



Report on the Usage of Minority- and Women-Owned Brokerage and Investment Management Firms

for

Fiscal Year 2012

MSAR #	Citation
9205	Labor and Employment Article § 10-122(e) SB 343/Ch. 488, 2012 HB 277/Ch. 489, 2012
9130	Insurance Article § 24-310(e) SB 745/Ch. 570, 2012
9131	Labor and Employment Article § 10-122(e) SB 745/Ch. 570, 2012



**ANNUAL REPORT
MINORITY OWNED FINANCIAL SERVICES FIRM USAGE
SUMMARY STATEMENT**

Reporting Department/Agency: <i>Injured Workers' Insurance Fund</i>
Fiscal Year: <i>2012</i>

IN THE ATTACHED DOCUMENTS, MY AGENCY HAS REPORTED THE FOLLOWING INFORMATION:	YES	NO
1. The identity of the minority business enterprise brokerage and investment management services firms used by the Agency in the immediately preceding fiscal year;	<i>X</i>	
2. The percentage and dollar value of the assets under the custody of the Agency that are under the investment control of minority business enterprise brokerage and investment management services firms; and	<i>X</i>	
3. The measures the Agency undertook in the immediately preceding fiscal year to increase the percentage and dollar value of the assets under the investment control of minority business enterprise brokerage and investment management services firms.	<i>X</i>	

Agency Head/Secretary Name: *Tom Phelan*
(Please Type/Print Here)

Agency Head/Secretary Signature: *[Handwritten Signature]*
(Please Sign Here)

MINORITY OWNED FINANCIAL SERVICES FIRM USAGE

ANNUAL REPORT QUESTIONNAIRE 2012 ANSWERS

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.

The Injured Workers' Insurance Fund (IWIF) invests its assets in investments permitted for property and casualty insurance companies as provided in Sections § 5-601 through § 5-609 of the Insurance Article, Annotated Code of Maryland.

The current investment program at 6-30-2012 is allocated as follows:

80% Bonds
11% Convertible Bonds
5% Equities
1% Real Estate
3% Cash Equivalents

All asset classes are actively managed. Cash is invested primarily in Prime NAIC Class 1 money market funds.

- b. Which of those services are retained directly by your internal staff/board?

Seventy-five percent of the portfolio is managed internally – 100% of the cash and 90% of the bond allocation.

- c. Which of those services are retained indirectly by a consultant/advisor/manager?

Twenty-five percent of the total portfolio is managed by third-parties. Third-party investment advisors manage 10% of the bond allocation, and all of the convertible bonds, real estate and equities.

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?

IWIF's Board of Directors and Management are committed to utilizing women- and minority-owned business enterprise (MWBE) managers and brokers to the greatest extent feasible, consistent with the Board's fiduciary duties. This commitment is enshrined in IWIF's investment policy statement. The Board will not impose any artificial barriers to full participation by MWBE managers and will evaluate potential managers strictly on the basis of demonstrated

performance and potential risk. Before hiring, the Board ensures that notice of the opportunity is provided on IWIF's website and through other media to ensure that qualified MWBE managers are aware of the opportunity.

3. Describe the organization's marketing strategy, if any, in the area of investment services.

Manager searches are conducted by our investment advisor, Asset Strategy Consultants (ASC) through the RFP process. ASC gets the list of qualified investment advisors from proprietary databases (e.g internally generated, Callan Associates, etc.). To ensure wide MWBE reach, the qualified investment advisors list may be supplemented with MWBE firms from other sources, such as: the Governor's Office of Minority Affairs, trade associations and industry contacts.

In fiscal 2012, IWIF attended the National Association of Securities Professionals' (NASP) 23rd Annual Pension and Financial Services Conference. NASP is a non-profit association that seeks to achieve equal opportunity for minorities and women in the investment services industry. During the conference, IWIF made several new contacts with MWBE investment firms across asset classes.

4. Describe your organization's policy for dealing with investment firms that "cold call" with offers of financial management services.

Generally, IWIF's internal staff does not deal directly with cold calls offering financial management services. IWIF refers them to Asset Strategy Consultants.

5. What role, if any, does a "board of trustees" or "investment board" play in the organization's investment policy and decisions?

IWIF's Board of Directors has the responsibility of reviewing all matters relating to IWIF's investment program. The Board of Directors approves the Investment Policy Statement (IPS) and selects the managers based on recommendations from the investment consultant and the Chief Investment Officer.

- a. Describe any difference between the mechanisms used for various funds and/or asset classes, brokerage services, etc.

The Board-approved IPS includes investment guidelines for each individual investment strategy. Each internally-managed portfolio and third-party investment manager is provided with the applicable investment guidelines. Brokerage services are selected by the individual managers based upon best execution rules under the Securities Exchange Act of 1934.

