



EMPLOYEES' RETIREMENT SYSTEM

The Maryland-National Capital Park and Planning Commission

REGULAR BOARD OF TRUSTEES MEETING

MINUTES

Tuesday, March 1, 2011; 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 1, 2011 at 10:00 a.m. Voting members present were: Khalid Afzal, Joe Alfandre, Patricia Colihan Barney, Richard Bucher, Ph.D., Guy Jones, Elton King, Lynn Kelly, Samuel J. Parker, Jr., Barbara Walsh and Joe Zimmerman. Josh Ardison was 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 Bradley Baker, Senior Analyst and Oaktree Investment - Russ Romero, Assistant Vice President and Keith Gollenberg, Real Estate Team.

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 March 1, 2011 Board of Trustees Meeting Agenda
- B. Minutes of Regular Meeting, February 1, 2011
- C. Minutes of Executive Session, February 1, 2011 (*Confidential*)
- D. Disbursements Granted Report – January 2011

MS. BARNEY made a motion, seconded by MR. JONES to approve the March 1, 2011 Board of Trustees Meeting Agenda; Minutes of Regular Meeting, February 1, 2011, as submitted; Minutes of Executive Session, February 1, 2011, as submitted; and, to accept the Disbursements Granted Report – January 2011. The motion PASSED unanimously (9-0). VICE CHAIRMAN ALFANDRE was out of the room. (Motion #11-37)

2. CHAIRMAN'S ITEMS

- A. Board of Trustees Conference Summary
 - i. Andrea Rose – Report on the National Conference on Public Employee Retirement Systems 2011 Legislative Conference

3. MISCELLANEOUS

4. MANAGER REPORTS/PRESENTATIONS

- A. Oaktree Performance Review
 - Presentations by Russ Romero, Assistant Vice President and Keith Gollenberg, Real Estate Team

MINUTES, AS AMENDED, AT THE APRIL 5, 2011 BOARD OF TRUSTEES MEETING

i. Oaktree Investment Review as of December 31, 2010

Russ Romero began with an overview of the firm. Oaktree was founded in April 1995; invests in less efficient and alternative markets; has over \$82 billion of assets under management across highly synergistic investment platforms; and has offices in thirteen cities in ten countries.

Public-Private Investment Program (PPIP)

In 2009, the U.S. Treasury announced the Public-Private Investment Program (PPIP) in order to facilitate greater price discovery and improve liquidity. To qualify for purchase, eligible non-agency Residential Mortgage Backed Securities and Commercial Mortgage Backed Securities (CMBS) must have been issued prior to 2009 and originally rated AAA by two rating agencies. The U.S. Treasury selected nine managers to participate and established standardized fund terms that include a 3-year investment period with an 8-year maximum term (and two optional one-year extensions).

Oaktree describes its PPIP opportunity as a unique opportunity at the intersection of real estate and distressed debt. Oaktree invests exclusively in CMBS and is the second largest Public-Private Investment Fund with \$4.64 billion of purchasing power. Oaktree's investment approach consists of three years of preparation for impending distress and a "stress test" that determines losses on a loan-by-loan, pool-by-pool basis for all fixed-rate and the majority of floating-rate securitizations issued between 2001 and 2008.

A Summary of the PPIP portfolio as of December 31, 2010:

- Initial investment on February 19, 2010
- 8.1% of total purchasing power drawn
- Moody's Ratings: 41% A1, 31% Aa3 and 28% Aaa
- Oaktree PPIP Private Fund time-weighted returns:
 - 4Q2010: 10.1% gross and 7.2% net
 - FY2010: 24.5% gross and 5.0% net

Distressed Debt Investment Program (Opportunities Fund VIII)

A primary objective of the Opportunities Fund VIII is to realize substantial capital appreciation without subjecting principal to undue risk. The Opportunities Fund will seek to achieve this objective primarily through investment in debt or equity securities or other obligations at substantial discounts to their original value and by realizing gains through sales of restructured debt obligations or newly issued securities obtained through exchanges resulting from reorganizations and restructurings. Oaktree's goal is to invest on the basis of hard asset values, dependable cash flows and/or durable business franchises. Oaktree's investment approach seeks to avoid losses through emphasis on senior and secured debt; insistence on protection from steady underlying asset or franchise value, and diversification from positions.

Russ Romero presented the ERS' fund summary. The ERS' investment start date was October 14, 2009. The ERS has committed \$4.51 in total capital that is 50% drawn down. Performance as of December 31, 2010 follows:

- 4Q2010: 7.9% gross and 7.2% net
- YTD: 22.2% gross and 13.7% net

B. Wilshire Associates

Presentations by Mike Dudkowski, Managing Director and Bradley Baker, Senior Analyst

- i. Executive Summary of Investment Performance; Quarter Ending December 31, 2010
- ii. 3yr and 5 yr Rolling Returns; Fourth Quarter 2010
- iii. Summary of Investment Performance; Quarter Ending December 31, 2010
- iv. Recommendation to Approve Certain Securities held by Western Asset be Grandfathered and Not Subject to Final Maturity Greater than 31 Years

Mike Dudkowski reported on the fund's performance for the quarter ending December 31, 2010. The ERS' total return was 5.34% for the fourth quarter 2010. The total fund composite outperformed the policy return of 5.04% by 0.30%. The quarter ended with a total market value of \$602.3 million, a net increase of approximately \$25.3 million.

