

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

MINUTES OF MEETING

December 18, 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 9:02 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; Morris L. Krome; Theresa Lochte; Robert W. Schaefer; Harold Zirkin; and, Thurman W. Zollicoffer, Jr., Trustees; and R. Dean Kenderdine, Secretary.

Agency Staff members attending were: Deborah Bacharach; Margaret Bury; Rachel Cohen; Melody Countess; Jaime Doran; Brian Feilinger; Robert Feinstein; Lauren Frazier; Charles Geis; John Greenberg; Ira Greenstein; Carla Katzenberg; Dennis Krysiak; Jill Leiner; Vincent Marsiglia; Sherlynn Matesky; Howard Pleines; Harvey Raitzyk; Brian Rowe; Fred Semko; Janet Sirkis; Barbara Swain; and, Victoria Willard.

Also attending were Bill Anderson; Dylan Baker; John Kenney; Randy Mickens; Melissa Moye; Robert Palumbi; and, Michael Rubenstein.

Present only during the disability appeals portion of the agenda were William T. Boniarski and Michael E. Davey, Esquire; Gary A. Preston and Michael E. Davey, Esquire; and, Douglass T. Sachse, Esquire, representing Ms. Kimmerla Blackwell.

Minutes 1. On motion made by Mr. Brown, and seconded by Mr. Schaefer, the Board approved the Minutes of the November 20, 2007 regular meeting.

Investment 2. Mr. Robert Schaefer, Chairman of the Investment Committee, reported
Committee on the meeting held on December 14, 2007.

Recommendations

Mr. Schaefer stated that the Investment Committee unanimously approved the November 9, 2007 open session minutes as submitted.

Mr. Schaefer reported that the first of two, one-year renewal periods of the System's contract with its private equity consultant, Altius Associates, would expire on April 30, 2008. While staff recommended that the Committee exercise the System's final one-year renewal option of Altius's contract for the period beginning May 1, 2008 and ending April 30, 2009, the Committee decided to defer this item until its January, 2008 meeting.

Mr. Schaefer reported that the Investment Committee received excellent asset allocation materials from staff and Ennis Knupp. He noted that after extensive discussion, the Investment Committee expressed a

preference for continuing its asset allocation deliberations utilizing the proposed asset allocation targets offered by Mr. Brian Topping:

Asset Class	Current Target (%)	Proposed Targets (%)
Domestic Equity	40	30
International Equity	13	20
Global Equity	10	15
Private Equity	2	5
Total Equity	65	70
Real Estate	5	10
Fixed Income	28	15
Real Return Opportunity Allocation	-n/a-*	-n/a-*
Cash		
Other		
Total Assets	100	100

* There is no explicit target for the Opportunity Allocation.

The Committee will continue its asset allocation discussions at its January 2008 meeting. Mr. Schaefer noted that Ennis Knupp views some of the System's real estate holdings as equity and expressed some concern that "total equity" (defined as including public equity, private equity and real estate) would increase to 75% under the proposed target allocation. Also, the Board has approved investments for the Opportunity Allocation and the proposed targets will need to be modified so as to address these investments.

Mr. Schaefer stated that Mr. Cummings provided the Investment Committee with a summary of Ennis Knupp's recently announced decision to provide "discretionary advisory services". In response to requests made by a few clients, Ennis Knupp will now provide a fully-outsourced investment management structure (i.e., selection, monitoring, and termination of managers in the asset class or classes selected by the client will be handled by Ennis Knupp). Mr. Schaefer indicated that staff will be discussing any possible conflict of interest and confidentiality issues with Ennis Knupp.

Mr. Schaefer stated that the Committee received staff's revisions to the Investment Policy Manual (IPM) as modified by the Committee. Upon approval by the Board of Trustees, staff will place the IPM on the Agency's website, distribute it to investment managers, and place it in

the Board of Trustees Handbook. Additionally, staff will update the IPM to (i) include the international proxy voting guidelines and policy adopted by the Board in November, 2007 and (ii) reflect any asset allocation changes approved by the Board.

On motion made by Mr. Schaefer, and seconded by Mr. Brown, the Board approved the revised Investment Policy Manual, as modified.

Mr. Schaefer noted that staff informed the Committee that the System's current securities lending contract with State Street Bank and Trust Company expires on February 13, 2008. The Committee accepted staff's recommendation that the System renew the System's securities lending contract with State Street Bank and Trust Company.

On motion made by Mr. Schaefer and seconded by Major Krome, the Board approved the renewal of the System's securities lending contract with State Street Bank and Trust company.

Administrative
Committee
Recommendations

- 3. Mr. James Harkins, Chairman of the Administrative Committee, reported on the meeting held on December 4, 2007.

