

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF JUNE 20, 2008

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 Reese
Robert Allen
Nancy Shevock
Richard Cordrey

Trustees Absent

Jan King
Jennifer Davis
Helen Foster

Others Present

David Craik, Pension Office
Terri Timmons, Pension Office
Kathy Kunkle
Cindy Collins, DAG
Jim Testerman, PAC
Charlotte Lister, PAC

1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order by P. Reese.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the public minutes of the May 30, 2008 meeting.

MOTION made by R. Allen and seconded by R. Cordrey to approve the public minutes of the Board of Pension Trustees' May 30, 2008 meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the executive minutes of the May 30, 2008 meeting.

MOTION made by P. Reese and seconded by N. Shevock to approve the executive minutes of the Board of Pension Trustees' May 30, 2008 meeting.

MOTION ADOPTED UNANIMOUSLY

3. INVESTMENT COMMITTEE REPORT

Investment Committee Performance Report

<u>Fund</u>	<u>Previous Month</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	1.0%	2.2%	1.7%
S & P 500 Index	1.3%	(4.7)%	(6.7)%
60/35/5*	0.4%	(0.4)%	(1.4)%
Delaware	0.9%	1.5%	0.4%
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 May totaled \$7,385 million. The Fund gained 1.0% for the month of May which compared positively to a benchmark return of 0.9% and ahead of the 60/35/5 benchmark which was 0.4%.

May was mostly a positive month for the equity markets. The Russell 3000 Stock Index was up 2.0%, Large Growth stocks added 2.4% and the Large Value Index was down 0.2% for the month. Small Cap stocks fared better than large caps with the Russell 2000 Index experiencing a positive 4.6% return. The International Markets also experienced positive returns with the unhedged EAFE adding 1.0% from the month. The Bond Market experienced negative returns with the Lehman LT Government/Corp Index experiencing a loss of 1.9%.

The fiscal year, (unaudited) year-to-date return for 11 months for the Fund will be reported as a 2.2% gain, compared positively to a 1.5% benchmark. Year-to-date calendar returns are a negative 0.4% for the Total Fund which compares favorably to a benchmark loss of (0.9%).

The Investment Committee did not meet in June, and therefore is unable to make a formal recommendation to the Board. However, by email distribution of a recommendation memorandum and discussion, all Investment Committee members have indicated their approval of a commitment of up to \$5 million to the Media Technology Ventures III Pledge Fund. DPERS initially purchased a secondary interest in Media Technology Ventures III Pledge Fund and has received 1.4X capital back to-date. The firm is now raising a small annex fund for further investment in 3 start-up companies which need more capital than was originally reserved. Ashford Consulting Group has recommended a commitment of up to \$5 million to the Media Technology Ventures III Pledge Fund and the Investment Committee concurs with this recommendation.

MOTION was made by P. Reese and seconded by N. Shevock to commit up to \$5 million to the Media Technology Ventures III Pledge Fund.

MOTION ADOPTED UNANIMOUSLY

The next meeting of the Investment Committee will be on July 15th.

4. PENSION ADMINISTRATOR'S REPORT

Legislative Update

D. Craik reported that all the four Bills passed the Senate and were sent to Committee Hearings in the House that will be held next week. The Bills are as follows:

SB282 - would allow the Board of Pension Trustees to levy interest and/or penalties on participating employers who fail to make timely payments of employee and employer contributions that are owed to the pension plans administered by the Delaware Public Employees Retirement System. This Bill was sent to the House Appropriations Committee.

SB283 - allows State employees the option to escrow annual and sick leave for up to 6 months at the end of 182 days of short term disability subject to the employee returning to full time State employment before the end of the six month escrow period. This legislation also allows the Statewide Employee Benefits Committee to designate appropriate officers of the Statewide Benefits

Office to administer appeals of State employee's short term disability claims. Finally, this legislation allows for an employee who was vested in the State Employee Pension Plan as of December 31, 2005 to be covered under the disability pension plan upon exhaustion of their long term disability insurance benefits due to mental illness or substance abuse. This Bill was sent to the House Labor Committee.

SB284 - contains technical changes to the pension plans administered by the Delaware Public Employees' Retirement system to ensure the plans will remain qualified under the Internal Revenue Code. This Bill was sent to the House Labor Committee.

SB304 - amends the State's disability insurance program to permit retired Delaware State Police Troopers who are currently employed by the State of Delaware to obtain short and long term disability under Title 29, chapter 52A of the Delaware Code. This Bill was sent to the House Labor Committee.

Personnel

The selected candidate for the Cash & Debt Manager position turned down the offer of employment. A second candidate was chosen who also turned down the position. D. Craik stated that the Pension Office will re-post the position and advertise the position in the newspaper.

