

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

**March 20, 2015
9:30 AM – 1:00 PM**

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

Board Members/Designees Present

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

Board Members/Designees Absent

Lewis Robinson, Board Secretary

Staff, Representatives and Guests

Joan Marshall
Lauren Shipley
Joshua Fretz
Lara Hjortsberg, Assistant Attorney General

Guests

Bernadette Benik, Chief Deputy Treasurer
Tom Kazmierczak, Jr., T. Rowe Price Investment Services, Inc.
Kim DeDominicis T. Rowe Price Associates, Inc.
David Lindberg, Wilshire Associates Incorporated
Eoin Anderson, Baillie Gifford
Fraser Thomson, Baillie Gifford

College Savings Plans of Maryland ("CSPM")

Treasurer Kopp proposed to change the agenda and hold the closed session of the meeting before the other agenda items. At the Treasurer's request, Ms. Hjortsberg explained that the reasons for closing the meeting was in accordance with the General Provisions Article, §§3-305(b)(1), (12) and 3-305(b)(7), to (a) discuss a personnel matter that affects one or more specific individuals, (b) discuss an investigative proceeding on actual or possible criminal conduct, and (c) obtain the advice of counsel with respect to these matters.

RESOLVED, that the CSPM Board move into a closed session to receive the report of the Special Committee, in accordance with §§3-305(b)(1), (12) and 3-305(b)(7) of the General Provisions Article of the Maryland Annotated Code, (a) discuss a personnel matter that affects one or more specific individuals, (b) discuss an investigative proceeding on actual or possible criminal conduct, and (c) obtain the advice of counsel with respect to these matters.

All Board members, Ms. Benik and Ms. Hjortsberg remained for the closed session. The closed session concluded and the regular session of the meeting resumed at 10:25 a.m. No action was taken by the Board during the closed session. The time, place, and record of the vote to close the meeting is included in the *Presiding Officer's Written Statement for Closing a Meeting under the Open Meetings Act*, which is attached to these minutes as Exhibit 1.

- Approval of Minutes for the December 11, 2014 Annual Meeting

Treasurer Kopp asked for comments on the minutes. Ms. Marshall noted non-substantive changes made to the minutes after they had been distributed to the Board. Upon motion duly made and seconded, it was unanimously

RESOLVED, that the minutes for the December 11, 2014 Annual meeting are hereby approved, with the non-substantive changes noted during the meeting.

- Executive Director's Report

Ms. Marshall noted that if the Board members had questions regarding her written report they could contact her with questions. She proceeded to a discussion of the RFP for network services. She explained that three firms visited CSPM prior to the deadline for proposals and that the agency received two proposals determined to be legally sufficient. She noted that after the Evaluation Committee had reviewed one of the two bids, the Evaluation Committee determined that the Offeror did not provide sufficient technical detail that would indicate they would be able to complete the scope of work included in the RFP.

Ms. Marshall continued by noting that the second offeror was not aware that it was the sole offeror in the procurement. Mr. Friedson asked about Ms. Marshall's level of

confidence in the fairness of the cost estimate, and Ms. Marshall responded that the Evaluation Committee believed the cost to be reasonable. She noted that the procurement officer (Ms. Kaiser) had requested a best and final offer from the offeror, and the offeror had not submitted a reduced price. In response to a question regarding contract commencement, Ms. Marshall commences upon approval by the Board of Public Works.

Ms. Marshall explained to the Board that the agency's current network is 10 years old and needs to be replaced. Treasurer Kopp requested management provide the following information with respect to the procurement before the Board moved forward with an award:

- The reason only two proposals were received;
- information about the cost of similar proposals; and
- The Scope of Work in the RFP and the ability to change it to accommodate certain recommendations made by the Special Committee during the closed session earlier in the meeting.

Mr. Newman left the meeting at this time.

It was determined that the Board would revisit the network services procurement in a few weeks.

Ms. Marshall proceeded to the report on the contract approval request for website development and hosting. She described the process that was followed and the costs involved. In response to a question, Ms. Shipley noted that CSPM's current webmaster is Cyber Group. She stated that the technology is very outdated on the website. Ms. Hjortsberg added that the proposed memorandum of understanding ("MOU") is an inter-agency agreement with Towson University not subject to the same procurement rules as procurements with non-State entities. Ms. Shipley continued that an IT group at Towson University performing the website development work and that the price of that work is \$48,137.

