

THE INVESTMENT COMMITTEE
OF THE
MARYLAND STATE RETIREMENT AND PENSION SYSTEM

MINUTES OF OPEN MEETING

May 21, 2024

The Investment Committee convened on Tuesday, May 21, 2024, at 9:07 a.m. in-person, meeting at the host site of the Maryland State Retirement Agency, Truist (SunTrust) Building, 120 East Baltimore Street, 16th Floor, Board Room, Baltimore, Maryland.

Committee Members	Michael Barry	Richard Norman
Attending:	Budget Secretary Helene Grady	Douglas Prouty
	Sheila Hill	Michelle RhodesBrown
	Treasurer Dereck Davis	Sharcus Steen
	Comptroller Brooke Lierman (Chair)	Monte Tarbox
Also Attending:	Philip Anthony (MLIS)	Lisa Jordan
	Tara Azizi (Trustee Richardson’s assistant)	Faina Kashtelyan
	Michael Baker	Greg Kasten
	Anish Bedi	Larry Katsafanas
	Frank Benham (Meketa)	Stuart Kaye
	Devaughn Blackburn (Comptroller’s	Michael Klos
	Research Investment Analyst)	Ratna Kota
	Jonathan Blicher	Tom Kurowski (Alex Brown)
	Robert Burd, Deputy CIO	Chris M. (Public)
	Antionette Butcher	Michael McCord
	Rhett Butler	Kyongdo Min
	Byrd (Public)	Katherine Moore
	Tea Carnell, OAG	Mary Mustard (Meketa)
	Gar Chung (FIN-News)	Stephen Muturi
	Rachel Cohen, OAG	Minh Nguyen
	Linda Daley	Martin Noven, Executive Director
	Jane Daniel	Andrew Palmer, CIO
	Cheryl-Davis Shaw	Steven Pytlar
	Leonardo DeSouza	Tarrus Richardson (Trustee)
	Bob Diehl	Peta Richkus, (Public)
	Dani DiPietro (Comptroller’s Assistant)	Benjamin Robb
	Cyril Espanol (With Intelligence)	David Rongione (Audit)
	Eric Farls	Michael Rubenstein (MLIS)
	Anne Gawthrop	Robert Sandlass, Jr. (Trustee)
	Dimitri Grechenko	Megan Schutz
	Alex Harisiadis, OAG	Muskan (Public)
	Charles Theodore Hopkins Jr. (Trustee)	Frederick “Beau” Smith
	Michael Howard	Haimanot Soloman
	Radhika Iyer (Public)	Rick Sullivan
	Danita Johnson	Toni Voglino

Mr. Noven called the meeting to order at 9:07 a.m., following a motion made by Mr. Prouty and seconded by Mr. Tarbox. All were in favor.

Item 1: Appointing a Presiding Officer

Mr. Noven advised that a presiding officer needed to be appointed for the meeting as Vice-Chair Daly would not be in attendance, and Mr. Howard was no longer on the Committee.

A motion was made by Mr. Prouty to appoint Comptroller Lierman as Chair of the Investment Committee for this meeting. Mr. Tarbox seconded the motion. All were in favor.

Comptroller Lierman thanked Michael Howard for his service as a Board member and Chair of the Investment Committee and indicated that he will be presented with a citation for his service.

Item 2: Ratification of Open Session Minutes

On motion made by Mr. Tarbox and seconded by Mr. Norman, the Investment Committee ratified the February 20, 2024, open meeting minutes.

Item 3: Motion by the Investment Committee to meet in Closed Session for the purposes of:

On a motion made by Mr. Prouty and seconded by Mr. Tarbox, the Investment Committee voted without objection to meet in Closed Session at 9:10 a.m. for the purposes of:

- (a) reviewing the closed session Investment Committee minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function, and General Provisions Art., § 3-305(b)(13), to comply with a specific statutory requirement that prevents public disclosure, namely, General Provisions Art., § 3-306(c)(3)(ii), requiring that the minutes of a closed session be sealed and not be open to public inspection;
- (b) interviewing candidates for the position of Public Advisor to the Investment Committee, pursuant to General Provisions Art., Section 3- 103(a)(1)(i), the exercise of an administrative function and General Provisions Art., Section 3-305(b)(1)(i), the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of appointees, employees, or officials over whom it has jurisdiction;
- (c) considering the selection of a candidate for the position of Public Advisor to the Investment Committee, for recommendation to the Board of Trustees, pursuant to General Provisions Art., Section 3-103(a)(1)(i), the exercise of an administrative function and General Provisions Art., Section 3- 9:15 a.m. 305(b)(1)(i), the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of appointees, employees, or officials over whom it has jurisdiction; and
- (d) considering proposed salary adjustments for employees of the Investment Division, pursuant to General Provisions Art., Section 3- 305(b)(1)(i), to discuss the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of appointees, employees, or officials over whom it has jurisdiction; and
- (e) considering a proposed salary adjustment for the CIO pursuant to General Provisions Art., § 3-305(b)(1)(i), to discuss the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of appointees, employees, or officials over whom the Committee has jurisdiction, and General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function.

