

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

November 18, 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, 16th Floor Board Room, Baltimore, Maryland beginning at 9:38 a.m.

The Trustees present included:

Peter Franchot, Vice Chairman, Presiding
David Blitzstein
James Bush, Jr.
John Douglass
T. Eloise Foster
Robert Hagans (via phone)

Kenneth Haines
James Harkins
Linda Herman (via phone)
Theresa Lochte (via phone)
Richard Norman (via phone)
Harold Zirkin

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

Anne Budowski
Robert Burd
Margaret Bury
Michael Cheung
Melody Countess

Anne Gawthrop
Michael Golden
Ira Greenstein
Angie Jenkins
Van Lewis

Michelle Lowery
Ken Reott
David Rongione
Janet Sirkis

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

Also attended by: Phillip Anthony, John Kenney, Brian Murphy, Michael Rubenstein, Bill Seymour, Graylin Smith, Amy Williams and Tiana Wynn.

Consent Agenda

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

- October 21, 2014 Open Meeting Board Minutes
- November 12, 2014 Audit Committee Report
- November 14, 2014 Investment Committee Report

2015 Board Meeting
Dates

On a motion made by Mr. Haines and seconded by Secretary Foster, the Board approved the 2014 Board Meeting dates, as follows:

| | |
|-----------------------------|----------------------------|
| Tuesday, January 20, 2015 | Tuesday, February 17, 2015 |
| Tuesday, March 17, 2015 | Tuesday, April 21, 2015 |
| Thursday, May 21, 2015 | Tuesday, June 16, 2015 |
| Tuesday, July 21, 2015 | Tuesday, August 18, 2015 |
| Tuesday, September 15, 2015 | Tuesday, October 20, 2015 |
| Tuesday, November 17, 2015 | Tuesday, December 15, 2015 |

Modifications to the
Mortality Tables for
State Police and Law
Enforcement
Officers' Plans

Mr. Brian Murphy and Ms. Amy Williams of Gabriel Roeder & Smith (GRS), the System's actuary, presented the Board with an update to the Disabled Mortality Assumption for the State Police and Law Enforcement Officers' Plans which would be used, if approved, in the 2014 Actuarial Valuations. The update was a result of the actuarial audit of the June 30, 2014 actuarial valuations conducted by Bolton Partners.

GRS has also concluded that the mortality table currently in use for

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disabled public safety participants need to be strengthened and that a new mortality table would typically be developed in conjunction with the next experience study. However, GRS indicated that they were able to make a reasonable approximation, which is shown in the chart below, and recommends that its effect be included in the 2014 valuation results:

| Disabled Mortality RP-2000 Disabled Mortality | | | | |
|--|------------|-------------------|---------------|----------------------------------|
| Before Change | | | After Change* | |
| SRPS & LEOPS | Multiplier | Future Life | | Future Life Expectancy Age 65 |
| | | Expectancy Age 65 | Multiplier | |
| Males | 0.850 | 13.14 | 0.500 | 16.91 |
| Females | 1.000 | 15.70 | 0.750 | 18.08 |

Mr. Douglass asked how the disability rate of Maryland's law enforcement officers' compares to the disability rates in other States?

Mr. Murphy indicated that he could get statistics from other States and provide that information to the Board.

On a motion made by Mr. Douglass and seconded by Mr. Blitzstein, the Board approved the modifications, as recommended by GRS, to the mortality tables for the State Police and Law Enforcement Officers' Plans.

GRS - FY 2014
Valuation Final
Results

Mr. Murphy and Ms. Williams, from GRS, presented the final results of the State Retirement and Pension System's Actuarial Valuation for the period ending June 30, 2014 and the recommended employer contribution rates for the Fiscal Year 2016 budget.

Mr. Kenderdine reported that the new mortality rate table, approved earlier by the Board, had been built into GRS' valuation results being presented.

Mr. Blitzstein recommended that the Board share with Maketa, the System's General Consultant firm, slide eight of GRS' valuation results, which shows the effect of reduced reinvested savings on projected funded ratios and contribution requirements (for combined systems).

Mr. Harkins asked what the process was to advise the Local Employers of the changes.

