

Maryland Teachers and State
Employees Supplemental
Retirement Plans

Statement of Investment Policy

January 2011

TABLE OF CONTENTS

	SECTION
INTRODUCTION	I
INVESTMENT CATEGORIES	II
INVESTMENT OBJECTIVES AND POLICY AND PERFORMANCE STANDARDS	III
REPORTING AND MONITORING PROCEDURES.....	IV
INVESTMENT OPTION EVALUATION	V
INVESTMENT OPTION SELECTION CRITERIA.....	VI
TERMINATION OF FUND.....	VII
APPENDIX: PERFORMANCE BENCHMARKS AND PEER GROUPS	

MARYLAND TEACHERS' AND STATE EMPLOYEES' SUPPLEMENTAL RETIREMENT PLANS

Statement Of Investment Policy

Introduction

The Board of Trustees of the Maryland Teachers' and State Employees' Supplemental Retirement Plans hereby adopts this Statement of Investment Policy (Statement) for the Supplemental Retirement Plans.

The Plans are long-term retirement savings vehicles and are intended as sources of retirement income for eligible participants. The investment options available from the Plans cover a broad range of investment risk and rewards appropriate for this kind of retirement savings program. Participants bear the risk and reap the rewards of investment returns that result from the investment options they select.

This Statement of Investment Policy serves the following purposes:

- To ensure that a broad range of investment options are offered to participants in the Plans;
- To establish an investment program that will allow participants the opportunity to structure an investment strategy that meets their individual return objectives and risk tolerances;
- To define the investment categories offered by the Plans;
- To establish investment objectives for each investment category offered within the Plans;
- To establish benchmarks and performance standards for each investment category and to evaluate each option's performance against appropriate benchmarks and standards;
- To establish a procedure for reporting and monitoring of the various funds;
- To define the selection criteria for the Plans' investment options;
- To define the procedures for investment fund evaluation and formal fund review; and
- To set guidelines and procedures for withdrawal of an investment option which, in the Board's opinion, does not, or will not, fulfill the Plans' objectives for which it was selected and replace the option with an appropriate substitute.

This document is intended to be dynamic and should be reviewed periodically and revised when appropriate.

MARYLAND TEACHERS' AND STATE EMPLOYEES' SUPPLEMENTAL RETIREMENT PLANS

Statement Of Investment Policy

I. Investment Categories

The Plans have chosen to offer the following investment categories:

CATEGORY
Money Market Funds
Fixed Investment Options
Bond Funds
Balanced Funds
Lifecycle Funds
Domestic Large Cap Funds
Domestic Mid Cap Funds
Domestic Small Cap Funds
International Equity Funds

Within each category of investment, the Board expects to offer between one and five individual investment options. The Board recognizes that within a category, the investment style (e.g. value, growth and core) may differ between investment options.

Each investment option offered under the Plans shall:

- Operate in full accordance with its current published prospectus or “fact sheet”;
- Have its performance results measured against the applicable performance standards described herein for that investment category.

If the Board determines an investment option no longer meets the performance criteria, it may replace that option with a suitable alternative pursuant to the investment fund evaluation procedure outlined herein. From time-to-time, the Board, in their discretion, may add investment options/categories to the current core options. At such time, the Statement of Investment Policy will be modified.

MARYLAND TEACHERS' AND STATE EMPLOYEES' SUPPLEMENTAL RETIREMENT PLANS

Statement Of Investment Policy

II. Investment Objectives and Policy and Performance Standards

The Plan shall offer at least one investment option within each of the investment categories listed in Section II. Performance standards, benchmarks and peer groups for each fund in the Plan are outlined in the Appendix. Funds in each category may be actively or passively managed. For each category, the investment style and investment objective are as follows:

Money Market

Investment Style: Money Market Fund

Objective: The objective of this investment category is to obtain the highest level of income consistent with maintaining a stable share price of \$1.00. A fund in this category invests primarily in high-quality fixed income instruments with maturities of less than one year. These may include instruments issued by financial institutions, non-financial corporations, the U.S. Government, and federal agencies.

Fixed Investment Option

Investment Style: Stable Value Fund

Objective: The objective of this investment category is to preserve principal and provide a stable, competitive rate of return. A fund in this category invests primarily in guaranteed investment contracts (GICs) and other fixed income instruments that may be covered by a principal guarantee wrap agreement.

Bond Fund

Investment Style: Bond Fund

Objective: The objective of this investment category is to invest primarily in fixed income obligations of the U.S. Government, its agencies and instrumentalities, investment grade corporate securities, mortgage and asset backed securities. Limited exposure to higher yielding and non-U.S. securities is also acceptable (no more than 30% of the portfolio). Investment returns are expected to be derived primarily from current income.

