



Maryland  
Teachers & State Employees  
Supplemental Retirement Plans

**BOARD OF TRUSTEES OF THE  
MARYLAND TEACHERS & STATE EMPLOYEES  
SUPPLEMENTAL RETIREMENT PLANS**

**MINUTES OF THE SPECIAL BOARD MEETING  
October 25, 2021**

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**BOARD OF TRUSTEES**

Hon. T. Eloise Foster  
*Board Chair*

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

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**Members Present**

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

**Representatives and Guests**

Ms. Ronda Butler Bell, Executive Director & Board Secretary  
Ms. Lara L. Hjortsberg, Board Counsel  
Ms. Debra L. Roberts, Deputy Director & Chief Financial Officer  
Mr. Richard Arthur, Director of Operations & Technology  
Ms. Andrea L. Hill, Executive Assistant  
Ms. Nakeia Smith, Finance & Compliance Administrator  
Ms. Angela Anderson, Member Services Education Specialist  
Ms. Jeannie Sutton, Member Services Education Specialist  
Ms. Tonya Toler, Director of Member Services  
Mr. John DeMairo, Segal Marco Advisors  
Ms. Vanessa Vargas Guijarro, Segal Marco Advisors  
Mr. Daniel Wrzesein, Nationwide  
Ms. Valerie Colimon, RSM  
Mr. Nicholas Hess, RSM  
Mr. Andrew Wolf, RSM  
Mr. Stephen Beck, T. Rowe Price  
Ms. Heidi Delauter, T. Rowe Price  
Mr. Christopher Dyer, T. Rowe Price  
Mr. Benjamin Gugliotta, T. Rowe Price  
Mr. Antonio Luna, T. Rowe Price  
Mr. Whitney Reid, T. Rowe Price  
Mr. Ryan Wagner, T. Rowe Price  
Ms. Yashi Shah, Financial Integrity Resources Management (FIRM)  
Mr. Philip Harris, Financial Integrity Resources Management (FIRM)  
Ms. Runya Nie, Financial Integrity Resources Management (FIRM)  
Ms. Ishwarya Parameshwaran, Financial Integrity Resources Management (FIRM)

The Board of Trustees (the “Board”) of the Maryland Teachers & State Employees Supplemental Retirement Plans (“MSRP”) convened at 9:45 a.m. on October 25, 2021, via a Zoom video conferencing link and call-in line provided for that purpose. The publicly available meeting agenda and instructions for registering as a visitor and obtaining the call-in information were posted on the MSRP website prior to the meeting. A quorum was present.

## **I. Chair’s Remarks**

Board Chair Foster welcomed everyone to the meeting and noted that the meeting was being recorded. She also noted that the purpose of the meeting was to discuss the following: 1) the incoming Stable Value Investment Manager’s presentation of portfolio structure options; 2) the audit and plan financial statements; 3) the presentation of the 2020 Annual Comprehensive Financial Report; and 4) the draft letter to Secretary Brinkley requesting surplus State funds for the purpose of reactivating the 401(a) Match Plan.

Ms. Foster next explained that, because the Special Board Meeting held on September 13, 2021 adjourned while the Board was meeting in Closed Session, the Open Meetings Act required that certain disclosures be made during this meeting and reflected in the minutes. She asked that the following be reflected in the minutes of the meeting:

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

**Time and Place:** *10:06 a.m. on September 13, 2021, at the MSRP Offices (with the Trustees meeting via a Zoom link provided to the Trustees and those invited to attend by the Board)*

**Meeting Adjourned in Closed Session:** *10:16 a.m.*

**Purpose:** *To consider the recommendation of the Evaluation Committee and the Procurement Officer for the award of the contract under the Request for Proposals for the MSRP Stable Value Fund ICP Manager, issued June 2, 2021.*

- **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**

*GP §3-305 Authority:*

**§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*

**§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**

**Topics discussed:**

*Report and recommendation of the Evaluation Committee and the Procurement Officer for the award of the contract under the Request for Proposals for the MSRP Stable Value Fund ICP Manager, issued June 2, 2021*

**Persons present:**

- All Trustees
- Ronda Butler Bell, MSRP
- Debra Roberts, MSRP
- Lara L. Hjortsberg, OAG

**Actions taken:**

*Approval of the award of the Contract under the Request for Proposals for the MSRP Stable Value Fund ICP Manager, issued June 2, 2021, to T. Rowe Price Associates*

