

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF MAY 27, 2005

The meeting of the Board of Pension Trustees was called to order by P. Reese at 9:00 a.m. in the Delaware Conference Room of the Office of Pensions in Dover.

Trustees Present

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

Trustees Absent

Others Present

David Craik, Pension Office
Kim Vincent, Pension Office
Kathy Kunkle, Pension Office
Alice Simon, Pension Office
Terri Timmons, Pension Office
James Testerman, Pension Advisory Committee
Tom Cook, Finance Office
Pat Dowden, Consultant
Eric Hart, Consultant
Bill Hutchinson, Consultant

1. OPENING COMMENTS

P. Reese congratulated Terri Timmons on her promotion to Office Manager with the Pension Office.

P. Reese introduced and welcomed Pat Dowden, Eric Hart and Bill Hutchinson, Consultants, who will be presenting a presentation for the Best Practices Review.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the April 29, 2005 meeting.

MOTION made by P. Reese and seconded by H. Foster to approve the minutes, as amended, of the Board of Pension Trustees' April 29, 2005 meeting.

MOTION ADOPTED UNANIMOUSLY

3. INVESTMENT COMMITTEE REPORT

J. King reviewed the current fund investment performance. Total assets in the fund at the end of April are \$5,780 million. The Fund lost (1.9) % for the month compared to a return of (0.6) % for both benchmarks.

INVESTMENT PERFORMANCE – MONTH ENDING APRIL 30, 2005

<u>Fund</u>	<u>Previous Month</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	(1.9) %	6.5 %	19.6 %
S & P 500 Index	(1.9) %	2.9 %	22.9 %
60/35/5*	(0.6) %	3.6 %	14.1 %
Delaware Benchmark**	(0.6) %	5.1 %	15.5 %

*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.

During the month of April, funds experienced losses across all equity markets. The Russell 3000 stocks lost (2.2) %, Large Growth stocks lost (1.7) % and Large Value index returned a negative (1.8) %. Small cap stocks posted the largest loss in the equity market with the Russell 2000 returning a negative (5.7) %. The international markets followed the U.S. market with the unhedged EAFE returning a negative (3.2) %. The bond market with Lehman LT Government/Corp Index was the only bright spot returning a 2.9%.

The fiscal year returns to date for the Fund will be reported at a 6.5% gain, compared positively to a 5.1% benchmark. This positive variance to benchmark is mainly due the high U.S. equity and International

Equity position of the Mellon-TAA and GTAA during months that experienced strong equity returns and the strong performance of the NRIS tactical allocation. Year to date calendar returns are an overall negative (2.6%) compared unfavorably to a benchmark of loss of (1.7%).

J. King presented and discussed the quarterly Investment Report for the period March 31, 2005.

The next meeting of the Investment Committee is June 14.

4. AUDIT COMMITTEE REPORT

R. Allen stated that the Audit Committee visited and met with Mercantile on May 17th to look at their operation and review some of the changes and discuss bank systems conversions. R. Allen stated that it was a very good meeting.

5. PENSION ADVISORY COUNCIL

J. Testerman declined to give a report at this time but shared a letter with P. Reese that the Pension Advisory Committee is sending to legislators concerning the pre-funding of medical benefits.

6. DEPUTY ATTORNEY GENERAL REPORT

Two appeal cases were deferred to Executive Session.

MOTION was made by R. Allen and seconded by N. Shevock, that the Board go into Executive Session to consider legal advice and to consider pending personnel matters and confidential medical records.

MOTION ADOPTED UNANIMOUSLY

The Board then moved into Executive Session to discuss pending personnel matters and confidential medical records.

MOTION was made by R. Allen and seconded by R. Cordrey to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

Following a discussion, the following motions were made:

MOTION was made by R. Allen and seconded by H. Foster to accept the decision of the hearing officers in the case of Carolyn Willing to deny pension credit for service between December 29, 1975 and February 1, 1978.

MOTION ADOPTED UNANIMOUSLY

MOTION was made by H. Foster and seconded by N. Shevock to accept the decision of the hearing officers in the case of Diana Vincent to deny one year of service credit during which she was paid with CETA funds. Her employee contributions, however, shall be refunded with interest.

MOTION ADOPTED UNANIMOUSLY

7. PENSION ADMINISTRATOR'S REPORT

Disability Project Update

D. Craik stated that the Disability Project is waiting for a legislative sponsor.

Best Practices Review

P. Reese discussed the reasons and benefits of undertaking the Best Practices Review and provided an update on the activities that have taken place to date.

Some changes in the DPERS environment that will be addressed during the review:

- Sarbanes-Oxley legislation, while this does not pertain to public plans it does set some standards for best practices for Board activities.
- Turnover of Trustees and Investment Committee
- Changes at Ashford Capital Management
- Potential expansion of new dollars into the system for the funding of Other Post Employment Benefits (OPEB)
- Economic Environment

The benefits of a Best Practices Review would be:

- Improved communication among Trustees, staff, service providers and members
- Review of Fiduciary duties
- Board education
- Strategic planning input
- Public reassurance

P. Dowden and E. Hart lead a discussion on the results of the meetings that have taken place for the following groups:

- Governance
- Investment
- Administration

A detailed checklist was provided for each group to identify issues for the Best Practices Review and provide the requirements for Trustee oversight.

The next steps were identified for each working group:

- Governance - internal resources would continue to work on the issues that have been identified under this topic. A review of external legal resources will take place to determine the best option to review the plans' qualified tax status.
- Investment - further discussion will take place to determine what resources will be used to evaluate Risk Management. The Board felt satisfied with performance review data that is received from Ashford Capital Management, as did the consultants. There was not a consensus on how to approach costs. That will require further discussion.
- Administration - the areas of business processes, member feedback and employee feedback will be reviewed during the next phase. Some of the organizational requirements (investment management staffing, internal audit function and an Administration Committee) will be tabled for later discussions.

8. PENDING ITEMS

D. Craik reported that the Pending Items list has not changed at this time.

9. ADJOURNMENT

The next Pension Board meeting will be held on June 24, 2005, at 9:00, in the Delaware Conference Room of the Office of Pensions.

At 12:06 a.m., there being no further business,
MOTION was made by R. Allen and
seconded by N/ Shevock to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Philip S. Reese
Board of Pension Trustees Chairman