



**BOARD OF TRUSTEES FOR THE
MARYLAND TEACHERS & STATE EMPLOYEES
SUPPLEMENTAL RETIREMENT PLANS
MINUTES OF THE March 01, 2021 MEETING**

*Maryland
Teachers & State Employees
Supplemental Retirement Plans*

The Board of Trustees (the “Board”) of the Maryland Teachers & State Employees Supplemental Retirement Plans (“MSRP”) convened at 9:35 am on March 1, 2021, 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

Representatives and Guests

Ms. Ronda Butler Bell, Staff
Ms. Lara L. Hjortsberg, Board Counsel
Ms. Debra Roberts, Staff
Mr. Richard Arthur, Staff
Ms. Anna Marie Smith, Staff
Ms. Angela Anderson, Staff
Ms. Anne O’Neill, Staff
Ms. Tonya Toler, Staff
Ms. Jeannie Sutton, Staff
Ms. Camella Davenport, Staff
Ms. Sharlene Matthews, Staff
Ms. Lillie Jones, Staff
Mr. Daniel Wrzesien, Nationwide
Mr. Jeffrey Francis, Nationwide
Mr. Michael Norman, Galliard Capital Management
Ms. Tami Pearse, Galliard Capital Management
Ms. Vanessa Vargas, Segal Marco Advisors
Mr. John DeMairo, Segal Marco Advisors
Ms. Wendy Carter, Segal Marco Advisors
Ms. Bernadette Benik, Office of the State Treasurer
Ms. Ryan Wagner, T. Rowe Price (*public call-in line*)
Ms. Jennifer Jefferson, T. Rowe Price (*public call-in line*)
Mr. Philip Harris, Financial Integrity Resources Management (*public call-in line*)
Ms. Runya Nie, Financial Integrity Resources Management (*public call-in line*)
Ms. Rui Zhang, Financial Integrity Resources Management (*public call-in line*)
Ms. Ishwarya Parameshwaran, Financial Integrity Resources Management (*public call-in line*)

BOARD OF TRUSTEES

T. Eloise Foster
Chairperson

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

Ronda Butler Bell, MPA
*Board Secretary/
Executive Director*

Debra L. Roberts, MBA, CPA
Director of Finance

Richard A. Arthur, MBA, CPM
Director of Operations & Technology

Vacant
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*

I. Chairperson's Remarks

Upon motion duly made and seconded, the minutes of Open Session of the Regular Meeting of the Board of Trustees (the "Board") held on January 25, 2021 (Exhibit A) were unanimously approved, subject to adding the Board's request at the January meeting for a presentation on Cyber Security.

Chairperson Foster next explained 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 asked that the following be reflected in the minutes of the meeting:

Required Disclosure from Closed Session, January 25, 2021

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

Time and Place: 10:57 a.m. on January 25, 2021, via Google Meet link provided for Closed Session to Trustees and those invited to attend by the Board

Meeting Adjourned in Closed Session: 11:03 a.m.

Purpose: To receive an update from Board Counsel regarding banking and custodial services for the Plans

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

Recorded vote: 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**

- **§3-305(b)(7)** *To consult with counsel to obtain legal advice on a legal matter*

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

- *Update regarding banking and custodial services for the Plans*

Persons present:

- *All Trustees*
- *Ronda Butler Bell, MSRP*
- *Lara Hjortsberg, OAG*

Actions taken:

