

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF OCTOBER 28, 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
Richard Cordrey
Helen Foster
Jan King
Nancy J. Shevock

Trustees Absent

Jennifer Davis

Others Present

David Craik, Pension Office
Kim Vincent, Pension Office
Marsha Kramarck, DAG
Alice Simon, Pension Office
Kathy Kunkle, Pension Office
Karen Field Rogers, Office of Management and Budget
Faith Rentz, Office of Management and Budget
James Testerman, Pension Advisory Committee
Charlotte Lister, Pension Advisory Committee
Terri Timmons, Pension Office
John Muehl, Milliman USA
Hassan Ghazi, Milliman USA
Rob Gooderham, Ashford Consulting Group
Gary Musto, Ashford Consulting Group
Linda Drew, Ashford Consulting Group

1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order by P. Reese. Mr. Reese stated that there would be presentations from both Milliman and Ashford Consulting Group. We would first hear the report from the Investment Committee and then will go into Executive Session.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the September 30, 2005 meeting.

MOTION made by R. Allen and seconded by H. Foster to approve the minutes of the Board of Pension Trustees' September 30, 2005, meeting.

MOTION ADOPTED UNANIMOUSLY

3. INVESTMENT COMMITTEE REPORT

| <u>Fund</u> | <u>Previous Month</u> | <u>Fiscal Year To Date</u> | <u>12-Month</u> |
|----------------------------|-----------------------|----------------------------|-----------------|
| Total Fund | 0.4% | 3.1% | 12.2% |
| S & P 500 Index | 0.9% | 2.8% | 11.4% |
| 60/35/5* | 0.0% | 1.8% | 9.2% |
| Delaware | 0.4% | 2.2% | 10.1% |
| Benchmark** | | | |

*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.

Total assets in the fund at the end of September were \$6,170 million. The fund gained 1.4% for the month which was ahead of the Delaware Benchmark of a positive .4% and was ahead of the 60/35/5 benchmark which was zero.

During the month of September the Russell 3000 stocks gained 0.9%. Large Growth stocks were ahead for the month 0.6% and Large Value index returned a positive 1.4%. Small cap stocks lagged large stocks with a gain of 0.3% in the Russell 2000. The international markets were ahead of the U.S. market another month with the unhedged EAFE returning a positive 4.5%. The bond market Lehman LT Government/Corp Index moved in reaction to higher interest rates and posted a loss of 3.0%

The fiscal year 2006 return for the first quarter for the Fund will be reported at a 4.5% gain, compared positively to a 2.6% benchmark. This positive variance to benchmark is mainly due to the high U.S. Equity and International Equity position of the Mellon-TAA and GTAA during the quarter and the strong performance of the NRIS tactical allocation. Year to date calendar returns are a positive 4.8% compared slightly favorable to a benchmark of a gain of 3.7%.

A poll vote was taken mid month and needs to be ratified.

The Investment Committee met on October 11th with representatives from the Carlyle/Riverstone Global Energy and Power Group. The Carlyle Group has been a manager of some of our very successful venture/buy-out capital funds. Riverstone is a split-off of the Goldman Sachs energy group. The combined group has managed two previous funds beginning in 2000 and is in the midst of soliciting subscriptions to a third fund with a cap of \$2.5 billion in commitments. This fund provides exposure to investments in the energy and power area without being subjected to the commodity pricing of oil and gas. Investments are in four priority sectors of midstream (pipeline and storage), E & P (explorations), power (non-regulated) and downstream (oil services) both in U.S. and International. Returns in the prior funds of this nature have been outstanding but not dependent on commodity pricing. While the pressure on the oil and gas sector may dampen returns, we still anticipate high return on this investment.

On April 2, 2005, the Committee recommended liquidation of \$200 million of the tactical allocation to NRIS. It is recommended that we commit to Carlyle/Riverstone \$200 million before the end of the month to participate in the first commitment closing of Fund III.

