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# Joint Committee on Pensions

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2025 Interim Report

Annapolis, Maryland  
March 2026

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2025 Interim Report**

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**Annapolis, Maryland  
March 2026**

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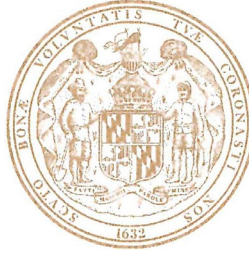
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THE MARYLAND GENERAL ASSEMBLY  
ANNAPOLIS, MARYLAND 21401-1991

**JOINT COMMITTEE ON PENSIONS**

January 17, 2026

The Honorable Bill Ferguson, Co-Chair  
The Honorable Joseline A. Peña-Melnyk, Co-Chair  
Members of the Legislative Policy Committee

Dear President Ferguson, Speaker Peña-Melnyk, and Members:

During the 2025 interim, the Joint Committee on Pensions met three times. The joint committee addressed legislative proposals requested by the Board of Trustees for the State Retirement and Pension System. The joint committee made recommendations on these items at its final meeting for the 2025 interim, voting to sponsor two legislative proposals. The joint committee also had briefings on the actuarial valuation of the system and the system's investments. In addition, the joint committee had a briefing from the Maryland State Employees Supplemental Retirement Plans that provided an overview of the plan and information on the new plan administrator. A complete report of the joint committee's 2025 interim activities and legislative recommendations will be published in January 2026.

We thank the joint committee members for their diligence and attention to the work of the committee. Also, on behalf of the committee members, we thank Phillip S. Anthony, Joe Gutberlet, and Callie Ingwersen of the Department of Legislative Services and the staff of the Maryland State Retirement Agency for their assistance.

Sincerely,

A handwritten signature in blue ink that reads "Karen Lewis Young".

Karen Lewis Young  
Senate Chair

A handwritten signature in blue ink that reads "Cathi Forbes".

Catherine M. Forbes  
House Chair

KLY:CMF/PSA:JG/csi

cc: Sally Robb  
Michelle Firmin  
Victoria L. Gruber  
Ryan Bishop



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Joint Committee on Pensions  
2025 Interim  
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Ric Metzgar  
Ryan Spiegel  
Sarah S. Wolek

**Committee Staff**

Phillip S. Anthony  
Joe Gutberlet



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# Joint Committee on Pensions

## 2025 Interim Report

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Over the course of three meetings during the 2025 interim, the Joint Committee on Pensions had briefings on the Teachers' and Employees' Supplemental Retirement Plans, legislative proposals requested by the Board of Trustees for the State Retirement and Pension System (SRPS), and its annual briefings on the actuarial valuation of the system and the system's investments.

### Results of the 2025 Actuarial Valuation and Fiscal 2027 Contribution Rates

Although the plan experienced strong investment returns, other measures of the plan's financial health had mixed results. SRPS's funded status (the ratio of projected actuarial assets to projected actuarial liabilities) increased from 72.9% at the end of fiscal 2024 to 73.5% at the end of fiscal 2025 (these figures exclude funding for local governments that participate in the State plan). This represents modest progress toward the plan's goal of reaching 100% funded status. However, from fiscal 2024 to 2025, the total State unfunded liability increased from \$23.8 billion to \$24.4 billion, reflecting continued imbalance between the value of benefits and the value of assets.

The reformed benefit structure enacted in 2011 increased employee contributions, added additional caps to cost-of-living adjustments earned after 2011, increased the vesting period and reduced the multiplier for employees hired after 2011, and appropriated a share of savings as supplemental contributions. The State also enacted full actuarial funding for the plan. Chapter 604 of 2025 (the Budget Reconciliation and Financing Act) repealed the supplemental contributions beginning in fiscal 2026, but the State continues to pay its share of the full actuarially determined contribution (ADC) to the plan.

### Fiscal 2027 Contribution Rates

**Exhibit 1** shows that the fiscal 2027 ADC rates for employers have increased when compared with the fiscal 2026 rates, but the increase is largely offset by the repeal of administrative fees on participating employers (including the State). The aggregate contribution rate for all systems increases from 20.23% in fiscal 2026 to 20.47% in fiscal 2027. Chapters 764 and 765 of 2025 repealed the use of separate administrative fees assessed on each participating employer to cover the system's operating costs and shifted the funding of system operations to a surcharge on the employer contribution rate. Thus, 0.25% (25 basis points) of the fiscal 2027 employer contribution rates is attributable to the change in the source of funding for the system's operating expenses.

**Exhibit 1**  
**State Pension Contributions**  
**Fiscal 2026-2027**  
**(\$ in Millions)**

<u>Plan</u>	<b>2026</b>		<b>2027</b>	
	<u>Rate</u>	<u>Estimated Contribution</u>	<u>Rate</u>	<u>Estimated Contribution</u>
Teachers' Combined	17.56%	\$1,646	17.98%	\$1,766
Employees' Combined	21.87%	1,027	21.67%	1,120
State Police	94.81%	144	94.83%	150
Judges	51.63%	33	53.68%	35
Law Enforcement Officers	47.03%	78	47.66%	82
<b>Aggregate</b>	<b>20.23%</b>	<b>\$2,928</b>	<b>20.47%</b>	<b>\$3,153</b>

Note: Except for the Teachers' Combined System (TCS), contribution rates and dollar amounts reflect State funds only, excluding local contributions. For TCS, they reflect the combined total of State and local contributions.

Source: Gabriel, Roeder, Smith, & Co., Results of the June 30, 2025 Actuarial Valuation for Fiscal Year 2027

Local school boards are required to make contributions for members of the Teachers' Retirement and Pension Systems (TRS/TPS). The contribution amounts cover the normal cost for local employees in TRS/TPS, which is the portion of a member's liabilities accrued in the upcoming year; beginning in fiscal 2027, the contributions also include the 0.25% surcharge for administrative costs. The local employer normal cost rate for fiscal 2027 is 5.27%, which is a slight increase from 5.09% in fiscal 2026 and is more than offset by the repeal of administrative fees. Based on projected payroll growth experienced by local school boards, the system's actuary projects the local school board normal cost contribution (in dollars) to increase from \$439 million in fiscal 2026 to \$476 million in fiscal 2027.

In addition to the normal cost, Chapter 604 also requires local county governments to contribute a combined \$97.7 million to the plan each fiscal year. These amounts reduce the State's required contributions to TRS/TPS each fiscal year beginning in fiscal 2026. They are included in the total estimated employer contribution amounts shown for the Teachers' Combined System in Exhibit 1 but are not included in the normal cost contributions paid by local school boards.

Employer contribution rates were subject to multiple influences this year, some exerting upward pressure and others exerting downward pressure. Higher-than-expected inflation, among other factors, exerted upward pressure on the rates. The phased-in recognition of record fiscal 2021 investment returns mitigated and largely offset the investment losses sustained in fiscal 2022. Continued recognition of actuarial losses from fiscal 2022 and 2023 will continue to put upward

pressure on contribution rates through fiscal 2029. Increased membership under the reformed benefit structure will continue to exert downward pressure on the rates.

## **Fiscal 2025 Investment Performance**

SRPS's investment return for the fiscal year that ended on June 30, 2025, was 9.83%, exceeding the assumed rate of return of 6.8%. System assets increased by \$5.3 billion to a market value of \$73.6 billion as of June 30, 2025. Investment returns have exceeded the assumed rate of return in three of the last five years. The system as a whole outperformed its Investment Policy Benchmark by 0.30% (30 basis points). This benchmark is calculated by the SRPS board and allows a comparison between actual performance and broad-based market returns, including passively managed assets. The five-year weighted average annual return as of June 30, 2025, is 8.29%, which is 0.88% (88 basis points) above the plan return benchmark for that period. The weighted average annual return for the past 10 years is 7.04%, which is 0.42% (42 basis points) above its benchmark for that period. The system's investment approach is cautious, with a goal of minimizing volatility. Therefore, returns tend to underperform when compared to other public pension funds in years with strong asset growth (especially among public equities) and overperform in years in which asset values decline. All returns are calculated net of management fees.

## **Maryland State Employees Supplemental Retirement Plans**

The Maryland State Employees Supplemental Retirement Plans (MSRP) provided a briefing to the joint committee on the plans. MSRP offers optional defined contribution plans for State employees. The supplemental plans are intended to augment the retirement savings an employee will earn with SRPS. MSRP was created in 1985 to merge the responsibility for deferred compensation plans then administered by three different agencies. MSRP currently offers four types of retirement plans.

### **Fund Performance**

MSRP returns remained strong in fiscal 2025 as global markets continued to soar. The annual rate of returns for all of MSRP's investment options, as of June 30, 2025, for 1 year was 11.75%. The rate was lower for 3 years (10.47%), 5 years (9.63%), and 10 years (8.41%). Similarly, the annual rate of return for all of MSRP's investment indices for 1 year (12.54%) reflected continued market growth, with rates lower for 3 years (10.70%), 5 years (9.54%), and 10 years (8.36%).

### **Member Services**

MSRP offers member services to support and educate State employees about the benefits of retirement savings. The effort is led by four certified retirement counselors and two administrative professionals. In 2025, MSRP provided member services via in person and

virtual events, including seminars, workshops, new employee orientations, an awareness week, and a symposium. In calendar 2025, across 328 members services events, the agency connected with 34,535 employees.

## **Plan Administrator Transition**

MSRP transitioned to a new plan administrator in September 18, 2025. Following its contract with Nationwide Retirement Solutions, spanning August 15, 2019, to September 17, 2025, MSRP solicited proposals for plan administrator services in late 2024. Three bidders participated in the competitive sealed proposal process. The highest bidder, Nationwide (the incumbent plan administrator), ranked second in the technical rankings and third in the overall rankings. Empower was the lowest bidder, ranking third in the technical rankings and first in the overall rankings. On February 18, 2025, MSRP voted to award the contract to Empower, and the Board of Public Works approved the contract award on April 23, 2025.

MSRP completed the shift of member accounts to Empower on September 25, 2025. MSRP reports that administrative fees are lower under Empower compared to the administrative fees of Nationwide. When added to the MSRP administrative fee, the Empower administrative fee results in a 0.0760% asset fee, which is capped at \$2,000 per calendar year for all accounts, regardless of account balance. MSRP assesses an annual fee of \$6.00 (50 cents per month) for all accounts, except 401(a) Match accounts, with balances of \$500 and above.

## **Board Requested Legislation**

### **Clarifications to the State Personnel and Pensions Article**

#### **Correctional Officers' Retirement System**

Chapters 135 and 136 of 2024 moved members from the Employees' Pension System (EPS) to the Correctional Officers' Retirement System (CORS) who were employed by the Maryland Department of Health (MDH) in security attendant positions at State forensic facilities. Chapters 776 and 777 of 2025 clarified that individuals employed as supervisors and managers for security attendants employed by MDH at State forensic facilities would also be moved from EPS to CORS. The State Retirement Agency (SRA) noted that the positions of child and adolescent mental health (CAMH) specialist I and II were inadvertently omitted from the 2024 and 2025 legislation. SRA confirmed that these positions would qualify for membership in CORS. Accordingly, the Board of Trustees for SRPS recommended amending the CORS membership provisions to include CAMH specialists I and II. SRA indicated that it is aware of 14 individuals who would be impacted by this proposal.

**The joint committee will sponsor the requested legislation.**

### **Participating Governmental Units**

SRA has received questions from counties and municipalities seeking to join the Law Enforcement Officers' Pension System (LEOPS) asking whether they are required to move all law enforcement officers from their jurisdiction into LEOPS or whether they are permitted to move only certain divisions of their law enforcement office. SRA explained that all law enforcement personnel would be required to participate in LEOPS but indicated that clarifying this requirement through legislation would be helpful.

SRA noted that if only certain divisions of a participating governmental unit's (PGU) law enforcement office were permitted to join LEOPS, problems could develop in the future if a PGU employee who was moved into LEOPS later changed positions to one that was not covered by LEOPS. That individual, while still employed by a PGU as a law enforcement officer, would no longer be permitted to participate in LEOPS, as they would then be employed in a "non-LEOPS" position. SRA noted that if employees are moving in and out of positions that are eligible for LEOPS enrollment, it could be more difficult for a member to vest in LEOPS. Additionally, keeping track of these changes would create a significant administrative burden for PGU staff to ensure that proper employment and payroll changes are reported accurately and timely to SRA. While this question has only been raised regarding counties and municipalities wanting to join LEOPS, SRA noted it could also be raised for counties and municipalities wanting to join EPS and CORS. Accordingly, the board recommended legislation to clarify the required employee participation for all new entrants, regardless of the system that a PGU is joining.

Additionally, SRA has also been made aware that some potential new PGUs seeking to join EPS, CORS, or LEOPS believe that there is ambiguity in the law regarding the forms that must be completed and submitted by a PGU prior to their joining. Specifically, the issue of whether all employees of certain PGUs are required to submit election forms stating whether they are electing to join EPS, CORS, or LEOPS or to opt out of membership was raised. Existing law states that for eligible PGUs seeking to join EPS, CORS, or LEOPS, the effective date of participation shall be postponed until July 1 of the second year, following the fiscal year in which the eligible PGU elects to participate if the PGU does not submit the necessary documentation on or before the effective date for the eligible PGU.

The board requested legislation to clarify that for PGUs with employees who have election rights to join one of the systems, "necessary documentation" includes properly completed election forms for each individual employed by an eligible PGU, indicating whether they intend to participate in a State system or opt out of joining the EPS, CORS or LEOPS.

**The joint committee will sponsor the requested legislation.**

## **Additional Items Presented to the Joint Committee**

### **Title 37 Study Group – Extension**

Title 37 of the State Personnel and Pensions Article governs the transfer of service from any State or local retirement or pension system to another State or local retirement or pension system. Provisions within Title 37 include those that address the types of service credit that may be transferred from one system to another, the member contributions and interest that must accompany these transfers, and the timeframe under which these transfers must be made. Title 37 is the only pension-related title in this article that applies to the State and local jurisdictions. Over the years, SRA has noticed that there are many inconsistencies, duplicative provisions, and ambiguities throughout this title.

During the 2024 legislative interim, the board requested legislation to establish a workgroup consisting of representatives from SRA, each of the counties (including Baltimore City) that operate their own retirement or pension system, and the Department of Legislative Services. The joint committee agreed to sponsor the legislation, and the General Assembly passed Chapters 768 and 769 of 2025. After meeting during the 2025 legislative interim, the workgroup determined that additional research would be required regarding the history of certain statutory provisions before recommendations for legislative options could be determined. In its November 20, 2025 interim report, SRA requested an extension for the final report to October 1, 2026.

**The joint committee will sponsor legislation to extend the workgroup reporting deadline.**



# Maryland State Retirement and Pension System

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Results of the June 30, 2025  
Actuarial Valuation for Fiscal Year 2027

November 20, 2025 Meeting of the Joint Committee on Pensions

Appendix 1

# Table of Contents

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- Funding Objectives
- Valuation Overview
- Valuation Results
- ∞ • Projections

# Funding Objectives

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## Benefit security

- Plan sponsor commitment, strong governance, effective administration, and accommodated by sources of revenue.

## Stable pattern of contribution rates

- Weighted average State Contribution rate increased by 0.24% of payroll this year.

## Intergenerational equity with respect to plan costs

- This is a long term goal. We will only know in hindsight if it is achieved.

## Stable or increasing ratio of assets to liabilities

- Funded ratio increased this year on an actuarial value of assets basis and on a market value basis.

# VALUATION OVERVIEW

# Valuation Overview

## Purpose of the Actuarial Valuation

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Measure the financial position of MSRPS with regard to funding

Provide the Board with State and Participating Governmental Unit (“PGU”) contribution rates for certification

Discuss some of the risks associated with achieving the funding objectives of MSRPS

Analyze the aggregate experience of the State Systems over the past year

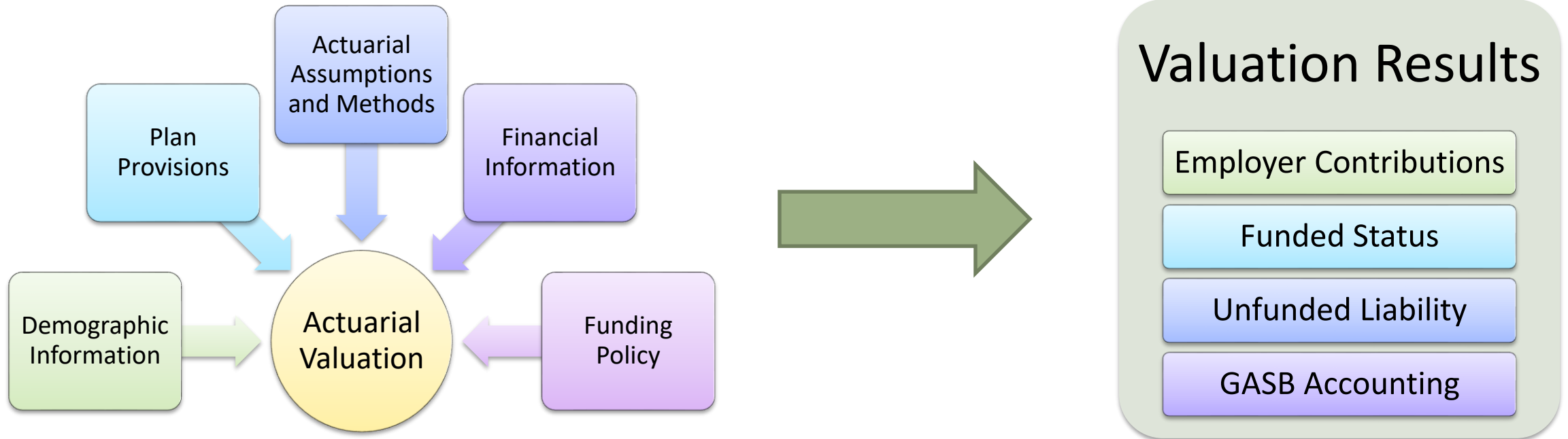
Provide actuarial reporting and disclosure information for the MSRPS and State’s financial reports

# Valuation Overview

## Actuarial Valuation Process

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# Valuation Overview

## Primary Assumptions

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- Economic assumptions
  - 6.80% investment return; 3.00% payroll growth; 2.50% CPI
  - 2.13% COLA, 2.48% COLA, 2.50% COLA for service where COLA is capped at 3%, 5% or not capped, respectively
  - 1.40% COLA for service earned after July 1, 2011 where COLA is capped at 2.5% in years when the System earns at least the investment assumption or capped at 1% in years when the System earns less than the investment assumption
- Demographic actuarial assumptions based on the 2018-2023 experience study (first used in 2024 Valuation)
  - Demographic Assumptions
    - Public Sector mortality tables with generational mortality projection using scale MP-2021
      - Calibrated to MSRPS experience
    - Retirement, termination, disability and seniority and merit salary increase rates based on plan experience

# Valuation Overview

## Variables Affecting Valuation Results

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- Benefits (Retirement, Disability, Survivor)
- Actual past experience
- Recent Legislative Changes
  - 2025 General Assembly passed HB 1072
    - Normal cost contribution rate includes an amount for the administrative and operational expenses of the Board and SRA, excluding the administrative and operational expenses of the Investment Division.
  - 2024 General Assembly passed HB 768
    - Special Death Benefit for active Judges
  - 2023 General Assembly passed SB 139
    - Increase maximum DROP participation time from 5 to 7 years (or up to 32 years of service) for State Police and LEOPS
  - 2023 General Assembly passed SB 466
    - Implements “layered” amortization of unfunded liability by source for State Systems effective July 1, 2023 (will first affect the 2024 valuation)

# Valuation Overview

## Funding Policy

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- Entry Age Actuarial Cost Method
- 5-year asset smoothing/20% market value collar
  - 40% of FY 2021 gains recognized, with 15% recognized in each following year
- Amortization policy
  - State Systems
    - Single period closed amortization of unfunded liabilities occurring before July 1, 2023
      - Ending in FY 2039 (13 years remaining in 2025 valuation)
    - Layered amortization began with the 2024 valuation (for unfunded liabilities occurring after July 1, 2023)
      - 15 years for experience gains and losses
      - 25 years for changes in actuarial assumptions and methods
      - 10-15 years for benefit changes
      - 5 years for early retirement incentives
  - Municipal Systems
    - ECS: Single period closed amortization period ending in FY 2043. 17 years remaining in 2025 valuation (FY 2027).
    - LEOPS: Single period closed amortization period ending in FY 2040
    - CORS: Single period closed amortization period ending in FY 2047
  - Level % of payroll
  - Single period amortization needs to be reconsidered to control volatility once remaining period falls below about 10-15 years

