

SENATE BILL 899

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8lr1669
CF HB 1012

By: **Senator Guzzone (Chair, Joint Committee on Pensions)**

Introduced and read first time: February 5, 2018

Assigned to: Budget and Taxation

Committee Report: Favorable with amendments

Senate action: Adopted

Read second time: March 15, 2018

CHAPTER _____

1 AN ACT concerning

2 **State Retirement and Pension System – Investment Division**

3 FOR the purpose of clarifying that the compensation of the Executive Director for the State
4 Retirement Agency and certain staff shall be as provided in the State budget;
5 requiring the Board of Trustees for the State Retirement and Pension System to
6 adopt certain criteria for setting the qualifications and compensation of the Chief
7 Investment Officer for the State Retirement and Pension System; prohibiting certain
8 adjustments to the compensation of the Chief Investment Officer; requiring certain
9 financial incentives awarded to the Chief Investment Officer and certain employees
10 in the Investment Division to be paid in a certain manner; prohibiting certain
11 financial incentives from being paid under certain circumstances; prohibiting certain
12 financial incentives from being paid in a fiscal year when State employees are subject
13 to a furlough; requiring certain financial incentives not paid under certain
14 circumstances to be paid if certain conditions are satisfied; authorizing the Board of
15 Trustees to determine the qualifications and compensation for positions within the
16 Investment Division of the State Retirement Agency; authorizing the Board of
17 Trustees to determine and create the type and number of certain positions necessary
18 for carrying out certain investment functions; requiring the Board of Trustees to
19 adopt objective criteria to be followed when exercising certain authority established
20 under this Act; altering a requirement that the Board of Trustees report certain
21 information to certain entities; requiring the Board of Trustees to report certain
22 information to certain entities; requiring the Board of Trustees to adopt certain
23 criteria for setting the qualifications and compensation of certain positions in the
24 Investment Division; prohibiting the Board of Trustees from granting any increases
25 in compensation for certain positions in the Investment Division under certain

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.

Underlining indicates amendments to bill.

~~Strike out~~ indicates matter stricken from the bill by amendment or deleted from the law by amendment.



1 circumstances; prohibiting the Board of Trustees from setting compensation for
 2 certain positions in the Investment Division above a certain amount; requiring the
 3 Board of Trustees to adopt certain criteria for granting certain financial incentives
 4 to certain employees in the Investment Division; prohibiting the Board of Trustees
 5 from awarding financial incentives to certain positions; establishing that personnel
 6 and operational expenses of the Investment Division are investment management
 7 services to be paid from the expense fund of each State system on a pro rata basis;
 8 establishing an Objective Criteria Committee; providing for the membership of the
 9 Committee; requiring the Committee to meet and make certain recommendations by
 10 a certain date; requiring the Committee to meet at certain intervals; requiring the
 11 Committee to make certain recommendations to the Board of Trustees regarding the
 12 objective criteria to be used in setting compensation and awarding financial
 13 incentives to certain employees in the Investment Division; requiring the Board of
 14 Trustees to enter into an agreement with an investment consultant to provide
 15 certain services to the Committee; prohibiting the Board of Trustees from entering
 16 into a certain agreement with an investment consultant that provides certain
 17 services to the Board of Trustees; requiring the Chief Investment Officer to serve in
 18 a certain advisory role to the Committee; prohibiting the Chief Investment Officer
 19 from participating in certain deliberations of the Committee; altering the amount of
 20 funds to which the Board of Trustees may enter into a certain agreement for the
 21 investment of funds in certain private equity and venture capital investments in the
 22 State; requiring the personnel and operational expenses of the Investment Division
 23 to be ~~appropriated~~ paid out of the accumulation fund of each State system on a pro
 24 rata basis; establishing that personnel and operational expenses of the Investment
 25 Division are not included in the calculation of a certain payment by the State and
 26 local employers; making conforming changes; and generally relating to the
 27 governance and funding of the Investment Division of the State Retirement Agency.

28 BY repealing and reenacting, with amendments,

29 Article – State Personnel and Pensions

30 Section 21–118(c)(1), 21–118.1, 21–122, 21–123.2(d)(1) and (2), 21–303(d)(2), 21–315,
 31 and 21–316(b)

32 Annotated Code of Maryland

33 (2015 Replacement Volume and 2017 Supplement)

34 BY repealing and reenacting, without amendments,

35 Article – State Personnel and Pensions

36 Section 21–303(d)(1)

37 Annotated Code of Maryland

38 (2015 Replacement Volume and 2017 Supplement)

39 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND,

40 That the Laws of Maryland read as follows:

41 **Article – State Personnel and Pensions**

42 21–118.

