



Maryland  
Teachers & State Employees  
Supplemental Retirement Plans

**BOARD OF TRUSTEES FOR THE  
MARYLAND TEACHERS & STATE EMPLOYEES  
SUPPLEMENTAL RETIREMENT PLANS  
MINUTES OF THE June 3, 2019 MEETING**

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The Board of Trustees of the Maryland Teachers & State Employees Supplemental Retirement Plans convened at 9:50 a.m. on June 3, 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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*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](http://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  
Ms. Angela Anderson, Staff  
Ms. Anne O'Neill, Staff  
Ms. Lillie Jones, Staff  
Mr. Daniel Wrzesien, Nationwide  
Mr. Jeffrey Francis, Nationwide  
Mr. Peter Schmit, Galliard Capital Management  
Mr. William Weber, Galliard Capital Management  
Ms. Vanessa Vargas, Segal Marco Advisors  
Mr. John DeMairo, Segal Marco Advisors  
Ms. Jennifer Falcone, T. Rowe Price  
Mr. Claude Gregory, Financial and Realty Services, LLC  
Mr. Christopher Lehman, SB & Company  
Mr. William Seymour, SB & Company  
Ms. Surbhi Dugar, Financial Integrity Resources Management

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 March 4, 2019 (Exhibit A) were unanimously approved, subject to the correction of a minor typographical error on page 2 of the draft Minutes included in the Board materials.

II. Employee Service Awards

Chairperson Foster noted that the Governor had designated May 8, 2019 as State Employees Appreciation and Recognition Day. Ms. Foster gave recognition to the following employees:

Angela Anderson – 10 years of State Service with MSRP  
Anne O'Neill – 10 years of State Service with MSRP  
Julia Graham – 20 year of State Service with MSRP  
Lillie Jones – 20 years of State Service with MSRP  
Louis Holcomb – 25 years of State Service with MSRP  
Anna Marie Smith – 35 years of State Service

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

III. Administrator's Report

Mr. Daniel Wrzesien first reported on a participant issue (Exhibit B-1) wherein an employee (Employee A) who was enrolling in an online account on [www.MarylandDC.com](http://www.MarylandDC.com) input an incorrect social security number (SSN); the SSN belonged to another State employee who was an MSRP participant (Employee B) but who had not created an online login and password. Mr. Wrzesien noted that Nationwide was addressing this issue by implementing a validation of SSN against MSRP account number and date of birth of the enrolling participant at the time of online account creation and that Nationwide believed that this would remediate the issue going forward. It was also noted that the circumstances here were unique in that the person with the SSN used by Employee A was also a State employee who also had an MSRP account but who had not created an online account. Mr. Wrzesien also noted that there had previously been a campaign that allowed participants who did not want online access to block it and that a few thousand participants do not have online access. There followed a general discussion of cybersecurity issues in the retirement industry in general and at Nationwide. Mr. Wrzesien noted that Nationwide employed approximately 200 risk management employees with a cybersecurity focus and that Nationwide had made an investment of \$175 million into this area.

Mr. Wrzesien next proceeded to the presentation of the first quarter performance report (Exhibit B). First, he highlighted the following achievements:

- Correction of participant's account due to overactive trading by participant
- Benefit Coordinator Academies in 1<sup>st</sup> quarter: 500 invitees, 9 events with 188 attendees
- Online version of academy coming in the summer

Mr. Wrzesien highlighted the following initiatives:

- Worked with SB & Company on 2018 Plan audit
- Updated participant welcome letter
- Fidelity fund change for May 2019 fund release

Next, Mr. Wrzesien noted the following statistics from the 1<sup>st</sup> quarter:

- Current Assets: \$4.1 billion
- Total Participant Accounts: 68,434 (5% increase as compared to 1<sup>st</sup> quarter 2018 and 1.34% increase as compared to 3/31/18)
- Participation Rate: 78.72%
- Actively Deferring: 43.46%
- Deferrals: \$50.711 million
- Mutual Fund Savings: \$603,544
- Contribution/Distribution  
Net Increase: \$5 million (*best since 2010*)
- Enrollments: 948 (*noting 5 less new employee orientations*)
- Increases: 3,098 (*an increase of 124 as compared to 3/31/18*)
- Decreases: 877 (*an increase of 101 as compared to 3/31/18*)
- Suspensions: 42 (*a decrease of 197 as compared to 3/31/18*)
- ProAccount: 4,959 participants, representing \$244 million
- ROTH: 5,786 participants, representing \$50.1 million
- Loans: 81 defaulted loans, representing \$553,564  
525 active loans, representing \$6.529 million
- Hardships: 433
- MBE: 14% (due to billing/timing; expected to be 15% 2Q and YTD)

#### IV. Comprehensive Annual Financial Report

Ms. Debra Roberts first explained that the *Comprehensive Annual Financial Report (CAFR) for the Calendar Year Ended December 31, 2018 (Exhibit G)* would be submitted to the Government Financial Officers Association for consideration for the Certificate of Excellence in Financial Reporting by June 30, 2019.

Mr. Christopher Lehman of SB & Company next led the discussion of the presentation of the audit report (*Presentation to those Charged with Governance*). He reviewed the scope of services with the Board. Mr. Lehman noted that the auditors intended to issue an unmodified (“clean”) opinion with respect to the financial statements. He explained that the auditors did not discover any material weaknesses in internal controls or instances of fraud, and he confirmed that SB & Company had received the full cooperation of management and Nationwide during the audit. He noted no significant findings with respect to the agreed upon procedures. He further noted that the audit was in process for testing (e.g., enrollment, fees, rebates) but that he had no significant issues to report thus far.

Mr. Lehman presented the remainder of the audit report, including the CAFR. Mr. Lehman described the risk-based audit approach; assessment of control environment; and summary

of key accounts and audit results. He then reviewed the audit results with the Board, noting for the first time a negative change in net position of -\$222,083,599 resulting in a net position of \$3.7 billion. Mr. Lehman also noted that SB & Company was in the testing phase but that there was nothing to indicate a problem and expected to conclude the audit in August. Mr. Lehman closed his report with the required communications to the Board on pages 13-18 of the SB & Company presentation, noting that he did not have anything of a negative nature to bring to the Board's attention.

V. Investment Advisors' Reports:

A. Segal Marco Advisors ("Segal")

Ms. Vanessa Vargas provided a summary of the first quarter performance for the period ended March 31, 2019 (Exhibit C):

- AUM for the Plans at March 31, 2019 was \$4.1 billion.
- The allocation to each of the Plans remained about the same, as follows: 457 Plan – 44%, 401(k) Plan – 49.0%, 403(b) Plan – 2.4%, and 401(a) Plan – 5%.
- Top 5 holdings – 51% with the following allocations: ICP – 19%, Vanguard Institutional Index – 14%, Fidelity Puritan – 7%, American Funds Growth Fund – 6%, Vanguard MidCap Index Institutional – 5%
- Equities represented almost 50% of total Plan assets, and TDFs represented 17.89%; 30% of contributions were directed to the TDFs, and 42% were directed to equities.
- Watch List recommendation:
  - *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)
- “Traffic Light” Analysis of investment manager performance:
  - 1<sup>st</sup> quarter – 6 of 11 active managers outperformed their respective benchmarks; all of the TDFs outperformed their respective benchmarks
  - 1-year period – 5 of 11 active managers outperformed their respective benchmarks; all of the TDFs underperformed their respective benchmarks
  - 3-year period – 6 of 11 active managers outperformed their respective benchmarks; the TDF performance during this period was mixed
  - 5-year period – 5 of 11 active managers outperformed their respective benchmarks; all of the TDFs underperformed their respective benchmarks
  - Peer Ranking Analysis:
    - *TCW Core Fixed Income* below median for quarter, year-to-date (YTD), 3- and 5-year period
    - *American Century Growth Fund* below median for 1-year and 5-year periods
    - Other managers primarily above median for the longer-term periods (3-, 5-, and 10-years)