Ms. Marshall stated that T. Rowe Price had engaged a third party vendor to design the website and that the MOU with Towson University was for the implementation and hosting of the website. In response to questions from Board members as to why an RFP process was not used, Ms. Hjortsberg explained that the MOU is an inter-agency agreement not requiring all of the standard contract provisions required with third party contractors. Ms. Shipley also noted that CSPM had consulted with the State's Department of Information Technology ("DoIT") and that DoIT had suggested the MOUT process with Towson University's IT group.

After discussion and upon motion duly made and seconded, it was unanimously

RESOLVED, that the Memorandum of Understanding by and between CSPM and Towson University for website development and hosting upon the terms discussed at the meeting be, and it hereby is, approved.

Ms. Marshall then presented the call center contract extension with Calls Plus. She noted that the contract requires renewal every six months and is scheduled to end on May 4, 2015. She expressed pleasure with the services of the call center.

Treasurer Kopp asked what criteria are used to determine the effectiveness of the call center. She requested that the Board be given copies of the reports showing the center's effectiveness.

After discussion, and upon motion duly made and seconded, it was unanimously

RESOLVED, that the Board hereby approves the exercise of CSPM's option to renew the Call Center Contract by and between CSPM and Calls Plus for an additional six (6) months..

Ms. Marshall then reported on the contract extension for actuarial services with Gabriel, Roeder, Smith & Co. ("GRS"). She stated that GRS has provided excellent service to the Board. She explained that the contract is scheduled to end on July 1, 2015, unless the Board exercises its second option to renew the contract for an additional two (2) years.

Upon motion duly made and seconded, it was unanimously

RESOLVED, that the Board hereby approves the exercise of CSPM's second option to renew the Contract for Actuarial Services by and between CSPM and GRS for an additional two (2) years.

Maryland College Investment Plan

- Fourth Quarter 2014 Investment Report

Mr. Lindberg began by reviewing capital markets. He discussed 5 year returns for various asset classes and compared these numbers to MPCT return assumptions. He noted the outperformance of large cap stocks versus small cap stocks in 2014 and remarked about the correlation of credit rating on stock returns. He stated that the strength of the dollar was a significant drag on non-U.S. equity returns. He noted that the S&P 500 index was up about 1.5% year to date.

Mr. Lindberg then reported on the performance of the MCIP. He compared the performance of the funds in each portfolio to their benchmarks and noted that each portfolio underperformed for Q4 and for 2014. He stated that many areas in the market have been challenging for active management over the last 5 years. He cited an annual report that Wilshire released last week that studied the results of active management.

Ms. DeDominicis then reviewed the fourth quarter 2014 MCIP Review that was prepared by T. Rowe Price. She reported on the performance of the portfolios versus their benchmarks. She discussed the impact of T. Rowe's management style on portfolio returns. She noted the returns of the underlying portfolio mutual funds versus their benchmarks and their Morningstar and Lipper categories.

In response to a question from Mr. Kenney, Ms. DeDominicis explained that even though Spectrum Income trailed its benchmark by over 2% for the past year, it was in the 40th percentile of its Morningstar category as compared to its peers.

- **MCIP Monthly Report**

Mr. Kazmierczak presented the report for the month ended February 28, 2015. He noted that the S&P 500 was up 5.5% in this month. He stated that at February 28, 2015, the MCIP had assets of \$4.166 billion, representing a 3.9% increase from January 31, 2015. He noted a decline in gross contributions during February as compared to January, but noted that the decline was expected because of the typically higher contributions in January and December as account holders take advantage of the tax-year end. He noted that distributions also declined in February and that the number of funded accounts decreased in the 2015, College, and Inflation Focused Bond portfolios. He noted 214,650 total accounts, with an average balance of \$19,409.

Mr. Kazmierczak then reported on page 2 that assets had grown by 12% from February 28, 2014 to February 28, 2015, that monthly gross contributions were 12% higher year-over-year, and that year-to-date gross contributions were 9% higher year-over-year. He noted that year-to-date distributions increased by approximately 12% year-over-year and that new accounts opened increased by 33% as compared to the previous year. He attributed these positive results with the number of new accounts to television advertising and the improved stock market performance. He also noted that the total number of funded accounts is up 9.6% as compared to February 28, 2014. He stated that the number of enrollment kits distributed had decreased from the prior year and that unique web site visits have continued to increase.

