



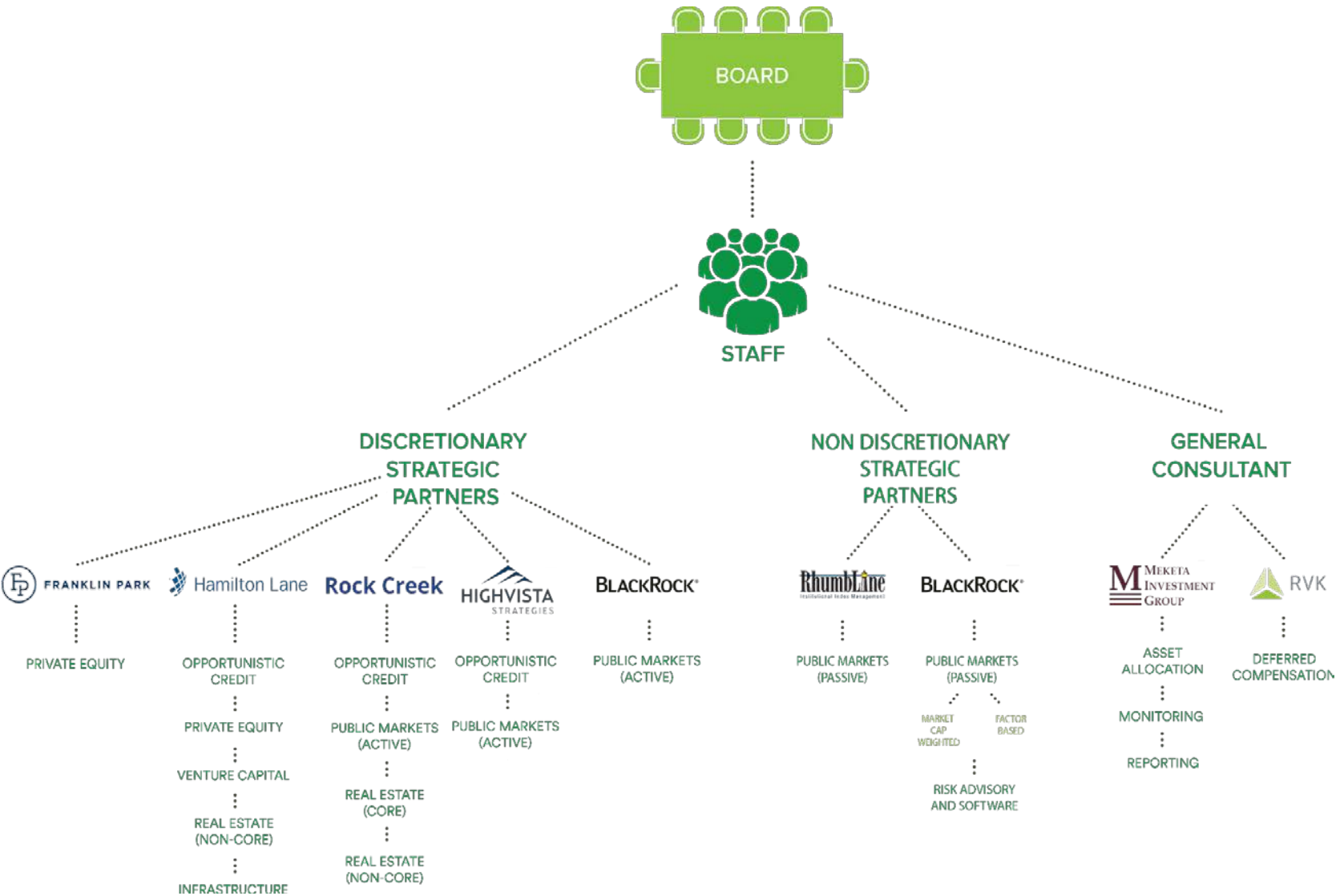
# Illinois Senate Special Committee on State and Pension Fund Investments

**Emerging and Minority Program**

Johara Farhadieh, Executive Director & CIO

December 3, 2020

# ISBI Structure



# Remarks from ISBI's Chairwoman

*“First, I want to take a moment to thank the esteemed Senators on this Special Committee on Pension Investments for allowing the Illinois State Board of Investment to present before you today. ISBI and its Board of Trustees take great pride in our long history of supporting and advocating for diversity and inclusion. Over the past fiscal year, the total market value of our assets managed by diverse managers has grown by over \$830 million to total \$7.7 billion, representing 39% of our total assets. We continue our work with BlackRock, important because of its scope and size, on our joint diversity initiatives, including the Emerging Broker Council and the anticipated formation of the Diverse Manager Leadership Council in 2021. Internally, our Staff Diversity Committee continues its work to improve and increase ISBI’s diversity initiatives. I also want to thank our Executive Director/CIO for leading numerous diversity initiatives, setting an example for other institutional investors, and strengthening ISBI’s core values. Under her leadership, ISBI recently ranked first in Private Equity performance for the 10-year period ending 6/30/19, with a strong representation of diverse private equity fund managers. Although I cannot be there today, I want you to know ISBI and the Board will continue to strive for excellence when it comes to diversity among its partners, managers, and staff. Thank you for your time.” – Justice Mary Seminara-Schostok*

# ISBI Background

## \$19.8 Billion Defined Benefit Plan

- State Employees' Retirement System ("SERS")
- Judges' Retirement System ("JRS")
- General Assembly Retirement System ("GARS")
- Illinois Power Agency

## \$4.8 Billion Deferred Compensation Plan

## Nine Member Board of Trustees

- Executive Committee
- Audit and Compliance Committee
- Investment Policy Committee
- Emerging Manager Committee
- Defined Contribution Committee

\*As of June 30, 2020

# Emerging Manager Committee

- Created in 2003
- Five-member committee
- Meets quarterly
- Trustee Gisela Attlan, Chair
- Responsibilities
  - Monitor utilization of MWDBE investment managers, brokerage firms and vendors
  - Monitor Fiduciary Diversification
  - Spearheads Diversity-related Initiatives
  - Encourage increased opportunities for MWDBE firms

# Diversity Policy

- Annually reviewed by Emerging Manager Committee
- Analysis comparing ISBI's goals with peer pension fund completed
- Industry data factored in when setting diversity goals

# Diversity Policy Implementation Review

- Presented quarterly by staff to the Emerging Manager Committee
- Includes:
  - MWDBE manager utilization by AUM
  - MWDBE manager utilization by fees
  - MWDBE manager utilization active vs. passive
  - MWDBE broker utilization
  - Utilization of MWDBE vendors and contactors
  - Board diversity
  - Staff diversity

