

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF DECEMBER 18, 2009

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 Pension Office.

Trustees Present

Nancy Shevock
Suzanne Grant
Robert Allen
Helen Foster
Phil Reese

Trustees Absent

Tom Cook
Ann Visalli

Others Present

Dave Craik, Pension Office
Terri Timmons, Pension Office
Wade Sallings, Pension Office
Jeff Hoover, Pension Office
Kim Vincent, Pension Office
Rob Gooderham, Ashford Consulting Group
Jim Testerman, PAC
Charlotte Lister, PAC
Cindy Collins, DAG

Dr. Bill, Medical Committee
Dr. Brereton, Medical Committee
Dr. Del Duca, Jr., Medical Committee
Dr. Frelick, Medical Committee
Dr. Gelb, Medical Committee
Dr. MacEwen, Medical Committee
Dr. Riegel, Medical Committee
Dr. Shellenberger, Medical Committee
Dr. Smoyer, Medical Committee
April Cooper, Pension Office

1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order by P. Reese. P. Reese welcomed the members of the Medical Committee and thanked S. Grant for chairing the November Board meeting in his absence. P. Reese commented that he is trying to line up an Economist for the beginning of the New Year and there will also be a discussion in January or February of the Ashford Consulting Group and Cheirons' contract extensions.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the Public Minutes of the November 20, 2009 meeting.

MOTION made by R. Allen and seconded by H. Foster to approve the Public Minutes of the Board of Pension Trustees' November 20, 2009 meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the November 20, 2009 meeting.

MOTION made by R. Allen and seconded by H. Foster to approve the Executive Minutes of the Board of Pension Trustees' November 20, 2009 meeting.

MOTION ADOPTED UNANIMOUSLY

3. MEDICAL COMMITTEE REPORT

Dr. Shellenberger stated that the new Disability Insurance Program has been a great asset getting people back to work. The Medical Committee continues to be busy reviewing continuance cases.

4. INVESTMENT COMMITTEE REPORT

MOTION made by R. Allen and seconded by H. Foster to enter into Executive Session to consider pension personnel matters and confidential medical records, legal matters, sensitive commercial information, proprietary business information, trade secrets and confidential financial information.

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 made by H. Foster and seconded by R. Allen to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

It was reported that the Investment Committee had reviewed policy language with respect to the risk level and policy risk bands contained in DPERS' Investment Policy. The Investment Committee discussed several alternate versions of the risk policy language and presented each to the Board for discussion. The Investment Committee proposed that the Board revise the Investment Policy as follows:

To facilitate the accomplishment of both the risk and return objectives of the Funds, asset allocation will generally be managed to an objective of potential downside volatility in the range of 45% to 65% of that of the S&P 500 stock index, based on estimated downside volatility and correlation of and among each asset class or strategy, noting that the Fund may deviate from this range provided the Board and its Investment Committee support such a situation.

MOTION made by N. Shevock and seconded by R. Allen to approve the revised risk level and policy risk band language in DPERS' Investment Policy as recommended by the Investment Committee.

MOTION ADOPTED UNANIMOUSLY

Investment Committee Performance Report

<u>Fund</u>	<u>Previous Month</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	2.9%	13.9%	24.0%
S & P 500 Index	6.0%	20.3%	25.4%
60/35/5*	4.1%	14.0%	19.5%
Delaware Benchmark**	3.3%	14.3%	25.5%

*Benchmark mix of 60% S&P500 Index, 35% Barclays Long Gov't and Credit Bond Index, 5% T-bills.

Total assets in the Fund at the end of November totaled \$6,475 million. After experiencing negative returns in October, equity markets turned positive in November. After outperforming the Delaware Benchmark in October, the Funds' November return of 2.9% underperformed the Delaware Benchmark return of 3.3%. The Fund's 12-month return and fiscal year-to-date return slightly lags the Delaware Benchmark.

