

**OBJECTIVE CRITERIA COMMITTEE MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

October 22, 2018

The Objective Criteria Committee convened at the SunTrust Building, 120 East Baltimore Street, 16th Floor, Board Room, Baltimore, Maryland, beginning at 1:08 p.m.

The Committee Members present included:

Eric Brotman, Chairman, Presiding	Theresa Lochte
Susanne Brogan (Designee)	Mary Miller
Nancy K. Kopp (via phone)	Marc Nicole (Designee – via phone)
Brooke Lierman	Andrew Serafini

Other Trustees present included: Richard Norman

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary
Anne Gawthrop, Angie Jenkins, Andrew Palmer and Janet Sirkis

Assistant Attorneys General present included: Rachel Cohen

Other attendees included: Joe Rice and Hal Wallach of CBIZ Compensation Consulting and Phillip Anthony

Introductions

Chairman Brotman called the meeting to order and asked that each member of the Committee and everyone present to introduce themselves before proceeding with the meeting.

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.

**OBJECTIVE CRITERIA COMMITTEE MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

October 22, 2018

Ms. Lochte asked if the CIO stays until retirement would he/she forfeit any future incentives due to them.

Ms. Gawthrop responded yes.

Senator Serafini asked what happens if the CIO earns an incentive that is to be paid over several years, then State employees are furloughed, and then the CIO leaves employment.

Ms. Gawthrop responded that the payments would not be payable and that a change in legislation would be required to address such an unintended consequence of the law such as what was described.

Delegate Lierman requested that the Committee be provided with the scope of total number of positions currently and ultimately anticipated.

Ms. Miller asked how often the State experiences furloughs.

Mr. Nicole responded that the last time was for three fiscal years during the recession and prior to that was during the period 2004-2005.

Treasurer Kopp further responded that prior to that the State experienced furloughs in either 1991 or 1992.

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.

On a motion made by Ms. Brogan and seconded by Ms. Lochte, the Committee voted to meet in a Closed Session, beginning at 1:30 p.m., at the SunTrust Building, 120 East Baltimore Street, 16th Floor, Board Room, Baltimore, Maryland for the purpose of:

- a) receiving legal advice regarding fiduciary obligations of committee members, pursuant to General Provisions Art., § 3-305(b)(7), to consult with counsel to obtain legal advice.

CLOSED SESSION

The Committee Members present included:

Eric Brotman, Chairman, Presiding
Susanne Brogan (Designee)
Nancy K. Kopp (via phone)
Brooke Lierman

Theresa Lochte
Mary Miller
Marc Nicole (Designee – via phone)
Andrew Serafini

Other Trustees present included: Richard Norman

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary
Anne Gawthrop, Angie Jenkins, Andrew Palmer and Janet Sirkis

Assistant Attorneys General present included: Rachel Cohen

**OBJECTIVE CRITERIA COMMITTEE MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

October 22, 2018

On a motion made by Ms. Lochte and seconded by Delegate Lierman, the Committee returned to open session at 1:37 p.m. at the SunTrust Building, 120 East Baltimore Street, 16th Floor, Board Room, Baltimore, Maryland.

OPEN SESSION

The Committee Members present included:

Eric Brotman, Chairman, Presiding	Theresa Lochte
Susanne Brogan (Designee)	Mary Miller
Nancy K. Kopp (via phone)	Marc Nicole (Designee – via phone)
Brooke Lierman	Andrew Serafini

Other Trustees present included: Richard Norman

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary
Anne Gawthrop, Angie Jenkins, Andrew Palmer and Janet Sirkis

Assistant Attorneys General present included: Rachel Cohen

Other attendees included: Joe Rice and Hal Wallach of CBIZ Compensation Consulting and Phillip Anthony

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.

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

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 that the Committee recommend that the Board adopt existing job descriptions, qualifications and compensation as an objective criteria. With this approval, and

**OBJECTIVE CRITERIA COMMITTEE MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

October 22, 2018

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.

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.

**OBJECTIVE CRITERIA COMMITTEE MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

October 22, 2018

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.

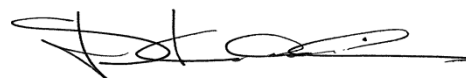
Delegate Lierman asked if the Committee could be provided with a list of all State benefits that the Investment Division staff currently receives as a State employee.

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

Adjournment

There being no further business before the Committee, on a motion made by Ms. Lochte and seconded by Ms. Miller, the meeting adjourned at 3:10 p.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board