# ISBI Diversity

## Board of Trustees & Staff

Category	Board of Trustees	Staff
<b>Minority</b>	<b>33.3%</b>	<b>50.0%</b>
African-American	11.1%	21.4%
Latino(a)	22.2%	7.1%
Asian-American	0.0%	21.4%
<b>Female</b>	<b>22.2%</b>	<b>21.4%</b>
<b>Total</b>	<b>55.6%</b>	<b>71.4%</b>

\*As of December 1, 2020

\*\*Includes a pending hire starting December 7, 2020



# Presentation Outline

## By the Numbers:

- Assets Under Management
- Active v. Passive
- Fees
- Summary slide
- Brokerage

## Industry-wide efforts

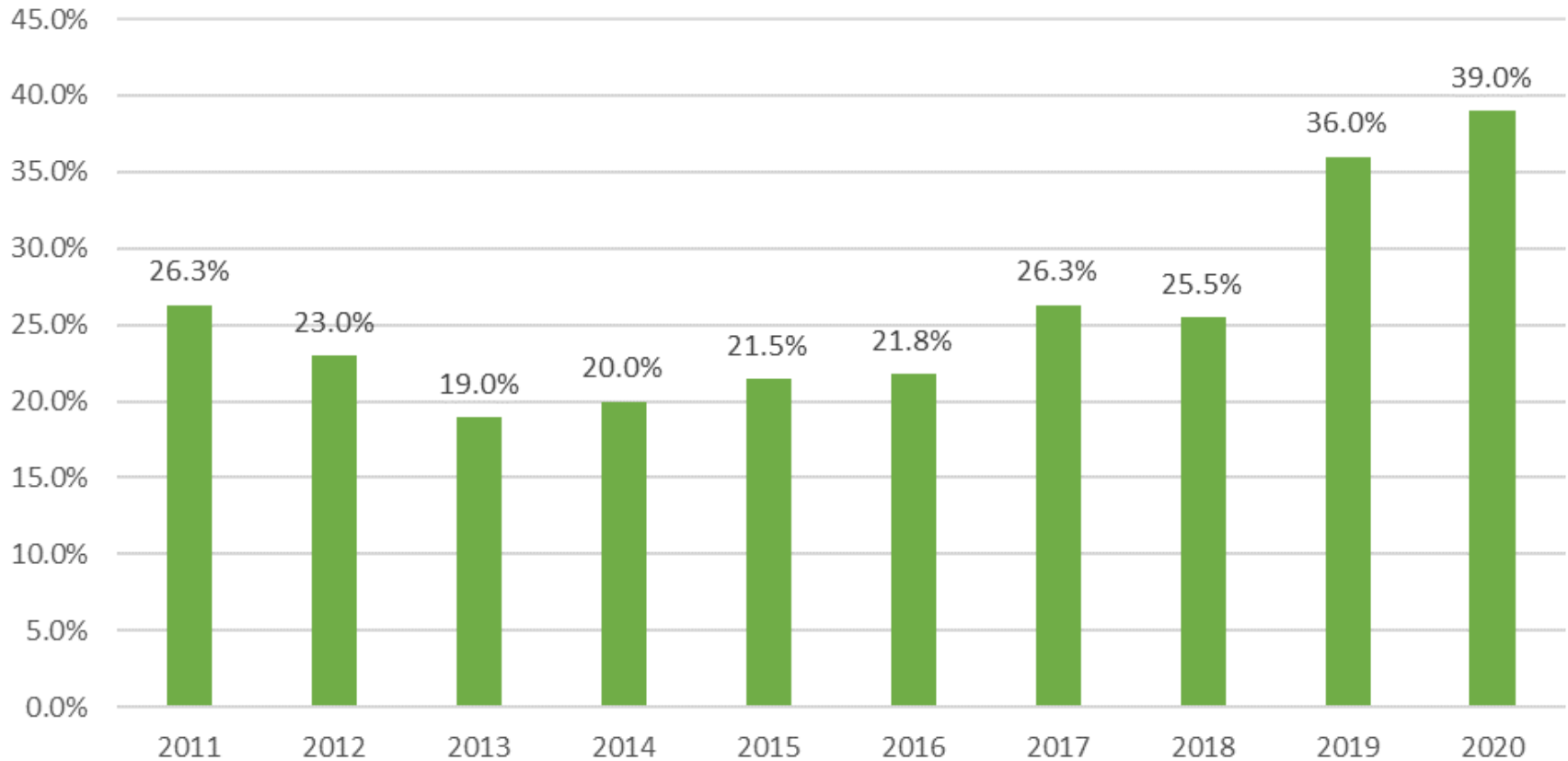
# ISBI in the News

- ISBI ranked **#1** in Private Equity performance for the 10-year period ending June 30, 2019
- 25% of our Private Equity assets are invested with MWDBE firms
- ISBI is proud to be proof that a Fund may be diverse and produce top tier investment returns



# By the Numbers: AUM

# Historical MWDBE Allocation (%)



\*As of June 30<sup>th</sup> of each year

# Historical MWDBE Allocation (AUM)



\*On a calendar year basis

# Emerging and Minority Utilization

## By Classification

Category	ISBI Allocation
<b>Minority-Owned</b>	8.4%
Asian American	1.9%
African American	2.0%
Latino	4.5%
<b>Disabled</b>	0.0%
<b>Female-Owned</b>	30.7%
<b>Total</b>	<b>39.0%</b>

## By Asset Class

Asset Class	ISBI Allocation
<b>Equity</b>	39.6%
<b>Fixed Income</b>	25.5%
<b>Alternatives<sup>^</sup></b>	58.8%

\*As of June 30, 2020


\*\*Immaterial difference due to rounding

<sup>^</sup>Alternatives investments include allocations to real assets, real estate, opportunistic debt, and private equity

# Recent MWDBE Commitments & Allocations

New MWDBE Funds	Status	Commitment
Clearlake Capital Partners VI, LP	Latino-American	\$ 50,000,000
K5 Private Investors, LP	Asian-American	\$ 50,000,000
Oak Street Real Estate Capital Fund V, LP	Latino-American	\$ 35,000,000
Clearlake Flagship Plus Partners, LP	Latino-American	\$ 27,000,000
MB Special Opportunities Fund II, LP	Female	\$ 26,000,000
Long Wharf Real Estate Partners VI, LP	Latino-American	\$ 25,000,000
Grain Spectrum Holdings III, LP	African American	\$ 25,000,000
Think India Opportunities Fund, LP	Asian-American	\$ 25,000,000
Banneker Partners Fund I, LP	African American	\$ 25,000,000
NewView Capital Fund II, LP	Asian-American	\$ 25,000,000
Rubicon First Ascent, LP	Female	\$ 9,083,333
<b>Commitment Total</b>		<b>\$ 322,083,333</b>

