

MARYLAND
STATE RETIREMENT
and PENSION SYSTEM

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R. Dean Kenderdine
Executive Director
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August 31, 2011

The Honorable Thomas V. Mike Miller, Jr.
President of Senate
State House, H-107
Annapolis, MD 21401 – 1991

The Honorable Michael E. Busch
Speaker of House of Delegates
State House, H-101
Annapolis, MD 21401 - 1991

Dear President Miller and Speaker Busch:

In accordance with Chapter 600, Acts of 2008 (SB 606) and Chapter 601, Acts of 2008 (HB 1277), codified at SPP § 21-116(d)(4) of the Annotated Code of Maryland, I am submitting the required annual report providing certain information regarding the utilization of minority business enterprises in the investment program of the State Retirement and Pension System (the "System"). The report designation is MSAR #7033.

This law requires that the Investment Committee of the Board of Trustees of the System provide the following information annually to the Governor's Office of Minority Affairs and the General Assembly:

- (i) the identity of the minority business enterprise brokerage and investment management services firms used by the Investment Committee in the immediately preceding fiscal year;
- (ii) the percentage and dollar value of the assets that are under the control of the Investment Committee that are under the investment control of minority business enterprise brokerage and investment management services firms; and
- (iii) the measures the Investment Committee undertook in the immediately preceding fiscal year in accordance with paragraph (2)(ii) of this subsection.

Should you require additional information, please call me at (410) 625-5600.

Sincerely,

R. Dean Kenderdine
Secretary to the Board

RDK/rmb

Attachment

cc: Warren Deschenaux
Board of Trustees



MARTIN O'MALLEY
Governor

LUWANDA W. JENKINS
Special Secretary

ANTHONY G. BROWN
Lieutenant Governor

MINORITY OWNED FINANCIAL SERVICES FIRM USAGE ANNUAL REPORT QUESTIONNAIRE *Fiscal Year 2011*

1. Describe the organization's investments and mechanisms through which the organization invests.
 - a. Please include all asset allocations and services, i.e. real estate, hedge funds private equity, brokerage services, passively managed assets, account sweeps, and services used during *transitions*.
 - b. Which of those services are retained directly by your internal staff/board?
 - c. Which of those services are retained indirectly by a consultant/advisor/manager?

The Board of Trustees of the Retirement System (the "Board of Trustees") determines the asset allocation of the Retirement System. The Retirement System's present asset allocation is set forth in **Attachment 2** to this Response.

The Retirement System utilizes external investment managers to invest the trust fund's assets. The Chief Investment Officer is responsible for the hiring / firing of all external investment managers in all asset classes. The Chief Investment Officer is supported by staff of the System's Investment Division and specialty investment consultants in private equity and real estate.

The Chief Investment Officer reports to the Executive Director of the Retirement Agency, and his performance is monitored and evaluated by the Board of Trustees. The System's general investment consultant, Ennis Knupp, provides advice to the Board of Trustees regarding the Retirement System's investment program.

2. Describe your organization's current policies regarding the utilization of minority and women owned firms in the investment and or fund management aspects of your operations?

The Retirement System's current policies regarding the utilization of minority and women owned firms in the System's investment program are set forth in the System's Investment Policy Manual (the "IPM"). The Board of Trustees encourages the inclusion of emerging managers and minority and women owned firms in the System's investment program. Please see **Attachment 1** to this Response for excerpts from the IPM summarizing the System's investment-related procurement policies and procedures.

3. Describe the organization's marketing strategy, if any, in the area of investment services.

The Retirement Agency utilizes a number of strategies, including the following:

- a. Questionnaires – A suite of questionnaires has been developed and posted on the Agency's website for use by all managers. These questionnaires have been designed to permit prospective managers to provide detailed information to staff of the Investment Division about their firm and investment products. Investment Division staff reviews every questionnaire that is submitted.

- b. Meetings with Managers - The staff of the Investment Division and the seven Program Managers (hired to serve as extensions of staff for the Terra Maria program) regularly meet with prospective managers.

- c. Press inquiries; Surveys; Other requests for information – The Agency regularly receives and responds to an extensive array of inquiries regarding the Retirement System's investment program, including (i) questions from trade and popular press, (ii) requests to participate in surveys regarding investment-related topics, and (iii) other requests for information.

- d. Conferences / Educational Programs – Members of the Board of Trustees and staff of the Agency are, from time to time, asked to speak at investment conferences or other trustee education programs. Trustees and staff also participate in conferences and continuing education programs where information about the System's investment program may be shared with others.

4. Describe your organization's policy for dealing with investment firms that "cold call" with offers of financial management services.

Prospective external investment management firms are invited to review the suite of questionnaires that has been developed and posted on the Agency's website for use by all managers. These questionnaires have been designed to permit prospective managers to provide detailed information to staff of the Investment Division about their firm and investment products. Investment Division staff reviews every questionnaire that is submitted.

5. What role, if any, does a "board of trustees" or "investment board" play in the organization's investment policy and decisions?
 - a. Describe any differences between the mechanisms used for various funds and/or asset classes, brokerage services, etc.

The Board of Trustees is responsible for determining the Retirement System's overall asset allocation, and providing policy guidance to the staff of the Retirement Agency, including the Chief Investment Officer. As noted in the response to Question 1 above, the Chief Investment Officer is responsible for the hiring / firing of all external investment managers in all asset classes. The Chief Investment Officer is supported by staff of the System's Investment Division and the System's investment consultants.

6. Is an outside *managing consultant* used to find suitable investment services firms?
 - a. If so, describe your organization's selection process for *managing consultants*.
 - i. Who has final the decision over which *managing consultant* is chosen?
 - b. What are the specific responsibilities of the *managing consultant*?
 - i. Does the *managing consultant* have complete autonomy in choosing which firms are chosen to manage/invest the organization's funds?
 - ii. What, if any, parameters does your organization give to the *managing consultant* in terms of choosing/enlisting firms?
 1. Is the *managing consultant* encouraged to find minority and women owned firms?
 - c. Who manages and/or evaluates the *managing consultant's* performance?

