

BOARD OF TRUSTEES  
FOR THE  
STATE RETIREMENT AND PENSION SYSTEM  
OF MARYLAND

MINUTES OF MEETING

August 15, 2000

The Board of Trustees for the State Retirement and Pension System of Maryland met in the Boardroom of the Crestar Building, 120 East Baltimore Street, Baltimore, Maryland, at 9 30 a m There were present Richard N Dixon, Chairman, Frank P Casula, Morris L Krome, Carl D Lancaster, Debra B Humphries, Nancy S Grasmick, G Bruce Harrison, and, via telephone, William Donald Schaefer, Vice-Chairman and Arthur N Caple, Jr, Trustees, and Peter Vaughn, Secretary Agency staff members also attending were Margaret A Bury, Retirement Administrator, Harriet B Granet, Jill Leiner, Robert Feinstein, Carla Katzenberg, Assistant Attorneys General, Carol Boykin, Chief Investment Officer, Thomas Gighotti, Chief Internal Auditor, Patricia Scott, Administrator, Sherlynn Matesky, Administrator, Rick Harrison, Chief Financial Officer, and Francis Langston, Information Systems Officer

Leonard Gutkoska, attorney for Carey Hall, Paul Schlitz, attorney for Gregory Long, James Whattam, attorney for Carolyn Shrewsbury and Mrs Shrewsbury, Gene Kalwarski and Fiona Liston of Milliman and Robertson, and Warren Deschenaux and Melame Wenger of the Office of Policy Analysis were also present

Crown Central

Petroleum Proposal

1 Mr Dixon addressed the Board regarding a proxy voting issue that had come to his attention The issue related to a bid from both APEX and Rosemore to buy Crown Central Petroleum, a corporation headquartered in Maryland Acceptance of the bid from Rosemore would ensure that the Rosenberg family (which controls Rosemore) could take their business private The Company's Board recommended that shareholders approve the Rosemore bid over APEX However, DFA, a small capitalization stock manager under contract with the Board, had already voted a proxy against Crown Central management's recommendation to merge with Rosemore Mr Dixon stated that the Board has consistently voted for management, and asked the Board to agree to instruct DFA to vote the Agency's Crown shares in favor of management

Mr Schaefer stated that the Rosenberg family was very active in community service and Maryland charities and that it would benefit the State of Maryland to continue to have their business in Maryland

In response to questions by the Trustees, Ms Boykin stated that the staff did not have time to complete a thorough analysis of the \$9.50 cash Rosemore bid and the \$10.50 multi-part APEX bid to determine which was a better bid for shareholders. Ms Boykin also stated that the staff did not know how many shares were held by DFA, but she estimated 5,000 shares since DFA held approximately 50,000 shares of Crown in the 9-10 portfolio of behalf of all of their 9-10 clients, and that the Agency was only one of DFA's clients in this commingled fund.

On motion made by Mr Dixon and seconded by Mr Caple, the Board voted to contact DFA and direct them to vote the Agency's shares in favor of management. Messrs Dixon, Schaefer, Casula, Krome, and Caple, Ms Humphries and Dr Grasmick registered yea votes. Messrs Lancaster and Harrison registered nay votes.

Minutes 2 On motion made by Major Krome and seconded by Dr Grasmick, the Minutes of the regular meetings of the Board of Trustees for the State Retirement and Pension System of Maryland, held on July 13, 2000, were approved.

Carey W Hall 3 The Board considered the report of the Medical Board in connection with the claim of Carey W Hall for disability benefits. The Medical Board report included a report by an Administrative Law Judge and related medical documentation. Ms Hall appealed the Medical Board's decision that the medical evidence submitted did not prove that she is permanently incapacitated or unable to perform her job duties.

Mr Leonard Gutkoska, attorney for Ms Hall, presented his arguments opposing the Agency's position and the Medical Board's recommendations. Ms Carla Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should accept the Medical Board's report. The Board deferred further consideration to executive session.

Gregory Long 4 The Board considered the report of A. J. Novotny, Jr., sitting as Administrative Law Judge for the Office of Administrative Hearings, in connection with the appeal of Gregory Long. Mr Long appealed the Medical Board's denial of accidental disability benefits. The Medical Board reasoned that they did not believe that his disability was the natural and proximate result of an accident that occurred in the performance of duty.

The Administrative Law Judge, upon consideration of the record, and following a hearing, affirmed the Agency's decision and concluded that Mr Long's disability was not the "natural and proximate result" of a work-related accident that allegedly occurred on August 18, 1994. Therefore, his application for accidental disability benefits should be denied.

