

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

September 16, 2014

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, 25th Floor, Baltimore, Maryland beginning at 10:35 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding
Peter Franchot, Vice Chairman
David Blitzstein
James Bush, Jr.
John Douglass
Robert Hagans
Kenneth Haines

James Harkins
Linda Herman (via phone)
F. Patrick Hughes
Theresa Lochte
Richard Norman
Harold Zirkin (via phone)
Thurman Zollicoffer

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

Anne Budowski
Robert Burd
Margaret Bury
Melody Countess

Anne Gawthrop
Michael Golden
Ira Greenstein
Angie Jenkins

Van Lewis
Ken Reott
David Rongione

Assistant Attorneys General present included: Kathy Brady, Rachel Cohen and Sharon Street.

Also attended by: Brad Armstrong, Nathan Bowen, John Kenney, Brian Murphy, Michael Rubenstein, Dana Tagliacod and Amy Williams.

Consent Agenda

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

- › August 19, 2014 Open Meeting Board Minutes
- › August 19, 2014 Audit Committee Report
- › September 2, 2014 Administrative Committee Report
- › September 12, 2014 Investment Committee Report

Mr. Blitzstein opposed the motion on the grounds that the Investment Committee report did not accurately reflect the discussion of the meeting.

Mr. Kenderdine responded that the report is only a summary of the Committee meeting and that the full minutes would be presented to the Investment Committee, for its approval, at the next scheduled meeting.

Mr. Bush suggested that a notation be included in future summaries, reflecting that they are a review of the actions taken and matters discussed at committee meetings. Full minutes are submitted for approval at the next committee meeting.

FY16 Budget
Proposal

On behalf of the Administrative Committee, Mr. Kenderdine presented to the Board the budget proposal for FY16. Mr. Kenderdine indicated that if the Board approves the budget proposal, it would be presented to the Department of Budget and Management (DBM) and that he is scheduled to meet with Secretary Foster to discuss the budget on October 29, 2014.

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Mr. Kenderdine reported that the DBM has given the Agency a FY16 budget target of \$28.0 million which reflects level funding plus additional funds to provide cost-of-living adjustments, increment adjustments, and retirement reinvestment for Agency personnel. The proposed budget being submitted to the Board meets DBM's target amount.

Mr. Kenderdine noted that due to the workload of the Agency, the Agency is also submitting to the Board, four "Over-the-Target" requests, all of which are in the personnel area.

Mr. Kenderdine indicated that the Agency would be requesting additional positions within the Benefits Administration division, additional positions within the Information Technology division, conversion of contractual positions to permanent positions and a waiver of the turnover rate requirement.

On a motion made by Mr. Bush and duly seconded, the Board approved the FY16 Budget.

Gabriel Roeder
Smith & Company
(GRS) FY14
Valuation Preliminary
Results

Brian Murphy and Amy Williams from the System's actuary Gabriel Roeder Smith and Company (GRS) presented the preliminary results of the State Retirement and Pension System's Actuarial Valuation for the period ending June 30, 2014 for the Board's consideration.

GRS will return to present the final valuation results at the October 21, 2014 meeting of the Board of Trustees in order for the FY16 contribution rates to be certified as required by December 1, 2014.

Chief Investment
Officer's Report

Robert Burd reported that the total market value of the fund, as of August 31, 2014, was \$45.6 Billion. Mr. Burd reported that the fund returns for one month was 1.67% and the policy benchmark for one month was 1.53%.

Executive Director's
Report

Mr. Kenderdine reported that the Board Room furniture is being reinstalled and all future meetings would be back in the Board Room after today.

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Mr. Kenderdine provided the Board with a revised MBE report, which replaces the MBE report presented to the Administrative Committee at its September meeting, as that report had omitted one contractor from the list of MBE awards.

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Mr. Kenderdine reported that the Agency had a computer system breakdown on September 3, 2014, which disrupted Agency functioning, including member services, for three and a half days. It was determined that the system failure was in the control mechanism of the storage unit. IT staff and the hardware vendor worked around the clock until the system was restored.

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Mr. Kenderdine complimented especially Ira Greenstein and his staff, Marge Bury and her staff, as well as Melody Countess and her staff in the effort to restore the system and recover normal business operations.