In the System's governance scheme, there are two different types of such consultants.

1. General investment consultant – In light of the primary function served by the System's general investment consultant – that is, to provide advice to the Board of Trustees regarding the Retirement System's investment program – the Board of Trustees makes the final hiring decision for this consultant. On a day-to-day basis, the staff of the Retirement Agency administers the Retirement System's contract with the general investment consultant.

2. Specialty investment consultants - In keeping with the State law granting the Chief Investment Officer responsibility for hiring and firing external investment managers in all asset classes, the Chief Investment Officer is now authorized to select, hire and oversee the work of specialty investment consultants. As noted above, two specialty investment consultants currently assist the Investment Division in identifying potential investments in the private equity and real estate asset classes.

It should also be noted that, as part of the 2008 redesign of the System's smaller manager program – now called the Terra Maria Program – the seven firms that were selected to serve as “Program Managers” act as extensions of staff, rather than as decision-making ‘gatekeepers’.

As part of their ongoing efforts to identify the most promising managers and innovative products for the Retirement System's investment program, all of the consultants, the seven Program Managers in the Terra Maria Program, and Agency staff are all strongly encouraged to consider smaller firms, many of which may be minority- or women-owned firms.

7. What was the organization's total amount of assets being managed by minority and women owned firms in fiscal year 2011? ***\$4,099.8 million***
 - a. What are the asset classes and how does that break down within racial and gender classifications?

Please see **Attachment 2** to this response.

8. How many minority and women owned investment firms have been retained **directly** by the organization in fiscal year 2011? ***75***
 - a. Please provide a list of all such firms indicating the amount of your organization's assets being managed

Please see **Attachment 2** to this response.

9. How many minority and women owned investment firms have been retained **indirectly** by the organization in fiscal year 2011?

No firms are presently retained indirectly. Please note: The fiscal year 2007 and 2008 data presented in response to Question 7 above regarding “Emerging MBE Managers” contain information about the System's prior, now superseded small firm program managed by Northern Trust Global Advisors.

10. What was the total amount of money management fees, including brokerage commissions, that was paid to minority and women owned firms in fiscal year 2011? **Management Fees: \$17.882 million**

Brokerage Commissions: \$1.646 million

- a. Please list each firm by name, ownership classification (MBE or WBE), and indicate how much was paid.

Please see **attachment 2** to this response.

11. What was the total amount of commissions paid to minority and women owned investment **brokers** for this fiscal year? (Please include “steps-outs” if necessary.)

\$1.646 million

- a. Please provide a list of all firms, indicating the amount of commissions paid by your organization.

Please see **attachment 2** to this response.

12. How many investment brokers have been retained **directly or indirectly** by the organization in fiscal year 2011? **356**

13. How many minority and women owned investment brokers have been retained **directly and indirectly** in relation to the organization's total for this fiscal year? **55**

Please see **attachment 2** to this response.

14. What percentages of funds/assets were allocated to Maryland headquartered minority and women owned firms in fiscal year 2011? **2.41%**

- a. Please list each firm by name, ownership classification (MBE or WBE), and indicate the amounts of funds/assets.

Please see **attachment 2** to this response.

15. **OPTIONAL:** Provide a brief summary detailing any information not adequately captured by your numerical data or within this questionnaire.

A description of the Retirement System’s Terra Maria Program has been included at **Attachment 3** to this Response. During the 2011 fiscal year, the Terra Maria Program was expanded to include private equity managers. The System’s private equity consultant is responsible for reviewing opportunities, recommending funds for potential inclusion in the program and reporting results. Potential candidates are encouraged to

contact the Investments Division Staff for more information on the program, or contact the private equity specialty consultant through a dedicated e-mail address and phone number.

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INVESTMENT POLICY MANUAL

for the

Board of Trustees

of the

MARYLAND STATE RETIREMENT

and

PENSION SYSTEM

STATE RETIREMENT AGENCY

VI. GENERAL PROCUREMENT POLICIES AND PROCEDURES

Policy Statement:

In accordance with State Finance and Procurement Article § 12-401, this section of the IPM is to detail the System's investment related exempt procurement policies and policy guidelines relating to:

- i) The methods of procurement;
- ii) The advertising requirements;
- iii) The procurement goals, including minority business enterprises participation; and
- iv) The approval process.

Policy Guidelines:

1. For services of managers to invest the assets of the Maryland State Retirement and Pension System, including real and personal property:

Method of Procurement: The System has developed a convenient way to submit investment proposals online, and continually accepts investment information from investment managers and private funds. The information received will be evaluated based on the current investment requirements of the System. As broad a universe of qualified providers shall be considered as is practical and reasonable given budgetary, staffing, time and other relevant constraints. Prior to funding, due diligence will be performed on investment managers and private funds meeting the investment requirements of the System.

Advertising Requirements: The System will advertise via multiple sources, including eMaryland Marketplace, the Governor's Office of Minority Affairs, and on the Agency website.

Procurement Goals: Each investment manager shall be selected to meet specific investment objectives and performance standards. The Board encourages the inclusion of emerging managers and minority business enterprises. See also detailed information below on Minority Business Enterprise Participation and economic benefits to Maryland.

Approval Process: The Chief Investment Officer shall approve all procurements related to the investment of funds.

2. For expenditures to manage, maintain, and enhance the value of the assets of the Maryland State Retirement and Pension System in accordance with investment guidelines adopted by the Board:

Method of Procurement: Except as provided in the Board's Governance Service Provider Selection Policy, the System will use a competitive

procurement process using a Request for Proposal (RFP) or a Request for Information (RFI) as determined by the specific details of the procurement.

