

**College Savings Plans of Maryland Board
FINAL MEETING MINUTES**

**December 11, 2014
9:30 AM – 1:00 PM**

**College Savings Plans of Maryland
217 E. Redwood Street, Suite 1350
Baltimore, MD 21202**

Board Members/Representatives Present

Nancy K. Kopp, State Treasurer and Board Chair (by phone)
Andrew Friedson, Comptroller's Representative
Pam Purcell, Chancellor, University System of Maryland's Representative
Geoffrey Newman, Secretary of Higher Education's Representative
Steve Serra, Superintendent of Schools' Representative
Gary Dorsch
Russell Kelley
John Kenney

Board Member/Representative Absent

Helene Grady, Board Vice Chair
Lewis Robinson, Board Secretary

Staff and Representative Present

Joan Marshall
Carol Kaiser
Lauren Shipley
Mary Anne Busse, Assistant Attorney General

Guests

Susanne Brogan, State Treasurer's Office
Tom Kazmierczak, Jr., T. Rowe Price Investment Services, Inc.
Lois Welsh, T. Rowe Price Investment Services, Inc.
Kim DeDominicis T. Rowe Price Associates, Inc.
Felicia Bennett, Wilshire Associates Incorporated
Garret T. Halbach, MD Department of Legislative Services
Brian Houle, Income Research & Management
Matt Drasser, Income Research & Management

College Savings Plans of Maryland (“CSPM”)

Annual Meeting

- Election of Officers

The Treasurer established a Nominating Committee that was chaired by Andrew Friedson and also included John Kenney and Russell Kelley. Mr. Friedson reported that the Committee met and, after discussion, nominated the same officers to continue to serve. There being no comments or questions, upon motion duly made and seconded, it was unanimously

RESOLVED, that Treasurer Nancy Kopp, Helene Grady, and Lewis Robinson were elected as Board Chair, Vice Chair, and Secretary, respectively, for 2015.

Treasurer Kopp thanked the Board and indicated that the officers have a willingness and commitment to serve.

As for Committee assignments, Treasurer Kopp asked that we keep the Committee Chairs and assignments as they are for now, and that she would touch base with Board members individually to ensure they are assigned to a Committee where they feel they are most productive.

- Approval of Minutes for the September 25, 2014 Regular Board meeting and the Open and Executive Sessions of the October 30, 2014 Regular Board Meeting

Treasurer Kopp asked for comments on each of the sets of the minutes individually. There being no comments or questions, and upon motions duly made and seconded, it was unanimously

RESOLVED, that the minutes for the September 25, 2014 regular Board meeting and the Open and Executive Sessions of the October 30, 2014 regular Board meeting are hereby approved.

- Executive Director’s Report

Ms. Marshall began her report by distributing invitations that she had received for Board members to attend Wilshire’s investment and client conference in April and indicated that Board members should speak with her individually if they were interested in attending.

Ms. Marshall reviewed the Marketing section of her report. In response to a question, she indicated that a significant change in our marketing program is that we are using television advertising instead of radio advertising this year as our primary advertising

media. Ms. Shipley added that we have also increased our online advertising budget over last year.

Ms. Marshall reviewed the status of investment manager transitions. She asked for Ms. Bennett's assistance in obtaining contractual documents from State Street and she agreed.

While reviewing the status of RFP and contract matters, a question was raised regarding the status of compliance reporting in connection with the transition of custodial banking services. Ms. Kaiser indicated that a meeting to discuss compliance reporting was scheduled for the following week. She agreed to follow up with the Board following that meeting.

Ms. Marshall asked for Board approval of the issuance of an RFP for Marketing Services. She clarified that the MBE goal was 9% overall and this was approved by GOMA. After discussion and upon motion duly made and seconded, it was unanimously

RESOLVED, that the issuance of an RFP for Marketing Services is hereby approved.

Ms. Marshall then reported on Audit & Finance Committee matters, as well as Administrative & Personnel Committee matters. Regarding Ms. Kaiser's unused leave pay from 2013, Ms. Marshall indicated that she had been attempting to schedule a meeting of the Committee to discuss Secretary Foster's letter, as well as Ms. Busse's legal analysis, but that no meeting was currently scheduled.

