

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

MINUTES OF MEETING

December 17, 2002

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, at 9 30 a m There were present Chairman William Donald Schaefer, Vice Chairman Nancy K Kopp, Dr Nancy Grasmuck, Arthur N Caple, Jr, Debra Humphries (arrived 10 00 a m), William D Brown, Carl D Lancaster, Colonel David B Mitchell, Major Morris L Krome, G Bruce Harrison, Dr Ali Alemi, and George Tydings, Trustees, and, Peter Vaughn, Secretary Agency Staff members also attending were Margaret A Bury, Retirement Administrator, Deborah Bacharach, Robert Feinstein, Carla Katzenberg, and Jill Leiner, Assistant Attorneys General, Carol Boykin, Chief Investment Officer, Tracey Ray, Deputy Chief Investment Officer, Rick Harrison, Chief Financial Officer, Howard Pleines, Legislative Director, Sherlynn Matesky, Deputy Legislative Director, Thomas Gigliotti, Chief Internal Auditor, Joseph Coale, Public Information Officer, Gary Scribner, Chief Information Officer, and Gwen Mulkey, Executive Associate

Also present were Mary Jo Neville, Maryland State Teachers Association, Anne Gawthrop, Department of Legislative Services, Michael Dresser, Baltimore Sun, Ted Bayer, Syscom, Robert Dezube, of Milliman USA, Theresa Leatherbury of Milliman USA, Brad Smith of Milliman USA, Scott Elkind, attorney for Clara Proctor, Kenneth Gaudreau, attorney for Edward Maycock, Jefferson Turner, Nancy Peters, and Dean Kenderdine, Office of the Comptroller

Minutes

- 1 The Minutes of the regular meeting of the Board of Trustees for the State Retirement and Pension System held on November 19, 2002 were deferred to Executive Session for discussion and correction

2003 Meeting  
Dates

2 On motion made by Mr Brown and seconded by Major Krome, the 2003 meeting dates listed below for the Board of Trustees were approved by the Board Meetings scheduled for January 21, 2003, February 18, 2003, and March 18, 2003, will be held in Annapolis, MD The remainder of the meetings will be held in the Boardroom on the 16<sup>th</sup> Floor at 120 East Baltimore Street The meetings are scheduled for the 3<sup>rd</sup> Tuesday of each month, beginning at 9 30 a m

January 21	July 15
February 18	August 19
March 18	September 16
April 15	October 21
May 20	November 18
June 17	December 16

Clara Proctor

3 The Board considered the report of the Administrative Law Judge in connection with the claim of Clara Proctor, for accidental disability benefits The report included a report by the Medical Board and all related documentation submitted by parties to the Administrative Law Judge

Mr Scott Elknd representing Ms Proctor, presented his client's opposition to the Agency's position and the Administrative Law Judge's recommendations Ms Jill Lerner, 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 Executive Session

Edward Maycock

4 The Board considered the report of the Administrative Law Judge in connection with the claim of Edward Maycock, for accidental disability benefits The report included a report by the Medical Board and all related documentation submitted by parties to the Administrative Law Judge

Mr Kenneth Gaudreau representing Mr Maycock, presented his client's opposition to 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 Following discussion, the Board deferred further consideration to Executive Session

Jefferson Turner 5 The Board considered the report of the Administrative Law Judge in connection with the claim of Jefferson Turner, for accidental disability benefits. The report included a report by the Medical Board and all related documentation submitted by parties to the Administrative Law Judge.

Mr. Turner, representing himself, presented his opposition to 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. Following discussion, the Board deferred further consideration to Executive Session.

Joyce Ellis 6 Mr. Vaughn informed the Board that he received written confirmation that Ms. Joyce Ellis withdrew her appeal for disability benefits and that the case would be closed.

Nancy Peters 7 The Board considered the report of the Administrative Law Judge in connection with the claim of Nancy Peters, for accidental disability benefits. The report included a report by the Medical Board and all related documentation submitted by parties to the Administrative Law Judge.

