

HOUSE BILL 1326

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By: **Delegate Serafini**

Introduced and read first time: March 4, 2011

Assigned to: Rules and Executive Nominations

A BILL ENTITLED

1 AN ACT concerning

2 **State Retirement and Pension System – Investments – Independent**
3 **Investment Advisory Firms**

4 FOR the purpose of terminating the Investment Division of the State Retirement
5 Agency and the position of the Chief Investment Officer; altering the
6 requirements for the investment policy manual adopted by the Board of
7 Trustees for the State Retirement and Pension System to include criteria to be
8 used to hire independent investment advisory firms; requiring the Board of
9 Trustees to hire certain independent investment advisory firms to invest the
10 assets of the several systems of the State Retirement and Pension System;
11 requiring the State Retirement Agency to submit a certain quarterly report to
12 the Board of Trustees; altering a certain requirement relating to the
13 management of certain real estate investments of the State Retirement and
14 Pension System; and generally relating to the investment of assets of the State
15 Retirement and Pension System.

16 BY repealing and reenacting, with amendments,
17 Article – State Personnel and Pensions
18 Section 21–108(a)(4)(ii), 21–116(c), 21–118(d), 21–122, and 21–123(e) and (h)
19 Annotated Code of Maryland
20 (2009 Replacement Volume and 2010 Supplement)

21 BY repealing
22 Article – State Personnel and Pensions
23 Section 21–118.1
24 Annotated Code of Maryland
25 (2009 Replacement Volume and 2010 Supplement)

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

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.



1 **Article – State Personnel and Pensions**

2 21–108.

3 (a) (4) (ii) On or before September 1 of each year, the Board of Trustees
4 shall submit a report in accordance with § 2–1246 of the State Government Article to
5 the Joint Committee on Pensions that provides:

6 1. a total of all travel expenses for the fiscal year ending
7 immediately prior to September 1 for:

8 A. members of the Board of Trustees; and

9 B. staff of the State Retirement Agency;

10 2. the destination, duration, and justification for the
11 travel; **AND**

12 3. for members of the Board of Trustees, a statement
13 whether the travel was made for purposes of fiduciary educational training[; and

14 4. for staff of the Investment Division, a statement
15 whether the travel was made for purposes of meeting with existing or prospective
16 investment managers].

17 21–116.

18 (c) (1) Subject to subsection (d) of this section, the Board of Trustees shall
19 adopt an investment policy manual that details:

20 (i) [the functions of the Investment Division of the State
21 Retirement Agency;

22 (ii)] the goals and objectives of the several investment programs;
23 [and]

24 [(iii)] **(II)** the policies that govern the selection and retention of
25 investments; **AND**

26 **(III) CRITERIA TO BE USED TO HIRE INDEPENDENT**
27 **INVESTMENT ADVISORY FIRMS, INCLUDING:**

28 1. **RECOMMENDED ASSET ALLOCATIONS;**

29 2. **FEEES AND COMMISSIONS TO BE CHARGED; AND**

1 **3. CRITERIA FOR TERMINATION OF A CONTRACT**
2 **WITH AN INDEPENDENT ADVISORY FIRM.**

3 (2) The Investment Committee shall:

4 (i) prepare and maintain the investment policy manual; and

5 (ii) submit the investment policy manual, and any subsequent
6 amendments to the manual, to the Board of Trustees for approval.

7 21–118.

8 (d) The Executive Director [and the Chief Investment Officer and staff of the
9 Investment Division] of the State Retirement Agency shall comply with the policies
10 that the Board of Trustees prescribes about conflicts of interest and personal
11 investments.

12 [21–118.1.

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

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

21 (c) In addition to the Board of Trustees setting the salary of the Chief
22 Investment Officer under subsection (a) of this section in accordance with the State
23 budget, the Board of Trustees may also award financial incentives to the Chief
24 Investment Officer in accordance with subsection (d) of this section.

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

28 (2) The criteria under paragraph (1) of this subsection shall be based
29 on:

30 (i) objective benchmarks of investment performance for the
31 assets of the several systems; and

32 (ii) criteria used by comparable public pension funds awarding
33 financial incentives to chief investment officers.

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

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

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

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

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

16 (g) On the recommendation of either the Investment Committee or the
17 Executive Director and on receiving an affirmative vote from a majority of the Board of
18 Trustees, the Executive Director shall terminate the appointment of the Chief
19 Investment Officer.]

20 21–122.

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

22 (b) As the Board of Trustees specifies, the Investment Division shall invest
23 the assets of the several systems.] **THE BOARD OF TRUSTEES SHALL HIRE**
24 **INDEPENDENT INVESTMENT ADVISORY FIRMS TO INVEST THE ASSETS OF THE**
25 **SEVERAL SYSTEMS.**

26 [(c)] **(B)** (1) Quarterly, the [Investment Division] **STATE RETIREMENT**
27 **AGENCY** shall submit to the Board of Trustees a report about the commissions that
28 the State Retirement Agency pays on investments.

29 (2) The report shall detail:

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

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

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

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

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

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

8 (2) may select and invest in specific investment vehicles, including
9 limited partnerships, private equity fund investments, and private real estate fund
10 investments; and

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

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

17 21-123.

18 (e) (1) This subsection applies only to the execution of:

19 (i) ground rent redemption deeds;

20 (ii) releases or reassignments of mortgages; and

21 (iii) satisfactions or reassignments of notes conveying, releasing,
22 or reassigning any interest owned by the State for the use of a fund of the several
23 systems.

24 (2) An instrument must be executed by any two of:

25 (i) the State Treasurer;

26 (ii) the Executive Director of the State Retirement Agency;

27 [(iii) the Chief Investment Officer of the State Retirement
28 Agency;] or

29 [(iv)] (III) another employee of the State Retirement Agency as
30 the Executive Director designates with the approval of the Board of Trustees.

1 (h) Any direct owned real estate purchased as an investment by the State
2 Retirement and Pension System shall be managed by an external investment manager
3 selected by [the Chief Investment Officer] **AN INDEPENDENT INVESTMENT**
4 **ADVISORY FIRM AS DIRECTED BY THE BOARD OF TRUSTEES.**

5 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect
6 July 1, 2011.