

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

MINUTES OF MEETING

February 20, 2001

The Board of Trustees for the State Retirement and Pension System of Maryland met on February 20, 2001, at 9 30 a m , in the Assembly Room of the Louis L. Goldstein Treasury Building, Annapolis, Maryland. There were present Richard N. Dixon, Chairman, William Donald Schaefer, Vice-Chairman, Arthur N. Caple, Jr., William D. Brown, Carl D. Lancaster, Frank P. Casula, George R. Tydings, T. Eloise Foster, Ah A. Alemi, Morris L. Krome, G. Bruce Harrison, Nancy S. Grasmick, David B. Mitchell, and Debra B. Humphries, Trustees, and Peter Vaughn, Secretary. Agency staff members also attending were Margaret A. Bury, Retirement Administrator, Jill R. Leiner and Carla G. Katzenberg, Assistant Attorneys General, Carol Boykin, Chief Investment Officer, J. Howard Pleines, Director of Legislation, Sherlynn Matesky, Administrator, Thomas Gighotti, Chief Internal Auditor, Ricky Harrison, Chief Financial Officer, Gwendolyn Mulkey, Executive Associate, and Shirley A. Hartnett, Administrative Officer.

Don Benter, attorney for Glenda F. Weicht, Hillary Galloway Davis, attorney for Vicki L. Gwaltney, Granville H. Hibberd, Frederick H. Stalford, attorney for Mr. Hibberd, Sandra A. Mercer, and Michael J. McAuliffe, attorney for Ms. Mercer, were also present.

Minutes

- 1 Dr. Alemi expressed his concerns regarding the January 16th minutes of the Board meeting. First, the meeting location was listed as Baltimore and should have read Annapolis. Second, Dr. Alemi referred to page 5, paragraph 5, of the minutes. Dr. Alemi noted his concern with "rubber stamping" the recommendations of the Executive and Investment Committees. Third, Dr. Alemi requested to see the advice of counsel referred to under "Item 13 - Other Business". Mr. Vaughn advised the Board that, due to our General Counsel's illness, the advice was not prepared for this meeting. However, he advised the Board, the advice of counsel should be available at the regular March Board meeting.

Chairman Dixon responded to Dr. Alemi that his ruling concerning the recommendations of the Executive and Investment Committees, referred to on page 5, would stand. In addition, under "Other Business", his decisions concerning the calling of meetings, as Chairman, are final.

Minutes

1 (Continued)

Next, Dr Alemi referred a letter, that he had received from a concerned Retirement and Pension System member, to Mr Dixon and requested a) Mr Dixon respond to the letter, and b) the letter be added to the minutes. Mr Dixon directed the Secretary to forward copies of the letter to all Board members for their information.

Mr Brown noted that he and Mr Lancaster had made a motion at the January meeting regarding the adoption of Robert's Rules of Order as operating procedures for the Board meetings. A question also arose as to how challenges to the Chairman's rulings should be handled. Mr Dixon responded the only way to challenge the Chairman was to replace him.

Mr Schaefer noted members have a right to appeal the Chairman's motions and normally it would be put to a vote. He suggested that counsel review this matter.

On motion made by Mr Harrison and seconded by Colonel Mitchell, the Board voted to defer the Minutes of the January 16, 2001 Board meeting until the regular March meeting. In addition, a determination by counsel, on being ruled out of order by the Chairman, should be presented to the Board. Mr Lancaster added an amendment to the motion that additional details, concerning the January discussion of this matter, be reflected in the January minutes. On motion duly made and seconded, the Board deferred the January 16, 2001 minutes until the March meeting. Also, the advice of counsel addressing the various issues will be presented for the Board's review at that meeting.

Investment
Committee Report

2 Mr Arthur Caple, Jr, Chairman of the Investment Committee, reported on the Committee's meeting held on February 9, 2001.

