

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

MINUTES OF MEETING

March 21, 2006

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 9:00 a.m. There were present: William Donald Schaefer, Chairman; Nancy K. Kopp, Vice-Chairman; William D. Brown; John W. Douglass; David B. Hamilton; James M. Harkins; Sheila Hill; Cecilia Januskiewicz; Morris L. Krome; Carl D. Lancaster; Dr. A. Melissa Moye, Patrick O'Shea, Trustees; and, Thomas K. Lee, Secretary. F. Patrick Hughes had an excused absence.

Agency Staff members attending were: Jeannie Abramson; Deborah Bacharach; Monica Bias; Anne Budowski; Margaret Bury; Melody Countess; Thomas Gigliotti; John Greenberg; Carla Katzenberg; Jill Leiner; Dale Markle; Vincent Marsiglia; Will Morrow; Howard Pleines; Barbara Swain; Margo Wheet; and Victoria Willard.

Also attending were Dean Kenderdine; and Robert Palumbi. Disability claimants and their attorneys present were Johnetta Clark; Patricia A. Smith-Rice and Eric Dicesare, student attorney, practicing under Maryland Rule 16, under the supervision of Professor Yoanna Moises, Esquire, Clinical Fellow at University of Baltimore, School of Law, Civil Advocacy Clinic; Mary Cave and Damon Felton, Esquire.

OPENING

COMMENTS Comptroller Schaefer raised the issue of divestment from the Republic of Sudan and the Lt. Governor's press release and related articles. The Board charged the Investment Committee to review the issue in depth and report back to full Board in the coming months.

- Minutes
1. On motion made and duly seconded, the Board approved the minutes of the February 21, 2006 regular meeting.
- Investment Committee
Recommendations and
Information Items
2. Mr. Carl Lancaster, Chairman of the Investment Committee, reported on the meeting held March 10, 2006.

Mr. Lancaster commented on the following information items discussed at the Investment Committee meeting:
 - The Committee unanimously approved the February 10, 2006 open meeting minutes.
 - Mr. Greenberg introduced the Investment Division's newest employee, Ms. Tatyana Mirkin. Ennis Knupp presented the System's 4th Quarter Performance Report and Semi-Annual Manager Review to the Committee.
 - The Committee received the investment guidelines for Smith Breeden's and Payden and Rygel's Enhanced Equity Index mandates.

- In response to a request by the Committee at last month's meeting, Staff reviewed the System's current rebalancing process. Staff informed the Committee that the current process is to rebalance at the end of or beginning of months but avoid rebalancing on days where there is a predictable increased volatility such as days when several future contracts expire or when indexes are rebalanced. At the Committee's request, Staff will research if rebalancing quarterly would be more beneficial than rebalancing monthly and present a recommendation for reducing the amount of time it takes to implement rebalancing decisions made by the Investments Committee next month.
- The Committee received the monthly Tactical Asset Allocation and Rebalancing Report showing no tactical asset allocation changes in February 2006.
- The Committee received the monthly Private Equity Report and the Private Equity 3rd Quarter Performance Report.
- The Committee received the Quarterly ORP Update.

Mr. Lancaster asked John Greenberg to summarize the proposed emerging manager program. On a motion made by Mr. Lancaster, and seconded by Patrick O'Shea, the Board authorized Staff to issue a Request for Proposals to retain a delegated advisor to implement and oversee an emerging manager program to retain investment managers with less than \$2 billion in assets under management.

Mr. Lancaster asked Mr. O'Shea, Chair of the Real Estate Subcommittee, to present the proposed Real Estate Policy and Strategic Plan to the Board. On a motion made by Mr. Lancaster, and seconded by Mr. O'Shea, the Board unanimously voted to adopt the Real Estate Subcommittee's Real Estate Investment Policy and Strategic Plan and to use actual weightings for interim performance measures while ramping up to the proposed target allocation of 70% to U.S. and 30% to non U.S.

