

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
MCARDLE BUILDING
860 SILVER LAKE BLVD., SUITE 1
DOVER, DE 19904-2402

When Calling Long Distance
Toll Free Number 1-800-722-7300
E-mail: pensionoffice@state.de.us

Telephone (302) 739-4208
FAX # (302) 739-6129
www.delawarepensions.com

BOARD OF PENSION TRUSTEES
MEETING MINUTES OF NOVEMBER 21, 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 Pension Office.

Trustees Present

Philip Reese
Nancy Shevock
Robert Allen
Richard Cordrey
Jan King
Mike Jackson

Trustees Absent

Helen Foster

Others Present

David Craik, Pension Office
Kim Vincent, Pension Office
Dena Fry, Pension Office
Kathy Kunkle, Pension Office
Wade Sallings, Pension Office
Cindy Collins, DAG
James Testerman, PAC
Meaghan Brennan, OMB Budget Analyst
Charlotte Lister, PAC
Karen Field-Rogers, OMB
Rob Gooderham, Ashford Consulting Group

1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order by P. Reese. P. Reese welcomed Mike Jackson, Acting Director of OMB.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the Public Minutes of the October 31, 2008 meeting.

MOTION made by R. Allen and seconded by N. Shevock to approve the Public Minutes of the Board of Pension Trustees' October 31, 2008 meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the October 31, 2008 meeting.

MOTION made by R. Allen and seconded by N. Shevock to approve the Executive Minutes of the Board of Pension Trustees' October 31, 2008 meeting.

MOTION ADOPTED UNANIMOUSLY

P. Reese wanted the minutes to reflect that M. Jackson abstained from approving the minutes because he was not present at the October Board meeting.

3. AUDIT COMMITTEE REPORT

MOTION was made by J. King and seconded by P. Reese that the Board go 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 J. King and seconded by R. Cordrey to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

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>
Total Fund	-10.7%	-20.4%	-24.8%
S & P 500 Index	-16.8%	-23.8%	-36.1%
60/35/5*	-10.9%	-15.9%	-23.2%
Delaware Benchmark**	-12.7%	-19.9%	-26.3%

*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 October totaled \$5,583 million. The Fund lost (10.7%) for the month comparing positively to a benchmark of (12.7%) and the 60/35/5 benchmark which was (10.9%).

The month of October was dismal and the Fund suffered severe losses as did all the equity markets during the month. U.S. Stocks in the broad Russell 3000 lost (17.7%) including Large U.S. Growth stocks at a negative (16.5%) and the Large Value Index returned a negative (17.3%). Small Cap Stocks were hurt even further with negative results of (20.8% according to the Russell 2000 Index). The International Markets experienced high losses which also included losses in currency as the dollar was stronger against most currencies with the MSCI ACWI ex U.S. Index returning a negative (22.0%). Disruption in the credit markets dropped bond prices regardless of coupon and the Lehman Govt/Corp Long Index lost (7.7%). The largest loss for the month you need to be aware of is in the Lipper Natural Resources Index which was a negative (25.4%) due to the dramatic drop in energy prices and the slackening demand for natural resources.

The fiscal year un-audited year-to-date results for 4 months for the Fund will be reported at a (20.4%) loss, slightly behind the loss of (19.9%) in the benchmark. Calendar returns year-to-date for 2008 are a negative (23.4%) which compares positively to a benchmark of (24.5%).

The full Investment Committee met this week, and as you would suspect, there were robust discussions about all aspects of the market and its effect on the DPERS portfolio. The Fund is sitting on \$890 Million in cash or 15.9% of the fund which is unprecedented. This was done to make sure we had liquidity to make payments and to stockpile a cash position to cover committed capital calls in private equity and to potentially have cash on hand to tactically move into distressed asset classes when the market indicates high value for future returns.

The credit markets are in great disruption. Yield spreads over Treasuries in high yield debt securities are at levels not seen since the early 1930's in the range of 1700bp. Nearly one quarter of the Fortune 500 has high yield debt rated non-investment grade. The high yield market today is inefficient, offering the potential for superior risk-adjusted returns. There is risk that some of the names held will default on interest payments or potential bankruptcy, but expected returns have been

adjusted and analyzed to anticipate this. The Investment Committee recommends investment of up to \$100 million in the Oaktree U.S. High Yield Bond Fund. Proceeds will come from cash.

MOTION was made by J. King and seconded by P. Reese to invest up to \$100 million in the Oaktree U.S. High Yield Bond Fund with the proceeds coming from cash.

MOTION ADOPTED UNANIMOUSLY

One of the markets hardest hit as hedge funds unwind and stocks falling by “distressed” selling by equity oriented investors is the High Income Convertible market. These are also known as “busted” convertibles. This strategy would be an extension of the markets in our conventional U.S. Convertible position but is run in a separate strategy with a separate portfolio manager at Oaktree. The Investment Committee recommends investing up to \$100 million into this strategy as soon as practicable.

MOTION made by J. King and seconded by P. Reese to invest up to \$100 million in the Oaktree Capital Management high income Convertible strategy.

MOTION ADOPTED UNANIMOUSLY

The Committee also recommends an investment of up to \$100 million from existing cash in the bank loan market with a manager yet to be selected. As banks restructure their balance sheets, they will need to quickly off load existing debt at a deep discount and this is done into the secondary bank credit market. These are loans usually made to corporations. This market will be the first to recover as the credit markets increase their liquidity. These loans should appreciate in value rapidly and produce superior returns. We request the Board empower the Committee to select and fund a manager as soon as practicable.

MOTION made by J. King and seconded by P. Reese to invest up to \$100 million from existing cash in the bank loan market with a manager yet to be selected and to empower the Investment Committee to select and fund the manager as soon as practicable.

