

THE INVESTMENT COMMITTEE
OF THE
MARYLAND STATE RETIREMENT AND PENSION SYSTEM

MINUTES OF OPEN MEETING

November 15, 2022

The Investment Committee convened on Tuesday, November 15, 2022 at 9:55 a.m., via a hybrid video-conference call/in-person meeting with the host site at the Maryland State Retirement Agency, Truist (SunTrust) Building, 120 East Baltimore Street, 16th Floor, Board Room, Baltimore, Maryland.

Committee Members Attending:	Linda V. Allen	Sheila Hill
	Michael Barry	Richard Norman
	David Brinkley, Vice-Chair	Douglas Prouty
	James Daley, Jr.	Anne L. Shelton
	Dereck Davis	Michael J. Stafford, Jr., Chairman
	Peter Franchot	Monte Tarbox

Also Attending:	Thomas Brandt (Trustee)	Justin Hayes
	Robert Burd, Deputy CIO	Michael Howard (Trustee)
	Antionette Butcher	Angie Jenkins
	Tea Carnell, OAG	Jonathan Martin (Treasurer's liaison)
	Dominique Cherry	Martin Noven, Exec. Director
	Rachel Cohen, OAG	Andrew Palmer, CIO
	Anne Gawthrop	Robert Sandlass, Jr. (Trustee)
	Ken Haines (Trustee)	Toni Voglino
	Alex Harisiadis, OAG	Matthew Wyskiel

Ms. Butcher conducted a roll call to establish a quorum. Chairman Stafford called the meeting to order at 9:03 a.m.

Item 1: Motion by the Investment Committee to meet in Closed Session

On a motion made by Mr. Brinkley and seconded by Mr. Daly, the Investment Committee voted without objection to meet in Closed Session at 9:06 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
- (b) receiving advice of counsel regarding 2022 legislation addressing consideration of potential risks of the impact of climate change on the assets of the System, pursuant to General Provisions Art., § 3-305(b)(7), to consult with counsel to obtain legal advice; and
- (c) 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:	Linda V. Allen Michael Barry David Brinkley, Vice-Chair James Daley, Jr. Dereck Davis Peter Franchot	Sheila Hill Richard Norman Douglas Prouty Anne L. Shelton Michael J. Stafford, Jr., Chairman Monte Tarbox
Also Attending:	Thomas Brandt (Trustee) Robert Burd, Deputy CIO Antionette Butcher Tea Carnell, OAG Dominique Cherry Rachel Cohen, OAG Anne Gawthrop Ken Haines (Trustee) Alex Harisiadis, OAG	Justin Hayes Michael Howard (Trustee) Angie Jenkins Jonathan Martin (Treasurer's liaison) Martin Noven, Exec. Director Andrew Palmer, CIO Robert Sandlass, Jr. (Trustee) Toni Voglino Matthew Wyskiel

Item 5: Motion by Investment Committee to adjourn closed session and return to open session

On a motion made by Mr. Brinkley and seconded by Mr. Daly, the Investment Committee voted to adjourn closed session at 9:55 a.m. and returned to open session at 9:56 a.m.

During closed session, the Investment Committee received advice of legal counsel concerning the 2022 legislation addressing consideration of potential risks of the impact of climate change on the assets of the System, received a manager due diligence report from staff and took action on the following matter:

The Investment Committee reviewed and ratified the Closed Session minutes from the September 20, 2022 meeting.

