



Maryland
Teachers & State Employees
Supplemental Retirement Plans

Exhibit A

**BOARD OF TRUSTEES FOR THE
MARYLAND TEACHERS & STATE EMPLOYEES
SUPPLEMENTAL RETIREMENT PLANS
MINUTES OF THE May 21, 2012 MEETING**

The Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans convened at 9:37 a.m. on May 21, 2012 in Baltimore. A quorum was present.

BOARD OF TRUSTEES

T. Eloise Foster
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Wilson H. Parran
Linda L. Tanton, Esq.
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Marcia Zercoe

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Secretary/ Executive Director

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Director of Finance

Richard A. Arthur
Director of Operations & Technology

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

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Visit the MSRP Board website at
www.MSRP.maryland.gov

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

Members Present

Ms. T. Eloise Foster
Mr. Nathaniel Byrd
Treasurer Nancy Kopp
Mr. Wilson Parran
Ms. Linda Tanton
Ms. Christina Wyskiel
Ms. Marcia Zercoe

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. David Belnick, Nationwide Retirement Solutions
Ms. Brenda Anderson, Nationwide Retirement Solutions
Mr. Eric Stevenson, Nationwide Retirement Solutions
Mr. David Berg, DB Advisors
Ms. Lucille Douglas, DB Advisors
Mr. John Axtell, DB Advisors
Mr. John DeMairo, Segal Rogerscasey
Ms. Emily Boccuzzi, Segal Rogerscasey
Mr. Philip Harris, Financial Integrity Resources Mgt.
Ms. Jeanette Hernandez-Harris, Financial Integrity Resources Mgt.
Ms. Svetlana Meskin, Financial Integrity Resources Mgt.
Mr. Jason Costner, Financial Integrity Resources Mgt.
Mr. Dylan Baker, Dept. of Legislative Services
Mr. William Seymour, SB & Company, LLC
Mr. Chris Lehman, SB & Company, LLC
Mr. Graylin Smith, SB & Company, LLC
Mr. Peter Ganey, Great-West Retirement Services

I. Chairperson's Remarks

The minutes of the regular meeting of the Board of Trustees held February 27, 2012 were unanimously approved (Exhibit A).

II. Employee Recognition

Chairperson Foster began the meeting by noting that the Governor had designated May 9, 2012 as recognition and appreciation month for State employees. Ms. Foster stated that Board employee C. Jeannie Henry had recently completed 5 years of service with MSRP and that Michael Halpin had recently completed 20 years of service with MSRP and 35 years of State service. Board members joined Ms. Foster in expressing thanks and appreciation for their dedicated service.

III. Administrator's Report & Marketing Plan Update

Mr. David Belnick introduced Mr. Eric Stevenson, Vice President of Sales of NRS, who briefly discussed the economic conditions, regulatory environment and investor behavior affecting the Plans (Exhibit B-2). He noted that MSRP had some of the highest participation rates in the country (75.8%) and participants carried an average account balance of \$40,837. In response to a question from the Board regarding the average account balance in retirement, Mr. Belnick stated that he could provide an analysis of account balances broken down into 5 year age bands.

Mr. Belnick delivered the Administrator's report for the first quarter of 2012 (Exhibit B). Mr. Belnick noted from the report that

- Asset growth continued in the first quarter, with total assets at their highest level since plan inception.
- There continued to be a slight decrease in the number of participants.
- Contributions exceeded distributions by \$1.87 million.
- New enrollments and increases were down.
- Decreases and suspension requests were down.
- Loan activity was down slightly for the quarter.
- The hardship numbers in the report for the first quarter and for 2011 may need to be corrected upward, as they may only reflect automatic telephone hardship withdrawals.
- Rollovers into the plan were up in both participant numbers and dollar value, and rollovers out of the plan were down in both participant numbers and dollar value.
- MBE participation rate at 22% year-to-date.

In connection with his discussion of the MBE participation rate, Mr. Belnick noted that the F.I.R.M. and NRS had agreed to move to an outsource model with two "field" Personal Retirement Consultants while NRS maintains one "office-based" PRC internally. Mr. Halpin requested clarification from Mr. Belnick as to what the F.I.R.M.'s role would be beyond housing the 2 PRCs. Mr. Halpin and Mr. Belnick agreed to discuss the change as it relates to the service structure following the meeting.

