

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF JANUARY 19, 2007

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 Allen
Helen Foster
Nancy J. Shevock
Jennifer Davis

Trustees Absent

Richard Cordrey
Jan King

Others Present

David Craik, Pension Office
Kim Vincent, Pension Office
Terri Timmons, Pension Office
Cindy Collins, DAG
Jim Testerman, PAC
Karen Field Rogers

1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order by P. Reese. Mr. Reese welcomed the Trustees and other guests.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the December 15, 2006 meeting.

MOTION made by R. Allen and seconded by J. Davis to approve the minutes of the Board of Pension Trustees' December 15, 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	0.7%	8.4%	14.0%
S & P 500 Index	1.4%	12.7%	15.4%
60/35/5*	0.6%	9.5%	10.9%
Delaware	0.9%	9.9%	12.4%
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.

Total assets in the Fund at the end of December passed the \$7 billion mark by \$26 million. The fund gained 7 tenths of one percent for the month underperforming Del Bench by 20 basis points but beating the 60/35/5 benchmark by 10 basis points. Largely we are on track. The more meaningful longer term performance shows the fund gained 14% for the calendar year compared to 12.4% and 10.9% respectively for the two benchmarks for the same period. Similarly the fund nicely outperformed its benchmarks for the 3 and 5 year periods ending 12/21/06 at 11.0% and 9.1% respectively. Rob Gooderham will join us in February to discuss the Calendar Year End performance in detail and take us through our risk oriented asset allocation process in some depth.

At the Investment Committee Meeting on Tuesday, January 16th, the Committee agreed action should be taken to adjust DPERS asset allocation to reflect changes in their views regarding the equity markets, global positioning of the fund, risk tolerance and policy affecting the fixed income allocation in the fund.

With regard to the equity markets, we still believe they are a better value than bonds, i.e. better returns at a lower relative cost. Small cap stocks look more expensive having lower earnings per share growth and higher price earnings multiples. While the natural resources stocks performed well this past quarter, notwithstanding weakness in most commodity prices, we do not believe they offer the same opportunity that they did three years ago when we bulked up on them through NRIS.

From a “global positioning” standpoint, it looks like the US economy will lag the rest of the world. Moreover, while there is an argument that the dollar may strengthen in the short term, long term we expect it to decline. Consequently there will be more opportunities in the non-US markets.

As noted earlier, the fixed income arena is not as attractive as equities. However from a risk perspective we are at the upper limit of our risk band width at 60.3%. You will remember that we try to manage the fund’s risk within a range of 40% - 60% of the risk inherent in the S & P 500. Finally, our investment policy requires that we have at least a 20% position in investment grade bonds in the portfolio. Fixing both of these problems and taking into account our view of the global markets outlined above, the Committee recommends to the Board the following reallocation of assets:

1. Lower our small cap exposure by \$80 million by reducing OFI Institutional from about \$285 million to \$205 million.
2. Further reduce our exposure to natural resources by taking \$120 million from NRIS.
3. Transfer \$100 million from Mellon TAA to Mellon GTAA thereby increasing our exposure to international markets.
4. Increase our fixed income exposure by increasing our exposure to WAMCO Absolute Return strategy by \$120 million.
5. Increase cash for the second half fiscal year needs by \$80 million.

The impact of these moves will be to:

1. Reduce our risk index from 60.3% to 57.3%
2. Bring our bond exposure safely within our policy guidelines
3. Lower our expected return from 9.23% to 9.08%

MOTION made by P. Reese and seconded by N. Shevock to approve the recommendation of the Investment Committee to reallocate assets to reduce the Fund’s risk.

MOTION ADOPTED UNANIMOUSLY

4. PENSION ADVISORY COUNCIL

J. Testerman stated that the Advisory Council met on January 9th. The goals for 2007 have not changed from last year.

5. AUDIT COMMITTEE REPORT

R. Allen referred to D. Craik to report on the meeting with the Auditors. D. Craik stated that he, K. Vincent and K. Kunkle met with the Auditors last week to discuss preliminary dates for FY07 Audit.

6. PENSION ADMINISTRATOR'S REPORT

Disability Report

D. Craik stated that the Disability Report will now be given on a quarterly basis. He brought attention to the Aging List as of December 31, 2006 with only one case that is over ninety days.

FY07 Pension Office Activities

D. Craik spoke about the quarterly statistical Pension Office Activity spreadsheet. The spreadsheet compares the 1st and 2nd quarters. D. Craik stated there is the possibility of an increase in activity during the 3rd quarter.

	1 st Quarter	2 nd Quarter
• Applications (New Pension)	600	278
• Deletes (Deaths & RTW)	200	188
• Healthcare (Additions)	1,900	1,900
• Healthcare (Changes)	700	601
• Estimates	250	392
• Ind. Counseling Sessions	140	96
• Walk-in Customers (Ave per day)	30	22
• Phone Calls (Ave per month)	5,000	3,500
• Phone Calls (Ave per quarter)	16,000	10,500
• Refunds	250	302
• Group Life Benefits	222	185
• Audits	30	17
• Employee Workshops (per quarter)	3	9

DPERS Education Policy

D. Craik asked the Trustees to examine this policy and H. Foster will review it with the Trustees during the February Board Meeting.

Monitoring and Reporting Policy

This policy will be used as a guideline and will be discussed during the February Board Meeting.

Joint Sunset Committee

D. Craik stated he had been contacted by the Joint Sunset Committee. The discussion was about reintroducing HB 74 and the possibility of streamlining it.

FY06 Management Letter Comments

MOTION made by H. Foster and seconded by R. Allen that the Board goes into Executive Session to consider confidential legal matters and trade secrets.

MOTION ADOPTED UNANIMOUSLY

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

MOTION was made by R. Allen and seconded by N. Shevock to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

7. DEPUTY ATTORNEY GENERAL REPORT

MOTION made by H. Foster and seconded by R. Allen that the Board goes into Executive Session to consider confidential legal matters and trade secrets.

MOTION ADOPTED UNANIMOUSLY

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

MOTION was made by R. Allen and seconded by N. Shevock to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

8. PENDING ITEMS

D. Craik stated that the comments were updated on the FY06 Matrix of Management Audit Letter.

9. NEW BUSINESS

There was no new business to discuss.

10. ADJOURNMENT

The next Pension Board meeting is scheduled to be held on February 23, 2007, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 11:37 a.m., there being no further business, MOTION was made by R. Allen 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