



**BOARD OF TRUSTEES FOR THE
MARYLAND TEACHERS & STATE EMPLOYEES
SUPPLEMENTAL RETIREMENT PLANS
MINUTES OF THE September 3, 2013 MEETING**

*Maryland
Teachers & State Employees
Supplemental Retirement Plans*

The Board of Trustees of the Maryland Teachers & State Employees Supplemental Retirement Plans convened at 9:35 a.m. on September 3, 2013 in Baltimore. A quorum was present.

BOARD OF TRUSTEES

T. Eloise Foster
Chairperson

Sabrina I. Bass
Margaret A. Bury
Nathaniel H. Byrd, III
Thomas P. Hickey
Nancy K. Kopp
Wilson H. Parran
Christina W. Wyskiel
Marcia Zercoe

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Secretary/ Executive Director

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. Sabrina Bass
Ms. Margaret Bury
Mr. Nathaniel Byrd
Mr. Thomas Hickey
Treasurer Nancy Kopp
Ms. Christina Wyskiel
Ms. Marcia Zercoe

Representatives and Guests

Mr. Michael Halpin, Staff
Ms. Lara L. Hjortsberg, Board Counsel
Ms. Debra Roberts, Staff
Mr. Richard Arthur, Staff
Mr. Louis Holcomb, Staff
Ms. Anna Marie Smith, Staff
Mr. David Belnick, Nationwide Retirement Solutions
Ms. Ann Bair, Nationwide Retirement Solutions
Mr. Zach Mason, Nationwide Retirement Solutions
Mr. Dan Wrzesien, Nationwide Retirement Solutions
Mr. David Berg, Deutsche Asset & Wealth Management
Mr. John Axtell, Deutsche Asset & Wealth Management
Ms. Lucille Douglas, Deutsche Asset & Wealth Management
Mr. John DeMairo, Segal Rogerscacey
Mr. Claude Gregory, Financial & Realty Services

I. Chairperson's Remarks

Ms. Foster introduced MSRP's new Board member, Ms. Margaret A. Bury, who had been appointed to the Board by Governor Martin O'Malley on August 23, 2013. She noted that Ms. Bury is the Retirement Administrator for the Maryland State Retirement and Pension System. Members welcomed Ms. Bury to the Board.

Upon motion duly made and seconded, the minutes of the regular meeting of the Board of Trustees held on May 20, 2013 were unanimously approved. (The minutes are attached hereto as Exhibit A.)

II. Administrator's Report & Marketing Plan Update

Mr. David Belnick delivered the Administrator's report for the second quarter of 2013 (Exhibit B). He first introduced Ms. Ann Bair and Mr. Zach Mason, who would address the Board with respect to a social media program proposal later in the meeting, and Mr. Claude Gregory, the managing partner of Financial & Realty Services.

Mr. Belnick then proceeded to the administrative portion of the report, noting that the Plans continued with strong growth, with total assets as of June 30, 2013 at \$2.9 billion; an increase of \$290 million from the second quarter of 2012; and contributions were up \$4.4 million as compared to the same quarter in 2012. He reviewed the allocation of assets and contributions in the Plans, noting an increase in allocations to large cap and retirement date funds and a decrease in allocations to fixed income and cash. For contribution allocations he noted an increase in the flow of allocations to fixed income and cash and a decrease to retirement date funds. Mr. Belnick then reviewed the mutual fund reimbursements for the second quarter and year-to-date. He reported on participant account activity for the second quarter, noting a decrease in accounts of 1.8% since the mid-point of 2012 but a slight increase in new enrollments as compared to previous quarters. He noted that 277 retirees had contributed approximately \$3.5 million in annual leave contributions. He closed the administrative portion of the presentation with a comparison of distributions and contributions for the second quarter, noting a total net outflow of \$13.77 million, which was \$11 million over what had left the Plans since the last year. He noted that both contributions and distributions have increased and reported that he and Mr. Halpin had discussed how to address the outflow issue.

