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

November 16, 2010

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 9:16 a.m.

The Trustees present included:

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

Agency Staff members attending included:

Anne Budowski	Melody Countess	Brian Feilinger	Robert Feinstein	Patricia Fitzhugh
Michael Golden	Ira Greenstein	Dennis Krysiak	A. Melissa Moye	Howard Pleines
Kenneth Reott	Brian Rowe	Janet Sirkis	Patrice Sowah	Michael Thompson
Toni Voglino	Victoria Willard			

Assistant Attorneys General attending:

Deborah Bacharach	Rachel Cohen	Melissa Warren	John Kuchno
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Also attended by:

Dylan Baker	Anne Gawthrop	Chris McCully	Robert Palumbi	Randy Mickens
John Kenney	Jim Hagerty	Richard Norman	Tiana Wynn, SB & Company	

Minutes 1. On a motion made by Ms. Hill and seconded by Major Krome, the Board approved the minutes of the October 19, 2010 open session meeting.

Investment Committee Report 2. Mr. Robert Schaefer, Chairman of the Investment Committee, reported on the Investment Committee's meeting held on November 12, 2010.

Mr. Schaefer reported that the Investment Committee unanimously approved the September 10, 2010 open meeting minutes.

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Mr. Schaefer reported that the Investment Committee approved the following calendar year 2011 meeting dates:

Friday, February 11, 2011  
Friday, May 13, 2011  
Friday, September 9, 2011  
Friday, November 4, 2011

Mr. Schaefer noted that it may be necessary to have a special meeting to accommodate the CIO search. Treasurer Kopp noted that although the Investment Committee meets quarterly, the Board is updated at monthly Board meetings via the CIO report.

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Mr. Schaefer reported that the Investment Committee unanimously agreed to accept Staff's travel plan for FY 2011, with the understanding that circumstances will arise which necessitate deviations from the plan.

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Mr. Schaefer reported that the Investment Committee received a presentation regarding the U.S. inflation outlook from Mr. Michael Pond of Barclays Capital. Mr. Pond first provided an overview of the multiple measures of inflation used in the U.S., and offered a detailed look at how the Consumer Price Index (CPI) is constructed. He then analyzed investors' inflation expectations, by looking at the "breakeven inflation rate" metric.

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Mr. Schaefer reported that the Interim CIO and staff provided a detailed

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overview of the portfolio's performance for each asset class for the quarter ending September 30, 2010. Among the topics discussed:

- Performance - The System's overall plan performance was 8.6% compared to the policy benchmark's return of 9.3%. Over the last 12 months, the System has returned 10.0% versus 9.2% for the benchmark.
- Trust Universe Comparison Service ("TUCS") – For the quarter ending September 30, 2010, the System was in the 55<sup>th</sup> percentile of the TUCS universe for all public funds with assets greater than \$25 billion. For the one year period, the System was in the 70<sup>th</sup> percentile.
- Public Equity – The public equity program's return for the quarter was 12.6%, below the benchmark's return of 14.2%. Return for the one year period was 10.4% compared to the benchmark's return of 9.2%. The System's currency program accounted for the bulk of the relative underperformance during the quarter.
- Domestic Equity – Ms. Willard noted that domestic equity's return for the quarter was 11.3% compared to the benchmark return of 11.5%. Return for the one year period was 10.9% compared to the benchmark return of 11.0%.
- International Equity – Ms. Willard noted that international equity's return for the quarter was 13.5% compared to the benchmark return of 16.6%. Return for the one year period was 9.5% compared to the benchmark return of 8.3%. Ms. Willard also noted that three emerging markets managers were added during the quarter: Rexiter, Robeco and Capital International. The addition of these managers eliminated virtually all of the emerging markets underweight that previously had existed in the international equity program.
- Global equity – This component returned 13.3% for the quarter, compared to the benchmark return of 14.3%. Returns for the one year period were 10.7% compared to the benchmark return of 9.2%. Two managers were added during the quarter: AQR Capital and D.E. Shaw Investments.
- Terra Maria Program – Ms. Willard noted that the Terra Maria program continued to do well. The quarterly return was 11.8% compared to the benchmark return of 11.7%, while the one year return was 14.2%, compared to the benchmark return of 12.6%. The vast bulk of the program is invested in public equities, mostly U.S. While staff has been able to temporarily reduce the small cap bias in the Terra Maria program – and the U.S. equity program – it was noted that this small cap bias could re-emerge, given the System's rebalancing needs and benefit payment requirements. Two managers were terminated during the quarter: Smith Group and NMF. Dr. Moyer stated that consideration continues to be given to potentially expanding the program to private equity. Dr. Moyer is reviewing this matter with Altius and a staff team led by Ms. Wheat.
- Currency management program – Ms. Willard reviewed the objectives of the System's currency management program, briefly reviewed the strategy employed by Record Currency Management, and summarized the program's results. She noted that since June 30, 2010, the dollar has weakened considerably, considerably reducing the gains from the program. From the program's inception in May, 2009 through September 30, 2010, the value added to the System's portfolio as a result of utilizing Record's systematic currency overlay strategy was \$48.8 million.
- Fixed income – The fixed income program returned 3.2% for the quarter,

