

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 28, 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
Tom Shaw
Helen Foster
Nancy Shevock
Suzanne Grant
Ann Visalli

Trustees Absent

Tom Cook

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
Joe Malloy, Pension Advisory Council
Charlotte Lister, Pension Advisory Council
Stephenie Tatman, State Auditor's Office
Andrea Godfrey, BDPA OMB
Marlon Brown, T. Rowe Price
Charles Shriver, T. Rowe Price

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 30, 2011 meeting.

MOTION made by N. Shevock and seconded by H. Foster to approve the Public Minutes of the September 30, 2011 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the September 30, 2011 meeting.

MOTION made by N. Shevock and seconded by H. Foster to approve the Executive Minutes of the September 30, 2011 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock 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.

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

OPEB Trust Fund

Since 2008 the Board of Pension Trustees' has not changed the OPEB discount rate. Pursuant to recent GASB rulings, because the State is not funding the annual required contribution for the OPEB Trust Fund, the Board is not allowed to use an assumed investment rate of return. Instead, the discount rate should be established using the long term bond rates. Currently the discount rate for the OPEB Trust Fund is 5.0%.

The State Finance Department and the Office of Management and Budget have completed a study to determine the appropriate discount rate for the OPEB Trust Fund. After a review of economic and actuarial data, they are recommending to the Board that the OPEB discount rate should be lowered to 4.25%.

MOTION made by N. Shevock and seconded by T. Shaw to approve the recommendation to reduce the OPEB discount rate to 4.25%.

MOTION ADOPTED UNANIMOUSLY

3. INVESTMENT COMMITTEE REPORT

T. Rowe Price Presentation

P. Reese welcomed the members of T. Rowe Price and introductions were made. Marlon W. Brown, Vice President – Institutional Client Service Executive, Charles M. Shriver, CFA, Vice President – Portfolio Manager, and via conference call, Chief Economist, Alan D. Levenson, Ph.D., and Kenneth A. Orchard, Credit Analyst.

Mr. Levenson discussed the following outlook themes:

- Modest recovery, with periods of fragility, in aftermath of financial crisis and amid extended de-leveraging cycle
- Restorative cyclical forces argue against outright U.S. recession
- Increased inflation propensities
- Summer shocks disrupt forward cyclical momentum
- Policy responses will be critical; healing powers are not enough

Mr. Orchard spoke about the private sector credit boom with Euro zone Credit. He further talked about where we are today, the weak economy and escaping the crisis of bank deleveraging and sovereigns.

Mr. Shriver spoke to the Board about T. Rowe Price's asset allocation products and separate accounts. T. Rowe Price has experience in an array of products utilizing many asset classes combined at various risk levels. He also talked about the following:

- Tactical Asset Allocation
- U.S. Treasury Yields
- Fixed Income Spread
- Stocks vs. Bonds
- U.S. Large-Cap Free Cash Flow
- Relative Valuation – Price to Earnings
- MSCI Historical Price to Earnings Ratio

A lengthy discussion was held on Europe and its' affect on the U.S.

Investment Committee Performance Report as of 9/30/11

<u>Fund</u>	<u>Sept 2011</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	-5.1%	-7.6%	5.5%
S & P 500 Index	-7.0%	-13.9%	1.1%
60/35/5*	-3.9%	-6.9%	2.8%
Delaware	-5.1%	-8.9%	0.2%
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 September 30, 2011 totaled \$6,979 MM. The Fund's September return of -5.1% matched the Delaware Benchmark return; the calendar year-to-date return of -0.7% for the total Fund is 4.2 percentage points ahead of the Delaware Benchmark. For the fiscal year-to-date, the total Fund is down 7.6%, 1.3 percentage points ahead of the Delaware Benchmark.

The sharp equity market declines which began in August continued in September, as markets were pulled down by fears of a double dip recession, concerns about Europe and China. The S&P 500 was down 7.0%, while small cap stocks, as measured by the Russell 2000, lost 11.2%. International stocks also reflected increased concerns with European markets as the MSCI EAFE international stock fell 9.5%. The broader MSCI All-Country World ex-U.S. stock index (which includes emerging markets) declined 11.1% in September. As in August, fixed income market returns were mixed in September. The Barclays LT Govt/Credit Index was up 6.0%, while the JP Morgan Global High Yield index lost 3.6% for the month. The Barclays TIPS index lost 0.2% in September.

The Investment Committee has met twice since September.

At its meeting on October 11th, the Investment Committee had a presentation from existing manager Wellington Management Company reviewing the Fund's domestic equity account.

