

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

May 21, 2015

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, 16th Floor Board Room, Baltimore, Maryland beginning at 10:15 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding
Peter Franchot, Vice Chairman
David Blitzstein
David Brinkley
James Bush, Jr.
John Douglass

Robert Hagans
Kenneth Haines
Linda Herman (via phone)
Theresa Lochte (via phone)
Richard Norman
Harold Zirkin

Other Attendees Included: R. Dean Kenderdine, Executive Director/Board Secretary, Susanne Brogan and John Kenney.

CLOSED SESSION

On a motion made by Comptroller Franchot and seconded by Mr. Bush, the Board voted to meet in a Closed Session, beginning at 10:15 a.m., in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor, for the purpose of:

1. discussing the compensation of the Chief Investment Officer, pursuant to General Provisions Art., § 3-305(b)(1)(i), to discuss the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of an appointee, employee, or official over whom it has jurisdiction;
2. discussing the compensation of the Senior Investment Staff, pursuant to General Provisions Art., § 3-305(b)(1)(i), to discuss the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of an appointee, employee, or official over whom it has jurisdiction; and
3. discussing the appointment of a Public Advisor to the Investment Committee, pursuant to General Provisions Art., § 3-305(b)(1)(i), to discuss the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of an appointee, employee, or official over whom it has jurisdiction;

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding
Peter Franchot, Vice Chairman
David Blitzstein
David Brinkley
James Bush, Jr.
John Douglass

Robert Hagans
Kenneth Haines
Linda Herman (via phone)
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Richard Norman
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Other Attendees Included: R. Dean Kenderdine, Executive Director/Board Secretary, Susanne Brogan and John Kenney.

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OPEN SESSION

On a motion made by Mr. Haines and seconded by Mr. Norman, the Board returned to open session at 11:10 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding
Peter Franchot, Vice Chairman
David Blitzstein
David Brinkley
James Bush, Jr.
John Douglass

Robert Hagans
Kenneth Haines
Linda Herman (via phone)
Theresa Lochte (via phone)
Richard Norman
Harold Zirkin

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

Robert Burd	Michael Golden	Michelle Lowery
Margaret Bury	Ira Greenstein	David Rongione
Melody Countess	Angie Jenkins	Janet Sirkis
Anne Gawthrop	Van Lewis	

Assistant Attorneys General present included: Kathy Brady, Rachel Cohen, and Sharon Street.

Also attended by: Phillip Anthony, Nathan Bowen, Susanne Brogan, John Kenney, Michael Rubenstein, Dana Tagliacod, Robin Clark, Brad Armstrong, Brian Murphy and Amy Williams.

Gabriel Roeder
Smith & Company
(GRS) presented the
Results of the
MSRPS Experience
Study

Brian Murphy, Brad Armstrong and Amy Williams from Gabriel Roeder Smith & Company (GRS), the System's actuary, presented the results of the System's experience study.

GRS recommended that the Board consider the following:

- › decreasing the rate of price inflation from an ultimate assumption of 2.80% to 2.70% to reflect lowered expectations of future price inflation;
- › maintaining the long-term investment return assumption (net of investment expenses) of 7.55%. Lower assumptions would also be reasonable and more conservative and would increase the likelihood of meeting or exceeding the assumption;
- › decreasing the assumption for post-retirement cost of living increases to reflect the decrease in the underlying price inflation assumption and to be consistent with the mean of simulated results for each COLA provision;
- › decreasing the general payroll growth from an ultimate assumption of 3.30% to 3.20%. This reflects a decrease in the underlying price inflation assumption from 2.80% to 2.70%. In the near term, even this reduced growth rate may not be achieved;
- › updating the valuation assumptions to reflect the administrative expenses are funded explicitly through an additional contribution made by both the State and the Participating Governmental Units (PGUs);
- › modifying the current salary increase assumptions to reflect 3.20% wage inflation plus a service-based component for merit,

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- longevity and promotion, ranging from 0.00% to 6.50% based on years of service and system;
- ▶ decreasing the overall rates for most systems except the Teachers' Systems and increasing the overall rates for the Teachers' Systems to partially reflect experience and maintaining the current retirement rate structure to reflect years of service in addition to age;
- ▶ maintaining the withdrawal rate structure which is service-based for the first 10 years of service and age-based thereafter. The recommended rates reflect both reviewing experience on a liability weighted basis and taking into account members returning to work from inactive status;
- ▶ changing from the RP 2000 Combined Healthy mortality table projected to 2025, with the rates multiplied by certain factors that vary by sex and system for healthy post-retirement mortality to the RP 2014 mortality tables with projected generational mortality improvements based on the MP-2014 2-dimensional mortality improvement scale recently released by the Society of Actuaries (SOA) in which mortality rates are projected to improve based on birth year. GRS also recommended additional collar and projection adjustments to the tables based on the experience for each system;
- ▶ changing from the RP 2000 Disabled mortality table, sex distinct, with rate multiplied by factors that vary by sex and system to the RP-2014 Disabled Annuitant mortality tables, sex distinct, with set forwards that vary by sex and system for the Teachers' Combined System, Employees' Combined System and Judges Retirement System. GRS also recommends, based on the disabled life experience and the definition of disability for State Police and LEOPS, using the RP-2014 Blue Collar Healthy Annuitant mortality table, sex distinct, and generational mortality improvement using the MP-2014 mortality improvement scales, for disabled life mortality;
- ▶ decreasing the current disability rates for most systems and adjusting the rates between ordinary and accidental disability to reflect observed experience.

