**Exhibit A**

# BOARD OF TRUSTEES FOR THE MARYLAND TEACHERS & STATE EMPLOYEES SUPPLEMENTAL RETIREMENT PLANS MINUTES OF THE August 24, 2009 MEETING



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The Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans convened at 9:00 am on August 24, 2009 in Baltimore. A quorum was present.

Members Present
Ms. T. Eloise Foster
Ms. Sabrina Bass
Ms. Linda Tanton
Treasurer Nancy Kopp
Ms. Linda Tanton
Ms. Marcia Zercoe

Members Absent
Mr. Robert Black
Mr. William Whitescarver

Representatives and Guests
Mr. Michael Halpin, Staff
Mr. John Barry, Esquire, Board Counsel
Mr. Richard Arthur, Staff
Ms. Debra Roberts, Staff
Mr. Louis Holcomb, Staff
Ms. Anna Marie Smith, Staff
Mr. David Belnick, NRS
Ms. Claudia Gulick, NRS
Ms. Wanda Poehler, NRS
Ms. Mary Pat Alcus, Mercer Investment Consulting
Mr. Andrew Ness, Mercer Investment Consulting
Mr. John Axtell, DB Advisors
Mr. Brett Gorman, DB Advisors
Ms. Lucille Douglas, DB Advisors
Dr. Melissa Moye, Treasurer's Office (by phone)
Mr. Dylan Baker, Dept. of Legislative Services
Mr. William Seymour, SB & Company, LLC
Mr. Gray Smith, SB & Company, LLC
Mr. David Jones, Workers' Compensation Commission

I. Chairperson's Remarks

Members offered corrections to the draft minutes of June 1, 2009: Page 2, section II, now reads: 1st quarter 2008 to first quarter 2009. . .; page 6, section IV, substitute Dr. Moye for Ms. Tanton on the special evaluation committee. The minutes, as amended, were unanimously approved.

II. Auditor's Report

Mr. Gray Smith of SB & Company presented the reports and opinion on the 2008 Plan financial statements. He began the report with a brief description of GASB Rule 53 and its requirements for financial statement reporting of book value investments. He then turned to a general description of the historical interplay between GASB and FASB rules, and how this affected reporting rules for stable value funds. He stated his view that until the adoption of a specific position paper in 2008, GASB required fair value reporting (i.e., market value), not book value, for such funds, even though FASB required book value. He concluded by noting that the 2008 statements did report the Investment Contract Pool at book value, with fair value reporting of assets and wrapper contracts in the notes in conformance with GASB Rule 53 and 40. As for earlier years, he affirmed his firm's view expressed at the time the statements were issued, viz. that the difference, between book and market value was not material for those years.

Mr. Seymour of SB & Company then gave a general presentation of the Plan financial statements for 2008, and highlighted the following points:

- The financial statements were a distinct item within the Comprehensive Annual Financial Report (CAFR) (Ex. G), and were issued in both a combined (all plan) and separate plan format, pp. 24 and 36 respectively.
- The Risk Assessment (p. 7) for the plan investments was required by auditing standards. The SB & Company examination of plan controls and processes, did not disclose any material weaknesses. He described the financial controls as effective.
- Additional Special Procedures were performed in accordance with the usual practice and the procedures did not produce a material exception.

Ms. Roberts then described the purpose and format of the CAFR and its different sections, she noted the following points:

- Ex. G was a draft CAFR to be used as a prototype in future years. Ms. Roberts acknowledged the assistance of Mr. Halpin, Mr. Barry, Mercer and NRS in preparing the draft, and she encouraged Board members to provide substantive and technical comments.
- Part I of the CAFR provided basic information on MSRP major initiatives, activities and organization detail. It includes a draft introductory letter from Board Chairperson Eloise Foster.
- Part II of the CAFR includes a variety of MSRP financial information.
- Part III includes all audited financial statements for the Plans, including notes, relevant financial policies, accountants' opinions, etc.

- Part IV contains various investment related information and analysis, and was prepared by Mercer Investment Consulting.
- Part V contains statistical 10 year summaries of miscellaneous data.
- Part VI was not technically required for a CAFR, but included a variety of additional material traditionally found in Board Annual Reports.

Members suggested additional edits for the document, including a specific labeling as a prototype, and a more detailed description (p. 9; 12) of the legal mechanism for suspension of the match contribution of State Personnel & Pensions Title 32.

Members agreed by consensus to submit any such edits by Ms Roberts by mid-September; and concluded the discussions with expressions of appreciation for her efforts. Ms. Roberts then suggested that formal adoption of the Plan financial statements were in order.

Ms. Tanton then moved (Ms. Bass, second) to accept the financial statements (Ex. G) as proposed. The motion was unanimously approved.

