

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF MAY 25, 2007

The meeting of the Board of Pension Trustees was called to order by P. Reese at 9:01 a.m. in the Delaware Conference Room of the Office of Pensions in Dover.

Trustees Present

Philip S. Reese
Robert Allen
Jennifer Davis
Jan King
Helen Foster
Richard Cordrey

Trustees Absent

Nancy J. Shevock

Others Present

David Craik, Pension Office
Kim Vincent, Pension Office
Terri Timmons, Pension Office
Jim Testerman, PAC
Charlotte Lister, PAC
Fiona Liston, Cheiron
Kathy Kunkle, Pension Office
Faith Rentz, OMB
Rob Gooderham, Ashford Consulting Group
Gary Musto, Ashford Consulting Group

1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order by P. Reese. Mr. Reese welcomed Fiona Liston from Cheiron, and Rob Gooderham and Gary Musto from Ashford Consulting Group.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the April 27, 2007 meeting.

MOTION made by R. Allen and seconded by J. Davis to approve the amended minutes of the Board of Pension Trustees' April 27, 2007 meeting.

MOTION ADOPTED UNANIMOUSLY

3. PENSION ADVISORY COUNCIL

J. Testerman reported that he had met with the head of the Veterans Affairs Committee for a discussion pertaining to having military credit count towards pension. House Bill No. 136 - This Bill states that the present pension statutes permit persons who came from other states to Delaware and who became State employees, if they were veterans, to use "service time" toward a State pension.

The next PAC meeting is scheduled for June 12th.

4. INVESTMENT COMMITTEE REPORT

Quarterly Report Ending March 31, 2007

R. Gooderham presented the Board Members with the Investment Committee Report for the Quarter Ending March 31, 2007. He reviewed the total Fund performance & asset allocation, objectives and policies, annualized return and distribution of assets. He further spoke of risk control and the rolling benchmark for the total fund. There was a discussion on how the Fund's long term returns compare well against other public funds.

Fund

Previous Month

Fiscal Year To Date

12-Month

Total Fund	2.5%	14.2%	12.3%
S & P 500 Index	4.4%	16.9%	15.4%
60/35/5*	2.9%	13.7%	12.0%
Delaware	2.7%	15.0%	13.0%
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 April were \$7,326 million. The Fund gained 2.5% for the month compared negatively to a benchmark of a positive 2.7% and also to the 60/35/5 benchmark which was 2.9%.

During the month of April the Fund experienced gains across all equity markets. The Russell 3000 stocks gained 4.0%, Large Growth stocks rose 4.2% and Large Value Index returned a positive 1.7%. Small Cap stocks experienced a gain of 1.8% in the equity market of the Russell 2000. The International Markets led the U.S. Market with the unhedged EAFE returning a positive 4.4%. The Bond Market with Lehman LT Government/Corp Index also experienced 1.0% positive returns.

The fiscal year returns year-to-date for the Fund will be reported at a 14.2% gain, compared negatively to a 13.7% benchmark. Year to date calendar returns are an overall positive 5.9% compared positively to a benchmark gain of 4.7%.

Because of the recent run up in the equity market of the portfolio, we are at the top of our risk bands. The Committee recommends trimming down some of our equity positions. It is recommended that we reduce \$25 million from Intech, \$25 million from Legg Mason, and \$50 million from Mercator. In addition, we recommend that \$50 million be sent to WAMCO and \$50 million to Loomis Sayles, both fixed income managers.

MOTION made by J. King and seconded by J. Davis to reduce some of our equity positions by \$25 million from Intech, \$25 million from Legg Mason, \$50 million from Mercator and have \$50 million sent to WAMCO and \$50 million sent to Loomis Sayles, who are both fixed income managers.

MOTION ADOPTED UNANIMOUSLY

The Committee reviewed our private equity portfolio and at this time we recommend capital commitments to two new funds being started with existing managers. We recommend investing, as

called, \$100 million with Carlye V and \$30 million with IDG-Accel China. In addition we may be bringing commitments for ATV VII and Flagship 2007 at a later meeting.

MOTION made by J. King and seconded by R. Allen to invest, as called, \$100 million to Carlye V and \$30 million to IDG-Accel China.

