

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

November 19, 2013

The Board of Trustees for the Maryland State Retirement and Pension System met in the Board Room of the SunTrust Building, 120 East Baltimore Street, Baltimore, Maryland beginning at 10:21 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	Kenneth Haines
Peter Franchot, Vice Chairman	James Harkins
David Blitzstein	Linda Herman
James Bush, Jr.	F. Patrick Hughes
John Douglass	Major Morris Krome
T. Eloise Foster	Theresa Lochte

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

Anne Budowski	Anne Gawthrop	Kenneth Reott
Robert Burd	Michael Golden	Janet Sirkis
Margaret Bury	Angie Jenkins	Toni Voglino
Melody Countess	Van Lewis	Patricia Wild
Patricia Fitzhugh	A. Melissa Moye	

Assistant Attorneys General present included: Deborah Bacharach, Rachel Cohen, Melissa Warren and Josephine Yuzuik.

Also attended by: Nathan Bowen, John Kenney, Randy Mickens, Rick Norman, Michael Rubenstein, Bill Seymour, Graylin Smith and Tiana Wynn.

Consent Agenda

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

- › October 15, 2013 Open Meeting Board Minutes
- › November 8, 2013 Investment Committee Report
- › November 12, 2013 Audit Committee Report

2014 Board Meeting Dates

On a motion made by Ms. Lochte and seconded by Mr. Zirkin, the Board approved the 2014 Board Meeting dates, as follows:

Tuesday, January 21, 2014	Tuesday, February 18, 2014
Tuesday, March 18, 2014	Thursday, April 17, 2014
Tuesday, May 20, 2014	Tuesday, June 17, 2014
Tuesday, July 15, 2014	Tuesday, August 19, 2014
Tuesday, September 16, 2014	Tuesday, October 21, 2014
Tuesday, November 18, 2014	Tuesday, December 16, 2014

Appeal in the matter of Regina T. Ellis

Mr. Kenderdine informed the Board of Trustees that due to a family emergency Ms. Ellis would not be appearing before the Board to present her argument, but did agree to have the case heard on the record.

Ms. Josaphine Yuzuik, Assistant Attorney General, argued on behalf of the Agency. Ms. Yuzuik argued that Ms. Ellis submitted a Statement of Disability and Preliminary Application for Disability on April 23, 2013, claiming to be disabled as a result of an accident at work on May 7, 2007. On the Statement of Disability Ms. Ellis stated that her last day on the job

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was May 4, 2007. However, Agency records reflect that Ms. Ellis was granted a one-year qualifying leave of absence on September 14, 2007, to start August 1, 2007 and end August 1, 2008.

Ms. Yuzuik argued that generally, an application for disability retirement benefits must be submitted before the date membership ends, pursuant to State Personnel and Pensions Article (SPP), § 29-104(a).

Ms. Yuzuik further argued that SPP § 25-205(1) states that membership in the Correctional Officers' Retirement System (CORS) ends if the member is separated from employment for more than four years. Ms. Ellis' membership in CORS ended on August 1, 2012, four years after separation from employment. Therefore, Ms. Ellis' application for disability retirement was denied as it was untimely filed.

On a motion made by Major Krome and seconded by Ms. Lochte, the Board voted to adopt the recommendation for summary decision and deny the appeal.

FY 2013 System
Active Membership

Mr. Kenderdine presented, for certification to the Secretary of the Department of Budget and Management in accordance with State Personnel and Pensions Article § 21-316(c) of the Maryland Annotated Code, the System's Active Membership by percentage as employed by the State, libraries, community colleges and local board of educations. The certified percentages are provided to determine each System employers' pro rata share of the amount necessary for the administrative and operational expenses of the Board of Trustees and the State Retirement Agency.

On a motion made by Comptroller Franchot and seconded by Mr. Bush, the Board certified the following percentages of the total membership of the several systems that are employed by the State, the libraries, the community colleges and local board of education as of June 30, 2013.

