



SURS Diversity Report

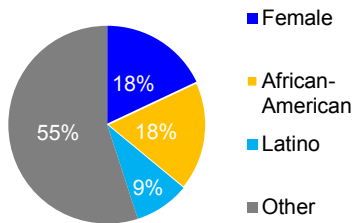
Senate Special Committee on Pension Investments

November 18, 2015

Overview



Board Composition



Board Member Composition

- 5 of 11 Trustees are either minorities or females (45%)
- 2 of 11 Trustees are Female (18%)
- 2 of 11 Trustees are African-American (18%)
- 1 of 11 Trustees is Latino (9%)

- SURS Assets as of 6/30/15
 - SURS DB Assets = \$17.26 Billion
 - SURS Self-Managed Plan = \$1.75 Billion
- 2.9% FY 2015 Return
 - Net of Fees
- FY 2015 Gain = \$0.5 Billion
- SURS paid \$2.1 billion in DB plan benefits during FY2014

- 229,111 total members and beneficiaries
 - 86,299 active members
 - 82,807 inactive members
 - 60,005 benefit recipients
- 127 employees as of 9/30/15
- Represent 61 different employers
 - 9 state universities
 - 39 community colleges
 - 13 affiliated agencies

State Universities Retirement System Board of Trustees



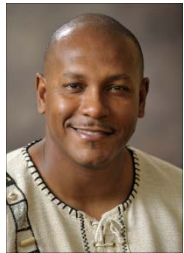
Lindsay
Anderson,
Chairperson
(Appointed)



Dorinda
Miller, Vice
Chairperson
(Elected)



John
Engstrom,
Treasurer
(Elected)



Aaron
Ammons
(Elected)



Dennis Cullen
(Appointed)



J. Fred
Giertz
(Elected)



Francis Idehen Jr.
(Appointed)



Paul R.T.
Johnson, Jr.
(Appointed)



Craig
McCrohon
(Appointed)



Steven Rock
(Elected)

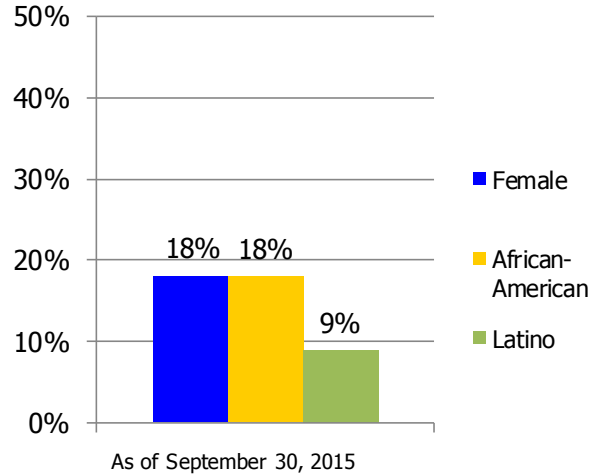


Antonio Vasquez
(Elected)

