

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

May 21, 2013

The Board of Trustees for the Maryland State Retirement and Pension System met in the Miller Senate Office Building, 11 Bladen Street, Annapolis, Maryland, in Open Session, beginning at 1:10 p.m. and immediately went into Closed Session for the purpose of:

1. approving the closed session minutes, pursuant to State Government Article § 10-503(a)(1)(i), the exercise of an administrative function;
2. approving the Medical Board reports, pursuant to State Government Article § 10-508(a)(1)(ii), any other personnel matter that affects one or more specific individuals;
3. discussing the appointment of a Public Advisor to the Investment Committee, pursuant to State Government Article § 10-508(a)(1)(i), a personnel matter; and
4. discussing reopening a disability retirement award, pursuant to State Government Article §§ 10-508(a)(7) and 10-508(a)(8), consulting with counsel to obtain legal advice and consult with staff and counsel regarding pending and potential litigation.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding
Peter Franchot, Vice Chairman
John Douglass
T. Eloise Foster
Robert Hagans
Kenneth Haines
James Harkins

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

Bob Burd

Art Lynch

Janet Sirkis

Marge Bury

A. Melissa Moye

Toni Voglino

Angie Jenkins

Assistant Attorneys General present included: Deborah Bacharach, Kathy Brady, Rachel Cohen, and Melissa Warren.

Also attended by: John Kenney.

OPEN SESSION

On a motion made by Mr. Hagans and seconded by Ms. Hill, the Board voted to meet in Open Session (1:35 p.m.).

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding
Peter Franchot, Vice Chairman
John Douglass
T. Eloise Foster
Robert Hagans
Kenneth Haines
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Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Bob Burd

Angie Jenkins

Marge Bury

Art Lynch

Janet Sirkis

Melody Countess

A. Melissa Moye

Toni Voglino

Assistant Attorneys General present included: Deborah Bacharach, Kathy Brady, Rachel Cohen, and Melissa Warren.

Also attended by: John Kenney.

Consent Agenda

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

- April 16, 2013 Open Meeting Board Minutes
- May 10, 2013 Corporate Governance Report
 - Recommended Changes to Proxy Voting Guidelines
- May 10, 2013 Investment Committee Report

Board Performance
Self-Evaluation –
Discussion Guide

The Board was provided with a revised Discussion Guide for the Performance Evaluation of the Board of Trustees, which contained changes to questions 4, 5, 6 and 8 of section B. Board Governance and questions 17 and 18 of section C. Board Meetings.

On a motion made by Ms. Hill and seconded by Mr. Hughes, the Board voted to approve the revised Discussion Guide for the Performance Evaluation of the Board of Trustees

HEK Asset Allocation
Review

Mr. Zirkin reported that the investment staff and Hewitt Ennis Knupp (HEK) presented an asset liability/asset allocation review. As a result of the review and analysis, staff and HEK recommended the following changes:

1. Increase Absolute Return target from 7% to 10% and decrease the target allocation to Cash, Real Return and Public Equity by 1% each.
2. Change the Fixed Income asset class strategy from an "Aggregate" bond orientation to an "Intermediate" bond orientation and eliminate the allocation to Long Bonds that has yet to be funded.
3. Broaden the rebalancing ranges for the asset classes to +/-4%.
4. Revise the Fixed Income benchmark by replacing the Barclays Aggregate Bond Index with the Barclays Aggregate Intermediate Bond Index for the domestic component and the Barclays Global Aggregate 1-10 Year Index for the global component of the Fixed Income portfolio.

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5. Revise the Real Estate benchmark by replacing the NCREIF Property Index (NPI) component with the NCREIF ODCE Gross Index (ODCE.)
6. Revise the Credit Opportunity benchmark from 50% BC High Yield Index / 50% BC Credit Index to 50% BC High Yield Index / 20% BC Credit Index / 20% JPM GBI EM Global Diversified Index / 10% S&P/LSTA Leveraged Loan Index.

On a motion made by Mr. Zirkin and seconded by Ms. Lochte, the Board voted to approve the aforementioned recommended changes.

Adjournment

There being no further business before the Board, the meeting adjourned at 1:50 p.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board

**BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
CORPORATE GOVERNANCE COMMITTEE MEETING REPORT
MAY 10, 2013**

Informational Items for the Board

- The Committee unanimously accepted the minutes from the February 19, 2013, meeting.
- The Committee received information about the Shareholder Rights Project at Harvard Law School, and was advised that the Project currently is not accepting additional institutional investor participants for the 2014 proxy season.

Recommended Action Item for the Board

Change to Proxy Voting Guidelines

The Committee received a recommendation to add the following items to the list of criteria that would indicate it is appropriate to withhold votes from U.S. directors who:

- Are responsible for material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company;
- Are responsible for egregious actions related to a director's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.

ACTION: To approve the Committee's recommendations as stated above.

The Committee discussed a third possible addition to the list of criteria, but determined it is duplicative of an existing guideline that provides for a withhold vote in instances where directors have not been responsive to a shareholder proposal approved by a majority vote of shareholders.

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**INVESTMENT COMMITTEE MEETING REPORT
MAY 10, 2013**

Public Member
Position –
Nominations

Mr. Kenderdine informed the Committee that nine individuals had been nominated for the public member position that will expire on June 30, 2013. This position will serve a three-year term from July 1, 2013 – June 30, 2016. He noted that these nominees would be discussed in closed session.

