

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

January 19, 2021

The Board of Trustees for the Maryland State Retirement and Pension System convened, via video/audio conference call beginning at 9:34 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	Kenneth Haines
Peter Franchot, Vice Chairman	David Hamilton
Thomas Brandt	Linda Herman
Eric Brotman	Richard Norman
Jamaal Craddock	Douglas Prouty
James Daly	Michael Stafford, Jr.

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Melody Countess	Angie Jenkins	David Rongione
Patricia Fitzhugh	Van Lewis	Janet Sirkis
Anne Gawthrop	Andrew Palmer	Scott Bolander (live stream)
Michael Golden	Chandra Puranam	
Ira Greenstein	Ken Reott	

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

Other attendees included: Public Advisors Anne L. Shelton and Monte Tarbox; and Justin Hayes and Alex Walinskas (Comptroller's Office)

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

- December 15, 2020 Open Meeting Board Minutes

Establishment of an Ad Hoc Committee for Executive Director Recruitment The Board was provided with a memorandum from Nancy K. Kopp, Chair of the Board of Trustees, which recommended the appointment of an Ad Hoc Committee for Recruitment of an Executive Director. The memorandum provided the duties and responsibilities of the committee and, after consultation with Vice Chair Franchot, recommended that the following Trustees be appointed to the Ad Hoc Committee:

Kenneth Haines, Chairman
Thomas Brandt
David Brinkley
David Hamilton
Sheila Hill
Richard Norman

Treasurer Kopp thanked those Trustees who have agreed to serve on the committee.

On a motion made by Mr. Haines and duly seconded, the Board approved the establishment and appointment of Trustees to an Ad Hoc Committee for Executive Director Recruitment.

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

January 19, 2021

Recommendation
for Executive
Search Services
Contract

Mr. Kenderdine provided a memorandum to the Board which provided a detailed summary of the Executive Search firm for Executive Director Recruitment procurement.

Mr. Kenderdine reported that five firms responded, but only one firm submitted a proposal. The firms that declined, did so citing either 1) an inability to take on additional work at this time, 2) lack of experience in the public pension market, or 3) the compensation being offered being below their firm's minimum fee. Mr. Kenderdine commented that the one firm that submitted a proposal was EFL Associates, a subsidiary of CBIZ, Inc., and offered his view that the firm is very qualified, particularly in the public pension market.

Mr. Kenderdine reported that he had spoken with the proposed members of the Ad Hoc Committee for Executive Director Recruitment, shared the workplan that was presented to the Board at its November 2020 meeting and that the committee is prepared to move forward, with the Board's approval, with EFL Associates as the Executive Search firm.

Treasurer Kopp commented that the Executive Director is the lowest paid of all agency heads among our peers which will likely pose a challenge to the recruitment effort. Treasurer Kopp also commented that Trustee Brandt has previously worked with EFL as they assisted the Maryland Supplemental Retirement Plan with their recent search for an Executive Director.

Mr. Brandt commented that the Maryland Supplemental Retirement Plan faced some of the same issues the Board is now facing with the compensation level being an obstacle.

On a motion made by Mr. Brotman and duly seconded, the Board of Trustees approved the Ad Hoc Committee's recommendation to award the Executive Search Services Contract to EFL Associates.

Final Adoption of
Amendments to
COMAR 22.02.01 –
Option Factors and
Annuity Values

Mr. Reott presented proposed amendments to COMAR 22.02.01 – Option Factors and Annuity Values, which were previously adopted by the Board of Trustees, at its September 22, 2020 meeting, for submission to the Administrative, Executive, and Legislative Review Committee, and then published in the Maryland Register for public comment. Mr. Reott reported that the 45-day comment period had 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. Haines and seconded by Mr. Prouty, the Board of Trustees, approved for final adoption, the amended regulations concerning Option Factors and Annuity Values (COMAR 22.02.01).

2021 Legislation

Ms. Anne Gawthrop provided the Board of Trustees an overview of the 2021 pension related legislation introduced to the General Assembly and reported specifically on the following bills:

- House Bill 1101 – State Retirement and Pension System – Financial Reporting.

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

January 19, 2021

This proposed legislation would establish the Juvenile Services Education Board in the Department of Juvenile Services (DJS) and would be charged with overseeing and approving all educational services to all juveniles who are in a residential facility in DJS, beginning July 1, 2022. This legislation provides that individuals serving as a DJS direct education staff member on or after July 1, 2022 shall be a member of CORS.

Ms. Gawthrop reported that staff will ask the System's tax counsel to determine if it believes these employees would qualify as qualified public safety officers under proposed IRS regulations addressing normal retirement age for public safety officers, including correctional officers. If tax counsel determines these individuals do not qualify, Ms. Gawthrop recommended reaching out to the sponsor to amend the legislation to place these employees in the EPS. However, if tax counsel determines they do qualify as qualified public safety officers, Ms. Gawthrop recommended taking no position.

Mr. Daly asked what the fiscal impact of this legislation would be and who is responsible for it.

