

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

November 16, 2021

The Board of Trustees for the Maryland State Retirement and Pension System convened, via video/audio conference call beginning at 12:23 p.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	James Daly
Peter Franchot, Vice Chairman (via Teams)	Kenneth Haines (via Teams)
Linda Allen	David Hamilton (via Teams)
Thomas Brandt	Sheila Hill
David Brinkley	Richard Norman (via Teams)
Eric Brotman	Douglas Prouty
Jamaal Craddock	Michael Stafford, Jr.

Agency Staff members attending included: Martin Noven, Executive Director/Board Secretary

Greg Busch (via Teams)	Michael Golden	Ken Reott (via Teams)
Melody Countess (via Teams)	Angie Jenkins (via Teams)	David Rongione (via Teams)
Robert Diehl (via Teams)	Megan Myers (via Teams)	Janet Sirkis (via Teams)
Mimi Forbes (via Teams)	Kim O’Keeffe (via Teams)	Toni Voglino (via Teams)
Anne Gawthrop	Andrew Palmer	Scott Bolander (live stream)
	Chandra Puranam (via Teams)	

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

Other attendees, via Teams, included: Thomas Rey (CliftonLarsenAllen); Public Advisors Anne Shelton and Monte Tarbox (in-person); Megan Schutz (Treasurer’s Office); Justin Hayes (in-person) and Alex Butler (Comptroller’s Office)

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

- October 19, 2021 Open Meeting Board Minutes
- November 9, 2021 Audit Committee Meeting Summary

Board Resolution and Governor’s Citation Secretary Brinkley presented Treasurer Kopp with a Governor’s Citation. In addition, Comptroller Franchot presented Treasurer Kopp with a Board Resolution and a Proclamation from the Office of the Comptroller.

Financial Statements Report for FYE June 30, 2021 David Hamilton, Chairman of the Audit Committee, reported that the System’s annual audited financial statements for the year ending June 30, 2021, were presented to and reviewed by the Audit Committee at its November 9, 2021 meeting. He reported that the financial statements were audited by the System’s auditors, CliftonLarsenAllen. Therefore, on a motion made by Mr. Hamilton and seconded by the Committee, the Board accepted the FY2021 financial statements for inclusion in the System’s FY2021 Comprehensive Annual Financial Report.

Board Requested Legislation Ms. Gawthrop presented the following legislative proposal to the Board of Trustees and recommended that the legislative proposal be presented to the Joint Committee on Pensions (JCP) for the JCP’s consideration to sponsor as legislation for the 2022 session.

Ms. Gawthrop reported that on May 5, 2021 the Agency received an application for retirement that was signed on April 27, 2021. The member selected Option 1, which would provide for a return of the present value of the retiree’s retirement benefit that

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

November 16, 2021

is remaining at the time of the retiree’s death. After reviewing the application, staff rejected it, due to flaws with the notarization of the document. Staff attempted to notify the member of the defects in her application on May 18, 2021. However, on June 1, 2021, the Agency was notified by the family of the member, that the member had passed away, unexpectedly, on May 5, 2021. Because the member passed away prior to receiving the Agency’s notice that the notarization on her application was flawed, the Agency does not have a properly completed retirement application on file for this deceased member. As a result, the Option 1 benefit cannot be paid to the deceased member’s designated beneficiary. Moreover, because the deceased member was a deferred vested member of the Non-Contributory tier of the Employees’ Pension System, there is no active death benefit that will be paid.

Section 22.01.14.03A(1) of the Code of Maryland Regulations (COMAR), provides, in part, that a retirement application is properly completed if it is completed in accordance with the form’s instructions, dated, signed by the member or former member, and properly acknowledged by a notary public. This is the basis for the Agency rejecting the deceased member’s application. Staff notes that but for the flawed notarization, the deceased member’s application was properly completed. Given that the member did not have an opportunity to correct the flawed notarization on her application prior to her death, staff is recommending special legislation that would direct the Agency to accept the retirement application that was received on May 5, 2021.

On a motion made by Mr. Haines and seconded by the Administrative Committee, the Board of Trustees voted to approve the legislative proposal, as presented.

Recommendation
of the Investment
Committee
regarding the
Implementation of
the Asset
Allocation and
Benchmark
Changes

The Board was provided with a memorandum from Frank Benham and Mary Mustard, Meketa Investment Group, which outlined the following recommendations, due to the Board’s September 2021 adoption of a new asset allocation policy, which was presented to and approved by the Investment Committee for recommendation to the Board.

