

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

MINUTES OF MEETING

July 17, 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 9:07 a.m. There were present: Nancy K. Kopp, Chairman; Peter Franchot, Vice-Chairman; William D. Brown; John W. Douglass; T. Eloise Foster; James M. Harkins; Sheila Hill; F. Patrick Hughes; Carl D. Lancaster; Morris L. Krome; and Patrick O'Shea (by telephone), Trustees; Theresa Lochte, Trustee-elect; and R. Dean Kenderdine, Secretary.

Agency Staff members attending were: Deborah Bacharach; Anne Budowski; Margaret Bury; Robert Feinstein; Charles Geis; John Greenberg; Carla Katzenberg; Calvin Kiser; Jill Leiner; Vincent Marsiglia; Sherlynn Matesky; Melissa McDonnell; Howard Pleines; Kenneth Reott; Brian Rowe; Janet Sirkis; Barbara Swain; and Victoria Willard.

Also attending were Lisa Campbell; William Eager; Len N. Foxwell; Anne Gawthrop; Leon F. (Rocky) Joyner; John Kenney; Randy Mickens; Lewis Robinson; Clifford Rosenberg; and Michael Rubenstein.

Present only during the appeal case portion of the agenda were Browne L. Kooken, Esquire, representing Jane M. Jeter-Prince; Theodore Christenson, Jr. and Michael W. Ryan, Esquire; Andrew G. Johnson; and Elizabeth Riedel and Dennis M. Gottesmann, Esquire.

Prior to beginning the agenda, Treasurer Kopp presented Mr. Carl Lancaster with a resolution, read by Mr. William Brown, from the Board of Trustees recognizing him for his 20 years of outstanding service to the Board, the Teachers and the entire membership of the State Retirement and Pension System. Ms. Eloise Foster read a resolution from Governor O'Malley and Lt. Governor Brown, recognizing Mr. Lancaster's service to the citizens of Maryland. Mr. Lewis Robinson, Executive Director of the Prince George's County Educators' Association, and Mr. Clifford Rosenberg, Maryland Retired School Personnel Association, also presented resolutions thanking Mr. Lancaster for his service.

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| Minutes | 1. On motion made by Mr. Hughes, and seconded by Ms. Hill, the Board approved the Minutes of the June 19, 2007 regular meeting. |
| Administrative Committee | 2. On motion made by Mr. Lancaster, and seconded by Mr. Hughes, the Board appointed the following members and officers to the Administrative Committee to serve for the period August 1, 2007 through July 31, 2008: James M. Harkins, Chairman; Morris L. Krome, Vice-Chairman; Sheila Hill; Nancy K. Kopp; John W. Douglass; T. Eloise Foster; and Theresa Lochte. |

- Investment Committee
3. On motion made by Mr. Lancaster, and seconded by Mr. Hughes, the Board appointed the following members and officers to the Investment Committee in accordance with State Personnel and Pensions Article, Section 21-115(a)(2), to serve for the period August 1, 2007 through July 31, 2008: Robert W. Schaefer, Chairman; William D. Brown, Vice-Chairman; Nancy K. Kopp; Peter Franchot; T. Eloise Foster; F. Patrick Hughes; Sheila Hill; and Morris L. Krome.
- Audit Committee
4. On a motion made by Mr. Lancaster, and seconded by Mr. Hughes, the Board appointed the following members to the Audit Committee on recommendation of the Chairman and Vice-Chairman: F. Patrick Hughes, Chairman; John W. Douglass, Vice-Chairman; Nancy K. Kopp; and Morris L. Krome.
- Real Estate Subcommittee
5. On a motion made by Mr. Lancaster, and seconded by Mr. Hughes, the Board appointed the following members to the Real Estate Subcommittee on the recommendation of the Chairman and Vice Chairman: Morris L. Krome, Chairman; Nancy K. Kopp; Peter Franchot; F. Patrick Hughes; and Robert W. Schaefer.
- Corporate Governance Subcommittee
6. On a motion made by Mr. Lancaster, and seconded by Mr. Hughes, the Board appointed the following members to the Corporate Governance Subcommittee on recommendation of the Chairman and Vice Chairman: Sheila Hill, Chairman; Nancy K. Kopp; Peter Franchot; William D. Brown; and Robert W. Schaefer.
- Maryland Venture Capital Trust
- The meeting agenda was revised to include appointing members to the Maryland Venture Capital Trust. On a motion made by Mr. Lancaster, and seconded by Mr. Hughes, the Board appointed the following members to the Maryland Venture Capital Trust on recommendation of the Chairman and Vice Chairman: Morris L. Krome, Robert W. Schaefer; and Robert Feinstein.
- Investment Committee Recommendations and Information Items
7. Mr. Carl Lancaster, Chairman of the Investment Committee, reported on the Committee's meeting held on July 13, 2007.
- Mr. Lancaster stated that the Committee heard a presentation from Breeden Capital Management, a U. S. equity activist manager.
- Mr. Lancaster indicated that staff updated the Committee on implementation of the Save Darfur Act, with Ms. Willard advising that when Institutional Shareholder Services (ISS) removes a company from its Sudan Focus List, staff will notify the System's managers that these companies' securities are no longer restricted from new investment.
- Mr. Lancaster advised that the Committee received an update from staff regarding the core plus fixed income manager search. Finalists will present to the Investment Committee at the August meeting.
- On motion made by Mr. Lancaster, and seconded by Mr. Hughes, the