Mr. Dorsch moved to authorize payment of Ms. Kaiser's 2013 unused leave pay and the motion was seconded. Treasurer Kopp indicated that she disagreed with the motion given that there was a new Administration; this payment could cause conflict between Central Payroll in the Comptroller's Office and the new Administration since DBM was on record as being opposed to the payment; and this would be the fourth year in a row for an unused leave payment to Ms. Kaiser. Mr. Friedman then expressed his view that this matter should be addressed in Executive Session because it involved matters specific to a specific employee and made a motion to table Mr. Dorsch's motion and enter Executive Session. Upon motion duly made and seconded, it was unanimously

RESOLVED, that the Board move into a closed session in accordance with Section 3-305(b)(1) of the General Provisions Article of the Maryland Annotated Code to discuss a personnel matter related to an agency employee.

All Board members and representatives present, as well as Ms. Brogan, remained present for the closed session.

The regular session resumed.

Upon motion duly made and seconded, it was unanimously

RESOLVED, to require the Administration & Personnel Committee to make a recommendation on the payout of Carol Kaiser's unused 2013 annual leave and provide a comprehensive explanation of the reasons for that recommendation to the full Board at the Board's next meeting. In reaching its recommendation, the Committee shall consider whether unusual circumstances warrant the leave payment in light of the position of DBM set out in the September 22, 2014 letter from Secretary Foster to Lewis Robinson and whether the Executive Director shall be authorized to ask Central Payroll Bureau to pay Ms. Kaiser for her unused 2013 annual leave in light of the position of DBM set out in the September 22, 2014 letter from Secretary Foster to Lewis Robinson.

Maryland College Investment Plan

- Third Quarter 2014 Investment Report

Ms. Bennett began by reviewing capital markets in the Market Commentary section of Wilshire's report beginning with the U.S. Equity Market on page 8. She highlighted that non-U.S. stocks had negative performance for the quarter. Relative to fixed income, she commented that the flattening of the yield curve was somewhat unexpected.

Moving to section 2 of the report to focus on the performance of the MCIP, she reported the following:

- On page 18, total assets in the MCIP slightly declined from June 30, 2014;
- On page 22, net of Program Fees, the Equity Portfolio had negative returns due to its non-U.S. equity component. She added that while the Portfolio also did not perform well vs. its peers, this was primarily because many of the peers were comprised of only domestic equity and did not have a non-U.S. component;
- On page 23, for the Bond & Income Portfolio, she reported that high yield and other out-of-index exposure hurt relative performance. For the Inflation Focused Bond Portfolio, Ms. Bennett explained that its peer universe includes primarily short-term bond funds. She added that even though the TIPs Index was negative, the Portfolio outperformed its benchmark, although absolute performance was negative.
- On page 24, she reported that non-U.S. stocks, TIPs, and high yield bonds contributed to negative absolute and relative performance, although these asset classes have been significant positive contributors over the long term.

Ms. Bennett concluded by stating that investment performance in the past quarter was volatile overall. In addition, the sectors that we expect to perform well over the long term did not work in this quarter. She added that Wilshire does not have concerns about the portfolio allocations or approaches over the long term.

Ms. DeDominicis then reviewed the third quarter 2014 Investment Review that was prepared by T. Rowe Price. She reported the following:

- Starting on page 8, she indicated that while recent performance of the portfolios was consistent with Wilshire's report, areas highlighted in green represent out-performance. She affirmed that this was a difficult quarter in that areas of diversification did not perform well overall. She confirmed that the non-U.S. exposure in the Global Equity Market Index Portfolio would be fully transitioned by 12/31/2014.
 - On page 9, she reviewed the peer rankings as determined by Morningstar and indicated the areas of top first and second quartile performance. She added that higher non-U.S. equity exposure hurt shorter-term performance for the Equity and Global Equity Market Index Portfolios vs. their Morningstar peers.
 - On pages 10 and 11, she highlighted that the structural effect was the most significant detractor from performance for the quarter and the 1-year periods and that the weak performance of real assets contributed to this;
 - On pages 12 and 13, she commented that the asset weighted performance remains positive for the rolling 12-month and rolling 36-month periods;
 - On pages 16 and 17, Ms. Bennett reported that the Mid-Cap Growth Fund had the largest near-term underperformance. She commented that the mid-cap growth asset class has been very challenging for active managers, but that this fund is in the top quartile vs. its peers despite its underperformance;
 - On page 19, she reported that the Spectrum Income Fund was a driver of underperformance for the quarter;
 - On pages 20 and 21, she reported that the Morningstar rankings for both T. Rowe Price equity and fixed income funds show a lot of strong long-term performance vs. peers, as was the case for the Lipper rankings shown on page 22.
- Monthly Report