Mr Caple reported the System's statutory fee cap of 30 basis points, which is averaged across all of the external stock and bond managers, was violated for the quarter ending 12/31/00 due to outstanding performance by Relational Investors. Mr Caple noted an agreement with Greenway Partners and Relational Investors has been reached modifying their fee arrangements in a way, which will reduce the likelihood of this happening again. The new fee structure will a) be calculated quarterly, b) be retroactive to 1/1/01, and all performance based calculations will be based upon that starting point, c) have a floor of 30 basis points per year or 7.5 basis points per quarter, and d) have a ceiling of 200 basis points per year or 50 basis points per quarter. The Investment Committee recommended terminating these two managers if they did not agree to the revised fee arrangements. In addition, staff was requested to examine the fees of additional managers whose fees are relatively high for their respective categories. On motion made by

Mr Caple and seconded by Dr Alemi, the Board voted to accept the Committee's recommendations and adopt the new fee structure for Relational Investors and Greenway Partners and to formalize this agreement by contract, effective January 1, 2001

Mr Caple also noted, in response to a question raised at the January Board meeting, that the assets of Chapman Capital Management, Inc were in a trust and the System would have a high degree of protection in the event of bankruptcy or insolvency with any of its trusts

Major Krome and Mr Lancaster were concerned about the lack of written minutes concerning investment meeting items which required a vote by the Board Ms Boykin noted the timing of the Investment Committee meetings just prior to the Board meetings and inadequate preparation time to complete the minutes prior to the Board meeting Ms Boykin, however, can prepare a brief summary of the items and the action required by the Board for distribution at future Board meetings Chairman Dixon agreed this would be appropriate and sufficient

Mr Caple provided the Board with an update on VALIC The Board discussed two replacement funds in addition to a proposed change in one of the existing VALIC options

By a telephone vote taken after the meeting, the Board voted to approve the selection of two funds to replace the Dreyfus Small Cap Growth Fund and the Dreyfus/Founders Large Cap Growth Fund, which were eliminated by VALIC as an ORP option in December, 2000 The two replacement funds selected were 1) North American - Founders/T Rowe Price Small Cap and 2) North American - AG NASDAQ 100 Index The Board also approved a shift out of a global fund and into an EAFE fund for VALIC's ORP participants by a) deleting Templeton Asset Strategy (global fund) and b) approving American Century International Growth (EAFE growth fund) Participants will be able to keep existing funds in the Templeton fund but new contributions will go into the American Century fund or the participant's choice of another one of the existing VALIC options Messrs Dixon, Caple, Tydings, Harrison, Brown and Casula and Ms Humphries, Major Krome, Col Mitchell and Dr Grasmick voted to approve the Committee's recommendations Messrs Schaefer and Lancaster abstained from the vote Dr Alemi and Ms Foster did not cast a vote

Investment
Committee Report

2 (Continued)

Next, Mr. Caple reported the Committee had received a report from the Real Estate Subcommittee with two recommendations. The Board, on motion made by Mr. Casula and seconded by Mr. Caple, accepted the Investment Committee's recommendation and voted to terminate and sell the System's \$60 million investment in the Sentinel Real Estate Corporation Commingled Real Estate Fund. The Board noted the exit would take about two years.

Mr. Caple noted the Committee also recommended the Board authorize an investment of \$60 million in the Lubert-Adler Fund III. The Board decided that Lubert-Adler should give a presentation to the full Board before the matter is voted on. A special meeting will be arranged for this presentation due to the limited time frame surrounding this investment. All Trustees will be notified of the meeting date, time and location.

Lastly, Mr. Caple advised the Board he would inform them of the recent events affecting the Maryland Venture Capital Trust in Executive Session. On motion made by Mr. Harrison and seconded by Col. Mitchell, the Board voted to review the Maryland Venture Capital Trust update in Executive Session when the appeal cases are considered.

The Board accepted Mr. Caple's report.

Sandra Mercer

3

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 Sandra A. Mercer. Ms. Mercer appealed the Medical Board's denial of accidental disability benefits. The Medical Board reasoned that, although Ms. Mercer is disabled due to a progressive familial neurological degenerative condition related to the Charcot Marie Tooth disorder and recurrent depressive disorder, the Medical Board did not believe her disability was the natural and proximate result of an "accident that occurred at a definite time and place" within the meaning of State Personnel and Pensions Article, Section 29-109.

The Administrative Law Judge, upon consideration of the record, and following a hearing, disagreed with the Agency's decision and concluded that Ms. Mercer sustained an accidental injury on October 1, 1996. However, the Administrative Law Judge further concluded that the October, 1996 assault was not the sole triggering event causing Ms. Mercer's disability, rather it was one of many stressors and incidents that led to her permanent disability.

