

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

February 19, 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 9:17 a.m. There were present: Nancy K. Kopp, Chairman; Peter Franchot, Vice-Chairman; William D. Brown; John W. Douglass; T. Eloise Foster; James M. Harkins; Sheila Hill; F. Patrick Hughes; Morris L. Krome; Theresa A. Lochte; Robert W. Schaefer, Harold Zirkin (by telephone); and, Thurman W. Zollicoffer Jr., Trustees; and R. Dean Kenderdine, Secretary.

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

Also attending were Bill Anderson; Gary Hudepohl; John Kenney; Melissa Moye; Robert Palumbi; and, Doug Rowe. Representing the actuary, Segal Inc., were Eli Greenblum, Leone "Rocky" Joyner, and Tom Levy.

Present only during the disability appeals portion of the agenda were William J. McGinley Jr. and Hillary Galloway Davis, Esquire; and, John M. Zeigler

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| Minutes                           | 1. On motion made by Mr. Schaefer, and seconded by Mr. Brown, the Board approved the minutes of the January 15, 2008 regular meeting.  |
| CIO Interviews                    | 2. The Board went into closed session for the purpose of conducting interviews of finalists for the position of Chief Investment Officer.  |
| Investment<br>Committee<br>Report | 3. Mr. Robert Schaefer, Chairman of the Investment Committee, reported on the meeting held on February 8, 2008.<br><br>Mr. Schaefer reported that the Investment Committee unanimously approved the January 11, 2008 open session minutes as submitted.<br><br>Mr. Schaefer reported that the Committee heard a presentation from Bill Miller of Legg Mason Capital Management. It was beneficial for the Committee to hear directly from Mr. Miller.<br><br>Mr. Schaefer reported that Nan Leake and Nori Geraldo-Lietz of PCA Real Estate Advisors, Inc. presented a real estate market overview for the System. Ms. Lietz presented her company's views that investing globally, including in emerging economies, is strongly recommended. She also discussed ways in which the credit crisis is going to create opportunities.<br><br>Mr. Schaefer indicated that staff reported on the latest TUCS returns for the fourth quarter of 2007. Mr. John Greenberg had advised that the System was in the 67 <sup>th</sup> percentile for that quarter, and the 68 <sup>th</sup> percentile for twelve months ending December 31, 2007. The System placed in the 50 <sup>th</sup> percentile for two years trailing, the 52 <sup>nd</sup> percentile for three and four years trailing, and the 43 <sup>rd</sup> percentile for five years trailing. He noted that long term performance (seven and ten year) remained a concern but is showing slow improvement.<br><br>Mr. Schaefer reported that the Committee had received Ennis Knupp's Monthly Flash Report. |

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Mr. Schaefer reported that Robert Feinstein updated the Committee on investment related legislation. He noted that the Board's investment related proposals have been introduced by the Joint Committee on Pension as SB384 and HB481. This legislation removes an archaic restriction on investments in non-dividend paying stocks, abolishes fee caps on real estate and alternative investments, and does away with the requirement that real estate transactions be approved by the Board of Public Works. He noted that as submitted, the legislation would require a majority of the Treasurer, Comptroller and Secretary of Budget & Management to approve the purchase or sale of a property. Mr. Feinstein also offered a summary of two Iran divestiture bills, SB214 and SB22, as well as a bill, SB606, that requires several State entities responsible for the management of funds, (including the Retirement Agency) to undertake a process that could result in the greater use of minority business enterprise brokerage and investment firms to the extent feasible.

Mr. Schaefer reported that Mr. Kenderdine provided the Committee with an update regarding a matter concerning the System's actuary, The Segal Company.

Mr. Schaefer reported that the Committee received the following staff reports: Performance Report, TAA update, Private Equity Update, Class Action Update, Upcoming Manager Meetings.

On motion made by Mr. Schaefer, and seconded by Ms. Lochte, the Board adopted the Corporate Governance Subcommittee's recommendations (1) to adopt the updated domestic proxy voting guidelines, and (2) that the System continue to recall loans of U.S. stocks in order to vote.

On motion made by Mr. Schaefer, and seconded by Mr. Brown, the Board of Trustees adopted staff's recommendation to exercise the PCA contract renewal option for the period beginning May 1, 2008 and ending April 30, 2009. Mr. Schaefer also reported that staff will commence a search for a real estate consultant in the second half of 2008, with PCA invited to participate in the re-bid.

**CLOSED SESSION**

The Board met in Closed Session at 9:24 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider the selection of a Chief Investment Officer, pursuant to State Government Article §10-508(a)(1)(i).

There were present: Nancy K. Kopp, Chairman; Peter Franchot, Vice-Chairman; William D. Brown; John W. Douglass; T. Eloise Foster; James M. Harkins; Sheila Hill; F. Patrick Hughes; Morris L. Krome; Theresa A. Lochte; Robert W. Schaefer, Harold Zirkin (by telephone); and, Thurman W. Zollicoffer Jr., Trustees; and R. Dean Kenderdine, Secretary. Also in attendance was Gary Hudepohl.

