

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

MINUTES OF MEETING

October 16, 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 9:05 a.m. There were present: Nancy K. Kopp, Chairman; Peter Franchot, Vice-Chairman; William D. Brown; John W. Douglass; James M. Harkins; Sheila Hill; F. Patrick Hughes; Morris L. Krome; Theresa Lochte; Robert W. Schaefer, Harold Zirkin; and, Thurman W. Zollicoffer Jr., Trustees; and R. Dean Kenderdine, Secretary.

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

Also attending were Dylan Baker; Lisa Campbell; Cathie G. Eitelberg; Len Foxwell; Anne Gawthrop; Eli Greenblum; Leon "Rocky" Joyner; John Kenney; Deborah LaVoie; Randy Mickens; Melissa Moyer; Robert Palumbi; and, Michael Rubenstein.

Present only during the disability appeals portion of the agenda were Patricia M. Dirton and Martin B. Brown, Esquire; Bernice S. Journiette; and, George M. Pinchback and Thomas Corbin, Esquire.

Treasurer Kopp recognized the newest member of the Board of Trustees, Mr. Zollicoffer, and welcomed him to the Board.

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| Minutes | 1. On motion made by Mr. Schaefer, and seconded by Major Krome, the Board approved the Minutes of the September 18, 2007 regular meeting. |
| Administrative Committee | 2. On motion made by Major Krome, and seconded by Mr. Schaefer, the Board of Trustees approved the appointment of Mr. Thurman W. Zollicoffer Jr. to the Administrative Committee for the period November 1, 2007 through July 31, 2008. |
| Investment Committee | 3. On motion made by Major Krome, and seconded by Mr. Schaefer, the Board of Trustees approved the appointment of Mr. Harold Zirkin, CFA, to the Investment Committee for the period November 1, 2007 through July 31, 2008. |
| Audit Committee | 4. On motion made by Major Krome, and seconded by Mr. Schaefer, the Board of Trustees approved the appointment of Mr. Thurman W. Zollicoffer Jr. to the Audit Committee for the period November 1, 2007 through July 31, 2008. |

Investment
Committee
Recommendations
Information Items

5. Mr. Robert Schaefer, Chairman of the Investment Committee, reported on the meeting held on October 12, 2007.

Mr. Schaefer noted that the Investment Committee heard presentations from four multi-source real return managers: BGI Global Ascent, Bridgewater Pure Alpha, Mellon Global Alpha II, and PIMCO All Asset. A decision on manager selections will be made in closed session.

Mr. Schaefer stated that Mr. Greenberg distributed a report from staff that compared the System's performance to its peers. Staff is to review this report with the Investment Committee at its November meeting.

Mr. Schaefer indicated that Mr. Kenderdine had prepared a letter (copy attached) in response to the General Assembly's comments on the Chief Investment Officer's incentive compensation package. On motion made by Mr. Schaefer, and seconded by Ms. Hill, the Board of Trustees approved the draft response to the Joint Committee on Pensions regarding the CIO compensation.

Administrative
Committee
Recommendations
and Information Items

6. Mr. James Harkins, Chairman of the Administrative Committee, reported on the meeting held on October 2, 2007.

On a motion made by Mr. Harkins, and seconded by Ms. Hill, the Board of Trustees approved the participation of the Tri-County Council of Western Maryland and the Washington County Board of License Commissioners in the Employer Pickup Program effective the first payroll period ending in November 2007.

On a motion made by Mr. Harkins, and seconded by Ms. Hill, the Board of Trustees upheld Mr. Kenderdine's issuance of a summary decision in favor of the Retirement Agency's method of calculation of benefits in regards to the request of Marianne Pearlman that her average final compensation be recalculated.

At Mr. Harkins' request, Mr. Dean Kenderdine presented information related to the governance charters and policies adopted by the Board of Trustees. He noted that Cortex evaluated the performance of the Board and Agency against the existing charters and policies in order to suggest revisions based on compliance. Those recommended changes were reviewed by staff and revised as needed, to reflect compliance with legal changes and additions to policies, such as the travel policy.

Mr. Kenderdine noted that based on the charters and policies, he needs to develop a Long-range Strategic Plan for the Agency, as well as a Business Continuity Plan. He also pointed out that Cortex is concerned with the authority alignment between the Executive Director and the Chief Investment Officer; however, Cortex recognizes that this issue is the result of recent changes to State pension law.

On motion made by Mr. Harkins, and seconded by Ms. Hill, the Board of Trustees approved the revised charters and policies as recommended

by staff, with the exception of the policy and charter related to the Chief Investment Officer, which may require amending with the hiring of the new CIO. Also, at the request of Treasurer Kopp, further review of the Code of Conduct policy, specifically the part related to gifts and travel, will be reviewed with the State Ethics Commission to clarify the circumstances, if any, under which trustees can accept complimentary conference registration.

Mr. Harkins noted that the Committee approved the following meeting dates for 2008: February 5, March 4, April 1, June 3, August 5, September 9, October 7, and December 2.

Mr. Harkins stated that at the September 19th meeting of the Joint Committee on Pensions (JCP), Mr. Michael Rubenstein presented a report on the makeup of investment committees in Maryland and seven other states. While the presentation did not make correlations between the size or composition of investment committees and performance, Mr. Rubenstein presented four possible actions for the JCP to consider: (1) do nothing, (2) adopt investment committee changes made by the Board in statute, (3) add legislative members to the committee, or (4) require member representatives of the Board to be appointed rather than elected. He noted that when asked by the JCP for input, Mr. Kenderdine had responded that although the Board had not had the opportunity to review the presentation, he believed that the best course of action would be to adopt the "do nothing" option.

On a motion by Mr. Harkins, and seconded by Ms. Hill, the Board of Trustees recommends to the Joint Committee on Pensions that it take no action to alter the makeup of the Board's Investment Committee.

Mr. Harkins noted that the MPAS project is still showing schedule slippage with the most complex milestones, Milestones 4 & 6, and that these milestones still need to be finalized. The Agency is discussing with Saber additional revisions to the schedule, but remains confident that the completion date for the project will be met. The Agency also is discussing with Saber their estimated MPAS-1 cost increases to determine the validity, if any, of those claims.

Executive
Director's Report

7. Mr. Dean Kenderdine reminded the Trustees that during the remainder of the meeting, Mr. Gary Hudepohl and Ms. Debbie Roche of Hudepohl & Associates Inc., the executive search firm hired to help find the next Chief Investment Officer, would be interviewing individual Trustees for their opinions on the qualities/experience for a new CIO.

Mr. Kenderdine noted that the orientation for new Trustees would be held on November 8, beginning at 9:00 a.m. in the Board Room. The presentation would be made by Ennis Knupp and senior staff.

Mr. Kenderdine noted that there was an article in Governing Magazine presenting the challenges facing public pension plans which mentioned the Agency favorably. Copies were distributed.

Mr. Kenderdine stated that the second meeting of the Joint Committee on Pensions was set for Wednesday, October 17, 2007 at 2:00 p.m. The Agency would be making a presentation on Board requested legislation, including a separate presentation on direct real estate sales and purchases.

Presentation

8. Mr. Rocky Joyner and Mr. Eli Greenblum of The Segal Company presented the results of the 2007 Valuation noting that the overall experience was reasonably related to expectations. Mr. Joyner stated that since a large part of the valuation had been discussed in September, he would attempt to focus on several important features within the valuation.

Mr. Joyner stated that the investment returns for the year ending June 30, 2007 were 17.64% on a market value basis. Under the Board's five year smoothing of assets, including the strong return for FY2007, the System's investments produced for the first time in several years a reserve - \$1.5 billion - that can be applied in future years to soften the impact of downturns in the markets. Mr. Joyner indicated that this is a sign of a well managed system.

Mr. Joyner again noted the Board approved a change from the aggregate entry age normal funding method to the more acceptable individual entry age normal funding approach. This change lowers the funding percentage as anticipated employee contributions are no longer used as an additional asset, but are more correctly used to offset normal cost. The aggregate method is an antiquated funding method that is not acceptable under the Internal Revenue Code. The individual method provides a better, more direct calculation of data, which provides a better actuarial picture of the System's funding in total.

Mr. Joyner noted that corridor funding continued to result in a reduced actuarial value of assets for the Teachers' and Employees' Systems, and that corridor funding does not conform to acceptable accounting or actuarial guidelines.

