Exhibit A

BOARD OF TRUSTEES FOR THE MARYLAND TEACHERS & STATE EMPLOYEES SUPPLEMENTAL RETIREMENT PLANS MINUTES OF THE November 17, 2014 MEETING

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The Board of Trustees of the Maryland Teachers & State Employees Supplemental Retirement Plans convened at 9:35 a.m. on November 17, 2014 in Baltimore. A quorum was present.

<u>Members Present</u>
Ms. T. Eloise Foster
Ms. Sabrina Bass
Ms. Margaret Bury
Mr. Thomas Hickey
Mr. Wilson Parran
Ms. Marcia Zercoe

<u>Representatives and Guests</u>
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
Ms. Bernadette Benik (*representing Treasurer Kopp*)
Mr. David Belnick, Nationwide
Ms. Stephanie Lewis, Nationwide
Ms. Brenda Anderson, Nationwide
Mr. John DeMairo, Segal Rogerscasey
Ms. Rebecca King, Segal Rogerscasey
Ms. Carrie Callahan, Galliard Capital Management
Mr. Philip Harris, Financial Integrity Resources Management, LLC (Guest)
Ms. Paola Beltran, Financial Integrity Resources Management, LLC (Guest)

I. Chairperson's Remarks

Upon motion duly made and seconded, the minutes of the regular meeting of the Board of Trustees held on September 8, 2014 (Exhibit A) were unanimously approved.

II. Administrator's Report & Marketing Plan Update

Ms. Stephanie Lewis distributed copies of Paperless Delivery and Interactive Retirement Planner (Exhibit B-1). She noted the following:

- The proposed system for paperless delivery would allow participants to opt in to receiving statements, confirmations, tax forms and other correspondence electronically through receipt of an email notification that the information was available online.
- Participants would be required to login to their accounts to obtain the information, and the actual correspondence would not be included in the email notification.
- Opt in can occur
  - On paper – at the time of enrollment on the participation agreement;
  - On the phone – through a customer service representative; or
  - Online – after logging in on MarylandDC.com
- Participants would be able to re-enroll for paper delivery at any time either by phone or online.

Upon motion duly made and seconded, the Board approved adoption of the paper delivery system as presented in Exhibit B-1.

Ms. Lewis then walked the Board through the online tool, My Interactive Retirement Planner.

At Ms. Zercoe's request, Ms. Rebecca King and Mr. John DeMairo were asked to present Segal Rogercasey's report prior to the administrative report.

III. Investment Advisors' Reports:

A. Segal Rogerscasey ("Segal")

Ms. Rebecca King first provided the Board with an update regarding developments at PIMCO (Exhibits C-2 and C-3). She noted that following Bill Gross' departure PIMCO had rehired several former employees, including Mark Seidner, who had returned to the investment committee, and that Segal viewed these as positive changes. She noted, however, that Segal remained concerned about headline risk surrounding Mr. Gross' departure. She further noted that Segal continued to monitor the PIMCO situation and had several follow-up calls with PICMO senior management, as well as contacts in the industry. Mr. DeMairo noted that Segal had changed the rating from "Recommended" to "Not Recommended" for all PIMCO strategies other than All Asset and All Asset All Authority global tactical asset allocation (which are sub-managed externally), which meant that Segal would not include PIMCO in future manager searches and would be discussing with clients the replacement of PIMCO with a higher conviction manager. He noted that Segal remained concerned from a business risk standpoint because Bill Gross was the face of the organization for a long time.

The distinction between Segal's approach and Galliard's approach to PIMCO was discussed. It was noted that Galliard's role was to advise on the investment contract pool ("ICP"), which is managed as a separate account, allowing Galliard greater access to the stable value portfolio team, which, the Board was reminded, remained intact following Bill Gross' departure, and that the ICP Investment Policy & Guidelines allowed Galliard to exert greater control over PIMCO as a manager of the ICP than is possible with a mutual fund product such as the PIMCO Total Return Fund.

It was noted that the Segal recommendation was to replace PIMCO but that the Plans were in a position such that the change did not need to be accomplished immediately. It was also noted that because the Plans offered a second fixed income option with Vanguard, the Board could decide to move more quickly if it was ultimately deemed necessary. Ms. King then presented the Core Fixed Income Search (Exhibit C-4), highlighting the following:

- Candidates:
  - Dodge & Cox Income Fund ("Dodge & Cox") – $30 billion assets under management ("AUM") in the fund
  - TCW Core Fixed Income Fund ("TCW") – $ 1.2 billion AUM
  - Western Asset Core Bond Fund ("Western") – $ 2.8 billion AUM
- Other comments:
  - Dodge & Cox
    - Invest in investment grade securities, with up to 20% of net assets permitted in below investment grade and up to 25% net assets permitted in U.S. dollar denominated securities of non-U.S. issuers
    - Strong performance muted on the upside because of long-term buy and hold strategy
    - Protection in down markets
    - Managed by committee
    - Low personnel turnover
    - 27 member research manager team
  - TCW
    - Strong long-term performance
    - Greater downside protection
    - High information score
    - Management team led by Chief Investment Officer
    - 30 analysts and traders dedicated to fixed income
    - Up to 5% of net assets in high yield or below investment grade securities
  - Western
    - Controlled exposure to non-agency asset backed securities
    - Most aggressive of the three candidates
    - Well thought out transition plan in connection with CIO change

- SEC and DOL violations related to risk controls and systems in 2008—since corrected—and Segal comfortable with corrections

After discussion, the consensus of the members of the Investment Committee and the Board was not to make an investment option change at this time but to keep PIMCO on watch as Segal continued to monitor the situation.

Mr. DeMairo then presented the third quarter performance report (Exhibit C). After providing an overview of the market performance for the second quarter, Mr. DeMairo highlighted the following points:

- Asset allocation or contribution allocations remained consistent with the first and second quarters of 2014.
- Stable value in the 457 Plan represented a 33% allocation of assets, the largest exposure in the three Plans, with the allocation in the 401(k) and 401(a) Plans at 21.3% and 18.8%, respectively.
- 92% of Plan assets are in the 457 Plan and the 401(k) Plan combined, with approximately $1.5 billion in each of those Plans.
- The split between active and passive options remained close to two-thirds/one-third, at 63% and 37%, respectively.
- Stable value represented 26% of the Plans, active core options represented 37%, passive options represented 22%, and the target date funds ("TDFs") represented 14%.
- The top five holdings in the Plans remained the same as the second quarter of 2014: ICP (24%), Vanguard Institutional Index (13%), Fidelity Puritan (8%), Vanguard MidCap Index (5%) and Goldman Sachs Large Cap Value (5%), collectively representing 55% of total Plan assets.
- Stable value and large cap represented 50% of the third quarter 2014 contributions, with stable value down 4% from the previous quarter and large cap up 4% from the previous quarter; domestic equities represented 34% of contributions for the third quarter.

Ms. King reviewed the red light/green light analysis and individual fund performance for the investment options. During the presentation, Ms. King noted that most of the active core options were "green" and above median. With respect to PIMCO, she noted that the Total Return Fund had underperformed for the short term (quarter, year to date, and 1-year) as compared to its peer universe and that it was in the bottom quartile of its peer group for those periods. She reviewed the performance of each of the passive options, core options and TDFs for the quarter, year to date, 1-, 3- and 5-year periods. In closing, Ms. King noted that Segal had no recommendations for the Board or the Investment Committee other than for the PIMCO Total Return Fund to be kept on watch.

B. Galliard Capital Management ("Galliard") Update

Ms. Carrie Callahan presented the third quarter report (Exhibit D). She highlighted the following performance metrics:

- Assets under management were $777 million.
- The monthly declared rate was 1.68% for September.
- Market-to-book ratio was 101.33%.
- The portfolio duration is 2.9 years.

Ms. Callahan noted that you do not want to see a lot of volatility in the crediting rate or the market-to-book ratio. Ms. Callahan then reviewed with the Board the proposed portfolio structure, noting the following changes scheduled to occur on December 1:

- Reduce the liquidity buffer from 4.1% to 3.0%;
- Short duration – add 20% Galliard-managed sleeve, wrapped by RGA; and
- Intermediate duration – reduce each of Babson and PIMCO to 20% (currently 28% and 27.8%, respectively).

Ms. Callahan noted that the proposed portfolio structure would reduce portfolio duration from 2.9 years to 2.6 years, which allows the assets to be reinvested more quickly and take advantage of rising interest rates. She also noted that the change reduced investment management fees by almost 4 bps.

Ms. Callahan explained that across Galliard's book of business, Galliard was seeing flat to reduced flows to stable value, with investors re-entering the equity markets. She noted that public funds were the last to respond, but that the outflows from the product were consistent with Galliard's other clients. She next updated the Board with respect to the Earnest Partners/MetLife wrapper. She noted that MetLife's wrap contract includes certain terms viewed as unfavorable by Galliard (e.g., restrictions on book value coverage, manner of calculation of valuation calculation and indemnification coverage in the event of a dispute) that MetLife was unwilling to negotiate. She explained that Galliard wanted to replace the MetLife wrapper but that the existing AA- credit quality restriction restricted the universe of available wrap providers. She noted that if the Investment Committee and the Board were to approve changes to the ICP Investment Policy and Guidelines, Galliard would be able to find another wrap provider for the Earnest Partners assets.

