INVESTMENT POLICY MANUAL

for the

Board of Trustees

of the

MARYLAND STATE RETIREMENT

and

PENSION SYSTEM

STATE RETIREMENT AGENCY

Updated September 2019

INVESTMENT POLICY MANUAL

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History of Investment Policy Manual Adoption and Revisions

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GENERAL POLICIES

I. PURPOSE, CONTACT, AUTHORITY AND SCOPE

A. Purpose

The purpose of the Investment Policy Manual is to include:

1. In accordance with State Personnel and Pensions § 21-116 (c):
   a. the functions of the Investment Division of the Maryland State Retirement Agency;
   b. the goals and objectives of the several investment programs; and
   c. the policies that govern the selection and retention of investments.

2. In accordance with State Finance and Procurement § 12-401 (b) for exempt procurements including (1) services of managers to invest the assets of the Maryland State Retirement and Pension System, including real and personal property; (2) expenditures to manage, maintain, and enhance the value of the assets of the Maryland State Retirement and Pension System in accordance with investment guidelines adopted by the Board of Trustees (the "Board"); (3) services related to the administration of the optional retirement program under Title 30 of the State Personnel and Pensions Article; (4) services related to the administration of the Postretirement Health Benefits Trust Fund; and (5) expenditures for the safe custody, domestic or global, of investments as provided under § 21-123(f) of the State Personnel and Pension Article written policies and procedures relating to:
   i) the methods of procurement;
   ii) the advertising requirements;
   iii) the procurement goals, including minority business enterprise participation; and
   iv) the approval process.

3. In accordance with State Personnel and Pensions § 21-118.1 (4) the criteria for award of financial incentives for the Chief Investment Officer.

B. Contact

Questions & comments relating to the Investment Policy Manual should be directed to:

Chief Investment Officer
Maryland State Retirement Agency
12th Floor, 120 East Baltimore Street
Baltimore, Maryland 21202
410-625-5621

C. Authority

The Investment Policy Manual is developed in accordance with State Personnel and Pensions § 21-116 (c). The Investment Committee of the Board (the "Investment Committee") shall prepare and maintain the Investment Policy Manual and submit the Investment Policy Manual and any subsequent amendments to the manual to the Board for approval.

D. Scope

The Investment Policy Manual is binding upon all persons with authority over the Trust's assets, including: investment managers/advisors; custodians; consultants; brokers/dealers; all members of the Investment Division; the Investment Committee and the Board.

II. FIDUCIARY STANDARDS

The members of the Board are fiduciaries and shall discharge their duties with respect to the several systems solely in the interest of the participants. Additional information regarding fiduciary responsibilities may be found in the Annotated Code of Maryland and the Board Governance Charters and Policies.

III. FUNCTIONS OF THE INVESTMENT DIVISION OF THE MARYLAND STATE RETIREMENT AGENCY

The roles and responsibilities for the Board, Investment Committee, Executive Director, and Chief Investment Officer are defined under the Board Charters which can be found on the Agency's website at www.sra.state.md.us.

In accordance with the State Personnel and Pensions Article, the Investment Division shall:

A. Invest the assets of the several systems;

B. Report to the Board quarterly the commissions that the Maryland State Retirement Agency pays on investments detailing:

   1. The identity of each recipient of a commission that the Maryland State Retirement Agency paid during the previous quarter;
   2. The dollar amount of commission business that each recipient performs;

3. The average price-per-share each recipient charged or, if the commission was paid on a net basis, the markup or markdown that the recipient uses; and
4. A reasonable history of the allocation of commissions.

C. The Chief Investment Officer is delegated the responsibility for managing and overseeing the investment process, including (i) hiring external investment managers to invest the assets of the several systems, (ii) developing and implementing internal management strategies (iii) creating or selecting and purchasing interests in specific investment vehicles, including limited partnerships, limited liability companies, private equity investments, private real estate investments, and co-investments, (iv) ensuring legal review of proposed investments by the Office of the Attorney General and (v) monitoring compliance with investment contracts, State law, and both the public market and private market program policies and processes enumerated in this Investment Policy Manual.

The Chief Investment Officer of the Agency is responsible for planning, directing and executing the functions of the Division and shall serve as secretary to the Investment Committee of the Board. In short-term absences of the Chief Investment Officer, the roles and responsibilities of the Chief Investment Officer may be delegated to the Deputy Chief Investment Officer.

The Chief Investment Officer is responsible for the day-to-day investment of the funds of the System in accordance with policies, regulations and objectives specified by the Board. Specifically, the Investment Division under the direct supervision of the Chief Investment Officer shall be responsible for:

1. Monitoring external and internal asset managers;
2. Exploring and analyzing investment programs, and recommending changes to the Investment Committee and the Board;
3. Evaluating the effectiveness of prevailing policies, regulations, objectives and strategy, and proposing, when appropriate, suitable modifications for recommendation to the Investment Committee and the Board; and,
4. Providing periodic reports to the Investment Committee and the Board.

IV. GOALS AND OBJECTIVES OF THE INVESTMENT PROGRAMS

A. The Board of the System is charged with the fiduciary responsibility for ensuring that sufficient assets are available to fund members' benefits when due. To accomplish this, key goals include the prudent investing of System assets in a well-diversified manner to optimize long-term returns, while controlling risk through careful execution of the investment objectives and strategies of the System.

B. The objectives of the Board will be implemented based on the following principles:

1. Asset allocation is the most important determinant of investment performance.
2. Liquidity will be emphasized to the extent necessary to meet benefit payment requirements.
3. The investment strategy is long-term, recognizing that the average age of the System's liabilities is relatively long. For this reason, emphasis will be placed upon long-term or strategic decisions rather than tactical or short-term market timing decisions, recognizing that the long-term horizon could result in short-term volatility.

    a. All major sectors of the capital markets should be considered in order to diversify and minimize total investment program risk. Such sectors may include, but are not limited to, equities (domestic, international, and global; public and private), fixed income, convertible bonds, short-term cash equivalents, real estate property and securities, and alternative investments.

    b. Periodic rebalancing of the allocation of assets among asset classes will be considered in order to control risk and improve returns.

    c. A portion of the System's investments should be managed using passive management techniques in order to lower costs and reduce active management risk.

    d. Internal and external management of assets may be employed in active and passive strategies.

    e. Cost control is valued, particularly regarding investment management fees, and the focus will be on returns net of fees.

    f. The selection of the System's investment vehicles and policies will be compared relative to other public pension funds. Investment performance, asset management costs, staffing and overall expenses will be compared to other public pension plans, with special emphasis on comparisons with other public pension funds of comparable size.

    g. Economic justification for investment proposals will override social and/or local justifications. Social and/or local investments will only be considered when they provide reasonable and competitive rate of return expectations in comparison to other comparable investments.

    h. The investment program must operate in compliance with all applicable State and Federal laws and regulations concerning the investment of pension assets.

C. Objectives

The Board desires to balance the goal of higher long-term returns with the goal of minimizing contribution volatility, recognizing that they are often competing goals. This requires taking both assets and liabilities into account when setting investment strategy, as well as an awareness of external factors such as inflation. Therefore, the investment objectives over extended periods of time (generally, ten to twenty years) are to achieve an annualized investment return that:

1. In nominal terms, equals or exceeds the actuarial investment return assumption of the System adopted by the Board. The actuarial investment return assumption is a measure of the long-term rate of growth of the System's assets. In adopting the actuarial return assumption, the Board anticipates that the investment portfolio may achieve higher returns in some years and lower returns in other years.
2. In real terms, exceeds the U.S. inflation rate by at least 3.0%. The inflation-related objective compares the investment performance against the rate of inflation as measured by the Consumer Price Index (CPI) plus 3.0 percent. The inflation measure provides a link to the System's liabilities.
3. Meets or exceeds the System's Investment Policy Benchmark. The Investment Policy Benchmark is calculated by using a weighted average of the Board-established benchmarks for each asset class. The Policy Benchmark enables comparison of the System's actual performance to a passively managed proxy and measures the contribution of active investment management and policy implementation.

Policy Benchmark Effective July 1, 2018 [1]

Asset Category	Strategic Policy Benchmarks[4]		Percentage Contribution to Benchmark	Policy Benchmarks[4]
Growth/Equity	*Public Equity*	43% Russell 3000 Index, 27% MCSI World Ex-U.S., 30% MSCI EM	37% [2]	
	Private Equity	MSCI ACWI + 200 bp	13% [2]	State Street Private Equity Composite
Rate Sensitive	53% Barclays Long-Term Government, 13% Barclays Securitized, 13% Barclays Corporate, 21% Barclays U.S. TIPS		19% [3]	
Credit	78% U.S., 22% Non-U.S.		9%	
	U.S. Credit	80% Barclays U.S. High Yield, 20% S&P/LSTA Leveraged Loan		
	Non-U.S. Credit	50% Bloomberg/Barclays EM Local Gov't -30bp, 25% Bloomberg/Barclays EM Hard Sovereign, 25% Bloomberg/Barclays EM USD Agg Corp		
Real Assets	71% RE,, 29% NR/IS		14% [3]	Dynamically weighted: RE
	Real Estate	NCREIF ODCE (1 quarter lag, gross),		60% S&P Global Natural Resources, 40% DJ-Brookfield Infrastructure
	Natural Resources & Infrastructure	CPI-U + 500 bps (10% cap)		
Absolute Return	3 Month T-Bill + 400 bps		8%	HFRI Fund of Funds Conservative + 100 bp

Notes:

1. These benchmarks are effective as of July 1, 2019.
2. The policy target for Private Equity will be the actual weighting. The over-under weight to Private Equity relative to the strategic policy target will be allocated to Public Equity.

3. The policy target for Real Estate will be the actual weighting. The over-under weight to Real Estate relative to the strategic policy target will be allocated to Rate Sensitive.
4. The Policy Benchmark uses the System's target allocation for each asset class and compares it to the index that is the most appropriate benchmark for shorter-term tracking error. It should be used as a measure of Staff's ability to implement the System's policy benchmark. The Policy Benchmarks can be used to evaluate the asset allocation policy decisions made by the Board of Trustees.

POLICIES that GOVERN SELECTION and RETENTION of INVESTMENTS

I. ASSET ALLOCATION

A. Strategic Asset Allocation Policy

Policy Statement:
The Board shall manage investment risk and provide strategic guidance through asset allocation.

Policy Guidelines:

1. The Board shall review the System's asset allocation on an annual basis in order to determine if it is necessary to conduct a formal asset allocation study.

2. The Board shall review whether there have been significant changes with regard to (1) the economic environment, (2) the Board's objectives, and (3) other considerations affecting the current asset allocation.

3. The Board will conduct a formal asset allocation study at least every two years in order to determine its strategic asset allocation targets and ranges, as well as changes to overall policy.

4. The Board must adopt the asset allocation recommendation by a vote of the majority.

5. The formal asset allocation study shall incorporate both the asset and the liability sides of the equation. The Board shall weigh three competing liability-oriented objectives when making asset allocation determinations. The importance weightings assigned to each of these three objectives by the Board shall determine the risk profile of the System. The liability-oriented objectives are:

   - Achieve and maintain a fully funded pension plan.
   - Minimize contribution volatility year to year.
   - Achieve surplus assets.

   These liability-oriented performance objectives recognize that liabilities must be paid in full and in a timely manner. The liabilities are the future claims of the System's participants. The actuarial rate of interest is used to discount the future value of the System's liabilities and to calculate the System's funded ratio. As private market managers frequently have multiple years to invest committed capital and capital may well be returned to investors from recapitalizations or realizations over that period, the System will need to commit more than its total asset allocation to reach and maintain the targeted invested exposure in private markets. As it takes time for commitments to be invested, the net invested position is often below the commitment amount. The Chief Investment Officer shall determine the level of over-commitment that may be required.

6. From time-to-time and generally as a result of fluctuations in market values of individual investments, allocations may fall outside of the respective recommended ranges. In these instances, it is expected that adjustments from actual to the prescribed allocation range will be implemented over a reasonable time frame, and with ample consideration given to preserving investment returns.
7. The Board approved long-term strategic asset allocation targets, ranges and constraints effective October 1, 2017 are as follows:

Asset Class	Target as of 10/1/17[1]	Range (in Percentage Points)	Constraints*
Growth/Equity U.S. Equity International Developed Equity International Emerging Markets Private Equity	**50%** 16% 10% 11% 13%	**+/- 7**	Public Equity: Hedge Funds: 0-20% Private Equity: Buyout 60-90% Venture/Growth 10-25% Special Situations 10-30%
Rate Sensitive Long-Term Government Bonds Securitized Bonds Corporate Bonds Inflation-Linked Bonds	**19%** 10% 2.5% 2.5% 4%	**+/- 5**[2]	Long-Term Gov't: 30-70% Securitized/Corp: 10-50% Inflation-Linked: 0-40%
Credit High Yield Bonds & Bank Loans Emerging Market Debt	**9%** 7% 2%	**+/- 4**	Hedge Funds: 0-30% Private Credit: 0-50%
Real Assets Real Estate Natural Resources & Infrastructure	**14%** 10% 4%	**+/- 4**[2]	Real Estate: Core 50-100% Value Add 0-25% Opportunistic 0-25% REITs 0-30% Commodities 0-25%
Absolute Return	**8%**	**+/- 4**	
TOTAL ASSETS	100%		

[1] The target allocation noted is the long-term target after the transition period has been completed.

[2] The ranges for the Real Assets and Rate Sensitive asset categories are based on transitional targets until Real Assets reaches its target allocation.

* The total exposure to Hedge Funds, as defined in Appendix B, is limited to 16% of the total fund. This cap is inclusive of the Hedge Funds in the Absolute Return asset class, as well as in the other asset classes.

Descriptions of Asset Classes

Public Equity: Investments in equity securities, known as shares or stocks, that represent an ownership interest in companies and are generally traded on a stock exchange.

- **Domestic Stock:** These portfolios hold stock in U.S. corporations whose shares trade on US stock exchanges.
- **International Stock**: These portfolios hold stock in non-U.S. corporations whose shares trade on stock exchanges in other countries.
- **Global Stock**: These portfolios hold stock in U.S. and non-U.S. corporations whose shares trade on US stock exchanges and on stock exchanges in other countries.
- **Emerging Markets**: These portfolios hold stock in corporations located in developing markets. Such shares trade on various local markets globally.

Rate Sensitive: Investments in bonds, loans or associated derivatives with an average portfolio credit quality of investment grade. Permissible bonds or loans may be nominal or inflation protected and those bonds or loans may be issued by an entity in any country. Generally, these securities are not traded on an exchange, pay interest on a regular schedule and repay principal by maturity.

Credit: Investments in bonds, loans or associated derivatives with an average portfolio credit quality of below investment grade. Permissible bonds or loans may be fixed or floating rate, nominal or inflation protected and those bonds or loans may be issued by an entity domiciled in any country. The System's credit program may include but is not limited to:

- Distressed debt
- Mezzanine debt
- Structured debt
- Real estate debt
- Real asset debt
- Specialty finance (royalties, healthcare, venture, media, factoring)
- Bank loans
- Convertible debt
- High yield debt
- Emerging markets debt
- Municipal debt

Real Assets: Investments whose performance is expected to exceed the rate of inflation over an economic cycle. The System's real assets program may include but is not limited to the following investment vehicles in both public and private investments:

- Commodities
- Real Estate
- Infrastructure
- Timber and other natural resources

- Energy & energy – related assets
- Agriculture
- Multi-asset class portfolios with a real return mandate

Long-Term Sub-Asset Allocation Ranges in Private Real Estate:

Real Estate Asset Category	Target Range
Core	50-100%
Value Added	0-25%
Opportunistic	0-25%
REITS	0-30%

Absolute Return: Investments whose performance is expected to exceed the three month U.S. Treasury bill by 4-5% over a full market cycle and exhibit low correlation to public stocks. The System's absolute return program may include but is not limited to strategies such as:

- Hedge Fund of Funds
- Multi-Strategy
- Global Tactical Asset Allocation
- Equity Hedged
- Event Driven
- Relative Value
- Macro
- Insurance
- Private markets
- Opportunistic

Private Equity: Investments in securities of companies that are not registered with the SEC and are not traded in the public markets. Private equity may also be referred to as venture capital or buy-outs.

Long-Term Sub-Asset Allocation Ranges in Private Equity:

Private Equity Asset Category	Target Range
Buyout	60-90%
Venture/Growth	10-40%
Special Situations	10-30%

B. Tactical Asset Allocation Policy

Policy Statement:

The Board supports adjusting asset classes for tactical purposes and / or rebalancing within the defined asset allocation ranges and delegates tactical asset allocations and rebalancing to the Chief Investment Officer.

II. PUBLIC MARKET POLICIES

A. Manager Search and Selection Policy

Policy Statement:
Each external and internal public market investment manager shall be selected to meet specific investment objectives and/or performance standards. The Board encourages the inclusion of emerging managers and minority business enterprises.

Policy Guidelines:

While the Chief Investment Officer has final responsibility for selecting and terminating managers, the Investment Committee shall serve as an important advisory resource to the Chief Investment Officer.

1. The Chief Investment Officer may utilize one or more consultants to assist with selecting investment managers.
2. The Chief Investment Officer shall establish a formal written process for investment manager selection.
3. The Chief Investment Officer shall allocate funds to current and future managers within Board approved asset allocation ranges.
4. An investment manager shall be a fiduciary of the System.
5. Investment managers are expected to perform in accordance with a certain style and be organizationally sound. Active investment managers are expected to outperform the assigned benchmark net of fees, and passive investment managers are expected to approximate the assigned benchmark.
6. The Chief Investment Officer shall develop investment management guidelines for each investment manager.
7. The assigned performance benchmarks shall be described in the investment management guidelines for each manager.
8. An external investment manager shall be given full discretion to prudently execute investment transactions on behalf of the System in accordance with the terms of its contract, the Investment Policy Manual and applicable law.
9. Investment managers shall invest managed assets in accordance with established delegations and guidelines.

All internal management activities will be in accordance with the Investment Division Operations Manual and the guidelines applicable to the specific strategy.

All external investment managers shall enter into written contracts with the System. These contracts shall document all of the terms and conditions applicable to the manager's provision of investment services to the System, including (a) the specific mandate of the manager, (b) those delegations of fiduciary duty made by the System to the manager, (c) other authorizations

requested by the manager that have been granted by the System, and (d) the investment guidelines applicable to the manager. Accordingly, in the event of a conflict between the provisions of this Investment Policy Manual and a manager's contract, the manager's contract will control.

10. Prior to final execution of an external manager's contract, a due diligence review of the manager must be performed.

11. The Chief Investment Officer may, when he or she deems it to be in the best interest of the System and its beneficiaries in connection with an investment, allow an investment manager to rely on statutory or class exemptions available under the Employee Retirement Income Security Act of 1974 (ERISA) in demonstrating compliance with the "prohibited transaction" rules under ERISA and the fiduciary standards of care delegated by the Board to the managers through the investment management agreement.

B. Manager Monitoring Policy

Policy Statement:

On-going monitoring of investment managers shall be conducted to ensure that each manager is satisfactorily performing its duties and is in compliance with various guidelines and obligations set forth in their contractor in the Investment Division Operations Manual.

Policy Guidelines:

1. The Chief Investment Officer shall monitor the managers and report performance to the Investment Committee on a periodic basis.

2. The Chief Investment Officer may utilize one or more consultants to assist with monitoring managers.

3. Manager performance data and other significant items are to be reviewed by the Investment Division on a regular basis.

4. The external investment manager shall reconcile performance figures provided by the custodian with its performance figures.

5. The Investment Division shall meet with all public market separate account external managers face to face at least once a year, and will meet at the manager's office at least once every two years. In the case of the Terra Maria program, the Investment Division shall meet with each Program Manager face to face at least once a year, and will meet at the manager's office at least once every two years. Consultants can be utilized, as an extension of Staff, to meet the on-site meeting requirement. The purpose of the meetings will be to evaluate performance and other issues as outlined above.

C. Manager Termination Policy

Policy Statement:

After providing written documentation to the Board and the Investment Committee explaining the basis for the termination, the Chief Investment Officer may terminate a manager for any reason at any time.

D. Internal Management

Policy Statement:

Consistent with the authority granted to the Chief Investment Officer elsewhere in this Investment Policy Manual and in the Board of Trustees' Charter for the Chief Investment Officer for the use of internal management, the Chief Investment Officer shall implement the Board's asset allocation and benchmark policies using both internally and externally managed investment strategies. Any internally managed investment strategy shall cover only public market strategies unless otherwise approved by the Board. The Chief Investment Officer shall have the authority to carry out the internal management program by delegating trading and other investment functions to other Investment Division personnel in accordance with established operational policies and procedures as detailed in this Investment Policy Manual and the Investment Division Operations Manual. The Chief Investment Officer shall create and maintain a list of authorized Investment Division personnel with specific delegation of trading authority by person, including, for example, guidelines and other limitations on such delegation as may be appropriate. For avoidance of doubt, the Chief Investment Officer may not delegate authority for the execution of documents that must be executed by the Executive Director for the Board of Trustees in accordance with State Personnel and Pensions Article, §21-118.

