

ANNUAL REPORT TO THE GOVERNOR
AND GENERAL ASSEMBLY

Submitted August 31, 2016
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
2815 W. Washington
P.O. Box 19253
Springfield, IL 62794-9253
Richard Ingram, Executive Director





TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS

2815 West Washington Street | P.O. Box 19253 | Springfield, Illinois 62794-9253

Richard W. Ingram, Executive Director

investments@trs.illinois.gov | <http://trs.illinois.gov>

(217) 753-0370 | FAX: (217) 753-0966 | TDD: (866) 326-0087

August 31, 2016

To the Honorable Governor Bruce Rauner
& the General Assembly:

The Teachers' Retirement System of the State of Illinois respectfully submits this report in compliance with Public Act 96-0006, specifically, Section 1-109.1(8) of the Illinois Pension Code, 40 ILCS 5/1-109.1(8), which provides:

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.

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

Very truly yours,

Richard Ingram
Executive Director

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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**. This report was filed with the Illinois General Assembly on August 31, 2016 and is also available at the System’s website at *trs.illinois.gov*. 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, 2016 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 2015 are attached as **Exhibit B**. Goals for fiscal year 2016 will be reviewed by the Board of Trustees at the October Board Meeting.

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, 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 XXII: Emerging Managers Program, attached as **Exhibit C**.

At June 30, 2016, TRS had 34 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 three consultants within its investment program including the general investment consultant (R.V. Kuhns and Associates) and specialist consultants for investments in private equity (TorreyCove Capital Partners) and real estate (Courtland Partners LTD). 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 FY2016 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 10.41% (as of fiscal year 2016) of the total dollar amount of all non-investment vendor contracts for goods and services provided to TRS. The MBE/FBE/PBE utilization goal is to undertake best efforts to increase utilization to 5% through fiscal year 2016. The System exceeded its goal by 5.41%.

Summary Utilization Data:

Fiscal Year	Goal	Utilization %	Over/Under Goal	Utilization \$
2015	5.00%	13.11	+8.11%	\$520,929
2016	5.00%	10.41%	+5.41%	\$190,781

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, 2016 is included in **Exhibit E**. For fiscal year 2016, the following goals were approved:

Goals for FY2016

- | | |
|------------------------|----------------------------------|
| ▪ Domestic Equity | 20.00% (1.0% increase from FY15) |
| ▪ International Equity | 13.50% (1.0% increase from FY15) |
| ▪ Fixed Income | 15.00% |

EXHIBIT A: Improving Access to the TRS Investment Process

(From the TRS Investment Policy)

XXII. 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 “minority, female and disabled” (MFD) will be used for all firms as defined in the Illinois Business Enterprise for Minorities (Black/African American, Asian American, Hispanic, Native American or Alaskan Native), 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 MFD Investment Managers will be made in accordance with the fiduciary standards under which the Fund operates. Broker/dealer transactions completed with MFD firms on behalf of the System must be completed at rates fully competitive with the market.

MFD Broker/Dealer Utilization

Annually, each public markets Investment Manager retained by the System shall establish a MFD broker/dealer utilization objective that shall be consistent with the System’s commitment to including all segments of the economic community. The objective shall be reported to the System in writing no later than July 31 of each year. The objective shall be:

FY05	10.0% equities, 7.5% fixed income
FY06	12.5% equities, 8.5% fixed income
FY07	15.0% domestic equities, 7.5% international equities, 10.0% fixed income
FY08	15.0% domestic equities, 8.5% international equities, 12.5% fixed income
FY09	15.0% domestic equities, 8.5% international equities, 12.5% fixed income
FY10	15.0% domestic equities, 8.5% international equities, 15.0% fixed income
FY11	15.0% domestic equities, 10.0% international equities, 15.0% fixed income
FY12	15.0% domestic equities, 11.0% international equities, 15.0% fixed income
FY13	16.0% domestic equities, 12.0% international equities, 15.0% fixed income
FY14	18.0% domestic equities, 12.0% international equities, 15.0% fixed income
FY15	19.0% domestic equities, 12.5% international equities, 15.0% fixed income
FY16	20.0% domestic equities, 13.5% international equities, 15% fixed 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 MFD broker/dealer, whether by direct transaction, step-out, referred transactions, or any other means which provide economic benefit to a MFD broker/dealer. The reporting requirements shall become effective on July 1, 2004.

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.

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.

Brokerage firms wishing to participate in TRS’s brokerage program shall be required to submit sufficient evidence of financial capacity and performance capability to the Investment Staff on a periodic basis in a form prescribed by the Chief Investment Officer.

MFD Investment Manager Utilization

As a result of the System's commitment to the selection and retention of qualified MFD investment managers, assets managed by MFD 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 following objectives are established:

FY05	12.5% or \$ 3.5 billion
FY06	15.0% or \$ 4.0 billion
FY07	15.0% or \$ 4.5 billion
FY08	15.0% or \$ 5.0 billion
FY09	12.5%
FY10	12.5% (at a total fund level)
FY11	13.5% (at a total fund level)
FY12	14.5% (at a total fund level)
FY13	15.0% (at a total fund level)
FY14	15.0% (at a total fund level)
FY15	15.0% (at a total fund level)
FY16	16.0% (at a total fund level)

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 MFD 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 MFD 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 MFD broker/dealer services and determine that the proposal is consistent with the System's utilization objectives. Each transition report to the Board shall include specific information on the level of MFD utilization attained.

Trustee Oversight

To ensure that all Trustees are aware of the System's efforts and achievements, the Investment Committee will review utilization of MFD brokers/dealers and Investment Managers. The Chair shall be responsible for interfacing with the Consultant regarding the inclusion of MFD 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 2016. Goals for fiscal year 2017 will be reviewed by the Board of Trustees at the October Board Meeting. Actual FY2016 figures are preliminary and unaudited.

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

WMBE Utilization Goals for FY2016 - 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	12.00%	8.00%	8.50%	12.00%
Female	3.00%	1.50%	1.25%	3.00%
Other MBE/Disabled	1.00%	0.50%	0.25%	1.00%
Sub-Total WMBE & Other	16.00%	10.00%	10.00%	16.00%
<u>Fee Based Targets</u>				
Minority	4.00 to 6.00%	4.00 to 6.00%	4.00 to 6.00%	4.00 to 6.00%
Female	1.50 to 2.50%	1.50 to 2.50%	1.50 to 2.50%	1.50 to 2.50%
Other MBE/Disabled	0 to .5%	0 to .5%	0 to .5%	0 to .5%
Sub-Total WMBE & Other	5.5 to 9.0%	5.5 to 9.0%	5.5 to 9.0%	5.5 to 9.0%

Actual FY2016 - 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	2.47%	9.23%	16.18%	9.35%
Female	15.97%	12.10%	1.10%	7.37%
Other MBE/Disabled	0.15%	0.00%	2.47%	1.08%
Sub-Total WMBE & Other	18.59%	21.33%	19.76%	17.79%
<u>Fee Based Targets</u>				
Minority	4.99%	4.11%	9.30%	7.12%
Female	6.33%	6.76%	1.22%	2.46%
Other MBE/Disabled	1.43%	0.00%	0.12%	0.32%
Sub-Total WMBE & Other	12.75%	10.87%	10.64%	9.91%

Variance of Actual FY2016 vs. Goals for FY2016 - 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	-9.53%	1.23%	7.68%	-2.65%
Female	12.97%	10.60%	-0.15%	4.37%
Other MBE/Disabled	-0.85%	-0.50%	2.22%	0.08%
Sub-Total WMBE & Other	2.59%	11.33%	9.76%	1.79%
<u>Fee Based Targets</u>				
Minority	0.99%	0.11%	5.30%	3.12%
Female	4.83%	5.26%	-0.28%	0.96%
Other MBE/Disabled	1.43%	0.00%	0.12%	0.32%
Sub-Total WMBE & Other	7.25%	5.37%	5.14%	4.41%

WMBE Percentage of Fund as of June 30, 2016: 17.83%

EXHIBIT C: EMERGING MANAGERS PROGRAM

(From the TRS Investment Policy)

XXIII. 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 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

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.

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. Recommendation to the Investment Committee

Based on analysis of Staff and Consultant, Staff will recommend managers for the Investment Committee's approval. The Investment Committee will interview the recommended manager(s). 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.

Initial Funding

Staff recommendations for a specific initial funding amount are made to the Investment 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 Investment Committee as appropriate.

Proper Documentation and Full Disclosure

When reviewing documentation regarding the hiring of an external investment service provider, the primary focus of the Investment Committee shall be on ensuring that the Board will be able to satisfy any interested party that decisions were well reasoned, thoroughly considered, and prudent. Toward this end, the Chair and Committee members will review the written supporting documentation to assure disclosure of all relevant issues. In evaluating a hiring decision, Staff, Consultant and the 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 for hiring will be asked to make a formal presentation to the Committee prior to a hiring decision.

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 full description of return expectations,
2. the absolute and relative risks inherent in the manager's approach,
3. the proper time horizon for evaluation of results,
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 provide the Board with reports summarizing the assessments made. All material events regarding an investment manager will be communicated to the Board, along with any recommendation for action to be taken. The same considerations given to all TRS investment managers, including criteria for inclusion on the System's Watch List, also apply to participants within the Program.

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 Investment Committee for consideration. Should the TRS Board elect to graduate a particular mandate, unless otherwise stated the Emerging Manager Program shall be "reimbursed" by the amount equal to the initial funding of the investment manager.

