

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

December 15, 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 9:31 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding
Peter Franchot, Vice Chairman
David Brinkley
James Bush, Jr.
Robert Hagans, Jr.
Kenneth Haines

James Harkins
Sheila Hill
F. Patrick Hughes
Theresa Lochte
Richard Norman
Harold Zirkin
Thurman Zollicoffer, Jr.

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

Anne Budowski
Margaret Bury
Melody Countess
Anne Gawthrop

Michael Golden
Ira Greenstein
Angie Jenkins
Michelle Lowery

Andrew Palmer
Ken Reott
David Rongione
Janet Sirkis
Toni Voglino

Assistant Attorneys General present included: Kathy Brady, Rachel Cohen, Sharon Street and Kathleen Wherthey.

Other attendees included: Robin Clark, Randy Mickens, Michael Rubenstein and William Seymour

Consent Agenda

Mr. Kenderdine reported to the Board that Linda Herman requested that the November 17, 2015 open meeting Board minutes regarding the TIAA ORP contract be amended to accurately reflect her request. The minutes should read as follows:

Ms. Herman asked Mr. Burd if there was analysis performed to support whether the 9.5 basis points was industry standard for a plan our size or whether the basis point number should be lower. He responded that he would need to get back to her as to the analysis that had been performed.

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

- November 17, 2015 Open Meeting Board Minutes, with an amendment.
- November 17, 2015 Corporate Governance Committee Meeting Report
- December 1, 2015 Administrative Committee Meeting Report

Adoption of COMAR
Amendments -
COMAR 22.06 –
Disability Retirement

Ms. Anne Budowski presented to the Board amendments to the regulations regarding disability retirement.

Ms. Budowski reported that the amendments address the Board of Trustees' recently approved recommendation of the Ad Hoc Committee regarding the delegation of final decision making authority as well as to clarify existing language in the regulations. Specifically, the amendments reflect the Board's recent decision to delegate final decision making authority for

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disability appeals to the Office of Administrative Hearings; to extend the time period to determine maximum medical improvement from “not to exceed six months” to “not exceed twelve months”; and lastly to change the defined term “Independent medical examination” to “Independent medical evaluation.”

Treasurer Kopp asked what was the original intent of the use of the word “examination?”

Ms. Budowski responded that staff is not certain as to why “examination” was used at the time the current regulations were drafted, however, overtime, it has become evident that “evaluation” is more appropriate as in most cases of an appeal, the outside physician reviews the Claimant’s records as opposed to conducting a physical examination.

Theresa Lochte commented that on page 4 the language in section 22.06.01.04B (When Membership in the State System Ends) should be clarified.

Sheila Hill requested that the minutes reflect her objection to the recommendation that the Office of Administrative Hearings have final decision making authority.

On a motion made by Mr. Harkins and seconded by Mr. Zollicoffer, by a vote of 10 to 3, the Board of Trustees voted to adopt for publication in the Maryland Register for comment, the amendments of the regulation. The Trustees in favor of the motion were: Treasurer Kopp, Comptroller Franchot, Mr. Bush, Mr. Hagans, Mr. Haines, Mr. Hughes, Ms. Lochte, Mr. Norman, Mr. Zirkin and Mr. Zollicoffer. The Trustees in opposition of the motion were: Secretary Brinkley, Ms. Hill and Mr. Harkins.

Adoption of Changes
to the Investment
Policy Manual

Toni Voglino presented to the Board the proposed amendments to Investment Policy Manual as it relates 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 approved the recommended changes to the Investment Policy Manual regarding Proxy Voting.

System’s Financial
Reporting

R. Dean Kenderdine provided the Board with a memorandum and three spreadsheets, which provided an analysis of two options for future financial reporting of the System, specifically moving from the “one-pool” approach that has historically been used, to either a “five-pool” or “seven-pool” approach. Mr. Kenderdine cited the November 25, 2015 memorandum from him to the members of the Ad Hoc Joint Committee on System Financial Reporting, which presented the policy and administrative consequences of moving to either the “five-pool” or “seven-pool” approach.

Mr. Kenderdine thanked William Seymour from SB&Co. and Melody Countess for their work on this issue.

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Comptroller Franchot asked if this issue came about as a result of an audit.

Mr. Kenderdine responded that the matter arose as a result of the recent implementation of GASB Statement 68..

Mr. Harkins reported that it was the Joint Committee's recommendation that the System maintain the current financial reporting method.

On a motion made by Mr. Harkins and seconded by Mr. Hughes, by a vote of 12 to 1, the Board approved the Committee's recommendation that the System maintain its current financial reporting method. The Trustees in favor of the motion were: Treasurer Kopp, Comptroller Franchot, Secretary Brinkley, Mr. Bush, Mr. Hagans, Mr. Haines, Ms. Hill, Mr. Hughes, Ms. Lochte, Mr. Norman, Mr. Zirkin and Mr. Zollicoffer. The Trustee in opposition of the motion was: Mr. Harkins.