Mr. Belnick continued his report with the marketing updates, stating that the overall plan participation rate was 74.79% of eligible employees, with 44.7% participants actively deferring, noting a slight decrease from the previous quarter but still strong as compared to the industry in general. He continued to the NRS Retirement Specialist/Customer Service Production Summary, noting that there were 627 new enrollments in the second quarter of 2013, the same number of increases as the first quarter. He also noted that there were 1,376 increases during the second quarter, which was 158 fewer than the previous quarter. He noted another quarter of less activity and more suspension activity. Mr. Belnick then presented the loan and hardship analysis, noting loans totaling slightly over \$8 million and 666 hardships during the second quarter. With respect to the hardship application process, Mr. Belnick explained that the IRS was requiring NRS to change its policies and procedures with respect to the no-doc hardship process (hardship

withdrawals up to \$9,999) such that participants need to document why the hardship withdrawal is being requested prior to NRS processing the request. Mr. Belnick noted that he would find out what the rationale for the change was but noted that the addition of 21 employees to operations would still allow NRS to process these applications the same day as supporting documentation was provided by participants. Mr. Hickey requested that NRS share its revised policies and procedures with the Board.

Mr. Belnick provided the field update and rollover report for the quarter and noted an MBE participation rate of 22% for the year to date.

Mr. Zach Mason and Ms. Ann Bair gave an overview of Nationwide's Social Media Program Proposal (Exhibit B-1). Mr. Mason introduced the 12 month social media pilot program objectives – to extend the MSRP plan presence into social media by providing engaging, informative and educational content designed to (1) align with 2013 and 2014 business and education plans; (2) promote plan awareness and participation; (3) encourage participants to become more engaged in planning for retirement and (4) provide event activation and engagement for the 2013 Savings Expo. In response to questions from Board members, Mr. Mason noted that Maryland would be the first state plan for which the pilot program would be rolled out and that NRS had rolled out a similar plan for the City of Phoenix. Mr. Mason announced a kick-off date for the pilot program of September 23.

III. Investment Advisors' Reports:

A. Deutsche Asset & Wealth Management ("DB")

Mr. John Axtell noted that he had delivered a detailed report on the second quarter performance for the investment contract pool ("ICP") (Exhibit D) at the Investment Committee meeting immediately prior to the Board meeting and that he would provide the Board with highlights of that report. He emphasized the following points:

- Yield for the first quarter was 2.17%, a decrease of 14 bps from the first quarter of 2013 but above the comparable benchmark yield for the iMoneyNet Taxable (All) Index of 0.02%.
- Market-to-Book ratio decreased during the second quarter to 101.6% from 103.8% at the end of the first quarter.
- Sub-manager performance was below benchmark: PIMCO -0.11%, JPMorgan -0.22%, Babson -0.14% and Earnest -0.35%.
- Assets under management were \$790 million and net participant cash flows were -\$3.7 million.
- As compared to the stable value universe, the ICP ranking has gone up, with a ranking in the 35th percentile with respect to the gross participant crediting rate.

Mr. Axtell explained that the decrease in the market-to-book ratio was largely due to rising yields in the market and that a smaller contributing factor was the underperformance of fixed income managers. He noted that the market is continuing to see a gradual downward trend for net crediting rates. Mr. Axtell introduced a discussion of portfolio duration for the ICP. He noted that there has been an extension in the overall duration from 3.11 years in the first quarter of 2013 to 3.46

years in the second quarter of 2013. He noted a dialogue had been started with PIMCO and Babson in order to get these managers' perspective on their comfort level with respect to their ability to manage duration risk and to discuss the possibility of moving to a lower duration benchmark. Mr. Axtell noted that he would report back to the Board on this issue.

Mr. David Berg then provided an update to the Board regarding the trading violations disclosed at the last meeting of the Board. He explained that MassMutual/Babson had reimbursed the ICP \$36,472 and MetLife/Earnest had reimbursed \$1,581.

