**Exhibit A**
**Amended**

# BOARD OF TRUSTEES FOR THE MARYLAND TEACHERS & STATE EMPLOYEES SUPPLEMENTAL RETIREMENT PLANS MINUTES OF THE May 18, 2015 MEETING



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The Board of Trustees of the Maryland Teachers & State Employees Supplemental Retirement Plans convened at 9:35 a.m. on May 18, 2015, in Baltimore. A quorum was present.

<u>Members Present</u>
Ms. T. Eloise Foster
Ms. Margaret Bury
Mr. Thomas Hickey
Mr. Wilson Parran

<u>Representatives and Guests</u>
Mr. Michael Halpin, Staff
Ms. Lara L. Hjortsberg, Board Counsel
Ms. Debra Roberts, Staff
Mr. Louis Holcomb, Staff
Mr. Richard Arthur, Staff
Ms. Anna Marie Smith, Staff
Ms. Julia Graham, Staff
Ms. Lillie Jones, Staff
Ms. Bernadette Benik, State Treasurer's Office (*representing Treasurer Kopp)*
Mr. David Belnick, Nationwide
Ms. Brenda Anderson, Nationwide
Ms. Taylor Benson, Galliard Capital Management
Mr. William Seymour, SB & Company, LLC
Mr. Chris Lehman, SB & Company, LLC
Mr. John DeMairo, Segal Rogerscasey (*via phone*)

I. Chairperson's Remarks

Upon motion duly made and seconded, the minutes of the meeting held on March 30, 2015 (Exhibit A), were unanimously approved.

II. Employee Service Awards

Chairperson Foster began the meeting by noting that the Governor had designated May 6, 2015 as recognition and appreciation month for State employees. Ms. Foster gave recognition to the following employees:

Debra Roberts – 10 years of State Service
Richard Arthur – 15 years of State Service
Lillie Jones – 15 years of State Service
Julia Graham – 25 years of State Service

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

III. Comprehensive Annual Financial Report

Mr. William Seymour of SB & Company noted that the auditors intended to issue an unqualified opinion with respect to the financial statements. He explained that the auditors did not discover any material weaknesses or instances of fraud, and he confirmed that his firm had received the full cooperation of management and Nationwide during the audit. He noted no significant findings with respect to the agreed upon procedures.

Mr. Christopher Lehman then presented details of the audit results included as part of the 2014 Comprehensive Annual Financial Report (CAFR) (Exhibit G), and distributed Exhibit G-1 as supplemental material for the report. He described the scope of services for SB & Company: audits of the December 31, 2014 financial statements for each of the Plans; review of the CAFR; and certain agreed upon procedures that test the accuracy of individual participant account records. He reviewed the audit plan with the Board and areas of audit emphasis. He stated that the auditors did not note any significant issues.

Mr. Lehman explained the risk-based audit process outlined on page 6 of Exhibit G-1 with respect to investment balances in the Plans. Mr. Lehman explained that in confirming investment balances, SB & Company first obtains the information from Nationwide, confirms that information with the sub-managers and then performs price testing using December 31 closing prices as compared to prices that were actually recorded in the accounts. Mr. Lehman noted that the same operation was performed for a subset of participants in the Plans to determine if the participants were allocated the same investment performance, noting that the numbers do not tie directly because of timing issues. He confirmed that SB & Company had not noted any material issues during this part of the audit. In addition, Mr. Lehman explained the process with respect to the investment contract pool (ICP).

Mr. Christopher Lehman then reviewed the results of the audit, directing the Board to the financial statement information on page 9 of Exhibit G-1. He then provided the Board with a summary of SB & Company's observations (page 10). He noted a continued focus on fair value of investments and related disclosures per Governmental Accounting Standards Board Statement No. 72 (GASB 72) and reviewed GASB 67/68. He noted that the MSRP had received a Certificate of Excellence in Financial Reporting Award by the Government Finance Officers Association for the past three years and that the 2014 financial statements would be submitted again for consideration for the Certificate of Excellence this year as well. Mr. Lehman closed his report with the required communications to the Board on page 11 of Exhibit G-1, noting that he did not having anything of a negative nature to bring to the Board's attention.

