



Maryland  
Teachers & State Employees  
Supplemental Retirement Plans

**BOARD OF TRUSTEES FOR THE  
MARYLAND TEACHERS & STATE EMPLOYEES  
SUPPLEMENTAL RETIREMENT PLANS  
MINUTES OF THE November 23, 2009 MEETING**

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The Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans convened at 9:48 am on November 23, 2009 in Baltimore. A quorum was present.

Members Present

Ms. T. Eloise Foster  
Ms. Sabrina Bass  
Mr. Robert Black  
Treasurer Nancy Kopp  
Ms. Linda Tanton  
Mr. William Whitescarver  
Ms. Marcia Zercoe

Members Absent

None

Representatives and Guests

Mr. Michael Halpin, Staff  
Mr. John Barry, Esquire, Board Counsel  
Mr. Richard Arthur, Staff  
Ms. Debra Roberts, Staff  
Mr. Louis Holcomb, Staff  
Ms. Anna Marie Smith, Staff  
Ms. Brenda Anderson, NRS  
Mr. David Belnick, NRS  
Ms. Claudia Gulick, NRS  
Ms. Mary Pat Alcus, Mercer Investment Consulting  
Mr. Andrew Ness, Mercer Investment Consulting  
Mr. John Axtell, DB Advisors  
Mr. Brett Gorman, DB Advisors  
Dr. Melissa Moye, Treasurer's Office  
Mr. Philip Harris, Financial Integrity Resources Mgt.  
Ms. Theda Jackson, Financial Integrity Resources Mgt.  
Ms. Jeanette Hernandez Harris, Financial Integrity Resources Mgt.  
Ms. Julie Tung Conway, Financial Integrity Resources Mgt.  
Mr. Paul Pfeiffer, Financial Integrity Resources Mgt.

I. Chairperson's Remarks

The minutes of the Board meeting held on August 24, 2009, and the minutes of the conference call meetings held on October 13 and October 27, 2009 were unanimously approved (Exhibits A, A-1 & A-2).

II. Administrator's Report & Marketing Plan Update

Mr. Belnick began the report with a discussion of a recent electronic survey of MSRP participants (Exhibit B-2). The survey was distributed electronically through the Plan website and solicited email. He characterized participation rates for the survey (about 825 responses) as good based on his experience with other plans. The 3 items identified by the most participants as desired plan improvements were a bond index fund, a self directed brokerage account option, and Roth accounts. Roth accounts reverse the standard tax deferral applicable for most retirement savings plans there is no deduction for contributions, but distributions are tax free.

Mr. Belnick next reviewed a variety of plan statistics and developments contained in the standard Administrator's report (Exhibit B). The overall trend was a slight decline in the number of participant accounts and a similar decline in the number of participants contributing to the plans (pp.2-3). The plans did show, however improvement in retained assets (e.g., net contributions over distributions). He attributed the decline in contributions and number of participants to the suspension of the match contribution as well as general economic conditions. He concluded the report with brief notes on field activity, rollover statistics and the MBE participation report.

Mr. Belnick then introduced Mr. Philip Harris of Financial Integrity Resources Management, LLC. Mr. Harris stated that the firm had been selected as an MBE partner for the MSRP contract. Mr. Harris described the company as a minority owned independent entity, headquartered in Philadelphia, that offered retirement, benefit and financial services. Mr. Harris introduced a number of his associates who will be working on the Maryland account, and described the contemplated services to MSRP as marketing oversight, communication services, surveys and other assistance for administration. He concluded his remarks by noting that the firm would likely begin field activity in January, and hoped to establish a Maryland office sometime in the next twelve months.

III. Investment Advisor's Report:

A. Ms. Mary Pat Alcus of Mercer Investment Consulting delivered the Third Quarter Performance Report attached as Exhibit C. She highlighted the following points on national market trends:

- Participant allocations to money market funds are down and allocations to equity funds are up.
- Equity returns for the quarter were strong.
- Bond markets were up for the quarter, with high yield bonds having the strongest performance.

- International stocks (particularly emerging markets) were performing well, and getting an extra boost in return from a decline in the dollar.
- In the stable value universe followed by Mercer the average crediting rate was 2.75%, with market to book ratios ranging from 92% to 103%

On items specific to MSRP funds she noted:

- PIMCO has added an additional manager to the Total Return Fund.
- The organizational changes at Neuberger Berman were largely complete, and there was no indication of difficulty in the transition to the new ownership structure. As a consequence Mr. Alcus expected that Mercer would soon recommend that the fund be removed from the watch list.
- The Van Kampen fund organization had been sold to INVESCO.
- Mercer will deliver in time for the January meeting a brief study that compares the Dreyfus mid-cap index fund and the lower cost Vanguard mid-cap index fund.
- The performance scorecard for MSRP investment choices (p.23) was in very good shape.
- The ICP crediting rate was exceeding money market benchmarks but trailing the Mercer database for stable value funds. The ICP market to book ratio was at or above the Mercer median for this metric.
- Mercer is closely following Growth Fund of America because its performance is deteriorating. The current rating for the fund is B. The size of the fund and its complicated managerial structure add additional complexities to evaluation of the fund, and may also hurt its performance. The Board may want to consider use of an index fund in this investment category.

