

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

September 18, 2018

The Board of Trustees for the Maryland State Retirement and Pension System convened at the Board Room of the SunTrust Building, 120 East Baltimore Street, 16th Floor Board Room, Baltimore, Maryland beginning at 1:30 p.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	Sheila Hill
Peter Franchot, Vice Chairman (via phone)	F. Patrick Hughes
David Brinkley (via phone)	Theresa Lochte
Eric Brotman (via phone)	Richard Norman
Jamaal Craddock	Douglas Prouty
David Hamilton (via phone)	Michael Stafford
Linda Herman	

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

Melody Countess	Angie Jenkins	Kenneth Reott
Patricia Fitzhugh	Van Lewis	David Rongione
Anne Gawthrop	Kim O’Keeffe	Janet Sirkis
Michael Golden	Andrew Palmer	Toni Voglino
Ira Greenstein	Harvey Raitzyk	

Assistant Attorneys General present included: Rachel Cohen

Other attendees included: Susanne Brogan, John Kenney, Justin Hayes, Brian Murphy, Brad Armstrong, Lamont Tarbox, Phillip Anthony, Jeannette Fernandez, Michael Rubenstein, Hazel Bradford, Brian Croche and Jordyn Duerr

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

- July 17, 2018 Audit Committee Meeting Summary
- August 21, 2018 Open Meeting Board Minutes
- August 21, 2018 Corporate Governance Committee Meeting Summary
- September 4, 2018 Administrative Committee Meeting Summary

Gabriel Roeder
Smith & Company
(GRS) - FY2018
Valuation
Preliminary Results

Mr. Brian Murphy and Mr. Brad Armstrong from GRS presented the preliminary results of the State Retirement and Pension System’s Actuarial Valuation for the period ending June 30, 2018 for the Board’s review.

On a motion made by Mr. Prouty and duly seconded, the Board voted to meet in a Closed Session, beginning at 1:45 p.m., in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor, for the purpose of:

- a) reviewing the August 21, 2018 closed session Board minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function;

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- b) reviewing the Medical Board reports from August 22, August 30, September 5 and September 13, 2018, regarding individual participants' claims for disability retirement benefits, pursuant to General Provisions 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 psychological information;
- c) reviewing a report regarding extraordinary salary increases, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific statutory requirement that prevents public disclosure, namely General Provisions Art., § 4-312 regarding the prohibition on disclosing retirement records; and
- d) discussing the Chief Investment Officer's Evaluation, pursuant to General Provisions Art., § 3-305(b)(1)(i), the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of an appointee, employee, or official over whom it has jurisdiction.

CLOSED SESSION

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	Sheila Hill
Peter Franchot, Vice Chairman (via phone)	F. Patrick Hughes
David Brinkley (via phone)	Theresa Lochte
Eric Brotman (via phone)	Richard Norman
Jamaal Craddock	Douglas Prouty
David Hamilton (via phone)	Michael Stafford
Linda Herman	

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

Patricia Fitzhugh	Angie Jenkins	Harvey Raitzyk
Anne Gawthrop	Kim O'Keeffe	Kenneth Reott
Ira Greenstein	Andrew Palmer	Janet Sirkis

Assistant Attorneys General present included: Rachel Cohen

Other attendees included: John Kenney

On a motion made by Mr. Norman and seconded by Ms. Lochte, the Board returned to open session at 1:55 p.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor.

OPEN SESSION

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	Sheila Hill
Peter Franchot, Vice Chairman (via phone)	F. Patrick Hughes
David Brinkley (via phone)	Theresa Lochte
Eric Brotman (via phone)	Richard Norman
Jamaal Craddock	Douglas Prouty
David Hamilton (via phone)	Michael Stafford

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On a motion made by Ms. Lochte and seconded by Ms. Hill, the Board of Trustees, approved the FY2020 Budget Proposal, as presented. Secretary Brinkley abstained.

