

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

**May 28, 2015  
9:30 AM – 1:00 PM**

**Held Via Conference Call  
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  
Pamela Purcell, Chancellor of University System of Maryland Designee  
Geoffrey Newman, Secretary of Higher Education's Designee  
Steven Serra, State Superintendent of Schools' Designee  
Russell Kelley  
John Kenney

**Board Member / Designee Absent**

Lewis Robinson, Board Secretary  
Len Foxwell, Comptroller's Designee

**Staff, Representatives and Guests Present**

Andrew Friedson  
Joshua Fretz  
Lara Hjortsberg, Assistant Attorney General  
William Chen, Assistant Attorney General  
Bernadette Benik, Chief Deputy Treasurer  
Tom Kazmierczak, Jr., T. Rowe Price Investment Services, Inc.  
Kim DeDominicis, T. Rowe Price Associates, Inc.

Treasurer Kopp thanked Mr. Friedson and the staff of CSPM for their work during this time of transition.

- Executive Director's Report

Mr. Friedson reviewed the organizational chart for CSPM and reported that the office continues to make positive progress implementing various changes. He stated that the following day is 529 day, and CSPM has a Lego building contest planned in conjunction with the Port Discovery Children's Museum to celebrate the occasion. Mr. Friedson

also summarized the leadership team's visit to T. Rowe Price. He noted that the team toured T. Rowe Price's facility, received training on its computer systems, and talked with staff who work on CSPM's accounts.

Mr. Friedson then talked about the issue of zero-balance accounts. He explained that there are approximately 40,000 MCIP accounts with zero balances but which T. Rowe Price continues to service. He noted that these account holders continue to receive statements and other correspondence even though their accounts do not have a balance. He indicated that CSPM and T. Rowe are working together to close these accounts as permitted by the MCIP Disclosure Statement.

Treasurer Kopp remarked that the Board had previously thought these zero-balance accounts were ones that had not been funded yet. She stated that closing these accounts should result in more accurate data reporting.

- MCIP First Quarter 2015 Investment Report

Ms. DeDominicis reported the following:

- On page 24, she stated that the various index performances for the quarter were listed, and that non-U.S. equities generally outperformed U.S. equities, while Emerging Markets lagged Developed Markets. She noted that U.S. Investment Grade Bonds advanced 1.6% for the quarter due to price increases in long-term Treasuries. She also noted that High Yield Bonds performed better than Investment Grade Bonds because investors were looking for attractive yields. In summary, she said the strengthening of the dollar created positive returns for the majority of stock and bond indices.
- On page 3, she reported that the relative performances of the portfolios versus their benchmarks through March 31, 2015 were listed. She noted that the Bond and Income Portfolio was comprised entirely of the Spectrum Income Fund. She said that the Spectrum Income Fund lagged for the quarter and that this drove the underperformance of the 2018 and 2015 Portfolios over the same time frame. She added that longer term performance (3, 5, and 10 years) was stronger than short term performance for most of the portfolios.
- On page 9, she stated that the relative performances of the portfolios versus their peers through March 31, 2015 were listed. She noted that longer term performance (3 years and beyond) of the portfolios versus peers was strong. She added that for 10 year returns, all of the portfolios except one were in the top 50<sup>th</sup> percentile of peer rankings. She explained that both the Equity and the Global Equity Market Index Portfolios had a higher non-U.S. equity position than the category average, leading to some of the underperformance over the past year. Treasurer Kopp stated that she recently saw that one of T. Rowe's equity portfolios was put on a watch list by a defined contribution (DC) plan. Mr. Kazmierczak added that it was the North Dakota DC plan that put the Equity Income Fund on watch for performance. Ms. DeDominicis stated that the Equity Income Fund was not part of the MCIP.

- On page 17, Ms. DeDominicis noted that the performances of the underlying equity funds in the portfolios versus their benchmarks were shown. She stated that most of the equity funds were outperforming their benchmarks across most time periods.
- On page 19, she said that the performances of the underlying fixed income funds in the portfolios versus their benchmarks were shown. She stated that Spectrum Income Fund's underperformance was being driven by diversifying assets in the portfolio such as non-dollar denominated bonds. She added that the Spectrum Income Fund was also underweight in long-term Treasuries, adding to its underperformance.
- On pages 20 through 22, she stated that the performances of the underlying funds in the portfolios versus their peers in Morningstar and Lipper were shown. She noted that there was strong performance in both the equity and fixed income space.

Treasurer Kopp asked about the underperformance of the International Bond Fund. Ms. DeDominicis responded that the World Bond peer group is not a perfect category match for the fund and that the International Bond Fund is one of only a few funds in the category with direct exposure to the dollar. She explained that most of the other funds in the category have hedged currency exposure and that when the dollar strengthened, the performances of the other funds were helped while the performance of International Bond Fund was not. She noted that the prospectus of the fund does not allow hedging of the dollar. Treasurer Kopp requested more information from T. Rowe Price to explain the strategy of the fund. Ms. DeDominicis replied that they would provide a more in-depth illustration of the International Bond Fund portfolio for the Board.

