

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

August 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 9:02 a.m.

The Trustees present included:

Peter Franchot, Vice-Chairman	William D. Brown	James M. Harkins	Sheila Hill
Morris L. Krome	F. Patrick Hughes	Theresa Lochte	Robert W. Schaefer
Thurman W. Zollicoffer, Jr.		R. Dean Kenderdine, Secretary	

The Trustees that participated via telephone included:

Nancy K. Kopp, Chairman	David S. Blitzstein	Harold Zirkin
-------------------------	---------------------	---------------

Agency Staff members attending included:

Deborah Bacharach	Margaret Bury	Steve Cichelli	Melody Countess	Robert Feinstein
Charles Geis	Ira Greenstein	Dennis Krysiak	Sherynn Matesky	Mansco Perry, III
Howard Pleines	Brian Rowe	Fred Semko	Janet Sirkis	Patrice Sowah
Barbara Swain	Toni Voglino	Antoinette Butcher	Vicki Willard	

Also attended by:

Bill Anderson	Dylan Baker	Lisa Campbell	Anne Gawthrop	John Kenney
Melissa Moye	Michael Rubenstein	Michael Halpin		

Present only during the disability appeals portion of the agenda included:

Jill Leiner

- | | |
|-----------------------------------|--|
| Minutes | 1. On a motion made, Mr. Hughes and seconded by Mr. Schaefer, the Board approved the minutes of the July 15, 2008 regular meeting. |
| Investment
Committee
Report | 2. Mr. Robert Schaefer, Chairman of the Investment Committee, reported on the committee meeting held on August 8, 2008.

Mr. Schaefer reported that the Committee unanimously approved the June 13, 2008 open session minutes as submitted.

Mr. Schaefer reported that staff informed the Committee that it has been researching the appropriateness of the System's current private equity benchmark and believes that there are deficiencies in the current benchmark. Staff has asked Ennis Knupp and Altius to prepare a study that can be presented to the Committee at the September asset allocation meeting.

Mr. Schaefer reported that staff reported on modifications made to the asset allocation for the OPEB Trust to reflect changes made to the System's defined benefit plan asset allocation at the June 2008 meeting. Staff noted that the main changes were as follows: <ul style="list-style-type: none">• U.S. Equity – Target decreased from 35% to 30%. Range modified accordingly.• Global Equity – Target increased from 15% to 19%. Range modified accordingly.• Cash Equivalents - Target increased from 0% to 1%.
Mr. Schaefer reported that the Committee received the 2008 second quarter TUCS report. The System was ranked in the 75 th percentile for |

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

August 19, 2008

Investment
Committee
Report

the most recent quarter, 76th percentile for six months ending June 30, 2008 and in the 80th percentile for twelve months ending June 30, 2008. The System placed in the 73rd percentile for two years trailing, 65th percentile for three years trailing and 61st percentile for five years trailing. Mr. Schaefer reported that Mr. Perry noted that the System's ranking is due largely to the lack of alternative investments in the System's present asset allocation.

Mr. Schaefer reported that the September Investment Committee meeting will focus on the System's asset allocation.

Mr. Schaefer reported that Mr. Kenderdine presented proposed revisions to the Investment Committee Charter and the Board's Service Provider Selection Policy. Mr. Schaefer reported that in keeping with the Board's existing practice, the Administrative Committee voted on the proposed revisions during its August 5, 2008 meeting. The documents were approved by the Investment Committee with modifications.

On a motion made by Mr. Schaefer, and seconded by Ms. Hill, the Board voted to accept staff's proposed revisions to the Investment Policy Manual (IPM) and the Investment Division's operations manual. The revisions are summarized as follows:

1. Overall organizational changes – In place of the existing manual's one section on General Policy and numerous Appendices, the IPM will be organized into four sections – Section I: General Policies; Section II: Policies that Govern Selection and Retention of Investments; Section III: Administrative Policies; and Section IV: Other Investment Program Policies.
2. Improved alignment of the IPM with the requirements specified by law.
3. Breaking down and grouping investment-related policies into three main types: policies that pertain to asset allocation, policies for public market investments, and policies for private market investments.
4. Adding a section under Administrative Policies that is more aligned with the State Finance and Procurement §12-401 (b) requirement for written policies and procedures for exempt procurements.
5. Eliminating procedures relating to Investment Division operations – As previously noted, operational procedures will be incorporated in an operations manual maintained by staff to support the IPM.

Mr. Schaefer reported that staff presented an Investment Committee Public Advisor Selection Policy. After a discussion and incorporation of one suggested change, the Committee unanimously agreed to approve the Policy.

