



DIVERSITY POLICY

Adopted:

September 21, 2001

Last Amended:

September 30, 2022

Table of Contents

Objective..... 3

A. Emerging and Minority Investment Managers 3

B. Minority and Illinois-Based Brokerage 5

C. MWDBE Banks..... 7

D. Contracts and Services with Minority-Owned Businesses 8

E. Fiduciary Diversity..... 8

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 managers, broker/dealers, and investment banks, which are owned by minorities, women, and persons with a disability as those terms are defined in the Business Enterprise for Minorities, Women, and Persons with Disabilities Act (30 ILCS 575) and the Illinois Pension Code (40 ILCS 5/1 et seq). The Board and ISBI’s staff (“Staff”) are committed to advancing the public policy of the State of Illinois to promote diversity and inclusion in all aspects of managing ISBI’s assets and operations within the bounds of financial and fiduciary prudence.

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. To achieve this objective, investment managers 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 firms were once small 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. These firms typically do not meet the minimum standards set for investment managers by large investment programs such as ISBI. Consequently, they are not considered. To gain access to these firms, and in accordance with 40 ILCS 5/1-109.1(4) and 40 ILCS 5/1-109.1(9), ISBI has adopted the following minimum goals for the utilization of emerging and minority investment managers. These goals will be reviewed annually.

By Ownership Classification

Classification	Percent of Total Portfolio	
	Emerging	Minority
Minority-Owned	5% - 10%	5% - 10%
Woman-Owned	3% - 8%	3% - 8%
Persons with a Disability	0% - 2%	0% - 2%

By Asset Class

Asset Class	Percent of Asset Class	
	Emerging	Minority
Equities	10% - 20%	10% - 20%
Fixed Income	10% - 12%	10% - 12%
Alternatives*	5% - 15%	5% - 15%

Further, pursuant to 40 ILCS 5/1-109.1(10), effective January 1, 2016, it shall be ISBI's aspirational goal to utilize emerging investment managers and firms owned by minorities, women, and persons with a disability for not less than 20% of ISBI's total fund assets.

Qualifications

For the purposes of this Policy, the following definitions apply:

Pursuant to 40 ILCS 5/1-109.1(4), "emerging investment manager" 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.

Pursuant to 40 ILCS 5/1-109.1(9), "minority investment manager" is defined as a qualified investment manager that manages an investment portfolio and meets the definition of "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.

Minority investment managers are required to provide a certification to ISBI demonstrating that the investment manager is a minority firm. In place of a certification, ISBI may accept an attestation on a form prescribed by ISBI stating that the investment manager is a minority firm and containing further information as required by ISBI. Such certifications and attestations must be provided in a timely manner when requested by ISBI. Minority investment managers are required to immediately notify ISBI of any change in matters covered by any such certifications or attestations. ISBI is relying on certifications and/or attestations for reporting purposes. In the event it is discovered an investment manager has misrepresented information to ISBI, such misrepresentation shall be grounds for termination of the relationship.

Implementation & Review

- Subject to ISBI's fiduciary responsibility, ISBI will seek to use minority and emerging investment managers in each of the broad asset classes in which ISBI is invested and not concentrate in any particular asset class.
- For searches conducted by Staff, the requirements for investment manager searches will be reviewed as needed to provide better access to minority investment managers that have appropriate products. Staff will use reasonable best efforts to include at least one minority investment manager in final Staff interviews. Staff will inform the Board of all minority investment manager candidates.
- Staff will regularly meet with Illinois-based minority investment managers and learn more about the Illinois-based minority investment manager community.
- Staff will direct and encourage ISBI's consultants and strategic partners to be proactive and use creative approaches in achieving ISBI's objectives with respect to the use of minority and emerging investment managers.

B. Minority and Illinois-Based Brokerage

ISBI seeks to increase access to and business with minority broker/dealers and Illinois-based broker/dealers. Therefore, ISBI has adopted minimum expectations for the use of minority broker/dealers by investment managers. The minimum expectations are established based on the asset class in which the investment manager invests. In addition, ISBI will encourage its investment managers to direct 25% of their trades to Illinois-based broker/dealers.

Transactions completed with minority broker/dealers on behalf of ISBI must be completed at rates fully competitive with the market. Subject to best execution, investment managers 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 broker/dealers. These goals will be reviewed annually.

