

SENATE BILL 899

K4

(8lr1669)

ENROLLED BILL

— Budget and Taxation / Appropriations —

Introduced by **Senator Guzzone (Chair, Joint Committee on Pensions)**

Read and Examined by Proofreaders:

Proofreader.

Proofreader.

Sealed with the Great Seal and presented to the Governor, for his approval this

_____ day of _____ at _____ o'clock, _____ M.

President.

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

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.

Italics indicate opposite chamber / conference committee amendments.



1 Investment Division of the State Retirement Agency; authorizing the Board of
 2 Trustees to determine and create the type and number of certain positions necessary
 3 for carrying out certain investment functions; requiring the Board of Trustees to
 4 adopt objective criteria to be followed when exercising certain authority established
 5 under this Act; altering a requirement that the Board of Trustees report certain
 6 information to certain entities; requiring the Board of Trustees to report certain
 7 information to certain entities; requiring the Board of Trustees to adopt certain
 8 criteria for setting the qualifications and compensation of certain positions in the
 9 Investment Division; prohibiting the Board of Trustees from granting any increases
 10 in compensation for certain positions in the Investment Division under certain
 11 circumstances; prohibiting the Board of Trustees from setting compensation for
 12 certain positions in the Investment Division above a certain amount; requiring the
 13 Board of Trustees to adopt certain criteria for granting certain financial incentives
 14 to certain employees in the Investment Division; prohibiting the Board of Trustees
 15 from awarding financial incentives to certain positions; establishing that personnel
 16 and operational expenses of the Investment Division are investment management
 17 services to be paid from the expense fund of each State system on a pro rata basis;
 18 establishing an Objective Criteria Committee of the Board of Trustees; providing for
 19 the membership and chair of the Committee; providing that a certain individual may
 20 not serve as chair of the Committee; requiring the Committee to meet and make
 21 certain recommendations by a certain date; requiring the Committee to meet at
 22 certain intervals; requiring the Committee to make certain recommendations to the
 23 Board of Trustees regarding the objective criteria to be used in setting compensation
 24 and awarding financial incentives to certain employees in the Investment Division;
 25 requiring the Board of Trustees to enter into an agreement with an investment a
 26 consultant to provide certain services to the Committee; prohibiting the Board of
 27 Trustees from entering into a certain agreement with an investment a consultant
 28 that provides certain services to the Board of Trustees; requiring the Chief
 29 Investment Officer to serve in a certain advisory role to the Committee; prohibiting
 30 the Chief Investment Officer from participating in certain deliberations of the
 31 Committee; establishing that members of the Committee are fiduciaries; altering the
 32 amount of funds to which the Board of Trustees may enter into a certain agreement
 33 for the investment of funds in certain private equity and venture capital investments
 34 in the State; requiring the personnel and operational expenses of the Investment
 35 Division to be appropriated paid out of the accumulation fund of each State system
 36 on a pro rata basis; establishing that personnel and operational expenses of the
 37 Investment Division are not included in the calculation of a certain payment by the
 38 State and local employers; making conforming changes; and generally relating to the
 39 governance and funding of the Investment Division of the State Retirement Agency.

40 BY repealing and reenacting, with amendments,

41 Article – State Personnel and Pensions

42 Section 21–118(c)(1), 21–118.1, 21–122, 21–123.2(d)(1) and (2), 21–201(b),
 43 21–303(d)(2), 21–315, and 21–316(b)

44 Annotated Code of Maryland

45 (2015 Replacement Volume and 2017 Supplement)

1 BY repealing and reenacting, without amendments,
2 Article – State Personnel and Pensions
3 Section 21–303(d)(1)
4 Annotated Code of Maryland
5 (2015 Replacement Volume and 2017 Supplement)

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

8 **Article – State Personnel and Pensions**

9 21–118.

