



**BOARD OF TRUSTEES FOR THE
MARYLAND TEACHERS & STATE EMPLOYEES
SUPPLEMENTAL RETIREMENT PLANS
MINUTES OF THE August 24, 2015 MEETING**

*Maryland
Teachers & State Employees
Supplemental Retirement Plans*

The Board of Trustees of the Maryland Teachers & State Employees Supplemental Retirement Plans convened at 9:30 a.m. on August 24, 2015, in Baltimore. A quorum was present.

BOARD OF TRUSTEES

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Thomas P. Hickey
Nancy K. Kopp
Wilson H. Parran

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Debra L. Roberts, CPA, CRC
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Richard A. Arthur
Director of Operations & Technology

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

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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. Taylor Benson, Galliard Capital Management
Ms. Carrie Callahan, 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 meeting held on May 18, 2015 (Exhibit A), were unanimously approved subject to a correction to page 5.

III. Administrator's Report & Marketing Plan Update

Mr. Belnick presented the Administrator's report for the second quarter of 2015 (Exhibit B). He noted that assets were \$3.4 billion, representing a decrease of approximately \$10 million from the beginning of the first quarter. He also reported that since the first quarter of 2014, assets had increased by \$91.5 million and contributions had increased by \$7.8 million. He noted that deferrals increased by \$2.3 million and rollovers/transfers-in increased by \$2.4 million, both as compared against the second quarter of 2014. He reviewed the allocation of assets and contributions in the Plans for the quarter, noting that the allocation of total assets to the Target Date Funds (TDFs) increased by 1% from the prior year, and fixed income and cash decreased by 1.4%. He further noted that the allocation of contributions to TDFs increased by 3.3% and that allocations to fixed income and cash decreased by 1.3%. He also noted that the assets in the ICP decreased by 1.3%, or approximately \$21 million.

Mr. Belnick then reviewed the mutual fund reimbursements for the second quarter, noting \$573,000 returned to participant accounts in the quarter, representing an increase of \$73,000 from the second quarter of 2014. He reported on participant account activity for the second quarter, noting a total of 65,386 participants at June 30, 2015, an increase of 1.45% since the second quarter of 2014. He attributed this increase primarily to the easy enrollment forms and step-by-step program. He noted 942 enrollments during the second quarter of 2015, an increase of 185 from the second quarter of 2014. He reported that 37,366 accounts were receiving deferrals in the second quarter of 2015, as compared to 37,346 in the first quarter of 2015 and 36,936 in the second quarter of 2014; 4,025 accounts in payout in the second quarter of 2015, as compared to 4,408 in the first quarter of 2015 and 3,932 in the second quarter of 2014. He noted that accounts not receiving deferrals remained relatively flat, with 23,604 accounts not receiving deferrals in the second quarter of 2015, as compared to 23,517 in the first quarter of 2015 and 23,583 in the second quarter of 2014. Mr. Belnick provided a comparison of distributions and contributions for the second quarter of 2015, noting that distributions of \$64 million outpaced contributions of \$48 million in the second quarter of 2015. He noted that second quarter of 2015 distributions were \$9 million more than as compared against the second quarter of 2014 and contributions were \$8 million higher as compared to that time period.

Mr. Belnick then proceeded to the marketing updates, stating that the overall plan participation rate was 74.99% of eligible employees, an increase of 1.06% as compared to the second quarter of 2014, and that 44.11% participants actively deferring. He continued to the Nationwide Retirement Solutions' Retirement Specialist/Customer Service Production Summary, noting that there were 1,912 new enrollments for the second quarter of 2015, an increase of 28% over the second quarter of 2014, and increase activity by 4,396 participants, an increase of 7% over the second quarter of 2014. He reported decrease activity of 416, as compared to 439 in the first quarter of 2015 and 327

in the second quarter of 2014, and an increase in suspension activity (321 in the second quarter of 2015 and 269 in the second quarter of 2014).