III. <u>Administrator's Report & Marketing Plan Update</u>

Mr. David Belnick of NRS presented the administrator's report (Ex. B). He began the report by distributing to the members a special report (Ex. B-1) requested at the last meeting. This report gave a more complete description of the various items that are totaled as contributions in the quarterly administrator reports distributed at the Board meetings. The items include contributions, rollovers, transfers, employer contributions, other corrections and account splits. He described the last item as arising from domestic relations orders and inherited accounts. Members agreed by consensus that they would like this basic information included in future reports.

Mr. Belnick then discussed overall trends as shown in Ex. B. For 2009, deferrals were down about 6%, and this decline was consistent with NRS experience in other states. Fixed investments and the Target Date Retirement funds continue to receive the largest share of new contributions, as well as net flows from investment changes. He reported that the two American Funds offered by the Plans (Growth Fund of America and EuroPacific Growth Fund) had recently been converted to a new lower cost share class, pursuant to the Board decision at the meeting of June 1, 2009. Mr. Halpin noted that this lower expense ratio would result in the elimination of rebates for these funds, but that the shift was a net benefit to participants, because the new expense ratio was slightly lower than the amount of the rebate.

Mr. Belnick then noted that while deferrals were down, distributions from the plan had declined significantly. He estimated (based on results year to date) that distributions were approximately $66 million so far in 2009, compared to $168 million for all of 2008. He attributed this slowdown in plan distributions to 2 factors:

- Increased activity by the personal retirement counselors – retiree breakfasts, field work, and affirmative engagement with participants.

- A decline in large account rollovers; as of mid August only $23 million had rolled out of the plan, compared to $84 million for all of 2008.
- He thought it unlikely that the federal waiver of minimum distribution rules for 2009 were affecting these statistics, and that such waivers might cause further reductions in the 4th quarter.

He then turned to the MBE section of the report and noted:

- NRS has added additional MBE vendors for certain goods and services.
- NRS was making progress on the selection of a major MBE marketing partner.

Mr. Belnick then described a recent problem relating to the NRS web site and its posting of certain inaccurate performance information in the monthly performance reports shown on the plan website maintained by NRS. He stated that NRS, in consultation with Mr. Halpin and Mr. Barry, had adopted a reconciliation/adjustment program for participants. NRS was able to identify through its internal records the participants who had visited the inaccurate web page, and then made an investment change. These participants were contacted by NRS, and were offered a right to rescind the transaction – that is, have their account values recalculated as if the transaction had not occurred. Out of 147 potentially affected participants, only 1 participant elected to rescind a transaction. Finally, Mr. Belnick noted that this error had not occurred for written material distributed to participants, but was limited to the web site maintained by NRS for the Plan.

The NRS presentation concluded with a general discussion among the members and Mr. Belnick on the effect of general budget difficulties and the suspension of state matching contributions on the plans and participants.

IV. Investment Advisor's Report:

A. Ms. Mary Pat Alcus of Mercer delivered the report attached as Ex. C. She began her report with commentary that stressed overall improving conditions for both equity and fixed income markets, with international markets strong and emerging markets stronger. Turning to performance commentary on specific plan options, she noted that the ICP was performing significantly better than the money market benchmark, but that the crediting rate is lagging behind the Mercer universe of stable value funds. Market to book ratios compared to the Mercer client base was essentially comparable, perhaps slightly behind.

Turning to equity funds, Ms. Alcus noted as follows:

- Fidelity Puritan -
  Improving performance in recent quarters.
- Target Retirement Funds –
  These funds were generally doing well when measured against other target date funds.
- Neuberger Berman –
  The fund had good recent performance, and the management buyout of its advisory firm had been completed with no evidence of disruption to fund

operations. She stated that the smooth transition for their management change meant that Mercer would likely recommend to take the fund off watch list in relatively short order.

- Goldman Sachs –
  Additional scrutiny was probably advisable over the next several periods because of recent changes in the structure of equity management at the firm.
- American Funds – Growth Fund of America
  This fund has shown some recent minor performance weakness.

Ms. Alcus concluded her report by suggesting that the Board may wish to examine alternative mid cap index funds for possible available reductions in the expense ratio, compared to the current fund, Dreyfus Mid Cap Index Fund. The Board by consensus directed the next meeting of the Investment Committee to begin this review.

