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

May 19, 2009

The Board of Trustees for the State Retirement and Pension System of Maryland met in the Hamptons Room, InterContinental Harbor Court Hotel, 550 Light Street Baltimore, Maryland, beginning at 12:00 p.m.

The Trustees present included:

Nancy K. Kopp, Chairman	Peter Franchot, Vice-Chairman	David Blitzstein	Theresa Lochte
James M. Harkins	T. Eloise Foster	Robert Schaefer	William D. Brown
Major Morris Krome	Thurman Zollicoffer, Jr.	Sheila Hill	John Douglass
Harold Zirkin	F. Patrick Hughes (via phone)	R. Dean Kenderdine, Secretary	

Agency Staff members attending included:

Melody Countess	Mansco Perry	Ira Greenstein	Dennis Krysiak	Faina Kashtelyan
Victoria Willard	Robert Feinstein	Brian Rowe	Melissa Warren	Larry Katsafanas
Antionette Butcher	Robert Burd	Michael Cheung	Michelle Lowery	Arthur Lynch
Patrice Sowah	Janet Sirkis		Michael Ruetz	Steve Reilly

Also attended by:

John Kenney	Melissa Moye	Dylan Baker	Lisa Campbell	Michael Rubenstein
Randy Mickens	David Helfman	Zachary Teutsch	Anne Gawthrop	Sen. Nathaniel McFadden

Medical Board And Supplemental Medical Board Reports

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

Employers Pickups

2. On a motion made by Chairman Kopp and seconded by Mr. Brown, the Board approved the following employer pickups:
   - All eligible employees of the Town of Berlin to participate in the Employees Pension System;
   - Eligible Caroline County elected officials to participate in the Maryland Alternate Contributory Pension System; and
   - Eligible Caroline County Sheriff's Department to participate in the Law Enforcement Officers Pension System.

Investment Committee Report

3. Mr. Robert Schaefer, Chairman of the Investment Committee, reported on the Investment Committee proposed action items from the May 8, 2009 meeting.

   Mr. Schaefer presented a proposal to consolidate the Committee's August and September, 2009 meetings. Mr. Schaefer proposed that the Committee conduct both the CIO's review and its regular quarterly meeting at its September, 2009 meeting. After extensive discussion, the Committee voted 7-5 to adopt Mr. Schaefer's proposal. Ms. Hill, Comptroller Franchot, Mr. Brown, Maj. Krome, and Mr. Zirkin were opposed.

   Mr. Schaefer reported that the Investment Committee received, and approved for Board consideration, the following recommendations from staff regarding the fixed income program:

   1) The fixed income program will be modified to focus primarily on U.S. core fixed income mandates. Certain of these core managers may opportunistically access the "plus" sectors. These managers would be

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benchmarked to the Barclays Capital U.S. Aggregate Index.

2) The fixed income program will utilize "plus" sector managers (which include high yield, emerging market and non-dollar debt, primarily). These managers will be benchmarked to their appropriate Barclays Capital sub-index. This portion of the fixed income program will be limited to a maximum of three percentage points of the total fund portfolio.

3) The Barclays Capital Global Aggregate Index will be designated for global managers in the fixed income program, replacing the Barclays Capital Global Multiverse Index.

4) The fixed income program asset class benchmark will be the weighted average composite of the individual fixed income manager benchmarks.

5) These changes would go into effect on July 1, 2009.

Ennis Knupp concurred with these recommendations. Staff and Ennis Knupp noted that these are interim steps, and that they are likely to present further recommendations to the Committee later this year regarding the fixed income program, when the Committee conducts its annual asset allocation review. After discussion, the Committee unanimously approved the recommendations.

On a motion made by Mr. Schaefer, and duly seconded, the Board voted to adopt the five recommendations listed above regarding revisions to the System's fixed income programs.

Mr. Schaefer reported that the Investment Committee nominated Mr. Jennings to serve as a public advisor for a three year term commencing July 1, 2009 and ending June 30, 2012.

On a motion made by Mr. Schaefer and seconded by Mr. Zollicoffer, the Board nominated Mr. Larry E. Jennings, Jr. to serve as a public advisor to the Investment Committee for a three year term commencing July 1, 2009 and ending June 30, 2012. Mr. Jenning's nomination will be submitted to the Board of Public Works for appointment during the month of June.