Ms. Peters, representing herself, presented her opposition to the Agency's position and the Administrative Law Judge's recommendations. 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 Executive Session.

Investment Committee Report 8 Mr. Arthur Caple, Chairman of the Investment Committee, reported on the meeting held on December 13, 2002. Attachment A

Mr. Caple advised the Board that Ms. Katie Burke of State Street Analytics reviewed the performance attribution of the total plan for FY2002 with the Committee. Ms. Burke also provided an update through the quarter ending 9/30/02.

Mr. Caple reported that EnnisKnupp provided an update on their recommendation to terminate AIM, a manager of a former client.

Mr Caple advised that EnnisKnupp explained the format of a performance report, which they will be providing to the System on a quarterly basis. Staff will continue to provide monthly performance reports on a gross basis, and they will no longer include the alphas. Going forward, recommendations for manager terminations by EnnisKnupp will be based upon a variety of factors, and alpha will no longer be used. Based on the above, on motion made by Mr Caple and seconded by Dr Alemu, the Board voted unanimously to amend manager contracts to eliminate alphas as part of the manager benchmarks.

Mr Caple reported on EnnisKnupp's structural recommendations for asset classes. The objective of these structural recommendations is to maximize the likelihood of achieving the plan's return objectives by creating a structure for each asset class, which reflects the benchmark for that asset class. On motion made by Mr Caple and seconded by Dr Grasmick, the Board voted to adopt EnnisKnupp's structural recommendations for asset classes.

Mr Caple noted that EnnisKnupp's recommendation that the passive portion of the domestic equity sector be invested in the Russell 3000 was overturned by the Committee. On motion made by Mr Caple and seconded by Chairman Schaefer, the Board voted unanimously to use the Russell 3000 for indexed domestic equity monies.

Mr Caple advised the Board that the Committee came to a compromise on how much fixed income should be passively managed. On motion made by Mr Caple and seconded by Dr Alemu, the Board voted to approve the Committee's recommendation that 50% of fixed income should be purely passively managed to the Lehman Aggregate Index, and that weightings for other fixed income categories include 48% for core plus and 2% for high yield.

Mr Caple reported that the Committee agreed to place 25% of passive fixed income assets with staff for internal management, with the remaining 75% externally managed. The motion was made by Mr Caple and seconded by Mr Lancaster to place 25% of fixed income assets with staff for internal management with the remaining 75% externally managed. Mr Harrison made an amendment to the motion that 100% of the assets be externally managed, seconded by Dr Grasmick. Mr Lancaster stated there had been extended conversations.

concerning this issue, and that because he did not see where the circumstances were different there was no reason to alter the situation by having the assets 100% externally managed. Mr Tydings motioned that the issue be remanded back to the Investment Committee for further discussion. Ms Humphries stated that she agreed with Mr Lancaster, and did not see reason to move all assets to be managed externally. Dr Grasmuck seconded the motion to defer the issue of the internally versus externally managed funds. The motion passed with the abstention of Mr Caple.

Mr Caple noted that the Committee made a motion to adopt the balance of EnnisKnupp's recommendations. On motion made by Mr Caple and seconded by Major Krome, the Board voted unanimously to adopt the balance of EnnisKnupp's recommendations.

The Board accepted Mr Caple's report.

Executive Director's 9  
Report

Mr Vaughn reported on the following items

Attachment B

Mr Vaughn provided an update on the Joint Committee on Pensions meeting. He stated that the Committee reviewed investment returns, asset allocation and peer performance. Additionally, the Committee reviewed manager fees paid and the criteria for terminating managers and also discussed HB 1354 and HB 1413. Mr Vaughn noted that the Committee questioned the 8% actuarial rate of return and that the Committee felt that it warrants review by the Board with a report back to the JPC.

Mr Vaughn informed the Board that the Agency sent bills out to 151 municipal Employers totaling \$44.8 million dollars.

Mr Vaughn distributed the Independent Auditor's Report for June 30, 2002.

