

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

November 18, 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 9:15.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	Major Morris Krome	Theresa Lochte	Robert Schaefer
Harold Zirkin	Thurman W. Zollicoffer, Jr.	R. Dean Kenderdine, Secretary	

Agency Staff members attending included:

Deborah Bacharach	Anne Budowski	Margaret Bury	Steve Cichelli	Rachel Cohen
Melody Countess	Robert Feinstein	Ira Greenstein	Dennis Krysiak	SheryInn Matesky
Mansco Perry, III	Howard Pleines	Harvey Raitzyk	Kenneth Reott	Brian Rowe
Fred Semko	Janet Sirkis	Patrice Sowah	Toni Voglino	

Also attended by:

Dylan Baker	Lisa Campbell	John Kenney	Melissa Moye	Michael Rubenstein
Bill Anderson	Michael Halpin	Fiona Liston	Margaret Tempkin	Randy Mickens
Robert Palumbi	Douglass Rowe	James Baughman		

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

Jill Leiner	Carla Katzenberg	Cassie A. Kasulk-Wood	George J. Gottesman	Laverne Stewart
Gerard P. Uehlinger, Esq.				

- |                             |   |
|-----------------------------|---|
| Minutes                     | 1. On a motion made by Mr. Franchot and seconded by Ms. Hill, the Board approved the minutes of the October 21, 2008 regular meeting.   |
| Investment Committee Report | 2. Mr. Schaefer, Chairman of the Investment Committee, reported on the meeting held on November 14, 2008.<br><br>Mr. Schaefer reported that the Committee unanimously approved the October 10, 2008 open meeting minutes.<br><br>Mr. Schaefer reported that the Committee received educational presentations on infrastructure investing from Ennis Knupp and PCA Real Estate Advisors, Inc. / Partners Group. In introductory comments, it was noted that in September, 2008, the Board of Trustees approved a new asset allocation that increased the target allocation for real return assets from 5% to 10% and included infrastructure investments as one of several types of permitted investments. The purpose of the presentations was to present updated information to the Committee regarding infrastructure investing in today's market.<br><br>Mr. Schaefer reported that there was extensive discussion of the merits and risks associated with infrastructure investing. At the conclusion of that discussion, Mr. Schaefer reported that he urged caution to the investment staff as they considered infrastructure investment. Mr. Perry concurred, noting that infrastructure is but one component of the real return allocation and reiterated that staff intends to proceed prudently with its efforts to build out this component of the real return allocation. |

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Report

Mr. Schaefer reported that Mr. Kenderdine presented a study by Ennis Knupp regarding other public pension plans use of economically targeted investment (“ETI”). He also summarized a study of “targeted” private equity investment programs that the International Limited Partners Association had recently completed. He explained that he has taken these steps in light of recent expressions of interest in having the System invest in the State’s technology sector. Suzanne Bernard provided the Committee with a summary of the findings of Ennis Knupp’s survey.

Mr. Schaefer reported that the investment staff will continue to respond to requests for meetings with the aforementioned parties, to study this topic by obtaining additional information regarding other states’ programs, and update the Committee regarding its findings in this area.

Mr. Schaefer reported that the Committee received Ennis Knupp’s 3<sup>rd</sup> Quarter Performance Report for the System and information regarding the System’s 3<sup>rd</sup> quarter rankings in the Mellon trust fund universe. Ennis Knupp presented its monthly Flash Report for the System and a Financial Markets Update.

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

- September 30 Performance Report
- Quarterly TUCS Results
- Sudan Divestment Report
- Quarterly PE Performance Report
- Quarterly PE & RE Updates
- Quarterly Securities Lending Report
- Quarterly Broker Commission Reports
- Quarterly ORP Performance Report
- Quarterly OPEB Update
- Manager Meeting Report

Mr. Schaefer reported that at the October Investment Committee meeting, Mr. Perry presented a recommendation to select a potential manager to provide assistance to staff in monitoring and addressing foreign exchange exposure within the portfolio. The Committee supported the CIO’s recommendation, but asked that when such a manager is selected, the manager 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. The investment staff has not yet selected a manager.

