

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

January 15, 2013

The Board of Trustees for the Maryland State Retirement and Pension System met in the Boardroom of the SunTrust Building, 120 East Baltimore Street, Baltimore, Maryland beginning at 10:07 a.m.

The Trustees present included:

Nancy Kopp, Chairman, Presiding  
Peter Franchot, Vice Chairman  
David Blitzstein  
John Douglass (via telephone)  
Robert Hagans  
Kenneth Haines  
James Harkins

Sheila Hill  
F. Patrick Hughes  
Major Morris Krome  
Theresa Lochte  
Harold Zirkin  
Thurman Zollicoffer, Jr.

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

Anne Budowski  
Robert Burd  
Margaret Bury  
Melody Countess  
Patricia Fitzhugh

Anne Gawthrop  
Michael Golden  
Ira Greenstein  
Angie Jenkins

Van Lewis  
Ken Reott  
Ben Robb  
Toni Voglino

Assistant Attorneys General present included: Deborah Bacharach, Kathy Brady, Rachel Cohen, Carla Katzenberg, Jill Leiner and Josaphine Yuzuik.

Also attended by: Nathan Bowen, Robin Clark, John Kenney, Rick Norman and Linda Tillman.

**Consent Agenda**

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

- › December 18, 2012 Open Meeting Board Minutes
- › Disability Reports from the Medical Board

**CIO Report**

Robert Burd, Deputy Chief Investment Officer informed the Board that the total fund was up 1.38% for the month of December, 2012. Fiscal YTD net return for the total fund is 7.14% as of December 31, 2012.

**SB and Company**

Graylin Smith, CPA, Client Service Partner and William A. Seymour, Engagement Partner from SB and Company, LLC presented an overview of the System's financial statements for Fiscal Year Ending June 30, 2012.

Mr. Blitzstein recommended that, in the future, a draft of the System's financial statements be brought to the Board for final review before they are sent to be printed in the Comprehensive Annual Financial Report (CAFR).

Chairman Kopp agreed with Mr. Blitzstein and recommended expanding the December Audit Committee meeting to include the full Board as a means of implementing this change so that production of the CAFR is completed in December.

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Comprehensive  
Annual Financial  
Report (CAFR)

Melody Countess, Chief Operations Officer, presented an overview of the System's Comprehensive Annual Financial Report for 2012.

Mr. Zirkin commented that the System's CAFR is one of the most outstanding reports of its kind that he has reviewed.

Investment Personnel  
Salary Setting Policy

Mr. Kenderdine presented to the Board a memorandum which proposed revised criteria for the Investment Personnel Salary Setting Policy. The memorandum included two suggestions that were received from Trustees and staff comments and Board options relating to those suggestions.

Vice-Chairman Franchot commented that, given that retiree COLAs are restricted under the pension reform and investment performance, it would be appropriate for investment staff raises to be restricted based on the rate of return. The Comptroller suggested that the maximum increase not be allowed if the fund does not meet some percentage of the assumed rate of return.

After further discussion the Trustees agreed that Mr. Kenderdine would send to the Board, via email, a revised proposal for the Investment Personnel Salary Setting Criteria. The Board will vote electronically on the revised guidelines and ratify that rate at the February meeting of the Board.

**ADDITION TO MINUTES BY MR. KENDERDINE:** Mr. Kenderdine provided to the Board, via email, revised criteria to be used in setting the salaries of the Deputy Chief Investment Officer and investment Managing Directors. The revisions reflected Trustee suggestions made at the January Board meeting. The document also included examples of how salary adjustments could be calculated under these proposed guidelines.

The document was presented to the Board in the form of a motion made by Mr. Zirkin and seconded by Mr. Harkins. The electronic vote, cast by the Board of Trustees, was 12 in favor of the motion with no votes against the motion. The revised criteria is attached as Attachment A.

Executive  
Director's  
Report

Mr. Kenderdine announced that nominations are being accepted for the Investment Committee Public Advisor position, currently held by Brian Topping. Mr. Topping's term will end in June 2013.

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Mr. Kenderdine asked the Board for topic suggestions for the 2013 Board Education Session that will be held on May 21, 2013.

Vice-Chairman Franchot suggested the program include a segment on a broader topic of retirement security in the United States and address personal savings among Americans.

