

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

July 17, 2018

The Board of Trustees for the Maryland State Retirement and Pension System convened at the Board Room of the SunTrust Building, 120 East Baltimore Street, 16<sup>th</sup> Floor Board Room, Baltimore, Maryland beginning at 9:34 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding (via phone)	Sheila Hill (via phone)
Peter Franchot, Vice Chairman (via phone)	F. Patrick Hughes (via phone)
Eric Brotman (via phone)	Charles Johnson (via phone)
Jamaal Craddock (via phone)	Theresa Lochte (via phone)
David Hamilton (via phone)	Richard Norman
James Harkins (via phone)	Douglas Prouty (via phone)
Linda Herman (via phone)	Michael Stafford (via phone)

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

Scott Bolander	Patricia Fitzhugh	Kim O’Keeffe
Robert Burd	Anne Gawthrop	Andrew Palmer (via phone)
Elizabeth Burton	Michael Golden	Harvey Raitzyk
Melody Countess	Ira Greenstein	David Rongione
Jeff Eickelberger	Angie Jenkins	Toni Voglino

Assistant Attorneys General present included: Rachel Cohen, Jody Shaw and Kathleen Wherthey

Other attendees included: Susanne Brogan (via phone), John Kenney (via phone) and Phillip Anthony

Consent Agenda

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

- June 19, 2018 Open Meeting Board Minutes
- June 19, 2018 Corporate Governance Committee Meeting Summary

Public Comment  
from Private  
Equity  
Stakeholder  
Project on behalf  
of Former  
Employees of  
Toys “R” Us

A representative of the Private Equity Stakeholder Project and former employees of Toys “R” Us who are part of the Rise Up Retail Campaign addressed the Board of Trustees regarding the hardships that former employees have faced since the closing of the stores, and their efforts to receive severance compensation from the private equity firms which had controlled Toys “R” Us prior to the company’s bankruptcy. One such firm is Bain Capital.

The individuals explained that they have been lobbying to receive \$75 million in severance from the former equity owners to help ease the financial hardships they have experienced since the closing of the stores. They requested that the Board of Trustees reach out to Bain Capital and express its concerns.

Treasurer Kopp thanked the panel for their presentation and explained that the System is not an investor in the specific private equity funds that had made the investment in Toys “R” Us, but that the Board would express their concerns to Bain Capital regarding the welfare and treatment of the Toys “R” Us former employees.

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Recommendation  
of the Corporate  
Governance  
Committee  
regarding  
Changes to the  
Investment Policy  
Manual  
concerning  
Engagement and  
Proxy Disclosure

Ms. Toni Voglino reported that during the legislative session, State Personnel and Pensions Art. (SPP), § 21-116 was amended to include, among other items, the requirement that the System's Investment Policy Manual (IPM) address corporate governance engagement and the disclosure of proxy votes.

The Corporate Governance Committee, at its June 19, 2018 meeting, reviewed and approved proposed amendments to the IPM for recommendation to the Board, to address the requirements of the amended language of § 21-116. The Board was provided with a red-lined version of the recommended changes.

On a motion made by Ms. Hill and seconded by Mr. Johnson, the Board voted to approve the recommendation of the Corporate Governance Committee regarding changes to the Investment Policy Manual concerning engagement and proxy disclosure.

Mr. Hamilton requested that the minutes reflect that prior to the meeting of the Board, he has asked whether the policy, as drafted, would permit the Committee, Executive Director or Chairman to authorize or commence securities litigation by the System or make a commitment of funds.

Rachel Cohen, counsel to the Board, responded that in her view, the term "engagement" in the proposed policy would not permit the Corporate Governance Committee, Executive Director or Chairman to authorize shareholder litigation by the System. The Board has adopted a separate Securities Litigation Policy that outlines the procedures for the System to actively participate in securities litigation. In addition, any litigation must be approved by the Attorney General's office. Ms. Cohen further stated that her understanding from the Committee's discussion that the only contemplated expense was the commitment of staff time, and that the expenditure of funds on shareholder engagement activities must be considered in light of fiduciary duties.

Recommendation  
of the Corporate  
Governance  
Committee  
regarding  
Changes to the  
Investment Policy  
Manual  
concerning Recall  
of Stocks for  
Proxy Voting

Ms. Voglino reported that the current policy of the System is to recall U.S. securities and to not recall international securities for the purpose of voting at shareholder meetings. As the System is planning to increase the securities on loan in the coming year, the cost associated with recalling U.S. securities is expected to increase. Due to the potential increase in lost income from recalling U.S. securities, staff is recommending that the System no longer recall stocks for proxy voting purposes. Staff also recommends that the System's policy retain the right to recall stocks, and all recalled stocks shall be approved by the Chief Investment Officer and reported to the Corporate Governance Committee.

