



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

**REGULAR BOARD OF TRUSTEES MEETING
MINUTES**

**Tuesday, June 7, 2011; 10:00 A.M. – 2 P.M.
ERS/Merit Board Conference Room**

The regular meeting of the Board of Trustees convened in the ERS/Merit Board Conference Room on Tuesday, June 7, 2011 at 10:00 a.m. Voting members present were: Khalid Afzal, Patricia Colihan Barney, Richard Bucher, Ph.D., Guy Jones, Lynn Kelly, Elton King, Samuel J. Parker, Jr., and Barbara Walsh. Joseph C. Zimmerman arrived at 10:03 a.m. and Josh Ardison arrived at 10:06 a.m. Joe Alfandre was not present.

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

Presentations by AllianceBernstein Legacy Securities Master Fund, L.P. - Michael Canter, Senior Vice President, Director of Structured Asset Research and Portfolio Management and Mike Galano, Director, Institutional Investments and Wilshire Associates - Mike Dudkowski, Managing Director and Bradley Baker, Associate.

1. CONSENT AGENDA

The following items are to be approved or accepted by vote on one motion unless a Board member requests separate consideration:

- A. Approval of the June 7, 2011 Board of Trustees Meeting Agenda
- B. Minutes of Regular Meeting, May 3, 2011
- C. Minutes of Executive Session, April 5, 2011 (*Confidential*)
- D. Disbursements Granted Report – April 2011
- E. Recommendation to Approve the Transfer of \$8,150,000 to Cover Administrative Expenses and Benefit Payments for June – August 2011

CHAIRMAN PARKER revised the June 7, 2011 Board of Trustees Meeting Agenda as follows: replaced Item 3 – Miscellaneous with an Executive Session and added an Item 4.B.vi – Wilshire Associates' letter dated June 6, 2011 regarding Loomis Sayles and Company High Yield Fixed Income Account – Investment Guidelines.

MR. JONES made a motion, seconded by MS. BARNEY to approve the June 7, 2011 Board of Trustees Meeting Agenda as revised. The motion PASSED unanimously (8-0). (Motion #11-59)

DR. BUCHER made a motion, seconded by MS. BARNEY to approve Items B, C, D and E. The motion PASSED unanimously (8-0). (Motion #11-60)

MR. ZIMMERMAN arrived at 10:03 a.m.

2. CHAIRMAN'S ITEMS

- A. Board of Trustees Conference Summary
 - i. Joe Alfandre – Report of the FLAG Advisory Board Annual Meeting; May 23-24, 2011
 - ii. Andrea Rose – Report of the NCPERS Annual Conference; May 23-26, 2011

CHAIRMAN PARKER requested trustees interested in serving on the FLAG Advisory Board send him an email for consideration.

- B. Approval of Barbara Walsh as the Bi-County Represented Trustee for the term ending June 30, 2014

DR. BUCHER made a motion, seconded by MR. AFZAL to approve Barbara Walsh as the Bi-County Represented Trustee for the term ending June 30, 2014. The motion PASSED unanimously (9-0). (Motion #11-61)

MR. ARDISON arrived at 10:06 a.m.

3. EXECUTIVE SESSION

MS. BARNEY made a motion, seconded by DR. BUCHER to go in to Executive Session under authority of State Government Articles 10-508(a)(7) to discuss investment of public funds. The motion PASSED unanimously (10-0). (Motion #11-62)

4. MANAGER REPORTS/PRESENTATIONS

- A. AllianceBernstein Legacy Securities Master Fund, L.P. Performance Review
 - Presentations by Michael Canter, Senior Vice President, Director of Structured Asset Research and Portfolio Management and Mike Galano, Director, Institutional Investments
 - i. AllianceBernstein Legacy Securities Fund - Update

Michael Canter and Mike Galano presented the performance summary for the Public-Private Investment Program (PPIP) since the December 31, 2009 inception. The US Treasury implemented PPIP to co-invest with private capital to help cleanse financial institutions of legacy securities. AllianceBernstein, L.P., in conjunction with Rialto Capital Management, LLC, Greenfield Partners, LLC and Altura Capital Group, LLC was selected as one of nine fund managers pursuant to the PPIP mandate. AllianceBernstein Legacy Securities Funds (ABLS) raised \$1.5 billion of capital from the private sector which was matched by the Department of Treasury. Eligible Assets include Residential Mortgage Backed Securities (RMBS) and Commercial Mortgage Backed Securities (CMBS) issued prior to 2009 that had an original rating of AAA.