The Board believes that as a large asset owner, the System has the scale to improve the efficiency of its investment implementation through an internal management program. In addition to the opportunity to improve the net return and risk profile of the System, an internal management program is expected to provide additional benefits. Some of these benefits include: more direct control of System assets, a broader set of investment management skills to improve the overall investment process, and additional career paths for, and associated retention of, skilled investment personnel. An internal management function will have a higher direct cost to the System but should result in net cost savings through lower investment management fees.

Comprehensive policies and procedures are a crucial element to a successful internal management program. The same criteria applied to external managers in terms of people, process, and philosophy shall be applied internally. Each internal

mandate shall be managed to specific investment objectives, guidelines, performance benchmarks, and risk parameters.

In support of this policy, the following policies are included in the Investment Policy Manual and shall be read and applied in conjunction with this policy:

- Code of Ethics
- Material Non-Public Information and Insider Trading
- Staff Personal Trading in Securities

In addition, prior to engaging in any investment transaction on behalf of the System, Investment Division staff shall follow the procedures established by the Chief Investment Officer in the Investment Division Operations Manual to confirm that the transaction is permitted.

Additionally, the Chief Investment Officer shall create and maintain a complete set of procedures in the Investment Division Operations Manual, that are shared with the Investment Committee prior to implementation, to include the following areas:

- Authorized Traders List
- Trade Order Management Workflow (including pre-trade compliance process)
- Broker Selection
- Trading Best Execution
- Regulatory Compliance Monitoring

Not every investment asset class or strategy is appropriate for internal management. Each instance of internal management will be evaluated for its potential to improve the investment outcome for the System, explicitly through the impact on fees and excess returns, and implicitly through the overall implementation of an asset class subject to the availability of sufficient human resources. More specifically, the decision to hire an external manager or utilize internal investment staff for an investment strategy is based on the evaluation by the Chief Investment Officer of a variety of factors including, but not limited to, the following:

Cost Effectiveness and Control:

For active management to make sense as a viable consideration, the strategy must generate returns in excess of the benchmark, net of management fees, which is difficult to accomplish consistently. Generally, investment management fees increase in direct relation to the risk, or tracking error around a benchmark, and complexity of the strategy. The cost effectiveness of a strategy with a narrow band of desired tracking error around a benchmark would likely be optimized by passive management. Since passive management is easier to implement and execute than active management, a strategy with low desired tracking error would be a candidate for internal management.

The decision to manage a portfolio internally or externally should not be based solely on cost. While internal asset management typically has a lower cost structure than external management, a more holistic view should be used in the decision making process, which includes control of the assets. Internal management provides greater control over the timing of cash flows, as any timing restrictions imposed by an outside manager would not apply. To the extent mandate customization is important, internal management would allow for an easier and straightforward mechanism to align an investment mandate with any unique objectives or requirements of the System.

Market Efficiency:

Market efficiency refers to the degree that all investors in a market have access to the same information at the same time, and security prices always reflect all available market information. The decision to manage an active or passive strategy should be based, in large part, on the efficiency of the market. For markets that are highly efficient, the probability of consistently outperforming the market is relatively low, which suggests that a passive strategy would be appropriate. In markets that are less efficient, greater opportunity exists to generate alpha. To exploit this inefficiency, skilled active management may be able to generate net returns in excess of the market.

Active Risk

The amount of active risk, or tracking error around a benchmark, is an important factor in the manager selection and portfolio construction decisions. Adjustments to the ranges of expected tracking error allow for greater flexibility in managing risk and expectations. Generally, a high level of active risk requires a high level of specialized skill. To manage assets internally, the knowledge, competence and skill of internal staff should be consistent with the level of active risk in an investment strategy.

Infrastructure/Resource Requirements

A key factor in the decision to manage assets internally or with an external manager is determining whether the System has sufficient infrastructure and resources to support the strategy. Technology, risk management systems, and trade order management processes, along with proper staffing levels are a prerequisite to a successful internal investment management program. Deficiencies in this area may preclude the System from managing assets internally.

Violations of Policy

Violations of this Section II.D shall be governed by the terms of the Code of Ethics.

E. Securities Lending Policy

Policy Statement:
The System may enter into a securities lending program with its custodian bank and/or a third party lending agent.

F. Use of System Assets as Collateral

To facilitate the System's use of derivatives for the purposes of portfolio implementation, risk management, and to generate excess returns, the System may be asked to post collateral, and grant security interests in such collateral. Under Md. Annot. Code, State Personnel and Pensions Article, Section 21- 123(b), the Board of Trustees is deemed the owner of the System's assets, but may delegate some or all incidents of ownership to the State Retirement Agency for purposes of investment administration. Pursuant to such Section, the Board of Trustees hereby delegates to the Chief Investment Officer the authority, and any incidents of ownership necessary, to post assets of the System as collateral for investment transactions and to grant associated security interests in such collateral. Any assets made available for collateral shall be limited to an amount that is: (i) expressly made available by contract to the System's counterparty for such purposes; and (ii) typical in the market for similar investment transactions. Furthermore, any security interest in assets of the System made available for collateral to a counterparty shall terminate when the counterparty returns such assets to the System. In determining market terms for collateral and associated security interests for an investment transaction, the Chief Investment Officer shall seek advice from legal counsel or an advisor engaged by the System prior to entering into a master contract that type of transaction. Additionally, the Investment Division shall limit the use of derivatives to ensure that any collateral pledged is consistent with any limits on leverage set forth elsewhere in this Investment Policy Manual or otherwise imposed by the Board.

III. PRIVATE MARKET POLICIES

Policy Guidelines:

1. The Chief Investment Officer is delegated the responsibility for managing and overseeing the investment process, including (i) hiring external investment managers to invest the assets of the several systems, (ii) creating or selecting and purchasing interests in specific investment vehicles, including limited partnerships, limited liability companies, private equity investments, private real estate investments, and co-investments, (iii) ensuring legal review of proposed investments for the Private Market Program by the Office of the Attorney General and (iv) monitoring compliance with investment contracts, State law, and Private Market Program processes enumerated in the Investment Policy Manual.

2. Generating high returns will be the primary objective and will be reflected in the private market benchmarks.

3. The Private Market Program should be built with diversification in mind.

4. The Chief Investment Officer will develop a private market strategic plan, which will be maintained separately from the Investment Policy Manual.

5. The Chief Investment Officer may hire specialty consultants to aid in the strategic development, investment selection, due diligence, and monitoring of the private market investments. The specialty consultants may be actively involved in negotiations and in the review of the commercial terms of proposed investments.

6. The private market investment vehicles may consist of (i) individual fund direct investments, (ii) fund of funds investments or (iii) other types of private market investments.

7. An alignment of interest should be sought between the private market manager and the System as an investor; the private market manager should primarily benefit only when its investors benefit.

8. While the Board supports economic development for the State of Maryland, the Board is also acutely aware of its fiduciary responsibilities. Private market investment funds that are seen to aid economic development in the State of Maryland will be handled by exactly the same process as all other investment opportunities for the Program. All managers for the Program will be subjected to the same rigorous analysis.

   Should an investment opportunity be referred to a member of the Board, the opportunity will be forwarded to Chief Investment Officer.

9. The Chief Investment Officer shall monitor the private market investments, review the Program and its performance on behalf of the Board, and apprise the Board on a regular basis of progress and achievements. The Investment Committee will also receive periodic informational reports regarding new investments.

10. Private market due diligence shall be divided into commercial and legal parts. The commercial due diligence covers fees, profit participation, risk allocation and other such commercial items. The legal due diligence covers the structural aspects of the Fund Documents and includes the System's ability, as constituted, to commit to the fund under applicable law and policy.

A. Private Equity Program Policy

Policy Statement:
The Board believes that the private equity program has the potential to generate returns over the long term that will exceed those of the broad public markets, when using prudent risk management methods.

B. Absolute Return Program

Absolute Return Program Specific Policy Guidelines:
The absolute return program may include but is not limited to:

- Hedge Fund of Funds
- Multi-Strategy
- Global Tactical Asset Allocation
- Equity Hedged
- Event Driven
- Relative Driven
- Macro
- Insurance

C. Real Assets Program

Real Return Program Specific Policy Guidelines:
The real return program may include but is not limited to:

- Real Estate
- Commodities
- Energy & energy – related assets
- Infrastructure
- Timber

- Agriculture
- Other natural resources
- Multi-asset class portfolios with a real return mandate

The real assets program may include both public and private investments.

Real Estate Program Specific Policy Guidelines:
The Maryland State Retirement & Pension System's real estate asset class is governed by State law (including SPP 21-123(g)(2) and 21-123(h)) and the Investment Policy Manual.

D. Indirect Indemnification Obligations of Investors in Private Market Investments

1. In connection with the selection by the Chief Investment Officer, as authorized by Md. Annot. Code, State Personnel and Pensions Article, Section 21-122(d)(2), of an investment vehicle with terms that include an indirect indemnification obligation of the investors, the Chief Investment Officer is authorized by the Board of Trustees of the System to negotiate terms providing for the return of distributions to the investment vehicle for the purpose of fulfilling the indirect indemnification obligation; provided that:
   a. The amount of distributions subject to such recall by the investment vehicle shall be limited to an amount that is typical in the market for similar investment transactions; and
   b. The Chief Investment Officer shall seek advice from legal counsel and the consultant engaged by the System for that type of investment regarding market terms for the recall of distributions by similar investment vehicles.
2. In connection with the sale by the Chief Investment Officer of an interest in an investment vehicle with terms that include an indemnification obligation of the System, the Chief Investment Officer is authorized by the Board of Trustees of the System to negotiate terms providing for the allocation of assets of the System for purposes of fulfilling the indemnification obligation, provided that:

   a. The Chief Investment Officer shall only allocate System assets for purposes of indemnification (i) to the extent permitted by Maryland law, and (ii) to the extent otherwise consistent with customary market practice; and

   b. The Chief Investment Officer shall seek advice from legal counsel and any advisor engaged by the System in connection with the sale regarding market terms for indemnification obligations in similar sales.

ADMINISTRATIVE POLICES

I. DISCLOSURE OF INFORMATION

The System may keep all analyses, forecasts, negotiations, papers, records, recommendations, and reports closed to public inspection until (1) the release of the information would not adversely affect the negotiation for or market price of a security; and (2) completion of a proposed purchase or sale of certain assets has been completed. (SPP § 21-123(g))

ALTERNATIVE INVESTMENTS

A. Definition

For purposes of this Disclosure Policy, "alternative investments" means investments other than traditional, long-only, publicly-traded bonds, stocks and cash held in separate accounts. Examples of alternative investments include private equity, private debt, hedge funds (as defined in Appendix B of this Investment Policy Manual), real estate, commodities, and derivatives. Often these investments are available to investors through limited partner interests in private partnerships, shares in private corporations, or similar interests in other vehicles.

B. Policy with regard to "top line" information

The Board of Trustees' policy is that the System should be prepared to disclose "top line" information if, as and when (a) the System receives a Public Information Act (PIA) request covering such information and (b) a determination is made by the Agency that disclosure is required under State law.

1. Top line information in alternative investment "fund of funds" – In the case of the System's alternative investment "fund of funds" investments, top line information includes the following data:

    a. Name of Fund of Funds Manager and Title of Fund

    b. Investment Focus of the Fund of Funds

    c. Vintage Year of the Fund of Funds

    d. Amount of the System's Capital Commitment to the Fund of Funds (broken down by Funded and Unfunded Capital Commitments)

    e. Total Amount of Distributions from the Fund of Funds to the System

f. Reported Value of the System's interest in the Fund of Funds, with appropriate explanatory notes.[1]

g. Internal Rate of Return, with appropriate explanatory notes (see footnote 1)

2. Top line information in alternative investment funds structured as limited partnerships or similar investment entities – In the case of the System's direct investment in an alternative investment limited partnership or other similar entity (hereafter, a "Fund"), top line information includes the following data:

   a. Name of Fund

   b. Investment Focus of Fund

   c. Vintage Year of Fund

   d. Amount of the System's Capital Commitment to Fund (broken down by Funded and Unfunded Capital Commitments)

   e. Total Amount of Distributions from the Fund to the System

   f. Reported Value of the System's interest in the Fund, with appropriate explanatory notes (see footnote 1)

   g. Internal Rate of Return, with appropriate explanatory notes (see footnote 1)

C. Policy with regard to "bottom line" information

The Board of Trustees' policy is that the System should not voluntarily disclose "bottom line" information if, as and when the System receives a PIA request covering such information. Bottom line information includes the following data:

1. Name of each portfolio company within a Fund and description of the portfolio company's business

2. Cost of each portfolio company

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[1] The explanatory note would use language substantially similar to the following: "The Maryland State Retirement and Pension System uses alternative measurements of performance as recommended by the Global Investment Performance Standards. The alternative measurements of performance contained in this report are calculated by the Maryland State Retirement and Pension System or its Consultant, and have not been reviewed by the fund. Until a fund is liquidated, the alternative measurements of performance are only an interim estimated return and may not be indicative of ultimate performance. There are no generally accepted standards for reporting on alternative measurements of performance and valuations, and interim reported values could differ materially from the values realized when the portfolio companies are sold. The alternative measurements of performance calculated in the early years of a fund tend to be less meaningful given the J-curve effect, characterized by negative returns in the early years due to the payment of fees and start-up costs before any distributions are made to the investor. The alternative measurements of performance comparisons are not always meaningful due to different vintage years or investment strategies."

3. Current value of each portfolio company
4. Material events related to a portfolio company

D. Process for handling PIA Requests

Whenever the Agency receives a PIA request that deals with the System's alternative investments, the Agency will promptly convene a working group consisting of appropriate Investment Division staff and legal counsel. The PIA request will be promptly reviewed, input solicited from appropriate parties, and determinations made about how to proceed, all in accordance with the requirements of State law.

II. CORPORATE GOVERNANCE & PROXY VOTING

INTRODUCTION

The Board of Trustees of the Maryland State Retirement and Pension System (the "System"), through its Corporate Governance Committee, is committed to actively, and prudently, addressing poor corporate governance practices or regulatory constructs, and otherwise responding to issues affecting the integrity of the capital markets and market participants, utilizing the tools and methods available to proponents of good corporate governance. The extent of the Committee's actions would vary on a case-by-case basis.

Proxy Voting

The Board believes that the voting of proxies is a fundamental aspect of stock ownership, and recognizes that proxy voting issues that are not addressed by the System's existing policy or are novel and/or controversial can quickly arise during a given proxy season. Accordingly, the Corporate Governance Committee will on an ongoing basis, with the assistance of staff and consultants, recommend revisions and updates to the System's Proxy Voting Guidelines. It is acknowledged and understood that the Proxy Voting Guidelines will determine how the System's proxies are voted on the vast majority of issues. Where the Proxy Voting Guidelines are not absolute or do not address the proxy topic, the Committee may delegate authority to the System's proxy advisor to vote the proxy as long as such vote does not contradict the policies outlined in the System's Proxy Voting Guidelines and are in the best interest of the System. The Committee may delegate authority to activist managers who employ proxy voting as a part of their investment strategy, in instances where the Chief Investment Officer determines that such voting decision would be in the best interest of the System. In instances where a Committee member believes it would be in the best interest of the System to vote in agreement with a shareholder for a particular proxy proposal instead of with the proxy advisor's recommendation, the Committee member would contact the Committee Chair and request a meeting to be held for the purpose of analyzing the proxy proposal and voting on such proposal. The meeting must be requested at least seven days in advance of the proxy vote. Once the Committee has voted, the Committee would delegate the responsibility to the Executive Director to carry out the proxy vote, if necessary. If the proxy vote is in less than seven days, the Committee will discuss the proxy topic during its next review of the proxy voting guidelines.

Securities Lending

The System engages in the practice of lending its securities to enhance the return on its investment portfolio. In the process of lending securities, the right to vote shares is transferred to the borrower of the securities during the period that the securities are on loan, and the System's right to vote the shares is forfeited unless the System elects to recall the shares prior to the record date from the borrower. As a practice, the System will not generally recall stocks for the purpose of voting. However, the System reserves the right to recall the shares from the borrower, through our securities lending provider, prior to the record date for the purpose of exercising the System's voting rights. The decision to recall a stock shall be made by the Chief Investment Officer and the Chief Investment Officer shall report all recall activity to the Corporate Governance Committee.

Shareblocking

Shareblocking occurs in a number of global markets. It is the practice of freezing shares from trading or lending, by both the custodian and the local sub-agent, due to proxy voting activity. Shareblocking will generally begin after the voting instructions are processed downstream to the local market for a given meeting, and typically end shortly after the meeting. It is important to note that voting deadlines in international markets are usually well in advance of a meeting, leading to potential blocking periods of days or weeks. This can hinder a manager's ability to execute trades.

If shares need to be unblocked due to a pending trade, a request can be made through the System's proxy voting agent to rescind vote instructions in the local market, although no guarantees can be made that the votes will be pulled by the local agent.

Corporate Governance Committee Policy on Engagement

The Board of Trustees, on its own or in concert with other institutional investors, may engage with corporations, regulatory agencies, lawmakers, or associations to support the corporate governance principles outlined in the proxy voting guidelines. Engagement may include, but not be limited to, advocacy letters, direct contact with stakeholders, and shareholder resolutions.

In instances where a Committee member believes it would be in the best interest of the System for the Board of Trustees to formally acknowledge support for a particular corporate governance topic either solely from the Board of Trustees or in conjunction with other institutional investors or organizations, the Committee member should contact the Executive Director. The Executive Director, after consulting with legal counsel, the Investment Division and the Chair of the Board of Trustees, will employ the following guidelines in determining the appropriate course of action:

1. If the matter is clearly consistent with the System's proxy voting guidelines and other corporate governance policies, then the Executive Director or the Chairman of the Board of Trustees may conduct the engagement activity on behalf of the Board of Trustees. The Executive Director will notify the Board of Trustees of any actions taken under this provision.
2. If the matter is not clearly consistent with the System's proxy voting guidelines and other corporate governance policies, or the guidelines and policies are silent on the topic, then the Executive Director will attempt to convene a special meeting of the Corporate Governance Committee in order for the Committee to determine whether the Executive Director or the Chairman of the Board of Trustees may conduct the engagement activity on behalf of the Board of Trustees. If it is not possible to convene a special meeting, the Executive Director will consult with the Chair of the Committee and the Chairman of the Board of Trustees, apprise them of the matter and obtain their consent before the Executive Director or Chairman of the Board of Trustees conduct the engagement activity. The Executive Director will notify the Board of Trustees of any actions taken under this provision.

Proxy Vote Reporting

The System makes its votes available to the public on a monthly basis on the System's public website.

The following Proxy Voting Guidelines have been adopted by the Board of Trustees:

GENERAL or US PROXY VOTING GUIDELINES

A. Routine/Miscellaneous

Adjourn Meeting

Generally vote against proposals to provide management with the authority to adjourn an annual or special meeting absent compelling reasons to support the proposal. Vote for proposals that relate specifically to soliciting votes for a merger or transaction if supporting that merger or transaction. Vote against proposals if the wording is too vague or if the proposal includes "other business."

Change Company Name

Generally vote for proposals to change the corporate name.

Transact Other Business

Vote against proposals to approve other business when it appears as voting item.

Ratify Auditor

Vote for proposals to ratify auditors, unless: (1) an auditor has a financial interest in or association with the company, and is therefore not independent; (2) fees for non-audit services are excessive (greater than audit fees), or (3) there is reason to believe that the independent auditor has rendered an opinion, which is neither accurate nor indicative of the company's financial position.

B. Board of Directors

Voting for Directors

Directors should be elected by a majority of the shareholders casting votes.

All votes for directors should be evaluated on a case-by-case basis. This will be based on several factors, including:

- Long-term company financial performance relative to a market index,
- The composition and level of independence of the board and key board committees,
- Individual attendance history (attendance at 75% of all meeting is expected),
- Corporate governance provisions and takeover activity,
- Directors' investment in the company,
- Whether the chairman also serves as CEO or other corporate officer,
- Previous experience on the Board,
- Role in previous Board actions

Specifically, votes should be withheld from U.S. directors who:

- Except for new nominees, attended fewer than 75 percent of the board and committee meetings without a valid reason for the absences. Valid reasons include illness or absence due to company business. Participation via telephone is acceptable. In addition, if the director missed only one meeting or one day's meetings, votes should not be withheld even if such absence dropped the director's attendance below 75 percent;
- Own no company stock or equivalent and have served on the board for more than three years;
- Are director nominees and the board has more than 20 members or fewer than six members;
- Are inside directors or affiliated outside directors and the full board is less than majority independent;
- Are inside directors or affiliated outside directors and sit on the audit, compensation, or nominating committee;
- Sit on more than five public company boards or are CEOs of public companies and sit on more than two public company boards besides their own;
- Are compensation committee members and the company has poor compensation practices;
- Are members of the board or relevant committee and the company's charter imposed undue restrictions on shareholders' ability to amend the bylaws such as the outright prohibition on the submission of binding shareholder proposals or share or time requirements in excess of SEC Rule 14a-8;
- Ignored a shareholder proposal that was approved by either a majority of the shares outstanding in any year or by the majority of votes cast for two consecutive years;
- Have adopted a poison pill without shareholder approval. Vote case-by-case on nominees if the board adopts an initial poison pill with a term of one year or less;
- Have failed to replace management as appropriate;
- Are responsible for material failures of governance, stewardship, risk oversight or fiduciary responsibilities at the company;
- Are responsible for egregious actions related to a director's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company;
- Have adopted a fee-shifting provision without shareholder approval; and
- Have amended the company's bylaws or provisions without shareholder approval in a manner that materially diminishes shareholders' rights or that

could adversely impact shareholders, including implementing a multi-class capital structure in which the classes have unequal voting rights, in a case-by-case manner.