Administrative
Committee
Recommendations and
Information Items

3. Mr. William Brown, Chairman of the Administrative Committee, reported on the meeting held March 7, 2006.

Mr. Brown reported that following an approval of the February 7, 2006 minutes and administrative fees, the Administrative Committee was updated by Mr. Pleines on legislation introduced to date. Both Board requested bills, HB1046 and HB1430, have had public hearings and are anticipated to pass. Mr. Brown noted that two Senate bills, SB1019 and SB1055, had been introduced providing enhancements to the pension enhancements.

Mr. Brown asked Ms. Margaret Bury to summarize for the Board the recently introduced House legislation, HB1737. The Board asked follow up questions of Ms. Bury and Mr. Markel. Staff noted that amendments are expected and they would update the Board as the legislation moves forward.

In light of HB1737, Mr. Brown then asked Mr. Lee to update the Board on MPAS-1. Mr. Lee stated that given the uncertainty of HB1737, he recommends that the MPAS-1 project be put on hold. Mr. Lee recommends a full briefing at the Administrative Committee meeting on April 4, 2006 and then a briefing for the full Board at the April 18th meeting. With acceptance of this recommendation, the special Board meeting scheduled for April 4th was cancelled.

Mr. Brown reported that the McLagan Compensation Study Report Findings item has been deferred until the special committee assigned to the issue reviews and reports back to the Administrative Committee. Action is expected in April.

The next Administrative Committee meeting is scheduled for April 4, 2006. Due to the cancellation of the special Board meeting, the time was moved back to 9:30 a.m. **EXHIBIT A**

Executive
Director's
Report

4. Mr. Lee restated the Board's decision that the Investment Committee perform an in-depth review of the issue of divestment from the Republic of Sudan and report back to the Board. Mr. Lee noted that a package of information on the issue had been passed out (package included the Lt. Governor's press release, *Washington Post* article, *Baltimore Sun* article, the Agency's testimony for the hearing and a P&I article provided by Major Krome).

Major Krome did raise concern with potential liability issues surrounding the divestment of funds. Mr. Lee noted that there are many intended and unintended consequences connected with the issue.

Medical Board
Reports

5. On motion made, and duly seconded, 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. **EXHIBIT B**

On motion made and duly seconded, the Board voted unanimously to meet in Executive Session pursuant to State Government Article 10-508(a)(5), which authorizes the Board to meet in closed session to consider the investment of public funds; and pursuant to State Government Article Section 10-508(a)(8) which permits the Board to meet in closed session to consult with individuals concerning litigation, and Section 10-508(a)(7) which authorizes the Board to meet in closed session to obtain legal advice.

EXECUTIVE SESSION

The Board met in Executive Session at 9:40 a.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider investment issues and pending litigation. There were present: William Donald Schaefer, Chairman; Nancy K. Kopp, Vice-Chairman; William D. Brown; John W. Douglass; David Hamilton; James M. Harkins; Sheila Hill; Cecilia Januszkiewicz; Morris L. Krome; Carl D. Lancaster; Dr. A. Melissa Moye, Patrick O'Shea, Trustees; and, Thomas K. Lee, Secretary. Agency Staff members attending were: Deborah Bacharach; Monica Bias; Anne Budowski; Margaret Bury; Carla Katzenberg; Jill Leiner; and Barbara Swain.

The Board ended its closed session at 9:55 a.m. and returned to regular session to complete the agenda.

REGULAR SESSION

Mabel T. Chaplin

6. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Mabel T. Chaplin for disability benefits. A report by the Medical Board, the Administrative Law Judge's Proposed Decision, and all related documents submitted by the parties were presented.

Ms. Chaplin's attorney, Damon Felton, appeared before the Board on behalf of Ms. Chaplin to oppose the Medical Board's decision, the Agency's position, and the Administrative Law Judge's Proposed Decision. Ms. Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should accept the Medical Board Report and the Administrative Law Judge's Proposed Decision. Following discussion, the Board deferred further consideration to Executive Session.

Johnetta Clark

7. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Johnetta Clark for accidental disability benefits. The Administrative Law Judge's Proposed Decision, a report by the Medical Board, and all related documents submitted by the parties were presented.

Ms. Clark appeared before the Board to oppose the Agency's position and the Administrative Law Judge's Proposed Decision. Ms. Carla Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's Proposed Decision. Following discussion, the Board deferred further consideration to Executive Session.

Patricia A. Smith-Rice

8. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Patricia A. Smith-Rice for disability benefits. A report by the Medical Board, the Administrative Law Judge's Proposed Decision, and all related documents submitted

by the parties were presented.

Ms. Smith-Rice appeared before the Board with her counsel and a supervised law student, Mr. Eric Dicesare, to oppose the Agency's position and the Administrative Law Judge's Proposed Decision. Ms. Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's Proposed Decision. Following discussion, the Board deferred further consideration to Executive Session.

Mary Cave

9. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Mary Cave for disability benefits. A report by the Medical Board, the Administrative Law Judge's Proposed Decision, and all related documents submitted by the parties were presented.

Ms. Cave and her attorney, Damon Felton, Esquire appeared before the Board to oppose the Agency's position and the Administrative Law Judge's Proposed Decision. Ms. Carla Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's Proposed Decision. Following discussion, the Board deferred further consideration to Executive Session.

On motion made and duly seconded, the Board voted unanimously to meet in Executive Session to deliberate disability appeals, pursuant to State Government Article, Section 10-503(a)(1)(iii) which authorizes the Board to meet in closed session to carry out a quasi-judicial function.

EXECUTIVE SESSION

The Board met in Executive Session at 12:05 p.m. in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider disability appeals. There were present: William Donald Schaefer, Chairman; William D. Brown; John W. Douglass; James M. Harkins; Sheila Hill; Morris L. Krome; Dr. A. Melissa Moye, Trustees; and, Thomas K. Lee, Secretary. Agency Staff members attending were: Deborah Bacharach; Monica Bias; Anne Budowski; and Margaret Bury.

The Board ended its closed session at 12:15 p.m. and returned to regular session to complete the agenda.

REGULAR SESSION

On motion made and duly seconded, the Board voted to ratify actions taken in Executive Session.

Minutes

On motion made by Ms. Hill, and duly seconded, the Board approved the minutes of the February 21, 2006 closed session meeting.

- Mabel T. Chaplin The Board considered the appeal of Mabel T. Chaplin. Following a discussion, on a motion made by Mr. Douglass, seconded by Mr. Brown, the Board voted to remand the case back to the Medical Board for further review with a request that another doctor conduct an independent medical exam. Mr. Hamilton, Major Krome and Mr. Harkins are recorded as opposing the motion.
- Johnetta Clark The Board considered the appeal of Johnetta Clark. Following a discussion, on a motion made by Mr. Brown, and seconded by Mr. Harkins, the Board voted to adopt the Administrative Law Judge's Proposed Decision and deny Ms. Clark's request for accidental disability benefits.
- Patricia A. Smith-Rice The Board considered the appeal of Patricia A. Smith-Rice. Following a discussion, on a motion made by Mr. Brown, and seconded by Mr. Hamilton, the Board voted to accept the Medical Board's decision and deny disability benefits.
- Mary Cave The Board considered the appeal of Mary Cave. Following a discussion, on a motion made by Ms. Hill, and seconded by Dr. Moye, the Board voted to remand the case to the Medical Board for further fact finding.
- James H. Thomas, Jr. The Board considered the appeal of Mr. Thomas. Following a review from counsel, on a motion made by Major Krome, and seconded by Mr. Brown, the Board voted to remand the case to the Office of Administrative Hearings for a full evidentiary hearing.

There being no further business before the Board, the meeting adjourned at 12:17 p.m.

Respectfully submitted,



Thomas K. Lee
Secretary to the Board

TKL/mcb