Mr. Kenderdine responded that the Local Employers will receive written communication from the System within the next month.

Mr. Harkins suggested that communication between the System and the Local Employers should be made as soon as possible given the imminent changes in leadership for some jurisdictions.

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On a motion made by Mr. Douglass and seconded by Mr. Haines, the Board certified the following Fiscal Year 2016 contribution rates:

| Fiscal Year 2016 | |
|-------------------------|--------|
| Teachers | 15.71% |
| Employees | 16.38% |
| State Police | 78.91% |
| Judges | 40.70% |
| LEOPS | 39.77% |

FY 2014 System
Active Membership

Mr. Kenderdine presented, for certification to the Secretary of the Department of Budget and Management in accordance with State Personnel and Pensions Article § 21-316(c) of the Maryland Annotated Code, the System's Active Membership by percentage as employed by the State, libraries, community colleges and local board of educations. The certified percentages are provided to determine each System employers' pro rata share of the amount necessary for the administrative and operational expenses of the Board of Trustees and the State Retirement Agency.

On a motion made by Mr. Zirkin and seconded by Secretary Foster, the Board certified the following percentages of the total membership of the several systems that are employed by the State, the libraries, the community colleges and local board of education as of June 30, 2014.

| | | |
|---|----------------|-------------|
| State Employees | 62,531 | |
| State Teachers | 1,904 | |
| Local Public Libraries-TCS Teachers | 2,402 | |
| Local Public Libraries-ECS Employees | 137 | |
| Subtotal State | 66,974 | 35% |
| Local Boards of Education-TCS | 95,410 | |
| Local Community Colleges | 4,755 | |
| Local Elected & Appointed Officials | 53 | |
| Participating Governmental Units ¹ | 25,898 | |
| Subtotal Local | 125,546 | 65% |
| Total | 192,341 | 100% |

Annual Audited
Financial Statement
Report

John Douglass, Vice-Chairman of the Audit Committee, presented the System's annual audited financial statement report for the year ending June 30, 2014.

Mr. Douglass indicated that the financial statements were audited by SB & Company, the System's auditors, and that the statements received an unmodified opinion. Mr. Gray Smith of the company and his staff were present for questions.

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Mr. Douglass also reported that the Audit Committee unanimously accepted the financial statement reports and therefore, was recommending that the Board accept the report for inclusion in the 2014 Comprehensive Annual Financial Report (CAFR).

Therefore, on a motion made by Mr. Douglass and seconded by Mr. Bush, the Board accepted the FY 2014 financial statements for inclusion in the Comprehensive Annual Financial Report.

Albourne Group
Company
Presentation

Steve Kennedy from Albourne Group Company presented to the Board information concerning recent developments in the Absolute Return asset class.

Mr. Kennedy's presentation included information regarding the advantages and disadvantages of adding hedge funds to an investment portfolio.

Chief Investment
Officer's Report

Robert Burd reported that the total market value of the fund, as of October 31, 2014, was \$44.9 Billion. Mr. Burd reported that the fund return for one month was 0.56% and the policy benchmark for one month was 0.59%.

Executive Director's
Report

Mr. Kenderdine reported that the Joint Committee on Pensions was meeting that afternoon to receive presentations on the FY 2014 valuation, and the implementation of the new GASB standards, as well as to receive the Board's requested legislative package for the coming session.

* * * * *

Mr. Kenderdine reported that letters were in the process of being mailed to all of the System's Participating Governmental Units concerning their implementation of the new GASB standards and the fact that a "dry run" will be conducted in the coming weeks, using the results of the FY 2014 actuarial valuation.

* * * * *

Mr. Kenderdine thanked GRS and SB & Company for their work.

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Mr. Kenderdine reported that renovations were underway on the North side of the 12th Floor and that renovations on the South side of the 12th Floor were complete. The Investment Division is expected to move to this space after the furniture is delivered.

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Mr. Kenderdine reported that Heidrick & Struggles, the search firm hired to conduct the search for CIO candidates, were in the process of holding interviews with each Trustee.

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Mr. Kenderdine announced that the next Board of Trustees meeting will be held on December 16, 2014, which is also the Agency's Employee Holiday Celebration. All members of the Board are invited to attend.

