

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF MAY 26, 2006

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

Trustees Present

Robert W. Allen
Jan King
Nancy J. Shevock
Richard Cordrey
Jennifer Davis
Helen Foster

Trustees Absent

Philip S. Reese

Others Present

David Craik, Pension Office
Kim Vincent, Pension Office
Marsha Kramarck, DAG
Jim Testerman, PAC
Charlotte Lister, PAC
Alice Simon, Pension Office
Kathy Kunkle, Pension Office
Terri Timmons, Pension Office
Karen Field Rogers, OMB

1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order by J. King in P. Reese's absence.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the April 28, 2006 meeting.

MOTION made by R. Allen and seconded by R. Cordrey to approve the minutes of the Board of Pension Trustees' April 28, 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	1.7%	14.1%	9.1%
S & P 500 Index	1.3%	11.7%	6.3%
60/35/5*	0.7%	6.5%	5.8%
Delaware	0.9%	8.4%	7.1%
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 April were \$6,661 million. The Fund gained 1.7% for the month which was higher than the Delaware Benchmark of a positive .9% and was also ahead of the 60/35/5 Benchmark which was .7%. The over performance of the benchmark is mainly due to the large allocation to natural resources and overweighting in equities in the TAA and GTAA.

The month of April was a market of mixed results by asset class. The Russell 3000 Stocks gained 1.1% while large Growth Stocks lost .1% for the month while the Large Value index returned a positive 2.5%. Small Cap Stocks remained flat or zero for the month in the Russell 2000. The International Markets led the U.S. Market with the unhedged EAFE returning a positive 4.8%. In the Bond Market, the Lehman LT Government/Corp Index experienced a loss of 1.7% at a time of rising interest rates. The remainder of the fixed income indexes also yielding negative results. Natural resources had a large gain at a positive 6.9% in April with a calendar year to date return of 17.3% and a 12 month return of 34.3%.

The fiscal year 2006 return for 10 months, for the Fund, will be reported at a 14.1% gain, compared positively to an 8.4% 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 T. Rowe Price Natural Resource Investment Service (NRIS) tactical allocation. Calendar returns for 2006 are a positive 6.8% compared to a 4.0% benchmark.

Several actions were taken by the Investment Committee. Poll votes of the Trustees during the month of May 2006 require Board ratification.

The Investment Committee also recommended the immediate termination of Armstrong Shaw, a current U.S. Large Cap Value Equity manager, due to underperformance. The Committee further recommended that Mellon Capital receive all assets currently in the Armstrong Shaw account, retain \$100 million of these assets in their Large Cap Value Index Fund and liquidate and transfer the balance of approximately \$74 million in cash to Legg Mason, of our existing Large Cap Equity managers. The Board also needs to be advised that Mellon Transition Management Services was hired to transition the Armstrong Shaw assets to the Mellon Russell 1000 Value Index and Legg Mason.

MOTION made by J. King and seconded by N. Shevock to terminate Armstrong Shaw, a current U.S. Large Cap Value Equity Manager, due to underperformance.

MOTION ADOPTED UNANIMOUSLY

The Investment Committee has also recommended the liquidation of \$130 million of funds currently held with T. Rowe Price Natural Resource Investment Service (NRIS). This more than completes the harvesting of gains generated by the tactical increase in allocation to NRIS (approximately \$350 million has been withdrawn since April 2005). After this action, we will have an estimated \$400 million or 6% of assets still remaining with NRIS. In addition, we need approval from the Board to add the \$130 million liquidated from NRIS to Mellon GTAA (Global Tactical Asset Allocation).

MOTION made by J. King and seconded by R. Allen to liquidate \$130 million of funds held with T. Rowe Price (NRIS) and add the \$130 million from NRIS to Mellon GTAA.

MOTION ADOPTED UNANIMOUSLY

Discussion was held on recommending the termination of Mercantile as the cash manager for DPERS (\$75.7 million as of 4/30/2006) effective July 1, 2006 and transfer assets to the new global custodian, The Northern Trust Company, utilizing their STIF (short term investment fund) account.

MOTION made by J. King and seconded by J. Davis to terminate Mercantile as the cash manager for DPERS effective July 1, 2006 and transfer assets to The Northern Trust Company.