The ABLS Fund has exceeded its return target to date. It generated a net return of 3.40% in the first quarter, following a net return of 35.30% in 2010. The primary drivers of returns were

price appreciation, income generation and modest pay-downs of underlying bonds. As of the end of the first quarter, ABLs had drawn down 85% of their committed equity capital. ABLs investments to date have been primarily focused on the RMBS sector, including prime, subprime, Alt-A and option adjustable-rate mortgages (ARMs) with the largest portion of the portfolio allocated to Alt-A mortgages. Approximately 4-5% is invested in CMBS.

Significant progress has been made in deploying investor capital into PPIP-eligible securities. The portfolio has been structured to reflect ABLs' core belief in and emphasis on the securities ranked in the first and second quartiles by AllianceBernstein and their partners Greenfield Partners and Rialto Capital Management. AllianceBernstein feels the ABLs Fund is on track to meet its investment objectives.

B. Wilshire Associates

Presentations by Mike Dudkowski, Managing Director and Bradley Baker, Associate

- i. Executive Summary of Investment Performance; Quarter Ending March 31, 2011
- ii. Total Fund Risk Analysis
- iii. Manager Comparison - 3yr and 5yr Rolling Returns; First Quarter 2011
- iv. Summary of Investment Performance; Quarter Ending March 31, 2011
- v. Annual Conflicts Check Report; Period End December 31, 2010 (**CONFIDENTIAL**)
- vi. Letter dated June 6, 2011 regarding Loomis Sayles and Company High Yield Fixed Income Account – Investment Guidelines

Mike Dudkowski reported on the fund's performance for the quarter ending March 31, 2011. The ERS' total return was 4.59% for the first quarter 2011. The total fund composite outperformed the policy return of 3.64% by 0.95%. The quarter ended with a total market value of \$617.3 million, a net increase of approximately \$14.9 million. Mr. Dudkowski highlighted individual manager's performance relative to individual benchmarks, noting outperformance as well as underperformance.

Mr. Dudkowski presented the Total Fund Risk Analysis which helps identify and quantify the sources of total fund risk, as well as assist in understanding the impact within the portfolio. The analysis uses historical returns to calculate risk and correlations for a selected time period and decomposes the risk into four categories: strategic risk, allocation weight risk, benchmark mismatch risk and manager risk. MR. AFZAL requested an additional training session on this topic. Mr. Dudkowski offered to provide this report every 6 months.

The Board discussed active versus passive management. Andrea Rose said that training on this topic will be provided at the September 6, 2011 Board meeting.

CHAIRMAN PARKER requested the Investment Monitoring Group review the rebalancing policy and determine if any changes are required.

Mr. Dudkowski reported on Loomis Sayles' request to utilize a securitized asset fund as an alternative to buying individual security structures (e.g. typically below-investment grade ABS, CMBS, RMBS, CDOs, CLOs, CMOs, IOs, and POs). From an investment perspective, Wilshire has no issue with Loomis Sayles' using the securitized fund as a more efficient means to build a

diversified exposure in certain types of investments. Wilshire recommends a guideline limiting the maximum exposure to securitized assets at a maximum of 10% of the portfolio value. Wilshire and Loomis have agreed that this would be a reasonable parameter.

There is a minimal fee of 1-2 basis points associated with the fund. Loomis believes the increase in fee will be more than made up in returns.

MS. BARNEY made a motion, seconded by MR. AFZAL to approve Loomis Sayles' request to utilize a securitized asset fund and Wilshire's recommendation to limit the maximum exposure to securitized assets at a maximum of 10% of the portfolio value. The motion PASSED unanimously (10-0). (Motion #11-64)

5. REPORT OF THE ADMINISTRATOR

Presentation by Administrator, Andrea L. Rose

A. Northern Account Balances – May 19, 2011

6. COMMITTEE REPORTS/RECOMMENDATIONS

A. Member Education Committee

Presentation by Committee Chairman, Khalid Afzal

i. Regular Report of May 17, 2011

MR. AFZAL presented the Member Education Committee's regular report of May 17, 2011. The Committee selected private equity as the topic for the Board's July training. The Committee decided that training should be limited to one topic to allow ample opportunity for questions and discussion.

