



**BOARD OF TRUSTEES FOR THE
MARYLAND TEACHERS & STATE EMPLOYEES
SUPPLEMENTAL RETIREMENT PLANS
MINUTES OF THE August 27, 2018 MEETING**

*Maryland
Teachers & State Employees
Supplemental Retirement Plans*

The Board of Trustees of the Maryland Teachers & State Employees Supplemental Retirement Plans convened at 9:50 a.m. on August 27, 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.
Ms. Lynne Durbin
Treasurer Nancy Kopp
Mr. John Lewis
Mr. Johnathan West

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

*William Donald Schaefer Tower
Suite 200
6 Saint Paul Street
Baltimore, Maryland
21202-1608*

*Telephone: 410-767-8740
Toll-Free: 1-800-543-5605*

*TTY: Use 711 in Md.
Or 1-800-735-2258*

Fax: 410-659-0349

*Visit the MSRP Board website at
<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
Mr. Louis Holcomb, Staff
Ms. Anna Marie Smith, Staff
Mr. Daniel Wrzesien, Nationwide
Mr. Jeffrey Francis, Nationwide
Mr. Ben Hoecherl, Nationwide
Mr. Eric Stevenson, Nationwide
Ms. Taylor Benson, Galliard Capital Management
Mr. Peter Schmit, Galliard Capital Management
Mr. John DeMairo, Segal Marco Advisors (*by phone*)
Ms. Vanessa Vargas, Segal Marco Advisors
Ms. Kimberly Young, T. Rowe Price
Ms. Lorie Latham, T. Rowe Price
Mr. Wyatt Lee, T. Rowe Price

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 (the "Board") held on June 4, 2018 (Exhibit A) were unanimously approved.

II. Administrator's Report

Prior to beginning the Administrator's Report, Mr. Wrzesien noted the attendance of Mr. Jeffrey Francis, Ben Hoecherl (Managed Accounts), and Eric Stevenson. Mr. Wrzesien next presented the Administrator's Report for the 2nd quarter of 2018 (Exhibit B).

He reviewed the Executive Summary and highlighted the following information for the Board:

- Current Assets: \$4.0 billion (1st time in Plan history)
- Total Participants: 67,903
- Enrollments: 1,086
- Managed Accounts \$49.8 million (through July)
- Deferrals: \$51.3 million (an increase of 1.69% and the 7th consecutive quarter with over \$50 million in deferrals)
- Mutual Fund Savings: \$1.1 million (includes MFS catch-up from prior periods from Delaware Value Fund)
- Rollovers-In: 317/\$11.2 million
- Distributions: \$73.2 million
- Rollovers-Out: 882/\$57.1 million
- Loans: 619 active/\$7.2 million (an increase of 7 loans as compared to the 2nd quarter of 2017)
- Hardship/UE: 442
- Payroll Increases: 5,036 (an increase of 610 from the 2nd quarter of 2017)

Mr. Wrzesien noted that Nationwide's MBE participation had increased to 16% in the 2nd quarter of 2018 and stood at 14% year-to-date (YTD). Mr. Wrzesien then noted that during the 2018 SAVING\$ Expo, there were 113 new 1-on-1 appointments (as compared to 95 the previous year) resulting in 89 positive actions and there were 36 attendees at the offered workshops.

Mr. Hoecherl next distributed and reviewed the Participant Investment Behaviors handout with the Board, highlighting the following:

- Target Date Funds ("TDFs") are helpful but often misused by participants because they (a) allocate only a fraction of their retirement assets to a TDF; and/or (b) hold several TDFs that each have a unique glidepath.
- There is often an overutilization of the "safe" option (fixed account); most participants with all of their money in this option are 45 years and older.
- Diversification concerns arise for participants invested in a single asset class; 85% of returns are from market diversification.