In addition, GRS is currently developing recommended factors for optional forms of payment for use in plan administration. Once the recommended factors have been approved by the Board for plan administration, GRS will recommend if any adjustment to the valuation liabilities is required.

Mr. Blitzstein asked if the System had consistent actuarial gains. Mr. Blitzstein requested that GRS share the actual experience of gains and losses with the Board.

Mr. Blitzstein also requested that GRS share the impact of a 7.10% return and a 7.25% return as it relates to the chart on page 24 of their presentation. What affect would that have on funding ratio and

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contributions?

At the request of Mr. Douglass, the Board was also provided with a previously distributed document titled "Comparison of Projected Results Under Valuation and Black Swan Mortality Assumptions," which he had requested of GRS last year.

Mr. Kenderdine reported to the Board that the decision needs to be made regarding GRS' recommendations no later than June, 2015.

Mr. Kenderdine also reminded the Board that once the actuarial assumptions are adopted, the actuary will next develop new option and annuity factors that will be presented to the Board for adoption.

Ms. Herman requested that GRS provide to the Board the specific information they received from the five consulting firms regarding the capital market assumptions.

On a motion made by Mr. Douglass and seconded by Mr. Norman, the Board approved all of the economic and demographic assumptions recommended by GRS.

Consent Agenda

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

- April 21, 2015 Open Meeting Board Minutes
- April 21, 2015 Final Legislative Report
- May 8, 2015 Audit Committee Meeting Report
- May 8, 2015 Investment Committee Meeting Report

Asset Allocation
Review

Mr. Zirkin as Chairman of the Investment Committee reported on the Committee's deliberations concerning the System's asset allocation at it's May 8, 2015 meeting. The Committee's recommendations included:

1. **Re-categorize the asset classes from eight specific asset classes to five broad categories based on common risk factor exposures.**

Each sub-asset class will be grouped by the primary risk factor exhibited by the asset class. Staff is supportive of this recommendation. The table below shows the proposed re-categorization of the asset classes and sub-asset classes.

<i>Current Asset Class Structure</i>	<i>Proposed Asset Class Structure</i>	<i>Sub-Asset Classes</i>
Public Equity	Growth/Equity	U.S., International developed & emerging market equity, private equity
Fixed Income	Rate Sensitive	Investment Grade Bonds, U.S. TIPS
Credit	Credit	High yield, bank loans, emerging market debt
Real Return	Real Assets	Real estate, commodities, natural resources & infrastructure
Absolute Return	Absolute Return	Absolute return strategies
Private Equity		
Real Estate		
Cash		

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2. Meketa presented several alternative asset allocation options for consideration

Meketa presented four new asset allocation policy options with different risk and return profiles. Meketa recommended adopting Policy B. Staff was supportive of Policy A, as it appears to achieve the Plan's long-term return assumption with the least amount of risk.

3. Target ranges for the five proposed asset categories

Meketa recommended ranges for the five proposed asset categories. Staff was supportive of these recommendations. The table below shows these recommended ranges.

<i>Proposed Asset Class Structure</i>	<i>Proposed Target range</i>
Growth/Equity	+/- 5%
Rate Sensitive	+/- 5%
Credit	+/- 4%
Real Assets	+/- 4%
Absolute Return	+/- 4%

4. Target ranges for proposed sub-asset classes and constraints on hedge fund exposure

Meketa has recommended ranges as well as hedge fund constraints for some of the sub-asset classes. Staff is supportive of these sub-asset class ranges and constraints, as highlighted in the table below.

<i>Asset Class / Sub-Asset Class</i>	<i>Target Range / Constraint</i>
Public Equity	Hedge Funds 0 – 20%
Rate Sensitive	Investment Grade Bonds 50-70% Inflation-Linked Bonds 30-50%
Credit	Hedge Funds 0-30% Private Credit 0-50%
Commodities	Hedge Funds 0-50%

Meketa also recommended placing caps on hedge fund exposure at the total fund level, depending on the asset allocation policy options. For example, policy B would have a maximum exposure to hedge funds of 17%. Staff does not agree with this recommendation. Staff's recommendation regarding a total fund hedge fund cap would be 10% above the Absolute Return target allocation. This would provide Staff the room to optimally implement the objectives of the Absolute Return asset class without having to sacrifice Staff's ability to manage risks in other asset classes. Staff indicated that its proposed hedge fund cap would provide Staff more flexibility and cushion in the event of a market downturn by avoiding a situation of forced selling of hedge funds during a time when they are most needed.

