

**STATE OF DELAWARE**  
**STATE BOARD OF PENSION TRUSTEES**  
**AND**  
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**BOARD OF PENSION TRUSTEES**  
**MEETING MINUTES OF DECEMBER 19, 2008**

The meeting of the Board of Pension Trustees was called to order by P. Reese, at 9:03 a.m. in the Delaware Conference Room of the Pension Office.

Trustees Present

Philip Reese  
Nancy Shevock  
Robert Allen  
Helen Foster  
Jan King

Trustees Absent

Mike Jackson  
Richard Cordrey

Others Present

David Craik, Pension Office  
Kim Vincent, Pension Office  
Terri Timmons, Pension Office  
Kathy Kunkle, Pension Office  
Wade Sallings, Pension Office  
Jeff Hoover, Pension Office  
Cindy Collins, DAG  
James Testerman, PAC  
Charlotte Lister, PAC  
Steve Kubico, Deputy Controller General  
Florence Price, Pension Office  
Dorothy Clemente, Pension Office  
April Cooper, Pension Office  
Samantha Mountz, Pension Office

Dr. Robert Brereton, Medical Committee  
Dr. Vincent Del Duca, Jr. Medical Committee  
Dr. Robert Frelick, Medical Committee  
Dr. Albert Gelb, Medical Committee  
Dr. G. Dean MacEwen, Medical Committee  
Dr. Charles Riegel, Medical Committee  
Dr. Wm. Shellenberger, Medical Committee  
Dr. Phyllis Smoyer, Medical Committee

**1. OPENING COMMENTS**

The meeting of the Board of Pensions Trustees was called to order by P. Reese. Mr. Reese welcomed everyone and thanked them for attending.

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

The Trustees reviewed the Public Minutes of the November 21, 2008 meeting.

MOTION made by J. King and seconded by N. Shevock to approve the Public Minutes of the Board of Pension Trustees' November 21, 2008 meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the November 21, 2008 meeting.

MOTION made by J. King and seconded by R. Allen to approve the Executive Minutes, with changes noted, of the Board of Pension Trustees' November 21, 2008 meeting.

MOTION ADOPTED UNANIMOUSLY

## **3. MEDICAL COMMITTEE**

Dr. Frelick stated that the Medical Committee continues to express the same concerns they have brought to the Board in the past with respect to the difficulty of getting employees back to work. He also stated that the new disability program seems to be working as far as the return to work portion of that program but would like to have some statistics. D. Craik stated that he will share with the Medical Committee the next report he receives from the Hartford. D. Craik shared that historically the return to work was zero under the Pension Disability and now there has been great improvement.

Dr. Frelick asked why the Medical Committee has restrictions and the Hartford doesn't with the return to work issues. D. Craik responded that the disability benefit covered by the Pension Plan is governed by State Laws and have some constitutional protections and the Disability Insurance Program is an insurance product administered by the Hartford. C. Collins added that under the current laws we can change benefits prospectively, but not retroactively.

There was also discussion of the rules for the Medical Committee for past versus future and C. Collins said that if the Committee had specific questions or would like an explanation of the legal

issues she would be happy to speak to a future meeting of the next Medical Committee. P. Reese asked for a report from D. Craik and C. Collins, as of December 31<sup>st</sup>, to show how we are managing the disability pension for past versus future employees for both the Pension Plan and the Disability Insurance Program.

The Medical Committee then left the Board meeting.

#### 4. INVESTMENT COMMITTEE REPORT

##### Investment Committee Performance Report

<u>Fund</u>	<u>Previous Month</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
<b>Total Fund</b>	<b>-2.7%</b>	<b>-22.5%</b>	<b>-25.7%</b>
<b>S &amp; P 500 Index</b>	<b>-7.2%</b>	<b>-29.2%</b>	<b>-38.1%</b>
<b>60/35/5*</b>	<b>-2.7%</b>	<b>-18.2%</b>	<b>-24.0%</b>
<b>Delaware</b>	<b>-3.1%</b>	<b>-22.5%</b>	<b>-27.2%</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 November totaled \$5,414 million. The Fund lost (2.7%) for the month comparing positively to a benchmark of (3.1%) and equal to the 60/35/5 benchmark which was (2.7%).

The market, during the month of November, continued its downturn continued losses in all the equity markets during the month. U.S. Stocks in the broad Russell 3000 lost (7.9%) including Large U.S. Growth Stocks at a negative (5.6%) and the Large Value Index was hit harder and returned a negative (7.2%). Small Cap Stocks were hurt even further with negative results of (11.8%) according to the Russell 2000 Index. The International Markets also experienced losses with the MSCI ACWI ex U.S. Index returning a negative (5.8%). The credit markets improved considerably over Lehman Govt/Corp Long Index gaining 9.5%. The Lipper Natural Resources Index continued its losses with a negative (9.2%) due to the continuing drop in energy prices and the slackening demand for natural resources.

The fiscal year, un-audited year-to-date, for five months for the Fund will be reported at a (22.5%) loss, equal to the benchmark. Calendar returns, year-to-date, for 2008 are a negative (22.5%) which compares positively to a benchmark of (26.9%).

The Investment Committee met this week to consider the current market and its effect on the DPERS portfolio. The Fund at the end of November has \$829 million in cash or 15.3% of the Fund.

