

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

July 26, 2019

The Board of Trustees for the Maryland State Retirement and Pension System convened at the Board Room of the SunTrust Building, 120 East Baltimore Street, 16th Floor Board Room, Baltimore, Maryland beginning at 10:01 a.m.

The Trustees present included:

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

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

Mark Ashland	Anne Gawthrop	Chandra Puranam
Robert Burd	Michael Golden	Kenneth Reott
Melody Countess (via phone)	Ira Greenstein	David Rongione
Andrew Chase	Angie Jenkins (via phone)	Janet Sirkis
Patricia Fitzhugh	Kimberly O'Keeffe	

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

Other attendees included: Brad Armstrong (GRS), Justin Hayes, Tom Brennan, Matt Jackson, and Michael Rubenstein

Consent Agenda

On a motion made by Ms. Hill and seconded by Ms. Lochte, the Board approved the consent agenda, which included:

- June 18, 2019 Open Meeting Board Minutes
- April 19 and June 18, 2019 Ad Hoc Committee on Strategic Planning and Governance Meeting Summary
- July 9, 2019 Ad Hoc Committee on Actuarial Economic Assumptions Meeting Summary

Appointment of
Administrative
Committee
Members

As mandated by the Board Operations Policy, the Board of Trustees must appoint members and officers for a term of one year. The Board was provided with a proposed list of committee members, including proposals for a Chairman and Vice Chairman.

On a motion made by Ms. Hill and duly seconded, the Board approved the proposed Administrative Committee assignments, as follows:

- Richard Norman, Chairman
- Kenneth Haines, Vice Chairman
- David Brinkley (or Designee)
- Sheila Hill
- Nancy K. Kopp (or Designee)
- Douglas Prouty

Ms. Herman asked how the roles of Chairman and Vice Chairman are selected, and if there is a term limit a person can hold that position.

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

July 26, 2019

Treasurer Kopp responded that there is no limit on terms, but that committee membership is limited to one year. Treasurer Kopp further responded the roles of Chairman and Vice Chairman are typically given to those members who have the most experience in the subject matter and responsibilities of the particular committee to which they are being assigned. Treasurer Kopp added that anyone who is not on a certain committee, who would like to be on that committee, should let her know.

Ms. Herman responded that she specifically was wondering about the Chairman of the Investment Committee and asked why we do not rotate.

Treasurer Kopp responded that the Board is holding the Investment Committee assignments, including leadership assignments, until the governance review currently underway is complete.

Establishment and
Appointment of
Members of the
Audit and
Securities
Litigation
Committee

As mandated by the Board Operations Policy and Securities Litigation Policy, the Board of Trustees must appoint members and officers to these committees for a term of one year. The Board was provided with a proposed list of committee members, including proposals for a Chairman and Vice Chairman. Mr. Kenderdine reported that the merging of the Audit and Securities Litigation Committees into one committee will require changes to the Board's Governing Charters, Operations Policy, and the Investment Policy Manual, and proposed updates to these documents would be provided to the Board for review and approval at an upcoming meeting.

On a motion made by Ms. Hill and seconded by Mr. Johnson, the Board approved the establishment of the Audit and Securities Litigation Committees, as well as the membership of the Committees, as follows:

- David Hamilton, Chairman
- Richard Norman, Vice Chairman
- Jamaal Craddock
- F. Patrick Hughes
- Michael Stafford

Appointment of
Corporate
Governance
Committee
Members

As mandated by the Board Operations Policy, the Board of Trustees must appoint members and officers for a term of one year. The Board was provided with a proposed list of committee members, including proposals for a Chairman and Vice Chairman.

On a motion made by Ms. Hill and seconded by Mr. Norman, the Board approved the proposed Corporate Governance Committee assignments, as follows:

- Sheila Hill, Chairman
- Charles Johnson, Vice Chairman
- David Brinkley (or Designee)
- Nancy K. Kopp (or Designee)
- Douglas Prouty

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

July 26, 2019

Appointment of
Investment
Committee
Members

In accordance with State Personnel and Pensions Art., § 21-115(a)(2)(b)&(d), the Board of Trustees must appoint annually from its membership an Investment Committee. As mandated by the Board Operations Policy, the Board of Trustees must appoint members and officers for a term of one year. The Board was provided with a proposed list of committee members, including proposals for a Chairman and Vice Chairman.

Mr. Brotman asked if the Investment Committee being a committee of the whole Board could change mid-year as a result of the governance review, or in July 2020 when committee assignments are made each year.

Treasurer Kopp responded that she is expecting the Board to modify the structure of the Investment Committee by the end of this calendar year.

