

CHAPTER 368

(Senate Bill 999)

AN ACT concerning

State Retirement and Pension System – Investment Oversight

FOR the purpose of authorizing the Board of Trustees of the State Retirement and Pension System to determine the qualifications, appointment, and compensation of the Chief Investment Officer of the State Retirement Agency after the Board of Trustees receives certain recommendations; authorizing the Board of Trustees to provide certain financial incentives for the Chief Investment Officer; requiring the Board of Trustees to base certain financial incentives on certain criteria; requiring certain criteria to be included in the investment policy manual; requiring the Board of Trustees to submit certain reports to the Joint Committee on Pensions on or before a certain date; providing that the compensation and financial incentives awarded to the Chief Investment Officer shall be in accordance with certain limitations; providing that the Chief Investment Officer is a State employee and entitled to certain benefits; requiring the Executive Director of the State Retirement Agency to terminate the appointment of the Chief Investment Officer under certain circumstances; authorizing the Chief Investment Officer to hire certain investment managers; authorizing the Chief Investment Officer to terminate the appointment of ~~the~~ certain investment managers; requiring the Chief Investment Officer to provide certain written documentation to the Board of Trustees and Investment Committee under certain circumstances; requiring the Board of Trustees to submit certain criteria to certain committees for review and comment prior to awarding certain financial incentives; requiring certain committees to submit written comments to the Board of Trustees within a certain period of time; and generally relating to the investment oversight of the State Retirement and Pension System.

BY repealing and reenacting, with amendments,
Article – State Personnel and Pensions
Section 21–108(c) and 21–122
Annotated Code of Maryland
(2004 Replacement Volume and 2006 Supplement)

BY adding to
Article – State Personnel and Pensions

Section 21-118.1
 Annotated Code of Maryland
 (2004 Replacement Volume and 2006 Supplement)

BY repealing and reenacting, without amendments,
 Article – State Personnel and Pensions
 Section 21-315(c)
 Annotated Code of Maryland
 (2004 Replacement Volume and 2006 Supplement)

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

Article – State Personnel and Pensions

21-108.

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

21-118.1.

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

(B) **IN MAKING DETERMINATIONS AND APPOINTMENTS UNDER THIS SECTION, THE EXECUTIVE DIRECTOR AND THE INVESTMENT COMMITTEE SHALL CONSIDER THE COMPARATIVE ~~STATUS~~ QUALIFICATIONS, COMPENSATION, AND LEAVE OF EMPLOYEES SERVING IN SIMILAR POSITIONS AND DISCHARGING SIMILAR DUTIES AT COMPARABLE PUBLIC PENSION FUNDS.**

(C) **IN ADDITION TO THE BOARD OF TRUSTEES SETTING THE SALARY OF THE CHIEF INVESTMENT OFFICER UNDER SUBSECTION (A) OF THIS SECTION IN ACCORDANCE WITH THE STATE BUDGET, THE BOARD OF TRUSTEES MAY ALSO AWARD FINANCIAL INCENTIVES TO THE CHIEF INVESTMENT OFFICER IN ACCORDANCE WITH SUBSECTION (D) OF THIS SECTION.**

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

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

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

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

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

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

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

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

(E) THE COMPENSATION AND ANY FINANCIAL INCENTIVES AWARDED TO THE CHIEF INVESTMENT OFFICER SHALL BE IN ACCORDANCE WITH THE LIMITATIONS ON ADMINISTRATIVE AND OPERATIVE EXPENSES UNDER § 21-315(C) OF THIS TITLE.

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

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

21-122.

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

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

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

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

(2) The report shall detail:

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

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

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

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

(D) THE CHIEF INVESTMENT OFFICER:

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

(2) MAY TERMINATE THE APPOINTMENT OF AN EXTERNAL INVESTMENT MANAGER ~~Hired under Paragraph (1) of this subsection.~~

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

21-315.

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

SECTION 2. AND BE IT FURTHER ENACTED, That:

(1) Prior to awarding financial incentives to the Chief Investment Officer of the State Retirement Agency under Section 1 of this Act, the Board of Trustees of the State Retirement and Pension System shall submit for the review and comment of the Senate Budget and Taxation Committee, the House Appropriations Committee, and the Joint Committee on Pensions, in accordance with § 2-1246 of the State Government Article, a copy of the criteria established by the Board of Trustees for awarding financial incentives to the Chief Investment Officer as provided under § 21-118.1(d) of the State Personnel and Pensions Article, as enacted by Section 1 of this Act; and

(2) Within 45 days of receiving the criteria under paragraph (1) of this section, the committees shall submit written comments to the Board of Trustees regarding the criteria.

SECTION ~~2~~ 3. AND BE IT FURTHER ENACTED, That this Act shall take effect July 1, 2007.

Approved by the Governor, May 8, 2007.