The Class Action Litigation Policy discussion was held over until January.

Mr Vaughn presented the Annual Actuarial Valuation for June 30, 2002 to the Board.

The Board accepted Mr Vaughn's report.

Annual Report

10 Mr Vaughn presented the System's Comprehensive Annual Financial Report for the year ended June 30, 2002 to the Board for approval

The Board requested the report be put on the website as soon as possible

On motion made by Mr Brown and seconded by Dr Alemu the Board unanimously voted to accept and approve the System's Comprehensive Annual Financial Report for the year ended June 30, 2002

Executive Committee Report

11 Mr Brown reported on the Executive Committee meeting held on December 3, 2002 Attachment C

Mr Brown advised the Board that the Agency had received written notice from the Department of Budget and Management that the Agency would not be subject to the budget cuts requested of General Fund State agencies to deal with the FY2003 budget deficit Mr Brown emphasized that the Agency is still subject to the current job freeze and that we are not guaranteed to exemption from other budget reduction measures that may be needed both in the current fiscal year and in FY2004 Mr Brown indicated that the Executive Committee agreed to defer additional discussion on this item until the January meeting

Mr Brown then acknowledged that Robert Dezube, Brad Smith and Theresa Leatherbury of Milliman USA were present The Board agreed to hear from the representatives of Milliman

The Board questioned Mr Smith as to the employment status of Mr Kalwarski Mr Smith stated that Mr Kalwarski had been terminated Mr Lancaster questioned Mr Smith regarding Milliman's decision to limit liability to clients Mr Smith stated that with litigation and insurance costs increasing, Milliman attempted to meet with each client in order to come to a solution to meet high insurance and litigation costs As a firm, Milliman USA decided that it was best not to pay the increased insurance costs, so that costs would not subsequently be passed on to the client

Mr Caple questioned Milliman's dropping the coverage amount so greatly Mr Smith responded that the firm was intending to honor existing contracts as policy, which applies to all public clients not just Maryland

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Major Krome asked how Milliman USA could, in essence, limit their fiduciary responsibility to their clients. Mr. Smith stated that as the actuary, they could not guarantee numbers because so many factors and costs have to be projected. Mr. Smith further stated that as a result, Milliman attempted to identify (on a client to client basis) the amount of cost that the company could bear if an error were made. Mr. Smith added that Milliman USA endeavored to realistically identify the damage that Milliman could cause if they were negligent, and to reflect that amount in the contract of each client.

Finally, Mr. Smith stated that Milliman remains committed to continuing its service to the Retirement Agency now and in the future.

Mr. Gene Kalwarski was also present at the Board meeting and requested a moment to speak with the Board. Ms. Humphries noted that if Mr. Kalwarski was not permitted to speak at the Executive Committee meeting, why should he be permitted to speak before the Board. While several Board members wanted Mr. Kalwarski to address the Board, Chairman Schaefer made the decision to deny Mr. Kalwarski time to address the Board during the meeting.

The Board accepted Mr. Brown's report.

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| Audit Committee Report                                  | 12 | In the interest of time, Mr. Brown asked the Board to review the Audit Committee Minutes at their leisure. <u>Attachment D</u>   |
| Committee and Sub-Committee Reports and Recommendations | 13 | No reports were necessary for the Ad-Hoc Communications Committee and the Ad-Hoc Benefit Improvement Sub-Committee because no meetings were held.  |
| Medical Board Reports                                   | 14 | On motion by Mr. Lancaster and seconded by Mr. Brown, the Board accepted the reports of the Medical Board in connection with applications of members for ordinary, accidental, and special disability retirement allowances. <u>Attachment E</u>             |
| Supplemental Medical Board Reports                      | 15 | On motion by Mr. Lancaster and seconded by Mr. Brown, the Board accepted the supplemental reports of the Medical Board in connection with applications of members for ordinary, accidental and special disability retirement allowances. <u>Attachment E</u> |

On motion made by Major Krome and seconded by Colonel Mitchell, the Board voted unanimously to meet in Executive Session to consider the following matters: deliberations regarding the disability appeals; advice and discussion with staff and counsel regarding Chapman matters and Syscom, and matters involving the investment of public funds. State Govt Article, Section 10-503(a)(1) authorizes the Board to meet in closed session to exercise a quasi-judicial function. 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 or other individuals about pending or potential litigation. Section 10-508(a)(1) authorizes the Board to meet in closed session to discuss personnel matters. Section 10-508(a)(5) authorizes the Board to meet in closed session to discuss the investment of public funds.