6. Is an outside *managing consultant* used to find suitable investment services firms?

Yes, an outside managing consultant is used to find suitable investment services firms.

- a. If so, describe your organization's selection process for *managing consultants*.

The investment consultant/advisor is chosen using the RFP process, recommendation and approval by the Board of Directors.

- i. Who has the final decision over which *managing consultant* is chosen?

The Board of Directors has the final decision.

- b. What are the specific responsibilities of the *managing consultant*?

The investment consultant makes recommendations to the Board and Chief Investment Officer in regards to asset allocation, investment policy, manager hiring and firing. The consultant also reports to the Board Quarterly an analysis of the performance of all managers and performs any other projects requested by the Board or the Chief Investment Officer.

- i. Does the *managing consultant* have complete autonomy in choosing which firms are chosen to manage/invest the organization's funds?

No, the investment consultant does not have complete autonomy in choosing which firms are chosen to manage/invest the organization's funds. IWIF's Board of Directors has final authority.

- ii. What, if any, parameters does your organization give to the *managing consultant* in terms of choosing/enlisting firms? Is the management consultant encouraged find minority and women owned firms?

The investment consultant is provided with the objectives, return requirements, risk-tolerance and other related information regarding the investment strategy sought to be implemented.

Yes, the consultant is encouraged to find minority and women owned firms.

- c. Who manages and/or evaluates the *managing consultant's* performance?

The Chief Investment Officer and the Board of Directors evaluate the investment consultant's performance.

7. What was the organization's total amount of assets being managed by minority and women owned firms for fiscal year 2012?

For fiscal year 2012, \$117 million of assets was managed by minority and women owned firms. MWBE investment advisers represent twenty-seven percent (27%) of all third-party-managed assets. Minority-owned firms manage 3.6 % of the Bonds and 81% of the Equities.

- a. What are the asset classes and how does that break down within racial and gender classifications?

	Allocation (000s)	MBE?	WBE?
Bonds	50,580	Yes	No
Stocks	66,485	Yes	No

8. How many minority and women owned investment firms have been retained **directly** by the organization for fiscal year 2012?

As of 06-30-2012, IWIF retained three minority-owned firms **directly** and no women-owned firms. During fiscal 2012, one new minority-owned firm was added, capturing \$50 million out of the \$53.4 million allocated in FY2012 to third-party managers. Two minority-owned firms were removed during fiscal year 2012.

9. How many minority and women owned investment firms have been retained **indirectly** by the organization for fiscal year 2012?

There were no minority or women owned investment firms retained **indirectly** in fiscal year 2012.

10. What was the total amount of money management fees, including brokerage commissions, paid to minority and women owned firms in fiscal year 2012? Please list each firm by name, ownership classification (MBE or WBE), and indicate how much was paid.

See attached schedules (Investment Portfolio Template, MBE Brokerage Services Template).

11. What was the total amount of commissions paid to minority and women owned investment brokers in fiscal year 2012? (Please include “steps-outs” if necessary.)

See attached schedule (MBE Brokerage Services Template).

- a. Please provide a list of all firms, indicating the amount of commissions paid by your organization.

See attached schedule (Total Brokerage Services Template).

12. How many investment brokers have been retained directly or indirectly by the organization in fiscal year 2012?

In fiscal year 2012, there were 18 brokers retained directly and 66 brokers retained indirectly. Ten of seventy-four brokers used were retained both directly and indirectly.

13. How many minority and women owned investment brokers have been retained directly and indirectly by the organization in fiscal year 2012?

In fiscal year 2012, there were four MWBE brokers retained directly and eleven brokers retained indirectly. Two of thirteen brokers used were retained both directly and indirectly.

14. What percentages of funds/assets were allocated to Maryland headquartered minority and women owned firms in fiscal year 2012?

Four percent of total funds, representing 15% of all externally-managed funds, were allocated to Maryland-headquartered minority and women owned firms in fiscal year 2012.

15. **OPTIONAL:** Provide a brief summary detailing any information not adequately captured by your numerical data within this questionnaire.

