



STATE RETIREMENT AGENCY
120 East Baltimore Street
Baltimore, MD 21202-6700

MARYLAND
STATE RETIREMENT
and PENSION SYSTEM

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December 11, 2019

The Honorable Nancy J. King
Chair, Budget & Taxation Committee
Miller Senate Office Building, 3 West
11 Bladen Street
Annapolis, MD 21401

The Honorable Maggie McIntosh
Chair, Appropriations Committee
House Office Building, Room 121
6 Bladen Street
Annapolis, MD 21401

The Honorable Melony G. Griffith
Senate Chair, Joint Committee on Pensions
220 James Senate Office Building
11 Bladen Street
Annapolis, MD 21401

The Honorable Benjamin S. Barnes
House Chair, Joint Committee on Pensions
House Office Building, Room 151
6 Bladen Street
Annapolis, MD 21401

Re: Report required by State Personnel and Pensions Article § 21-123.2(f)(1) (MSAR #10942)

Dear Chairmen King, McIntosh, Griffith, and Barnes:

In accordance with Chapter 459 of the Acts of 2016, codified at § 21-123.2(f)(1) of the State Personnel and Pensions Article of the Annotated Code of Maryland, on behalf of the Board of Trustees for the State Retirement and Pension System (System), I am submitting the required annual report providing certain information regarding the venture capital investments of the System.

This law requires that the Board of Trustees of the System provide the following information annually to the Senate Budget and Taxation Committee, the House Appropriations Committee, and the Joint Committee on Pensions:

- (i) a list of the investments, if any, made under § 21-123.2 of the State Personnel and Pensions Article;
- (ii) the recommendations, if any, made under § 21-123.2 of the State Personnel and Pensions Article;
- (iii) the actions, if any, taken by the Board of Trustees on the recommendations made under § 21-123.2 of the State Personnel and Pensions Article;
- (iv) the investment performance of any investments made under § 21-123.2 of the State Personnel and Pensions Article;
- (v) to the extent possible, an accounting of the fees and expenses incurred under § 21-123.2 of the State Personnel and Pensions Article; and
- (vi) to the extent possible, the ratio of funds invested in projects under § 21-123.2 of the State Personnel and Pensions Article to the total percentage of venture capital funds raised in the State by all sources.

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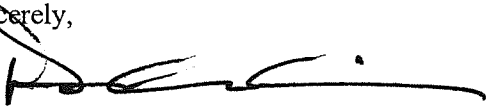
Peter Franchot, *Vice Chairman*
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Douglas Prouty
Michael J. Stafford, Jr.

R. Dean Kenderdine, *Secretary to the Board*

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Should you require additional information, please call me at (410) 625-5600.

Sincerely,

A handwritten signature in black ink, appearing to read 'R. Dean Kenderdine', with a long horizontal flourish extending to the right.

R. Dean Kenderdine
Secretary to the Board of Trustees

Attachment

cc: The Honorable Thomas V. Mike Miller, Jr.
The Honorable Adrienne A. Jones
Victoria L. Gruber
Sarah Albert
Board of Trustees

Maryland State Retirement and Pension System

Annual Report required pursuant to § 21-123.2(f)(1) of the State Personnel and Pensions Article of the Maryland Annotated Code of Maryland
Ch. 459 of the Acts of 2016

- (i) **A list of the investments, if any, made under § 21-123.2 of the State Personnel and Pensions Article:**

Investments through Fiscal Year ended June 30, 2019

Investment	Type of Business	Invested Amount
Stay N Touch	Hotel Management Software	1,000,000
HomeCare.com	Healthcare Services Software	499,934
Graybug	Drug Delivery Device	1,028,572
Aledade	Healthcare Services	1,488,996
Ashvattha	Biotech Drug Discovery	600,000
Xometry	Contract Manufacturing Platform	2,649,989
PGDX	Genome Testing Products	1,499,999
Apkudo	Application Software	1,250,000
iLearningEngines	Enterprise Software	1,000,000
RackTop	Software Defined Storage	1,399,998
Total Invested		12,517,488

- (ii) **Any recommendations made under § 21-123.2 of the State Personnel and Pensions Article:**

In that the decision was made to enter into an agreement with TEDCO to make and manage investments on behalf of the Board of Trustees of the System, there are no alternative recommendations at this time, as described in § 21-123.2(2).