Asset Class	Minimum Goal as a Percentage
U.S. Equity	30%
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%

Qualifications

For the purposes of this Policy, the following definitions apply:

Pursuant to 40 ILCS 5/1-109.1(7), a “minority broker/dealer” means a qualified broker-dealer who meets the definition of “minority owned business,” “woman-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.”

An “Illinois-based broker/dealer” is a qualified broker/dealer who is headquartered in Illinois pursuant to the definition of an “Illinois business” found in 40 ILCS 5/1A-108.5(a).

To be considered a minority broker/dealer, documentation of a certification must be provided to ISBI.

Implementation & Review

- Staff will strongly encourage ISBI's public markets investment managers to directly utilize minority brokers/dealers and Illinois-based broker/dealers.
- Staff will provide minority broker/dealers with the contact information for ISBI's public markets investment managers.
- Staff will monitor the use of Illinois-based broker/dealers and minority broker/dealers by ISBI's investment managers and report results to the Board on a quarterly basis. If an investment manager reports less than their encouraged percentage of minority broker/dealer utilization, Staff will require the manager to state the reason for the shortfall. The Board will decide if the manager's practices are in accordance with this Policy.
- Staff will consider the use of Illinois-based broker/dealers and minority broker/dealers when evaluating existing investment managers.
- 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 managers shall be applied.
- With regard to commingled fund structures, best efforts by ISBI's investment managers shall be applied.

Compliance

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

1. Investment managers will be notified of their shortfall and asked to provide the reasons for not achieving the expected level of brokerage usage. Additionally, Staff may conduct a meeting with the investment manager to further discuss the shortfall.
2. If an investment manager fails to comply with the request, they may be invited to appear before the Board to explain why they are unable to achieve the expected level of brokerage usage.
3. Investment managers may be subject to a moratorium on additional funding.
4. Investment managers may be placed on the Investment Advisers Watch List.

C. Minority-Owned Banks, Woman-Owned Banks, and Banks Owned by Persons with a Disability (“MWDBE Investment Banks”)

Above and beyond promoting the utilization of minority and emerging investment managers and minority broker/dealers as required by the Illinois Pension Code, ISBI also seeks to promote the utilization of MWDBE Investment Banks within its private markets portfolio.

Therefore, as a part of this Policy, ISBI encourages its investment managers to utilize MWDBE Investment Banks to the greatest extent possible, subject to best execution, and within the bounds of financial and fiduciary prudence. Engagement of MWDBE Investment Banks should be completed with terms competitive with the market. In addition to encouraging investment managers to utilize MWDBE Investment Banks, ISBI will also seek to foster opportunities for increased access for MWDBE Investment Banks within the industry.

Furthermore, ISBI shall encourage its investment managers to be proactive and use innovative approaches in achieving ISBI’s objectives with respect to the use of MWDBE Investment Banks. Staff and ISBI’s strategic partners will periodically monitor the utilization of MWDBE Investment Banks. ISBI may direct its strategic partners to provide publicly available fee data and other information about MWDBE Investment Banks, if available and requested. For purposes of this Policy, a MWDBE Investment Bank shall certify its status by the same process referenced in Section A.

D. Contracts and Services with Minority-Owned Businesses

40 ILCS 5/1-109.1(6) states that ISBI shall adopt a policy which sets forth goals for the utilization of businesses owned by minorities, women, and persons with disabilities for all contracts and services. According to statute, “The goals shall be based on the percentage of total dollar amount of all contracts let to minority-owned businesses, woman-owned businesses, and businesses owned by a person with a disability, as those terms are defined in the Business Enterprise for Minorities, Women, and Persons with Disabilities Act.”

Therefore, as part of this Policy, 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, women, and persons with disabilities. This goal will be reviewed annually.

In addition, pursuant to 40 ILCS 5/1-109.1(10), 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, women, and persons with a disability, as those terms are defined in the Business Enterprise for Minorities, Women, and Persons with Disabilities Act.

E. Fiduciary Diversity

40 ILCS 5/1-109.1 encourages ISBI to increase the racial, ethnic, and gender diversity of its fiduciaries. Therefore, to the greatest extent feasible within the bounds of financial and fiduciary prudence, 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.

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.

History of Amendments

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; September 29, 2021; September 30, 2022.