

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

November 15, 2022

The Board of Trustees for the Maryland State Retirement and Pension System convened, via a WebEx video/audio conference call, beginning at 1:17 p.m.

The Trustees present included:

Peter Franchot, Chairman, Presiding	Sheila Hill
Dereck Davis, Vice-Chairman	Michael Howard (in-person)
Linda Allen	Richard Norman
Thomas Brandt	Douglas Prouty
David Brinkley (in-person)	Robert Sandlass (in-person)
James Daly (in-person)	Michael Stafford, Jr. (in-person)
Kenneth Haines	Matthew Wyskiel

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

Andrew Palmer	Harris Kaplan	Melody Countess
Angie Jenkins	Janet Sirkis	Michael Golden
Anne Gawthrop	Karen Simpson	Patricia Fitzhugh
Antionette Butcher	Ken Reott	Robert Diehl
Benjamin Robb	Kim O’Keeffe	Tom Montanye
Chandra Puranam	Lauren Smith	Toni Voglino
	Megan Myers	

Assistant Attorneys General present included: Rachel Cohen, Alex Harisiadis and Emily Spiering

Other attendees included: Jon Martin and Megan Schutz (Treasurer’s Office); Justin Hayes (Comptroller’s Office); Remi Omisore and Jatana Coleman (CliftonLarsenAllen); Phillip Anthony, Kate Kemmerer, Tyler Babich and Disha Suresh

Call Meeting to Order	Comptroller Franchot, Chairman of the Board of Trustees, having established that there was a quorum present, called the meeting to order.
Consent Agenda	On a motion made by Mr. Haines and seconded by Mr. Norman, the Board approved the consent agenda, which included: <ul style="list-style-type: none">• October 18, 2022 Open Meeting Board minutes.• November 10, 2022 Audit Committee Meeting Summary
Recommendation of the Audit Committee regarding the Financial Statement Report for FYE June 30, 2022	Richard Norman, Chairman of the Audit Committee, reported that the System’s annual audited financial statements for the year ending June 30, 2022, were presented to and reviewed by the Audit Committee at its November 10, 2022 meeting. He reported that the financial statements were audited by the System’s auditors, CliftonLarsenAllen. Therefore, on a motion made by Mr. Norman and seconded by the Audit Committee, the Board accepted the FY2022 financial statements for inclusion in the System’s FY2022 Comprehensive Annual Financial Report.
Recommendation of the Investment Committee regarding Amendments to the Incentive Compensation Plan	The Board was provided with a copy of the memorandum from Andrew Palmer, CIO to the Investment Committee, which requested that the Investment Committee recommend to the Board that it approve a benchmark revision for the Absolute Return portfolio for fiscal year 2022 from 2.99% to 1.82%. The change, if approved, would only apply to the calculation for three-year rolling benchmark returns to determine future performance incentives for members of

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the Absolute Return team. The memorandum provided background information regarding the need for the revision.

On a motion made by Mr. Stafford and seconded the Investment Committee, the Board approved the Committee’s recommendation that the benchmark be revised for the Absolute Return portfolio for fiscal year 2022 from 2.99% to 1.82%.

Recommendation of the
Investment Committee
regarding Amendments
to the Investment Policy
Manual

The Board was provided with a copy of the memorandum from Mr. Palmer to the Investment Committee, which requested that the Investment Committee recommend that the Board adopt the proposed amendments to the Political Contributions and Placement Agents Policy in the Investment Policy Manual, as presented.

On a motion made by Mr. Stafford and seconded the Investment Committee, the Board approved the Committee’s recommendation to adopt the proposed amendments to the Political Contributions and Placement Agents Policy in the Investment Policy Manual, as presented.

Mr. Stafford reported that the Investment Committee was also presented with a memorandum and proposed amendments to the Investment Policy Manual which would update § 21-116.1, however, after a full discussion, the Committee voted to table the topic for discussion at a later meeting.

