



Maryland
Teachers & State Employees
Supplemental Retirement Plans

**BOARD OF TRUSTEES FOR THE
MARYLAND TEACHERS & STATE EMPLOYEES
SUPPLEMENTAL RETIREMENT PLANS
MINUTES OF THE March 12, 2018 MEETING**

The Board of Trustees of the Maryland Teachers & State Employees Supplemental Retirement Plans convened at 9:51 a.m. on March 12, 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. *(by phone)*
Ms. Lynne Durbin
Ms. Nancy Kopp
Mr. John Lewis
Mr. Jonathan West *(by phone)*

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
Ms. Anne O’Neill, Staff
Ms. Anna Marie Smith, Staff
Mr. Jeffrey Francis, Nationwide
Mr. Daniel Wrzesien, Nationwide
Ms. Margaret Volpe-Rodgers, Nationwide
Mr. Eric Stevenson, Nationwide
Ms. Taylor Benson, Galliard Capital Management
Mr. John DeMairo, Segal Marco Advisors *(by phone)*
Ms. Vanessa Vargas, Segal Marco Advisors
Mr. Claude Gregory, Financial & Reality Services
Mr. Michael Murdzak, Office of Legislative Audits
Mr. Edward Welsh, Office of Legislative Audits
Mr. Matthew Henry, Office of Legislative Audits

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 held on January 22, 2018 (Exhibit A) were unanimously approved.

II. Administrator's Report & Marketing Plan Update

Mr. Wrzesien introduced Eric Stevenson, Senior Vice President of Retirement Plans Distribution for Nationwide. Mr. Stevenson noted his appreciation for the 40 year relationship with MSRP and noted that the Team MSRP approach was not the structure used for every plan for which Nationwide provided administrator services. He highlighted MSRP's innovation, providing Roth and managed accounts options as examples, and MSRP's demand for high level customer service. He also highlighted Nationwide's high dollar investment in technology/cyber data information and technology to combat fraud and provided several examples in that regard and noted of the four tier 4 data centers in the United States, Nationwide has 2 of them.

Mr. Dan Wrzesien next proceeded to the presentation of the Administrator's report for the fourth quarter of 2017 (Exhibit B). He highlighted the following:

- Current Assets: \$3.95 billion
- Total Participant Accounts: 67,322
- Enrollments: 1,096
- Deferrals: \$56.140 million
- Mutual Fund Savings: \$2.102 million
- Rollovers-In: 148/\$7.2 million
- Distributions: \$46.9 million
- Rollovers-Out: 455/\$29.5 million
- Loans: 698 active/\$7.345 million
- Hardship/UE: 579

Mr. Wrzesien highlighted the following achievements and initiatives for the fourth quarter of 2017:

- Updates to several system generated participant letters to include physical signature from a Nationwide representative
- Updates to procedures for processing and quality checking mutual fund reimbursement payments from fund partners to participants
- Shift of some operational responsibilities between Hunt Valley, Maryland office and Columbus, Ohio for efficiency:
 - Hunt Valley, MD – enrollments/rollovers in
 - Columbus, OH – rollovers out/ distributions

Mr. Wrzesien returned to key points in the Administrator's Report from the Executive Summary. He noted that, as compared with the fourth quarter of 2016, assets had increased \$433 million. He stated that for the allocation of assets, fixed income and cash had decreased to 20.6% of the Plans from 24.2% in the fourth quarter of 2016. He highlighted that there were 1,893 managed accounts, representing \$94 million in assets.

He explained that Team MSRP educates “ABC” regularly and that more people tend to choose the target date funds (TDFs), with the next choice being the managed account service, followed by the “do-it-yourself” (DIY) approach. He stated that the 457 Plan had the highest percentage of managed account participants, with 784 participants.

Mr. Wrzesien reported mutual fund reimbursements of \$538,741 in the fourth quarter of 2018 and \$2.1 million year-to-date (YTD). For the distribution and contribution comparison, Mr. Wrzesien stated that the biggest area of improvement was the State police, which had the highest number of employees enrolled in the ProAccount service. He noted a net increase of deferrals (\$48.9 million) over withdrawals (\$46.9 million) of \$1.99 million for the fourth quarter of 2018.