Mr. Belnick reported total contacts of 700,898 in the second quarter of 2015, an increase of approximately 300,000 from the second quarter of 2014, with the bulk of the contacts coming from website hits (682,000 in the second quarter of 2015 and 399,000 in the second quarter of 2014). He updated the Board on the interactive retirement planner, noting that the next modules to be added to the planner would be healthcare costs in retirement and projected social security payout. He also reported that Nationwide hoped to add a pension module but needed to ensure that the pension piece was accurate and would not conflict with the information provided to participants by the State Retirement Agency. He also provided that the goal was that the planner would allow for a total benefits statement to be developed for participants. He noted that 80% of participants using the planner were taking it to completion.

Mr. Belnick then presented the loan and hardship analysis, noting that both loans and hardships had slowed in the second quarter of 2015, with \$4 million in new loans for the second quarter, as compared to \$6.3 million for the first quarter of 2015. He noted active loans of \$37 million in the second quarter, with the total number of loans at 5,019. With respect to hardship withdrawals, Mr. Belnick reported 459 approved hardship withdrawals, noting that the annualized number would be 1,726, representing a significant decrease from the total of 2,264 hardship withdrawals in 2014.

Mr. Belnick reported on the NRS field updates, noting 10 less group meetings as compared to the second quarter of 2014, and a decrease in attendees of 284 during the same time period. He proceeded to the rollovers report, noting an increase of 81 participants with an increase of \$3 million in rollovers out from the second quarter of 2014 to the second quarter of 2015. He stated that rollovers in during 2015 year-to-date (\$12.6 million) outpaced rollovers in during 2014 year-to-date (\$8.7 million). He noted that July 2015 represented the month with the highest rollovers in total (\$4.2 million). He attributed this primarily to significant annual leave contributions, noting a capture rate of 60-70% for these funds. Mr. Belnick updated the Board on Nationwide's Minority Business Enterprise participation rate of 23% (\$352,000 year-to-date) on a 15% goal. He closed his report noting that Wanda Poehler in the Hunt Valley office had received a longevity award for her 40 years of service with Nationwide, all of which were on the MSRP Plans.

IV. Investment Advisors' Reports:

A. Segal Rogerscasey ("Segal")

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

- Total assets in the Plans were \$3.4 billion, representing a small drop in value of \$10 million with \$6.8 million in investment earnings offset by negative cash flow and fees.
- Equities represented 48% of the market value in the Plans, stable value represented 24% and the TDFs represented 15%.

- Active options accounted for 36% and passive options accounted for 23%.
- The underperformance of the Morgan Stanley Institutional Fund was more long-term, with the decision to replace this fund being made by the Board at its last meeting.
- PIMCO Total Return Fund continued to be watched and was subject to due diligence and Segal reported a positive meeting with PIMCO.
- The TDFs showed positive results versus their benchmarks for most of the time periods except for the 1-year period for several of the TDFs.
- On a peer-to-peer basis, most of the ten active core options were above median for the 1-, 3- and 5- year periods, but Morgan Stanley, which is being replaced, being the only option on the risk/return summary that was below in the bottom quartile for all but the quarter.

Ms. Vargas then reviewed the T. Rowe Price Target Date Fund Update (Exhibit C-2). She reminded the Board that the T. Rowe Price Retirement Income Fund had been renamed the T. Rowe Price Balanced Fund to clarify that T. Rowe Price employed a static allocation in this fund. Segal recommended targeted communication to notify participants (approximately 400 currently in the fund) of the name change and the static asset allocation, noting that if these participants wish to continue in a glide path they could transfer their assets to the TDFs 2005 through 2055. Segal also recommended that the Board remove the T. Rowe Price Balanced Fund going forward and presented a default table in regards to MSRP's Qualified Default Investment Alternatives.