FY2022 System Active
Membership

The Board was presented with the System’s Active Membership by percentage as employed by the State, the local public libraries, and each participating local employer. The certified percentages are provided to determine each System employer’s pro rata share of the amount necessary for the administrative and operational expenses of the Board of Trustees and the State Retirement Agency. This report serves as certification of the System’s active membership as of the end of the fiscal year and is submitted to the Secretary of the Department of Budget and Management in accordance with State Personnel and Pensions Article § 21-316(c) of the Maryland Annotated Code.

On a motion made by Mr. Brandt and seconded by Mr. Norman, the Board voted to certify the required membership percentages to the Secretary of Budget and Management, applicable to FY2024, as follows:

State Teachers and Employees	59,099	
Local Public Libraries	2,563	
Subtotal State	61,662	32%
Local Board of Education	114,484	
Local Community Colleges	5,198	
Local Elected & Appointed Officials	54	
Participating Governmental Units	<u>12,247</u>	
Subtotal Local	<u>131,983</u>	<u>68%</u>
Total	195,268	100%

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CIO Report Mr. Palmer reported that for September the fund return was down 4.6% for the month and down 4.2% fiscal-year-to-date. He reported that for the month of October the preliminary reports show the fund up a bit.

Mr. Palmer reported that he would post the fund tearsheets on the Board Portal when they become available.

Executive Director's Report Mr. Noven proposed that the December Board education session and monthly meeting be conducted as a hybrid meeting in hopes that Comptroller Franchot and Secretary Brinkley will be able to join us in person for their last meeting and that all Trustees will be able to participate in a holiday lunch, once the Board meeting has concluded. Mr. Noven reported that staff would follow-up with an email to the Trustees with further details.

Mr. Noven reported that staff was discussing the possibility of recording Board and Committee meetings and posting additional documents to the Agency's website to increase transparency. Mr. Noven reported that he hopes to present a proposal to the Board in December.

Mr. Noven reported that there has been a request and staff is considering that all future Corporate Governance and Securities Litigation Committee meetings be held after the Investment Committee meetings.

Mr. Stafford also proposed that all future Investment Committee meetings begin at 8:30 a.m. instead of the current start time.

Mr. Prouty requested that the next Corporate Governance and Securities Litigation Committee be scheduled in the normal course with a start time of 8:30 a.m.

On a motion made by Mr. Daly and seconded by Mr. Prouty, the Board voted to meet in a Closed Session, beginning at 1:26 p.m., via a WebEx video/audio conference call, for the purposes of:

- a) 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 constitutional, statutory, or judicially imposed requirement that prevents public disclosure about a particular proceeding or matter, 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; and
- 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 disclosure 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.

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During closed session, the Board of Trustees discussed the matters identified in the motion to meet in closed session, and acted on the following matters:

Closed Session Minutes	The Board reviewed and approved the October 18, 2022 closed session minutes.
Medical Board Reports	The Board reviewed and adopted the medical board reports from October 20, October 26, November 3 and November 9, 2022.

Adjournment There being no further business before the Board, on a motion made by Mr. Norman and seconded by Ms. Allen, the meeting adjourned at 1:28 p.m.

Respectfully submitted,



Martin Noven
Secretary to the Board

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***AUDIT COMMITTEE MEETING SUMMARY
NOVEMBER 10, 2022***

The Committee Members present included:

Richard E. Norman, Chairman	Michael Howard
Thomas M. Brandt, Vice-Chairman	Robert Sandlass

Agency Staff members attending included:

Martin Noven	Robert Burd	Angie Jenkins
Kenneth Reott	Toni Voglio	Kim O’Keeffe
Melody Countess	Greg Ricci	Megan Myers
David Rongione	Robert Diehl	Patricia Fitzhugh
Andrew Palmer	Lauren Smith	Tom Montanye
	Richa Sultana	

Assistant Attorneys General present included: Rachel Cohen and Emily J Spiering

Other attendees included (CLA – CliftonLarsonAllen): Remi Omisore

Presentation of
FY 2022
Financial
Statement Audit
Results by

Mr. Omisore presented the results of the FY 2022 Financial Statement Audit noting that they are substantially done with all the procedures. The major outstanding item is the test to be performed on the actuary reports that were approved a few weeks ago. He mentioned that there are certain required items that need to be communicated to the Audit Committee (AC). He emphasized that the financial statements are management’s responsibility and the auditor’s responsibility is to issue an opinion on the fair presentation of the financial statements. He noted that there are no significant issues to communicate to the AC.

