

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

Telephone (302) 739-4208
FAX # (302) 739-6129
www.delawarepensions.com

BOARD OF PENSION TRUSTEES
MEETING MINUTES OF JULY 28, 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
Jan King
Nancy J. Shevock
Richard Cordrey
Jennifer Davis
Helen Foster

Trustees Absent

Others Present

David Craik, Pension Office
Marsha Kramarck, DAG
Charlotte Lister, PAC
Kathy Kunkle, Pension Office
Terri Timmons, Pension Office
Faith Rentz, OMB Budget

1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order by P. Reese. It was announced that today was M. Kramarck's last meeting as a full-time employee, but she will be returning as a casual seasonal employee until her replacement can be found. P. Reese formally thanks M. Kramarck for all of her hard work and stated she has been a wonderful resource for the Board of Pension Trustees. D. Craik noted that M. Kramarck joined the Pension Office in 1988 and has appreciated all the help she has given to the Pension Office.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the June 23, 2006 meeting.

MOTION made by J. Davis and seconded by N. Shevock to approve the minutes of the Board of Pension Trustees' June 23, 2006 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%	12.4%	12.4%
S & P 500 Index	(0.2)%	8.2 %	8.2%
60/35/5*	0.0%	4.6%	4.6%
Delaware	0.2%	6.5%	6.5%
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, 2% T-bills.

Total assets in the Fund at the end of June were \$6,522 million. The Fund gained .4% for the month which was more than the Delaware Benchmark of a positive .2% and was ahead of the 60/35/5 Benchmark which was .0%. The slight over performance to the Benchmark is mainly due to the large allocation to natural resources and overweighting in equities in the TAA and GTAA.

The month of June was a respite from the nasty market of the previous month with small positive returns in most asset classes. The Russell 3000 stocks gained .2% with Large Growth stocks leading at a positive .9% gain for the month while the Large Value Index returned a positive .6%. Small Cap stocks also had a positive return of .5%. The International Markets were flat unhedged EAFE returning .0%. The Bond Market with Lehman LT Government/Corp Index experienced gains of .6% with the remainder of the fixed income indexes also yielding negative results with the

exception of the Global High Yield at a loss of .5% due to constricting spreads. Natural Resources Index also had a gain of 1%.

The fiscal year 2006 return for the Fund will be reported at a 12.4% gain, compared positively to a 6.5% benchmark. This positive variance to the 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 a positive 5.1% compared to a 2.2% benchmark.

This months Investment Committee meeting reviewed the CEM study and will be bringing forward its comments to the September meeting.

The Board unanimously ratified a June vote taken to fund a new small cap investment. The Investment Committee recommended a commitment of up to \$100 million of funding to Rutabaga Capital Management (RCM). The initial funding for this investment will come from a partial liquidation of small cap holdings in the OFI Institutional account. Further funding recommendations will be made as the market permits. In discussion, M. Kramarck disclosed that, because of a standing agreement RCM has with an original investor, we will receive “most favored nation” treatment for management fees with the exception of that investor.

MOTION made by J. Davis and seconded by N. Shevock to ratify the vote taken in June 2006 to commit up to \$100 million of funding to Rutabaga Capital Management subject to successful contract negotiation. The initial \$25 million of funding will be secured from the partial liquidation of the OFI Institutional small cap equity account.

MOTION ADOPTED UNANIMOUSLY

The next Investment Committee meeting will be held on August 22nd.

4. PENSION ADVISORY COUNCIL

C. Lister stated that J. Testerman was not available to attend but sends his regrets. C. Lister stated that the Pension Advisory Council was delighted with the success of the recent legislation.

5. PENSION ADMINISTRATOR’S REPORT

Disability Earnings Report

D. Craik reported that the Pension Office has completed the review of earnings for 2005 for disability pensioners. A disability pensioner is allowed to earn up to 50% (indexed by inflation) of their pre-disability earnings from gainful employment without reducing their disability pension benefit. If they exceed the limit their disability benefit would be reduced over a 12 month period (July – June) to recoup the funds. Below is the recap of the 2005 report:

780	Reported zero earnings
127	Reported earnings below their limit
60	No response, benefits stopped as of 7/1
52	Exceeded limit, adjustment required
<u>4</u>	Deceased
1,023	Disability pensioners as of 12/31/05

FY08 Budget

D. Craik discussed the FY08 projected expenses for the Pension Office. He stated that the overall office expenditures would be higher due to the need of updating our imaging system.

Legislation

Senate Substitute Bill 1
For Senate Bill 243
(75 Del. Laws, C227)

This bill clarifies some issues for the Disability Insurance Program for employees that are covered under the State Employees' Pension Plan, including return to work components and health insurance coverage. Additionally, this bill allows the Pension Administrator to resolve any outstanding issues that were involved with the election period for the program.

Senate Bill 395
w/Senate Amendment 1
(75 Del. Laws, C351)

This bill clarifies some issues for the Disability Insurance Program for employees that are covered under the State Employees' Pension Plan, including allowing a new reopening period for employees to elect into the disability insurance program.

S. B. 396
(75 Del. Laws, C403)

Grants pension increases to retired State Employees', retired Judges, retired New State Police and retired County & Municipal Police & Firefighters' on July 1, 2006 for persons retired on or before June 30, 2005. Any monthly service, disability, and survivor pension based on a former service or disability pension that was effective on or before June 30, 2005,

but after December 31, 1980, and is payable on July 1, 2006 shall be increased effective July 1, 2006 by 2%. Any monthly service, disability, and survivor pension based on a former service or disability pension that was effective before January 1, 1981 and is payable on July 1, 2006 shall be increased effective July 1, 2006 by 2% or \$50 per month, whichever if greater.

Disability Pension Report

D. Craik reported that there were 5 new cases for the month of June. As previously stated, this number continues to decrease.

Custodial Bank Transition

D. Craik stated that the Northern Trust transition is running smoothly.

Actuary Transition

D. Craik stated that the actuary transition started on July 1st with Cherion and is going very well. Cherion will be looking into the savings that the new Disability Insurance Program is providing.

6. AUDIT COMMITTEE REPORT

R. Allen stated that the annual audit will start on July 31st and the exit audit meeting will be on August 30th. The Audit Report will be brought to the Board in September. Mr. Allen also stated that Conflict of Interest letters were mailed to all Trustees.

7. DEPUTY ATTORNEY GENERAL REPORT

M. Kramarck stated she was still working on some outstanding issues for the Board such as the Ethics Policy and Poll Vote language. M. Kramarck also handed out insurance coverage information on the NAPA Survey.

8. PENDING ITEMS

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

9. NEW BUSINESS

There was no new business to discuss.

10. ADJOURNMENT

The next Pension Board meeting will be held on September 29, 2006, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 10:05 p.m., there being no further business, MOTION was made by J. King 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