



# **The Use of Minority- and Women-owned Brokerage and Investment Management Firms by the State of Maryland**

Fiscal Year 2014

Regional Economic Studies Institute of Towson University

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## **1.0 Executive Summary**

### **1.1 Overview**

The Governor's Office of Minority Affairs (GOMA) tasked the Regional Economic Studies Institute (RESI) of Towson University with producing a report on the use of minority- and women-owned investment and financial services firms by specific Maryland agencies for fiscal year (FY) 2014.

### **1.2 Summary of Findings**

Below are the key data points and findings in regard to the past and current use of minority- and women-owned investment and financial services firms by the specific Maryland agencies.

#### **Historical Data**

- From FY 2010 to FY 2014, the total assets under management by minority- and women-owned firms increased from 8.7 percent to 10.7 percent.
- From FY 2010 to FY 2014, the total commissions paid to minority- and women-owned investment brokers increased from 11.1 percent to 12.3 percent.

#### **Statewide Data**

- More than 30 percent of the investment portfolios were managed by minority- and women-owned investment managers in the following asset classes: private equity and public equity.
- There were a total of 38 emerging investment managers compared to 35 emerged investment managers.
- The majority of the fees (\$333.7 million) statewide were paid for asset management purposes.

#### **Minority Utilization**

- In FY 2014, a total of \$5.4 billion in assets were managed by minority- or women-owned firms. Of the total, the majority (\$5.2 billion) of these assets were managed by minority-owned investment managers hired by the State Retirement and Pension System.
- In FY 2014, a total of \$1.2 billion in commissions were paid to minority- or women-owned investment brokers. Nearly \$964.6 million of these commissions were paid to minority-owned investment brokers hired by the State Retirement and Pension System.

## 2.0 Introduction

The Governor's Office of Minority Affairs (GOMA) tasked the Regional Economic Studies Institute (RESI) of Towson University with producing an annual report on the use of minority- and women-owned investment and financial services firms by specific Maryland agencies identified in Chapters 488 and 489 (2012 Laws). RESI will produce consecutive reports on this subject matter for fiscal years (FYs) 2013, 2014, and 2015. This report encompasses FY 2014.

To achieve the project objective, RESI analyzed data provided by GOMA and collected from the following Maryland agencies:

- State Retirement and Pension System (SRPS),
- Chesapeake Employers Insurance (CEI, formerly IWIF),
- Maryland Automobile Insurance Fund (MAIF),
- Maryland State Treasurer's Office (the Treasurer),
- Department of Business and Economic Development (DBED),
- Maryland Higher Education Commission (MHEC),
- Department of Housing and Community Development (DHCD), and
- Maryland's Teachers and State Employee's Supplemental Retirement Plans (MSRP).

In May 2008, House Bill 1277 (Chapter 600) was passed, requiring "certain state entities responsible for the management of certain funds to attempt to use to a certain extent minority business enterprise brokerage and investment management services firms" and report on their usage.<sup>1</sup> The four state agencies required to submit documentation on their usage were SRPS, CEI (formerly IWIF), MAIF, and the Treasurer.

During the 2012 Regular Session, House Bill 277 (Chapter 489) was passed to expand the number of state agencies required to report on the use of minority-owned business enterprises in brokerage and investment management services.<sup>2</sup> The legislation added DBED, MHEC, DHCD, and MSRP to the existing four State agencies that were required to report.<sup>3</sup> Each state agency completed an Annual Report Questionnaire that provided data on their investment portfolios and brokerage services.

It should be noted that the following report does not include DBED, MHEC, or DHCD as these agencies indicated that they do not engage in investment management or brokerage services. Moreover, the Treasurer "invests money for these agencies along with the excess cash the Treasurer holds."<sup>4</sup> In addition, the Treasurer handles investments in house and does not utilize external managers.<sup>5</sup> Note that minority-owned business enterprises include minority-owned,

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<sup>1</sup> General Assembly of Maryland, "Chapter 601 (House Bill 1277)," 1, accessed December 23, 2014. [http://mgaleg.maryland.gov/2008rs/chapters\\_noln/Ch\\_601\\_hb1277E.pdf](http://mgaleg.maryland.gov/2008rs/chapters_noln/Ch_601_hb1277E.pdf).

<sup>2</sup> General Assembly of Maryland, "Chapter 489 (House Bill 277)," 1-2, accessed October 13, 2014. [http://mgaleg.maryland.gov/2012rs/chapters\\_noln/Ch\\_489\\_hb0277E.pdf](http://mgaleg.maryland.gov/2012rs/chapters_noln/Ch_489_hb0277E.pdf).

<sup>3</sup> Ibid, 2.

<sup>4</sup> Maryland State Treasurer's Office, "Utilization of Minority and Women Owned Firms: Bernadette T. Benik."

<sup>5</sup> Ibid.

disabled veteran-owned (DVBE), and women-owned (WBE) firms. In the context of this report, RESI referred to all types as MBEs except in figures where RESI noted the specific classifications.

### 3.0 Historical Trends

Over the years, GOMA has published annual reports on the diversity and inclusion efforts of selected Maryland state agencies on their investment portfolios. The FY reports included the collaborative efforts for SRPS, CEI (formerly IWIF), MAIF, and the Treasurer. As noted, four additional agencies were requested to participate in the usage and reporting of minority-owned business enterprises (MBEs) in brokerage and investment management services: DBED, MHEC, DHCD, and MSRP. The only additional agency that provided FY 2014 and older data on MBE investment and financial service activities was MSRP.

Figures 1 and 2 below indicate the annual totals for asset management for SRPS, CEI, MSRP, and MAIF between FY 2010 and FY 2014. The Treasurer is not included because the total amount of assets being managed by minority and women-owned investment firms is not applicable for this agency.

**Figure 1: Annual Asset Management**

Fiscal Year (FY)	Total Assets Under Management	Assets Under MBE Management	Percentage MBE/Total
2010	\$36,050,942,769	\$3,135,427,270	8.7%
2011	\$42,119,152,655	\$4,396,190,294	10.4%
2012	\$41,726,930,569	\$4,169,140,222	10.0%
2013	\$45,100,834,256	\$4,865,667,966	10.8%
2014	\$50,389,208,493	\$5,398,981,417	10.7%

Source: FY 2014 Annual Report Questionnaires

As shown in Figure 1, the total assets under management (AUM) for the four agencies increased nearly 40 percent from FY 2010 to FY 2014. The assets under management by minority- and women-owned firms have declined only 0.1 percent from FY 2013 to FY 2014. In FY 2013, the MBEs represented 10.8 percent of the total assets under management, compared to 10.7 percent in FY 2014.

**Figure 2: Annual MBE Investment Managers Utilized**

FY	Emerging MBE Managers	Emerged MBE Managers	Total
2010	53	22	75
2011	44	29	73
2012	41	30	71
2013	39	32	71
2014	38	35	73

Source: FY 2014 Annual Report Questionnaires

As shown in Figure 2, the number of minority- and women-owned investment managers utilized slightly decreased from FY 2010 to FY 2014. In FY 2014, the total number of investment managers were 73, of which 38 were emerging MBE managers and 35 were emerged MBE managers.

Figure 3 and 4 below indicate the annual totals for assets under management by the type of investment manager between FY 2010 and FY 2014. It includes data only from SRPS, CEI, and MSRP. MAIF is not included because the agency did not provide amounts for the assets under management by emerged or emerging investment managers. The Treasurer is not included because the total amount of assets being managed by minority and women-owned investment firms is not applicable for this agency.

**Figure 3: Assets under Management by Emerged MBE Investment Managers**

FY	Chesapeake Employers Insurance	Maryland Auto Insurance Fund	State Retirement and Pension System
2010	\$28,500,000	\$0	\$1,657,800,000
2011	\$113,900,000	\$7,600,000	\$2,635,000,000
2012	\$94,600,000	\$5,600,000	\$2,444,200,000
2013	\$117,968,000	\$10,900,000	\$3,655,200,000
2014	\$126,982,000	\$12,800,000	\$3,912,000,000

Sources: FY 2010 through FY 2014 Annual Reports

As shown in Figure 3, the assets under management by emerged MBE investment managers increased from FY 2010 to FY 2014. The AUM by emerged investment managers increased dramatically from \$1.65 billion in FY 2010 to \$3.91 billion in FY 2014 for SRPS. MAIF showed a substantial increase between FY 2010 and FY 2014, from no assets to \$12.8 million.

**Figure 4: Assets under Management by Emerging MBE Investment Managers**

FY	Chesapeake Employers Insurance	Maryland Auto Insurance Fund	State Retirement and Pension System
2010	\$63,900,000	\$42,000,000	\$1,248,600,000
2011	\$73,500,000	\$58,900,000	\$1,464,800,000
2012	\$22,300,000	\$57,500,000	\$1,538,900,000
2013	\$0	\$54,700,000	\$1,026,900,000
2014	\$0	\$57,900,000	\$1,289,300,000

Sources: FY 2010 through FY 2014 Annual Reports

As shown in Figure 4, the assets under management by emerging MBE investment managers increased from FY 2010 to FY 2014 for MAIF and SRPS. The AUM by emerging investment managers increased from \$42.0 million in FY 2010 to \$57.9 million being managed in FY 2014 for MAIF. Likewise, it has increased from \$1.24 billion to \$1.28 billion during the same period



for SRPS. On the other hand, CEI has not had any AUM by emerging investment managers since FY 2012.

Figures 5 and 6 below indicated the annual totals for brokerage services that include only data from SRPS, CEI, and the Treasurer between FY 2009 and FY 2014. MAIF and MSRP are not included because both agencies indicated that they do not pay any brokerage commissions. It is important to note the Treasurer had significant changes in the total and minority- and women-owned commissions paid in FY 2014.

**Figure 5: Annual Brokerage Services**

FY	Total Commissions	MBE Commissions	Percentage MBE/Total
2010	\$19,395,715,973	\$2,144,840,681	11.1%
2011	\$22,479,795,358	\$2,761,634,307	12.3%
2012	\$17,943,967,767	\$1,991,425,756	11.1%
2013	\$17,052,850,349	\$2,310,095,783	13.5%
2014	\$9,606,083,270	\$1,184,858,353	12.3%

Sources: FY 2014 Annual Report Questionnaires, RESI

As shown in Figure 5, the total commissions paid to investment brokers dramatically decreased from nearly \$19.4 billion (FY 2010) to \$9.6 billion (FY 2014). Likewise, the total commissions paid to minority- and women-owned investment brokers decreased as well during the same period. In FY 2014, MBE commissions paid represented 12.3 percent of the total.