The Committee recommends the following actions and asks for approvals for actions in the alternatives category. Our current private equity manager Riverstone Alternatives, requests an extension to 6/30/09, an extension for Onset II for another year is needed and a potential commitment to a new fund by an existing manager, Media Tech VI, for up to \$30 million, needs approval. This commitment was not part of the calculations in setting the liquid cash assets in the portfolio. In addition, it is recommended that the approval be given to change our contract with Farallon to a partnership structure which is to our advantage.

MOTION made by N. Shevock and seconded by R. Allen to extend Riverstone Alternatives until 6/30/09, an extension for Onset II for another year, and a potential commitment to a new fund by an existing manager, Media Tech VI for up to \$30 million, and also to change our contract with Farallon to a partnership structure which is to our advantage.

MOTION ADOPTED UNANIMOUSLY

The Committee also recommends exercising the 1 year contract extension provisions of the existing contracts with Ashford Consulting and Northern Trust and has no issue with the extension of Cherion's contract. Approval is needed for the Investment Committee's recommendation on Ashford and Northern Trust's extension.

MOTION was made by N. Shevock and seconded by J. King to extend the existing contracts for 1 year with Ashford Consulting, Northern Trust and Cheiron.

MOTION ADOPTED UNANIMOUSLY

During the last Board meeting, approval was given to invest up to \$100 million from existing cash in the bank loan market with a manager yet to be selected. After review, the Investment Committee recommends use of Oaktree for this strategy. There is overlap of analysts and expertise with other current funds under management. In addition, we now recommend investing up to \$150 million in this strategy. Approval is needed for this increased level of funding.

MOTION made by J. King and seconded by P. Reese to invest up to \$150 million in the cash and bank loan market strategy with a manager yet to be selected.

MOTION ADOPTED UNANIMOUSLY

In November, the Board approved the Investment Committee recommendation of investment of up to \$100 million in the Oaktree U.S. High Yield Bond Fund and up to \$100 million in Oaktree's

High Income Convertible Fund. Flexibility is requested to be delegated to the Investment Committee to use this \$200 million allocation between the Bank Loan Strategy, High Yield and the High Income Funds as the credit markets evolve. The Committee will report back to the Board as the funds are reallocated.

Discussion was held on the merits of the issue and P. Reese stated that we do not know when will be the best time to do this so the Committee needs the flexibility to invest this money.

MOTION was made by J. King and seconded by P. Reese to approved flexibility to invest up to \$200 million between the Bank Loan Strategy, High Yield and the High Income Funds as the credit markets evolve.

MOTION ADOPTED UNANIMOUSLY

The Investment Committee recommended in November the full liquidation of our funds in the Mellon GTAA strategy. We informed the Board, that it may take some time to engineer the right mechanics to do this. We have given notice for a year end liquidation of GTAA but this can be rescinded up to December 29<sup>th</sup> if other options present themselves or agreements needed are not finalized. Again, liquidity will be optimized where practical.

The Committee met Mellon Capital Management and discussed issues surrounding the GTAA account.

P. Reese has asked R. Gooderham, of Ashford Consulting Group, to analyze the funds to see if we could have done anything better and will bring report to a future Board meeting.

The next Investment Committee meeting will be held on January 13, 2009.

#### Public Pension Coordinating Council Award

D. Craik stated that this was the 6<sup>th</sup> year that we have received this award. This award is in recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards.

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

#### Resolution

D. Craik presented the Board the Resolution for Jennifer (JJ) W. Davis to review.

MOTION was made by J. King and seconded by N. Shevock to approve the Resolution for Jennifer (JJ) W. Davis for her high level

contributions of her time and talent to the State of Delaware and its citizens.

MOTION ADOPTED UNANIMOUSLY

### Valuation Results

D. Craik handed out the results of forecasting Delaware State Employees Plan valuation results under various assumed rates of returns for FY 2009.

Projections are based on the 7/1/08 valuation liabilities and assets and assume that all actuarial assumptions are met in the future with the exception of the FY 2009 return on market assets.

The chart show five years of projected results for each scenario. Due to the asset smoothing method in place, the impact of a one-year decline in returns carries over into future valuations unless it is reversed by future investment gains. These calculations are initial valuations and do not reflect salary savings, future positive investment returns or other variables.

	Negative 30% funding	
	Status	Contr rate
2008	103.1%	5.67%
2009	95.9%	6.01%
2010	90.1%	8.21%
2011	85.6%	9.96%
2012	82.0%	11.36%
2013	79.3%	12.45%

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

J. Testerman stated that the Committee will meet in January to prepare for the legislative session. The topics of interest to the Council will be trying not to lose present benefits. A discussion was held on protecting what benefits the retirees do have.

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

C. Collins stated that an orientation will be prepared for any new ex-officio Board members here at the Pension Office and at Ashford Consulting Group.

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

MOTION ADOPTED UNANIMOUSLY

The Board then moved into Executive Session to discuss sensitive commercial information, proprietary business information, trade secrets and confidential financial information.

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

MOTION ADOPTED UNANIMOUSLY

MOTION was made by J. King and seconded by R. Allen to accept the decision of the hearing officer, in the case of Michael Shahan, to deny his request to be granted creditable service for his CETA employment from July 16, 1977 through August 5, 1978, time not otherwise eligible for creditable service.

MOTION ADOPTED UNANIMOUSLY

**8. PENDING ITEMS**

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

**9. NEW BUSINESS**

Dr. Markell will be leaving the Audit Committee and any recommendations will be welcome.

**10. ADJOURNMENT**

The next Pension Board meeting is scheduled to be held on January 30, 2009, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 10:30 p.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

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Philip Reese  
Chair for the Board of Pension Trustees