Staffing

D. Craik reported the current permanent full-time staffing levels of the Pension Office.

- Authorized Positions 55
- Positions Filled 47
- Positions Filled – on medical leave 3
- Positions that are vacant (or will be) 5

Professional Fees

D. Craik reported that some payments of investment-related professional service fees and expenses are paid directly from the pension trust, while others are processed through the State accounting system (even though they are eventually paid from the trust). Expenses currently processed through the pension trust are the investment manager, investment advisor, and custodial bank fees. In addition, the Board recently approved the payment of outside legal counsel and securities litigation tracking expenses directly from the pension trust. In order to allow uniform procedures to be established in the accounting section of the Pension Office, D. Craik requested that the Board approve the payment of all investment-related expenses and fees directly from the pension trust. All expenses would continue to be reported in the annual financial report. The Board discussed the issue, and clarified that its intent is to affirm the past practice and to move the processing of expenses for professional investment related services, including actuarial, outside legal, and outside auditor services from the State accounting system to the pension trust.

MOTION was made by R. Allen and seconded by N. Shevock to move the payment of professional investment related services, such as, investment manager, investment advisor, custodian bank, actuarial, outside legal, outside auditor and securities litigation tracking service fees and expenses directly from the pension fund.

MOTION ADOPTED UNANIMOUSLY

Valuation Process – OPEB

D. Craik stated that the Valuation process for reconciling OPEB will be similar to how we reconcile pensions. We expect to have different discount rates and will have more information on this process for the July Board meeting.

Best Practices – Trustee Self Evaluation

C. Collins stated that this is a critical tracking device. It will assist the Trustees' in benchmarking improvements and provide an evaluation tool in assessing the best practices project, assessing the progress made, Trustee development and establishing future strategic plans. C. Collins will email an evaluation form to each Trustee and they are to rank the criteria based on a scale and compare this year to last year. This evaluation will be due back to D. Craik on or before August 30th for a presentation to the Board at the September meeting..

Board Education Policy

C. Collins advised the Board that the newly adopted Education Policy for the Board is comprised of three different requirements, which she wanted to review with the Board. The three yearly independent educational requirements include:

- Attend professional conferences, seminars, and/or classes each year that contain at least five (5) hours of educational content on pension topics including but not limited to investments.
- Attend at least five (5) hours annually of in-house education arranged by the Chair and Executive Secretary on topics of current interest; this can be provided as part of regularly scheduled board meetings or at separately scheduled times.
- Attend at least one Board Committee meeting each year.

A discussion was held that we do have on-going education at regularly scheduled Board meetings such as the Northern Trust Economist, FOIA seminars and other relevant legal, policy and legislative issues and Ashford Consulting Group seminars on investment topics. Additionally, it was discussed that Trustees had attended various conferences, professional seminars and other educational offerings throughout the year.

N. Shevock requested that the Agenda for the Investment Committee be e-mailed to those Trustees who are not on that Committee. P. Reese asked T. Timmons to e-mail the Investment agenda out to the Board when it is posted to the Statewide Calendar.

5. PENSION ADVISORY COUNCIL REPORT

J. Testerman reported that the June meeting did not have a quorum but did discuss legislation, investments and the shortage of staff in the Pension Office.

6. DEPUTY ATTORNEY GENERAL REPORT

Volunteer Firemen's Pension Fund Update

C. Collins stated that the private letter ruling request will be sent to the IRS. Next week the fund balance of the Volunteer Firemen's Pension Fund will be transferred out of the master trust into its own account at Northern Trust. A discussion of the merits was held and the Board agreed to authorize the Investment Committee to develop an investment policy for the Volunteer Firemen's Plan consistent with DPERS' Investment Policy and to determine the appropriate allocation and investment of the fund in a separately managed investment account consistent with the fiduciary duties of the Board.

MOTION was made by P. Reese and seconded by R. Cordrey to authorize the Investment Committee to invest the funds of the Volunteer Firemen's Pension Fund and develop an appropriate investment policy.

MOTION ADOPTED UNANIMOUSLY

Tax Project

C. Collins reported that the project is going along very well. They are busy pulling all of the documentation together to prepare for the Public Hearing on July 25, at 11:00 for the adoption of revised Rules and Regulations for the plans DPERS administers.

Diamond State Port

C. Collins advised that Ice Miller is re-drafting the Diamond State Port plan document and will incorporate the IRS tax changes and the Rules and Regulations in the plan document for presentation to the Diamond State Port Board at its July meeting.

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

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 R. Cordrey to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

7. PENDING ITEMS

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

8. NEW BUSINESS

There was no new business.

9. ADJOURNMENT

The next Pension Board meeting is scheduled to be held on July 25, 2008, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 10:38 p.m., there being no further business, MOTION was made by P. Reese and seconded by R. Allen to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Philip S. Reese
Board of Pension Trustees Chairman