



**BOARD OF TRUSTEES FOR THE
MARYLAND TEACHERS & STATE EMPLOYEES
SUPPLEMENTAL RETIREMENT PLANS
MINUTES OF THE March 4, 2019 MEETING**

*Maryland
Teachers & State Employees
Supplemental Retirement Plans*

The Board of Trustees of the Maryland Teachers & State Employees Supplemental Retirement Plans convened at 10:05 a.m. on March 4, 2019, 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

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<http://.MSRP.maryland.gov>*

*Call About the Plans
or to Enroll
1-800-545-4730
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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. William Weber, Galliard Capital Management
Ms. Vanessa Vargas, Segal Marco Advisors
Mr. John DeMairo, Segal Marco Advisors
Ms. Jennifer Falcone, 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 January 28, 2019 (Exhibit A) were unanimously approved.

II. Administrator's Report

Mr. Daniel Wrzesien began his report to the Board by announcing that Nationwide had been awarded the 57th out of 100 best places to work. He also announced that Mr. Eric Stevenson had been appointed to the Board of Regents of the University of Oklahoma. Mr. Wrzesien next proceeded to present the Administrator's report for the fourth quarter of 2018 (Exhibit B). He highlighted the following:

- Current Assets: \$3.73 billion
- Total Participant Accounts: 68,299 (an increase of 997 as compared to 12/31/18)
- Enrollments: 1,065 (representing nearly 4,000 for 2019)
- Deferrals: \$52.388 million
- Mutual Fund Savings: \$708,834
- Rollovers-In: 132/\$5.3 million
- Distributions: \$46.3 million
- Rollovers-Out: 299/\$17.7 million
- Loans: 616 active/\$6.403 million
- Hardship/UE: 523

Mr. Wrzesien highlighted the following achievements and initiatives for the fourth quarter of 2018:

- SB & Company audit of Plans completed
- Completed changes to participant loan packets to improve participant experience and decrease the amount of "not in good order" submissions
- Continued working with Central Payroll on an enhancement regarding 457(b) Plan contribution starts and changes
- Began testing to allow loan repayments of amounts in addition to monthly payment

Mr. Wrzesien returned to key points in the Administrator's Report from the Executive Summary. He noted that the number of eligible participants (77,757) on page 3 of the Administrator's Report had been updated to July 1, 2018, and that the participation rate in the overall for the Plans stood at 71.7%, with 43.54% actively deferring. As compared to 401(k) plans (private-sector), Mr. Wrzesien noted that for those plans without a match, the participation rate is in the low 30% range, and for those with a match it is in the 70% range. Mr. Halpin noted that he could provide data from NAGDCA with respect to government plans. Mr. Wrzesien also noted that for the allocation of assets and contributions, fixed income and cash had increased by 1.5% and decreased by 1.7%, respectively, as compared with the fourth quarter of 2017, noting that during this timeframe, the market value of equities had decreased.

Mr. Wrzesien proceeded to the service updates, stating that there were 3,995 new enrollments YTD, 10% of which were performed online, as compared to 4% in 2017. He also reminded the Board of the addition of DocuSign in 2018. He reported on 9,339 increases (+516 from the year ended December 31, 2017). He noted that decreases from 2018 totaled 3,093, as compared to 3,060 in 2017, and suspensions totaled 680, as compared to 453 for 2017.

Mr. Wrzesien reported \$222 million in assets allocated to ProAccount managed accounts as of December 31, 2018, representing 4,425 participants, 583 of which were added in the fourth quarter of 2018. He noted that assets in the managed accounts had increased to \$230 million (4,758 participants) at the end of February 2019. For Roth activity, Mr. Wrzesien reported 338 new Roth accounts in 2018, with 163 added in the fourth quarter.

Mr. Wrzesien next provided the hardship analysis, noting 1,851 hardship/UE withdrawals YTD, a decrease of 476 from 2017. He noted that foreclosure/eviction remained the most prevalent reasons.

Mr. Wrzesien then reported a year-to-date Minority Business Enterprise (MBE) participation rate of 16% for the quarter (14% YTD). He noted that during the first quarter of 2019, Nationwide expected to spend over \$150,000 on MBE purchasing, which would increase the overall MBE participation rate to 15%. There followed a discussion of the MBE participation rates required by other states for similar contracts. It was noted that based on an informal NAGDCA listserv query, to which only one state had responded directly, and responses received the procurement process in connection with reference checks of vendors, other states may encourage participation but not require it. Mr. Halpin noted that he would make direct inquiries to other state plans. It was noted that the goal should remain realistic.