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

13 **(II) EXCEPT AS PROVIDED IN § 21–315 OF THIS TITLE, THE**
14 **COMPENSATION OF THE EXECUTIVE DIRECTOR AND STAFF SHALL BE AS PROVIDED**
15 **IN THE STATE BUDGET.**

16 21–118.1.

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

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

25 **(2) (I) 1. THE BOARD OF TRUSTEES SHALL ADOPT OBJECTIVE**
26 **CRITERIA FOR SETTING THE QUALIFICATIONS AND COMPENSATION OF THE CHIEF**
27 **INVESTMENT OFFICER.**

28 **2. THE BOARD SHALL CONSIDER THE**
29 **RECOMMENDATIONS OF THE OBJECTIVE CRITERIA COMMITTEE UNDER §**
30 **21–122(G) OF THIS SUBTITLE BEFORE ADOPTING OBJECTIVE CRITERIA FOR**
31 **SETTING COMPENSATION.**

32 **(II) THE CRITERIA ADOPTED UNDER SUBPARAGRAPH (I) OF**
33 **THIS PARAGRAPH SHALL INCLUDE OBJECTIVE BENCHMARKS OF INVESTMENT**

1 PERFORMANCE THAT SHALL BE MET OR EXCEEDED FOR THE CHIEF INVESTMENT
2 OFFICER TO BE ELIGIBLE FOR AN INCREASE IN COMPENSATION.

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

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

9 (c) (1) In addition to the Board of Trustees setting the [salary]
10 COMPENSATION of the Chief Investment Officer under subsection (a) of this section [in
11 accordance with the State budget], the Board of Trustees may also award financial
12 incentives to the Chief Investment Officer in accordance with THIS SUBSECTION AND
13 subsection (d) of this section.

14 (2) (I) ANY FINANCIAL INCENTIVES PAID SHALL BE PAID OVER
15 MULTIPLE FISCAL YEARS IN EQUAL INSTALLMENTS.

16 (II) THE DATES ON WHICH FINANCIAL INCENTIVES AWARDED
17 UNDER THIS SECTION SHALL BE PAID SHALL BE SET BY THE BOARD OF TRUSTEES
18 AT THE TIME THE FINANCIAL INCENTIVES ARE DETERMINED.

19 (III) THE DATES SET UNDER SUBPARAGRAPH (II) OF THIS
20 PARAGRAPH MAY NOT BE CHANGED AFTER BEING SET.

21 (3) IF THE CHIEF INVESTMENT OFFICER SEPARATES FROM
22 EMPLOYMENT, THE BOARD OF TRUSTEES MAY NOT PAY OUT ANY REMAINING
23 FINANCIAL INCENTIVES DUE TO BE PAID AFTER THE DATE OF SEPARATION FROM
24 EMPLOYMENT.

25 (4) (I) THE BOARD OF TRUSTEES MAY NOT PAY FINANCIAL
26 INCENTIVES IN A FISCAL YEAR IN WHICH STATE EMPLOYEES ARE SUBJECT TO A
27 FURLOUGH.

28 (II) THE BOARD OF TRUSTEES SHALL PAY OUT ANY FINANCIAL
29 INCENTIVES NOT PAID IN ACCORDANCE WITH SUBPARAGRAPH (I) OF THIS
30 PARAGRAPH ONLY:

31 1. AFTER THE FURLOUGH PERIOD HAS ENDED; AND

32 2. IF THE CHIEF INVESTMENT OFFICER IS CURRENTLY
33 EMPLOYED AS THE CHIEF INVESTMENT OFFICER.

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

4 **2. THE BOARD SHALL CONSIDER THE**
5 **RECOMMENDATIONS OF THE OBJECTIVE CRITERIA COMMITTEE UNDER §**
6 **21-122(G) OF THIS SUBTITLE BEFORE ADOPTING OBJECTIVE CRITERIA FOR**
7 **AWARDING FINANCIAL INCENTIVES.**

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

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

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

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

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

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

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

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

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

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

4 [(g) (F) On the recommendation of either the Investment Committee or the
5 Executive Director and on receiving an affirmative vote from a majority of the Board of
6 Trustees, the Executive Director shall terminate the appointment of the Chief Investment
7 Officer.