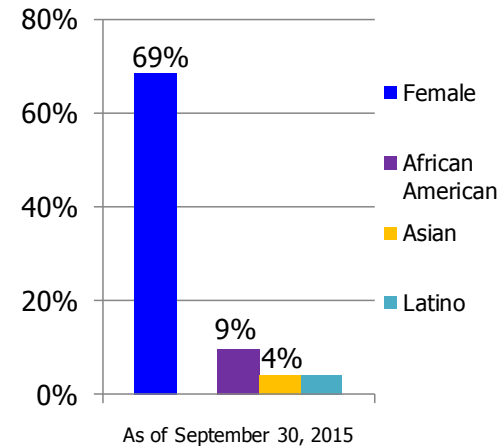
Organizational Diversity



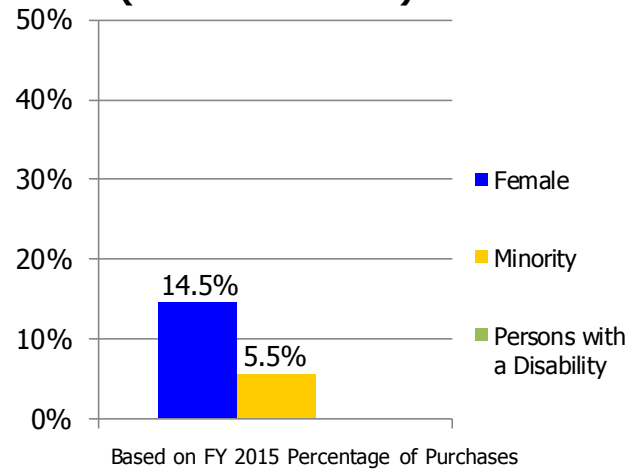
SURS Board of Trustees



SURS Employees



SURS Vendors (Non-Investment)



Holistic Approach to Diversity



■ Pursuing diversity strategies in several areas

□ Investments

- Expand industry outreach efforts
- Seek to identify qualified MFDB firms for participation in upcoming searches
- More frequent discussions with investment consultant on MFDB managers
- Reiterate importance of achieving MFDB brokerage goals to SURS investment managers

□ Human Resources

- Develop outreach programs to recruit from a diverse spectrum of potential applicants
- Develop partnerships with a broad range of organizations across the State of Illinois
- Involve managers and supervisors in recruiting and take appropriate action to ensure that outreach efforts are effective in addressing barriers
- Develop student internship program to build a diverse pipeline of candidates

□ Vendors

- Develop and implement a Supplier Diversity Policy
- Conduct outreach events to communicate and increase SURS' profile with the MFDB community; attract and encourage participation in contracting opportunities
- Develop and maintain a vendor list for each vendor solicitation to ensure a balanced and well-diversified list of invited vendors
- Maintain procedures that enable SURS to consistently capture and report vendor data

