Exhibit A-1

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BOARD OF TRUSTEES FOR THE MARYLAND TEACHERS & STATE EMPLOYEES SUPPLEMENTAL RETIREMENT PLANS MINUTES OF THE SPECIAL MEETING July 20, 2020

The Board of Trustees of the Maryland Teachers & State Employees Supplemental Retirement Plans convened at 9:35 a.m. on July 20, 2020, via a Google Meet video conferencing link and call-in line provided for that purpose. The audio-only call-in line allowing public access to the meeting was posted on the MSRP website prior to the meeting. A quorum was present.

Members Present
Ms. T. Eloise Foster
Mr. Thomas Brandt, Jr.
Ms. Lynne Durbin
Mr. Thomas Hickey
Treasurer Nancy Kopp
Mr. John Lewis
Mr. Johnathan West

Representatives and Guests
Ms. Lara L. Hjortsberg, Staff
Mr. Richard Arthur, Staff
Ms. Debra Roberts, Staff
Ms. Anna Marie Smith, Staff
Mr. William Mandycz, Office of the Attorney General
Mr. Daniel Wrzesien, Nationwide
Mr. Tami Pearse , Galliard Capital Management
Ms. Vanessa Vargas, Segal Marco Advisors
Mr. John DeMairo, Segal Marco Advisors
Ms. Julia Zuckerman, Segal Marco Advisors

I. Chairperson's Remarks

Chairperson Foster welcomed everyone to the meeting and opened by explaining that because the last meeting of the Board had adjourned while the Board was meeting in Closed Session, the Open Meetings Act required that certain disclosure be made during this meeting and reflected in the minutes. She noted the following:

- **Time, place and purpose of Closed Session**

  <u>Time and Place</u>: 11:47 a.m. on June 1, 2020, via Google Meet link provided for Closed Session to Trustees and those invited to attend by the Board

  <u>Purpose</u>: To discuss an MSRP participant issue

  <u>Adjourned</u>: 12:14 p.m.

- **Recorded vote of each member as to closing of the Closed Session**

  <u>Recorded vote</u>: The resolution to close the meeting was adopted unanimously by all the Trustees present at the meeting (7 of 7 Trustees in office).

- **Citation of authority under General Provisions Article ("GP") §3-305 for closing the meeting**

  GP §3-305 Authority:

  - **§*<u>3-305(b)(13)</u>*** *To comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures, specifically under **<u>GP §4-312(a)</u>** which prohibits the disclosure of retirement records of an individual*
  - ***<u>§3-305(b)(7)</u>*** *To consult with counsel to obtain legal advice on a legal matter*
  - ***<u>§3-3-05(b)(8)</u>*** *To consult with staff, consultants, or other individuals about pending or potential litigation*

- **Listing of topics discussed, persons present, and each action taken during the Closed Session**

  <u>Topics discussed</u>:

  - *Nationwide representatives (listed below) present updated Board members on participant issue and anticipated resolution*

  <u>Persons present</u>:

  - *All Trustees*
  - *Lara Hjortsberg, MSRP*
  - *William Mandycz, OAG*
  - *Jeff Francis, Nationwide*
  - *Dan Wrzesien, Nationwide*
  - *Joe Burke, Nationwide*

  <u>Actions taken</u>:

  - *No action taken with respect to participant issue, information only; Board approved Closed Session Minutes, May 8, 2020 (an administrative matter)*

Chairperson Foster next noted that the primary purpose of the meeting was an education session for the Board by Segal Marco Advisors ("Segal").

II. Segal Marco Advisors

Mr. John DeMairo introduced Ms. Julia Zuckerman. Ms. Zuckerman proceeded to the presentation of *Environmental, Social and Governance (ESG) Education* (Exhibit A), highlighting the following:

