

THE INVESTMENT COMMITTEE
OF THE
MARYLAND STATE RETIREMENT AND PENSION SYSTEM

MINUTES OF OPEN MEETING

February 21, 2017

The Investment Committee convened on Tuesday, February 21, 2017 at 9:33 a.m. in the 16th Floor Board Room of the State Retirement Agency, SunTrust Building, 120 E. Baltimore Street, Baltimore, MD.

Committee Members	Michael K. Barry	Sheila Hill
Attending:	Eric Brotman	Linda A. Herman, Co-Chair
	James A. Bush, Jr.	F. Patrick Hughes, Chairman (1)
(1) Via telephone	James "Chip" DiPaula	Larry E. Jennings, Jr.
	Peter Franchot	Charles W. Johnson
	Kenneth Haines	Nancy K. Kopp
	David Hamilton	Theresa Lochte
		Richard Norman
		Stefan Strein

Committee Members	David Brinkley
Not Attending:	James Harkins

Also Attending:	Victor Adekoya	Gregory Kasten
	Frank E. Benham (Meketa)	Larry Katsafanas
	Susanne Brogan	Dean Kenderdine
	Robert Burd, Deputy CIO	John Kenney
	Elizabeth Burton	Michelle Lowery
	Libby Cohen (BUILD)	Michael McCord
	Rachel Cohen, OAG	Mary Mustard (Meketa)
	Melody Countess	Stephen Muturi
	Brian Dana (Meketa)	Eileen O'Grady (UniteHere!)
	Eric Farls	Andrew Palmer, CIO
	David Ferguson	Stephen Reilly
	Marcus Friedman (S&P Dow Jones	David Rongione, Chief Internal
	Indices)	Auditor, Internal Auditing Div.
	Michael Golden	Dan Schick
	Dimitri Grechenko	Jody Shaw, OAG
	Jeffrey Hooke (Johns Hopkins Carey	Frederick "Beau" Smith
	Business School)	Toni Voglino
	Dana Johns	Kathleen Wherthey (OAG)
	Faina Kashtelyan	Pat Wild

Ms. Herman, Vice-Chairman, called the Investment Committee meeting to order at 9:33 a.m.

Item 1: Minutes

On a motion made by Mr. Hughes and seconded by Mr. Johnson, the Investment Committee unanimously approved the November 17, 2016 open meeting minutes.

Item 2: Public Member Position – Call for Nominations

Mr. Kenderdine discussed the public member nominations.

The term of one of the public members, Stefan A. Strein, is due to expire on June 30, 2017. The System has issued a call for nominations for this position, which would serve a three-year term from July 1, 2017 – June 30, 2018.

Item 3: Review of the Investment Committee Charter

After summarizing the charter review process, Mr. Hughes spoke about the proposed changes to the Investment Committee Charter. Mr. Hughes expressed that certain language referring to monitoring may not accurately reflect the role of the Investment Committee and its oversight of the Chief Investment Officer and Investment Division. Treasurer Kopp also indicated she thought the terms “monitor” and “review” may not be accurately used in the Charter. Mr. Palmer responded that he believed monitoring involved more active creation of oversight materials than reviewing reports prepared by consultants and staff. Mr. Hughes indicated that he thought the Investment Committee did not have the tools to monitor in that sense and that there should be revisions to the Charter to include specific reporting requirements to the Investment Committee. Treasurer Kopp recommended a second review of the Investment Committee Charter to work out these inconsistencies and clarify the language around monitoring and reporting. Mr. Palmer indicated that he would revisit the Charter and come back to the Committee with examples of how each requirement in the Charter is being met, in addition to any revisions that may be necessary. Mr. Kenderdine indicated that they would remove the Investment Division Charter from the BoT agenda.

Item 4: Report from CIO

Mr. Palmer discussed the “CIO Portfolio Review,” reporting initially on various personnel matters, including the hiring of Dan Schick and the promotion of Elizabeth Burton.

Mr. Palmer also spoke about the internal management task force, noting that the Investment Division was in the process of reviewing responses to a request for information that had been launched to seek an outside consultant to assist with the implementation of internal management. Ms. Herman asked what type of consultant and Mr. Palmer answered that it was intended to be a consultant that had capabilities in investment management operations and processes.

Mr. Palmer discussed the TUCS Report. Mr. Palmer offered an explanation for what he described as “underperformance” using the slide deck provided to the Investment Committee. He pointed out the 1-year mark and that the policy portfolio was doing much better.

Mr. Reilly discussed the performance of the credit portfolio. His discussion focused on the movement of high yield spreads and the impact of having some private assets in the portfolio in periods of volatile spreads. Mr. Reilly noted that the System had not benefited completely from the energy rally in the credit portfolio because of its focus on reduced volatility.

