

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

MINUTES OF MEETING

September 18, 2007

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 9:07 a.m. There were present: Nancy K. Kopp, Chairman (by telephone); Peter Franchot, Vice-Chairman, presiding; William D. Brown; John W. Douglass; James M. Harkins; Sheila Hill (by telephone); F. Patrick Hughes; Morris L. Krome; Theresa Lochte; Robert W. Schaefer, Trustees; Harold Zirkin, incoming Trustee; and R. Dean Kenderdine, Secretary.

Agency Staff members attending were: Deborah Bacharach; Anne Budowski; Margaret Bury; Rachel Cohen; Melody Countess; Charles Geis; John Greenberg; Ira Greenstein; Carla Katzenberg; Dennis Krysiak; Jill Leiner; Vincent Marsiglia; Larry Martin; Sherlynn Matesky; Howard Pleines; Harvey Raitzyk; Kenneth Reott; Brian Rowe; Fred Semko; Janet Sirkis; Barbara Swain; and, Victoria Willard.

Also attending were Dylan Baker; Len Foxwell; Leon "Rocky" Joyner; John Kenney; Melissa Moye; Robert Palumbi; and, Michael Rubenstein.

Present only during the disability appeals portion of the agenda were JoAnne Handy; Virginia Hoffman; Larry S. Richmond and John A. Austin, Esquire; Nancy Snead and Thomas Corbin Esquire; and Gail R. Wilson.

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| Minutes | <ol style="list-style-type: none">1. On motion made by Ms. Lochte, and seconded by Mr. Harkins, the Board approved the revised Minutes of the August 21, 2007 regular meeting. The one revision relates to comments on the Experience Study, Corridor Cost Method, as it relates to the motion to amend the Board's legislative proposal to eliminate corridor funding to include adjusting the amortization period from 25 to 30 years. At Chairman Kopp's request, the following sentence was added: "This motion was made and adopted with the explicit commitment to the elimination of the corridor methodology funding and the understanding that the investment assumption rate may be reviewed in the spring of 2008." |
| Investment
Committee
Recommendations
Information Items | <ol style="list-style-type: none">2. Mr. Robert Schaefer, Chairman of the Investment Committee, reported on the meeting held on September 14, 2007.

Mr. Schaefer noted that the Investment Committee approved the August 10, 2007 open meeting minutes.

Mr. Schaefer noted that the Investment Division has hired three new employees: Faina Kashtelyan, Senior Quantitative Analyst; and, Melissa Lee and Michael Ruetz, Senior Investment Analysts. |

Mr. Schaefer stated that staff distributed a handout updating the Committee on the System's sub prime exposure, which Mr. Greenberg stated is very limited.

Mr. Schaefer noted that the Committee heard finalist presentations for the Global Equity Manager search from T. Rowe Price and Baillie Gifford.

Mr. Schaefer indicated that staff and Ennis Knupp presented supplemental information regarding multi-source absolute return products. This is the first investment proposed for the Opportunity Allocation. Managers are to make presentations at the October Investment Committee meeting.

Mr. Schaefer noted that Ennis Knupp (1) presented a report on infrastructure investing, (2) presented its semi-annual Manager Review for the System, and (3) presented its second quarter Tactical Asset Allocation report.

Mr. Schaefer stated that Ms. Victoria Willard presented a recommendation from the Corporate Governance Subcommittee regarding international proxy voting. Institutional Shareholder Services (ISS), the System's Proxy Voting and Corporate Governance Consultant, has proposed a customized "turnkey" international proxy voting solution based on the System's U. S. proxy voting policy, adapted to meet the practices and requirements of international markets. The additional costs to the System's existing ISS contract would be \$25,776 annually.

On motion made by Mr. Schaefer, and seconded by Major Krome, the Board of Trustees approved ISS' proposal for an international proxy voting solution.

Administrative
Committee
Recommendations
and Information Items

3. Mr. James Harkins, Chairman of the Administrative Committee, reported on the meeting held on September 11, 2007.

Mr. Harkins reported that the Administrative Committee accepted the administrative fees paid through July 2007. He also noted that the Retirement Agency reported that in FY2007, the Agency spent 94% of its appropriation.

