925,383	0.0%	Emerging	African American		Alternatives	Active	3 Bethesda Metro Center, Ste. 1000, Bethesda, MD 20814
Garcia Hamilton	\$ 702,834,635	3.4%		Latino(a)		Fixed Income	Active	5 Houston Center, 1401 McKinney St. Suite 1600, Houston, TX 77010
Georgetown Multi-Strategy Fund	\$ 28,857,954	0.1%		Female		Equity	Active	1113 Connecticut Avenue NW, Washington DC 20036
GQG Partners	\$ 275,340,846	1.3%		Asian-American		Equity	Active	450 East Las Olas Boulevard Suite 750 Fort Lauderdale, FL 33301
Grain Communications Opportunity Fund II, LP	\$ 19,628,448	0.1%	Emerging	African American		Alternatives	Active	1900 K Street NW, Suite 650, Washington, DC 20006
JLC Infrastructure Fund I, LP	\$ 5,333,867	0.0%		African American		Alternatives	Active	Wall Street Plaza, 88 Pine Street, 25th Floor, New York, NY 10005
K4 Private Investors, LP	\$ 39,612,064	0.2%		Asian-American		Alternatives	Active	875 Manhattan Beach Blvd, Manhattan Beach, CA 90266
Levine Leichtman Capital Partners V, LP	\$ 18,052,155	0.1%	Emerging	Female		Alternatives	Active	335 North Maple Dr, Suite 130, Beverly Hills, CA 90210
Long Wharf Real Estate Partners VI, LP	\$ 2,919,592	0.0%	Emerging	Latino(a)		Alternatives	Active	One Federal Street, 26th Floor, Boston, MA 02110
Oak Street Real Estate Capital Fund III, LP	\$ 8,057,029	0.0%	Emerging	Latino(a)	Illinois	Alternatives	Active	125 S. Wacker Dr., Suite 1220, Chicago, IL 60606
Oak Street Real Estate Capital Fund IV, LP	\$ 32,745,216	0.2%	Emerging	Latino(a)	Illinois	Alternatives	Active	125 S. Wacker Dr., Suite 1220, Chicago, IL 60606
Payden & Rygel	\$ 97,125,685	0.5%		Female		Fixed Income	Active	265 Franklin Street, Floor 16, Boston, MA 02110
Rhumblin Russell Top 200	\$ 2,866,954,598	13.8%		Female		Equity	Passive	265 Franklin Street, Floor 21, Boston, MA 02110
SRS Partners	\$ 55,182,155	0.3%	Emerging	Asian-American		Equity	Active	One Bryant Park, 39th Floor New York, NY 10036
Stabilis Fund V, LP	\$ 7,990,489	0.0%		Latino(a)		Alternatives	Active	767 5th Avenue, Floor 12, New York, NY 10153
Think India Opportunities Fund, LP	\$ 48,173,597	0.2%	Emerging	Asian-American		Equity	Active	1 Letterman Dr. Bldg C, Ste CM-420, San Francisco, CA 94129
Valor Equity Partners II, LP	\$ 227,053	0.0%	Emerging	Latino(a)	Illinois	Alternatives	Active	200 S. Michigan Ave., Ste. 1020 Chicago, IL 60601
Valor Equity Partners III, LP	\$ 28,176,891	0.1%	Emerging	Latino(a)	Illinois	Alternatives	Active	200 S. Michigan Ave., Ste. 1020 Chicago, IL 60601
Vista Equity Partners Fund VII, LP	\$ 17,009,007	0.1%	Emerging	African American		Alternatives	Active	401 Congress Ave., Ste. 3100, Austin, TX 78701
Vista Equity Partners V, LP	\$ 30,855,503	0.1%	Emerging	African American		Alternatives	Active	401 Congress Ave., Ste. 3100, Austin, TX 78701
WindAcre Partnership International Fund	\$ 38,195,736	0.2%		Asian-American		Equity	Active	2200 Post Oak Blvd, Suite 1580, Houston, TX 77056
Rock Creek (Less MWDBE Rock Creek Managers)	\$ 3,449,099,706	16.6%		Female		Alternatives	Active	1113 Connecticut Avenue NW, Washington DC 20036
Equity (Less MWDBE Rock Creek Managers)	\$ 546,670,643	2.6%		Female		Equity	Active	1113 Connecticut Avenue NW, Washington DC 20036
Fixed Income (Less MWDBE Rock Creek Managers)	\$ 854,709,378	4.1%		Female		Fixed Income	Active	1113 Connecticut Avenue NW, Washington DC 20036
Alternatives (Less MWDBE Rock Creek Managers)	\$ 2,047,719,684	9.9%		Female		Alternatives	Active	1113 Connecticut Avenue NW, Washington DC 20036
Total MWDBE Exposure	\$ 8,203,993,206	39.6%						



