

**BOARD OF TRUSTEES FOR THE  
MARYLAND STATE RETIREMENT AND PENSION SYSTEM  
MINUTES OF MEETING**

January 15, 2019

The Board of Trustees for the Maryland State Retirement and Pension System convened at the SunTrust Building, 120 East Baltimore Street, 16<sup>th</sup> Floor Board Room, Baltimore, Maryland beginning at 9:32 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	Sheila Hill (via phone)
Peter Franchot, Vice Chairman	F. Patrick Hughes
David Brinkley (via phone)	Charles Johnson
Eric Brotman	Theresa Lochte (via phone)
Jamaal Craddock (via phone)	Richard Norman (via phone)
David Hamilton (via phone)	Douglas Prouty (via phone)
Linda Herman (via phone)	Michael Stafford

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Melody Countess	Ira Greenstein	Harvey Raitzyk
Patricia Fitzhugh	Angie Jenkins	Ken Reott
Anne Gawthrop	Van Lewis	David Rongione
Michael Golden	Kim O’Keeffe	Janet Sirkis
	Andrew Palmer	

Assistant Attorneys General present included: Rachel Cohen, Jody Shaw and Kathleen Wherthey

Other attendees included: Joe Rice (via phone) and Hal Wallach CBIZ Consulting, and Justin Hayes

Consent Agenda      On a motion made by Mr. Hughes and seconded by Mr. Brotman, the Board approved the consent agenda, which included:

- December 17, 2018 Objective Criteria Committee Meeting Summary
- December 18, 2018 Open Meeting Board Minutes

Draft Objective Criteria Committee Charter      The Board was provided with a draft of the Objective Criteria Committee Charter. Mr. Kenderdine reported that both the Objective Criteria and Administrative Committees have reviewed and approved the Charter for recommendation to the Board. However, subsequent to the last draft being presented to the Objective Criteria Committee on December 17, 2018, staff added additional language, which was highlighted in the draft being presented to the Board for approval.

Ms. Herman asked how the 33% limitation on the amount of financial incentives derived.

Mr. Kenderdine responded that the 33% cap is a statutory provision.

On a motion made by Mr. Brotman and seconded by Mr. Johnson, the Board approved the Objective Criteria Committee Charter, as presented.

Recommendations of the OCC regarding Criteria for Setting Compensation for the Investment Division      Mr. Brotman as Chairman of the Objective Criteria Committee (“OCC”) thanked the Committee members for their hard work and service to the Board.

Mr. Brotman reported that the OCC meet in October, November and December 2018, and received from CBIZ Consulting extensive and detailed analysis of compensation for professional investment staff in the public pension plan market, as well as recommendations regarding objective criteria for compensation and

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financial incentives for the Chief Investment Officer and Investment Division staff. Mr. Brotman reported that the OCC discussed in length and in great detail the recommendations to be presented to the Board by Hal Wallach and Joe Rice from CBIZ.

Mr. Wallach reported that statute requires the Board to adopt objective criteria for:

- Compensation and financial incentives for the Chief Investment Officer
- Compensation for the staff of the Investment Division
- Financial incentives for eligible staff of the Investment Division
- Qualifications, types, and number of positions necessary for carrying out the professional investment functions of the Investment Division

Mr. Wallach presented the Board with the following Objective Criteria recommendations, which were discussed and approved by the OCC, for recommendation to the Board of Trustees:

<b>The objective criteria for the <u>compensation</u> of the <u>Chief Investment Officer</u>, shall include:</b>	
<b>Requirement</b>	<b>Objective Criteria</b>
Consideration of the comparative qualifications and compensation of employees serving in similar positions and discharging similar duties at comparable public pension funds.	<ul style="list-style-type: none"> <li>• Base Salary and total cash compensation market data at the 25<sup>th</sup>, 50<sup>th</sup>, and 75<sup>th</sup> percentile</li> <li>• Compare to external survey descriptions based on job description</li> <li>• Education and certifications</li> <li>• Employee salary range placement</li> </ul>
Objective benchmarks of investment performance that shall be met or exceeded for the CIO to be eligible for an increase in compensation	<ul style="list-style-type: none"> <li>• Fund return relative to policy benchmarks</li> </ul>

<b>The objective criteria for awarding <u>financial incentives</u> to the <u>Chief Investment Officer</u>, shall include:</b>	
<b>Requirement</b>	<b>Objective Criteria</b>
Objective benchmarks of investment performance for the assets of the several systems that must be met or exceeded.	<ul style="list-style-type: none"> <li>• Performance vs. Policy Benchmarks</li> <li>• Performance vs. Actuarial Assumed Rate of Return</li> </ul>
Objective criteria used by comparable public pension funds awarding financial incentives to chief investment officers.	