Mr. Blitzstein suggested contacting Dallas Salisbury at the Employee Benefit Research Institute or Alicia Munnell at the Boston College Center.

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Mr. Kenderdine announced that Theresa Lochte has been appointed to Chair the National Council on Teacher Retirement (NCTR) Trustee Education Committee.

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Mr. Kenderdine reported that Agency's budget hearings have been schedule for:

January 29, 2013	January 31, 2013
Senate Budget Hearing	House Budget Hearing
Senate Budget and Taxation	House Public Safety and
Full Committee	Administration Subcommittee
3 West, Miller - 1:00 pm	Room 120, HOB - 1:00 pm

To date, no pension-related bills have been filed; however, some are expected.

**CLOSED SESSION**

On a motion made by Mr. Harkins and duly seconded, the Board voted to meet in a Closed Session (11:21 a.m.) in the Board Room of the SunTrust Building at 120 East Baltimore Street for the purpose of:

1. to approve the closed session minutes, pursuant to State Government Article § 10-503(a)(1)(i), the exercise of an administrative function; and
2. to consult with staff and counsel regarding securities litigation, pursuant to State Government Article § 10-508(a)(8); to consult with counsel regarding potential litigation.

The Trustees present included:

Nancy Kopp, Chairman, Presiding	Sheila Hill
Peter Franchot, Vice Chairman	F. Patrick Hughes
David Blitzstein	Major Morris Krome
Robert Hagans	Theresa Lochte
Kenneth Haines	Harold Zirkin
James Harkins	Thurman Zollicoffer, Jr.

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

Anne Budowski	Patricia Fitzhugh	Angie Jenkins
Margaret Bury	Anne Gawthrop	Ken Reott
Melody Countess	Michael Golden	Toni Voglino

Assistant Attorneys General present included: Deborah Bacharach, Kathy Brady, Rachel Cohen, Carla Katzenberg, Jill Leiner and Josaphine Yuzuik.

Also attended by: John Kenney.

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**OPEN SESSION**

The Board returned to open session at 11:40 a.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street.

Adela Solis-Franco

The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Adela Solis-Franco 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. Solis-Franco appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. At Ms. Solis-Franco's request, the Board retained the services of Mr. Pio "Alberto" Ferro, a Spanish Interpreter with LionBridge who was present to translate on behalf of Ms. Solis-Franco. Ms. 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.

Andrew Mohan

The Board considered the recommendation of the Medical Board in connection with the claim of Mr. Andrew Mohan for SPECIAL 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.

Richard Link, Esq., Mr. Mohan's attorney, appeared before the Board to oppose the Agency's position and the Medical Board's recommendation. Ms. Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should accept the Medical Board's recommendation and deny Mr. Mohan both special and ordinary disability benefits. Following discussion, the Board deferred further consideration to Closed Session.

Bernard A. Kirby

The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Bernard A. Kirby 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.

Shelton H. Levitt, Esq., Mr. Kirby's attorney, appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. 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.

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**CLOSED SESSION – APPEALS AND HEARINGS**

On a motion made by Ms. Lochte and seconded by Ms. Hill, the Board voted to meet in a Closed Session (12:47 p.m.) in the Board Room of the SunTrust Building at 120 East Baltimore Street for the purpose of:

1. to consider the disability appeals pursuant to State Government Section 10-503(a)(1)(iii), the exercise of a quasi-judicial function.

The Trustees present included:

Nancy Kopp, Chairman, Presiding  
Robert Hagans  
Kenneth Haines  
Sheila Hill  
F. Patrick Hughes

Major Morris Krome  
Theresa Lochte  
Harold Zirkin  
Thurman Zollicoffer

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

Assistant Attorney General present included: Deborah Bacharach and Rachel Cohen.

**OPEN SESSION**

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

**Adela Solis-Franco**

The Board voted to **ADOPT** the Administrative Law Judge's Proposed Decision and **DENY** Adela Solis-Franco's request for accidental disability benefits.

**Andrew Mohan**

The Board voted to **ACCEPT** the Medical Board's Recommendation and **DENY** Andrew Mohan's request for disability benefits.

**Bernard A. Kirby**

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

Adjournment

There being no further business before the Board, the meeting adjourned at 12:58 p.m.

