



MARYLAND
STATE RETIREMENT
and PENSION SYSTEM

STATE RETIREMENT AGENCY
120 East Baltimore Street
Baltimore, MD 21202
Tel: 410-625-5555
1-800-492-5909
TDD/TTY 410-625-5535
sra.maryland.gov

BOARD OF TRUSTEES
Nancy K. Kopp
Chairman

Peter Franchot
Vice Chairman

David S. Blitzstein
James A. Bush, Jr.
John W. Douglass
T. Eloise Foster
Robert R. Hagans, Jr.
Kenneth B. Haines
James M. Harkins
Linda A. Herman
F. Patrick Hughes
Major Morris L. Krome
Theresa Lochte
Harold Zirkin
Thurman W. Zollicoffer, Jr.

R. Dean Kenderdine
Executive Director
Secretary To The Board

August 29, 2013

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 577, Acts of 2012 (SB 779) and Chapter 578, Acts of 2012 (HB 916), 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 #9138.

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



**ANNUAL REPORT
MINORITY OWNED FINANCIAL SERVICES FIRM USAGE
SUMMARY STATEMENT**

Reporting Department/Agency: <i>State Retirement Agency</i>
Fiscal Year: <i>2013</i>

IN THE ATTACHED DOCUMENTS, MY AGENCY HAS REPORTED THE FOLLOWING INFORMATION:	YES	NO
1. The identity of the minority business enterprise brokerage and investment management services firms used by the Agency in the immediately preceding fiscal year;	x	
2. The percentage and dollar value of the assets under the custody of the Agency that are under the investment control of minority business enterprise brokerage and investment management services firms; and	x	
3. The measures the Agency undertook in the immediately preceding fiscal year to increase the percentage and dollar value of the assets under the investment control of minority business enterprise brokerage and investment management services firms.	x	

Agency Head/Secretary Name:

R. Dean Kenderdine

(Please Type/Print Here)

Agency Head/Secretary Signature:

(Please Sign Here)



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 2013*

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 for agency administrative purposes, and his or her 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.

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 regularly attend and speak at investment conferences and investment staff/trustee education programs. Trustees and staff also participate in conferences and continuing education programs where information specifically about the System's investment program is shared with others. This includes information about the System's Terra Maria program.

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 choosing *managing consultants*. This would include a comprehensive description of the procurement process used, e.g., the solicitation's specifications, evaluation factors used in the selection process, as well as contract execution and assessment procedures?
 - 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 by providing manager due diligence, recommendations to the CIO and manager monitoring, rather than final decision-makers.

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.

d. Please include *hire dates* and *duration* of the consultant's contract.

Please see **Attachment 4** to this response.

7. What was the organization's total amount of assets being managed by minority and women owned firms in fiscal year 2013? ***\$4,682.1 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 2013?
 - 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 2013?

No firms are presently retained indirectly.

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 2013? **Management Fees: \$23.827 million**
Brokerage Commissions: \$1.166 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.)
\$1.166 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. Also detail your total annual fees for fiscal year 2013 into the following categories—asset management¹, financial institutions², and professional services³.
- a. If there are any special fee structures particular to asset classes (e.g. real estate) please provide.

Please see **Attachment 5** to this response.

13. How many investment brokers have been retained **directly or indirectly** by the organization in fiscal year 2013? **349**
14. 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?
45

¹ *Asset management fees* refer to any fees paid to external investment managers, regardless of racial or gender categorization.

² *Financial institution fees* refer to broker/dealers, custody operators, securities lending, operational bank account fees, and other asset servicers.

³ *Professional Services Providers* refers to investment and risk management consultants, portfolio analytics software providers, and etc.

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

15. What percentages of funds/assets were allocated to Maryland headquartered minority and women owned firms in fiscal year 2013? **1.82%**
- 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.

16. Please submit a copy of your organization's most recent *Investment Policy Statement*.

Please see **Attachment 1** to this response. The Investment Policy Manual is available on the Retirement System's public website at <http://www.sra.maryland.gov/Agency/Investment/Downloads/InvestmentInterimPolicyManual.pdf>.

17. 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 (www.NorthAmerica@altius-associates.com) and phone number (804-282-9000). During fiscal year 2013, the System also expanded the use of emerging, minority and woman-owned firms in alternative asset classes.

ATTACHMENT 1

INVESTMENT POLICY MANUAL

for the

Board of Trustees

of the

MARYLAND STATE RETIREMENT

and

PENSION SYSTEM

STATE RETIREMENT AGENCY

Updated August 2012

INVESTMENT POLICY MANUAL

TABLE OF CONTENTS

GENERAL POLICIES

Section		Page
I	Purpose, Contact, Authority and Scope	5
II	Fiduciary Standards	6
III	Functions of the Investment Division of the Maryland State Retirement Agency	6
IV	Goals and Objectives of Investment Programs	7

POLICIES THAT GOVERN SELECTION AND RETENTION OF INVESTMENTS

Section		Page
I	Asset Allocation	
	A. Strategic Asset Allocation	13
	B. Tactical Asset Allocation	16
II	Public Market Policies	
	A. Manager Search and Selection	17
	B. Manager Monitoring	18
	C. Manager Termination	18
	D. Securities Lending	19
III	Private Market Policies	
	Private Market Policy Guidelines	20
	A. Private Equity	21
	B. Real Estate	21
	C. Absolute Return	21
	D. Real Return	22
	E. Private Markets Indirect Indemnification	22

ADMINISTRATIVE POLICIES

Section		Page
I	Disclosure of Information	24
II	Corporate Governance & Proxy Voting	26
III	Staff Trading in Public Securities	56
IV	Securities Litigation	60
V	Economically Targeted Investments	66
VI	General Procurement Policies & Procedures	69
VII	Criteria for Award of Financial Incentives for the Chief Investment Officer	74
VIII	Investment in Commingled Vehicles	77

POLICIES THAT GOVERN OTHER INVESTMENT PROGRAMS

Section		Page
I	Optional Retirement Program	79
II	Other PostEmployment Benefits	79

APPENDICES

Section		Page
A	Commingled Vehicles – Documents Adopted as Part of Investment Policy Manual	81

Update History

Originally Adopted by the Board of Trustees, August 2005

Updated, August 2006

Updated, December 2007

Updated, January 2008

Updated, June 2008

Updated, August 2008

Updated, January 2009

Updated June 2009

Updated May 2010

Updated August 2011

Updated August 2012

GENERAL POLICIES

I. PURPOSE, CONTACT, AUTHORITY AND SCOPE

A. Purpose

The purpose of the Investment Policy Manual is to include:

1. In accordance with State Personnel and Pensions § 21-116 (c):
 - a) the functions of the Investment Division of the Maryland State Retirement Agency;
 - b) the goals and objectives of the several investment programs; and
 - c) the policies that govern the selection and retention of investments.
2. In accordance with State Finance and Procurement § 12-401 (b) for exempt procurements including (1) services of managers to invest the assets of the Maryland State Retirement and Pension System, including real and personal property; (2) 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 of Trustees (the "Board"); (3) services related to the administration of the optional retirement program under Title 30 of the State Personnel and Pensions Article; and (4) services related to the administration of the Postretirement Health Benefits Trust Fund written policies and procedures relating to:
 - i) the methods of procurement;
 - ii) the advertising requirements;
 - iii) the procurement goals, including minority business enterprise participation; and
 - iv) the approval process.
3. In accordance with State Personnel and Pensions § 21-118.1 (4) the criteria for award of financial incentives for the Chief Investment Officer.

B. Contact

Questions & comments relating to the Investment Policy Manual should be directed to:

Chief Investment Officer
Maryland State Retirement Agency
16th Floor, 120 East Baltimore Street
Baltimore, Maryland 21202
410-625-5621

C. Authority

The Investment Policy Manual is developed in accordance with State Personnel and Pensions § 21-116 (c). The Investment Committee of the Board (the "Investment Committee") shall prepare and maintain the Investment Policy Manual and submit the Investment Policy Manual and any subsequent amendments to the manual to the Board for approval.

D. Scope

The Investment Policy Manual is binding upon all persons with authority over the Trust's assets, including: investment managers/advisors; custodians; consultants; brokers/dealers; all members of the Investment Division; the Investment Committee and the Board.

II. FIDUCIARY STANDARDS

The members of the Board are fiduciaries and shall discharge their duties with respect to the several systems solely in the interest of the participants. Additional information regarding fiduciary responsibilities may be found in the Annotated Code of Maryland and the Board Governance Charters and Policies.

III. FUNCTIONS OF THE INVESTMENT DIVISION OF THE MARYLAND STATE RETIREMENT AGENCY

The roles and responsibilities for the Board, Investment Committee, Executive Director, and Chief Investment Officer are defined under the Board Charters which can be found on the Agency's website at www.sra.state.md.us.

In accordance with the State Personnel and Pensions Article, the Investment Division shall:

- A. Invest the assets of the several systems;
- B. Report to the Board quarterly the commissions that the Maryland State Retirement Agency pays on investments detailing:
 1. The identity of each recipient of a commission that the Maryland State Retirement Agency paid during the previous quarter;
 2. The dollar amount of commission business that each recipient performs;
 3. The average price-per-share each recipient charged or, if the commission was paid on a net basis, the markup or markdown that the recipient uses; and
 4. A reasonable history of the allocation of commissions.

- C. The Chief Investment Officer is delegated the responsibility for managing and overseeing the investment process, including (i) hiring external investment managers to invest the assets of the several systems, (ii) selecting and purchasing interests in specific investment vehicles, including limited partnerships, private equity fund investments, and private real estate fund investments, (iii) ensuring legal review of proposed investments by the Office of the Attorney General and (iv) monitoring compliance with investment contracts, State law, and both the public market and private market program policies and processes enumerated in this Investment Policy Manual.

The Chief Investment Officer of the Agency is responsible for planning, directing and executing the functions of the Division and shall serve as secretary to the Investment Committee of the Board. In short-term absences of the Chief Investment Officer, the roles and responsibilities of the Chief Investment Officer may be delegated to the Deputy Chief Investment Officer.

The Chief Investment Officer is responsible for the day-to-day investment of the funds of the System in accordance with policies, regulations and objectives specified by the Board. Specifically, the Investment Division under the direct supervision of the Chief Investment Officer shall be responsible for:

1. Monitoring external and internal asset managers;
2. Exploring and analyzing investment programs, and recommending changes to the Investment Committee and the Board;
3. Evaluating the effectiveness of prevailing policies, regulations, objectives and strategy, and proposing, when appropriate, suitable modifications for recommendation to the Investment Committee and the Board; and,
4. Providing periodic reports to the Investment Committee and the Board.

IV. GOALS AND OBJECTIVES OF THE INVESTMENT PROGRAMS

- A. The Board of the System is charged with the fiduciary responsibility for ensuring that sufficient assets are available to fund members' benefits when due. To accomplish this, key goals include the prudent investing of System assets in a well-diversified manner to optimize long-term returns, while controlling risk through careful execution of the investment objectives and strategies of the System.
- B. The objectives of the Board will be implemented based on the following principles:

1. Asset allocation is the most important determinant of investment performance.
2. Liquidity will be emphasized to the extent necessary to meet benefit payment requirements.
3. The investment strategy is long-term, recognizing that the average age of the System's liabilities is relatively long. For this reason, emphasis will be placed upon long-term or strategic decisions rather than tactical or short-term market timing decisions, recognizing that the long-term horizon could result in short-term volatility.
 - a. All major sectors of the capital markets should be considered in order to diversify and minimize total investment program risk. Such sectors may include, but are not limited to, equities (domestic, international, and global; public and private), fixed income, convertible bonds, short-term cash equivalents, real estate property and securities, and alternative investments.
 - b. Periodic rebalancing of the allocation of assets among asset classes will be considered in order to control risk and improve returns.
 - c. A portion of the System's investments should be managed using passive management techniques in order to lower costs and reduce active management risk.
 - d. Internal and external management of assets may be employed in active and passive strategies.
 - e. Cost control is valued, particularly regarding investment management fees, and the focus will be on returns net of fees.
 - f. The selection of the System's investment vehicles and policies will be compared relative to other public pension funds. Investment performance, asset management costs, staffing and overall expenses will be compared to other public pension plans, with special emphasis on comparisons with other public pension funds of comparable size.
 - g. Economic justification for investment proposals will override social and/or local justifications. Social and/or local investments will only be considered when they provide reasonable and competitive rate of return expectations in comparison to other comparable investments.
 - h. The investment program must operate in compliance with all applicable State and Federal laws and regulations concerning the investment of pension assets.

C. Objectives

The Board desires to balance the goal of higher long-term returns with the goal of minimizing contribution volatility, recognizing that they are often

competing goals. This requires taking both assets and liabilities into account when setting investment strategy, as well as an awareness of external factors such as inflation. Therefore, the investment objectives over extended periods of time (generally, ten to twenty years) are to achieve an annualized investment return that:

1. In nominal terms, equals or exceeds the actuarial investment return assumption of the System adopted by the Board. The actuarial rate of interest as of June 30, 2011 was 7.75%. The actuarial investment return assumption is a measure of the long-term rate of growth of the System's assets. In adopting the actuarial return assumption, the Board anticipates that the investment portfolio may achieve higher returns in some years and lower returns in other years.
2. In real terms, exceeds the U.S. inflation rate by at least 3.0%. The inflation-related objective compares the investment performance against the rate of inflation as measured by the Consumer Price Index (CPI) plus 3.0 percent. The inflation measure provides a link to the System's liabilities.
3. Meets or exceeds the System's Investment Policy Benchmark. The Investment Policy Benchmark is calculated by using a weighted average of the Board-established benchmarks for each asset class. The Policy Benchmark enables comparison of the System's actual performance to a passively managed proxy and measures the contribution of active investment management and policy implementation.

Policy Benchmark Effective July 1, 2011 ⁽¹⁾

<u>Asset Class</u>	<u>Benchmarks</u>		<u>Percentage Contribution to Benchmark ⁽²⁾</u>
Public Equity	<i>Domestic Equity</i>	Russell 3000 Index	36 + (10 - A') + (7-C') + (10-E')
	<i>International Equity</i>	MSCI All Country World Ex-U.S. Index	
	<i>Global Equities</i>	MSCI All Country World Index	
Fixed Income	Dynamically weighted blend of 80% Barclays Capital U.S. Aggregate Index and 20% Barclays Capital Global Aggregate Hedged Index, and the Barclays Capital Long Duration Government/Credit Index		10 + (10 - B') + (15 - D')
Credit/Debt Related Strategies	50% Barclays Capital U.S. Corporate High-Yield Index and 50% Barclays Capital U.S. Credit Index		E'
Real Return	60% inflation-linked bonds (50% Barclays Capital U.S. Government Inflation-Linked Bond Index and 50% Barclays Capital Global Inflation-Linked Bond Index Hedged) 30% Dow Jones-UBS Commodity Index, 10% CPI + 500 basis points, 8% maximum		D'
Private Equity ⁽³⁾	State Street Private Equity Index		A'
Real Estate	Weighted average of NCREIF Property Index (NPI), Wilshire Real Estate Securities Index, the FTSE EPRA/NAREIT Global ex-U.S. Real Estate Index Series and the FTSE EPRA/NAREIT Global Index		B'
Absolute Return	Hedge Fund Research, Inc. (HFRI) Fund-of-Funds Index		C'
Cash	Citigroup 91-Day U.S. Treasury Bill		Actual Weight

Notes:

1. The return generated by the Policy Benchmark assumes no active management and no management fees.
2. The Policy Benchmark will change to reflect changes in Asset Allocation Policy.
3. A' equals the actual percentage invested in Private Equity; B' equals the actual percentage invested in Real Estate; C' equals the actual percentage invested in Absolute Return; D' equals the actual percentage invested in Real Return; and E' equals the actual percentage invested in Credit/Debt Related Strategies. This adjustment will more accurately reflect the System's actual asset allocation and provide a better comparison for performance.
4. The weight of the Public Equity Benchmark will be adjusted by the difference between the actual percentage invested and the strategic target for Private Equity (A'), Absolute

Return (C'), and Credit/Debt Related Strategies. The weight of the Fixed Income Benchmark will be adjusted by the difference between the actual percentage invested and strategic target for Real Estate (B') and Real Return (D').

**POLICIES that GOVERN SELECTION and RETENTION of
INVESTMENTS**

I. ASSET ALLOCATION

A Strategic Asset Allocation Policy

Policy Statement:

The Board shall manage investment risk and provide strategic guidance through asset allocation.