**II. Incoming Stable Value Manager's Presentation of Portfolio Structure Options for Investment Contract Pool**

Mr. Dyer presented the T. Rowe Price ("TRP") Stable Asset Overview (Exhibit A). Mr. Dyer thanked the Board on behalf of TRP for the selection as Stable Value Investment Manager and introduced the TRP team and their roles, as follows:

- Chris Dyer, Institutional Business Development Executive
- Tony Luna, CFA, Portfolio Manager and Head of Stable Asset Management Team
- Ben Gugliotta, CFA, J.D., Portfolio Manager
- Whitney Reid, CFA, Portfolio Specialist
- Heidi Delauter, Senior Defined Contribution Plan Specialist
- Ryan Wagner, CFA, Institutional Client Service Executive

Mr. Dyer began the presentation by discussing the scenarios outlined in the proposal and the following primary factors to consider:

- What percentage of the fixed income portfolio will TRP manage? 50% or 25%
  - Impact on credit rating and fees
  - Both percentages are within industry norms
- How much MWBE exposure is wanted in the portfolio?
  - All scenarios increase MWBE exposure vs. current levels
  - Not much fee or performance difference when using MWBE firms
- Review of guidelines and recommendations by TRP
- Review of timeline for implementation with "live" date of 1/3/2022.

Mr. Luna highlighted the background of the TRP team with over 30 years in Stable Value Management experience, 20 years as a team, and with over 100 associates to support the portfolio. Mr. Luna noted the Stable Value Separate Account Solution for MSRP as follows:

- The ICP designed by TRP seeks to preserve principal and provide liquidity while also delivering participants an attractive yield. The plan's unique characteristics were considered along with the current market environment to optimize asset allocation and wrap contract allocation. At initiation, the ICP will have the following attributes:

- Increased wrap contract diversification
- Diversified fixed income managers/strategies
- Flexible contract terms
- Low management and wrap fees
- Maintain a meaningful allocation to MWBE managers

Mr. Luna then presented a detailed comparison of proposed solutions and scenarios.

The Evaluation Committee Chair, Ms. Durbin, noted that she and the other members of the Evaluation Committee reviewed TRP's proposal, so not all members of the Board had reviewed it. She asked if Mr. Luna could provide more information regarding the MWBE candidates. Mr. Luna advised that fees and performance were the two primary factors in mind when selecting Longfellow and Payden & Rygel as the two MWBE managers for the portfolio. He noted that all managers, including MWBE's, undergo the same diligent selection process; he also stated that Longfellow and Payden & Rygel complement TRP's management style with diversification and correlation benefits. Mr. Luna further stated that these managers don't sacrifice yield or performance, and both are women owned minority shops with a long history in Stable Value. They are also approved by wrap providers.

Mr. Gugliotta noted they reviewed 8 to 10 sub advisors, 5 of which were MWBE firms. Longfellow and Payden & Rygel screened the best, based on the criteria outlined in the RFP, with strategy and benchmark performance. He further noted that 3 of the 5 sub advisors did not meet the criteria. Mr. Gugliotta stated that Longfellow has an existing relationship with the State of Maryland as the manager of the Intermediate Duration Fixed Income portfolio for the Maryland State Retirement Agency.

Ms. Guijarro asked Mr. Gugliotta how comfortable TRP was with departures of leadership in MWBE firms, such as the recent departure at Longfellow. Mr. Gugliotta confirmed the departure of the managing director of Longfellow due to inappropriate communications. However, he confirmed that the portfolio team stayed intact and stated that they have a zero-tolerance policy (as does TRP) and made the necessary changes. Mr. Gugliotta further stated that TRP was comfortable with the process, transition, and team going forward. He also noted that 2 of the 3 incoming managers will be women with the controlling interest increasing over a period of 5 years.

With respect to the representation of the firms as MWBE, Mr. Lewis asked for more details on the diversification of the sub advisors. He noted the firms represented leaned more to the "Women" side and less to the "Minority" side. Mr. Lewis further stated that, based upon the information he was able to gather online, Longfellow did not appear to have any African American or Latino employees, and that the management team at Payden & Rygel also did not appear to be diverse. Mr. Gugliotta advised that the TRP team tried to adhere to the material conditions set forth in the RFP, with the main goals of keeping fees low and credit ratings favorable. Historically, the other managers did not meet the baseline of the screening criteria.