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5. Meketa has recommended the primary and secondary benchmarks shown in the table below

Asset Class	Current Index	Proposed Primary Benchmark (Option B)	Proposed Secondary Benchmark
Equity:			
Public Equity	MSCI ACWI	43% Russell 3000, 35% MSCI World (ex. U.S.), 22% MSCI EM	
Private Equity	State Street Private Equity Composite	State Street Private Equity Composite	MSCI ACWI + 200 bp
Rate Sensitive	Barclays U.S. Intermediate Index, Barclays Global Agg. 1-10 Year Hedged, Barclays U.S. TIPS, Barclays Global Inflation-Linked Hedged	60% Barclays Aggregate, 40% Barclays U.S. TIPS	
Credit:		67% US, 33% non-U.S.	
U.S. Credit	Barclays U.S. High Yield, Barclays Credit, S&P/LSTA Leveraged Loan	80% Barclays US High Yield, 20% S&P/LSTA Leveraged Loan	
Non-U.S. Credit	JP Morgan GBI-EM Global Diversified	50% JP Morgan GBI-EM Global Diversified, 25% JP Morgan EMBI Global Diversified, 25% JPMorgan CEMBI Broad	
Real Assets:		Dynamically weighted: RE, Commodities, NR/IS	67% RE, 20% Commodities, 13% NR/IS
Real Estate	Dynamically weighted: NCREIF ODCE (gross), FTSE EPRA/NAREIT Developed (net)	Dynamically weighted: NCREIF ODCE (gross), FTSE EPRA/NAREIT Developed (net)	85% NCREIF ODCE (gross), 15% FTSE EPRA/NAREIT Developed (net)
Commodities	Bloomberg Commodity	Bloomberg Commodity	
Natural Resources & Infrastructure	CPI-U + 500 bp (capped at 8%)	CPI-U + 500 bp (capped at 10%)	75% S&P Global Natural Resources, 25% DJ-Brookfield Infrastructure
Absolute Return	HFRI Fund of Funds Conservative	HFRI Fund of Funds Conservative + 100 bps	1-Year Treasury + 500 bp

On a motion made by Mr. Zirkin and seconded by Mr. Haines, the Board approved the Investment Committee's recommended changes regarding asset allocation on the condition that the new Chief Investment Officer be given the opportunity to review and comment on the changes.

Chief Investment
Officers' Report

Robert Burd reported that the total market value of the fund, as of April 30, 2015, was \$46.2 Billion. Mr. Burd reported that the fund return for one month was 1.25% with a fiscal year-to-date of 3.57% and the policy benchmark for one month was 1.79% with a fiscal year-to-date of 2.33%

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Executive Director's
Report

Mr. Kenderdine provided the Board with a 2014 memorandum from Rachel Cohen, Assistant Attorney General, regarding the IRS' rules for Alternate Payee Taxation, as well as a draft letter that the Agency's would be sending to the System's current Alternate Payee's that are affected by the System's compliance with these rules.

Mr. Kenderdine asked Margaret Bury to brief the Board on the processing of applications for the Voluntary Separation Programs (VSP) offered by the State and early retirement programs offered by certain counties. The implementation of all such programs was completed successfully. As of April 2, 2015, 469 participants were approved for the State VSP and of those 469 participants 462 were eligible to retire.

In addition, Ms. Bury reported that 158,000 ballots were mailed out for this year's Trustee Election for the Retired Employees' System Trustee seat on the Board and to date, approximately 1,700 participants have voted.

Ms. Bury also reported that the cost of living adjustment ("COLA") will be reflected in the July check for all retirees who have been retired one full year as of July 1st. For retirees who retired under the Retirement System or retired on or before July 1, 2011, the COLA will be 1.622%. For Pension System retirees who retired on or after July 2011, this year's COLA will be 1.622% on their benefit allowance based on service earned prior to July 1, 2011 and 1% on their benefit allowance based on service earned on or after July 1, 2011 since the Agency's targeted rate of investment return for December 31, 2014 was not met.

CLOSED SESSION

On a motion made by Mr. Bush and seconded by Mr. Norman, the Board voted to meet in a Closed Session (1:10 p.m.) in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor, for the purpose of:

4. approving the closed session minutes, pursuant to General Provisions Art., § 3-103(a)(1), the exercise of an administrative function;
5. reviewing the Medical Board reports, pursuant to General Provisions Government Art., § 3-305(b)(13), to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter, namely, General Provisions Art., § 4-312 regarding the prohibition on disclosing retirement records, and General Provisions Art., § 4-329 regarding the prohibition on disclosing medical and personal information; and
6. consulting with counsel regarding fiduciary duties and System funding, pursuant to General Provisions Art., Section 3-305(b)(7), to consult with counsel to obtain legal advice.

