

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

September 20, 2011

The Board of Trustees for the Maryland State Retirement and Pension System met in the Boardroom of the SunTrust Building, 120 East Baltimore Street, Baltimore, Maryland, beginning at 9:06 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman	Peter Franchot, Vice-Chairman	David Blitzstein	William Brown
John Douglass	James Harkins	Sheila Hill	F. Patrick Hughes
Robert Schaefer	Harold Zirkin	Thurman Zollicoffer, Jr. (via telephone)	
R. Dean Kenderdine, Secretary			

Agency Staff members attending included:

Anne Budowski	Robert Burd	Margaret Bury	Melody Countess	Brian Feilinger
Patricia Fitzhugh	Anne Gawthrop	Michael Golden	Ira Greenstein	Dennis Krysiak
A. Melissa Moye	Janet Sirkis	Patrice Sowah	Toni Voglino	Victoria Willard

Assistant Attorneys General present included:

Deborah Bacharach Rachel Cohen Melissa Warren

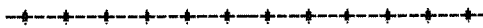
Also attended by: John Kenney, Phillip Anthony, Amber Teitt, Dylan Baker, Michael Rubenstein, Randy Mickens (MSTA), John Jones (MRSPA), Gary Steinberg (SEIU), John Badovinac (Emerald Advisors).

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|-----------------------------------|---|
| Minutes | 1. On a motion made by Mr. Zollicoffer and seconded by Mr. Zirkin, the Board approved the minutes of the August 16, 2011 open session meetings. |
| Investment
Committee
Report | 2. Mr. Harold Zirkin, Chairman of the Investment Committee, reported on the Investment Committee's September 9, 2011 meeting. |

Mr. Zirkin reported that PCA presented a real estate market overview and pacing plan as it relates to the System's portfolio. They discussed current real estate fundamentals and trends. They also presented an investment pacing plan for the System to reach its 10% long-term target allocation.



Mr. Zirkin reported that the CIO provided investment performance results as of June 30, 2011, as well as July 31, 2011. FY11 fund performance was 20.04% relative to the policy benchmark of 20.16%. Nine of ten asset classes outperformed their respective benchmarks. Performance for the month of July was -13 bps compared to the policy benchmark at -11 bps.



Mr. Zirkin reported that Hewitt Ennis Knupp (HEK) provided the July 31, 2011 performance update and current market overview.



Mr. Zirkin reported that HEK presented to the Committee a cost analysis of the Iran / Sudan divestment program. Based on data provided by investment managers, the program has not had a significant impact in investment returns to date.



Mr. Zirkin reported that the Investment Committee received the following reports:

- › June 30 and July 31, 2011 State Street Performance Reports
- › Private Markets Update
- › Quarterly TUCS Results
- › Securities Lending Report
- › Broker Commission Reports

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- Division's FY11 Travel Plan Update
- OPEB Update
- Quarterly ORP Performance Report

Administrative
Committee
Report

3. Mr. James Harkins, Chairman of the Administrative Committee, reported on the Administrative Committee's September 6, 2011 meeting.

At Mr. Harkins' request, Mr. Kenderdine reported on the Agency's budget.

Mr. Kenderdine reported that the workload for the Agency continues to increase, and that the trend in workload growth is anticipated to continue into future years as baby-boomers increase in age and retire from State service.

The request for FY13 is \$26,133,000 for the operational budget. The DBM target for the Agency is \$25,100,000; the statutory cap for FY13 is \$34.3 million. The increase in the operational budget request reflect increases in:

- System Enhancement Services
- Computer Maintenance Contracts
- Contractual Employees
- Board of Trustees Election
- General payroll increases
- LGE Audit
- Medical Support Services
- Software Maintenance
- Staff Training
- Printing
- Routine inflation - existing services/contracts

Mr. Kenderdine noted that as in prior years, the baseline request does not reflect unfunded initiatives (staffing infrastructure) that include the following.

- Administration, Data Control – three positions. Two positions would be assigned to the Disability/Death/Earning Audit section and would be Accountant positions. The third position would be assigned to the Employer Reporting Enrollment Section and would be an Administrative Specialist III. The two positions in the Disability/Death/Earnings Audit Section would help strengthen the Unit's ability to effectively research, monitor, and audit payment records on the Retirement Master File. In July 2011, the Agency paid \$225,303,291 in monthly retirement benefits to 128,028 retirees and beneficiaries.
- Administration, Benefits Processing – one position. This new position will be responsible for the Agency's responsibility to comply with Internal Revenue Code (IRC) regulations requiring the Agency to locate vested members that need to begin collecting their retirement benefits prior to attaining 70 ½ years in age.
- Investments – three positions. The Investment Division is requesting a total of three (3) new permanent, special funded positions: one additional Class 5483 / Program Manager Sr. II, and two additional Class 6188 / Administrator VII positions. This request is in alignment with the Board of Trustees' initiatives, and supports investment strategy, risk assessment and mitigation, investment manager

