

# SENATE BILL 999

K4

71r2141

---

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

Introduced and read first time: March 5, 2007

Assigned to: Rules

---

## A BILL ENTITLED

1 AN ACT concerning

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

3 FOR the purpose of authorizing the Board of Trustees to determine the qualifications,  
4 appointment, and compensation of the Chief Investment Officer of the State  
5 Retirement Agency after the Board of Trustees receives certain  
6 recommendations; authorizing the Board of Trustees to provide certain financial  
7 incentives for the Chief Investment Officer; requiring the Board of Trustees to  
8 base certain financial incentives on certain criteria; requiring the Board of  
9 Trustees to submit certain reports to the Joint Committee on Pensions on or  
10 before a certain date; providing that the compensation and financial incentives  
11 awarded to the Chief Investment Officer shall be in accordance with certain  
12 limitations; providing that the Chief Investment Officer is a State employee and  
13 entitled to certain benefits; requiring the Executive Director of the State  
14 Retirement Agency to terminate the appointment of the Chief Investment  
15 Officer under certain circumstances; authorizing the Chief Investment Officer to  
16 hire certain investment managers; authorizing the Chief Investment Officer to  
17 terminate the appointment of the certain investment managers; requiring the  
18 Chief Investment Officer to provide certain written documentation to the Board  
19 of Trustees and Investment Committee under certain circumstances; and  
20 generally relating to the investment oversight of the State Retirement and  
21 Pension System.

22 BY repealing and reenacting, with amendments,  
23 Article – State Personnel and Pensions  
24 Section 21–108(c) and 21–122  
25 Annotated Code of Maryland

---

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.



1 (2004 Replacement Volume and 2006 Supplement)

2 BY adding to

3 Article – State Personnel and Pensions

4 Section 21–118.1

5 Annotated Code of Maryland

6 (2004 Replacement Volume and 2006 Supplement)

7 BY repealing and reenacting, without amendments,

8 Article – State Personnel and Pensions

9 Section 21–315(c)

10 Annotated Code of Maryland

11 (2004 Replacement Volume and 2006 Supplement)

12 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF  
13 MARYLAND, That the Laws of Maryland read as follows:

14 **Article – State Personnel and Pensions**

15 21–108.

16 (c) Subject to [§ 21–123] §§ **21–122 AND 21–123** of this subtitle, the Board  
17 of Trustees shall have full power to invest the assets of the several systems.

18 **21–118.1.**

19 (A) **NOTWITHSTANDING ANY OTHER PROVISION OF LAW, ON THE**  
20 **RECOMMENDATION OF THE INVESTMENT COMMITTEE, THE BOARD OF**  
21 **TRUSTEES SHALL DETERMINE THE QUALIFICATIONS AND APPOINTMENT, AS**  
22 **WELL AS COMPENSATION AND LEAVE, FOR THE CHIEF INVESTMENT OFFICER**  
23 **WHO SHALL BE THE HEAD OF THE INVESTMENT DIVISION.**

24 (B) **IN MAKING DETERMINATIONS AND APPOINTMENTS UNDER THIS**  
25 **SECTION, THE INVESTMENT COMMITTEE SHALL CONSIDER THE COMPARATIVE**  
26 **STATUS OF EMPLOYEES SERVING IN SIMILAR POSITIONS AND DISCHARGING**  
27 **SIMILAR DUTIES AT COMPARABLE PUBLIC PENSION FUNDS.**

28 (C) **IN ADDITION TO THE BOARD OF TRUSTEES SETTING THE SALARY OF**  
29 **THE CHIEF INVESTMENT OFFICER UNDER SUBSECTION (A) OF THIS SECTION IN**  
30 **ACCORDANCE WITH THE STATE BUDGET, THE BOARD OF TRUSTEES MAY ALSO**

1 AWARD FINANCIAL INCENTIVES TO THE CHIEF INVESTMENT OFFICER IN  
2 ACCORDANCE WITH SUBSECTION (D) OF THIS SECTION.

3 (D) (1) ON THE RECOMMENDATION OF THE INVESTMENT  
4 COMMITTEE, THE BOARD OF TRUSTEES SHALL ESTABLISH CRITERIA FOR  
5 AWARDING FINANCIAL INCENTIVES TO THE CHIEF INVESTMENT OFFICER.