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John F. Blevins, Esq. and Ms. Bennett appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. 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.

Theresa M. Crites

The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Theresa M. Crites 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. Crites appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. 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.

Marlon D. Anderson

The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Marlon D. Anderson 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.

Mr. Anderson appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. 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.

CLOSED SESSION

On a motion made by Mr. Norman and duly seconded, the Board voted to meet in a Closed Session at 2:25 p.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor, for the purpose of:

1. considering the disability appeals, pursuant to General Provisions Art., § 3-103(a)(1)(iii), the exercise of a quasi-judicial function.

The Trustees present included:

David Brinkley, Presiding
David Blitzstein
James Bush, Jr.
John Douglass

Robert Hagans
Kenneth Haines
Richard Norman
Harold Zirkin

Legislative Update
2015 Session
April 21, 2015

Chapter 68 (The Speaker)

General Assembly – Mandated Reports by State Agencies

These bills repeal several reports presently required to be submitted by the Board of Trustees to the General Assembly. These reports include:

1. the attendance, educational training, and travel reports for the Board;
2. the sale or purchase of directly held real estate;
3. additional actuarial studies of the several systems;
4. the complaints received by the State Retirement Agency regarding any direct mailing received by a retiree from a retiree organization;
5. the initial submission of the criteria established by the Board of Trustees for awarding financial incentives to the Chief Investment Officer; and
6. a summary of the activities of the Maryland Venture Capital Trust for the preceding fiscal year, including an annual update on the operating and financial statements covering the operations of Trust.

PASSED ENROLLED

The Board took no position on this legislation.

Chapter 10 (Peters as Chair for JCP)

State Retirement and Pension System – Accumulated Contributions of Nonvested Former Members

This board requested legislation requires the Board of Trustees to transfer a former member's accumulated contributions from the annuity savings fund to the accumulation fund at the time membership ends for the former member, if the former member is not vested in one of the several systems.

RETURNED PASSED

Board requested legislation.

House Bill 77 (Barnes as Chair for JCP)/Senate Bill 103 (Peters as Chair for JCP)

Judges' Retirement System – Membership, Accrual Rate of Interest, and Reemployment

As amended, this board requested legislation removes language in the JRS that limits the period of time when JRS members may withdraw their accumulated contributions to 6 months after leaving the JRS. In addition, this legislation makes clarifying changes to the reemployment provisions in the JRS to address inconsistencies and confusion when implementing this provision. House Bill 77/Senate Bill 103 make clarifying changes to the length of time regular interest shall accrue on a deferred vested JRS member's contributions after the individual is no longer an active member of the plan and provides the length of time a JRS member maintains membership in the JRS after leaving the JRS. These last two clarifying changes only apply to an individual who joins the JRS on or after July 1, 2012. These bills were amended to provide that a member of the JRS who is not able to vest in the system due to mandatory retirement, now will receive a retirement benefit based on the years the member does serve, provided the member serves on the bench from the date of appointment through the date the member is required to retire.

PASSED ENROLLED

Board requested legislation.

Chapter 7 (Peters as Chair for JCP)

State Retirement and Pension System – Noncontributory Pension Benefit –Definition

This board requested legislation clarifies the definition of “noncontributory pension benefit” under 20-101(aa-1) of the State Personnel and Pensions Article to conform to changes made through the 2011 pension reforms.

RETURNED PASSED

Board requested legislation.

Chapter 11 (Peters as Chair for JCP)

Correctional Officers' Retirement System – Membership

This board requested legislation allows two ERS members to transfer back to the CORS under the provisions of Chapter 188 of 2014. These bills were amended to remove the requirement that a member of the CORS serve at least the final five years before retirement in a CORS-eligible position in order to qualify for a normal (20-year) service retirement under CORS.

RETURNED PASSED

Board requested legislation.

House Bill 210 (Cluster)/Senate Bill 268 (Hough)

Correctional Services - Baltimore City Detention Center - Transfer of Ownership

House Bill 210/Senate Bill 268 would have transferred ownership of the Baltimore City Detention Center from the State to Baltimore City beginning January 1, 2016. All current employees of the Baltimore City Detention Center would have been terminated from State employment on December 31, 2015. The Mayor for Baltimore City would have had the option to hire these same individuals. Current employees of the Baltimore City Detention Center would remain members of the CORS until July 1, 2019, at which point they will have the option to remain in the CORS or join the Baltimore City Employees' Retirement System. For those employees who remain in the CORS, Baltimore City would be responsible for submitting the employer contributions for these individuals to the State. Vested CORS members who choose to transfer to the Baltimore City ERS would receive their vested benefit from the CORS; non vested CORS members who choose to transfer would receive a lump-sum payment of the benefit they have accrued in the CORS prior to transferring.

UNFAVORABLE

The Board opposed this legislation.