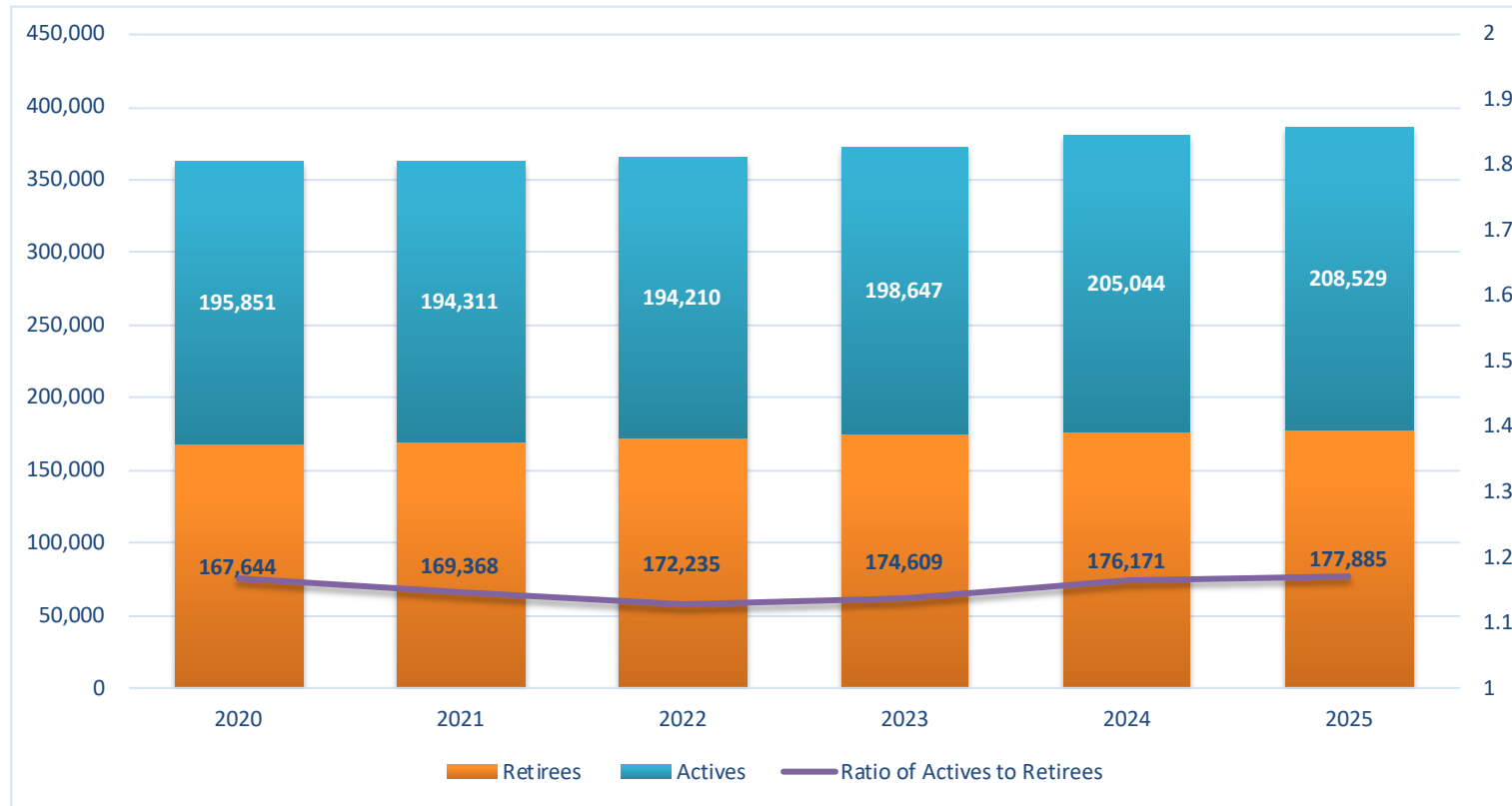
# Valuation Overview

## Participant Data Summary

	Statistics as of June 30				
	2025			2024	
	State	PGU	Total	Total	% Chg
<b>Number Counts</b>					
Retired Members	156,704	21,181	177,885	176,171	1.0%
Active Members	180,564	27,965	208,529	205,044	1.7%
Vested Former Members	39,338	5,736	45,074	46,099	-2.2%
<b>Total Members</b>	<b>376,606</b>	<b>54,882</b>	<b>431,488</b>	<b>427,314</b>	<b>1.0%</b>
<b>Total Retiree Benefits (\$ in Millions)</b>	<b>\$ 4,833.6</b>	<b>\$ 415.4</b>	<b>\$ 5,249.0</b>	<b>\$ 5,026.7</b>	<b>4.4%</b>
<b>Average Retiree Benefit</b>	<b>\$ 30,846</b>	<b>\$ 19,613</b>	<b>\$ 29,508</b>	<b>\$ 28,533</b>	<b>3.4%</b>
<b>Active Member Averages</b>					
Age	46.2	48.3	46.5	46.4	0.1%
Service	12.0	10.3	11.8	11.8	-0.4%
Pay	\$ 82,295	\$ 64,411	\$ 79,896	\$ 76,327	4.7%
<b>Total Valuation Payroll (\$ in Millions)</b>	<b>\$14,859.4</b>	<b>\$1,801.3</b>	<b>\$16,660.7</b>	<b>\$15,650.4</b>	<b>6.5%</b>

# Valuation Overview

## Participant Membership History (Combined State and Municipal)



The ratio of Retirees to Actives gives an indication of the maturity of the System. *Counts exclude terminated vested members.*

# Valuation Overview

## Asset Experience

### State and Municipal (\$ in Billions)

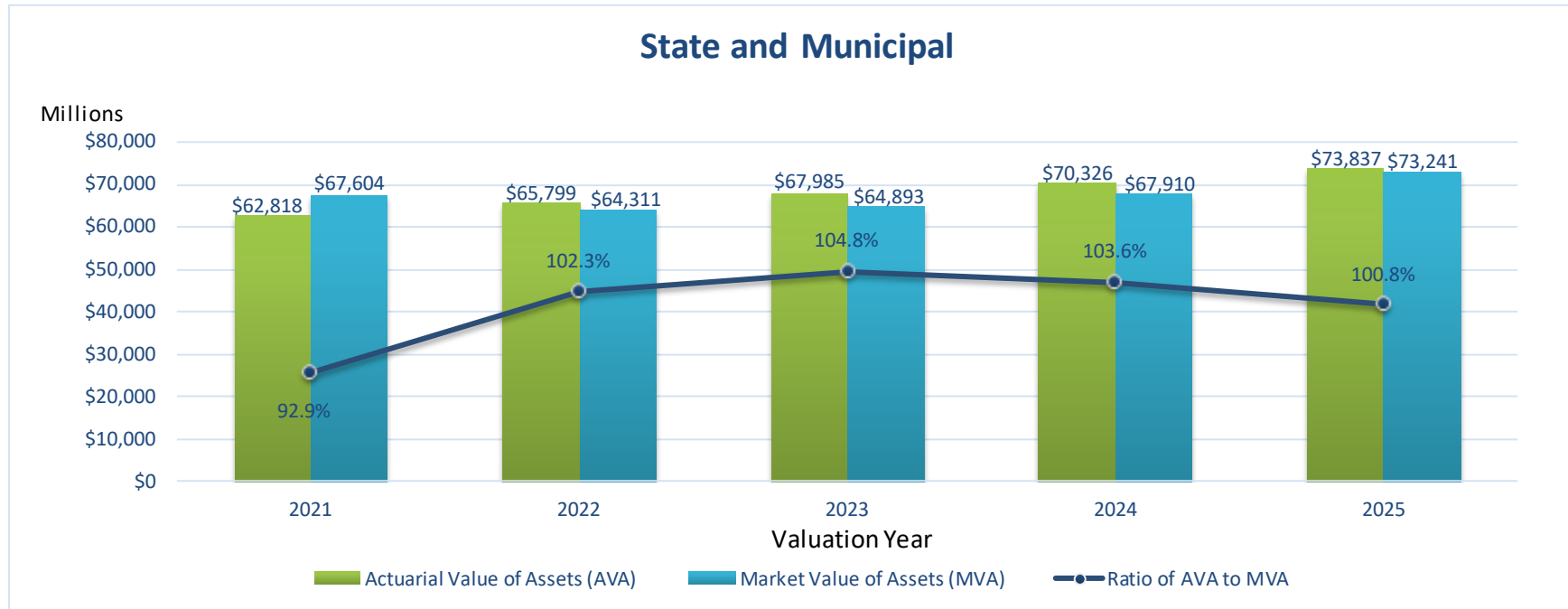
	2025	2024	% Change
<b>Market Value</b> - Beginning of Year	\$ 67.91	\$ 64.89	4.6%
Employer Contributions	2.95	2.62	12.6%
Member Contributions	1.13	1.06	7.0%
Disbursements	<u>(5.33)</u>	<u>(5.07)</u>	-5.1%
Net Non-Investment Cash Flow	(1.26)	(1.40)	10.2%
Investment Income	<u>6.59</u>	<u>4.42</u>	49.2%
Net Change	5.33	3.02	76.7%
<b>Market Value</b> - End of Year	<b><u>\$ 73.24</u></b>	<b><u>\$ 67.91</u></b>	7.9%
Estimated Rate of Return	9.79%	6.88%	
<b>Actuarial Value</b> - Beginning of Year	\$ 70.33	\$ 67.99	3.4%
Net Non-Investment Cash Flow	(1.26)	(1.40)	10.2%
Expected Return	4.58	4.37	4.8%
Total Recognized Gains/Losses	<u>0.19</u>	<u>(0.63)</u>	130.9%
Net Change	3.51	2.34	50.0%
<b>Actuarial Value</b> - End of Year	<b><u>\$ 73.84</u></b>	<b><u>\$ 70.33</u></b>	5.0%
Estimated Rate of Return	6.84%	5.56%	

Numbers may not add due to rounding.



# Valuation Overview

## Actuarial Value of Assets - (\$ Millions)

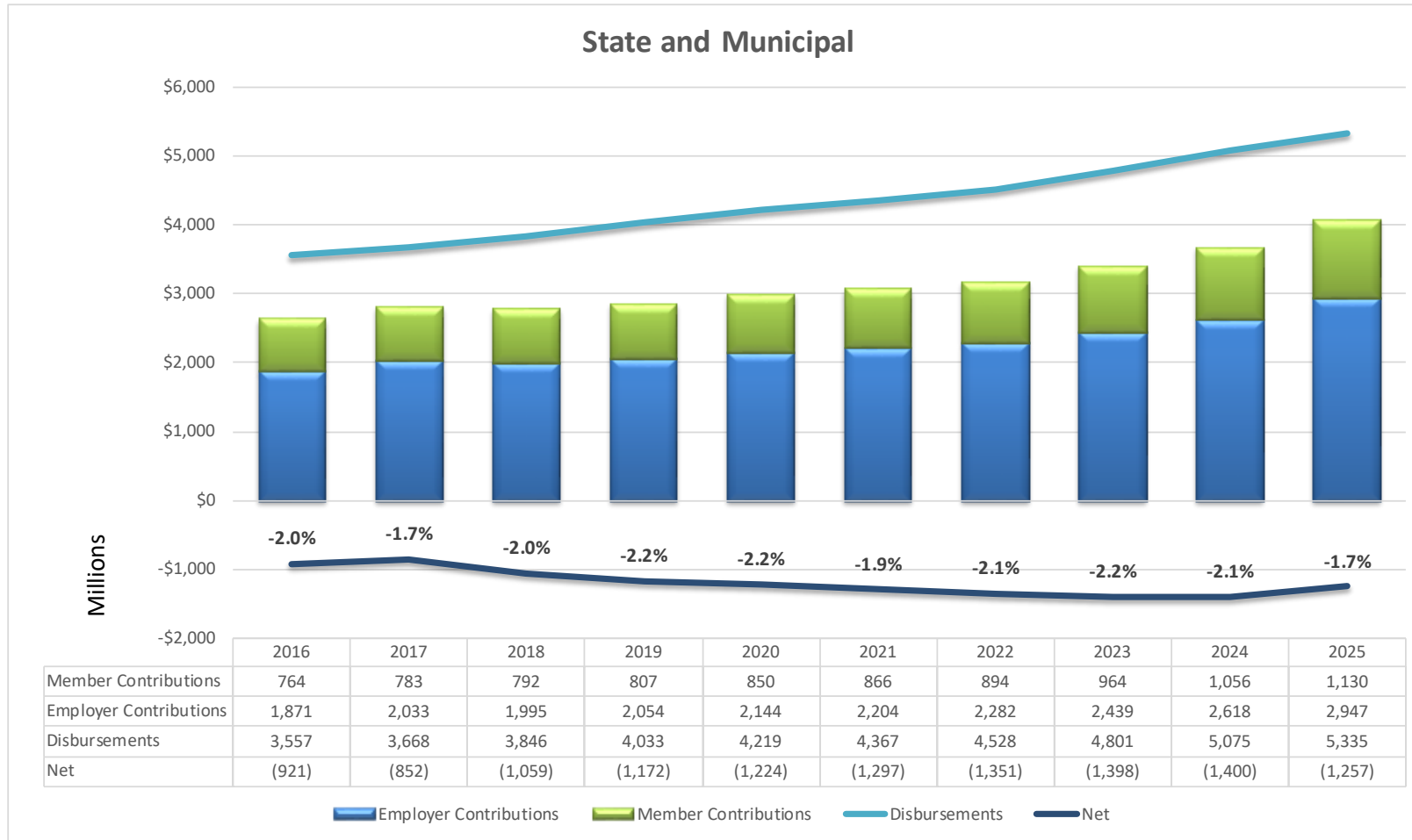


The actuarial valuation is not based directly upon market value, but rather uses a smoothed value of assets that phases in each year's gain or loss above/below the investment return assumption over 5 years.

# Valuation Overview

## Historical Non-Investment Cash Flow

20

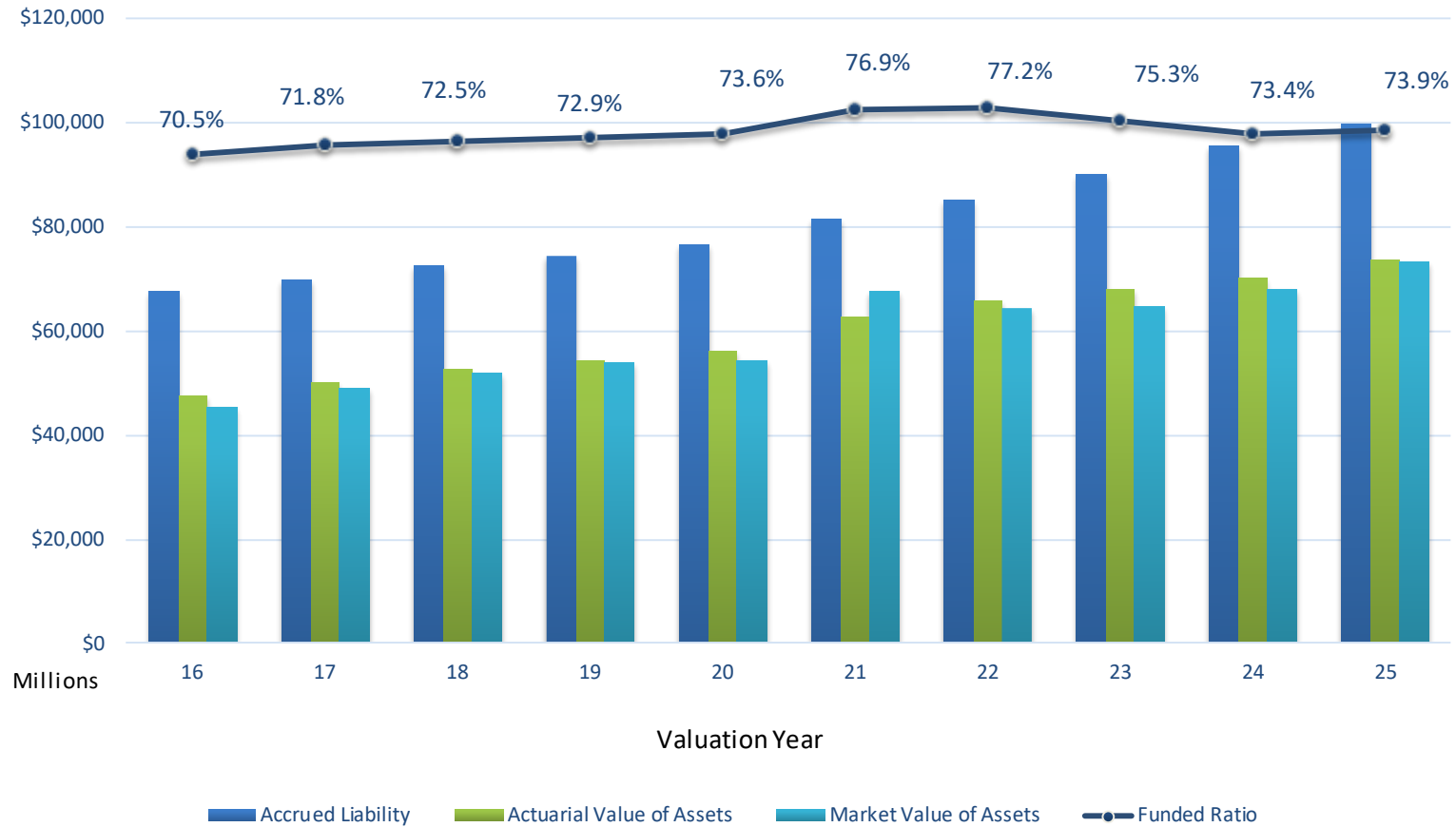


# VALUTION RESULTS

# Valuation Results

## Historical Funded Status

### State and Municipal



# Valuation Results

## Impact of FY 2025 Experience on Contribution Rates

Upward forces

### Individual Pay Increases Above Assumptions

Approximately 1.9% higher than assumed

### FY 2025 Non-Reformed COLA Above Assumption

2.949% actual COLA  
vs. 2.50% for unlimited  
vs. 2.48% for 5% cap  
vs. 2.13% for 3% cap

### HB 1072

Added 0.25% to Normal Cost contribution rate

### Higher FY Investment Return

(6.84% actuarial, 9.79% market<sup>1</sup>) vs. 6.80% assumed

**Total Payroll Increase of 6.5%**  
vs. 3.00% assumed (affects UAAL rate)

### FY 2025 Reformed COLA Below Assumption Based on CY Investment Return

1.00% vs. 1.40% assumed

### More Members in Reformed Systems

Downward Forces

<sup>1</sup> Rate shown is based on actuarial estimation method and differs modestly from figures reported by State Street.

# Valuation Results

## Summary of State Results

State Only (\$ in Millions)

	Teachers' Combined System	Employees' Combined System	State Police	Judges	LEOPS	Total
<b>June 30, 2025</b>						
Actuarial Accrued Liability (AAL)	\$ 57,962	\$ 28,130	\$ 3,215	\$ 805	\$ 1,648	\$ 91,760
Actuarial Value of Assets (AVA)	44,542	18,939	2,138	658	1,127	67,405
<b>Unfunded AAL (UAAL)</b>	<b>13,420</b>	<b>9,191</b>	<b>1,077</b>	<b>147</b>	<b>521</b>	<b>24,355</b>
<i>Increase/(Decrease) from Prior Year</i>	329	186	3	14	7	539
<b>Funded Ratio (AVA)</b>	<b>76.9%</b>	<b>67.3%</b>	<b>66.5%</b>	<b>81.8%</b>	<b>68.4%</b>	<b>73.5%</b>
<i>Increase/(Decrease) from Prior Year</i>	0.4%	0.8%	1.2%	(0.8%)	1.3%	0.5%
<b>Fiscal Year 2027</b>						
<b>Actuarially Determined Employer Contribution Rate (ADEC)</b>	<b>17.98%</b>	<b>21.67%</b>	<b>94.83%</b>	<b>53.68%</b>	<b>47.66%</b>	<b>20.47%</b>
<i>Increase/(Decrease) from Prior Year</i>	0.42%	-0.20%	0.02%	2.05%	0.63%	0.24%

Contribution rates are percent of payroll. Totals may not add due to rounding.



# Valuation Results

## Summary of Municipal Results

Municipal Only (\$ in Millions)

	Employees' Combined System	LEOPS	CORS	Total
<b>June 30, 2025</b>				
Actuarial Accrued Liability (AAL)	\$ 7,216	\$ 843	\$ 64	\$ 8,124
Actuarial Value of Assets (AVA)	5,790	594	48	6,432
<b>Unfunded AAL (UAAL)</b>	<b>1,426</b>	<b>249</b>	<b>17</b>	<b>1,692</b>
<i>Increase/(Decrease) from Prior Year</i>	59	(2)	2	59
<b>Funded Ratio (AVA)</b>	<b>80.2%</b>	<b>70.5%</b>	<b>74.0%</b>	<b>79.2%</b>
<i>Increase/(Decrease) from Prior Year</i>	(0.0%)	2.3%	(0.7%)	0.2%
<b>Fiscal Year 2027</b>				
<b>Basic/Pooled Contribution Rate</b>	<b>9.99%</b>	<b>39.56%</b>	<b>19.16%</b>	<b>11.92%</b>
<i>Increase/(Decrease) from Prior Year</i>	0.24%	-0.08%	0.60%	0.18%

Contribution rates are percent of payroll. Totals may not add due to rounding.



# Valuation Results

## Summary

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- Contribution rates increased slightly on a total, weighted-average basis since the previous valuation, although results differed by system. The funded ratio increased overall for the entire MSRPS.
  - Unfavorable experience on actuarial liabilities during FY 2025 increased rates
  - However, greater than expected total payroll mitigated the contribution rate increases
  - Favorable investment experience during FY 2025 had a relatively minor impact due to the recognition of losses from prior years
  - The inclusion of the contribution for administrative expenses in the normal cost increased rates by 0.25% of payroll
- Significant upward pressure on contribution rates for FY 2028 (next year's valuation) due to deferred asset losses from FY 2022

# PROJECTIONS

# Projections

## Purpose and Nature

### Actuarial Valuation

- Provides a **snapshot** of financial position with regard to liabilities for current members
- Quantifies commitments with present value liability calculations
- Contains a funding plan for meeting cash flows
- Does not disclose specifics of the funding plan well
- Does not illustrate the evolving impact of plan provisions

### Actuarial Projections

- Provides a **moving picture**
- Quantifies commitments by projecting year-by-year cash flows
- Demonstrates the plan for meeting cash flows
- Can test alternative hypotheses
- Reveals emerging patterns
- Not a prediction!
- Projections are designed to draw attention to long-term trends

# Projections

## Purpose and Nature

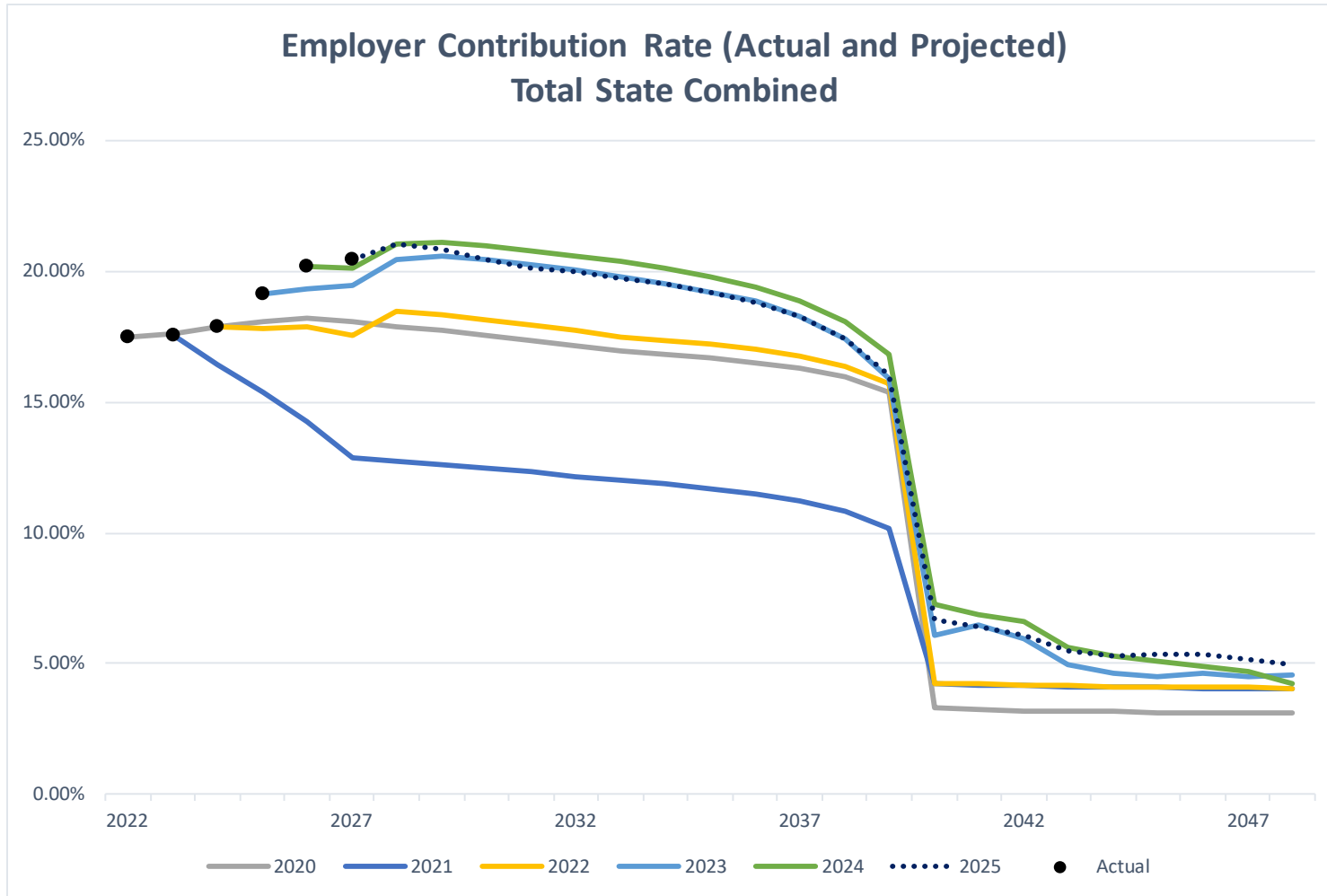
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- The following slides show historical (actual) and projected employer contribution rates and funded ratios
- Projected employer contribution rates and funded ratios are shown as of the most recent valuation, as well as several past valuations
- Comparing past projections allows us to understand the impact of actuarial experience, assumption changes, benefit changes, and funding policy changes on the trend of contribution rates and funding progress of the System

