

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

MINUTES OF MEETING

August 19, 2003

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 9:01 a.m. There were present William Donald Schaefer, Chairman, Nancy K. Kopp, Vice-Chair, James C. DiPaula, Nancy S. Grasmick, William D. Brown, Carl D. Lancaster, Morris L. Krome, David B. Hamilton (via conference call at 9:35 a.m.), Ali A. Alemi, Trustees, and Thomas K. Lee, Secretary. Agency Staff members also attending were Margaret Bury, Retirement Administrator, Deborah Bacharach, Robert Feinstein, Rachel Cohen and Jill Leiner, Assistant Attorneys General, Victoria Willard, Acting Chief Investment Officer, Howard Pleines, Director of Legislation and Research, Sherlynn Matesky, Deputy Director of Legislation and Research, Thomas Gighiotti, Chief Internal Auditor, Arthur Broadwick, Acting Chief of Finance, Jeannie Abramson, Acting Chief of Finance, Calvin Kiser, Director of Technical Services, Harvey Raitzyk, Deputy Retirement Administrator, Richard Gawrych, Director of Member Relations, Joseph Coale, Public Information Officer, Gary Scribner, Chief Information Officer, Monica Bias and Shirley Hartnett, Executive Associates.

Also present were Dean Kenderdine, Steve Cummings, Ennis Knupp, Elizabeth B. Shilling, James Chason, Attorney for Carroll County, Kimberly Millender, County Attorney, Eugene Curfman, Comptroller, William Bates, Bureau Chief, Benefits, all representing Board of County Commissioners, Carroll County and Mike Heale, CEM.

Minutes

1 On motion made and duly seconded, the minutes of the regular meeting of the Board of Trustees for the State Retirement and Pension System of Maryland, held on July 22, 2003 were approved with the following change:

Lucille Moore

The Board considered the appeal of Lucille Moore. Following a discussion, a motion was made by Dr. Alemi to remand the case to the Medical Board for further consideration. The motion failed for lack of a second. On motion made by Secretary DiPaula and seconded by Mr. Hamilton, the Board voted to accept the Medical Board report and deny Ms. Moore's request for disability retirement benefits. Dr. Alemi registered a Nay vote.

Executive Committee Appointment 2

On motion made by Chairman Schaefer and seconded by Dr. Grasmick, the Board approved the appointment of Mr. David B. Hamilton to serve on the Executive Committee.

Investment
Committee Report
and Recommendations 3

Mr Arthur Caple, Chairman of the Investment Committee, reported on the meeting held August 8, 2003

On motion made by Mr Caple and seconded by Dr Alemi, the Board approved the Committee's decision to appoint Ms Victoria Willard to the position of Acting Chief Investment Officer

On motion made by Mr Caple and seconded by Secretary DiPaula, the Board accepted the Committee's recommendation to fill a vacancy on the Maryland Venture Capital Trust's Board with Major Morris Krome, and to retain the other vacant position for the new Chief Investment Officer position

Mr Caple reported that at the Investment Committee meeting EnnisKnupp reviewed the watchlist and no action was taken

Mr Caple announced that Major Krome was added to the Investment Committee at the last Board meeting

Mr Caple reported that Ms Willard reviewed the TUCS report and noted that the System ranked in the 75th percentile among public funds with market value greater than \$1.0 billion

He also noted that Ms Willard provided the Investment Committee with an analysis of manager fees She reported that because the System will no longer manage assets internally, and since a large percentage of assets are invested in index funds, the fees paid will not change substantially, but the average weighted fee is projected to decrease 10 basis points

On motion made by Mr Caple and duly seconded, the Board voted to accept the Investment Committee's recommendation to move the separately managed fixed income index fund into State Street's commingled fund

Mr Caple indicated that the Investment Committee had passed a motion to work with EnnisKnupp to rebalance between equity and fixed income in order to keep the System close to its targets Ms Willard stated that the market had rebalanced the total equity and fixed income to the Board's targets Major Krome indicated his concerns specifically with rebalancing domestic equity to its target of 49% Mr Caple suggested that the issue be referred back to the Investment Committee

On motion made by Mr Caple and duly seconded, the Investment Committee recommends to the Board that it accept EnnisKnupp's recommendation to keep the SSGA Barra Growth Index portfolio instead of liquidating the assets to fund other managers The remaining assets in the U.S. Equity transition account are to be used to fund the two new U.S. Equity managers

On motion made by Mr Caple and seconded by Dr Alemi, the Board accepted the Investment Committee's recommendation to increase the target allocation for private equity to 2% of the System's assets with at least 80% of the 2% in fund of funds. No more than 20% of the 2% is to be placed in limited partnerships, with each limited partnership being subject to review and evaluation by an independent expert. Major Krome, Mr Brown and Mr Lancaster recorded nay votes.

The Board accepted Mr Caple's report.

Executive Committee Report and Recommendations 4

Dr Alemi reported on the first two items of the regular meeting held on August 12, 2003. Morris Krome, Vice-Chairman of the Executive Committee, reported on the remainder of the Executive Committee items.

On motion made by Mr Caple and seconded by Mr Lancaster, the Board voted to accept the Executive Committee's recommendation to accept the Retirement Agency's FY2005 budget request, including two recommended enhancements.

On motion made by Dr Alemi and seconded by Treasurer Kopp, the Board voted to accept the Executive Committee's recommendation to approve the extraordinary salary increases, and the corresponding benefit increases, for Pedro Albrecht, Lynn Berkeley, Kathryn Janiszewski, Marsha Eiben and James Hook. Chairman Schaefer registered his concerns that regular employees have not received any salary increases within the last several years.

