

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

MINUTES OF MEETING

September 17, 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 5:30 a.m. There were present Vice Chairman Nancy K. Kopp, T. Eloise Foster (via tele-conference), Arthur N. Caple, Jr. (via tele-conference), Debra Humphries, William D. Brown (via tele-conference), Carl D. Lancaster, David Rakes, Major Morris L. Krome, G. Bruce Harrison, Dr. Ali A. Alemi, Trustees, and Peter Vaughn, Secretary, Margaret A. Jury, Retirement Administrator. Agency Staff members also attending were Deborah Bucharach, Robert Feinstein, Carla Katzenberg, and Jill Leiner, Assistant Attorneys General, Carol Boykin, Chief Investment Officer, Howard Pleines, Legislative Director, Thomas Gigliotti, Chief Internal Auditor, Mr. Joseph Coale, Public Information Officer, Gary Scribner, Chief Information System Officer, and Gwen Mulkey, Executive Associate.

Also present were Mary Jo Neville, Maryland State Teachers Association, Anne Gawthrop, Department of Legislative Services, William Kahn, Principle Counsel of Contract Litigation unit of the Attorney General's office, and Dana Reed, Deputy Counsel of the Contract Litigation unit of the Attorney General's office, and Kathy Morris, Assistant Attorney General, and Dean Kenderdine, Office of the Comptroller.

Treasurer Kopp welcomed Mr. Vaughn following his back surgery.

Minutes 1 On motion made by Mr. Lancaster and duly seconded, approval of the Minutes of the regular meeting of the Board of Trustees for the State Retirement and Pension System of Maryland, held on August 20, 2002, was deferred until the October Board of Trustees meeting in order to make corrections as submitted by Mr. Lancaster. It was noted that the Second correction requested by Mr. Lancaster was not necessary because there was no Audit Committee Meeting on July 16, 2002. The third item was not part of the Regular minutes but was recorded during the Executive Session portion of the Minutes.

Minutes 2 On motion made by Mr. Brown and duly seconded approval of the minutes of the Executive Session of the Board of Trustees for the State Retirement and Pension System, held on August 20, 2002 was deferred to the end of the agenda.

Barbara Moore

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The Board considered the report of the Administrative Law Judge in connection with the claim of Barbara Moore, for ordinary disability benefits. The report included a report by the Medical Board, claimant's exceptions, and related medical documentation.

The Medical Board denied Ms Moore's claim for ordinary disability retirement benefits based on their determination that the medical evidence submitted by Ms Moore did not substantiate that she is permanently incapacitated from performing her job duties. Ms Moore appealed the Medical Board's decision.

Caroline Gallaher, representing Ms Moore presented her arguments opposing the Agency's position and the Administrative Law Judge's recommendations. Ms Jill Leiner, attorney for the Agency, addressed the Board and argued that the Board should accept the Medical Board's report. Following discussion, the Board deferred further consideration to Executive Session.

Lind Bara-Weaver

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The Board considered the report of the Administrative Law Judge in connection with the claim of Lind Bara-Weaver, for accidental disability benefits. The report included a report by the Medical Board and all related documentation submitted by parties to the Administrative Law Judge are presented.

The Medical Board denied the claim for accidental disability retirement benefits based on their determination that the reported accident was not the direct cause of the Claimant's disability.

At the request of the Claimant, the case was heard on the record. 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.

Edward Maycock

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At the claimant's request, Mr Maycock's case was deferred until the December 2002 Board meeting.

April Ellis

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The Board considered the report of the Administrative Law Judge in connection with the claim of April Ellis, for accidental disability benefits. The report, included a report by the Medical Board and all related documentation submitted by parties to the Administrative Law Judge are presented.

Dr. Alenu informed the Board that he would abstain from Ms Ellis's case because he is acquainted with the claimant. Mr Andrew Mecham, representing Ms Ellis presented his arguments opposing the Agency's position and the Administrative Law Judge's recommendations. Ms Carla Katzenberg, 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.