Mr. Belnick reviewed four key marketing initiatives that had taken place during the first quarter of 2012 (Exhibit B-1):

- MSRP website – MarylandDC.com had been redesigned.
- Reinstatement campaign – Letters had been sent to over 12,000 participants who were less than 65 years old, not in payout and had at least one account they had not contributed to for 3 months. To date, 942 of these participants had restarted their contributions, representing a 7.5% response rate.
- Beneficiary campaign – Letters had been sent to over 11,000 participants with an account balance over \$50,000 who were 60 years old but who had not designated a beneficiary.
- Saving\$ Expos – Expos had been scheduled in “outlying” territories (Western Maryland and the Eastern Shore).

Mr. Jason Costner delivered the F.I.R.M. activity report (Exhibit B-3). He reviewed F.I.R.M. activity and gave statistics on contacts between F.I.R.M. retirement counselors and plan participants.

Mr. Costner also reported on an exit survey the F.I.R.M. had conducted for MSRP to identify the reasons why participants transferred entire account balances to external accounts. He noted that the initial data suggested that the top reason was access to personal financial advice, followed by investment options, but that participants given the opportunity to provide their own response (as opposed to selecting from an enumerated list) had also cited a desire to consolidate their retirement accounts. Mr. Costner stressed that the data gathered thus far was preliminary in nature and that before making policy decisions based on the survey more research would be necessary. He noted that the F.I.R.M. plans to continue to collect data from participants who exit the plan, to build upon the data that has already been collected and will provide periodic progress reports to the Board.

IV. Committee Reports – Investment Committee

Ms. Zercoe updated the Board with respect to the Committee’s discussion of a large cap core equity manager to replace the Neuberger Berman Large Cap Value Fund, which had been placed on the Watch List at the last Board meeting. She stated that the Committee had considered funds offered by American Century, J.P. Morgan, Parnassus and T. Rowe Price and discussed the main issues with respect to each option. She noted that the Committee had tentatively decided to recommend to the Board the selection of American Century Equity Growth Fund, subject to clarification from Segal as to the tenure of the managers of the fund. She explained that upon receipt of this additional information, the members of the Committee would be polled as to their final decision, and, assuming that decision results in a recommendation to the Board to select American Century as the new large cap equity manager, the members of the Board will then be polled regarding their decision and, if approved, the replacement will be implemented.

V. Investment Advisors' Reports:

A. DB Advisors

Mr. John Axtell introduced the recommended changes to the ICP Investment Policy and Guidelines (the "ICP Investment Policy"). He summarized the material changes as follows:

- Clarification of the definitions of ICP Manager, Sub-Manager, Separate Account Guaranteed Investment Contract and Fixed Income Funds;
- Update to the benchmark index to better align with underlying fixed income strategies;
- Amendment of the desired Wrapper Agreement and Separate Account GIC contract terms to better reflect what is available in the market; and
- Revision of the material conditions for underlying Sub-Manager performance requirements.

Mr. Axtell explained that the definition of Separate Account GICs clarifies that it allows GICs where the underlying insurance company separate account is managed by the insurer or an affiliate of the insurer, which is the case with the MassMutual wrapper agreement where the underlying assets are managed by Babson Capital.

Mr. Axtell provided background with respect to the book value corridor limits, which limit to a certain percentage the number of withdrawals at book value where the withdrawals are attributable to workforce restructurings. He noted that as the wrapper market has evolved, these limits have tightened, with the current limits typically being 5-10% per year. A discussion of the need to review the plan's risk disclosure followed.

The Board discussed the plan-sponsor's right to discontinue under book value settlement and determined that the term should be moved to the material conditions section of the ICP Investment Policy so that it was a required contract term rather than "desired" and that the provision also include a specific limitation on extension of no more than the greater of (a) five years or (b) duration plus two years.

Before continuing to the investment performance report, Mr. Axtell informed the Board that Deutsche Bank had announced it would not be selling DB Advisors to Guggenheim but that the business continued to be under review. He also noted that effective June 1, Deutsche Bank would have a new management team, including co-CEOs and a new head of global asset management.

Mr. Axtell delivered the first quarter performance report of DB Advisors on the Investment Contract Pool (Exhibit C). He emphasized the following points:

- Both yield and book value showed very slight changes for the fourth quarter (yield down 6 basis points, book value up 2 basis points).
- Sub-manager performance was good, with all managers exceeding their benchmarks (HIMCO +0.47%, JPMorgan +0.30%, PIMCO +0.05%, and Goode +0.05%).
- Assets were relatively flat over the quarter (report page 3).
- Phase 1 of the restructuring was complete (report page 4).

- Work continued on Phase 2 with contract negotiations being finalized with MetLife and MassMutual, MetLife having approved EARNEST Partners for general use with stable value separate account contracts, and DB Advisors concluding that Babson and EARNEST Partners capable and competent managers for stable value portfolios (report page 4).

