

**BOARD OF TRUSTEES FOR THE  
STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND  
MINUTES OF MEETING**

September 21, 2010

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 9:12 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman	Peter Franchot, Vice-Chairman	David Blitzstein	William Brown
John Douglass	T. Eloise Foster	James Harkins	Sheila Hill
F. Patrick Hughes	Major Morris Krome	Theresa Lochte	Robert Schaefer
Harold Zirkin	Thurman Zollicoffer, Jr.	R. Dean Kenderdine, Secretary	

Agency Staff members attending included:

Anne Budowski	Robert Burd	Margaret Bury	Steve Cichelli	Melody Countess
Brian Feilinger	Patricia Fitzhugh	Michael Golden	Dennis Krysiak	Mansco Perry, III
Howard Pleines	Kenneth Reott	Janet Sirkis	Patrice Sowah	Michael Thompson
Toni Voglino	Victoria Willard			

Assistant Attorneys General attending:

Deborah Bacharach	Rachel Cohen	Melissa Warren	Kathy Brady
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Also attended by:

John Kenney	Melissa Moye	Dylan Baker	Anne Gawthrop	Anthony Phillip
Michael Rubenstein	Robert Palumbi			

SB & Company, Tiana Wynn, Senior Associate and William Seymour, Engagement Partner

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| Minutes  | 1. On a motion made by Ms. Hill and duly seconded, the Board approved the minutes of the August 17, 2010 open session meeting.  |
| Executive Director's Report                          | 2. Mr. R. Dean Kenderdine reported on recent Agency developments.<br><br>Mr. Kenderdine reported that the Agency currently has over 3200 estimate requests. Ms. Margaret Bury commented that the high number is a result of the previously 38,000 IRS letters mailed out in August.<br><br>Mr. Kenderdine reported that each year the Legislative Black Caucus of Maryland General Assembly recognizes State agencies for best practices with Minority Business Enterprises. The Agency has been nominated for the 2010 MBE Best Practices Awards. The top ten finalists will be announced during the Caucus' Business over Breakfast event on Saturday, November 6 <sup>th</sup> , and the awardees will be announced during their Gala that evening.<br><br>Mr. Kenderdine reported that the Sustainability Commission is scheduled to have its first meeting on October 7, 2010 at 10 a.m. in the House Appropriations meeting room. |
| CIO Report   | 3. Mr. Mansco Perry, III commented on the portfolio's performance.<br><br>Mr. Perry reported that as of August 31, 2010 the trust was up 2.72% for a total of \$32.5 billion. The September fiscal year-to-date return was 7.5%.  |
| Medical Board And Supplemental Medical Board Reports | 4. On a motion made by Ms. Hill and seconded by Major Krome, the Board of Trustees accepted all 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 documentation in the file.  |

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- Trustee Recognition 5. Chairman Kopp, Mr. John Douglass, and Mr. Kenderdine, on behalf for the entire Board, recognized the numerous people who worked diligently planning, developing, and testing the new Maryland Pension Administration System (MPAS). Those dedicated individuals included:

Board of Trustees Liaison Mr. John Douglass

**Steering Committee**

Deborah Bacharach	Anne Budowski	Margaret Bury	Steve Cichelli
Melody Countess	Ira Greenstein	Dean Kenderdine	Calvin Kiser
Dennis Krysiak	Cathie Nash	Fred Semko	

**Project Management Office**

Harvey Raitzyk — Business Sponsor

Susan Beasley	Scott Masters	Dina McKenny	Mia Mitchell
Kimberly O'Keefe			

**Staff Contributors**

Dennis Amell	John Attumalil	Afonagnon Azondekon	Lorin Barnes
Beverley Bowens	Mark Brooks	Stephanie Collier	Angela Cook
Erica Corbin	Ronda Crafton	Jerome DeShields	Scott Dickens
Jaime Doran	Brian Feilinger	David Fisher	Carla Foster
Louis Foudos	Laura Gorrell	Lynnea Green	Mildred Green
JoAnne Gross	Cheryl Hagan	Karen Hall	Margaret Hampton
Melissa Harrison	Tareq Ibrahim	Corinne Jackson	Vincent Johnson
Shawn Lauer	Chris Magtanong	Tarsha McClamy	Robin McClelland
Delores Mitchell	Thomas Montanye	Leslie Parker	Kailash Pathak
Jeffrey Peacock	Joe Puller	Kenneth Reott	Charlotte Rich
Tony Roberts	Brian Rowe	Barry Schaub	David Shade
Danielle Sherrod	Janet Sirkis	Scott Snyder	Charles So
James Sutton	David Toft	Toni Voglino	Lynn Yarrell-Pickens
Don Zorn			

Members of the MPAS Project Management Office received individual Board resolutions and plaques, which were presented on behalf of the Board by Mr. Douglass.

Mr. Brown, on behalf of all of the Trustees, thanked everyone who had been involved with the legacy conversion project from the beginning making MPAS a success.

- Administrative Committee Report 6. Major Morris Krome, Vice-Chairman of the Administrative Committee, reported on the regular meeting held on September 7, 2010.

Major Krome reported that Mr. Kenderdine introduced the Retirement Agency's Budget Request for FY2012.

Major Krome reported that it is essentially a flat budget similar in format to those presented to the Committee in prior years. He stated that the workload for the Agency continues to increase, and that based upon this year's record requests for estimates, it can be anticipated that in the next year there may be a significant increase in retirees.

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Major Krome reported that the request for FY2012 is \$26,066,000 for the operational budget and MPAS project development initiatives of \$2,500,000 for a combined FY2012 budget of \$28,566,000. The Department of Budget and Management (DBM) target for the Agency is \$25,459,000. The statutory cap for FY2012 is \$34.5 million. The increase in the operational budget request reflects an increase in general payroll (restoration of furlough related funds), the Agency assuming MPAS operations and routine inflation.

