

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

August 16, 2016

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, 16<sup>th</sup> Floor Board Room, Baltimore, Maryland beginning at 11:00 a.m.

The Trustees present included:

Peter Franchot, Vice Chairman, Presiding	Kenneth Haines
David Brinkley	James Harkins
David Blitzstein	Linda Herman
Susanne Brogan, Designee for Treasurer Kopp	Sheila Hill
Eric Brotman	F. Patrick Hughes
James Bush, Jr.	Charles Johnson
James C. DiPaula	Theresa Lochte
	Richard Norman

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

Elizabeth Burton	Michael Golden	Andrew Palmer
Margaret Bury	Angie Jenkins	Harvey Raitzyk
Melody Countess	Van Lewis	David Rongione
Anne Gawthrop	Michelle Lowery	Janet Sirkis

Assistant Attorneys General present included: Rachel Cohen and Sharon Street

Other attendees included: Phillip Anthony, Nathan Bowen, John Kenney, Michael Rubenstein, Dana Tagalicod and Josh Hicks (The Washington Post).

- |                                       |  |
|---------------------------------------|--|
| Other Business                        | Comptroller Franchot recognized David Hamilton as a newly appointed Trustee and welcomed him back to the Board as Mr. Hamilton had served previously.  |
| Consent Agenda                        | On a motion made by Ms. Hill and seconded by Mr. Brotman, the Board approved the consent agenda, which included: <ul style="list-style-type: none"><li>▸ July 19, 2016 Open Meeting Board Minutes</li></ul>  |
| Results of the CEM Benchmarking Study | <p>Mr. Kenderdine introduced Paul Martiniello from CEM Benchmarking, who presented the Board with the results of its benchmarking study for both the Administration and Investment divisions.</p> <p>Mr. Martiniello indicated that CEM stands for “cost effectiveness measurement” and the purpose of the study is to compare the plan against its peers in regards to the costs of measuring service delivery and the level of service.</p> <p>Mr. Martiniello provided the following results regarding Administration:</p> <p><b><u>Cost:</u></b></p> <ul style="list-style-type: none"><li>• For the measurement period of FY20158, total pension administration cost was \$72 per active member and annuitant. This was \$9 below the peer average of \$81.</li><li>• The primary reason why the cost was below the peer average was attributed to paying less for IT Strategy, Database, Applications (excl. major projects) and Major Projects.</li></ul> |

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**Service**

- Total service score was 67. This was below the peer median of 82.
- The primary reasons for the score being below the peer median were three of the more highly-weighted member service activities: call center, website and providing written estimates.
- The System's score was largely affected by the high number of key employee vacancies and the lack of a website with full member access to their data and related online services.

Ms. Herman asked with regards to the Agency's website, why is it not considered as robust as our peers.

Mr. Martiniello responded that the study has 120 detailed questions regarding what is available to members on each responding System's website. The study shows that currently our members cannot access their own data in a secure environment, there is no online calculator linked to member data and that the Agency only offers three (3) website tools to members.

Mr. Kenderdine further responded that the Agency will not allow members to access data until the completion of the second phase of the MPAS project, in which the Agency is cleaning member data. The Agency does not want to give members access to their data that is inaccurate.

Ms. Herman asked when the data scrubbing will be completed and how long it would take to provide members online access to it.

Mr. Kenderdine responded that data scrubbing will be completed in FY2017 and that providing member access could take as much as two years.

Secretary Brinkley asked how does the Agency compare, progress-wise, to with how it was 10 years ago.

Mr. Martiniello responded that there has been significant changes within their model that does not allow for an apples to apples comparison and that he, unfortunately, does not have the information available from the past study, however, he believes the cost has increased.

Secretary Brinkley asked Mr. Kenderdine to share the previous report, if available, with the Board.

Mr. Martiniello then provided the following results regarding Investments, stating that the study was conducted using data as of December, 2015:

**Returns**

- 5-year net total return was 5.9%, which was below the U.S. Public median of 7.2% and below the peer median of 7.6%;
- 5-year policy return was 5.3%, which was below the U.S. Public median of 7.3% and below the peer median of 7.6%.

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**Value Added**

- 5-year net value added was 0.6%, above the U.S. Public median of 0.0% and above the peer median of 0.2%.

**Cost and Cost Effectiveness**

- Investment cost of 92.5 bps was below the benchmark cost of 98.1 bps, which suggests that the fund was slightly lower in cost compared to peers.

