

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

September 19, 2017

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 1:10 p.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding  
Peter Franchot, Vice Chairman  
David Brinkley  
Eric Brotman  
James Harkins (via phone)  
Linda Herman

Sheila Hill  
F. Patrick Hughes  
Lisa James-Henson  
Charles Johnson  
Theresa Lochte  
Richard Norman  
Douglas Prouty

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

On a motion made by Ms. Hill and seconded by Mr. Norman, the Board voted to meet in a Closed Session, beginning at 1:10 p.m., in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16<sup>th</sup> Floor, for the purpose of:

- a. reviewing the closed session Board minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function;
- b. reviewing the Medical Board reports regarding individual participants' claims for disability retirement benefits, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific statutory 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 psychological information; and
- c. discussing the recommendation of the Investment Committee, concerning the Chief Investment Officer's Evaluation, pursuant to General Provisions Art., § 3-305(b)(1)(i), the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of an appointee, employee, or official over whom it has jurisdiction.

**CLOSED SESSION**

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding  
Peter Franchot, Vice Chairman  
David Brinkley  
Eric Brotman  
James Harkins (via phone)  
Linda Herman

Sheila Hill  
F. Patrick Hughes  
Lisa James-Henson  
Charles Johnson  
Theresa Lochte  
Richard Norman  
Douglas Prouty

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

On a motion made by Ms. Lochte and seconded by Mr. Hughes, the Board returned to open session at 1:20 p.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16<sup>th</sup> Floor.



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Final Adoption of  
Amendments to  
COMAR  
(22.04.02.04) –  
Membership in the  
Employees' System

The Board was presented with the proposed amendments to the regulations concerning Membership in the Employees' System at COMAR 22.04.02.04. The Board was reminded that the regulations, were previously brought before the Administrative Committee and recommended to the full Board for approval back in June 2017 and were submitted to the Joint Committee on Administrative, Executive, and Legislative Review Committee (AELR) and published for comment in the Maryland Register. The 45-day period for public comment expired and no comments were received.

On a motion made by Mr. Brinkley and seconded by Mr. Brotman, the Board of Trustees, approved for final adoption, the amended regulations concerning Membership in the Employees' System (COMAR 22.04.02.04).

Ratification of  
Adoption of  
Amendments to the  
Investment Policy  
Manual

On September 2, 2017, R. Dean Kenderdine, Executive Director, electronically provided to each Trustee on the Board of Trustees a memorandum and a red-lined version of the proposed changes to the Investment Policy Manual concerning the Administrative Policies, Section VI. General Procurement Policies and Procedures, as it relates to Custodial Banking Services Procurements. Having received a motion, made electronically by Linda Herman, and seconded electronically, by Theresa Lochte and an electronic vote from each Trustee to approve the recommended changes to the Investment Policy Manual, this matter was brought to the Board of Trustees to ratify that vote.

On a motion made by Ms. Lochte and seconded by Ms. Hill, the Board of Trustees, ratified its vote to approve the recommended changes to the Investment Policy Manual, as it relates to Custody Procurements.

FY2019 Budget  
Proposal

The Board was provided the FY2019 budget proposal, as presented to the Administrative Committee on September 5, 2017, which outlined the following five "Over the Target" requests for FY2019:

- Modernization of Business Process and Supporting Technology – (\$9.9 million). This request represents continued funding for the multi-year Phase III of the Maryland Pension Administration System (MPAS). This initiative is aimed at providing member services through a secure website, achieving business process improvements and enhanced/new technology to support them
- Benefits Administration Staffing – (\$187k). This request is to add four (4) new positions to bridge the gap until the business process has been re-engineering (MPAS III) is complete.
- Investment Division Staffing – (\$799k). This request is to add eight (8) new positions to address the sophistication, size and complexity of the investment portfolio, which has outpaced staffing levels.
- Investment Tax Agent – (\$250k). This request would enable the System to invest in emerging market stocks more efficiently and reclaim

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taxes that have been withheld by foreign countries.

- Investment Accounting Systems – (\$500k). This request is to satisfy the need to have a reliable, comprehensive and permanent source for historic data.

On a motion made by Ms. Hill and seconded by Mr. Brotman, the Board voted and approved the recommendation of the Administrative Committee to approve the FY2019 budget proposal.

Chief Investment  
Officer's Report

Andrew Palmer provided the Board with a preliminary summary of the fund as of July, 2017, which indicated that the total fund value was \$50.0 billion and that the fund's value exceeded \$50 billion, for the first time, as of September, 2017, which is a 3% increase for the fiscal year.

Executive Director's  
Report

Mr. Kenderdine provided the Board, for its review, the evaluation results from the August Education Session.

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Mr. Kenderdine reported that the Joint Committee on Pensions (JCP) interim sessions have been scheduled as follows:

- October 25, 2017 – discussing 5-year vesting and the Investment and Governance positions and compensation;
- November 7, 2017 – discussing the actuarial valuation report;
- December 6, 2017 – decision meeting of the JCP

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Mr. Kenderdine announced that the data-cleansing component of the MPAS-II project is now complete.

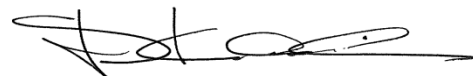
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Mr. Kenderdine reported that the Agency's system, including access to the Agency's website, would be down for maintenance on Saturday, September 23, 2017.

Adjournment

There being no further business before the Board, on a motion made by Mr. Brotman and seconded by Ms. Lochte, the meeting adjourned at 1:45 p.m.