Mr Paul Schlitz, attorney for Ms Arthur, presented his arguments opposing the Agency's position and the Administrative Law Judge's recommendations Ms Carla Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations The Board deferred further consideration to executive session

Carolyn Shrewsbury 5

The Board considered the report of Joy L Phillips, sitting as Administrative Law Judge for the Office of Administrative Hearings, in connection with the appeal of Carolyn Shrewsbury Ms Shrewsbury appealed the Medical Board's denial of accidental disability benefits The Medical Board reasoned that they did not believe that her disability was the natural and proximate result of an accident that occurred in the performance of duty

The Administrative Law Judge, upon consideration of the record, and following a hearing, affirmed the Agency's decision and concluded that Ms Shrewsbury "did not suffer an accident on October 10, 1990 which would render her eligible for accidental retirement benefits" Therefore, her application for accidental disability benefits should be denied

Mr James Whattam, attorney for Ms Shrewsbury, presented his arguments opposing the Agency's position and the Administrative Law Judge's recommendations Ms Carla Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations The Board deferred further consideration to executive session

John M Ross 6

The Board considered the report of Guy J Avery, sitting as Administrative Law Judge for the Office of Administrative Hearings, in connection with the appeal of John M Ross Mr Ross appealed the Medical Board's denial of accidental disability benefits The Medical Board reasoned that they did not believe that his disability was the natural and proximate result of an accident that occurred in the performance of duty

The Administrative Law Judge, upon consideration of the record, and following a hearing, affirmed the Agency's decision and concluded that Mr Long's disability was not the "natural and proximate result" of a work-related accident that allegedly occurred on November 26, 1996 Therefore, his application for accidental disability benefits should be denied

Mr Ross did not appear and asked that his case be heard on the record that exists Ms Carla Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations The Board deferred further consideration to executive session

On motion made and duly seconded, the Board unanimously voted to meet in Executive Session to consider the appeals of Carey W Hall, Gregory Long, Carolyn Shrewsbury and John M Ross. State Government Article Section 10-502(i) authorizes the Board to meet in closed session to exercise a quasi-judicial function.

#### EXECUTIVE SESSION

The Board met in Executive Session at 10:45 a.m. in the SunTrust Building to consider the appeals of Carey W Hall, Gregory Long, Carolyn Shrewsbury and John M Ross, and to consult with staff about pending or potential litigation. All of the persons present at the beginning of the meeting were present in Executive Session except the following: Leonard Gutkowska, Paul Schltz, James Whattam and Carolyn Shrewsbury. The Board adjourned its Executive Session at 10:48 a.m. and returned to regular session to complete the agenda.

#### REGULAR SESSION

Carey W Hall On motion made by Dr. Grasmick and seconded by Major Krome, the Board voted unanimously to accept the Medical Board's Report and denied Ms. Hall's request for disability retirement benefits.

Gregory Long The Board considered the record of Gregory Long. Following a discussion, on motion made by Major Krome and seconded by Dr. Grasmick, the Board voted unanimously to adopt the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and denied Mr. Long's request for accidental disability retirement benefits.

Carolyn Shrewsbury The Board considered the record of Carolyn Shrewsbury. Following a discussion, on motion made by Mr. Casula and seconded by Dr. Grasmick, the Board voted unanimously to adopt the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and denied Ms. Shrewsbury's request for accidental disability retirement benefits.

John M. Ross The Board considered the record of John M. Ross. Following a discussion, on motion made by Ms. Humphries and seconded by Major Krome, the Board voted unanimously to adopt the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and denied Mr. Ross' request for accidental disability retirement benefits.

Executive 7 Mr. Vaughn informed the Board that the Agency is very close to closing the

## Director's Report

books for the fiscal year ending June 30, 2000, and that staff was currently making all necessary adjustments to the file and reconciling the data.

Mr. Vaughn then informed the Board that the Agency had received 12 applications for the new State Police DROP program. Mr. Vaughn stated that that was a slow start but that he expected to receive more applications and that he would keep the Board informed.

Mr. Vaughn next informed the Board that letters in support of HR 1102 were sent on July 31, 2000 from Chairman Dixon to United States Senators Paul Sarbanes and Barbara Mikulski. Exhibit A.

At the request of Governor Schaefer Mr. Vaughn then discussed the Range of Benefit Multipliers of State Employee Plans surveyed. He stated that our Pension benefits had been enhanced in 1998 but that the State was on the low end of the scale for the region and nationally at 1.40%. Mr. Caple suggested that the Board should begin to discuss further enhancements so that the System could be used as a recruitment tool. Exhibit B.