On a motion made by Mr. Schaefer, and seconded by Mr. Hughes the Board adopted the Investment Committee Public Advisor Selection Policy with the addition of an "Unexpected Openings" clause.

Mr. Schaefer reported that staff recommended that the Real Estate Program benchmark be changed from a weighted blend of the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index (NPI) and the Dow Jones Wilshire Real Estate Securities Index (Wilshire

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

August 19, 2008

Investment
Committee
Report

RESI) to a weighted blend of (i) the NPI, (ii) the Wilshire RESI, and (iii) the Financial Times London Stock Exchange (FTSE) European Public Real Estate Association (EPRA)/ National Association of Real Estate Investment Trusts (NAREIT) Global Real Estate Index Series (FTSE EPRA/NAREIT). As the Program's balance changes, the benchmark will change according to the Program's respective weightings between private and public (domestic & international) holdings. Staff also recommended that this change be made effective as of July 1, 2008. It was noted that PCA concurs with these recommendations.

On a motion made by Mr. Schaefer, and seconded by Mr. Brown, the Board voted to adopt as the policy benchmark for the System's Real Estate Program a blend of the NPI, the Wilshire RESI and the FTSE EPRA/NAREIT Global Real Estate Index Series to be weighted according to the Program's respective holdings. This change will be made effective as of July 1, 2008

Mr. Schaefer reported that the Committee received the following investment reports:

- Performance Reports
- TAA Update
- Private Equity Update
- Quarterly Broker Commission Report
- Quarterly Securities Lending Update
- Quarterly Regulatory Review
- Quarterly Directed Brokerage Report
- Quarterly Sudan Divestment Report to Legislature
- Manager Meeting Report(s) and Updates
- Upcoming Manager Meeting Report

Administrative
Committee
Report

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

Mr. Harkins reported that the Department of Budget & Management (DBM) assigned a FY10 budget target of \$30,142,000 to the Retirement Agency (2.8% increase over FY09) reflecting increases to health insurance costs, salary increments, and employer pension costs. DBM also requested that the Agency submit a proposed FY2010 budget reflecting a 3% reduction. The FY10 budget proposal will be presented to the Administrative Committee in September.

Mr. Harkins reported that the State Personnel and Pensions Article requires an optional benefit allowance be the actuarial equivalent of the basic allowance provided under the member's system. Staff believes that an actuarial study is needed to determine whether the factors used today to calculate the reduced optional benefit continue to provide an actuarial equivalent benefit, as the factors presently used were first developed in the 1970's. Staff recommends deferring the study until early 2009 and assigning it to the actuarial firm that is awarded the System's full actuarial services contract.

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

August 19, 2008

Administrative
Committee
Report

Mr. Harkins reported that the Committee heard arguments regarding the matter of Mr. Levern McElveen. Mr. McElveen requests to be granted service for previous employment with the Division of Corrections despite the fact that he forfeited the service credit when he withdrew his accumulated contributions in 1979.

Mr. McElveen also requests that he be permitted to transfer his 21 years of service credit with the Maryland Transit Administration (MTA) Pension Plan to the Employees' Pension System (EPS) even though he did not apply to transfer his service credit within one year of joining the EPS in 1999, as required by statute.

Recent legislation has given the Retirement Agency the authority to grant such waivers of the one-year filing requirement if certain conditions are met.

On a motion made by Mr. Harkins and seconded by Ms. Hill, the Board voted to uphold the Executive Director's decision to deny Mr. McElveen's request to be granted previous service and to transfer his MTA service to the EPS. The Board requests that Mr. McElveen then be advised he may apply for a transfer of service waiver.

Mr. Harkins reported that in response to legislation enacted in 2008, the Board is required to adopt regulations establishing the procedures for imposing a penalty on a participating employer that fails to enroll new employees in a timely manner. The draft regulation provides that for each employee who began employment with the participating employer on or before April 1 of the same fiscal year, is a member of the State System as a condition of employment, and has not been properly enrolled in accordance with regulation, a penalty of \$100 per employee per year will be assessed. Delays in enrollment affect not only the employee they also impact annual Personal Statements of Benefits and beneficiary protection. Delays also impact the System as data submitted to the actuary for the annual valuation and determination of employer contribution for automatic enrollments (AEs) do not reflect true membership data.

On a motion made by Mr. Harkins, and seconded by Mr. Brown, the Board approved the regulation establishing a penalty for failure to enroll new employees in a timely manner.