Mr. Schaefer reported that Ennis Knupp and Record Currency Management presented to the Committee additional information regarding currency management.

Mr. Schaefer reported that after the presentations, the Committee discussed the topic further with Mr. Perry and Ennis Knupp. Mr. Perry summarized the investment staff’s recommendation that the System create a currency management program that focuses on asset value protection, rather than purely passive or active currency management.

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Ennis Knupp concurred with Staff's recommendation. The Committee approved staff's recommendation on a vote of 10-2. Mr. Jennings abstained because he was not involved in the educational sessions held prior to his commencement of service as a public member of the Committee. Messrs. Shaner and Topping opposed the recommendation.

On a motion made by Mr. Schaefer, and seconded by Ms. Hill, the Board voted to create a currency management program focused on asset value protection.

Mr. Schaefer reported that the committee considered changes to the System's asset class benchmarks. Prior to the discussion, Mr. Kenderdine took the opportunity to note that decisions regarding benchmarks that are directly related to the System's performance and therefore directly related to the CIO's compensation. Statute precludes the CIO from participating in Board discussions related to compensation. However, Mr. Kenderdine stated that it would be impossible for Mr. Perry not to talk about benchmarks with the Committee, as it is a critical part of his job. With this reminder, Ennis Knupp and Staff proceeded to present their recommendations on appropriate benchmarks for the System's asset classes to the Committee.

Mr. Schaefer reported that Ennis Knupp recommended that the Committee adopt the following indices as the passive benchmarks for measuring the implementation of the System's asset class strategies:

Asset Class	Proposed Benchmark
U.S. Equity	Russell 3000 Index
Broad Non-U.S. Equity	MSCI All Country World Ex-U.S. GIMI Index
Global Equity	MSCI All Country World GIMI Index
Fixed Income	LB Universal Index (Citigroup World Government Bond Index for any global bond allocation)
Real Return	CPI + 300 basis points with a maximum total benchmark return of 8%
Real Estate	NCREIF Open End Diversified Core Equity (ODCE) Index, DJ Wilshire RESI Index, and FTSE EPRA/NAREIT Global Real Estate Index Series weighted according to respective holdings
Private Equity	A weighted average of Venture Economics average, vintage year peer returns
Absolute Return	Citigroup 3-Month Treasury Bills + 400 basis points

Mr. Schaefer reported that the investment staff concurred with Ennis Knupp's recommendations regarding the benchmarks proposed for the public equity and fixed income asset classes. However investment staff recommended that the Committee defer any action regarding benchmarks for the alternative asset classes - private equity, real return, and absolute return – until the Committee's next meeting in February, 2009. After additional discussion, the Committee agreed to defer action regarding the alternative asset class benchmarks and the real estate asset class benchmark to the February 2009 meeting.

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On a motion made by Mr. Schaefer, and seconded by Mr. Franchot, the Board voted to accept the following five asset class benchmarks for public equity and fixed income:

U.S. Equity	1. Russell 3000 Index
Broad Non-U.S. Equity	2. MSCI All Country World Ex-U.S. GIMI Index
Global Equity	3. MSCI All Country World GIMI Index
Fixed Income	4. LB Universal Index 5. Citigroup World Government Bond Index for any global bond allocation

Mr. Schaefer reported that the investment staff presented recommendations to increase the System's strategic allocation to cash. In addition the investment staff made recommendation for the replacement of uninvested real return assets. Additionally, the investment staff presented recommendations regarding ranges for the System's asset class targets.

Mr. Schaefer reported that the investment staff first presented its recommendation to increase the target allocation to cash from 1% to 3%. Mr. Perry explained that in order to pay benefits and meet funding requirements for its investments, staff has been directing State Street Global Advisors (SSgA) to liquidate a portion of the index funds at least once a month. Increasing the cash target would allow both staff and SSgA to better manage cash flows. This increase would be funded from the public equity asset class. The Committee unanimously decided to accept Staff's recommendation to increase the target allocation to cash to 3%.

On a motion made by Mr. Schaefer, and duly seconded, the Board voted to increase the target allocation to cash to 3%.