- *None; informational only*

II. Administrator's Report

Mr. Daniel Wrzesien first reported to the Board about an issue with the mapping to the William Blair Large Cap Growth Commingled Investment Fund (the "William Blair CIT") (Exhibit B-2). He noted that the mapping from the American Funds Growth Funds of America to the William Blair CIT had occurred as scheduled on February 16, 2021. He explained that the day after the mapping William Blair had provided Nationwide with pricing information that was different from that used by Nationwide in the prior mutual

fund to CIT transitions. He noted that, in those transitions, Nationwide had used \$10.00 as the initial net asset value, or “NAV,” and that this was consistent with the vast majority of Nationwide’s mutual fund to CIT transitions. He further explained that, as a result of the different pricing data, it appeared that the NAV had increased from \$10.00 to \$14.65 on the first day of trading. Mr. Wrzesien reported that Nationwide performed a price correction on February 19, which corrected the balances in all impacted participant accounts to avoid issues with incorrectly inflated account balances and that, in order to prevent distribution of the incorrect gains, and upon consultation with Ms. Hjortsberg, Nationwide had placed distribution holds on participant accounts with William Blair CIT balances until the price correction was completed. Mr. Wrzesien noted that, to avoid this pricing issue in the future, Nationwide’s accounting, pricing and trades teams were developing procedures to improve fund house communications and to determine the initial NAV for all new CIT’s added to the Plans prior to the mapping date.

Mr. Wrzesien then proceeded to present the 4th quarter performance report for the period ended December 31, 2020 (Exhibit B), which highlighted the following:

- Current Assets: \$4.9 billion (+10.23% increase in plan assets from the prior quarter)
- Total Participant Accounts: 69,103
- Enrollments 401
- Contributions: \$52.6 million (-15.80% decrease compared to 3Q2020)
- Mutual Fund Savings: \$430,075 (decreased from \$456,808 in 3Q2020)
- Rollovers-In: 125, representing \$6.2 million
- Withdrawals: \$44.5 million
- Rollovers-Out: 386, representing \$25.0 million
- Loans: 4,727 active loans, representing \$38.8 million
- Hardships/UEs: 1,719 (including 1,629 CARES Act related distributions)

With respect to operations, Mr. Wrzesien noted that in December 2020, MSRP participants received excess Mutual Fund Savings payments on accounts as a direct result of being invested in the Delaware Value Fund and various T. Rowe Price funds. He reported that all the accounts were corrected via a unit adjustment that was made on February 3, 2021. He also noted that during a review of the required minimum distribution (“RMD”) processes Nationwide identified some anomalies impacting a small number of accounts across plans administered by Nationwide. Mr. Wrzesien explained that Nationwide conducted an extensive review of all MSRP accounts due an RMD and identified 77 accounts for which the RMD was not fully distributed in 2017 and 2018. He explained that Nationwide had notified the impacted participants and processed corrective distributions, including the appropriate gains/losses on the missed RMD amounts. He also noted that Nationwide would be seeking an Internal Revenue Service waiver of the tax penalty on the missed RMDs on behalf of the participants .

Mr. Wrzesien reported on the following initiatives:

- Nationwide continued working with the Maryland Central Payroll Bureau to create a more secure and flexible process for sending and receiving participant bi-weekly payroll contributions.
- Nationwide worked with MSRP regarding custodial service updates.
- Nationwide continued working with MSRP and Segal to complete the William Blair mutual fund and CIT addition mapping in February 2021.

In response to a question raised at a previous meeting, Mr. Wrzesien provided data on enrollments in other large plans administered by Nationwide (Exhibit B-3). He stated that the states of Kentucky, California, and Ohio use auto enrollment. He noted that the Kentucky plan grew less than the MSRP Plans, even though they had three times the enrollment.

Mr. Wrzesien closed his report by noting that Nationwide's MBE participation was 16% for the 4th quarter and 15% for the year. He also explained that, based on strategic spending, Nationwide planned for the MBE spend to be 15% each quarter in 2021.

III. Investment Advisors' Reports:

A. Segal Marco Advisors ("Segal")

Ms. Vanessa Vargas presented the 4th quarter performance report ended December 31, 2020 (Exhibit C).