B. Mr. Brett Gorman of DB Advisors delivered a report (Ex. D) on the Investment Contract Pool. He emphasized the following points:

- The fixed income sub-managers 2008 review had been completed and was described in Part 3 of Ex. D.
- For 2009 to date all sub-managers had out-performed their assigned benchmarks;
- Poor performance by former manager WAMCO and current watch list manager Aberdeen had contributed to the overall decline in crediting rates in 2008 and 2009.
- The wrapper markets are still under significant stress. As an example, he noted the departure of $60 billion in wrapper capacity, while total stable value assets had increased by over $100 billion.
- The matrix of key provisions of the wrapper contracts (as requested at the last Board meeting) had been completed (Ex. D-1). He encouraged members commentary on the matrix and its components.
- DB Advisors is continuing efforts to bring additional wrapper capacity to the market. In the near term, new capacity in the Maryland ICP was likely to be general account insurance company GICs, or insurance company separate account GICs.
- The stress in the wrapper market means that managers and Plans should be open to new products; to this end DB Advisors is exploring alternative separate account structures with several companies.
- Book value had recovered from its lows of last fall and the ratio of market to book value was 95.6% as of June 20, 2009.
- DB Advisors in conjunction with the wrapper providers had altered the crediting rate formula to accelerate amortization, thus improving the market to book value ratio.
- Crediting rates would not likely improve significantly until 2010, and the industry in general was very much in a state of transition.

- The ICP was still maintaining cash at 9-10% of the fund, with overall fund flows reasonably stable.
- After discussions with the Board in late 2008, both Goode and Aberdeen were directed to maintain a higher minimum allocation to government securities to reduce risk in their portfolio in 2008. Aberdeen noted this "de-risking" may have had some effect on their long-term performance. However, DB Advisors thought this factor would not likely be viewed as a significant mitigating factor for Aberdeen in upcoming evaluations by DB Advisors.

V. Staff Reports

A. Finance Office

Ms. Roberts delivered the reports attached as Ex. E & E-1. She noted in her report that the budget and reserve situation was improving due to the special charge recently imposed on participants, and this was assisted by the general increase in plan assets. Expenses were still running slightly above revenue on an ongoing basis.

Ms. Roberts also noted that the Comptroller's office had conducted a review of agency credit card use and that no accounting errors or violation of state policy were found.

B. Field Services

Mr. Holcomb delivered the report attached as Ex. F.

VI. Committee Reports

A. Audit Committee

Ms. Tanton noted the financial statements and report presented earlier in the meeting.

B. Investment Committee:

No report

VII. Board Secretary's Report

Mr. Halpin delivered the report attached as Ex. H. He highlighted the following matters:

- Congress had recently passed a joint resolution declaring October 18-25th as National Save for Retirement Week. Special retirement review days would be scheduled during that week in Baltimore and Annapolis.
- A proposed 2010 Board meeting schedule was included in Ex. H, and members were invited to comment and/or suggest alternative dates.
- The special report of Breidenbach Capital Consulting was now on the Board members restricted access web site.
- The Compliance Monitoring chart developed in conjunction with the ongoing legislative audit was included in Ex. H.
- The Board of Public Works had approved the contract extension for DB Advisors, Mercer Investment Consulting, and the special procurement for the analytic service, Breidenbach Capital Consulting.

- The Joint Pension Committee had asked for information on socially responsible investing. This item generated a general discussion among the members. The Treasurer suggested at the conclusion of the discussion that the matter be described to legislative staff as follows: The Board was seriously considering addition of such funds, but that decisions and implementation had necessarily been deferred because of adverse market developments in the past year.
- The two newest MSRP field staff, Ms. Angela Anderson & Ms. Anne O'Neill, had each received certification from InFRE as certified retirement counselors.

VIII. Board Counsel's Report

No report at this time.

IX. Executive Session

At the conclusion of the regular meeting the Chairman requested an Executive Session to discuss the status and progress of the ongoing legislative audit of the Investment Contract Pool. State Government Art. §10-508(a) (5); §10-508(a) (13). Members unanimously approved an Executive Session for this purpose.

At the conclusion of the Executive Session the Board resumed its regular open session. The Chairman announced that no action had been taken during the Executive Session.

X. New Business

No new business considered.

XI. Adjournment

A motion to adjourn was entered at 11:16 am, seconded, and carried unanimously.

**BOARD OF TRUSTEES OF THE**
**MARYLAND TEACHERS & STATE EMPLOYEES**
**SUPPLEMENTAL RETIREMENT PLANS**
**MINUTES FOR THE EXECUTIVE SESSION HELD**
**August 24, 2009**

## CONFIDENTIAL

Mr. Halpin briefed the members on the status of the audit. He described in some detail the July 22nd meeting with Joan Peacock and the auditors, with Melissa Moye participating by phone. He noted in general that a fair amount of the detail gone over in that meeting was available and on file because of Board work over the last 8 months in response to the multiple draft audit reports. He concluded by noting the uncertainty on when OLA would deliver a final draft report.

Members briefly discussed various items relating to the audit. Mr. Barry informed the members that the legal opinion on wrapper contracts had been drafted, subject to multiple reviews within the office, and would likely be issued on a schedule consistent with release of a final audit report. More generally, he commented that the problematic aspects of previous draft reports were caused by inappropriate or unsupported investment opinions.

The members voted unanimously to end the Executive Session and return to the regular order of business.