Contested Director Elections (Proxy Contests/Proxy Access Nominees)

Vote case-by-case on the election of directors in contested elections, considering the following factors:

- Long-term financial performance of the company relative to its industry;
- Management's track record;
- Background to contested election;
- Nominee qualifications and any compensatory agreements;
- Strategic plan of dissident slate and quality of critique against management;
- Likelihood that the proposed goals and objectives can be achieved; and
- Stock ownership positions.

In the case of candidates nominated pursuant to proxy access, vote case-by-case considering any applicable factors listed above or additional factors which may be relevant, including those that are specific to the company, to the nominee(s) and/or to the nature of the election (such as whether or not there are more candidates than board seats).

Qualifications of Outside Directors

Election of directors should be on a case-by-case basis and not constrained by arbitrary limits such as age or term limits.

Directors with full-time jobs should not serve on more than three for-profit corporations' boards. No director should serve on more than five for-profit corporate boards. Currently serving CEOs should only serve as a director of one other company.

Age/Term Limits

Generally oppose age/term limits because time served is not a substitute for a thoughtful evaluation of director performance.

Board Size

The board of directors should have at least six and not more than 20 members. Shareholders should be allowed to vote on any major change in board size.

Classified Boards of Directors

All directors should be elected annually.

Cumulative Voting for Directors

Generally favor resolutions that eliminate cumulative voting, but all votes for cumulative voting should be evaluated on a case-by-case basis.

Indemnification of Directors

Evaluated on a case-by-case basis using Delaware law as the standard.

Vote against proposals that would:

Eliminate entirely directors' and officers' liability for monetary damages for violating the duty of care.

Independent Board Chair

Generally vote for shareholder proposals, on a case-by-case basis, which require the chairman's position to be filled by an independent director, taking into consideration the following:

- Scope of the proposal;
- The company's current board leadership structure;
- The company's governance structure and practices;
- Company performance; and
- Any other relevant factors that may be applicable.

Majority Vote Shareholder Proposals

Vote for reasonably crafted shareholders proposals calling for directors to be elected with an affirmative majority of votes cast and/or the elimination of the plurality standard for electing directors (including binding resolutions requesting that the board amend the company's bylaws), provided the proposal includes a carve-out for a plurality voting standard when there are more director nominees than board seats (e.g. contested elections).

Minimum Stock Ownership for Directors

Directors should own a meaningful position in the company's common stock, appropriate to their personal circumstances.

Independence of Board Members

A substantial majority (at least two-thirds) of the board should be directors who are independent.

An independent director is someone whose only nontrivial professional, familial or financial connection to the corporation, its chairman, CEO or any other executive officer is his or her directorship.

Committees of the Board

The three key board committees (audit, compensation, and nominating) should consist solely of independent outside directors. The board, not the CEO, should appoint these members. The creation and membership of other committees will be reviewed on a case-by-case basis.

Shareholder Access to the Board

All directors should attend the annual shareholders' meeting and be available, when requested by the chair, to answer shareholder questions.

Shareowners should have effective access to the director nomination process.

Board Communications with Shareholders

Shareholders should have the ability to communicate effectively with the board of directors. Formal procedures should be created to enable shareholders to communicate their views and concerns directly to board members.

C. Shareholder Rights & Defenses

Shareholder Rights

The System will generally vote against proposals that diminish the System's rights as a shareholder and vote for proposals that preserve or enhance the System's rights as a shareholder.

Nominations to the Board of Directors

Shareowners should have effective access to the director nomination process.

Annual Meeting

Vote against proposals to cancel the annual shareholders meeting or to reduce the quorum required.

Support proposals that encourage meaningful meetings that are open to shareholders.

Amend Bylaws without Shareholder Consent

Shareholders should always be allowed to vote on amendments to the bylaws.

Vote against proposals giving the board exclusive authority to amend the bylaws.

Bundled Issues

Shareholders should be allowed to vote on unrelated issues separately. Vote bundled or "conditioned" proposals on a case-by-case basis taking into account the aggregate effect of the items.

Confidential Voting at Annual Meetings

Shareholders should be able to cast proxy votes in a confidential manner to a proxy tabulator independent of management, except in circumstances of a contest for control.

Proxy Voting Disclosure, Confidentiality and Tabulation

Always vote for shareholder proposals regarding proxy voting mechanics that would enhance or protect shareholder rights such as confidential voting and tabulation.

Opt Out of State Anti-Takeover Statutes

Generally, vote in favor of resolutions that remove a company from anti-takeover statutes in its state of incorporation.

Payment of Greenmail

Generally vote in favor of resolutions prohibiting management from repurchasing the stock of an individual investor unless all shareholders are extended the opportunity to participate in the transaction.

Poison Pills (or Shareholder Rights Plans)

Vote for proposals to redeem existing poison pills. Shareholders should have the right to approve any new poison pills. Any new poison pill resolutions should be evaluated on a case-by-case basis. .

Changing State of Incorporation

Generally oppose proposals to reincorporate in jurisdictions that would result in a weakening of shareholder rights unless there are overriding benefits to shareholders.

Shareholders' Ability to Act by Written Consent

Vote against proposals to restrict or prohibit shareholders' ability to take action by written consent. A majority of shareowners should be able to act by written consent.

Shareholders' Ability to Call Special Meetings

Vote against proposals to restrict or prohibit shareholder ability to call special meetings, and for proposals that remove restrictions on the right of shareholders to act independently of management.

Supermajority Voting Provisions

In general, vote against super-majority proposals, except if necessary to protect the interests of minority stockholders where there is a single dominant shareholder.

Litigation Rights

Shareholders should have the right to bring suit against the company regardless of whether the shareholder/plaintiff is only partially successful. Vote against bylaws and provisions that mandate fee-shifting whenever the shareholder/plaintiff is not completely successful on the merits.

Vote against bylaws and provisions that limit the venue in which a shareholder may file suit or mandate arbitration.

D. Capital/Restructuring

1. Capital

Dual-class Stock or Unequal Voting Shares

Shareholders should have the right to a vote in proportion to their economic stake in the company. Each share of common stock should have one vote. (One Share-One Vote)

Authorized unissued common shares that have voting rights should not be issued with unequal voting rights without shareholder approval.

Increased Common Shares

Evaluate on a case-by-case basis. Generally, vote against any increases in authorized common shares where management's only purpose is to discourage unwanted bids for the company's stock.

Stock Distributions: Splits and Dividends

Vote for management proposals to increase the common share authorization for a stock split or share dividend, provided that the increase in authorized shares would not result in an excessive number of shares available for issuance.

Reverse Stock Split

Vote for management proposals to implement a reverse stock split when the number of authorized shares will be proportionately reduced. Vote for management proposals to implement a reverse stock split to avoid delisting.

Leveraged Recapitalization

Evaluated on a case-by-case basis.

2. Restructuring

Mergers and Acquisitions

Evaluated on a case-by-case basis. Generally vote for mergers and other transactions that will enhance long-term shareholder returns for the company's existing shareholders.

E. Compensation

Executive Compensation

All compensation proposals will be reviewed on a case-by-case basis.

Executive compensation programs should be designed and implemented to ensure alignment of interest with the long-term interests of shareowners and to reasonably reward superior performance that meets or exceeds well-defined and clearly disclosed performance targets that reinforce long-term strategic goals set and approved by the board and written down in advance of the performance cycle.

Executive compensation programs should be transparent to shareowners, and should be fully disclosed, with adequate information to judge the "drivers" of incentive components of compensation packages.

Executive compensation programs should be a combination of cash and equity based compensation, reflect responsibilities, tenure and past performance, be tax efficient, and direct equity ownership should be encouraged.

Special retirement arrangements, including ones structured to permit employees whose compensation exceeds IRS limits to fully participate in similar plans covering other employees, should be consistent with programs offered to the general workforce, and they should be reasonable.

Advisory Votes on Executive Compensation (Say-on-Pay) Management Proposals

Generally, evaluated on a case-by-case basis.

Vote against management say on pay (MSOP) proposals, AGAINST/WITHHOLD on compensation committee members (or, in rare cases where the full board is deemed responsible, all directors including the CEO), and/or against an equity-based incentive plan proposal IF:

- There is a misalignment between CEO pay and company performance (pay for performance);
- The company maintains problematic pay practices;
- The board exhibits poor communication and responsiveness to shareholders;
- Insufficient information disclosure precludes a reasonable assessment of pay programs and practices;
- The company fails to include a say-on-pay ballot item when required under SEC provisions, or under the company's declared frequency of say-on-pay; or
- The company fails to include a frequency of say-on-pay ballot item when required under SEC provisions.

Frequency of Say-on-Pay Proposals

Generally vote in favor of companies providing for annual/regular MSOP proposals.

Advisory Votes on Golden Parachute Proposals

Evaluate on a case-by-case basis in accordance with existing policies related to severance packages and consistent with our policies on problematic pay practices.

Equity Based Compensation

All plans that provide for the distribution of stock or stock options to employees and/or directors should be submitted to shareholders for approval.

Vote case-by-case on equity-based compensation plans as evaluated by plan cost, plan features, and grant practices.

Vote against unspecified exercise price or exercise price below 100% of fair market value on the date of the grant.

Vote against repricing out-of-the-money executive stock options with exercise prices under the market price at the time of issue.

Employee Stock Purchase Plans-- Qualified Plans

Vote against qualified employee stock purchase plans where any of the following apply:

- Purchase price is less than 85 percent of fair market value; or
- Offering period is greater than 27 months; or
- The number of shares allocated to the plan is more than ten percent of the outstanding shares.

Employee Stock Purchase Plans-- Non-Qualified Plans

Vote for nonqualified employee stock purchase plans with all the following features:

- Broad-based participation (i.e., all employees of the company with the exclusion of individuals with 5 percent or more of beneficial ownership of the company);
- Limits on employee contribution, which may be a fixed dollar amount or expressed as a percent of base salary;
- Company matching contribution up to 25 percent of employee's contribution, which is effectively a discount of 20 percent from market value;
- No discount on the stock price on the date of purchase since there is a company matching contribution.

Vote against nonqualified employee stock purchase plans when any of the plan features do not meet the above criteria. If the company matching contribution exceeds 25 percent of employee's contribution, evaluate the cost of the plan against its allowable cap

Employee Stock Ownership Plan (ESOP)

Vote against ESOPs where management's clear purpose is to fend off possible bidders for the company's stock

Vote against ESOPs when the number of shares allocated to the ESOP is "excessive" (i.e., generally greater than five percent of outstanding shares).

Incentive Bonus Plans and Tax Deductibility Proposals (OBRA-Related Compensation Proposals)

Vote for proposals that simply amend shareholder-approved compensation plans to include administrative features or place a cap on the annual grants any one participant may receive to comply with the provisions of Section 162(m).

Vote for proposals to add performance goals to existing compensation plans to comply with the provisions of Section 162(m) unless they are clearly inappropriate.

Amendments to existing plans to increase shares reserved and to qualify for favorable tax treatment under the provisions of Section 162(m) will be cast as recommended by ISS based on their research and analysis as long as the plan does not exceed the allowable cap and the plan does not violate any other supplemental policies.

Generally vote for cash or cash and stock bonus plans that are submitted to shareholders for the purpose of exempting compensation from taxes under the provisions of Section 162(m) if no increase in shares is requested.

Director Compensation

Directors should be compensated only in cash or stock, with a significant portion of the compensation in stock, and an appropriate vesting or holding period. Shareholder approval should be required for all equity-based compensation plans that include any director or executive officer of the company.

Vote case-by-case on management proposals seeking ratification of non-employee director compensation plans, based on, but not limited to, the following factors:

- The relative magnitude and limits of non-employee director compensation compared to peer companies of similar industry and tenure of the company, taking into consideration any mitigating circumstances;
- The presence of problematic pay practices relating to non-employee director compensation;
- Director stock ownership guidelines and holding requirements;
- Equity award vesting schedules;
- The mix of cash and equity-based compensation;
- The company's three-year equity grant practices relative to its industry peers;
- The presence of any egregious plan features;
- The availability of retirement benefits or perquisites; and
- The quality of disclosure surrounding non-employee director compensation.

1. Shareholder Proposals on Compensation

Disclosure/Setting Levels or Types of Compensation for Executives and Directors: Generally, vote in favor of shareholder proposals seeking additional disclosure of executive and director pay information, provided the information requested is relevant to shareholders' needs, would not put the company at a competitive disadvantage relative to its industry, and is not unduly burdensome to the company. Oppose shareholder proposals seeking to set absolute levels on compensation or otherwise dictate the amount or form of compensation. Oppose shareholder proposals requiring director fees be paid in stock only.

Adopt Anti-Hedging/Pledging/Speculative Investments Policy: Generally vote in favor of shareholder proposals seeking a policy that prohibits named executive officers from engaging in derivative or speculative transactions involving company stock, including hedging, holding stock in a margin account, or pledging stock as collateral for a loan. However, the company's existing policies regarding responsible use of company stock will be considered.

Bonus Banking/Bonus Banking "Plus": **V**ote case-by-case on proposals seeking deferral of a portion of annual bonus pay, with ultimate payout linked to sustained results for the performance metrics on which the bonus was earned (whether for the named executive officers or a wider group of employees), taking into account the following factors:

- The company's past practices regarding equity and cash compensation;
- Whether the company has a holding period or stock ownership requirements in place, such as a meaningful retention ratio (at least 50 percent for full tenure); and
- Whether the company has a rigorous claw-back policy in place.

Death Benefits/Golden Coffin: Generally vote in favor of shareholder proposals calling companies to adopt a policy of obtaining shareholder approval for any future agreements and corporate policies that could oblige the company to make payments or awards following the death of a senior executive in the form of unearned salary or bonuses, accelerated vesting or the continuation in force of unvested equity grants, perquisites and other payments or awards made in lieu of compensation. This would not apply to any benefit programs or equity plan proposals that the broad-based employee population is eligible to receive.

Performance-Based Awards: Generally vote in favor of shareholder proposals advocating the use of performance-based awards like indexed, premium-priced, and performance-vested options or performance-based shares, unless: 1) The proposal is overly restrictive (e.g., it mandates that awards to all employees must be performance-based or all awards to top executives must be a particular type, such as indexed options); 2) The company demonstrates that it is using a substantial portion of performance-based awards for its top executives, where substantial portion would constitute 50 percent of the shares awarded to those executives for that fiscal year.

Pay-for-Superior-Performance Standard: Generally, vote in favor of shareholder proposals requesting to establish a pay-for-superior-performance standard whereby the company discloses defined financial performance criteria and the detail list of comparative peer group to allow shareholders to sufficiently determine the pay and performance correlation established in the plan. In addition, establish that no award should be paid out unless the company performance exceeds its peer's median or mean performance on the selected financial and stock price performance criteria.

Severance Agreements for Executives/Golden Parachutes: Vote in favor of shareholder proposals to require golden parachutes or executive severance agreements to be submitted for shareholder ratification, unless the proposal requires shareholder approval prior to entering into employment contracts. Proposals to ratify or cancel golden parachutes are voted in favor if they include the following: 1) The triggering mechanism should be beyond the control of

management; 2) The amount should not exceed three times base amount (defined as the average annual taxable W-2 compensation during the five years prior to the year in which the change of control occurs; 3) Change-in-control payments should be double-triggered, i.e., (a) after a change in control has taken place, and (b) termination of the executive as a result of the change in control. Change in control is defined as a change in the company ownership structure.

Supplemental Executive Retirement Plans (SERPs): Generally vote in favor of shareholder proposals requesting to put extraordinary benefits contained in SERP agreements to a shareholder vote unless the company's executive pension plans do not contain excessive benefits beyond what is offered under employee-wide plans. In addition, vote in favor of shareholder proposals urging the board to limit the executive benefits provided under the company's supplemental executive retirement plan (SERP) by limiting covered compensation to a senior executive's annual salary and excluding of all incentive or bonus pay from the plan's definition of covered compensation used to establish such benefits.

Advisory Vote on Compensation: Generally, vote case-by-case on shareholder proposals that call for non-binding shareholder ratification of the compensation of the named Executive Officers and the accompanying narrative disclosure of material factors provided to understand the Summary Compensation Table.

Executive Compensation Advisory Proposal: Generally vote case-by-case on shareholder proposals asking the board to propose an advisory resolution seeking to ratify the compensation of the company's named executive officers (NEOs) on an annual basis. The proposal submitted to shareholders should make it clear that the vote is non-binding and would not have an impact on compensation paid or awarded to any NEO.

Hold Equity Past Retirement or for a Significant Period of Time: Generally vote case-by-case on shareholder proposals asking companies to adopt policies requiring senior executive officers to retain all or a significant portion of the shares acquired through compensation plans, either:

- while employed and/or for two years following the termination of their employment ; or
- for a substantial period following the lapse of all other vesting requirements for the award ("lock-up period"), with ratable release of a portion of the shares annually during the lock-up period.

The following factors will be taken into account:

- Whether the company has any holding period, retention ratio or officer ownership requirements in place. These should consist of:
  - Rigorous stock ownership guidelines, or
  - A short-term holding period requirement (six months to one year) coupled with a significant long-term ownership requirement; or
  - A meaningful retention ratio

- Actual officer stock ownership and the degree to which it meets or exceeds the proponent's suggested holding period/retention ratio or the company's own stock ownership or retention requirements.
- Post-termination holding requirement policies or any policies aimed at mitigating risk taking by senior executives;
- Problematic pay practices, current and past, which may promote a short-term versus a long-term focus.
- A rigorous stock ownership guideline should be at least 10x base salary for the CEO, with the multiple declining for other executives. A meaningful retention ratio should constitute at least 50 percent of the stock received from equity awards (on a net proceeds basis) held on a long-term basis, such as the executive's tenure with the company or even a few years past the executive's termination with the company.

Prohibit CEOs from serving on Compensation Committees: Generally vote AGAINST shareholder proposals seeking a policy to prohibit any outside CEO from serving on a company's compensation committee, unless the company has demonstrated problematic pay practices that raise concerns about the performance and composition of the committee.

Claw-back of Payments Under Restatements: When voting on shareholder proposals requesting clawbacks of bonuses or equity, the following factors are generally considered on a case-by-case basis: 1) the coverage of employees, whether it applies to all employees, senior executives or only employees committing fraud which resulted in the restatement; 2) the nature of the proposal where financial restatement is due to fraud; whether or not the company has had material financial problems resulting in chronic restatements; and, 3) the adoption of a robust and formal bonus/equity recoupment policy. If a company's bonus recoupment policy provides overly broad discretion to the board in recovering compensation, generally vote FOR the proposal. If the proposal seeks bonus recoupment from senior executives or employees committing fraud, generally vote FOR the proposal.

Termination of Employment Prior to Severance Payment and Eliminating Accelerated Vesting of Unvested Equity: Generally vote case-by-case on shareholder proposals seeking a policy requiring termination of employment prior to severance payment, and eliminating accelerated vesting of unvested equity. Change-in-control payouts without loss of job or substantial diminution of job duties (single-triggered) are considered a poor pay practice under our policy, and may even result in withheld votes from compensation committee members. The second component of this proposal –- related to the elimination of accelerated vesting – requires more careful consideration. The following factors will be taken into consideration regarding this policy:

- The company's current treatment of equity in change-of-control situations (i.e. is it double triggered, does it allow for the assumption of equity by acquiring company, the treatment of performance shares; and
- Current employment agreements, including potential poor pay practices such as gross-ups embedded in those agreements.

Generally vote FOR proposals seeking a policy that prohibits acceleration of the vesting of equity awards to senior executives in the event of a change in control (except for pro rata vesting considering the time elapsed and attainment of any related performance goals between the award date and the change in control).

Tax Gross-Up Proposals: Generally vote in favor of shareholder proposals calling for companies to adopt a policy of not providing tax gross-up payments to executives, except in situations where gross-ups are provided pursuant to a plan, policy, or arrangement applicable to management employees of the company, such as a relocation or expatriate tax equalization policy.

All other shareholder proposals regarding executive and director pay will be voted taking into account company performance, pay level versus peers, pay level versus industry, and long term corporate outlook.

F. Social/Environmental Issues

Anti-Social Proposals

Generally vote against proposals that seek to regress a company's established environmental and social activities.

