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ILLINOIS STATE TREASURER

Prioritizing Equity, Diversity & Inclusion

Guide to the
Office of the Illinois State Treasurer's
INVESTMENT CONSULTANT SCORECARD

Updated February 2021

EXECUTIVE SUMMARY

This document describes the evaluation process by which the Office of the Illinois State Treasurer (“Illinois Treasurer”) assesses its investment consultants on issues of equity, diversity, and inclusion.

Given the aspirational goal set forth in state law and in the policies of the Illinois Treasurer to increase the utilization of diverse-owned investment firms, and given the centrality of investment consultants in the identification and selection of external investment firms utilized by the Illinois Treasurer, it is appropriate to establish a system that assesses the capabilities and attributes of investment consultants in assisting the Illinois Treasurer toward executing this goal.

The Investment Consultant Scorecard of the Illinois Treasurer is a customized evaluation process that seeks to fulfill this objective.

Using data provided by investment consultants via the office’s annual Equity, Diversity and Inclusion Assessment, the Illinois Treasurer evaluates its investment consultants on five pillars – (1) People, (2) Personnel Policies, (3) Executive Compensation, (4) Diverse Manage Engagement, and (5) Corporate Responsibility. The Illinois Treasurer allots points under each pillar, creating a quantitative means to judge and compare the policies, processes, attributes, and performance of investment consultants to facilitate the execution of diversity goals.

For more information on the equity, diversity, and inclusion policies and activities of the Illinois Treasurer, visit: [www.illinoistreasurer.gov/Financial Institutions/Equity, Diversity Inclusion](http://www.illinoistreasurer.gov/Financial_Institutions/Equity,_Diversity_Inclusion).

For specific questions, please contact MWVD@illinoistreasurer.gov or (312) 814-2997.

ABOUT THE OFFICE OF THE ILLINOIS STATE TREASURER

The Office of the Illinois State Treasurer, pursuant to the Illinois Constitution, is responsible for the receipt, safekeeping and investment of state monies, and for their disbursement.

The Illinois Treasurer is dedicated to prudently investing money on behalf of the State, units of government, and retirement and college savers, expertly managing the State's multiple banking functions, and providing exceptional financial services to individuals and government bodies in Illinois. Our decisions promote economic growth, education, access, and opportunity for individuals and government bodies across our State to give families the tools to achieve the American Dream. The Illinois Treasurer is committed to fulfilling this mission in a highly professional and ethical manner, while striving for transparency, efficiency, diversity and inclusion, sustainability, and preservation of public trust.

The Illinois Treasurer manages approximately \$35 billion, which includes \$15 billion in State investments, \$12 billion in college savings and retirement savings funds, and \$5 billion in funds managed on behalf of State agencies and units of local government.

On the investment front, the Illinois Treasurer oversees several programs, including:

1. [State Investments](#)
2. [529 College Savings Plans](#)
3. [The Illinois Funds](#)
4. [Illinois Growth and Innovation Fund](#)
5. [Secure Choice Retirement Savings Program](#)
6. [Illinois Achieving a Better Life Experience \(ABLE\) Program](#)
7. [Student Investment Accounts](#)

The Illinois Treasurer also administers the State's multiple banking functions and financial services, overseeing cash management activities, and processing payments and receipts on behalf of over 100 State agencies, boards, and commissions.

The Office of the Illinois Treasurer predates Illinois incorporation in 1818. Voters in 1848 chose to make it an elected office.

FOCUS ON EQUITY, DIVERSITY & INCLUSION

The Office of the Illinois State Treasurer believes that our government should mirror the diversity in our state. Furthermore, the Illinois Treasurer believes 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 Illinois Treasurer is focused on providing opportunities to qualified Minority, Women, Veteran, and Disabled-owned (MWVD) firms.

Furthermore, as set forth in Section 30 of the State Treasurer Act, 15 ILCS 505/30, it is an aspirational goal of the Illinois Treasurer to use businesses owned by or under the control of qualified veterans of the armed forces of the United States, qualified service-disabled veterans, minority persons, women, or persons with a disability (“MWVD Persons”) for not less than 25% of the total dollar amount of funds under management, purchases of investment securities, and other contracts.

