

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

November 27, 2018

The Board of Trustees for the Maryland State Retirement and Pension System convened at the SunTrust Building, 120 East Baltimore Street, 16<sup>th</sup> Floor Board Room, Baltimore, Maryland beginning at 1:30 p.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	F. Patrick Hughes
Peter Franchot, Vice Chairman (via phone)	Charles Johnson
Eric Brotman	Theresa Lochte
James Harkins	Richard Norman
Linda Herman (via phone)	Douglas Prouty
Sheila Hill (via phone)	Michael Stafford

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

Melody Countess	Ira Greenstein	Andrew Palmer
Patricia Fitzhugh	Angie Jenkins	Ken Reott
Anne Gawthrop	Van Lewis	David Rongione
Michael Golden	Kim O’Keeffe	Janet Sirkis

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

Other attendees included: Susanne Brogan, John Kenney, Phillip Anthony, Michael Rubenstein, Laura Vykol, William Seymour and Tiana Wynn from SB & Company

Consent Agenda

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

- October 16, 2018 Open Meeting Board Minutes
- October 22, 2018 Objective Criteria Committee Meeting Summary
- October 24, 2018 Board Governance Workshop Meeting Minutes
- November 13, 2018 Audit Committee Meeting Summary

Financial  
Statements Report  
for  
FYE June 30, 2018

Richard Norman, Chairman of the Audit Committee, reported that the System’s annual audited financial statements for the year ending June 30, 2018, were presented to and reviewed by the Audit Committee at its November 13, 2018 meeting.

Mr. Norman stated that the financial statements were audited by the System’s auditors, SB & Company, and that the statements received an unmodified opinion. Mr. William Seymour and Ms. Tiana Wynn of SB & Company were present for questions.

Mr. Norman also reported that the Audit Committee unanimously accepted the financial statement reports and therefore, was recommending that the Board accept the report for inclusion in the 2018 Comprehensive Annual Financial Report (CAFR).

On a motion made by Mr. Norman and seconded by Mr. Hughes, the Board accepted the FY2018 financial statements for inclusion in the System’s Comprehensive Annual Financial Report.

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Recommendation of the Objective Criteria Committee regarding the adoption of Objective Criteria for setting Compensation for certain new positions within the Investment Division, within existing State salary classifications

The Board was provided with a memorandum and a list of the eight new positions within the Investment Division, which were preliminarily approved by the Board at its September 18, 2018 meeting, for the Department of Budget and Management's budget planning purposes.

Mr. Kenderdine reported that the Objective Criteria Committee (OCC) met on October 22, 2018, to discuss the objective criteria for setting the compensation of the eight positions within the Investment Division. The recommended compensation ranges for each of the eight positions are those of the State's current classifications and their respective salary ranges, which had previously been approved by the Department of Budget and Management and the legislature and are in effect for current Investment staff. The OCC voted to approve recommending that the existing classifications and salary ranges be approved objective criteria by the Board of Trustees.

On a motion made by Mr. Stafford and seconded by Mr. Norman, the Board adopted the existing classifications and salary ranges for the eight new positions in the Investment Division, as objective criteria for setting compensation.

FY2018 System Active Membership

The Board was presented with the System's Active Membership by percentage as employed by the State, the libraries, and each local employer. The certified percentages are provided to determine each System employer's pro rata share of the amount necessary for the administrative and operational expenses of the Board of Trustees and the State Retirement Agency. This report serves as certification of the System's active membership as of the end of the fiscal year and is submitted to the Secretary of the Department of Budget and Management in accordance with State Personnel and Pensions Article § 21-316(c) of the Maryland Annotated Code.

On a motion made by Mr. Brotman and seconded by Mr. Norman, the Board unanimously voted to certify the required membership percentages to the Secretary of Budget and Management, applicable to FY2020.

