BOARD OF TRUSTEES FOR THE MARYLAND TEACHERS & STATE EMPLOYEES SUPPLEMENTAL RETIREMENT PLANS MINUTES OF THE January 25, 2016 MEETING

The Board of Trustees of the Maryland Teachers & State Employees Supplemental Retirement Plans convened at 10:00 a.m. on January 25, 2016 by teleconference call. A quorum was present.

Members Present
Ms. T. Eloise Foster
Treasurer Nancy Kopp
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
Ms. Anna Marie Smith, Staff
Mr. David Belnick, Nationwide
Mr. Daniel Wrzesien, Nationwide
Mr. William Weber, Galliard Capital Management
Mr. John DeMairo, Segal Rogerscasey
Ms. Vanessa Vargas, Segal Rogerscasey
Ms. Jennifer Falcone, T. Rowe Price

I. Chairperson's Remarks

Upon motion duly made and seconded, the minutes of the Open Session and the Executive Session of the regular meeting of the Board of Trustees held on November 16, 2015 (Exhibit A), were unanimously approved. (The minutes of the Executive Session are confidential and filed separately.)

II. Administrator's Report & Marketing Plan Update

Ms. Foster congratulated Mr. David Belnick on his recent promotion at Nationwide (new Endorsement Partner Manager for Nationwide's National Association of Counties Program). Mr. Belnick thanked the Board for the opportunity to serve them over the years. He then announced that Ms. Brenda Anderson was promoted to a newly-created position as Associate Vice President of Client Management and Internal Sales and that Mr. Jeff Francis, who would be attending the next meeting of the Board, would be replacing Ms. Anderson as Nationwide's Regional Vice President for the East Region.

Mr. Belnick explained that Mr. Daniel Wrzesien replaces him as Program Director for Maryland, and would be providing Nationwide's Scorecard and 2016 Marketing Communication Plan (Exhibit B). Mr. Wrzesien then proceeded to review the MSRP initiatives for each of the four quarters of 2015. Mr. Wrzesien highlighted the following other events during 2015 from the Scorecard:

- Q1 – Step-by-Step Campaign – resulted in over 1,000 applications and enrollment of over 600 participants; Personal Retirement Consultants (PRCs)– workbooks created as a roadmap for PRCs to use in meetings and the continuation of PRC breakfasts for retirees and pre-retirees; Agency Penetration Videos – Intranet and email distribution of videos for the education sector, corrections officers and State hospitals;
- Q2 – Benefit Coordinators' Wellness Kits; Financial Fitness Days – one in each county completed by the end of the quarter;
- Q3 – NAGDCA 2015 Leadership Awards for MSRP Benefit Coordinators' Kits and the MSRP Social Media program;
- Q4 – Benefits Fairs at 82 locations resulted in 67 enrollments, 162 increases and 16 transfers/rollovers in; and Fall SAVING$ Expos in Baltimore and Annapolis resulted in 21 enrollments, 48 increases and 11 transfers.

Mr. Wrzesien then reviewed the Marketing and Communication Plan for 2016 with the Board. He noted the overarching plan goals: (1) to make it easy for MSRP participants to make decisions and take actions necessary to achieve retirement readiness through quality education and communication and (2) to retain and grow assets in the MSRP plans. He then discussed the three objectives associated with meeting those two goals: (a) increasing plan participation, (b) promoting plan awareness by increasing the Plans' digital footprint, and (c) encouraging participants to increase contributions. With respect to each objective, he presented the strategies and tactics to be employed in achieving these objectives.

III. Investment Advisors' Reports:

A. Segal Rogerscasey ("Segal")

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

- Vanguard Total Bond Market Index Institutional was down 60 basis points (bps) in the fourth quarter of 2016, which was in line with the market; the other four Vanguard investment options (Vanguard Institutional Index Plus, Vanguard MidCap Index Institutional Plus, Vanguard Small Cap Index Institutional and Vanguard Total International Stock Index Institutional) were positive for the quarter but had mixed results for 2015.
- 7 of the 10 active options outperformed the market, all with positive returns for the fourth quarter; 5 of the options outperformed for the full calendar year; and 5 of the options underperformed for the full calendar year.
- The fourth quarter performance for the target date funds (TDFs) was positive, ranging from 1.66% (Balanced Fund) to 5% (2060 Fund); results for the full calendar year were mixed, ranging from -76 bps (2010 Fund) to +24 bps (2060 Fund); for the quarter, the TDFs, as compared to peers, exhibited strong performance.

