

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

July 20, 2021

The Board of Trustees for the Maryland State Retirement and Pension System convened, via video/audio conference call beginning at 9:33 a.m.

The Trustees present included:

David Brinkley, Presiding	Kenneth Haines
Peter Franchot, Vice Chairman	David Hamilton
Linda Allen	Sheila Hill
Thomas Brandt	Richard Norman
Eric Brotman	Douglas Prouty
Jamaal Craddock	Michael Stafford, Jr.
James Daly	

Agency Staff members attending included: Martin Noven, Executive Director/Board Secretary

Gregory Busch	Michael Golden	Ken Reott
Melody Countess	Angie Jenkins	David Rongione
Robert Diehl	Van Lewis	Janet Sirkis
Patricia Fitzhugh	Kim O’Keeffe	Toni Voglino
Mimi Forbes	Andrew Palmer	Scott Bolander (live stream)
Anne Gawthrop	Chandra Puranam	

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

Other attendees included: Public Advisor Anne Shelton; Frank Benham (Meketa); Brian Murphy, Brad Armstrong, and Amy Williams (GRS); Justin Hayes and Alex Walinskas (Comptroller’s Office) and Megan Schutz (Treasurer’s Office)

Consent Agenda      On a motion made by Mr. Norman and seconded by Mr. Brandt, the Board approved the consent agenda, which included:

- June 15, 2021 Open Meeting Board Minutes

Recommendation of the Ad Hoc Committee on Actuarial Economic Assumptions regarding the System’s Current Assumed Rate of Return and Inflation Rate      Eric Brotman, Chairman of the Ad Hoc Committee on Actuarial Economic Assumptions reported that the Committee met on July 15, 2021 and received two presentations, one from Meketa Investment Group and the other from Gabriel Roeder Smith & Company (GRS) on actuarial economic assumptions and the System’s assumed rate of return and asked that each provide a brief report to the Board.

Frank Benham from Meketa stated that he was asked to provide information to the Committee on what the Systems peers were doing, both in public pension plans and corporate pension plans, in terms of the assumed rate of return. Mr. Benham reported that surveys show that the median assumed rate of return for public pension plans had dropped to 7%, a decline of 1% since 2010. He further reported that the median assumed rate of return for corporate pension plans had dropped to 6.5%.

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Brad Armstrong from GRS reported that GRS provided the Committee with information regarding the following three scenarios for modifying the economic assumptions applicable to the System, and the impact those scenarios would have on the System.

<b>Baseline Scenario</b>	<b>Alternate Scenario 1</b>	<b>Alternate Scenario 2</b>	<b>Alternate Scenario 3</b>
<ul style="list-style-type: none"> <li>• 7.40% Investment Return</li> <li>• 2.60% Inflation</li> <li>• 4.80% Real Return</li> <li>• 3.10% Wage Inflation</li> </ul>	<ul style="list-style-type: none"> <li>• 7.00% Investment Return</li> <li>• 2.20% Inflation</li> <li>• 4.80% Real Return</li> <li>• 2.70% Wage Inflation</li> </ul>	<ul style="list-style-type: none"> <li>• 6.80% Investment Return</li> <li>• 2.25% Inflation</li> <li>• 4.55% Real Return</li> <li>• 2.75% Wage Inflation</li> </ul>	<ul style="list-style-type: none"> <li>• 6.30% Investment Return</li> <li>• 2.40% Inflation</li> <li>• 3.90% Real Return</li> <li>• 2.90% Wage Inflation</li> </ul>

Mr. Armstrong reported that after a lengthy discussion, the Committee voted to recommend that the Board reduce the assumed rate of return by 60 basis points to 6.80% investment return with a 2.25% inflation rate, and in conjunction with the reduction of the assumed rate of return to 6.8%, the Board could make a temporary change in the asset recognition method (currently 20% per year for 5 years), in order to recognize 40% of the large FY 2021 gains in year one, and 15% in years 2-5.

Ms. Cohen advised the Board under that statute, the purposes of actuarial valuations, the Board may adopt a generally accepted method for determining the value of the System's assets, and asked Mr. Murphy to share with the full Board GRS's opinion on whether the temporary proposed change in the asset recognition method is considered a generally accepted method.