**Figure 6: Annual MBE Investment Brokers Utilized**

FY	Total MBE Brokers
2010	51
2011	68
2012	81
2013	80
2014	58

Source: FY 2014 Annual Report Questionnaires

As shown in Figure 6, the number of minority- and women-owned investment brokers utilized increased from FY 2010 to FY 2014. In FY 2014, the total number of MBE brokers increased to 58 from 51 in FY 2010.

#### 4.0 Asset Class—Statewide

The procurement process for state agencies includes standard practices. The investment division or departments of the agencies actively search for external managers to manage the long-term deployment of assets among the major classes of investments.<sup>6</sup> The major assets classes are public equity, fixed income, credit/debt related strategies, real return, absolute

<sup>6</sup> Maryland State Retirement and Pension System, “Investment Policy Manual,” accessed October 15, 2014. [http://www.sra.maryland.gov/Agency/Investment/Downloads/Investment\\_Policy\\_Manual.pdf](http://www.sra.maryland.gov/Agency/Investment/Downloads/Investment_Policy_Manual.pdf).

return, private equity, and real estate and cash equivalents. The investment portfolios are specific to the state agency with their own benchmarks, but the segments are still classified under one of the major asset classes.

For example, the CEI portfolio includes convertible bonds and short duration bonds that fall under the fixed income asset class. Another example is with the SRPS portfolio; it included master limited partnership, which falls under the real return asset class.

State agencies use two classifications, emerged and emerging, to identify minority- or women-owned firms participating in asset management.

- Emerged investment managers are qualified minority- or women-owned businesses with “total assets under management of more than \$2 billion.”<sup>7</sup>
- Emerging investment managers are qualified minority- or women-owned businesses with “total assets under management of at least \$10 million but less than \$2 billion.”<sup>8</sup>

Figures 7 and 8 indicate the totals for minority- or women-owned investment managers by asset class and size classification for FY 2014. The totals include the data from CEI, MAIF, and SRPS. MSRP and the Treasurer are not included because they do not have asset management portfolios.

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<sup>7</sup> Chesapeake Employers Insurance, “Minority Owned Financial Services Firm Usage: Annual report Questionnaire,” private correspondence via email, September 10, 2014.

<sup>8</sup> Ibid.

**Figure 7: MBE Investment Managers by Asset Class**

Asset Class	Total Portfolio	MBE Investment Managers	# of MBE Investment Managers	Percentage MBE/Total
Public Equity	\$35,701,664,000	\$3,490,129,000	43	9.8%
Fixed Income	\$10,022,432,000	\$692,753,000	12	6.9%
Credit/Debt Related Strategies	\$4,557,200,000	\$271,800,000	6	6.0%
Real Return	\$5,461,700,000	\$139,300,000	2	2.6%
Absolute Return	\$4,252,000,000	\$0	0	0.0%
Private Equity	\$3,185,000,000	\$740,000,000	9	23.2%
Real Estate	\$3,128,703,000	\$65,000,000	1	2.1%
Cash Equivalents	\$542,378,000	\$0	0	0.0%

Sources: FY 2014 Annual Report Questionnaires, RESI

As shown in Figure 7, more than 30 percent of the statewide investment portfolios were managed by minority- and women-owned investment managers in the private equity and public equity asset classes. In addition, the majority of the minority- and women-owned investment managers hired to manage the portfolio was in the asset classes of public equity and fixed income.

**Figure 8: MBE Investment Managers by Size Classification**

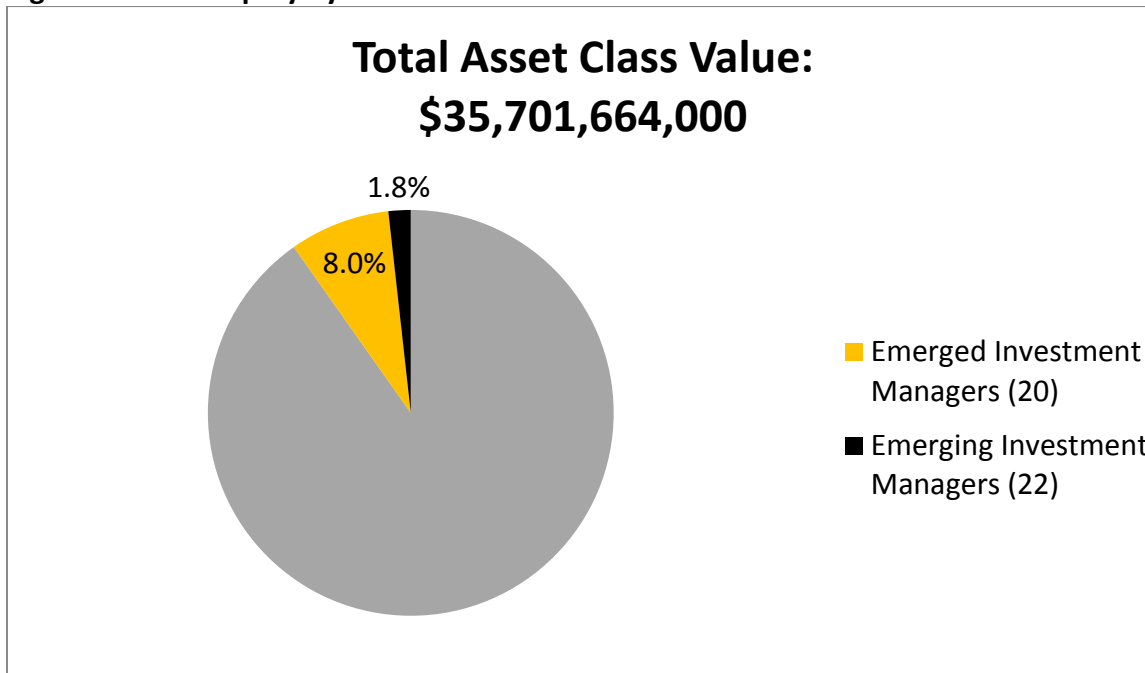
State Agency	Emerging MBE Managers	Emerged MBE Managers
Chesapeake Employers Insurance	0	2
Maryland Auto Insurance Fund	3	1
Maryland Supplemental Retirement Plans	0	0
Maryland State Treasurer’s Office	0	0
State Retirement and Pension System	35	32
<b>Total</b>	<b>38</b>	<b>35</b>

Source: FY 2014 Annual Report Questionnaires

As shown in Figure 8, there were 38 emerging MBE managers compared to 35 emerged MBE managers. Of the total number of MBE managers, the majority are hired by SRPS.

Figures 9 through 14 below indicate the distribution of the assets under management by MBE investment managers (emerged or emerging) for each asset class. The absolute return and cash equivalents asset classes are not included because there were no emerging or emerged investment management activities in those areas.

**Figure 9: Public Equity by Size Classification**



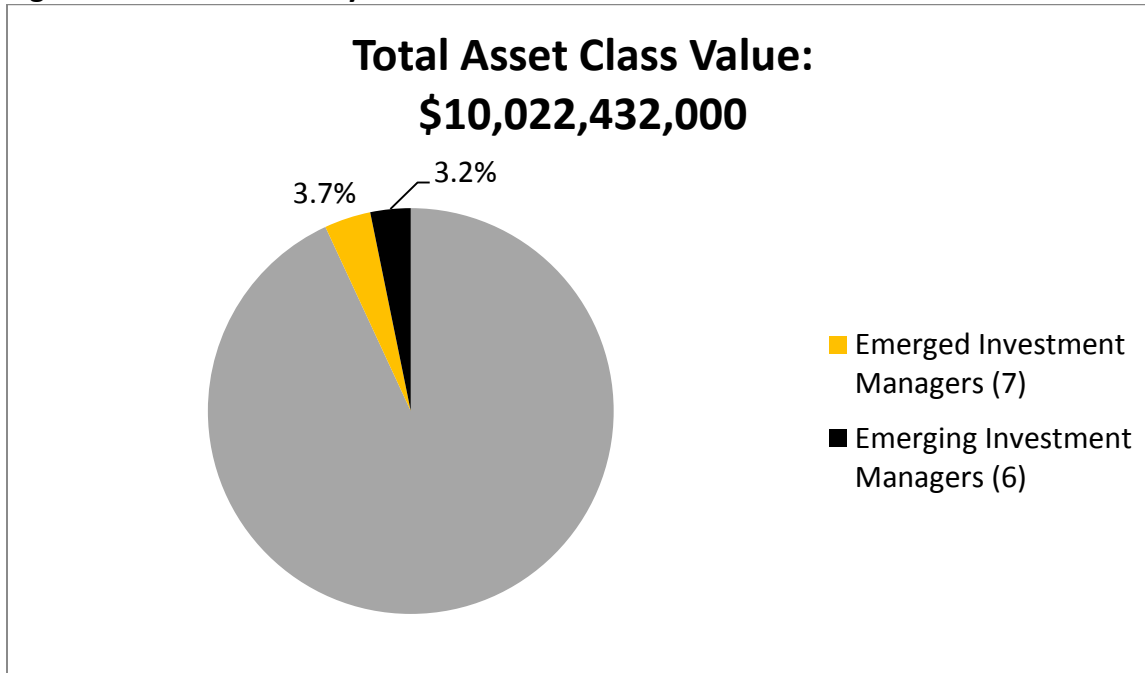
Sources: FY 2014 Annual Report Questionnaires, RESI

Public Equity is the asset class of “investments in securities, known as shares or stocks that represent an ownership interest in corporations that are traded on a stock exchange.”<sup>9</sup> Public

<sup>9</sup> Maryland State Retirement and Pension System, “Investment Policy Manual,” 15, accessed October 15, 2014. [http://www.sra.maryland.gov/Agency/Investment/Downloads/Investment\\_Policy\\_Manual.pdf](http://www.sra.maryland.gov/Agency/Investment/Downloads/Investment_Policy_Manual.pdf).

equity includes domestic stock, international stock, and global stock. Based on statewide data, there were more emerging investment managers (22) hired to manage the assets than emerged investment managers (20). However, as shown in Figure 9, the dollar value of the public equity assets were managed more by emerged investment managers (8.0 percent) compared to emerging investment managers (1.8 percent).