MARYLAND TEACHERS' AND STATE EMPLOYEES' SUPPLEMENTAL RETIREMENT PLANS

Statement Of Investment Policy

Balanced Funds

Investment Style: Balanced Fund

Objective: The objective of this investment category is to invest in a combination of fixed income and equity securities. Investment returns are expected to be derived from both current income and capital appreciation.

Lifecycle Funds

Investment Style: Target Retirement Balanced Funds

Objective: The objective of this investment category is to invest in a customized portfolio of fixed income and equity securities that changes its asset allocation strategy throughout ones investment horizon, becoming more conservative as a participant nears retirement. Investment returns are expected to be derived from both current income and capital appreciation.

Domestic Large Cap Equity Funds

Investment Style: Large Cap Value Equity

Objective: The objective of this investment category is to invest primarily in the common stock of large capitalization domestic companies considered by the fund manager to be undervalued relative to the market. Investment returns are expected to be derived primarily from capital appreciation and, to a lesser degree, dividend income.

Investment Style: Large Cap Core Equity

Objective: The objective of this investment category is to invest primarily in a broadly diversified portfolio of U.S. equity securities issued by companies defined as large cap (generally \$10 billion and greater in market capitalization). Investment returns are expected to be derived primarily from capital appreciation and, to a lesser degree, dividend income.

Investment Style: Large Cap Growth Equity

Objective: The objective of this investment category is to invest primarily in the common stock of large capitalization domestic companies considered by the fund manager to have above average growth prospects. Investment returns are expected to be derived primarily from capital appreciation.

MARYLAND TEACHERS' AND STATE EMPLOYEES' SUPPLEMENTAL RETIREMENT PLANS

Statement Of Investment Policy

Mid and Small Cap Domestic Equity Funds

Investment Style: Mid Cap Value Equity

Objective: The objective of this investment category is to invest primarily in the common stock of medium capitalization domestic companies (generally \$2 billion to \$10 billion in market capitalization) considered by the fund manager to be undervalued relative to the market. Investment returns are expected to be derived primarily from capital appreciation.

Investment Style: Mid Cap Core Equity

Objective: The objective of this investment category is to invest primarily in a broadly diversified portfolio of the common stock of medium capitalization domestic companies (generally \$2 billion to \$10 billion in market capitalization) considered by the manager either to be undervalued or to have above average potential for capital appreciation. Investment returns are expected to be derived primarily from capital appreciation.

Investment Style: Mid Cap Growth Equity

Objective: The objective of this investment category is to invest primarily in a broadly diversified portfolio of equity securities of medium capitalization domestic companies (generally \$2 billion to \$10 billion in market capitalization) considered by the fund manager to have above average potential for capital appreciation. Investment returns are expected to be derived primarily from capital appreciation.

Investment Style: Small Cap Value Equity

Objective: The objective of this investment category is to invest primarily in the common stock of small capitalization domestic companies (generally \$2 billion and less in market capitalization) considered by the fund manager to be undervalued relative to the market. Investment returns are expected to be derived primarily from capital appreciation.

Investment Style: Small Cap Core Equity

Objective: The objective of this investment category is to invest primarily in the common stock of small capitalization domestic companies (generally \$2 billion and less in market capitalization) considered by the fund manager to be undervalued relative to the market or have above average potential for capital appreciation. Investment returns are expected to be derived primarily from capital appreciation and, to a lesser extent, dividend income.

MARYLAND TEACHERS' AND STATE EMPLOYEES' SUPPLEMENTAL RETIREMENT PLANS

Statement Of Investment Policy

Investment Style: Small Cap Growth Equity

Objective: The objective of this investment category is to invest primarily in the common stock of small capitalization domestic companies (generally \$2 billion and less in market capitalization) considered by the fund manager to have above average potential for capital appreciation. Investment returns are expected to be derived primarily from capital appreciation.

International Equity Funds

Investment Style: International Equity

Objective: The objective of this investment category is to invest primarily in the common stock of companies located outside the United States. Investment returns are expected to be derived primarily from capital appreciation.

MARYLAND TEACHERS' AND STATE EMPLOYEES' SUPPLEMENTAL RETIREMENT PLANS

Statement Of Investment Policy

III. Reporting and Monitoring Procedures

The Board will review the Plans quarterly, including review of the following:

- Current trends and developments in the capital markets (market review);
- The current level of diversification provided by the investment categories and options offered by the Plans;
- Changes in the investment management staff related to each investment option (organizational review);
- The continued consistency between the stated investment guidelines of each investment option and the Plans' policies;
- The compliance of each investment option with stated investment guidelines (review of the holdings and characteristics of each investment option), including style drift analysis;
- The compliance of each investment option's risk and return characteristics with the expectations stated herein (performance review).