**Risk**

- Asset risk of 9.9% was equal to the U.S. Public median of 9.9% and the asset-liability risk of 12.8% was below the U.S. Public median of 13.9%.

Comptroller Franchot reported that the full reports, conducted by CEM, will be made available to the Board by Friday, August 19, 2016.

Mr. Haines asked how the fund compares in terms of risk levels.

Mr. Martiniello responded that the results do not contain that level of detail.

Mr. Palmer further responded that page 39 of the report shows the 5 year returns for frequently used benchmark indices. The exhibit shows the fund producing lower public equity returns than peers, which is largely explained by the lower proportion of U.S. equity relative to international equity in the portfolio.

Mr. Brotman commented that he believes that the challenge is asset allocation, that the fund is overweight in international investments and bonds. Mr. Brotman suggested that the Investment Committee discuss this matter and consider adjusting the asset allocation.

Establishment of Ad  
Hoc Committee on  
Actuarial Valuations  
and Economic  
Assumptions

Mr. Kenderdine reported that at its July 19, 2016 meeting, Chairman Kopp in consultation with Vice Chairman Franchot recommended members for an Ad Hoc Committee to review the System's current actuarial economic assumptions. As required by Board Operations Policy, the Board must approve the membership of the proposed Ad Hoc Committee as submitted by the Chairman.

On a motion made by Mr. Brotman and seconded by Mr. Johnson, the Board approved the recommended committee assignments for the Ad Hoc Committee on Actuarial Valuations and Economic Assumptions as follows:

F. Patrick Hughes, Chairman  
Linda Herman, Vice Chairman  
David Brinkley  
Eric Brotman  
James Bush, Jr.  
James "Chip" DiPaula  
Theresa Lochte

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Mr. Kenderdine reported that the Ad Hoc Committee is scheduled to meet on Tuesday, August 30, 2016 at 1:00 p.m. in the Board room.

Appointment of  
Committee Members

As mandated by Board Operations Policy and the State Personnel and Pensions Article § 21-115(a)(2), (b)&(d) the Board reviewed the proposed committee assignments for FY2017 as submitted by Treasurer Kopp.

On a motion made by Ms. Lochte and seconded by Ms. Herman, the Board approved the following committee assignments:

Administrative Committee

James Harkins, Chairman  
Theresa Lochte, Vice-Chairman  
Secretary David Brinkley (or designee)  
James "Chip" DiPaula  
Kenneth Haines  
Sheila Hill  
Treasurer Nancy K. Kopp (or designee)  
Richard Norman

Investment Committee (SPP § 21-115(a)(2), (b)&(d))

F. Patrick Hughes, Chairman  
Linda Herman, Vice-Chairman  
Secretary David Brinkley  
Eric D. Brotman  
James Bush, Jr.  
James "Chip" DiPaula  
Comptroller Peter Franchot  
Kenneth Haines  
David Hamilton  
James Harkins  
Sheila Hill  
Charles Johnson  
Treasurer Nancy K. Kopp  
Theresa Lochte  
Richard Norman

Public Advisors:

Larry E. Jennings, Jr.  
Stefan Strein  
Vacant

Audit Committee

James Bush, Jr., Chairman  
Richard Norman, Vice-Chairman  
James "Chip" DiPaula  
David Hamilton  
F. Patrick Hughes  
Theresa Lochte

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Corporate Governance

Sheila Hill, Chairman  
Kenneth Haines, Vice-Chairman  
Secretary David Brinkley  
Eric D. Brotman  
James Harkins  
Charles Johnson  
Treasurer Nancy K. Kopp

Securities Litigation

David Hamilton, Chairman  
Charles Johnson, Vice-Chairman  
James "Chip" DiPaula  
F. Patrick Hughes  
James Harkins

Appointment of a  
Public Advisor to the  
Investment  
Committee

On a motion by Mr. Hughes and seconded by Ms. Lochte, the Board voted and approved the recommendation of the Investment Committee to appoint Michael K. Barry to the position of Public Advisor to the Investment Committee. Mr. Bush abstained.

2017 Board of  
Trustees and  
Investment  
Committee Meeting  
Dates

The Board was provided with a chart which provides the proposed Board of Trustees and Investment Committee meeting dates for the balance of 2016 and all of 2017. Mr. Kenderdine reported that, if approved, Investment Committee meetings will be held on the 3<sup>rd</sup> Tuesday of February, May, September and November and prior to the Board of Trustees meeting for those month.