Ms. Vargas proceeded to a report on Plan performance, highlighting following from the 4th quarter performance report:

- AUM for the Plans at December 31, 2020 was \$4.9 billion, with investment earnings contributing \$480.2 million to the increase from September 30, 2020.
- The allocation to each of the Plans remained about the same as in prior quarters, as follows: 457 Plan – 43.2%, 401(k) Plan – 49.8%, 403(b) Plan – 2.4%, and 401(a) Plan – 4.6%.
- Top 5 holdings – slight change from the 3rd quarter, with 50% in the following: ICP – 17%, Fidelity 500 Index – 14%, Fidelity Puritan – 7%, American Funds Growth Fund – 7%, Vanguard MidCap Index Institutional – 5%
- Active/Passive split remained about the same at 74%/26%.
- Asset allocation as of December 31, 2020 was Equities – 50.75%, Fixed Income – 30.96%, and TDFs – 18%.
- Underlying asset allocation of the TDFs as of December 31, 2020 was Domestic Equity – 51.5%, International Equity – 21.4%, Domestic Fixed Income – 17.5%, International Fixed Income – 7.2%, Cash – 4.7%.
- Allocation of contributions as of December 31, 2020 was Equities – 42.37%, Target Date Funds – 30.79%, Fixed Income Funds – 26.84%.

- The following investment options remained on the Watch List at the end of 4Q2020:
 - American Funds Growth Fund of America (replaced with the William Blair William Blair Large Cap Growth Trust/Fund on February 16)
 - Delaware Value Institutional (since January 2021)
 - Janus Henderson Enterprise (since January 2021)
- For 4th quarter and the year-to-date (“YTD”), 9 of 11 funds outperformed their respective benchmarks; for the TDFs, all funds outperformed their respective benchmarks, and performance was mixed for the YTD period.
- Highlighted performance for the 1-year period ended December 31, 2020:
 - Passive funds performed in line with their benchmarks for the quarter.
 - *TCW Core Fixed Income* outperformed its benchmark (+8.8% as compared to +7.5%).
 - *Fidelity Puritan Fund* outperformed its benchmark (+20.6% as compared to +14.7%)
 - *T. Rowe Price Retirement Balanced Fund* essentially matched the performance of its benchmark (+11.5% as compared to +11.7%).
 - *Delaware Value Institutional* underperformed its benchmark (+0.02% as compared to +2.8%).
 - *American Funds Growth Funds of America* slightly underperformed its benchmark; noted that this investment option was removed from the lineup effective February 16.
 - *Janus Henderson Enterprise* underperformed its benchmark (+20.0% as compared to 35.6%)
 - *T. Rowe Price Small Cap Stock* outperformed its benchmark (+25.0% as compared to +20.0%)
 - *American Funds EuroPacific Growth* outperformed its benchmark (+25.3% as compared to +11.1%)
 - *TDFs* were mixed as compared to their respective benchmarks with those funds with more equity performing better on an absolute basis.
- One-month period ended January 31, 2021 performance update included:
 - *T. Rowe Price MidCap Value* outperformed its benchmark (+0.04% as compared to -0.20%).
 - *Janus Henderson Enterprise* continued to underperform its benchmark (-2.9% as compared to -0.30%).
 - *T. Rowe Price U.S. Equity Research Trust C/T. Rowe Price U.S. Equity Research* underperformed its benchmark (-1.6%/-1.7% as compared to -1.0%).
 - *TDFs* performance ranged from -0.10% to 0.30% for the month, outperforming or matching their respective benchmarks.

Ms. Vargas next presented the Passive Transition report (Exhibit C-2), noting that it was currently anticipated that the transition to the State Street Global Advisors (“SSGA”) CIT’s would occur in July¹ but that the exact date in July had

¹ The transition to the SSGA CITs was subsequently delayed until August in order account for a sufficient timeframe for the announcement of the transition to participants and coordination of the communication schedule.

not been determined. Ms. Vargas noted that only the 457, 401(k) and 401(a) Plans would be affected by this transition and that the 403(b) Plan would retain the current Fidelity and Vanguard index options.

