

**THE CORPORATE GOVERNANCE COMMITTEE
OF THE
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

MINUTES OF MEETING

February 20, 2018

The Corporate Governance Committee met on Tuesday, February 20, 2018, following the Board of Trustees meeting. The meeting was held in the Board Room on the 16th floor of the State Retirement Agency, 120 E. Baltimore Street, Baltimore, MD 21202.

Members Attending: Sheila Hill, Chairman Treasurer Nancy Kopp
 Charles Johnson

Other Board Members Douglas Prouty
Attending:

Members Not Attending: David Brinkley
 James Harkins

Also Attending: Colleen Bower Mikayla Kuhns (ISS)
 Anthony Garcia (ISS) Toni Voglino
 Alex Harisiadis (OAG) Kathleen Wherthey (OAG)
 Larry Katsafanas

Ms. Hill called the meeting to order at 2:53 p.m.

Minutes

On a motion made by Ms. Kopp and seconded by Mr. Johnson, the minutes from the November 21, 2017 meeting were ratified by the Committee.

Update and Review of Iran-Sudan Divestment

The Committee considered staff's recommendation to approve the proposed Iran and Sudan Restricted List. Ms. Voglino informed the Committee that one company, ASEC Co. for Mining, is recommended for removal from the Restricted List. ASEC Co. for Mining was previously on

the Restricted List due to its involvement in mineral extraction activities in Sudan. However, due to an expired contract, the company is no longer involved in mineral extraction activities in Sudan and therefore no longer meets the divestment requirements of Maryland law. Ms. Voglino further detailed that one company, CNOOC Curtis Funding, is a recommended addition to the Restricted List. CNOOC Curtis Funding is a wholly owned subsidiary of China National Offshore Oil, a Chinese state-owned company that has over \$20 million investment in oil in Iran. Maryland law requires that any wholly owned subsidiary of a company that meets the divestment requirements of the law, is also subject to divestment. Ms. Voglino confirmed that all 20 companies on the proposed Iran-Sudan Restricted List currently meet the requirements of the Maryland Iran-Sudan divestment statute SPP 21-123.1.

Ms. Voglino provided the semi-annual Iran & Sudan Divestment Impact Analysis to the Committee as prepared by Meketa Investment Group, the System's general investment consultant. The report provided an updated analysis of all companies on the proposed Iran-Sudan Restricted List and the divestment impact regarding these companies. The report indicated that the impact to the portfolio due to divestment of the companies on the proposed Restricted List is minimal.

On a motion by Mr. Johnson and seconded by Ms. Kopp, the Committee unanimously agreed to approve staff's recommendation of the Iran-Sudan Restricted List, and to recommend the list, set forth below, to the Board of Trustees for approval at their meeting on March 20, 2018.

| ISSUER NAME | Country | Sudan or Iran |
|--|----------------|----------------------|
| AviChina Industry & Technology Company Limited | China | Sudan |
| Bharat Heavy Electricals Limited | India | Sudan |
| China National Petroleum Corporation (PetroChina Co) | China | Both |
| Daelim Industrial Co.,Ltd. | Korea | Iran |
| El Sewedy Electric Co. SAE | Egypt | Sudan |
| Energy House Holding Company | Kuwait | Sudan |
| Harbin Power Equipment Co., Ltd | China | Sudan |
| Jiangxi Hongdu Aviation Industry Co., Ltd. | China | Sudan |
| Kuwait Finance House K.S.C. | Kuwait | Sudan |
| LS Industrial Systems Co., Ltd | Korea | Sudan |
| Managem S.A. | Morocco | Sudan |
| Oil and Natural Gas Corporation Limited | India | Sudan |
| Oil India Ltd. | India | Sudan |
| ONGC Videsh Limited | India | Sudan |
| Orca Gold Inc. | Canada | Sudan |
| Petroliam Nasional Berhad (Petronas) | Malaysia | Sudan |
| Petronas Capital Limited | Malaysia | Sudan |
| Petronas Global Sukuk Ltd | Malaysia | Sudan |
| Schneider Electric S.A. | France | Sudan |
| CNOOC Curtis Funding NO.1 PTY LTD | Australia | Iran |

Update and Review of the Proxy Voting Guidelines

The Committee reviewed staff's memorandum outlining four recommended changes to the System's proxy voting guidelines, which was presented to the Committee by Ms. Voglino, along with Mr. Garcia and Ms. Kuhns from ISS (Institutional Shareholder Services).