MOTION ADOPTED UNANIMOUSLY

The Investment Committee recommends full liquidation of DPERS’ funds in the Mellon GTAA strategy. Mellon’s models that analyze whether to tilt investments into bonds or stocks are not working through this new world market. While the Committee recommends the termination of the GTAA strategy at this time, it does not think that the liquidity-depressed cash collateral fund

should be sold at this time. The equity portion of GTAA proceeds will remain invested in global equities through un-levered exchange traded futures contracts and using the collateral fund holding as a portion of the collateral. The balance of the GTAA investment is to be liquidated for cash, effectively replenishing most of the funding the investments in High Yield, High Income Convertibles and Bank Debt. Given the planned year end liquidation of GTAA, it may take some time to engineer the right mechanics to do this. Liquidity will be optimized where practical.

MOTION made by J. King and seconded by N. Shevock that the Investment Committee recommends full liquidation of our funds in the Mellon GTAA strategy. The equity portion of GTAA proceeds will remain invested in global equities through un-levered exchange traded futures contracts and using the collateral fund holdings as a portion of the collateral. The collateral pool is expected to self-liquidate over time. The balance of the GTAA investment is to be liquidated for cash, effectively replenishing most of the funding the investments in High Yield, High Income Convertibles and Bank Debt.

MOTION ADOPTED UNANIMOUSLY

Our risk level in the fund is at the end of October. The amount of GTAA remaining in global equities will be determined by keeping the funds' risk level at or below this level after inclusion of the \$300 million allocations from cash to High Yield, Bank Loans and High Income Convertible funds. This means we will likely lower the amount of stock exposure currently held by GTAA. It is requested that the Investment Committee be delegated by the Board, all authority needed to facilitate this transition including opening of new cash accounts and establishing a relationship to manage these funds.

There was a robust discussion and review of the deliberate and thoughtful process in determining asset allocation.

MOTION made by J. King and seconded by R. Allen that the Investment Committee be delegated by the Board, all authority needed to facilitate this transition while maintaining the

desired Fund risk level, including opening of new cash accounts and establishing a relationship to manage these funds.

MOTION ADOPTED UNANIMOUSLY

The Committee also recommends a commitment to invest up to \$20 million in the new Accel Growth Fund.

MOTION made by J. King and seconded by N. Shevock to a commitment to invest up to \$20 million in the new Accel Growth Fund.

MOTION ADOPTED UNANIMOUSLY

The Committee met with the U.S. and International convertible managers from Oaktree this month and reviewed Oaktree's performance, the Oaktree portfolios that DPERS has invested in, Oaktree's analysis of the condition of the financial markets.

The next Investment Committee meeting will be held on December 16th.

MOTION was made by J. King and seconded by P. Reese that the Board go 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 J. King and seconded by R. Cordrey to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

5. PENSION ADMINISTRATOR'S REPORT

FY10 Budget

D. Craik reviewed the following FY10 Budget Requests:

- 1) Continue upgrade project of both the hardware and software components of the CRIS system. The CRIS system is an Oracle/PeopleSoft system that is the ERP application used by the Pension Office. Requested \$500,000 to complete implementation costs.
- 2) Requested a new position for the technical staff due to the complexities of the various systems contained within the Pension Office. For the past three years the IT manager role has been performed by the Pension Administrator. With ever increasing technology changes and complex requirements set by DTI, a position that is more technical should be managing the IT resources of the Pension Office. Information Systems Manger, PG 22.
- 3) Requested a new position for the CRIS technical staff. The e-app project which has been delayed will open up an opportunity to develop self services for active employees, retiree's, and agency personnel. The development of a comprehensive solution on tracking the receipt and application of contributions and disbursements for the accounting section for employers outside of PHRST. Continue the application of tax updates, but also start applying bundles that PeopleSoft releases for each module. Currently the necessary system patches are posted several times a year. Develop quality control reports which would be used to identify inaccurate data and do the research to determine what process is creating the inaccurate data and fix the issues. Sr. Application Support Specialist, PG 16
- 4) With the pension fund increasing its asset allocation into alternative investments up to 30% (\$2.1 billion) of the portfolio and with ongoing federal regulations regarding defined benefit plans, there will be a continued need for legal services. Legal fees for outside legal counsel for FY08 were approximately \$200,000. Request another Deputy Attorney General, IV.

Total for three positions \$220,500 for salary and fringe costs. The FY10 positions will have to go before the Joint Finance Committee.

Appeal Hearing Schedule

D. Craik stated we needed volunteers for the January and February Appeal Hearing dates. Due to upcoming changes with the new Governor and Cabinet Secretaries we will ask for volunteers for the remainder of the year at the January Board meeting.

6. PENSION ADVISORY COUNCIL REPORT

J. Testerman stated that the Committee met on November 18th and re-elected the same officers as last year. Mr. Testerman stated that he has been elected as Chairman every year since 1970.

7. DEPUTY ATTORNEY GENERAL REPORT

Tax Qualification Project

C. Collins reported that all is going very well with this project and all required forms have been submitted during Cycle C established for governmental plans. C. Collins also stated that because DPERS has timely filed the plans during the original Cycle C with the IRS, DPERS will receive a refund of fifty percent of its filing fees.

Board Self Evaluation

C. Collins stated that the Trustee binders contained a copy of the DPERS Board of Pension Trustees' Self Evaluation that had been emailed to the Trustees earlier in the month. The self evaluations should be completed and returned to her by Friday, December 12th. The data will be compiled and the results will be reported at the December Board meeting.

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 December 19, 2008, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 11:03 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

Philip Reese
Chair for the Board of Pension Trustees