

ANNUAL REPORT TO THE GOVERNOR
AND GENERAL ASSEMBLY

Submitted October 22, 2019
In compliance with Public Act 96-0006
Illinois Pension Code, 40 ILCS 5/1-109.1(8)

Submitted by:
Teachers' Retirement System of the State of Illinois
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TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS

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October 22, 2019

To the Honorable Governor JB Pritzker & General Assembly:

The Teachers' Retirement System of the State of Illinois respectfully submits this report in compliance with 40 ILCS 5/1-109.1(8) of the Illinois Pension Code.

Each retirement system, pension fund, and investment board subject to this Code, except those whose investments are restricted by Section 1-113.2 of this Code, shall submit a report to the Governor and the General Assembly by January 1 of each year that includes the following: (1) the policy adopted under subsection (4) of this Section, including the names and addresses of the emerging investment managers used, percentage of the assets under the investment control of emerging investment managers for the 3 separate goals, and the actions it has undertaken to increase the use of emerging investment managers, including encouraging other investment managers to use emerging investment managers as subcontractors when the opportunity arises; (ii) the policy adopted under subsection (5) of this Section; (iii) the policy adopted under subsection (6) of this Section; and (iv) the policy adopted under subsection (7) of this Section, including specific actions undertaken to increase the use of minority broker-dealers; and (v) the policy adopted under subsection (9) of this Section.

If you have any questions about this report, do not hesitate to contact me directly.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Richard Ingram', written over a light blue horizontal line.

Richard Ingram
Executive Director

TABLE OF CONTENTS

Introduction	<i>Page 4</i>
Goals for Utilization of W/MBE Investment Managers and Emerging Managers	
40 ILCS 5/1-109.1(4).....	<i>Page 5</i>
Goals for increasing racial, ethnic, gender diversity of fiduciaries, consultants and senior staff	
40 ILCS 5/1-109.1(5).....	<i>Page 6</i>
Goals for Utilization of Businesses Owned by minorities, females and persons with disabilities	
40 ILCS 5/1-109.1(6).....	<i>Page 7</i>
Goals for increasing utilization of W/MBE broker/dealers	
40 ILCS 5/1-109.1(7).....	<i>Page 8</i>
Exhibit A: Improving Access to the TRS Investment Process.....	<i>Pages 9 – 10</i>
Exhibit B: W/MBE Goals adopted by the TRS Board of Trustees.....	<i>Page 11</i>
Exhibit C: Emerging Managers Program	<i>Pages 12 – 16</i>
Exhibit D: W/MBE and Emerging Managers	<i>Pages 17 – 19</i>
Exhibit E: W/MBE-owned Broker/Dealer Utilization	<i>Page 20</i>
Exhibit F: Report on W/MBE-owned investment advisor & broker/dealer utilization	<i>Page 21</i>
Exhibit G: Affirmative Action Plan Policy Statement	<i>Page 22</i>
Exhibit H: Expenditure Management Policy MBE/FBE/PBE Utilization Goal.....	<i>Page 23</i>

Introduction

The Teachers' Retirement System of the State of Illinois ("TRS" or the "System") continues its efforts to support diversity within its investment program and the overall organization. This report summarizes some of the System's key initiatives with regard to the greater utilization of minority, female and disabled owned firms within TRS. Notable initiatives include:

- Formal adoption by the TRS Board of Trustees of utilization goals for both WMBE-owned investment management firms and WMBE-owned broker/dealers.
- Dedicated \$750 million commitment to an Emerging Manager Program to allow for greater investment in developing investment management firms.
- Specific inclusion of qualified WMBE-owned investment management firms during the search process to encourage greater diversity of candidate firms.
- Establishment of a diversity subcommittee of the Board of Trustees to provide continued oversight and development of the System's diversity initiatives.
- Expansion of the watch list criteria to include evaluating money managers for watch list due to inadequate performance on brokerage goals.
- Maintenance of a WMBE-owned broker/dealer database which is made available to the System's external investment managers to assist in their compliance with TRS goals.
- Hosting of an annual Opportunity Forum to discuss important investment issues and encourage productive working relationships between the System's external investment managers and the WMBE-owned broker/dealer community.

Also included in this document is TRS's annual report on the use of women, minority and disabled-owned investment advisors and broker/dealers, attached as **Exhibit F**. The report provides greater detail on the current and historical amounts invested with specific WMBE firms, as well as more detailed information regarding TRS's current initiatives.

The data presented in this report has been provided from State Street (TRS's custodial bank during the fiscal year), reports submitted by external investment advisors, and reports from various broker/dealers utilized during the year. All data is as of June 30, 2019 unless otherwise noted.

Goals for utilization of WMBE investment managers & emerging managers, 40 ILCS 5/1-109.1(4)

The TRS Board of Trustees has formally established goals for improving the utilization of minority and woman-owned investment management firms within the System's investment portfolio. These goals are documented in the TRS Investment Policy in Section XXII: Improving Access to the TRS Investment Process, attached as **Exhibit A**. Consistent with that policy, the TRS Board of Trustees has also adopted separate goals for the utilization of a) minority owned investment managers, b) female owned investment managers, and c) other/disabled owned investment managers. Recognizing the importance of diversity on multiple levels, these goals have also been divided to include specific guidelines on a portfolio asset basis as well as on a management fee basis. These goals for fiscal year 2019 are attached as **Exhibit B**. The Board of Trustees, at the October Board Meeting, will review goals for fiscal year 2020.

TRS maintains multiple initiatives to achieve the above referenced goals. On the brokerage side, the System maintains an open database of all minority, female and disabled-owned broker/dealers that have submitted information about their firm to TRS. TRS makes this information known to all of the System's investment managers. Further, TRS hosts an annual "Opportunity Forum" to discuss and educate a broad range of participants on this important issue. Attendees at the Forum include all of the System's investment managers, representatives from any interested broker/dealer from the WMBE database, emerging investment managers, members of the Illinois General Assembly, and representatives of the TRS Board of Trustees and staff.

On the investment management side, TRS continues to actively network and interact with promising minority- and female-owned investment management firms. TRS staff seeks to include WMBE candidates for all investment management searches and to bring qualified WMBE candidates to the Board as finalists in these searches. Separately, TRS continues to see significant success in the implementation of the System's Emerging Managers Program. This program was formally established by the TRS Board of Trustees to allow for greater participation of emerging investment managers within the TRS portfolio. Documentation related to the program is included in the TRS Investment Policy in Section XXI: Emerging Managers Program, attached as **Exhibit C**.

At June 30, 2019, TRS had 32 individual investment mandates with minority- and female-owned firms. A list of these specific mandates and firms is provided in **Exhibit D**. This program is focused on spending staff and our consultant's time on proactively seeking up-and-coming managers.

Goals for increasing racial, ethnic, gender diversity of fiduciaries, consultants and senior staff, 40 ILCS 5/1-109.1(5)

TRS currently utilizes four consultants within its investment program including the general investment consultant (RVK, Inc.) and specialist consultants for investments in private equity (TorreyCove Capital Partners), real estate (Stepstone Partners), private credit (Aksia LLC) and diversifying strategies (Aksia LLC). On an annual basis, TRS requests written documentation with regard to each firm's diversity and any initiatives related to ensuring greater participation of WMBE-owned investment services firms.

On a routine basis (not more than every five years), TRS conducts a full request for proposal to rebid consultant services. A candidate firm's personnel diversity and policies related to WMBE participation are critical criteria during this search process. TRS highly values candidates that are dedicated to ensuring an open and inclusive investment management search process, and possess formal plans for better inclusiveness of WMBE-owned firms within that process.

The System annually prepares an Affirmative Action Plan that is submitted to the Department of Human Rights. The Affirmative Action Plan sets forth TRS's policy for taking affirmative action to correct underutilization of qualified minorities, females and persons with disabilities not just at the senior staff level, but at all levels of employment. TRS's Affirmative Action Plan policy statement for FY2018 is attached as **Exhibit G**.

Goals for utilization of businesses owned by minorities, females and persons with disabilities, 40 ILCS 5/1-109.1(6)

The Teachers' Retirement System has adopted the Expenditure Management operating policy which includes the System's goal for utilization of businesses owned by minorities, females, and persons with disabilities in the section entitled "MBE/FBE/PBE Utilization Goals" in the operating policy, attached as **Exhibit H**. Current utilization is at approximately 11.99% (as of fiscal year 2019 preliminary) of the total dollar amount of all non-investment vendor contracts for goods and services provided to TRS. The System exceeded its established goal by 1.99%.

Summary Utilization Data:

Fiscal Year	Goal	Utilization %	Over/Under Goal	Utilization \$
2018	10.00%	25.71%	+15.71%	\$1,081,011
2019	10.00%	11.99%	+1.99%	\$722,038

Goals for increasing utilization of WMBE broker/dealers, 40 ILCS 5/1-109.1(7)

As discussed within the first section of this report, the System's goals for the utilization of WMBE broker/dealers are documented within the TRS Investment Policy in Section XXII: Improving Access to the TRS Investment Process (see **Exhibit A**). These goals are updated on an annual basis by a formal vote of the TRS Board of Trustees.

Also as previously discussed, TRS does initiate important initiatives in an effort to increase the utilization of WMBE broker/dealers within the TRS investment program. Most important of these initiatives are: 1) the maintenance of a comprehensive database of WMBE broker/dealers which is made available to all TRS investment managers; and 2) the hosting of an annual Opportunity Forum in an effort to foster productive working relationships between the System's investment managers and the WMBE broker community.

Data on the actual use of WMBE broker/dealers through June 30, 2019 is included in **Exhibit E**. For fiscal year 2019, the following goals were approved:

Goals for FY2019

Domestic Equity	25.00% (FY19)
International Equity	16.00% (1.50% increase from FY18)
Fixed Income	15.00% (1.00% increase from FY18)

EXHIBIT A: Improving Access to the TRS Investment Process

(From the TRS Investment Policy)

XX. Improving Access to the TRS Investment Process

This policy on utilization of minority and female-owned Investment Managers and broker/dealers is intended to memorialize existing policy direction from this Board to the Staff. As a consequence of this policy direction, Staff has successfully increased utilization percentages and amounts expended on a consistent basis since Fiscal Year 2000.

To achieve continued utilization increases, this policy establishes progressive and measurable utilization guidelines that reflect our historic commitment and future vision.

The term WMBE "women, minority business enterprise" (WMBE) will be used for all firms as defined in the Illinois Business Enterprise for Minorities, Females, and Persons with Disabilities Act. On an annual basis, the Board will assess the effectiveness of the procedures established by which these objectives are to be met, unless circumstances warrant more frequent review.

Allocations of the System's assets to WMBE Investment Managers will be made in accordance with the fiduciary standards under which the Fund operates. Broker/dealer transactions completed with WMBE firms on behalf of the System must be completed at rates fully competitive with the market.