Mr. Vaughn then updated the Board on the acquisition of additional office space for the Agency on the 12<sup>th</sup> floor of the SunTrust building. The new space will house the Networking, Micrographic and Auditing departments and should be completed in early October.

Mr. Vaughn then reviewed the unaudited financial statements for the period ending June 30, 2000, informing the Board that Net Assets Available for Plan Benefits were almost \$3 billion more than last year and that contributions totaled \$862 million while Benefit Payments totaled \$1.3 billion. He stated that he would deliver a full report when the audit was completed.

The Board reviewed and accepted the System's financial statements and investment performance comparisons for the period ending June 30, 2000 for the State Retirement and Pension System of Maryland.

The Board accepted Mr. Vaughn's report.

Executive  
Committee Report 8

Major Morris Krome, Vice-Chairman of the Executive Committee, reported on the regular meeting held August 10, 2000. Exhibit C.

Major Krome reported that the Committee had reviewed and accepted administrative expenses for manager's fees. He explained that, although the fees had increased, they were still under the cap.

Mr. Krome informed the Board that the IRS had approved participation of the Worcester County Liquor Control Board in the Employer Pickup Program, and that the Committee recommends their participation effective September 1, 2000. On motion made by Major Krome and seconded by Mr. Caple, the Board unanimously approved the participation of the Worcester County

Liquor Control Board in the Employer Pickup Program effective September 1, 2000

Major Krome informed the Board that there would be an election in 2001 for one member each to represent the Teachers' Retirement and Pension System, the Employees' Retirement and Pension System, and the State Police Retirement System. The Committee has approved the Election Schedule and recommends that the Board approve the Schedule as presented. On motion made by Mr. Casula and seconded by Major Krome, the Board voted unanimously to approve the Election Schedule as presented.

Major Krome next informed the Board that the Committee had prepared 4 alternate Earnings Limitation proposals that will be presented to the Joint Committee on Pensions (JPC). The Committee feels that if the JPC will not consider eliminating the Earnings Limitation entirely, they may consider the alternatives: (2) lowering the earnings limitation time period from 10 years to 3 to 5 years for all members of the Systems, (3) impose the earnings limitation only until normal retirement age (age 60 for the Retirement System and age 62 for the Pension System) with no earnings restrictions after age 65, (4) limit earnings by a fixed dollar amount (limit plus \$5,000), and offset at \$1 for every \$2 in excess earnings. On motion made by Major Krome and duly seconded, the Board voted unanimously to present the recommended proposal to the Joint Committee on Pensions as stated.

Major Krome informed the Board that the CEM Benchmarking Proposal had been deferred.

Major Krome then asked Executive Director, Peter Vaughn, to update the Board on the 2002 Budget Request. Mr. Vaughn reviewed the Fiscal Year 2002 Budget Request of \$20.6 million and informed the Board that the request is \$2 million below the Department of Budget and Management's target amount, and \$1.1 million under the estimated FY 2002 legislative cap of \$21.7 million. He noted that the budget is still under the targeted amount even though the Agency is requesting 11 new permanent positions and 9 new contractual positions. He explained that the new contractual positions are necessary to help implement the new Strategic System. On motion made by Mr. Casula and seconded by Major Krome, the Board voted unanimously to approve the Fiscal Year 2002 Budget Request as presented, and to forward it to the Governor's office.

Major Krome informed the Board that the Committee had directed the Assistant Attorney General, Harriet Granet, to draft a legislative proposal permitting members of the Teachers' Contributory Pension System to purchase previous service credit for teaching in public schools in Maryland on the same cost basis as HB349. Ms. Granet will report back to the Committee at the next meeting.

Major Krome updated the Board on the Strategic System and advised the Board that the project is on target.

Major Krome then reminded the Board that Milliman and Robertson would

present a report on pre-funding of retiree health benefits to the Committee at the September Executive Committee meeting. He reminded members that the JPC will also be reviewing this issue and encouraged all Board members to attend this meeting as well as all other JCP meetings.

The Board accepted Major Krome's report.

Investment  
Committee Report

9

Mr. Carl Lancaster, Chairman of the Investment Committee, reported on the meeting held August 11, 2000.

Mr. Lancaster updated the Board on the Real Estate Strategic Plan and informed the Board that the Committee recommended that \$100 million be invested in the FY2001 "direct" portion of the Agency's real estate portfolio. On motion made by Mr. Lancaster and seconded by Mr. Harrison, the Board voted to approve the Real Estate Strategic Plan and the \$100 million allocation as stated. Messrs. Dixon, Casula, Lancaster, Harrison, Schaefer, and Caple and Ms. Humphries and Dr. Grasmick registered yeas. Major Krome registered a nay vote.