Policy Guidelines:

1. The Board shall review the System's asset allocation on an annual basis in order to determine if it is necessary to conduct a formal asset allocation study.
2. The Board shall review whether there have been significant changes with regard to (1) the economic environment, (2) the Board's objectives, and (3) other considerations affecting the current asset allocation.
3. The Board will conduct a formal asset allocation study at least every two years in order to determine its strategic asset allocation targets and ranges, as well as changes to overall policy.
4. The Board must adopt the asset allocation recommendation by a vote of the majority.
5. The formal asset allocation study shall incorporate both the asset and the liability sides of the equation. The Board shall weigh three competing liability-oriented objectives when making asset allocation determinations. The importance weightings assigned to each of these three objectives by the Board shall determine the risk profile of the System. The liability-oriented objectives are:
 - Achieve and maintain a fully funded pension plan.
 - Minimize contribution volatility year to year.
 - Achieve surplus assets.

These liability-oriented performance objectives recognize that liabilities must be paid in full and in a timely manner. The liabilities are the future claims of the System's participants. The actuarial rate of interest is used to discount the future value of the System's liabilities and to calculate the System's funded ratio.

As private market managers frequently have multiple years to invest committed capital and capital may well be returned to investors from recapitalizations or realizations over that period, the System will need to commit more than its total asset allocation to reach and maintain the targeted invested exposure in private markets. As it takes time for

commitments to be invested, the net invested position is often below the commitment amount. The Chief Investment Officer shall determine the level of over-commitment that may be required.

6. From time to time and generally as a result of fluctuations in market values of individual investments, allocations may fall outside of the respective recommended ranges. In these instances, it is expected that adjustments from actual to the prescribed allocation range will be implemented over a reasonable time frame, and with ample consideration given to preserving investment returns.
7. The Board approved strategic asset allocation targets and ranges as of July 1, 2011 are as follows:

Asset Class	Target	Range (in Percentage Points)
Public Equity	36%	+/- 4
Fixed Income	10%	+/-2
Credit/Debt Related Strategies	10%	+/-2
Real Return	15%	+/-3
Private Equity	10%	+/-3
Real Estate	10%	+/- 2
Absolute Return*	7%*	+/- 2
Cash	<u>2%</u>	+/-2
TOTAL ASSETS	<u>100%</u>	

* Absolute Return strategies may also be used in other asset classes including Public Equity, Fixed Income, Credit/Debt, Real Return and Real Estate. The total exposure to Absolute Return strategies, or Hedge Funds, is limited to 15% of the total fund. This cap is inclusive of the Absolute Return asset class, as well as the Absolute Return exposure in the other asset classes.

Descriptions of Asset Classes

Public Equity: Investments in securities, known as shares or stocks, that represent an ownership interest in corporations and are generally traded on a stock exchange.

- **Domestic Stock:** These portfolios hold stock in U.S. corporations whose shares trade on US stock exchanges.
- **International Stock:** These portfolios hold stock in non-U.S. corporations whose shares trade on stock exchanges in other countries.

- **Global Stock:** These portfolios hold stock in U.S. and non-U.S. corporations whose shares trade on US stock exchanges and on stock exchanges in other countries.

Fixed Income: Investments in securities, known as bonds, that represent an ownership interest in the debt of governments and corporations that are generally not traded on an exchange. They generally pay interest on a regular schedule and repay its principal or face value at maturity.

Credit/Debt Related Strategies: Investments in debt issued by corporations and other non-government sectors of the fixed income market.

- Convertible arbitrage
- Distressed debt
- Corporate and mortgage related credit strategies
- Government sponsored programs (i.e. PPIP, TALF, etc.)
- Mezzanine debt
- Bank loans
- Convertible securities
- High yield debt
- Emerging markets debt
- Preferred securities

Real Return: Investments whose performance is expected to exceed the rate of inflation over an economic cycle. The System's Real Return program may include the following investment vehicles and both public and private investments:

- | | |
|---|---|
| ▪ Treasury Inflation Protected Securities | ▪ Infrastructure |
| ▪ Global inflation linked bonds | ▪ Timber and other natural resources |
| ▪ Commodities | ▪ Multi-asset class portfolios with a real return mandate |
| ▪ Energy & energy – related assets | |

Absolute Return: Investments whose performance is expected to deliver absolute (i.e. more than zero) returns in any market condition. The System's absolute return program may include:

- | | |
|--------------------------------------|----------------------------------|
| ▪ Broad-based hedge fund of funds | ▪ Macro managers |
| ▪ Global tactical asset allocation | ▪ Merger arbitrage managers |
| ▪ Long/short market neutral managers | ▪ Multi-strategy hedge funds |
| ▪ Fixed income arbitrage managers | ▪ Convertible arbitrage managers |
| | ▪ Distressed debt managers |

Private Equity: Investments in companies that are not registered with the SEC and are not traded in the public markets. Private equity may also be referred to as venture capital or buy-outs.

Real Estate: Investments in real property including office buildings, shopping centers, industrial property and warehouses, apartments. Investment vehicles may include direct investments, REITS, and private partnerships.

B. Tactical Asset Allocation Policy

Policy Statement:

The Board supports adjusting asset classes for tactical purposes and / or rebalancing within the defined asset allocation ranges and delegates tactical asset allocations and rebalancing to the Chief Investment Officer.

II. PUBLIC MARKET POLICIES

A. Manager Search and Selection Policy

Policy Statement:

Each public market investment manager shall be selected to meet specific investment objectives and/or performance standards. The Board encourages the inclusion of emerging managers and minority business enterprises.

Policy Guidelines:

While the Chief Investment Officer has final responsibility for selecting and terminating managers, the Investment Committee shall serve as an important advisory resource to the Chief Investment Officer.

1. The Chief Investment Officer may utilize one or more consultants to assist with selecting managers.
2. The Chief Investment Officer shall establish a formal written process for manager selection.
3. The Chief Investment Officer shall allocate funds to current and future managers within Board approved asset allocation ranges.
4. An investment manager shall be a fiduciary of the System.
5. Investment managers are expected to perform in accordance with a certain style and be organizationally sound. Active investment managers are expected to outperform the assigned benchmark net of fees, and passive investment managers are expected to approximate the assigned benchmark.
6. The Chief Investment Officer shall develop investment management guidelines for each investment manager.
7. The assigned performance benchmarks shall be described in the investment management guidelines for each manager.
8. An investment manager shall be given full discretion to prudently execute investment transactions on behalf of the System in accordance with the terms of its contract, the Investment Policy Manual and applicable law.
9. Investment managers shall invest managed assets in accordance with established delegations and guidelines.

All external investment managers shall enter into written contracts with the System. These contracts shall document all of the terms and conditions applicable to the manager's provision of investment services to the System, including (a) the specific mandate of the manager, (b) those delegations of fiduciary duty made by the System to the manager, (c) other authorizations requested by the manager that have been granted by the System, and (d) the investment guidelines applicable to the manager. Accordingly, in the event of a conflict between the provisions of this

Investment Policy Manual and a manager's contract, the manager's contract will control.

10. Prior to final execution of a manager's contract, a due diligence review of the manager must be performed.

B. Manager Monitoring Policy

Policy Statement:

On-going monitoring of investment managers shall be conducted to ensure that each manager is satisfactorily performing its duties and is in compliance with various guidelines and obligations set forth in their contract.

Policy Guidelines:

1. The Chief Investment Officer shall monitor the managers and report performance to the Investment Committee on a periodic basis.
2. The Chief Investment Officer may utilize one or more consultants to assist with monitoring managers.
3. Manager performance data and other significant items are to be reviewed by the Investment Division on a regular basis.
4. Significant issues for managers such as change in ownership, personnel, or style should be reviewed by staff and the Chief Investment Officer and reported to the Investment Committee in a timely manner.
5. The investment manager shall reconcile performance figures provided by the custodian with its performance figures.
6. The Investment Division shall meet with all public market separate account managers face to face at least once a year, and will meet at the manager's office at least once every two years. In the case of the Terra Maria program, the Investment Division shall meet with each Program Manager face to face at least once a year, and will meet at the manager's office at least once every two years. Consultants can be utilized, as an extension of Staff, to meet the on-site meeting requirement. The purpose of the meetings will be to evaluate performance and other issues as outlined above.

C. Manager Termination Policy

Policy Statement:

After providing written documentation to the Board and the Investment Committee explaining the basis for the termination, the Chief Investment Officer may terminate a manager for any reason at any time.

D. Securities Lending Policy

Policy Statement:

The System may enter into a securities lending program with its custodian bank and/or a third party lending agent.

III. PRIVATE MARKET POLICIES

Policy Guidelines:

1. The Chief Investment Officer is delegated the responsibility for managing and overseeing the investment process, including (i) hiring external investment managers to invest the assets of the several systems, (ii) selecting and purchasing interests in specific investment vehicles, including limited partnerships, private equity fund investments, and private real estate fund investments, (iii) ensuring legal review of proposed investments for the Private Market Program by the Office of the Attorney General and (iv) monitoring compliance with investment contracts, State law, and Private Market Program processes enumerated in the Investment Policy Manual.
2. Generating high returns will be the primary objective and will be reflected in the private market benchmarks.
3. The Private Market Program should be built with diversification in mind.
4. The Chief Investment Officer will develop a private market strategic plan, which will be maintained separately from the Investment Policy Manual.
5. The Chief Investment Officer may hire specialty consultants to aid in the strategic development, investment selection, due diligence, and monitoring of the private market investments. The specialty consultants may be actively involved in negotiations and in the review of the commercial terms of proposed investments.
6. The private market investment vehicles may consist of (i) individual fund direct investments, (ii) fund of funds investments or (iii) other types of private market investments.
7. An alignment of interest should be sought between the private market manager and the System as an investor; the private market manager should benefit only when its investors benefit.
8. While the Board supports economic development for the State of Maryland, the Board is also acutely aware of its fiduciary responsibilities. Private market investment funds that are seen to aid economic development in the State of Maryland will be handled by exactly the same process as all other investment opportunities for the Program. All managers for the Program will be subjected to the same rigorous analysis.

Should an investment opportunity be referred to a member of the Board, the opportunity will be forwarded to Chief Investment Officer.

9. The Chief Investment Officer shall monitor the private market investments, review the Program and its performance on behalf of the Board, and apprise the Board on a regular basis of progress and achievements. The Investment Committee will also receive periodic informational reports regarding new investments.
10. Private market due diligence shall be divided into commercial and legal parts. The commercial due diligence covers fees, profit participation, and other such commercial items. The legal due diligence covers the structural aspects of the Fund Documents and includes the System's ability, as constituted, to commit to the fund.

A. Private Equity Program Policy

Policy Statement:

The Board believes that the private equity program has the potential to generate returns over the long term that will exceed those of the broad public markets, when using prudent risk management methods.

B. Real Estate Program

Policy Statement:

The Board believes that the real estate program has the potential to generate attractive risk-adjusted rates of return while providing diversification to the System's overall investment portfolio.

Real Estate Program Specific Policy Guidelines:

The Maryland State Retirement & Pension System's real estate asset class is governed by State law (including SPP 21-123(f)(2) and 21-123(g)) and the Investment Policy Manual.

C. Absolute Return Program

Absolute Return Program Specific Policy Guidelines:

The absolute return program may include:

- Broad-based hedge fund of funds
- Convertible arbitrage managers
- Distressed debt managers
- Fixed income arbitrage managers
- Global tactical asset allocation
- Long/short market neutral managers
- Macro managers
- Merger arbitrage managers
- Multi-strategy hedge funds

D. Real Return Program

Real Return Program Specific Policy Guidelines:

The real return program may include:

- Treasury Inflation Protected Securities
- Global inflation linked bonds
- Commodities
- Energy & energy – related assets
- Infrastructure
- Timber
- Other natural resources
- Multi-asset class portfolios with a real return mandate

The real return program may include both public and private investments.

E. Indirect Indemnification Obligations of Investors in Private Market Investments

In connection with the selection by the Chief Investment Officer, as authorized by Md. Annot. Code, State Personnel and Pensions Article, Section 21-122(d)(2), of an investment vehicle with terms that include an indirect indemnification obligation of the investors, the Chief Investment Officer is authorized by the Board of Trustees of the System to negotiate terms providing for the return of distributions to the investment vehicle for the purpose of fulfilling the indirect indemnification obligation; provided that the amount of distributions subject to such recall by the investment vehicle shall be limited to an amount that is typical in the market for similar investment transactions; and provided, further, that the Chief Investment Officer shall seek advice from legal counsel and the consultant engaged by the System for that type of investment regarding market terms for the recall of distributions by similar investment vehicles.

ADMINISTRATIVE POLICES

I. DISCLOSURE OF INFORMATION

The System may keep all analyses, forecasts, negotiations, papers, records, recommendations, and reports closed to public inspection until (1) the release of the information would not adversely affect the negotiation for or market price of a security; and (2) completion of a proposed purchase or sale of certain assets has been completed. (SPP § 21-123(f))

ALTERNATIVE INVESTMENTS

A. Policy with regard to “top line” information

The Board of Trustees’ policy is that the System should be prepared to disclose “top line” information if, as and when (a) the System receives a Public Information Act (PIA) request covering such information and (b) a determination is made by the Agency that disclosure is required under State law.

1. Top line information in alternative investment “fund of funds” – In the case of the System’s alternative investment “fund of funds” investments, top line information includes the following data:
 - a. Name of Fund of Funds Manager and Title of Fund
 - b. Investment Focus of the Fund of Funds
 - c. Vintage Year of the Fund of Funds
 - d. Amount of the System’s Capital Commitment to the Fund of Funds (broken down by Funded and Unfunded Capital Commitments)
 - e. Total Amount of Distributions from the Fund of Funds to the System
 - f. Reported Value of the System’s interest in the Fund of Funds, with appropriate explanatory notes.¹
 - g. Internal Rate of Return, with appropriate explanatory notes (see footnote 1)

¹ The explanatory note would use language substantially similar to the following: “The Maryland State Retirement and Pension System uses alternative measurements of performance as recommended by the Global Investment Performance Standards. The alternative measurements of performance contained in this report are calculated by the State Retirement and Pension System of Maryland or its Consultant, and have not been reviewed by the fund. Until a fund is liquidated, the alternative measurements of performance are only an interim estimated return and may not be indicative of ultimate performance. There are no generally accepted standards for reporting on alternative measurements of performance and valuations, and interim reported values could differ materially from the values realized when the portfolio companies are sold. The alternative measurements of performance calculated in the early years of a fund tend to be less meaningful given the J-curve effect, characterized by negative returns in the early years due to the payment of fees and start-up costs before any distributions are made to the investor. The alternative measurements of performance comparisons are not always meaningful due to different vintage years or investment strategies.”

2. Top line information in alternative investment funds structured as limited partnerships or similar investment entities – In the case of the System’s direct investment in an alternative investment limited partnership or other similar entity (hereafter, a “Fund”), top line information includes the following data:
 - a. Name of Fund
 - b. Investment Focus of Fund
 - c. Vintage Year of Fund
 - d. Amount of the System’s Capital Commitment to Fund (broken down by Funded and Unfunded Capital Commitments)
 - e. Total Amount of Distributions from the Fund to the System
 - f. Reported Value of the System’s interest in the Fund, with appropriate explanatory notes (see footnote 1)
 - g. Internal Rate of Return, with appropriate explanatory notes (see footnote 1)

B. Policy with regard to “bottom line” information

The Board of Trustees’ policy is that the System should not voluntarily disclose “bottom line” information if, as and when the System receives a PIA request covering such information. Bottom line information includes the following data:

1. Name of each portfolio company within a Fund and description of the portfolio company’s business
2. Cost of each portfolio company
3. Current value of each portfolio company
4. Material events related to a portfolio company

C. Process for handling PIA Requests

Whenever the Agency receives a PIA request that deals with the System’s alternative investments, the Agency will promptly convene a working group consisting of appropriate Investment Division staff and legal counsel. The PIA request will be promptly reviewed, input solicited from appropriate parties, and determinations made about how to proceed, all in accordance with the requirements of State law.

II. CORPORATE GOVERNANCE & PROXY VOTING

INTRODUCTION

The Board of Trustees of the Maryland State Retirement and Pension System (the "System"), through its Corporate Governance Committee, is committed to actively, and prudently, addressing poor corporate governance practices or regulatory constructs, and otherwise responding to issues affecting the integrity of the capital markets and market participants, utilizing the tools and methods available to proponents of good corporate governance. The extent of the Committee's actions would vary on a case-by-case basis.