Advertising Requirements: The System will advertise via multiple avenues, including eMaryland Marketplace, the Governor's Office of Minority Affairs, and the Agency website.

Procurement Goals: Each investment-related service provider shall be selected to meet specific investment objectives and standards. The Board encourages the inclusion of minority business enterprises. See also the detailed information below on Minority Business Enterprise Participation and economic benefits to Maryland. Service providers shall be subject to a level of due diligence that reflects a level of rigor that is commensurate with the importance and materiality of the service in question.

Approval Process: The Chief Investment Officer shall approve all procurements related to service providers.

3. For services relating to the administration of the Optional Retirement Program (ORP) under Title 30 of the State Personnel and Pensions Article:

Method of Procurement: Except as provided in the Board's Governance Service Provider Selection Policy, the System will use a competitive procurement process using a Request for Proposal (RFP) or a Request for Information (RFI) as determined by the specific details of the procurement.

Advertising Requirements: The System will advertise via multiple avenues, including eMaryland Marketplace, the Governor's Office of Minority Affairs, and the Agency website.

Procurement Goals: Each investment manager shall be selected to meet specific investment objectives and performance standards and each investment-related service provider shall be selected to meet specific investment objectives and standards. The Board encourages the inclusion of minority business enterprises. See also the detailed information below on Minority Business Enterprise Participation and economic benefits to Maryland.

Approval Process: The Board will approve the ORP vendors and the Executive Director will approve specialty consultants and other non-key service providers of the ORP program.

4. For services relating to the administration of the Postretirement Health Benefits Trust Fund:

Method of Procurement: The System has developed a convenient way to submit investment proposals online, and continually accepts investment information from investment managers and private market funds. The information received will be evaluated based on the current investment requirements of the System. Prior to funding, due diligence will be performed on investment managers and private funds meeting the investment requirements of the System. Except as provided in the Board Governance

Service Provider Selection Policy, the System will use a competitive procurement process using a Request for Proposal (RFP) or a Request for Information (RFI) as determined by the specific details of the procurement.

Advertising Requirements: The System will advertise via multiple avenues, including eMaryland Marketplace, the Governor's Office of Minority Affairs, and the Agency website.

Procurement Goals: Each investment manager and private market fund shall be selected to meet specific investment objectives and performance standards and each investment related service provider shall be selected to meet specific investment objectives and standards. The Board encourages the inclusion of minority business enterprises. See also detailed information below on Minority Business Enterprise Participation and economic benefits to Maryland.

Approval Process: The Chief Investment Officer shall approve all procurements related to service providers for the Postretirement Health Benefits Trust Fund.

Minority Business Enterprise Participation

A. State's Minority Business Enterprise Policies

1. The Board of the Maryland State Retirement and Pension System (System) is committed to carrying out the State's Minority Business Enterprise (MBE) policies as identified in the State's procurement law and regulations at Md. Code Ann. State. Fin. & Proc. §§ 14-301 through 14-309 and COMAR 21.11.03. The Trustees will structure procurement procedures to:
 - encourage participation in the process by certified MBEs; and
 - provide a fair share of procurement contracts to certified MBEs.
2. The Agency's objective is to achieve the goals set forth in Md. Code Ann. State. Fin. & Proc. §§ 14-301 through 14-309 and COMAR 21.11.03. These goals are as follows:
 - an overall goal of 25% of the Agency's total dollar value of procurement contracts being made directly or indirectly to certified MBEs.;
 - subgoals, if any, as set in accordance with the guidelines established by the Governor's Office of Minority Affairs.

MBE participation goals and subgoals shall be set on a contract by contract basis based upon the type of work involved in the contract and whether there are certified MBEs available to perform the work.

The System is firmly committed to the success of the State's MBE Program. As evidence of its commitment to these goals, the System will make reasonable efforts to:

- Maximize contracting opportunities to minority businesses in the procurement of services in accordance with the Investment Policy Manual.
 - Increase MBE participation, where possible.
 - Enforce MBE compliance policies and procedure for prime contractors and minority subcontractors who are doing business with the System.
3. For every proposed procurement, the System shall assess the potential for certified MBE participation and set certified MBE participation goals, as appropriate, in accordance with COMAR 21.11.03.09.
4. Solicitation Notices
- Where a goal for certified MBE participation has been set, the solicitation should include language advising the Bidders/Offerors of the requirements of Md. Code Ann. State. Fin. & Proc. §§ 14-301 through 14-309 and COMAR 21.11.03.
 - Where a goal for certified MBE participation has not been set, the solicitation should include language encouraging MBE participation in the following or substantially similar form: **“Minority Business Enterprises (MBEs) are encouraged to respond to this solicitation. Offerors who consider themselves to be minority contractors are encouraged to obtain certification from the Maryland Department of Transportation. A minimum certified Minority Business Enterprise subcontract participation goal has not been established for this procurement, but certified MBE subcontract participation may be considered in evaluating proposals under certain circumstances. Offerors are encouraged to utilize MBEs for any subcontracting opportunities that may arise. The Agency also encourages Offerors to include socially and economically disadvantaged individuals on the team responding to this solicitation, if applicable.”**
5. Contract Award
- In the event of tie bids, or of offers in which the evaluation of technical and price proposals is essentially equal, the System may

award the contract in order to obtain certified MBE participation, in accordance with COMAR 21.11.03.10.

B. Removing Barriers to Participation; Publicizing Searches

The Board is also firmly committed to advancing the policy objective set forth in State Personnel and Pensions Article, Section 21-116(d)(1) to seek to use to the greatest extent feasible minority business enterprises to provide brokerage and investment management services to the System by removing barriers and publicizing searches, consistent with the minority business purchasing standards applicable to units of State government under the State Finance and Procurement Article summarized above and consistent with the fiduciary duties of the Board.

