THE INVESTMENT COMMITTEE
OF THE
MARYLAND STATE RETIREMENT AND PENSION SYSTEM

MINUTES OF OPEN MEETING

November 21, 2023

The Investment Committee convened on Tuesday, November 21, 2023 at 9:10 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 Attending:

Michael Barry
James Daly, Jr. (Vice, Chair)
Budget Secretary Helene Grady
Sheila Hill
Michael Howard (Chair)
Comptroller Brooke Lierman
Richard Norman
Douglas Prouty
Michelle RhodesBrown
Sharcus Steen
Monte Tarbox

Also Attending:

Linda V. Allen (Trustee)
Phillip Anthony, DLS
Jihwan Baek
Michael Baker
Anish Bedi
Frank Benham (Meketa)
Jonathan Blichar
Leslie Bond, Jr. (Attucks Asset Mgmt.)
Robert Burd, Deputy CIO
Antionette Butcher
Rhett Butler
Dominique Cherry
Gar Chung (FIN-News)
Rachel Cohen, OAG
Melody Countess
Andrew Cronin (Lenox Park)
Jane Daniel
Leonardo DeSouza
Bob Diehl
Dani DiPietro (Comptroller's Assistant)
Ben Eckroth (Hamilton Lane)
Mike Fang
Eric Farls
David Ferguson
Anne Gawthrop
Gregg Gethard (PEI Media)
Dimitri Grechenko
Alex Harisiadis, OAG
Danita Johnson
Lisa Jordan
Faina Kashtelyan
Greg Kasten
Larry Katsafanas
Stuart Kaye
Michael Klos
Ratna Kota
Tom Kurowski (Alex Brown)
Jason Lamin (Lenox Park)
Michael McCord
Karen Mair (Attucks Asset Mgmt.)
Jonathan Martin (Treasurer's liaison)
Nitin Mathew
Tom Montanye
Katie Moore (Hamilton Lane)
Catarina Moura (Public)
Mary Mustard (Meketa)
Stephen Muturi
Minh Nguyen
Martin Noven, Executive Director
Alec Ostrowidzki (Public)
Andrew Palmer, CIO
Steven Pytlar
Radhika Iyer (Morgan Stanley)
Stephen Reilly
Stephen Reynard
David Rongione (Audit)
Robert Sandlass, Jr. (Trustee)
Megan Schutz
Janet Sirkis
Kevin Slack
Frederick "Beau" Smith
Toni Voglino
Jack Wheatley
Ed Witham
Hannah Zhang (PEI Group)

Chairman Howard called the meeting to order at 9:10 a.m.

Item 1: Ratification of Open Session Minutes

On a motion made by Mr. Prouty and seconded by Mr. Norman, the Investment Committee ratified the September 19, 2023 open meeting minutes.

Item 2: Next Year's Investment Committee Meeting Dates

The Committee received potential Investment Committee meeting dates for Calendar Year 2024.

On a motion made by Ms. Hill and seconded by Mr. Tarbox, the meeting schedule that was approved by the Committee is as follows:

Tuesday, February 20, 2024

Tuesday, May 21, 2024

Tuesday, September 17, 2024

Tuesday, November 19, 2024

Item 3: Report from CIO

Mr. Palmer reviewed the Investment Committee reporting cycle, including regular reports provided by staff to the Board as well as those that come on an ad hoc basis.

Mr. Palmer reviewed the plan executive summary performance and attribution as of September 30, 2023, as well as total plan performance versus the actuarial rate and the policy benchmark.

Comptroller Lierman asked about the relevance of the policy benchmark vis-a-vis the actuarial rate, noting the underperformance relative to the actuarial rate.

Secretary Grady commented on and questioned plan underperformance versus peers.

Ms. RhodesBrown asked for clarification of the policy benchmark from a risk perspective.

Mr. Palmer responded that Meketa would address these questions during their section of the presentation.

Mr. Palmer highlighted the System's $1.8 billion in committed capital across the portfolio for the quarter, largely distributed across the infrastructure and private credit portfolios. He also noted that $900 million was raised from reducing emerging market equity, consistent with the Board's recent change to the policy benchmark.

Mr. Palmer commented on Investment Division initiatives, including recruiting, the daily accounting enhancement, internal management initiatives, leadership training and succession planning. Mr. Palmer also discussed the creation of a multi-asset portfolio, a derivatives-based version of the policy benchmark.

Mr. Tarbox asked about guardrails on the overlay program.

