

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

MINUTES OF MEETING

May 15, 2001

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 Richard N. Dixon, Chairman, William Donald Schaefer, Vice-Chairman, T. Eloise Foster (Arrived 10:10 AM), Doctor Nancy S. Grasmick (Departed 10:17 AM), Arthur N. Caple, Jr., William D. Brown, Carl D. Lancaster, Frank P. Casula, Colonel David B. Mitchell (Departed 10:05 AM), Major Morris L. Krome, G. Bruce Harrison, Trustees, and Peter Vaughn, Secretary. Agency staff members also attending were Margaret A. Bury, Retirement Administrator, Robert Feinstein, Carla Katzenberg, Jill Leiner, and Rachel Cohen, Assistant Attorneys General, J. Howard Pleines, Director of Legislation, Rick Harrison, Chief Financial Officer, Carol Boykin, Chief Investment Officer, Tracey Ray, Deputy CIO, Thomas Gigliotti, Chief Internal Auditor, Gary Scribner, Chief Information Officer, and Gwendolyn Mulkey, Executive Associate.

Also present were Emma Strayhorn, and Robert Silberman, Attorney for Ms. Strayhorn, Leon Phillips, and Michael Davey, Attorney for Mr. Phillips, Frances Lease and Betty Ross.

Minutes

- 1 On motion made by Mr. Casula and seconded by Mr. Brown, the Minutes of the regular meeting of the Board of Trustees for the State Retirement and Pension System of Maryland, held on April 17, 2001, were approved.

Investment  
Committee Report

- 2 Mr. Arthur Caple, Jr., Chairman of the Investment Committee, reported on the Committee's meeting held on Friday, May 11, 2001.

Mr. Caple informed the Board that Secretary David Ianucci and Deputy Secretary Sandra Long of the Department of Business and Economic Development proposed to the State Retirement and Pension System that \$730,630 of future income of the Venture Capital Trust that is attributable to the State of Maryland be assigned to the State Retirement and Pension System and the two Baltimore City pension funds according to their respective ownership interests in the Maryland Venture Capital Trust plus an interest rate of 4%. The proposal was made to compensate the investors for a delay in selling securities that were received by the Department of Business and Economic Development from Partnerships in the Venture Capital Trust. The proposal would have to be approved by the Board of Public Works.

On motion made by Mr. Caple and seconded by Mr. Harrison the Board accepted the proposal made by DBED with the vote of 9 to 1. Chairman Dixon, Dr. Grasmuck, Major Krome, Messrs. Lancaster, Harrison, Brown, Casula, and Caple, and Ms. Foster registered yea votes. Vice-Chairman Schaefer registered a nay vote.

Mr. Caple made reference to the Asset Allocation review. Mr. Caple informed the Board that the Investment Committee recommended an additional \$100 million dollars be allocated to both The Edgar Lomax Company and J. & W. Seligman Co. Inc.

On motion made by Mr. Caple and seconded by Mr. Casula, the Board voted unanimously to allocate the additional funds to the two managers.

Mr. Caple reported that the Committee recommended capping international equity allocation to 20% and invest the proceeds in U.S. mid and small to mid capitalization value stocks via a manager search.

On motion made and duly seconded the Board voted to cap the international equity allocation to 20% and invest the proceeds in U.S. mid and small to mid capitalization value stocks. The motion passed unanimously.

Mr. Caple informed the Board that the Investment Committee recommending the elimination of the convertible bond asset class and invest the proceeds in U.S. mid and small to mid capitalization value stocks. He stated that he was not in favor of the recommendation, but as Chairman of the Committee he brought it to the Board for consideration.

A motion was made and duly seconded to eliminate the convertible bond asset class and invest the proceeds in U.S. mid and small to mid capitalization value stocks. The motion failed with the tie vote of 5 to 5. Major Krome and Messrs. Brown, Lancaster, Casula and Harrison registered yea votes. Chairman Dixon, Vice-Chairman Schaefer, Dr. Grasmuck, Colonel Mitchell, and Mr. Caple, registered nay votes. The vote being tied, the motion failed and was remanded back to the Investment Committee for further action.