CLOSED SESSION

On a motion made by Mr. Bush and seconded by Mr. Zollicoffer, the Board voted to meet in a Closed Session (12:18 p.m.) in the Board Room of the SunTrust Building at 120 East Baltimore Street, 25th Floor, for the purpose of:

1. approving the closed session minutes, pursuant to State Government Art., § 10-503(a)(1)(i), the exercise of an administrative function;
2. reviewing the Medical Board reports, pursuant to State Government Art., § 10-508(a)(13), to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter, namely, State Gov't Art., § 10-616(g) regarding the prohibition on disclosing retirement records, and State Gov't Art., § 10-617(b) regarding the prohibition on disclosing medical and personal information;
3. discussing the recovery of an overpayment from a participant, under State Personnel and Pensions Art., § 21-113, pursuant to State Gov't Art., § 10-508(a)(7), to consult with counsel 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; and
4. discussing the evaluation of the Chief Investment Officer, pursuant to State Gov't Art., § 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
Peter Franchot, Vice Chairman
David Blitzstein
James Bush, Jr.
John Douglass
Robert Hagans
Kenneth Haines

James Harkins
Linda Herman (via phone)
F. Patrick Hughes
Theresa Lochte
Richard Norman
Harold Zirkin (via phone)
Thurman Zollicoffer

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

Anne Budowski
Margaret Bury

Melody Countess
Anne Gawthrop

Michael Golden
Angie Jenkins
David Rongione

Assistant Attorneys General present included: Rachel Cohen and Sharon Street.

OPEN SESSION

The Board returned to open session at 12:31 p.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street, 25th Floor.

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James Harkins
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Theresa Lochte
Richard Norman

Larry C. Boyd, Sr.

The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Larry C. Boyd, Sr. for ACCIDENTAL DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Jordan I. Selzer, Esq., Mr. Boyd's attorney, appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Carla Goldman Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations. Following discussion, the Board deferred further consideration to Closed Session.

Lynette R. Cohen

The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Lynette R. Cohen for accidental disability retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Since Ms. Cohen did not appear before the Board to oppose the Administrative Law Judge's recommendation, the Board, having to consider this matter on the record, deferred this matter to Closed Session.

Patricia A. Garrison

The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Patricia A. Garrison, for ACCIDENTAL DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Since neither Ms. Garrison nor her attorney, Browne L. Kookan, Esq., appeared before the Board to oppose the Administrative Law Judge's recommendation, the Board, having to consider this matter on the record, deferred this matter to Closed Session.

Amber Asimenios

The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Amber Asimenios, for ACCIDENTAL DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Since neither Ms. Asimenios nor her attorney, David Diggs, Esq., appeared before the Board to oppose the Administrative Law Judge's

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Adjournment

There being no further business before the Board, the meeting adjourned at 12:51 p.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board

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**AUDIT COMMITTEE MEETING REPORT
August 19, 2014**

Derivatives Operational Audit - Update	Mr. Feilinger reported that a contract to perform an audit of the operational processes associated with the System's derivative investments has been awarded to Grant Thornton LLP. The audit is to be completed by June 30, 2015.
Agency-wide Risk Assessment	<p>Mr. Feilinger reported that Internal Audit has completed its Agency-wide risk assessment, based on input received from management and the Audit Committee. Processes have been ranked in terms of risk, and the risk ranking is the basis for future audit plans. The impact and likelihood of different types of risks for each process were assessed. Fraud, reputation, compliance, financial, and operational risks were considered.</p> <p>Mr. Hughes asked that Internal Audit provide the Board with its top ten riskiest processes, so that the Board can get a feel for how Internal Audit views and assesses Agency processes.</p>
FY 2014 Internal Audit Performance Report	<p>The Committee received the Internal Audit Division's Performance Report for FY 2014.</p> <p>Mr. Hughes noted that only 45% of the planned audits were completed during the year, due to staffing shortages. One of the uncompleted audits was finalized just after the end of the fiscal year, and two others are in process.</p>
Audit Committee Self-Evaluation and Internal Audit Division Performance Survey	Mr. Feilinger indicated that the Committee will be receiving a self-evaluation survey and a survey of Internal Audit Division performance in the next month, or so. Both of these are required to be completed every two years, in accordance with the Audit Committee Charter.
FY 2014 Internal Audit Time Report	<p>The Committee received the FY 2014 Internal Audit Time Report.</p> <p>Mr. Hughes noted that administrative time accounted for 14% of total time for the year, which meets the goal of 20%, or less. Additionally, total leave hours significantly exceeded administrative time, due to the leave benefits provided to State employees.</p>
FY 2015 Audit Plan	<p>The Committee was presented with the FY 2015 audit plan.</p> <p>Mr. Feilinger reported that the audit plan is based on three full-time positions in Internal Audit throughout the year.</p> <p>On a motion by Mr. Bush, and seconded by Mr. Douglass, the Committee voted to approve the FY 2015 audit plan.</p> <p>Mr. Hughes noted that the plan could be revised according to circumstances, and asked that the Committee be advised of any changes.</p>

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**AUDIT COMMITTEE MEETING REPORT
August 19, 2014**

Completed Audits The Committee generally discussed the audits issued since their last meeting:

- Annual PGU Billing (Follow-up);
- 1099R Processing (Follow-up); and
- Administrative Fee Billing.

