



**BOARD OF TRUSTEES FOR THE
MARYLAND TEACHERS & STATE EMPLOYEES
SUPPLEMENTAL RETIREMENT PLANS
MINUTES OF THE March 02, 2020 MEETING**

*Maryland
Teachers & State Employees
Supplemental Retirement Plans*

The Board of Trustees of the Maryland Teachers & State Employees Supplemental Retirement Plans convened at 10:10 a.m. on March 2, 2020, in Baltimore. A quorum was present.

BOARD OF TRUSTEES

T. Eloise Foster
Chairperson

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

Members Present

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

Representatives and Guests

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. Michael Norman, Galliard Capital Management
Ms. Tami Pearse, Galliard Capital Management
Ms. Vanessa Vargas, Segal Marco Advisors
Mr. John DeMairo, Segal Marco Advisors
Mr. Claude Gregory, Financial & Realty Services
Mr. Bryant Burns, T. Rowe Price
Ms. Kimberly Young, T. Rowe Price
Ms. Jennifer Falcone, T. Rowe Price
Ms. Kathryn Farrell, T. Rowe Price

Michael T. Halpin, CRC®, CRA®
Secretary/ Executive Director

Debra L. Roberts, MBA, CPA
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*

I. Chairperson's Remarks

Upon motion duly made and seconded, the minutes of the Regular Meeting of the Board of Trustees (the "Board") held on January 27, 2020 (Exhibit A) were unanimously approved.

Chairperson Foster also congratulated Ms. Roberts on the GFOA Certificate of Excellence for the 2018 Comprehensive Audited Financial Report for MSRP, which marks the 9th consecutive year for this recognition.

II. Administrator's Report

Mr. Daniel Wrzesien first reported that he had provided Ms. Hjortsberg with a redacted version of the Merkle contract discussed during the previous Board meeting. He also noted that a letter and email regarding the transition of the T. Rowe Price target date funds (TDFs) to the collective investment trust (CIT) vehicle had been sent to participants and that, to date, Nationwide had experienced approximately 50 participant contacts with general questions regarding the change. He next presented the Administrator's Report for the fourth quarter (Exhibit B), reviewing the Executive Summary:

- Current Assets: \$4.3 billion
- Participant Accounts: 69,614
- Enrollments: 1,322 (4,441 for the year)
- Deferrals: \$59.5 million (an increase of \$7 million as compared to 4Q2018)

- Mutual Fund Savings: \$726,100
- Rollovers-In: 162/\$6.5 million
- Distributions: \$49.7 million
- Rollovers-Out: 336/\$24.0 million
- Loans: 5,049 active/\$41.19 million
- Hardship/UE: 519

Mr. Wrzesien noted that the 62,385 participants by social security number for the 4th quarter (reported in the Participant Breakdown on page 12) was the highest it has been since the number had been reported in that manner. He also noted that contributions into the Plans exceeded withdrawals for the second consecutive year. He explained that the rollovers out of the Plans remained an educational process and that Nationwide was preparing to introduce an advice model and IRA product to determine if this would help to overcome rollover-outs driven by advice/IRAs.

Mr. Wrzesien reported on the following achievements and initiatives:

- Nationwide had worked with SB & Company to complete the 2018 Plan audit.
- Nationwide had hired a new minority business enterprise ("MBE") photographer for upcoming marketing and sales pieces and presentations.
- The Administration Manual for MSRP was almost complete.

Mr. Wrzesien reported the following with respect to the service updates:

- Web enrollments had increased by 3%, as compared to 4Q2018
- 13% of participants are using the “MyRetirement” app.
- Decrease and suspense activity both increased in the 4th quarter, consistent with 4th quarters in prior years.
- ProAccount – 6,541 enrollments, 52 terminations
- ROTH – 6,537 enrollments
- Loans – primary residence loans consistent between 2018 and 2019, with a total of 36 in each year
- Hardship/UE – 952 due to foreclosure/eviction, an increase from 2018 (821) but a decrease from 2017 (1,012)

With respect to hardships/UEs, Mr. Wrzesien noted that the Nationwide compliance department had implemented changes as to how these applications are approved based on changes to the IRS regulations and that he and the Nationwide team would be working with Board staff to determine the necessity of the changes.

Mr. Wrzesien closed his report by noting that Nationwide’s MBE participation for the 4th quarter was 21% and 16% for the year. He also explained that based on strategic spending, the Nationwide plan was for the MBE spend to be 15% each quarter in the following year.

III. Investment Advisors’ Reports:

A. Segal Marco Advisors (“Segal”)

Ms. Vanessa Vargas opened her report noting that the Investment Committee had adopted the recommendation of Segal to replace American Century Equity Growth Fund with T. Rowe Price U.S. Equity Research Fund based on Segal’s presentation of the Large Cap Core Equity Search (Exhibit C-2). Mr. Lewis recused himself from the discussion, consideration and vote regarding this investment option. It was requested that the minutes of the Board meeting reflect the factors contributing to the recommendation, and Ms. Vargas reviewed the following with the Board:

- Diversification of the T. Rowe Price U.S. Equity Research Fund
- Low tracking error
- Fairly sector neutral
- Good alternative in the core space
- Lower fee as compared to the other options presented
- Performance most favorable compared to the other options presented

After discussion, and upon motion duly made and seconded,

RESOLVED, that the upon the recommendation of Segal Marco Advisors (“Segal”) and the Investment Committee, as more fully set forth in Exhibit C-2 to the meeting materials for the Maryland Supplemental Retirement Plans (“MSRP”) of the Board of Trustees (the “Board”), the Board hereby approves the replacement of the American Century Equity Growth Fund with the T. Rowe Price U.S.