1 (c) (1) (I) The Executive Director shall employ a staff ~~in accordance with~~
2 ~~the State budget~~ **TO CARRY OUT THE ADMINISTRATIVE DUTIES OF THE SEVERAL**
3 **SYSTEMS.**

4 (II) EXCEPT AS PROVIDED IN § 21-315 OF THIS TITLE, THE
5 COMPENSATION OF THE EXECUTIVE DIRECTOR AND STAFF SHALL BE AS PROVIDED
6 IN THE STATE BUDGET.

7 21-118.1.

8 (a) Notwithstanding any other provision of law, on the recommendation of the
9 Executive Director and the Investment Committee, the Board of Trustees shall determine
10 the qualifications and appointment, as well as compensation and leave, for the Chief
11 Investment Officer who shall be the head of the Investment Division.

12 (b) (1) In making determinations and appointments under this section, the
13 Executive Director and the Investment Committee shall consider the comparative
14 qualifications, compensation, and leave of employees serving in similar positions and
15 discharging similar duties at comparable public pension funds.

16 (2) (I) **1. THE BOARD OF TRUSTEES SHALL ADOPT OBJECTIVE**
17 **CRITERIA FOR SETTING THE QUALIFICATIONS AND COMPENSATION OF THE CHIEF**
18 **INVESTMENT OFFICER.**

19 **2. THE BOARD SHALL CONSIDER THE**
20 **RECOMMENDATIONS OF THE OBJECTIVE CRITERIA COMMITTEE UNDER §**
21 **21-122(G) OF THIS SUBTITLE BEFORE ADOPTING OBJECTIVE CRITERIA FOR**
22 **SETTING COMPENSATION.**

23 (II) THE CRITERIA ADOPTED UNDER SUBPARAGRAPH (I) OF
24 THIS PARAGRAPH SHALL INCLUDE OBJECTIVE BENCHMARKS OF INVESTMENT
25 PERFORMANCE THAT SHALL BE MET OR EXCEEDED FOR THE CHIEF INVESTMENT
26 OFFICER TO BE ELIGIBLE FOR AN INCREASE IN COMPENSATION.

27 (III) THE BOARD MAY NOT GRANT ANY INCREASES IN
28 COMPENSATION TO THE CHIEF INVESTMENT OFFICER IN A FISCAL YEAR IN WHICH
29 STATE EMPLOYEES ARE SUBJECT TO A FURLOUGH.

30 (IV) THE CHIEF INVESTMENT OFFICER'S COMPENSATION MAY
31 NOT BE ADJUSTED IN ACCORDANCE WITH COST-OF-LIVING ADJUSTMENTS AND
32 MERIT INCREASES AVAILABLE TO STATE EMPLOYEES.

33 (c) (1) In addition to the Board of Trustees setting the [salary]
34 COMPENSATION of the Chief Investment Officer under subsection (a) of this section [in

1 accordance with the State budget], the Board of Trustees may also award financial
2 incentives to the Chief Investment Officer in accordance with **THIS SUBSECTION AND**
3 subsection (d) of this section.

4 **(2) (I) ANY FINANCIAL INCENTIVES PAID SHALL BE PAID OVER**
5 **MULTIPLE FISCAL YEARS IN EQUAL INSTALLMENTS.**

6 **(II) THE DATES ON WHICH FINANCIAL INCENTIVES AWARDED**
7 **UNDER THIS SECTION SHALL BE PAID SHALL BE SET BY THE BOARD OF TRUSTEES**
8 **AT THE TIME THE FINANCIAL INCENTIVES ARE DETERMINED.**

9 **(III) THE DATES SET UNDER SUBPARAGRAPH (II) OF THIS**
10 **PARAGRAPH MAY NOT BE CHANGED AFTER BEING SET.**

11 **(3) IF THE CHIEF INVESTMENT OFFICER SEPARATES FROM**
12 **EMPLOYMENT, THE BOARD OF TRUSTEES MAY NOT PAY OUT ANY REMAINING**
13 **FINANCIAL INCENTIVES DUE TO BE PAID AFTER THE DATE OF SEPARATION FROM**
14 **EMPLOYMENT.**

15 **(4) (I) THE BOARD OF TRUSTEES MAY NOT PAY FINANCIAL**
16 **INCENTIVES IN A FISCAL YEAR IN WHICH STATE EMPLOYEES ARE SUBJECT TO A**
17 **FURLOUGH.**

18 **(II) THE BOARD OF TRUSTEES SHALL PAY OUT ANY FINANCIAL**
19 **INCENTIVES NOT PAID IN ACCORDANCE WITH SUBPARAGRAPH (I) OF THIS**
20 **PARAGRAPH ONLY:**

21 **1. AFTER THE FURLOUGH PERIOD HAS ENDED; AND**

22 **2. IF THE CHIEF INVESTMENT OFFICER IS CURRENTLY**
23 **EMPLOYED AS THE CHIEF INVESTMENT OFFICER.**

24 (d) (1) (I) **1.** On the recommendation of the Investment Committee, the
25 Board of Trustees shall establish **OBJECTIVE** criteria for awarding financial incentives to
26 the Chief Investment Officer.