Similarly, staff may recommend 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 Investment Committee within two to five years from the initial investment. Based on the recommendation and Board action, 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 the Board 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 Chair and/or Vice Chair, 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 Chair and/or Vice Chair, 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 full report shall be provided to the Investment Committee and Board for final ratification 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, 2016

Affinity Investment Advisors, LLC

18111 Von Karman Avenue, Suite 550

Irvine, CA 92612

Client Service:

Jodee L. Kowata Spellman

Phone (949) 251-2363

E-mail jodee.spellman@affinityinvestment.com

Greg Lai, CFO

E-mail greg.lai@affinityinvestment.com

Asia Alternatives Management LLC

One Maritime Plaza, Suite 1000

San Francisco, CA 94111

Client Service:

Melissa Ma, Co-Founder & Managing Partner

Phone 415-723-8100

E-mail mma@asiaalt.com

Client Service:

Rebecca XU, Co-Founder & Managing Partner

Room 2102, 21/F, Nexxus Building

41 Connaught Road, Central, Hong Kong

Phone 852-2588-7500

E-mail rxu@asiaalt.com

Ativo Capital Management, LLC.

120 North LaSalle Street

Suite 2150

Chicago, IL 60602-2493

Client Representative:

Michael S. Brooks

Phone 312-263-7600

Email mbrooks@ativogroup.com

Capri/Capital Advisors, LLC

875 N. Michigan Avenue, Suite 3430

Chicago, IL 60611

Client Service:

Lou Hoyes, President, CIO

Phone (312) 573-5300

E-mail lhoyes@capricapital.com

Quintin Primo, Chief Executive Officer

Phone (312) 573-5266

E-mail qprimo@capricapital.com

Channing Capital Management, LLC

10 South LaSalle Street, Suite 2650

Chicago, IL 60603

Client Service:

Janice Gonzalez

Phone (312) 223-0211

E-mail jgonzalez@channingcapital.com

CityView

10877 Wilshire Blvd., 12th Floor

Los Angeles, CA 90024

Client Service:

Peter Borges, Managing Director

Phone (310) 566-8796

E-mail pborges@cityview.com

Clearlake Capital Group

650 Madison Avenue, 23rd Floor

New York, NY 10022

Client Service:

Steven Chang, Partner

Phone (212) 610-9122

E-mail steven@clearlakecapital.com

Garcia Hamilton & Associates

1401 McKinney ,Suite 1600

Houston, TX 77010

Client Service:

Ruby Dang, Fixed Income Analyst

Phone (713) 853-2359

E-mail rdang@garciahiltonassociates.com

Portfolio Manager:

Gilbert Garcia, Managing Partner

Phone (713) 853-2359

E-mail ggarcia@garciahiltonassociates.com

Great Point Partners

165 Mason Street, 3rd Floor

Greenwich, CT 06830

Portfolio Manager:

Adam Dolder, Managing Director

Phone (203) 971-3300

E-mail adolder@gpfunds.com

Grain Management, LLC

100 N. Washington Blvd., Suite 201

Sarasota, FL 34236

Client Service:

David Grain, Founder & Managing Partner

Phone: (941) 373-0033

Fax: (941) 373-0031

Email: dg@graingp.com

Integrated Capital, LLC

11100 Santa Monica Blvd., Suite #360

Los Angeles, CA 90025

Client Service:

Kenneth H. Fearn, Managing Partner

Phone (310) 575-8801

E-mail ken@intcapllc.com

ICV Capital Partners, LLC

The Chrysler Center

666 Third Avenue, 29th Floor

New York, NY 10017

Client Service & Portfolio Manager:

Willie E. Woods, Managing Partner

Phone (212) 455-9643

E-mail wwoods@icvcapital.com

LiveOak Venture Partners

3209 Lating Stream Lane

Austin, TX 78746

Client Service:

Venu Shamapant, General Partner

Phone (512) 413-5886

E-mail venu@liveoakvp.com

Lombardia Capital Partners, LLC

55 South Lake Avenue, Suite 750

Pasadena, CA 91101

Client Service:

Nora Harris

Managing Director, Sr. Client Service Mgr

30 North LaSalle Street, Ste 4030

Chicago, IL 60602

Phone (312) 269-1063

Email nharris@lombardiacapital.com

Longitude Capital Management

800 El Camino Real, Suite 220

Menlo Park, CA 94025

Client Service/Portfolio Manager:

Juliet Bakker, Managing Director

Phone (650) 854-5700

E-mail jbakker@longitudecapital.com

Maranon Capital, LP

One North Franklin Street, Suite 2700

Chicago, IL 60606

Client Service:

Tom Gregory, Managing Partner

Phone (312) 646-1201

Email ltg@maranoncapital.com

New Century Advisors, LLC

7272 Wisconsin Avenue, Suite 300
Bethesda, MD 20814
Client Service: Ellen B. Safir, CFA, President
Phone (301) 941-1933
E-mail esafir@ncallc.com

OakBrook Investments

2300 Cabot Drive, Suite 300
Lisle, IL 60532
Client Service:
David Vandergriff
Phone (630) 271-0286
E-mail d_vandergriff@oakbrookinvest.com

Oak Street Real Estate Capital, LLC

125 S. Wacker Drive, Suite 1220
Chicago, IL 60606.
Client Service:
Marc Zahr, Chief Executive Director & Managing Partner
Phone: (312) 448-7831
Email: zahr@oakstreetrec.com

Palladium Equity Partners

1270 Avenue of the Americas, Suite 2200
New York, NY 10020
Client Service:
David Perez, President & Chief Operating Officer
Phone (212) 218-5176
E-mail dperez@palladiumequity.com

Quadratic Capital Management, LLC

10 Grigg Street, Suite 2
Greenwich, CT 06830
Client Service:
Nancy Davis, CIO and Managing Partner
Phone (203) 340-2943
Email Nancy.Davis@QuadraticLLC.com
Client Service:
Susanna Jacob, Quantitative Strategist
Phone (203) 900-3401
E-mail Susanna.Jacob@QuadraticLLC.com

RhumbLine Advisers

30 Rowes Wharf, Suite 350
Boston, MA 02110
Client Service:
Denise D'Entremont, Marketing Director
Phone (617) 345-0434
E-mail dad@indexmngn.com
Portfolio Manager:
Edwin Ek, CIO
Phone (617) 345-0434
E-mail ee@indexmngn.com

Sheridan Production Company, LLC

Sheridan Production Company, LLC
9 Greenway Plaza, Suite 1300
Houston TX 77046

Client Service:

Lisa Stewart, Chairman & CIO

Phone 713-548-1010

Email lstewart@sheridanproduction.com

Siris Capital Group

540 Madison Avenue, 9th Floor
New York, NY 10022

Client Service:

Frank Baker, Partner

Phone (212) 231-0099

E-mail frank.baker@sac.com

Smith Whiley & Company

242 Trumbull Street
Hartford, CT 06103

Client Service & Portfolio Manager:

Gwendolyn Smith Iloani, President & CEO

Phone (860) 548-2513

E-mail iloanig@smithwhiley.com

StarVest Partners, L.P.

750 Lexington Avenue, 15th Floor
New York, NY 10022

Client Service:

Deborah Farrington, Founder & Co-Chairman

Phone (212) 863-2580

E-mail Deborah@starvestpartners.com

Strategic Global Advisors

100 Bayview Circle
Suite 500
Newport Beach, CA 92660

Client Service:

Sam King, Director of Marketing

Phone (949) 706-2640

E-mail sking@sgadvisors.com

TC Growth Partners

505 Hamilton Avenue, Suite 200
Palo Alto, CA 94301

Client Service:

Gustavo Alberelli, Co-Founder & Managing Director

Phone (650) 289-4409

E-mail galberelli@tridentcap.com

Varadero Capital, L.P.

1095 Avenue of the Americas, 26th Fl
New York, NY 10036

Client Service:

Laurie Stearn, Investor Relations

Phone (212) 715-6818

Email lstearn@varaderocapital.com

Vicente Capital Partners

11726 San Vicente Blvd., Suite 300
Los Angeles, CA 90049

Client Service: Jay Ferguson, Partner

Phone (310) 442-4700

E-mail jferg@klinehawkes.com

Vista Equity Partners

150 California Street, 19th Floor
San Francisco, CA 94111

Client Service and Portfolio Manager:

Robert F. Smith, Managing Principle

Phone 415-765-6502

E-mail rsmith@vistaequitypartners.com

Portfolio Manager:

John Warnken-Brill, CFO

Phone (415) 765-7013

E-mail jwarnkenbrill@vistaequitypartners.com

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, 2016.

Equity Trading – U.S. and International

U.S. Equity as percent of total commissions	30.2%
Stated Goal U.S. Equity	<u>20.0%</u>
Over/Under U.S. Equity Goal	+10.2%

Intl. Equity as percent of total commissions	14.0%
Stated Goal Intl. Equity	<u>13.5%</u>
Over/Under Intl. Equity Goal	+0.5%

Total U.S. and Int'l Equity commissions	\$11.47 million
Total U.S. and Int'l Equity MBE commissions	\$2.39 million
Total MBE as Percent of Total Commissions	20.8%

Fixed Income

Total market value traded	\$14.4 billion
MBE market value traded	\$2.2 billion
Percent MBE - Fixed Income	14.9%
Stated Goal - Fixed Income	<u>15.0%</u>
Over/Under Fixed Income Goal	-0.1%

**EXHIBIT F: August 2016 Report on WMBE-Owned Investment
Advisor & Broker/Dealer Utilization**

(See attached PowerPoint presentation)

EXHIBIT G: Affirmative Action Plan Policy Statement

(From the TRS Affirmative Action Plan for FY2016)

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, creed, sex, sexual orientation, age, marital status, military status, certain unfavorable discharges from military service, political affiliation, citizenship, ancestry, national origin, physical or mental disability 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 Officer without fear of retribution. Employees may also file a complaint with the Department of Human Rights within 180 days of the alleged discriminatory act 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. The 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 2016 is to use its best efforts to increase current utilization of MBEs, FBEs, and PBEs to at least 5% of the total dollar amount of all non-investment vendor contracts with TRS. This goal is reviewed annually. 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 Web site for which they are qualified.