Mr. Harkins reported that modifications were needed to eliminate the "specialty investment consultants" as Key Service Providers from the Board's Service Provider Selection Policy and related references to "specialty investment consultants" in the Charter for the Investment Committee. Given the 2007 legislative change that established the hire/fire authority for the Chief Investment Office, staff recommended that specialty consultants (i.e. private equity, real estate, etc.) be considered as directly related to investment management decisions and should be procured under the authority of the CIO.

On a motion made Mr. Harkins, and seconded by Mr. Brown, the Board

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

August 19, 2008

Administrative
Committee
Report

voted to revise the Service Provider Selection Policy and the Charter for the Investment Committee so that specialty investment consultant selection comes under the authority of the CIO.

Mr. Harkins reported that with the new disability hearing process a question was raised regarding those Trustees who were not assigned to hear disability appeals on a specific date. The question was could they vote on a case if they attended those hearings?

Mr. Harkins reported that staff counsel advised the Committee on the new procedure of ensuring a quorum to hear disability cases. Mr. Harkins stated that a new regulation is not required as long as the entire Board is in agreement that any Trustee who is not assigned to serve on a given month's panel (1.) may attend and (2.) voluntarily abstains from voting. In addition, any Trustee who is not scheduled for a specific date's hearing panel but attends the hearing, may participate in the discussion of a particular appeal.

Mr. Harkins reported that in response to concerns voiced at the Board's June meeting, the Committee received a briefing by the Legal Division regarding the due process afforded all appellants with respect to the scheduling of disability cases at the Office of the Administrative Hearings. Mr. Harkins summarized that process as follows:

- The Legal Division staff contacts the parties by telephone and gives them a choice of proposed hearing dates.
- When a date has been established a confirmation letter is sent to all parties.
- The case record and another letter confirming the agreed upon hearing date is sent via certified mail to the claimant or his/ her attorney.
- Two months prior to the agreed upon hearing date, the file is transmitted to the Office of Administrative Hearings (OAH).
- Upon receipt, OAH sends another hearing notice that includes postponement procedures.
- If the claimant fails to appear, a default order is issued by the OAH. Thereafter, the claimant has 15 days to provide good cause for failure to appear.
- At all stages, the claimant is given the opportunity to request a change of hearing date.

Mr. Harkins reported that staff presented the FY10 Information Technology Master Plan (ITMP). The main focus of the ITMP is on replacing the existing Legacy System with MPAS technologies.

Mr. Harkins reported that the Committee received a performance update from Member Services. The Agency continues to meet or exceed its Member Service performance standards.

Mr. Harkins reported that the Department of Budget Management (DBM) has requested the assistance of the agency in implementing an additional health insurance premium holiday for state employees and retirees. For active state employees, there will be no payroll health insurance

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

August 19, 2008

Administrative
Committee
Report

deduction from the first pay period in December 2008. For state retirees, they will pay half their monthly health premium in December 2008. The agency will incur additional expenses estimated at \$32,500 for related mailings to the state retirees and to modify its payroll system for the months of December and January. These expenses are non-budgeted costs in the fiscal 2009 appropriation.

Mr. Harkins reported that the agency has the authority to perform audits of Local Educational Agencies (LEA) to recover any duplicate retirement contributions. The General Assembly changed the law to prohibit the recovery of duplicate contributions through grant funds. The agency received an opinion from the Attorney General indicating that the agency is no longer required to perform these audits. This should save the agency at least \$250,000 this fiscal year.

Executive
Director's
Report

7. Mr. R. Dean Kenderdine acknowledged the presence of Michael Halpin, Executive Director of Maryland Teachers and State Employees Supplemental Retirement Plans. Mr. Kenderdine introduced Antionette Butcher, Mansco Perry's new Executive Assistance. Ms. Butcher previously worked in the Comptroller's office.

Mr. Kenderdine reported that Middle Atlantic Public Employee Retirement System (MATPERS) has invited the Board to attend and participate as panelists in their 3rd Annual Forum. Mr. Kenderdine requested that if any Board member was interested they could speak to him for further details.

Mr. Kenderdine reported that the meeting's handouts included a transcript of a speech give by Donald L. Kohn of the Federal Reserve Board at the National Conference on Public Employee Retirement Systems Annual Conference. The speech addresses turmoil in the markets and it provides some good insight. Mr. Kenderdine thanked Mr. Blitzstein for sharing the article with the Board.

Mr. Kenderdine reported that we are planning to have the photographer come to the September Board meeting to take a group photo, and a portraits of two trustees.

Mr. Kenderdine reported that the meeting handouts included a letter to the American Academy of Actuaries (AAA), to which the Agency is a signatory. The letter expresses opposition the proposal that the AAA adopt the position that public pensions should report the "Market Value of Liabilities" in its annual disclosures.