1. Animal Rights

Vote case-by-case on proposals to phase out the use of animals in product testing, taking into account:

- The nature of the product and the degree that animal testing is necessary or federally mandated (such as medical products);
- The availability and feasibility of alternatives to animal testing to ensure product safety;
- The degree that competitors are using animal-free testing; and
- Generally vote FOR proposals seeking a report on the company's animal welfare standards unless:
    - The company has already published a set of animal welfare standards and monitors compliance;
    - The company's standards are comparable to or better than those of peer firms; and
    - There are no serious controversies surrounding the company's treatment of animals.

Generally vote case-by-case proposals seeking a report on the feasibility of implementing controlled atmosphere killing (CAK) methods into company and supplier operations.

2. Consumer Issues

Genetically Modified Foods (GMO)

Vote case-by-case on proposals asking for a report on the feasibility of labeling products containing GMO ingredients taking into account:

- The relevance of the proposal in terms of the company's business and the proportion of it affected by the resolution;
- The quality of the company's disclosure on GMO product labeling and related voluntary initiatives and how this disclosure compares with peer company disclosure;
- The company's current disclosure on the feasibility of GMO product labeling, including information on the related costs; and
- Any voluntary labeling initiatives undertaken or considered by the company.

Vote case-by-case on proposals asking for reports on the financial, legal, and environmental impact of continued use of GMO ingredients/seeds, taking into account:

- The relevance of the proposal in terms of the company's business and the proportion of it affected by the resolution;
- The quality of the company's disclosure on risks related to GMO product use and how this disclosure compares with peer company disclosure; and
- The percentage of revenue derived from international operations, particularly in Europe, where GMO products are more regulated and consumer backlash is more pronounced.

Generally vote against proposals asking companies to voluntarily label genetically modified (GMO) ingredients in their products or alternatively to provide interim labeling and eventually eliminate GMO ingredients due to the costs and feasibility of labeling and/or phasing out the use of GMO ingredients.

Generally vote against on proposals seeking a report on the health and environmental effects of genetically modified organisms (GMOs). Health studies of this sort are better undertaken by regulators and the scientific community.

Generally vote against proposals to completely phase out GMO ingredients from the company's products or proposals asking for reports outlining the steps necessary to eliminate GMO ingredients from the company's products. Such resolutions presuppose that there are proven health risks to GMO ingredients (an issue better left to federal regulators) that outweigh the economic benefits derived from biotechnology.

Predatory Lending

Generally vote for reports on the company's procedures for preventing predatory lending, including the establishment of a board committee for oversight, unless it would cause the company to incur excessive costs, taking into account:

- The extent of the company's consumer lending operations;

- Whether the company adequately discloses mechanisms in place to prevent abusive lending practices;
- Whether the company adequately discloses the financial risks of its sub-prime business;
- If the company was subject to violations of lending laws or serious lending controversies; and
- Peer companies' policies to prevent abusive lending practices.

Drug Pricing (Pharmaceutical Companies)

Vote case-by-case on proposals asking the company to implement price restraints on pharmaceutical products, taking into account:

- Whether the proposal focuses on a specific drug and region;
- Whether the economic benefits of providing subsidized drugs (e.g., public goodwill) outweigh the costs in terms of reduced profits, lower R&D spending, and harm to competitiveness;
- The extent that reduced prices can be offset through the company's marketing budget without affecting R&D spending;
- Whether the company already limits price increases of its products;
- Whether the company already contributes life-saving pharmaceuticals to the needy and Third World countries; and
- The extent that peer companies implement price restraints.

HIV/AIDS

Generally vote for requests for reports outlining the impact of the health pandemic (HIV/AIDS, malaria, and tuberculosis) on the company's operations and how the company is responding to it, taking into account:

- The nature and size of the company's operations in affected regions and the number of local employees;
- The company's existing healthcare policies, including benefits and healthcare access for local workers;
- Company donations to healthcare providers operating in the region;
- Generally vote FOR proposals asking pharmaceutical companies to establish, implement, and report on a standard of response to the HIV/AIDS, tuberculosis and malaria health pandemic, taking into account:
    - The company's actions in developing countries to address HIV/AIDS, tuberculosis and malaria, including donations of pharmaceuticals and work with public health organizations; and

- The company's initiatives in this regard compared to those of peer companies.

Product Safety

Vote for proposals requesting the company to report on its policies, initiatives/procedures, oversight mechanisms related to toxic materials, including certain product line toxicities, and/or product safety in its supply chain, unless:

- The company already discloses similar information through existing reports or policies such as a Supplier Code of Conduct and/or a sustainability report;
- The company has formally committed to the implementation of a toxic materials and/or product safety and supply chain reporting and monitoring program based on industry norms or similar standards within a specified time frame; and
- The company has not been recently involved in relevant significant controversies or violations.

Toxic Chemicals

Generally vote for shareholder proposals that request the company disclose its policies related to toxic chemicals.

Generally vote for shareholder proposals seeking the preparation of a report discussing the potential financial and legal risks associated with utilizing certain chemicals and/or the implications of adopting a policy for phasing out toxic chemicals of concern and the.

Vote case-by-case on proposals calling for the company to adopt a policy of phasing out toxic chemicals of concern.

Harmful Ingredients in Cosmetic Products

Generally vote for shareholder proposals asking companies to report on the feasibility of removing, or substituting with safer alternatives, all "harmful" ingredients used in company products.

Stronger product warnings

Generally vote for proposals seeking stronger product warnings.

Tobacco

Advertising to youth:

Vote for proposals that would extend restrictions on the marketing of tobacco products to youth in foreign countries.

Second-hand smoke:

Generally vote for proposals asking that the company's operating facilities be smoke-free.

Cease production/sale of cigarette components:-

Vote case-by-case on proposals asking the company to cease production of tobacco-related products or cease selling products to tobacco companies, taking into account:

- The percentage of the company's business affected; and
- The economic loss of eliminating the business versus any potential tobacco-related liabilities

Spin-off tobacco-related businesses:

Vote case-by-case on proposals to spin off a tobacco-related unit, taking into account:

- The percentage of the company's business affected;
- The feasibility of a spin-off; and
- Potential future liabilities related to the company's tobacco business.

Investment in tobacco stocks:

Vote against proposals prohibiting investment in tobacco equities. Such decisions are better left to portfolio managers.

Handguns

Vote case-by-case on a company's policies aimed at curtailing gun violence in the United States unless the report is confined to product safety information. Criminal misuse of firearms is beyond corporate control, but rather is the purview of law enforcement agencies.

Adult Entertainment

Generally vote for shareholder proposals that seek a review of the company's involvement with pornography. Generally vote FOR shareholder proposals asking for reports on company policies related to the sale of mature-rated video games to children and teens.

Racial Stereotypes in Advertising

Generally vote for shareholder proposals seeking more careful consideration of using racial stereotypes in advertising campaigns, including preparation of a report.

3. Climate Change and the Environment

Global Warming (Climate Change)

Generally vote for proposals requesting reports on the level of greenhouse gas emissions from the company's operations and products, unless the report is duplicative of the company's current environmental disclosure and reporting or is not integral to the company's line of business. However, additional reporting may be warranted if:

- The company's level of disclosure lags that of its competitors;
- The company does not provide current, publicly-available information on the perceived impact that climate change may have on the company as well as associated policies and procedures to address such risks and/or opportunities; or
- The company has a poor environmental track record, such as violations of federal and state regulations.

Generally vote for shareholder proposals requesting the company adopt greenhouse gas (GHG) reduction policies and/or emissions reduction goals, taking into account:

- The company's existing GHG policies and goals, as well as those of its peers;
- The scope and economic impact of the request and implementation; and
- Recent litigation, controversy, or legislation surrounding the company.

Generally vote for shareholder proposals requesting greater disclosure on company plans for the expansion or creation of coal-fired power plants. Generally vote FOR shareholder proposals seeking a report assessing the potential or anticipated environmental impacts of new coal-fired power plants.

General Environmental Reports

Generally vote for proposals requesting reports disclosing the company's environmental policies unless it already has well-documented environmental management systems that are available to the public.

Community Impact Assessments

Vote case-by-case on requests for reports outlining the potential community impact of company operations in specific regions considering:

- Current disclosure of applicable risk assessment report(s) and risk management procedures;
- The impact of regulatory non-compliance, litigation, remediation, or reputational loss that may be associated with failure to manage the company's operations in question, including the management of relevant community and stakeholder relations;
- The nature, purpose, and scope of the company's operations in the specific region(s); and
- The degree to which company policies and procedures are consistent with industry norms.

Water Use

Generally vote for shareholder proposals seeking the preparation of a report on a company's risks linked to water use.

Energy Efficiency

Vote case-by-case on proposals requesting a company report on its energy efficiency policies, considering:

- The current level of disclosure related to energy efficiency policies, initiatives, and performance measures;
- The company's level of participation in voluntary energy efficiency programs and initiatives;

- The company’s compliance with applicable legislation and/or regulations regarding energy efficiency; and
- The company’s energy efficiency policies and initiatives relative to industry peers.

Facility Safety Policy

Vote case-by-case on resolutions requesting that companies report on risks associated with their operations and/or facilities, considering:

- The company’s compliance with applicable regulations and guidelines;
- The level of existing disclosure related to security and safety policies, procedures, and compliance monitoring; and
- The existence of recent, significant violations, fines, or controversy related to the safety and security of the company’s operations and/or facilities.

Environmental-Economic Risk Report

Generally vote for proposals requesting reports assessing economic risks of environmental pollution or climate change, taking into account whether the company is already doing so.

Arctic National Wildlife Refuge

Generally vote for requests requesting reports outlining potential environmental damage from drilling in the Arctic National Wildlife Refuge (ANWR).

Recycling

Generally vote for proposals to adopt a comprehensive recycling strategy, taking into account the nature of the company's business and the percentage affected.

Renewable Energy

Vote case-by-case on proposals to invest in renewable energy sources, taking into account:

- The nature of the company's business and the percentage affected;
- The extent that peer companies are switching from fossil fuels to cleaner sources;
- The timetable and specific action prescribed;
- The costs of implementation; and
- The company's initiatives to address climate change.

Generally vote for requests for reports on the feasibility of developing renewable energy sources, unless the report is duplicative of the company's current environmental disclosure and reporting or is not integral to the company's line of business.

4. Diversity

Board Diversity

Generally vote for requests for reports on the company's efforts to diversify the board, unless:

- The board composition is reasonably inclusive in relation to companies of similar size and business, and
- The board already reports on its nominating procedures and diversity initiatives.

Vote case-by-case on proposals asking the company to increase the representation of women and minorities on the board, taking into account:

- The degree of board diversity;
- Comparison with peer companies;
- Established process for improving board diversity;
- Existence of independent nominating committee;
- Use of outside search firm; and
- History of EEO violations.

Gender Pay

Generally vote case-by-case on requests for reports on a company's pay data by gender, or a report on a company's policies and goals to reduce any gender pay gap, taking into account:

- The company's current policies and disclosure related to both its diversity and inclusion policies and practices and its compensation philosophy and fair and equitable compensation practices;
- Whether the company has been the subject of recent controversy, litigation or regulatory actions related to gender pay gap issues; and
- Whether the company's reporting regarding gender pay gap policies or initiatives is lagging its peers.

Equal Opportunity Reports

Generally vote for requests for reports outlining the company's affirmative-action initiatives unless:

- The composition of senior management and the board is inclusive;
- The company has well-documented equal opportunity programs;
- The company already publicly reports on its company-wide affirmative-action initiatives and provides data on its workforce diversity; and
- The company has no recent EEO-related violations or litigation.

Generally vote for proposals seeking information on the diversity efforts of suppliers and service providers, which can pose a significant cost and administrative burden on the company, unless:

- The composition of senior management and the board is inclusive;
- The company has well-documented equal opportunity programs;
- The company already publicly reports on its company-wide affirmative-action initiatives and provides data on its workforce diversity; and
- The company has no recent EEO-related violations or litigation.

Sexual Orientation

Generally vote for proposals to amend the company's Equal Employment Opportunity (EEO) statement to include reference to sexual orientation, unless the implementation of a policy would result in excessive costs for the company.

Vote case-by-case on proposals regarding extension of company benefits to domestic partners, taking into account the costs of doing so.

5. General Corporate Issues

Charitable and Political Issues

Generally vote for proposals asking the company to affirm political nonpartisanship in the workplace.

Generally vote for proposals to make public the company's political contributions. Federal and state laws restrict the amount of corporate contributions and include reporting requirements.

Vote case-by-case on proposals disallowing the company from making political contributions. Businesses are affected by legislation at the federal, state, and local level and barring contributions can put the company at a competitive disadvantage.

Vote case-by-case on proposals restricting the company from making charitable contributions. Charitable contributions are generally useful for assisting worthwhile causes and for creating goodwill in the community. In the absence of bad faith, self-dealing, or gross negligence, management should determine which contributions are in the best interests of the company

Vote case-by-case on proposals requesting information on a company’s lobbying initiatives, considering any significant controversy or litigation surrounding a company’s public policy activities, the current level of disclosure on lobbying strategy, and the impact that the policy issue may have on the company’s business operations.

Link Executive Compensation to Social Performance

Vote case-by-case on proposals to review ways of linking executive compensation to factors such as corporate downsizings, customer or employee satisfaction, community involvement, human rights, environmental performance, predatory lending, and executive/employee pay disparities. Such resolutions should be evaluated in the context of:

- The relevance of the issue to be linked to pay;
- Violations or complaints filed against the company relating to the particular measure;
- Artificial limits sought by the proposal, such as freezing or capping executive pay;
- Degree of independence of the compensation committee;
- Current company pay levels; and
- Financial Performance of the company.

6. International Issues, Labor Issues, and Human Rights

Country-Specific Human Rights Reports

Generally vote for proposals requesting reports outlining vendor standards compliance unless either:

- The company does not operate in countries with significant human rights violations;
- The company has no recent human rights controversies or violations; and
- The company already publicly disclosed information on its vendor standards compliance.

Generally vote for proposals requesting reports detailing the company's operations in a particular country and steps to protect human rights, based on:

- The nature and amount of company business in the country;
- The company's workplace code of conduct;
- Proprietary and confidential information involved;
- Company compliance with U.S. regulations on investing in the country; and
- Level of peer company involvement in the country.

Vote case-by-case on proposals requesting that a company conduct an assessment of the human rights risks in its operations or in its supply chain, or report on its human rights risk assessment process, considering:

- The degree to which existing relevant policies and practices are disclosed, including information on the implementation of these policies and any related oversight mechanisms;
- The company’s industry and whether the company or its suppliers operate in countries or areas where there is a history of human rights concerns;
- Recent, significant controversies, fines, or litigation regarding human rights involving the company or its suppliers, and whether the company has taken remedial steps; and
- Whether the proposal is unduly burdensome or overly prescriptive.

International Codes of Conduct/Vendor Standards

Generally vote for proposals to implement certain human rights standards at company facilities or those of its suppliers and to commit to outside, independent monitoring. In evaluating these proposals, the following should be considered:

- The company's current workplace code of conduct or adherence to other global standards and the degree they meet the standards promulgated by the proponent;
- Agreements with foreign suppliers to meet certain workplace standards;
- Whether company and vendor facilities are monitored and how;
- Company participation in fair labor organizations;
- Type of business;
- Proportion of business conducted overseas;
- Countries of operation with known human rights abuses;
- Whether the company has been recently involved in significant labor and human rights controversies or violations;
- Peer company standards and practices; and
- Union presence in company's international factories.

Internet Privacy and Censorship

Vote case-by-case on resolutions requesting that companies report on risks associated with their operations and/or facilities, considering:

- The company’s compliance with applicable regulations and guidelines;
- The level of existing disclosure related to security and safety policies, procedures, and compliance monitoring; and
- The existence of recent, significant violations, fines, or controversy related to the safety and security of the company’s operations and/or facilities.

MacBride Principles

Generally vote for proposals to endorse or increase activity on the MacBride Principles, taking into account:

- Company compliance with or violations of the Fair Employment Act of 1989;
- Company antidiscrimination policies that already exceed the legal requirements
- The cost and feasibility of adopting all nine principles;
- The cost of duplicating efforts to follow two sets of standards (Fair Employment and the MacBride Principles);
- The potential for charges of reverse discrimination;
- The potential that any company sales or contracts in the rest of the United Kingdom could be negatively impacted;

- The level of the company's investment in Northern Ireland;
- The number of company employees in Northern Ireland;
- The degree that industry peers have adopted the MacBride Principles; and
- Applicable state and municipal laws that limit contracts with companies that have not adopted the MacBride Principles.

Operations in High-Risk Markets

Vote case-by-case on requests for the company to review and report on the financial and reputation risks associated with operations in "high risk" markets, such as a terrorism-sponsoring state or otherwise, taking into account:

- The nature, purpose, and scope of the operations and business involved that could be affected by social or political disruption;
- Current disclosure of applicable risk assessment(s) and risk management procedures;
- Compliance with U.S. sanctions and laws;
- Consideration of other international policies, standards, and laws; and
- Recent involvement in significant controversies or violations in "high risk" markets.

Outsourcing

Generally vote for shareholders proposals asking for companies to report on the risks associated with outsourcing or off-shoring.

7. Sustainability

Sustainability Reports

Generally vote for shareholder proposals seeking greater disclosure on the company's environmental practices, and/or environmental risks and liabilities. Generally vote FOR shareholder proposals asking companies to report in accordance with the Global Reporting Initiative (GRI).

Generally vote for proposals requesting that a company report on its policies, initiatives, and oversight mechanisms related to social, economic, and environmental sustainability, unless:

- The company already discloses similar information through existing reports or policies such as an environment, health, and safety (EHS) report; a comprehensive code of corporate conduct; and/or a diversity report; or
- The company has formally committed to the implementation of a reporting program based on Global Reporting Initiative (GRI) guidelines or a similar standard within a specified time frame.

CERES Principles

Generally vote for proposals to adopt the CERES Principles, taking into account:

- The company's current environmental disclosure beyond legal requirements, including environmental health and safety (EHS) audits and reports that may duplicate CERES;
- The company's environmental performance record, including violations of federal and state regulations, level of toxic emissions, and accidental spills;
- Environmentally conscious practices of peer companies, including endorsement of CERES;
- Use of independent, third-party monitoring; and
- Costs of membership and implementation.

Non-U.S. PROXY ISSUES

The non-U.S. items enumerated below are intended to supplement our general proxy voting policy.

A. Operational Items

Routine Agenda Items

In some markets, shareholders are routinely asked to approve:

- the opening of the shareholder meeting
- acknowledge proper convening of meeting
- that the meeting has been convened under local regulatory requirements
- the presence of quorum
- the agenda for the shareholder meeting
- the election of the chair of the meeting
- the appointment of shareholders to co-sign the minutes of the meeting
- regulatory filings
- the designation of inspector or shareholder representative(s) of minutes of meeting
- the designation of two shareholders to approve and sign minutes of meeting
- the allowance of questions
- the publication of minutes
- the closing of the shareholder meeting
- authorize board to ratify and execute approved resolutions
- prepare and approve list of shareholders

As these are typically formalities associated with the convening of general shareholder meetings, generally vote for these and similar routine management proposals.

Financial Results/Director and Auditor Reports

Generally vote for approval of financial statements and director and auditor reports, unless: there are concerns about the accounts presented or audit procedures used; or the company is not responsive to shareholder questions about specific items that should be publicly disclosed.

Change in Company Fiscal Term

Vote for proposals to change a company's fiscal term unless a company's motivation for the change is to postpone its Annual General Meeting.

Allocation of Income and Dividends

Generally vote for approval of the allocation of income, unless: the dividend payout ratio has been consistently below 30 percent without adequate explanation; or, the payout is excessive given the company's financial position.

Stock (Scrip) Dividend Alternative

Generally vote FOR stock (scrip) dividend proposals. However, vote against proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareholder value.

Amendments to the Articles of Association

Generally vote FOR proposals to amend articles of association if shareholder rights are protected; there is negligible or positive impact on shareholder value; management provides adequate reasons for the amendments; and, the company is required to do so by law (if applicable). Generally vote AGAINST proposals to amend articles of association if the amendment is deemed not to be in the long-term economic best interest of shareholders.

Amend Quorum Requirements

Generally vote against proposals to lower the quorum requirement, unless the proposal is consistent with market norms, the company's reasons for the change is in line with shareholders' interests, and the company's ownership structure would not hamper wider shareholder participation. Companies that have a substantial shareholder or shareholder group should set their quorum requirement well above the percentage of shares owned by such shareholder or shareholder group. Quorum requirements are intended to ensure that a broad range of shareholders is represented at meetings.

Appointment of Internal Statutory Auditors

The appointment of internal statutory auditors is a routine request for companies in several markets. In addition to the regular duty of verifying corporate accounts, the auditor board is responsible for supervising management and ensuring compliance with the law and articles of association. The auditors must perform an audit of the accounts every three months and present to shareholders a report on the balance sheet at the AGM. For most countries, the auditors are elected annually and may seek reelection. Vote FOR the appointment of statutory auditors unless there are serious concerns about the reports presented or questions about an auditor's qualifications, including whether the auditor has previously served the company in an executive capacity or can otherwise be considered affiliated with the company.