WMBE Broker/Dealer Utilization

Annually, each public markets Investment Manager retained by the System shall establish a WMBE broker/dealer utilization objective that shall be consistent with the System's commitment to including all segments of the economic community. For Fiscal Year 2019, the objective shall be:

25.0% domestic equities, 16.0% international equities; 16.0% global income

On a quarterly basis, each Manager shall report on the progress towards attaining the adopted objective. Each report shall include all transactions involving or impacting a WMBE broker/dealer, whether by direct transaction, step-out, referred transactions, or any other means which provide economic benefit to a WMBE broker/dealer.

Investment Staff shall monitor the progress towards objectives, initiate necessary contact with Managers as required, and report their findings and conclusions to the Board. Investment Managers may be requested to appear before the Board, any Trustee designated by the Board, or Staff to discuss compliance with this policy. Managers may also become eligible for the System's Watch List based upon compliance with this policy.

At the time of becoming a search finalist, upon initial retention, and periodically as appropriate, all public markets Managers shall be provided written notice of the System's brokerage goals and expectations.

WMBE Investment Manager Utilization

As a result of the System's commitment to the selection and retention of qualified WMBE investment managers, assets managed by WMBE firms have increased to over 10% of the trust fund. Recognizing

that additional increases are desirable and can be achieved as manager searches are conducted, the interim objective for Fiscal Year 2019 is 19% of the total fund, with a long term target of 20%.

In compliance with Public Act 96-0006, the Board will also establish diversity goals for both assets under management by and manager fees paid to WMBE investment firms within the System's broad asset classes. Separately and also in accordance with Public Act 96-0006, TRS staff will present to the Board as a finalist the best and most qualified WMBE firm for all of the System's investment manager searches. Any candidate presenting as a finalist must still meet the minimum criteria as specified in the search profile.

Investment Staff shall monitor the progress towards objectives and report to the Board semi-annually. In addition to a utilization analysis, Staff shall report on significant steps taken to achieve the stated objectives.

Transition Management

Prior to the award of a contract for transition management services, the Chief Investment Officer shall ascertain the transition manager's proposed utilization of WMBE broker/dealer services and determine that the proposal is consistent with the System's utilization objectives.

Trustee Oversight

To ensure that all Trustees are aware of the System's efforts and achievements, the Investment Committee will review utilization of WMBE brokers/dealers and Investment Managers. The Chair shall be responsible for interfacing with the Consultant as necessary regarding the inclusion of WMBE firms in manager searches.

EXHIBIT B: WMBE Goals Adopted by the TRS Board of Trustees

Goals adopted by the TRS Board of Trustees for Fiscal Year 2018. The Board of Trustees, at the October Board Meeting, will review goals for fiscal year 2019. Actual FY2018 figures are preliminary and unaudited.

FY2019 Proposed WMBE Goals

	<u>Equities</u>	<u>Fixed Income</u>	<u>Alternatives</u>	<u>Total Fund</u>
<u>AUM Based Targets</u>				
Minority	12.00%	8.00%	9.50%	13.00%
Female	3.00%	1.50%	1.25%	3.00%
Other MBE/Disabled	1.00%	0.50%	0.25%	1.00%
Sub-Total WMBE	16.00%	10.00%	11.00%	17.00%

	<u>Equities</u>	<u>Fixed Income</u>	<u>Alternatives</u>	<u>Total Fund</u>
<u>Fee Based Targets</u>				
Minority	5.00 to 7.00%	5.00 to 7.00%	5.00 to 7.00%	5.00 to 7.00%
Female	2.00 to 3.00%	2.00 to 3.00%	2.00 to 3.00%	2.00 to 3.00%
Other MBE/Disabled	0 to .5%	0 to .5%	0 to .5%	0 to .5%
Sub-Total WMBE	7.0 to 10.5%	7.0 to 10.5%	7.0 to 10.5%	7.0 to 10.5%

FY2019 - Asset Based and Fee Based

	<u>Equities</u>	<u>Fixed Income</u>	<u>Alternatives</u>	<u>Total Fund</u>
<u>AUM Based Targets</u>				
Minority	0.34%	8.54%	20.18%	9.84%
Female	30.41%	6.65%	0.76%	11.38%
Other MBE/Disabled	0.00%	0.00%	3.33%	1.25%
Sub-Total WMBE	30.76%	15.18%	24.28%	22.48%

	<u>Equities</u>	<u>Fixed Income</u>	<u>Alternatives</u>	<u>Total Fund</u>
<u>Fee Based Targets</u>				
Minority	1.34%	2.87%	12.56%	8.48%
Female	8.86%	7.91%	1.41%	2.83%
Other MBE/Disabled	0.00%	0.00%	0.19%	0.12%
Sub-Total WMBE	10.20%	10.78%	14.16%	11.43%

Variance of Actual FY2019 vs. Goals for FY2019

	<u>Equities</u>	<u>Fixed Income</u>	<u>Alternatives</u>	<u>Total Fund</u>
<u>AUM Based Targets</u>				
Minority	-11.66%	0.54%	10.68%	-3.16%
Female	27.41%	5.15%	-0.49%	8.38%
Other MBE/Disabled	-1.00%	-0.50%	3.08%	0.25%
Sub-Total WMBE &	14.76%	5.18%	13.28%	5.48%

	<u>Equities</u>	<u>Fixed Income</u>	<u>Alternatives</u>	<u>Total Fund</u>
<u>Fee Based Targets</u>				
Minority	-3.66%	-2.13%	7.56%	3.48%
Female	6.86%	5.91%	-0.59%	0.83%
Other MBE/Disabled	0.00%	0.00%	0.19%	0.12%
Sub-Total WMBE &	3.20%	3.78%	7.16%	4.43%

WMBE Percentage of Fund as of June 30, 2019: 22.48%

EXHIBIT C: EMERGING MANAGERS PROGRAM

(From the TRS Investment Policy)

XXI. Emerging Managers Program

Introduction

The Trustees of the Teachers' Retirement System ("TRS") have established the following guidelines for management of the TRS Emerging Managers Program ("Program"). In establishing these guidelines, it is the Board's intention to assure all interested parties that decisions made in carrying out these actions occur in a full disclosure environment characterized by objective evaluation and proper documentation. The overriding consideration with respect to all decisions is that they shall be made solely in the best interest of plan participants and beneficiaries.

Clearly Defined Objectives

The adoption of an Emerging Managers Program focuses on the development of long-term relationships between TRS and growing investment management organizations. The objectives of the Program include:

- Investment in promising younger, growing investment managers that currently have smaller asset bases and developing track records;
- Access to firms that, while possessing a marketable investment philosophy or process, have not dedicated marketing resources to identifying themselves to plan sponsors and the investment consultant community;
- Ability to better utilize minority- and female-owned investment managers, as well as Illinois-based investment managers.

The Program represents a total commitment of up to \$750 million from the total fund. The Program will apply to both public and private markets asset classes, with evaluation criteria based on the specific asset class of each investment. Overall, the Program is intended to create meaningful long-term relationships with emerging investment managers with the objective that the superior performers will, at some time, progress into a full TRS investment allocation¹.

Search and Selection Process

The selection of emerging investment managers for participation in the Program will be accomplished from the following steps:

1. Identification of emerging investment managers

Initially, Staff will maintain information on a universe of identified emerging investment managers. The process is intended to be ongoing, with manager profiles added and performance information updated as necessary. Qualified investment managers will be encouraged, at any time, to submit detailed

¹Assignment to a full TRS investment mandate implies movement outside of the Program and into the overall portfolio allocation. These mandates are typically much larger assignments and are critical components to the TRS investment portfolio's positioning with regards to asset class and overall investment style diversification.

information with the relevant specifics of the firm's organization and investment products. The standardized informational questionnaire will be made available to all firms through TRS's web site, or as requested from Staff.

2. Analysis for qualified candidates

The second step is identifying emerging investment organizations and products that meet TRS criteria. Periodically, TRS Staff will review the information on all identified emerging investment managers. Staff will search for emerging managers possessing a strategy or process that appear to be well positioned for an allocation within the TRS investment portfolio.

3. Solicit additional information from qualified candidates

Once identified as a promising candidate, Staff will request further information relating to the manager's organization, investment philosophy, investment process, key personnel, risk controls, performance history and fee structure.

4. Due diligence

Following review of a candidate's detailed information, Staff will conduct a meeting with the firm's management team. As necessary, Staff will conduct on-site due diligence to review, among other things, the depth of the firm's personnel, internal policies, technological resources, risk management capabilities and compliance monitoring. Any available analysis from the Consultant will also be included in the due diligence process.

1. Final Recommendation and Selection

Based on analysis of Staff and Consultant, Staff will recommend managers to the applicable Staff Oversight Committee for final approval. In choosing the finalists, Staff will favor those firms that, based on quantitative and qualitative factors, appear to have the highest probability of success over the next three to five years and appear to be best prepared to develop into a full TRS investment mandate outside of the Program. With approval, staff is authorized to implement the recommendation. At the next scheduled meeting of the Investment Committee following the commitment, staff will provide the Committee with necessary reports related to any commitment, including a selection/compliance checklist confirming adherence to Board-approved policies.

Initial Funding

Staff recommendations for a specific initial funding amount are made to the applicable Staff Oversight Committee. A number of factors will be considered when making an allocation recommendation, including:

- asset class and general diversification of the Emerging Manager Program
- product strategy and long-term fit within the TRS investment program
- risk/return profile of the product
- size and depth of firm, including long-term plan for institutionalization of firm

Recognizing the intent of the Program is to develop long-term relationships with promising emerging managers that may, in the future, occupy full TRS mandates, the Program is exempt from systematic rebalancing activity. Additional funding or withdrawals of capital from the Program or its participating managers will be based on continued analysis by Staff and Consultant, with formal recommendations presented to the Staff Oversight Committee as appropriate.

Proper Documentation and Full Disclosure

When overseeing reviews of the delegated hiring of an external investment service provider, the primary focus of the Investment Committee and Board shall be on whether decisions followed established processes and procedures in the Pension Code, administrative rules and this Investment Policy. Toward this end, the Chair and Committee members may request the written supporting documentation to assure disclosure of all relevant issues. In evaluating a hiring decision, Staff, Consultant and the applicable Staff Oversight Committee should review documentation to ensure that the basis for the recommendation was fair, and that the screening process was consistently applied. Potential service providers or candidates may, at the pleasure of the Committee Board or upon the recommendation of Staff and Consultant, be asked to make a formal presentation to the Committee at any time.

Defining Expectations

In the case where a manager is hired, the search process document shall include, but may not be limited to, the following:

1. a summary of performance criteria considerations,
2. the absolute and relative risks inherent in the manager's approach,
3. staff's qualitative assessment, and
4. identification of relevant comparative measures such as benchmarks and/or peer samples, and proposed fee structure.