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<b>For positions that <u>involve discretion</u> over investment-related decisions, the objective criteria for awarding <u>compensation</u> shall include:</b>	
<b>Requirement</b>	<b>Objective Criteria</b>
Consideration of the comparative qualifications and compensation of employees serving in similar positions and discharging similar duties at comparable public pension funds	<ul style="list-style-type: none"> <li>• Base Salary and total cash compensation market data at the 25<sup>th</sup>, 50<sup>th</sup>, and 75<sup>th</sup> percentile</li> <li>• Compare to external survey descriptions based on job description</li> <li>• Education and certifications</li> <li>• Employee salary range placement</li> <li>• See Exhibit G identifying investment discretion jobs.</li> </ul>
Objective benchmarks of investment performance that shall be met or exceeded by an individual to be eligible for an increase in compensation.	<ul style="list-style-type: none"> <li>• Fund return relative to benchmarks</li> <li>• Applies only if an employee's current compensation is above the midpoint of their respective salary range</li> </ul>

<b>For positions that <u>involve discretion</u> over investment-related decisions, the objective criteria for awarding <u>financial incentives</u>, shall include:</b>	
<b>Requirement</b>	<b>Objective Criteria</b>
Objective benchmarks of investment performance that shall be met or exceeded by an individual to be eligible for financial incentives, including benchmarks for the asset class in which investments are under direction of the individual.	<ul style="list-style-type: none"> <li>• Performance vs. Policy Benchmark</li> <li>• Performance vs. Actuarial Assumed Rate of Return</li> <li>• Performance vs. Asset Class</li> </ul>

Ms. Lochte asked if the consultant could speak to the Sr. Compliance Manager position, as it relates to compensation and financial incentives.

Mr. Rice responded that the OCC had detailed discussions regarding that position. After receiving information, from Mr. Palmer, on the responsibilities of that position, the OCC agreed that the Sr. Compliance Manager position does have discretion over investment-related decisions and could be compensated for those job duties and responsibilities, but would not be eligible for financial incentives.

Mr. Palmer further responded that the Sr. Compliance Manager position is integrated into the investment process.

Comptroller Franchot asked who sets the investment performance goals.

Mr. Wallach responded that the Board would determine that requirement.

Ms. Herman asked if the salaries are based on performance compared to our peers.

Mr. Brotman responded that the salaries are set for new hires who do not have a history with us and incentives are based on performance.

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Mr. Rice further responded that the salaries are compared to peers when setting those salaries and performance incentives.

Mr. Hughes commented that looking at peer performance and salaries going in is good, but the Board will need to avoid the trap of losing focus on the impact positions have on the ultimate cost of funding the System.

Mr. Wallach responded that nothing is set in stone, and that the Board will review compensation levels and incentive awards next year and every year going forward.

Comptroller Franchot commented that the Board needs to consider the morale of the entire agency when giving bonuses to certain employees and not others. He felt that bonuses are disruptive to morale.

Mr. Brotman commented that the salaries need to be competitive and that the authority to award incentive compensation has been granted by the legislature, at the request of the Board.

Treasurer Kopp responded that the question of morale is an important one and that it was discussed with the legislature at the time the authorizing legislation was heard.

Ms. Cohen reported that the statute authorizes the Board to determine the type, number and qualifications of employees within the Investment Division, as well as their compensation. If the Board wished to delegate any of its authority to the CIO, it could amend the CIO Charter.

Comptroller Franchot asked how many people have left the investment division involuntarily.

Mr. Palmer responded that he has not terminated anyone.

Comptroller Franchot requested that voting be deferred until February.

After further discussion, on a motion made by Mr. Brotman and seconded by Mr. Johnson, by a vote of 10 to 3, the Board approved the recommendations of the Objective Criteria Committee regarding the objective criteria for setting compensation and financial incentives for the Chief Investment Officer and the positions that involve discretion over investment-related decisions, as presented.

The Trustees in favor of the motion were: Secretary Brinkley, Mr. Brotman, Mr. Craddock, Mr. Johnson, Ms. Hill, Mr. Hughes, Ms. Lochte, Mr. Norman, Mr. Prouty and Treasurer Kopp. The Trustees in opposition of the motion were: Comptroller Franchot, Ms. Herman and Mr. Stafford.