### EXECUTIVE SESSION

The Board met in Executive Session at 12:43 p.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider the appeals of Clara Proctor, Edward Maycock, Jefferson Turner, and Nancy Peters, to discuss pending or potential litigation, to obtain legal advice, and to discuss personnel matters. All of the persons present at the beginning of the meeting were present in Executive Session except the following: Mary Jo Neville, Maryland State Teachers Association, Anne Gawthrop, Department of Legislative Services, Michael Dresser, Baltimore Sun, Ted Bayer, Syscom, Robert Dezube, of Milliman USA, Theresa Leatherbury of Milliman USA, Brad Smith of Milliman USA, Scott Elkund, attorney for Clara Proctor, Kenneth Gaudreau, attorney for Edward Maycock, Jefferson Turner, and Nancy Peters. The Board adjourned its Executive Session at 1:15 p.m. and returned to regular session to complete the agenda.

### REGULAR SESSION

On motion made by Dr. Alemu and seconded by Major Krome the Board voted unanimously to ratify actions taken in Executive Session.

Clara Proctor

The Board considered the record of Clara Proctor. Following a discussion, Dr. Alemu made the motion, seconded by Colonel Mitchell to reject the Administrative Law Judge's decision and grant Ms. Proctor accidental disability benefits. The motion failed with the vote of 4 to 5 with one abstention. Colonel Mitchell, Dr. Alemu, Dr. Grasmick and Mr. Tydings registered yea votes. Chairman Schaefer, Vice Chairman Kopp, Major Krome, and Messrs. Brown, and Mr. Lancaster registered nay votes, Ms. Humphries abstained. On motion made by Vice Chairman Kopp and seconded by Ms. Humphries, the Board voted to adopt the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and deny Ms. Proctor's request for accidental disability with a vote of 5 to 4. Chairman Schaefer, Vice Chairman Kopp, Major Krome, and Messrs. Brown, and Lancaster registered yea votes. Colonel Mitchell, Dr. Alemu, Dr. Grasmick and Mr. Tydings registered nay votes.

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Edward Maycock

The Board considered the record of Edward Maycock Following a discussion, on motion made by Major Krome and seconded by Colonel Mitchell, the Board voted to reject the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and grant Mr Maycock's request for accidental disability retirement benefits with a vote of 8 to 2 Chairman Schaefer, Vice Chairman Kopp, Colonel Mitchell, Major Krome, Ms Humphries, Messrs Lancaster, Brown, and Harrison registered yea votes Dr Alemu and Dr Grasmick registered nay votes

Jefferson Turner

The Board considered the record of Jefferson Turner Following a discussion, on motion made by Mr Brown and seconded by Dr Grasmick, the Board voted unanimously to reject the Administrative Law Judge's decision and grant Mr Turner accidental disability benefits

Nancy Peters

The Board considered the record of Nancy Peters Following a discussion, on motion made by Dr Grasmick and seconded by Dr Alemu, the Board voted unanimously to adopt the Administrative Law Judge's decision and deny Ms Peters accidental disability benefits

Supplemental Medical Board Reports

On motion made and duly seconded the Board voted unanimously to accept the supplemental report (presented in Executive Session) of the Medical Board in connection with the application of a member for ordinary disability retirement allowance

Other Business 16

Adjournment 17

There being no further business, the meeting adjourned at 1 30 p m

Peter Vaughn  
Secretary to the Board

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