

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

May 19, 2020

The Board of Trustees for the Maryland State Retirement and Pension System convened, via video-conference call with the host site at the SunTrust Building, 120 East Baltimore Street, 16th Floor, Board Room, Baltimore, Maryland, beginning at 10:51 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding
Peter Franchot, Vice Chairman
David Brinkley
Eric Brotman
Jamaal Craddock
Kenneth Haines
David Hamilton

Linda Herman
Sheila Hill
F. Patrick Hughes
Charles Johnson
Richard Norman
Douglas Prouty
Michael Stafford, Jr.

Agency Staff members attending included:

R. Dean Kenderdine, Executive Director/Board Secretary (on site)		
Anne Gawthrop	Angie Jenkins (on site)	Janet Sirkis (on site)
Michael Golden	Andrew Palmer (on site)	Brad Taylor (live stream)

Assistant Attorneys General present included: Rachel Cohen

Other attendees included: Justin Hayes

Consent Agenda

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

- › April 21, 2020 Open Meeting Board Minutes
- › April 21, 2020 Audit Committee Meeting Summary
- › May 7, 2020 Ad Hoc Committee on Governance Meeting Summary

Amendments to the
Optional Retirement
Program Plan
Document
Authorizing

Coronavirus-Related
Distribution under
the CARES Act

The Board was provided with a proposed Second Amendment to the Maryland Optional Retirement Program (ORP) Plan Document, which authorizes coronavirus-related distributions to members of the ORP under the CARES Act, per the Board's action at its meeting on April 21, 2020.

On a motion made by Mr. Hughes and seconded by Mr. Prouty, the Board of Trustees approved the Second Amendment to the Maryland ORP Plan Document, as presented.

Review Proposed
Language or an
Electronic Meetings
Policy

The Board was provided, for its review, language for an Electronic Meetings policy.

Secretary Brinkley asked why the word "generally" was added to section 34 where it states "Members of the public who wish to attend an open session of a meeting that is being held electronically will generally be required to attend in person at the designated meeting location." He commented that he felt adding the word generally felt contradictory.

Ms. Cohen responded that she agreed that "generally" was not necessary.

Treasurer Kopp commented that the default position is that the public would be required to meet in person if permitted.

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Ms. Cohen suggested that section 34 be amended to say “To the extent practicable, members of the public who wish to attend an open session of a meeting that is being held electronically will be required to attend in person if a designated meeting location is available.”

On a motion made and seconded the Board approved the Electronic Meetings Policy as presented and amended per Ms. Cohen’s proposed language.

Executive Director’s
Report

Mr. Kenderdine provided the Board with a copy of the correspondence that the Maryland Retired School Personnel Association (MRSPA) plans to mail to school retirees to recruit new members, which is consistent with past mailings.

Mr. Kenderdine reported that the Agency continues to operate well in terms of meeting its responsibilities to members. Mr. Kenderdine reported that there was a backlog for estimates, but that staff is directing members to *mySRPS* to assist with those requests. Mr. Kenderdine also reported that the Agency is beginning to renew the roll-out of *mySRPS* registration packets, beginning with 500 mailings each week.

Mr. Kenderdine announced that it was the Agency’s Retirement Administrator, Ken Reott’s birthday and wished him a Happy Birthday.

On behalf of the Board of Trustees, Treasurer Kopp, presented Mr. Charles Johnson with a Board resolution in recognition of his years of service to the System as Trustee.

On a motion made by Secretary Brinkley and seconded by Mr. Hughes, the Board voted to meet in a Closed Session, beginning at 11:14 a.m., via video-conference call with the host site at the SunTrust Building, 120 East Baltimore Street, 16th Floor, Board Room, Baltimore, Maryland, for the purpose of:

1. reviewing the closed session Board minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function and General Provisions Art., § 3-305(b)(13), to comply with a specific 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;
2. reviewing the Medical Board reports regarding individual participants’ claims for disability retirement benefits, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter namely, General Provisions Art., § 4-312 regarding the prohibition on disclosing retirement records, and General Provisions Art., § 4-329 regarding the prohibition on disclosing medical and psychological information; and
3. discussing the appointment of a Public Advisor to the Investment Committee, pursuant to General Provisions Art., § 3-103(a)(1), the exercise of an administrative function; and General Provisions Art., § 3-305(b)(1)(ii), to discuss the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation or performance evaluation of an appointee, employee, or official over whom it has jurisdiction.

