



**BOARD OF TRUSTEES FOR THE
MARYLAND TEACHERS & STATE EMPLOYEES
SUPPLEMENTAL RETIREMENT PLANS
MINUTES OF THE August 28, 2012 MEETING**

Maryland
Teachers & State Employees
Supplemental Retirement Plans

The Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans convened at 9:30 a.m. on August 28, 2012 in Baltimore. A quorum was present.

BOARD OF TRUSTEES

T. Eloise Foster
Chairperson

Sabrina I. Bass
Nathaniel H. Byrd, III
Thomas P. Hickey
Nancy K. Kopp
Wilson H. Parran
Linda L. Tanton, Esq.
Christina W. Wyskiel
Marcia Zercoe

Members Present

Ms. T. Eloise Foster
Ms. Sabrina Bass
Mr. Nathaniel Byrd
Mr. Thomas Hickey
Mr. Wilson Parran
Ms. Linda Tanton
Ms. Marcia Zercoe

Michael T. Halpin, CRC, CRA
Secretary/ Executive Director

Debra L. Roberts, CPA, CRC
Director of Finance

Richard A. Arthur
Director of Operations & Technology

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

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Representatives and Guests

Ms. Bernadette Benik, Chief Deputy Treasurer (*representing Treasurer Kopp*)
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. David Berg, DB Advisors
Mr. John Axtell, DB Advisors
Ms. Emily Boccuzzi, Segal Rogerscasey
Mr. Philip Harris, Financial Integrity Resources Mgt.
Mr. Jason Costner, Financial Integrity Resources Mgt.
Mr. Dylan Baker, Dept. of Legislative Services

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www.MSRP.maryland.gov

Call About the Plans
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1-800-545-4730
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I. Chairperson's Remarks

Secretary Foster noted that Ms. Bernadette Benik was representing Treasurer Kopp at the meeting.

Upon motion duly made and seconded, the minutes of the regular meeting of the Board of Trustees held on May 21, 2012 were unanimously approved (Exhibit A).

II. Administrator's Report & Marketing Plan Update

Mr. David Belnick delivered the Administrator's Report for the second quarter of 2012 (Exhibit B). He noted from the report that assets had decreased by approximately \$57 million as compared to the previous quarter; contributions were down slightly from the previous quarter; and total distributions from the Plans during the second quarter were \$43.13 million, down by approximately \$5.26 million. He reviewed the allocation of assets and contributions in the Plans, noting that from December 31, 2007 to December 31, 2011, the number of participants in the T. Rowe Price Target Date Funds had nearly tripled from 5,993 participants to 14,815 participants; the T. Rowe Target Date Funds represented 10.6% of the portfolio as of June 30, 2012; an increase of \$30 million over the second quarter of 2011. With respect to contributions, he explained that the T. Rowe Price Target Date Funds declined slightly during the second quarter; that all of the large-cap stock funds, except for the Parnassus Equity Income Fund, experienced a decrease in contributions; and that the Investment Contract Pool experienced a slight reduction in contributions. He next reviewed the mutual fund reimbursements for the second quarter and year-to-date, which each showed slight increases, and reported on participant account activity for the second quarter, noting a slight decrease in the number of participants.

With respect to the number of participants, Mr. Belnick explained several initiatives, including

- Continuation of a "restart campaign" by following up the initial mailing with a reminder postcard and that they were also considering a soft outbound call campaign to participants who have not contributed for a couple of years;
- Postcard and/or direct mail follow-up with participants who enrolled within the last 10 months;
- Benefit coordinator initiative ("train the trainer"); and
- Expos in coordination with the MSRP team.

Mr. Belnick closed the administrative portion of his presentation by reviewing a comparison of distributions and contributions for the second quarter, noting that distributions had outpaced contributions.

He then proceeded to the marketing update of the report, stating that the overall plan participation rate was 75.63%. The usefulness of the participation rate for the Match Plan was questioned given that the underlying data was stale. Mr. Halpin noted that MSRP had been unable to obtain updated data from the State Retirement Agency. Mr. Belnick continued that new enrollments and increases were both down from the second quarter of 2011. He then reviewed contribution decrease activity and suspension activity for the second quarter and detailed participant contacts during the quarter. He noted several

technological changes for participant statements - including personal rate of return, gain/loss information, mountain charts; and for the website - updated banners quarterly and an interactive retirement planner. With respect to the loan and hardship analysis, Mr. Belnick noted that loans were pacing in 2012 as they did in 2011 and that the large spike in hardships from the first quarter of 2012 to the second quarter was due to the fact that the report was transitioning back to reporting all hardship distributions (rather than not including the self-documented hardships requested via telephone). Mr. Belnick confirmed that participants are counseled on the tax implications of hardship withdrawals and that they were also informed of the loan option.