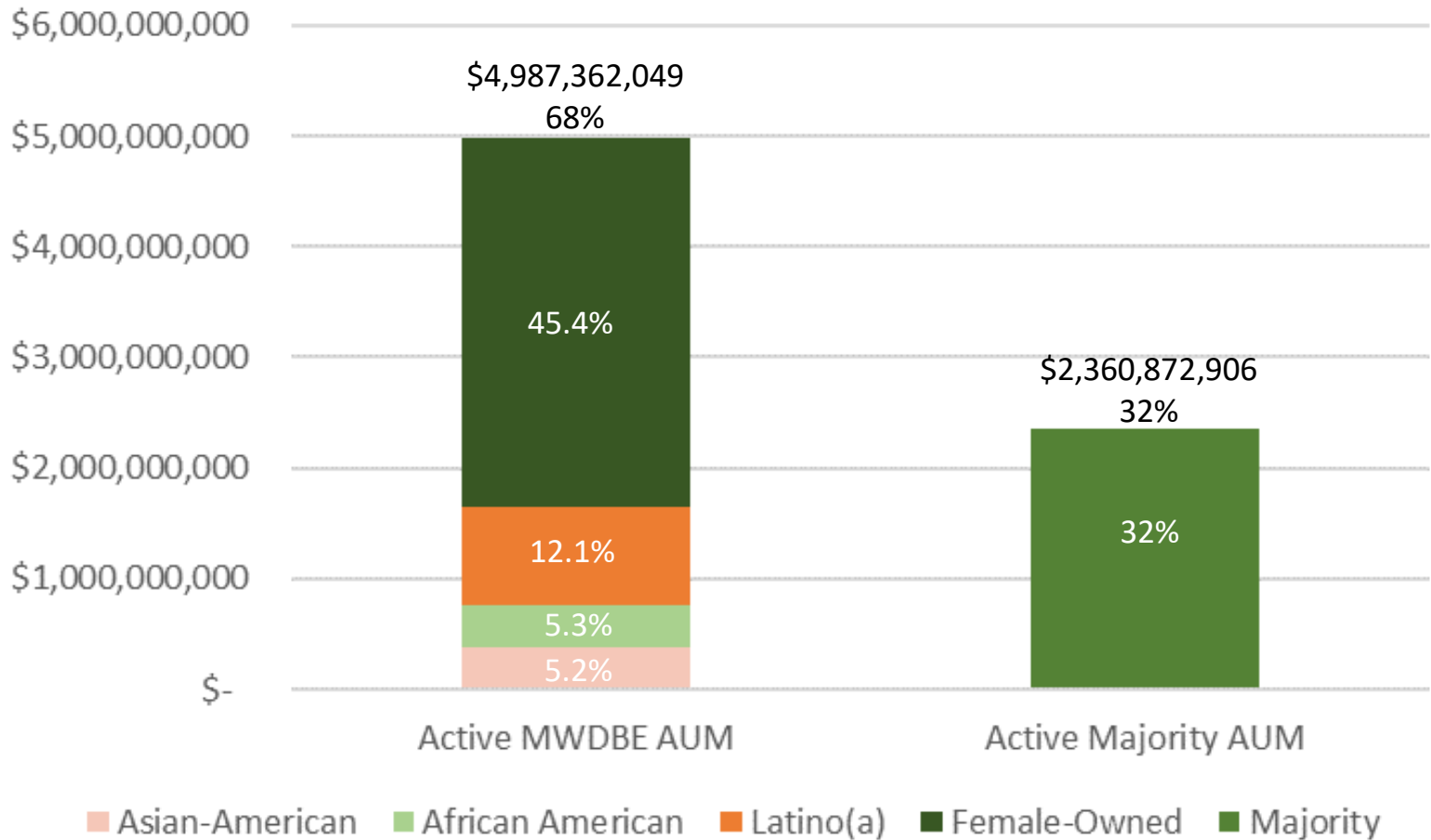
\*As of December 1, 2020



# By the Numbers: Active vs. Passive



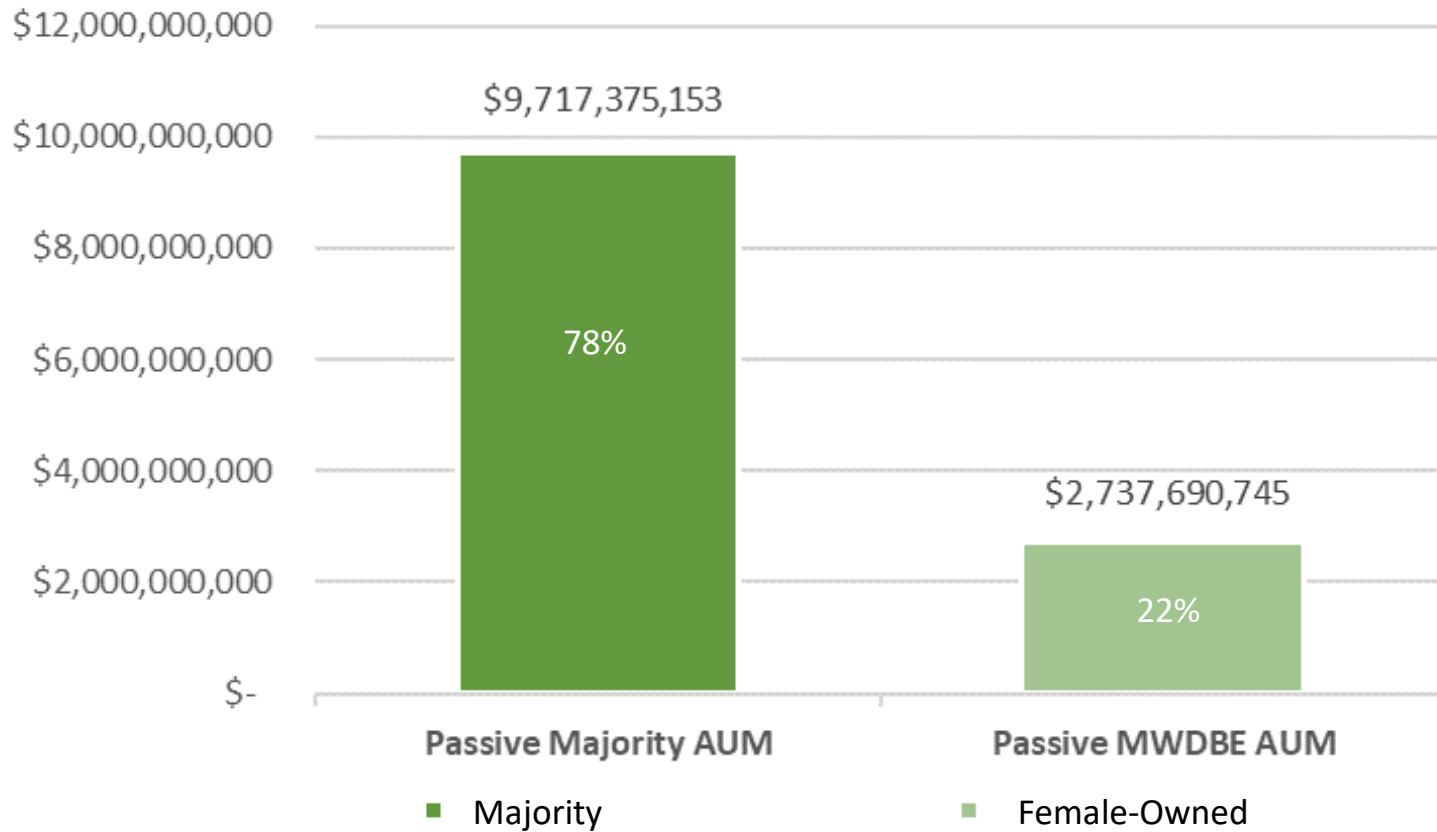
# Active MWDBE Allocation



Total Active Exposure: \$7,348,234,955