At Mr. Harkins' request, Mr. Dean Kenderdine presented information related to the Agency's FY2009 budget proposal. Mr. Kenderdine noted that under the legislated budget cap of .22% of payroll for members and annuitants, the cap for FY2009 is \$33.71 million. This amount is based on the salary of and benefits paid to 393,007 members, retirees and beneficiaries in FY07.

Mr. Kenderdine indicated that the Agency's target for the FY2009 budget as set by the Department of Budget & Management is

\$23,283,000, as compared to an FY2008 appropriation of \$22,415,000. However, given the Agency's need to pursue certain priorities and objectives, yet still maintain fiscal responsibility, staff is recommending an FY2009 baseline operational budget of \$26,098,000.

Mr. Kenderdine noted that the FY2009 budget proposal reflects a decrease in spending in two areas. The contract for the investment consultant, Ennis Knupp, is \$175,000 less per year than the previous contract. Also, the Agency will spend \$186,000 less as there will not be an actuary audit this year and other actuary expenses are projected to be slightly less than last year.

Mr. Kenderdine went through the increases in the FY2009 proposal.

- There are general payroll increases of \$623,000.
- There is a need to return to print documents for our active and retired members. While electronic communications must be a large part of future plans, at this time a return to printed handbooks and quarterly newsletters is in the best interest of the membership. These costs are \$342,000 for printing, and \$462,000 for postage.
- There is a contract cost for the MPAS project manager of \$247,000.
- There are costs for disaster recovery with connection charges to the Annapolis Data Center of \$37,000 and Recovery Site assessments of \$25,000.
- There are travel funds of \$50,000 to provide due diligence in overseeing the investment managers, and for trustees and staff to attend conferences.
- There is \$104,000 to provide education and training to Agency staff, particularly those who work in Internal Auditing and Benefits Administration.
- There are increases related to general replacement of equipment, hardware and software totaling \$403,000.
- There are funds required for the election of two Trustee positions currently held by Ms. Hill and Mr. Brown in the amount of \$350,000.
- There is a purchase of software for \$250,000 that would permit investment staff to forecast the impact of various external factors on the System's portfolio and future investment returns.
- There are interest charges of \$126,000 to the Comptroller's Office.
- There are routine inflation charges for rent and existing services and contracts of \$157,000.

Mr. Kenderdine also noted that MPAS-1 required \$4,282,000 in FY2009, to retain the involvement of Saber, Titan and a .Net contractor for MPAS following the go-live dates, as well as to begin preparation for a seamless move into the next phase of the computer upgrade, MPAS-2, Data Scrubbing.

Mr. Kenderdine continued by noting that in addition to the baseline budget, the Retirement Agency is seeking additional positions that are critical to the needs of the Agency. The highest need is to increase the Internal Audit staff. The Agency is seeking three positions – an Internal Audit Supervisor and two Internal Auditors to give Mr. Rowe the flexibility to establish teams to provide for timely risk assessments and internal control reviews of critical Agency processes.

The second priority is to again request (1) a two grade salary increase for all permanent benefit counselor positions, and (2) three new permanent positions – Deputy Director for Member Services, Trainer-Counselor IV, and lead worker for telephone counseling - Counselor III. These positions are vital within the critical section of the Agency that has the majority of direct contact with the membership.

The Investment Division is seeking three positions: a Director of Risk Management, a Senior Investment Analyst, and a Corporate Governance Officer. Mr. Kenderdine stated that in Finance there is a need for two Accountant Advanced positions that would assist with increasing workload demands that are occurring throughout the Agency.

On a motion made by Mr. Harkins, and seconded by Mr. Schaefer, the Board of Trustees accepted staff's total FY2009 budget proposal.