# Projections

## Employer Contribution Rates - Baseline

30



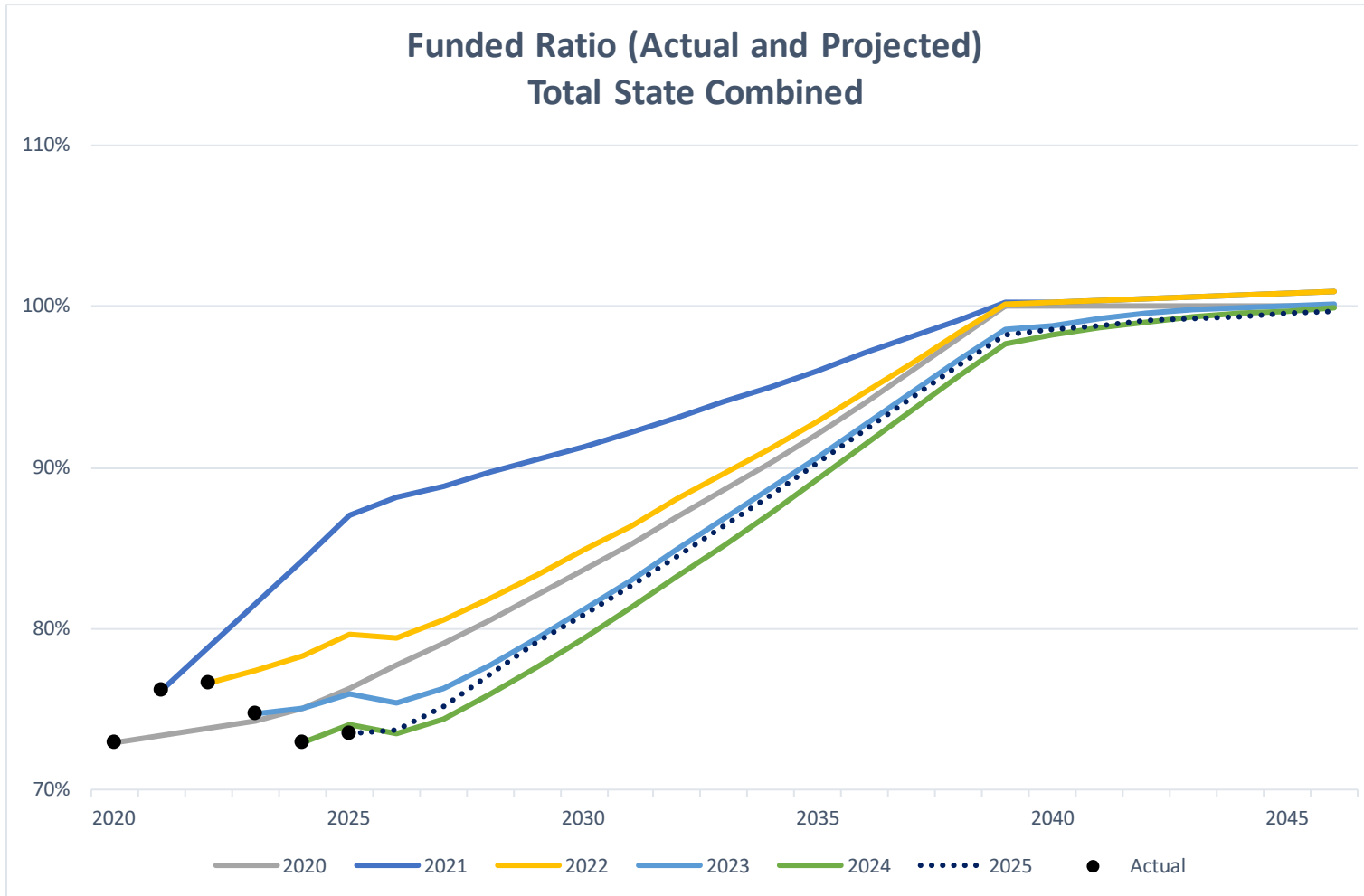
### Observations

- Rates generally decrease over time, due to paying down the UAAL and as more members participate in the reformed plans
- UAAL before 7/1/2023 is paid off in 2039, as evidenced by the sharp decrease in rates
- While rates were relatively stable from FY 2019 to FY 2024, the projected rates changed drastically in the 2021 valuation due to a large investment gain
- Actuarial losses in 2022, 2023, and 2024 have driven rates upward (actual and projected)

# Projections

## Funded Ratios - Baseline

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### Observations

- UAAL before 7/1/2023 is paid off in 2039 and the funded ratio is projected to be very close to 100%
- The large investment gain in 2021 accelerated the projected funded status
- Actuarial losses from 2022, 2023, and 2024 had the opposite effect

# Disclosures

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- This presentation is intended to be used in conjunction with the June 30, 2025 actuarial valuation reports. This presentation should not be relied on for any purpose other than the purpose(s) described in the valuation reports.
- This presentation shall not be construed to provide tax advice, legal advice or investment advice.
- The actuaries submitting this presentation (Brad Armstrong and Jeff Tebeau) are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.
- The purposes of the actuarial valuation are to measure the financial position of MSRPS, assist the Board in establishing employer contribution rates necessary to fund the benefits provided by MSRPS, and provide certain actuarial reporting and disclosure information for financial reporting. There is an additional report and documents with other actuarial reporting and disclosure information for financial reporting.

# Disclosures

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- Future actuarial measurements may differ significantly from the current and projected measurements presented in this presentation due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.
- This is one of multiple documents comprising the actuarial reports for the combined systems and the municipal corporations. Additional information regarding actuarial assumptions and methods, and important additional disclosures are provided in the Actuarial Valuations as of June 30, 2025.
- This results in this presentation were prepared using our proprietary valuation model and related software, which in our professional judgment, has the capability to provide results that are consistent with the purposes of the valuation and has no material limitations or known weaknesses. We performed tests to ensure that the model reasonably represents that which is intended to be modeled.
- If you need additional information to make an informed decision about the contents of this presentation, or if anything appears to be missing or incomplete, please contact us before relying on this presentation.



**Appendix 2**

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**Annual State Retirement and Pension System  
Investment Overview**

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**Presented to the  
Joint Committee on Pensions**

**Department of Legislative Services  
Office of Policy Analysis  
Annapolis, Maryland**

**December 2025**



# Annual State Retirement and Pension System's Investment Overview

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At the request of the Joint Committee on Pensions, the Department of Legislative Services (DLS) annually reviews the investment performance of the State Retirement and Pension System (SRPS) for the preceding fiscal year. This report is intended to provide an overview of SRPS performance, a comparison of this performance to its peers, and an identification of issues meriting further comment by the State Retirement Agency (SRA).

## State Retirement and Pension System Investment Performance

### Asset Allocation

The SRPS Board of Trustees sets the allocation of assets to each investment class and continuously monitors the appropriateness of the allocation in light of its investment objectives. The SRPS *Investment Policy Manual* sets forth the investment objectives:

The board desires to balance the goal of higher long-term returns with the goal of minimizing contribution volatility, recognizing that they are often competing goals. This requires taking both assets and liabilities into account when setting investment strategy as well as an awareness of external factors such as inflation. Therefore, the investment objectives over extended periods of time (generally 10 to 20 years) are to achieve an annualized investment return that:

1. In nominal terms, equals or exceeds the actuarial investment return assumption of the system adopted by the board. The actuarial investment return assumption is a measure of the long-term rate of growth of the system's assets. In adopting the actuarial return assumption, the board anticipates that the investment portfolio may achieve higher returns in some years and lower returns in other years.
2. In real terms, exceeds the U.S. inflation rate by at least 3%. The inflation-related objective compares the investment performance against the rate of inflation as measured by the Consumer Price Index plus 3%. The inflation measure provides a link to the system's liabilities.
3. Meets or exceeds the system's Investment Policy Benchmark. The Investment Policy Benchmark is calculated by using a weighted average of the board-established benchmarks for each asset class. The Policy Benchmark enables comparison of the system's actual performance to a passively managed proxy and measures the contribution of active investment management and policy implementation.

The asset allocation is structured into five categories:

- **Growth Equity:** public equity (domestic, international developed, and international emerging markets) and private equity investments;
- **Rate Sensitive:** investments in bonds, loans, or associated derivatives with an average portfolio credit quality of investment grade;
- **Credit:** investments in bonds, loans, or associated derivatives with an average portfolio credit quality of below investment grade;
- **Real Assets:** investments whose performance is expected to exceed the rate of inflation over an economic cycle; and
- **Absolute Return:** consists of investments that are expected to exceed the three-month U.S. Treasury bill by 4% to 5% over a full market cycle and exhibit low correlation to public stocks.

Included within these asset classes are sub-asset classes. The board approves adjustments to the asset allocations and sets transitional targets. The board also approves target ranges for sub-asset classes as well as constraints on hedge fund exposure, with total hedge fund investments capped across all asset classes. In fall 2021, the board adjusted the system's asset allocation, and it has made minor adjustments periodically since then, with the most recent adjustment occurring in February 2023. **Exhibit 1** shows system asset allocations in relation to the strategic targets in effect on June 30, 2025. In broad terms, the system is currently underweight in public equity and fixed income and overweight in private equity.

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**Exhibit 1**  
**State Retirement and Pension System Asset Allocation**

<u>Asset Class</u>	<u>Actual</u> <u>June 30, 2025</u>	<u>Target</u> <u>July 1, 2025</u>
<b>Growth Equity</b>		
U.S. Equity	14.2%	17%
International Equity	9.1%	11%
Emerging Markets Equity	5.0%	6%
Global Equity	4.0%	n/a
Private Equity	20.5%	16%
<b>Subtotal</b>	<b>52.8%</b>	<b>50%</b>
<b>Rate Sensitive</b>		
Nominal Fixed Income	12.8%	16%
Inflation-linked Bonds	3.3%	4%
<b>Subtotal</b>	<b>16.2%</b>	<b>20%</b>
<b>Credit/Debt</b>		
High Yield Bonds and Bank Loans	8.0%	8%
Emerging Market Debt	1.1%	1%
<b>Subtotal</b>	<b>9.1%</b>	<b>9%</b>
<b>Real Assets</b>		
Real Estate	9.5%	10%
Natural Resources and Infrastructure	5.0%	5%
<b>Subtotal</b>	<b>14.7%</b>	<b>15%</b>
<b>Absolute Return</b>	<b>5.5%</b>	<b>6%</b>
<b>Multi Asset</b>	<b>0.4%</b>	<b>n/a</b>
<b>Cash</b>	<b>1.4%</b>	<b>n/a</b>
<b>Total Fund</b>	<b>100%</b>	<b>100%</b>

Note: Columns may not add to total due to rounding. Real Assets Subtotal includes 0.2% commodities assets.

Source: State Street – State Retirement Agency of Maryland – Rates of Return – Net Mgr – Periods Ending June 30, 2025; State Retirement and Pension System Investment Policy Manual, June 2025

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The system’s asset allocation is reflective of a decision to restructure the portfolio in fiscal 2008 and 2009. The overall strategy is part of an approach by the board to decrease risk through diversification in the wake of the 2008 financial crisis and is also a prudent approach as the system becomes more mature, with an increasing ratio of retirees to active members. Increased

investment in private equity has resulted in positive returns for the system, with less experienced volatility than public equity. Lower allocations to public equity investments are expected to result in lower returns when public equities are in growth patterns. However, as public equity can be a highly volatile asset class, a more diverse investment allocation should reduce volatility to provide protection when equity markets perform poorly or decline. While mitigating volatility will result in not taking full advantage of highly performing public equity markets, more stable investment returns will also mitigate swings in employer contribution rates. The board of trustees and the investment committee monitor the allocation of assets and continue to discuss the appropriate allocation (in consultation with the system's investment staff and investment consultants) that will achieve the system's investment return needs. Given the certain nature of defined benefit payment obligations, prudent allocation strategy should consider both achieving positive returns as well as being positioned to avoid losses. While investment division staff have some authority to make tactical, short-term adjustments to asset allocations, the *Investment Policy Manual* states an objective of long-term investment strategy, acknowledging that the system's long-term investment horizon may lead to short-term volatility. The manual reflects actions by the board to alter the asset allocation and can be found on the SRA website.

## **Investment Performance**

The system's investment return for fiscal 2025 was 9.83% net of management fees, above the assumed rate of return of 6.80%. The system also exceeded its policy benchmarks for the system as a whole by 0.30%. As shown in **Exhibit 2**, the total market value of the system's assets was \$73.6 billion as of June 30, 2025, compared to \$68.2 billion in assets at the end of fiscal 2024.

**Exhibit 2**  
**State Retirement and Pension System of Maryland**  
**Fund Investment Performance for Periods Ending June 30, 2025**  
**(\$ in Millions)**

	<u>Assets</u>	<u>% Total</u>	<u>Time-weighted Total Returns</u>		
			<u>1 Year</u>	<u>5 Years</u>	<u>10 Years</u>
<b>Growth Equity</b>					
Public Equity	\$23,759	32.3%	16.31%	12.71%	9.28%
Private Equity	15,059	20.5%	6.39%	16.25%	14.24%
<b>Subtotal</b>	<b>\$38,834</b>	<b>52.8%</b>	<b>12.27%</b>	<b>13.69%</b>	<b>10.47%</b>
<b>Rate Sensitive</b>					
Nominal Fixed Income	\$9,440	12.8%	4.71%	-5.37%	0.94%
Inflation Sensitive	2,447	3.3%	6.23%	1.74%	2.87%
<b>Subtotal</b>	<b>\$11,888</b>	<b>16.2%</b>	<b>5.04%</b>	<b>-3.75%</b>	<b>1.40%</b>
<b>Credit/Debt</b>					
High Yield Bonds and Bank Loans	\$1,942	2.6%	9.20%	6.29%	n/a
Private Credit	3,947	5.4%	9.26%	10.96%	8.19%
Non-U.S. Credit	815	1.1%	10.89%	3.00%	2.84%
<b>Subtotal</b>	<b>\$6,722</b>	<b>9.1%</b>	<b>9.32%</b>	<b>6.80%</b>	<b>5.42%</b>
<b>Real Assets</b>					
Real Estate	\$6,995	9.5%	3.05%	4.38%	5.62%
Natural Resources and Infrastructure	3,703	5.0%	17.14%	14.60%	n/a
<b>Subtotal</b>	<b>\$10,840</b>	<b>14.7%</b>	<b>6.98%</b>	<b>7.70%</b>	<b>4.85%</b>
<b>Absolute Return</b>	<b>\$4,016</b>	<b>5.5%</b>	<b>10.72%</b>	<b>6.25%</b>	<b>3.47%</b>
<b>Multi Asset</b>	<b>\$297</b>	<b>0.4%</b>	<b>14.36%</b>	<b>4.45%</b>	<b>n/a</b>
<b>Cash</b>	<b>\$997</b>	<b>1.4%</b>	<b>4.99%</b>	<b>3.67%</b>	<b>4.52%</b>
<b>Total Fund</b>	<b>\$73,594</b>	<b>100.0%</b>	<b>9.83%</b>	<b>8.29%</b>	<b>7.04%</b>

Note: The Real Assets Subtotal includes an additional \$142 million in commodities assets. Returns beyond one year are annualized. Returns are net of fees. Columns may not add to total due to rounding.

Source: State Street – State Retirement Agency of Maryland – Rates of Return – Net Mgr – Periods Ending June 30, 2025

The asset allocation targets set by the board are intended to generate the target returns while maintaining an acceptable risk tolerance for the system, providing protection for the system against investment volatility. The investment returns of each asset class can result in deviation from the

target allocations, requiring additional oversight to maintain the overall asset allocation within the system's established risk tolerance.

**Exhibit 3** shows that the system performed 0.30% (30 basis points) above the total system return benchmark for fiscal 2025. The system did not meet its benchmarks in three of its five major asset classes. However, each of those three asset classes performed in excess of the 6.8% assumed rate of return.

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**Exhibit 3**  
**State Retirement and Pension System of Maryland**  
**Performance Relative to Benchmarks for Year Ending June 30, 2025**

	<u><b>Return</b></u>	<u><b>Return Benchmark</b></u>	<u><b>Excess</b></u>
<b>Growth Equity</b>	<b>12.27%</b>	<b>12.70%</b>	<b>-0.43%</b>
Public Equity	16.31%	16.66%	-0.35%
Private Equity	6.39%	7.04%	-0.65%
<b>Rate Sensitive</b>	<b>5.04%</b>	<b>3.99%</b>	<b>1.05%</b>
Nominal Fixed Income	4.71%	3.53%	1.18%
Inflation Sensitive	6.23%	5.71%	0.53%
<b>Credit</b>	<b>9.32%</b>	<b>9.70%</b>	<b>-0.38%</b>
High Yield Bonds and Bank Loans	9.20%	9.69%	-0.49%
Private Credit	9.26%	n/a	n/a
Non-U.S. Credit	10.89%	9.76%	1.14%
<b>Real Assets</b>	<b>6.98%</b>	<b>8.16%</b>	<b>-1.18%</b>
Real Estate	3.05%	3.07%	-0.03%
Natural Resources and Infrastructure	17.14%	19.16%	-2.02%
<b>Absolute Return</b>	<b>10.72%</b>	<b>7.17%</b>	<b>3.55%</b>
<b>Multi Asset</b>	<b>14.36%</b>	<b>9.54%</b>	<b>4.83%</b>
<b>Cash and Cash Equitization</b>	<b>4.99%</b>	<b>4.88%</b>	<b>0.11%</b>
<b>Total Fund</b>	<b>9.83%</b>	<b>9.54%</b>	<b>0.30%</b>

Source: State Street – State Retirement Agency of Maryland – Rates of Return – Net Mgr – Periods Ending June 30, 2025

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**DLS requests that SRA comment on the fiscal 2025 return performance in relation to the policy benchmarks. For any asset classes and asset sub-classes that underperformed the benchmark, SRA should comment on the factors that led to the underperformance, whether**

those factors are expected to negatively affect performance in fiscal 2026, and what actions are being taken to mitigate those factors from impacting the fiscal 2026 returns.

**Performance Relative to Other Systems**

In addition to comparing the system’s performance to its policy benchmarks, another method of evaluating the system’s investment performance is to compare it with the performance of other systems. The Wilshire Trust Universe Comparison Service (TUCS) rankings are useful for providing a big picture snapshot assessment of the system’s performance relative to other large public pension plans. In the TUCS analysis, systems are ranked on a scale of 1 to 100, with a rank of 1 being the system with the highest investment returns for the time period. According to TUCS, the system’s fiscal 2025 total fund investment performance was rated in the sixty-fifth percentile among the public pension funds with at least \$25 billion in assets, as shown in **Exhibit 4**. As the system has historically had a low allocation to equity investments compared to its peers – and to domestic equity in particular – the system’s investment policy will have a low TUCS ranking when equity markets are experiencing strong performance, as has been the case for a number of recent years. The long-term relative performance rankings have placed SRPS’s relative total fund performance in the bottom quartile. The TUCS rankings are based on returns gross of fees.

**Exhibit 4**  
**TUCS Percentile Rankings for Periods Ending June 30**  
**Fiscal 2022-2025**

	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
1 Year	37	96	94	65
3 Years	37	71	89	95
5 Years	43	59	70	88
10 Years	75	78	75	92

TUCS: Wilshire Trust Universe Comparison Service

Note: Rankings for systems greater than \$25 billion in assets.

Source: Wilshire Trust Universe Comparison Service

The impact of asset allocation on total system TUCS rankings can also be seen in the system’s TUCS rankings on performance within individual asset classes. Although the system as a whole has experienced relatively low rankings when compared to peer systems, the system has experienced better relative performance by asset class. **Exhibit 5** shows the difference in the system’s relative rankings by asset class. These asset class comparisons are based on pension funds with assets of at least \$1 billion in assets, unlike the total fund comparisons, which are based on pension funds with at least \$25 billion in assets.

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**Exhibit 5**  
**TUCS Percentile Rankings for Periods Ending June 30, 2025**

<u>Asset Class</u>	<u>1-year</u>	<u>3-year</u>	<u>5-year</u>	<u>10-year</u>
Total Equity	14	67	83	79
U.S. Equity	53	34	41	40
International Developed	44	54	38	45
International Emerging	25	75	58	n/a
Fixed Income	87	90	96	69
Private Equity	54	70	13	12
Real Estate	33	84	50	58

TUCS: Wilshire Trust Universe Comparison Service

Note: Rankings for systems greater than \$1 billion.

Source: Wilshire Trust Universe Comparison Service

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The asset allocation has impacted the relative ranking of the total system return, with the system having lower allocations to public equity and domestic public equity in particular when compared to peer plans. This effect can also be seen in the longer-term rankings for total equity. The system does not have a bias to U.S. equity, which has had strong performance in recent years. For fiscal 2025, however, the system's performance in total equity was in the top quartile. A system with higher allocations to well-performing asset classes will have better relative performance. The system's 1-, 5-, and 10-year returns by asset class indicate sustained above-average performance in multiple asset classes. With public equity (particularly U.S. public equity) comprising very efficient public investment markets, the system's long-term average performance indicates a successful approach to balance risk and return in those volatile asset classes. While the overall performance within each asset class generally indicates successful management, the performance in fixed income has dropped significantly over the past 3 years. After ranking in the top 1% for a number of years, private equity performance has also dropped in recent years, with 1-year returns ranking in the fifty-fourth percentile in calendar 2025 and the seventy-fifth percentile in calendar 2024. Long-term rankings for private equity still remain in the top quartile but have also dropped from a period of being ranked at the very top of the peer cohort.

