

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF MARCH 28, 2008

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 Shevock
Helen Foster
Robert Allen
Tom Cook, Acting Secretary of Finance

Trustees Absent

Jan King
Richard Cordrey
Jennifer Davis

Others Present

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

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 February 29, 2008 meeting.

MOTION made by J. King and seconded by R. Allen to approve the public minutes of the Board of Pension Trustees' February 29, 2008 meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the executive minutes of the February 29, 2008 meeting.

MOTION made by J. King and seconded by N. Shevock to approve the executive minutes of the Board of Pension Trustees' February 29, 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	(0.5)%	(1.3)%	3.8%
S & P 500 Index	(3.2)%	(10.3)%	(3.6)%
60/35/5*	(1.7)%	1.3%	1.0%
Delaware	(0.6)%	(1.9)%	2.7%
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 February totaled \$7.2 million. The Fund lost (0.5%) for the month, which compared positively to a benchmark of a negative (0.6%), but behind the 60/35/5 benchmark which was a negative (1.7%).

During the month of February, the Fund experienced losses in the equity markets. The principle drivers of this were TAA, which had a negative return of (3.2%), MCM Large Capital Valuation with a negative return of (4.2%) and Legg Mason with a negative return of (7.4%). The International Markets returned a positive 3.9%, which helped to offset the losses in the equity.

The fiscal year unaudited year-to-date for 8 months for the Fund will be reported at a negative (1.3%), compared to a (3.2%) benchmark for the same period last year. Calendar returns are an overall negative (3.8%).

The Investment Committee recommends terminating Legg Mason as a manager based on continued performance deterioration. It is further recommended that Northern Trust be appointed the transition manager for the liquidation of DPERS assets managed by Legg Mason. The cash generated from this liquidation (approximately \$150 million) should be added to the T. Rowe Price Natural Resources (NRIS) account in increments of approximately \$50 million over a 90 day period. The NRIS investment will reduce risk in the portfolio by protecting against potential inflation and further dollar weakness.

Further, the Investment Committee recommends that DPERS liquidate \$200 million from the Mellon Capital Tactical Asset Allocation account with proceeds to be transferred to DPERS' Northern Trust GSTIF account.

The Committee also recommends that DPERS hire Barlow Partners as an Investment Advisor and commit up to \$200 million to Barlow Partners to create a Hedge Fund for DPERS.

The Investment Committee also recommends committing up to \$40 million to Summit Partners in the Summit Partners Subordinated Debt Fund IV to take maximum advantage of the available DPERS allocation. DPERS has successfully invested with Summit Partners over the years and enjoyed excellent investment returns.

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

MOTION ADOPTED UNANIMOUSLY

The Board then moved into Executive Session to discuss pending personnel matters and confidential medical records, legal matters, sensitive commercial information, proprietary business information, trade secrets and confidential financial information.

MOTION was made by P. Reese and seconded by N. Shevock to ratify the termination of Legg Mason as a manager and the appointment of Northern Trust as the transition manager for the liquidation of DPERS assets managed by Legg Mason. The cash generated from this

liquidation (approximately \$150 million) be added to the T. Rowe Price Natural Resources (NRIS) account.

MOTION ADOPTED UNANIMOUSLY

MOTION was made by N. Shevock and seconded by H. Foster to liquidate \$200 million from the Mellon Capital Tactical Asset Allocation account with proceeds to be transferred to DPERS' Northern Trust GSTIF account.

MOTION ADOPTED UNANIMOUSLY

MOTION was made by H. Foster and seconded by R. Allen to hire Barlow Partners as an Investment Advisor and to commit up to \$200 million to Barlow Partners to create a hedge fund of funds for DPERS.

MOTION ADOPTED UNANIMOUSLY

MOTION was made by N. Shevock and seconded by H. Foster to commit up to \$40 million to Summit Partners to take maximum advantage of DPERS allocation.

