

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF OCTOBER 31, 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 Ashford Consulting Group.

Trustees Present

Philip Reese
Nancy Shevock
Robert Allen
Richard Cordrey
Helen Foster

Trustees Absent

Jennifer Davis
Jan King

Investment Committee Members Present

Elva Ferrari
Clark Phippen
Mark Stalnecker
George Saxon

Investment Committee Members Absent

Jan King
Dale Stratton

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
Tom Cook, Deputy Director of Finance
James Testerman, PAC
Meaghan Brennan, OMB Budget Analyst
Ted Ashford, Ashford Consulting Group

Others Present

Rob Gooderham,
Ashford Consulting Group
Gary Musto, Ashford Consulting Group
Linda Drew, Ashford Consulting Group
Steve Kubico, Deputy Controller General
Fiona Liston, Cheiron, Inc.
Stephanie Scola, Dept. of Finance
Jeff Montgomery, News Journal

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 September 26, 2008 meeting.

MOTION made by N. Shevock and seconded by R. Allen to approve the public minutes of the Board of Pension Trustees' September 26, 2008 meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Public Hearing minutes of the September 26, 2008 meeting.

MOTION made by R. Cordrey and seconded by R. Allen to approve the public hearing minutes of the Board of Pension Trustees' September 26, 2008 meeting.

MOTION ADOPTED UNANIMOUSLY

3. ACTUARIAL REPORT PREPARED BY CHEIRON, INC.

Fiona Liston, a consultant with Cheiron, Inc., presented the Trustees the DPERS' Fiscal 2008 Actuarial Valuation. Ms. Liston presented the statistical results and reported that as expected the actuarial accrued liability for the State Employees' Retirement Fund had increased in 2008 due to an increase in the number of both active and retired employees. The State Employees' Retirement Fund's funded ratio declined slightly from 104% to 103%. Ms. Liston also reviewed the valuation rates for the other retirement plans, which DPERS administers. The following topics were discussed:

- Historical Review
 - Plan Maturity Indicators: Growth in Participation;
 - Key Actuarial Indicators: Growth in Assets;
 - Key Actuarial Indicators: Assets & Liabilities; and
 - Key Actuarial Indicators: Contributions.
- Principal 7/30/2008 Valuation Results
 - Key Statistics for the State Employees' Pension Plan:
 - Number of active employees increased by 1.1%;
 - Average salary increased by 2.3%;
 - Number of retirees increased by 3.1%; and
 - Average benefit increased by 3.5%.
 - Key Results for the State Employees' Pension Plan:

- Accrued Liability is \$6,550 million;
 - Value of assets is \$6,752 million; and
 - Actuarial Liability surplus is \$ (202) million.
- Changes in Liability/Assets as of 6/30/2008 was a net loss of \$71 million for a funding ratio of 103%.
- Liability Loss on Disability Treatment
 - The 2007 valuation was first to recognize the State Disability plan and incorporated the following assumptions:
 - Those identified as being disabled in the 2007 data would continue receiving disability benefits until their benefits ran out, generally at age 65, at which point they would retire and begin receiving retirement benefits; and
 - Even if individuals were eligible to retirement, the disability plan pays more to the participant than a retirement benefit would, so the assumption was that the disabled employee would elect to remain on the disability plan as long as possible.
 - The 2008 valuation, contrary to the assumptions made in the 2007 valuation, saw a significant reduction in the number of disabled employees receiving disability benefits in 2008. Specifically, the following data was available:
 - Out of 688 employees receiving disability benefits in 2007, only 211 employees continue to receive disability benefits in 2008; and
 - Of the 478 who are no longer disabled: 279 retired, 104 returned to active service, 73 terminated without vesting, and 21 of them became term vested.
 - Those who retired created actuarial losses to the System, even though they were taking reduced benefits, because DPERS had assumed that their retirement benefits would begin in a few years and not right away.
 - Those who terminated prior to vesting in the retirement system created some offsetting gains as the employer contributions remained in the system.
 - Cheiron recommend maintaining DPERS' assumptions about disability behavior until the next experience study is performed and Cheiron has more years of data and experience with how the disability plan integrates with the pension plan.
- The following employer contribution rates for FY10 were presented to the Board by Cheiron:

State Employees'	6.01%
State Judiciary	26.18%
New State Police	13.93%
County/Municipal General	6.15%
County/Municipal P & F	13.70%
Diamond Port	5.82%
Volunteer fire	\$316.68

P. Reese asked if the Trustees' or the public had any questions about the 2008 Actuarial Valuation. There were no questions.

MOTION was made by H. Foster and seconded by N. Shevock to adopt the employer contribution rates as discussed.

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	-7.9%	-11.2%	-14.6%
S & P 500 Index	-8.9%	-8.4%	-22.0%
60/35/5*	-6.2%	-5.6%	-12.7%
Delaware	-7.3%	-8.3%	-13.8%
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.

The Investment Committee reviewed the public minutes of the September 9th, September 23rd and October 14th minutes.

MOTION made by M. Stalnecker and seconded by E. Ferrari to approve the public minutes of the Investment Committee on September 9th, September 23rd and October 14th meetings.

