

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF JANUARY 27, 2006

The meeting of the Board of Pension Trustees was called to order by P. Reese at 9:02 a.m. in the Delaware Conference Room of the Office of Pensions in Dover.

Trustees Present

Philip S. Reese
Robert W. Allen
Helen Foster
Jan King
Nancy J. Shevock

Trustees Absent

Richard Cordrey
Jennifer Davis

Others Present

David Craik, Pension Office
Kim Vincent, Pension Office
Marsha Kramarck, DAG
Alice Simon, Pension Office
Terri Timmons, Pension Office
James Testerman, Pension Advisory Committee
Charlotte Lister, Pension Advisory Committee
Karen Field Rogers, OMB

1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order by P. Reese. Per a previous discussion with J. Davis in December, Mr. Reese stated that the Governor has requested that the Board of Pension Trustees consider managing the State's Tobacco Fund. A discussion was held and a number of issues came into the discussion. P. Reese asked M. Kramarck to generate a memo to frame up the pros and cons of this request and to bring it to the next meeting for further Board discussion.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the December 16, 2005 meeting.

MOTION made by R. Allen and seconded by H. Foster to approve the minutes of the Board of Pension Trustees' December 16, 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	1.3%	6.7%	7.0%
S & P 500 Index	0.0%	5.8%	4.9%
60/35/5*	0.4%	3.4%	4.0%
Delaware	0.9%	4.2%	3.8%
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 December were \$6,280 million. The Fund gained 1.3% for the month which was ahead of the Delaware benchmark which was .4%.

During the month of December, the fund experienced slight gains in the U.S. equity market. The Russell 3000 stocks gained .1%. Large Growth stocks were down for the month of (.7)% and Large Value Index returned a positive .6%. Small cap stocks were also off with a loss of (.5)% in the Russell 2000. The international markets were buoyant compared to the U.S. market for the month with the unhedged EAFE returning a positive 4.7%. The bond market with Lehman LT Government/Corp Index was ahead 1.0% with the remainder of the fixed income market also yielding positive results.

The fiscal year 2006 return for the first quarter for the Fund will be reported at a 6.7% gain, compared positively to a 4.2% 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 quarter and the strong performance of the NRIS tactical allocation. Calendar returns for 2005 are a positive 7.0% compared favorable to a benchmark gain of 5.3%.

The first January meeting of the Investment Committee was held last week with the team from OCM Emerging Markets presenting which has been lagging in return expectations. This firm was split earlier in the year and has taken longer to get back in the groove than they expected. December performance was back on track and the Committee will be watching this firm over the next year to be sure they perform to expectations. In conjunction with the Best Practices initiative, there was a side discussion after the meeting on policy benchmarks which will be continued over the next couple of meetings. The next meeting is January 31st and we will be reviewing the Draft of the Investment Policy that in turn will be presented to the Board. This is being done before a full asset allocation discussion which will take place in February.

4. PENSION ADVISORY COUNCIL

J. Testerman mentioned that he has been the Chairperson of the Advisory Council for the past 30 years (1976 – 2006). The Board congratulated Mr. Testerman for his many years of service.

J. Testerman reported that during the January PAC meeting the Committee decided on the following three goals:

- a) Pre-funding retiree health benefits
- b) Pension Increase for retirees
- c) 25 year retirement, with no reduction

Mr. Testerman also stated that there were upcoming pre-retirement workshops that PAC was co-sponsoring. He also wanted the Board Members to know that the Advisory Council applauds the new disability insurance program.

The Pension Advisory Council's next meeting will be held on April 11th.

5. PENSION ADMINISTRATOR'S REPORT

Disability Insurance Program Review

D. Craik stated that there was clean-up legislation introduced this past week which deals with return to work policy, merit/non-merit employees and the appeal process with the State Employees Benefit Committee.

To date there have been 280 STD claims filed of which 90 have been approved, 10 denied, 47 have not received all requested information and The Hartford is gathering information on 133 claims. D. Craik stated that most of these claims were disabled prior to January 1st.

D. Craik acknowledged that roughly 200 employees have appealed to come into the new disability program.

Request for Proposals

D. Craik stated that the Actuarial RFP must be posted by February 15th. The committee to review the RFP's will consist of Nancy Shevock, Dave Craik and third person to be recruited by D. Craik. The committee will report back to the Board with their recommendation at the May meeting.

Board Operating Policy

D. Craik reported that the Best Practices Review work continues. The committee is reviewing the report and will be making comments. These comments will be sent to the Board before the February meeting. The Investment Policy report should be available in April. It was noted that the Board Mission Statement still needs to be completed.

Disability Pension Report

D. Craik stated that there were fourteen new cases in December. D. Craik also stated that by March we should see a decrease in applications for the current disability.

Governor's Budget

D. Craik stated that the pre-funding for health insurance would cost approximately \$4.5 million or .3% of the budget. The Post Retirement Increase is 2.33% of the budget and if an increase is granted then additional funds would have to be allocated.

March Board Meeting

P. Reese asked D. Craik to check on dates for moving the March 31st Board meeting. A possible date would be March 17th.

6. AUDIT COMMITTEE REPORT

R. Allen asked A. Simon to bring the Board Members up to date on the RFP. A. Simon stated that the RFP was first posted on January 6th and again once more as a Public Posting. There were seven banks targeted and we are already receiving questions from six of those banks. A conference call will be held on January 31st.

7. DEPUTY ATTORNEY GENERAL REPORT

M. Kramarck stated she was working with Jones Day Law Firm on the IRS Compliance Review.

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 February 24, 2006, at 9:00, in the Delaware Conference Room of the Office of Pensions.

At 10:30 p.m., there being no further business,
MOTION was made by J. King 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