

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF SEPTEMBER 25, 2009

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 Pension Office.

Trustees Present

Nancy Shevock
Philip Reese
Ann Visalli
Robert Allen
Tom Cook
Suzanne Grant

Trustees Absent

Helen Foster

Others Present

Dave Craik, Pension Office
Terri Timmons, Pension Office
Wade Sallings, Pension Office
Jeff Hoover, Pension Office
Cindy Collins, DAG
Rob Gooderham, Ashford Consulting Group
Gary Musto, Ashford Consulting Group
Joseph Seibert, KPMG
Sophia Smith, KPMG
Mike Matthews, OMB
Jim Testerman, PAC
Charlotte Lister, PAC
Steve Smith, DSEA

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 July 31, 2009 meeting.

MOTION made by R. Allen and seconded by A. Visalli to approve the Public Minutes of the Board of Pension Trustees' July 31, 2009 meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the July 31, 2009 meeting.

MOTION made by R. Allen and seconded by A. Visalli to approve the Executive Minutes of the Board of Pension Trustees' July 31, 2009 meeting.

MOTION ADOPTED UNANIMOUSLY

3. AUDIT COMMITTEE REPORT

Joel Poorman, Chair of the Audit Committee, introduced KPMG's Client Service Team of Joseph Seibert, Engagement Partner, and Sophia Smith, Engagement Manager.

DPERS' – Independent Auditor's Report

Joseph Seibert reviewed the results of the Fiscal Year 2009 Audit. J. Seibert reported that there were no significant differences or unusual activities and KPMG intends to issue an unqualified opinion. The audit primarily focuses on DPERS' financial and investment activities but includes an overview of the other significant operational functions in order to confirm that activities are consistent with previous years.

J. Seibert highlighted several areas of the DPERS' audit:

- Statement of Changes in Plan Net Assets;
- Alternative Investment Portfolio;
- Current Funded Status of the Plans, and
- Actuarial Reviews.

The audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the Schedule of Investments is presented to provide additional analysis and is not a required part of the basic financial statements, which in their opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

He explained that the information included in the section titled Management's Discussion and Analysis is not a required part of basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. KPMG has applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. He further stated that KPMG did not verify the information contained in Management's Discussion and Analysis and expresses no opinion on it.

Responsibilities of Management

Joseph Seibert reviewed the responsibilities of DPERS Management and KPMG. Management's responsibilities include:

- Adopting sound accounting policies;
- Establishing and maintaining internal controls;
- Fairly presenting the financial statements in conformity with generally accepted accounting principles, and
- Describing to the auditor any material fraud and any other fraud that, although not material, involves senior management or management or other employees who have a significant role in the company's internal controls over financial reporting.

KPMG's Responsibility under Professional Standards

KPMG has a responsibility to conduct DPERS' audit in accordance with professional standards. KPMG has planned and performed the audit to obtain reasonable – not absolute – assurance that the financial statements, taken as a whole, are free of material misstatement, whether caused by error or fraud.

The objective of the audit is to report on the financial statements and not to provide assurance on internal control; however, the audit considers internal control as a basis for designing their audit procedures.

KPMG is required to communicate in writing to management and the audit committee all significant deficiencies and material weaknesses identified during the audit, which communication, if necessary, will be provided in a separate letter.

Audit Areas of Emphasis

KPMG stated that the audit focused on the following areas:

- Existence and valuation of readily-marketable and alternative investment portfolios;
- Calculation and receipt of employer contributions;
- Calculation and payment of distributions to pensioners;
- Calculation of actuarially-determined liabilities and testing of participant census data;
- Review and testing of the Information Technology general controls environment;
- Review of planned payroll testing procedures performed at the State of Delaware, to ensure information provided to the Pension Office via the CRIS system is accurate, and
- Separate stand alone audit of the First State Independence Fund I, LLC (FSIF) as of December 31, 2008.

Management Letter

KPMG provided a draft management letter to the DPERS Audit Committee for the DPERS' FY 2009 Audit, which includes KPMG's observations and recommendations. J. Seibert stated that KPMG would issue an unqualified opinion.

First State Independence Fund I – Independent Auditor's Report

J. Seibert reported that this year KPMG was engaged to audit the FSIF. KPMG audited the statement of fund net assets of the FSIF, as of December 31, 2008 (its year end) and the related statement of changes in fund net assets for the period of July 1, 2008 (date of inception) through December 31, 2008.

Highlights for this audit were as follows:

- Changes over the year since inception of the Fund
- Assets of the Fund
- Statement of Changes in Fund Net Assets

J. Seibert stated that KPMG would issue an unqualified opinion for the FSIF.

MOTION made by R. Allen and seconded by N. Shevock 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 R. Allen and seconded by T. Cook 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	2.3%	7.4%	-6.6%
S & P 500 Index	3.6%	11.4%	-18.3%
60/35/5*	2.6%	7.9%	-8.2%
Delaware	2.6%	8.3%	-6.7%
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 August totaled \$6,168 million. Investment markets had been broadly strong in July and August, driven by better than expected corporate earnings and a continuation of narrower yield spreads in credit markets. R. Gooderham noted that the Fund's August return was 2.3% and that, although the Fund experienced a positive return, it lagged its benchmark for the month. A contributing factor to relative performance during the market's recent rally has been the Fund's investments in partnerships which are marked to market on a lagged basis.