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Recommendations  
from Staff and  
Consultant for  
Investment  
Division Staffing  
and  
Compensation

Mr. Brotman, Chairman of the OCC, commented that while the responsibility of adopting objective criteria for the qualifications, types and number of positions necessary for carrying out the professional investment functions of the Investment Division, were that of the Board and not a responsibility of the OCC, the OCC did review the recommendations developed by the consultants and staff in these regards.

Mr. Wallach presented the Board with the following Staffing Objective Criteria recommendations:

Qualification, Types and Number of Positions	
Requirement	Objective Criteria
Qualifications and Types	<ul style="list-style-type: none"> <li>• New investment staff set of classification series</li> </ul>
Number of positions necessary	<ul style="list-style-type: none"> <li>• Business case, including, but not limited to:                             <ul style="list-style-type: none"> <li>• Reduction of fees</li> <li>• Number of investment strategies</li> <li>• Number of managed investment accounts</li> <li>• Overtime hours</li> </ul> </li> <li>• Back-up/Redundancy</li> <li>• Succession Planning</li> <li>• Peer Benchmarking</li> </ul>

Mr. Wallach then presented a table of recommended position classifications designed to reflect all of the current roles in the division that provides a career progression through the division.

Classification	Title	Education & Certification	Experience	Asset Class	Management
Investment Administration  *Does not have discretion *Remains on State Salary & Classification Structure	Executive Assistant	College degree and/or advanced training	Incumbents typically have 10+ years of experience ("exp.").	n/a	Collaborative team member
	Accounting Lead Specialized	BS in Finance, Economics, Math, or similar technical field	Typically has 3+ years of relevant exp.	n/a	Collaborative team member
	Assistant Director Investment Administration	BS in Finance, Economics, Math, or similar technical field	Typically has 5+ years of relevant exp.	n/a	Supervision and employee development
	Sr. Compliance Analyst	BS in Finance, Economics, Math, or similar technical field	Up to 2 years of compliance exp.	n/a	Collaborative team member
	Director Investment Administration	BS in Finance, Economics, Math, or similar technical field	Typically has 5+ years of relevant exp.	n/a	Team Leadership
	Managing Director Investment Admin. & Acct.	BS in Finance, Economics, Math, or similar technical field	Typically has 7+ years of relevant exp.	n/a	Supervision and employee development

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	Director – Accounting	BS in Finance, Economics, Math, or similar technical field	Typically has 7+ years of relevant exp.	n/a	Team Leadership
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Classification	Title	Education & Certification	Experience	Asset Class	Management
Professional	Investment Associate	BS in Finance, Economics, Mathematics, Engineering, or similar technical field	Typically has 0 to 1 year of investment exp.	Generalist	Collaborative team member
	Sr. Investment Analyst I		Typically has 1-3 years of investment exp.	Generalist	Collaborative team member
	Sr. Investment Analyst II		Typically has 2-5 years of investment exp.	Specialist	Lead to other professional investment positions
	Sr. Investment Analyst III		Typically has more than 5 years of investment exp.	Specialist	Lead to other professional investment positions
Management	Sr. Compliance Manager	BS in Finance, Economics, Math, or similar technical field	Typically has 7+ years of relevant exp.	n/a	Team Leadership
	Sr. Portfolio Manager I / Sr. Risk Manager I	BS in Finance, Economics, Mathematics, Engineering, or similar technical field	Typically has 4 to 7 years of investment exp. for BA's. Over 2 years of exp. for MBA's or CFA's	Specialist	Supervision and employee development
	Sr. Portfolio Manager II / Sr. Risk Manager II		Typically has 7 or more years of investment exp. of relevant business exp. Over 4 years of exp. for MBA's or CFA's	Specialist	Supervision and employee development
	Sr. Portfolio Manager III / Sr. Risk Manager III		Typically has 10 or more years of investment exp. with deep exp. within a specific asset class	Specialist	Team Leadership
	Sr. Portfolio Manager IV	MS/MBA preferred.  CFA/CAIA designation preferred.	Typically has 10 or more years of investment exp. with deep exp. within a specific asset class	Specialist; Internal	Team Leadership
	Sr. Portfolio Manager V		Typically has 10 or more years of investment exp. with deep direct portfolio management exp. within a specific asset class	Specialist; Internal	Team Leadership

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Classification	Title	Education & Certification	Experience	Asset Class	Management
Leadership	Managing Director	BS in Finance, Economics, Mathematics,	Typically has 10 or more years of investment exp.	Specialist	Team Leadership
	Deputy Chief Investment Officer	Engineering, or similar technical field	Typically has 10 or more years of investment exp.	Generalist	Department Leadership
	Chief Investment Officer	MS/MBA preferred. CFA/CAIA designation preferred.	Incumbent is a seasoned administrator, money manager, and investment strategist	Generalist	Department leadership

Mr. Wallach presented a table of recommended salary ranges for the recommended positions. He noted that the recommendations are the result of multiple surveys of similar public pension plans with adjustments to reflect the passage of time from the date of the surveys to the date of recommendation. Mr. Wallach further noted that these ranges should be expected to change over time and CBIZ would provide the Board with updated recommendations for the next five years.