On a motion made by Mr. Harkins, and seconded by Major Krome, the Board of Trustees approved participation of the following employers in the Employer Pickup Program as of the employer's first pay period ending in January 2008: Chesapeake Bay Commission; Town of Denton; Eastern Shore Regional Library; Town of Emmitsburg; Town of Manchester; Maryland Health and Higher Education Facilities; Town of Oakland; Town of Princess Anne; Southern Maryland Regional Library; Town of Taneytown; Town of Walkersville; and, Washington County Library.

On motion made by Mr. Harkins, and seconded by Major Krome, the Board of Trustees approved the extraordinary salary increase for Ms. Bonita Campbell based on her return to full time employment following recovery from a medical condition that limited her to part-time employment.

On motion made by Mr. Harkins, and seconded by Major Krome, the Board of Trustees agreed to seek legislation to amend Section 38-103 to conform to the provisions of the Uniform Service Employment and Reemployment Rights Act of 1994, recognizing active duty training and inactive duty for training with a reserve unit as military service credits.

On a motion made by Mr. Harkins, and seconded by Ms. Lochte, the Board of Trustees agreed: (1) to amend the Board Operations Policy so that the Secretary of Budget & Management may designate a deputy secretary to serve as a voting designee on the Administrative Committee if the Secretary is a member of that committee; (2) to approve the proposed additions to the Code of Conduct Policy pertaining to gifts and travel; and, (3) to amend the Enforcement Provisions of the Code of Conduct to require that the reporting of a

breach of fiduciary duty be prompt but in no event be made more than 30 days from the day on which a Trustee knew of the breach.

Mr. Harkins noted that the Administrative Committee received from staff, a work plan for the procurement of actuarial audit services. The selected firm will provide an independent critique of the reasonableness of the actuarial methods and assumptions in use by the Segal Company and the resulting actuarially computed contributions and assumptions. The work is to be completed by August 2008 so that Segal can use the results from this audit when finalizing the FY2008 valuation.

Mr. Harkins noted that the Retirement Agency received notice from the Department of Budget & Management that due to the budget cuts made during the recent Special Session, the Agency may be required to give up two vacant PINs - one counseling position and one IT position. Mr. Harkins also noted that the DBM budget analyst recommended the following cuts to the FY2009 budget proposal: funds for initiating MPAS-2, funds for the printing and mailing of booklets, newsletters, etc., and funds for processing the two trustee elections in FY2009. Mr. Kenderdine intends to meet with Secretary Foster to discuss these potential cuts to the 2009 budget proposal.

Mr. Harkins stated that Mr. Kenderdine issued to the Committee his recommended criteria for the evaluation of the Executive Director's performance in 2008. They are the same criteria that have been utilized in the past to evaluate the performance of the Executive Director. Mr. Kenderdine will distribute the criteria to all Trustees, and Ms. Cindy Kollner of DBM will be asked to initiate, collect and report the results of the evaluation to the Board.

At Mr. Harkins' request, Mr. Kenderdine noted that the MPAS project remains behind schedule, but it is progressing. Milestone 4 is 99% completed and progress is being made on Milestone 6. There is continuing concern with the difficulty of the work under both of these milestones. Mr. Kenderdine also noted that Saber has assigned another manager to assess the progress of MPAS as well as the staff who are working on this project. A revised work plan should be sent to the Retirement Agency by December 21, 2007.

Mr. Harkins noted that Ms. Deborah Bacharach prepared a memorandum, distributed to all Trustees that summarized pending litigation. Ms. Bacharach indicated that the Agency's contract claim is scheduled for mediation in January. If a settlement is proposed as a result of this mediation, it will be brought to the Board of Trustees for its acceptance or rejection. She also noted that the Walters' case has been dismissed.

Audit Committee
Recommendations

4. Mr. F. Patrick Hughes, Chairman of the Audit Committee, reported on the meeting held on November 20, 2007.

Mr. Hughes indicated that the Retirement Agency received an unqualified audit opinion, the highest opinion that could be expressed, on its audited financial Statements for the Fiscal Year ended June 30, 2007. The audit did not disclose any significant exceptions or adjustments, disagreements with management, major issues, or serious difficulties in performing the audit. Mr. Hughes noted that further study is required on the impact of investments in foreign mutual funds on foreign currency risk, as well as audit evidence with respect to alternative investments, including hedge funds.

Although not required for public systems, Mr. Hughes stated that the Auditor has been asked to provide the following documents, consistent with the Sarbanes-Oxley Act: Letter of Independence; Peer Review Report; Letter describing any pending litigation or conflicts of interest; and, Description of staff training.

Mr. Hughes announced that the Internal Audit Division is now fully staffed with five full-time auditors who have begun a year-long comprehensive training program in benefits administration; investment auditing; computer assisted audit techniques; risk assessment; and, investment internal control.

Mr. Hughes noted that changes in State law preclude the State from recovering duplicate State funding that, in the past, resulted from audits of boards of education, libraries and community colleges. These audits are not required and are no longer cost effective. Discontinuing these audits will save the System approximately \$250,000 for this fiscal year. The Agency has requested an opinion from the Attorney General to confirm its understanding of the statutory changes.