B. Board of Directors

Election of Directors (Non-U.S.)

Vote FOR management nominees in the election of directors, unless:

- Adequate disclosure has not been provided in a timely manner;
- There are clear concerns over questionable finances or restatements;
- There have been questionable transactions with conflicts of interest;
- There are any records of abuses against minority shareholder interests; or
- The board fails to meet minimum corporate governance standards.

Vote FOR individual nominees unless there are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities.

Vote FOR shareholder nominees if they satisfy reasonable qualifications for board membership.

Vote AGAINST individual directors if repeated absences at board meetings have not been explained (in countries where this information is disclosed).

Discharge of the Board and Management

In several non-U.S. markets, shareholders are asked to approve actions taken by the board and management during the year. The annual formal discharge is a tacit vote of confidence in the company's management. Generally vote for discharge of the board and management, unless: there are serious questions about actions of the board or management for the year in question; or, legal action is being taken against the board by other shareholders. In addition, vote against proposals to remove the annual discharge of board and management from the agenda.

Executive Compensation

All compensation proposals will be reviewed on a case-by-case basis.

Director Compensation

Vote FOR proposals to award cash fees to non-executive directors unless the amounts are excessive relative to other companies in the country or industry.

Retirement Bonuses for Directors and Statutory Auditors

Generally vote AGAINST payment of retirement benefits to non-executive directors and statutory auditors. When one or more of the individuals to whom the grants are being proposed has not served in an executive capacity for the company for at least three years, oppose payment, particularly as the size of these payments may be at the discretion of the board. If any one individual does not meet our criteria, vote AGAINST the entire proposal.

C. CAPITAL STRUCTURE

Issuance of Shares With or Without Preemptive Rights

General Issuances: Generally, vote for proposals for the issuance of shares <u>with</u> preemptive rights to a maximum of 100 percent over currently issued capital and for proposals for the issuance of shares <u>without</u> preemptive rights to a maximum of 20 percent of currently issued capital. Generally vote against proposals for the general issuance of shares with or without preemptive rights above and beyond the aforementioned thresholds.

Specific Issuances: Generally vote on a case-by-case basis based on the individual merits.

Shares Repurchase Plans

Generally vote for share repurchase plans, unless: clear evidence of past abuse of the authority is available; or, the plan contains no safeguards against selective buybacks.

Reissuance of Repurchased Shares

Generally vote FOR proposals to reissue any repurchased shares unless there is clear evidence of abuse of this authority in the past.

Reduction of Capital

This proposal may ask shareholders to allow the board to reduce the company's deficit and create a contributed surplus by effecting a reduction in the stated capital of the company's common shares. A company may take this action if its net assets are in danger of falling below the aggregate of its liabilities and its stated capital. Should that situation occur, under some corporate law statutes the company would be prohibited from paying dividends on its shares. A company may also seek a reduction in capital corresponding to the cancellation of shares repurchased in connection with an earlier buyback authorization. The amount of equity that may be cancelled is usually limited to ten percent by national law. This type of proposal is seen in several markets and is considered a routine accounting measure.

Generally vote for the proposals as they are considered to be routine accounting measures.

Capitalization of Reserves for Bonus Issue/Increase in Par Value

Generally vote for proposals to capitalize reserves for bonus issues of shares or to increase par value.

Adjust Par Value of Common Stock

Vote for management proposals to reduce par value of common stock.

Increase in Borrowing Powers

Generally vote for proposals to approve increases in a company's borrowing powers after taking into account management's stated need for the increase, the size of the increase, and the company's current debt-to-equity ratio or gearing level. Large increases in borrowing powers can sometimes result in dangerously high debt-to-equity ratios that could harm shareholder value. If an increase is excessive without sufficient justification and if a company already has exceptionally high debt-to-equity ratio compared to its industry, generally vote AGAINST the proposal.

Pledging of Assets for Debt

Generally vote for proposals to approve the pledging of a company's assets for debt. In certain countries, shareholder approval is required when a company needs to secure a debt issuance with its assets. In many cases, this is a routine request and is a formality under the relevant law. When reviewing such proposals, take into account the terms of the proposed debt issuance and the company's overall debt level. If both of these factors are acceptable, vote FOR the request.

D. Other Items

Mandatory Takeover Bid Waivers

Generally vote AGAINST proposals to waive mandatory takeover bid requirements. The requirement that a takeover bid should be launched when a substantial amount of shares have

been acquired prevents the entrenchment of the controlling shareholder and protects minority owners. However, vote in favor of a waiver of mandatory takeover bid requirements when the event prompting the takeover bid is a repurchase by the company of its own shares. When a company repurchases its own shares, the relative stake of a large shareholder increases even though the number of shares held by the large shareholder has not changed. In certain markets, notably the United Kingdom, Ireland and Australia, the mandatory bid rules require a large shareholder to make a takeover bid if its stake in the company is increased on a relative basis as a result of a share repurchase by the company. Companies in these markets may seek a waiver from the takeover bid requirement applicable to their large shareholder. Under certain circumstances, generally vote FOR such a waiver if the share repurchase would not push the large shareholder's stake in the company above 50 percent.

Renew Partial Takeover Provision

Generally vote for the adoption of this proposal as this article provides protection for minority shareholders by giving them ultimate decision-making authority based on their own interests. Australian law allows companies to introduce into their articles a provision to protect shareholders from partial takeover offers, to be renewed by shareholders every three years. If a partial takeover of the company is announced, directors are required to convene a shareholder meeting at least 15 days before the closing of the offer to seek approval of the offer. If shareholders reject the resolution, the offer is considered withdrawn under company law and the company can refuse to register the shares tendered to the offers.

Expansion of Business Activities

Generally vote for the expansion of business activities unless the new business takes the company into risky areas.

Investment in Financial Products

Vote case-by-case on proposals to invest idle funds in financial products taking into consideration:

- Any known concerns with previous investments;
- The amount of the proposed investment relative to the company’s assets;
- Disclosure of the nature of the products in which the company proposed to invest; and
- Disclosure of associated risks of the proposed investments and related risk management efforts by the company.

Control and Profit Transfer Agreements

Generally vote FOR management proposals to approve control and profit transfer agreements between a parent and its subsidiaries.

Depositary Receipts and Priority Shares

Generally vote against the introduction of depositary receipts and priority shares.

Depositary receipts are an especially common antitakeover defense among large Dutch companies. Ordinary voting shares are first issued to a company-friendly trust or foundation. The trust or foundation in turn issues depositary receipts, but the foundation retains the voting rights of the issued security. The depositary receipts carry only the financial rights attached to the shares (i.e., dividends). In this manner, the company gains access to capital while retaining control over voting rights.

Priority shares, established in a company's articles, may be awarded with certain powers of control over the rest of the company. In practice, priority shares are held by members of the supervisory board, company-friendly trusts or foundations, or other friendly parties. Depending on the articles, priority shareholders may determine the size of the management or supervisory boards or may propose amendments to articles and the dissolution of the company.

Remuneration Report

In several non-U.S. markets, including the United Kingdom, Sweden, Australia, and the Netherlands, shareholders are given the opportunity to ratify the company's equity based, and cash compensation policies. Generally vote for the routine approval of remuneration reports in non-U.S. markets.

Remuneration Policy

Vote case-by-case on management proposals for the approval of remuneration policies taking into account remuneration principals.

Compensation Ratio

Generally vote for proposals to fix the ratio between the fixed and variable components of remuneration.

Issuance of Free Warrants

Generally vote against the issuance of free warrants. Such warrants, when issued, are granted to all the shareholders for free and enable them to subscribe for shares (of the same issuer) under preferential conditions. This resolution clearly qualifies as an antitakeover device since the warrants issue would take place during a public offer and be automatically cancelled if the offer fails or is removed. The warrants issue would potentially result in the company's share capital being massively increased during an offer and therefore would make it extremely difficult for a bidder to take control of the target.

Designate Independent Proxy

Generally vote for proposals to elect an independent proxy for shareholder representation at annual general meetings for a term lasting until the following year’s ordinary general meeting.

Approve Provision for Asset Impairment

Vote on a case-by-case basis.

Approve Amendments to Lending Procedures and Caps

Vote on a case-by-case basis.

III. INVESTMENT DIVISION CODE OF ETHICS

A. General Principles

To assure appropriate standards of conduct are met and maintained, all employees of the Investment Division of the Maryland State Retirement Agency (the "Agency"), as a condition of employment and annually thereafter, must acknowledge and abide by this Code of Ethics.

Each Investment Division staff member shall:

1. act with integrity, respect, and in an ethical manner with participants, Agency staff, Trustees, the public, and current and prospective vendors;
2. act for the exclusive purposes of providing benefits to the participants and for reasonable expenses of administering the several systems;
3. use appropriate care and exercise independent professional judgment; and
4. act with honesty, skill, competence, and diligence in all aspects of the individual's duties.

Each Investment Division staff member shall act in accordance with the laws and regulations pertaining to the Maryland State Retirement and Pension System (the "System"), the Board of Trustees of the System, and the Agency, including, but not limited to the following:

1. System's governing legislation (Division II of the State Personnel and Pensions Article);
2. Regulations promulgated by the Board of Trustees (COMAR Title 22);
3. Maryland Public Ethics Law (General Provisions Article, Title 5);
4. Public Information Act (General Provisions Article, Title 4);
5. Open Meetings Act (General Provisions Article, Title 3);
6. State procurement laws (State Finance and Procurement Article, Division II), and General Procurement Policies and Procedures adopted thereto (as set forth in the Investment Policy Manual); and
7. State standard travel regulations.

Each Investment Division staff member shall also comply with all other relevant laws, including Federal laws, and all industry standards to which the staff member is subject (including, for example, CFA guidelines) with respect to the trading of securities, commodities or other assets, whether on behalf of the System or for personal purposes, or the receipt and use of information relating to issuers of securities, commodities or other assets.

Each Investment Division staff member shall observe and adhere to the written policies adopted by the Board of Trustees, Executive Director, or Chief Investment Officer, including,

but not limited to, this Investment Policy Manual and the Investment Division Operations Manual. This includes, without limitation, the Material Non-Public Information and Insider Trading and Staff Personal Trading in Securities policies set forth elsewhere in this Investment Policy Manual. The Chief Investment Officer shall develop and maintain policies and procedures to address compliance with the provisions of this Code of Conduct and all applicable legal and regulatory requirements.

Each Investment Division staff member whose position involves discretion over investment-related decisions is subject to the fiduciary duties prescribed by Maryland law (State Personnel and Pensions Article, § 21-203), and shall discharge his or her duties with respect to the several systems solely in the interest of the participants and as follows:

1. for the exclusive purposes of providing benefits to the participants and for reasonable expenses of administering the several systems;
2. with the care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;
3. by diversifying the investments of the several systems so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so;
4. in accordance with the laws governing the several systems; and
5. in accordance with the documents and instruments governing the several systems to the extent that the documents and instruments are consistent with Title 21, Subtitle 2 of the State Personnel and Pensions Article.

Each Investment Division staff member must avoid prohibited transactions defined by Maryland law (State Personnel and Pensions Article, § 21-205), and shall not:

1. use the assets of the System for the member's own interest or account;
2. act in a transaction involving the System on behalf of a person, or represent a person, if the interests of the person are adverse to the interests of the System or the interests of participants;
3. receive any consideration for the member's own account from a person dealing with the System in connection with a transaction involving the assets of the System; or
4. become an endorser or surety or, in any manner, an obligor, for money lent to or borrowed from the Board of Trustees.

No Investment Division staff member may accept any secondary employment or engage in paid activities without the prior written approval of the Chief Investment Officer, in the Chief Investment Officer's sole discretion, or in the case of the Chief Investment Officer, without the prior written approval of the Executive Director, in the Executive Director's sole

discretion. To the extent permitted under the Maryland Public Ethics Law, an Investment Division staff member may serve as a trustee of a family trust or other family vehicle, or as an unpaid director or unpaid advisor to any nonprofit organization, upon written notice to the Chief Investment Officer, or the Executive Director in the case of the Chief Investment Officer.

B. Conflicts of Interest (Maryland Public Ethics Law)

Without limiting the requirements set forth elsewhere in this Code of Ethics, each Investment Division staff member is also subject and must adhere to the Maryland Public Ethics Law (General Provisions Article, Title 5), which prohibits or restricts various types of activities, including:

1. *Non-Participation*: An Investment Division staff member may not participate in or attempt to influence an official action, decision or matter in which the employee or certain qualifying relatives has an interest (including an employment, contractual, or creditor relationship with a party to the matter). Non-participation includes any discussion, advising or deciding of the matter and requires disclosure of the conflict.
2. *Prohibited Employment or Financial Interests*: An Investment Division staff member may not be employed by or have a financial interest in an entity subject to, the authority of the staff member or of the Agency or the System, or with an entity having or negotiating a contract with the Agency or the System. An Investment Division staff member may not hold any employment relationship that would impair his or her impartiality or independence of judgment.
3. *Use of Prestige of Office*: An Investment Division staff member may not intentionally use the prestige of his or her office for personal gain or that of another. This includes but is not limited to: influencing the award of a System or Agency contract to a specific person; initiating a solicitation for a person to retain the compensated services of a particular lobbyist or firm; or using public resources or title to solicit a political contribution.
4. *Gifts or Honoria*: An Investment Division staff member may not solicit any gifts for him or herself or for others, and generally may not accept gifts directly or indirectly from any person who is doing or seeking to do business of any kind with the System or the Agency, has financial interests that may be substantially affected in a specific way by the member; or is a lobbyist with respect to the matters within the member's functional jurisdiction.
5. *Use of Confidential Information*: An Investment Division staff member may not disclose or use for personal economic benefit, or that of another, confidential information acquired by reason of his or her position.
6. *Financial Disclosure:* All Investment Division staff members must complete and file with the State Ethics Commission a Financial Disclosure Statement, outlining employment or interests that may relate to the conflict of interest provisions of the law, by April 30 covering the calendar year immediately preceding the year of filing and within 60 days of no longer being employed by the State of Maryland.

The foregoing is a brief summary of the Maryland Public Ethics Law. If there are any differences or questions of interpretation, the provisions of the Maryland Public Ethics Law will control to resolve them.

C. Investment Division Attestation and Disclosure Statement

1. Code of Ethics Attestation and Conflicts of Interest Disclosure

   In addition to the Financial Disclosure Statement required under the Maryland Public Ethics Law, all Investment Division staff are required to annually complete a Code of Ethics Attestation and Conflicts of Interest Disclosure (the "Attestation and Disclosure Statement"). The Attestation and Disclosure Statement requires all Investment Division staff to affirm that they have read, understand and been in compliance with the Maryland Public Ethics Law and this Code of Ethics. Further, the Attestation and Disclosure Statement requires all Investment Division staff to disclose outside employment, business interests, volunteer associations, board memberships, and relationships with current vendors doing business with the System either due to involvement themselves or through immediate family members which includes the spouse, dependent children, other dependent relatives if living in the household and any other household member, whether or not related. New Investment Division employees are required to complete the Attestation and Disclosure Statement within 30 days after employment.

2. Review of Attestation and Disclosure Statement

   Each Investment Division staff member shall provide his or her completed Attestation and Disclosure Statement to the Compliance Officer annually and no later than the date determined by Compliance Officer each calendar year. The Compliance Officer will review all Attestation and Disclosure Statements for possible conflicts of interests and advise the Chief Investment Officer or, in the case of the Chief Investment Officer's Attestation and Disclosure Statement, the Executive Director, of such conflicts. In assessing and mitigating conflicts of interests, the Compliance Officer, the Chief Investment Officer and the Executive Director, as applicable, may consult with Principal Counsel to the System.

D. Violations & Periodic Training

1. Reporting of Violations

   It is the responsibility of all Investment Department employees to comply with this Code of Ethics and to report violations or suspected violations.

   An employee who learns of a violation or suspected violation of this policy should notify the Compliance Officer, the Chief Investment Officer (or the Executive Director in the case of the Chief Investment Officer), or Principal Counsel.

2. Consequences for Non-Compliance with Policy

   The Compliance Officer shall monitor compliance with this policy and shall report any actual or potential violations to the Chief Investment Officer, or to the Executive Director in the case of the Chief Investment Officer. The Compliance Officer shall also notify the System's Principal Counsel of any potential legal violation.

   Violations of this Code of Conduct will subject Investment Division staff to sanctions that may include, but are not limited to, formal reprimands, adverse performance reviews, suspension or revocation of personal trading privileges under the Staff Personal Trading in Securities policy, report of conduct to government authorities and self-regulatory organizations such as the CFA, and termination of employment. The Chief Investment Officer with notification to the Audit Committee, is authorized to determine and assess sanctions arising from any violation of this policy, except with respect to any violation of this policy by the Chief Investment Officer. The Chief Investment Officer's determinations and assessments under this paragraph are at his or her sole and absolute discretion and are final and binding. In the case of a violation of this policy by the Chief Investment Officer, the Executive Director and Investment Committee shall recommend a sanction to the Board of Trustees for its decision.

   Violations of law may result in civil and, in certain circumstances, criminal liability. In the event of a violation of law, the System shall cooperate with governmental authorities, and this may include reporting the violation to the relevant authorities.

   In the event that a violation of this policy also constitutes a violation of another law or policy, this policy does not limit or prevent the assessment of sanctions under the sanctions regimen of such other law or policy.

3. Training

   All Investment Division staff shall receive training upon hire and periodically thereafter related to the Maryland Public Ethics Law and this policy.

IV. MATERIAL NONPUBLIC INFORMATION AND INSIDER TRADING POLICY

A. Scope

This policy applies to all Investment Division employees of the Maryland Retirement Agency (the "Agency"). The restrictions set forth in this policy apply to trading on behalf of the Maryland State Retirement and Pension System (the "System") and personal trading by Investment Division staff. This policy will continue to apply even after resignation or termination of employment until use or disclosure of any information covered hereby is no longer either illegal or restricted by the terms of this policy.

This policy shall be read in conjunction with the laws and regulations pertaining to the System and with the policies of the System, including, without limitation, the Investment Division's Code of Ethics (the "Code of Ethics"). This policy is to be delivered to all new Investment Division employees upon employment and thereafter to all Investment Division employees in accordance with the Code of Ethics.

B. Overview

In the course of their duties for the System, employees shall comply with, and cause the System to comply with, all applicable federal and state laws, including prohibitions against insider trading, which includes trading securities, or "tipping" others to trade securities, while in possession, aware, or on the basis of material nonpublic information ("MNPI").

"**MNPI**" is not a precise legal term. Therefore, Investment Division staff will apply a principle of caution and, if there is doubt, over-inclusiveness in following the policy set forth in paragraph C below. Information may be considered "**material**" if, for example, it is likely that an investor would consider the information to be relevant or important in making an investment decision. Given the uncertainty surrounding when information is "material," it is advisable to assume information is material if it is unclear whether it actually is material. Examples of material information may include, but are not limited to: (1) unpublished financial projections and results; (2) mergers, acquisitions or tender offers; (3) information about a company's earnings or dividends; (4) information about a company's physical assets or discovery; (5) significant changes in management or operations; (6) government investigations; (7) significant personnel changes; (8) changes in debt ratings or analyst upgrades or downgrades; (9) material labor negotiations; (10) financial, sales, and other significant internal business forecasts; (11) significant changes in accounting treatment, write-offs or effective tax rates; (12) stock splits; (13) public or private securities/debt offerings; or (14) gain or loss of a significant customer or supplier.

Information is considered to be "**nonpublic**" if it has not been broadly disseminated to the marketplace. Information may not necessarily be "public" simply because it is disclosed at an industry meeting or another forum with numerous attendees.

"**Tipping**" includes not only intentionally sharing trading information but also the inadvertent or negligent disclosure of the information to another person such as, for example, a family member or friend.

Without limiting the foregoing, no employee or the employee's Immediate Family shall disclose (whether to a family member or otherwise), trade in or otherwise use for personal gain, directly or indirectly, any MNPI that the employee may obtain in the course of employment by the Agency. An employee's "**Immediate Family**" includes the spouse, dependent children, other dependent relatives if living in the household and any other household member, whether or not related.

"**Front Running**" an investment decision by the System or any third party is also strictly prohibited. "Front Running" includes trading while aware of an anticipated transaction arising in the course of one's employment or otherwise.

In addition, no employee shall disclose to any other member of the Investment Division or any other Agency employee or Trustee, any MNPI that he or she may obtain outside the course of employment by the Agency (including, for example, information obtained from a family member or friend).

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C. Policy

1. *Internal Trading on behalf of the System*. In the course of their duties for the System, employees shall comply with, and cause the System to comply with, all applicable federal and state laws, including the prohibition against insider trading, which includes trading securities, or tipping others, while aware, in possession, or on the basis of MNPI. When engaging directly or indirectly in trading on behalf of the System of any security (including options, puts, calls, shorts, or derivative positions), employees shall abide by the pre-trade compliance process established by the Chief Investment Officer in accordance with Section II.D of this Investment Policy Manual.

