

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

May 17, 2011

The Board of Trustees for the State Retirement and Pension System of Maryland met in the Miller Senate Office Building, 11 Bladen Street, Annapolis, Maryland 21401, beginning at 1:23 p.m.

The Trustees present included:

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

The Board met in a Closed Session in the Boardroom of the SunTrust Building at 120 East Baltimore Street:

1. to discuss an investment matter related to real estate, pursuant to State Government Article §10-508(a)(5), and;
2. to discuss a personnel matter related to the public member of the Investment Committee, pursuant to State Government Article §10-508(a)(1).

The Board ended its closed session returned to regular session to complete the agenda.

REGULAR SESSION

- Investment Committee Report
1. Mr. Robert Schaefer, Chairman of the Investment Committee, reported on the regular meeting held on May 13, 2011.

Mr. Schaefer reported that Investment staff and Hewitt Ennis Knupp (HEK) presented the annual asset allocation review to the Investment Committee. HEK identified three broad recommendations to change the System's current portfolio structure:

- Decrease fixed income/Increase Real Return,
- Restructure remaining fixed income component by adding long duration bonds, and;
- Expand the use of absolute return strategies in other asset classes.

Mr. Schaefer reported that the Investment staff concurred with HEK's recommendations and views these changes as having attractive risk/return qualities in the current economic climate. The Investment Committee then heard recommendations from the Investment staff, which included the following.

1. Decrease Fixed Income / Increase Real Return

Reduce the Plan's Fixed Income component by 5%, and the Real Return component be increased by 5%. This would increase the Real Return target from 10% to 15% of the total plan assets, and reduce Fixed Income from 15% to 10%. Staff views this change as relatively minor, and should provide the Plan with some protection should inflation exceed current expectations.

Staff also recommended removing two managers that are currently in the Real Return bucket - Bridgewater All Weather and PIMCO All Asset – and placing them in the Absolute Return bucket. These two funds include components that offer inflation protection but they also include assets that do not.

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

May 17, 2011

Dr. Moyer summarized the recommendations of staff and Hewitt Ennis Knupp:

1. Reduce long-term Fixed Income target from 15% to 10% with a range of +/- 2%
2. Increase long-term Real Return target from 10% to 15% with a range of +/- 3%
3. Remove the Bridgewater All Weather and PIMCO All Asset from Real Return, and place them in Absolute Return
4. Change the Benchmark from 60% TIPS/Global Linkers, 20% Dow Jones UBS Commodities Index and 20% CPI + 5% (60/20/20); to 60% TIPS/Global Linkers, 30% Dow Jones UBS Commodities Index and 10% CPI + 5% (60/30/10)

2. Restructure Remaining Fixed Income Component by Adding Long Duration Bonds

Restructure the remaining Fixed Income asset class by adding an allocation to long duration bonds. Long duration bonds pay a higher yield than shorter duration core bonds, but do so with higher duration risk. HEK and staff are comfortable with this risk/return tradeoff, and feel that the higher yields offered by long duration bonds provide adequate compensation against the risk of sharper than expected rate increases.

Dr. Moyer summarized the recommendations of staff and Hewitt Ennis Knupp:

1. Change the Fixed Income asset class benchmark to a dynamically weighted blend of 80% Barclays Capital Aggregate Index/20% Barclays Capital Global Bond Aggregate Hedged Index, and the Barclays Capital Long Duration Government/Credit Index

3. Expand the Use of Absolute Return Strategies in Other Asset Classes

Expand the use of absolute return strategies in other asset classes. The objective in including absolute return strategies in the other asset classes is not to enhance returns by increasing risk, but rather to provide some level of downside protection and more risk control. Staff recently issued an RFI for a hedge fund consultant to assist Staff in identifying and monitoring talented Absolute Return managers to complement the existing portfolio.

Dr. Moyer summarized the recommendations of staff and Hewitt Ennis Knupp:

1. Expand the use of hedge fund strategies in other asset classes to include Public Equity, Fixed Income, Credit, Real Estate and Real Return
2. Set a Total Fund limit to hedge fund strategies at 15%, including the existing Absolute Return asset class, as well as any hedge funds included in Public Equity, Fixed Income, Credit, Real Estate or Real Return asset classes

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

May 17, 2011

On a motion made by Mr. Schaefer and seconded by Ms. Hill, approved:

1. the four recommendations listed above regarding revisions to the System's Fixed Income and Real Return allocations and related matters,
2. the recommendation to change the Fixed Income Benchmark to reflect the addition of long-duration bonds to the Fixed Income asset class, and;
3. the two recommendations listed above regarding the use of absolute return strategies in other asset classes.

Mr. Schaefer reported that the Investment staff presented its 2012 travel plan for the Investment Committee's approval. The plan highlighted the types of travel that the Investment Division expects to take and provided a preliminary draft travel plan.

On a motion made by Mr. Schaefer and seconded by Ms. Hill the Board approved the Investment Division's fiscal year 2012 travel plan.

Medical Board
And
Supplemental
Medical Board
Reports

2. On a motion made by Treasurer Kopp and seconded by Mr. Hughes, the Board of Trustees accepted the reports of the Medical Board in connection with applications of members for ordinary, accidental and special disability retirement allowances, with the exception of Kevin Fearon and Eric Lloyd to be deferred until the June Board meeting. The Medical Board's conclusions were reached after its review of the documentation in the file.

Comptroller Franchot stated that in light of the presentation by Bridgewater, at the Education Session, he believed the Board should reconsider its decision to keep the assumed rate of return at 7.75%. After some discussion by staff and Trustees, there was no consensus to bring up the matter again this year.

Adjournment

3. There being no further business before the Board, the meeting adjourned.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board

RDK/pws