Mr. Belnick reported an MBE participating rate of 21% for the year to date.

Mr. Belnick turned the presentation over to Ms. Brenda Anderson who briefed the board on the recent senior leadership organization change at Nationwide. She announced that Ms. Anne Arvia would be moving to property casualty side of the business and that Mr. Larry Hilsheimer, who has experience in accounting, finance and property casualty, would be moving into Ms. Arvia's former role as President of Nationwide Retirement Solutions.

Mr. Jason Costner delivered the F.I.R.M. activity report (Exhibit B-1). He reviewed F.I.R.M. activity, detailed contacts between F.I.R.M. retirement counselors and plan participants and noted monthly trends in appointments, phone calls, retention calls and total interactions. He noted that F.I.R.M. and Nationwide had worked collaboratively to identify sites around the state to serve as meeting locations for the PRCs in order to provide regularly scheduled sites to facilitate meetings with a greater number of participants. He updated the Board on the MSRP exit survey and reported on two positive participant experiences with the personal retirement consultants.

III. Investment Advisors' Reports:

A. Segal Rogerscasey

Ms. Emily Boccuzzi delivered the second quarter investment report (Exhibit C). She gave a brief market commentary and then discussed various metrics of the plan, including plan allocations and activity, asset allocation and contribution direction. She reviewed with the Board the fund options and investment styles, noting that as of April 14, 2012, the Neuberger Berman Large Cap Value Fund was no longer included as an investment option. She reviewed the "red light-green light" analysis, consisting of performance vs. market index, percentile ranking analysis vs. peer group and risk/return summary vs. market index charts (pages 28-30). She noted that although the performance vs. market index indicated that many of the funds underperformed, as compared to their peer groups in the percentile ranking analysis vs. peer group, such underperformance was not as prevalent, indicating that other funds that manage similar strategies experienced underperformance. For the risk/return summary vs. market index, Ms. Boccuzzi noted that the T. Rowe Price life cycle funds included red in the risk column because they had experienced more volatility than their benchmarks during the period but commented that concerns arise where both bars in the chart are red, which signifies both below index performance and above index risk,

as was the case for the PIMCO Total Return Fund, the Neuberger Berman Partners Large Cap Value Fund and the American Funds Growth Fund R5. She noted that the American Growth Fund is on the watch list and being monitored, and the Neuberger Berman Large Cap Value Fund had been replaced. With respect to the PIMCO fund, she explained that Segal was not concerned because the performance of that fund had been strong and consistent during the period. She then reviewed the passive fund options (pages 45-46), active funds options (pages 47-48) and retirement income options (pages 49-50).

Ms. Boccuzzi next directed the Board to Segal's S-3 Rating System Report (Exhibit C-2). She noted that nine funds had received an "A" rating, seven funds had received a "B" rating and the one fund which had received a "C" rating, the Neuberger Berman Large Cap Value Fund, had been removed as an investment option. She explained that a "C" rating does not necessarily require the fund to be placed on watch but that once a fund reaches a "C" rating, additional research is necessary to determine what underlies the lower score.

B. DB Advisors

Mr. John Axtell began his presentation with a regulatory update, noting that the Dodd Frank Act required the Commodity Futures Trading Commission and the Securities Exchange Commission to conduct a study to determine if stable value contracts should be subject to the swaps regulation that was part of Dodd Frank, which, among other things, requires swaps and derivatives to be traded on a clearinghouse or exchange and subjects them to capital and margin requirements. He reported that the definition of swap had been finalized and that the study results regarding the stable value market were expected within the next two to five months.

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

- Yield for the second quarter was 2.22%, a decrease of 11 bps from the first quarter
- Market-to-book value increased slightly during the second quarter to 104.0% from 103.4% at the end of the first quarter of 2012.
- Sub-manager performance was good, with most managers exceeding their benchmarks (Goode 0%, HIMCO +0.07%, JPMorgan +0.08%, and PIMCO +0.49%).
- Assets under management were \$782 million and net participant cash flows for the second quarter were marginally negative at -\$0.4 million.
- Contract negotiations with MassMutual, which will wrap Babson Capital, were finalized, and MassMutual has filed the contract with the State of Maryland and is awaiting response, after which it will be funded.
- Book value allocation to the Prudential wrapper will be reduced to below 30% when the MassMutual contract is funded.
- Negotiations with MetLife, which has agreed to wrap EARNEST Partners, are continuing, with a third quarter target completion. MetLife intends to file the

contract with the State of Maryland coincidentally with funding, and in the event that the contract is not approved, MetLife would return the then current market value of the EARNEST Partners portfolio.

