

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

May 19, 2016

The Board of Trustees for the Maryland State Retirement and Pension System met at the Conference Center at the Maritime Institute, 692 Maritime Boulevard, Building 4, Room A111/A113, Linthicum Heights, Maryland 21090 beginning at 4:35 p.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	James C. DiPaula
Peter Franchot, Vice Chairman	Kenneth Haines
David Blitzstein	Sheila Hill
David Brinkley	F. Patrick Hughes
Eric Brotman	Theresa Lochte
James Bush, Jr.	Richard Norman

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

Robert Burd	Michael Golden	Angie Jenkins
Margaret Bury	Dimitri Grechencko	Andrew Palmer
Antionette Butcher	Ira Greenstein	Janet Sirkis

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

Other attendees included: Bernadette Benik and John Kenney

**Consent Agenda**

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

- April 19, 2016 Open Meeting Board Minutes
- May 6, 2016 Investment Committee Meeting Report

**Allegany County  
Sheriff's Department  
– Transfer from  
Employees' Pension  
System to Law  
Enforcement  
Officers' Pension  
System**

R. Dean Kenderdine reported that the Board of County Commissioners of Allegany County ("County") is requesting that the Board of Trustees approve its request to withdraw eligible Officers of the Allegany County Sheriff's Department from the Employees' Pension System and transfer them to the Law Enforcement Officers' Pension System.

Mr. Kenderdine reported that the signed resolution from the County was provided in the Board agenda packet and that with the Board's approval the provisions outlined in the resolution, shall become effective July 1, 2016.

On a motion made by Mr. Hughes and seconded by Ms. Hill, the Board of Trustees approved the request of the Board of County Commissioners of Allegany County to withdraw eligible Officers of the Allegany County Sheriff's Department from the Employee's Pension System and transfer them to the Law Enforcement Officers' Pension System.

**Recommendation by  
the Investment  
Committee regarding  
Asset Allocation**

Mr. Hughes as Chairman of the Investment Committee reported on the Committee's deliberations concerning the System's asset allocation at its May 6, 2016 meeting. The recommendations by the general investment consultant, the Meketa Group included three new asset allocation policy options, as well as a hypothetical asset allocation using 7.25% as the

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targeted rate of return, with different risk and return profiles. Meketa and Staff recommended adopting Policy A, which involves the following changes to the current asset allocation:

<i>Asset Class</i>	<i>Policy A Allocation Net Changes</i>
Intl. Developed Markets Equity	-1%
Private Equity	+1%
Absolute Return	-1%
TIPS	+1%

The following table summarizes the different policy options:

**Asset Allocation Policy Options<sup>1</sup>**

	Current Policy (%)	Policy A (%)	Policy B (%)	Policy C (%)	7.25% Target Policy	Target Range (%)
<b>Growth/Equity:</b>	47	47	47	47	38	+/- 5
U.S. Equity	16	16	16	14	13	
Intl. Developed Markets Equity	13	12	11	11	9	
Intl. Emerging Markets Equity	8	8	8	9	6	
Private Equity	10	11	12	13	10	
<b>Rate Sensitive:</b>	20	21	22	23	32	+/- 5
Investment Grade Bonds	0	0	0	0	7	
Long-term Government Bonds	10	10	11	11	12	
MBS/Corporate Bonds	6	6	6	6	7	
TIPS	4	5	5	6	6	
<b>Credit:</b>	9	9	9	8	8	+/- 4
High Yield Bonds/Bank Loans	6	6	6	5	5	
Emerging Market Debt	3	3	3	3	3	
<b>Real Assets:</b>	15	15	15	16	14	+/- 4
Real Estate	10	10	11	11	10	
Commodities	3	3	2	0	2	
Natural Resources/Infrastructure	2	2	2	5	2	
Absolute Return	9	8	7	6	8	+/- 4
Expected Return (%)	7.80	7.79	7.83	7.93	7.25	
Standard Deviation (%)	12.1	12.0	12.0	12.0	10.1	
Prob. of Achieving 7.55% over 20 Yrs.	53.2	53.2	53.7	55.2	44.1	
Hedge Fund Maximum (%)	≤ 17	≤ 16	≤ 15	≤ 14	≤ 16	

<sup>1</sup> Expected return and standard deviation are based upon Meketa Investment Group's 2016 Annual Asset Study. Private equity maintains range +/- 4% and cash 0-5%.