Ms. Vanessa Vargas then introduced Ms. Wendy Carter who provided an overview of Cyber Security in the Defined Contribution Plans (Exhibit C-3). Ms. Carter reviewed the following with the Board: the cybersecurity risks to employee benefit plans; the environment of data breaches, including costs associated with these breaches, increasing fraud on defined contribution plans and their participants, the role of participant password security in securing accounts; an explanation of a cybersecurity framework; industry developments, including audit standards for cybersecurity of recordkeepers; the fiduciary's role with respect to cybersecurity and the protection of participant data; and monitoring the third party administrator.

Following the presentation, Ms. Durbin reiterated the need to understand what protocols MSRP has in place in the event of a breach. Chairperson Foster noted that this agency-specific presentation could be done during a Special Meeting rather than waiting until the next Regular Meeting of the Board in May.

B. Galliard Capital Management (“Galliard”)

The following is the ICP performance information provided to the Investment Committee of the Board during its meeting immediately preceding the Board meeting, which is included in these minutes for reference purposes:

Mr. Norman reported on that Wells Fargo was selling Wells Fargo Asset Management (“WFAM”) and related entities to two private equity entities, and highlighted the following:

- *The transaction was expected to close in the 2nd half of 2021.*
- *Wells Fargo would retain a 9.9% interest in WFAM.*
- *Joe Sullivan, former Chief Executive Officer and Chairman of Legg Mason, had been selected as the new Executive Chairman of “new WFAM”.*

In response to questions from Mr. Lewis regarding the extent of organizational changes at Galliard and Wells Fargo in the past 5 years, Mr. Norman noted that the investment process and Galliard's brand and investment management team would remain in place and that GTCR (the primary private equity partner) had asset management experience with Cap Trust. He also noted that the three founding members of Reverence Capital Partners were from Goldman Sachs and current investors in Russell Investors and Victory Funds. He explained that the buyers were excited to have a stable value provider within the organization, especially one of Galliard's caliber. In response to additional questions regarding retention and compensation, Mr. Norman noted that he did not anticipate Galliard employees leaving as a result of the transaction, noting that the buyers have committed to ongoing compensation with existing Wells' standards as well as establishing comparable benefits to what Galliard staff currently have available. Regarding support services to Galliard, Mr. Norman also noted that he anticipates a similar go forward structure to what they experienced at

the beginning of 2020 when the internal compliance and technology teams established a direct reporting line with their counterparts at Wells Fargo. Those teams never left Galliard, or being dedicated to Galliard, just changing the main direct reporting line to Wells, while remaining dedicated to Galliard. As the new company is spun-up, support services currently received from Wells, like HR and internal audit, as two examples, will be re-established in the new standalone entity of the new company (WFAM to be rebranded).

Ms. Pearse and Mr. Norman presented the performance report for the 4rd quarter ended December 31, 2020 (Exhibit D).

Ms. Pearse provided the MSRP ICP performance for the quarter ended December 31, 2020, highlighting the following:

- *AUM was \$837 million.*
- *No. of contract issuers: 5, with allocation of approximately 20% to each manager (no changes).*
- *Duration was 2.87 years.*
- *Market-to-book ratio was 104.17%, an increase of 2 bps from the 3rd quarter of 2020.*
- *Quality was AA- (Book Value) and AA (Market Value), consistent with previous quarters.*
- *The monthly declared rate (MDR) (net of fees) was 2.00% (-20 bps as compared to the 3rd quarter of 2020).*
- *Yield to maturity was 0.74%.*
- *Portfolio performance for the quarter ended December 31, 2020 was +0.50% (as compared to +0.05% for the 3-year Constant Maturity Treasury (CMT) benchmark) and for the year was +2.20% (as compared to +0.43% for the CMT).*
- *Transamerica had reduced its wrap fee in the 1st quarter of 2021, and Metropolitan Life had reduced its wrap fee in the 4th quarter of 2020.*

In response to a question regarding Galliard's concerns with insurance companies, Ms. Pearse noted that Galliard felt good about the issuers with which it works. She explained that the interest rates being low was somewhat concerning but that the issuers have been able to weather through relatively well. She noted that Galliard continued to watch the low interest rate environment and counterparties carefully. With respect to the portfolio, she noted a move into Treasuries (liquidity) and out of corporates.

