

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

December 18, 2018

The Board of Trustees for the Maryland State Retirement and Pension System convened at the SunTrust Building, 120 East Baltimore Street, 16th Floor Board Room, Baltimore, Maryland beginning at 9:33 a.m.

The Trustees present included:

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

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

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

Assistant Attorneys General present included: Rachel Cohen and Kathleen Wherthey

Other attendees included: Susanne Brogan, Justin Hayes, John Kenney, Phillip Anthony and Howard Pleines

Consent Agenda

A motion made by Ms. Hill and seconded by Mr. Prouty, to approve the consent agenda, which included:

- November 27, 2018 Open Meeting Board Minutes
- November 29, 2018 Objective Criteria Committee Meeting Summary
- December 4, 2018 Administrative Committee Meeting Summary

Ms. Herman requested that the November 29, 2018 Objective Criteria Committee (OCC) Summary be removed for further discussion as she takes exception to language on pages 12 and 13 of the agenda packet, regarding the positive fund return and the performance against peers.

Treasurer Kopp reminded the Board that what is presented is just a summary of the OCC meeting held on November 29, 2018 and is not being brought to the Board for approval. Treasurer Kopp further explained that both topics brought up by Ms. Herman were fully discussed by the OCC at its meeting on December 17, 2018 and would be addressed in the next OCC meeting summary and recommendations will be brought to the Board in January and thereafter.

After further discussion, on a motion made by Ms. Hill and seconded by Mr. Prouty, the Board approved the consent agenda, as presented.

Administrative
Appeal of Frank J.
Principe, Jr.

Prior to the Appeal being heard, Mr. Harkins advised the Board that he was recusing himself from the hearing and decision.

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Treasurer Kopp advised the Board that she personally knew both the Petitioner, Mr. Principe and Counsel for the Petitioner, Mr. Maloney, but that her knowing the parties would not hinder or bias her opinion in this matter.

Trustee Lochte, as Vice-Chairman of the Administrative Committee, advised the Board that the Committee at its December 4, 2018 meeting, heard from the parties and is recommending that the Board adopt the Executive Director's summary decision.

Timothy Maloney, Esquire and Frank J. Principe, Jr., appeared before the Board of Trustees, requesting that the Board reject the Summary Decision of the Executive Director regarding Mr. Principe's request that he be allowed to remain enrolled in the Employees' Pension System (EPS) or in the alternative to receive full credit for the plan contributions and time served during the period in which he was enrolled in the EPS.

Mr. Maloney reported that although Mr. Principe elected to join the Optional Retirement Program (ORP) in 1997, he had cashed out his ORP account in 2006 and was no longer a participant. In October 2010, Mr. Principe became a member of the EPS due to his employment with the Maryland Department of Transportation (MDOT). On February 16, 2015, Mr. Principe applied to participate in the EPS as an exempt employee of the University of Maryland University College. Although the State Retirement Agency (SRA) initially rejected the application on the grounds that Mr. Principe's UMUC position was ORP-eligible, after learning that he had cashed out his ORP account, SRA enrolled him in the EPS in 2015.

Mr. Maloney argued that the roll-over of his ORP funds canceled Mr. Principe's prior membership in the ORP and that Mr. Principe's enrollment in the EPS was proper as a matter of law. Mr. Maloney argued that the irrevocability of his enrollment in the ORP only remained in effect until he accepted a position at MDOT, which is not an ORP-eligible employer, or until he rolled-over his ORP funds.

Ms. Kathleen E. Wherthey, Assistant Attorney General, argued on behalf of the Agency. Ms. Wherthey explained that in November 1997, Mr. Principe elected to join the ORP when he went to work for Towson University, and executed a form to confirm his election to participate in the ORP instead of the System. That election form stated that his election to join the ORP is "final, binding and irrevocable as long as the individual is an employee of an institution of higher learning which permits such option."

Ms. Wherthey reported that Mr. Principe was later enrolled in the EPS as a result of his employment in 2010, with MDOT, a non-ORP eligible employer. However, in 2015, when Mr. Principe became employed with UMUC, an ORP-eligible employer, he was required by law to re-enroll in the ORP.

Former Art. 77 § 192(i), enacted by 1975 Laws of Maryland, Chapter 556, provides that "Any eligible employee electing to participate in an optional retirement program shall be ineligible for membership in the Teachers' Retirement System of the State of Maryland so long as he or she is employed in

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any other institution establishing an optional retirement program pursuant to this section. The employee shall participate in the optional retirement program of that institution.” Ms. Wherthey argued that this requirement has remained in the law since that time.