Mr. Kenderdine also asked the Board to consider a request for a mid-year addition of two permanent positions to support MPAS operations that has the approval of the Administrative Committee. In March or April of 2008, the Agency will take early possession of the new data system for testing and training. Many functions currently performed by the Annapolis Data Center then become responsibilities of Agency staff this fiscal year. He asked the Board's approval to go to the Board of Public Works, probably in October, to seek two positions now to manage these transferring responsibilities under MPAS.

On a motion made by Mr. Harkins, and seconded by Ms. Lochte, the Board of Trustees approved Mr. Kenderdine's request to seek two computer operations staff positions before the Board of Public Works under the Rule of 50.

On a motion made by Mr. Harkins, and seconded by Major Krome, the Board of Trustees approved staff's request that Special Appointment status be assigned to PIN 077688, Administrator VII, Grade 21, to function as a Deputy Director in the Member Services Unit.

On a motion made by Mr. Harkins, and seconded by Major Krome, the Board of Trustees approved the proposed regulation revision to Title 22.05.05, Transfers of Service Credits – Waiver. The proposed regulation is to be amended to permit any member denied the waiver to appear before the Administrative Committee for reconsideration.

On a motion made by Mr. Harkins, and seconded by Major Krome, the Board of Trustees accepted the resolutions to participate in the Employer Pick-Up Program effective October 1, 2007 for the Town of Oxford, the City of Mt. Rainier, and Carroll Community College.

Executive
Director's Report

4. Mr. Dean Kenderdine reminded the Trustees that information received by the Agency for individual Trustees is placed in the mailboxes outside his office. If the mail is not wanted, staff will remove it following each Board meeting.

Mr. Kenderdine noted that the briefing of the co-chairs of the Joint Committee on Pensions scheduled for September 26, 2007 has been postponed due to a conflict in schedule for Senator Kramer who must attend a meeting of the Senate Budget & Taxation Committee. He indicated that this briefing would be rescheduled to a future date.

Mr. Kenderdine indicated that the Agency is moving ahead with securing an executive search firm to assist in the hiring of the Chief Investment Officer. Five firms responded to the RFP; three were interviewed. He hoped to make a selection within the next few days.

Mr. Kenderdine noted that the Joint Committee on Pensions (JCP) would hold its first meeting on Wednesday, September 19, 2007 at 2:00 p.m. The Agency would be making a presentation on MPAS. He also noted that Mr. Michael Rubenstein, Department of Legislative Services, would be making a presentation on the structure of Investment Committees. His report would offer four considerations for the JCP with regard to the System's Investment Committee: (1) do nothing, (2) place in statute the current configuration of the Investment Committee, (3) add members of the legislature to the Committee, and (4) have employee representatives appointed. Mr. Kenderdine indicated he would draft a response to the report for Board approval.

Mr. Kenderdine also noted that the General Assembly had commented on the criteria the Board established for a Chief Investment Officer to earn incentives. He is analyzing those comments with the assistance of Ennis Knupp and will craft a response for the Board to review at its October meeting.

Presentation

5. Mr. Rocky Joyner of Segal Inc. presented the preliminary results of the 2007 Valuation. He noted that the final, detailed information would be presented to the Trustees at the October Board meeting. That valuation, as well as the preliminary numbers reflected the assumption changes approved by the Board in August.

Mr. Joyner specifically thanked Ms. Bury and her staff for their assistance in providing the proper System data to ensure the validity of the 2007 valuation results.

Mr. Joyner noted that the overall experience was reasonably related to expectations. The corridor funding method resulted in reducing the actuarial value of assets for the Teachers' and Employees' Systems by \$75 million and \$131 million, respectively. He also noted again that the corridor funding method does not conform to acceptable accounting and actuarial guidelines.

Mr. Joyner noted that the 17.64% investment return for the year resulted in the actuarial value of assets being 4% less than market. These gains provide a slight cushion as they are recognized under the asset smoothing method in future years.

Mr. Joyner recognized the concerns of Major Krome to the increasing contribution rate and the funded status of the State Police Retirement System. He indicated he would provide a summary of the issues related to the SPRS that could be communicated to the membership.

