

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

May 15, 2018

The Board of Trustees for the Maryland State Retirement and Pension System convened at the Board Room of the SunTrust Building, 120 East Baltimore Street, 16<sup>th</sup> Floor Board Room, Baltimore, Maryland beginning at 2:02 p.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	F. Patrick Hughes
Peter Franchot, Vice Chairman	Charles Johnson
David Brinkley	Theresa Lochte
Eric Brotman	Richard Norman
Linda Herman	Douglas Prouty
Sheila Hill	Michael Stafford

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

Robert Burd	Angie Jenkins	Kenneth Reott
Melody Countess	Van Lewis	David Rongione
Anne Gawthrop	Kim O'Keeffe	Janet Sirkis
Michael Golden	Andrew Palmer	Toni Voglino
Ira Greenstein	Harvey Raitzyk	

Assistant Attorneys General present included: Rachel Cohen, Jody Shaw and Kathleen Wherthey

Other attendees included: Susanne Brogan, Justin Haynes, Phillip Anthony, Michael Rubenstein, Laura Vykol and Holden Wilen

Consent Agenda

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

- April 17, 2018 Open Meeting Board Minutes
- April 17, 2018 Audit Committee Meeting Summary

Recommendation  
of the Investment  
Committee  
regarding Asset  
Allocation

Mr. Hughes, as Chairman of the Investment Committee reported that the Committee voted to approve, for recommendation to the Board, that the asset allocation currently in place be maintained, but with the following benchmark changes:

1. The Strategic Policy Benchmark for the Absolute Return asset class from 3-month Treasury bill +500 basis points to 3-month Treasury bill +400 basis points. This change more closely reflects the composition of the portfolio, as well as the assumptions used by Meketa in the asset allocation review. The implementation Policy Benchmark of the HFRI Fund of Funds Conservative + 100 basis points remains unchanged.
2. The weighting of the Real Assets Benchmark such that only Real Estate is dynamically weighted based on actual weights. The benchmark weighting for the Natural Resources and Infrastructure portion of the benchmark will be fixed at 4%, due to the addition of public market index funds, which allows staff to better control the overall allocation.

On a motion made by Mr. Hughes and seconded by Mr. Brotman, the Board of Trustees voted and approved the Investment Committee's recommendation to keep the asset allocation as is, but change the Strategic Policy and Real Assets Benchmarks, as presented.

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Recommendation  
of the Investment  
Committee  
regarding  
Changes to the  
Optional  
Retirement  
System

Mr. Hughes, as Chairman of the Investment Committee, reported that Segal Advisors presented the Committee with a biennial review of the Optional Retirement Plan as of December 31, 2017.

Based on that review Segal recommended and the Investment Committee approved, for recommendation to the Board of Trustees, the following:

**Fidelity Recommendations:**

1. Approve the change in share class for the Fidelity Diversified International fund from existing ticker FDIKX to new ticker FKIDX.
  - a. Replacement is recommended due to the lower net expense ratio (0.60% vs. 0.62%).
  - b. Existing assets and future contributions should be mapped to the new share class FKIDX.
2. Replace the Franklin Mutual Global Discovery fund with the AQR Global Equity fund (AQGIX).
  - a. Replacement is recommended due to Franklin's lagging performance relative to the benchmark and peers.
  - b. Existing assets and future contributions should be mapped from the Franklin Mutual Global Discovery fund to the new AQR Global Equity fund (AQGIX).
3. Replace the Neuberger Berman Socially Responsive fund with the Vanguard FTSE Social Index Fund (VFTSX).
  - a. Replacement is recommended due to Neuberger Berman's lagging performance relative to the benchmark and peers.
  - b. Existing assets and future contributions should be mapped from the Neuberger Berman Socially Responsive fund to the new Vanguard FTSE Social Index Fund (VFTSX).