Following an asset allocation discussion, the Investment Committee voted to recommend to the Board the following actions to lower risk and boost liquidity:

- liquidate \$75 million from the Axiom global equity account
- liquidate \$75 million from the Dodge & Cox international equity account
- liquidate \$50 million from the Oaktree international convertible account
- allocate \$50 million of the proceeds to the Wellington equity account
- allocate the \$150 million balance to the cash account

The Investment Committee, under its authority to execute documents relating to partnerships over which it exercises authority, approved an extension to Weston Presidio III, L.P.

At its meeting on October 25th, the Investment Committee received a review of the Fund's private equity program. Following detailed discussion, the Investment Committee voted to recommend to the Board a commitment of up to \$12 million in Accel India III, L.P.

The Investment Committee also received a review of the Viking Global Equity Fund, currently a First State Independence Fund (FSIF) investment and recommended a transfer of the assets out of the FSIF with an additional commitment to increase DPERS' investment in Viking to a total amount of \$70 million when the current FSIF investment is aggregated with the new amount, subject to satisfactory negotiation of documents by counsel. The source of additional funding will be recommended at a future meeting.

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

MOTION made by N. Shevock 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.

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 S. Grant and seconded by T. Shaw to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by S. Grant to approve the recommendation of the Investment Committee to liquidate \$75 million from Axiom global equity account; liquidate \$75 million from the Dodge & Cox international equity account; liquidate \$50 million from the Oaktree international convertible account; to allocate \$50 million of the proceeds to the Wellington equity account; and to allocate the \$150 million balance to the cash account to lower risk and boost liquidity.

MOTION ADOPTED UNANIMOUSLY

MOTION made by T. Shaw and seconded by N. Shevock to approve the recommendation of the Investment Committee to commit up to \$12 million to Accel India III, L.P

MOTION ADOPTED UNANIMOUSLY

MOTION made by H. Foster and seconded by S. Grant to approve the recommendation of the Investment Committee to move the Fund's investment in the Viking Global Equity Fund, L.P. from the First State Independence Fund and increase assets in this investment up to \$70 million, subject to satisfactory negotiation of documents by counsel. The source of additional funding will be recommended at a future meeting.

MOTION ADOPTED UNANIMOUSLY

4. ACTUARIAL REPORT

Fiona Liston, a consultant with Cheiron, Inc., presented the Trustees DPERS' Fiscal 2011 Actuarial Valuation. The following topics were discussed:

- Historical Review
 - Growth in Participation
 - Growth in Assets
 - Assets & Liabilities; and
 - Contributions

- Principal 6/30/11 Valuation Results
 - Key Statistics for the State Employees' Pension Plan:
 - Number of active employees increased by 1.0%
 - Average salary increased by 2.5%
 - Number of retirees increased by 2.4%
 - Average benefit increased by 4.3%
 - Principal 6/30/11 Valuation Results
 - Actuarial Accrued Liability is \$7,548 million
 - Actuarial Value of assets is \$7,092 million
 - Unfunded Actuarial Liability is \$456 million
 - Funded ration of 94%

The following employer contribution rates for FY13 were presented to the Board by Cheiron:

State Employees'	8.90%
State Judicial	27.69%
New State Police	17.35%
County/Municipal General	6.84%
County/Municipal P & F	14.75%
Diamond Port	7.59%
Volunteer Fire	\$384.49

P. Reese asked if the Trustees' or the public had any questions about the 2011 Actuarial Valuation. A discussion of the merits was held concerning future benefit costs.

MOTION made by N. Shevock and seconded by H. Foster to adopt the FY13 employer contribution rates presented to the Board by Cheiron.

MOTION ADOPTED UNANIMOUSLY

5. PENSION ADVISORY COUNCIL REPORT

There was no report.

6. STATE PENSION ADMINISTRATOR'S REPORT

D. Craik stated that the November 9th Pension Appeal Hearing needs a second Hearing Officer. He asked that someone volunteer and let him know as soon as possible.

Quarterly Reports

D. Craik reviewed the 1st Quarter FY12 Pension Office statistics. He noted that the Healthcare stats for the quarter for FY12 were higher than that of the same time period in FY11 due to the changes in benefits.

He also commented that the Pension Office is now keeping statistics for the external training the office is doing due to Pen Apps.

The Disability report shows that there are 12 new cases for the quarter.

7. DEPUTY ATTORNEY GENERAL REPORT

MOTION made by H. Foster 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.

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 N. Shevock and seconded by S. Grant to exit Executive Session.

8. PENDING ITEMS

There were no new pending items.

9. NEW BUSINESS

MOTION made by P. Reese and seconded by N. Shevock to approve the recommendation to have Suzanne Grant become an Investment Committee Member.

MOTION ADOPTED UNANIMOUSLY

10. ADJOURNMENT

The next Pension Board meeting is scheduled to be held on November 18, 2011, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 12:02 p.m. there being no further business, MOTION was made by T. Shaw and seconded by N. Shevock to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Philip S. Reese
Chair for the Board of Pension Trustees