

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

June 18, 2019

The Board of Trustees for the Maryland State Retirement and Pension System convened at the Board Room of the SunTrust Building, 120 East Baltimore Street, 16th Floor Board Room, Baltimore, Maryland beginning at 9:32 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman, presiding	Sheila Hill
Peter Franchot, Vice Chairman (via phone)	F. Patrick Hughes
David Brinkley	Charles Johnson
Eric Brotman	Theresa Lochte
Jamaal Craddock	Richard Norman
David Hamilton	Douglas Prouty
Linda Herman	Michael Stafford

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Melody Countess	Van Lewis	Kenneth Reott
Robert Diehl	Kimberly O’Keeffe	David Rongione
Patricia Fitzhugh	Andrew Palmer	Janet Sirkis
Anne Gawthrop	Chandra Puranam	
Michael Golden	Harvey Raitzyk	

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

Other attendees included: Justin Hayes, Matt Jackson, Jennifer O’Dell, and John Keenan

Consent Agenda	On a motion made by Mr. Hughes and seconded by Ms. Hill, the Board approved the consent agenda, which included: <ul style="list-style-type: none">• May 21, 2019 Open Meeting Board Minutes• June 4, 2019 Administrative Committee Meeting Summary, which included a recommendation to approve the Board of Commissioners of Queen Anne’s County’s request to participate in the Employer Pick-Up Program, effective July 1, 2019.
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Board Officers	On a motion made by Mr. Brotman and seconded by Mr. Stafford, the Board elected the following officers for FY 2020: <ul style="list-style-type: none">› Nancy K. Kopp as Chairman› Peter Franchot as Vice-Chairman› R. Dean Kenderdine as Secretary
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Treasurer Kopp acknowledged her appreciation for being elected to continue to serve as Chairman, and informed the Board that the Ad Hoc Committee on Strategic Planning and Governance may make a recommendation to change the current process of electing Board Officers.

Recommendation regarding Asset Class Incentive Targets for Investment Division Financial Incentives	Mr. Palmer reported that while the Board has approved the criteria for relative performance at the total fund level, it has not yet done so for relative performance against asset class benchmarks.
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Mr. Palmer provided the Board with a recommendation to approve incentive compensation for staff associated with individual asset classes. The overall plan was designed and recommended by CBIZ but CBIZ recommended the Board develop customized performance ranges for each asset class.

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Staff used a survey provided by McLagan that was not available to CBIZ at that time. The survey provided asset class targets and incentive plan design for peer public pension plans but did not have information on all of the asset classes utilized by the System.

Mr. Palmer presented the following schedule for the fiscal year 2020 Financial Incentive Program:

Financial Incentive Program Inception Date:	July 1, 2019
Fiscal Year 2020 Measurement Period:	July 1, 2019 – June 30, 2020
Board Award of Fiscal Year 2020 Incentive Awards:	August 2020 Board Meeting
Fiscal Year 2020 Financial Incentives Paid:	<i>To be determined by the Board at the August 2020 Board meeting¹</i>

¹Financial incentives are required to be paid over multiple fiscal years in equal installments. The enabling legislation for compensation setting specified that the dates on which financial incentives awarded shall be paid shall be set by the Board of Trustees at the time the financial incentives are determined. Once financial incentives are awarded by the Board, the dates set for payment at that time may not be changed. If an individual who has earned financial incentives separates from employment in the Investment Division, the Board may not pay out any remaining financial incentives due to be paid after the date of separation from employment.

Ms. Herman asked how this works administratively.

Mr. Palmer replied that because this is a new plan, the three year review period will be achieved incrementally. The incentive for 2020 will use a one year period, for 2021 will use a two year period and for 2022 and beyond will use a three year period to evaluate relative performance.

Ms. Herman asked if any Investment Division staff member is receiving an incentive award July 1, 2019. Mr. Palmer responded that no one is receiving a July 1, 2019 incentive award. The incentive plan approved by the Board begins its first measurement period on July 1, 2019.

Mr. Hughes reported that this was discussed at the Investment Committee meeting and advised everyone that this should be looked at no less than annually, to see if it is working.

Mr. Stafford stated that for all asset classes, managers could merely meet index returns, and the Investment Division staff responsible for that asset class would receive 50% of the target, which struck him as generous.

Mr. Palmer responded that the incentive plan recommended by CBIZ used the concepts of thresholds, targets and maximums. The incentive plan is intended to be an integral part of the compensation plan with eligible employees receiving

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some level of incentive most of the time, less frequently receiving zero or the maximum amount. For Investment Division staff responsible for a specific asset class, only one-half of the incentive is tied to asset class performance, and the remainder is tied to total fund performance against the policy benchmark and actuarial rate of return. In CBIZ's recommendation, meeting the minimum performance will produce the potential to receive 25% of the maximum for any element. This design aligns the investment staff with the goals of the Board by creating incentives to take sufficient risk to offset the impact of fees and disincentives to take too much risk in the hopes of occasionally earning maximum incentives.

Mr. Brinkley stated that it is his hope and expectation for recruitment and evaluation to meet our actuarial benchmark, noting that it has been a challenge over the last 10 years.

After further discussion, on a motion made by Mr. Hughes and seconded by Ms. Lochte, by a vote of 11 to 3, the Board approved the recommendations regarding asset class targets for Investment Division financial incentives, as presented.

Trustees in favor of the motion were: Treasurer Kopp, Secretary Brinkley, Mr. Brotman, Mr. Craddock, Mr. Hamilton, Ms. Herman, Ms. Hill, Mr. Hughes, Ms. Lochte, Mr. Norman, and Mr. Prouty. Trustees in opposition of the motion were: Comptroller Franchot, Mr. Johnson, and Mr. Stafford.

Recommendation
of the
Administrative
Committee
regarding the
Criteria for the
Chief Investment
Officer's
Evaluation

Ms. Lochte, Acting Chairman of the Administrative Committee, reported that the Committee, at its June 4, 2019 meeting, received proposed changes to the criteria for the Chief Investment Officer's (CIO) evaluation. After discussion, the Committee voted to approve those changes, for recommendation to the Board of Trustees.

Ms. Herman wanted to know why the Board performs this particular evaluation when there is already a CIO Incentive Compensation Plan and evaluation in place. Treasurer Kopp responded that this evaluation does not have bearing on the CIO's compensation and it gives the Board the opportunity to go through the CIO's administrative performance and allows the Board to establish where the CIO stands against expectations. Mr. Palmer agreed that it is valuable feedback for him.

Secretary Brinkley compared the CIO evaluation to the performance evaluation process for all state service employees and noted that it provides a historical record for the CIO's personnel file.

Ms. Lochte informed the Board that this process could change after the Ad Hoc Committee on Strategic Planning and Governance presents its recommendations to the Board.

On a motion made by Ms. Lochte and seconded by Ms. Hill, the Board approved the Administrative Committee's recommendation to adopt the changes proposed regarding the criteria for the Chief Investment Officer's evaluation.

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Recommendation
of the
Administrative
Committee
regarding the
FY2020 Business
Plan

Mr. Kenderdine reported that the FY2020 Business Plan is modest and limited this year, and largely captures on-going projects that everyone is well aware of (e.g., MPAS and internal investment management). He noted that it is likely the Business Plan will be brought back to the Board after the Ad Hoc Committee on Strategic Planning and Governance completes its work and makes recommendations to the Board.

Ms. Lochte, Acting Chair of the Administrative Committee reported that the Committee received a full report on the FY2020 Business Plan and recommended Board approval of the plan as presented.

On a motion made by Mr. Brotman and duly seconded the Board voted to approve the FY2020 Business Plan contingent on changes resulting from revisions coming from the Strategic Planning Committee.

Recommendation
of the
Administrative
Committee
regarding
Proposed
Amendments to
COMAR 22.01.06
– Payment of
Benefits

Ms. Lochte, Acting Chair of the Administrative Committee recommended for approval by the Board the COMAR amendments as presented to the Committee at its June 4, 2019 meeting. The amendments are as follows:

➤ 22.01.06.01 – Definitions

This regulation is being added in its entirety to define the participants to whom this regulation shall apply.