CLOSED SESSION

Committee Members Attending:	Michael Barry Budget Secretary Helene Grady Sheila Hill	Richard Norman Douglas Prouty Michelle RhodesBrown
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Treasurer Dereck Davis
Comptroller Brooke Lierman (Chair)

Sharcus Steen
Monte Tarbox.

Also Attending:

Tara Azizi (Trustee Richardson's assistant)
Devaughn Blackburn (Comptroller's
Research Investment Analyst)
Robert Burd, Deputy CIO
Rachel Cohen, OAG
Dani DiPietro Comptroller's Assistant)
Alex Harisiadis, OAG

Charles Theodore Hopkins Jr.
(Trustee)
Lisa Jordan
Martin Noven, Exec. Director
Andrew Palmer, CIO
Tarrus Richardson (Trustee)
Robert Sandlass, Jr (Trustee)

OPEN SESSION

Committee Members
Attending:

Michael Barry
Budget Secretary Helene Grady
Sheila Hill
Treasurer Dereck Davis
Comptroller Brooke Lierman (Chair)

Lisa Jordan
Richard Norman
Douglas Prouty
Michelle RhodesBrown
Sharcus Steen
Monte Tarbox.

Also Attending:

Philip Anthony (MLIS)
Tara Azizi (Trustee Richardson's assistant)
Michael Baker
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Frederick "Beau" Smith
Haimanot Soloman
Rick Sullivan
Toni Voglino

Item 10: Report from CIO

Mr. Palmer reviewed the plan's performance over the quarter and highlighted timing issues for private market benchmarks with State Street.

Mr. Palmer provided a staff update and thanked Ms. Butcher for her forty-one years of State service. He noted that two associates would start at the end of May to support operations. Mr. Palmer also commented on the new daily-daily custodial service and its timeliness and improved accuracy.

Mr. Palmer discussed new manager hires, noting the emerging managers hired over the quarter.

Comptroller Lierman asked about manager sourcing. Mr. Palmer responded that managers are sourced from multiple channels, including databases, conferences, consultants, System questionnaires and referrals.

Mr. Palmer introduced Mr. Kaye from the Public Equity team to discuss a recent graduation from the Terra Maria program. Mr. Kaye noted the promotion of an emerging manager, ARGA, to a direct mandate for the System. Mr. Kaye highlighted that the manager had been funded in July 2011, has generated strong returns and is expected to continue to do well outside of the manager of manager structure.

Comptroller Lierman asked for more frequent updates on the Terra Maria program and manager promotion. Mr. Palmer noted that manager promotions do not happen frequently and stated that staff will work on providing more regular updates about the program.

Mr. Palmer discussed quarterly manager meetings by asset class. He noted that 24% of the meetings during the quarter had been with diverse and emerging managers. Mr. Palmer highlighted the importance of access and the effectiveness of the Terra Maria program.

Comptroller Lierman asked if the number of meetings included new, existing, or prospective managers. Mr. Palmer replied that the meetings report included new, existing and prospective managers.

Mr. Palmer discussed the effectiveness of the process of identifying managers and highlighted the recognition the System has received from the industry. Mr. Palmer also mentioned the Lenox Park report, previously presented to the Board, and noted that staff has been sharing the data directly with managers to enhance engagement and give feedback.

Mr. Palmer gave an update the Terra Maria program net performance. He highlighted that fixed income performance has been consistently positive and that program managers struggling with performance have made changes to their manager line-ups. Mr. Palmer also discussed the plan's exposure to international small cap stocks, which is not reflected in the benchmark, and noted that it would be worth exploring a broader index that includes small cap stocks.

Mr. Richardson asked about assets under management in the Terra Maria program and whether the focus of the program is solely on public markets. Mr. Palmer clarified that the dollar amounts in the program have been stable, and Terra Maria has become a large portion of the exposure to public markets as assets have moved internally. He noted that the System has not followed a manager-of-manager structure in the private markets space. Mr. Palmer also discussed recent efforts to create a centralized resource to drive consistency in sourcing managers, diligence process, and representing the System at conferences. He noted that this process is not yet structured.

Comptroller Lierman noted that the Terra Maria program is not included in the Investment Policy Manual. She indicated that the Board may want to formalize the program in the Investment Policy Manual in the future. Comptroller Lierman also expressed interest in further discussions relating to Terra Maria at a future

Investment Committee. Mr. Palmer agreed that further discussion about the program and its fit with the Board's strategic plan would be beneficial.