Mr. Palmer responded that the plan's risk framework should be consistent. The overlay should look like the whole plan, including the total plan's constraints.

Mr. Palmer discussed the System's asset allocation and risk-based exposures of the plan as of September 30, 2023.

Mr. Steen asked about the quarterly manager meeting tracking chart.

Mr. Palmer clarified that this is a transparency measure implemented by Staff to share with the Board. Mr. Palmer stated increased transparency was an objective established in a previous investment committee meeting.

Comptroller Lierman noted appreciation on the added transparency. She then asked for clarity on the manager meetings list and the new manager hires list.

Mr. Palmer stated that any manager on the new hire list was previously on the meetings list. He also noted there is a lag on the information in the new hires list, caused by due diligence process.

Item 4: Meketa Reports

Ms. Mustard discussed the System's quarterly performance by asset class. Ms. Mustard discussed the System's one-year total performance and attribution. She also discussed some of the plan's return drivers and detractors.

Ms. Mustard presented a comparison of the System's performance against its peer universe. She noted that underperformance compared to peers has improved over time and added that performance relative to peers is not an explicit performance objective in the policy manual.

Mr. Daly asked if the information presented on total system performance is gross or net.

Ms. Mustard provided clarity on page number of presentation and confirmed the data is net. She continued to discuss plan performance relative to peers.

Comptroller Lierman asked for clarification regarding the legend on the peer universe chart.

Ms. Mustard responded that the colors represent quartile groupings. Ms. Mustard then discussed a graph of total system risk vs return will help to answer some of the questions that arose earlier in the meeting. Ms. Mustard discussed how the plan has achieved a below median return, but with far less risk.

Comptroller Lierman asked whether the total plan had met the actuarial target in any of the past 5 years.

Ms. Mustard noted the plan did meet the actuarial rate in 2021. She discussed how endpoint bias is impacting performance.

Ms. Mustard commented on the differences between the actuarial rate of return and the policy benchmark.

Ms. RhodesBrown asked for clarification on the benchmarks, asking if we are comparing apples to apples or putting too much stock in the low peer rankings.

Ms. Mustard replied there are caveats to every peer group. She stated it can be hard to know who or what specifically is in the ranking.

Mr. Palmer added to the discussion, noting that differences in the way peers report data can lead to noise in a peer analysis. He discussed how the analysis should focus on net performance, since most large plans have similar negotiating power on fee savings.

Comptroller Lierman asked if the peers are reporting a mix of net and gross.

Mr. Palmer answered that its hybrid, our plan reports two-thirds net. Its reported as gross, but only a third of fees is added back.

Ms. Mustard continued to discuss caveats of peer comparison and clarified a few points on risk and lags.

Mr. Sandlass asked about plan performance ranking versus more passively managed public pension peers.

Ms. Mustard replied that these peer groups are mostly blind pools.

Mr. Palmer also replied that those peers have achieved higher returns, but higher volatility.

Mr. Benham commented on the plan's performance with respect to the actuarial rate and risk level of the portfolio. Mr. Benham also discussed the role of a policy benchmark as a measure of implementation success.

Mr. Noven added to the discussion how the investment team and actuaries interaction can be circular. He asked Mr. Palmer to comment.

Mr. Palmer stated how the market isn't linear, there are various ways to reach a target return given a level of risk. He added how there is extensive analysis and testing to come up with a consistent method of meeting return targets.

Mr. Benham discussed the balance between lower actuarial rates of return with consistency of contributions and analyzing peer performance. Mr. Benham also discussed how volatility and cash flows could cause a plan to be below projections despite reaching target returns.

Mr. Tarbox discussed the "smoothing effect" of the actuarial rate of return and how different benchmarks address different investment characteristics. Mr. Tarbox noted how different benchmarks solve different problems.

Mr. Daly observed that the System's risk is well below median. He also commented on the risk of reaching funding in the next few years.

Mr. Palmer discussed performance relative to benchmarks and the timeline for discussing asset allocation.

Ms. RhodesBrown noted that expected returns for pension funds can be a function of funding levels. A plan with greater unfunded level will have to reach greater returns.

<u>Item 5: Lenox Park</u>

Mr. Lamin provided an introduction on Lenox Park. He discussed Lenox Park's measurement methodology on diversity from the lens of data and analytics, including the organization's factor-based approach to scoring and benchmarking pension systems and managers. Mr. Lamin presented a high-level discussion on benchmarking, diversity in leadership, and diversity in ownership. Lenox Park developed a summary two-pager on clients with the help of the team at Maryland. Mr. Lamin also discussed increasing levels of engagement with clients, and growing response rates on surveys among fund managers.