\*As of June 30, 2020

# Passive MWDBE Allocation

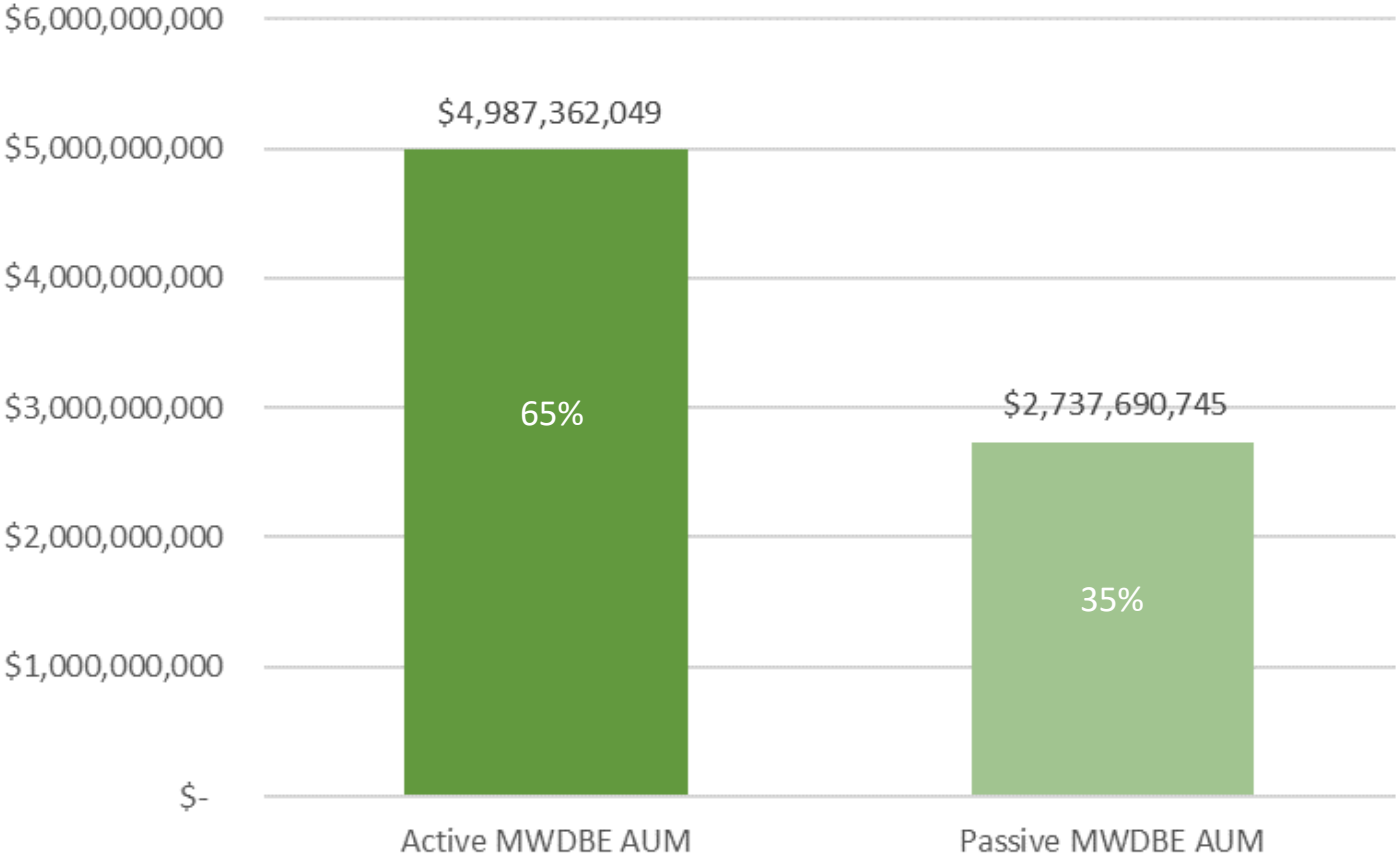


Total Passive Exposure: \$12,455,065,899

\*As of June 30, 2020

\*\* Immaterial difference due to rounding

# Active MWDBE vs. Passive MWDBE



