

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF JANUARY 30, 2009

The meeting of the Board of Pension Trustees was called to order by P. Reese, at 9:02 a.m. in the Delaware Conference Room of the Pension Office.

Trustees Present

Philip Reese
Nancy Shevock
Robert Allen
Helen Foster
Jan King
Gary Pfieffer
Ann Visalli

Trustees Absent

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
James Testerman, PAC
Fiona Liston, Cheiron
Rob Gooderham, Ashford Consulting Group

1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order by P. Reese. Mr. Reese welcomed the new Cabinet Secretaries, Ann Visalli, Director of Office of Management & Budget and Gary Pfeiffer, Secretary of the Department of Finance. A roundtable of introductions was held.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the Public Minutes of the December 19, 2008 meeting.

MOTION made by N. Shevock and seconded by H. Foster to approve the Public Minutes of the Board of Pension Trustees' December 19, 2008 meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the December 19, 2008 meeting.

MOTION made by J. King and seconded by R. Allen to approve the Executive Minutes, with changes noted, of the Board of Pension Trustees' December 19, 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	2.6%	-20.5%	-23.5%
S & P 500 Index	1.1%	-28.5%	-37.0%
60/35/5*	2.2%	-16.4%	-22.0%
Delaware Benchmark**	3.4%	-19.8%	-24.4%

*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 December totaled \$5,440 million. The Fund gained 2.6% for the month comparing negatively to a benchmark of 3.4% and ahead of the 60/35/5 benchmark which was 2.2%.

The market, during the month of December, continued to be volatile with gains this month in all the equity markets. U.S. Stocks in the broad Russell 3000 gained 1.9% including Large U.S. Growth Stocks at a positive 1.2% and the Large Value Index returned a positive 1.4%. Small Cap Stocks were up 5.8% according to the Russell 2000 Index. The International Markets also had gains with the MSCI ACWI ex U.S. Index returning a positive 5.7%. The credit markets improved considerable over Lehman Govt/Corp Long Index gaining 11.2%. The Lipper Natural Resources Index was relatively flat returning .1%.

This fiscal year un-audited year-to-date for 6 months for the Fund will be reported at a (20.5%) loss, a slightly lower return than the benchmark at (19.8%). Calendar returns for 2008 are a negative (23.5%) which compares positively to a benchmark of (24.4%).

The Investment Committee met this week and considered the current market and its effect on the DPERS portfolio. The Fund at the end of December has \$762 million in cash or 13.8% of the Fund.

At the Investment Committee's January 13th meeting, the recommended funding request previously approved for Moon Capital as been rescinded and the Investment Committee is seeking ratification of the rescission.

MOTION was made by J. King and seconded by P. Reese to rescind the funding previously approved for Moon Capital.

MOTION ADOPTED UNANIMOUSLY

At the Investment Committee's January 27th meeting, fixed income manager, Loomis and Sayles, reported on their performance, the economy, and capital markets. No action is recommended.

The Investment Committee recommended in November the full liquidation of DPERS' funds in the Mellon GTAA strategy. The Investment Committee informed the Board that it may take some time to engineer the right mechanics to do this. The Investment Committee gave notice for a year end liquidation of GTAA but was rescinded as we explore other structures to accomplish this task. Expected liquidation is now targeted for February end. Liquidity will be optimized where practical.

The next Investment Committee meeting is February 10th.

MOTION was made by P. Reese and seconded by J. King to enter 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 N. Shevock and seconded by R. Allen to exit Executive Session.

Quarterly Report

P. Reese gave the new Trustees a brief overview of what Ashford Consulting Group does and the long history between Ashford Consulting Group and the Pension Office.

R. Gooderham presented the Board with the Investment Committee Report for the quarter ending December 31, 2008. He reviewed the total Fund risk level, and graphically what DPERS' assets have done over the last seven years. He further spoke of risk control and the rolling 4 quarter returns.

R. Gooderham spoke about the Clustering of Results in the Tail. Over the last 12 months the financial markets saw a 99.6th percentile event. The Fund's various portfolios exhibited broad diversification until the September – November 2008 time-frame. A discussion was held about risk management during the recent crisis.