B. Segal Rogerscasey

Mr. John DeMairo delivered a detailed report on the second quarter performance report (Exhibit C) and highlighted the following:

- AUM were \$2.9 billion at the end of the second quarter.
- Stable value accounted for 30% of the market value of the Plans; active options accounted for 36%; passive options accounted for 20% and the target-date funds accounted for 12%.
- The split between active and passive options remained at two-thirds/one-third, respectively.
- Large cap and stable value accounted for approximately half of the assets in the Plans; and international, small cap, mid cap and large cap options combined equaled 36% of the Plans.
- On a peer-to-peer basis, in general the performance was positive, noting that eight of the ten active funds were above median and that the remaining two were in the third quartile.
- Morgan Stanley Institutional Trust Fund remained on the watch list after poor performance in 2011 and 2012, but its quarter and year-to-date performance has shown improvement and top quartile results.
- American Fund Growth Fund of America, which has been on watch, had another strong quarter and the Investment Committee would be recommending this fund's removal from the watch list.
- For the T. Rowe Price target date funds, it was noted that over the 5 year time period, the best and worst performers were within 60 bps, whereas the 3 year performance results showed a much wider spread (8-15%), and the 1 year performance results showed a more dramatic spread (7.4-17.6%)

IV. Staff Reports

A. Finance

Ms. Roberts delivered the agency budget and expenditure report (Exhibit E) as of July 31, 2013. She noted that fiscal year to date revenues were \$30,017, which was \$86,044, or 74/14%, less than budget. She explained that this variance was associated with the Invesco settlement funds that had been transferred to the MSRP reserve account and were being used to fund the fee holiday. She noted expenditures of \$98,652, which was \$30,083, or 23.37%, less than budget. She explained each of the favorable and unfavorable variances for the expenditure line. She noted that the reserve balance as of July 31, 2013 was approximately

\$799,405. Ms. Roberts agreed in response to a request from Treasurer Kopp to add a sentence to the report to explain that the reserve balance is being drawn down intentionally.

B. Field Services

Mr. Holcomb presented the field staff report (Exhibit F) that included an activity recap, a summary of the Regional Spring 2013 MSRP Saving\$ Expo, Pre-Retirement Fall 2013 Schedule, Building Blocks Flyer and Financial Planning 101 Flyer.

V. Committee Reports

A. Audit Committee

No report at this time.

B. Investment Committee

Ms. Zercoe reported that the Investment Committee recommended the removal of American Funds Growth Fund of America from the watch list, as was recommended to the Investment Committee by Segal Rogerscasey. After discussion, and upon motion duly made and seconded, it was unanimously

RESOLVED, that the American Funds Growth Fund of America be removed from the watch list.

Ms. Zercoe also noted that the Investment Committee was recommending that the Morgan Stanley Institutional Trust Fund remain on the watch list.

C. Executive Committee

No report at this time.

VI. Board Secretary's Report

Mr. Halpin reported on recent activity (Exhibit G). He thanked the Treasurer's Office for leading the procurement of a new contract for banking services with Wells Fargo. He also announced the return of a previous MSRP employee, Ms. Valerie Schwaab, who would fill the part-time Financial Field Representative position.

VII. Board Counsel's Report

No report at this time.

VIII. Executive Session

The Chairperson requested an Executive Session pursuant to Section 10-508(1) of the Open Meetings Act to discuss a personnel matter. Upon motion duly made and seconded, the Board unanimously approved the Executive Session for this purpose. All guests and

representatives left the meeting at this time. After the conclusion of the Executive Session, the Chairperson announced that no action had been taken during the Executive Session.

IX. New Business

No new business was presented for discussion.

X. Adjournment

There being no further business, upon motion duly made and seconded, the meeting was adjourned at 12:10 p.m. unanimously.