Economic Benefits to Maryland

A. Evaluation Factor

To the extent feasible and consistent with fiduciary duty, solicitations will include an economic benefits evaluation factor. Offerors will be asked to demonstrate in their proposals how the contract will benefit the Maryland economy. Evaluation of offers with respect to this factor shall be in accordance with COMAR 21.05.03.03A(3).

B. Reciprocal Preferences For Resident Bidders/Offerors

When making an award using competitive sealed bidding or competitive sealed proposals, preference may be given to a resident business over a non-resident business whose principal office or operation is located in a state that gives its own resident businesses a procurement preference. Preferences given to any bidder/offeror shall be in accordance with Md. Code Ann. State. Fin. & Proc. § 14-401 and COMAR 21.05.01.04.

MARYLAND MBE INVESTMENT MANAGER ANNUAL REPORT TEMPLATE

Attachment 2

Asset Management

Agency	FY 2008			FY 2009			FY 2010			FY 2011		
	Total Assets	MBE Assets	%	Total Assets	MBE Assets	%	Total Assets	MBE Assets	%	Total Assets	MBE Assets	%
MD State Retirement Agency	\$36,595.7	\$326.5	0.9%	\$28,531.0	\$1,258.8	4.4%	\$31,840.9	\$2,906.4	9.1%	\$37,508.4	\$4,099.8	10.9%
Total	\$36,595.7	\$326.5	0.9%	\$28,531.0	\$1,258.8	4.4%	\$31,840.9	\$2,906.4	9.1%	\$37,508.4	\$4,099.8	10.9%

MBE Investment Managers Utilized

Agency	FY 2008	FY 2009	FY 2010	FY 2011
MD State Retirement Agency				
Emerging MBE Managers	190.7	1074.5	1248.6	1464.8
Emerged MBE Managers	135.8	184.3	1657.8	2635.0
Total	326.5	1258.8	2906.4	4099.8

Definitions: Emerging Investment Manager = a qualified minority owned business of female owned business with total assets under management of at least \$10 million but less than \$2 billion. **Emerged Investment Manager** = a qualified minority owned business or female owned business with total assets under management of more than \$2 billion.

Brokerage Services

Agency	FY 2008			FY 2009			FY 2010			FY 2011		
	Total Comm.	MBE	%	Total Comm.	MBE	%	Total Comm.	MBE	%	Total Comm.	MBE	%
MD State Retirement Agency	\$9,619.1	\$1,017.3	10.6%	\$9,498.8	\$808.3	8.5%	\$14,068.5	\$1,614.2	11.5%	\$15,892.2	\$1,646.0	10.4%
Total	\$9,619.1	\$1,017.3	10.6%	\$9,498.8	\$808.3	8.5%	\$14,068.5	\$1,614.2	11.5%	\$15,892.2	\$1,646.0	10.4%

Total MBE Investment Brokers Utilized

Agency	FY 2008	FY 2009	FY 2010	FY 2011
MD State Retirement Agency	0	0	0	0
Total	0	0	0	0

INVESTMENT PORTFOLIO TEMPLATE - TOTAL ASSETS MANAGED BY MINORITY AND WOMEN OWNED FIRMS

Portfolio by Asset Class	Market Value (\$ millions)	Actual Allocation	Strategic Allocation	Emerging MBE Managers	Emerged MBE Managers
U.S. Equity	6,131.3	16.3%		681.0	363.5
International Equity	7,012.5	18.7%		252.8	849.3
Global Equity	4,571.8	12.2%		173.5	230.7
Total Public Equity	17,715.6	47.2%	36.0%	1,107.3	1,443.5
Fixed Income	7,623.9	20.3%	10.0%	254.1	149.9
Credit Opportunity	2,198.7	5.9%	10.0%	38.4	334.9
Private Equity	1,618.3	4.3%	10.0%	65.0	200.0
Real Estate	2,163.9	5.8%	10.0%	-	-
Real Return	3,900.7	10.4%	15.0%	-	84.9
Absolute Return	1,635.1	4.4%	7.0%	-	421.8
Cash	652.2	1.7%	2.0%	-	-
Total Fund	37,508.4	100.0%	100.0%	1,464.8	2,635.0

2011 Emerging Minority and Female Owned Managers Used by MD Pension

Manager Name	Assets Under Management (\$ millions)	Investment Advisory Fee (\$ millions)	Asset Class	Classification
Attucks Asset Management*	411.9 **	0.757		
Charter Financial Group	10.8	0.060	U.S. Equity	Woman-owned
The Edgar Lomax Company	27.4	0.080	U.S. Equity	African American
Hanseatic Mgmt Services	30.6	0.087	U.S. Equity	Woman-owned
Holt-Smith Advisors	26.9	0.079	U.S. Equity	Woman-owned
Mar Vista Investment Partners	18.4	0.081	U.S. Equity	African American
Nicholas Investment Partners	14.1	0.001	U.S. Equity	Woman-owned
Opus Capital Mgmt	16.4	0.139	U.S. Equity	African American
Apex Capital Management	11.1	0.001	International Equity	Asian American
Paradigm Asset Management	10.5	0.001	International Equity	African American
Hughes Capital Management	17.9	0.040	Fixed Income	African American
Xavier Capital Mgmt	20.4	0.049	Credit	African American
11	204.5	1.375		
Bivium Capital Partners*	334.4 **	0.493		
Phocas Financial Corp	18.5	0.100	U.S. Equity	Asian American
ARGA investment Management	28.4	0.003	International Equity	Asian American
Cheswold Lane Asset Management	30.0	0.242	International Equity	Woman-owned
Terminated Managers	0.0	0.127		
3	76.9	0.965		
Capital Prospects*	411.6 **	0.495		
AH Lisanti Capital Growth	21.1	0.151	U.S. Equity	Woman-owned
Lesa Sroufe & Co.	36.6	0.002	U.S. Equity	Woman-owned
Paradigm Asset Mgmt	32.9	0.090	U.S. Equity	African American
Profit Investment Mgmt	20.9	0.193	U.S. Equity	African American
Redwood Investments	34.1	0.118	U.S. Equity	Woman-owned
Seacrest Investment Management	15.7	0.122	U.S. Equity	Asian Amer./Hispanic
Terminated Managers	0.0	0.111		
6	161.3	1.282		
FIS Group*	366.2 **	0.776		
Boston Common Asset Mgmt	17.7	0.073	U.S. Equity	Asian/Woman-owned
Channing Capital Mgmt	8.0	0.080	U.S. Equity	African American
Redwood Investment	12.0	0.036	U.S. Equity	Woman-owned
Ativo Capital Management	31.3	0.149	International Equity	Hispanic
Hanoverian Capital Management	36.7	0.003	International Equity	Woman-owned
Victoria 1522 Investments	27.0	0.169	International Equity	Asian/Woman-owned
Greenfield Seitz Capital Management	40.3	0.003	Global Equity	Woman-owned
Terminated Managers	0.0	0.135		
8	173.0	1.424		