**DLS requests that SRA comment on the relative TUCS performance rankings by asset class and how overall asset allocation impacts the system's overall TUCS rankings.**

**Additionally, DLS requests that SRA comment on the drop in TUCS performance rankings in the fixed income and private equity asset classes over the past three years, and the strategies being implemented to improve performance within the asset classes.**

Recent historical returns have seen both exceptionally strong and exceptionally weak returns in public equity, which demonstrates how highly volatile this asset class is. Allocations that limit exposure to more volatile assets should result in more stable employer contribution rates over time. An allocation that mitigates volatility of returns (whether excess gains, returns below the assumed rate of return, or investment losses) will also mitigate the impact to employer contributions from contribution rate increases. A system's asset allocation should be impacted by a number of considerations that reflect a system's risk tolerance. A system's maturity (ratio of retirees to active members), funded status, assumed rate of return, benefit structure, regularity of full contributions, and other considerations factor into a system's risk tolerance. The importance of these factors will vary from plan to plan, leading to different tolerances for risk, variation in investment allocations, and differences in annual returns. Systems that approach full funding, for instance, should adjust asset allocation to align asset growth with liability growth.

TUCS provides data on the risk-return profile of its members that shows that the system's level of risk over the three-year period ending June 30, 2025, was below the median for other public funds with assets greater than \$25 billion. This is consistent with the system's comparatively lower allocation to public equity, which historically is a highly volatile asset class. The system's asset allocation strategy is intended to protect against more extreme losses in down markets. Due to the nature of the benefits that the system's investments ultimately fund, there is prudence in setting an asset allocation that achieves the necessary investment returns with the lowest level of risk capable of achieving those returns while also mitigating volatility. Looking strictly at returns, the S&P 500 index has regularly had the highest percentage return in a given time period. However, when markets decline, the S&P 500 typically experiences more severe losses. Additionally, the system's lack of bias to U.S. public equity provides additional diversification protection against an investment index becoming dominated by a small number of companies, as has been occurring in the S&P 500. The system's allocation strategy continues to provide the intended diversification protection. During periods when markets have lower returns and particularly when markets experience losses from negative returns, SRPS's asset allocations have mitigated the severity of those market conditions, while other systems have experienced more severe losses that require a higher level of investment risk to achieve higher subsequent returns to recover the experienced losses.

**DLS requests that SRA comment on how the system's asset allocation strategy affected the system's investment return volatility over the prior five fiscal years and the impact to the system of mitigating investment return volatility.**

**Additionally, DLS requests SRA to comment on key findings from its survey of risk tolerance among board members, and how the system is assessing market risks and balancing its investment return objectives with the potential for market volatility.**

## Investment Management Fees

As shown in **Exhibit 6**, SRPS incurred \$499.7 million in investment management fees during fiscal 2025, an increase from \$437 million in fiscal 2024 fees, and fees paid as a percentage of assets were four basis points more in fiscal 2025 than in fiscal 2024. Management fees for the plan have grown substantially since the system adjusted its asset allocation to invest more heavily in alternative asset classes with higher fee structures. The shift of public equity assets to global and emerging market equity managers, which are almost all active managers, has also contributed to the growth in fees over the years. Fees also fluctuate as assets increase or decrease. While the dollar amount of fees has grown, so has the market value of the system's assets. Additionally, while fees have continued to grow, fees as a percentage of assets under management have remained relatively stable.

**Exhibit 6**  
**Asset Management Fees Paid by Asset Class**  
**Fiscal 2024-2025**  
**(\$ in Millions)**

<u>Asset Class</u>	2024				2025			
	<u>Management Fee</u>	<u>Incentive Fee</u>	<u>Total</u>	<u>Fees as % of Asset</u>	<u>Management Fee</u>	<u>Incentive Fee</u>	<u>Total</u>	<u>Fees as % of Asset</u>
Equity	\$52.4	\$1.6	\$54.0	0.45%	\$56.8	\$9.5	\$66.3	0.47%
Rate Sensitive	17.2	15.4	32.7	0.67%	17.9	7.7	25.6	0.50%
Credit	5.2	0.4	5.6	0.20%	4.4	n/a	4.4	0.18%
Private Equity	134.7	n/a	134.7	0.93%	138.6	n/a	138.6	0.93%
Real Estate	50.4	3.1	53.5	0.81%	47.7	2.0	49.7	0.74%
Real Return	23.5	0.6	24.1	1.58%	22.5	n/a	22.5	1.15%
Absolute Return	46.7	25.9	72.7	1.87%	46.0	54.4	100.5	2.49%
Multi Asset	1.1	n/a	1.1	0.45%	1.2	n/a	1.2	0.43%
Credit/Debt	23.9	n/a	23.9	0.76%	31.5	n/a	31.5	0.78%
Equity Long Short	16.2	10.0	26.3	1.51%	17.0	33.0	50.0	2.68%
Service Providers	9.2	n/a	9.2	n/a	9.1	n/a	9.1	n/a
<b>Total Fund</b>	<b>\$380.6</b>	<b>\$56.7</b>	<b>\$437.2</b>	<b>0.66%</b>	<b>\$393.0</b>	<b>\$106.6</b>	<b>\$499.7</b>	<b>0.70%</b>

Note: Columns may not sum to total due to rounding. Fees as % of Asset column indicates fees as a percentage of the average market value of the asset under management.

Source: State Retirement Agency

Review of the SRPS fees by the system's investment consultant has noted that SRPS has been effective at negotiating more favorable fee arrangements than peer systems. Transitioning assets to internal management has also resulted in fee savings to the system. As discussed in the following sections, the system has moved \$15.4 billion in assets under internal management, which

is approximately 21% of system assets. Management fees attributable to internal management were 3 basis points, or 0.003% of those assets compared to the 88.6 basis points for management fees attributed to externally managed assets. SRA has previously stated that its goal is to increase internal management to as much as 50% of assets by the tenth year of this transition, which is calendar 2028.

## Active Management

While active management of assets results in higher overall fees, the system has benefited from active management. The system has found passive investment strategies to be effective where available. However, active management is able to add more diversification to system investments by investing in assets where passive investment is not available or efficient. Active management can allow for tactical adjustments to respond to short-term or rapidly developing market conditions. **Exhibit 7** shows the system's fiscal 2025 performance in asset classes in which both active and passive management are utilized. Actively managed U.S. equity has generally performed consistent with passive assets and provided additional returns for the fiscal year. U.S. nominal fixed income actively managed assets also significantly outperformed passively managed assets, either achieving higher returns or avoiding deeper losses. Passively managed international developed equity outperformed the actively managed assets for the fiscal year.

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**Exhibit 7**  
**Active and Passive Management Performance**  
**Periods Ending June 30, 2025**  
**(\$ in Millions)**

	<u>Assets</u>	<u>1 Month</u>	<u>3 Months</u>	<u>FYTD</u>	<u>3-year</u>	<u>5-year</u>
<b>U.S. Equity</b>						
Passive Management	\$3,171	4.92%	10.26%	14.00%	18.11%	15.68%
Active Management	6,555	4.81%	11.92%	14.66%	19.76%	15.57%
<b>International Developed Equity</b>						
Passive Management	\$1,382	2.02%	11.30%	16.88%	n/a	n/a
Active Management	3,792	2.65%	11.22%	15.80%	14.58%	10.03%
<b>U.S. Nominal Fixed Income</b>						
Passive Management	\$3,748	2.37%	-0.21%	3.84%	-1.05%	-5.33%
Active Management	4,415	2.08%	1.01%	6.08%	2.40%	-1.88%

FYTD: fiscal year to date

Note: Returns are net of fees.

Source: State Street – State Retirement Agency of Maryland – Rates of Return – Net Mgr – Periods Ending June 30, 2025

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**DLS requests that SRA comment on the potential impact of its decision to allocate a higher portion of the system’s international developed equity investments to actively managed funds.**

### **Absolute Return Fees and Performance**

Absolute return fee structures typically include base fixed management fees and incentive compensation based on performance. Fees paid for absolute return were \$100.5 million in fiscal 2025, which represents approximately 20% of all management fees, even though absolute return comprises only 5.5% of SRPS investments. In recent years, absolute return investments have consistently performed well below the system’s assumed rate of return as well as below its benchmarks. The system’s *Investment Policy Manual* describes the absolute return asset class as, “investments whose performance is expected to exceed the three-month U.S. Treasury bill by 4% to 5% over a full market cycle and exhibit low correlation to public stocks.”

However, in fiscal 2025, performance for the absolute return class significantly improved, with overall asset returns of 10.72% against a benchmark of 7.17%, following returns of 5.86% against a benchmark of 8.43% in fiscal 2024. Performance relative to benchmarks was mixed within the asset class. A significant number of investments overperformed their benchmarks, with 9 managers overperforming their benchmarks by more than 10 percentage points. Only 7 managers had returns that failed to exceed the Financial Times Stock Exchange three-month U.S. Treasury bill benchmark of 4.88%.

Absolute return has returns below benchmarks for the 3-, 5-, and 10-year periods ending June 30, 2025. Since inception, the returns have exceeded the benchmarks, but that return is only 3.74% against a benchmark of 3.23%. In contrast, the system’s cash assets (1.4% of total system assets) have returned 3.77% since inception (against a benchmark of 1.25%) and have outperformed the absolute return assets over the 3- and 10-year periods ending June 30, 2025.

**SRA has previously noted that the absolute return asset class should experience better returns during times of market volatility. With the significant improvement in the fiscal 2025 returns, DLS requests SRA to comment on whether the absolute return performance is indicative of market conditions that would lead to sustained volatility and, if so, how the system’s absolute return assets will be utilized to achieve investment gains during volatile market periods.**

### **Private Equity Fees and Performance**

Management fees for private equity comprised nearly 28% of total management fees while constituting 20.5% of system assets in fiscal 2025. The reason for the higher amount of fees in private equity involves a substantial degree of active management. Fee structures typically include a fixed-base management fee plus a portion of earnings referred to as “carried interest.” The management fees only reflect the base fees, not carried interest. Because of the nature of private equity fee arrangements, carried interest fees are tied to performance. When private equity managers earn strong returns, the system pays higher carried interest fees. SRA advises that private equity returns are reported net of management fees and carried interest.

The private equity return was 6.39% with a benchmark of 7.04%, marking the second time in several years that the asset class failed to achieve double-digit returns and the second consecutive year that the returns failed to exceed the benchmark. Investment in private equity has resulted in positive returns for the system with less experienced volatility than public equity. Returns for the 1-, 3-, 5-, and 10-year periods ending June 30 were 6.39%, 3.93%, 16.25%, and 14.24%, respectively. Long-term returns have provided excess returns over the asset class benchmarks. Private equity investment performance has also outperformed peer systems consistently, as noted in Exhibit 5, with the system ranking in the top 13% for its 5-year returns and top 12% for its 10-year returns in the TUCS rankings.

SRA has also been utilizing coinvestments in private equity. Such investments are companion investments to private equity funds in which SRPS is already investing, but the coinvestments do not carry the same associated fee structure. Under this approach, SRPS is effectively reducing its fees for any private equity investments in which it coinvests by increasing the invested funds, with the coinvested portion of the investment being subject to a lower fee structure. One potential risk in coinvesting is that it can result in decreased diversification by consolidating private equity assets in fewer investments. Management of private equity assets will play a crucial role in the continued success of the asset class.

**DLS requests SRA to provide an update on estimated carried interest for calendar 2025. Additionally, SRA should comment on the drop in private equity returns over the past three fiscal years, including how the recent returns are attributable to market conditions and system investment implementation strategy.**

## **Investment Division Staffing**

Chapters 727 and 728 of 2018 granted the board authority to establish positions within the Investment Division and, subject to specified limitations, to set the compensation for those positions. Investment Division staff are now to be “off-budget” and funded as system expenses. Investment positions are also now outside of the State personnel system. The stated purpose of the legislation by SRA and the board was twofold. First, SRA’s Chief Investment Officer (CIO) noted that the ability to create positions and set compensation would reduce compensation-related turnover in the division and help in recruitment to adequately staff the division to perform its existing functions. Testimony submitted in support of the legislation noted that the authority is expected to enhance system investment performance by adding and enhancing staff. The testimony noted that additional staffing resources will “enable the division to expand the universe of potential managers or investments to pursue, enhance the methodology of evaluating those opportunities, or design tactical strategies to adjust the mix of investments for intermediate-term performance.” Additional staffing was also intended to free senior investment staff of administrative duties, resulting in increased focus on enhancing investments. The testimony noted that providing the board with authority over positions and compensation “will not result in paying the existing staff more money for doing the same job, but instead, will allow these positions to be more focused on the investment process rather than the administrative and reporting functions.” The request for staffing authority contemplated SRA’s need to expand its staff resources, as both the complexity of the fund assets and the size of the assets under management is expected to grow. Since the passage of Chapters 727 and 728, SRA has been able to hire additional staff and move forward

into internal management of assets. The Investment Division has grown to 51 approved positions as of June 30, 2025, with 4 additional positions projected for fiscal 2026. Periodic review of the division's operations will evaluate the need for additional future positions.

The 2018 legislation included a number of limitations on the board's authority to set compensation and, in particular, incentive compensation. The restrictions included in Chapters 727 and 728 were intended to strike a balance between giving the board necessary flexibility to be able to recruit and retain investment division personnel while also being respectful of broader compensation available to other State employees. Consistent with this intent, the authority granted to the board was a narrow authorization to set competitive compensation for positions with job responsibilities that are unique within State government, namely exercising discretion over investments of the multi-billion-dollar trust that supports more than 400,000 system members, retirees, and beneficiaries. With regard to the use of incentive compensation, the legislation required incentive compensation to only be granted based upon objective criteria adopted by the board. The legislation established an Objective Criteria Committee (OCC) as a body charged with making recommendations to the board for the adoption of the objective criteria. OCC was required to convene every five years. OCC met throughout summer 2018, shortly after Chapters 727 and 728 became effective. At the conclusion of its work, OCC submitted to the board a recommended compensation and incentive compensation program for the Investment Division. These recommendations served as the foundation for the expansion of the Investment Division from 2018 to 2023.

Regarding the OCC process, SRA noted that during the intervening five years between the OCC convening, the Investment Division has grown and created new positions, including an internal training desk. SRA noted the board would have benefited from having an ongoing committee that could review criteria for compensation (including incentive compensation) and assist with creating new positions within the Investment Division. Chapters 772 and 773 of 2025 repealed OCC and replaced it with the Compensation and Staffing Committee (CSC) of the board. CSC will address issues that arise in real time, rather than wait for OCC to convene every five years. Moreover, OCC's role was limited to recommending objective criteria, but the board's responsibilities are far broader, including determining the type and number of positions to carry out the functions of the Investment Division and their qualifications and compensation (including financial incentives). In addition to adopting objective criteria, the board identified needs to determine a position classification system and a pay scale, and to review and regularly update these items as the needs of the system change. CSC was appointed and began convening this past interim.

Discussions in both OCC and CSC have raised the issue of the statutory cap on incentive compensation being limited to 33% of base compensation, resulting in limitations on getting employees to the target ranges for total cash compensation. The discussions have noted that incentive compensation can align an employee's personal interests with those of the system by encouraging strong investment management performance, and that higher base compensation could have the result of "rewarding" underperformance. On the other hand, DLS notes that during the passage of Chapters 727 and 728, there was discussion around the risks that higher weight toward incentive compensation can incentivize an employee to take additional risks when managing system assets. There was also discussion of how Chapters 727 and 728 have impacted division recruitment and retention. It was noted that while there are some positions that have been

more competitive to recruit due to national labor market issues, very few investment employees have vacated their positions since the passage of the legislation. State agency personnel vacancies have been at all-time highs in recent years, much of this attributable to low State compensation. That the investment division has fared better than other State agencies suggests that compensation is more in line with similar organizations than in most other State agencies.

**DLS requests that SRA comment on the use of the compensation adjustment authority provided under Chapters 727 and 728 and whether the board has faced any difficulties recruiting and retaining staff since the passage of Chapters 727 and 728. DLS further requests SRA to update the committee on the number of resignations and terminations in the Investment Division since the passage of Chapters 727 and 728. Finally, DLS requests SRA to update the committee on any compensation adjustments recommended by CSC and the actions taken by the board.**

### **Incentive Compensation**

Fiscal 2020 was the first year in which the Investment Division staff and CIO were eligible for incentive compensation under Chapters 727 and 728. Due to restrictions on the payment of incentive compensation in years that State employees are subject to a furlough, incentive payments are subject to deferral to ensure compliance with these restrictions. Additionally, the statute requires incentive compensation to be paid out over multiple years, and the board's current policy is to pay incentives earned over a two-year period. The Acts included this requirement as a retention incentive was modeled off a previous existing policy of the board to pay incentive compensation for CIOs over a period of three years. Incentive compensation is earned based on the performance of assets under an employee's management. The incentive compensation earned is based to varying degrees on the performance of assets related to the system's actuarial rate of return, the system's policy benchmark, and asset-class-specific performance benchmarks.

Prior OCC discussions explored whether a risk-based metric could be substituted for performance relative to the assumed rate of return, but the OCC consultant as well as the board's investment consultant could not identify a reasonable risk-based metric to use. During the July 2024 investment committee meeting, there was further discussion concluding that a reasonable risk-based metric was not identified but that the board would continue to evaluate options for inclusion of risk-based metrics in the future. As part of the discussion, a motion was adopted to remove performance relative to the actuarial rate of return as a criteria for CIO incentive compensation, so that CIO incentive compensation would be based 100% on the investment performance relative to the policy benchmark over a three-year period. No such motion was made regarding other positions within the division. The committee recommended incentive compensation performance metric weighting for staff, as shown in **Exhibit 8**, which was adopted by the board at its October 2024 meeting. Investment return relative to the system's actuarial rate of return remains a component for incentive compensation for the positions of deputy chief investment officer, senior corporate governance manager, and senior risk manager. During the OCC process, there was discussion about whether basing incentive compensation on performance relative to the actuarial rate of return for the system made sense for staff that worked primarily or exclusively in a select asset class and for staff that did not have any role in advising the board on

the system’s asset allocation. As noted previously, the system’s asset allocation plays a major role in determining the system’s overall returns.

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**Exhibit 8**  
**State Retirement Agency Investment Division**  
**Incentive Compensation Performance Metric Weighting**

<b><u>Position</u></b>	<b><u>Policy Benchmark</u></b>	<b><u>Actuarial Rate of Return</u></b>	<b><u>Asset Class</u></b>
Chief Investment Officer	100%	n/a	n/a
Deputy Chief Investment Officer	75%	25%	n/a
Managing Director	50%	0%	50%
Senior Corporate Governance Manager	75%	25%	n/a
Senior Risk Manager I through III	75%	25%	n/a
Senior Portfolio Manager I through IV	50%	0%	50%
Senior Investment Analyst I through III	50%	0%	50%

Source: Investment Policy Manual for the Board of Trustees of the State Retirement and Pension System (October 2024)

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**DLS requests that SRA update the committee on the use of incentive compensation for recruitment and retention and provide information on the number of division staff eligible for incentive compensation based on fiscal 2025 returns.**

**Additionally, DLS requests SRA to comment on whether any consideration has been given in CSC discussions regarding including system performance relative to the assumed rate of return as an incentive compensation metric for the CIO position, as performance relative to the system’s assumed rate of return is still a component for other Investment Division staff with lesser involvement in advising the board on the system’s asset allocation.**

**Internal Management of Assets**

Another purpose of Chapters 727 and 728 was that the authority over positions and compensation would be necessary to begin moving externally managed assets to internal management by division staff. The timeline indicated for internal management contemplated beginning with passively managed assets. Internal management would be broadened in years 3 through 5 to types of assets directly managed, including coinvestment in private assets. By year 10, as much as 50% of assets could be managed internally. One of the arguments for internal management is that it can reduce fees paid for asset management. SRA indicates that fee savings of just one basis point would net the system approximately \$6 million. DLS has previously noted that SRA has been effective at negotiating favorable fee arrangements with external managers, and that external management provides SRPS with options to select asset managers and to diversify the management of assets among multiple managers. DLS also previously noted that performance

measures would need to be adopted to monitor and evaluate the effectiveness of internal management of system assets compared to external management. Additionally, guidelines and reporting requirements would need to be implemented to track the internal management of system funds as well as any expansion or reduction of internal management once implemented.

Since the passage of Chapters 727 and 728, the system has begun to move assets under internal management. In total, the system has moved \$13.9 billion in assets under internal management, which is approximately 19% of system assets. **Exhibit 9** shows the performance of the system’s internal management program. The internally managed assets generally exceeded or tracked closely with the asset benchmarks. The internally managed assets do not carry the same fee expenses as externally managed assets, and the performance shown in Exhibit 9 does not reflect fee savings.

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**Exhibit 9**  
**State Retirement Pension System Internal Management Performance**  
**Investment Performance for Periods Ending June 30, 2025**  
**(\$ in Millions)**

	<u>Total Assets</u>	<u>Fiscal 2025 Actual</u>	<u>Fiscal 2025 Benchmark</u>	<u>Inception Actual</u>	<u>Inception Benchmark</u>	<u>Inception Date</u>
MD TIPS	\$2,447	6.04%	5.71%	2.74%	2.61%	7/1/2019
MD Long Government Bonds	2,488	2.35%	1.58%	-6.32%	-6.61%	2/28/2020
MD Investment Grade Corporate Bonds	694	7.12%	6.91%	-0.70%	-0.64%	6/30/2021
MD Securitized Bonds	565	6.75%	6.58%	-0.47%	-0.60%	9/30/2021
MD U.S. Large Cap Equity	2,782	15.77%	15.66%	15.04%	15.03%	10/1/2020
MD U.S. Small Cap Equity	389	4.44%	4.60%	1.79%	1.77%	10/1/2021
MD Global Infrastructure	1,732	25.24%	24.11%	10.93%	9.98%	12/1/2022
MD International x U.S. Large Cap Equity	1,381	16.89%	16.43%	15.82%	14.56%	4/1/2023
MD International x U.S. Sci-beta Value	1,430	23.07%	22.46%	17.58%	16.71%	5/1/2023

MD: Maryland  
TIPS: Treasury inflation-protected securities

Source: State Retirement Agency

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**DLS requests that SRA comment on the estimated fee savings attributable to internally managed assets.**

**Additionally, DLS requests that SRA provide an update on the Investment Division’s internal management of system assets and the development of necessary compliance and**

**controls on the use of internal asset management. More specifically, SRA should comment on how the Investment Division:**

- **has developed proficiency in managing assets currently being managed internally;**
- **will develop proficiency before expanding into internal management of additional asset classes;**
- **will evaluate the performance of internal management compared to available external management services; and**
- **will develop methodologies for determining fee savings achieved through internal management.**

## **Investment Climate Risk**

The impact of climate change on the invested assets of public (and private) retirement systems has been receiving increasing attention over the last few years. As climate-related risk to investments is becoming more well understood and manifest, investment fiduciaries are becoming more aware of the potential risks to current assets and the potential for future opportunities to invest as climate risks manifest. Much of the discussion around climate risk has focused on divesting from carbon-producing and -using businesses or, in some oil-producing states, severing relationships with fund managers and other entities that are divesting from carbon-producing and -using businesses. In the 2022 session, the Maryland General Assembly adopted an approach centered around the requirement for system fiduciaries to prudently invest the assets of the system. Chapters 24 and 25 of 2022 codified the responsibility of a fiduciary of SRPS when managing assets of the system and in accordance with statutory fiduciary responsibilities to consider the potential systemic risks of the impact of climate change on the system's assets.