State Employees	62,343	
State Teachers	1,937	
Local Public Libraries-TCS Teachers	2,391	
Local Public Libraries-ECS Employees	124	
Subtotal State	66,795	35%
Local Boards of Education-TCS	95,025	
Local Community Colleges	4,675	
Local Elected & Appointed Officials	54	
Participating Governmental Units ¹	25,792	
Subtotal Local	125,546	65%
Total	192,341	100%

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Annual Audited
Financial Statement
Report

F. Patrick Hughes introduced Graylin Smith and Bill Seymour from SB & Company, the System's auditors, who presented the System's annual audited financial statement report for the year ending June 30, 2013. Mr. Hughes reported that the financial statements received an unmodified opinion from the System's auditor. Mr. Hughes also reported that the Audit Committee unanimously accepted the financial statement reports and therefore, was recommending that the Board accept the report for inclusion in the 2013 Comprehensive Annual Financial Report (CAFR).

Comptroller Franchot questioned the "Net increase (decrease) in plan net position" section 8 of the report.

Mr. Seymour indicated that the report should reflect "+869.2%" and not "-869.2%". The report will be corrected.

Mr. Blitzstein suggested that it would be beneficial if the numbers were calculated in basis points instead of totals.

Mr. Hughes commented, on Mr. Blitzstein's recommendation, that it would be beneficial to investment committee, not for purposes of the CAFR.

Major Krome suggested that the investment committee calculate the totals in basis points and distribute that information to the committee members.

On a motion made by Ms. Herman and seconded by Major Krome, the Board accepted the FY 2013 financial statements for inclusion in the Comprehensive Annual Financial Report.

Budgeting of
Contractual
Investment Expenses

Mr. Kenderdine, Dr. Moye, Ms. Warren and Ms. Bacharach presented information on Investment Related Expenses – "On-Budget" vs. "Off-Budget" in response to a question posed by Trustee Herman at a prior Board meeting.

Ms. Bacharach stated that because an advice memorandum from her office was provided to the Board of Trustee relating to this matter, the Board could discuss this matter in closed session. The Board agreed to continue discussion in open session.

In addition to Ms. Bacharach's advice memorandum entitled "Classification of Investment Division Expenses", the Board of Trustees were also provided with a memo from Mr. Kenderdine, which outlined the basis for determining which expenses should be an "on-budget" item and which expenses should be an "off-budget" item.

As a result of several staff discussions and review of counsel's advice, it is staff's recommendation that the Board approve the following adjustments to the current classification of investment expenses:

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1. Consider general investment consultant services (presently, Hewitt Ennis Knupp) to be "investment management services", and therefore, appropriately moved to off-budget status;
2. Consider custodial banking services (presently, State Street) to be "administrative and operational" expenses and therefore, appropriately moved to on-budget status.

On a motion made by Major Krome and seconded by Ms. Lochte the Board of Trustees approved staff's recommendations.

CIO Report

Dr. A. Melissa Moye reported that the total market value of the fund, as of October 31, 2013, was \$42.4 Billion.

Dr. Moye reported that the fund return for one month is 1.99% and 6.28% fiscal year to date. Dr. Moye also reported that the policy benchmark for one month is 2.19%, which trails the policy benchmark by 20%.

Mr. Bush recommended adding a benchmark line on the report.

Executive
Director's
Report

Mr. Kenderdine provided the Board of Trustees with a memorandum entitled "Reinvested Savings – Joint Report by DBM and SRA". The Agency and the Department of Budget and Management are required by the General Assembly to submit a report by December 1, 2013 presenting the agencies' determination whether a reinvestment contribution in excess of the amount funded in FY2013 is appropriate in light of the State's simultaneous goals of reducing unfunded liabilities and budget sustainability. The Agency asked Gabriel Roeder & Smith (GRS), the System's actuary, to run seven different scenarios, as well as recalculate the baseline, using the FY2013 valuation, where the System continues to receive \$300M every year, as well as where various other amounts are received over various amounts of time. The results were provided to the Board in the memorandum.

Mr. Kenderdine noted that he will circulate the report, with the Agency's recommendations, to the Board prior to submitting it to the General Assembly.

Ms. Lochte requested that Schedule of Funding Progress, page 39, of the financial statements be included.

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Mr. Kenderdine mentioned that the following topics would be discussed at the presentation to the Joint Committee on Pensions meeting today:

- GASB Statements No. 67 and No. 68 (by Mr. Kenderdine)
- Annual Investment Overviews (by Dr. Moye)
- History of Title 37 (by Ms. Gawthrop and Philip Anthony of DLS)

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Mr. Kenderdine reported that the Maryland Charity Campaign was a success. The Agency exceeded its goal of \$32,000. Mr. Kenderdine congratulated Michael Golden, Anne Gawthrop and Ben Robb for a job well done.