Ms. Wherthey further argued that several statutory provisions in effect in 2015 reflected and carried out the legislative intent. State Personnel and Pensions Art., § 30-302(b) plainly states that “[a]n eligible employee’s election to participate in the [ORP] program is a one-time irrevocable election.” SPP § 30-307(e) further confirms that “[a] participating employee in ineligible for membership in a retirement or pension system while the [ORP]-participating employee is employed in any eligible position by any employing institution.” In addition, Ms. Wherthey argued that the State statutes dovetail with federal tax law, which prohibits “elective deferrals” to the System given its status as a governmental defined benefit plan under 26 U.S.C. § 401(a) of the Internal Revenue Code.

Mr. Hughes asked what the impact would be to unwind the process.

Ms. Wherthey responded that unwinding the process would mean that all contributions would need to be refunded to Mr. Principe. Mr. Principe would be able to move those funds to his ORP account. Ms. Wherthey also responded that Mr. Principe would not be losing money, but would receive a different benefit.

Ms. Cohen further responded that Mr. Principe’s account would be restored to the position he would have been in had he reenrolled in the ORP. Mr. Principe’s account would be credit with all required employer contributions plus earnings.

Mr. Principe responded that the impact to him and his family would be substantial, as his wife would not be eligible for health insurance.

Treasurer Kopp asked about the definition of participant in the ORP plan document.

Ms. Wherthey responded that the language is intended to relate to an employee who takes their distribution at retirement.

Mr. Stafford asked if the election form clearly explains that a decision to elect the ORP may be changed.

Ms. Wherthey responded that yes, the election form is clear and that a copy of the form Mr. Principe signed is in the appeal record.

Mr. Hamilton asked whether it would be appropriate to refer the appeal to the Office of Administrative Hearings, as requested by Mr. Principe and his attorney.

Ms. Wherthey responded that referring the appeal to OAH is not recommended as there is no dispute of facts, and only an interpretation of the law.

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Ms. Lochte responded that if the Board upholds the Committee's recommendation, then Mr. Principe would have the right to appeal to Circuit Court.

The Board discussed and voted on this appeal in closed session.

Administrative
Appeal of Kenneth
Dries

Theresa Lochte, Vice Chairman of the Administrative Committee, advised the Board that the Committee at its December 4, 2018 meeting, heard from the parties and is recommending that the Board reject the Executive Director's summary decision.

Mr. Dries personally appeared before the Board, requesting that the Committee reject the Summary Decision of the Executive Director and grant his request that his retirement date be backdated to June 1, 2010, and not August 1, 2017 as determined by the System. Mr. Dries stated that he was never told that he would lose benefits if he waited to submit his application, and was told that if he retired he would lose the right to appeal his grievance with his employer.

Ms. Kathleen E. Wherthey, Assistant Attorney General, argued on behalf of the Agency. Ms. Wherthey explained that Mr. Dries participated in the Correctional Officers' Retirement System (CORS). Ms. Wherthey stated that CORS has a normal service retirement age of 55 with at least five years of eligibility service for a member who was enrolled before July 1, 2011.

Mr. Dries stopped working in May 2010. At that time, Mr. Dries was 60 years and 6 months old and had seven years and eight months of creditable and eligibility service and was therefore, eligible to retire from CORS at the time he left employment. Ms. Wherthey argued that the Agency informed Mr. Dries on several occasions that he was eligible to retire, and told him that he must complete the retirement forms and return them to the Agency as soon as possible in order to receive his benefits. However, Mr. Dries did not submit retirement forms to the Agency until August 2017.

Ms. Wherthey argued that SPP § 25-402 provides that a former member may retire on the first day of the month after the Board of Trustees receives a written application for retirement from the former member, and that a former member may not receive benefits for the period before the former member submits a completed application to the Board of Trustees. Therefore, the Agency correctly determined that Mr. Dries' effective date of retirement is August 1, 2017.

The Board discussed and voted on this appeal in closed session.