Mr. Caple advised the Board that the Manager Meeting report focused on several of the MSRA's investment managers who are experiencing mergers and acquisitions. The Investment Committee was advised that if the Board chose not to sign the consent proxy, they are implicitly giving their consent to the proposed transaction(s). The Committee chose not to recommend signing a consent proxy for the acquisition of Harbor International by ROBECO, the acquisition of TCW by Societe Generale, and the merger of Standish Ayer & Wood with Mellon Financial Corp. The Investment Committee decided not to make a decision on the change in ownership structure of Advent, since they had also decided to terminate this manager.

Mr. Caple reported on the formation of a subcommittee to work with staff on revising the Investment Operations Manual, which was last revised in 1998. Ms. Humphries will chair the subcommittee, and its members will be Mr. Tydings, Mr. Shaner, Mr. Lancaster, and Mr. Harrison. All members had accepted their appointments.

(2)

Mr. Caple advised the Board that the Real Estate subcommittee reported to the Investment Committee that it had finished it's work on updating the Real Estate Master Plan and that it would submit it to the Investment Committee for approval at the June 8, 2001 meeting. The Real Estate Subcommittee also advised the Investment Committee that it heard a presentation from Legg Mason for investing in mezzanine debt.

Mr. Caple advised the Board of the value of System assets at the end of April 2001, which are estimated to be about \$30 billion, slightly below the \$30.5 billion estimated to represent fully funded status.

Finally, Mr. Caple noted two reports -Country Positions of International Equity Managers Report and The Dedicated & Internally Managed Bond Portfolio Update were received by the Committee.

The Board accepted Mr. Caple's Report.

Frances Lease

3

The Board considered the report of Joan Gordon, sitting as Administrative Law Judge for the Office of Administrative Hearings, in connection with the appeal of Frances Lease. Ms. Lease appealed the Retirement Agency's decision not to pay her a monthly retirement allowance based on an erroneous estimate.

Ms. Lease presented her arguments opposing the Agency's position and the Administrative Law Judge's recommendations. The Board deferred further consideration to executive session. Ms. Carla Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should accept the Agency's decision. The Board deferred further consideration to executive session.

Emma Strayhorn

4

The Board considered the report of the Medical Board in connection with the claim of Emma Strayhorn for disability benefits. The Medical Board report included a report by an Administrative Law Judge and related medical documentation. Ms. Strayhorn appealed the Medical Board's decision that the medical evidence submitted did not prove that she is permanently incapacitated or unable to perform her job duties.

Mr. Robert Silberman, attorney for Ms. Strayhorn, presented his arguments opposing the Agency's position and the Medical Board's recommendations. Ms. Carla Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should accept the Medical Board's report. The Board deferred further consideration to executive session.

Leon Phillips

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The Board considered the report of Judith A. Showalter, the Administrative Law Judge in connection with the claim of Leon Phillips, for accidental disability benefits. The report included a report by the Medical Board and related medical documentation.

The Medical Board denied Mr. Phillips' accidental disability retirement benefits based on their determination that the reported accident did not cause the Claimant's disability. Mr. Phillips appealed the Medical Board's decision.

The Claimant and his Attorney, Michael E. Davey, appeared and presented arguments that favored Mr. Phillips' request be approved by the Board of Trustees. Ms. Jill Leiner, Attorney for the Agency, addressed the Board and argued that the Board should accept the Administrative Law Judge's report. The Board deferred further consideration to executive session.

Betty Ross

6 The Board considered the report of Alan Jacobson, the Administrative Law Judge in connection with the claim of Betty Ross, for accidental disability benefits. The report included a report by the Medical Board and related medical documentation. The Medical Board denied Ms. Ross accidental disability retirement benefits. Ms. Ross appealed the Medical Board's decision.

