



MARYLAND
STATE RETIREMENT
and PENSION SYSTEM

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R. Dean Kenderdine
Executive Director
Secretary To The Board

August 30, 2012

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/js

Attachment

cc: Warren Deschenaux
Board of Trustees



MARTIN O'MALLEY
Governor

ANTHONY G. BROWN
Lieutenant Governor

LUWANDA W. JENKINS
Special Secretary

MINORITY OWNED FINANCIAL SERVICES FIRM USAGE ANNUAL REPORT QUESTIONNAIRE *Fiscal Year 2012*

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, real estate and hedge funds.

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, Hewitt 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, three specialty investment consultants currently assist the Investment Division in identifying potential investments in the private equity, hedge funds 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 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 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 2012? **\$3,936.2 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 2012? **77**
 - 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 2012?

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 2012? **Management Fees: \$19.258 million**

Brokerage Commissions: \$1.170 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.)

\$1.170 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 2012? **368**

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?
48

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 2012? **2.25%**

- 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

Asset Management

Agency	FY 2009			FY 2010			FY 2011			FY 2012		
	Total	MBE	%	Total	MBE	%	Total	MBE	%	Total	MBE	%
MD State Retirement Agency	\$28,531.0	\$1,258.8	4.4%	\$31,840.9	\$2,906.4	9.1%	\$37,508.4	\$4,099.8	10.9%	\$37,072.6	\$3,936.2	10.6%
Total	\$28,531.0	\$1,258.8	4.4%	\$31,840.9	\$2,906.4	9.1%	\$37,508.4	\$4,099.8	10.9%	\$37,072.6	\$3,936.2	10.6%

MBE Investment Managers Utilized

Agency	FY 2009	FY 2010	FY 2011	FY 2012
MD State Retirement Agency	1074.5	1248.6	1464.8	1492.0
Emerging MBE Managers	184.3	1657.8	2635	2444.20
Total	1258.8	2906.4	4099.8	3936.2

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 2009			FY 2010			FY 2011			FY 2012		
	Total	MBE	%	Total	MBE	%	Total	MBE	%	Total	MBE	%
MD State Retirement Agency	\$9,498.8	\$808.3	8.5%	\$14,068.5	\$1,614.2	11.5%	\$15,892.2	\$1,648.7	10.4%	\$12,274.3	\$1,170.5	9.5%
Total	\$9,498.8	\$808.3	8.5%	\$14,068.5	\$1,614.2	11.5%	\$15,892.2	\$1,648.7	10.4%	\$12,274.3	\$1,170.5	9.5%

Total MBE Investment Brokers Utilized

Agency	FY 2009	FY 2010	FY 2011	FY 2012
MD State Retirement Agency	0	0	0	48
Total	0	0	0	48

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	Emerging MBE Managers
U.S. Equity	4,815.6	13.0%	641.2	194.2	194.2
International Equity	5,574.4	15.0%	179.0	722.4	722.4
Global Equity	5,330.2	14.4%	201.5	220.8	220.8
Total Public Equity	15,720.2	42.4%	36.0%	1,021.7	1,137.4
Fixed Income	7,106.9	19.2%	310.4	161.4	161.4
Credit Opportunity	2,882.7	7.8%	10.0%	17.5	390.5
Private Equity	2,107.6	5.7%	10.0%	65.0	250.0
Real Estate	2,364.3	6.4%	10.0%	-	-
Real Return	3,709.2	10.0%	15.0%	77.4	93.7
Absolute Return	2,535.4	6.8%	7.0%	-	411.2
Cash	646.3	1.7%	2.0%	-	-
Total Fund	37,072.6	100.0%	100.0%	1,492.0	2,444.2