**Figure 10: Fixed Income by Size Classification**

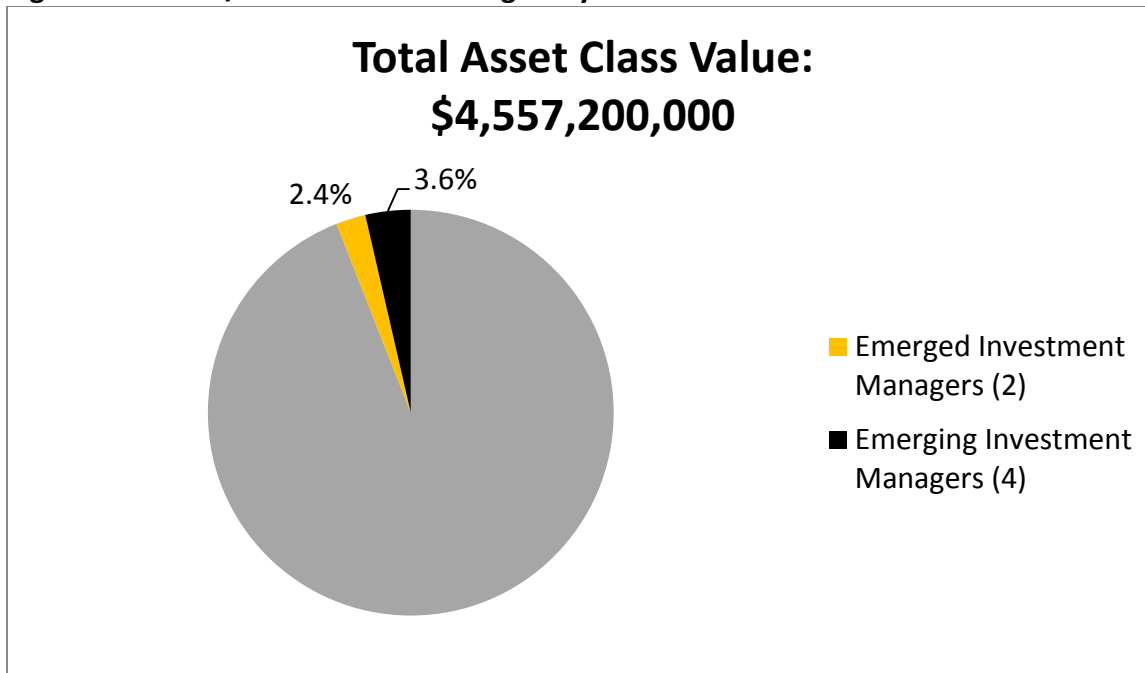


Sources: FY 2014 Annual Report Questionnaires, RESI

Fixed income is the asset class of “investments in securities, known as bonds that represent an ownership interest in the debt of governments and corporations and not traded on an exchange.”<sup>10</sup> Examples of fixed income are convertible bonds and short duration bonds. Based on statewide data, there were one more emerged investment managers (7) hired to manage the fixed income assets than emerging investment managers (6). As shown in Figure 10, a total of 6.9 percent of the total portfolio was supervised by emerging and emerged investment managers.

<sup>10</sup> Maryland State Retirement and Pension System, “Investment Policy Manual,” 16.

**Figure 11: Credit/Debt Related Strategies by Size Classification**

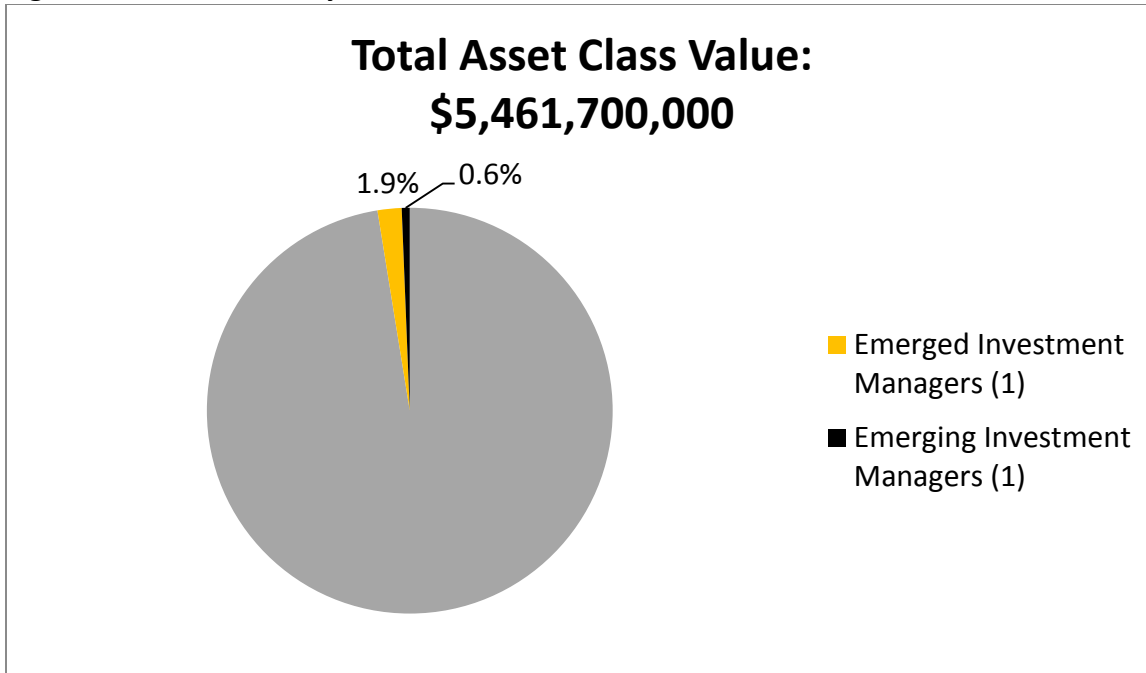


Sources: FY 2014 Annual Report Questionnaires, RESI

Credit/Debt Related Strategies is the asset class of “investments in debt issued by corporations and other non-government sectors of the fixed income market.”<sup>11</sup> Based on statewide data, there were more emerging investment managers (4) hired to manage the assets than emerged investment managers (2). Likewise, as shown in Figure 11, the dollar value of the public equity assets were managed more by emerging investment managers (3.6 percent) compared to emerged investment managers (2.4 percent).

<sup>11</sup> Maryland State Retirement and Pension System, “Investment Policy Manual,” 16.

**Figure 12: Real Return by Size Classification**

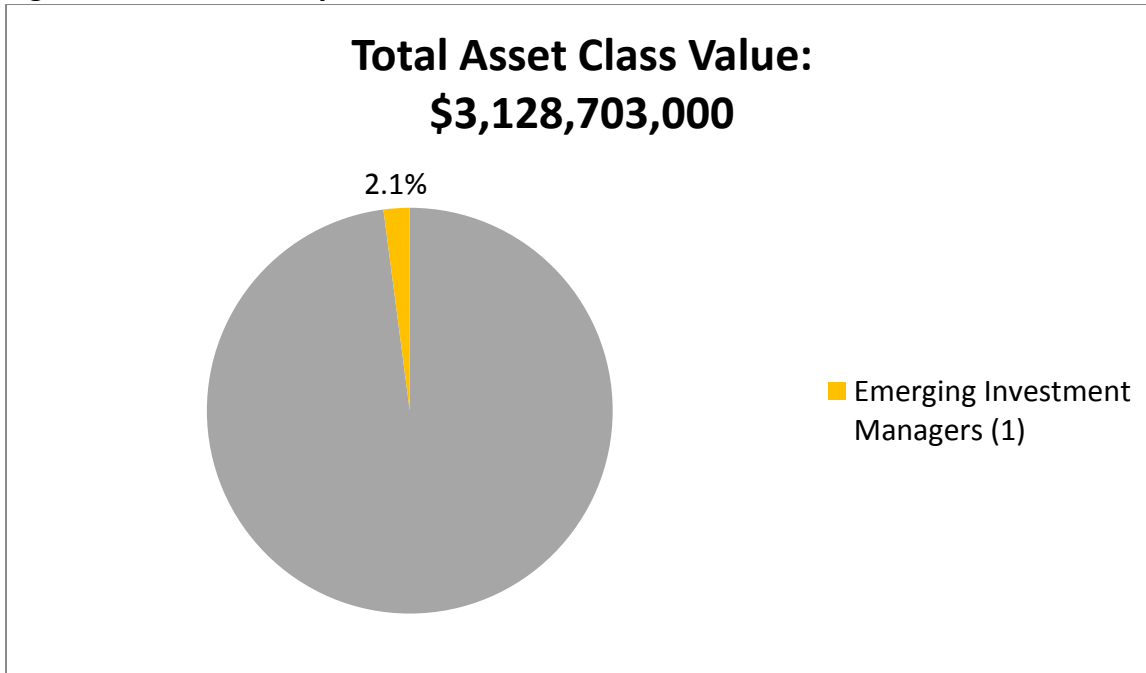


Sources: FY 2014 Annual Report Questionnaires, RESI

Real return is the asset class of “investments whose performance is expected to exceed the rate of inflation over an economic cycle.”<sup>12</sup> Examples of real return are alternative asset and master limited partnership. Based on statewide data, there were the same number of emerging investment managers and emerged investment managers hired to manage the assets. As shown in Figure 12, a total of 2.6 percent of the total portfolio was supervised by emerging and emerged investment managers.

<sup>12</sup> Maryland State Retirement and Pension System, “Investment Policy Manual,” 16.

**Figure 13: Real Estate by Size Classification**



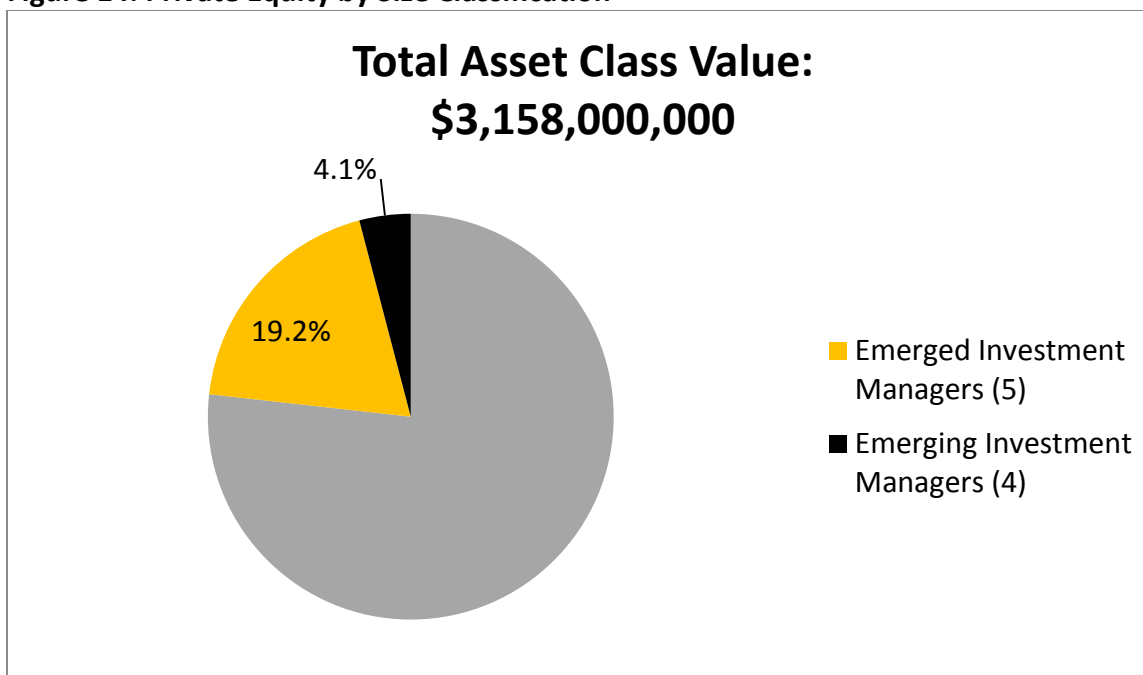
Sources: FY 2014 Annual Report Questionnaires, RESI

Real estate return is the asset class of “investments in real property including office buildings, shopping centers, industrial property, warehouses and apartments.”<sup>13</sup> As shown in Figure 13, approximately 2.1 percent of the total portfolio was supervised by a single emerging investment manager. Emerged managers were not active in this asset class.