(preliminary data)

FY2016 Annual Report on the use of:

Women, Minority and Disabled–Owned
(WMBE) Investment Advisors and
Broker/Dealers

August 31, 2016

Illinois Pension
Code annual
filing



Teachers' Retirement System of the State¹ of Illinois

Source Information

During FY2016, 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, 2016 (unless otherwise noted) and is subject to change.

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Executive Summary

During FY2016, TRS continued its efforts to increase the inclusion of woman and minority business enterprises (“WMBE”) in its investment program.

Investment Advisor Activity

- Graduated one WMBE strategy from the Emerging Manager Program
 - Apex (Asian owned domestic manager) was graduated from the Emerging Manager Program. Subsequently the manager was purchased by a majority firm and is no longer considered minority owned.
- Expanded 1 existing emerging manager mandate
 - Quadratic Capital (Woman owned hedge fund) was allocated an additional \$50 million to bring the total commitment to \$100 million
- Added Penso Advisors (Latino owned hedge fund) to the main TRS portfolio with a \$100 million mandate
- Added LCM Capital (Woman owned fixed income fund) to the main TRS portfolio with a \$100 million mandate

Executive Summary (continued)

Investment Advisory Activity

- Hired 3 new emerging managers within the Emerging Manager Program
 - Oak Street, a new real estate manager, with a \$50 million mandate (MBE firm)
 - Sunstone Capital, a new private equity manager, with a \$25 million mandate (MBE firm)
 - Grain Capital, a new private equity manager, with a \$50 million mandate (MBE)
- In FY2016 TRS invested \$716 million of capital with WMBE firms
 - Real Estate \$50 million
 - Fixed Income \$100 million
 - Private Equity \$416 million
 - Absolute Return \$150 million

Executive Summary (continued)

Investment Advisor Activity

- TRS received 14 emerging manager submissions for various asset classes in FY16 compared to 20 submissions in FY15
 - The number of submissions has declined as the internal database of managers has grown more robust
 - The number of managers presented to the Board of Trustees held steady compared to FY15
- TRS's FY16 WMBE assets under management (AUM) was 17.8%
 - WMBE-owned firms, as of June 30, 2016, managed 17.8% of the total TRS portfolio compared to 17.2 in FY15; an increase of 0.6%
 - Assets under management by WMBE firms totaled \$7.96 billion as of June 30, 2016 compared to \$7.92 billion in FY15; an increase of \$0.04 billion

WMBE Investment Advisors managed 17.8% of Total TRS Fund

Executive Summary (continued)

Broker/Dealers

- Hosted the 12th annual “TRS Opportunity Forum” in March 2016, which facilitated discussions among the System’s public managers and WMBE broker/dealers
 - Through this initiative, TRS investment managers used 34 WMBE broker/dealers in FY 2016
 - At fiscal year end, there were 58 recognized WMBE broker/dealer firms participating within the TRS investment program
 - By ownership:
 - 20 were African American-owned
 - 10 were Hispanic/Latino-owned
 - 15 were Female-owned
 - 13 were Other (Asian)/Disabled Veteran-owned
 - Out of the 58 WMBE broker/dealers, 11 were Illinois-based

Executive Summary (continued)

Broker/Dealers

- Global equity commissions paid to WMBE broker/dealers were \$2.4 million during FY16, or 20.8% of all global equity commissions.
 - This was the sixth consecutive year above 16.0% utilization.
 - 29 WMBE equity broker dealers were utilized in FY16. This was a slight decrease from the 31 utilized in FY15.
- Fixed income market value traded with WMBE broker/dealers was \$2.2 billion, or 14.9% of all TRS fixed income trades.
 - Fixed income slightly trailed its target by 0.1% in FY16.
 - 10 fixed income WMBE broker/dealers were utilized during FY16. This was a decrease from 15 in FY15.

Established FY15 WMBE Goals

The TRS Board of Trustees adopted the following goals for the continued participation of WMBE-owned financial services firms. FY2017 goals will be finalized and voted on at the October 2016 TRS Board Meeting. The existing FY2016 goals are:

GOAL: WMBE Investment Management and Fee Objectives FY2016:

- 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	4.0 to 6.0%	4.0 to 6.0%	4.0 to 6.0%	4.0 to 6.0%
Female	1.5 to 2.5%	1.5 to 2.5%	1.5 to 2.5%	1.5 to 2.5%
<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	5.5 to 9.0%	5.5 to 9.0%	5.5 to 9.0%	5.5 to 9.0%

<u>AUM Based Targets</u>	<u>Equities</u>	<u>Fixed Income</u>	<u>Alternatives</u>	<u>Total Fund</u>
Minority	12.0%	8.0%	8.5%	12.0%
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%	10.0%	16.0%

GOAL: WMBE Brokerage Objectives FY2016:

- 20.0% domestic equities (a 1% increase from FY15)
- 13.5% international equities (a 1.0% increase from FY15)
- 15.0% fixed income (% of market value traded)

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

Current Investment Managers

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

- 34 firms managing 43 portfolios, a net increase of three (3) WMBE firms and seven (7) portfolios from FY15
- FY16 total assets under management were \$7.96 billion, an increase of approximately \$0.03 billion compared to \$7.93 billion in FY15
 - In absolute terms, assets under management were in line due to market performance, manager rebalancing and a continued commitment to funding emerging managers
 - WMBE AUM is 17.83% in FY16 vs. 17.24% in FY15; a slight increase
- Estimated FY16 WMBE investment advisory fees are expected to total approximately \$28.7 million, an increase of \$5.9 million (or 25%) from FY15's \$22.8 million
 - On a relative basis, FY16 WMBE advisory fees are expected to be approximately 9.91% of the total advisory fees paid to all managers compared to FY15's 8.63%; a 15% increase
 - Increase was driven by continued WMBE commitments in Private Equity, Real Estate and Absolute Return in FY16

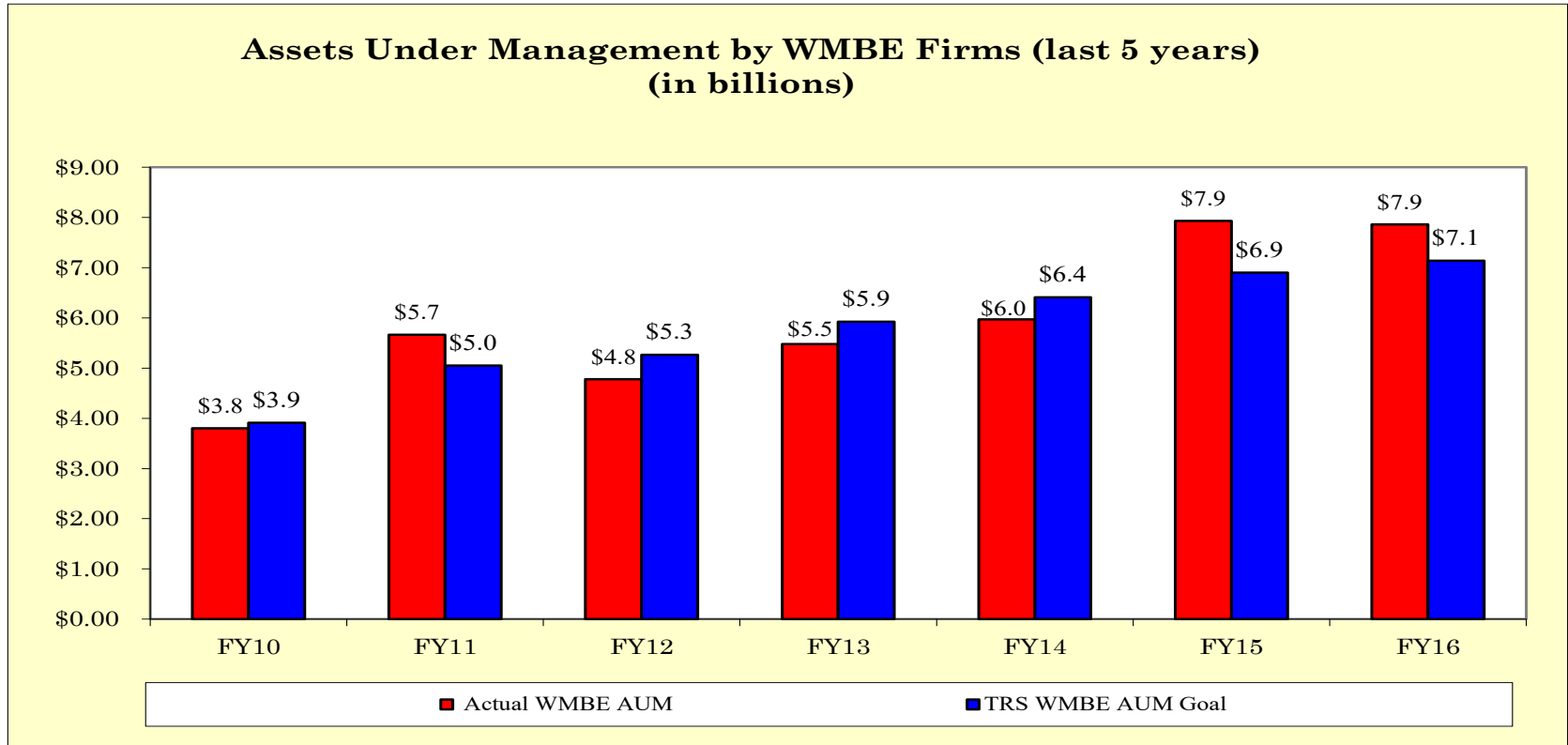
Current Investment Managers (continued)