State Employees	59,246	
State Teachers	1,906	
Local Public Libraries-TCS Teachers	2,478	
Local Public Libraries-ECS Employees	<u>154</u>	
<b>Subtotal State</b>	<b>63,784</b>	<b>33%</b>
Local Boards of Education	110,558	
Local Community Colleges	5,510	
Local Elected & Appointed Officials	57	
Participating Governmental Units	<u>12,184</u>	
<b>Subtotal Local</b>	<b><u>128,309</u></b>	<b>67%</b>
<b>Total</b>	<b>192,093</b>	

**BOARD OF TRUSTEES FOR THE  
MARYLAND STATE RETIREMENT AND PENSION SYSTEM  
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Recommendation of  
the Investment  
Committee  
regarding Changes  
to the Investment  
Policy Manual with  
Respect to the  
Authority to Pledge  
System Assets as  
Collateral and to  
address the Use of  
Internally Managed  
Strategies

Mr. Hughes, as Chairman of the Investment Committee reported on the Committee's deliberations concerning changes to the Investment Policy Manual (IPM). The Board was provided with a red-lined version of the suggested changes, which included the following:

Amendment #1: Use of System Assets as Collateral

The System is in the process of negotiating Futures Commission Merchant (FCM) agreements with counterparties. These agreements are necessary for the System and its external managers to trade futures contracts. In negotiating these FCM agreements, the System has found that certain counterparties require unqualified security interests in the collateral posted by the System. Staff understands that providing collateral, and granting security interests in that collateral, is consistent with customary market practice when utilizing futures and other derivatives. The proposed policy would give the CIO express authority to utilize System assets for this purpose, which would permit expansion of the System's pool of available FCMs and reduce counterparty risk.

The amendment provides language specifically empowering the CIO to post System assets as collateral, and to grant counterparties security interests in this collateral, subject to advice by legal counsel regarding current market standards and practices prior to executing any counterparty agreement. Additionally amendments provided by staff to the Investment Committee provide that the Investment Division will limit the use of derivatives to ensure that any collateral pledged is consistent with any limits on leverage imposed by the Board.

Amendment #2: Internal Management

This recommendation relates to the internal management initiative. While the IPM and the CIO charter currently reference the CIO's authority to manage assets internally, staff recommends that the IPM be amended to provide more detail with respect to how the CIO may exercise this authority, including the areas requiring additional policies and procedures. In addition, staff recommends language specifically authorizing the CIO to delegate trading authority to Investment staff and responsibilities associated with that authority. While the CIO has ultimate responsibility for implementing and monitoring an internal management program, delegation of investment authority to staff should be included in the IPM.

Mr. Hughes reported that after review and discussion by the Committee, the Committee decided to defer voting on staff's proposed Amendment #2 (changes to section II.D – Internal Management), but voted to accept Amendment #1 (Use of System Assets as Collateral), as presented, for recommendation to the Board.

On a motion made by Mr. Brotman and seconded by Mr. Hughes, the Board of Trustees, approved the Investment Committee's recommendation to update the Investment Policy Manual to include Amendment #1 (Use of System Assets as Collateral), as presented, but to defer any consideration of Amendment #2 (Internal Management) until a later date.



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Mr. Kenderdine responded that a system has been developed that will track staff time that is devoted to the ORP, so that the Agency will document its expenses for the purpose of billing the ORP providers.

Ms. Herman asked if that includes the OPEB trust fund.

Mr. Kenderdine responded, not at this time.

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Treasurer Kopp announced that the December meetings will be the last for Trustee Harkins, both as a Trustee and Chairman of the Administrative Committee. Mr. Harkins will be leaving, after serving on the Board for 14 years.

On a motion made by Mr. Brotman and seconded by Mr. Norman, the Board voted to meet in a Closed Session, beginning at 1:48 p.m., at the Board Room of the SunTrust Building, 120 East Baltimore Street, 16<sup>th</sup> Floor Board Room, Baltimore, Maryland for the purpose of:

- a) reviewing the October 16, 2018 closed session Board minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function;
- b) reviewing the Medical Board reports from October 17, October 25, October 31, November 8 and November 14, 2018, 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; and
- c) reviewing a report regarding extraordinary salary increases, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific statutory requirement that prevents public disclosure, namely General Provisions Art., § 4-312 regarding the prohibition on disclosing retirement records.

**CLOSED SESSION**

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	F. Patrick Hughes
Peter Franchot, Vice Chairman (via phone)	Charles Johnson
Eric Brotman	Theresa Lochte
James Harkins	Richard Norman
Linda Herman (via phone)	Douglas Prouty
Sheila Hill (via phone)	Michael Stafford

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

Melody Countess	Angie Jenkins	Andrew Palmer
Patricia Fitzhugh	Van Lewis	Ken Reott
Anne Gawthrop	Kim O'Keeffe	Janet Sirkis
Michael Golden		

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

Other attendees included: Susanne Brogan and John Kenney

On a motion made by Mr. Brotman and seconded by Mr. Hughes, the Board voted to meet in a Closed Session, beginning at 1:51 p.m., at the Board Room of the SunTrust Building, 120 East Baltimore Street, 16<sup>th</sup> Floor Board Room, Baltimore, Maryland.