MOTION ADOPTED UNANIMOUSLY

4. PENSION ADMINISTRATOR'S REPORT

CEM Benchmarking Report

D. Craik reported on specific findings for the FY 2007 CEM Report.

- Using the report as a management tool

- Peer groups we are measured against
- Total adjusted administration cost. Our cost was up by 11% this year due to outside counsel legal fees and the purchase of computer hardware
- Total adjusted administration cost was \$82 per active member which was slightly above the peer median of \$77
- Cost trends increased by 1.1%
- Total volume of active members & annuitants
- Total service score was 70 which was slightly below the peer median of 77
- Service improvement – examples of changes to improve our score
- Service trends – service score improved 8 points between 2005 & 2007

Legislative Update

The Legislature is on their Easter break so no action has been taken. No new bills introduced as of this time.

- SB 209 would increase the Burial Benefit from \$7,000 to \$8,750
- SB 205 this Bill 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

Sudan Bill

Per D. Craik, DPERS' comments and edits to Senator McDowell's proposed Sudan Divestment Act was forwarded to Senator McDowell's legislative staff. To date, the Pension Office has not had any further communication from Senator McDowell's staff, nor has a bill been introduced. D. Craik and C. Collins have a meeting scheduled with a representative of the Sudan Task Force.

Cost Estimates

Cost estimates are being done on the following:

- U of D – police who are now in the SEP are requesting to have benefits similar to the State Police
- Kent and Sussex County Conservation – requesting to have health benefits

- Closed State Police Pension Plan – there are 20 officers who are looking for an increase

OPEB

D. Craik and K. Kunkle met with the Division of Accounting, State Auditors and KPMG on interest rate assumptions to be used for the upcoming state audit. Cheiron is preparing actuarial assumptions.

FOIA Requests

D. Craik stated that DPERS has two outstanding FOIA requests. The first from the News Journal was received in November of 2007. The Pension Office, in conjunction with OMB has been working with the News Journal to determine the scope of records requested. The Pension Office has provided the News Journal with some documents. The most recent communication with respect to this request provided the News Journal with a revised cost estimate. The second request is from a law firm in Wilmington, seeking information about the Fund's purchase and sale of assets from 2004 up to the present. A letter is being sent to the law firm to clarify the request.

5. PENSION ADVISORY COUNCIL REPORT

J. Testerman reported that with the economy the way it is he is not very hopeful of having a post retirement increase for retirees.

He also reported that the next Advisory meeting will be on April 8th. The Spring Pre-Retirement Workshops begin on April 3rd. There will be one workshop in Kent and Sussex Counties and three in New Castle. These workshops are co-sponsored by the Pension Advisory Council and the State Board of Pension Trustees.

6. DEPUTY ATTORNEY GENERAL REPORT

Securities Litigation Policy

C. Collins reported that the proposed Securities Litigation Policy should be ready for review at the April board meeting.

Delaware Volunteer Fireman's Pension Plan

Modifications to this plan have been completed to meet IRS regulations. Discussion was held on the changes made that will protect the tax status of the Volunteer Fire Companies. A request to have the Board approve the revised plan document was made.

MOTION made by N. Shevock and seconded by R. Allen to approve the revised plan document of the Delaware Volunteer Fireman's Pension Plan.

MOTION ADOPTED UNANIMOUSLY

7. PENDING ITEMS

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

8. NEW BUSINESS

C. Collins reported that the SEC had investigated and initiated action against The Public Retirement Systems of Alabama, a state pension fund program for insider trading violations. As a result of this investigation, The Securities and Exchange Commission issued a report reminding public pension funds of their responsibilities under the federal securities laws, and warning them that they assume a greater risk of running afoul of anti-fraud and other provisions if they do not have adequate compliance policies and procedures in place to prevent wrongdoing in their money management functions. C. Collins is reviewing DPERS current compliance policies and procedures and will bring any recommended modifications to the Board and the Investment Committee for review and approval.

9. ADJOURNMENT

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

At 10:24 p.m., there being no further business, MOTION was made by N. Shevock 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