Minority and Female-Owned External Managers As of June 30, 2016

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	1,980,303,717		1,980,303,717	25.03%	4.44%
2 Lombardia	Hispanic	247,060,058		247,060,058	3.12%	0.55%
3 Oakbrook Investments	Female	165,912,384		165,912,384	2.10%	0.37%
4 Herndon Capital Management, LLC	African American	0		0	0.00%	0.00%
5 Channing Capital	African American	100,845,160		100,845,160	1.27%	0.23%
6 Affinity	Other MBE (Asian)/Disabled	24,858,042		24,858,042	0.31%	0.06%
Total U.S. Equities:		2,518,979,361		2,518,979,361	31.83%	5.64%
7 Alvo Capital Management	Hispanic	28,248,189		28,248,189	0.36%	0.06%
8 Lombardia International Value	Hispanic	26,954,142		26,954,142	0.34%	0.06%
9 Strategic Global Advisors, LLC	Female	462,348,349		462,348,349	5.84%	1.04%
Total International Equities:		517,550,680		517,550,680	6.14%	1.16%
10 Vista Credit	African American	35,165,023		35,165,023		
11 LCM Capital	Female	0	100,000,000	100,000,000		
12 Garcia Hamilton & Associates	Hispanic	738,143,174		738,143,174	8.81%	1.65%
Total Fixed Income:		773,308,197	100,000,000	873,308,197	10.42%	1.96%
13 Sheridan	Female	3,048,001		3,048,001	0.09%	0.01%
14 New Century Advisors	Female	379,045,971		379,045,971	10.86%	0.85%
Total Real Return:		382,093,972		382,093,972	10.95%	0.86%
15 Capri Capital Advisors, LLC	African American	1,012,226,120	698,822,620	1,711,048,740	24.63%	3.83%
16 Integrated	African American	1,006,667	31,925,161	32,931,828	0.47%	0.07%
17 Oak Street	Hispanic	50,000,000	0	50,000,000	0.72%	0.11%
18 CityView	Hispanic	25,451,719	45,323,392	70,775,111	1.02%	0.16%
Total Real Estate Equity:		1,088,684,506	776,071,173	1,864,755,679	26.84%	4.18%
19 ICV Capital Partners II, LLC	African American	19,124,843	12,439,717	31,564,560	0.38%	0.07%
20 Vicente Capital Partners	African American	14,325,397	504,600	14,829,997	0.18%	0.03%
21 Vista Equity	African American	345,208,733	204,177,269	549,386,002	6.57%	1.23%
22 Sirls Capital	African American	45,887,053	101,427,800	147,314,853	1.76%	0.33%
23 Smith, Whitley & Co.	African American (Female)	0	1,479,966	1,479,966	0.02%	0.00%
24 StarVest	Female	12,536,063	1,059,963	13,596,026	0.16%	0.03%
25 LiveOak Ventures	Other MBE (Asian)/Disabled	7,760,866	11,100,000	18,860,866	0.23%	0.04%
26 Clearlake Capital	Other MBE (Asian)/Disabled	95,825,220	145,654,519	241,479,739	2.89%	0.54%
27 Palladium Equity Partners	Hispanic	6,696,265	8,053,833	14,750,098	0.18%	0.03%
28 Asia Alternatives	Other MBE (Asian)/Disabled	27,859,723	170,551,527	198,411,250	2.37%	0.44%
29 Scale Venture Partners	Female	1,117,423	28,656,716	29,774,139	0.36%	0.16%
30 Grain Communications	African American	0	50,000,000	50,000,000	0.60%	0.14%
30 Sunstone Capital	Hispanic	(69,477)	19,836,559	19,767,082	0.24%	0.05%
31 Longitude Venture Partners	Female	40,018,250	22,937,764	62,956,014	0.75%	0.14%
Total Private Equity:		616,290,359	777,880,233	1,394,170,592	16.66%	3.12%
32 Quadratic	Female	97,005,662		97,005,662	2.99%	0.22%
33 Penso Advisors LLC	Hispanic	94,669,786		94,669,786	2.92%	0.21%
34 Varadero International	Hispanic	217,601,854		217,601,854	6.70%	0.49%
Total Absolute Return:		409,277,302		409,277,302	12.61%	0.92%
Total Minority and Female Managers		6,306,184,377	1,653,951,406	7,960,135,783		17.83%
		Fund Total		44,641,362,123		
		Goal AUM FY16	16.00%	7,142,617,940		
		Over / (Under)	1.83%	817,517,843		

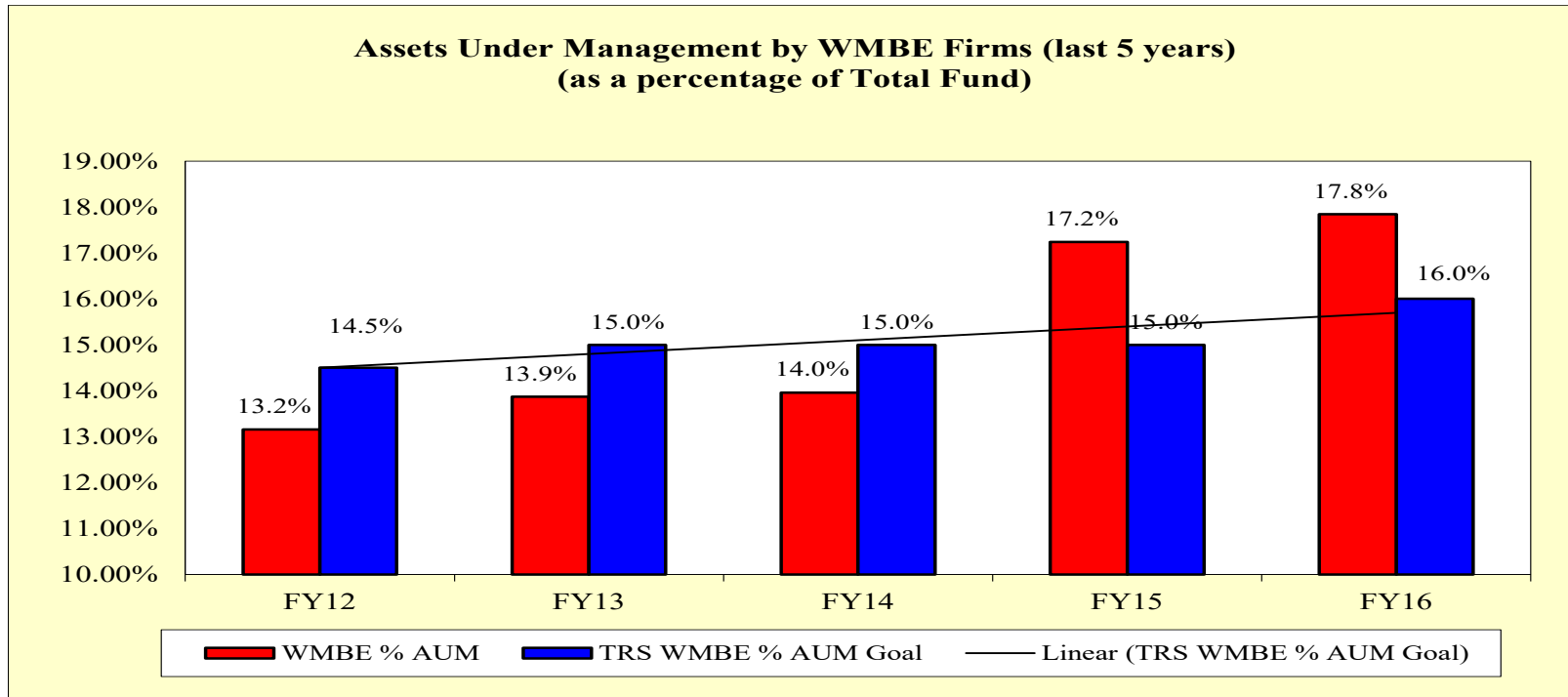
- Notes:
- Highlighted managers are currently in the Emerging Manager Program.
 - Real Estate "Total Exposure Value" figures were provided by Courtland (as of 3/31/16), include Committed / Debt / Cash Available for Reinvestment and are calculated by adding capital calls and subtracting returns of capital from the market value.
 - Private Equity "Total Exposure Value" figures were provided by TorreyCove (as of 3/31/16), include Committed / Debt / Cash Available for Reinvestment and are calculated by adding capital calls and subtracting returns of capital from the market value.
 - U.S. Equities, Int'l Equities, Fixed Income, Real Return, and Absolute Return "Percent of Total Asset Class" figures are based on Total Exposure Value divided by total asset class market values.
 - Real Estate "Percent of Total Asset Class" figures are based on manager total exposure divided by total asset class exposure (total commitments).
 - Private Equity "Percent of Total Asset Class" figures are based on manager total exposure divided by total asset class exposure (total commitments).
 - Real Estate "Net Market Value" figures also include debt associated with each investment.
 - RLJ went public in May 2011 and is no longer included in our W/MBE numbers.

