

THE INVESTMENT COMMITTEE
OF THE
MARYLAND STATE RETIREMENT AND PENSION SYSTEM

MINUTES OF OPEN MEETING

May 18, 2021

The Investment Committee convened on Tuesday, May 18, 2021 at 8:07 a.m., via video-conference call with the host site at the Maryland State Retirement Agency, SunTrust Building, 120 East Baltimore Street, 16th Floor, Board Room, Baltimore, Maryland.

Committee Members	David Brinkley	Nancy K. Kopp
Attending:	Eric Brotman, Chairman	Richard Norman
	Peter Franchot	Douglas Prouty
	Linda A. Herman	Anne L. Shelton
	Sheila Hill	Michael J. Stafford, Jr., Vice Chair
Also Attending:	Thomas Brandt (Trustee)	Dean Kenderdine, Exec. Director
	Robert Burd, Deputy CIO	Michael McCord
	Antionette Butcher	Andrew Palmer, CIO
	Rachel Cohen, OAG	Stephen Reilly
	Melody Countess	David Rongione, Internal Auditing
	Jamaal Craddock (Trustee)	Jody Shaw, OAG
	Alex Harisiadis, OAG	Alexandra Walinskas
	Dana Johns	

Item 1: Ratification of Open Session Minutes

On a motion made and seconded, the Investment Committee ratified the February 16, 2021 open meeting minutes.

Item 2: Motion by the Investment Committee to meet in Closed Session

On a motion made and seconded, the Investment Committee voted without objection to meet in Closed Session at 8:11 a.m. for the purposes of:

- (a) reviewing the closed session Investment Committee 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; and
- (b) interviewing candidates for the position of Public Advisor to the Investment Committee, pursuant to General Provisions Art., Section 3-103(a)(1)(i), the exercise of an administrative function and General Provisions Art., Section 3-305(b)(1)(i), the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of appointees, employees, or officials over whom it has jurisdiction; and

- (c) considering the selection of a candidate for the position of Public Advisor to the Investment Committee, for recommendation to the Board of Trustees, pursuant to General Provisions Art., Section 3-103(a)(1)(i), the exercise of an administrative function and General Provisions Art., Section 3-305(b)(1)(i), the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of appointees, employees, or officials over whom it has jurisdiction; and
- (d) hearing presentations from certain offerors to provide general investment consulting services, pursuant to General Provisions Art., Section 3-305(b)(13), to comply with a specific statutory requirement that prevents public disclosures about a particular proceeding or matter, namely, General Provisions Art., Section 4-335 preventing the disclosure of trade secrets and confidential commercial or financial information; and General Provisions Art., Section 3-305(b)(14), to discuss, before a contract is awarded, discuss the contents of a proposal, if public discussion or disclosure would adversely impact the ability of the public body to participate in the competitive proposal process; and
- (e) considering the selection of the System's General Investment Consultant, for recommendation to the Board of Trustees, pursuant to General Provisions Art., Section 3-305(b)(13), to comply with a specific statutory requirement that prevents public disclosures about a particular proceeding or matter, namely, General Provisions Art., Section 4-335 preventing the disclosure of trade secrets and confidential commercial or financial information; and General Provisions Art., Section 3-305(b)(14), to discuss, before a contract is awarded, discuss the contents of a proposal, if public discussion or disclosure would adversely impact the ability of the public body to participate in the competitive proposal process.

CLOSED SESSION

Committee Members Attending:	Michael Barry David Brinkley Eric Brotman, Chairman Peter Franchot Linda A. Herman Sheila Hill	Nancy K. Kopp Richard Norman Douglas Prouty Anne L. Shelton Michael J. Stafford, Jr., Vice Chair
Also Attending:	Thomas Brandt (Trustee) Robert Burd, Deputy CIO Antionette Butcher Rachel Cohen, OAG Jamaal Craddock (Trustee) Justin Hayes	Ken Haines (Trustee) Dean Kenderdine, Exec. Director Andrew Palmer, CIO David Rongione, Internal Auditing Alexandra Walinskas

Item 8: Motion by Investment Committee to adjourn closed session

On a motion made by Mr. Prouty and seconded by Mr. Tarbox, the Investment Committee voted to adjourn closed session at 11:41 a.m. and returned to open session at 11:45 a.m.

During closed session, the Investment Committee discussed and took action on the following matters:

The Investment Committee reviewed and ratified the Closed Session minutes from the February 16, 2021 meeting.

The Committee interviewed candidates for the position of public advisor and voted to recommend that the Board of Trustees re-appoint Monte Tarbox to serve as a public advisor of the Investment Committee.

