

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF APRIL 28, 2011

The meeting of the Board of Pension Trustees was called to order by P. Reese, at 9:04 a.m. in the Delaware Conference Room of the Pension Office.

Trustees Present

Phil Reese
Tom Shaw
Helen Foster
Nancy Shevock
Suzanne Grant
Tom Cook

Trustees Absent

Ann Visalli

Others Present

Dave Craik, Pension Office
Kim Vincent, Pension Office
Terri Timmons, Pension Office
Wade Sallings, Pension Office
Jeff Hoover, Pension Office
Rob Gooderham, Ashford Consulting Group
Charlotte Lister, Pension Advisory Council
Paul L. Kasriel, Chief Economist, Northern Trust
Pam Newton, Vice President, Northern Trust

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 March 25, 2011 meeting.

MOTION made by N. Shevock and seconded by T. Shaw to approve the Public Minutes of the March 25, 2011 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the March 25, 2011 meeting.

MOTION made by N. Shevock and seconded by T. Shaw to approve the Executive Minutes of the March 25, 2011 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. INVESTMENT COMMITTEE REPORT

2011 Economic Outlook – Credit Given Where Credit Is Due

P. Reese welcomed Paul Kasriel, Director of Economic Research, Northern Trust and Pam Newton, Vice President, Northern Trust.

P. Kasriel stated that the economy will continue to expand in 2011, but some momentum is likely to be lost in the second half as the Fed terminates its quantitative easing (QE) policy. QE implies that the Fed implements monetary policy with an emphasis on expanding the quantity of credit it creates, primarily through the purchase of securities in the open market. Because the emphasis is on the quantity of Fed credit created, not the price of Fed credit, in implementing QE, the type of securities (Treasury or MBS) the Fed purchases or the maturity of securities (T-bills or T-bond) the Fed purchases is of secondary importance.

The housing market will remain a drag on economic growth. Exports are and likely will remain a star performer of the U.S. economy. Inflation will moderate in the second half and is unlikely to be a major problem until money and credit growth grow faster on a sustained basis.

Money market interest rates are anticipated to remain near current levels because the Fed is not expected to raise its policy interest rates in 2011. Bond yields are likely to be volatile but directionless as the Fed keeps its policy interest rates unchanged this year and the pace of economic activity remains moderate. The principal upside risk to economic growth and interest rates would be that private monetary financial institutions sharply increase their credit creation. The principal downside risks to economic growth are that the Fed terminates quantitative easing prematurely and/or that Chinese economic growth decelerates sharply. Federal budgetary issues are not a near-term threat to economic growth, but are a long-term threat.

The implications for future real U.S. economic growth if federal entitlement-program spending is not reduced from its projected levels is an increased amount of economically-produced resources would be used to care for U.S. retirees. Given the finite supply of economically-productive resources, other sectors of the economy would be deprived of the use of these resources. Investment in the state-of-the-art equipment/software and R&D by U.S. businesses would be curtailed, adversely affecting the productivity of the future labor force. Resources would be curtailed for education, which would adversely affect the productivity of the future labor force. With future labor productivity growth adversely affected, the U.S. economy's long-run rate of growth would be adversely affected.

A discussion was held and many questions asked.

Investment Committee Performance Report as of 3/31/11

<u>Fund</u>	<u>March 2011</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	1.5%	22.0%	16.7%
S & P 500 Index	0.0%	30.6%	15.6%
60/35/5*	0.0%	18.2%	11.6%
Delaware	0.2%	18.7%	12.0%
Benchmark**			

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

**Benchmark mix of 38% Russell 3000 Index, 20% MSCI ACWI exUS, 38.5% Barclays Universal Bond Index, 1.5% Barclays TIPS Index, 2% T-bills

Total assets in the Fund as of March 31, 2011 totaled \$7,566 MM. The Fund's March return of 1.5% significantly outperformed the Delaware Benchmark return of 0.2%, while the 12-month return for the total Fund is 4.7 percentage points ahead of the Delaware Benchmark. For the fiscal year-to-date, the total Fund is up 22.0%, 3.3 percentage points ahead of the Delaware Benchmark.

During the month of March, both the domestic large cap equity and international equity markets were flat or negative. The S&P 500 return was flat at 0.0%, while small cap stocks, as measured by the Russell 2000, were stronger gaining 2.6%. Weighed down by the tragic earthquake in Japan, the MSCI EAFE international stock index declined 2.2%. The broader MSCI All-Country world ex-U.S. stock index (which includes emerging markets) declined only 0.2% in March. Fixed Income market returns continued to favor credit in the month. The Barclays Long Term Government/Credit Index fell 0.1%, while the JP Morgan Global High Yield index returned 0.6% for the month. With inflation fears remaining an issue, TIPS were the strongest bond market sector as the Barclays TIPS index gained 1.0% in March.