WMBE Assets Under Management



WMBE AUM remained steady in FY16 at approximately \$7.9 billion

WMBE Assets Under Management



WMBE participation remained steady in FY16, as TRS continued to grow and develop relationships with minority managers

WMBE AUM – Public Markets

Minority and Female-Owned External Managers As of June 30, 2016

	Total AUM Exposure¹	as % of Total Asset Class AUM¹	as % of Total TRS AUM¹	as % of Total WMBE AUM
<u>Public Equities (US & Int'l)</u>				
African American	\$100,845,160	0.62%	0.23%	1.27%
Hispanic	\$302,262,388	1.85%	0.68%	3.80%
Female	\$2,608,564,450	15.97%	5.84%	32.77%
Other MBE/Disabled	\$24,858,042	0.15%	0.06%	0.31%
Sub-Total WMBE & Other	\$3,036,530,041	18.59%	6.80%	38.15%
<u>Fixed Income</u>				
African American	\$35,165,023	0.42%	0.08%	0.44%
Hispanic	\$738,143,174	8.81%	1.65%	9.27%
Female	\$100,000,000	1.19%	0.22%	1.26%
Other MBE/Disabled	\$0	0.00%	0.00%	0.00%
Sub-Total WMBE & Other	\$873,308,197	10.42%	1.96%	10.97%
<u>Real Return</u>				
African American	\$0	0.00%	0.00%	0.00%
Hispanic	\$0	0.00%	0.00%	0.00%
Female	\$382,093,972	10.95%	0.86%	4.80%
Other MBE/Disabled	\$0	0.00%	0.00%	0.00%
Sub-Total WMBE & Other	\$382,093,972	10.95%	0.86%	4.80%

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 AUM – Private Markets

Minority and Female-Owned External Managers As of June 30, 2015

	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	\$1,743,980,568	25.10%	3.91%	21.91%
Hispanic	\$120,775,111	1.74%	0.27%	1.52%
Female	\$0	0.00%	0.00%	0.00%
Other MBE/Disabled	\$0	0.00%	0.00%	0.00%
Sub-Total WMBE & Other	\$1,864,755,679	26.84%	4.18%	23.43%
<u>Private Equity</u>				
African American	\$793,095,412	9.48%	1.78%	9.96%
Hispanic	\$34,517,180	0.41%	0.08%	0.43%
Female	\$107,806,145	1.29%	0.24%	1.35%
Other MBE/Disabled	\$458,751,855	5.48%	1.03%	5.76%
Sub-Total WMBE & Other	\$1,394,170,592	16.66%	3.12%	17.51%
<u>Absolute Return</u>				
African American	\$0	0.00%	0.00%	0.00%
Hispanic	\$312,271,640	9.62%	0.70%	3.92%
Female	\$97,005,662	2.99%	0.22%	1.22%
Other MBE/Disabled	\$0	0.00%	0.00%	0.00%
Sub-Total WMBE & Other	\$409,277,302	12.61%	0.92%	5.14%

Notes:

- 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 AUM – Total Fund

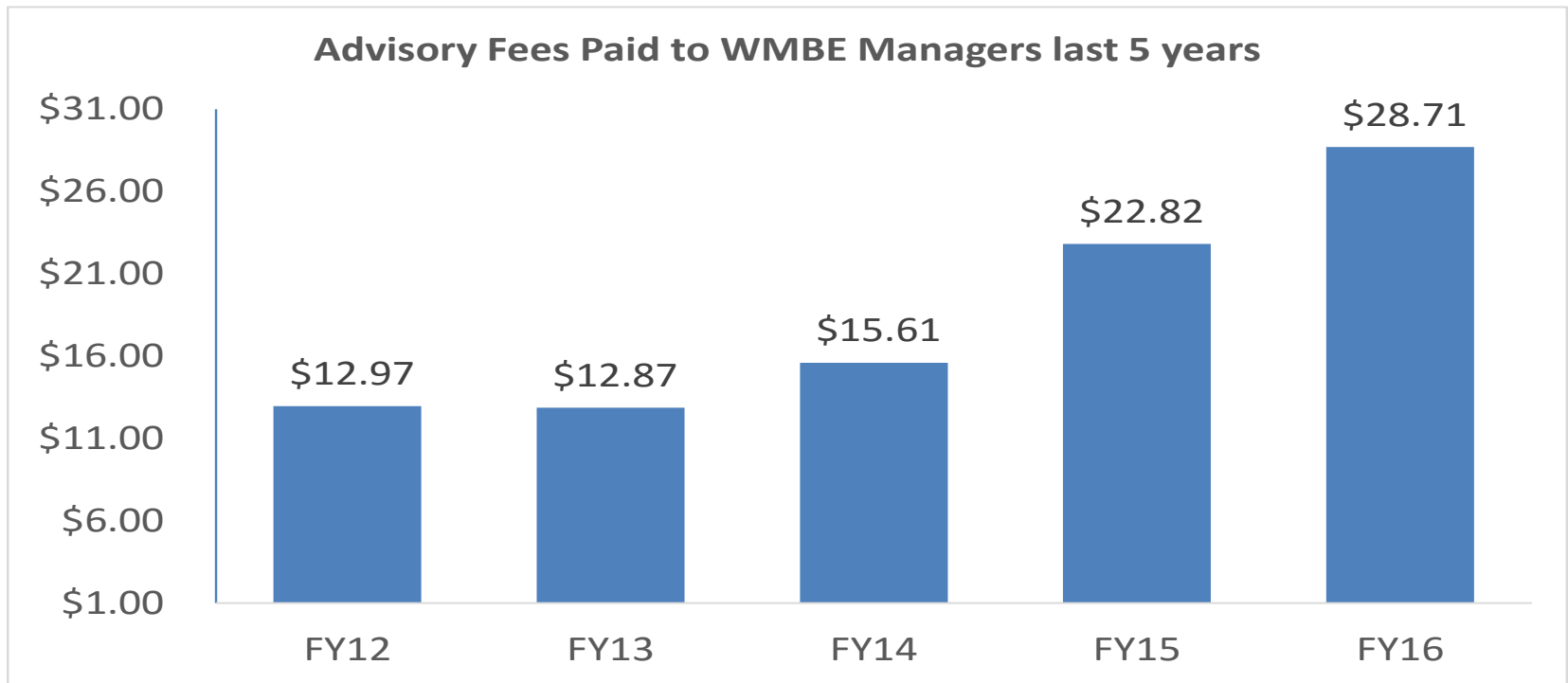
Minority and Female-Owned External Managers As of June 30, 2016

	Total <u>AUM Exposure</u>¹	as % of Total <u>Asset Class AUM</u>¹	as % of Total <u>TRS AUM</u>¹	as % of Total <u>WMBE AUM</u>
<u>Total Fund</u>				
African American	\$2,673,086,164	N/A	5.99%	33.58%
Hispanic	\$1,507,969,493	N/A	3.38%	18.94%
Female	\$3,295,470,228	N/A	7.38%	41.40%
Other MBE/Disabled	\$483,609,897	N/A	1.08%	6.08%
Total WMBE & Other	\$7,960,135,783	N/A	17.83%	100.00%

Notes:

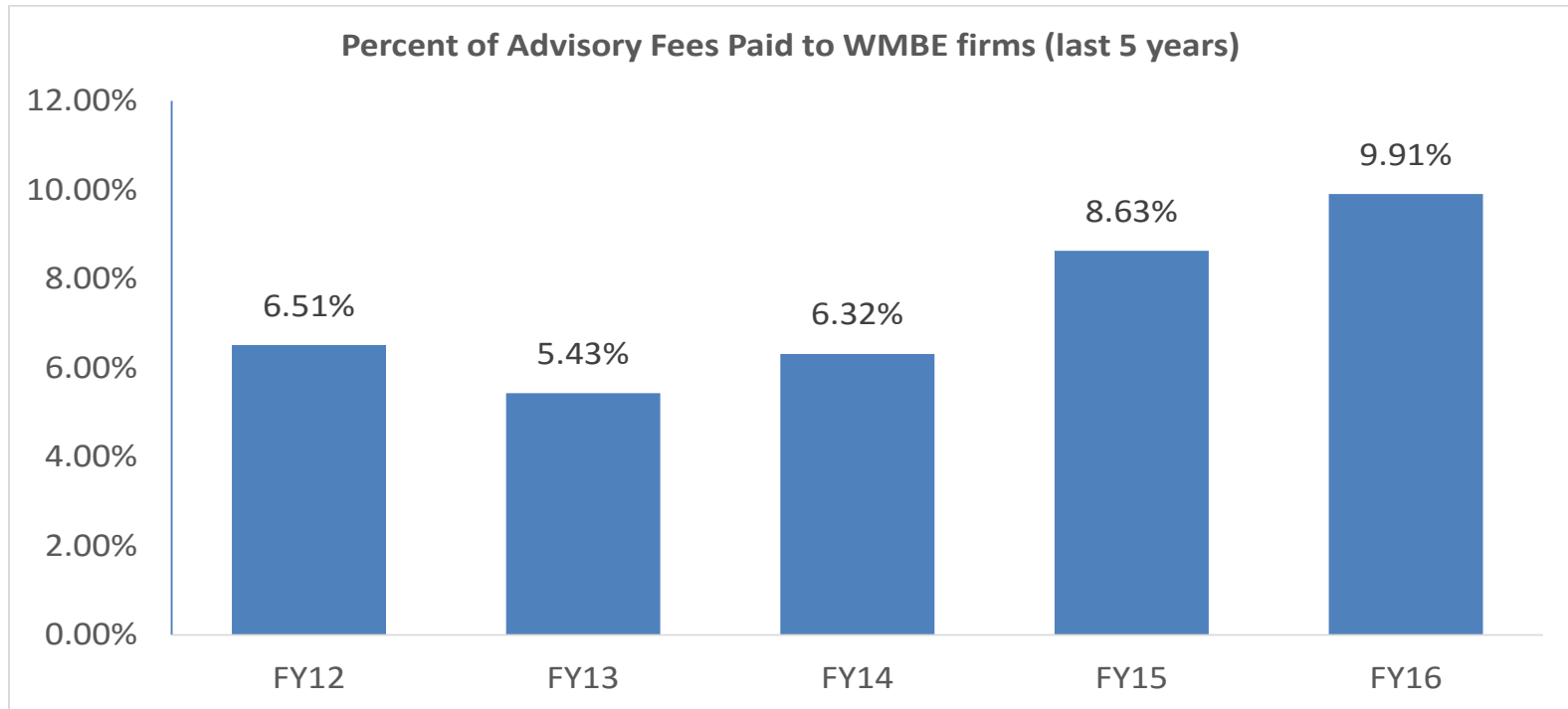
1. For PE and RE: Percent of Asset Class figures are calculated by dividing the Total Exposure Value of the manager(s) by the Total Exposure Value of the underlying asset class; which includes committed/debt/cash available for reinvestment.

