

BOARD OF TRUSTEES
FOR THE
STATE RETIREMENT AND PENSION SYSTEM
OF MARYLAND

MINUTES OF MEETING

March 19, 2002

The Board of Trustees for the State Retirement and Pension System of Maryland met in the Assembly room of the Treasury Building, 80 Calvert Street, Annapolis, Maryland, at 9:30 a.m. There were present William Donald Schaefer, Acting Chairman, Treasurer Nancy K. Epp, Dr. Nancy S. Grasmick, Arthur N. Caple, Jr., Debra Humphries, William D. Brown (via tele-conference), Carl D. Lancaster, David Rakes, Colonel David B. Mitchell, Major Morris L. Krome, G. Bruce Harrison, and Dr. Ali A. Alemi, George Tydings, Trustees, and Margaret A. Bury, Acting Secretary. Agency Staff members also attending were Deborah Bacharach, Robert Feinstein, and Carla Katzenberg, Assistant Attorneys General, Carol Boykin, Chief Investment Officer, J. Howard Pleines, Director of Legislation, Lawrence Bacon, Thomas Gigliotti, Chief Internal Auditor, Gary Scribner, Chief Information Officer, Eric Harrison, Chief Financial Officer, and Gwen Mulkey, Executive Associate.

Also present were Anthony Proctor, Fiona Liston, Michael Dresser, Ronald Ruffo, and Deborah Auerbach.

Minutes

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On motion made by Dr. Alemi and seconded by Major Krome, the minutes of the special meeting of the Board of Trustees for the State Retirement and Pension System of Maryland, held on February 8, 2002, were unanimously approved.

Mr. Vaughn brought to the Board's attention a correction that needed to be made to the minutes of February 19, 2002. On page 5 of the minutes Ms. Rachael Cohen was erroneously referred to as the attorney for the Agency in the case of Sherry Blank. Ms. Jill Leimer was the attorney for the agency in the case of Ms. Blank.

Additionally, Ms. Deborah Bacharach informed the Board that the citation to the State Government Article on page 9 of the agenda is incorrect. The minutes stated that State government Article Section 10-508 (a)(7) and (8) authorizes the Board to meet in closed session to exercise a quasi-judicial function. The correct citation is State government Article Section 10-508 (a)(7) and (8) authorizes the Board to meet in closed session to obtain legal advice and consult with staff.

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On motion made by Dr Alemu and seconded by Major Krome, the minutes of the special meeting of the Board of Trustees for the State Retirement and Pension System of Maryland, held on February 19, 2002, were unanimously approved as amended

Investment Committee 2
Report

Mr Caple, Chairman of the Investment Committee, reported on the meeting held on March 8, 2002 Attachment A

On motion made and duly seconded the Board voted to unanimously approve the Real Estate Registry

Ms Humphries introduced an asset allocation proposal from the Investment Operations Manual Sub-Committee Ms Humphries referred to the chart attached to the Investment committee minutes which was approved by the Investment Committee in March 2002 Ms Humphries stated that the task by identifying the appropriate targets and ranges for the sub-asset classes had been completed, and that Milliman USA had informed the committee that these modifications will result in a slightly lower risk-adjusted return

The Investment Committee recommended that the Board approve the modifications to the System's asset allocation

On motion made by Ms Humphries and seconded by Mr Rakes, the Board voted unanimously to approve modifications to the System's asset allocation, and reflect the changes in the Investment Operations Manual

Ms Humphries discussed the System's search for a minority investment manager She noted that finals are scheduled for the April 12 2001 Investment Committee meeting She reviewed and recommended the following criteria for the search

- Large-to-mid cap growth or value, with a preference for growth,
- 3-year track record,
- Minimum of \$200 million in assets under management for separate accounts, whereby the System represents no more than 25% of the manager's assets,
- Maximum size of \$1 billion in assets under management for separate accounts,
- No additional funds to the System's existing managers

