



**BOARD OF TRUSTEES FOR THE
MARYLAND TEACHERS & STATE EMPLOYEES
SUPPLEMENTAL RETIREMENT PLANS
MINUTES OF THE November 25, 2019 MEETING**

*Maryland
Teachers & State Employees
Supplemental Retirement Plans*

The Board of Trustees of the Maryland Teachers & State Employees Supplemental Retirement Plans convened at 9:43 a.m. on November 25, 2019, in Baltimore. A quorum was present.

BOARD OF TRUSTEES

T. Eloise Foster
Chairperson

Thomas M. Brandt, Jr.
Lynne M. Durbin, Esq.
Thomas P. Hickey
Nancy K. Kopp
John D. Lewis
Johnathan R. West

Members Present

Ms. T. Eloise Foster
Mr. Thomas Brandt, Jr.
Ms. Lynne Durbin (*by phone*)
Mr. Thomas Hickey
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

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*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
Ms. Debra Roberts, Staff
Mr. Richard Arthur, Staff
Mr. Louis Holcomb, Staff
Ms. Anna Marie Smith, Staff
Mr. Daniel Wrzesien, Nationwide
Mr. Emmanuel Henson, Nationwide
Mr. Michael Norman, Galliard Capital Management
Ms. Vanessa Vargas, Segal Marco Advisors
Mr. John DeMairo, Segal Marco Advisors (*by phone*)
Mr. Claude Gregory, Financial & Realty Services
Ms. Jennifer Falcone, T. Rowe Price

I. Chairperson's Remarks

Chairperson Foster first noted that Mr. Thomas Hickey, Chief Procurement Office for the University System of Maryland, who had served on the Evaluation Panel for the RFP for Plan Administrator and a former member of the Board of Trustees (the "Board"), had recently been appointed to serve as a trustee.

The Board next considered the minutes of the last meeting of the Board. Upon motion duly made and seconded, the minutes of the Regular Meeting of the held on August 26, 2019 (Exhibit A) were unanimously approved.

II. Administrator's Report

Mr. Wrzesien noted that Mr. Claude Gregory of Financial & Realty Services, one of the Nationwide MBE subcontractors, and Mr. Manny Henson, a member of the Nationwide-MSRP Team were both present at the meeting. He next distributed a handout concerning the My Interactive Retirement Planner ("IRP"), noting that he wanted to review with the Board the mechanics behind the use of social security and pension benefit estimators in the IRP in order for the Board to reconsider adding these estimators to MSRP's IRP tool in an effort to enhance participant experience and retirement readiness. He noted that the current IRP requires a participant to go to the State Retirement Agency website, input his or her information (e.g. date of birth, salary, years of service, and age to begin benefit), and transfer the results of the pension benefit calculation to the IRL, which can result in transcription errors (cut and paste being disabled for security reasons), or with participants skipping this step altogether. He noted that Nationwide contracts with StillRiver, which can estimate the pension benefit for participants using publicly available information and feeding it into the IRL. With respect to the pension estimator, he explained the following steps:

- Participant enters information into the IRL.
- Participant's date of birth, salary, years of service, and age to begin benefits, all of which are encrypted, are transferred to StillRiver.
- No participant name is attached to the data transfer.
- StillRiver uses publicly available information to calculate pension benefit estimate.
- Monthly pension benefit estimate (encrypted) is transferred back to IRL and is added to the overall retirement readiness calculation in the IRL for the participant.

The same mechanics would be used to estimate social security benefits with publicly available social security benefit calculations. Mr. Wrzesien noted that 95% of Nationwide's "mega cases" have turned on this feature and that there would not be a cost to the Plans to implement this feature. He also explained that with this feature, the Plans would not be requesting or receiving any more information from the pension system than they are receiving under the current system of self-input of the data by participants.

After discussion, and upon motion duly made and seconded, it was unanimously

RESOLVED, that Nationwide Retirement Solutions, the plan administrator and recordkeeper for the Maryland Supplemental Retirement

Plans, be, and it hereby is, authorized, directed and empowered to add the pension and social security benefit estimator to the My Interactive Retirement Planner on the www.marylanddc.com website, with the understanding that the protection of participant privacy is of paramount importance to the Board and the Plans, and that Nationwide Retirement Solutions, through its representatives at this meeting and at previous meetings with the Board and its individual members have agreed that personally identifiable information of participants will be protected to the fullest extent possible and that Nationwide will ensure that personally identifiable information will be encrypted when transmitted from www.marylanddc.com to StillRiver (or such other third party contractor as Nationwide may engage from time to time to provide similar pension and social security estimator services).

Mr Wrzesien proceeded to the Administrator's Report for the third quarter of 2019 (Exhibit B). He reviewed the Executive Summary and highlighted the following information for the Board:

- Current Assets: \$4.158 billion
- Participant Accounts: 69,022 (1.56% increase from 3rd quarter of 2018)
- Enrollments: 947
- Deferrals: \$52 million
- Mutual Fund Savings: \$643,316
- Rollovers-In: 147/\$4.2 million
- Distributions: \$44.3 million
- Rollovers-Out: 367/\$21 million
- Loans: 5,133 active/\$41.35 million
- Hardship/UE: 569

Mr. Wrzesien closed his report by noting the following with respect to Nationwide's minority business enterprise ("MBE") participation:

- Nationwide added a new vendor (MidAtlantic Photographic LLC) to use for sales, marketing materials and images.
- MBE participation rate was 14% year to date (YTD) and 16% for the quarter, noting that invoices were being received for the 4th quarter so that Nationwide anticipated that it would exceed the 15% MBE goal for the year and that with the increases to the IRS contribution limits for 2020, additional printed materials will be necessary.

III. Investment Advisors' Reports:

A. Segal Marco Advisors ("Segal")

Ms. Vargas presented the performance report for the 3rd quarter ended September 30, 2019 (Exhibit C), highlighting the following:

- AUM for the Plans at September 31, 2019 was \$4.2 billion, with negative cash flow from the prior quarter but positive investment earnings in the amount of \$24 million.

- The allocation to each of the Plans remained about the same, as follows: 457 Plan – 43.5%, 401(k) Plan – 49.3%, 403(b) Plan – 2.4%, and 401(a) Plan – 4.7%.
- Active/Passive breakdown remained at 75%/ 25%.
- Top 5 holdings – 50% with the following allocations: ICP – 19%, Fidelity 500 Index – 14%, Fidelity Puritan – 7%, American Funds Growth Fund – 5%, Vanguard MidCap Index Institutional – 5%
- Equities represented almost 50% of total Plan assets, TDFs represented 18%, and Fixed Income represented 32%.
- TDF allocation as of September 30, 2019 was as follows: Domestic Equity – 43.5%, International Equity – 22.6%, International Fixed – 10.5%, and Domestic Fixed – 20.5%.
- “Traffic Light” Analysis of investment manager performance:
 - 3rd quarter – 5 of 11 active managers underperformed their respective benchmarks; all of the TDFs underperformed their respective benchmarks
 - 3-year period – 5 of 11 active managers outperformed their respective benchmarks; all of the TDFs underperformed their respective benchmarks
 - 5-year period – 6 of 11 active managers outperformed their respective benchmarks; all of the TDFs underperformed their respective benchmarks
 - Peer Ranking Analysis:
 - 4 of the 11 active managers below median for the quarter and for the year-to-date (YTD) period
 - American Funds Growth Fund of America on Watch List
 - American Century Equity Growth (below peers and benchmark; therefore candidate for Watch List).

Ms. Vargas noted that with respect to Galliard there had been a fee reduction effective October 1 (8.7 basis points (bps) to 7.5 bps) and that there would be an additional fee reduction effective January 2, 2020 (7.5 bps to 7.0 bps). She noted that there had been no change to the “hold” status on Galliard.

Ms. Vargas next presented the performance portion of the report, noting the following:

- *TCW Core Fixed Income* – underperformed its index for the 3rd quarter (+2.27% as compared to +2.22%) and outperformed for the YTD period (+8.58% as compared to +8.52%);
- *Fidelity Puritan Fund* – underperformed its index for the 3rd quarter (+0.36% as compared to +1.96%) and the YTD period (+13.65% as compared to +15.86%);
- *Delaware Value Institutional* (Macquarie) – outperformed its index for the 3rd quarter (+2.07% as compared to +1.36%) and underperformed for the YTD period (+13.19% as compared to +17.81%);

- *American Century Equity Growth* – underperformed its index for the 3rd quarter (+1.05% as compared to +1.70%) and the YTD period (+19.60% as compared to +20.55%); fund was below benchmark in all other periods presented and below median median for the quarter, 1-, 3- and 5-year periods; Segal to provide comparison of American Century Equity Growth against other large cap core options at the next Board meeting, it being noted that this investment option has historically been on and off the Watch List;
- *Parnassus Core Equity Institutional* – outperformed its index for the 3rd quarter (+2.39% as compared to +1.70%) and the YTD period (+23.18 as compared to +20.55);
- *American Funds Growth Fund of America* – underperformed its index for the 3rd quarter (-2.06% as compared to +1.49%) and the YTD period (+15.46.% as compared to +23.30%); noted that this fund was a candidate for the Watch List and that Segal would bring candidates for large cap growth managers to the next Board meeting;
- *T. Rowe Price MidCap Value* – underperformed its index for the 3rd quarter (-1.13% as compared to +1.22%) and the YTD period (+10.90% as compared to +19.47%); noted that this fund’s contrarian approach has negatively impacted its performance; 5-year performance is ahead of peers and is, therefore, not a candidate for the Watch List for the time being;
- *Janus Henderson Enterprise* – outperformed its index for the 3rd quarter (+1.11% as compared to -0.67%) and the YTD period (+27.80% as compared to +25.23%);
- *T. Rowe Price Institutional Small Cap* – outperformed its index for the 3rd quarter (+0.16% as compared to -2.40%) and the YTD period (+24.63% as compared to +14.18);
- *American Funds EuroPacific Growth* – outperformed its index for the 3rd quarter (-1.59% as compared to -1.70%) and the YTD period (+15.72% as compared to +12.06%); noted that 25% of this fund is in emerging markets and that Segal would present its next education on this topic; also reported that one of twelve of the fund’s portfolio managers fired (as reported in *Fund Fire*) for compliance issue (not reporting an offshore account owned by portfolio manager’s son-in-law); Segal scheduled to perform full compliance review in 2020 and will see if changes to compliance system as a result of this self-reporting failure; and
- *Target Date Funds (TDFs)* – noted that although all the TDFs had positive performance, they underperformed their respective indices by 24 bps to 36 bps but that they were generally in the top quartile or above median as compared to peers.

Ms. Vargas provided an update as to the status of the transition of the T. Rowe Price Target Date funds to the collective investment trust (“CIT”) format, noting that the transaction documents had been reviewed and approved by counsel but

that MSRP and T. Rowe Price would not sign the documents until the date for the transition had been determined. She noted that it looked like that date would occur by the end of the first quarter of 2020 but that she, MSRP, and Ms. Hjortsberg were working with Nationwide to determine when the NAV tracker could be available to participants. Ms. Hjortsberg noted that it was the agency's and her strong preference that the NAV tracker would be available the same day as the CIT transition but that Nationwide was currently reporting a delay between the mapping date and the launch of the tracker.

The Board also acted upon the Watch List recommendations incorporated in the discussion above as follows: upon motion duly made and seconded, it was unanimously

RESOLVED, in accordance with the recommendations of Segal Marco Advisors, (a) American Funds Growth Fund of America and Galliard Capital Management shall remain on the Watch List; and (b) American Century Equity Growth shall be placed on the Watch List.

Ms. Vargas closed her report by noting that during the Investment Committee meeting immediately preceding the Board meeting, the Investment Committee had received a report regarding a comparison of passively-managed CITs to the passively-managed mutual funds currently included in the investment line-up. Ms. Vargas noted that the Investment Committee had determined that the 457(b) Plan, the 401(k) Plan and the 401(a) Match Plan (the 403(b) Plan not being permitted to invest in CITs) should transition from the mutual fund format in this asset class to the State Street non-securities lending collective investment trusts, subject to legal review of the necessary documents. Upon motion duly made and seconded, it was unanimously

RESOLVED, that upon the recommendation of the Investment Committee of the Board of Trustees (a) the assets of the 457 Deferred Compensation Plan, the 401(k) Savings and Investment Plan and the 401(a) Match Plan currently invested in passively-managed mutual fund vehicles be transferred to the collective investment trust vehicles managed by State Street, subject to review and negotiation of transaction documents with respect to such investment by the Plans and the drafting and distribution of necessary and appropriate participant communication with respect to the changes to the investment options in the Plans; and (b) the Executive Director is authorized, directed and empowered to execute and deliver, by and on behalf of the Board and the Plans, a trust participation agreement with State Street, a letter agreement in form and substance approved by Board Counsel, and such other documents and instruments deemed necessary and appropriate by the Executive Director, with the advice of Board Counsel, to implement such transfer of assets to the collective investment trust vehicles managed by State Street; and (c) the Executive Director and other officers of the agency are authorized,

directed and empowered to take any and all necessary and appropriate action to carry out the intent and purposes of the foregoing resolutions.

