

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

April 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 9:03 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 (via telephone during the disability appeals portion); F. Patrick Hughes; Morris L. Krome; Theresa A. Lochte; Robert W. Schaefer, Harold Zirkin; and, Thurman W. Zollicoffer Jr., Trustees; and R. Dean Kenderdine, Secretary.

Agency Staff members attending were: Deborah Bacharach; Margaret Bury; Rachel Cohen; Melody Countess; Jamie Doran; Brian Feilinger; Robert Feinstein; Lauren Frazier; Charles Geis; John Greenberg; Ira Greenstein; Dennis Krysiak; Vincent Marsiglia; Sherlynn Matesky; Howard Pleines; Harvey Raitzyk; Brian Rowe; Fred Semko; Patrice Sowah; Janet Sirkis; Barbara Swain; and, Toni Voglino.

Also attending were Bill Anderson; Dylan Baker; John Kenney; Melissa Moye, Robert Palumbi; Amy Maloney; and Michael Rubenstein.

Present only during the disability appeals portion of the agenda were Carla Goldman Katzenberg and Jill Leiner, presenting the agency; as well as, Russell G. Johnson, III and his attorney Mr. Robin Cockey, Pamela E. Kloman, Richard Link (attorney representing Elbert Ouzts, Jr.) and Jeffrey Ramsey via telephone.

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| Minutes | 1. On a motion made by Mr. Schaefer, and duly seconded, the Board approved the minutes of the March 18, 2008 regular meeting. |
| Investment
Committee
Report | 2. Mr. Robert Schaefer, Chairman of the Investment Committee, reported on the meeting held on April 11, 2008.

Mr. Schaefer reported that the Investment Committee unanimously approved the March 14, 2008 open session minutes as submitted.

Mr. Schaefer acknowledged that David Blitzstein the Board's new appointed Trustee attended the April 11 th meeting.

Mr. Schaefer reported that the Committee deferred action on the public member vacancy created by his appointment as a trustee.

Mr. Schaefer reported that the Committee received presentations from Staff and Ennis Knupp regarding commodity investing.

Mr. Schaefer reported that Mr. Kenderdine and Mr. Feinstein provided an update regarding investment-related legislation. It was reported that the Governor's Iran/Sudan divestment bill, SB 606 (removing barriers to the utilization of minority business enterprises in investment management and brokerage services), SB 384 (the System's package of investment-related proposals) and HB865 (requiring posting of notices of all investment-related procurements on eMaryland marketplace) had been approved by the General Assembly and were awaiting the Governor's signature.

Mr. Schaefer reported that the Committee unanimously agreed to accept Staff's recommendation to reschedule its May meeting to Friday, June 13, 2008 at 9:00 a.m.

Mr. Schaefer reported that the Committee received Ennis Knupp's monthly investment report. |

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Mr. Schaefer reported that the Committee received the following staff reports: Performance Report, TAA update, Private Equity Update, Quarterly ORP Update, Quarterly Regulatory Update, Manager Meeting Report, Upcoming Manager Meetings.

On a motion made by Mr. Schaefer, and seconded by Mr. Brown, the Board made the following changes to the Real Estate policy (1.) Core range changed from 40 - 70% to 30 - 70%; (2.) Publicly Traded range changed from 20 - 40% to 20 - 45%; and (3.) Geographic diversification range changed from U.S. 30 - 70% to 50 - 100%; and non-U.S. from 0 - 30% to 0 - 50%.

On a motion made by Mr. Schaefer, and seconded by Mr. Brown, the Board approved the incorporation of value-added, industrial and multi-family real estate investments into the Type I: private market real estate investments, Direct Equity, and to amend the Investment Policy Manual accordingly, including any changes as a result of pending legislation.

On a motion made by Mr. Schaefer and seconded by Mr. Hughes, the Board approved the initial asset allocation and administrative guidelines for the Postretirement Health Benefits Trust.