IV. Administrator's Report and Marketing Update (*Continued*)

The Board then returned to the Administrator's Report, and Mr. David Belnick delivered the Administrator's Report for the third quarter of 2014 (Exhibit B). He began, noting that total assets of $3.3 billion as of September 30, 2014 decreased slightly from the second quarter of 2014 by $27.6 million. As compared to the third quarter of 2013, deferrals increased by approximately $1 million; rollovers out decreased by approximately $4 million; and transfers and rollovers in increased by $1.3 million. He noted that assets increase by $250 million as compared to the third quarter of 2013 and that contributions increased by $2.6 million over the same time period.

Mr. Belnick then reviewed the allocation of assets and contributions in the Plans, noting the largest movement in asset allocations in the large cap options (1.8% increase), the TDFs (1.4% increase) and fixed income/case (3.1% decrease). In reviewing the allocation of contributions, he noted the largest shifts in the TDFs (5.5% increase) and fixed income/cash (5.1% decrease). He also noted a $13 million (0.7%) decrease in assets allocated to the PIMCO Total Return Fund and a 0.8% decrease in contributions allocated to the PIMCO Total Return Fund. Mr. Belnick then reviewed the mutual fund reimbursements for the third quarter and year-to-date, noting that $518,548 had been returned to participants, as compared to $721,133 through the third quarter of 2013. He attributed the difference to timing of the payments from the mutual fund companies.

Mr. Belnick continued to participant account activity, noting that the total number of accounts was 64,622 at September 30, 2013. He noted new enrollments of 896 in the third quarter of 2014, representing an increase of 237 as compared to the third quarter of 2013. In reviewing the participant breakdown, Mr. Belnick noted significant activity in payouts, which he stated that the Plans would continue to see as the Plans mature.

Mr. Belnick continued with the marketing review for the Plans, stating that the overall plan participation rate was 74.12% of eligible employees, with 43.57% participants actively deferring. He noted that new enrollments had increased 25% for the year and increases had increased by 35% year over year. He attributed these increases to Team MSRP's Step-by-Step initiative, greater involvement of benefit coordinators, the restart mailers and the synergy of the SAVING$ Expos. Mr. Belnick then noted a rise in decrease activity (455 compared to 327 in the second quarter) and a slight decrease in suspension activity (239 compared to 269 in the second quarter). Mr. Belnick then presented the loan and hardship analysis, noting 945 new loans totaling $9 million. He stated that there were 5,053 active loans which totaled $36 million. For hardship withdrawals, he noted 591 hardships approved for the quarter.

Mr. Belnick then provided the field update and rollover report for the quarter. He stated that the third quarter of 2014 was one of the largest quarters for roll ins, with $6.8 million coming into the Plans. He noted that for the year 2013, 1,915 participants had rolled out $89.9 million from the Plans. For 2014, he noted that the Plans are on pace for a 300 reduction in the number of participants rolling money out and a total of $82.5 million rolled out. He closed his report by noting an MBE participation rate of 17% for the year to date.

IV. Staff Reports

A. Finance

Ms. Debra Roberts presented the agency budget and expenditure report (Exhibit E) as of September 30, 2014. She noted that year to date revenues were $501,511, which was $14,729, or 3.03%, more than budget. Ms. Roberts noted expenditures of $368,615, which were $38,080, or 9.36%, less than budget. She explained each of the favorable and unfavorable variances for the expenditure line. Ms. Roberts stated that the reserve balance as of September 30, 2014 was approximately $572,024, as compared to a reserve balance of approximately $609,723 at September 30, 2014.

B. Field Services

Mr. Holcomb presented the field staff report (Exhibit F), including a summary of the 2014 Fall SAVING$ EXPOs (including the flyer).

V. Committee Reports

A. Audit Committee

Mr. Halpin noted that he was scheduled to meet with the legislative auditors the following Monday to discuss the audit report.

B. Investment Committee

Report provided during Segal's report at the beginning of the meeting.

C. Executive Committee

No report at this time.

VI. Board Secretary's Report

Mr. Halpin highlighted the following points during his report to the Board:

- MSRP had again received the GFOA Certificate of Excellence for its financial reporting.
- MSRP had received the NAGDCA Leadership Recognition Award in recognition of its communication efforts with the Benefit Coordinator Academies.

Mr. Halpin then presented the staff's recommendation with respect to a Board fee holiday. He explained that with the reserve balance currently at $572,000, it was anticipated that by January 2015, the reserve balance would be approximately $728,000, which was higher than the target of ¼ of the annual budget, or $406,695. He also noted that two smaller settlement checks had been received by the agency. He explained that the proposed Board fee holiday would last at least 3 months. After discussion and upon motion duly made and seconded, the Board approved the addition of the settlement money to the reserve account, and a Board fee holiday to last at least three months.

VII. Board Counsel's Report

No report at this time.

VIII. Executive Session

None.

IX. New Business

No new business was presented for discussion.

X. Adjournment

A motion to adjourn was entered at 11:45 a.m., seconded, and carried unanimously.