Proxy Voting

The Board believes that the voting of proxies is a fundamental aspect of stock ownership, and recognizes that proxy voting issues that are not addressed by the System's existing policy or are novel and/or controversial can quickly arise during a given proxy season. Accordingly, the Corporate Governance Committee will on an ongoing basis, with the assistance of staff and consultants, recommend revisions and updates to the System's Proxy Voting Guidelines. It is acknowledged and understood that the Proxy Voting Guidelines will determine how the System's proxies are voted on the vast majority of issues. The Committee may delegate authority to Investment Division Staff to vote proxies in accordance with the voting decision of one of the System's activist managers, who employ proxy voting as a part of their investment strategy, with notice to the Corporate Governance Committee, in instances where the Chief Investment Officer determines that such voting decision would be in the best interest of the System

Securities Lending

In the US market, the System recalls all stocks that are on loan in order to vote the proxies. While this reduces the possible income from securities lending, it is not a substantial percent of the System's total income from its securities lending program. In contrast, the lending of international stocks generates more than 50% of the income the System earns from securities lending. As a result, the System will not recall international stocks in order to vote the proxies.

Shareblocking

Shareblocking occurs in a number of global markets. It is the practice of freezing shares from trading or lending, by both the custodian and the local sub-agent, due to proxy voting activity. Shareblocking will generally begin after the voting instructions are processed downstream to the local market for a given meeting, and typically end shortly after the meeting. It is important to note that voting deadlines in international markets are usually well in advance of a meeting, leading to potential blocking periods of days or weeks. This can hinder a manager's ability to execute trades.

If shares need to be unblocked due to a pending trade, a request can be made through the System's proxy voting agent to rescind vote instructions in the local market, although no guarantees can be made that the votes will be pulled by the local agent.

The following Proxy Voting Guidelines have been adopted by the Board of Trustees:

GENERAL or US PROXY VOTING GUIDELINES

Adopted by the Board of Trustees March 2011

A. Routine/Miscellaneous

Adjourn Meeting

Generally vote against proposals to provide management with the authority to adjourn an annual or special meeting absent compelling reasons to support the proposal. Vote for proposals that relate specifically to soliciting votes for a merger or transaction if supporting that merger or transaction. Vote against proposals if the wording is too vague or if the proposal includes "other business."

Change Company Name

Generally vote for proposals to change the corporate name.

Transact Other Business

Vote against proposals to approve other business when it appears as voting item.

Ratify Auditor

Vote for proposals to ratify auditors, unless: (1) an auditor has a financial interest in or association with the company, and is therefore not independent; (2) fees for non-audit services are excessive (greater than audit fees), or (3) there is reason to believe that the independent auditor has rendered an opinion, which is neither accurate nor indicative of the company's financial position.

B. Board of Directors

Voting for Directors

Directors should be elected by a majority of the shareholders casting votes.

All votes for directors should be evaluated on a case-by-case basis. This will be based on several factors, including:

Long-term company financial performance relative to a market index,

The composition and level of independence of the board and key board committees,

Individual attendance history (attendance at 75% of all meeting is expected),

Corporate governance provisions and takeover activity,

Directors' investment in the company,

- Whether the chairman also serves as CEO or other corporate officer,
- Previous experience on the Board,
- Role in previous Board actions

Specifically, votes should be withheld from U.S. directors who:

- Attended fewer than 75 percent of the board and committee meetings without a valid reason for the absences. Valid reasons include illness or absence due to company business. Participation via telephone is acceptable. In addition, if the director missed only one meeting or one day's meetings, votes should not be withheld even if such absence dropped the director's attendance below 75 percent;
- Own no company stock or equivalent and have served on the board for more than three years;
- Are director nominees and the board has more than 20 members or fewer than six members;
- Are inside directors or affiliated outside directors and the full board is less than majority independent;
- Are inside directors or affiliated outside directors and sit on the audit, compensation, or nominating committee;
- Sit on more than five public company boards or are CEOs of public companies and sit on more than two public company boards besides their own;
- Are compensation committee members and the company has poor compensation practices; and,
- Ignored a shareholder proposal that was approved by either a majority of the shares outstanding in any year or by the majority of votes cast for two consecutive years;
- Have adopted a poison pill without shareholder approval since the company's last annual meeting and where there is no requirement to put the pill to shareholder vote within 12 months of its adoption
- Have kept in place a dead-hand or modified dead-hand poison pill;
- Have failed to replace management as appropriate.

Qualifications of Outside Directors

Election of directors should be on a case-by-case basis and not constrained by arbitrary limits such as age or term limits.

Directors with full-time jobs should not serve on more than three for-profit corporations' boards. No director should serve on more than five for-profit corporate boards. Currently serving CEOs should only serve as a director of one other company.

Age/Term Limits

Generally oppose age/term limits because time served is not a substitute for a thoughtful evaluation of director performance.

Board Size

The board of directors should have at least six and not more than 20 members. Shareholders should be allowed to vote on any major change in board size.

Classified Boards of Directors

All directors should be elected annually.

Cumulative Voting for Directors

Generally favor resolutions that eliminate cumulative voting, but all votes for cumulative voting should be evaluated on a case-by-case basis.

Indemnification of Directors

Evaluated on a case-by-case basis using Delaware law as the standard.

Vote against proposals that would:

Eliminate entirely directors' and officers' liability for monetary damages for violating the duty of care.

Separate Chairman and CEO

Generally vote for the separation of the chairman and CEO positions.

Majority Vote Shareholder Proposals

Vote for reasonably crafted shareholders proposals calling for directors to be elected with an affirmative majority of votes cast and/or the elimination of the plurality standard for electing directors (including binding resolutions requesting that the board amend the company's bylaws), provided the proposal includes a carve-out for a plurality voting standard when there are more director nominees than board seats (e.g. contested elections).

Minimum Stock Ownership for Directors

Directors should own a meaningful position in the company's common stock, appropriate to their personal circumstances.

Independence of Board Members

A substantial majority (at least two-thirds) of the board should be directors who are independent.

An independent director is someone whose only nontrivial professional, familial or financial connection to the corporation, its chairman, CEO or any other executive officer is his or her directorship.

Committees of the Board

The three key board committees (audit, compensation, and nominating) should consist solely of independent outside directors. The board, not the CEO, should appoint these members. The creation and membership of other committees will be reviewed on a case-by-case basis.

Shareholder Access to the Board

All directors should attend the annual shareholders' meeting and be available, when requested by the chair, to answer shareholder questions.

Shareowners should have effective access to the director nomination process.

Board Communications with Shareholders

Shareholders should have the ability to communicate effectively with the board of directors. Formal procedures should be created to enable shareholders to communicate their views and concerns directly to board members.

C. Shareholder Rights & Defenses

Nominations to the Board of Directors

Shareowners should have effective access to the director nomination process.

Annual Meeting

Vote against proposals to cancel the annual shareholders meeting or to reduce the quorum required.

Support proposals that encourage meaningful meetings that are open to shareholders.

Amend Bylaws without Shareholder Consent

Shareholders should always be allowed to vote on amendments to the bylaws.

Vote against proposals giving the board exclusive authority to amend the bylaws.

Bundled Issues

Shareholders should be allowed to vote on unrelated issues separately. Vote bundled or "conditioned" proposals on a case-by-case basis taking into account the aggregate effect of the items.

Confidential Voting at Annual Meetings

Shareholders should be able to cast proxy votes in a confidential manner to a proxy tabulator independent of management, except in circumstances of a contest for control.

Opt Out of State Anti-Takeover Statutes

Generally, vote in favor of resolutions that remove a company from anti-takeover statutes in its state of incorporation.

Payment of Greenmail

Generally vote in favor of resolutions prohibiting management from repurchasing the stock of an individual investor unless all shareholders are extended the opportunity to participate in the transaction.

Poison Pills (or Shareholder Rights Plans)

Vote for proposals to redeem existing poison pills. Shareholders should have the right to approve any new poison pills. Any new poison pill resolutions should be evaluated on a case-by-case basis. .

Changing State of Incorporation

Generally oppose proposals to reincorporate in jurisdictions that would result in a weakening of shareholder rights unless there are overriding benefits to shareholders.

Shareholders' Ability to Act by Written Consent

Vote against proposals to restrict or prohibit shareholders' ability to take action by written consent. A majority of shareowners should be able to act by written consent.

Shareholders' Ability to Call Special Meetings

Vote against proposals to restrict or prohibit shareholder ability to call special meetings, and for proposals that remove restrictions on the right of shareholders to act independently of management.

Supermajority Voting Provisions

In general, vote against super-majority proposals, except if necessary to protect the interests of minority stockholders where there is a single dominant shareholder.

D. Capital/Restructuring

1. Capital

Dual-class Stock or Unequal Voting Shares

Shareholders should have the right to a vote in proportion to their economic stake in the company. Each share of common stock should have one vote. (One Share-One Vote)

Authorized unissued common shares that have voting rights should not be issued with unequal voting rights without shareholder approval.

Increased Common Shares

Evaluate on a case-by-case basis. Generally, vote against any increases in authorized common shares where management's only purpose is to discourage unwanted bids for the company's stock.

Stock Distributions: Splits and Dividends

Vote for management proposals to increase the common share authorization for a stock split or share dividend, provided that the increase in authorized shares would not result in an excessive number of shares available for issuance.

Reverse Stock Split

Vote for management proposals to implement a reverse stock split when the number of authorized shares will be proportionately reduced. Vote for management proposals to implement a reverse stock split to avoid delisting.

Leveraged Recapitalization

Evaluated on a case-by-case basis.

2. Restructuring

Mergers and Acquisitions

Evaluated on a case-by-case basis. Generally vote for mergers and other transactions that will enhance long-term shareholder returns for the company's existing shareholders.

E. Compensation

Executive Compensation

All compensation proposals will be reviewed on a case-by-case basis.

Executive compensation programs should be designed and implemented to ensure alignment of interest with the long-term interests of shareowners and to reasonably reward superior performance that meets or exceeds well-defined and clearly disclosed performance targets that reinforce long-term strategic goals set and approved by the board and written down in advance of the performance cycle.

Executive compensation programs should be transparent to shareowners, and should be fully disclosed, with adequate information to judge the “drivers” of incentive components of compensation packages.

Executive compensation programs should be a combination of cash and equity based compensation, reflect responsibilities, tenure and past performance, be tax efficient, and direct equity ownership should be encouraged.

Special retirement arrangements, including ones structured to permit employees whose compensation exceeds IRS limits to fully participate in similar plans covering other employees, should be consistent with programs offered to the general workforce, and they should be reasonable.

Advisory Votes on Executive Compensation (Say-on-Pay) Management Proposals

Generally, evaluated on a case-by-case basis.

Vote against management say on pay (MSOP) proposals, AGAINST/WITHHOLD on compensation committee members (or, in rare cases where the full board is deemed responsible, all directors including the CEO), and/or against an equity-based incentive plan proposal IF:

- There is a misalignment between CEO pay and company performance (pay for performance);
- The company maintains problematic pay practices;
- The board exhibits poor communication and responsiveness to shareholders.

Frequency of Say-on-Pay Proposals

Generally vote in favor of companies providing for annual/regular MSOP proposals.

Advisory Votes on Golden Parachute Proposals

Evaluate on a case-by-case basis in accordance with existing policies related to severance packages and consistent with our policies on problematic pay practices.

Equity Based Compensation

All plans that provide for the distribution of stock or stock options to employees and/or directors should be submitted to shareholders for approval.

Stock awards should be tied to the achievement of specified goals, and there should be appropriate limits on the size of long-term incentive awards granted to executives

Vote against unspecified exercise price or exercise price below 100% of fair market value on the date of the grant.

Vote against repricing out-of-the-money executive stock options with exercise prices under the market price at the time of issue.

Employee Stock Purchase Plans-- Qualified Plans

Vote against qualified employee stock purchase plans where any of the following apply:

- Purchase price is less than 85 percent of fair market value; or
- Offering period is greater than 27 months; or
- The number of shares allocated to the plan is more than ten percent of the outstanding shares.

Employee Stock Purchase Plans-- Non-Qualified Plans

Vote for nonqualified employee stock purchase plans with all the following features:

- Broad-based participation (i.e., all employees of the company with the exclusion of individuals with 5 percent or more of beneficial ownership of the company);
- Limits on employee contribution, which may be a fixed dollar amount or expressed as a percent of base salary;
- Company matching contribution up to 25 percent of employee's contribution, which is effectively a discount of 20 percent from market value;
- No discount on the stock price on the date of purchase since there is a company matching contribution.

Vote against nonqualified employee stock purchase plans when any of the plan features do not meet the above criteria. If the company matching contribution exceeds 25 percent of employee's contribution, evaluate the cost of the plan against its allowable cap

Employee Stock Ownership Plan (ESOP)

Vote against ESOPs where management's clear purpose is to fend off possible bidders for the company's stock

Vote against ESOPs when the number of shares allocated to the ESOP is "excessive" (i.e., generally greater than five percent of outstanding shares).

Incentive Bonus Plans and Tax Deductibility Proposals (OBRA-Related Compensation Proposals)

Vote for proposals that simply amend shareholder-approved compensation plans to include administrative features or place a cap on the annual grants any one participant may receive to comply with the provisions of Section 162(m).

Vote for proposals to add performance goals to existing compensation plans to comply with the provisions of Section 162(m) unless they are clearly inappropriate.

Amendments to existing plans to increase shares reserved and to qualify for favorable tax treatment under the provisions of Section 162(m) will be cast as recommended by ISS based on their research and analysis as long as the plan does not exceed the allowable cap and the plan does not violate any other supplemental policies.

Generally vote for cash or cash and stock bonus plans that are submitted to shareholders for the purpose of exempting compensation from taxes under the provisions of Section 162(m) if no increase in shares is requested.

Director Compensation

Directors should be compensated only in cash or stock, with a significant portion of the compensation in stock, and an appropriate vesting or holding period.

Shareholder approval should be required for all equity-based compensation plans that include any director or executive officer of the company.

1. Shareholder Proposals on Compensation

Disclosure/Setting Levels or Types of Compensation for Executives and Directors: Generally, vote in favor of shareholder proposals seeking additional disclosure of executive and director pay information, provided the information requested is relevant to shareholders' needs, would not put the company at a competitive disadvantage relative to its industry, and is not unduly burdensome to the company. Oppose shareholder proposals seeking to set absolute levels on compensation or otherwise dictate the amount or form of compensation. Oppose shareholder proposals requiring director fees be paid in stock only.

Adopt Anti-Hedging/Pledging/Speculative Investments Policy: Generally vote in favor of shareholder proposals seeking a policy that prohibits named executive officers from engaging in derivative or speculative transactions involving company stock, including hedging, holding stock in a margin account, or pledging stock as collateral for a loan. However, the company's existing policies regarding responsible use of company stock will be considered.

Bonus Banking/Bonus Banking "Plus": Vote case-by-case on proposals seeking deferral of a portion of annual bonus pay, with ultimate payout linked to sustained results for the performance metrics on which the bonus was earned (whether for the named executive officers or a wider group of employees), taking into account the following factors:

- The company's past practices regarding equity and cash compensation;
- Whether the company has a holding period or stock ownership requirements in place, such as a meaningful retention ratio (at least 50 percent for full tenure); and
- Whether the company has a rigorous claw-back policy in place.

Death Benefits/Golden Coffin: Generally vote in favor of shareholder proposals calling companies to adopt a policy of obtaining shareholder approval for any future agreements and corporate policies that could oblige the company to make payments or awards following the death of a senior executive in the form of unearned salary or bonuses, accelerated vesting or the continuation in force of unvested equity grants, perquisites and other payments or awards made in lieu of compensation. This would not apply to any benefit programs or equity plan proposals that the broad-based employee population is eligible to receive.

Performance-Based Awards: Generally vote in favor of shareholder proposals advocating the use of performance-based awards like indexed, premium-priced, and performance-vested options or performance-based shares, unless: 1) The proposal is overly restrictive (e.g., it mandates that awards to all employees must be performance-based or all awards to top executives must be a particular type, such as indexed options); 2) The company demonstrates that it is using a substantial portion of performance-based awards for its top executives, where substantial portion would constitute 50 percent of the shares awarded to those executives for that fiscal year.

Pay-for-Superior-Performance Standard: Generally, vote in favor of shareholder proposals requesting to establish a pay-for-superior-performance standard whereby the company discloses defined financial performance criteria and the detail list of comparative peer group to allow shareholders to sufficiently determine the pay and performance correlation established in the plan. In addition, establish that no award should be paid out unless the company performance exceeds its peer's median or mean performance on the selected financial and stock price performance criteria.