Mr. Harkins stated that Ms. Herman had requested that the minutes reflect that, had she attended this meeting, she would have voted in opposition to the motion.

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 Tyrone Myles, Sr. and the actions taken by Mr. Kenderdine in regard to this appeal.

- Tyrone Myles, Sr. filed an appeal with the State Retirement Agency, as a result of the Medical Board denying his request to receive accidental disability benefits. Mr. Myles' appeal was forwarded to the Office of Administrative Hearings.
- The Office of Administrative Hearings mailed a Notice of Hearing to Mr. Myles notifying him that a hearing was scheduled for October 15, 2015 at 9:30 a.m. in Hunt Valley. The Notice further advised Mr. Myles that failure to attend the hearing might result in the dismissal of his case or a decision against him.
- On October 15, 2015, Administrative Law Judge Mary R. Craig convened a hearing as scheduled. After waiting a period of time for the Claimant to appear, Carla Goldman Katzenberg, Assistant Attorney General, representing the State Retirement and Pension System, made a Motion for Default against Mr. Myles.
- As a result of Mr. Myles' failure to appear, ALJ Mary R. Craig issued a Proposed Default Order.
- Mr. Myles had until November 16, 2015 to file, with me, a motion to vacate the proposed default order.
- Having received no motion to vacate the proposed default order

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from Mr. Myles, on November 30, 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 Mr. Myles accidental disability retirement benefits be **affirmed**.

Mr. Kenderdine called the Trustees' attention to the Board attendance and Trustee training reports and asked that if any Trustee had concerns with the reports to inform him as soon as possible.

Mr. Kenderdine reminded the Trustees that due to recently passed legislation, the Agency is no longer required to submit either of these reports to the legislature; however, due to statutory requirements pertaining to Trustee meeting attendance and training, a record of such must still be kept.

Rachel Cohen, Principal Counsel introduced Kathleen Wherthey, Assistant Attorney General. Ms. Cohen reported that Ms. Wherthey would be handling the securities litigation and other litigation matters.

Mr. Kenderdine announced that nominations are being accepted for the Investment Committee Public Advisor position, currently held by Brian Topping. Mr. Kenderdine indicated that Mr. Topping's term expires June 30, 2016.

Treasurer Kopp asked if a public notice would be issued to announce that nominations were being accepted.

Mr. Kenderdine responded that a public notice would be issued.

Mr. Kenderdine provided the Board with the finance reports which were presented to the Administrative Committee at its December 1, 2015 meeting. Mr. Kenderdine reported that the finance reports would be uploaded to Director's Desk.

The Board was provided, for their review, a copy of a document entitled "Actuarial Funding Policies and Practices for Public Pension Plans" published by the Conferences of Consulting Actuaries Public Plans Community. Mr. Kenderdine reminded the Board that at the request of Trustee Blitzstein this publication would be discussed at the January meeting and that Brian Murphy from Gabriel Roeder Smith & Co. (GRS) would be leading the discussion.

Anne Gawthrop and Margaret Bury updated the Board on the recent Joint Committee on Pensions (JCP) meeting.

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Ms. Gawthrop provided the Board with a copy of the recommendations resulting from the study conducted regarding disability benefits by the Department of Legislative Services (DLS) over the past summer.

Ms. Gawthrop reported that the JCP has approved all Board requested legislation for introduction into the 2016 session of the General Assembly

Mr. Kenderdine reported that the week of November 16, 2015, he conducted six regional meetings with Participating Governmental Units (PGU) and during those meetings, there was no objection to the proposed legislation regarding the PGU funding policy changes.

CIO Report

Mr. Andrew Palmer reported that the performance report from State Street was not yet available. However, Mr. Palmer provided an internal performance summary to the Board, which indicated that the total market value of the fund, as of November 30, 2015, was \$44.6 Billion, with a drop of 36 basis points. Mr. Palmer reported that the domestic equity portfolio had positive alpha for one month and that International Equity provided positive 0.99 basis points of alpha.

Mr. Palmer indicated that the summary would be posted to Director's Desk.

Mr. Palmer reported that in the annual Investment Overview conducted by DLS for the JCP, there were seven issues raised by the DLS staff to which Mr. Palmer responded on behalf of the Board. Those questions and staff responses will be posted to Director's Desk and emailed to the Board.

Mr. Palmer reported that he feels a training session on Hedge Funds would be beneficial to the Board and would solicit any other topics for discussion that would be of interest to the Board.

Mr. Hughes responded that it would be helpful to have current asset managers with different investment approached come in and present to the board.

Mr. Bush asked for Mr. Palmer's opinion regarding the strength in the dollar.