- Sandra Mercer 3 (Continued)
- Mr Michael J McAuliffe, attorney for Ms Mercer, presented his arguments opposing the Agency's position and the Administrative Law Judge's recommendations Ms Jill R Leiner, 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
- Glenda Weicht 4
- The Board considered the report of Michael J Wallace, sitting as Administrative Law Judge for the Office of Administrative Hearings, in connection with the appeal of Glenda F Weicht Ms Weicht appealed the Medical Board's denial of accidental disability benefits The Medical Board reasoned that, although Ms Weicht is disabled due to pain disorder associated with psychological factors – personality disorder, the medical evidence submitted did not prove that the work-related accident caused Ms Weicht's disability
- The Administrative Law Judge, upon consideration of the record, and following a hearing, affirmed the Agency's decision and concluded that Ms Weicht suffered from a pre-existing psychological condition The Administrative Law Judge further concluded that, although the January, 1994 accident may have aggravated her pre-existing condition, Ms Weicht failed to establish that her disability is the natural and proximate result of the work-related accident
- Mr Don Benter, attorney for Ms Weicht, presented his arguments opposing the Agency's position and the Administrative Law Judge's recommendations Ms Jill R Leiner, 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
- Vicki Gwaltney 5
- The Board considered the report of Douglas E Koteen, sitting as Administrative Law Judge for the Office of Administrative Hearings, in connection with the appeal of Vicki L Gwaltney Ms Gwaltney appealed the Medical Board's denial of accidental disability benefits The Medical Board reasoned that, although Ms Gwaltney is disabled due to chondromalacia patella, bilateral, and osteoarthritis of knees, bilateral, the medical evidence submitted did not prove that the work-related accidents caused Ms Gwaltney's disability
- The Administrative Law Judge, upon consideration of the record, and following a hearing, affirmed the Agency's decision and concluded that Ms Gwaltney suffered from a pre-existing degenerative condition The Administrative Law Judge further concluded that, although the May, 1993 and January, 1996 accidents may have aggravated her pre-existing condition, Ms Gwaltney failed to establish that her disability is the natural and proximate result of the work-related accidents

Vicki Gwaltney 5 (Continued)

Ms Hillary Galloway Davis, attorney for Ms Gwaltney, presented her arguments opposing the Agency's position and the Administrative Law Judge's recommendations. Ms Jill R. Leiner, 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.

Granville Hibberd 6

The Board considered the report of C. Hooker Davis, sitting as Administrative Law Judge for the Office of Administrative Hearings, in connection with the appeal of Granville H. Hibberd. Mr. Hibberd appealed the Retirement Agency's denial to either a) pay him a monthly retirement allowance based on an erroneous estimate, or b) rescind his service credit purchase and pay him the expenses he incurred to raise the funds to purchase the service. The Agency had offered Mr. Hibberd the option of either receiving the corrected maximum monthly benefit or rescinding his service credit purchase without reimbursement of his expenses.

The Administrative Law Judge, upon consideration of the record, and following a hearing, affirmed the Agency's decision. The ALJ concluded that the Agency acted within its statutory authority when, pursuant to State Personnel and Pensions Article, Section 21-113, it corrected its records to ensure that Mr. Hibberd received only the benefit to which he was lawfully entitled.

At its meeting on January 16, 2001, the Board referred the matter to the Executive Committee for its recommendation with regard to alternative solutions to adequately address the concerns of Mr. Hibberd and the Agency. The Executive Committee found no additional action was needed regarding the appeal and recommended the Board accept the Administrative Law Judge's report and deny Mr. Hibberd's appeal.

Mr. Frederick H. Stalfort, attorney for Mr. Hibberd, presented his arguments opposing the Agency's position and the Administrative Law Judge's recommendations. The Board deferred further consideration to executive session.

On motion made by Mr. Casula and seconded by Ms. Humphries, the Board unanimously voted to meet in Executive Session to consider the appeals of Sandra A. Mercer, Glenda F. Weicht, Vicki L. Gwaltney and Granville H. Hibberd. State Government Article Section 10-502(i) authorizes the Board to meet in closed session to exercise a quasi-judicial function. The Board also met to discuss the Maryland Venture Capital Trust Update. State Government Article Section 10-508(5) authorizes the Board to meet in closed session to consider the investment of public trust funds.