- The ProAccount investors in the Plans:
 - 1,841 participants enrolled
 - \$142.3 million in assets
 - 5.9 different asset classes on average as compared to 2.3 asset classes on average held by non-Pro Account participants
 - 12.3 different funds on average as compared to 2.8 different funds held by non-Pro Account participants
 - 55% Pro Account participants in moderate risk tolerance; 31% in aggressive risk tolerance; and 5% in conservative risk tolerance

Ms. Vanessa Vargas noted that Segal Marco Advisors could show the Board an example of the returns for an account using the Pro Account option to determine, for example, if it was “working,” if the option in the sample account is worth the additional Pro Account fee, and what the appropriate benchmark would be for the option. It was noted that for the participants enrolled in Pro Account, the Plans did not have salary information for participants (salary range asked but not required) so it could not be determined if these were the higher paid State employees. It was noted, however, that the Plan accounts enrolled in this service tended to be those with higher balances and for newer enrollees.

III. Investment Advisors’ Reports:

A. T. Rowe Price

At the Board’s request, representatives of T. Rowe Price – Ms. Kimberly Young, Ms. Lorie Latham, and Mr. Wyatt Lee – provided to the Board an update and presentation with respect to T. Rowe Price’s implementation of changes to its target date asset class and perceived risks and outcomes in the TDFs (Exhibit G). Ms. Young introduced Ms. Latham and Mr. Lee, and Ms. Latham and Mr. Lee proceeded with the presentation, highlighting the following:

- T. Rowe Price partnered with P&I Content Solutions Group (Pensions and Investments newspaper) and performed a survey of plan sponsor views when assessing asset allocation decisions, including target date funds. The survey population included 289 corporate, non-profit, and government plan sponsors: 49% less than \$500 million, 47% between \$500 million and \$1 billion, and 4% more than \$15 billion.
- The findings suggested that we need to take an expansive view of the retirement lifecycle, to be mindful that risk comes in many forms, and to choose thoughtfully.
- 69% of plan sponsors responded that it remains or has become more of a priority to keep assets in the defined contribution plan at retirement
- Five risks by respondents identified that are not related to QDIA (qualified default investment alternative):
 - Longevity (42%)
 - Participant behavior (25%)
 - Downside risk (12%)
 - Volatility (14%)
 - Inflation (7%)

- Target Date Solutions – Goals
 - Sufficient assets at retirement to withdraw from through retirement
 - Ability to withdraw the money they need to support their living expenses over their lifetime
 - Having a buffer to cover unexpected expenses (e.g., health care costs)
- Portfolios have evolved: Industry – 45% equity at retirement; T. Rowe Price – 55% equity at retirement
- Headwinds in retirement savings space
 - Savings rates may be too low
 - Retirement liabilities are growing faster than inflation
 - Life expectancy is rising
 - Spending needs in retirement are uncertain
- T. Rowe Price Glide Path – built to consider spectrum of risks
 - More exposure to growth assets
 - 55% equity allocation at retirement and early on allows for compounding
 - Recognizes changing risk portfolio
- Benchmarking
 - Difficult to compare T. Rowe Price with peers because of different equity exposures (e.g., 55% for T. Rowe Price vs. 8% for one peer)
 - Multifaceted approach consisting of looking at a wide range of different benchmarks and determining how the portfolio is positioned, with the following results:
 - Top quartile vs. peers
 - Outperformance over combined passive benchmark
 - Outperformance over S&P Target Date Index
 - Risk adjusted outperformance over peers

In closing, it was noted that the appropriate questions to ask in examining the TDFs' performance would be (a) is T. Rowe Price performing relative to its benchmark as we would expect them to, and (b) is there something in the strategic design of the TDFs that needs to change?