MARYLAND TEACHERS' AND STATE EMPLOYEES' SUPPLEMENTAL RETIREMENT PLANS

Statement Of Investment Policy

IV. Investment Option Evaluation

The Board, in its discretion, may conduct informal review and evaluation of an investment fund at any time.

The Board retains the authority to periodically, but not less than annually, evaluate and if appropriate remove investment options. The performance standards outlined in this document apply to all investment options in the Plans. Each standard shall apply independently to the portfolio of each fund, and is expected to be achieved net of investment management fees and expenses.

If an investment option fails to meet the minimum standards of investment performance outlined in this document, the Board will determine which of the steps detailed below should be taken. The Board may, in its discretion, if circumstances warrant, postpone this process in whole or in part, follow these procedures as written or in another chosen sequence, or proceed directly to Step 2.

Step 1. The fund will immediately be placed on watch. Retention at the end of a one-year period will be contingent on the following:

- Actively managed funds must perform above the passive benchmark index (passive funds must be equivalent to the benchmark index) over the past three- and five-year periods or
- The fund must perform above the median of its fund universe over the past three-year periods or
- The fund must provide superior risk adjusted returns over the three-year period; or
- The fund must perform in the top quartile of its fund universe over the past one-year period; and
- Standard deviation (risk/volatility) of returns must not exceed 120% of the relative index over the three-year period; and
- Performance over these periods will be reviewed to justify retention.

Funds which do not satisfy the retention criteria at the end of that one-year period can be replaced (Step 2).

During the formal review, the Board may suspend contributions to the fund from existing participants

MARYLAND TEACHERS' AND STATE EMPLOYEES' SUPPLEMENTAL RETIREMENT PLANS

Statement Of Investment Policy

and may close the fund to new participants. Upon completion of the evaluation, the Board may continue the fund under formal review status, remove the fund from formal review, or terminate the fund.

Step 2. A fund search will be initiated and a replacement fund selected. Regarding the Plan assets already deposited with the fund, the fund option will be closed and assets transferred to the replacement fund or the fund option of the participant's choice.

Additionally, the Board may place a fund under formal fund review, terminate a fund, or "freeze" a fund to new contributions for reasons other than investment performance, including:

1. The fund has changed investment manager, or such change appears imminent;
2. The fund has changed subadvisor.
3. The fund has had a significant change in ownership or control;
4. The fund has changed investment focus or has experienced style drift, departing from the investment category or objectives or parameters in its prospectus or "fact sheet";
5. The fund has violated a SEC rule or regulation; as well as any other important and appropriate statutory regulatory requirements.
6. The fund has operational difficulties concerning fund transfers or pricing.

MARYLAND TEACHERS' AND STATE EMPLOYEES' SUPPLEMENTAL RETIREMENT PLANS

Statement Of Investment Policy

V. Selection Criteria for Investment Options

The following outlines the selection criteria to be used, if the need arises, to replace an existing investment option, or if a new fund is to be added to the Plan(s). To be eligible for the initial screen, a fund should meet the following minimum criteria:

- Have a minimum track record of three years (five year is preferable but may not be realistic in some asset classes)
- Have a minimum of \$100 million in assets
or
- Have the MSRP investment represent no more than 10% of the total fund's assets; and
- Have above peer group median performance for each of the last 3 and 5-year periods
or
- Have favorable risk adjusted performance over the last 3 and 5 year periods.
- Be open to new investors
- Have no load (front end or deferred sales charges) or be willing to waive the load and be willing to negotiate rebates on fee structure.
- Have the fund characteristics of the appropriate investment category as outlined in this document

The primary evaluation criteria to be used in the selection of funds which satisfy the above:

- One, three and five year rates of return (net of operating expenses and annualized for time periods longer than one year)
- Risk measures including annualized standard deviation and tracking error
- Three and five-year risk/return ratio and information ratio
- Fund expense ratio
- Investment objective(s) and portfolio strategy
- Tenure/experience of portfolio manager(s)
- Portfolio composition (asset classes and sector concentrations)

**MARYLAND TEACHERS' AND STATE EMPLOYEES'
SUPPLEMENTAL RETIREMENT PLANS**

Statement Of Investment Policy

VI. Termination of Fund

When the Board terminates a fund:

1. The Board, or its designee, will promptly notify the Plans' provider that the fund is being terminated;
2. The Board, or its designee, will promptly notify participants in the Plans who are currently investing in the fund that the Board is terminating the fund as an investment option under the Plans and that:
 - a. New investment monies will be redirected to another fund option under the Plans prior to the termination date of the fund;
 - b. All assets in the terminated fund will be transferred to another fund option prior to the termination date of the fund; and
 - c. Assets not transferred by participants to alternate investment fund options by the termination date will be automatically transferred to a replacement fund or a designated default fund option.