2. *Personal trading by Investment Division employees (or Immediate Family members).* Investment Division employees shall comply with, and cause Immediate Family members, to comply with, all applicable federal and state laws, including the prohibition on trading securities, or tipping others, while aware, in possession, or on the basis of MNPI. No System employee shall engage in Front Running. When engaging directly or indirectly in personal trading of any security (including options, puts, calls, shorts, or derivative positions), employees shall abide by, and cause their Immediate Family members to abide by, the procedures for personal trading as set out in the Staff Trading in Public Securities Policy.

3. Each employee shall follow the "Procedures" below and Section II.D of this Investment Policy Manual in the case of System trading or the Staff Trading

in Public Securities Policy in the case of personal trading by the employee or an Immediate Family member.

4. In the event of any conflict between this policy and any other provision of the Investment Policy Manual, this policy shall govern.

D. Procedures

References to the "**Compliance Officer**" below shall be deemed to include the Senior Compliance Officer and any person(s) designated by the Chief Investment Officer to act as Compliance Officer in the event the Senior Compliance Officer is absent or the Senior Compliance Officer is a recipient of MNPI or otherwise has or may have an actual or potential conflict of interest.

1. An employee shall immediately notify the Compliance Officer if he or she believes that he or she is aware of or otherwise has come into possession of possible MNPI. The employee shall provide the Compliance Officer with:
   - the name of the security and its ticker symbol if possible;
   - its issuer;
   - the names of all employees who, to the knowledge of the reporting employee, are aware of such; and
   - the time, date, and circumstances as to which the employee or other employees received or otherwise became aware of the information.
2. The Compliance Officer shall obtain all information as necessary or appropriate from staff members who may be aware of the MNPI.
3. The Compliance Officer shall consult with senior or other Investment Division staff who may be in a position to assist the Compliance Officer with assessing whether or not the relevant information is MNPI, and whether information determined to be MNPI may no longer be considered to be MNPI. When making such an assessment, the Compliance Officer shall consult with the Office of the Attorney General as the Compliance Officer deems appropriate. Such Investment Division staff shall provide all assistance or information as the Compliance Officer may request. The Compliance Officer and all such individuals identified above shall treat their discussions as confidential, and shall not initiate any new transactions for the System or for personal purposes regarding the relevant security pending a determination of whether the information is MNPI.
4. If the Compliance Officer determines that the information is MNPI, the Compliance Officer shall immediately put in place the following ("Compliance Controls"): (i) place the relevant issuer and security on the Restricted List (as defined in the Personal Trading in Securities policy set forth in this Investment Policy Manual); and (ii) cause the pre-trade compliance process to restrict trading by employees on behalf of the System in the relevant

issuer and security. The Compliance Officer shall remove the relevant issuer and security from the Compliance Controls only if and when the Compliance Officer, employing the procedures set out in paragraph 3 above, has determined that the information is no longer MNPI. This restriction is absolute and, for the avoidance of doubt, precludes investment in securities of the relevant issuer for any reason, including for purposes of rebalancing a position in an index of securities.

5. In accordance with the Compliance Controls under paragraph 4(i) above, and any additional procedures established by the Chief Investment Officer, Investment Division staff shall confirm that there is no prohibition or restriction on transacting in any securities (including options, puts, calls, shorts, or derivative positions) of the relevant issuer prior to engaging in any securities transaction either on behalf of the System.

E. Monitoring

The Compliance Officer will periodically review this policy in consultation with the Office of the Attorney General for consistency with current law.

F. Consequences for Violation of Policy

A violation of this policy will subject Investment Division employees to discipline and other sanctions as provided in the Code of Ethics.

V. STAFF PERSONAL TRADING IN SECURITIES

Policy Statement

Maryland State Retirement Agency (the "Agency") employees shall not derive personal gain from knowledge of the occurrence and / or timing of future purchases or sales by the Maryland State Retirement and Pension System (the "System").

This policy shall be read in conjunction with the laws and regulations pertaining to the System and the policies of the System, including, without limitation, the Code of Ethics and the Material Nonpublic Information and Insider Trading Policy.

1. **Scope**

   This policy applies to all Covered Persons of the Agency.

2. **Interpretive Authority & Exceptions to the Policy**

   The Chief Investment Officer of the Agency, in consultation with the Executive Director of the Agency, will be the interpretive authority for this policy and provide for exceptions to this policy. The Executive Director will be the interpretive authority for this policy in connection with any personal trading by the Chief Investment Officer.

3. **Oversight and Management**

   The Chief Investment Officer has overall responsibility for this policy. The Chief Investment Officer, or designee, has responsibility for oversight and management, including assuring compliance with reporting requirements. The Compliance Officer, or designee, has responsibility for designing, developing, implementing, administering, maintaining and monitoring the reporting requirements and related procedures to provide for compliance with the Agency policy.

4. **General Definitions**

   a. The **Restricted List** is a list of issuers to include, as of any relevant time, a list of securities as to which trading by Covered Persons and their Immediate Family members is prohibited under the Material Nonpublic Information and Insider Trading Policy, and any additional securities added at the direction of the Chief Investment Officer, including those added to prevent personal trading by a Covered Person or Immediate Family member while such person may be aware of an anticipated transaction arising in the Covered Person's employment with the Agency.

   b. **Covered Persons** are the following:

i. Executive Director;

ii. Chief Investment Officer;

iii. All other Investment Division staff; and

iv. Other Agency employees specifically identified by the Executive Director in consultation with the Chief Investment Officer.

c. The Personal Trading Disclosure Statement is the required reporting format of all Covered Persons as set forth with more detail in paragraph 6(a) below, due within 30 days of the end of each reporting period and otherwise as set forth in paragraph 6(a) below. This report is in addition to any other reporting requirements (including, for example, the Financial Disclosure Statement required under the Maryland Public Ethics Law and Code of Ethics and Standards of Professional Conduct Attestation and Conflicts of Interest Disclosure (the "Attestation and Disclosure Statement") required under the Code of Ethics).

d. **Immediate Family** members includes the spouse, dependent children, other dependent relatives if living in the household and any other household member, whether or not related.

e. **Covered Accounts** include any account that holds or is eligible to hold Covered Assets and that the Covered Person or the Covered Person's Immediate Family member has control of, maintains, or shares investment trading discretionary authority.

f. **Covered Assets** includes any and every type of investment, including options, futures, forwards, swaps and other derivative instruments related to Covered Assets, except the following:

1. Annuity contracts
2. Bank deposits
3. Money market instruments
4. Exchange traded products (commonly referred to as Exchange Traded Funds or "ETFs")
5. Foreign currency exchange transactions
6. Direct interests in hard assets (including physical commodities)
7. Mutual funds
8. Unit investment trusts
9. Direct interests in real property
10. Direct interests in tangible personal property
11. United States Treasury and Agency securities

12. United States state and municipal securities
13. Assets resulting from a direct investment plan that determines the timing of the purchase, such as a direct stock plan, employee stock purchase plan, or dividend reinvestment plans, whose terms have been set by the Covered Person or Immediate Family member in advance and are not altered or revised with respect to any transaction in the securities of the relevant issuer; provided, that in the event of any alteration or revision, transactions in such plans shall be considered to be Covered Transactions for 90 days after any such alteration or revision
14. Assets resulting from corporate actions such as mergers, stock dividends or stock splits
15. Life insurance contracts
16. Instruments and products based on a broad-market index
17. Any option, future forward, swap or other derivative of an asset referenced in items 1-16 above.

g. **Covered Transactions** include buying, selling, or otherwise acquiring or disposing of any interest in (including, by way of example, an option, future or forward in respect thereof, or shorting), any Covered Asset in a Covered Account other than corporate actions or other events arising outside the control of the Covered Person or Immediate Family member and result in the acquisition or disposition of such an interest.

h. **Front Running** may occur when a person enters into a trade of securities with advance knowledge of pending or expected orders from other investors. It could occur, for example, when any person covered by this Policy trades with the knowledge that a trade is pending or expected on behalf of the System or a third party.

5. General Policy

a. Personal trading is a privilege, not a right, and may be revoked at any time. Personal trading should not require routine or significant amount of attention during business hours.

b. Personal gain based on information obtained in the course of System activities is prohibited. Without limiting the foregoing, personal gain based on knowledge of occurrence and timing of purchases or sales by the System's internal or external managers is prohibited. This includes an employee Front Running investment transactions by the System's internal or external managers.

c. The use of Agency property (such as computers), resources or work-time to place personal trades or to conduct other personal investment-related business in violation of State or Agency policies is prohibited.

d. The Compliance Officer, or designee, shall compile and maintain the Restricted List. All Investment Division staff who have access to Restricted List will keep its contents confidential.

e. Covered Persons (and their Immediate Family members) may not transact in Covered Assets that are on the Restricted List or that are otherwise prohibited under paragraph 5.d above.

f. No Covered Person (or Immediate Family member thereof) may acquire an interest in a private investment fund without the prior written approval of the Chief Investment Officer, or the Executive Director in the case of the Chief Investment Officer. The Maryland Public Ethics Law strictly prohibits an employee from having a financial interest in an entity that has or is negotiating a contract with the employee's governmental unit. Consideration shall be given to whether the proposed transaction may create a potential conflict of interest (including, for example, by complicating any potential investment by the System in the same or related asset), or other factors as the Chief Investment Officer may determine in the Chief Investment Officer's sole discretion. From time to time, the Chief Investment Officer may institute a blackout covering all traded securities in an asset class or in a specific index. During a blackout period, all proposed Covered Transactions shall be denied.

g. Covered Persons and their Immediate Family members are prohibited from purchasing stock in any Initial Public Offering ("IPO"). They may accept IPO shares derived from a stock dividend on shares previously owned, from demutualization of an insurance company in which they are a policy-holder or as the result of an Immediate Family member's employment by an IPO issuer.

6. Reporting Requirements

a. Covered Persons are required to disclose to the Compliance Officer all Covered Accounts. Each Covered Person shall annually submit to the Compliance Officer a Personal Trading Disclosure Statement, which shall disclose all Covered Accounts. The Compliance Officer shall submit a Personal Trading Disclosure Statement to the Deputy Chief Investment Officer for review.

b. A Covered Person must submit a Personal Trading Disclosure Statement to report any new Covered Account to the Compliance Officer within 30 business days of being opened.

c. All Covered Accounts must be held by brokers or with administrators that will forward statements to the Agency, either electronically or manually, directly to the Agency and independent from the Covered Person no less frequently than quarterly.

d. A Covered Person must submit a Personal Trading Disclosure Statement within 30 days of employment or otherwise becoming a Covered Person under this policy.

e. At least on an annual basis, the Compliance Officer will report to the Chief Investment Officer, the Deputy Chief Investment Officer and the Executive Director any non-compliance with the Personal Trading Disclosure Statement reporting requirements of this policy. Any other violations of this policy will be handled in accordance with paragraph 8 below.

7. Pre-Clearance of Covered Transactions

a. Before engaging in any Covered Transaction, a Covered Person must pre-clear the Covered Transactions by forwarding a communication to the Compliance Officer, or designee, either through an automated system or other means, requesting a determination as to whether trading is allowed. A Covered Person must obtain approval from Compliance Officer before the Covered Person (or an Immediate Family member thereof) enters into the transaction. The Compliance Officer will maintain a written record of any clearances so granted.

b. Covered Persons must seek pre-clearance of a Covered Transaction on any day that domestic securities markets are open, even if the Agency is closed.

c. Pre-clearance approvals are valid only for the time period determined by the Compliance Officer in granting approval. If the proposed Covered Transaction is not executed within the approved time period, the Covered Person must re-start the pre-clearance process before undertaking a new transaction. Good until cancelled orders may not be used to extend pre-clearance beyond the approved time limit.

d. Any publicly traded security approved via the pre-clearance process shall be allowable for purchase or sale in personal portfolios subject to the approval parameters above or as otherwise may be conveyed by the Compliance Officer or designee.

e. The Compliance Officer will promptly report to the Chief Investment Officer any non-compliance with this policy.

f. A failure to pre-clear transactions by a Covered Person in these types of Covered Assets will be considered a violation of this policy under paragraph 8 below.

8. **Accountability / Investigations / Enforcement**

a. The Compliance Officer, or designee, shall be responsible for the day-to-day administration of this policy and shall be responsible for the maintenance of the pre-clearance procedures, including the Restricted List. The Compliance Officer shall track violations of this policy. In addition to reporting requirements set forth elsewhere in this policy, the Compliance Officer shall report violations by Covered Persons to the Chief Investment Officer. In the

event that a violation involves the Chief Investment Officer, the Compliance Officer shall report the violation to the Executive Director. The Deputy Chief Investment Officer shall be responsible for the administration of this policy with respect to the Compliance Officer.

b. Violations of this policy shall be governed by the terms of the Code of Ethics.

9. Training

The Compliance Officer, or designee, shall provide training in this policy to each Covered Person at the time the Covered Person begins employment at the Agency or otherwise becomes a Covered Person within the meaning of this policy, and periodically (but no less than annually) thereafter. The failure of a Covered Person to receive or attend training will not excuse noncompliance with this policy. A copy of this policy shall be provided to all employees at the start of their employment.

VI. SECURITIES LITIGATION POLICY

The purpose of this document is to set forth the Board of Trustees' policies with respect to securities litigation.

SUMMARY

The Board of Trustees believes that the most effective securities litigation evaluation processes consists of three components: (1) initial identification of claims, (2) further, in-depth assessment of certain claims and (3) active participation in securities litigation, where warranted. The services of a securities litigation monitor, claim evaluator, and specialized securities litigation counsel will be supplied by third party providers through the procurement process.

The principal objectives of the Board of Trustees with regard to securities litigation are to: (1) fulfill the Board of Trustees' fiduciary duty by effectively managing securities claims as assets of the Retirement System, and (2) maximize recovery of Retirement System assets on claims, while minimizing fees paid to obtain recoveries.

1. SECURITIES LITIGATION MONITOR

The Board of Trustees believes that the first element of an effective securities litigation evaluation process is to have one or more securities litigation monitors promptly identify all pending U.S. securities class action cases in which the Retirement System may be a class member, as well as pending and potential securities actions in non-U.S. jurisdictions ("foreign actions") in which the Retirement System may have recognized losses, and to make a preliminary calculation of the Retirement System's losses in a given case.

The securities litigation monitor shall timely provide the following services to the Retirement System:

- Identify and notify the Investment Division and the Office of the Attorney General ("OAG") of: (a) all newly-filed class action suits in which the System may be a class member, and (b) pending or potential foreign actions in which the System may have recognized losses;
- Make a preliminary calculation of the System's economic losses in each case. Losses shall be calculated on both a first-in-first-out calculation (FIFO) and last-in-first-out (LIFO) basis, except where the theory of recovery in a case calls for a different loss calculation;
- Notify the Investment Division and OAG of those cases where either the estimated economic losses on either a FIFO or LIFO basis are $3 million or greater;
- Monitor pending U.S. class action suits in which the System may be a class member, and foreign actions in which the System may have recognized losses,

and notify the Investment Division and OAG of any changes to pending litigation, including: updates to the "class periods," updates to case status (e.g. class certification, orders on motions to dismiss and summary judgment, trial, settlement notices), or any new data regarding settlement, including settlement notices and disbursements of funds;

- Provide a complete list of all CUSIP numbers (security ID numbers) and company names according to the System's historical holdings that may be eligible to participate in each case, and update when a settlement is pending;
- Notify the Investment Division and OAG of upcoming claims filing deadlines; and
- Provide the OAG and Investment Division with secure access web-based notification of all identified cases and economic loss calculations. Information to be provided by secure access web-based notification shall include the date of the complaint(s), case number, parties, counsel, court(s) file, class period(s), lead plaintiff deadline, copies of pleadings filed, all eligible CUSIP numbers and manager names, and details of the monitor's economic loss calculations, including calculations of the System's LIFO and FIFO losses by account and manager.

The roles and responsibilities of other parties involved in the claims monitoring process are as follows:

- Custodial bank: As the securities litigation monitor will need access to historical transactional data as well as current transactional data, the custodian will be directed to provide each monitor with a data interface and access to necessary investment records (both current and historical), and to otherwise cooperate with each monitor.
- Investment Division: will (a) assist the OAG in the selection of one or more securities litigation monitors, (b) receive and review notifications from the monitor, and (c) act as an intermediary between the monitor, custodial bank and investment managers when needed to ensure that the monitor has all necessary information. The Investment Division shall assist the OAG in the development of the minimum qualifications and scope of work, and the CIO shall designate a staff member to serve on the evaluation team for any competitive selection process to procure a securities litigation monitor.
- OAG: will (a) in consultation with the Investment Division, procure one or more securities litigation monitors, (b) oversee the work of the monitor, (c) receive and review notifications from the monitor in cases when a monitor advises that the estimated losses are greater than $3 million, (d) refer cases to the claim evaluator as required, and (e) provide updates to the Board. If a securities litigation monitor also participates in the OAG's panel of qualified law firms available to act as Assistant Securities Litigation Counsel, the OAG will procure at least two monitors. A securities litigation monitor will not be

guaranteed selection as the System's litigation counsel in the event that a decision is made to actively pursue litigation in a case.

2. CLAIMS EVALUATOR

The Board believes that the second element of an effective securities litigation evaluation process is to have a "claim evaluator" promptly conduct an in-depth assessment of any case where (a) the System's securities litigation monitor has advised that the estimated economic losses are greater than $10 million based on the class period proposed for the litigation, and (b) the OAG, in consultation with the Investment Division, determines that a claims evaluation will further the objectives of the Board of Trustees. This policy acknowledges that there may be rare cases where the $10 million threshold is not exceeded, however, other factors may warrant further evaluation. With regard to a foreign action, consideration of whether to obtain an in-depth assessment will include a review of the costs and risks to participate in the litigation and the proposed funding and terms for participation.

In order to prevent bias, the claim evaluator will not be guaranteed selection as the System's litigation counsel in the event that a decision is made to actively pursue litigation in a case.

The claim evaluator will be expected to provide the following services to the Retirement System:

- Assess and evaluate the known facts and the law applicable to the case, the degree and severity of the alleged wrongdoing, the factual and legal merits of the claims, available defenses and likelihood of those defenses prevailing, the possibility of obtaining corporate governance reforms, and defendants' ability to pay a judgment;
- Review the filing deadlines to preserve the claims, the availability of class action tolling in the jurisdiction, whether any precautionary measures such as a tolling agreement or motion to intervene may be appropriate to preserve the Retirement System's claims, and when such measures should be considered;
- Perform due diligence on claims (e.g., contact counsel for both sides, review complaints, SEC filings and company disclosures);
- Determine what other institutional investors are doing;
- Provide a detailed estimate and analysis of the System's (1) economic losses and (2) maximum potential recoverable damages, including an evaluation of the security's price drop relative to the overall movement of the market, and the price effects of non-fraud events at the company and for the relevant industry;

- Where necessary and appropriate, review System's investment records, interview Investment Division staff, external managers, others;
- Provide a written, confidential report containing (a) summary of findings and (b) a recommendation as to what, if any action the System should take in the litigation. Options may include doing nothing, filing for lead plaintiff status or actively participating in ways other than becoming lead plaintiff. Other types of active participation may include: filing a motion to support or oppose a particular lead plaintiff or lead counsel candidate, objecting to a poor settlement or excessive fees, opting out of the class to file a separate action, or bringing a derivative action; and
- Be available, on an "as needed" basis, to confer with OAG, staff, Investment Committee and/or the Board of Trustees regarding findings and recommendations.

With regard to a potential opt out of a U.S. securities class action case or other direct action, the claim evaluator's confidential written report shall address additional factors including: (a) the burdens, risks and expense of pursuing a direct action; (b) the availability of funds for recovery for opt out plaintiffs; and (c) whether individual claims present advantages over class claims, including whether the System has claims that cannot be pursued in a class action.

With regard to a potential foreign action, the claim evaluator's confidential written report shall address additional factors including: (a) how the action is being funded and the identity and reliability of the funders; (b) identity and assessment of foreign counsel; (c) an assessment of the terms of participation, including the funders' and attorneys' fees, litigation costs and expenses; (d) the process and costs for opting in; (e) the risks of participation, including any potential adverse costs if litigation is unsuccessful; (f) potential discovery burdens; (g) the role the Retirement System will play and control the Retirement System and the OAG will have with regard to the conduct of the litigation; and (h) an analysis of other options, if any, available to the System to recover losses.

The roles and responsibilities of other parties involved in the claim evaluation phase are as follows:

- OAG: Will procure one or more claim evaluators and oversee the claim evaluators' work. Will timely provide claim evaluator with any requested information. After the claim evaluator's report is received, the OAG will confer with Investment Division staff, the Securities Litigation Committee, and, as needed, the Board of Trustees and make a recommendation regarding the position the System should take in the litigation.
- Investment Division: Will timely provide claim evaluator with any requested information. Will participate in interviews or meetings requested by claim evaluator. Will provide claim evaluator with any data required from custodial bank.