The investment staff then presented its recommendation to change how the uninvested portion of Real Return is invested. Mr. Perry stated that after reviewing the allocation to cash, as well as other components of the System's asset allocation, Staff believes that it would be more prudent to decrease the System's reliance on public equities. Accordingly, staff recommended that the uninvested portion of the Real Return allocation be invested in fixed income, rather than public equities. This minor change will soften the System's reliance on public equities as staff proceeds to reach the Real Return target.

The Committee unanimously agreed to accept Staff's recommendation to invest the uninvested portion of the Real Return allocation in fixed income.

On a motion made by Mr. Schaefer and seconded by Mr. Hughes, the Board approved investing the uninvested portion of the Real Return allocation in fixed income.

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Mr. Schaefer reported that the investment staff then presented its recommendations regarding asset class ranges. Staff noted that the actual amounts and percentages of total fund assets that are invested changes constantly. As a result, it is very unusual for the asset allocation to be exactly the same as the target at any given time.

1. Staff recommended that the following asset class ranges be adopted for the Public Equity, Fixed Income, Real Return and Absolute Return asset classes:
  - a) For any asset class target that is less than 15% except cash, the range would be +/- 2 percentage points; this would apply to Real Return and Absolute Return currently.
  - b) For any asset class target that is between 15-30%, the range would be +/- 3 percentage points; this would apply to Fixed Income currently.
  - c) For any asset class target that is over 30%, the range would be +/- 4 percentage points; this would apply to Public Equity currently.
2. For the cash asset class (with its target of 3%), the range would be zero to 4%.
3. For Private Equity and Real Estate, given their illiquidity, it may not be optimal to automatically require rebalancing should target allocations be exceeded. In the unlikely event that targets for these asset classes are exceeded, staff will initiate discussions with the Investment Committee.

Mr. Schaefer reported that it was also noted that in the short-term, as the investment staff implements changes to the portfolio, the actual portfolio asset mix should approximate the transitional target. Over the very long-term, as committed dollars are invested in private equity and real estate, the actual asset mix and the transitional target should approach the long-term target. After discussion, the Committee approved staff's recommended asset allocation range changes. Mr. Topping cast a dissenting vote.

On a motion made by Mr. Schaefer and seconded by Ms. Hill, the Board approved the asset class ranges set forth in items 1 – 3 above.

Mr. Schaefer reported that at the September Investment Committee meeting, the Committee adopted a recommendation from Staff and Ennis Knupp to create a 10% allocation to Absolute Return strategies. The Committee asked staff and Ennis Knupp to present additional information defining this asset class and the types of strategies that will be used. Ennis Knupp presented a report. Investment staff noted that it concurred with Ennis Knupp's definition of the asset class and listing of the types of strategies that could be used:

- Global tactical asset allocation
- Macro managers
- Multi-strategy hedge funds
- Long/short market-neutral managers
- Broad-based hedge fund of funds
- Distressed debt managers
- Convertible arbitrage managers
- Merger arbitrage managers
- Fixed income arbitrage managers

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Mr. Schaefer reported that during the discussion, Mr. Perry stated that these represented the major strategy types in the asset class but that the list was not exhaustive. In the short term, investment staff will seek Ennis Knupp's advice and counsel regarding prospective managers for the Absolute Return asset class. Longer term, investment staff anticipates conducting a search for a specialty consultant for alternative investments that would work with staff in conducting due diligence, monitoring performance and providing the Board and investment staff with advice. After extensive discussion, the Committee approved the foregoing listing of the types of strategies that could be used in the System's absolute return allocation, with one opposing vote. Major Krome asked that he be recorded as opposing this recommendation as a matter of principle, with respect to the use of hedge funds, and not as a lack of confidence in the CIO.

On a motion made by Mr. Schafer and seconded by Ms. Hill, the Board voted to approve the foregoing listing of the types of strategies that could be used in the System's absolute return allocation.