R. Gooderham reported that the Investment Committee, at its August meeting, had received a presentation from Axiom International on that firm's global equity account. At its first September meeting, the Committee had received presentations from Northern Trust, the Fund's custodian and cash manager, and from Sanderson Asset Management, a prospective international equity manager.

MOTION made by R. Allen and seconded by N. Shevock 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 R. Allen and seconded by T. Cook to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

The Investment Committee reported that it met on September 15th and heard presentations from Northern Trust Company (“Northern’s), the Fund’s custodian bank, related to Northern’s securities lending program and cash management options. The Committee recommended that DPERS’ not resume participating in Northern’s securities lending program. Additionally, the committee recommended DPERS cash account should be transferred from Northern’ GSTIF pool to Northern’s STIF pool. A discussion of the merits was held.

MOTION made by P. Reese and seconded by T. Cook to approve the transfer of assets in Northern Trust’s GSTIF fund to Northern’s STIF fund.

MOTION ADOPTED UNANIMOUSLY

At its September 15th meeting, the Investment Committee also heard a presentation by Sanderson Asset Management, an international equity manager based in London. G. Musto reported that the Investment Committee’s recommendation is to terminate Mercator and use the account proceeds to fund an international equity account with Sanderson Asset Management. G. Musto recommends using Northern Trust to liquidate the Mercator portfolio in order to structure the new portfolio at a lower cost.

MOTION made by R. Allen and seconded by N. Shevock to terminate the Mercator International equity account.

MOTION ADOPTED UNANIMOUSLY
 MOTION made by R. Allen and seconded by N. Shevock to commit the proceeds of the Mercator liquidation to Sanderson Asset Management's commingled international equity fund, employing as needed Northern Trust's transition management services to minimize the buy-in costs of the Sanderson fund.

MOTION ADOPTED UNANIMOUSLY

5. PENSION ADMINISTRATOR'S REPORT

Per the Boards request D. Craik presented them with an Administrative Expense report comparing the FY08 and FY09 Actual Expense with FY09 and FY10 Budget Cash Basis.

Category	FY 08 Actual	FY 09 Budget	FY 09 Actual	FY10 Budget
Personnel	\$3,545,954.84	\$3,883,100.00	\$3,556,707.53	\$3,791,700.00
Travel	33,413.25	32,700.00	19,495.96	32,700.00
Contractual	1,709,008.94	1,690,800.00	1,266,640.00	1,690,800.00
Supplies	26,588.98	80,800.00	25,890.99	80,800.00
Capital	11,222.00	25,500.00	1,940.79	25,500.00
Data Processing	256,144.28	300,000.00	94,212.45	300,000.00
Imaging System	515,449.82			
PeopleSoft Upgrade		1,800,000.00	1,093,350.33	500,000.00
Total	<u>\$6,097,782.11</u>	<u>\$7,812,900.00</u>	<u>\$6,058,238.05</u>	<u>\$6,421,500.00</u>

BOPT Meeting Dates

D. Craik stated that the CY2010 Board of Pension Trustees meeting dates were in the Board of Trustee's binders. The Audit Committee meeting dates will be sent to Board once they are approved.

The 2010 Appeal Hearing dates have been scheduled and D. Craik asked the Trustees to pick three dates, to be hearing officers, and notify to T. Timmons. With the new Disability Program DPERS has had less appeal hearings. In 2009 there has only been one hearing. Trustees will be notified of hearing date cancellations.

PeopleSoft Upgrade

D. Craik reported that the Pension Office is ready with the PeopleSoft upgrade even though the process is still not complete. October 5th is the “go live” date for the Pension Office. The Vendor will be on site through the end of November.

3rd Quarter Activities

D. Craik reported that the August payroll was extremely busy with 550 pension applications to process. Very few were carried over to the September/October payroll. He further stated that FY10 should see an increase in pension applications, especially in the beginning of the new year.

6. PENSION ADVISORY COUNCIL REPORT

J. Testerman introduced Steve Smith who is the new Chair of DSEA-Retired.

J. Testerman stated that the end of the fiscal year was tumultuous with the salary reduction for state employees and the changes made to the new Disability Program shifting the number of days from 21 to 60 before an employee can be eligible for short term disability. The Pension Advisory Council will be urging State Government and Legislators to reverse both of these decisions in the next fiscal year.

7. DEPUTY ATTORNEY GENERAL REPORT

Update on Tax Project

C. Collins stated that DPERS’ application is still pending before the IRS and there has not been any recent activity or inquiries from the IRS.

8. PENDING ITEMS

There were no new pending items.

9. NEW BUSINESS

There was no new business.

10. ADJOURNMENT

The next Pension Board meeting is scheduled to be held on October 30, 2009, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 11:14 p.m., there being no further business, MOTION was made by N. Shevock 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