DIVERSITY POLICY

Adopted:

September 21, 2001

Amended:

October 24, 2003

June 22, 2005

March 20, 2009

December 18, 2009

March 19, 2010

December 16, 2011

June 21, 2013

September 26, 2014

September 17, 2015

June 16, 2016

March 3, 2017

February 23, 2018

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Objective

The Illinois State Board of Investment (“ISBI”), through its Board of Trustees (the “Board”), has adopted this Diversity Policy (the “Policy”) to increase access and opportunities for emerging managers and brokers who are minorities, women and persons with a disability as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act and the Illinois Pension Code.

A. Emerging and Minority Investment Managers

It is the primary goal of ISBI to develop and maintain an investment program that will help secure the retirement benefits of the participating retirement plans. In order to achieve this objective, investment advisers are selected based on their long-term records of performance, depth of investment staff, and consistency of approach, among other characteristics.

However, ISBI recognizes that even large, experienced, and successful investment organizations were once small, start-up firms with few assets under management. Today many such firms are owned by minorities, women, and persons with a disability. These firms are often started by experienced investment professionals, who show great promise, but find it difficult to compete with large majority owned organizations. The firms typically do not meet the minimum standards set for investment advisers by large investment programs such as ISBI. Consequently, they are not considered.

In order to gain exposure to these emerging organizations, ISBI has established the following aspirational goals:¹

- To utilize emerging investment managers² and firms owned by minorities, females, and persons with a disability³ for no less than 20% of ISBI’s total fund assets.

Goals for Utilization of Emerging and Minority Investment Managers Minority-Owned Businesses, Female-Owned Businesses, and Businesses Owned by Persons with a Disability

It is the goal of ISBI that, subject to its fiduciary responsibility, the use of emerging investment managers shall be significant in each of the broad asset classes in which ISBI is invested and not concentrated in any particular asset class.

ISBI has adopted the following minimum goals for the utilization of emerging and minority investment managers⁴:

¹ Effective January 1, 2016, Public Act 99-0462 requires ISBI to establish certain aspirational goals for the utilization of Minority Investment Managers.

² Effective April 3, 2009, Public Act 96-0006 revised the definition of “emerging investment manager.” As a result, the current definition applicable to ISBI is found in 40 Ill. Comp. Stat. § 5/1-109(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.”

³ For purposes of this Policy, the term “Minority Investment Manager” includes emerging investment managers and/or 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.

⁴ Public Act 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 for Utilization of Emerging and Minority Investment Managers
By Investment Manager Classification

Classification	Percent of Total Portfolio	
	Emerging	Minority
Minority-Owned	5% - 10%	5% - 10%
Female-Owned	3% - 8%	3% - 8%
Disabled	0% - 2%	0% - 2%

Goals for the Utilization of Emerging and Minority Investment Managers
By Asset Class

Asset Class	Percent of Asset Class	
	Emerging	Minority
Equities	8% - 10%	8% - 10%
Fixed Income	10% - 12%	10% - 12%
Alternatives*	1% - 5%	1% - 5%

* Alternative investments are not subject to the requirements set forth in Public Act 96-0006.

These goals will be reviewed annually by Staff and the Board.