Executive  
Director's  
Report

3. Mr. R. Dean Kenderdine began his report by welcoming back Marge Bury and Howard Pleines, both of whom had been absent due to illnesses. Mr. Kenderdine reported that the Joint Committee on Pensions would meet on Wednesday, November 19<sup>th</sup> at 2 p.m. in Annapolis, in the Appropriations Committee room. He invited members of the Board who wanted to attend, to do so. Mr. Kenderdine reported that Member Services has continued to meet their customer service standards. Mr. Kenderdine reported that MPAS was on schedule and milestones 6 and 7 are on track to meet the December 26<sup>th</sup> acceptance deadline. Mr. Kenderdine reported that he was preparing a response to the Calvert Institute's paper entitled *Passing the Buck - Maryland's Unfunded Liabilities for State and Local Retirees*.

ORP Plan  
Document

4. Ms. Debbie Bacharach presented the Optional Retirement Program Section 403(b) Plan Document for approval by the Board.

Ms. Bacharach summarized the reasons for the development of the ORP Plan Document, reviewing the memo she provided to the Board at the October 2008 meeting. She indicated that she worked with outside tax counsel, Ice Miller, SRA staff, Assistant Attorneys General representing other Maryland 403(b) plans, and the Assistant Attorneys General representing the universities and colleges to develop this written plan document for the ORP. The signatories to the document will be the Board of Trustees of the System, as the entity selecting and contracting with the vendors, and each of the colleges and universities: (1) the University System of Maryland; (2) Morgan State University; (3) St. Mary's College; (4) the Maryland Higher Education Commission, and (5) 14 community colleges.

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ORP Plan Document

Treasurer Kopp raised a question regarding Section 12.02(d) of the Plan Document, expressing concern regarding SRA being required to deal with any determinations of eligibility for the ORP. Ms. Bacharach responded by stating that eligibility for the ORP is determined by statute. State Personnel and Pensions Article § 30-301 provides that an individual is only eligible, among other requirements, if the individual “is eligible for membership in a retirement system or a pension system.” Only the Agency can make that particular determination, and that is why that provision is in the Plan Document. The employers cannot make that determination, although they will determine “faculty” or “professional” status issues. Ms. Bacharach also indicated that this is an issue that would arise only “as needed” in the event a question arose.

After discussion, Ms. Bacharach agreed that there would be a Memorandum of Understanding with the university(s) or some other documentation that the Agency would not be handling eligibility issues for each applicant on a routine basis.

On a motion made by Major Krome and seconded by Treasurer Kopp the Board approved and adopted the Optional Retirement Program 403(b) Plan Document.

2009 Meeting Dates

5. On a motion made by Treasurer Kopp and seconded by Mr. Brown, the Board approved the following dates for meeting in 2009:

January 20 <sup>th</sup>	February 17 <sup>th</sup>	March 17 <sup>th</sup>
April 21 <sup>st</sup>	May 19 <sup>th</sup>	June 16 <sup>th</sup>
July 21 <sup>st</sup>	August 18 <sup>th</sup>	September 15 <sup>th</sup>
October 20 <sup>th</sup>	November 17 <sup>th</sup>	December 15 <sup>th</sup>

The meetings will be held in the Board room on the 16<sup>th</sup> floor of the SunTrust Building at 120 East Baltimore Street, Baltimore, Maryland. Unless otherwise noted, meetings are scheduled for the 3<sup>rd</sup> Tuesday of each month beginning at 9 a.m.

Cheiron And Mercer

6. Ms. Fiona Liston and Ms. Margaret Tempkin of Cheiron presented an overview of the System’s Actuarial Valuation for the period ending June 30, 2008.

Mr. Douglas Rowe and Mr. James Baughman of Mercer, presented an actuarial review of Cheiron’s valuation.

Mr. Douglas Rowe reported that Mercer verifies Cheiron’s calculation of contribution rates. Mercer found that there were certain errors and/ or shortcuts in the valuation model used by Cheiron, but that the overall impact upon the results was de minimis.

Mr. Douglas Rowe reported that Cheiron uses two techniques for individual entry age normal that Mercer does not ordinarily use.