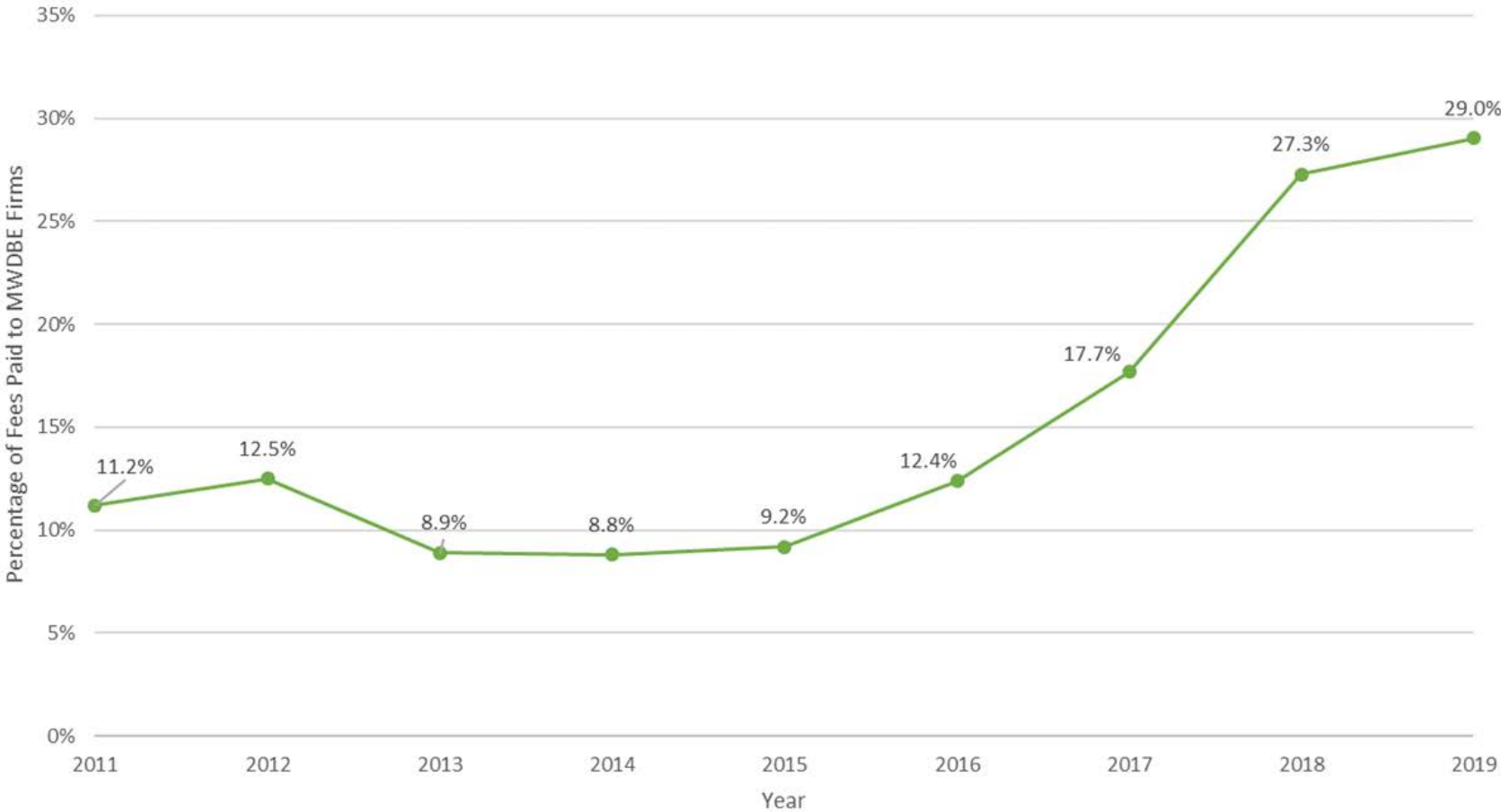
Total MWDBE Exposure: \$7,725,052,794

\*As of June 30, 2020



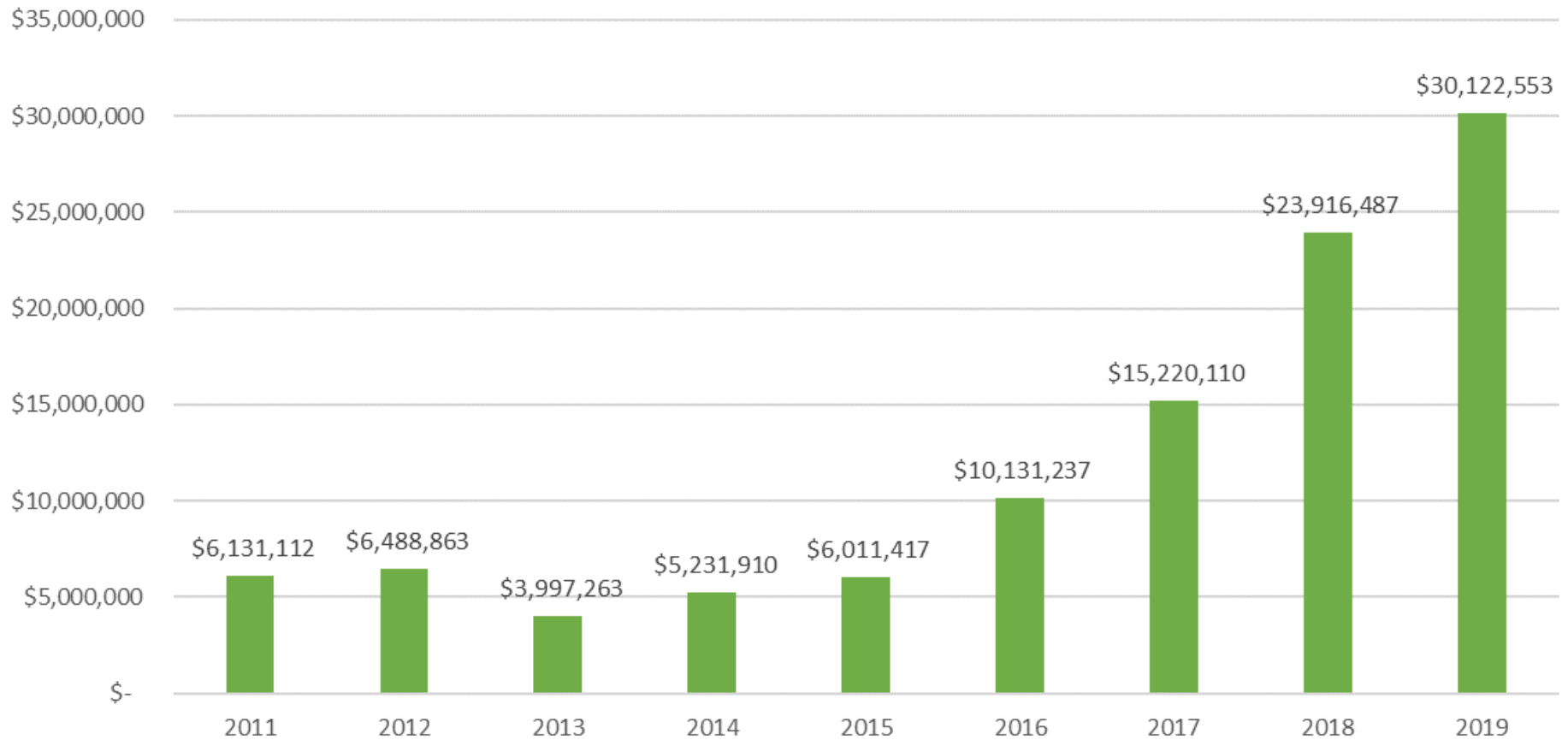
# By the Numbers: Fees

# Percentage of Fees Paid to MWDBE Firms out of Total Fund