WMBE Advisory Fees



Fees paid to WMBE-owned firms increased 25% in FY16 reflecting the continued commitment to WMBE managers

WMBE Advisory Fees (% Total TRS Fees)



Overall plan fees paid to WMBE-owned firms increased by 15% in FY16 to 9.91%

WMBE Fees – Public Markets

Minority and Female-Owned External Managers As of June 30, 2016

	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	\$836,368	1.67%	0.29%	2.91%
Hispanic	\$1,659,457	3.32%	0.57%	5.78%
Female	\$3,165,664	6.33%	1.09%	11.03%
Other MBE/Disabled	\$716,166	1.43%	0.25%	2.49%
Sub-Total WMBE & Other	\$6,377,655	12.75%	2.20%	22.21%
<u>Fixed Income</u>				
African American	\$700,875	2.34%	0.24%	2.44%
Hispanic	\$529,802	1.77%	0.18%	1.85%
Female	\$0	0.00%	0.00%	0.00%
Other MBE/Disabled	\$0	0.00%	0.00%	0.00%
Sub-Total WMBE & Other	\$1,230,677	4.11%	0.42%	4.29%
<u>Real Return</u>				
African American	\$0	0.00%	0.00%	0.00%
Hispanic	\$0	0.00%	0.00%	0.00%
Female	\$1,756,390	6.76%	0.61%	6.12%
Other MBE/Disabled	\$0	0.00%	0.00%	0.00%
Sub-Total WMBE & Other	\$1,756,390	6.76%	0.61%	6.12%

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 – Private Markets

Minority and Female-Owned External Managers As of June 30, 2016

	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	\$4,059,744	9.29%	1.40%	14.14%
Hispanic	\$0	0.00%	0.00%	0.00%
Female	\$0	0.00%	0.00%	0.00%
Other MBE/Disabled	\$0	0.00%	0.00%	0.00%
Sub-Total WMBE & Other	\$4,059,744	9.29%	1.40%	14.14%
<u>Private Equity</u>				
African American	\$5,067,424	8.01%	1.75%	17.65%
Hispanic	\$2,680,592	4.24%	0.92%	9.34%
Female	\$1,714,363	2.71%	0.59%	5.97%
Other MBE/Disabled	\$225,000	0.36%	0.08%	0.78%
Sub-Total WMBE & Other	\$9,687,379	15.32%	3.34%	33.74%
<u>Absolute Return</u>				
African American	\$0	0.00%	0.00%	0.00%
Hispanic	\$5,098,103	6.82%	1.76%	17.76%
Female	\$500,735	0.67%	0.17%	1.74%
Other MBE/Disabled	\$0	0.00%	0.00%	0.00%
Sub-Total WMBE & Other	\$5,598,838	7.49%	1.93%	19.50%

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, 2016

	Total Fees Paid	as % of Total Asset Class Fees	as % of Total TRS Fees	as % of Total WMBE Fees
Total Fund				
African American	\$10,664,412	N/A	3.68%	37.14%
Hispanic	\$9,967,954	N/A	3.44%	34.72%
Female	\$7,137,152	N/A	2.46%	24.86%
Other MBE/Disabled	\$941,166	N/A	0.32%	3.28%
Total WMBE & Other	\$28,710,683	N/A	9.91%	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 FY16: \$289,811,382

Illinois-Based WMBE Advisors

The chart on the following page details the Illinois WMBE investment advisors employed by TRS as of June 30, 2016. In summary:

	<u>No. Firms</u>	<u>TRS AUM</u>	<u>% Portfolio</u>
WMBE Advisors	34	\$7.96 Billion	17.83%
IL-based WMBE Advisors	6	\$2.33 Billion	5.05%

- An approximate decrease of \$300 million from \$2.61 billion in FY15 with IL-based WMBE Advisors, driven primarily by a Female owned firm being majority purchased
- The percentage of assets managed by IL-based WMBE firms decreased to 5.05% compared to FY15. See above.
- WMBE managers that are IL-based represent approximately 29% of all WMBE managers' AUM for FY16
 - A 4% decrease from FY15's 33% 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, 2016

<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 Lombardia Capital Partners	US Equity	Hispanic	274,014,199	3.12%	0.55%
2 Oakbrook Investments	US Equity	Female	165,912,384	2.10%	0.37%
3 Channing Capital Management	US Equity	African American	<u>100,845,160</u>	<u>1.27%</u>	<u>0.23%</u>
US Equity Asset Class Sub-Total			540,771,743	6.49%	1.15%
4 Ativo Capital Management	International Equity	Hispanic	<u>28,248,189</u>	<u>0.36%</u>	<u>0.06%</u>
International Equity Asset Class Sub-Total			28,248,189	0.36%	0.06%
5 Capri/Capital Advisors	Real Estate	African American	1,711,048,740	24.63%	0.00%
6 Oak Street Capital	Real Estate	Hispanic	<u>50,000,000</u>	<u>0.72%</u>	<u>3.83%</u>
Real Estate Asset Class Sub-Total			1,761,048,740	0.72%	3.83%
Private Equity Asset Class Sub-Total			0	0.00%	0.00%
Illinois-Based WMBE Firms			2,330,068,672		5.05%

- Notes:
- (a) Highlighted managers are currently in the Emerging Manager Program.
 - (b) Real Estate "Total Exposure Value" figures are provided by Courtland (as of 3/31/16), include Committed / Debt / 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 are provided by TorreyCove (as of 3/31/16), 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 Absolute Return "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 "Percent of Total Asset Class" figures are based on manager total exposure divided by total asset class exposure (total commitments).

TRS Investment Manager EEOC Survey

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 over 75,774 total full-time employees with over 22,177 senior management/officers and investment professionals:

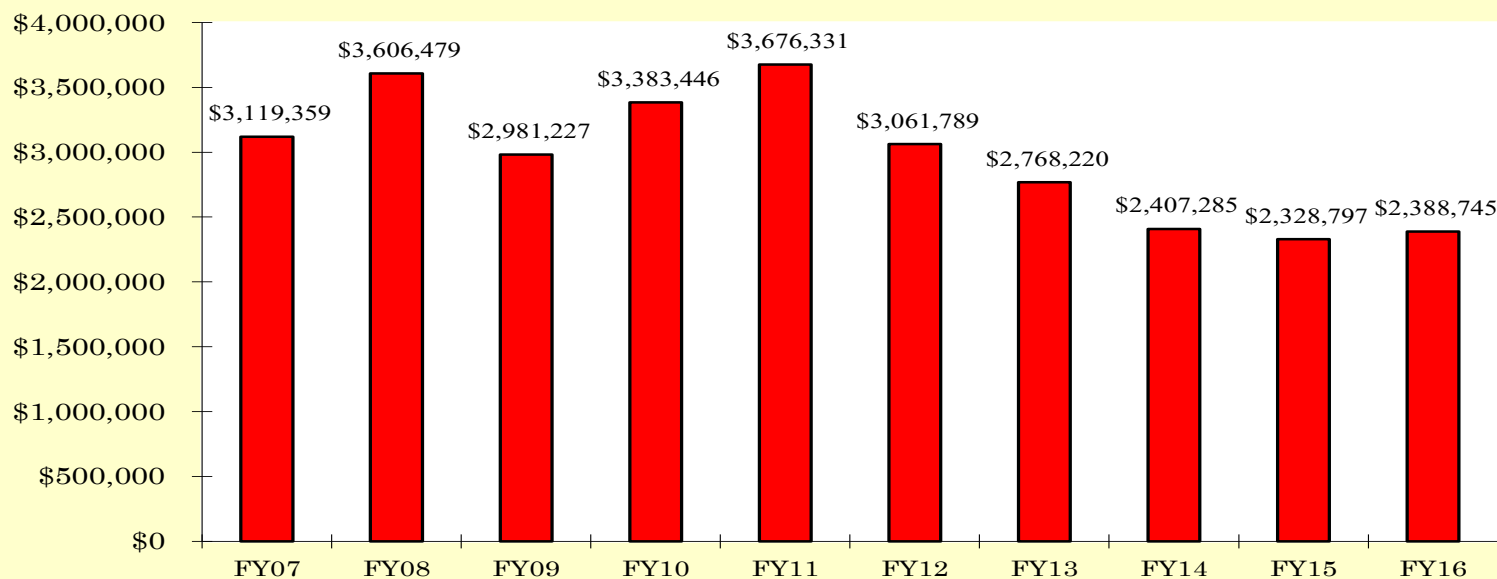
- Senior Executive Management Roles & Investment Professional Roles (ex. traders)
 - 6.0% are classified as African American vs. 5.6% in FY15
 - 7.1% are classified as Hispanic/Latino vs. 7.1% in FY15
 - 28.9% are classified as Other Minority (ex. AA & HA) vs. 25.7% in FY15
 - 37.3% are classified as non-minority female vs. 41.0% in FY15

WMBE Equity Commissions

- Global equity commissions paid to WMBE broker/dealers were \$2.39 million during FY16, or 20.8% of all global equity commissions
 - In FY16 the utilization target was increased for both Domestic and International equity
 - US equity FY16 WMBE utilization was 25.6%, beating the goal of 20.0% by 10.2%
 - Domestic equity's target utilization was increased from 19% to 20% in FY16
 - International equity WMBE utilization was 14.0% in FY16, which exceeded by 0.5% the 13.5% FY16 goal
 - International equity's target utilization was increased from 12.5% to 13.5% in FY16
 - More than 16.0% utilization has been achieved for six straight years
 - 29 WMBE equity broker dealers were utilized in FY16. This was a slight decrease from the 31 utilized in FY15.