- External managers: Will timely provide claim evaluator with any requested information. Will participate in interviews or meetings requested by claim evaluator.
- Securities Litigation monitor: Will timely provide claim evaluator with any requested information. Will participate in interviews or meetings requested by claim evaluator.
- Custodial bank: Will timely provide claim evaluator with any requested information.
- Securities Litigation Committee: Will review the claim evaluator's reports, receive recommendations from the OAG and obtain the Investment Division's input as to business issues. Will develop a recommendation regarding the position the System should take in the litigation, based on the following factors:

  a) Whether the Retirement System's (1) economic losses and (2) maximum potential recoverable damages are large enough to warrant the expenditure of staff/counsel time that would be required for active involvement in the case, by, e.g., seeking appointment as lead plaintiff or filing a direct action in a securities litigation matter;

  b) Whether other institutional investors are likely to become actively involved;

  c) Whether the Retirement System's involvement as lead plaintiff would add value to the potential settlement or help achieve a corporate governance goal or other policy goal of the Retirement System; and

  d) Whether there are other exceptional circumstances warranting seeking appointment as lead plaintiff.

  If the Securities Litigation Committee's recommendation is that the Retirement System shall not actively participate in the litigation, the Committee shall report its recommendation as an information item to the Board of Trustees at the next scheduled meeting. However, if the Committee's recommendation is that the Retirement System should actively participate in the litigation, either by seeking lead plaintiff status, or through an opt-out or derivative action, then the Committee shall promptly provide its recommendation to the Board of Trustees for its consideration.

- The Board of Trustees: Will appoint a Securities Litigation Committee, comprised of 3 or more members of the Board, to make recommendations regarding the position the Retirement System should take in the litigation. Will receive recommendations from the Securities Litigation Committee and OAG. If the Securities Litigation Committee and OAG recommend active participation in the litigation, the Board of Trustees shall promptly confer and vote on whether to accept the recommendation. Because of the 60 day "time clock" for seeking appointment as lead plaintiff, the Board of Trustees recognizes and understands that it may, from time to time, be necessary to

conduct a telephone or email poll of the full Board of Trustees to vote on the recommendation.

3. SECURITIES LITIGATION COUNSEL

The Board believes that the third and last element of an effective securities litigation evaluation process is to have the ability to retain the services of specialized securities litigation counsel in the event that a decision is made to actively participate in a securities case.

Where a decision is made to seek lead plaintiff status, actively participate in a foreign action to recover losses, or to otherwise commence litigation (e.g., an "opt-out" or direct action), special securities litigation counsel, at the behest of and under the supervision of the OAG, shall provide the following services on behalf of the System:

- Diligently gather facts and assess laws applicable to the case;
- Zealously represent the System and the plaintiff class at all stages of litigation;
- Review System's investment records, interview Investment Division staff, external managers, others;
- If settlement is proposed, provide a written, confidential report containing (a) summary of findings and significant events in the litigation and (b) recommendation as to whether System should accept the proposed settlement to the OAG, with copies to all members of the Board (distributed via the Board Secretary) and the Chief Investment Officer. The report will include a full explanation of reasons supporting recommendation; and
- Be responsive to, and available on an "as needed" basis to confer with, OAG, staff, Securities Litigation Committee and/or the Board of Trustees regarding status, findings, settlement proposals and recommendations.

The roles and responsibilities of other parties in the conduct of litigation are as follows:

- OAG: Shall select through the procurement process, with input from the System, a panel of at least three qualified law firms which would be available to act as special securities litigation counsel under the supervision of the OAG on a contingency fee basis. Will be responsible for establishing, with input from the System, the fees payable to counsel, and overseeing special securities litigation counsel's work. In keeping with its constitutional and statutory obligations, the OAG will give the System its independent evaluation of, and advice regarding, issues arising during the course of litigation. Will timely provide counsel and Board with any requested information.
- Investment Division: Will timely provide counsel with any requested information. Will participate in interviews, meetings, depositions or other proceedings as requested by counsel. Will provide counsel with any data required from custodial bank.

- External managers: Will timely provide counsel with any requested information. Will participate in interviews, meetings, depositions or other proceedings as requested by counsel.
- Custodial bank: Will timely provide counsel with any requested information.
- Securities Litigation Committee and Board of Trustees: Will timely provide counsel with any requested information. Will participate in interviews, meetings, depositions or other proceedings as requested by counsel.

FILING OF CLAIMS:

Upon the settlement or other resolution of class action or other securities litigation, the System's custodial bank shall timely file all documents and take other steps necessary to insure that (a) the System's interests are protected and (b) all monies due the System from such litigation are collected. The Investment Division will receive information from the custodial bank regarding the filing of claims and receipt of settlement proceeds, and periodically report to the Board of Trustees.

VII. ECONOMICALLY TARGETED INVESTMENTS

a. Objective

The purpose of this policy is to establish and promulgate the position of the Board of Trustees regarding exercise of its fiduciary responsibilities in connection with economically targeted investing.

b. Fiduciary Responsibility

The Annotated Code of Maryland, State Personnel and Pensions Article ("SPP") provides that the members of the Board of Trustees and other System fiduciaries shall discharge their duties solely in the interest of the participants and for the exclusive purposes of: (a) providing benefits to the participants, and (b) for reasonable expenses of administering the System.

c. Definitions

An economically targeted investment (ETI) broadly refers to an investment that is selected for the economic benefits it creates in addition to the investment return.

Environmental, Social, and Governance (ESG) factors broadly refer to sustainable, ethical and corporate governance issues that may have an influence on an investment's risk and return.

d. Position Statement

It is the position of the Board of Trustees that any selected investments should be prudent on their own merit, providing expected comparable risks and returns to similar investments, regardless of the collateral benefits they offer. Fiduciaries may not sacrifice investment returns or assume greater investment risks as a means of using plan investments to promote collateral social policy goals. Investments with below-market rates, greater risk, or other concessionary terms are not acceptable as they compromise established risk-return standards and conflict with the fiduciary responsibility to invest the System's assets for the exclusive benefit of the participants.

e. Consideration of ESG Factors or ETI Investments

ESG investment strategies, or other investments that provide collateral benefits, may only be considered to the extent consistent with the fiduciary duties of the Board of Trustees. The focus of the System's fiduciaries is on the financial returns and risks to the System. Any such investment must be economically equivalent, such that the expected rate of return is commensurate to the rates of return of alternative investments with similar risk characteristics that are available to the

System, and the investment is an appropriate investment for the System in terms of such factors as diversification and the System's investment policies.

VIII. GENERAL PROCUREMENT POLICIES AND PROCEDURES

Policy Statement:

In accordance with State Finance and Procurement Article § 12-401, this section of the IPM is to detail the System's investment related exempt procurement policies and policy guidelines relating to:

i) The methods of procurement;

ii) The advertising requirements;

iii) The procurement goals, including minority business enterprises participation; and

iv) The approval process.

Policy Guidelines:

1. ***Investment Managers***. For services of managers to invest the assets of the Maryland State Retirement and Pension System, including real and personal property:

   Method of Procurement: The System has developed a convenient way to submit investment proposals online, and continually accepts investment information from investment managers and private funds. The information received will be evaluated based on the current investment requirements of the System. As broad a universe of qualified providers shall be considered as is practical and reasonable given budgetary, staffing, time and other relevant constraints. Prior to funding, due diligence will be performed on investment managers and investment vehicles meeting the investment requirements of the System.

   Advertising Requirements: The System will advertise via the Agency website.

   Procurement Goals: Each investment manager or investment vehicle shall be selected to meet specific investment objectives and performance standards. The Board encourages the inclusion of emerging managers and minority business enterprises. See also detailed information below on Minority Business Enterprise Participation and economic benefits to Maryland.

   Approval Process: The Chief Investment Officer shall approve all procurements related to the investment of funds. The Office of the Attorney General shall approve all contracts related to the investment of funds for form and legal sufficiency.

2. ***Expenditures to manage, maintain, and enhance the value of assets***. For expenditures to manage, maintain, and enhance the value of the assets of the

Maryland State Retirement and Pension System in accordance with investment guidelines adopted by the Board:

Method of Procurement: Except as provided in the Board's Service Provider Selection Policy, which is established in the separately documented Governance Policies that have been adopted by the Board, or as otherwise provided in these General Procurement Policies and Procedures, the System will use a competitive procurement process using a Request for Proposal (RFP) or a Request for Information (RFI) as determined by the specific details of the procurement.

Advertising Requirements: The System will advertise via multiple avenues, including eMaryland Marketplace and the Agency website.

Procurement Goals: Each investment-related service provider shall be selected to meet specific investment objectives and standards. The Board encourages the inclusion of minority business enterprises. See also the detailed information below on Minority Business Enterprise Participation and economic benefits to Maryland. Service providers shall be subject to a level of due diligence that reflects a level of rigor that is commensurate with the importance and materiality of the service in question.

Approval Process: The Chief Investment Officer shall approve all procurements related to service providers. The Office of the Attorney General shall approve all contracts for investment-related service providers for form and legal sufficiency.

3. ***Optional Retirement Program***. For services relating to the administration of the Optional Retirement Program (ORP) under Title 30 of the State Personnel and Pensions Article:

Method of Procurement: Except as provided in the Board's Governance Service Provider Selection Policy, the System will use a competitive procurement process using a Request for Proposal (RFP) or a Request for Information (RFI) as determined by the specific details of the procurement.

Advertising Requirements: The System will advertise via multiple avenues, including eMaryland Marketplace and the Agency website.

Procurement Goals: Each ORP vendor shall be selected to meet specific investment objectives and performance standards and each investment-related service provider shall be selected to meet specific investment objectives and standards. The Board encourages the inclusion of minority business enterprises. See also the detailed information below on Minority Business Enterprise Participation and economic benefits to Maryland.

Approval Process: The Board will approve the ORP vendors and the Executive Director will approve specialty consultants and other non-key service providers of the ORP program. The Office of the Attorney General shall approve all contracts for form and legal sufficiency.

4. ***Postretirement Health Benefits Trust.*** For services relating to the administration of the Postretirement Health Benefits Trust Fund:

   Method of Procurement: The System has developed a convenient way to submit investment proposals online, and continually accepts investment information from investment managers and private market funds. The information received will be evaluated based on the current investment requirements of the System. Prior to funding, due diligence will be performed on investment managers and private funds meeting the investment requirements of the System. Except as provided in the Board Governance Service Provider Selection Policy, the System will use a competitive procurement process using a Request for Proposal (RFP) or a Request for Information (RFI) as determined by the specific details of the procurement.

   Advertising Requirements: The System will advertise via multiple avenues, including eMaryland Marketplace and the Agency website.

   Procurement Goals: Each investment manager and private market fund shall be selected to meet specific investment objectives and performance standards and each investment related service provider shall be selected to meet specific investment objectives and standards. The Board encourages the inclusion of minority business enterprises. See also detailed information below on Minority Business Enterprise Participation and economic benefits to Maryland.

   Approval Process: The Chief Investment Officer shall approve all procurements related to service providers for the Postretirement Health Benefits Trust Fund. The Office of the Attorney General shall approve all contracts for form and legal sufficiency.

5. ***Custodial Banking Services.*** For expenditures for the safe custody, domestic or global, of investments as provided under § 21-123(f) of the State Personnel and Pensions Article:

   Method of Procurement: Except as provided in the Board's Governance Service Provider Selection Policy, or as otherwise provided in these General Procurement Policies and Procedures, the System will use a competitive procurement process using a Request for Proposal (RFP) or a Request for Information (RFI) as determined by the specific details of the procurement.

   Advertising Requirements: The System will advertise via multiple avenues, including eMaryland Marketplace and the Agency website.

   Procurement Goals: Each service provider shall be selected to meet performance standards for services related to the safe custody of investments, which includes a broad array of services that a custodian is uniquely in a position to perform, including, but not limited to, the execution of currency transactions, the management of collateral for derivatives investments, compliance and performance reporting, and some investment related services. The Board encourages the inclusion of minority business enterprises. See also the detailed

information below on Minority Business Enterprise Participation and economic benefits to Maryland.

Approval Process: The Board shall approve the primary vendor providing custodial banking services, and the Chief Investment Officer shall approve any other non-key service providers. The Office of the Attorney General shall approve all contracts for form and legal sufficiency.

6. Brokers. For services of trading counterparties including brokers and futures clearing merchants providing trading related services to the Maryland State Retirement and Pension System:

Method of Procurement: The System shall develop a convenient way to submit investment proposals online, and to continually accept investment information from trading counterparties. The information received will be evaluated based on the current investment requirements of the System, the services provided by the trading counterparty and the counterparty risk of the trading counterparty. As broad a universe of qualified providers shall be considered as is practical and reasonable given budgetary, staffing, time and other relevant constraints. Prior to utilizing the trading services, due diligence will be performed on trading counterparties meeting the investment requirements of the System.

Advertising Requirements: The System will advertise via the Agency website.

Procurement Goals: Each trading counterparty shall be selected to meet specific investment objectives and performance standards. The Board encourages the inclusion of emerging managers and minority business enterprises. See also detailed information below on Minority Business Enterprise Participation and economic benefits to Maryland.

Approval Process: The Chief Investment Officer shall approve all procurements related to the trading of the assets of the System. The Office of the Attorney General shall approve all contracts for form and legal sufficiency.

7. ***Small Procurements***. For exempt contracts for which the Chief Investment Officer determines the value of the entire contract, including any option years, is $50,000 or less:

Method of Procurement: Competition shall be sought to the extent practicable, considering such factors as availability of vendors, dollar value of the procurement, cost of administering the procurement, time available to complete the procurement, including delivery time, and sound business judgment. A procurement may not be artificially divided in order to use the small procurement method. Oral or written solicitations may be used. Solicitation terms must be consistent.

Advertising Requirements: None. The System will directly solicit individuals or firms who are believed to be qualified to perform the contract.

Procurement Goals: Each investment-related service provider shall be selected to meet specific investment objectives and standards. The Board encourages the inclusion of minority business enterprises. See also the detailed information below on Minority Business Enterprise Participation and economic benefits to Maryland. Service providers shall be subject to a level of due diligence that reflects a level of rigor that is commensurate with the importance and materiality of the service in question.

Approval Process: The Chief Investment Officer shall approve all small procurements. The Office of the Attorney General shall approve all small procurement contracts for form and legal sufficiency.

8. ***Sole Source Procurement***. For exempt contracts for which the product or service to be procured is available only from a single vendor:

   Method of Procurement: The determination as to whether a procurement shall be made as a sole source shall be made by the Chief Investment Officer, in writing, and must state the basis for the decision. The determination must be approved by the Executive Director and written documentation explaining the basis for the sole source procurement must be promptly provided to the Investment Committee.

   Advertising Requirements: None. The System will directly solicit the individual or firm believed to be qualified to perform the contract.

   Procurement Goals: Each investment-related service provider shall be selected to meet specific investment objectives and standards. Service providers shall be subject to a level of due diligence that reflects a level of rigor that is commensurate with the importance and materiality of the service in question.

   Approval Process: The Chief Investment Officer shall approve sole source procurements. The Office of the Attorney General shall approve all sole source procurement contracts for form and legal sufficiency.

9. ***Emergency Procurement***. For exempt contracts in excess of $50,000, only in the event of a sudden unexpected occurrence or condition which the Chief Investment Officer could not reasonably foresee:

   Method of Procurement: An emergency procurement shall be limited to the procurement of only the types and quantities of items necessary to avoid or to mitigate serious damage to public health, safety, or welfare. The determination as to whether a procurement is an emergency procurement shall be made by the Chief Investment Officer, in writing, and must state the basis for the decision. The determination must be approved by the Executive Director and written documentation explaining the basis for the emergency procurement must be promptly provided to the Investment Committee.

Advertising Requirements: None. If practicable, the System will advertise via the Agency website. Otherwise, the System will directly solicit the individual(s) or firm(s) believed to be qualified to perform the contract.

Procurement Goals: Competition is preferred, but not required. Each investment-related service provider shall be selected to meet specific investment objectives and standards. Service providers shall be subject to a level of due diligence that reflects a level of rigor that is commensurate with the importance and materiality of the service in question.

Approval Process: The Chief Investment Officer and the Executive Director shall jointly approve emergency procurements. The Office of the Attorney General shall approve all emergency procurement contracts for form and legal sufficiency.

10. ***Intergovernmental Services***. For exempt services to be provided by a State agency or unit, a political subdivision of the State, an agency of a political subdivision of the State, a government, including the government of another state or the United States, or an agency or political subdivision of a government:

    Method of Procurement: Competition shall be sought to the extent practicable, considering such factors as availability of vendors, dollar value of the procurement, cost of administering the procurement, time available to complete the procurement, including delivery time, and sound business judgment. Oral or written solicitations may be used. Solicitation terms must be consistent.

    Advertising Requirements: None. The System will directly solicit the agency or governmental unit believed to be qualified to perform the contract.

    Procurement Goals: Each investment-related service provider shall be selected to meet specific investment objectives and standards. Service providers shall be subject to a level of due diligence that reflects a level of rigor that is commensurate with the importance and materiality of the service in question.

    Approval Process: The Chief Investment Officer shall approve all intergovernmental procurements. The Office of the Attorney General shall approve all intergovernmental contracts for form and legal sufficiency.

Minority Business Enterprise Participation

A. State's Minority Business Enterprise Policies

1. The Board of the Maryland State Retirement and Pension System (System) is committed to carrying out the State's Minority Business Enterprise (MBE) policies as identified in the State's procurement law and regulations at Md. Code Ann. State. Fin. & Proc. §§ 14-301 through 14-309 and COMAR 21.11.03. The Trustees will structure procurement procedures to:

- encourage participation in the process by certified MBEs; and
- provide a fair share of procurement contracts to certified MBEs.

2. The Agency's objective is to achieve the goals set forth in Md. Code Ann. State. Fin. & Proc. §§ 14-301 through 14-309 and COMAR 21.11.03. These goals are as follows:

    - an overall goal of 29% of the Agency's total dollar value of procurement contracts being made directly or indirectly to certified MBEs.;
    - subgoals, if any, as set in accordance with the guidelines established by the Governor's Office of Minority Affairs.

MBE participation goals and subgoals shall be set on a contract by contract basis based upon the type of work involved in the contract and whether there are certified MBEs available to perform the work.

The System is firmly committed to the success of the State's MBE Program. As evidence of its commitment to these goals, the System will make reasonable efforts to:

- Maximize contracting opportunities to minority businesses in the procurement of services in accordance with the Investment Policy Manual.
- Increase MBE participation, where possible.
- Enforce MBE compliance policies and procedure for prime contractors and minority subcontractors who are doing business with the System.

3. For every proposed procurement, the System shall assess the potential for certified MBE participation and set certified MBE participation goals, as appropriate, in accordance with COMAR 21.11.03.09.
4. Solicitation Notices

    - Where a goal for certified MBE participation has been set, the solicitation should include language advising the Bidders/Offerors of the requirements of Md. Code Ann. State. Fin. & Proc. §§ 14-301 through 14-309 and COMAR 21.11.03.

    - Where a goal for certified MBE participation has not been set, the solicitation should include language encouraging MBE participation in the following or substantially similar form: **"Minority Business Enterprises (MBEs) are encouraged to respond to this solicitation. Offerors who consider themselves to be minority contractors are**

encouraged to obtain certification from the Maryland Department of Transportation. A minimum certified Minority Business Enterprise subcontract participation goal has not been established for this procurement, but certified MBE subcontract participation may be considered in evaluating proposals under certain circumstances. Offerors are encouraged to utilize MBEs for any subcontracting opportunities that may arise. The Agency also encourages Offerors to include socially and economically disadvantaged individuals on the team responding to this solicitation, if applicable."

- For external investment managers, investment management agreements should include language in the following or substantially similar form:

  Allocation of Brokerage. When the Manager places orders for the purchase or sale of securities for the Account, the Manager may allocate such transactions to such brokers and dealers for execution on such markets at such prices and at such commission rates as in the good faith judgment of the Manager will be in the best interest of the Account and in accordance with the Manager's obligation to obtain best execution; provided, however, that, to the extent consistent with the foregoing, the Manager shall make a good faith effort to utilize as brokers "certified minority business enterprises," or CMBEs, certified by the Office of Minority Business Enterprise, Maryland Department of Transportation, telephone: (410) 865-1269. A current directory of CMBEs is available at http://www.mdot.state.md.us.

5. Contract Award

   In the event of tie bids, or of offers in which the evaluation of technical and price proposals is essentially equal, the System may award the contract in order to obtain certified MBE participation, in accordance with COMAR 21.11.03.10.

B. Removing Barriers to Participation; Publicizing Searches

The Board is also firmly committed to advancing the policy objective set forth in State Personnel and Pensions Article, Section 21-116(d)(1) to seek to use to the greatest extent feasible minority business enterprises to provide brokerage and investment management services to the System by removing barriers and publicizing searches, consistent with the minority business purchasing standards applicable to units of State government under the State Finance and Procurement Article summarized above and consistent with the fiduciary duties of the Board.