**TIAA Recommendations:**

1. Approve the change in share class for the Vanguard Inflation-Protected Securities fund from existing ticker VAIPX to new ticker VIPIX.
  - a. Replacement is recommended due to the lower expense ratio (0.07% vs. 0.10%).
  - b. Existing assets and future contributions should be mapped to the new share class VIPIX.
2. Remove the existing CREF Money Market Account from the fund line-up.
  - a. Replacement is recommended due to the higher net expense ratio of 0.13%, relative to the existing Vanguard Treasury Money Market fund, which has an expense ratio of 0.09%.
  - b. Existing eligible assets and future contributions should be mapped to the existing Vanguard Treasury Money Market fund.
3. Remove the existing CREF Equity Index Account (Russell 3000) from the fund line-up.
  - a. Replacement is recommended due to the higher net expense ratio of 0.13%, relative to the existing Vanguard Institutional Index (S&P 500), which has an expense ratio of 0.04%.

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- b. Existing eligible assets and future contributions should be mapped to the existing Vanguard Institutional Index fund.
- c. While the two funds do not manage to the same index, their compositions are similar, with the S&P 500 constituting roughly 80% of the Russell 3000.

On a motion made by Mr. Hughes and seconded by Mr. Brotman, the Board of Trustees approved the Investment Committee's recommendations concerning the Optional Retirement Program, as presented.

Recommendation  
of 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 (IPM).

Mr. Hughes reported that staff completed a review of the IPM and identified eight areas that should be updated, as follows:

**Update #1 – Custody of Assets Contract**

In 2017, HB 202/SB 255 was passed to allow the custody of asset expenditures to be excluded from State procurement law and transferred the authority to arrange the custody of assets from the State Treasurer to the Board of Trustees. The recommended change to the IPM incorporates this law change.

**Update #2 – Policy Benchmark**

Meketa and staff have reviewed the policy benchmarks and recommend a change to the Absolute Return benchmark from 3-month T-Bill +500 bps to Cash +400 bps. In addition, Meketa and staff recommend modifying the calculation of the Implementation Benchmark to read that "The uninvested portion of Real Estate will be allocated to the Rate Sensitive category until the target allocation is reached".

**Update #3 – Description of Asset Classes**

Staff has reviewed the description of the asset classes with the IPM and provided recommended updates to reflect the assets within the portfolio and any changes that have occurred in the past year.

**Update #4 – Manager Monitoring Policy**

Staff has reviewed the policies within the IPM and notes that a section under "Manager Monitoring Policy" should be removed. The language stating that staff reviews significant issues such as change in ownership, personnel or style should be reviewed by staff and report to the Investment Committee is not correct. Staff does review the stated significant issues but does not report these to the Investment Committee as the monitoring of external managers is the responsibility of staff. The language can be removed as a statement regarding staff's review of significant issues is already included in the IPM on the same page.

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**Update #5 – ETI**

The Economically Targeted Investment (ETI) Policy of the IPM was included in the manual in 1994 and has had no significant changes since that time. Economically Targeted Investments are investments that are selected, in part, for their collateral benefits, apart from the investment return to the employee benefit plan investor. The Department of Labor (DOL) issues a new interpretive bulletin concerning ETIs and the update to the IPM is to address the Board's viewed on ETIs and their fiduciary responsibilities, to define ETIs more broadly, and to remove language that is no longer applicable.

**Update #6 – Risk Management**

The recommended Risk Management Policy is in response to HB 993 that requires the Board to address the management of risk in the IPM, perform and provide a risk assessment report to the General Assembly and the public on an annual basis, and disclose proxy votes and due diligence questionnaires on the System's public website. Staff has also included a section on leverage.

**Update #7 – Political Contributions and Placement Agents**

The recommended Political Contributions and Placement Agents Policy converts an internal policy of the Investment Division to a policy of the Board and clarifies how the policy applies to certain private funds.

**Update #8 – Commingled Trusts**

Appendix A (of the IPM) has been updated in accordance with the policy on investment in, or contribution of assets to, certain commingled vehicles set forth on page 95 of the IPM.

A red-lined version of the IPM with the recommended updated language was provided to the Board of Trustees for their review. (*See Attachment A*).

Mr. Hughes reported that it was the Committee's recommendation that the Board approve all recommended changes to the IPM, except for Update #5 – ETI and Update #6 – Risk Management.

On a motion made by Mr. Hughes and seconded by Ms. Hill, the Board approved the Investment Committee's recommendations to update the language of the Investment Policy Manual, with the exception of updates #5 and #6, as presented.

