

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

**August 27, 2015
9:30 AM – 3:00 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
Emily Hollis, Comptroller's Designee
Pamela Purcell, Chancellor, University System of Maryland's Designee
Geoffrey Newman, Secretary of Higher Education's Designee
Steven Serra, Department of Education's Designee
Russell Kelley
John Kenney

Board Members/Designees Absent

Lewis Robinson, Board Secretary

Staff, Representatives and Guests

Andrew Friedson
Mary Christine Jackman
Jessica Papaleonti
Joshua Fretz
Bernadette Benik, Chief Deputy Treasurer
Lara Hjortsberg, Assistant Attorney General
Kim DeDominicis, T. Rowe Price Investment Services, Inc.
Tom Kazmierczak, Jr., T. Rowe Price Investment Services, Inc.
Vanessa Eluma, T. Rowe Price Investment Services, Inc.
Audra Jones, T. Rowe Price Investment Services, Inc.
Felicia Bennett, Wilshire Associates Incorporated
David Lindberg, Wilshire Associates Incorporated
Steven Marshall, Wilshire Associates Incorporated (via phone)
Amy Williams, Gabriel Roeder & Smith
Monique Booker, SB & Company, LLC
Patrick Potter, SB & Company, LLC

College Savings Plans of Maryland ("CSPM")

- Approval of Minutes for the 6/24/15 Board Meeting Open Session

Treasurer Kopp asked for comments on the minutes. She stated that she had a couple changes to the minutes and requested time for the other members to review them. The Board agreed to review the revised minutes and submit their comments via email.

- Executive Director's Report

Mr. Friedson reported that Board approval is required with respect to the exercise of an option to renew the contract with Definition 6, a firm that provides application hosting and IT consulting services, for an additional 2-year term. He noted that the cost of the extension would be \$13,300 per month for a total of \$319,200. He recommended that the Board approve the month-to-month option that is available under the contract since the total cost is the same and it would give CSPM more flexibility.

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

RESOLVED, that the Board approves the exercise of its final 2 year renewal option for the contract for application hosting and IT consulting services with Definition 6 on a month-to-month basis at a rate of \$13,300 per month.

Mr. Friedson then provided an update on recent banking actions that were taken. He stated that approximately \$15 million was transferred from SunTrust Bank to US Bank, the custodian for MPCT, and that the funds were invested in a 5-year fixed income security. He noted that funds in two other bank accounts at SunTrust Bank had also been transferred to Wells Fargo. He noted that as a result of these actions, all of the agency's bank accounts now resided at either Wells Fargo or US Bank. He reported that the assets in the CBRE fund had been transitioned to the State Street Global Advisors Global Real Estate fund and the Aberdeen Fixed Asset fund had been closed, consistent with a prior decision by the Board. He explained that the Aberdeen sale proceeds had been used to fund the MPCT's college distributions in August.

Mr. Friedson stated that the compliance reporting for the Trust had been implemented, with the reporting being carried out using the Clearwater Compliance software under the custodial contract with US Bank. He noted that IR&M and Navallier were outside the Board's policy parameters but that Navallier was back in compliance as of this morning. He explained that CSPM will hold them accountable to abide by the Board's policies.

Mr. Friedson then reported that the annual call with Morningstar was held earlier in the week to talk about the MCIP and discuss the opportunity to earn the Gold Rating for the sixth year in a row. He explained that the fee reduction and the "glide-path" strategy for the enrollment-based portfolios were highlighted.

Mr. Friedson next discussed the Qualified Institutional Buyer (QIB) designation. He noted that the QIB status is important to allow CSPM to have access to more investment options. Ms. Bennett explained that QIB status would permit the Trust to

invest in bonds issued under Rule 144A, which represent between 15 and 40% of the universe of bonds and 70% of new issues in the high yield market. It was noted that this investment ability would apply to separate accounts such as IR&M and would allow more flexibility. Mr. Friedson continued that he met with a Chief Counsel from the SEC to make a request for guidance from the SEC on the matter, and he is waiting on a response from the SEC. He said that he expects a response sometime in September.

