

**STATE OF DELAWARE**  
**STATE BOARD OF PENSION TRUSTEES**  
**AND**  
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**BOARD OF PENSION TRUSTEES**  
**MEETING MINUTES OF SEPTEMBER 28, 2007**

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

Trustees Absent

Others Present

David Craik, Pension Office  
Kim Vincent, Pension Office  
Terri Timmons, Pension Office  
Cindy Collins, DAG  
Jim Testerman, PAC  
Kathy Kunkle, Pension Office  
Joel Poorman, Audit Committee  
Dr. Wm. Markell, Audit Committee  
Faith Rentz, OMB  
Karen Field Rogers, OMB  
Steve Kubico, Controller General's Office  
Bob Steen, KPMG  
Katie Farley, KPMG  
Rob Gooderham, Ashford Consulting Group  
Gary Musto, Ashford Consulting Group  
Linda Drew, Ashford Consulting Group

## **1. OPENING COMMENTS**

The meeting of the Board of Pensions Trustees was called to order by P. Reese. Mr. Reese welcomed everyone in attendance.

## **2. APPROVAL OF THE MINUTES**

The Trustees reviewed the public minutes of the July 27, 2007 meeting.

MOTION made by R. Allen and seconded by N. Shevock to approve the public minutes of the Board of Pension Trustees' July 27, 2007 meeting.

MOTION ADOPTED UNANIMOUSLY

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

MOTION made by R. Allen and seconded by N. Shevock to approve the executive minutes of the Board of Pension Trustees' July 27, 2007 meeting.

MOTION ADOPTED UNANIMOUSLY

## **3. AUDIT COMMITTEE REPORT**

### FY07 Audit Results

Bob Steen, Engagement Partner, and Katie Farley, Engagement Manager, with KMPG, were introduced and presented the Trustees' the results of the Comprehensive Annual Financial Report for the Fiscal Year 2007. B. Steen stated that KPMG did not make significant changes to the initial 2007 Audit Plan as originally communicated to the Audit Committee. The audit focused on the following areas:

- Change in custodian bank from Mercantile to Northern Trust effective July 1, 2006
- Existence and valuation of readily-marketable and alternative investment portfolios
- Existence and valuation of securities lending arrangements and appropriate accounting treatment of such arrangements under GASB 28
- Calculation and receipt of employer contributions
- Calculation and payment of distributions to pensioners
- Calculation of actuarially-determined liabilities and testing of participant census data
- Review and testing of the Information Technology general controls environment
- Review of planned payroll testing procedures performed at the State of Delaware, to ensure information provided to the Pension Office via the CRIS system is accurate.

B. Steen reported that the new items and changes to the financial statements and/or disclosures were as follows:

- Participation in Securities Lending transactions with Northern Trust during the current year resulted in additional financial statement line items and new disclosure in the footnotes to the financial statements
- Change in custodian bank from Mercantile to Northern Trust effective July 1, 2006 resulted in disclosure of Northern Trust as the new custodian bank.

KPMG issued a management letter to DPERS, which includes management's responses to KPMG's observations and recommendations. It is KPMG's findings that upper management did a great job.

Joel Poorman, Chair of the Audit Committee, spoke directly about the CAFR and the Auditor's Report stating that the auditors had issued an unqualified opinion (which is a clean opinion) and there were no significant deficiencies noted.

J. Poorman reviewed several sections of the CAFR with the Trustees. On the Statement of Plan Net Assets he brought to their attention the new line items this year which are:

- Investment Sales Pending
- Invested Securities Lending Collateral
- Investment Purchases Payable
- Securities Lending Collateral Payable

The Statement of Changes in Plan Net Assets reflects a new line item which is:

- Securities Lending Income

J. Poorman reported that on page 35 there is a new disclosure pertaining to Securities Lending and on pages 52 and 53, in the Auditors letter, it states that there were no deficiencies in internal control that would be considered to be material weaknesses. He also contends that we should have our own general ledger system.

P. Reese thanked KPMG and Joel Poorman for a great job, and also stated that the Pension Office staff did an excellent job with the audit.

MOTION was made by J. King and seconded by N. Shevock that the Board go into Executive Session to consider legal advice and to consider pending personnel matters and confidential medical records, legal matters and trade secrets.

MOTION ADOPTED UNANIMOUSLY

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

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

MOTION was made by J. Davis and seconded by R. Allen to approve the 36<sup>th</sup> Comprehensive Annual Financial Report that was presented to the Board of Pension Trustees for the Fiscal Year Ending June 30, 2007.

MOTION ADOPTED UNANIMOUSLY

#### Appointment

The Trustees reviewed Mark Finrock's resume who is a candidate for an appointment to the Audit Committee. A discussion of the merits was held.

MOTION was made by J. King and seconded by R. Allen to approve the appointment of Mark Finrock to the Audit Committee.

