



**BOARD OF TRUSTEES FOR THE  
MARYLAND TEACHERS & STATE EMPLOYEES  
SUPPLEMENTAL RETIREMENT PLANS  
MINUTES OF THE May 19, 2014 MEETING**

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*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 May 19, 2014 in Baltimore. A quorum was present.

**BOARD OF TRUSTEES**

T. Eloise Foster  
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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  
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*Call About the Plans  
or to Enroll  
1-800-545-4730  
or Enroll on-line at  
[www.MarylandDC.com](http://www.MarylandDC.com)*

Members Present

Ms. T. Eloise Foster  
Ms. Sabrina Bass  
Ms. Margaret Bury  
Mr. Thomas Hickey  
Ms. Marcia Zercoe

Representatives and Guests

Mr. Michael Halpin, Staff  
Ms. Lara L. Hjortsberg, Board Counsel  
Ms. Debra Roberts, Staff (*by phone*)  
Mr. Richard Arthur, Staff  
Mr. Louis Holcomb, Staff  
Ms. Anna Marie Smith, Staff  
Ms. Bernadette Benik (*representing Treasurer Kopp – by phone*)  
Mr. David Belnick, Nationwide Retirement Solutions  
Mr. John DeMairo, Segal Rogerscasey  
Ms. Emily Boccuzzi, Segal Rogerscasey  
Ms. Carrie Callahan, Galliard Capital Management  
Ms. Taylor Benson, Galliard Capital Management  
Ms. Sisilia Mo, SB & Company  
Mr. Uzma Malik-Dorman, SB & Company, LLC  
Mr. William Seymour, SB & Company, LLC (*by phone*)  
Mr. Chris Lehman, SB & Company, LLC (*by phone*)  
Mrs. Paola Beltran, FIRM (*guest*)

I. Chairperson's Remarks

Upon motion duly made and seconded, the minutes of the regular meeting of the Board of Trustees held on March 24, 2014 were unanimously approved. (The minutes are attached hereto as Exhibit A.)

II. Comprehensive Annual Financial Report

Mr. William Seymour of SB & Company presented the audit results included as part of the *2013 Comprehensive Annual Financial Report (CAFR)* (Exhibit G) and distributed *Communications of Audit Results and Report to Those Charged with Governance* (Exhibit G-1). He described the scope of services for SB & Company: audits of the December 31, 2013 financial statements for each of the Plans; review of the CAFR; and certain agreed upon procedures that test the accuracy of individual participant account records. He noted that the auditors intended to issue an unqualified opinion with respect to the financial statements. He explained that the auditors did not discover any material weaknesses or instances of fraud, and he confirmed that his firm had received the full cooperation of management and Nationwide Retirement Solutions (NRS) during the audit. He noted no significant findings with respect to the agreed upon procedures. He reviewed the audit plan with the Board and areas of audit emphasis. He stated that the auditors did not note any significant issues.

After discussion and upon motion duly made and seconded, the CAFR as presented at the meeting was unanimously approved.

III. Administrator's Report & Marketing Plan Update

Mr. David Belnick delivered the Administrator's Report for the first quarter of 2014 (Exhibit B). He began the report by reviewing the *Financial Readiness Step-by-Step* presentation that Team MSRP had been using for the 2014 Benefit Coordinators Academy, a specially-designed training to which over 300 benefit coordinators in the State had been invited to attend at seven regional locations, with about half of such benefit coordinators attending. Mr. Belnick noted that those benefit coordinators who were unable to attend would be contacted separately and receive *Step-by-Step* packages.

Mr. Belnick then proceeded to the administrative portion of the report, noting that total assets as of March 31, 2014 were \$3.2 billion, representing an increase of \$32.5 million since January 1, 2014. As compared to the first quarter of 2013, contributions were down by approximately \$1 million. He reviewed the allocation of assets and contributions in the Plans, noting one-year increases of 1.8% and 1.5% in asset allocations to large cap investment options and target date funds (TDFs), respectively, and one-year decreases of 3.5% and 1.8% in fixed income and cash and bonds, respectively. Mr. Belnick noted increases over twelve months of 1.5% and 1.3% in contributions directed to large cap investment options and TDFs, respectively, and twelve month decreases of 3.9% and 1.5% for fixed income and cash and bonds, respectively. He stated that the TDFs continue to be a strong investment, representing approximately \$427 million of the assets in the Plans and \$10.6 million in contributions for the first quarter of 2014. Over the past year, he noted a large reduction in the PIMCO Total Return Fund (decrease of \$37.6 million in allocation of assets and \$698,000 in contributions) and a slight reduction in the

investment contract pool (ICP). Mr. Belnick then reviewed the mutual fund reimbursements for the first quarter and year-to-date, noting that \$480,000 had been returned to participants, representing an increase of \$260,000 from the first quarter of 2013. He cautioned that this increase could be attributable to the timing of deposits, as there was no fixed schedule for these reimbursements to be made by the funds.