Strategic and Policy Benchmarks

Asset Class	Current Strategic Policy Benchmark	Proposed Changes
Equity:		
Public Equity	43% Russell 3000, 27% MSCI World (ex. US), 30% MSCI EM	44% Russell 3000, 27% MSCI World (ex. US), 29% MSCI EM
Private Equity	MSCI ACWI + 200 bp	
Rate Sensitive	53% Barclays Long-Term Gov’t, 13% Barclays Securitized, 13% Barclays Corporate, 21% Barclays US TIPS	48% Barclays Long-Term Gov’t, 14% Barclays Securitized, 14% Barclays Corporate, 24% Barclays US TIPS
Credit:	78% US, 22% Non-US	87% US, 13% Non-US
US Credit	80% Barclays US High Yield, 20% S&P/LSTA Leveraged Loan	
Non-US Credit	50% Bloom/Bar EM Local Liquid Gov’t -30 bp, 25% Bloom/Bar EM Hard Sov, 25% Bloom/Bar EM USD Agg Corp	50% Bloom/Bar EM Hard Sov, 50% Bloom/Bar EM USD Agg Corp
Real Assets:	71% RE, 29% NR/IS	67% RE, 33% NR/IS
Real Estate	NCREIF ODCE (net) + 40bp	
NR & IS	CPI+ 500 bp (capped at 10%)	
Absolute Return	3 month T-bill + 400 bp	

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

November 16, 2021

Meketa also recommended the following changes, which one updates the underlying weights based on the new policy targets and the second is a change to the absolute return benchmark.

Asset Class	Current Policy Benchmark	Proposed Changes
Real Assets:		
	60% S&P	20% S&P
NR & IS	Global Natural Resources, 40% DJ-Brookfield Infrastructure	Global Natural Resources, 80% DJ-Brookfield Infrastructure
Absolute Return	HFRI Fund of Funds Conservative + 100 bps	50% HFRI Relative Value, 25% HFRI Global Macro, 25% HFRI Event Driven (asset weighted)

Real Assets Benchmark

The Real assets benchmark is currently weighted more toward natural resources than infrastructure. However, the forward-looking plan for the real assets program is to emphasize infrastructure assets. Meketa recommended re-weighting the two components to better reflect the opportunity set that the System intends to pursue. If approved, the effective date for this benchmark change will be July 1, 2022.

Absolute Return Benchmark

Meketa’s memorandum indicated that over recent years, the composition of the HFRI Fund of Funds Conservative Index has changed as there are fewer constituents. This has results in a less diversified index. Therefore, Meketa recommends that the Board consider a blended benchmark that consists of 50% HFRI Relative Value, 25% HFRI Global Macro, and 25% HFRI Event Driven indices. This change, if approved, would be effective December 1, 2021.

Asset Class Guidelines

Meketa also recommended one change to the asset class guidelines regarding the allowable range for the Private Credit asset class, as follows:

Asset Class	Sub-Asset Class	Current Range(%)	Proposed Range %)
Public Equity	Hedge Funds	0-20	
Private Equity	Buyout	60-90	
	Venture/Growth	10-25	
	Special Situations	10-30	
Rate Sensitive	L-T Government	30-70	
	Securitized Corp	10-50	
	Inflation Linked	0-40	
Credit	Hedge Funds	0-30	
	Private Credit	0-50	0-80
Real Assets	Real Estate- Core	50-100	
	Real Estate – Value Added	0-25	

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

November 16, 2021

	Real Estate- Opportunistic	0-25	
	REITS	0-30	
	Commodities	0-25	

Finally, Meketa's memorandum indicated that another consideration with any change to policy targets is the time-period in which Staff has to implement the changes. Accordingly, Meketa recommended the following transition plan:

	Current Policy(%)	Policy As of Feb 1(%)	Policy As of April 1(%)	Policy As of July 1(%)
Growth/Equity	50	50	50	50
US Equity	16	15	15	15
Developed non-US Equity	10	9	9	9
Emerging Market Equity	11	10	10	10
Private Equity	13	16	16	16
Credit	9	8	8	8
High Yield, Bank Loans & EM Debt	5	4	4	4
Private Debt	4	4	4	4
Rate Sensitive	19	20	21	21
Cash & US Investment Grade Bonds	5	6	6	6
Long-term Government Bonds	10	10	10	10
TIPS	4	4	5	5
Real Assets	14	14	14	15
Real Estate	10	10	10	10
Natural Resources and Infrastructure	4	4	4	5
Absolute Return	8	8	7	6

On a motion by Mr. Brotman and seconded by the Committee, the Board approved the recommendations regarding the implementation of the Asset Allocation and Benchmark changes.