CLOSED SESSION

On a motion made by Mr. Bush and seconded by Mr. Haines, the Board voted to meet in a Closed Session (11:21 a.m.) in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor, for the purpose of:

1. approving the closed session minutes, pursuant to General Provisions Art., § 3-103(a)(1), the exercise of an administrative function;
2. reviewing the Medical Board reports, pursuant to General Provisions Government 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. to discuss the CIO's planned actions with respect to the currency management program, pursuant to General Provisions Art., § 3-305(b)(5), to consider the investment of public funds.

The Trustees present included:

Peter Franchot, Vice Chairman, Presiding
David Blitzstein
James Bush, Jr.
John Douglass
T. Eloise Foster
Robert Hagans (via phone)

Kenneth Haines
James Harkins
Linda Herman (via phone)
Theresa Lochte (via phone)
Richard Norman (via phone)
Harold Zirkin

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

Anne Budowski
Robert Burd
Margaret Bury
Melody Countess

Anne Gawthrop
Michael Golden
Angie Jenkins
Michelle Lowery

Ken Reott
David Rongione
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Assistant Attorneys General present included: Kathy Brady, Rachel Cohen and Sharon Street

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OPEN SESSION

The Board returned to open session at 11:33 a.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor.

The Trustees present included:

Peter Franchot, Vice Chairman, Presiding
David Blitzstein
James Bush, Jr.
John Douglass
T. Eloise Foster
Robert Hagans (via phone)

Kenneth Haines
James Harkins
Linda Herman (via phone)
Theresa Lochte (via phone)
Richard Norman (via phone)
Harold Zirkin

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

Anne Budowski
Robert Burd
Margaret Bury
Melody Countess

Anne Gawthrop
Michael Golden
Angie Jenkins
Michelle Lowery

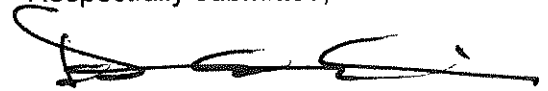
Ken Reott
David Rongione
Janet Sirkis

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

Adjournment

There being no further business before the Board, on a motion made by Mr. Bush and seconded by Mr. Haines, the meeting adjourned at 11:35 a.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board

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**AUDIT COMMITTEE MEETING REPORT
November 12, 2014**

Presentation of
FY 2014 MSRPS
Financial Statement
Audit Results

Mr. Graylin Smith and Mr. William Seymour of SB & Company presented the Committee with their FY 2014 financial statement audit results. Mr. Smith informed the Committee that the statements will receive an unmodified opinion. The audit noted no significant deficiencies, or material weaknesses, in internal control. SB & Company received the full cooperation of management.

Mr. Seymour described the audit's methodology. SB & Company used a risk-based audit approach to mitigate the risk of any material financial misstatements. They evaluated the design and operation of controls for key processes, and performed substantive testing in areas where controls were not tested. All key processes were determined to be effective in design and operation.

The Committee discussed the effect of the newly-implemented GASB 67 requirements, and how it compared to the previous GASB 25 requirements. Under GASB 67, assets are marked to market. Limited smoothing is allowed over a five-year period to reduce volatility.

The Committee was presented with the System's draft financial statements. Mr. Smith informed the Committee that GASB 67 and GASB 68 are very significant issues for public pension funds. He advised the Committee that Agency management has done a great job of communicating their effects with the participating employers, who will be impacted. As a result of the changes, pension liability will be much more apparent to "non-users" of financial statements. He expects there to be no impact for the State's bond rating agencies, since they have been considering the System's unfunded liabilities for years. He also indicated that GASB 67 moves the financial reporting away from a funding basis, and toward more of an accounting basis. Mr. Kenderdine advised the Committee that the Agency will be sending letters to participating employers this week, that it will be conducting a "dry run" to show the effects of GASB 68, if it were in place today, to show them how it will work. In January, there will be another mailing, which will show them the actual numbers.

Ms. Countess reviewed the draft financial statements with the Committee.