Mr. Belnick then provided the marketing updates, stating that the overall plan participation rate was 73.79% of eligible employees, with 43.54% participants actively deferring. He continued to the NRS RS/Customer Service Production Summary, noting that there were 739 new enrollments in the first quarter of 2014, the largest number of new enrollments experienced by the Plans since the fourth quarter of 2008 and representing an 18% increase over the first quarter of 2013. He also noted that there were 2,139 increases during the first quarter, which represented an increase of 43% as compared to the first quarter of 2013. He attributed these significant increases to State employee raises and step increases that were effective in the first quarter of 2014. Mr. Belnick noted in the service summary that decrease activity had reduced significantly since the fourth quarter of 2013 but that suspension activity had increased by approximately 40 participants. Mr. Belnick then presented the loan and hardship analysis, noting that the pace for both loans and hardships in the first quarter of 2014 was significantly less as compared to the first quarter of 2013.

Mr. Belnick provided the field update and rollover report for the quarter. He stated that rollovers out of the Plans had decreased in both number (405 rollovers out during the first quarter of 2014 as compared to 436 during the first quarter of 2013) and dollar amounts (\$20.3 million in the first quarter of 2014 as compared to \$20.4 in the first quarter of 2013) but that rollovers into the Plans were 18 fewer in number and approximately \$900,000 less than the first quarter of 2013. He closed his report by noting an MBE participation rate of 12% for the year to date, which would increase to 15% with the receipt of a late invoice.

#### IV. Investment Advisors' Reports:

##### A. Segal Rogerscasey

Ms. Emily Boccuzzi presented the first quarter performance report (Exhibit C) and provided the following highlights of that report:

- The 401(k) Plan accounted for 46.8% of total Plan assets; the 457 Plan accounted for 45.2%; and the 403(b) Plan accounted for 2.6%.
- The 457 Plan included the lowest allocation to domestic equity at 37%; the 401(k) Plan was allocated 44.9% to domestic equity; and 403(b) Plan represented the highest allocation to domestic equity at 55.7%.
- Stable value accounted for 27% of the market value of the Plans; active options accounted for 37%; passive options accounted for 22%; and the TDFs accounted for 13%.
- The split between active and passive options remained close to two-thirds/one-third, at 63% and 37%, respectively.
- There were no significant changes in asset allocation from the fourth quarter of 2013.
- The TDFs decreased by 1.2% as a percentage of contributions from the fourth quarter of 2013, accounting for 24.7% of contributions during the quarter;

stable value accounted for 25.7%; equities accounted for 39.2%; and fixed income accounted for 4.7%.

- The top five holdings in the Plans had changed since the fourth quarter of 2013, with the Vanguard MidCap Index Fund moving into the fourth largest holding at 5%; together with the TDFs, the top six Plan holdings represented 68% of total Plan assets.
- For performance vs. market index, the PIMCO Total Return Fund, the T. Rowe Price (TRP) MidCap Fund, the Parnassus Equity Income Fund and the American Funds Growth Fund underperformed during the quarter and year-to-date; the TRP MidCap Fund also exhibited underperformance for the 1-, 3- and 5- year periods.
- On a peer-to-peer basis, the Parnassus Equity Income Fund was in the bottom quartile for the quarter and the year-to-date; the American Funds Growth Fund was in the top quartile for the quarter and the year-to-date; and the TRP MidCap Fund was in the second quartile for both of these periods.
- Goldman Sachs Large Cap Value and American Funds Growth Fund both underperformed for risk and return on the Risk Return Summary (5 year period ended March 31, 2014); however, Segal had not determined to make a recommendation for these funds at this time because both funds were doing well over other time frames presented in the report.
- For the TDFs, the Retirement Income and 2055 Fund exhibited similar returns for the quarter; the 2005 Fund was the best performing for the quarter, at 1.7%; the other TDFs ranged from 1.4% to 1.6% for the quarter and 7.13% (Retirement Income) to 19.24% (2055) for the 1-year period; and TDFs 2010 to 2055 were the top decile relative to peer groups over the 1, 3 and 5 year periods.

