

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

**MINUTES OF MEETING**

**January 15, 2008**

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 9:02 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 Zirkon; and, Thurman W. Zollicoffer Jr., Trustees; and R. Dean Kenderdine, Secretary.

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

Also attending were Keith Graham; John Kenney; Melissa Moye; and, Robert Palumbi.

Present only during the disability appeals portion of the agenda were David A. Hendricks and Francis J. Collins, Esquire; Lisa A. McCulloch; and, Jacqueline Williams.

Minutes                    1. On motion made by Mr. Harkins, and seconded by Mr. Schaefer, the Board approved the Minutes of the December 18, 2007 regular meeting.

Investment                2. Mr. Robert Schaefer, Chairman of the Investment Committee, Committee reported on the meeting held on January 11, 2008. Recommendations

Mr. Schaefer stated that the Investment Committee unanimously approved the December 14, 2007 open session minutes as submitted.

Mr. Schaefer noted that Ms. Tina Granruth had been selected as the Investment Division's new Executive Assistant.

Mr. Schaefer indicated that Mr. Robert Feinstein had advised that the Agency's request for a hiring freeze exemption to fill Liz Fisher's position had been approved.

Mr. Schaefer stated that Ms. Nan Leake of PCA Real Estate presented background information that supported the proposed increase in the System's target allocation to real estate. A number of PCA Real Estate clients currently have targets similar

to the 10% target proposed by the Investment Committee. She discussed how PCA proposed to attain this target allocation, noting that in addition to seeking to increase the size of the System's fund allocations, PCA would consider the use of co-investment vehicles and the secondary market. Ms. Leake opined that the new target could be attained in approximately three years.

Mr. Schaefer indicated that Mr. Robert Burd and Altius Associates reviewed the System's private equity program with the Committee. The presentation provided an overview of the program's history and current status, and also addressed implications of a change in the System's target allocation to 5%. Mr. Brad Young discussed how Altius proposed to attain this target allocation, with approximately 70% of the growth to be accomplished with the System's existing managers. He noted that it is likely that 15-20 new manager relationships may be added over time with the new target achieved in the next five to seven years.

Mr. Schaefer stated that the Committee received Ennis Knupp's Monthly Flash Report. He also stated that the Committee received the following staff reports: Performance Report; TAA Update; Private Equity Update; Quarterly Private Market Real Estate Report; 2008 Manager Meeting Report; Manager Meeting Reports; and, Upcoming Manager Meetings

On motion made by Mr. Schaefer, and seconded by Mr. Zirkin, the Board adopted the following revisions to the System's private equity program:

- Revise the sub-asset class allocation ranges as follows: Buyouts – 60% - 90%; Venture/Growth – 10% - 30%; and Opportunistic – 0% to 10%;
- Expand the non-U.S. exposure range from 0% to 30% to 0% to 40%;
- Expand the non-U.S. mandate from the European Union countries and Israel to Rest-of-World; and,
- Discontinue the use of allocation targets.

Mr. Schaefer stated that the Investment Committee weighed several alternatives related to asset class targets. After discussion, consensus emerged that the differences between the alternative proposed in December by the Committee's public member, Mr. Brian Topping and the newly-proposed "Ennis Knupp Alternative to Committee" targets were minor, and the Committee unanimously voted to adopt the latter alternative.

On motion made by Mr. Schaefer, and seconded by Mr. Zirkin, the Board adopted the following asset class revised targets: Domestic Equity – 30%; International Equity – 18%; Global Equity – 15%; Private Equity – 5% [Total Equity – 68%]; Real Estate – 10%; Fixed Income – 17%; Real Return 5%; and, Opportunity Allocation – no explicit target.

On motion made by Mr. Schaefer, and seconded by Ms. Lochte, the Board approved maintaining the System's existing Opportunity Allocation policy, whereby the Opportunity Allocation has no prescribed target allocation and an allowed range of 0-5%. When investments are allocated to the Opportunity Allocation, staff and the general consultant will recommend a funding source from the asset class that best matches the opportunity investment. Adjustments to the System's asset allocation targets will be made accordingly. Major Krome is recorded in opposition to the motion believing it provides too wide a range.

On motion made by Mr. Schaefer, and seconded by Ms. Lochte, the Board adopted staff's recommendation regarding PIMCO All Asset Fund as follows: (1) shift this investment from the Opportunity Allocation to the Real Return allocation; (2) increase the PIMCO All Asset Fund mandate from 1% to 2% of total assets, and (3) change the funding source from PIMCO's TIPS account to the PIMCO core plus fixed income account.

On motion made by Mr. Schaefer, and seconded by Ms. Hill, the Board voted unanimously to extend the System's contract with Altius Associates for a 1-year period beginning May 1, 2008 and ending April 30, 2009.

Executive  
Director's Report

3. At Mr. Dean Kenderdine's request, Ms. Deborah Bacharach introduced Ms. Melissa Harrison, a new Assistant Attorney General, to the Trustees. She noted that Ms. Harrison will be working on administration of Domestic Relations Orders, Powers of Attorney, guardianships, and lien documents, as well as procurement issues.

Mr. Kenderdine stated that the January 16 meeting of the Joint Committee on Pensions had been canceled. It is rescheduled for 5:00 p.m. on January 21 in the Joint Hearing Room. He noted that the issue of repealing corridor funding would not be decided at that meeting as leadership has asked to meet with Treasurer Kopp, Secretary Foster, Mr. Rocky Joyner of Segal, and Agency staff to discuss the issue.

