

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

MINUTES OF MEETING

March 20, 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 9:10 a.m. There were present: Nancy K. Kopp, Chairman; Peter Franchot, Vice-Chairman; John W. Douglass; David B. Hamilton (via telephone); James M. Harkins; Sheila Hill; Morris L. Krome; and Melissa A. Moyer, Trustees; and R. Dean Kenderdine, Secretary. Mr. Lancaster and Mr. Hughes were absent due to illness. Mr. Brown was attending the spring meeting of the Council of Institutional Investors and Mr. O'Shea was attending a business meeting.

Agency Staff members attending were: Deborah Bacharach; Laura Burns; Margaret Bury; Rachel Cohen; Melody Countess; Ed Cummins; Brian Feilinger; Robert Feinstein; Kirk Grothe; John Greenberg; Shirley Hartnett; Jill Leiner; Vincent Marsiglia; Larry Martin; Howard Pleines; Harvey Raitzyk; Janet Sirkis; and Barbara Swain.

Also attending were John Kenney and Robert Palumbi.

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| Minutes | 1. On motion made by Major Krome and seconded by Ms Hill, the Board approved the minutes of the February 20, 2007 regular meeting. |
| Investment
Committee
Recommendations and
Information Items | 2. Treasurer Kopp reported on the meeting held on March 9, 2007.

Treasurer Kopp stated that Ms. Leake updated the Committee regarding organizational changes at PCA, where the real estate consulting unit is being acquired by the Partners Group, a Swiss investment firm. More information is to be made available concerning PCA's request for the System's consent to the assignment of its contract with the System, which is expected in the next 30 to 60 days.

Treasurer Kopp noted that the Investment Committee received the following reports: Performance Report, TAA Update, Private Equity Report, Quarterly Securities Lending Report, Upcoming Manager Meetings, Manager Meetings Report, and the Service Provider Review Schedule for Calendar Year 2007.

On motion made by Mr. Douglass and seconded by Mr. Franchot, the Board approved the proposed Strategic Real Estate Investment Plan.

On motion made by Dr. Moyer and duly seconded, the Board approved Staff's recommendations to:

(1) Create a new, separate allocation class called an "Opportunity Allocation"; and
(2) Adopt the policies and procedures for the Opportunity Allocation outlined in staff's March 1, 2007 memorandum. |

On motion made by Ms. Hill and seconded by Mr. Harkins, the Board approved four amendments to Section IV.B of the Investment Policy Manual to read as follows:

1. Asset allocation is the most important determinant of investment performance. Underline added by Investment Committee
2. ADEQUATE Liquidity will be PROVIDED [emphasized] to meet benefit payment requirements.
8. A portion of the System's investments IN THE MOST EFFICIENT PARTS OF THE CAPITAL MARKETS should be managed using passive management techniques in order to lower costs and reduce the active management risk.
12. Commitment to excellence should be reflected in a manager's performance ranking over a market cycle, typically a three to five-year period or as otherwise determined by the Board of Trustees. LONGER TIME PERIODS SHOULD BE USED FOR PRIVATE EQUITY MANAGERS AND PRIVATE MARKET REAL ESTATE FUNDS AS IT TYPICALLY REQUIRES A LONGER TIME PERIOD FOR THESE INVESTMENTS TO BECOME MATURE AND FOR PERFORMANCE TO BE MEANINGFUL.

On motion made by Ms. Hill and seconded by Major Krome, the Board approved the reappointment of Mr. Brian Topping to serve another term (three years) as a public advisor to the System's Investment Committee. The reappointment also must be approved by the Board of Public Works.

Administrative
Committee
Recommendations and
Information Items

3. Major Morris Krome, Vice-Chairman of the Administrative Committee reported on the meeting held on March 7, 2007.

Major Krome indicated that the discussion of the appeal to alter the option selection for Dr. Tsung Chin, a deceased retiree of the Teachers' System, would be held until executive session.

On motion made by Major Krome and seconded by Ms. Hill, the Board approved the Executive Director's request to re-classify PIN 069372 to a Special Appointment status as an Administrator VI (Grade 21).

Major Krome advised the Trustees that the Charter for the Board's Governance Policies requires an in-depth review every three years. That review is to begin soon, following a plan being developed by Mr. Kenderdine. The goal is to complete the review, or the majority of the review, by the May Board of Trustees Educational Session.