In making the motion, Ms. Hill expressed the Board's understanding that terms for Committee membership are for up to one year but are subject to further modification pending the recommendations of the Board's Ad Hoc Committee on Strategic Planning and Governance. Mr. Norman seconded the motion, and the Board approved the proposed Investment Committee assignments, as follows:

- F. Patrick Hughes, Chairman
- Linda Herman, Vice Chairman
- David Brinkley (or Designee)
- Eric Brotman
- Jamaal Craddock
- Peter Franchot
- Kenneth Haines
- David Hamilton
- Sheila Hill
- Charles Johnson
- Nancy K. Kopp (or Designee)
- Richard Norman
- Douglas Prouty
- Michael Stafford
- 3 Public Advisors

Review the
Revised Work
Plan regarding the
Actuarial Audit
Services
Provider - Request
for Proposals

Mr. Kenderdine reported that the Board's Governance Policy on Monitoring and Reporting requires an actuarial audit to be conducted of the System's annual actuarial valuation once every five (5) years and assuming the same actuary has performed this service for ten (10) consecutive years, a full replication audit of the tenth-year actuarial valuation must be performed.

Mr. Kenderdine reported that a Request for Proposals (RFP) was previously issued to procure an actuary to perform the audit of the FY2019 valuation, however, the Agency received no bids from any firm which has had a SOC2-Type2 assessment report. Such an assessment report was one of the requirements of the RFP. As a consequence, staff will be reissuing the RFP that will not require the SOC2-Type2 assessment as staff has determined a method for providing all necessary member demographic data required for the valuation audit, without having to also provide members' personally identifiable information.

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

July 26, 2019

Mr. Kenderdine reported that the following proposed timeline is a compressed, but workable work plan, which would allow the Board to timely certify contribution rates to the Governor and the Department of Budget and Management by the statutorily required date of December 1.

DATE	
July 26, 2019	Present revised work plan/timeline to Board of Trustees (BOT).
July 26, 2019	Issue RFP.
August 26, 2019	Completed proposals due.
August 30 – September 6, 2019	Evaluation period. Evaluation Committee reviews proposals and conducts preliminary interviews then will analyze and summarize the Evaluation Committee’s ratings of each of the candidates. The Evaluation Committee will then identify finalists based upon the candidates’ technical and financial proposals.
September 17, 2019	Evaluation Committee’s recommendation of the appointment of Actuarial Audit Services provider presented to the Board of Trustees (BOT).
October 1, 2019	Contract begins.

On a motion made by Ms. Hill and seconded by Ms. Herman, the Board of Trustees approved the revised work plan for the Actuarial Audit Services Provider RFP.

Financial Incentive
Compensation
Policy for the
Chief Investment
Officer

Mr. Brotman, as Chairman of the Objective Criteria Committee (OCC) provided the Board with a memorandum, based on the recommendations of the Board’s OCC and adopted by the Board on January 15, 2019, which outlined the proposed policy for financial incentive compensation for the Chief Investment Officer, as follows:

Base Salary: Per statute, is to be based on the comparative qualifications and compensation of CIOs serving in similar positions and discharging similar duties at comparable public pension funds. The Board is to consider:

- Base salary and total cash compensation market data at the 25th, 50th, and 75th percentile (currently \$301,225 - \$350,280 - \$420,304 respectively)
- Comparisons to external survey data; the OCC used:
 - CBIZ Public Pension Compensation Survey
 - McLagan Pension Funds Compensation Survey – US
 - PRM Consulting Retirement Board Compensation Survey Report
 - Institution Limited Partners Association Compensation Survey
- The CIO’s education and certifications
- **Employee Salary range placements¹**
- Adjustments to the CIO’s base salary are to be based on fund returns relative to policy benchmarks. When the CIO’s salary is at or above the

¹ Amendment to minutes: At its meeting held on September 17, 2019, the Board of Trustees amended the Investment Policy Manual to incorporate the new policy for CIO compensation, and in so doing, included the objective criteria which had been omitted from Trustee Brotman’s memorandum.

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

July 26, 2019

salary range midpoint, an increase should only be considered in years when the fund meets or exceeds policy benchmarks.

Incentive Compensation: To be based on objective benchmarks of investment performance for the assets of the several systems that must be met or exceeded, and, objective criteria used by comparable public pension funds awarding financial incentives to chief investment officers. The recommendation of the OCC, and what was approved by the Board is:

- Performance vs. Policy Benchmarks (weighting: 50%)
- Performance vs. Actuarial Assumed Rate of Return. To be eligible for a payout under this metric, the fund must have a positive return relative to the Policy Benchmark over a three-year period (weighting: 50%)

The incentive plan opportunities for the CIO are:

- Threshold annual incentive: 11%
- Target annual incentive: 22%
- Maximum annual incentive: 33%

Consistent with the plan approved for other eligible investment staff, the required performance metrics to achieve the maximum incentive award for the 50% weighting for net total fund returns vs. the total fund policy benchmark is 40 basis points (0.40%), and for the 50% weighting for net total fund returns vs. the actuarial assumed rate of return is 20 basis points (0.20%). The measurement will be based on the System's 3-year trailing average net returns.