Recommendation of the Investment Committee and Administrative Committee regarding the Investment Division's FY19 and FY20 Budget Proposals

The Board was provided with the Investment Division's FY19 and FY20 budget proposals, as presented to and approved by the Administrative Committee on September 4, 2018 and the Investment Committee on September 18, 2018, for recommendation to the Board of Trustees.

On a motion made by Mr. Hughes and seconded by Mr. Norman, the Board of Trustees, approved the Investment Division's FY19 and FY20 Budget Proposals, as presented. Secretary Brinkley abstained.

Recommendation of the Investment Committee regarding changes to the Investment Policy Manual

Mr. Hughes, as Chairman of the Investment Committee reported on the Committee's deliberations concerning changes to the Investment Policy Manual (IPM). The Board was provided with a red-lined version of the suggested changes, which included the following:

Amendment #1: Indemnification of Investors in Private Market Investments

The proposed amended language of the IPM provides the CIO the authority to negotiate terms that include an indemnification obligation by the System.

Amendment #2: Alternative Investment Definition

It was noted that the IPM did not include a definition of "alternative investments" even though the term was included in the Disclosure of Information section of the IPM. The recommended amendment to the IPM outlines a definition of alternative investments.

Amendment #3- ETI

The Economically Targeted Investment (ETI) Policy of the IPM was included in the manual in 1994 and has had no significant changes since that time. Economically Targeted Investments are investments that are selected, in part, for their collateral benefits, apart from the investment return to the employee benefit plan investor. The term collateral benefits is broadly referring to an economic, social, environmental, or public policy benefits apart from the investment return. The Department of Labor (DOL) issued guidance concerning ETIs and the update to the IPM is to address the Board's views on ETIs and their fiduciary responsibilities, to define ETIs, and to remove language that is no longer applicable.

Amendment #4- Risk Management

The recommended Risk Management Policy is in response to HB 993 that requires the Board to address the management of risk in the IPM, perform and provide a risk assessment report to the General Assembly and the public on an annual basis, and disclose proxy votes and due diligence questionnaires on the System's public website. Staff has also included a section on leverage.

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On a motion made by Mr. Hughes and seconded by Ms. Hill, the Board of Trustees, approved the Investment Committee's recommendations for updating the Investment Policy Manual, as presented.

Recommendation of
the Investment
Committee
regarding the
Contract Extension
for Meketa
Investment Group

Mr. Hughes, as Chairman of the Investment Committee reported on the Committee's recommendation concerning a contract extension for Meketa Investment Group, the System's General Investment Consultant.

On a motion made by Mr. Hughes and seconded by Ms. Hill, the Board of Trustees, approved the Investment Committee's recommendations to exercise the first one-year extension of the General Investment Consultant Services Contract with Meketa Investment Group.

Executive Director's
Report

Mr. Kenderdine reminded the Board that the Education Session is being held on October 16, 2018 at the DoubleTree by Hilton Baltimore-BWI, located on Elkridge Landing Road in Linthicum, Maryland.

Mr. Kenderdine reported that a memorandum would be forthcoming, to the Board, regarding updated information on State Ethics Financial Disclosure requirements. Mr. Kenderdine indicated that the law has been changed and now requires a filer to disclose any personal indebtedness with any entity doing business with the Agency/System and not the State, as a whole, as was previously required. Mr. Kenderdine indicated that he would provide the Board with a complete and current list of those entities before January 15 of each year.

Mr. Kenderdine reminded the Board that the half-day Board Governance retreat is scheduled for October 24, 2018 in the Board room at 9:00 a.m.

Mr. Kenderdine reported that meetings of the Joint Committee on Pensions (JCP) have been scheduled for October 17, November 14 and December 4 or 5, 2018. Each meeting begins at 2:00 p.m. in the House Appropriations room in Annapolis. Mr. Kenderdine encouraged the Trustees to attend the meetings when possible, especially the December meeting when the Investment Overview is discussed.

Treasurer Kopp thanked Trustees Lochte and Brotman for agreeing to serve on the Objective Criteria Committee.