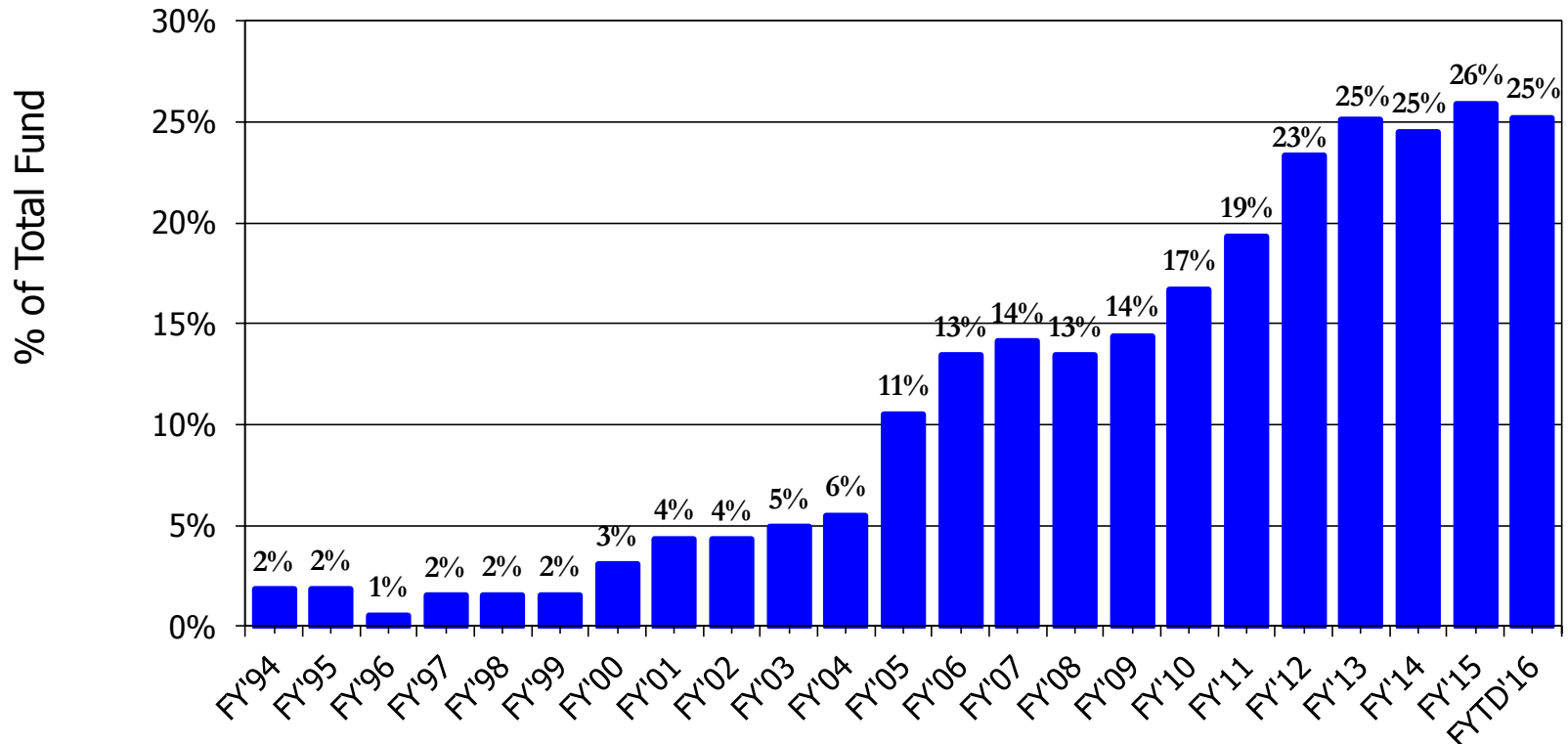
Current Investment Diversity Program



- September 30, 2015: Current Program
 - SURS Total Portfolio
 - \$4.1 billion invested with 21 MFDB* managers
 - This includes:
 - Manager Diversity Program (MDP)
 - \$2.4 billion invested with 19 managers (20 mandates)
 - Manager of Emerging Managers Program
 - Progress Investment Management
 - Approximately \$701 million invested with 21 managers (24 mandates)
 - New diversity mandate funded in Emerging Market Debt area
 - Other MFDB Managers in SURS portfolio
 - \$995 million invested in passive strategies to assist in funding benefit payments

*MFDB = Firms owned by minorities, females, and persons with a disability

Assets with MFDB Managers

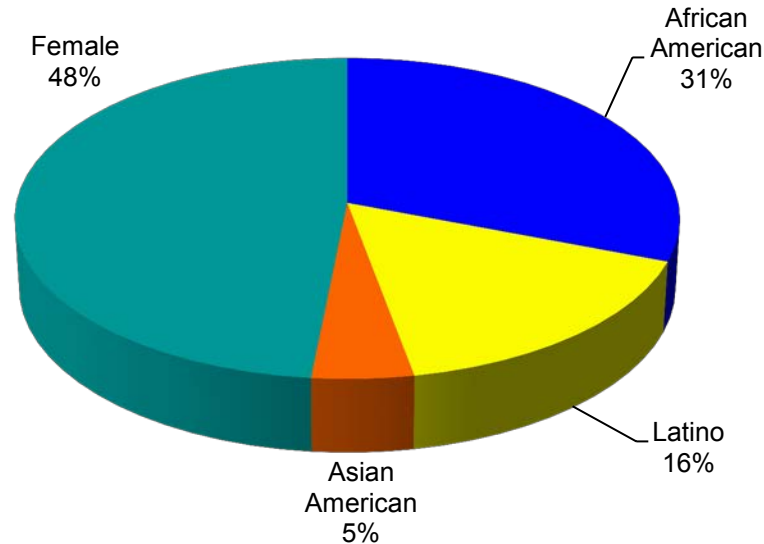


- As of September 30, 2015, 25.2%, or \$4.1 billion, of the total SURS portfolio was managed by firms of diversity
- 21 of 51 investment managers are owned by minorities and/or women

*MFDB = Firms owned by minorities, females, and persons with a disability

Manager Diversity Breakdown

As of September 30, 2015



	September 30, 2015	
	<u>Assets in \$MM*</u>	<u>% of MFDB Total</u>
Latino	\$669	16%
African American	1,269	31%
Asian American	186	5%
Female	1,994	48%
Disabled Veteran	<u>10</u>	<u><1%</u>
	\$4,129	100%