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Mr Arthur Caple, Chairman of the Investment Committee, reported on items discussed at the Board Retreat on Solomons' Island. Mr Caple requested Mr Robert Feinstein review the discussion relating to class action suits as discussed at the Retreat. Mr Feinstein reminded the Trustees that the existing Board policy is to be passive in nature. A recent audit of recoveries indicated that State Street is performing very well in recovering funds for the System as part of these suits. The discussion at Solomons' Island pertained to altering the current policy to consider becoming Lead Plaintiff and possibly recover more monies in class action suits involving the System.

Mr Feinstein stated that legal staff advised the board on August 2, 2002 of a process the Board could utilize if it decided to become more active.

Attachment 1

Mr Harrison questioned why the Board would want to pay an additional cost to monitor these cases when it has been noted that State Street is doing an excellent job in recovering funds for the System. Ms Boykin noted that this would be another type of monitoring separate from State Street's capabilities which, in part, would determine if the Board should become more active in these suits. Major Krome asked if, in effect, State Street monitored after the fact, and was answered in the affirmative. In some cases the Board might petition to be the lead plaintiff. Ms Boykin noted that the evaluators would look at the cases and determine if the case should be pursued by the System.

Mr Harrison asked if the Attorney General's Office had determined whether the Board would have been lead plaintiff in any suit. Mr Feinstein indicated that no study had been done. The mega-cases require the largest investor to be the lead. Mr Lancaster suggested that is not always true, indicating the suit against Waste Management as an example.

Mr Caple motioned to adopt the recommendation to establish a claims monitor, an evaluator and claims attorney as presented to the Trustees at Solomons' Island. Mr Lancaster suggested that the motion be amended to require the preparation of a policy statement to bring to the Board in October with all steps for the Board's review, including an appropriate threshold for involvement in suits. Ms Bacharach noted that the monitoring process would occur through the Investment Division and not the Attorney General's Office. Mr Lancaster and Major Krome noted the need for a written policy. Ms Humphries and Mr Rakes expressed the need for more details on the proposal before the Board takes action.

With Mr Caple's approval to withdraw his original motion, the Board voted to accept Mr Lancaster's alternative motion that staff draft a policy statement involving class action suits to present to the Board at its October meeting.

- a) Investment Operations Manual Sub-Committee report - Ms Humphries informed the Board that the IOM Sub-Committee is in the process of documenting the differences between the outdated policy and Institutional Shareholder services (ISS) standard policy for public funds. Ms Humphries stated that the goal is to update the proxy policy.

- b) Minority Brokerage Sub-Committee -- Ms Humphries informed the Board that the Sub - Committee is in the process of reviewing domestic equity transaction costs for total plan with Elkins McSherry, and reviewing results of directed brokerage program for Maryland and minority broker targets. Mr Lancaster stated he hasn't seen brokerage reports recently
- c) Minority Participation Policy Sub-Committee - Mr Rakes stated that the draft of the policy had been completed and that the Sub-committee was awaiting legal review of said draft
- d) Real Estate Sub-Committee - Mr Lancaster presented a summary of Lasalle's financing proposal that shows the cash flow projections and return enhancements for two properties using a 50% loan to value for each property. The Sub-committee discussed the proposal and decided to defer action until the issue of reinvesting the loan proceeds in new acquisitions is addressed

Next, Mr Lancaster stated that the sub-committee received a staff report concerning the legal and regulatory constraints on the Direct Ownership Program with the Board's expansion of the real estate investment scope to the Eastern Time Zone of the United States. Mr Lancaster explained that the timing of the property acquisition authorization by the State Board of Public Places places the Program at a competitive disadvantage with other institutional real estate investors.

Finally, Mr Lancaster informed the Board that the Sub-committee received a staff report regarding the real estate acquisition opportunities during the last 18 months and their latest status.

Executive Director's 8  
Report

Mr Vaughn again thanked Margaret Bury and senior staff members for keeping the Agency running during his absence. Additionally, Mr Vaughn thanked the Board for their kindness and patience.

