



REPORT

ON USE OF INVESTMENT FIRMS AND CONTRACTORS OWNED BY MINORITY PERSONS, WOMEN, VETERANS, AND PERSONS WITH A DISABILITY IN FISCAL YEAR 2019

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Michael W. Frerichs
ILLINOIS STATE TREASURER

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INTRODUCTION

A core tenet of the mission of the Illinois State Treasurer's Office ("Treasurer's Office") is to promote education, access, and opportunity for individuals and governmental bodies across our state to give families the tools to achieve the American Dream. In furtherance of that mission, the Treasurer's Office is committed to providing equal access for minority persons, women, qualified veterans, and persons with disabilities ("MWVD Persons").

The Treasurer's Office believes that our government should mirror the great diversity in our state. Furthermore, diversity is good for business. Research demonstrates that diverse-owned companies are often well-situated to ascertain capital inefficiencies in the market, and as such, many are primed to outperform their peers. That is why the Treasurer's Office is focused on providing more opportunities to qualified investment firms and contractors owned by MWVD Persons.

Beyond this fundamental belief in the value of diversity, Section 30 of the State Treasurer Act declares that it be policy of the Treasurer's Office to promote and encourage the use of businesses owned by or under the control of MWVD Persons and sets forth the aspirational goal of directing 25% of the total dollar amount of funds under management, purchases of investment securities, and other contracts to businesses owned by or under the control of MWVD Persons.

This report summarizes utilization of MWVD businesses by the Treasurer's Office in FY 2019, focusing on the utilization of investment firms, including broker/dealers and asset managers, and contractors procured for goods and services. Notable takeaways include the following:

- **Assets Brokered by MWVD Firms Increased from \$603 million to \$45 billion** – Total assets brokered by MWVD firms increased from \$603 million in FY 2014 to \$45 billion to FY 2019. That represents a 75-fold increase.
- **Assets Managed by MWVD Firms Increased from \$20 million to \$444 million** – Total assets managed by MWVD firms increased from \$20 million in July 2015 to \$444 million in June 2019. That represents a 22-fold increase.
- **Procurement** – Nearly 20% of the Treasurer's Office's vendors are MWVD businesses, a number which may very well be higher as the Office continues to seek to obtain data from several of its vendors.

Looking ahead, we are committed to continuing to transform the culture, policies, and operations of the Treasurer's Office to help ensure equal opportunity. For more information on the Treasurer's Office's focus on equity, diversity and inclusion, please visit [www.illinoistreasurer.gov/Financial Institutions/Equity, Diversity Inclusion](http://www.illinoistreasurer.gov/Financial%20Institutions/Equity,%20Diversity%20Inclusion).

Sincerely,



Michael W. Frerichs
Illinois State Treasurer

Use of Investment Firms Owned by MWVD Persons

Investment Firms Report Summary

The purpose of this section is to illustrate the Treasurer's Office utilization of investment firms owned by MWVD Persons over the course of FY 2015 to FY 2019, with attention paid to historical utilization where data is available.

The two categories of investment firms documented in this report include (1) MWVD Broker/Dealers and (2) MWVD Asset Managers.

- **MWVD Broker/Dealers** – The Treasurer's two internally managed investment programs, the State Investment Portfolio and Illinois Public Treasurers' Investment Pool (also referred to as "The Illinois Funds"), are made up of direct purchases and brokered investments. Tapping diverse-owned broker/dealers is one of the quickest and best ways to ensure MWVD participation.
- **MWVD Asset Managers** – The Treasurer's Office has also made tremendous strides expanding the use of MWVD asset managers. MWVD asset managers are used to assist the Office's externally managed investment programs, including two Illinois 529 College Savings Plans, Bright Start and Bright Directions, which are designed as "qualified tuition programs" under Section 529 of the Internal Revenue Code, and the Illinois Growth and Innovation Fund, which is an impact investment fund that invests in ways that attract, assist and retain quality technology businesses in Illinois.¹

Key takeaways for this section include the following:

- **Assets Brokered by MWVD Firms Increased from 1% to 89% in FY 2019** – Only 1% of the Treasurer's Office investment assets were brokered through MWVD firms in FY 2014.
- **Total Assets Brokered with MWVD Firms Exceeded \$45 Billion in FY 2019** – Total assets brokered with MWVD firms increased from \$603 million in FY 2014 to more than \$45 billion in FY 2019. That represents 74 times more utilization of MWVD firms.
- **Under Treasurer Frerichs, \$129 billion brokered by MWVD Firms (as of June 2019)**
- **Assets Managed by MWVD Firms Increased from \$20 million to \$444 million** – Total assets managed by MWVD firms increased from \$20 million in July 2015 to \$444 million in June 2019. That represents a 22-fold increase.
- **MWVD Firms Managed 42% under Illinois Growth and Innovation Fund (ILGIF)** – Ending June 30, 2019, MWVD firms currently hold 42% of assets under the ILGIF program.

¹ For more information on the Office's investment programs, please visit www.illinoistreasurer.gov/Office_of_the_Treasurer/Investments.

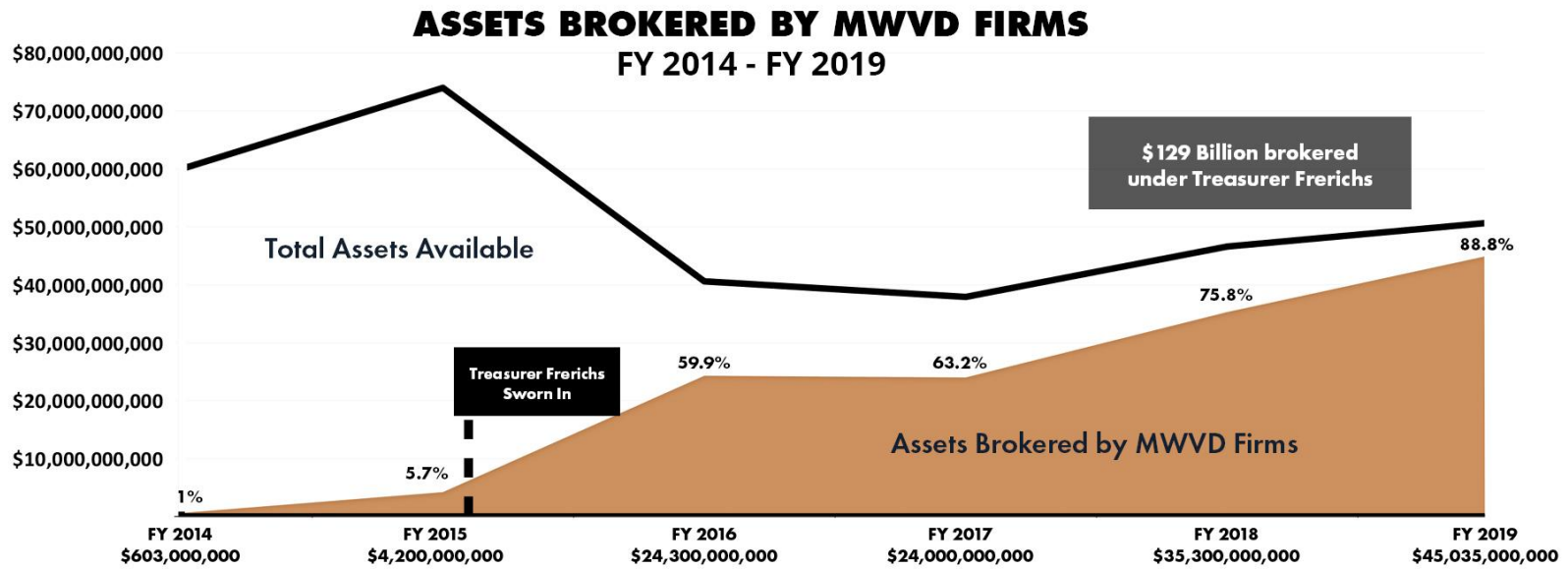
MWVD Broker/Dealers

TABLE 1: Assets Brokered by MWVD Firms through the State Investments and The Illinois Funds (as of 6/30/2019)

