

**BOARD OF TRUSTEES FOR THE  
STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND  
MINUTES OF MEETING**

November 17, 2009

The Board of Trustees for the State Retirement and Pension System of Maryland met in the Boardroom of the SunTrust Building, 120 East Baltimore Street, Baltimore, Maryland, beginning at 9:03 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman	Peter Franchot, Vice-Chairman	F. Patrick Hughes	Major Morris Krome
Robert Schaefer	William D. Brown	John Douglass	Sheila Hill
Harold Zirkin	David Blitzstein	James Harkins	Theresa Lochte
R. Dean Kenderdine, Secretary			

Agency Staff members attending included:

Deborah Bacharach	Margaret Bury	Rachel Cohen	Melody Countess	Robert Feinstein
Patricia Fitzhugh	Ira Greenstein	Dennis Krysiak	Mansco Perry, III	Howard Pleines
Brian Rowe	Fred Semko	Janet Sirkis	Patrice Sowah	Toni Voglino
Melissa Warren	Victoria Willard	Ken Reott		

Also attended by:

John Kenney	Melissa Moye	Lisa Campbell	Michael Rubenstein	Dylan Baker
Robert Palumbi	Douglass Rowe			

Minutes 1. On a motion made by Ms. Hill and seconded by Mr. Brown the Board approved the minutes of the October 20, 2009 open session meeting.

Investment Committee Report 2. Mr. Schaefer, Chairman of the Investment Committee, reported on the regular meeting of the Investment Committee held on November 13, 2009.

Mr. Schaefer reported that the Investment Committee unanimously approved the September 11, 2009 open meeting minutes.

Mr. Schaefer reported that the Investment Committee received a Derivatives Education Session. Mr. Schaefer explained that in September, 2009, the Board of Trustees approved the following modifications to the System's asset allocation policy:

- 1) Utilize futures contracts to create synthetic equity and fixed income portfolios.
- 2) Utilize futures and other derivatives to develop an overlay program which will enable the System to quickly and easily rebalance the total fund portfolio to the asset allocation targets in the System's Investment Policy Statement.

Mr. Schaefer reported that at the September meeting, it was agreed that staff and Ennis Knupp would develop and provide to the Committee supplemental information regarding how derivatives will be utilized. In accordance with this request, Mr. Keith Black of Ennis Knupp presented an education session regarding the use of derivatives with specific focus on how futures and other derivatives will be used in (i) developing an overlay program for rebalancing and (ii) creating synthetic equity and fixed income portfolios. Mr. Black described what derivatives are to be utilized, and he and Mr. Perry detailed the constraints and limitations that will govern their use in the overlay program and synthetic portfolios, specifically addressing leverage and the risks associated with the deployed derivatives.

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Mr. Perry noted that the number of managers to be hired to manage the synthetic portfolios would be minimal depending upon the indices for which portfolios are developed. He also stated that only one manager would likely be hired to provide rebalancing services.

Mr. Schaefer reported that the Investment Committee approved the following Investment Committee meeting dates for Calendar Year 2010. The meeting schedule that was presented for the Committee's consideration was as follows: February 12, 2010, May 14, 2010 (asset allocation review and quarterly meeting), September 10, 2010 (CIO Evaluation and quarterly meeting) and November 12, 2010.

Mr. Schaefer reported that Mr. Perry, Chief Investment Officer, provided an extensive report. Mr. Perry's report included:

- Joint Committee on Pensions hearing update – Mr. Kenderdine and Mr. Perry summarized the Agency's November 3, 2009 hearing before the Joint Committee on Pensions. Mr. Kenderdine summarized the discussion regarding compensation issues, noting that there had been discussion of both the Board's legislative proposal seeking limited salary setting authority and the incentive compensation policy for the CIO. Mr. Perry summarized the Agency's responses to the Department of Legislative Services' questions regarding (a) manager fees in alternative investments, (b) 'active vs. passive' management in the fixed income asset class and (c) FAS 157's impact on the private equity asset class. A copy of the Agency's responses was distributed and will be posted on the board portal.
- Peer performance comparisons / TUCS – Mr. Perry noted that there also had been discussion of TUCS and related peer performance comparison issues at the Joint Committee on Pensions meeting. Mr. Perry then summarized some of the flaws in the Wilshire TUCS database generally, and with the Public Funds > \$1 Billion report (the report presently relied upon by the Agency and DLS) specifically. Wilshire does not disclose what funds participate in the various TUCS peer universes. With regard to the > \$1 Billion report, Mr. Perry noted that many of the smaller funds in this particular universe probably have very different investment programs. Some members of the Committee expressed the opinion that it may not be appropriate to compare the System to the largest public pension funds.

