

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF SEPTEMBER 30, 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
Tom Cook
Ann Visalli

Trustees Absent

Suzanne Grant

Others Present

Dave Craik, Pension Office
Kim Vincent, Pension Office
Terri Timmons, Pension Office
Cindy Collins, DAG
Wade Sallings, Pension Office
Joseph Seibert, KPMG
Bryan Lyman, KPMG
Garry Musto, Ashford Consulting Group
Seth Yablonovitz, Ashford Consulting Group
Joe Malloy, Pension Advisory Council
Charlotte Lister, 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 July 29, 2011 meeting.

MOTION made by T. Shaw and seconded by N. Shevock to approve the Public Minutes of the July 29, 2011 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the July 29, 2011 meeting.

MOTION made by T. Shaw and seconded by N. Shevock to approve the Executive Minutes of the July 29, 2011 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. AUDIT COMMITTEE REPORT

P. Reese introduced KPMG's Client Service Team of Joseph Seibert, Lead Engagement Partner, and Brian Lyman, Senior Manager.

J. Seibert reviewed the results of the Fiscal Year 2011 Audit. 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. He thanked the management staff for their cooperation and assistance during the audit.

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

- Increase in Employer & Member contributions
- Increase in investment earnings
- Pension payouts
- Funded status of Plans
- Schedule of Employer's Annual Required Contributions; 100% contribution helps plan stay financially stable

J. Seibert stated that there were a few pending matters and that assuming satisfactory completion of these pending matters KPMG anticipates issuing a unqualified opinion of DPERS’:

- Certain audit test work and confirmations outstanding for DPERS’
 - Pending legal confirmations
 - Receipt of audited financial statements for the Mellon funds
- Administrative matters
- Tax compliance review
- Representation letters

First State Independence Fund (FSIF) financial statement has already been issued with an unqualified opinion on May 31st.

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

4. INVESTMENT COMMITTEE REPORT

Investment Committee Performance Report as of 8/31/11

<u>Fund</u>	<u>Aug 2011</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	-2.8%	-2.6%	16.7%
S & P 500 Index	-5.4%	-7.4%	18.5%
60/35/5*	-2.7%	-3.2%	12.7%
Delaware	-3.6%	-4.1%	11.6%
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 August 31, 2011 totaled \$7,379 MM. The Fund’s August return of -2.8% outperformed the Delaware Benchmark return of -3.6%; the calendar year-to-date return of 4.7% for the total Fund is 4.5 percentage points ahead of the Delaware Benchmark. Since June 30th, the total Fund is down 2.6%, 1.5 percentage points ahead of the Delaware Benchmark.

Equity markets declined substantially in the month of August, continuing to be pulled down by fears of a double dip recession, concerns about Europe and unemployment. The S&P 500 was down 5.4%, while small cap stocks, as measured by the Russell 2000, lost 8.7%. International stocks also reflected increased concerns with European markets as the MSCI EAFE international stock index fell 9.0%. The broader MSCI All-Country World ex-U.S. stock index (which includes emerging markets) declined 8.6% in August. The Barclays LT Govt/Credit bond index was up 4.5%, while the JP Morgan Global High Yield index lost 3.7% for the month. The Barclays TIPS index, reflecting strength in Treasuries, gained 0.8% in August.

The Investment Committee has met twice since August.

At its meeting on September 13th, the Investment Committee had a presentation from existing manager Baillie Gifford reviewing the Fund's global equity account. In addition, the Investment Committee received a presentation from The Northern Trust Company, the Fund's custodian and cash manager.

Following a review of a proposal from Ashford on securities lending, the Investment Committee voted to recommend to the Board resumption of securities lending activity by Northern Trust under the terms negotiated by Ashford Consulting Group.

The Investment Committee voted to recommend to the Board a commitment of \$25 million to Atalaya Special Opportunities Fund IV.