Mr. Howard Pleines provided an update on legislation. He confirmed that while Board legislation introduced by the Joint Committee on Pensions was progressing, Senator Kramer and Delegate Griffith, Co-chairs of the Joint Committee on Pensions, were not going to introduce legislation this year to eliminate the fee cap for alternative investments, or to eliminate the need for Board of Public Works approval of all direct real estate transactions. He noted that SB999 *State Retirement and Pension System – Investment Oversight*, which would give the Board salary setting authority for the Chief Investment Officer would be voted

on by the Pension Subcommittee of the Senate Budget & Taxation Committee Thursday morning, March 22, 2007. He also indicated that the bills related to Sudan, SB543 and HB1336, which had the approval and support of the Board, would be voted out of Committee this week, and were likely to be enacted. Mr. Pleines noted that Treasurer Kopp, Comptroller Franchot and Dr. Moye had testified in support of SB543 and would testify on March 21, 2007 in favor of HB1336. The Agency, with the Board's approval, will be testifying against HB1333, which would require divestment in companies involved in not only Sudan, but also Iran, Syria and North Korea.

On motion made by Major Krome and duly seconded, the Board agreed to take the following positions on 2007 legislation:

Oppose: HB53: *State Retirement and Pension Systems – Optional Forms of Retirement- Selections*; HB1005: *State Retirement and Pension System – Qualifying Hours – Eligibility Service*; and, HB1333: *Maryland Public Investments Protection Act*.

Neutral: HB468: *State Police Retirement System – Retirees and Beneficiaries of Retirees – Benefits*; HB866: *Alternate Contributory Pension Selection – Participation*; HB1139: *Montgomery County – Director of the Department of Social Services – Pension and Retirement health Benefits MC711-07*; HB1280: *Employees' Retirement System and Employees' Pension System – Retirees and Beneficiaries – Retirement*; HB1346: *Law Enforcement Officers' Pension System – Baltimore City Community College – Police Officers*.

Mr. Ed Cummins noted that the MPAS project remains on schedule and within the \$17 million budget. Mr. Harvey Raitzyk stated that the Agency had accepted Milestone 3, Employer Functions and received Milestone 4, Deliverable 4.1 (Enroll a Member). This deliverable is part of Milestone 4 (Develop Member Functions), which is a significant component of the MPAS project.

Mr. Raitzyk stated that the MPAS-1 Project requires that Saber extract the requirements from the Legacy Pension System (LPS) program code. SRA has limited business experts or programmer resources with extensive familiarity with the LPS code and, therefore, there are indications that it is taking longer than originally planned to extract the requirements from the LPS code. The effort spent to extract the requirements, design, build, and test Milestone 4 (Develop Member Functions) shall provide a reasonable basis for assessing the remaining work and the overall project plan.

Mr. Cummins stressed that the Agency is not adding elements to the current business practices and functions. MPAS is designed to convert the existing functionality of the current system under MPAS. There is no "scope creep" affecting the total cost of MPAS. Mr. Raitzyk added that there is the possibility of increased MPAS-1 costs. However, any such cost increase would be attributable to the extensive level of effort in extracting the project requirements and not scope creep. From inception, the Agency established a Change

Management Process to manage and control any proposed scope creep.

Mr. Kenderdine stated that the Agency worked out an agreement with the State Employees' Credit Union (SECU) related to our problem of recovering funds after a retiree's death so that there is no need to seek legislation. From December 1, 2006, SECU will honor any reclamation requests on deceased members' loan accounts and will remit any reclamation of savings deposits if funds are available. Beginning May 1, 2007, all new retirees' savings deposits will be processed directly by SECU. SECU will work with existing retirees to gradually convert these deductions from being on MSRA's payroll to a directed transfer from the members' share depository account or directly from any other financial institution to SECU. If funds are not available through SECU, the Agency will refer such accounts to the Department of Budget & Management's Central Collections Unit.

Mr. Kenderdine noted that the Agency would be informing Participating Government Units (PGU) of the additional contribution amounts associated with the Alternate Contributory Pension Selection (ACPS). The estimates for this surcharge made by Milliman USA for the General Assembly in the spring of 2006 were 1.76% for employers moving from the Contributory Pension Selection to the ACPS, and 5.96% for employers moving from the original Non-Contributory Pension Selection to the ACPS. Segal's calculations of these amounts are 1.11% and 7.44%, respectively.

Mr. Kenderdine stated that eight employers participate in the Non-Contributory Pension Selection and only two – City of Cumberland and the Frederick & Catocin Soil Conservation District – have opted into the ACPS. He did not know why Milliman had assumed in its estimate that all eight employers would move, which is the prime reason for the significant difference in the estimated and actual cost for the two employers participating in the ACPS. Mr. Kenderdine will contact these two agencies to discuss the ACPS surcharge increase before they receive a written notice.

