

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF SEPTEMBER 26, 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
Nancy Shevock
Robert Allen
Jan King
Richard Cordrey
Jennifer Davis

Trustees Absent

Helen Foster

Others Present

David Craik, Pension Office
Kim Vincent, Pension Office
Terri Timmons, Pension Office
Kathy Kunkle, Pension Office
Cindy Collins, DAG
James Testerman, PAC
Charlotte Lister, PAC
Karen Field-Rogers, OMB
Bob Steen, KPMG
Dave Lindquist, KPMG
Sophia Smith, KPMG
Rob Gooderham, Ashford Consulting Group
Gary Musto, Ashford Consulting Group
Linda Drew, Ashford Consulting Group

1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order by P. Reese. P. Reese thanked N. Shevock for chairing the July Board meeting and the Public Hearing meeting.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the public minutes of the July 25, 2008 meeting.

MOTION made by J. King and seconded by R. Allen to approve the public minutes of the Board of Pension Trustees' July 25, 2008 meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Public Hearing minutes of the July 25, 2008 meeting.

MOTION made by N. Shevock and seconded by R. Allen to approve the public hearing minutes of the Board of Pension Trustees' July 25, 2008 meeting.

MOTION ADOPTED UNANIMOUSLY

3. AUDIT COMMITTEE REPORT

MOTION 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 confidential legal matters and trade secrets.

MOTION made by R. Allen and seconded by J. Davis 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	-1.1%	-3.3%	-4.5%
S & P 500 Index	1.4%	0.6%	-8.1%
60/35/5*	1.2%	0.7%	-4.6%
Delaware	0.0%	-1.1%	-4.1%
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 August totaled \$6,818 million. The Fund lost (1.1%) for the month compared negatively to a benchmark return of (0%) and behind the 60/35/5 benchmark which was 1.2%.

During the month of August the Fund experienced mixed results in the equity markets. U.S. stocks in the broad Russell 3000 gained 1.6% including Large U.S. Growth stocks gaining 1.5% and Large Value Index returned a positive 1.7%. Small Cap stocks had a great month with positive results of 3.5% according to the Russell 2000 Index. The International Markets experienced high losses moving against the U.S. market trend with the unhedged EAFE returning a negative (4.1%). The long bond market gained 1.8% for the month.

The fiscal year, (unaudited) year-to-date return for 2 months for the Fund will be reported at a (3.3%) loss, compared negatively to a loss of (1.1%) in the benchmark. Calendar returns, year-to-date, for 2008 are a negative (6.9%) which compares positively to a benchmark of (6.8%).

Since the Board did not meet in August, a poll vote was solicited and approved. Due to performance and current market conditions, the Investment Committee of the Board of Pension Trustees recommended after it's meeting on August 19th to terminate the Western Asset Management Absolute Return Strategy account. The liquidation proceeds of approximately \$250 million are held in the DPERS Cash Account. This was executed as approved but needs ratification. A discussion of the merits was held.

MOTION was made by J. King and seconded by J. Davis to approve the termination of the Western Asses Management Absolute Return

Strategy account on August 19th. The liquidation proceeds of approximately \$250 million are held in the DPERS Cash Account.

MOTION ADOPTED UNANIMOUSLY

In addition to much discussion in August on the credit markets, presentations were conducted by the managers of the T. Rowe Price NRIS Fund and the managers of international equity manager Ballie Gifford.

A proposal to add a new member to the Investment Committee, George Saxon, was made and approved. The Committee submits the request for approval of the Board for G. Saxon to be added officially to the Committee. He brings a wealth of experience and market knowledge that should benefit the fund. Due to timing, he has been sitting with the Committee during both meetings in September.

MOTION was made by R. Allen and seconded by N. Shevock to approve the request for George Saxon to be added officially to the Board of Pension Trustees Investment Committee.

MOTION ADOPTED UNANIMOUSLY

During our first September meeting, Northern Trust presented specific information on asset valuation, details on securities held in the GSTIF versus STIF account, where our cash is invested, and the status of securities lending. The Committee continues to recommend holding cash in the GSTIF fund as a conservative move in these times while giving up potential yield and continues not to recommend returning to securities lending program. Given the last couple of weeks, this was a very good position for DPERS. There has been turmoil in non government securities money markets and with the failure of Lehman and new short sales rules, many large institutions have withdrawn from securities lending.

George Hambrecht from Barlow Partners discussed the funding of the First State Independence Fund. He presented information on positions, net returns, long/short exposures and asset allocation. Investment at 8/31/08 was \$161 million with a call of \$16 million to be funded on 10/1/08.

A presentation was made on the status liquidation of fixed securities held by Lehman who was terminated in July. The market values of securities that were not liquidated which reside in a special Mellon Capital Account were \$55 million on 8/31/08. These are structured securities which will be held until they run off or when they can be sold.

This week's Investment Committee involved much discussion of the current markets and liquidity issues. A quick view of early August performance was discussed. Information was reviewed and a presentation was made by Jeff Aronson of Centerbridge Partners, a firm that manages a fund specializing in distressed debt. Jeff was formerly with Angelo Gordon. The fund is new and

was initially capped at \$2 billion. A second opening is now raising another \$2 billion. Jeff is recognized as a premier distressed investor. In order to initiate a relationship with this manager and secure future capacity, the Investment Committee recommends that DPERS make an initial commitment of \$10 million to Centerbridge Credit Partners. A discussion of the merits was held.