The Committee interviewed three firms as finalists for the System's general investment consultant.

The Committee voted to recommend that the Board of Trustees select Meketa to continue as the System's general investment consultant.

OPEN SESSION

Committee Members Attending:	Michael Barry David Brinkley Eric Brotman, Chairman Peter Franchot Linda A. Herman Sheila Hill	Nancy K. Kopp Richard Norman Douglas Prouty Anne L. Shelton Michael J. Stafford, Jr., Vice Chair Monte Tarbox
Also Attending:	Anish Bedi Frank Benham (Meketa) Thomas Brandt Robert Burd, Deputy CIO Antionette Butcher Rachel Cohen, OAG Melody Countess Jamaal Craddock (Trustee) Mike Fang Eric Farls David Ferguson Mimi Forbes Anne Gawthrop Michael Golden Dimitri Grechenko Kenneth Haines (Trustee) Alex Harisiadis, OAG John Harris (Meketa) Justin Hayes Dana Johns Faina Kashtelyan Greg Kasten Larry Katsafanas Dean Kenderdine, Exec. Director	Ratna Kota Charles Lee Michael McCord Nitin Mathew Kyongdo Min Mary Mustard (Meketa) Stephen Muturi Minh Nguyen Ashu Pal Andrew Palmer, CIO Steven Pytlar Stephen Reilly Greg Ricci David Rongione, Internal Auditing Matthew Sanders (summer intern) Dan Schick Jody Shaw Kevin Slack Frederick "Beau" Smith Michael Suen Toni Voglino Alexandra Walinskas

Item 9: Report from CIO

Mr. Palmer presented the quarterly CIO report and updated the Committee on Investment Division initiatives, internal management and performance. He made the following comments:

Mr. Palmer referred to the two one-page tear sheets for both March and April. The tear sheet for the month of March has been updated to include the Absolute Return Benchmark, but the Private Equity benchmark for the 2020 calendar year end is still not available. The year-end reports are typically audited and generally take longer to prepare than other quarters. Mr. Palmer indicated that he is hopeful that excess returns will improve when the Private Equity benchmark is updated.

The April tear sheet is preliminary and shows the System earning 3.13% for the month and plan assets exceeding \$65 billion. For the fiscal year-to-date, assets are up 22.2%, resulting in plan asset growth of more than \$10 billion net of benefit payments. Asset class performance is generally positive, with stocks, bonds, and real assets ahead of target and credit very close to its benchmark. Mr. Palmer noted that, so far in May, the market is taking a bit of a breather with both bonds and stocks retreating a bit after the weak job numbers and strong inflation print.

Mr. Palmer discussed progress relative to each of the KPI's, actuarial rate, policy benchmark and real return. For the trailing year through March, the System is nearly 20% above the target of 7.4%. This is a period that started at the beginning of the COVID sell-off, so longer-term numbers are more meaningful. During the quarter, staff raised cash from equity managers, as well as rebalanced and upgraded in quality in the Credit asset class as spreads have tightened.

Mr. Palmer also discussed the upcoming workflow associated with internal management: Corporate and securitized bonds, small cap stocks, natural resources and infrastructure passive equity portfolios. He reminded the Committee that staff is currently managing long government bonds, TIPS and Russell 1000 portfolios totaling roughly 10% of assets. COVID has caused a delay in the planned expansion of internal management, but the delay will allow staff to incorporate any asset allocation changes that might be approved in September.

Mr. Palmer highlighted the improved up/down market capture performance over the trailing year at 105/66, as well as strong performance over a longer period. He noted that improving this metric has been a key objective, as low upside capture ratios inhibit the System's ability to achieve growth.

Mr. Palmer also discussed how the portfolio is constructed from a risk and excess return perspective. He highlighted that the System's 216 basis points of year-on-year excess return is nearly two standard deviations to the positive. In 2016, the System's investment performance was one standard deviation below the policy benchmark. Mr. Palmer noted his observation of the System's positive skew in excess returns over the past 10 years. There have been a couple of minus 60 basis points years offset by several years of positive 100 to 200 basis points of excess returns.

Mr. Palmer also highlighted the System's asset allocation from a dollar and risk perspective. He explained that total asset class exposures include the dollar amounts with managers, as well as the exposures in the overlay accounts. He also noted the System's beta exposure to the S&P 500 and the portfolio duration.

Mr. Stafford asked Mr. Palmer to explain his comment regarding cash management. Mr. Stafford commented that many firms go in the other direction and hire firms to perform this function.

Mr. Palmer responded that fee savings is the primary objective. Additionally, such an effort will allow staff to tailor the portfolio to meet our specific objectives. This effort will potentially allow for enhanced cash management in the future. Mr. Palmer also noted that foreign currency hedging is expensive and can potentially be brought in-house to save a significant amount of management fees.