Mr. Kenderdine reminded the Board to submit their comments regarding the Board Portal as soon as possible.

Mr. Kenderdine announced that the next Board of Trustees meeting will be held on December 17, 2013, which is also the Agency's Employee Holiday Celebration. All members of the Board of invited to attend.

Mr. Kenderdine also announced that this was the last meeting that Toni Voglino would be attending as head of Internal Audit.

Mr. Hughes thanked Ms. Voglino for her service as Chief Internal Auditor.

Treasurer Kopp thanked Ms. Voglino on behalf of the Board of Trustees.

Treasurer Kopp announced that she was appointed to the Financial Accounting Foundation (FAF) Board.

CLOSED SESSION

On a motion made by Mr. Hughes and seconded by Major Krome, the Board voted to meet in a Closed Session (11:52 a.m.) in the Board Room of the SunTrust Building at 120 East Baltimore Street 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)(13), to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter; and
3. discussing the appointment of an Interim Chief Internal Auditor, pursuant to State Government Article § 10-508(a)(1)(ii), the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of appointees, employees, or officials over whom it has jurisdiction;

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4. Receiving a litigation update from Board counsel, pursuant to State Gov't Art., Section 10-508(a)(8) to discuss pending or potential litigation.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding
David Blitzstein
James Bush, Jr.
John Douglass
T. Eloise Foster

Kenneth Haines
F. Patrick Hughes
Major Morris Krome
Theresa Lochte

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary
Anne Budowski
Angie Jenkins
Janet Sirkis
Toni Voglino

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

Also attended by: John Kenney

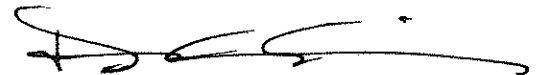
OPEN SESSION

The Board returned to open session at 11:58 a.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street.

Adjournment

There being no further business before the Board, the meeting adjourned at 12:00 p.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board

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**INVESTMENT COMMITTEE MEETING REPORT
November 8, 2013**

New Year's
Investment
Committee Meeting
Dates

The Committee received potential Investment Committee meeting dates for Calendar Year 2014. The meeting schedule that was presented for the Committee's consideration was as follows:

- o February 26, 2014;
- o May 9, 2014
- o September 12, 2014, and
- o November 7, 2014.

On a motion that was made by Mr. Blitzstein and seconded by Ms. Lochte, the Investment Committee unanimously approved the 2014 Investment Committee meeting dates as submitted.

Real Estate Report

The System's Real Estate Consultants (David Glickman and Christy Fields) presented an overview of US and Global Real Estate Markets and the System's Portfolio to the Committee.

Report from CIO

The Committee received a performance update from the CIO as of September 30, 2013. The total fund performance for quarter ending September 30, 2013 was 4.21%, compared to the policy benchmark of 2.91%. The System's Net Asset Value was \$41.7 billion as of 9/30/13.

Performance number relative to benchmarks by asset class

Total Plan:

3 mos.: 4.21% →16 basis pts. under benchmark
1 Year: 10.12% →157 basis pts. over benchmark

Total Public Equity:

% Fund: 42.05%
3 mos.: 7.68% →50 basis pts. under benchmark
1 Year: 20.22% →203 basis pts. over benchmark

Total Fixed Income:

% Fund: 15.50%
3 mos.: 0.77% →even with benchmark
1 Year: -0.71% →38 basis pts. over benchmark

Total Credit/Debt Strategies

% Fund: 9.99%
3 mos.: 2.40% →106 basis pts. over benchmark
1 Year: 10.47% →810 basis pts. over benchmark

Total Real Estate:

% Fund: 5.84%
3 mos.: 2.59% →100 basis pts. under benchmark
1 Year: 12.27% →23 basis pts. over benchmark

Total Real Return:

% Fund: 11.91%
3 mos.: 0.96% →22 basis pts. under benchmark
1 Year: -3.58% →295 basis pts. over benchmark

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November 8, 2013**

Total Private Equity:

% Fund: 6.25%
3 mos.: 3.54% →89 basis pts. over benchmark
1 Year: 13.55% →109 basis pts. over benchmark

Total Absolute Return:

% Fund: 7.64%
3 mos.: 1.81% →4 basis pts. over benchmark
1 Year: 1.37% →521 basis pts. under benchmark

Total Cash Aggregate:

% Fund: 0.83%
3 mos.: 0.41% →40 basis pts. over benchmark
1 Year: 1.39% →132 basis pts. over benchmark

HEK Reports

Hewit EnnisKnupp presented the September 30, 2013 performance update to the Committee.