Mr Vaughn reported the legislative audit is approximately 95% complete for testwork and entirely done with main financial statements. The Compliance audit is 95% complete excluding the Strategic Systems Contract review. No reportable issues have been identified to date. The Completion is scheduled for November 1<sup>st</sup> including the Actuarial data.

Mr Vaughn advised the Board that the Board Governance and Policy issue will be discussed at the October Executive Committee Meeting. All Trustees are encouraged to attend and provide input into the RFP.

Mr Vaughn stated that the Actuary will be at the October Board meeting to review the Actuarial valuation for year ended June 30, 2002 and will recommend contribution rates for FY 2004.

Mr Vaughn noted that the annual member benefit statements will be in the mail by the end of September.

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Mr Vaughn advised the board that in the coming months there would be additional Disability cases for the Board to hear and decide to keep up with increased claims

Treasurer Kopp requested that in the future Mr Vaughn's report be presented to the Board in writing Mr Vaughn stated that he would comply with the Treasurer's request

Committee and  
Sub-Committee Reports  
and Recommendations

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No reports were necessary for the Ad-Hoc Communications Committee and the Ad-Hoc Benefit Improvement Sub-Committee because no meetings were held

Civil Court  
Decision

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Mr Vaughn stated that the Agency received a favorable outcome of the appeal of Ted Smith versus the State Retirement & Pension System of Maryland  
Attachment 2

Medical Board  
Reports

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On a motion by Mr Rakes and seconded by Major Krome, the Board accepted the reports of the Medical Board in connection with applications of members for ordinary, accidental, and special retirement allowances  
Attachment 3

Supplemental Medical

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On motion by Major Krome and seconded by Dr Alemu, the Board accepted the Reports supplemental reports of the Medical Board in connection with applications of members for ordinary, accidental and special retirement allowances  
Attachment 4

On motion made by and seconded by Mr Rakes and seconded by Major Krome, the Board voted to meet in Executive Session, with a unanimous vote to consider the following matters deliberations regarding the disability appeals, obtain legal advice and discussion with staff and counsel regarding potential litigation State Govt Article, Section 10-503(a)(1) authorizes the Board to meet in closed session to exercise a quasi-judicial function Section 10-508(a)(7) authorizes the Board to meet in closed session to obtain legal advice, and Section 10-508(a)(8) authorizes the Board to meet in closed session to consult with staff or other individuals about pending or potential litigation

EXECUTIVE SESSION

The Board met in Executive Session at 12 15p m in the Boardroom of the SunTrust Building at 120 East Baltimore Street to consider the appeals of Barbara Moore, Lind Bara-Weaver, and April Ellis, to discuss pending or potential litigation, to obtain legal advice, and the investment of public funds All of the persons present at the beginning of the meeting were present in Executive Session except the following Mary Jo Reilly, Anne Gawthrop, Jill Liener, Carla Katzenberg, Barbara Moore, April Ellis, Caroline Gallagher, Andrew Mecham The Board adjourned its Executive Session at 1 40 p m and returned to regular session to complete the agenda

REGULAR SESSION

Barbara Moore

The Board considered the record of Barbara Moore Following a discussion, on motion made Mr Harrison and seconded by Dr Alemi, the Board voted unanimously to remand the case to the Medical Board The Board directed that a new IME be performed by a Doctor mutually agreed upon by both parties

Lind Bara-Weaver

The Board considered the record of Lind Bara-Weaver Following a discussion, on motion made by Dr Alemi and seconded by Mr Rakes, the Board voted unanimously to accept the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and deny Ms Bara-Weaver's request for accidental disability retirement benefits

April Ellis

The Board considered the record of April Ellis Following a discussion, on motion made by Major Krome and seconded by Ms Humphries, the Board voted to accept the Administrative Law Judge's Proposed Findings of Fact and Conclusions of Law and deny Ms Ellis's request for accidental disability retirement benefits Dr Alemi abstained for reasons previously stated

Other Business 13

Adjournment 14

There being no further business, the meeting adjourned at 3 00 p m

Peter Vaughn  
Secretary to the Board

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