Also, consistent with the recommendation to decrease exposure to Absolute Return by 1%, Meketa and Staff also recommended reducing the cap on hedge fund exposure at the total fund level from 17% to 16%.

Finally, Meketa recommended several changes to the benchmarks shown in the table below:

<b>Asset Class</b>	<b>Current Benchmark</b>	<b>Proposed Policy Benchmark<sup>1</sup></b>	<b>Proposed Implementation Benchmark</b>
<b>Equity:</b>			
Public Equity	43% Russell 3000, 35% MSCI World (ex. U.S.), 22% MSCI EM	44% Russell 3000, 33% MSCI World (ex. U.S.), 22% MSCI EM	
Private Equity	State Street Private Equity Composite	MSCI ACWI + 200 bp	State Street Private Equity Composite

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<b>Rate Sensitive</b>	50% Barclays Long-Term Government, 15% Barclays Securitized, 15% Barclays Corporate, 20% Barclays US TIPS	48% Barclays Long-Term Government, 14% Barclays Securitized, 14% Barclays Corporate, 24% Barclays US TIPS	
<b>Credit:</b>	67% US, 33% Non-US	67% US, 33% Non-US	
U.S. Credit	80% Barclays US High Yield, 20% S&P/LSTA Leveraged Loan	80% Barclays US High Yield, 20% S&P/LSTA Leveraged Loan	
Non-U.S. Credit	50% JP Morgan GBI-EM Global Diversified, 25% JP Morgan EMBI Global Diversified, 25% JPMorgan CEMBI Broad	50% JP Morgan GBI-EM Global Diversified, 25% JP Morgan EMBI Global Diversified, 25% JPMorgan CEMBI Broad	
<b>Real Assets:</b>	Dynamically weighted: RE, Commodities, NR/IS	67% RE, 20% Commodities, 13% NR/IS	Dynamically weighted: RE, Commodities, NR/IS
Real Estate	Dynamically weighted: NCREIF ODCE (1 quarter lag, gross), FTSE EPRA/NAREIT Developed (net)	85% NCREIF ODCE (1 quarter lag, gross), 15% FTSE EPRA/NAREIT Developed (net)	
Commodities	Bloomberg Commodity	Bloomberg Commodity	
Natural Resources & Infrastructure	CPI-U + 500 bp (capped at 10%)	CPI-U + 500 bp (capped at 10%)	75% S&P Global Natural Resources, 25% DJ-Brookfield Infrastructure
<b>Absolute Return</b>	HFRI Fund of Funds Conservative + 100 bp	3 month T-bill + 500 bp	HFRI Fund of Funds Conservative + 100 bp

<sup>1</sup> Weight adjustments are based on proposed policy A

The proposed Policy Benchmark should be used to evaluate the long-term asset allocation policy decisions made by the Board of Trustees.

The proposed Implementation Benchmark should be used for the evaluation of Staff's ability to implement the System's policy, taking into account shorter-term tracking error effects of the long-term Policy Benchmark.

Meketa also recommended changing the way the underweight to Real Assets was allocated. In calculating the benchmark, the underweight to private market assets is allocated across certain public markets, given the time that is required to allocate capital to private markets. Currently, the underweight to the entire Real Assets bucket is allocated to the Rate Sensitive asset class. Meketa recommended that only the underweight to the Real Estate component of Real Assets be allocated to Rate Sensitive, given that the other components can be represented in the public markets.