Year by Year Comparison of Assets Brokered by MWVD Firms FY 2014 FY 2019						
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Assets Brokered by MWVD Firms	\$603 million	\$4.2 billion	\$24.3 billion	\$24.0 billion	\$35.3 billion	\$45 billion
Total Assets Available	\$60 billion	\$74.0 billion	\$40.6 billion	\$37.9 billion	\$46.6 billion	\$50.7 billion
% Brokered by MWVD Firms	1.0%	5.7%	59.9%	63.2%	75.8%	88.8%

- Assets Brokered by MWVD Firms Increased from 1% to 89%** – The State Investments and The Illinois Funds, are composed of direct purchases and brokered assets. Together these two programs hold approximately \$20 billion in assets, as of June 30, 2019. In FY 2014, only 1% of the Office’s investment assets were brokered through MWVD firms. In FY 2019, nearly 89% of the Treasurer’s Office’s investment assets were brokered through MWVD firms.

GRAPH 1: Assets Brokered with MWVD Firms for FY 2014 through FY 2019 (as of 6/30/2019)



- Assets Brokered by MWVD Firms Increased Exponentially** – Year-over-year, assets brokered with MWVD firms reported an exponential increase. FY 2019 represented a 74-fold increase relative to FY 2014. This graph represents the Treasurer’s Office commitment to investing in the MWVD community.

TABLE 2: Total Assets Brokered with MWVD Firms through the State Investments and The Illinois Funds (as of 6/30/2019)

Measure	FY 2016	FY 2017	FY 2018	FY 2019
State Investments				
Assets Brokered in the MWVD Space	\$26,192,520,000	\$20,150,689,000	\$25,864,307,000	\$35,786,422,000
Assets Brokered by MWVD Firms	\$17,001,870,000	\$14,378,589,000	\$23,520,376,000	\$34,513,977,000
% Brokered by MWVD Firms	64.91%	71.36%	90.94%	96.44%
The Illinois Funds				
Assets Brokered in the MWVD Space	\$14,460,182,000	\$17,822,671,000	\$20,792,015,695	\$14,921,264,000
Assets Brokered by MWVD Firms	\$7,352,425,000	\$9,621,893,000	\$11,854,633,000	\$10,521,272,000
% Brokered by MWVD Firms	50.85%	53.99%	57.02%	70.51%
State Investments + Illinois Funds				
Assets Brokered in the MWVD Space	\$40,652,702,000	\$37,973,360,000	\$46,656,322,695	\$50,707,686,000
Assets Brokered by MWVD Firms	\$24,354,295,000	\$24,000,482,000	\$35,375,009,000	\$45,035,249,000
% Brokered by MWVD Firms	59.91%	63.20%	75.82%	88.81%

TABLE 3: List of Approved MWVD Broker/Dealers (as of 6/30/2019)

Firm		Certified MWVD Status
1	Drexel Hamilton	Veteran-Owned
2	Multi-Bank securities	Veteran-Owned
3	CastleOak Securities	Minority-Owned (African American)
4	Great Pacific Securities	Minority-Owned (Latino)
5	Loop Capital	Minority-Owned (African American)
6	Samuel Ramirez & Co.	Minority-Owned (Latino)
7	Mischler Financial group	Disabled-Owned
8	Williams Capital Group	Minority-Owned (African American)
9	Cabrera Capital Markets	Minority-Owned (Latino)
10	Alamo Capital	Woman-Owned
11	IFS Securities	Minority-Owned (African American)
12	Academy Securities	Veteran-Owned
13	Penserra Securities	Minority-Owned (Latino)
14	Blaylock Van Beal	Minority-Owned (African American)
15	North South Capital	Woman-Owned
16	MFR Securities	Woman-Owned
17	Siebert Cisneros Shank & Co.	Woman-Owned
18	Tribal Capital Markets	Minority-Owned (Native American)

TABLE 4: MWVD Broker/Dealers among All Certified Broker/Dealers (as of 6/30/2019)

Measures	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Total Approved Broker/Dealers	34	38	39	49	50	49	45
MWVD Broker/Dealers	8	7	7	14	15	15	18
Percentage of Total	23.5%	18.4%	17.9%	28.6%	30.0%	30.6%	40.0%