Dr Alemu asked if there was a legal requirement that necessitated 25% of the managers be minority — He stated that he felt the managers with the best record should be hired and not simply because they were a minority manager Ms Humphries stated that Board historically used this method to hire minority managers and that the performance benchmark would not be lowered for the minority managers Mr Harrison stated that while he supported the search for minority managers he felt the criteria should not prohibit managers with \$1 billion in assets from being included in the search

The Investment Committee recommended to the Board that the expanded criteria for the minority manager's search be approved

On motion made by Ms Humphries and seconded by Mr Caple the Board voted to expand the criteria for a minority manager's search with a vote of nine to three Chairman Schaefer, Treasurer Kopp, Dr Grasmick, Colonel Mitchell, Messrs Caple, Tydings, Lancaster, Rakes and Ms Humphries registered yea votes Dr Alemi, Major Krome, and Mr Harrison registered nay votes

Mr Caple noted that presentations were delivered by Credit Suisse Asset Management and GEM Capital, and no action was taken

Mr Caple advised the Board that a lengthy discussion had ensued over the process of handling manager reviews and terminations Mr Caple noted that several decisions were made regarding the definition and implementation of a Watch List for investment managers

- The Watch List will replace the former policy of annually reviewing managers, who are under performing on a 3-year basis, for possible termination
- The Watch List will be used as a monitoring tool
- It will be available to the Board on a regular basis,

Mr Caple noted that Ms Willard provided the Committee with an update on the search for an investment consultant Finals are scheduled for May 10, 2002 Mr Caple requested that Ms Boykin to send a copy of the time line for the search to all Board members

Mr Caple noted that Ms Boykin provided an update on the Maryland Venture Capital Trust Ms Boykin noted that Mr Lancaster could serve as a voting member of the MVCT Board once he had received an appointment letter from the Governor and once he had been sworn in She noted that the terms of herself and Mr Harrison were due to expire later this year She said that she believed that she and Mr Harrison could continue to serve until they were either reappointed or until a replacement was appointed

The Board accepted Mr Caple's report

Anthony Proctor 3

The Board considered the report of Wayne Brooks, the Administrative Law Judge in connection with the claim of Anthony Proctor, for accidental disability benefits The report included a report by the Medical Board and related medical documentation

The Medical Board denied Mr Proctor's claim for accidental disability retirement benefits based on their determination that the reported accident was not the direct cause the Claimant's disability Mr Anthony Proctor appealed the Medical Board's decision

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Mr Proctor presented his arguments opposing the Agency's position and the Administrative Law Judge's recommendations. Ms Carla Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations and presented a letter from Mr Proctor's employer stating that Mr Proctor was performing his full duties. Following discussion, the Board deferred further consideration to Executive Session.

On motion made by Mr Caple and seconded by Dr Grasmick, the Board voted unanimously to meet in Executive Session to consider the appeal of Anthony Proctor and to receive legal advice and consult with staff. State Government Article Section 10-502(1) authorizes the Board to meet in closed session to exercise a quasi-judicial function. State Government Article Section 10-508(a)(7) authorizes the Board to meet in closed session to obtain legal advice and Section 10-508(a)(8) authorizes the Board to meet in closed session to consult with staff, consultants, or other individuals about pending or potential litigation.

EXECUTIVE SESSION

The Board met in Executive Session at 10:25 a.m. in the Assembly Room of the Louis Goldstein Treasury Building at 80 Calvert Street to consider the appeal of Anthony Proctor and to receive legal advice and consult with staff. All of the persons present at the beginning of the meeting were present in Executive Session except the following: Carla Katzenberg, Anthony Proctor, Michael Dresser, Fiona Liston, Ronald Ruffo, and Deborah Auerbach. The Board adjourned its Executive Session at 11:35 a.m. and returned to regular session to complete the agenda.