Severance Agreements for Executives/Golden Parachutes: Vote in favor of shareholder proposals to require golden parachutes or executive severance agreements to be submitted for shareholder ratification, unless the proposal requires shareholder approval

prior to entering into employment contracts. Proposals to ratify or cancel golden parachutes are voted in favor if they include the following: 1) The triggering mechanism should be beyond the control of management; 2) The amount should not exceed three times base amount (defined as the average annual taxable W-2 compensation during the five years prior to the year in which the change of control occurs; 3) Change-in-control payments should be double-triggered, i.e., (a) after a change in control has taken place, and (b) termination of the executive as a result of the change in control. Change in control is defined as a change in the company ownership structure.

Supplemental Executive Retirement Plans (SERPs): Generally vote in favor of shareholder proposals requesting to put extraordinary benefits contained in SERP agreements to a shareholder vote unless the company's executive pension plans do not contain excessive benefits beyond what is offered under employee-wide plans. In addition, vote in favor of shareholder proposals urging the board to limit the executive benefits provided under the company's supplemental executive retirement plan (SERP) by limiting covered compensation to a senior executive's annual salary and excluding of all incentive or bonus pay from the plan's definition of covered compensation used to establish such benefits.

Advisory Vote on Compensation: Generally, vote case-by-case on shareholder proposals that call for non-binding shareholder ratification of the compensation of the named Executive Officers and the accompanying narrative disclosure of material factors provided to understand the Summary Compensation Table.

Executive Compensation Advisory Proposal: Generally vote case-by-case on shareholder proposals asking the board to propose an advisory resolution seeking to ratify the compensation of the company's named executive officers (NEOs) on an annual basis. The proposal submitted to shareholders should make it clear that the vote is non-binding and would not have an impact on compensation paid or awarded to any NEO.

Hold Equity Past Retirement or for a Significant Period of Time: Generally vote case-by-case on shareholder proposals asking companies to adopt policies requiring senior executive officers to retain all or a significant portion of the shares acquired through compensation plans, either:

- while employed and/or for two years following the termination of their employment ; or
- for a substantial period following the lapse of all other vesting requirements for the award ("lock-up period"), with ratable release of a portion of the shares annually during the lock-up period.

The following factors will be taken into account:

- Whether the company has any holding period, retention ratio or officer ownership requirements in place. These should consist of:
 - Rigorous stock ownership guidelines, or

- A short-term holding period requirement (six months to one year) coupled with a significant long-term ownership requirement, or
- A meaningful retention ratio
- Actual officer stock ownership and the degree to which it meets or exceeds the proponent's suggested holding period/retention ratio or the company's own stock ownership or retention requirements.
- Post-termination holding requirement policies or any policies aimed at mitigating risk taking by senior executives;
- Problematic pay practices, current and past, which may promote a short-term versus a long-term focus.
- A rigorous stock ownership guideline should be at least 10x base salary for the CEO, with the multiple declining for other executives. A meaningful retention ratio should constitute at least 50 percent of the stock received from equity awards (on a net proceeds basis) held on a long-term basis, such as the executive's tenure with the company or even a few years past the executive's termination with the company.

Prohibit CEOs from serving on Compensation Committees: Generally vote AGAINST shareholder proposals seeking a policy to prohibit any outside CEO from serving on a company's compensation committee, unless the company has demonstrated problematic pay practices that raise concerns about the performance and composition of the committee.

Claw-back of Payments Under Restatements: When voting on shareholder proposals requesting clawbacks of bonuses or equity, the following factors are generally considered on a case-by-case basis: 1) the coverage of employees, whether it applies to all employees, senior executives or only employees committing fraud which resulted in the restatement; 2) the nature of the proposal where financial restatement is due to fraud; whether or not the company has had material financial problems resulting in chronic restatements; and, 3) the adoption of a robust and formal bonus/equity recoupment policy. If a company's bonus recoupment policy provides overly broad discretion to the board in recovering compensation, generally vote FOR the proposal. If the proposal seeks bonus recoupment from senior executives or employees committing fraud, generally vote FOR the proposal.

Termination of Employment Prior to Severance Payment and Eliminating Accelerated Vesting of Unvested Equity: Generally vote case-by-case on shareholder proposals seeking a policy requiring termination of employment prior to severance payment, and eliminating accelerated vesting of unvested equity. Change-in-control payouts without loss of job or substantial diminution of job duties (single-triggered) are considered a poor pay practice under our policy, and may even result in withheld votes from compensation committee members. The second component of this proposal — related to the elimination

of accelerated vesting – requires more careful consideration. The following factors will be taken into consideration regarding this policy.

- The company's current treatment of equity in change-of-control situations (i.e. is it double triggered, does it allow for the assumption of equity by acquiring company, the treatment of performance shares.
- Current employment agreements, including potential poor pay practices such as gross-ups embedded in those agreements.

Generally vote FOR proposals seeking a policy that prohibits acceleration of the vesting of equity awards to senior executives in the event of a change in control (except for pro rata vesting considering the time elapsed and attainment of any related performance goals between the award date and the change in control).

Tax Gross-Up Proposals: Generally vote in favor of shareholder proposals calling for companies to adopt a policy of not providing tax gross-up payments to executives, except in situations where gross-ups are provided pursuant to a plan, policy, or arrangement applicable to management employees of the company, such as a relocation or expatriate tax equalization policy.

All other shareholder proposals regarding executive and director pay will be voted taking into account company performance, pay level versus peers, pay level versus industry, and long term corporate outlook.

F. Social/Environmental Issues

Anti-Social Proposals

Generally vote against proposals that seek to regress a company's established environmental and social activities.

1. Animal Rights

Vote case-by-case on proposals to phase out the use of animals in product testing, taking into account:

- The nature of the product and the degree that animal testing is necessary or federally mandated (such as medical products)
- The availability and feasibility of alternatives to animal testing to ensure product safety
- The degree that competitors are using animal-free testing
- Generally vote FOR proposals seeking a report on the company's animal welfare standards unless:
- The company has already published a set of animal welfare standards and monitors compliance

- The company's standards are comparable to or better than those of peer firms, and
- There are no serious controversies surrounding the company's treatment of animals

Generally vote case-by-case proposals seeking a report on the feasibility of implementing controlled atmosphere killing (CAK) methods into company and supplier operations.

2. Consumer Issues

Genetically Modified Foods (GMO)

Vote case-by-case on proposals asking for a report on the feasibility of labeling products containing GMO ingredients taking into account:

- The relevance of the proposal in terms of the company's business and the proportion of it affected by the resolution
- The quality of the company's disclosure on GMO product labeling and related voluntary initiatives and how this disclosure compares with peer company disclosure
- The company's current disclosure on the feasibility of GMO product labeling, including information on the related costs
- Any voluntary labeling initiatives undertaken or considered by the company.

Vote case-by-case on proposals asking for reports on the financial, legal, and environmental impact of continued use of GMO ingredients/seeds, taking into account:

- The relevance of the proposal in terms of the company's business and the proportion of it affected by the resolution
- The quality of the company's disclosure on risks related to GMO product use and how this disclosure compares with peer company disclosure
- The percentage of revenue derived from international operations, particularly in Europe, where GMO products are more regulated and consumer backlash is more pronounced.

Generally vote against proposals asking companies to voluntarily label genetically modified (GMO) ingredients in their products or alternatively to provide interim labeling and eventually eliminate GMO ingredients due to the costs and feasibility of labeling and/or phasing out the use of GMO ingredients.

Generally vote against on proposals seeking a report on the health and environmental effects of genetically modified organisms (GMOs). Health studies of this sort are better undertaken by regulators and the scientific community.

Generally vote against proposals to completely phase out GMO ingredients from the company's products or proposals asking for reports outlining the steps necessary to eliminate GMO ingredients from the company's products. Such resolutions presuppose

that there are proven health risks to GMO ingredients (an issue better left to federal regulators) that outweigh the economic benefits derived from biotechnology.

Predatory Lending

Generally vote for reports on the company's procedures for preventing predatory lending, including the establishment of a board committee for oversight, unless it would cause the company to incur excessive costs, taking into account:

- The extent of the company's consumer lending operations
- Whether the company adequately discloses mechanisms in place to prevent abusive lending practices
- Whether the company adequately discloses the financial risks of its sub-prime business
- If the company was subject to violations of lending laws or serious lending controversies
- Peer companies' policies to prevent abusive lending practices

Drug Pricing (Pharmaceutical Companies)

Vote case-by-case on proposals asking the company to implement price restraints on pharmaceutical products, taking into account:

- Whether the proposal focuses on a specific drug and region
- Whether the economic benefits of providing subsidized drugs (e.g., public goodwill) outweigh the costs in terms of reduced profits, lower R&D spending, and harm to competitiveness
- The extent that reduced prices can be offset through the company's marketing budget without affecting R&D spending
- Whether the company already limits price increases of its products
- Whether the company already contributes life-saving pharmaceuticals to the needy and Third World countries
- The extent that peer companies implement price restraints

HIV/AIDS

Generally vote for requests for reports outlining the impact of the health pandemic (HIV/AIDS, malaria, and tuberculosis) on the company's operations and how the company is responding to it, taking into account:

- The nature and size of the company's operations in affected regions and the number of local employees
- The company's existing healthcare policies, including benefits and healthcare access for local workers

- Company donations to healthcare providers operating in the region
- Generally vote FOR proposals asking pharmaceutical companies to establish, implement, and report on a standard of response to the HIV/AIDS, tuberculosis and malaria health pandemic, taking into account:
- The company's actions in developing countries to address HIV/AIDS, tuberculosis and malaria, including donations of pharmaceuticals and work with public health organizations
- The company's initiatives in this regard compared to those of peer companies

Product Safety

Vote for proposals requesting the company to report on its policies, initiatives/procedures, oversight mechanisms related to toxic materials, including certain product line toxicities, and/or product safety in its supply chain, unless:

- The company already discloses similar information through existing reports or policies such as a Supplier Code of Conduct and/or a sustainability report;
- The company has formally committed to the implementation of a toxic materials and/or product safety and supply chain reporting and monitoring program based on industry norms or similar standards within a specified time frame; and
- The company has not been recently involved in relevant significant controversies or violations.

Toxic Chemicals

Generally vote for shareholder proposals that request the company disclose its policies related to toxic chemicals.

Generally vote for shareholder proposals seeking the preparation of a report discussing the potential financial and legal risks associated with utilizing certain chemicals and/or the implications of adopting a policy for phasing out toxic chemicals of concern and the.

Vote case-by-case on proposals calling for the company to adopt a policy of phasing out toxic chemicals of concern.

Harmful Ingredients in Cosmetic Products

Generally vote for shareholder proposals asking companies to report on the feasibility of removing, or substituting with safer alternatives, all "harmful" ingredients used in company products.

Stronger product warnings

Generally vote for proposals seeking stronger product warnings.

Tobacco

Advertising to youth:

Vote for proposals that would extend restrictions on the marketing of tobacco products to youth in foreign countries.

Second-hand smoke:

Generally vote for proposals asking that the company's operating facilities be smoke-free.

Cease production/sale of cigarette components:-

Vote case-by-case on proposals asking the company to cease production of tobacco-related products or cease selling products to tobacco companies, taking into account:

- The percentage of the company's business affected
- The economic loss of eliminating the business versus any potential tobacco-related liabilities

Spin-off tobacco-related businesses:

Vote case-by-case on proposals to spin off a tobacco-related unit, taking into account:

- The percentage of the company's business affected
- The feasibility of a spin-off
- Potential future liabilities related to the company's tobacco business

Investment in tobacco stocks:

Vote against proposals prohibiting investment in tobacco equities. Such decisions are better left to portfolio managers.

Handguns

Generally vote against reports on a company's policies aimed at curtailing gun violence in the United States unless the report is confined to product safety information. Criminal misuse of firearms is beyond corporate control, but rather is the purview of law enforcement agencies.

Adult Entertainment

Generally vote for shareholder proposals that seek a review of the company's involvement with pornography. Generally vote FOR shareholder proposals asking for reports on company policies related to the sale of mature-rated video games to children and teens.

Racial Stereotypes in Advertising

Generally vote for shareholder proposals seeking more careful consideration of using racial stereotypes in advertising campaigns, including preparation of a report.

3. Climate Change and the Environment

Global Warming (Climate Change)

Generally vote for proposals requesting reports on the level of greenhouse gas emissions from the company's operations and products, unless the report is duplicative of the

company's current environmental disclosure and reporting or is not integral to the company's line of business. However, additional reporting may be warranted if:

- The company's level of disclosure lags that of its competitors,
- The company does not provide current, publicly-available information on the perceived impact that climate change may have on the company as well as associated policies and procedures to address such risks and/or opportunities; or
- The company has a poor environmental track record, such as violations of federal and state regulations

Generally vote for shareholder proposals requesting the company adopt greenhouse gas (GHG) reduction policies and/or emissions reduction goals, taking into account:

- The company's existing GHG policies and goals, as well as those of its peers
- The scope and economic impact of the request and implementation
- Recent litigation, controversy, or legislation surrounding the company

Generally vote for shareholder proposals requesting greater disclosure on company plans for the expansion or creation of coal-fired power plants. Generally vote FOR shareholder proposals seeking a report assessing the potential or anticipated environmental impacts of new coal-fired power plants.

General Environmental Reports

Generally vote for proposals requesting reports disclosing the company's environmental policies unless it already has well-documented environmental management systems that are available to the public.

Community Impact Assessments

Vote case-by-case on requests for reports outlining the potential community impact of company operations in specific regions considering:

- Current disclosure of applicable risk assessment report(s) and risk management procedures;
- The impact of regulatory non-compliance, litigation, remediation, or reputational loss that may be associated with failure to manage the company's operations in question, including the management of relevant community and stakeholder relations;
- The nature, purpose, and scope of the company's operations in the specific region(s); and
- The degree to which company policies and procedures are consistent with industry norms.

Water Use

Generally vote for shareholder proposals seeking the preparation of a report on a company's risks linked to water use.

Energy Efficiency

Vote case-by-case on proposals requesting a company report on its energy efficiency policies, considering:

- The current level of disclosure related to energy efficiency policies, initiatives, and performance measures;
- The company's level of participation in voluntary energy efficiency programs and initiatives;
- The company's compliance with applicable legislation and/or regulations regarding energy efficiency; and
- The company's energy efficiency policies and initiatives relative to industry peers.

Facility Safety Policy

Vote case-by-case on resolutions requesting that companies report on risks associated with their operations and/or facilities, considering:

- The company's compliance with applicable regulations and guidelines;
- The level of existing disclosure related to security and safety policies, procedures, and compliance monitoring; and
- The existence of recent, significant violations, fines, or controversy related to the safety and security of the company's operations and/or facilities.

Environmental-Economic Risk Report

Generally vote for proposals requesting reports assessing economic risks of environmental pollution or climate change, taking into account whether the company is already doing so.

Arctic National Wildlife Refuge

Generally vote for requests requesting reports outlining potential environmental damage from drilling in the Arctic National Wildlife Refuge (ANWR).

Recycling

Generally vote for proposals to adopt a comprehensive recycling strategy, taking into account the nature of the company's business and the percentage affected.

Renewable Energy

Vote case-by-case on proposals to invest in renewable energy sources, taking into account:

- The nature of the company's business and the percentage affected
- The extent that peer companies are switching from fossil fuels to cleaner sources
- The timetable and specific action prescribed
- The costs of implementation
- The company's initiatives to address climate change

Generally vote for requests for reports on the feasibility of developing renewable energy sources, unless the report is duplicative of the company's current environmental disclosure and reporting or is not integral to the company's line of business.

4. Diversity

Board Diversity

Generally vote for requests for reports on the company's efforts to diversify the board, unless:

- The board composition is reasonably inclusive in relation to companies of similar size and business, and
- The board already reports on its nominating procedures and diversity initiatives

Vote case-by-case on proposals asking the company to increase the representation of women and minorities on the board, taking into account:

- The degree of board diversity
- Comparison with peer companies
- Established process for improving board diversity
- Existence of independent nominating committee
- Use of outside search firm
- History of EEO violations

Equal Opportunity Reports

Generally vote for requests for reports outlining the company's affirmative-action initiatives unless:

- The composition of senior management and the board is inclusive,
- The company has well-documented equal opportunity programs,

- The company already publicly reports on its company-wide affirmative-action initiatives and provides data on its workforce diversity, and
- The company has no recent EEO-related violations or litigation.

Generally vote for proposals seeking information on the diversity efforts of suppliers and service providers, which can pose a significant cost and administrative burden on the company, unless:

- The composition of senior management and the board is inclusive,
- The company has well-documented equal opportunity programs,
- The company already publicly reports on its company-wide affirmative-action initiatives and provides data on its workforce diversity, and
- The company has no recent EEO-related violations or litigation.

Sexual Orientation

Generally vote for proposals to amend the company's Equal Employment Opportunity (EEO) statement to include reference to sexual orientation, unless the implementation of a policy would result in excessive costs for the company.

Vote case-by-case on proposals regarding extension of company benefits to domestic partners, taking into account the costs of doing so.

5. General Corporate Issues

Charitable and Political Issues

Generally vote for proposals asking the company to affirm political nonpartisanship in the workplace

Generally vote for proposals to make public the company's political contributions. Federal and state laws restrict the amount of corporate contributions and include reporting requirements.

Vote case-by-case on proposals disallowing the company from making political contributions. Businesses are affected by legislation at the federal, state, and local level and barring contributions can put the company at a competitive disadvantage.

Vote case-by-case on proposals restricting the company from making charitable contributions. Charitable contributions are generally useful for assisting worthwhile causes and for creating goodwill in the community. In the absence of bad faith, self-dealing, or gross negligence, management should determine which contributions are in the best interests of the company

Vote case-by-case on proposals requesting information on a company's lobbying initiatives, considering any significant controversy or litigation surrounding a company's public policy activities, the current level of disclosure on lobbying strategy, and the impact that the policy issue may have on the company's business operations.

Link Executive Compensation to Social Performance

Vote case-by-case on proposals to review ways of linking executive compensation to factors such as corporate downsizings, customer or employee satisfaction, community involvement, human rights, environmental performance, predatory lending, and executive/employee pay disparities. Such resolutions should be evaluated in the context of:

- The relevance of the issue to be linked to pay
- Violations or complaints filed against the company relating to the particular measure
- Artificial limits sought by the proposal, such as freezing or capping executive pay
- Degree of independence of the compensation committee
- Current company pay levels
- Financial Performance of the company

6. International Issues, Labor Issues, and Human Rights

Country-Specific Human Rights Reports

Generally vote for proposals requesting reports outlining vendor standards compliance unless either:

- The company does not operate in countries with significant human rights violations
- The company has no recent human rights controversies or violations
- The company already publicly disclosed information on its vendor standards compliance

Generally vote for proposals requesting reports detailing the company's operations in a particular country and steps to protect human rights, based on:

- The nature and amount of company business in the country
- The company's workplace code of conduct
- Proprietary and confidential information involved
- Company compliance with U.S. regulations on investing in the country
- Level of peer company involvement in the country

International Codes of Conduct/Vendor Standards

Generally vote for proposals to implement certain human rights standards at company facilities or those of its suppliers and to commit to outside, independent monitoring. In evaluating these proposals, the following should be considered:

- The company's current workplace code of conduct or adherence to other global standards and the degree they meet the standards promulgated by the proponent
- Agreements with foreign suppliers to meet certain workplace standards
- Whether company and vendor facilities are monitored and how
- Company participation in fair labor organizations
- Type of business
- Proportion of business conducted overseas
- Countries of operation with known human rights abuses
- Whether the company has been recently involved in significant labor and human rights controversies or violations
- Peer company standards and practices
- Union presence in company's international factories

Internet Privacy and Censorship

Vote case-by-case on resolutions requesting that companies report on risks associated with their operations and/or facilities, considering:

- The company's compliance with applicable regulations and guidelines;
- The level of existing disclosure related to security and safety policies, procedures, and compliance monitoring; and
- The existence of recent, significant violations, fines, or controversy related to the safety and security of the company's operations and/or facilities.

MacBride Principles

Generally vote for proposals to endorse or increase activity on the MacBride Principles, taking into account:

- Company compliance with or violations of the Fair Employment Act of 1989
- Company antidiscrimination policies that already exceed the legal requirements
- The cost and feasibility of adopting all nine principles
- The cost of duplicating efforts to follow two sets of standards (Fair Employment and the MacBride Principles)
- The potential for charges of reverse discrimination
- The potential that any company sales or contracts in the rest of the United Kingdom could be negatively impacted
- The level of the company's investment in Northern Ireland
- The number of company employees in Northern Ireland

- The degree that industry peers have adopted the MacBride Principles
- Applicable state and municipal laws that limit contracts with companies that have not adopted the MacBride Principles.

Operations in High-Risk Markets

Vote case-by-case on requests for the company to review and report on the financial and reputation risks associated with operations in “high risk” markets, such as a terrorism-sponsoring state or otherwise, taking into account:

- The nature, purpose, and scope of the operations and business involved that could be affected by social or political disruption;
- Current disclosure of applicable risk assessment(s) and risk management procedures;
- Compliance with U.S. sanctions and laws;
- Consideration of other international policies, standards, and laws; and
- Recent involvement in significant controversies or violations in "high risk" markets.

Outsourcing

Generally vote for shareholders proposals asking for companies to report on the risks associated with outsourcing or off-shoring.

7. Sustainability

Sustainability Reports

Generally vote for shareholder proposals seeking greater disclosure on the company’s environmental practices, and/or environmental risks and liabilities. Generally vote FOR shareholder proposals asking companies to report in accordance with the Global Reporting Initiative (GRI).

CERES Principles

Generally vote for proposals to adopt the CERES Principles, taking into account:

- The company's current environmental disclosure beyond legal requirements, including environmental health and safety (EHS) audits and reports that may duplicate CERES
- The company's environmental performance record, including violations of federal and state regulations, level of toxic emissions, and accidental spills
- Environmentally conscious practices of peer companies, including endorsement of CERES
- Use of independent, third-party monitoring
- Costs of membership and implementation

Non-U.S. PROXY ISSUES

Approved by the Board of Trustees March 2011

The non-U.S. items enumerated below are intended to supplement our general proxy voting policy.

A. Operational Items

Routine Agenda Items

In some markets, shareholders are routinely asked to approve:

- the opening of the shareholder meeting
- acknowledge proper convening of meeting
- that the meeting has been convened under local regulatory requirements
- the presence of quorum
- the agenda for the shareholder meeting
- the election of the chair of the meeting
- the appointment of shareholders to co-sign the minutes of the meeting
- regulatory filings
- the designation of inspector or shareholder representative(s) of minutes of meeting
- the designation of two shareholders to approve and sign minutes of meeting
- the allowance of questions
- the publication of minutes
- the closing of the shareholder meeting
- authorize board to ratify and execute approved resolutions
- prepare and approve list of shareholders

As these are typically formalities associated with the convening of general shareholder meetings, generally vote for these and similar routine management proposals.

Financial Results/Director and Auditor Reports

Generally vote for approval of financial statements and director and auditor reports, unless: there are concerns about the accounts presented or audit procedures used; or the company is not responsive to shareholder questions about specific items that should be publicly disclosed.

Change in Company Fiscal Term

Vote for proposals to change a company's fiscal term unless a company's motivation for the change is to postpone its Annual General Meeting.

Allocation of Income and Dividends

Generally vote for approval of the allocation of income, unless: the dividend payout ratio has been consistently below 30 percent without adequate explanation; or, the payout is excessive given the company's financial position.

Stock (Scrip) Dividend Alternative

Generally vote FOR stock (scrip) dividend proposals. However, vote against proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareholder value.

Amendments to the Articles of Association

Generally vote FOR proposals to amend articles of association if shareholder rights are protected; there is negligible or positive impact on shareholder value; management provides adequate reasons for the amendments; and, the company is required to do so by law (if applicable). Generally vote AGAINST proposals to amend articles of association if the amendment is deemed not to be in the long-term economic best interest of shareholders.

Amend Quorum Requirements

Generally vote against proposals to lower the quorum requirement, unless the proposal is consistent with market norms, the company's reasons for the change is in line with shareholders' interests, and the company's ownership structure would not hamper wider shareholder participation. Companies that have a substantial shareholder or shareholder group should set their quorum requirement well above the percentage of shares owned by such shareholder or shareholder group. Quorum requirements are intended to ensure that a broad range of shareholders is represented at meetings.

Appointment of Internal Statutory Auditors

The appointment of internal statutory auditors is a routine request for companies in several markets. In addition to the regular duty of verifying corporate accounts, the auditor board is responsible for supervising management and ensuring compliance with the law and articles of association. The auditors must perform an audit of the accounts every three months and present to shareholders a report on the balance sheet at the AGM. For most countries, the auditors are elected annually and may seek reelection. Vote FOR the appointment of statutory auditors unless there are serious concerns about the reports presented or questions about an auditor's qualifications, including whether the auditor has previously served the company in an executive capacity or can otherwise be considered affiliated with the company.

B. BOARD OF DIRECTORS

Election of Directors (Non-U.S.)

Vote FOR management nominees in the election of directors, unless:

- Adequate disclosure has not been provided in a timely manner;
- There are clear concerns over questionable finances or restatements;
- There have been questionable transactions with conflicts of interest;
- There are any records of abuses against minority shareholder interests; or
- The board fails to meet minimum corporate governance standards.

Vote FOR individual nominees unless there are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities.

Vote FOR shareholder nominees if they satisfy reasonable qualifications for board membership.

Vote AGAINST individual directors if repeated absences at board meetings have not been explained (in countries where this information is disclosed).

Discharge of the Board and Management

In several non-U.S. markets, shareholders are asked to approve actions taken by the board and management during the year. The annual formal discharge is a tacit vote of confidence in the company's management. Generally vote for discharge of the board and management, unless: there are serious questions about actions of the board or management for the year in question; or, legal action is being taken against the board by other shareholders. In addition, vote against proposals to remove the annual discharge of board and management from the agenda.

Executive Compensation

All compensation proposals will be reviewed on a case-by-case basis.

Director Compensation

Vote FOR proposals to award cash fees to non-executive directors unless the amounts are excessive relative to other companies in the country or industry.

Retirement Bonuses for Directors and Statutory Auditors

Generally vote AGAINST payment of retirement benefits to non-executive directors and statutory auditors. When one or more of the individuals to whom the grants are being proposed has not served in an executive capacity for the company for at least three years, oppose payment, particularly as the size of these payments may be at the discretion of the board. If any one individual does not meet our criteria, vote AGAINST the entire proposal.

C. CAPITAL STRUCTURE

Issuance of Shares With or Without Preemptive Rights

General Issuances: Generally, vote for proposals for the issuance of shares with preemptive rights to a maximum of 100 percent over currently issued capital and for proposals for the issuance of shares without preemptive rights to a maximum of 20 percent of currently issued capital. Generally vote against proposals for the general issuance of shares with or without preemptive rights above and beyond the aforementioned thresholds.

Specific Issuances: Generally vote on a case-by-case basis based on the individual merits.

Shares Repurchase Plans

Generally vote for share repurchase plans, unless: clear evidence of past abuse of the authority is available; or, the plan contains no safeguards against selective buybacks.

Reissuance of Repurchased Shares

Generally vote FOR proposals to reissue any repurchased shares unless there is clear evidence of abuse of this authority in the past.

Reduction of Capital

This proposal may ask shareholders to allow the board to reduce the company's deficit and create a contributed surplus by effecting a reduction in the stated capital of the company's common shares. A company may take this action if its net assets are in danger of falling below the aggregate of its liabilities and its stated capital. Should that situation occur, under some corporate law statutes the company would be prohibited from paying dividends on its shares. A company may also seek a reduction in capital corresponding to the cancellation of shares repurchased in connection with an earlier buyback authorization. The amount of equity that may be cancelled is usually limited to ten percent by national law. This type of proposal is seen in several markets and is considered a routine accounting measure.

Generally vote for the proposals as they are considered to be routine accounting measures.

Capitalization of Reserves for Bonus Issue/Increase in Par Value

Generally vote for proposals to capitalize reserves for bonus issues of shares or to increase par value.

Adjust Par Value of Common Stock

Vote for management proposals to reduce par value of common stock.

Increase in Borrowing Powers

Generally vote for proposals to approve increases in a company's borrowing powers after taking into account management's stated need for the increase, the size of the increase, and the company's current debt-to-equity ratio or gearing level. Large increases in borrowing powers can sometimes result in dangerously high debt-to-equity ratios that could harm shareholder value. If an increase is excessive without sufficient justification and if a company already has exceptionally high debt-to-equity ratio compared to its industry, generally vote AGAINST the proposal.

Pledging of Assets for Debt

Generally vote for proposals to approve the pledging of a company's assets for debt. In certain countries, shareholder approval is required when a company needs to secure a debt issuance with its assets. In many cases, this is a routine request and is a formality under the relevant law. When reviewing such proposals, take into account the terms of

the proposed debt issuance and the company's overall debt level. If both of these factors are acceptable, vote FOR the request.

D. OTHER ITEMS

Mandatory Takeover Bid Waivers

Generally vote AGAINST proposals to waive mandatory takeover bid requirements. The requirement that a takeover bid should be launched when a substantial amount of shares have been acquired prevents the entrenchment of the controlling shareholder and protects minority owners. However, vote in favor of a waiver of mandatory takeover bid requirements when the event prompting the takeover bid is a repurchase by the company of its own shares. When a company repurchases its own shares, the relative stake of a large shareholder increases even though the number of shares held by the large shareholder has not changed. In certain markets, notably the United Kingdom, Ireland and Australia, the mandatory bid rules require a large shareholder to make a takeover bid if its stake in the company is increased on a relative basis as a result of a share repurchase by the company. Companies in these markets may seek a waiver from the takeover bid requirement applicable to their large shareholder. Under certain circumstances, generally vote FOR such a waiver if the share repurchase would not push the large shareholder's stake in the company above 50 percent.

Renew Partial Takeover Provision

Generally vote for the adoption of this proposal as this article provides protection for minority shareholders by giving them ultimate decision-making authority based on their own interests. Australian law allows companies to introduce into their articles a provision to protect shareholders from partial takeover offers, to be renewed by shareholders every three years. If a partial takeover of the company is announced, directors are required to convene a shareholder meeting at least 15 days before the closing of the offer to seek approval of the offer. If shareholders reject the resolution, the offer is considered withdrawn under company law and the company can refuse to register the shares tendered to the offers.

Expansion of Business Activities

Generally vote for the expansion of business activities unless the new business takes the company into risky areas.

Control and Profit Transfer Agreements

Generally vote FOR management proposals to approve control and profit transfer agreements between a parent and its subsidiaries.

Depository Receipts and Priority Shares

Generally vote against the introduction of depository receipts and priority shares.

Depository receipts are an especially common antitakeover defense among large Dutch companies. Ordinary voting shares are first issued to a company-friendly trust or

foundation. The trust or foundation in turn issues depositary receipts, but the foundation retains the voting rights of the issued security. The depositary receipts carry only the financial rights attached to the shares (i.e., dividends). In this manner, the company gains access to capital while retaining control over voting rights.

Priority shares, established in a company's articles, may be awarded with certain powers of control over the rest of the company. In practice, priority shares are held by members of the supervisory board, company-friendly trusts or foundations, or other friendly parties. Depending on the articles, priority shareholders may determine the size of the management or supervisory boards or may propose amendments to articles and the dissolution of the company.

Remuneration Report

In several non-U.S. markets, including the United Kingdom, Sweden, Australia, and the Netherlands, shareholders are given the opportunity to ratify the company's equity based, and cash compensation policies. Generally vote for the routine approval of remuneration reports in non-U.S. markets.

Issuance of Free Warrants

Generally vote against the issuance of free warrants. Such warrants, when issued, are granted to all the shareholders for free and enable them to subscribe for shares (of the same issuer) under preferential conditions. This resolution clearly qualifies as an antitakeover device since the warrants issue would take place during a public offer and be automatically cancelled if the offer fails or is removed. The warrants issue would potentially result in the company's share capital being massively increased during an offer and therefore would make it extremely difficult for a bidder to take control of the target.

III. STAFF TRADING IN PUBLIC SECURITIES

Policy Statement

Maryland State Retirement Agency employees shall not derive personal gain from knowledge of the occurrence and / or timing of future purchases or sales by the System.

1. **Scope**

This policy applies to all Designated Employees of the Maryland State Retirement Agency.

2. **Interpretive Authority & Exceptions to the Policy**

The Executive Director of the Maryland State Retirement Agency will be the interpretive authority for this policy and provide for exceptions to this policy.

3. **Roles & Responsibilities**

The Executive Director has overall responsibility for the Maryland State Retirement Agency's Staff Trading in Public Securities Policy. The Chief Investment Officer, or designee, has responsibility for oversight and management, including assuring compliance with reporting requirements. The Deputy Chief Investment Officer, or designee, has responsibility for designing, developing, implementing, administering, maintaining and monitoring the reporting requirements and related procedures to provide for compliance with the Agency policy. All Designated Employees have responsibility for compliance with policies and procedures.

4. **General Policy**

- a. Personal gain based on knowledge of occurrence and timing of future purchases or sales by the System's external managers is prohibited.
- b. The use of Agency resources, such as computers, to place personal trades or to conduct other personal investment-related business is prohibited.
- c. This policy shall be reviewed and revised if any portion of the System's assets becomes managed internally by Investment Division staff.

5. **General Definitions**

- a. The Restricted List is a list of companies for which trading of public securities by the System or by designated employees is limited.
- b. Designated Employees are staff identified as key investment personnel with designated or expected routine access to information relating to future System purchases or sales.

- i. Executive Director
 - ii. Chief Investment Officer
 - iii. Deputy Chief Investment Officer
 - iv. All Investment Division Staff
 - v. All Investment Division Accounting Staff
 - vi. Other Agency employees as identified specifically by the Deputy Chief Investment Officer
- c. The Investment Disclosure Statement is the required reporting format of all designated employees, due within 45 days of the end of the semi-annual reporting period. This report is in addition to any other reporting requirements (i.e., the annual financial disclosures required by the Maryland State Ethics Commission).
 - d. Immediate Family includes the spouse, dependent children, other dependent relatives if living in the household and any other household member, whether or not related.

6. Procedures

- a. The Deputy Chief Investment Officer (DCIO), or designee, will compile and maintain a **restricted list** of securities which staff may not transact in for personal portfolios.
- b. The restricted list shall include the names of any individual securities for which System staff has knowledge of current or future purchases or sales by external investment managers of the System. Securities held in the portfolios of external managers will not be considered restricted for purposes of this policy unless Agency Staff possesses confidential information regarding the timing of current or future security transactions by that manager.
- c. Additions & deletions to the restricted list shall occur through the following process:
 - i. Each Investment Division staff member will be responsible for communicating immediately to the DCIO the individual securities - regarding which they have gained knowledge about future purchases or sales.
 - ii. The DCIO will periodically solicit Investment Division staff as to additions and deletions to the list.
 - iii. The notification of a restricted list modification will be distributed to all designated employees via email each time securities are added or deleted from the list.
 - iv. Once designated employees have received the notification of a restricted list or modification and they plan to transact in any security

during the time a restricted list exists, the designated employee will be responsible for obtaining a copy of the restricted list from the DCIO, or designee. Designated employees may not transact in any security on the restricted list until such time as they receive a notice from DCIO that the restricted list has been pulled.

- v. Any security, other than those on the list, shall be allowable for purchase or sale in personal portfolios.
- vi. It is anticipated that with the use of external investment managers, the restricted list may contain few or no securities since manager reporting of transactions and staff knowledge of those transactions typically occurs after the fact. An exception to this would be during periods of manager transitions.

7. **Periodic Reporting & Investment Disclosure Statements**

- a. The DCIO or designee will maintain a list of designated employees who will be required to file **Investment Disclosure Statements**, and will be responsible for sending out disclosure statements semi-annually.
- b. Designated employees (including the Chief Investment Officer) shall report to the DCIO on a semi-annual basis a list of all individual security purchases and sales, other than those securities specifically excluded under 7.f. below, for their personal portfolios or those of immediate family members as defined in this policy.
- c. The Chief Investment Officer or designee will receive the investment disclosure statement of the DCIO.
- d. Positive reporting is required by all designated employees. If there are no transactions during the period, this must be reported. The investment disclosure statements will be due within 45 days after the close of the reporting period.
- e. The investment disclosure statements will require, but not be limited to, the following:
 - i. a. Trades during the period and trade dates
 - ii. b. Broker names
 - iii. c. Individual security / company names
- f. For purposes of this policy and reporting requirements, the following investments shall be excluded: (a) investments made for the employee's account with the Maryland Supplemental Retirement System, (b) mutual funds, (c) certificates of deposits (CDs) and money market funds, (d) U.S. government bonds, and (e) exchange traded funds.

8. Accountability / Investigations / Enforcement

- a. Accountability & disclosing compliance issues
 - i. Each designated employee is responsible for submitting an investment disclosure statement on a semi-annual basis by the due date.
 - ii. All employees are responsible for reporting non-compliance, or knowledge thereof, immediately to the DCIO.
- b. The DCIO is responsible for:
 - i. Monitoring investment disclosure statements, and
 - ii. Referring to the CIO and Executive Director known situations of non-compliance that have been deemed to warrant further investigation.
- c. Corrective action for non-compliance shall be determined by the DCIO in consultation with the CIO and Executive Director.
- d. Employees violating this policy are subject to disciplinary action, up to and including termination of employment.
- e. Record of corrective actions will be placed in employee personnel files.

Required Supporting Documentation, Forms & Information:

Investment Disclosure Statement
Designated Agency Positions List Required to Report
Staff Policy Acknowledgement for Designated Agency Positions

General Questions should be addressed to:

Maryland State Retirement Agency
Chief Investment Officer
120 East Baltimore Street, 16th Floor
Baltimore, Maryland 21202
410-625-5621

IV. SECURITIES LITIGATION POLICY

The purpose of this document is to set forth the Board of Trustees' policies with respect to securities litigation.

SUMMARY

The Board of Trustees believes that the most effective class action evaluation processes consists of three components: (1) initial identification of claims, (2) further, in-depth assessment of certain claims and (3) active participation in securities litigation, where warranted. The services of a class action monitor, claim evaluator, and specialized securities litigation counsel will be supplied by third party providers through the procurement process.

The principal objectives of the Board of Trustees with regard to securities litigation are to: (1) fulfill the Board of Trustees' fiduciary duty by effectively managing securities claims as assets of the Retirement System, and (2) maximize recovery of Retirement System assets on claims, while minimizing fees paid to obtain recoveries.

1. CLASS ACTION MONITOR

The Board of Trustees believes that the first element of an effective securities litigation evaluation process is to have a "class action monitor" promptly identify all pending class actions in which the Retirement System may be a class member and to make a preliminary calculation of the Retirement System's losses in a given case.

The claims monitor shall provide the following services to the Retirement System:

- Identify all newly-filed class action suits in which the System may be a class member, and notify the Investment Division and OAG of same no less frequently than once a week;
- Make a preliminary calculation of the System's economic losses on both a first-in-first-out calculation (FIFO) and last-in-first-out (LIFO) basis in each case;
- Notify the Investment Division and OAG of those cases where either the estimated economic losses on both a first-in-first-out calculation (FIFO) and last-in-first-out (LIFO) basis are \$3 million or greater based on the class period proposed in the litigation;
- Monitor pending class action suits in which the System may be eligible to be a class member and notify the Investment Division and OAG weekly of any changes to pending litigation, including: updates to the "class periods" (these start and end dates, which could affect the System's potential losses, may change throughout the litigation), updates to case's status (is the case still active, has it been settled or dismissed), or any new data

regarding settlement, including settlement notices and disbursements of funds;

- Provide a complete list of all CUSIP numbers (security ID numbers) and company names according to the System's portfolio that are eligible to participate in each class action and update when a settlement is pending;
- Provide a weekly "Hot List" of upcoming claims filing deadlines;
- Provide timely, web based delivery of monitor's findings and research; and
- Offer OAG and Investment Division staff access to online securities litigation database, including all eligible CUSIPs, class periods, settlement dates, etc. Database should also include information regarding state and SEC settlements (disgorgements).

The roles and responsibilities of other parties involved in the claims monitoring process are as follows:

- Custodial Bank: As the claims monitor will need access to several years of historical transactional data as well as current transactional data, the custodian will be directed to provide the claims monitor with a data interface and access to necessary investment records (both current and historical), and to otherwise cooperate with the claims monitor.
- Investment Division: will (a) procure the claims monitor and oversee the claims monitor's work, (b) receive and review notifications from the claims monitor, and (c) act as an intermediary between the claims monitor, custodial bank and investment managers where needed to ensure that the claims monitor has all necessary information.
- OAG: will (a) receive and review notifications from the claims monitor in cases where the claims monitor advises that the maximum potential recoverable damages are greater than \$3 million, (b) refer cases to the claim evaluator as required, and (c) provide updates to the Board.

2. CLAIMS EVALUATOR

The Board believes that the second element of an effective securities litigation evaluation process is to have a "claim evaluator" promptly conduct an in-depth assessment of any case where (a) the System's class action monitor has advised that the estimated economic losses are greater than \$10 million based on the class period proposed for the litigation, and (b) the OAG, in consultation with the Investment Division, determines that a claims evaluation will further the objectives of the Board of Trustees. In order to prevent bias, the claim evaluator will not be guaranteed selection as the System's litigation counsel in the event that a decision is made to actively pursue litigation in a case.

The claim evaluator will be expected to provide the following services to the Retirement System:

- Assess and evaluate the known facts and the law applicable to the case;
- Perform due diligence on claims (e.g., contact counsel for both sides, review complaints, SEC filings and company disclosures).
- Determine what other institutional investors are doing;
- Review, refine estimate of System's (1) economic losses and (2) maximum potential recoverable damages;
- Where necessary and appropriate, review System's investment records, interview Investment Division staff, external managers, others.
- Provide a written, confidential report containing (a) summary of findings and (b) a recommendation as to what, if any action the System should take in the litigation. Options may include doing nothing, filing for lead plaintiff status or actively participating in ways other than becoming lead plaintiff. Other types of active participation may include: filing a motion to support or oppose a particular lead plaintiff or lead counsel candidate, objecting to a poor settlement or excessive fees, opting out of the class to file a separate action, or bringing a derivative action.
- Be available, on an "as needed" basis, to confer with OAG, staff, Investment Committee and/or the Board of Trustees regarding findings and recommendations.
- Where a decision is made to seek lead plaintiff status, assist OAG and System in arranging fees structure with litigation counsel.

The roles and responsibilities of other parties involved in the claim evaluation phase are as follows:

- OAG: Will procure one or more claim evaluators and oversee the claim evaluators' work. Will timely provide claim evaluator with any requested information. After the claim evaluator's report is received, the OAG will confer with Investment Division staff, the Securities Litigation Committee, and, as needed, the Board of Trustees and make a recommendation regarding the position the System should take in the litigation.
- Investment Division: Will timely provide claim evaluator with any requested information. Will participate in interviews or meetings requested by claim evaluator. Will provide claim evaluator with any data required from custodial bank.
- External managers: Will timely provide claim evaluator with any requested information. Will participate in interviews or meetings requested by claim evaluator.

- Claims monitor: Will timely provide claim evaluator with any requested information. Will participate in interviews or meetings requested by claim evaluator.
- Custodial bank: Will timely provide claim evaluator with any requested information.
- Securities Litigation Committee: Will review the claim evaluator's reports, receive recommendations from the OAG and obtain the Investment Division's inputs as to business issues. Will develop a recommendation regarding the position the System should take in the litigation, based on the following factors:
 - a) Whether the Retirement System's (1) economic losses and (2) maximum potential recoverable damages are large enough to warrant the expenditure of staff/counsel time that would be required for active involvement in the case;
 - b) Whether other institutional investors are likely to become actively involved;
 - c) Whether the Retirement System's involvement as lead plaintiff would add value to the potential settlement or help achieve a corporate governance goal or other policy goal of the Retirement System; and
 - d) Whether there are other exceptional circumstances warranting seeking appointment as lead plaintiff.

If the Committee's recommendation is that the Retirement System shall not actively participate in the litigation, the Committee shall report its recommendation as an information item to the Board of Trustees at the next scheduled meeting. However, if the Committee's recommendation is that the Retirement System should actively participate in the litigation, either by seeking lead plaintiff status, or through an opt-out or derivative action, then the Committee shall promptly provide its recommendation to the Board of Trustees for its consideration.

- The Board of Trustees: Will appoint a Securities Litigation Committee, comprised of 3 or more members of the Board, to make recommendations regarding the position the Retirement System should take in the litigation. Will receive recommendations from the Securities Litigation Committee and OAG. If the Securities Litigation Committee and OAG recommend active participation in the litigation, the Board of Trustees shall promptly confer and vote on whether to accept the recommendation. Because of the 60 day "time clock" for seeking appointment as lead plaintiff, the trustees recognize and understand that it may, from time to time, be necessary to conduct a telephone poll of the full Board of Trustees to vote on the recommendation.

3. SECURITIES LITIGATION COUNSEL

The Board believes that the third and last element of an effective securities litigation evaluation process is to have the ability to retain the services of specialized securities litigation counsel in the event that a decision is made to actively participate in a securities case.

Where a decision is made to seek lead plaintiff status or to otherwise commence litigation (e.g., an “opt-out” action), special securities litigation counsel, at the behest of and under the supervision of the OAG, shall provide the following services on behalf of the System:

- Diligently gather facts and assess laws applicable to the case;
- Zealously represent the System and the plaintiff class at all stages of litigation;
- Review System’s investment records, interview Investment Division staff, external managers, others;
- If settlement is proposed, provide a written, confidential report containing (a) summary of findings and significant events in the litigation and (b) recommendation as to whether System should accept the proposed settlement to the OAG, with copies to all members of the Board (distributed via the Board Secretary) and the Chief Investment Officer. The report will include a full explanation of reasons supporting recommendation; and
- Be responsive to, and available on an “as needed” basis to confer with, OAG, staff, Securities Litigation Committee and/or the Board of Trustees regarding status, findings, settlement proposals and recommendations.

The roles and responsibilities of other parties in the conduct of litigation are as follows:

- OAG: Shall select through the procurement process, with input from the System, a panel of at least three qualified law firms which would be available to act as special securities litigation counsel under the supervision of the OAG on a contingency fee basis. Will be responsible for establishing, with input from the System, the fees payable to counsel, and overseeing special securities litigation counsel’s work. In keeping with its constitutional and statutory obligations, the OAG will give the System its independent evaluation of, and advice regarding, issues arising during the course of litigation. Will timely provide counsel and Board with any requested information.
- Investment Division: Will timely provide counsel with any requested information. Will participate in interviews, meetings, depositions or other proceedings as requested by counsel. Will provide counsel with any data required from custodial bank.

- External managers: Will timely provide counsel with any requested information. Will participate in interviews, meetings, depositions or other proceedings as requested by counsel.
- Custodial Bank: Will timely provide counsel with any requested information.
- Securities Litigation Committee and Board of Trustees: Will timely provide counsel with any requested information. Will participate in interviews, meetings, depositions or other proceedings as requested by counsel.

FILING OF CLAIMS:

Upon the settlement or other resolution of class action or other securities litigation, the System's custodial bank shall timely file all documents and take other steps necessary to insure that (a) the System's interests are protected and (b) all monies due the System from such litigation are collected. The Investment Division will receive information from the custodial bank regarding the filing of claims and receipt of settlement proceeds, and periodically report to the Board of Trustees.

V. ECONOMICALLY TARGETED INVESTMENTS

A. POSITION PAPER ON TARGETED INVESTING OF ASSETS

The purpose of this paper is to establish and promulgate the position of the Board of Trustees regarding exercise of its fiduciary responsibilities with specific references to targeted investing.

1. BACKGROUND

The Maryland Code provides that the Board of Trustees shall be Trustees of the several funds created to provide benefits to participants. Trustees are granted full power to invest and reinvest such funds including full power to hold, purchase, sell, assign, transfer and dispose of any securities and investments. The fiduciary status of Trustees is firmly established by law. As fiduciaries, Trustees are charged (SPP§ 21-203) with a standard of care: "A fiduciary shall discharge the fiduciary's duties with respect to the several systems solely in the interest of the participant and beneficiaries and as follows:

- a. For the exclusive purpose of providing benefits to participants and for reasonable expenses of administering the several Systems;
- b. With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;
- c. By diversifying the investments of the several systems so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so;
- d. In accordance with the laws governing the several systems; and
- e. In accordance with the, documents and instruments governing the several systems to the extent that the documents and instruments are consistent with the provisions of this subtitle."

2. DEFINITION

An economically targeted investment (ETI) is an investment that is designed to yield a competitive market rate of return commensurate with the risk associated with the investment, and which simultaneously provides a collateral economic benefit for the State of Maryland, its political subdivisions, or Maryland residents.