Recommendation
of the Investment
Committee
regarding
Amendments to
the Investment
Policy Manual

The Board was provided with a memorandum from Mr. Palmer, regarding recommended changes to the Investment Policy Manual (IPM) and a red-lined version of the IPM outlining those recommended changes, which was presented to and approved by the Investment Committee for recommendation to the Board.

On a motion made by Mr. Brotman and seconded by the Committee, the Board approved the recommended changes to the IPM, as presented.

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

November 16, 2021

Recommendation
of the Corporate
Governance and
Securities
Litigation
Committee
regarding the
Iran-Sudan
Divestment

The Board was provided a memorandum from Ms. Voglino, Senior Compliance Officer, regarding the Iran-Sudan Divestment, recommending that Gazprom and its subsidiaries be removed from the restricted list until staff has all the necessary information to determine if Gazprom meets the divestment requirements per State Personnel and Pensions Art., § 21-123.1, which was presented to and approved by the Corporate Governance and Securities Litigation Committee for recommendation to the Board.

On a motion made by Mr. Prouty and seconded by the Committee, the Board approved the recommendation to remove Gazprom and its subsidiaries from the restricted list until staff has all the necessary information to determine if Gazprom meets the divestment requirements per State Personnel and Pensions Art., § 21-123.1.

FY2021 System
Active
Membership

The Board was presented with the System’s Active Membership by percentage as employed by the State, the local public libraries, and each participating local employer. The certified percentages are provided to determine each System employer’s pro rata share of the amount necessary for the administrative and operational expenses of the Board of Trustees and the State Retirement Agency. This report serves as certification of the System’s active membership as of the end of the fiscal year and is submitted to the Secretary of the Department of Budget and Management in accordance with State Personnel and Pensions Article § 21-316(c) of the Maryland Annotated Code.

On a motion made by Mr. Brotman and duly seconded, the Board voted to certify the required membership percentages to the Secretary of Budget and Management, applicable to FY2023, as follows:

State Teachers and Employees	59,949	
Local Public Libraries	2,570	
Subtotal State	62,519	32%
Local Board of Education	113,359	
Local Community Colleges	5,292	
Local Elected & Appointed Officials	56	
Participating Governmental Units	<u>12,334</u>	
Subtotal Local	<u>131,221</u>	<u>68%</u>
Total	<u>193,740</u>	<u>100%</u>

Secretary Brinkley abstained from voting.

Final Adoption of
Proposed
Amendments to
COMAR 22.03.05
– Subpoenas

The Board was presented with proposed amendments to COMAR 22.03.05 – Subpoenas, which were previously adopted by the Board of Trustees for submission to the Administrative, Executive, and Legislative Review Committee, and then published in the Maryland Register for public comment. The 45-day comment period expired, and no comments were received. Therefore, the proposed amendments were being presented to the Board of Trustees for final adoption.

On a motion made by Mr. Brotman and duly seconded, the Board of Trustees, approved for final adoption, the amended regulations concerning Subpoenas (COMAR 22.03.05).

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

November 16, 2021

- 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 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.

CLOSED SESSION

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding
Peter Franchot, Vice Chairman (via Teams)
Linda Allen
Thomas Brandt
David Brinkley
Eric Brotman
Jamaal Craddock

James Daly
Kenneth Haines (via Teams)
David Hamilton (via Teams)
Sheila Hill
Richard Norman (via Teams)
Douglas Prouty
Michael Stafford, Jr.

Agency Staff members attending included: Martin Noven, Executive Director/Board Secretary

Greg Busch (via Teams)	Angie Jenkins (via Teams)	Ken Reott (via Teams)
Melody Countess (via Teams)	Kim O'Keeffe (via Teams)	David Rongione (via Teams)
Anne Gawthrop	Andrew Palmer	Janet Sirkis (via Teams)
Michael Golden	Chandra Puranam (via Teams)	

Assistant Attorneys General present via Teams included: Rachel Cohen and Kathleen Wherthey

Other attendees, via Teams, included: Megan Schutz (Treasurer's Office); Justin Hayes and Alex Butler (Comptroller's Office)

On a motion made by Mr. Brotman and duly seconded, the Board returned to open session at 1:04 p.m., via video/audio conference call.

OPEN SESSION

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding
Peter Franchot, Vice Chairman (via Teams)
Linda Allen
Thomas Brandt
David Brinkley
Eric Brotman
Jamaal Craddock

James Daly
Kenneth Haines (via Teams)
David Hamilton (via Teams)
Sheila Hill
Richard Norman (via Teams)
Douglas Prouty
Michael Stafford, Jr.