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compared to the benchmark's 3.4%. For the one year period, the program returned 10.9% compared to the benchmark's 8.2%. There was discussion of the U.S. fixed income portfolio's quality and sector allocations compared to the Barclays U.S. Aggregate. Duration of the U.S. and global components was also noted.

- Absolute return – The absolute return program returned 3.6% for the quarter, compared to the benchmark's 3.4%. One year return of 7.6%, compared to benchmark's 3.6%.
- Credit/debt strategies – The credit/debt strategies program returned 4.5% for the quarter compared to the benchmark's 5.7%. One year return of 13.9%, compared to benchmark's 13.6%. Mr. Burd provided an overview of the managers and components of this program. Recent hires were mentioned: KKR Asset Management and Neuberger Berman (flexible credit); Rexiter (emerging market debt) and Perella Weinberg (distressed debt).
- Private equity – The private equity program returned 4.7% for the quarter, compared to the benchmark's 0.7%. One year return of 14.8%, compared to the benchmark's return of 15.4%. In response to questions, Mr. Burd noted that while there has been an increase in the amount of calls received by the System, the total unfunded commitments in this program (\$2.05 billion) remain significant and support staff's decision to maintain a slower commitment pacing going forward.
- Real estate – The real estate program returned 7.7% for the quarter, compared to the benchmark's 9.1%. One year return of 4.6%, compared to the benchmark's 6.8%. There was discussion of the program's three components -- REITs, the LaSalle direct equity account and the private fund component.
- Real return – The real return program returned 5.4% for the quarter, compared to the benchmark's 4.2%. One year return of 11.4%, compared to the benchmark's 8.6%. Mr. Burd reviewed the categories of investments which make up this asset class, and noted that there is a combination of liquid and illiquid strategies at present.

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Mr. Schaefer reported that the Investment Committee received a report from the CIO, Dr. Moyer. He yielded to Dr. Moyer to address the Board in detail during her CIO report.

Mr. Schaefer reported that on behalf of all of the members of the Committee, the Treasurer thanked Dr. Moyer for agreeing to serve as the System's Interim CIO, and provided an update regarding the CIO search.

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Mr. Schaefer reported that Ms. Suzanne Bernard of Hewitt EnnisKnupp provided an organizational update. She noted Ennis Knupp merged with Hewitt on September 1<sup>st</sup> and then Hewitt merged with Aon on October 1<sup>st</sup>. Hewitt EnnisKnupp is the name of the merged entities' global investment consulting business. Ms. Bernard discussed the benefits of this merger, stating that it would provide the System with enhanced coverage in Europe and Asia, as well as increased research capabilities. She reported that Mr. Steve Cummings is not able to continue serving as day-to-day back up for her for the Maryland account. Hewitt EnnisKnupp will be adding a senior consulting professional, Ms. Claire Shaughnessy, as a back-up to Ms. Bernard.

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Mr. Schaefer reported that Ms. Tracey Nykiel reviewed the Hewitt Ennis Knupp Flash Report, and introduced two new analytical pieces. Each quarter, Hewitt EnnisKnupp will produce (a) a Market Perspective document which recaps developments in the last quarter, and (b) an Investment Outlook document, which will look forward and provide the consultant's opinions and views.

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Mr. Schaefer reported that the Investment Committee received the following investment reports:

- › State Street Performance Reports
- › Quarterly TUCS Results
- › Securities Lending Report
- › Broker Commission Reports
- › Post-Retirement Health Benefits Trust Update
- › Private Markets Reports
- › ORP Performance Report

CIO Report    6. Dr. A. Melissa Moyer, reported on the portfolio's performance.