3. POSITION STATEMENTS

The Board of Trustees supports the exclusivity clause incorporated in the Maryland code, to wit: "The Board of Trustees shall hold the assets of each of the several systems for the exclusive purpose of providing: (1) benefits to participants; and (2) for reasonable expenses of administration." (SPP§ 21-202)

It is the position of the Trustees that investments which are designed to promote or further some objective or special interest other than the exclusive interest of participants and their beneficiaries shall be rejected.

Trustees recognize the magnitude of the accrued actuarial liability of the Maryland State Retirement and Pension System and the unfunded accrued liability flowing wherefrom. It is the position of the Trustees that SRPS investment programs shall continually seek maximum competitive returns within the bounds of reasonable risk in order to achieve a reduction in the unfunded accrued liability which will, in turn, lead to delivery of promised benefits.

Trustees are aware that cyclical movements of securities markets can result in opportunities either (1) to enhance investment performance or (2) to protect against potential capital erosion. It is the position of the Trustees to avoid investments whose ready liquidity is questionable lest the opportunity for risk control and management be impaired.

Trustees accept the concept that risk assumption is an integral part of any investment program and that in the long run a positive correlation exists between risk and return. It is the position of the Trustees that appropriate additional compensation on investments shall be offered whenever higher levels of risk are undertaken.

Trustees are cognizant of the desire by interested parties to allocate a portion of SRPS' assets for specific or targeted investment programs. It is the position of the Trustees that investments shall be evaluated, regardless of extrinsic factors, on the basis of:

- The ETI must be designed to yield a competitive market rate of return, commensurate with the risk, so that the security, liquidity, yield and administrative costs are comparable with standard risk adjusted investment returns for the applicable asset classes;
- The use of private and or government guarantees shall be utilized to insure against loss of principal on debt instruments and shall be a material factor the Board shall analyze before making a decision to invest in an ETI;

- Collateral benefits to or for the target shall not be considered part of the return, nor shall any improvement to the economy be considered part of risk reduction. The decision to fund an ETI may occur only after the investment is deemed acceptable to the Fund exclusively on its economic investment merits;

For allocation purposes ETI's shall be categorized with similar investments that are free of the economically targeted elements, and the combined assets shall be subject to the Board's asset allocation parameters (e.g. ETI bonds included as part of the fixed income asset class, ETI stocks included as part of the equity asset class, and ETI real estate as part of the real estate asset class);

- ETI's returns shall be quantifiable and measurable, valued at market, subject to performance measurement and analysis by SRPS staff on a monthly basis and reported to the Board as similar investments in the same asset class are currently;
- Any collateral benefit an ETI may confer on the State of Maryland, its political subdivisions, or Maryland residents is not the responsibility or within the ability or control of the Maryland State Retirement and Pension System, but only of those who manage or are otherwise responsible for the target. This will be made clear to third parties and Maryland State Retirement and Pension System beneficiaries and participants;
- Meeting the quality standards established by the Trustees; and,
- Consistency with investment objectives of the Maryland State Retirement and Pension System funds.

Trustees totally reject investments which represent direct or indirect subsidies or concessions to governmental entities, businesses, groups, or individuals, such subsidies or public concessions represent indirect appropriations of public monies; fail to provide the necessary controls required by the direct legislative appropriation process; and over time, will produce earnings shortfalls which must be restored by the taxpayer or met by benefit adjustments.

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.

VII. CRITERIA FOR AWARD OF FINANCIAL INCENTIVES FOR THE CHIEF INVESTMENT OFFICER

The following is a framework for the calculation of incentive compensation for the Chief Investment Officer (CIO) of the Maryland State Retirement and Pension System (the System). The CIO's incentive compensation shall not exceed 33% of the CIO's base salary and will be paid no later than 90 days after the end of the Agency's fiscal year. The incentive compensation element does not impact base salary or cost of living adjustments in any way.

The goals of the incentive compensation plan are:

- The investment performance of the System and the Executive Director's and Investment Committee's satisfaction with the CIO's performance factor into the metrics.
- The purely financial factor (the performance of managers) is two-sided: negative factors could offset positive factors and result in no net incentive compensation in some years.
- The compensation plan is long-term in nature.
- The compensation plan is intended to reward good performance, but not encourage risky behavior.

Measurement Period

Each metric shall be made over a one-year State fiscal year (SFY) time period starting on July 1. While this is a short period over which to measure investment performance, there are other provisions in the incentive compensation plan, such as a high water mark provision and a smoothing element, that ensure multiple years of performance are reflected in any one year's incentive compensation.

The Incentive Compensation Factors

The Board of Trustees shall consider the following two incentive compensation factors (the "Factors") in setting the CIO's incentive compensation:

1. **Performance of Managers.** One of the anticipated responsibilities of the CIO is the selection and termination of investment managers of the System's portfolio. The net-of-fee performance of the System's portfolio against a market benchmark shall be one metric.

Maximum Impact: 27% of base salary

Metric: 0.5% of base salary for every basis point of excess/underperformance of the System's portfolio, net of fees, relative to the total fund benchmark.

Note: The implied maximum performance differential here is +/- 40 basis points. This may seem high to some, low to others. This number reflects the current active risk of the System's portfolio. The current level of risk is 50 basis points; +40 basis points reflect an 80% capture ratio of the active risk – a good year. Setting the maximum performance goal at a reasonable percentage of the System's active risk allows the CIO to be well compensated if he/she is successful with active manager selection and dissuades risky behavior. Should the System's active risk change materially, the Board of Trustees could revisit this calculation.

2. **Effectiveness.** An annual satisfaction assessment shall be conducted by the Executive Director in consultation with the Investment Committee. The assessment will reflect both the views of the Committee and those of the Executive Director regarding the CIO's ability to work as part of the executive team, communication both internally and externally, efforts in staff development, and other expectations the Executive Director has for this executive level position.

Maximum Impact: 6% of base salary

Metric: The CIO's effectiveness shall be scored on a 1 to 5 scale with 3 indicating "Satisfied", as follows:

Score = 1 = -2% of base salary

Score = 2 = 0% of base salary

Score = 3 = +2% of base salary

Score = 4 = +4% of base salary

Score = 5 = +6% of base salary

Weighting and Metric behind Calculation of Factors

The metrics for both of the Factors shall be measured and the percentages totaled. If a net positive impact is calculated, it shall be offset against any residual net negative impact for those Factors from prior years (see "High Water Mark Element" below).

High Water Mark Element

If the combination of the metrics for the two Factors results in a negative number for any single year, there shall be no incentive compensation attributed that year. If, in the subsequent year, the calculation is a net positive number, the prior year's negative results shall be deducted prior to any payout for that subsequent year. All prior years' negative results shall be satisfied prior to any subsequent year's positive incentive compensation.

Smoothing Element

Payouts will be made in equal annual installments over a three-year period. If a CIO departs for any reason other than retirement from the System, the System shall be entitled

to retain any incentive compensation earned, but not yet paid out by the System. At its sole discretion, however, the Board of Trustees may choose to distribute these monies to the CIO depending on the Board's view of the circumstances surrounding the CIO's departure.

This smoothing element has several benefits:

- It smoothes performance over time, so any one year reflects multiple periods
- The incentive compensation for the CIO will not fluctuate wildly from year-to-year
- It allows an appropriate phase-in period for new CIOs.

If a CIO chooses to leave, the Board may retain all incentive compensation amounts earned, but not yet paid out.

VIII. INVESTMENT IN COMMINGLED VEHICLES

INVESTMENT IN / CONTRIBUTION OF ASSETS TO COMMINGLED VEHICLES

The System from time to time invests in or contributes assets to commingled vehicles. In connection with these investments or contributions of assets, the terms of the documents governing the commingled vehicle generally require the Board, on behalf of the System, to adopt certain provisions of trust documents governing the commingled vehicle, all as provided under the terms of such trust documents.

The Board has authorized and empowered the Executive Director and Chief Investment Officer, when they deem it to be in the best interest of the System and its beneficiaries, in connection with an investment in or contribution of assets to a commingled vehicle, to approve and cause the System to adopt the provisions of the trust documents for the commingled vehicle on behalf of the System, to make such documents a part of the System's Investment Policy Manual, evidenced by inclusion of such adopted provisions as an appendix to the Investment Policy Manual, and to execute such other documents and take such other actions as shall be necessary and desirable in connection therewith.

Attached as Appendix A to the Investment Policy Manual, as such appendix may be amended from time to time without further action of the Board, is a list of documents adopted as part of the Investment Policy Manual in connection with an investment in or contribution of assets to a commingled vehicle. Copies of the documents referenced in Appendix A may be obtained from the Investment Division.

**POLICIES that GOVERN OTHER INVESTMENT
PROGRAMS**

I. OPTIONAL RETIREMENT PROGRAM

The Optional Retirement Program is a retirement plan established and sponsored by the State of Maryland pursuant to Section 403(b) of the Internal Revenue Code and Title 30 of the State Personnel and Pensions Article. The Plan is also governed by the ORP Section 403(b) Plan Document, a copy of which can be found at the Agency's website at www.sra.state.md.us.

II. OTHER POST EMPLOYMENT BENEFITS

The System has adopted the following asset allocation policy for the Post-retirement Health Benefits Trust in accordance with SPP Section 34-101(g).

Asset Class	Target	Range	SSGA Fund Used / Benchmark
Global Equity	65.0%	+/- 2	MSCI World Index SL CTF
Real Estate	10%	+/- 2	Tuckerman Global Real Estate Strategy Passive Index CTF / Benchmark: FTSE EPRA/NAREIT Global Liquid Index
Fixed Income	10%	+/- 2	US Bond Index SL CTF Benchmark: LB Aggregate
Real Return	15%	+/- 3	Treasury Inflation Protected Securities CTF Benchmark: LB U.S. TIPS
Cash Equivalents	0	0 – 2%	SSGA's Money Market Mutual Fund Benchmark: 3 month T-bills
TOTAL	100%		

As approved by the Board of Trustees on 6/17/2008, the targets will be adjusted as necessary to agree with the System's strategic asset allocation.

APPENDICES

Appendix A

Commingled Vehicles – Documents Adopted as Part of Investment Policy Manual²

Liquidating Trust in connection with withdrawal of Russell 3000 and Passive Bond Index mandates from securities lending funds:

- Declaration of Trust dated January 23, 1995 for the State Street Bank and Trust Company Quality Funds for Short-Term Investment, as amended from time to time, and the Fund Declaration thereunder for the Quality Trust for SSGA Funds Trust Fund
- Fourth Amended and Restated Declaration of Trust for the State Street Bank and Trust Company Investment Funds for Tax Exempt Retirement Plans, dated August 15, 2005 and effective as of October 1, 2005
- Fund declaration of State Street Bank & Trust Company dated as of May 15, 2009 establishing the Quality Trust Liquidating Trust I

Liquidating Trust in connection with withdrawal of Russell 1000, US MSCI CTF, MSCI EAFE, Canada MSCI and MSCI ACWI Ex-US mandates from securities lending funds:

- Fund declaration of State Street Bank & Trust Company dated as of August 12, 2009 establishing the Quality Trust Liquidating Trust II

Liquidating Trust in connection with withdrawal of MSCI ACWI Strategy (MSCI EAFE Index SL Fund, MSCI Canada Index SL Fund & MSCI ACWI ex-US SL Fund) mandates from securities lending funds:

- Agreement and Declaration of Trust dated as of August 12, 2009 for the State Street Bank and Trust Company CTF Liquidating Trust A-2
- Fund Declaration of State Street Bank & Trust Company dated as of August 12, 2009 establishing the Super C Liquidating Trust II

Liquidating Trust in connection with withdrawal of Emerging Markets CTF mandate from securities lending fund:

- Agreement and Declaration of Trust dated as of November 12, 2009 for the State Street Bank and Trust Company CTF Liquidating Trust A-3

The Genesis Group Trust for Employee Benefit Plans Agreement and Declaration of Trust as Amended and Restated Effective September 2, 2006

[Pending final documentation for SSGA and Blackrock commodities mandates]

² Documents adopted since May 2009. Prior commingled vehicle transactions have been ratified, confirmed and approved by the Board.

THIS PAGE INTENTIONALLY BLANK

MARYLAND MBE INVESTMENT MANAGER ANNUAL REPORT TEMPLATE

8/28/2013

10:35 AM

Asset Management

Agency	FY 2009			FY 2010			FY 2011			FY 2012			FY 2013		
	Total Assets	MBE Assets	%	Total Assets	MBE Assets	%	Total Assets	MBE Assets	%	Total Assets	MBE Assets	%	Total Assets	MBE Assets	%
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	\$3,867.4	10.4%	\$40,250.7	\$4,682.1	11.6%
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	\$3,867.4	10.4%	\$40,250.7	\$4,682.1	11.6%

Attachment 2

MBE Investment Managers Utilized

Agency	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
MD State Retirement Agency					
Emerging MBE Managers	1074.5	1248.6	1464.8	1423.2	1026.9
Emerged MBE Managers	184.3	1657.8	2635.0	2444.2	3655.2
Total	1,258.8	2,906.4	4,099.8	3,867.4	4,682.1

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			FY 2013		
	Total Comm.	MBE	%	Total Comm.	MBE	%	Total Comm.	MBE	%	Total Comm.	MBE	%	Total Comm.	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%	\$8,398.6	\$1,166.7	13.9%
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%	\$8,398.6	\$1,166.7	13.9%

Total MBE Investment Brokers Utilized

Agency	FY 2009	FY 2010	FY 2011	FY 2012	2013
MD State Retirement Agency	0	0	0	48	45
Total	0	0	0	48	45

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	4,649.9	11.6%		284.6	1478.3
International Equity	5,539.9	13.8%		321.7	701.7
Global Equity	6,839.1	17.0%		-	269.4
Total Public Equity	17,028.9	42.3%	35.0%	606.3	2,449.4
Fixed Income	6,510.6	16.2%	10.0%	149.3	275.2
Credit Opportunity	3,380.5	8.4%	10.0%	84.3	91.7
Private Equity	2,504.9	6.2%	10.0%	115.0	250.0
Real Estate	2,322.2	5.8%	10.0%	-	-
Real Return	5,068.1	12.6%	14.0%	72	127.3
Absolute Return	2,924.9	7.3%	10.0%	-	461.6
Cash	510.6	1.3%	1.0%	-	-
Total Fund	40,250.7	100.0%	100.0%	1,026.9	3,655.2

2013 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 ***	389.7 **	0.758		
Campbell Newman Asset Management	13.1	0.041	U.S. Equity	Woman-owned
The Edgar Lomax Company	29.3	0.100	U.S. Equity	African American
Hanseatic Mgmt Services	20.1	0.099	U.S. Equity	Asian American
Mar Vista Investment Partners	18.3	0.069	U.S. Equity	African American
Nicholas Investment Partners	15.8	0.051	U.S. Equity	Woman-owned
Opus Capital Mgmt	15.6	0.084	U.S. Equity	African American/Woman-owned
Paradigm Asset Management	10.4	0.046	International Equity	African American
FOURPOINTS Asset Management	18.6	0.072	International Equity	Woman-owned
Hughes Capital Management	19.2	0.047	Fixed Income	African American
Terminated Managers	0.0	0.019		
9	160.4	1.386		
Bivium Capital Partners *	330.0 **	0.045		
Phocas Financial Corp	22.0	0.107	U.S. Equity	Asian American
ARGA Investment Management	30.2	0.154	International Equity	Asian American
Cheswold Lane Asset Management	30.7	0.205	International Equity	Woman-owned
Terminated Managers	0.0	0.000		
3	82.9	0.511		
Capital Prospects *	388.4 **	0.494		
AH Lisanti Capital Growth	23.2	0.100	U.S. Equity	Woman-owned
Lesa Sroufe & Co.	30.6	0.108	U.S. Equity	Woman-owned
Paradigm Asset Mgmt	31.3	0.103	U.S. Equity	African American
Redwood Investments	31.0	0.134	U.S. Equity	Woman-owned
Terminated Managers	0.0	0.011		
4	116.1	0.950		
FIS Group ***	359.1 **	0.755		
Channing Capital Mgmt	13.2	0.041	U.S. Equity	African American
Ativo Capital Management	33.0	0.134	International Equity	Hispanic American
Hanoverian Capital Management	44.5	0.171	International Equity	Woman-owned
Victoria 1522 Investments	16.8	0.090	International Equity	Asian/Woman-owned
Greenfield Seitz Capital Management	48.0	0.208	International Equity	Woman-owned
Terminated Managers	0.0	0.000		
5	155.5	1.399		
Leading Edge Investment Advisors ***	380.0 **	0.762		
New Century Investment Mgmt	21.1	0.066	U.S. Equity	Woman-owned
Nicholas Investment Partners	20.6	0.078	Credit	Woman-owned
Terminated Managers	0.0	0.000		

