

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF SEPTEMBER 30, 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

Trustees Absent

Nancy J. Shevock
Jennifer Davis

Others Present

Joel Poorman, Audit Committee
David Craik, Pension Office
Kim Vincent, Pension Office
Alice Simon, Pension Office
Kathy Kunkle, Pension Office
Dana Jefferson, Office of Management and Budget
Karen Field Rogers, Office of Management and Budget
Tom Cook, Department of Finance
James Testerman, Pension Advisory Committee
Charlotte Lister, Pension Advisory Committee
Francis Murphy, KPMG
Evelyn Zerenner, KPMG

1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order by P. Reese.

2. APPROVAL OF THE MINUTES

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

MOTION made by J. King and seconded by R. Cordrey to approve the minutes of the Board of Pension Trustees' July 29, 2005, meeting.

MOTION ADOPTED UNANIMOUSLY

3. AUDIT COMMITTEE REPORT

J. Poorman discussed the Comprehensive Annual Financial Report and the Fiscal Year 2005 audit. The audit was impacted by the current atmosphere dictated by the Sarbanes-Oxley Act, a contract with a new audit company, and a change of custodian bank systems. F. Murphy reviewed the standard auditor communication letter, and E. Zerenner reviewed the management letter. F. Murphy also reviewed the portion of the financial statements required by GASB 40 regarding the disclosure of investments denominated in foreign currencies. This section may be enhanced further in next year's report.

4. EXECUTIVE SESSION

The Board unanimously agreed to go into an Executive Session to discuss confidential matters with the KPMG auditors and regarding an Investment Committee issue.

5. 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 August were \$6,091 million. The fund gained 0.4% for the month, equaling the Delaware Benchmark of a positive 0.4% and was ahead of the 60/35/5 benchmark, which was zero.

During the month of August, the fund experienced losses in the U.S. equity market. The Russell 3000 stocks lost (1.0%), Large Growth stocks lost (1.1%), and the Large Value index returned (0.4%). Small cap stocks posted the largest loss in the equity market with the Russell 2000 returning (1.9%). The international markets were ahead of the U.S. market with the unhedged EAFE returning a positive 2.5%. The bond market with the Lehman LT Government/Corp Index was also in the black with a positive return of 2.7%.

The Fiscal Year 2006 return for the two months of July and August for the Fund will be reported at a 3.1% gain, and compared positively to a 2.2% 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 month of July and the strong performance of the NRIS tactical allocation. Year-to-date calendar returns of a positive 3.4% compared slightly favorably to a benchmark gain of 3.3%.

J. King reviewed the Investment Committee summary report with the Board for the quarter ending June 30, 2005. Fiscal Year return for the fund was reported at 9.6%, compared to the 8.1% returned by the policy benchmark. This annual return is near the median return for other public funds, and was achieved while maintaining a risk level within the policy target range.

J. King asked the Board members to ratify the poll vote taken on September 27, 2005. The Investment Committee recommended termination of Granahan Investment Management, a small cap growth manager. Granahan was initially retained in June 2002. Their returns have underperformed their benchmark, research of stocks in the portfolio seems to be hampered by the introduction of new projects, and transition to new leadership has been disappointing. It was also recommended that 100% (approx. \$176 million) as of August 31, 2005 of these assets be moved and re-deployed to our existing small cap manager, Oppenheimer Funds Investments Institutional (OFII) (formerly Trinity), on an interim basis. OFII would also provide the transition service of stock liquidation, where appropriate. Work is in process on identifying an emerging manager to replace the growth mandate in the small cap area.

MOTION made by R. Cordrey, seconded by H. Foster to ratify the September 27, 2005, poll vote to terminate the contract with Granahan Investment Management, re-deploy those assets with Oppenheimer Funds Investments Institutional, and to utilize Oppenheimer Funds Investments Institutional for transition management services.

MOTION ADOPTED UNANIMOUSLY

6. PENSION ADVISORY COUNCIL

J. Testerman had no new business to report. He is grateful for the 2% benefit increase awarded to pensioners of the State Employees' Pension Plan.

7. PENSION ADMINISTRATOR'S REPORT

Disability Insurance Program Review

D. Craik gave an update on implementing the Disability Insurance Program. Information is being disseminated to managers, human resource staff, and employees during the month of October. Employees will be able to make their insurance election via the internet from mid-October through mid-December. In addition, the Pension Office is providing workshops for various employer and 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.

Calendar

A 2006 meeting calendar was included in the meeting packages for the Trustees to review. R. Allen agreed to attend the appeal hearing on October 12, 2005.

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. Those surveys will be completed by staff by October 15; CEM feedback is expected after January 1, 2006. The consultants for the Board Education/Governance review may be ready to present their feedback in November.

P. Reese suggested the Board consider Wharton School of the University of Pennsylvania courses for Board and Committee members and asked D. Craik to explore any budget restraints limiting the participation of staff attending the training. The courses are offered during an intensive one-week session and cover finance issues relating to retirement systems and pension fund and investment management. Tuition for each session is approximately \$7,000 per participant. Additional training needs and policies are expected to be identified during the Best Practices Review.

MOTION made by J. King, seconded by R. Cordrey, to allow the expenditure of funds for training opportunities as approved by the Board Chairman.

MOTION ADOPTED UNANIMOUSLY

OPEB Task Force Update

Tom Cook gave an update on the OPEB task force findings. The committee is working to develop a plan for the State to comply with the GASB 45 requirements to disclose the liability for future costs of providing post-retirement employee benefits (primarily health care). The current estimate is a total liability to the State of \$3.1 billion; requiring an annual required contribution of \$185 million. Options are being reviewed at this time, and a report will be made to the Governor by October 15, 2005. Bond rating agencies are looking for a commitment over time to reach a satisfactory level of funding to offset the liability. They also report that Delaware is in the forefront of states working to comply with the new accounting requirement.

Communication

D. Craik reviewed the Disability Pension Tracking Report for September and noted that one claim is older than 90 days due to the Medical Committee's request for additional information. He also informed the Board that the Pension Office is conducting workshops for pensioners who are Medicare eligible and carry the State's prescription drug program. January 1, 2006 is the deadline for making an election to keep the State plan vs. the new Medicare Part D coverage.

P. Reese reported to the Board that he had conversations with officials of the Department of Justice, and that Deputy Attorney General Marsh Kramarck will now be fully assigned to the Board and Pension Office.

8. DEPUTY ATTORNEY GENERAL REPORT

There was no Deputy Attorney General report.

9. PENDING ITEMS

D. Craik noted that an item on the Pending Items List regarding setting up a committee to review possible changes to policy regarding pensioners returning to State employment will be rescheduled until after January 1, 2006, due to the workload generated by the disability insurance project.

10. ADJOURNMENT

The next Pension Board meeting will be held on October 28, 2005, at 9:00, in the Delaware Conference Room of the Office of Pensions.

At 10:30 a.m., there being no further business, MOTION was made by J. King and seconded by R. Cordrey to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Philip S. Reese
Board of Pension Trustees Chairman