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| Medical Board Reports | 6. On a motion made by Major Krome, and duly seconded, the Board of Trustees 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 Reports | 7. On motion made by Major Krome, and duly seconded, the Board of Trustees accepted the supplemental reports of the Medical Board in connection with applications of members for ordinary, accidental and special disability retirement allowances, with one exception whose case is being held for further review. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants. |
| Nancy Snead | 8. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Nancy Snead for accidental disability retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Ms. Snead and her attorney, Mr. Thomas Corbin, appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. 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 Closed Session. |
| Gail R. Wilson | 9. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Gail R. Wilson for accidental disability retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented. |

Ms. Wilson appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. Carla Goldman 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 Closed Session.

- Larry S. Richmond 10. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Larry Richmond for accidental disability retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Mr. Richmond and his attorney, Mr. John Austin, appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. 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 Closed Session.

- Virginia D. Hoffman 11. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Virginia D. Hoffman for disability retirement benefits. The report by the Medical Board, the Proposed Decision of the Administrative Law Judge, and all related documents submitted by the parties were presented.

Ms. Hoffman appeared before the Board to oppose the Medical Board's Report and the Proposed Decision of the Administrative Law Judge. Ms. Carla Goldman Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should accept the Medical Board's report and the Proposed Decision of the Administrative Law Judge. Following discussion, the Board deferred further consideration to Closed Session.

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

Ms. Handy appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. 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 Closed Session.

CLOSED SESSION

The Board met in Closed Session at 11:45 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to discuss a real estate investment, pursuant to State Government Article §10-508(a)(5); to select a global equity manager, pursuant to State Government Article §10-508(a)(14); to consider approval of closed session minutes and to review the Watch List, pursuant to State Government Article §503(a)(1)(i); and, to discuss the appeals of Nancy Snead, Gail R. Wilson, Larry S. Richmond, Virginia D. Hoffman, and JoAnne D. Handy, pursuant to State Government Article §503(a)(1)(iii).

There were present: Nancy K. Kopp, Chairman (by telephone); Peter Franchot, Vice-Chairman; William D. Brown; John W. Douglass; James M. Harkins; Sheila Hill (by telephone); F. Patrick Hughes; Morris L. Krome; Theresa Lochte; and, Robert W. Schaefer, Trustees; Harold Zirkin, incoming Trustee; and R. Dean Kenderdine, Secretary.

Agency staff attending were Deborah Bacharach; Anne Budowski; Margaret Bury; Rachel Cohen; John Greenberg; Howard Pleines; Kenneth Reott; Janet Sirkis; and, Barbara Swain. Also attending was John Kenney.

The Board ended its closed session at 11:57 a.m. and returned to regular session to complete the agenda.

REGULAR SESSION

During the closed session, the Board approved the closed minutes of the August 21, 2007 meeting, discussed a real estate investment, selected global equity managers, and reviewed and decided on the following disability appeals:

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| Nancy Snead | The Board voted to <u>accept</u> the Administrative Law Judge's Proposed Decision and <u>deny</u> Ms. Snead's request for accidental disability benefits. |
| Gail R. Wilson | The Board voted to <u>reject</u> the Administrative Law Judge's Proposed Decision and <u>grant</u> Ms. Wilson's request for accidental disability benefits. |
| Larry S. Richmond | The Board voted to <u>accept</u> the Administrative Law Judge's Proposed Decision and <u>deny</u> Mr. Richmond's request for accidental disability benefits. |
| Virginia D. Hoffman | The Board voted to <u>remand</u> Ms. Hoffman's request for disability benefits to the Medical Board for further fact finding. |
| JoAnne D. Handy | The Board voted to <u>accept</u> the Administrative Law Judge's Proposed Decision and <u>deny</u> Ms. Handy's request for accidental disability benefits. |

Adjournment

There being no further business before the Board, the meeting adjourned at 11:59 a.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'R. Dean Kenderdine', written over a horizontal line.

R. Dean Kenderdine
Secretary to the Board

RDK/js