Recommended Salary Ranges					
Classification	Title	Structure Range			
		Minimum	Midpoint	Maximum	Range Spread
Investment Administration	Executive Assistant	41,358	54,541	65,827	59%
	Accounting Lead Specialized	46,857	61,983	75,012	60%
	Assistant Director – Investment Administration	46,857	61,983	75,012	60%
	Sr. Compliance Analyst	60,543	80,463	97,203	61%
	Director – Investment Administration	60,543	80,463	97,203	61%
	Managing Director – Investment Admin & Acct.	92,333	107,785	123,236	33%
	Director – Accounting	60,543	80,463	97,203	61%
Professional	Investment Associate	65,435	76,886	88,337	35%
	Sr. Investment Analyst I	71,978	84,575	97,171	35%
	Sr. Investment Analyst II	81,051	97,261	113,471	40%
	Sr. Investment Analyst III	101,313	121,576	141,839	40%
Management	Sr. Compliance Manager	108,873	127,926	146,979	35%
	Sr. Portfolio Manager I / Sr. Risk Manager I	116,713	145,891	175,069	50%
	Sr. Portfolio Manager II / Sr. Risk Manager II	128,384	160,480	192,576	50%
	Sr. Portfolio Manager III / Sr. Risk Manager III	147,642	184,552	221,463	50%
	Sr. Portfolio Manager IV	155,024	193,780	232,536	50%
	Sr. Portfolio Manager V	170,526	213,158	255,790	50%

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Leadership	Managing Director	188,563	245,132	301,700	60%
	Deputy Chief Investment Officer	207,419	269,645	331,871	60%
	Chief Investment Officer	269,645	350,538	431,432	60%

Mr. Wallach presented recommendations for the structure of the financial incentive plan based on the approved objective criteria. The recommendations include threshold, target and maximum incentive percentages and use objective criteria based on the System's performance relative to both its benchmark and the actuarially assumed rate of return and individual asset class performance. He provided a table with recommended incentive levels for each eligible position. Mr. Wallach concluded by noting that the Board would likely refine the asset class performance targets to reflect difference in the expected excess return by asset class.

Positions	Proposed		
	Threshold Annual Incentive	Target Annual Incentive	Maximum Annual Incentive
Chief Investment Officer	11%	22%	33%
Deputy Chief Investment Officer	11%	22%	33%
Managing Director	11%	22%	33%
Sr. Portfolio Manager V	11%	22%	33%
Sr. Portfolio Manager IV	11%	22%	33%
Sr. Portfolio Manager III / Sr. Risk Manager III	11%	22%	33%
Sr. Portfolio Manager II / Sr. Risk Manager II	11%	22%	33%
Sr. Portfolio Manager I / Sr. Risk Manager I	11%	22%	33%
Sr. Compliance Manager	0%	0%	0%
Sr. Investment Analyst III	5%	10%	15%
Sr. Investment Analyst II	5%	10%	15%
Sr. Investment Analyst I	2.5%	5%	7.5%
Investment Associate	0%	0%	0%

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Positions	Weighting		
	Policy Benchmark	Actuarial Rate of Return	Asset Class
Chief Investment Officer	50%	50%	N/A
Deputy Chief Investment Officer	50%	50%	N/A
Managing Director	25%	25%	50%
Sr. Risk Manager I-III	50%	50%	N/A
Sr. Portfolio Manager I-V	25%	25%	50%
Sr. Investment Analyst I-III	25%	25%	50%
Sr. Compliance Manager	N/A	N/A	N/A
Investment Associate	N/A	N/A	N/A

Policy Benchmarks		Actuarial Assumed Rate of Return		Asset Class	
MSRA's 3 Year Trailing Average Actual Basis Points Relative to Policy Benchmarks	% of Target Annual Incentive Earned	MSRA's 3 Year Trailing Average Basis Points Relative to Actuarial Rate of Return	% of Target Annual Incentive Earned	MSRA's 3 Year Trailing Average Points Relative to Asset Class Benchmark*	% of Target Annual Incentive Earned
Below	0%	Below	0%	Below	0%
0	50%	0	50%	0	50%
10	75%	5	75%	10	75%
20	100%	10	100%	20	100%
30	125%	15	125%	30	125%
40	150%	20	150%	40	150%

On a motion made by Mr. Hughes and seconded by Mr. Brotman, by a vote of 10 to 3, the Board approved the recommendations regarding the Objective Criteria for the Number and Qualifications of Investment Division staff; the Titles, Job Descriptions and Qualifications of each position; the Salary Ranges; and the Implementation of Financial Incentive Program, as presented.