27 **2. THE BOARD SHALL CONSIDER THE**
28 **RECOMMENDATIONS OF THE OBJECTIVE CRITERIA COMMITTEE UNDER §**
29 **21-122(G) OF THIS SUBTITLE BEFORE ADOPTING OBJECTIVE CRITERIA FOR**
30 **AWARDING FINANCIAL INCENTIVES.**

31 **(II) FINANCIAL INCENTIVES MAY ONLY BE AWARDED BASED ON**
32 **THE OBJECTIVE CRITERIA ADOPTED IN ACCORDANCE WITH SUBPARAGRAPH (I) OF**
33 **THIS PARAGRAPH.**

1 (2) The criteria under paragraph (1) of this subsection shall [be based on]
2 **INCLUDE:**

3 (i) objective benchmarks of investment performance for the assets
4 of the several systems **THAT SHALL BE MET OR EXCEEDED; [and]**

5 (ii) **OBJECTIVE** criteria used by comparable public pension funds
6 awarding financial incentives to chief investment officers; **AND**

7 **(III) LIMITATIONS ON THE AMOUNT OF FINANCIAL INCENTIVES**
8 **IN A FISCAL YEAR, NOT TO EXCEED 33% OF THE CHIEF INVESTMENT OFFICER'S**
9 **COMPENSATION EXCLUSIVE OF FINANCIAL INCENTIVES.**

10 (3) The Chief Investment Officer may not participate in any deliberations
11 regarding the establishment of criteria under this subsection.

12 (4) The criteria established under this subsection shall be included in the
13 investment policy manual.

14 (5) On or before September 1 of each year, the Board of Trustees shall
15 submit to the Joint Committee on Pensions, in accordance with § 2–1246 of the State
16 Government Article, a copy of the most recent criteria established under this section and
17 any financial incentives that were awarded for the previous fiscal year to the Chief
18 Investment Officer.

19 (e) [The compensation and any financial incentives awarded to the Chief
20 Investment Officer shall be in accordance with the limitations on administrative and
21 operational expenses under § 21–315(c) of this title.

22 (f)] The Chief Investment Officer appointed under this section is a State employee
23 and shall be entitled to participate in the Employees' Pension System under Title 23 of this
24 article.

25 [(g)] **(F)** On the recommendation of either the Investment Committee or the
26 Executive Director and on receiving an affirmative vote from a majority of the Board of
27 Trustees, the Executive Director shall terminate the appointment of the Chief Investment
28 Officer.

29 21–122.

30 (a) (1) There is an Investment Division in the State Retirement Agency.

31 (2) Subject to [paragraph (3) of this subsection] **SUBSECTION (F) OF THIS**
32 **SECTION**, the Board of Trustees shall determine the qualifications and compensation for
33 [the following] positions within the Investment Division[:

1 (i) deputy chief investment officer; and

2 (ii) managing director].

3 (3) The Board of Trustees[may not:

4 (i) set or increase the salary for the deputy chief investment officer
5 at an amount greater than the maximum salary under the ES11 scale of the Maryland
6 Executive Pay Plan;

7 (ii) set or increase the salary for a managing director at an amount
8 greater than the maximum salary under the ES9 scale of the Maryland Executive Pay Plan;

9 (iii) provide bonuses for an employee; or

10 (iv) subject to the limitations under items (i) and (ii) of this
11 paragraph, set or increase the salary for a position that provides more than a 10% increase
12 over the lowest salary for the position in the prior fiscal year];

13 (I) MAY DETERMINE AND CREATE THE TYPE AND NUMBER OF
14 POSITIONS NECESSARY FOR CARRYING OUT THE PROFESSIONAL INVESTMENT
15 FUNCTIONS OF THE INVESTMENT DIVISION; AND

16 (II) SHALL ADOPT OBJECTIVE CRITERIA TO BE FOLLOWED
17 WHEN EXERCISING ITS AUTHORITY UNDER ITEM (I) OF THIS PARAGRAPH AND
18 PARAGRAPH (2) OF THIS SUBSECTION.