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Cheiron                    On a motion made by Mr. Brown and seconded by Ms. Hill the Board  
And                            certified the Fiscal Year 2010 contribution rates proposed by the  
Mercer                        System's actuary, Cheiron.

Fiscal Year 2010	
Teachers	
Reflects application of corridor funding	13.15%
Employees	
Reflects application of corridor funding	9.93%
State Police	30.79%
Judges	48.89%
LEOPS	38.63%

Medical Board            7. On a motion made by Mr. Hughes, and seconded by Ms. Hill, the Board  
And                            of Trustees accepted all the reports of the Medical Board in connection  
Supplemental              with applications of members for ordinary, accidental and special  
Medical Board              disability retirement allowances. The Medical Board's conclusions were  
Reports                        reached after its review of the documentation in the file.

**CLOSED SESSION**

The Board met in a Closed Session (11:20 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 session minutes and to discuss the watch list, State Government Article §10-503(a)(1)(i), the exercise of an administrative function;
2. to discuss the purchase of real estate, State Government Article §10-508(a)(5), considering matters related to the investment of public funds.

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	Major Morris Krome	Theresa Lochte	Robert Schaefer
Harold Zirkin	Thurman W. Zollicoffer, Jr.	R. Dean Kenderdine, Secretary	

Agency Staff members attending included:

Deborah Bacharach	Margaret Bury	Rachel Cohen	Melody Countess	Robert Feinstein
Mansco Perry, III	Howard Pleines	Brian Rowe	Janet Sirkis	Patrice Sowah

Also in attendance: John Kenney and Melissa Moye.

The Board ended its closed session at 11:39 a.m. and returned to regular session to complete the agenda.



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**REGULAR SESSION**

- Cassie A. Kasulke-Wood 8. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Cassie A. Kasulke-Wood 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. Cassie A. Kasulke-Wood 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.

- George J. Gottesman 9. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. George Gottesman 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. George 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.

- Laverne Stewart 10. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Laverne Stewart 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. Laverne Stewart 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.

- Linda C. Easton 11. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Linda C. Easton 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. Gerard P. Uehlinger, Ms. Linda C. Easton's attorney, 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.

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**CLOSED SESSION**

The Board met in a Closed Session (12:30 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 Cassie A. Kasulke-Wood, George J. Gottesman, Laverne Stewart, and Linda C. Easton pursuant to State Government Section 10-503(a)(1)(iii), the exercise of a quasi-judicial function.

The Trustees present included:

Peter Franchot	William Brown	Sheila Hill	Major Krome
Theresa Lochte	Robert Schaefer	Harold Zirkin	Thurman Zollicoffer
R. Dean Kenderdine, Secretary			

Agency Staff members attending included:

Deborah Bacharach	Margaret Bury	Rachel Cohen	Janet Sirkis	Patrice Sowah
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The Board ended its closed session at 12:35 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 October 21, 2008 meeting and reviewed and decided on the following disability appeals:

- |                        |     |   |
|------------------------|-----|---|
| Cassie A. Kasulke-Wood | 12. | The Board voted to <b><u>ADOPT</u></b> the Administrative Law Judge's Proposed Decision and <b><u>DENY</u></b> Ms. Cassie A. Kasulke-Wood's request for accidental disability benefits. |
| George J. Gottesman    | 13. | The Board voted to <b><u>ADOPT</u></b> the Administrative Law Judge's Proposed Decision and <b><u>DENY</u></b> Mr. George J. Gottesman's request for accidental disability benefits.    |
| Laverne Stewart        | 14. | The Board voted to <b><u>ACCEPT</u></b> the decision of the Medical Board and <b><u>DENY</u></b> Ms. Laverne Stewart's request for disability benefits.                                 |
| Linda C. Easton        | 15. | The Board voted to <b><u>ACCEPT</u></b> the decision of the Medical Board and <b><u>DENY</u></b> Ms. Linda C. Easton's request for disability benefits.                                 |
| Adjournment            | 16. | There being no further business before the Board, the meeting adjourned at 12:36 p.m.   |

Respectfully submitted,

ORIGINAL SIGNED

R. Dean Kenderdine  
Secretary to the Board

RDK/pws