On motion made by Major Krome and seconded by Mr Caple, the Board voted to accept the Executive Committee's recommendation to approve that the Town of Oakland be permitted to elect a 10-year payment schedule for the additional liabilities resulting from the enactment of Chapter 39 of the Laws of 2003.

The Executive Committee discussed the extension of Milliman USA's actuarial contract this month. With the Executive Committee's approval, Mr Lee deferred this item until October.

On motion made by Comptroller Schaefer and seconded by Treasurer Kopp, the Board voted to accept the Executive Committee's recommendation that routine requests for retiree names and addresses be provided without costs to approved employee organizations, furthermore, the Retirement Agency may charge a reasonable fee for reports on retiree names and addresses when that request requires the Agency to modify or write a program. Major Krome and Mr Brown registered a Nay vote.

The Minutes of the Executive Committee meeting are shown as Exhibit A.

The Board accepted Major Krome's report.

Executive
Director's Report

5 Mr Thomas K Lee informed the Board that second interviews were conducted for the Chief Investment Officer position A candidate is expected to be presented to the Board at its September meeting

Mr Lee updated the Board regarding the resignation of Rhonda Jones, Director, Human Resources Ms Sara J Miller has been hired contractually to fill this position, temporarily, on a part-time basis

Mr Lee noted that the Strategic Information System Briefing document had been sent to Board members and requested comments from members

Joe Coale distributed a memorandum to the Board outlining specifics for the upcoming Board Retreat scheduled for Friday, September 19, 2003 The memorandum provided a tentative schedule and directions to the retreat

Marge Bury reported on the status of the EFT letter campaign To date, of the original mailing of 12,000 letters, only 624 retired members have failed to sign up for the EFT program or request a waiver The Agency still is receiving approximately 50-75 applications daily

Mr Lee reported to the Board on the Trustee training scheduled by EnnisKnupp for October 30-31, 2003 in Chicago, Illinois He stated that EnnisKnupp would prefer to present training at their facility, which would afford the Trustees the full benefit of their entire staff and be more cost effective Mr Lee will submit to the Board, for their consideration, the cost comparisons of trustee training held in Maryland vs Chicago It was agreed that Mr Lee would send a memorandum to Board members requesting confirmation of attendance

The Board accepted Mr Lee's report

A presentation was made to Mr Dean Kenderdine, former Acting Executive Director and former Acting Chief Investment Officer for his dedication and diligence to the Board of Trustees and the Maryland State Retirement Agency Mr Caple and Dr Grasmuck praised Mr Kenderdine's work and thanked him for his efforts and contributions during a difficult time

CEM

6 Mr Mike Heale, CEM made a presentation to the Board on the Benchmarking Presentation Analysis of the State Retirement Agency of Maryland In his analysis, Mr Heale defined key performance measures and outlined how Maryland compared to its peer group in benefits administration and investment operations The Board accepted Mr Heale's presentation Mr Lee, Secretary to the Board, noted that staff would prepare an analysis of the CEM recommendations, including staff's recommendations for submission to the Board with the full CEM report

Appeal Remand
Brian Droneberger

7 On motion made by Treasurer Kopp and seconded by Dr Grasmuck, the Board voted to remand the case of Brian S Droneberger to Administrative Law Judge Georgia Brady for the limited purpose of revising her decision by applying the law set forth in *Harris vs Board of Education for Howard County*, 825 A 2d 365 (2003)

- Elizabeth B Shilling 8 The Board considered the recommendation of Administrative Law Judge William C Herzing in connection with the claim of Elizabeth B Shilling, for accidental disability benefits. The ALJ report included a report by the Medical Board and all related medical documents submitted by the parties.
- Ms Shilling appeared before the Board and opposed the Agency's position and the Administrative Law Judge's recommendations. Ms Shilling requested the Board remand her case back to the Office of Administrative Hearings for a more comprehensive 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 Executive Session.
- Board of County Commissioners for Carroll County 9 The Board considered the recommendation of Administrative Judge Leah J Seaton, in connection with the appeal of Board of County Commissioners for Carroll County regarding the County's payment of a withdrawal liability.
- Mr James Chason, attorney for the Board of Commissioners for Carroll County appeared before the Board to present arguments as to why the ALJ's decision to uphold the System's assessment of the withdrawal liability should be reversed. Ms Rachel Cohen, 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 Executive Session.
- Supplemental Earnings Limitation Recovery 10 The report of the Agency for an offset of a retiree was accepted by the Board. The Board, on motion made and duly seconded, authorized the reduction of the pension of the affected retiree as provided for under the current law [State Personnel and Pensions Article]. The pension offset is based on calendar 2002 earnings that will be offset from pension benefits paid in fiscal year 2004.
- Medical Board Reports 11 On motion made and duly seconded, the Board accepted and approved 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 The Board, on motion made by Mr Lancaster and seconded by Dr Grasmick, unanimously voted to 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. The Supplemental Report of the Medical Board is shown as Exhibit B.

Board of County
Commissioners for
Carroll County

The Board considered the appeal of the Board of County Commissioners for Carroll County. Following a discussion, on motion made by Dr. Grasmick and duly seconded, the Board voted to unanimously adopt the Administrative Law Judge's Proposed Decision in its entirety, granting the Agency's Motion for Summary Decision and denying the County's Motion for Summary Decision.

Special Option 7

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On motion made by Major Krome and duly seconded, the Board unanimously approved the selection of Special Option 7 for Robert Hutsler and Donna Hutsler. These selections are consistent with the Board's policy and are actuarially sound.

There being no further business before the Board, the meeting adjourned at 12:35pm.

Respectfully submitted,



Thomas K. Lee
Secretary to the Board

TKL/mcb