Agency Staff members attending included: Martin Noven, Executive Director/Board Secretary

Greg Busch (via Teams)	Angie Jenkins (via Teams)	Ken Reott (via Teams)
Melody Countess (via Teams)	Kim O'Keeffe (via Teams)	David Rongione (via Teams)
Anne Gawthrop	Andrew Palmer	Janet Sirkis (via Teams)
Michael Golden	Chandra Puranam (via Teams)	Scott Bolander (live Stream)

Assistant Attorneys General present via Teams included: Rachel Cohen and Kathleen Wherthey

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

November 16, 2021

Other attendees, via Teams, included: Megan Schutz (Treasurer's Office); Justin Hayes and Alex Butler (Comptroller's Office)

During closed session, the Board of Trustees discussed and acted on the following matters:	
Closed Session Minutes	The Board reviewed and approved the October 19, 2021 closed session minutes.
Medical Board Reports	The Board reviewed and adopted the medical board reports from October 21, October 27, November 4 and November 10, 2021.

Adjournment There being no further business before the Board, on a motion made by Mr. Brotman and duly seconded, the meeting adjourned at 1:04 p.m.

Respectfully submitted,



Martin Noven
Secretary to the Board

**BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

**AUDIT COMMITTEE MEETING SUMMARY
NOVEMBER 9, 2021**

The Committee Members present included:

David B. Hamilton, Chairman

Richard E. Norman, Vice-Chairman

Linda Vaughn Allen

Thomas M. Brandt

Kenneth B. Haines

Agency Staff members attending included:

Martin Noven

Kenneth Reott

Kimberly O’Keeffe

Megan Myers

David Rongione

Andrew Palmer

Toni Voglino

Robert Diehl

Melody Countess

Patricia Fitzhugh

Angie Jenkins

Lauren Smith

Gregory Busch

Richa Sultana

Scott Bolander

Assistant Attorneys General present included: Rachel Cohen

Other attendees included: Thomas Rey, Stephen Maranto and Ivana Ritz (CliftonLarsonAllen)

Presentation of
FY2021 Financial
Statement Audit
Results by
CliftonLarsonAllen

Mr. Rey mentioned that the financial statements audits are conducted to express an opinion on whether the financial statements are presented in accordance with GAAP. He added by saying that they do not express an opinion on internal control. They provide a report on internal control identifying whether there are any material weaknesses or significant deficiencies.

Mr. Rey described the different phases of the financial statements audit, and reviewed the significant risks considered during the audit which includes management override of controls, improper revenue recognition, valuation of alternative and real estate investments, and valuation of pension liability and related amounts. Mr. Rey clarified that management is the owner of the financial statements, and CLA only owns the opinion issued on the financial statements. He mentioned that the draft financial statements were issued on Monday, November 8, 2021, and they plan to issue an unmodified opinion on the final version of the financial statements, meaning the financial statements are presented fairly and in accordance with GAAP. He said that limited procedures were performed, and no opinions will be issued on management’s discussion and analysis, required supplemental information, and the Introductory, Investment, Actuarial, and Statistical sections. Limited procedures were also performed on the additional supplemental information in the ACFR, and CLA will opine on whether that information is consistent with the information presented in the audited financial statements.

Mr. Rey provided a summary of the net position indicating that in June 30, 2021 financial statements the net position increased, and part of the increase is due to increase in investment income. He also presented a sensitivity analysis of the net pension liability showing what net pension liability would be if the discount rate changes by 1% in either direction.

Mr. Rey reviewed the components of the balance sheet and income statement. He mentioned that the net income is derived mainly from the investment return. In addition, Mr. Rey reviewed the required communications section of the financial statements which include significant accounting policies, significant

**BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

**AUDIT COMMITTEE MEETING SUMMARY
NOVEMBER 9, 2021**

accounting estimates, significant disclosures, difficulties encountered and uncorrected and corrected misstatements. He noted that there were no significant changes or issues identified regarding the required communications section of the financial statements.

Mr. Brandt made an inquiry regarding the audit procedures for testing private equity investment, applicable audit standards and AICPA guidance for this area. Mr. Rey answered by saying that they carve out non-custodial assets and review investment office's initial due diligence, ongoing due diligence, and what investment staff are doing around stress testing. He added by saying that CLA selects samples to test based on significance of the non-custodial assets. CLA also reviews the audited financial statements of the underlying private equity companies and confirms any capital calls and distributions with the general partners. Mr. Rey mentioned that the "squishy" areas are the unrealized gains and losses which is reviewed and tested by CLA for reasonableness and benchmarked based on strategies. Mr. Rey emphasized on the fact that the NAV is assumed based on an estimate of the fair market value of that particular fund.