*Manager of manager assets categorized according to ethnicity of sub-managers
 Includes RhumbLine Advisers and EARNEST Partners, whose AUM exceeds the \$10B limit set forth in IL statute
 Totals may not add due to rounding

SURS Total Assets with MFDB* Firms



- SURS' goal is that 25% of active assets are managed by MFDB firms

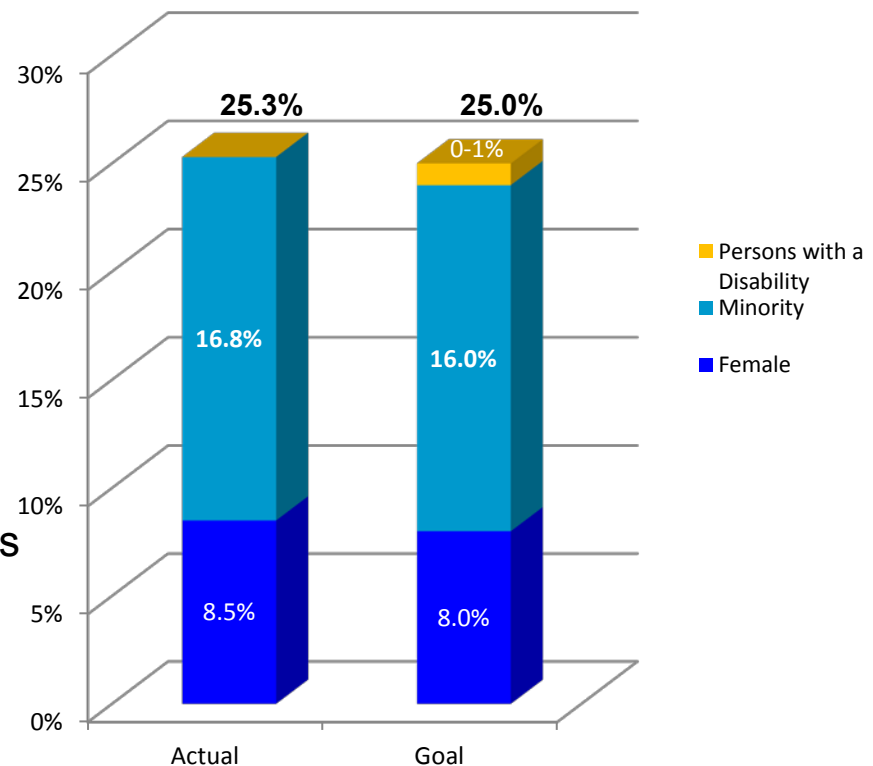
- As of September 30, 2015, MFDB firms manage 25.3% of SURS active assets