During the month of November, both domestic and international equity markets experienced gains. The S&P 500 was up 6.0%, up from a negative 1.9% return in October; while small cap stocks, as measured by the Russell 2000, gained 3.1%. The MSCI EAFE international stock index was up 2.0%, and the broader MSCI All-Country World ex-U.S. stock index (which includes emerging markets) was up 2.9% in November. Fixed Income Markets also experienced positive returns during the month with the Barclays TIPS Index up 2.8% and the Barclays LT Govt/Credit Index up 1.4%. High yield bonds continued to gain as the JP Morgan Global High Yield index returned 1.3% for the month.

The Investment Committee has met once since the last Board meeting. On December 15th, the Committee received presentations from existing energy and power fund manager Riverstone and from an existing manager Angelo, Gordon – proposing a new investment in a new Distressed Debt fund it is raising money for.

The Committee continued discussions from prior meetings regarding DPERS' Investment Policy relating to the Funds' risk level and policy risk bands. The Committee discussed several alternate versions of policy language and agreed on language to recommend to the Board.

The Committee also discussed and reviewed proposed changes to DPERS' Investment Policy relating to the Fund's asset class ranges and reviewed potential changes to the DPERS Investment Policy. These proposed changes will be submitted to the Board at a future meeting for review and discussion.

In addition, the Committee engaged in a lengthy review of the Fund's current risk level in light of current investment market conditions. After discussion, the Committee recommended the following actions to the Board via poll vote as follows:

1. RECOMMENDED that \$150 million be withdrawn from the Mellon Capital Large Cap Value index fund account.

MOTION made by P. Reese and seconded by H. Foster to withdraw \$150 million from the Mellon Capital Large Cap Value index fund account.

MOTION ADOPTED UNANIMOUSLY

2. RECOMMENDED that \$50 million be withdrawn from the Oaktree Capital Domestic Convertible account.

MOTION made by P. Reese and seconded by H. Foster to withdraw \$50 million from the Oaktree Capital Domestic Convertible account.

MOTION ADOPTED UNANIMOUSLY

3. RECOMMENDED that \$50 million be withdrawn from the Oaktree Capital International Convertible account.

MOTION made by P. Reese and seconded by H. Foster to withdraw \$50 million from the Oaktree Capital International Convertible account.

MOTION ADOPTED UNANIMOUSLY

4. RECOMMENDED that \$200 million be added to the Mellon Capital Aggregate Bond account.

MOTION made by P. Reese and seconded by H. Foster that \$200 million be added to the Mellon Capital Aggregate Bond account.

MOTION ADOPTED UNANIMOUSLY

5. RECOMMENDED that the \$50 million balance of proceeds be transferred to the Northern Trust cash account pending future investment recommendations.

MOTION made by P. Reese and seconded by H. Foster to approve that the \$50 million balance of proceeds be transferred to the Northern Trust cash account pending future investment recommendations.

MOTION ADOPTED UNANIMOUSLY

The Committee, under its authority to approve documents, or to make decisions on all issues, transactions, or documents, pertaining to limited partnerships which have been approved for investment by the Board, approved a 1 year extension for ATV VI.

The Committee, under its authority to approve contract Schedule changes, approved changes to the Mellon Capital Global Equitized Collateral Fund Schedule A and Schedule D.

During the Investment Committee meeting, Mr. Ashford provided a review of the Fund's private equity program. He described the current market environment, the program's liquidity status and a recommendation for approval of a follow-on fund for a current manager. The Committee determined that a Private Equity participation in Trident VII, L.P. would be consistent with its strategy of follow-on investment with proven, experienced firms and recommends approval of a commitment of \$35 million to Trident VII, L.P. subject to counsel's review of documents.

MOTION made by R. Allen and seconded by N. Shevock to approve \$35 million be committed to Trident VLL, L.P. subject to counsel's review of documents.

MOTION ADOPTED UNANIMOUSLY

Further, during the last Investment Committee meeting, the Committee heard a presentation by Tom Fuller, portfolio manager of the Angelo, Gordon & Co. Capital Recovery Fund about a potential new investment available to DPERS. The firm is currently raising Fund VII and has a long history of investing in distressed debt using a consistent investment approach. The Committee recommends approval of a commitment of \$25 million to AG Capital Recovery Partners VII, L.P. subject to counsel's review of documents.