➤ 22.01.06.02 – Electronic Fund Transfer

This regulation has been amended to address a recent audit finding related to multiple payees' monthly retirement allowances being deposited into the same bank account. The requirement has been added to support the Agency's decision that the retirement allowances of not more than five (5) payees may be deposited into the same bank account.

➤ 22.01.06.03 – Electronic Fund Transfer Procedures

The changes to this regulation consist of a revision of its title and minor textual edits for clarity and consistency.

➤ 22.01.06.04 – Payment of Allowance by Check

This regulation remains largely unchanged, except for replacing the term "participant" with the newly defined term "payee" throughout. Also, the current name of the Automated Clearing House Network has been amended.

➤ 22.01.06.05 – Suspension of Payment

The changes to this regulation consist primarily of changing its title to reflect its application to lump-sum payments as well as monthly allowances, and other minor edits for consistency and clarity, as well as new text to confirm the Agency's ability to suspend payment in certain circumstances involving false information and fraud.

➤ 22.01.06.06 – Deductions from Allowance

This regulation is being added to address the Agency's longstanding and statutorily authorized practice of making certain deductions from payees' retirement allowances. It addresses the Agency's concern with sharing sensitive information with third parties and requires that, upon the Agency's request, the third party shall enter into a non-disclosure agreement with the Agency.

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On a motion by Ms. Lochte and seconded by Ms. Hill, the Board voted to approve and submit the proposed amendments to COMAR 22.01.06 to the Administrative, Executive, and Legislative Review Committee, and publish them for comment in the Maryland Register.

Recommendation
of the
Administrative
Committee
regarding
Proposed
Amendments to
COMAR 22.01.12
– Enrollment In
The State System

Ms. Lochte, Acting Chair of the Administrative Committee recommended for approval by the Board the COMAR amendments as presented to the Committee at its June 4, 2019 meeting. The amendments are as follows:

➤ 22.01.12.01 – Enrollment Required

The proposed amendments are minor grammatical changes to conform this regulation to COMAR 22.01.01.01B(16), which defines “State system.”

➤ 22.01.12.02 – Enrollment Process

The proposed amendments to this regulation are to:

- 1) Replace “sending” with “submitting” in recognition that in the future, employers and members may be able to submit enrollment document electronically;
- 2) Remove the requirement to submit a Designation of Beneficiary form, which is no longer an operational requirement to complete the enrollment procedure;
- 3) Add a requirement for submission of a job description to ensure proper enrollment in the TRS, LEOPS, SPRS, or CORS (for PGU employees only); and
- 4) Add a requirement for submission of a job description in other circumstances when the Agency requests one.

➤ 22.01.12.03 – Imposition of Penalty Procedure

The proposed amendments are minor grammatical changes to conform this regulation to COMAR 22.01.01.01B(16), which defines “State system.”

On a motion by Ms. Lochte and seconded by Ms. Hill, the Board voted to approve and submit the proposed amendments to COMAR 22.01.12 to the Administrative, Executive, and Legislative Review Committee, and publish them for comment in the Maryland Register.

Distribution of
FY19 Personal
Statement of
Benefits

Mr. Raitzyk reviewed the Agency’s current process for annual distribution of Personal Statement of Benefits (PSBs) to members with vested interest in the System which are typically mailed in August or September. The creation and distribution of PSBs is performed by an outside vendor for the Agency. Because the PSBs contain members’ Personally Identifiable Information (PII), the Agency desires that any vendor with possession of members’ PII have proof of a SOC-2/TYPER-2 assessment of their procedures to protect members’ information. Mr. Raitzyk informed the Board that through a recent audit, it was determined the current vendor used by the Agency, the League for People with Disabilities, does not have such a SOC-2/TYPER-2 assessment, and therefore the Agency must discontinue using this vendor.

Mr. Raitzyk presented an alternative for members to receive their PSB. Members would be able to access their PSB by logging on to the *mySRPS* secure member portal which will go live in a few months. For those members who do not have access to the member portal or would prefer a paper copy of their PSB, the Agency will provide a process for requesting a mailed paper copy. Mr. Raitzyk

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noted that if *mySRPS* does not go live in September as planned, the fall back plan would be for members to print their PSB from the Agency's current secure public website.

