

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

March 17, 2015

The Board of Trustees for the Maryland State Retirement and Pension System met in the Board Room of the SunTrust Building, 120 East Baltimore Street, 16th Floor Board Room, Baltimore, Maryland beginning at 9:32 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman Presiding	Linda Herman (via phone)
Peter Franchot, Vice Chairman	F. Patrick Hughes (via phone)
David Blitzstein	Theresa Lochte
James Bush, Jr.	Richard Norman
John Douglass (via phone)	Harold Zirkin
Robert Hagans	Thurman Zollicoffer
Kenneth Haines	

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

Anne Budowski	Michael Golden	Michelle Lowery
Robert Burd	Ira Greenstein	Ken Reott
Margaret Bury	Angie Jenkins	David Rongione
Melody Countess	Larry Katsafanas	Janet Sirkis
Anne Gawthrop	Van Lewis	Toni Voglino

Assistant Attorneys General present included: Kathy Brady, Rachel Cohen, Carla Goldman Katzenberg, Jill Leiner and Sharon Street.

Also attended by: Susanne Brogan and John Kenney, Jennifer O'Dell from LiUNA, and Amy Borrus from CII.

Other Business

Mr. Kenderdine informed the Board that a change in the agenda was necessary in that closed session agenda item 11, Joint Request for Remand in a Disability Appeal, would need to be heard during the Appeals and Hearings – Open Session and then the quorum could deliberate and vote on this matter in closed session.

Consent Agenda

On a motion made by Mr. Hughes and seconded by Mr. Zollicoffer, the Board approved the consent agenda, which included:

- › February 13, 2015 Open Meeting Board Minutes
- › February 13, 2015 Audit Committee Meeting Report
- › February 13, 2015 Corp. Governance Committee Meeting Report
- › February 13, 2015 Investment Committee Meeting Report
- › March 3, 2015 Administrative Committee Meeting Report
- › March 3, 2015 Open Special Meeting Board Minutes

Adoption of Proposed
Amendments to
COMAR Regulations
– 22.01.06 –
Payment of
Allowance

Ms. Anne Budowski presented to the Board the recommended amendments to the regulations regarding payment of a monthly allowance. Ms. Budowski reported that the amendment would clarify the reasons to grant a temporary or indefinite waiver of an electronic fund transfer of a retiree's net monthly allowance and to reflect current business practices of suspending a monthly benefit for failure to comply with multiple Agency requests or if the Agency receives conflicting payment instructions.

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Comptroller Franchot asked how many retirees receive their payments electronically.

Ms. Budowski responded that 99% of retirees receive electronic payments.

On a motion made by Mr. Hughes and seconded by Comptroller Franchot, the Board of Trustees approved the Administrative Committee's recommendation to propose for adoption, and publish in the Maryland Register for comment, the amendments of the regulation.

2015 Legislation
Introduced in the
General Assembly

Ms. Anne Gawthrop provided the Committee an update of the 2015 pension related legislation. *See Attachment A.*

At the request of Treasurer Kopp, Ms. Gawthrop reported on the Agency's budget and indicated that the House agreed to the Department of Legislative Services (DLS) recommendation and approved the Agency for 11 new positions through new PINs and contractual conversions to PINs.

Ms. Gawthrop also reported that the BRFA is on the Senate floor and may be heard during the double session which is scheduled for March 18, 2015. If the 2nd Reader is heard on March 18, then the 3rd Reader may be heard on March 19, 2015.

Treasurer Kopp added that the Legislature has moved from no reinvestment of savings to providing \$75 million a year in reinvestment of savings until the System is 85% funded. The Board was provided with copies of certain documents produced by the Department of Legislative Services describing the revised proposal, as well as copies of Treasurer Kopp's letter to the budget committee leadership expressing the Board's position regarding System funding.

The Board was also provided a chart with projected results based on the June 30, 2014 Valuation from Gabriel, Roeder Smith (GRS.) The chart showed a comparison of baseline under the current policy and the BRFA proposal.

Comptroller Franchot provided the Board with and read from an editorial from The Washington Post which criticized the legislature's action.

Comptroller Franchot requested a new set of actuarial projections based on an assumption that the System would earn 2.5% on investment in FY2015 and FY2016. asked for a ballpark figure on the anticipated rate of return for this fiscal year and next fiscal year

Mr. Blitzstein recommended that the Board seek legal advice, from outside counsel, as to the Board's responsibility as a fiduciary concerning the funding of the System.

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Ms. Cohen responded that the Office of the Attorney General is by statute counsel for the Board. Ms. Cohen agreed to provide, in writing, to the Board legal advice on this matter.

Mr. Hughes recommended that the previous advice provided by Deborah Bacharach be circulated to the Board.

Review of Proxy
Voting Guidelines

Mr. Blitzstein reported that every year Institutional Shareholder Services, Inc. (ISS), the System's proxy advisor, updates both their U.S. and country/region specific proxy guidelines based on current trends and best practices. As a result, the Corporate Governance Committee met to discuss amending the System's proxy voting guidelines.

The Board was provided with proposed amendments to the Proxy Voting Guidelines, as presented to and approved by the Corporate Governance Committee.

On a motion made by Mr. Hughes and seconded by Mr. Zollicoffer the Board agreed to vote on the changes to each guideline, individually, as follows:

Topic 1: Board of Directors Elections and Fee-Shifting Provisions: Staff recommends updating the System's U.S. Proxy Voting Guidelines policy to vote against the election of any board director who has adopted a fee-shifting provision without shareholder approval as well as other provisions that materially diminish shareholder rights.

