

THE INVESTMENT COMMITTEE
OF THE
MARYLAND STATE RETIREMENT AND PENSION SYSTEM

MINUTES OF OPEN MEETING

May 6, 2016

The Investment Committee convened on Friday, May 6, 2016 at 9:07 a.m. in the 16th Floor Board Room of the State Retirement Agency, SunTrust Building, 120 E. Baltimore Street, Baltimore, MD.

CLOSED SESSION

Committee Members	David Blitzstein	Sheila Hill (1)
Attending:	Eric Brotman	F. Patrick Hughes, Chairman
	David Brinkley	Larry E. Jennings, Jr.
(1) Via telephone	James A. Bush, Jr.	Charles W. Johnson
	James “Chip” DiPaula	Nancy K. Kopp
	Peter Franchot (1)	Theresa Lochte
	Kenneth Haines	Richard Norman
	James Harkins (1)	Stefan Strein
	Linda A. Herman	Brian Topping
Committee Members		
Not Attending:		
Also Attending:	Victor Adekoya	Larry Katsafanas
	Frank E. Benham (Meketa)	Dean Kenderdine
	Kathy Brady, OAG	John Kenney
	Robert Burd, Deputy CIO	Michelle Lowery
	Antionette Butcher	Mary Mustard (Meketa)
	Michael Cheung	Andrew Palmer, CIO
	Rachel Cohen, OAG	Stephen Reilly
	Melody Countess	David Rongione, Chief Internal
	Indra Elangovan	Auditor, Internal Auditing Div.
	Eric Farls	Jody Shaw, OAG
	David Ferguson	Beau Smith
	Michael Golden	Toni Voglino
	Dimitri Grechenko	Patricia Wild
	Dana Johns	Peter Woolley (Meketa)
	Faina Kashtelyan	

Mr. Hughes, Chairman, called the Investment Committee meeting to order at 9:07 a.m

On a motion made by Mr. Bush and seconded, the Investment Committee voted without objection to go directly into closed session at 9:07 a.m. for the purposes of:

- a) reviewing the closed session Investment Committee minutes, pursuant to General Provisions Art., Section 3-103(a)(1)(i), the exercise of an administrative function;
- b) interviewing candidates for the position of Public Advisor to the Investment Committee, pursuant to General Provisions Art., Section 3-103(a)(1)(i), the exercise of an administrative function and General Provisions Art., Section 3-305(b)(1)(i), the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of appointees, employees, or officials over whom it has jurisdiction;
- c) selecting a candidate for the position of Public Advisor to the Investment Committee for recommendation to the Board of Trustees, pursuant to General Provisions Art., Section 3-103(a)(1)(i), the exercise of an administrative function and General Provisions Art., Section 3-305(b)(1)(i), the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of appointees, employees, or officials over whom it has jurisdiction;
- d) reviewing compensation surveys related to the analysis of Investment Staff compensation pursuant to General Provisions Art., 3-305(b)(13), to comply with a specific statutory requirement that prevents public disclosure, namely, General Provisions Art., Section 4-335 preventing the disclosure of trade secrets and confidential commercial or financial information; and
- e) receiving advice from Board counsel regarding Senate Bill 982 -- Private Equity and Venture Capital Investments, pursuant to General Provisions Art., Section 3-305(b)(7), to consult with counsel to obtain legal advice.

On a motion made by Mr. Johnson and seconded, the Investment Committee voted to return to open session at 10:45 a.m.

OPEN SESSION

Committee Members Attending:	David Blitzstein Eric Brotman David Brinkley (1) Via telephone James A. Bush, Jr. James "Chip" DiPaula Peter Franchot (1) Kenneth Haines James Harkins (1) Linda A. Herman	Sheila Hill (1) F. Patrick Hughes, Chairman Larry E. Jennings, Jr. Charles W. Johnson Nancy K. Kopp Theresa Lochte Richard Norman Stefan Strein Brian Topping
Committee Members Not Attending:		