2012 Emerging Minority and Female Owned Managers Used by MD Pension

Manager Name	Assets Under Management (\$ millions)		Investment Advisory Fee (\$ millions)	Asset Class	Classification
	Management (\$ millions)	Advisory Fee (\$ millions)			
Attucks Asset Management *	404.6 **	0.742			
Campbell Newman Asset Management	11.0	0.032		U.S. Equity	Woman-owned
The Edgar Lomax Company	29.2	0.093		U.S. Equity	African American
Hanseatic Mgmt Services	31.7	0.101		U.S. Equity	Woman-owned
Holt-Smith Advisors	27.7	0.089		U.S. Equity	Woman-owned
Mar Vista Investment Partners	19.6	0.063		U.S. Equity	African American
Nicholas Investment Partners	13.2	0.046		U.S. Equity	Woman-owned
Opus Capital Mgmt	16.0	0.079		U.S. Equity	African American
Apex Capital Management	9.9	0.044		International Equity	Asian American
Paradigm Asset Management	15.7	0.042		International Equity	African American
Hughes Capital Management	19.1	0.045		Fixed Income	African American
Terminated Managers	0.0	0.023			
10	186.4	1.399			
Bivium Capital Partners *	282.8 **	0.422			
Phocas Financial Corp	17.7	0.094		U.S. Equity	Asian American
ARGA Investment Management	22.5	0.127		International Equity	Asian American
Cheswold Lane Asset Management	27.7	0.147		International Equity	Woman-owned
Terminated Managers	0.0	0.000			
3	67.9	0.790			
Capital Prospects *	414.6 **	0.474			
AH Lisanti Capital Growth	20.3	0.090		U.S. Equity	Woman-owned
Lessa Sroufe & Co	35.7	0.106		U.S. Equity	Woman-owned
Paradigm Asset Mgmt	33.9	0.097		U.S. Equity	African American
Profit Investment Mgmt	18.3	0.101		U.S. Equity	African American
Redwood Investments	35.5	0.126		U.S. Equity	Woman-owned
Seacrest Investment Management	14.3	0.049		U.S. Equity	Asian Amer./Hispanic
Terminated Managers	0.0	0.000			
6	158.0	1.043			
FIS Group ***	343.7 **	0.716			
Boston Common Asset Mgmt	17.5	0.051		U.S. Equity	Asian/Woman-owned
Channing Capital Mgmt	7.6	0.033		U.S. Equity	African American
Redwood Investment	12.2	0.033		U.S. Equity	Woman-owned
Aiivo Capital Management	27.0	0.118		International Equity	Hispanic American
Hanoverian Capital Management	37.9	0.150		International Equity	Woman-owned
Victoria 1522 Investments	16.3	0.112		International Equity	Asian/Woman-owned
Greenfield Seitz Capital Management	42.3	0.177		Global Equity	Woman-owned
Terminated Managers	0.0	0.000			
7	160.8	1.390			
Leading Edge Investment Advisors *	334.3 **	0.702			
New Century Investment Mgmt	18.5	0.053		U.S. Equity	Woman-owned
Apex Capital Mgmt	7.9	0.022		U.S. Equity	Asian American
Nicholas Investment Partners	17.5	0.067		Credit	Woman-owned
Terminated Managers	0.0	0.000			
3	43.9	0.844			

Northern Trust Global Advisors		626.9 **	N/A		
Credo Capital		27.9	0.091	U.S. Equity	African American
Profit Investment Management		67.1	0.143	U.S. Equity	African American
Strategic Global Advisors		28.7	0.115	International Equity	Woman-owned
New Century Advisors		34.4	0.091	Real Return	Woman-owned
4		158.1	0.440		
Progress Investment Management ***		710.7 **	1.013		
Affinity Investment Advisors		38.0	0.082	U.S. Equity	Asian American
Channing Capital Mgmt		34.2	0.257	U.S. Equity	African American
Credo Capital Mgmt		54.3	0.257	U.S. Equity	African American
Decatur Capital Mgmt		31.9	0.091	U.S. Equity	African American
Boston Common Asset Mgmt		44.3	0.193	Global Equity	Asian American/Woman
ARGA Investment Management		35.5	0.161	Global Equity	Asian American
John HSU Capital Group		42.0	0.188	Global Equity	Asian American
San Juan Asset Mgmt		37.4	0.147	Global Equity	Latino American
Ambassador Capital Mgmt		65.5	0.128	Fixed Income	African American
Garcia Hamilton		68.8	0.133	Fixed Income	Latino American
New Century Advisors		64.1	0.144	Fixed Income	Woman-owned
Pugh Capital Mgmt		92.9	0.163	Fixed Income	African Amer./Woman
Terminated Managers		0.0	0.000		
12		608.9	2.957		
Private Equity					
Longitude Venture Partners		65.0	0.539	Private Equity	Woman-owned
1		65.0	0.539		
Commodities					
Arbalest Capital		43.0	0.147	Real Return	Asian American/Woman
1		43.0	0.147		
47					
Total Emerging Managers		3,117.6	9.549		

2012 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 *				
GIW Capital Inc.	11.3	0.055	U.S. Equity	Asian American
Globeflex Capital	18.1	0.094	International Equity	Woman-owned
Lombardia Capital Partners/Dean Chase Global Value	18.3	0.083	International Equity	Hispanic American
LM Capital Group	21.7	0.053	Fixed Income	Hispanic American
Advent Capital Mgmt	42.4	0.163	Credit	African-American
	111.8	0.448		
Capital Prospects *				
Piedmont Investment Advisors	32.3	0.069	Fixed Income	African American
	32.3	0.069		
FIS Group ***				
New Amsterdam Partners	12.0	0.038	U.S. Equity	Woman-owned
	12.0	0.038		