III. Investment Advisors' Reports:

A. Segal Marco Advisors ("Segal")

Ms. Vanessa Vargas provided a summary of the fourth quarter performance, highlighting the following from the fourth quarter performance report (Exhibit C) and the handout distributed at the meeting for the month ended January 30, 2019:

- AUM for the Plans at December 31, 2018 was \$3.7 billion.
- The allocation to each of the Plans remained about the same, as follows: 457 Plan – 43.8%, 401(k) Plan – 49.0%, 403(b) Plan – 2.4%, and 401(a) Plan – 4.8%.
- Equities represented 48% of total Plan assets, Fixed Income represented 34%, and TDFs represented 18%; 33% of contributions were directed to the TDFs.
- Segal presented three Watch List recommendations for consideration:
 - *Parnassas Core Equity* – removed from Watch List
 - *Delaware Value Institutional* – remove from Watch List (*Manager Ratings Memo*, February 28, 2019; Macquarie Investment Management Large Cap Value Strategy and Corresponding Mutual Fund Taken Off Hold; settlement between the parties and lawsuit against Macquarie dismissed with prejudice with no changes to securities selection in portfolio)

- *TCW Core Fixed Income* – retain on Watch List (continues to underperform benchmark for 3- and 5-year periods due to the conservative positioning of the manager)
- Performance for the month ended January 30, 2018:
 - *Vanguard Federal Money Market* – outperformed index (+0.20% as compared to +0.16%)
 - *Vanguard Total Bond Market* – underperformed index (+1.02% as compared to +1.08%)
 - *Vanguard Institutional Index Plus* – matched index (+8.01%)
 - *Vanguard MidCap Index Plus* – matched index (+10.57%)
 - *Vanguard Small Cap Index* – slightly underperformed index (+11.85% as compared to +11.86%)
 - *Vanguard Total International Stock* – outperformed index (+7.63% as compared to +7.48%)
 - *TCW Core Fixed Income* – outperformed its index (+1.09% as compared to 1.06%)
 - *Fidelity Puritan Fund* – outperformed its index (+5.66% as compared to +5.23%)
 - *Delaware Value Institutional* (Macquarie) – underperformed its index (+6.59% as compared to +7.78%)
 - *American Century Equity Growth* – underperformed its index (+7.95% as compared to +8.01%)
 - *Parnassas Core Equity Institutional* – underperformed its index for the month (+6.38% as compared to +8.01%)
 - *American Funds Growth Fund of America* – outperformed its index (+9.40% as compared to +8.99%)
 - *T. Rowe Price MidCap Value* – underperformed its index (+7.66% as compared to +10.29%)
 - *Janus Henderson Enterprise* – underperformed its index (+10.00% as compared to +11.49%)
 - *T. Rowe Price Small Cap Core* – underperformed its index (+10.69% as compared to +11.25%)
 - *American Funds EuroPacific Growth* – outperformed its index (8.18% as compared to +7.58%)
 - *Target Date Funds (TDFs)* – all TDFs outperformed their respective indices and were all above median as compared to peers, ranging from 3.9% to 8.0%, with those holding more equities having the better performance numbers; the TDFs continued to perform well during January and February.

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

RESOLVED, in accordance with the recommendations of Segal Marco Advisors, each of (a) Parnassas Core Equity and (b) Delaware Value Institutional shall be removed from the Watch List; and TCW Core Fixed Income shall be retained on the Watch List.

Returning to the discussion of the Vanguard and Fidelity benchmarks from the meeting of the Investment Committee, with respect to the CRSP benchmark, a

discussion was had as to whether it would be a problem to use a benchmark that was not accessible to the public. It was noted that it was not the returns of CRSP that are not publicly available – they are – but that the securities that make up the index itself are not. It was noted that the Russell indexes and MSCI are so widely used that the underlying securities are publicly known.

C. Galliard Capital Management (“Galliard”)

Mr. William Weber reiterated the comments on the fourth quarter performance report for the period ended December 31, 2018 (Exhibit D) provided to the Investment Committee at the meeting immediately preceding the Board meeting, noting the following:

- Assets under management (AUM) were \$760.5 million, representing significant inflows at year end.
- No. of contract issuers: 5, with allocation of 20% to each manager
- Portfolio performance for the quarter and 1-year ended December 31, 2018 was +0.57% (net of fees) (as compared to +0.70% for the 3-year Constant Maturity Treasury (CMT) benchmark), and +2.11% (net of fees) (as compared to +2.63% for the CMT benchmark), respectively; it was noted that CMT benchmark reflects increase in interest rates immediately, whereas the portfolio, by design, lags such interest rate changes.
- Duration was 2.95 years.
- Market-to-book ratio was 98.33%, an increase as compared to the previous quarter.
- Quality was AA- (Book Value) and AA (Market Value), consistent with previous quarters
- The monthly declared rate (MDR) (net of fees) was 2.2%, representing an increase of 2 basis points (bps) from the previous quarter

Mr. Weber next reviewed the underlying manager performance in the ICP for the quarter, noting that Dodge & Cox had replaced Barings and IR+M had replaced JP Morgan, both as of November 1, 2018. He then reported the following for the quarter ended December 31, 2018:

- Galliard – +1.07% (as compared to benchmark of +1.31%); value added: - 24 bps
- JP Morgan/IR+M – +1.04% (as compared to benchmark of +1.18%); value added: -14 bps
- Earnest Partners – +1.76% (as compared to benchmark of +1.76%); value added: +11 bps; underperformed benchmark in January
- Barings/Dodge & Cox – +1.12% (as compared to benchmark of +1.80%); value added -68 bps; outperformed benchmark in January (+30 bps)
- TCW – + 1.93% (as compared to benchmark of +1.65%); value added: +28 bps; underperformed benchmark in January

IV. Staff Reports

A. Finance

Ms. Debra Roberts presented the agency budget and expenditure report (Exhibit E) as of January 31, 2019. She reported revenues of \$1,218,163, with expenditures \$1,001,352, resulting in a surplus of \$216,811. She commented that the surplus increased the reserve balance to \$480,572.

Ms. Roberts noted that as of January 31, 2019, salary and benefits are expected to exceed budget by appropriately \$92,142 at year end. She noted that some of this shortfall (approximately \$45,000) is covered by savings or surpluses in other areas. She explained that the Department of Budget and Management (DBM) recommended the shortfall be covered through a deficiency request expected to be signed by the Governor in April 2019.

B. Field Services

Mr. Holcomb presented the field staff report (Exhibit F), which included a list of MSRP field department 2019 visits to Montgomery County and Prince George's County, a snapshot of additional 2019 Statewide Agency visits and a copy of the MSRP Spring E-Newsletter.

V. Committee Reports

No Committee Reports were presented.

VI. Board Secretary's Report

Mr. Halpin presented the Board Secretary's Report, noting the following items:

- *Pensions & Investment Ranking* – Mr. Halpin noted that Pensions & Investments had ranked Maryland State Retirement and Pensions System 41st and MSRP 477th in its ranking of the top 500 fund sponsors, providing an indication of how Maryland State employees are saving.
- *MSRP Budget Hearings* – Mr. Halpin reported on the agency's budget hearings, noting that they had generally gone smoothly but that there remained some confusion as to the FY2019 budget deficiency request and that he and Ms. Roberts would continue to work with the budget analyst and DBM to resolve the matter. He noted that the deficiency request currently stood at approximately \$50,000 (down from \$77,000) as a result of success with some contract negotiations. He noted that the budgeting process uses basic budgeting formulas to build the budget but that when employees make their benefit plan selections during open enrollment, differences in the salary line item (actual vs. budget) result, and that in smaller agencies, these differences result in larger deviations from budget.
- *HB 469 (Procurement Exemption for MSRP Investment Management Services)* – Mr. Halpin distributed a copy of the HB 469, the fiscal note and position statement. He noted that HR 469 had been passed by the House of Delegates (unanimously) and that he was awaiting a hearing schedule for the Senate.

- *Basics Booklet* – Mr. Halpin noted that a new Basics Booklet had been prepared for participants.
- *Proposed Legislation* – Mr. Halpin reported that he had been monitoring proposed legislation before the General Assembly and has determined that there were currently no bills of impact to MSRP.

VII. Board Counsel’s Report

Ms. Lara Hjortsberg noted that she did not have any items to present for Board consideration or review.

VIII. Executive Session

Chairperson Foster noted the Executive Session on the agenda. At the Chairperson’s request, Ms. Hjortsberg explained that the sole reasons for closing the meeting was in accordance with General Provisions Article (“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 January 28, 2019.

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 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 January 28, 2019.

Mr. Halpin and Ms. Hjortsberg remained during the closed session. Following approval of the minutes of the closed session of the Board meeting held on January 28, 2019, the Executive Session concluded and the regular session resumed at 11:20 a.m.

IX. Adjournment

A motion to adjourn was entered at 11:25 a.m., seconded, and carried unanimously.