Anthony Proctor

The Board considered the record of Anthony Proctor. Following a discussion, Mr Harrison made a motion to remand Mr Proctor's case to the Medical Board for further consideration, there being no second, the motion failed.

On motion made by Major Krome and seconded by Colonel Mitchell, the Board rejected the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and granted Mr Proctor's request for accidental disability retirement benefits with a vote of eight to four. Chairman Schaefer, Dr Grasmick, Colonel Mitchell, Major Krome, Messrs Caple, Tydings, Rakes and Ms Humphries registered yea votes. Treasurer Kopp, Dr Alemi, Messrs Lancaster and Harrison registered nay votes.

On motion made by Mr Caple and seconded by Dr Alemi, the Board unanimously directed that the Chairman of the Board shall be the spokesperson for the system.

On motion made by Mr Caple and seconded by Dr Grasmick the Board directed that a letter be sent to the Attorney General to confirm that the Attorney General would provide a specialized consultant or Legal counsel to the Board if the need arises in cases such as Enron and others

Chairman Schaefer stated that this motion was not to prohibit Board members from answering questions from the press, but noted that when addressing the media the Board members should identify themselves

Executive Director's
Report

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Mr Peter Vaughn stated that the Legislature has been reviewing alternative funding methodologies to legitimize the funding reduction in the FY 2003 Budget Mr Vaughn stated that the actuary has been working with the legislature to develop alternative methods The agency invited Fiona Liston of Milliman USA to update the Board on alternatives currently being studied

Ms Liston reviewed for the Board the funding scenario the Legislature has decided to pursue and enact The funding methodology would change for the Employees and Teachers Systems only For the municipal corporations, State Police, LEOPS and Judges Systems, the current methodology would remain

The revised methodology would freeze the contribution rates at last year's level, as long as the funding ratio of the Employees and Teachers systems remains in the corridor of between 90 and 110% When the funding level goes either above or below the corridor, the contribution rate would be adjusted up or down to reflect the changes The contribution rate would also be increased if a benefit improvement was approved by the General Assembly

After discussion, Mr Lancaster made a motion that the Board take a position, opposing funding changes, since there has been no dialogue between the Legislature and the Board on other viable alternatives and that the Legislature just last year approved the funding changes proposed by the Board Dr Alemi seconded the motion The motion failed with a vote of four to six with one abstention Chairman Schaefer, Treasurer Kopp Colonel Mitchell, Ms Humphries Messrs Caple and Tydings registered nay votes Major Krome, Dr Alemi, Messrs Lancaster and Harrison registered yea votes Mr Rakes abstained

Mr Vaughn asked the Board to refer to page 77 A of the agenda where they would find a memorandum certifying that the only eligible voter has been designated as a candidate for the State Police System retired trustee, Major Morris L Krome Major Krome will serve as Trustee for the four year term beginning on August-1, 2002 --Mr-Vaughn then stated that-upon-the Boards certification, Major Krome-would-be the State Police Retired Trustee --On motion made by Colonel Mitchell and seconded by Dr Alemi the Board voted unanimously to certify Major Krome's nomination as the State Police Retired Trustee and to discontinue the election process for the State Police Trustee

Attachment B

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Finally, Mr Vaughn thanked Ms Bury as well as the senior staff for filling in during his recuperation from back surgery Mr Vaughn stated that he heard many good remarks from Trustees on her dedication and commitment to keep the Agency on course

The Board accepted Mr Vaughn's report

Executive
Committee Report

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Major Kroime, Vice-Chairman of the Executive Committee reported on the regular meeting held March 5, 2002 Attachment C

Major Krome advised the Board that Ms Marge Bury, Mr Ricky Harrison and Mr William Brown had met with Secretary Foster and Mr Alvin Collins of the Governor's Office to discuss the requirement that the Retirement Agency adjust its FY2002 budget by an additional 5% Major Krome noted that the Retirement Agency has been concerned that unless plans are made to deal with possible cuts now, cuts that occur later in the fiscal year would impact on people (furloughs, layoffs, etc)