He continued by saying the audit was conducted with a risk-based approach. The audit was planned to pay attention to high risk areas. He clarified that 100% of the items were not tested – testing was performed only on the material items. He added that the audit team did not experience any difficulties in obtaining information from the management. In terms of internal controls, no significant deficiencies or material misstatements were noted.

CY 2023 Audit
Committee
Meeting Dates

CY 2023 AC Meeting Dates:

- January 17, 2023
- April 18, 2023
- July 18, 2023
- November 14, 2023

Internal Audit
Charter

Mr. Rongione mentioned that the AC Charter requires that the Internal Audit Charter to be approved by the committee every three years. The last approval was in November 2019. There have been no changes to the Charter since the last approval. Mr. Rongione is presenting it to the committee again for approval.

Investment
Compliance
Report

Ms. Voglino presented the investment compliance report noting that the Compliance team performs monitoring on the below items:

- External Manager Investment Guideline Violations: 53 mandates are managed by external managers. The Compliance team performed over 220,000 tests noting 2,056 violation alerts. 100% of the alerts were reviewed noting that 1,600 were false alerts. 358 of them needed corrective

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actions. Majority of the items were related to overweighing a security. All the items were corrected by the managers.

- Internal Manager Investment Guideline Violations: Compliance team performs similar procedures for internal managers with a more stringent approach. They performed over 32,000 tests noting 1,300 violation alerts. 100% of the alerts were reviewed noting that 601 were false alerts, 256 alerts were related to corporate action which required no corrective actions, and lastly 479 true alerts which were related to changes in staffing or cash received. All the alerts were temporary and necessary corrective actions were taken by the managers.
- External Manager Annual Compliance Questionnaire and Certificate (the “ACQ”): ACQ is performed on an annual basis which looks for any red flags. 86 managers participated and the Compliance team obtained a 100% completion rate. ACQ has two sections – 1) certification of compliance with investment guidelines; 2) questions related to various investment matters.
- Private and Commingled Annual Certification: This certification is required to be submitted in the side letter. 284 funds were required to submit this certification and the Compliance team obtained a 100% completion rate.
- Personal Trading Monitoring: This monitoring procedure ensures that the staff or any household members of the staff is not trading on any securities that are on restrictive list. In FY2022, staff had over 1,800 accounts of which 14 violations were noted. None of the violations were related to trading on securities that are on restrictive list. The violations were related to staff failing to obtain a pre-clearance. The Compliance team met with the staff to discuss and determine why violations occurred. In most instances the violations occurred because one of the household members did the trade and the staff was not aware of it. The Compliance team obtained 100% completion rate for the Personal Trading Disclosure and Attestation Statement.
- Conflicts of Interest – Each conflict is reviewed and graded as follows:
 - Not a Conflict
 - Perception of a Conflict
 - Potential Conflict of Interest
 - Actual Conflict of Interest or
 - Material Conflict of Interest100% of employees have submitted their Conflicts of Interest Disclosure Form and Attestation.
- Code of Ethics - All Investment Division staff must file a Code of Ethics Attestation within 30 days of hire and annually thereafter attesting that they have read, understand and are in compliance with the Maryland ethics laws and the Code of Ethics that are in the Investment Policy Manual. 100% of staff have completed the required Code of Ethics Attestation for FY2022.
- Staff Training - All Investment Division staff are required within 30 days of hire and annually thereafter to have training on the following:
 - Ethics
 - Conflicts of Interest
 - Material non-public information, and
 - Personal trading compliance.100% of Investment Division staff completed the required training.

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- Regulatory Reporting - The System is required to complete the 13F and the 13H filings for the SEC. The filings are complete, and no amendments needed to be done.

