

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

MINUTES OF MEETING

July 20, 2004

The Board of Trustees for the State Retirement and Pension System of Maryland met in the Boardroom of the SunTrust Building, 120 East Baltimore Street, Baltimore, Maryland beginning at 9:00 a.m. There were present: William Donald Schaefer, Chairman; Nancy K. Kopp, Vice-Chair; James C. DiPaula Jr.; Carl D. Lancaster; Dr. Melissa Moye; Morris L. Krome; Patrick O'Shea; John Douglass; David B. Hamilton, William Brown (via telephone); F. Patrick Hughes (via telephone) Trustees; and, Thomas K. Lee, Secretary. Agency Staff members also attending were: Margaret Bury, Retirement Administrator, Deborah Bacharach, Robert Feinstein, Jill R. Leiner, Rachel Cohen, and Carla Katzenberg, Assistant Attorneys General; Steve Huber, Chief Investment Officer; Howard Pleines, Director Legislation and Research; Sherlynn Matesky, Legislation and Research; Thomas Gigliotti, Chief Internal Auditor; Joseph Coale, Public Information Officer; Gary Scribner, Chief Information Officer; and Monica Bias, Executive Associate.

Also attending were Dean Kenderdine, Comptroller's Office; Randy Mickens, Maryland State Teachers Association; Leslie J. Galiffa and Robert H. Silberman, P.A., John M. Schoenadel and John DiJoseph, Esquire, Fred N. Nefflen, Mary Anne Colledge and Mark Herman, Esquire.

Prior to discussing the agenda, Chairman Schaefer, on behalf of the entire Board, recognized Dr. Nancy S. Grasmick for her years of outstanding service to the Board of Trustees. Dr. Grasmick received a resolution from the Board, presented by Treasurer Kopp, thanking her for her service to the Board and the membership of the State Retirement and Pension System from September 1991 through June 2004.

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| Minutes | 1. | On a motion made and duly seconded, the Board approved the minutes of the June 15, 2004 meeting. |
| Administrative Committee | 2. | On a motion made and duly seconded, the Board approved the appointment of the members and officers of the Administrative Committee. |
| Investment Committee | 3. | On motion made by Treasurer Kopp, seconded by Mr. DiPaula, the Board approved the appointment of the members and officers of the Investment Committee. |

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| Audit Committee | 4. | On motion made and duly seconded, the Board approved the appointment of the members and chairman of the Audit Committee. |
| Real Estate Subcommittee | 5. | On motion made and duly seconded, the Board approved the appointment of the members and chairman of the Real Estate Subcommittee. |
| Corporate Governance Subcommittee | 6. | On motion made and duly seconded, the Board approved the appointment of the members and chairman of the Corporate Governance Subcommittee. |
| Maryland Venture Capital | 7. | On motion made and duly seconded, the Board approved the nomination of Morris L. Krome, Carl D. Lancaster and Steve C. Huber to the Maryland Venture Capital board. |
| Investment Committee Report and Recommendations | 8. | Mr. Carl Lancaster, Chairman of the Investment Committee, reported on the meeting held June 11, 2004. |

Mr. Lancaster indicated that the Investment Committee unanimously agreed to discuss a proposed amendment related to the HarbourVest partnership agreement at the August Investment Committee meeting after Altius has had an opportunity to review that proposal.

Mr. Lancaster also indicated that the Retirement Agency was receiving proposals from vendors for the Optional Retirement Program. Finalists are to be interviewed at the September Investment Committee meeting.

On motion made by Mr. Lancaster, seconded by Treasurer Kopp, the Board approved the Corporate Governance Charter.

On motion made by Mr. Lancaster, seconded by Treasurer Kopp, the Board approved two recommendations from Mr. Robert Feinstein: (1) the System will not seek appointment as lead plaintiff concerning the AES Securities Class Action Litigation, and (2) the System will direct counsel to actively monitor this litigation by working with the court-appointed lead plaintiffs.

Mr. Steve Huber, at the request of Mr. Lancaster, indicated that the System had ended the year with investment returns of 16.2%, slightly higher than its benchmark of 15.6%. International Equity was the top performer earning 29%, with U.S. Equity at 21.5%. Real Estate earned 20.4%, with Private Equity at 13.6%, and fixed income at 1.6%. The value of the assets at fiscal year's end total \$30,115,900,000. Chairman Schaefer directed Mr. Joseph Coale to issue a press release indicating the System's positive investment results to the media.

Mr. Lancaster indicated that Mr. Arthur Lynch and Ms. Tracey Ray gave a monthly update on recent manager reviews.

Mr. Lancaster reported that Mr. William Huff from Huff Asset Management is to make a presentation at the next Investment Committee meeting.

On motion made by Mr. Lancaster, and duly seconded, the Board accepted Ennis Knupp's recommendation to remove Fountain Capital Management from the watch list based on its improved performance.

The Board accepted Mr. Lancaster's report.

Audit Committee
Report and
Recommendations

9. Mr. David B. Hamilton Chairman of the Audit Committee, reported on the meeting held July 9, 2004.

Mr. Hamilton advised that the Task Order RFP under the statewide contract had been issued for the Internal Control Assessment, with bids being evaluated at the present time. He reinforced the need for both the Internal Control Assessment RFP and the upcoming Business Process Reengineering Task Force RFP. While they may overlap slightly, there are significant differences in their scope and objectives.

On motion made by Mr. Hamilton, seconded by Major Krome, the Board approved participation in an RFP being prepared by the Comptroller to acquire an external auditor to review the System's financial statements. This motion is subject to final approval when bids are opened.

Mr. Hamilton also noted that the members of the Audit Committee intend to take advantage of a training component within the Internal Control Assessment and Risk Assessment/Risk Management RFP. All Committee members agree that there remains a need for additional education within the Audit Committee.