Presentation of
FY2021 Results of
Participating
Employer Audits by
CliftonLarsonAllen

Mr. Maranto mentioned CLA audited 69 employers (1/3 of PGUs) in FY2021 who were last tested in FY2018. Mr. Maranto presented a chart comparing the number of employers who had findings in current audit with the number of employers with findings in previous audit. He noted that the number of employers who failed to enroll eligible employees went down to 3 employers from 22 employers. He added by saying that this is the trend CLA expects to see from year to year. Mr. Maranto presented another chart that compared total volume of findings by objective. He noted that the finding related to misreported payroll data increased to 213 from 170. Mr. Maranto explained that his team drilled down on this issue and identified that approximately 80% of the misreported payroll data is related to four specific employers. He added by saying that their prior experience on these audits shows that only five/ten specific employers always have the highest number of findings. Mr. Brandt said that this is probably due to government employees not having the right tool to perform the job or honest mistakes made by employees. He advised that the Agency must find a way to constructively communicate with the employers with repeat findings.

Mr. Hamilton requested more detail on the repeat offenders. Mr. Rongione explained the Executive Director of the Agency is performing a follow-up every 30 days on the unpaid penalty invoices related to automatic enrollment. Mr. Rongione added that reports are sent to the PGUs, and Benefit Processing Division works with those locations to resolve the issues.

Mr. Rongione mentioned that the contract with CLA has expired, and IAD is currently revamping the PGU audit procedures with a risk-based approach. He mentioned that the audit procedures will be revised mainly for two items – 1) Include State agencies which will result in 325 locations in total and 2) Select locations to be audited by taking a risk-based approach. For example, the repeat offenders and locations with higher contributions possess higher risk, and these locations will be audited more frequently than others. He also

**BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

***AUDIT COMMITTEE MEETING SUMMARY
NOVEMBER 9, 2021***

mentioned that the goal will be to have each of the 325 locations audited at least once every five years. Mr. Rongione mentioned Internal Audit Division (IAD) expects to receive copies of the proposals in December 2021. As soon as the contract is finalized, it will be presented to the Audit Committee and the audit work will commence.

Mr. Norman inquired about how much time the Member Services Division is spending on communicating and rectifying the misreported payroll data. Mr. Reott said it is not Member Services Division who handles this matter. The Agency has one dedicated employee in Data Control Unit who is responsible to communicate the issues identified in the CLA report and take corrective actions. Mr. Reott added that Mr. Noven sends out a letter to the employers with the repeat findings. He indicated that if employers do not cooperate, Mr. Noven intervenes and reaches out to the Executive Directors of those locations to resolve the matter. Mr. Brandt suggested that management should consider performing the PGU audits internally since it appears that these audits are repetitive steps.

Status of FY2022
Audit Plan

Mr. Rongione stated the Q1 2022 continuous audits have been completed. He added by saying that the Enrollments audit and Management Reporting audit are 90% complete. The audit reports for these audits will be issued in next few weeks. He added that the SWIFT Assessment audit is on track to be finalized by the December 2021 deadline. He continued by saying the participating audits will now be performed on a calendar year basis instead of a fiscal year basis. There is a pending RFP for these audits, and IAD is anticipating an award in December 2021.

Status of Open
Issues Log

Mr. Rongione reviewed the open issues log stating that there are currently 21 issues that remain open. Since the last Audit Committee meeting, no issues have been removed. This is primarily due to other agency priorities, including the Office of Legislative (OLA) audit, the financial statements audit, and the MPAS plus project. Mr. Rongione mentioned that now that OLA and the financial statement auditors have completed their fieldwork, IAD expects the Agency will have some time to dedicate to remediating some of these issues. He added by saying that this past Friday, November 5th, Information Systems sent a listing of items that are ready for IAD to perform remediation testing, which will be performed prior to the next Audit Committee meeting.

Dashboard –
Continuous Audits

Mr. Rongione directed the Audit Committee to the dashboard for the data analytics performed by IAD. He mentioned that the table shows the number of exceptions per quarter for the applicable audit. The graph shows the number of exceptions relative to the samples audited. He stated that IAD added a table and a graph to provide a statistics of current vs prior year samples tested and findings. Mr. Rongione clarified by saying that last year IAD performed these audits monthly where in current year IAD is performing the audits on a quarterly basis. He mentioned that the graph on page 2 of the dashboard shows the number of YTD exceptions identified in each fiscal year and the YTD remaining open issues.