Respectfully submitted,



R. Dean Kenderdine  
Secretary to the Board

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ATTACHMENT A

**Guidelines for Salary-Setting Evaluations for Managing Directors and Deputy CIO**

Salary-setting authority for these positions was granted by legislation to the Board of Trustees in 2012, up to the salary level associated with the Executive Service grades of ES-9 for Managing Directors, ES-11 for the Deputy CIO and subject to a 10% maximum increase in any year.

The Managing Directors (MD's) and Deputy CIO (DCIO) will continue to be evaluated on core performance semi-annually using the "State of Maryland Performance Evaluation for Management Employees."

In addition, beginning December 31, 2012, they will be evaluated annually on value-added performance for the purpose of determining the salary increment to be received the following year. The performance period measured will be the last completed fiscal year for the quantitative evaluation and the last completed fiscal year and the most recent 12 months for the qualitative evaluation. The cost-of-living adjustment (COLA) granted to state employees will constitute the minimum increment for any year.

Following are the categories of evaluation. The total potential increment totals to 10% of current salary for MD's and also for the DCIO.

- I. **Quantitative Value-Added at the Asset Class Level** **4% potential for MD's**  
**0% potential for DCIO**

Managing Directors are responsible for asset class implementation under the authority of the CIO, including manager recommendations and monitoring. If asset class benchmark is met or exceeded on average, then the Managing Director may receive an increment corresponding to the % of current salary appearing in the table below.

The maximum potential increment for this category is 4% for Managing Directors. The maximum potential increment for this category is 0% for the Deputy CIO, because the DCIO does not have an asset class focus.

When excess returns over asset class benchmark are:	Managing Directors' % of pay increase for this category is:
Negative	0%
0-9 bps*	2%
10-19	3%
20 or more	4%

\*A basis point (bp) is 100<sup>th</sup> of 1%.

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**II. Quantitative Value-Added at the Total Fund Level**

**A) Did the Total Fund Return reach at least 25% of the target rate?**

Yes—refer to other factors to determine salary increase

No—cap the total raise at 9%

If the Total Fund return is not positive for the year, salary increases are capped. The cap is set at 1% below the potential of 10%. The cap is not lower because: i) the salaries of these professionals start at a level significantly below the median of their peers; ii) the System desires to retain investment professionals; and iii) staff members have very limited impact on absolute (as opposed to relative) returns.

- A) Excess returns over total fund benchmark** **2% potential for MD's**  
**6% potential for DCIO**

While their primary responsibility is at the asset class level, Managing Directors are encouraged to work as team members to promote the overall performance of the fund.

The maximum potential increment for this category is 6% for the DCIO, who is expected to promote the overall performance of the fund and who has responsibility for recommending tactical and strategic actions influencing the total fund's relative performance.

If the total fund benchmark is met or exceeded on average, then the Managing Directors may receive an increment corresponding to the % of current salary appearing in the table below.

<b>When excess returns over the total fund benchmark are:</b>	<b>Managing Directors' % of pay increase for this category is:</b>	<b>DCIO's % of pay increase for this category is:</b>
Negative	0%	0%
0-9 bps* (benchmark was met)	1%	2%
10-19	1.5%	4%
20 or more	2%	6%

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**II. Leadership, Management and Outside of Asset Class Contributions**

This category recognizes the importance of leadership and teamwork. It also emphasizes quality of work which may not directly correspond to historical asset class performance.

Finally, this category credits the completion of a project in addition to his/her asset class responsibilities by an MD that added portfolio value, or reduced risk/cost. In the case of the DCIO, this contribution may be demonstrated in any part of the portfolio.

- Exercises effective team leadership, meeting skills, and leading by example **1% Potential**
- Demonstrated productivity & initiative of reporting team **1% Potential**
- Quality, consistency & timeliness of work product/recommendations **1% Potential**
- Outside of asset class contribution **1% Potential**