On a motion made by Mr. Schaefer and seconded by Mr. Zollicoffer the Board approved the expansion of the System's emerging manager program from 1% of assets to as much as 2% of assets, with implementation of the expansion to be planned once the CIO arrives.

Administrative
Committee
Report

3. Mr. James Harkins, Chairman of the Administrative Committee, reported on the meeting held on April 1, 2008.

Mr. Harkins reported that the Administrative Committee unanimously approved the March 4, 2008 open session minutes as submitted.

Mr. Harkins reported that the administrative fees as of February 29, 2008 were accepted.

On a motion made by Mr. Harkins, and seconded Mr. Zirkin, the Board voted to place the full Board Meeting open session minutes on the Retirement Agency Website following approval by the Board.

Mr. Harkins reported that the Committee received a MPAS update.

- Milestone 4 (member functions) is very close to being finished. Agency is currently evaluating if we should approve payment to Saber. All functions are being tested and are functioning today as well as the Legacy System.
- Testing for Milestone 6 (retiree functions) has increased to 83%, up from 79% last month.
- Testing for Milestone 7 (retirement payment functions) has increased to 61%, up from 41% last month, and all jobs have been coded.
- Milestone 5 (refund functions) requirements are complete, but the programming has not started.
- Saber submitted a third change order request to extend the project schedule which is under review by the Agency. Mr. Kenderdine stated that

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Saber is requesting an additional year for programming.

- The Agency is analyzing a change order related to the number of MPAS-1 reports, in which the vendor requests an additional payment of \$760,000. Initial analysis indicates that a portion of the change order may be justified. Saber and Agency staff are negotiating each element of the change order.
- The Agency also received a change order related to additional testing environments. That request was rejected.
- The Agency has directed Saber to revisit prior change orders which deleted or added jobs. The Agency believes that the net result of this review will be a credit as more jobs have been deleted than added.
- The IV&V team has completed its review of the MPAS-1 Project and is currently working on its report. The results will be presented to the Agency in about three weeks.

Mr. Harkins reported that Marge Bury presented the monthly update on Member Service's telephone response. She reported that for FY2008, both the call abandonment rate and the average call waiting time are within the standards set by the Retirement Agency. Call abandonment through February was averaging 6.0%, under the 7% goal. Call waiting was averaging one minute and 26 seconds, which is under the one minute 45 second goal.

Mr. Harkins reported that Mr. Kenderdine reported the Board's policy requires a Board self-evaluation should occur at least every other year. The last evaluation was completed in 2007. An evaluation is not required in 2008, but it was brought to the Administrative Committee should the Committee believe there is a need for an evaluation this year. The Administrative Committee agreed that a self evaluation is not needed this year; it is deferred until 2009.

At Mr. Harkins' request Mrs. Lochte, Chairman of the Ad Hoc Committee on Disability Appeals, reported on the Ad Hoc Committee's proposals. Mrs. Lochte noted that at the request of Treasurer Kopp, the Ad Hoc Committee was formed to discuss and propose alternative means for handling disability appeals that come before the Board to accomplish (1) maintaining the required due process to the membership, (2) improving efficiency, and (3) lessening the time commitments of Trustees.

Mrs. Lochte reported that the Ad Hoc Committee proposed setting the prescribed period of time for each case, and utilizing a timer and time keeper. The Chairman should not be asked to serve as time keeper. Cases heard as ordinarily scheduled agenda items during Board meetings by schedule of at least a quorum (eight) of Trustees.

Audit Committee
Report

Mr. F. Patrick Hughes, Chairman of the Audit Committee, reported on the meeting held on March 18, 2008.

Mr. Hughes reported that for the purpose of auditing participating governmental units, Internal Audit will award a multi-year contract to a CPA firm through competitive bidding, rather than several one-year contracts to different firms.

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Mr. Hughes reported that the committee's regularly scheduled meetings are the first month of each quarter

Mr. Hughes reported that the committee has adopted the Sarbanes-Oxley standards for auditing.