Item 10: Staff Recommendation for the creation of Senior Governance Manager Position

Mr. Palmer presented a recommendation to approve a new position of Senior Corporate Governance Manager and provided an update on staffing changes. The new position would direct the Investment Division's governance activities. Mr. Palmer explained this position will have a similar impact as the creation of the Senior Risk Manager. The risk management function was being performed throughout the organization, but it was not coordinated and centrally located. Adding the risk position allowed staff to improve the risk management function at the total plan level, as well as within asset classes. The corporate governance position would have a similar impact. The governance function is currently being performed by a combination of the compliance area and committee work. Staff is increasingly focused on governance issues in manager selection and oversight responsibilities, as well as in proxy voting. Internal management can have an additional layer of governance responsibilities and provides an opportunity to engage more with management of public companies. Mr. Palmer recommended approval of the new position with the salary range specified.

On a motion made by Mr. Prouty and seconded by Mr. Tarbox, the Investment Committee unanimously approved the motion to create the new position of Senior Governance Officer position.

Item 11: Meketa Reports – Asset Allocation Preview

Mr. Benham introduced a preview of the asset allocation review that is scheduled to take place in September. He commented that the low interest rate environment continues to reduce expected returns. This presents a challenging environment for achieving the System's investment objectives and actuarial rate of return. Meketa is considering several allocation themes to assist the System in meeting its objectives. Mr. Benham discussed several potential asset allocation changes.

Mr. Stafford asked if Meketa's views would change if 10-year expected returns were used.

Mr. Benham responded that returns would be roughly 70 basis points lower with similar standard deviation.

Ms. Shelton inquired if the constant 4% allocation to private credit across all options was reducing part of the liquidity bucket that could be used for other private investments.

Mr. Benham responded that private credit is a reasonable risk to take relative to high yield and is generally more attractive than high yield.

Mr. Palmer added that staff is working with Meketa on several ideas that may not make it into the final selection page. Much of the discussion focuses on what allocation will result in the best Sharpe ratio while meeting investment objectives.

Ms. Shelton asked which asset classes are expected to generate returns greater than 7.4% other than private equity and private credit.

Mr. Benham replied that emerging markets equity, infrastructure, and non-core real estate are expected to produce returns greater than the actuarial rate, while public equity is expected to generate roughly 7%.

Item 12: Meketa Reports – Performance update and current market overview

Ms. Mustard presented Meketa's review of the System's performance. In the quarter, the System outperformed the benchmark by 11 basis points. Private equity was the best-performing asset class in terms of absolute returns at 10.1%. On a relative basis, U.S. Credit was the top-performing asset class outpacing its benchmark by 1.2%.

For the quarter, nominal fixed income produced 81 basis points of excess return, while absolute return detracted by 15 basis points. Over the past year, nominal fixed income and public equity lead the way with 189 and 152 basis points of excess return respectfully. Natural Resources and Infrastructure detracted by 98 basis points.

The System ranked in the 94th percentile among peers greater than \$1 billion in size for the quarter. The TUCS peer report is not yet available for the first quarter, but the System tends to compare more favorably in the universe she presented. Impressively, the System continued to rank in the 1st quartile based on Sharpe Ratio over the three-year period.

Item 13: Responsible Contractor Policy

Mr. Palmer shared the background for the Responsible Contractor Policy and explained the objectives and process. He noted that staff and Meketa have identified certain sections of the proposed memo believed not to be consistent with other policies that were reviewed. Alternative language was proposed to bring the policy more in alignment with industry practice. A redlined version of the document from what was initially presented to the Committee in February was also provided. A third document was also provided that reflected the final proposed language. Mr. Palmer recommended that if the Committee believes that a responsible contractor's policy ("RCP") should be included in the IPM, the Committee should consider the alternative language provided in the memo.

Ms. Mustard discussed the analysis Meketa performed at the request of the Board of Trustees from the April Board Meeting relating to potential performance impact as a result of adopting an RCP. Performance was reviewed for 23 public plans with a fiscal year end of June 30th. Eight of these plans had adopted an RCP. Ms. Mustard noted that while those plans without an RCP performed slightly better, the data set was too small to draw meaningful conclusions.

Mr. Palmer pointed out that, over the intermediate term, the RCP is a tool for staff to have a conversation. The System would not be precluded from investing with a manager that had not adopted an RCP.

Ms. Herman asked if there was documentation to support the notion that a local workforce delivers higher quality products.

Mr. Tarbox responded that there are no such studies.

Ms. Herman commented that the fair wages refer to bargaining agreements and asked who would be reviewing those agreements.

Mr. Palmer responded that managers are expected to review such agreements.

Ms. Herman asked why the RCP focuses on managers' contracting with local union labor when the Board has not approved a policy supporting unions. She also asked why the due diligence language was removed. She also commented that the policy could be interpreted as a requirement to do business with Maryland.

Mr. Brotman commented that the definition of infrastructure should be more specific. He expressed his concern that Staff will have to work harder, managers will have to work harder, and the RCP appears to be pro-union. Mr. Brotman stated he cannot support this RCP policy.

Ms. Mustard responded that the language now is more like what is found in peer policies. The due diligence language is better left open-ended as opposed to an explicit list of requirements, which could make it more difficult to comply.

Mr. Stafford asked if other plans' policies refer to infrastructure also.

Ms. Mustard confirmed that was the case.

Mr. Tarbox commented that an RCP is the direction the industry is going and noted that such policies are not unusual. He asserted that they are practicable and not a burden to staff. Many managers have already adopted RCPs, and this does not obstruct the System's ability to invest effectively. Mr. Tarbox believes such a policy leads to better performance, values and economies. He stated that RCPs help build healthy communities.

Mr. Brinkley stated that Meketa's research shows weaker performance among plans that have adopted an RCP and that investment performance should be the Board's primary objective. He added that the RCP is a policy-making initiative and the Board should focus on efforts that enhance performance. Mr. Brinkley suggested that social issues should be governed by laws passed by the State legislature, and that the proposed RCP may lead to unnecessarily tying the hands of staff and limiting the System's investment opportunities.

Mr. Prouty stated that RCPs are becoming the standard. Such a policy helps to create a level playing field where one does not exist currently. He stated that RCPs do not limit staff, are consistent with fiduciary duties, and can be used as a tool to improve information and communication flow with managers.

Mr. Brotman had to leave the meeting. Mr. Stafford assumed the role of Chair of the Investment Committee meeting.

Ms. Shelton expressed concern that the recommendation memo language is more progressive in some areas relative to peer policies. Ms. Shelton stated that it is often more difficult to dial policy language back, so would prefer to take a less progressive stance.

Ms. Kopp commented that Mr. Palmer and Meketa have brought forward revised language that is more consistent with policies that have been adopted by the System's peers. She expressed support of the alternative language that was more in-line with the System's peers.

Ms. Herman suggested to table the topic and get another redline version after Meketa has had an opportunity to address some of her questions.

Mr. Prouty stated that staff and Meketa have already addressed the Committee's concerns. He suggested to move forward with a vote.

Mr. Brinkley stated that, in light of the Committee receiving some new information and two Committee members having to leave the meeting, he supported tabling the topic. He moved to table, which was duly seconded.

Ms. Kopp stated that the proposed RCP policy would put the System on par with peers. She expressed her preference to vote on the RCP as proposed.

Ms. Hill asked if Committee members' concerns were due to the union aspect of the policy. She commented that she does not believe it would harm participants. She opposed tabling this topic, since enough data and information has been received.

A vote was held regarding Mr. Brinkley's motion to table the topic. The motion failed 5-4.

Ms. Kopp moved approve the RCP with the alternative language in the memo dated May 7th, which was seconded by Mr. Prouty. The motion passed 6-3.

Item 14: Review of the Criteria for the Chief Investment Officer's Evaluation

Ms. Kopp made a motion to approve the criteria for the Chief Investment Officer's evaluation. Mr. Prouty seconded the motion. Motion passed unanimously.

Item 15: Investment Reports

The Committee received the following investment reports:

- State Street Performance Reports
- Terra Maria Performance Reports
- Private Markets Performance Reports
- Securities Lending Report
- Division's FY21 Travel Plan - Update
- Quarterly ORP Performance Report
- OPEB-PHBT Update
- New Hire Manager Report
- TUCS Report (added to EXHIBIT BOOK)

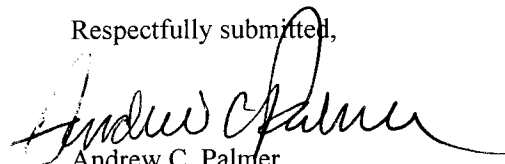
On the Directors Desk:

- Broker Commission Reports
- Quarterly Manager Fee Report

Item 16: Motion by the Investment Committee to adjourn meeting

Adjournment There being no further business before the Investment Committee, on a motion made by Treasurer Kopp and seconded by Mr. Norman, the meeting adjourned at 1:20 p.m.

Respectfully submitted,



Andrew C. Palmer
Chief Investment Officer