Respectfully submitted,



R. Dean Kenderdine  
Secretary to the Board

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***ADMINISTRATIVE COMMITTEE MEETING SUMMARY  
SEPTEMBER 5, 2017***

2018 Administrative  
Committee Meeting  
Dates

On a motion made by Mr. Nicole and seconded by Mr. Norman, the Administrative Committee approved the 2018 Administrative Committee Meeting dates, as follows:

Tuesday, February 6, 2018	Tuesday, March 6, 2018
Tuesday, April 3, 2018	Tuesday, June 5, 2018
Tuesday, August 7, 2018	Tuesday, September 4, 2018
Tuesday, October 2, 2018	Tuesday, December 4, 2018

FY19 Budget  
Proposal

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

Mr. Kenderdine introduced the Agency's Budget Request for Fiscal Year (FY) 2019.

Mr. Kenderdine noted typographical errors on page 1 of the budget proposal and stated that they would be changed prior to the proposal being submitted to the Board of Trustees.

Mr. Kenderdine reported that the Agency's FY18 operational budget totaled \$34.8 million with 97% 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 FY19 budget target of \$34.8 million, which provides level funding from the previous year, inclusive of step increases for Agency personnel. The proposed budget being submitted to the Board, inclusive of "Over the Target" requests, is above the statutory cap, with a total budget of \$46.5 million.

Mr. Kenderdine reported that the Agency is submitting, for the Board's consideration, the following five "Over the Target" requests for FY2019:

- ▶ Modernization of Business Process and Supporting Technology – (\$9.9 million). This request represents continued funding for the multi-year Phase III of the Maryland Pension Administration System (MPAS). This initiative is aimed at providing member services through a secure website, achieving business process improvements and enhanced/new technology to support them
- ▶ Benefits Administration Staffing – (\$187k). This request is to add four (4) new positions to bridge the gap until the business process has been re-engineering (MPAS III) is complete.
- ▶ Investment Division Staffing – (\$799k). This request is to add eight (8) new positions to address the sophistication, size and complexity of the investment portfolio, which has outpaced staffing levels.

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SEPTEMBER 5, 2017***

- Investment Tax Agent – (\$250k). This request would enable the System to invest in emerging market stocks more efficiently and reclaim taxes that have been withheld by foreign countries.
- Investment Accounting Systems – (\$500k). This request is to satisfy the need to have a reliable, comprehensive and permanent source for historic data.

On a motion made by Mr. Norman and seconded by Ms. Hill, the Administrative Committee approved, for recommendation to the Board of Trustees, the FY19 Budget Proposal. Mr. Nicole abstained.

Finance Reports  
Quarter Ending June  
30, 2017

Ms. Melody Countess and Mr. Van Lewis presented the Administrative Expenses Report for the quarter ending June 30, 2017. Mr. Lewis reported that the Agency expended the entirety of its available appropriation, with the exception of unexpended healthcare costs, which had to be reverted. Mr. Lewis reported that the third quarter dashboard document had suggested an end-of-year surplus which was based on the assumption that there would not be a new custodial bank contract in place by fiscal-year-end. This is what transpired and the Agency redirected those resources to an investment consulting contract with Cutter/Funston Consulting, and the purchase of additional IT equipment and related software.

Mr. Lewis presented the MBE Performance Report for the quarter ending June 30, 2017. Mr. Lewis reported that MBE Performance was 27.20%, which is below the Administrative MBE performance goal of 29.0%.

Member Services  
Update

Mr. Raitzyk reported that the Member Services unit was able to meet its performance goals for both the call abandonment rate and for the average call wait time for July 2017. The unit's call abandonment rate was 4.36% and the average speed of answer was 0:70.

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**CORPORATE GOVERNANCE COMMITTEE MEETING SUMMARY  
September 5, 2017**

Update and  
Review of Iran-  
Sudan Divestment

The Committee considered staff’s recommendation to approve the proposed Iran-Sudan Restricted List. Ms. Voglino detailed that one company, Regency Mines, no longer meets the requirements of the Maryland divestment law and, therefore, recommended its removal from the Restricted List. Ms. Voglino further confirmed that the remaining 20 companies on the proposed Iran-Sudan Restricted List currently meet the requirements of the Maryland Iran-Sudan divestment statute, SPP § 21-123.1.

Ms. Voglino provided the semi-annual Iran & Sudan Divestment Impact Analysis to the Committee as prepared by Meketa Investment Group, the System’s general investment consultant. The report provided an updated analysis of all companies on the Iran-Sudan Restricted List and the divestment impact regarding these companies. Mr. Voglino detailed that the analysis revealed that the impact of divestment is minimal.

On a motion by Ms. Brogan and seconded by Mr. Johnson, the Committee unanimously agreed to approve Staff’s recommendation of the Iran-Sudan Restricted List, and to recommend the list, set forth below, to the Board of Trustees for approval at their meeting on September 19, 2017.

<b>ISSUER NAME</b>	<b>Country</b>
ASEC Co for Mining SAE	Egypt
AviChina Industry & Technology Company Limited	China
Bharat Heavy Electricals Limited	India
China National Petroleum Corporation (PetroChina Co)	China
Daelim Industrial Co.,Ltd.	Korea
El Sewedy Electric Co. SAE	Egypt
Energy House Holding Company	Kuwait
Harbin Power Equipment Co., Ltd	China
Jiangxi Hongdu Aviation Industry Co., Ltd.	China
Kuwait Finance House K.S.C.	Kuwait
LS Industrial Systems Co., Ltd	Korea
Managem S.A.	Morocco
Oil and Natural Gas Corporation Limited	India
Oil India Ltd.	India
ONGC Videsh Limited	India
Orca Gold Inc.	Canada
Petroliam Nasional Berhad (Petronas)	Malaysia
Petronas Capital Limited	Malaysia
Petronas Global Sukuk Ltd	Malaysia
Schneider Electric S.A.	France