

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

MINUTES OF MEETING

January 16, 2007

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 9:13 a.m. There were present: Nancy K. Kopp, Vice-Chairman; William D. Brown; John W. Douglass; David B. Hamilton; James M. Harkins; Sheila Hill; F. Patrick Hughes; Morris L. Krome; Carl D. Lancaster; Melissa A. Moyer; and, Patrick O'Shea, Trustees; and, R. Dean Kenderdine, Secretary.

Agency Staff members attending were: Jeannie Abramson; Deborah Bacharach; Anne Budowski; Laura Burns; Margaret Bury; Rachel Cohen; Melody Countess; Robert Feinstein; Brian Feilinger; Vanessa Garrett-Ingram; John Greenberg; Calvin Kiser; Jill Leiner; Vincent Marsiglia; Larry Martin; Sherlynn Matesky; Howard Pleines; Harvey Raitzyk; and, Barbara Swain.

Also attending was Robert Palumbi. Appeal cases present were Bonita C. Ellis; and Scott Elkind, representing Florence Smith.

Minutes

1. On motion made by Mr. Hughes, and seconded by Dr. Moyer, the Board approved the minutes of the December 19, 2006 regular meeting.

Audit  
Committee  
Recommendations and  
Information Items

2. Mr. F. Patrick Hughes, Chairman of the Audit Committee, reported on the meetings held December 19, 2006 and January 16, 2007.

Mr. Hughes noted that for the December 19, 2006 meeting, the Committee accepted the minutes of the June 20, 2006 Audit Committee meeting.

Mr. Hughes noted that Clifton Gunderson, a contractor for Abrams, Foster, Noles and Williams, had completed the financial statement audit. The findings indicated that the biggest areas of inherent risks for the financial statements are investments (proper valuation of complex investments) and benefit payments (adverse publicity and loss of faith by members).

Mr. Hughes reported that Bert Smith & Co. had been contracted to conduct compliance reviews of 38 participating governmental units (PGUs) during the year. It was recommended that the Retirement Agency increase its education to PGUs to reduce faulty reporting.

For the January 16, 2007 meeting, Mr. Hughes stated that the vacancies in the Audit Division are related to the salary restrictions of the State and should be considered as part of the salary review for the

entire Agency as part of the discussion on limited salary setting authority for the Board of Trustees.

Mr. Hughes stated that Mr. Feilinger presented the Audit Plan for calendar 2007, including information on the upcoming audits of Local Educational Agencies last completed about six years ago.

Mr. Hughes stated that the Committee received audit reports related to death benefits processing, member refund processing, benefit statement processing, and death benefit processing – follow-up.

Investment  
Committee  
Recommendations and  
Information Items

3. Mr. Carl Lancaster, Chairman of the Investment Committee, reported on the meeting held January 12, 2007.

On motion made by Mr. Lancaster, and seconded by Mr. O'Shea, the Board agreed to recommend to the Treasurer that the custody contract with State Street Bank and Trust be extended for the final renewal year under the existing contract.

On motion made by Mr. Lancaster, and seconded by Major Krome, the Board approved staff's recommendation (1) to renew the System's Securities Lending Contract with State Street Bank and Trust for one year, commencing February 14, 2007 and ending February 13, 2008; and, (2) to keep the System's cash collateral in the Quality A Fund, but raise the concentration to 30%.

On motion made by Mr. Lancaster, and seconded by Dr. Moye, the Board approved staff's recommendation to exercise the System's first of two one-year renewal options provided under its contract with Altius Associates for the period commencing May 1, 2007 and ending April 30, 2008.

On motion made by Mr. Lancaster, and seconded by Mr. Brown, the Board approved the Corporate Governance Subcommittee's recommendations: (1) to approve staff's continued engagement with companies identified by the ISS Sudan screening service as conducting business operations in the Republic of Sudan; and (2) to approve delivery of the transmittal letter and System's report on investment in companies doing business in Sudan to the Co-Chairmen of the Joint Committee on Pensions in a timely manner.

On motion of Mr. Lancaster, seconded by Mr. Hughes, the Board approved the following recommendations from staff:

(1) to approve the modified guidelines for the Emerging Manager Program presented in Attachment 1 (see Attachment 1 – Emerging Manager Program);

(2) to approve the following modified graduation process: (a) staff, the Program Manager or the System's general investment consultant may nominate an emerging manager for graduation; (b) staff and general consultant conduct due diligence on emerging manager; (c) if staff and general consultant conclude that the emerging manager is suitable for a separate account mandate, staff and general consultant will recommend the emerging manager to the Investment Committee and

Board of Trustees, with the Board retaining full discretion to determine whether to award a separate account mandate to the emerging manager; and, (d) if staff and general consultant conclude that the emerging manager is not yet suitable for a separate account, the emerging manager will remain in the Emerging Manager Program;

(3) to clarify that the System's Key Service Provider Selection Policy will not apply to emerging managers whom the Board graduates from the Emerging Manager Program to a separate account mandate;

(4) to maintain custody for the Emerging Manager Program's assets with the System's master custodian, State Street Bank & Trust Company; and

(5) to direct staff to modify the Investment Policy Manual in accordance with the modifications adopted by the Board of Trustees.

