

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

September 16, 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:

Nancy K. Kopp, Chairman	Peter Franchot, Vice-Chairman	David S. Blitzstein	William D. Brown
John Douglass	T. Eloise Foster	James M. Harkins	Sheila Hill
F. Patrick Hughes	Morris L. Krome	Theresa Lochte	Robert W. Schaefer
Harold Zirkin	Thurman W. Zollicoffer, Jr.	R. Dean Kenderdine, Secretary	

Agency Staff members attending included:

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

Also attended by:

Bill Anderson	Dylan Baker	Lisa Campbell	John Kenney	Randy Mickens
Melissa Moye	Michael Rubenstein			

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

Carla Goldman Katzenberg Jill Leiner

Minutes 1. On a motion made, Mr. Hughes and seconded by Mr. Schaefer, the Board approved the minutes of the August 19, 2008 regular meeting.

Investment Committee Report 2. Mr. Schaefer, Chairman of the Investment Committee, reported on the meeting held on September 12, 2008.

Mr. Schaefer reported that Mr. Feinstein made two staff announcements. He informed the Committee that Mr. John Greenberg resigned from the Agency to become the Chief Investment Officer of the Pension Benefit Guaranty Corporation. Mr. Perry thanked Mr. Greenberg for his service to the Agency and noted that Mr. Greenberg's departure was a great loss to the Agency. Mr. Feinstein also introduced the Division's newest employee, Senior Investment Analyst Steve Reilly. He noted that Mr. Reilly would initially be working with the Division's private markets team.

Mr. Schaefer reported that the Committee discussed Mr. Perry's memorandum regarding currency management. The Committee supported the CIO's recommendation to select a potential manager to provide assistance to staff in monitoring and addressing foreign exchange exposure within the portfolio. When such a manager is selected, the manager will be presented to the Committee for a further discussion of issues including the services the manager would provide and fee arrangements for the Committee's approval prior to hiring.

Mr. Schaefer reported the Committee received an update from Staff regarding the benchmark for private equity. Staff and Ennis Knupp are working together to recommend the most appropriate benchmark for this allocation, as well as reviewing all other benchmarks for any recommended revisions. Staff and Ennis Knupp plan to present a report

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

September 16, 2008

Investment
Committee
Report

to the Committee no later than its November meeting. Ennis Knupp also presented its 2nd Quarter Performance Report, Semi-Annual Manager Review, and TAA Report. Ennis Knupp also provided updates on PIMCO and Western Asset Management's core plus portfolios.

Mr. Schaefer reported that Mr. Perry does not intend to use the tactical asset allocation (TAA) program. Mr. Perry explained that his focus in managing the portfolio is to implement and maintain close alignment with the Board's long-term strategic asset allocation. In light of this, there was consensus that Ennis Knupp does not need to continue preparing quarterly reports regarding the TAA program.

Mr. Schaefer reported that Staff and Ennis Knupp presented recommendations regarding revisions to the System's strategic asset allocation. Mr. Perry provided an overview of staff's recommendations. Ms. Bernard and Mr. Cummings of Ennis Knupp provided comments regarding Mr. Perry's recommendations.

On a motion made by Mr. Schaefer and seconded by Mr. Hughes, the Board voted to:

1. Increase the target allocation to private equity to 15%. This increase will be funded from the Public Equity program.
2. Eliminate the home country bias in the Public Equity program, with the understanding that the actual percentages allocated to the three components of the Private Equity program (U.S., international, and global) will vary, depending upon (i) the uninvested portions of the Private Equity, Real Return and Absolute asset classes and (ii) the manner in which the CIO allocates assets within the Public Equity program.
3. Increase the target allocation to the Real Return asset class to 10% and broaden the sub-asset categories within the asset class. The increase will be funded with 3% coming from public equities and 2% coming from fixed income. Any uninvested portion will be invested in public equities. The real return asset class may include Treasury Inflation Protected Securities, global inflation linked bonds, commodities, energy and energy-related assets, timber, other natural resources, and infrastructure. Multi-asset class portfolios with a real return mandate may also be included. The Real Return asset class may include both public and private investments.
4. Change the name of the Opportunity Allocation to the Absolute Return asset class and increase the target allocation to 10%. Any uninvested portion will be invested in public equities.
5. Reduce the fixed income allocation from 17% to 15% and allocate up to three percentage points of the fixed income allocation to global fixed income.