At the request of the Executive Committee, and the Board, Ms Bury had arranged the meeting with Ms Foster and Mr Collins to explain our position and the need to retain the FY2002 budget without additional cuts Ms Bury indicated that Ms Foster and Mr Collins had been receptive to the Agency's request for the expenditure of our special fund dollars and agreed to exempt the Retirement Agency from the additional 5% cut

Mr Vaughn believes that with the notice from Ms Foster and Mr Collins, the Retirement Agency should proceed with its planned expenditures for FY2002 Col Mitchell expressed his concerns with this approach He indicated that knowing revenue reports for March are to be down again, and knowing his own budget has been altered after so-called commitments were made, he would be very cautious in assuming that the 5% cut will not occur Mr Vaughn stated that if the Agency assumes cuts will occur, the Agency must eliminate services, such as newsletters, which the Board wants to continue Col Mitchell again stated that it would be wise to seek confirmation from Mr Collins on the decisions reached at the recent meeting

He suggested a letter that clearly states that, based on the mutual decision from that meeting, the Retirement Agency is exempt from the 5% cut Mr Vaughn agreed that a letter would be sent to Mr Collins to confirm the Agency's exemption from the probable additional budget cut

During the March 5, 2002 Executive Committee Meeting, the Secretary of General Services, Ms Peta N Richkus, current Chairperson of the United Charities Campaign was introduced, to discuss obtaining additional assistance from the Board of Trustees in distributing information on the Charity Campaign to System retirees Ms Richkus indicated that retirees play an important role within the United Charities program Although only 4.5% of

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State retirees contribute, these individuals give about \$500,000. In the past campaign, retirees reached 95% of the goal that the organization set for their participation. Ms. Richkus stated that with the ability to distribute additional information, participation of retirees should increase impacting significantly on the dollars that they contribute.

Several committee members expressed their concerns with the fees that are associated with the United Charities. They also believed that low participation of retirees was based, in part, on retirees' reluctance to have personal identification information distributed.

The Executive Committee was asked to consider the following: (1) include a letter with the retirement checks prior to the kick-off of the Campaign, (2) establish a link with the System's web site, (3) pre-print forms and mail them to retirees, (4) include an item in Agency Retiree newsletters, and (5) do not include social security numbers on the forms.

The Executive Committee recommends to the Board of Trustees that the Retirement Agency assist United Charities as follows: (1) include a letter with the retirement checks and mail them prior to the kick-off of the Campaign, (2) establish a link on the System's web site, (3) pre-print forms (use Agency hired contractor again for distribution), (4) include an item in the Retiree newsletters, and (5) do not include social security numbers on the forms. The Agency is also directed to ensure that the materials distributed to the retirees clearly state that the Board of Trustees is not endorsing the campaign and that the personal information has not been distributed to or handled by United Charities personnel.

On motion made and duly seconded the Board voted unanimously to assist United Charities as recommended by the Executive Committee.

Major Krome reminded the Board that at the February Board meeting, the Trustees considered a case involving the recovery of pension benefits against a Workers' Compensation payment that occurred after retirement. The Board had expressed interest in determining how the Executive Director had established the repayment period and amount. As a result, staff was asked to bring a request to the Executive Committee for review.

The Committee reviewed the case of Judith A. Kirby. Ms. Kirby retired under accidental disability effective July 1, 1998. In October 2001, the Retirement Agency was able to confirm that Ms. Kirby had received a settlement of \$55,000, \$45,139.00 of which is subject to recovery.

In November 2001, Ms. Kirby wrote to the Retirement Agency requesting that the Agency offset no more than \$100 per month from her monthly retirement payment. She indicated that she had used most of her settlement to pay past bills, both medical and other debts.