The Corporate Governance Committee, at its June 19, 2018 meeting, reviewed and approved, for recommendation to the Board, the proposed amendments to the Investment Policy Manual as recommended. The Board was provided with a red-lined version of the recommended changes.

On a motion made by Ms. Hill and duly seconded, the Board voted and approved the recommendation of the Corporate Governance Committee regarding changes to the Investment Policy Manual concerning Recall of Stocks for Proxy Voting.

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CIO Report            Mr. Burd reported that performance numbers as of June 30, 2018 were not yet available from State Street due to extra processing time associated with fiscal year end. He noted that the total fund return for the year would be approximately 8.15%. He also indicated that, based on the excess return of 32 basis points above the policy benchmark accumulated through May 31, 2018, it was highly likely that total plan performance would exceed the policy benchmark for the fiscal year.

Mr. Brotman asked if the returns were net or gross of fees.

Mr. Burd responded that the returns were net of fees.

Treasurer Kopp asked if it was common for the fiscal year-end performance reports to be delayed.

Mr. Burd confirmed that fiscal year-end reports are typically delayed by a few days in order to capture as much manager return data as possible.

Executive  
Director's Report

Mr. Kenderdine reported that the evaluation forms for the evaluation of the Chief Investment Officer had been emailed to the Board. The forms are to be completed by August 13, 2018.

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Mr. Kenderdine reported that he had recently sent, via email, a request to the Trustees regarding the possibility of moving the August Board meeting to either August 23 or August 24, in order for Funston Advisory Consultants to present the results of their survey of the Board and the analysis of the Board's current governance policies and charters. However, having received responses from the Trustees, it is not feasible to move the date. Therefore, the August 21, 2018 date will remain in place.

Mr. Kenderdine indicated that he would work with ad hoc Governance Committee Chairman Lochte to schedule a special meeting of the Board, a two-hour workshop, in order for Funston Advisory Consultants to present their results to the Board.

On a motion made by Mr. Prouty and seconded by Mr. Norman, the Board voted to meet in a Closed Session, beginning at 10:12 a.m., in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16<sup>th</sup> Floor, for the purpose of:

- a) reviewing the June 19, 2018 closed session Board minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function;
- b) reviewing the Medical Board reports from June 21, June 27, July 5 and July 11, 2018, regarding individual participants' claims for disability retirement benefits, 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 psychological information; and

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- c) reviewing a report regarding extraordinary salary increases, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific statutory requirement that prevents public disclosure, namely, General Provisions Art., § 4-312 regarding the prohibition on disclosing retirement records.

**CLOSED SESSION**

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding (via phone)	Sheila Hill (via phone)
Peter Franchot, Vice Chairman (via phone)	F. Patrick Hughes (via phone)
Eric Brotman (via phone)	Charles Johnson (via phone)
Jamaal Craddock (via phone)	Theresa Lochte (via phone)
David Hamilton (via phone)	Richard Norman
James Harkins (via phone)	Douglas Prouty (via phone)
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Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Scott Bolander	Patricia Fitzhugh	Kim O’Keeffe
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Elizabeth Burton	Michael Golden	Harvey Raitzyk
Melody Countess	Angie Jenkins	David Rongione
Jeff Eickelberger		Toni Voglino

Assistant Attorneys General present included: Rachel Cohen, Jody Shaw and Kathleen Wherthey

Other attendees included: Susanne Brogan (via phone) and John Kenney (via phone)

On a motion made by Mr. Prouty and duly seconded, the Board returned to open session at 10:15 a.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16<sup>th</sup> Floor.

**OPEN SESSION**

During closed session, the Board of Trustees discussed and took action on the following matters:

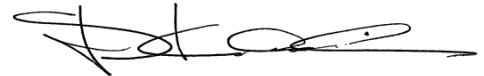
Closed Session Minutes	The Board reviewed and approved the June 19, 2018 closed session minutes.
Medical Board Reports	The Board reviewed and adopted the medical board reports from June 21, June 27, July 5 and July 11, 2018.
Extraordinary Salary Increases	The Board reviewed and approved the recommendations regarding the extraordinary salary increases as presented.

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- Other Business      The Board received a one-hour educational presentation in open session. The presentation was conducted, via webinar, by Yves Balcer, PH.D., from FORT, Investment Management on Commodity Trading Advisors (CTAs).
- Adjournment      There being no further business before the Board, on a motion made by Mr. Norman and duly seconded, the meeting adjourned at 11:18 a.m.

