

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 OCTOBER 30, 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
Philip Reese
Ann Visalli
Robert Allen
Helen Foster
Suzanne Grant

Trustees Absent

Tom Cook

Others Present

Dave Craik, Pension Office
Terri Timmons, Pension Office
Wade Sallings, Pension Office
Jeff Hoover, Pension Office
Kim Vincent, Pension Office
Cindy Collins, DAG
Rob Gooderham, Ashford Consulting Group
Seth Yablonovitz, Ashford Consulting Group
Jim Testerman, PAC
Charlotte Lister, PAC
Fiona Liston, Cheiron
Margaret Tempkin, Cheiron

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 25, 2009 meeting.

MOTION made by P. Reese and seconded by N. Shevock to approve the Public Minutes of the Board of Pension Trustees' September 25, 2009 meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the September 25, 2009 meeting.

MOTION made by R. Allen and seconded by S. Grant to approve the Executive Minutes of the Board of Pension Trustees' September 25, 2009 meeting.

MOTION ADOPTED UNANIMOUSLY

3. ACTUARIAL REPORT

Fiona Liston, a consultant with Cheiron, Inc., presented the Trustees the DPERS' Fiscal 2009 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 2009 due to an increase in the number of both active and retired employees. Ms. Liston also reviewed the valuation rates for the other retirement plans, which DPERS administers. The following topics were discussed:

- Historical Review
 - Growth in Participation;
 - Grown in Assets;
 - Assets & Liabilities; and
 - Contributions.
- Principal 6/30/09 Valuation Results
 - Key Statistics for the State Employees' Pension Plan;
 - Number of active employees increased by 1.9%,
 - Average salary increased by 2.4%,
 - Number of retirees increased by 2.8%, and
 - Average benefit increased by 3.6%.

- Principal 6/30/2009 Valuation Results;
 - Accrued Liability is \$6,827 million,
 - Actuarial Value of assets is \$6,744,
 - Unfunded Actuarial Liability of \$83 million, and
 - Funding ratio of 99%.

The following recommended changes to the employer contribution rates for FY11 were presented to the Board for its consideration and adoption by Cheiron:

State Employees'	7.40%
State Judicial	26.93%
New State Police	15.93%
County/Municipal General	6.20%
County/Municipal P & F	13.90%
Diamond Port	6.74%
Volunteer Fire	\$335.67

P. Reese asked if the Trustees' or the public had any questions about the 2009 Actuarial Valuation or the recommended change in the employer contribution rates. A discussion of the merits was held. Additionally, a discussion was held concerning future medical healthcare benefit costs and the OPEB Trust.

MOTION was made by R. Allen and seconded by H. Foster to adopt the employer contribution rates as recommended by the Board's Actuary, Cheiron.

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	3.5%	11.3%	5.1%
S & P 500 Index	3.7%	15.6%	-6.9%
60/35/5*	2.6%	10.7%	0.5%
Delaware	3.2%	11.8%	3.9%
Benchmark**			

*Benchmark mix of 60% S&P500 Index, 35% Salomon Long Government and Corporate Bond Index, 5% T-bills.

**Benchmark mix of 38% Russell 3000, 20% MSCI ACWI ex-US, 38.5% Barclays Universal, 1.5%, Barclays TIPS, 2% T-bills.

Total assets in the Fund at the end of September totaled \$6,362 million. Investment markets were positive in September due to continued spread narrowing in credit markets and positive earnings forecasts. The Fund's September return of 3.5% outperformed the Delaware Benchmark return of 3.2% and 12-month returns put the total fund ahead of the Delaware Benchmark. For the fiscal year-to-date, the total Fund is 11.3%, slightly lagging the Delaware Benchmark by 0.5%.

During the month of September, markets showed gains in all sectors. The S&P 500 gained 3.7%, up from a 3.6% return in August, while small cap stocks, as measured by the Russell 2000, rose 5.8%. The MSCI EAFE international stock index was up 3.8%, and the broader MSCI All-Country World ex-U.S. stock index (which includes emerging markets) returned a positive 5.1% in September. Fixed Income Markets were also positive during the month with the Barclays TIPS Index returning a 2.1% and the Barclays LT Govt/Credit Index up 2.5%. High yield bonds continue to gain as the JP Morgan Global High Yield returned a positive 5.9%.

The Investment Committee has met three times since the last Board meeting. On September 29th, the Committee received presentations from existing manager Farallon and from small cap manager candidate Daruma Asset Management. In addition, the Committee discussed the status of the Mellon Capital Bond Holding account. After review, the Committee recommended five actions to the Board, by poll vote, as follows:

1. RESOLVED that certain securities, as determined by Mellon Capital Management, the manager of the Mellon Bond Holding Account, worth approximately \$12.5 million, be transferred from the Mellon Bond Holding Account to the Mellon Global Equitized Collateral Fund.
2. RESOLVED that the OFI Institutional Small Cap account be terminated and securities liquidated using Northern Trust Investment's transition services.
3. RESOLVED that \$25 million be withdrawn from the small cap account managed by Rutabaga Management.
4. RESOLVED that the proceeds of the OFI liquidation and the \$25 million from Rutabaga be invested with a new small cap manager, Daruma Asset Management.
5. RESOLVED that, simultaneous with the liquidation of the Mercator International Equity account by Northern Trust Investment's transition services, 85% of the value of the Mercator account value (approximately \$107 million) is to be advanced from the fund cash account to a new account to be managed by Sanderson Asset Management so that Sanderson can begin buying securities at the same time as the Mercator liquidation. The Fund's cash account is to be replenished from the cash proceeds of the Mercator liquidation, with any excess to be transferred to the Sanderson account.