Mr. Brandt noted that there are a number of complexities that come with procurements conducted by State agencies. Ms. Hjortsberg noted that the procurement for the Stable Value Manager was an exempt procurement, because of the procurement exemption that had been granted to MSRP in 2019. She further noted that, because of this, MSRP now has more latitude in conducting this manager search. Treasurer Kopp noted that MSRP had requested the procurement exemption with the understanding that the process would closely mirror the standard procurement process, with particular respect to MWBE aspects of the procurement process.

Ms. Foster, with agreement from the Board, asked if TRP could provide additional information that supports the RFP minimums, benchmarks, and evaluation data from the screening of all firms that did not meet the criteria. Additionally, she asked TRP to provide the diversity composition of the firms at each level and how they look at being an MWBE firm.

Ms. Guijarro asked Mr. Luna to include how the minority managers correlated to the investment strategy of TRP. She will forward previous materials the Board received that can be submitted in the same format for Board review. Mr. Luna noted this request and added that it is important to know that the wrap providers have a stake in the process, and they have a major role in determining what they will wrap.

Mr. Gugliotta reviewed the following:

- Transition Timeline
  - October- TRP presents recommendations to MSRP, designs custom Stable Value solution and transition plan, final version of advisory agreement and guidelines executed by MSRP
  - October/November- TRP and MSRP agree to investment strategy based on TRP's recommendations, agree to any agreed upon updates to investment guidelines, TRP drafts bid specifications begins bidding process with wrap contracts.
  - November/December- TRP and MSRP discuss accounting and recordkeeping needs, TRP begins coordinating conversion with MSRP and begins bi-weekly meetings.
  - December- TRP completes negotiation of wrap agreements, TRP reviews updated MSRP Stable Value Fund data in preparation for final contract allocations and underlying portfolio positioning.
  - January- Assets are transferred from Incumbent Manager to TRP, TRP incept portfolio and implements investment strategy.
- Proposed updates to the Investment Policy and Guidelines
  - Update the overall portfolio minimum average credit quality to AA- to align with other IPS guidelines. The current portfolio has a rating of AA.
  - Current guidelines allow investment in assets exempt from registration under Rule 144A. Asking for the ability to also invest in assets exempt from registration under Reg S and Section 3(a)2. To clarify if allowed, information unclear in the current ICP statement.
  - Increase concentration limit on assets exempt from registration from 20% to 30%.

- Potential to use T. Rowe Price fixed income common trust funds would provide value to the ICP
  - Three TRP actively managed strategies specifically designed for stable value portfolios, each offering strong historical performance.
  - These fixed income funds provide efficient trading and implementation of investment ideas with the potential to add diversification and risk management benefits.

Ms. Durbin asked if the proposed updates would increase the risks in the portfolio. Mr. Gugliotta advised that TRP didn't see it as an increase in risk as it gives the ability to put the best names in the portfolio with the best risk to reward profile such as BMW, Volkswagen, 7-Eleven, and Hyundai. Bonds issuing under Rule 144 A and Reg S make up over 50% in new issuance currently. Ms. Gugliotta also confirmed that all TRP clients would allow for the same flexibility and manage under the proposed updates.

Ms. Durbin asked if the Board chose not to move forward on any of the scenarios today, would TRP still be able to proceed as of January 1<sup>st</sup> with the implementation of its investment strategies with the various investment providers. Mr. Luna responded that TRP would still be able to proceed. Ms. Durbin requested to have a marked-up version of the Investment Policy Statement, and Mr. Gugliotta responded that they had a redlined version and would provide it.

### **III. Presentation of Audit Report**

Ms. Colimon presented "The Power of Being Understood," highlighting the following:

- Audit status- Audit is substantially complete with fieldwork and on track to issue final financial statements on or prior to November 1, 2021.
- Auditor's professional responsibilities- responsibilities under auditing standards generally accepted in the United States of America described in the arrangement letter dated May 10, 2021. Audit responsibilities summarized:
  - Audit designed to obtain reasonable, rather than absolute, assurance about whether financial statements are free of material misstatement, whether caused by error or fraud
  - Performing procedures to obtain audit evidence about amounts and disclosures in the financial statements.
  - Consideration of ICFR was for the purpose of designing audit procedures and not for expressing an opinion on the effectiveness of ICFR. No opinion was expressed.
  - Audit included assessing the accounting principles used and significant estimates made by management and evaluating over financial statement presentation.
- Scope- issued a separate communication dated June 15, 2021, regarding the planned scope and timing of audit and identified risks.
  - Identified the following significant risks of material misstatement. (This is looked at in every organization and no issues were found as it relates to MSRP)
    - Management override controls
    - Fraudulent revenue recognition