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Excess Achieved	Positive	Negative	Award Rule	Amount of Award
<b>Example 1 with total fund return of +1.6% and policy benchmark of 1.0%.</b>				
<b>II.B. Excess Returns--Total Fund</b>				
60 bps				
if negative, then 0%				
if 0-9 bps, then 2%				
if 10-19 bps, then 4%				
if 20 or more bps, then 6%				
<b>III. Leadership, Mgmt. &amp; Outside Asset Class</b>				
A. Team leadership meeting skills, leading by example				
B. Demonstrated prod'y & initiative of team				
C. Quality, consistency & timeliness of work product/recomm.				
D. Outside of asset class contribution				
if substantial value added, then 1%				
if substantial value added, then 1%				
if substantial value added, then 1%				
if substantial value added, then 1%				
10%				
<b>TOTAL BEFORE CAP</b>				
<b>IIA. Total Fund Return + or -</b>				
(Is it at least 25% of assumed rate or 7.75% x .25?)				
-1%				
<b>TOTAL AFTER CAP</b>				
9%				
<b>Example 2 with total fund return of +8.6% and policy benchmark of 8.0%.</b>				
<b>II.B. Excess Returns--Total Fund</b>				
60 bps				
if negative, then 0%				
if 0-9 bps, then 2%				
if 10-19 bps, then 4%				
if 20 or more bps, then 6%				
<b>III. Leadership, Mgmt. &amp; Outside Asset Class</b>				
A. Team leadership meeting skills, leading by example				
B. Demonstrated prod'y & initiative of team				
C. Quality, consistency & timeliness of work product/recomm.				
D. Outside of asset class contribution				
if substantial value added, then 1%				
if substantial value added, then 1%				
if substantial value added, then 1%				
if substantial value added, then 1%				
10%				
<b>TOTAL BEFORE CAP</b>				
<b>IIA. Total Fund Return + or -</b>				
(Is it at least 25% of assumed rate or 7.75% x .25?)				
0				
if equal to or greater than 1.9375%, take no action				
if less than 1.9375%, then cap at 9%				
<b>TOTAL AFTER CAP</b>				
10%				

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Excess Achieved		Award Rule	Amount of Award
<b>Example 1 with total fund return of +1.6% and policy benchmark of 1.0%.</b>			
<b>I. Excess Returns--Asset Class</b>			
		if negative, then 0%	
		if 0-9 bps, then 2%	
		if 10-19 bps, then 3%	
25 bps		if 20 or more bps, then 4%	4%
<b>II.B. Excess Returns--Total Fund</b>			
		if negative, then 0%	
		if 0-9 bps, then 1%	
		if 10-19 bps, then 1.5%	
60 bps		if 20 or more bps, then 2%	2%
<b>III. Leadership, Mgmt. &amp; Outside Asset Class</b>			
A. Team leadership meeting skills, leading by example		if substantial v/a, then 1%	1%
B. Demonstrated prod'y & initiative of team		if substantial v/a, then 1%	1%
C. Quality, consistency & timeliness of work product/recomm.		if substantial v/a, then 1%	1%
D. Outside of asset class contribution		if substantial v/a, then 1%	1%
<b>TOTAL BEFORE CAP</b>			10%
<b>IIA. Total Fund Return + or -</b> (is it at least 25% of assumed rate or 7.75% x .25?)		if positive, take no action if less than 1.9375%, then cap at 9%	-1%
<b>TOTAL AFTER CAP</b>			9%
<b>Example 2 with total fund return of +8.6% and policy benchmark of 8.0%.</b>			
<b>I. Excess Returns--Asset Class</b>			
		if negative, then 0%	
		if 0-9 bps, then 2%	
		if 10-19 bps, then 3%	
25 bps		if 20 or more bps, then 4%	4%
<b>II.B. Excess Returns--Total Fund</b>			
		if negative, then 0%	
		if 0-9 bps, then 1%	
		if 10-19 bps, then 1.5%	
60 bps		if 20 or more bps, then 2%	2%
<b>III. Leadership, Mgmt. &amp; Outside Asset Class</b>			
A. Team leadership meeting skills, leading by example		if substantial v/a, then 1%	1%
B. Demonstrated prod'y & initiative of team		if substantial v/a, then 1%	1%
C. Quality, consistency & timeliness of work product/recomm.		if substantial v/a, then 1%	1%
D. Outside of asset class contribution		if substantial v/a, then 1%	1%
<b>TOTAL BEFORE CAP</b>			10%
<b>IIA. Total Fund Return + or -</b> (is it at least 25% of assumed rate or 7.75% x .25?)		if positive, take no action if less than 1.9375%, then cap at 9%	0
<b>TOTAL AFTER CAP</b>			10%