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monitoring, and portfolio operations. The Division is responsible for the day-to-day oversight of more than \$35 billion in trust fund assets invested globally. The ability to continue meeting this responsibility could be adversely affected because of the staffing constraints that the Division labors under. The Division is distinct in its functions within State government. Unlike the vast majority of other units of State government, the Division has responsibility for generating significant economic resources for the State.

On a motion made by Mr. Harkins and seconded by Ms. Hill, the Board approved the Agency's FY13 budget proposal.



At Mr. Harkins' request, Mr. Kenderdine and Ms. Anne Gawthrop reported on the 2012 Board requested legislation.

Ms. Gawthrop reported on the following three proposals:

1) Reemployment - Exempt Schools

Background: Sections 22-406 and 23-407 of the State Personnel and Pensions Article allow retirees of the Teachers' Retirement System (TRS) or the Teachers' Pension System (TPS) to return to work as teachers, teacher mentors, and principals without a reemployment earnings limitation on their pension only if they return to work in a public school that:

- is not making adequate yearly progress under No Child Left Behind;
- is a Title 1 school;
- has more than 50% of the students attending that school qualifying for federally subsidized school lunches; or
- provides an alternative education program for adjudicating youths or students who have been expelled or suspended.

To be exempt from the earnings limitation, a retired teacher who returns to work in one of these schools is also required to teach:

- in an area of critical shortage which is determined each year by the Maryland State Department of Education under a statutorily required annual staffing report;
- special education; or
- a class for students with limited English proficiency.

Because the Maryland School for the Deaf is not a public school, under §§ 22-406 and 23-407 an individual who is a TRS or TPS retiree from the Maryland School for the Deaf and is reemployed by that school in one of the specified subject matters is still subject to the reemployment earnings limitation. Staff has recently been informed of two such individuals.

2) Earnings Limitation Period

Background: House Bill 176 of 2011 reduced the period of time a retiree of the Employees' Retirement System (ERS), TRS, Employees' Pension System (EPS), or TPS is subject to the earnings limitation from nine full calendar years to five full calendar years. Specifically, House Bill 176 amended §§ 22-406(c)(4)(i) and 23-407(c)(4)(iii) of the State Personnel and Pensions Article to provide that a retiree of the ERS, TRS, EPS, or TPS who

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is reemployed by the same employer that employed the retiree at the time of the retiree's retirement and who does not qualify for an exemption from the earnings limitation, is subject to this limitation for five full calendar years following the retiree's retirement.

The State Police Retirement System (SPRS) and the Correctional Officers' Retirement System (CORS) currently include nine year limitation provisions similar to §§ 22-406(c)(4)(i) and 23-407(c)(4)(iii) before those sections were amended by House Bill 176.

3) Medical Board Participation

Background: Section 21-126 of the State Personnel and Pensions Article provides that the Board of Trustees of the State Retirement and Pension System (SRPS) shall appoint three physicians and up to three alternatives to the medical boards assigned to review disability retirement applications for members of the SRPS. Specifically, this provision states that a physician or alternate appointed to the medical board may not be an individual who is eligible to be a member of a State system. As a result, this precludes the board from appointing any physician who is employed by the University of Maryland and is a member of the TRS, TPS, or Optional Retirement Program (ORP).

Given that a member of the ORP is not eligible for a disability retirement from the SRPS, there would not be a conflict for a physician employed by the University of Maryland Medical System who is participating in the ORP from serving on the medical board. They will not preside over disability cases involving employees of the University of Maryland.

On a motion made by Mr. Harkins and duly seconded, the Board approved the preceding 2012 Board sponsored legislation.



Mr. Harkins reported that the Administrative Committee reviewed and accepted the Administrative Expenses Report and MBE Performance Report quarter ending June 30, 2011. The Agency finished the fiscal year with 16.4% of all procurement having been awarded to MBE vendors. The Agency's performance was adversely affected by the emergency procurement for pension reform implementation services which had a 10% MBE goal.

Mr. Harkins reported that the pension reform and implementation project is progressing well. The HP team continues to deliver quality code and costs continue to be within budget.

Mr. Harkins reported that the Member Services abandonment percentage for July 2011 was 3.06% and the average speed of answer was 64 seconds. One new Retirement Benefits Specialist is in training. Member Services survey results noted that 96.7% of the membership responding to the monthly survey indicated they were satisfied with the services provided.