Mr. Kenderdine commented that meetings will begin soon, as both the Speaker and President have each appointed one member of their chambers to serve on the Committee. Delegate Ben Barnes has been appointed by the Speaker of the House and although we have not yet received written confirmation, it is understood that Senator Andrew Serafini has been appointed by the President of the Senate.

In addition, Treasurer Kopp reported that Mary Miller has been jointly appointed to serve as the Committee's member of the public with financial industry experience. Ms. Miller has previously served as Under Secretary for Domestic

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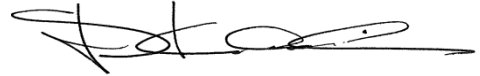
Finance at the U.S. Department of the Treasury and was Director of the Fixed Income Division at T. Rowe Price.

Staff will begin to establish a Charter for this Committee.

Treasurer Kopp congratulated Linda Herman for being nominated as an Innovation Awards finalist by CIO magazine. Winners will be announced December 13, 2018.

Adjournment There being no further business before the Board, on a motion made by Ms. Lochte and seconded by Mr. Norman, the meeting adjourned at 2:08 p.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board

BOARD OF TRUSTEES
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AUDIT COMMITTEE MEETING SUMMARY
July 17, 2018

Staffing Update	<p>Mr. Rongione advised the Audit Committee that the Internal Audit Contract Manager, Brian Feilinger, officially retired on July 1, 2018 with approximately 39 years of service. The Committee thanked Mr. Feilinger for his years of service. The Internal Audit Contract Manager position is responsible for managing and monitoring all of the audits that internal audit outsources, which include the audits in investments as well as the PGU audits. Treasurer, Nancy Kopp, inquired about any difficulties the audit department is experiencing in relation to the hiring process. Mr. Rongione advised Treasurer Kopp that there would be some internal promotions and the new hire will be for an entry-level position; therefore, they do not foresee any issues.</p>
Status of FY 2018 Audit Plan	<p>Mr. Rongione advised that the Disability Claims audit was not complete as of fiscal year end. The audit is currently in the reporting phase and is expected to be presented at the next audit committee meeting.</p> <p>Mr. Rongione advised that for the Participating Employer Audits, 58% are complete, 35% are complete pending management responses, and 7% are in progress. All are expected to be complete by the end of the contract term, which is August 31, 2018. Internal Audit is currently in the process of renewing their contract with CliftonLarsonAllen (CLA) for a 3-year term.</p> <p>Mr. Rongione advised that Internal Audit closed 16 issues in FY18 as reported in the issues log, added 12 new issues in FY18, and 12 remain open as of fiscal year end.</p>
FY 2018 Internal Audit Performance Report	<p>Mr. Rongione presented the Internal Audit Division Performance Report for FY 2018. With the exception of #2 of the report, 'Percentage of Annual Audit Plan', Internal Audit has met all of its performance goals; 96% of the audit plan is complete and Internal Audit is currently in the reporting phase of the last FY18 audit, Disability Claims audit. IAD expects the final report to be issued in the next few weeks.</p>
FY 2018 Time Report	<p>Mr. Rongione presented the Time Report to the Committee, which summarizes the Internal Audit Division hours for FY18 and compares them to prior fiscal years (i.e. FY16 & FY17).</p>
FY 2018 Annual Financial Audit	<p>Mr. Rongione advised the Committee that SB & Company held the entrance conference for the financial statement audit with MSRA staff on June 6, 2018. Mr. Rongione discussed highlights from the entrance meeting material</p>
Status of Open Issues	<p>Mr. Rongione provided a listing of open audit issues. He told the Committee that Internal Audit has been working with Agency management to resolve these. Most of the issues are expected to be remediated by the next Audit Committee meeting.</p> <p>Executive Director, Mr. Kenderdine, advised the Committee that in relation to the Earnings Limitation Audit, he has been in conversation with Towson on the correct appointing authority to sign off on the notice. Mr. Kenderdine expects the notice to be submitted to the Agency by the end of week.</p>

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***AUDIT COMMITTEE MEETING SUMMARY
July 17, 2018***

Internal Audit Quality
Assessment Review

Mr. Rongione presented the results of the external quality assurance review. Internal Audit generally conformed to IIA standards and received a 'Pass' rating for GAGAS standards.

