

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF FEBRUARY 25, 2005

The meeting of the Board of Pension Trustees was called to order by P. Reese at 10:00 a.m. in the Delaware Conference Room of the Office of Pensions in Dover.

Trustees Present

Philip S. Reese
Robert W. Allen
Helen Foster
Dana Jefferson
Jan King
Nancy J. Shevock

Trustees Absent

Others Present

David Craik, Pension Office
Kim Vincent, Pension Office
Alice Simon, Pension Office
Kathy Kunkle, Pension Office
James Testerman, Pension Advisory Committee
Charlotte Lister, Pension Advisory Committee
Thomas Cook, Department of Finance
Rob Gooderham, Ashford Capital Management
Linda Drew, Ashford Capital Management

1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order at 10:00 a.m. P. Reese welcomed all to the meeting, and introduced Rob Gooderham, President and Linda Drew, Director, of Ashford Capital Management, who were in attendance to give their annual update to the Board.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the December 17, 2004 meeting.

MOTION made by J. King and seconded by R. Allen to approve the minutes of the Board of Pension Trustees' December 17, 2004, meeting.

MOTION ADOPTED UNANIMOUSLY

3. INVESTMENT COMMITTEE REPORT

R. Gooderham distributed an overview of the investment consulting services provided by Ashford Capital Management and a review of short- and long-term performance. The presentation covered background information, investment objectives, risk control, adding value, and program success.

INVESTMENT PERFORMANCE – MONTH ENDING DECEMBER 31, 2004

<u>Fund</u>	<u>Previous Month</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	2.6%	9.3%	22.7%
S & P 500 Index	3.4%	7.2%	28.7%
60/35/5*	2.4%	6.0%	18.5%
Delaware Benchmark**	2.4%	7.0%	19.1%

*Benchmark mix of 60% S&P500 Index, 35% Salomon Long Government and Corporate Bond Index, 5% T-bills.
**Benchmark mix of 45% Russell 3000, 10% EAFE (international), 43% Lehman Bond aggregate and 2% T-bills.

J. King reviewed the current fund investment performance. Total assets in the fund at the end of December totaled \$5,972 million. Due to a computer conversion, an accurate asset balance as of the end of January was not available. As a result, the total fund returns for January were also not available.

3. INVESTMENT COMMITTEE REPORT (continued)

The month of January most likely will post a loss for January; the Delaware Benchmark was (1.1%) and the 60/35/5 benchmark was (1.2%).

The month of January had large corrections in the equity market. The Russell 3000 stocks lost (2.7%), Large Growth stocks lost (3.3%), and the Large Value index returned (1.8%). Small cap stocks posted the largest loss in the equity market with the Russell 2000 returning (4.2%). The international markets followed the U.S. market with the unhedged EAFE returning (1.8%). The bond market continues to surprise with the Lehman LT Government/Corp. Index up 2.6% and the High Yield sector returned 0.6%.

Without accurate asset values for January there are no reportable returns for the fiscal year to date. The fiscal year returns through December are 9.3% compared to a 7.0% benchmark. Calendar year returns for 2004 are 22.7% compared to 19.1% for the Delaware benchmark. The annualized return for the Fund over 3 years is 7.8%, 5 years is 5/1%, and over 10 years is 11.1% at December 31.

A poll vote taken in January requires ratification by the Board. The Investment Committee recommended the liquidation of funds held in the Barclay's Global Investment Russell 1000 Growth Fund of approximately \$220 million to be invested with Intech Large Capital Growth Fund. This move puts this large capital growth allocation with an active manager who seeks to add value using stock price volatility through mathematically based control processes.

MOTION made by N. Shevock, seconded by P. Reese to ratify the January 11, 2005, poll vote to liquidate the Barclay's Global Investment Russell 1000 Growth fund and invest the proceeds of approximately \$220 million with Intech Large Capital Growth fund.

MOTION ADOPTED UNANIMOUSLY

The poll vote taken February 15 also needs to be affirmed by the Board. The Investment Committee recommended the total liquidation of Jarislowsky Fraser, an active International stock manager with a value bias. This manager had been in place since May 2002, and was hired after reviewing their process and track record of many quarters of excess returns over their benchmark. Their actual returns, for most of the quarters since their selection, had not been in excess of benchmark and the Committee had lost confidence in their ability to deliver excess return. It was recommended that their current portfolio in excess of \$250 million, be liquidated, most likely through a transition manager. Those proceeds and/or some securities, if appropriate, would then be moved to Mellon Capital Management for reinvestment in their Global Tactical Asset product as soon as possible. The Committee may, at a future time, recommend rolling these funds back to an active manager.

3. INVESTMENT COMMITTEE REPORT (continued)

MOTION made by J. King, seconded by H. Foster to ratify the February 15, 2005, poll vote to liquidate the Jarislowky Fraser international stock fund, and invest the proceeds and/or securities, if appropriate, with Mellon Capital Management in their Global Tactical Asset Allocation fund. The use of a transition manager is contemplated for this transaction.

MOTION ADOPTED UNANIMOUSLY

4. EXECUTIVE SESSION

J. King informed the Board there were pending personnel matters with regard to one of the System's investment managers.

MOTION made by R. Allen, seconded by H. Foster, to enter into an Executive Session to discuss the investment manager personnel issues.