Staff and Consultant shall incorporate the relevant factors related to expectations of the manager into the executed Investment Management Agreement.

Board Reporting and Monitoring

After a manager is selected to the Program, Staff will regularly monitor the manager's results versus expectations. Staff will conduct periodic due diligence meetings with the outside organizations and may provide the Board with reports summarizing the assessments made. All material events regarding an investment manager will be communicated to the applicable Staff Oversight Committee and, when deemed necessary, to the Board.

Program Funding: Graduation/Termination

Based on a manager's performance within the Program, combined with demonstrated development of the investment manager organization, staff may recommend graduation of a mandate into the TRS investment portfolio. The recommendation and related due diligence will be presented to the applicable Staff Oversight Committee for consideration and approval. In the event of a graduation, the Emerging Manager Program shall be "reimbursed" by the amount equal to the initial funding of the investment manager.

Similarly, in the event of a termination of a mandate from the Emerging Manager Program. In the event of termination, unless otherwise stated the Program shall be reimbursed by an amount equal to the initial funding of the investment manager.

Note that investments in private markets can differ from investments in the public asset classes due to the longer commitment period. In these cases, staff will provide a recommendation regarding graduation/termination to the applicable Staff Oversight Committee within two to five years from the initial investment. Based on the Staff Oversight Committee approval, the investment will be removed from the Program and reimbursement to the Program shall be completed as specified above.

Termination Guidelines

As with all TRS investment managers, there will be instances in which it will be necessary for the System to terminate a contractual relationship with an Investment Manager. The same guidelines for managers within the Program will exist to assist in making these termination decisions. Specifically, any action to terminate a manager should be based on one or more of the following primary criteria:

- significant changes in firm ownership and/or structure
- loss of one or more key personnel
- significant loss of clients and/or assets under management
- shifts in the firm's philosophy or process
- significant and persistent lack of responsiveness to client requests
- changes in TRS's investment strategy eliminating the need for a particular style or strategy
- violations of TRS's Investment Policy or Parameters
- unsatisfactory investment performance
- identification of a new asset class or approach which has been approved in advance by the Board
- a need for diversification of styles within an existing asset class

Additionally, due to the nature of the Program, it may be necessary at some point to terminate a relationship given the inability of a manager to develop to the point that they might manage a full TRS investment mandate. The objective of the Program is intended to be a catalyst for the development of emerging investment managers. To the extent that an investment manager does not show the development characteristics necessary to manage a full institutional mandate, allocations within the Program should be redirected to other managers showing those characteristics.

Prior to the termination decision, the primary and other relevant considerations shall be identified, described, and ranked by importance. An evaluation covering the quantitative and qualitative issues to be considered will be developed for each case and the relative importance of each evaluation area will be determined. Documentation regarding any such action should include, but is not limited to, the following items:

- a full description of the reason for the action, including the specific elements serving as the basis for the evaluation and identification of the relevant issues from the System's perspective
- the assumptions made in the evaluation, if any
- the results considered and/or qualitative issues upon which the action was based
- an objective discussion of the risks, costs, and expected benefits is also to be included if appropriate to the subject matter

Consistent with other termination guidelines, Staff and Consultant, with the approval of the applicable Staff Oversight Committee, may initiate termination of any public markets emerging manager meeting the System's Watch List criteria or for any other immediate concern(s) as specified above. In the event of termination Staff, with the approval of the Staff Oversight Committee, will transition assets from the terminated manager to the successful finalist of a manager search, rebalance to other TRS investment managers, or assign the assets to passive index management. A report shall be provided to the Investment Committee and Board at the meeting immediately following termination and transition.

EXHIBIT D: WMBE and Emerging Managers

Teachers' Retirement System of the State of Illinois

WMBE and Emerging Managers

June 30, 2019

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EXHIBIT E: WMBE-Owned Broker-Dealer Utilization

The following represents data for the utilization of minority, women and disabled-owned broker/dealers for the fiscal year ended June 30, 2018.

Equity Trading – U.S. and International

U.S. Equity as percent of total commissions	36.9%
Stated Goal U.S. Equity	<u>25.0%</u>
Over/Under U.S. Equity Goal	+11.9%
Intl. Equity as percent of total commissions	21.6%
Stated Goal Intl. Equity	<u>16.0%</u>
Over/Under Intl. Equity Goal	+5.6%
Total U.S. and Int'l Equity commissions	\$6.30 million
Total U.S. and Int'l Equity MBE commissions	\$1.56 million
Total MBE as Percent of Total Commissions	24.8%

Fixed Income

Total market value traded	\$17.8 billion
MBE market value traded	\$3.3 billion
Percent MBE - Fixed Income	18.6%
Stated Goal - Fixed Income	<u>16.0%</u>
Over/Under Fixed Income Goal	+2.6%

EXHIBIT F: August 2019 Report on WMBE-Owned Investment Advisor & Broker/Dealer Utilization

(See attached PowerPoint presentation)

EXHIBIT G: Affirmative Action Plan Policy Statement

POLICY STATEMENT

1. The Teachers' Retirement System will provide equal opportunities to its employees and applicants on the basis of merit, without regard to race, color, religion, sex, sexual orientation, age, marital status, military status, pregnancy, order of protection, certain unfavorable discharges from military service, political affiliation, citizenship, ancestry, national origin, physical or mental disability, genetic information or any other characteristic protected by law. This statement applies to all aspects of personnel management including, but not limited to, recruitment and selection, promotion and training, position classification and compensation, benefits, transfers, disciplinary actions, leaves and layoffs.
2. The Teachers' Retirement System is committed to taking affirmative action to correct underutilization of qualified minorities, females and persons with disabilities in all levels of employment. TRS is also committed to full compliance with provisions of state and federal laws regarding equal employment opportunities.
3. All managers, supervisors and administrative staff are expected to support the implementation of the Affirmative Action Plan. It must be understood that these policies govern all TRS operations.
4. Employees who feel they have been dealt with in violation of these policies will be free to file a complaint with the EEO/AA/ADA Officer without fear of retribution. Employees may also file a complaint with the Department of Human Rights or with the Equal Employment Opportunity Commission within 300 days of the alleged discriminatory act.
5. The System is committed to ensure reasonable accommodations and careful consideration to applicants and/or employees with disabilities.
6. The System will provide all employees with the opportunity to voluntarily and confidentially self-identify and declare disabilities.
7. This System is committed to provide a work environment that is free from harassment of any kind.

EXHIBIT H: Expenditure Management Policy MBE/FBE/PBE Utilization Goal

(From the TRS Expenditure Management Operating Policy)

MBE/FBE/PBE Utilization Goal

It is the policy of TRS to improve access to businesses owned and controlled by minorities (“MBEs”), females (“FBEs”), and persons with disabilities (“PBEs”) to provide goods and services to the System. To that end, TRS’s goal through fiscal year 2020 is to use its best efforts to increase current utilization of MBEs, FBEs, and PBEs to at least 10% of the total dollar amount of all non-investment vendor contracts with TRS. This goal is reviewed annually with a long term goal of 20%. Utilization goals for investment services are separately stated in the TRS Investment Policy.

All RFP and bid opportunities to provide goods and services to TRS are posted on the TRS Web site in the vendor information area. To the extent possible, TRS utilizes resources of the State of Illinois Business Enterprise Program (BEP) including the BEP Vendors Directory in striving to meet its MBE/FBE/PBE utilization goal. Interested vendors that qualify are encouraged to register with the State of Illinois Business Enterprise Program, and to respond to any open TRS business opportunities posted on the TRS Website for which they are qualified.

(preliminary data)
FY2019 Annual Report on the use of:

WOMEN, MINORITY AND DISABLED-OWNED
(WMBE) INVESTMENT ADVISORS AND
BROKER/DEALERS

October 2019



Illinois Pension
Code annual
filing

During FY2019, TRS continued its support of WMBE-owned investment advisors and broker/dealers. In the event an investment advisor search is needed, TRS and its consultant, RVK, use investment manager databases and software packages that provide opportunities to all investment advisors and surpass the minimum search criteria. TRS continues to encourage greater diversity in the search process.

TRS maintains a database consisting of a comprehensive list of WMBE broker/dealers in the United States. External investment advisors are encouraged to use WMBE broker/dealers, given best price and execution capabilities.

Data sources for this document are State Street (TRS's custodial bank utilized during the fiscal year) reports submitted by external investment advisors, and various broker/dealers. The report encompasses requested data and outlines the use of WMBE investment managers, broker/dealers, and relevant discussions of the data set forth herein.

All data is preliminary as of June 30, 2019 (unless otherwise noted) and is subject to change.

TABLE OF CONTENTS

Page 4	Executive Summary
Page 8	WMBE Established Goals
Page 9	Current WMBE Investment Managers
Page 11	WMBE Assets Under Management Detail
Page 16	WMBE Advisory Fees Detail
Page 21	Illinois Based WMBE Advisors
Page 23	Equal Employment Opportunity Statistics
Page 24	WMBE Broker/Dealers – Equity
Page 28	WMBE Broker/Dealers – Fixed Income
Page 30	Emerging Manager Program
Page 34	Summary

During FY2019, TRS continued its efforts to increase the inclusion of woman and minority business enterprises (“WMBE”) in its investment program.

Investment Advisor Activity

- Expanded the relationship with one existing WMBE private credit manager
 - LCM Partners (a women owned private credit fund) was given an additional allocation of \$100 million
- Expanded the relationship with one existing WMBE private equity manager
 - Siris Capital (an African American owned private equity fund) was given an additional allocation of \$50 million
- Added one new WMBE real estate manager
 - Tristan Capital (an African American owned real estate fund) was allocated \$89 million
- Expanded the relationship with one existing manager within the Emerging Manager Program
 - Grain Capital (an African American owned private equity fund) was given an additional allocation of \$50 million

Investment Advisory Activity

In FY2019, TRS invested \$289 million of capital with WMBE firms

- Private Equity \$100 million
- Private Credit \$100 million
- Real Estate \$89 million

TRS's FY19 WMBE assets under management (AUM) was 22.5%

WMBE-owned firms, as of June 30, 2019, managed 22.5% of the total TRS portfolio compared to 20.2% in FY18; an increase of 2.3%

Assets under management by WMBE firms totaled \$11.73 billion as of June 30, 2019 compared to \$10.30 billion in FY18; an increase of \$1.43 billion

WMBE Investment Advisors managed 22.5% of Total TRS Fund

Broker/Dealers

- During FY 2019, TRS investment managers used 26 WMBE broker/dealers
- At fiscal year end, there were 53 recognized WMBE broker/dealer firms participating within the TRS investment program
 - By ownership:
 - 17 were African American-owned
 - 9 were Hispanic/Latino-owned
 - 14 were Female-owned
 - 13 were Other (Asian)/Disabled Veteran-owned
 - Of the 53 WMBE broker/dealers, 11 were Illinois-based

Broker/Dealers

- Global equity commissions paid to WMBE broker/dealers were \$1.56 million during FY19, or 25% of all global equity commissions
 - This was the fifth consecutive year above 20.0% utilization
 - 18 WMBE equity broker dealers were utilized in FY19. This was a decrease from the 24 utilized in FY18.
- Fixed income market value traded with WMBE broker/dealers was \$3.3 billion, or 18.6% of all TRS fixed income trades
 - Fixed income brokerage exceeded its goal by 2.6% in FY19
 - 15 fixed income WMBE broker/dealers were utilized during FY19. This was an increase from 10 in FY18.