Ms. Gawthrop responded that every bill submitted to the legislature provides a fiscal note, so we are aware of anticipated costs. The legislature has an actuary that works with the System's actuary in establishing the projected costs of this legislative proposal.

➤ House Bill 497 - State Retirement and Pension System - Investment Management Fees

This bill is identical to the fee cap bill that was introduced last year by the same sponsor, imposing a fee cap equal to .2% of the market value of the fund. Additionally, the bill also includes language that states it is the intent of the General Assembly that the Board utilize low-fee, passive investment strategies in the management of system assets.

Ms. Gawthrop reported that last year, the Board opposed this legislation because a cap at .2% would not have been administratively feasible for all investment agreements to which the System was a party. The Board also opposed the last year's bill based on the language addressing the intent of the General Assembly to impress upon the Board to utilize low-fee, passive investment strategies because it could expose the fund to greater risk than necessary. Staff is again recommending opposing this bill for these same reasons.

Mr. Stafford asked how the bill factors in internal management.

Ms. Gawthrop responded that it does not factor in internal management.

Mr. Stafford asked if we managed our investments internally would we be complying or not in compliance.

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

January 19, 2021

Mr. Palmer responded that it would be on a contract by contract basis, capped at 20 basis points.

Treasurer Kopp asked as to who the sponsor of the bill is.

Ms. Gawthrop responded Delegate Barve.

- Senate Bill 288/House Bill 215 - Income Tax – Carried Interest – Additional Tax

This bill would impose a state tax of 17% on carried interest received by fund managers of hedge funds and private equity funds.

Ms. Gawthrop reported that it was her understanding that the intent of this bill is to close what is perceived as a federal tax loophole with regard to carried interest. Currently, the federal tax code treats carried interest as a capital gain instead of ordinary income. As a result, it is taxed at 20% as opposed to the ordinary income rate of 39.6%. Adding a state tax of 17% to carried interest is intended to close this gap. Ms. Gawthrop reported that staff is on the calendar of committee leadership to discuss staff's concerns with the bill.

Mr. Palmer reported that this is a tax on people who provide investment management services to the State no matter where they are located including outside of Maryland.

Treasurer Kopp asked if the bill had been printed.

Ms. Gawthrop responded yes, and that the bill is being heard on Thursday, January 21, 2021.

Mr. Daly asked what opposition is needed to defeat it.

Ms. Gawthrop responded that several groups have hired lobbyists who will oppose it. A similar bill died last year.

Mr. Hamilton recused himself but commented that he is aware of three institutions that will present opposition.

Ms. Gawthrop commented that the bill assumes all carried interest is taxed at the capital gains tax rate when in fact most hedge funds are taxed as regular income and the taxation of other private funds is treated as regular income if it is a short-hold period. From the system's perspective, it will be uniquely disadvantaged among its peers as would every other investor in the state, in our efforts to invest with high performing partners. Given a choice when considering access to funds with high demand, fund general partners are likely to allocate to investors in other states than Maryland. This is a risk for the System, other public and private pension plans, endowments foundations and individuals. It also provides incentive for these types of fund managers to locate themselves in other states. Finally, it would also put the System at a disadvantage in working with partners to invest in venture and other private

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

January 19, 2021

assets in Maryland. Therefore, staff recommended opposing this legislation for these reasons.

On a motion made by Mr. Haines and seconded by Mr. Daly the Board voted to approve staff's recommendation to oppose this legislation.

Repeat Participating
Governmental Unit
(PGU) Audit
Findings

Mr. Hamilton, Chairman of the Audit Committee addressed the Board regarding this matter. The Board was provided with a copy of a "PGU Repeat Audit Findings / Past Due Balances" memorandum which detailed (1) the top ten PGUs with repeat audit findings and recommendations to achieve greater compliance and lower the number of repeat findings, and (2) document the steps the Agency will take to collect the past due balances.

Treasurer Kopp asked if staff has spoken to the legislative auditors about this matter.

Mr. Kenderdine responded that staff has not had a conversation with them but agreed that they should be contacted.

Treasurer Kopp commented that some of the PGUs are small and could use assistance in this matter.

Responsible
Contractor Policy

Mr. Prouty addressed the Board regarding a draft Responsible Contractor Policy, which was provided to the Board for informational purposes. Mr. Prouty commented that this draft policy would provide guidance as to how the System selects managers for Real Estate holdings, such as the Baltimore Marriott Waterfront Hotel. Mr. Prouty commented that regarding the Baltimore Marriott Waterfront Hotel, he is happy to report that they are close to a negotiated contract with employees. Mr. Prouty further commented that research shows that the policy is good for companies and investors.

Treasurer Kopp commented that she urges everyone to read and consider the policy.

CIO Report

Mr. Palmer, regarding the Executive Director Recruitment, suggested that staff address the compensation issue earlier rather than later in the process.

Mr. Palmer reported that at the end of November 2020, the total fund value was \$60.9 billion, with an absolute benchmark of 3.10%. Mr. Palmer reported that preliminary numbers for December 2020, show that the total fund value was approximately \$62.5 billion, with 34 basis points ahead of the benchmark.