The Trustees in favor of the motion were: Secretary Brinkley, Mr. Brotman, Mr. Craddock, Mr. Johnson. Ms. Hill, Mr. Hughes, Ms. Lochte, Mr. Norman, Mr. Prouty and Treasurer Kopp. The Trustees in opposition of the motion were: Comptroller Franchot, Ms. Herman and Mr. Stafford.

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Final Adoption of  
COMAR  
Regulations:

Mr. Reott reported that the Board of Trustees, at the recommendation of the Administrative Committee, had previously approved proposed amendments to the following regulations:

- COMAR 22.01.01 – Definitions and General Provisions
- COMAR 22.01.02 – Public Information Act Requests
- COMAR 22.01.03 – Domestic Relations Orders
- COMAR 22.01.04 – Average Final Compensation
- COMAR 22.01.05 – Proof of Date of Birth
- COMAR 22.01.07 – Designation of Beneficiary
- COMAR 22.01.08 – Refund of Accumulated Contributions
- COAMR 22.07.02 – Code Compliance

Mr. Reott reported that the regulations were submitted to the Administrative, Executive, and Legislative Review Committee (AELR) and published for comment in the Maryland Register. The 45-day period for public comment expired and no comments were received. Therefore, the regulations are being brought before the Board for final adoption. The Board was provided with a copy of the Maryland Register in which the proposed regulations were published.

On a motion made by Mr. Hughes and seconded by Mr. Norman, the Board of Trustees, approved for final adoption, the amended regulations, as presented.

Other Business

Treasurer Kopp reported that with the departure of former Trustee James Harkins from the Board and also Chairman of the Administrative Committee, Trustee Lochte will now serve as Acting Chairman of the Administrative Committee.

2019 Legislative  
Bill Review

Ms. Gawthrop reported that only one pension related bill had been introduced to the General Assembly, to date. That bill, HB29 - Correctional Officers' Retirement – Membership – Chaplains, requests that all Chaplains, employed by the Department of Public Safety and Corrections Services be moved to the Correctional Officers' Retirement System (CORS). Currently, those Chaplains are members of the Employees' Pension System (EPS).

Ms. Gawthrop reported that staff, based on prior advice from Tax Counsel regarding this matter, is recommending that the Board oppose this legislation due to IRS rules concerning normal retirement age for individuals participating in public safety retirement plans established for correctional officers.

Mr. Stafford asked if the position of Chaplain is a full time position.

Ms. Gawthrop responded that staff is unable to determine, at this time, whether a Chaplain is employed full-time, as the Benefits Administration has no way of identifying those specific positions within our system, without having specific names of those employees.

On a motion made by Mr. Norman and seconded by Ms. Hill, the Board of Trustees approved staff's recommendations regarding this legislation.

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Demonstration of  
the Redesign of  
the Agency's  
Website

Mr. Golden gave a demonstration of the Agency's newly redesigned website to the Board of Trustees. Mr. Golden reported that the website is scheduled to launch for public use on January 28, 2019.

Mr. Brotman asked if a section for beneficiaries could be incorporated in the new design, so that someone wanting to know how to file a claim would know how without having to search for that information.

Mr. Golden responded in the affirmative, reporting that the website can be easily edited for content and that the website will continuously change as needed.

CIO Report

Mr. Palmer thanked the members of the Objective Criteria Committee and all staff who were involved in the Objective Criteria Committee meetings.

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Mr. Palmer reported that legislation passed in the 2018 session requires the Agency to submit a report on investment risk, including climate risk, faced by the System. This report was presented to the Investment Committee in November, but was held for Trustee comment. To date, no additional comments have been received, therefore, staff would be cleaning up the format of the report and will submit the report to the Legislature by the required deadline.

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Mr. Palmer reported that State Street was unable to provide information necessary for the fund tearsheet for distribution to the Board, however, preliminary numbers as of December 31, 2018 show the total fund value slightly below \$50.0 Billion. Mr. Palmer reported that, to date, the fund was down an estimated 2.1% for the month and fiscal-year-to-date the fund is down 2.75%.