House Bill 217 (Barnes as Chair for JCP)

State Retirement and Pension System - Credit for Unused Sick Leave – Clarification

This board requested legislation clarifies that only unused sick leave that is available to the employee as sick leave during employment may be reported by the employer to the State Retirement Agency.

RETURNED PASSED

Board requested legislation.

House Bill 380 (Bromwell)

State Retirement and Pension System – Military Service Credit – Exception

This bill applied to individuals who retire from the JRS between January 1, 2015 and April 1, 2015, and who at the time of retirement have at least 9 years of service credit, but are unable to serve 10 years on the bench due to mandatory retirement at age 70. House Bill 380 provided that these individuals may purchase “air time” to reach the 10 years of service credit necessary to apply for up to five years of military service in the Judges’ Retirement System. House Bill 380 would have sunset on June 30, 2016.

UNFAVORABLE

The Board opposed this legislation.

**House Bill 421 (Frick)/Senate Bill 312 (Rosapepe)
Maryland Secure Choice Retirement Savings Program and Trust**

This proposal established a Maryland Secure Choice Retirement Savings Trust intended to promote greater retirement savings for Maryland private sector employees in a convenient, voluntary, low-cost, and portable manner. The Trust is managed by a board of eight individuals, including the Treasurer, the Comptroller, the Secretary of Budget and Management, and five individuals appointed by the Governor. The funds of the Trust may be invested by the Treasurer, through a contract with the Board of Trustees for the State Retirement and Pension System, or private money managers. The bills provided that private sector employers shall offer their employees the option to participate in a payroll-deposit IRA arrangement. For the first three months, employer participation in this program is optional. Beginning at the start of the fourth month, and every three months thereafter, employer participation is mandatory depending on the number of employees each eligible employer has employed. Full participation is mandated by the ninth month of the program's inception.

NO ACTION BY EITHER THE SENATE OR THE HOUSE

The Board took no position on this legislation

**Senate Bill 595 (President)
Public Charter School Expansion and Improvement Act of 2015**

As amended, this Administration bill alters State law regarding the establishment and operation of public charter schools. All pension provisions relating to the State Retirement and Pension System have been amended out of the Senate crossfile of this bill. Originally, these bills provided that employees of operators of public charter schools are members of the TPS as a condition of employment.

PASSED ENROLLED

Staff recommended taking no position on this legislation. Staff did work with committee staff and administration staff to work out the technical issues with the bill. These concerns were addressed through amendment.

**House Bill 569 (Jackson)
State Police Retirement System and Law Enforcement Officers' Pension System – Reemployment of Retirees**

This proposed legislation provided that a retiree of the SPRS who is reemployed by a participating employer in the LEOPS shall be enrolled in the LEOPS and begin receiving creditable and eligibility service in that system during the period of reemployment. In addition, the bill also provided that a retiree of the LEOPS who is reemployed by an employer participating in the SPRS shall be enrolled in the SPRS and begin receiving creditable and eligibility service in that system during the period of reemployment.

UNFAVORABLE

The Board opposed this legislation.

House Bill 694 (Jackson)/Senate Bill 286 (Manno)

Law Enforcement Officers' Pension System – Division of Parole and Probation – Warrant Apprehension Unit Employees – Membership

This legislation transfers employees of the Warrant Apprehension Unit who are currently members of the EPS into the LEOPS.

RETURNED PASSED

The Board took no position on this legislation.

House Bill 907 (Miller)/Senate Bill 726 (Bates)

Employees' Pension System – Town of Sykesville – Return to Employment

This bill authorizes the Town of Sykesville to purchase additional service credit in the EPS to provide full service credit for those individuals that were employees of the town on and before the effective date of participation for Sykesville in the EPS. It also requires that, if the town purchases additional credit, the new entrant actuarial valuation for the town be adjusted to reflect any change in liabilities resulting from the purchase of credit in that fiscal year.

RETURNED PASSED

The Board took no position on this legislation.

Senate Bill 165 (Feldman)

State Retirement and Pension System - Constitutional Officers - Forfeiture of Benefits

This proposed legislation would provide that any constitutional officer of the State (the Attorney General, Comptroller, Lieutenant Governor, Secretary of State, or Treasurer) who is convicted of a specified crime during the officer's term of office, shall forfeit all retirement benefits earned under the State Retirement and Pension System. Senate Bill 165 further provides that this bill shall only apply to any crime committed on or after July 1, 2015.

REFERRED TO SUMMER STUDY

The Board took no position on this legislation but did recommend directing staff to work with the Budget and Tax Committee to address Agency implementation issues with Senate Bill 165.

Senate Bill 364 (Kasemeyer)

Alternate Contributory Pension Selection – Return to Employment

This bill allows an individual to resume membership in the ACPS if the individual has been separated from service for more than 4 years, but was vested in the ACPS on or before July 1, 2011.

RETURNED PASSED

The Board took no position on this legislation.