Major Krome reported that the baseline request does not reflect unfunded new initiatives that include the following:

- ▶ Internal Audit – Investment/Benefits Administration Audit Teams (three positions). These new positions would combine with existing staff to create two dedicated audit groups with one supervisor and two auditors in each. Expanding audit needs include the need to conduct risk assessments, internal control and compliance reviews of the Agency's investment portfolio and covering the risks associated with the System's information systems (critical due to the implementation of the MPAS system which is to be controlled in-house).
- ▶ Information Systems, Information Security and Quality Assurance Unit (one position). This new position is to ensure optimal security of confidential information for the 350,000 members and retirees whose account data is maintained by the Agency, in a computer system now operated by the Agency.
- ▶ Benefits Administration, Data Control (three positions). These positions would strengthen Data Control's Disability/Death Earnings Audit Division's ability to effectively research, monitor, and audit payment records on the Retirement Master File. This is necessary to ensure that payments are appropriate and reaching the intended payees.
- ▶ Benefits Administration, Benefits Processing (one position). This position would be responsible for ensuring that the System complies with Federal law that requires benefit payments to begin no later than age 70 1/2 to former vested members. There is a significant population of our membership who are vested and fail to apply for benefit at normal retirement age. The process of locating these "missing" vested members is very time consuming.
- ▶ Investments (three positions). These positions – one additional Program Manager Senior IV and two Senior Investment Analysts – reflects the necessity to provide optimal oversight of the System's increasingly complex investment asset allocation. These individuals will be required to have in-depth knowledge of very complex asset classes and investments, as well as very high-level analytical skills of both a quantitative and qualitative sort.
- ▶ Information Systems, Systems Development Unit (one position). This position of Database Administrator reflects the Agency's long-term requirement to invest in technology-based solutions in-house,

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rather than seek more expensive outside contractors.

- Finance, Budget and Contracts (one position). This is a contract conversion that reflects new duties that pertain to Budget and Finance as well as Procurement duties. The Agency has invested both time and funding in the training of this position and wants to make effective use of the employee before hired away to a permanent position elsewhere.

On a motion made by Major Krome and seconded by Ms. Hill, the Board approved the FY12 budget proposal.

Major Krome represented the 2011 Legislative Proposals as follows:

Repeal §21-307(e)

Section 21-307(e) provides that for a member of the State Police Retirement System, the State shall pay the cost of special death benefits "up to the current contribution rate for employers for federal old age, survivors, and disability insurance", and the member is to pay the cost of the special death benefit in excess of this amount. The State pays the full costs of each special death benefit when the member's death arises out of or in the course of actual performance of duty.

The Agency never had the means to determine what amount/rate would be payable under federal old age, survivors and disability insurance and, therefore, the State has always funded the total costs of special death benefits for State Police. The Committee agreed to recommend to the Board that §21-307(e) be repealed.

Contacts with Former Members

The Retirement Agency has thousands of accounts for former members who are entitled to a refund of their employee contributions with interest and, in some cases, for former members entitled to a vested benefit or service retirement. The Retirement Agency through direct and outside mailings attempts to notify these individuals of their rights. However, there are still many who do not respond. To improve communications with the membership pertaining to these benefits, the Committee agreed to recommend to the Board that the Public Information Act be amended to permit the Agency to post information pertaining to these accounts on the Agency's website, and possibly on the Comptroller's website as well (Comptroller routinely advertizes abandoned property accounts).

Filing for Benefits

Pension law (§29-103) gives a department head, the Superintendent of State Police and school superintendents the right to file for a disability retirement if a disabled member is unable to apply. The Superintendent for State Police can also sign the application if the member refuses to submit a disability application. In some instances disabled members also may qualify for a service retirement that will provide a benefit greater than their ordinary disability benefit; however, the department head or superintendent cannot file the needed service retirement application to provide the higher service retirement allowance. The Committee agreed to recommend to the Board

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that §29-103 be amended to permit the department head or school superintendent to sign and submit a disability or service retirement application, whichever provides the greater benefit.

Exemption from Earnings Limitation

Under current pension law, retirees who return to work for the same employer from which they retired are subject to an earnings limitation, under which the entire amount of their pension benefit could be offset. The Retirement Agency's practice has been to limit the offset of the monthly allowance subject to recovery so that the portion of the monthly benefit needed to cover the cost of health insurance premiums was available. The amount of the health insurance costs was then carried over to be recovered in the next fiscal year or future fiscal years. Legal staff have noted that this practice must be codified. Therefore, the Committee agreed to recommend that pension law be amended to provide that the Retirement Agency can deduct the cost of a retiree's health insurance for any retiree subject to an earnings limitation, with the amount deducted for health insurance premiums carried over for recovery in future years.

Qualified Service Needed to Claim Military Credit

Section 38-104 of the State Personnel and Pensions Article permits members of the various systems within the Maryland Retirement and Pension System to claim up to five years of service credits for active military duty that occurred prior to their membership, after they have accrued ten years of creditable service. Creditable service includes time earned through employment as a member, other military credit granted, purchases of service, and unused sick leave credits.

Staff believes that it was the General Assembly's intent to permit members to claim military service served prior to membership only after working ten years in the System and thus accruing one-third of a full service retirement. However, as the statute currently reads, a member may work as few as five years and retire with eighteen years of credit, thirteen of which are military service. The Administrative Committee agreed to recommend to the Board that §38-104 be amended to clarify that members filing for prior military credit must work for a participating employer no less than ten years before being eligible to claim credit for military service that occurred prior to membership

Powers of Attorney

House Bill 659 (Chapter 689 of the Acts of 2010), Maryland General and Limited Power of Attorney Act (Loretta's law), effective October 1, 2010, imposes new rules regarding Powers of Attorney (POAs) that will have an impact on the Maryland Retirement and Pension System. The new law may be construed to require mandatory acceptance of POAs by the Retirement Agency. Staff does have concerns pertaining to gifting transactions and the changes of beneficiary by an agent under a POA. The new "Maryland Statutory Form Personal Financial Power of Attorney" does not address the issue of whether or not an agent may create or change beneficiary designations or make gifts to him or herself from the principal's assets.