Also Attending:	Victor Adekoya Frank E. Benham (Meketa) Kathy Brady, OAG Robert Burd, Deputy CIO Antionette Butcher Wendy Carter (Segal Group) Craig Chaiken (Segal Group) Michael Cheung Rachel Cohen, OAG Melody Countess Indra Elangovan Eric Farls David Ferguson Michael Golden Dimitri Grechenko Will Greene (Loop Capital) Dana Johns Faina Kashtelyan Larry Katsafanas	Dean Kenderdine Steve Kennedy (Albourne) John Kenney Thomas R. Kurowski (Deutsche Bank) Michelle Lowery Mary Mustard (Meketa) Eileen O'Grady (UniteHere!) Andrew Palmer, CIO Stephen Reilly David Rongione, Chief Internal Auditor, Internal Auditing Div. Michael Rubenstein (MLIS) Jody Shaw, OAG Beau Smith David Tatkov (Albourne) Toni Voglino Patricia Wild Peter Woolley (Meketa)
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Item 8: Minutes

On a motion made by Treasurer Kopp and seconded by Ms. Lochte, the Investment Committee unanimously approved the February 4, 2016 open meeting minutes.

Item 9: Senate Bill 982 Implementation

The Committee discussed Senate Bill 982 which authorizes the Board of Trustees of the State Retirement and Pension System (SRPS) to enter into an agreement with the Maryland Technology Development Corporation (TEDCO) or another entity to make and manage investments on behalf of the board in private equity and venture capital in the State. The CIO and staff are in the process of evaluating how to best implement SB 982. Staff does not have the resources or expertise to implement SB 982 by directly investing in venture opportunities or businesses in the State. As contemplated in the bill, the System will most likely enter into an agreement with the Maryland Technology Development Corporation (TEDCO) or some other investment manager or consultant/advisor to act as a fiduciary and make the investments on its behalf. Staff may consider an RFI process to solicit investment proposals from consultants that operate similar, targeted investment mandates for other states. Staff has scheduled meetings with both TEDCO and a provider of targeted investment products for other states as a first step in evaluating an implementation plan.

The Board requested that a memo be posted to the board website about the implementation of Senate Bill 982, once that has been determined.

Item 10: Asset Allocation Recommendation

Meketa presented its 2016 Asset Allocation Policy Review to the Committee and made recommendations for the Boards consideration.

1. Meketa presented several alternative asset allocation options for consideration

Meketa presented three new asset allocation policy options, as well as a hypothetical asset allocation using 7.25% as the targeted rate of return, with different risk and return profiles. Meketa and Staff recommended adopting Policy A, which involves the following changes to the current asset allocation:

<i>Asset Class</i>	<i>Policy A Allocation Net Changes</i>
Intl. Developed Markets Equity	-1%
Private Equity	+1%
Absolute Return	-1%
TIPS	+1%

The following table summarizes the different policy options:

Asset Allocation Policy Options¹

	Current Policy (%)	Policy A (%)	Policy B (%)	Policy C (%)	7.25% Target Policy	Target Range (%)
Growth/Equity:	47	47	47	47	38	+/- 5
U.S. Equity	16	16	16	14	13	
Intl. Developed Markets Equity	13	12	11	11	9	
Intl. Emerging Markets Equity	8	8	8	9	6	
Private Equity	10	11	12	13	10	
Rate Sensitive:	20	21	22	23	32	+/- 5
Investment Grade Bonds	0	0	0	0	7	
Long-term Government Bonds	10	10	11	11	12	
MBS/Corporate Bonds	6	6	6	6	7	
TIPS	4	5	5	6	6	
Credit:	9	9	9	8	8	+/- 4
High Yield Bonds/Bank Loans	6	6	6	5	5	
Emerging Market Debt	3	3	3	3	3	
Real Assets:	15	15	15	16	14	+/- 4
Real Estate	10	10	11	11	10	
Commodities	3	3	2	0	2	
Natural Resources/Infrastructure	2	2	2	5	2	
Absolute Return	9	8	7	6	8	+/- 4
Expected Return (%)	7.80	7.79	7.83	7.93	7.25	
Standard Deviation (%)	12.1	12.0	12.0	12.0	10.1	
Prob. of Achieving 7.55% over 20 Yrs.	53.2	53.2	53.7	55.2	44.1	
Hedge Fund Maximum (%)	≤ 17	≤ 16	≤ 15	≤ 14	≤ 16	

¹ Expected return and standard deviation are based upon Meketa Investment Group's 2016 Annual Asset Study. Private equity maintains range +/- 4% and cash 0-5%.

Meketa and Staff recommended that the Investment Committee and Board adopt Policy A. Board, Staff and Meketa had a lengthy discussion regarding all Policy Options. The Board understood the recommendation of Policy A but noted a desire to move toward Policy C in the future.

