

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

June 21, 2016

The Board of Trustees for the Maryland State Retirement and Pension System met in the Board Room of the SunTrust Building, 120 East Baltimore Street, 16th Floor Board Room, Baltimore, Maryland beginning at 9:30 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding
Peter Franchot, Vice Chairman
David Brinkley
Eric Brotman
James Bush, Jr.
James C. DiPaula
Kenneth Haines

James Harkins
Linda Herman (via phone)
F. Patrick Hughes
Charles Johnson
Theresa Lochte
Richard Norman

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Margaret Bury	Angie Jenkins	David Rongione
Melody Countess	Van Lewis	Janet Sirkis
Anne Gawthrop	Michelle Lowery	Toni Voglino
Michael Golden	Andrew Palmer	Delores White-Rose
Ira Greenstein	Ken Reott	

Assistant Attorneys General present included: Rachel Cohen, Carla Goldman Katzenberg and Kathleen Wherthey

Other attendees included: Phillip Anthony, Nathan Bowen, Michael Rubenstein, Dana Tagliacod, John Kenney, Susanne Brogan (via phone), Brian Murphy (GRS), Mary Mustard (Meketa), and Eileen O'Grady and members of the UNITE HERE Union.

Presentation by
UNITE HERE

Eileen O'Grady, Analyst with the UNITE HERE union, and employees of the Horseshoe Casino in Baltimore, appeared before the Board of Trustees to speak about the Maryland State Retirement and Pension System's investments in three Apollo Global Management Funds and the potential risk of indemnification issues for the System.

Ms. O'Grady, who was joined by Mr. Elton McQueen, a Horseshoe employee and Mr. Ben Begleiter, also with UNITE HERE, to present statements on behalf of the group present. Ms. O'Grady stated that a court-appointed examiner's report found that claims of up to \$5 billion exist against Caesar's management and their private equity sponsors, TPG and Apollo, relating to asset transfers and other actions leading up to bankruptcy.

They asked that the Board of Trustees investigate whether the limited partner agreements with Apollo have an indemnification clause or other language that would cause the fund and, by extension, Maryland pensioners to be liable for damages for a failed investment. They also asked that Maryland engage with Apollo to encourage contractual fair wages and benefits at Caesars.

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Mr. McQueen discussed the union's current contract negotiations with the Horseshoe casino and asked the Board to inform Apollo Global Management of its support of a resolution to these negotiations.

Mr. Begleiter addressed Apollo Global Management's reported bid to acquire a Canadian pharmaceutical company Concordia Healthcare. According to Mr. Begleiter, published reports on Concordia have compared their business strategies to those of two other pharmaceutical firms criticized for "acquiring older or off-patent drugs and raising their prices significantly." Mr. Begleiter suggested that the Board should be concerned with this potential acquisition by Apollo Global Management.

Treasurer Kopp thanked everyone for appearing before the Board of Trustees and bringing to their attention their concerns. Treasurer Kopp indicated that the investment questions raised would be assigned to the appropriate Board committees for further review.

Comptroller Franchot asked staff to further describe the indemnification issues raised.

Andrew Palmer responded that this issue would need to be reviewed with legal counsel, including a review of the provisions of each private equity contract.

Comptroller Franchot requested that this matter be handled in an expedited manner.

Consent Agenda

On a motion made by Mr. Bush and seconded by Ms. Lochte, the Board approved the consent agenda, which included:

- › May 19, 2016 Open Meeting Board Minutes

Board Officers

On a motion made by Mr. Harkins and seconded by Mr. Haines, the Board elected the following officers:

- › Nancy K. Kopp as Chairman
- › Peter Franchot as Vice-Chairman
- › R. Dean Kenderdine as Secretary

Treasurer Kopp indicated that a recommendation would be forthcoming regarding Committee assignments for the coming year as well as possible changes to the schedule of Investment Committee meetings.

**Pocomoke City Law
Enforcement
Personnel – Transfer
from Employees'
Pension System to
the Law Enforcement
Officers' Pension
System**

Mr. Kenderdine reported that Pocomoke City has submitted a resolution to withdraw eligible law enforcement personnel ("Officers") from the Employees' Pension System and transfer them to the Law Enforcement Officers' Pension System.