Mr. Murphy advised that in GRS's view, the one-time change in asset recognition is a generally accepted method of determining the value of the System's assets, if taken in conjunction with the assumption changes reflected in alternate scenario 2. Mr. Murphy indicated that he had consulted with a colleague at the Actuarial Standards Board who agreed with this view.

Mr. Brotman reported that the Committee will discuss the amortization schedule at its next meeting, which is currently being scheduled.

On a motion made by Mr. Brotman, Chairman and seconded by the Committee, the Board voted, with no objections, to approve Alternate Scenario 2, with a 6.8% investment return, 2.25% inflation rate, 4.55% real return and 2.75% wage inflation, in combination with a 40% recognition of FY2021 returns in year 1, and 15% recognition in each of years 2-5.

Mr. Haines stated that the talk is that with all the money being put into the economy it might set off an inflationary spiral and expressed his concern about our assumptions about inflation.

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Mr. Brotman responded that Trustee Haines' concerns regarding the inflation assumptions are valid. Mr. Brotman stated that there is some debate, but that all the various budget entities are projecting inflation projections lower than what is being proposed. It is just a conjecture that it would happen beyond a one or two-year event.

Election Results  
for the Active  
Employees'  
Systems  
Representative

Mr. Noven reported the results of the election for the active Employees' Systems representative, announcing that Jamaal Craddock, was elected to another 4-year term. Mr. Noven reported that Mr. Craddock received 5,019 votes, with 2,773 votes going to the opponent.

On a motion made by Mr. Brotman and second by Mr. Norman, the Board certified the election results.

CIO Report

Mr. Palmer provided a final tearsheet on the fund performance for May, which showed the fund up 2.01% for the month, slightly behind the benchmark of 2.14% and a return of 24.65% fiscal-year-to-date, 120 basis points ahead of the benchmark of 23.44%, with a total fund market value of \$66.7 billion. He explained that because State Street Bank held the books open for an extended period at fiscal year end, he was not able to provide an estimate for June.

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Mr. Palmer reported on staffing within the Investment Division stating that he is working hard on filling positions within the unit. He announced the recent hire of Danita Johnson from Connecticut to fill the position of Managing Director of Real Assets. He further reported that he is in the process of interviewing for three associate positions.

Mr. Palmer also reported that a recent salary review by the Department of Budget and Management for Accountant positions, affected positions not only in the Agency, but his division as well. The Board now has the right to set those salary ranges for those positions within the Investment Division. This matter will be brought back to the Board at a future meeting to adjust Board approved ranges for these positions.

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Mr. Palmer reported that staff is working on documents for the September Investment Committee meeting when the asset allocation will be discussed.

Mr. Daly asked how Mr. Palmer is thinking about Public Equity.

Mr. Palmer responded that there are three different processes going on with Public Equity, the first being COVID, which is going through its own process. The second is real economy, which is doing great. The third is the policy response process. The economy and fiscal response has had a lot of strength, with the most recent child tax credit roll-out. COVID is ramping back up, but the country is not close to being on lock down again so the economic and market impacts may be muted. In addition, as part of periodic rebalancing, the System recently sold \$1 billion in stocks. Mr. Palmer believes that the high levels of fiscal and monetary stimulus in the U.S. provides significant protection for markets.

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Mr. Palmer reported that he, Mr. Noven, Treasurer Kopp, and Ms. Gawthrop met with the Joint Committee on Pensions (JCP) to discuss the System's management of climate risk, the consideration of environmental, social and governance (ESG) factors in investments, and the staff's actions concerning recent legislation regarding Maryland private equity and venture capital investments.

Mr. Palmer provided background information to the Trustees indicating that in 2016 the General Assembly passed legislation that provided \$25 million in excess contributions provided in the Governor's budget be dedicated to investments in Maryland, with an emphasis on venture capital. In a subsequent year, the General Assembly expanded the bill to include four years of \$75 million in reinvested savings for a total of \$325 million.