MOTION was made by J. King and seconded by R. Allen to make an initial commitment of \$10 million to Centerbridge Credit Partners.

MOTION ADOPTED UNANIMOUSLY

In addition, a recommendation is being made to commit \$10 million to a new India Fund being established by DPERS' existing Private Equity firm Accel. It has taken several years to seek and establish the right team in India. Four Indian partners with both operation and investment experience in the seed and early stage markets will be heading the Accel India Venture Fund II. A discussion of the merits was held.

MOTION was made by J. King and seconded by J. Davis to commit \$10 million to the Accel India Venture Fund II.

MOTION ADOPTED UNANIMOUSLY

Time was spent on a telephone conference with Paul Kasriel, Northern Trusts' Chief Economist, about the illiquidity problems of the market. A discussion of the merits was held.

A soft dollar report was given, proxy votes made available for review and changes to the NRIS Schedule A to include the ability to hold "rights" when granted on stock holdings.

Current market conditions are a continued concern to the risk of the Fund due to its current asset allocation. The Board and the Investment Committee have been proactive to increasing the Fund's cash position which currently stands at approximately 11%. The Investment Committee is recommending that the Board further liquidate up to an additional \$250 million from equities to raise cash, specifically the Mellon Tactical Asset Allocation Account, which should provide adequate cash to fund all cash to fund identified cash needs for the Fund through 2011 and lower the Fund's risk of exposure to equities, and if sufficient funds are not available from the Mellon Tactical Asset Allocation Account then Ashford should select another account to draw the remaining cash to raise the \$250 million to fund cash.

MOTION was made by J. King and seconded by J. Davis to raise \$250 million in cash, incrementally beginning with the partial

liquidation of Mellon Tactical Asset Allocation account, but leaving sufficient funds in the Mellon TAA account to keep the account open given Mellon TAA's existing fee structure, then from such other managers as may be identified by Ashford Consulting to raise the balance necessary to generate a total of \$250 million in cash.

MOTION ADOPTED UNANIMOUSLY

The next Investment Committee meeting will be held on October 14th.

MOTION was made by R. Allen and seconded by J. King to enter into executive session.

The Board then moved into Executive Session to discuss confidential legal matters and trade secrets.

MOTION made by R. Allen and seconded by J. King to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

5. PENSION ADMINISTRATOR'S REPORT

Medical Committee Update

D. Craik reported that a new physician is being recommended for the Medical Committee. Dr. Aydin Z. Bill graduated from the Medical School of Istanbul University, and did his postgraduate residency in psychiatry at the Delaware State Hospital, and additional training with Jefferson Medical College. Dr. Bill has recently retired after nearly 50 years of psychiatry practice. D. Craik then recommended that Dr. Bill be appointed to the Medical Committee.

MOTION was made by J. Davis and seconded by J. King to approve the recommendation of appointing Dr. Bill to the Board of Pension Trustees' Medical Committee.

MOTION ADOPTED UNANIMOUSLY

New Employee

D. Craik announced that the Pension Office has hired a new employee for the position of Cash & Debt Manager. Wade Sallings will begin his employment with the Office of Pension on October 6, 2008. D. Craik also wanted to commend Kathy Kunkle for her hard work this year and her management of the Fiscal Year 2008 audit.

Actuary

D. Craik stated that Fiona Liston of Cherion will be here for the October Board meeting to present the Trustees the 2008 Actuarial Valuation.

Call Center

D. Craik and K. Vincent recently visited the Idaho Retirement System to review their Call Center set up. The following was some of the information they found:

- The documentation can be found on-line on their Website.
- The call center is staffed with Customer Service staff as well as Pension staff.
- 80% of the incoming calls/questions get answered by the Call Center.

D. Craik stated that visiting Idaho's Retirement Systems Call Center was very eye opening regarding their structure. The Pension Office will proceed with their work to complete the necessary steps in bringing our Call Center up to full operation.

6. PENSION ADVISORY COUNCIL REPORT

J. Testerman stated that listening to the reports today has assured him of the financial responsibility that the Trustees have in making certain that the future of the Pension Fund is secure.

7. DEPUTY ATTORNEY GENERAL REPORT

Volunteer Firemen's Pension Fund Update

C. Collins stated that the Volunteer Firemen's Plan Private Letter Ruling Request was submitted to the IRS and been assigned to an agent. The agent requested supplemental information related to the status of volunteer fire departments and their relation to the State. This information has been supplied to the IRS.

Diamond State Port

D. Craik and C. Collins met with executives from the Diamond State Port Corporation and the Port's respective labor representative to discuss and explain the Port's revised plan document. The revised plan document incorporates the IRS tax changes and the existing Rules and Regulations. D. Craik and C. Collins explained the tax qualification project and the Cycle C filing the Board intends

to submit to the IRS to obtain determination letters for DPERS' plans, including the Port Plan. C. Collins reported that the new amended plan document has been approved by the Port's Board.

DPERS Pension Plans

C. Collins advised the Board that the State Employees' Plan, the State Police Plans, the Judicial Plans, the County Municipal Employees' Plan, the Country Municipal Police and Fire Plan, and the Diamond State Port Plan have all been submitted to the IRS to obtain a qualified plan determination letter during Cycle C.

Alternative Investment Council

C. Collins stated the review of documents by alternative investment counsel has been constructive and raised various legal and business issues that have been addressed with the General Partners.

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 October 31, 2008, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 11:50 p.m., there being no further business, MOTION was made by R. Allen and seconded by J. King to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Philip Reese
Chair for the Board of Pension Trustees