- ESG has been a debated topic since at least the 1990s.
- There are competing views regarding ESG views and fiduciary duty:
    - ESG distracts from the duties of prudence and loyalty because in considering any non-economic factors, the fiduciary may impermissibly increase overall risk and/or shifts focus away from maximizing returns.
    - ESG factors may be considered as a part of a broader assessment of an industry or an individual investment.
- ESG is a politicized topic, which is even exemplified by the words used to describe the competing views.
- The Department of Labor (DOL) positions (which although not binding on MSRP because the Plans are non-ERISA (governmental) plans, are helpful as guidance about ESG investments) has changed from administration to administration:
    - *1994/Clinton Administration* – DOL adopted the "all things being equal" test under which a fiduciary can invest plan assets taking into account ESG factors if the investment (1) has an expected rate of commensurate return to rates of return of alternative investments with similar risk characteristics and (2) is otherwise an appropriate plan investment.
    - *2008/Bush Administration* – DOL emphasized need to focus on the investment's economic value to the plan.
    - *2016/Obama Administration* – DOL reinstated Clinton-era guidance.
    - *2018/Trump Administration* – DOL warned fiduciaries against too readily treating ESG factors as economically relevant considerations noting that fiduciaries must always put economic interests of the plan first in providing retirement benefits.
    - *2020/Trump Administration* – DOL proposed rule in June 2020 with a 30-day comment period ending July 30, 2020:
        - Confirms that fiduciary duties of prudence and loyalty are satisfied where the fiduciary has selected investments "based solely on pecuniary factors and not on the basis of any non-pecuniary factor."
        - ESG factors may only be taken into consideration if they present "economic risks or opportunities that qualified investment professionals would treat as material economic considerations under generally accepted investment theories."
        - Documentation is required to explain why investments are determined to be indistinguishable and why the ESG-oriented investment has been chosen.
        - ESG cannot be added as, or as a component of, a QDIA.

A discussion followed as to how ESG could be viewed as an investment philosophy, no different than global, international, or other types of investing. Ms. Zuckerman noted that the most important aspect for fiduciaries to consider is how to justify the investment if the issue were to be litigated, meaning that the Board should be able to articulate the economic factors it considered in selecting the investment, which may include that that an

ESG factor is considered as an economic factor or that of two identical investments, the chosen investment also included ESG factors (all things being equal). Ms. Zuckerman also noted that fiduciaries need to make sure that financial and economic factors are driving decisions and that these decisions are being documented. In answer to a question, she noted that pecuniary and economic were synonymous.

Mr. DeMairo noted that viewing ESG as an investment philosophy and approach rather than method of asset allocation was a good idea and also noted that the same argument could be made with respect to growth versus value investing where different definitions exist as to what these terms encompass. In closing, Ms. Zuckerman also noted that Segal would be submitting a comment letter to DOL in opposition to the proposed rule but that the expectation is that the proposed rule will be finalized by the DOL despite the negative comments from industry participants and elsewhere.

Ms. Vanessa Vargas proceeded to the ESG Landscape section of the education session. She noted that it is the Board's responsibility to help participants navigate the ESG landscape, which consists of addressing risk and aligning purpose. She highlighted the following:

- Over the long-term, companies with high ESG scores exhibit stronger fundamentals (cash flows, less idiosyncratic risk, lower cost of capital, higher valuations).
- 64% of millennials consider a companies' social and environmental commitment when deciding where to work.
- 75% of investors believe one of the biggest factors motivating companies to report ESG information is driven by reputation with customers.
- There are different avenues of integrating ESG in defined contribution plans:
    - ESG Integration
        - Introduce ESG guidelines into the IPS
        - Integrate ESG into the due diligence process for new searches if a new recommended product exists
    - ESG Fund in Core Menu
        - Offer ESG standalone options
        - Align thematic solutions (e.g., climate or inclusion and diversity)
        - Broad market (passive) exposure with improved ESG and carbon emissions outcomes
        - ESG in self-directed brokerage window
    - ESG in QDIA
        - Incorporate ESG factors in the default vehicle (proposed DOL rule would foreclose this option if finalized)
- Generation Z (Born mid-1990s to 2010) and Millennials (Born mid-1980s to late 1990s) hold a stronger view with respect to ESG
    - For MSRP, these participants represent 29% of Plan participants (Gen Z – 5%; Millennials – 24%)
    - Based on these participation rates, it is not surprising that the standalone ESG option (Parnassus) does not have a large percentage of Plan assets, but as these participants' assets grow, one would expect participation in this fund to grow as well.