Mr. Hughes reported that the committee would provide the Board with copies of the Agency Fraud, Waste, and Abuse Policy, Internal Audit Division Charter, and the Internal Audit Division's Code of Conduct by the next Board meeting.

- Legislative Report
4. Mr. Howard Pleines reported on the Agency's 2008 enacted legislation.
- **HB36** - Judges' Retirement System: Employment on Faculty of Public Institution of Higher Education; permitting retired members of the Judges' Retirement System to work for State Institutions of Higher Education without an earnings limitation.
 - **HB442** - Deferred Retirement Option Program Participants – Application of SB422 Line of Duty Disability Benefits (Board Requested); limiting the circumstances under which members participating in a Deferred Retirement Option Program may seek disability benefits.
 - **HB472** - State Retirement and Pension System – Imposition of Administrative SB375 Fees on Employers (Board Requested); Permitting the adoption of regulations to impose a fee for failing to promptly file enrollment documentation.
 - **HB481/SB384** - State Retirement and Pension System – Investments (Board Requested); will remove the restriction on investments in non-dividend paying stocks as well as fee caps on real estate and alternative investments, and eliminates requirements that real estate transactions go to the Board of Public Works.
 - **HB482/SB488** - State Police Retirement System – Survivor Benefits (Board Requested); increases the survivor benefit for the State Police Retirement System and repeals the special supplemental survivor benefit.
 - **HB554/SB480** - State Retirement and Pension System –Membership and System Study; alters the membership of the Correctional Officers' Retirement System to include laundry officers and certain employees of Maryland Correctional Enterprises; establishes additional criteria for study of System's benefits.
 - **HB720/SB564** - State Retirement and Pension System – Reemployment of Retirees (Board Requested); requires superintendents of public schools to make reimbursements for failing to timely file notices of rehired retirees; permitting judges with retirement benefit in the Employees' Retirement or Pension System to suspend those benefits while participating in the Judges' Retirement System.
 - **HB725** - Employees' Retirement and Pension Systems – Line of Duty Death Benefits; provides monthly death benefit and health insurance benefits to certain beneficiaries of State employees killed in the line-of-duty. Retroactive to January 1, 2007 for employees of State Highways Administration only.
 - **HB986/SB308** - Town of Berwyn Heights Employees – Participation in the Employees' Pension System; establishing criteria for Berwyn

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Heights to participate in the Employees' Pension System as of July 1, 2008.

- **HB1233/SB859** - Blue Ribbon Commission to Study Retiree Health Care Funding Options – Extension of Reporting and Termination Dates; alters the date when the Blue Ribbon Commission to Study Retiree Health Care Funding must report to the General Assembly
- **HB1277/SB606** - State Government - Brokerage and Investment Banking Services – Use of Minority Business Enterprises; requiring specified State entities responsible for the management of specified funds to attempt to use to the greatest extent feasible minority business enterprise brokerage and investment banking firms
- **SB195** - Law Enforcement Officers' Pension System – Baltimore City Community College – Police Officers; permits law enforcement officers of the Baltimore City Community College to participate in the Law Enforcement Officers' Pension System. This bill has been signed by Governor O'Malley.
- **SB214** - Divestiture From Iran and Sudan; requires no new investments to be made in companies doing business in Iran or Sudan, and divestment of such current investments after specific notification to those companies doing business with Iran and/or Sudan; requiring reports of divestment activity to the General Assembly.

Mr. Pleines reported that HB480/SB376 State Retirement and Pension System – Unused Sick Leave Creditable Service and HB641/ SB487 Teachers' Pension System Ineligible Positions Transferring Membership, both Board requested legislation did not pass during this legislative session.

Mr. Pleines reported that the Governor's upcoming bill signing sessions are scheduled for May 4th, 13th, and 22nd.

Executive
Director's
Report

5. Mr. Kenderdine reminded the Board that their calendar year 2007 State Ethics Commission financial disclosure statement must be submitted before April 30, 2008.

Mr. Kenderdine reported that the new Chief Investment Officer, Mansco Perry, will begin with the Agency on April 30th.

