

Introduction to Pension Investing

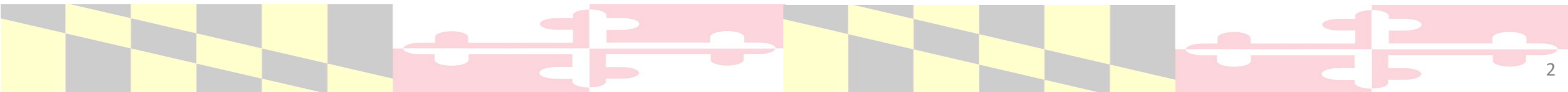
Maryland State Retirement & Pension System

Speaker Biography



Andrew C. Palmer, CFA Chief Investment Officer

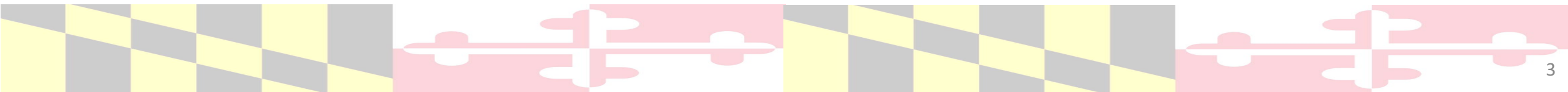
- Andrew Palmer, CFA is the Chief Investment Officer for the Maryland State Retirement and Pension System. In this role, he is responsible for the day-to-day operations of the System's investment division and has overall responsibility for the System's investment program.
- Previously he was the Deputy Chief Investment Officer, Director of Fixed Income for the Tennessee Consolidated Retirement System. In addition to his role as Director of Fixed Income, he led the construction of a Strategic Lending Portfolio, was a member of the Private Equity and Real Estate Committees and shared in the responsibility for tactical asset allocation and new product development. He began his career at ASB Capital Management, a Bethesda, Maryland based institutional advisory firm.
- Mr. Palmer is a member of the University of Maryland, Economics Leadership Council, and the ILPA, has been active in the CFA program and was President of the Washington Association of Money Managers. He received a BA and an MA in Economics from the University of Maryland.



Who are we and what do we do?



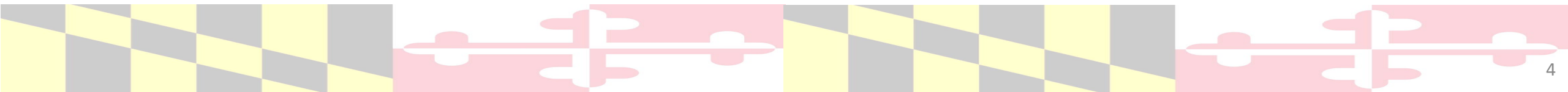
- The State Retirement and Pension System (SRPS) administers death, disability and retirement **benefits** on behalf of more than 405,000 members. These include active and former state employees, teachers, state police, judges, law enforcement.
- Our Mission: To administer the survivor, disability, and retirement benefits of the System's participants, and to ensure that sufficient **assets** are available to fund the benefits when due.
- Our Vision: A state that provides a **fully-funded** retirement system that is affordable to all participating employers and provides guaranteed adequate disability, survivor, and retirement benefits.
- The System: SRPS is defined by multiple employers, with over 150 local governmental agencies voluntarily participating. Our primary sponsor is the State of Maryland.



Who are we and what do we do? (continued)



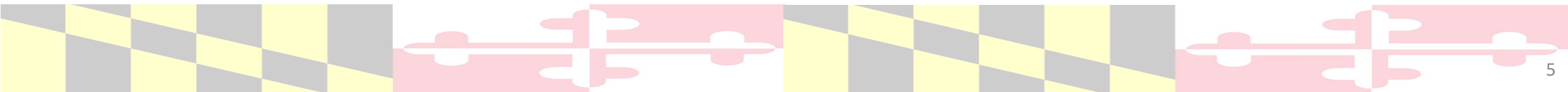
- The Board: A 15-member Board of Trustees manages the System.
 - Direct the management of a multi-billion dollar investment portfolio;
 - Adopt the **actuarial assumptions** necessary to properly fund the System;
 - Approval of qualified disability retirements; and
 - Adopt rules, regulations, policies, and procedures necessary to administer the various plans.
- The State Retirement Agency helps carry out the Board's responsibilities:
 - Collecting **contributions**;
 - Supervising management of the investment portfolio;
 - Providing member counseling; and
 - Administering the death, disability and retirement benefits for the 12 separate retirement plans provided by law.