Preference is accorded to qualified businesses that demonstrate or attest that (1) greater than 50% of the ownership interest of the firm is held by MWVD Persons, OR (2) greater than 75% of the firm’s senior managers are MWVD Persons. As used herein, the following definitions apply:

- i. “Minority person” means a person who is any of the following: American Indian or Alaska Native, Asian, Black or African American, Hispanic or Latino, Native Hawaiian or Other Pacific Islander;
- ii. “Woman” means a person who is of the female gender;
- iii. “Veteran” means a person who (1) has been a member of the armed forces of the United States or, while a citizen of the United States, was a member of the armed forces of allies of the United States in time of hostilities with a foreign country and (2) served under one or more of the following conditions: (a) served a total of at least six months, (b) served for the duration of hostilities regardless of the length of the engagement; (c) was discharged on the basis of hardship; or (d) was released from active duty because of a service connected disability and was discharged under honorable conditions; and
- iv. “Person with a disability” means a person with a severe physical or mental disability that: (1) results from: amputation, arthritis, autism, blindness, burn injury, cancer, cerebral palsy, Crohn’s disease, cystic fibrosis, deafness, head injury, heart disease, hemiplegia, hemophilia, respiratory or pulmonary dysfunction, an intellectual disability, mental illness, multiple sclerosis, muscular dystrophy, musculoskeletal disorders, neurological disorders, including stroke and epilepsy, paraplegia, quadriplegia and other spinal cord conditions, sickle cell anemia, ulcerative colitis, specific learning disabilities, or end stage renal failure disease; and (2) substantially limits one or more of person’s major life activities. Another disability or combination of disabilities may also be a disability if it is determined to cause a comparable degree of substantial functional limitations similar to the foregoing list of disabilities.

INVESTMENT CONSULTANT SCORECARD

The Illinois Treasurer seeks a variety of financial services and products from external partners, including investment management services related to public equity, private equity, fixed income, venture capital, securities lending, real estate, and cash and cash equivalents. Investment consultants play an important role, both with the Illinois Treasurer and across the industry, in identifying, screening, and recommending qualified investment managers for use by asset owners.

Given the goal of the Illinois Treasurer to maximize the use of qualified investment managers owned by or under the control of MWVD Persons, the Illinois Treasurer seeks to ensure that its investment consultants have the policies, practices, and attributes to help fulfill this objective (while of course, simultaneously balancing considerations related to cost, investment strategy, performance, and various other factors).

The Illinois Treasurer employs a customized evaluation system, the Investment Consultant Scorecard, to assess and compare the policies, processes, attributes, and performance of investment consultants in helping the Illinois Treasurer achieve its diversity goals.

• COLLECTING DATA FROM INVESTMENT CONSULTANTS

Every year Illinois Treasurer issues the **Equity, Diversity & Inclusion Assessment (“EDI Assessment”)** (**see Attachment A**) for completion by various business partners, including investment consultants. The EDI Assessment asks respondents to submit information on several areas, including the diversity of the owners or board of directors at the firm; the diversity of the employees at the firm; and the organizational activities conducted that promote equity, diversity and inclusion.

Beyond these questions required of every respondent type, the EDI Assessment includes an additional section specifically tailored to investment consultants, which is composed of 13 questions. From this, the Illinois Treasurer collects data from its investment consultants for each of the five pillars. This data, along with that obtained from the general questions, provides the content from which an evaluation and score is ultimately rendered on investment consultants.

• THE EVALUATION FRAMEWORK

THE FIVE PILLARS

Using the responses provided to the EDI Assessment, the Illinois Treasurer evaluates investment consultants on issues of equity, diversity and inclusion on five pillars, each with its own set of criteria.

1) PEOPLE

People assesses both the disclosure of diversity and the level of diversity that exists in key levels of an investment consultant’s leadership and workforce.

CRITERIA

- **Criterion A: Board and Ownership Diversity** – The Illinois Treasurer seeks to understand whether and to what extent diversity exists within the company’s owners and/or senior leaders. 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.

- **Criterion B: Executive Diversity** – The Illinois Treasurer seeks to understand whether and to what extent diversity exists within the highest levels of company management. Research demonstrates that diversity among senior leadership groups can enhance decision-making, decrease groupthink, and improve knowledge of consumers and markets.
- **Criterion C: Employee Diversity** – The Illinois Treasurer seeks to understand whether and to what extent diversity exists within the company’s overall workforce. An inclusive, diverse workforce positions an organization for increased productivity, creativity, employee engagement, talent acquisition, reputational value, reduced turnover, broadened skillsets, and enhanced cultural insights relevant to consumers and markets.
- **Criterion D: Diverse Interns** – The Illinois Treasurer seeks to understand whether and to what extent the investment consultant is actively seeding and developing diverse talent within the company and industry.

2) PERSONNEL POLICIES

Personnel Policies assesses whether policies and practices exist to promote and sustain equity, diversity and inclusion among the investment consultant’s workforce.