Mr. Friedson introduced Ms. Williams, who provided the Board with an update regarding GRS' actuarial soundness study for the fiscal year ended June 30, 2015. She noted that the study was in process and that GRS' plan had been set up and that the process was on schedule.

Mr. Friedson stated that a request was received from the Maryland Senate to brief two Subcommittees about the possibility of starting an FDIC Insured College Savings Plan in Maryland. He noted that a new RFP would be needed to establish this program and appropriations would also be required for staffing and oversight. He explained that Virginia's model uses BB&T Bank to serve as a fund depository, but all record-keeping and disbursements are handled by the agency. He observed that the Board has a number of items to address soon, and the FDIC plan may be something that can be addressed at a later date.

- Wilshire Presentation

Ms. Bennett reviewed Wilshire's summary of investment performance for the capital markets through June 30, 2015. She highlighted returns for each asset class and updated the numbers through yesterday due to recent market volatility. She noted the return assumptions for each asset class in Q2 2015 versus December 2014. She also reviewed the returns for each market sector during 2015, and reported on the performance of non-U.S. equities and fixed income.

Ms. Bennett then described the performance of the MCIP during the quarter, including the portfolios and the underlying mutual funds. She compared the funds to their benchmarks and detailed the value added by fund management.

Mr. Lindberg reported on the performance of the MPCT during the second quarter. He stated that the return of the entire fund for the quarter was -0.4% compared to the benchmark of -0.22%. He detailed the returns of each asset class and each fund manager of the Trust versus their benchmarks. In response to questions from the Board members, Mr. Lindberg discussed how Wilshire measures the performance of private equity managers. He noted that Wilshire neutralizes the time value and reviews the fund's internal rate of return and multiples of investment. He explained that this approach was consistent with the industry and that comparisons against public equity are not considered accurate. He noted that with more history, Wilshire would be able to look at the private equity funds against a public market equivalent.

Mr. Marshall then reviewed Wilshire's asset allocation analysis, which had been revised since the Audit & Finance Committee meeting on August 24 based on the discussions at that meeting. He noted that the purposes of the report were to determine if risk should be reduced in the Trust. Mr. Marshall explained the Trust's net cash flow starting in 2015 and looking forward 20 years. He noted the Trust's status as of June 30, 2015 based on the June 30, 2014 valuation and GRS' projections, including a 7.65% assumed rate of return, resulted in a funded ratio of 144%. Mr. Marshall presented three alternative portfolios (20% public equity, 30% public equity and 40% public equity) within certain asset class constraints to reduce risk in the portfolio while optimizing return compared against the 6.25% expected rate of return in the current Statement of Investment Policy. He described how different market returns would impact the funded ratio for the current and alternative portfolios when the liability discount rate is varied. Mr. Lindberg noted that the conclusion of the report was that the Trust can afford to reduce risk and that Wilshire was recommending that the Board move in that direction in order to maintain the funded ratio over time.

A discussion followed regarding the reduction of the expected investment return under the Statement of Investment Policy and the assumed rate of return for the actuarial soundness study. Ms. Williams recommended that the return should ideally be the same for soundness and pricing. It was noted that contract prices would increase as risk in the Trust was reduced.

In closing the asset/liability discussion, Mr. Lindberg noted that Wilshire recommended the 30% public equity portfolio.

Mr. Marshall and Ms. Williams (both on the phone) left the meeting at this time.

- Maryland College Investment Plan

Ms. DeDominicis reported on the performance of the MCIP for second quarter 2015. She discussed the performance of the portfolios versus their benchmarks and versus their peers. She detailed the performance of the portfolios' underlying funds versus peers and within their Morningstar categories.

Mr. Kazmierczak did not review the full monthly board report due to time constraints. He noted that T. Rowe Price's call center for the MCIP has seen an increase in calls of 15% year over year, due to recent volatility in the market. He noted that T. Rowe Price is changing the name of the Inflation Focused Bond Fund to the Limited Duration Inflation Focused Bond Fund, effective October 1st. He stated that the changes to the money market industry resulting from money market reform will not impact the portfolio in the MCIP.

Mr. Kazmierczak, Ms. Eluma, and Ms. Jones left the meeting at this time. Mr. Steven Gorski from Dodge & Cox joined the meeting at this time.