ESTABLISHED FY18 WMBE GOALS

The TRS Board of Trustees adopted the following goals for the continued participation of WMBE-owned financial services firms. FY2020 goals will be finalized and voted on at the October 2019 TRS Board Meeting. The existing FY2019 goals remain stable for both AUM and Fee Based goals after no changes in FY2018. The goals are:

GOAL: WMBE Investment Management and Fee Objectives FY2019:

- Established for Public Markets, Fixed Income, Alternatives and Total Fund Goals for:
 - Minority, Female and Other MBE/Disabled

<u>Fee Based Targets</u>	<u>Equities</u>	<u>Fixed Income</u>	<u>Alternatives</u>	<u>Total Fund</u>
Minority	5.0 to 7.0%	5.0 to 7.0%	5.0 to 7.0%	5.0 to 7.0%
Female	2.0 to 3.0%	2.0 to 3.0%	2.0 to 3.0%	2.0 to 3.0%
<u>Other MBE/Disabled</u>	<u>0 to .5%</u>	<u>0 to .5%</u>	<u>0 to .5%</u>	<u>0 to .5%</u>
Total WMBE	7.0 to 10.5%	7.0 to 10.5%	7.0 to 10.5%	7.0 to 10.5%

<u>AUM Based Targets</u>	<u>Equities</u>	<u>Fixed Income</u>	<u>Alternatives</u>	<u>Total Fund</u>
Minority	12.0%	8.0%	9.5%	13.0%
Female	2.5%	1.5%	1.25%	2.5%
<u>Other MBE/Disabled</u>	<u>0.5%</u>	<u>0.5%</u>	<u>0.25%</u>	<u>0.5%</u>
Total WMBE	16.0%	10.0%	11.0%	17.0%

GOAL: WMBE Brokerage Objectives FY2019:

- 25.0% domestic equities
- 16.0% international equities (a 1.5% increase from FY18)
- 16.0% fixed income (a 1% increase from FY18)

Subsequent goals to be established by the Board of Trustees on an annual basis.

WMBE-owned investment advisor firms within the TRS investment program represent:

- 32 investment firms are currently managing assets for TRS for FY19
- FY19 total assets under management were \$11.73 billion, an increase of approximately \$1.43 billion compared to \$10.30 billion in FY18
 - AUM increased due to additional TRS commitments to high conviction strategies and market movements
 - WMBE AUM is 22.48% in FY19 vs. 20.19% in FY18; showing continued growth
- Estimated FY19 WMBE investment advisory fees are expected to total approximately \$36.4 million, an increase of \$3.9 million from FY18's \$32.5 million
 - On a relative basis, FY19 WMBE advisory fees are expected to be approximately 11.43% of the total advisory fees paid to all managers, an increase compared to FY18's 9.92%.
 - TRS has continued to drive WMBE commitments in private equity, private credit and alternatives in FY19

CURRENT INVESTMENT MANAGERS (CONTINUED) Page 33 of 57

Minority and Female-Owned External Managers As of June 30, 2019

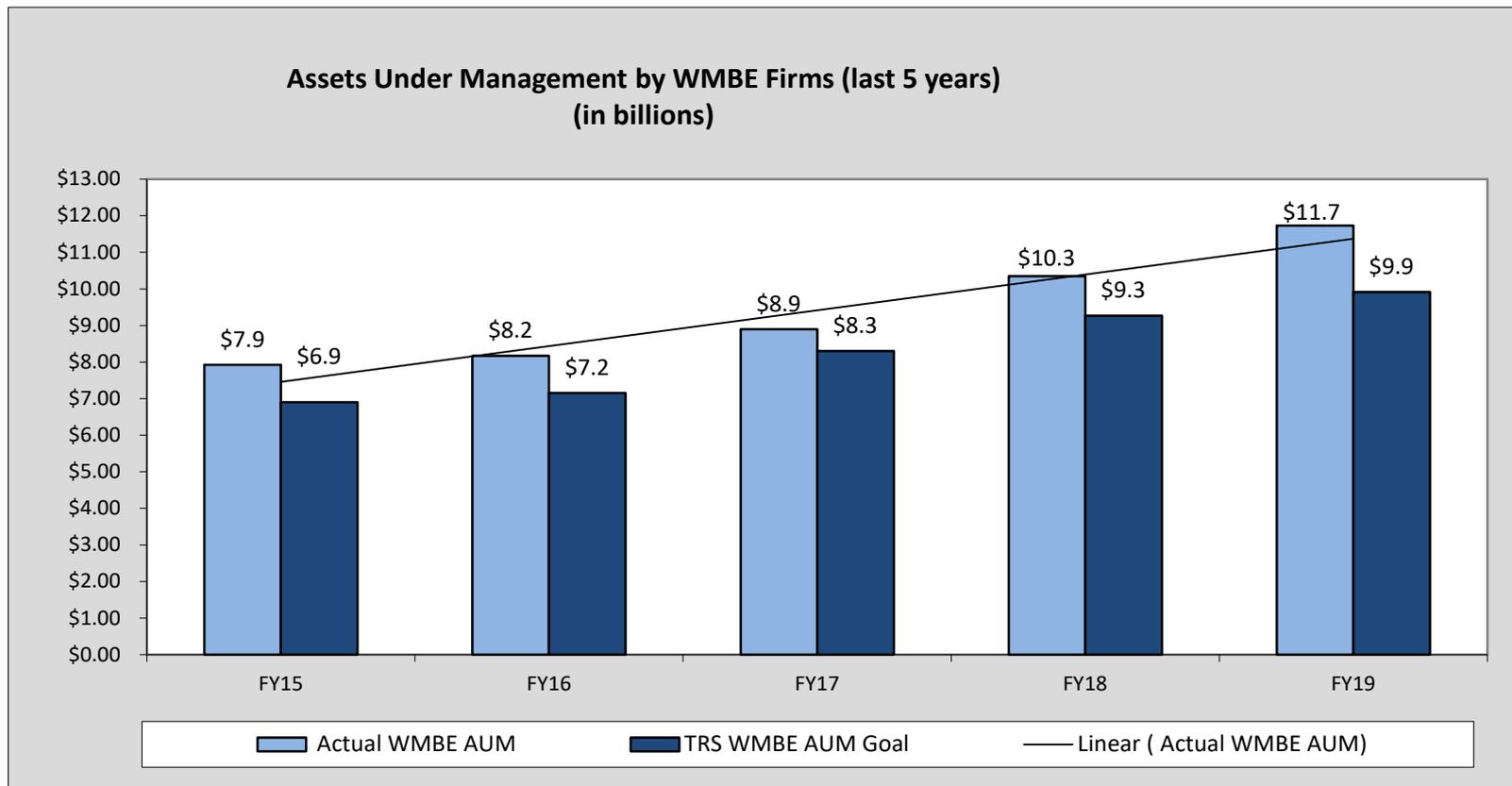
Money Manager	Ownership	Net Market Value	Cash Avail. For Reinvestment	Total Exposure Value	Percent of Asset Class	Percent of Total Fund
1 RhumbLine Advisors	Female	4,537,954,167		4,537,954,167	54.40%	8.70%
2 Matarin Capital	Female	30,602,101		30,602,101	0.37%	0.06%
Total U.S. Equities:		4,568,556,268		4,568,556,268	54.77%	8.76%
3 Ativo Capital Management	Hispanic	102,550		102,550	0.00%	0.00%
4 Brown Capital Int'l Large Cap	African American	62,081,671		62,081,671	0.74%	0.12%
5 Strategic Global Advisors, LLC	Female	935,798,386		935,798,386	11.22%	1.79%
Total International Equities:		997,982,607		997,982,607	10.23%	1.91%
6 Vista Credit	African America	22,827,986	28,979,972	51,807,958	0.40%	0.10%
7 Basis Real Estate Fund I	Female	26,478,215	23,913,196	50,391,411	0.39%	0.10%
8 LCM Capital	Female	83,968,419	124,783,783	208,752,202	1.60%	0.40%
9 Ramirez	Hispanic	134,638,761	0	134,638,761	1.03%	0.26%
10 Garcia Hamilton & Associates	Hispanic	927,089,157	0	927,089,157	7.11%	1.78%
Total Fixed Income:		1,195,002,538	177,676,951	1,372,679,490	10.52%	2.63%
11 Sheridan	Female	24,251,996		24,251,996	4.66%	0.05%
Total Real Return:		24,251,996		24,251,996	4.66%	0.05%
12 Capri Capital Advisors, LLC	African American	1,031,519,808	992,805,217	2,024,325,025	27.52%	3.88%
13 Integrated	African American	9,129,654	14,175,293	23,304,947	0.32%	0.04%
14 Oak Street	Hispanic	40,904,788	126,634,805	167,539,593	2.28%	0.32%
15 CityView	Hispanic	19,034,823	28,490,244	47,525,067	0.65%	0.09%
16 Tristan EPIISO V	African American	105,043	0	105,043		
Total Real Estate Equity:		1,100,694,116	1,162,105,559	2,262,799,675	30.76%	4.34%
17 ICV Capital Partners II, LLC	African American	27,845,149	50,493,343	78,338,492	1.14%	0.15%
18 Vcente Capital Partners	African American	10,164,138	140,561	10,304,699	0.15%	0.02%
19 Vista Equity	African American	485,184,591	267,701,754	752,886,345	10.98%	1.44%
20 Siris Capital	African American	108,113,394	129,921,909	238,035,303	3.47%	0.46%
21 Smith Whiley & Co.	African American (Female)	0	1,479,966	1,479,966	0.02%	0.00%
22 StarVest	Female	8,492,090	642,614	9,134,704	0.13%	0.02%
23 LiveOak Ventures	Other MBE (Asian)/Disabled	31,431,560	2,800,000	34,231,560	0.50%	0.07%
24 Clearlake Capital	Other MBE (Asian)/Disabled	256,691,125	157,765,210	414,456,335	6.04%	0.79%
25 Palladium Equity Partners	Hispanic	12,103,977	2,275,243	14,379,220	0.21%	0.03%
26 Asia Alternatives	Other MBE (Asian)/Disabled	131,737,818	72,960,474	204,698,292	2.98%	0.39%
27 Scale Venture Partners	Female	33,431,908	5,518,567	38,950,475	0.57%	0.07%
28 Grain Communications	African American	99,049,182	45,083,726	144,132,908	2.10%	0.28%
29 Sunstone Capital	Hispanic	15,394,328	8,093,008	23,487,336	0.34%	0.05%
30 Longitude Venture Partners	Female	63,321,519	36,907,088	100,228,607	1.46%	0.19%
Total Private Equity:		1,282,960,779	781,783,463	2,064,744,242	30.10%	3.96%
31 Penso Advisors LLC	Hispanic	95,653,521		95,653,521	1.77%	0.18%
32 Varadero International	Hispanic	341,135,281		341,135,281	6.31%	0.65%
Total Diversified Strategies:		436,788,802		436,788,802	8.07%	0.84%
Total Minority and Female Managers		9,606,237,106	2,121,565,974	11,727,803,080		22.48%
		Fund Total		52,178,729,768		
		Goal AUM FY18	19.00%	9,913,958,656		
		Over / (Under)	3.48%	1,813,844,424		