Mr. Daly expressed concern that the Legislature would direct that the \$25 million be invested in Maryland private equity and venture capital. Mr. Daly commented that that should be a matter for the Investment Committee to consider and make those decisions, since fiduciary responsibility is clear and distinct.

Mr. Palmer responded it is clear in the law and practice that fiduciary responsibility takes precedent. However, the law provides assurance that staff will dedicate resources to evaluate potential opportunities in Maryland, which might not come to our attention in the normal course of business.

Ms. Gawthrop further responded that the first presentation to the JCP was given by Rachel Cohen, Assistant Attorney General, educating the JCP on the fiduciary responsibilities that apply to the investment of System assets, as well as the Department of Labor's guidance regarding the consideration of ESG factors and economically targeted investments.

Ms. Cohen added that regardless of whether the State's contributions were in excess of actuarially determined contributions, the fiduciary duties that apply to all System assets are the same. The 2016 legislation made clear that the Board need not take any action described under the legislation unless the action was determined to be consistent with the fiduciary responsibilities of the Board.

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Secretary Brinkley reported that he is in the process of working with the Governor's office to restart the quarterly meetings with Mr. Palmer, Mr. Noven and the Governor's Chief of Staff, and asked that staff respond to upcoming requests to provide dates for scheduling purposes.

Executive  
Director's Report

Mr. Noven introduced the new Trustee, Linda Vaughn Allen, who had been appointed by Governor Hogan to fill the Participating Governmental Unit position on the Board.

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Mr. Noven, on behalf of Treasurer Kopp, reported that the Committee assignments will remain the same until Treasurer Kopp has had time to speak with Trustees one-on-one.

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Mr. Noven reported that he is officially moving to West Howard County, Maryland August 4-5, 2021 and is excited to finally be with his family in the same town full-time.

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Mr. Noven reminded the Trustees that the Board's education session is scheduled for October 19, 2021. Mr. Noven indicated that an email would be sent to the Trustees to determine whether they would prefer to have a one 8-hour session or two 4-hour sessions and if they would prefer the session(s) be in-person, virtual or hybrid.

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Mr. Noven provided the Board with an update on the return to the office workplan.

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Mr. Haines requested a status on filling the Chief Information Systems Officer position, previously held by Ira Greenstein.

Mr. Noven responded that he appointed Robert Diehl to fill that position based on his personal assessment and the recommendations of Mr. Greenstein and Mr. Kenderdine.

On a motion made by Mr. Brotman and seconded by Mr. Prouty, the Board voted to meet in a closed session, beginning at 10:17 a.m., via video/audio conference call, for the purposes of:

- a) reviewing the June 15, 2021 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;
- b) 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
- c) receiving a litigation update from Board counsel, pursuant to General Provisions Art., § 3-305(b)(7), to consult with counsel to obtain legal advice, and General Provisions Art., § 3-305(b)(8), to consult with staff, consultants, or other individuals about pending or potential litigation.

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**CLOSED SESSION**

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Agency Staff members attending included: Martin Noven, Executive Director/Board Secretary

Gregory Busch	Michael Golden	Chandra Puranam
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Robert Diehl	Van Lewis	David Rongione
Anne Gawthrop	Kim O’Keeffe	Janet Sirkis
	Andrew Palmer	

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

Other attendees included: Justin Hayes and Alex Walinkas (Comptroller’s Office) and Megan Schutz (Treasurer’s Office)

On a motion made by Mr. Brotman and seconded by Mr. Brandt, the Board returned to open session at 10:30 a.m., via video/audio conference call.

**OPEN SESSION**

The Trustees present included:

David Brinkley, Presiding	Kenneth Haines
Peter Franchot, Vice Chairman	David Hamilton
Linda Allen	Sheila Hill
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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 June 15, 2021 closed session minutes.   |
| Medical Board Reports  | The Board reviewed and adopted the medical board reports from June 17, June 23, July 1, July 7 and July 15, 2021.                     |
| Adjournment            | There being no further business before the Board, on a motion made by Ms. Hill and duly seconded, the meeting adjourned at 10:31 a.m. |

Respectfully submitted,



Martin Noven  
Secretary to the Board