Review of the  
Criteria for the  
Executive  
Director's  
Evaluation

The Board of Trustees was provided with a copy of the evaluation criteria for the Chief Investment Officer for the performance period July 1, 2017 through June 30, 2018. Mr. Hughes reported that the Investment Committee reviewed the evaluation criteria of the Chief Investment Officer and approved the criteria for recommendation to the Board.

On a motion made by Mr. Hughes and seconded by Mr. Brotman, the Board approved the Investment Committee's recommendations concerning the evaluation criteria for the Chief Investment Officer, as presented.

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College of  
Southern Maryland  
– Participation in  
the Employer Pick-  
Up Program

R. Dean Kenderdine reported that the College of Southern Maryland has submitted to the Board for its approval, its request to participate in the Employer Pick-Up Program effective July 1, 2018. A copy of the signed resolution by the Board of Trustees of the College of Southern Maryland, was provided to the Board in the agenda packet.

On a motion made by Ms. Hill and seconded by Ms. Lochte, the Board of Trustees approved the College of Southern Maryland's request to participate in the Employer Pick-Up Program, effective July 1, 2018.

Executive  
Director's Report

Mr. Kenderdine reported that recently Mike Golden sent out a request for members of the Board to complete a survey that will help in the redevelopment of the Agency's public website. Mr. Kenderdine urged those who have not yet completed it to do so as soon as possible.

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Mr. Kenderdine reported that due to the number of individual tasks involved, approximately 21 of them, that have to be completed before the public access portal can go-live, the go-live date will be provided to the Board via email, as soon as it is determined.

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Mr. Kenderdine reported that currently the June 19, 2018 Board of Trustees meeting is scheduled to be held via conference call, however, an administrative appeal will be heard on that date and therefore, the presence of the Board at the meeting is requested.

Treasurer Kopp commented that at least a quorum of the Board should be present in person.

Other Business

On a motion made by Comptroller Franchot and seconded by Ms. Herman, the Board discussed writing a letter to Governor Hogan to request a veto of SB178, the Board requested legislation concerning the Trustees' Oath of Office. As discussed at the May 2018 meeting of the Board the bill was amended so as to make the State Treasurer the permanent Chairman of the Board.

Comptroller Franchot suggested that the Board request a veto because there were no public hearings on the amendment and the Board, staff, or stakeholders were not informed of the amendment.

Mr. Hughes asked Secretary Brinkley to comment on the background of the bill.

Secretary Brinkley responded that this was a technical bill in that it clarified the oath requirements for trustees, and the legislature used the bill to change the provision regarding the Board Chairman.

Mr. Prouty asked if staff knew whether the Governor already plans to veto the bill.

Ms. Gawthrop responded that her sources indicate that the Governor plans to veto the bill.

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Comptroller Franchot commented that he thought the letter should be written, in any event, to be on the safe side and to go on record that the Board had concerns with the amendment.

Treasurer Kopp commented that it is not unusual for the legislature to appoint a chairman to a public Board.

After further discussion, on a motion made by Comptroller Franchot and seconded by Ms. Herman, by a vote of 7 to 4, the Board agreed to write a letter to Governor Hogan requesting that he veto SB178.

The Trustees in favor of the motion were: Comptroller Franchot, Ms. Herman, Secretary Brinkley, Mr. Brotman, Ms. Hill, Mr. Stafford and Mr. Johnson. The Trustees in opposition of the motion were: Mr. Prouty, Mr. Norman, Mr. Hughes and Ms. Lochte. Treasurer Kopp abstained.