Acceptance of
FY 2014 MSRPS
Draft Financial
Statements

On a motion by Mr. Bush, and seconded by Mr. Douglass, the Committee voted to accept the System's FY 2014 draft financial statements. Ms. Herman abstained.

CY 2015
Audit Committee
Meeting Dates

On a motion by Mr. Bush, and seconded by Mr. Douglass, the Committee voted to approve the CY 2015 Audit Committee meeting dates (February 17, May (TBD), August 18, and November 10), as proposed by staff.

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MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

**AUDIT COMMITTEE MEETING REPORT
November 12, 2014**

Audit Committee
Self-Evaluation and
Internal Audit Division
Performance Surveys

Mr. Hughes suggested that the Audit Committee self-evaluation survey and Internal Audit performance survey be postponed for one year. Changes to the composition of the Committee make it difficult for some members to provide meaningful evaluations. The Committee agreed with this suggestion.

Derivatives
Operational Audit
- Update

Mr. Rongione updated the Committee on the current operational audit of the Agency's procedures associated with the System's derivative investments. Grant Thornton LLP has been awarded a contract in the amount of \$175,000 to perform the audit. Internal Audit attended an audit entrance conference with Grant Thornton and Investment Division personnel on October 14th. Grant Thornton has just wrapped up the audit planning phase, and has entered into the testing phase of the audit. The audit is expected to be completed by the end of December.

Agency-wide Risk
Assessment –
Top 10 Processes

Mr. Rongione presented the Committee with a listing of the top 10 riskiest processes, as identified in Internal Audit's agency-wide risk assessment, which was completed earlier in the year. In the August Audit Committee meeting, Mr. Hughes requested that Internal Audit identify the top 10 risks, and provide them to the Board. Also included with the listing was the ranking of risks for investment categories, as identified by a consultant in 2011.

Completed Audits

The Committee discussed the recently-issued Capital Equipment Inventory – Follow-up audit report. Mr. Hughes noted that the report was rated "Yellow". Mr. Rongione advised the Committee that the three findings reported were repeated from the initial audit. He indicated that Agency management provided adequate responses and plans to correct the findings that were identified. Mr. Hughes asked that subsequent follow-up audits be performed, until a "Green" rating is achieved.

Audits in Progress

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

- Domestic Relations Orders and Liens; and
- Disaster Recovery (on hold).

Mr. Rongione told the Committee that the Domestic Relations Orders and Liens audit is nearly completed, and a report is expected to be issued shortly.

The Disaster Recovery Audit is on hold, pending the results of an audit currently being performed by the Office of Legislative Audits. Mr. Hughes stated that disaster recovery should be a top priority. The Agency needs to make sure that there is appropriate redundancy in case of a disaster.

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MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

**AUDIT COMMITTEE MEETING REPORT
November 12, 2014**

**INTERNAL AUDIT DIVISION - RISK ASSESSMENT
TOP 10 RISKS**

As part of its comprehensive risk assessment process, the Internal Audit Division assesses and ranks the risks associated with Agency processes. Our process assesses the impact and likelihood of risks in the areas of fraud, reputation, compliance, financial, and operational risks. It excludes those in Investments, which received their own risk assessment through an outside consultant (see below).

These processes were identified as those with those with the top ten risks (in no particular order):

- Application, System, & Network Security Testing and Monitoring;
- Actuarial Data Creation and Transfer;
- External Data Transmission;
- External Access Control (Info. Systems);
- Procurement;
- Member Retirements;
- Financial Statement & CAFR Preparation;
- Disaster Recovery (Information Systems);
- Deceased Payments; and
- Refunds to Deceased & Inactive Members.

Investment Risks

As mentioned above, an outside consultant performed a comprehensive risk assessment of Investment-related risks in 2011. The impact and likelihood of risks were considered in the areas of:

- Financial risk;
- Market risk;
- Transaction risk;
- Liquidity / Cash Flow risk;
- Credit risk;
- Management Oversight and Compliance risk;
- Segregation of Duties / Key Person risk;
- Fund Board and Management Reporting risk;
- Accounting and Administrative risk; and
- Technology risk.