Mr. Wrzesien proceeded to the service updates, stating that there were 4,071 new enrollments YTD (13% DIY; 67% TDF; and 11% managed account). He reported on 8,823 increases (+1,735 from the year ended December 31, 2016). He noted that decreases from 2017 totaled 3,006, as compared to 2,973 in 2016, and suspensions totaled 453, as compared to 840 for 2016. Mr. Wrzesien reported 58,000 more contacts in 2017 as compared to 2016.

Mr. Wrzesien next provided the loan and hardship analysis, noting 2,736 new loans in 2017, and 5,425 active loans as of the end of the fourth quarter. He reported 2,337 hardship/UE withdrawals YTD, noting that foreclosure/eviction and utility disconnections were the most common reasons (43% and 25%, respectively).

Mr. Wrzesien then reported a year-to-date Minority Business Enterprise (MBE) participation rate of 15%.

III. Investment Advisors’ Reports:

A. Segal Marco Advisors (“Segal”)

Ms. Vanessa Vargas provided a brief summary of the fourth quarter performance, noting that a detailed report had been provided during the Investment Committee meeting immediately preceding the Board meeting. She highlighted the following from the fourth quarter performance report (Exhibit C):

- AUM for the Plans at December 31, 2017 was \$3.9 billion.
- Passive investment options performed the same as or slightly below their respective benchmarks.
- Active investment options – 5 of 11 outperformed their respective benchmarks for the fourth quarter, and 6 outperformed their respective benchmarks year-to-date (YTD)
- TDFs – all of the TDFs underperformed their respective benchmarks for the fourth quarter, and all of the TDFs outperformed their respective benchmarks YTD.
- As compared to peers:
 - TCW Core Fixed Income – in the 3rd quartile for the 5-year period;
 - Delaware Value Institutional – in the 4th quartile for YTD and 1-year period;
 - American Funds Growth Fund of America – in the 4th quartile for YTD and 1-year period

- 4 managers below median for the quarter; and 5 managers below median for YTD period.
- Performance for the month ending February 28, 2018:
 - Parnassus Core Equity Institutional was the only investment option which underperformed its benchmark for February.
 - Three funds (TCW Core Fixed Income, Parnassus Core Equity Institutional, and Delaware Value Institutional) were below median, and American Funds Growth Fund of America was literally at median.

Mr. Brandt requested additional detail be provided with respect to the underlying information provided in the pie charts on pages 26-27, and Ms. Vargas undertook to discuss this internally with Segal and to present drafts before redesigning the performance reports completely.

Based on the foregoing fourth quarter performance report, presentation of the report of the actions of the Investment Committee during its meeting and recommendations of the Investment Committee, after discussion, and upon motion duly made and seconded, it was unanimously

RESOLVED, that (a) Parnassus Core Equity Institutional would be placed on the Watch List; (b) Segal would present options to the Committee with respect to socially responsible investment options (short of a formal manager search); and (c) American Century Equity Growth would be removed from the Watch List.

B. Galliard Capital Management (“Galliard”)

Ms. Taylor Benson provided brief comments on the fourth quarter performance report for the period ended December 31, 2017 (Exhibit D), noting that a more detailed report had been provided to the Investment Committee at the meeting immediately preceding the Board meeting. She highlighted the following:

- Overall performance for the portfolio for the quarter was 0.48% (net of fees), as compared to 0.45% for the benchmark.
- AUM was \$752 million.
- 5 contract issuers
- Crediting rate – 1.94% at 12/31/17 (1.98% at 3/1/18)
- Average duration of 2.95 years
- Market-to-book ratio of 99.53%
- Structure of the portfolio is 40% short-term and 60% intermediate
- 70% of the portfolio is AAA rated
- The portfolio is very well diversified across all sectors

Ms. Benson noted that 2017 was one of the biggest negative years since Galliard took over management of the ICP; cash flow out of the ICP was consistent with all of Galliard’s plans. She also noted that Galliard continues to put pressure on wrap providers, highlighting that RGA’s fee had been reduced to 18 bps so that the

weighted average for the portfolio has been reduced by ½ bps. She stated that Galliard expected wrap fees to settle out between 16-18 bps.