Mr. Hughes pointed out that the Annual PGU Billing and 1099R Processing audits both received "green" ratings, indicating that there were no significant problems.

Ms. Countess reported that Finance is working to streamline the administrative fee billing process, which is very complicated.

Mr. Kenderdine indicated that legislation establishing the Agency's administrative fee billing requirement was added at the very end of a legislative session, which is why it is so complicated. Subsequent legislative changes may be considered.

Audits in Progress The Committee was advised that the following audits are currently in progress:

- Capital Equipment Inventory (Follow-up);
- Domestic Relations Orders and Liens; and
- Disaster Recovery.

Mr. Feilinger reported that the Disaster Recovery audit is on hold, pending the results of the current audit by the Office of Legislative Audits, and obtaining additional staffing.

Next Audit Committee Meeting Date Mr. Feilinger suggested that the Committee hold its next meeting on Wednesday, November 12th. This is approximately one week prior to the Board of Trustees meeting. It provides the Committee with an opportunity to review and discuss the System's draft financial statements for FY 2014, prior to sending them to the Board.

On a motion by Mr. Douglass, and seconded by Mr. Haines, the Committee approved November 12, 2014 as its next meeting date.

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***ADMINISTRATIVE COMMITTEE MEETING REPORT
SEPTEMBER 2, 2014***

Finance Reports
Quarter Ending June
30, 2014

Ms. Countess presented the FY2014 Non-Budgeted Investment Manager and Service Related Fees Report. Ms. Countess indicated that when comparing basis points, the fees paid as a percent of assets during FY2014 were slightly higher than the fees paid during FY2013. Within the Equity and Fixed Income categories, the Agency is still experiencing a significant cushion under the statutory fee cap.

Ms. Countess also reported that the Equity asset class had a decrease of 3 basis points and the Fixed Income asset class had an increase of 3.8 basis points, which resulted from reallocating some of the Terra Maria program manager's fees to Fixed Income. Fees incurred for investment related service providers had an overall decrease as a result of a renegotiated fee structure.

Ms. Countess then presented the Administrative Expenses Report for the quarter ending June 30, 2014. Ms. Countess reported that Agency closed the fiscal year having spent 98.7% of the FY14 appropriations totaling \$26.7 million.

Mr. Lewis presented the MBE Performance Report for the quarter ending June 30, 2014. Mr. Lewis reported that MBE Performance was 29.26%.

Mr. Lewis reminded the Committee that certified non-profits were being phased-out of the reporting requirements and will likely be by the Agency's FY16 MBE report.

FY16 Budget Proposal

THIS MATTER WILL BE DISCUSSED AND VOTED ON OUTSIDE THE CONSENT AGENDA.

Mr. Dean Kenderdine introduced the Agency's Budget Request for Fiscal Year (FY) 2016. Mr. Kenderdine reported that the Agency's FY15 operational budget totaled \$27.9 million with 94% of the budget attributable to payroll, contractual obligations, fixed charges and communications, as is typical. The Department of Budget and Management (DBM) has given the Agency a FY16 budget target of \$28.0 million which reflects level funding plus additional funds to provide cost-of-living adjustments, increment adjustments, and retirement reinvestment for Agency personnel. The proposed budget being submitted to the Board does meet the Department of Budget and Management's target amount.

Mr. Kenderdine noted that due to the workload of the Agency, the Agency is also submitting to the Board, four "Over the Target" requests, all of which are in the personnel area.

Ms. Bury reported that the Agency was requesting eight additional positions to help address current processing backlogs and other critical issues within the Benefits Administration Division.

Ms. Bury reported that in addition to the eight new positions, the Agency is requesting the conversion of ten contractual positions to eight permanent

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SEPTEMBER 2, 2014***

positions.

Mr. Douglass asked if those positions were in addition to the nine vacant positions currently in the Benefits Administration.

Ms. Bury responded that it was in addition to the vacancies.

Mr. Douglass recommended that the Agency amend the over-the-target request that the Agency submits to the Department of Budget and Management to include funding all positions needed to handle the increased work volume, including funding for current positions held vacant due to State turnover policy. This would require a waiver of the State's turnover requirement for the Agency.

Therefore, on a motion made by Mr. Douglass and seconded by Mr. Harkins, the Administrative Committee recommends, for consideration by the Board, that the Agency amend the supplemental budget request that the Agency submits to the Department of Budget and Management to include funding necessary to fund all current and proposed positions. Secretary Foster abstained.