B. Segal Marco Advisors (“Segal”)

Ms. Vanessa Vargas presented a summary of the 2nd quarter performance report (Exhibit C), noting that a detailed report was provided during the Investment Committee meeting immediately preceding the Board meeting. She noted in summary that the Plans had attained \$4 billion in assets during the 2nd quarter; six of the eleven active managers outperformed their respective benchmarks and five active managers underperformed during the 2nd quarter; the TDFs underperformed their benchmarks for the quarter; for the YTD period, the active managers all outperformed their respective benchmarks, and the TDFs showed mixed results; all of the active managers were above median for the quarter, and for the YTD period, TCW Core Fixed Income, Parnassas Core Equity Institutional, and Delaware Value Institutional were below median. She also noted that all three of these managers remained on the Watch List. Ms. Vargas next distributed the performance report for the month ended July 31, 2018, noting that all but three managers (Parnassas Core Equity Institutional, Janus Henderson Enterprise, and

T. Rowe Price Institutional Small Cap Stock) and that for the YTD period, all eleven managers, including the Vanguard Federal Money Market in the 403(b) Plan, outperformed their respective benchmarks. She reported that the TDFs had mixed results in July, with the 2005 and 2010 Funds outperforming their respective benchmarks, but that for the YTD period all of the TDFs underperformed but were in the top quartile as compared to peers.

In closing, Ms. Vargas noted that there would be a change in portfolio manager for the TDFs, effective October 1, 2018, with Roman Lee retiring and Daniel Kelly assuming responsibilities.

C. Galliard Capital Management (“Galliard”)

Ms. Taylor Benson presented the 2nd quarter performance report (Exhibit D), highlighting the following:

- Assets under management (AUM) were \$755 million, with positive cash inflows and investment earnings for the investment contract pool (“ICP”).
- No. of contract issuers: 5, with allocation of 20% to each manager
- Portfolio performance for the quarter and 1-year ended June 30, 2018 was +0.56% and 1.95% (net of fees), respectively.
- Duration was 2.98 years.
- Market-to-book ratio was 98.00%, a slight decrease as compared to the previous quarter, reflecting increased rates in the market. It was noted that Galliard had performed an extensive shock analysis and that based on this analysis, the anticipated bottom to market-to-book was estimated at 96%.
- Quality was AA- (Book Value) and AA (Market Value), consistent with previous quarters
- The monthly declared rate (net of fees) was 2.05% (August 2.17%, an increase of 12 basis points (bps))
- Effective November 1, Galliard will be transitioning the MassMutual contract from an insurance account to a synthetic account, meaning that MSRP will own the underlying assets directly, resulting in seamless custody and lower fees to the ICP.

Mr. Peter Schmit then reviewed the underlying manager performance in the ICP for the quarter, noting that four of the five managers outperformed their respective benchmarks. He provided the following detail for the quarter ended June 30, 2018:

- Galliard – +0.38% (as compared to benchmark of +0.21%)
- JP Morgan – +0.35% (as compared to benchmark of +0.28%)
- Barings – +0.06 (as compared to benchmark of +0.09%)
- Earnest Partners – + 0.04% (as compared to benchmark of +0.01%)
- TCW – + 0.06% (as compared to benchmark of +0.01%)

Mr. Schmit also presented the following portfolio updates to the Board:

- Dodge & Cox will replace Barings before year end (anticipated November 1); Galliard views Dodge & Cox as a higher conviction manager; information on Dodge & Cox is included for the Committee's review in Exhibit D.
- JP Morgan experience a couple of compliance violations, which, in Galliard's opinion results in headline risk; Galliard has reevaluated its external managers and the Committee may expect to see some changes put forth in the future as a result of this review.

IV. Staff Reports

A. Finance

Ms. Debra Roberts presented the agency budget and expenditure report (Exhibit E) as of June 30, 2018. She reported revenues of \$1,325,416, with expenditures \$2,016,004 resulting a deficit of (\$690,588). She explained that the planned deficit successfully decreased the reserve balance to \$275,187. Ms. Roberts noted that the budget amendment of \$207,000 resolved the remaining bookkeeping deficiency and resulted in a remaining unexpended balance of \$546 at December 21, 2017. Ms. Roberts then discussed the Board Fee and Reserve Estimates memo (Exhibit E-1). She stated that due to current projections for FY19, a permanent board asset fee reduction of ½ basis point was not recommended at this time.

