



**BOARD OF TRUSTEES FOR THE
MARYLAND TEACHERS & STATE EMPLOYEES
SUPPLEMENTAL RETIREMENT PLANS
MINUTES OF THE November 19, 2018 MEETING**

*Maryland
Teachers & State Employees
Supplemental Retirement Plans*

The Board of Trustees of the Maryland Teachers & State Employees Supplemental Retirement Plans convened at 9:37 a.m. on November 19, 2018, in Baltimore. A quorum was present.

BOARD OF TRUSTEES

T. Eloise Foster
Chairperson

Thomas M. Brandt, Jr.
Lynne M. Durbin, Esq.
Nancy K. Kopp
John D. Lewis
Johnathan R. West

Members Present

Ms. T. Eloise Foster
Mr. Thomas Brandt, Jr.
Ms. Lynne Durbin
Treasurer Nancy Kopp
Mr. John Lewis
Mr. Johnathan West

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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<http://.MSRP.maryland.gov>*

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

Representatives and Guests

Mr. Michael Halpin, Staff
Ms. Lara L. Hjortsberg, Board Counsel
Mr. Richard Arthur, Staff
Ms. Debra Roberts, Staff
Mr. Louis Holcomb, Staff
Ms. Anna Marie Smith, Staff
Mr. Daniel Wrzesien, Nationwide
Mr. Jeffrey Francis, Nationwide
Ms. Taylor Benson, Galliard Capital Management
Mr. Peter Schmit, Galliard Capital Management
Mr. John DeMairo, Segal Marco Advisors
Ms. Kimberly Young, T. Rowe Price
Ms. Jennifer Falcone, T. Rowe Price
Mr. Eric Kleppe, Macquarie Investment Management

I. Chairperson's Remarks

Upon motion duly made and seconded, the minutes of the Open Session of the Regular Meeting of the Board of Trustees (the "Board") held on August 28, 2018 (Exhibit A) were unanimously approved.

II. Administrator's Report

Mr. Wrzesien next presented the Administrator's Report for the third quarter of 2018 (Exhibit B). He reviewed the Executive Summary and highlighted the following information for the Board:

- Current Assets: \$4.1 billion (2nd consecutive quarter over \$4 billion)
- Participant Accounts: 67,962 (1.59% increase from 3rd quarter of 2017)
- Enrollments: 843 (98% completed by Field Staff; 2% online)
- Deferrals: \$53.1 million (8th consecutive quarter with over \$50 million in deferrals)
- Mutual Fund Savings: \$674,177; \$2.3 million year-to-date (YTD)
- Rollovers-In: 111/\$5.1 million; 428/\$16.3 million YTD
- Distributions: \$47.9 million; \$124 million YTD
- Rollovers-Out: 405/\$29.1 million; 1,287/\$86.2 million YTD
- Loans: 724 active/\$8.0 million (an increase of 7 loans as compared to the 2nd quarter of 2017)
- Hardship/UE: 440 (25% decrease from 3rd quarter of 2017)
- Payroll Increases: 7,189 (12% increase from the 3rd quarter of 2017)

Mr. Wrzesien noted the following achievements for the 3rd quarter:

- J.D. Powered ranked Nationwide "Highest in Group Retirement Satisfaction among Mixed Plan Providers for 2018, based on the responses of more than 9,500 participants.
- Nationwide worked with Empower to obtain updated, monthly report containing dated on 403(b) participants with CD products.
- Nationwide simplified termination of employment notification process for MSRP participants.
- 2018 Law Enforcement Academies in which Nationwide partners with MSRP Field Staff to provide seminars to officers on topics including an overview of the new Deferred Retirement Option Plan and how it can affect their supplemental plans.

