



**EMPLOYEES' RETIREMENT SYSTEM**  
The Maryland-National Capital Park and Planning Commission

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

***Tuesday, October 5, 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, October 5, 2010 at 10:00 a.m. Voting members present were: Patricia Colihan Barney, Richard Bucher, Ph.D., Guy Jones, Elton King, Samuel J. Parker, Jr., Barbara Walsh and Joe Zimmerman. Gail Heath arrived at 10:03 a.m. Khalid Afzal and Joseph Alfandre were not present.

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

Presentations by Wilshire Associates – Mike Dudkowski, Managing Director and The Northern Trust Company – Wally Weisenburger, Division Manager, Public and Taft-Hartly Funds; Don Anderson, Securities Lending Relationship Manager; and, Harland Abraham, Relationship Manager.

1. Approval of the October 5, 2010 Board of Trustees Meeting Agenda

The agenda was revised to include Items 8.b.i and 8.b.ii Recommendations to Approve Exceptions to the Statement of Investment Policy for Loomis Sayles and Eaton Vance and Item 10.b Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2010.

DR. BUCHER made a motion, seconded by MR. JONES to approve the October 5, 2010 Board of Trustees Meeting Agenda, as revised. The motion PASSED unanimously (7-0). (Motion #10-88)

MS. HEATH arrived at 10:03 a.m.

2. Minutes of Regular Meeting, September 7, 2010

MS. BARNEY modified the Board's Motion #10-82 on page 3 to read:

“DR. BUCHER made a motion, seconded by MS. BARNEY to approve Wilshire's recommendation to modify the Statement of Investment Policy with language to be specified by Wilshire to prohibit securities with a final maturity date greater than 31 years.”

DR. BUCHER made a motion, seconded by MR. JONES to approve the Minutes of Regular Meeting, September 7, 2010, as amended. The motion PASSED unanimously (8-0). (Motion #10-89)

3. Minutes of Executive Session, September 7, 2010 (Confidential)

MS. BARNEY made a motion, seconded by DR. BUCHER to approve the Minutes of Executive Session, September 7, 2010, as submitted. The motion PASSED unanimously (8-0). (Motion #10-90)

#### 4. Chairman's Items

CHAIRMAN PARKER reminded Board members of the importance of attendance at committee meetings. MS. BARNEY expressed interest in having MR. ZIMMERMAN join the Investment Monitoring Group and MR. ZIMMERMAN agreed. CHAIRMAN PARKER asked trustees to consider an appointment to two committees and report back at the November Board meeting.

#### 5. Miscellaneous

##### 6. Disbursements Granted Report – August 2010

MS. BARNEY made a motion, seconded by DR. BUCHER to approve the Disbursements Granted Report – August 2010. The motion PASSED unanimously (8-0). (Motion #10-91)

#### 7. Board of Trustees Conference Summary

#### 8. Securities Lending

##### a. The Northern Trust Company

Presentations by Wally Weisenburger, Division Manager, Public and Taft-Hartly Funds; Don Anderson, Securities Lending Relationship Manager; and, Harland Abraham, Relationship Manager

##### i. Northern Trust Global Securities Lending

Don Anderson, Wally Weisenburger, and Harland Abraham were present to provide an in-depth update on Northern Trust's Securities Lending program. The update included a discussion of the lending process, associated risks, revenue generation, borrowers' profile, historical earnings and Northern Trust's response to the market crisis.

The market turmoil of 2008/2009 adversely affected securities lending programs. In September 2008, Northern Trust's securities lending program posted a collateral deficiency as a payable for all clients. The ERS responded immediately by capping the existing amount of securities on loan to limit exposure to further loss in the program. Subsequently, Northern Trust made a cash contribution and increased clients' share of the securities lending fee split for 12 months. By March 2010, Northern Trust had reversed the entire amount of the collateral deficiency. Exposure to realized losses had been offset by the support and fee reduction measures offered by Northern Trust. In July 2010, Northern Trust offered clients the option to reduce the securities lending loan amount by 35% in each of the next two quarters. Wilshire recommended the Board take advantage of this offer until the Board could deliberate on the long-term merits of securities lending programs and the potential risks and benefits to the ERS.

Trustees deliberated on the risks and benefits of securities lending; the appropriate level of participation in securities lending; and the potential for increased custody fees if the ERS exits the program. Mike Dudkowski explained that securities lending should be viewed as a source of investment earnings that does not come without risk. The securities lending program is operationally safe; the risk compared with the value is prudent; and the funds are well protected. The ERS currently has \$160 million in lendable securities. Mr. Dudkowski is comfortable with the ERS capping the loan amount as high as \$80 million or setting the loan cap as a percentage of lendable securities.

MR. ZIMMERMAN made a motion, seconded by DR. BUCHER to increase the securities lending loan cap to 30% of the ERS' lendable securities effective October 6, 2010 with quarterly evaluation to analyze an increase to 50% of lendable securities. The motion PASSED unanimously (8-0). (Motion #10- 92)

b. Wilshire Associates

Presentation by Mike Dudkowski, Managing Director

- i. Recommendation for Approval of the Revised Statement of Investment Policy (version dated September 28, 2010)
- ii. Recommendation to Approve an Exception to the Statement of Investment Policy Granting Loomis Sayles Permission to Continue Holding Two Securities, Peabody Energy Corp and SLM Corp, with Maturities Greater than 31 Years
- iii. Recommendation to Approve an Exception to the Statement of Investment Policy Granting Eaton Vance Permission to Continue Holding Two Securities, CGCMT 2004-C2 and BACM 2004-6, with Maturities Greater than 31 Years
- iv. Securities Lending Mechanics and Inherent Risks

The Statement of Investment Policy was revised to include the Diversified Real Assets (ex-Real Estate) Guidelines and to clarify that long duration fixed income mandates are excluded from the requirement that securities with a final maturity date greater than 31 years are prohibited.

MS. BARNEY made a motion, seconded by MS. HEATH to approve the Statement of Investment Policy, as revised. The motion PASSED unanimously (8-0). (Motion #10-93)

DR. BUCHER made a motion, seconded by MR. KING to approve exceptions to the Statement of Investment Policy granting Loomis Sayles permission to continue holding two securities with maturities greater than 31 years, Peabody Energy Corp and SLM Corp; and granting Eaton Vance permission to continue holding two securities with maturities greater than 31 years, CGCMT 2004-C2 and BACM 2004-6. The motion PASSED unanimously (8-0). (Motion #10-94)

9. Report of the Administrator

Presentation by Administrator, Andrea L. Rose

- a. Northern Account Balances – September 24, 2010

10. Audit Committee

Presentation by Committee Chairman, Barbara Walsh

- a. Regular Report of September 28, 2010
- b. Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2010

Barbara Walsh reported on the Audit Committee's September 28, 2010 meeting. Clifton Gunderson conducted a full scope audit for the fiscal year ended June 30, 2010 and is issuing an unqualified "clean" opinion on the ERS' financial statements.

11. Executive Session

MR. JONES made a motion, seconded by DR. BUCHER to go into Executive Session under authority of State Government Article 10-508(a)(7) to discuss investment of public funds. The motion PASSED unanimously (8-0). (Motion #10-95)

The Board of Trustees meeting of October 5, 2010 adjourned at 12:34 p.m.

Respectfully,

Heather D. Brown  
Administrative Assistant

Andrea L. Rose  
Administrator