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MARYLAND MBE INVESTMENT MANAGER ANNUAL REPORT TEMPLATE

Asset Management

Agency	FY 2008			FY 2009			FY 2010			FY 2011			FY 2012		
	Total Assets	MBE Assets	%	Total Assets	MBE Assets	%	Total Assets	MBE Assets	%	Total Assets	MBE Assets	%	Total Assets	MBE Assets	%
IWIF	\$1,487,076,473	\$18,775,708	1.3%	\$1,550,116,732	\$76,151,675	4.9%	\$1,643,787,426	\$92,359,834	5.6%	\$1,672,845,287	\$113,909,723	6.8%	\$1,743,121,255	\$117,064,939	6.7%
Total	\$1,487,076,473	\$18,775,708	1.3%	\$1,550,116,732	\$76,151,675	4.9%	\$1,643,787,426	\$92,359,834	5.6%	\$1,672,845,287	\$113,909,723	6.8%	\$1,743,121,255	\$117,064,939	6.7%

MBE Investment Managers Utilized

Agency	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
IWIF					
Emerging MBE Managers	0	3	3	3	1
Emerged MBE Managers	1	1	1	1	2
Total	1	4	4	4	3

Definitions: **Emerging Investment Manager** = a qualified minority owned business of female owned business with total assets under management of at least \$10 million but less than \$2 billion. **Emerged Investment Manager** = a qualified minority owned business or female owned business with total assets under management of more than \$2 billion.

Brokerage Services

Agency	FY 2008			FY 2009			FY 2010			FY 2011			FY 2012		
	Total Comm.	MBE	%	Total Comm.	MBE	%	Total Comm.	MBE	%	Total Comm.	MBE	%	Total Comm.	MBE	%
IWIF	\$691,489	\$0	0.0%	\$258,396	\$0	0.0%	\$216,622	\$3,288	1.5%	\$245,066	\$31,400	12.8%	\$811,492	\$102,772	12.7%
Total	\$691,489	\$0	0.0%	\$258,396	\$0	0.0%	\$216,622	\$3,288	1.5%	\$245,066	\$31,400	12.8%	\$811,492	\$102,772	12.7%

Total MBE Investment Brokers Utilized

Agency	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
IWIF	0	0	1	4	4
Total	0	0	1	4	4

INVESTMENT PORTFOLIO TEMPLATE--2012

Portfolio by Asset Class	Market Value (\$ 000's)	Actual Allocation	Strategic Allocation	Emerging MBE Managers	Emerged MBE Managers
Cash Management	40,111	-	-	-	-
Domestic Large Cap	26,761	-	-	-	-
Domestic Small/Mid Cap	66,484	-	-	22,344	44,141
Total Domestic Equity	93,245	-	-	-	-
Core Fixed Income	1,091,722	-	-	-	-
Corporate - Oriented	256,352	-	-	-	-
Convertible Bonds	192,305	-	-	-	-
Short Duration	50,580	-	-	-	50,580
Total Domestic Fixed Income	1,590,959	-	-	-	-
International Fixed Income	-	-	-	-	-
Real Estate	18,806	-	-	-	-
Total	1,743,121	-	-	22,344	94,721

Emerged MBE Investment Managers Utilized

Manager Name	Assets Under Management (\$ 000's)	Investment Advisory Fee (\$ millions)	Asset Class
Brown Capital Mgmt. (MBE)	44,141	0.391	Equity
Sit Investment Advisers (MBE)	50,580	0.067	Bonds (short)
-	-	-	-
-	-	-	-
Subtotal	94,721	0.459	-

Emerging MBE Investment Manager Utilized

Manager Name	Assets Under Management (\$ 000's)	Investment Advisory Fee (\$ millions)	Asset Class
Credo Capital Mgmt. (MBE)	22,344	0.154	Equity Mid-Cap
Xavier Capital (MBE)	-	0.028	Core Fixed Income
-	-	-	-
-	-	-	-
Subtotal	22,344	0.181	-
Total	117,065	0.640	-

MBE BROKERAGE SERVICES TEMPLATE

MBE Investment Broker Name	Direct	Indirect	Commissions Paid	
Blaylock Robert Van* (MBE)		84.99	84.99	
Cabreara Capital (MBE)		249.94	249.94	
Castleoak Securities* (MBE)	58,254.00	173.70	58,427.70	
Cheevers & Co. (WBE)		1,588.66	1,588.66	
Duncan Williams* (WBE)		139.70	139.70	
Guzman & Co (MBE)		187.98	187.98	
Ivy Securities (MBE)		89.43	89.43	
Loop Capital Markets* (MBE)	62.50	89.07	151.57	
Percival Financial (MBE)		2,200.61	2,200.61	
Sandgrain Securities* (WBE)	16,125.00		16,125.00	
Telsey Advisors (WBE)		1,906.87	1,906.87	
Williams Capital* (MBE)	28,330.00	50.97	28,380.97	
	Totals	\$102,771.50	\$6,761.92	\$109,533.42

* Note: Bond transactions are executed on a bid-offer spread basis (i.e. not commission-based). Commissions are based upon market-based assumptions.