Ms. Pearse noted that overall, all of the underlying managers exhibited outperformance in the 4rd quarter as compared to their benchmarks. Mr. Pearse provided the detailed underlying manager performance review for the 4rd quarter, highlighting the following performance numbers (net of fees):

- Galliard
 - *4Q2020: +0.35% (as compared to benchmark of +0.05%); value added: +30 bps*
 - *YE 12/31/2021: +4.27% (as compared to benchmark of +3.14%); value added +13 bps.*

- IR+M
 - 4Q2020: +0.36% (as compared to benchmark of +0.21%); value added: +15 bps
- Earnest Partners
 - 4Q2020: +0.63% (as compared to benchmark of +0.48%); value added: +15 bps
- Dodge & Cox
 - 4Q2020: +1.04% (as compared to benchmark of +0.42%); value added: +62 bps
- TCW
 - 4Q2020: +0.79% (as compared to benchmark of +0.48%); value added: +31 bps

Ms. Pearse noted that Galliard was watching Earnest Partners 1, 3 and 5 year performance, noting that they are a manager that follows a different investment strategy than MSRP's other managers. Recent performance has improved and Galliard was comfortable seeing this trend but long term performance was continuing to lag its benchmark. She also noted that Doug Folk would be stepping down early next year but that Earnest Partners employed a team approach to portfolio management so that this organizational change was not concerning.

IV. Staff Reports

A. Finance

Ms. Roberts presented the agency budget and financial projection report (Exhibit E) as of January 31, 2021. She reported that the actual year-to-date revenue earned was \$1,401,240 with year-to-date expenditures of \$951,240, resulting in a spending surplus of \$451,000. She noted that the ending reserve balance was \$1,520,225. Ms. Roberts commented that the reserve balance is presently the highest it's ever been. Ms. Roberts noted that expenditures are expected to be lower than the budgetary appropriation. She stated that overall expenditure savings will be used to cover technology upgrades.

Ms. Roberts then presented an asset fee projection (Exhibit E-1) to determine whether a temporary asset fee holiday reduction would be appropriate and estimate the impact of such reduction on Board asset reserves over the remaining fiscal year. Ms. Roberts noted that the beginning FY 2021 reserve balance was \$1,081, 825. She stated that due to mandatory cost controls imposed, MSRP had restricted spending on some objects and that this had resulted in the reserve balance increasing to its highest level since the inception of the Plans (\$1,520.225). Ms. Roberts then recommended that the Board consider an asset fee holiday, not to exceed 5 months. A discussion ensued regarding the difference between a holiday for the asset fee and the \$0.50 per account fee. It was noted that the asset fee holiday would reduce the reserve balance at a much faster rate than a holiday on the \$0.50 per account fee. The Board also discussed the ability to use the Board reserve funds to purchase a cyber security policy to cover cyber breaches. Treasurer Kopp noted that there was a

new State cyber security policy. Treasurer Kopp invited Ms. Benik to join the meeting at this time in the event that the Board had additional questions regarding cyber insurance policies.

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

RESOLVED, that the recommendation of the Board staff, as more fully set forth in Exhibit E-1 to the materials for the meeting of the Board of Trustees of the Maryland Supplemental Retirement Plans on March 1, 2021, be, and it hereby is approved, such that the Board fee holiday, not to exceed 5 months, be implemented, and that the Executive Director and other appropriate officers of the agency shall take any and all actions deemed necessary and appropriate by such officers to implement such fee holiday.