WMBE Equity Commissions

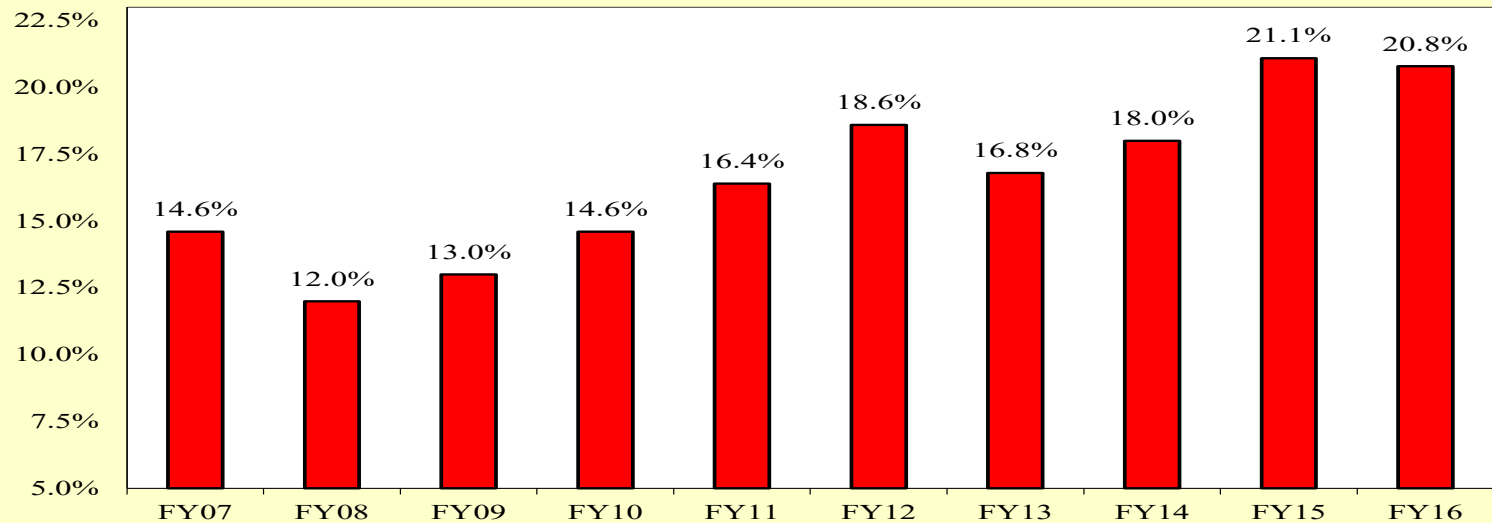
**Equity Amounts Paid to WMBE Brokers
(last 10 years)**



WMBE equity dollar utilization has decreased 37% since FY07

WMBE Equity Commissions

WMBE Total Equity % of Commissions Traded (last 10 years)



WMBE utilization has exceeded 16.0% for 6 straight years

WMBE Equity Commissions-Brokers

<u>Broker Name</u>	<u>Commissions Paid</u>	<u>Broker Name</u>	<u>Commissions Paid</u>
Academy	19,870.00	Ivy Securities	10,194.32
Andes	14.40	Loop Capital	729,041.45
Blaylock Beal Van	6,248.10	M. Ramsey King	75,991.87
BOE Securities	955.00	Mischler Financial	116,607.03
Cabrera Capital	158,810.18	Montrose Securities	42,693.22
Castle Oak Securities	49,492.46	MR Beal & Company	1,181.81
Cheevers & Co.	234,536.30	North South	3,943.10
Clancy	18.00	Penserra	108,288.48
CL King	96,509.09	Samuel Ramirez	146.00
CV Brokerage	6,317.00	Siebert	80.00
Divine	486.00	Sturdivant	251.88
Drexel	43,186.00	Telsey	69,076.87
Greentree Brokerage	30,722.00	Topeka Capital	158,891.80
Guzman & Company	64,335.78	Vandham	74,406.97
		Williams Capital	259,143.53
			<hr/> 2,388,745.36

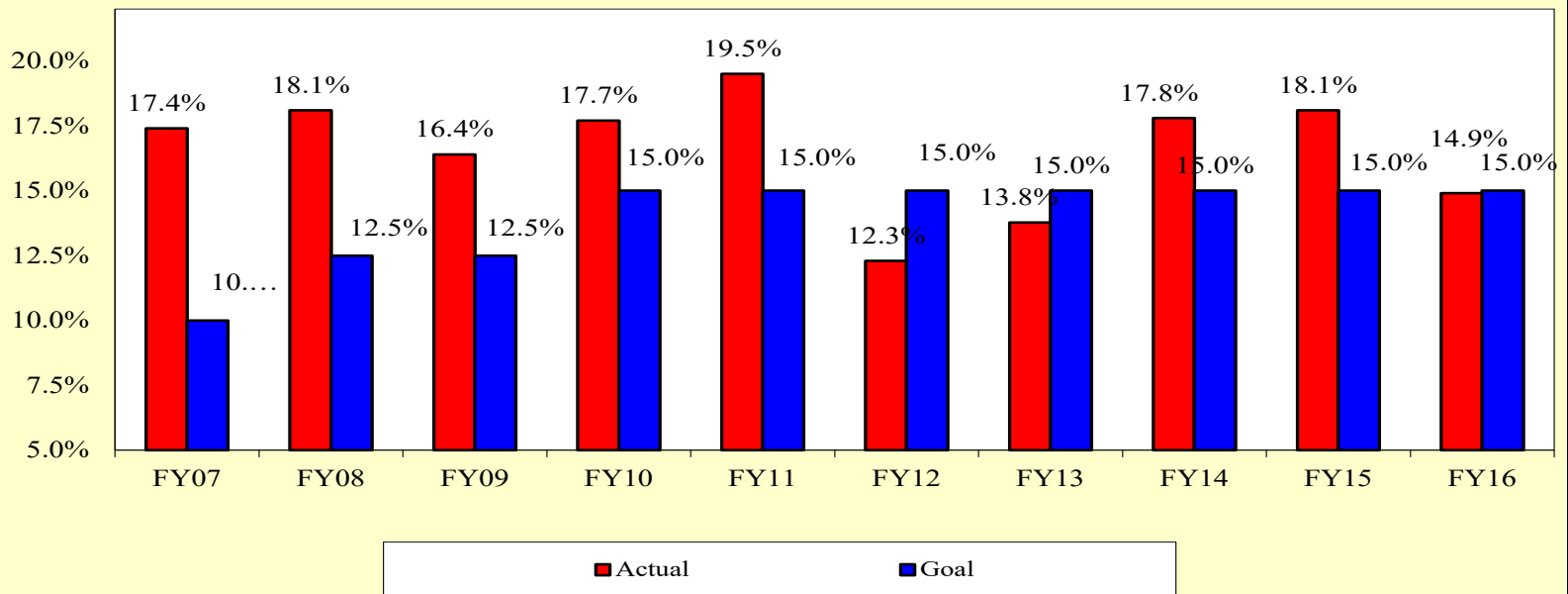
29 WMBE brokers were utilized for equity commissions in FY16

WMBE Fixed Income Brokerage

- WMBE Fixed Income market value traded was \$2.15 billion during FY16; a slight decrease of \$0.15 billion from FY15's \$2.30 billion figure
 - Utilization decreased 2.9% from 14.9% in FY15 to 17.8% for FY16
 - Fixed Income was in line with its 15% utilization goal for fiscal year 2016
- Overall trading volume rose in FY16. Total FY16 market value traded was \$14.4 billion, which is an increase of \$1.7 billion from the \$12.7 billion traded in FY15.
- The number of fixed income MBE broker/dealers utilized decreased in FY 16, from 15 in FY15 to 10 in FY16