Along with the TUCS report for the quarter ended September 30, 2009, summary data regarding several other TUCS peer universes (public funds >\$10 Billion, >\$20 Billion, >\$25 Billion and >\$30 Billion) was provided to the Joint Committee on Pensions. As a result of the discussion that ensued, staff was asked to come back to the Joint Committee on Pensions with suggestions regarding a more appropriate peer comparison universe.

Mr. Perry also noted that staff had also begun the process of gathering information about the 25 largest statewide public plans, and intends to discuss with DLS the possibility of jointly doing research on these plans'

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returns, asset allocations, etc. Mr. Perry also proposed that the System initiate a broader education session with DLS and interested members of the General Assembly regarding peer performance matters. A suggestion was made that the Cost Effectiveness Measurement benchmarking study may contain useful information.

- Mr. Perry presented the Committee with materials regarding (a) capital market risk and (b) manager structure and portfolio misfit risk.
- Update regarding currency management program – By way of background, Mr. Perry noted that the System's dynamic hedging currency management program was put in place in the spring of 2009. He explained that the System's international and global equity portfolios had experienced a significant increase in the value of their portfolios due to currency appreciation. When the dollar declines, foreign currency appreciates. If there were no currency management program in place, if the dollar were to appreciate, then the currency gains that the System has recognized in these portfolios would erode. Mr. Perry has had discussions with Record Currency Management regarding how best to mitigate any erosion in the event the dollar did appreciate significantly in the near term. Mr. Perry proceeded to outline four options for dealing with this situation, and informed the Committee that he is going to direct the manager to trigger a "restriking" or resetting of the existing currency hedges. Staff was asked to inform the Committee once this resetting has been implemented.
- Performance - Mr. Perry presented a performance update. Highlights from his report:
  - The System is ahead of its policy benchmark fiscal year to date.
  - The fixed income program has been restructured to focus on core fixed income with both domestic and global segments. Given this restructuring, the "best ideas" portfolio idea will not be pursued for fixed income. Also, an error in the fixed income asset class benchmark has been identified, and will be corrected with State Street.
  - Terra Maria Program – In response to a question after Mr. Perry presented his report, (a) Ennis Knupp expressed a positive opinion of the program and (b) Mr. Perry noted that this program's "since inception" results continue to be impressive.
  - Real Return – With TIPS and global inflation linked bonds as the foundation of this asset class, staff expects that by the end of the calendar year, the System will attain the target allocation for this asset class.
  - Private Equity and Real Estate – The Agency is issuing RFIs for nondiscretionary private equity and real estate consulting services. After a real estate consultant is selected, a strategic review of the entire real estate program is going to be undertaken.
  - Absolute Return – Staff continues to work closely with counsel to evaluate the program structure for this asset class.

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- › Credit Opportunities – Approximately \$300 million in commitments have been made to managers approved to participate in PPIP.

Mr. Schaefer reported that in summary, Mr. Perry stated that he believed the portfolio was shaping up nicely.

Mr. Schaefer reported that in response to a question regarding the claim against State Street Bank & Trust filed last month by the California Attorney General, Mr. Perry noted that staff has asked State Street to provide us with detailed information regarding how State Street executes foreign exchange transactions on behalf of the System. Staff will be consulting further with counsel and others, and will report back to the Committee.

Mr. Schaefer reported that Ms. Nykiel provided a brief summary of Ennis Knupp's 3rd Quarter Performance Report.

Mr. Schaefer reported that the Investment Committee received the September 30 State Street Performance Reports, Quarterly PE Performance Report, and Quarterly Broker Commission Reports.