In response to a question Ms. Vargas noted that the Balanced Fund and the 2005 Fund had similar allocations to fixed income; therefore, these two TDFs similarly underperformed the benchmark. She noted that the three and five year performance of these two TDFs underperformed the benchmark for the three and five year periods, but that the underperformance was not significant. She noted that she would look at the exact performance of these two funds to find out if it related to the equity or fixed income components performance and report back to the Board regarding these findings.

Ms. Vargas then proceeded to present Segal's recommended changes to the Statement of Investment Policy, noting the following substantive changes:

- Additional record of the ability of the Board to place an investment option under review if a deemed fund assets increase or decrease because of deemed asset class constraints on page 9; and
- Changes to the Appendix to remove the Morgan Stanley Institutional MidCap Growth Fund and the addition of the Janus Enterprise Fund – N shares.

With respect to the change on page 9, Ms. Vargas noted that the proposed change was not a response to PIMCO but rather an option deemed necessary typically in relation to a small cap fund where such funds may need to be closed to new money because they become too large.

After discussion, and upon motion duly made and seconded, it was unanimously

RESOLVED, that the proposed changes to the MSRP Statement of Investment Policy as presented in Exhibit C-1 are hereby approved.

B. Galliard Capital Management ("Galliard")

Mr. Billy Weber presented Galliard's recommended changes to the Investment Contract Pool Investment Policy and Guidelines (Exhibit D). He noted the change to the "fallen angel" provisions on page 8, explaining that the proposal was to strike the maximum time period during which a manager would have to dispose of downgraded securities such that the manager would be bound to exercise prudence in a decision as to whether to retain or dispose of such securities. The Board members expressed that the reasoning behind this change should be documented so that someone reviewing the Policy and Guidelines would understand the reason for the change. Mr. Halpin added that if Galliard chose to retain downgraded securities, it would report such retention to the Board. Mr. Weber undertook to coordinate appropriate documentation with Mr. Halpin. Mr. Weber explained that the change to the "Desired concentration limits on Sub-Manager Accounts" on page 10 of the Policy and Guidelines was intended to synchronize the Policy and Guidelines with Galliard's compliance reporting. He explained that the industry views the U.S. Treasury and Agencies Sector as a whole, rather than including Agencies separately under the Government-Related Sector. In response to a question, Mr. Weber noted that with respect to Supranationals, it was Galliard's practice to invest in these types of securities in the same manner as the other types of securities in the Government-Related Sector (Municipals and Sovereigns), noting that these securities were typically AAA or government-backed and that it was conventional in the industry to group and invest in them as reflected on page 10 of the Policy and Guidelines.

After discussion, and upon motion duly made and seconded, it was unanimously

RESOLVED, that the proposed changes to the MSRP Investment Contract Pool Policy and Guidelines as presented in Exhibit D are hereby approved (subject to the follow-up required with respect to the downgraded securities provision on page 8).

IV. Staff Reports

A. Finance

Ms. Debra Roberts presented the agency budget and expenditure report (Exhibit E) as of November 30, 2015. She noted revenues of $770,805, which were $92,055, or 13.56%, more than budget. Ms. Roberts noted that expenditures were $641,172 which was $43,493, or 6.35%, less than budget. She explained each of the favorable and unfavorable variances for the expenditure lines. She noted a reserve balance of $625,772, as compared to a balance at June 30, 2015 of $568,698.

B. Field Services

Mr. Holcomb presented the field state report (Exhibit E), which included an overview of MSRP field department 2015 events, seminar ratings provided by State employees, a summary of outcomes of the seminars, a listing of the 2016 featured monthly workshops and an activity preview of 2016.

V. Board Secretary's Report

Mr. Halpin discussed the previously approved Board fee holiday that was scheduled to begin on March 31, 2016. He noted that given the investment environment, a slowing of revenue was anticipated as assets may have decreased by approximately 6% since the Board originally approved the Board fee holiday such that the Board fee could be expected to drop by a similar percentage, resulting in asset fee income of approximately $160,000 rather than $168,000 monthly. Mr. Halpin proposed to monitor the revenue stream and assets and send an alert to the Board in the event there was a need to trim back on the Board fee holiday. It was noted that other than the approval in the previous meeting minutes, there had been no announcement to participants regarding the Board fee holiday and that it was anticipated that messaging would be added to the statements after March 31 so that there was room to adjust as necessary. Mr. Halpin closed his report by noting that he was preparing testimony for the agency's budget hearing, noting in the testimony that management was monitoring assets and revenue and considering a Board fee holiday between three and four months.

VI. Board Counsel's Report

No report at this time.

VII. Executive Session

None

VIII. New Business

None

IX. Adjournment

A motion to adjourn was entered at 11:15 a.m., seconded, and carried unanimously.