The Acts do not require the system to take any specific action from any particular asset. Instead, the goal is to ensure that the system fiduciaries are well informed of the potential climate-related risks to system assets, just as they have duties to stay informed of any other financial risks to system assets. The Acts are intended to ensure that the system is aware of developing information regarding climate risk so that it is able to respond prudently and efficiently when climate-related risk – or opportunity – arises. In many ways, the Acts codify activity that the system has already established as regular practice. The system has received analysis from its primary investment consultant modeling the impact of climate risk to the system's assets during the system's periodic reviews of the asset allocation. Previously, the system has noted that its ownership interests in businesses have provided access to engage with companies on climate risk issues. The system's *Investment Policy Manual* also has a number of policies for shareholder proxy voting on climate-related issues. The board's Climate Advisory Panel began convening during the 2025 interim, receiving information from the system's investment consultant on how climate risk is incorporated into the asset allocation deliberations and how climate risk can be incorporated into investment implementation in the system's asset classes. The panel has also designated two working groups to focus on assessment of risk in real estate and private equity investing.

**DLS requests SRA to provide an update on the implementation of Chapters 24 and 25.**

## **Terra Maria Program**

The Terra Maria program is the system's emerging manager program. One of the Terra Maria program's stated goals is to achieve returns in excess of benchmarks. The program has demonstrated the ability to achieve excess returns over benchmarks, with instances of significant returns over benchmarks at times. Over the past few years, SRPS reorganized the program to better utilize the asset diversification that the program can bring to SRPS. The program transition included consolidating under 4 program managers (Attucks handles two different portfolios), eliminating mandates for allocations to large-cap domestic equity, and increasing mandates for international small-cap and emerging markets. Program investments in domestic equity in recent years were tracking close to markets, making it more difficult to achieve excess returns in an asset class where it is already difficult to outperform the market in addition to incurring active management fees. The program has maintained a diverse roster of managers through the transition.

Total assets within the program increased to \$2.82 billion in fiscal 2025 from \$2.35 billion in fiscal 2024. As a proportion of total assets, Terra Maria increased from 3.4% of total assets in fiscal 2024 to 3.8% in fiscal 2025. **Exhibit 10** provides an overview of the Terra Maria program by program manager.

**Exhibit 10**  
**Terra Maria Program Performance**  
**Investment Performance for Periods Ending June 30, 2025**  
**(\$ in Millions)**

<b>Program Manager</b>	<b>Total <u>Assets</u></b>	<b>Fiscal 2025 <u>Actual</u></b>	<b>Performance</b>		
			<b><u>Fiscal 2025 Benchmark</u></b>	<b><u>Inception Actual</u></b>	<b><u>Inception Benchmark</u></b>
Attucks International Equity	\$660.4	20.39%	18.70%	10.65%	8.04%
Attucks U.S. Equity/Rate Sensitive	858.0	6.30%	7.87%	9.57%	9.43%
Xponance	258.8	25.20%	23.03%	9.15%	9.16%
Leading Edge	426.2	20.90%	18.70%	9.51%	8.04%
Acuitas	267.0	n/a	n/a	0.54%	-5.02%
MD U.S. Equity Terra Maria <sup>1</sup>	108.9	n/a	n/a	2.95%	-2.04%
MD Global Equity Terra Maria <sup>1</sup>	113.9	n/a	n/a	17.87%	14.74%
MD Emerging Markets Terra Maria <sup>1</sup>	119.5	n/a	n/a	18.58%	12.46%
<b>Total Program</b>	<b>\$2,812.4</b>	<b>14.89%</b>	<b>13.41%</b>	<b>5.60%</b>	<b>5.32%</b>

<sup>1</sup> Assets overseen internally by State Retirement Agency Investment Division staff.

Note: Actual returns are net of fees; returns beyond one year are annualized. Total assets may not sum to total due to rounding.

Source: State Street – State Retirement Agency of Maryland – Rates of Return – Net Mgr – Periods Ending June 30, 2025

In fiscal 2025, the program as a whole experienced returns of 14.89%, outperforming the weighted program benchmark by 1.48 percentage points. Four of the five externally managed mandates had returns above their benchmarks, each with returns well above the system's 6.8% assumed rate of return. By asset class, investment in U.S. and international developed equity had strong returns while also outperforming the benchmarks. Since inception, four of the five program mandates have had returns above the system's assumed rate of return (the one program mandate returning below the 6.8% assumed rate of return had an inception date of October 1, 2024, and returned 5.56% above its benchmark), and four of the five outperformed their benchmarks (with the underperforming mandate only underperforming its benchmark by 0.01%).

Of particular note, the actively managed Terra Maria portfolio had significantly better performance in its rate sensitive assets compared to non-Terra-Maria assets. For U.S. nominal fixed-income investments, Terra Maria returned 6.52% compared to returns of 6.08% for actively managed non-Terra-Maria investments and 3.84% for passively managed non-Terra-Maria investments.

## Currency Program

When the dollar gains value relative to foreign currencies, it can have the impact of diminishing investment gains, as foreign investments need to be converted back into dollars to pay benefits. Conversely, when the dollar weakens relative to foreign currencies, converting foreign investments into dollars can increase the value of those investments. As a means to mitigate the volatility that fluctuations in currency values can produce, the system adopted a currency program in calendar 2009. The currency program is designed to protect against losing value when the dollar appreciates relative to some foreign currencies in countries in which the system holds assets. During periods when the dollar is weak, the currency management program's cost manifests as a slight drag on international equity holdings. However, when the dollar appreciates, the program provides gains that help offset the currency losses generated by the strengthening dollar. As of June 30, 2025, the currency program added total value of \$392.8 million since inception (down from \$419.4 million through June 30, 2024). Gains when the dollar is strong should outweigh losses when the dollar is weak, and the system has taken steps to lock in program gains. The primary objective of the program is to lower volatility related to currency fluctuations.

The currency hedging program has limited application and is only applied to a relatively small portion of the system's total assets. In addition, not all foreign currencies are included in the hedging program. Due to liquidity constraints and higher transaction costs in some currencies, the program is currently limited to the euro, Japanese yen, Swedish krona, Swiss franc, Canadian dollar, Australian dollar, and British pound.

**During 2025, the value of the dollar has dropped relative to other currencies, with a number of news outlets reporting industry expectations for further weakening of the dollar. DLS requests SRA to comment on how it will manage the currency program if the value of the dollar continues to weaken, whether any system assets are particularly vulnerable to fluctuations in the value of the dollar, and for any assets with dollar value sensitivity, how the system has prepared to make tactical adjustments to investing those assets.**



## Appendix 3

### State Retirement Agency

#### Response to Questions Received from DLS

December 10, 2025

***DLS requests SRA to comment on the fiscal 2025 return performance in relation to the policy benchmarks. For any asset classes and asset sub-classes that underperformed the benchmark, SRA should comment on the factors that led to the underperformance, whether those factors are expected to negatively affect performance in fiscal 2026, and what actions are being taken to mitigate those factors from impacting the fiscal 2026 returns.***

In fiscal year 2025, the State Retirement and Pension System achieved an investment return of 9.83%, exceeding the assumed actuarial rate of 6.80%. This performance also outpaced the Board of Trustees' policy benchmark of 9.54% by 0.29%, or 29 basis points, representing approximately \$200 million in added value. The policy benchmark is the weighted average of each of the individual asset class benchmarks and represents what the System would have returned if the asset class benchmark returns were achieved and is a more appropriate benchmark when evaluating shorter-term performance. The total fund excess return of 29 basis points was a product of strong performance in the asset classes of absolute return and rate sensitive. Over the 10 years ending June 30, 2025, the System has achieved an average annualized return of 7.04%, beating the policy benchmark of 6.62% by 42 basis points annualized net of all fees and expenses, representing over \$3 billion in added value.

The Board does not expect each asset class to outperform every year, but instead over time and across economic cycles, in a risk-balanced and efficient manner. The effectiveness of this asset allocation approach is demonstrated by the System's Sharpe Ratio, a commonly-used measure of risk-adjusted returns. Over the last 10 years, the System ranks in the top quartile on this measure among a peer universe of similar plans. Investment Division staff reviews the performance of underperforming asset classes to assess whether the performance is consistent with expectations, or a sign of a longer-term problem. In fiscal year 2025, four major asset classes trailed the performance of their respective benchmarks – public equity, private equity, credit and real assets.

In fiscal year 2025, the total public equity portfolio generated a return of 16.31%, trailing its policy benchmark by 0.35%. The public equity portfolio is structured into four sub-groups – U.S. equity, international developed equity, emerging markets stocks and global equity. The emerging markets and global components exceeded their respective benchmarks, while the U.S. and international sleeves fell short of their targets. The U.S. portfolio returned 14.62%, underperforming the Russell 3000 index by 68 basis points. The System's fund managers overseeing the U.S. portfolio typically invest in high-quality stocks. The underperformance for the fiscal year can be attributed to the outperformance of lower-quality stocks in the index, which are not a focus of the System's asset managers. Staff views the relative outperformance of these lower-quality stocks as a temporary condition and does not anticipate this trend to persist over the long term. Over the long term, staff continues to favor higher-quality stocks that are better positioned to withstand economic uncertainties and volatility.

The international sub-asset class returned 18.19% compared to the index's return of 18.70%, resulting in an underperformance of 51 basis points for the fiscal year. During this period, value stocks in developed international markets significantly outperformed growth oriented stocks. The overweight to growth stocks in the System's international equity portfolio was the primary factor behind the modest underperformance for the year. Staff is in the process of implementing due diligence enhancements in the international portfolio to better capture and take advantage of factors that are more likely to outperform. While the international segment lagged the benchmark for fiscal year 2025, the longer term performance over three, five and 10 years is positive.

The private equity portfolio underperformed the State Street Private Equity index by 0.65%, or 65 basis points for the fiscal year. The private equity portfolio generated a 6.39% return versus 7.04% for the index. The factors driving the near-term underperformance of the private equity portfolio relative to the State Street Benchmark relate to portfolio weightings and currency impacts. The System is underweight European private equity and overweight the U.S. relative to the index. In fiscal year 2025, Europe significantly outperformed the U.S. driven almost entirely by the weaker dollar. The System is also modestly underweighted to venture capital investments relative to the index, which was the top-performing strategy in the private equity complex in fiscal year 2025.

While the System's private equity portfolio underperformed its respective benchmarks in fiscal year 2025 due to a mismatch in composition between the index and the System's portfolio, as well as underperformance of the System's fund-of-funds investments, these factors are not expected to persist. Staff expects the currency impact to reverse over time as the market environment evolves and transitions to another economic regime, and for strong relative performance in the System's venture portfolio to offset the underweight to the strategy. Over the longer term, private equity has achieved positive relative performance, as shown in Table 1 below.

**Table 1**  
**MSRPS Private Equity Performance**  
**As of June 30, 2025**

	1-Year	3-Years	5-Years	10-Years
Maryland Private Equity	6.39%	3.93%	16.25%	14.24%
Private Equity Benchmark	7.04%	3.40%	15.98%	12.14%
Excess	-0.65%	+0.53%	+0.27%	+2.10%

The credit asset class has been a very strong relative performer over the long term, as shown in Table 2 below:

**Table 2**  
**MSRPS Credit Performance**  
**As of June 30, 2025**

	1-Year	3-Years	5-Years	10-Years
Maryland Credit	9.32%	8.37%	6.80%	5.42%
Credit Benchmark	9.70%	9.68%	5.41%	4.90%
Excess	-0.38%	-1.31%	+1.39%	+0.52%

The underperformance for the 1-year period can be explained by timing differences created by private investments being benchmarked to public indices. When public market benchmarks experience strong returns, like in fiscal year 2025, the appraised private market investments often are not able to keep up. These private structures also experience what is known as the J-curve effect, marked by low, or negative, returns during the early stage of an investment when values are typically held near cost until value creation is realized. During this initial period, the System pays management fees on these investments, which acts as an additional drag on performance. Over the past two fiscal years, the System has committed roughly \$2 billion to these private credit strategies. The impact of the J-curve is accentuated when the public market credit benchmark produces a strong return, as was the case in fiscal year 2025. While private credit investments detracted from the fiscal year performance, the longer-term returns have significantly outperformed the public market benchmark, as shown in Table 3 below. These excess returns are expected to persist in the future:

**Table 3**  
**MSRPS Private Credit Performance**  
**As of June 30, 2025**

	1-Year	3-Years	5-Years	10-Years
Maryland Private Credit	9.26%	6.58%	10.96%	8.19%
Credit Benchmark	9.70%	9.68%	5.41%	4.90%
Excess	-0.44%	-3.10%	+5.55%	+3.29%

The real assets portfolio includes two sub-categories of investments – real estate, representing 67% of the asset class, and natural resources and infrastructure, representing 33%. For fiscal year 2025, the real estate component essentially matched the real estate benchmark, while the natural resources and infrastructure segment trailed its relative benchmark by 2.02%, explaining virtually all the fiscal year underperformance of the asset class. The benchmark for the natural resources and infrastructure strategy is comprised of two indices of publicly traded stocks. Like the credit asset class, the underperformance of natural resources and infrastructure was primarily driven by the private infrastructure portfolio being benchmarked to an index of publicly traded stocks. In fiscal year 2025, the private infrastructure portfolio

achieved a return of 10.68% versus 24.11% for the benchmark. The underperformance was due to the public benchmark having a very strong year and most of the private investments still held closer to cost with the J-curve effects acting as a drag on performance. While the natural resources and infrastructure portfolio trailed the benchmark in fiscal year 2025 due to benchmark mismatch, longer-term performance is very strong. Since the inception of the program in 2009, the natural resources and infrastructure portfolio has exceeded the benchmark by 1.4% annualized.

***DLS requests that SRA comment on the relative TUCS performance rankings by asset class and how overall asset allocation impacts the total system's TUCS rankings.***

As noted in the DLS Investment Overview, the System's 1-year total fund performance compared against a peer group of other large public pension plans ranked in the 65<sup>th</sup> percentile. Peer group rankings are driven mainly by two factors – asset allocation and implementation of the asset allocation. Asset allocation refers to the way the fund assets are distributed to the various asset classes, and implementation refers to staff's ability to select skillful managers and tactically position the portfolio to take advantage of market opportunities. A more detailed discussion of the System's asset allocation follows below in our responses to other DLS requests.

An effective method to determine which of these factors is driving the total fund peer rankings is to analyze the peer ranking of each individual asset class. As noted in the DLS report, most of the System's asset classes have achieved above median returns over time. Private equity, the System's best-performing asset class over the last 10 years, representing 20.5% of total fund assets, has consistently ranked in the top quartile of the peer group over time. In fact, for the 10-year period ending June 30, 2025, the System's private equity portfolio is ranked in the 12<sup>th</sup> percentile, meaning only 11% of the peer universe performed better. That the individual asset class rankings are generally higher than those of the total fund supports the notion that the mix of asset classes is mainly driving the total plan results, and not the performance of the individual asset classes. For example, the System has higher target allocations to non-U.S. equities than the average peer in the universe. Over the past 10 years, U.S. stocks have significantly outperformed foreign stocks. The System's relative underweight to U.S. stocks has resulted in a lower peer ranking than would be assumed based solely on rankings of individual asset classes. This is also demonstrated by the System's total equity ranking in the 79<sup>th</sup> percentile over the last 10 years, while the rankings of the regional components are significantly better.

The asset class rankings for the System's fixed income portfolio have trailed the peer group over the last several years. This is due to the longer duration profile of the System's portfolio relative to peers, who typically hold more core and shorter duration bonds. While the Federal Reserve lowered short-term rates during the fiscal year, longer term yields increased over the fiscal year, with the 30-year treasury rate increasing from 4.62% to 4.77%. Longer duration bonds are more sensitive to changes in interest rates and achieved lower total returns than shorter duration bonds in fiscal year 2025. The System allocates more to long duration bonds for greater protection in disinflationary environments, to better match the plan's longer-term liabilities and to hedge against stock market drawdowns to preserve principle. The correlation between stocks and bonds is typically negative, meaning as stocks go down, bonds will increase in value.

The System typically reports its peer rankings against a relatively small universe of roughly 30 public pension plans on a gross-of-fee basis. Given the System’s asset allocation, with a relatively higher allocation to private market investments like private equity, private credit and real estate, it might also be instructive to measure performance against a larger universe on a net-of-fee basis. Private investments typically do not report gross investment returns, but only performance net of all fees. As a result, the System’s gross returns are a combination of gross and net performance. To the extent the System invests more heavily in private investments, the difference between the gross and net numbers will be smaller relative to a peer plan that employs a higher allocation to traditional assets. This is illustrated in Table 4 below, which ranks the System’s performance against a larger universe of public pension plans after investment expenses have been netted out.

**Table 4**  
**Total System vs. Public Plans > \$1 Billion Universe**  
**(June 30, 2025 net of fees)**

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Total System</b>	<b>9.83%</b>	<b>6.60%</b>	<b>8.29%</b>	<b>7.04%</b>
<b>Rank</b>	<b>63</b>	<b>96</b>	<b>79</b>	<b>58</b>

\* Represents the InvMetrics Public Defined Benefit > \$1 billion peer group

The focus on investment performance tends to be on returns. However, the Board and staff recognize that risk is equally important. To get a more complete picture of the System’s investment program, risk-adjusted returns should also be evaluated. The System’s risk profile, as measured by the dispersion of returns around the mean, falls in the bottom quartile of the peer group over the last five years. This lower risk posture has been achieved by targeting a lower relative weighting to public stocks versus the peer group. Sharpe ratio is another metric that accounts for risk in the assessment of investment performance, and represents risk-adjusted returns, or returns per unit of risk. Based on the Sharpe ratio measure, the System ranks in the top quartile (better than 75% of funds) over the last 10 years. This is illustrated in Table 5 below, which ranks the System’s Sharpe ratio against a larger universe of 110 public pension plans after investment expenses have been netted out.

**Table 5**  
**Total System vs. Public Plans > \$1 Billion Universe**  
**Sharpe Ratio Comparison**  
**(June 30, 2025 net of fees)**

	<b>5 Years</b>	<b>10 Years</b>
<b>Total System</b>	<b>0.8%</b>	<b>0.8%</b>
<b>Rank</b>	<b>39</b>	<b>23</b>

Represents the InvMetrics Public Defined Benefit > \$1 billion peer group

***Additionally, DLS requests that SRA comment on the drop in TUCS performance rankings in the fixed income and private equity asset classes over the past three years, and strategies being implemented to improve performance within the asset classes.***

As noted earlier, the low rankings of the fixed income asset class over the last three years can be attributed to the longer duration profile of the System's portfolio. The System allocates more to long-duration bonds for enhanced diversification in disinflationary environments, to better match the plan's longer-term liabilities and to provide downside protection against most stock market drawdowns to preserve more principle, as the correlation between stocks and bonds is typically negative, meaning as stocks go down, bonds will increase in value. While long duration bonds perform well in disinflationary environments when interest rates typically decline, they perform poorly when inflation is high, and the Federal Reserve must raise rates in response. In March 2022, the Federal Reserve embarked on a rate hiking cycle that resulted in eleven increases for an aggregate increase of 5.25%. While the Fed lowered short-term rates during fiscal year 2025, longer term yields increased over the fiscal year, with the thirty-year treasury rate increasing from 4.62% to 4.77%. Longer duration bonds are more sensitive to changes in interest rates and achieved lower total returns than shorter duration bonds in fiscal year 2025. While the System's bond portfolio has a low peer ranking over the last several years, we do not expect this to persist. As rates plateau or begin to fall, the long duration positioning should outperform more core, shorter maturity strategies as maturity proceeds and coupon payments are reinvested at higher yields.

For the 1- and 3-year periods, the System's private equity program ranked in the 54<sup>th</sup> and 70<sup>th</sup> percentile, respectively, in the TUCS universe. These rankings appear to be outliers relative to the top quartile rankings over the longer term. It is difficult to assess this contrast, as there is no transparency into the composition of the TUCS universe or granular detail regarding portfolio characteristics. The factors driving the near-term underperformance of the private equity portfolio relative to the State Street Benchmark likely relate to portfolio weightings and currency impacts. The System may be underweight to European private equity and overweight the U.S. relative to the universe. In fiscal year 2025, Europe significantly outperformed the U.S., driven almost entirely by the weaker dollar. The System may also be underweighted to venture capital investments relative to the universe, which was the top-performing strategy in the private equity complex in fiscal year 2025. Another factor contributing to the lower ranking over the last three years is the System's exposure to legacy secondary funds and Asia-focused fund-of-funds, which have lagged the performance of the broader index. The percentage of the private equity portfolio allocated to these legacy commitments continues to decline and they will have less impact on performance over time.

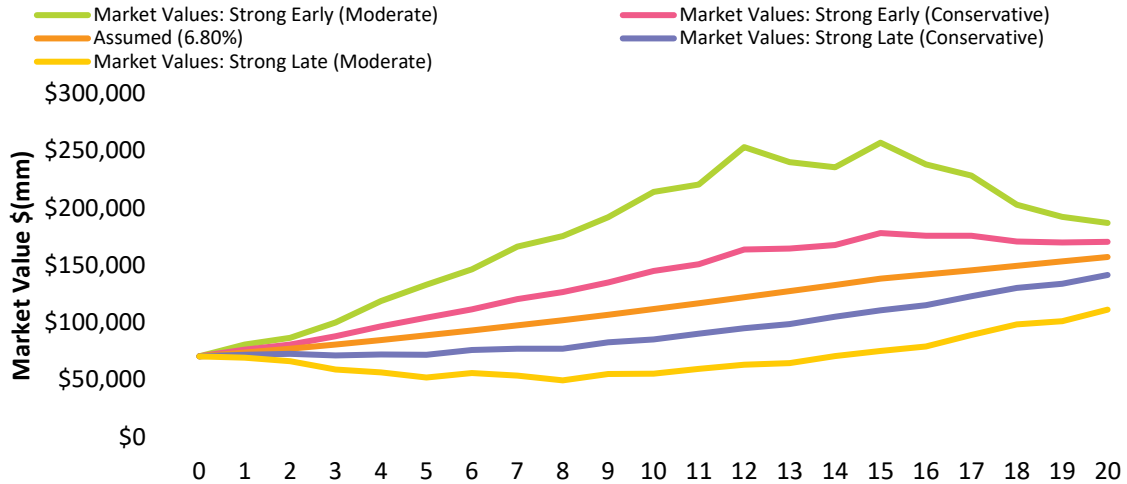
The System's investment focus continues to be generating strong long-term performance. While the performance of the private equity portfolio was below median over the last three fiscal years, the longer-term returns are near the top of the TUCS universe and represent the System's best performing asset class.