- Dodge & Cox Presentation

Mr. Gorski reported that Dodge & Cox's process and organizational structure have not changed. He stated that some of the firm's institutional clients have switched from the mutual fund to a separately managed account and encouraged CSPM to explore that option with Wilshire. He noted that MPCT's holdings in the Dodge & Cox stock fund were valued at \$73.7 million as of July 31, 2015 and that the fund is comprised of 64 securities. He highlighted that the fund has outperformed the Russell 1000 Value Index over the last 1, 3, 5, and 10 year time periods.

Mr. Gorski illustrated the composition of the portfolio by sector, compared to the S&P 500 and the Russell 1000 Value. He stated that the valuation of the market of a whole is high and that Dodge & Cox expected the market returns to be between 5% and 7% over the next 5 years.

Mr. Gorski left the meeting at this time. Monique Booker and Patrick Potter of SB & Company joined the meeting at this time.

- External Audit Engagement: SB & Company

Mr. Potter reviewed the scope of services for the 2015 audit and described the key phases of the audit. He detailed the significant accounts, processes, and key items that would be covered by the 2015 audit. He stated that CSPM's management transition will also be addressed during the audit.

Ms. Booker and Mr. Potter left the meeting at this time. Ms. Bennett and Mr. Lindberg left the meeting at this time.

It was noted that the next several items on the agenda required a 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), (7), (8), and (13) to (a) discuss a personnel matter that affects one or more specific individuals; (b) consult with staff, consultants or other individuals about pending or potential litigation; (c) comply with a specific statutory requirement that prevents public disclosure, and (d) obtain the advice of counsel with respect to these matters. Ms. Hjortsberg explained that the records related to account holders and beneficiaries are protected from disclosure under §4-314 of the Maryland Public Information Act. She further noted that Treasurer Kopp 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 1.

Upon motion duly made and seconded, it was unanimously

RESOLVED, that the CSPM Board move into a closed session in accordance with (a) §§3-305(b)(1), 3-305(b)(7), 3-305(b)(8) and 3-305(b)(13) of the General Provisions Article of the Maryland Annotated Code, to discuss the database records project and to obtain the advice of counsel with respect thereto, (b) §§3-305(b)(7) and

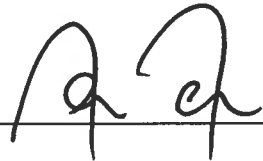
3-305(b)(13) to discuss several account holder issues and to obtain the advice of counsel with respect thereto, and (c) §§3-305(b)(1) to discuss the executive search and to obtain the advice of counsel with respect thereto.

All Board members, Mr. Friedson, Ms. Benik and Ms. Hjortsberg remained for the closed session. The closed session concluded and the regular session of the meeting resumed at 3:00 p.m. At Treasurer Kopp's request, Ms. Hjortsberg stated that during the closed session, discussions took place pertaining to the Executive Search and the Database Records Project, and an account holder issue was discussed. She added that Mr. Friedson received guidance from the Board pertaining to the account holder issue. No other action was taken by the Board during the closed session. The time, place, and record of the vote to close the meeting are included in the *Statement to Close*.

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 Friedson
Interim Executive Director – for Board Secretary

Date:

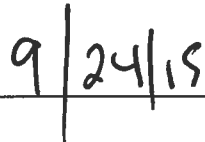


EXHIBIT LIST

1. Presiding Officer's Written Statement for Closing a Meeting Under the Open Meetings Act (§§3-305(b)(1), (8), (12), (13), and (7))
2. Agenda for the August 27, 2015 Regular Board Meeting
3. Draft Minutes for the June 24 Board meeting
4. Executive Director's Report
5. US Bank Account List
6. Maryland Prepaid College Trust
 - a. Executive Summary of Investment Performance – 2nd Quarter 2015 – Wilshire
 - b. Asset Allocation Analysis & Recommendation – Wilshire

7. Maryland College Investment Plan
 - a. Second Quarter 2015 Investment Review – T. Rowe Price
 - b. Monthly Report for July 2015 – T. Rowe Price
 - c. T. Rowe Price Inflation Focused Bond Fund
8. Dodge & Cox Investment Review
9. SB & Company Presentation to the Board