On a motion made by Mr. Zollicoffer and seconded by Mr. Bush, the Board approved the edits by staff.

Topic 2: Litigation Rights (Exclusive Venue, Arbitration and Fee-Shifting Provisions): Staff recommends adding new proxy voting guidelines addressing (1) the litigation rights of shareholders pertaining to fee-shifting bylaws whenever plaintiffs are not completely successful on the merits and (2) exclusive venue and arbitration provisions.

On a motion made by Mr. Bush and seconded by Mr. Zollicoffer, the Board approved the edits by staff.

Topic 3: Independent Board Chair: Staff recommends replacing the existing Separate Chairman and CEO guideline, with the updated language provided, that specifically addresses the topic of an independent board chair. In addition, staff recommends changing the title of this guideline from Separate Chair and CEO to Independent Board Chair.

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On a motion made by Mr. Zollicoffer and seconded by Ms. Lochte, the Board approved the edits by staff. Mr. Hughes opposed the motion.

Topic 4: Equity Based Compensation: Staff recommends updating the existing equity based compensation guideline, with the updated language provided, which offers a more robust methodology.

On a motion made by Mr. Bush and seconded by Mr. Zollicoffer, the Board approved the edits by staff. Mr. Hughes opposed the motion.

Treasurer Kopp asked if ISS provides the System with an annual report. Mr. Blitzstein responded that ISS usually provides the System with a report in November.

Overview of CII and
Current Major
Corporate
Governance Issues

Ms. Amy Borrus, Deputy Director of the Council of Institutional Investors (CII) provided the Board background information about CII and it being the "The Voice of Corporate Governance," as well as overview to the significant governance issues before CII and its member organizations.

Chief Investment
Officers' Report

Robert Burd reported that the total market value of the fund, as of February 28, 2015, was \$45.9 Billion. Mr. Burd reported that the fund return for one month was 2.09% and the policy benchmark for one month was 2.34%.

Executive Director's
Report

Mr. Kenderdine informed the Board that COMAR 22.06.07.07E, requires that as Secretary to the Board, he notify the Board of the action taken in default cases.

Mr. Kenderdine reported on the appeal of Theresa Endres and the actions taken by Mr. Kenderdine in regards to this appeal.

- Theresa M. Endres filed an appeal with the State Retirement Agency, as a result of the Medical Board denying her request to receive accidental disability benefits. Ms. Endres' appeal was forwarded to the Office of Administrative Hearings.
- The Office of Administrative Hearings mailed a Notice of Hearing to Ms. Endres notifying her that a hearing was scheduled for December 22, 2014 at 9:30 a.m. in Hunt Valley. The Notice further advised Ms. Endres that failure to attend the hearing might result in the dismissal of her case or a decision against her.
- On the morning of December 22, 2014, an OAH Clerk notified Administrative Law Judge Marleen Miller that she had spoken with Ms. Endres that morning, who told the Clerk that she was ill and did not intend to appear for the hearing. The Clerk advised Ms. Endres that she would have to fax, to OAH, a written request for postponement with medical verification. Having received no written request for postponement, ALJ Marleen Miller convened a

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hearing as scheduled. After waiting fifteen minutes for the Claimant to appear, Carla Goldman Katzenberg, Assistant Attorney General, representing the State Retirement and Pension System, made a Motion for Default against Ms. Endres.

- As a result of Ms. Endres' failure to appear, ALJ Marleen Miller issued a Proposed Default Order.
- Ms. Endres had until February 2, 2015 to file, with me, a motion to vacate the proposed default order.
- Having received no motion to vacate the proposed default order from Ms. Endres, on March 4, 2015, as Secretary to the Board of Trustees, I issued a Final Default Order, that all further proceedings in this case are **terminated** and the case be **dismissed** and that the decision to deny Ms. Endres accidental disability retirement benefits be **affirmed**.

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Mr. Kenderdine reported staff is looking into purchasing software for a new Board Portal. The software is produced by NASDAQ and is called Director's Desk. Efforts are underway to have the company attend the April Board meeting to demonstrate the product for the Board.

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Mr. Kenderdine provided the Board with a copy of the correspondence that the Maryland Retired School Personnel Association (MRSPA) would be mailing to appropriate retirees of the System.

Mr. Kenderdine indicated that the Board does not need to take any action on this, as it is simply notification of what they plan to mail out to retirees.

Ms. Lochte indicated that MRSPA is an organization of retired members, so they are always recruiting new members.

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Mr. Harkins reminded the Board that the Executive Director Evaluation forms are overdue. For those Trustees who have not yet completed the evaluation, please do so and mail the form to Cindy Kollner at the Department of Budget and Management, as soon as possible.

CLOSED SESSION

On a motion made by Mr. Bush and seconded by Mr. Zollicoffer, the Board voted to meet in a Closed Session (11:20 a.m.) in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor, for the purpose of:

1. approving the closed session minutes, pursuant to General Provisions Art., § 3-103(a)(1), the exercise of an administrative function; and

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2. reviewing the Medical Board reports, pursuant to General Provisions Government Art., § 3-305(b)(13), to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter, namely, General Provisions Art., § 4-312 regarding the prohibition on disclosing retirement records, and General Provisions Art., § 4-329 regarding the prohibition on disclosing medical and personal information;

The Trustees present included:

Nancy K. Kopp, Chairman Presiding
David Blitzstein
James Bush, Jr.
John Douglass (via phone)
Robert Hagans
Kenneth Haines

Linda Herman (via phone)
F. Patrick Hughes (via phone)
Theresa Lochte
Richard Norman
Harold Zirkin
Thurman Zollicoffer

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary
Margaret Bury Angie Jenkins Janet Sirkis

Assistant Attorneys General present included: Rachel Cohen, and Sharon Street.