Leading Edge Investment Advisors*	363.0 **	0.733		
New Century Investment Mgmt		19.9	0.066	U.S. Equity Woman-owned
Nicholas Investment Partners		18.0	0.073	Credit Woman-owned
Terminated Managers		0.0	0.038	
2		37.9	0.910	
Northern Trust Global Advisors	698.0 **		N/A	
Credo Capital		31.2	0.123	U.S. Equity African American
Palisades Investment Partners		44.1	0.056	U.S. Equity African American
Profit Investment Management		62.8	0.139	U.S. Equity African American
New Century Advisors		30.6	0.082	Fixed Income Woman-owned
Strategic Global Advisors		31.6	0.002	International Equity Woman-owned
5		200.3	0.402	
Progress Investment Management*	714.8 **		1.043	
Affinity Investment Advisors		37.4	0.002	U.S. Equity Asian American
Channing Capital Mgmt		35.4	0.101	U.S. Equity African American
Credo Capital Mgmt		57.5	0.269	U.S. Equity African American
Decatur Capital Mgmt		30.6	0.073	U.S. Equity African American
Boston Common Asset Mgmt		46.2	0.125	International Equity Asian American/Woman
ARGA Investment Management		43.0	0.003	Global Equity Asian American
John HSU Capital Group		49.8	0.225	Global Equity Asian American
San Juan Asset Mgmt		40.4	0.114	Global Equity Latino American
Ambassador Capital Mgmt		60.2	0.057	Fixed Income African American
New Century Advisors		59.6	0.060	Fixed Income Woman-owned
Pugh Capital Mgmt		85.8	0.151	Fixed Income African Amer./Woman
Terminated Managers		0.0	0.742	
11		545.9	2.965	
Private Equity				
Longitude Venture Partners		65.0	0.562	Private Equity Woman-owned
1		65.0	0.562	
47				
Total Emerging Managers	3,299.9	1,464.8	9.885	

2011 Emerged Minority and Female Owned Managers Used by MD Pension

Manager Name	Assets Under Management (\$ millions)	Investment Advisory Fee (\$ millions)	Asset Class	Classification
Attucks Asset Management*				
GW Capital Inc.	11.4	0.161	U.S. Equity	Asian American
Globeflex Capital	21.5	0.120	International Equity	Woman-owned
Lombardia Capital Partners/Dean Chase Global Value	20.8	0.002	International Equity	Hispanic
LM Capital Group	20.2	0.056	Fixed Income	Hispanic American
Advent Capital Mgmt	23.0	0.122	Credit	African-American
	96.9	0.461		
Capital Prospects*				
Piedmont Investment Advisors	30.0	0.001	Fixed Income	African American
	30.0	0.001		
FIS Group*				
New Amsterdam Partners	12.0	0.002	U.S. Equity	Woman-owned
	12.0	0.002		
Leading Edge Investment Advisors*				
Herndon Capital Mgmt	41.2	0.177	International Equity	African American
Sit Investment Associates	14.4	0.120	International Equity	Asian American
Westwood Global Investments	78.0	0.507	International Equity	Woman-owned
Penn Capital Mgmt	36.9	0.212	Credit	Woman-owned

	170.5	1.016		
Northern Trust Global Advisors				
Herdon Capital Mgmt	43.1	0.062	U.S. Equity	African American
Lombardia Capital Partners	7.9	0.192	U.S. Equity	Hispanic
Sky Investment Council	48.2	0.181	International Equity	Asian/Woman-owned
Longfellow Investment Management	35.8	0.003	Fixed income	Woman-owned
	135.0	0.438		
Progress Investment Management*				
Ariel Investments	33.0	0.187	U.S. Equity	African American
Garcia Hamilton	63.9	0.002	Fixed Income	Latino American
	96.9	0.189		
Subtotal	541.30	2.107		
Separate Mandate - Absolute Return ~				
Rock Creek Potomac Fund	421.8	2.725	Absolute Return	Woman-owned
Subtotal	421.8	2.725		
Separate Mandate - Public Equity				
Zevenbergen Capital Investments	256.1	0.933	U.S. Equity	Woman-owned
Brown Capital Mgmt	218.8	1.210	International Equity	African American
Earnest Partners	406.4	2.030	International Equity	African American
Brown Capital Mgmt (includes closed mandates)	230.7	1.315	Global Equity	African American
Subtotal	1,112.0	5.488		
Separate Mandate - Private Equity				
Asia Alternatives	200.0	0.000	Private Equity	Asian/Woman-owned
Subtotal	200.0	0.000		
Separate Mandate - Master Limited Partnership				
Tortoise Capital	84.9	0.608	Master Limited Partnership	Native American
Subtotal	84.9	0.608		
Separate Mandate - Credit Strategies ^ (See footnote below)				
Advent Legacy Securities / Wellington Asset Mgmt.	75.0	0.096	Credit Strategies	African American
Blaylock Robert Van / Marathon Asset Mgmt.	50.0	0.125	Credit Strategies	African American
CastleOak Securities and Park Madison Partners / Angelo Gordon	50.0	0.500	Credit Strategies	African Amer./Woman-owned
RLJ / Western Asset Mgmt.	100.0	1.836	Credit Strategies	African American
Subtotal	275.00	2.557		
28				
Total Emerged Managers	2,635.00	7.997		
Total MBE Utilization	\$4,099.8	\$17.882		

