



Maryland
Teachers & State Employees
Supplemental Retirement Plans

**BOARD OF TRUSTEES FOR THE
MARYLAND TEACHERS & STATE EMPLOYEES
SUPPLEMENTAL RETIREMENT PLANS
MINUTES OF THE November 16, 2015 MEETING**

The Board of Trustees of the Maryland Teachers & State Employees Supplemental Retirement Plans convened at 9:30 a.m. on November 16, 2015, in Baltimore. A quorum was present.

BOARD OF TRUSTEES

T. Eloise Foster
Chairperson

Margaret A. Bury
Thomas P. Hickey
Nancy K. Kopp
Wilson H. Parran

Members Present

Ms. T. Eloise Foster
Ms. Margaret Bury
Mr. Thomas Hickey
Mr. Wilson Parran

Representatives and Guests

Mr. Michael Halpin, Staff
Ms. Lara L. Hjortsberg, Board Counsel
Ms. Debra Roberts, Staff
Mr. Louis Holcomb, Staff
Mr. Richard Arthur, Staff
Ms. Anna Marie Smith, Staff
Ms. Bernadette Benik, State Treasurer's Office (*representing Treasurer Kopp*)
Mr. David Belnick, Nationwide
Ms. Brenda Anderson, Nationwide
Mr. Daniel Wrzesien, Nationwide
Ms. Carrie Callahan, Galliard Capital Management
Mr. John DeMairo, Segal Rogerscasey
Ms. Vanessa Vargas, Segal Rogerscasey
Ms. Kim Young, T. Rowe Price
Ms. Laura Vykol, Department of Legislative Services
Mr. Philip Harris, Financial Integrity Resources Management, LLC
Ms. Paola Beltran, Financial Integrity Resources Management, LLC

Michael T. Halpin, CRC®, CRA®
Secretary/ Executive Director

Debra L. Roberts, MBA, CPA, CRC®
Director of Finance

Richard A. Arthur, MBA, CPM
Director of Operations & Technology

Louis A. Holcomb, Jr., MA, CRC®
Director of Participant Services

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Call About the Plans
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1-800-545-4730
or Enroll on-line at
www.MarylandDC.com

I. Chairperson's Remarks

Upon motion duly made and seconded, the minutes of the meeting held on August 24, 2015 (Exhibit A), were unanimously approved.

II. Administrator's Report & Marketing Plan Update

Mr. Belnick introduced Mr. Wrzesien to the Board and noted that Mr. Wrzesien would be presenting the Administrator's report for the third quarter of 2015 (Exhibit B). Before the presentation, the Board viewed the "Pump up the Pig" video produced by Nationwide for MSRP which was a promotion for the MSRP SAVING\$ Expo the prior month. Mr. Wrzesien proceeded to the report, noting that assets were \$3.2 billion at September 30, 2015, representing a decrease of approximately \$180 million from the beginning of the third quarter. He also reported that since the third quarter of 2014, assets had decreased by \$61 million (-0.27%) but contributions had increased by \$8 million (+17%). He noted that the asset allocation was consistent with the asset allocation from the third quarter of 2014, with only marginal differences. With respect to contribution allocation, he noted an increase in the large cap options (+2.8%) and a decrease in the Target Date Funds (TDFs) (-3.1%).

Mr. Wrzesien then reviewed the mutual fund reimbursements for the third quarter, noting \$559,366 returned to participant accounts in the quarter, representing an increase of \$41,000 from the third quarter of 2014. He reported year-to-date reimbursements of \$1,699,091, an increase of \$170,000 from the same period in 2014. He next reported on participant account activity for the third quarter, noting a total of 65,649 accounts at September 30, 2015, an increase of 1,027 since the third quarter of 2014, and new enrollments of 1,027. For the participant breakdown, Mr. Wrzesien noted 37,212 accounts receiving deferrals in the third quarter of 2015, representing an increase of 303 accounts from the third quarter of 2014. Mr. Wrzesien provided a comparison of distributions and contributions for the third quarter of 2015, noting that distributions of almost \$60 million outpaced contributions of \$56 million in the third quarter of 2015. He noted that third quarter of 2015 distributions were \$2.9 million more than as compared against the third quarter of 2014 and contributions were \$8.0 million higher as compared to that time period. He also reported that based on the first nine months of 2015, the Plans were on pace to experience distributions of \$247 million and contributions of \$201 million, each an increase of \$19 million from year end 2014.