What are the objectives of the System's investment portfolio?



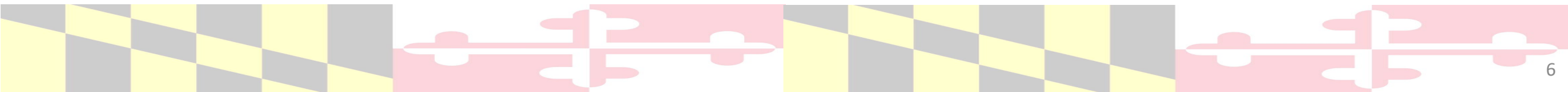
- The Board desires to balance the goal of higher long-term returns with the goal of minimizing contribution volatility.
- Achieve an annualized investment return that:
 - Meets or exceeds the actuarial target – currently 6.80%.
 - After adjusting for inflation, exceeds the U.S. Consumer Price Index by at least 3.0%.
 - Meets or exceeds the System's Investment Policy Benchmark.



What makes a pension fund the same or different than an individual investor saving for retirement?

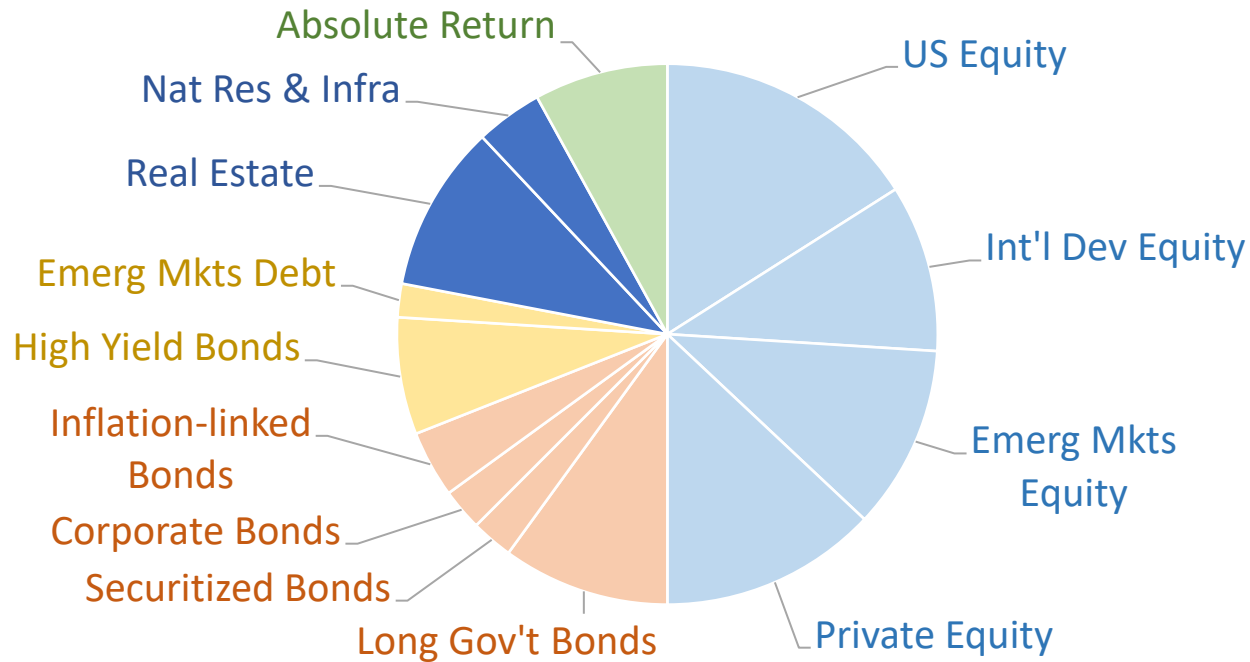


	State Pension Fund	25-year old individual investor (retirement)
<i>Objectives</i>		
Return objective	Tied to actuarial target	Tied to desired amount of spending in retirement
Risk tolerance	Moderate, balance of intergenerational equity and fulfilling promises to current retirees	High, typically varies by age
<i>Constraints</i>		
Time horizon	Perpetual, but the path of returns matters	Target retirement (i.e., 40 years until 2061), finite horizon means path of returns doesn't matter
Liquidity	Benefits must be paid each month, contributions come from employees, employers, and the state	None
Legal/regulatory	Typically governed by state/federal law	IRS guidelines
Taxes	Tax-exempt	Investment earnings grow tax-free, but contributions and distributions are subject to tax considerations
Unique circumstances	Support local economy where possible	Personal beliefs



What is the System's Investment Policy Benchmark?