Notes:

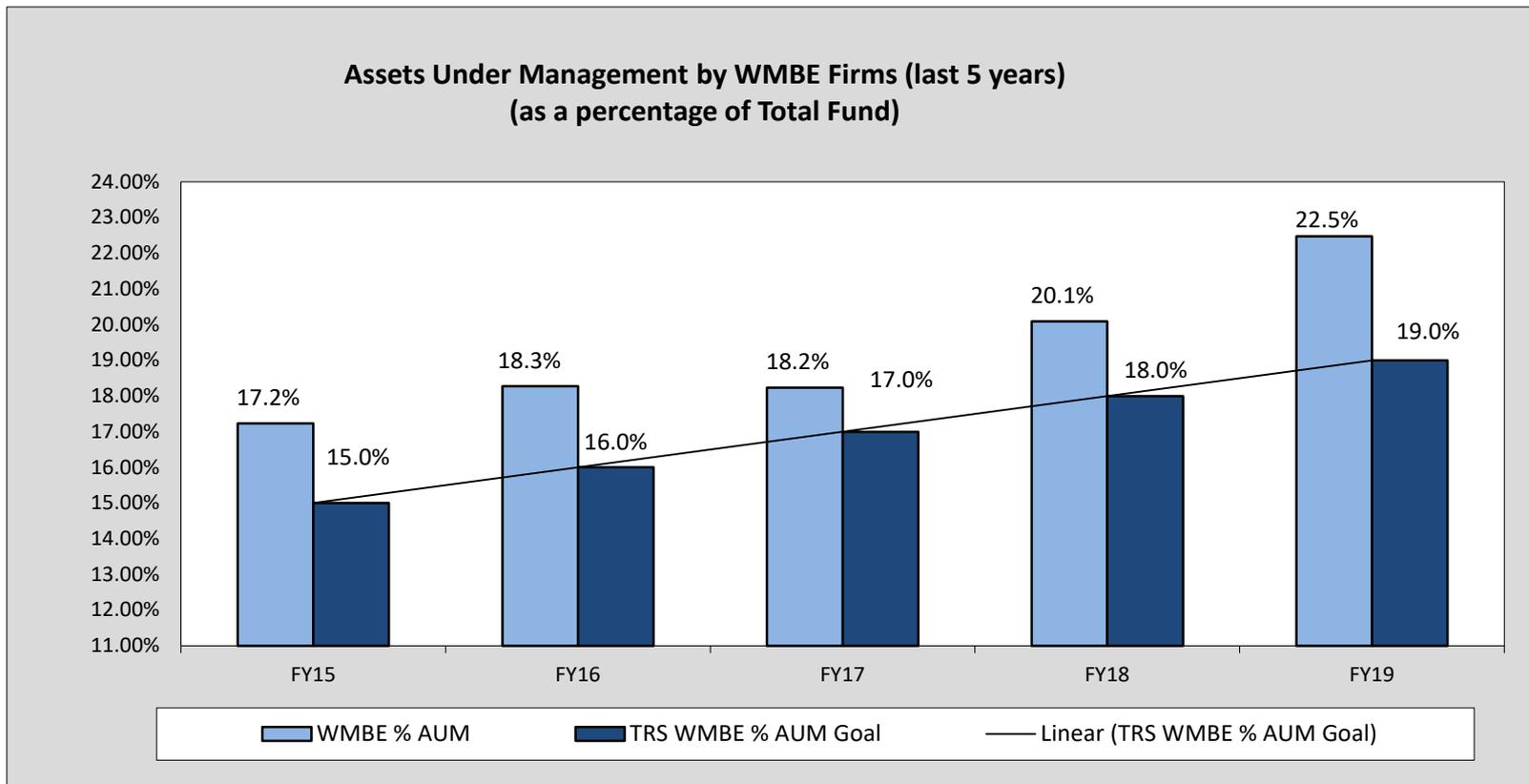
- (a) Highlighted managers are currently in the Emerging Manager Program.
- (b) Real Estate "Total Exposure Value" figures were provided by Stepstone (as of 3/31/19), include Committed /Debt Exposure/ Cash Available for Reinvestment and are calculated by adding capital calls and subtracting returns of capital from the market value.
- (c) Private Equity "Total Exposure Value" figures were provided by TorreyCove (as of 3/31/19), include Committed / Debt / Cash Available for Reinvestment and are calculated by adding capital calls and subtracting returns of capital from the market value.
- (d) US, Equities, Int'l Equities, Fixed Income, Real Return, and Diversified Strategies "Percent of Total Asset Class" figures are based on Total Exposure Value divided by total asset class market values.
- (e) Real Estate "Percent of Total Asset Class" figures are based on manager total exposure divided by total asset class exposure (total commitments).
- (f) Private Equity "Percent of Total Asset Class" figures are based on manager total exposure divided by total asset class exposure (total commitments).
- (g) Real Estate "Net Market Value" figures also include debt associated with each investment.



WMBE ASSETS UNDER MANAGEMENT



WMBE AUM rose in FY19 to approximately \$11.7 billion



WMBE participation rose in FY19, exceeding 20% for the second time, as TRS continued to grow and develop relationships with minority managers

Minority and Female-Owned External Managers As of June 30, 2019

	Total <u>AUM Exposure¹</u>	as % of Total <u>Asset Class AUM¹</u>	as % of Total <u>TRS AUM¹</u>	as % of Total <u>WMBE AUM</u>
<u>Public Equities (US & Int'l)</u>				
African American	\$62,081,671	0.34%	0.12%	0.53%
Hispanic	\$102,550	0.00%	0.00%	0.00%
Female	\$5,504,354,654	30.41%	10.55%	46.93%
Other MBE/Disabled	\$0	0.00%	0.00%	0.00%
Sub-Total WMBE & Other	\$5,566,538,875	30.76%	10.67%	47.46%
<u>Fixed Income</u>				
African American	\$51,807,958	0.40%	0.10%	0.44%
Hispanic	\$1,061,727,918	8.14%	2.03%	9.05%
Female	\$259,143,613	1.99%	0.50%	2.21%
Other MBE/Disabled	\$0	0.00%	0.00%	0.00%
Sub-Total WMBE & Other	\$1,372,679,490	10.52%	2.63%	11.70%
<u>Real Return</u>				
African American	\$0	0.00%	0.00%	0.00%
Hispanic	\$0	0.00%	0.00%	0.00%
Female	\$24,251,996	4.66%	0.05%	0.21%
Other MBE/Disabled	\$0	0.00%	0.00%	0.00%
Sub-Total WMBE & Other	\$24,251,996	4.66%	0.05%	0.21%

Notes:

1. For PE and RE: Percent of Asset Class figures are calculated by dividing the Total Exposure Value of the manager(s) by the Total Exposure Value of the underlying asset class; which includes committed/debt/cash available for reinvestment.

Minority and Female-Owned External Managers As of June 30, 2019

	Total <u>AUM Exposure¹</u>	as % of Total <u>Asset Class AUM¹</u>	as % of Total <u>TRS AUM¹</u>	as % of Total <u>WMBE AUM</u>
<u>Real Estate</u>				
African American	\$2,047,735,015	27.84%	3.92%	17.46%
Hispanic	\$215,064,660	2.92%	0.41%	1.83%
Female	\$0	0.00%	0.00%	0.00%
Other MBE/Disabled	\$0	0.00%	0.00%	0.00%
Sub-Total WMBE & Other	\$2,262,799,675	30.76%	4.34%	19.29%
<u>Private Equity</u>				
African American	\$1,223,697,747	17.84%	2.35%	10.43%
Hispanic	\$37,866,556	0.55%	0.07%	0.32%
Female	\$149,793,752	2.18%	0.29%	1.28%
Other MBE/Disabled	\$653,386,187	9.53%	1.25%	5.57%
Sub-Total WMBE & Other	\$2,064,744,242	30.10%	3.96%	17.61%
<u>Diversified Strategies</u>				
African American	\$0	0.00%	0.00%	0.00%
Hispanic	\$436,788,802	8.07%	0.84%	3.72%
Female	\$0	0.00%	0.00%	0.00%
Other MBE/Disabled	\$0	0.00%	0.00%	0.00%
Sub-Total WMBE & Other	\$436,788,802	8.07%	0.84%	3.72%

Notes:

1. For PE and RE: Percent of Asset Class figures are calculated by dividing the Total Exposure Value of the manager(s) by the Total Exposure Value of the underlying asset class; which includes committed/debt/cash available for reinvestment.

Minority and Female-Owned External Managers As of June 30, 2019

<u>Total Fund</u>	<u>Total AUM Exposure¹</u>	<u>as % of Total Asset Class AUM¹</u>	<u>as % of Total TRS AUM¹</u>	<u>as % of Total WMBE AUM</u>
African American	\$3,385,322,391	N/A	6.49%	28.87%
Hispanic	\$1,751,550,486	N/A	3.36%	14.94%
Female	\$5,937,544,015	N/A	11.38%	50.63%
Other MBE/Disabled	\$653,386,187	N/A	1.25%	5.57%
Total WMBE & Other	\$11,727,803,080	N/A	22.48%	100.00%

Notes:

1. For PE and RE: Percent of Asset Class figures are calculated by dividing the Total Exposure Value of the manager(s) by the Total Exposure Value of the underlying asset class; which includes committed/debt/cash available for reinvestment.