Ms. Roberts noted that the budget hearings for both the House and Senate committees were scheduled for March 2, 2021 at 1:30 pm. She noted that, due to COVID-19, the hearings were scheduled to be held jointly and via video conference.

B. Participant Services

Ms. Anderson presented the Participant Services staff report (Exhibit F), which included an MSRP 2021 2nd Quarter Webinar Schedule and an Education Outreach email that was sent to agencies with lower participating rates.

V. Board Secretary's Report

Ms. Bell presented (Exhibit G). She noted that she and Ms. Hjortsberg had met with Mr. Wrzesien to discuss a change in Nationwide's method of participant communication. She stated that Nationwide would begin to use email to communicate all statement messages and related important announcements to participants. She emphasized that quarterly statements would continue to be mailed, and hard copies of special announcements would be mailed to participants without an email addresses on file.

Ms. Bell then provided an update on MSRP's Information Technology Infrastructure migration to become a Department of Information Technology ("DoIT") enterprise agency, and that the finalized statement of work from DoIT was forthcoming. She then gave an overview of pending legislation that could impact MSRP, including proposed amendments to the Open Meetings Act and the Public Information Act.

Ms. Bell closed her report by announcing that all MSRP staff members who desired a COVID-19 vaccination had received first doses in February, with the second doses scheduled in March.

VI. Board Counsel's Report

Ms. Hjortsberg noted that it was necessary to extend the Galliard contract for an additional three months in order to allow for sufficient time to review the Request for Proposals and for the solicitation and evaluation of proposals. After discussion and upon motion duly made and seconded, the Board approved extension of the Stable Value Management Services Contract with Galliard Capital Management to September 30, 2021 and authorized the Executive Director to execute and deliver the same.

VII. Executive Session

Chairperson Foster noted that as indicated on the Agenda for the Meeting, a vote was required to close the meeting for the reasons under the Open Meetings Act set forth on the Agenda. She asked that these reasons be reflected in the minutes of the meetings, those reasons being: (1) for the administration of the law of the State, pursuant to §3-103(a)(1)(i) of the General Provisions Article of the Annotated Code of Maryland (“GP”), specifically, pursuant to (a) GP §3-104, to review the minutes of the closed sessions of the Board meetings held on (i) August 24, 2020; (ii) October 26, 2020; (iii) November 11, 2020; (iv) January 25, 2021; (2) to discuss the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of appointees, employees, or officials over whom this public body has jurisdiction; any other personnel matter that affects one or more specific individuals, pursuant to GP §3-305(b)(1); and (3) to consult with counsel to obtain legal advice on a legal matter, pursuant to GP §3-305(b)(7). She requested a motion from a Board member to close the meeting in accordance with the Act. (A *Presiding Officer’s Written Officer’s Statement for Closing a Meeting under the Open Meetings Act* was prepared and was signed by Chairperson Foster prior to the Special Meeting, with the votes of the Trustees recorded thereon, to be filed with minutes of the Board.)

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 (1) GP §3-103(a)(1)(i), specifically under GP §3-104 to review the minutes of the minutes of the closed sessions of the Board meetings held on (i) August 24, 2020, and (ii) October 26, 2020, (iii) November 11, 2020, and (iv) January 25, 2021; (2) GP §3-305(b)(1), to discuss the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of appointees, employees, or officials over whom this public body has jurisdiction; any other personnel matter that affects one or more specific individuals; and (3) GP §3-305(b)(7), to consult with counsel to obtain legal advice on a legal matter.

Everyone left the Open Session at 12:20 p.m. The members of the Board of Trustees present at the meeting logged/dialed into a separate Google Meet video link/phone line arranged for the Closed Session. Ms. Bell, Ms. Hjortsberg, and Ms. Benik joined the Closed Session at the Board’s request. The meeting adjourned during the Closed Session at 1:14 pm.