- The target for the end of Phase 2 of the ICP Restructuring was the end of September or the end of October.

Mr. Axtell then reviewed with the Board the sample stable value disclosure included on pages 9 through 11 of the presentation, which was included in response to comments from the last meeting. He noted that DB Advisors can provide the Board with information about risks and offer thoughts and perspective regarding the disclosure but that the Board will ultimately need to decide the appropriate level of disclosure for participants.

IV. Staff Reports

A. Finance

Ms. Roberts delivered the agency budget and expenditure report (Exhibit E) as of June 30, 2012. She noted that year to date revenues were strong at \$1,619,574, or 2.42% more than budget, and that expenditures were 1,444,893, or 4.32% less than budget. She explained each of the favorable and unfavorable variances for the expenditure line items.

B. Field Services

Mr. Holcomb gave a summary of Exhibit F, which provided a preview of the field staff activity for August through December 2012, including Financial Planning 101 Seminars, Personal Finance Seminars, the Fall 2012 Pre-Retirement Schedule and other scheduled field activity. He also reviewed the Regional Spring 2012 EXPO, which had been held in Hagerstown and Easton.

V. Committee Reports

A. Audit Committee

No report at this time.

B. Investment Committee

No report at this time.

C. Executive Committee

No report at this time.

VI. Board Secretary's Report

Mr. Halpin presented the Board Secretary's Report (Exhibit G). He noted that the American Century Equity Growth Fund had been installed as an investment option

replacing the Neuberger Berman Large Cap Value Fund on August 14, 2012. He then discussed with the Board two recommendations for departmental legislation to be submitted to the Governor's Legislative Office for the 2013 session of the Maryland General Assembly. He explained that the first bill would authorize the release of employee and retiree information to MSRP by administrative and employing State agencies, which would provide MSRP with information about new hires and non-participant employees and allow MSRP to communicate directly with them about voluntary enrollment and about the match when funded. He also noted that the authorization would also provide MSRP with information about terminations of employment to verify eligibility for distributions and would also allow MSRP to offer distribution planning services to retirees. He continued that employee census information would also permit MSRP to better assess the effectiveness of the program and tailor appropriate changes, including education efforts. Mr. Halpin explained that the second bill would provide MSRP with an exemption from the procurement law for contracts for investments and investment management services. He stated that the exemption was similar to that provided to the State Retirement Agency and the College Savings Plans of Maryland. Ms. Hjortsberg noted that although MSRP would be exempt from the procurement law under this exemption, the agency would be required to adopt policies and procedures to govern exempt procurements and the selection of contractors.

Secretary Foster suggested that Mr. Halpin and Ms. Hjortsberg discuss the employee/retiree information bill with Dean Kenderdine, the Executive Director of the State Retirement Agency, and Deborah Bacharach, Chief Counsel to the State Retirement Agency. After discussion, it was decided that Mr. Halpin and Ms. Hjortsberg would provide the Board with a draft of the proposed legislation and give the Board members the opportunity to review the bills. It was noted that the deadline for submitting departmental legislation was September 5.

VII. Board Counsel's Report

No report at this time.

VIII. Executive Session

At 11:41 a.m. the Chairperson requested an Executive Session pursuant to State Government Article §10-508(a)(14) to discuss issues pertaining to the Request for Proposals for the Plan Administrator. Upon motion duly made and seconded, it was unanimously

RESOLVED, that the meeting of the Board of Trustees shall be closed pursuant to State Government Article §10-508(a)(14) for the purpose of discussing the open procurement for the Plan Administrator.

At this time, all guests and representatives left the meeting other than Mr. Halpin, Mr. Arthur, Ms. Roberts and Ms. Hjortsberg.

The regular meeting resumed at noon. The Chairperson announced that during the Executive Session no decisions were made.

IX. New Business

The discussion returned to the risk disclosure for the Investment Contract Pool. It was noted that Segal could also review the disclosure and that new disclosure could be incorporated into the Q&A in simpler terms. Mr. Halpin also noted that with respect to the budget, MSRP had been exchanging information with the budget analyst and that it was likely that MSRP would need to make an over the target request as a result of certain imposed charges.

X. Adjournment

A motion to adjourn was entered at 12:05 p.m., seconded, and carried unanimously.