



# EMPLOYEES' RETIREMENT SYSTEM

The Maryland-National Capital Park and Planning Commission

## **REGULAR BOARD OF TRUSTEES MEETING MINUTES**

***Tuesday, March 2, 2010; 10:00 A.M.  
ERS/Merit Board Conference Room***

The regular meeting of the Board of Trustees convened in the ERS/Merit Board Conference Room on Tuesday, March 2, 2010 at 10:00 a.m. Voting members present were: Khalid Afzal, Joseph Alfandre, Patricia Barney, Richard Bucher, Ph.D., Barbara A. Funk, Guy Jones, Elton King, Samuel J. Parker, Jr., and Gino Renne. Alfred Warfield was not present.

ERS staff included: Andrea L. Rose, Administrator; Heather D. Brown, Administrative Assistant; and, Sheila S. Joynes, Accounting Manager.

Presentations made by Wilshire Associates - Marc Friedberg, Managing Director and Bradley Baker, Senior Analyst.

### 1. Approval of the March 2, 2010 Board of Trustees Meeting Agenda

MS. BARNEY made a motion, seconded by MS. FUNK to approve the March 2, 2010 Board of Trustees Meeting Agenda, as submitted. The motion PASSED unanimously (9-0). (Motion #10-28)

### 2. Minutes of Regular Meeting, February 2, 2010

MR. JONES made a motion, seconded by MS. BARNEY to approve the Minutes of Regular Meeting, February 2, 2010, as submitted. The motion PASSED unanimously (9-0). (Motion #10-29)

### 3. Minutes of Executive Session, February 2, 2010

MS. BARNEY asked to clarify that FLAG is an experienced manager and since Real Assets is a new area for the Board she felt FLAG's team and processes were easier to understand.

MS. FUNK made a motion, seconded by MS. BARNEY to approve the Minutes of Executive Session, February 2, 2010, as revised. The motion PASSED unanimously (9-0). (Motion #10-30)

### 4. Chairman's Items

### 5. Miscellaneous

### 6. Disbursements Granted Report – January 2010

DR. BUCHER made a motion, seconded by MS. FUNK to ratify the Disbursements Granted Report – January 2010. The motion PASSED unanimously (9-0). (Motion #10-31)

### 7. Board of Trustees Conference Summary

## 8. Wilshire Associates

Presentation by Marc Friedberg, CFA, Managing Director and Bradley Baker, Senior Analyst

- a. Executive Summary of Investment Performance; Quarter Ending December 31, 2009
- b. 3yr and 5 yr Rolling Returns; Fourth Quarter 2009
- c. Summary of Investment Performance; Quarter Ending December 31, 2009
- d. 2010 Asset Allocation Return and Risk Assumptions
- e. Asset Allocation Analysis and Recommendations
- f. Real Asset Allocation Analysis

Marc Friedberg reported on the fund's performance for the quarter ending December 31, 2009. The ERS' total return was 3.61% for the fourth quarter 2009. The total fund composite outperformed the policy return of 3.16% by 0.45%. The quarter ended with a total market value of \$534.3 million, a net increase of approximately \$12.6 million.

Mr. Friedberg notified the Board that Western Asset has asked permission to continue to hold Suntrust Capital VIII securities whose maturity extends beyond 30 years. Western's Analytics Team recently updated modeling assumptions on many perpetual securities. Those securities priced below 85 have had maturity assumptions extended. Suntrust Capital VIII had its weighted-average life extend beyond 30 years. Although, the ERS' Statement of Investment Policy states "Securities with a weighted-average life greater than 30 years are prohibited" Western feels the new analytics that have been implemented better reflect their internal view and would like permission to continue holding the Suntrust Capital VIII securities. Mr. Friedberg said given the analytic change, he would recommend consenting to allowing Western to maintain the positions (not purchase any additional) as they deem appropriate.

DR. BUCHER made a motion, seconded by MS. BARNEY to approve Wilshire's recommendation to allow Western Asset to continue holding the Suntrust Capital VIII securities which have a weighted-average life greater than 30 years. The motion PASSED unanimously (9-0). (Motion #10-32)

Marc Friedberg recommended that the ERS take advantage of the opportunity to move from the Artisan mutual fund to a separately managed account. Fees in the mutual fund are 117 bps versus 100 bps for a separate account. Wilshire may be able to negotiate an additional reduction. There may be additional custody fees with Northern Trust for the separate account. Andrea Rose will confirm with Northern Trust.