HEK Asset Allocation
Review

THIS MATTER WILL BE DISCUSSED AND VOTED ON OUTSIDE OF THE CONSENT AGENDA

Hewitt Ennis Knupp presented its annual asset liability and asset allocation review to the Committee and presented several recommendations, which are listed below:

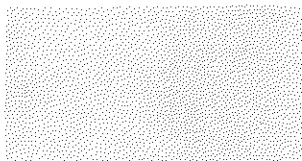
1. Increase Absolute Return target from 7% to 10% and decrease the target allocation to Cash, Real Return and Public Equity by 1% each.
2. Change the Fixed Income asset class strategy from an "Aggregate" bond orientation to an "Intermediate" bond orientation and eliminate the allocation to Long Bonds that has yet to be funded.
3. Broaden the rebalancing ranges for the asset classes to +/- 4%.
4. Revise the Fixed Income benchmark by replacing the Barclays Aggregate Bond Index with the Barclays Aggregate Intermediate Bond Index for the domestic component and the Barclays Global Aggregate 1-10 Year Index for the global component of the Fixed Income portfolio.
5. Revise the Real Estate benchmark by replacing the NCREIF Property Index (NPI) component with the NCREIF ODCE Gross Index (ODCE)
6. Revise the Credit Opportunity benchmark from 50% BC High Yield Index / 50% BC Credit Index to 50% BC High Yield Index / 20% BC Credit Index / 20% JPM GBI EM Global Diversified Index / 10% S&P/LSTA Leveraged Loan Index.

Staff and HEK recommend that the Committee approve the six recommendations summarized above. Staff concurred with Hewitt EnnisKnupp's recommendations

Mr. Hughes made a motion, seconded by Ms. Hill, that the Committee accept Hewitt EnnisKnupp's asset allocation recommendations and recommended changes to the benchmark. Mr. Blitzstein suggested that the benchmark changes / recommendations should be clearly acknowledged as coming directly from the consultant. The motion was

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**INVESTMENT COMMITTEE MEETING REPORT
MAY 10, 2013**



FY14 Investment
Division Projected
Travel

restated by Mr. Hughes to reflect this clarification.

The Committee voted to approve the motion, with 1 abstention, by Mr. Blitzstein.

Staff presented its 2014 fiscal year travel plan to the Committee. The plan highlighted the types of travel the Investments Division expects to take, as well as provided a preliminary draft travel plan where appropriate.

Staff recommended that the Committee approve the Investment Division's 2014 fiscal year travel plan.

Following discussion, the Committee unanimously agreed to accept staff recommendation as stated above.

Hewitt Ennis Knupp
Firm Update

Steve Cummings presented a brief firm update to the Committee.

Report from CIO

The Committee received a performance update from the CIO as of March 31, 2013. The total fund performance for fiscal year to date March 31, 2013 was 11.3%, exceeding the policy benchmark of 10.0%. The System's Net Asset Value is at 40.6 billion as of 3/31/13.

Performance number relative to benchmarks by asset class

Total Plan: 1 mo.: 1.39% →.15 basis pt. over benchmark
3 mos.: 3.89% →.44 basis pt. over benchmark
1 yr.: 9.6% →1.19 basis pt. over benchmark
FYTD: 11.3% →1.31 basis pt. over benchmark

Total Public Equity:

% Fund: 41.15%
3 mos.: 7.27% →.79 basis pt. over benchmark
FYTD: 18.67% →1.29 basis pt. over benchmark

Total Fixed Income:

% Fund: 17.76%
3 mos.: .35% →.33 basis pt. over benchmark
FYTD: 3.69% →1.65 basis pt. over benchmark

Total Credit/Debt Strategies

% Fund: 8.10%
3 mos.: 3.28% →1.92 basis pt. over benchmark
FYTD: 12.47% →4.75 basis pt. over benchmark

Total Real Estate:

% Fund: 5.89%
3 mos.: 3.04% →0.58 basis pt. under benchmark
FYTD: 10.38% →0.70 basis pt. under benchmark

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**INVESTMENT COMMITTEE MEETING REPORT
MAY 10, 2013**

Total Real Return:

% Fund: 10.29%
3 mos.: 1.62% → 1.23 basis pt. over benchmark
FYTD: 4.28% → 1.06 basis pt. over benchmark

Total Private Equity:

% Fund: 6%
3 mos.: 2.20%
FYTD: 7.62% → 3.57 basis pt. over benchmark

Total Absolute Return:

% Fund: 6.92%
3 mos.: 1.51% → 1.95 basis pt. under benchmark
FYTD: 6.64% → 0.72 basis pt. under benchmark

Total Cash Aggregate:

% Fund: 3.89%
3 mos.: .20% → .19 basis pt. over benchmark
FYTD: 1.04% → .98 basis pt. over benchmark

Reports Hewit EnnisKnupp presented the March 31, 2013 performance update to the Committee.

Investment Reports The Committee received the following investment reports:

- State Street Performance Report
- PE 3Q12 Performance Report
- RE 3Q12 Performance Report
- Securities Lending Report
- Division's FY13 Travel Plan – Update
- OPEB-PHBT Update

Closed Session The Committee unanimously approved the February 8, 2013 closed session minutes.