OPEN SESSION

On a motion made by Mr. Bush and duly seconded, the Board returned to open session at 11:22 a.m. and reported that during the closed session the Board reviewed and voted on the following issues:

February 13, 2015
Closed Session
Minutes

The Board voted to **APPROVE** the February 13, 2015 Closed Session Board Minutes.

Medical Board
Reports

The Board voted to **ADOPT** the Medical Board Reports from February 19, 2015, February 25, 2015, March 11, 2015 and March 12, 2015.

OPEN SESSION – APPEALS AND HEARINGS

The Board began appeals in open session at 11:30 a.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor.

The Trustees present included:

Theresa Lochte, Presiding
Nancy K. Kopp, Chairman
David Blitzstein
James Bush, Jr.

Kenneth Haines
Linda Herman (via phone)
Richard Norman
Harold Zirkin
Thurman Zollicoffer

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary
Margaret Bury Angie Jenkins Janet Sirkis

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Assistant Attorneys General present included: Rachel Cohen, Carla Goldman Katzenberg, Jill Leiner and Sharon Street.

Michele A. Pratt

The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Michele A. Pratt 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.

Dennis M. Gottesmann, Esq. and Ms. Pratt appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Carla Goldman Katzenberg, 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.

Mark D. Schreck

The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mark D. Schreck 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.

Michael E. Davey, Esq. and Mr. Schreck appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Carla Goldman Katzenberg, 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.

Dawn M. Wagster

The Board considered the recommendation of the Medical Board in connection with the claim of Dawn M. Wagster for 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. Wagster appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Jill R. 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.

Sharon D. Rose

The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Sharon D. Rose 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.

Neither Ms. Rose nor anyone authorized to represent Ms. Rose appeared before the Board to oppose the Agency's position and the Administrative

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Law Judge's recommendation. Jill R. 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.

Jeffrey Beatty

The Board was provided with a Joint Request for Remand. Jill R. Leiner, attorney for the Agency, addressed the Board and indicated that in the proposed decision, Administrative Law Judge (ALJ) Mary Shock erroneously applied a standard which required the claimant to establish that the accident was the "sole cause of his disability". Therefore, counsel requests that the Board remand this case back to the Office of Administrative Hearings and ALJ Mary Shock for reconsideration under the legal standard set forth in State Personnel and Pensions Art., (SPP) § 29-109(b); that the ALJ shall request that the parties provide oral argument and/or written memoranda regarding the legal standard and the application of the standard to the facts of this case; and that the ALJ issue a new decision applying the correct legal standard for the award of accidental disability retirement under SPP § 29-109(b).

CLOSED SESSION

On a motion made by Mr. Zollicoffer and seconded by Mr. Haines, the Board voted to meet in a Closed Session (12:52 p.m.) in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor, for the purpose of:

1. considering the disability appeals, pursuant to General Provisions Art., § 3-103(a)(1)(iii), the exercise of a quasi-judicial function.

The Trustees present included:

Theresa Lochte, Presiding
Nancy K. Kopp, Chairman
David Blitzstein
James Bush, Jr.

Kenneth Haines
Linda Herman (via phone)
Richard Norman
Harold Zirkin
Thurman Zollicoffer

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary
Margaret Bury Angie Jenkins Janet Sirkis

Assistant Attorneys General present included: Rachel Cohen and Sharon Street.

OPEN SESSION

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

Michele A. Pratt

The Board voted to **ADOPT** the Administrative Law Judge's Proposed Decision and **DENY** Michele A. Pratt's request for accidental disability benefits.

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Mark D. Schreck

The Board voted to **REMAND** the case back to the Office of Administrative Hearings (Administrative Law Judge Kimberly A. Farrell) for reconsideration under the legal standard set forth in State Personnel and Pensions Art., (SPP) § 29-109(c)(1); that the ALJ shall request that the parties provide oral argument and/or written memoranda regarding the legal standard and the application of the standard to the facts of this case; and that the ALJ issue a new decision applying the correct legal standard for the award of accidental disability retirement under SPP § 29-109(c)(1).

Dawn M. Wagster

The Board voted to **AFFIRM** the decision of the Medical Board and **DENY** Dawn M. Wagster's request for disability benefits.

Sharon D. Rose

The Board voted to **ADOPT** the Administrative Law Judge's Proposed Decision and **DENY** Sharon D. Rose's request for accidental disability benefits.

Jeffrey Beatty

The Board voted to **REMAND** the case back to the Office of Administrative Hearings (Administrative Law Judge Mary Shock) for reconsideration under the legal standard set forth in State Personnel and Pensions Art., (SPP) § 29-109(b); that the ALJ shall request that the parties provide oral argument and/or written memoranda regarding the legal standard and the application of the standard to the facts of this case; and that the ALJ issue a new decision applying the correct legal standard for the award of accidental disability retirement under SPP § 29-109(b).

Adjournment

There being no further business before the Board, on a motion made by Mr. Zollicoffer and duly seconded, the meeting adjourned at 12:58 p.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board

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**AUDIT COMMITTEE MEETING REPORT
February 13, 2015**

Participating
Employer
Audit Results
– Year 6

Mr. Thomas R. Rey, Jr., of CliftonLarsonAllen, presented the Committee with their participating employer audit results for Year-6 (CY 2014). There were 59 employers that were audited during Year-6. Mr. Rey reviewed the executive summary of audit results, noting that the objectives have remained the same as prior years. He also indicated that most of the employers were previously audited in Year-3 (CY 2011). Mr. Rey directed the Committee to the table summarizing the audit results for all employers. He stated that there has been a reduction in the number of audit findings from the first cycle of audits (Years 1 to 3) over the second cycle (Years 4 to 6).