Mr. Wrzesien then proceeded to the marketing updates, stating that the overall plan participation rate was 75.30% of eligible employees, or 58,554 participants. 34,166 participants, or 43.94% of eligible employees, are actively contributing. He continued to the Nationwide Retirement Solutions' Retirement Specialist/Customer Service Production Summary, noting that there were 3,039 new enrollments for the third quarter of 2015, an increase of 27% over the third quarter of 2014, and increase activity by 5,999 participants. He reported decrease activity of 498, as compared to 416 in the second quarter of 2015 and 455 in the third quarter of 2014, but a recent decrease in suspension activity (293 in the third quarter of 2015 after 321 in the second quarter of 2015). Mr. Belnick stated that the procedure for suspension activity was to follow-up with these participants within 16 months, noting a recapture rate of between 10 and 20 percent after these follow-ups. He undertook to provide Nationwide's research on this issue and distribute to the Board for its reference.

Mr. Wrzesien then presented the loan and hardship analysis. He reported a significant increase in new loans, with a \$3.7 million increase from the second quarter of 2015 to the third quarter of 2015. He reported 422 more new loans in the third quarter and that the plans were on pace for 2,273 loans totaling \$24 million. He noted that the total loans and loan amount were less than those in 2014 (3,111 and \$31 million, respectively). Mr. Wrzesien reported 480 approved hardships in the third quarter of 2015, and that the Plans were on pace for 1,790 for the year. He stated that hardships were trending downwards as were loans as compared to 2014.

Mr. Wrzesien reported on the NRS field updates, noting 182 group meetings with 2,852 attendees year-to-date as compared to 192 group meetings with 3,287 attendees as of the third quarter of 2014. He proceeded to the rollovers report, noting 397 applications for rollovers-out, for a total of \$17.9 million in the third quarter of 2015, as compared to 434 and \$22.6 million, respectively, in the third quarter of 2014. He stated that rollovers-out for 2015 were projected at 1,737 applications totaling \$86 million, a \$9 million increase from 2014. He reported that the third quarter saw 167 applications for rollovers-in totaling \$8.5 million, as compared to 170 and \$6.8 million, respectively, for the third quarter of 2014. He attributed the increase in rollovers-in dollars to the low fees and competitive funds in the Plans. Mr. Wrzesien updated the Board on Nationwide's Minority Business Enterprise participation rate of 21% (\$339,565 year-to-date) on a 15% goal.

Mr. Halpin noted that service credit withdrawals were up and asked if Nationwide would be able to prepare an illustration of what participants might expect if they kept their money in the Plans. Ms. Bury noted that the price of the service credits is usually over \$100,000 and can only be purchased in the year of retirement. Mr. Belnick also noted that participants were purchasing service credits for the healthcare credit to meet the 16 years of service.

III. Investment Advisors' Reports:

A. Segal Rogerscasey ("Segal")

Ms. Vanessa Vargas provided the third quarter performance report (Exhibit C). After providing a summary of the financial market conditions for the third quarter, Ms. Vargas highlighted the following:

- Total assets in the Plans were \$3.2 billion, contributions were \$56 million, distributions were \$60 million, fees were \$1.3 million, and investment losses were -\$175 million.
- Equities represented 42% of the market value in the Plans, stable value represented 26% and the TDFs represented 15%.
- The 457 Plan represented 45% of the Plans' total assets, and the 401(k) Plan represented 48% of total assets.
- Active options accounted for 61% and passive options (mostly Vanguard) accounted for 40%.
- Most of the investment options underperformed the market index for the quarter.
- As compared to peer group, the funds' performance was better with only Vanguard Total International Stock Index, PIMCO Total Return, Goldman

Sachs Large Cap Value and American Century Equity Growth in the 3rd and 4th quartiles.