Mr. Howard inquired who does Ms. Voglino report to. Ms. Voglino answered by saying she reports to Mr. Palmer. Both Mr. Howard and Mr. Brandt inquired whether her team should function independent of the Investment Division. Mr. Palmer answered by saying there were two reasons for having the Compliance team under Investment Division - 1) prosaic reason – create position and set compensation; 2) to implement compliance risk and governance in a more integrated fashion. He added by saying Ms. Voglino’s work is involved in the decision-making process. He understands that the current structure creates potential conflict if CIO is not compliant. This is why he suggested presenting the compliance report to the AC which facilitates creating a line of communication between the Compliance team and the committee. If something needed to be flagged, Ms. Voglino and her team can bring it to Mr. Rongione or AC’s attention.

Status of FY
2023 Audit Plan

Mr. Rongione reviewed the audit plan status noting that the ABBYY Scanning audit is progressing, and Internal Audit Division (IAD) is starting to wrap up fieldwork. He continued by saying IAD is currently in the planning phase of the Employee Portal and the Swift assessment audits. IAD’s contractual auditor is also making progress on the Investment risk assessment and the PGU audits. He added by providing a timeline for the audits that haven’t started ensuring that all audits included in the FY23 audit plan will be completed by the year end. Mr. Brandt asked if there are any resources or timing issues. Mr. Rongione answered by saying he anticipates none at this time. He added that IAD was able to re-post the IT auditor position and interviewed some promising candidates. He expects someone to start in December 2022. Mr. Howard asked who is IAD using for contractual audit. Mr. Rongione answered by saying UHY LLP who is based in Columbia, MD.

Continuous
Audit
Dashboard

Mr. Rongione mentioned that the dashboard has been revised since the last meeting. All the charts in the left-hand column represent different data analytics performed, and the applicable number of samples and exceptions by quarter and fiscal year. He continued by saying, the right-hand column charts show the number of exceptions per test per fiscal year, as well as the number of remediated and remaining open issues. There are still 15 issues from FY22 that need to be remediated, and IAD will retest these prior to the next AC meeting.

Status of Open
Issues Log

Mr. Rongione mentioned that IAD created an open issues dashboard that shows two charts detailing the open issues per division, and then the current remediation status. He added that several changes have been made in terms of how the issues are presented to the AC. The first change is that IAD created an open issues log per division, as opposed to one combined log. IAD also gave each finding a unique ID # that can be traced to the next report, which is a remediation status document per division. Each division will complete this prior to every AC meeting. This report will detail the current status (whether it is in progress, resolved and ready for IAD to test or not started), remediation plan, any issues affecting remediation, and a revised remediation date.

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Mr. Brandt mentioned that the IAD must be mindful about the old items. Mr. Rongione commented that as a result of the revised approach, Management investigated the issues in a more detail manner and the communication is now documented in a more formal way. There were 25 issues that were marked as ready for IAD to be tested however, it was communicated to the IAD in early November and IAD did not have enough time to perform the testing. All 25 issues will be tested prior to next meeting and he expects to have these issues removed from the log. Mr. Howard asked about the issues that are in “Not started” status and what is causing that. Mr. Rongione said he will have to review each of those line items that were provided in the remediation plan report. Mr. Howard mentioned this discussion does not need to happen during this meeting. Mr. Rongione mentioned he will create a summary of the “Not Started” issues and present it to the AC during the next meeting.

Mr. Noven thanked Mr. Rongione and management for their team effort on the open issues. Mr. Brandt commented that these reports are very re-assuring.

FY22 Year End
Reports

Mr. Rongione mentioned that this report was presented at the July 2022 AC meeting, however there were some data missing due to an issue with the audit management software. He mentioned that the green highlighted items (Total of Actual Hours for All Completed Audits is no more than 5% above the Audits’ Total Budgeted Hours and Percentage of Administrative Time) are the updated numbers on the performance report, and IAD has met the goals for both of these metrics. He continued by saying the next one is the time report which details the IAD hours and compares them to prior fiscal years.

Other Business

Mr. Norman mentioned the next AC meeting will be on January 17, 2023.