

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

May 22, 2014

The Board of Trustees for the Maryland State Retirement and Pension System met at the Miller Senate Office Building, West 1 Conference Room, 11 Bladen Street, Annapolis, Maryland, beginning at 12:15 p.m.

The Trustees present included:

Nancy K. Kopp, Chairman, presiding  
David Blitzstein  
James Bush, Jr. (via phone)  
John Douglass  
T. Eloise Foster  
Robert Hagans  
Kenneth Haines

James Harkins  
Linda Herman  
F. Patrick Hughes  
Major Morris Krome  
Theresa Lochte  
Harold Zirkín  
Thurman Zollicoffer

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

Robert Burd	Angie Jenkins	Margo Wheet
Margaret A. Bury	A. Melissa Moye	
Antionette Butcher	Janet Sirkis	

Assistant Attorneys General present included: Kathy Brady, Rachel Cohen, and Jody Shaw

Also attended by: John Kenney, Rick Norman and Brian Topping

**Consent Agenda**

On a motion made by Major Krome and duly seconded, the Board approved the consent agenda, which included:

- › April 17, 2014 Open Minutes of Special Board Meeting
- › April 17, 2014 Open Meeting Board Minutes
- › May 9, 2014 Investment Committee Report
  - Extension of Custodial Bank Contract
  - FY15 Investment Division Projected Travel

**CLOSED SESSION**

On a motion made by Major Krome and seconded by Mr. Harkins, the Board voted to meet in a Closed Session (12:15 p.m.) at the Miller Senate Office Building, West 1 Conference Room, 11 Bladen Street, Annapolis, Maryland for the purpose of:

1. approving the closed session minutes, pursuant to State Gov't Art. § 10-503(a)(1)(i), the exercise of an administrative function;
2. reviewing the Medical Board reports, pursuant to State Gov't Art. § 10-508(a)(13), to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosure, namely, State Gov't Art., Section 10-616(g) regarding the prohibition on disclosing medical and personal information;
3. consulting with counsel regarding the case of Public Employees' Retirement System of Mississippi v. IndyMac, pursuant to State Gov't Art., 10-508(a)(7), to obtain legal advice and pursuant to State Gov't Art., 10-508(a)(8), to consult with staff, consultants or other individuals about pending or potential litigation;

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4. discussing the appointment of the General Investment Consultant, pursuant to State Gov't Art., Section 10-508(a)(13), to comply with a specific statutory requirement that prevents public disclosure, namely, State Finance and Procurement Art., Section 13-210(d) regarding the prohibition on disclosing the contents of a proposal before award; and State Gov't Art., Section 10-508(a)(14), before award, discussing the contents of a proposal, if public discussion would have an adverse impact on the competitive bid process;
5. discussing the appointment of a Public Advisor to the Investment Committee, pursuant to State Gov't Art., Section 10-508(a)(1)(i), the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of appointees, employees, or officials over whom it has jurisdiction; and
6. discussing the appointment of a Chief Internal Auditor, pursuant to State Gov't Art., Section 10-508(a)(1)(i), the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of appointees, employees, or officials over whom it has jurisdiction.

The Trustees present included:

Nancy K. Kopp, Chairman, presiding  
David Blitzstein  
James Bush, Jr. (via phone)  
John Douglass  
T. Eloise Foster  
Robert Hagans  
Kenneth Haines

James Harkins  
Linda Herman  
F. Patrick Hughes  
Major Morris Krome  
Theresa Lochte  
Harold Zirkin  
Thurman Zollicoffer

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary  
A. Melissa Moye and Robert Burd

Assistant Attorneys General present included: Kathy Brady, Rachel Cohen, and Jody Shaw

Also attended by: Brian Topping

The Board voted to come out of closed session at 1:10 p.m.

**OPEN SESSION**

The Board returned to open session at 2:30 p.m. at the Miller Senate Office Building, West 1 Conference Room, 11 Bladen Street, Annapolis, Maryland

The Trustees present included:

Nancy K. Kopp, Chairman, presiding  
David Blitzstein  
James Bush, Jr. (via phone)  
John Douglass  
T. Eloise Foster  
Robert Hagans  
Kenneth Haines

James Harkins  
Linda Herman  
F. Patrick Hughes  
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Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary  
Robert Burd                                    Angie Jenkins                                    Margo Wheet  
Marge Bury                                      A. Melissa Moye  
Antionette Butcher                          Janet Sirkis

Assistant Attorneys General present included: Kathy Brady, Rachel Cohen, and Jody Shaw

Also attended by: John Kenney, Rick Norman, and Brian Topping

**Asset Allocation  
Review**

Mr. Zirkin presented to the Board the Investment Committee's recommendation regarding the Asset Allocation Review as follows:

1. Increase the maximum percentage of the Fund that could be invested in hedge funds as defined by the System from 15% to 20%. The purpose is to use hedge funds primarily to control volatility or risk of loss.
2. Define the sub-asset allocation ranges in Private Equity and in Real Estate as follows:

<i>Private Equity Asset Category</i>	<i>Proposed Target Range</i>
<i>Buyout</i>	60-90%
<i>Venture/Growth</i>	10-25%
<i>Special Situations</i>	10-30%

<i>Real Estate Asset Category</i>	<i>Proposed Target Range</i>
<i>Core</i>	50-80%
<i>Value Added</i>	0-25%
<i>Opportunistic</i>	0-25%
<i>REITS</i>	0-30%

3. Revised the benchmark for the Absolute Return portfolio to the HFRI Conservative Index. It was explained that this index better fits the structure and role of the Absolute Return component in the overall fund.

On a motion made by Mr. Zirkin and seconded by Mr. Hughes, the Board approved the Investment Committee's recommendation regarding the Asset Allocation Review. Mr. Blitzstein, Mr. Douglass and Ms. Herman abstained.

**Review of the  
Optional Retirement  
Program**

Mr. Zirkin presented the Investment Committee's recommendation concerning the Optional Retirement Program, which was reviewed by Segal Advisors (the System's ORP Consultant), as follows:

Recommendations to enhance the fund line-ups for TIAA:

- 1) Approve line-up changes proposed to move to the Institutional share class for all available funds, which are: Blackrock Inflation

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- Protected Fund, TIAA-CREF Small-Cap Equity Fund and TIAA-CREF Lifecycle Funds.
- 2) Approve the creation of a revenue credit account structure whereby TIAA-CREF will credit the account, semi-annually, the difference between the actual revenue generated by the investment line-up and the required revenue. Beginning with the 2013 plan year, authorize the Chief Investment Officer to direct the distribution of funds in the Revenue Credit Account to eligible participants on a pro-rata basis.
  - 3) Approve the replacement of the TIAA-CREF Mid-Cap Value and TIAA-CREF Mid-Cap Growth with the Vanguard Mid Cap Index Fund Institutional (VMCIX) to consolidate the investment line-up and due to performance issues. Assets should be mapped from the TIAA-CREF Mid-Cap Value and TIAA-CREF Mid-Cap Growth to the Vanguard Mid Cap Index Fund.

On a motion made by Mr. Zirkin and seconded by Mr. Hughes, the Board approved the Investment Committee's recommendation concerning TIAA-CREF.

Recommendations – Fidelity:

- 1) Approve line-up changes proposed to move to the Institutional share class for all available funds, which are:
  - Fidelity US Bond Index
  - Blackrock Inflation Protected Fund
  - Fidelity Balanced
  - Fidelity Spartan US Equity Index
  - Fidelity Contrafund
  - Fidelity Blue Chip Growth
  - Fidelity Mid Cap Stock
  - Fidelity Diversified International
  - Mutual Global Discovery
  - Fidelity Freedom (life cycle) Funds
- 2) Approve the creation of a revenue credit account structure whereby Fidelity will credit the account \$25,000 annually. Beginning with the 2014 plan year, authorize the Chief Investment Officer to direct the distribution of funds in the Revenue Credit Account to eligible participants on a pro-rata basis.
- 3) Approve replacing the Fidelity Small Cap Stock Fund with the DFA US Small Cap Stock Fund. Replacement is recommended due to low style consistency, continued underperformance relative to the benchmark and peers, and poor risk statistics. Assets should be mapped from Fidelity Small Cap Stock to DFA US Small Cap Stock.

On a motion made by Mr. Zirkin and seconded by Mr. Hughes, the Board voted to approve the Investment Committee's recommendations concerning Fidelity. Trustee Herman opposed the motion on the basis of her opposition to Recommendation 3.

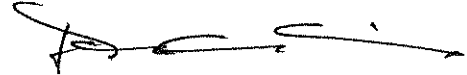
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Adjournment

There being no further business before the Board, the meeting adjourned at 2:40 p.m.

Respectfully submitted,



R. Dean Kenderdine  
Secretary to the Board

**BOARD OF TRUSTEES  
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

***INVESTMENT COMMITTEE MEETING REPORT  
MAY 9, 2014***

Asset Allocation  
Review

**THIS MATTER WILL BE DISCUSSED OUTSIDE THE CONSENT AGENDA.**

Hewitt EnnisKnupp presented its annual asset liability and asset allocation review to the Committee and presented several recommendations, which are listed below:

1. Increase the maximum percentage of the Fund that could be invested in hedge funds as defined by the System from 15% to 20%. The purpose is to use hedge funds primarily to control volatility or risk of loss.
2. Define the sub-asset allocation ranges in Private Equity and in Real Estate as follows:

<i>Private Equity Asset Category</i>	<i>Proposed Target Range</i>
<i>Buyout</i>	60-90%
<i>Venture/Growth</i>	10-25%
<i>Special Situations</i>	10-30%

<i>Real Estate Asset Category</i>	<i>Proposed Target Range</i>
<i>Core</i>	50-80%
<i>Value Added</i>	0-25%
<i>Opportunistic</i>	0-25%
<i>REITS</i>	0-30%

3. Revised the benchmark for the Absolute Return portfolio to the HFRI Conservative Index. It was explained that this index better fits the structure and role of the Absolute Return component in the overall fund.