Mr. Kazmierczak also reported on T Rowe's efforts to improve MCIP's data record keeping system. He noted that Spectrum Professional Services will be conducting an analysis of the current record keeping system over the next 4 or 5 months.

Ms. DeDominicis and Mr. Kazmierczak left the meeting at this time.

Maryland Prepaid College Trust

- **Fourth Quarter Investment Report**

Mr. Lindberg reviewed the fourth quarter performance of the MPCT.

- On page 70, he discussed the international equity portion of the portfolio, noting that Baillie Gifford will be added into this section, as it has received a portion of the allocation managed by Delaware Investments.
- On page 71, the non-U.S. equity performance has underperformed as compared to its peers over all time periods. Strategies to improve returns include the introduction of Baillie Gifford and a shift from passive to active management in the emerging markets sector.
- On page 73, the performance of the underlying non-U.S. equity managers is shown versus the benchmark. Aberdeen has outperformed over the 1- and 3-year periods; and Delaware Investments underperformed its benchmark over the last quarter due to its oil holdings. Treasurer Kopp asked if Wilshire has a written set of due diligence questions that are posed to money managers. Mr. Lindberg affirmed that these questions exist and offered to share them with the Board. Mr. Dorsch asked how the MSCI EAFE Index has performed. Mr. Lindberg responded that Wilshire may have to explore changing the index to which the Vanguard Developed Index Fund is compared, noting that Vanguard has already changed to the FTSE Developed ex North America Index.

Mr. Anderson and Mr. Thomson joined the meeting at this time.

- Investment Manager Presentation – Baillie Gifford

Mr. Anderson and Mr. Thomson introduced themselves.

Mr. Thompson started on page 2 and reviewed Baillie Gifford's relationship with MCPT, noting that Baillie Gifford were engaged as a money manager for MPCT in February 2015. He noted that the value of MPCT's interest in the EAFE Pure Focus portfolio is close to \$31 million as of February 28, 2015. He also explained that Baillie Gifford is based in Edinburgh, Scotland and focuses strictly on investment management. In response to a question from Mr. Dorsch about the structure of the company, Mr. Thompson confirmed that Baillie Gifford is an independent, limited liability partnership.

Mr. Anderson then moved to page 4 of the presentation and discussed Baillie Gifford's investment philosophy, noting that the firm focuses on growth companies, uses active / bottom-up stock selection, and maintains a long-term perspective. He explained that the metric the firm uses to determine how actively a portfolio is managed is known as Active Share and stated that the Active Share for the EAFE Pure Focus portfolio is about 90%, indicating that 90% of its holdings are different than the index. Mr. Anderson defined long-term investing as a 3 to 5 year time frame and noted that Baillie Gifford's long-term approach is illustrated by the portfolio's low turnover ratio of less than 20%. Treasurer Kopp asked if the decline in turnover ratio is due to a decrease in uncertainty in the markets over the past several years. Mr. Anderson responded that the higher turnover in 2008 and 2009 was driven by an excess of undervalued companies. He also noted that turnover has dropped because the number of holdings in the portfolio has decreased.

On page 5, Mr. Anderson discussed the investment process, noting that there are 97 investors based at Baillie Gifford, all on one floor and that there are 6 members of the Portfolio Construction Group (PCG), which is responsible for each component of the portfolio. He explained that there are typically 60 to 90 stocks in the portfolio. On page 6 of the presentation, Mr. Anderson noted the graph with the individual stocks on a graph with the sector type on the x-axis and the market cap on the y axis. He explained that these components are chosen based on the quality of the companies, not because of the sectors in which they reside.

Treasurer Kopp asked to hear more about the process that Baillie Gifford uses to find quality stocks. She asked if they use quantitative screens to determine which stocks to buy. Mr. Anderson stated that they do not use screens but rely on the opinions of the 97 investors and their research on the companies. Mr. Thompson added that the investors are segregated into teams of about 10 members that meet on a weekly basis. Treasurer Kopp asked about investor turnover, and Mr. Thompson responded that it is between 5 and 6%.