The Board accepted Mr. Hamilton's report.

Executive
Director's Report

10. Mr. Thomas Lee advised the Board that PEC Solutions has been selected to perform the assessment of the business processes throughout the Retirement Agency. He also noted that the Retirement Agency hired a new Chief Information Officer to run the daily data processing operations, while Gary Scribner becomes the Project Manager for development of a new system. A strong lesson learned from the Syscom project is that the project manager cannot run the daily operations while developing a new system.

Mr. Lee noted that at the Board of Public Works on July 21, 2004 the Department of Budget and Management is to recommend that one position in the Investment Division that was lost in the recent statewide position reduction be restored.

Ms. Bury, at Mr. Lee's request, advised that 17 packets of information have been mailed to potential candidates to fill Mr. Caple's term of office as the elected active member for the various employee systems. The individuals must submit a minimum of 500 valid signatures to the Retirement Agency by August 2. The Agency will announce the candidates to the Board at its August meeting.

The Board accepted Mr. Lee's report.

Annual Checklist 11. Mr. Lee presented a checklist of projects, with their due dates, for the Board's consideration. Mr. Lee indicated that he intended to bring this checklist to the Board several times during the year so that Trustees could track the progress of activities throughout the Retirement Agency. Treasurer Kopp stated that the checklist is a good planning document for the Agency and the Board.

Leslie J. Galiffa 12. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Leslie J. Galiffa for accidental disability benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Mr. Robert H. Silberman, Ms. Galiffa's attorney, opposed 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. Following discussion, the Board deferred further consideration to Executive Session.

John M. Schroenadel 13. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. John M. Schroenadel for accidental disability benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Mr. John DiJoseph, Mr. Schoenadel's attorney, opposed 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. Following discussion, the Board deferred further consideration to Executive Session.

- Fred N. Nefflen 14. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Fred N. Nefflen for accidental disability benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.
- Mr. Fred N. Nefflen opposed the Agency's position and the Administrative Law Judge's recommendations. Ms. Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations. Following discussion, the Board deferred further consideration to Executive Session.
- Mary Anne Colledge 15. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Mary Anne Colledge for accidental disability benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.
- Mr. Mark Herman, Ms. Colledge's attorney, opposed the Agency's position and the Administrative Law Judge's recommendations. Ms. Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations. Following discussion, the Board deferred further consideration to Executive Session.
- Roy M. Davies 16. The appeal of Roy M. Davis for accidental disability is presented for discussion.
- Medical Board Reports 17. On motion made by Major Krome, seconded by Treasurer Kopp, the Board accepted 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 18. On motion made by Major Krome , seconded by Treasurer Kopp, the Board accepted the supplemental 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.
- EXHIBIT A

On motion made and duly seconded, the Board voted unanimously to meet in Executive Session to consider disability appeals. State Govt. Article, Section 10-503(a)(1)(iii) authorizes the Board to meet in closed session to exercise a quasi-judicial function.

EXECUTIVE SESSION

The Board met in Executive Session at 12:20 p.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider disability cases. The persons present at the beginning of the meeting were present in Executive Session for discussion except: James C. DiPaula Jr. who left at 11:00 a.m., F. Patrick Hughes who left at 12:20 p.m., Jill R. Leiner, Robert Feinstein, Carla Katzenberg, Sherlynn Matesky, Randy Mickens, Leslie J. Galiffa, Robert H. Silberman, P.A., John M. Schoenadel, John DiJoseph, Esquire, Fred N. Nefflen, Mary Anne Colledge, and Mark Herman, Esquire.

Following these discussions the Board ended its closed session at 1:00 p.m. and returned to regular session to complete the agenda.

REGULAR SESSION

On motion made and duly seconded, the Board voted to ratify actions taken in Executive Session.

- Leslie J. Galiffa The Board considered the appeal of Leslie J. Galiffa. Following a discussion, on a motion made by Mr. Hamilton, seconded Major Krome, the Board voted to reject the Administrative Law Judge's Proposed Decision and grant Ms. Galiffa's request for accidental disability benefits. The Board found that the accident of October 2000, and not a pre-existing condition, was the direct cause of her disability.
- John M. Schoenadel The Board considered the appeal of John M. Schoenadel. Following a discussion, on a motion made by Treasurer Kopp, seconded by Mr. O'Shea, the Board voted to adopt the Administrative Law Judge's Proposed Decision and deny Mr. Schoenadel's request for accidental disability benefits. Mr. Hamilton recused himself from the discussion and decision.
- Fred N. Nefflen The Board considered the appeal of Fred N. Nefflen. Following a discussion, on a motion made by Mr. Lancaster, seconded by Mr. Hamilton, the Board voted to adopt the Administrative Law Judge's report and deny Mr. Nefflen's request for accidental disability benefits. The Board also directed Mr. Lee to review the hearing transcript testimony of the Independent Medical Examination (IME) and make a presentation at a future Administrative Committee meeting.
- Mary Anne Colledge The Board considered the appeal of Mary Anne Colledge. Following a discussion, on a motion made by Mr. Hamilton, seconded by Mr. O'Shea, the Board voted to adopt the Administrative Law Judge's report and deny Ms. Colledge's request for accidental disability benefits.

Roy M. Davies

The Board requested that Deborah Bacharach, Principal Counsel provide each Trustee with the transcript of Mr. Davies' hearing, and requested that she summarize the finding of the appeal for further consideration at the September meeting.

There being no further business before the Board, the meeting adjourned at 1:10 p.m.

Respectfully submitted,



Thomas K. Lee
Secretary to the Board

TKL/mcb