



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

Reporting Department/Agency:	State Treasurer's Office
Fiscal Year:	2013

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:

Bernadette Benik  
\_\_\_\_\_  
(Please Type/Print Here)

Agency Head/Secretary Signature:

*Bernadette Benik*  
\_\_\_\_\_  
(Please Sign Here)

# MARYLAND MBE INVESTMENT MANAGER ANNUAL REPORT TEMPLATE

## 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	%
-	\$0.0	\$0.0	#DIV/0!	\$0.0	\$0.0	#DIV/0!	\$0.0	\$0.0	#DIV/0!	\$0.0	\$0.0	#DIV/0!	\$0.0	\$0.0	#DIV/0!
Total	\$0.0	\$0.0	#DIV/0!	\$0.0	\$0.0	#DIV/0!	\$0.0	\$0.0	#DIV/0!	\$0.0	\$0.0	#DIV/0!	\$0.0	\$0.0	#DIV/0!

## MBE Investment Managers Utilized

Agency	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
-	0	0	0	0	0
Emerging MBE Managers	0	0	0	0	0
Emerged MBE Managers	0	0	0	0	0
Total	0	0	0	0	0

Definitions: Emerging Investment Manager = a qualified minority owned business or 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 Portfolio	MBE	%	Total Portfolio	MBE	%	Total Portfolio	MBE	%	Total Portfolio	MBE	%	Total Portfolio	MBE	%
-	\$6,417,732,032	\$1,070,006,744	16.7%	\$5,110,693,973	\$827,362,661	16.3%	\$6,342,629,358	\$1,061,634,307	17.1%	\$4,958,176,767	\$718,153,796	14.5%	\$5,841,496,771	\$921,866,763	15.8%
Total	\$6,417,732,032	\$1,070,006,744	16.7%	\$5,110,693,973	\$827,362,661	16.3%	\$6,342,629,358	\$1,061,634,307	17.1%	\$4,958,176,767	\$718,153,796	14.5%	\$5,841,496,771	\$921,866,763	15.8%

## Total MBE Investment Brokers Utilized

Agency	FY 2009	FY 2010	FY 2011	FY 2012	2013
-	14	15	19	29	31
Total	14	15	19	29	31

# **MBE BROKERAGE SERVICES TEMPLATE**

MBE Investment Broker Name

<b>COMPANY</b>	<b>STATUS</b>
1 Gryphon Asset Management	Asian MBE
2 Cabrera Capital Markets	Hispanic MBE
3 De La Rosa & Co.	Hispanic MBE
4 Ramirez & Co. , Inc.	Hispanic MBE
5 Beasley Financial Services Company	African American MBE
6 Blaylock Robert Van Securities, Inc.	African American MBE
7 CastleOak Securities	African American MBE
8 FRS Securities	African American MBE
9 Goode Investment Management, Inc.	African American MBE
10 Greentree Brokerage Services	African American MBE
11 Grigsby & Associates, Inc.	African American MBE
12 International Financial Solutions, Inc.	African American MBE
13 Kaufman Bros., LP	African American MBE
14 Loop Capital Markets	African American MBE
15 M. R. Beal & Company	African American MBE
16 MFR Securites, Inc.	African American MBE
17 Pacific American Securities, LLC.	African American MBE
18 Percival Financial Partners	African American MBE
19 Quoin Capital LLC	African American MBE
20 Rice Financial Products Company	African American MBE
21 Toussaint Capital Partners	African American MBE
22 Williams Capital Group, L.P.	African American MBE
23 Williams Capital Management, LLC	African American MBE
24 Wm Smith & Co.	African American MBE
25 Carolina Capital Markets, Inc.	Vetran
26 Drexel Hamilton	Vetran
27 Great Pacific Securities	Vetran
28 Mischler Financial Group	Vetran
29 Wall Street Access	Vetran
30 Foreman Financial Group, Inc.	Woman MBE
31 Muriel Siebert & Co.	Woman MBE

**As of June 30,2013 \$921,868,783.24 was transacted with MBE firms.  
15.8% of all Investment transactions were with MBE counterparties for FY2013.**



**Nancy K. Kopp**  
State Treasurer

**Bernadette T. Benik**  
Chief Deputy Treasurer

**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?

**§6-222 lists all legal investments for the State Treasurer's Office. All investments are purchased through the competitive process directly from approved Broker / Dealers.**

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 Treasurer actively recruits qualified MBE/WBE firms.**

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

**The Website has all necessary documents for inclusion on the Approved Broker Dealer List readily available.**

**All Broker/Dealers listed on the MDOT MBE/DBE have been contacted. The necessary documents for inclusion on the Approved Broker/Dealer List have been sent.**

**NASP meetings have been attended for recruitment of Member Firms.**

**Everyone who has cold called has been informed of our policies and procedures and invited to submit the necessary paperwork to become approved Broker/Dealers.**

**Everyone who has requested a meeting has received a meeting for further explanation of our policies and procedures.**

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

**Everyone who has cold called has been informed of our policies and procedures and invited to submit the necessary paperwork to become approved Broker/Dealers.**

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.

**Not applicable.**

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

**Not applicable.**

- 7. What was the organization's total amount of assets being managed by minority and women owned firms in fiscal year 2013?
  - a. What are the asset classes and how does that break down within racial and gender classifications?

**Not applicable.**

- 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

**Not applicable.**

- 9. How many minority and women owned investment firms have been retained **indirectly** by the organization in fiscal year 2013?

**Not applicable.**

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

**Not applicable.**

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

**Not applicable.**

12. Also detail your total annual fees for fiscal year 2013 into the following categories—asset management<sup>1</sup>, financial institutions<sup>2</sup>, and professional services<sup>3</sup>.
- If there are any special fee structures particular to asset classes (e.g. real estate) please provide.

**Not applicable.**

13. How investment brokers have been retained directly or indirectly by the organization in fiscal year 2013?

**68 Broker / Dealers are approved to transact business with the STO.**

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?

**31 MBE/WBE and Vetran Firms were approved to transact business with the STO.**

15. What percentages of funds/assets were allocated to Maryland headquartered minority and women owned firms in fiscal year 2013?
- Please list each firm by name, ownership classification (MBE or WBE), and indicate the amounts of funds/assets.

**Not applicable.**

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

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

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

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

**See attached.**

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





**Nancy K. Kopp**  
State Treasurer

**Bernadette T. Benik**  
Chief Deputy Treasurer

**INVESTMENT POLICY**  
**MARYLAND STATE TREASURER'S OFFICE**

**I. POLICY**

It is the policy of the Maryland State Treasurer's Office (hereinafter referred to as "the STO") to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the anticipated daily cash flow requirements of the State. The STO will not borrow funds for the express purpose of investing those funds. The policy will conform to all State laws governing the investment of public funds.

**II. SCOPE**

This investment policy applies to unexpended or surplus money over which the Treasurer has custody as authorized by State Finance and Procurement Article §6-222.

- A. General Fund
- B. Funds invested on behalf of other State agencies and other outside parties
- C. Bond Sale Proceeds

**III. PRUDENCE**

Investment shall be made with judgement and care – under circumstances then prevailing – which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The "prudent person" standard shall be applied in the context of managing an overall portfolio. Investment officers shall act in accordance with written procedures and the investment policy and while exercising due diligence. Deviations from expectations are to be reported in a timely fashion and appropriate action should be taken to control adverse developments.

#### **IV OBJECTIVE**

The primary objectives of the State's investment activities, in order of priority shall be:

**A. Safety:** Safety of principal is the foremost objective of the investment program. To attain this objective, diversification, collateralization, third party safekeeping and delivery versus payment (DVP) will be required.

**B. Liquidity:** The State's investment portfolio will remain sufficiently liquid to enable the State to meet all operating requirements which might be reasonably anticipated plus a reasonable amount for unanticipated needs.

**C. Return on Investment:** The State's investment portfolio shall be designed with the objective of attaining a market rate of return at least equal to the three month U.S. Treasury bill yield, with due regard for minimizing risk while maximizing return and considering the cash flow characteristics of the portfolio.

#### **IV. DELEGATION OF AUTHORITY**

Authority over the State's investment program is delegated to the State Treasurer in the Annotated Code of Maryland – State Finance & Procurement – Section §8-222. Management responsibility for the investments is delegated to the Director of Investments who shall establish written procedures for the operation of the investment program consistent with this investment policy.

Procedures should include reference to cash flow requirements, competitive bidding procedures, broker/dealer relationships, safekeeping, securities lending, Master Repurchase Agreements, security, collateral and mark to market requirements as well as oversight for the Local Government Investment Pool.

The procedures shall also include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Director of Investments. The Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

## **V. ETHICS AND CONFLICTS OF INTEREST**

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Investment officials shall disclose to the State Ethics Commission any material financial interest in financial institutions that conduct business within the jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the State's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the State, particularly with regard to the time of purchases and sales.

## **VI. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

The Treasurer shall maintain a list of financial institutions authorized to provide investment services. The following is a breakdown of the types of institutions used by the State along with the type of investment transactions handled by those institutions.

### **A. Primary Government Dealers:**

The Federal Reserve Bank of New York designates primary government dealers in government securities. The State can purchase all authorized and suitable investments as listed in Section VIII of this policy, except for certificates of deposit and the Maryland Local Government Investment Pool, from primary dealers.

### **B. Other Security Dealers**

The State may purchase repurchase agreements, U.S. Government securities, U.S. Government agency securities, commercial paper and bankers' acceptances from dealers other than primary government dealers and from dealer banks that market these securities. The Treasurer's policy is to make sure that local, regional and minority firms have an opportunity to bid on a portion of the State's investable funds.

All dealers must agree to the State's policy of delivery versus payment as described in Section X of this policy. Firms must have adequate capital to fulfill their commitments under adverse market conditions. All non-primary firms must provide copies of their audited financial statements and Financial and Operational Combined Uniform Single Report (FOCUS

Report) for review and approval before initiating any transactions and annually thereafter.

## **VII. AUTHORIZED AND SUITABLE INVESTMENTS**

The State Treasurer is authorized by statute to invest in the following types of securities subject to the restrictions in the statute, State Finance and Procurement Article §6-222.

- A. U.S. Treasury Obligations
- B. Certificates of Deposit
- C. Federal Agency or Instrumentality Obligations
- D. Repurchase Agreements  
Master Repurchase Agreement and Addendum must be signed before any repurchase transactions are entered into.
- E. Banker's Acceptances
- F. Municipal Securities and Municipal Mutual Funds for bond sale proceeds only
- G. Commercial Paper limited to 10% of the total portfolio
- H. Money Market Mutual Funds
- I. Maryland Local Government Investment Pool

## **VIII. COLLATERALIZATION**

Collateralization will be required on two types of permitted investments: Certificates of Deposit and Repurchase Agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be at least 102% of the market value of the principal and accrued interest for Repurchase Agreements and 100% of the market value of the principal and accrued interest for Certificates of Deposit. State law limits acceptable collateral to U.S. Government Treasuries, Agencies and instrumentalities as defined in the statute, State Finance and Procurement Article §6-222. An independent third party with whom the State has a current custodial agreement will always hold the collateral. Clearly marked evidence of ownership must be supplied to the State and retained.

The right of collateral substitution is granted and the seller will pay all associated costs. Collateral will be priced on a mark-to-market basis when the investment is initiated and daily for the term of the investment.

#### **IX. SAFE KEEPING AND CUSTODY**

All security transactions, including collateral for repurchase agreements, entered into by the State shall be conducted on a delivery versus payment (DVP) basis. A third party custodian designated by the Treasurer and evidenced by safe keeping receipts will hold securities.