Mr. Kenderdine reported that historically, it has been the Agency's practice to present such transfers to the Board of Trustees for its approval, however, State Personnel and Pensions Art., § 31-302 allows law enforcement personnel to withdraw and transfer from one State system to another State

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system without approval by the Board of Trustees. Therefore, this matter is before the Board of Trustees as an informational item.

It was recommended that all such matters be handled in the same manner going forward.

On a motion made by Mr. Harkins and seconded by Mr. Bush, all future resolutions to withdraw and transfer participating governmental units from one State system to another State system, shall be brought to the Board of Trustees as an informational item.

Participation in the
Employer Pick-Up
Program -
Pocomoke City

R. Dean Kenderdine reported that Pocomoke City has submitted to the Board for its approval, its request to participate in the Employer Pick-Up Program effective July 1, 2016. A copy of the signed resolution by the Pocomoke City Council was provided to the Board in the agenda packet.

On a motion made by Mr. Harkins and seconded by Mr. Bush, the Board of Trustees approved Pocomoke City's request to participate in the Employer Pick-Up Program, effective July 1, 2016.

Participation in the
Employer Pick-Up
Program -
Allegany County
Sherriff's Department

R. Dean Kenderdine reported that the Allegany County Sherriff's Department has submitted to the Board for its approval, its request to participate in the Employer Pick-Up Program effective July 1, 2016. A copy of the signed resolution by the Allegany County Commission was provided to the Board in the agenda packet.

On a motion made by Mr. Harkins and seconded by Mr. Bush, the Board of Trustees approved Allegany County Sherriff's Department's request to participate in the Employer Pick-Up Program, effective July 1, 2016.

Earnings Limitation
Recovery Reports

Mr. Kenderdine presented to the Board a report, certified by the Agency, of retirees who exceeded, in calendar year 2015, the maximum earnings limit allowable under current law. Mr. Kenderdine reported that the Board must approve the amount of which the retiree's pension benefit will be offset in fiscal year 2017.

On a motion made by Ms. Lochte and seconded by Mr. Bush, the Board approved the Earnings Limitation Recovery Report and authorized the Agency to reduce the FY17 benefits of the affected retirees.

Disability Offset
Report

Mr. Kenderdine presented to the Board a report, certified by the Agency, of disability retirees who exceeded, in calendar year 2015, the maximum earnings limit allowable under current law. Mr. Kenderdine reported that the Board must approve the amount of which the retiree's pension benefit will be offset in fiscal year 2017.

On a motion made by Mr. Hughes and seconded by Ms. Lochte, the Board approved the Disability Offset Report and authorized the Agency to reduce the FY17 benefits of the affected retirees.

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2016 Attendance &
Training Reports –
January 1, 2016
through June 30,
2016

Mr. Kenderdine presented the six-month attendance and training reports for January 1 through June 30, 2016 to the Board for its review. Mr. Kenderdine reminded the Board that the Agency is no longer required to submit either of these reports to the legislature; however, due to statutory requirements pertaining to Trustee meeting attendance and training, a record of such must still be kept by the Agency. Mr. Kenderdine indicated that the attendance report would be updated to reflect the Board's attendance at the June, 2016 meeting.

Treasurer Kopp requested that the attendance report title be revised to reflect that the reporting period was for the first six-months of the year and that the calculation columns be changed to accurately reflect the percentage of meetings attended by each Trustee for just those months being reported.

Secretary Brinkley requested that Marc Nicole's name be corrected on the Administrative Committee attendance report.

Mr. Brotman requested that calculation columns be corrected to not include January's meeting for both he and Mr. DiPaula as they were not Trustees on that meeting date.

Mr. Kenderdine responded that all of the requested edits would be made.

Review of the
System's Assumed
Rate of Return

Mr. Brian Murphy of Gabriel Roeder Smith and Company, joined by Ms. Mary Mustard of Meketa Investment Group presented to the board, their analysis of the System's actuarial assumed rate of return in the context of projected market volatility and the System's current asset allocation.

Mr. Murphy reviewed the System's recent history of adjusting the assumed rate, with that rate having been dropped to 7.55% with the FY 2015 valuation after incremental adjustments begun with the FY2012 valuation.