Mr. Palmer reported that the draft Request for Proposals for a General Investment Consultant was prepared and would be provided to the Board and members of the Investment Committee.

Mr. Palmer reported that staff would be posting the annual risk assessment report on Director's Desk (Board Portal).

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

January 19, 2021

Mr. Daly thanked Mr. Palmer for the good report and congratulated him on the progress. Mr. Daly asked that Mr. Palmer provide to the Trustees a report on the possibility of staffing challenges and the division's needs as new people are hired.

Mr. Palmer reported that historically the System has been challenged in recruitment and retention of investment personnel but that has changed since the Board was granted the authority to set compensation and create positions for the Investment Division.

Mr. Daly asked if Mr. Palmer feels his division is properly staffed for higher skilled positions.

Mr. Palmer responded that he feels that the senior level staff, such as himself and Robert Burd, Deputy Chief Investment Officer, is stretched thin, but feels that senior staff in asset classes are working fine.

Mr. Daly asked about the administrative staff.

Mr. Palmer responded that the investment division is not necessarily short but challenged with the administrative staff. Mr. Palmer commented that Beau Smith oversees an associate's program, which consists of three positions and that there are additional positions that the division has not yet filled.

Treasurer Kopp suggested that personnel issues of the Investment Division be part of the Board meeting each month, since the Investment Committee is not a committee of the whole.

Executive Director's
Report

Mr. Kenderdine issued the annual call for nominations for the position of Public Advisor to the Investment Committee, currently held by Monte Tarbox, for which the current term expires June 30, 2021. Mr. Kenderdine reported that Mr. Tarbox expressed interest in being considered for another term. Mr. Kenderdine asked that all nominations be submitted, to him, by March 1, 2021, so that candidates could be interviewed, and a recommendation could be made at the Investment Committee and Board of Trustees May meetings. The Trustees selection would then go to the Board of Public Works for its approval in June.

Mr. Kenderdine reported that the 2020 Comprehensive Annual Financial Report (CAFR) had been posted on the Agency's website and to notify him, if anyone was interested in receiving a hard copy.

Mr. Kenderdine reported that the State Ethics Financial Disclosure filings are due by April 30, 2021 and that anyone seeking assistance or information regarding their filing, see Angie Jenkins. Mr. Kenderdine reported that a list of financial entities with which the Agency does business had been sent to the Trustees for their information.

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

January 19, 2021

Mr. Kenderdine provided an update to the MPAS project, reporting that the mailings of the *mySRPS* enrollment packets to its members, retirees and beneficiaries was complete. Mr. Kenderdine reported that, to date, the Agency has an enrollment of between 25-26%, which is higher than our peers.

Mr. Kenderdine reported that by the end of the fiscal year, PGUs will be able to submit payments and the System will be able to generate invoices via MPAS.

Mr. Kenderdine reported that the Agency's budget hearings are scheduled for Tuesday, March 2, 2021 at 1:30 a.m. and are being done virtually.

On a motion made by Mr. Prouty and seconded by Mr. Norman, the Board voted to meet in a Closed Session, beginning at 10:40 a.m., via video/audio conference call, for the purposes of:

- a) reviewing the closed session Board 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 constitutional, statutory, or judicially imposed requirement that prevents public disclosure about a particular proceeding or matter, 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) 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	Kenneth Haines
Peter Franchot, Vice Chairman	David Hamilton
Thomas Brandt	Linda Herman
Eric Brotman	Richard Norman
Jamaal Craddock	Douglas Prouty
James Daly	Michael Stafford, Jr.

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Melody Countess	Ira Greenstein	Chandra Puranam
Patricia Fitzhugh	Angie Jenkins	Ken Reott
Anne Gawthrop	Van Lewis	David Rongione
Michael Golden	Andrew Palmer	Janet Sirkis

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

Other attendees included: Public Advisor Anne L. Shelton; and Justin Hayes and Alex Walinskas (Comptroller's Office)

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

January 19, 2021

On a motion made by Mr. Haines and seconded by Mr. Norman, the Board returned to open session at 10:42 a.m., via video/audio conference call.

OPEN SESSION

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	Kenneth Haines
Peter Franchot, Vice Chairman	David Hamilton
Thomas Brandt	Linda Herman
Eric Brotman	Richard Norman
Jamaal Craddock	Douglas Prouty
James Daly	Michael Stafford, Jr.

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Melody Countess	Ira Greenstein	Chandra Puranam
Patricia Fitzhugh	Angie Jenkins	Ken Reott
Anne Gawthrop	Van Lewis	David Rongione
Michael Golden	Andrew Palmer	Janet Sirkis
		Scott Bolander (live stream)

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

Other attendees included: Public Advisor Anne L. Shelton; and Justin Hayes and Alex Walinskas (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 December 15, 2020 closed session minutes.
Medical Board Reports	The Board reviewed and adopted the medical board reports from December 22 and December 31, 2020 and January 6 and January 14, 2021.

Adjournment There being no further business before the Board, on a motion made by Mr. Prouty and seconded by Mr. Brotman, the meeting adjourned at 10:43 a.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board