MOTION ADOPTED UNANIMOUSLY

R. Gooderham of Ashford Consulting Group, distributed copies of his presentation entitled "Current Markets and DPERS: Perspective on Risks and Opportunities" and turned to a review of current markets. In the eight prior historical periods of stock market declines exceeding 25% since 1926, recoveries usually occur after buyers have enough value transparency to commit enough capital to turn markets around. Unlike these prior periods, the current market decline differs in several ways: (1) problems in the credit and housing markets have been a leading indicator while housing is historically a lagging indicator, (2) the impact of increased global linkages and global delevering, and (3) coordinated global monetary stimulus, banking system support and fiscal stimulus. A comparison of current valuation fundamentals with averages from prior periods of decline provides no clear indications about the potential duration of the current decline. Mr. Gooderham reviewed a detailed list of eleven risk-reducing moves made by DPERS over the past 15 months and noted the increased liquidity and reduced risk level of the Fund over that time period.

Ted Ashford commented on the current market environment and shared his thoughts on the Fund's risk/return strategy. Mr. Ashford stated that the team which originally established the Fund's allocation and risk management strategy in the 1970's spent two years focused on risk and return and discovered that the sensitivity for most public funds was on the risk rather than return side of the equation. As a result the investment process adopted for the State was first focused on risk, before pursuing returns. Risk has many elements: transparency, inflation, deflation, default risk, and liquidity risk.

T. Ashford stated that he feels the Fund is in good position in the current market environment as it has cash when other funds do not. This will enable the Fund to not only take advantage of opportunities from distressed sellers but to fund new opportunities which other investors will not be able to.

R. Gooderham confirmed that three years of funding for current commitments and Pension Fund estimates of cash needs can be met with the current cash balance.

C. Collins reported that Media Technology Ventures has requested approval of an amendment covering allocation of fund profits. As the amendment is favorable to limited partners, she and Mr. Ashford recommend approval.

MOTION made by P. Reese and seconded by P. Phippen to approve First Amendment to Media Technology Ventures V. Fund.

MOTION ADOPTED UNANIMOUSLY

The next Investment Committee meeting will be held on November 18, 2008.

5. PENSION ADMINISTRATOR'S REPORT

Personnel

D. Craik announced that J. Davis had resigned her position as Director of OMB for a position with the University of Delaware. Mike Jackson has been appointed Acting Secretary and will be present during the November and December Board meetings.

D. Craik announced that Wade Sallings joined the Pension Office, three weeks ago, in the position of Cash & Debt Manager. D. Craik thanked Kathy Kunkle for her tremendous effort as the Cash and Debt Manager and P. Reese asked for a round of applause.

FY08 Audit

D. Craik stated that the Management Letter has been signed and returned to KPMG.

2009 BOPT & Committee Meeting Dates

D. Craik reported that in the Trustees' binders were the 2009 Committee meeting dates. Next month a sign up sheet will be handed out for each Trustee to sign up for 2 or 3 Appeal Hearing dates.

Quarterly Statistics

D. Craik reported that there was nothing unusual to report on the quarterly statistics. The Disability Pension report reflected 5 new cases and the continuance cases are keeping the Medical Committee busy.

6. PENSION ADVISORY COUNCIL REPORT

J. Testerman stated that J. Davis' leadership skills will be missed throughout OMB. He also stated that he approves of the risk control the Board and Investment Committee has taken with the Pension Fund.

J. Testerman also reported that Janice VanderDecker was the newest member of the Pension Advisory Council.

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 and K. Vincent are working with Ice Miller on implementing new policies and procedures to comply with new IRS rollover and reporting requirements. K. Kunkle, W. Sallings and C. Collins are working on revising and updating compliance protocols.

8. PENDING ITEMS

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

9. NEW BUSINESS

There was no new business to discuss.

MOTION was made by N. Shevock and seconded by H. Foster 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 R. Cordrey to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION was made by R. Allen and seconded by H. Foster to accept the decision of the hearing officer to deny, in the cases of Wayne Warren and Brian Price, retroactive disability benefits to the time of their original retirements.

MOTION ADOPTED UNANIMOUSLY

Since the last Board meeting in September, a poll vote was solicited and approved. The Investment Committee of the Board of Pension Trustees recommended after it's meeting on October 14th the liquidation of up to the total value of the Mellon Capital Global Tactical Asset Allocation account with the simultaneous reinvestment into a global stock and bond index funds, subject to the approval of Mark Stalnecker, acting chair of the Investment Committee and Ashford Consulting.. After further investigation this recommendation was not executed. However, the poll vote needs to be ratified by the Board.

MOTION was made by P. Reese and seconded by R. Allen to authorize the liquidation of up to the total value of the Mellon Capital Global Tactical Asset Allocation account with the simultaneous reinvestment into global stock and bond index funds, subject to the approval of Mark Stalnecker, acting chair of the Investment Committee and Ashford Consulting.

MOTION ADOPTED UNANIMOUSLY

10. ADJOURNMENT

The next Pension Board meeting is scheduled to be held on November 21, 2008, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 11:58 p.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

Philip Reese
Chair for the Board of Pension Trustees