



Maryland State Retirement and Pension System

Terra Maria: Developing Manager Program

In Public Markets and Private Equity

Updated February 2011

Terra Maria

The Maryland Developing Manager Program

Program Structure Outline

The Maryland State Retirement and Pension System (the “System”) formed an emerging manager program in April 2007. In September 2008, the System revised, expanded and transformed the program into Terra Maria, the Maryland developing manager program. The initial Terra Maria program consisted of seven Program Managers in the public markets. Recently, the program was expanded to include private equity fund managers as described in Section II below.

I. Public Markets

The focus of the Terra Maria Program (the “Program”) is on investment performance with an alignment of interests. An investment manager’s product may only be represented once in the program, however, investment managers may have more than one product in the Program, if each product is recommended by a Program Manager.

The Program Managers are under contract with the System and recommend investment managers based on their ability to generate alpha relative to their assigned benchmarks. The Program Managers essentially represent an extension of the Investment Division Staff by providing due diligence, recommendations and ongoing monitoring of the underlying investment managers. The investment manager’s accounts are maintained with the System’s custodian bank.

Following are some key facets of the Program:

The primary focus of the Program is alpha generation, or performance. Program Managers and investment managers are evaluated primarily on performance relative to benchmarks. The Program Managers are instructed to focus on smaller investment managers. While the Program Managers apply no absolute maximum in terms of assets under management for purposes of recommending investment managers to the Chief Investment Officer (the “CIO”), the Program Managers are aware of the spirit of the program.

There is no formal “graduation” policy for this initiative. Investment managers that perform on a consistent basis may become eligible for larger allocations of funds, regardless of whether they are monitored by a Program Manager or staff.

The Program Managers are responsible for sourcing investment managers, performing due diligence, monitoring the retained investment managers, and presenting manager hire and termination recommendations to the CIO. All investment manager selections must be approved by the CIO.

The investment managers are part of the System's total portfolio and evaluated the same as any other investment manager in the portfolio. While investment managers may have been introduced to the System via a Program Manager, this has been done so primarily for administrative purposes. Once an investment manager has been "hired" by the CIO, they are part of the System's portfolio. Unlike the more traditional manager-of-manager programs, the CIO is ultimately responsible for the managers in the Maryland program, not the manager-of-managers.

Each Program Manager's benchmark is the weighted average of the benchmarks of the underlying investment managers selected by the Program. Investment manager benchmarks will be representative of the manager's investment style and aligned with the System's benchmark(s) within the manager's designated asset class. Benchmarks must be approved by the CIO.

Program Managers will make recommendations to the CIO regarding the initial allocation of funds to investment managers. In making recommendations, the Program Managers consider factors such as total assets under management by the investment manager on both a firm-wide and a product specific basis and also the total funding allocation to the Program Manager. In addition to portfolio asset allocation decisions, continued investment manager funding will be subject to the review of the investment manager's performance and an evaluation of the investment manager's business growth and organizational stability since the investment manager was initially funded by the System. The investment manager's performance will be evaluated on a continuous basis, although the Program Manager will have a formal review of the manager at least annually. Final decisions regarding funding and rebalancing decisions will be made by the CIO and Investment Division Staff.

If there are questions about the Terra Maria program in public markets, contact the Investment Division at 410-625-5621 or the individual Program Managers found in the attached Program Manager list.

II. Private Equity

The Terra Maria program has recently been expanded to include private equity investment managers. The System's private equity consultant reviews private equity funds and investment managers for potential inclusion in the System's Terra Maria program. The program is designed to include smaller managers, typically fund managers with less than \$2 billion in assets under management that are raising a private equity fund of up to \$500 million

whose funds otherwise satisfy the due diligence and investment case analysis performed by the private equity consultant and SRPS staff.

The portfolio will potentially include small and mid-sized buyout and early to late stage venture capital and debt funds.

The System will invest directly into the Terra Maria private equity funds. The System's consultant will provide reporting on the Terra Maria private equity funds as it does with other private equity investments made by SRPS.

If there are questions about the Terra Maria program in private equity, please contact the Investment Division at 410-625-5621 or the System's private equity consultant, Altius Associates, at 804-282-9000 or emergingmanagerinfo@altius-associates.com.

Attachment: Program Manager List