Ms. Voglino explained a recommendation to alter the System's proxy guideline related to director elections and poison pills. The recommendation was to clarify that the System would vote against directors if a board put in place a poison pill without shareholder approval until the board either removed the poison pill or received shareholder approval and vote on a case-by-case basis for nominees if the board put in a place a poison pill with a term of one year or less. The second recommendation explained by Ms. Voglino was to add a policy outlining that the System would vote against compensation committee members, or in rare cases the full board, if the company failed to include a say-on-pay or a say-on-pay frequency vote on the proxy ballot. The third recommendation explained by Ms. Voglino was to clarify that the System's policy to vote against directors in elections for not attending at least 75% of meetings would not apply to new director nominees. The last recommendation explained by Ms. Voglino was an addition to the policy and related to gender diversity. Ms. Voglino recommended adding a policy to vote case-by-case on proxy proposals that request reports on a company's pay data by gender, or a report on a company's policies and goals to reduce gender pay gaps. Consideration regarding a company's current policies, disclosures, and practices, any pay gap issues, and peer comparisons will be taken. Ms. Kopp asked if ISS and the System currently had a proxy policy on board diversity. Ms. Voglino responded that yes, both ISS and the System have specific policies regarding board diversity. After discussion by the Committee on the specific proxy topics and suggested changes, the Committee considered the recommendations to alter the language of four of the proxy voting guidelines within the Investment Policy Manual.

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 proxy voting guidelines in the Investment Policy Manual as outlined in the memorandum.

The proxy voting guideline changes approved by the Committee will be presented at the Board of Trustees meeting on March 20, 2018, for approval.

Update of the Investment Policy Manual

The Committee reviewed staff's memorandum and the related excerpt from the Investment Policy Manual outlining the recommended changes to the System's Investment Policy Manual. Ms. Voglino discussed the recommendation and explained that the proposed change to the policy would allow the Chairman of the Board of Trustees, in addition to the already noted Executive Director, to sign-on to advocacy letter, on behalf of the Board, if the governance topic of the letter was in agreement with the System's policies. The policy to notify the Board of any action taken in regards to advocacy letters remains in place.

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.

The Investment Policy Manual changes approved by the Corporate Governance Committee will be presented at the Board of Trustees meeting on March 20, 2018, for approval.

Proxy Voting Agent Contract Renewal

The Committee considered staff's recommendation to exercise the System's last of two one-year extension options for ISS. Ms. Voglino detailed that the contract for proxy voting services is due to expire June 30, 2018 and the System has the choice to either renew the contract for one year or solicit bids through the Request for Proposal (RFP) process.

On a motion by Mr. Johnson and seconded by Ms. Kopp, the Committee unanimously agreed to approve staff's recommendation to extend the contract with ISS for proxy voting services through June 30, 2019.

Iran and Sudan Data Contract Renewal

The Committee considered staff's recommendation to exercise the System's last of two one-year extension options for MSCI ESG. Ms. Voglino detailed that the contract for Iran-Sudan research and data feed services is due to expire June 30, 2018 and the System has the choice to either renew the contract for one year or solicit bids through the Request for Proposal (RFP) process.

On a motion by Ms. Kopp and seconded by Mr. Johnson, the Committee unanimously agreed to approve staff's recommendation to extend the contract with MSCI ESG for Iran-Sudan research and data feed services through June 30, 2019.

Motion by the Committee to Meet in Closed Session

On a motion made by Ms. Kopp and seconded by Mr. Johnson, the Committee voted to meet in closed session beginning at 3:12 p.m. for the purpose of reviewing the closed session Corporate Governance Committee minutes, pursuant to General Provisions Art., Section 3-103(a)(1)(i), the exercise of an administrative function.

Closed Session

| | | |
|--------------------------------|--|----------------------|
| Members Attending: | Sheila Hill, Chairman Charles Johnson | Treasurer Nancy Kopp |
| Other Board Members Attending: | Douglas Prouty | |
| Members Not Attending: | David Brinkley James Harkins | |

Also Attending:

Colleen Bower
Anthony Garcia (ISS)
Alex Harisiadis (OAG)
Larry Katsafanas

Mikayla Kuhns (ISS)
Toni Voglino
Kathleen Wherthey (OAG)

During the closed session, the Committee discussed and took action on the following matters:

Closed Session Minutes

The Committee ratified the November 21, 2017 closed session minutes.

Closed Session Adjournment

On a motion made by Mr. Johnson and seconded by Ms. Kopp, the Committee returned to open session at 3:13 p.m.

Adjournment

There being no further business before the Committee, on a motion made by Mr. Johnson and seconded by Ms. Kopp, the meeting adjourned 3:14 p.m.

Toni Voglino