On page 7, Mr. Thompson talked about Baillie Gifford's aggregate performance results. He noted that there has been some shorter term underperformance, but longer term returns are higher than the index. Mr. Thompson described the company's outlook on page 8. He noted that the firm's Eurozone exposure is low and investments in oil and gas companies are limited to companies with competitive advantages. He explained that the team is happy with its current portfolio allocation (indicated by the low turnover), but there are several opportunities being discussed that may result in some upcoming purchases. Treasurer Kopp asked how Baillie Gifford factors in foreign exchange risk. Mr. Thompson stated that the firm focuses mainly on the long-term prospects of a company, while remaining aware of currency impact. He noted that the firm's expertise does not lie in the area of foreign currency, and the firm does not feel that studying this area would bring value to the portfolio. In response to a question from Mr. Lindberg regarding the existence of currency hedging in the portfolio, Mr. Thompson responded that there was none.

Treasurer Kopp asked how Baillie Gifford looks at external factors like corporate governance and climate change. Mr. Thompson stated that the way management behaves will have an impact on a company's performance over the long term. Mr. Anderson added that they are involved in a broad study of how climate change will affect the investment landscape. Treasurer Kopp indicated that there is a Maryland state law regarding investments in Iran and Sudan for pension plans.

Mr. Anderson and Mr. Thompson left the meeting at this time.

- MPCT Fourth Quarter Investment Report

Mr. Lindberg continued the review of the fourth quarter performance of the MPCT.

- On page 55, the value of the MPCT was \$910 million as of December 31, 2014, an increase from \$862 million for the year ended December 31, 2013.
- On page 56, the Trust allocation as of 12/31/14 is shown relative to the policy targets with the biggest overweight in U.S. Equity at 48% vs. 24%; High Yield Fixed Income is underweight by about 4%; Global REITS is underweight by 5.9%; and Commodities is underweight by 9%. Private Markets is also underweight by about 4% and will take some time to build up.
- On page 57, the Trust's performance net of fees is depicted. Performance over the last quarter and the last year has trailed the index. The 3- and 5- year numbers are slightly ahead of the index while the 10-year number trails the index by 50 basis points.
- On page 58, the Trust's performance gross of fees is illustrated versus the universe of mutual funds. Most of the universe consists of public pension plans.
- On page 60, the asset class returns are listed – Domestic Equity underperformed the benchmark over the past year by 1.47%; International Equity outperformed the benchmark by 0.79% over the past year but underperformed the benchmark over the past 3 quarters; Fixed Income underperformed the benchmark by 0.65% over the past quarter; and Public Real Estate underperformed the benchmark by 0.41% over the past quarter and 0.51% over the past year.
- On page 61, Commodities are shown to have sold off by 17.34% over the past 3 quarters.

Mr. Lindberg stated that the assumed rate of return for the MPCT is 7.65% per year and noted that the MPCT has exceeded that return level over the last 3- and 5- years.

In response to a question regarding when the active/passive question should be examined, Mr. Lindberg stated that we are in one of the longest running challenging environments for active management, which has lasted for 6 or 7 years. He explained that over long periods, active management has had durations of over and under performance. He noted that once the domestic equity allocation in the MPCT is complete, 50% of the allocation will be passively managed versus its current 30% allocation. Mr. Lindberg provided that he thinks active management is useful in the small cap stock space.

In response to another question regarding allocation among fewer managers, Mr. Lindberg noted that using several managers allows the Trust to pick the best managers in each asset class. He also recommended that the Board revisit the structure of the Trust later in the year in terms of passive versus active management. Mr. Lindberg offered to review Wilshire's white paper discussing the benefits of active management, noting that he would forward that to Ms. Marshall for distribution to the Board. Ms. Grady left the meeting at this time.