Management Fees



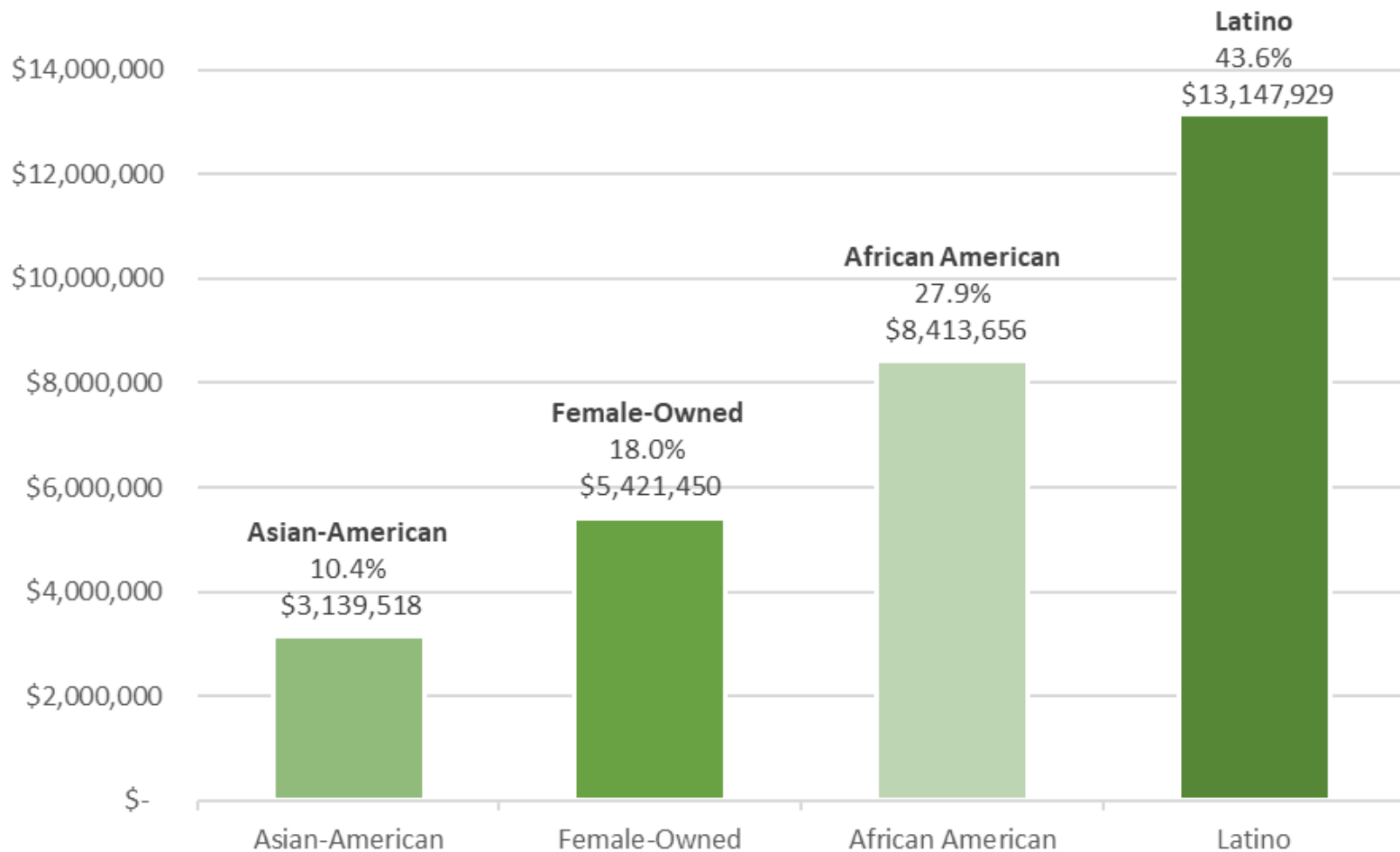
\*Percentage of Fees Paid to MWDBE Firms out of Total Fund Management Fees is presented on a calendar year basis from 2011-2016 and on a fiscal year basis thereafter