OPEN SESSION

Committee Members Attending:	Linda V. Allen Michael Barry David Brinkley, Vice-Chair James Daley, Jr. Dereck Davis Peter Franchot	Sheila Hill Richard Norman Douglas Prouty Anne L. Shelton Michael J. Stafford, Jr., Chairman Monte Tarbox
Also Attending:	Akilah Brown (Morgan Lewis) Phillip Anthony (MLIS) Michael Baker Anish Bedi Frank Benham (Meketa)	Angie Jenkins Dana Johns Danita Johnson Faina Kashtelyan Tom Kanter (MWAM)

Malcolm Blake (Townsend Group)	Larry Katsafanas
Jonathan Blichar	Stuart Kaye
Thomas Brandt (Trustee)	Kate Kemmerer (DBM)
Robert Burd, Deputy CIO	Rob Kochis (Townsend Group)
Antionette Butcher	Michael Klos
Rhett Butler	Ratna Kota
Teresa (Tea) Carnell, OAG	Michael McCord
Katie Cerulle (Mandate Wire)	Jonathan Martin (Treasurer's liaison)
Dominique Cherry	Nitin Mathew
Gar Chung (FIN-News)	Tom Montanye
Rachel Cohen, OAG	MSRPS Stream
Stephanie Spector Cohen (GS)	Mary Mustard (Meketa)
Martina del Pozo (Morgan Stanley)	Minh Nguyen
Bob Diehl	Martin Noven, Exec. Director
Cyril Espanol (Journalist from With.Intelligence)	Ashu Pal
Mike Fang	Andrew Palmer, CIO
Eric Farls	Steven Pytlar
Ife Fariyike (Morgan Lewis)	Stephen Reilly
David Ferguson	Greg Ricci
Mimi Forbes	Michael Rubenstein (MLIS)
Anne Gawthrop	Robert Sandlass, Jr. (Trustee)
Heather Gillers	Dan Schick
Michael Golden	Sofia Simontov (GS)
Joanna Graber (DWS)	Chung Hei Sing (Adrgm)
Dimitri Grechenko	Janet Sirkis
Kenneth Haines (Trustee)	Kevin Slack
Alex Harisiadis, OAG	Frederick "Beau" Smith
John Harris (Meketa)	Disha Suresh
Justin Hayes	Toni Voglino
Michael Howard (Trustee)	Soren Whiting (Morgan Lewis)
Radhika Iyer (MorganStanley)	Matthew Wyskiel (Trustee)
Jennifer Jefferson (TRowePrice)	Jack Wheatley

Item 6: Ratification of Open Session Minutes

On a motion made by Mr. Tarbox and seconded by Mr. Daly, the Investment Committee ratified the September 20, 2022 open meeting minutes.

Item 7: Next Year's Investment Committee Meeting Dates

The Committee received potential Investment Committee meeting dates for Calendar Year 2023.

On a motion made by Ms. Hill and seconded by Mr. Prouty, the meeting schedule that was approved by the Committee is as follows: Tuesday, February 21, 2023; Tuesday, May 16, 2023; Tuesday, September 19, 2023; and Tuesday, November 21, 2023.

Item 8: Approve Amendments to Incentive Compensation Plan

Mr. Palmer discussed a proposed change to the Investment Division's incentive compensation plan regarding the Absolute Return benchmark. He noted the change in benchmark for the absolute return portfolio that occurred in late 2021. Mr. Palmer explained the change in benchmark was due to the decreased number of universe observations in the former, as well as risk of its discontinuation. Mr. Palmer indicated he believes the timing of the transition led to the linked benchmark over that time period vastly

overstating the performance of the market. He recommended that the new benchmark exclusively be applied for that time period.

Ms. Shelton noted that she believes the recommendation is appropriate.

Mr. Stafford voiced his concerns about any retrospective changes to the benchmark.

Mr. Barry asked if the timing of the benchmark change had any effect on staff's portfolio construction. Mr. Palmer replied it did not.

Mr. Barry asked if the recommendation to adopt the new benchmark in December 2021 came from staff or from a consultant. Mr. Palmer replied it was his recommendation.

Mr. Barry expressed his concern about applying a retrospective change. Mr. Palmer added that such changes do not occur under normal circumstances.

Ms. Shelton noted the difficulty in determining an appropriate benchmark for the absolute return asset class.

Mr. Stafford asked whether staff has insight to the underlying components of the benchmark. Mr. Palmer indicated that they do.

On a motion made by Mr. Tarbox and seconded by Ms. Hill, the Investment Committee approved the amendments to the Incentive Compensation Plan.