Minority and Female Brokers Used by MD Pension (as of 06/30/2011)

MBE Broker	Commissions Paid
Not identified by name	1,645,958.41
Total	\$1,645,958.4

FOOTNOTES:

* Emerging Minority and Woman-owned Program Managers

** Total Program Manager Assets Under Management (including Majority Managers)

^ The managers listed under "Credit Strategies" are joint ventures between large investment managers and minority business enterprises. Some of the MBEs listed in this category may be providing services other than investment management.

~ The investment manager listed under "Absolute Return" is a fund of fund manager for one of the System's commitments in the hedge fund asset class.

Note: This schedule lists the total number of portfolios in the System's emerging and emerged programs. All of the investment firms are retained directly by the System. Some investment managers are managing more than one mandate in the program.

2011 MD STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND

2011 Emerging Managers Used By MD Pension

Manager Name	Assets Under Management (\$ millions)	Asset Class
Attucks Asset Management	411.9	
Brown Advisory	30.1	U.S. Equity
Charter Financial Group	10.8	U.S. Equity
Chicago Equity Partners	20.0	U.S. Equity
The Edgar Lomax Company	27.4	U.S. Equity
GW Capital Inc.	11.4	U.S. Equity
Hanseatic Mgmt Services	30.6	U.S. Equity
Holt-Smith Advisors	26.9	U.S. Equity
Mar Vista Investment Partners	18.4	U.S. Equity
Nicholas Investment Partners	14.1	U.S. Equity
Opus Capital Mgmt	16.4	U.S. Equity
Seizert Capital Partners	12.2	U.S. Equity
Apex Capital Management	11.1	International Equity
Globeflex Capital	21.5	International Equity
Lombardia Capital Partners/Dean Chase	20.8	International Equity
Paradigm Asset Management	10.5	International Equity
Phillippe Investment Management	20.7	International Equity
Thomas White International	9.7	International Equity
Brown Advisory	17.9	Fixed Income
Hughes Capital Management	17.9	Fixed Income
LM Capital Group	20.2	Fixed Income
Advent Capital Mgmt	23.0	Credit
Xavier Capital Mgmt	20.4	Credit
22		
Bivium Capital Partners	334.4	
Cornerstone Capital Mgmt	39.3	U.S. Equity
Cupps Capital Mgmt	18.8	U.S. Equity
Phocas Financial Corp	18.5	U.S. Equity
Vulcan Value Partners	38.8	U.S. Equity
ARGA Investment Management	28.4	International Equity
Bailard	28.7	International Equity
Chautauqua Capital Management	29.0	International Equity
Cheswold Lane Asset Management	30.0	International Equity
WCM Investment Management	28.6	International Equity
Aristotle Capital Mgmt	19.8	Global Equity
Three Peaks Capital Mgmt	35.4	Credit
SW Asset Management	18.9	Credit
12		
Capital Prospects	411.6	
AH Lisanti Capital Growth	21.1	U.S. Equity
Bernzott Capital Advisors	22.1	U.S. Equity
Geneva Capital Mgmt	21.0	U.S. Equity
Inview Investment Mgmt	20.5	U.S. Equity
Lesa Sroufe & Co.	36.6	U.S. Equity
Matrix Asset Advisors	36.2	U.S. Equity
Next Century Growth Investors	31.0	U.S. Equity
Paradigm Asset Mgmt	32.9	U.S. Equity
Profit Investment Mgmt	20.9	U.S. Equity
Redwood Investments	34.1	U.S. Equity
Seacrest Investment Management	15.7	U.S. Equity
Twin Capital Management	37.7	U.S. Equity
Walthausen & Co.	20.9	U.S. Equity
Piedmont Investment Advisors	30.0	Fixed Income
Valley Forge Asset Management	31.0	Fixed Income
15		
FIS Group	366.2	
Advanced Investment Partners	18.3	U.S. Equity
Boston Common Asset Mgmt	17.7	U.S. Equity
Channing Capital Mgmt	8.0	U.S. Equity
New Amsterdam Partners	12.0	U.S. Equity
Redwood Investment	12.0	U.S. Equity
Seizert Capital Partners	46.3	U.S. Equity
Stux Capital Mgmt	56.9	U.S. Equity

Ativo Capital Management	31.3	International Equity
Bedlam Asset Management	18.8	International Equity
Hanoverian Capital Management	36.7	International Equity
Thomas White International	40.9	International Equity
Victoria 1522 Investments	27.0	International Equity
Greenfield Seitz Capital Management	40.3	Global Equity

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Leading Edge Investment Advisors	363.0	
Kirr, Marbach & Company	20.6	U.S. Equity
Markston International	21.9	U.S. Equity
Mindshare Capital Mgmt	9.2	U.S. Equity
New Century Investment Mgmt	19.9	U.S. Equity
Driehaus Capital Mgmt	34.2	International Equity
Gratry & Company	43.4	International Equity
Herndon Capital Mgmt	41.2	International Equity
Reed, Conner, & Birdwell	24.0	International Equity
SIT Investment Advisors	14.4	International Equity
Westwood Global Investments	78.0	International Equity
Nicholas Investment Partners	18.0	Credit
Penn Capital Mgmt	36.9	Credit