***DLS requests that SRA comment on how the system's asset allocation strategy affected the system's investment return volatility over the prior five fiscal years and the impact to the system of mitigating investment return volatility.***

The Board's asset allocation policy is designed to achieve the actuarial rate of return over long periods of time by assembling a diversified portfolio of asset classes, each of which may have a large or small, positive or negative return in any given year. By assembling assets that exhibit distinct risk and return characteristics in different market environments, the Board expects more stable investment returns over time than a less diversified portfolio. This lower risk portfolio should result in a larger asset pool for the System's beneficiaries than a more volatile portfolio with the same average return.

Over this 5-year period, the System's diversified and balanced asset allocation generated a net return of 8.29%, exceeding the actuarial target of 6.80% by 1.49%. While a 60/40 portfolio of the S&P 500 stocks and U.S. bonds would have achieved a higher return of 9.62% over this period due to the outperformance of U.S. stocks relative to foreign stocks and the shorter duration posture of the bond index versus the System's bond portfolio, the volatility, or risk, of the System's return stream was significantly lower than the 60/40 portfolio. The volatility of the System's monthly returns over this period was 7.21%, compared to 11.49% for the 60/40 portfolio. The System's Sharpe Ratio, a measure of risk-adjusted returns, was also higher than the 60/40 portfolio at 0.76 versus 0.59. Volatility of returns is an important consideration, particularly when there are negative cash flows in any investment portfolio, as it is difficult to recover after a market downturn. Volatility results in a smaller asset pool relative to a portfolio with no cash flows. Since the System must pay monthly benefits and is in a negative cash flow position, mitigating the negative effects of volatility is critically important. Table 6 below shows the impact return volatility has on investment portfolios, with poor investment returns early in the period resulting in significantly lower ending market values compared to portfolios that experience strong returns earlier. Because the sequence of returns and the overall investment environment is uncertain, a diversified portfolio provides the System with the most even and balanced path in achieving its objectives.

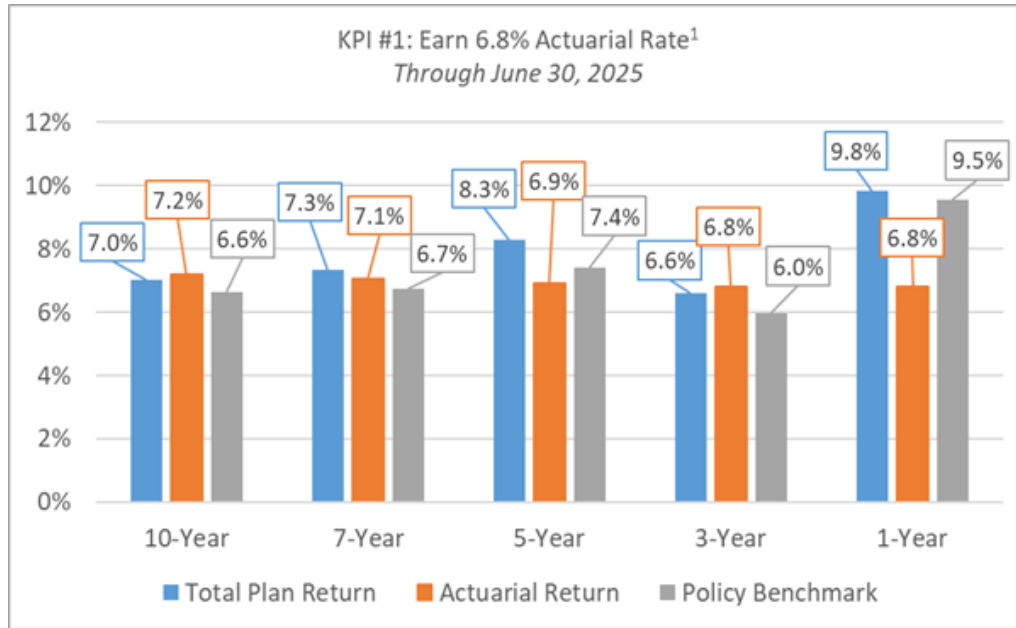
**Table 6  
Impact of Sequence of Returns  
on Investment Portfolios**



*Additionally, DLS requests SRA to comment on key findings from its survey of risk tolerance among board members, and how the system is assessing market risks and balancing its investment return objectives with the potential for market volatility.*

In 2024, the Board began an education process to review the System’s current asset allocation. Part of this process included a survey for Board members to complete to gauge risk tolerance and other preferences associated with asset allocation. While there were many areas where there was not a strong consensus among Board members, there was strong agreement regarding the performance objectives of generating returns that meet or exceed the 6.8% actuarial return assumption and achieving and maintaining a fully funded plan. Over the last 10 years, the System has largely met this target, with annualized net returns of 7.04%. However, this return includes the added value from policy implementation like active management and tactical asset class weightings. The System’s policy benchmark, which is based on target asset class weightings and assumes index returns for the asset classes, struggled to meet the actuarial target. Table 7 below shows the performance of the System’s actual return, the actuarial target return, and the strategic policy benchmark.

**Table 7**



To generate higher returns and improve the probability of meeting the actuarial target, the Board determined that more risk needed to be added to the asset allocation. In May 2025, the Board approved a new asset allocation that increases exposure to growth-oriented assets like public stocks, private equity and private debt, with corresponding reductions to more defensive strategies like absolute return and bonds. The Board considered the additional risks associated with the new policy through several different lenses, including scenario analysis and stress testing. In reviewing 14 historical negative scenario events, the new asset allocation resulted in marginally worse returns than the prior policy for eight of the scenarios. For example, during the global financial crisis of 2007-2009, the newly adopted asset allocation generated a return of -25.1%, versus -23.5% for the prior allocation. However, in six out of the 14 negative scenarios, the new allocation outperformed the prior one. It is important to note that the new asset allocation has not yet been implemented, pending the review of the System’s new Chief Investment Officer.

***DLS requests that SRA comment on the potential impact of its decision to allocate a higher portion of the system’s international developed equity investments to actively managed strategies.***

The System allocates more to active management strategies in the developed international allocation because there is greater opportunity to generate excess returns relative to the benchmark in this space than large cap U.S. equity. Table 8 below shows that, except for large cap U.S. equity, active equity managers have been able to outperform their respective benchmarks by a significant margin due to potentially greater market inefficiency and less analyst coverage.

Table 8

**Annualized Excess Returns vs. Preferred Benchmark**

	U.S. Large Cap	U.S. Small Cap	Int'l Large Cap	Int'l Small Cap	Emerging Markets
<b>Average Manager</b>	(0.48)	1.19	0.55	0.51	0.98
<b>Median Manager</b>	(0.42)	0.77	0.39	0.62	0.72

Relative performance is measured v.s. each manager's preferred benchmark to help control for stylistic effects.

Performance from October 2015 to September 2025 (10 years).

Source: eVestment; MSRA internal calculations.

It is important to note that the current developed international passive mandate is not a broad market strategy representing the total opportunity set of companies, but a mega cap index of the top 200 international developed companies. This is a portfolio management tool to offset an active, small cap international mandate the System has established with a Terra Maria manager-of-emerging managers. Since small cap companies are not included in the developed international benchmark, the System offsets this small cap bias with the mega cap passive account. The System has been able to add value in international developed markets over time, outperforming the appropriate broad MSCI World ex-U.S. index by 34 basis points annualized over 10 years.

*SRA has previously noted that the absolute return asset class should experience better returns during times of market volatility. With the significant improvement in the fiscal 2025 returns, DLS requests SRA to comment on whether the absolute return performance is indicative of market conditions that would lead to sustained volatility and, if so, how the system's absolute return assets will be utilized to achieve investment gains during volatile market periods.*

The objective of the absolute return portfolio is to provide diversification and risk reduction to the total plan, and to outperform a cash return by 4% over a full market cycle. The portfolio is expected to perform best when volatility is high, correlations are low, and dispersion among securities is high. The recent strong performance of the absolute return asset class is not necessarily evidence of sustained market volatility going forward, though it suggests a market environment that has recently become more favorable for the strategies employed by the program. While staff does not interpret the recent outperformance as a signal of a prolonged high-volatility regime, macroeconomic factors such as elevated interest rates and diverging central bank policies may continue to provide a more favorable environment for absolute return strategies than in the low-volatility regime of the 2010s.

The improvement in the performance of the absolute return portfolio is driven by a combination of staff-led strategic changes and favorable market conditions. In addition to the excess return of 3.54% in fiscal 2025, the portfolio has achieved strong returns more recently as well. Through October 2025, the calendar 2025 year-to-date excess return stands at 4.96% and the fiscal year-to-date 2026 excess return is

1.95%. Importantly, the trailing 2-year, 3-year, and 4-year excess returns have turned positive, demonstrating sustained improvement over the benchmark. Also, the longer term 5-year return is just 0.03% shy of the cash + 4% return objective.

In addition to more favorable market conditions, outperformance is also attributable to several portfolio improvements. For example, the transition in fiscal year 2022 to a strategy-blended, asset-weighted benchmark created better transparency, allowing staff to more effectively align portfolio construction with the benchmark's exposures. Staff has also successfully implemented tactical allocation decisions to overweight/underweight certain strategies, positioning the portfolio to capitalize on anticipated market conditions. The portfolio is increasingly benefiting from opportunistic investments made over the prior 3-5 years that are now realizing value. Likewise, enhancements such as manager consolidation, increased focus on co-investment opportunities, and successful efforts to negotiate improved fee structures with existing managers have also contributed to improved performance and reduced fee load.

If volatility remains elevated, the System's absolute return portfolio will be utilized to achieve stable, consistent investment returns and to preserve capital in periods of market stress. The underlying strategies are designed to take advantage of the conditions that volatility creates, primarily when realized volatility is high, correlations are low, and dispersion among securities is high. The current elevated interest rate environment tends to increase market volatility and promote greater price dispersion because the opportunity cost of capital is higher, forcing company fundamentals to play a more significant role in valuations. This environment is favorable for relative value and event-driven strategies, which profit from mis-pricings between related securities and from opportunities arising from corporate actions. Additionally, the environment of divergent global interest rate policies is optimal for global macro strategies, which express views on the future paths of interest rates, currencies, and commodities based on these differing policy paths. Given the portfolio's primary role as a diversifier, its lower equity sensitivity means it is positioned to preserve capital when equity markets decline, providing significant downside protection against the total plan's primary risk exposure. This has been demonstrated historically, including the fourth quarter of 2018, the first quarter of 2020, the first half of 2022, and the summer of 2023 when the portfolio significantly outperformed public equities during these periods of market stress.

***DLS requests SRA to provide an update on estimated carried interest for calendar 2025. Additionally, SRA should comment on the drop in private equity returns over the past three fiscal years, including how the recent returns are attributable to market conditions and system investment implementation strategy.***

The System records carried interest earned by its managers on a calendar year basis to align with the reporting schedule for audited financial statements for most of the System's alternative investment vehicles. Currently, there is no standardized reporting structure of carried interest in the private market industry. Because of this lack of consistent reporting, the process of aggregating carried interest amounts earned by the System's private market investment vehicles is largely a manual process that is very time and labor intensive. In addition, there is a significant time lag from the end of each quarter to the time staff receives the report, particularly the calendar year-end audited financial reports. Because of these

challenges, it takes the better part of a year to calculate the aggregate carried interest amounts for the prior calendar year.

In calendar year 2024, the System's managers earned estimated carried interest payments of roughly \$263.9 million. It is important to distinguish the difference between management fees and carried interest, or performance incentives, as many private market investors do not consider incentive fees to be management fees. Management fees are contractual obligations that must be paid regardless of performance. Incentive fees, which primarily apply only to private market investments and not traditional asset classes, represent a portion of investment profits that is earned by a manager, and are only paid if performance thresholds are achieved and generally after the investor has recouped all management fees and expenses. They are utilized to motivate the manager to make profitable investments, and to ensure alignment of interests. The percentage of profits that is allocated to the manager is substantially lower than the amount received by the System. Because of this disproportionate sharing of profits, the amounts realized by the System would far exceed any incentive fees paid to managers. Large amounts of carried interest should be considered a positive result, as this would imply much greater gains to the System at a level of roughly fourfold. Based on the amount of carried interest earned in 2024, the implied gains to the System over a period of several years would equate to approximately \$1 billion. While the System would like to see an improved profit-sharing allocation in favor of the investor, and negotiates contract terms aggressively where possible, the overall market, consisting of both managers and investors, establishes the sharing percentages. If the System avoided these investments based on the fee structure alone, it would not have experienced the superior net-of-fee returns provided by private equity relative to all other asset classes.

Private equity returns have been muted over the last three years and well below investor expectations and longer-term historical performance. For the three years ending June 30, 2025, the System's private equity program has achieved an average return of 3.93%. These lower returns are not unique to the System, as the broad benchmark return was 3.40%. There are several market conditions leading to this modest performance. Interest rates today are much higher than they were prior to 2022, when the Federal Reserve reduced interest rates to near zero in response to the pandemic in 2020. Valuations of private equity deals that were transacted during this low interest rate environment were higher than current valuations, due to the lower cost of servicing the debt used to finance transactions. As a result of the valuation mismatch between purchase prices and current valuations, fewer private equity deals are being completed, which has led to less distributions and longer holding periods. Private equity rates of return are likely to remain under pressure until the market can clear these mismatches in valuation.

***DLS requests that SRA comment on the use of the compensation adjustment authority provided under Chapters 727 and 728 and whether the board has faced any difficulties recruiting and retaining staff since the passage of Chapters 727 and 728. DLS further requests SRA to update the committee on the number of resignations and terminations in the Investment Division since the passage of Chapters 727 and 728. Finally, DLS requests SRA to update the committee on any compensation adjustments recommended by CSC and the actions taken by the board.***

At the request of the Board, during the 2018 session, the General Assembly passed legislation that provided the Board with the authority to determine and create the type and number of Investment

Division staff, as well as compensation for these positions, subject to certain constraints. This legislation has been an effective tool in recruiting and retaining Investment Division personnel. Since the legislation was enacted in 2018, the Investment Division has roughly doubled in size. A portion of this growth in headcount was to remediate the level of understaffing that existed prior to the passage of the legislation. The remaining added positions were dedicated to building out the internal management initiative, as well as adding depth and ensuring a sustainable long-term staffing structure with appropriate succession planning resources. The 2018 legislation enabled the Investment Division to hire qualified and experienced investment professionals, many of whom would not have been applicants under the former compensation structure.

The effectiveness of this legislation can be measured by the low level of turnover the Investment Division has experienced since the legislation was passed. From July 1, 2018, through June 30, 2025, only 17 employees of the Investment Division separated from service for various reasons, seven in the administration unit and 10 investment-focused positions. Most of these employees left to pursue other career opportunities or retirement, and not for compensation reasons. In fiscal year 2025, the Investment Division experienced a modest increase in resignations, with one retirement and four employees leaving for a combination of higher compensation and greater responsibilities.

The Board's objective is to ensure a successful and sustainable long-term investment function by offering a competitive compensation program that promotes employee retention and recruitment. This should lead to strong investment performance for the System's participants and beneficiaries. Over the last five years, staff has generated annualized excess returns over the total fund policy benchmark of 0.88%, representing over \$3 billion added value to the plan. As the initial compensation program has been successfully implemented over the last six years and salaries have been adjusted closer to industry peers, it is important for the Board and the Investment Division to remain vigilant to ensure continued competitiveness in the market for human capital.

During fiscal year 2025, the Compensation and Staffing Committee (CSC) made several recommendations to the Board relating to Investment Division compensation. The CSC approved new salary ranges for the CIO and Investment Division staff based on a measure of employment cost inflation. The CSC also approved individual salary adjustments for the Acting CIO and Investment Division staff, as well as approving the salary range to be used for the recruitment for the CIO position. The Board reviewed and approved these recommendations from the CSC.

***DLS requests that SRA update the committee on the use of incentive compensation for recruitment and retention and provide information on the number of division staff eligible for incentive compensation based on fiscal 2025 returns.***

***Additionally, DLS requests SRA to comment on whether any consideration has been given in CSC discussions regarding including system performance relative to the assumed rate of return as an incentive compensation metric for the CIO position, as performance relative to the system's assumed rate of return is still a component for other Investment Division staff with lesser involvement in advising the board on the system's asset allocation.***

In addition to providing the Board with independent salary setting authority, the 2018 legislation discussed above also provides the Board with the authority to grant incentive compensation for positions that involve discretion over investment-related decisions within the Investment Division. In June 2019, the Board approved an incentive program for certain positions within the Investment Division based on recommendations from the Board's compensation consultant and the former Objective Criteria Committee. Similar to independent salary setting authority, this program has been an important tool in recruiting and retaining skilled and experienced investment personnel as turnover has been low and the Investment Division has been able to effectively recruit qualified professionals. The incentive program is subject to certain constraints, which are highlighted below:

- financial incentives in any fiscal year shall not exceed 33% of a position's salary;
- any financial incentive shall be paid over multiple fiscal years in equal installments;
- the Board may not pay out financial incentives in a fiscal year in which state employees are subject to a furlough;
- financial incentives shall be paid on the dates set by the Board at the time of award; and
- an individual who has been awarded financial incentives but separates from employment in the Investment Division, except for retirement, may not receive any remaining financial incentives due to be paid after the date of separation from employment.

The Board also approved the objective performance criteria for determining incentive awards, which are highlighted below:

- net total fund returns vs. total fund policy benchmark over three years;
- net total fund returns vs. actuarial assumed rate of return over five years; and
- net asset class returns vs. asset class benchmarks over three years.

For the three years ending June 30, 2025, the System achieved a net annualized investment return of 6.60%, exceeding the policy benchmark of 5.98% by 62 basis points. This level of excess return results in the maximum incentive of 33% for this component of the calculation. A second part of the incentive calculation focuses on the actuarial rate of return, which is 6.8%. For the five years ending June 30, 2025, the 8.29% total fund return exceeded the actuarial target by 1.49%. As a result, staff is eligible to receive the maximum incentive based on this metric.

The last piece of the incentive calculation is based on the performance of the individual asset classes. Most of the asset class teams exceeded the performance of their respective benchmarks and are eligible for incentive compensation based on this metric, while two are not. In fiscal year 2025, a total of 30

employees in the Investment Division were eligible for incentive compensation based on performance as of June 30, 2024. The Board has not yet approved incentive compensation based on performance as of June 30, 2025.

During its June 18, 2024, meeting, the Investment Committee of the Board reviewed the recommendation of the Board's general investment consultant, after their analysis of several risk metrics to potentially include as part of the incentive calculation. After considering several measures, the Investment Committee determined not to add a risk metric to the incentive calculation. To reallocate the 25% that was initially targeted to the risk measure, the CIO then recommended, and the Investment Committee approved, increasing the total plan relative return by 25% for all staff other than the CIO. The Executive Director made the same recommendation for the CIO's incentive. During this discussion the Investment Committee adopted an amendment to focus solely on performance relative to the total plan policy benchmark for the CIO's incentive calculation. During the Board meeting on the same date, the Board adopted the recommendations of the Investment Committee. The Compensation and Staffing Committee has not yet discussed changes to the incentive plan for staff or the CIO but is expected to review the program over the coming months.

***DLS requests that SRA comment on the estimated fee savings attributable for internally managed assets.***

The Board and Investment Division have a three-pronged plan to enhance the ability to achieve the investment objectives of the System. The first prong focuses on continual improvement in the asset allocation process. The second is improving implementation of that asset allocation through improved staffing and resourcing of the Investment Division. The third prong is to lower the cost of managing the assets through direct fee negotiations, direct management of public assets and direct management of private assets through co-investment. As of June 30, 2025, the annual management fee savings due to direct management of public assets and private market co-investments are estimated to be \$35.7 million. Carried interest savings related to private market co-investments are expected to be significantly higher due to the industry-standard structure that bases this calculation on a percentage of profits, typically 20%. Over several years, the estimated carried interest savings based on these private market co-investments made to date will be over \$452 million. As the System expands the internal management initiative into more active strategies and increases its co-investment program, staff expects the longer-term annual savings to be over \$150 million.

***Additionally, DLS requests that SRA provide an update on the Investment Division's internal management of system assets and the development of necessary compliance and controls on the use of internal asset management. More specifically, SRA should comment on how the Investment Division:***

- has developed proficiency in managing assets currently being managed internally;
- will develop proficiency before expanding into internal management of additional asset classes;
- will evaluate the performance of internal management compared to available external management services; and

- **will develop methodologies for determining fee savings achieved through internal management.**

The System has been working to develop its internal management capabilities since 2016. The initial efforts were geared to building the ability to execute trades internally. Elements of this process included establishing procedures to evaluate and select brokers, create operational processes to execute and communicate trades to the custodian and procure contracts with Futures Clearing Merchants. These processes supported the level of activity that was occurring historically and were necessary steps toward building an internal management process.

In 2019, Investment Division staff worked with the State Retirement Agency's Assistant Attorney Generals and external counsel to create policies and procedures for internal management including enhanced policies governing staff's personal trading, conflicts of interest and handling of material non-public information. These policies and procedures were approved by the Board or codified in the Division's Operations Manual in early 2020. Also in 2020, the System procured a trade order management system to handle the processing of trades including pre-trade compliance and straight-through processing.

The proficiency of internal staff to manage internal portfolios has come in two ways. Existing Investment Division staff had prior experience in managing assets directly and prior direct management experience was a major factor in the hiring process for new staff members.

The Investment Division has a rigorous product development process, including creating an internal investment committee within the Division to assist overseeing the internal management program. The elements of the Division's product development process include:

1. identifying a potential product for internal management that Investment Division staff expects to be able to execute as well or better than external managers;
2. developing guidelines that detail the performance objective, portfolio construction limits, and reporting requirements;
3. creating portfolio management tools to execute the strategy;
4. managing a paper portfolio with pre-approval of every trade and creation of complete reporting package;
5. testing the trading platform and providing training to Investment Division middle and back-office team as needed;
6. engaging with the Board's general investment consultant for an independent operational due diligence evaluation and addressing any shortcomings identified;
7. after demonstrating proficiency, presenting a full diligence memo to the internal investment committee and responding to questions and other follow up items; and
8. with the internal investment committee's approval, establishing a portfolio inception date with the CIO, including a source of funding.