Under the new Loretta's Law, the Agency will run the risk of adverse legal action if it rejects a statutory form power of attorney that changes the

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beneficiary or permits self-gifting. However, if the Agency accepts the requested change it runs the risk of an adverse legal action from a previously designated beneficiary.

Therefore, the recommendation is that the State Personnel and Pensions Article be amended by creation of a new section in the general rules -§20-210) to provide:

1. that the System, Board of Trustees and the Retirement Agency are not subject to the new provisions of §17-104 of the Estates and Trust Article which mandates acceptance of statutory form POAs, and grants attorney fees and costs of an enforcement action if the initial POA is rejected and later deemed to authorize the requested transaction;
2. that an agent may not alter the principal's designation of beneficiary or make a beneficiary designation unless a valid POA explicitly authorizes the agent to create or change a beneficiary designation; and,
3. that if the agent is naming himself/herself or any third party to whom the agent owes a duty of support or financial obligation as the beneficiary, the POA must explicitly authorize the agent to both (1) create or change a beneficiary designation and (2) make a gift to himself/herself from the principal's property.

Technical Correction §29-202(b)

Section 29-202, Death Benefits – generally, provides that a death benefit may not be paid if special benefits are to be paid for the State Police Retirement System, the Correctional Officers' Retirement System, the Employees' Retirement and Pension Systems, and the Teachers' Retirement and Pension Systems. This section does not currently include a reference for the Law Enforcement Officers' Pension System. The Committee agreed to recommend that this oversight be corrected.

On a motion made by Major Krome and seconded by Ms. Hill, the Board approved the 2011 Legislative Proposals outlined above.

Major Krome reported that the Administrative Committee discussed and approved for recommendation to the Board, a 2011 Legislative Proposal concerning setting a minimum benefit rule for COLAs. The recommended proposal was to request technical amendments to Title 29, Subtitle 4, Cost-of-Living Adjustments, to provide that retirees in each member system may not receive less than their initial allowance earned based on their service credits and average final compensation at retirement.

The Board discussed this proposal at length. On a motion made by Mr. Hughes and seconded by Ms. Lochte the Board approved submitting the COLA proposal to the Joint Committee on Pensions (JCP) not as a request for legislation, but rather as a recommendation for the JCP's consideration. Mr. Douglass, Ms. Hill, Major Krome, and Mr. Blitzstein opposed.

Treasurer Kopp stated that the Board was not in opposition to the legislation being recommended by the Administrative Committee, however, the Board must acknowledge the statutory restrictions on the Board as related to matters involving changes to benefits.

Major Krome reported that Mr. Michael Golden presented information

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pertaining to the Agency's communication activities during July and August. Two articles have been published: one related to COLAs and the other to the positive investment return for FY2010. The External Affairs Office conducted an Agency-wide survey to improve the effective usage of the Agency's Intranet (SRA Café) produced a 60% return from staff. The summer issue of the membership newsletter, the Mentor, was issued in August. Planning to issue an RFP to create three videos to address vital issues for the System, including the value and effectiveness of defined benefit plans, to be placed on the Agency websites, and for other uses. The Agency is on Facebook. Major Krome reported that the Administrative Committee accepted the reports of the Administrative Expenses and Management Fees ending June 30, 2010.

Major Krome reported that the Administrative Committee accepted the report on MBE Performance for the quarter ending June 30, 2010; a 29.45% MBE performance for FY2010.

Major Krome reported that Ms. Anne Budowski updated the Committee on the performance of the Member Services Unit through the month of July, noting that the Agency did not meet its goals for the abandonment rate and answering calls in July due primarily to the thousands of letters mailed on the Agency's behalf by the Internal Revenue Service to vested and inactive members. The abandonment percentage was 7.9%, which is 1.9% over our goal of 6%; the average speed in answering calls was 2:31, or 61 seconds more than our goal of 90 seconds. The Member Services Unit answered 13,677 of 14,853 incoming calls in July, as compared to only receiving 8,857 calls in June. There were over 6,000 voice mail messages, and over 3,300 email inquiries.

Major Krome reported that Mr. Kenderdine reported having had the pleasant task of advising the Trustees and the leadership of the Maryland General Assembly that the MPAS-1 Project had gone live in August. He indicated that the Agency had held a luncheon to thank all those on staff who worked on the MPAS project over the years for the time and extra effort put forth to complete this complex project.

Investment  
Committee  
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7. Mr. Robert Schaefer, Chairman of the Investment Committee, reported on the meeting held on September 10, 2010.

Mr. Schaefer reported that the Investment Committee unanimously approved the May 14, 2010 open meeting minutes, with the inclusion of three amendments proposed by Mr. Blitzstein.

Mr. Schaefer reported that Mr. Perry introduced three new Senior Investment Analysts to the members of the Committee: David E. Ferguson, CFA; Benjamin (Ben) Gong; and Stephen Muturi. Mr. Ferguson and Mr. Gong both joined the Investment Division in August, while Mr. Muturi, who is presently employed with the Agency in another division, will start with the Investment Division on September 22, 2010. Mr. Perry also noted that the Division hopes to fill one remaining Senior Investment Analyst position in the near future.