Mr. Kazmierczak thanked Mr. Friedson and the staff for visiting T. Rowe Price's facilities. He extended an offer to all Board members to visit T. Rowe Price's Owings Mills campus. He then reported on the monthly investment numbers. He stated that the value of the MCIP at the end of April 2015 was \$4.242 billion, representing a 1.8% increase from March 31, 2015. He also noted that an additional metric added to the report this month is the average balance per account holder / beneficiary relationship. He explained that at April 30, 2015, this metric was \$22,190, representing an increase of 1.2% from March 31, 2015. He also noted that the industry average for average account balance per account holder/beneficiary relationship was \$18,000 at March 31, 2015 versus \$21,932 for the MCIP at the same month end..

Mr. Kazmierczak then summarized page 2, where assets in the MCIP were listed through April 30, 2015 as compared to April 30, 2014 and April 30, 2013. He noted that total assets of \$4.242 billion were 12% higher than April 30, 2014 and subsequent contributions (contributions into existing accounts) for April 30, 2015 totaled \$31.4 million, an increase of 12% from April 30, 2014. He also explained that new accounts opened increased by 1.3% year over year (2,156 versus 2,127), and average website visits per day increased by 40% year over year (1,472 versus 1,056). He added that on June 12, 2015, the assets in Portfolio 2015 will roll into the Portfolio for College,

affecting 16,700 accounts. He stated that later this year Portfolio 2036 will be introduced into the MCIP, following the 3 year rotation of investments in the Plan.

Ms. Grady asked how the additional metric explained earlier is different than the average balance per account. Mr. Kazmierczak responded that some parents have multiple accounts or portfolios per beneficiary and that these accounts are added together to determine the average balance per account holder / beneficiary relationship. Treasurer Kopp asked how common it is for there to be more than one account per beneficiary. Mr. Kazmierczak stated that the average is 1.2 accounts per beneficiary. He added that this metric will allow easier comparisons to other plans across the nation. Treasurer Kopp asked if there is similar data available concerning average balance per beneficiary, without taking the account holder into consideration. Mr. Kazmierczak said that this metric is typically not tracked in the industry. He said he will try to find this information for MCIP and send it out to the Board. Ms. Grady stated that it would be helpful to have this data for both MCIP and MPCT. Treasurer Kopp asked if the larger balances in MCIP are due to the higher incomes in the state of Maryland. Mr. Kazmierczak responded that Maryland's demographics help the Plan's balances, and he will do some research on how state income rankings compare to the 529 balances in those plans.

Mr. Friedson stated that CSPM does not devote many resources to marketing the Plan out of state and that this could impact balances in the Plan. Mr. Kazmierczak said that the best comparison for CSPM would be against other plans that are only marketed in their home state.

Tom Kazmierczak and Kim DeDominicis left the meeting at this time.

- T. Rowe Price Weighted Benchmark Disclosure

Ms. Hjortsberg described the issue of the MCIP Portfolio 2015 weighted benchmark. She explained that in April, T. Rowe Price reported to the agency that it had discovered that the weighted benchmark for Portfolio 2015 had been misstated from 2011 to 2014. She noted that the formula used to calculate the benchmark had been incorrect and that, in most cases, the weighted benchmark had been overstated. She added that T. Rowe's conclusion was that the misstatement was not material and that, after having reviewed the benchmark misstatement and correction as compared to the reported performance reporting for Portfolio 2015, she agreed with T. Rowe Price's conclusion. She explained that the determination of materiality was made by inquiry as to whether the corrected information would have induced a reasonable investor to change his or her investment decisions, nothing that with Portfolio 2015, as well as the other investment options in the MCIP, account holders were limited in their ability to trade in and out of the MCIP investment options. She reviewed with the Board the three time periods where the correction to the weighted benchmark caused a change from underperformance to outperformance (since inception for fiscal year 2013 and 1-year and since inception for fiscal year 2014). She explained that T. Rowe Price had immediately corrected the information regarding the weighted benchmark on the

website and that T. Rowe Price had provided its recommendations for correcting the information in the Disclosure Statement and Annual Report (both online and print versions), which consisted of a supplement to the Disclosure Statement and Annual Report.

Several Board members requested a copy of the written documentation summarizing the weighted benchmark issue and requested input from Wilshire, in its capacity as the financial advisor to CSPM. In response to questions regarding the source of the misstatement, Ms. Hjortsberg explained that a formula error caused the benchmark mistake and that T. Rowe had indicated that it would be using a third party service to avoid this problem in the future. Treasurer Kopp clarified that this issue affected Portfolio 2015, an investment option in the MCIP in which account holders can no longer invest.