Ms. Roberts then gave a summary of the draft CAFR and its component parts. She noted that the audit opinion from SB & Company would be inserted into the CAFR before it is finalized. Mr. Seymour noted that the disclosure provided in the CAFR went over and above the standard for CAFRs in general. Ms. Roberts noted that she would submit a summary of any changes to the CAFR presented at the meeting but that she did not expect any beyond wordsmithing. She also noted that copies of the CAFR would be provided to the Board before it was sent to the Governor.

Upon motion duly made and seconded, the CAFR as presented at the meeting was unanimously approved.

IV. Administrator's Report & Marketing Plan Update

Prior to beginning his report, Mr. Belnick provided his observations regarding the agency benefit coordinator academies. He noted that the marketing team and MSRP field staff had developed a benefit coordinator kit to be delivered to 500 agency benefit coordinators. Ms. Anderson noted that Nationwide had recently presented Mr. Belnick with the CEO Award for his efforts with respect to the Maryland agency benefit coordinator academies.

Mr. Belnick then proceeded to the Administrator's report for the first quarter of 2015 (Exhibit B). He noted that assets had grown to $3.4 million as of March 31, 2015, representing an increase of $5 million for the quarter. He noted that deferrals increased by $1.7 million for the quarter and rollovers/transfers–in increased by $1.4 million. He reported that contributions for the quarter increased by $3.2 million. He reviewed the allocation of assets and contributions in the Plans for the quarter, noting that the allocation of total assets to large cap and Target Date Funds (TDFs) increased by 1% and 1.2%, respectively, and fixed income and cash decreased by 2.2%. He further noted that the allocation of contributions to TDFs increased by 2.8% and that allocations to fixed income and cash decreased by 5.3%. He also noted that the assets in the ICP decreased by 2%, with approximately $22 million moved out of the ICP, going primarily into equities.

Mr. Belnick then reviewed the mutual fund reimbursements for the first quarter, noting a modest increase of approximately $56,000, with approximately $536, 000 returned to participant accounts in the quarter. He reported on participant account activity for the first quarter, noting a total of 65,271 participants at March 31, 2015. He noted 37,346 accounts making deferrals in the first quarter of 2015, as compared to 37,212 in the fourth quarter of 2014 and 36,870 in the first quarter of 2014; 4,408 accounts in payout in the first quarter of 2015, as compared to 4,312 in the fourth quarter of 2014 and 3,938 in the first quarter of 2014. Mr. Belnick provided a comparison of distributions and contributions for the first quarter of 2015, noting a $2.6 million increase in distributions as measured from the previous year and an increase of $3.2 million in contributions. Mr. Belnick closed the administrative portion of his report by noting that starting on May 11, 2015, Nationwide had started sending participants written confirmations of distributions from their accounts as an enhancement of customer service and security.

Mr. Belnick then proceeded to the marketing updates, stating that the overall plan participation rate was 74.83% of eligible employees, with 44.08% participants actively deferring. He continued to the Nationwide Retirement Solutions' Retirement Specialist/Customer Service Production Summary, noting that there were 970 new enrollments for the first quarter of 2015, an increase of 31% over the first quarter of 2014, and increase activity by 2,394 participants (as compared to 2,217 in the fourth quarter of 2014). He reported decrease activity of 439, as compared to 507 in the fourth quarter of 2014, and relatively flat suspension activity (246 in the first quarter of 2015 and 245 in the fourth quarter of 2014).

Mr. Belnick reported total contacts of 572,017 in the first quarter of 2015, an increase of approximately 139,000 from the first quarter of 2014, with an increase of 100,000 website hits. He also noted several service enhancements, including use of an account number instead of social security number for the voice response unit calls, mandatory set up of security questions for website access and an online profile lock in the event of 5 invalid login attempts.

Mr. Belnick then presented the loan and hardship analysis, noting that loans for the quarter slowed, with 555 loans totaling $6.2 million in the first quarter of 2015. He presented a recommendation to make two changes to the loan program: increase the interest rate from prime + 1% to prime + 2%; and add an annual default fee of $50. He explained that with respect to the loan default fee even while loans are in default, Nationwide continues to have reporting and recordkeeping obligations. He explained that the interest rate change was in response to potential scrutiny from the IRS. After discussion, and upon motion duly made and seconded, the Board approved the $50 annual loan default fee but declined to approve the change to the interest rate. Continuing to the hardship analysis, Mr. Belnick noted a reduction in the pace of hardships, with a total of only 404 approved hardships in the first quarter of 2015.