CRITERIA

- **Criterion E: Diverse Employee Compensation** – The Illinois Treasurer seeks to understand whether and to what extent diverse employees of investment consultants earn equal pay for equal work, and if policies exist and corrective measures are taken when/if discrepancies arise.
- **Criterion F: Employee Diversity Baseline and Improvement Strategy** – The Illinois Treasurer seeks to understand whether and to what extent the investment consultant sets a baseline diversity target and if there is a policy or strategy to actively improve its pool, acquisition, retention, and professional development of diverse talent.

3) EXECUTIVE COMPENSATION

Executive Compensation assesses whether policies and practices exist that incentivize senior leaders to advance equity, diversity and inclusion goals at the firm and establish accountability for performance on executing said goals.

CRITERIA

- **Criterion G: CEO Compensation and Diversity among Company Executives** – The Illinois Treasurer seeks to understand whether and to what extent diversity among company executives is incentivized at the CEO level to establish accountability for the execution of equity, diversity and inclusion goals.

- **Criterion H: CEO Compensation and Diversity among Company Personnel** – The Illinois Treasurer seeks to understand whether and to what extent diversity among company personnel (e.g. professional staff, middle management, etc.) is incentivized at the CEO level to establish accountability for the execution of equity, diversity and inclusion goals.
- **Criterion I: CEO Compensation and Diversity among Manager Searches** – The Illinois Treasurer seeks to understand whether and to what extent the CEO is incentivized to promote diversity among manager search activities and thereby establish accountability for the execution of equity, diversity and inclusion goals.

4) DIVERSE MANAGER ENGAGEMENT

Diverse Manager Engagement assesses whether policies and practices exist to measure and increase the inclusion of diverse investment managers as part of investment manager searches.

CRITERIA

- **Criterion J: Adoption of the Garcia Rule** – The Illinois Treasurer seeks to understand whether the investment consultant has adopted the Garcia Rule. The Garcia Rule requires that for every search for an external investment manager, consultants include at least one diverse-owned manager. This is an industry-recognized best practice that facilitates the consideration of MWVD managers.
- **Criterion K: Diverse Manager Search Baseline & Improvement Strategy** – The Illinois Treasurer seeks to understand whether and to what extent the investment consultant sets a baseline diversity target for manager searches and if there is a strategy in place to actively improve its pool of diverse fund managers.
- **Criterion L: Disclosure of Diverse Manager Search and Selection** – The Illinois Treasurer seeks to understand data regarding the searches, selection, and hiring of diverse fund managers, including the total quantity of assets allocated to diverse managers.
- **Criterion P: Fee/Compensation Study for Diverse Managers** – The Illinois Treasurer seeks to understand whether and to what extent fee parity exists between diverse and non-diverse fund managers with similar mandates.

5) CORPORATE RESPONSIBILITY

Corporate Responsibility assess whether and to what extent policies and practices exist to promote corporate responsibility, philanthropy, and supplier diversity to advance goals related to equity, diversity and inclusion.

CRITERIA

- **Criterion M: Corporate Philanthropy** – The Illinois Treasurer seeks to understand whether and to what extent the investment consultant uses its position and resources to be an active, engaged corporate citizen contributing to community empowerment and diversity goals.

- **Criterion N: Supplier Diversity Program** – The Illinois Treasurer seeks to understand whether and to what extent the investment consultant integrates and manifests equity, diversity, and inclusion goals through the use of suppliers and vendors. The quality of the supplier diversity program is often evidenced by leadership commitment, established policies and procedures, metrics/performance measures, or other relevant indicators.
- **Criterion O: Economic Disclosures** – The Illinois Treasurer seeks to understand whether the investment consultant has received any economic benefit from managers it recommends or managers retained by the consultant’s clients. This is also a legally required disclosure.

Point System

Each criterion is weighted equally, with points ranging from 1-3. An investment consultant can earn a combined total of **48 points** if maximum scores are allotted for all criteria.

People	12 Points
Personnel Policies	6 Points
Executive Compensation	9 Points
Diverse Manager Engagement	12 Points
<u>Corporate Responsibility</u>	<u>9 Points</u>
Total Points Possible	48 Points

Points Earned & Score Earned

Points earned for each of the five pillars are added to create a unified Score Earned. The Score Earned will range from A – F, depending on the Points Earned. The Score Earned is assigned to each investment consultant as follows:

Points Earned	Score Earned	Descriptor
42 - 48	A	Exceptional
35 - 41	B	High-Performer
28 - 34	C	Average
21 - 27	D	Below-Average
< 21	F	Underperforming

• **REPORT OUT TO INVESTMENT CONSULTANT**

Each investment consultant will be informed of their results through delivery of their final score and a summary analysis of their performance. This transparency is key to forming mutual understanding of the scorecard and providing the consultant with actionable items for improvement.