TOTAL BROKERAGE SERVICES TEMPLATE

Investment Broker Name	Commissions Paid
BANK OF NEW YORK	108,080.54
BB&T	85,367.50
BEAR STEARNS & CO INC.	8,750.00
CANTOR FITZGERALD & CO	105,677.73
CAROLINA CAPITAL	57,577.50
DEAN WITTER REYNOLDS INC	414.06
FIRST TENNESSEE SECURITIES	6,737.50
FIRST UNION CAPITAL MARKETS	156.25
FTN FINANCIAL SECURITIES	106,804.00
J.P. MORGAN CHASE	64,818.87
LOOP CAPITAL MARKETS LLC	62.50
MERRILL LYNCH	17,500.00
MORGAN KEEGAN & CO INC	89,126.50
NATIONS BANK OF GA	29,715.92
SAMCO	68,498.52
SANDGRAIN	16,125.00
UBS FINANCIAL SERVICES INC	17,750.00
WILLIAMS CAPITAL GROUP	28,330.00
Total Direct	811,492.40
ABEL NOSER CORP	1,125.28
ALBERT FRIED & CO	12.50
ALEX BROWN	1,324.75
BAIRD (ROBERT W.) & CO	14,481.21
BANC OF AMERICA SEC LLC	20,593.75
BANK OF NEW YORK	28,162.74
BARCLAYS CAP INC	49,765.55
BB&T	4,239.06
BEAR STEARNS & CO INC.	27,717.07
BLAYLOCK & CO INC	84.99
BNP PARIBAS SECURITIES CO	2,776.56
BROADPOINT CAPITAL	4,775.15
CABRERA CAPITAL MARKETS	249.94
CANTOR FITZGERALD & CO	364.73
CASTLEOAK SECURITIES	173.70
CHEEVERS & CO. INC.	1,588.66
CITIGROUP GLOBAL MARKETS	74,015.78
CREDIT SUISSE FIRST BOSTON	31,144.61
DAIWA CAPITAL MARKETS	58,275.00
DEUTSCHE BANK SECURITIES	22,451.16
DUNCAN WILLIAMS INC	139.70
EUROCLEAR (120)	3,750.00
FBS INVESTMENT SERVICES	750.00
FIRST SOUTHWEST CO (FSWC)	5,874.34
FIRST UNION CAPITAL MARKETS	8,575.00
GLEACHER & COMPANY SECURITIES	34.38
GOLDMAN, SACHS & CO.	31,512.81
GUZMAN & COMPANY	187.98
HOWARD WEIL LABOUISSSE	621.99
IVY SECURITIES	89.43
J.P. MORGAN CHASE	25,092.65
JEFFERIES & COMPANY, INC.	3,687.70

JONES TRADING INSTUTIONAL	720.58
KBC FINANCIAL PRODUCTS	300.00
KEEFE BRUYETTE & WOODS INC	267.57
KIRKPATRICK PETTIS SMITH	1,278.70
KNIGHT EQUITY MARKETS L.P	254.00
LEHMAN BROTHERS, INC.	1,625.00
LIQUIDNET INC	951.77
LOOP CAPITAL MARKETS LLC	89.07
MCDONALD INVESTMENTS INC.	3,535.77
MERRILL LYNCH	39,839.06
MESIROW CAP INC	612.91
MISC	4,831.97
MORGAN STANLEY & CO. INC	22,870.15
NATIONAL FINL SVCS CORP	2,079.23
NBCN INC.	1,250.00
NEEDHAM & COMPANY	2,183.66
NOMURA SECURITIES	32,581.25
OPPENHEIMER & CO. INC.	1,050.00
PERCIVAL FINANCIAL PARTNERS	2,200.61
PERSHING LLC	7,649.26
PIPER JAFFRAY & CO.	905.65
PULSE TRADING LLC	1,596.68
RAYMOND JAMES & ASSOCIATE	1,348.44
RBC DAIN RAUSCHER INC.	3,679.01
SAXONY SECURITIES INC	634.18
SG AMERICAS SECURITIES	1,750.00
STATE STREET BROKERAGE	4,087.75
STEPHENS INC (CUST)	19,401.28
STIFEL NICOLAUS & CO INC	10,289.96
TELSEY ADVISORY GROUP	1,906.87
UBS FINANCIAL SERVICES INC	2,709.38
US BANCORP INVESTMENTS INC	1,162.50
WACHOVIA CAPITAL MARKETS	12,725.00
WILLIAM BLAIR & COMPANY	4,580.35
WILLIAMS CAPITAL GROUP	50.97
Total Indirect	<u>616,636.70</u>

Total Commissions

\$1,428,129.10

Note: Bond transactions are executed on a bid-offer spread basis (i.e. not commission-based). Commissions are based upon market-based assumptions.