There was a discussion of the Plans' QDIA (the T. Rowe Price Target Date Series) and whether T. Rowe Price's ESG approach would violate the proposed DOL rule. Ms. Vargas explained that T. Rowe Price's ESG team met with analysts regarding security selection but that the final decision with respect to inclusion in the portfolio remain with the portfolio manager such that an ESG score was not determinative of inclusion or exclusion from the portfolio. She noted that, therefore, T. Rowe Price would not have to change its process as a result of the proposed DOL rule.

Ms. Vargas reviewed ESG survey results, noting the following:

- 36% of U.S. defined contribution plans have an ESG option in the line up
- 42% of U.S. institutional investors have incorporated ESG factors into the investment decision making process, up from 22% in 2013
- 76% of Millennials place importance on ESG investing, and 48% of Millennials would save more for retirement if their investment options were supporting environment and social causes

Ms. Vargas returned to a review of what ESG investing means, noting that the number of conventional funds that say they consider ESG factors has grown from 81 in 2009 to 564 in 2018. Mr. Brandt noted that there was a lack of formal reporting structure for companies to report on ESG factors in the SEC disclosure regime so that the number of funds that say they are investing in ESG companies may not be helpful. Ms. Vargas noted that these fund managers do not rely solely on disclosure in making these determinations but also hold face-to-face meetings with company management to back up determinations.

Ms. Vargas next explained the asset manager's vehicles for implementing ESG:

- Divestment (negative screen) – fund excludes stocks that violate ESG preferences
- Positive Tilt – fund is weighted towards stocks with better ESG ratings; example is Parnassus
- Impact Investing – investment intended to yield non-financial impact in addition to financial return on investment
- ESG Integration – considers ESG factors on assets
- Active ownership – fund seeks ESG improvements through proxy voting and filing shareholder proposals

Ms. Vargas noted that year-to-date through May, many ESG funds have been outperforming the S&P 500 because these funds do not invest in the Energy Sector, which has been negatively impacted by COVID-19 and the Russia-Saudi Arabia oil price war.

Ms. Vargas next moved to a review of MSRP ESG Initiatives and Recommendations:

- <u>What Has Been Done</u>:
    - *Integration*
        - IPS includes ESG language and IPS is reviewed at least annually.
        - Board has requested for searches that if ESG option is available and rated as recommended by Segal that ESG option be included in the search.
        - Existing managers have been surveyed on diversity and inclusion.

        - *Inclusion in Core Menu*
            - Parnassus Core Equity has been offered in the line-up for years and over the long term results have been in line with expectations
- What Has Not Been Done:
    - *Inclusion in Core Menu* of thematic solutions, broad market (passive ESG), or ESG in self-directed brokerage window
    - *ESG in QDIA*, which is not widely practiced and DOL proposal will prohibit if finalized
- Recommendations:
    - Survey participants regarding thematic investments and evaluate results
    - Determine how proxies are being voted upon and have the Board decide if it wants to have firm vote proxies and use ESG template to do so.
    - Require managers to report on areas such as ESG inclusion in investment decision process and firm diversity and inclusion and compare with historic results; repeat every 2 to 3 years and continue to compare with past results.

Ms. Vargas noted that Segal could assist the Board in formulating appropriate survey questions. Mr. Wrzesien added that several Nationwide-administered plans had conducted participant surveys, and he could provide insight into the mega-cases. He also noted that he would look into the proxy voting and communicate the results to Ms. Hjortsberg.

Ms. Vargas closed the education session by noting that she would prepare proposed updated ESG language for the Investment Policy Statement for the Board to consider at its November meeting in preparation for the annual review of the IPS at the January 2021 meeting.

III. Formation of Evaluation Committee for Executive Search Services Solicitation

Ms. Lynne Durbin provided an update on the Executive Search Services Solicitation, noting that proposals had been received the prior week. She offered that there were two approaches to the formation of the Evaluation Committee: the entire Search Committee serve as the Evaluation Committee or a small number of Trustees do so. After discussion, Messrs. Thomas Brandt and Thomas Hickey, in addition to Ms. Durbin, volunteered to serve as the Evaluation Committee. Ms. Durbin requested Ms. Hjortsberg forward the Technical Proposals to the Evaluation Committee and stated that she, Ms. Durbin, would arrange for a video or telephonic meeting of the Evaluation Committee the following week.

IV. Adjournment

There being no further business, a motion to adjourn was entered at 11:15 a.m., seconded, and carried unanimously.