#### **X. DIVERSIFICATION**

The state will diversify its investments by security type and institution in the following manner:

Diversification by Security Type	Maximum % of Portfolio
1. U.S. Treasury Obligations	100%
2. Agencies & Instrumentalities	80%
3. Repurchase Agreements	75%
4. Bankers' Acceptances	20%
5. Municipal Bonds & Municipal Funds	20%
6. Commercial Paper	10%
7. Money Market Funds	30%
8. Local Government Investment Pool	
Less than 10% of total LGIP Assets	

#### **Diversification by Institution**

1. Repurchase Agreements	30%
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#### **XI. MAXIMUM MATURITIES**

To the extent possible, the State will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the State will not directly invest in securities maturing more than five years from the date of purchase.

## **XII. INTERNAL CONTROL**

The Treasurer's Office and the Investment Division are audited annually by an independent auditor and biannually by the legislative audit staff. These reviews assess internal controls by examining compliance with written policies and procedures.

## **XIII. PERFORMANCE STANDARDS**

The investment portfolio is designed to obtain an average market rate of return during budgetary and economic cycles, taking into account the State's investment risk constraints and cash flow needs. The State's investment strategy is passive and the benchmark yield comparison shall be the yield on the three-month U.S. Treasury Bill.

## **XIV. REPORTING**

Section §6-222 of the State Finance and Procurement Article requires the Treasurer to file a report with the General Assembly on General Fund investments and all other investments by January 3<sup>rd</sup> of each year. At a minimum, the report shall specify the

- inventory of investments as of June 30
- net income earned for the fiscal year
- percentage share of each type of security in the portfolio
- any sale of investments prior to maturity.

## **XV. INVESTMENT POLICY ADOPTION**

The Treasurer shall approve the State's investment policy. The policy shall be reviewed on an annual basis.

DATE: June 30, 2013

  
\_\_\_\_\_  
NANCY K. KOPP  
State Treasurer



**Nancy K. Kopp**  
State Treasurer

**Bernadette T. Benik**  
Chief Deputy Treasurer

**Senate Bill 606 Implementation**  
**June 30, 2013**

**Allowable Investments by Statute**

- Treasuries
- Agencies
- Repurchase Agreements collateralized not less than 102%
- Bankers Acceptances
- Commercial Paper
- Money Market Mutual Funds
- MLGIP
- Bond Funds only may be invested in Other Government Debt

**All investing done in house by Investment Division**

**All investments made in accordance with Policy**

- New York Federal Reserve List of Primary Dealers
- Non Primary Dealers
  - o Must submit RFI
  - o Must submit evidence of their capital position
  - o Must submit most recent FOCUS Report
  - o Must submit three years audited financial statements
- Those firms approved for REPO must additionally complete the State's Master Repurchase Agreement

**Actual investment process**

- Bloomberg
- Fiduciary Responsibility requires selection of best price

**Inclusion of MBE**

-	FY 2006	2.2%	1 Approved
-	FY 2007	11.7%	2 Approved
-	FY 2008	5.4%	10 Approved
-	FY 2009	16.7%	14 Approved
-	FY 2010	10.3%	15 Approved
-	FY 2011	17.1%	19 Approved
-	FY 2012	14.8%	29 Approved
-	FY 2013	15.8%	31 Approved

## **Outreach Efforts**

The Website has all necessary documents for inclusion on the Approved Broker Dealer List readily available.

All Broker/Dealers listed on the MDOT MBE/DBE have been contacted. The necessary documents for inclusion on the Approved Broker/Dealer List have been sent.

NASP provided their list of Member Firms. All firms identified as Fixed Income providers were contacted and sent the necessary documents for inclusion on the Approved Broker/Dealer List.

Everyone who has "cold called" has been informed of our policies and procedures and invited to submit the necessary paperwork to become an approved Broker/Dealer.

Everyone who has requested a meeting has received a meeting for further explanation of our policies and procedures.

MBE Broker/Dealer lists from other States have been requested and received from the GIOA, GFOA and NAST membership.

The Treasurer and the Investment Director attended the NASP meeting for Emerging Managers in Baltimore to further encourage additional MBE participation.