

THE INVESTMENT COMMITTEE
OF THE
MARYLAND STATE RETIREMENT AND PENSION SYSTEM

MINUTES OF OPEN MEETING

June 18, 2024

The Investment Committee convened on Tuesday, June 18, 2024, at 11:37 a.m., via WebEx video/audio conference call at 120 E. Baltimore Street, 16th Floor, Baltimore, Maryland.

Committee Members	Michael Barry	Richard Norman
Attending:	James Daly (Vice-Chair)	Douglas Prouty
	Budget Secretary Helene Grady	Michelle RhondesBrown
	Sheila Hill	Sharcus Steen
	Comptroller Brooke Lierman (Chair)	Monte Tarbox
Also Attending:	Kajol Awasthi (FIRM)	Larry Katsafanas
	Daniel Bahat	Stuart Kaye
	Frank Benham (Meketa)	Michael Klos
	Devaughn Blackburn (Comptroller's	Tom Kurowski (Alex Brown)
	Research Investment Analyst)	Alisha Manekshaw (FIRM)
	Jonathan Blicher	Jonathan Martin (Treasurer
	Bryan (Public)	Designee)
	Robert Burd, Deputy CIO	Jared Marx
	Antionette Butcher	Katherine Moore
	Rhett Butler	Muskan (Public)
	Tea Carnell, OAG	Mary Mustard (Meketa)
	Rachel Cohen, OAG	Minh Nguyen
	Melody Countess	Martin Noven, Executive Director
	Linda Daley	Kyle Olson (NFP)
	Cheryl-Davis Shaw	Ashu Pal
	Leonardo DeSouza	Andrew Palmer, CIO
	Maguette Diop	Adam Radinsky
	Dani DiPietro (Comptroller's Assistant)	Steve Reilly
	Mike Fang	Stephen Reynard
	Eric Farls	Tarrus Richardson (Trustee)
	David Ferguson	Peta Richkus, (Public)
	Anne Gawthrop	Benjamin Robb
	Isabella Gentile	David Rongione (Audit)
	David Goodrich	Robert Sandlass, Jr. (Trustee)
	Dimitri Grechenko	Megan Schutz
	Alex Harisiadis, OAG	Chung Hei Sing
	Philip Harris - FIRM	Frederick "Beau" Smith
	Charles Theodore Hopkins Jr. (Trustee)	Toni Voglino
	Danita Johnson	Ed Witham
	Lisa Jordan	Jack Wheatley
	Faina Kashtelyan	

Comptroller Lierman called the meeting to order at 11:37 a.m.

Action Item 1: Ratification of Open Session Minutes

On motion made by Mr. Tarbox and seconded by Mr. Prouty, the Investment Committee ratified the May 21, 2024, open meeting minutes.

Action Item 2: Optional Retirement Program Review

Robert Burd opened the discussion of the biennial review of the ORP.

Philip Harris of FIRM discussed the plan's current asset level and reviewed the cash flows over the prior two years.

Kyle Olson of NFP provided an update on the plan's performance.

Mr. Harris indicated that his team engaged with Fidelity and TIAA with respect to lowering their annual recordkeeping fees. TIAA agreed to lower its recordkeeping fee from \$28 to \$24, while Fidelity agreed to a lower fee of \$28 from \$42. Mr. Harris noted that the new lower fees are competitive relative to the market. Mr. Harris recommended that the Committee approve these fee reductions, as well as extend the recordkeeping contracts for TIAA and Fidelity for three years from 01/01/2025 to 12/31/2027.

Mr. Olson also recommended several fund and share class changes based on performance and expected fee savings. These recommendations are summarized below:

Fidelity Recommendations:

1. Replace the Western Asset Core Bond Fund (WATFX) with the Fidelity Total Bond Fund (FTKFX).
 - a. Replacement is recommended due to underperformance relative to the Bloomberg Aggregate Bond Index for the 3- and 5-year annualized periods and a higher management fee relative to the Fidelity Total Bond Fund (FTKFX).
 - b. Existing assets and future contributions should be mapped from the Western Asset Core Bond Fund (WATFX) to the new Fidelity Total Bond Fund (FTKFX).
2. Add the Vanguard S&P Mid-Cap 400 Index Fund (VSPMX) to the Fidelity Lineup. This addition would complement the existing large- and small-cap passive options in Fidelity's fund offering. The net annual expense ratio of this fund is 0.08%.
3. Approve share class changes for the following funds to lower final net expenses to participants. For all share class changes, assets and future contributions should be mapped to the new share classes.
 - a. Fidelity Mid Cap Stock Fund: Move from the K share class (FKMCX) to the K6 share class (FNKFX).
 - b. Fidelity Diversified International Fund: Move from the K6 share class (FKIDX) to the K share class (FDIKX).
 - c. Victory RS Global Fund: Move from the R6 share class (RGGRX) to the Y share class (RGGYX).