On a motion made by Mr. Prouty and seconded by Mr. Norman, the Board voted to meet in a Closed Session, beginning at 2:30 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 April 17, 2018 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 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 psychological information;
- c) reviewing a report regarding extraordinary salary increases, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific statutory requirement that prevents public disclosure, namely, General Provisions Art., § 4-312 regarding the prohibition on disclosing retirement records;
- d) discussing the recommendation of the Evaluation Committee regarding the Request for Proposals for a Board Governance Consulting Services Provider, pursuant to General Provisions Art., § 3-305(b)(14), to discuss before a contract is awarded or bids are opened, a matter directly related to a negotiating strategy or the contents of a bid or proposal, if public discussion or disclosure would adversely impact the ability of the public body to participate in the competitive bidding or proposal process and General Provisions Art., § 3-305(b)(13), to comply with a specific statutory imposed requirement that prevents public disclosure about a particular proceeding or matter, namely, General Provisions Art., § 4-335, regarding the protection of confidential commercial information; and
- e) discussing the appointment of a Public Advisor to the Investment Committee, pursuant to General Provisions Art., § 3-305(b)(1)(i), to discuss the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of an appointee, employee, or official over whom it has jurisdiction.

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**CLOSED SESSION**

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David Brinkley	Theresa Lochte
Eric Brotman	Richard Norman
Linda Herman	Douglas Prouty
Sheila Hill	Michael Stafford

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

Melody Countess	Kim O’Keeffe	Kenneth Reott
Angie Jenkins	Andrew Palmer	David Rongione
Van Lewis	Harvey Raitzyk	Janet Sirkis

Assistant Attorneys General present included: Rachel Cohen, Jody Shaw and Kathleen Wherthey

Other attendees included: Susanne Brogan and Justin Hayes.

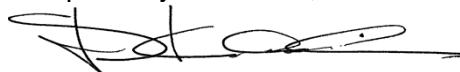
On a motion made by Mr. Hughes and seconded by Mr. Norman, the Board returned to open session at 2:37 p.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16<sup>th</sup> Floor.

**OPEN SESSION**

During closed session, the Board of Trustees discussed and took action on the following matters:

Closed Session Minutes	The Board reviewed and approved the April 17, 2018 closed session minutes.
Medical Board Reports	The Board reviewed and adopted the medical board reports from April 18, April 26, May 2 and May 10, 2018.
Extraordinary Salary Increases	The Board reviewed and approved the recommendations regarding the extraordinary salary increases as presented.
Request for Proposals for a Board Governance Consulting Services Provider	The Board reviewed and approved the evaluation committee’s recommendation regarding a Board Governance Consulting Services provider as presented
Appointment of a Public Advisor to the Investment Committee	The Board reviewed and approved the recommendation of the Investment Committee concerning the appointment of a Public Advisor to the Investment Committee as presented.
Adjournment	There being no further business before the Board, on a motion made by Mr. Prouty and seconded by Mr. Norman, the meeting adjourned at 2:37 p.m.

Respectfully submitted,



R. Dean Kenderdine  
Secretary to the Board

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***AUDIT COMMITTEE MEETING SUMMARY  
April 17, 2018***

Private Equity  
Operational Audit  
Results

Scott Freinberg and Jeff Binford, of BD & Company, presented the results of their Private Equity Operational Audit.

Mr. Binford told the Committee that processes reviewed included general partner selection and due diligence; management fees; capital calls; reporting; contracting; compliance; valuation; and reconciliation. The audit's scope included assessments of the adequacy of: policies, procedures, and practices; design and adequacy of controls; adequacy and effectiveness of management; oversight over third-party providers; and reporting.

The audit identified no reportable deficiencies. A minor deficiency related to documentation for initial due diligence was noted. Mr. Binford told the Committee that current documentation requirements were not in place at the time the related investments were entered into. However, there was documentation showing that the investments were properly authorized. Therefore, this item was not included in the report.

The audit report identified specific risks and controls. Mr. Binford noted that all risks were rated "green", indicating that there was a satisfactory state of control to address them. In response to a question from Mr. Hughes, Mr. Binford confirmed that due diligence was up to policy standards. BD & Company's review identified no exceptions to investment procedures.

Investments Risk  
Assessment

Mr. Binford presented the results of BD & Company's Investment Risk Assessment. The overall objective was to evaluate the operational risks associated with investment asset classes and processes, for the purpose of identifying and prioritizing future investment audits. The results of the review was a prioritized listing of process-based investment audits.