A general discussion by the members followed her report. Ms. Alcus affirmed as part of that discussion that Mercer, (as part of its review of the ICP) did examine sub-manager activity. She described this as a more extensive review of stable value fund than typically occurs for other Mercer clients. The discussion concluded with a consensus from the members that several of the matters raised in the Mercer report should be addressed during the January investment policy review.

B. Mr. Gorman of DB Advisors delivered the Third Quarter Performance Report on the Investment Contract Pool (Exhibit D). He made the following points:

- Conditions in the overall bond market are improving, particularly for spread product.
- The ICP market to book ratio (p.13) is improving, rising from a low of 92% to the current 98.4% at the end of the 3<sup>rd</sup> quarter. He expected this to improve to 99% when the Oct 31 figures come in.
- The wrapper market is still constrained and DBA is in talks with several companies that are considering entering the market. DBA clients are benefiting from the fact that none of its wrapper providers are seeking to exit from the market.

- The supply of general account GIC's is limited.
- DBA will be updating the contract term sheet distributed at the last meeting.
- The current cash position of the ICP is about 9%.
- The hybrid feature of certain of the contracts has been eliminated (p.4)
- Compliance items are shown on p. 7 & 8 of the report and this data includes a list of defaulted or downgraded securities.
- There had been superior performance in the WAMCO transition account (24.5% year to date). The account is now down to \$10,000,000 from the \$40,000,000 in November of 2008 due to reallocations of cash and assets to other managers from the account.
- He had recently completed an on-site due diligence review of the Bruce Goode Index Strategy. This review had affirmed continued use of the strategy.
- The reduced (AA+ & to AA) average portfolio credit quality, which Mr. Gorman attributed the general market contributions.

A general discussion ensued, and there was extensive discussion by the members on three items: The reasons for the slight decline in average credit rating for the ICP; the technical detail of hybrid contracts and the extent of their use in the stable value market; and possible future developments arising as a result of the legislative audit. No specific actions were taken.

#### IV. Staff Reports

##### A. Finance Office

Ms. Roberts delivered both the standard budget report (Exhibit B) and a special report on the reserve (Exhibit E-1). An analysis of the MSRP cash reserve and fee projection showed that MSRP would likely be close to a zero reserve at the end of the 2010 fiscal year. Ms. Roberts recommended a \$3 per account surcharge, similar to the charge collected last year, to build the reserve and make sure that MSRP had sufficient funds to cover expenditures.

A general discussion ensued. One member suggested raising the participant fee by 1 basis point as a permanent solution to the problem of a fluctuating reserve. No consensus was reached, and Ms. Foster concluded the discussion by requesting alternative fee scenarios for consideration at the next meeting.

- B. Field Staff. Mr. Holcomb delivered the report attached as Exhibit F. He affirmed as part of that report that MSRP field staff will be working together with employees of the new firm, Financial Integrity Reserve Management.

#### V. Committee Reports

##### A. Audit Committee

No report at this time.

##### B. Investment Committee:

No report at this time.

VI. Board Secretary's Report

Mr. Halpin delivered the report attached as Exhibit G. He highlighted the following items:

- He has completed the response to the general legislative audit of MSRP.
- An updated compliance report matrix is available.
- He recommended that the Board conclude its examination of the HIMCO matter (Finding No. 9 of the special review) with a specific vote to accept DB Advisors' report on this issue was delivered at the June meeting. Mrs. Kopp moved that the Board specifically affirm its prior consensus that there was no apparent conflict of interest in the DB Advisors/HIMCO relationship, and that no further action was necessary. Mr. Whitescarver seconded the motion, and the resolution was approved by a unanimous vote.

A general discussion ensued on the importance of proactive follow-up concerning the audit recommendations. Members approved by consensus the additional action items noted at the bottom of page one of the ICP Attachment in Halpin's report, Exhibit G. Ms. Moyer affirmed her belief that the action items on the report were a complete and accurate list of necessary audit compliance tasks. Treasurer Kopp noted the need for follow up on the issue of disclaimers, additional language explaining book value accounting to participants, and on-site maintenance of all contract documents. As part of this discussion Ms. Tanton expressed a need for specific assignment of responsibility on audit follow up; no consensus or resolution was reached on this item. Ms. Foster concluded the discussion by reiterating her belief in the importance of timely performance of the audit compliance items and expressed appreciation for the valuable assistance of Dr. Melissa Moyer, Ms. Joan Peacock and Mr. Bruce Martin on this project.

VII. Board Counsel's Report

Mr. Barry offered a brief explanation of the memo and resolution attached as Exhibit H, relating to the TIAA 403(b) compliance coordinator review. A general discussion ensued; at the conclusion of the discussion the resolution authorizing Mr. Halpin to execute the agreements was unanimously approved.

VIII. Executive Session

None.

IX. New Business

No new business considered.

X. Adjournment

A motion to adjourn was entered at 12:22 pm, seconded, and carried unanimously.