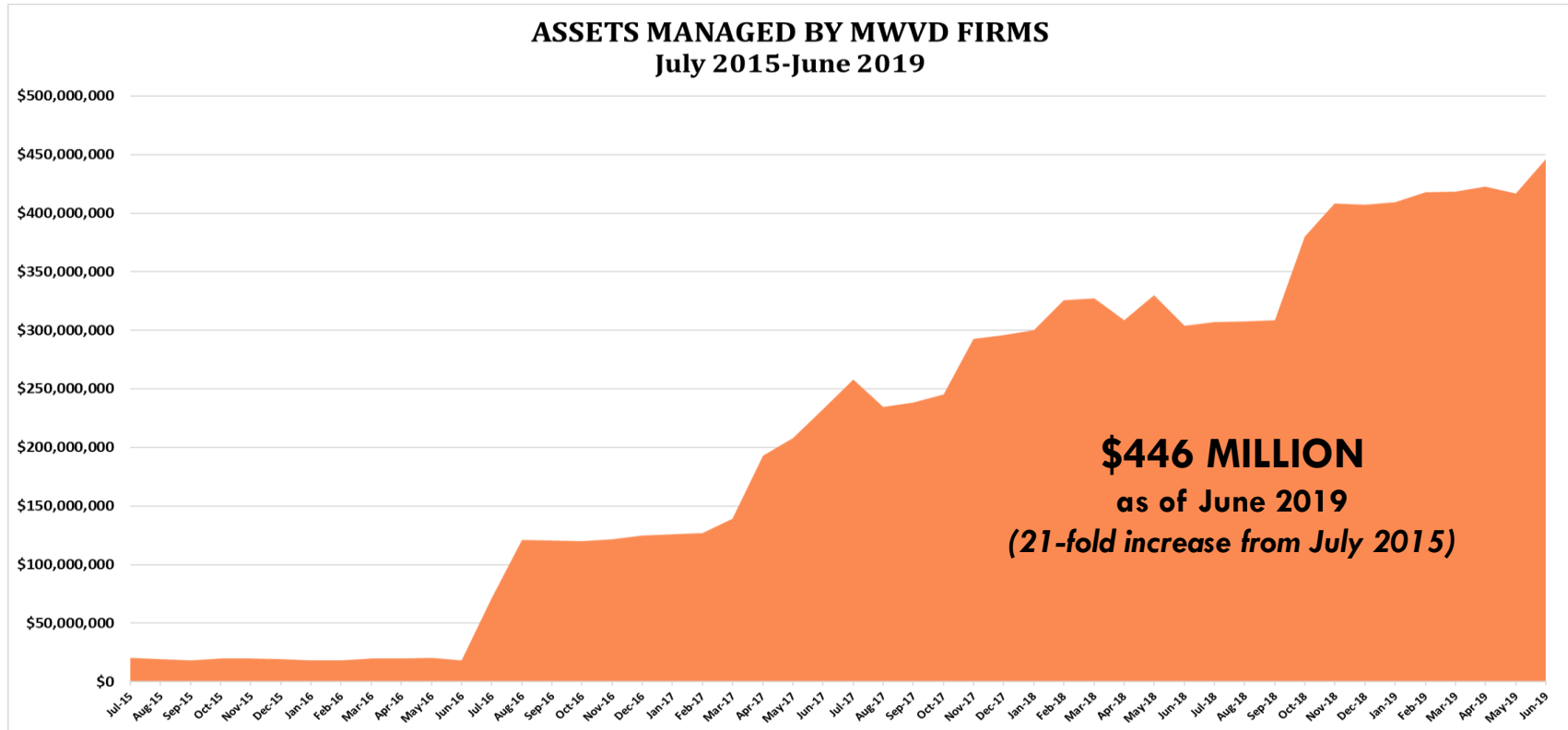
MWVD Asset Managers

TABLE 5: Assets Managed by MWVD Firms across all Programs (as of 6/30/2019)

Comparison of Assets Managed by MWVD Firms					
July 31, 2015 June 30, 2018					
	July 31, 2015	July 31, 2016	July 31, 2017	July 31, 2018	June 30, 2019
Assets Managed by MWVD Firms	\$20 million	\$21 million	\$235 million	\$306 million	\$446 million
Total Assets Available	\$23 billion	\$27 billion	\$28 billion	\$31 billion	\$32 billion
% Managed by MWVD Firms	0.1%	0.1%	0.8%	1.0%	1.3%

- **Assets Managed by MWVD Firms Increased from 0% to 1.3%** – Total assets managed by MWVD firms increased from \$20 million in July 2015 to \$446 million in June 2019.