Mr. Lancaster then summarized the proposed supplemental manager search process. On motion made by Mr. Lancaster, and seconded by Mr. Hughes, the Board approved staff's proposals (1) to adopt the supplemental manager search process proposal presented by staff; and (2) to add both the supplemental manager search process and the administrative procedures enumerated in Attachment 2 to the Investment Policy Manual (see Attachment 2 – Supplemental Manager Search Process).

Interim Executive  
Director's Report

4. Mr. Dean Kenderdine indicated that the Agency had on Friday received a request for the City of Cumberland to be included in the System's Pick-Up Program. On motion made by Major Krome, and seconded by Mr. Brown, the Board approved the inclusion of the City of Cumberland in the pickup program within the Employees' Retirement and Pension System.

Mr. Kenderdine indicated that the MPAS project remains on schedule. The Agency is pleased with the new staff Saber has assigned to key positions associated with the project. Mr. Kenderdine also noted that he was finalizing efforts to hire a project manager for MPAS and a Chief Information Systems Officer. He hoped the candidates would accept the offers and be approved within a week.

Mr. Kenderdine indicated that the Agency's budget hearings are at 1 p.m. on Tuesday January 23 in the Senate Budget & Taxation Committee Room and at 1 p.m. on Friday January 26 in the House Appropriations Committee Room.

Medical Board  
Reports

5. On motion made by Mr. Brown, and duly seconded, the Board accepted the reports of the Medical Board in connection with applications of members for ordinary, accidental and special disability retirement allowances. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants.

Supplemental Medical Board Reports

6. On motion made by Mr. Hughes, and seconded by Dr. Moye, the Board accepted supplemental reports of the Medical Board in connection with applications of members for ordinary, accidental and special disability retirement allowances. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants. Major Krome voted against the motion in response to concerns raised by the employer on one specific case. The Administrative Committee has been asked to review the issue.

On motion made and duly seconded, the Board voted unanimously to meet in Executive Session to discuss an issue involving the Optional Retirement Program, the Bridgewater Associates investment recommendation, and a real estate investment, pursuant to State Government Article, Section 10-508(a)(5), which authorizes the Board to meet in closed session to consider the investment of public funds; and a personnel matter, pursuant to State Government Article 10-508(a)(1).

#### EXECUTIVE SESSION

The Board met in Executive Session at 9:45 am. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider investment issues. There were present: Nancy K. Kopp, Vice-Chairman; William D. Brown; John W. Douglass; David B. Hamilton; James Harkins; Sheila Hill; F. Patrick Hughes; Morris L. Krome; Carl D. Lancaster; Melissa Moye; and Patrick O'Shea, Trustees; and, R. Dean Kenderdein, Secretary. Agency Staff members attending were: Deborah Bacharach; Anne Budowski; Laura Burns; Margaret Bury; Rachel Cohen; Robert Feinstein; John Greenberg; Jill Leiner; Sherlynn Matesky; Howard Pleines; and Barbara Swain. For discussion of the personnel issue, only the trustees were present.

The Board ended its closed session at 10:15 a.m. and returned to regular session to complete the agenda.

#### REGULAR SESSION

On motion made and duly seconded, the Board voted to ratify actions taken in Executive Session.

Linda Capouellez

7. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Linda Capouellez for accidental disability benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

At the request of the claimant, Ms. Capouellez's appeal was heard on the record. The Board deferred further consideration to Executive Session.

Bonita C. Ellis

8. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Bonita Ellis for accidental disability benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Ms. Ellis 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 Executive Session.

Florence Smith

9. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Florence Smith for accidental disability benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Ms. Smith's attorney, Mr. Scott Elkland, 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 Executive Session.

On motion made and duly seconded, the Board voted unanimously to meet in Executive Session to discuss disability appeals, pursuant to State Government Article, Section 10-503(a)(1)(iii), which authorizes the Board to meet in closed session to carry out a quasi-judicial function.

#### EXECUTIVE SESSION

The Board met in Executive Session at 10:36 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider disability appeals. There were present: Nancy K. Kopp, Vice-Chairman; William D. Brown; James Harkins; Sheila Hill; F. Patrick Hughes; Morris L. Krome; Carl D. Lancaster; Melissa Moye, and Patrick O'Shea, Trustees; and, R. Dean Kenderdein, Secretary. Agency Staff members attending were: Deborah Bacharach; Anne Budowski; Margaret Bury; Rachel Cohen; and Howard Pleines.

