

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

MINUTES OF MEETING

January 15, 2002

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, Arthur N Caple, Jr, George Tydings, Debra Humphries, William D Brown, Carl D Lancaster, David A Rakes, Colonel David B Mitchell, Major Morris L Krome, G Bruce Harrison, and Dr Ali A. Alemu, Trustees, and Margaret A Bury, Acting Secretary Agency staff members also attending were Deborah Bacharach, Robert Feinstein, Assistant Attorneys General, Carol Boykin, Chief Investment Officer; J Howard Pleines, Director of Legislation, Thomas Gigliotti, Chief Internal Auditor, Gary Scribner, Chief Information Officer Rick Harrison, Chief Financial Officer, and Gwen Mulkey, Executive Associate

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| Minutes | 1 | On motion made by Major Krome 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 December 18, 2001, were approved |
| Investment Committee Report | 2 | <p>Mr Caple, Chairman of the Investment Committee, reported on the meeting held on January 11, 2002 <u>Attachment A</u></p> <p>Mr Caple stated that the Committee recommended the Board approve acquisition of Zurich Scudder by Deutsche Bank The transaction is expected to be completed by the end of the 1st quarter of the calendar year 2002. On motion made by Mr Caple and seconded by Mr Tydings, the Board voted unanimously to approve the acquisition of Zurich Scudder by Deutsche Bank</p> <p>Mr Caple then stated that the Committee recommended the Board approve the Real Estate Registry On motion made by Mr. Caple and seconded by Mr. Lancaster the Board voted unanimously to approve the adoption of the Real Estate Registry.</p> |

Mr Caple informed the Board that legislative budget hearings were scheduled to take place the following week. Ms Margaret A Bury informed the Board that the House Budget hearing would take place on Tuesday, January 22, 2002, and the Senate Budget hearing would be held on Thursday, January 24, 2002.

The Board approved by consensus a recommendation from the Investment Committee to have the Investment Operations Subcommittee complete the task of identifying targets and triggers for the asset classes and sub-asset class structures remaining, subsequent to the Board's approval of new targets and trigger points for stocks, bonds and real estate in December 2001.

Mr Caple moved to commence the RFP process to identify a general investment consultant, with the possibility that the process may also result in the identification and selection of additional consultants to be engaged in areas of specialization to be defined by the Committee. Mr Lancaster noted his request to have a chart at the next meeting, which would elaborate upon the criteria for the consultant search. Mr Brown noted concern over the fiscal impact that this decision would have on the System's budget. Dr Alemu spoke in opposition to engaging a general investment consultant, noting that the Board, Investment Committee and Staff had a significant number of combined years of investment experience. Mr Harrison seconded the motion. Mr Dixon requested a roll call vote. The motion passed unanimously with one exception, Dr Alemu abstained.

The Board decided to defer action on the potential selection of a peer universe. Mr Caple noted that the Board has not used peer universes in the past. He noted that the Board decided against using them at a Board retreat about 6 years ago. He further noted that peer universes should not drive the investment process. However, he believes that it is useful information to see the asset classes and weightings of other pension funds. He noted that risk should be the most important criteria used as a basis for peer comparisons. As this has not been done, the result is that pension funds with different objectives and missions from one another are compared as peers. He referred to a recent Baltimore Sun Paper article, and he denied a quote attributed to him. He was quoted as saying that he would favor having the System stop paying TUCS for their service, and this would result in preventing legislative access to this data. He noted that many of the consultants that the System is likely to consider also have peer universes. He said that his reason for

deferring a decision on peer universes and potentially ceasing payment to TUCS was the possibility that the System might select a consultant with a peer universe and save the cost of TUCS. Mr Brown supported the use of peer universes, saying that the school system faces a similar apples and oranges dilemma in comparing the test results of divergent populations. He noted that one of the reasons that he supports hiring a consultant is his objective of ending up with a peer universe. Mr Caple suggested deferring this topic to the next meeting. He noted that the confidentiality of the peer universe composition data makes it difficult to know to whom the System is being compared. Mr Dixon offered to share a letter which he received from State Street, which describes the breakdown of TUCS and proves that these funds are not peers of the System. He stated his preference to focus on the size of the pension fund as the best means of comparison.

Mr Caple then updated the Board on class action suits that the System is exposed to, with an emphasis on Enron. Mr Lancaster distributed a January 15, 2002 Washington Post article on this topic.

Attachment B

Mr Caple noted that the estimate for the value of the total plan as of December 31, 2001, was \$28.4 billion.

Mr Caple then noted that Mr Harrison advised the Committee that DBED (Department of Business and Economic Development) announced it will cease to provide support services to the MVCT (Maryland Venture Capital Trust) after March 21, 2002. He noted the need for the Governor to appoint a new chairman to the Trust and the need to identify a new third party administrator and a new distribution manager. Staff is investigating these issues and will report back to the Committee.

Mr Caple informed the Board that the System's Securities Lending Contract with State Street expires on February 13, 2002 and that this issue will require Board approval prior to that date.

The Board accepted Mr Caple's report.