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Mr. Schaefer reported that the Investment Committee received staff's overview of the System's portfolio performance during the fiscal year ended June 30, 2010. Among the topics discussed:

- FY performance - The System's overall plan performance was 14.03% compared to the policy benchmark's return of 11.81%.
- Trust Universe Comparison Service ("TUCS") – For the year ending June 30, 2010, the System was in the 35<sup>th</sup> percentile of the TUCS universe for all public funds with assets over \$25 billion, and the 28<sup>th</sup> percentile in the TUCS universe for all public funds with assets over \$1 billion.
- Public Equity – The public equity program's fiscal year return was 15.58% compared to the benchmark's return of 12.91%. Mr. Perry noted that if the results of the currency program were excluded, the results would not have been as favorable.
- Domestic Equity - Mr. Perry noted that domestic equity's return was 15.91% compared to the benchmark return of 15.72%. He pointed out that domestic equity is 45% passively managed against the Russell 1000 index, which represents large and medium cap stocks. He also noted that the Terra Maria program, which accounts for roughly a quarter of the public equity portfolio, has generated significant absolute return and is heavily weighted to small cap stocks.
- International Equity – This component returned 15.17% compared to benchmark's 11.49%. Mr. Perry noted that excluding returns from currency management, this component underperformed its benchmark by 59 basis points. He opined that Staff did well with manager selection, but noted that structural issues with the existing benchmark (which were being addressed at this meeting) were a detractor. He also noted that the portfolio was underweight in the emerging market sector.
- Global equity – This component returned 15.44%, compared to the benchmark return of 13.07%. Mr. Perry noted that good manager selection contributed to the program's strong returns, and indicated that the structural issues noted above also impacted global equity.
- Terra Maria Program - Mr. Perry stated that Terra Maria program has done well, outperforming its benchmark by 43 bps for the fiscal year and 305 bps since inception. Approximately 74% of the Terra Maria program consists of domestic equity managers. There are a few global equity and fixed income managers, and one inflation-linked bond manager. Mr. Perry reminded the members of the Committee that consideration is being given to potentially expanding the program to the alternative asset classes. In response to questions, Mr. Perry indicated that there has been a fair amount of turnover within the Terra Maria Program to date. He also indicated that two managers from the Terra Maria Program have moved from that program and have been given equity mandates for the System. In response to a question regarding resourcing and oversight, Mr. Perry opined that, with the help of the seven "program managers" which serve as extensions of staff, the resources are in place to properly monitor the Terra Maria Program's approximately 80 managers.

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- ▶ Currency management program – Mr. Perry described the objectives of the System's currency management program, briefly reviewed the strategy employed by Record Currency Management, and noted the program's results to date. Record Currency has succeeded in maintaining a "protected currency return" of \$322.53 million for the System from inception through June 30, 2010.
- ▶ Fixed income – The fixed income program returned 14.31%, compared to the benchmark's 9.53%. Mr. Perry noted that these returns are extremely strong, especially given the fixed income program's core orientation, and are not likely to be repeated.
- ▶ Absolute return – One year return of 7.47%, compared to benchmark's 4.86%. It was noted that there are five managers in this asset class at present: three 'global macro' managers (Bridgewater, Mellon and BlackRock Global Investors); one diversified fund of hedge funds (Rock Creek Group); and one multi-strategy manager (FrontPoint).
- ▶ Credit/debt strategies – One year return of 19.2%, compared to benchmark's 17.4%. Mr. Perry noted that the Board of Trustees recently approved increasing the size of this allocation. In discussing the composition of this allocation, Mr. Perry indicated that most managers in this space typically would have been housed in the private equity allocation. There is also some dedicated high yield exposure in this allocation. Areas of opportunity include emerging market debt, credit-oriented funds, and flexible credit mandates.
- ▶ Private equity - One year return of 14.2%, compared to the benchmark's return of 20.8%. Mr. Perry noted that, because of staff's concerns that the normal cycle of call downs and distributions has been broken since late 2008, staff feels that it is appropriate to slow the pace of new commitments.
- ▶ Real estate - One year return of 3.55%, compared to the benchmark's 4.45%. Mr. Perry noted the disappointing returns that have been generated by this asset class in the last few years. He reminded the members of the Committee that the direct real estate program is being wound down, and noted that LaSalle is in the process of marketing one of the System's retail properties. He also noted that the REIT allocation is being reduced to roughly 20% of the real estate portfolio, and that the program will likely have more of a core orientation going forward.
- ▶ Real return – One year return of 12.1%, compared to the benchmark's 7.41%. Staff summarized the progress that has been made in filling out this allocation, in commodities, timber, infrastructure and Master Limited Partnerships, but noted that U.S. and non-U.S. inflation linked bonds remain the dominant investment in the real return program.

Mr. Schaefer reported that during the portfolio review the Investment Committee also discussed:

- ▶ Budgetary matters, including the Investment Division's travel budget. The members of the Committee advised that their priority is to insure that

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necessary due diligence and monitoring activities continue to be performed.

- › Collaboration between staff and Ennis Knupp - Mr. Perry pointed out that Ennis Knupp is now providing quarterly reports that augment staff's due diligence efforts. Ms. Suzanne Bernard, Ennis Knupp, added that these reports identify strengths and weaknesses of the System's investment managers. Staff and the consultant are conducting quarterly meetings to review these reports. Mr. Perry also noted that Ennis Knupp is providing staff with input regarding potential managers.

Mr. Schaefer reported that the Investment Committee received the following reports:

- › Ennis Knupp's second quarter performance report
- › Ennis Knupp's Flash Report
- › State Street Performance Reports
- › Quarterly TUCS Results
- › PE & RE Updates
- › Securities Lending Report
- › Broker Commission Reports
- › OPEB Update
- › 1Q10 PE Performance Report

Mr. Schaefer reported that the Investment Committee received a recommendation from Staff regarding proposed changes to the System's international and global equity benchmarks. Mr. Perry explained that the MSCI All Country World Investable Market Index (the "ACWI IMI") is an extension of the MSCI All Country World Standard Index (the "ACWI Standard") which provides exposure to small cap stocks from both developed and emerging markets. Most managers continue to manage against the ACWI Standard. Moreover, due to the lack of liquidity, most managers continue to ignore the small cap area.