The Board ended its closed session at 11:25 a.m. and returned to regular session to complete the agenda.

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Administrative  
Committee  
Recommendations

4. Mr. James Harkins, Chairman of the Administrative Committee, reported on the meeting held on February 5, 2008.

On a motion made by Mr. Harkins, and seconded by Major Krome, the Board of Trustees approved participation of the Somerset County Library in the Employer Pickup Program as of March 2008.

On motion made by Mr. Harkins, and seconded by Major Krome, the Board approved the following positions on House and Senate Bills introduced by February 5, 2008.

No position:

- HB36: Judges' Retirement System – Employment on Faculty of Public Institution of Higher Education
- HB99: Law Enforcement Officers' Pension System – Transfer of Membership – Maryland Transit Administration (being amended by sponsor to provide an ACPS type benefit through MTA).
- HB175/ SB425: State Retirement and Pension System – Military Service Credit – Eligibility
- HB383: Correctional Officers' Retirement System – Service Retirement Allowance
- HB522: Military Service Credit – Eligibility
- HB544/ SB480: Correctional Officers' Retirement System – Membership
- HB683: Optional Retirement Program – Employing Institutions – Community Colleges
- HB698/ SB374: Employees' Retirement and Pension Systems – Purchase of Service Credit
- SB195: Law Enforcement Officers' Pension System – Baltimore City Community College – Police Officers.
- SB308: Town of Berwyn Heights Employees – Participation in the Employees' Pension System
- HB725: Employees' Retirement and Pension Systems – Line of Duty Death Benefits – State Highway Administration Employees
- HB798: State Personnel and Pensions – Contractual Employees – Health Benefits and Purchase of Service Credit
- HB817: Retirement and Pensions – Service Retirement Allowances
- HB820/ SB656: Correctional Officers' Retirement System Membership – Parole and Probation
- HB986: Town of Berwyn Heights Employees – Participation in the Employees' Pension System
- HB1012: Prince George's County Deputy Sheriffs – Transfer of Service Credits
- HB1063/ SB541: Correctional Officers' Retirement System
- HB1114: Optional Defined Contribution System – Enrollment and Participation
- HB1181: Teachers' Retirement System and Teachers' Pension System – Reemployment of Retirees – BRAC
- HB1233/ SB859: Blue Ribbon Commission to Study Retiree Health Care Funding Options – Extension of Reporting and Termination Dates
- HB1442: Correctional Officers' Retirement System – Membership – Correctional Case Managers

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- SB803: Law Enforcement Officers' Pension System – Membership – Retired Pilots with the Maryland State Police

Support:

- HB472/ SB375: State Retirement and Pension System – Imposition of Administrative Fees on Employers
- HB481/ SB384: State Retirement and Pension Systems – Investments
- HB482/ SB488: State Police Retirement System – Survivor Benefits
- HB641/ SB487: Teachers' Pension System – Ineligible Positions Transferring Membership
- HB720/SB564: State Retirement and Pension System – Reemployment of Retirees
- SB672: Retirement and Pensions – Reemployment of Retired Judges

Oppose:

- SB22: State Pension and Retirement System – Divesting From Iran
- SB84: State Government – Public Benefits and services – Illegal Aliens
- SB749: Retirement and Pensions – Election of Benefits – Surviving Spouses

Under Review

- SB606: State Government – Brokerage and Investment Banking Services – Use of Minority Business Enterprises

On motion made by Mr. Brown, and seconded by Ms. Lochte, the Board requested that SB376/HB480: State Retirement and Pension System – Unused Sick Leave – Creditable Service be withdrawn. The Board has concerns that the payment for sick leave is collectively bargained and, therefore, believes further study of this issue is needed before legislation is considered.

On motion made and duly seconded, the Board also agreed to oppose SB214/HB371: Divestiture from Iran. Comptroller Franchot and Secretary Foster voted against the motion, but they also noted their support for reasonable, workable amendments to these bills.

On motion made by Major Krome, and seconded by Mr. Hughes, the Board of Trustees requested an Attorney General's Opinion as to the Trustees' fiduciary responsibility related to divesting from Iran under SB214/HB371, as well as any liability each Trustee could have should these bills be enacted.

At Mr. Harkins' request, Mr. Charles Geis reported on the progress of the MPAS-1 project. Mr. Geis stated that Milestone 4, Member Functions, remains at 99.32% complete. There are ten out of 1,467 requirements yet to pass, with 20 open defects. He estimated it would take Saber two and a half weeks to correct the defects. Milestone 6, Retiree Functions, increased from 72% to 76% complete, while Milestone 7, Payment Functions, moved from 25% to 31% complete. Nine Milestone 7 jobs are still being coded, and they should be completed by next month.