A discussion continued about DPERS' risk control process. The defensive actions taken by DPERS during the last two years to protect the fund's assets were specifically detailed. Additionally, an analysis of money saved due to DPERS' defensive allocations taken from 12/07 – 12/08 was presented:

- The Fund was better off by \$216.3 million or 2.9% of the Fund's 12/31/07 balance, relative to a static portfolio.
- Relative to the 40% decline in the S&P 500 since the October 2007 peak, the Fund fell 25%.
 - The Fund's diversification appears to have saved \$1,532 million through December 2008 relative to the loss it would have incurred if fully invested in the S&P 500.
 - Relative to the blended index used to benchmark the fund, \$123 million was saved.

A discussion continued about DPERS' risk control process. Additionally, an analysis of money saved due to DPERS' defensive allocations taken from 12/07 – 12/08. Bottom line was that with all the problems with the market, the Fund has done relatively well.

Presentation by T. Rowe Price

Per P. Reese, as part of the Board's Best Practices Policy with Board Education, members of T. Rowe Price were invited to speak to the Trustees in reference to T. Rowe Price's Asset Allocation Strategy and the Economic Outlook. Introductions were made and the members of T. Rowe Price present were:

- Marlon Brown, Institutional Client Service Executive
- Allen Levenson, Chief Economist
- Douglas Greenstein, CFA
- Edmund M. Notzon, III, Ph.D., CFA Portfolio Manager

D. Greenstein reported on the market for T. Rowe Price along with an overview of last year. He stated T. Rowe Price had taken the conservative approach. Topics of discussion were:

- Asset Allocation Products & Separate Accounts
- Asset Allocation Principles
 - Controlled volatility through the utilization of multiple asset classes with low-correlation relationships
 - Well-diversified at the asset class or sub-sector level
 - Generally modest asset allocation shifts
 - Low turnover
 - Team management to fully leverage the broad resources of T. Rowe Price
- Tactical Asset Allocation
- Long-Term Market Overview
- Bear Market & Recessions
- Relative Performance Between Stocks & Bonds
- Relative Value within Fixed Income Markets
- Relative Value within Equity Markets
- Relative Valuations; Large-Cap vs. Small-Cap
- Price to Earnings; Russell 1000 vs. Russell 2000
- Price to Earnings; Russell 1000 Value vs. Russell 1000 Growth
- MSCI Historical Price-To-Earnings Ratio; Price-To-Book Ratio
- MSCI Historical Dividend Yield

A. Levenson reported on the Economic Outlook: Correcting Imbalances, Containing the Fallout.

- Passing through the period of most intense adjustment
- Tracking the correction of imbalances
- Skirting deflation risk
- Filling the gaps left by private sector re-balancing
- Sustainable balance: can we do it alone?

Tracking the Correction of Imbalances

- Housing oversupply and overvaluation
- Personal saving shortfall
- Corporate financing gap
- Excess business inventories
- Financial sector over-leverage/under-capitalization
- Current account deficit

Filling the Gaps Left by Private Sector Re-balancing

- Fiscal stimulus addresses the shortfall in private demand
- tarp, including TARP, would help address downward spiral in financial sector
- The Fed as lender, buyer of last resort

5. PENSION ADMINISTRATOR'S REPORT

Actuarial Information

D. Craik shared two graphs with the Trustees' showing the impact of a 30% decline in Pension assets and the impact of a 30% decline in Pension assets and pay freezes.

Fiona Liston, a consultant with Cherion, Inc., presented to the Trustees an historical review of assets and liabilities. She also provided information concerning 5 year smoothing, and also did some stress testing using the Depression era as a baseline. A discussion ensued.

Pension Administrator's Award

D. Craik announced that this years Pension Administrator's Award recipient is Kathy Kunkle. Every year an employee is chosen by former award recipients for their work ethic, positive attitude and achieving success on the job. K. Kunkle has also been nominated for the OMB's Employee of the Year.

Quarterly Statistics

D. Craik reported that there was nothing unusual to report on the quarterly statistics. The Disability Pension report reflected 0 new cases and the continuance cases are keeping the Medical Committee busy. The aging report reflects 8 cases in the over 90 day category where the Committee has requested information in addition to the standard medical information received.

Resolutions

D. Craik presented the Board the Resolution for Dr. William Markell to review.

MOTION was made by P. Reese and seconded by N. Shevock to approve the Resolution for Dr. William Markell for his twenty five years of professional and dedicated services to the Audit Committee and the Delaware Public Employees' Retirement System and does hereby note that his advice was invaluable to the Pension Office.