Mr. Palmer noted that the System had exceeded its benchmark for the trailing 6 and 12 months and that the Absolute Return portfolio which staff had been working to restructure over the last year, had performed very well, exceeding its benchmark by over 200 basis points fiscal year to date. Mr. Palmer further reported that now, 10 years past the financial crisis, the fund's 10-year performance is greater than 8%.

Executive  
Director's Report

Mr. Kenderdine issued the annual call for nominations for the position of Public Advisor to the Investment Committee, currently held by Michael Barry, for which the current term expires June 30, 2019. Mr. Kenderdine asked that all nominations be submitted, to him, by March 1, 2019, so that candidates could be interviewed and a recommendation could be made at the May Investment Committee and to the Board of Trustees at its May meeting. The Trustees selection would then go to the Board of Public Works for its approval.

Mr. Kenderdine reported that Mr. Barry has expressed his interest in a second term.

Mr. Stafford asked if the other candidates would be informed that there is an incumbent for this position.

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Mr. Kenderdine responded that all candidates are informed at the time of the interview if the incumbent is also a candidate for the position.

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Mr. Kenderdine reported that the Comprehensive Annual Financial Report (CAFR) was printed and has also been posted on the Agency's website and the Board portal. Anyone wishing to receive a hard copy of the CAFR, can contact Angie Jenkins.

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Mr. Kenderdine reported that three proposals have been received for consulting services needed for the Board's development of a new strategic plan. Mr. Kenderdine reminded the Board that the development of a strategic plan was approved by the Board as the highest priority among all of the recommendations that came out of the Board's governance review completed by Funston in October. Mr. Kenderdine also reported that the Ad Hoc Committee on Board Governance consisting of Trustees Brotman, Johnson and Lochte, have reviewed the three proposals for the Strategic Planning consultant. Proposals were received from Towson University, Salisbury University Beacon Institute, and the University of Maryland College Park. The Committee is recommending Salisbury University Beacon Institute to serve as the strategic planning consultant, based on the technical and financial proposals.

Treasurer Kopp reported that an Ad Hoc Strategic Planning Committee will be established that will oversee the process and work of Salisbury University on this project.

Ms. Herman asked how members will be selected to serve on the Committee.

Treasurer Kopp responded that she would be sending an email to the Trustees asking for volunteers.

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Mr. Kenderdine reported that in the 2018 session, legislation was passed that requires a report with recommendations for a State phased retirement program. A preliminary report has been written and is available on the Board's portal.

Mr. Kenderdine reported that the final report on phased retirement is due in December, 2019.

On a motion made by Mr. Brotman and seconded by Mr. Hughes, the Board voted to meet in a Closed Session, beginning at 11:59 a.m., at the Board Room of the SunTrust Building, 120 East Baltimore Street, 16<sup>th</sup> Floor Board Room, Baltimore, Maryland for the purpose of:

- a) reviewing the December 18, 2018 closed session Board minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function;

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- b) reviewing the Medical Board reports from December 20, 2018 and January 3 and January 9, 2019, regarding individual participants' claims for disability retirement benefits, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter, namely General Provisions Art., § 4-312 regarding the prohibition on disclosing retirement records, and General Provisions Art., § 4-329 regarding the prohibition on disclosing medical and psychological information;
- c) reviewing a report regarding extraordinary salary increases, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific statutory requirement that prevents public disclosure, namely General Provisions Art., § 4-312 regarding the prohibition on disclosing retirement records; and
- d) receiving advice from counsel regarding a tax reporting matter, pursuant to General Provisions Art., § 3-305(b)(7), to consult with counsel to obtain legal advice.

**CLOSED SESSION**

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding  
Peter Franchot, Vice Chairman  
David Brinkley (via phone)  
Eric Brotman  
Jamaal Craddock (via phone)  
Linda Herman (via phone)  
Sheila Hill (via phone)

F. Patrick Hughes  
Charles Johnson  
Theresa Lochte (via phone)  
Richard Norman (via phone)  
Douglas Prouty (via phone)  
Michael Stafford

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Melody Countess  
Patricia Fitzhugh  
Anne Gawthrop  
Michael Golden  
Ira Greenstein

Angie Jenkins  
Van Lewis  
Kim O'Keeffe  
Andrew Palmer

Harvey Raitzyk  
Ken Reott  
David Rongione  
Janet Sirkis

Assistant Attorneys General present included: Rachel Cohen, Jody Shaw and Kathleen Wherthey

Other attendees included: Justin Hayes

On a motion made by Mr. Hughes and seconded by Mr. Brotman, the Board voted to return to Open Session, beginning at 12:12 p.m., at the Board Room of the SunTrust Building, 120 East Baltimore Street, 16<sup>th</sup> Floor Board Room, Baltimore, Maryland.