Leading Edge Investment Advisors *				
Herridon Capital Mgmt	36.1	0.170	International Equity	African American
Sif Investment Associates	12.9	0.063	International Equity	Asian American
Westwood Global Investments	70.0	0.517	International Equity	Woman-owned
Penn Capital Mgmt	38.1	0.183	Credit	Woman-owned
	157.1	0.933		
Northern Trust Global Advisors				
Herridon Capital Mgmt	43.9	0.073	U.S. Equity	African American
Lombardia Capital Partners	7.8	0.026	U.S. Equity	Hispanic American
Sky Investment Council	40.2	0.164	International Equity	Asian/Woman-owned
Longfellow Investment Management	38.6	0.067	Fixed Income	Woman-owned
	130.5	0.330		
Progress Investment Management ***				
Ariel Investments	31.3	0.123	U.S. Equity	African American
Garcia Hamilton	68.8	0.133	Fixed Income	Latino American
	100.1	0.256		
Subtotal	543.80	2.074		
Separate Mandate - Absolute Return ~				
Rock Creek Potomac Fund	411.2	3.431	Absolute Return	Woman-owned
	411.2	2.725		
Separate Mandate - Public Equity				
Zevenbergen Capital Investments	87.9	0.969	U.S. Equity	Woman-owned
Brown Capital Mgmt	190.2	1.131	International Equity	African American
Earnest Partners	336.6	1.858	International Equity	African American
Brown Capital Mgmt	220.8	1.272	Global Equity	African American
	835.5	5.230		
Separate Mandate - Private Equity				
Asia Alternatives	200.0	0.586	Private Equity	Asian/Woman-owned
Vistia Equity Partners	50.0	0.385	Private Equity	African American
	250.0	0.986		
Separate Mandate - Master Limited Partnership				
Tortoise Capital	93.7	0.688	Master Limited Partnership	Native American
	93.7	0.608		
Separate Mandate - Credit Strategies ^				
(See footnote below)				
Advent Legacy Securities / Wellington Asset Mgmt.	75.0	0.139	Credit Strategies	African American
Blaylock Robert Van / Marathon Asset Mgmt.	50.0	0.791	Credit Strategies	African American
CastleOak Securities and Park Madison Partners / Angelo Gordon	50.0	0.500	Credit Strategies	African Amer./Woman-owned
Falcon Strategic Partners	35.0	0.281	Credit Strategies	Asian/Indian
RLJ / Western Asset Mgmt.	100.0	2.005	Credit Strategies	African American
	310.00	3.716		
30				
Total Emerged Managers		2,444.20	9.709	
Total MBE Utilization		\$3,936.2	\$19,258	
Minority and Female Brokers Used by MD Pension (as of 06/30/2012)				
Commissions Paid				
Not identified by name		1,170,501.52		
Total		\$1,170,501.52		

FOOTNOTES:

* Emerging Minority and Woman-owned Program Managers

*** Emerged 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.

MBE BROKERAGE SERVICES - Total Brokerage Commissions Paid To Minority And Women-Owned Firms