Mr. Schaefer reported that Staff's recommendation to change the System's international and global equity benchmarks back to the ACWI Standard, retroactive to July 1, 2010. Ms. Bernard concurred with Staff's recommendation, noting that this issue could be revisited as managers and the product marketplace continue to evolve.

After discussion, the Investment Committee unanimously agreed to accept Staff's recommendation that the benchmarks for global equity and international equity be changed from MSCI ACWI IMI to MSCI ACWI Standard and MSCI ACWI Ex-U.S. IMI to MSCI ACWI Ex- U.S. Standard, respectively, retroactive to July 1, 2010.

On a motion made by Mr. Schaefer and seconded by Ms. Hill, the approved benchmarks for global equity and international equity should be changed from MSCI ACWI IMI to MSCI ACWI Standard and MSCI ACWI Ex-U.S. IMI to MSCI ACWI Ex- U.S. Standard, respectively, retroactive to July 1, 2010.

Audit  
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8. Mr. F. Patrick Hughes, Chairman of the Audit Committee, reported on the regular meeting held on August 17, 2010.

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Mr. Hughes reported and acknowledged Mr. Brian Rowe's, Chief Internal Auditor, December 31, 2010 retirement.

Mr. Hughes' report included the Internal Audit budget request that includes \$75,000 for conducting audits of investment activities and operations in a co-sourcing arrangement with an independent contractor. The contractor will direct the audit activity utilizing the internal audit staff. This "knowledge transfer" process will enable Internal Audit to conduct future investment audits independently. The budget request also includes three (3) additional positions: two positions will be dedicated to auditing investment activities and operations, and one position will be dedicated to auditing information systems. Both of these areas are technical in nature and require specialized audit expertise. The Audit Committee unanimously voted to support Internal Audit's FY 2012 budget request.

Mr. Hughes' report included the Time Report for FY 2010 which reflects a decrease in non-audit hours with a corresponding increase in actual audit hours. This trend is expected to continue as the internal audit staff gains experience and becomes more efficient. The Audit Plan for FY 2011 reflects an increase of approximately 700 hours in direct audit hours for FY 2011, consistent with the expected efficiencies gained through experience. The Audit Committee approved the FY 2011 Audit Plan.

Mr. Hughes' report included an update on audits of local government employers. The Agency is in the second year of a three-year contract with Clifton Gunderson to conduct compliance audits of all local government employers. Reported audit findings continue to be mostly routine, such as misreported salaries and unused sick leave. The Audit Committee discussed whether additional action is needed regarding the enrollment of ineligible employees by a local liquor board.

- A prior audit of a participating governmental unit (PGU) noted that ineligible employees of a county liquor board were enrolled in the System even though the liquor board was not part of the PGU.
- Noting the uniqueness of each county liquor board, the Committee recognized that legislation may be required to resolve this issue on a state-wide basis.
- Accordingly, this issue was deferred for further study by the State and/or Agency.

Mr. Hughes' report included the Audit Committee's review of the results of its self-evaluation and its evaluation of the internal audit function. An in-depth review of the evaluations was deferred until the November meeting. However, the evaluations were generally very positive with no significant deficiencies identified.

Mr. Hughes reported that the Audit Committee was updated on the Agency's Request for Proposal (RFP) for a risk assessment of investments. An RFP was issued to solicit the services of an outside contractor to conduct a risk assessment of investments, utilizing internal audit staff in a co-sourcing arrangement. This will enable Internal Audit to independently perform future risk assessments of investment activities. Only one firm submitted a proposal. The risk assessment is expected to be completed in Spring 2011,

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and would serve as the basis for the FY 2012 audit plan regarding the audits of investment activities and operations. In accordance with the Internal Audit Charter, the Audit Committee approved the Investment Training and Consulting Institute, Inc. as the sole provider of these services. The contract will be forwarded to the Department of Budget and Management for their approval.

Comptroller Franchot asked about the perception of limited and lack of continuous investment audits due to limited Internal Audit staff. Mr. Hughes indicated that the System goes through regularly scheduled financial audits by an independent firm as well as the MD General Assembly Department of Legislative Services, Office of Legislative Audits.

Mr. Kenderdine acknowledged the need for additional audit staff and the fact that these positions are a part of the FY2012 budget request.

There was discussion concerning what is meant by "risk" as the term is used by internal audit as compared to "risk" as it is used in relation to the System's investment portfolio. Mr. Kenderdine explained that internal audit is concerned with compliance risk and not portfolio risk. Mr. Kenderdine offered to have a presentation on the matter of "compliance risk" and portfolio risk at the October meeting.

Mr. Hughes reported that the Audit Committee agreed with the audit findings but based upon Agency concerns over their implementation, the Audit Committee Chair will meet with the Investment Committee Chair and the Board Chairman to discuss the issue further, with the objective of making a recommendation to the full Board.

Mr. Hughes' report included an update on the Agency's Policy on Copier Hard-Drives:

- › Certain Agency copiers have internal hard drives, which could contain sensitive information.
- › All Agency copiers are leased. As such, the Agency does not have the authority to delete the stored confidential information before they are returned to the contractor.
- › The State's Department of General Services and Department of Information Technology were made aware of the issue, and are working to develop a state-wide policy to address the issue.
- › The Agency will be guided accordingly.

Mr. Hughes' report included the Audit Committee's acceptance of the following completed audits:

- › Data Transfer to Actuary
- › MPAS Parallel Testing
- › Benefit Allowances – SSIL
- › ACL Project – Eligibility Service
- › Employee Contributions
- › Placement Agents

Corporate  
Governance  
Committee Report

9. Ms. Sheila Hill, Chairman of the Corporate Governance Committee, reported on the regular meeting held on August 17, 2010.

