

These quarterly reports highlight recent developments and achievements related to Maryland's pension system.



Chair,
Derek Davis



Vice-Chair,
Brooke Lierman

INTERNAL MANAGEMENT OF PENSION ASSETS

BACKGROUND: In 2017, the Maryland State Retirement and Pension System (SRPS) adopted as part of its strategic plan the ability to manage a portion of the pension fund assets internally. This means that State Retirement Agency (SRA) staff determine where and how this money is invested themselves, as opposed to hiring outside asset managers to make these decisions on their behalf. The move to manage a portion of plan assets in-house is expected to yield several benefits, including:

- **Cost Savings:** Managing assets internally significantly reduces the fees paid to external asset managers, resulting in higher net investment returns – a better outcome for members and their beneficiaries.
- **Enhanced Control, Transparency, and Accountability:** With internal management, decision-making, reporting, and oversight is entirely in the hands of SRA staff (subject to investment and governance policies set by the Board of Trustees). Removing the intermediary - the external asset manager - gives the pension system access to more complete and timely market data, which enhances investment performance, liquidity, and reporting. It also ensures the closest alignment with the interests of the Trustees, members, and beneficiaries.
- **Capacity Building:** Moving more assets in-house has and will continue to require the SRA to expand its team and add to the skillset of existing managers. Through this process, staff are developing specialized expertise to execute more complex investment strategies, and sustainably expanding the capacity and abilities of the System for the long term.

ACHIEVEMENTS: Over the past 7 years, SRPS has made significant progress in implementing an internal management program. Today, **20% of the System's assets are managed directly by SRA staff**. This share represents \$13.4 billion. SRPS has a **strong team of skilled professionals** to manage this money. The Investment Division has grown from 30 positions in 2019 to 52 approved positions in 2024. To attract top talent, the General Assembly granted the SRPS Board the authority to set compensation for members of the Investment Division that is more competitive relative to industry peers.

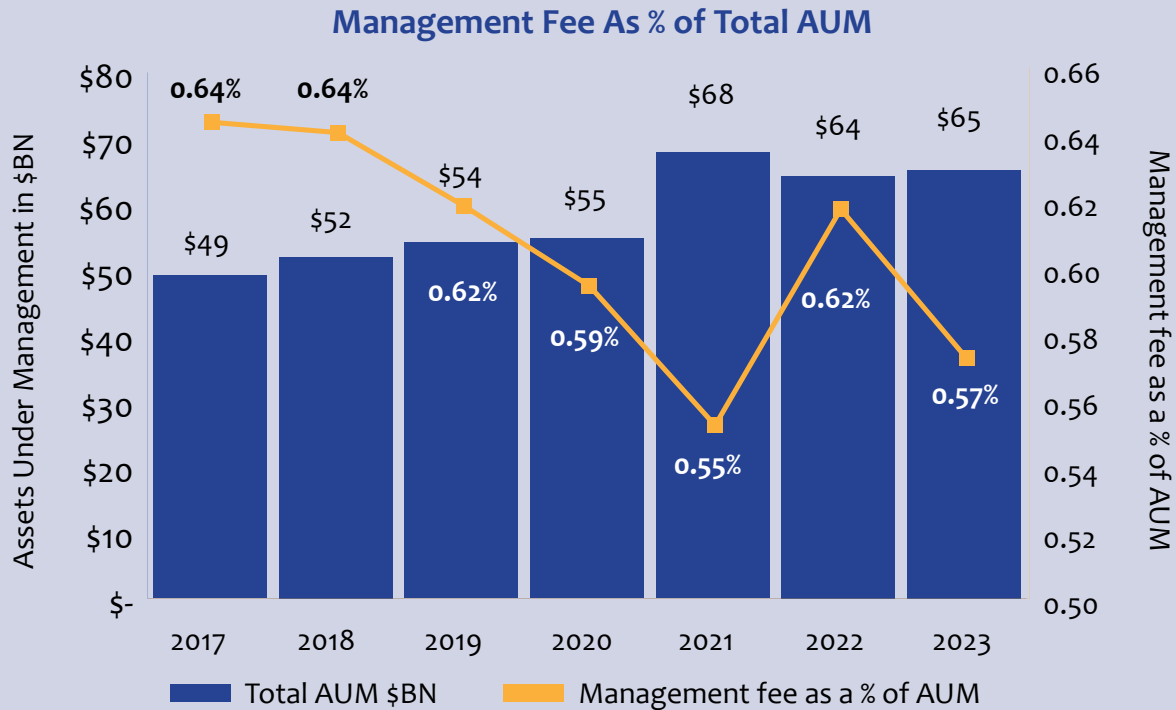
The internal management of public assets has resulted in **fee savings and improved returns** compared to similarly managed external accounts. As a result of internal management and fee negotiation, the System is saving **\$71 million annually**. These savings are expected to continue as more assets are managed internally.

LOOKING AHEAD: Staff will continue working to enhance returns through cost-effective and diversified strategies. The pension system should continue to benefit from lower external fees and strengthening its in-house expertise. This strategic priority is just one example of the way that staff and Trustees are building a stronger and more sustainable pension fund to enhance returns for its members for the long term.

The Maryland State Retirement and Pension System (SRPS) provides retirement, death, and disability benefits for over 420,000 members, including state employees, teachers, police, and judges. A 15-person Board of Trustees, led by the Treasurer and Comptroller, oversees the system. The Board and several committees meet regularly to set policies that guide investment strategy, and to review operations and performance. State Retirement Agency (SRA) staff execute the work to ensure timely benefits distribution and investment of plan assets for a fully funded retirement system.

FIGURE 1

Management fees as a percent of assets under management (AUM) have been declining since the inception of the internal management program, apart from a temporary spike during a poor performance year in 2021 - carried over into 2022.



Note: The management fees and total assets under management are based on the end of the respective fiscal year. These savings are not only attributable to managing investments in house, they are also impacted by fee negotiations of existing & new managers, and strategic asset allocation changes.

FIGURE 2: STAFF INVESTMENT PERFORMANCE SINCE INCEPTION OF INTERNAL MANAGEMENT PROGRAM FOR PERIODS ENDING MARCH 31, 2024

Asset Class	Actual returns	Benchmark*
MD U.S. Large Cap Equity	14.83%	14.84%
MD U.S. Small Cap Equity	2.20%	2.12%
MD International x U.S. Large Cap Equity	18.76%	16.62%
MD International x U.S. Sci-beta Value	16.07%	15.59%
MD Long Government Bonds	-8.33%	-8.49%
MD Investment Grade Corporate Bonds	-3.49%	-3.27%
MD Securitized Bonds	-3.39%	-3.45%
MD TIPS	1.99%	1.94%
MD Global Infrastructure	3.28%	2.51%

* Note: The benchmarks represent reference points for each asset class against which investment results can be compared. When returns exceed the benchmark, this indicates outperformance over the period.