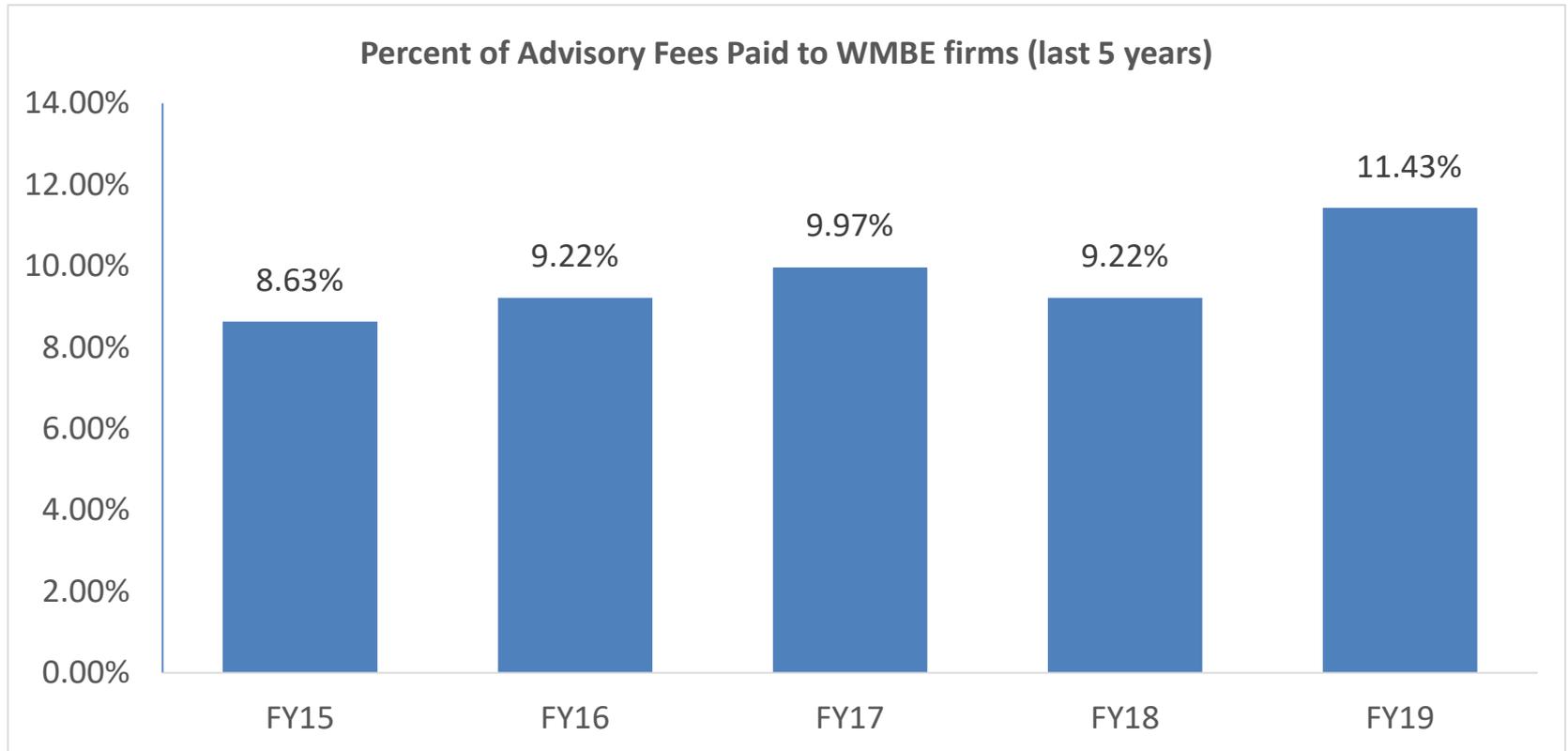
WMBE ADVISORY FEES

Advisory Fees Paid to WMBE Managers last 5 years



Fees paid (in millions) to WMBE-owned firms increased in FY19, reflecting the continued commitment to WMBE managers

WMBE ADVISORY FEEDS (% TOTAL TRS FEES)



Overall plan fees paid to WMBE-owned firms increased by more than 2% in FY19

WMBE FEES – PUBLIC MARKETS

Minority and Female-Owned External Managers As of June 30, 2019

	Total Fees Paid	as % of Total Asset Class Fees	as % of Total TRS Fees	as % of Total WMBE Fees
<u>Public Equities (US & Int'l)</u>				
African American	\$629,908	1.34%	0.20%	1.73%
Hispanic	\$0	0.00%	0.00%	0.00%
Female	\$4,157,918	8.86%	1.30%	11.42%
Other MBE/Disabled	\$0	0.00%	0.00%	0.00%
Sub-Total WMBE & Other	\$4,787,826	10.20%	1.50%	13.15%
<u>Fixed Income</u>				
African American	\$415,290	0.80%	0.13%	1.14%
Hispanic	\$1,081,261	2.07%	0.34%	2.97%
Female	\$943,172	1.81%	0.30%	2.59%
Other MBE/Disabled	\$0	0.00%	0.00%	0.00%
Sub-Total WMBE & Other	\$2,439,723	4.68%	0.77%	6.70%
<u>Real Return</u>				
African American	\$0	0.00%	0.00%	0.00%
Hispanic	\$0	0.00%	0.00%	0.00%
Female	\$1,125,000	6.10%	0.35%	3.09%
Other MBE/Disabled	\$0	0.00%	0.00%	0.00%
Sub-Total WMBE & Other	\$1,125,000	6.10%	0.35%	3.09%

WMBE FEES – PRIVATE MARKETS

Minority and Female-Owned External Managers As of June 30, 2019

	Total Fees Paid	as % of Total Asset Class Fees	as % of Total TRS Fees	as % of Total WMBE Fees
<u>Real Estate</u>				
African American	\$2,292,283	4.21%	0.72%	6.30%
Hispanic	\$668,676	1.23%	0.21%	1.84%
Female	\$0	0.00%	0.00%	0.00%
Other MBE/Disabled	\$0	0.00%	0.00%	0.00%
Sub-Total WMBE & Other	\$2,960,959	5.44%	0.93%	8.13%
<u>Private Equity</u>				
African American	\$10,192,172	13.69%	3.20%	27.99%
Hispanic	\$4,081,488	5.48%	1.28%	11.21%
Female	\$2,793,992	3.75%	0.88%	7.67%
Other MBE/Disabled	\$382,500	0.51%	0.12%	1.05%
Sub-Total WMBE & Other	\$17,450,152	23.45%	5.48%	47.92%
<u>Absolute Return</u>				
African American	\$0	0.00%	0.00%	0.00%
Hispanic	\$7,647,768	11.04%	2.40%	21.00%
Female	\$0	0.00%	0.00%	0.00%
Other MBE/Disabled	\$0	0.00%	0.00%	0.00%
Sub-Total WMBE & Other	\$7,647,768	11.04%	2.40%	21.00%

Notes:

1. For PE and RE: Percent of Asset Class figures are calculated by dividing the Total Exposure Value of the manager(s) by the Total Exposure Value of the underlying asset class; which includes committed/debt/cash available for reinvestment.

WMBE FEES – TOTAL FUND

Minority and Female-Owned External Managers As of June 30, 2019

<u>Total Fund</u>	<u>Total Fees Paid</u>	<u>as % of Total Asset Class Fees</u>	<u>as % of Total TRS Fees</u>	<u>as % of Total WMBE Fees</u>
African American	\$13,529,653	N/A	4.25%	37.16%
Hispanic	\$13,479,192	N/A	4.23%	37.02%
Female	\$9,020,082	N/A	2.83%	24.77%
Other MBE/Disabled	\$382,500	N/A	0.12%	1.05%
Total WMBE & Other	\$36,411,427	N/A	11.43%	100.00%

Notes:

1. For PE and RE: Percent of Asset Class figures are calculated by dividing the Total Exposure Value of the manager(s) by the Total Exposure Value of the underlying asset class; which includes committed/debt/cash available for reinvestment.
2. Total TRS Estimated/Preliminary Fees Paid in FY19: \$318,667,875

ILLINOIS-BASED WMBE ADVISORS

The chart on the following page details the Illinois WMBE investment advisors employed by TRS as of June 30, 2019. In summary:

	<u>No. Firms</u>	<u>TRS AUM</u>	<u>% Portfolio</u>
WMBE Advisors	32	\$11.73 billion	22.48%
IL-Based WMBE Advisors	2	\$2.19 billion	4.20%

- An approximate decrease of \$80 million from the \$2.27 billion in FY18 with IL-based WMBE Advisors.
- The percentage of assets managed by IL-based WMBE firms decreased slightly to 4.20% compared to FY18.
- WMBE managers that are IL-based represent approximately 19% of all WMBE managers' AUM for FY19.
 - A 3% decrease from FY18's 22% of WMBE managers who are IL-based

ILLINOIS-BASED WMBE ADVISORS

**Minority and Female-Owned External Managers
Illinois Based WMBE Firms
As of June 30, 2019**

<u>Manager Name</u>	<u>Asset Class</u>	<u>Ownership</u>	<u>Total Exposure Value</u>	<u>Percent of Asset Class</u>	<u>Percent of Total Fund</u>
1 Capri/Capital Advisors	Real Estate	African American	2,024,325,025	27.52%	3.88%
2 Oak Street Capital	Real Estate	Hispanic	167,539,593	2.28%	0.32%
Real Estate Asset Class Sub-Total			2,191,864,618	2.28%	4.20%
Illinois-Based WMBE Firms			2,191,864,618		4.20%

Notes:

- (a) Highlighted managers are currently in the Emerging Manager Program.
- (b) Real Estate "Total Exposure Value" figures are provided by StepStone (as of 3/31/19), include Committed / Debt / Cash Available for Reinvestment and are calculated by adding capital calls and subtracting returns of capital from the market value.
- (c) Real Estate "Percent of Total Asset Class" figures are based on manager total exposure divided by total asset class exposure (total commitments).