On a motion made by Ms. Hill and seconded by Mr. Blitzstein, the Board approved the Investment Committee's recommended changes regarding asset allocation and benchmarks.

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Recommendation by  
the Investment  
Committee regarding  
changes to the  
Optional Retirement  
Plan

Mr. Hughes as Chairman of the Investment Committee reported on the Committee's deliberations concerning changes to the Optional Retirement Plan. The Committee's recommendations related to Fidelity included:

1. Approve the move to a fixed 15 basis point fee, which will be calculated quarterly and charged equally in dollars to all participant accounts.
2. Approve the return of all revenue sharing generated by the investment line-up.
3. Approve the replacement of the Fidelity Cash Reserve fund with the Vanguard Treasury Money Market fund.
  - a. Replacement is recommended due to the high expense ratio (0.37%) for the Fidelity Cash Reserve.
  - b. Assets and future contributions should be mapped to the Vanguard Treasury Money Market fund.
4. Approve the replacement of the Blackrock Inflation-Protected Bond fund with the Fidelity Spartan Inflation-Protected Bond Index fund.
  - a. Replacement is recommended due to Blackrock's lagging performance relative to the benchmark and higher expense ratio.
  - b. Lack of confidence in active management in this asset class
  - c. Assets and future contributions should be mapped from Blackrock Inflation-Protected Bond fund to the Fidelity Spartan Inflation-Protected Bond Index fund.
5. Approve the addition of a brokerage service to allow participants greater investment choice flexibility.

The recommendations relating to TIAA were amended to allow the Agency's legal counsel an opportunity to review the transition to TIAA's Retirement Choice group annuity contract.

The amended recommendations for TIAA include the following:

1. Approve the addition of the Vanguard Treasury Money Market Fund (VUSXX) to TIAA's investment line-up.
2. Approve the replacement of the Blackrock Inflation-Protected Bond Fund with the Vanguard Inflation-Protected Securities Fund (VAIPX)
  - a. Assets and future contributions should be mapped from the Blackrock Inflation-Protected Bond Fund to the Vanguard Inflation-Protected Securities Fund
3. Authorize staff and the legal team to further review and consider the possibility of moving to the Retirement Choice contracts and report back to the Investment Committee at the next meeting.

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4. Approve the addition of a brokerage service to allow participants greater investment choice flexibility.

On a motion made by Mr. Brotman and seconded by Ms. Lochte, the Board approved the Investment Committee's recommended changes to the Optional Retirement Plan, subject to legal review prior to implementation.

Recommendation by  
the Investment  
Committee regarding  
changes to the  
Investment Policy  
Manual

Mr. Hughes as Chairman of the Investment Committee reported on the Committee's deliberations concerning changes to the Investment Policy Manual.

Mr. Hughes reported that at the June 5, 2016 Investment Committee meeting staff recommended repealing COMAR 22.03.05 relating to brokerage services, and updating the General Procurement Policies and Procedures in the Investment Policy Manual ("IPM") to include a new policy for the selection of broker-dealers or futures clearing merchants who provide the System with trading-related services, and allow investment staff greater flexibility in procuring certain products and services.

Mr. Hughes further reported that staff recommended adding an express provision to the Public Market Policies of the IPM regarding an investment manager's reliance on ERISA prohibited transaction exemptions.

Treasurer Kopp asked the Office of the Attorney General to confirm that the repeal of COMAR 22.03.05 relating to brokerage services and the proposed changes to the Investment Policy Manual are consistent with and do not modify the Board's current policies on the procurement of brokerage services. Kathy Brady confirmed that she reviewed this issue in detail and the proposed changes are consistent with and do not modify the Board's policies on the procurement of brokerage services.

On a motion made by Mr. Hughes and seconded by Mr. Haines, the Board approved the Investment Committee's recommendations to (1) repeal COMAR 22.03.05 by submitting notice of proposed action to the Maryland Register; and (2) adopt the recommended changes to the Investment Policy Manual.