MOTION made by P. Reese and seconded by R. Allen to approve \$25 million be committed to AG Capital Recovery Partners VII, L.P. subject to counsel's review of documents.

MOTION ADOPTED UNANIMOUSLY

The Committee authorized Ashford Consulting Group to notify the Pension Office regarding recommended allocations of future cash flows to re-balance the Volunteer Firemen's fund assets to benchmark allocations.

MOTION made by P. Reese and seconded by R. Allen to authorize Ashford Consulting Group to notify the Pension Office regarding recommended allocations of future cash flows to re-balance the Volunteer Firemen's fund assets to benchmark allocations.

The next Investment Committee meeting will be held on January 12, 2010.

5. AUDIT COMMITTEE REPORT

R. Allen reported that Joel Poorman, Chair of the Audit Committee, has resigned. J. Poorman has been with the Audit Committee for over 15 years. R. Allen made a recommendation to select Suzanne Grant, Board Trustee, as the Chair of the Audit Committee. A discussion of the merits was held.

MOTION made by R. Allen and seconded by N. Shevock to approve the selection of Suzanne Grant as the Chair of the Audit Committee.

MOTION ADOPTED UNANIMOUSLY

R. Allen also stated that an appropriate resolution needs to be prepared for J. Poorman.

D. Craik announced that copies of the CAFR were now available to board members. The number of hard copies is limited to save money, but compact disks are available upon request. The CAFR can also be viewed and/or downloaded from the Pension Office Website.

6. PENSION ADMINISTRATOR'S REPORT

D. Craik reported that the Pension Office has been given approval to fill three positions. The Pension Office still has 12 unfilled positions. Of the 12 unfilled positions the State has proposed to permanently eliminate 5 of the 12 positions for the FY10 Complement Reduction.

D. Craik also reported on a letter sent to The Honorable Robert F. Gilligan, Speaker of the House, from Ann Visalli. The letter related to a report that was required by House Resolution No. 29 of the 145th General Assembly to provide the General Assembly information regarding the effect of implementing a Deferred Retirement Option Plan (DROP) for State Employees. The conclusion of the report was that the implementation of a DROP was not a practical option for the State Employees at this time. The three groups under consideration were the State Employees Pension Plan, New State Police Pension Plan and the State Judiciary Pension Plan.

D. Craik has also been working with the Governor's Office on an Early Retirement Plan. Potential costs for an Early Retirement Plan are estimated to be approximately \$35 million per year for 20 years. Additionally, D. Craik has been working on creating a New Tier of Benefits for the State Employees' Plan. A New Tier of Benefits would provide long term savings, but there would be no short term savings.

D. Craik gave a brief background of how the Board Holiday Luncheon came about and how it has changed over the years. Since there are no funds this year for employee recognition the Pension Office staff has put together a covered dish holiday luncheon. The staff donated funds and has brought in home cooked food to share with the Board and staff.

7. PENSION ADVISORY COUNCIL REPORT

J. Testerman reported that the Committee reviewed their goals for the upcoming year.

8. DEPUTY ATTORNEY GENERAL REPORT

C. Collins reported that DPERS has received letters from the IRS indicating that the initial review of all the plans has been completed by the IRS and that DPERS' files have been forwarded to the IRS Quality Assurance Staff. Once the review is completed by the Quality Assurance Staff and any questions answered, the IRS will then expedite the issuance of the Determination Letters for DPERS' Plans. DPERS should receive its Determination Letters sometime next year.

C. Collins and D. Craik advised the Board that they are working on new legislation for the upcoming session to allow disabled survivors to have a Survivor Pension distributed into a qualifying Miller Trust. A discussion was held on the merits.

9. PENDING ITEMS

D. Craik stated that the Pending Items list has been updated.

10. NEW BUSINESS

There was no new business.

11. ADJOURNMENT

The next Pension Board meeting is scheduled to be held on January 29, 2010, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 10:32 a.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 Reese
Chair for the Board of Pension Trustees