Mr. Wrzesien highlighted the following service updates:

- The Plans have been using DocuSign for the last 18 months.
- Enrollments of 843 in the 3rd quarter were lower than the last two quarters; it was noted that there were 25% fewer new hire orientations, which may account in part for the lower enrollment number.
- YTD increase activity was 7,189; YTD decrease activity was 2,318; and YTD suspension activity was 552.
- ProAccount® (*available since February 2017*)
 - 3,852 (5.7%) participants enrolled, with accounts totaling \$189.3 million;

- It was noted that the number of participants which had terminated this service (13) was below the industry average.
- Two years of data will be presented at the next February 2019 meeting.¹
- Roth Activity (*available since 2011*)
 - 172 participants added in the 3rd quarter, for a total of 5,344 (7.9%) participants
 - Team MSRP is being instructed to educate with purpose with respect to Roth accounts, especially in the university space, where no Roth account is currently offered.
- Loans are at the lowest point since 2016, with 5,425 active loans totaling \$40.4 million.
- Hardship/Unforeseeable Emergency distributions are down 25% as compared to the YTD 2017 period, with the most common reasons for such requests being eviction, utility disconnection, and medical/dental.

Mr. Wrzesien noted that Nationwide's MBE participation was 14% YTD.

¹ The February Board meeting was subsequently moved to March 4, 2019.

III. Investment Advisors' Reports:

A. Segal Marco Advisors ("Segal")

Mr. John DeMairo presented the performance report for the quarter ended September 30, 2018. He noted that certain information from the 3rd quarter performance report (Exhibit C) was provided during the Investment Committee meeting immediately preceding the Board meeting. He also distributed an update for the month ended October 31, 2018. He noted that with respect to October, it could be characterized as a "difficult" month for a variety of reasons including a tech sell-off during the first half of the month, rising interest rates, trade wars and the relative strength of the U.S. dollar, and uncertainty with respect to the mid-term elections. As to how this affected the performance of the Plans, he noted that six of the ten core managers outperformed their respective benchmarks for the YTD period, five of the eight equity vehicles outperformed for the same period, and seven of ten remain in positive territory at the close of October. Mr. DeMairo next proceeded to review the performance of the individual managers for the month and YTD period, each ended October 31, 2018, noting the following:

- *Vanguard* index funds (presented on pages 2-3 of Exhibit C), representing the passive sleeve in the Plans, tracked their respective benchmarks.
- *TCW Core Fixed Income* – outperformed its index for the month (-0.72% as compared to -0.79%) and YTD period (-2.23% as compared to -2.38%)
- *Fidelity Puritan Fund* – underperformed its index for the month (-6.59% as compared to -4.42%) and YTD period (+0.88% as compared to +0.97%)
- *Delaware Value Institutional* (Macquarie) – underperformed its index for the month (-6.06% as compared to -5.18%) and outperformed for the YTD period (+3.04% as compared to -1.46%)
- *American Century Equity Growth* – underperformed for the month (-8.47% as compared to -6.84%) and the YTD period (+1.02% as compared to +3.01%); recommendation that this may be a fund that requires a closer look as to its performance, which is trailing across the board in the longer-term periods as well
- *Parnassas Core Equity Institutional* – outperformed its index for the month (-5.32% as compared to -6.84%) and YTD period (+4.72% as compared to +3.01%); this fund is in the top quartile as compared to its peer group; however, the recommendation is to retain this fund on the Watch List until the February meeting,² at which time it will have been on watch for a full year
- *American Funds Growth Fund of America* – underperformed its index for the month (-9.55% as compared to -8.94%) and the YTD period (+3.71% as compared to +6.62%); long-term results trail in all periods similar to American Century Growth but the risk/return analysis is favorable for this fund

² The February Board meeting was subsequently moved to March 4, 2019.

- *T. Rowe Price MidCap Value* – outperformed its index for the month (-6.76% as compared to -7.20%) and the YTD period (-2.50% as compared to -4.30)
- *Janus Henderson Enterprise* – outperformed its index for the month (-8.21% as compared to -9.90%) and the YTD period (+5.41% as compared to +2.16%)
- *T. Rowe Price Small Cap Core* – outperformed its index for the month (-8.50% as compared to -10.86%) and the YTD period (+5.73% as compared to -0.60%)
- *American Funds EuroPacific Growth* – underperformed its index for the month (-9.18% as compared to -8.12%) and the YTD period (-11.58% as compared to -10.58%); the longer-term performance for this fund (5- and 10- year period) outperformed its index
- *Target Date Funds (TDFs)* – international exposure has hurt the TDFs on a short-term basis; however, on a long-term (10 years) the TDFs have outperformed their relative benchmarks and relative to peers are above median.
- Three funds are on the Watch List:
 - Parnassus Core Equity Institutional, TCW Core Fixed Income and Delaware Value Institutional.
 - Parnassus and TCW are on Watch for performance reasons, and although these funds have shown improved performance, Segal recommends that these funds remain on the Watch List for a full year prior to considering removal from the Watch List.
 - Delaware is on the Watch List because of an issue regarding a change to its portfolio manager due to a pending retirement and organizational issues (Exhibit C-2), and the recommendation is to retain this fund on Watch, with the expectation being that the hold would be lifted in six months.