Mr. Richardson asked about in-state investment initiatives. Mr. Palmer stated that many in-state programs do not achieve their objectives and that in-state managers may not invest in the state. While investing in the state is a possibility, performance has not been great. He emphasized that staff is constantly looking for co-investment opportunities. Mr. Palmer also commented on the landscape study being conducted to understand the possibilities, structure, and objectives for in-state investments.

Comptroller Lierman commented that other public pension plans report in-state investment exposure of public and private companies and that staff interaction with managers encourages in-state investment opportunities and helps facilitate investment activity.

Item 11: Meketa Reports

Mr. Palmer introduced Meketa and described their role to the Board.

Ms. Mustard noted that asset allocation topics are on the agenda for the meeting in June. Ms. Mustard reviewed total plan performance and attribution for Q1 of 2024 and trailing one-year. She also highlighted the System's performance relative to peers.

Mr. Steen asked if the Committee focus is on risk-adjusted returns and whether staff compensation should reflect that. Ms. Mustard agreed that the focus is on risk-adjusted returns and noted that further discussion on staff compensation relative to a risk-adjusted measure will occur at the meeting in June.

Mr. Richardson asked about the underperformance of the rate-sensitive nominal fixed income asset class. Ms. Mustard discussed endpoint bias and the impact of the rise in interest rates. She noted the importance of fixed income for diversification and liquidity needs for benefit payments.

Mr. Steen asked about Meketa's selection of materials presented. Ms. Mustard stated that Meketa is open to feedback on what information would be helpful to the Board.

Item 12: Review of the Criteria for the Chief Investment Officer's Evaluation

Mr. Noven noted that the criteria are being recycled from prior years. He asked the Committee to review the evaluation and give feedback by the next meeting in June.

Mr. Palmer discussed the securities lending program. He noted that the System earned \$5,617,878 during the quarter and that the total market value of securities on loan was \$8.1 billion. Mr. Palmer further highlighted the effectiveness of the program in terms of utilization relative to the Markit benchmark.

Ms. RhodesBrown asked for clarification on the types of instruments being lent out. Mr. Palmer clarified that corporate bonds, domestic and international equities, and government securities are lent out.

Item 13: Investment Reports

The Committee received the following investment reports:

- State Street Reports
- Terra Maria Performance Reports
- TUCS Report
- Private Markets Performance Reports
- Securities Lending Report
- Division's FY24 Travel Plan - Update
- Quarterly ORP Performance Report
- OPEB-PHBT Update

- New Hire Manager Report

On the Directors Desk:

- Broker Commission Reports
- Quarterly Manager Fee Report

Item 14: Committee Led Discussion

Comptroller Lierman highlighted topics that should be discussed on future agendas. She noted research on the Terra Maria program, and the landscape analysis and RFP process update to be discussed in future meetings.

Mr. Richardson asked about asset allocation decisions. He also asked about allocation and performance of nominal fixed income. Mr. Palmer noted that allocation to emerging markets equities had been reduced in February of 2023. He also commented on the asset-liability study that will happen in 2025. Comptroller Lierman added that Meketa will lead a discussion in June about a risk survey sent to the Board members. She concluded that this discussion will be the starting point for the asset allocation process over the next year.

Mr. Benham addressed staff's discretion on tactical moves within the asset allocation ranges. He also noted endpoint bias on trailing returns and highlighted the staff's ability to adjust the duration of the fixed income portfolio. Mr. Benham further discussed the difference between strategic and tactical asset allocation, noting that prior annual changes in asset allocation have detracted value for the System. He explained the longer-term nature of asset allocation to reach the assumed rate of return and remit benefit payments. Mr. Tarbox summarized the asset allocation exercise as a risk management tool rather than forecasting returns. He highlighted that asset allocation is needed given the uncertainty of the markets.

Mr. Richardson suggested that the presentation of a longer performance period for the fixed income portfolio could be more informative. Mr. Kaye noted that during recession scenarios, long-term treasuries tend to perform better than other assets as rates fall and there is a flight to quality. Mr. Benham stated that scenario analyses are included during the asset allocation process to understand the role of each asset in the portfolio. Mr. Sandlass noted that losses on long-term treasuries are unrealized, and the System would suffer a realized loss and not be able to benefit from a rate cut if those assets were liquidated.

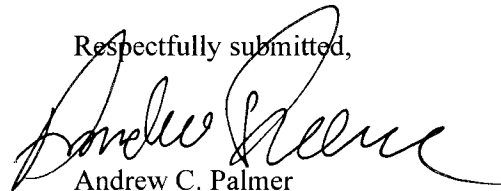
Comptroller Lierman requested new Board members to complete the risk survey.

Comptroller Lierman noted the Board's option to set up a climate advisory committee.

Item 15: Motion by the Investment Committee to adjourn meeting

Adjournment There being no further business before the Investment Committee, on a motion made by Mr. Tarbox and seconded, the meeting adjourned at 12:29 p.m.

Respectfully submitted,



Andrew C. Palmer
Chief Investment Officer