Chapter 32 (Peters)

Employees' and Teachers' Pension Systems – Combination of Service – Clarification

This legislation clarifies the proper member contribution rate to use when participants seek to combine previous EPS or TPS service with the EPS or TPS account under which they are currently members.

RETURNED PASSED

Board requested legislation.

Chapter 33 (Eckardt)

Employees' Pension System – Dorchester County Sanitary Commission – Eligible Governmental Unit

This bill provides that any employee of the Dorchester County Sanitary Commission that was employed by Dorchester County Council on June 30, 2011, and remains an employee of the Commission on its effective date of participation in the EPS, may remain in the ACPS.

RETURNED PASSED

The Board took no position on this legislation.

Senate Bill 560 (Peters)

Employees' Pension System – Elected and Appointed Officials – Optional Membership

This bill provides that membership in the EPS is optional for officials who are elected or appointed for fixed terms.

RETURNED PASSED

Board requested legislation

Senate Bill 639 (Serafini)

Teachers' Retirement and Pension Systems – Reemployment of Retirees – Exemptions

This bill provides that up to five TRS or TPS retirees may be hired by each local school system and the Maryland School for the Deaf in any position, teaching at any school in the district, and not be subject to a reemployment earnings limitation.

RETURNED PASSED

The Board took no position on this legislation.

Senate Bill 640 (Serafini)

State Retirement and Pension System – Actuarial Stress Test

This bill, as amended by the Senate, would have required the General Assembly to commission its actuary to perform a stress test of future financial positions of the System to measure investment and contribution risks. This bill requires the stress test to be completed by December 31, 2015. The bill would have sunset June 30, 2016.

NO ACTION BY THE HOUSE

The Board took no position on this legislation, but informed both the Senate and the House that the requirements of the bill could be met through the System's actuary's stochastic modeling assignments.

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**AUDIT COMMITTEE MEETING REPORT
May 8, 2015**

Derivatives
Operational Audit
Results

Mr. Jack Reagan presented the results of Grant Thornton's Operational Processes Audit of Derivative Investments Management. The audit's objective was to determine if operational controls over derivative investments were designed appropriately and operating effectively. Mr. Reagan indicated that controls were sufficient and effective. There were three audit findings, which he described as instances where written procedures and documentation did not match up with what was actually being performed. He noted that the audit findings were vetted with Agency management.

Mr. Reagan told the Committee that Grant Thornton valuation specialists were used to determine if the System's derivative investments were accurately priced. The valuation specialists were able to identify the valuation methods used by the Agency. They also were able to recalculate the valuations for a test sample using different methodology, and arrived at the same values within a deviation of 5%.

Mr. Hughes asked about the appropriate time for following up on the audit's findings. Mr. Rongione told the Committee that he will check with management and then list the findings on Internal Audit's findings log for tracking, noting their due dates.

Peer Review of the
Internal Audit Division

Mr. Rongione told the Committee that representatives from the South Carolina and Indiana state pension systems recently completed a peer review of the Internal Audit Division. The review used both the Institute of Internal Auditors' standards and Generally Accepted Government Auditing Standards. No significant items were identified.

The peer review report is expected to be issued shortly, and will be presented to the Committee at their next meeting.

RFP – Credit/Debt
Strategy Operational
Audit

Mr. Rongione told the Committee that the Internal Audit Division is working on an RFP seeking an outside firm to perform an operational audit of the System's credit/debt strategy investments. Credit/debt strategy was rated by an outside consultant as the third riskiest investment category behind absolute return and derivatives, which have already been audited. The RFP is currently undergoing legal review. Internal Audit hopes to have the contract awarded by the end of the fiscal year.

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MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

**AUDIT COMMITTEE MEETING REPORT
May 8, 2015**

FY 2015 Annual Audit Plan Status	<p>The Committee received a document summarizing the status of activities contained in the FY 2015 audit plan. Mr. Rongione noted that the Third-Party Application/Software Security Patching audit is 95% complete, and that a report should be issued in a few weeks. The last remaining audit on the audit plan, IT Disaster Recovery, is expected to begin by the end of the fiscal year.</p> <p>The Committee discussed the importance of disaster recovery and cybersecurity. Mr. Kenderdine told the Committee that Information Systems hired two outside firms 2-3 years ago to conduct penetration testing and review adherence to policies and procedures. A new RFP for penetration testing was in process, but changes mandated by the Department of Budget and Management required the procurement to start over. Mr. Hagans asked that it be given top priority.</p>
Open Audit Findings	<p>The Committee was provided with an Open Issues Log and a Closed Issues Log, which list all audit findings. Mr. Hughes noted that some items were older and should be addressed first. Mr. Rongione responded that Internal Audit is focusing on clearing the older items. He stated that management may have already addressed them, but Internal Audit has not yet validated the actions taken.</p>
Staffing – Internal Audit Division	<p>Mr. Kenderdine told the Committee that the picture on staffing is brightening. New resources in Retirement Administration are making backlogs more manageable. He is optimistic that one of the Internal Audit Division vacancies could be filled after July 1st.</p>
Audits in Progress	<p>The Third-Party Application/Software Security Patching audit is 95% complete. A report should be issued in a few weeks.</p>
Other Business	<p>The next Audit Committee meeting is scheduled for Tuesday, August 18, 2015, following the Board of Trustees meeting.</p> <p>Mr. Rongione told the Committee that he will soon be working to update the agency-wide risk assessment. Committee members will be receiving questionnaires as part of the process. The risk assessment will be used to prepare the audit plan for the next fiscal year. This will be presented, along with an allocation of resources, at the next meeting. Mr. Hughes asked that the audit plan focus on the top ten items of the risk assessment.</p>