MOTION ADOPTED UNANIMOUSLY

#### **4. INVESTMENT COMMITTEE REPORT**

C. Collins presented the Trustees with a copy of a Resolution for Liquid Realty Partners IV, LP. A discussion on the merits of approving and signing the Resolution was held.

MOTION made by J. King and seconded by J. Davis to approved and sign the Resolution for Liquid Realty Partners IV, LP, which states that the members of the Board voted on September 28, 2007, to purchase interest in the Liquid Realty limited partnership and directed the Office of Pensions as administrators for DPERS, to fund the transaction.

MOTION ADOPTED UNANIMOUSLY

**Fund**

**Previous Month**

**Fiscal Year To Date**

**12-Month**

<b>Total Fund</b>	<b>0.4%</b>	<b>(0.6)%</b>	<b>13.4%</b>
<b>S &amp; P 500 Index</b>	<b>1.5 %</b>	<b>(1.6)%</b>	<b>15.1%</b>
<b>60/35/5*</b>	<b>1.4%</b>	<b>(0.1)%</b>	<b>11.2%</b>
<b>Delaware</b>	<b>0.7%</b>	<b>(0.4)%</b>	<b>12.3%</b>
<b>Benchmark**</b>			

\*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 August totaled \$7,346 million. The Fund gained .4% for the month compared negatively to a benchmark of a positive .7% and also to the 60/35/5 benchmark which was a positive 1.4%.

During the month of August the Fund experienced mixed results across the equity markets. The Russell 3000 stocks gained 1.4%, Large Growth stocks gained 1.7% and Large Value Index returned a positive 1.1%. Small cap stocks also experienced a gain of 2.3% in the equity market of the Russell 2000. The International Markets experienced losses compared to the U.S. Market with the unhedged EAFE returning a negative (1.6%). The Bond Market with Lehman LT Government/Corp Index also experienced gains of 1.6%.

The new fiscal year un-audited year-to-date for the Fund will be reported at a (.6%) loss, compared negatively to a (.4%) benchmark. Year-to-date calendar returns are an overall positive 5.9% compared positively to a benchmark gain of 5.2%.

The Committee, at its August 21<sup>st</sup> meeting, authorized a two year extension on its contract with Meritech Capital. We listened to the managers of T. Row Price NRIS Fund on the natural resources market. In addition, we heard a presentation from Liquid Realty Partners. Liquid Realty IV is a closed end partnership that invests primarily in closed end real estate funds at discounted valuations reflecting the relative illiquidity of demand for such interests. Liquid Realty has established itself as the premier player in the small but growing market for these secondary interests. The Investment Committee recommends that DPERS commit \$40 million to LRP IV. This amount established DPERS as a lead investor, with advisory board seat with a strong and promising investment team that may well be the beginning of a long term relationship.

MOTION made by P. Reese and seconded by R. Allen to commit \$40 million to Liquid Realty Partners. This amount established DPERS as a lead investor, with advisory board seat with a strong and promising investment team that may well be the beginning of a long term relationship.

MOTION ADOPTED UNANIMOUSLY

On September 11<sup>th</sup>, the Investment Committee met with Northern Trust to review our global securities lending program, established one year ago when we moved Custodian. Securities lending has been part of the market for a long time and the switch of Custodians enabled the fund to take part in this product with Northern Trust's expertise and track record. For the one year ended July 31, 2007, DPERS has netted \$1.8 million in net earnings. The Committee reviewed borrowers, credit rating of the approved counter parties and our restriction list. We will be continuing in this program and review its results periodically.

Oaktree Capital Management, in connection with its' Emerging Market Fund, spoke to us about their results and view of their market. We have two tranches of money in this fund, which on reinvestment is locked in for 3 years. The two tranches are staggered for maturity every 18 months. The current tranche has a withdrawal opportunity on December 31, 2007 with notice to be delivered by the end of September. The Committee recommends withdrawal of \$50 million on December 31, 2007 and extending its remaining balance in this tranche of the OCM Emerging fund of approximately \$77 million for another 3 years ending December 31, 2010.

MOTION made by P. Reese and seconded by R. Allen to withdrawal \$50 million on December 31, 2007 and extend its remaining balance in this tranche of the OCM Emerging fund of approximately \$77 million for another 3 years ending December 31, 2010.

MOTION ADOPTED UNANIMOUSLY

The September 25<sup>th</sup> Investment Committee meeting started off with a conference call with Michael Gordon who is investing \$100 million in a hedge fund vehicle for DPERS. They are now fully invested. We were able to get in early before the strengthening of the credit markets and should realize the benefit.