MBE Investment Broker Name	Commissions Paid	Classification
Academy Securities	\$381.00	
Bank America	\$760.11	
Blaylock Robert Van Securities	\$32,172.88	African American owned
Bley Investment Group	\$768.00	Female Owned
BOE Securities	\$30,036.94	African American owned
C L King & Associates Inc.	\$7,558.91	Female Owned
Cabrera Capital Markets	\$173,377.13	Hispanic owned
Castle Oak Securities	\$12,533.85	African American owned
CAPB Financial Brokers	\$1,511.19	
Cheevers & Co	\$45,665.49	Female Owned
Chicago Analytic Trading Co	\$5,126.42	Asian American owned
Citigroup - ---	\$236.05	
Direct Access Partners	\$18,252.82	Hispanic owned
Divine Capital Markets	\$7,158.29	African American owned
FRS Securities	\$39,292.62	African American owned
Gardner Rich & Co	\$7,527.96	African American owned
Great Pacific Securities	\$1,881.94	Hispanic owned
Greentree Brokerage Services	\$2,536.10	African American owned
Guzman & Company	\$6,398.38	Hispanic owned
Instinet UK	\$244.07	
Ivy Securities	\$7,686.38	Asian American owned
Jackson Partners	\$2,310.00	African American owned
Jeffries & Co.	\$5,088.05	
Jones	\$1,746.00	
Kaufman Brothers	\$187.25	African American owned
Lam Securities	\$1,067.00	
Loop Capital Markets	\$267,494.90	African American owned
MFR Securities	\$324.70	Female Owned
M Ramsey King Securities Inc.	\$13,881.18	Female/Native American owned
Melvin Securities	\$62,132.17	African American owned
Mischler Financial Group	\$10,216.84	Disabled Veteran
MLBA	\$15.00	
Mogavero, Lee & Co., Inc.	\$362.00	Female Owned
Montrose Securities	\$8,867.67	Asian American owned
MR Beal & Company	\$55,429.71	African American owned
Muriel Siebert & Co.	\$6,290.98	Female Owned
North South Capital	\$18,837.21	Female Owned
Pacific American Securities	\$445.83	African American owned
Penserra Securities LLC	\$7,634.54	African American owned
Perival Financial Partners	\$158,854.46	African American owned
Podesta & Co.	\$1,992.67	Hispanic owned
Ramirez & Co.	\$1,010.00	Hispanic owned
Roberts & Ryan Investment	\$2,471.00	
Telsey Advisory Group	\$3,125.10	Female Owned
Topeka Capital Markets	\$76.00	
Weeden & Co	\$51.64	
Williams Capital Group	\$138,873.09	African American owned
Wm Smith & Co.	\$610.00	Female Owned

Total Commissions **\$1,170,120.52**

NOTE: All of the above were identified by the System's investment managers as either minority brokers or trades directed to minority brokers. In some cases they represent what the industry calls "step-out credits".

Total Number of Brokers Retained - FY 2012: 368

Maryland - Based WMBE Managers as of June 30, 2012

Terra Maria Managers	Ownership Classification	2012 Assets	%
Attucks Asset Management			
Hughes Capital Management	WBE	19.1	0.05%
The Edgar Lomax Company	MBE	29.2	0.08%
		<u>48.3</u>	
Capital Prospects			
Profit Investment Management	MBE	18.3	0.05%
Northern Trust Global Advisors			
Credo Capital Management	MBE	27.9	0.07%
New Century Advisors	WBE	34.4	0.09%
Profit Investment Management	MBE	67.1	0.18%
		<u>129.4</u>	
Progress Investment Management			
Credo Capital Management	MBE	54.3	0.14%
New Century Advisors	WBE	64.1	0.17%
		<u>118.4</u>	
	Subtotal	314.4	0.84%
Emerging Managers			
Brown Capital Management	MBE	411.0	1.10%
RLJ / Western Asset ^	MBE	118.7	0.32%
		<u>529.7</u>	
	Total	844.1	2.25%

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.