Mr. Palmer responded that the dollar is keeping the Federal government from being more aggressive in raising rates as it has kept inflation pressure down and slowed domestic manufacturing. Mr. Palmer feels the dollar looks reasonably valued at the present time.

Comptroller Franchot asked what the impact of employer contributions would have with the returns where they are now.

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Michael Rubenstein from the Department of Legislative Services indicated that the analysis shows employer contributions increasing to \$39 million.

Comptroller Franchot asked what happens if the System has a 2% return?

Mr. Palmer responded that the plan would have a short fall, but will have been smoothed over a number of years.

Mr. Kenderdine further responded that the System continues to smooth on a five-year basis all gains and losses to the System and that this is the standard among most public pension plans. Mr. Kenderdine indicated that GRS previously provided actuarial projections showing future contributions under a scenario where the System had two consecutive years with returns well below the assumed rate and that he would circulate and post to Director's Desk, those projections.

Treasurer Kopp acknowledged Mr. Palmer's well done presentation to the JCP.

On a motion made by Mr. Hughes and seconded by Ms. Lochte, the Board voted to meet in a Closed Session (10:45 a.m.) in the Board Room of the SunTrust Building at 120 East Baltimore Street for the purpose of:

1. reviewing the closed session minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function;
2. reviewing the Medical Board reports, pursuant to General Provisions 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;
3. receiving a litigation update from Board counsel, pursuant to General Provisions Art., § 3-305(b)(8), to consult with staff, consultants, or other individuals about pending or potential litigation; and
4. consulting with staff, consultants, or other individuals about the pending or potential litigation involving Valeant Pharmaceuticals International, Inc., pursuant to General Provisions Art., § 3-305(b)(8), and to consult with counsel to obtain legal advice, pursuant to General Provisions Art., § 3-305(b)(7).

CLOSED SESSION

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding
Peter Franchot, Vice Chairman
David Brinkley
James Bush, Jr.
Robert Hagans, Jr.
Kenneth Haines

James Harkins
Sheila Hill
F. Patrick Hughes
Theresa Lochte
Richard Norman
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Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Anne Budowski	Michael Golden	Ken Reott
Margaret Bury	Angie Jenkins	David Rongione
Melody Countess	Michelle Lowery	Janet Sirkis
	Andrew Palmer	

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

On a motion made by Mr. Hughes and seconded by Mr. Harkins, the Board returned to open session at 10:56 a.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street and reported that during the closed session the Board voted on the following:

Closed Session Minutes	The Board approved the November 17, 2015 closed session minutes.
Medical Board Reports	The Board adopted the medical board reports from November 18, December 2 and December 10, 2015.

OPEN SESSION – APPEALS AND HEARINGS

The Trustees present included:

David Brinkley, Presiding	Sheila Hill
James Bush, Jr.	F. Patrick Hughes
Robert Hagans, Jr.	Theresa Lochte
James Harkins	Richard Norman
	Harold Zirkin

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 Katzenberg, Jill Leiner, Sharon Street and Kathleen Wherthey.

Jeffrey Beatty The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Jeffrey Beatty 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. Beatty 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.

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Kathy D. Smith

The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Kathy D. Smith 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.

Allan Heneson, Esq., on behalf of Ms. Smith, 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.

Kelly A. Edwards

The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Kelly A. Edwards 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. Edwards 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.

Marie Wesley

The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Marie Wesley 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.

Neither Ms. Wesley nor anyone authorized to represent Ms. Wesley, appeared to oppose the Agency's position and the Administrative Law Judge's recommendation.

Therefore, due to this appeal being heard on the record, the Board deferred further consideration to Closed Session.

On a motion made by Mr. Hughes and seconded by Ms. Lochte, the Board voted to meet in a Closed Session (11:06 a.m.) in the Board Room of the SunTrust Building at 120 East Baltimore Street for the purpose of:

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

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CLOSED SESSION – APPEALS AND HEARINGS

The Trustees present included:

David Brinkley, Presiding
James Bush, Jr.
Robert Hagans, Jr.
James Harkins

Sheila Hill
F. Patrick Hughes
Theresa Lochte
Richard Norman
Harold Zirkin

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

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

On a motion made by Mr. Hughes and seconded by Mr. Harkins, the Board returned to open session at 12:09 p.m.

OPEN SESSION

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

Jeffrey Beatty

The Board voted to **REJECT** the Administrative Law Judge's Proposed Decision and **GRANT** Jeffrey Beatty's request for accidental disability benefits.

Kathy D. Smith

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

Kelly A. Edwards

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

Marie Wesley

The Board voted to **ADOPT** the Administrative Law Judge's Proposed Decision, with modifications, and **DENY** Marie Wesley's request for accidental disability benefits.

Adjournment

There being no further business before the Board, on a motion made by Ms. Hill and duly seconded, the meeting adjourned at 12:23 p.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board