EXECUTIVE SESSION

The Board met in Executive Session at 11 50 a m in the Louis L Goldstein Treasury Building to discuss the appeals of Sandra A Mercer, Glenda F Weicht, Vicki L Gwaltney and Granville H Hibberd All of the persons present at the beginning of the meeting were present in Executive Session except Nancy S Grasmick, David B Mitchell, Jill R Leiner, Sandra A Mercer, Michael J McAuliffe, Don Benter, Hillary Galloway Davis, Granville H Hibberd and Frederick H Stalfort The Board adjourned its Executive Session at 12 25 p m and returned to regular session to complete the agenda

REGULAR SESSION

- Sandra Mercer On motion made by Mr Lancaster and seconded by Mr Tydings, the Board voted, 9 to 2, to reject the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and grant Ms Sandra A Mercer's request for accidental disability retirement benefits The Board believed Ms Mercer was assaulted, which was the natural and proximate cause of her disability Messrs Schaefer, Caple, Tydings, Lancaster, and Harrison, Ms Humphries, Major Krome, Dr Alemi and Ms Foster voted in favor of granting the accidental disability retirement Messrs Dixon and Casula registered nay votes Mr Brown abstained from the vote
- Glenda Weicht On motion made by Mr Brown and seconded by Major Krome, the Board unanimously voted to adopt the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and denied Ms Glenda F Weicht's request for accidental disability retirement benefits
- Vicki Gwaltney On motion made by Dr Alemi and seconded by Mr Caple, the Board unanimously voted to reject the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and grant Ms Vicki L Gwaltney's request for accidental disability retirement benefits The Board decided the two accidents were the natural and proximate cause of her disability
- Granville Hibberd On motion made by Mr Brown and seconded by Dr Alemi, the Board voted to adopt the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and deny Mr Granville H Hibberd's request that the Agency either 1) pay him a monthly retirement allowance based on an erroneous estimate, or 2) rescind his service credit purchase and pay him the expenses he incurred to raise the funds to purchase the service Mr Schaefer registered a Nay vote

7 Mr Vaughn introduced Gwendolyn Mulkey, to the Board Ms Mulkey is Mr Vaughn's new assistant, replacing Pat Scott

Mr Vaughn noted the 1099 forms had been sent to the System's retirees the last week in January

Mr Vaughn also noted the cost-of-living adjustment for retirees, effective July 1, 2001, would be 3.3667% for Retirement System retirees and 3% for Pension System retirees

Mr Vaughn informed the Board the Summary Plan Description booklets for the State Police Retirement System had been delivered to the State Police retirement coordinators two weeks ago Mr Vaughn noted that the Teachers' and Employees' Pension System Summary Plan Descriptions had just arrived and will be distributed

Next, Mr Vaughn referred to the Special Edition of "The Mentor", which contains a schedule of the Spring 2001 Pre-Retirement Seminars

Mr Vaughn reported on the Trustee election nominations to date He noted there are 2 qualified State Police candidates, 1 qualified Teachers' candidate and no qualified Employees' candidate All nominations are due by February 28, 2001

Mr Vaughn advised the Board that Milliman and Robertson was sponsoring a Fiduciary Education Seminar on February 27, 2001 at the Center Club in Baltimore from 7:30 a.m. until 12 p.m.

Mr Vaughn reported to the Board he had received a letter from Mike Canning of the Fraternal Order of State Police requesting the Board support legislation (Senate Bill 566) concerning the reemployment of retired State Police as Sheriffs and State's Attorneys This Bill was discussed further during the Legislative Report given by Howard Plenes

Lastly, Mr Vaughn informed the Board that the Agency's budget hearing before the House Appropriations Committee was held on February 8th The Committee also reviewed the System's asset allocation plan, investment performance, peer performance analysis, Strategic System update and whether an investment consultant would add value for the System

The Board accepted Mr Vaughn's report

Executive
Committee Report

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Mr William D Brown, Chairman of the Executive Committee, reported on the regular meeting held on February 6, 2001 (Exhibit A)

Mr Brown noted the Committee had received a report from Mr Vaughn concerning the Agency's search for a Chief Information Officer (CIO) The University of Maryland Research Program was suggested and will be used to recruit candidates and secure an individual for this position

