

**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 NOVEMBER 17, 2006**

The meeting of the Board of Pension Trustees was called to order by P. Reese at 9:00 a.m. in the Delaware Conference Room of the Office of Pensions in Dover.

Trustees Present

Philip S. Reese  
Robert Allen  
Nancy J. Shevock  
Richard Cordrey  
Jennifer Davis  
Helen Foster

Trustees Absent

Jan King

Others Present

David Craik, Pension Office  
Kim Vincent, Pension Office  
Kathy Kunkle, Pension Office  
Dena Fry, Pension Office  
Cindy Collins, DAG  
Karen Field Rogers, OMB  
Jim Testerman, PAC  
Faith Rentz, OMB  
Charlotte Lister, PAC

### 1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order by P. Reese. Mr. Reese welcomed Cindy Collins as the new Deputy Attorney General and recognized Kathy Kunkle as the new Cash & Debt Manager. Mr. Reese thanked Nancy Shevock for hosting the luncheon to honor Marsha Kramarck's retirement.

### 2. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the October 27, 2006 meeting. P. Reese stated that the minutes should reflect the attendance of M. Kramarck and C. Collins at the October meeting.

MOTION made by J. Davis and seconded by R. Cordrey to approve the minutes with the addition of the attendance of M. Kramarck and C. Collins of the Board of Pension Trustees' October 27, 2006 meeting.

MOTION ADOPTED UNANIMOUSLY

### 3. AUDIT COMMITTEE REPORT

R. Allen led a discussion on the Matrix of the FY06 Management Audit Letter Comments. D. Craik stated that the Matrix has been added to the Pending Items List and will be further discussed at the January meeting.

### 4. INVESTMENT COMMITTEE REPORT

<u>Fund</u>	<u>Previous Month</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	2.3%	5.5%	15.3%
S & P 500 Index	3.3%	9.1%	15.9%
60/35/5*	2.2%	7.1%	11.6%
Delaware	2.5%	6.8%	12.6%
Benchmark**			

\*Benchmark mix of 60% S&P500 Index, 35% Salomon Long Government and Corporate Bond Index, 5% T-bills.

\*\*Benchmark mix of 37% Russell 3000, 1% NAREIT, 20% MSCIA, 38.5% Lehman Bond universal, 1.5% LBTIPS, 2% T-bills.

P. Reese presented a quarterly Investment Committee update in J. King's absence.

All major markets had strong returns in the third quarter. Earnings growth and lower energy prices propelled the Russell 3000 to a 4.7% gain. While the value style remained in favor, small cap companies lagged as the Russell 2000 gained only 0.4%. With the setback in the prices of energy and other commodities, the natural resource area also lagged, with the Lipper index falling 8.3%. International stock markets were also strong in local currencies, ranging from Japan's 2.6% gain to Switzerland's 10.0% increase. However, after adjusting for the strength of the U.S. dollar during the period, returns were lower as the unhedged EAFE index rose 3.9% while the hedged version rose 5.1%. Emerging stock markets remained firm with a 4.9% gain. Bonds rallied firmly during the quarter as the slowing economy led the Federal Reserve to pause its rate increase campaign. For the period, the Lehman Universal index gained 3.9% while the Lehman Aggregate gained 3.8%. Longer term bonds gained most, with the Lehman Long Term Government index rising 6.5%. Meanwhile, inflation slowed to a 12-month rate of 2.3% due to the setback in energy costs compared to a year ago. Overall, the Fund's policy benchmark gained 4.2% in the quarter.

The Fund's third quarter return lagged DelBench, although the Fund's return over the trailing four quarters is ahead of the benchmark. The chief reasons for the Fund lagging DelBench during the quarter were the allocations to small cap and natural resource stocks, both of which had been reduced earlier this year, and due to the Fund's convertible allocation, which lagged both broad market stock and bond returns for the quarter. Manager performance was largely neutral for the period.

MOTION was made by J. Davis and seconded by R. Allen that the Board go into Executive Session to consider pending personnel, confidential legal matters and trade secrets.

MOTION ADOPTED UNANIMOUSLY

The Board then moved into Executive Session to discuss pending personnel, confidential legal matters and trade secrets.