MOTION ADOPTED UNANIMOUSLY

D. Craik presented the Board the Resolution for Richard S. Cordrey to review.

MOTION was made by J. King and seconded by R. Allen to approve the Resolution for Richard S. Cordrey for his service to the Board and the State of Delaware and extends him best wishes for success in his future activities.

MOTION ADOPTED UNANIMOUSLY

D. Craik presented the Board the Resolution for Elva B. Ferrari to review.

MOTION was made by J. King and seconded by R. Allen to approve the Resolution for Elva B. Ferrari for her outstanding service to the Delaware Public Employees' Retirement System and extends her best wishes for success in her future activities.

MOTION ADOPTED UNANIMOUSLY

County/Municipal

The Town of Bethany Beach joined the General Employees plan on July 1, 2006 and purchased 35% of the employee's prior service. Now the Town would like to purchase the remaining balance of the prior service for those employees who had 10 years of service as of July 1, 2006. The cost of the buy-in is \$482,700 which the Town has requested to pay over a 5 year period with an interest rate of 8%.

MOTION made by R. Allen and seconded by H. Foster to allow the Town of Bethany Beach to purchase the remaining prior service for employees in the County/Municipal Employees

Plan, at a cost of \$482,700 to be paid over five years at an interest rate of 8%.

MOTION ADOPTED UNANIMOUSLY

The Town of Bridgeville would like to join the County/Municipal Police Plan as of February 1, 2009; there will be no purchase of prior service.

Motion made by J. King and seconded by R. Allen to allow the Town of Bridgeville to join the Delaware County/Municipal Police and Firefighter Pension Plan as of February 1, 2009, with no purchase of prior service.

MOTION ADOPTED UNANIMOUSLY

The Seaford Volunteer Fire Department would like to join the County/Municipal General Employees Pension Plan for the paid employees of the department as of January 1, 2009.

MOTION made by R. Allen and seconded by N. Shevock to allow the Seaford Volunteer Fire Department to join the County/Municipal Employees Pension Plan as of January 1, 2009.

MOTION ADOPTED UNANIMOUSLY

The City of Seaford Police Department would like to join the County/Municipal Police Plan as of December 1, 2008, purchasing 25 years of service at a cost of \$3.7 million.

years

MOTION made by R. Allen and seconded by N. Shevock to allow the City of Seaford Police Department to join the County/Municipal Police Plan as of December 1, 2008 purchasing 25 of service at a cost of \$3.7 million.

MOTION ADOPTED UNANIMOUSLY

Articles

D. Craik stated that there were two articles inserted into the Trustee packets. The first article is a Wall Street Journal, titled, "*Two Conservative Banks Weather Harsh Climate Better Than Others*", which discusses the recent earnings releases from Northern Trust Corporation and the

Hudson City Bancorp. The second article is from the National Institute on Retirement Security's Website, titled, "*The Cinderella Retirement Plan?*" which discusses the overlooked merits and security provided by defined benefit plans.

Legislative Session

D. Craik reported that the only legislation connected to the Pension Office, as of today, was SB16 Authored by Senator McBride. This Act permits a service pension after 15 years of credited service, regardless of age, without actuarial reduction.

6. PENSION ADVISORY COUNCIL REPORT

J. Testerman introduced himself to the new Cabinet Secretaries. He stated that the Pension Advisory Council goals for this legislative session are essentially the same as last year.

7. DEPUTY ATTORNEY GENERAL REPORT

C. Collins reviewed the Amendment to the Delaware Volunteer Firemen's Qualified Length of Service Award Plan and the necessary attachments. These amendments are being required by the Internal Revenue Service in order to obtain a favorable Private Letter Ruling that the Firemen's Plan is a qualified Length of Service Plan. This amended plan is effective as of January 1, 2008. A discussion of the merits was held.

MOTION was made by N. Shevock and seconded by R. Allen to adopt this Amendment with the effective date of January 1, 2008.

MOTION ADOPTED UNANIMOUSLY

8. PENDING ITEMS

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

9. NEW BUSINESS

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

MOTION ADOPTED UNANIMOUSLY

MOTION was made by P. Reese and seconded by J. King to elect George Saxon as the Chair of the Board of Pension Trustees Investment Committee. Ann Visalli abstained from the vote.

MOTION ADOPTED UNANIMOUSLY

10. ADJOURNMENT

The next Pension Board meeting is scheduled to be held on February 27, 2009, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 12:28 p.m., there being no further business, MOTION was made by P. Reese and seconded by H. Foster to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Philip Reese
Chair for the Board of Pension Trustees