

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF FEBRUARY 25, 2011

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

Phil Reese
Suzanne Grant
Helen Foster
Nancy Shevock
Thomas Cook
Ann Visalli

Trustees Absent

Tom Shaw

Others Present

Dave Craik, Pension Office
Kim Vincent, Pension Office
Terri Timmons, Pension Office
Cindy Collins, DAG
Wade Sallings, Pension Office
Jeff Hoover, Pension Office
Rob Gooderham, Ashford Consulting Group
Garry Musto, Ashford Consulting Group
Jim Testerman, Pension Advisory Council

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 January 28, 2011 meeting.

MOTION made by N. Shevock and seconded by T. Cook to approve the Public Minutes of the January 28, 2011 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the January 28, 2011 meeting.

MOTION made by N. Shevock and seconded by T. Cook to approve the Executive Minutes of the January 28, 2011 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. INVESTMENT COMMITTEE REPORT

Investment Committee Performance Report as of 1/31/11

<u>Fund</u>	<u>January 2011</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	1.0%	16.6%	16.8%
S & P 500 Index	2.4%	26.2%	22.2%
60/35/5*	1.5%	15.7%	15.3%
Delaware Benchmark**	1.1%	16.1%	15.3%

*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 January 31, 2011 totaled \$7,271 MM. The Fund's January return of 1.0% slightly lagged the Delaware Benchmark return of 1.1%, while the 12-month return for the total Fund of 16.8% is 1.5% ahead of the Delaware Benchmark. For the fiscal year-to-date, the total Fund is up 16.6%, ahead of the Delaware Benchmark return of 16.1%.

During the month of January, both the domestic large cap and international equity markets were positive. The S&P 500 returned 2.4%, while small cap stocks, as measured by the Russell 2000, declined 0.3%. The MSCI EAFE international stock was up 2.4% with the broader MSCI All-Country World ex-U.S. stock index (which includes emerging markets) was up 1.0% in January. With the exception of long duration Treasuries, fixed income market returns were positive in January. The Barclays TIPS Index returned 0.2%, while the Barclays LT Govt/Credit Index fell 1.4%. With credit spreads narrowing, the JP Morgan Global High Yield index rose 2.2% for the month.

The Investment Committee has met once since the last Board meeting. On February 15th, the Investment Committee received a review of the Fund's private equity program. Following detailed discussion, the Investment Committee voted to recommend the following approvals to the Board:

- A commitment of 5% of the partnership, up to a maximum of \$25 million, to IDG-Accel China Growth Fund III, L.P.
- A commitment of 5% of the partnership, up to a maximum of \$40 million, to IDG-Accel China Capital Fund II, L.P.
- A commitment of 5% of the partnership, up to a maximum of \$50 million, to Accel XI, L.P.
- A commitment of 5% of the partnership, up to a maximum of \$50 million, to Accel Growth II, L.P.
- A commitment of 5% of the partnership, up to a maximum of \$50 million, to Summit Fund VIII, L.P.

Also recommended was a secondary purchase opportunity in a venture capital fund. The Investment Committee determined that a secondary purchase of a small limited partnership interest (up to \$300,000) in Meritech Capital, L.P. would be consistent with its strategy of opportunistic investments with proven, experienced firms, subject to counsel's review of documents.

The Investment Committee undertook its full quarterly review of the Fund's performance and asset allocation, including the First State Independence Fund.

The Investment Committee reconsidered its prior recommendation of an allocation to Wellington Capital Management's dividend growth strategy, determining to recommend an allocation of \$150 million to Wellington. The recommended funding is \$25 million each from T. Rowe Price Natural Resources account and the Oaktree Domestic convertible account plus \$50 million each from the Mellon Capital Stock Index fund and Barclays Treasury Inflation Protected Securities (TIPS) fund.

In addition, the Investment Committee reviewed the derivatives report for the quarter ended 12/31/2010.