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Audit
Committee
Report

- 4. Mr. F. Patrick Hughes, Chairman of the Audit Committee, reported on the Audit Committee's August 16, 2011 meeting.

Mr. Hughes reported that the Audit Committee has reviewed and discussed the Internal Audit Division's audit time report for FY 2011. Administrative and leave hours amounted to approximately 45% of the total hours available for FY 2011, leaving 55% for actual audit time. The audit plan for FY 2012 has about the same percentage.

Mr. Hughes reported that Internal Audit has been asked to allocate an additional 200 hours of audit time for each member of the audit staff, while reducing administrative time. Treasurer Kopp requested to see a more detailed breakdown of Internal Audit's audit time.



Mr. Hughes reported that the Fiscal Year 2012 Audit Plan was approved by the Audit Committee.



Mr. Hughes reported that Internal Audit compiled a listing of Audit Committee Best Practices. As a result, the following actions will be taken:

- ▶ The Audit Committee will review the peer review reports of external and internal auditors.
- ▶ The Audit Committee will review the System's draft financial statements, and will meet with the financial statement auditor, prior to the issuance of the final financial statements.
- ▶ The Audit Committee will hold a special meeting, by phone, in October, 2011.
- ▶ The Committee will also meet with the financial statement auditor after the financial statement audit has been completed. Mr. Hughes asked the Board for guidance on whether to include a transmittal letter from the Audit Committee as part of the System's Consolidated Annual Financial Report (CAFR). The letter would provide details of the Committee's work during the fiscal year. The consensus of the Board was that an Audit Committee transmittal letter was not necessary. No vote was taken.
- ▶ Internal Audit will utilize existing State resources to facilitate the reporting of fraud, waste, and abuse by Agency employees and the general public. Links to the State's fraud hotline will be placed on the Agency's internal and external websites.



Mr. Hughes reported that a risk assessment of investment operations has been completed with the assistance of ITCI, an outside consultant. The risk assessment identified absolute return as the asset class with the greatest risk. The Audit Committee approved proceeding with the proposed audit of absolute return, using an outside consultant. The scope of the audit will be limited to operations in the Investment Division. Investment strategy will not be considered.



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Mr. Hughes reported that a three-year extension of the existing contract with Clifton Gunderson to perform audits of participating employers was approved. Staff confirmed that Clifton Gunderson has been doing a good job on the audits.

Mr. Hughes reported on the completed audits, Corporate Purchasing Cards and Cash Receipts. Both of these were "green" reports, indicating a satisfactory level of control and compliance.



Mr. Hughes reported on two audits in process, Capital Equipment Inventory and Death Match (Follow-up), and will be updated upon completion.



Mr. Hughes reported that the Audit Committee will hold a special meeting by phone in October, to meet with the System's financial statement auditor, and review the System's draft financial statements. Draft financial statements will be provided prior to the meeting, to allow time for review. The meeting date has yet to be determined.

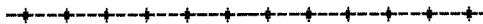
Corporate
Governance
Committee
Report

- 5. Ms. Sheila Hill, Chairman of the Corporate Governance Committee, reported on the Corporate Governance Committee's August 16, 2011 meeting.

Ms. Hill reported that the Council of Institutional Investors would hold its 2011 Fall Meeting in Boston on Sunday, September 25 to Tuesday, September 27, 2011. She reported that she was planning to attend.



Ms. Hill reported that Mr. Blitzstein shared a report and SEC petition by a group of legal scholars on campaign contributions and a Lazard Asset Management ESG policy.



Ms. Hill reported that the Corporate Governance Committee reviewed the semi-annual Iran/Sudan Divest/Hold analysis. The report included an updated analysis of all companies on the ISS Iran/Sudan focus list and recommendations regarding these companies.

Ms. Hill reported that staff recommended the following:

- To add the four companies as described in Attachment I to the Restricted List;
- To remove the 15 companies as described in Attachment II from the Restricted List;
- Not to add to the Restricted List the one company described in Attachment III whose securities represent a sizable part of several eligible accounts and the international benchmark.

On a motion made by Ms. Hill and seconded by Mr. Douglass, the Board approved the preceding three actions regarding Iran\Sudan Divestment.

Ad Hoc Committee
on Actuarial Funding
Methodology
Report

- 6. Mr. Robert Schaefer, Chairman of the Ad Hoc Committee on Actuarial Funding Methodology, reported on the August 30, 2011 meeting.