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CLOSED SESSION

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	Linda Herman
Peter Franchot, Vice Chairman	Sheila Hill
David Brinkley	F. Patrick Hughes
Eric Brotman	Charles Johnson
Jamaal Craddock	Richard Norman
Kenneth Haines	Douglas Prouty
David Hamilton	Michael Stafford, Jr.

Agency Staff members attending included:

R. Dean Kenderdine, Executive Director/Board Secretary (on site)		
Anne Gawthrop	Angie Jenkins (on site)	Janet Sirkis (on site)
Michael Golden	Andrew Palmer (on site)	

Assistant Attorneys General present included: Rachel Cohen

Other attendees included: Justin Hayes

On a motion made by Mr. Prouty and seconded by Mr. Haines, the Board returned to open session at 11:17 a.m., via video-conference call with the host site at the SunTrust Building, 120 East Baltimore Street, 16th Floor, Board Room, Baltimore, Maryland.

OPEN SESSION

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding	Linda Herman
Peter Franchot, Vice Chairman	Sheila Hill
David Brinkley	F. Patrick Hughes
Eric Brotman	Charles Johnson
Jamaal Craddock	Richard Norman
Kenneth Haines	Douglas Prouty
David Hamilton	Michael Stafford, Jr.

Agency Staff members attending included:

R. Dean Kenderdine, Executive Director/Board Secretary (on site)		
Anne Gawthrop	Angie Jenkins (on site)	Janet Sirkis (on site)
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Assistant Attorneys General present included: Rachel Cohen

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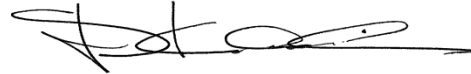
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During closed session, the Board of Trustees discussed and acted on the following matters:

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| Closed Session Minutes | The Board reviewed and approved the April 21, 2020 closed session minutes. |
| Medical Board Reports | The Board reviewed and adopted the medical board reports from April 23, April 29, May 7 and May 13, 2020. |
| Appointment of a Public Advisor to the Investment Committee | The Board approved the recommendation of the Investment Committee concerning the appointment of a Public Advisor to the Investment Committee as presented. |
| Adjournment | There being no further business before the Board, on a motion made by Mr. Hughes and seconded by Mr. Johnson, the meeting adjourned at 11:20 a.m. |

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board

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AUDIT COMMITTEE MEETING SUMMARY

April 21, 2020

Securities Lending
Financial Statements
Disclosure

Mr. Kenderdine mentioned that one of our trustees, Ms. Herman, had identified two disclosure issues with the Agency's CAFR report. The disclosures were not in compliance with the GASB standards. Ms. Countess explained that the Agency has included the cash and cash equivalents in the Level 1 risk category in the footnote related to GASB 72 to be more transparent. She mentioned that the inclusion of cash and cash equivalents in this footnote is immaterial and will not change the independent auditor's opinion. Ms. Countess agreed that moving forward, it is best to remove the cash and cash equivalents from the Level 1 risk category and include a reconciliation or a footnote to identify the difference. The second issue identified was related to GASB 28 disclosure where the Agency reported the collateral for securities lent as both assets and liabilities. Ms. Countess presented two options with examples for the Audit Committee – 1) continue with the current presentation; 2) moving forward remove the non-cash collateral from both assets and liabilities as well as the corresponding footnote. Ms. Countess mentioned that option #1 does not materially change the CAFR report as it does not have an affect on the net position however, option #2 is better aligned with GASB 28. A motion was made to accept option #2. Trustee Stafford asked how these issues were identified. Mr. Kenderdine mentioned that Ms. Herman compared the Agency's CAFR report with the Montgomery county's report as well as other State Agencies' reports. She noted that our Agency's reporting was not consistent with the other Agencies and brought this issue to the management for further review.

Presentation of
Portfolio
Management and
Ongoing Due
Diligence Audit by
BD & Co.

Mr. Binford from BD & Co. presented the audit report of the Portfolio Management and Ongoing Due Diligence audit. He mentioned that Mr. Bengston from BD & Co. was also present on the call. Mr. Binford said this audit was completed last quarter and the scope period of the audit was 8/1/18 to 8/31/19. He mentioned that the overall rating of the audit is "Green" which means the control environment is effective. There were three issues identified during this audit which are all low risks. Mr. Binford said once the audit recommendations are implemented, it will enhance the control environment.

