

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

MINUTES OF MEETING

April 20, 2004

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 9:00 a.m. There were present William Donald Schaefer, Chairman, Nancy K. Kopp, Vice-Chair, Arthur Caple, William D. Brown, James C. DiPaula Jr., Carl D. Lancaster, Dr. Melissa Moye, Patrick O'Shea, Morris L. Krome, F. Patrick Hughes, David B. Hamilton, Trustees, and Thomas K. Lee, Secretary. Agency Staff members also attending were Margaret Bury, Retirement Administrator, Deborah Bacharach, Robert Feinstein, and Jill R. Leiner, Assistant Attorneys General, Margo Wheat, Chief Financial Officer, Jeannie Abramson, Arthur Broadwick, Steve Huber, Chief Investment Officer, Howard Pleines, Legislation and Research, Thomas Gighotti, Chief Internal Auditor, Joseph Coale, Public Information Officer, Gary Scribner, Chief Information Officer, and Monica Bias, Executive Associate.

Also attending were Dean Kenderdine, Comptroller's Office, Robert Dezube, Milliman USA, and Robert Palumbi, Maryland Retired Teachers' Association.

Prior to discussing the agenda, Mr. Thomas Lee introduced Mr. Patrick Hughes, the newest member of the Board of Trustees. Mr. Lee indicated that Mr. Hughes is a Certified Public Accountant and has an extensive background in real estate. On behalf of the Trustees, Chairman Schaefer welcomed Mr. Hughes to the Board.

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| Minutes | 1 | On a motion by Mr. DiPaula, duly seconded, the Board approved the minutes of the meeting held March 16, 2004. |
| Trustee Nomination | 2 | On a motion by Mr. Caple, seconded by Mr. DiPaula, the Board voted to nominate and to recommend to the Board of Public Works that Brian Topping be reappointed to serve as a public member of the Investment Committee for a three-year term beginning July 1, 2004. |
| Committee Appointment | 3 | On motion made by Mr. Caple, seconded by Mr. DiPaula, the Board approved the appointment of Mr. Patrick Hughes to serve on the Audit Committee. |
| Committee Appointment | 4 | On motion made by Mr. DiPaula, seconded by Mr. Caple, the Board approved the appointment of Mr. Patrick Hughes to serve on the Investment Committee. |

Committee Appointment 5 On motion made by Mr Caple, and duly seconded, the Board approved the appointment of Mr Patrick Hughes to serve on the Real Estate Subcommittee

Investment Committee Report and Recommendations 6 Mr Arthur Caple, Chairman of the Investment Committee, reported on the meeting held April 9, 2004

Mr Caple noted that Mr Huber presented a market overview Staff has rebalanced back to target levels for stocks and bonds They decided, however, not to take any tactical positions at the present time

Mr Caple reported that through the efforts of Mr Art Lynch and Mr Robert Feinstein, the System received \$986,740 in recovery from the Waste Management II Litigation

Mr Caple indicated that Ms Tracey Ray provided a fixed income market overview, showing how emerging market spreads have converged with high yield spreads over the past ten years Ms Ray also reported that Huff had completed the liquidation of securities as required by the Board to place their account within the acceptable guidelines

Mr Caple stated that Ms Vicki Willard provided an update of the Corporate Governance Subcommittee, noting that Dr Moye was appointed chair One of the first initiatives of the subcommittee is to revisit proxy guidelines

Ms Willard also provided an update on the System's external manager involvement in the Mutual Fund Investigation A lawsuit was filed against Capital Group Companies The SEC has requested information from ING (one of the ORP vendors) on its variable annuity products

Mr Caple stated that Ms Suzanne Bernard from Ennis Knupp expressed concern with TCW's ability to trade through its affiliate, SG Cowan Securities She noted that TCW does not use Cowen for any trades involving the System's portfolio She indicated that Templeton and PIMCO had been questioned regarding frequent trading in their mutual funds Finally, Ms Bernard noted that Ennis Knupp is strongly concerned that Cigna wants to merge into the Prudential fund, which has not had good performance

The Board accepted Mr Caple's report

Mr William D Brown, Chairman of the Administrative Committee, reported on the meeting held April 13, 2004

On motion made by Mr Brown, and duly seconded, the Board approved continuing assistance to and support of the Maryland Charity Campaign Chairman Schaefer noted that the campaign is extremely important to Maryland, and he indicated his pride that the Comptroller's Office had an 83% participation rate last year

On motion from Mr Brown, and duly seconded, the Board accepted the template for the Board Performance Evaluation (self evaluation process) with the first formal evaluation to occur next year This will give Trustees, particularly new members of the Board, time to familiarize themselves with the format and concept of the self-evaluation

On motion made by Mr Brown, seconded by Major Krome, the Board adopted the motion to uphold the Executive Director's recommendation to deny Ms Flora Capps' request to alter her retirement option selection