Mr. Murphy reported that since 2001, the median rate among public pension plans has dropped from 8.0% to 7.62% in 2015. Mr. Kenderdine distributed the NASRA report which presents data on current public pension plan return assumptions.

A chart was presented which shows how volatility, in the 2008-2015 period, has affected the System's returns. Ms. Mustard presented a chart showing how, as return expectations have declined, the efficient frontier has shifted down. Investors need to accept considerably more risk to target the same returns they could have achieved historically.

Mr. Murphy reported that GRS had applied the System's current asset allocation to the capital market assumptions of nine investment consultants, one being Meketa. It was noted that the time horizon for the consultants differed, with three consultants using 10 years, one 10-15 years, two using 20 years, two using 30 years, and one not determined. The average inflation assumption among the nine consultants is 2.25%.

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A second chart was presented showing the distribution of expected longer term returns for the nine consultants, based on the System's current target asset allocation and 2.70% inflation assumption. Meketa's expects a 7.79% return with an inflation assumption of 2.50%.

	Distribution of 20-Year Average Geometric Net Nominal Return			Probability of exceeding 7.55%
	40 th	50 th	60 th	
Average	6.68%	7.32%	7.97%	46.39%
Avg Consult. using 10 years	6.34%	6.97%	7.60%	40.91%
Avg Consult. using 20-30 years	7.11%	7.77%	8.43%	53.25%

Mr. Murphy reported that the probability is about 46% that 7.55% will be achieved over 20 years with 2.7% inflation based on the average of all 9 consultants. The probability that 7.55% will be achieved over 20 years with 2.7% inflation is about 41% based on the average of consultants with a time horizon of less than 20 years and 53% with a time horizon of 20 years or longer.

Mr. Murphy then offered the tradeoff in any effort to increase the probability of achieving an assumed rate of return, which requires either a reduction in volatility (portfolio risk) or a reduction of the expected return. Such action would increase employer contribution rates but would increase the stability of those rates.

Mr. Murphy concluded by stating that the System's current assumption is still mainstream, that other plans are gradually moving their assumed rates down, and that prudent planning suggests considering portfolio risk and return tradeoffs carefully as the System matures and cash flow needs increase.

Mr. Kenderdine provided a copy of the National Association of State Retirement Administrators' (NASRA) report "Public Pension Plan Investment Return Assumptions" to the Board.

Comptroller Franchot commented that the current Governor has a view of the State's contribution obligations that is more favorable to the System and could understand a Board decision to adjust the assumed rate of return.

Treasurer Kopp indicated that the Board should take the information presented under advisement for a short period and asked that Mr. Murphy work together with Meketa and staff to provide the Board with the numbers based on this discussion and the impact it would have on the System's funding.

Treasurer Kopp asked that the Trustees, through Dean, raise any additional concerns they may have and Dean will bring them to the attention of GRS, Meketa and staff.

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Joint Committee on
Pensions' Request
for Information
Concerning System
Investment Policy
and Climate Change

The Board was provided a copy of the correspondence from the Joint Committee on Pensions' (JCP) requesting information on the System's current practices regarding the growing risk of climate change and how these practices impact investments made by the System, as well as a copy of Treasurer Kopp's letter to the JCP acknowledging receipt of their correspondence.

Treasurer Kopp indicated that she will be working with Mr. Palmer and counsel on this matter, as the System's response to the JCP is prepared for presentation this fall.

Chief Investment
Officer's Report

Mr. Andrew Palmer reported that the total market value of the fund, as of May 31, 2016, was \$45.0 Billion with a small positive return of 15 basis points for one month.

Mr. Palmer provided a chart entitled "Actuarial Rate vs. Funded" to the Board which shows where the System compares among 52 other Public Funds in terms of actuarial rate of return versus funded ratio.

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Mr. Palmer introduced Hannah Hensley and Amha Sertsu, two summer interns working with the Investment Division.

Mr. Palmer reported that Michael Cheung, Managing Director, is leaving the division to take a job with a local healthcare company. Mr. Palmer also reported that currently there are five open positions in the Investment Division, as Indra Elangovan also left the division; however, a new employee is expected to start on July 1, 2016 and recruitment for the other vacancies are in progress.