2012 MD STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND

2012 Emerging Managers Used By MD Pension

Manager Name	Assets Under Management (\$ millions)	Asset Class
Attucks Asset Management	404.6	
Brown Advisory	30.5	U.S. Equity
Campbell Newman Asset Management	11.0	U.S. Equity
Chicago Equity Partners	20.6	U.S. Equity
The Edgar Lomax Company	29.2	U.S. Equity
GW Capital Inc.	11.3	U.S. Equity
Hanseatic Mgmt Services	31.7	U.S. Equity
Holt-Smith Advisors	27.7	U.S. Equity
Mar Vista Investment Partners	19.6	U.S. Equity
Nicholas Investment Partners	13.2	U.S. Equity
Opus Capital Mgmt	16.0	U.S. Equity
Seizert Capital Partners	10.9	U.S. Equity
Apex Capital Management	9.9	International Equity
Globeflex Capital	18.1	International Equity
Lombardia Capital Partners/Dean Chase	18.3	International Equity
Paradigm Asset Management	9.0	International Equity
Philippe Investment Management	16.8	International Equity
Thomas White International	8.4	International Equity
Brown Advisory	19.1	Fixed Income
Hughes Capital Management	19.1	Fixed Income
LM Capital Group	21.7	Fixed Income
Advent Capital Mgmt	42.4	Credit
21		
Bivium Capital Partners	282.8	
Cornerstone Capital Mgmt	39.9	U.S. Equity
Cupps Capital Mgmt	17.3	U.S. Equity
Phocas Financial Corp	17.7	U.S. Equity
Vulcan Value Partners	44.2	U.S. Equity
ARGA Investment Management	22.5	International Equity
Bailard	24.6	International Equity
Chautauqua Capital Management	25.4	International Equity
Cheswold Lane Asset Management	27.7	International Equity
WCM Investment Management	26.5	International Equity
Aristotle Capital Mgmt	18.7	Global Equity
SW Asset Management	18.4	Credit
11		
Capital Prospects	414.6	
AH Lisanti Capital Growth	20.3	U.S. Equity
Bernzott Capital Advisors	23.1	U.S. Equity
Geneva Capital Mgmt	21.4	U.S. Equity
Inview Investment Mgmt	20.0	U.S. Equity
Lesla Sroufe & Co.	35.7	U.S. Equity
Matrix Asset Advisors	34.4	U.S. Equity
Next Century Growth Investors	30.1	U.S. Equity
Paradigm Asset Mgmt	33.9	U.S. Equity
Profit Investment Mgmt	18.3	U.S. Equity
Redwood Investments	35.5	U.S. Equity
Seacrest Investment Management	14.3	U.S. Equity
Twin Capital Management	40.4	U.S. Equity
Walthausen & Co.	21.2	U.S. Equity
Piedmont Investment Advisors	32.3	Fixed Income
Valley Forge Asset Management	33.6	Fixed Income
15		
FIS Group	343.7	
Advanced Investment Partners	19.5	U.S. Equity
Boston Common Asset Mgmt	17.5	U.S. Equity
Channing Capital Mgmt	7.6	U.S. Equity
New Amsterdam Partners	12.0	U.S. Equity
Redwood Investment	12.2	U.S. Equity
Seizert Capital Partners	45.2	U.S. Equity
Stux Capital Mgmt	56.5	U.S. Equity
Ativo Capital Management	27.0	International Equity
Somerset Capital Group	11.2	International Equity
Hanoverian Capital Management	37.9	International Equity
Thomas White International	38.4	International Equity
Victoria 1522 Investments	16.3	International Equity
Greenfield Seitz Capital Management	42.3	Global Equity
13		
Leading Edge Investment Advisors	334.3	
Kirr, Marbach & Company	20.5	U.S. Equity
Markston International	23.5	U.S. Equity
Apex Capital Mgmt	7.9	U.S. Equity

New Century Investment Mgmt	18.5	U.S. Equity
Driehaus Capital Mgmt	28.6	International Equity
Gratry & Company	39.5	International Equity
Herndon Capital Mgmt	36.1	International Equity
Aristotle Capital Management	21.1	International Equity
SIT Investment Advisors	12.9	International Equity
Westwood Global Investments	70.0	International Equity
Nicholas Investment Partners	17.5	Credit
Penn Capital Mgmt	38.1	Credit

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Northern Trust Global Advisors	626.9	
Cornerstone Investment Partners	53.7	U.S. Equity
Credo Capital	27.9	U.S. Equity
Herndon Capital Mgmt	43.9	U.S. Equity
Lombardia Capital Partners	7.8	U.S. Equity
Magee Thompson	47.9	U.S. Equity
Profit Investment Management	67.1	U.S. Equity
Riverbridge Partners	9.8	U.S. Equity
Signia Capital Management	7.2	U.S. Equity
Summit Creek Advisors	11.4	U.S. Equity
Twin Capital Management	61.3	U.S. Equity
ClariVest Asset Management	35.6	International Equity
Hexavest Global	31.5	International Equity
Sky Investment Council	40.2	International Equity
Strategic Global Advisors	28.7	International Equity
JK Milne Asset Mgmt	30.9	Fixed Income
Longfellow Investment Management	38.6	Fixed Income
Dolan McEniry Capital Management	48.6	Credit
New Century Advisors	34.4	Real Return

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Progress Investment Management	710.7	
Affinity Investment Advisors	38.0	U.S. Equity
Ariel Investments	31.3	U.S. Equity
Channing Capital Mgmt	34.2	U.S. Equity
Credo Capital Mgmt	54.3	U.S. Equity
Decatur Capital Mgmt	31.9	U.S. Equity
DSM Capital Partners	35.2	U.S. Equity
Ironwood Investment Mgmt	12.6	U.S. Equity
Boston Common Asset Mgmt	44.3	Global Equity
ARGA Investment Management	35.5	Global Equity
Chautauqua Capital Management	22.6	Global Equity
John HSU Capital Group	42.0	Global Equity
San Juan Asset Mgmt	37.4	Global Equity
Ambassador Capital Mgmt	65.5	Fixed Income
Garcia Hamilton	68.8	Fixed Income
New Century Advisors	64.1	Fixed Income
Pugh Capital Mgmt	92.9	Fixed Income

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Private Equity		
Longitude Venture Partners	65.0	

Commodities		
Arbalet Capital	43.0	

Total **\$3,225.60**



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