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Corporate  
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Report

Ms. Hill reported that the State's Iran/Sudan divestment law requires the Board of Trustees to make determinations whether or not to hold securities in accordance with State Personnel and Pensions Article §21-123.1(d). Last fall, ISS identified 64 companies doing business in one or both countries. Of that universe, the System's actively managed separate accounts contained securities issued by 16 of the companies. Ennis Knupp provided an analysis of the 16 companies, as part of a review conducted by the Corporate Governance Committee, with assistance from staff and counsel. The Board approved the divestment of one of these holdings (Royal Dutch Shell), but determined not to divest holdings of any of the other 15 companies at that time. *(An updated listing of these companies is set forth in Attachment 1 to the minutes)* Ennis Knupp subsequently provided an analysis of the 51 companies on the ISS list that, as of June 30, 2010, were not held by the System in any "eligible accounts". *(A listing of these companies is set forth in Attachment 2 to the minutes.)*

Ms. Hill reported the following revised the administrative and operational processes which will be used to implement the State's Iran/Sudan divestment law.

- When ISS removes any company from its Iran/Sudan focus list, Staff promptly will notify the members of the Corporate Governance Committee and the Board that the company has been removed from the System's Iran/Sudan restricted list, and will thereafter inform managers of the System's "eligible accounts" that securities issued by the company may be purchased and held for investment.
- For companies added by ISS to its Iran/Sudan focus list, Staff shall determine the potential impacts of prohibiting the managers of the System's "eligible accounts" from investing in the companies, and make a recommendation to the Committee.
- Every six months (January and July), the Corporate Governance Committee will receive a "divest/hold" analysis from the System's general investment consultant and recommendations from staff regarding these companies.
- Every six months (February and August), the Board of Trustees will receive and review ISS' Iran/Sudan focus list, a list of companies that ISS removed from its Iran/Sudan focus list within the last six months, a list of companies for which the Board previously took action under the State's Iran/Sudan divestment law, and the recommendations of the Corporate Governance Committee, if any, regarding companies to be added to or removed from the System's Iran/Sudan restricted list.
- Staff will continue the process of ongoing engagement with those companies on the ISS Iran/Sudan focus list whose securities are presently held in actively managed separate accounts, as provided by law.

Ms. Hill reported that the Corporate Governance Committee endorsed staff's proposal that managers of actively managed separate accounts not be permitted to invest in the securities issued by any of the 51 companies identified on *Attachment 2*. The Corporate Governance Committee was informed by Mr. Perry that, in his opinion, a decision to prohibit investing in these 51 companies would have a minimal adverse effect on the System's portfolio. Mr. Perry also noted that staff will attempt to track and quantify the

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potential costs of both (a) divestment determinations and (b) prohibitions of prospective investment opportunities.

Ms. Hill reported that subsequent to the Corporate Governance Committee's August meeting, staff learned that ISS had removed Schlumberger from its Iran/Sudan focus list. In November, 2007, when a "Sudan only" divestment law was in effect, the Board of Trustees determined to divest its holdings in Schlumberger. Managers of actively managed separate accounts have since been prohibited from investing in this company's securities.

On a motion made by Ms. Hill and seconded by Mr. Zollicoffer, the Board approved the addition to the System's Iran/Sudan restricted list of the 51 companies identified on Attachment 2. Major Krome abstained.

On a motion made by Ms. Hill and seconded by Mr. Zollicoffer, the Board approved the removal of Schlumberger from the System's Iran/Sudan restricted list.

Comptroller Franchot indicated that he would like divestment of the entire list including the companies that we are already invested in.

- GRS 10. Brian Murphy and Amy Williams, of Gabriel Roeder & Smith (GRS), presented the preliminary results of the State Retirement and Pension System's Actuarial Valuation for the period ending June 30, 2010 for the Board's consideration.

**CLOSED SESSION**

The Board met in a Closed Session (12:35 p.m.) in the Boardroom of the SunTrust Building at 120 East Baltimore Street for the purpose of:

1. to approve the closed session minutes, pursuant to State Government Article §10-503(a)(1)(i), the exercise of an administrative function;
2. to receive a litigation update including the Milliman Case, pursuant to State Government Article §10-508(a)(7)&(8), to consult with counsel to obtain legal advice and to consult with staff, consultants, or other individuals about pending or potential litigation;
3. to discuss the appointment of an ORP vendor, pursuant to State Government Article §10-508(a)(14) to discuss a matter related to procurement;
4. to discuss the Chief Investment Officer's evaluation, pursuant to State Government Article §10-508(a)(1), personnel matters.

The Trustees present included:

Nancy K. Kopp, Chairman	Peter Franchot, Vice-Chairman	David Blitzstein	William Brown
John Douglass	T. Eloise Foster	James Harkins	Sheila Hill
F. Patrick Hughes	Major Morris Krome	Theresa Lochte	Robert Schaefer
Harold Zirkin	Thurman Zollicoffer, Jr.	R. Dean Kenderdine, Secretary	

Agency Staff members attending included:

Anne Budowski	Robert Burd	Margaret Bury	Melody Countess	Michael Golden
Dennis Krysiak	Mansco Perry, III	Howard Pleines	Kenneth Reott	Janet Sirkis
Patrice Sowah	Michael Thompson	Victoria Willard		

Assistant Attorneys General attending: Deborah Bacharach, Rachel Cohen, Melissa Warren.

Also in attendance: John Kenney and Melissa Moye.

The Board ended its closed session at 1:00 p.m. and returned to regular session to complete the agenda.

**BOARD OF TRUSTEES FOR THE  
STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND  
MINUTES OF MEETING**

September 21, 2010

**REGULAR SESSION – APPEALS AND HEARINGS**

The Board reported that during the closed session the Board approved the closed session minutes.