Respectfully submitted,



R. Dean Kenderdine  
Secretary to the Board

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**CORPORATE GOVERNANCE COMMITTEE MEETING SUMMARY  
June 19, 2018**

Investment  
Policy Manual  
Update-  
Engagement  
and Proxy  
Disclosure

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

The Committee considered the recommendation by staff to update the Investment Policy Manual to include language outlining the System's policy on corporate governance engagement activities and the disclosure of proxy voting records.

Ms. Voglino explained to the Committee that during the 2018 legislative session House Bill 993 was passed. The bill required the System to include in the Investment Policy Manual policies outlining its engagement guidelines and that proxy votes are published on the Agency's website. Ms. Voglino outlined the proposed Investment Policy Manual language to the Committee, highlighted that types of engagement activities included in the policy, and explained that any governance activities executed shall be in agreement with the System's proxy voting policies or reviewed by the Corporate Governance Committee.

Mr. Brinkley asked when the System would engage with lawmakers without prior approval from the Board. Ms. Voglino responded that the System would do so if, for example, it were being asked to join a statement and that statement was consistent with the Board's proxy voting policies in the Investment Policy Manual. Otherwise, the issue would be brought to the Board.

Ms. Kopp questioned the language of the proposed policy as outlined in the memorandum from staff. A discussion occurred regarding amendments, and a consensus was reached to include the following amended language in the Investment Policy Manual:

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

On a motion by Ms. Kopp, and seconded by Mr. Johnson, the Committee voted, all in favor, to approve staff's recommended changes as outlined in the memorandum from staff, with amendments as noted above, to the System's Investment Policy Manual.

The Investment Policy Manual changes approved by the Committee will be presented at the Board of Trustees meeting on July 17, 2018, for approval.

Investment  
Policy Manual  
Update-Recall  
of Stocks for  
Proxy Voting

**THIS MATTER WILL BE DISCUSSED AND VOTED ON OUTSIDE OF THE  
CONSENT AGENDA IN OPEN SESSION**

The Committee reviewed staff's memorandum and the recommended changes to the System's Investment Policy Manual regarding the recall of U.S. stocks under the securities lending program. Ms. Voglino discussed the recommendation, detailed the revenue associated with the securities lending program, and outlined the estimated cost associated with recalling loaned U.S. stocks to vote proxies at shareholder meetings. Ms. Voglino explained that when stocks are on loan the

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**CORPORATE GOVERNANCE COMMITTEE MEETING SUMMARY  
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System transfers certain ownership rights to the borrower, including the right to vote at shareholder meetings. In order to vote, the System must recall the stocks.

Ms. Voglino explained the System's current policy on recalling stocks and detailed that the policy does not require the System to recall international stocks on loan, but does require U.S. stocks on loan to be recalled for voting purposes. In addition, Ms. Voglino explained that staff expects the securities lending program to grow in the coming year, which would increase the lost revenue associated with recalling U.S. stocks. Given the potential for increased lost revenue, staff has recommended to the Committee that the System no longer recall U.S. stocks for voting purposes, but retain the right to recall stocks if approved by the Chief Investment Officer and reported to the Corporate Governance Committee.

Ms. Kopp asked whether the System would be fulfilling its fiduciary responsibilities if the Board decided not to recall U.S. stocks. Mr. Palmer responded that such a decision was consistent with fiduciary responsibilities because the System would still be voting all of the shares that had not been loaned to a borrower and that the System would retain the right to recall loaned shares. He and Ms. Voglino also noted that such a decision would be consistent with the approach of other public pension plans with securities lending programs. Ms. Kopp stated that she expects a report to the Committee on all recalled stocks and the justification. Mr. Palmer indicated that he would consider recalling a company stock if the System was involved in an engagement activity with the company.

The Committee discussed the proposed update to the language of the Investment Policy Manual and amendments to the proposed language. A consensus was reached on the last sentence in the proposed language of the Investment Policy Manual, as noted in the memorandum by staff, to be amended to:

The decision to recall a stock shall be made by the Chief Investment Officer and the Chief Investment Officer shall report all recall activity to the Corporate Governance Committee.

On a motion by Mr. Johnson, and seconded by Ms. Kopp, the Committee voted, all in favor, to approve staff's recommended changes to the System's Investment Policy Manual as outlined in the memorandum with the above noted amendment

The Investment Policy Manual changes approved by the Corporate Governance Committee will be presented at the Board of Trustees meeting on July 17, 2018 for approval.