<sup>13</sup> Maryland State Retirement and Pension System, “Investment Policy Manual,” 17.



**Figure 14: Private Equity by Size Classification**



Sources: FY 2014 Annual Report Questionnaires, RESI

Private Equity is the asset class of “investments in companies that are not registered with the SEC and are not traded in the public markets.”<sup>14</sup> Based on statewide data, there were one more emerged investment managers (5) hired to manage the assets than emerging investment managers (4). Moreover, as shown in Figure 14, the dollar value of the private equity assets were managed more by emerged investment managers (19.2 percent) compared to emerging investment managers (4.1 percent).

## 5.0 Fees—Statewide

According to investment policy manuals, state agencies could enter into a securities lending program with a third party to generate additional income for the total asset portfolios.<sup>15</sup> Examples of third parties include banks, trust companies, or investment broker dealers. Through the procurement process, a state agency must pay asset management, financial institution, and professional fees. The descriptions of the fees are outlined as such:

- “Asset management fees refer to any fees paid to external investment managers, regardless of racial or gender categorization;”
- “Financial institution fees refer to brokers/dealers, custody operators, securities lending, operational bank account fees, and other asset servicers;” and
- “Professional service providers’ fees refer to investment and risk management consultants, portfolio analytics software providers, and etc.”<sup>16</sup>

<sup>14</sup> Maryland State Retirement and Pension System, “Investment Policy Manual,” 17.

<sup>15</sup> Ibid.

<sup>16</sup> Chesapeake Employers Insurance, “Minority Owned Financial Services Firm Usage: Annual report Questionnaire.”

For FY 2014, the totals for asset management, financial institution, and professional service providers' fees are shown in Figure 15. The totals include data from the CEI, MSRP, and SRPS. However, there were no fees paid for professional service providers from MSRP. MAIF and the Treasurer are not included because they are not directly involved in the selection or compensation of the investment manager or broker/dealer.

**Figure 15: Statewide Fees**

<b>Asset Management</b>	<b>Financial Institution</b>	<b>Professional Service Providers</b>
\$333,739,768	\$9,839,930	\$3,229,007

Source: FY 2014 Annual Report Questionnaires

As shown in Figure 15, the majority of fees statewide (\$333.7 million) were distributed for asset management purposes. The only agency to provide data on the fees paid to minority- or women-owned investment and financial services firms was CEI. In FY 2014, CEI paid \$960,000 to minority investment managers.

## **6.0 Chesapeake Employers Insurance**

### **6.1 Background**

In May 2012, the Insurance Workers' Insurance Fund (IWIF) became the Chesapeake Employers' Insurance (CEI). As of October 1, 2013, IWIF became CEI, a nonprofit private corporation.<sup>17</sup> This company grants access to worker's compensation insurance to many employers in Maryland. CEI's mission is to be the state's leader in worker's compensation insurance and has a dedication to "provide quality products and services at a fair price, and to protect workers and employers by championing workplace safety."<sup>18</sup> CEI is managed by the nine-member Board of Trustees appointed by the Governor.<sup>19</sup> The Board manages all business and affairs of the company, including "declaring dividends for policyholders, and engaging in the use minority-owned business enterprises to provide brokerage and investment management services."<sup>20</sup>

### **6.2 Investment and Financial Services**

As previously stated, the Board of Trustees, also known as the Board of Directors, is responsible for utilizing minority- and women-owned business enterprise managers and brokers. This obligation is outlined in CEI's Investment Policy Statement (IPS) and is approved by the Board of

<sup>17</sup> Chesapeake Employers Insurance, "Conversion of IWIF to Chesapeake Employer's Insurance Company," accessed October 13, 2014. <https://www.ceiwc.com/about-chesapeake/company-overview/Conversion%20index.html>.

<sup>18</sup> Chesapeake Employers Insurance, "Our Name Has Changed but It's what's Inside That Counts: 2013 Annual Report," 3, accessed October 13, 2014. <https://www.ceiwc.com/pdf/2013%20Annual%20Report/Chesapeake%20Employers%27%20Annual%20Report%202013%20PDF.pdf>.

<sup>19</sup> Chesapeake Employers Insurance, "Article- Insurance," 5, accessed October 13, 2014. <https://www.ceiwc.com/about-chesapeake/chesapeake-news-and-media-room/2012/Senate%20Bill%20745%20-%20IWIF%20Conversion%20Legislation%202012.pdf>.

<sup>20</sup> Ibid, 3.

Directors (the Board).<sup>21</sup> The Board has the following responsibilities in regard to the investment program and financial management services:

- “Reviews and approves the IPS,” and
- “Selects and dismisses managers based on recommendations from the investment consultant and the Chief Investment Officer.”<sup>22</sup>

To find investment services firms, CEI has enlisted an investment consultant/advisor to conduct the search process. In 2003 Asset Strategy Consultants was the firm selected as CEI’s investment consultant.<sup>23</sup> CEI, in conjunction with Asset Strategy Consultants, issued a request for information for bank loans and credit investment advisory services, specifically for emerging managers.<sup>24</sup> Asset Strategy Consultants compiled a list of the most qualified investment firms and offered recommendations on the best managers to the Board and Chief Investment Officer.<sup>25</sup> The investment consultant also reports to the Board on a quarterly basis about manager performance after a manager is selected. The Board makes the final decision regarding which manager is chosen to manage the investment portfolio.<sup>26</sup>

CEI has invested its assets into property and casualty insurance companies. The investment portfolio is allocated through bonds, convertible bonds, equities, real estate, and cash equivalents.<sup>27</sup> This investment portfolio is managed 67 percent internally (cash equivalents) and 33 percent by third parties. The majority of this 33 percent are convertible bonds, bank loans, real estate, and equities.<sup>28</sup> According to the IPS, each portfolio (internally or third-party managed) is required to follow the “applicable investment guidelines” based on the asset class or brokerage service.<sup>29</sup>

### **6.3 Minority Utilization**

As shown in Figure 16, nearly \$127 million in assets were managed by minority-owned firms (all emerged MBE managers) in FY 2013 and represented approximately 7 percent of all managed assets. Asset management by the minority-owned firms was in the following asset classes: domestic small/mid-cap and short duration. Note that the total only includes cash management, total domestic equity, total domestic fixed income, and real estate.

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<sup>21</sup> Chesapeake Employers Insurance, “Minority Owned Financial Services Firm Usage: Annual report Questionnaire.”

<sup>22</sup> Ibid.

<sup>23</sup> Ibid.

<sup>24</sup> Ibid.

<sup>25</sup> Ibid.

<sup>26</sup> Ibid.

<sup>27</sup> Ibid.

<sup>28</sup> Ibid.

<sup>29</sup> Ibid.

**Figure 16: Asset Management**

Portfolio by Asset Class	Market Value	Allocation		MBE Managers	
		Actual	Strategic	Emerging	Emerged
Cash Management	\$40,978,000	\$0	\$0	\$0	\$0
Domestic Large Cap	\$54,753,000	\$0	\$0	\$0	\$0
Domestic Small/Mid Cap	\$74,829,000	\$0	\$0	\$0	\$74,829,000
Total Domestic Equity	\$129,582,000	\$0	\$0	\$0	\$0
Core Fixed Income	\$1,172,675,000	\$0	\$0	\$0	\$0
Corporate – Oriented	\$92,797,000	\$0	\$0	\$0	\$0
Convertible Bonds	\$252,607,000	\$0	\$0	\$0	\$0
Short Duration	\$52,153,000	\$0	\$0	\$0	\$52,153,000
Total Domestic Fixed Income	\$1,590,466,000	\$0	\$0	\$0	\$0
International Fixed Income	\$0	\$0	\$0	\$0	\$0
Real Estate	\$46,503,000	\$0	\$0	\$0	-
<b>Total</b>	<b>\$1,807,530,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$126,981,000</b>

Source: CEI FY 2014 Annual Report Questionnaire

**Figure 17: Investment Managers Utilized**

Manager Name	Assets Under Management	Investment Advisory Fee (in millions)	Asset Class	Classification	Type
Brown Capital Management	\$74,829,000	\$0.79	Equity	MBE	Emerged
Sit Investment Advisers	\$52,153,000	\$0.17	Bonds (short)	MBE	Emerged
<b>Total</b>	<b>\$126,981,000</b>	<b>\$0.96</b>			

Source: CEI FY 2014 Annual Report Questionnaire

According to CEI, there were no new minority- and women-owned investment firms that were retained directly or indirectly by the organization in FY 2014. However, the organization’s assets were managed by two emerged MBE managers, as shown in Figure 17.

**Figure 18: MBE Brokerage Services**

Number	Investment Broker Name	Commissions Paid	Classification
1	Blaylock Robert Van	\$8,125	MBE
2	Castleoak Securities	\$5,000	MBE
3	Loop Capital Markets	\$100	MBE
4	Williams Capital	\$32,755	MBE
<b>Total</b>		<b>\$45,980</b>	

Source: CEI FY 2014 Annual Report Questionnaire

As shown in Figure 18, there were four minority- or women-owned investment brokers that were retained directly or indirectly by the organization. The total dollar value of commissions paid to minority- and women-owned investment brokers for FY 2014 was approximately \$45,980 and represented 3.4 percent of the total commissions paid.

**Figure 19: DVBE Brokerage Services**

Investment Broker Name	Commissions Paid	Classification
Drexel Hamilton	\$22,050	DVBE

Source: CEI FY 2013 Annual Report Questionnaire

As shown in Figure 19, there was one disabled veteran-owned investment brokers retained by the CEI as well.