Answering a question raised by Mr. Hughes on obtaining benefits for System participants in the private marketplace, Mr. Joyner responded that the State's defined benefit plans were a better deal cost-wise for both Maryland's taxpayers and the public employees participating in the various State systems.

Mr. Joyner noted that the information in the valuation presented employer costs with and without corridor funding. He felt that there is an opportunity for the State to return to full actuarial funding today with reasonable changes to State funding by accepting a package of the following items, several of which require amending pension law. This change to full funding could be accomplished through a package of (1) the assumption changes and change to the individual entry age normal funding method approved by the Board; (2) elimination of the corridor funding methodology; (3) resetting all amortization periods from 25 to

closed 30 year amortization; and, (4) payment of reasonable additional employer contributions required by these changes. If these changes had been adopted last year, Mr. Joyner noted the additional State costs would be about \$14 million in FY2009. With another good investment year, the increase could be less for FY2010.

On motion made by Mr. Schaefer, and seconded by Ms. Hill, the Board of Trustees accepted the 2007 Valuation report and adopted the rates proposed by the actuary. The Board affirmed its position that a statutory change to a 30-year amortization, with the continued use of a 7.75% interest rate of return are acceptable actions to be taken if they are adopted for the purpose of eliminating the current corridor method and returning the System to full actuarial funding. The actuary, which recommended an interest rate of 7.5%, regards these measures as acceptable as well, so long as it is part of a plan to eliminate the corridor funding methodology. If however, action is not taken to eliminate the corridor method, the Board recognizes that it may need to reassess its decision to remain at the 7.75% interest rate.

- Medical Board Reports 9. On a motion made by Mr. Brown, and seconded by Mr. Harkins, 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 10. On motion made by Ms. Hill, and seconded by Mr. Brown, 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. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants.
- Lisa L. McCulloch 11. At the member's request, the Board postponed the claim of Ms. Lisa L. McCulloch for accidental disability retirement to a future meeting.
- George Pinchback 12. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. George Pinchback 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. Pinchback, and his attorney, 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.

James A. Clark, Sr. 13. The Board heard the claim of Mr. James A. Clark Sr. for accidental disability retirement benefits on the record. The Board deferred consideration to Closed Session.

Patricia M. Dirton 14. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Patricia M. Dirton 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. Dirton, and her attorney, Mr. Martin B. Brown, appeared before the Board to oppose the Medical Board's Report and the Proposed Decision of the Administrative Law Judge. Ms. Jill Leiner, 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.

Bernice Journiette 15. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Bernice Journiette 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. Journiette 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.

CLOSED SESSION

The Board met in Closed Session at 11:43 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to approve closed minutes from the September 18th meeting and to discuss the watch list, pursuant to State Government Article §10-503(a)(1)(i); to select multi-source real return managers, pursuant to State Government Article §10-508(a)(5); to discuss the brokerage procurement policy, pursuant to State Government Article §503(a)(7); and, to discuss the appeals of George M. Pinchback, James A. Clark Sr., Patricia M. Dirton, and Bernice Journiette, pursuant to State Government Article §503(a)(1)(iii).

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

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

The Board ended its closed session at 12:27 p.m. and returned to regular session to complete the agenda.

REGULAR SESSION

During the closed session, the Board approved the closed minutes of the September 18, 2007 meeting, selected multi-source real return managers, discussed the brokerage procurement policy, and reviewed and decided on the following disability appeals:

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| George M. Pinchback | The Board voted to <u>accept</u> the Administrative Law Judge's Proposed Decision and <u>deny</u> Mr. Pinchback's request for accidental disability benefits. |
| James A. Clark Sr. | The Board voted to <u>accept</u> the Administrative Law Judge's Proposed Decision and <u>deny</u> Mr. Clark's request for accidental disability benefits. |
| Patricia M. Dirton | The Board voted to <u>defer</u> action on the Administrative Law Judge's Proposed Decision and Ms. Dirton's request for disability benefits pending a review of a Maryland court decision by legal staff that could impact the Board's decision on this case. |
| Bernice Journiette | The Board voted to <u>accept</u> the Administrative Law Judge's Proposed Decision and <u>deny</u> Ms. Journiette's request for accidental disability benefits. |
| Adjournment | There being no further business before the Board, the meeting adjourned at 12:29 p.m. |

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board

RDK/js