

**STATE OF DELAWARE**  
**STATE BOARD OF PENSION TRUSTEES**  
**AND**  
**OFFICE OF PENSIONS**  
MCARDLE BUILDING  
860 SILVER LAKE BLVD., SUITE 1  
DOVER, DE 19904-2402

**When Calling Long Distance**  
**Toll Free Number 1-800-722-7300**  
**E-mail: [pensionoffice@state.de.us](mailto:pensionoffice@state.de.us)**

**Telephone (302) 739-4208**  
**FAX # (302) 739-6129**  
**[www.delawarepensions.com](http://www.delawarepensions.com)**

**BOARD OF PENSION TRUSTEES**  
**MEETING MINUTES OF FEBRUARY 24, 2006**

The meeting of the Board of Pension Trustees was called to order by P. Reese at 9:01 a.m. in the Delaware Conference Room of the Office of Pensions in Dover.

Trustees Present

Philip S. Reese  
Robert W. Allen  
Jan King  
Nancy J. Shevock  
Tom Cook, Acting Secretary of Finance

Trustees Absent

Jennifer Davis  
Helen Foster

Others Present

David Craik, Pension Office  
Kim Vincent, Pension Office  
Marsha Kramarck, DAG  
Alice Simon, Pension Office  
Kathy Kunkle, Pension Office  
Terri Timmons, Pension Office  
Karen Field Rogers, OMB  
Dale Stratton, Investment Committee  
Garry Musto, Ashford Consulting Group  
Rob Gooderham, Ashford Consulting Group  
Pat Dowden, Consultant  
Eric Hart, Consultant

**1. OPENING COMMENTS**

The meeting of the Board of Pensions Trustees was called to order by P. Reese. Per a previous discussion in January, in reference to the Governor requesting that the Board of Pension Trustees consider managing the State's Tobacco Fund, JJ Davis has asked to table this matter for the time being. They are looking into other means of managing this fund.

## 2. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the January 27, 2006 meeting.

MOTION made by R. Allen and seconded by J. King to approve the minutes of the Board of Pension Trustees' January 27, 2006, meeting.

MOTION ADOPTED UNANIMOUSLY

## 3. INVESTMENT COMMITTEE REPORT

P. Reese introduced Rob Gooderham and Garry Musto who are with Ashford Consulting Group. R. Gooderham presented information on the Investment Committee Report for the Quarter ending, December 31, 2005.

<u>Fund</u>	<u>Previous Month</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
<b>Total Fund</b>	<b>3.9%</b>	<b>11.0%</b>	<b>13.3%</b>
<b>S &amp; P 500 Index</b>	<b>2.7%</b>	<b>8.6%</b>	<b>10.4%</b>
<b>60/35/5*</b>	<b>1.5%</b>	<b>5.0%</b>	<b>6.9%</b>
<b>Delaware Benchmark**</b>	<b>2.1%</b>	<b>6.4%</b>	<b>8.8%</b>

\*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 January were \$6,497 million. The Fund gained 3.9% for the month which was ahead of the Delaware benchmark of a positive 2.1% and was ahead of the 60/35/5 benchmark which was 1.5%

During the month of January the fund experienced strong gains in most of the financial markets. The Russell 3000 stocks gained 3.3%. Large Growth stocks were up for the month at 1.9% and Large Value index returned a positive 3.9%. Small cap stocks had an outstanding month with a gain of 9.0% in the Russell 2000. The international markets were continuing their run and outperformed the U.S. market for the month with the unhedged EAFE returning a positive 6.1%. The bond market with Lehman LT Government/Corp Index was with a loss of (.8%) with the remainder of the fixed income market yielding positive results.

The fiscal year 2006 return for 7 months for the Fund will be reported at an 11.0% gain, compared positively to a 6.4% 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 this period and the strong performance of the NRIS tactical allocation. Calendar returns for 2006 are the same as the monthly returns in January.

The Investment Committee spent this month's meeting reviewing a draft Investment Policy which will be distributed to the Board for its review prior to the next Board meeting. It will be in draft form and will need final recommendation from the Investment Committee and include any suggestions and comments made by the Board for its review.

In addition to reviewing the draft policy, we spent time on asset allocation decisions. The first recommendation from the Committee was sent to the Board as a poll vote this week and the action needs to be ratified.

The Investment Committee recommended a reallocation of funds between the Mellon Domestic Tactical Allocation Fund and the Mellon Global Asset Allocation Fund. It is recommended that \$425 million in assets be moved from the Domestic product to the Global product.

The Mellon Domestic TAA is currently 100% invested in the S & P 500 compared to its benchmark allocation of 60%. It has had this high equity allocation for over 1 year. The funds will be redeployed to Mellon's Global product which also has a substantial allocation to the U.S. Equity Market but makes allocation decision to the U.S. market and other developed world markets compared to each other and then adjusts a mix of stock versus bonds based on relative valuations with each market. Current allocation to the U.S. market in this product is roughly 35%. The GTAA has a current equity/bond mix of 75%/25% and a benchmark mix of 60% World Equity and 40% World Bonds. This asset move will decrease the Fund's exposure to total equities, decrease exposure to domestic equities, increase the exposure to international equities and increase the allocation to fixed income. The Fund still would have approximately \$1 billion in the Domestic TAA and would move our allocation in GTAA to approximately \$850MM.

MOTION made by J. King and seconded by N. Shevock to ratify the February 21, 2006 poll vote to reallocate \$425 million from the Domestic product to the Global product.