Comptroller Lierman asked about the timeline to receive individual manager diversity assessments, peer benchmarking and Lenox Park's ability to gauge a manager's implementation of its diversity policy, and who is included in the ranking against our system.

Mr. Lamin provided responses to each question. The timeline is now, metrics for individual managers are currently available already. Mr. Lamin noted Lenox Park does track DEI policies, but there is no statistical evidence that shows firms with DEI-focused characteristics experience more diverse outcomes. Finally, Lenox Park can share Maryland's rank among institutional and pension plan investors.

Mr. Cronin added to Mr. Lamin's responses. He discussed manager reporting timelines, Lenox Park's scoring processes, ranking of managers and pension plans, and applications of this data in the due diligence process. Mr. Cronin then discussed levels of diversity in investing. He also reviewed the 'Maryland two-pager' document that was developed as a tool for summarizing investment managers.

Mr. Steen asked Mr. Palmer if he can ask diversity-related questions to managers and consultants when in conversations with them.

Mr. Palmer stated that he wouldn't have the information. He can't ask as part of the HR process. Mr. Palmer noted it could be compliance or jurisdiction issues that keep managers from answering.

Ms. RhodesBrown asked if the Lenox Park analysis includes diversity measures within large majority firms, to track opportunities for individuals who have been with the firm while it grew.

Mr. Lamin responded that it's imperative for Lenox Park to track these large firms and monitor the pipeline for next set of diverse owners. Mr. Lamin also stated that firms with diverse leadership tend to have a more diverse workforce.

Item 6: Hamilton Lane

Ms. Moore discussed the current market environment in private equity, including fundraising, contribution and distribution expectations and performance analyses. Ms. Moore also noted consistency in private market outperformance of public markets. The Hamilton Lane team doesn't expect significant deviation of current private market returns or the macro environment over the next five to ten years. Overall, things are steady stream.

Mr. Tarbox asked how marks are stable with interest rates up and transactions down, is there artificiality in the private equity marks.

Ms. Moore replied that there are some companies that take some write downs. They are also on a lag which contributes. Private asset companies are typically smaller and don't move in line with public companies. Ms. Moore also noted the vast difference in number of public versus private companies.

Mr. Daly asked whether returns presented were gross or net of fees and how to interpret performance from the perspective of the limited partner.

Ms. Moore replied that it is gross to the LP.

Mr. Eckroth added that the returns are at the underlying deal level. There is no IRR or Carry taken off.

Mr. Daly asked if you could make an adjustment to find the IRRs. If you deduct fees and costs, could you subtract some amount from the IRR?

Mr. Eckroth responded that you could, but the amount will vary. He also pointed Mr. Daly to another slide that contained relevant data.

Mr. Howard asked about the System's portfolio composition relative to the industry.

Mr. Eckroth discussed graphs of portfolio diversification in response. He stated Maryland is generally in line with private equity industry with some minor deviations in fund-of-funds and growth equity.

Ms. Moore added that, at least for the fund-of-funds, it's not too surprising for a plan of our size to deviate slightly.

Mr. Eckroth then discussed the executive summary of the System's private equity portfolio, the drivers of performance and benchmarking analysis. Mr. Eckroth finished the discussion with commitment pacing and strategic goals.

Ms. RhodesBrown asked about the portfolio being over allocated and if the Private Equity allocation target has changed recently.

Mr. Palmer responded that the target was thirteen percent. The portfolio jumped to seventeen percent and the target was brought up to sixteen percent. This was partly due to private equity outperformance, but also public equity underperformance during Covid.

Mr. Eckroth confirmed this was not a unique occurrence just to Maryland's plan.

Ms. Moore added they acknowledge a need for flexibility but also want to remain consistent on pacing.

Comptroller Lierman asked about the duration of Maryland's relationships with private equity managers and the process for continued investment in managers.

Ms. Moore replied that the hold is ten to fifteen years once committed. Each fund's investment period is usually three to five years. The Maryland team will evaluate the manager constantly and can move on to someone else if needed.

Mr. Daly asked about staff's selection and sourcing process. He also asked about the level of cooperation between the private equity team and Hamilton Lane.

Mr. Palmer responded that any place we can get an idea is something we use. There is collaboration, and a wide variety of ways to source managers.

Mr. Daly asked if there are any investments the Maryland team does that wouldn't be well received by Hamilton Lane or do you need their approval.