Members of the Investment team from Baillie Gifford, a Scottish global growth equity manager, presented their firm and discussed their investment process. It is a highly concentrated (30-60 stocks) portfolio of global firms and does manage its process to fit a benchmark. It takes a 3-5 year view on companies who are well managed, quality businesses that enjoy sustainable, competitive advantages in their market place. Their belief is that share prices ultimately follow earnings. They will have significant performance dispersion versus a benchmark and will invest a minimum of 20% in emerging markets. Their investment style compliments Axiom, an existing international equity manager. The Committee is recommending increasing the DPERS exposure to international markets, by investing \$200 million with Baillie Gifford, increasing Axiom International by \$25 million and Dodge & Cox by \$35 million. In addition, we are also recommending investing \$100 million in an EAFE index to be managed by Mellon Capital. Funding for this allocation should take place by liquidating \$100 million from Intech (US Growth), \$50 million from Legg Mason (US S&P 500), \$110 million from the Mellon TAA and \$100 million from Oaktree International Convertibles. This reallocation of funds will increase our overall risk index by 1. Including the Mellon GTAA, our exposure to International equities will be 20% which is our benchmark weighting.

In addition, a recommendation is made to increase our funding of Rutabaga by \$50 million over the next several months. This is the small cap fund initially funded at \$50 million in July, 2006. Results have been on track up thru August but it does appear to have taken a hit in September due to two positions. However, it is felt that this is due to timing and over reaction in these markets. Funding would take place at \$25 million in October and \$25 million in November. The source for these funds will be the OFI Small Cap account.

MOTION made by J. King and seconded by J. Davis to increase DPERS exposure to international markets by investing \$200 million with Baillie Gifford, increasing Axiom International by \$25 million and Dodge & Cox by \$35 million. In addition, there was a recommendation to invest \$100 million in an EAFE index to be managed by Mellon Capitol. Funding for this allocation should take place by liquidating \$100 million from Intech, \$50 million from Legg Mason, \$110 million from the Mellon TAA and \$100 million from Oaktree International Convertibles. In addition a recommendation was made to increase our funding of Rutabaga by \$50 million. Funding would take place at \$25 million in October and \$25 million in November. The source for these funds will be the OFI Small Cap account.

MOTION ADOPTED UNANIMOUSLY

The next meeting of the Investment Committee is October 16<sup>th</sup> but it will not have a quorum in attendance. The next fully attended meeting will be October 30<sup>th</sup>.

#### Derivatives Policy

The Investment Committee is recommending changes to the Derivatives Policy. After a discussion of the merits a motion was made to accept the changes.

MOTION made by J. King and seconded by H. Foster to accept the recommended changes to the Derivatives Policy.

MOTION ADOPTED UNANIMOUSLY

MOTION was made by N. Shevock and seconded by J. King that the Board go into

Executive Session to consider legal advice and to consider pending personnel matters and confidential medical records, legal matters and trade secrets.

MOTION ADOPTED UNANIMOUSLY

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

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

MOTION ADOPTED UNANIMOUSLY

After a discussion on the merits of accepting the two year contract with Ashford Consulting Group in regards to the OPEB Trust Fund a motion was made.

MOTION made by N. Shevock and seconded by J. King to accept the two year contract with Ashford Consulting Group in regards to the OPEB Trust fund.

MOTION ADOPTED UNANIMOUSLY

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

### 2008 Draft BOPT Meeting Dates

D. Craik stated that in the meeting packet was a copy of the 2008 draft BOPT Meeting Dates for the Trustees' to review. If any changes are needed the Trustees are to let him know.

### FY09 Budget Request

D. Craik reviewed with the Trustees the FY09 Pension Office Budget Request which is as follows:

- Request for 4 positions to establish a Call Center for the Pension Office
- Upgrade of both the hardware and software components of the CRIS system
- Request a position for the CRIS technical staff
- Legal fees for special tax counsel and various tax filings with the IRS
- Increased responsibilities within Investment Staff

### Appointment



The Trustees reviewed Dr. G. Dean MacEwen's resume who is a candidate for an appointment to the Medical Committee. A discussion of the merits was held.

MOTION was made by P. Reese and seconded by N. Shevock to approve the appointment of Dr. G. Dean MacEwen to the Medical Committee.

MOTION ADOPTED UNANIMOUSLY

### County Municipal Report

D. Craik stated that the Five Points Volunteer Fire Company would like to join the General County Municipal Pension Plan as of October 1, 2007.

MOTION made by R. Cordrey and seconded by R. Allen to allow the participation of the Five Points Volunteer Fire Company to join the General County Municipal Pension Plan as of October 1, 2007.

MOTION ADOPTED UNANIMOUSLY

### **6. PENSION ADVISORY COUNCIL REPORT**

J. Testerman stated that the next PAC meeting is scheduled for November 13<sup>th</sup>.

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

#### OPEB Trust

MOTION was made by N. Shevock and seconded by J. King that the Board go into Executive Session to consider legal advice and to consider pending personnel matters and confidential medical records, legal matters and trade secrets.

MOTION ADOPTED UNANIMOUSLY

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

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

MOTION ADOPTED UNANIMOUSLY

**8. PENDING ITEMS**

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

**9. NEW BUSINESS**

There was no new business to discuss.

**10. ADJOURNMENT**

The next Pension Board meeting is scheduled to be held on October 26, 2007, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 12:20 a.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

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Philip S. Reese  
Board of Pension Trustees Chairman