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***INVESTMENT COMMITTEE MEETING REPORT
MAY 8, 2015***

Asset Allocation
Review

Meketa presented its 2015 Asset Allocation Policy Review to the Committee and identified several potential changes in asset allocation for the Committee to consider. The potential changes and recommendations are below, followed by a Staff recommendation.

1. Re-categorize the asset classes from eight specific asset classes to five broad categories based on common risk factor exposures.

Each sub-asset class will be grouped by the primary risk factor exhibited by the asset class. Staff is supportive of this recommendation. The table below shows the proposed re-categorization of the asset classes and sub-asset classes.

<i>Current Asset Class Structure</i>	<i>Proposed Asset Class Structure</i>	<i>Sub-Asset Classes</i>
Public Equity	Growth/Equity	U.S., International developed & emerging market equity, private equity
Fixed Income	Rate Sensitive	Investment Grade Bonds, U.S. TIPS
Credit	Credit	High yield, bank loans, emerging market debt
Real Return	Real Assets	Real estate, commodities, natural resources & infrastructure
Absolute Return	Absolute Return	Absolute return strategies
Private Equity		
Real Estate		
Cash		

2. Meketa presented several alternative asset allocation options for consideration

Meketa presented four new asset allocation policy options with different risk and return profiles. Meketa recommended adopting Policy B. Staff was supportive of Policy A, as it appears to achieve the Plan's long-term return assumption with the least amount of risk.

3. Target ranges for the five proposed asset categories

Meketa recommended ranges for the five proposed asset categories. Staff was supportive of these recommendations. The table below shows these recommended ranges.

<i>Proposed Asset Class Structure</i>	<i>Proposed Target range</i>
Growth/Equity	+/- 5%
Rate Sensitive	+/- 5%
Credit	+/- 4%
Real Assets	+/- 4%
Absolute Return	+/- 4%

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4. Target ranges for proposed sub-asset classes and constraints on hedge fund exposure

Meketa has recommended ranges as well as hedge fund constraints for some of the sub-asset classes. Staff is supportive of these sub-asset class ranges and constraints, as highlighted in the table below.

<i>Asset Class / Sub-Asset Class</i>	<i>Target Range / Constraint</i>
Public Equity	Hedge Funds 0 – 20%
Rate Sensitive	Investment Grade Bonds 50-70% Inflation-Linked Bonds 30-50%
Credit	Hedge Funds 0-30% Private Credit 0-50%
Commodities	Hedge Funds 0-50%

Meketa also recommended placing caps on hedge fund exposure at the total fund level, depending on the asset allocation policy options. For example, policy B would have a maximum exposure to hedge funds of 17%. Staff does not agree with this recommendation. Staff's recommendation regarding a total fund hedge fund cap would be 10% above the Absolute Return target allocation. This would provide Staff the room to optimally implement the objectives of the Absolute Return asset class without having to sacrifice Staff's ability to manage risks in other asset classes. Staff indicated that its proposed hedge fund cap would provide Staff more flexibility and cushion in the event of a market downturn by avoiding a situation of forced selling of hedge funds during a time when they are most needed.

5. Meketa has recommended the primary and secondary benchmarks shown in the table below

Asset Class	Current Index	Proposed Primary Benchmark (Option B)	Proposed Secondary Benchmark
Equity:			
Public Equity	MSCI ACWI	43% Russell 3000, 35% MSCI World (ex. U.S.), 22% MSCI EM	
Private Equity	State Street Private Equity Composite	State Street Private Equity Composite	MSCI ACWI + 200 bp
Rate Sensitive	Barclays U.S. Intermediate Index, Barclays Global Agg. 1-10 Year Hedged, Barclays U.S. TIPS, Barclays Global Inflation-Linked Hedged	60% Barclays Aggregate, 40% Barclays U.S. TIPS	
Credit:		67% US, 33% non-U.S.	
U.S. Credit	Barclays U.S. High	80% Barclays US High	