Mr. Douglass noted that there were a number of employers with repeat audit findings. He was advised that the Agency follows up with employers to help ensure that findings are addressed. Mr. Douglass suggested that more intense efforts should be directed toward repeat offenders, and asked what the Agency intends to do, going forward. Mr. Rongione responded that Internal Audit is currently working on a Request for Proposal (RFP) for the next cycle of employer audits, which will audit all employers over the next three fiscal years. Mr. Douglass requested that employers with repeated audit findings be given priority. On a motion made by Mr. Bush, and seconded by Mr. Norman, the Committee approved the front loading of employers with repeat audit findings in the next three-year cycle of employer audits.

Mr. Douglass asked if the Agency could assess penalties on employers with repeat audit findings. Mr. Kenderdine explained that legislation would be required to impose penalties. He suggested that consideration of this issue be delayed until the completion of the next cycle of audits, and indicated that he will develop an appropriate approach to addressing repeat findings in the interim. The Committee agreed.

Mr. Kenderdine noted that some public pension plans do not audit their participating employers. Mr. Rey agreed, and advised the Committee that he often cites the Agency as a model, when discussing employer audits with other public pension plans. The Agency is ahead of the curve compared to others for GASB 68 implementation, due to its early implementation of field audits of its participating employers.

Derivatives
Operational Audit
- Update

Mr. Rongione told the Committee that the operational audit of derivatives, which is being performed by Grant Thornton, is wrapping up. Fieldwork has been completed, and there will be an exit meeting in the near future. The audit results will be presented to the Committee at their next meeting.

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**AUDIT COMMITTEE MEETING REPORT
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RFP - Participating
Employer Audits

Mr. Rongione told the Committee that the Internal Audit Division's draft RFP for audits of participating employers has been reviewed by the Legal Department, and is now being reviewed by the Department of Budget and Management. It is expected that the RFP will be issued in March.

Peer Review of the
Internal Audit Division

Mr. Rongione told the Committee that the Internal Audit Division will undergo a peer review during March and April. Generally Accepted Government Auditing Standards require that a peer review be performed every three years. The peer review will be performed by internal auditors from public pension funds in Indiana and South Carolina. The resulting peer review report is expected to be issued in May.

Status of the
FY 2015 Audit Plan

The Committee received a document summarizing the status of activities contained in the FY 2015 audit plan. Mr. Rongione explained that this document includes not only the previously approved FY 2015 audits, but also three additional audits that are expected to be completed by June 30, 2015. The Committee will be provided with similar status updates in future meetings.

Status of
Open Audit
Findings

The Committee was provided with an Open Issues Log, which lists all audit findings that have not been tested and closed by Internal Audit. Mr. Rongione told the Committee that an item's inclusion in the Log does not necessarily mean that it has not been addressed by management; only that Internal Audit has not verified that proper remediation efforts have occurred. The Committee will be provided with updated Open Issues Logs, as well as Closed Issue Logs, in its future meetings. Mr. Rongione communicated that the Open and Closed Issues Log will be utilized to report on follow-up audits in the future.

Mr. Douglass asked if Internal Audit was currently fully staffed. He was advised that three of five positions are filled, and that the remaining two positions are vacant. Mr. Kenderdine told the Committee that the Agency must maintain nine vacant positions at all times. Two of these currently belong to Internal Audit. Mr. Douglass asked that the issue be revisited at the next Audit Committee meeting.

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**AUDIT COMMITTEE MEETING REPORT
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Completed Audits

The Committee discussed the recently-issued Domestic Relations Order (DRO) and Liens audit report. Mr. Rongione told the Committee that there were four findings reported. He indicated that Agency management provided action plans to address all of the audit's findings.

Ms. Bury told the Committee that DROs are still a manual process, with more than 1,000 alternate payees. They involve complex tax calculations. Additionally, there is no backlog, since this is a priority item. Automation of the process has been requested. However, for this to be accomplished in the near term, additional programmers would need to be hired. Mr. Kenderdine told the Committee that this could not be accommodated in the current budget.

Other Business

The next Audit Committee meeting is currently scheduled for May 8, 2015, following the Investment Committee meeting. This may be changed to May 21st, following the Board of Trustees meeting, depending on scheduling.

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**CORPORATE GOVERNANCE COMMITTEE MEETING REPORT
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Iran-Sudan
Divestment Update
and Review

On a motion by Ms. Lochte and seconded by Mr. Zollicoffer the Corporate Governance Committee approved the following changes to the Iran-Sudan Restricted List, effective April 1, 2015:

Companies to be added to the Restricted List:

ONGC Videsh Limited
Petronas Capital Limited

Companies to be removed from the Restricted List:

Sirocco Energy Ltd
Statesman Resources Ltd

Proxy Voting
Guidelines

The Committee discussed possible changes to the System's proxy voting guidelines. Specific discussion revolved around proxy proposals that relate to shifting litigation fees to shareholders. The Committee took no action to amend the System's proxy guidelines as further research and an updated guideline recommendation was necessary. The Committee agreed to meet prior to the Board of Trustees meeting on March 17, 2015 to address any updated language related to the proxy guidelines.

Other Business: CII
Spring Meeting
Agenda

The Committee was provided the agenda for the CII 2015 Spring Conference.