Mr. Belnick then provided a report on rollovers, noting an increase of $24.7 million in rollovers–out and $5.9 million in rollovers–in, an increase of $4.4 million and $1.4 million, respectively. He noted that an investigation of the demographics of participations making rollovers out of the Plans indicated that 61% of all rollovers into the Plans came from participants within their first five years of Plan participation and measured by dollar amount, 52% of all participants rolling money into the Plans were 40+ years old.

Mr. Belnick closed his report by updating Nationwide's Minority Business Enterprise participation rate of 18%.

V. Investment Advisors' Reports:

A. Galliard Capital Management ("Galliard")

Ms. Taylor Benson reviewed the Investment Contract Pool (ICP) performance report (Exhibit D) for the period ended December 31, 2014, during which she highlighted the following points:

- Annualized investment performance since inception (2/1/14) was 1.96% before investment management fees and 1.67 net of investment management fees, with 75 basis points (bps) outperformance of the benchmark, which was attributed to the underlying fixed income managers other than PIMCO.
- Assets under management (AUM) were $763.1 million, representing a decrease in AUM, which was attributed to transfers out of the ICP in response to stronger equity markets.
- The ICP was comprised of 6 issuers and 2 guaranteed investment contracts. One contract rolls off at the end of the third quarter of 2015 and the other rolls off in the fourth quarter of 2016.
- The monthly declared rate (net of fees) was 1.65%; the May rate increased to 1.74%.
- Duration decreased to 2.36 years.
- Market-to-book ratio was 102%, noting that the 2% premium was amortized back to participants in the monthly declared rate.

Ms. Benson provided an update of the PIMCO-managed portfolio, noting that the portfolio continued to underperform in the first quarter of 2015 but that it was showing some positive performance in April. She noted that a team from Galliard was going back to PIMCO at the end of the second quarter to perform further due diligence and that Galliard would come to the August Board meeting with a recommendation. She explained that Galliard had been watching the portfolio closely and that Galliard had identified potential candidates if the Board did decide to replace PIMCO.

Ms. Benson then reviewed the underlying manager performance in the ICP for the quarter, noting that all of the managers (other than PIMCO) exceeded their benchmarks:

- Babson exceeded their benchmark by + 0.14% for the quarter and + 0.31% for the past year;
- Earnest Partners exceeded their benchmark by + 0.09% for the quarter and + 0.73% for the one year period;
- JPMorgan exceeded their benchmark by + 0.14% for the quarter and + 0.46% for the 12 month period; and
- PIMCO underperformed their benchmark by – 0.20% for the quarter and – 0.79% for the year.

B. Segal Rogerscasey ("Segal")

Mr. John DeMairo provided the first quarter performance report (Exhibit C). After providing a summary of the financial market conditions for the fourth quarter, Mr. DeMairo highlighted the following:

- Total assets in the Plans were $3.4 million, representing a net increase in value of $50 million and $64 million in investment earnings.
- Equities represented 50% of the market value in the Plans, stable value represented 25% and the TDFs represented 14%.
- Active options accounted for 37% and passive options accounted for 23%.
- Active core and passive core options represented approximately 61% and 39%, respectively, of the total core options in the Plans.
- Performance versus market index for the active and TDFs for the 5-year period showed that most of these options outperformed their benchmarks.

On a peer-to-peer basis, most of the ten active core options were above median for the 1-, 3- and 5- year periods. Morgan Stanley, which has been on the Watch List, was the only option on the risk/return summary that was below benchmark in returns, and above benchmark in risk. With respect to the PIMCO Total Return Fund, Mr. DeMairo noted this option was on the Watch List but noted that returns for the first three months were strong, earning it a top 10 ranking. He reviewed the performance of the other core options, noting the following:

- American Century Equity Growth underperformed its benchmark by 20 bps, with longer-term underperformance in the other time periods other than the 5-year period.
- Parnassus Core Equity Institutional had a difficult first quarter due primarily to investments in financial and energy sectors.
- American Funds Growth Fund of America outperformed its benchmark by 75 bps, earning it a top quartile ranking.
- T. Rowe Price MidCap Value was below benchmark for all periods and in the bottom quartile.