MOTION ADOPTED UNANIMOUSLY

Howard Marks, from Oaktree Capital, came to celebrate 20 years investing relationship with DPERS. In total, Oaktree is our second largest manager. Discussion centered around investment cycles, record issuance of CCC Bonds and the leveraging up of companies to pay out equity holders. Great opportunities may present themselves for those companies who will have overleveraged.

A discussion was held in reference to the amendment to the Investment Policy to show active participation in a securities lending program.

MOTION made by J. King and seconded by R. Allen to amend the Investment Policy to read that the Fund may allow separately managed accounts to participate in securities lending activities carried out by the Fund's Custodian Bank or other separately managed accounts, the Fund may indirectly participate in securities lending.

MOTION ADOPTED UNANIMOUSLY

The next meeting of the Investment Committee is June 12th.

MOTION mad by J. King 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 J. King and seconded by R. Allen to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by P. Reese and seconded by J. King that it was the consensus of the Board to elect Rob Gooderham as the Executive Secretary, to replace Ted Ashford, to the Investment Committee.

MOTION ADOPTED UNANIMOUSLY

Overview of Derivative Investments

R. Gooderham presented the Board Members with an overview of Derivative Investments. GFOA defines Derivative as “a financial instrument created from, or whose value depends on (is derived from), the value of one or more underlying assets or indexes or asset values”. He discussed the key types of derivatives used for investment purposes by DPERS, how each key type works, and also the advantages and risks of each. R. Gooderham also discussed the Fund’s Derivative Policy and the reporting measures used for reporting to the Investment Committee.

5. PENSION ADMINISTRATOR’S REPORT

Actuarial Update

F. Liston, with Cheiron, presented the Board with the following amortization concerns:

- State law requires that plan changes be amortized (paid for) over a period of 30 years
- Net actuarial gain/loss is spread over a rolling 15 year period
 - Rolling period means that we don’t go 15, 14, 13, 12, etc
 - Each year the net gain/loss base is divided by a 15 year factor
- This mismatch is leading to an accounting problem
- OK for 2006 but change for 2007 would require legislation

A discussion on the merits between a 15 year amortization schedule versus a 20 year amortization schedule was had.

MOTION made by J. King and seconded by H. Foster to recommend changing the amortization period, through legislation, of the New State Police and the State Employees Pension Plans from a 30 year period to a 20 year rolling period.

MOTION ADOPTED UNANIMOUSLY

A discussion was also held on the amortization impact on other plans such as the State Police, Judicial and Volunteer Fire. Cheiron recommends that the State Police change since the plan is approximately 100% funded (currently 99% funded), while the Judicial and Volunteer Fire not

change until both reach 100% funded (Judicial is currently 77% funded and Volunteer Fire is currently 47% funded).

Healthcare Open Enrollment

D. Craik stated that the average incoming phone calls per month are 3,700 but because of the healthcare re-opening we have been averaging 3,500 calls per week. He stated that Terri Timmons' section has been responsible for answering and distributing these calls throughout the entire office.

Ice Miller

D. Craik reported that Ice Miller will be here next week to meet with K. Vincent, C. Collins and D. Craik.

Legislative Update

D. Craik stated that there were no changes.

MOTION was made by P. Reese and seconded by J. King that the Board goes into Executive Session to consider confidential legal matters and trade secrets.

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

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

MOTION ADOPTED UNANIMOUSLY

6. AUDIT COMMITTEE REPORT

The Audit Committee met in May with members of KPMG in reference to additional costs that will be incurred during the upcoming audit. A discussion was held on the expanded scope of the service contract for the FY07 Audit which will increase by roughly \$19,000.

7. DEPUTY ATTORNEY GENERAL REPORT

There was no Deputy Attorney General Report.

8. PENDING ITEMS

D. Craik stated that there were no new pending items.

9. NEW BUSINESS

There was no new business to discuss.

10. APPROVAL OF EXECUTIVE MINUTES

The Trustees reviewed the executive minutes of the April 27, 2007 meeting.

MOTION made by J. Davis and seconded by J. King to approve the executive minutes of the Board of Pension Trustees' April 27, 2007 meeting.

MOTION ADOPTED UNANIMOUSLY

11. ADJOURNMENT

The next Pension Board meeting is scheduled to be held on June 15, 2007, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 12:09 a.m., there being no further business, MOTION was made by P. Reese and seconded by J. King to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Philip S. Reese
Board of Pension Trustees Chairman