- The Investment Policy Benchmark is the result of Board's **asset allocation** process and represents a mix of investment types that is expected to meet the System's return and risk objectives over the long-term.



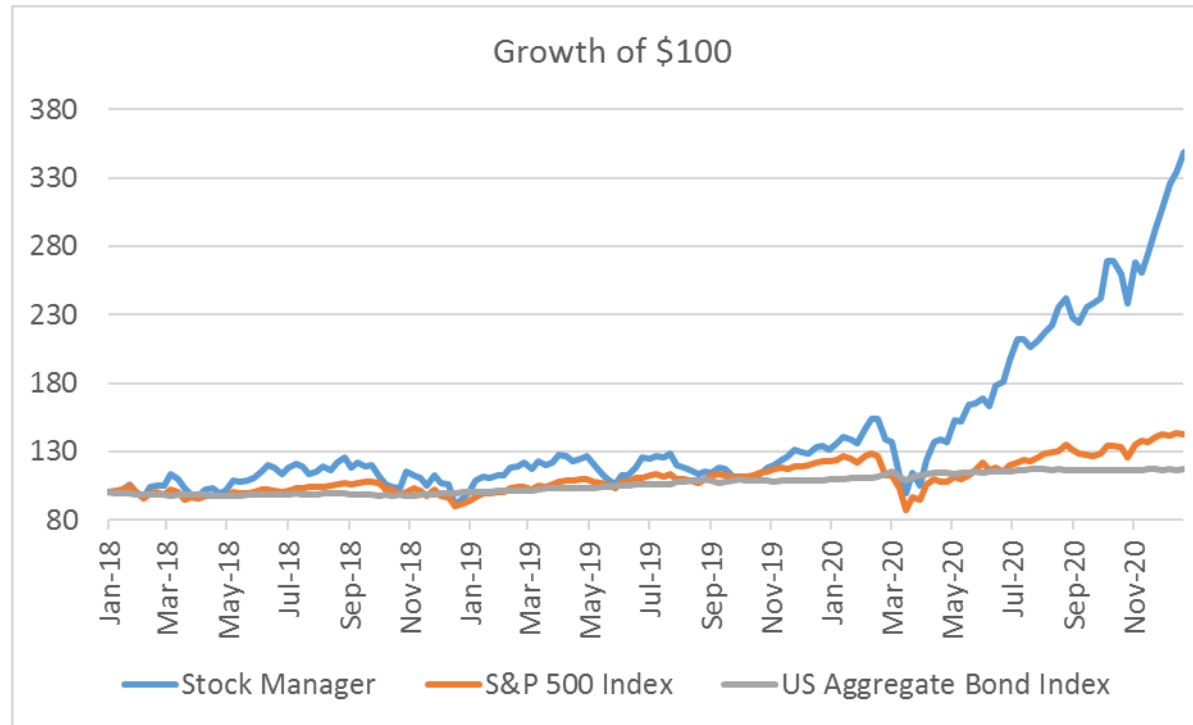
Asset Class	Description	Example
Growth/Equity	Ownership interests in publicly-traded or privately-held companies	Apple (NYSE: AAPL)
Rate Sensitive	Fixed income securities rated investment grade	U.S. Treasury bond
Credit	Fixed income securities rated below investment grade	Bond issued by an energy company
Real Assets	Investments that should protect the portfolio from rising inflation	Office building in New York City
Absolute Return	Diversifying investments that offer a competitive return	Hedge fund

What is the Investment Division's role?

- The Investment Division is the unit of the State Retirement Agency responsible for management of the investment portfolio. The Division is led by the Chief Investment Officer.
- The Division's goal is construct a portfolio of investments that meets or exceeds the Investment Policy Benchmark with detailed attention to risk management.
- Organized by asset class, specialized teams build portfolios designed to outperform the respective components of the Investment Policy Benchmark. These teams select securities directly and engage with third-party firms (or "managers") to add value.
- The Chief Investment Officer may assemble a mix of asset classes slightly different than the Investment Policy Benchmark in an attempt to "outperform." Outperformance could come in the form of higher returns, lower risk, or both.