Item 9: Report from CIO

Mr. Palmer gave a report on performance as of the quarter ending September 30, 2022. The recent poor investment returns have resulted in the plan falling below the actuarial rate even for the ten-year period. On a real basis factoring in inflation, the plan is trailing over the shorter term, but beating the real target over ten-years. On a relative basis against the policy benchmark, the plan achieved 88 basis points of outperformance for the quarter.

For the quarter, the System committed \$1.8 billion to new managers. Mr. Palmer noted that he expects the pace of private equity commitments to slow. Private equity had \$1.2 billion in capital calls during the quarter and was relatively even for cash flow.

Mr. Palmer introduced Dominique Cherry as the new Senior Governance Manager.

Mr. Stafford asked about future internal management projects. Mr. Palmer mentioned bringing the cash equitization portion of the multi-asset portfolio to internal management. He clarified this is a passive strategy but may include tactical tilts.

Mr. Wyskiel asked about the use of over-the-counter derivatives transactions. Mr. Palmer said this is expected to be an option for managing duration and can be used to construct synthetic securities.

Mr. Wyskiel asked why the natural resources and infrastructure performance was significantly different from the benchmark. Mr. Palmer replied that there is a mismatch between the benchmark, which is comprised of public securities, and the portfolio, which consists of both public and private assets.

Mr. Brinkley asked if the plan has any exposure to FTX. Mr. Palmer replied that there is a small amount of exposure in the venture capital portfolio. There is some exposure to cryptocurrency-related businesses but no direct exposure to cryptocurrencies.

Mr. Daly asked about recruitment. Mr. Palmer said that there are several positions open and it is difficult to hire in the current environment.

Mr. Daly asked if there is enough cash to pay benefits. Mr. Palmer replied that cash management and planning is part of the monthly process to ensure enough cash is available at month-end to pay benefits.

Mr. Daly asked about private equity capital calls. Mr. Palmer indicated he expects private equity capital calls to be larger and less frequent as funds are more likely to use subscription lines of credit.

Item 10: Meketa Reports

Ms. Mustard discussed the plan's performance. Over a one-year period, the absolute performance was -8.48% but the plan did well relative to the benchmark, outperforming by 147 basis points. The System was in the 22nd percentile relative to public plans greater than \$1 billion over the last year and was top-quartile for the 3- and 5-year periods. For risk-adjusted performance, the System is near the top decile for the last ten years.

Mr. Daly asked if the performance over the last 12 months was surprising. Ms. Mustard replied that it was not, since the System's asset allocation provides more downside protection relative to the peers.

Mr. Daly asked if the additional tracking error was beneficial. Ms. Mustard replied that it was.

Item 11: Review of Emerging Market / China impacts on Risk and Return

Mr. Benham discussed the System's exposure to China and emerging markets. He noted that exposure to China must be measured on multiple levels as non-Chinese assets often have significant revenue exposure to China. It is possible that markets have adjusted pricing to reflect increased risk in China. Chinese indices are trading at steep discounts compared to global equities.

Mr. Benham indicated the System has been overweight to emerging market equities relative to global equity indices since 2015. China is the second largest exposure by geography in the Plan. He noted options for managing exposure to China, including reducing emerging market equity and/or debt exposure, shifting assets from emerging markets to emerging markets ex-China benchmarks or employing a hedging strategy to reduce China risk.

Mr. Brinkley asked how China risk can be hedged. Mr. Palmer gave the example of buying puts on the Taiwan dollar.

Ms. Shelton noted that moving to an emerging markets ex-China benchmark would increase non-China emerging markets exposure. Mr. Stafford agreed.

Mr. Daly questioned whether it is wise to reduce China exposure at a time when Chinese assets are trading at a discount. He noted that China has the highest expected return.

Mr. Sandlass questioned whether it is wise to significantly reduce exposure to the world's second-largest economy.

Mr. Tarbox noted that he believes China growth will slow and that the Board should consider reducing exposure for economic reasons rather than only political.