8 21-122.

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

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

13 (i) deputy chief investment officer; and

14 (ii) managing director].

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

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

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

21 (iii) provide bonuses for an employee; or

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

25 **(I) MAY DETERMINE AND CREATE THE TYPE AND NUMBER OF**
26 **POSITIONS NECESSARY FOR CARRYING OUT THE PROFESSIONAL INVESTMENT**
27 **FUNCTIONS OF THE INVESTMENT DIVISION; AND**

28 **(II) SHALL ADOPT OBJECTIVE CRITERIA TO BE FOLLOWED**
29 **WHEN EXERCISING ITS AUTHORITY UNDER ITEM (I) OF THIS PARAGRAPH AND**
30 **PARAGRAPH (2) OF THIS SUBSECTION.**

31 (4) On or before October 1, 2012, and each October 1 thereafter, the Board
32 of Trustees shall report to the Senate Budget and Taxation Committee, the House

1 Appropriations Committee, and the Joint Committee on Pensions, in accordance with §
2 2–1246 of the State Government Article on:

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

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

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

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

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

20 (IV) **THE CRITERIA USED TO SET THE COMPENSATION OF**
21 **EMPLOYEES OF THE INVESTMENT DIVISION;**

22 (V) **THE CRITERIA USED TO DETERMINE THE TYPE AND NUMBER**
23 **OF POSITIONS NECESSARY TO CARRY OUT THE FUNCTIONS OF THE INVESTMENT**
24 **DIVISION;**

25 (VI) **THE NUMBER OF EMPLOYEES ELIGIBLE FOR FINANCIAL**
26 **INCENTIVES, AND THE FINANCIAL INCENTIVES PAID IN THE CURRENT FISCAL YEAR;**
27 **AND**

28 (VII) **THE NET IMPACT ON SYSTEM INVESTMENT RETURNS**
29 **ATTRIBUTABLE TO THE COSTS OF THE INVESTMENT DIVISION FOR THE PRECEDING**
30 **FISCAL YEAR.**

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

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

4 (2) The report shall detail:

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

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

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

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

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

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

15 (2) may select and invest in specific investment vehicles, including limited
16 partnerships, private equity fund investments, and private real estate fund investments;
17 and

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

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

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

26 **2. THE BOARD SHALL CONSIDER THE**
27 **RECOMMENDATIONS OF THE OBJECTIVE CRITERIA COMMITTEE UNDER**
28 **SUBSECTION (G) OF THIS SECTION BEFORE ADOPTING OBJECTIVE CRITERIA FOR**
29 **SETTING COMPENSATION.**

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

1 1. CONSIDERATION OF THE COMPARATIVE
2 QUALIFICATIONS AND COMPENSATION OF EMPLOYEES SERVING IN SIMILAR
3 POSITIONS AND DISCHARGING SIMILAR DUTIES AT COMPARABLE PUBLIC PENSION
4 FUNDS;

5 2. LIMITATIONS ON THE AMOUNT BY WHICH THE
6 COMPENSATION FOR A POSITION MAY BE INCREASED EACH FISCAL YEAR, NOT TO
7 EXCEED 10%; AND

8 3. OBJECTIVE BENCHMARKS OF INVESTMENT
9 PERFORMANCE THAT SHALL BE MET OR EXCEEDED BY AN INDIVIDUAL TO BE
10 ELIGIBLE FOR AN INCREASE IN COMPENSATION.

11 (III) THE BOARD OF TRUSTEES MAY NOT GRANT ANY INCREASES
12 IN COMPENSATION IN A FISCAL YEAR IN WHICH STATE EMPLOYEES ARE SUBJECT TO
13 A FURLOUGH.