Mr. Dudkowski explained Western Asset's letter dated February 22, 2011 regarding the Revised Statement of Investment Policy ("Revised Policy") dated September 2010 that restricted securities with a final maturity greater than 31 years. At the time of implementation of the Revised Policy the portfolio held a number of securities that were in compliance with the former Policy related to weighted average life but did not fit within the Revised Policy related to final maturity. In addition, during implementation Western purchased three additional bonds that did not fit within the Revised Policy. Western Asset requests approval to hold certain securities (as identified on Schedule A attached to letter dated February 22, 2011) with a final maturity greater than 31 years and confirms that all future purchases will be in conformance with the Revised Policy. Mr. Dudkowski recommends the Board approve Western's request.

DR. BUCHER made a motion, seconded by MR. JONES to approve Western Asset's request to hold certain securities (as identified in Schedule A attached to Western's letter dated February 22, 2011) with a final maturity greater than 31 years. The motion PASSED unanimously (10-0). (Motion #11-38)

C. AON Hewitt

- i. Recommendation to Approve the 2010 Revised Actuarial Assumptions Review

Andrea Rose presented the 2010 Revised Actuarial Assumptions Review ("Review") which Aon Hewitt amended to reflect the revised salary assumptions as requested by the Board at its February 1, 2011 meeting. The Review recommends changes to the following assumptions:

- Reduce the current 4% plus merit salary increase assumption to 2% plus merit salary increase for the next 3 years (2011 – 2013) and to 3% plus merit salary increase for years thereafter for both police and non-police
- Lower the retirement assumptions at lower service levels (normal retirement at age 60 and 5 years of service) for the non-police plan
- Adjust retirement rates at higher service levels for police and non-police
- Lower termination rates from 5 -10 years for both police and non-police
- Change the mortality table to the RP 2000-generational table

MR. AFZAL made a motion, seconded by MS. BARNEY to approve AON Hewitt's 2010 Revised Actuarial Assumptions Review. The motion PASSED unanimously (10-0). (Motion #11-39)

5. REPORT OF THE ADMINISTRATOR

Presentation by Administrator, Andrea L. Rose

A. Northern Account Balances – February 14, 2011

B. Recommendation to Approve the Transfer of \$7,950,000 to Cover Administrative Expenses and Benefit Payments for March – May 2011

MR. AFZAL made a motion, seconded by MR. ZIMMERMAN to approve the transfer of \$7,950,000 to cover administrative expenses and benefit payments for March – May 2011. The motion PASSED unanimously (10-0). (Motion #11-40)

DR. BUCHER recommended that the motion to transfer funds to cover administrative expenses and benefit payments be moved prospectively to the Consent Agenda. The Board agreed with DR. BUCHER'S recommendation.

C. Recommendation to Approve a 1.6% Cost-of-Living Adjustment (COLA) Effective July 1, 2011 for all Eligible Retirees and Beneficiaries in Accordance with the COLA Provisions of the Employees' Retirement System

MR. JONES made a motion, seconded by DR. BUCHER to Approve a 1.6% Cost-of-Living Adjustment (COLA) Effective July 1, 2011 for all Eligible Retirees and Beneficiaries in Accordance with the COLA Provisions of the Employees' Retirement System. The motion PASSED unanimously (10-0). (Motion #11-41)

Andrea Rose reported on the transition of the AllianceBernstien international portfolio to Earnest Partners and Capital Guardian. Global Transition Solutions (GTS) is conducting the transition which began on February 25, 2011. GTS is scheduled to provide a Post-Trade Analysis to the Investment Monitoring Group in April or May 2011.

6. COMMITTEE REPORTS/RECOMMENDATIONS

A. Member Education Committee

Presentation by Committee Chairman, Khalid Afzal

i. Regular Report of February 15, 2011

MR. AFZAL presented the Member Education Committee's regular report of February 15, 2011. The Committee reviewed the Board of Trustees' Training Requirements and Guidelines and discussed implementation of the various tiers. The Committee plans to review and monitor individual trustee compliance and report any issues to the Chairman of the Board. MR. AFZAL also reported that the Committee is reviewing educational training topics for the Board of Trustees July training and programs for the members of the ERS.

B. Investment Monitoring Group

Presentation by Committee Chairman, Patricia Barney

- i. Regular Report of February 22, 2011
 - a. Recommendation to Approve the Finalists for the Investment Consulting Services Request for Proposal

MS. BARNEY presented the Investment Monitoring Group's (IMG) regular report of February 22, 2011. The IMG reviewed and evaluated the eight responses received for the Investment Consulting Services Request for Proposal based upon selection criteria including, but not limited to: minimum requirements for submission; relevant investment consulting experience of the firm and the individual consultants; demonstrated ability to perform the scope of services; and, depth and breadth of organization and services. The IMG selected Meketa Investment Group, Callan Associates, Inc., and Wilshire Associates to make finalist presentations at the April 2011 Board meeting.

DR. BUCHER made a motion, seconded by MS. WALSH to approve Meketa Investment Group, Callan Associates, Inc., and Wilshire Associates as finalists for the Investment Consulting Services Request for Proposal and to make presentations at the April 2011 Board meeting. The motion PASSED unanimously (10-0). (Motion #11-42)

7. EXECUTIVE SESSION

DR. BUCHER made a motion, seconded by MS. BARNEY to go in to Executive Session under authority of State Government Articles 10-508(a)(7) and 10-508(a)(1) to discuss investment of public funds and personnel issues. The motion PASSED unanimously (10-0). (Motion #11-43)

DR. BUCHER made a motion, seconded by MR. KING to ratify the actions taken in Executive Session. The motion PASSED unanimously (10-0). (Motion #11-46)

The Board of Trustees meeting of March 1, 2011 adjourned.

Respectfully,

Heather D. Brown
Administrative Assistant

Andrea L. Rose
Administrator