19 (4) On or before October 1, 2012, and each October 1 thereafter, the Board
20 of Trustees shall report to the Senate Budget and Taxation Committee, the House
21 Appropriations Committee, and the Joint Committee on Pensions, in accordance with §
22 2–1246 of the State Government Article on:

23 (i) the current [salaries] **COMPENSATION** of the [deputy chief
24 investment officer and the managing directors] **THE CHIEF INVESTMENT OFFICER AND**
25 **EMPLOYEES** of the Investment Division;

26 (ii) any [salary] **COMPENSATION** increases [the deputy chief
27 investment officer or managing directors] **THE CHIEF INVESTMENT OFFICER AND**
28 **EMPLOYEES** of the Investment Division have received in the fiscal year immediately
29 preceding that October 1; [and]

30 (iii) 1. the number of individuals in the Investment Division of
31 the State Retirement Agency who were employed as professional investment staff and
32 terminated employment with the State Retirement Agency in the fiscal year immediately
33 preceding that October 1;

1 2. the number of years of employment an individual
2 described in item 1 of this item had accrued with the State Retirement Agency at the time
3 the individual terminated employment with the State Retirement Agency; and

4 3. to the extent possible, the new employer, position, and
5 [salary] **COMPENSATION** the individual described in item 1 of this item accepted upon
6 terminating employment with the State Retirement Agency;

7 **(IV) THE CRITERIA USED TO SET THE COMPENSATION OF**
8 **EMPLOYEES OF THE INVESTMENT DIVISION;**

9 **(V) THE CRITERIA USED TO DETERMINE THE TYPE AND NUMBER**
10 **OF POSITIONS NECESSARY TO CARRY OUT THE FUNCTIONS OF THE INVESTMENT**
11 **DIVISION;**

12 **(VI) THE NUMBER OF EMPLOYEES ELIGIBLE FOR FINANCIAL**
13 **INCENTIVES, AND THE FINANCIAL INCENTIVES PAID IN THE CURRENT FISCAL YEAR;**
14 **AND**

15 **(VII) THE NET IMPACT ON SYSTEM INVESTMENT RETURNS**
16 **ATTRIBUTABLE TO THE COSTS OF THE INVESTMENT DIVISION FOR THE PRECEDING**
17 **FISCAL YEAR.**

18 (b) As the Board of Trustees specifies, the Investment Division shall invest the
19 assets of the several systems.

20 (c) (1) Quarterly, the Investment Division shall submit to the Board of
21 Trustees a report about the commissions that the State Retirement Agency pays on
22 investments.

23 (2) The report shall detail:

24 (i) the identity of each recipient of a commission that the State
25 Retirement Agency paid during the previous quarter;

26 (ii) the dollar amount of commission business that each recipient
27 performs;

28 (iii) the average price-per-share each recipient charged or, if the
29 commission was paid on a net basis, the markup or markdown that the recipient uses; and

30 (iv) a reasonable history of the allocation of commissions.

31 (d) On behalf of the several systems, the Chief Investment Officer:

1 (1) may hire external investment managers to invest the assets of the
2 several systems;

3 (2) may select and invest in specific investment vehicles, including limited
4 partnerships, private equity fund investments, and private real estate fund investments;
5 and

6 (3) may terminate the appointment of an external investment manager.

7 (e) Prior to terminating the appointment of an external investment manager
8 under subsection (d)(2) of this section, the Chief Investment Officer shall provide written
9 documentation to the Board of Trustees and the Investment Committee explaining the
10 basis for the termination.

11 (F) (1) (I) **1. THE BOARD OF TRUSTEES SHALL ADOPT OBJECTIVE**
12 **CRITERIA FOR SETTING THE QUALIFICATIONS AND COMPENSATION OF POSITIONS**
13 **UNDER SUBSECTION (A) OF THIS SECTION.**

14 **2. THE BOARD SHALL CONSIDER THE**
15 **RECOMMENDATIONS OF THE OBJECTIVE CRITERIA COMMITTEE UNDER**
16 **SUBSECTION (G) OF THIS SECTION BEFORE ADOPTING OBJECTIVE CRITERIA FOR**
17 **SETTING COMPENSATION.**

18 (II) **THE CRITERIA ADOPTED UNDER SUBPARAGRAPH (I) OF**
19 **THIS PARAGRAPH SHALL INCLUDE:**

20 **1. CONSIDERATION OF THE COMPARATIVE**
21 **QUALIFICATIONS AND COMPENSATION OF EMPLOYEES SERVING IN SIMILAR**
22 **POSITIONS AND DISCHARGING SIMILAR DUTIES AT COMPARABLE PUBLIC PENSION**
23 **FUNDS;**

24 **2. LIMITATIONS ON THE AMOUNT BY WHICH THE**
25 **COMPENSATION FOR A POSITION MAY BE INCREASED EACH FISCAL YEAR, NOT TO**
26 **EXCEED 10%; AND**

27 **3. OBJECTIVE BENCHMARKS OF INVESTMENT**
28 **PERFORMANCE THAT SHALL BE MET OR EXCEEDED BY AN INDIVIDUAL TO BE**
29 **ELIGIBLE FOR AN INCREASE IN COMPENSATION.**