14 (IV) FOR POSITIONS THAT DO NOT INVOLVE DISCRETION OVER
15 INVESTMENT-RELATED DECISIONS, THE BOARD OF TRUSTEES MAY NOT SET
16 COMPENSATION THAT EXCEEDS COMPENSATION FOR PROVIDING COMPARABLE
17 SERVICES IN OTHER STATE EMPLOYMENT.

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

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

25 2. THE BOARD SHALL CONSIDER THE
26 RECOMMENDATIONS OF THE OBJECTIVE CRITERIA COMMITTEE UNDER
27 SUBSECTION (G) OF THIS SECTION BEFORE ADOPTING OBJECTIVE CRITERIA FOR
28 AWARDING FINANCIAL INCENTIVES.

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

32 (III) THE CRITERIA ADOPTED UNDER SUBPARAGRAPH (I) OF
33 THIS PARAGRAPH SHALL INCLUDE:

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

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

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

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

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

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

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

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

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

28 A. AFTER THE FURLOUGH PERIOD HAS ENDED; AND

29 B. IF THE INDIVIDUAL IS CURRENTLY EMPLOYED IN THE
30 INVESTMENT DIVISION.

31 (3) (I) ON OR BEFORE OCTOBER 1 EACH YEAR, THE BOARD OF
32 TRUSTEES SHALL SUBMIT TO THE SENATE BUDGET AND TAXATION COMMITTEE,
33 THE HOUSE APPROPRIATIONS COMMITTEE, AND THE JOINT COMMITTEE ON

1 PENSIONS, IN ACCORDANCE WITH § 2-1246 OF THE STATE GOVERNMENT ARTICLE,
2 A COPY OF THE MOST RECENT CRITERIA ADOPTED UNDER THIS SUBSECTION.

3 (II) IN ADDITION TO THE REPORT REQUIRED UNDER
4 SUBPARAGRAPH (I) OF THIS PARAGRAPH, THE BOARD OF TRUSTEES SHALL SUBMIT,
5 WITHIN 30 DAYS OF ADOPTION BY THE BOARD OF TRUSTEES, A COPY OF ANY
6 CHANGES ADOPTED TO THE CRITERIA ESTABLISHED UNDER THIS SUBSECTION TO
7 THE SENATE BUDGET AND TAXATION COMMITTEE, THE HOUSE APPROPRIATIONS
8 COMMITTEE, AND THE JOINT COMMITTEE ON PENSIONS, IN ACCORDANCE WITH §
9 2-1246 OF THE STATE GOVERNMENT ARTICLE.

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

16 (I) INVESTMENT PERFORMANCE BY ASSET CLASS, INCLUDING
17 PERFORMANCE RELATIVE TO ASSET CLASS BENCHMARKS; AND

18 (II) INVESTMENT PERFORMANCE OF ASSETS UNDER THE
19 DIRECTION OF EACH INVESTMENT DIVISION EMPLOYEE.

20 (G) (1) THERE IS AN OBJECTIVE CRITERIA COMMITTEE OF THE BOARD
21 OF TRUSTEES.

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

23 (I) ONE MEMBER OF THE SENATE OF MARYLAND SERVING ON
24 THE JOINT COMMITTEE ON PENSIONS, APPOINTED BY THE PRESIDENT OF THE
25 SENATE ~~CHAIR OF THE JOINT COMMITTEE ON PENSIONS;~~

26 (II) ONE MEMBER OF THE HOUSE OF DELEGATES SERVING ON
27 THE JOINT COMMITTEE ON PENSIONS, APPOINTED BY THE SPEAKER OF THE HOUSE
28 CHAIR OF THE JOINT COMMITTEE ON PENSIONS;

29 (III) THE STATE TREASURER OR THE STATE TREASURER'S
30 DESIGNEE;

31 (IV) THE SECRETARY OF BUDGET AND MANAGEMENT OR THE
32 SECRETARY'S DESIGNEE;

1 (V) ONE MEMBER OF THE BOARD OF TRUSTEES UNDER §
2 21-104(A)(4)(I), (II), (III), (IV), OR (V) OF THIS SUBTITLE, APPOINTED BY THE
3 CHAIRMAN OF THE BOARD OF TRUSTEES;

