

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF DECEMBER 15, 2006

The meeting of the Board of Pension Trustees was called to order by P. Reese at 9:08 a.m. in the Delaware Conference Room of the Office of Pensions in Dover.

Trustees Present

Philip S. Reese
Robert Allen
Jan King
Nancy J. Shevock
Richard Cordrey
Jennifer Davis

Trustees Absent

Helen Foster

Others Present

David Craik, Pension Office
Kim Vincent, Pension Office
Kathy Kunkle, Pension Office
Terri Timmons, Pension Office
Cindy Collins, DAG
Jim Testerman, PAC
Charlotte Lister, PAC
Dorothy Clemente, Pension Office
Elaine Loboda, Pension Office
Dr. Shellenberger, Medical Committee
Dr. Weir, Medical Committee
Dr. Smoyer, Medical Committee
Dr. DeDuca, Medical Committee
Dr. Gelb, Medical Committee

1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order by P. Reese. Mr. Reese welcomed the Chair of the Medical Committee, Dr. Shellenberger, and other members of the Committee.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the November 17, 2006 meeting.

MOTION made by J. Davis and seconded by R. Allen to approve the minutes of the Board of Pension Trustees' November 17, 2006 meeting.

MOTION ADOPTED UNANIMOUSLY

3. MEDICAL COMMITTEE REPORT

Dr. Shellenberger presented Dorothy Clemente with a framed Certificate of Appreciation for her years of service to the Medical Committee. D. Clemente will be retiring from the Pension Office effective December 31st. P. Reese expressed his gratitude and on behalf of the Trustees and thanked her for her 37 plus years of service to the Board and Medical Committee and wished her success with her retirement.

Dr. Shellenberger reported to the Trustees' that they were extremely pleased with the new Disability Insurance Program. He stated that the Medical Committee is still looking at a few cases dealing with the Disability Pension Plan.

4. INVESTMENT COMMITTEE REPORT

<u>Fund</u>	<u>Previous Month</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	2.5%	7.9%	8.7%
S & P 500 Index	1.9%	11.2%	8.4%
60/35/5*	1.6%	8.8%	6.2%
Delaware Benchmark**	2.1%	9.0%	6.9%

*Benchmark mix of 60% S&P500 Index, 35% Salomon Long Government and Corporate Bond Index, 5% T-bills.

**Benchmark mix of 37% Russell 3000, 1% NAREIT, 20% MSCIA, 38.5% Lehman Bond universal, 1.5% LBTIPS, 2% T-bills.

Total assets in the Fund at the end of November were approaching \$7 billion at \$6.982 million. The Fund gained 2.5% for the month which was more than the Delaware Benchmark of a positive 2.1% and was also ahead of the 60/35/5 benchmark which was 1.6%. The over performance is mainly due to the large allocation to natural resources and overweight equity position.

The month of November gave the Fund another strong market with positive returns in most asset classes. The Russell 3000 stocks gained 2.2% with Large Growth Stocks lagging at a positive 2.0% gain for the month while the Large Value Index returned a positive 2.3%. Small Cap Stocks lead at a positive return of .9%. The International Markets were also positive with unhedged EAFE returning 3.0%. The Bond Market with Lehman LT Government/Corp Index experienced gains of 2.2% with the remainder of the fixed income indices also yielding positive results. Natural Resources Index experienced large gains returning a positive 7.6% for the month.

The fiscal year 2007 for 5 months return for the Fund will be reported at a 7.9% gain, compared negatively to a 9.0% benchmark. This negative variance to the benchmark is mainly due to the high NRIS tactical allocation and the large alternative asset allocation. Calendar returns for 2006 are positive at 13.5% compared to an 11.4% benchmark. These excess returns are mainly due to an overweight equity portfolio with TAA and GTAA, MRIS and our small cap exposure.

At its meeting in December, 2006, the Investment Committee took the following action. Pecks, a long time private equity portfolio that has been in liquidation for many years, may require additional cash infusion up to \$5.0 million to purchase stock rights when issued into the market for an existing stock holding. The Committee under its delegated authorities authorized the Chair of either the Investment Committee or the Board to authorize this additional investment to protect our existing holdings from dilution if the scenario presented in the meeting unfolds.

The team from Mellon Capital presented performance information and discussed the impending merger of Mellon and Bank of New York, expected to culminate in July 2007. The Committee at this time, feels the merger will not impact the management of the States investment with Mellon Capital but will watch the situation over the next years. Mellon Capital also presented the Fund with a plaque commemorating 30 years of a strong and fruitful partnership between DPERS and Mellon Capital.