30 (III) **THE BOARD OF TRUSTEES MAY NOT GRANT ANY INCREASES**
31 **IN COMPENSATION IN A FISCAL YEAR IN WHICH STATE EMPLOYEES ARE SUBJECT TO**
32 **A FURLOUGH.**

33 (IV) **FOR POSITIONS THAT DO NOT INVOLVE DISCRETION OVER**
34 **INVESTMENT-RELATED DECISIONS, THE BOARD OF TRUSTEES MAY NOT SET**

1 COMPENSATION THAT EXCEEDS COMPENSATION FOR PROVIDING COMPARABLE
2 SERVICES IN OTHER STATE EMPLOYMENT.

3 (V) EXCEPT FOR POSITIONS UNDER SUBPARAGRAPH (IV) OF
4 THIS PARAGRAPH, THE COMPENSATION OF AN EMPLOYEE MAY NOT BE ADJUSTED IN
5 ACCORDANCE WITH COST-OF-LIVING ADJUSTMENTS AND MERIT INCREASES
6 AVAILABLE TO STATE EMPLOYEES.

7 (2) (I) 1. THE BOARD OF TRUSTEES SHALL ADOPT OBJECTIVE
8 CRITERIA FOR ~~GRANTING~~ AWARDING FINANCIAL INCENTIVES UNDER SUBSECTION
9 (A) OF THIS SECTION.

10 2. THE BOARD SHALL CONSIDER THE
11 RECOMMENDATIONS OF THE OBJECTIVE CRITERIA COMMITTEE UNDER
12 SUBSECTION (G) OF THIS SECTION BEFORE ADOPTING OBJECTIVE CRITERIA FOR
13 AWARDING FINANCIAL INCENTIVES.

14 (II) FINANCIAL INCENTIVES MAY ONLY BE AWARDED BASED ON
15 THE OBJECTIVE CRITERIA ADOPTED IN ACCORDANCE WITH SUBPARAGRAPH (I) OF
16 THIS PARAGRAPH.

17 (III) THE CRITERIA ADOPTED UNDER SUBPARAGRAPH (I) OF
18 THIS PARAGRAPH SHALL INCLUDE:

19 1. LIMITATIONS ON THE AMOUNT OF FINANCIAL
20 INCENTIVES FOR A POSITION IN A FISCAL YEAR, NOT TO EXCEED 33% OF A
21 POSITION'S COMPENSATION, EXCLUSIVE OF FINANCIAL INCENTIVES; AND

22 2. OBJECTIVE BENCHMARKS OF INVESTMENT
23 PERFORMANCE THAT SHALL BE MET OR EXCEEDED BY AN INDIVIDUAL TO BE
24 ELIGIBLE FOR FINANCIAL INCENTIVES, INCLUDING BENCHMARKS FOR THE ASSET
25 CLASS IN WHICH INVESTMENTS ARE UNDER THE DIRECTION OF THE INDIVIDUAL.

26 ~~(III)~~ (IV) 1. ANY FINANCIAL INCENTIVES PAID SHALL BE
27 PAID OVER MULTIPLE FISCAL YEARS IN EQUAL INSTALLMENTS.

28 2. THE DATES ON WHICH FINANCIAL INCENTIVES
29 AWARDED UNDER THIS SECTION SHALL BE PAID SHALL BE SET BY THE BOARD OF
30 TRUSTEES AT THE TIME THE FINANCIAL INCENTIVES ARE DETERMINED.

31 3. THE DATES SET UNDER SUBSUBPARAGRAPH 2 OF
32 THIS SUBPARAGRAPH MAY NOT BE CHANGED AFTER BEING SET.

1 ~~(IV)~~ (V) IF AN INDIVIDUAL WHO HAS EARNED FINANCIAL
2 INCENTIVES SEPARATES FROM EMPLOYMENT IN THE INVESTMENT DIVISION, THE
3 BOARD OF TRUSTEES MAY NOT PAY OUT ANY REMAINING FINANCIAL INCENTIVES
4 DUE TO BE PAID AFTER THE DATE OF SEPARATION FROM EMPLOYMENT.

5 ~~(V)~~ (VI) THE BOARD OF TRUSTEES MAY NOT AWARD
6 FINANCIAL INCENTIVES FOR POSITIONS THAT DO NOT INVOLVE DISCRETION OVER
7 INVESTMENT-RELATED DECISIONS.

8 ~~(VI)~~ (VII) 1. THE BOARD OF TRUSTEES MAY NOT PAY OUT
9 FINANCIAL INCENTIVES IN A FISCAL YEAR IN WHICH STATE EMPLOYEES ARE
10 SUBJECT TO A FURLOUGH.