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	Yield, Barclays Credit, S&P/LSTA Leveraged Loan	Yield, 20% S&P/LSTA Leveraged Loan	
Non-U.S. Credit	JP Morgan GBI-EM Global Diversified	50% JP Morgan GBI-EM Global Diversified, 25% JP Morgan EMBI Global Diversified, 25% JPMorgan CEMBI Broad	
Real Assets:		Dynamically weighted: RE, Commodities, NR/IS	67% RE, 20% Commodities, 13% NR/IS
Real Estate	Dynamically weighted: NCREIF ODCE (gross), FTSE EPRA/NAREIT Developed (net)	Dynamically weighted: NCREIF ODCE (gross), FTSE EPRA/NAREIT Developed (net)	85% NCREIF ODCE (gross), 15% FTSE EPRA/NAREIT Developed (net)
Commodities	Bloomberg Commodity	Bloomberg Commodity	
Natural Resources & Infrastructure	CPI-U + 500 bp (capped at 8%)	CPI-U + 500 bp (capped at 10%)	75% S&P Global Natural Resources, 25% DJ-Brookfield Infrastructure
Absolute Return	HFRI Fund of Funds Conservative	HFRI Fund of Funds Conservative + 100 bps	1-Year Treasury + 500 bp

Committee agreed to defer on voting on all five recommendations until a CIO is hired and given the opportunity to comment. However, the committee did vote to establish the sense of the committee as to the recommendations.

Report from Acting
CIO

The Committee received a performance update from the Acting CIO and staff as of March 31, 2015. The total fund performance for the quarter ending March 31, 2015 was 2.09%, exceeding the policy benchmark of 1.63%. The System's Net Asset Value is at 45.7 billion as of 03/31/15.

Performance number relative to benchmarks by asset class

Total Public Equity:

% Fund: 38.09%
3 mos.: 3.47% → 96 basis pts. over benchmark
FYTD: 3.43% → 318 basis pts. over benchmark

Total Fixed Income:

% Fund: 13.09%
3 mos.: 1.76% → 48 basis pts. over benchmark
FYTD: 2.90% → 24 basis pts. over benchmark

Total Credit/Debt Strategies

% Fund: 9.88%
3 mos.: 0.40% → 70 basis pts. under benchmark
FYTD: -1.19% → 118 basis pts. over benchmark

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Total Real Estate:

% Fund: 7.3%
3 mos.: 4.97% → 153 basis pts. over benchmark
FYTD: 9.56% → 47 basis pts. over benchmark

Total Real Return:

% Fund: 13.05%
3 mos.: -1.24% → 82 basis pts. under benchmark
FYTD: -4.78% → 229 basis pts. over benchmark

Total Private Equity:

% Fund: 7.60%
3 mos.: 1.27% → tied with benchmark
FYTD: 7.11% → 148 basis pts. over benchmark

Total Absolute Return:

% Fund: 10.06%
3 mos.: 2.37% → 135 basis pts. over benchmark
FYTD: 2.36% → 84 basis pts. over benchmark

Total Cash Aggregate:

% Fund: 0.92%
3 mos.: 0.23% → 22 basis pts. over benchmark
FYTD: 0.96% → 94 basis pts. over benchmark
1 Year: 1.78% → 176 basis pts. over benchmark

Meketa Reports

Meketa Investment Group presented the March 31, 2015 performance update and current market overview to the Committee.

FY 16 Investment
Division Projected
Travel

Staff presented its 2016 fiscal year preliminary travel plan to the Committee for their approval.

The Committee felt that since a budget is approved for travel, it should be left up to the Mr. Burd and staff to decide what managers to visit. Committee agreed that this report was no longer necessary.

On a motion made and seconded, the Committee unanimously agreed to revise the Charter and delete this report from Charter.

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ORP Fund Share Class Change	<p>Mr. Burd discussed the ORP – TIAA-CREF Vanguard Mid Cap Index Fund. The Committee was asked to approve a share class change in the ORP.</p> <p>On a motion made and seconded, the Committee unanimously agreed to approve the replacement of the Vanguard Mid Cap Index Fund (VMCIX) with the Vanguard Mid Cap Index Institutional Plus Fund (VMCPX) in TIAA-CREF's ORP investment line-up.</p>
Review of Fidelity Target Date Funds	<p>The Committee received an update of Fidelity's target date funds from Mr. Burd as a request was made during the November 14, 2104 meeting to review Fidelity's performance again in six months for signs of improvement.</p>
Private Equity Performance Update	<p>The Committee received a Private Equity Performance Update from Mr. Burd.</p>
Investment Reports	<p>The Committee received the following investment reports:</p> <ul style="list-style-type: none">▪ State Street Performance Reports▪ Private Markets Performance Reports▪ Division's FY15 Travel Plan – Update▪ Quarterly ORP Performance Report▪ OPEB-PHBT Update▪ New Hire Manager Report▪ Securities Lending Report On the Board Portal▪ Broker Commission Reports
Report from Acting CIO	<p>There was no report from the Acting CIO that needed to be discussed in closed session.</p>
Personnel Matter	<p>The Committee adjourned into Executive Session to discuss a Personnel matter.</p>