Mr. Kenderdine indicated that the search for the System's new Chief Investment Officer continues, with over 100 resumes received. The search firm has selected 23 applicants for telephone and personal interviews. This number will be reduced to between three and eight finalists for review by the Board's selection committee, consisting of Treasurer Kopp, Mr. Harkins, Ms. Hill, Major Krome, Mr. Schaefer, Mr. Topping, Mr. Cummings, and Mr. Kenderdine. Those interviews are scheduled now for February 7<sup>th</sup> and 8<sup>th</sup>.

Ms. Marge Bury, at Mr. Kenderdine's request, advised the Trustees that the Retirement Agency had completed the printing of the 2007 1099R documents needed for retiree tax filings. She noted that the initial print contract for the 1099R documents had faltered, and the Agency returned to its previous contractor. The 1099R documents are to be issued on January 22, 2008.

Ms. Bury also noted that based on provisions in the Federal Pension Protection Act, 3,500 letters were sent to retired law enforcement officers explaining a new provision that may allow their health insurance costs to be deductible from taxable income.

Mr. Kenderdine expressed his and the Agency's thanks to Mr. Douglass, Mr. Schaefer, and Mr. Zollicoffer for their attendance at the Agency's Winter Employee Appreciation Day. He noted that the event was very successful with staff, and that the Agency is working on its next employee event, a service awards ceremony.

Mr. Kenderdine noted that only two pension related bills had been pre-filed, one from Senator Colburn seeking divestment from companies doing business in Iran. He also noted that there are indications that the Governor's staff is evaluating this issue and may introduce Iran divestment legislation on the Governor's behalf that would impact the System's investment program.

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4. Mr. Vincent Marsiglia, Ms. Melody Countess, Mr. Robert Feinstein, and Mr. John Greenberg presented an overview of the System's 2007 Comprehensive Annual Financial Report. Mr. Feinstein and Mr. Greenberg reported on the Investment Section; Mr. Marsiglia and Ms. Countess reported on the other five sections – Introduction, Financial, Actuarial, Statistical and Plan Summary.

Following the presentation, a number of Trustees expressed their concerns with the significant changes that occurred to the Unfunded Actuarial Accrued Liability (UAAL) for various systems, including, but not limited to, the extremely significant increase for the State Police Retirement System. Mr.

Kenderdine was asked by the Board to obtain from Segal a detailed explanation as to the reasons why there was such a significant increase to the UAAL in 2007 that could be distributed to the membership when requested.

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| Medical Board Reports        | 5. On a motion made by Mr. Harkins, and seconded by Ms. Hill, 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 documentation in the file.           |
| Supplemental Medical Reports | 6. On motion made by Ms. Hill, and seconded by Mr. Hughes, 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 documentation in the file. |

#### **CLOSED SESSION**

The Board met in Closed Session at 10:17 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to approve closed minutes from the December 18, 2007 meeting, pursuant to State Government Article §10-503(a)(1)(i), executive function; to review the Watch List, pursuant to State Government Article §10-503(a)(1)(i), executive function; to discuss real estate and private equity investments, and transactions related to changes to asset managers, pursuant to State Government Article §10-508(a)(5), investment of public funds; and to discuss the handling of a contract claim; pursuant to State Government Article §§10-508(a)(7) and 10-508(a)(8), consultation with counsel for legal advice and consultation with staff and others regarding litigation.

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 attending were Deborah Bacharach; Margaret Bury; Rachel Cohen; Robert Feinstein; Charles Geis; John Greenberg; Ira Greenstein; Melissa Harrison; Carla Katzenberg; Dennis Krysiak; Jill Leiner; Vincent Marsiglia; Sherlynn Matesky; Howard Pleines; Harvey Raitzyk; Brian Rowe; Fred Semko; Janet Sirkis; and, Barbara Swain. Mr. John Kenney and Melissa Moye were also in attendance.

The Board ended its closed session at 11:13 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 December 18, 2007 meeting, reviewed the Watch List, made decisions related to real estate and private equity investments and retention of investment managers, and discussed pending and potential legislation.

- Jacqueline Williams
7. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Jacqueline Williams 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. Williams 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.

- David Hendricks
8. The Board considered the recommendation of the Administrative Judge in connection with the claim of Mr. David A. Hendricks 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. Hendricks, and his attorney, Francis J. Collins, 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.

- Lisa McCulloch
9. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Lisa L. McCulloch for 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. McCulloch 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 12:16 p.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to discuss the appeals of Jacqueline Williams, David A. Hendricks, and Lisa L. McCulloch, pursuant to State Government Article §10-503(a)(1)(iii), the exercise of a quasi-judicial function.

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 attending were Deborah Bacharach; Margaret Bury; Rachel Cohen; Howard Pleines; and, Janet Sirkis. Mr. John Kenney also was in attendance.

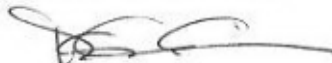
The Board ended its closed session at 12:33 p.m. and returned to regular session to complete the agenda.

### REGULAR SESSION

During the closed session, the Board reviewed and decided on the following disability appeals:

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| Jacqueline Williams | The Board voted to <u>accept</u> the Administrative Law Judge's Proposed Decision and <u>deny</u> Ms. William's request for accidental disability benefits.  |
| David A. Hendricks  | The Board voted to <u>reject</u> the Administrative Law Judge's Proposed Decision and <u>grant</u> Mr. Hendrick's request for accidental disability benefits. Ms. Hill recused herself from the discussion and decision. |
| Lisa L. McCulloch   | The Board voted to <u>accept</u> the Administrative Law Judge's Proposed Decision and <u>deny</u> Ms. McCulloch's request for disability benefits.   |
| Adjournment         | There being no further business before the Board, the meeting adjourned at 12:35 p.m.  |

Respectfully submitted,



R. Dean Kenderdine  
Secretary to the Board

RDK/js