## **7.0 Maryland Automobile Insurance Fund**

### **7.1 Background**

The Maryland Automobile Insurance Fund (MAIF) is an agency that provides automobile liability insurance for individuals who cannot obtain other private automobile insurance.<sup>30</sup> MAIF is a Governor-appointment agency that is advised by a seven-member Board of Trustees. Five of these are members of the insurance agency. The operations of MAIF are funded through the insurance premiums written with MAIF and not through State funding.

### **7.2 Investment and Financial Services**

MAIF's investment policies and decisions are managed by its Financial Management Committee. The Financial Management Committee consists of two board members and an Executive Director.<sup>31</sup> Since hiring minority- and/or women-owned investment firms is a major priority for MAIF, the hiring of an investment advisor is conducted through a request for proposals (RFP) process. The single outside investment advisor has the following responsibilities:

- "Attends all Financial Committee meetings;"
- "Prepare monthly and quarterly portfolio performance reports;"

<sup>30</sup> Maryland Automobile Insurance Fund, "About MAIF," accessed October 14, 2014. <http://www.maif.net/site/about-maif>.

<sup>31</sup> Maryland Automobile Insurance Fund, "Minority Owned Financial Services Firm Usage: Annual Report Questionnaire," Private correspondence via email, September 11, 2014.

- “Manages RFP process for choosing new investment managers;”
- “Analyzes investment manager performance;” and
- “Make recommendations on retention of investment managers.”<sup>32</sup>

Ultimately, MAIF’s Financial Management Committee makes the final decision on the hiring and firing of investment managers. Investment managers manage MAIF’s investment portfolio, which consists of investments in equities and fixed income securities.<sup>33</sup> These investments are monitored and recorded by internal staff, and changes in the investment strategy are determined by MAIF management. MAIF does retain services indirectly through its investment managers and outside investment advisor.<sup>34</sup>

### 7.3 Minority Utilization

According to MAIF’s Annual Report Questionnaire, approximately \$141.4 million in assets were managed by minority-owned firms in FY 2014.

**Figure 20: Asset Management**

Portfolio by Asset Class	Market Value	Allocation		MBE Managers	
		Actual	Strategic	Emerging	Emerged
Fixed Income	\$135,200,000	57.2%	60.0%	2	0
Large Cap	\$37,300,000	15.8%	17.5%	0	0
Mid Cap	\$8,500,000	3.6%	2.5%	1	0
Small Cap	\$8,500,000	3.6%	2.5%	0	0
Low Volatility	\$37,300,000	15.8%	15.0%	1	0
International	\$8,300,000	3.5%	2.5%	0	0
Cash & Liquidating Fund	\$1,500,000	0.6%	0.0%	0	0
International Fixed Income	\$0	0.0%	0.0%	0	0
<b>Total</b>	<b>\$236,600,000</b>	<b>100.0%</b>	<b>100.0%</b>	<b>4</b>	<b>0</b>

Source: MAIF FY 2014 Annual Report Questionnaire

As shown in Figure 20, the assets were managed by four emerging MBE. Asset management by the minority-owned firms was in the following asset classes: fixed income, mid-cap, and low volatility.

<sup>32</sup> Maryland Automobile Insurance Fund, “Minority Owned Financial Services Firm Usage: Annual Report Questionnaire.”

<sup>33</sup> Ibid.

<sup>34</sup> Ibid.

**Figure 21: Investment Managers Utilized**

Manager Name	Assets Under Management	Investment Advisory Fee (in millions)	Asset Class	Type
Leading Edge Investment Advisors, LLC	\$12,800,000	\$0.0	Low Volatility	Emerged
The Swathmore Group	\$44,900,000	\$0.09	Fixed Income	Emerging
Brown Capital Management	\$8,500,000	\$0.04	Mid Cap	Emerging
Hughes Capital Management	\$4,500,000	\$0.01	Fixed Income	Emerging
<b>Total</b>	<b>\$70,700,000</b>	<b>\$0.14</b>		

Source: MAIF FY 2014 Annual Report Questionnaire

According to MAIF, there were four emerging minority-owned investment firms that were retained directly by the organization in FY 2014. As shown in Figure 21, approximately \$70.7 million assets were under management by MBE investment managers.

Based on the FY 2014 Annual Report Questionnaire, MAIF did not utilize any investment brokers and did not pay any brokerage commissions.

## 8.0 Maryland State Treasurer’s Office

### 8.1 Background

The State Treasurer’s Office (the Treasurer) is an organization that is responsible for the State’s “cash deposits, monies from bond sales, and other securities and collateral and directs the investments of those assets.”<sup>35</sup> This organization includes several offices and divisions, including the Investment Division. The Investment Division is responsible for the following operations:

- “Invests the cash balances that are temporarily idle between the time revenue is collected and the time budgeted amounts are disbursed;”
- “Longer-term investment activities associated with the purchase of 20-year development easements on agricultural land and the payment of lottery prizes over 19-year periods;” and
- “Investment of general obligation bond proceeds.”<sup>36</sup>

The investment division does not have responsibility for the investment and management of all funds. All legal investments are purchased through the competitive process directly from approved brokers.<sup>37</sup>

<sup>35</sup> Maryland State Treasurer’s Office, “Treasurer’s Office Overview,” accessed October 14, 2014. <http://www.treasurer.state.md.us/about-the-treasurers-office.aspx>.

<sup>36</sup> Maryland State Treasurer’s Office, “Investment Division,” accessed October 14, 2014. <http://www.treasurer.state.md.us/treasury-management/investment.aspx>.

## **8.2 Investment and Financial Services**

The Treasurer is not responsible for the investment management of government funds specific to SRPS, MAIF, CEI, and endowment funds at public colleges and universities in the State.<sup>38</sup> As previously mentioned, the Treasurer handles investment funds for DBED and DHCD, as well as excess cash that the Treasurer holds. Based on the Treasurer's investment policies, the organization actively recruits qualified minority- and women-owned firms in the investment and/or financial services management of their operations.<sup>39</sup> However, the Treasurer does not have a Board of Trustees or investment board that handles its investment policy and decisions. In addition, there is no outside managing consultant used to find investment services firms and is solely managed by the Treasurer Investment division.<sup>40</sup>

## **8.3 Minority Utilization**

According to the Treasurer, approximately 17.6 percent of investment transactions were with MBE investment brokers in 2014. As shown in Figure 22, there were 24 minority- and women-owned investment brokers.

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<sup>37</sup> Maryland State Treasurer's Office, "Minority Owned Financial Services Firm Usage: Annual Report Questionnaire," Private correspondence via email, September 12, 2014.

<sup>38</sup> Maryland State Treasurer's Office, "Investment Division."

<sup>39</sup> Maryland State Treasurer's Office, "Minority Owned Financial Services Firm Usage: Annual Report Questionnaire."

<sup>40</sup> Ibid.



**Figure 22: MBE/WBE Brokerage Services**

Number	Name	Classification
1	Alamo Capital	MBE
2	Blaylock Robert Van Securities, Inc.	MBE
3	Cabrera Capital Markets, LLC	MBE
4	CastleOak Securities, LP	MBE
5	De La Rosa & Co.	MBE
6	Greentree Brokerage Services, Inc.	MBE
7	Grigsby & Associates, Inc.	MBE
8	Gryphon Asset Management	MBE
9	International Financial Solutions, Inc.	MBE
10	Loop Capital Markets, LLC	MBE
11	M.R. Beal & Company	MBE
12	MD Global Partners, LLC	MBE
13	MFR Securities, Inc.	MBE
14	Muriel Siebert & Co., Inc.	MBE
15	Quoin Capital, LLC	MBE
16	Ramirez & Co.	MBE
17	Rice Financial Products Company	MBE
18	Stephens Inc.	MBE
19	Williams Capital Management, LLC	MBE
20	WM Smith & Co.	MBE
21	Drexel Hamilton	MBE
22	Great Pacific Securities	MBE
23	Mischler Financial Group, Inc.	MBE
24	Multi-Bank Securities, Inc.	MBE

Source: The Treasurer FY 2014 Annual Report Questionnaire

## **9.0 Maryland Supplemental Retirement Plans**

### **9.1 Background**

The Maryland Supplemental Retirement Plans (MSRP) is a state agency that is administered by a nine-member Board of Trustees.<sup>41</sup> There are three members of the governor-appointed Board that are representatives from one of the following departments:

- Department of Budget and Management,
- Department of Education,
- The Comptroller of the Treasury,
- The State Treasurer’s Office,
- The Maryland State Retirement and Pension Systems, and
- Maryland Higher Education Commission.

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<sup>41</sup> Maryland Teachers and State Employees Supplemental Retirement Plans, “Board of Trustees,” accessed October 15, 2014. <http://msrp.maryland.gov/agency.htm>.

Three other members participate in a 403(b) retirement plan, and three members do not participate in a plan and represent the public.<sup>42</sup> Every board member is required to serve on either the Investment Committee or the Audit Committee. The Board is responsible for “implementing, maintaining and administering the plans” for the exclusive benefit of participating employees.<sup>43</sup> The Board also is required to submit progress reports to its participants and annual reports about the plans to the Governor and General Assembly.<sup>44</sup>

MSRP has “four defined contribution plans to receive the voluntary contributions of State employees and officials.”<sup>45</sup> The plans include mutual fund products, target date retirement series of mutual funds, and an investment contract pool.<sup>46</sup> The Board selects suitable investment options for participants to choose which individual MSRP account is best for them.

## **9.2 Investment and Financial Services**

According to MSRP, the Board of Trustees has an important role in the organization’s investment policy and decisions. The Board approves the Investment Policy Manual (IPM) and any selections to procurement and investment products.<sup>47</sup> Since finding minority- and women-owned investment firms is a major priority for MSRP, there is no outside managing consultant for this task. The Board has several other responsibilities that include the following:

- “Conducts periodic competitive procurements to select the investment advisor and the stable value manager for the plans;”
- “Review all operations done by the investment advisor and stable value manager on a quarterly schedule;” and
- “Make final decision on investment managers.”<sup>48</sup>

Beginning in February 2014, a new contract began with Galliard Capital Management as the Board’s stable value manager.<sup>49</sup> The investment advisor Segal Rogerscasey was selected on November 1, 2011, and the contract is still in effect.<sup>50</sup> Based on the IPM, the investment advisor and stable value manager are required to seek qualified MBEs for investment sub-managers and submit recommendations to the Board.