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

September 16, 2008

Administrative
Committee
Report

3. Mr. James Harkins, Chairman of the Administrative Committee, reported on the meeting held on September 9, 2008

Mr. Harkins reported that under the new procedures that the Board has agreed to follow for hearing disability cases, each Trustee assigned to a specific month's appeals is to find his/her replacement if unable to attend the assigned meeting. Patrice Sowah, Executive Assistant, will be responsible for obtaining the replacements when a Trustee is unable to fulfill his/her obligation.

Mr. Harkins reported that Steve Cichelli, the MPAS Project Director gave an update on the MPAS-1 project. He indicated that overall he was cautiously optimistic for the project meeting its expected delivery dates and revised ultimate go-live date of 07/23/2010.

Mr. Harkins reported that DoIT has given a generally favorable report to the legislature about the improved current state of MPAS-1, as now on-track, and indicated that DoIT supports MPAS-1 with its revised schedule for the July 23, 2010 go-live date, and a revised estimate of completion cost with a caution to continue to closely monitor the project.

Mr. Harkins reported that the Committee received a Member Services performance update.

At Mr. Harkins' request, Dean Kenderdine, Melody Countess, and Dennis Krysiak gave the Board an overview of the FY 2010 budget.

On a motion made by Mr. Harkins and seconded by Ms. Hill, the Board voted to approve the FY 2010 budget. Mr. Krome and Ms. Foster abstained from voting.

At Mr. Harkins' request, Mr. Kenderdine and Mr. Pleines provided an overview of the 2009 legislative proposals. Mr. Pleines overview included the following:

- **Corridor Funding:** Return to full actuarial funding in a timely and rational manner for the Employees' and Teachers' Systems.
- **Manger Fee Cap:** Eliminate the last remaining cap for investment manager fees (currently 30 basis points).
- **Title 38 – Militia Law:** Revise Title 38 to incorporate provisions of the Uniformed Services Employment and Reemployment Rights Act that require granting military credit for active/inactive duty training in a Guard or Reserve Unit; providing State death benefits to members on active duty as required under the Heart Act of 2007; and clarifying language relating to military service that occurs during membership and prior to membership.
- **Five Year Transfer Restriction:** Amend Title 37, Section 37-203(f)(3) to clarify that only service retirees, and not disability retirees, are subject to the five-year restriction on the benefits paid on transferred service.
- **Trustee Education and Attendance:** Alter the provisions relating to the annual required investment, fiduciary, and/or governance training to permit that training to be conducted out-of-state and by individuals

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

September 16, 2008

Administrative
Committee
Report

who may be associated with external managers or consultants hired by the System; expand excused absences for Board meeting attendance requirement.

- **Title 31 – Participating Governmental Units:** Amend the definition sections for participation in the Law Enforcement Officers’ Pension System and the Correctional Officers’ Retirement System so that the definition of “local pension system” includes all State systems.
- **Federal Tax Issues:** Amend pension law in preparation for filing requests with the Internal Revenue Service for tax-qualified determination letters for each plan.
- **Dissemination of Information:** Amend State law to permit Retirement Agency to monitor telephone conversations within Member Services (Counseling) for quality control and training purposes.

On a motion made by Mr. Harkins and duly seconded the Board voted to approve the legislative package, **with the exception of Corridor Funding**. On a motion made by Mr. Harkins and seconded by Ms. Hill the Board approved the 2009 legislative proposal for Corridor Funding. Ms. Foster opposed the Corridor Funding proposal.

Mr. Harkins reported the Agency is proposing to amend the regulation for waiving the one-year filing requirement for transferring service. The initial regulation requiring the secretary of a principal department to verify the reason for the employer’s misinformation or mishandling of the transfer claim has proved impractical. The proposal will also allow the appointing authority, which has direct responsibility over the individual, to certify in writing the employer’s error in the transfer process. Mr. Harkins reported that this matter was deferred until the October Administrative Committee meeting.

Mr. Harkins reported that due to the increase in private equity and real estate investments being made by the Agency, an additional attorney is required to review and process all contracts involved with each investment in a timely manner. The position is required immediately so the Agency is requesting that the Board seek a position (PIN) through the Board of Public Works (BPW) under the Rule of 50 that gives the BPW the right to establish up to 50 positions per year.