6 (2) THE CRITERIA UNDER PARAGRAPH (1) OF THIS SUBSECTION  
7 SHALL BE BASED ON:

8 (I) OBJECTIVE BENCHMARKS OF INVESTMENT  
9 PERFORMANCE FOR THE ASSETS OF THE SEVERAL SYSTEMS;

10 (II) CRITERIA USED BY COMPARABLE PUBLIC PENSION  
11 FUNDS AWARDING FINANCIAL INCENTIVES TO CHIEF INVESTMENT OFFICERS;  
12 AND

13 (III) THE INVESTMENT PERFORMANCE OF THE SEVERAL  
14 SYSTEMS AS COMPARED TO COMPARABLE PUBLIC PENSION FUNDS RANKED IN  
15 THE 25TH PERCENTILE OF THE ANNUAL EVALUATION PERFORMED BY THE  
16 TRUST UNIVERSE COMPARISON SERVICE.

17 (3) THE CHIEF INVESTMENT OFFICER MAY NOT PARTICIPATE IN  
18 ANY DELIBERATIONS REGARDING THE ESTABLISHMENT OF CRITERIA UNDER  
19 THIS SUBSECTION.

20 (4) THE CRITERIA ESTABLISHED UNDER THIS SUBSECTION SHALL  
21 BE INCLUDED IN THE INVESTMENT POLICY MANUAL.

22 (5) ON OR BEFORE SEPTEMBER 1 OF EACH YEAR, THE BOARD OF  
23 TRUSTEES SHALL SUBMIT TO THE JOINT COMMITTEE ON PENSIONS, IN  
24 ACCORDANCE WITH § 2-1246 OF THE STATE GOVERNMENT ARTICLE, A COPY OF  
25 THE MOST RECENT CRITERIA ESTABLISHED UNDER THIS SECTION AND ANY  
26 FINANCIAL INCENTIVES THAT WERE AWARDED FOR THE PREVIOUS FISCAL YEAR  
27 TO THE CHIEF INVESTMENT OFFICER.

28 (E) THE COMPENSATION AND ANY FINANCIAL INCENTIVES AWARDED TO  
29 THE CHIEF INVESTMENT OFFICER SHALL BE IN ACCORDANCE WITH THE

1 **LIMITATIONS ON ADMINISTRATIVE AND OPERATIVE EXPENSES UNDER §**  
2 **21-315(C) OF THIS TITLE.**

3 **(F) THE CHIEF INVESTMENT OFFICER APPOINTED UNDER THIS**  
4 **SECTION IS A STATE EMPLOYEE AND SHALL BE ENTITLED TO PARTICIPATE IN**  
5 **THE EMPLOYEES' PENSION SYSTEM UNDER TITLE 23 OF THIS ARTICLE.**

6 **(G) ON THE RECOMMENDATION OF EITHER THE INVESTMENT**  
7 **COMMITTEE OR THE EXECUTIVE DIRECTOR AND ON RECEIVING AN**  
8 **AFFIRMATIVE VOTE FROM A MAJORITY OF THE BOARD OF TRUSTEES, THE**  
9 **EXECUTIVE DIRECTOR SHALL TERMINATE THE APPOINTMENT OF THE CHIEF**  
10 **INVESTMENT OFFICER.**

11 21-122.

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

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

15 (c) [On recommendation of the Executive Director of the State Retirement  
16 Agency, the Board of Trustees shall appoint a Chief Investment Officer who shall be  
17 the head of the Investment Division.

18 (d)] (1) Quarterly, the Investment Division shall submit to the Board of  
19 Trustees a report about the commissions that the State Retirement Agency pays on  
20 investments.

21 (2) The report shall detail:

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

24 (ii) the dollar amount of commission business that each  
25 recipient performs;

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

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

1           **(D) THE CHIEF INVESTMENT OFFICER:**

2                   **(1) MAY HIRE EXTERNAL INVESTMENT MANAGERS TO INVEST THE**  
3 **ASSETS OF THE SEVERAL SYSTEMS; AND**

4                   **(2) MAY TERMINATE THE APPOINTMENT OF AN EXTERNAL**  
5 **INVESTMENT MANAGER HIRED UNDER PARAGRAPH (1) OF THIS SUBSECTION.**

6           **(E) PRIOR TO TERMINATING THE APPOINTMENT OF AN EXTERNAL**  
7 **INVESTMENT MANAGER UNDER SUBSECTION (D)(2) OF THIS SECTION, THE**  
8 **CHIEF INVESTMENT OFFICER SHALL PROVIDE WRITTEN DOCUMENTATION TO**  
9 **THE BOARD OF TRUSTEES AND THE INVESTMENT COMMITTEE EXPLAINING THE**  
10 **BASIS FOR THE TERMINATION.**

11 21-315.

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

15           SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect  
16 July 1, 2007.