MOTION ADOPTED UNANIMOUSLY

The Fund utilizes Oaktree's Emerging Markets which is a process that identifies emerging market securities which are mispriced relative to other securities with similar top-down risk characteristics. We have been invested in this product since August, 2000. Last year, this manager had some personnel issues that have been worked through and they are now on target with expected returns. This product requires we commit funds for three years. We have laddered our investment for 50% of the invested amount which opens every 18 months. Approximately \$107 million matures in June, 2006 and OEM has requested notification of our intent for these funds. The Investment Committee recommends reinvestment of these assets for another three years with OEM. A like amount matures in December 2007.

MOTION made by J. King and seconded by R. Allen recommending the reinvestment of \$107 million for another 3 years with Oaktree's Emerging Markets.

MOTION ADOPTED UNANIMOUSLY

The small cap U.S. Market has outpaced the large and mid cap stocks in 2005 and for the 12 months ended in January. As a result, the fund is overweight in small cap exposure and the Committee recommends rebalancing by moving \$50 MM from OFI Institutional, a small cap manager, to INTECH, a large cap growth manager.

MOTION made by J. King and seconded by N. Shevock recommending the rebalancing of the fund by moving \$50 MM in assets, from OFI Institutional to INTECH.

MOTION ADOPTED UNANIMOUSLY

In the private market, Allegis, a manager with whom we have had other commitments, is starting up another fund and has requested the level of our commitment to their new fund. The Investment Committee recommends that we commit \$25 MM in assets, called as needed, to this future fund.

MOTION made by J. King and seconded by R. Allen to commit \$25 MM in assets, called as needed, to this fund.

The next meeting of the Investment Committee will be moved from March 14<sup>th</sup> to March 15<sup>th</sup> to allow for a quorum to be in attendance. The agenda will include presentations by our existing custodial manager, Mercantile and Northern Trust who is a top contender for this business as a result of the RFP. The Committee will be recommending its selection at the next Board Meeting.

P. Reese stated that the March 31<sup>st</sup> Board Meeting had been changed to March 17<sup>th</sup> in order to have a quorum present.

**4. PENSION ADVISORY COUNCIL**

There was no Pension Advisory Council Report.

**5. PENSION ADMINISTRATOR'S REPORT**

D. Craik turned this portion of the meeting over to P. Reese.

Mr. Reese introduced Dale Stratton, whose committee reviewed the proposed Board Operating Policy and the Code of Conduct. By way of background, Mr. Reese outlined the rationale for proceeding with an internal review wherein the board would assess DPERS' policies, procedures, operations and practices comparing them with accepted "best practices" throughout the public/private pension plan universe. He noted that the study was in segments focusing on Governance, Investments and Administration. He referred to a chart distributed to board members which provided an overview of the process. Also included was a summary table showing the elements of the study, who is responsible for them, their current status and the next steps which he reviewed with the board. It included suggested assignments for board members' involvement in the various elements of the study. There was general concurrence with these assignments.

Before turning over the meeting to Ms. Stratton to lead us through a discussion of the Board Operating Policy and Code of Conduct, Mr. Reese extended the board's appreciation and thanks to the many people who have been involved in this "best practices" review.

J. King asked that the cost of the project be defined. P. Reese asked D. Craik to project time and cost of this project and report back to the Board in April.

D. Stratton thanked P. Dowden and E. Hart for their commitment and help. D. Stratton then reviewed the Board Operating Policy Draft and asked for feedback from Board Members. A discussion was held and possible changes were suggested on several sections.

MOTION made by J. King and seconded by N. Shevock to approve the Board Operating Policy and the accepted changes.

MOTION ADOPTED UNANIMOUSLY

Ms. Stratton then led a discussion about the Draft Code of Conduct Policy and asked for feedback and possible changes to this policy.

MOTION made by J. King and seconded by R. Allen to accept the Draft Code of Conduct Policy with the accepted changes.

MOTION ADOPTED UNANIMOUSLY

Disability Insurance Program Review

D. Craik stated that as of February 22<sup>nd</sup> there have been 471 STD claims filed of which 245 have been approved, 53 have been approved/terminated and returned back to work. D. Craik stated that most of these claims were disabled prior to January 1<sup>st</sup>.

#### Disability Pension Report

D. Craik stated that there were fifteen new cases in December but within the next few months we should see a decrease in these cases due to the new disability insurance program.

#### County Municipal Report

D. Craik stated that Laurel Police has joined the County Municipal Police Pension Plan as of January 1, 2006. All prior service has been purchased.

MOTION made by R. Allen and seconded by T. Cook to allow the participation of the Laurel Police in the County & Municipal Police Plan.

MOTION ADOPTED UNANIMOUSLY

D. Craik stated that the Newport Police has joined the County Municipal Police Pension Plan with an effective date of August 1, 2005 for all new hires on or after December 1, 2004.

Motion made by N. Shevock and seconded by J. King to allow the participation of the Newport Police in the County & Municipal Police Plan for all new hires on or after December 1, 2004.

MOTION ADOPTED UNANIMOUSLY

### **6. AUDIT COMMITTEE REPORT**

R. Allen asked A. Simon to bring the Board Members up to date on the RFP. A. Simon stated that we had received six bids. Four of the six proposals are being targeted. Interviews with the two final proposals will be held at Ashford Consulting Group on March 15<sup>th</sup>.

### **7. DEPUTY ATTORNEY GENERAL REPORT**

M. Kramarck spoke about the Statewide Calendar Website. Public meeting agendas and minutes must be posted in the designated amount of time according to Senate Bill 131.

### **8. PENDING ITEMS**

D. Craik stated that there were no updates on the Pending Items List.

**9. ADJOURNMENT**

The next Pension Board meeting will be held on March 17, 2006, at 9:00, in the Delaware Conference Room of the Office of Pensions.

At 11:38 p.m., there being no further business, MOTION was made by N. Shevock 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