CIO Report

Mr. Palmer provided the Board with a fund tearsheet with preliminary numbers as of November 30, 2018. Mr. Palmer reported that as of that date, the total fund return for the month was up 1.31%, the policy benchmark was up 1.41%, and the total fund value was \$51.011 billion. Mr. Palmer reported that markets had been unusually weak for the month of December reflecting heightened uncertainty with respect to monetary and trade policy and their impact on economic growth and earnings. Treasurer Kopp and Trustee Stafford noted that diversification had been of limited benefit in recent months as most asset classes had produced low or negative returns.

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Mr. Palmer also provided the Board with a memorandum that provided proposed objective criteria for the Board to use when determining the type, number and qualifications of positions in the Investment Division. The information provided in the memorandum was presented to the Objective Criteria Committee (OCC) at its December 17, 2018 meeting. Mr. Palmer explained that under the new law, the Board must adopt objective criteria for determining the type, number and qualifications of positions in the Investment Division, as well as objective criteria for determining compensation.

Treasurer Kopp responded it would be helpful to have graphics that showed the relationships and responsibilities of the OCC, the Board, and the consultant in regard to setting compensation and creating positions for the division, for the benefit of Trustees and in anticipation of requests from the legislature and/or constituents for such information.

Executive Director's
Report

Mr. Kenderdine provided a copy of the approved 2019 Board and Committee meeting dates in chart form to the Trustees. Mr. Kenderdine reported that the 2018 Board attendance reports and training log was included in the meeting packet for the Board's review. Mr. Kenderdine asked that each Trustee review those pages and let him know if any corrections need to be made.

Mr. Kenderdine also reported that the meeting packet includes a work plan created by Gabriel Roeder Smith, the System's actuary, to move forward with an experience study of the System. An experience study is required, by law, to be performed at least every 5 years, but the System has been doing so every four years.

Mr. Kenderdine reported that the experience study will be based on FYs 2015 through 2018 and will examine the current demographic and economic assumptions for possible adjustments. Mr. Kenderdine further reported that the assumed rate of return as a key economic assumption, will be included in the study.

Mr. Kenderdine reported that a Confidential Memorandum regarding a Real Estate litigation matter was posted on Director's Desk for the Board's review and requested that all questions be directed to Kathleen Wherthey.

Mr. Kenderdine reported that the Joint Committee on Pensions (JCP) held its final meeting and that all Board requested legislation was approved except for the following proposals:

- › Prohibit a retiree from receiving service credit for unused sick leave if the retiree's employer also provides a cash payment for the sick leave at retirement.
- › Explicitly permit the Board to reopen a disability case after the award of disability has been made, if the Agency receives new information that the retiree may have been ineligible for the benefit at the time of award.

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- Modify the contribution surcharge as recommended by the System's actuary for the nine non-contributory Participating Governmental Units that have, since the 2011 reforms, realized a contribution reduction that has been compensated for by the rest of the PGU pool. This request was held by the Committee for more information.

Mr. Kenderdine reported that staff and the vendor is close to completing the redesign of the Agency's website for members.

Mr. Golden added that he would be providing a link to the test website, the "Sandbox", to the Trustees after the new year so that they could examine, test and comment on the site before it goes live.

Mr. Kenderdine acknowledged the presence of Howard Pleines who was the Agency's former Director of Legislative Affairs.

Presentation of Resolutions

On behalf of the Board of Trustees, Treasurer Kopp and Comptroller Franchot, via telephone, presented Mr. James Harkins with a Board resolution in recognition of his 14 years of service as Trustee to the System.

On behalf of the Board of Trustees, Treasurer Kopp and Comptroller Franchot, via telephone, presented Ms. Susanne Brogan with a Board resolution in recognition of her years of State service and as Treasurer Kopp's Designee on the Administrative Committee.

On behalf of the Board of Trustees, Treasurer Kopp and Comptroller Franchot, via telephone, presented Mr. John Kenney with a Board resolution in recognition of his years of State service.

Comptroller Franchot also presented Mr. Kenney with a resolution from the Office of the Comptroller.