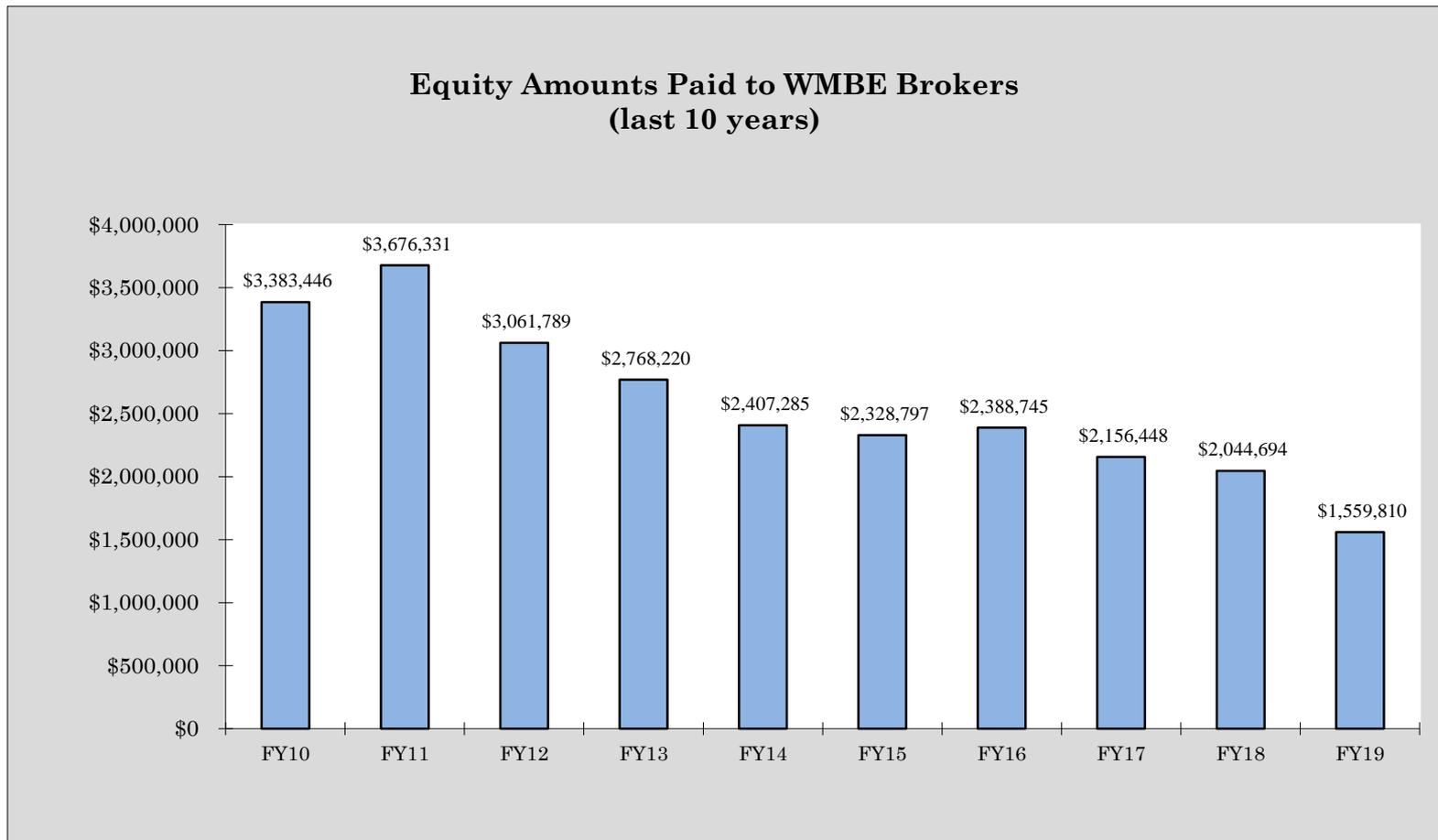
While TRS investment advisors provide opportunities to women and minorities at various levels, challenges still exist for African Americans (AA) and Hispanic Americans (HA) at the investment professional staffing levels. TRS requires all managers annually to disclose the diversity of their firm's workplace and leadership.

The TRS external managers responding to our annual survey reported more than 73,000 total full-time employees with over 12,000 senior management/officers and investment professionals:

- Senior Executive Management Roles & Investment Professional Roles (ex. traders)
 - 5.5% are classified as African American vs. 6.5% in FY18
 - 7.8% are classified as Hispanic/Latino vs. 8.3% in FY18
 - 19.6% are classified as Other Minority vs. 15.2% in FY18
 - 27.0% are classified as non-minority female vs. 29.2% in FY18

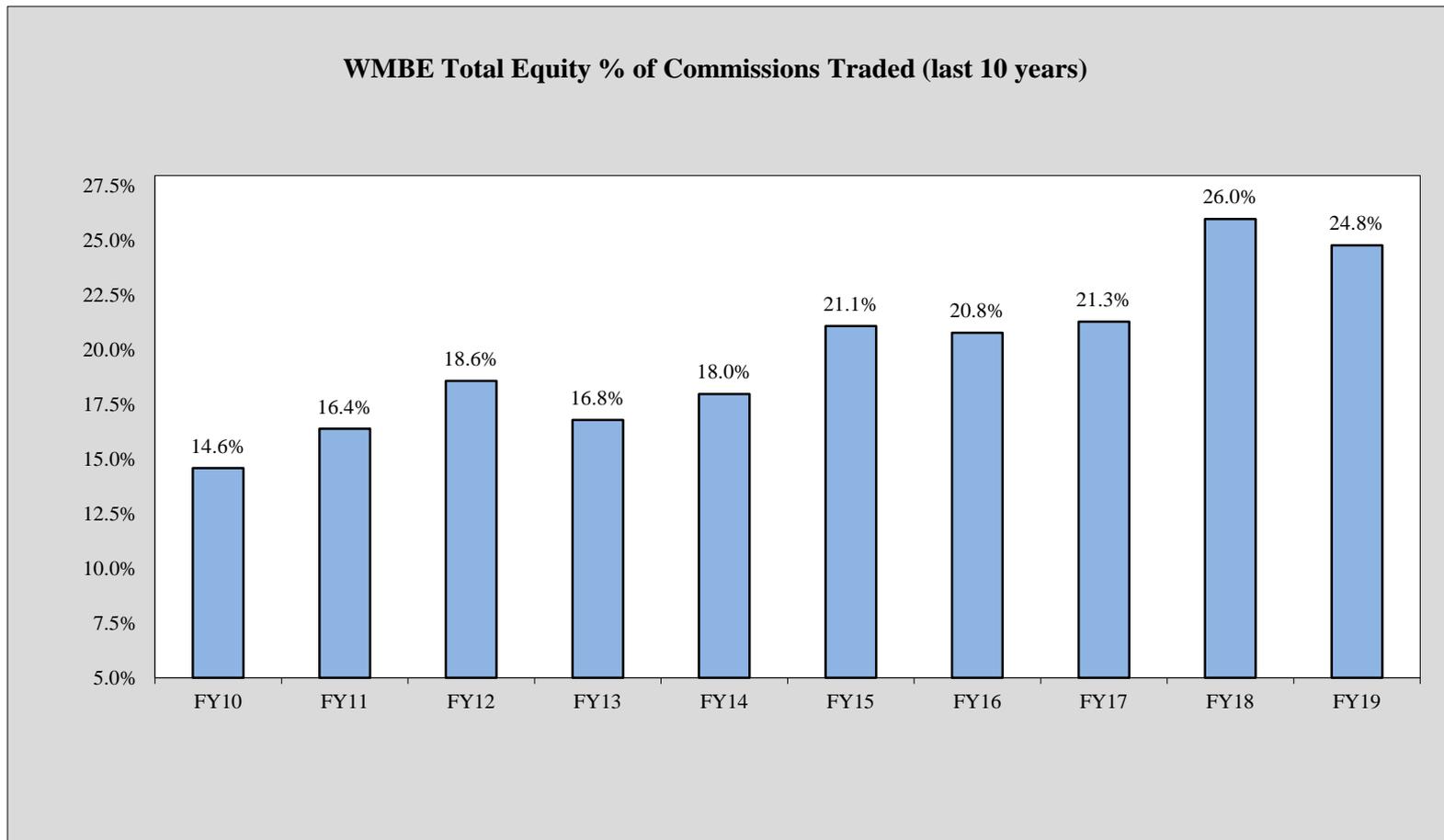
- Global equity commissions paid to WMBE broker/dealers were \$1.56 million during FY19, or 24.8% of all global equity commissions
 - In FY18, the utilization goal was increased for domestic equity for the second year in a row
 - US equity FY19 WMBE utilization was 36.9%, beating the goal of 25.0% by 11.9%
 - Domestic equity's utilization goal was increased from 23% to 25% in FY18
 - International equity WMBE utilization was 21.6% in FY19, which exceeded by 5.6% the 16.0% FY19 goal
 - The international equity utilization goal was increased from 14.5% to 16.0% in FY19, the second year in a row the goal was raised
 - Sixteen WMBE equity broker dealers were utilized in FY19. This was a decrease from the 24 utilized in FY18.

WMBE EQUITY COMMISSIONS



Reflecting the fee compression in the industry as a whole, WMBE equity dollar utilization decreased again in FY19

WMBE EQUITY COMMISSIONS



Highlighting TRS's continued commitment, WMBE utilization has exceeded 20.0% for five straight years

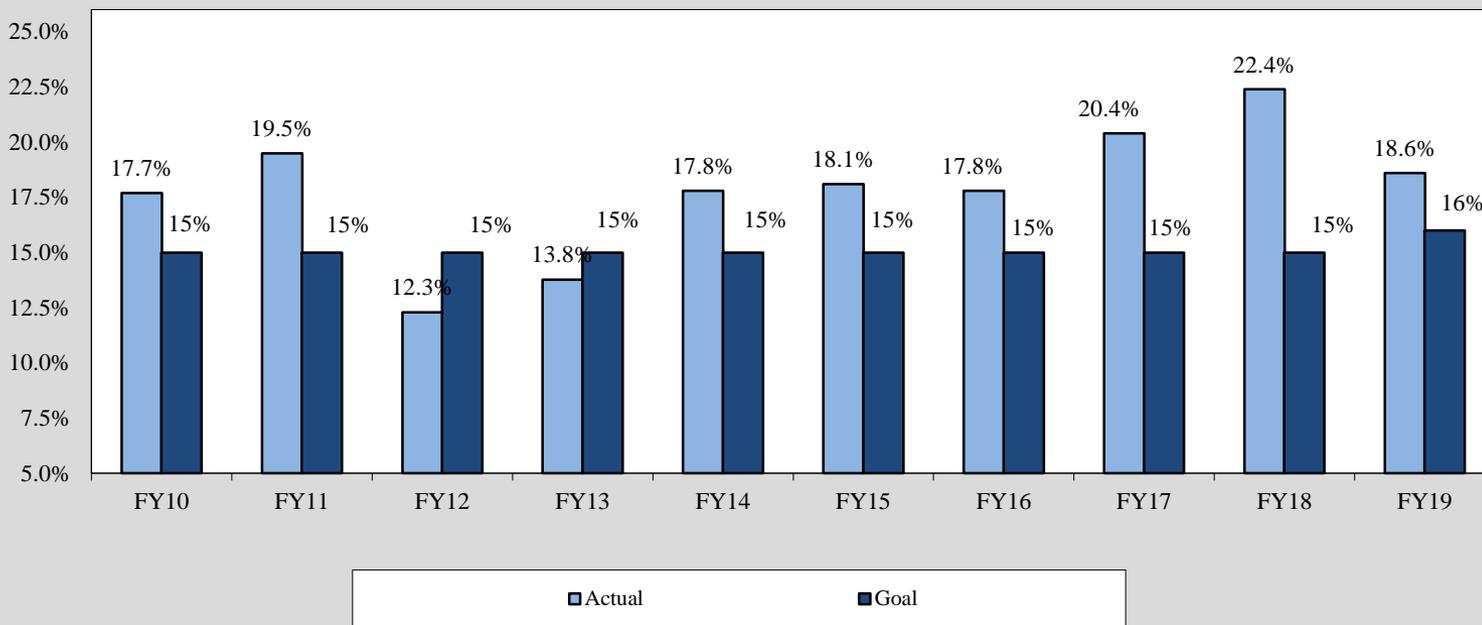
WMBE EQUITY COMMISSIONS – BROKERS

<u>Broker Name</u>	<u>Commissions Paid</u>	<u>Broker Name</u>	<u>Commissions Paid</u>
Academy	28,638	Loop Capital	712,864
Cabrera Capital	95,179	Mischler Financial	58,861
Capis	2,207	North South	40,216
Castle Oak Securities	1,754	Penserra	402,511
CL King	47,950	Siebert	568
CV Brokerage	477	Sturdivant	22,769
Drexel	33,754	Telsey	5,338
Guzman & Company	5,366	Williams Capital	101,358
			<hr/>
			1,559,810