Mr. Hughes asked whether any conflict of interest exist since CLA performed the QAR who is also responsible for assisting the Agency with the PGU audits. Mr. Rongione informed Mr. Hughes that the QAR and PGU audits are performed by two different CLA offices. In addition, the QAR team does not review the work of the PGU auditors, but instead Internal Audits review of the PGU workpapers.

FY 2019 Audit Plan

Mr. Rongione advised the Committee that Internal Audit has completed the Agency Wide Risk assessment. Mr. Rongione noted that the process included:

- a. Sending risk questionnaires to the AC members, the Executive Director, department heads and operational managers;
- b. Utilizing the results of the questionnaires to evaluate the business process risks based on likelihood and impact, as well as considering inherent and residual risks; and
- c. Sorting the business processes by risk in descending order to determine the high risk processes.

Another component of developing the Annual Audit Plan involves available audit hours, which includes taking total available time, then removing State Benefit Hours and Administrative time, and then assigning available audit hours to specific functions.

On a motion made by Pat Hughes, and seconded by Theresa Lochte, the FY19 Audit Plan was approved.

Completed Audits

Mr. Rongione presented the results of the Service Buyback Audit. He noted that it received an overall rating of "Green", indicating that there was an acceptable state of control and compliance. The scope of the audit included service credit purchase requests processed during the period of June 1, 2016 through December 5, 2017. Two (2) low risk findings were identified that the Agency has already begun to remediate through the submission of notices to the affected retirees.

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**CORPORATE GOVERNANCE COMMITTEE MEETING SUMMARY
August 21, 2018**

Update
and
Review of
Iran-Sudan
Divestment

The Committee considered staff's recommendation to approve the proposed Iran and Sudan Restricted List. Ms. Voglino informed the Committee that 11 new companies are recommended for restriction. Seven of the 11 are recommended to be restricted due to the company's involvement in power production activities in Sudan and 4 of the 11 are recommended to be restricted due to oil related activities in Iran or Sudan. Ms. Voglino explained to the Committee that the divestment analysis, performed by the System's general investment consultant Meketa, detailed that divestment has minimal impact on the portfolio and that the System currently has no holdings in any of the companies recommended for restriction. Ms. Brogan asked if the companies have been notified that they are subject to divestment. Ms. Voglino responded that all companies that meet the divestment requirements were contacted and given 90 days to respond to the System demonstrating that the company was no longer doing business in Iran or Sudan. Ms. Voglino further detailed that none of the 11 companies responded to the System's notification. Ms. Voglino confirmed that all 31 companies on the proposed Iran-Sudan Restricted List currently meet the requirements of the Maryland Iran-Sudan divestment statute SPP 21-123.1.

On a motion by Ms. Brogan and seconded by Mr. Johnson, the Committee unanimously agreed to approve staff's recommendation of the Iran-Sudan Restricted List, and to recommend the list, set forth below, to the Board of Trustees for approval at their meeting on September 18, 2018.