Mr. Palmer replied that there is no requirement for both of us to say yes, but we do try to coordinate. There are some occasions where Hamilton Lane didn't have the time to review the deal.

Mr. Ferguson added that the team is typically well aligned with Hamilton Lane.

Item 7: Committee Led Discussion
Nothing discussed.

Item 8: Motion by the Investment Committee to meet in Closed Session for the purposes of:
On a motion made and seconded by Comptroller Lierman, the Investment Committee voted without objection to meet in Closed Session at 11:17 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; and

(b) presenting by staff of a sample Manager Due Diligence report including the analysis of staff and Meketa, the System's general consultant, pursuant to General Provisions Art., Section 3-305(b)(5), to consider the investment of public funds; and General Provisions Art., Section 3-305(b)(13), to comply with a specific statutory requirement that prevents public disclosure, namely, General Provisions Art. Sec. 4-335, preventing the disclosure of trade secrets and confidential commercial or financial information, General Provisions Art. Sec. 4-344, requiring denial of inspection of confidential interagency memoranda, and State Personnel and Pensions Article, Section 21-123(g) and Code of Maryland Regulations 22.01.02.03E, protecting from disclosure certain investment records.

CLOSED SESSION

Committee Members Attending:	Michael Barry James Daly, Jr. (Vice Chair) Budget Secretary Helene Grady Sheila Hill Michael Howard (Chair) Comptroller Brooke Lierman	Richard Norman Douglas Prouty Michelle RhodesBrown Sharcus Steen Monte Tarbox
Also Attending:	Linda V. Allen (Trustee) Frank Benham (Meketa) Leslie Bond, Jr. (Attucks Asset Mgmt.) Robert Burd, Deputy CIO Antionette Butcher Dominique Cherry Rachel Cohen, OAG Ben Eckroth (Hamilton Lane) David Ferguson Dimitri Grechenko Alex Harisiadis, OAG Lisa Jordan Larry Katsafanas Michael Klos	Karen Mair (Attucks Asset Mgmt.) Jonathan Martin (Treasurer's liaison) Nitin Mathew Katie Moore Mary Mustard (Meketa) Martin Noven, Exec. Director Andrew Palmer, CIO Dani DiPietro Comptroller's Assistant) Robert Sandlass, Jr. (Trustee) Kevin Slack Toni Voglino

Item 11: Motion by Investment Committee to adjourn closed session and return to open session

On a motion made and seconded by Mr. Prouty, the Investment Committee voted to adjourn closed session and returned to open session at 12:08p.m.

During closed session, the Investment Committee discussed and acted on the following matters:

The Investment Committee reviewed and ratified the Closed Session minutes from the September 19, 2023 meeting, and received a manager due diligence report from staff.

OPEN SESSION

Committee Members Attending:	Michael Barry James Daly, Jr. (Vice Chair) Budget Secretary Helene Grady Sheila Hill Michael Howard (Chair) Comptroller Brooke Lierman	Richard Norman Douglas Prouty Michelle RhodesBrown Sharcus Steen Monte Tarbox

Also Attending:	Linda V. Allen (Trustee) Alec Ostrowidzki Jihwan Baek Michael Baker Anish Bedi Frank Benham (Meteka) Robert Burd, Deputy CIO Rhett Butler Antionette Butcher Dominique Cherry Rachel Cohen, OAG Melody Countess Gar Chung (FIN-News) Leonardo DeSouza Bob Diehl Anne Gawthrop Alex Harisiadis, OAG Danita Johnson Lisa Jordan Greg Kasten	Michael Klos Tom Kurowski (Alex Brown) Jonathan Martin (Treasurer's liaison) Michael McCord Tom Montanye Catarina Moura (Public) Mary Mustard (Meteka) Stephen Muturi Martin Noven, Executive Director Andrew Palmer, CIO Radhika Iyer (Morgan Stanley) Steve Reilly Robert Sandlass, Jr. (Trustee) Megan Schutz Janet Sirkis Beau Smith Toni Voglino Hannah Zhang (PEI Group)

Item 12: Investment Reports

The Committee received the following investment reports:

- State Street Reports
- Terra Maria Performance Reports
- Private Markets Performance Reports
- Securities Lending Report
- Division's FY23-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 13: Motion by the Investment Committee to adjourn meeting

Adjournment	There being no further business before the Investment Committee, on a motion made by Mr. Prouty and seconded by Mr. Tarbox, the meeting adjourned at 12:11 p.m.

Respectfully submitted,

Andrew C. Palmer
Chief Investment Officer