Ms. Ross addressed the Board and provided arguments in favor of granting accidental disability benefits. Ms. Jill Leiner, Attorney for the Agency, addressed the Board and argued that the Board should accept the Administrative Law Judge's report. The Board deferred further consideration to executive session.

On motion made by Mr. Casula and seconded by Mr. Caple, the Board unanimously voted to meet in Executive Session to consider the appeals of Frances Lease, Emma Strayhorn, Leon Phillips and Betty Ross. State Government Article Section 10-502(1) authorizes the Board to meet in closed session to exercise a quasi-judicial function.

#### EXECUTIVE SESSION

The Board met in Executive Session at 10:55 a.m. in the Boardroom of the Sun Trust Building at 120 East Baltimore to consider the appeals of Frances Lease, Emma Strayhorn, Leon Phillips and Betty Ross. All of the persons present at the beginning of the meeting were present in Executive Session except the following: Jill Leiner, Frances Lease, Emma Strayhorn, and Robert Silberman, attorney for Ms. Strayhorn, Leon Phillips, and Michael Davey, attorney for Mr. Phillips, and Betty Ross. The Board adjourned its Executive Session at 11:05 p.m. and returned to regular session to complete the agenda.

#### REGULAR SESSION

Frances Lease

On motion made by Mr. Harrison and seconded by Mr. Lancaster, the Board voted to adopt the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and deny Ms. Lease's request that the Agency pay her a monthly retirement allowance based on an erroneous estimate with the vote of 8 to 1. Chairman Dixon, Mr. Lancaster, Mr. Harrison, Major Krome, Mr. Brown, Ms. Foster, Mr. Casula, and Mr. Caple registered yea votes. Vice-Chairman Schaefer registered a nay vote.

(4)

Emma Strayhorn

On motion made by Mr. Brown and seconded by Vice-Chairman Schaefer, the Board unanimously voted to remand the case of Emma Strayhorn to the Medical Board for further consideration.

Leon Phillips

On motion made by Mr. Lancaster and seconded by Mr. Harrison, the Board voted to reject the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and grant Mr. Phillip's request for accidental disability retirement benefits, with the vote of 6 to 3. Mr. Lancaster, Mr. Harrison, Vice-Chairman Schaefer, Major Krome, Mr. Brown and Ms. Foster, registered yea votes. Chairman Dixon, Mr. Casula, and Mr. Caple, registered nay votes. The Board concluded that the change in gun and holster constituted an accident and that Mr. Phillip's disability was the natural and proximate cause of the accident.

Betty Ross

On motion made by Mr. Brown and seconded by Major Krome, the Board voted to adopt the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law denying the claim for accidental disability benefits with the vote of eight to one. Chairman Dixon, Vice-Chairman Schaefer, Mr. Lancaster, Mr. Harrison, Major Krome, Mr. Brown, Ms. Foster, and Mr. Casula registered yea votes. Mr. Caple registered a nay vote.

Executive Director's  
Report 7

Mr. Vaughn reported that all Board sponsored bills were expected to be signed by the Governor on Friday, May 18, 2001. The only retirement bill that would be cause for concern is the DNR Legislation, *HB 315 (Delegate Branch and Edwards)*, which increased retirement benefits of the Retirement System members of the DNR Plan, which were not collectively bargained, which passed the Legislature. The Agency will not know until Friday, May 18, 2001 whether the Governor will sign HB 315 or not.

Mr. Vaughn informed the Board of Ms. Debra Humphries confirmation by the Senate to serve another four-year term beginning July 1, 2001, as a public member of the Board of Trustees.

Mr. Vaughn noted that Mr. Robert Patzwall's term ends on June 30, 2001. His re-nomination will be discussed by the Investment Committee on June 8, 2001. With the full Retirement Boards approval and approval by the Board of Public Works, he would serve another three year term beginning July 1, 2001.

Finally, Mr. Vaughn reported that the Agency received confirmation from State Street of the final asset values for April regarding the System's assets. At April 30, 2001, assets were \$29.94 billion, up \$1.4 billion from \$28.88 billion in March. April was a good month for the portfolio.