Mr. Ira Greenstein reported that currently several applications, such as the Maryland Pension Administration System (MPAS) and the Deferred Retirement Option Plan (DROP) are maintained exclusively by contractors. The Agency does not have employee programmers handling those applications; therefore, the Agency is requesting to replace two contractors with four permanent employees.

In addition, Mr. Greenstein reported that at the request of the Board, in 2013, a study was conducted of the Agency's Information security program, by First Information Technology Services, Inc. (FITS). One recommendation that FITS made was that the Agency increase its Information Security staffing. Currently, the Information Security and Quality unit workload is handled by 2.5 employees. Therefore, the Agency is requesting the addition of one new permanent employee.

On a motion made by Ms. Brogan and seconded by Mr. Douglass, the Administrative Committee approved recommending the FY16 Budget Proposal, with amendments, to the Board. Secretary Foster abstained.

**Member Services
Update**

Ms. Anne Budowski reported that for the month of July, 2014, the Member Services unit was unable to meet its goals with an average call wait time of 154 seconds and a call abandonment rate of 8.78%.

Ms. Budowski reported that four new Retirement Benefits Specialists began on June 11, 2014, and are progressing well through training.

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ADMINISTRATIVE COMMITTEE MEETING REPORT
SEPTEMBER 2, 2014

Recovery of
Overpayment

THIS MATTER WILL BE DISCUSSED OUTSIDE OF THE CONSENT AGENDA IN CLOSED SESSION.

Rachel Cohen, Principal Counsel, provided the Administrative Committee an advice memorandum that outlined the available options to address the overpayment of retirement benefits of one of the Agency's participants.

The Chairman of the Administrative Committee will present to the Board of Trustees, for its approval, the Committee's recommendation concerning this matter.

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MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

***INVESTMENT COMMITTEE MEETING REPORT
SEPTEMBER 12, 2014***

Report from Acting
CIO

The Committee received a performance update from the Acting CIO and staff as of June 30, 2014. The total fund performance for the quarter ending June 30, 2014 was 3.44%, exceeding the policy benchmark of 3.34%. The System's Net Asset Value is at 45.42 billion as of 06/30/14.

Performance number relative to benchmarks by asset class

Total Public Equity:

% Fund: 38.91%
3 mos.: 4.51% → 48 basis pts. under benchmark
FYTD: 22.14% → 100 basis pts. under benchmark

Total Fixed Income:

% Fund: 14.77%
3 mos.: 1.78% → 17 basis pts. over benchmark
FYTD: 4.61% → 101 basis pts. over benchmark

Total Credit/Debt Strategies

% Fund: 10.03%
3 mos.: 3.05% → 37 basis pts. over benchmark
FYTD: 11.53% → 280 basis pts. over benchmark

Total Real Estate:

% Fund: 6.79%
3 mos.: 5.18% → 142 basis pts. over benchmark
FYTD: 14.16% → 47 basis pts. over benchmark

Total Real Return:

% Fund: 12.03%
3 mos.: 3.14% → 82 basis pts. over benchmark
FYTD: 6.99% → 97 basis pts. over benchmark

Total Private Equity:

% Fund: 7.01%
3 mos.: 1.58% → 164 basis pts. under benchmark
FYTD: 19.56% → 100 basis pts. over benchmark

Total Absolute Return:

% Fund: 9.36%
3 mos.: 2.96% → 150 basis pts. over benchmark
FYTD: 7.55% → 1 basis pt. over benchmark

Total Cash Aggregate:

% Fund: 1.10%
3 mos.: 0.82% → 81 basis pts. over benchmark
1 Year: 0.81% → 78 basis pts. over benchmark

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***INVESTMENT COMMITTEE MEETING REPORT
SEPTEMBER 12, 2014***

Meketa Reports	Meketa Investment Group presented the June 30, 2014 performance update to the Committee. Meketa also provided the manager reviews.
Investment Reports	<p>The Committee received the following investment reports:</p> <ul style="list-style-type: none">▪ State Street Performance Report▪ Private Markets Performance Reports▪ Quarterly TUCS Results▪ Securities Lending Report▪ Division's FY14 Travel Plan – Update▪ Quarterly ORP Performance Report▪ OPEB-PHBT Update▪ New Hire Manager Report▪ Investment Policy Manual Update Memo On the Board Portal▪ Broker Commission Reports▪ Investment Policy Manual Update
CIO Performance Evaluation	<p>The CIO's evaluation was deferred and will be done during the Board of Trustees meeting on Tuesday, September 16, 2014 due to all evaluations not being in and evaluations needed to be aggregated into one report.</p> <p>Mr. Kenderdine also introduced David Rongione, Chief Internal Auditor, Internal Auditing Division.</p>