Mr. Binford said that as part of the audit procedures, they reviewed initial due diligence for any new investments including public and private funds. They also reviewed many other documents related to the annual compliance procedures, periodic reports, private account asset evaluations, and monitoring of TIPS funds. Then Mr. Binford presented the three audit issues in detail:

- 1) Compliance alerts should be reviewed on a monthly basis and must be cleared within 30 days. 3 of 4 months reviewed by BD & Co. were not reviewed in a timely manner. This is because the Agency's compliance officer, was on extended leave and there was no other person trained to complete this review. Once the compliance officer returned from leave, they completed the reviews for all months that were not previously cleared and was able to catch up prior to the issuance of the audit report. The audit recommendation is to have a backup employee who is cross-trained to perform these reviews. Especially with more investments coming in-house, it is important not having to rely on only one person to comply with various requirements. Management has agreed and currently actively searching for additional investment compliance staff.

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AUDIT COMMITTEE MEETING SUMMARY
April 21, 2020

- 2) Issue #2 and #3 are both related to the Code Red software. Code Red is currently not the Agency's book of record for investments. It is used for document storage and as a workflow application. 2 of 25 private asset fund valuations had incorrect balances however, the variances were immaterial. In addition, 4 of 25 capital call documents were not entered in Code Red. The audit recommendation is to set up a formal process to verify and review all documents have been entered into Code Red. Additional audit recommendation is to create a tolerance threshold when manually entering the capital valuations. A long-term audit recommendation is to enhance the use of Code Red by eliminating manual entry and creating an interface between State Street and Code Red which will feed information directly into Code Red from the custodian account.

Mr. Norman asked whether management anticipates using Code Red to maintain records or merely as a tool to assist with reporting. Mr. Burd mentioned that prior to Code Red, all documents were stored in internal network drives. Code Red has created more efficiency within the Investment Division and is currently being used for document storage and as a workflow application. Mr. Norman asked Mr. Burd about the future aspect of Code Red. Mr. Burd answered by saying that the Investment Division wants the Code Red to be in agreement with the book of records. He acknowledged that the private equity team mis-entered or failed to enter some values in Code Red. He emphasized that this error did not have any impact on the books and records and all values were reported accurately on the actual books and records.

Financial Statement
Audit Contract

Mr. Rongione mentioned that the General Accounting Division of the Comptroller of Maryland issued a Request for Proposal (RFP) for statewide audit services. The contract was awarded to CliftonLarsonAllen, LLP (CLA) on March 4th, 2020. Mr. Hamilton mentioned that the Audit Committee will review and confirm the independence of the external auditor. He also asked who will be the main point of contact at CLA. Mr. Rongione answered by saying Thomas Rey will be the main point person for the Agency. Mr. Hughes asked whether there are any independence issues with appointing CLA as the Agency's financial statements auditor since they currently audit the Participating Government Units (PGUs). Mr. Rongione mentioned the Agency has requested a letter from CLA stating compliance with GASB in terms of independence. He also mentioned that the service provided to PGUs is an attest service meaning they are agreed upon procedures. Mr. Rongione added by saying that in his opinion, there is not any independence issues since both engagements are attest services and CLA will not be auditing their own work.

Audit Committee Self
Eval. and Internal
Audit Eval.

Mr. Hamilton mentioned that Mr. Rongione had reached out to him regarding the self-evaluation because he had not received responses from majority of the members. Mr. Rongione informed Mr. Hamilton via email that the Charter allows one year of extension by the Chairman in extenuating circumstance. Mr. Hamilton mentioned that he had responded to Mr. Rongione's email and granted an extension given the current circumstances. Mr. Rongione said that next year he will send out evaluations to the committee members.