Economic Benefits to Maryland

A. Evaluation Factor

To the extent feasible and consistent with fiduciary duty, solicitations will include an economic benefits evaluation factor. Offerors will be asked to demonstrate in their proposals how the contract will benefit the Maryland economy. Evaluation of offers with respect to this factor shall be in accordance with COMAR 21.05.03.03A(3).

B. Reciprocal Preferences For Resident Bidders/Offerors

When making an award using competitive sealed bidding or competitive sealed proposals, preference may be given to a resident business over a non-resident business whose principal office or operation is located in a state that gives its own resident businesses a procurement preference. Preferences given to any bidder/offeror shall be in accordance with Md. Code Ann. State. Fin. & Proc. § 14-401 and COMAR 21.05.01.04.

IX. CRITERIA FOR COMPENSATION AND FINANCIAL INCENTIVES FOR THE CHIEF INVESTMENT OFFICER AND INVESTMENT DIVISION STAFF

The following is a framework for the compensation and financial incentive plan for the Chief Investment Officer (CIO) and Investment Division staff of the Maryland State Retirement and Pension System (the "System") pursuant to the Maryland Code Ann., State Personnel and Pensions Article ("SPP") § 21-118.1 and § 21-122. The below compensation and financial incentive criteria were approved by the Board of Trustees (the "Board") on January 15, 2019, June 18, 2019 and July 26, 2019 and are effective July 1, 2019.

A. CIO Compensation

On the recommendation of the Executive Director and the Investment Committee, the Board determines the compensation for the CIO. The Board shall consider the recommendations of the Objective Criteria Committee (OCC) before adopting criteria for the compensation of the Chief Investment Officer. Such criteria shall include comparative qualifications, compensation, and leave of employees serving in similar positions and discharging similar duties at comparable public pension funds. Additionally, the criteria shall include objective benchmarks of investment performance that shall be met or exceeded for the CIO to be eligible for an increase in compensation.

Effective July 1, 2019, the objective criteria for compensation of the CIO are as follows:

- Base salary and total cash compensation market data at the 25th, 50th, and 75th percentile
- Comparisons to external survey data based on job description
- Education and certifications
- Employee salary range placement
- Fund returns relative to policy benchmarks*

* Adjustments to the CIO's base salary are to be based on fund returns relative to policy benchmarks. When the CIO's salary is at or above the salary range midpoint, an increase in compensation should only be considered in years when the fund meets or exceeds policy benchmarks. If the CIO's salary is below the salary range midpoint, an increase should be considered.

The CIO's compensation may not be adjusted by cost-of-living adjustments or merit increases payable to other State employees. The Board of Trustees may not grant any compensation increases to the CIO in a fiscal year in which State employees are subject to a furlough.

B. CIO Financial Incentive Program

On the recommendation of the Investment Committee, the Board, after considering the recommendations of the OCC, establishes objective criteria for awarding of financial incentives for the CIO. Financial incentives may only be awarded based on the objective criteria adopted by the Board. The objective criteria for financial incentives to the CIO shall include: (a) objective benchmarks of investment performance that shall be met or exceeded, and (b) objective criteria used by comparable public pension funds awarding financial incentives to chief investment officers. The amount of financial incentives to the CIO in a fiscal year may not exceed 33% of the CIOs compensation.

Effective July 1, 2019, the financial incentive performance metrics for the CIO are as follows:

- Performance vs. Policy Benchmark over a three-year period (50%)
- Performance vs. Actuarial Assumed Rate of Return (50%) over a three-year period. To be eligible for a payout under this metric, the fund must have a positive return relative to the Policy Benchmark over a three-year period.

The required performance to achieve the maximum incentive award for the 50% weighting to the Performance vs. Policy Benchmark is 40 basis points (0.40%) and for the 50% weighting to Performance vs. Actuarial Assumed Rate of Return is 20 basis points (0.20%).

The incentive plan opportunities for the CIO are:

- Threshold annual incentive: 11%
- Target annual incentive: 22%
- Maximum annual incentive: 33%

For new hires and position changes, the performance period will be measured based on the CIO's time in the position (in full year increments), until the CIO reaches three years of service.

Financial incentives will be paid over a two-year period in equal installments. The dates on which financial incentives are paid shall be set by the Board at the time the financial incentives are determined, and may not be changed after being set. If the CIO separates from employment, the Board may not pay out any remaining financial incentives due to be paid after the date of separation from employment. The Board may not pay financial incentives in a year in which State employees are subject to a furlough, but may pay them out after the furlough period has ended, if the CIO is currently employed as the CIO.

C. Investment Division Staff Compensation

The Board determines the compensation for Investment Division positions. The Board considers the recommendations of the OCC before adopting objective criteria for setting compensation of Investment Division staff. Such criteria shall include comparative qualifications and compensation of employees serving in similar positions and discharging similar duties at comparable public pension funds and objective benchmarks of investment performance that shall be met or exceeded.

The objective criteria for compensation for Investment Division positions that involve discretion over investment-related decisions are as follows:

- Base salary and total cash compensation market data at the 25th, 50th, and 75th percentile
- Comparison to external survey data based on job descriptions
- Education and certifications
- Employee salary range placement
- Fund return relative to benchmark*

*When a position's salary is at or above the salary range midpoint, an increase in compensation should only be considered in years when the fund meets or exceeds policy benchmarks. If the position's salary is below the salary range midpoint, an increase should be considered. For employees responsible for specific asset classes, performance must meet or exceed asset class benchmarks.

The Board approved position classifications and salary ranges for all Investment Division positions on January 15, 2019. The Board approved the position assignment and compensation for Investment Division staff on March 19, 2019. The CIO shall present any alterations to the position classifications and any salary changes to the Board for its approval.

Compensation for Investment Division positions may not be increased in each fiscal year by more than 10%. For positions that do not involve discretion over investment-related decisions, the Board of Trustees may not set compensation that exceeds compensation for providing comparable services in other State employment. For positions that involve discretion over investment-related decision, compensation may not be adjusted by cost-of-living adjustments or merit increases payable to other State employees. Additionally, the Board of Trustees may not grant any compensation increases to Investment Division staff in a fiscal year in which State employees are subject to a furlough.

Investment Division Staff Financial Incentive Program

The Board, after considering the recommendations of the OCC, adopts objective criteria for awarding financial incentives for Investment Division positions that involve discretion over investment-related decisions. Financial incentives may only be awarded based on the objective criteria adopted by the Board. The objective criteria for financial incentives for eligible Investment Division staff shall include objective benchmarks of investment performance that shall be met or exceeded, including benchmarks for the asset class in which investments are under the direction of the individual. The amount of financial incentives for a position in a fiscal year may not exceed 33% of a position's compensation. The Board may not award financial incentives for positions that do not involve discretion over investment-related decisions.

Effective July 1, 2019, the financial incentive performance metrics for eligible Investment Division positions are as follows:

- Performance vs. Policy Benchmark over a three-year period
- Performance vs. Actuarial Assumed Rate of Return over a three-year period. To be eligible for a payout under this metric, the fund must have a positive return relative to the Policy Benchmark over a three-year period.
- Performance vs. Asset Class over a three year period

Eligible Investment Division positions have the following incentive opportunities:

Positions	Threshold Annual Incentive	Target Annual Incentive	Maximum Annual Incentive
Deputy Chief Investment Officer	11%	22%	33%
Managing Director	11%	22%	33%
Sr. Portfolio Manager V	11%	22%	33%
Sr. Portfolio Manager IV	11%	22%	33%
Sr. Portfolio Manager III / Sr. Risk Manager	11%	22%	33%
Sr. Portfolio Manager II / Sr. Risk Manager II	11%	22%	33%
Sr. Portfolio Manager I / Sr. Risk Manager I	11%	22%	33%
Sr. Investment Analyst III	5%	10%	15%
Sr. Investment Analyst II	5%	10%	15%
Sr. Investment Analyst I	2.5%	5%	7.5%

Noted below are the approved potential weighting of performance metrics by position.

Positions	Weighting		
	Policy Benchmark	Actuarial Rate of Return	Asset Class
Deputy Chief Investment Officer	50%	50%	N/A
Managing Director	25%	25%	50%
Sr. Risk Manager I-III	50%	50%	N/A
Sr. Portfolio Manager I-V	25%	25%	50%
Sr. Investment Analyst I-III	25%	25%	50%

Noted below are the approved financial incentive parameters for the policy benchmark and the actuarial rate of return performance metrics.

MSRA's 3 Year Trailing Average Actual Basis Points Relative to Policy Benchmarks	% of Target Annual Incentive Earned	MSRA's 3 Year Trailing Average Basis Points Relative to Actuarial Rate of Return	% of Target Annual Incentive Earned
Below	0%	Below	0%
0	50%	0	50%
10	75%	5	75%
20	100%	10	100%
30	125%	15	125%
40	150%	20	150%

Noted below are the approved financial incentive parameters for the asset class performance metric.

Public Equity Real Assets		Real Estate Absolute Return		Private Equity		Fixed Income		Credit	
MSRA's 3 Yr. Alpha (bps)	% of Target Annual Incentive Earned	MSRA's 3 Yr. Alpha (bps)	% of Target Annual Incentive Earned	MSRA's 3 Yr. Alpha (bps)	% of Target Annual Incentive Earned	MSRA's 3 Yr. Alpha (bps)	% of Target Annual Incentive Earned	MSRA's 3 Yr. Alpha (bps)	% of Target Annual Incentive Earned
Below	0%	Below	0%	Below	0%	Below	0%	Below	0%
0	50%	0	50%	0	50%	0	50%	0	50%
13	75%	7	75%	25	75%	8	75%	17	75%
25	100%	13	100%	50	100%	15	100%	33	100%
38	125%	19	125%	75	125%	23	125%	49	125%
50	150%	25	150%	100	150%	30	150%	65	150%

For new hires and position changes, the performance period will be measured based on the individual's time in the position (in full year increments), until the individual reaches three years of service in the position. Financial incentives will be paid over a two-year period in equal installments. The dates on which financial incentives are paid shall be set by the Board at the time the financial incentives are determined, and may not be changed after being set. If the individual separates from employment, the Board may not pay out any remaining financial incentives due to be paid after the date of separation from employment. The Board may not pay financial incentives in a year in which State employees are subject to a furlough, but may pay them out after the furlough period has ended, if the individual is currently employed in the Investment Division.

X. INVESTMENT IN COMMINGLED VEHICLES

INVESTMENT IN / CONTRIBUTION OF ASSETS TO COMMINGLED VEHICLES

When the System invests in or contributes assets to commingled vehicles, the terms of the documents governing the commingled vehicle occasionally require the Board, on behalf of the System, to adopt certain provisions of trust documents governing the commingled vehicle, all as provided under the terms of such trust documents.

The Board has authorized and empowered the Executive Director and Chief Investment Officer, when they deem it to be in the best interest of the System and its beneficiaries, in connection with an investment in or contribution of assets to a commingled vehicle, to approve and cause the System to adopt the provisions of the trust documents for the commingled vehicle on behalf of the System, to make such documents a part of the System's Investment Policy Manual, evidenced by inclusion of such adopted provisions as an appendix to the Investment Policy Manual, and to execute such other documents and take such other actions as shall be necessary and desirable in connection therewith.

Attached as Appendix A to the Investment Policy Manual, as such appendix may be amended from time to time without further action of the Board, is a list of documents adopted as part of the Investment Policy Manual in connection with an investment in or contribution of assets to a commingled vehicle. Copies of the documents referenced in Appendix A may be obtained from the Investment Division.

XI. Risk Management

A. Purpose

The purpose of this policy is to identify the processes performed to assess, manage and disclose investment risk, including ESG (environmental, social and governance) risk, in relation to the System's assets.

B. Risk Consideration

i. The System's asset allocation is the Board's primary risk management tool. In setting the allocation, the Board balances the goal of achieving the target long term returns with the goal of minimizing risk and contribution volatility. The resulting asset allocation is subject to a number of risk factors inherent in the asset classes employed, and their interactions among each other through time. Some of the measures and analysis that attempt to evaluate the contribution volatility associated with extreme drawdowns in asset valuations and asset shortfall relative to liabilities include:
   a) Stress Testing
   b) Scenario Analysis
   c) Value at Risk Analysis
   d) Tracking Error Reporting
   e) Standard Deviation of Returns Analysis

ii. The implementation of the investment program may entail additional risks that may impact the returns. These risks include but are not limited to:
   a) Non-Market Risks- Risks such as environmental, social and governance risks (ESG), including climate risk, may not be accounted for in traditional investment analysis and that may impact the value and performance of the investments.
   b) Liquidity Risk- The System requires the use of liquid investment assets to make benefit payments, make capital call contributions to private asset managers, provide collateral for derivative positions, and for re-balancing purposes.
   c) Counterparty Risk – The risk that a party contracted to perform on a transaction or service may fail, putting System's assets at risk.
   d) Leverage risk–
      i. Leverage may have the effect of increasing or decreasing risk and return.
      ii. Leverage can be described as having two forms:
         a. Economic Leverage: Portfolio or security modifications that replicates an asset class or security, hedge a portfolio risk or generate income but have the impact of maintaining the portfolio risk of the System's approved Asset Allocation.

b. Financial Leverage: Exposure to an asset class that is not fully collateralized by cash that have the effect that the sum of the nominal exposures to the asset classes will be greater than 100%.

iii. The System may employ leverage within investment structures and directly through the use of derivatives or collateralized borrowing such as securities lending or reverse repurchase agreements. The use of leverage may:

a. impact the liquidity of the system,
b. allow for efficient investment structures and
c. raise or lower the expected risk and return of the System.

iv. Financial leverage is limited to 10% of plan assets.

iii. Risk will be a consideration throughout the investment process, at the individual asset, manager, asset class, and portfolio level.

C. Monitoring

To determine how risks, including ESG risks, are incorporated into the investment process by potential external managers, investment division staff request information from each potential manager during the initial engagement process through a due diligence questionnaire. The potential manager is requested to provide information on how they incorporate risk management into the investment process and the strategies and assessments utilized during this process. On an annual basis, public market asset managers engaged by the System are queried to determine their current process for incorporating risk management into the investment process.

D. Risk Assessment

The System shall conduct or procure a risk assessment, including climate risk, of the assets of the System. The assessment shall:

1. Occur every year;
2. Identify recent studies and actions by other U.S. state pension funds, financial institutions, or risk experts, including those related to disclosure, risk assessment, investment principals, and determine best practices from the studies and consider whether these best practices can be incorporated into the Investment Policy Manual; and
3. Examine the potential magnitude of the long-term risks and opportunities of multiple scenarios and related regulatory developments across industry sectors, asset classes and the total portfolio.

E. Reporting

1. The Investment Division will provide a risk assessment report, including climate change risk, to the Board and General Assembly every year and post this report to the public website;
2. The System will disclose cast proxy votes on the public website; and
3. The System will disclose examples of the initial engagement due diligence questionnaires for managers and funds soliciting business with the System on the public website.

XII. Political Contributions and Placement Agents

Policy Statement: It is the policy of the Board of Trustees that the contractual arrangements governing its investments with external investment managers, including managers and general partners of private funds, shall include language requiring that any political contributions or use of placement agents be consistent with certain rules of the Securities Exchange Commission (the "SEC"). Namely, the language requires compliance with the SEC Rule 206(4)-5 (the "Political Contributions Rule"), SEC Rule 206(4)-3 (the "Solicitations Rule"), and, in part, SEC Rule 204-2 (the "Books and Records Rule"). Additionally, it the policy of the Board of Trustees that the System shall not bear the economic cost of placement agents. Finally, it is the policy of the Board of Trustees that the System shall receive an annual certification regarding these matters.

The final agreement resulting from any negotiation with an external investment manager, including managers and general partners of private funds, shall contain, in substance, the following representations and agreements by the manager, general partner, or fund (as applicable):

- That no fees have been paid by the manager, general partner, or fund (as applicable) to solicit investment or advisory business from the System in a manner that would violate the Solicitations Rule;

- That the System will not bear, directly or indirectly, any fees or expenses paid by the manager, general partner, or fund (as applicable) to a placement agent, unless, in the case of a private fund, such amounts are apportioned pro rata and completely offset by corresponding fee reductions;

- That no actions have been taken by the manager, general partner, or fund (as applicable), or certain of their agents, that would violate Political Contributions Rule; and

- That the manager, general partner, or fund (as applicable) will, in accordance with the Books and Records Rule, keep books and records regarding compliance with the Political Contributions Rule and the Solicitations Rule and provide the System with access to such books and records.

The final agreement shall also require the manager, general partner, or fund (as applicable) to certify, on an annual basis, its compliance with the representations and agreements.

This policy applies to contractual arrangements with all external investment managers, including managers and general partners of private funds. The policy also applies regardless of whether those entities would otherwise be required to comply with the Political Contributions Rule and the Solicitations Rule. Prior to the Board's adoption of this policy, the Investment Division had been implementing a similar internal policy since 2011.

POLICIES that GOVERN OTHER INVESTMENT PROGRAMS

I. OPTIONAL RETIREMENT PROGRAM

The Optional Retirement Program is a retirement plan established and sponsored by the State of Maryland pursuant to Section 403(b) of the Internal Revenue Code and Title 30 of the State Personnel and Pensions Article. The Plan is also governed by the ORP Section 403(b) Plan Document, as amended, a copy of which can be found at the Agency's website at www.sra.state.md.us.

II. OTHER POST-EMPLOYMENT BENEFITS

To the extent possible, the assets of the Post-retirement Health Benefits Trust Fund shall be allocated in the same manner as those of the several systems using low-cost passively-managed index funds. The benchmark for the Post-retirement Health Benefits Trust Fund will be established by the CIO, and constructed by using the several systems' asset allocation and benchmarks where possible and mapping assets classes that do not offer passive exposure to a public market passive equivalent. Quarterly, the CIO will report to the Investment Committee the performance of the Post-retirement Health Benefit Trust Fund and the policy benchmark and its components.

APPENDICES

Appendix A

Commingled Vehicles – Documents Adopted as Part of Investment Policy Manual[2]

Liquidating Trust in connection with withdrawal of Russell 3000 and Passive Bond Index mandates from securities lending funds:

- Declaration of Trust dated January 23, 1995 for the State Street Bank and Trust Company Quality Funds for Short-Term Investment, as amended from time to time, and the Fund Declaration thereunder for the Quality Trust for SSgA Funds Trust Fund
- Fourth Amended and Restated Declaration of Trust for the State Street Bank and Trust Company Investment Funds for Tax Exempt Retirement Plans, dated August 15, 2005 and effective as of October 1, 2005
- Fund declaration of State Street Bank & Trust Company dated as of May 15, 2009 establishing the Quality Trust Liquidating Trust I

Liquidating Trust in connection with withdrawal of Russell 1000, US MSCI CTF, MSCI EAFE, Canada MSCI and MSCI ACWI Ex-US mandates from securities lending funds:

- Fund declaration of State Street Bank & Trust Company dated as of August 12, 2009 establishing the Quality Trust Liquidating Trust II

Liquidating Trust in connection with withdrawal of MSCI ACWI Strategy (MSCI EAFE Index SL Fund, MSCI Canada Index SL Fund & MSCI ACWI ex-US SL Fund) mandates from securities lending funds:

- Agreement and Declaration of Trust dated as of August 12, 2009 for the State Street Bank and Trust Company CTF Liquidating Trust A-2
- Fund Declaration of State Street Bank & Trust Company dated as of August 12, 2009 establishing the Super C Liquidating Trust II

Liquidating Trust in connection with withdrawal of Emerging Markets CTF mandate from securities lending fund:

- Agreement and Declaration of Trust dated as of November 12, 2009 for the State Street Bank and Trust Company CTF Liquidating Trust A-3

The Genesis Group Trust for Employee Benefit Plans Agreement and Declaration of Trust as Amended and Restated Effective September 2, 2006

Global Trust Company Declaration of Trust dated May 1, 2013 for Stone Harbor Collective Investment Trust

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[2] Documents adopted since May 2009. Prior commingled vehicle transactions have been ratified, confirmed and approved by the Board.

Declaration of Trust for the Logan Circle Partners Master Collective Trust II established May 5, 2016.

Declaration of Trust for the FIS Group Collective Investment Trust established September 15, 2017

Declaration of Trust for the Axiom Investors Collective Investment Trust, as amended and restated November 1, 2017

Appendix B

Definition of a Hedge Fund

In order to determine whether an investment strategy is considered a hedge fund, the Board has adopted the following seven criteria. An investment strategy that satisfies five of the seven criteria should be considered a hedge fund.

Criteria for defining an investment strategy as a hedge fund:

1. Is the product legally structured as a private partnership or limited liability company?
2. Does the strategy allow for leverage? (Is the actual or allowable gross exposure for the fund greater than 100%)
3. Can the strategy short financial instruments?
4. Are investment management fees structured to include a performance incentive?
5. Is performance benchmarked on an absolute basis?
6. Is there an initial lock-up on funds invested?
7. Is the liquidity profile of the product less frequent than monthly?

Note: The above criteria for defining a strategy as a hedge fund applies only to alternative strategies that primarily invest in financial instruments and excludes those investment strategies that are widely considered private equity or real estate investments by the financial industry.

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