# Total Fees Paid to MWDBE Managers



\*As of June 30<sup>th</sup> of each year

# FY 2019 MWDBE Fees by Classification

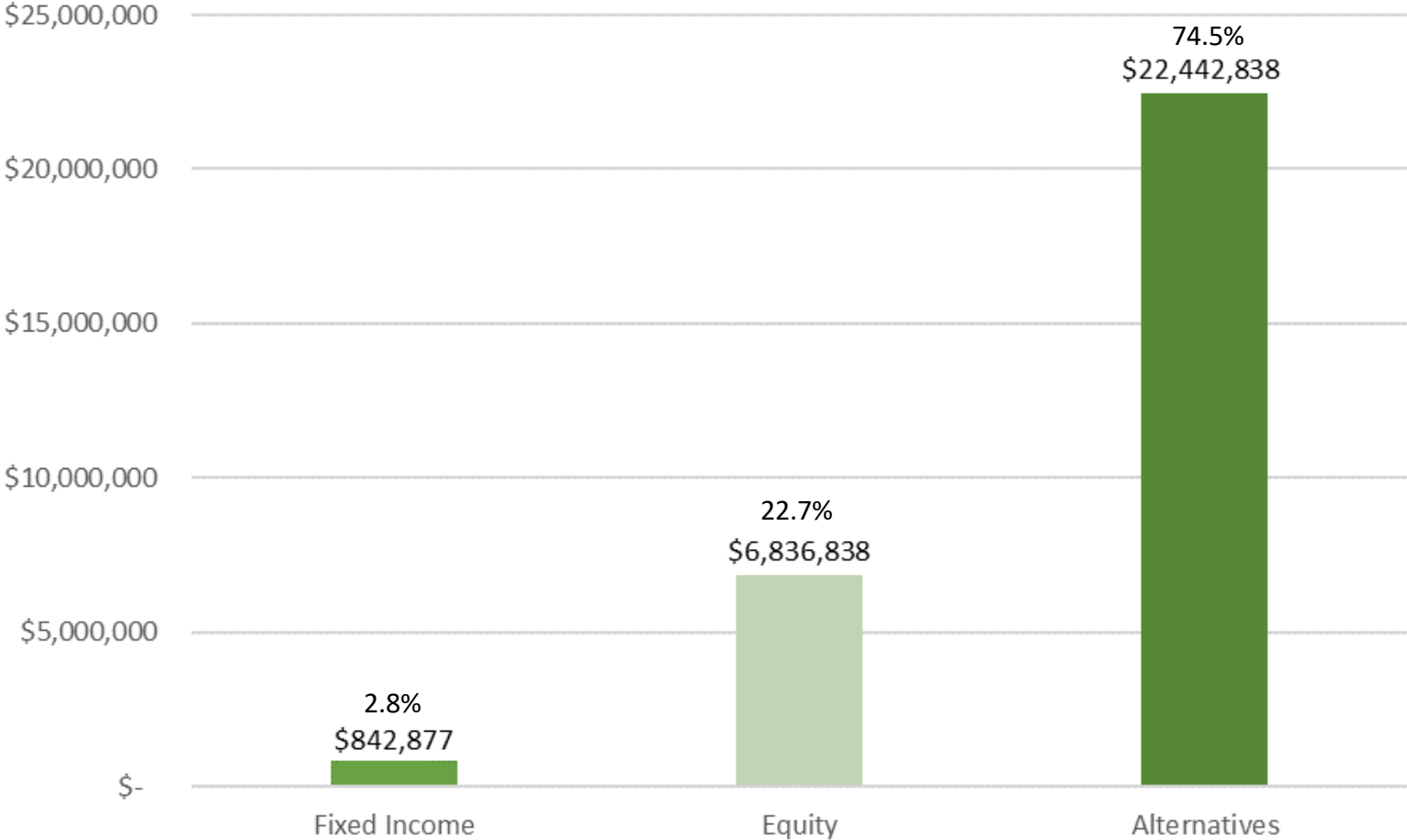


Total Fees Paid to MWDBE Managers: \$30,122,553

\*As of June 30, 2019

\*\*Immaterial difference due to rounding

# FY 2019 MWDBE Fees by Asset Class



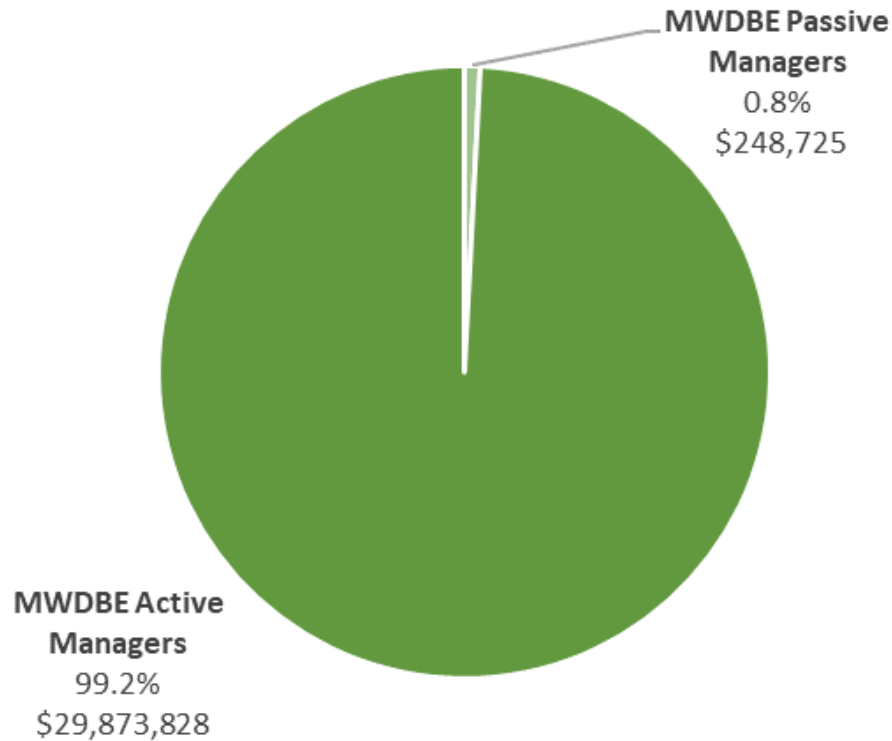
Total Fees Paid to MWDBE Managers: \$30,122,553

\*As of June 30, 2019

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



# FY 2019 MWDBE Fees Active vs. Passive



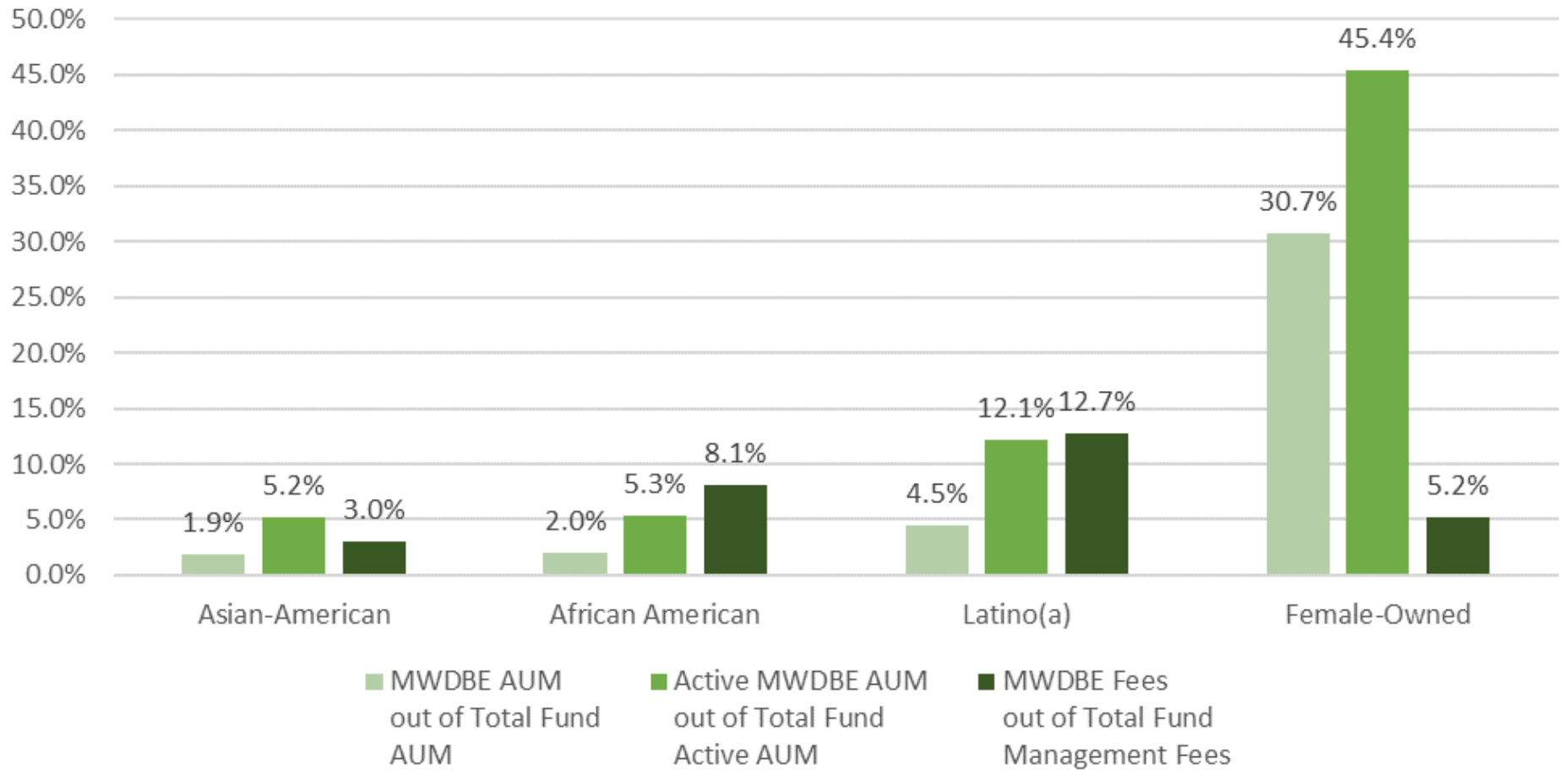
Total Fees Paid to MWDBE Managers: \$30,122,553