- Performance for the quarter ended March 31, 2019:
  - *Vanguard funds* – all of the passive options performed in line with the market; the *Vanguard MidCap Index Plus* and the *Vanguard Small Cap Index* ranked in the top quartile as compared to peers; the *Vanguard Small Cap Index*, which performed in line with its index, exhibited an almost 10% return; noted that with these higher returns, it is difficult for active managers to outperform the market
  - *TCW Core Fixed Income* – performed in line with its index (+3.00% as compared to 2.94%)
  - *Fidelity Puritan Fund* – outperformed its index (+9.54% as compared to +9.31%)
  - *Delaware Value Institutional* (Macquarie) – underperformed its index (+10.22% as compared to +11.93%)
  - *American Century Equity Growth* – outperformed its index (+14.24% as compared to +13.65%)
  - *Parnassas Core Equity Institutional* – underperformed its index for (+13.36% as compared to +13.65%)
  - *American Funds Growth Fund of America* – underperformed its index (+13.87% as compared to +16.10%); noted that this fund was also in bottom quartile for the quarter, at median for 3-year period and below median for 5-year period, which means it is “on watch” but not on the Watch List; under the Investment Policy Statement, the fund will be recommended to be placed on the Watch List at the August meeting unless it exhibits extraordinary second quarter performance.
  - *T. Rowe Price MidCap Value* – underperformed its index (+10.82% as compared to +14.37%)
  - *Janus Henderson Enterprise* – underperformed its index (+17.88% as compared to +19.62%)
  - *T. Rowe Price Small Cap Core* – outperformed its index (+17.59% as compared to +14.58%)
  - *American Funds EuroPacific Growth* – outperformed its index (13.20% as compared to +10.44%)
  - *Target Date Funds (TDFs)* – noted that the TDFs with the higher equity allocations benefited the most in the 1<sup>st</sup> quarter and that the changes within the fixed income component were beneficial as well.

Ms. Vargas provided the following update for the month ended April 30, 2019 (handed out at the meeting):

- Six of the 11 managers outperformed their respective benchmarks for the month and the YTD period.
- All of the TDFs underperformed their respective benchmarks for the month but outperformed their respective benchmarks for the YTD period.

The Board members discussed the extent to which participants understood the extent of the equity allocation in the TDFs. It was noted that T. Rowe Price and its TDF portfolio managers were doing what the Board trusted them to do in this regard. The Board members questioned where T. Rowe Price stands as compared to other managers of target date/life cycle funds, and Ms. Vargas noted that T. Rowe Price tends to have a higher allocation to equity in its TDF glidepaths.

The discussion returned to the CAFR, and it was noted that the Board had not specifically voted on that agenda item. Therefore, upon motion duly made and seconded, it was unanimously

**RESOLVED** that (a) the CAFR as presented at the meeting be, and it hereby is, approved; and (b) the submission of the CAFR to the GFOA for the Certificate of Excellence in Financial Reporting Award be, and it hereby is, approved.

C. Galliard Capital Management (“Galliard”)

Mr. William Weber noted that he had nothing additional to report to the Board beyond what was noted during the Investment Committee meeting immediately preceding the Board meeting. He asked that his comments and those of Mr. Peter Schmit as to the first quarter performance report for the period ended March 31, 2019 (Exhibit D) provided during the Investment Committee be incorporated into the minutes of the meeting.

Such report was as follows:

Mr. Weber provided information with respect to the following pending retirements and succession planning within Galliard:

- Richard Meriam, Founding Managing Partner, retiring end of 2019; preparations for this retirements began in early 2018 when Brandon Kanz, Senior Principal, Head of Credit, became Vice Chair of the Investment Committee alongside Ajay Mirza, Managing Partner and Head of Structured Product and Chair of the Investment Committee; Richard will remain an Advisor to Galliard until December 2022.
- Carrie Callahan, Managing Partner, retiring end of 2019, with role assumed by Mike Norman, Partner, who has been at Galliard since 1996 and who currently serves as Chief Administrative Officer and a member of the Executive Operating Committee.
- Karl Tourville, Founding Managing Partner, President and Chairman of the Executive Operating Committee, retiring June 2020, and stepping down from Board of Directors and as Chair of the Executive Operating Committee at the end of 2019; Karl will remain an Advisor to Galliard through the end of 2020.
- Leela Scattum, Partner, Chief Stable Value Strategist, intended retirement by year end 2020, with Nick Gage, who has been with Galliard since 2008 and working closely with Leela on strategy and contract issuer management during his tenure, assuming her functions.
- Andrew Owen, Executive Vice President of Wells Fargo Asset Management, will be joining Galliard as President and a member of the Executive Operating Committee; he has served as Chairman of Galliard’s Board of Directors since 2014. Andrew, Mike Norman and Ajay Mirza will assume the titles of Senior Managing Principal.