- SURS also has a goal that 20% of total assets are managed by MFDB firms

- As of September 30, 2015, MFDB firms manage 18.2% of total assets

- SURS continues to work to improve results

Percentage of Active Assets Managed by MFDB Firms



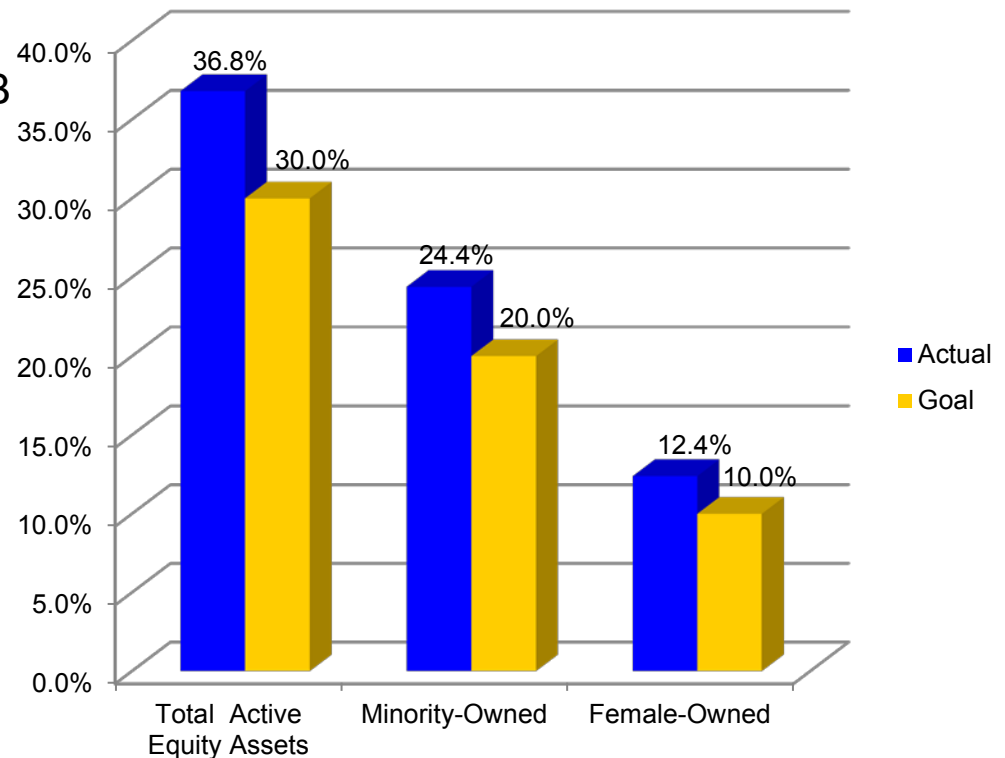
*Minority-, female-, or persons with a disability-owned

SURS Equity Assets with MFDB* Firms



- SURS' goal is that 30% of active equity assets are managed by MFDB firms
 - As of September 30, 2015, MFDB firms manage 36.8% of SURS active equity assets

Active Equity Assets Managed by MFDB Firms



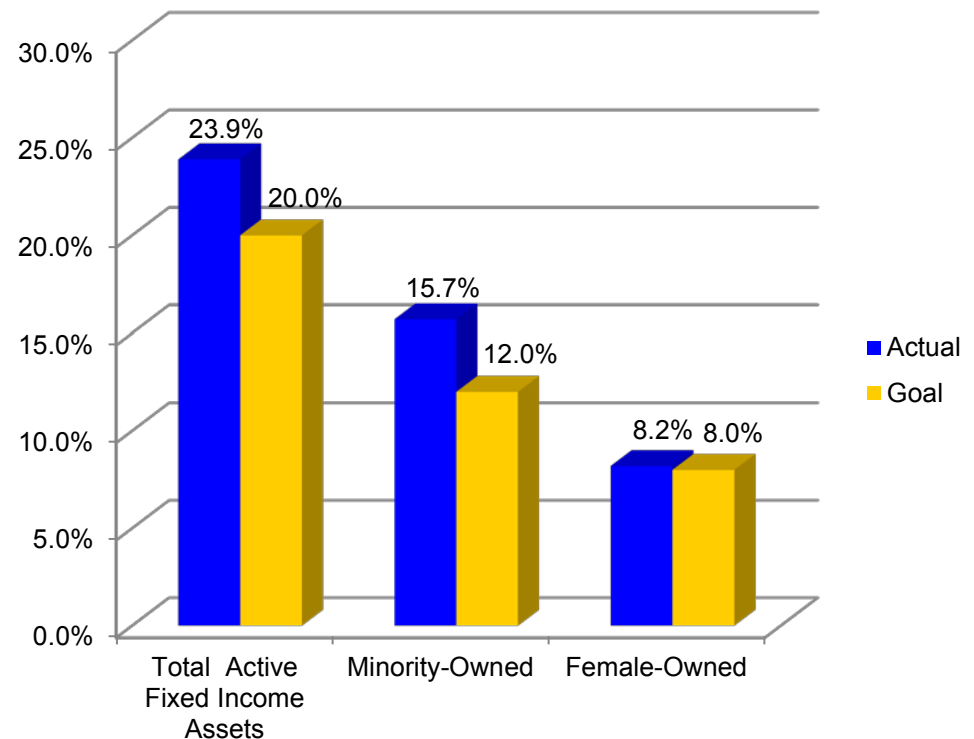
*Minority-, female-, or persons with a disability-owned