Mr. Brotman asked how we would be notifying everyone to encourage the use of the on-line member portal.

Mr. Raitzyk responded that the Agency would communicate the information through the Mentor newsletter publication and could also send a letter or postcard to members. In addition, staff could post the notice on the Agency's website and phone system.

Mr. Brotman stated he was concerned with having over 200,000 members trying to access the on-line portal in the same week.

Mr. Raitzyk responded that the Agency has long planned to stagger the roll-out of *mySRPS* over several weeks.

Mid-Year
Attendance &
Training Reports –
January 1, 2019
through June 30,
2019

Mr. Kenderdine presented the Trustee six-month attendance and training reports for January 1 through June 30, 2019 for review and asked that any corrections be forwarded to his attention. Mr. Kenderdine indicated that the attendance report would be updated to reflect the Board's attendance at the June, 2019 meeting.

Mr. Brotman asked if Trustee attendance at other relevant continuing education programs would count toward the required eight hours of training per year.

Mr. Kenderdine indicated it would, however whether or not such programs qualify is to be determined by the Board Chairman.

Executive
Director's Report

Mr. Kenderdine reported on MPAS and stated that the Agency has completed regional employer (participating governmental units) seminars particular to payroll reporting.

Mr. Kenderdine said the seminars were well received and that recommendations offered by seminar attendees are being incorporated in the MPAS project.

On a motion made by Mr. Hughes and seconded by Mr. Prouty, the Board voted to meet in a Closed Session, beginning at 10:20 a.m., in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor, for the purpose of:

- a) reviewing the May 21, 2019 closed session Board minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function;
- 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 statutory requirement that prevents public disclosure, 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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- c) reviewing the Earnings Limitation Recovery Report, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific statutory requirement that prevents public disclosure, namely, General Provisions Art., § 4-312 regarding the prohibition on disclosing retirement records; and General Provisions Art., § 4-331 regarding the prohibition on disclosing information about public employees;
- d) reviewing the Disability Offset Report, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific statutory requirement that prevents public disclosure, namely, General Provisions Art., § 4-312 regarding the prohibition on disclosing retirement records; and General Provisions Art., § 4-331 regarding the prohibition on disclosing information about public employees;
- e) reviewing a report regarding extraordinary salary increases, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific statutory requirement that prevents public disclosure, namely, General Provisions Art., § 4-312 regarding the prohibition on disclosing retirement records;
- f) discussing the offset of retirement benefits of individual participants under State Personnel and Pensions Art., § 21-113, 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;
- g) receiving advice from counsel regarding conflicts of interests, pursuant to General Provisions Art., § 3-305(b)(7), to consult with counsel to obtain legal advice;
- h) receiving advice from counsel regarding administrative subpoenas, pursuant to General Provisions Art., § 3-305(b)(7), to consult with counsel to obtain legal advice;
- i) receiving advice from counsel regarding divestment activity, pursuant to General Provisions Art., § 3-305(b)(7), to consult with counsel to obtain legal advice; and
- j) discussing a report from the Chief Investment Officer regarding the System's investments in Alabama-based companies, including with respect to alternative investments, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific statutory requirement that prevents public disclosure, namely, General Provisions Art., § 4-335, regarding the prohibition on disclosing confidential financial and commercial information, and pursuant to General Provisions Art., § 3-305(b)(5), to consider the investment of public funds

CLOSED SESSION

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding
Peter Franchot, Vice Chairman (via phone)
David Brinkley
Eric Brotman
Jamaal Craddock
David Hamilton
Linda Herman

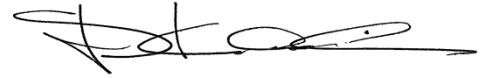
Sheila Hill
F. Patrick Hughes
Charles Johnson
Theresa Lochte
Richard Norman
Douglas Prouty
Michael Stafford

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Adjournment There being no further business before the Board, on a motion made by Mr. Hughes and duly seconded, the meeting adjourned at 12:06 p.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'R. Dean Kenderdine', written over a horizontal line.

R. Dean Kenderdine
Secretary to the Board