#### B. Galliard Capital Management Update

Ms. Taylor Benson provided an update of the report regarding the transition of management for the ICP to Galliard Capital Management (Exhibit D). She noted the following with respect to the ICP portfolio characteristics:

- Total assets under management were \$786 million at March 31, 2014.
- The average holdings quality was Aa3/AA.
- The monthly declared rate was 1.57%, which had improved to 1.6% on May 1, 2014.
- Portfolio duration was 3.14, with Galliard working to reduce duration by half a year so that the ICP is positioned more defensively for a rising rate environment.
- The market-to-book ratio was 101.23%.

Ms. Benson next reviewed the portfolio distribution (page 12). Returning to the discussion of duration, she noted that Galliard would be reducing duration by reallocating from the intermediate portfolio to the short portfolio. She explained that the allocation to PIMCO and Babson would be reduced slightly, with the difference being allocated to Galliard's short-term sleeve, which would be wrapped by Reinsurance Group of America. She directed the Board to the portfolio structure

slide (page 7) and explained that the proposed portfolio structure was expected to enhance diversification at the wrapper and manager levels and reduce duration. Ms. Benson next reviewed the relationship goals (page 6), noting that Galliard had reviewed the Investment Policy & Guidelines and that this review would be the subject of a separate call once these changes had been distributed to and discussed with MSRP, Board counsel and NRS. Ms. Benson also noted that Galliard had examined the fees, particularly for Earnest Partners and Babson, and Galliard was working with both managers to see if these fees could be reduced.

V. Staff Reports

A. Finance

Mr. Halpin delivered the agency budget and expenditure report (Exhibit E) as of March 31, 2014. He noted that year to date revenues were \$651,966, which was \$392,582, or 37.58%, less than budget. He explained that this represented a variance as expected due to the end of the Board fee holiday at the beginning of 2014 following the eight-month Board fee holiday. Mr. Halpin noted expenditures of \$1,133,465, which was \$25,546, or 2.2%, less than budget. He explained each of the favorable and unfavorable variances for the expenditure line. He stated that the reserve balance as of March 31, 2014 was approximately \$427,261, as compared to a reserve balance of \$264,642 at December 31, 2013. Mr. Halpin reviewed the bar chart entitled *Monthly Actual Versus Target Reserve FY 2014* that was included with Exhibit E with the Board and noted that the March 31, 2014 reserve balance was closer to target and that if the market holds, he would make an estimate of the possibility of a future Board fee holiday.

B. Field Services

Mr. Holcomb presented the field staff report (Exhibit F), including a review of the Team MSRP Benefit Coordinator Academy previously mentioned by Mr. Belnick during his Administrator's Report. Mr. Holcomb also provided the Board with a copy of the 2014 MSRP Regional Saving\$ EXPO flyer scheduled for June 3, 4 and 5, noting that the events would be held in Cambridge, Frederick and White Plains, respectively.

VI. 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.

VII. Board Secretary's Report

Mr. Halpin gave a report on recent activity. He noted a positive response to the *Step-by-Step* form, adding that in the first 100 days of its introduction, MSRP had received approximately 100 completed forms, with approximately 2/3 of respondents enrolling in the Plans. He explained that for participants who have enrolled, MSRP planned to follow up with those employees within a year and encourage them to increase their contributions to the Plans. Mr. Halpin notified the Board that he had received call from a participant who had discovered that fees on his MSRP account had exceeded the fee cap. He explained that he had worked with NRS to address the participant's issue and identified the cause of the over-charge as a programming error in the implementation of the Board fee holiday. Mr. Halpin also noted that NRS had discovered over-charges in 2008 for this participant as well as twelve other participants during 2008, which were apparently attributable to a programming error experienced when MSRP switched to the DCdirect system. All such overcharges were reversed and the corrections reviewed with the affected participants.

VIII. Board Counsel's Report

No report at this time.

IX. Employee Service Awards

Chairperson Foster closed the meeting by noting that the Governor had designated May 7, 2014 as recognition and appreciation month for State employees. Ms. Foster gave recognition to the following employees:

Angela Anderson – 5 years with MSRP  
Anne O'Neill – 5 years with MSRP  
Julia Graham – 15 years with MSRP  
Mirza Tumanon – 20 years with MSRP  
Louis Holcomb – 20 years with MSRP  
Anna Marie Smith – 30 years of State Service  
Dianne Raitzyk – 40 years of State Service and 25 years with MSRP

Board members joined Ms. Foster in expressing thanks and appreciation for their dedicated service.

X. Executive Session

None.

XI. New Business

No new business was presented for discussion.

XII. Adjournment

A motion to adjourn was entered at 11:05 a.m., seconded, and carried unanimously.