Mr. Katsafanas discussed the performance of the public equity asset class, the Terra Maria restructuring, and the tactical program. Mr. Palmer added that although there had been some underperformance among public equity managers, according to his analysis, active management had still been an overall benefit over the last five years. He noted that credit managers showed the most consistently positive performance over time. Mr. Brotman asked whether the policy benchmark was correct given that the System was

typically ranked low in the TUCS Report but had nonetheless met its benchmark. Mr. Palmer responded that the underperformance was mostly explained by the lack of a US bias in the public equity portfolio.

Mr. Ferguson discussed the private equity asset class and noted the 2.7% alpha that was generated over the life of the program.

Mr. Jennings asked what the rationale was behind investing in Tiger Iron, a fund-of-funds. Per Mr. Ferguson, Tiger Iron is a venture capital fund-of-one that was hired to help the System gain access to and provide ongoing monitoring of top-tier venture capital funds. Staff was able to negotiate a very favorable fee structure that mitigated the performance drag caused by the double layer of fees typically associated with fund-of-funds.

Mr. Burd discussed the currency management program and pointed out that the currency program limited the system's currency losses in the 4th quarter. He also stated the Euro and Yen are the largest currency exposures in the hedging program.

Mr. Palmer then discussed the reorganization of the fixed income and absolute return teams. Following the reorganization, the teams are now the quantitative strategies team, managed by Ms. Burton, and the rates and credit team, headed by Mr. Grechenko.

Mr. Grechenko then discussed the rates and credit portfolio, starting with rate sensitive credit.

Mr. Reilly discussed the performance of the real estate, energy, natural resources and infrastructure portfolio. Comptroller Franchot asked why the performance of the energy, natural resources and infrastructure portfolio was trailing the benchmark. Mr. Reilly responded that the benchmark used to be 5%+ CPI, and the Board recently approved the switch to a publically traded benchmark. The timing of the change contributed to the underperformance relative to the benchmark. Mr. Palmer advised that he is comfortable with the benchmark.

Mr. Bush stressed the importance of not leaving money on the table and making cost efficiency a priority.

Mr. Barry made a request to see a schedule of fees and how staff has had success in reducing fees in a future report to the Investment Committee.

Mr. Strein asked if the Agency had an internal control group monitoring staff's due diligence. Mr. Palmer responded that the Agency's Internal Audit Division performs audits of each asset class, which includes sample testing. In addition, the Investment Division's internal investment committee meets regularly to review due diligence, vet new investment ideas and review portfolio performance and strategies.

Mr. Palmer discussed the document titled "Economic Outlook" and specifically how the Investment Division focuses on the target of 7.55%. He then discussed the tactical investment programs.

Ms. Herman asked about the reporting of the tactical program. Mr. Palmer indicated that performance will be included in the State Street report illustrating returns with and without the benefit of the tactical and structural returns.

Mr. Strein asked about the size of the trades in the tactical program and whether trades are back tested. Mr. Palmer indicated that the tactical trades are small relative to the size of the underlying asset class. He also confirmed that the trades reflect the macroeconomic views of the tactical investment team, and current opportunities in the market. Treasurer Kopp asked when the program would be implemented. Mr. Palmer responded that it had been implemented since December of 2016.

Items 5-7: Meketa Reports

Ms. Mustard from Meketa presented the Fourth Quarter 2016 performance update and current market overview to the Committee. She went over the activity report and the appendices of the report. Ms. Herman asked about the role of diligence and how Meketa worked with the Investment Division staff to make recommendations. Ms. Mustard described the diligence process as collaborative.

Mr. Brotman asked whether the Investment Division should be considering tactical or strategic changes in the short run to improve performance, without changing the overall strategy. Mr. Benham responded that they had been focused on returning 7.55% rather than performance relative to peers. He noted that fees could be cut, but that it might come at the cost of alpha that had been generated by Investment Division staff through manager selection. In Mr. Benham's view, there is no low-hanging fruit. When Mr. Brotman asked whether public equities might be an area where fee reductions could make a material difference, Ms. Mustard noted that most managers outside of Terra Maria already use passive, lower fee strategies.

Mr. Dana from Meketa gave an overview of hedge funds and the absolute return portfolio. He provided risk and return objectives of the absolute return portfolio and how it had been constructed.

Mr. Strein asked whether the System should be more tactical with regard to the global macro sub-asset class since those managers typically invest in liquid assets. Mr. Dana explained that changes should be made over several years rather than tactically and that the best managers were capacity constrained. Mr. Palmer added that adding too many global macro managers also negatively affects diversification.

Mr. Benham from Meketa discussed the second half of the document titled "Infrastructure Investing Strategies." Mr. Benham explained that given the size of the System, there are many ways to access infrastructure investments, which offer income-like returns. Meketa would work with staff to access these investments if the asset allocation changes.