Mr. DeMairo noted that Segal had no concerns with these organizational changes and that Galliard had been proactive and transparent with respect to the anticipated changes. He also noted that Segal had in person meetings scheduled at Galliard to more fully discuss the organization changes.

Mr. Weber proceeded with the 1<sup>st</sup> quarter performance report, highlighting the following:

- Assets under management (AUM) were \$768.6 million.
- No. of contract issuers: 5, with allocation of 20% to each manager
- Duration was 2.89 years.
- Market-to-book ratio was 99.63%, 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 2.24%
- Portfolio performance for the quarter and 1-year ended March 31, 2019 was +0.53% and +2.17%, respectively (both net of fees) (as compared to +0.58% and +2.36% for the 3-year Constant Maturity Treasury (CMT) benchmark); it was noted that CMT benchmark reflects increase in interest rates immediately, whereas the portfolio, by design, lags such interest rate changes as the wrap contracts reset over time.

Mr. Schmit next reviewed the underlying manager performance in the ICP for the quarter, noting that the manager performance was strong from an absolute return perspective largely driven by a decline in interest rates, highlighting the following performance numbers (net of fees):

- Galliard: +1.47% (as compared to benchmark of +0.99%); value added: +48 bps
- IR+M: +1.41% (as compared to benchmark of +1.21%); value added: +20 bps
- Dodge & Cox: +2.70% (as compared to benchmark of +2.28%); value added: +42 bps
- Earnest Partners: +1.98% (as compared to benchmark of +2.32%); value added: -34 bps
- TCW: +2.26% (as compared to benchmark of +2.32%); value added: -6 bps

Mr. Brandt posed a question as to a possible impending bubble in corporate debt and amount of covenant-lite deals. Mr. Weber and Mr. Schmit noted that there was a trend toward lower quality leveraging of balance sheet/covenant-lite or no covenant debt issuances but that the underlying ICP managers were not investing in these lower quality (non-investment grade) issues. It was noted that the managers maintained a higher-quality (investment grade) focus. It was also noted that the shorter duration in the portfolio allowed managers to sell if there was a quality deterioration. Finally, it was noted that mitigation of the risk comes down to fundamental analysis and the stable value portfolio is further insured at the book level by underwriting at the insurance policy/wrap contract level. With respect to specific managers, it was noted that Earnest Partners (higher quality bias manager held an underweight to corporates with an allocation in other U.S. government portfolios) and TCW (higher quality bias currently in the corporate space with an underweight in duration), both of which were positioned more conservatively had, as a result, underperformed for the quarter because the riskier assets in the market had performed better.

## VI. Staff Reports

### A. Finance

Ms. Debra Roberts presented the agency budget and expenditure report (Exhibit E) as of March 31, 2019. She reported revenues of \$1,598,154, with expenditures

\$1,275,332, resulting in a surplus of \$322,822. She commented that the surplus increased the reserve balance to \$595,436.

Ms. Roberts noted that as of March 31, 2019, salary and benefits are expected to exceed budget by appropriately \$110,564 at year end. She noted that some of this shortfall (approximately \$60,000) is covered by savings or surpluses in other areas. She explained that the budget amendment was submitted to the Department of Budget and Management (DBM) for the Governor's approval and signature.

#### B. Field Services

Mr. Holcomb presented the field staff report (Exhibit F), which included a list of 2019 Benefit Coordinator Academy Sessions that were conducted in May throughout the State and an overview of MSRP's MDOT/SHA Cash Comp Workshop.

#### V. Committee Reports

Mr. Brandt presented the minutes of the Audit Committee from its meeting of May 17, 2019 (Exhibit H). The Board unanimously adopted the Audit Committee minutes as presented.