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**OPEN SESSION**

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding  
Peter Franchot, Vice Chairman  
David Brinkley (via phone)  
Eric Brotman  
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Michael Stafford

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Melody Countess	Angie Jenkins	Harvey Raitzyk
Patricia Fitzhugh	Van Lewis	Ken Reott
Anne Gawthrop	Kim O’Keeffe	David Rongione
Michael Golden	Andrew Palmer	Janet Sirkis

Assistant Attorneys General present included: Rachel Cohen, Jody Shaw and Kathleen Wherthey

Other attendees included: Justin Hayes

During closed session, the Board of Trustees discussed and took action on the following:

Closed Session Minutes	The Board reviewed and approved the December 18, 2018 closed session minutes.
Medical Board Reports	The Board reviewed and adopted the medical board reports from December 20, 2018, January 3 and January 9, 2019.
Extraordinary Salary Increases	The Board reviewed and approved the recommendations regarding the extraordinary salary increases, as presented.
Adjournment	There being no further business before the Board, on a motion made by Mr. Brotman and seconded by Mr. Hughes, the meeting adjourned at 12:12 p.m.

Respectfully submitted,



R. Dean Kenderdine  
Secretary to the Board

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MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

***OBJECTIVE CRITERIA COMMITTEE MEETING SUMMARY  
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Draft Objective Criteria Committee Governance Charter

Mr. Kenderdine reported that subsequent to the OCC meeting, additional edits were made to the draft Objective Criteria Committee Governance Charter that had been approved by the Committee at its last meeting. These additional edits add language that makes the charter fully reflective of the legislation granting the Board salary setting authority. The Committee was provided with a copy of the edits which were reflected by strike-outs or capitalized language. The Committee accepted the charter revisions.

Compensation Philosophy Statement for the System's Investment Division

Hal Wallach and Joe Rice from CBIZ Compensation Consulting presented the Committee with a red-lined version of the Compensation Philosophy for the System's Investment staff, which reflected the changes requested by the Committee at its November 29, 2018.

Objection Criteria for Establishing New Positions and their Qualifications within the Investment Division

CBIZ provided the Committee with recommended criteria for staffing levels for comment and suggestion for improvement before CBIZ presents them to the Board. The report provided the following recommendations for objective criteria:

- Documented business case, referencing objective measures, such as:
  - Reduction in fees from third-party services
  - Changes in number of investment strategies
  - Changes in the number of managed investment accounts
  - Overtime hours.
- Backup/Redundancy
  - Ensure that there is sufficient backup and knowledge within each asset class or investment strategy for continuity in the event of employee exit.
- Succession Planning
  - Identify risk associated with key positions due to the potential for exit from the organization (retirement or flight risk)
- Peer Benchmarking
  - Report current staffing levels compared to the market benchmark ranges (i.e., 25th to 75th) as reported by periodic benchmarking from CEM Benchmarking.

Prospective Salary Ranges and Proposed Criteria for Base Salary and Adjustments

Messrs. Rice and Wallach next addressed the matter of objective criteria for setting base salaries and adjustments for qualified investment staff. The consultants presented data based on practices offered within the competitive market, considering the System's industry, size, as well as the duties and responsibilities of each relevant investment staff position.

The consultants provided a table to the Committee with proposed salary ranges for each qualified position, as follows:

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Proposed Salary Ranges				
Title	Structure Range			
	Minimum	Midpoint	Maximum	Range Spread
Executive Assistant	41,358	54,541	65,827	59%
Accounting Lead Specialized	46,857	61,983	75,012	60%
Assistant Director – Investment Administration	46,857	61,983	75,012	60%
Sr. Compliance Analyst	60,543	80,463	97,203	61%
Director – Investment Administration	60,543	80,463	97,203	61%
Managing Director – Investment Admin & Acct.	92,333	107,785	123,236	33%
Director – Accounting	60,543	80,463	97,203	61%
Investment Associate	65,435	76,886	88,337	35%
Sr. Investment Analyst I	71,978	84,575	97,171	35%
Sr. Investment Analyst II	81,051	97,261	113,471	40%
Sr. Investment Analyst III	101,313	121,576	141,839	40%
Sr. Compliance Manager	108,873	127,926	146,979	35%
Sr. Portfolio Manager I / Sr. Risk Manager I	116,713	145,891	175,069	50%
Sr. Portfolio Manager II / Sr. Risk Manager II	128,384	160,480	192,576	50%
Sr. Portfolio Manager III / Sr. Risk Manager III	147,642	184,552	221,463	50%
Sr. Portfolio Manager IV	155,024	193,780	232,536	50%
Sr. Portfolio Manager V	170,526	213,158	255,790	50%
Managing Director	188,563	245,132	301,700	60%
Deputy Chief Investment Officer	207,419	269,645	331,871	60%
Chief Investment Officer	269,645	350,538	431,432	60%