2010 Meeting Dates

3. On a motion made by Mr. Brown and seconded by Mr. Schaefer, the Board approved the following dates for meeting in 2010:

January 19 <sup>th</sup>	February 16 <sup>th</sup>	March 16 <sup>th</sup>
April 20 <sup>th</sup>	May 18 <sup>th</sup>	June 15 <sup>th</sup>
July 20 <sup>th</sup>	August 17 <sup>th</sup>	September 21 <sup>st</sup>
October 19 <sup>th</sup>	November 16 <sup>th</sup>	December 21 <sup>st</sup>

- GRS 4. Brian Murphy, Brad Armstrong, and Amy Williams of Gabriel, Roeder and Smith (GRS) presented the results of their analysis of the System's funding policy and offered a alternatives to that policy related to Amortization, Corridor Funding, and Asset Valuation. Examples of the potential effects of these alternatives were presented. Major Krome recommended the creation of a Board Ad Hoc Committee to study the System's funding policy, the GRS alternatives, and to report back to the Board with recommendations.

- GRS 5. Brian Murphy, Brad Armstrong, and Amy Williams of Gabriel Roeder & Smith (GRS), presented the final results of the State Retirement and Pension System's Actuarial Valuation for the period ending June 30, 2009 and the recommended employer contribution rates for the FY2011 budget.

Kenneth A. Kent and Margaret Tempkin of Cheiron, presented the results of the actuarial audit of the System's GRS valuation. Mr. Kent reported that Cheiron found no material differences in the rates developed for the two largest systems and for the smaller sufficient documentation was provided about methods and assumption changes since the last valuation to support acceptance of differences between Cheiron and GRS results.

On a motion made by Mr. Douglass and duly seconded the Board certified the Fiscal Year 2011 contribution rates proposed by GRS, the System's

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actuary.

Fiscal Year 2011	
Teachers	14.34%
Employees	11.69%
State Police	57.03%
Judges	59.07%
LEOPS	47.67%

Executive  
Director's  
Report

6. Mr. R. Dean Kenderdine's reported on recent Agency developments.

Mr. Kenderdine discussed the policy review of the Chief Investment Officer's compensation.

Mr. Kenderdine reported that Mr. Murphy and Mr. Armstrong of GRS presented the firm's valuation results at the November 3<sup>rd</sup> Joint Committee on Pensions (JCP) meeting.

Mr. Kenderdine reported that the next JCP meeting is scheduled for Tuesday, December 8, 2009 at 10 a.m.

Mr. Kenderdine reported that the Agency's Holiday Celebration will be held on Friday, December 18<sup>th</sup>. He extended an invitation to the Board to attend.

Mr. Kenderdine reported that Fred Semko has accepted a new position as the Deputy Director of Data Control. He acknowledged all of Mr. Semko's hard work and dedication to the MPAS project.

Mr. Kenderdine reported that Sherlynn Matesky has been invited to the December Board meeting.

Mr. Kenderdine provided an update on the MPAS project including the fact regression testing on the system would commence with the next couple of days.

CIO Report

7. Mr. Mansco Perry, III commented on the portfolio's performance.

Mr. Perry reported that year-to-date earnings were up 11.5%.

Medical Board  
And  
Supplemental  
Medical Board  
Reports

8. On a motion made by Mr. Brown and seconded by Mr. Hughes, the Board of Trustees accepted all the reports of the Medical Board in connection with applications of members for ordinary, accidental and special disability retirement allowances. The Medical Board's conclusions were reached after its review of the documentation in the file.

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**CLOSED SESSION**

The Board met in a Closed Session (11:54 p.m.) in the Boardroom of the SunTrust Building at 120 East Baltimore Street for the purpose of:

1. to approve the closed session minutes, State Government Article §10-503(a)(1)(i), the exercise of an administrative function.

The Trustees present included:

Nancy K. Kopp, Chairman	Peter Franchot, Vice-Chairman	F. Patrick Hughes	Major Morris Krome
Robert Schaefer	William D. Brown	John Douglass	Sheila Hill
Harold Zirkin	David Blitzstein	James Harkins	Theresa Lochte
R. Dean Kenderdine, Secretary			

Also in attendance: John Kenney and Melissa Moye.

The Board ended its closed session at 11:55 a.m. and returned to regular session to complete the agenda.

**REGULAR SESSION**

The Board reported that during the closed session the Board approved the closed session minutes.

- Adjournment 9. There being no further business before the Board, the meeting adjourned at 11:55 a.m.

Respectfully submitted,



R. Dean Kenderdine  
Secretary to the Board

RDK/pws