Appointment of  
Members to the  
Securities Litigation  
Committee

As mandated by Board Operations Policy, the Board reviewed the proposed committee assignment for the Securities Litigation Committee as submitted by Treasurer Kopp.

On a motion made by Mr. Brotman and seconded by Mr. Bush, the Board approved the recommended committee assignment for the Securities Litigation Committee for the balance of FY2016 as follows:

Securities Litigation Committee

James "Chip" DiPaula, Chairman  
F. Patrick Hughes  
Charles Johnson

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CIO Report

Mr. Andrew Palmer reported that the April, 2016 report is positive and the fund is up 12 basis points.

Mr. Palmer indicated that the rate of return would be discussed at the June Board of Trustees meeting.

Treasurer Kopp thanked Mr. Palmer and staff for a job well done at the 2016 Board of Trustees Education Session, saying it was the best education session thus far.

Executive Director's  
Report

Mr. Kenderdine reported that the evaluation forms for the trustee education session were provided to each Trustee and encouraged everyone to provide their feedback about the education session.

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Mr. Kenderdine reported that the Agency processed 7,100 estimates under the new option and annuity factors and to date the Agency has received 23 phone calls with mainly clarification questions.

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Mr. Kenderdine reported that this is year two of the GASB implementation and that notice of website postings of all data necessary for the PGUs has gone out to them.

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Mr. Kenderdine reported that Margaret Bury has hired Harvey Raitzyk, as Deputy Benefits Administrator. Mr. Raitzyk was Director of the Business Operations Office overseeing the MPAS project. Chandra Puranam has been promoted to Director of the Business Operations Office.

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On a motion made by Ms. Hill and seconded by Ms. Lochte, the Board voted to meet in a Closed Session, beginning at 4:50 p.m., at the Conference Center at the Maritime Institute, 692 Maritime Boulevard, Building 4, Room A111/A113, Linthicum Heights, Maryland 21090, for the purpose of:

1. reviewing the April 19, 2016 closed session Board minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function; and
2. reviewing the Medical Board reports from April 20, April 28, May 4 and May 12, 2016, 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.

**CLOSED SESSION**

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	James C. DiPaula
Peter Franchot, Vice Chairman	Kenneth Haines
David Blitzstein	Sheila Hill
David Brinkley	F. Patrick Hughes
Eric Brotman	Theresa Lochte
James Bush, Jr.	Richard Norman

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

Robert Burd	Michael Golden	Angie Jenkins
Margaret Bury	Dimitri Grechencko	Andrew Palmer
Antionette Butcher	Ira Greenstein	Janet Sirkis

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

Other attendees included: Bernadette Benik and John Kenney

On a motion made by Mr. Hughes and seconded by Ms. Hill, the Board returned to open session at 4:52 p.m.

**OPEN SESSION**

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	Kenneth Haines
Peter Franchot, Vice Chairman	James Harkins
David Blitzstein	Linda Herman
David Brinkley	F. Patrick Hughes
James Bush, Jr.	Theresa Lochte
Robert Hagans	Richard Norman
	Thurman Zollicoffer

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

Robert Burd	Michael Golden	Dana Johns
Margaret Bury	Ira Greenstein	Stephen Muturi
Melody Countess	Dimitri Grechenko	Janet Sirkis
Eric Farls	Angie Jenkins	Beau Smith

Assistant Attorneys General present included: Kathy Brady and Rachel Cohen

Also attended by: Larry Jennings, Stefan Strein, Bernadette Benik, Andrew Palmer and Michael Rubenstein.

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

Closed Session Minutes	The Board approved the April 19, 2016 closed session Board minutes.
Medical Board Reports	The Board adopted the medical board reports from April 20, April 28, May 4 and May 12, 2016.
Adjournment	There being no further business before the Board, on a motion made by Mr. Hughes and seconded by Ms. Hill, the meeting adjourned at 4:53 p.m.

Respectfully submitted,



R. Dean Kenderdine  
Secretary to the Board