On a motion made by Mr. Harkins and seconded by Ms. Hill the Board voted to approve an additional attorney position being sought via the BPW under the Rule of 50.

Audit
Committee
Report

4. Mr. F. Patrick Hughes reported on the Audit Committee meeting held on August 19, 2008.

Mr. Hughes reported that the Committee was briefed on the Attorney General’s Opinion on Agency audits of Local Government Agencies:

- A.G.’s Opinion confirms the Agency’s position that it is precluded from recovering duplicate retirement contributions included in State and local aid.
- Open Issue – Must the Agency audit to recover contributions associated with Teachers’ Systems’ members paid from Federal

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

September 16, 2008

Audit
Committee
Report

grants?

- Treasurer Kopp requested that the Agency obtain official feedback from the Office of Legislative Audits on the issue.

Mr. Hughes reported that the Committee was briefed on the status of Local Government Audits.

- An RFP for the audits of 147 local government employers with members in the Systems has been reviewed by the Department of Budget & Management.
- There were 29 non-PGU employers added to the population to be audited. These represent employers who do not participate in the Employees' Systems, but have Teachers' Systems members.

Mr. Hughes reported that the Committee was advised on a request by Internal Audit for an Advice of Counsel regarding deferred retirement status for participants of the Optional Retirement Program.

- The issue involves granting immediate vesting status for service in the Systems to individuals who later enroll in the Optional Retirement Program, but do not meet normal vesting requirements.
- Ms. Bury told the Committee that a prior Advice of Counsel supports the Agency's current practice.
- Legislation may be required to codify current practices.

Mr. Hughes reported that the Committee was briefed on the Agency's use of "continuous auditing techniques". Continuous auditing techniques involve periodically testing known key controls to determine if they are in place and working as designed.

Mr. Hughes reported that the Committee received the following reports for completed audits:

- Transfer of Files Containing Sensitive Personal Data
- Invalid Social Security Numbers
- Invalid Dates of Birth
- Military Service Credit

Mr. Hughes reported that the Committee was updated on audits in progress. There are seven (7) ACL projects in progress, including Deferred Retirements and Non-U.S. Resident Retirees.

The Committee was provided with the Management Letter issued for a prior audit of the Manual Check Process.

- Management Letters are issued to communicate to management any items that are not included in an audit report because they are not considered to be significant control weaknesses.
- Ms. Bury advised the Committee that some recommendations in the Management Letter cannot be implemented because they would require changes to the Agency's legacy system, but would be considered when the system conversion is complete.

Mr. Hughes reported that the Committee received the Internal Audit Division's FY 2010 budget request. Three new positions have been requested, and staff training funds have increased. A large portion of the budget deals with audits of local government employers.

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

September 16, 2008

Audit
Committee
Report

Mr. Hughes reported that the Committee received and approved the Agency's Audit Plan for FY 2009. The Audit Plan is based on Internal Audit's Agency-wide risk assessment.

Mr. Hughes reported that the Committee approved a new format for internal audit reports. The new format provides an overall rating of audit objectives. It maps the Agency's risk exposure for issues described in the report on a "heat map". Issues identified in "red" indicate items that could be high risk or high impact, and require immediate action. The Committee decided to receive future audit reports by email in an electronic format.

Executive
Director's
Report

5. Mr. R. Dean Kenderdine reported that the Agency is in the process of hiring a new MPAS employee.

Mr. Kenderdine reported on the key elements of the proposed FY2010 budget.

Mr. Kenderdine reported that the legislative cap for FY2010 is \$34.6M. The Agency has received a FY2010 Budget Target from the Department of Budget and Management of \$25.7M.

Mr. Kenderdine reported that, keeping in mind the Agency's priorities and objectives, the FY2010 baseline operational budget recommendation is \$26.9M. He also recommended \$4.4M for MPAS project development initiatives. The combined baseline FY2010 budget totals \$31.3M.

Mr. Kenderdine reported that the major baseline adjustments include \$133,000 for investment staff due diligence and conferences; and, \$459,000 to update, design, and print all Plan Handbooks.