Board agreed to begin a search for one or more multi-source absolute return products for the System's Opportunities Allocation using the supplemental search process, with the understanding that additional research will be provided by staff and Ennis Knupp at the Committee's September meeting. Managers will be selected to present to the Committee in October.

Executive
Director's Report

8. Mr. Kenderdine introduced Mr. Charles Geis as the new Project Manager for the MPAS project. He also noted that the Agency is holding interviews on Wednesday, July 18, 2007 for the Chief Information Systems Officer, which he hopes to finalize by next month.

Mr. Kenderdine indicated that the RFP to select a firm to assist with the hiring of the Chief Investment Officer has been issued. From the interest expressed, it is likely that a number of firms will seek the contract. Bids are due July 19, 2007. Mr. Kenderdine, Mr. Schaefer, and Ms. Margo Wheat will review the bids and recommend a company to the Board.

On motion made by Mr. Brown, and seconded by Mr. Hughes, the Board accepted the 2008 Business Plan.

Employer Pickup
Program

9. On a motion made by Mr. Hughes, and duly seconded, the Board approved the following Participating Governmental Units for participation in the Employer Pickup Program: Town of Bladensburg; Town of Landover Hills; Town of Rock Hill; City of New Carrollton; and Town of Hampstead.

Annual Checklist

10. Mr. Kenderdine indicated to the Board that the checklist for the Implementation of Board of Trustee's Policies and Submission of Other Deliverables was available for review by the Trustees. The System has met all deadlines set forth for the first six months of 2007.

Presentation of
Experience Study
Findings

11. Mr. Rocky Joyner and Mr. William Eager of The Segal Company presented the Four-Year Actuarial Experience Study for the Board's consideration. Mr. Joyner noted that the experience study is routinely conducted to review recent experience and trends, and then to compare them against current actuarial assumptions, forecasts and policies. The 2007 study, moved up one year, was to ensure all plan liabilities are appropriately accounted for in the funding process.

Mr. Joyner noted that the study indicates various changes to the assumptions currently adopted by the Board. He stated that it is not his approach to make dramatic changes, but prefers measured changes for the Trustees to consider.

The various assumptions, with proposed changes for the Board's review, include economic assumptions: inflation rate, investment return, payroll growth and salary scale; and, demographic assumptions: mortality, disability rates, early retirement rates and normal retirement rates. The study also dealt with recommendations to use the Entry-Age

Normal Actuarial Funding Method, rather than the seldom used aggregate form; to adjust the method to smooth actual investment gains and losses over a 5-year period; to modify the corridor funding method to assure adequate plan funding; and, to amortize liabilities over a closed 25-year period.

Mr. Joyner stated that the results noted in the Experience Study are final. The Board will decide which adjustments and changes to adopt at the August meeting. Most of the actuary's suggested changes will increase the employer contribution rate.

Mr. Douglass questioned if the investment rate accounted for expenses. Mr. Joyner noted that the rate was net of expenses so in reality, the investment rate that is required today is closer to the range of 8.1% to 8.25%. In response to Major Krome's question as to what is the biggest concern facing the Board, Mr. Joyner responded that in his opinion it remains corridor funding. Ms. Foster asked if there is a reasonable phase-in period for modifying corridor funding, and Mr. Joyner indicated that 5 to 10 years could be considered.

At Mr. Franchot's request, Mr. Joyner will calculate the individual costs associated with each proposed change to be available to the Board when it deliberates on the assumptions and other suggested changes at its August meeting. Also, the actuary will present potential costs for several scenarios for modifying the corridor funding methodology.