Mr. Schaefer reported that the Ad Hoc Committee on Actuarial Funding Methodology reconvened for the purpose of reviewing its previous work and

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board recommendations to the Joint Committee on Pensions and the Sustainability Commission, in light of the 2011 pension reform legislation. The intent is to determine if the Board should reassess and modify its recommendations.

Mr. Schaefer reported that earlier recommendations included:

- 10-year phase out of Corridor Funding;
- 20-year Open Amortization Policy;
- 10-year asset smoothing of 2009 losses.



Mr. Schaefer reported that the next meeting is scheduled for October 7, 2011. GRS will present projections comparing current funding policy, with 2011 reforms under the following alternatives:

- 25 year "Clopen" amortization (becoming open at 15 years);
- 25 years absolutely closed;
- 20 year open.

In addition, for each of the above alternatives:

- 10-year phase out of Corridor is included, and
- GRS will develop illustrations of new GASB discount rate, based on each amortization alternative and determine effect on Net Plan liability.

And, given the particular funding challenges of the State Police System, GRS will assess other options specific to that system.

GRS
2011 Valuation

7. Brian Murphy and Brad Armstrong, from the System's actuary Gabriel Roeder Smith and Company (GRS), presented the preliminary results of the State Retirement and Pension System's Actuarial Valuation period ending June 30, 2011 for the Board's consideration.

On a motion made by Mr. Hughes and seconded by Mr. Schaefer, the Board approved the FY13 allocation of pension reform savings for reinvestment to be applied on a weighted basis, based on each systems contribution to the savings.

Executive
Director's
Report

8. Mr. R. Dean Kenderdine reported on recent Agency developments.

Mr. Kenderdine reported that the backlog of retirement estimates is below 500.

Mr. Kenderdine reported that the Agency and Anne Arundel Community College (AACC) has developed an Executive Leadership Advance for the executive staff, which includes directors and deputy directors. The Executive Leadership Advance will provide leadership training with an outcome of completing a SRA succession plan.

Medical Board
And
Supplemental
Medical Board
Reports

9. On a motion made by Mr. Hughes and seconded by Mr. Brown, the Board of Trustees accepted all the reports of the Medical Board in connection with applications of members for ordinary, accidental and special disability retirement allowances. The Medical Board's conclusions were reached after its review of the documentation in the file.

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CLOSED SESSION

The Board met in a Closed Session in the Boardroom of the SunTrust Building at 120 East Baltimore Street:

1. to discuss Chief Investment Officer compensation, pursuant to State Government Article § 10-508(a)(1), a personnel issue;
2. to discuss a tax issue, pursuant to State Government Article § 10-508(a)(7), receiving advice of counsel;
3. to discuss the Board's self-assessment, pursuant to State Government Article § 10-503(a)(1)(i), the exercise of an administrative function.

The Trustees present included:

Nancy K. Kopp, Chairman	Peter Franchot, Vice-Chairman	David Blitzstein	William Brown
John Douglass	James Harkins	Sheila Hill	F. Patrick Hughes
Robert Schaefer	Harold Zirkin	Thurman Zollicoffer, Jr. (via telephone)	

R. Dean Kenderdine, Secretary

Agency Staff members attending included:

Anne Budowski	Robert Burd	Margaret Bury	Melody Countess	Brian Feilinger
Patricia Fitzhugh	Anne Gawthrop	Michael Golden	Ira Greenstein	Dennis Krysiak
A. Melissa Moye	Janet Sirkis	Patrice Sowah	Toni Voglino	Victoria Willard

Assistant Attorneys General present included:

Deborah Bacharach Rachel Cohen

Also attended by John Kenney.

REGULAR SESSION – APPEALS AND HEARINGS

Irma V. Washington 10. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Irma V. Washington for ACCIDENTAL DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Ms. Irma V. Washington appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations. Following discussion, the Board deferred further consideration to Closed Session.

Lena B. Cropper 11. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Lena B. Cropper for ACCIDENTAL DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Ms. Lena B. Cropper appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations. Following discussion, the Board deferred further consideration to Closed Session.

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Joseph L. Farrow 12. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Joseph L. Farrow for ACCIDENTAL DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Mr. Joseph L. Farrow and her attorney, Mr. R. Roger Dreschler, appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations. Following discussion, the Board deferred further consideration to Closed Session.

Ruth E. Galmore 13. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ruth E. Galmore for ACCIDENTAL DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Ms. Ruth E. Galmore appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations. Following discussion, the Board deferred further consideration to Closed Session.

CLOSED SESSION – APPEALS AND HEARINGS

The Board met in a Closed Session in the Boardroom of the SunTrust Building at 120 East Baltimore Street for the purpose of:

- 1. to discuss the disability appeals pursuant to State Government Section 10-503(a)(1)(iii), the exercise of a quasi-judicial function.