The Board accepted Mr. Vaughn's report.

Executive Committee  
Report 8

Mr. William D. Brown, Chairman of the Executive Committee, reported on the Committee's meeting held on May 1, 2001.

The Executive Committee recommended the Board of Trustees deny Ms. Mildred A. White's request for a hearing. Ms. White was employed by Baltimore City Social Services from July 1970 through December 1978.

She resigned and filed for a refund on January 17, 1979. Both the application she filed and the check she endorsed indicated that she forfeited all right and benefits when she accepted her refund of employee contributions. Ms. White returned to work, and membership, in November 1979. She was eligible at that time to redeposit funds and regain her former service credits. As of April 1, 1980, she transferred to the Employees' Pension System without attempting to redeposit her prior service credits before her transfer. Under Pension System law, she is not entitled to redeposit prior funds in order to regain service credits. She is eligible to purchase that time at full cost when she retires.

The Executive Committee recommended to the Board of Trustees that the Executive Director's denial of Ms. Mildred A. White's request for a hearing be upheld. Furthermore, the Committee asks that staff be directed to review Ms. White's account with her to ensure she understands the rights and benefits that are available to her.

On Motion made by Mr. Brown and seconded by Major Krome, the Board voted unanimously to deny Ms. White's request for a hearing.

Mr. Brown advised the Board that Mr. Howard Pleines met with Delegate Wheeler Baker to discuss the issue of vested former members of the Retirement Systems being permitted to transfer that vested service into their current Employees' or Teachers' Contributory Pension System Accounts. The Executive Committee asked staff to obtain a breakdown of the members of the various pension systems who hold a vested Retirement System account and report back at the June Executive Committee meeting for further review.

Mr. Brown Asked Mr. Peter Vaughn to give an update on the Strategic System Project.

Mr. Vaughn gave the following report:

The Strategic System Project is nearing completion. The next major step is the system test that is the final test to determine whether or not the system is working properly as we have requested in the RFP. Syscom had delivered the System Test Plan at a very high level with little detail. The Agency was questioning how many test cases were needed, how detailed they would be, how the results would be tracked and whether they were repeatable.

Mr. Vaughn, along with key agency staff including the CIO, Mr. Gary Scribner, met on Thursday, May 10, 2001 with Syscom for approximately four hours. The Agency received a response from Syscom that was incomplete. Mr. Vaughn and certain staff members will meet again with Syscom on Thursday, May 17, 2001. Tammy Kness of Syscom was expected to submit to the Agency some other test scenarios that can be reviewed and analyzed to make sure they fit the needs of the Agency.

Mr. Vaughn noted the Agency and Syscom are still in disagreement regarding the system test plan. Mr. Vaughn noted that if problems could not be worked out, he would report back to the Board of Trustees immediately.

That concluded Mr. Vaughn's report.

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Mr. Brown advised the Board that bids were received from Clifton Gunderson LLP, Ernst & Young LLP, KPMG LLP, and Lindsey & Salita LLC for auditing services. Based on their submission of the lowest bid, the Agency recommended awarding the audit contract for local Boards of Education to Lindsey & Salita with a fixed price contract of \$139,440. Mr. Brown also noted that this company performed the last audit and, he believes they will do a good job this time also.

The Executive Committee recommended that the Board of Trustees accept the Committee's recommendation to award the contract to Audit Local Boards of Education to Lindsey & Salita for \$139,440.

On motion made and duly seconded the Board voted unanimously to accept the recommendation of the Executive Committee and award the contract to audit local educational agencies to Lindsey & Salita.

The Board accepted Mr. Brown's report.

Medical Board Reports

9

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

Supplemental Medical Board Reports

10

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

Deferred Medical Board Reports

11

The Board, on motion made by Mr. Caple and seconded by Mr. Casula voted to approve special disability retirement benefits for the listed members, which were deferred from the last Board meeting.

There being no further business before the Board, the meeting adjourned at 12:10 p.m.

Respectfully submitted,

Peter Vaughn, Secretary

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