Mr. Kazmierczak reported that assets in the MCIP as of the end of October were about \$3.9 billion, which was about a 2% increase from the prior month. He is pleased that as of the end of November, assets reached \$4.02 billion. He reported that distributions were significantly lower than the prior month, in that the fall semester distribution season had concluded. He highlighted the growth in the number of accounts for Portfolio 2033 and that this is positive news since this portfolio is designed primarily for infants. By contrast, the number of accounts declined for Portfolio 2015 and the Portfolio for College, as those accounts are liquidated, presumably for college expenses. He affirmed that next year, Portfolio 2015 will be rolled into the Portfolio for College in June 2015. He also highlighted that the total number of new accounts of 2,171 was a 21.4% increase over the prior month.

Mr. Kazmierczak then reported on page 2 that assets had grown by 14% over the prior year period; monthly gross contributions were 15% higher; year-to-date gross contributions were 10% higher; new accounts were 11% higher; and average unique website visits were 15% higher. Mr. Kazmierczak explained his view that this strong

performance had a lot to do with an increase in consumer confidence – as well as our marketing efforts.

Ms. DeDominicis and Ms. Welsh left the meeting at this time.

Maryland Prepaid College Trust

- **Third Quarter Investment Report**

Ms. Bennett referred to page 55 that showed assets in the total fund reaching nearly \$900 million as of the end of the quarter. She explained that we still need to transition some assets to reach our target allocation. Referring to page 56, she explained that we would continue to transition by dollar cost averaging over time.

On page 57, she highlighted investment performance and stated that the total fund's performance was 25 basis points below the policy index. For the YTD period, however, performance exceeded the policy benchmark, as it did through the 1-year, 3-year, and 5-year periods.

On page 58, the fund is compared to a peer universe that consists of almost 200 other public fund investments. For the 1-year period, performance is significantly above the peer universe, which is most likely due to the fund's allocation vs. the peer group.

On page 59, Ms. Bennett explained that the chart illustrates how much active risk the fund has been taking and how that active risk contributes to the fund's overall return. She pointed out that active risk has negatively impacted the fund in the past, but that it is now contributing positively.

Ms. Bennett proceeded to review the asset class returns on pages 60 and 61. On page 66, she reviewed each of the investment managers' performance relative to their benchmark. Concerns were expressed about Navellier's short and long term relative performance. By consensus, the Board agreed to place Navellier on its "watch list". Ms. Bennett explained that Navellier had an over-weight to the energy sector and had negative stock selection.

Ms. Purcell was asked about her view on passive investing. She replied that, in her view, index funds have a purpose, but that the Board has a fiduciary obligation to try to beat the market and this cannot be achieved solely through passive investing.

On page 71, Ms. Bennett commented that the overall size of the international equity allocation will remain about the same; however, about one-half of the current assets invested with Delaware will be moving to the new Baillie Gifford mandate.

On page 78, Ms. Bennett commented that Aberdeen is prudently exiting positions in this asset class and that the value is now below \$10 million.

On page 87, Ms. Bennett commented on the challenging environment for commodities. She continued to review the remaining asset classes and commented that the performance of the private real estate managers is on track with their benchmarks.

Mr. Dorsch left the meeting at this time.

- Investment Manager Updates

In the interest of time, Ms. Bennett briefly reviewed the presentation that was provided by Wilshire that assesses the following non-U.S. managers: Mondrian, Delaware, Baillie Gifford for non-U.S. equity; Aberdeen for emerging markets equity; and Franklin Templeton for emerging markets debt.

- FY 2016 Budget Approval

Ms. Kaiser reminded the Board that this budget is presented for approval in order to be submitted as part of the Governor's budget book that is presented to the General Assembly. The agency's operating budget for FY 2016 will be submitted for Board approval in June and it will reflect the results of the 2014-2015 enrollment period. The current budget includes the best information available at this time.

Ms. Kaiser reviewed the Program Manager Contribution and said that it reflects the recent contract modification and extension with T. Rowe Price that includes a change in the Program Manager Contribution that T. Rowe Price will pay to the Board.