4 (VI) ONE MEMBER OF THE BOARD OF TRUSTEES UNDER §
5 21-104(A)(4)(VIII) OF THIS SUBTITLE, APPOINTED BY THE CHAIRMAN OF THE
6 BOARD OF TRUSTEES; AND

7 (VII) A MEMBER OF THE PUBLIC WITH FINANCIAL INDUSTRY
8 EXPERIENCE, APPOINTED JOINTLY BY THE PRESIDING OFFICERS OF THE GENERAL
9 ASSEMBLY.

10 ~~(3) (I) THE CHAIR OF THE COMMITTEE SHALL BE ELECTED BY THE~~
11 ~~MEMBERS OF THE COMMITTEE~~ CHAIRMAN OF THE BOARD OF TRUSTEES SHALL
12 APPOINT THE CHAIR OF THE COMMITTEE.

13 (II) THE CHAIRMAN OF THE BOARD OF TRUSTEES MAY NOT
14 SERVE AS THE CHAIR OF THE COMMITTEE.

15 (4) ON OR BEFORE DECEMBER 31, 2018, AND AT LEAST ONCE EVERY
16 5 YEARS THEREAFTER, THE COMMITTEE SHALL MAKE RECOMMENDATIONS TO THE
17 BOARD OF TRUSTEES ESTABLISHING REGARDING:

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

21 (II) OBJECTIVE CRITERIA UNDER SUBSECTIONS (A) AND (F) OF
22 THIS SECTION FOR THE COMPENSATION AND FINANCIAL INCENTIVES FOR THE
23 POSITIONS IN THE INVESTMENT DIVISION.

24 (5) (I) THE BOARD OF TRUSTEES SHALL ENTER INTO AN
25 AGREEMENT WITH AN INVESTMENT A CONSULTANT TO ASSIST THE COMMITTEE IN
26 ESTABLISHING REGARDING OBJECTIVE CRITERIA UNDER THIS SUBSECTION.

27 (II) THE BOARD OF TRUSTEES MAY NOT ENTER INTO AN
28 AGREEMENT WITH AN INVESTMENT A CONSULTANT UNDER SUBPARAGRAPH (I) OF
29 THIS PARAGRAPH IF THAT INVESTMENT CONSULTANT IS ACTIVELY PROVIDING
30 CONSULTING SERVICES FOR THE BOARD OF TRUSTEES AND THE STAFF OF THE
31 INVESTMENT DIVISION.

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

1 **(II) THE CHIEF INVESTMENT OFFICER MAY NOT PARTICIPATE**
 2 **IN ANY DELIBERATIONS REGARDING THE CRITERIA FOR COMPENSATION AND**
 3 **FINANCIAL INCENTIVES FOR THE CHIEF INVESTMENT OFFICER.**

4 21-123.2.

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

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

11 [(i)] 1. the amounts appropriated for the State and local employer
 12 contributions and the supplemental contribution required under §§ 21-308, 21-309,
 13 21-309.1, and 21-310 of this title;

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

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

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

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

27 21-201.

28 (b) "Fiduciary" means:

29 (1) a member of the Board of Trustees;

30 (2) a member of the Investment Committee;

31 (3) a member of a committee established by the Board of Trustees as
 32 authorized under § 21-108 of this title;

1 **(4)** **A MEMBER OF A COMMITTEE ESTABLISHED UNDER § 21-122(G) OF**
 2 **THIS TITLE; or**

3 **[(4)] (5)** **an employee of the State Retirement Agency who exercises any**
 4 **discretionary authority or control over:**

5 **(i)** **the management or administration of the several systems; or**

6 **(ii)** **the management or disposition of the assets of the several systems.**

7 21-303.

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

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

17 21-315.

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

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

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

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

31 (b) **(1)** The Board of Trustees shall pay from the expense fund of each State
 32 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.