Executive Director's
Report

Mr. Kenderdine provided the Board with a compilation of the reviews from the Board of Trustees Education Session, which was held in May, 2016.

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Mr. Kenderdine reported that the Information Technology and Business Operations divisions were testing the PGU payroll upload software. It is expected that the new system for PGUs to upload their monthly payroll data will be rolled out in July.

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Mr. Kenderdine reported that there would be a complete power shut-down of the building the weekend of June 25-26, 2016, to perform service to the HVAC system. Therefore, the Agency's website and phone system will be down, as well.

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Mr. Kenderdine reported that the triennial review of the Governance Charters and Policies would initiate in July to be completed in December through the Administrative Committee and welcomed the involvement of any Trustee wanting to act on the Committee for that purpose.

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Mr. Kenderdine reported that staffing Agency-wide has been an issue and that he has been working closely with Nathan Bowen and Marc Nicole of the Department of Budget and Management to fill vacancies as quickly as possible.

Mr. Brotman asked if the issue was with employee selection or recruitment and retention.

Mr. Kenderdine responded that it is a combination of both, but that compensation is the main issue.

Ms. Bury indicated that of the 107 positions in the Benefits Administration division currently there are 16 vacancies.

Secretary Brinkley commented that vacancies and recruitment and retention is an issue State-wide.

On a motion made by Mr. Brotman and seconded by Mr. Bush, the Board voted to meet in a Closed Session, beginning at 11:45 a.m., in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor, for the purpose of:

1. reviewing the closed session Board minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function;
2. reviewing the Medical Board reports, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter namely, General Provisions Art., § 4-312 regarding the prohibition on disclosing retirement records, and General Provisions Art., § 4-329 regarding the prohibition on disclosing medical and personal information
3. consulting with counsel to obtain legal advice pursuant to General Provisions Art., § 3-305(b)(7) and consulting with staff, consultants or other individuals about pending or potential litigation, pursuant to General Provisions Art., § 3-305(b)(8).

CLOSED SESSION

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding
Peter Franchot, Vice Chairman
David Brinkley
Eric Brotman
James Bush, Jr.
James C. DiPaula

Kenneth Haines
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Linda Herman (via phone)
Charles Johnson
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Margaret Bury	Angie Jenkins	David Rongione
Melody Countess	Van Lewis	Janet Sirkis
Anne Gawthrop	Michelle Lowery	Toni Voglino
Michael Golden	Ken Reott	Delores White-Rose

Assistant Attorneys General present included: Rachel Cohen, Carla Goldman Katzenberg and Kathleen Wherthey.

Other attendees included: John Kenney and Susanne Brogan (via phone).

On a motion made by Secretary Brinkley and duly seconded, the Board returned to open session at 11:52 a.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor.

OPEN SESSION

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	Kenneth Haines
Peter Franchot, Vice Chairman	James Harkins
David Brinkley	Linda Herman (via phone)
Eric Brotman	Charles Johnson
James Bush, Jr.	Theresa Lochte
James C. DiPaula	Richard Norman

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Margaret Bury	Angie Jenkins	David Rongione
Melody Countess	Van Lewis	Janet Sirkis
Anne Gawthrop	Michelle Lowery	Toni Voglino
Michael Golden	Ken Reott	Delores White-Rose

Assistant Attorneys General present included: Rachel Cohen, Carla Goldman Katzenberg and Kathleen Wherthey.

Other attendees included: John Kenney and Susanne Brogan (via phone).

During the closed session the Board took action on the following:

Closed Session Minutes	The Board approved the May 19, 2016 closed session Board minutes.
Medical Board Reports	The Board adopted the medical board reports from May 18, May 26, June 1, June 9 and June 15, 2016.
Other Business	Treasurer Kopp reported that she would be making a decision regarding the future structure of the Investment Committee, keeping with the bylaws of what is required and asked that if any Trustee was looking to be on a specific committee to let her know. Treasurer Kopp also asked should a Trustee have any questions of the actuary that those questions be brought to her or to Dean Kenderdine within the week.

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Adjournment

There being no further business before the Board, on a motion made by Ms. Lochte and seconded by Mr. Norman, the meeting adjourned at 1:45 p.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board