Dr. Moyer provided a summary of the Investment Division's structure and her objectives. She stated that she believes the Investment Division is in good shape and noted that while staff had been in an acquisitive phase, it is now at a point where it can focus on risk assessment and proactive management of the total portfolio. Dr. Moyer noted the excellent analytics now available to staff, to monitor risks in the public market portfolio as a whole. She indicated that a presentation using Wilshire Analytics is being planned for the Committee's February, 2011 meeting.

Dr. Moyer reported that as of, September 30, 2010 assets in the trust total \$34.3 billion. The net quarterly return was 8.57%, while the one year return was 10.02%.

Executive Director's Report    7. Mr. R. Dean Kenderdine reported on recent Agency developments.

Mr. Kenderdine reported that the GRS Valuation Report was available in hard copy or electronic version on the Board portal.

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Mr. Kenderdine reported on the November 10<sup>th</sup> Sustainability Commission meeting. The presentations and discussions focused on the statutory, constitutional, and legal status of pension and retiree health benefits and the extent to which they are subject to reform. On Monday, November 15<sup>th</sup> the Sustainability Commission held a public hearing for stakeholders. Various stakeholders presented, among them included, AFSCME Maryland, American Federation of Teachers (AFT) Maryland, Maryland Association of Counties, Inc., Maryland Association of Boards of Education, and Maryland State Police. He reported that he and Dr. Moyer presented on the behalf of the Board of Trustees. The presentation centered on the Board's recommendations for changes to the System's current actuarial funding methodology, including: 1. Phasing out "Corridor Funding Methodology" over 10-year period; 2. Adoption of a 20-year open amortization policy for current and future liabilities, and; 3. Smoothing 2009 investment losses over a 10-year period, while retaining 5-year smoothing for all other years.

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The Board discussed several of the presentations that were before the Sustainability Commission and their recommendations. Treasurer Kopp commented that as a Sustainability Commissioner, the Commission is reviewing all recommendations thoroughly and thoughtfully.

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Mr. Kenderdine reported that the System's Request for Proposals for an executive search firm has been "on the street" for a few weeks and responses are due by December 6<sup>th</sup>. Treasurer Kopp will put together a committee to review the proposals and select a search firm.

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Mr. Kenderdine reported that the Agency's annual Maryland Charity Campaign has concluded. This year the Agency raised a record \$21, 993. He thanked and acknowledged this year's coordinator Ms. Shinelle Davis.

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| Medical Board<br>And<br>Supplemental<br>Medical Board<br>Reports | 8. On a motion made by Mr. Harkins and duly seconded, 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, with one exception. Mr. Mark Forwood's case was REMANDED to the Medical Board and the Agency. |
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**CLOSED SESSION**

The Board met in a Closed Session (10:24 a.m.) in the Boardroom of the SunTrust Building at 120 East Baltimore Street for the purpose of:

1. to approve the closed session minutes, pursuant to State Government Article §10-503(a)(1)(i), the exercise of an administrative function;
2. to discuss investment issues regarding real estate and an investment manager, pursuant to State Government Article §10-508(a)(5), considering a matter related to the investment of public funds;
3. to discuss a securities litigation issue, pursuant to State Government Article §10-508(a)(7)&(8), receiving advice of counsel, and receiving advice from staff related to pending litigation;
4. to discuss compensation for an employee, pursuant to State Government Article §10-508(a)(1), personnel matters.

The Trustees present included:

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

R. Dean Kenderdine, Secretary

Agency Staff members attending included:

Anne Budowski	Melody Countess	Brian Feilinger	Robert Feinstein	Michael Golden
Dennis Krysiak	A. Melissa Moye	Howard Pleines	Kenneth Reott	Brian Rowe
Janet Sirkis	Patrice Sowah	Michael Thompson	Toni Voglino	Victoria Willard

Assistant Attorneys General attending: Deborah Bacharach, Rachel Cohen, Melissa Warren, John Kuchno.

Also in attendance: John Kenney.

The Board ended its closed session at 11:30 a.m.

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| Adjournment | 9. There being no further business before the Board, the meeting adjourned at 11:30 a.m. |
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Respectfully submitted,



R. Dean Kenderdine  
Secretary to the Board