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AUDIT COMMITTEE MEETING SUMMARY
April 21, 2020

Staffing Update	Mr. Rongione mentioned Internal Audit Division (IAD) has hired Greg Busch as the new IT Audit Manager. Prior to joining the Agency, Greg had worked for the Office of Legislative Audits (OLA) performing network and general IT security audits. Mr. Hamilton welcomed Mr. Busch to the IAD team.
Status of Audit Plan	Mr. Rongione reviewed the status of the FY2020 audit plan noting that IAD has completed half of the audit plan. IAD has completed the planning phase of the MDS audit and currently at the fieldwork phase of testing controls.
Open Issues Log	Mr. Rongione said the listing of open issues have been included in the Agenda packet for the Audit Committee's review. He mentioned that his team reviews the listing on a quarterly basis and work with the management to perform further testing in order to verify whether the issues have been remediated.
Agency Wide Risk Assessment	<p>Mr. Rongione mentioned that IAD will send out questionnaires to the Audit Committee members, Executive Director, Executive Staff as well as the Unit Directors. Based on their responses, IAD will perform an assessment of the risks on their likelihood and impact within the business processes. Mr. Rongione said the business processes will then be ranked based on the risk ratings and the highest risk areas will be included in the FY21 audit plan. Mr. Rongione also mentioned that the risk assessment and the FY21 audit plan will be presented at the July'2020 Audit Committee meeting for the Committee's approval.</p> <p>Mr. Hamilton asked whether the COVID-19 Pandemic will be a part of the risk assessment. Mr. Rongione answered by saying that the most important factor during this Pandemic was having a business continuity plan. Mr. Rongione said the Agency is able to perform all necessary duties remotely without any issues. He also mentioned we have not experienced any issues with moving forward with the audits. Mr. Hamilton asked Ms. Cohen's opinion regarding this matter and whether the Legal Division had any issues with force majeure contract clauses. Ms. Cohen mentioned that they experienced some issues with open procurement; however, none related to force majeure clauses.</p>
Completed Audits	Mr. Rongione mentioned that IAD has recently completed the CRM – Data Conversion/Integration audit. The overall report of the audit is "Green". He mentioned the scope of the audit included the process of implementing CRM which occurred during August 2019. The audit revealed two minor issues and the management has agreed with the issues identified.

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***AD HOC COMMITTEE ON GOVERNANCE MEETING SUMMARY
MAY 7, 2020***

Recommendations
Assigned to the
Committee by the
Board of Trustees

Mr. Kenderdine reported that the Committee, at its last meeting, approved recommendations to present to the Board of Trustees, at a later date, on the following items:

- (a) Policy for the election of Board Chair and Vice Chair, and the policy for the selection and approval of Committee Chairs and Vice Chairs.*
- (b) Develop Process/Timetable for Policy Setting and Key Strategic Issues; and*
- (c) Develop Policy for Advising Governor on Filling Board Vacancies.*

Mr. Kenderdine reported that during the previous meeting, the Committee discussed options for reducing the size of the Board of Trustees to eleven members. The Committee's discussion resulted in one option for reducing the Board size.

A motion was made by Mr. Brotman and seconded by Mr. Norman to approve the alternate composition of the Board, as developed at the Committee's first meeting and after further discussion, on a motion made by Mr. Brotman and seconded by Mr. Norman, the Committee, by a vote of 4 to 1, approved the alternative Board composition, for recommendation to the Board of Trustees. Trustee Hill opposed the motion.

The Committee discussed reducing the size of the Investment Committee to nine members.

Ms. Cohen reminded the Committee that the current law states that the Investment Committee must include a representative of each of the Employees', Teachers' and State Police and have three representatives from the public who are not members, retirees or beneficiaries of any of the Systems.

On a motion made by Mr. Brotman and seconded by Mr. Norman, the Committee, by a vote of 4 to 1, voted to:

- (1) Either (a) reduce the size of the Investment Committee to eleven, or (b) propose legislation to eliminate the Investment Committee and move the committee's functions directly to the Board; and
- (2) To permit the reduction in size of the Investment Committee or to permit elimination of the Investment Committee, propose legislation to eliminate the three public advisors, and change the criteria for the gubernatorial appointees to require that at least three of gubernatorial appointees possess the same required experience as the public advisors.

Trustee Hill opposed the motion.

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***AD HOC COMMITTEE ON GOVERNANCE MEETING SUMMARY
MAY 7, 2020***

Mr. Kenderdine reminded the Committee that at its last meeting, the Committee deferred the following items for discussion:

- (f) Attain Board authority over SRA budget, personnel and procurement; and*
- (g) Consider permanent Board Committee on Governance*

While the Committee reached conclusions for certain topics, the Committee plans to bring a comprehensive set of recommendations to the Board at a later date.