There was a discussion about the quorum issue in November, but at this time, members feel this was an exception and directed counsel to look at several options the Committee may have to prevent this from occurring in the future. Another discussion was held about the investment guideline calling for a minimum asset allocation of 20% grade fixed income. Concern was expressed by Ashford about the current closeness to the minimum, mainly due to the 100% allocation to equity in the TAA and high equity allocation in the GTAA.

The meetings in January will include an in-depth discussion of asset allocation and the team from Loomis Sayles will discuss its' portfolio. J. King will be absent from those meetings as well as the Board meeting but will return in February.

P. Reese asked the Trustees to consider moving the January 26th meeting up to January 19th. He further instructed T. Timmons to have the Trustees check their calendars and coordinate this possible date change.

5. PENSION ADVISORY COUNCIL

J. Testerman stated that the next Advisory meeting will be held on January 9th. He thanked the Board and the Pension Office for their commitment and cooperation.

6. AUDIT COMMITTEE REPORT

R. Allen stated that the Audit Committee will be setting up a meeting in January with Northern Trust.

7. PENSION ADMINISTRATOR'S REPORT

Disability Insurance Program

D. Craik stated that today is the last day of the 2nd election period for the Disability Insurance Program. The Pension Office has participated in workshops for the roughly 3,600 state employees who did not elect into the Disability Insurance Program last year. The office has mailed out letters and reminder postcards to those individuals. As of Thursday, 80% have not made an election. The statistics so far are:

773 have made an election
423 have elected into the Disability Insurance Plan
350 have elected to stay in the Disability Pension Plan

Roughly 3000 employees will stay in the Disability Pension Plan. D. Craik also stated that the transition of the program from the Pension Office to Statewide Benefits is going well.

Disaster Recovery

D. Craik reported that the Pension Office has been through disaster recovery during the beginning of December. The day after the disaster recovery was completed staff members ran several reports, such as payroll and refunds and everything went well.

County/Municipal Report

D. Craik stated that the Millcreek Fire Company's paid employees are requesting to join the County Municipal General Employees Pension Plan. If the effective date is going to be January 1st than the request would need action from the Board.

MOTION made by J. Davis and seconded by R. Allen that the Board goes into Executive Session to consider pending personnel, confidential legal matters and trade secrets.

MOTION ADOPTED UNANIMOUSLY

The Board then moved into Executive Session to discuss pending personnel, confidential legal matters and trade secrets.

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

MOTION ADOPTED UNANIMOUSLY

Following a discussion the following motion was made:

MOTION made by R. Allen and seconded by J. Davis to allow the participation of the paid employees of the Millcreek Fire Company to join the County Municipal General Employees Pension Plan as of January 1, 2007.

MOTION ADOPTED UNANIMOUSLY

Editorial

D. Craik stated that there was an article attached to the Board packets that was in the News Journal. The article is in reference to the Town of Elsmere and other small towns' pension funds. The News Journal reports "that the general perception is that government employees will have a better shot at some pension in retirement than their peers in the private industry. It also is reason enough to consider urging all municipal governments in Delaware to join the more securely managed state pension plan system".

Investment Section

D. Craik stated that K. Kunkle met with Northern Trust on Monday to discuss some accounting issues. K. Kunkle is also working with BMC Accounting Firm to conduct a review of internal processes.

8. DEPUTY ATTORNEY GENERAL REPORT

MOTION was made by R. Allen and seconded by J. Davis that the Board goes into Executive Session to consider pending Personnel, confidential legal matters and trade secrets.

MOTION ADOPTED UNANIMOUSLY

The Board then moved into Executive Session to discuss pending personnel, confidential legal matters and trade secrets.

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

MOTION ADOPTED UNANIMOUSLY

Following a discussion of an appeal case during Executive Session, the following motion was made:

MOTION made by R. Allen and seconded by N. Shevock to remand the denial of James S. King's Request for Consideration for further proceedings consistent with this opinion and such other action as the Pension Office deems is appropriate.

MOTION ADOPTED UNANIMOUSLY

9. PENDING ITEMS

D. Craik stated that the Matrix for the FY06 Management Audit Letter Comments be will ready for the January meeting.

10. NEW BUSINESS

D. Craik reminded everyone that the annual Board Luncheon would be held today at 11:30 in the Pension Office.

D. Craik also stated that the interviews for the Financial Investment Manager were held on December 14th and a decision will be made soon who the chosen applicant will be.

11. ADJOURNMENT

The next Pension Board meeting is schedule to be held on January 19, 2007, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 10:15 a.m., there being no further business, MOTION was made by R. Allen and seconded by J. Davis to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Philip S. Reese
Board of Pension Trustees Chairman