Mr. Kenderdine reported on the unfunded initiatives, which included:

- \$106,673 – Information Systems, two (2) positions to support operation of the MPAS.
- \$220,252 – Investments, three (3) additional Senior Investment Analyst positions for the Public and Private Market teams.
- \$259,357 – Benefits Administration, five (5) additional positions in the Data Control Unit (Administrative Specialist III and four Accountant II).
- \$214,791 – Internal Audit, Internal Audit Supervisor and two Internal Auditors, to provide for timely risk assessments and internal control reviews of critical Agency processes.
- \$99,972 – Information Systems, to convert all of the long-standing state contractual positions into permanent positions (3 Systems Development individuals – part of the Information Systems organization for approximately 3 years, and 2 Data Entry individuals – part of the organization for over 7 years).
- \$55,503 – Finance, one (1) Accountant Advanced position to handle a steady increase in the volume and complex financial and accounting functions.

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

September 16, 2008

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| Executive
Director's
Report | Mr. Kenderdine reported on the MPAS FY2010 budget: <ul style="list-style-type: none">▪ \$1,384,000 – Saber/ change orders▪ \$1,500,000 – Saber/ operation & maintenance▪ \$74,000 – MPAS software maintenance▪ \$1,200,000 – MPAS-2 data requirement gathering▪ \$247,000 – PMO contract |
| Securities Litigation
Committee | 6. Nancy K. Kopp, Chairman, appointed the following Securities Litigation Committee members: <ul style="list-style-type: none">F. Patrick HughesRobert W. SchaeferHarold ZirkinThurman W. Zollicoffer, Jr. |
| Medical Board
and
Supplemental
Medical Board
Reports | 7. 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 <u>with the exception of Barbara Johnson</u> . The Medical Board's conclusions were reached after its review of the documentation in the file. |
| Clayton R. Howell | 8. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Clayton R. Howell for <u>DISABILITY</u> 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. Howell, with his attorney Mr. Michael Davey, 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. |
| M. Ann Blanchard | 9. Case was withdrawn because the claimant withdrew her retirement funds; thus she was no longer eligible for benefits. |
| Vickie L. Figert | 10. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Vickie L. Figert for <u>DISABILITY</u> 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. Figert, with her attorney Mr. Dennis Gottesman, 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. |

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

September 16, 2008

- Virginia D. Hoffman 11. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Virginia D. Hoffman 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. Hoffman 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.

- Nickolos W. Soffos 12. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Nickolos W. Soffos 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. Soffos 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 (1:07 p.m.) in the Boardroom of the SunTrust Building at 120 East Baltimore Street for the purpose of, and pursuant to:

1. to discuss the appeals of Clayton R. Howell, Vickie L. Figert, Virginia D. Hoffman, and Nickolos W. Soffos pursuant to State Government Section 10-503(a)(1)(iii), quasi-judicial function.

The Trustees present included:

T. Eloise Foster	David S. Blitzstein	William D. Brown	John W. Douglass
James Harkins	Sheila Hill	F. Patrick Hughes	Morris L. Krome
R. Dean Kenderdine, Secretary			

Agency Staff members attending included:

Deborah Bacharach	Rachel Cohen	Kenneth Reott	Janet Sirkis	Patrice Sowah
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The Board ended its closed session at 1:30 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**

September 16, 2008

REGULAR SESSION

During the closed session, the Board approved the closed minutes of the August 19, 2008 meeting and reviewed and decided on the following disability appeals:

- Clayton R. Howell 13. The Board voted to **ACCEPT** the Administrative Law Judge's Proposed Decision and **DENY** Mr. Clayton R. Howell's request for disability benefits.
- Vickie L. Figert 14. The Board voted to **ACCEPT** the Administrative Law Judge's Proposed Decision and **DENY** Ms. Vickie L. Figert's request for disability benefits.
- Virginia D. Hoffman 15. The Board voted to **ACCEPT** the Administrative Law Judge's Proposed Decision and **DENY** Ms. Virginia D. Hoffman's request for disability benefits.
- Nickolos W. Soffos 16. The Board voted to **REJECT** the Administrative Law Judge's Proposed Decision and **GRANT** Mr. Nickolos W. Soffos' request for accidental disability benefits.
- Adjournment 17. There being no further business before the Board, the meeting adjourned at 1:31 a.m.

Respectfully submitted,

R. Dean Kenderdine
Secretary to the Board

RDK/pws