T. Rowe Price Small Cap Stock and American Funds EuroPacific Growth were both strong performers.Mr. DeMairo noted that Segal was not recommending that the T. Rowe Price Midcap Value Fund be placed on the Watch List at this time. He did note that the TDFs were placed on the Watch List at the last Board meeting due to changes in the fixed income team but that Segal considered the TDFs to be well-managed, believed the changes were communicated effectively and that the long-term performance was very favorable. He noted no concerns with respect to T. Rowe Price's CEO departure.

Mr. DeMairo then reviewed the Core Fixed Income Search (Exhibit C-2) and U.S. Mid-Cap Growth Search (Exhibit C-3) with the Board. He noted that these searches had been delivered to the Investment Committee in November. For the fixed income search, Mr. DeMairo noted that this search related to the potential replacement of the PIMCO Total Value Fund. Before updating the Board, he noted that PIMCO had experienced cash flow stabilization, a strong quarter and good long-term numbers in performance. With respect to the search report, he noted no changes to the rankings previously provided, with TCW Core Fixed Income Fund ranked first, Dodge & Cox Income Fund ranked second and Western Asset Core Bond Fund ranked third.

Mr. DeMairo noted that the U.S. Mid-Cap Growth search was for a replacement of the Morgan Stanley Institutional Trust. He reviewed the search parameters, investment mandate and Segal process with the Board. After reviewing a summary of the funds, their characteristics and performance, he concluded with the following ranking: (1) Janus Enterprise Fund, (2) Hartford Mid Cap Fund, and (3) Franklin Small-Mid Cap Growth Fund. After a discussion of Segal's scoring of the candidates, the Board approved the selection of the Janus Enterprise Fund to replace the Morgan Stanley Institutional Trust. Mr. DeMairo noted that Segal would work with MSRP staff and Nationwide to coordinate timing and communication of the investment option change in the Plans. Mr. Halpin noted that the tentative plan would be to communicate the addition of the new fund in July, followed by a communication regarding the default transfer of the Morgan Stanley balances to the new fund. Mr. DeMairo noted that he would look into revenue sharing with the Janus fund.

VI. Staff Reports

A. Finance

Ms. Debra Roberts presented the agency budget and expenditure report (Exhibit E) as of April 30, 2015. She noted revenues of $1,293,689, which is $328,915, or 20.27%, less than budget. Ms. Roberts noted that expenditures were $1,299,582 which is $56,068, or 4.14%, less than budget. She explained each of the favorable and unfavorable variances for the expenditure lines. She noted a reserve balance of $378,737, as compared to a balance at June 30, 2014 of $609,723. She noted that the reserve balance has decreased by 20% (based on the highest reserve balance) as a result of the temporary Board asset-fee holiday that is expected to end on May 31, 2015.

B. Field Services

Mr. Holcomb presented the field staff report (Exhibit F), which included January 1, to April 30, 2015 field activity and a summary of the Financial Fitness Day dates and locations for the Eastern Shore, Western Maryland, Southern Maryland and Baltimore County. He noted that the field services staff had adopted an ambitious goal of working through each of the 23 counties in Maryland and that the one-on-one sessions were booked from 9:30 a.m. to 3 p.m. for each of the scheduled days.

VII. Board Secretary's Report

Mr. Halpin provided the Board Secretary's Report (Exhibit H). Mr. Halpin reported that Ms. Tonya Toler has been converted from part-time to full-time Financial Field Representative, expanding our educational services to employees.

Mr. Halpin also related an incident related to the recently ended Board asset-fee holiday. Due a data-processing conflict, the anticipated re-start of the Board asset fee on

4/30/2015 was not accomplished on time. Rather that retroactively adjust nearly all participant accounts, Mr. Halpin requested that Nationwide extend the Board asset-fee holiday for an additional month. An unfortunate result was a failure of other data processing routines that would have prevented fee overcharges for two participant accounts covered by the annual fee cap of $2,000. Nationwide notified both participants of the temporary fee overcharge. The correction of both accounts was accomplished within several days. MSRP staff will work with Nationwide to prevent data processing schedule and special routine conflicts for the future. As a result of the extra month for the Board asset-fee holiday, the reserve balance is expected to reach the target level at the end of the current fiscal year.

## VIII. Board Counsel's Report

No report at this time.

## IX. Executive Session

None.

## X. New Business

No new business was presented for discussion.

## XI. Adjournment

A motion to adjourn was entered at 11:48 a.m., seconded, and carried unanimously.