On a motion made by Ms. Lochte and seconded by Mr. Bush, the Board approved the 2016 and 2017 Board of Trustees and Investment Committee Meeting dates, as follows:

<b>Tuesday, September 20, 2016*</b>	Tuesday, October 18, 2016
<b>Thursday, November 17, 2016**</b>	Tuesday, December 20, 2016

Tuesday, January 17, 2017	<b>Tuesday, February 21, 2017*</b>
Tuesday, March 21, 2017	Tuesday, April 18, 2017
<b>Tuesday, May 16, 2017*</b>	Tuesday, June 20, 2017
Tuesday, July 18, 2017	Tuesday, August 15, 2017***
<b>Tuesday, September 19, 2017*</b>	Tuesday, October 17, 2017
<b>Tuesday, November 21, 2017*</b>	Tuesday, December 19, 2017

**\*Combined Investment Committee and Board of Trustees meetings.**  
*Investment Committee meetings will begin at 9:00 a.m., immediately followed by the Board meeting*

**\*\*The November, 2016 Investment Committee and Board meetings will be held on THURSDAY, November 17, 2016.**

**\*\*\*The Board of Trustees Education Session will be held on Tuesday, August 15, 2017.**

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Chief Investment  
Officer's Report

Andrew Palmer introduced Elizabeth Burton, the division's new Senior Investment Analyst, and pointed to Ms. Burton's experience working with hedge funds.

Mr. Palmer reported that July performance reports are delayed as State Street implements the policy changes to the Asset Allocations that were approved in May. In addition to the changes in relative weights among asset classes State Street is implementing the additional change which creates two benchmarks, a long-term Policy benchmark and an Implementation benchmark to provide a measure of relative performance over shorter time frames. The two benchmarks should converge over time. The additional index information for the implementation benchmark has caused some delay. Performance reports will be posted to the Director's Desk when they become available.

Mr. Palmer reported that the total fund value is \$46.2 billion through July, up from \$45.4 billion at fiscal year-end. Strong performance in equity markets provide most of the uplift in value.

Executive Director's  
Report

Mr. Kenderdine provided the Board with a handout entitled "Commonsense Corporate Governance Principles", which Mr. Hamilton suggested be distributed.

Mr. Kenderdine recommended that, without objection, the hand-out be given to the Corporate Governance Committee for review.

On a motion made by Mr. Bush and seconded by Ms. Lochte, the Board voted to meet in a Closed Session, beginning at 11:59 a.m., in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16<sup>th</sup> Floor, for the purpose of:

1. reviewing the 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, pursuant to General Provisions 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:

Peter Franchot, Vice Chairman, Presiding  
David Brinkley  
David Blitzstein  
Susanne Brogan, Designee for Treasurer Kopp  
Eric Brotman  
James Bush, Jr.  
James C. DiPaula

Kenneth Haines  
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Margaret Bury	Angie Jenkins	Harvey Raitzyk
Melody Countess	Van Lewis	David Rongione
	Michelle Lowery	Janet Sirkis

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

Other attendees included: John Kenney.

On a motion made by Mr. Hughes and seconded by Ms. Lochte, the Board returned to open session at 12:02 p.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16<sup>th</sup> Floor.

**OPEN SESSION**

The Trustees present included:

Peter Franchot, Vice Chairman, Presiding	Kenneth Haines
David Brinkley	James Harkins
David Blitzstein	Linda Herman
Susanne Brogan, Designee for Treasurer Kopp	Sheila Hill
Eric Brotman	F. Patrick Hughes
James Bush, Jr.	Charles Johnson
James C. DiPaula	Theresa Lochte
	Richard Norman

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

Margaret Bury	Angie Jenkins	Harvey Raitzyk
Melody Countess	Van Lewis	David Rongione
	Michelle Lowery	Janet Sirkis

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

Other attendees included: John Kenney.

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

Closed Session Minutes	The Board approved the July 19, 2016 closed session Board minutes.
Medical Board Reports	The Board adopted the medical board reports from July 21, July 27, August 4 and August 10, 2016.
Adjournment	There being no further business before the Board, on a motion made by Mr. Hughes and seconded by Ms. Lochte, the meeting adjourned at 12:02 p.m.

Respectfully submitted,



R. Dean Kenderdine  
Secretary to the Board