## **9.3 Minority Utilization**

According to MSRP, seventy-four percent of MSRP’s assets (\$3.3 billion) are for the participants in mutual funds and the other twenty-six percent is allocated to the Investment Contract Pool (ICP).<sup>51</sup> Before October 1, 2013, the minority-owned firm Goode Investment Management

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<sup>42</sup> Maryland Teachers and State Employees Supplemental Retirement Plans, “Board of Trustees.”

<sup>43</sup> Ibid.

<sup>44</sup> Ibid.

<sup>45</sup> Ibid.

<sup>46</sup> Ibid.

<sup>47</sup> Maryland Teachers and State Employees Supplemental Retirement Plans, “Minority Owned Financial Services Firm Usage: Annual Report Questionnaire,” Private correspondence via email, September 13, 2014.

<sup>48</sup> Ibid.

<sup>49</sup> Ibid.

<sup>50</sup> Ibid.

<sup>51</sup> Ibid.

managed \$123 million in assets in the ICP.<sup>52</sup> However, as of FY 2013, there is “no certified MBE with suitable qualifications and wrap guaranty coverage” that has been identified or retained by the organization.<sup>53</sup>

Based on the FY 2014 Annual Report Questionnaire, MSRP did not utilize any investment brokers and did not pay any brokerage commissions or similar financial service fees.

## 10.0 State Retirement and Pension System

### 10.1 Background

The State Retirement and Pension System (SRPS) is the state agency that manages death, disability, and retirement benefits for more than 382,000 members.<sup>54</sup> These members include “active and former State employees, teachers, State police, judges, law enforcement officers, correctional officers and legislators.”<sup>55</sup> Over 150 local governmental agencies constitute the membership of SRPS. SRPS provides coverage to members during their careers and following retirement.<sup>56</sup> SRPS is managed by a fifteen-member Board of Trustees. The Board has the following functions:

- “Direct the management of a multi-billion dollar investment portfolio;”
- “Adopt the actuarial assumptions necessary to properly fund the System;”
- “Approval of qualified disability retirements;” and
- “Adopt rules, regulations, policies, and procedures necessary to administer the various plans.”<sup>57</sup>

The predominant function of the Board is to manage and oversee the investment portfolio in conjunction with the Investment Division. The Investment Division has the responsibility to invest the multiple assets of SRPS.<sup>58</sup> After investing these assets, the Investment Division reports to the Board quarterly on the investment portfolio to “ensure that sufficient assets are available to fund members’ benefits when due.”<sup>59</sup> The investment process of SRPS is delegated by the Chief Investment Officer (CIO). The CIO is the lead of the Investment Division and is responsible for daily investment of the funds in accordance to rules and regulations outlined by the Board.<sup>60</sup> The CIO’s primary obligation is to monitor investment managers, analyze investment programs, make recommendations on possible changes, and send periodic reports to the Investment Committee and the Board.<sup>61</sup>

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<sup>52</sup> Maryland Teachers and State Employees Supplemental Retirement Plans, “Minority Owned Financial Services Firm Usage: Annual Report Questionnaire.”

<sup>53</sup> Ibid.

<sup>54</sup> Maryland State Retirement and Pension System, “Agency,” accessed October 14, 2014.

<http://www.sra.maryland.gov/Agency/Default.aspx>.

<sup>55</sup> Ibid.

<sup>56</sup> Ibid.

<sup>57</sup> Ibid.

<sup>58</sup> Maryland State Retirement and Pension System, “Investment Policy Manual,” 6.

<sup>59</sup> Ibid, 7.

<sup>60</sup> Ibid.

<sup>61</sup> Ibid.

## 10.2 Investment and Financial Services

According to SRPS, the Board of Trustees has an important role in the organization's investment policy and decisions. The current policies regarding utilization of minority- and women-owned firms in SRPS's investment program is outlined in its Investment Policy Manual (IPM).<sup>62</sup> The Board is responsible for asset allocation and giving advice based on the IPM to the CIO. The CIO has the responsibility for the appointment and dismissal of investment managers in all asset classes.<sup>63</sup>

To find investment services firms, SRPS has enlisted two different types of managing consultants: general investment and specialty investment. The general investment consultant, Hewitt Ennis Knupp, offers the advice to the Board about the investment program and its managers.<sup>64</sup> There are three specialty investment consultants that work with the Investment Division to help the CIO by "identifying potential investments in the private equity, hedge funds and real estate asset classes."<sup>65</sup> The Investment Division and the investment consultants help support the CIO for the inclusion of emerging managers and minority- and women-owned firms in SRPS's investment program.

In 2007 SRPS formed a program as an ongoing effort to choose the most qualified managers for the investment program.<sup>66</sup> This program was called the Terra Maria Program and was initially an emerging manager program in the public markets, but has been expanded to private equity fund managers as of September 2008.<sup>67</sup> The Terra Maria Program has program managers that "recommend investment managers based on their ability to generate alpha relative to their assigned benchmarks."<sup>68</sup> The investment managers selected by this program still must be approved by the CIO and are part of SRPS's total portfolio.

## 10.3 Minority Utilization

As shown in Figure 24, the total dollar value of assets managed by emerging and emerged minority- and women-owned firms was \$5.20 billion in FY 2014 and represented 11.5 percent of total managed assets. Asset management by the minority-owned firms was in all the asset classes except absolute return and cash equivalent. Note that the total does not include total public equity.

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<sup>62</sup> Maryland State Retirement and Pension System, "Minority Owned Financial Services Firm Usage: Annual Report Questionnaire," Private correspondence via email, September 13, 2014.

<sup>63</sup> Ibid.

<sup>64</sup> Ibid.

<sup>65</sup> Ibid.

<sup>66</sup> Maryland State Retirement and Pension System, "Terra Maria: Developing Manager Program in Public Markets and Private Equity," 1, accessed October 16, 2014. <http://www.sra.maryland.gov/Agency/Investment/Downloads/TerraMariaDevelopingManagerProgram-Description.pdf>.

<sup>67</sup> Ibid.

<sup>68</sup> Ibid.

**Figure 23: Asset Management**

Portfolio by Asset Class	Market Value	Allocation		MBE Managers	
		Actual	Strategic	Emerging	Emerged
U.S. Equity	\$4,660,700,000	10.3%	0.0%	\$343,400,000	\$1,826,000,000
International Equity	\$5,502,600,000	12.1%	0.0%	\$280,100,000	\$634,800,000
Global Equity	\$7,508,000,000	16.5%	0.0%	\$116,700,000	\$309,700,000
Total Public Equity	\$17,671,300,000	38.9%	35.0%	\$740,200,000	\$2,770,500,000
Fixed Income	\$6,706,300,000	14.8%	10.0%	\$155,200,000	\$319,300,000
Credit Opportunity	\$4,557,200,000	10.0%	10.0%	\$164,200,000	\$107,600,000
Private Equity	\$3,185,000,000	7.0%	10.0%	\$130,000,000	\$610,000,000
Real Estate	\$3,082,200,000	6.8%	10.0%	\$65,000,000	\$0
Real Return	\$5,461,700,000	12.0%	14.0%	\$34,700,000	\$104,600,000
Absolute Return	\$4,252,000,000	9.4%	10.0%	\$0	\$0
Cash	\$499,900,000	1.1%	1.0%	\$0	\$0
<b>Total</b>	<b>\$45,415,600,000</b>	<b>100.0%</b>	<b>100.0%</b>	<b>\$1,289,300,000</b>	<b>\$3,912,000,000</b>

Source: SRPS FY 2014 Annual Report Questionnaire

**Figure 24: Emerging Investment Managers Utilized**

Number	Manager Name	Assets Under Management	Investment Advisory Fee (in millions)	Asset Class	Classification
1	Campbell Newman Asset Management	\$16,000,000	\$0.054	U.S. Equity	WBE
2	The Edgar Lomax Company	\$36,500,000	\$0.110	U.S. Equity	MBE
3	Hanseatic Management Services	\$25,600,000	\$0.080	U.S. Equity	MBE
4	Mar Vista Investment Partners	\$18,300,000	\$0.073	U.S. Equity	MBE
5	Nicholas Investment Partners	\$21,200,000	\$0.052	U.S. Equity	WBE
6	Opus Capital Management	\$18,700,000	\$0.086	U.S. Equity	MBE/WBE

Number	Manager Name	Assets Under Management	Investment Advisory Fee (in millions)	Asset Class	Classification
7	Paradigm Asset Management	\$12,500,000	\$0.053	International Equity	MBE
8	Fourpoints Asset Management	\$17,900,000	\$0.099	International Equity	WBE
9	Hughes Capital Management	\$19,700,000	\$0.047	Fixed Income	MBE
10	Phocas Financial Group	\$24,000,000	\$0.117	U.S. Equity	MBE
11	Cheswold Lane Asset Management	\$26,000,000	\$0.113	International Equity	WBE
12	AH Lisanti Capital Growth	\$28,500,000	\$0.125	U.S. Equity	WBE
13	Lesa Sroufe & Co.	\$34,500,000	\$0.102	U.S. Equity	WBE
14	Paradigm Asset Management	\$40,000,000	\$0.110	U.S. Equity	MBE
15	Redwood Investments	\$34,500,000	\$0.129	U.S. Equity	WBE
16	Channing Capital Management	\$16,900,000	\$0.058	U.S. Equity	MBE
17	Ativo Capital Management	\$46,700,000	\$0.790	International Equity	MBE
18	Hanoverian Capital Management	\$61,300,000	\$0.154	International Equity	WBE
19	Victoria 1522 Investments	\$13,500,000	\$0.046	International Equity	MBE/WBE
20	Greenfield Seitz Capital Management	\$67,200,000	\$0.167	International Equity	WBE
21	New Century Investment Management	\$28,700,000	\$0.073	U.S. Equity	WBE
22	Nicholas Investment Partners	\$24,200,000	\$0.091	Credit	WBE
23	Strategic Global Advisors	\$35,000,000	\$0.157	International Equity	WBE
24	New Century Advisors	\$34,700,000	\$0.090	Real Return	WBE

Number	Manager Name	Assets Under Management	Investment Advisory Fee (in millions)	Asset Class	Classification
25	Ambassador Capital Management	\$67,900,000	\$0.133	Fixed Income	MBE
26	New Century Advisors	\$67,600,000	\$0.149	Fixed Income	WBE
27	Falcon Strategic Partners III	\$35,000,000	\$0.290	Credit	MBE
28	Falcon Strategic Partners IV	\$75,000,000	\$0.938	Credit	MBE
29	Clearlake Capital Partners III	\$30,000,000	\$0.531	Credit	MBE
30	Neon Liberty	\$116,700,000	\$1.497	Hedge Funds	MBE
31	Tristan Capital Partners	\$65,000,000	\$0.825	Real Estate	MBE
32	Longitude Venture Partners	\$25,000,000	\$0.378	Private Equity	WBE
33	Longitude Capital Partners II	\$40,000,000	\$0.890	Private Equity	WBE
34	ICV Partners	\$25,000,000	\$0.428	Private Equity	MBE
35	New MainStream II	\$40,000,000	\$0.382	Private Equity	MBE
<b>Total</b>		<b>\$1,289,300,000</b>	<b>\$9.417</b>		

Source: SRPS FY 2014 Annual Report Questionnaire

According to SRPS, there were 35 emerging minority- and women-owned managers that were retained directly by the organization in FY 2014. As shown in Figure 25, approximately \$1.28 billion of the organization's assets were under management by emerging MBEs. The majority of the assets managed were in U.S. Equity and International Equity.