- (iii) **Any actions taken by the Board of Trustees on the recommendations made under § 21-123.2 of the State Personnel and Pensions Article;**

The Maryland State Retirement Agency (MSRA) issued an RFI on September 28, 2016 to solicit proposals to administer the program as mandated under this section. Three responses were submitted by the November 10, 2016 deadline. TEDCO was selected to manage this mandate and an agreement between the System and TEDCO was finalized on November 3, 2017. TEDCO made ten investments totaling \$12,517,488 under the mandate.

In May of this year, MSRA staff was notified that the Executive Director of TEDCO and all of the investment staff responsible for investing the Maryland Innovation Opportunity Fund (MIOF) would be submitting their resignations. On May 29, 2019 MSRA sent a letter to TEDCO, exercising its right under our management agreement with TEDCO to *suspend new portfolio investments* and to *terminate TEDCO's ability to make capital calls*. This action was prompted by the fact that the entire investment team at TEDCO was leaving and the System had no means of assessing the ability of TEDCO to continue to manage assets on the System's behalf.

Subsequent to the letter of May 29, 2019, MSRA sent an additional letter to TEDCO on June 27, 2019 that reminded TEDCO management and its board of their fiduciary responsibilities to

MSRA for the management of MIOF. The letter reiterated that MSRA still retained the right to request a dissolution and liquidation of MIOF. MSRA requested a written transition plan from TEDCO on how they intended to fulfil their fiduciary duties.

TEDCO responded with a written transition plan on July 22, 2019. TEDCO indicated that Stephen Auvil would assume the position of Acting Executive Director of TEDCO and that he would be supported in oversight of the MIOF portfolio by TEDCO employees Frank Glover and Brian Corbett. TEDCO also stated that it was not their intent to hire an interim 3rd party advisor to assist in managing the MIOF and Maryland Venture Fund (MVF) assets. A 3rd party advisor would step into the role of TEDCO and serve as the manager of the assets for a fee. TEDCO was not satisfied with their available options for 3rd party management and was further concerned that multiple transition of management responsibility would not provide adequate continuity. TEDCO believes that it would be best for existing staff to monitor the assets until replacement investment professionals can be hired. On or about July 22, 2019 the TEDCO Board initiated a search to hire permanent replacements for the departed TEDCO investment staff.

On August 2nd, MSRA staff met with Brian Corbett and Frank Glover as well as TEDCO Board Chairperson Myra Norton, President and COO, for Arena Analytics. They updated MSRA staff on their plans to fill vacant positions and to manage the MIOF and MVF portfolios in the near term.

On September 19th, the MSRA amended its Operating Agreement with TEDCO to allow for follow-on investments in existing investments only to protect the value of those existing investments. The follow-on investments will only be allowed with approval from the MSRA following a presentation by TEDCO detailing the business case for the investments. No follow-on investments have been presented by TEDCO under this revised Operating Agreement to date. TEDCO is still prohibited from making any new investments on behalf of the System.

On October 2nd, the MSRA was notified by TEDCO that Brian Corbett had submitted his resignation effective October 8th. To staff's knowledge as of this report, TEDCO has not hired any replacements for its vacant positions.

(iv) **The investment performance of any investments made under § 21-123.2 of the State Personnel and Pensions Article:**

As of June 30, 2019 all investments under this program had generated a return of 32%.

(v) **To the extent possible, an accounting of the fees and expenses incurred under § 21-123.2 of the State Personnel and Pensions Article: and**

External legal fees of \$52,000 were incurred to complete the agreement with TEDCO. No other fees or expenses have been incurred by the System.

(vi) **To the extent possible, the ratio of funds invested in projects under § 21-123.2 of the State Personnel and Pensions Article:to the total percentage of venture capital funds raised in the State by all sources.**

Based upon our best available knowledge, the \$12.5 million invested under this program represents 0.88% of the total venture capital investments of \$1.42 billion invested in the State from January 1, 2018 through June 30, 2019.