On a motion made by Treasurer Kopp and seconded by Mr. Blitzstein, the Committee voted to recommend to the Board for approval staff and Meketa's recommendation of Policy Option A. Ms. Herman and Mr. Brinkley opposed the motion.

2. Constraints on hedge fund exposure

Consistent with the recommendation to decrease exposure to Absolute Return by 1%, Meketa and Staff also recommended reducing the cap on hedge fund exposure at the total fund level from 17% to 16%.

Mr. Hanes requested the number and names of the funds that have been critical of defined benefit plans to make sure that the Plan is not invested in those funds. Meketa confirmed they had the fund manager list.

Treasurer Kopp requested that Meketa write a memo detailing CalPERS exit from hedge funds, why Meketa is not recommending that the System exit hedge funds, and how the System's use of hedge funds may be different.

On a motion made and seconded, the Committee unanimously voted to recommend to the Board for approval the recommendation to reduce the cap on hedge fund exposure at the total fund level from 17% to 16%.

3. Meketa recommended several changes to the benchmarks shown in the table below:

Asset Class	Current Benchmark	Proposed Policy Benchmark ¹	Proposed Implementation Benchmark
Equity:			
Public Equity	43% Russell 3000, 35% MSCI World (ex. U.S.), 22% MSCI EM	44% Russell 3000, 33% MSCI World (ex. U.S.), 22% MSCI EM	
Private Equity	State Street Private Equity Composite	MSCI ACWI + 200 bps	State Street Private Equity Composite
Rate Sensitive	50% Barclays Long-Term Government, 15% Barclays Securitized, 15% Barclays Corporate, 20% Barclays US TIPS	48% Barclays Long-Term Government, 14% Barclays Securitized, 14% Barclays Corporate, 24% Barclays US TIPS	
Credit:	67% US, 33% Non-US	67% US, 33% Non-US	
U.S. Credit	80% Barclays US High Yield, 20% S&P/LSTA Leveraged Loan	80% Barclays US High Yield, 20% S&P/LSTA Leveraged Loan	
Non-U.S. Credit	50% JP Morgan GBI-EM Global Diversified, 25% JP Morgan EMBI Global Diversified, 25% JPMorgan CEMBI Broad	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	Dynamically weighted: RE, Commodities, NR/IS
Real Estate	Dynamically weighted: NCREIF ODCE (1 quarter lag, gross), FTSE EPRA/NAREIT Developed (net)	85% NCREIF ODCE (1 quarter lag, gross), 15% FTSE EPRA/NAREIT Developed (net)	
Commodities	Bloomberg Commodity	Bloomberg Commodity	
Natural Resources & Infrastructure	CPI-U + 500 bps (capped at 10%)	CPI-U + 500 bps (capped at 10%)	75% S&P Global Natural Resources, 25% DJ-Brookfield Infrastructure
Absolute Return	HFRI Fund of Funds Conservative + 100 bps	3 month T-bill + 500 bps	HFRI Fund of Funds Conservative + 100 bps

¹ Weight adjustments are based on proposed policy A

The proposed Policy Benchmark should be used to evaluate the long-term asset allocation policy decisions made by the Board of Trustees.

The proposed Implementation Benchmark should be used for the evaluation of Staff's ability to implement the System's policy, taking into account shorter-term tracking error effects of the long-term Policy Benchmark.

Meketa also recommended changing the way the underweight to Real Assets was allocated. In calculating the benchmark, the underweight to private market assets is allocated across certain public markets, given the time that is required to allocate capital to private markets. Currently, the underweight to the entire Real Assets bucket is allocated to the Rate Sensitive asset class. Meketa recommends that only the underweight to the Real Estate component of Real Assets be allocated to Rate Sensitive, given that the other components can be represented in the public markets.

On a motion made and seconded, the Committee unanimously voted to recommend to the Board for approval the recommendations relating to benchmark changes.

Item 11: Meketa Reports

Meketa Investment Group presented the First Quarter of 2016 performance update.