The next meeting of the Investment Committee will be on March 15th.

G. Musto gave the Board a brief background on the recent articles in the Washington Post and Wall Street Journal concerning lawsuits brought against certain custodial banks alleging inappropriate foreign exchange trading practices related to Institutional Investor accounts.

C. Collins stated there is a concern that there isn't much oversight in foreign exchange trading and with Messrs Craik, Musto and Gooderham concurring. C. Collins further commented that DPERS' custodial bank, Northern Trust, is not one of the banks named in the current lawsuits and that DPERS is reviewing the foreign exchange practices of its custodial bank and other vendors and will report back to the Board.

MOTION made by S. Grant 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 T. Cook and seconded by H. Foster to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by P. Reese and seconded by T. Cook to approve the following:

- A commitment of 5% of the partnership, up to a maximum of \$25 million, to IDG-Accel Chine Growth Fund III, L.P.
- A commitment of 5% of the partnership, up to a maximum of \$40 million, to IDG-Accel China Capital Fund II, L.P.
- A commitment of 5% of the partnership, up to a maximum of \$50 million, to Accel XI, L.P.
- A commitment of 5% of the partnership, up to a maximum of \$50 million, to Accel Growth II, L.P.
- A commitment of 5% of the partnership, up to a maximum of \$50 million, to Summit Fund VIII, L.P.
- Recommended an allocation of \$150 million to Wellington. The recommended funding is \$25 million each from the T. Rowe Price natural Resources account and the Oaktree Domestic convertible account plus \$50 million each from the Mellon Capital Stock Index fund and Barclays Treasury Inflation Protected Securities (TIPS) fund.

MOTION ADOPTED UNANIMOUSLY

4. AUDIT COMMITTEE REPORT

P. Reese discussed the possibility of appointing Jim Burke to the Audit Committee. P. Reese stated that Mr. Burke is an independent thinker with excellent analytical and credit technical skills that would add some diversity of experience to the Audit Committee.

5. PENSION ADVISORY COUNCIL REPORT

J. Testerman expressed sadness in hearing of Governor Peterson's death and stated that Governor Peterson was at the forefront of starting the state pension system.

At the next Advisory Council meeting the Council will be discussing employee benefits, and pension retirement increases.

6. STATE PENSION ADMINSTRATOR'S REPORT

P. Reese read the following Resolution to the Trustees:

WHEREAS, George Saxon, Chair of the Investment Committee has been indisposed by an illness, from which we expect him to recover, and;

WHEREAS, The Board needs to provide on-going Chairmanship of the Investment Committee, duly elected by the Board of Pension Trustees and comprised of Jan King, Philip Reese, Dale Stratton, Clark Phippen, Mark Stalnecker and Nancy Shevock;

NOW, THEREFORE;

BE IT RESOLVED, that the Investment Committee will be chaired, in George Saxon's absence, by Dale Stratton, Jan King or Mark Stalnecker.

AND, BE IT FURTHER RESOLVED, that a copy of this resolution be made part of the Board's record.

A discussion of the merits was held.

MOTION made by P. Reese and seconded by N. Shevock to approve the resolution to allow Dale Stratton, Jan King or Mark Stalnecker, in George Saxon's absence, to chair the Investment Committee.

MOTION WAS ADOPTED UNANIMOUSLY

Federal Legislative Update

D. Craik reported on new legislation introduced again this year in Congress called “The Public Employee Pension Transparency Act” that would require public pension funds to report their liabilities to the Treasury using their own actuarial formulas, but also include a second calculation in reporting the fund’s liability assuming a more modest Treasury bond rate. D. Craik reported that several of the national organizations oppose this legislation because it “represents a fundamental lack of understanding regarding the strong accounting rules and strict legal constraints already in place that require open and transparent governmental financial reporting and processes.”

State Legislative Update

D. Craik stated that there has been no action as the JFC is conducting Budget Hearings. OMB’s Budget Hearing was held on January 31, 2011.