Ms. Benson then reviewed the underlying manager performance in the ICP for the quarter, noting that all managers were presented net of fees except for Galliard, which does not take a fee on its portion of the portfolio:

- Galliard – +0.01% (benchmark: +0.27%);
- JPMorgan – +0.01% (benchmark: 0.21%);
- Earnest Partners – +0.09% (benchmark: +0.20%);
- Barings – +0.04% (benchmark: +0.07%);
- TCW – +0.18% (benchmark: +0.20%);

IV. Committee Reports

A. Investment Committee

Mr. Lewis stated he had nothing further to report with respect to the activities of the Investment Committee.

B. Audit Committee

Mr. Brandt noted that he had nothing to report with respect to the activities of the Audit Committee. Mr. Halpin noted that he and Ms. Roberts had met with one of the legislative auditors late in the afternoon on the previous Friday (March 9) with respect to a series of fiscal year endings where expenses had been carried forward to the following fiscal year, in which would require a budget amendment request for the current fiscal year budget up to \$250,000 (140% of the annual budget). It was noted that this was a budget issue rather than a payment issue and that the expenses had in fact been paid but had not been “booked” for the proper period. He further noted that he and Ms. Roberts would be working with the auditors to resolve this issue with the Department of Budget and Management and it would be taken care of by the end of the current fiscal year. He stated that he would report back to the Audit Committee and the Board when more details became available but that he did not view this as an unresolvable issue.

IV. Staff Reports

A. Finance

Ms. Debra Roberts presented the agency budget and expenditure report (Exhibit E) as of January 31, 2018. She noted the actual revenues earned during the fiscal year were \$1,419,623 with expenditures of \$1,052,582, resulting in a surplus of \$367,041. Ms. Roberts stated that the surplus will be reduced over the next five months to cover the Board asset fee holiday. She reported that the reserve for the end of fiscal year 2018 is expected to be \$396,002.

B. Field Services

Mr. Holcomb introduced Ms. Anne O’Neill, MSRP Financial Field Representative, who provided a brief overview of the education and outreach program for Law Enforcement Officers in the DROP program. Mr. Holcomb then presented the field staff report (Exhibit F), which included a list of upcoming Team MSRP Law Enforcement Financial Academy seminars.

V. Board Secretary’s Report

Mr. Halpin presented the Board Secretary’s Report (Exhibit G). He noted that with the resignation of Mr. Wilson Parran from the Board, the Board’s nominee seat on the State’s Financial Education and Capability Commission was also vacant. He directed the Board’s attention to Exhibit G, which was a summary of the Financial Education and Capability Commission and asked that if any Board member would be interested in serving on behalf of MSRP, he would submit his or her name to the appointment office. Mr. Halpin closed his report by noting that the next NAGDCA conference would be held in Philadelphia in September and to let him know if any Board member was interested in attending.

VI. Board Counsel’s Report

Ms. Hjortsberg noted that she would present her report during the Executive Session.

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 (a) General Provisions Article (“GP”) §3-305(b)(7), to consult with counsel to obtain legal advice on a legal matter (potential litigation); (b) GP §3-305(b)(8) to consult with staff, consultants or other individuals about potential litigation; (c) GP §3-305(b)(13), to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter, specifically pursuant to, GP §4-312(a) with respect to the retirement records of an individual, and (d) 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 January 22, 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), (8) and (13) 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)(8), 3-305(b)(7), and 3-305(b)(13) to (a) consult with staff, consultants or other individuals about potential litigation, (b) obtain the advice of counsel with respect to such potential litigation; (c) to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter, pursuant to GP §3-305(b)(13), specifically, GP §4-312(a), with respect to the retirement records of an individual; and (d) 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 January 22, 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 12:25 p.m. At the Chairperson's request, Ms. Hjortsberg announced the following actions by the Board during the Executive Session:

- Approval of Minutes of the closed session of the Board meeting hold on January 22, 2018; and
- Receipt of an update from counsel and staff regarding potential litigation (*information only*)

VIII. Adjournment

A motion to adjourn was entered at 12:26 p.m., seconded, and carried unanimously.