Mr. Binford described the risk assessment process. He interviewed Investment Division management, as well managers for each investment class, to obtain their input for each pertinent risk area identified. Based on the interviews, processes were scored, based on their potential impact, and the likelihood of inherent risks. As a result, future investment audits were identified, by priority: (1) Management & Incentive Fees; (2) Portfolio Management and Ongoing Due Diligence; (3) Valuation and Performance; (4) Compliance; (5) Partnership/Fund Manager Selection; (6) Investment Operations, Accounting, and Administration; (7) Contractual Risk; and (8) Management Reporting.



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**AUDIT COMMITTEE MEETING SUMMARY  
April 17, 2018**

Status of FY 2018 Audit Plan	<p>Mr. Rongione provided the Committee with a status update for the FY 2018 audit plan.</p> <p>For full-scope audits, the Buy Backs Audit is currently in the reporting phase. Fieldwork is in process for the Disability Claims Audit.</p> <p>For outsourced audits, a future audit of Investment Management and Incentive Fees is in the process of being scheduled.</p> <p>There are 71 audits of participating employers to be completed in FY 2018. Of these, 20% have been completed, 31% are complete, pending management responses, 48% are currently in progress, and the remaining 1% have not started. All are expected to be completed by the end of FY 2018.</p>
Status of Open Issues Log	<p>Mr. Rongione provided a listing of open audit issues. He told the Committee that Internal Audit has been working with Agency management to resolve these. Most of the issues are expected to be remediated by the next Audit Committee meeting.</p> <p>Ms. Lochte inquired about the status of the issue regarding multiple payments to a single bank account. Mr. Rongione responded that he met with an affected retiree and her credit union to investigate the issue. He found that the credit union was netting loan payments against the recorded check deposit, making it appear that their full benefit payment was not received. After analysis, it appears that the retiree is receiving their proper benefit.</p>
Office of Legislative Audits Discussion Notes	<p>The Committee received discussion notes for the Office of Legislative Audits' recent fiscal compliance audit of the Agency. Mr. Rongione told the Committee that findings were of two categories: (1) fiscal compliance, and (2) information systems. All but one of the fiscal compliance findings will be included in the final audit report. Only one of the information systems findings will be included.</p>
Audit Committee Self-Evaluation Results	<p>The Committee received the results of their self-evaluation surveys. Mr. Rongione noted that overall, ratings were satisfactory, or above. There were four areas that had at least one response indicating "adequate, but needs improvement". These included the need for additional Audit Committee members, and a better understanding of financial statement reporting risks and the risk for material misstatements. Internal Audit will work with the Committee to address these concerns.</p>
Internal Audit Performance Survey Results	<p>The Committee received the results of a survey of their evaluation of the Internal Audit Division. Mr. Rongione noted that all responses were "satisfactory", or above. Internal Audit will use the feedback for further improvement.</p> <p>Mr. Norman inquired about the training of Internal Audit staff. Mr. Rongione responded that all staff meet, or exceed, their minimum requirements of 20 to 40 hours of continuing education, per year.</p>

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Annual Agency-Wide  
Risk Assessment

Mr. Rongione told the Committee that Internal Audit will soon begin the annual Agency-wide risk assessment. Surveys will be sent to Audit Committee members, the Executive Director, and Agency senior staff and managers. From their responses, Internal Audit will evaluate process risks for their likelihood of occurrence, and potential impact. The FY 2019 audit plan will be based on the risk assessment results.

Internal Audit  
External Quality  
Assurance Review

Mr. Rongione told the Committee that Internal Audit is currently undergoing an external quality assurance review, which is being performed by CliftonLarsonAllen. This review is required by auditing standards. The results are expected to be reported by the end of June.

Audit Committee  
Charter

The Committee received proposed changes to the Audit Committee Charter, which were previously discussed at their January 16, 2018 meeting. On a motion by Mr. Hughes, seconded by Ms. Lochte, the Committee voted to approve the changes.

After the Audit Committee meeting on April 17, 2018, the Executive Director requested that the changes to the Audit Committee Charter, which were approved by the Committee, be deferred being presented to the Board of Trustees for approval, due to the pending RFP for a Board Governance Services Provider.

Completed Audits

Mr. Rongione presented the results for the Manual Check Processing audit. He noted that it received an overall rating of "Green", indicating that there was an acceptable level of control and compliance.