Proxy Voting Rules

In closed session, Kathy Brady, attorney for the Agency, provided the Committee with legal advice regarding proxy voting rules and the System's contract with Institutional Shareholder Services, Inc. (ISS). In addition, staff provided information on its due diligence visit with ISS.

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**INVESTMENT COMMITTEE MEETING REPORT
FEBRUARY 13, 2015**

Public Member
Position – Call for
Nominations

Mr. Kenderdine stated that call for nominations had gone out for Public Advisor (Mr. Larry Jennings) position that will expire on June 30, 2015. He informed the committee that Mr. Jennings has expressed a desire to serve another term. Deadline for receiving nominations is Sunday, March 1, 2015.

Report from Acting
CIO

The Committee received a performance update from the Acting CIO and staff as of December 31, 2014. The total fund performance for the quarter ending December 31, 2014 was .20%, exceeding the policy benchmark of -1.13%. The System's Net Asset Value is at 44.90 billion as of 12/31/14.

Performance number relative to benchmarks by asset class

Total Public Equity:

% Fund: 38.2%
3 mos.: 1.6% → 116 basis pts. over benchmark
FYTD: -0.04% → 217 basis pts. over benchmark

Total Fixed Income:

% Fund: 13.1%
3 mos.: 1.00% → 20 basis pts. under benchmark
FYTD: 1.12% → 23 basis pts. under benchmark

Total Credit/Debt Strategies

% Fund: 10.4%
3 mos.: -0.65% → 70 basis pts. over benchmark
FYTD: -1.59% → 185 basis pts. over benchmark

Total Real Estate:

% Fund: 6.9%
3 mos.: 3.75% → 56 basis pts. under benchmark
FYTD: 4.38% → 109 basis pts. under benchmark

Total Real Return:

% Fund: 13.44%
3 mos.: -2.03% → 87 basis pts. over benchmark
FYTD: -3.58% → 309 basis pts. over benchmark

Total Private Equity:

% Fund: 7.62%
3 mos.: 1.37% → 157 basis pts. over benchmark
FYTD: 5.76% → 147 basis pts. over benchmark

Total Absolute Return:

% Fund: 10.00%
3 mos.: -0.55% → 82 basis pts. under benchmark
FYTD: -0.01% → 53 basis pts. under benchmark

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FEBRUARY 13, 2015**

Total Cash Aggregate:

% Fund: 0.80%

3 mos.: 0.54% → 53 basis pts. over benchmark

FYTD: .73% → 72 basis pts. over benchmark

1 Year: 1.82% → 178 basis pts. over benchmark

Mr. Burd distributed the 4th quarter TUCS report.

Meketa Reports

Meketa Investment Group presented the December 31, 2014 performance update to the Committee. Meketa also gave a presentation on active vs passive investing and emerging market investment opportunities.

Altius Report

Altius presented an update on the private equity market and the System's private equity program.

Investment Reports

The Committee received the following investment reports:

- State Street Performance Reports
- Private Markets Performance Reports
- Division's FY15 Travel Plan – Update
- Quarterly ORP Performance Report
- OPEB-PHBT Update
- New Hire Manager Report
- Securities Lending Report
On the Board Portal
- Broker Commission Reports
- Class Action Update

**BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

***ADMINISTRATIVE COMMITTEE MEETING REPORT
MARCH 3, 2015***

Member's Request for
a Waiver of the One-
Year Requirement to
Request a Service
Credit Transfer

Hillary Galloway Davis, Esq., as well as her client, Ms. La-Tricia Taylor appeared before the Administrative Committee to request that the Committee overturn the Executive Director's recommendation to deny Ms. Taylor's request for a waiver of the one-year requirement to request a service credit transfer.

Ms. Davis argued that Ms. Taylor was not informed that due to her employment as a Correctional Hearings Officer that she would be required to become a member of the Employees' Pension System (EPS) and could request to transfer her service credit from CORS to the EPS. Ms. Davis stated that Ms. Taylor first became aware of her right to request the transfer after discussing the matter with a co-worker who had been in the same situation. Ms. Davis indicated that Ms. Taylor's employer wrote a letter to the Agency requesting that the waiver of the one-year requirement be granted.

Mr. Reott reported that on March 10, 2006, the Agency mailed a letter to Ms. Taylor informing her that she was eligible to transfer her service. Mr. Reott reported that the Agency's regulations provide that a member has one year from becoming a member of the new system, to make the request to transfer credit from the system in which credit had been earned. He further stated that Ms. Taylor had until May 18, 2007 to request a transfer of service credit. Mr. Reott reported that the Agency's regulations also provide that if a member fails to request to transfer service credit within the one year requirement, a member may request a waiver of the requirement under certain circumstances. Ms. Taylor's deadline to file for a waiver of the one year requirement ended on July 1, 2011. Ms. Taylor did not request to transfer her service credit from her CORS membership into her EPS membership record until November 1, 2013.

Mr. Harkins commented that the Retirement Agency should write a letter to the Secretary of the Department of Public Safety and Correctional Services (DPSCS) stating that this issue is a problem in their agency and informing them that it is their responsibility to inform their employees of the one-year requirement to transfer service credit.

After further discussion, on a motion made by Ms. Brogan and seconded by Mr. Haines, by a vote of 4 to1, the Administrative Committee overturned the Executive Director's recommendation and granted Ms. Taylor's request for a waiver. Trustees in favor of the motion included Ms. Brogan, Mr. Harkins, Mr. Haines and Ms. Lochte. Mr. Norman opposed the motion.