B. Segal Rogerscasey

Mr. John DeMairo delivered the first quarter investment report (Exhibit D). He gave a brief market commentary and then discussed various metrics of the plan, including plan allocations and activity, asset allocation and contribution direction. He explained to the Board the performance vs. market index, percentile ranking analysis vs. peer group and risk/return summary vs. market index charts (pages 24-26). He reviewed the passive fund options (page 40), active funds options (pages 41-42) and retirement income options (pages 43-44), noting that approximately \$515 million of plan assets were in passive funds, representing 20% of assets; approximately \$1 billion of plan assets were in actively-managed funds, representing 37% of assets; and approximately \$277 million of plan assets were in the T. Rowe Price retirement income funds, representing 10% of assets.

Mr. DeMairo next directed the Board to Exhibit D-2, which had been prepared by the F.I.R.M. He noted that Segal and the F.I.R.M. intended to work together to prepare a quarterly summary that would supplement Segal's presentation and report.

VI. Comprehensive Annual Financial Report

Mr. William Seymour of SB & Company presented the audit results included as part of the 2011 Comprehensive Annual Financial Report (CAFR) (Exhibit G), and distributed Exhibit G-1 as supplemental material for the report. He described the scope of services for SB & Company: audits of the financial statements for each of the Plans; assistance in production of the CAFR; and certain agreed upon procedures that test the accuracy of individual participant account records. He noted that the firm opinion on the financial statements was unqualified and that the audit did not reveal any significant deficiencies or material weaknesses. He confirmed that his firm had received the full cooperation of plan management during the audit.

Mr. Seymour then gave a brief summary of the statements, noting that the MSRP had received a Certificate of Excellence in Financial Reporting Award by the Government Finance Officers Association. He concluded his report with a summary of certain "Generally Accepted Auditing Principals" required communications relating to the scope of auditing opinions (Exhibit G-1, pages 5-8).

Ms. Roberts then gave a summary of the CAFR and its component parts, briefly noting the changes made from the 2010 CAFR. She noted that MSRP will be submitting the 2011 CAFR to GFOA under its Certificate of Excellence program again.

VIII. Staff Reports

A. Finance

Ms. Roberts delivered the agency budget and expenditure report (Exhibit E) as of April 30, 2012. She noted that year to date revenues were strong at \$1,344,781,

2.05% ahead of budget, and that year to date expenditures were 9.08% less than budget. She explained the favorable and unfavorable variances in the expenditure line items. She noted that the FMIS reserve balance as of April 30, 2012 was approximately \$391,151, which was higher than it was at June 30, 2011.

B. Field Services

Mr. Holcomb gave a summary of Exhibit F which provided details on field staff activity for the period January - April 2012. He then discussed the recent Expos held in Hagerstown and Easton, Maryland held on May 16 and 17, respectively. Mr. Holcomb thanked Nationwide and staff for their hard work.

IX. Committee Reports – Continued

A. Audit Committee

Ms. Tanton reported that the legislative audit of the MSRP had been completed and that there were no findings.

B. Investment Committee

The Investment Committee Report was delivered earlier in the meeting.

C. Executive Committee

No report at this time.

X. Board Secretary's Report

Mr. Halpin gave a report on recent activity, noting:

- He updated the Board regarding H.B. 277, regarding the use of MBE broker-dealers by certain State agencies. He stated that the bill had passed and sent to the Governor for signature. He noted that the Attorney General's Office was in the process of submitting a letter regarding the constitutionality and legal sufficiency of the bill. Ms. Hjortsberg noted that the OAG had determined that the bill was constitutional but that the draft of the letter she had seen had pointed out that because the MSRP's mutual fund structure, it does not use broker-dealers to effect its investment transactions. Mr. Halpin noted that if the Governor signs it, the law requires an annual report to be submitted as to the MSRP's efforts with respect to the use of MBE broker-dealers.
- He introduced Ms. Hjortsberg as the new Assistant Attorney General for the MSRP.

XI. Board Counsel's Report

Ms. Hjortsberg updated the Board with respect to the status of a rulemaking by the Securities and Exchange Commission regarding municipal advisors, noting that the Commission seemed to be stepping back from its earlier statement that it considered appointed members of municipal boards to be municipal advisors.

XII. Executive Session

None

XIII. New Business

No new business considered.

XIV. Adjournment

A motion to adjourn was entered at 12:16 pm, seconded, and carried unanimously.