The Investment Committee, under its authority to execute documents relating to partnerships over which it exercises authority, approved an extension to Meritech Capital Partners, L.P. Under the same authority, the Investment Committee also approved an amendment to Media Technology Ventures V.

At its meeting on September 27th, the Investment Committee had a presentation from existing manager T. Rowe Price reviewing the Fund's global equity account.

The next meeting of the Investment Committee will be on October 11th.

MOTION made by T. Cook 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 T. Cook to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by T. Shaw to approve the recommendation of the Investment Committee to resume the Securities Lending program at Northern Trust under a more conservative approach under the terms negotiated by Ashford Consulting Group.

MOTION ADOPTED UNANIMOUSLY

MOTION made by H. Foster and seconded by N. Shevock to approve the recommendation of the Investment Committee to commit \$25 million to Atalaya Special Opportunities Fund IV pending a satisfactory review of June 30, 2011 valuations and the December 31, 2010 audited financial statements and legal review of the documents.

MOTION ADOPTED UNANIMOUSLY

5. PENSION ADVISORY COUNCIL REPORT

There was no report.

6. STATE PENSION ADMINSTRATOR'S REPORT

Legislative Recap

SB 30 Civil Union – This act creates the recognized legal relationship of civil union in Delaware for eligible persons. Parties, who enter into a lawful civil union in Delaware or are recognized under Delaware law, will have the same rights, benefits, protections and responsibilities as married persons under Delaware law. This law becomes effective January 1, 2012. The Pension Office is currently working on implementing procedural and operational changes to provide civil union benefits beginning in January of 2012.

HB 81 Pension Health Reform – Provides for a new tier of pension benefits and health insurance benefits relating to the State Employees' Pension Plan. All pension changes are effective for employees hired after January 1, 2012. Certain health provisions are effective on different schedules. The Pension Office is currently working on implementing the new legislation.

SB140 – This amendment allows the assignment of benefits for funeral expenses. In addition, this amendment mandates the use of a form approved by the Board of Pension Trustees allowing the assignment of benefits. There have been discussions with funeral directors and D. Craik has been invited to attend the September meeting of the funeral directors. The Pension Office is addressing several tax compliance and tax reporting issues associated with the legislation, as well as implementing procedural and operational changes.

Request for Proposals

D. Craik reported that DPERS' will be preparing RFP's in January for the Custodian Bank and in March for the Actuary.

Media

D. Craik discussed the recent articles in The News Journal and the USA Today concerning DPERS' retirement system. Copies of the articles were made available to the Board members.

Pension Office Activities

The 2012 Board of Pension Trustees' meeting dates were presented by D. Craik. He also asked that the Trustees' sign up for at least three Pension Appeal Hearing dates for 2012.

Recently the Pension Office sent a mass email to all State employees in the State Employees' Pension Plan in regards to the upcoming fall Pre-Retirement Workshops. According to Kim Vincent, Deputy Pension Administrator, the feedback from the teachers was not good. Most were complaining that they cannot attend the workshops held during the day and were asking what they were supposed to do. Replies were sent explaining that we do have evening workshops held in the spring.

7. DEPUTY ATTORNEY GENERAL REPORT

C. Collins stated that the following are outstanding projects that she is continuing to work on:

- Cycle C Filing
- Private Letter Ruling – County/Municipal Police and Firefighters
- Proposed Correctional Officer Ruling – HB 164
- Funeral Directors Burial Benefit
- SB30 Civil Unions – language and technical issues
- Legislation for FY 2012

MOTION made by T. Shaw 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.

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
T. Cook to exit Executive Session.

8. PENDING ITEMS

There were no new pending items.

9. NEW BUSINESS

P. Reese discussed with the Board the possibility of having S. Grant serve on the Investment Committee.

10. ADJOURNMENT

The next Pension Board meeting is scheduled to be held on October 28, 2011, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 12:05 p.m. there being no further business,
MOTION was made by T. Shaw and seconded
by T. Cook to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Philip Reese
Chair for the Board of Pension Trustees