11 2. THE BOARD OF TRUSTEES SHALL PAY OUT ANY
12 FINANCIAL INCENTIVES NOT PAID TO AN INDIVIDUAL IN ACCORDANCE WITH
13 SUBSUBPARAGRAPH 1 OF THIS SUBPARAGRAPH ONLY:

14 A. AFTER THE FURLOUGH PERIOD HAS ENDED; AND

15 B. IF THE INDIVIDUAL IS CURRENTLY EMPLOYED IN THE
16 INVESTMENT DIVISION.

17 (3) (I) ON OR BEFORE OCTOBER 1 EACH YEAR, THE BOARD OF
18 TRUSTEES SHALL SUBMIT TO THE SENATE BUDGET AND TAXATION COMMITTEE,
19 THE HOUSE APPROPRIATIONS COMMITTEE, AND THE JOINT COMMITTEE ON
20 PENSIONS, IN ACCORDANCE WITH § 2-1246 OF THE STATE GOVERNMENT ARTICLE,
21 A COPY OF THE MOST RECENT CRITERIA ADOPTED UNDER THIS SUBSECTION.

22 (II) IN ADDITION TO THE REPORT REQUIRED UNDER
23 SUBPARAGRAPH (I) OF THIS PARAGRAPH, THE BOARD OF TRUSTEES SHALL SUBMIT,
24 WITHIN 30 DAYS OF ADOPTION BY THE BOARD OF TRUSTEES, A COPY OF ANY
25 CHANGES ADOPTED TO THE CRITERIA ESTABLISHED UNDER THIS SUBSECTION TO
26 THE SENATE BUDGET AND TAXATION COMMITTEE, THE HOUSE APPROPRIATIONS
27 COMMITTEE, AND THE JOINT COMMITTEE ON PENSIONS, IN ACCORDANCE WITH §
28 2-1246 OF THE STATE GOVERNMENT ARTICLE.

29 (4) ON OR BEFORE OCTOBER 1, JANUARY 1, MARCH 1, AND JULY 1
30 EACH YEAR, THE BOARD OF TRUSTEES SHALL SUBMIT TO THE SENATE BUDGET AND
31 TAXATION COMMITTEE, THE HOUSE APPROPRIATIONS COMMITTEE, AND THE
32 JOINT COMMITTEE ON PENSIONS, IN ACCORDANCE WITH § 2-1246 OF THE STATE
33 GOVERNMENT ARTICLE, A REPORT ON SYSTEM INVESTMENT RETURNS FOR THE
34 PRECEDING FISCAL QUARTER, INCLUDING:

1 (I) INVESTMENT PERFORMANCE BY ASSET CLASS, INCLUDING
2 PERFORMANCE RELATIVE TO ASSET CLASS BENCHMARKS; AND

3 (II) INVESTMENT PERFORMANCE OF ASSETS UNDER THE
4 DIRECTION OF EACH INVESTMENT DIVISION EMPLOYEE.

5 (G) (1) THERE IS AN OBJECTIVE CRITERIA COMMITTEE.

6 (2) THE COMMITTEE CONSISTS OF THE FOLLOWING MEMBERS:

7 (I) ONE MEMBER OF THE SENATE OF MARYLAND SERVING ON
8 THE JOINT COMMITTEE ON PENSIONS, APPOINTED BY THE SENATE CHAIR OF THE
9 JOINT COMMITTEE ON PENSIONS;

10 (II) ONE MEMBER OF THE HOUSE OF DELEGATES SERVING ON
11 THE JOINT COMMITTEE ON PENSIONS, APPOINTED BY THE HOUSE CHAIR OF THE
12 JOINT COMMITTEE ON PENSIONS;

13 (III) THE STATE TREASURER OR THE STATE TREASURER'S
14 DESIGNEE;

15 (IV) THE SECRETARY OF BUDGET AND MANAGEMENT OR THE
16 SECRETARY'S DESIGNEE;

17 (V) ONE MEMBER OF THE BOARD OF TRUSTEES UNDER §
18 21-104(A)(4)(I), (II), (III), (IV), OR (V) OF THIS SUBTITLE, APPOINTED BY THE
19 CHAIRMAN OF THE BOARD OF TRUSTEES;

20 (VI) ONE MEMBER OF THE BOARD OF TRUSTEES UNDER §
21 21-104(A)(4)(VIII) OF THIS SUBTITLE, APPOINTED BY THE CHAIRMAN OF THE
22 BOARD OF TRUSTEES; AND

23 (VII) A MEMBER OF THE PUBLIC WITH FINANCIAL INDUSTRY
24 EXPERIENCE, APPOINTED JOINTLY BY THE PRESIDING OFFICERS OF THE GENERAL
25 ASSEMBLY.

