

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF JUNE 23, 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
Kim Vincent, Pension Office
Marsha Kramarck, DAG
Jim Testerman, PAC
Charlotte Lister, PAC
Kathy Kunkle, Pension Office
Terri Timmons, Pension Office
Karen Field Rogers, OMB
Tom Scheibelhut, CEM Benchmarking, Inc.

1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order by P. Reese. P. Reese announced that Marsha Kramarck would be retiring the end of July.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the May 26, 2006 meeting.

MOTION made by J. King and seconded by R. Allen to approve the minutes of the Board of Pension Trustees' May 26, 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	(2.2)%	11.8%	10.6%
S & P 500 Index	(2.9)%	8.5%	8.2%
60/35/5*	(1.7)%	4.6%	7.6%
Delaware	(1.9)%	6.3%	8.8%
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, 2% T-bills.

Total assets in the Fund at the end of May were \$6,609 million. The Fund lost 2.2% for the month which was more than the Delaware Benchmark of a negative 1.9% and was also behind the 60/35/5 benchmark which was (1.7%). The under 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 May was a nasty market with negative results in most asset classes. The Russell 3000 stocks lost 3.2%, Large Growth stocks lost 3.3% for the month and the Large Value Index returned a negative 2.5%. Small cap stocks took the largest hit for the month with the Russell 2000 losing 5.6%. The International Markets followed the U.S. Market with the unhedged EAFE returning a negative 3.9%. The Bond Market with Lehman LT Government/Corp Index experienced losses with rising interest at a .3% loss with the remainder of the fixed income indexes also yielding negative results with the exception of the inflation sensitive Lehman U.S. TIPS Index returning a positive .3%. Natural resources had a loss of 5.6% in May; however, had a calendar year-to-date return of 13.7% and a 12 month return of 44.8%.

The fiscal year 2006 return for 11 months for the Fund will be reported at a 11.8% gain, compared positively to a 6.3% 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 a positive 4.6% compared to a 2.0% benchmark.

As a result of the Investment Committee meeting held June 13th, there are several recommendations from the Committee that need Board approval.

DPERS Policy Benchmark Review

J. King reviewed the Investment Policy Benchmark and a discussion was held. The Board last changed the Policy Benchmark for the fund in 1994 and the Investment Committee is recommending that the policy benchmark be change to:

- 58% Equities:
 - 37% Russell 3000
 - 1% REITs
 - 20% MSCI ACWI ex-US

- 42% Fixed Income
 - 38.5% Lehman Universal
 - 1.5% Lehman TIPS
 - 2% 90 Day T-Bills

MOTION made by J. King and seconded by R. Allen to accept the changes in the Benchmark as of July 1st, 2006.

MOTION ADOPTED UNANIMOUSLY

A review of the Ashford Consulting Groups relationship with DPERS, an appeal case and the IRS Compliance Review was deferred to Executive Session.

MOTION made by R. Allen and seconded by J. Davis that the Board go into Executive Session to consider personnel matters, pending and potential litigations, confidential medical records and financial or trade secrets.

MOTION ADOPTED UNANIMOUSLY

MOTION made by R. Allen and seconded by H. Foster to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

Following a discussion of the Ashford Consulting Groups relationship with DPERS the following motion was made:

MOTION made by J. King and seconded by R. Allen to amend the existing Ashford Consulting Group's contract as discussed including an increase in fees.

MOTION ADOPTED BY MAJORITY

J. Davis and R. Cordrey abstained from voting.

The next Investment Committee meeting will be held on June 27th with the team from NRIS presenting their view on inflation and the commodity markets.

4. PENSION ADVISORY COUNCIL

J. Testerman stated that he is still hearing good things about the new disability program. J. Testerman reported that he and other Council Members are pleased with the current legislation with the 2% increase in salary for retirees.

5. PENSION ADMINISTRATOR'S REPORT

D. Craik turned the meeting over to Tom Scheibelhut. P. Reese introduced Mr. Scheibelhut who is a Managing Partner with CEM Benchmarking, Inc. Mr. Scheibelhut presented a PowerPoint presentation in regards to the Benefit Administration Benchmarking Results. The presentation showed how our total pension administration cost compares to our peers, the four factors impacting our costs, service levels compared to our peers in key service areas, what we do differently and the trends in service levels and costs. A discussion was held after the presentation and many questions were asked.

Disability Pension Report

D. Craik reported that there were 4 new cases for the month of May and is seeing a decrease in the numbers. There were also 15 continuance cases.

Legislation

D. Craik stated that there is legislation in reference to a PRI (Post Retirement Increase) which states a 2% increase if retired prior to 7/1/95 and a 2% or \$25.00 increase if retired prior to 1/1/81.

Legislation has been introduced concerning the Disability Insurance Program which includes a provision to allow a second election period for those State Employees who elected to stay in the current Disability Pension Program.

Custodial Bank Transitions

D. Craik stated that he and other staff members are having 3 conference calls per week with Northern Trust, Mercantile and the Bank of New York. D. Craik commented that Mercantile has been extremely cooperative while handling transition issues with all parties.

Actuary Transition

D. Craik stated that the actuary transition is going smoothly and that Milliman is being very cooperative.

New Retirees

D. Craik reported that we have over 300 new retirees with an effective date of June 30, 2006. These pension applications will be processed for August payroll.

Consultants Cost

D. Craik reported to the Trustees the cost of all consulting fees as of May 31, 2006.

6. AUDIT COMMITTEE REPORT

R. Allen discussed the upcoming audit schedule and staffing. KPMG Audit staff changes are still a concern as he believes that the staff is working through them.

7. DEPUTY ATTORNEY GENERAL REPORT

M. Kramarck stated she is still working with the Jones Day Law Firm in reference to the IRS Compliance Review. A discussion was held when M. Kramarck spoke about the possibility of needing to increase the spending authority for consulting fees to the Jones Day Law Firm.

Following a discussion the following motion was made:

MOTION made by H. Foster and
seconded by J. Davis to increase the

spending authority totaling up to \$80,000 for consulting fees to the Jones Day Law Firm.

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 J. Davis to accept the decision of the hearing officer in the case of Lawrence D. Jamison deny his request for retroactive benefits beyond the two month statutory period which he has received (February 26, 2003).

MOTION ADOPTED UNANIMOUSLY

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 July 28, 2006, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 12:16 p.m., there being no further business, MOTION was made by N. Shevock and seconded by R. Allen to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Philip S. Reese
Board of Pension Trustees Chairman