On a motion made by Ms. Hill and duly seconded, the Board voted to meet in a Closed Session, beginning at 11:37 a.m., at the Board Room of the SunTrust Building, 120 East Baltimore Street, 16th Floor Board Room, Baltimore, Maryland for the purpose of:

- a) discussing the administrative appeal of Frank J. Principe, Jr., pursuant to General Provisions Art., § 3-103(a)(iii), a quasi-judicial function;
- b) discussing the administrative appeal of Kenneth Dries, pursuant to General Provisions Art., § 3-103(a)(iii), a quasi-judicial function;
- c) reviewing the November 27, 2018 closed session Board minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function;

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- d) reviewing the Medical Board reports from November 28, December 6 and December 12, 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

- e) 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
Jamaal Craddock	Theresa Lochte
David Hamilton	Richard Norman
James Harkins	Douglas Prouty
Linda Herman (via phone)	Michael Stafford
Sheila Hill	

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

Melody Countess	Michael Golden	Harvey Raitzyk
Patricia Fitzhugh	Angie Jenkins	Ken Reott
Anne Gawthrop	Kim O'Keeffe	David Rongione
		Janet Sirkis

Assistant Attorneys General present included: Rachel Cohen

Other attendees included: Susanne Brogan, Justin Hayes and John Kenney

On a motion made by Ms. Hill and seconded by Mr. Norman, the Board voted to return to Open Session, beginning at 12:07 p.m., at the Board Room of the SunTrust Building, 120 East Baltimore Street, 16th 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
Jamaal Craddock	Theresa Lochte
David Hamilton	Richard Norman
James Harkins	Douglas Prouty
Linda Herman (via phone)	Michael Stafford
Sheila Hill	

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***OBJECTIVE CRITERIA COMMITTEE MEETING SUMMARY
NOVEMBER 29, 2018***

Ratification of
the Committee'
Electronic Vote
regarding the
Objective
Criteria
Committee
Governance
Charter

At the Committee's October 22, 2018 meeting, staff presented draft language for an Objective Criteria Committee Governance Charter. 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. The Committee approved the charter with the suggested changes.

On October 25, 2018, Mr. Kenderdine presented, electronically to the Committee members, a revised draft OCC Governance Charter.

Ms. Miller commented that it was her recollection that the flow of the Charter would be the CIO (salary and incentives), staff with discretion (salary and incentives), followed by staff without discretion (salary).

Mr. Kenderdine responded that yes, that is the appropriate ordering of the sections and that modifications to the Charter would be made to reflect that order.

Having received a motion electronically made by Ms. Brogan and electronically seconded by Mr. Brotman, the Committee electronically approved the Governance Charter of the Committee.

On a motion made by Ms. Brogan and seconded by Senator Serafini, the Committee ratified its vote to approve the recommended changes to the OCC Governance Charter.

Mr. Kenderdine reported that the policy requires that all Charters go through the Board's Administrative Committee for approval and recommendation to the Board of Trustees.

Compensation
Philosophy
Statement for
the System's
Investment
Division

Hal Wallach and Joe Rice from CBIZ Compensation Consulting presented the Committee with a Compensation Philosophy for the System's Investment staff, which describes the basis of attracting, retaining and motivating qualified investment staff to achieve the System's Mission.

The philosophy provides that positions are evaluated against the labor market based a comparison of the duties, responsibility and required qualifications of employees serving in similar positions. It also provides that pay structure, for investment staff, should be at the market median based on the labor market, which is based on the following characteristics:

- Industry – the labor market will be comprised of other public pension funds given the specialty nature of the investment staff positions.
- Size of Organization – the labor market will be comprised of peer funds as measured by assets under management to ensure that the organization is comparable.
- Geography – the labor market will include peer funds nationwide. National survey will be adjusted to Baltimore, Maryland based on a cost-of-labor differentials.

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In addition, the philosophy also provided for the Investment Staff Compensation Policy to include the following compensation components:

- Base Salary – the annual fixed rate that an individual is paid for performing a job.
- Total cash compensation – the sum of the base salary and incentive pay. Incentive pay is the actual direct compensation paid under a short-term cash compensation plan that provides variable awards based on established criteria.

Ms. Brogan questioned if the philosophy could say incentive pay will allow individuals to achieve market competitive total cash compensation...while providing “above market” opportunities for superior performance. Ms. Brogan commented that the philosophy should be built around the current statute, which provides for a 33% cap.

Senator Serafini asked if the language could be changed to say “above median” instead of “above market.”

Mr. Brotman asked that CBIZ change the language of the philosophy, as discussed and that the revised document be sent to the Committee for an electronic vote which will be ratified at the December Committee meeting for recommendation to the Board.