**Figure 25: Emerged Investment Managers Utilized**

Number	Manager Name	Assets Under Management	Investment Advisory Fee (in millions)	Asset Class	Classification
1	GW Capital	\$14,300,000	\$0.073	U.S. Equity	MBE
2	Apex Capital Management	\$18,800,000	\$0.067	International Equity	MBE
3	Globeflex Capital	\$22,400,000	\$0.110	International Equity	WBE
4	Lombardia Capital Partners/Dean Chase Global Value	\$23,000,000	\$0.106	International Equity	MBE
5	LM Capital Group	\$42,200,000	\$0.103	Fixed Income	MBE
6	Advent Capital Management	\$60,300,000	\$0.307	Credit	MBE
7	ARGA Investment Management	\$23,300,000	\$0.154	International Equity	MBE
8	Geneva Capital Management	\$25,700,000	\$0.128	U.S. Equity	WBE
9	Profit Investment Management	\$24,900,000	\$0.125	U.S. Equity	MBE
10	Piedmont Investment Advisors	\$33,800,000	\$0.073	Fixed Income	MBE
11	Apex Capital Management	\$12,600,000	\$0.059	U.S. Equity	MBE
12	Herndon Capital Management	\$36,400,000	\$0.198	International Equity	MBE
13	Sit Investment Associates	\$17,900,000	\$0.087	International Equity	MBE
14	Westwood Global Investments	\$75,900,000	\$0.613	International Equity	WBE
15	Penn Capital Management	\$47,300,000	\$0.226	Credit	WBE
16	Herndon Capital Management	\$63,500,000	\$0.106	U.S. Equity	MBE
17	Lombardia Capital Partners	\$22,100,000	\$0.073	U.S. Equity	MBE
18	Profit Investment Management	\$103,900,000	\$0.216	U.S. Equity	MBE
19	Longfellow Investment	\$72,000,000	\$0.090	Fixed Income	WBE



Number	Manager Name	Assets Under Management	Investment Advisory Fee (in millions)	Asset Class	Classification
	Management				
20	Pugh Capital Management	\$97,100,000	\$0.171	Fixed Income	MBE/WBE
21	Garcia Hamilton	\$74,200,000	\$0.145	Fixed Income	MBE/WBE
22	Rhumblin Advisers	\$1,454,500,000	\$0.136	U.S. Equity	WBE
23	Zevenbergen Capital Investments	\$104,500,000	\$0.720	U.S. Equity	MBE/WBE
24	Brown Capital Management	\$165,800,000	\$1.156	International Equity	MBE
25	Earnest Partners	\$251,300,000	\$1.651	International Equity	MBE
26	Brown Capital Management	\$309,700,000	\$1.840	Global Equity	MBE/WBE
27	MD Asia Investors	\$200,000,000	\$0.397	Private Equity	MBE/WBE
28	MD Asia Investors	\$200,000,000	-	Private Equity	MBE/WBE
29	Vista Equity Partners IV	\$50,000,000	\$0.433	Private Equity	MBE
30	Vista Equity Partners V	\$150,000,000	-	Private Equity	MBE
31	Vista Foundation Fund II	\$10,000,000	\$0.047	Private Equity	MBE
32	Tortoise Capital Advisors	\$104,600,000	\$0.713	Master Limited Partnership	MBE
<b>Total</b>		<b>\$3,912,000,000</b>	<b>\$10.323</b>		

Source: SRPS FY 2014 Annual Report Questionnaire

According to SRPS, there were 32 emerged minority- and women-owned managers that were retained directly by the organization in FY 2014. As shown in Figure 26, approximately \$3.91 billion of the organization's assets were under management by emerged MBEs. The majority of the assets managed were in U.S. Equity and International Equity.

**Figure 26: MBE/WBE Brokerage Services**

Number	Investment Broker Name	Commissions Paid	Classification
1	Blaylock Robert Van Securities, Inc.	\$9,978.60	MBE
2	BOE Securities	\$1,130.62	MBE

Number	Investment Broker Name	Commissions Paid	Classification
3	C.L. King & Associates	\$10,940.38	WBE
4	Cabrera Capital Markets	\$209,707.97	MBE
5	CastleOak Securities	\$42,336.79	MBE
6	Cheevers and Company	\$51,116.74	WBE
7	Clancy Financial Services	\$48.00	WBE
8	Divine Capital Markets	\$616.47	MBE
9	Great Pacific Securities	\$1,517.94	MBE
10	Greentree Brokerage Services	\$3,636.62	MBE
11	Guzman & Company	\$3,982.26	MBE
12	Island Trader Securities	\$205.24	WBE
13	Ivy Securities	\$1,591.50	MBE
14	Loop Capital Markets	\$365,435.29	MBE
15	M Ramsey King Securities	\$31,874.40	MBE/WBE
16	Montrose Securities	\$26,350.41	MBE
17	M R Beal & Company	\$7,262.44	MBE
18	Muriel Siebert & Co.	\$1,090.72	WBE
19	North/South Capital	\$36,699.41	WBE
20	Penserra Securities	\$4,550.67	MBE
21	Percival Financial Partners	\$32,486.00	MBE
22	Podesta & Co.	\$2,305.50	MBE
23	Ramirez & Company	\$464.27	MBE
24	Telsey Advisory Group	\$20,836.30	WBE
25	Topeka Capital Markets	\$7,360.38	MBE
26	William Smith Securities	\$2,013.00	WBE
27	Williams Capital Group	\$75,325.37	MBE
28	Wuderlich Securities	\$53.55	WBE
<b>Total</b>		<b>\$951,735.20</b>	

Source: SRPS FY 2014 Annual Report Questionnaire

According to SRPS, there were 331 brokers that were retained directly and indirectly by the organization. Of the 331, 28 were minority- or women-owned investment brokers. As shown in Figure 27, the total dollar value of commissions paid to minority- and women-owned investment brokers for FY 2014 was more than \$951 thousand and represented 11.3 percent of the total commissions paid.

**Figure 27: DVBE/Unknown Brokerage Services**

<b>Number</b>	<b>Investment Broker Name</b>	<b>Commissions Paid</b>	<b>Classification</b>
1	Drexel Hamilton	\$409.18	DVBE
2	Mischler Financial Group	\$13,265.58	DVBE
<b>Total</b>		<b>\$13,674.76</b>	

Source: SRPS FY 2014 Annual Report Questionnaire

As shown in Figure 28, there was two disabled-veterans or not classified investment brokers retained by the SRPS. The total dollar value of commissions paid to disabled-veteran or unknown investment brokers for FY 2014 was approximately \$13,674 and represented less than one percent of the total commissions paid.

## **11.0 Conclusion**

Based on the Chapter 489 legislation, selected state agencies are required to submit an annual report to the Governor Office of Minority Affairs on their opportunities and usage of minority- and women-owned firms for investment management and brokerage activities. Over the years, the inclusion of minority- and women-owned firms in Maryland’s investment and financial services has continued to grow.

As of FY 2014, there were nearly \$5.4 billion assets under management by minority- and women-owned firms, representing 10.7 percent of the total assets under management. More than 30 percent of the statewide investment portfolios were managed by minority- and women-owned investment managers in the following asset classes: private equity and public equity. There were nearly \$1.2 billion commissions paid to minority- and women-owned investment brokers, which represented 12.3 percent of the total commissions paid. There were a total of 73 minority- and women-owned investment brokers, of which 67 were hired solely by the SRPS.

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## Appendix A: Annual Report Questionnaire

### MINORITY OWNED FINANCIAL SERVICES FIRM USAGE ANNUAL REPORT QUESTIONNAIRE *Fiscal Year 2014*

1. Describe the organization's investments and mechanisms through which the organization invests.
  - a. Please include all asset allocations and services, i.e. real estate, hedge funds private equity, brokerage services, passively managed assets, account sweeps, and services used during *transitions*.
  - b. Which of those services are retained directly by your internal staff/board?
  - c. Which of those services are retained indirectly by a consultant/advisor/manager?
2. Describe your organization's current policies regarding the utilization of minority and women owned firms in the investment and or fund management aspects of your operations?
3. Describe the organization's marketing strategy, if any, in the area of investment services.
4. Describe your organization's policy for dealing with investment firms that "cold call" with offers of financial management services.
5. What role, if any, does a "board of trustees" or "investment board" play in the organization's investment policy and decisions?
  - a. Describe any differences between the mechanisms used for various funds and/or asset classes, brokerage services, etc.
6. Is an outside *managing consultant* used to find suitable investment services firms?
  - a. If so, describe your organization's selection process for choosing *managing consultants*. This would include a comprehensive description of the procurement process used, e.g., the solicitation's specifications, evaluation factors used in the selection process, as well as contract execution and assessment procedures?
    - i. Who has final the decision over which *managing consultant* is chosen?
  - b. What are the specific responsibilities of the *managing consultant*?
    - i. Does the *managing consultant* have complete autonomy in choosing which firms are chosen to manage/invest the organization's funds?
    - ii. What, if any, parameters does your organization give to the *managing consultant* in terms of choosing/enlisting firms?
      1. Is the *managing consultant* encouraged to find minority and women owned firms?
  - c. Who manages and/or evaluates the *managing consultant's* performance?
  - d. Please include *hire dates* and *duration* of the consultant's contract.
7. What was the organization's total amount of assets being managed by minority and women owned firms in fiscal year 2014?