12

Northern Trust Global Advisors	698.0	
Cornerstone Investment Partners	54.8	U.S. Equity
Credo Capital	31.2	U.S. Equity
Herndon Capital Mgmt	43.1	U.S. Equity
Lombardia Capital Partners	7.9	U.S. Equity
Magee Thompson	48.3	U.S. Equity
Palisades Investment Partners	44.1	U.S. Equity
Profit Investment Management	62.8	U.S. Equity
Riverbridge Partners	9.2	U.S. Equity
Signia Capital Management	8.3	U.S. Equity
Summit Creek Advisors	10.7	U.S. Equity
Twin Capital Management	57.6	U.S. Equity
JK Milne Asset Mgmt	28.9	Fixed Income
Dolan McEniry Capital Management	44.8	Fixed Income
Longfellow Investment Management	35.8	Fixed Income
New Century Advisors	30.6	Fixed Income
ClariVest Asset Management	41.3	International Equity
Eagle Global Advisors	24.1	International Equity
Hexavest Global	34.8	International Equity
Sky Investment Council	48.2	International Equity
Strategic Global Advisors	31.6	International Equity

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Progress Investment Management	714.8	
Affinity Investment Advisors	37.4	U.S. Equity
Ariel Investments	33.0	U.S. Equity
Channing Capital Mgmt	35.4	U.S. Equity
Credo Capital Mgmt	57.5	U.S. Equity
Decatur Capital Mgmt	30.6	U.S. Equity
DSM Capital Partners	33.0	U.S. Equity
Ironwood Investment Mgmt	14.0	U.S. Equity
Boston Common Asset Mgmt	46.2	International Equity
ARGA Investment Management	43.0	Global Equity
Chautauqua Capital Management	24.8	Global Equity
John HSU Capital Group	49.8	Global Equity
San Juan Asset Mgmt	40.4	Global Equity
Ambassador Capital Mgmt	60.2	Fixed Income
Garcia Hamilton	63.9	Fixed Income
New Century Advisors	59.6	Fixed Income
Pugh Capital Mgmt	85.8	Fixed Income

16

Total **\$3,299.90**

2011 Maryland - Based Managers as of June 30, 2011

Terra Maria Managers	Ownership Classification	2011 Assets	%
Attucks Asset Management			
Charter Financial Group	WBE	10.8	0.03%
Hughes Capital Management	WBE	17.9	0.05%
Xavier Capital Management	MBE	20.4	0.05%
The Edgar Lomax Company	MBE	27.4	0.07%
		76.5	
Capital Prospects			
Profit Investment Management	MBE	20.9	0.06%
Northern Trust Global Advisors			
Credo Capital Management	MBE	31.2	0.08%
New Century Advisors	WBE	30.6	0.08%
Profit Investment Management	MBE	62.8	0.17%
		124.6	
Progress Investment Management			
Credo Capital Management	MBE	57.5	0.15%
New Century Advisors	WBE	59.6	0.16%
		117.1	
Subtotal		339.1	0.90%
Emerged Managers			
Brown Capital Management*	MBE	449.5	1.20%
RLJ / Western Asset ^	MBE	116.7	0.31%
		566.2	
Total		905.3	2.41%

FOOTNOTES:

^The entity listed here is a joint venture between a majority investment manager and a minority business enterprise. The amount shown is the total amount of the System's commitment to this joint venture.

MINORITY BROKERS USED FY2011

Commission	Executed Broker	Minority Status
\$267.40	Barclays Capital (step-out)	
\$4,656.15	Benchmark Company LLC	African American owned
\$40,620.99	Blaylock Robert Van LLC	African American owned
\$843.00	Bley Investment Group	Woman Owned
\$27,332.82	BOE Securities	African American owned
\$21,263.09	C L King & Associates Inc.	Woman Owned
\$219,491.02	Cabrera Capital Markets	Hispanic owned
\$16,820.36	Castle Oak Securities	African American owned
\$1,132.79	Caylon Securities USA	Asian American owned
\$14,875.19	Cheevers & Co	Woman Owned
\$56,725.86	Chicago Analytic Trading Co	Asian American owned
\$140.98	Citigroup (step-out)	
\$16,662.51	Direct Access Partners	Hispanic owned
\$33,080.55	Divine Capital Markets	African American owned
\$15,238.00	Drexel Hamilton	Disabled Veteran owned
\$43,529.79	FRS Securities	African American owned
\$35,369.50	Gardner Rich & Co	African American owned
\$222.00	Girard Securities Inc	Woman Owned
\$64.21	Great Pacific Securities	Hispanic owned
\$6,576.28	Greentree Brokerage Services	African American owned
\$19,030.04	Guzman & Company	Hispanic owned
\$1,113.30	Haven Financial Services	African American owned
\$409.44	Island Trading	Woman Owned
\$6,893.00	Ivy Securities	Asian American owned
\$10,114.38	Jackson Partners	African American owned
\$6.80	Jeffries & Company (step-out)	
\$16,817.92	Kaufman Brothers	African American owned
\$1,262.00	Lam Securities	Asian American owned
\$212,435.71	Loop Capital Markets	African American owned
\$25,450.97	M Ramsey King Securities Inc.	Native American owned
\$201,225.91	Melvin Securities	African American owned
\$233.40	Merrill Lynch (step-out)	
\$6,537.52	Mischler Financial	Disabled Veteran owned
\$516.00	Mogavero, Lee & Co., Inc.	Woman Owned
\$38,502.95	Montrose Securities	Asian American owned
\$586.00	Morgan Stanley (step-out)	
\$101,696.58	MR Beal & Company	African American owned
\$11,816.79	Muriel Seibert & Co.	Woman Owned
\$501.00	NativeOne Institutional Trading	Native American owned
\$3,962.44	Nomura Securities	Asian American owned
\$4,561.85	North South Capital	Woman Owned
\$831.92	Oppenheimer (step-out)	
\$124,231.36	Pacific American Securities	African American owned
\$3,345.00	PCS Dunbar	Woman Owned
\$10,497.33	Penserra Securities LLC	African American owned
\$163,506.60	Percival Financial Partners	African American owned
\$24.00	Pershing & Company (step-out)	
\$4,952.54	Ramirez & Company	Hispanic owned
\$950.00	Roberts & Ryan Investments	Disabled Veteran owned
\$3,547.74	Seslia & Co.	African American owned
\$2,158.14	UBS (step-out)	
\$19.11	Wells Fargo (step-out)	