Craig Callahan from Icon Advisors agreed to present to the Board at its' September 6, 2011 meeting on the topic of Active vs. Passive Management. There is no speaking fee; however, reimbursement for travel expenses was requested.

B. Administration & Personnel Oversight Committee

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

i. Regular Report of May 17, 2011

a. Recommendation to Approve the Memorandum of Understanding between the Employees' Retirement System and the Maryland-National Capital Park and Planning Commission for a 1-year term effective July 1, 2011

b. Recommendation to Approve the Revised Board of Trustees Election Policy and Procedures

DR. BUCHER presented the Administration & Personnel Oversight Committee's regular report of May 17, 2011. The Committee conducted its annual review of the Memorandum of Understanding between the Employees' Retirement System (ERS) and the Maryland-National Capital Park and Planning Commission (Commission) for Information Technology Support. The

arrangement creates an opportunity to establish cross training, back up and enhanced services for both the ERS and the Commission's Centralized Administrative Services IT Division.

DR. BUCHER made a motion, seconded by MS. BARNEY to approve the Memorandum of Understanding between the ERS and the Commission for Information Technology Support for a 1-year term effective July 1, 2011. The motion PASSED unanimously (10-0). (Motion #11-65)

The Committee discussed the questions raised at the April 5, 2011 Board meeting regarding the Board of Trustees Election Policy and Procedures. The first question was why the elections were done via "secret ballot". The Committee found that general elections are done via "secret ballot" in order to maintain confidentiality of voters and to prevent attempts of intimidation and bribery. Therefore, the Committee does not recommend a change to the method of voting. The second question was why the specific counts for each candidate were not disclosed following an election. Staff researched the issue of reporting the election vote counts and discussed with the Committee who agreed the counts should be disclosed to the Board of Trustees and reflected in the Minutes of the meeting. The counts will not be published in Update or on the ERS' website. DR. BUCHER presented the Revised Board of Trustees Election Policy and Procedures.

DR. BUCHER made a motion, seconded by MR. AFZAL to approve the Revised Board of Trustees Election Policy and Procedures. The motion PASSED unanimously (10-0). (Motion #11-66)

DR. BUCHER advised the Board that quotes for the renewal of the Fiduciary Liability Insurance Policy for the term July 1, 2011 – June 30, 2012 were received. The Committee recommends renewing the Fiduciary Liability Policy with Chubb for another 1-year term. The annual premium (\$31,150) and limit of liability (\$7.5 million) will remain the same as the following year.

DR. BUCHER made a motion, seconded by MR. JONES to approve the renewal of the Fiduciary Liability Insurance Policy for the term of July 1, 2011 – June 30, 2012 with Chubb for the same annual premium and limit of liability as the previous term. The motion PASSED unanimously (10-0). (Motion #10-67)

C. Investment Monitoring Group

Presentation by Committee Chairman, Patricia Barney

i. Regular Report of May 17, 2011

- a. Recommendation to Approve the Revised Investment Guidelines for Principal Investors
- b. Recommendation to Approve Wilshire's Recommendation to Revise the Investment Policy Statement and Investment Manager Guidelines to Remove Measures Based on Stated Final Maturity

MS. BARNEY presented the Investment Monitoring Group's (IMG) regular report of May 17, 2011.

The IMG reviewed the revised Investment Manager Guidelines for Principal Global Investors (Principal). At its April 5, 2011 meeting, the Board approved a change to Principal's benchmark from the NCREIF Property Index to the NCREIF Fund Index – Open End Diversified Core Equity (NFI-ODCE).

DR. BUCHER made a motion, seconded by MR. AFZAL to approve the revised Investment Manager Guidelines for Principal Global Investors to reflect a change to the NCREIF Fund Index – Open End Diversified Core Equity (NFI-ODCE) benchmark. The motion PASSED unanimously (10-0). (Motion #11-68)

The IMG reviewed Wilshire Associates recommended change to the Statement of Investment Policy fixed income guidelines to eliminate any measures based on stated final maturity. The IMG agrees with Wilshire's recommendation.

MS. BARNEY made a motion, seconded by DR. BUCHER to approve the revised Statement of Investment Policy fixed income guidelines to eliminate any measures based on stated final maturity. The motion PASSED unanimously (10-0). (Motion #11-69)

The Board of Trustees meeting of June 7, 2011 adjourned at 1:21 p.m.

Respectfully,

Heather D. Brown
Administrative Assistant

Andrea L. Rose
Administrator