For purposes of this Policy, the emerging and/or minority investment manager must provide documentation of a current State of Illinois certification⁵ or documentation of a current state issued certification. For emerging and/or minority investment manager without a state issued certification, an attestation by the investment manager or General Partner stating that the investment manager or advisor is a “minority owned business”, “female owned business” or “business owned by a person with a disability”, as those terms are defined by the Illinois Business Enterprise for Minorities, Females and Persons with Disabilities Act⁶ must be provided. The emerging and/or minority investment manager is required to immediately notify ISBI as to any change in the matters covered by any such attestation. On an annual basis, the emerging and/or minority investment manager must certify to ISBI that its state-issued certification is in good standing or, alternatively, that nothing in its attestation stating that the investment manager or advisor is a “minority owned business”, “female owned business” or “business owned by a person with a disability”, as those terms are defined by the Illinois Business Enterprise for Minorities, Females and Persons with Disabilities Act, has changed. ISBI and the Board are relying on certifications and/or investment manager attestations for reporting purposes. In the event it is discovered an investment manager

⁵ A “State of Illinois certification” is a certification granted by the Illinois Department of Central Management Services to a Minority Business Enterprise, a Female Business Enterprise or a Person with Disabilities Enterprise under the Business Enterprise Program for Minorities, Females, and Persons with Disabilities.

⁶ 30 ILCS 575

has misrepresented information to ISBI, such misrepresentation shall be grounds for termination of the relationship.

Minority investment managers may represent any asset class within ISBI's asset allocation. Allocations to minority investment managers will be made in accordance with the fiduciary standards under which all ISBI investment advisers operate.

Asset Management

1. Staff will review the statistical requirements for investment adviser searches as needed to provide better access to minority investment managers that have appropriate products.
2. Staff will use reasonable best efforts to include at least one minority investment manager in final Staff interviews, consistent with the requirements of the Illinois Pension Code. Staff will inform the Board of all minority investment manager candidates.
3. Staff will regularly meet with Illinois-based minority investment managers on-site and learn more about the Illinois-based minority investment manager community.
4. Staff will encourage ISBI consultants and strategic partners to be proactive and use creative approaches in achieving the Board's objectives with respect to the use of minority investment managers.

B. Minority and Illinois Brokerage

ISBI seeks to increase access and business with state certified, minority-owned broker/dealers and Illinois-based broker/dealers; therefore, ISBI, as a part of this Policy, has adopted minimum expectations for the use of minority-owned broker/dealers⁷ by investment advisers. The minimum expectations are established based on the asset class in which the investment adviser invests. In addition, ISBI will encourage its investment advisers to direct 25% of their trades to Illinois-based⁸ broker/dealers. It is further the policy objective of ISBI to encourage its investment advisers to seek to obtain best price execution to ensure that all transactions are executed in a manner that the total explicit and implicit costs of such transactions are the most favorable under the circumstances.

For purposes of this Policy, in order to be considered a minority-owned broker/dealer, documentation of a current State of Illinois certification or documentation of a current state issued certification must be provided to the Board.

Transactions completed with minority-owned broker/dealers on behalf of ISBI must be completed at rates fully competitive with the market. Subject to best execution, investment advisers for ISBI's separately managed investment portfolios are strongly encouraged to direct the below percentages of total eligible commission dollars or eligible trading volume to minority-owned broker/dealers.

<u>Asset Class</u>	<u>Minimum Goal as a Percentage</u>
U.S. Equity	30%

⁷ In accordance with Public Act 96-0006, "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."

⁸ The definition of an "Illinois-based" firm is consistent with the Illinois Pension Code which defines "Illinois business" as "a business, including an investment adviser, that is headquartered in Illinois." 40 Ill. Comp. Stat. § 5/1A-108.5(a).

<u>Asset Class</u>	<u>Minimum Goal as a Percentage</u>
International Developed Equity	20%
Emerging Market Equity	0-5%
Domestic Investment Grade Fixed Income	20%
Domestic Below Investment Grade Fixed Income	0 – 5%
International Developed and Emerging Market Fixed Income	0 – 5%
Hedged Equity	0 - 5%

These goals will be reviewed annually by Staff.