Mr. DeMairo next discussed the memorandum regarding the portfolio manager transition in the Fidelity Puritan Fund (Exhibit C-3). He noted that one of three portfolio managers is scheduled to retire December 31, 2018, with a co-manager added effective June 30, 2018. Mr. DeMairo noted that Segal was okay with the change in portfolio manager but viewed it as more than a change of managers given certain strategic differences between the two and would continue to report to the Board with respect to this matter.

Mr. DeMairo then reported to the Board regarding Segal's recommendation regarding the Plans' passive option (Exhibit C-4), noting that Vanguard is the current passive manager and that the MSRP participants are in the lowest share class for the assets invested in those funds. He explained that Fidelity had recently reduced minimum investments and lowered fees across its passive option offerings. He noted that based on Segal's analysis, it was Segal's recommendation that the Board consider changing from the Vanguard Institutional Index Plus (S&P 500 Index) to the Fidelity 500 Index Fund (S&P 500 Index), which, based on the fee analysis, would result in a savings of \$30,577 to participants in this option. Mr. DeMairo reviewed the performance of both fund families with the Board, noting that there was very little difference between

the two in fixed income, matching performance for the S&P 500 fund, better performance over the short-term in the mid-cap and small cap options (although Segal would need to see a breakdown of what is in the indices to which this fund is being compared to have a clearer picture of the performance comparison). It was noted that the Fidelity fund is already on the Nationwide platform.

After discussion, and upon motion duly made and seconded, a majority of the Board (with Mr. Lewis and Treasurer Kopp abstaining),

RESOLVED, that the Maryland Supplemental Retirement Plans proceed with the recommendation of Segal Marco Advisors (“Segal) to replace the Vanguard Institutional Index Plus with the Fidelity 500 Index Fund, as more fully set forth in Exhibit C-4; and that Segal, Nationwide Retirement Solutions, Inc., as the plan administrator and record keeper of the Plans, and the management of the Maryland Supplemental Retirement Plans, be, and each of them hereby is, authorized, directed and empowered to take any and all further actions necessary and desirable to carry out the purpose and intent of the foregoing resolution.

C. Galliard Capital Management (“Galliard”)

Ms. Taylor Benson noted that she presented the 3rd quarter performance report (Exhibit D) during the Investment Committee meeting immediately preceding the Board meeting. As no further questions with respect to that were forthcoming, nothing further was required from Ms. Benson or Mr. Schmit as to Galliard’s report.

IV. Staff Reports

A. Finance

Ms. Debra Roberts presented the agency budget and expenditure report (Exhibit E) as of October 31, 2018. She reported revenues of \$634,894, with expenditures \$635,939 resulting a deficit of (\$1,044). She explained that the planned deficit successfully decreased the reserve balance to \$271,570. Ms. Roberts noted that salary and benefits are expected to exceed budget appropriation by \$77,060 at year end. She stated that a budget deficiency is being proposed to DBM for review and approval.

Ms. Roberts detailed the reasons for \$77,000 projected deficiency for the Salaries & Wages line item to the Board. It was noted that the projected deficiency was primarily associated with the reclassification of vacant PIN, which became vacant after the retirement of a staff member (Grade 13, Step 19), effective December 31, 2017. Mr. Halpin reminded the Board that the Board had approved the transfer of the vacant PIN to the Office of the Attorney General (OAG) for reclassification and assignment to the agency of a full-time Assistant Attorney General (AAG), which replaced the part-time arrangement for the services of a part-time AAG billed to the agency at 20% of salary and fringe cost, which was in effect until mid-July 2018, and recorded under the Legal Services line item. He noted that because the actual transfer took over six months longer than the initial transfer of the PIN to the OAG, due to a DBM requirement, the PIN funding reverted from \$56,000 (for the retired