Analysis of
Current
Investment Staff
Compensation

The Committee was provided with a summary of the competitive market study and proposed incentive plan parameters. The report provided the following recommendations:

The objective criteria for the <u>compensation</u> of the <u>Chief Investment Officer</u>, shall include:	
Requirement	Objective Criteria
Consideration of the comparative qualifications and compensation of employees serving in similar positions and discharging similar duties at comparable public pension funds	<ul style="list-style-type: none"> • Base Salary and total cash compensation market data at the 25th, 50th, and 75th percentile • Compare to external survey descriptions based on job description • Education and certifications • CIO performance rating • Employee salary range placement
Objective benchmarks of investment performance that shall be met or exceeded for the CIO to be eligible for an increase in compensation	<ul style="list-style-type: none"> • Positive fund return • Performance rating of “satisfactory” or higher

The Committee, after discussion, agreed that the language regarding the “Positive Fund Return” should include “relative to benchmark” and that the “Performance rating of “satisfactory” or higher” should be removed from the criteria for the compensation of the CIO.

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The objective criteria for awarding <u>financial incentives</u> to the <u>Chief Investment Officer</u>, shall include:	
Requirement	Objective Criteria
Objective benchmarks of investment performance for the assets of the several systems that must be met or exceeded. Objective criteria used by comparable public pension funds awarding financial incentives to chief investment officers.	<ul style="list-style-type: none"> • Positive fund return • Performance rating of “satisfactory” or higher • Performance vs. Policy Index • Performance vs. Actuarial Assumed Rate of Return

The Committee, after discussion, agreed that both the “Positive Fund Return” and “Performance Rating of “satisfactory” or higher” should be removed from the criteria and that “Performance vs. Policy Index” should be changed to Performance vs. Policy Benchmark.”

For positions that <u>involve discretion</u> over investment-related decisions, the objective criteria for awarding <u>compensation</u> shall include:	
Requirement	Objective Criteria
Consideration of the comparative qualifications and compensation of employees serving in similar positions and discharging similar duties at comparable public pension funds	<ul style="list-style-type: none"> • Base Salary and total cash compensation market data at the 25th, 50th, and 75th percentile • Compare to external survey descriptions based on job description • Education and certifications of incumbents • CIO performance rating • Employee salary range placement
Objective benchmarks of investment performance that shall be met or exceeded by an individual to be eligible for an increase in compensation.	<ul style="list-style-type: none"> • Positive fund return • Performance rating of “satisfactory” or higher

The Committee, after discussion, agreed that the “Performance Rating of “satisfactory” or higher” should be removed from the criteria and that language should be added to the “Positive Fund Return” to include “relative to the benchmark of the System”.

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Objective
Criteria for
Incentive
Compensation
for Qualified
Investment Staff

Messrs. Rice and Wallach next addressed the matter of objective criteria for incentive compensation for qualified investment staff. The consultants presented the process they went through to identify incentive practices offered within the competitive market, considering the System's industry, size, as well as the duties and responsibilities of each relevant investment staff position. They reported that approximately one-half of larger public pension plans (those with more than \$10B in assets) provide incentive compensation.

The consultants' analysis also found that performance metrics typically include a combination of comparison to a "Total Policy" index, as well as "absolute" performance, with common performance periods including one, and three-year horizons.

A table was presented showing "market average target incentive percentages, as a percent of base salary, for each of the qualified positions.

Market Average Annual Incentive (Percent of Base Salary)	
Position	Target
Chief Investment Officer	20.0%
Deputy Chief Investment Officer	25.0%
Managing Director	25.0%
Sr. Portfolio Manager V	40.0%
Sr. Portfolio Manager IV	40.0%
Sr. Portfolio Manager III / Sr. Risk Manager III	25.0%
Sr. Portfolio Manager II / Sr. Risk Manager II	20.0%
Sr. Portfolio Manager I / Sr. Risk Manager I	20.0%
Sr. Investment Analyst III	10.0%
Sr. Investment Analyst II	10.0%
Sr. Investment Analyst I	5.0%
Investment Associate	0.0%

Senator Serafini asked to have the table redone with only those plans currently providing incentives now in order to have a baseline for comparison.

Messrs. Rice and Wallach then offered their proposed incentive plan design parameters to the Committee which include three metrics for determining incentive awards:

- Actual System performance vs. Policy Index
- Actual System performance vs. Actuarial Assumed Rate of Return
- Actual System performance vs. Asset Class

The consultants recommended, and the Committee agreed that a three-year horizon would be used for all three of the metrics.