C. Galliard Capital Management (“Galliard”)

Mr. Michael Norman noted that he had no additional comments to his presentation made during the Investment Committee meeting immediately preceding the Board meeting. At the Chair’s request, he provided brief comments with respect to the 3rd quarter performance report for the period ended September 30, 2019 (Exhibit D), highlighting the following:

- Effective August 1:
 - MetLife had reduced its fee by 1 bps to 17 bps; and
 - Effective Nov. 1, RGA Reinsurance Company had been replaced with American General, a contract issuer offering the investment contract pool (“ICP”) equal credit quality and better wrap fees
- With respect to the underlying managers in the ICP, there had been no major changes to their allocations, and reviewing performance, he noted that 3 managers had outperformed their respective benchmarks (Galliard, Dodge & Cox, and TCW), and three managers had slightly underperformed their respective benchmarks (IR+M and Earnest Partners).

IV. Staff Reports

A. Finance

Ms. Debra Roberts presented the agency budget and expenditure report (Exhibit E) as of October 31, 2019. She reported revenues of \$814,678, with expenditures \$658,622, resulting in a surplus of \$156,057. She stated that the surplus increased the reserve balance to \$829,270. Ms. Roberts reported that revenues continue to exceed expenditures, increasing the reserve balance and that the fee reduction, approved in August, is not expected to significantly impact the reserve provided market conditions remain strong.

B. Field Services

Mr. Holcomb presented the field staff report (Exhibit F), which included a Team MSRP 2019 Benefit Fairs summary. He also provided a summary for the 2019 Saving\$ Expo that was held on November 5, 2019 in Baltimore at 201 W. Preston Street.

V. Board Secretary’s Report

Mr. Halpin presented the Board Secretary’s Report (Exhibit G) which contained the proposed meeting schedule for Calendar Year 2020.

VI. Board Counsel's Report

Ms. Hjortsberg reported to the Board with respect to a participant matter. She noted that she would do so on a no-name basis so that the meeting could remain in open session, which would allow Mr. Wrzesien, who was familiar with the participant and the matter, to provide input and insight into the matter. Ms. Hjortsberg provided background on the matter, noting that it arose as a result of a partial rollover out error on Nationwide's part, which Nationwide reversed with the receiving institution and in the recordkeeping system. She noted that the goal of any correction is to place the participant back to a place where he or she would have been had the error not occurred, and that she had confirmed that this is how Nationwide had proceeded with respect to this participant's account and the error. She then explained that this initial mistake was followed a few years later with another partial rollover out request, which based on operations protocol forces a participant to take her required minimum distribution ("RMD") for the tax year. She noted that the automated process overrode the participant's special tax withholding instructions for her RMD. As a result, the participant contacted the agency for assurance that her account balance was correct as to the earlier mistake and also regarding the operational errors (the failure of Nationwide to withhold in accordance with her special instructions). Unfortunately, due to a misunderstanding, the agency failed to respond to her correspondence in a timely matter. Ms. Hjortsberg noted that once she received notice of the participant's concerns at the end of August, she treated the matter as if it was a complaint that had come through the Central Office of the OAG and performed an investigation of the account issues by reviewing all correspondence between and among the participant and Nationwide and MSRP, discussed the matter with Mr. Halpin, Mr. Wrzesien and others within operations at Nationwide, provided the participant with an explanation of the corrective process, and assured the participant that her account reflected the correct balance and that Nationwide had acted appropriately in correcting her account in the manner that it did and issuing the RMDs in the ensuing years in accordance with its regular processes. Ms. Hjortsberg noted that the Board received a copy of the response by email in early October.

Ms. Hjortsberg noted that immediately prior to the Board meeting she had received a follow-up response from the participant, but that Ms. Hjortsberg considered the matter resolved and that the further communication did not affect her legal analysis and conclusion.

She noted that she and Mr. Halpin would continue to follow-up with Nationwide as to an operational issue that came to their attention during the investigation concerning manual processes in an otherwise automated rollover out/RMD process but that this was a separate discussion and consideration from the participant issue.

VII. Adjournment

A motion to adjourn was entered at 11:02 a.m., seconded, and carried unanimously.