Mr. Tarbox cautioned against investing in assets just because the price has gone down since it is always possible for the values to go lower. Mr. Stafford agreed.

Mr. Palmer suggested that any change to the benchmark be included in Meketa's asset allocation analysis using updated capital market assumptions, which will be presented during the February 2023 Investment Committee meeting. Mr. Stafford asked when a change would be implemented if voted on in February. Mr. Palmer answered that it could be implemented relatively soon. Mr. Howard indicated that the Committee had time to consider any changes before February.

Mr. Stafford noted that the System has more exposure to China relative to peers.

The Committee agreed to discuss China exposure again at the February meeting.

Item 12: Townsend Group

Mr. Kochis gave an overview of the real estate portfolio. He noted that real estate performs well in inflationary environments but not in high interest rate environments. Fundamentals in the sector are strong. Markets have been disciplined with leverage over the last decade. The System's real estate portfolio has performed well over the period. Mr. Kochis expects the real estate market to decline by a high single-digit percentage over the next year. He noted that around 10% of plan assets are allocated to real estate and the System has developed strong strategic relationships with large managers which has given the System access to fee savings and co-investment programs.

Mr. Stafford asked if there is any difference in tracking co-investments compared to other investments. Mr. Kochis answered that co-investments can be tracked in the same way as a normal fund.

Mr. Stafford asked about medical and residential co-investment allocations. Mr. Kochis clarified this refers to investment in a single-family housing portfolio and a medical office building. Mr. Stafford asked which manager made the residential investment and Mr. Kochis answered that it was Heitman.

Mr. Stafford asked for clarification about the difference in structure between co-investment and buying an asset directly. Mr. Kochis answered that in a co-investment, the co-investor is investing in a commingled vehicle.

Mr. Daly asked about cap rates in the industrial sector. Mr. Kochis replied that there has been no cap rate movement in industrial. There is significant demand for industrial space as a result of the growth of e-commerce.

Mr. Howard asked about investing in datacenters and cryptocurrency mining facilities. Mr. Kochis replied that there is no current exposure to cryptocurrency mining, but datacenters are an attractive asset that is in high demand.

Mr. Brinkley said that the real estate allocation increasing over 10% is a result of other asset classes being discounted and that they could consider selling real estate to bring the other assets back to allocation.

Item 13: Recommend IPM Changes

Ms. Cherry presented recommended IPM changes relating to the climate legislation. She advised that the proposed changes were revisions from the draft presented at the September meeting, and attempted to address concerns brought by the Committee during that initial discussion, particularly around fiduciary duty. Ms. Cherry offered that the proposed language was not intended to elevate climate risks above other portfolio risks but sought to acknowledge the changing environment of investment analysis. She indicated that integration of ESG factors into investment analysis can be material in the risk/return assessment of an investment opportunity and should be considered as an additional layer of useful information, in conjunction with other traditional economic factors when considering potential risks and value drivers to the portfolio.

Ms. Cherry reviewed the changes which included: the benefits of integrating material ESG factors into investment analysis, examples of the types of factors that may be considered when appropriate and highlighted enhancing the current due diligence reporting and questionnaires to incorporate ESG factors, with ongoing monitoring of relevant data. She acknowledged the existing proxy and engagement policy and advised of continued review of best practices and enhancements. Ms. Cherry pointed to the language around Economically Targeted Investments (ETIs) and Impact Investments and clarified that staff should not sacrifice returns nor take on extra risk to promote collateral policy goals.

Mr. Palmer advised of a technical wording change to this section, suggested by Ms. Shelton, to which he agreed.

Mr. Stafford inquired about a specific section of the current proxy voting policy, relating to matters “not clearly consistent with the System’s proxy voting guidelines and other corporate governance policies, or the guidelines and policies are silent on the topic.” Trustee Stafford advised that the language be amended to require that the Executive Director obtain approval from the Board of Trustees. He requested that Mr. Noven and Mr. Palmer weigh in on whether there were any concerns with this suggestion and asked for clarity on the current language. He noted that the language as written could allow staff and the Executive Director to circumvent the Board in exceptional circumstances.