B. Galliard Capital Management ("Galliard")

Ms. Taylor Benson reviewed the second quarter Investment Contract Pool (ICP) performance report (Exhibit D). She reviewed the long-term goals as follows:

- Transfer valuation responsibilities, which Galliard is continuing to work through with Nationwide;
- Transition ICP to daily valuation;
- Further diversify contract providers and continue to explore alternatives to MetLife and Earnest Partners; and
- Explore ways to reduce sub-manager fees through negotiations and/or use of commingled investment vehicles

Ms. Benson proceeded to report on the ICP performance for the second quarter, highlighting the following:

- The benchmark for the ICP was changed on April 1, 2015, so that performance is compared to a new book value benchmark (3-year constant maturity Treasury). As compared against this benchmark, the ICP outperformed the benchmark by 25 basis points (bps) before investment management fees and by 20 bps net of all fees.
- Assets under management (AUM) at June 30, 2015 were \$762.1 million, representing a decrease in AUM, which was attributed to transfers out of the ICP in response to stronger equity markets.

- The ICP was comprised of 6 issuers and 2 guaranteed investment contracts (GICs). One GIC rolls off at the end of the third quarter of 2015 and the other rolls off in the fourth quarter of 2016. Galliard will add these two GICs to the liquidity buffer.
- The monthly declared rate (net of fees) was 1.70%; the proposed September rate increased to 1.71%.
- Duration was 2.41 years.
- Market-to-book ratio was 101.34%.

Ms. Benson noted that Galliard had identified Earnest Partners and JP Morgan as two managers that Galliard may look to replace.

Ms. Benson then reviewed the underlying manager performance in the ICP for the quarter, noting the following:

- Babson underperformed its benchmark by - 0.14% for the quarter and outperformed by + 0.25% for the past year;
- Earnest Partners underperformed its benchmark by - 0.07% for the quarter and outperformed its benchmark by + 0.32% for the one year period;
- JPMorgan underperformed its benchmark by -0.03 for the quarter and outperformed its benchmark by + 0.33% for the one year period; and
- PIMCO underperformed its benchmark by – 0.12% for the quarter and – 0.43% for the one year period.

Mr. Halpin stated that Bank of New York Mellon (BNY) is restructuring fees and that he would be discussing the anticipated increases with Galliard. He noted that Babson and PIMCO are not custodied at BNY so that although BNY provides compliance reports, such reports only cover half of the ICP, the price of which would now be increasing significantly. Mr. Halpin noted that he would prepare a summary to the Board regarding this issue once he had discussed alternatives with Galliard.

VI. Staff Reports

A. Finance

Ms. Debra Roberts presented the agency budget and expenditure report (Exhibit E) as of June 30, 2015. She noted revenues of \$1,611,366, which were \$335,759, or 17.24%, less than budget. Ms. Roberts noted that expenditures were \$1,652,392 which was \$14,305, or 0.86%, less than budget. She explained each of the favorable and unfavorable variances for the expenditure lines. She noted a reserve balance of \$568,698, as compared to a balance at June 30, 2014 of \$609,723.

B. Field Services

Mr. Holcomb presented the field staff report (Exhibit F), which included the 2015 Financial Fitness Day Summary of Results and the 2015 Open Enrollment Trainings. He noted 338 attendees for the Financial Fitness Days, 41 new enrollments and 14 increases in contributions.

VII. Board Secretary's Report

Mr. Halpin provided the Board Secretary's Report, including the Proposed MSRP Board of Trustees Meeting Plan for Calendar Year 2016 (Exhibit G). Mr. Halpin reported on the following:

- Rick Arthur had completed the course to become a certified public manager.
- Mr. Halpin was developing an email newsletter with links to events to be distributed to state employees.
- MSRP had won and would be presented with two awards at the NAGDCA Conference in September: one for its social media campaign and one for the step-by-step and benefit coordinator academies.
- Mr. Halpin would be presenting on governance and the benefit coordinator academies at the NAGDCA Conference

VIII. Board Counsel's Report

No report at this time.

IX. Executive Session

None.

X. New Business

No new business was presented for discussion.

XI. Adjournment

A motion to adjourn was entered at 10:55 a.m., seconded, and carried unanimously.