7. DEPUTY ATTORNEY GENERAL REPORT

SEC Proposed Ruling

C. Collins stated that she had submitted a comment letter to the SEC in reference to the new SEC ruling related to Municipal Advisors which might require DPERS’ Board and Committee members to register with the SEC as Investment Advisors. The comment letter to the SEC opposes those portions of the new Municipal Advisor’s Rule which would require DPERS’ Board and Committee members to register with the SEC as Investment Advisors.

Exchange Act of 1934

At a previous Board meeting the potential impact of the Supreme Court’s *Morrison* decision on the ability of investors to sue foreign companies under the Exchange Act of 1934 had been discussed. The Court in *Morrison* overturned years of precedence which allowed Investors to bring actions under the Exchange Act even if the securities were purchased on a foreign stock exchange. In its decision the Court said if Congress intended to provide that remedy, then Congress could amend the Act to explicitly provide that remedy.

As a result of the Supreme Court’s *Morrison* decision a group of public pension funds organized an effort to have Congress amend the Exchange Act to explicitly allow investors to bring lawsuits under the Exchange Act for securities purchased on foreign exchanges if the fraud occurred in the United States.

DPERS has been asked to join this effort and the Board of Pension Trustees’ supports and agrees to be a signatory on the letter which will be submitted to Congress and the Securities and Exchange Committee. Copies of the signatory letters were provided for review.

Joining in Amicus Brief in the Supreme Court of the United States

C. Collins explained that DPERS has been asked to join a brief being filed in the Supreme Court of the United States which impacts Institutional Investors. By way of background *In Halliburton*, the Fifth Circuit held that before a class can be certified in a securities fraud action, the plaintiffs must prove, by a preponderance of evidence, that they can satisfy the element of loss causation.

This brief will address for institutional investors, as amici curiae, the Fifth Circuit's exceptionally narrow and anti-investor definition of loss causation. The definition of loss causation is not squarely addressed in the "question presented," but it is a matter that the Supreme Court could reach out to discuss -- with potentially disastrous consequences for investors if the Court does not have a proper understanding of the issues at stake. The Fifth Circuit held that before a class can be certified in a securities fraud action, the plaintiffs must prove, by a preponderance of evidence, that they can satisfy the element of loss causation. In short, the Fifth Circuit's rule not only defies common sense (should future Enrons be able to escape liability simply because they declare bankruptcy first, and admit fraud later?), but will likely encourage future corporate managers to simply lie about the true reasons for their company's financial difficulties (because by doing so they may be able to completely immunize themselves from any liability for securities fraud).

The Fifth Circuit's loss causation standard has already been adopted in the Sixth and Ninth Circuits, but has been rejected by the Second, Fourth, Seventh, Eighth, and Tenth Circuits. These latter circuits believe that loss causation is simply the tort concept of proximate cause. Consistent with that view, the proposed amicus brief argues that if investors can show their losses were proximately caused by the fraud, they will have adequately shown loss causation.

This is an issue that has the potential to adversely affect a very large number of highly meritorious cases. C. Collins recommends that DPERS signs on to the Amicus Brief and asks the Board for its approval to participate in the case. A discussion of the merits was held and by consensus the Board agreed to have DPERS join other Institutional Investors as Amici Curiae in support of the Petitioner in the Halliburton case.

MOTION made by H. Foster and seconded by N. Shevock 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. Cook and seconded by A. Visalli to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by P. Reese and seconded by N. Shevock to accept the decision of the Hearing Officer to affirm the decision of the Pension Administrator and deny the appeal of Cynthia Hargis, who sought to begin receiving her pension benefits prior to reaching the age of 62.

MOTION ADOPTED UNANIMOUSLY

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 March 25, 2011, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 11:20 a.m., there being no further business, MOTION was made by N. Shevock and seconded by Philip Reese to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator