

## CASE STUDY:

# STATE OF ILLINOIS<sup>60</sup>

The State of Illinois launched its emerging manager mandate over a decade ago under the leadership of former State Senate President, Emil Jones, Jr. At first, legislation was passed simply requiring the reporting of numbers of emerging managers managing the respective public funds in the state. “Emerging investment manager” was defined as, a qualified investment adviser that managed an investment portfolio of at least \$10 million but less than \$10 billion and was a “minority-owned business,” “female-owned business,” or “business of a person with a disability.” However, the funds were quite comfortable reporting fairly dismal numbers, as no follow up mechanisms existed to inquire into the low numbers reported.

As a result, a Senate Select Committee on Pensions and Investments was formed, which began requiring funds to report publicly on their emerging manager numbers and respond to questions from the Committee at annual Diversity Hearings. The Committee also began asking funds to set goals for certain asset classes.

According to Kwame Raoul, State Senator and Chair of the Senate Select Committee on Pensions and Investments, funds initially reacted with hesitation, questioning whether focusing intentionally on diversity would be a breach of their fiduciary duty and feeling uncertain of where to find qualified diverse managers. Yet, the Committee countered this reluctance, informing the funds that investing with diverse managers would help fulfill fiduciary obligations and working with the funds to create lists of qualified diverse managers.

Eventually, the State of Illinois passed a legislative mandate. Under state law that came into effect in 2010, it became state policy to encourage trustees of public employee retirement systems, pension funds, and investment boards to use emerging investment managers, increase the racial, ethnic, and gender diversity of its fiduciaries to the greatest extent feasible, and remove any barriers to the full participation in investment opportunities afforded. The law further mandated that funds adopt a policy that sets goals for utilization of emerging managers.

The law also directed funds to adopt what has become known as the “Rooney Rule,” whereby any emerging investment manager that meets the criteria established by a board and consultant for a specific search shall receive an invitation to present his or her firm for consideration.

In 2016, the law was amended to require funds to set an aspirational goal of using emerging investment managers for no less than 20% of the total funds under management. It also set an aspirational goal that no less than 20% of investment consultants utilized be minorities, females, and persons with disabilities.

## THE JOURNEY



With regard to investment consultants, “funds would tell us that they religiously followed their consultants’ advice,” says Senator Raoul. “So, during the Diversity Hearings, we began to question the consultants themselves on their commitment to diversity within their companies and their recommendations. Over the past few years, we have seen some positive evolution as a result of asking these questions, both from the standpoint of an increase in the internal diversity of investment consulting firms but also in the diversity of the firms recommended to funds.”

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– Kwame Raoul

*State Senator and Chair of the Senate Select Committee on Pensions and Investments*

*Funds’ reports and testimony are delivered at annual Diversity Hearings overseen by the Senate Committee on Public Pensions and State Investments chaired by Senator Kwame Raoul. Prior to the hearings, funds respond to a questionnaire regarding their diversity inclusion.*

*To view the completed Diversity Questionnaire for the State Universities Retirement System of Illinois (SURS), the SURS Diversity Report presented at the hearings in November 2015, and DAMI’s testimony at the August 2016 State of Illinois Diversity Hearings, see: <http://diverseassetmanagers.org/fiduciaryguide>.<sup>61</sup>*

# ENDNOTES

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60. Unless otherwise noted, information in the following section is drawn from: Illinois State Senator Kwame Raoul, telephone interview by the author, December 16, 2015.

61. Provided by Illinois State Senator Kwame Raoul.