Brokerage

1. Staff will strongly encourage, verbally and in writing, ISBI’s public markets’ investment advisers to directly utilize minority-owned brokers/dealers. Staff will add additional asset classes when appropriate.
2. Staff will strongly encourage, verbally and in writing, investment advisers to direct 25% of their trades to Illinois-based broker/dealers.
3. Staff will strongly encourage, verbally and in writing, investment advisers to obtain best price execution to ensure that all transactions are executed in a manner that the total explicit and implicit costs of such transactions are the most favorable under the circumstances.
4. Staff will provide to minority-owned broker/dealers the contact information for ISBI’s public markets’ investment advisers.
5. Staff will monitor the use of Illinois-based broker/dealers and minority-owned broker/dealers by ISBI’s investment advisers, and report results to the Board on a quarterly basis. If an investment adviser reports less than their encouraged percentage of minority-owned broker/dealer utilization, Staff will require the adviser to state the reason for the shortfall. The Board will decide if the adviser’s practices are in accordance with this Policy.
6. Staff will consider the use of Illinois-based broker/dealers and minority-owned broker/dealers when evaluating existing investment advisers.
7. Step-outs and correspondence are prohibited. With regard to international developed and emerging market fixed income, below investment grade domestic fixed income, emerging market equity, and hedged equity allocations, best efforts by ISBI’s investment advisers shall be applied. Consistently with regards to commingled fund structures, best efforts by ISBI’s investment advisers shall be applied.

Consequences of Non-Compliance

ISBI continuously monitors investment advisers’ compliance with this Policy and has established a series of consequences for those advisers who continually fail to meet expectations. The investment advisers are expected to achieve the desired levels of brokerage usage over a fiscal year period. The following steps will occur if the investment adviser continues to fall short of expectations:

1. A follow-up letter will be distributed to the investment advisers not achieving the minimum level of minority-owned broker/dealer usage. The investment advisers will be reminded of the brokerage usage expected by the Board.
2. Staff will conduct a meeting with the investment adviser to discuss the reasons for not achieving the desired level of brokerage usage.
3. Investment advisers not achieving the expected levels of minority-owned broker/dealer usage may be subject to a moratorium on additional funding.
4. If an investment adviser fails to comply with the request, they may be invited to appear before the Board to explain why they are unable to achieve the desired level of brokerage usage.
5. The investment adviser may be placed on the Investment Advisers Watch List.

C. Minority Contract and Service Utilization

Public Act 96-0006 states that ISBI shall adopt a policy which sets forth goals for the utilization of businesses owned by minorities, females, and persons with disabilities for all contracts and services. According to PA 96-0006, "The goals shall be based on the percentage of total dollar amount of all contracts let to minority owned businesses, female owned businesses, and businesses owned by a person with a disability, as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act."

In furtherance of the Act, ISBI, subject to its fiduciary responsibility, has set forth a minimum goal of 0-1% of the total dollar amount for all contracts for the utilization of businesses owned by minorities, females, and persons with disabilities.

In addition, pursuant to Public Act 99-0462, ISBI has set an aspirational goal to have no less than 20% of the total service contracts awarded for information technology, accounting, insurance brokerage, and legal services to be let to businesses owned by minorities, females, and persons with a disability, as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act.

D. Fiduciary Diversification

ISBI acts as fiduciary for the General Assembly Retirement System, the Judges' Retirement System of Illinois and the State Employees' Retirement System of Illinois. As a fiduciary, ISBI is responsible for managing, investing, reinvesting, preserving and protecting fund assets.⁹

It is the policy objective of ISBI to comply with all federal and state statutes, rules and regulations pertaining to ISBI's investments. PA 96-0006 encourages ISBI to increase the racial, ethnic, and gender diversity of its fiduciaries, to the greatest extent feasible within the bounds of financial and fiduciary prudence.¹⁰

In furtherance of the Act, it is the goal of ISBI to use its best efforts to increase the racial, ethnic, and gender diversity of its fiduciaries, including its consultants, strategic partners and senior staff, within the bounds of financial and fiduciary prudence.

⁹ See 40 ILCS 5/1-101.2

¹⁰ See 40 Ill. Comp. Stat. § 5/1-109.1

As vacancies occur, ISBI will make every effort to increase the racial, ethnic, and gender diversity of its consultants, strategic partners and senior staff in accordance with this Policy and within the bounds of financial and fiduciary prudence.

In accordance with its Affirmative Action Plan, ISBI submits quarterly Workforce Analysis and Workforce Transaction Reports to the Department of Human Rights. ISBI will continue to report to the Department of Human Rights on both a quarterly and an annual basis.

This goal will be monitored and reviewed annually in conjunction with the annual Affirmative Action Plan.