- a. What are the asset classes and how does that break down within racial and gender classifications?
8. How many minority and women owned investment firms have been retained **directly** by the organization in fiscal year 2014?
  - a. Please provide a list of all such firms indicating the amount of your organization’s assets being managed
9. How many minority and women owned investment firms have been retained **indirectly** by the organization in fiscal year 2014?
10. What was the total amount of money management fees, including brokerage commissions, that was paid to minority and women owned firms in fiscal year 2014?
  - a. Please list each firm by name, ownership classification (MBE or WBE), and indicate how much was paid.
11. What was the total amount of commissions paid to minority and women owned investment **brokers** for this fiscal year? (Please include “steps-outs” if necessary.)
  - a. Please provide a list of all firms, indicating the amount of commissions paid by your organization.
12. Also detail your total annual fees for fiscal year 2014 into the following categories— asset management<sup>69</sup>, financial institutions<sup>70</sup>, and professional services<sup>71</sup>.
  - a. If there are any special fee structures particular to asset classes (e.g. real estate) please provide.
13. How investment brokers have been retained **directly or indirectly** by the organization in fiscal year 2014?
14. How many minority and women owned investment brokers have been retained **directly and indirectly** in relation to the organization's total for this fiscal year?
15. What percentages of funds/assets were allocated to Maryland headquartered minority and women owned firms in fiscal year 2014?
  - a. Please list each firm by name, ownership classification (MBE or WBE), and indicate the amounts of funds/assets.
16. Please submit a copy of your organization’s most recent *Investment Policy Statement*.
17. **OPTIONAL**: Provide a brief summary detailing any information not adequately captured by your numerical data or within this questionnaire.

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<sup>69</sup> *Asset management fees* refer to any fees paid to external investment managers, regardless of racial or gender categorization.

<sup>70</sup>*Financial institution fees* refer to broker/dealers, custody operators, securities lending, operational bank account fees, and other asset servicers.

<sup>71</sup>*Professional Services Providers* refers to investment and risk management consultants, portfolio analytics software providers, and etc.

## Appendix B: Minority- and Women-owned Firm Directory

For reference purposes, the phone number and address for each minority- and women-owned investment and financial services firm that is located in the United States can be found in Figure 29 below. Note that firms may retain other locations.

**Figure 23: Minority- and Women-owned Firms**

Firm Name	Phone Number	Address
Alamo Capital	925-472-5700	201 North Civic Drive, Ste. 360, Walnut Creek, CA 94596
AH Lisanti Capital Growth	212-792-6991	608 Fifth Ave., Ste. 1002, New York, NY 10020
Ambassador Capital Management	313-961-3111	500 Griswold St., Detroit, MI 48226
Ativo Capital Management	312-263-7600	120 N La Salle St., Ste. 2150, Chicago, IL 60602
Blaylock Robert Van Securities, Inc.	212-715-6600	600 Lexington Ave., 3rd Flr., New York, NY, 10022
BOE Securities	215-568 5500	1500 JFK Blvd., Ste. 1815, Philadelphia, PA 19102
Brown Capital Management	410-837-3234	1201 N Calvert St., Baltimore, MD 21202
C L King & Associates Inc.	518-431-3555	9 Elk St., Albany, NY 12207
Cabrera Capital Markets	312-236-8888	10 S LaSalle St., Ste. 1050, Chicago, IL 60603
Campbell Newman Asset Management	414-908-6670	4425 N Port Washington Rd., Ste. 402, Glendale, WI 53212
CastleOak Securities	646-521-6700	110 Ea 59th St., 2nd Flr., New York, NY 10022
Channing Capital Management	312-223-0211	10 S La Salle St., Ste. 2650, Chicago, IL 60603
Cheevers & Company	877-388-2336	440 S LaSalle Street, Ste. 710, Chicago, IL 60605
Cheswold Lane Asset Management	610-940-5332	100 Front St., Ste. 960, West Conshohocken, PA 19428
Clancy Financial Services	212-530-4593	40 Wall St., New York, NY 10005
Clearlake Capital Partners III	310-400-8800	233 Wilshire Blvd., Ste. 800, Santa Monica, CA 90401
De La Rosa & Co.	956-541-5272	3401 Old Highway 77, Ste. B, Brownsville, TX 78520
Divine Capital Markets	212-344-5867	39 Broadway, 36th Flr., New York, NY 10006
Drexel Hamilton	414-223-4401	789 N Water St., Ste. 400, Milwaukee, WI 53202
Earnest Partners	404-815-8772	1180 Peachtree St., Ste. 2300, Atlanta, GA 30309
Falcon Strategic Partners III, IV	617-412-2700	21 Custom House St., 10th Flr., Boston, MA 02110
Fourpoints Asset Management	212-687-3290	1 Penn Plz., Ste. 1628, New York, NY 10119
Garcia Hamilton	713-853-2322	1401 McKinney, Ste. 1600, Houston, TX 77010
Great Pacific Securities	714-619-3000	151 Kalmus Dr., Ste. H-8, Costa Mesa, CA 92626
Greenfield Seitz Capital Management	214-635-2923	2100 McKinney Ave., Ste. 1420, Dallas, TX 75201

Greentree Brokerage Services, Inc.	215-569-1980	230 S Broad St. Ste. 405, Philadelphia, PA 19102
Grigsby & Associates, Inc.	415-392-4800	311 California St., San Francisco, CA 94104
Gryphon Asset Management	877-819-0303	991 Rte. 22 W., 2nd Fl., Bridgewater NJ , 08807
Guzman & Company	305-374-3600	101 Aragon Ave., Coral Gables, FL 33134
GW Capital	425-455-4551	10900 NE 8th, Ste. 750, Bellevue, WA 98004
Hanoverian Capital Management	484-732-8633	230 Whitehorse Ln., Kennett Square, PA 19348
Hanseatic Management Services	505-828-2824	5600 Wyoming NE, Ste. 220, Albuquerque, NM 87109
Hughes Capital Management	703-684-7222	916 Prince St., Alexandria, VA 22314
ICV Partners	212-455-9600	299 Park Ave., 34th Fl., New York, NY 10171
International Financial Solutions, Inc.	404-382-5223	3414 Peachtree Rd., Ste. 1020, Atlanta, GA 30326
Island Trader Securities	415-353-2800	1 Market Place, 36 <sup>th</sup> Fl., San Francisco, CA 94105
Ivy Securities	516-504-1300	320 Northern Blvd., Ste. 21, Great Neck, NY 11021
Leading Edge Investment Advisors, LLC	415-217-7030	50 California St., San Francisco, CA 94111
Lesa Sroufe & Co.	206-838-8383	1200 5th Ave., Seattle, WA 98101
LM Capital Group	619-814-1401	750 B St., Ste. 3010, San Diego, CA 92101
Lombardia Capital Partners/Dean Chase Global Value	626-568-2792	55 S Lake Ave., Pasadena, CA 91101
Longfellow Investment Management	617-695-3504	20 Winthrop Sq., 3rd Fl., Boston, MA 02110
Longitude Capital Partners II/Longitude Venture Partners	650-854-5700	800 El Camino Real, Ste. 220, Menlo Park, CA 94025
Loop Capital Markets, LLC	312-913-4900	111 W. Jackson Blvd., Ste. 1901, Chicago, IL 60604
M Ramsey King Securities Inc.	630-789-0607	93 Tomlin Cir., Burr Ridge, IL 60527
MD Global Partners, LLC	410-864-8178	400 East Pratt Street, 8 <sup>th</sup> Fl., Baltimore, MD 21202
M.R. Beal & Company	212-968-8999	110 Wall St., New York, NY 10005
Mar Vista Investment Partners	310-231-0100	11150 Santa Monica Blvd., Los Angeles, CA 90025
MFR Securities, Inc.	212-416-5000	675 Third Ave., New York, NY 10017
Mischler Financial Group	949-720-0640	1111 Bayside Dr., Ste. 100, Newport Beach, CA 92625
Montrose Securities	415-399-9955	44 Montgomery St., Ste. 3050, San Francisco, CA 94104
Multi-Bank Securities, Inc.	800-967-9045	1000 Town Center, Ste. 2300, Southfield, MI 48075
Neon Liberty	212-983-1518	600 Third Avenue, 26 <sup>th</sup> Fl., New York, NY 10016
New Century Advisors	240-395-0550	2 Wisconsin Cir., Chevy Chase Village, MD 20815

New Century Investment Management	248-262-3140	1 Towne Sq., Southfield, MI 48076
New Mainstream II	212-422-7099	77 Water Street, Ste. 2602, New York, NY 10005
Nicholas Investment Partners	858-381-8183	P.O. Box 2828, Del Mar, CA 92014
North South Capital	312-445-5400	200 W Adams St., Chicago, IL 60606
Opus Capital Management	513-621-6787	221 E 4th St., Cincinnati, OH 45202
Paradigm Asset Management	212-771-6100	445 Hamilton Ave., White Plains, New York, NY10601
Penserra Securities	844-736-7377	140 Broadway, 26th Fl., New York, NY 10005
Percival Financial Partners	410-323-5333	3700 Falls Rd., Baltimore, MD 21210
Phocas Financial Group	510-523-5800	980 Atlantic Ave., Alameda, CA 94501
Podesta & Company	312-357-2767	208 S LaSalle St., Ste. 1460, Chicago, IL 60604
Pugh Capital Management	206-322-4985	520 Pike St., Ste. 2900, Seattle, WA 98101
Quoin Capital, LLC	215-564-1222	1515 Market Street, Ste. 1808, Philadelphia, PA 19102
Ramirez & Company	855-726-4739	61 Broadway, Ste. 2924, New York, NY 10006
Redwood Investments	617-467-3000	1 Gateway Center, Ste. 802, Newton, MA 02458
Rhumblin Advisers	617-345-0434	30 Rowes Wharf, Boston, MA 02110
Rice Financial Products Company	212-908-9200	55 Broad Street, 27 <sup>th</sup> Fl., New York, NY 10004
Stephens Inc.	501-377-2000	111 Center Street, Little Rock, AR 72201
Strategic Global Advisors	949-706-2640	100 Bayview Cir., Ste. 650, Newport Beach, CA 92660
Telsey Advisory Group	212-973-9700	535 5th Ave., New York, NY 10017
The Edgar Lomax Company	703-719-0026	6564 Loisdale Ct., Springfield, VA 22150
The Swathmore Group	215-557-9300	1650 Arch St., Ste. 2100, Philadelphia, PA 19103
Topeka Capital Markets	646-981-1998	40 Wall St., New York, NY 10005
Tortoise Capital Advisors	913-981-1020	11550 Ash St., Ste. 300, Leawood, KS 66211
Victoria 1522 Investments	415-982-1522	244 California St., San Francisco, CA 94111
Vista Equity Partners/ Vista Foundation Fund	512-730-2400	401 Congress Ave., Ste. 3100, Austin, TX 78701
WM Smith & Co.	303-831-9696	3200 Cherry Creek South Dr., Ste. 720, Denver, CO 80209
Wunderlich Securities	901-251-1330	6000 Poplar Ave., Ste. 150, Memphis, TN 38119
Zevenbergen Capital Investments	206-682-8469	601 Union St., Ste. 4600, Seattle, WA 98101

Sources: See references