SURS Fixed Income Assets with MFDB* Firms



- SURS' goal is that 20% of active fixed income assets are managed by MFDB firms
 - As of September 30, 2015, MFDB firms manage 23.9% of SURS active fixed income assets

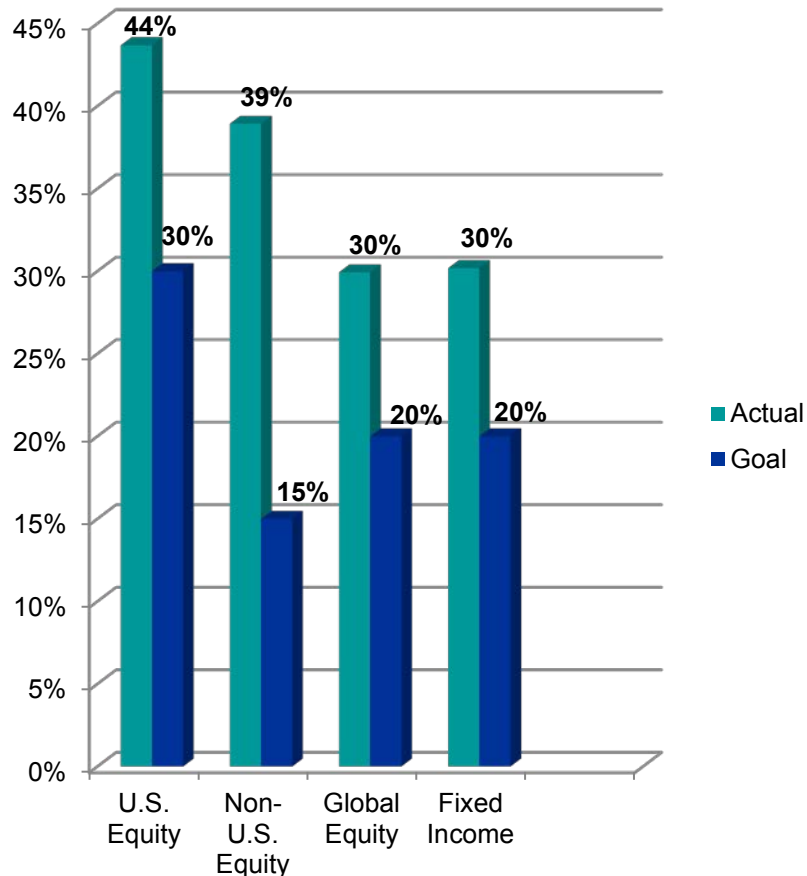
Active Fixed Income Assets Managed by MFDB Firms