16 WMBE brokers were utilized for equity commissions in FY19

- WMBE Global Income market value traded was \$3.31 billion during FY19; an increase of \$573 million from FY18's \$2.73 billion figure
 - Minority Utilization decreased 3.8% from 22.4% in FY18 to 18.6% for FY19
 - The Global Income utilization goal was increased from 15% to 16% in FY19
- Overall fixed trading volume rose in FY19. Total FY19 market value traded was \$17.8 billion, which is an increase of \$5.5 billion from the \$12.2 billion traded in FY18
- The number of global income MBE broker/dealers utilized increased in FY 19, from 10 in FY18 to 13 in FY19

WMBE Fixed Income % of Market Value Traded (last 10 years)



18.6% of value traded through WMBE Brokers in FY19

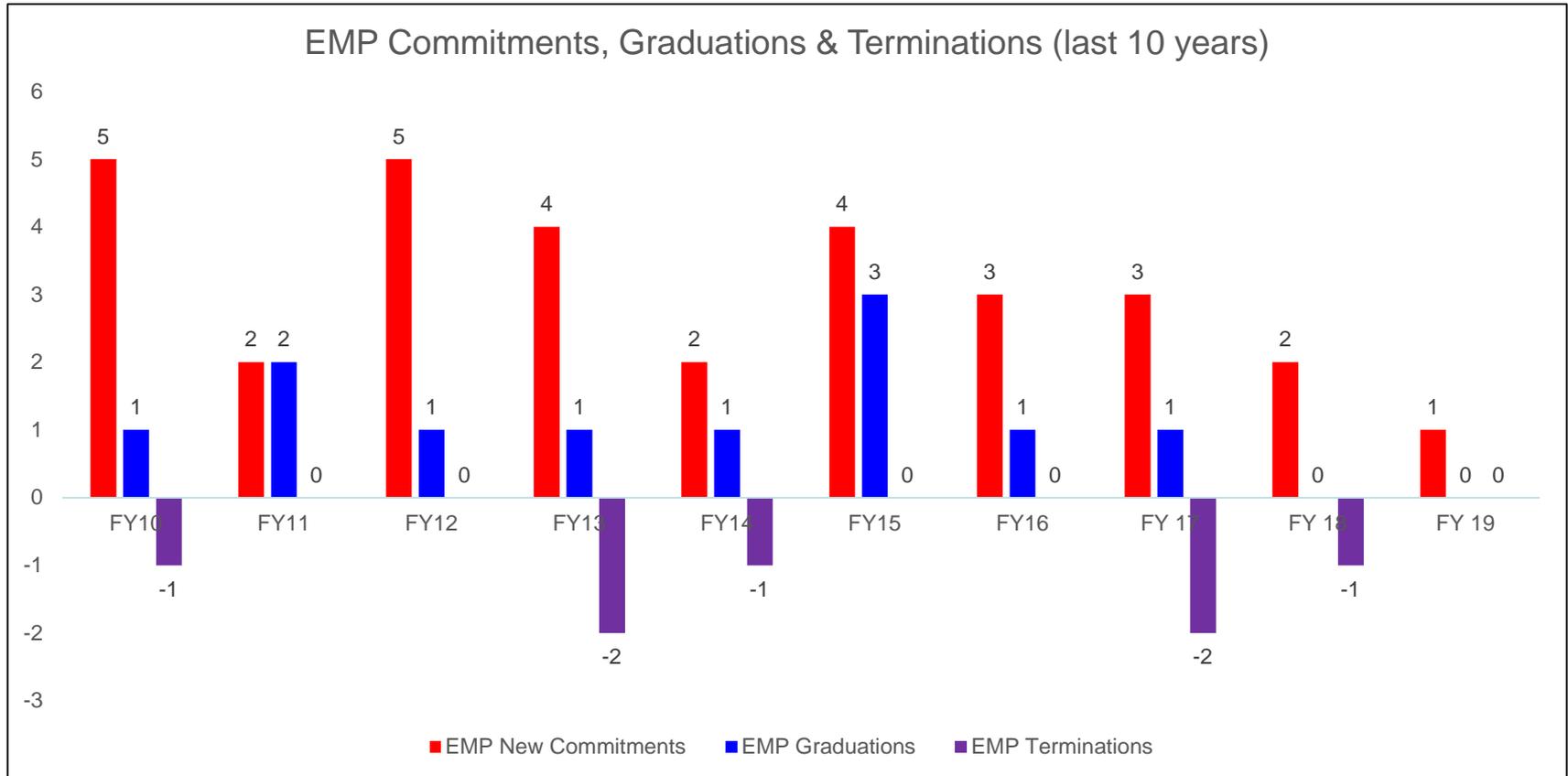
Note: Market Value Traded was used for FY10-FY19

- In May 2014, the TRS Board increased the allocation to \$750 million from the existing \$500 million for the Emerging Manager Program (EMP)
 - Since inception, and as of FY19, the EMP will have committed \$2.0 billion to 49 investment managers
 - 45 of the 49 investment managers within the program have been female-owned and/or minority-owned firms
 - Graduates of the EMP are currently managing \$2.4 billion across various asset classes within the TRS main investment portfolio. This includes the higher fee paying private equity asset class.
 - At the end of FY19, the EMP had 18 emerging managers managing \$885 million in market value for TRS; including 3 public markets, 5 fixed income, 6 private equity and 4 real estate managers

- During FY19, TRS committed \$50 million to Emerging Manager mandates
 - Expanded the relationship with one existing manager
 - Grain Capital (an African American owned private equity fund) was given an additional allocation of \$50 million

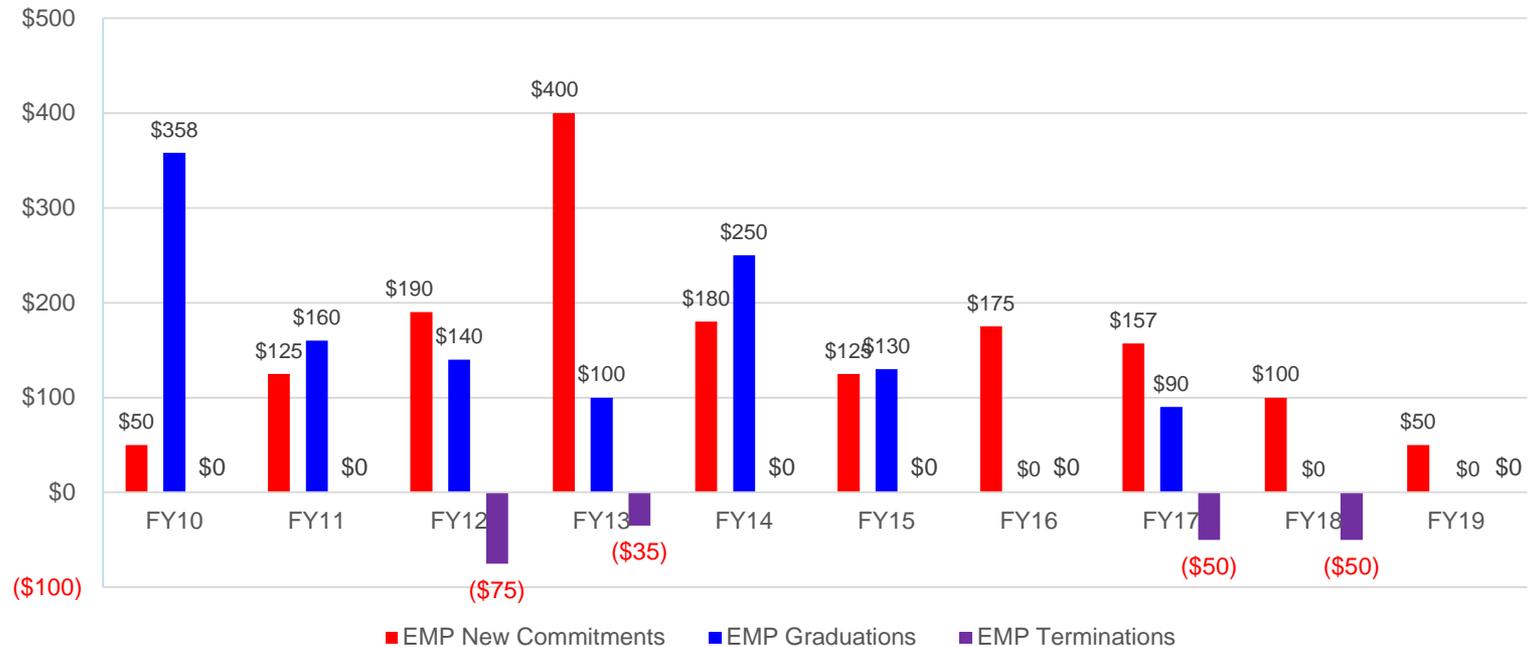
Submission to the EMP begins with a questionnaire at:
<https://www.trsil.org/investments/how-to-participate>

EMERGING MANAGER PROGRAM (CONTINUED)



EMERGING MANAGER PROGRAM (CONTINUED)

EMP Commitments, Graduations & Termination Amounts (last 10 years)



Since inception TRS has invested nearly \$2.0B with emerging managers and graduates of the program are currently managing \$2.4B

TRS will continue to provide opportunities to WMBE Investment Advisors & Broker/Dealers by:

- Setting attainable goals for WMBE-owned firms by asset class as well as by:
 - African American ownership
 - Hispanic American ownership
 - Other Minority/Disabled ownership and
 - Female ownership
- Leveraging the Emerging Manager Program for non-traditional asset classes that historically have been underrepresented by WMBE-owned firms and professionals
- TRS hosted its 15th Annual Opportunity Forum September 12, 2019 which continued to focus on building relationships between TRS's investment staff and WMBE investment manager community