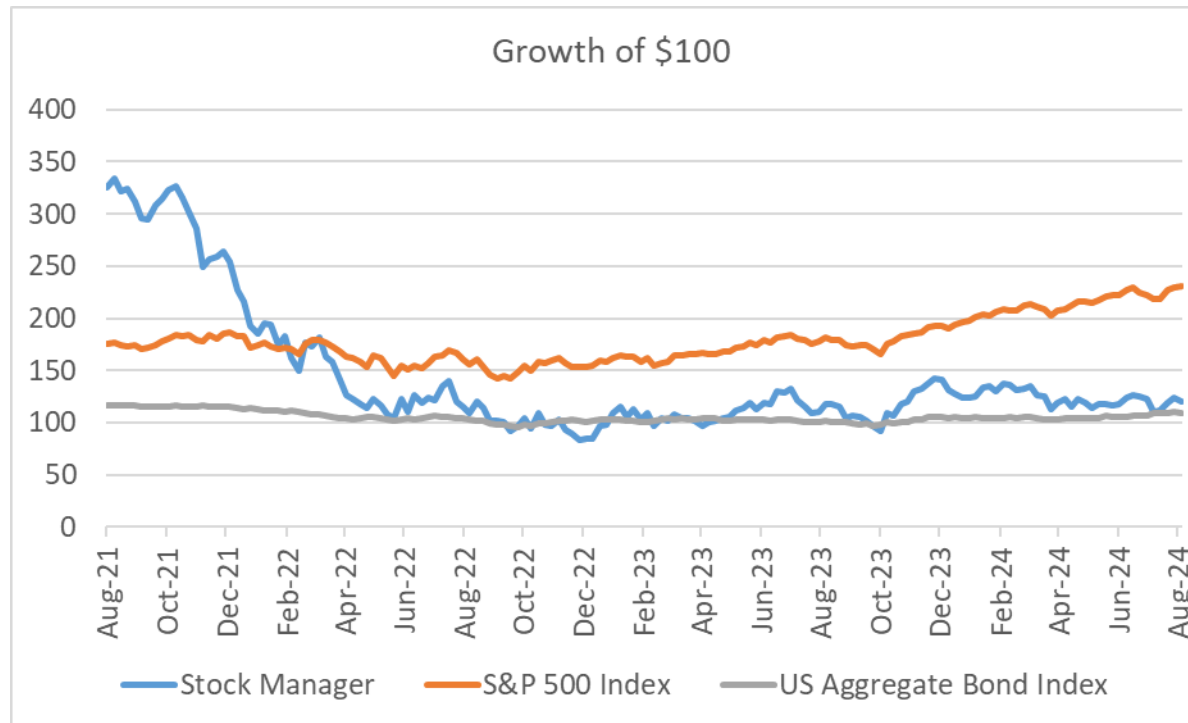
What would you do?

- The manager of a stock portfolio has done much better than their benchmark. Would you add money, take some money away, do nothing or take another action?
- What questions should be asked in determining a course of action?



What happened next?

- The stock manager hit a rough patch as their investment style fell out of favor due to a market rotation
- What would you do now...?



Why is the Investment Division an exciting place to work?



SRPS
MARYLAND STATE RETIREMENT
and PENSION SYSTEM

- Contribute to the System’s mission of supporting Marylanders in retirement
- Results-driven organization – “beat the market”
- Interact with the smartest investors across the globe
- Build things – innovate
- Career growth
- A great team!
- Visit our website for more information: <https://sra.maryland.gov/>



Glossary

- Benefits – payments promised to members in retirement (“obligations” or “liabilities”)
- Assets – financial resources, primarily the investment portfolio, that produce cash flows to make benefit payments
- Fully-funded – the goal of achieving an assets-to-liabilities ratio (“funded status”) of 100% by 2039
- Actuarial assumptions – projections made by a specialty accountant (“actuary”) to determine return goals, funding needs, and other characteristics of the System
- Contributions – payments made to the System by employers, employees, and the State of Maryland
- Asset allocation – the process of determining the appropriate mix of investment types (“asset classes”) based on return/risk objectives and constraints