Major Krome noted that Ms Kirby is 62 years old, and that she elected the maximum benefit with payments ending at her death. It would take the Retirement Agency 37.6 years to recover the \$45,139 at \$100 per month. The Director determined, based on the information on her account, that a reasonable recovery period would be 6 years. Therefore, during these six years, \$625.63 is to be deducted from Ms Kirby's monthly payment. The Committee found this to be reasonable.

Mr Howard Pleines advised the Executive Committee that as of early Monday morning, March 4, the Retirement agency was tracking 58 pension bills. All Board requested legislation had been introduced and is expected to move through the House without difficulty.

Mr Pleines stated that the Budget Reconciliation Act (SB323/HB424) had its public hearings. The proposal would hold the two largest systems (Employees' and Teachers' Retirement and Pension Systems) at a flat rate as long as the funding ranged from 90% to 110%. For the smaller systems, State Police Retirement System, Judges' Retirement System, Law Enforcement Officers' Pension System, etc., the rates would be determined annually from the Actuary's valuation, as they are now.

Mr Pleines continued by noting that there were two investment bills for the Board to be aware of that would restrict the Board's investment powers. The first, HB1354 applies to the Board's ability to deal in foreign currency. As introduced, the bill prevents the Board from investing in foreign markets, eliminating the ability to purchase foreign stocks or to permit managers to hedge. The second bill, HB1413 is much more restrictive and prohibits trustees from serving on a board or investing in any company in which System assets are invested, requires public disclosure of all investment transactions within 48 hours, requires public disclosure of international companies holding System assets that have come under United Nations sanctions, and provides that the Trustees may not hire a State employee or officer to invest the assets of the System.

On motion made by Major Krome and seconded by Mr Harrison, the Board unanimously voted to oppose HB 1354 and HB 1413.

Major Krome advised the Board that the Retirement Agency is attempting to find an acceptable alternative from using social security numbers in identifying accounts for elections of Trustees.

The Board accepted Major Krome's report.

Mr Howard Pleines reported on the following proposed legislation for 2002 session of the General Assembly. Attachment D

2002 Proposed
Legislation

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Appellate Court
Decisions 7

Ms. Bacharach stated that the Agency received favorable outcomes with respect to three cases, which were appealed in Circuit Court. In the interest of time, Ms. Bacharach asked that the Board members review the decisions at their leisure and contact her with any questions. Attachment E

Special Option 7
Allowance 8

On motion made by Colonel Mitchell and seconded by Major Krome, the Board unanimously approved the selection of Special Option 7 in the following case. This selection is consistent with the Board's policy and is actuarially sound. Attachment F

Teachers' Retirement System

Special Option 7 Allowance for Genevieve DiMatter provides a monthly allowance of \$443.53 to the retiree and a survivorship monthly allowance of \$110.88 to the designated beneficiary, George DiMatter. The allowance is effective March 1, 2002.

Medical Board
Reports 9

The Board, on motion made by Dr. Alemi and seconded by Major Krome, unanimously accepted and approved the reports of the Medical Board in connection with applications of members for ordinary and accidental retirement allowances, with one exception. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants. Attachment G

Supplemental
Medical Board Reports 10

The Board, on motion made by Dr. Alemi and seconded by Chairman Schaefer, unanimously accepted and approved the Supplemental Report of the Medical Board in connection with applications of members for ordinary and accidental retirement allowances. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants. The Supplemental Report of the Medical Board is shown as Attachment H

Cities Business 11

Mr. Harrison discussed the issue of the Ad Hoc Benefit Improvement Sub-Committee created by the Board last November. He believed that because collective bargaining is now used to negotiate benefits, the Committee is no longer needed. After discussion, on motion made by Mr. Harrison and seconded by Mr. Lancaster, the Board voted to disband the Sub-Committee.

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Mr Harrison also informed the Board that the Audit Committee would meet immediately following the Board meeting

Adjournment

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There being no further business, the meeting adjourned at 1 25 pm

Peter Vaughn
Secretary to the Board

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