MOTION ADOPTED UNANIMOUSLY

Discussion was held on recommending the termination of Mercantile as the enhanced cash manager for the Mt. Lucas Cash Collateral pool (\$143.6 million as of 4/30/06) effective July 1, 2006 and transfer assets to a new account at The Northern Trust Company to be invested in their STIF (short term investment fund) account.

MOTION made by J. King and seconded by J. Davis to terminate Mercantile as the enhanced cash manager for the Mt. Lucas Cash Collateral pool effective July 1, 2006 and transfer assets to The Northern Trust Company.

MOTION ADOPTED UNANIMOUSLY

Discussion was held on recommending the implementation of a securities lending program through The Northern Trust Company using their Core USA Cash Collateral Pool with the right to restrict specific asset classes, securities, and borrowers being delegated to the Investment Committee.

MOTION made by J. King and seconded by H. Foster to implement a securities lending program through The Northern Trust Company.

MOTION ADOPTED UNANIMOUSLY

The Investment Committee advised the Board that they approved the Schedule A change for OFI Institutional (Oppenheimer, formerly Trinity) changing benchmark to MSCI (Morgan Stanley Capital International) U.S. Small Cap 1750 Index effective June 1, 2006.

The Committee also advised the Board that they approved the 1 year extension of Cherry Tree IV's contract until December 31, 2007 (3rd and final extension allowable under original contract).

In addition the Investment Committee reviewed the March 31, 2006 derivative report. The Manager and Asset Class Fee Schedule are scheduled to be reviewed at the June meeting.

Investment Committee Report for the Quarter Ending March 31, 2006

J. King presented the Investment Committee Report for the Quarter Ending March 31, 2006. A discussion was held as J. King spoke about the Total Fund Performance and Asset Allocation, Risk Control and Value Added.

The next Investment Committee meeting is scheduled for June 13th during which they will review the Ashford relationship and new proposed fee structure.

4. PENSION ADVISORY COUNCIL

J. Testerman stated that he is still hearing good things about the new disability program. Council Members are hoping to see a 2% increase in salary for retirees. J. Testerman thanked the Pension Office Staff and the Board for their relationship with the Advisory Council Members this past year.

5. PENSION ADMINISTRATOR'S REPORT

D. Craik stated that there was an article in reference to DPER's hiring The Northern Trust Company as the new global custodian effective July 1st. The article was included in the Board packets for review.

Disability Pension Report

D. Craik reported that there were 7 cases for the month of April. He still expects this number to continue to decrease.

Legislation

D. Craik stated that there is no Legislative action as of today.

6. AUDIT COMMITTEE REPORT

R. Allen discussed the KPMG Audit staff changes and is concerned with the staff turnover. A meeting will be set up with KPMG to discuss the changes.

R. Allen asked A. Simon to give the Board an update with the transition between The Northern Trust Company and Mercantile. A. Simon reported that the transition is going smoothly with a few problems arising at times.

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. There are some areas where we may need statutory changes. M. Kramarck stated she will be asking for further authority from the Board after June when there should be a preliminary report for the Trustees. 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.

MOTION made by R. Allen and seconded by H. Foster to increase the spending authority up to \$5,000 more for consulting fees to the Jones Day Law Firm.

MOTION ADOPTED UNANIMOUSLY

A discussion was held and J. King requested a report of all fees paid to date on all consultants.

An appeal case and review of the Actuarial RFP was deferred to Executive Session.

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

MOTION ADOPTED UNANIMOUSLY

The Board then moved into Executive Session to discuss personnel matters, pending and potential litigation, confidential medical records and confidential financial or trade secrets.

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

MOTION ADOPTED UNANIMOUSLY

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

MOTION made by H. Foster and seconded by J. Davis to accept the decision of the hearing officer in the case of Reginald Harvey to deny his request for a duty related partial disability pension.

MOTION ADOPTED UNANIMOUSLY

Following a discussion of the Acturiarl RFP, the following motion was made:

MOTION made by R. Allen and seconded by H. Foster to engage Cheiron as the new Actuary for 3 years with two 1- year extensions effective July 1, 2006.

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 June 23, 2006, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 10:26 p.m., there being no further business, MOTION was made by R. Cordrey 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