It was noted that the purpose of this agenda item was to report out on the issue and present the recommendations for correcting the misstatement in the Disclosure Statement and Annual Report. It was the consensus of the meeting that the Audit & Finance Committee would meet prior to the next Board meeting to further discuss the issue, including any recommendations from Wilshire.

- State Street (SSGA) Update

Ms. Hjortsberg updated the Board on the Agreement of Trust (AOT) with State Street (SSgA). She noted that the AOT was for the World Index Fund, an investment that the Board approved funding for in late 2014. She noted that in April State Street requested that a member of the Board sign the funding document and that, as a result, Treasurer Kopp had requested her to review the AOT and related documents. Ms. Hjortsberg noted that she had several concerns with the AOT, including indemnification on the part of CSPM and a limitation of liability without indemnification on the part of the investment manager. She noted that because of the change in management it was necessary to update the authorized signatories on the SSgA account and that the plan was to approach SSgA with the contractual concerns at that time.

Ms. Hjortsberg stated that she and representatives from Wilshire had discussed the issues with the AOT and that Wilshire had indicated that the money to fund the SSgA account was held in the CBRE account, which was being terminated. She said that Wilshire had suggested that the CBRE assets be moved to the DFA mutual fund and that Wilshire was exploring whether DFA will accept an in-kind transfer from CBRE. In response to questions from Board members, it was noted that a review of the minutes for the Board and the Audit & Finance Committee for time frame surrounding Board approval of the SSgA account did not indicate that the indemnification issues were specifically considered by the Board or the Audit & Finance Committee. She noted that it was possible for the Board to approve either an exception to the adopted policies on indemnification provisions or to change those policies. In response to questions and comments about other SSgA contract with State entities, Ms. Hjortsberg noted that she although she was not involved with the initial CSPM contract negotiation but that she

could consult with counsel to the State Retirement Agency about indemnification provisions in its SSgA agreement.

The Board members requested that Wilshire to develop a recommendation regarding the SSgA account, including whether the SSgA remained the best option for the Trust assets. Treasurer Kopp noted that the next three items on the agenda required that the meeting be held in closed session. At Treasurer Kopp's request, Ms. Hjortsberg explained that the reasons for closing the meeting was in accordance with General Provisions Article, §§3-305(b)(1), (13), (14) and (7), to (a) discuss personnel matters affecting one or more specific individuals, (b) to comply with a specific statutory requirement that presents public disclosure of the preliminary findings of the Office of Legislative Audits, (c) discuss a matter related to a negotiating strategy or the contents of the proposal received with respect to the Network Services RFP before a contract is awarded and (d) obtain the advice of counsel with respect to these matters.

She noted that the Treasurer had signed the *Presiding Officer's Written Statement for Closing a Meeting* ("Statement to Close") to this effect. The Statement to Close is attached to these minutes as Exhibit 6.

Upon motion made and seconded, it was unanimously

**RESOLVED**, that the CSPM Board move into a closed session in accordance with §§3-305(b)(1), 3-305(b)(13), 3-305(b)(14), and 3-305(b)(7) of the General Provisions Article of the Maryland Annotated Code to (a) discuss a personnel affecting one or more specific individuals, (b) to discuss the preliminary findings of the Office of Legislative Audits, (c) to discuss the Network Services RFP, and (d) to obtain the advice of counsel with respect to these matters.

All Board members, designees, staff and representatives present during the open session other than Mr. Fretz called in to a second closed line for the closed session, except that Ms. Purcell was not able to connect to the second line for the closed portion of the call.

The closed session concluded and the regular session resumed at 10:57 a.m. At the Treasurer's request, Ms. Hjortsberg announced that during the closed session, the Board had discussed the RFP for Network Services and whether the agency should cancel the procurement and issue a new RFP for Network Services.

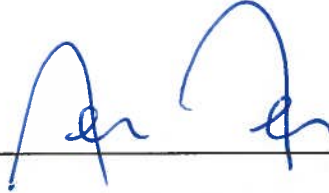
Upon motion duly made and seconded, it was unanimously

**RESOLVED**, that (1) the RFP for Network Services issued by CSPM in 2014 be cancelled, with the appropriate notice to all offerors; (2) CSPM engage in an emergency sole source procurement for maintenance of the network by the current vendor in order to allow CSPM time to prepare a new RFP for Network Services; and (3) CSPM issue a new RFP for Network Services.

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:



Andrew Friedson  
Interim Executive Director – for Board Secretary

Date:

8/27/15

#### EXHIBIT LIST

1. Agenda for the May 28, 2015 Regular Board Call
2. MCIP First Quarter Report
3. MCIP Monthly Report
4. Update to the MCIP Disclosure Statement
5. MCIP Portfolio 2015 Weighted Benchmark Corrections
6. Presiding Officer's Written Statement for Closing a Meeting (§§3-305(b)(1), (14)) and (7))