incumbent) to the base amount (i.e., the salary of the PIN at the time of the transfer to the OAG, or \$36,000). Management determined that cost controls would not be sufficient to fully absorb the shortfall but that additional funds would be necessary to restore the PIN to the appropriate level for the OAG reclassification; however, it was noted that there was some offset of legal costs from the Fixed Charges line item. Ms. Roberts explained that this determination required the agency to submit a deficiency request with respect to its budget appropriation, to which DBM was alerted and DBM tentatively approved such request prior to the end of the fiscal year. Ms. Roberts noted that the budget adjustments are expected to be updated in the agency's appropriation by the end of the legislative session so that this issue does not require the need for a deficiency request in the future.

B. Field Services

Mr. Holcomb presented the field staff report (Exhibit F), which included a copy of the August MSRP eNewsletter. He also provided a list of the CY2019 Benefit Fair schedule.

V. Committee Reports

No Committee Reports were presented.

VI. Board Secretary's Report

Mr. Halpin presented the Board Secretary's Report (Exhibit G) which contained the proposed meeting schedule for Calendar Year 2019. He also noted the following items:

- *2019 Contribution Limits* – The IRS had released the contribution limits for calendar year 2019: 457(b), 401(k) and 403(b) limits are increased to \$19,000³; no changes had been made to the catch-up provisions.
- *Reserve Fund* – Assets in the Plans dropped by 5.9% from September 30, 2018 to October 31, 2018; with the recovery of assets, the reserve fund will replenish to its target level.
- *MetLife* – Mr. Halpin and Mr. West had communicated with Ms. Anne Timmons at DBM regarding the information regarding financial wellness distributed to benefit coordinators by the State's group life insurance vendor (MetLife), and Mr. Halpin had received a reply from Ms. Timmons that she would direct the MetLife representative to Mr. Halpin to ask how to fold this information into MSRP events as a speaker or non-marketing instructor. Mr. Halpin undertook to keep the Board informed as this process continued.

VII. Board Counsel's Report

Ms. Lara Hjortsberg noted that she would provide a report on legal matters during the closed session noted as the next agenda item.

³ When participating in both the 457(b) and 401(k) (or 403(b)) Plan, participants may contribute \$19,000 per year to each Plan, for a total of \$38,000. If a participant is in both the 401(k) and 403(b) Plans, the total combined contribution amount cannot be higher than \$19,000 (or \$25,000 if using the Age 50 catch-up provision).

VIII. 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 (a) General Provisions Article ("GP") §3-305(b)(7), to consult with counsel to obtain legal advice on a legal matter, and (b) GP §3-103(a)(1)(i), to perform an administrative function, specifically to review the minutes of the closed session of the Board meeting held on August 27, 2018. Ms. Hjortsberg noted that Chairperson Foster had signed the *Presiding Officer's Written Statement for Closing a Meeting* ("Statement to Close") with respect to §3-305(b)(7) 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)(7) to (a) obtain the advice of counsel with respect to a legal matter; and (b) GP §3-103(a)(1)(i), to perform an administrative function, specifically to review the minutes of the closed session of the Board meeting held on August 27, 2018

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

The Executive Session concluded and the regular session resumed at 11:26a.m. At the Chairperson's request, Ms. Hjortsberg announced the following actions by the Board during the Executive Session:

- *Approval of Minutes* – The Board approved the draft minutes of the closed session of the Board meeting held on August 27, 2018.

IX. New Business

It was noted that the due date for proposals in response to the Request for Proposals for the MSRP Plan Administrator and Recordkeeper was November 15, 2018, and that it would now be appropriate for an Evaluation Committee to be formed and to convene to consider such proposals. At the Chairperson's request, Ms. Durbin and Mr. West agreed to serve on the Evaluation Committee. Mr. Halpin noted that he would contact a prior Board member with expertise in procurement matters who might also be willing to serve. Mr. Brandt indicated his ability to serve if necessary.

X. Adjournment

A motion to adjourn was entered at 11:46 a.m., seconded, and carried unanimously.