Adoption of Proposed
Amendments to
COMAR Regulations –
22.01.06 – Payment of
Allowance

**THIS MATTER WILL BE DISCUSSED OUTSIDE OF THE CONSENT
AGENDA IN OPEN SESSION.**

Ms. Anne Budowski presented to the Administrative Committee the revised amendments to the regulations regarding payment of a monthly

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allowance. The amendments had been recommended by Ms. Brogan at the February Administrative Committee meeting.

Specifically, the revised amendments provide additional reasons why a retiree may request and the Executive Director or the Executive Director's Designee may grant a request for a waiver for the direct deposit of monthly benefit payments.

Ms. Brogan questioned the difference between "undue hardship" and "hardship" on page 12 of the agenda packet (section 3 of the regulation.)

Ms. Budowski responded that there wasn't a difference and indicated that "undue" should be removed for consistency in the language.

On a motion made by Ms. Lochte and seconded by Ms. Brogan, the Administrative Committee approved the amended regulations, with the edit on page 12, for recommendation to the Board, for adoption and publication in the Maryland Register for comment.

2015 Legislative Bill
Review

THIS MATTER WILL BE DISCUSSED OUTSIDE OF THE CONSENT AGENDA IN OPEN SESSION.

Ms. Anne Gawthrop provided the Committee an update of the 2015 pension related legislation.

Ms. Gawthrop reported on the following bills:

- House Bill 486 / Senate Bill 595 – Public Charter School Expansion and Improvement Act of 2015.

Ms. Gawthrop reported that this bill would alter State law regarding the establishment and operation of public charter schools. Specifically, the bills provide that employees of operators of public charter schools are members of the Teachers' Pension System as a condition of employment.

Ms. Gawthrop reported that staff recommends that the Board take no position on this legislation. However, staff would recommend that the Board direct staff to work with committee staff and administration staff to work out the technical issues with the bill as it is currently drafted.

The Committee decided to consider and vote on all of the staff recommendations relative to the legislation presented by Ms. Gawthrop and on a motion made by Ms. Brogan and seconded by Mr. Haines, the Administrative Committee voted to approve all staff recommendations.

Member Services
Update

Ms. Budowski updated the Committee on the performance of the Member Services Unit.

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Ms. Budowski reported that the unit did not meet its performance goals for the month of January due to an increase in call volume. The unit's call abandonment rate was 11.27% and the average speed of answer was 1:91. Ms. Budowski reported that under the new phone system the unit had 45 incoming lines, with only 10 counselors employed to receive them. Under the old system, the unit had 20 lines, 10 active lines handled by the counselors with 10 callers in the queue. At the request of Staff, the number of incoming lines has been lowered to 20 to replicate the old phone system.

Margaret Bury reported that the Agency has issued unaudited benefits allowance projections to approximately 10,000 employees who would be eligible to retire if approved for the voluntary separation program (VSP) that was recently announced by the Governor.

Ms. Bury reported the Agency has approximately 30 employees working on VSP estimates, but that to date only 246 requests for audited benefit statements have been received.

Finance Reports
Quarter Ending
December 31, 2014

Ms. Melody Countess presented the FY2015 Non-Budgeted Investment Manager and Service Related Fees Report. Ms. Countess indicated that when comparing basis points, the fees paid as a percentage of assets during the first two quarters of FY2015 were slightly higher than the fees paid during FY2014. The Equity and Fixed Income categories are still experiencing a significant cushion under the statutory fee cap. Ms. Countess also reported that the equity asset class had an increase of 3.6 basis points resulting from performance fees, a reduction in asset values and a prior year accrual adjustment.

Ms. Countess presented the Administrative Expenses Report for the quarter ending December 31, 2014. Ms. Countess reported that Agency has spent, as of that date, 42.0% of the FY2015 Appropriation amount.

Mr. Van Lewis presented the MBE Performance Report for the quarter ending December 31, 2014. Mr. Lewis reported that MBE Performance was 43.95%.

ATTACHMENT A

Legislative Update 2015 Session March 17, 2015

House Bill 30 (Schulz)

Frederick County Public Charter School Program - Establishment

This bill establishes a Frederick County Public Charter School Program and a Frederick County Public Charter School Board. House Bill 30 provides that membership in the EPS will be optional for employees of an individual that is responsible for running a Frederick County Public Charter School. The bill also provides that the governing body of the Frederick County Public Charter School shall be a governmental entity for purposes of participating in the EPS as a participating governmental unit. Finally, the proposed legislation provides that while membership is optional for employees of an individual operating a Frederick County Public Charter School, the legislative body of a public charter school in Frederick County is required to approve participation of the governmental unit in the EPS.

- No hearing scheduled in Ways and Means at this time

The Board will oppose this legislation.

House Bill 67 (The Speaker)/Senate Bill 220 (The President)

General Assembly – Mandated Reports by State Agencies

This bill repeals several reports presently required to be submitted by the Board of Trustees to the General Assembly. These reports include:

1. the attendance, educational training, and travel reports for the Board;
2. the sale or purchase of directly held real estate;
3. additional actuarial studies of the several systems;
4. the complaints received by the State Retirement Agency regarding any direct mailing received by a retiree from a retiree organization; and
5. the initial submission of the criteria established by the Board of Trustees for awarding financial incentives to the Chief Investment Officer.

- Hearing in Health and Government Operations – 2/4/15, 3:00 pm
- Passed the Senate unanimously – 2/25/15

The Board took no position on this legislation.