*Minority-, female-, or persons with a disability-owned

Minority Brokerage Results

Fiscal Year Ending June 30, 2015



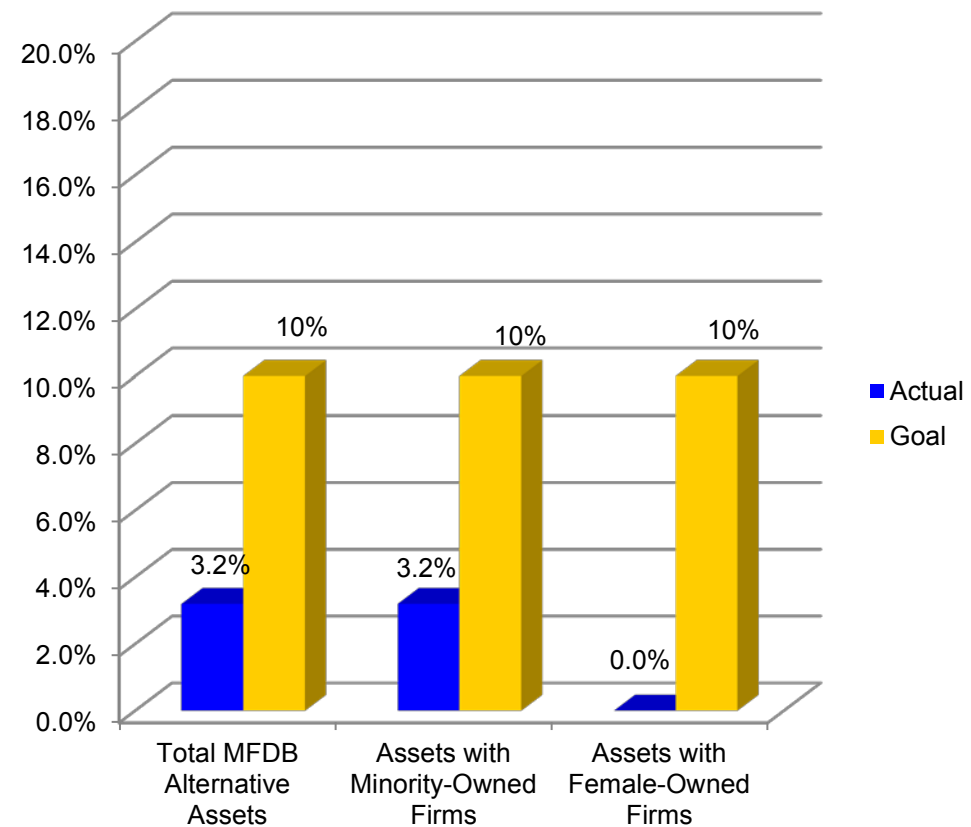
- In FY2015, nearly \$1.6 million in equity commissions was directed to MFDB firms, representing 38.8% of total equity commissions
 - Three of SURS' top ten equity brokers are MFDB firms (#1, #2 and #7 by commissions)
- In FY2015, over \$3.4 billion in fixed income trading volume was directed to MFDB firms, representing 30.2% of total trading volume
 - SURS' #1 and #4 fixed income brokers (by trading volume) are MFDB firms
- In the aggregate, all asset classes exceeded the brokerage goals
- Managers not meeting expectations face consequences up to and including termination

SURS Alternative Assets with MFDB* Firms



- SURS' goal is that 0-10% of new alternative allocations be managed by MFDB firms
 - SURS Board increased the goal from 10% to 20% of new allocations in September 2015
 - As of September 30, 2015, MFDB firms manage 3.2% of SURS alternative investment assets
 - Since January 1, 2014, 17.0% of new alternative commitments were allocated to MFDB firms or strategies
 - \$165 million in new alternative commitments to firms of diversity

Alternative Assets Managed by MFDB Firms



*Minority-, female-, or persons with a disability-owned

New Diversity Initiatives



- “Emerging Manager & Diversity Matters” sub-committee is dedicated to enhancing opportunities for firms of diversity
- Diversity & Inclusion Strategic Plan approved in March 2015
- Employed 2 summer interns with assistance from Toigo Foundation
- New asset allocation study approved in June 2014 is providing additional opportunities for emerging firms
 - Reduction in equities to fund new investments in emerging markets debt, hedged strategies and commodities
 - New allocations provide opportunity for emerging firms
 - \$65 million allocated to MFDB firms in emerging market debt strategies
 - \$90 million allocated for investment in non-core real estate strategies managed by MFDB firms
 - Recent approval of hedged strategies allocation will target 20% to underlying MFDB firms
 - Searches underway for commodities managers (\$325 million) and private equity emerging manager fund-of-funds managers (\$100 million)

Improved Disclosure



- Continued Implementation of Public Act 98-1022
 - Expands communication and dialogue with external investment managers
 - New RFPs require additional disclosures regarding diversity practices from firms seeking to do business with SURS

How Have SURS Goals Changed Since Passage of Public Act 96-0006?