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# Summing it up

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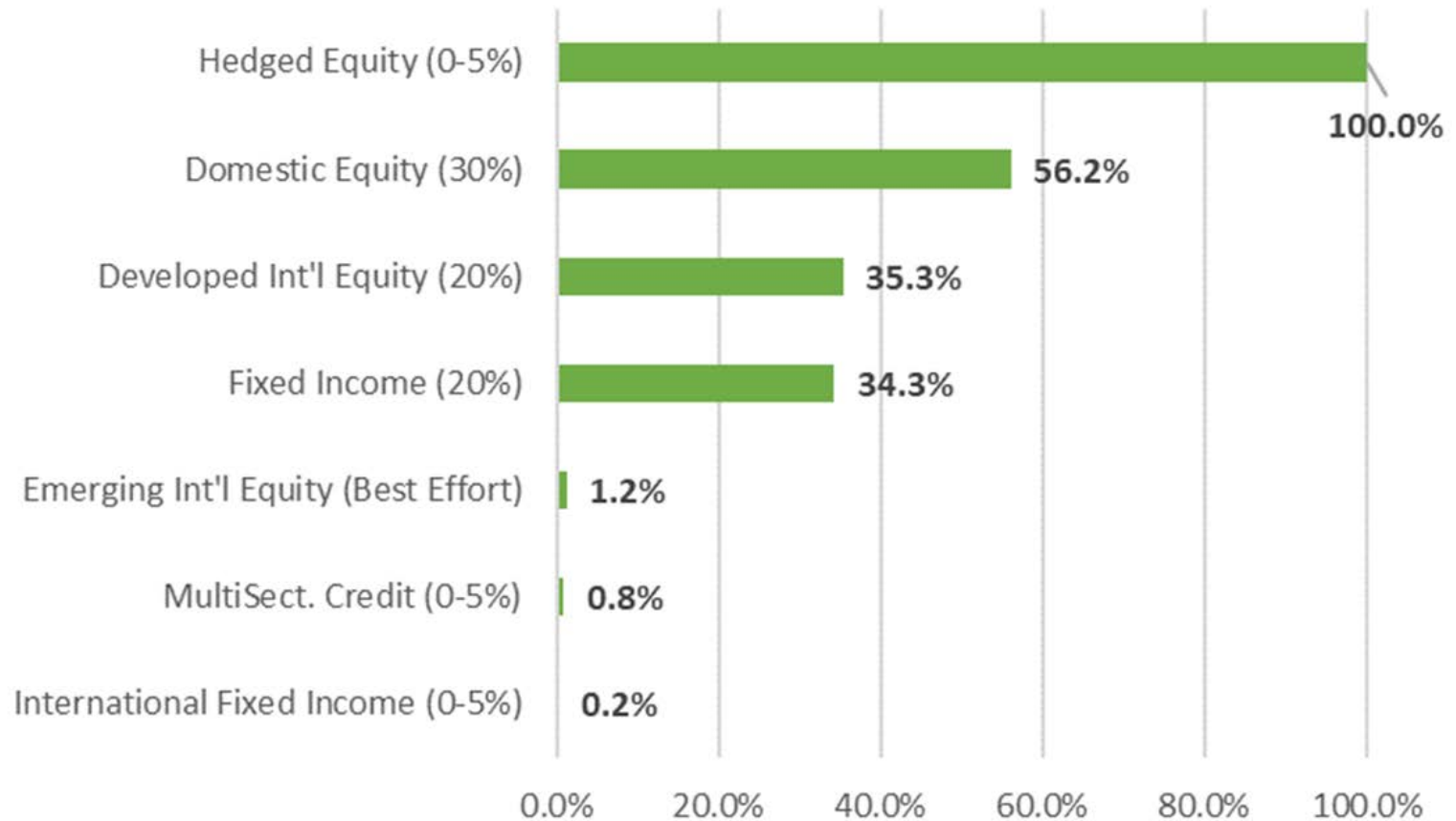
\*MWD BE AUM out of Total Fund AUM and Active MWD BE AUM out of Total Fund Active AUM are as of June 30, 2020

\*\*MWD BE Fees out of Total Fund Management Fees is as of June 30, 2019



# By the Numbers: Brokerage

# Minority Brokerage Utilization



\*Hedged Equity directly managed

\*\*Data presented on a Fiscal Year-to-Date Basis as of June 30, 2020



# Industry-wide Efforts

# ISBI + BlackRock

- Explained last year about ISBI's efforts to increase opportunities for MWDBE brokers across BlackRock's entire portfolio
- ISBI and BlackRock collaborated to create the Emerging Broker Council in 2019

## BlackRock Reports:

- 2020 trading volumes with Emerging Brokers expected to significantly surpass those of 2019, already at record highs
- 50% Compounded Annual Growth Rate (CAGR) for trading with Diverse Brokers in Equities
- 32% CAGR for trading with Diverse Brokers in Fixed Income

# ISBI + BlackRock, continued

- Mentioned last year about ISBI's efforts to expand opportunities for our MWDBE investment managers
- Working with BlackRock to create the **Diverse Manager Leadership Council** in 2021
  - Builds relationships between BlackRock and MWDBE managers
  - Increases transparency and accountability
- All ISBI MWDBE managers are approved on BlackRock's platform



# Deferred Compensation Plan

- ISBI + Deferred Compensation Plan
  - ISBI inquired about the use of diverse fixed income managers within one of the investment options
  - As a result, the Investment Adviser is conducting a search for diverse managers as part of their broader line up
  - Investment Manager is looking to utilize one or two diverse sub-advisors across entire platform

# Additional Efforts

- Staff Diversity Committee (Established in 2018)
  - Created to build an internal culture of promoting diversity and inclusion
  - Increased MWDBE vendor utilization from 3.4% in FY 19 to 24.1% in FY 20
- Executive Director & CIO has been a resource to other pension funds, endowments and foundations looking to establish diverse manager programs
- Executive Director & CIO is a member of ENGAGE Advisory Committee launched by GCM Grosvenor, member of NASP, interviewed recently by NAIC, participated in New America Alliance Roundtable, and participated on a panel at L' Attitude