Mr. Lancaster then informed the Board that the Committee had approved several new high yield bond managers. Fountain Capital management would receive \$100 million, Lazard Asset Management would receive \$100 million, Morgan Stanley Dean Witter Investment Management would receive \$200 million and WR Huff Asset Management, an existing high yield manager, would receive an additional \$100 million. Ms. Boykin advised the Board that benchmarks needed to be approved for each manager. She recommended the Merrill Lynch High Yield Index plus 100 basis points as the benchmark. On motion made by Mr. Lancaster and seconded by Mr. Caple, the Board voted unanimously to approve the recommendation of the Investment Committee as stated.

Mr. Lancaster reported on the Committee's recommended benchmarks for new managers and stated that the approved benchmarks were for the Edgar Lomax Company, the S&P BARRA Value, for J and W Seligman, the Russell 1000 Value, and for Robert E. Torray and Company, the S&P 500. On motion made by Mr. Lancaster and seconded by Ms. Humphries, the board voted unanimously to approve the benchmarks as stated.

Mr. Lancaster then discussed the Manager Termination guidelines and informed the Board that the Committee recommended reducing the payment to a terminated manager from the current 60 days. The Committee recommended that payment to a manager cease immediately upon termination. However, payment would be rendered to the manager for services requested by the Agency after termination. On motion made by Mr. Lancaster and seconded by Dr. Grasmick, the Board voted unanimously to revise the manager termination payment period.

Mr. Lancaster next informed the Board that the Committee recommended

revising the language of the Manager Termination section, particularly Section C 3, of the Investment Operations Manual, which states that a manager is expected to outperform their benchmark over a 3-year period or a complete market cycle. The Committee recommended revising this language to focus only on the 3-year period since this has been the Board's practice. On motion made by Mr Lancaster and duly seconded, the Board voted unanimously to revise the Investment Operations Manual as stated.

The Board accepted Mr Lancaster's report.

- |                                    |    |   |
|------------------------------------|----|---|
| Medical Board Reports              | 10 | The Board, on motion made by Mr Casula and seconded by Mr Harrison accepted and approved the reports of the Medical Board in connection with applications of members for ordinary, accidental and special retirement allowances. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants.   |
| Supplemental Medical Board Reports | 11 | The Board, on motion made by Mr Harrison and seconded by Mr Lancaster, the Board unanimously accepted and approved the supplemental reports of the Medical Board in connection with applications of members for ordinary and accidental and special retirement allowances. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants. The Supplemental Report of the Medical Board is shown as Exhibit D. |

On motion made by Mr Harrison and seconded by Mr Lancaster, the Board unanimously voted to meet in Executive Session to discuss the Funding Study presented by the System Actuary, and to permit representatives from the Department of Fiscal Services to participate.

#### EXECUTIVE SESSION

The Board met in Executive Session at 11:30 a.m. in the SunTrust Building to discuss the Funding Study. All of the persons present at the beginning of the meeting were present in Executive Session except the following: Leonard Gutkowska, Paul Schlitz, James Whattam and Carolyn Shrewsbury. The Board adjourned its Executive Session at 11:45 p.m. and returned to regular session to complete the agenda.



REGULAR SESSION

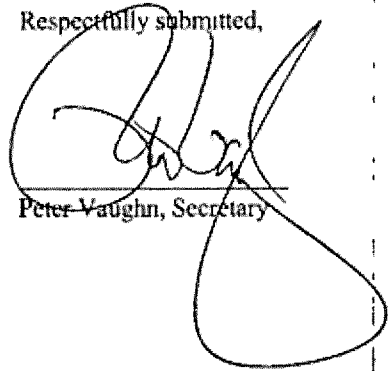
Other Business 12

Supplemental  
Disability Offset 13

The reports of the Medical Board for offsets of disability retirees were accepted by the Board. The Board, on motion made by Mr. Casula and seconded by Mr. Lancaster, authorized the reduction of the pensions of affected retirees as provided for under the current law (State Personnel and Pensions Article), effective July 1, 1990. The offsets are based on calendar 1999 earnings that will be offset from pension benefits paid in fiscal year 2001. Exhibit E.

There being no further business, on motion made and duly seconded, the Board adjourned at 11:50 a.m.

Respectfully submitted,



Peter Vaughn, Secretary

ps