- Kimberly Garland 11. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Kimberly Garland for SURVIVOR benefits. The Administrative Law Judge's report and all related documents submitted by the parties were presented.

Ms. Kimberly Garland did not appear before the Board. Mr. Joseph Garland, the beneficiary, was present. Ms. Carla Katzenberg, attorney for the Agency, addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations denying Ms. Garland's survivor benefits. Following discussion, the Board deferred further consideration to Closed Session.

- George H. Isenberg 12. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Mr. George H. Isenberg for ACCIDENTAL DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Mr. Michael J. McAuliffe, Mr. George H. Isenberg's attorney appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. 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 Closed Session.

- Lesia A. Thompson 13. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Lesia A. Thompson for ACCIDENTAL DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Mr. David F. Albright, Ms. Lesia A. Thompson's attorney appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. Jill Leiner, attorney for the Agency, briefly addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations.

- Maria L. Coberly 14. The Board considered the recommendation of the Administrative Law Judge in connection with the claim of Ms. Maria L. Coberly for ACCIDENTAL DISABILITY retirement benefits. The Administrative Law Judge's report, a report by the Medical Board, and all related documents submitted by the parties were presented.

Ms. Maria L. Coberly appeared before the Board to oppose the Agency's position and the Administrative Law Judge's recommendation. Ms. Jill Leiner, attorney for the Agency, briefly addressed the Board and argued that the Board should adopt the Administrative Law Judge's recommendations.

AUG 23 2010 10:00 AM

**BOARD OF TRUSTEES FOR THE  
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September 21, 2010

**CLOSED SESSION – APPEALS AND HEARINGS**

The Board met in a Closed Session (2:05 p.m.) in the Boardroom of the SunTrust Building at 120 East Baltimore Street for the purpose of:

1. to discuss the disability appeals pursuant to State Government Section 10-503(a)(1)(iii), the exercise of a quasi- judicial function.

The Trustees present included:

Sec. T. Eloise Foster	David Blitzstein	William Brown	John Douglass
James Harkins	Sheila Hill	F. Patrick Hughes	Major Morris Krome
Robert Schaefer			

Agency Staff members attending included:

R. Dean Kenderdine    Margaret Bury    Janet Sirkis    Patrice Sowah  
Assistant Attorneys General attending: Deborah Bacharach, Rachel Cohen

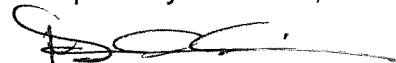
The Board ended its closed session at 2:10 p.m. and returned to regular session to complete the agenda.

**REGULAR SESSION**

The Board reported that during the closed session the Board reviewed and decided on the following disability appeals:

- |                    |     |  |
|--------------------|-----|--|
| Kimberly Garland   | 15. | The Board voted to <b><u>ADOPT</u></b> the Administrative Law Judge's Proposed Decision and <b><u>DENY</u></b> Kimberly Garland's request for survivor benefits. Mr. Joseph Garland, the named beneficiary was present. Mrs. Kimberly Garland elected not to attend or send an attorney. |
| George H. Isenberg | 16. | The Board voted to <b><u>ADOPT</u></b> the Administrative Law Judge's Proposed Decision and <b><u>DENY</u></b> George H. Isenberg's request for accidental disability benefits. Mr. Michael McAuliffe, Esq., the claimant's attorney, attended.  |
| Lesia A. Thompson  | 17. | The Board voted to <b><u>ADOPT</u></b> the Administrative Law Judge's Proposed Decision and <b><u>DENY</u></b> Virgie T. Foster's request for accidental disability benefits. Mr. David Albright, Esq., the claimant's attorney, attended.   |
| Maria L. Coberly   | 18. | The Board voted to <b><u>ADOPT</u></b> the Administrative Law Judge's Proposed Decision and <b><u>DENY</u></b> Maria L. Coberly's request for accidental disability benefits. Ms. Maria L. Coberly elected not to attend or send an attorney.  |
| Adjournment        | 19. | There being no further business before the Board, the meeting adjourned at 2:10 p.m.   |

Respectfully submitted,



R. Dean Kenderdine  
Secretary to the Board

RDK/pws



**BOARD OF TRUSTEES FOR THE  
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**ATTACHMENT 1**

ISSUER NAME	Country	(1) ISS: Sudan or Iran?	(2) % MSCI AC World exUS IMI	(3) % MSCI AC World exUS	(4) Owned In Eligible Acct @8/1/10?	(5) \$ Owned In Eligible Acct @8/1/10?	(6) % MSRPS In Eligible Acct @8/1/10?
Alstom	France	S	0.065%	0.073%			
AREF Investment Group S.A.K.	Kuwait	S					
Areva S.A.	India	S					
Arzamasskiy mashinostroitel'niy zavod OAO **	Russia	S					
AviChina Industry & Technology Co Ltd	China	S					
Bharat Heavy Electricals Limited	India	S	0.043%	0.048%			
China Petroleum & Chemical Corporation	China	S+I	0.089%	0.101%			
Costain Group PLC	UK	I					
Daelim Industrial Co.,Ltd.	Korea	I	0.010%	0.011%	Y	125,563	0.000%
Dongfeng Motor Group Company Limited	China	S	0.022%	0.025%			
Edison SpA	Italy	I					
Egypt Kuwait Holding Co (SAE)	Egypt	S	0.007%	0.007%			
El Sewedy Cables Co **	Egypt	S	0.003%	0.003%			
Finmeccanica SpA	Italy	S	0.029%	0.033%			
GAIL (India) Limited	India	I			Y	2,000,574	0.006%
GS Engineering & Construction Corporation	Korea	I	0.015%	0.017%	Y	81,308	0.000%
Harbin Power Equipment Co Ltd	China	S					
Hyundai Heavy Industries Co., Ltd.	Korea	I	0.050%	0.057%			
Indian Oil Corporation Ltd.	India	S+I					
Inpex Corporation	Japan	I	0.032%	0.036%	Y	828,283	0.002%
JGC Corporation	Japan	I	0.022%	0.025%	Y	542,471	0.002%
Jinan Diesel Engine Co Ltd **	China	S					
Kejuruteraan Samudra Timur Bhd	Malaysia	S					
Kencana Petroleum Bhd	Malaysia	S					
Korea Plant Service & Engineering Co Ltd	Korea	S					
KunLun Energy Company Limited	China	S+I	0.022%	0.025%			
La Mancha Resources Inc	Canada	S					
Liquefied Natural Gas Ltd	Austria	I					
LS Industrial Systems Co., Ltd **	Korea	S	0.007%	0.007%			
Mangalore Refinery & Petrochemicals Ltd	India	S					
Midciti Resources Sdn Bhd	Malaysia	I					
MISC Berhad	Malaysia	S+I	0.020%	0.023%			
Mitsui Engineering & Shipbuilding Co.,Ltd.	Japan	I	0.010%	0.011%	Y	64,307	0.000%
Nam Fatt Corporation Berhad	Malaysia	S					
Norinco International Cooperation Ltd **	China	S					