Mr. Hughes stated that the following policies were presented to the Committee for approval but were deferred until its next meeting: Fraud, Waste, and Abuse Policy; Internal Audit Division Charter; Code of Conduct; and, Revised Internal Audit Division Organizational Chart.

Mr. Hughes indicated that the Audit Committee accepted the following internal audit reports:

Member Refunds Processing (Follow-up) – All findings were adequately resolved.

Benefit Check Deductions Process – All findings were adequately resolved.

001-01-07 00002-02-16 01

Executive
Director's Report

5. Mr. Dean Kenderdine reported that Ice Miller, the System's outside tax counsel indicated that the Internal Revenue Service required a change to the recent OPEB Trust Agreement. The IRS wants the agreement to specifically refer to the "General Fund of the State of Maryland" where it currently only states "General Fund".

On motion made by Mr. Brown, and seconded by Ms. Lochte, the Board approved amending the OPEB Trust Agreement to read the "General Fund of the State of Maryland" wherever appropriate in that document.

Mr. Kenderdine noted that the 2007 Comprehensive Annual Financial Report had been distributed to each Trustee. Staff would be highlighting areas of this report at the January Board meeting.

Mr. Kenderdine stated that the search for the Chief Investment Officer continues with 44 resumes received to date. There are 20 strong candidates that will be interviewed by the search firm with the finalists brought to the Board for final interviews.

Mr. Kenderdine reported that he had met with Delegate Griffith to discuss various proposals in the Board's 2008 legislative proposals. He believes that the Joint Committee on Pensions will support eliminating corridor funding and the requirement that the System's real estate transactions be presented to the Board of Public Works. He also noted that Delegate Griffith has agreed to permit him to address the issue of additional salary setting authority for the Board when the Joint Committee meets on January 16, 2008.

Mr. Kenderdine reminded the Trustees that the Retirement Agency's Winter Employee Appreciation Day would be held on Thursday, December 20, 2007. He invited all to attend.

Medical Board
Reports

6. On a motion made by Mr. Hughes, and seconded by Mr. Brown, the Board of Trustees 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 documentation in the files.

Supplemental
Medical Reports

7. On motion made by Mr. Brown, and duly seconded, the Board of Trustees 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 documentation in the files.

William T. Boniarski

- 8. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. William T. Boniarski for special disability retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Mr. Boniarski and his attorney, Michael E. Davey, 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.

Kimmerla Blackwell

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

Ms. Blackwell's attorney, Douglass T. Sachse, 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.

Gary A. Preston

- 10. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. Gary A. Preston for disability retirement benefits, previously remanded on April 18, 2006. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Mr. Preston and his attorney, Michael E. Davey, 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.

Denice E. Weedon

- 11. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Denice E. Weedon for disability retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Ms. Weedon failed to appear for the exceptions. 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.

- Betty L. Howie 12. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Betty L. Howie for disability retirement benefits, previously remanded on August 16, 2006. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Ms. Howie failed to appear for the exceptions hearing. 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.

CLOSED SESSION

The Board met in Closed Session at 11:18 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to approve closed minutes from the November 20, 2007 meeting, pursuant to State Government Article §10-503(a)(1)(iii); to review the Watch List, pursuant to State Government Article §10-503(a)(1)(i); to select a vendor for global custody services, pursuant to State Government Article §10-508(a)(14); and, to discuss the appeals of William T. Boniarski, Kimmeria Blackwell, Gary A. Preston, Denice E. Weedon, and Betty L. Howie, pursuant to State Government Article §10-503(a)(1)(iii).

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; Morris L. Krome; Theresa Lochte; Robert W. Schaefer; Harold Zirkin; and, Thurman W. Zollicoffer, Jr., Trustees; and R. Dean Kenderdine, Secretary.

Staff attending were Deborah Bacharach; Margaret Bury; Rachel Cohen; Jaime Doran; Brian Feilinger; Robert Feinstein; Lauren Frazier; John Kenney; Vincent Marsiglia; Melissa Moye; Howard Pleines; Janet Sirkis; and, Barbara Swain.

The Board ended its closed session at 11:25 a.m. and returned to regular session to complete the agenda.

REGULAR SESSION

During the closed session, the Board approved the closed minutes of the November 20, 2007 meeting, reviewed the Watch List, selected a vendor for global custodial services, and reviewed and decided on the following disability appeals:

William T. Boniarski The Board voted to adopt the Administrative Law Judge's Proposed Decision and deny Mr. Boniarski's request for accidental disability benefits.

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

24 01-02-2008 12:23:01

Gary A. Preston The Board voted to accept the Administrative Law Judge's Proposed Decision and deny Mr. Preston's request for disability benefits.

Denice E. Weedon The Board voted to accept the Administrative Law Judge's Proposed Decision and deny Ms. Weedon's request for disability benefits.

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

Adjournment There being no further business before the Board, the meeting adjourned at 11:27 a.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board

RDK/js