GRAPH 2: Assets Managed by MWVD Firms July 31, 2015 – June 30, 2019 (as of 6/30/2019)



- **Assets Managed by MWVD Firms Increased Significantly** – Ending June 30, 2019, the Illinois Treasury had \$446 million with MWVD managers. That represents a 21-fold increase from July 2015.

TABLE 6: List of MWVD Asset Managers (as of 6/30/2019)

	Firm	MWVD Status
1	Williams Capital Group	Minority-Owned (African American)
2	Ariel Investments	Minority-Owned (African American)
3	Sit Investment Associates	Minority-Owned (African American)
4	Ceres Venture Fund	Woman-Owned
5	I2A Fund – IL Innovation Accelerator	Minority-Owned (African American)
6	Garcia Hamilton	Minority-Owned (Latino)
7	Ramirez Asset Management	Minority-Owned (Latino)
8	Builders Venture Capital	Minority-Owned (Asian American)
9	Moderne Ventures	Woman-Owned
10	Brightwood Capital	Minority-Owned (African American)
11	New Enterprise Associates 16	Minority (Asian American) & Woman-Owned
12	Vistria Group II	Minority-Owned (African American)
13	Tensility Venture Partners	Minority-Owned (Latino)
14	New Mainstream Capital III	Minority-Owned (Latino)
15	Impact Engine II	Woman-Owned
16	Agent Capital I	Woman-Owned
17	Chingona Ventures	Minority (Latino) & Woman-Owned
18	Palladium Equity Partners	Minority-Owned (Latino)
19	Vistria Group III	Minority-Owned (African American)

Use of Contractors Owned by MWVD Persons

Procurement Report Summary

The following section encompasses information gathered on the use of contractors that are owned by minority persons, women, veterans, and persons with a disability (“MWVD contractors”) by the Illinois State Treasurer’s Office (“Treasurer’s Office”). This information was collected through the Office of Procurement.

This section will (1) address current policies and practices in place to gather MWVD contractor information, (2) highlight the new policies to significantly improve contractor feedback, and (3) describe practices the Treasurer’s Office of Procurement intends to utilize to increase MWVD contractor participation in the bidding process.

This section includes three parts:

1. Current Policies and Procedures Relating to MWVD Contractors
2. Utilization Rates
3. Recommended Improvements

Policies and Procedures Related to MWVD Contractors

Policies

Public Act (“PA”) 100-969 established aspirational goals for investments and authorized procurement preferences for the Treasurer’s Office in relation to selecting businesses owned by qualified veterans, qualified service-disabled veterans, minority persons, women, and persons with a disability.

PA 100-969 added Section 30 to the State Treasurer Act [15 ILCS 505], “Preferences for veterans, minorities, women, and persons with disabilities.” Section 30 codifies the Treasurer’s Office’s aspirational goal of directing 25% of the total dollar amount of funds under management, purchases of investment securities, and other contracts to businesses owned by or under the control of qualified veterans, qualified service-disabled veterans, minority persons, women, and persons with a disability. Section 30 also states that the Treasurer’s Office is authorized to incorporate preferences in the scoring process for MWVD contractors as well as for businesses with a record of support for increasing diversity and inclusion in board membership, management, employment, philanthropy, and supplier diversity, including investment professionals and investment sourcing.

Historically, the Office of Procurement has given some preference to MWVD contractors that competed in the bidding process. These earlier procurements noted that if MWVD contractors provided proof of the relevant ownership, their score would reflect their status.

The Treasurer’s Office under Michael W. Frerichs has taken steps to encourage MWVD contractor participation and has instituted new language in required documents to complete a bid submission. These new practices have successfully created a small snapshot of the diversity among the Treasurer’s Office’s current contractors and have helped to highlight areas in need of improvement.

Procedures

A policy already in place was the inclusion of diversity preference in requests for proposals (“RFPs”). For example, in earlier RFPs the language was as follows under the RFP section titled, “Diversity”:

- “Please list the percentage of Respondent’s staff that makes investment decisions who are female, minority, persons with disabilities, or military veterans. In addition, please note if the Respondent or any of its subcontractors or affiliates are female, minority, persons with disabilities, or veteran owned or managed. For purposes of this RFP, “female, minority, persons with disabilities, or veteran owned or managed” shall mean being owned or managed by 51% or more of a combination of female, minority, persons with disabilities, or military veteran.”