2007 Proposed
Legislation

4. Mr. Howard Pleines' report on legislation was presented as part of the Administrative Committee report.

Executive Director's
Report

5. Mr. Dean Kenderdine notified the Trustees that Kirk Grothe would be leaving the Agency for a position in the private sector. Also, Scott Masters, a long-term employee who served on the MPAS project as one of the experts on Agency practices, left to take a position with Carroll County. Both are to receive compensation packages beyond what the Agency could offer.

Mr. Kenderdine indicated that the Agency had reduced its vacant Benefits positions from sixteen to eight, and planned to make offers to two other individuals within the next several days. Mr. Kenderdine hopes to have all vacant positions filled by May.

Mr. Kenderdine stated that Mr. Brian Rowe had accepted the offer to become the Retirement Agency's Chief Internal Auditor effective April 9, 2007. Additional information related to Mr. Rowe's hiring would be discussed in Executive Session.

Mr. Kenderdine noted that for most of the Trustees, the annual financial disclosure forms have been distributed and are due by the end of April.

Finally, Mr. Kenderdine stated that in the budget, there were cuts made to the Agency's travel funds. However, the Agency was able to have two investment positions restored and eliminate language that would have forced conducting the IV&V for MPAS before it was needed.

Medical Board
Reports

6. On motion made by Mr. Hughes and seconded by Ms. Hill, 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

7. On motion made by Mr. Hughes and seconded by Ms. Hill, 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. (Exhibit A)

On motion made and duly seconded, the Board voted unanimously to meet in Executive Session to discuss the real estate fund investment recommendation and real estate rebalancing plan, 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; to discuss Capital Guardian and watch list issues, pursuant to State Government Article 10-508(a)(5) and 10-503(a)(1)(i), which authorizes the Board to meet in closed session to discuss the investment of public funds and exercise of the administrative function exception to the Open Meetings Act respectively; to discuss personnel issues, pursuant to State Government Article 10-508(a)(1), which authorizes the Board to meet in closed session to discuss the hiring of individuals; to deliberate with respect to the Chin case, pursuant to State Government Article 10-508(a)(1)(iii), which authorizes the Board to meet in closed session to exercise a quasi-judicial function; and, to discuss a State Police survivor benefit, pursuant to State Government Article 10-508(a)(7), which authorizes the Board to meet in closed session to obtain legal advice from counsel.

EXECUTIVE SESSION

The Board met in Executive Session at 11:10 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider investment issues, to discuss a personnel issue, to deliberate the Chin case, and to consult with counsel. There were present: Nancy K. Kopp, Chairman; Peter Franchot, Vice-Chairman; John W. Douglass; David B. Hamilton; James Harkins; Sheila Hill; Morris L. Krome; Melissa Moye, Trustees; and, R. Dean Kenderdine, Secretary. Agency Staff members attending were: Deborah Bacharach; Laura Burns; Margaret Bury; Rachel Cohen; Brian Felinger; Robert Feinstein; John Greenberg; Shirley Hartnett; Jill Leiner;

Vincent Marsiglia; Howard Pleines; Janet Sirkis and Barbara Swain. Also attending was John Kenney.

The Board ended its closed session at 12:31 p.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.

Joan Coad

8. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Joan Coad 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. Coad's appeal was heard on the record at her request. Ms. Jill Leiner, attorney for the Agency, reviewed the basic elements of the appeal with the Board. Following discussion, the Board deferred further consideration to Executive Session.

Andrew Johnson

9. At the request of Mr. Johnson, who became ill during the meeting, the Board postponed his request for a hearing until a later date.

On motion made and duly seconded, the Board voted unanimously to meet in Executive Session to discuss a disability appeal, 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 11:58 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider a disability appeal. There were present: Nancy K. Kopp, Chairman; Peter Franchot, Vice-Chairman; John W. Douglass; James Harkins; Sheila Hill; Morris L. Krome; and, Melissa Moye, Trustees; and R. Dean Kenderdine, Secretary. Agency Staff members attending were: Deborah Bacharach; Margaret Bury; Rachel Cohen; Shirley Hartnett; Howard Pleines; and Janet Sirkis. Also attending was John Kenney.

The Board ended its closed session at 12:02 p.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 by Ms. Hill, and duly seconded, the Board approved the minutes of the February 20, 2007 closed session meeting.

Joan Coad

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

At the close of the meeting, Dr. Moye confirmed her resignation from the board effective March 21, 2007 and the fact that she will begin her new duties as Deputy Treasurer on that date. Dr. Moye expressed her enjoyment of the time served on the Board and thanked the other members for their support and trust during her tenure.

There being no further business before the Board, the meeting adjourned at 12:05 p.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board

RDK/js