In addition, the consultants recommended that the plan have a single hurdle that must be met for any incentives to be awarded, specifically that the fund must have a positive return over a three-year period. The Committee rejected this recommendation. It was the view of the Committee that the preservation of the value of the System's assets may be more important to the long term health of the

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System than creating additional positive returns when markets are strong and should be an objective of any incentive program. For example, if the policy benchmark were down 10% and the System was down 5%, the preservation of value would be very valuable to the System in maintaining its funded status.

The consultants further recommended that earned incentive amounts be paid over a two-year period in equal installments.

Mr. Brotman asked how new hires would be accommodated under these criteria.

Mr. Palmer responded saying that, in his experience, new hires were stepped into the criteria year by year. For example if a plan had a three year return target comparison, new employees would look at one year returns the first year, two year returns the second year and three year returns from that period on.

The consultants presented two additional recommended parameters:

- Performance metrics would be weighted based on position title as reflected in this chart:

Positions	Weighting		
	Policy Index	Actuarial Rate of Return	Asset Class
Chief Investment Officer	50.0%	50.0%	N/A
Deputy Chief Investment Officer	50.0%	25.0%	N/A
Managing Director	50.0%	25.0%	N/A
Sr. Risk Manager I-III	50.0%	50.0%	N/A
Sr. Portfolio Manager I-V	25.0%	25.0%	50.0%
Sr. Investment Analyst I-III	25.0%	25.0%	50.0%
Investment Associate	N/A	N/A	N/A

- All eligible employees must receive a performance rating of “meets expectations” or higher for the relevant measurement period in order to receive an incentive award. The Committee rejected this recommendation, consistent with its earlier decision pertaining to base salary compensation.

The consultants then presented a chart that shows how the three recommended objective criteria would work when applied:

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Policy Index		Actuarial Assumed Rate of Return		Asset Class	
MSRA's 3 year Trailing Average Actual Basis Points Relative to Policy Index	% of Target Annual Incentive Earned	MSRA's Trailing 3 Year Actual Basis Points Relative to Actuarial Rate of Return	% of Target Annual Incentive Earned	MSRA's 3 Year Trailing Average Actual Basis Points Relative to Asset Class Index	% of Target Annual Incentive Earned
Below	0%	Below	0%	Below	0%
0–9.99 above	50%	0–4.99 above	50%	0–9.99 above	50%
10–19.99 above	75%	5.00–9.99 above	75%	10–19.99 above	75%
20–29.99 above	100%	10.00–14.99 above	100%	20–29.99 above	100%
30–39.99 above	125%	15.00–19.99 above	125%	30–39.99 above	125%
≥ 40.00 above	150%	> 20.00 above	150%	≥ 40.00 above	150%

Ms. Miller expressed concern that the chart was too fine-grained and that without context would be difficult to understand.

Mr. Brotman asked that the data be presented not as it is in graduated steps, but rather in a linear fashion, or as a spectrum of outcomes.

Senator Serafini asked that examples be provided so that hypothetical dollar payouts could be seen and understood.

Senator Serafini raised the issue of poor performance by the fund and specific investment staff and acknowledged that criteria for all personnel action due to poor performance would be the responsibility of the Board of Trustees.

The consultants then presented a chart showing “proposed incentive opportunities by position title.”

Positions	Proposed		
	Threshold Annual Incentive	Target Annual Incentive	Maximum Annual Incentive
Chief Investment Officer	11.0%	22.0%	33.0%
Deputy Chief Investment Officer	11.0%	22.0%	33.0%
Managing Director	11.0%	22.0%	33.0%
Sr. Portfolio Manager V	11.0%	22.0%	33.0%
Sr. Portfolio Manager IV	11.0%	22.0%	33.0%
Sr. Portfolio Manager III / Sr. Risk Manager III	11.0%	22.0%	33.0%
Sr. Portfolio Manager II / Sr. Risk Manager II	11.0%	22.0%	33.0%
Sr. Portfolio Manager I / Sr. Risk Manager I	11.0%	22.0%	33.0%
Sr. Investment Analyst III	5.0%	10.0%	15.0%
Sr. Investment Analyst II	5.0%	10.0%	15.0%
Sr. Investment Analyst I	2.5%	5.0%	7.5%
Investment Associate	0.0%	0.0%	0.0%

Mr. Brotman asked that this chart also be modified to show examples of actual dollar awards.