This Statement of Investment Policy is adopted by the Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans on January 24, 2011.


Secretary

March 22, 2011
Date

**MARYLAND TEACHERS' AND STATE EMPLOYEES'
SUPPLEMENTAL RETIREMENT PLANS**

Statement Of Investment Policy

Appendix: Performance Benchmarks and Peer Groups

The majority of the investment funds listed on the next page are offered in each of the four MSRP Plans. A few exceptions include the Vanguard Money Market Prime Fund which is only offered in the 403(b) Plan and the Maryland Investment Contract Pool which is available only in the 457, 401(k) and 401(a) Plans.

As of December 31, 2010.

MARYLAND TEACHERS' AND STATE EMPLOYEES' SUPPLEMENTAL RETIREMENT PLANS

Statement Of Investment Policy

<i>Fund Name</i>	<i>Asset Category</i>	<i>Primary Benchmark</i>	<i>Peer Group</i>
Vanguard Money Market Prime	Money Market	90-Day T-Bill	Money Market Funds
MD Investment Contract Pool	Stable Value	90-Day T-Bill + 100 bps	Stable Value
Nationwide Fixed Annuity	Stable Value	Merrill Lynch 1-3	Short Term Bond Funds
PIMCO Total Return Inst.	Core Bond	Barclays Capital Aggregate	Core Bond Funds
Fidelity Puritan	Balanced	60% S&P 500/ 40% BC Aggregate	Balanced Funds
T. Rowe Price Retirement Funds	Lifecycle	Custom Benchmarks	Target Date Universe
Vanguard Inst. S&P 500 Index Inst.	Large Cap Core	S&P 500	Large Cap Core Funds
Neuberger Berman Partners Inst.	Large Cap Core	S&P 500	Large Cap Core Funds
Goldman Sachs Large Cap Value Inst.	Large Cap Value	Russell 1000 Value	Large Cap Value Funds
Vanguard Value Index Inst.	Large Cap Value	MSCI US Equity Value	Large Cap Value Funds
Am. Funds Growth Fund of America R6	Large Cap	Russell 1000 Growth	Large Cap Growth Funds
Vanguard Mid Cap Index Inst.	Mid Cap Core	MSCI US Mid Cap 450	Mid Cap Core Funds
T. Rowe Price Mid-Cap Value	Mid Cap Value	Russell Midcap Value	Mid Cap Value Funds
Morgan Stanley Inst. Mid Cap Growth	Mid Cap Growth	Russell Midcap Growth	Mid Cap Growth Funds
Vanguard Small Cap Value Index Inst.	Small Cap Value	MSCI Small Cap Value	Small Cap Value Funds
T. Rowe Price Small Cap Stock	Small Cap Core	Russell 2000	Small Cap Core Funds
Vanguard Small Cap Growth Index Inst.	Small Cap	MSCI Small Cap Growth	Small Cap Growth Funds
Am. Funds EuroPacific Growth R6	International Equity	MSCI ACWI ex US	International Equity Funds
Vanguard Total Int'l Stock Index	International Equity	Total International Composite Index	International Equity Funds
Parnassus Equity Income Inst.	SRI Large Cap Core	S&P 500	Large Cap Core Funds

MARYLAND TEACHERS' AND STATE EMPLOYEES' SUPPLEMENTAL RETIREMENT PLANS

Statement Of Investment Policy

Historical Notes of Fund Changes:

3Q07: *Add Goldman Sachs Large Cap Value*

Add Vanguard Value Index

Add Vanguard Total Int'l Stock Index

Freeze American Funds Washington Mutual Investors

4Q07 *Eliminate Washington Mutual, assets map to Goldman Sachs Large Cap Value*

2Q09 *Eliminate Legg Mason Value Inst., assets map to Vanguard Institutional Index Plus*

Eliminate Lord Abbett Mid Cap Value, assets map to T. Rowe Price Mid Cap Value

2Q10 *Eliminate Dreyfus Mid Cap Index, assets map to Vanguard Mid-Cap Index*

3Q10 *Eliminate INVESCO Van Kampen Mid Cap Growth, assets map to Morgan Stanley Institutional Mid Cap Growth*

4Q10 *Add Parnassus Equity Income*