Mr. Brotman questioned whether it made sense to have a global equity portfolio given the higher fees associated with the strategy and the lack of regional rotation exercised by managers. He asked if Meketa could explore disaggregating the global investments and moving to US or International or Emerging. Mr. Palmer indicated that staff and Meketa will provide an analysis.

Treasurer Kopp commented that staff should go back and review the research relating to global mandates to see what the rationale was because the issue was discussed several years ago.

Item 8: ORP Update

Mr. Burd provided an update on the Optional Retirement Program. He indicated that a draft RFP for recordkeeping services had been developed and posted to the Director's Desk, and is being reviewed by the ORP consultant. He directed any questions or comments to his attention.

Mr. DiPaula asked how vendor performance is measured. Mr. Burd responded that Segal surveys benefits coordinators as part of the biennial review, and indicated that historically participants had not been surveyed due to the low response rate typical of such broad-based practices. He also advised that surveying capabilities were included as part of the RFP.

Item 9: Investment Reports

The Committee received the following investment reports:

- State Street Performance Reports
- Private Markets Performance Reports
- Securities Lending Report
- Division's FY17 Travel Plan - Update
- Quarterly ORP Performance Report
- OPEB-PHBT Update
- New Hire Manager Report

On the Directors Desk:

- Broker Commission Reports
- Class Action Update

On a motion made by Ms. Lochte and seconded by Mr. Bush, the Investment Committee voted without objection to meet in closed session at 12:19 p.m. for the purposes of:

(a) reviewing the closed session Investment Committee minutes, pursuant to General Provisions Art., Section 3-103(a)(1)(i), the exercise of an administrative function;

(b) hearing an update by Investment Division staff on the Request for Information for a Program Manager for the Terra Maria Developing Manager Program, pursuant to: General Provisions Art., Section 3-305(b)(5), to consider the investment of public funds; General Provisions Art., Section 3-305(b)(13), to comply with a specific statutory requirement that prevents public disclosure, namely, General Provisions Art., Section 4-335 preventing the disclosure of trade secrets and confidential commercial or financial information; and General Provisions Art., Section 3-305(b)(14), to discuss, before a contract is awarded, 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.

(c) hearing an update by Investment Division staff on the Request for Information for Discretionary Maryland In-State Private Equity and Venture Capital Investment Management Services, pursuant to: General Provisions Art., Section 3-305(b)(5), to consider the investment of public funds; General Provisions Art., Section 3-305(b)(13), to comply with a specific statutory requirement that prevents public disclosure, namely, General Provisions Art., Section 4-335 preventing the disclosure of trade secrets and confidential commercial or financial information; and General Provisions Art., Section 3-305(b)(14), to discuss, before a contract is awarded, 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.

(d) discussing matters regarding the investment of public funds with staff, pursuant to General Provisions Art., Section 3-305(b)(5).

CLOSED SESSION

Committee Members
Attending:

Michael K. Barry
Eric Brotman
James A. Bush, Jr.
James "Chip" DiPaula
Peter Franchot
Kenneth Haines
David Hamilton

Sheila Hill
Linda A. Herman, Vice-Chair
F. Patrick Hughes, Chairman (1)
Larry E. Jennings, Jr.
Charles W. Johnson
Nancy K. Kopp
Theresa Lochte
Richard Norman
Stefan Strein

Committee Members
Not Attending:

David Brinkley
James Harkins

Also Attending:

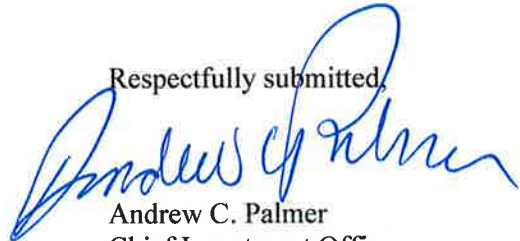
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Rachel Cohen, OAG
Melody Countess
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Eric Farls
David Ferguson
Michael Golden
Dimitri Grechenko
Dana Johns
Faina Kashtelyan
Gregory Kasten
Larry Katsafanas

Dean Kenderdine
John Kenney
Michelle Lowery
Michael McCord
Mary Mustard (Meketa)
Stephen Muturi
Andrew Palmer, CIO
Stephen Reilly
David Rongione, Chief Internal
Auditor, Internal Auditing Div.
Dan Schick
Jody Shaw, OAG
Frederick "Beau" Smith
Toni Voglino
Kathleen Wherthey, OAG
Pat Wild

Adjournment

There being no further business before the Investment Committee, on a motion made by Mr. Bush and seconded by Mr. Hughes, the meeting adjourned.

Respectfully submitted,



Andrew C. Palmer
Chief Investment Officer