Mr. Kenderdine reported that the IRS officials that oversee exempt organizations have indicated that they believe they have been "underserving" public pension plans. Consequently, the IRS is initiating a policy development process that will result in greater federal scrutiny of public pension plans. Mr. Kenderdine reported that the IRS will begin this process by sending out a questionnaire to a sampling of public pension plans. Based on the information gathered from the preliminary questionnaire, the IRS will revise it and submit it to over 200 plans

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

August 19, 2008

Executive
Director's
Report

At Mr. Kenderdine's request Ms. Deborah Bacharach updated the Board with respect to IRS determination letters. Ms. Bacharach provided the Board with a background document from the System's tax counsel, Ice Miller. Ms. Bacharach explained that to become an IRS qualified plan an qualify for the related tax benefits, the plan must receive a determination letter from the IRS. Ms. Bacharach reported that her office is currently working with Ice Miller on an application to receive a new determination letter which will be valid for 5 years.

Medical Board
and
Supplemental
Medical Board
Reports

8. On a motion made by Mr. Brown, and seconded by Ms. Hill, the Board of Trustees accepted all 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.

CLOSED SESSION

The Board met in a Closed Session, beginning at 9:50 a.m., in the Boardroom of the SunTrust Building at 120 East Baltimore Street for the purpose of, and pursuant to:

1. to approve the closed minutes, State Government Article §10-503(a)(1)(i), the exercise of an administrative function;
2. to discuss the watch list, State Government Article §10-503(a)(1)(i), the exercise of an administrative function
3. to the administration of a contract, State Government Article §10-503(a)(1)(i), the exercise of an administrative function;
4. to discuss procurement of potential emerging manager program managers and related expansion of program, State Government Article §10-508(a)(5), consider matters relating to the investment of public funds; and,
5. to discuss ongoing procurement of managers for the emerging manager program, State Government Article §10-508(a)(14), directly related to the contents of proposals.

The Trustees present included:

Peter Franchot, Vice-Chairman	William D. Brown	James M. Harkins	Sheila Hill
Morris L. Krome	F. Patrick Hughes	Theresa Lochte	Robert W. Schaefer
Thurman W. Zollicoffer, Jr.		R. Dean Kenderdine, Secretary	

The Trustees that participated via telephone included:

Nancy K. Kopp, Chairman	David S. Blitzstein	Harold Zirkin
-------------------------	---------------------	---------------

Agency Staff members attending included:

Deborah Bacharach	Margaret Bury	Steve Cichelli	Melody Countess	Robert Feinstein
Charles Geis	Ira Greenstein	Dennis Krysiak	Sherylnn Matesky	Mansco Perry, III
Howard Pleines	Brian Rowe	Fred Semko	Janet Sirkis	Patrice Sowah
Barbara Swain	Toni Voglino			

John Kenney and Melissa Moye were also in attendance.

The Board ended its closed session at 10:45 a.m. and returned to regular session to complete the agenda.

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

August 19, 2008

REGULAR SESSION

During the closed session, the Board approved the closed minutes of the July 15, 2008 meeting.

- Kim T. Marks 10. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Kim T. Marks 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. Marks, with her attorney Ms. Rhonda Framm, 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 a Closed Session (11:13 a.m.) in the Boardroom of the SunTrust Building at 120 East Baltimore Street for the purpose of, and pursuant to:

1. to discuss the appeal of Kim T. Marks pursuant to State Government Section 10-503(a)(1)(iii), quasi-judicial function.

The Trustees present included:

Peter Franchot, Vice-Chairman	William D. Brown	James M. Harkins	Sheila Hill
Morris L. Krome	F. Patrick Hughes	Theresa Lochte	Robert W. Schaefer
Thurman W. Zollicoffer, Jr.		R. Dean Kenderdine, Secretary	

The Trustees that participated via telephone included:

Nancy K. Kopp, Chairman	David S. Blitzstein	Harold Zirkin
-------------------------	---------------------	---------------

Agency Staff members attending included:

Deborah Bacharach	Margaret Bury	Howard Pleines	Janet Sirkis	Patrice Sowah
-------------------	---------------	----------------	--------------	---------------

John Kenney and Melissa Moye were also in attendance.

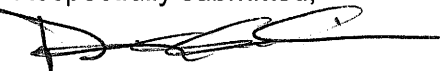
The Board ended its closed session at 11:30 a.m. and returned to regular session to complete the agenda.

REGULAR SESSION

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

- Kim T. Marks 11. The Board voted to REMAND the case to the Medical Board for further fact finding.
- Adjournment 12. There being no further business before the Board, the meeting adjourned at 11:31 a.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board