**OPEN SESSION**

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	F. Patrick Hughes
Peter Franchot, Vice Chairman (via phone)	Charles Johnson
Eric Brotman	Theresa Lochte
James Harkins	Richard Norman
Linda Herman (via phone)	Douglas Prouty
Sheila Hill (via phone)	Michael Stafford

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

Melody Countess	Angie Jenkins	Andrew Palmer
Patricia Fitzhugh	Van Lewis	Ken Reott
Anne Gawthrop	Kim O’Keeffe	Janet Sirkis
Michael Golden		

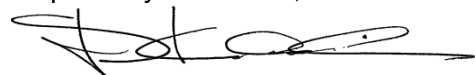
Assistant Attorneys General present included: Rachel Cohen, Jody Shaw and Kathleen Wherthey

Other attendees included: Susanne Brogan and John Kenney

During closed session, the Board of Trustees discussed and took action on the following:

Closed Session Minutes	The Board reviewed and approved the October 16, 2018 closed session minutes.
Medical Board Reports	The Board reviewed and adopted the medical board reports from October 17, October 25, October 31, November 8 and November 14, 2018.
Extraordinary Salary Increases	The Board reviewed and approved the recommendations regarding the extraordinary salary increases, with one modification.
Adjournment	There being no further business before the Board, on a motion made by Mr. Brotman and duly seconded, the meeting adjourned at 1:51 p.m.

Respectfully submitted,



R. Dean Kenderdine  
Secretary to the Board

**BOARD OF TRUSTEES  
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

**OBJECTIVE CRITERIA COMMITTEE MEETING SUMMARY  
OCTOBER 22, 2018**

Review of the  
Committee's  
Duties and  
Responsibilities

Ms. Gawthrop summarized Chapters 727 and 728 of the Acts of 2018 that give the Board of Trustees the authority to create positions in the Investment Division and set the qualifications and compensation criteria for those positions. The law also establishes the Objective Criteria Committee (OCC), which shall advise the Board in establishing objective criteria for compensation and financial incentives.

Ms. Gawthrop reported that:

- The OCC is a Committee of the Board of Trustees.
- At least once every five years, the OCC shall convene and make recommendations to the Board regarding:
  - objective criteria for the compensation and financial incentives for the CIO
  - objective criteria for compensation and financial incentives for the staff of the Investment Division of the Agency.
- The Chief Investment Officer (CIO) shall serve in an advisory capacity to the OCC.
- The CIO may not participate in any deliberations of the OCC regarding setting criteria for compensation and financial incentives for the CIO.

Ms. Gawthrop summarized how the compensation and financial incentives for the CIO and Staff should be based and described limitations for each. Ms. Gawthrop reported that neither the CIO nor staff are permitted to receive an increase in compensation or a financial incentive award in any year when State employees are furloughed. Ms. Gawthrop also reported that the law also delineates between Staff that have discretion over investment-related decisions and those that do not.

Key Service  
Providers

Mr. Kenderdine provided background on what a Key Service Provider is and the procurement process used in obtaining the services of CBIZ Compensation Consulting.

Draft Objective  
Criteria  
Committee  
Charter

Mr. Kenderdine provided the Committee with proposed language for the Objective Criteria Committee Charter.

Mr. Kenderdine reported that unless the Committee had any changes to the proposed language, this would be presented, as is, to the Administrative Committee at its next meeting, as all Charters go through the Administrative Committee for approval and recommendation to the Board of Trustees.

Mr. Brotman requested that the Charter be revised to include separate sections that establish the distinction between Investment Division staff who hold a position with discretion over investment-related decisions and those positions that do not have discretion over investment-related decisions. Mr. Brotman indicated that had it not been for Ms. Gawthrop's presentation in the beginning, he would not have known, by reading the proposed language in the Charter, that there were separate provisions regarding those positions.

Mr. Kenderdine responded that staff would revise the Charter and would send the new proposed Charter to the Committee electronically for its approval and that the electronic vote would be ratified by the Committee at its next meeting.