Consultant RFP
Timeline

The Investment Committee chair (Mr. Zirkin), presented the timeline for the upcoming RFP process for general investment consultants.

Investment Reports

The Committee received the following investment reports:

- State Street Performance Report
- PE 2Q13 Performance Report
- RE 2Q13 Performance Report
- Securities Lending Report
- Division's FY14 Travel Plan – Update
- OPEB-PHBT Update

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**AUDIT COMMITTEE MEETING REPORT
November 12, 2013**

Presentation of the
FY 2013 MSRPS
Financial Audit
Results

Mr. Graylin Smith and Mr. William Seymour of SB & Company, the System's financial statement auditors, presented the Committee with their FY 2013 financial statement audit results. Mr. Seymour informed the Committee that the financial statements will receive an unmodified opinion. The audit noted no significant deficiencies or material weaknesses in internal control. The auditors did not discover any instances of fraud, and agreed that actuarial assumptions were reasonable for financial statement purposes.

The Committee discussed the Schedule of Funding Progress, which showed that actuarially recommended contributions had not been made for a number of years, contributing to the System's unfunded actuarial liability. Mr. Kenderline confirmed that unfunded liabilities are expected to grow through 2017, and then decline.

Mr. Seymour noted that SB & Company took a risk-based audit approach to mitigate the risk of financial misstatements, in which they identified significant risk areas and determined the actions taken by management to control those risks. Key processes were evaluated, and all were determined to be effective in design and operation.

Mr. Smith briefly discussed the impact of GASB 67 and GASB 68 changes on the System's future financial statements. He also discussed the increased valuation risks associated with alternative investments.

MSRPS FY 2013
Draft Financial
Statements

THIS MATTER WILL BE DISCUSSED OUTSIDE OF THE CONSENT AGENDA.

The Committee was provided with the System's FY 2013 draft financial statements.

Mr. Hughes inquired about the large amount of "Other & contribution interest" in the Management's Discussion and Analysis section. After discussion, staff agreed to clarify the description by renaming it "State contributions on behalf of local governments" or some other similar language.

On a motion made by Mr. Hagans, and seconded by Major Krome, the Committee approved submission of the FY 2013 draft financial statements to the Board for final approval. Mr. Hughes noted that the Committee recommends approval of the draft financial statements that were presented, but not the CAFR, which was not provided.

CY 2014 Audit
Committee Meeting
Dates

The Committee will consider proposed meeting dates for CY 2014, and provide feedback to Internal Audit within 30 days.

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**AUDIT COMMITTEE MEETING REPORT
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Chief Internal Auditor
Evaluation Criteria

Ms. Voglino provided the Committee members with proposed criteria for evaluating the Chief Internal Auditor. She noted that the criteria was developed based on the Institute of Internal Auditors' standards and input from other public pension funds.

On a motion made by Major Krome, and seconded by Mr. Bush, the Committee approved the Chief Internal Auditor evaluation criteria.

Designation for Open
Meetings Act Training

On a motion made by Major Krome, seconded by Mr. Bush, Brian Feilinger was approved as the Committee's designee for Open Meetings Act training.

Completed Audits

Ms. Voglino summarized the results of the following recently-completed audits:

Procurement Process – The Agency concurred with the audit's findings, and has agreed to implement the recommended corrective actions. Internal Audit will perform a future follow-up audit to determine if the recommended corrective actions have been implemented.

Earnings Limitations (Follow-up) – The audit noted that the Agency has implemented all recommended corrective actions. There is no need for further follow up.

Audits in Progress

The Committee was advised that the following audits are currently in progress:

- Disaster Recovery Process; and
- Administrative Fees.

The Committee will be provided with reports for these audits, upon completion.

Other Business

Mr. Hughes requested that dates for future Committee meetings be pushed out to Committee members electronically through Outlook. This way, they would automatically appear in Committee members' calendars.

The next Audit Committee meeting is scheduled for February 18, 2014, following the Board of Trustees meeting.

Mr. Hughes thanked Ms. Voglino for her service as Chief Internal Auditor, and commented on the wonderful job that she has done.