While the law gives each retiree a month following the effective date of retirement to alter the option selection, a number of Trustees suggested reviewing the policy to determine if a change to the law is justified Treasurer Kopp asked that staff determine if moderate changes could be made to provide more flexibility within the law Mr Hamilton noted that this flexibility is needed when there are dramatic changes to an individual's circumstances

On motion made by Mr Brown, seconded by Dr Moye, the Board adopted the policy entitled, "Policy on Service and Earnable Compensation" Staff is to release this policy to all participating employers immediately

On motion made by Mr Brown, seconded by Dr Moye, the Board accepted the Actuary's recommendation to adjust the employer rate for FY2005 for the Local Fire and Police System (LFPS) in accordance with the provisions of the State Personnel and Pensions Article, Section 21-306

Recognizing that this rate adjustment provides a temporary solution to the problem for the Town of Hurlock and the City of Cumberland, the only remaining employers within the LFPS, the Board directed Mr Lee to work with these employers and the General Assembly to arrive at a more permanent solution

On motion made by Mr. Brown, seconded by Mr. DiPaula, the Board authorized the funds (approximately \$175,000) needed to replace computer workstations throughout the Agency if staff finds that update equipment is necessary to maintain system security as a result of Microsoft ending its support for WindowsNT 4.0. These necessary actions are to be taken in consultation with and approval of the State's Chief Information Officer.

On motion made by Mr. Brown, and seconded by Treasurer Kopp, the Board authorized the Retirement Agency to utilize the Internet and an automated voice system to conduct future trustee elections. Trustees generally agreed that the mailing of election notices remains important, however, utilizing new technology for voting may improve the percentage of members who actually participate.

At Mr. Brown's request, Mr. Howard Pleines provided a final report on 2004 legislation. Mr. Pleines noted that all of the Board sponsored legislation, except one, had passed. Senator Kasemeyer expressed concerns that HB645 could lead to abuses of the System if members sought higher benefits of a different system prior to seeking disability benefits. The proposal was not considered following its public hearing. Mr. Pleines noted that HB1095, which establishes an investment program for pre-funding retiree health care costs passed as did legislation to create a task force to study exempting law enforcement retirees pensions from State and local income. Mr. Pleines will provide more information on these bills when signed.

Several proposals that failed are of interest to the Board. Legislation that would have given the Office of Administrative Hearings final decision-making concerning disability benefits failed, primarily as a result of the efforts of Comptroller Schaefer and Mr. Dean Kenderdine. The proposal received an unfavorable report in the Senate. Also, legislation that would have extended the exemption from the earnings limitation for certain rehired retired teachers, principals and health care practitioners failed.

Mr. Brown concluded his remarks by noting that staff continues to review the issue of fiduciary insurance raised by Mr. Hamilton. Ms. Bacharach has noted a possible gap in the State's coverage and is investigating if the Board could establish a policy to advance legal fees when a Trustee is called as a witness.

The Board accepted Mr. Brown's report.

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| Executive
Director's Report | 8 | <p>Mr Thomas Lee advised the Board that staff is finalizing plans for the Board's required educational training session. It will be held in Annapolis on Friday, June 25, 2004. Topics will involve investments, benefits and auditing.</p> <p>Mr Lee reminded the Trustees that the ethics forms are to be completed by no later than April 30, 2004. Also, April 30th is Employee Appreciation Day at the State Retirement Agency. He noted that all Trustees are invited to participate.</p> <p>Finally, Mr Lee noted that the City of District Heights is to participate in the System effective May 1, 2004.</p> <p>The Board accepted Mr Lee's report.</p> |
| Final 2004
Legislative Report | 9 | Mr Pleines reported on pension legislation as part of the Administrative Committee Report. |
| Fred Nefflen | 10 | The Board deferred the appeal of Mr Fred Nefflen at the Chairman's request since Mr Nefflen contacted the Agency and indicated that he would be unable to attend the hearing. |
| Medical Board
Reports | 11 | On motion made by Treasurer Kopp, seconded by Mr DiPaula, 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 | 12 | On motion made by Treasurer Kopp, seconded by Mr DiPaula, the Medical Board accept 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 and duly seconded, the Board voted unanimously to meet in Executive Session to consider investment matters. State Govt Article, Section 10-508(a)(5) and (7) authorizes the Board to meet in closed session to consider the investment of public funds and consult with counsel to obtain legal advice.

EXECUTIVE SESSION

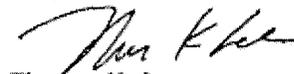
The Board met in Executive Session at 10:23 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider an investment matter. The persons present at the beginning of the meeting were present in Executive Session for discussion except Robert Feinstein, Gary Scribner, Jeannie Abramson, Arthur Broadwick, Robert Dezube, and Robert Palumbo. The Board ended its closed session at 10:28 a.m. and returned to regular session to complete the agenda.

REGULAR SESSION

On motion made by Mr. Caple, seconded by Mr. DiPaula, the Board voted to ratify actions taken in Executive Session.

There being no further business before the Board, the meeting adjourned at 10:32 a.m.

Respectfully submitted,



Thomas K. Lee
Secretary to the Board

TKL