As of June 30, 2025, nine internal portfolios valued at \$13.9 billion have been established following this process: U.S. TIPS, U.S. Long Government Bonds, Russell 1000 large-cap U.S. equity, investment-grade corporate bonds, U.S. small cap equity, U.S. securitized bonds, international large-cap equity,

international equity value factor strategy and public equity infrastructure. Investment Division staff is currently in the development process to implement additional internal portfolios, including active management within existing passive portfolios.

The Investment Division has built a process that is designed to evaluate the internal products in a manner similar to the selection and oversight of external managers. This includes presenting the strategy to the internal investment committee in the same manner as external managers. It also includes an independent annual evaluation of the product by the Board's general investment consultant. The Investment Division has also created an Internal Management Oversight Committee to provide independent evaluation of the efficacy of the strategies and managers. This group exists so that the investment teams within the Division are not put in the position of evaluating their own products. Finally, each quarter, every asset class reports to the internal investment committee on the performance of the asset class including individual manager performance. At these meetings, the Investment Division staff serving as committee members often challenge the team on the efficacy of continuing to retain underperforming managers.

***DLS requests SRA to provide an update on the implementation of Chapters 24 and 25.***

Some of the provisions of Chapters 24 and 25 of 2022 codify existing practices of the System relating to climate change investment risk, while others require the development of new policies and procedures. One element of the legislation requires the Board to incorporate the provisions of the bill into the System's Investment Policy Manual. The Board approved the addition of these items in February 2023. The Board also approved an Engagement and Advocacy policy as tools to mitigate risks and enhance opportunities for the investment of System assets. Engagement and advocacy work together with proxy voting to promote the best outcomes for active investments by prudently addressing poor corporate governance practices, including those associated with climate risk.

Investment Division staff has also updated the Investment Division's Annual Compliance Questionnaire, sent to all investment managers and consultants, to incorporate ESG and climate specific information to assess their policies and practices in this area. The Investment Division has also included an analysis relating to the level of climate risk across the total investment portfolio as part of the annual risk assessment submitted to the Legislature each year. Investment Division staff has also been actively identifying investment opportunities in the energy transition by meeting with managers who specialize in this area and is tracking these meetings and opportunities as part of normal routine. To create more structure around this effort, the Investment Division has formed a Theme Team to focus on investment opportunities that may benefit from broad macro-economic trends like the energy transition. Over the past year, this team has conducted due diligence on two opportunities that have been approved for investment. One is a real estate fund that aims to add value through reducing the carbon footprint of its properties, and the other is a private equity fund with a strategy to build companies to accelerate and achieve decarbonization at scale.

To gain insight and education regarding best practices regarding climate change, Investment Division staff has increased participation with industry climate action groups. These groups provide forums for discussion and exchange of ideas to support both asset owners and managers in setting and implementing investor climate action and energy transition plans. Going forward, staff will continue to implement the

requirements of this legislation through more direct engagement with managers, companies and industry advocacy groups. Investment Division staff will also develop more robust processes to evaluate transition readiness in high-impact sectors using asset class specific metrics and standards.

Chapters 24 and 25 also authorized the Board to establish an advisory panel of experts in the analysis of climate change risk to provide the most current science and data available. The charter for the Climate Advisory Panel (Panel) was approved by the Board in December 2024. The Panel has been established as a committee of the Board, with the objective of supporting the Board, its committees, and the Investment Division regarding climate change risk in the management of System assets and to assess transition investment opportunities. The Panel consists of five outside experts in the analysis of climate change risk who were appointed by the Board. The first meeting of the Panel occurred in June 2025, with subsequent meetings in July, August, September and October.

During these initial meetings, Investment Division staff has provided the Panel with educational discussions detailing the current due diligence process and asset class objectives. The Panel has also educated staff regarding some of the nuances of climate change and the potential associated risks. The Investment Division has recently issued an RFI for a climate data provider to assist in measuring and managing climate risk. The Panel participated in the development of this RFI and will be involved in the evaluation of responding vendors. To more efficiently evaluate the climate risks in the potentially higher impact sectors of private equity and real estate, the Panel has established two separate sub-groups to work with the asset class teams and consultants to focus on these areas. Going forward, the Panel will review the way Investment Division staff interacts with investment managers and consultants, including due diligence as well as the annual compliance questionnaire and certification, to facilitate a better understanding of how these external partners are integrating climate risk into the investment decision-making process. The Panel will also work with the Investment Division and the Board to review the System's custom proxy voting guidelines relating to climate risk to ensure they reflect best practices in asset ownership and corporate governance. In addition, the Panel will support staff in identifying potential investment themes and strategies to take advantage of opportunities relating to the energy transition.

Meketa Investment Group, the Board's general investment consultant, has incorporated climate scenario analysis into the System's strategic asset allocation modeling for several years. For the second year, Meketa used scenario inputs from the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) to complement its internally developed scenarios. The NGFS scenarios consider temperature rises ranging from 1.5°C to 3.0°C+ with varying amounts of policy coordination and emissions reduction assumptions. Investment Division staff also collaborated again with an external investment manager on similar NGFS-based analysis. While the modeling does not explicitly incorporate tipping points and involves a great deal of uncertainty, staff believes the output is useful as a starting point to understand potential economic linkages and portfolio outcomes across a range of transition scenarios.

Using data from the National Oceanic and Atmospheric Administration (NOAA), Investment Division staff analyzed the System's 50 largest individual property holdings in the System's core open-end private real estate portfolio on a map of the United States under an extreme scenario where sea levels rise by eight feet. These 50 holdings represent an aggregate value of \$692.1 million, or 0.9% of the System's

total assets. Fifteen of the properties are in impacted areas according to the NOAA sea level rise data, representing approximately 0.3% of the System's total assets. At the time of writing, Investment Division staff is conducting a procurement process for climate risk and climate transition opportunities analytics. Staff believes these tools, once implemented, will expand the System's ability to measure and monitor additional dimensions of physical risk related to climate change.

The Investment Division also continues to build out the System's private infrastructure portfolio. As of June 30, 2025, the portfolio was valued at \$798.9 million, or approximately 1.1% of total System assets. This year's report includes a sampling of investments that should benefit from the transition to a lower carbon economy. The aggregate market value of these holdings is \$340.9 million, or approximately 43% of the private infrastructure portfolio. In last year's edition of this report, the comparable aggregate market value of this part of the System's portfolio was \$52.5 million. The new strategic asset allocation calls for a 5% allocation to private infrastructure, suggesting even further growth ahead as staff carries out capital deployment plans.

***During 2025, the value of the dollar has dropped relative to other currencies, with a number of news outlets reporting industry expectations for further weakening of the dollar. DLS requests SRA to comment on how it will manage the currency program if the value of the dollar continues to weaken, whether any system assets are particularly vulnerable to fluctuations in the value of the dollar, and for any assets with dollar value sensitivity, how the system has prepared to make tactical adjustments to investing those assets.***

The objective of the currency overlay program is to provide some protection against a strengthening U.S. dollar and reduce the volatility of the currency portion of the System's non-U.S. equity investments over the long term. Strong foreign currencies relative to the U.S. dollar provide a favorable environment for non-dollar investments and enhance returns. Any currency hedging program applied in this environment would act as a drag and detract from returns. This occurred in fiscal year 2025 as foreign currencies generally strengthened versus the dollar, particularly in the second half of the year as doubt emerged regarding the impact new tariffs may have on the global economy and investors rotated out of U.S. assets and into foreign investments. The impact of this program on fiscal 2025 performance was -\$26.6 million, or roughly 0.04%. Alternatively, when foreign currencies are weak and the dollar is strong, the currency exposure acts as an impediment to performance. It is during these periods that currency hedging programs can help offset some of those losses. While the impact of currency hedging has fluctuated, with some years generating gains and others losses, the program has added \$392 million since inception as of June 30, 2025, and its risk reducing qualities have been persistent over all time periods.

The currency hedging program employs a dynamic and systematic overlay strategy. The degree to which currency hedging is applied changes over time. As a general matter, the hedge ratios are lower when the dollar is weak and higher when the dollar is strong. Given the recent weakness of the U.S. dollar, the current hedge ratio is only 10%.

The System assets most sensitive to the currency hedging program are developed international stocks, particularly equities domiciled in the eurozone, Japan and the United Kingdom. These assets represent roughly 11% of the total plan, or \$8 billion. Emerging market equities are not included in the hedging

program due to higher costs associated with trading these currencies. While the currency hedging program has been in place since 2009, its mandate and implementation have not been unmanaged. The currency manager, in consultation with Investment Division staff, has applied several adjustments to the normal hedging process over the course of the mandate to dynamically manage risk. For example, the proportions of currency exposures included in the currency program (hedgeable currency exposures) have been modified on several occasions to lock-in gains, limit downside risks and save on management fees. Also, the strike prices of the currency forward contracts have been scaled up or down for defensive or offensive measures. Staff will continue to monitor the System's exposure to currency risks to determine the appropriate hedging needs and tactical positioning going forward.

## Appendix 4

### 2026 Board Requested Legislation

The following legislative proposal is recommended by the Board of Trustees for the State Retirement and Pension System (System) to the Joint Committee on Pensions for its consideration to sponsor as legislation for the 2026 legislative session.

#### Clarifications to the State Personnel and Pensions Article

##### *Correctional Officers' Retirement System*

Chapters 135 and 136 of 2024 moved members from the Employees' Pension System (EPS) to the Correctional Officers' Retirement System (CORS) who were employed by the Maryland Department of Health in security attendant positions at State forensic facilities. Chapters 776 and 777 of 2024 clarified that individuals employed as supervisors and managers for security attendants employed by the Maryland Department of Health at State forensic facilities would also be moved from the EPS to the CORS. Staff for the State Retirement Agency (Agency) has been made aware that the positions of Child and Adolescent Mental Health (CAMH) Specialist I and II were inadvertently omitted from the 2024 and 2025 legislation. We have confirmed that these positions would qualify for membership in the CORS. Accordingly, we are recommending amending the CORS membership provisions in the State Personnel and Pensions Article to include CAMH Specialist I and II. At this time, staff is aware of 14 individuals who would be impacted by this proposal.

##### *Participating Governmental Units*

Staff has recently received questions from counties and municipalities seeking to join the Law Enforcement Officers' Pension System (LEOPS) asking if they join the LEOPS, are they required to move all law enforcement officers from their jurisdiction into the LEOPS, or are they permitted to only move certain divisions within their law enforcement office? While staff has explained that the entire group must move, we believe clarifying this through legislation would be helpful. If only certain divisions of a participating governmental unit's (PGU's) law enforcement office were permitted to join the LEOPS, problems could develop in the future if a PGU employee who was moved into LEOPS later changed positions to one that was not covered by LEOPS. That individual, while still employed by the PGU as a law enforcement officer would no longer be permitted to participate in the LEOPS as they are now employed in a "non-LEOPS" position. This would create a disincentive for employees of that PGU to accept job opportunities that might remove them from the LEOPS. The converse could also occur. A law enforcement officer employed by a PGU, but not employed in a LEOPS eligible division, who later moves to a position that is LEOPS eligible, would now be required to join the LEOPS. With 10-year vesting for members of LEOPS, being moved in and out of the plan would make it much more difficult for a member to vest in the LEOPS. Additionally, keeping track of these changes would create a significant administrative burden for staff to ensure that proper employment and payroll changes are reported accurately and timely to the Agency.

While this question has only been raised regarding counties and municipalities wanting to join LEOPS, we believe it could also be raised for counties and municipalities wanting to join the EPS and the CORS. Accordingly, we would recommend clarifying legislation to address all new entrants, regardless of the system the PGU is joining.

Additionally, staff was also made aware that some potential new PGUs seeking to join the EPS, CORS, or LEOPS, believe there is ambiguity in the law regarding the forms that must be completed and submitted by the PGU prior to their joining. Specifically, the issue of whether all employees of certain PGUs are required to submit election forms stating whether they are electing to join the EPS, CORS, or LEOPS or opt out of membership, was raised. Existing law states for eligible PGUs seeking to join the EPS, CORS, or LEOPS, if the PGU does not submit the necessary documentation on or before the effective date for the eligible PGU, the effective date shall be postponed until July 1 of the second year following the fiscal year in which the eligible PGU elects to participate in either the EPS, CORS, or LEOPS. Staff is seeking clarification that for employees who have election rights to join one of the systems, “necessary documentation” includes properly completed election forms for each individual employed by an eligible PGU indicating whether they intend to participate in a State system or opt out of joining the EPS, CORS or LEOPS. To avoid confusion in the future for members who may later change their mind and claim they never received the election to join, clarifying that staff must receive all election forms for employees of an eligible PGU indicating the employees’ elections, will aid staff, the Board, and the Legislature when navigating this issue.

# MARYLAND STATE EMPLOYEES SUPPLEMENTAL RETIREMENT PLANS

Appendix 5

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**Joint Committee on Pensions**  
October 22, 2025

MARYLAND SUPPLEMENTAL RETIREMENT PLANS  
6 Saint Paul Street - Suite 200  
Baltimore, Maryland 21202-1608  
Tel: 410-767-8740 or 1-800-543-5605  
Agency Website: [msrp.maryland.gov](http://msrp.maryland.gov)  
Plan Administrator Website: [mymsrp.com](http://mymsrp.com)

MSRP

# OVERVIEW

## Maryland State Employees Supplemental Retirement Plans

**01** Maryland State Deferred Compensation 457(b) Plan

**02** Maryland Savings & Investment 401(k) Plan

**03** Maryland Tax Sheltered Annuity 403(b) Plan

**04** Maryland State Match 401(a) Plan

# 457(b) DEFERRED COMPENSATION PLAN

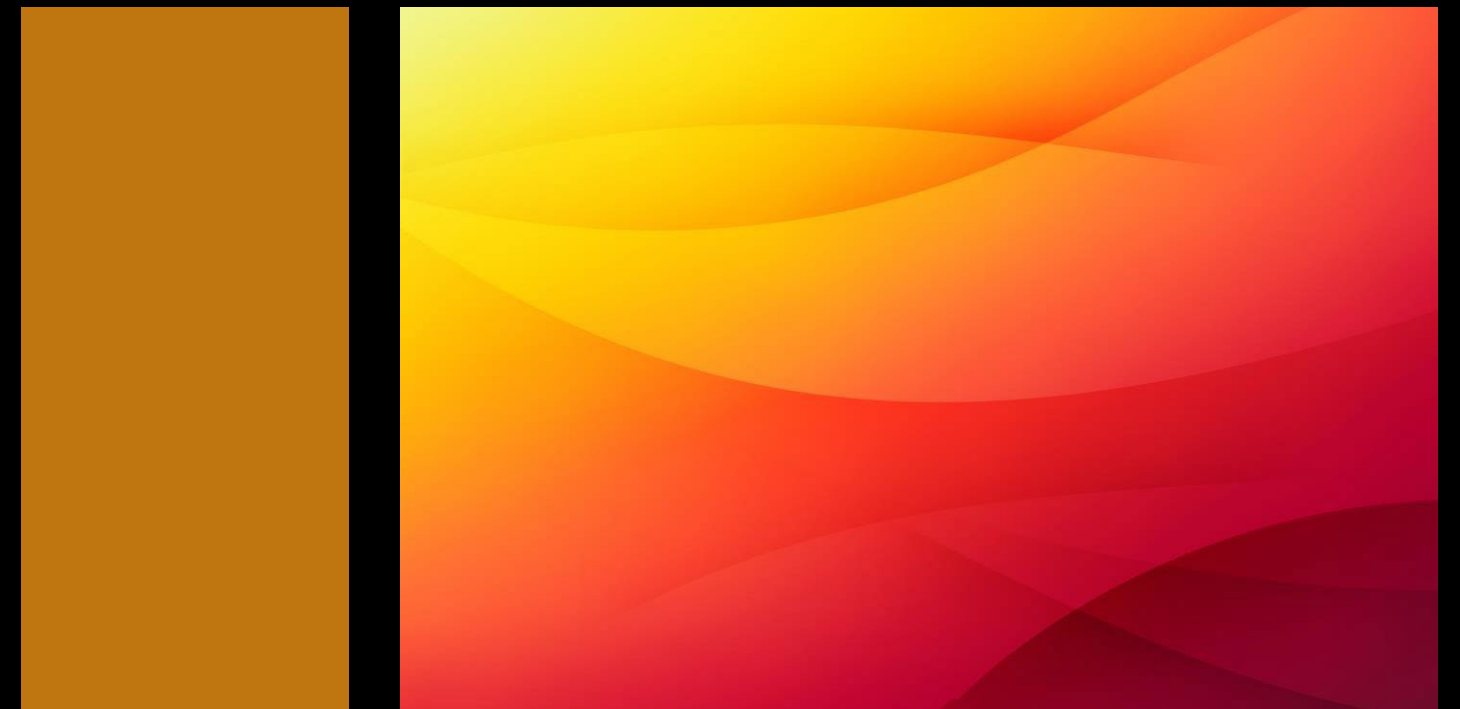
- Largest number of participants of the four Plans, with a total of 36,648 accounts with a balance and 20,137 actively deferring.
- Total assets held in trust: \$2.66B\* (second largest balance of the 4 Plans)

\* As of June 30, 2025



# 401(k) SAVINGS & INVESTMENT PLAN

- Second largest number of participants of the four Plans, with a total of 33,754 accounts with a balance and 17,487 actively deferring.
- Total assets held in trust: \$3.01B\* (largest balance of the 4 Plans)



\*As of June 30, 2025

# 403(b) TAX SHELTERED ANNUITY PLAN

- Smallest number of participants of the four Plans, with a total of 971 accounts with a balance and 419 actively deferring.
- Total assets held in trust: \$131.7M\*

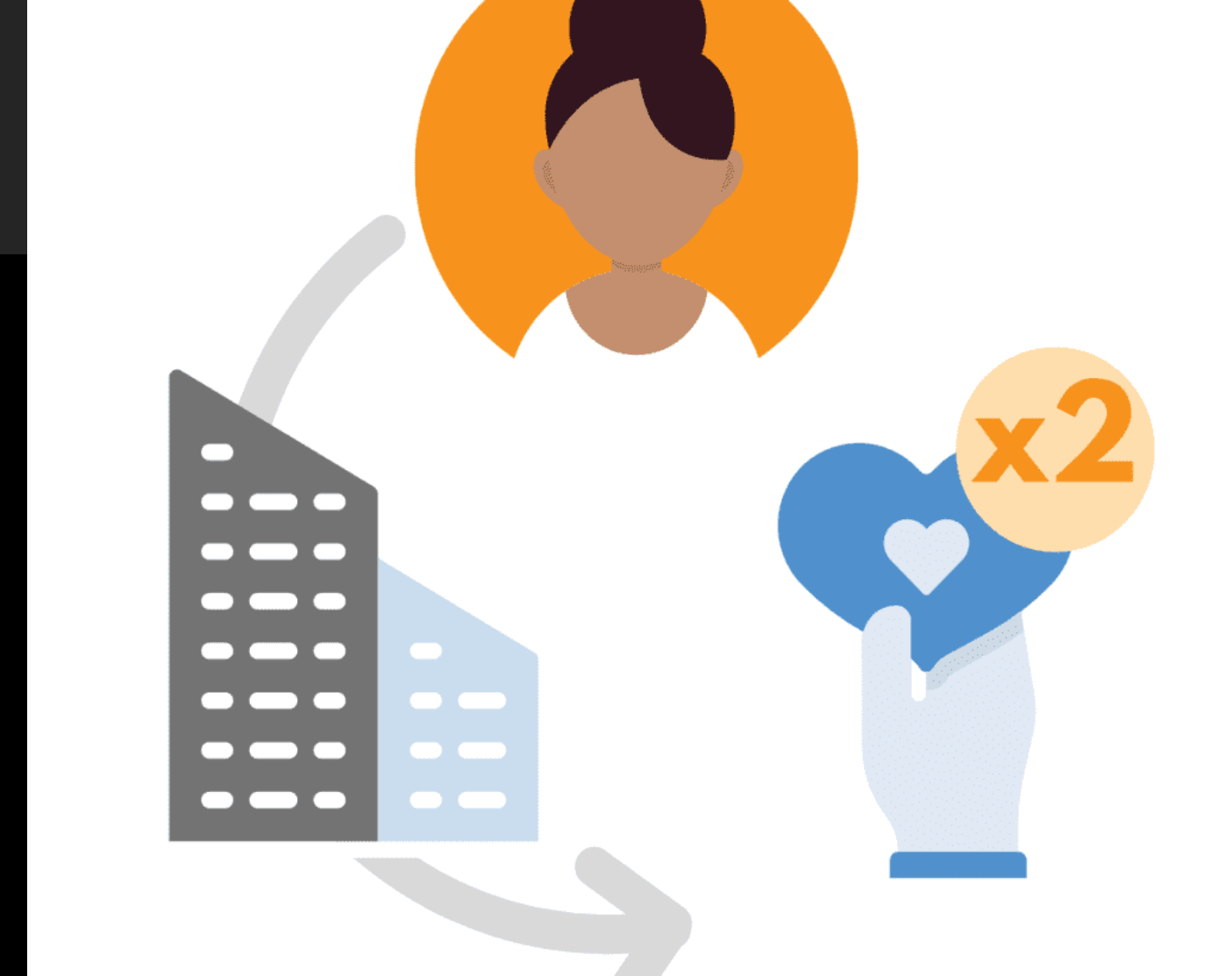
\* As of June 30, 2025

*This Plan is open to individuals in higher education*



# 401(a) MATCH PLAN

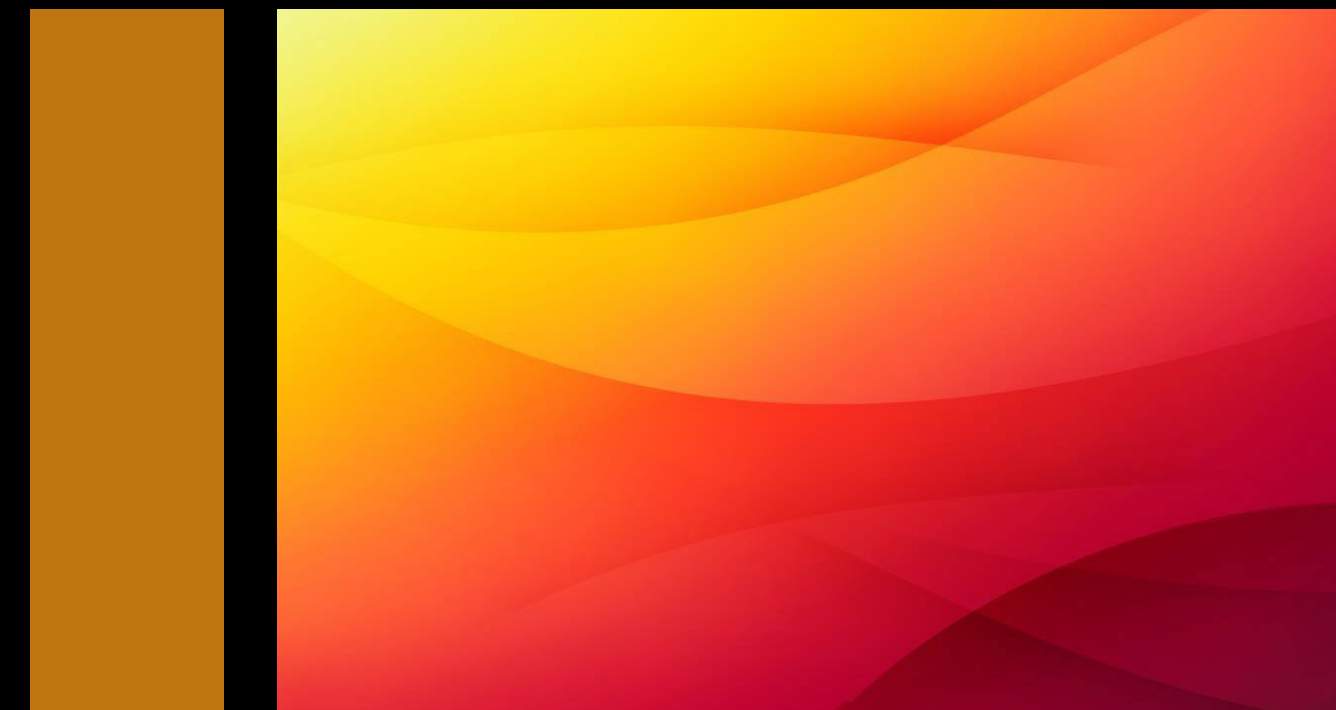
- The Match Plan was reactivated as of July 1, 2023 after being suspended since July 1, 2009. The Plan provides a dollar-for-dollar match of up to \$600 per fiscal year.