- Prior to the passage of PA 96-0006, SURS had adopted a goal that 15% of total assets be managed by MFDB firms
- Post-PA 96-0006, SURS further enhanced the goals

Date	Description	Goal
September 2009	MFDB Asset Utilization	15% of active assets
September 2011	MFDB Asset Utilization	17% of active assets
October 2012	MFDB Asset Utilization	25% of active assets
September 2014	MFDB Asset Utilization	25% of active assets and 20% of total assets

- SURS reviews these goals annually

Goal Setting Process



- Review universe composition
- Consider SURS asset allocation
 - Different asset classes have varying availability of diverse firms
- Review best practices
 - What are other Illinois plans doing?
 - What are other plans doing nationally?
- Establish goal that is both challenging and realistic
- Revisit goals annually as above factors change

Minority and Women Owned Manager Representation as a Percentage of the Universe

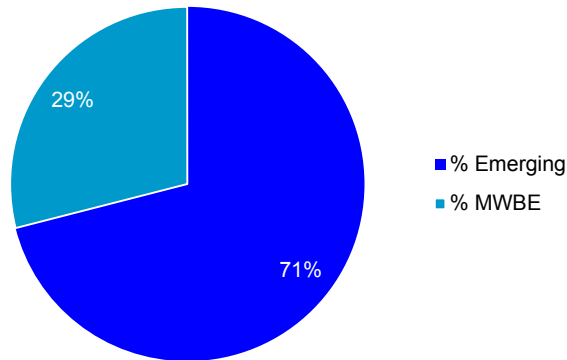


Progress Proprietary Emerging Manager Database

LONG ONLY:

Total Count (2,256)

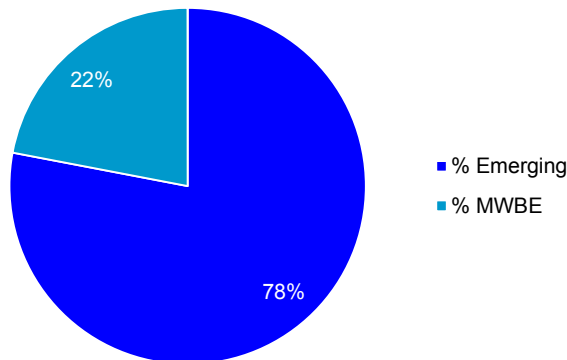
By Ownership



HEDGE FUNDS:

Total Count (1,558)

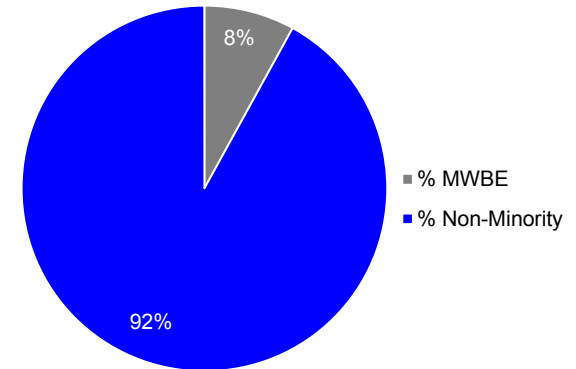
By Ownership



Total Investable Investment Manager Universe

Long Only & Hedge (Progress Database + eVestment + MMD)

By Ownership



Key Points:

- MWBE firms make up approximately 8% of the total long only & hedge fund investable investment manager universe.
- MWBE firms manage 25.2% of the total SURS investment portfolio, as of September 30, 2015.

Emerging Long-Only Specifications:
 AUM less than \$10 Billion
 Woman- and minority-owned
 At least 51% independently-owned
 Registered Investment Advisors

Emerging Hedge Funds Specifications:
 Generally less than \$700 million in AUM, or less than 3-Year track record.
 Woman- and minority-owned
 At least 51% independently-owned

Summary



- SURS is committed to providing opportunities to firms of diversity
 - \$4.1 billion invested with 21 MFDB firms

- SURS has a history of increasing its utilization of MFDB firms
 - MFDB assets increased from 10.5% of total assets, as of June 30, 2005, to 25.2% of total assets, as of September 30, 2015
 - Assets with emerging firms increased from \$1.4 billion to \$4.1 billion over the same time period, an increase of approximately \$2.7 billion

- SURS is taking definitive steps to improve its outreach, identification and utilization of firms of diversity