MS. BARNEY made a motion, seconded by MR. RENNE to transition from the Artisan mutual fund to a separate account provided the overall fees are lower including applicable custody fees with Northern Trust. The motion PASSED unanimously (9-0). (Motion #10-33)

Mr. Friedberg presented the Asset Allocation Analysis based on 2010 asset class assumptions and defined asset class constraints. Wilshire is recommending that the ERS maintain its current asset allocation policy with a slight adjustment to its Non-U.S. Equity exposure. The new policy will adjust the Non-U.S. Equity allocation to gain access to ACWI-Ex U.S. which will provide exposure to the Emerging Markets resulting in a slight increase in expected return and expected risk. More specifically, 6% will be allocated to an ACWI-Ex U.S. focused manager consistent with the previously approved allocation to Earnest Partners.

DR. BUCHER made a motion, seconded by MS. BARNEY to approve Wilshire's recommendation to maintain the current asset allocation policy with a 6% allocation to an ACWI-Ex U.S. focused manager. The motion PASSED unanimously (9-0). (Motion #10-34)

Mr. Friedberg presented the Real Asset Allocation Analysis. At its February 2, 2010 meeting, the Board approved FLAG Capital Management Real Asset Fund which consists of two funds: Real Estate Partners II and Energy & Resources Partners II. Investors must select the allocation percentage between the two funds. The ERS' current asset allocation includes a 5% target for each Private Real Estate and Real Assets. As of 12/31/2009, the ERS' Plan has a 3.6% allocation to Real Estate in Principal Global Investor's Principal US Property Fund. The plan is under its allocation to Real Estate by approximately \$7.5 million. Wilshire recommends a commitment of \$10 million (1/3) to the Real Estate Partners II fund that would gradually bring the plan back to its target allocation to Private Real Estate and a \$20 million (2/3) commitment to the Energy & Resources Partners II fund.

DR. BUCHER made a motion, seconded by MR. JONES to approve Wilshire's recommendation to commit \$10 million (1/3) to FLAG's Real Estate Partners II fund and \$20 million (2/3) to FLAG's Energy & Resources Partners II fund. The motion PASSED unanimously (8-0). MS. FUNK was out of the room. (Motion #10-35)

9. Report of the Administrator

Presentation by Administrator, Andrea L. Rose

- a. Northern Account Balances – February 18, 2010
- b. Recommendation to Approve the Transfer of \$6,150,000 to Cover Administrative Expenses and Benefit Payments March – May 2010

MR. RENNE made a motion, seconded by MR. AFZAL to approve the transfer of \$6,150,000 to cover administrative expenses and benefit payments March – May 2010. The motion PASSED unanimously (8-0). MS. FUNK was out of the room. (Motion #10-36)

10. Administration & Personnel Oversight Committee

Presentation by Committee Chairman, Richard Bucher, Ph.D.

- a. Regular Report of February 16, 2010
  - i. Recommendation to Approve an Extension of Aon Consulting's Contract for an Additional Two Years with Expiration May 1, 2012
  - ii. Recommendation to Approve a -0.4% Cost-of-Living Adjustment (COLA) Effective July 1, 2010 for all Eligible Retirees and Beneficiaries in Accordance with the COLA Provisions of the Employees' Retirement System

DR. BUCHER made a motion, seconded by MR. RENNE to approve an extension of Aon Consulting's Contract for an additional two years with expiration May 1, 2012. The motion PASSED unanimously (8-0). VICE CHAIRMAN ALFANDRE was out of the room. (Motion #10-37)

DR. BUCHER made a motion, seconded by MR. AFZAL to approve a -0.4% Cost-of-Living Adjustment (COLA) effective July 1, 2010 for all eligible retirees and beneficiaries in accordance with the COLA provisions of the Employees' Retirement System. The motion PASSED unanimously (8-0). VICE CHAIRMAN ALFANDRE was out of the room. (Motion #10-38)

11. Investment Monitoring Group  
Presentation by Committee Chairman, Patricia Barney
  - a. Regular Report of February 16, 2010
12. Executive Session

MS. FUNK made a motion, seconded by MR. RENNE to go into Executive Session under authority of State Government Article 10-508(a)(8) for consulting with legal counsel. The motion PASSED unanimously (8-0). VICE CHAIRMAN ALFANDRE was out of the room. (Motion #10-39)

The Board of Trustees meeting of March 2, 2010 adjourned at 12:35 p.m.

Respectfully,

Heather D. Brown  
Administrative Assistant

Andrea L. Rose  
Administrator