The Board ended its closed session at 10:40 a.m. and returned to regular session to complete the agenda.

#### REGULAR SESSION

On motion made and duly seconded, the Board voted to ratify actions taken in Executive Session.

Minutes

On motion made and duly seconded, the Board approved the minutes of the December 19, 2006 closed session meeting.

Linda Capouellez

The Board considered the appeal of Linda Capouellez. Following a discussion, on a motion made by Ms. Hill, and seconded by Mr. Harkins, the Board voted to accept the Administrative Law Judge's Proposed Decision and deny Ms. Capouellez's request for accidental disability benefits.

Bonita Ellis

The Board considered the appeal of Bonita Ellis. Following a discussion, on a motion made by Ms. Hill, and seconded by Mr. Brown, the Board voted to accept the Administrative Law Judge's Proposed Decision and deny Ms. Ellis' request for accidental disability benefits.

Florence Smith

The Board considered the appeal of Florence Smith. Following a discussion, on a motion made by Ms. Hill, and seconded by Mr. Douglass, the Board voted to accept the Administrative Law Judge's Proposed Decision and deny Ms. Smith's request for accidental disability.

There being no further business before the Board, the meeting adjourned at 10:45 a.m.

Respectfully submitted,



R. Dean Kenderdine  
Secretary to the Board

RDK/sah

ATTACHMENT 1

EMERGING MANAGER PROGRAM

	As defined in the Investment Policy Manual (IPM)	Summary of Proposed Modifications
<b>Manager Level Limitations</b>	<b>Criteria were similar for all asset classes</b>	<b>Criteria are dependent on asset class</b>
Domestic Fixed Income	<ul style="list-style-type: none"><li>• No more than \$2 billion at the time of funding</li><li>• \$3 billion cap on assets under management</li></ul>	<ul style="list-style-type: none"><li>• No more than \$5 billion at the time of funding</li><li>• \$8 billion cap on assets under management</li></ul>
Developed International Equity and Developed Global Equity	<ul style="list-style-type: none"><li>• At least \$1 billion under management at time of funding</li><li>• \$3 billion cap on assets under management</li><li>• Five-year track record</li></ul>	<ul style="list-style-type: none"><li>• Between \$1 billion and \$3 billion in assets under management at the time of funding</li><li>• \$5 billion cap on assets under management</li><li>• Three-year track record</li></ul>
<b>Program Level Limitations</b>		
	No more than two firms whose principals have less than a three year performance history.	No more than two managers whose firm has less than a three year Global Investment Performance Standards (GIPS) compliant performance history.
		No individual manager shall comprise more than 25% of the total market value of the Account without prior Agency approval.

## ATTACHMENT 2

### **Supplemental Manager Search Process**

First Step - Once an outstanding strategy has been identified, it will be presented to the Investment Committee for possible inclusion in the System's investment program.

- The strategy must be recommended by both the general consultant and staff. A written memorandum must be provided by staff and the general consultant that outlines the research conducted regarding the strategy.
- Staff and the general consultant must research and provide the trustees with information as to how the inclusion of this strategy will change the risk and return profile of the System's total portfolio and the appropriate asset classes.
- Staff and the general consultant must provide the rationale for bringing in one or more managers for a possible assignment instead of following the manager search process set forth in Appendix B of the Investment Policy Manual.
- The Board of Trustees retains full discretion to determine (1) whether the strategy is worth pursuing and (2) if so, whether staff and the general consultant should (a) proceed with the second step of the supplemental search process or (b) follow the 'standard' manager search process set forth in Appendix B of the Investment Policy Manual.

Second Step - If the Investment Committee directs staff and the general consultant to proceed:

- Investment Committee members will be given the opportunity to identify suitable managers employing the approved strategy.
- Staff and general consultant will conduct due diligence on any managers identified by Investment Committee members.
- Staff and general consultant will bring to the Investment Committee for consideration for a possible assignment one or more firms managing to the agreed upon strategy.
- Staff and general consultant will provide written due diligence reviews regarding the firms selected to present to the Investment Committee. These written due diligence memoranda will offer peer comparison information, including a discussion of similar managers considered (including any managers identified by Investment Committee members for consideration for a possible assignment).
- Staff and general consultant will provide the rationale behind the selection of the managers chosen to present.
- Staff and the general consultant will recommend a source of funds for the proposed manager and the size of the new mandate.
- The Board of Trustees retains full discretion to determine (a) whether to hire one or more of the presenting managers, (b) mandate size, and (c) the funding source.