<u>Recommended Iran and Sudan Restricted List</u>		
<u>August 21, 2018</u>		
<u>ISSUER NAME</u>	<u>Country</u>	<u>Sudan or Iran</u>
<u>Anton Oilfield Services</u>	<u>China</u>	<u>Sudan</u>
<u>AviChina Industry & Technology Company Limited</u>	<u>China</u>	<u>Sudan</u>
<u>Bharat Heavy Electricals Limited</u>	<u>India</u>	<u>Sudan</u>
<u>China National Petroleum Corporation (PetroChina Co)</u>	<u>China</u>	<u>Both</u>
<u>CNOOC Curtis Funding NO.1 PTY LTD</u>	<u>Australia</u>	<u>Iran</u>
<u>Daelim Industrial</u>	<u>South Korea</u>	<u>Iran</u>
<u>El Sewedy Electric Co. SAE</u>	<u>Egypt</u>	<u>Sudan</u>
<u>Energy House Holding Company</u>	<u>Kuwait</u>	<u>Sudan</u>
<u>Harbin Power Equipment Co., Ltd</u>	<u>China</u>	<u>Sudan</u>
<u>Jiangxi Hongdu Aviation Industry Co., Ltd.</u>	<u>China</u>	<u>Sudan</u>
<u>Kuwait Finance House K.S.C.</u>	<u>Kuwait</u>	<u>Sudan</u>
<u>LS Industrial Systems Co., Ltd</u>	<u>Korea</u>	<u>Sudan</u>
<u>Managem S.A.</u>	<u>Morocco</u>	<u>Sudan</u>
<u>Oil and Natural Gas Corporation Limited</u>	<u>India</u>	<u>Sudan</u>
<u>OIL India International PTE. LTD.</u>	<u>Singapore</u>	<u>Sudan</u>
<u>Oil India Ltd.</u>	<u>India</u>	<u>Sudan</u>
<u>ONGC Videsh Limited</u>	<u>India</u>	<u>Sudan</u>
<u>ONGC Videsh Vankorneft PTE. LTD.</u>	<u>Singapore</u>	<u>Sudan</u>
<u>Orca Gold Inc.</u>	<u>Canada</u>	<u>Sudan</u>

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**CORPORATE GOVERNANCE COMMITTEE MEETING SUMMARY
August 21, 2018**

<u>Petroliam Nasional Berhad (Petronas)</u>	<u>Malaysia</u>	<u>Sudan</u>
<u>Petronas Capital Limited</u>	<u>Malaysia</u>	<u>Sudan</u>
<u>Petronas Global Sukuk Ltd</u>	<u>Malaysia</u>	<u>Sudan</u>
<u>Schneider Electric S.A.</u>	<u>France</u>	<u>Sudan</u>
<u>Shanghai Electric Group Company Limited</u>	<u>China</u>	<u>Sudan</u>
<u>Shanghai Electric Newage Company Limited</u>	<u>China</u>	<u>Sudan</u>
<u>Siemens Aktiengesellschaft</u>	<u>Germany</u>	<u>Sudan</u>
<u>Siemens Financieringsmaatschappij N.V.</u>	<u>Netherlands</u>	<u>Sudan</u>
<u>Sinopec Group Overseas Development (2012) Limited</u>	<u>British Virgin Islands</u>	<u>Both</u>
<u>Sinopec Group Overseas Development (2013) Limited</u>	<u>British Virgin Islands</u>	<u>Both</u>
<u>Sinopec Group Overseas Development (2014) Limited</u>	<u>British Virgin Islands</u>	<u>Both</u>
<u>Sinopec Group Overseas Development (2016) Limited</u>	<u>British Virgin Islands</u>	<u>Both</u>
<u>Total</u>		<u>31</u>

Shareholder
Rights and the
Investment
Policy Manual

The Committee considered staff’s recommendation regarding an amendment to the proxy voting guidelines in the Investment Policy Manual (the “IPM”). Ms. Voglino explained that staff is recommending a broad policy statement be added to the IPM that details how the System will vote in general on proposals related to shareholder rights. The policy language change is as follows:

“The System will generally vote against proposals that diminish the System’s rights as a shareholder and vote for proposals that preserve or enhance the System’s rights as shareholder.”

Ms. Voglino further explained that the addition of this broad statement generally would not change how the System votes proxies for shareholder rights proposals, but would allow the System to participate in engagement activities that support maintaining shareholder rights when the opportunity arises.

On a motion by Ms. Brogan, and seconded by Mr. Harkins, the Committee voted, all in favor, to approve staff’s recommended changes to the System’s IPM.

The Investment Policy Manual changes approved by the Committee will be provided at the Board of Trustees meeting on September 18, 2018, for approval.

Corporate
Governance
Shareholder
Engagement
Activity

The discussed a shareholder engagement activity in closed session. The Committee deferred the item until all Committee members could be present.