\$1,691.77	Westrock Advisors	Native American owned
\$109,643.31	Williams Capital Group	African American owned
\$1,973.10	Wm Smith & Co.	Woman Owned
\$1,645,958.41	TOTAL COMMISSION	

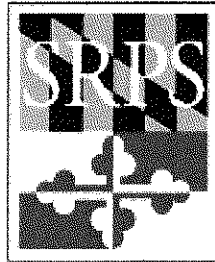
Total Number of Minority Brokers Used - FY 2011

55

Total Number of Brokers Retained - FY 2011

356

NOTE: All of the above were identified by our Investment Managers as either minority brokers or trades directed to minority brokers, In some cases they represent step-out credits.



Maryland State Retirement and Pension System

Terra Maria: Developing Manager Program

In Public Markets and Private Equity

Updated February 2011

Terra Maria

The Maryland Developing Manager Program

Program Structure Outline

The Maryland State Retirement and Pension System (the "System") formed an emerging manager program in April 2007. In September 2008, the System revised, expanded and transformed the program into Terra Maria, the Maryland developing manager program. The initial Terra Maria program consisted of seven Program Managers in the public markets. Recently, the program was expanded to include private equity fund managers as described in Section II below.

I. Public Markets

The focus of the Terra Maria Program (the "Program") is on investment performance with an alignment of interests. An investment manager's product may only be represented once in the program, however, investment managers may have more than one product in the Program, if each product is recommended by a Program Manager.

The Program Managers are under contract with the System and recommend investment managers based on their ability to generate alpha relative to their assigned benchmarks. The Program Managers essentially represent an extension of the Investment Division Staff by providing due diligence, recommendations and ongoing monitoring of the underlying investment managers. The investment manager's accounts are maintained with the System's custodian bank.

Following are some key facets of the Program:

The primary focus of the Program is alpha generation, or performance. Program Managers and investment managers are evaluated primarily on performance relative to benchmarks. The Program Managers are instructed to focus on smaller investment managers. While the Program Managers apply no absolute maximum in terms of assets under management for purposes of recommending investment managers to the Chief Investment Officer (the "CIO"), the Program Managers are aware of the spirit of the program.

There is no formal "graduation" policy for this initiative. Investment managers that perform on a consistent basis may become eligible for larger allocations of funds, regardless of whether they are monitored by a Program Manager or staff.

The Program Managers are responsible for sourcing investment managers, performing due diligence, monitoring the retained investment managers, and presenting manager hire and termination recommendations to the CIO. All investment manager selections must be approved by the CIO.

The investment managers are part of the System's total portfolio and evaluated the same as any other investment manager in the portfolio. While investment managers may have been introduced to the System via a Program Manager, this has been done so primarily for administrative purposes. Once an investment manager has been "hired" by the CIO, they are part of the System's portfolio. Unlike the more traditional manager-of-manager programs, the CIO is ultimately responsible for the managers in the Maryland program, not the manager-of-managers.

Each Program Manager's benchmark is the weighted average of the benchmarks of the underlying investment managers selected by the Program. Investment manager benchmarks will be representative of the manager's investment style and aligned with the System's benchmark(s) within the manager's designated asset class. Benchmarks must be approved by the CIO.

Program Managers will make recommendations to the CIO regarding the initial allocation of funds to investment managers. In making recommendations, the Program Managers consider factors such as total assets under management by the investment manager on both a firm-wide and a product specific basis and also the total funding allocation to the Program Manager. In addition to portfolio asset allocation decisions, continued investment manager funding will be subject to the review of the investment manager's performance and an evaluation of the investment manager's business growth and organizational stability since the investment manager was initially funded by the System. The investment manager's performance will be evaluated on a continuous basis, although the Program Manager will have a formal review of the manager at least annually. Final decisions regarding funding and rebalancing decisions will be made by the CIO and Investment Division Staff.

If there are questions about the Terra Maria program in public markets, contact the Investment Division at 410-625-5621 or the individual Program Managers found in the attached Program Manager list.

II. Private Equity

The Terra Maria program has recently been expanded to include private equity investment managers. The System's private equity consultant reviews private equity funds and investment managers for potential inclusion in the System's Terra Maria program. The program is designed to include smaller managers, typically fund managers with less than \$2 billion in assets under management that are raising a private equity fund of up to \$500 million

whose funds otherwise satisfy the due diligence and investment case analysis performed by the private equity consultant and SRPS staff.

The portfolio will potentially include small and mid-sized buyout and early to late stage venture capital and debt funds.

The System will invest directly into the Terra Maria private equity funds. The System's consultant will provide reporting on the Terra Maria private equity funds as it does with other private equity investments made by SRPS.

If there are questions about the Terra Maria program in private equity, please contact the Investment Division at 410-625-5621 or the System's private equity consultant, Altius Associates, at 804-282-9000 or emergingmanagerinfo@altius-associates.com.

Attachment: Program Manager List