MOTION made by H. Foster and seconded
by R. Allen to ratify the poll votes.

MOTION ADOPTED UNANIMOUSLY

R. Gooderham reported that the Investment Committee, at its first October meeting on October 13th, received two presentations from Ashford Consulting Group: one on Inflation and the other on the Fund's Risk Policy. No recommendations are forthcoming from these presentations at this time. In addition, the Investment Committee conducted its annual review of soft dollar commissions used by certain managers and proxy voting.

The Committee reviewed the status of the previously approved small cap equity management change, recommending that in order to minimize market exposure risk, cash be advanced to Daruma simultaneous with the liquidation of the OFI account by Northern Trust.

MOTION made by N. Shevock and seconded by R. Allen and approved that up to \$100 million be advanced from the Fund's cash account to a new Daruma account. The Fund's cash account is to be replenished with the proceeds of the OFI liquidation and the \$25 million withdrawal from the Rutabaga account, with any excess proceeds above \$100 million transferred to the Daruma account.

MOTION ADOPTED UNANIMOUSLY

At its second October meeting, held October 27th, the Committee received presentations from Barlow Partners, the portfolio manager of the Fund's First State Independence Fund, and from Angelo, Gordon & Company, manager of the Fund's Superfund investment.

The Investment Committee considered a request from Farallon Capital Partners to approve certain changes to the Limited Partnership Agreement. Under its powers to approve documents related to current limited partnership investments, the Committee voted to ratify changes to the Limited Partnership Agreement relating to key man and side-pocket provisions.

The Committee recommends maintaining the current investment level in Farallon Capital Partners but to decline participation in the 2010 side-pocket investment opportunity.

MOTION made by P. Reese and seconded by H. Foster to maintain the current investment level in Farallon Capital Partners for a period of one year.

MOTION ADOPTED UNANIMOUSLY

The Committee also recommends maintaining the current investment level in Angelo Gordon Superfund.

MOTION made by R. Allen and seconded by N. Shevock to maintain the current investment level in Angelo Gordon Superfund for a period of one year.

MOTION ADOPTED UNANIMOUSLY

Also at the October 27th meeting, under its powers to approve documents related to current limited partnership investments, the Committee approved a consent requested by Media Technology Ventures III Pledge Fund.

The next meeting of the Investment Committee will be November 17th.

C. Collins reported that there is a housekeeping matter to clarify a motion made during the March 27, 2009 BOPT meeting. The requested change is to modify the motion contained in the March 27, 2009 BOPT minutes with respect to DPERS investment in Oaktree Emerging Markets, and replace the current language with the following: "DPERS shall not exercise its redemption rights, in the approximate amount of \$118 million, and will remain invested on June 30, 2009, in the Oaktree Emerging Markets fund for an additional period of one year.

MOTION made by R. Allen and seconded by N. Shevock to clarify the Motion contained in the March 27, 2009 BOPT minutes to not exercise its redemption rights and to remain invested on June 30, 2009 in the approximate amount of \$118 million in the Oaktree Emerging Markets fund for an additional period of one year.

MOTION ADOPTED UNANIMOUSLY

MOTION made by S. Grant and seconded by R. Allen enter into Executive Session to consider legal advice and 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 A. Visalli and seconded by R. Allen to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

Inflation Overview

S. Yablonovitz, of Ashford Consulting Group, presented the Board with a brief overview on inflation. The key points of the presentation were:

- There are Two Major Types of Inflation:
 - Financial asset inflation (common)
 - Caused by low interest rates coupled with high and rising leverage
 - Generalized price inflation (rare)
 - Elevated general price levels, captured broadly in the “CPI”
- The current environment is deflationary, but appears likely to reverse over the next 6-18 months
 - Easy year-over-year CPI/PPI comparisons
 - Government stimulus and low interest rates
 - Increased economic activity
 - Higher energy prices
- Significant possibility of inflation in the longer term
 - Massive Fed stimulus has exploded bank reserves
 - Could flood the economy through bank lending and systemic leverage

Conclusions

- The combination of low interest rates, rising liquidity (leverage) and rising earnings makes “Asset Inflation” the most likely variety to occur
 - Note that CPI-U is inflation from the perspective of an urban wage earner, a perspective that may differ from that of an investment vehicle
- Tactically defend against medium term or sudden changes in inflation as there is currently an elevated risk

5. PENSION ADMINISTRATOR’S REPORT

1st Quarter Activities

D. Craik stated that the Pension Office saw an increase in pension applications during the first quarter. Estimates and Counseling sessions decreased during July and August due to these sessions being suspended because of the heavy increase in pension applications. Employee/Employer Workshops have started rising now which is normal. The Pension Office canceled its full day conference in November and replaced it with a half day conference at no cost.

PeopleSoft Upgrade

D. Craik reported that the October check write went well as did the Refund & Burial Benefits check write. He added that the Consultants will be here for another 5 weeks.

6. PENSION ADVISORY COUNCIL REPORT

J. Testerman stated that the Pension Advisory Council meets five times a year. The next meeting is scheduled for November 10th to elect officers and review goals for the upcoming year.

J. Testerman also gave his sincere appreciation to the staff for everything they do.

7. DEPUTY ATTORNEY GENERAL REPORT

C. Collins had nothing new to report.

8. PENDING ITEMS

There were no new pending items.

9. NEW BUSINESS

MOTION made by P. Reese and seconded by R. Allen to appoint Nancy Shevock as the second Board Member to sit on the Investment Committee.

MOTION ADOPTED UNANIMOUSLY

10. ADJOURNMENT

The next Pension Board meeting is scheduled to be held on November 20, 2009, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 11:10 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