**BOARD OF TRUSTEES FOR THE  
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**ATTACHMENT 1 CONTINUED**

ISSUER NAME	Country	(1) ISS: Sudan or Iran?	(2) % MSCI AC World exUS IMI	(3) % MSCI AC World exUS	(4) Owned In Eligible Acct @8/1/10?	(5) \$ Owned In Eligible Acct @8/1/10?	(6) % MSRPS In Eligible Acct @8/1/10?
Oil and Natural Gas Corporation Limited	India	S+I	0.037%	0.043%			
Oil India Ltd **	India	S	---	---			
PetroChina Company Limited	China	S+I	0.162%	0.185%			
Petrofac Ltd	UK	S	0.031%	0.036%			
Petronas Dagangan Bhd	Malaysia	S+I	0.005%	0.006%			
Petronas Gas Berhad	Malaysia	S+I	0.010%	0.012%			
Ranhill Berhad	Malaysia	S	---	---			
Royal Dutch Shell Plc	UK	I	0.617%	0.702%			
Scomi Engineering Berhad	Malaysia	S	---	---			
Scomi Group Berhad	Malaysia	S	---	---			
Seadrill Limited	Norway	S	0.035%	0.040%	Y	300,195	0.001%
Sinopec Kantons Holdings Ltd.	China	S+I	---	---			
Sinopec Shanghai Petrochemical Company Limited	China	S	0.006%	0.007%			
Snam Rete Gas S.p.A.	Italy	I	0.039%	0.045%			
Sudan Telecommunication Co Ltd	Sudan	S	---	---			
Waertsilae Oyj Abp	Finland	S	---	---			
<b>Total #</b>		<b>51</b>	<b>1.387%</b>	<b>1.577%</b>	<b>7</b>	<b>3,942,702</b>	<b>0.012%</b>

**Notes:**

- (1) Identified by ISS as doing business in either Iran or Sudan
- (2) Percent weight in MSCI All Country World exUS IMI
- (3) Percent weight in MSCI All Country World exUS
- (4) Securities issued by company were owned in at least one eligible account on 8/1/10
- (5) Dollar value of holdings in Eligible Accounts at 8/1/2010
- (6) Percent of MSRPS represented by (5)

**BOARD OF TRUSTEES FOR THE  
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**ATTACHMENT 2**

<b>ISSUER NAME</b>	<b>(1) ISS: Doing Business in Sudan or Iran?</b>	<b>(2) % MSCI AC World exUS IMI</b>	<b>(3) % MSCI AC World exUS</b>	<b>(4) Owned In Eligible Acct @8/1/10?</b>	<b>(5) \$ Owned In Eligible Acct @8/1/10?</b>	<b>(6) % MSRPS Assets @8/1/10?</b>	<b>(7) Un- Restricted by BOT Action 10/2009</b>
Aker Solutions ASA	I	0.013%	0.015%	Y	64,549	0.000%	Y
CNOOC Ltd	I	0.210%	0.239%	Y	17,440,917	0.053%	Y
ENI SpA	I	0.331%	0.377%	Y	21,344,316	0.064%	Y
Air Liquide SA	I	0.197%	0.224%	Y	18,327,180	0.055%	Y
OAO "Gazprom"	I	0.348%	0.396%	Y	42,014,288	0.127%	Y
OMV Aktiengesellschaft	I	0.031%	0.035%	Y	252,899	0.001%	Y
Repsol YPF	I	0.102%	0.116%	Y	9,687,699	0.029%	Y
Saipem S.p.A.	I	0.056%	0.064%	Y	1,339,798	0.004%	Y
Sasol Limited	I	0.141%	0.160%	Y	19,955,007	0.060%	Y
Statoil, Statoilhydro ASA	I	0.148%	0.169%	Y	15,686,786	0.047%	Y
Technip	I	0.039%	0.045%	Y			Y
Total S.A.	S	0.654%	0.744%	Y	6,658,034	0.020%	Y
<b>Total #</b>	<b>12</b>	<b>2.271%</b>	<b>2.583%</b>	<b>12</b>	<b>152,771,473</b>	<b>0.461%</b>	<b>12</b>

**Notes:**

- (1) Identified by ISS as doing business in either Iran or Sudan
- (2) Percent weight in MSCI All Country World exUS IMI
- (3) Percent weight in MSCI All Country World exUS
- (4) Securities issued by company were owned in at least one eligible account on 8/1/10
- (5) Dollar value of holdings in Eligible Accounts at 8/1/2010
- (6) Percent of MSRPS represented by (5)

(7) Board determined that managers should not be restricted from owning securities issued by the named companies. Three additional companies, ABB, Lukoil, and Petrobras, were subsequently removed by ISS from their list.