**House Bill 76 (Barnes as Chair for JCP)/Senate Bill 102 (Peters as Chair for JCP)
State Retirement and Pension System – Accumulated Contributions of Nonvested Former Members**

This board requested legislation requires the Board of Trustees to transfer a former member's accumulated contributions from the annuity savings fund to the accumulation fund at the time membership ends for the former member, if the former member is not vested in one of the several systems.

- Hearing in Budget and Tax – 3/19/15, 8:30 am
- Hearing in Appropriations – 3/25/15, 1:00 pm

Board requested legislation.

**House Bill 77 (Barnes as Chair for JCP)/Senate Bill 103 (Peters as Chair for JCP)
Judges' Retirement System – Membership, Accrual Rate of Interest, and Reemployment**

This board requested legislation removes language in the JRS that limits the period of time when JRS members may withdraw their accumulated contributions to 6 months after leaving the JRS. In addition, this legislation makes clarifying changes to the reemployment provisions in the JRS to address inconsistencies and confusion when implementing this provision. Finally, House Bill 77/Senate Bill 103 make clarifying changes to the length of time regular interest shall accrue on a deferred vested JRS member's contributions after the individual is no longer an active member of the plan and provides the length of time a JRS member maintains membership in the JRS after leaving the JRS. These last two clarifying changes only apply to an individual who joins the JRS on or after July 1, 2012.

- Hearing in Budget and Tax – 3/19/15, 8:30 am
- Hearing in Appropriations – 3/25/15, 1:00 pm

Board requested legislation.

**House Bill 78 (Barnes as Chair for JCP)/Senate Bill 76 (Peters as Chair for JCP)
State Retirement and Pension System – Noncontributory Pension Benefit –Definition**

This board requested legislation clarifies the definition of "noncontributory pension benefit" under 20-101(aa-1) of the State Personnel and Pensions Article to conform to changes made through the 2011 pension reforms.

- Hearing in Budget and Tax – 3/19/15, 8:30 am
- Hearing in Appropriations – 3/25/15, 1:00 pm

Board requested legislation.

**House Bill 79 (Barnes as Chair for JCP)/Senate Bill 104 (Peters as Chair for JCP)
Correctional Officers' Retirement System – Membership**

This board requested legislation allows two ERS members to transfer back to the CORS under the provisions of Chapter 188 of 2014.

- Voted favorably with amendments by Appropriations – 3/12/15
- Hearing scheduled in Budget and Tax – 2/5/15, 9:00 am

Board requested legislation.

House Bill 210 (Cluster)/Senate Bill 268 (Hough)

Correctional Services - Baltimore City Detention Center - Transfer of Ownership

House Bill 210/Senate Bill 268 transfers ownership of the Baltimore City Detention Center from the State to Baltimore City beginning January 1, 2016. All current employees of the Baltimore City Detention Center will be terminated from State employment on December 31, 2015. The Mayor for Baltimore City will have the option to hire these same individuals. Current employees of the Baltimore City Detention Center will remain members of the CORS until July 1, 2019, at which point they will have the option to remain in the CORS or join the Baltimore City Employees' Retirement System. For those employees who remain in the CORS, Baltimore City will be responsible for submitting the employer contributions for these individuals to the State. Vested CORS members who choose to transfer to the Baltimore City ERS will receive their vested benefit from the CORS; non vested CORS members who choose to transfer will receive a lump-sum payment of the benefit they have accrued in the CORS prior to transferring.

- Voted unfavorable by Appropriations – 3/2/15
- Recommitted to Judicial Proceedings – 3/10/15

The Board opposed this legislation.

**House Bill 217 (Barnes as Chair for JCP)/Senate Bill 191 (Peters as Chair for JCP)
State Retirement and Pension System - Credit for Unused Sick Leave – Clarification**

This board requested legislation clarifies that that only unused sick leave that was available to the employee as sick leave during employment may be reported by the employer to the State Retirement Agency.

- Passed the House unanimously – 2/19/15
- Budget and Tax Pension Subcommittee voted favorable – 2/19/15

Board requested legislation.

House Bill 380 (Bromwell)

State Retirement and Pension System – Military Service Credit – Exception

This bill applies to individuals who retire from the JRS between January 1, 2015 and April 1, 2015, and who at the time of retirement have at least 9 years of service credit, but are unable to serve 10 years on the bench due to mandatory retirement at age 70. House Bill 380 provides that these individuals may purchase “air time” to reach the 10 years of service credit necessary to apply for up to five years of military service in the Judges’ Retirement System. House Bill 380 will sunset on June 30, 2016.

- Voted unfavorable by Appropriations – 3/12/15

The Board opposed this legislation.

House Bill 421 (Frick)/Senate Bill 312 (Rosapepe)

Maryland Secure Choice Retirement Savings Program and Trust

This proposal establishes a Maryland Secure Choice Retirement Savings Trust intended to promote greater retirement savings for Maryland private sector employees in a convenient, voluntary, low-cost, and portable manner. The Trust is managed by a board of eight individuals, including the Treasurer, the Comptroller, the Secretary of Budget and Management, and five individuals appointed by the Governor. The funds of the Trust may be invested by the Treasurer, through a contract with the Board of Trustees for the State Retirement and Pension System, or private money managers. The bills provide that private sector employers shall offer their employees the option to participate in a payroll-deposit IRA arrangement. For the first three months, employer participation in this program is optional. Beginning at the start of the fourth month, and every three months thereafter, employer participation is mandatory depending on the number of employees each eligible employer has employed. Full participation is mandated by the ninth month of the program’s inception.