This new policy for CIO compensation would be effective July 1, 2019.

Mr. Stafford commented that while the Board is lucky to have Mr. Palmer and that Mr. Palmer needs to be appropriately compensated, Mr. Stafford thinks the current proposed policy leaves Trustees exposed to a negative headline if the System significantly underperforms and yet the CIO earns a maximum incentive compensation. Mr. Stafford further commented that he feels that incentive compensation should not be based on just meeting the policy benchmark but also on performance relative to peers.

Mr. Brotman commented the only way for the CIO to achieve a maximum payout would be 1) exceeding the benchmark, and 2) exceeding the actuarial assumed rate of return. Mr. Brotman said it is his opinion that it does not matter what our peers are doing, if the System hits its targets and is beating benchmarks. In his view, underperformance relative to peers generally relates to asset allocation decisions of the Board, not decisions of staff.

Mr. Stafford noted that the CIO has input on the asset allocation. Ms. Herman agreed, commenting that the System is competing in the same financial market as all institutional investors and it is Mr. Palmer's responsibility, working with Meketa, to maximize returns. Chairman Kopp clarified that, while the Board seeks CIO guidance, the trustees are ultimately responsible for asset allocation.

Ms. Hill commented that the discussion should not be about Mr. Palmer's performance, but rather on the Board's policy for providing financial incentives to the current and all future CIOs.

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

July 26, 2019

In response to a question from Chairman Kopp, Mr. Burd acknowledged that underperformance was due to manager and strategy selection. Referring back to the Board's earlier discussion, Mr. Brotman noted that such underperformance was solely the result of staff decisions.

Ms. Herman commented that the underperformance was not limited to public equity and factor-based strategies, and asked if a complete performance attribution and reporting would be provided.

Mr. Burd confirmed that a comprehensive reporting package would be provided for the September Investment Committee meeting.

Executive
Director's Report

Mr. Kenderdine provided the Board with an update on Angie Jenkins' recovery from her surgery.

Mr. Kenderdine reminded the Board that the second meeting of the Ad Hoc Committee on Strategic Planning and Governance is scheduled for September 23, 2019 at 1:30 p.m.

Mr. Kenderdine reported that he had contacted each Trustee by telephone during the previous week to inform the Trustees that the go-live date for the Member Portal being added to the MSRPS website has been rescheduled to November 4, 2019.

Ms. Hill asked if a section for public comments could be made on the new public website.

Other Business

Treasurer Kopp presented a Board Resolution to Trustee Lochte, expressing the Board's gratitude and recognition of her outstanding service to the System through three terms as Trustee.

On a motion made by Ms. Herman and seconded by Ms. Hill, the Board voted to meet in a Closed Session, beginning at 11:15 a.m., in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor, for the purpose of:

- a) reviewing the June 18, 2019 closed session Board minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function;
- b) reviewing the Medical Board reports, regarding individual participants' claims for disability retirement benefits, 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 General Provisions Art., § 4-329 regarding the prohibition on disclosing medical and psychological information;

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

July 26, 2019

- c) receiving a report from the Chief Information Systems Officer regarding the Agency's information security matters, pursuant to General Provisions Art., § 3-305(b)(10), to discuss public security, if the public body determines that public discussion would constitute a risk to the public or security, including: (i) the deployment of fire and police services and staff; and (ii) the development and implementation of emergency plans; and
- d) receiving a litigation update from Board counsel, pursuant to General Provisions Art., § 3-305(b)(7), to consult with counsel to obtain legal advice and §3-305(b)(8), to consult with staff, consultants, or other individuals about pending or potential litigation.
- e) to discuss personnel matters concerning Investment Division staff, pursuant to General Provisions Art., § 3-305(b)(1) to discuss the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of appointees, employees, or officials over whom this public body has jurisdiction; any other personnel matter that affects one or more specific individuals.

CLOSED SESSION

The Trustees present included:

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

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

Robert Burd	Ira Greenstein	David Rongione
Anne Gawthrop	Kimberly O'Keeffe	Janet Sirkis
Michael Golden	Kenneth Reott	Patricia Wild

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

Other attendees included: Tom Brennan

On a motion made by Mr. Johnson and seconded by Ms. Hill, the Board returned to open session at 12:30 p.m. in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor.

OPEN SESSION

During closed session, the Board of Trustees discussed each item referenced in (a)-(e) above, and took action on the following matters:

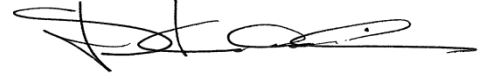
Closed Session Minutes	The Board approved the June 18, 2019 closed session minutes.
Medical Board Reports	The Board adopted the medical board reports from June 20, June 26, July 10, July 18 and July 24, 2019.

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

July 26, 2019

Adjournment There being no further business before the Board, on a motion made by Ms. Hill and seconded by Mr. Johnson, the meeting adjourned at 12:31 p.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board