Messrs. Rice and Wallach provided the Committee with a comparative salary analysis that indicated that of the 17 current investment discretion position, the average overall base salary compa-ratio (employee's salary divided by the market 50th percentile) is 74.4%. A compa-ratio of 74.4% means that, on average, division salaries were 25.6% below the midpoint of the market for similar positions.

The Committee was provided with the following proposed criteria for an employee to be eligible for an increase in compensation:

- Salary ranges are established with range midpoints that approximate the median of the market
- When an employee's salary is at or above the salary range midpoint, an increase should only be considered in years when the fund meets or exceeds policy benchmarks.
  - If an employee's salary is below the salary range midpoint, an increase should be considered regardless of fund performance.
- Additional factors such as the degree of fund success and an individual's asset class performance may be utilized for setting pay
- Compensation adjustments may be made for additional education and certifications

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- This will encourage investment staff to participate in advanced training and education.
- Additional training offers an overall benefit to the operation of the Agency and System.
- In order to receive compensation, the certification or degree must be deemed beneficial to the Agency as part of the employee’s work responsibilities and must exceed the minimum requirements for the employee’s position.

Mr. Brotman requested that language be added to include that if an employee’s asset class meets/does not meet benchmark, then the employee will/will not get an increase. Mr. Brotman does not want anyone to be excluded from an increase by language that says increases would only be considered in years when the fund meets or exceeds policy benchmark.

Proposed  
Incentive  
Compensation  
Objective  
Criteria and  
Prospective  
Plan Design  
Parameters

Messrs. Rice and Wallach next addressed the matter of objective criteria for incentive compensation for qualified investment staff. The consultants documented incentive plan practices offered within the competitive market, considering the System’s industry, size, as well as the duties and responsibilities of each relevant investment staff position. They reported that approximately one-half of larger public pension plans (those with more than \$10B in assets) provide incentive compensation.

The consultants’ analysis also found that performance metrics typically include a combination of (1) comparison to a “Total Policy” index, as well as (2) “absolute” performance, with common performance periods including one, and three-year horizons.

A table was presented showing “market average target incentive percentages, as a percent of base salary, for each of the qualified positions, with maximum award opportunities generally around 150% of the target percentages.

<b>Market Average Annual Incentive (Percent of Base Salary)</b>		
Position	Target (all peers)	Target (bonus-paying)
Chief Investment Officer	20.0%	30%
Deputy Chief Investment Officer	25.0%	35%
Managing Director	25.0%	35%
Sr. Portfolio Manager V	40.0%	50%-60%
Sr. Portfolio Manager IV	40.0%	50%-60%
Sr. Portfolio Manager III / Sr. Risk Manager III	25.0%	35%
Sr. Portfolio Manager II / Sr. Risk Manager II	20.0%	30%
Sr. Portfolio Manager I / Sr. Risk Manager I	20.0%	30%
Sr. Compliance Manager	0.0%	5%-10%
Sr. Investment Analyst III	10.0%	10%-15%
Sr. Investment Analyst II	10.0%	10%-15%
Sr. Investment Analyst I	5.0%	5%
Investment Associate	0.0%	5%

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The consultant's then offered proposed incentive plan design parameters to the Committee which included:

- Utilizing the following performance metrics for determining incentive awards (performance measured/compared over a three-year period for each):
  - Actual System performance vs. Policy Benchmark
  - Actual System performance vs. Actuarial Assumed Rate of Return
  - Actual System performance vs. Asset Class
- That the plan have a single hurdle that must be met for any incentives to be awarded – the fund must have a positive return relative to the Policy Benchmark over a three-year period.
- For new hires and job changes, the performance period will be measured based on time in the job (in full year increments), until they reach three years of service.
- Any earned amounts will be paid over a two-year period in equal installments (50% of earned amount per year).

Mr. Brotman recommended including a requirement that each staff member's assigned asset class have a positive return over a three-year period in relation to the asset class benchmark. It should apply to the incentive compensation as it did in the base salary. The incentive eligibility requirements should not preclude anyone who is performing well.

Mr. Wallach responded that they would revise the language so that the requirement for the plan to outperform its benchmark will affect the incentive based on the plan exceeding the actuarial rate but not limit incentives for individual asset class performance.