The following is the results and prioritization of auditable areas within the Investment Division:

- Absolute Return Funds
- Derivatives
- Credit Opportunities – Credit/Debt
- Real Return
- Private Equity
- Real Estate
- Fixed Income
- Public Equities
- Short Term Investments

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MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

**INVESTMENT COMMITTEE MEETING REPORT
November 14, 2014**

Next Year's
Investment
Committee Meeting
Dates

Mr. Burd introduced Jay Jeong to the committee.

The Committee received potential Investment Committee meeting dates for Calendar Year 2015. The meeting schedule that was presented for the Committee's consideration was as follows:

- o February 13, 2015;
- o May 8, 2015
- o September 11, 2015, and
- o November 13, 2015

On a motion that was made and seconded, the Investment Committee unanimously approved the 2015 Investment Committee meeting dates as submitted.

Report from Acting
CIO

The Committee received a performance update from the Acting CIO and staff as of September 30, 2014. The total fund performance for the quarter ending September 30, 2014 was -0.47%, exceeding the policy benchmark of -1.22%. The System's Net Asset Value is at 44.75 billion as of 09/30/14.

Performance number relative to benchmarks by asset class

Total Public Equity:

% Fund: 37.9%
3 mos.: -1.57% → 103 basis pts. over benchmark
FYTD: -1.57% → 103 basis pts. over benchmark

Total Fixed Income:

% Fund: 15.0%
3 mos.: .12% → 3 basis pts. under benchmark
FYTD: .12% → 3 basis pts. under benchmark

Total Credit/Debt Strategies

% Fund: 10.1%
3 mos.: -0.95% → 117 basis pts. over benchmark
FYTD: -0.95% → 117 basis pts. over benchmark

Total Real Estate:

% Fund: 6.9%
3 mos.: 0.61% → 50 basis pts. under benchmark
FYTD: 0.61% → 50 basis pts. under benchmark

Total Real Return:

% Fund: 11.8%
3 mos.: -1.58% → 233 basis pts. over benchmark
FYTD: -1.58% → 233 basis pts. over benchmark

Total Private Equity:

% Fund: 7.5%
3 mos.: 4.34% → flat relative to the benchmark

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November 14, 2014**

FYTD: 4.34% → flat relative to the benchmark

Total Absolute Return:

% Fund: 9.6%

3 mos.: .54% → 4 basis pts. under benchmark

FYTD: .54% → 4 basis pt. under benchmark

Total Cash Aggregate:

% Fund: 1.21%

3 mos.: .20% → 19 basis pts. over benchmark

FYTD: .20% → 19 basis pts. over benchmark

1 Year: 1.29% → 126 basis pts. over benchmark

Mr. Burd distributed the 3rd quarter TUCS report.

Meketa Reports

Meketa Investment Group presented the September 30, 2014 performance update to the Committee. A handout entitled MSRA – Activity Update – As of November 14, 2014 was distributed. Meketa also provided the manager review report, an asset allocation peer analysis, a fee peer analysis and a currency hedging analysis.

Mr. Blitzstein stated that he would like another CEM fee study.

Mr. Zirkin asked Mr. Burd to present an action plan on the direction of the currency hedging program at the next BoT meeting.

Investment Reports

The Committee received the following investment reports:

- State Street Performance Reports
- Private Markets Performance Reports
- Division's FY15 Travel Plan – Update
- Quarterly ORP Performance Report
- OPEB-PHBT Update
- New Hire Manager Report
- Securities Lending Report
- On the Board Portal
- Broker Commission Reports

Segal ORP Report

Craig Chaikin and Rebecca King from Segal Advisor presented a Target Date Fund Comparison Analysis and a Core Fixed Income Analysis. An update on PIMCO was provided. Segal made a recommendation.

On a motion made and seconded, the Committee voted to approve Segal's recommendation.

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**INVESTMENT COMMITTEE MEETING REPORT
November 14, 2014**

| | |
|------------------------|--|
| Manager Due Diligence | Mr. Rambert discussed the due diligence package for Hudson Bay, the newest Absolute Return hedge fund manager. |
| | Request was made to post the full Hudson Bay review by Albourne on the BoT portal. |
| Report from Acting CIO | There was no report from the CIO that needed to be discussed in closed session. |