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| Medical Board Reports | 12. On motion made by Mr. Harkins, 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 | 13. On motion made by Mr. Hughes and seconded by Ms. Hill, the Board accepted the 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. |

On motion made by Mr. Hughes, and duly seconded, the Board voted unanimously to meet in Closed Session to discuss the watch list report and an Optional Retirement Program (ORP) issue, pursuant to State Government Article §10-503(a)(1)(i), which authorizes the Board to meet in closed session to exercise an administrative function; to discuss selection of an activist manager and an ORP issue, pursuant to State Government Article §10-508(a)(5), which authorizes the Board to meet in closed session to consider matters related to the investment of public funds, and State Government Article §10-108(a)(14), which permits the Board to meet in closed session to discuss matters directly related to the contents of proposals; to consider a Public Information Act (PIA) request from AIG-VALIC, pursuant to State Government Article §10-508(a)(7), which authorizes the Board to meet in closed session to consult with counsel to obtain legal advice.

CLOSED SESSION

The Board met in Closed Session at 11:30 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to discuss investment matters related to its watch list report, the selection of an activist manager and issues related to the ORP, and to discuss a Public Information Act request from AIG-VALIC. There were present: Nancy K. Kopp, Chairman; Peter Franchot, Vice-Chairman; William D. Brown; John W. Douglass; T. Eloise Foster; James M. Harkins; Sheila Hill; F. Patrick Hughes; Carl D. Lancaster; Morris L. Krome; and, Patrick O'Shea, Trustees; Theresa Lochte, Trustee-elect; and R. Dean Kenderdine, Secretary.

Agency staff attending were Deborah Bacharach; Margaret Bury; Robert Feinstein; Vincent Marsiglia; Howard Pleines; Brian Rowe; Janet Sirkis; and, Barbara Swain. Also attending was Len N. Foxwell.

The Board ended its closed session at 12:30 p.m. and returned to regular session to complete the agenda.

REGULAR SESSION

During the closed session, the Board upheld a previously made ORP vendor contract termination; selected an activist manager and allocated funds to that manager; and, took action regarding a PIA request from AIG-VALIC.

George M. Pinchback 14. At Mr. Pinchback's request, his appeal for accidental disability is to be rescheduled for October 2007.

Jane M. Jeter-Prince 15. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Jane M. Jeter-Prince 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. Jeter-Prince's attorney, Mr. Browne L. Kooken, appeared before Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. Carla Goldman 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.

Theodore Christenson, Jr. 16. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Theodore Christenson, Jr. 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.

Mr. Christenson, and his attorney Michael W. Ryan, 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.

- Andrew G. Johnson 17. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Andrew G. Johnson 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.

Mr. Johnson appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. Carla Goldman 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.

- Elizabeth Riedel 18. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Elizabeth Riedel 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. Riedel and her attorney, Dennis M. Gottesmann, 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.

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

CLOSED SESSION

The Board met in Closed Session at 2:14 p.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider disability appeals. There were present: Nancy K. Kopp, Chairman; William D. Brown; T. Eloise Foster; James Harkins; Sheila Hill; F. Patrick Hughes; and Morris L. Krome; Trustees; Theresa Lochte, Trustee-elect; and R. Dean Kenderdine, Secretary.

Agency Staff members attending were: Deborah Bacharach; Margaret Bury; Howard Pleines; and Janet Sirkis.

The Board ended its closed session at 2:25 p.m. and returned to regular session to complete the agenda.

REGULAR SESSION

During the closed session, on motion made and duly seconded, the Board approved the minutes of the Closed Session meeting of June 17, 2007. The Board also decided on the appeals of Jane M. Jeter-Prince; Theodore Christenson, Jr.; Andrew G. Johnson; and Elizabeth Riedel.

Jane M. Jeter-Prince The Board voted to accept the Administrative Law Judge's Proposed Decision and deny Ms. Jeter-Prince's request for accidental disability benefits.

Theodore Christenson, Jr. The Board voted to reject the Administrative Law Judge's Proposed Decision and grant Mr. Christenson's request for accidental disability benefits.

Andrew G. Johnson The Board voted to accept the Administrative Law Judge's Proposed Decision and deny Mr. Johnson's request for accidental disability benefits.

Elizabeth Riedel The Board voted to accept the Administrative Law Judge's Proposed Decision and deny Ms. Riedel's request for accidental disability benefits.

Adjournment 20. There being no further business before the Board, the meeting adjourned at 2:31 p.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board