Regarding expenses, Ms. Kaiser explained that personnel expenses reflect position vacancies and executive staff salary issues that remain unresolved. In addition, healthcare and retirement costs are budgeted to reflect DBM instructions but are typically higher than actual "per employee" expenses within our agency. She also reviewed the changes in the contractual services section of the budget. She noted that the projected increase in "other expenses" includes an increase in credit card transactions.

With no further discussion and upon motion made and seconded, it was unanimously

RESOLVED, that the FY 2016 Budget for submission to the Governor's budget book is hereby approved.

- Third Quarter 2014 Internal Financial Statements

Ms. Kaiser noted that revenues were below projections, particularly for the MPCT payments from account holders. She indicated that this shortfall needs to be monitored to determine whether this is the beginning of a trend or just related to the timing of payments to the MPCT.

She explained that significant variances in the Personnel line item relate to staff vacancies and the impact of implementing the agency background check procedures, which is lengthening the hiring process. She also noted that Ms. Busse is a part-time resource instead of the full-time attorney position that is included in the budget. She attributed the remaining variances to timing issues related to an event or to the timing of receipt of invoices.

Ms. Bennett left the meeting at this time.

- Investment Manager Presentation – Income Research & Management

Mr. Houle and Mr. Drasser introduced themselves. Mr. Houle summarized that the MPCT's mandate has shifted from a focus on short-term fixed income to a core bond mandate. He indicated that their firm's focus is entirely on the U.S. fixed income asset class.

Mr. Drasser began with a review of short and long term performance on slide 2. He summarized their philosophy that our fund has the same interest rate risk as the index, while the firm seeks to add value through sector selection and bottom-up security selection.

Mr. Houle proceeded to review the longer term economic environment on slide 4. Since July 2013, the chart shows that corporate spreads have rallied. On slide 5, he explained that the firm does not focus much on macro issues, but instead focuses on specific securities. On slide 6, he explained the charts that compare 10-year yields between the U.S. and the rest of the world. On slide 7, he confirmed their view that fundamentals in the corporate sector are strong.

Ms. Purcell left the meeting at this time.

On slide 8, Mr. Houle explained that corporate issuance has been very strong and healthy with over \$1 trillion in the new issue market projected for 2014. In addition, the spread between long and intermediate term duration corporate bonds has been increasing over the past few years. Slides 9 and 10 relate to the mortgage sector, which he believes are strong areas for the firm. Commercial property prices are continuing to improve overall. Slide 10 focused on the residential mortgage market and shows that the supply of these securities is tapering off as the Federal Reserve backs away from the market.

Mr. Drasser then reviewed the portfolio as of the end of November on slide 15. The portfolio had a yield advantage, which will be an advantage if interest rates rise. The effective duration is slightly short of the index and average quality is strong. The portfolio is also well-diversified, with Treasury securities having a much smaller percentage of the portfolio than the index. According to Mr. Drasser, this indicates that the firm believes they are finding better opportunities elsewhere. He explained that the industrial sector is overweight, although the portfolio is underweight in the consumer

sector. The mortgage securities sector (CMBS) has a significant overweight and has a very high quality allocation.

Mr. Serra left the meeting at this time.

Treasurer Kopp asked if there were any further items to be addressed. There being no further business, and upon duly moved and seconded, it was unanimously,

RESOLVED, that the meeting is hereby adjourned.

Approved:



Joan Marshall
Executive Director – for Board Secretary

Date:

3/23/2015

EXHIBIT LIST

1. Agenda for the December 11, 2014 Regular Board Meeting
2. Draft Minutes for the September 25, 2014 meeting and the Open Session of the October 30, 2014 meeting.
3. Executive Director's Report
4. Maryland College Investment Plan
 - a. Executive Summary of Investment Performance – 3rd Quarter 2014 – Wilshire
 - b. Third Quarter 2014 Investment Review – T. Rowe Price
 - c. Monthly Report for October 2014
5. Maryland Prepaid College Trust
 - a. Executive Summary of Investment Performance – 3rd Quarter 2014 - Wilshire
 - b. Investment Manager Reviews - Wilshire
 - c. Investment Manager Presentation – Income Research & Management
6. College Savings Plans of Maryland
 - a. Fiscal Year 2016 proposed budget
 - b. Third Quarter 2014 Internal Financial Statements