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**OBJECTIVE CRITERIA COMMITTEE MEETING SUMMARY  
OCTOBER 22, 2018**

Objective  
Criteria for  
Compensation  
of Newly  
Budgeted  
Positions in the  
Investment  
Division

**THIS MATTER WILL BE DISCUSSED AND VOTED ON OUTSIDE THE  
CONSENT AGENDA IN OPEN SESSION.**

Mr. Palmer reviewed the provisions of the law requiring the Board to consider recommendations from the Committee with respect to objective criteria for qualifications and salary setting for newly created positions. Mr. Palmer noted that as part of its budgeting process, the Board had provisionally approved eight (8) new investment positions in the division's FY19 and FY20 budgets. Recognizing that the process to create a new compensation plan for the investment division may take many months, Mr. Palmer requested the Committee recommend the Board adopt existing job descriptions, qualifications and compensation as an objective criteria. With this approval, and the additional steps required by law, the investment division may begin recruiting for positions.

To illustrate the scope of positions anticipated and the existing compensation ranges, Mr. Palmer reviewed a list of the positions including a salary range for each position. Each position is set in one of the State's current classifications and their respective salary ranges. Those classifications and salary ranges have been approved previously by the Department of Budget and Management and the legislature.

Mr. Brotman asked which of the eight positions are considered positions that involve discretion over investment-related decisions.

Mr. Palmer responded that the Managing Director-Fixed Income and the Sr. Investment Analyst-Real Estate were the only two of the eight that would be considered to be a position that involve discretion over invested-related decisions.

On a motion made by Senator Serafini and seconded by Delegate Lierman, the Committee approved recommending to the Board that the existing classifications and salary ranges be considered approved objective criteria.

The Committee recognized that it was recommending only the use of the positions and salary ranges currently in place for those positions.

Report from  
CBIZ  
Compensation  
Consulting

Joe Rice and Hal Wallach from CBIZ Compensation Consulting addressed the Committee and presented on the following topics:

- The consultant's project workplan, which included, but is not limited to:
  - conducting a project planning meeting with staff
  - collecting and reconciling organization, job and employee information
  - evaluating job documentation, including functions, duties, responsibilities and required qualifications
  - determining the appropriate comparative labor market with various factors, such as geography, industry and size
- The consultant's process for developing of elements for inclusion in the objective criteria for setting base salaries, adjusting base salaries and awarding financial incentives
- The consultant's preliminary analysis of the Agency's current Investment Division compensation as compared to peers.



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***OBJECTIVE CRITERIA COMMITTEE MEETING SUMMARY  
OCTOBER 22, 2018***

Mr. Rice also reported that part of their workplan will be to develop a robust compensation database using their own Public Pension Compensation Survey, which includes 40 total participating Public Pension Plans, but which was narrowed down to a custom peer group of 13 with AUM ranging from \$27B to \$101B. This database will then be enhanced using public pension compensation survey data from four additional sources subject to timely availability.

The Committee was provided a Market Summary Exhibit which showed preliminary data on the current positions within the Investment Division, the current salary structure, the market base salary and market total cash compensation for each position.

Ms. Brogan asked if other factors, such as cost-of-living adjustments are factored in when being compared to peers.

Mr. Rice responded that they do incorporate a cost of labor element as opposed to a cost of living element, which adjusts survey participant salaries from the local market to Baltimore based on the wage differentials driven by the supply and demand for labor in a given market. Salary increase trends are also used to adjust survey data from the survey effective date to the project planning date of January 1, 2019. After adjusting for the size of plans by restricting the peer group to similar sized plans the only more granular discriminator was internal versus external management.

Ms. Brogan asked if asset allocation is considered.

Mr. Rice responded that asset allocation impacts the types of positions considered in the study not whether the organization is included in the survey. If an organization does not include a specific asset class, it will not have any positions to submit for that part of the survey but that organization is not excluded from the peer group.

Delegate Lierman asked if the Committee could be provided with a list of all State benefits that the Investment Division staff currently receives as a State employee.

Ms. Gawthrop responded that she would put together a list of those benefits.

**BOARD OF TRUSTEES  
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**AUDIT COMMITTEE MEETING SUMMARY  
November 13, 2018**

Presentation of  
FY 2018 MSRPS  
Financial Statement  
Audit Results

**THIS MATTER WILL BE DISCUSSED AND VOTED ON OUTSIDE THE  
CONSENT AGENDA IN OPEN SESSION.**

Mr. William Seymour presented the Committee with the FY 2018 financial statement audit results. The scope of services provided included auditing the financial statements, as well as the Schedule of Contribution and Pension Amounts, required by GASB 68. He informed the Committee that both of these would receive an unmodified opinion. The audit noted no instances of fraud, or material weaknesses in internal control. He stated that SB & Company had an open relationship with management, and received their full cooperation.