26 (3) THE CHAIR OF THE COMMITTEE SHALL BE ELECTED BY THE
27 MEMBERS OF THE COMMITTEE.

28 (4) ON OR BEFORE DECEMBER 31, 2018, AND AT LEAST ONCE EVERY
29 5 YEARS THEREAFTER, THE COMMITTEE SHALL MAKE RECOMMENDATIONS TO THE
30 BOARD OF TRUSTEES ESTABLISHING:

1 (I) OBJECTIVE CRITERIA UNDER § 21-118.1(B)(2) AND (D) OF
 2 THIS SUBTITLE FOR THE COMPENSATION AND FINANCIAL INCENTIVES FOR THE
 3 CHIEF INVESTMENT OFFICER; AND

4 (II) OBJECTIVE CRITERIA UNDER SUBSECTIONS (A) AND (F) OF
 5 THIS SECTION FOR THE COMPENSATION AND FINANCIAL INCENTIVES FOR THE
 6 POSITIONS IN THE INVESTMENT DIVISION.

7 (5) (I) THE BOARD OF TRUSTEES SHALL ENTER INTO AN
 8 AGREEMENT WITH AN INVESTMENT CONSULTANT TO ASSIST THE COMMITTEE IN
 9 ESTABLISHING OBJECTIVE CRITERIA UNDER THIS SUBSECTION.

10 (II) THE BOARD OF TRUSTEES MAY NOT ENTER INTO AN
 11 AGREEMENT WITH AN INVESTMENT CONSULTANT UNDER SUBPARAGRAPH (I) OF
 12 THIS PARAGRAPH IF THAT INVESTMENT CONSULTANT IS ACTIVELY PROVIDING
 13 CONSULTING SERVICES FOR THE BOARD OF TRUSTEES AND THE STAFF OF THE
 14 INVESTMENT DIVISION.

15 (6) (I) THE CHIEF INVESTMENT OFFICER SHALL SERVE IN AN
 16 ADVISORY CAPACITY TO THE COMMITTEE.

17 (II) THE CHIEF INVESTMENT OFFICER MAY NOT PARTICIPATE
 18 IN ANY DELIBERATIONS REGARDING THE CRITERIA FOR COMPENSATION AND
 19 FINANCIAL INCENTIVES FOR THE CHIEF INVESTMENT OFFICER.

20 21-123.2.

21 (d) (1) The Board of Trustees may enter into an agreement with the Maryland
 22 Technology Development Corporation or another entity to make and manage investments
 23 on behalf of the Board of Trustees in private equity and venture capital in the State with
 24 the amount of money appropriated to the system, the State Retirement Agency, or the
 25 accumulation funds of the several systems that:

26 (I) FOR FISCAL YEAR 2017, is in addition to:

27 [(i)] 1. the amounts appropriated for the State and local employer
 28 contributions and the supplemental contribution required under §§ 21-308, 21-309,
 29 21-309.1, and 21-310 of this title;

30 [(ii)] 2. the amount appropriated under § 7-311(j)(1)(i)1 of the
 31 State Finance and Procurement Article; and

32 [(iii)] 3. any other amounts required by any other provisions of law
 33 to be appropriated to the system, the State Retirement Agency, or the accumulation funds
 34 of the several systems; AND

1 **(II) FOR FISCAL YEARS 2019 THROUGH 2022, IS APPROPRIATED**
2 **UNDER § 21-308(A)(4) OF THIS TITLE.**

3 (2) If the Board of Trustees does not enter into an agreement with the
4 Maryland Technology Development Corporation or another entity in accordance with
5 paragraph (1) of this subsection, the Board of Trustees shall develop a process that
6 authorizes the Maryland Technology Development Corporation or another entity to provide
7 recommendations regarding investments in private equity and venture capital in the State
8 with respect to the [additional] amount described under paragraph (1) of this subsection.

9 21-303.

10 (d) (1) Except as provided in paragraph (2) of this subsection, each year, the
11 Board of Trustees shall transfer from the accumulation fund of each State system to the
12 expense fund of that system the amounts required by § 21-315 of this subtitle.

13 (2) The administrative and operational expenses of the Board of Trustees
14 and the State Retirement Agency, not including amounts as authorized by the Board of
15 Trustees necessary for investment management services **AND PERSONNEL AND**
16 **OPERATIONAL EXPENSES OF THE INVESTMENT DIVISION**, shall be paid by
17 participating employers as provided in § 21-316 of this subtitle and may not be transferred
18 from the accumulation fund of each system.

19 21-315.