Mr. Schaefer reported that Mr. Perry presented a brief report to the Committee regarding programs that the U.S. Government has created to stimulate the economy which allow for investor participation. Mr. Perry noted that the current government sponsored investment programs are the Term Asset-Backed Securities Loan Facility (TALF 1.0) and the Public-Private Investment Program which includes the Legacy Loan Program and Legacy Securities Program. Included under the Legacy Securities Program are the expanded TALF 2.0 and Public-Private Investment Funds that allow for private investment managers to qualify and serve as fund managers.

Mr. Schaefer reported that staff believes that attractive investment opportunities may be created as a result of the programs. Staff is currently in the process of evaluating the investment merits of each program, as well

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as speaking with a number of managers that are currently engaged or planning to engage in a government sponsored investment program.

Mr. Schaefer reported that the Board previously approved the creation of a Credit Opportunities allocation that would be no greater than five percentage points of the total fund; as such, Staff recommended that:

1. Most investments made pursuant to one of the government sponsored investment programs should be placed within the Credit Opportunities allocation.
2. Depending upon fund structure, however, there is the possibility that an investment could be placed in private equity.

Mr. Schaefer reported that Mr. Perry concluded by noting that staff is working with legal counsel to make sure that there are no prohibitions against borrowing (for example, the non-recourse borrowing from the U.S. Government that is a part of the TALF 1.0 program).

On a motion made by Mr. Schaefer and seconded by Mr. Brown, the Board approved the adoption of two recommendations listed above regarding the System's participation in government-sponsored investment programs.

Mr. Schaefer reported that Mr. Perry presented a proposal to the Investment Committee to create two "best ideas" portfolios, one in the fixed income program and one in the public equities program. The two managers selected for these mandates would be expected to design a concentrated portfolio that leverages the firm's proprietary research insights. These managers would also be given broader discretion with regard to certain investment guidelines and constraints. The initial mandates would be no larger than $100 million each. Mr. Perry indicated that staff would not consent to a private equity-style fee arrangement.

On a motion made by Mr. Schaefer, and duly seconded, the approved Staff's proposal to create two "best ideas" portfolios.

Mr. Schaefer reported that Ms. Warren explained that in connection with transactions in commingled vehicles, the System from time to time is asked to adopt provisions of trust documents for the commingled vehicle "as part of the plan," in order to maintain a tax exemption for the commingled vehicle. Because the System is a creation of statute, it is not possible for the Board or its designees to actually "incorporate by reference" as part of the plan the terms of any documents. Upon advice of outside tax counsel, the Legal Division determined that it would be acceptable for the System to adopt the provisions of the relevant trust documents "as part of the plan" by incorporating them by reference into the IPM.

On a motion made by Mr. Schaefer and seconded by Mr. Brown, the Board voted to (1) authorize the Board's adoption in the System's Investment Policy Manual ("IPM") of certain provisions of trust documents relating to commingled vehicles, and (2) provide for delegation of such authority to the Executive Director and Chief Investment Officer of the System.

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Mr. Schaefer reported that the Corporate Governance Subcommittee considered whether to adopt the Principles of Financial Regulation Reform: A Model for Change (the "Principles"). The Maryland State Treasurer's Office was one of the parties involved in the development of the Principles.

Mr. Schaefer reported that the Principles were developed by a group of institutional investors in response to the unprecedented instability of worldwide markets. The Principles seek to restore trust and confidence in the global capital markets by addressing (and presenting institutional investors' views about) five key principles:

1. Greater disclosure and transparency;
2. True regulatory independence;
3. An increased and effective shareowner voice in the capital markets;
4. Earlier identification by regulators of issues that give rise to overall market risk that threaten global markets; and
5. The preservation of institutional investors' freedom to invest in the full range of investment opportunities.

On a motion made by Mr. Schaefer and seconded by Mr. Blitzstein, the Board approved the adoption of the Principles of Financial Regulation Reform: A Model for Change.

Executive Director's Report

4. Mr. R. Dean Kenderdine reported on an audit report response regarding local education agencies.

Mr. Kenderdine reported that as indicated in the response letter to the legislative auditor, the audit fees of the most recent audit in FY02 totaled $139,440 exceeded the total recoveries. The Agency has been advised that paying for these audit costs from the pension trust fund may be in potential violation of the State's pension trust law.

A request for a formal legal opinion was made. The Board decided to first work cooperatively with the Maryland State Department of Education (MSDE) to resolve the matter. If working with MSDE does not successfully resolve this issue then we will work to seek legislation and a formal legal opinion.

Adjournment

5. There being no further business before the Board, the meeting adjourned at 12:19 p.m.

Respectfully submitted,

R. Dean Kenderdine
Secretary to the Board

RDK/pws