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Mr. Geis noted that there is little to report on change orders from Saber. The Agency rejected the change order submission of January 14, as it lacked details needed for analysis.

Mr. Geis stated that Saber installed Mr. Joe White as its "key personnel" Project Manager on January 31. He also stated that the kickoff meeting for the IV&V was on January 29, with the project expected to take three months to assess MPAS project management processes including time, scope, cost and risk. The IV&V is currently conducting interviews with our key stakeholders.

The Segal Company  
Presentation

5. Mr. Leone "Rocky" Joyner, Mr. Eli Greenblum, and Mr. Tom Levy addressed the Board concerning Segal's error in the 2007 Valuation, and the certification of the FY2009 employer contribution rates. Utilizing the corridor funding method, Mr. Joyner noted that the revised rates presented to the Board increased State costs in FY09 \$87.8 million, which is less than the \$100 million originally estimated by Segal.

The Board rejected Segal's suggestion to change Joint & Survivor options as not germane to the discussion of revised rates. To increase the Board's confidence in Segal's revised rates, the Agency has entered into an agreement with the Department of Legislative Services' in order to have their actuary, Mercer Inc., to perform a partial audit of Segal's work. Mercer will review Segal's assumptions and methods in order to validate Segal's revised contribution rates. Mercer is to complete its work by March 11th.

Executive Director's  
Report

6. Mr. Dean Kenderdine introduced Ms. Patrice Sowah to the Board of Trustees. Ms. Sowah is assuming all duties related to the Board. He also thanked Ms. Janet Sirkis for her hard work in support of the Board prior to Ms. Sowah's hiring.

Mr. Kenderdine noted that the Agency's budget hearing was completed and that there was one small reduction in the Agency's budget for the MPAS project. The Agency concurred with the reduction. He noted that the hearings largely focused on the actuary's error and the MPAS-1 project.

Mr. Kenderdine noted that the annual ethics reporting forms had been issued to the Trustees and were due back by April 30, 2008.

Mr. Kenderdine stated that the information for the annual evaluation of the Executive Director had been distributed and should be returned as to Cindy Kollner of the Department of Budget and Management by February 25<sup>th</sup>. He indicated Ms. Kollner or David Romans, also from the Department of Budget and Management, would be assisting with the review and would present the results to the Board.

Adhering to regulation, Mr. Kenderdine notified the Board of Trustees that he had issued a default order for Charles Penny in relation to Mr. Penny's failure to respond to his appeal for disability benefits.

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| Medical Board Reports              | 7. On a motion made by Mr. Hughes, 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 documentation in the file.   |
| Supplemental Medical Board Reports | 8. On motion made by Mr. Hughes, and duly seconded by, 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.   |
| John Ziegler                       | <p>The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. John Ziegler 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.</p> <p>Mr. Ziegler 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.</p>   |
| William J. McGinley, Jr.           | <p>The Board considered the recommendation of the Administrative Judge in connection with the claim of Mr. William J. McGinley, Jr. 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.</p> <p>Mr. McGinley, and his attorney, Hillary Galloway Davis, appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. 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 Closed Session.</p> |
| Pamela M. Ballard                  | The appeal for Pamela M. Ballard was postponed.   |
| Angela E. Settle                   | The appeal for Angela E. Settle was postponed.  |

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**CLOSED SESSION**

The Board met in Closed Session at 2:18 p.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to approve closed minutes from the January 15, 2008 meeting, pursuant to State Government Article §10-503(a)(1)(i), executive function; 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; and, to discuss the appeals of William J. McGinley Jr., and John Zeigler, pursuant to State Government Article §10-503(a)(1)(iii), the exercise of a quasi-judicial function.

There were present: William D. Brown; James M. Harkins; Sheila Hill (by telephone); F. Patrick Hughes; Morris L. Krome; Theresa Lochte; and, Thurman W. Zollicoffer Jr., Trustees; and R. Dean Kenderdine, Secretary.

Agency staff attending were Deborah Bacharach; Margaret Bury; Rachel Cohen; Howard Pleines; Janet Sirkis; and, Patrice Sowah.

The Board ended its closed session at 2:30 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 January 15, 2008 meeting, discussed pending litigation, and reviewed and decided on the following disability appeals:

John Ziegler	The Board voted to <u>accept</u> the Administrative Law Judge's Proposed Decision and <u>deny</u> Mr. Ziegler's request for disability benefits.
William J. McGinley, Jr.	The Board voted to <u>reject</u> the Administrative Law Judge's Proposed Decision and <u>grant</u> Mr. McGinley's request for accidental disability benefits.
Adjournment	There being no further business before the Board, the meeting adjourned at 2:35 p.m.

Respectfully submitted,



R. Dean Kenderdine  
Secretary to the Board

RDK/pws