HEK recommended that the Committee approve the first two recommendations summarized above and staff concurred. HEK recommended the third item as this is a benchmark recommendation.

Each of the three asset allocation recommendations above were approved by vote of the Committee.

Reports

Hewitt EnnisKnupp presented the March 31, 2014 performance update to the Committee.

General Investment  
Consultant  
Recommendation

**THIS MATTER WILL BE DISCUSSED OUTSIDE THE CONSENT AGENDA.**

The Committee heard presentations from three finalists in the General Investment Consultant search. The Chairman of the Investment Committee will present, in Closed Session, the Committee's recommendation for the Board's approval.

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Public Member  
Recommendation

**THIS MATTER WILL BE DISCUSSED OUTSIDE THE CONSENT AGENDA.**

The Committee interviewed three candidates for the Public Member position. The Chairman of the Investment Committee will present, in Closed Session, the Committee's recommendation for the Board's approval.

Review of Optional  
Retirement Program

**THIS MATTER WILL BE DISCUSSED OUTSIDE THE CONSENT AGENDA.**

The Committee heard a biennial review from Segal Advisors (the System's ORP Consultant) of the Optional Retirement Program as of December 31, 2013.

As a result of this review, Segal presented the following recommendations to enhance the fund line-ups for TIAA:

- 1) Approve line-up changes proposed to move to the Institutional share class for all available funds, which are: Blackrock Inflation Protected Fund, TIAA-CREF Small-Cap Equity Fund and TIAA-CREF Lifecycle Funds.
- 2) Approve the creation of a revenue credit account structure whereby TIAA-CREF will credit the account, semi-annually, the difference between the actual revenue generated by the investment line-up and the required revenue. Assets can be used for qualified plan expenses or returned pro-rata to participants.
- 3) Approve the replacement of the TIAA-CREF Mid-Cap Value and TIAA-CREF Mid-Cap Growth with the Vanguard Mid Cap Index Fund Institutional (VMCIX) to consolidate the investment line-up and due to performance issues. Assets should be mapped from the TIAA-CREF Mid-Cap Value and TIAA-CREF Mid-Cap Growth to the Vanguard Mid Cap Index Fund.

Recommendations – Fidelity:

- 1) Approve line-up changes proposed to move to the Institutional share class for all available funds, which are:  
Fidelity US Bond Index  
Blackrock Inflation Protected Fund  
Fidelity Balanced  
Fidelity Spartan US Equity Index  
Fidelity Contrafund  
Fidelity Blue Chip Growth  
Fidelity Mid Cap Stock  
Fidelity Diversified International  
Mutual Global Discovery  
Fidelity Freedom (life cycle) Funds
- 2) Approve the creation of a revenue credit account structure whereby Fidelity will credit the account \$25,000 annually. Assets can be used for qualified plan expenses or returned

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pro-rata to participants.

- 3) Approve replacing the Fidelity Small Cap Stock Fund with the DFA US Small Cap Stock Fund. Replacement is recommended due to low style consistency, continued underperformance relative to the benchmark and peers, and poor risk statistics. Assets should be mapped from Fidelity Small Cap Stock to DFA US Small Cap Stock.

The Committee agreed to accept Segal and staff recommendations for TIAA-CREF as stated above.

The Committee voted to approve the Segal and staff recommendations for Fidelity as stated above. Ms. Herman opposed replacement of the Fidelity Small Cap Stock Fund and requested a review of the Freedom life cycle funds.

Extension of  
Custodial Bank  
Contract

Staff recommended that the Investment Committee and full Board of Trustees recommend to the Treasurer the exercise of the final two-year extension of the Global Custody Services Agreement with State Street, effective January 1, 2015, based on the competitive fee structure and timely and accurate delivery of services.

On a motion made and seconded, the Committee agreed to approve Staff's recommendation.

FY15 Investment  
Division Projected  
Travel

Staff presented its 2015 fiscal year travel plan to the Committee. The plan highlighted the types of travel the Investments Division expects to take, as well as provided a preliminary draft travel plan where appropriate.

Staff recommended that the Committee approve the Investment Division's 2015 fiscal year travel plan.

On a motion made and seconded, the Committee agreed to accept staff's fiscal year 2015 travel plan.

Investment Reports

The Committee received the following investment reports:

- State Street Performance Report
- Private Markets Performance Reports
- Securities Lending Report
- Division's FY14 Travel Plan – Update
- OPEB-PHBT Update
- Quarterly ORP Performance Report
- CIO Report