Ms. Vargas then reviewed the PIMCO Ratings Fund Update (Exhibit C-2) and the T. Rowe Price Associates Ratings Update (Exhibit C-1) with the Board.

With respect to PIMCO, Ms. Vargas noted that Segal continued to monitor performance, noting employee turnover of 4-5%, which was below the 9-10% normally seen. She noted in this regard that there were certain compensation contracts that have not yet expired and that this was an item that Segal was watching. Mr. DeMairo reviewed MSRP's actions with respect to PIMCO following Bill Gross' departure, noting that Segal downgraded PIMCO, the Investment Committee placed PIMCO on the Watch List, Segal had presented 3-4 candidates as replacements, but that no decision to change managers had yet been made. He noted that most of the outflow activity occurred in the fourth quarter of 2014 and that turnover resulting from the expiration of the compensation contracts was not expected to be significant. He also noted that although Segal recommended keeping PIMCO on the Watch List, the firm was encouraged by the management team and the spirit of the organization and felt that cash flows had stabilized.

With respect to T. Rowe Price, Ms. Vargas noted that Segal recommended removing the TDFs from the Watch List. She referenced the update memo, which included discussion of the smooth fixed income transition following Mike Gitlin's departure in February, no substantive changes to the fixed income investment process or philosophy in connection with the transition, and a stable investment staff and deep bench in the fixed income infrastructure. After discussion and upon motion duly made and seconded, the Board unanimously approved the removal of the TDFs from the Watch List.

B. Galliard Capital Management ("Galliard")

Ms. Carrie Callahan reviewed the third quarter ICP performance report (Exhibit D). She first reviewed Galliard's long-term goals, with particular emphasis on exploring ways to reduce sub-manager fees through negotiations and/or use of commingled investment vehicles. Ms. Callahan proceeded to report on the ICP performance for the third quarter, highlighting the following:

- With respect to the wrap contract, Ms. Callahan noted that fees had started to be reduced, explaining that Galliard had initially worked to improve the contracts themselves and was now working to improve fees. She noted that 2 out of 5 providers had reduced fees with additional fee concessions expected by year end.
- Assets under management (AUM) at September 30, 2015 were \$767 million, representing an increase in AUM.
- The monthly declared rate (net of fees) was 1.71%.
- Duration was 2.37 years.
- Market-to-book ratio was 101.38%.

Ms. Callahan then updated the Board with respect to the underlying managers, noting that Galliard was monitoring Earnest Partners (short) and JP Morgan (short-intermediate), noting their higher fees. She also noted that Galliard continues to monitor PIMCO, noting continued organizational instability and that Galliard was strongly considering a replacement for this manager.

Underlying manager performance in the ICP for the quarter was as follows:

- Earnest Partners outperformed its benchmark by +0.25% for the quarter +0.58 for the one year period.
- Babson underperformed its benchmark by -0.13 and outperformed its benchmark by + 0.13 for the one year period.
- Galliard outperformed its benchmark by +0.15 for the quarter and +0.22 for the year to date (no one year performance to compare to benchmark because this sleeve not implemented until December 1, 2014).
- JPMorgan underperformed its benchmark by -0.03 for the quarter and outperformed its benchmark by + 0.13% for the one year period.
- PIMCO underperformed its benchmark by – 0.41% for the quarter and – 0.50% for the one year period.