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***ADMINISTRATIVE COMMITTEE MEETING SUMMARY
SEPTEMBER 4, 2018***

Adoption of
Proposed
Amendments to
COMAR
Regulations:

THIS MATTER WILL BE DISCUSSED OUTSIDE OF THE CONSENT AGENDA IN OPEN SESSION.

Mr. Reott and Ms. Wherthey presented to the Administrative Committee proposed amendments to COMAR 22.01.07, 22.01.08 and 22.07.02. Before discussion, the Committee agreed to vote on the regulation amendments as a whole.

- 22.01.07–
Designation of
Beneficiary
- 22.01.08 –
Refund of
Accumulated
Contributions
- 22.07.02 –
Code
Compliance

On a motion made by Mr. Nicole and seconded by Mr. Norman, the Administrative Committee voted to recommend that the Board of Trustees vote to submit the proposed amendments to COMAR 22.01.07, 22.01.08 and 22.07.02 to the Administrative, Executive, and Legislative Review Committee, and publish them for comment in the Maryland Register.

FY20 Budget
Proposal

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

Mr. Kenderdine, along with Ira Greenstein, David Rongione, Harvey Raitzyk and Van Lewis presented the Agency's Budget Request for Fiscal Year (FY) 2020.

Mr. Kenderdine reported that as a result of the Legislation passed last session, beginning in FY19, the Investment Division's budget becomes "non-budgeted" and is no longer included with the Agency's operating budget. This results in a reduction in the Agency's operating budget from the FY18 level. The MPAS-3 initiative continues to move forward into FY20; however, funding for the project have been reduced 21% from the FY19 funding level, which was anticipated; the FY19 budget from MPAS-3 included significant equipment purchases which were one-time expenses. The Department of Budget and Management (DBM) has given the Agency a FY20 budget target of \$31 million, which includes \$6.2 million for MPAS-3. The proposed budget being submitted to the Board, inclusive of the three "Over the Target" requests, is below the statutory cap, with a total budget of \$32.1 million.

On a motion made by Mr. Norman and seconded by Ms. Hill, the Administrative Committee approved, for recommendation to the Board of Trustees, the FY20 Budget Proposal. Mr. Nicole abstained.

FY19 and FY20
Budget Proposal
of the
Investment
Division

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

Mr. Palmer provided the Committee with the Investment Division's Budget Requests for Fiscal Year (FY) 2019 and 2020. The total budget request for FY19 is \$12.6 million, while the request for FY20 is \$13.5 million, which represents 2.4 and 2.6 basis points to total plan assets, respectively.

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***ADMINISTRATIVE COMMITTEE MEETING SUMMARY
SEPTEMBER 4, 2018***

Mr. Palmer reported that eight new positions (PINS) are being requested, as well as a number of investment support services and tools. Mr. Palmer commented that it is fully understood that no action will be taken to create and classify such positions until the OCC has considered these positions and made recommendations for the Board's decision.

Mr. Palmer reported that these items were requested by staff last year, as part of the Agency's FY19 budget request, but were not included in the Governor's allowance.

On a motion made by Ms. Hill and seconded by Mr. Norman, the Administrative Committee approved, for recommendation to the Board of Trustees, the FY19 and FY20 Investment Division Budget Proposals. Mr. Nicole abstained.

Finance Reports
– Quarter
Ending 06/30/18

Ms. Countess and Mr. Lewis presented the Administrative Expenses report for the quarter ending June 30, 2018. Ms. Countess reported that the Agency expended 98% of its available appropriation, with a year-end surplus of \$314,112. The end-of-year surplus was attributable to underspending in a number of cost categories.

Mr. Lewis presented the MBE Performance Report for the quarter ending June 30, 2018. Mr. Lewis reported that MBE Performance was 49.01%, which is well above the Administrative MBE performance goal of 29.0%.

Member
Services Update

Mr. Raitzyk reported that the Member Services unit was able to meet its goals for the call abandonment rate and average call wait time for the month of July 2018. The unit's call abandonment rate was 5.95% and the average speed of answer was 99 seconds for the month of July.