The Committee recommended Board approval by poll vote to secure our allocation in this closing. The poll vote needs to be reaffirmed. Carlyle/Riverstone has been notified of our interest and documentation is being negotiated.

MOTION made by R. Allen, seconded by N. Shevock to ratify the September 27, 2005 poll vote to commit \$200 million to Carlyle/Riverstone Global Energy and Power Group Fund III.

MOTION ADOPTED UNANIMOUSLY

The second meeting in October revolved around a presentation by NRIS on the natural resources market and view of inflation. The Committee remains comfortable with its tactical allocation of approximately \$460MM in this vehicle.

MOTION made by H. Foster, seconded by R. Allen that the Board move into Executive Session for the purpose of considering confidential financial information and trade secrets.

MOTION ADOPTED UNANIMOUSLY

4. ACTUARIAL REPORT FOR YEAR ENDING 6/30/05

D. Craik introduced John Muehl and Hassan Ghazi, with Milliman USA, who presented information on the Actuarial Valuation of the Delaware Public Employees Retirement System as of June 30, 2005. Topics presented included current results, past trends and future outlook. The following employer contribution rates for FY07 were presented:

| | |
|----------------------------|----------|
| State Employees' | 6.69% |
| State Judiciary | 25.87% |
| New State Police | 13.83% |
| County/Municipal Police | 13.97% |
| County/Municipal Employees | 5.09% |
| Volunteer Firemen | \$175.95 |
| Diamond State Port | 5.80% |

MOTION made by J. King and seconded by R. Allen to adopt the above rates.

MOTION ADOPTED UNANIMOUSLY

5. PENSION ADVISORY COUNCIL

J. Testerman stated he was making a recommendation to all active State Employees of the State Employees Pension Plan to elect the new Disability Insurance Plan.

The election of officers will be held during the November 8th Pension Advisory Council meeting.

6. PENSION ADMINISTRATOR'S REPORT

Disability Insurance Program Review

D. Craik gave an update on implementing the Disability Insurance Program. Information has been disseminated to employees. Employees have started making their insurance election via the internet. As of Wednesday October 26th, 1,404 employees have made their election. In addition, the Pension Office is providing workshops for employee groups, and is working with the insurance carrier, Hartford, to provide posters and employee communications materials while staying on top of many evolving issues. Both D. Craik and K. Vincent have a meeting with the School District Business Managers to discuss the Disability Insurance Program. D. Craik stated that he and K. Vincent are spending 75% of their time answering questions from State employees.

Best Practices Review

D. Craik reported that the Best Practices Review work continues. The project consultant, CEM, has distributed surveys for gathering information on administration and investment data. These surveys have

been completed by staff and the questions have started coming in from CEM. A draft copy of the review should be ready the Committee/Board by the end of November.

OPEB Task Force Update

The Task Force Report was released in October. The Task Force is waiting for the Governor to comment on the report. D.Craik stated that the Internet link for the report was e-mailed to all Board Members.

Disability Pension Report

D. Craik stated that there were eight new cases in October. Seven of the eight have been approved for disability.

Appeals

D. Craik asked for volunteers for the December 14, 2005 Appeal Hearings. R. Allen and P. Reese volunteered to be the hearing officers.

7. AUDIT COMMITTEE REPORT

R. Allen stated that the Audit Committee is planning on setting up a meeting with Mercantile sometime in December.

8. DEPUTY ATTORNEY GENERAL REPORT

M. Kramarck discussed the meetings with law firms to discuss Internal Revenue Service compliance for the plans administered by the Board. M. Kramarck made a recommendation to the Board to hire the Jones Day Law Firm.

MOTION made by H. Foster and seconded by N. Shevock to allow funds up to \$50,000 for an IRS compliance review.

9. PENDING ITEMS

D. Craik noted that there has been no action taken on the Pending Items due to the workload of the Disability Insurance Project.

10. ADJOURNMENT

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

At 12:21 p.m., there being no further business,
MOTION was made by R. Cordrey and seconded by
J. King to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Philip S. Reese
Board of Pension Trustees Chairman