20 (a) The Board of Trustees shall credit to the expense fund of each State system
21 its pro rata share of:

22 (1) the amount provided in the annual State budget to pay the
23 administrative and operational expenses of the Board of Trustees and the State Retirement
24 Agency;

25 (2) the amounts authorized by the Board of Trustees under this section for
26 investment management services, **INCLUDING PERSONNEL AND OPERATIONAL**
27 **EXPENSES OF THE INVESTMENT DIVISION**; and

28 (3) the amount authorized by the Board of Trustees to implement a closing
29 agreement with the Internal Revenue Service regarding former members of the Employees'
30 Retirement System or the Teachers' Retirement System who elected to become members of
31 or participate in those State systems under former Article 73B, §§ 2-206 and 3-206 of the
32 Code.

33 (b) **(1)** The Board of Trustees shall pay from the expense fund of each State
34 system its pro rata share of:

1 [(1)] (I) the administrative and operational expenses of the Board of
2 Trustees and the State Retirement Agency, in accordance with the annual State budget;

3 [(2)] (II) the amounts as authorized by the Board of Trustees necessary
4 for investment management services, **INCLUDING PERSONNEL AND OPERATIONAL**
5 **EXPENSES OF THE INVESTMENT DIVISION**; and

6 [(3)] (III) the amounts as authorized by the Board of Trustees necessary to
7 implement a closing agreement with the Internal Revenue Service regarding former
8 members of the Employees' Retirement System or the Teachers' Retirement System who
9 elected to become members of or participate in those State systems under former Article
10 73B, §§ 2–206 and 3–206 of the Code.

11 **(2) THE AMOUNTS FOR THE PERSONNEL AND OPERATIONAL**
12 **EXPENSES OF THE INVESTMENT DIVISION SHALL BE ~~APPROPRIATED~~ PAID OUT OF**
13 **THE ACCUMULATION FUND OF EACH STATE SYSTEM ON A PRO RATA BASIS AND MAY**
14 **NOT BE PAID BY PARTICIPATING EMPLOYERS AS PROVIDED IN § 21–316 OF THIS**
15 **SUBTITLE.**

16 (c) Each year the Board of Trustees shall estimate the amount, not exceeding
17 0.22% of the payroll of members, necessary for the administrative and operational expenses
18 of the Board of Trustees and the State Retirement Agency.

19 (d) (1) Each quarter of the fiscal year the Board of Trustees shall estimate
20 one-fourth of an amount, not exceeding 0.5% of the market value as of the last day of the
21 preceding quarter of invested assets that are externally managed exclusive of assets
22 invested in real estate or alternative investments, necessary to procure and retain
23 investment management services other than external real estate or alternative investment
24 management services.

25 (2) The Board of Trustees is not limited in the amount of investment
26 manager fees that the Board of Trustees may pay as necessary for external real estate or
27 alternative investment management services.

28 (e) (1) The amounts estimated under subsection (c) of this section shall be paid
29 into the expense funds of the several systems during the ensuing year on a pro rata basis
30 according to the total membership of each system.

31 (2) The amounts estimated under subsection (d) of this section shall be paid
32 into the expense funds of the several systems during the ensuing year on a pro rata basis
33 according to the total assets held by each system.

34 (f) The Board of Trustees may combine the expense funds of the several systems
35 for budgetary and administrative efficiency.

1 (g) (1) On or before December 31 of each year, the Board of Trustees shall
 2 report to the General Assembly the actual amount spent for investment management
 3 services during the preceding fiscal year.

4 (2) ON OR BEFORE DECEMBER 31 EACH YEAR, THE BOARD OF
 5 TRUSTEES SHALL REPORT TO THE GENERAL ASSEMBLY THE ACTUAL AMOUNT
 6 SPENT FOR INVESTMENT DIVISION OPERATIONS DURING THE PRECEDING FISCAL
 7 YEAR.

8 21-316.

9 (b) (1) Subject to paragraph (3) of this subsection, for each fiscal year, the
 10 State and each local employer shall pay to the Board of Trustees their pro rata shares of
 11 the amount necessary for the administrative and operational expenses of the Board of
 12 Trustees and the State Retirement Agency.

13 (2) The pro rata share of the State and of each local employer for each fiscal
 14 year shall be based on the number of members of the several systems employed by the State
 15 or local employer as of June 30 of the second prior fiscal year compared to the total
 16 membership of the several systems as of that date.

17 (3) The State shall pay the pro rata share under this section of each library.

18 (4) THE ADMINISTRATIVE AND OPERATIONAL EXPENSES OF THE
 19 BOARD OF TRUSTEES AND THE STATE RETIREMENT AGENCY USED TO DETERMINE
 20 THE PRO RATA SHARES UNDER THIS SUBSECTION MAY NOT INCLUDE COSTS FOR THE
 21 PERSONNEL AND OPERATIONAL EXPENSES OF THE INVESTMENT DIVISION.

22 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect July
 23 1, 2018.

Approved:

Governor.

President of the Senate.

Speaker of the House of Delegates.