2		41.7	0.906		
Northern Trust Global Advisors		624.2 **	N/A		
	Sky Investment Council	45.0	0.178	International Equity	Asian/Woman-owned
	Strategic Global Advisors	44.5	0.146	International Equity	Woman-owned
	New Century Advisors	32.8	0.095	Real Return	Woman-owned
3		122.3	0.419		
Progress Investment Management ***		293.5 **	0.844		
	Ambassador Capital Mgmt	65.5	0.133	Fixed Income	African American
	New Century Advisors	64.6	0.137	Fixed Income	Woman-owned
	Terminated Managers	0.0	0.000		
2		130.1	1.114		
Separate Mandate - Credit/Debt ^					
	Falcon Strategic Partners III	37.1	0.396	Credit	Asian/Indian
	Falcon Strategic Partners IV	25.1	0.186	Credit	Asian/Indian
	Clearlake Capital Partners III	1.5	0.263	Credit	Hispanic/Asian/Middle Eastern
3		63.7	0.845		
Separate Mandate - Private Equity					
	Longitude Venture Partners	25.0	0.305	Private Equity	Woman-owned
	Longitude Capital Partners II	40.0	0.539	Private Equity	Woman-owned
	ICV Partners	30.0	0.000	Private Equity	African American
	Siris Partners IV	20.0	0.478	Private Equity	African American
4		115.0	1.322		
Separate Mandate - Commodities					
	Arbalet Capital	39.2	0.714	Real Return	Asian American/Woman
1		39.2	0.714		
36					
Total Emerging Managers		2,764.9	1,026.9	9.566	

2013 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.	11.3	0.061	U.S. Equity	Asian American
Apex Capital Management	12.2	0.051	International Equity	Asian American
Globeflex Capital	21.8	0.105	International Equity	Woman-owned
Lombardia Capital Partners/Dean Chase Global Value	25.0	0.102	International Equity	Hispanic/African American
LM Capital Group	40.6	0.072	Fixed Income	Hispanic American
Advent Capital Management	49.9	0.257	Credit	African-American
6	160.8	0.648		
Capital Prospects *				
Geneva Capital Management	22.0	0.112	U.S. Equity	Woman-owned
Profit Investment Mgmt	19.5	0.107	U.S. Equity	African American
Piedmont Investment Advisors	32.3	0.073	Fixed Income	African American
3	73.8	0.292		

Leading Edge Investment Advisors ***				
	Apex Capital Mgmt	10.2	0.460	U.S. Equity Asian American
	Herndon Capital Mgmt	38.9	0.196	International Equity African American
	Sit Investment Associates	15.1	0.073	International Equity African American
	Westwood Global Investments	72.5	0.572	International Equity Woman-owned
	Penn Capital Mgmt	<u>41.8</u>	<u>0.204</u>	Credit Woman-owned
5		178.5	1.505	
Northern Trust Global Advisors				
	Herndon Capital Mgmt	51.5	0.084	U.S. Equity African American
	Lombardia Capital Partners	10.0	0.030	U.S. Equity Hispanic American
	Profit Investment Management	81.7	0.171	U.S. Equity African American
	Longfellow Investment Management	<u>39.0</u>	<u>0.071</u>	Fixed Income Woman-owned
4		182.2	0.356	
Progress Investment Management ***				
	Pugh Capital Mgmt	92.9	0.170	Fixed Income African Amer./Woman
	Garcia Hamilton	<u>70.4</u>	<u>0.142</u>	Fixed Income Latino American
2		163.3	0.312	
	Subtotal - Terra Maria	758.60	3.113	
Separate Mandate - Absolute Return -				
	Rock Creek Potomac Fund	<u>461.6</u>	<u>3.643</u>	Absolute Return Indian/Woman-owned
1		461.6	3.643	
Separate Mandate - Public Equity				
	RhumbLine Advisers	1,160.8	0.075	U.S. Equity Woman-owned/MBE
	Zevenbergen Capital Investments	111.3	0.591	U.S. Equity Woman-owned
	Brown Capital Mgmt	214.0	1.280	International Equity African American
	Ernest Partners	302.2	1.963	International Equity African American
	Brown Capital Mgmt	<u>269.4</u>	<u>1.501</u>	Global Equity African American
5		2,057.7	5.410	
Separate Mandate - Private Equity				
	Asia Alternatives	200.0	0.725	Private Equity Asian/Woman-owned
	Vista Equity Partners IV	<u>50.0</u>	<u>0.626</u>	Private Equity African American
2		250.0	1.351	
Separate Mandate - Master Limited Partnership/Real Return				
	Tortoise Capital Advisors	<u>127.3</u>	<u>0.744</u>	Master Limited Partnership Native American
1		127.3	0.744	
29	Subtotal - Separate Mandates	2,896.60	11.148	
65	Total Emerged Managers	3,655.2	14.261	
	Total MBE Utilization	\$4,682.1	\$23.827	

Minority and Female Brokers Used by MD Pension (as of 06/30/2013)

MBE Broker	Commissions Paid
Not identified by name	1,166,726.37
Total	\$1,166,726.37

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
Blaylock Robert Van Securities	\$19,307.15	African American owned
Bley Investment Group	\$1,454.11	Female Owned
BNP Paribas Securities	\$3,693.47	
BOE Securities	\$5,131.99	African American owned
C L King & Associates Inc.	\$6,143.55	Female Owned
Cabrera Capital Markets	\$225,300.53	Hispanic owned
Castle Oak Securities	\$44,160.24	African American owned
CAPB Financial Brokers	\$1,440.08	
Cheevers & Co	\$45,248.72	Female Owned
Clancy Financial Services	\$354.00	Female Owned
CLSA Singapore Pte.	\$3,241.42	
Credit Agricole Indosuez	\$6,546.50	
Direct Access Partners	\$7,340.44	Hispanic owned
Divine Capital Markets	\$2,518.61	African American owned
Drexel Hamilton	\$488.00	Disabled Veteran owned
Goldman Sachs	\$4,318.57	
Great Pacific Securities	\$2,446.37	Hispanic owned
Greentree Brokerage Services	\$10,155.78	African American owned
Guzman & Company	\$17,971.17	Hispanic owned
Island Trader	\$2,182.16	Female Owned
ITG Trading Services	\$3,789.87	
Ivy Securities	\$1,744.00	Asian American owned
Jackson Partners	\$440.00	African American owned
JP Morgan	\$4,437.53	
Lam Securities	\$911.00	Asian American owned
Loop Capital Markets	\$349,953.90	African American owned
M Ramsey King Securities Inc.	\$33,263.02	Female/Native American owned
Mischler Financial Group	\$22,786.84	Disabled Veteran owned
Montrose Securities	\$59,038.25	Asian American owned
Morgan Stanley	\$1,290.60	
MR Beal & Company	\$51,911.29	African American owned
Muriel Siebert & Co.	\$1,548.38	Female Owned
North South Capital	\$21,088.58	Female Owned
Pacific American Securities	\$695.96	African American owned
Penserra Securities LLC	\$12,488.28	African American owned
Percival Financial Partners	\$53,329.41	African American owned
Podesta & Co.	\$1,141.93	Hispanic owned
RBC Capital Markets	\$3,150.63	
Ramirez & Co.	\$6,165.00	Hispanic owned
Roberts & Ryan Investment	\$2,311.00	Disabled Veteran owned
Sanford Bernstein	\$1,994.28	
Telsey Advisory Group	\$8,487.53	Female Owned
Topeka Capital Markets	\$2,461.35	
UBS	\$3,996.39	
Williams Capital Group	\$108,858.49	African American owned
TOTAL COMMISSION	\$1,166,726.37	

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".

Maryland - Based WMBE Managers as of June 30, 2013

Terra Maria Managers	Ownership Classification	2013 Assets	%
Attucks Asset Management			
Hughes Capital Management	WBE	19.2	0.05%
The Edgar Lomax Company	MBE	29.3	0.07%
		<u>48.5</u>	
Capital Prospects			
Profit Investment Management	MBE	19.5	0.05%
Northern Trust Global Advisors			
New Century Advisors	WBE	32.8	0.08%
Profit Investment Management	MBE	81.7	0.20%
		<u>114.5</u>	
Progress Investment Management			
New Century Advisors	WBE	64.6	0.16%
		<u>64.6</u>	
	Subtotal	247.1	0.61%
Emerged Managers			
Brown Capital Management	MBE	483.5	1.20%
		<u>483.5</u>	
	Total	730.6	1.82%

2013 MD STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND

2013 Emerging Managers Used By MD Pension

Manager Name	Assets Under Management (\$ millions)	Asset Class
Attucks Asset Management	389.7	
Brown Advisory	19.6	U.S. Equity
Campbell Newman Asset Management	13.1	U.S. Equity
Chicago Equity Partners	26.2	U.S. Equity
The Edgar Lomax Company	29.3	U.S. Equity
GW Capital Inc.	11.3	U.S. Equity
Hanseatic Mgmt Services	20.1	U.S. Equity
Mar Vista Investment Partners	18.3	U.S. Equity
Nicholas Investment Partners	15.8	U.S. Equity
Opus Capital Mgmt	15.6	U.S. Equity
Seizert Capital Partners	13.6	U.S. Equity
Apex Capital Management	12.2	International Equity
FOURPOINTS Asset Management	18.6	International Equity
Globeflex Capital	21.8	International Equity
Lombardia Capital Partners/Dean Chase	25.0	International Equity
Paradigm Asset Management	10.4	International Equity
Thomas White International	9.1	International Equity
Hughes Capital Management	19.2	Fixed Income
LM Capital Group	40.6	Fixed Income
Advent Capital Mgmt	49.9	Credit
19		
Bivium Capital Partners	330.0	
Cornerstone Capital Mgmt	44.2	U.S. Equity
Cupps Capital Mgmt	21.7	U.S. Equity
Phocas Financial Corp	22.0	U.S. Equity
Vulcan Value Partners	54.9	U.S. Equity
ARGA Investment Management	30.2	International Equity
Bailard	27.8	International Equity
Chautauqua Capital Management	29.3	International Equity
Cheswold Lane Asset Management	30.7	International Equity
WCM Investment Management	31.1	International Equity
Aristotle Capital Mgmt	18.1	Global Equity
SW Asset Management	19.9	Credit
11		
Capital Prospects	388.4	
AH Lisanti Capital Growth	23.2	U.S. Equity
Bernzott Capital Advisors	21.2	U.S. Equity
Geneva Capital Mgmt	22.0	U.S. Equity
Inview Investment Mgmt	21.5	U.S. Equity
Lesa Sroufe & Co.	30.6	U.S. Equity
Matrix Asset Advisors	32.7	U.S. Equity
Next Century Growth Investors	30.0	U.S. Equity
Paradigm Asset Mgmt	31.3	U.S. Equity
Profit Investment Mgmt	19.5	U.S. Equity
Redwood Investments	31.0	U.S. Equity

Twin Capital Management	37.9	U.S. Equity
Walthausen & Co.	21.7	U.S. Equity
Piedmont Investment Advisors	32.3	Fixed Income
Valley Forge Asset Management	33.4	Fixed Income

14

FIS Group	359.1	
Advanced Investment Partners	23.3	U.S. Equity
Channing Capital Mgmt	13.2	U.S. Equity
Seizert Capital Partners	58.6	U.S. Equity
Stux Capital Mgmt	64.7	U.S. Equity
Ativo Capital Management	33.0	International Equity
Greenfield Seitz Capital Management	48.0	International Equity
Hanoverian Capital Management	44.5	International Equity
Somerset Capital Group	11.9	International Equity
Thomas White International	45.1	International Equity
Victoria 1522 Investments	16.8	International Equity

10

Leading Edge Investment Advisors	380.0	
Apex Capital Mgmt	10.2	U.S. Equity
Kirr, Marbach & Company	27.1	U.S. Equity
Markston International	28.6	U.S. Equity
New Century Investment Mgmt	21.1	U.S. Equity
Aristotle Capital Management	25.1	International Equity
Driehaus Capital Mgmt	34.9	International Equity
Gratry & Company	44.1	International Equity
Herndon Capital Mgmt	38.9	International Equity
SIT Investment Advisors	15.1	International Equity
Westwood Global Investments	72.5	International Equity
Nicholas Investment Partners	20.6	Credit
Penn Capital Mgmt	41.8	Credit

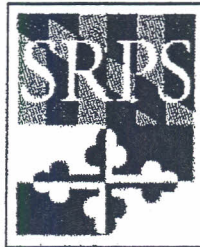
12

Northern Trust Global Advisors	624.2	
Cornerstone Investment Partners	67.8	U.S. Equity
Herndon Capital Mgmt	51.5	U.S. Equity
Lombardia Capital Partners	10.0	U.S. Equity
Magee Thompson	57.3	U.S. Equity
Profit Investment Management	81.7	U.S. Equity
Riverbridge Partners	12.0	U.S. Equity
Signia Capital Management	8.5	U.S. Equity
Summit Creek Advisors	13.4	U.S. Equity
ClariVest Asset Management	43.7	International Equity
Hexavest Global	35.3	International Equity
Sky Investment Council	45.0	International Equity
Strategic Global Advisors	44.5	International Equity
JK Milne Asset Mgmt	30.6	Fixed Income
Longfellow Investment Management	39.0	Fixed Income
Dolan McEniry Capital Management	51.0	Credit
New Century Advisors	32.8	Real Return

16

Progress Investment Management	293.5	
---------------------------------------	--------------	--

Ambassador Capital Mgmt	65.5	Fixed Income
Garcia Hamilton	70.4	Fixed Income
New Century Advisors	64.6	Fixed Income
Pugh Capital Mgmt	92.9	Fixed Income
4		
Subtotal	2,764.9	
Separate Mandate - Credit/Debt	63.7	
Clearlake Capital Partners III	1.5	Credit
Falcon Strategic Partners III	37.1	Credit
Falcon Strategic Partners IV	25.1	Credit
3		
Separate Mandate - Private Equity	660.0	
ICV Partners	30.0	Private Equity
Longitude Venture Partners	25.0	Private Equity
Longitude Capital Partners II	40.0	Private Equity
Siris Partners IV	20.0	Private Equity
Asia Alternatives	200.0	Private Equity
Vista Equity Partners IV	50.0	Private Equity
Bunker Hill Capital II	25.0	Private Equity
Summer Street Capital II	25.0	Private Equity
Summer Street Capital III	50.0	Private Equity
RHL Investors II	15.0	Private Equity
RHL Investors III	50.0	Private Equity
Frontier Fund III	50.0	Private Equity
ABS Capital Partners	30.0	Private Equity
Fort Point Capital - Small Cap Fund I	25.0	Private Equity
.406 Ventures II	25.0	Private Equity
15		
Separate Mandate - Real Return	305.6	
Arbalet Capital	39.2	Real Return
Jamison Capital	39.7	Real Return
Taylor Woods	52.8	Real Return
Vermillion Asset Mgmt	173.9	Real Return
3		
Separate Mandate - Hedge Funds		
Stelliam Fund	100.0	Hedge Funds
1		
Subtotal	1,129.3	
Total	\$3,894.20	



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

Attachment 4

Consultant List

Consultant	Hire Date	Duration	Extensions
Albourne	December 22, 2011	Five Years	Two One-Year Extensions
Altius	May 1, 2010	Five Years	Two One-Year Extensions
PCA	May 1, 2010	Five Years	Two One-Year Extensions
Hewitt EnnisKnupp	July 1, 2007	Five Years	Two One-Year Extensions

Question 12

Annual Fees for FY2013

Asset Management	\$270,637,845
Financial Institutions (custody, security lending & commissions)	11,543,357
Professional Services (consultant & legal fees)	2,911,289

Question 12 a.

- 1 Most private investment vehicles, such as private equity, real estate and credit, initially calculate base fees on the commitment amount. After the investment period expires, it is common for the base fee to step down to a lower percentage and/or a lower base such as net invested capital.
- 2 Most alternative investment strategies (hedge funds, absolute return, private credit, private equity, private real estate and private real return) have a base management fee as well as a performance incentive.
- 3 Traditional public market strategies such as fixed Income and public equity are more flexible in their fee arrangements and can offer both fixed fees as well as fixed plus incentive fees.