IV. Staff Reports

A. Finance

Ms. Debra Roberts presented the agency budget and expenditure report (Exhibit E) as of September 30, 2015. She noted revenues of \$433,552, which were \$26,302, or 6.46%, more than budget. Ms. Roberts noted that expenditures were \$384,738 which was \$26,061, or 6.34%, less than budget. She explained each of the favorable and unfavorable variances for the expenditure lines. She noted a reserve balance of \$522,551, as compared to a balance at June 30, 2015 of \$568,698.

B. Field Services

Mr. Holcomb presented the field staff report (Exhibit F), which included a summary of the 2015 Fall SAVING\$ EXPOs and the 2015 Health Fairs.

V. Board Secretary's Report

Mr. Halpin provided the Board Secretary's Report (Exhibit G), including the MSRP Board of Trustees Meeting Plan for Calendar Year 2016. He then announced that MSRP had received NAGDCA Leadership Recognition Awards for (a) Participant Education and Effective Communication and (b) Technology and Social Media. Mr. Halpin then presented the staff's recommendation with respect to a proposed Board fee holiday. He explained that with the current reserve balance, the reserve balance could support a four month Board asset fee holiday starting on March 31, 2016 and ending June 30, 2016, inclusive. After discussion and upon motion duly made and seconded, the Board approved the reduction of the Board asset fee to zero for the four months beginning on March 31, 2016 and ending on June 30, 2016.

VI. Board Counsel's Report

Ms. Hjortsberg updated the Board with respect to a request MSRP had received from a state agency regarding a proposed plan amendment intended to allow the requesting agency to make non-discretionary employer contributions on behalf of its employees. Ms. Hjortsberg noted that she would reserve presentation of the remainder of her report for the Executive Session as it would include advice of counsel and an update regarding potential litigation.

VII. Executive Session

Chairperson Foster noted the Executive Session on the agenda. At the Chairperson's request, Ms. Hjortsberg explained that the reasons for closing the meeting was in accordance with General Provisions Article §3-305(b)(14), to discuss a matter directly related to the negotiating strategy or contents of a proposal before a contract is awarded; §3-305(b)(8), to consult with staff, consultants or other individuals about potential litigation in relation to the receipt by the State Treasurer's Office of a notice under the Maryland Torts Claims Act ("MTCA") with respect to MSRP; and §3-305(b)(7), to consult with counsel to obtain legal advice on such MTCA notice. Ms. Hjortsberg noted that Chairperson Foster had signed the *Presiding Officer's Written Statement for Closing a Meeting* ("Statement to Close") to this effect.

Upon motion made and seconded, it was unanimously

RESOLVED, that the Board of Trustees of the Maryland Supplemental Retirement Plans move into a closed session in accordance with §§ 3-305(b)(14), 3-305(b)(8), and 3-305(b)(7) to (a) discuss a matter directly related to a negotiating strategy or contents of a proposal before a contract is awarded, (b) consult with staff, consultants or other individuals about potential litigation, and (c) obtain the advice of counsel with respect to such potential litigation.

The Board members and the following persons remained present for the Executive Session: Ms. Benik, Mr. Halpin, Ms. Roberts, and Ms. Hjortsberg.

The Executive Session concluded and the regular session resumed at 11:40 a.m. At the Chairperson's request, Ms. Hjortsberg announced the following actions by the Board during the Executive Session:

- Approval of the award of the Task Order RFP for Audit Services to SB & Company for a 5-year term;
- Receipt of an update from counsel and staff regarding the receipt of a notice under the MTCA (no action required or taken); and
- Obtained the advice of counsel with respect to the proposed plan amendment requested by an independent State agency to allow it to make certain non-discretionary to the agency's employees under the 401(k) Plan, ultimately declining to adopt such an amendment based on the ineligibility of most State employees for the proposed benefit.

VIII. New Business

It was noted that reappointments and replacements of certain trustees have not yet been received. The Chairperson noted that she had drafted a letter to the Governor's Appointments Secretary regarding the matter.

IX. Adjournment

A motion to adjourn was entered at 11:45 a.m., seconded, and carried unanimously.