- Hearing in Economic Matters – 2/24/15, 1:00 pm
- Hearing in Budget and Tax – 2/25/15, 1:00 pm

The Board took no position on this legislation

House Bill 486 (Speaker)/Senate Bill 595 (President)

Public Charter School Expansion and Improvement Act of 2015

This Administration bill alters State law regarding the establishment and operation of public charter schools. Specifically, with regard to the State Retirement and Pension System, these bills provide that employees of operators of public charter schools are members of the TPS as a condition of employment.

- Hearing in Ways and Means – 2/26/15, 1:00 pm
- Hearing in Education, Health and Environment – 3/4/15, 1:00 pm

Staff recommends taking no position on this legislation. However, staff would recommend the Board direct staff to work with committee staff and administration staff to work out the technical issues with the bill as it is currently drafted.

House Bill 569 (Jackson)

State Police Retirement System and Law Enforcement Officers' Pension System – Reemployment of Retirees

This legislation provides that a retiree of the SPRS who is reemployed by a participating employer in the LEOPS shall be enrolled in the LEOPS and begin receiving creditable and eligibility service in that system during the period of reemployment. In addition, the bill also provides that a retiree of the LEOPS who is reemployed by an employer participating in the SPRS shall be enrolled in the SPRS and begin receiving creditable and eligibility service in that system during the period of reemployment.

- Voted unfavorable by Appropriations – 3/12/15

The Board will oppose this legislation.

House Bill 694 (Jackson)/Senate Bill 286 (Manno)

Law Enforcement Officers' Pension System – Division of Parole and Probation – Warrant Apprehension Unit Employees – Membership

This proposed legislation would transfer employees of the Warrant Apprehension Unit who are currently members of the EPS into the LEOPS.

- Hearing in Budget and Tax – 3/19/15, 8:30 am
- Hearing in Appropriations – 3/25/15, 1:00 pm

The Board took no position on this legislation.

House Bill 907 (Miller)/Senate Bill 726 (Bates)

Employees' Pension System – Town of Sykesville – Return to Employment

This bill provides full service credit in the Employees' Pension System (EPS) for service credit earned by employees of the Town of Sykesville before the town became a participating governmental unit (PGU) in the State Retirement and Pension System.

- Voted favorable with amendments by Appropriations – 3/12/15
- Hearing in Budget and Tax – 3/5/15, 8:30 am

The Board took no position on this legislation.

House Bill 1121 (Bromwell)/Senate Bill 364 (Kasemeyer)/Senate Bill 485 (Simonaire)

Alternate Contributory Pension Selection – Return to Employment

This bill would allow an individual to resume membership in the ACPS if the individual has been separated from service for more than 4 years, but was vested in the ACPS on or before July 1, 2011.

- Assigned to House Rules – 2/18/15
- Hearing in Appropriations – 3/25/15, 1:00 pm

The Board took no position on this legislation.

Senate Bill 165 (Feldman)

State Retirement and Pension System - Constitutional Officers - Forfeiture of Benefits

This proposed legislation would provide that any constitutional officer of the State (the Attorney General, Comptroller, Lieutenant Governor, Secretary of State, or Treasurer) who is convicted of a specified crime during the officer's term of office, shall forfeit all retirement benefits earned under the State Retirement and Pension System. Senate Bill 165 further provides that this bill shall only apply to any crime committed on or after July 1, 2015.

- Hearing in Budget and Tax – 2/19/15, 8:30 am

The Board took no position on this legislation but did recommend directing staff to work with the Budget and Tax Committee to address Agency implementation issues with Senate Bill 165.

Senate Bill 432 (Peters)

Employees' and Teachers' Pension Systems – Combination of Service – Clarification

This legislation clarifies the proper member contribution rate to use when participants seek to combine previous EPS or TPS service with the EPS or TPS account under which they are currently members.

- Hearing in Appropriations – 3/25/15, 1:00 pm

Board requested legislation.

Senate Bill 442 (Eckardt)

Employees' Pension System – Dorchester County Sanitary Commission – Eligible Governmental Unit

This bill provides that any employee of the Dorchester County Sanitary Commission that was employed by Dorchester County Council on June 30, 2011, and remains an employee of the Commission on its effective date of participation in the EPS, may remain in the ACPS.

- Hearing in Appropriations – 3/25/15, 1:00 pm

The Board took no position on this legislation.

Senate Bill 560 (Peters)

Employees' Pension System – Elected and Appointed Officials – Optional Membership

This bill provides that membership in the EPS is optional for officials who are elected or appointed for fixed terms.

- Hearing in Budget and Tax – 3/5/15, 8:30 am

Board requested legislation

Senate Bill 639 (Serafini)

Teachers' Retirement and Pension Systems – Reemployment of Retirees – Exemptions

This bill provides that up to 10 TRS or TPS retirees may be hired by each local school system and the Maryland School for the Deaf in a position other than a classroom teacher, substitute teachers, teacher mentor, or principal, and not be subject to a reemployment earnings limitation.

- Hearing in Budget and Tax – 3/5/15, 8:30 am

The Board will take no position on this legislation.

Senate Bill 640 (Serafini)

State Retirement and Pension System – Actuarial Stress Test

This bill requires the Board of Trustees to commission an actuary other than the System's current actuary to perform a stress test of future financial positions of the several systems to measure investment and contribution risks. This bill requires the stress test to be completed by December 31, 2015. The bill will sunset June 30, 2016.

- Hearing in Budget and Tax – 3/5/15, 8:30 am

The Board will take no position on this legislation, until staff has had an opportunity to discuss the provisions of the bill with the sponsor and are able to obtain additional information.