

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 MAY 20, 2011

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

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

Trustees Absent

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
Jim Testerman, Pension Advisory Council
Charlotte Lister, Pension Advisory Council
Dale Stratton, DPERS's Investment Committee
Fiona Liston, 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 April 28, 2011 meeting.

MOTION made by N. Shevock and seconded by H. Foster to approve the Public Minutes of the April 28, 2011 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

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

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

MOTION ADOPTED UNANIMOUSLY

3. INVESTMENT COMMITTEE REPORT

Investment Committee Performance Report as of 4/30/11

<u>Fund</u>	<u>April 2011</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	2.4%	24.9%	18.0%
S & P 500 Index	3.0%	34.4%	17.2%
60/35/5*	2.2%	20.9%	12.5%
Delaware Benchmark**	2.6%	21.8%	13.7%

*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 April 30, 2011 totaled \$7,729 MM. The Fund's April return of 2.4% modestly underperformed the Delaware Benchmark return of 2.6%, while the 12-month return for the total Fund is 4.3 percentage points ahead of the Delaware Benchmark. For the fiscal year-to-date, the total Fund is up 24.9%, 3.1 percentage points ahead of the Delaware Benchmark.

During the month of April, with the exception of natural resource stocks, both domestic equity and international equity markets were strong. The S&P 500 return was up 3.0%, while small cap stocks, as measured by the Russell 2000, gained 2.6%. International stocks rebounded from their March decline with the MSCI EAFE international stock index up 6.0%. The broader MSCI All-Country World ex-U.S. stock index (which includes emerging markets) increased 4.9% in April. Fixed Income market returns were also positive in April. The Barclays Long Term Government/Credit Index was up 2.2%, while the JP Morgan Global High Yield index returned 1.4% for the month. With inflation fears remaining an issue, TIPS were the strongest major bond market sector as the Barclays TIPS index gained 2.5% in April.

The Investment Committee has met once since the last Board meeting. On May 17th, the Investment Committee met with existing manager Focused Investors and reviewed the Fund's large cap domestic equity account.

The Investment Committee also received a presentation from Fiona Liston, of Cheiron, who reviewed actuarial experience data previously presented to the Board. Ms. Liston reviewed economic and demographic assumptions comparing the current assumptions to the Fund's experience over several time periods. Ms. Liston noted the trend among other state funds is to reduce both the assumed inflation and return assumptions. Cheiron has recommended reductions in both the investment return assumption and the inflation assumption for FY2013.

Mr. Gooderham presented Ashford Consulting Group's thoughts on long term expectations stating that the expected return of the Delaware Benchmark has been declining since 2006 primarily due to lower bond yields and is currently 7.5%.

Following discussion of the Cheiron data and expected return data presented by Ashford Consulting Group, the Investment Committee unanimously voted to recommend to the Board adoption of the demographic changes recommended by Cheiron and changes in the inflation and long term return assumptions to 3.25% and 7.5% respectively.

The Committee also reviewed first quarter reporting for the Fund, Fireman's Fund and the OPEB Fund. The next meeting of the Investment Committee will be on June 15th.

MOTION made by N. Shevock 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 S. Grant to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

5. AUDIT COMMITTEE REPORT

There was no report.

6. PENSION ADVISORY COUNCIL REPORT

J. Testerman stated that the Advisory Council recognizes the changes being made to the Pension system but this has not changed the intent of the Council and it will continue to lobby to have these changes reversed.

7. STATE PENSION ADMINSTRATOR'S REPORT

Pension Office Activities

The State's healthcare re-opening began on May 9th and the Pension Office has been receiving phone calls and helping walk-in customers with questions. As a cost savings to the State changes were made to the mailings the pensioners received this year. The State changed vendors this year for vision care from VSP to EyeMed. So far the Pension Office has received 4,500 forms of which 2,400 were EyeMed forms.

The 1st quarter Disability Report shows a continued trend of lower activity as the Pension Office has 6 approved cases, 6 new pending cases, 3 approved for review and 3 approved for no review.

Cheiron – 2011 Plan Year Services

The Pension Office is recommending a one year extension of the Cheiron contract for it to continue acting as the System's actuary for the period of July 1, 2011 – June 30, 2012. A discussion of the merits was held. C. Collins will prepare an amended contract for signatures.

MOTION made by N. Shevock and seconded by H. Foster to accept the fee proposal and extend the contract with Cheiron for the System's actuary for the period of July 1, 2011 – June 30, 2012.

MOTION ADOPTED UNANIMOUSLY

News Journal Editorial – May 10, 2011

D. Craik presented the Board an editorial that was in the News Journal about how the Congressional Budget Office is siding with House Republicans on a better method of future pension projections for state and local workers. He reported that there were some inconsistencies with the article.

Legislative Update

D. Craik reported that the JFC has proposed a 1% PRI for pensioners effective 1/1/12. This proposal still has to pass through the House and Senate.

Cheiron – 2010 Experience Study

F. Liston, Principal Consulting Actuary with Cheiron, presented the 2010 Experience Study Final Recommendations and Analysis.

- Reduce investment return assumption from 8% to 7.5%
- Reduce inflation from 3.75% to 3.25%
- Change age of retirement for early, first eligible, and after first year of eligibility
- Increase assumed number of terminations in first 3 years; reduce slightly thereafter
- Adjust disability rates above age 50
- Use RP2000 mortality table with generational projections and no other adjustments
- Adopt a service related table for individual salary (merit) increases

Further stress testing was done and a discussion of the merits was held.

MOTION made by P. Reese and seconded by N. Shevock to adopt the recommended Actuarial Assumption Rate of 7.5%, to reduce the Inflation Rate from 3.75% to 3.25%, and the other demographic assumptions as presented.

MOTION ADOPTED UNANIMOUSLY

8. DEPUTY ATTORNEY GENERAL REPORT

MOTION made by H. Foster and seconded by T. Shaw 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. Cook and seconded by N. Shevock to accept the decision of the Hearing Officers that the request for an appeal of the September 22, 2009, State Pension Office determination of benefits for Ms. Rebecca B. Gullledge, be denied because the appeal was not filed in a timely manner.

MOTION ADOPTED UNANIMOUSLY

C. Collins stated that the Ice Miller contract is up for renewal; which is their final extension. The original contract was signed four years ago to engage Ice Miller as Tax Counsel. The firm has worked closely with the staff and has been an excellent resource and help to the Fund. A discussion of the merits was held on extending Ice Miller's final contract extension.

MOTION made by P. Reese and seconded by N. Shevock to approve a one year contract extension with Ice Miller.

MOTION ADOPTED UNANIMOUSLY

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 June 24, 2011, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 11:06 a.m., there being no further business,
MOTION was made by P. Reese and seconded
by T. Shaw to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Philip Reese
Chair for the Board of Pension Trustees