- Below are results from first full fiscal year since reactivation compared to Q2 of 2025:

	Q2 2024	Q2 2025
<b>Assets Held in Trust</b>	\$261M	\$290M
<b>Contributions to Match Plan</b>	\$1.2M	\$1.5M
<b>Number of Participants</b>	39,414	40,761

\*As of June 30, 2025



# FUND PERFORMANCE ANALYSIS

## ALL PLANS COMBINED

### Market Review as of June 30, 2025

- U.S. equities returned 11.0% (Russell 3000) with IT and Telecommunication Services as the best performing sectors and Energy and Health Care as the worst performing sectors. Large-cap growth stocks continued to outperform their value-oriented counterparts throughout the quarter, with a substantial year-to-date lead of over 1,400 basis points, achieving a return of 20.7% compared to 6.6% for large value stocks.
- International equities and Emerging Markets equities performed well over the quarter, returning 12.1% (MSCI EAFE) and 12.0% (MSCI Emerging Markets), respectively.
- The broad U.S. fixed income market returned 1.2% (Bloomberg Barclays Aggregate) over the quarter. The Fed held the Fed Funds Rate steady over the quarter, and the 10-year treasury rate remained largely unchanged from the previous quarter end.
- The unemployment rate ticked down slightly to 4.1% this quarter from 4.2% at the previous quarter end.

# *FUND PERFORMANCE ANALYSIS*

## *AGGREGATED ANNUAL RETURNS\**

	1 Year	3 Year	5 Year	10 Year
<b>Weighted Average Returns for all Investment Options</b>	<b>10.69%</b>	<b>13.42%</b>	<b>12.21%</b>	<b>10.53%</b>
<b>Weighted Average Returns for all Indices</b>	<b>11.82%</b>	<b>13.52%</b>	<b>12.02%</b>	<b>10.09%</b>
<b>Average Returns for all Investment Options</b>	<b>11.75%</b>	<b>10.47%</b>	<b>9.63%</b>	<b>8.41%</b>
<b>Average Returns for all Indices</b>	<b>12.54%</b>	<b>10.70%</b>	<b>9.54%</b>	<b>8.36%</b>

\*As of June 30, 2025

# INVESTMENT PERFORMANCE ALL OPTIONS

For the 1-, 3-, 5- and 10- year time frames, MSRP's active investments are in the top 50% or better 66% of all time periods. The passive investments are in the top 75% or better 100% of all time periods.

## Asset Allocation Funds

The T. Rowe Price Retirement Target-date Funds have performed in the top quartile of peers 100% of the time in the 10 yr and 75% of the time in 5 yr.

## U.S. Equity Funds

Performance has been relatively strong versus benchmark and peers. Over the last 5 years, the majority of funds have top decile performance relative to peers, and all are in the top 50%.



# INVESTMENT PERFORMANCE ALL OPTIONS

## International Equity

The Plans' sole actively managed international equity fund underperformed its index over the 1,3 and 5 yrs but still outperformed over 10-year period. The portfolio remains tilted toward companies that have the potential to capitalize on long-term secular growth opportunities, with the greatest emphasis on companies in the next-gen technology ecosystem and those that can benefit from the growth of the middle class in emerging markets. The fund frequently holds more companies domiciled in emerging markets than peers, which can influence peer group rankings. The strategy currently has a 20.5% allocation to emerging markets. As growth rebounded in 2023, the strategy outpaced the growth index and tied the broad index, but it landed in the middle of the category. It posted a similar result in 2024 and the first five months of 2025.

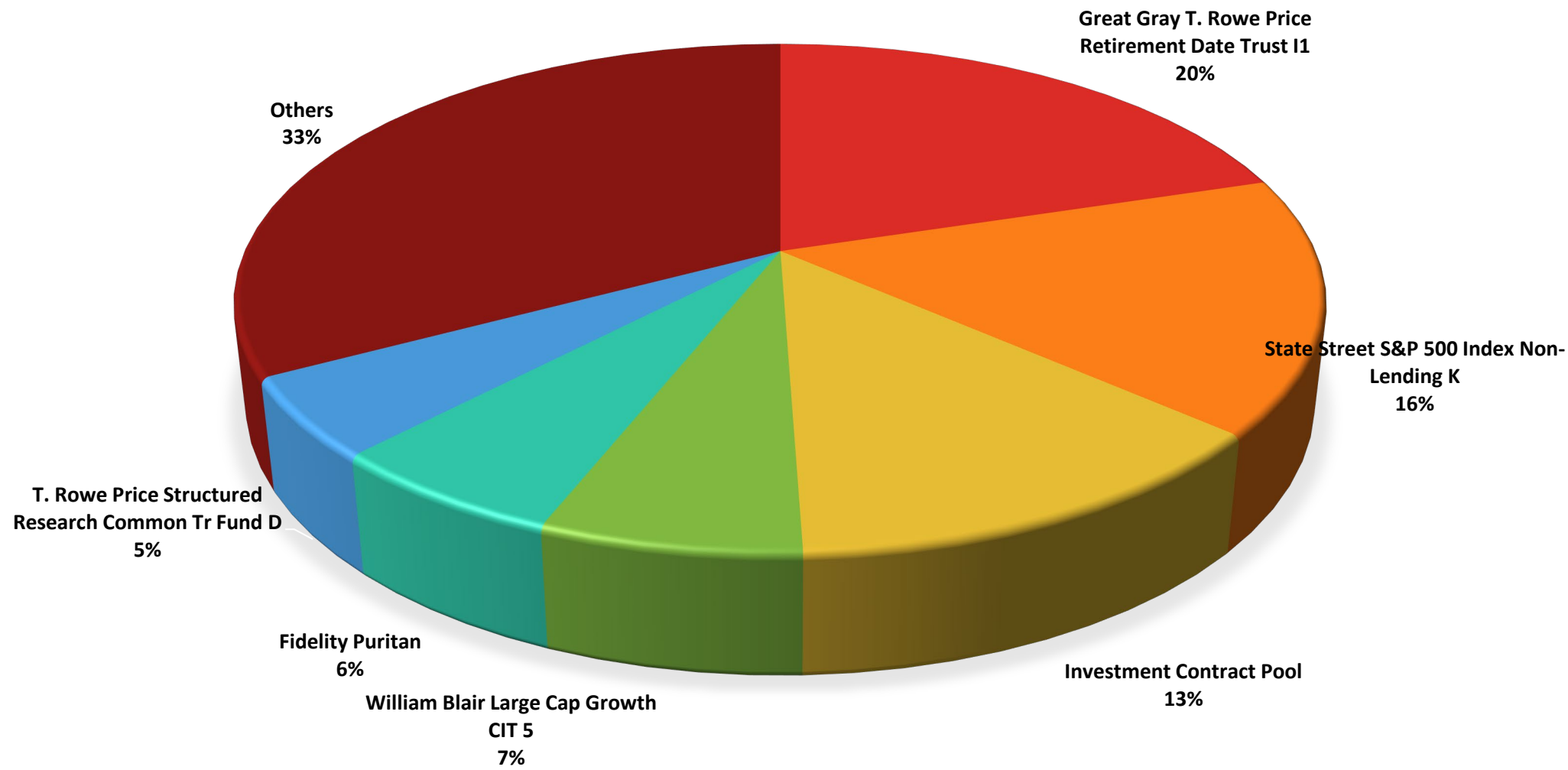
## Fixed-Income Fund

A bond fund change occurred and the newly added Fidelity fixed income fund has outperformed its benchmark in all time periods.



# TOP HOLDINGS - ALL PLANS\*

Top 6 Holdings



Top 6 Holdings	% of Total
Great Gray T. Rowe Price Retirement Date Trust I1	20%
State Street S&P 500 Index Non-Lending K	16%
Investment Contract Pool	13%
William Blair Large Cap Growth CIT 5	7%
Fidelity Puritan	6%
T. Rowe Price Structured Research Common Tr Fund D	5%
Others	33%

\*As of June 30, 2025

# FEE STRUCTURE

## Charged to participants

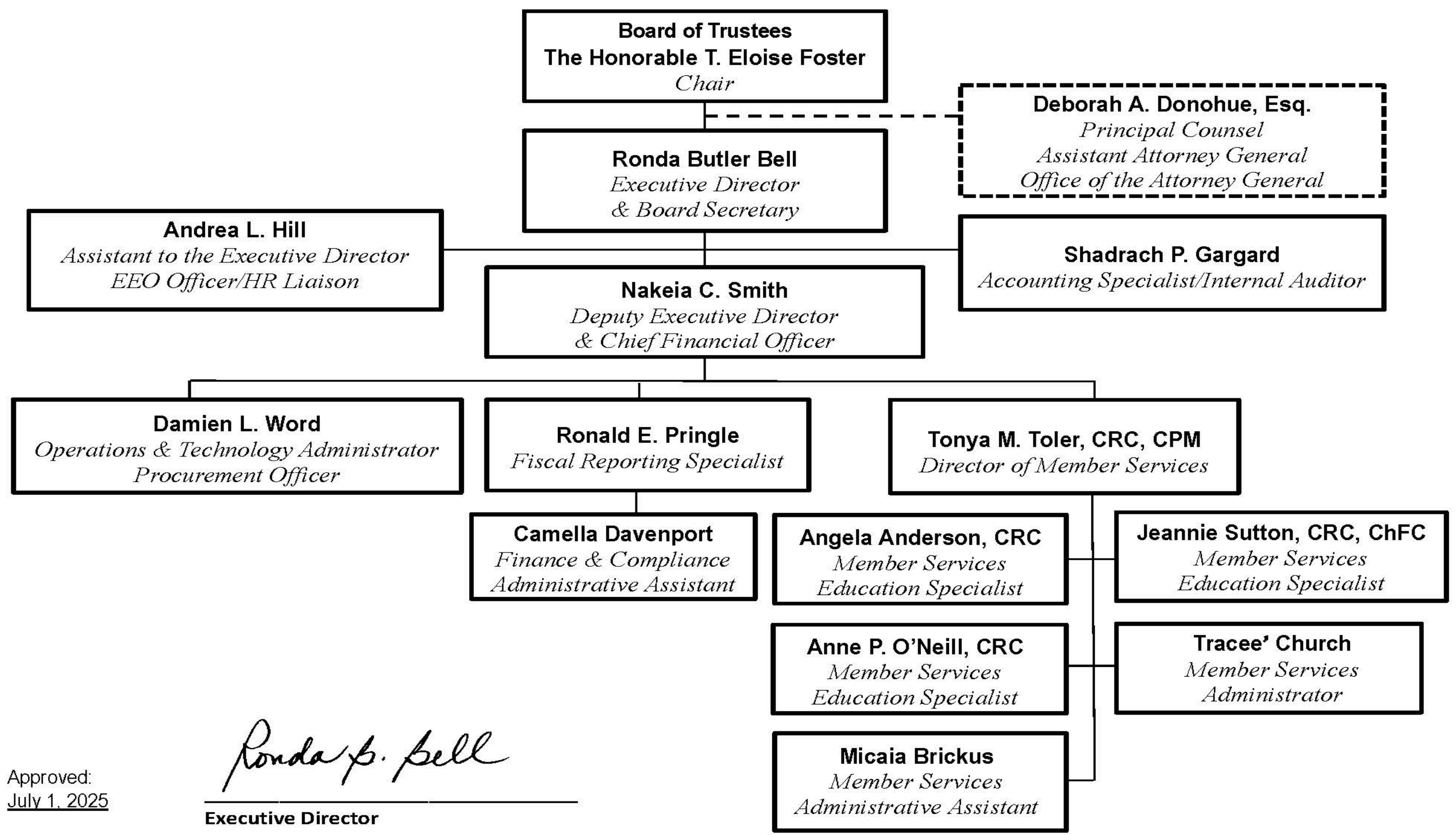
- Asset-based fee
  - Based on the net assets at the close of the previous month
  - Capped at \$2,000 per calendar year
- Account-based fee
  - \$.50 per account
  - Accounts with <\$500.00 balance are exempt

## Fee Holidays

- MSRP Board of Trustees approved a standing 4th quarter asset fee holiday
- Contingencies
  - Reserve balance sufficiently covers a minimum of operational expenses for six months
  - Market conditions permit the fee holiday without exhausting reserve balances too quickly

# AGENCY ORGANIZATIONAL CHART

## Maryland State Employees Supplemental Retirement Plans



Approved:  
July 1, 2025

Executive Director

# MEMBER SERVICES TEAM

## □ THE TEAM

- Comprised of four (4) Certified Retirement Counselors & two (2) administrative professionals
- Received numerous awards from Pensions & Investments and the National Association of Government Defined Contribution Administrators (NAGDCA).

## □ THE TEAM MISSION

- To support, through education, all State employees on the benefits of retirement savings.

## □ EVENTS (328 held in 2024 with 34,535 employees in attendance):

- In-person and virtual pre-retirement seminars, benefit fairs, lunch and learn workshops, new employee orientations, and Maryland State Employee Save Week presentations.
- “Strategic Financial Moves Today Can Mean Big Lifestyle Wins Tomorrow” 2025 MSRP Virtual Saving\$ Symposium
  - Webinars presented between October 1 and October 28, 2025
  - A 10-day format with 16 topics with multiple session options for State employees.
  - Included a collaboration of fund managers, State and federal agencies, and MSRP’s new plan administrator, Empower, in support of Maryland State employees.

# WEBINARS AND OTHER RETIREMENT EDUCATION OUTREACH ACTIVITIES

- Weekly Webinars – including:
  - ❑ *Saving for a Purpose: Strategies for Achieving Your Financial Goals*
  - ❑ *Putting It All Together for Retirement*
  - ❑ *Success in Planning: Understanding Your MSRP Plans*
  - ❑ *Countdown to Retirement: Understanding Retirement Readiness*
  - ❑ Many webinars have an over 50% attendance rate
- Annual Retirement and Financial Literacy Initiative- “Strategic Financial Moves Today Can Mean Big Lifestyle Wins Tomorrow” 2025 MSRP Virtual Saving\$ Symposium
- Pre-Retirement webinars (online) and seminars (in-person)

# TRANSITION FROM NATIONWIDE TO EMPOWER

- MSRP's Plan Administrator contract is a standard 5-year State of Maryland Contract that requires review and approval by the Maryland Board of Public Works (the "BPW").
- Nationwide Retirement Solutions' most recent contract term as MSRP Plan Administrator was August 15, 2019 - August 14, 2024, with a 12-month renewal (extension) option.
- On August 28, 2023, the MSRP Board of Trustees (the "MSRP Board") voted to exercise the Board's 12-month contract renewal option and extend Nationwide's contract to August 14, 2025.
- The BPW approved the contract extension on July 3, 2024.
- In accordance with the State of Maryland competitive sealed proposal process, MSRP issued an RFP for Plan Administrator Services on October 16, 2024. Proposals were due November 29, 2024 (*details of the proposal submissions and rankings are presented on the next page*).
- On February 18, 2025, the MSRP Board voted to award the Plan Administrator Contract to Empower. The BPW approved this contract award on April 23, 2025.
- To facilitate the administrative processes needed for the transition to Empower, on May 19, 2025, the MSRP Board voted to extend Nationwide's contract to September 17, 2025. The BPW approved the contract extension on July 16, 2025.
- Empower's contract as MSRP Plan Administrator was effective September 18, 2025.
- "Blackout" period ended on September 25, 2025, and MSRP accounts were "live" in Empower's system.

# PROPOSALS: PLAN ADMINISTRATOR CONTRACT

## ***MSRP Defined Contribution Plan Administrator Services Contract***

**State Procurement Process:** Competitive Sealed Proposals

**Contract Awardee:** Empower Retirement, LLC

**Contract:** \$18,856,189 (5-year Base Term)

\$ 9,266,901 (One 2-year Renewal Option)

**\$28,123,090 Total Contract Award Approved by BPW 4/23/2025**

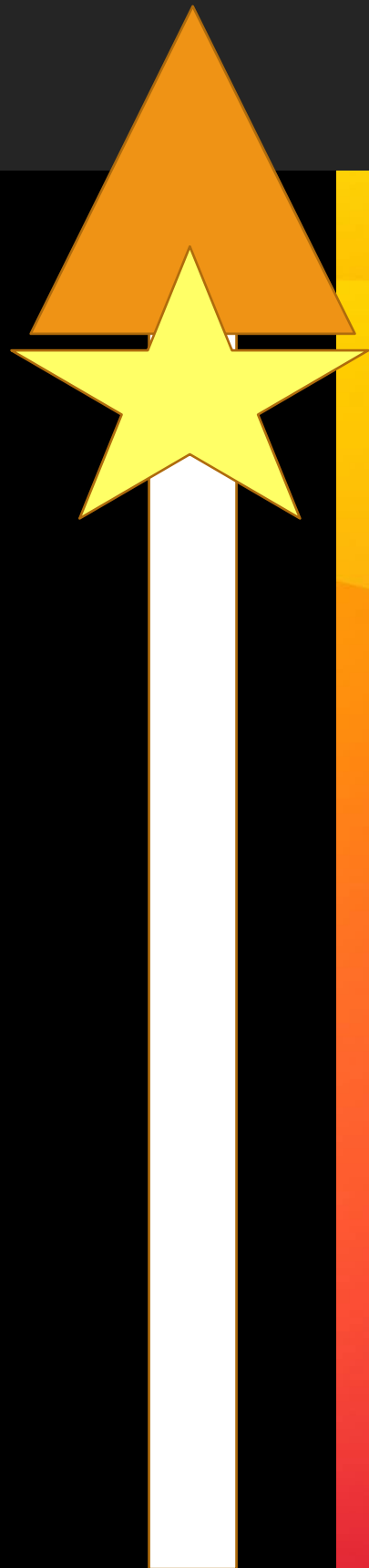
**MBE\* Requirement: 20% VSBE\*\* Requirement: 1%**

\*State of MD Certified Minority Business Enterprise \*\*State of MD Certified Veteran-Owned Small Business Enterprise

<b>Offerors</b>	<b>Technical Rankings</b>	<b>Financial Offers Rankings</b>	<b>Overall Rankings</b>
<b>Empower Retirement, LLC Greenwood Village, CO</b>	<b>3</b>	<b>\$28,123,090 (1)</b>	<b>1</b>
<b>Voya Institutional Plan Services, LLC Windsor, CT</b>	<b>1</b>	<b>\$41,058,357 (2)</b>	<b>2</b>
<b>Nationwide Retirement Solutions, Inc. Columbus, OH</b>	<b>2</b>	<b>\$51,066,656 (3)</b>	<b>3</b>

# FEES: NATIONWIDE VS. EMPOWER

Asset Fees - Nationwide		Asset Fees - Empower		Fee Difference				
0.0425%	MSRP Admin. Fee	0.0425%	MSRP Admin. Fee					
0.0775%	Nationwide Admin. Fee	0.0335%	Empower Admin. Fee					
<b>0.1200%</b>		<b>0.0760%</b>		<b>0.1200%</b>	Previous fees under Nationwide			
12 bps		7.6 bps		<b>-0.0760%</b>	Current fees under Empower			
				<b>0.0440%</b>				
				<b>4.4 bps</b>	<b>Fee Savings</b>			
<i>The 0.0760% asset fee is capped at \$2000 per calendar year for all accounts, regardless of account balance .</i>								
<b>MSRP Annual Servicing Fee</b>								
Flat fee of \$6.00 (50 cents per month) for all accounts (except 401(a) Match account).								
<i>The \$6.00 annual fee is waived for accounts with balances less than \$500.</i>								



# ADDITIONAL INFORMATION

## Annual Reports and Member Publications

<https://msrp.maryland.gov/Public-Information/Annual-Reports>

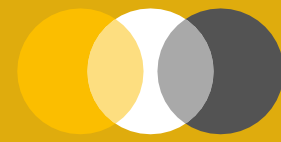
<https://msrp.maryland.gov/Education/Educational-Publications>

## Performance Reports

<https://msrp.maryland.gov/Public-Information/Investment-Performance-Reports>

## Board of Trustees Profiles

<https://msrp.maryland.gov/About/Board-of-Trustees>



# MARYLAND SUPPLEMENTAL RETIREMENT PLANS

## THANK YOU



# MSRP

### **MARYLAND SUPPLEMENTAL RETIREMENT PLANS**

The Honorable T. Eloise Foster, Board Chair  
Ronda Butler Bell, Executive Director & Board Secretary  
6 Saint Paul Street - Suite 200  
Baltimore, Maryland 21202-1608  
Tel: 410-767-8740 or 1-800-543-5605

**Agency Website:** [msrp.maryland.gov](http://msrp.maryland.gov)

**Plan Administrator Website:** [mymsrp.com](http://mymsrp.com)