- Significant matters discussed with management-
  - Review of financial statement presentation and disclosures using the new Gravity system
  - Discussion on Agreed Upon Procedures
  - Annual Comprehensive Financial Report

Mr. Wolf highlighted the following:

- Management's judgments and accounting estimates-
  - Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment
  - The process used by management encompasses their knowledge and experience about past, current events, and certain assumptions about future events
  - Monitor throughout the year the process used to compute and record the accounting estimates reflected in MSRP's December 31, 2021, financial statements.
  - Investment Reported at Fair Value- reported estimates were reasonable based on procedures performed.
- Recorded Audit Adjustments and Uncorrected Misstatement-
  - There were no audit adjustments made to the original trial balance presented to begin the audit.
  - Not aware of any uncorrected misstatements other than misstatements that are clearly trivial.
- Other Communications required by generally accepted auditing standards-
  - Management has selected the preferable accounting practice. No issues found based upon standards in place.
  - Noted no alternative treatments within GASB for accounting policies and practices related to material items that were discussed with management during the current period.
  - Encountered no disagreements with management over application of significant accounting principles, the basis for management judgments on any significant matters, the scope of audit, or significant disclosures to be included in the financial statements.
  - Not aware of any consultations management had with other accountants about accounting or auditing matters.
  - No difficulties noted in dealing with management when performing the audit.

Ms. Colimon highlighted the following:

- Agreed Upon procedures-
  - Performed procedures to assist in evaluating the administration of MSRP as administered by NRS, Inc. for the year ended December 31, 2021, (the Subject Matter).
  - Management of MSRP was responsible for the Subject Matter
  - Specific procedures performed were included as part of a separate engagement letter

dated May 10, 2021.

- A separate report will be issued detailing any findings or deviations from these procedures.

Ms. Colimon thanked the MSRP team for a smooth process for the first-year audit. Ms. Roberts noted the audit was completed beyond the time frame due to COVID-19 and timing of field work. However, she was pleased with RSM's engagement during the audit process.

#### **IV. Presentation of 2020 Annual Comprehensive Financial Report**

Ms. Roberts discussed the purpose of the presentation was to review, at a high-level, changes in the annual report from previous years. First change noted was the change in name of the report; she identified one section was combined into 1 (statistical and other statistical sections). Also, she discussed the pandemic and its inclusion in the report to show how MSRP responded to their educational and participant activities through the mandated office closure, early March. The report summary contained information on the following elements:

- The Annual Comprehensive Financial report is being submitted to GFOA for consideration of award as done in previous years.
- A new system, Gravity, was used to generate the 2020 report which streamlined the report with a professional appearance.
- Discussed significant changes in the report presentation and content based on RSM and GFOA revised checklist.
- The revised checklist was reviewed in consultation with Valerie Colimon, Senior Manager of the engagement. Based on the feedback, the report meets the criteria set forth by GFOA and will be submitted for consideration after the final independent audit review and issuance of opinion letter.
- The presentation provided an overview of changes in format and presentation from prior year, including a brief discussion of the members services overview and inclusion within the report.
- Reviewed Checklist by GFOA to make sure report met the requirements for the reward of excellence.

Ms. Roberts confirmed the report is complete except for the Independent Auditor's Report from RSM-US LLP

#### **V. MSRP Request for State Surplus Funds to Reactivate 401(a) Match Plan**

Ms. Foster presented a draft letter to Secretary of Budget and Management David Brinkley (with a copy to Governor Hogan) requesting that he consider reinstatement of the 401(a) Match Plan, with an increase to the match, given the current State Budget surplus in excess of \$2.5 billion dollars.



The Board agreed that this was a valuable initiative in support of State employees and that it should move forward. A motion to approve sending the draft letter from the Board Chair to Secretary Brinkley, was entered, seconded, and carried unanimously.

Ms. Durbin asked if a request can be submitted to the Legislature regarding the implementation of auto enrollment. Ms. Durbin, Ms. Foster, and Ms. Bell thanked Ms. Hjortsberg for her service as Board Counsel.

At 11.27 a.m., a motion to adjourn was entered, seconded, and carried unanimously.