WMBE Fixed Income MV Traded

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



14.9% of value traded through WMBE Brokers in FY16

Note: Market Value Traded was used for FY07-FY16

Emerging Manager Program

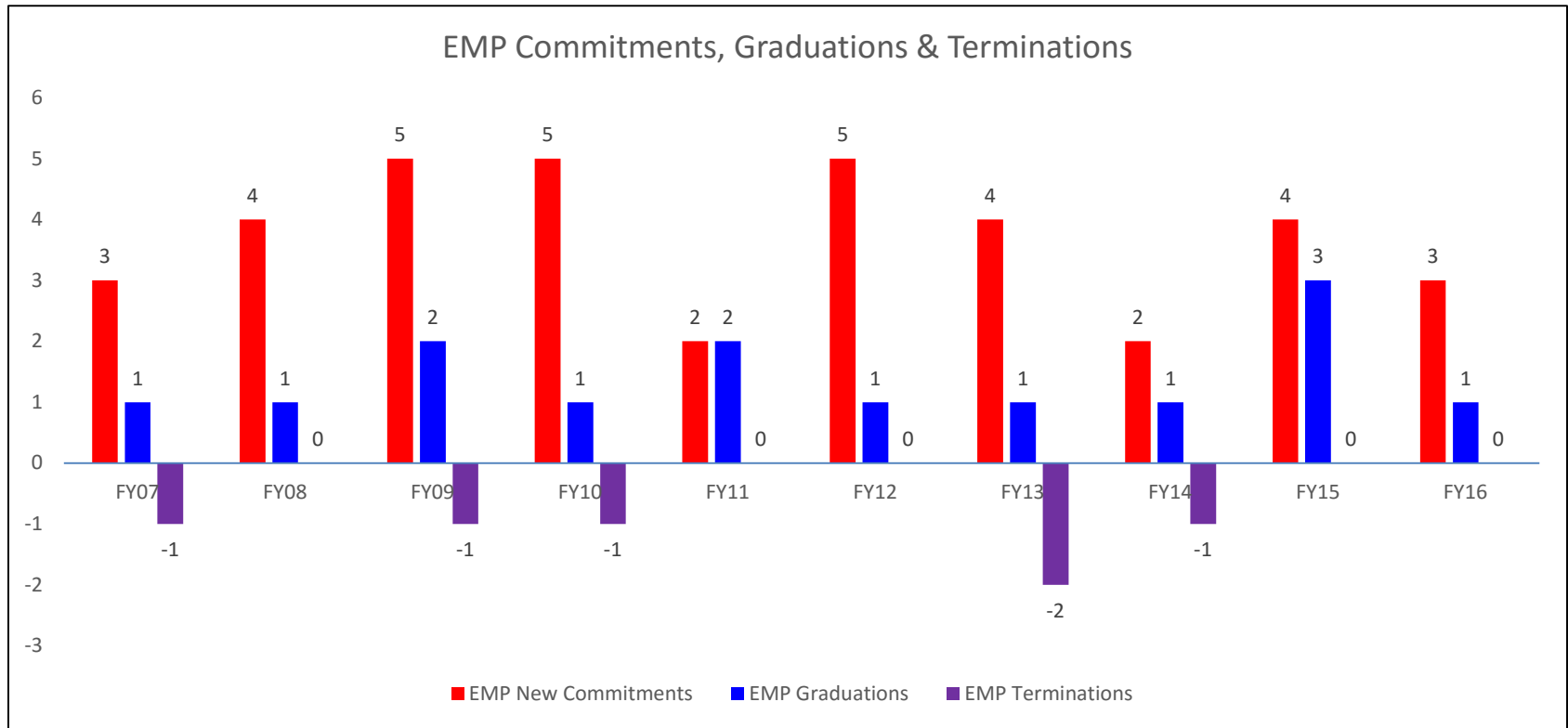
- In May 2014, the TRS Board increased the allocation to \$750 million from the existing \$500 million for the Emerging Manager Program (EMP)
 - Since inception, and as of FY16, the EMP will have committed \$1.6 billion to 42 investment managers
 - EMP mandates have averaged \$38 million
 - 39 of the 42 investment managers within the program have been female-owned and/or minority-owned firms
 - 14 of the 42 emerging managers have graduated into main portfolio with full mandates; with 12 of the 14 representing female and/or minority managers including 2 African American-owned firm (Piedmont, Herndon, Siris), 3 Hispanic-owned firms (Lombardia, Garcia Hamilton, Clearlake), 4 female-owned firms (NCA, FMA, Oakbrook and SGA), 1 Native American firm (Denali) and 1 Asian American firm (Apex).
 - At the end of FY16, the EMP had 15 emerging managers managing \$435 million in mandates for TRS; including 4 public markets, 1 fixed income, 6 private equity, 1 absolute return and 3 real estate managers

Emerging Manager Program (continued)

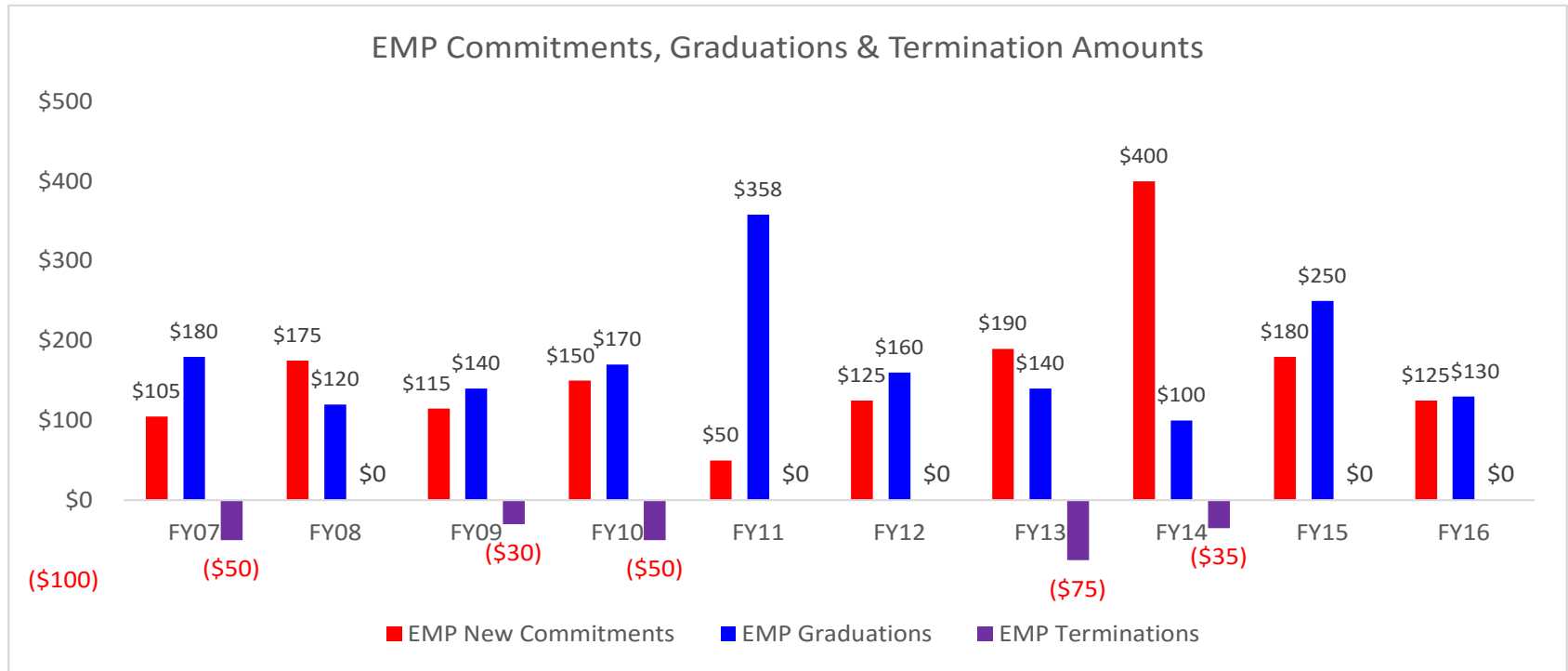
- As of June 30, 2016, approximately \$435 million is committed to 15 managers
- Expanded 1 existing manager mandates
 - Quadratic Capital, (woman owned hedge fund) was allocated an additional \$50M to bring total commitment to \$100M
- Graduated 1 manager from the Emerging Manager Program
 - Apex Capital Management, a international equity strategy (MBE firm). The firm was subsequently purchased by a majority firm and is no longer considered minority owned.
- Hired 3 new emerging managers within the Emerging Manager Program
 - Oak Street, a new real estate manager, with a \$50 million mandate (MBE firm)
 - Sunstone Capital, a new private equity manager, with a \$25 million mandate (MBE)
 - Grain Communications, a new private equity manager, with a \$50 million mandate (WBE firm)

During FY16, the TRS Board committed more than \$700 million to WMBE managers, which included \$125 million to WMBE emerging managers

Emerging Manager Program (continued)



Emerging Manager Program (continued)



Since inception TRS has invested more than \$1.5 billion with emerging managers and awarded an additional \$1.5 billion upon graduation

Emerging Manager Program (continued)

FY2016 Statistics	Total	Commentary							
# of Products Submitted	14	-46%	overall submissions declined compared to FY15						
# of Managers Submitted	10	-50%	overall submissions declined compared to FY15						
# of Products Not Applicable	0	0.0%	of Products Submitted did not fit any TRS allocation						
# of WBE Manager Submissions	1	10.0%	of managers were WBE-owned						
# of MBE Manager Submissions	4	40.0%	of managers were MBE-owned						
# of Illinois-based Managers	1	10.0%	of managers were Illinois-based						
# of Managers Interviewed	5	50.0%	of managers were interviewed						
# of On-Sites Conducted (Due Diligence)	3	30.0%	of managers had on-sites						
# of Managers Presented to Board	3	30.0%	of managers presented to the Board						
# of Managers Funded by Board	3	100.0%	of managers were funded by the Board						
# of WBE Managers Funded	0	0.0%	of managers funded were WBE-owned						
# of MBE Managers Funded	3	100.0%	of managers funded were MBE or Other/Disabled -owned						
		0.0%	of all WBE manager submissions were funded						
		75.0%	of all MBE or Other/Disabled manager submissions were funded						
		60.0%	of all WMBE manager submissions were funded						
# of Managers Promoted/Addtl. Funding	1		One emerging manager, Quadratic Capital, was provided additional funding during FY16						
Initial and Promoted/Addtl Funding Amount	\$125/50	100.0%	of amount funded went to WMBE -owned firms						
# of Manager Graduated from Program	1		Apex Capital						
Graduation Funding Amount	\$175		Apex Capital						
# of Managers Still in Program	15		There are 4 public markets, 6 private equity, 1 fixed income, 3 real estate, and 1 absolute return manager						
# of Products Under Consideration / "Hold"	3		Including previous fiscal year's "Hold Candidates" and candidates "Under Review"						

Note: Submission, interview and on-site data do not include candidates "Under Review" or considered "Hold Candidates" that submitted in previous fiscal years.

Submission to the EMP begins with a questionnaire at:
<http://trs.illinois.gov/investments/participate/emergingManagers.htm>

Summary

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 will host its 13th Annual Opportunity Forum in the Spring of 2017, which will continue to focus on building relationships between TRS's investment managers and WMBE brokerage community