Mr. Seymour generally described how investments were categorized for purposes of valuation. About half are considered level 1 investments, which had values that were readily determinable. Others are Level 2 and Level 3 investments. Level 2 investments, such as fund-of-funds, have some observable inputs. Level 3 investments do not have observable inputs, and have a greater valuation risk.

Mr. Seymour told the Committee that the audit reviewed the actuarial assumptions used to determine pension liabilities. The auditors looked at the assumptions and tested their related data. No issues were noted.

Mr. Seymour told the Committee that there were no significant items to be disclosed in the Required Communications section, and that there were no significant audit adjustments.

On a motion made by Mr. Hughes, and seconded by Ms. Lochte, the Committee accepted the FY 2018 MSRPS Draft Financial Statements.

Presentation of  
FY 2018 Participating  
Employer Audit  
Results

Thomas Rey presented the results of 71 audits performed by CliftonLarsonAllen in FY 2018. He told the Committee that the audits support the Systems' reporting for GASB 67 & 68, by looking at employers' underlying census data. All of the System's participating employers are audited on a three-year cycle. Sampling was used for most audit tests.

Mr. Rey provided bar graphs comparing the findings for the current and previous audits of this group of employers. He told the Committee that there was an overall decrease in the number of audit findings in terms of both the number of affected employers, and the number of affected accounts. He also provided a table summarizing the audit results, by objective, for each employer.

Mr. Kenderdine recognized the efforts of Pamela Smith, Administrator III, in communicating with participating employers to resolve issues. He noted that usually an issue has been resolved prior to sending the employer a letter notifying them of the audit results.

**BOARD OF TRUSTEES  
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**AUDIT COMMITTEE MEETING SUMMARY  
November 13, 2018**

	<p>Mr. Hughes asked if the Agency has an interface system that interacts with PGU systems in relation to payroll reporting. Mr. Harvey Raitzyk noted that each PGU may have an independent payroll system, however, each PGU must upload in the Agency specific format; getting data in a standard format is the goal no matter the system.</p>
Internal Audit Staffing Update	<p>Mr. Rongione noted that the Internal Audit Division is currently operating at 50%, with 2 of 4 positions active. One employee is out on FMLA until January, and the other position is currently vacant. Internal Audit conducted interviews for the open position; however, an offer was not extended to potential candidates. During the budget process, Internal Audit requested additional funds for IT and Investment audits, in order to address risks the current resources are unable to address. If these funds are not allocated during the budget process, internal audit will try to reclass the open position to an IT auditor position. This will be difficult given the salary constraints. This reclass will also leave a void in the responsibilities of the current Internal Auditor II PIN.</p> <p>Mr. Hughes agreed that more compliance and assurance services would be required in relation to in-house investing, and added that the right resources need to be in place to address the additional risk.</p>
CY 2018 Audit Committee Meeting Dates	<p>On a motion by Mr. Hughes, seconded by Mr. Hamilton, the Committee approved the following CY 2019 Audit Committee meeting dates:</p> <ul style="list-style-type: none"><li>• January 15, 2019;</li><li>• April 16, 2019;</li><li>• July 16, 2019; and</li><li>• November 12, 2019.</li></ul>
Status of FY 2018 Audit Plan	<p>Mr. Rongione provided the Committee with a status update for the FY 2019 audit plan. He noted that due to the current staffing deficit, slow progress has been made.</p> <p>For full-scope audits, the Death Benefit Processing audit is in-progress. For outsourced audits, the Management &amp; Incentive Fee audit is in-progress. There are 51 audits of participating employers to be completed in FY 2019. Of these, 25 are currently in progress, and the remaining 26 have not started.</p>
Status of Open Issues Log	<p>Mr. Rongione noted that Internal Audit has followed up with Management for all of the findings. Management has indicated that all findings (except the first one, which requires regulation updates) are ready for testing. Based on staffing levels, internal did not have an opportunity to test these prior to the Committee meeting. These will be a priority to test prior to the next meeting.</p>
Completed Audits	<p>Mr. Rongione summarized the results of the recently completed audit of the disability process. He noted that the audit had an overall rating of "green". One minor deficiency was noted. Agency management has agreed to implement corrective actions to address the issue identified in the audit.</p>