B. Field Services

Mr. Holcomb presented the field staff report (Exhibit F), which included a field activity recap from January 1- June 30, 2018. He provided flyers on the "*First Steps to Retirement Planning*" and "*Building Wealth 101*" beginning in September. Mr. Holcomb also provided a list of State Pre-Retirement Seminars for the fall.

V. Committee Reports

Mr. Thomas Brandt, Chair of the Audit Committee, and Mr. John Lewis, Chair of the Investment Committee, each stated that they had nothing additional to report to the Board.

VI. Board Secretary's Report

Mr. Michael Halpin presented the Board Secretary's Report (Exhibit H). He noted that following:

- Stable Value Manager Contract with Galliard Capital Management. Mr. Halpin noted that the contract with Galliard expires on January 31, 2019. He observed that based on Galliard's satisfactory performance since inception, he was recommending that the Board exercise its option to renew the contract for an additional two years. It was noted that Board Counsel would provide legal advice to the Board with respect to this item during Executive Session.

- Request from Maryland Small Business Retirement Savings Program in State Health and Supplemental Pension Plans, dated June 26, 2018 (copy provided to Board). It was noted that Board Counsel would provide legal advice to the Board with respect to this request during Executive Session.
- Open Enrollment/MetLife. Mr. Halpin noted that MetLife had been selected to offer term life insurance to State employees. He explained that the selection was made by the State in July and that the presentation provided to benefit coordinators included a flyer of additional services, including financial education and retirement planning. He noted that according to DBM there had been no discussions as to how any such educational offerings would work but that he hoped DBM would decide that these needs were already being met by MSRP. Following a general Board discussion of this matter, Mr. West undertook to raise the issue with Ms. Anne Timmons at DBM.
- Asset-Backed Securities. Mr. Halpin noted that this item would be on the agenda for Galliard to discuss at the November Investment Committee meeting.
- Financial Education and Capability Commission. Mr. Halpin noted that Ms. Lynn Durbin had been appointed by the Governor as the MSRP Board representative to this Commission.

VII. Board Counsel's Report

Ms. Lara Hjortsberg noted that she would provide a report on several legal matters during the closed session noted as the next agenda item.

VIII. 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), and (b) 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 June 4, 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) 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)(7) to (a) obtain the advice of counsel with respect to a legal matter; and (b) 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 June 4, 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 12:40 p.m. At the Chairperson's request, Ms. Hjortsberg announced the following actions by the Board during the Executive Session:

- *Approval of Minutes* – The Board approved the draft minutes of the closed session of the Board meeting held on June 4, 2018.
- *Maryland Small Business Retirement Savings Board Request for Participation in State of Maryland Deferred Compensation Plan* – Upon the advice of counsel, the Board determined to deny participation in the Deferred Compensation Plan (subject to the ability of this Board to reconsider such determination upon receipt of additional information from the Savings Board as to the legal status of the Savings Board as a governmental entity or instrumentality) and for MSRP to notify the Savings Board of such decision in a joint letter with the Secretary of Department of Budget and Management to the Savings Board to this effect, in form and substance acceptable to Board Counsel.
- *Contract for Stable Value Fund Services with Galliard Capital Management* – The Board approved the exercise of its unilateral option to renew this contract for an additional two years, such that the contract will now terminate on January 31, 2021, subject to the approval of the Board of Public Works.
- *Administrator's Agreement with Nationwide Retirement Solutions, Inc.* – The Board approved a 12-month extension of the Administrator's Agreement, such that the contract will now terminate on December 31, 2019, subject to the approval of the Board of Public Works.

IX. Adjournment

A motion to adjourn was entered at 12:50 p.m., seconded, and carried unanimously.