Mr. Lindberg continued the review of the MPCT:

- On page 65, the performance of the underlying U.S. Equity holdings is detailed. Dodge & Cox trailed the benchmark by 3.05% over the past year; Navellier

- lagged the benchmark by 93 basis points over the past year but exceeded the benchmark's returns by 40 basis points over the past quarter; and Thompson, Siegel & Walmsley outperformed the benchmark by 1.38% over the past year.
- On page 78, the Fixed Income returns of the Trust are compared to the mutual fund universe. The Trust's and the benchmark's ranking is in the 84th percentile over the past one year.
 - On page 79, the performance of Fixed Income is shown on a risk-adjusted basis relative to the benchmark. Over the past 5 years, this asset class has been one of the better performers when measured in this way.
 - On page 80, the performance of the underlying Fixed Income holdings is detailed. IR&M was even with the benchmark for the quarter but outperformed it over the longer term. Franklin Templeton underperformed the benchmark index over the past year by 5%, such underperformance being attributed to holdings in Russia and Venezuela; MacKay Shields outperformed the benchmark over the past 2 quarters because of its defensive positioning; Penn underperformed the benchmark by 3.32% over the past year, such underperformance being attributed to its holdings of BB-rated securities.
 - On page 88, the performance of the underlying public Real Estate holdings is detailed. CBRE was even with the benchmark over the past quarter; Morgan Stanley has underperformed the benchmark by 0.96% over the past quarter. It was noted that once the contracts with the new managers are finalized, the CBRE holdings will be liquidated.
 - On page 92, the performance of the underlying Commodities holding is detailed. Wellington has outperformed the benchmark by 5.09% over the past 3 quarters.
 - On page 94, the performance of the underlying Private Real Estate holding is detailed. AEW has underperformed the benchmark by 1.81% over the past year but outperformed the benchmark by 0.07% over the past quarter.

Treasurer Kopp remarked that a lot of the performance numbers were less than their relevant benchmarks. Mr. Lindberg responded that productive changes are being made with the introduction of more passive management and new managers such as Baillie Gifford.

Mr. Lindberg continued by noting that the Adams Street fund in the Private Equity allocation in the Trust (p. 96) will take some time to start to perform. He explained that Adams Street has been invested is at a break-even point (no gains or losses). He also noted that the firm's CEO recently retired and became chairman of the board but that Mr. Lindberg was not concerned with this management change.

- Investment Manager Reviews

Mr. Lindberg stated that each quarterly discussion of performance will include reviews of certain managers that will not be visiting during the calendar year. The two High Yield managers – MacKay Shield and PENN Capital – would be reviewed at this meeting. Mr. Lindberge noted that MacKay Shields was ranked in the third decile by Wilshire, representing a B grade.

Mr. Lindberg noted that PENN Capital, ranked in the first decile by Wilshire (A), has a great strategy and a great team and that Wilshire is very confident in the company's performance.

College Savings Plans of Maryland

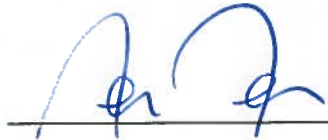
- Fourth Quarter 2014 Internal Financial Statements

Noting that the financial statements should be self-explanatory, Ms. Marshall suggested that the Board members contact her or Ms. Kaiser if there are any questions about that part of the presentation.

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

RESOLVED, that the meeting is hereby adjourned.

Approved: _____



Andrew Friedson¹
Interim Executive Director – for Board Secretary

Date: _____

8/27/15

EXHIBIT LIST

1. Presiding Officer's Written Statement for Closing a Meeting Under the Open Meetings Act (§§3-305(b)(1), (12) and (7))
2. Agenda for the March 20, 2015 Regular Board Meeting
3. Draft Minutes for the December 11, 2014 meeting
4. Executive Director's Report
5. Network Services contract approvals requested summary
6. Website Development and Hosting contract approvals requested summary

¹ The CSPM Board appointed Mr. Friedson as Interim Executive Director of CSPM on May 6, 2015. These minutes of the March 20, 2015 meeting of the CSPM Board were submitted for approval of the CSPM after the May 6 appointment, at the CSPM Board's June 24, 2015 meeting.

7. Call Center and Actuarial Services contract extensions requested summary
8. Maryland College Investment Plan
 - a. Executive Summary of Investment Performance – 4th Quarter 2014 - Wilshire
 - b. Fourth Quarter 2014 Investment Review – T. Rowe Price
 - c. Monthly Report for December 2014
 - d. Monthly Report for January 2015
 - e. Monthly Report for February 2015
9. Maryland Prepaid College Trust
 - a. Executive Summary of Investment Performance – 4th Quarter 2014 - Wilshire
 - b. Investment Manager Reviews - Wilshire
 - c. Investment Manager Presentation – Baillie Gifford
10. College Savings Plans of Maryland
 - a. Fiscal Year 2015 Internal Financial Statements