The Trustees present included:

Nancy K. Kopp, Chairman David Blitzstein William Brown John Douglass
James Harkins Sheila Hill F. Patrick Hughes
Harold Zirkin Thurman Zollicoffer, Jr. (via telephone)
R. Dean Kenderdine, Secretary

Agency Staff members attending included:

Margaret Bury Patrice Sowah Janet Sirkis
Assistant Attorneys General attending: Deborah Bacharach and Rachel Cohen.

REGULAR SESSION

The Board reported that during the closed session the Board reviewed and decided on the following disability appeals:

Irma V. Washington 14. The Board voted to ADOPT the Administrative Law Judge's Proposed Decision and DENY Irma V. Washington's request for accidental disability benefits.

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- Lena B. Cropper 15. The Board voted to **ADOPT** the Administrative Law Judge's Proposed Decision and **DENY** Lena B. Cropper's request for accidental disability benefits.
- Joseph L. Farrow 16. The Board voted to **ADOPT** the Administrative Law Judge's Proposed Decision and **DENY** Joseph L. Farrow's request for accidental disability benefits.
- Ruth E. Galmore 17. The Board voted to **ADOPT** the Administrative Law Judge's Proposed Decision and **DENY** Ruth E. Galmore's request for accidental disability benefits.
- George Isenberg 18. The Board voted to **REMAND** the case to the Office of Administrative Hearings and Administrative Law Judge Georgia Brady for reconsideration.
- Adjournment 19. There being no further business before the Board, the meeting adjourned at 2:20 p.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board

RDK/pws

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COMPANIES RECOMMENDED BE ADDING TO THE RESTRICTED LIST

Attachment I		(1)	(2)	(3)	(4)	(5)	(6)
COMPANIES RECOMMENDED BE ADDING TO THE RESTRICTED LIST							
ISSUER NAME	Country	ISS: Sudan or Iran?	% MSCI All Country World Index ex US	% MSCI All Country World Index	% MSCI Emerging Mkt Index	\$ Owned In Eligible Acct @7/1/11?	% MSRPS Assets @7/1/11?
China Avic Avionics Equipment Co., Ltd.	China	S	--	--	--	0	0.00%
Petronas Chemicals Group Bhd	Malaysia	S+I	0.028%	0.118%	0.016%	0	0.00%
SunPower Corporation	US	I	--	--	--	0	0.00%
Welspun Corp Limited	India	I	0.002%	0.002%	0.007%	0	0.00%
Total #		4	0.030%	0.120%	0.023%	\$0	0.00%

Notes:

- Identified by ISS as doing business in either Iran or Sudan
- Percent weight in MSCI All Country World Index exUS (Benchmark for international equity) at 7/1/2011
- Percent weight in MSCI All Country World Index (Benchmark for global equity) at 7/1/2011
- Percent weight in MSCI Emerging Market Index (Benchmark for emerging markets managers equity) at 7/1/2011
- Dollar value of holdings in Eligible Accounts at 7/1/2011
- Percent of total MSRPS assets at 7/1/2011

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**COMPANIES TO BE REMOVED FROM RESTRICTED
LIST**

Attachment II

ISSUER NAME	Country
Alstom	France
Areva S.A.	France
Engineers India Ltd	India
Finmeccanica SpA	Italy
GS Engineering & Construction Corporation	Korea
INA-Industrija nafte d.d	Hungary
Intertek Group plc	UK
Kejuruteraan Samudra Timur Bhd	Malaysia
Kencana Petroleum Bhd	Malaysia
La Mancha Resources Inc	Canada
OMV Petrom S.A.	Romania
ONA S.A.	Morocco
Royal Dutch Shell Plc	UK
Uzma Berhad	Malaysia
Wuhan Boiler Co Ltd	China

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COMPANY RECOMMENDED NOT BE ADDED TO RESTRICTED LIST

Attachment III	(1)	(2)	(3)	(4)	(5)	(6)	(7)
ISSUER NAME	ISS: Sudan or Iran?	% MSCI All Country World Index ex US	% MSCI All Country World Index	% MSCI Emerging Mkt Index	\$ Owned In Eligible Acct @7/1/11?	% MSRPS Internat, Global Equity Accounts @7/1/11?	% MSRPS Assets @7/1/11?
SIEMENS AG-REG	I	0.67%	0.38%	--	\$37,705,923	0.33%	0.10%
Siemens AG accounts for @ 20% of the MSCI All Country World industrial conglomerates and 42% of the MSCI All Country World ex-U.S. industrial conglomerates industry							