Mr. Kenderdine reported that on April 2nd Mr. Perry came to Baltimore to meet with the Investment staff. During that day he was able to travel with Mr. Perry to Annapolis to be introduced at a meeting of the Board of Public Works, as well as to be introduced to State legislators. He stated that Mr. Perry was well received by the Board of Public Works and the members of the House and the Senate.

Mr. Kenderdine reported that plans are being made to have a new Trustee orientation. The date and details will be forthcoming.

Mr. Kenderdine reported Mr. Vincent Marsiglia, Chief Financial Officer, will be leaving the Agency April 25th to accept a position at the Port Authority. He acknowledged Mr. Marsiglia's work and accomplishments. At that time Mr. Marsiglia thanked his staff, the Trustees, and the Agency for their well wishes.

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On the behalf of the Board of Trustees, Chairman Kopp thanked Mr. Marsiglia for his work and congratulated him on his future endeavors.

Medical Board Reports 6. On a motion made by Mr. Brown, 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 Board Reports 7. On a motion made by Mr. Brown, and seconded by Ms. Hill, 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.

Russell G. Johnson, III 8. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Russell G. Johnson, III 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.

Mr. Johnson 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.

Pamela E. Kloman 9. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Pamela E. Kloman 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. Kloman 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.

Elbert Ouzts, Jr. 10. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Elbert Ouzts, Jr. 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.

Mr. Ouzts 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.

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- Jeffrey Ramsey 11. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Jeffrey Ramsey 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. Ramsey 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 11:15 p.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street for the purpose of, and pursuant to:

1. approve closed minutes, State Government Article §10-503(a)(1)(i), the exercise of an administrative function;
2. to discuss the administration of the actuary contract; pursuant to State Government Article §10-508(a)(1), administrative function;
3. to discuss a securities litigation issue 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
4. to discuss the appeals of Russell G. Johnson, Pamela E. Kloman, Elbert Ouzts, Jr., and Jeffrey Ramsey pursuant to State Government Section 10-503(a)(1)(iii), quasi-judicial function.

Present during the closed session were Chairman Nancy K. Kopp; Vice-Chairman Peter Franchot; William D. Brown; John Douglass; T. Eloise Foster; James Harkins; Sheila Hill; F. Patrick Hughes; Morris L. Krome; Theresa Lochte; Robert Schaefer; Thurman Zollicoffer; and, R. Dean Kenderdine, Secretary.

Agency staff attending were Deborah Bacharach; Margaret Bury; Rachel Cohen; Melody Countess; Jamie Doran, Robert Feinstein; Dennis Krysiak, Vincent Marsiglia, Howard Pleines; Brian Rowe, Janet Sirkis; Patrice Sowah; and Barbara Swain.

Also attending was John Kenney.

The Board ended its closed session at 12:55 p.m. and returned to regular session to complete the agenda.

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REGULAR SESSION

During the closed session, the Board approved the closed minutes of the March 18, 2008 meeting, discussed pending litigation, and reviewed and decided on the following disability appeals:

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| Russell G. Johnson, III | 12. | The Board voted to <u>accept</u> the Medical Board's Decision and <u>deny</u> Mr. Russell G. Johnson's request for disability benefits. |
| Pamela E. Kloman | 13. | The Board voted to <u>adopt</u> the Administrative Law Judge's Proposed Decision and <u>deny</u> Ms. Pamela E. Kloman's request for accidental disability benefits. |
| Elbert Ouzts, Jr. | 14. | The Board voted to <u>accept</u> the Medical Board's Decision and <u>deny</u> Mr. Elbert Ouzts' request for disability benefits. |
| Jeffrey Ramsey | 15. | The Board voted to <u>adopt</u> the Administrative Law Judge's Proposed Decision and <u>deny</u> Mr. Jeffrey Ramsey's request for accidental disability benefits. |
| Adjournment | 16. | There being no further business before the Board, the meeting adjourned at 1:00 p.m. |

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board

RDK/pws