Mr Brown reported to the Board that the Executive Committee had considered an appeal from Trooper Julianne E Pritchard concerning the Agency's denial of her hearing request to transfer service credits and benefits After review, the Executive Director recommended denial of Trooper Pritchard's request for an appeal and the Committee concurred On motion made by Mr Brown and seconded by Dr Alemi, the Board unanimously voted to accept the recommendation of the Executive Committee and approved Mr Vaughn's denial of a request for a hearing for Trooper Julianne E Pritchard

Mr Brown advised the Board of the Committee's recommendation concerning Ms Helen Capell's leave of absence filing requirement On motion made by Mr Brown and seconded by Dr Alemi, the Board unanimously voted to accept the Committee's recommendation and waive the filing requirements for Ms Capell's approved leave of absence and directed the Agency to bill Ms Capell for the months of service while on her approved leave

Mr Brown noted the review of Mr Hibberd's appeal by the Committee had been considered earlier in the agenda

Mr Brown also noted the Strategic System update was an informational item only

The Board accepted Mr Brown's report

Audit Committee
Report

9

Mr William D Brown, Chairman of the Audit Committee, reported on the Committee's meeting held on January 16, 2001

Mr Brown briefly summarized the minutes of the meeting, noting there were no action items

Mr J Howard Pleines, Director of Legislation and Research, reported on proposed legislation for the 2001 Session of the General Assembly (See Exhibit B)

Mr Pleines noted that Senate Bill 92, which would alter the method of recalculating benefits under Option 2 and Option 3 when the original designated beneficiary predeceases the retiree, was pulled based on a fiscal note indicating additional liabilities of \$45 million in the first-year costs. Mr Lancaster expressed his concern about the methodology for the calculation supplied by Milliman and Robertson. Mr Lancaster noted the actuary had provided some explanation of the high cost but he would like additional information and requested the issue be considered further by the Executive Committee.

Next, Mr Pleines reviewed Senate Bill 329 (Task Force to Study the State's Retiree Health Insurance Liabilities). There was a brief discussion concerning the Board's position on this bill. On motion made by Mr Lancaster and seconded by Mr Casula, the Board voted unanimously to support Senate Bill 329 under the following conditions:

- 1) The System is willing to manage the investment of the retiree health care funds for the State.
- 2) Retiree health care funds would not be commingled with retirement funds but would be accounted for separately.
- 3) The System would not incur any obligation for liabilities that may exist or come to exist in the retiree health care fund.
- 4) The System would not be responsible for the administration of the retiree health care plan.

The Board requested their position on this bill be drafted and distributed to all Trustees for their information.

Mr Vaughn mentioned informed the Board he had received a letter from the Fraternal Order of Police asking the Board to support Senate Bill 566 and House Bill 680. These bills would permit a retired State Police officer to serve as a sheriff or State's attorney and earn a second pension benefit. The Board did not take any position on these bills.

Lastly, Mr Pleines discussed House Bill 805, which would affect Mr Granville Hibberd. This bill would permit the Board of Trustees to pay an allowance based on estimated amounts or to reimburse the retiree for their legal costs and expenses. On motion made by Mr Brown and seconded by Mr Caple, the Board voted, 6 to 3, to support House Bill 805. Messrs Dixon and Casula and Major Krome registered nay votes.

The Board accepted Mr Pleines' report.

Medical Board
Reports

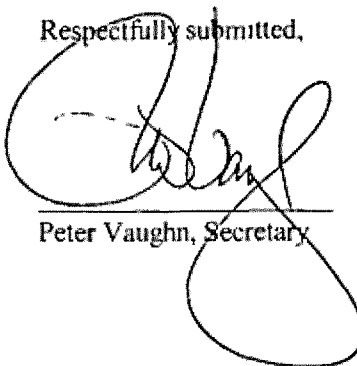
- 11 The Board, on motion made by Mr Casula and seconded by Mr Harrison, unanimously approved the reports of the Medical Board in connection with applications of members for ordinary, accidental and special disability retirement allowances. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants.

Supplemental
Medical Board
Reports

- 12 The Board, on motion made by Mr Casula and seconded by Mr Harrison, unanimously accepted and approved the supplemental reports of the Medical Board in connection with applications of members for ordinary and accidental disability 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 C.

There being no further business, on motion made and duly seconded, the Board adjourned at 1 20 p m

Respectfully submitted,



Peter Vaughn, Secretary

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