Those respondents falling under the above status would have been awarded a certain number of points added to their total score by the evaluation committee.

This initial language was a start, but the provision regarding ownership status did not require the respondents to provide any data underlying their assertions of MWVD ownership. As a result, the Treasurer's Office began including more detailed questions regarding diverse ownership in its RFPs. These new questions provide additional detail and allow the Treasurer's Office to better understand the extent of diverse ownership in its potential contractors. Thus, the questions regarding diversity were updated in RFPs to request more detailed information. The following is an illustrative example of this updated language, which is taken from the Treasurer's Office's recently posted RFP for Investment Managers for Investment Grade Credit and Municipal Bonds, #370-500-20-002:

- "Respondent's diversity score will be scored based on the answers the Respondent provides to the Diversity questions[.] The Evaluation Team shall award a higher diversity score to Respondents (including subcontractors) that are female, minority, person with disabilities, or military veteran owned or managed. Having a higher percentage of subcontractors that are female, minority, person with disabilities, or military veteran owned or managed shall also result in higher scores."

In the aforementioned RFP, the Diversity questions are as follows:

30. Please provide the number and percentage of Respondent's senior leaders (e.g. partner, president, COO, or managing director) who are female, minority, persons with disabilities, or military veterans. Please cite with supporting data.

31. Please provide the number and percentage of Respondent's professional investment staff who are female, minority, persons with disabilities, or military veterans. Please cite with supporting data.

32. Is the Respondent or its affiliates female, minority, persons with disabilities, or military veteran owned or managed? For purposes of this RFP, "female, minority, persons with disabilities, or veteran owned or managed" shall mean being owned or managed by 51% or more of a combination of female, minority, persons with disabilities, or military veteran. Please cite with supporting data.

33. Using the definition provided above, what is the percentage of Respondent's intended use of subcontractors for this project, if any, that are female, minority, persons with disabilities, or military veteran owned or managed? Please cite with supporting data.

34. Does Respondent utilize minority-owned brokerage firms for trades?

35. Please quantify your firm's utilization of broker/dealers owned by minorities, women, military veterans, or persons with a disability in the prior calendar year.

36. Please complete survey Equity Diversity and Inclusion Firm Profile provided in Appendix B.

Because many of the Treasurer's Office contracts precede the uniform collection of data or are not the product of an RFP, data on current contractors remains incomplete. The Treasurer's Office is continuing to take steps to improve the data collection rate by improving communication internally between divisions and externally with contractors.

The Treasurer's Office is currently evaluating requiring each respondent to an RFP to complete a detailed survey regarding diversity status. The Treasurer's Office does not seek documented evidence, such as a birth certificate, disability letter, or military discharge papers.

Utilization Rates

To collect data, the Treasurer's Office dispersed a new diversity survey to all current contractors with active vendor agreements with the Treasurer's Office. Out of 46 contractors, 21 responded with their organization's MWVD status, which represents a snapshot of 45%. Out of the 21 responding contractors, the 9 organizations with MWVD status represent nearly \$700,000 dollars of business with the Treasurer's Office. Additionally, since 9/46 of the Treasurer's vendors reported an MWVD status, that means, at a minimum, nearly 20% of the Treasurer's vendors are MWVD businesses.

Recommended Improvements

The Treasurer's Office plans to improve outreach and education to Illinois-based MWVD business owners as well as making the MWVD data easily accessible by necessary staff members. The Treasurer's Office also will continue to take steps to encourage its current contractors to report on their ownership status. The following steps will also be taken:

- 1. Electronic Implementation and Required Diversity Survey** – Finalize and go live with an electronic option for proposal submissions. This will allow the diversity survey answers to be required, saved, and pulled from the system for easy access.
- 2. Enhanced Outreach and Promotion** – Coordinate with the Chief Procurement Officer and Office of Civic Engagement to promote opportunities for Illinois-based MWVD-owned organizations to do business with the Treasurer's Office.