The Investment Committee has met twice since the last Board meeting. On April 12th, the Investment Committee met with existing manager Oaktree Capital Management and reviewed the Fund's international convertible account.

The Investment Committee, under its authority to execute documents, or to make decision on all issues, transactions, or documents, pertaining to limited partnerships which have been approved for investment by the Board, unanimously voted to approve an extension request from Summit Partners Fund VI, L.P.

Following an asset allocation discussion the Investment Committee recommended the following actions:

1. Withdrawal of \$10 million from the Rutabaga equity account
2. Withdrawal of \$20 million from the Daruma equity account
3. Withdrawal of \$25 million from the Oaktree Domestic Convertible account
4. Withdrawal of \$25 million from the T. Rowe Price Natural Resources account

It was recommended the proceeds be held in cash pending other opportunities or needs.

At its second April meeting, held on April 26th, the Investment Committee met with existing manager Mellon Capital Management to review the various accounts managed by that firm for the Fund. The Investment Committee also met with Oaktree Capital Management to review that firm's absolute return strategy.

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

P. Reese asked R. Gooderham how Delaware ranked among its peers. R. Gooderham stated that using the TUCS Peer Group Analysis for Public Funds greater than \$5 Billion, DPERS had the following performance:

- For the 5 year period ending 12/31/10 in the second percentile
- For the 10 year period and quarter ending 3/31/09 in the first percentile

MOTION made by T. Shaw and seconded by S. Grant 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 T. Shaw and seconded by N. Shevock to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by T. Shaw and seconded by S. Grant to ratify the poll vote to 1) Withdraw \$10 million from the Rutabaga equity account, 2) Withdraw \$20 million from the Daruma equity account, 3) Withdraw \$25 million from the Oaktree Domestic Convertible account, and 4) Withdraw \$25 million from the T. Rowe Price Natural Resources account and that the proceeds be held in cash pending other opportunities or needs.

MOTION ADOPTED UNANIMOUSLY

5. AUDIT COMMITTEE REPORT

S. Grant reported that the Audit Committee recently met on April 15th.

MOTION made by S. Grant and seconded by N. Shevock to approve the nomination of James Burke as the new member of the Audit Committee.

MOTION ADOPTED UNANIMOUSLY

6. PENSION ADVISORY COUNCIL REPORT

C. Lister stated that the Advisory Council recognizes the changes being made to the Pension system but this has not changed the intent of the Council.

7. STATE PENSION ADMINSTRATOR'S REPORT

HB 81

HB 81 has passed the House and Senate and is slated to be signed into law by the Governor next week.

The following pension changes will affect new employees hired on or after 1/1/12:

- Move from 3% to 5% for employee contributions after the first \$6,000
- 5 to 10 years vesting
- Increase early retirement reduction factor (penalty) from .2% to .4%
- Would require each Cabinet Secretary in each of the Executive Branch Agencies to devise a written polity by June 30, 2012 that would reasonably limit the use of mandatory and voluntary overtime; for Employees hired on or after January 1, 2012, overtime payments will not be included in the employee's "final average compensation"
- Change the Normal Retirement Age to the following: Age 65 with 10 years; Age 60 with 20 years; 30 years at any age

Healthcare Changes:

- Eliminate free basic plan and establish a fixed cost share for the different State health insurance plans – effective 7/1/12
- State share for post-Medicare retirees would be reduced by 5% - Retirees after 7/1/12
- Change numbers of years to vest for state share of retiree healthcare to 0% for 0-15 years, 50% at 15 years, 75% at 17.5 years and 100% at 20 years – Applies to EEs hired on or after 1/1/07
- Eliminate Double State Share for EEs hired or who become benefit eligible after 1/1/12

Pension Office Activities

The pension applications seem to be trending down compared to the same time last year. For FY12 we have received over 120 applications with a retirement date of June 30th. Our incoming mail counts are up compared to last year.

Our Healthcare Re-opening will officially begin on May 9th but our office has already been receiving phone calls and helping walk-in customers with questions.

8. DEPUTY ATTORNEY GENERAL REPORT

There was no report.

9. PENDING ITEMS

There were no new pending items.

10. NEW BUSINESS

There was no new business.

11. ADJOURNMENT

The next Pension Board meeting is scheduled to be held on May 20, 2011, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 10:45 a.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