#### VI. Board Secretary's Report

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

- Effective May 16, 2019, the Fidelity 500 Index Fund replaced the Vanguard Institutional Index Fund and that the transition had been a smooth one.
- HB 469 (Procurement Exemption for MSRP Investment Management Services) was signed by the Governor on April 30, 2019.
- During the agency's budget hearings, the committees had heard testimony and it was requested that they not hold funds back from the agency; however, that money was still being held back; Mr. Halpin had received assurance on May 31, 2019, that these funds would be released to close out the Fiscal Year as requested by budget amendment.
- The Department of Budget and Management is assisting in submitting the Fiscal Year 2020 budget correction noted in Ms. Roberts' report above.

#### VII. Board Counsel's Report

Ms. Lara Hjortsberg noted that the agenda include reference to the memo she had distributed to the Board on March 14, 2019, regarding collective trust funds ("CTFs") and the steps necessary for MSRP to implement these investment options into the Plans, including a final vote to proceed with the investments, the adoption of policies and procedures with respect to exempt procurements, and the approval of certain other amendments to the MSRP Investment Policy Statement ("IPS"). She asked the Board members if they had any follow-up questions with respect to the memo, noting that the anticipated procurement exemption that would allow the Plans to enter into investment agreements, including side letters, with the trust companies offering the CTFs (namely, the T. Rowe Price TDF series) would be effective July 1, 2019, after which time, she would begin negotiating side letters and other ancillary documents. She also noted that



the proposed exempt procurement policies and procedures and the changes to the IPS related to the CTFs, including the incorporation of the trust documents of the applicable CTFs into the IPS. In response to questions, she noted that proposed documents were attached to the memo and certain of those documents had also been provided to Segal for review and comment and would be formally presented to the Board at the August meeting for consideration and a vote.

### 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 were in accordance with General Provisions Article ("GP") §3-3-305(b)(14), before a contract is awarded or bids are opened, to discuss a matter directly related to a negotiating strategy or the contents of a bid or proposal, if public discussion or disclosure would adversely impact the ability of the public body to participate in the competitive bidding or proposal process; and GP 3-305(b)(7) to consult with counsel to obtain legal advice. It was noted that the reference on the agenda to the review of minutes of the closed session of the Board meeting held on March 4, 2019 was in error, as there were no minutes for consideration from the closed session at that meeting because the only action taken during that closed session was the approval of minutes of a prior closed session.

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 §3-3-305(b)(14) , before a contract is awarded or bids are opened, to discuss a matter directly related to a negotiating strategy or the contents of a bid or proposal, if public discussion or disclosure would adversely impact the ability of the public body to participate in the competitive bidding or proposal process; and GP §3-305(b)(7) to consult with counsel to obtain legal advice.

Mr. Halpin and Ms. Hjortsberg remained during the closed session. The Executive Session concluded and the regular session resumed at 12:15 p.m., at which time it was announced that the Board had unanimously approved the recommendation of the Evaluation Panel to award the Contract for Supplemental Plan Administration to Nationwide Retirement Services, Inc. During the Executive Session, the Board adopted the following resolutions:

**RESOLVED**, that the Board hereby accepts the recommendation of the Evaluation Panel to award the Contract for Supplemental Plan Administration, as described in the Request for Proposals, dated August 30, 2018 ("RFP"), to Nationwide Retirement Services, Inc., and that the Executive Director and other staff of MSRP is authorized, directed and empowered to execute and deliver a Contract with NRS for a term of five (5) years, with an option to renew for an additional one (1) year, including any such other documents deemed necessary and appropriate in connection with the Contract, in substantially the form of the Contract attached to the RFP as Attachment M (with such changes as the Executive Director and Board Counsel deem necessary and appropriate to carry out the purpose and intent of the foregoing resolution), subject to the approval of the Board of Public Works ("BPW"); and

**RESOLVED FURTHER**, that the Executive Director and other staff of MSRP and Board Counsel be, and each of them hereby is, authorized, directed, and

empowered to take any and all actions deemed necessary and appropriate by the Executive Director and Board Counsel to fully implement the Contract as contemplated by the RFP.

IX. Adjournment

A motion to adjourn was entered at 12:17 p.m., seconded, and carried unanimously.