MOTION ADOPTED UNANIMOUSLY

MOTION made by R. Allen, seconded by H. Foster, to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

After the Executive Session concluded, J. King noted that the next meeting of the Investment Committee will be March 8.

5. AUDIT COMMITTEE REPORT

R. Allen reported that the three-year contract for audit services was awarded to KPMG. The contract cost for FY2005 is \$108,000; for FY2006 is 102,000; and for FY 2007 is \$106,000. The State Auditor's Office is completing the details on the final contract.

MOTION made by R. Allen, seconded by J. King, to accept KPGM as the System auditor.

MOTION ADOPTED UNANIMOUSLY

6. PENSION ADVISORY COUNCIL

J. Testerman reported that the Council had placed three key priorities on their legislative agenda for the current legislative session: provide an adequate contribution to the established fund for retiree medical benefits, grant a post-retirement increase, and eliminate the early retirement penalty.

J. Testerman also announced the schedule of upcoming pension workshops for employees who are considering retirement in the near future. He expressed his thanks for the support received from the Pension Office in setting up these sessions.

6. GOVERNANCE ISSUES

P. Reese gave an update on the Best Practices Review process. Phase I, which defined key areas and recommended processes to be used to develop an RFP, was completed. Phase II will entail three more one-day meetings to cover administration issues (with N. Shevock participating), investments (J. King), and Governance (R. Allen). Goals and objectives and key performance indicators will be developed for staff to use to measure and carry out fiduciary and administrative responsibilities. The project consultants have received excellent support from staff, and expect to recommend processes that will ensure future continuity in the Board and Committee culture. The next step will be to complete the RFP process.

MOTION made by P. Reese, seconded by H. Foster, to award a consulting services contract, at a cost of \$8,500 to P. Dowden and E. Hart for the development of a document that defines the key areas to be addressed in the Best Practices Review, and includes the Request for Proposal document which will be used in choosing vendors for specific assignments.

MOTION ADOPTED UNANIMOUSLY

8. PENSION ADMINISTRATOR'S REPORT

D. Craik asked D. Jefferson to update the Board on the Governor's recommended reorganization of State agencies and its possible impact on the Board and the Pension Office. The Pension Office will be included in the proposed Office of Management and Budget. D. Jefferson explained that S.B. 24, which begins the process to consolidate three State departments into one, had passed the Senate and is expected to be taken up by the House after the legislature reconvenes on March 15. She distributed a fact sheet and a proposed organizational chart. Many details remain to be worked out. P. Reese summarized Board concerns: that there be cabinet-level agency participation on the Board; senior staff representation is needed from the state personnel area; and the placement of the Pension Office should be at a high level within the new organization. P. Reese asked D. Craik and M. Kramarck to draft a memo for his signature after Board review.

8. PENSION ADMINISTRATOR'S REPORT (continued)

D. Craik reported that this is the last year of the three-year contract with the actuary, Milliman. The consultant currently assigned to the DPERS account will be leaving the company to embark on a new career opportunity. D. Craik will update the Board at the next meeting of the actuary staffing replacement and on the options available to issue a new Request for Proposals.

A systems disaster recovery drill was conducted in early February and uncovered problems with the ability of DTI to quickly get the Pension systems back to a full operating state. DTI believes it has solved its hardware problems and a disaster simulation will be re-run in April.

The City of Rehoboth Beach wishes to join the County Municipal Police & Firefighter Pension Plan as of April 1, 2005. There will be no purchase of prior service.

MOTION made by R. Allen, seconded by N. Shevock to allow the participation of the City of Rehoboth Beach in the County & Municipal Police and Firefighters' Plan with no actuarial buy-in of prior service.

MOTION ADOPTED UNANIMOUSLY

9. DEPUTY ATTORNEY GENERAL REPORT

D. Craik provided a copy of the definitions provided by M. Kramarck of "casual" or "temporary" and "seasonal" used to identify the employment status of State retirees who return to work. This issue was noted at the December meeting as a potential abuse by agencies and/or school districts that immediately rehire recently retired State pensioners to work as casual/seasonal employees without affecting their current pensions. D. Craik is reviewing a report that has been released by the State of North Carolina. Currently there is a policy in North Carolina that allows math and science teachers to retire from their positions and return to work in the schools. The IRS seems to be requiring that a break in service occur. The North Carolina policy also has had the unintended actuarial impact of teachers leaving service earlier than projected. D. Jefferson expressed an interest in future updates of the issue, as similar policy proposals have been recommended for teachers and correctional officers.

10. PENDING ITEMS

Pending Items List #1 – D. Craik reported that site visits were conducted with the two companies that are finalists in the Disability Project. A committee recommendation is expected in March.

Pending Items List #2, 4, and 6 – are substantially being addressed by the Best Practices Review.

10. PENDING ITEMS (continued)

New Item: – DPERS does not have an opinion letter from the IRS that the system is a qualified pension plan. Although our attorneys have stated that we are in substantial compliance with IRS pension rules, the Board may want to consider hiring a legal firm to draft a memo or opinion on the System's status.

11. ADJOURNMENT

The next Pension Board meeting will be held on March 18, 2005, at 9:00, in the Delaware Conference Room of the Office of Pensions.

At 12:45 p.m., there being no further business, MOTION was made by R. Allen and seconded by D. Jefferson to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Philip S. Reese
Board of Pension Trustees Chairman