TIAA Recommendations:

1. Replace the Hartford Core Equity R6 Fund (HAITX) with the T. Rowe Price U.S. Equity Research I Fund (PCCOX).
 - a. Replacement is recommended due to underperformance relative to the Russell 1000 Index for the 1-, 3-, 5- and 10-year annualized periods and a higher management fee relative to the T. Rowe Price U.S. Equity Research I Fund (PCCOX).
 - b. Existing assets and future contributions should be mapped from the Hartford Core Equity R6 Fund (HAITX) to the new T. Rowe Price U.S. Equity Research I Fund (PCCOX).
2. Approve the share class change for the Victory RS Global Fund from the R6 share class (RGGRX) to the Y share class (RGGYX) to lower final net expenses to participants. Assets and future contributions should be mapped to the new Y share class.

Comptroller Lierman asked who is responsible for paying the recordkeeping fees.

Mr. Harris replied that the plan participants pay these fees.

Mr. Richardson asked for the reason behind the manager changes.

Mr. Olson responded that the recommendations are based on performance.

Ms. RhodesBrown asked about NFP's due diligence process and whether a woman- or minority-owned fund was considered for selection.

Mr. Olson explained NFP's diligence process and their manager scoring system.

Mr. Richardson asked whether FIRM can share their list of minority- and woman-owned funds.

Comptroller Lierman asked FIRM to explain the reason behind not recommending a minority-owned manager.

Mr. Harris explained that the objective in structuring the investment line-ups has been to offer diversified representations of the major asset classes, both active and passive, but not necessarily exposure to the more specific sub-strategies and styles.

Ms. Manekshaw of FIRM provided commentary on the list of minority- and woman-owned managers in their database.

Mr. Richardson asked NFP to provide performance of the managers presented. He also asked about the magnitude of dollars expected to be directed to the newly recommended funds.

Mr. Richardson also asked for clarification on the selection process and the ability of the Board to expand the investment options.

Mr. Harris explained that he would be open to work with the Board on offering more managers for selection but added that fees would likely be higher in that case.

Mr. Palmer stated that the only investment vehicle eligible for the ORP are mutual funds and not separately managed accounts.

Ms. RhodesBrown asked why NFP does not recommend minority-owned managers if they are qualified and have high scores.

Mr. Olson responded that industry best practice is to simplify the manager line-up by limiting the number of strategies and managers. Mr. Olson then explained NFP's manager scorecard criteria and process.

Mr. Richardson asked for clarification regarding NFP's scoring process and factors that determine a manager's score.

Comptroller Lierman explained FIRM/NFP's role as consultant to the ORP and noted that the Board has the authority to approve or disapprove their recommendations.

Mr. Richardson asked FIRM whether they have recommended any diverse funds for other plans.

Mr. Harris responded that there have been diverse funds in other plans for which FIRM consults, but none that FIRM has recommended.

Ms. RhodesBrown asked whether the Board has the authority to add a diverse manager to the ORP line-up.

Mr. Burd noted that advice of counsel may be beneficial regarding the topics discussed. He added that if the Board approved the addition of a minority-owned fund without terminating an existing option and mapping the existing assets to the new fund, the new fund would start out with no assets and would take time to build the asset base.

Mr. Richardson suggested that the Committee defer voting on the ORP recommendations pending further analysis of the performance of the minority-owned funds.

Mr. Palmer added that the Committee could approve the recordkeeper contract extensions and recordkeeping fee reductions as these are separate from the fund and share class change recommendations.

Comptroller Lierman asked for a motion to approve the recordkeeping contract extensions and recordkeeping fee reductions and revisit the fund and share class recommendations at an upcoming meeting. A motion was made by Mr. Daly and seconded by Mr. Prouty and unanimously approved.

Information Item 3: Meketa Asset Allocation Topics

Mr. Benham of Meketa introduced the presentation regarding the factors that affect the System's ability to meet its return objectives, including sequence of returns and volatility of distributions.

The discussion was broadened to include liquidity constraints and needs and how the division manages those risks.

Ms. Mustard discussed the risk survey that was completed by staff and Board members and provided an output summary.

The discussion explored lessons learned from peers on asset allocation and funding status and the importance of consistency in approach and implementation.

During the Committee Led Discussions, the committee discussed a recent news article describing the pricing policies of secondary funds which raised concerns about the practice of using NAV to price a position purchased at a discount to NAV. Hamilton Lane was mentioned as one that follows the practice.

Comptroller Lierman asked Mr. Palmer to write a letter to Hamilton Lane asking that they clarify their position.

Mr. Palmer confirmed that he would reach out to Hamilton Lane.

Comptroller Lierman noted that the agenda items relating to a climate advisory panel and an incentive compensation risk metric were not covered in today's meeting and will be deferred to the July Investment Committee meeting.

Mr. Palmer added that he hoped to complete an RFI or RFP for a study regarding in-state investing by the end of the summer.

Item 11: Motion by the Investment Committee to adjourn meeting

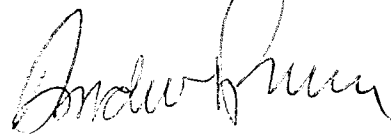
Comptroller Lierman asked for a motion to adjourn the Investment Committee meeting. On a motion made by Mr. Tarbox and seconded by Mr. Prouty, the meeting adjourned.

Item 14: NEXT INVESTMENT COMMITTEE MEETING – July 16, 2024

Adjournment

There being no further business before the Investment Committee, the meeting adjourned at 1:15 p.m.

Respectfully submitted,



Andrew C. Palmer
Chief Investment Officer