MOTION was made by R. Allen and seconded by J. Davis to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

After a discussion of the merits of two managers and reallocation of assets to fund an initial investment of \$150 million in Axiom Global Equity and \$100 million in Dodge & Cox International

Stock Fund the Board made a recommendation that the source of the funding be a reduction in current investments as follows:

- \$50 million from the Oaktree International Convertible Bond fund
- \$50 million from the OFI Institutional Management Small Cap account
- \$50 million from the T. Rowe Price Natural Resources account (NRIS)
- \$100 million from the Mellon Tactical Asset Allocation account

The Board made the following motion.

MOTION made by P. Reese and seconded by J. Davis to fund an initial investment of \$150 million in Axiom Global Equity and \$100 million in Dodge & Cox International Stock Fund. The source of the funding will be a reduction in current investments of \$50 million from the Oaktree International Convertible Bond fund, \$50 million from the OFI Institutional Management Small Cap fund, \$50 million from the T. Rowe Price Natural Resources account and \$100 million from the Mellon Tactical Asset Allocation account.

MOTION ADOPTED UNANIMOUSLY

P. Reese discussed expanding the membership of the Investment Committee to seven as suggested by Linda Drew. We could have used it this month. While he had qualified candidates in the wings, he asked the Trustees' to think about having it be a rotating board seat. A discussion will be held at the next Board meeting on December 15<sup>th</sup>.

## **5. PENSION ADVISORY COUNCIL**

J. Testerman stated that during the November 14<sup>th</sup> Advisory meeting the annual election of officers was held. J. Testerman announced that he had been voted the Chair of the Advisory Council for the 31<sup>st</sup> year in a row. Larry Talley was elected 1<sup>st</sup> Vice Chair and Charlotte Lister was elected 2<sup>nd</sup> Vice Chair. J. Testerman remarked that the Advisory Council meets five times per year and the next meeting will be held on January 9, 2007.

## **6. PENSION ADMINISTRATOR'S REPORT**

### Workshops

D. Craik stated that the Pension Office is currently participating in Disability Insurance Program workshops for the roughly 3,600 state employees who did not elect into the Disability Insurance Program last year. He stated that the attendance levels have been low. The office mailed out reminder postcards this week to those individuals who have not made an election and will mail a second reminder postcard in December.

D. Craik also reported that there were 220 attendees at the recent full day Pre-Retirement Workshop that was held at the Sheraton in Dover.

### Retirement

D. Craik announced the upcoming retirement of Dorothy Clemente as of December 31, 2006. Ms. Clemente will continue working with the Office of Pensions as a Casual/Seasonal employee to continue helping with the Medical Committee. D. Craik will be preparing a Resolution for the Boards approval.

### OPEB

There has been a working group formed to address some of the OPEB issues and D. Craik has been attending the meetings. Members include personnel from the Secretary of Finance's office and OMB personnel. The retiree health valuation is in progress and Cheiron will have preliminary numbers in December.

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

C. Collins stated she would be scheduling a conference call with Jones Day Law Firm sometime after November 23<sup>rd</sup> to review the IRS Compliance Review list. M. Kramarck will be working with C. Collins to update her with this list. J. Davis requested a policy discussion before finalizing a list of tax issues defining benefit plans. C. Collins, D. Craik and J. Davis will meet to discuss.

P. Reese asked C. Collins to prepare a "Matters List" containing legal issues of which are on our table. He then stated that this needs to be an on-going list and become a standard report at each Board meeting.

### Retention Schedule

C. Collins has requested a copy of the Pension Office's Retention Schedule and stated that we need to add electronic data to the schedule.

## **8. PENDING ITEMS**

D. Craik stated that an addition has been made to the list concerning the Matrix for the FY06 Management Audit Letter Comments.

**9. NEW BUSINESS**

P. Reese announced that the annual Board Luncheon will follow the December 15<sup>th</sup> meeting at the Pension Office.

**10. ADJOURNMENT**

The next Pension Board meeting will be held on December 15, 2006, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 10:25 a.m., there being no further business, MOTION was made by R. Allen and seconded by H. Foster to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik  
Pension Administrator

---

Philip S. Reese  
Board of Pension Trustees Chairman