Item 12: Review of Optional Retirement Program

Segal Rogerscasey presented a review of the ORP as of 12/31/15, and made the following recommendations relating to Fidelity and TIAA:

The following recommendations related to Fidelity were made:

1. Approve the move to a fixed 15 basis point fee, which will be calculated quarterly and charged equally in dollars to all participant accounts.
2. Approve the return of all revenue sharing generated by the investment line-up.
3. Approve the replacement of the Fidelity Cash Reserve fund with the Vanguard Treasury Money Market fund.
 - a. Replacement is recommended due to the high expense ratio (0.37%) for the Fidelity Cash Reserve.
 - b. Assets and future contributions should be mapped to the Vanguard Treasury Money Market fund.
4. Approve the replacement of the Blackrock Inflation-Protected Bond fund with the Fidelity Spartan Inflation-Protected Bond Index fund.
 - a. Replacement is recommended due to Blackrock's lagging performance relative to the benchmark and higher expense ratio.
 - b. Lack of confidence in active management in this asset class
 - c. Assets and future contributions should be mapped from Blackrock Inflation-Protected Bond fund to the Fidelity Spartan Inflation-Protected Bond Index fund.
5. Authorize staff and the legal team to review the possibility of adding a brokerage service to allow greater investment choice flexibility for participants.

On a motion made by Ms. Herman and seconded by Mr. Brotman, the Committee voted to recommend to the Board for approval Segal and staff's recommendations relating to Fidelity, all of which are subject to legal review prior to implementation.

The recommendations relating to TIAA were amended to allow the Agency's legal counsel an opportunity to review the transition to TIAA's Retirement Choice group annuity contract.

The amended recommendations for TIAA included only the following:

1. Approve the addition of the Vanguard Treasury Money Market Fund (VUSXX) to TIAA's investment line-up.
2. Approve the replacement of the Blackrock Inflation-Protected Bond Fund with the Vanguard Inflation-Protected Securities Fund (VAIPX).

- a. Assets and future contributions should be mapped from the Blackrock Inflation-Protected Bond Fund to the Vanguard Inflation-Protected Securities Fund
3. Authorize staff and the legal team to further review and consider the possibility of moving to the Retirement Choice contracts and report back to the Investment Committee at the next meeting.
4. Authorize staff and the legal team to review the possibility of adding a brokerage service to allow greater investment choice flexibility for participants.

On a motion made by Mr. Brotman and seconded by Mr. Johnson, the Committee voted to recommend to the Board for approval the recommendations related to TIAA, all of which are subject to legal review prior to implementation.

Item 13: Amendment to Investment Policy Manual

Andrew Palmer presented Staff's recommendation to repeal COMAR 22.03.05 and approve the proposed amendments to the IPM relating to the selection of brokerage firms, and updating the Board of Trustees' procurement policies to include processes for small procurements, sole source procurements, and emergency procurements, allowing investment staff greater flexibility in procuring certain products and services. Staff further recommended adding an express provision in the IPM to permit the CIO to allow investment managers to rely on ERISA prohibited transaction exemptions.

On a motion made by Ms. Herman and seconded by Mr. Brotman, the Committee voted to recommend to the Board for approval staff's recommendations related to the Investment Policy Manual.

Treasurer Kopp requested that the legal team put in writing that the regulations related to brokerage fees will now be added to policy and removed from COMAR. In addition, that the regulations will not be changed when moved to policy or if they are changed, explain the changes and why.

Mr. Johnson requested a listing of brokerage fees paid to certified minority business enterprises.

Item 14: Update from Albourne

The Committee received an update from Albourne, the System's hedge fund consultant, regarding the System's hedge fund allocation.

Item 15: Securities Lending Review

Meketa and Staff provided an update to the Committee regarding Securities Lending.

Item 16: Report from CIO

The Committee received a performance update from the CIO as of March 31, 2016. The total fund performance for the quarter ending March 31, 2016 was 1.67%, which was less than the policy benchmark of 2.57%. The System's Net Asset Value is at \$44.7 billion as of 3/31/16.

Item 17: Investment Reports

The Committee received the following investment reports:

- State Street Performance Reports
- Private Markets Performance Reports
- Securities Lending Report
- Division's FY16 Travel Plan - Update
- Quarterly ORP Performance Report
- OPEB-PHBT Update
- New Hire Manager Report

On the Directors Desk:

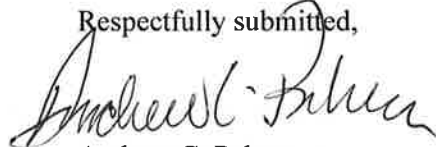
- Broker Commission Reports

Mr. Hughes presented a Maryland Resolution to Mr. Topping for his service as a public advisor.

Adjournment

There being no further business before the Investment Committee, on a motion made by Ms. Lochte and seconded by Mr. Johnson, the meeting adjourned at 2:50 p.m.

Respectfully submitted,



Andrew C. Palmer
Chief Investment Officer