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***ADMINISTRATIVE COMMITTEE MEETING SUMMARY
DECEMBER 4, 2018***

2019
Administrative
Committee
Meeting Dates

On a motion made by Ms. Hill and seconded by Mr. Norman, the Administrative Committee approved the 2019 Administrative Committee Meeting dates, as follows:

Tuesday, February 5, 2019	Tuesday, March 5, 2019
Tuesday, April 2, 2019	Tuesday, June 4, 2019
Tuesday, August 6, 2019	Tuesday, September 3, 2019
Tuesday, October 1, 2019	Tuesday, December 3, 2019

Review of the
Objective
Criteria
Committee's
(OCC)
Governance
Charter

Mr. Kenderdine reported that the Objective Criteria Committee (OCC) had, at its November meeting, approved the language presented to them, by staff, for the Governance Charter. After that meeting of the OCC, and further discussion, edits were made to the draft charter which are reflected by strike-outs or capitalized language in the version presented for the Administrative Committee's consideration.

Ms. Brogan noted that the draft overlooked certain relevant statutory provisions, specifically, the language related to eligibility for cost of living and step increases for investment division positions that do not involve discretion over investment-related decisions.

Mr. Kenderdine reported that all charters are brought through the Administrative Committee. Once the OCC charter is approved, as amended, it will go to the Board of Trustees for final approval, and the updated charter will be shared with the OCC.

On a motion made by Ms. Brogan and seconded by Ms. Hill, the Administrative Committee approved the Objective Criteria Committee's Governance Charter, as presented, for recommendation to the Board of Trustees.

Review of the
Criteria for the
Executive
Director's
Evaluation

The Administrative Committee reviewed the evaluation criteria for the Executive Director for the performance period January 16, 2018 through January 15, 2019.

On a motion made by Ms. Hill and seconded by Mr. Norman, the Administrative Committee approved the Executive Director evaluation criteria for recommendation to the Board of Trustees.

Finance Reports
– Quarter
Ending 09/30/18

Ms. Melody Countess presented to the Committee the Administrative Expense Report Dashboard, which provided an overview of the how the Agency expended or encumbered 21.16% of the appropriation through the first quarter of FY2018.

APPROPRIATION EXPENDED/ENCUMBERED	21.16%
REGULAR SALARIES	18.97%
CONTRACTUAL PAYROLL AND TECHNICAL SUPPORT	21.88%
COMMUNICATIONS (INCLUDES POSTAGE)	36.06%
TRAVEL	29.13%
VEHICLE COSTS	23.01%

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

**ADMINISTRATIVE COMMITTEE MEETING SUMMARY
DECEMBER 4, 2018**

3. MSRA Public Website

- Contract was awarded to Digital Deployment, Inc. in February 2018. New site has been built. SRA staff who have responsibility for placing and maintaining content have been trained. Now working on migrating current site content and organizing it to align with new site design. Launch date moved one month to January 2019.

Mr. Golden reported that in early January he plans to circulate to all Trustees, the link to the new website “sandbox”, allowing Trustees to examine and use the site before it goes live.

4. Investment Staff Compensation Criteria

- Consultant hired; OCC appointed and has held two meetings.

Mr. Kenderdine further reported that the OCC’s third and final meeting is scheduled for December 17, 2018 and any recommendations from that meeting will be brought to the Board in January.

Board Work Plan
Annual Checklist

Mr. Kenderdine provided the Administrative Committee with the Board work plan annual checklist for calendar year 2018. Mr. Kenderdine reported that the checklist represents the dominant pieces of business and serves as the means of following what needs to be completed.

Experience
Study Work Plan

The Administrative Committee was provided with the work plan for conducting the System’s next Experience Study.

Mr. Kenderdine reported that the work plan may be adjusted as staff and Gabriel Roeder Smith, the System’s actuary, move forward with the study. An experience study is required, by law, to be performed at least every 5 years, but the System has been doing so every four years.

Mr. Kenderdine reported that the experience study will be based on FYs 2015 through 2018 and will examine the current demographic and economic assumptions for adjustments.

Mr. Kenderdine further reported that the assumed rate of return as a key economic assumption, will be included in the study. As the Committee is aware, the assumed rate was reduced from 7.55% to 7.45% during FY2016-FY2018. Mr. Kenderdine indicated that there will need to be an appointment of an Ad Hoc Committee for this part of the study as was done for the most recent reduction of the rate.