Equity Research Fund, and that Segal, Nationwide Retirement Solutions, as the plan administrator and recordkeeper of the Plans, and management of MSRP be, and each of them hereby is, authorized, directed, and empowered to take any and all further actions necessary and desirable to carry out the purpose and intent of the foregoing resolution.

With respect to the Large Cap Growth Equity Search (Exhibit C-3), Ms. Vargas noted that the Investment Committee decided not to take action but to complete more due diligence, including comparing the options presented to the value option and also receive an update at the June meeting. She closed the manager search portion of the Segal report, noting that the T. Rowe Price MidCap Value Fund had been placed on the Watch List at the January meeting.

Ms. Vargas next introduced the discussion of the T. Rowe Price TDF glidepath enhancements. Kim Young and Kathryn Farrell proceeded with the presentation following distribution of the T. Rowe Price materials. They highlighted the following:

- The enhancements to the TDFs were based on ongoing research to improve the TDFs and were based on participant behavior. T. Rowe Price will spread out the implementation of these changes.
- *Glidepath Enhancements*
 - Increase equity exposure at the beginning (from 90% to 98%) and post-retirement (from 20% to 30%), with no change at retirement
 - 2-year transition plan, with gradual increase to equity
 - Impact to risk
 - No change at retirement
 - 10-year post- and pre-retirement <3%
 - 30-years post-retirement – 3.1% loss historically
 - Broad-based benchmarks will change
- *Diversification of Building Blocks*
 - Adding U.S. Large Cap Core Equity
 - Adding Emerging Markets Discovery Stock
 - These strategies can help identify opportunities for growth while providing further diversification and potential for downside protection
- *Fees (Mutual Fund Only)*
 - Top level fee only
 - Transparent to shareholder

Ms. Vargas next presented the Emerging Markets Equity Education (Exhibit C-4), reminding the Board that this education session was a result from the biennial study. She provided the definition of an Emerging Market and presented the reasons for investing in Emerging Market Equity (large growth outside of the U.S., noting that Developed Markets only contribute approximately 25% of global

GDP growth); an overview of how Emerging Markets have evolved with a review of the MSCI Emerging Markets and ACWI sector weights in 2008 and 2019; and growth in several areas (population, trading). She reviewed Emerging Markets investing, noting that these investments are volatile but have high potential for growth. In this regard, she noted that the added volatility would require participant education on volatility and risk and that the Board should expect questions from participants about volatility. Mr. Wrzesien added that Nationwide receives a fair amount of questions about Emerging Markets and responds by explaining that this asset class is included in non-U.S. equities. There was a discussion of the frontier markets, and Ms. Vargas noted that managers have to weigh risks with respect to these investments by looking at the transparency in the country and the companies located in this market. She also noted that it is a bottom up analysis that affects fees because these investments increase the need for travel necessary to gain knowledge on the companies and to follow them.

C. Galliard Capital Management (“Galliard”)

Ms. Tami Pearse presented a summary of the 4th quarter performance report (Exhibit D), noting that the full report was provided during the Investment Committee meeting immediately preceding this meeting. She explained that the portfolio was very similar to the 3rd quarter. She noted that the monthly declared rate had increased by 2 bps to 2.35% and that with respect to the underlying portfolio managers, the short-end/corporate performed better than did the intermediate/underweight corporate space. She also noted that Galliard continued to work to bring fees down and that 2 contract issuers had agreed to reduce wrap fees and that a third was expected to do so in the 1st quarter of 2020.

IV. Committee Reports – Audit Committee

Mr. Brandt presented the minutes of the Audit Committee Chair Status Meeting (Exhibit G). He noted that engagement of the auditors would be for more than generally accepted auditing standards historically required of the Plans and that the minutes presented provide evidence that diligence is occurring with respect to the audit.

V. Staff Reports

A. Finance

Ms. Debra Roberts presented the agency budget and expenditure report (Exhibit E) as of January 31, 2020. She reported revenues of \$1,213,515, with expenditures \$1,014,889, resulting in a surplus of \$198,626. She commented that the surplus increased the reserve balance to \$1,031,101.

Ms. Roberts noted that as of January 31, 2020, revenues continue to exceed expenditures, increasing the reserve balance. She explained that actual expenditures are not expected to deviate from the projection during the remaining six months of the fiscal year, and a small excess is expected at year end.

It was noted that Treasurer Kopp had accompanied Ms. Roberts to the budget hearings in the House and that Chairperson Foster had accompanied her to the budget hearings in the Senate. Ms. Roberts noted that the budget analyst had questions about the reserve balance but had concurred with the Governor’s

appropriation. Chairperson Foster added that Senator Serafini had presented a few questions during the Senate Committee hearing, and that Ms. Hjortsberg had assisted in drafting a response, a copy of which was distributed to the Board.

B. Field Services

Mr. Holcomb presented the field staff report (Exhibit F), which included a MSRP E-Newsletter. He then gave an overview of the email distributed to Benefit Coordinators titled “Look What’s New in 2020”.

As a final matter, Ms. Vargas noted that Segal had included in its report a summary of SECURE Act changes (pages 15-17 of Exhibit C) and that she intended to bring a legal representative from Segal to the June meeting to speak to ESG from a fiduciary perspective as well as the SECURE Act.

VI. Adjournment

A motion to adjourn was entered at 11:55 a.m., seconded, and carried unanimously.