Mr. Palmer noted that the focus of the discussion was around the climate bill changes but offered that Ms. Voglino would weigh in on his concerns.

Ms. Voglino advised that the language was written to address situations that were time sensitive with no time to hold a special meeting. Mr. Stafford requested examples of such a scenario. Mr. Palmer offered that there were recent changes to SEC rules that would normally allow enough time for comment or a letter by the Board as the specifics of the changes were not covered by current proxy guidelines. The short comment period did not allow for convening a Governance Committee meeting. Mr. Stafford requested a specific example where the topic was not clearly consistent with the proxy voting guidelines or where the policy was silent on the issue and the Executive Director had to exercise his authority. Ms. Voglino replied that this has not happened in a few years but added that even in cases where these exceptions occurred, she almost always brought it before the Corporate Governance Committee for review, unless it was time sensitive. Mr. Stafford inquired about the risk of not signing in those situations, to which Ms. Voglino responded there was a low risk. Mr. Stafford affirmed his recommendation to remove the language.

Ms. Voglino recommended seeking the input of the Corporate Governance Committee on the matter. Mr. Stafford agreed. Mr. Noven noted that the policy is not unusual among public plans.

Ms. Cherry resumed discussion of climate issues. She acknowledged elements of the policy that were codifying existing practices with some enhancements, such as an annual risk assessment of the portfolio. Ms. Cherry addressed the changes relating to supporting transition strategies toward a long-term sustainable portfolio and clarified that any action must be consistent with fiduciary responsibility.

Trustee Brinkley recommended inserting language to clarify that fiduciary duty is more important. Mr. Palmer replied that this language already exists in the policy as written but agreed to make it more prominent.

Mr. Brinkley recommended inserting language requiring the policy and implementation to be subject to the General Assembly providing resources.

Mr. Palmer offered to amend the language and bring it back to the next Corporate Governance Committee.

Ms. Voglino presented a technical change to the political contribution policy relating to a rule name change.

Mr. Brinkley made the motion to approve the change to the political contribution policy. Mr. Daly seconded, and the motion passed unanimously.

Mr. Brinkley suggested that the Committee table the discussion relating to climate change.

Mr. Palmer advised that it would be beneficial to approve some portions of the climate bill changes that were agreed to so that he could have actions to present to the General Assembly.

Trustee Brinkley suggested approving the language with an amendment to Section XII to state that any additional research or work necessary to comply with the legislation be subject to the resources provided by the General Assembly.

Ms. Cohen proposed tabling the amendment to Section XII and approving the other sections. Mr. Prouty agreed.

Mr. Daly objected to the approval and Mr. Brinkley seconded.

The motion to table the vote until the February meeting passed by a vote of 7-2 with three abstentions.

Item 14: Committee Led Discussion

Nothing discussed.

Item 15: Investment Reports

The Committee received the following investment reports:

- State Street Performance Reports
- Terra Maria Performance Reports
- TUCS Report
- Private Markets Performance Reports
- Securities Lending Report
- Division's FY23 Travel Plan - Update
- Quarterly ORP Performance Report
- OPEB-PHBT Update
- New Hire Manager Report

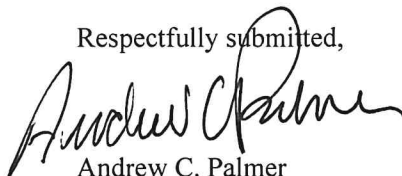
On the Directors Desk:

- Broker Commission Reports
- Quarterly Manager Fee Report

Item 16: Motion by the Investment Committee to adjourn meeting

Adjournment There being no further business before the Investment Committee, on a motion made by Mr. Stafford and seconded by Mr. Daly, the meeting adjourned at 12:59 p.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Andrew C. Palmer". The signature is written in a cursive, flowing style with a large initial "A".

Andrew C. Palmer
Chief Investment Officer