Executive Director's 3
Report

Ms Margaret Bury informed the Board that she had unofficially received word that 3 vacant positions would be eliminated from the Fiscal 2003 Budget; Executive Associate II in the Investment division, Administrator VI, also in the Investment division, and the Chief Information Officer.

Ms Bury reported that the concern regarding the printing of social security numbers on pension checks could be resolved by adding two additional numbers to the member's social security number, and scrambling the order of the number Ms Bury added that staff will move forward to implement this change over the next several months

Ms Bury reported that she continues to work with the Department of Budget and Management to identify the expected Fiscal Year 2003 State Pension contributions shortfall She noted that the \$65 million frequently referred to represents only the general fund reductions Further reductions apply to special Federal and higher education funding Ms Bury believes the total shortfall to be about \$76 million

Major Krome inquired about Mr Vaughn's health Ms Bury informed the Board that Mr Vaughn was at home recuperating from his surgery

Ms Bury asked Mr Gary Scribner to update the Board on the ongoing Syscom project and suggested that the Board adjourn to Executive Session Chairman Dixon deferred Mr Scribner's report to Executive Session

The Board accepted Ms Bury's report

2002 Proposed
Legislation

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Mr Howard Pleines reported on the following proposed legislation for 2002 session of the General Assembly Attachment C

SB34 Military Service Credit – Maryland National Guard Membership

SB105 Retirement and Pension Systems – Baltimore City Community College – Nonfaculty Employees

HB23 Pensions - Military Service Credit – Membership in United States Reserves

HB44 Employees' Retirement and Pension Systems – Participating Employers – Reemployment of Retirees

HB116 Law Enforcement Officers' Pension System – Membership – Division of Parole and Probation of the Department of Public Safety and Correctional Services

(4)

Medical Board 5 The Board, on motion made by Mr Caple and seconded by Vice Chairman Schaefer, unanimously approved the reports of the Medical Board in connection with applications of members for ordinary and accidental retirement allowances. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants.
Attachment D

Supplemental Medical Board 6 The Board, on motion made by Mr Caple and seconded by Dr Alemu, unanimously accepted and approved the Supplemental Report of the Medical Board in connection with applications of members for ordinary and accidental retirement allowances. The Medical Board's conclusions were reached after its review of the evidence provided by the claimants. The Supplemental Report of the Medical Board is shown as
Attachment E

Other Business 7 On motion made by Major Krome and seconded by Dr Alemu the Board unanimously approved the selection of Special Option 7 in the following case. This selection is consistent with the Board's policy and is actuarially sound.
Attachment F

Teachers' Retirement System

Special Option 7 Allowance for T W Lansey provides a monthly allowance of \$2,498.51 to the retiree and a survivorship monthly allowance of \$624.63 to the designated beneficiary, S A Lansey. The allowance is effective January 1, 2002.

The Board next discussed a letter written by Delegate Rawlings and Senator Hoffman dated December 21, 2001. The letter addressed several issues, one being the delay in certification of the actuary's proposed employer contributions and the appointment of a sub-committee to study the System's Benefits.
Attachment G

Chairman Dixon made a motion to rescind the formation of the sub-committee created by the Board to study System's benefits. There was no second to the motion, therefore, no further action was taken.

There was a lengthy discussion regarding the Board's fiduciary responsibility, as-well-as the sub-committee's role in studying the System's benefits and recommended enhancements to the Legislature. Vice-Chairman Schaefer stated that there is nothing in the law that precludes the Board from conducting a study of the benefits.

Mr Caple stated that he read the letter and felt there to be some incorrect assumptions Mr Caple then stated that in all the discussions when forming the sub-committee, there was never an attempt to make policy Mr Caple reasoned that the Board established a similar sub-committee in 1996, and that unless the laws had changed, precedent had been set.

Mr Lancaster believed that the Board should table further discussion of the issue until the Chairman of the Board and the Acting Executive Director of the Agency communicate the Board's intentions of a co-operative effort with the Legislature regarding the sub-committee's role On motion made by Mr Lancaster and seconded by Dr Alemi, the Board voted unanimously to table the act of rescinding the formation of the sub-committee until the Board could better communicate its intention to the Legislature

Mr Lancaster wanted to make sure the Legislature knew that forming the sub-committee was an attempt to work co-operatively with them On motion made by Mr Lancaster and seconded by Dr Alemi the Board voted unanimously to send Chairman Dixon and Ms Bury to meet with the Chairman of the Joint Pension Committee in order to clarify their intention regarding the formation of the sub-committee

EXECUTIVE SESSION

On motion made by Mr Brown and seconded by Colonel Mitchell, the Board, acting on advice of counsel, voted unanimously to meet in Executive Session State Government Article Section 10-508(a)(5) authorizes the Board to meet in closed session to consider the investment of Public Funds State Government Article Section 10-508(a)(7) authorizes the Board to meet in closed session to consult with counsel to obtain legal advice State Government Article Section 10-508(a)(8) authorizes the Board to meet in closed session to consult with staff, consultants, or other individuals about pending or potential litigation

(6)

REGULAR SESSION

Adjournment 8 *There being no further business, on motion made and duly seconded,
the Board adjourned at 1 40 p m*

Respectfully submitted,

MAB/ghm

Margaret A Bury
Acting Secretary to the Board