

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF NOVEMBER 16, 2012

The meeting of the Board of Pension Trustees was called to order by S. Grant, at 9:03 a.m. in Delaware Conference Room in the Pension Office.

Trustees Present

Suzanne Grant
Ann Visalli
Nancy Shevock
Tom Shaw
Tom Cook
Arturo Agra
Helen Foster

Trustees Absent

Others Present

Dave Craik, Pension Office
Kim Vincent, Pension Office
Cindy Collins, DAG
Terri Timmons, Pension Office
Wade Sallings, Pension Office
Kathy Kunkle, Pension Office
Jeff Hoover, Pension Office
Rob Gooderham, Ashford Consulting Group
Joe Malloy, PAC
Charlotte Lister, PAC
Jim Testerman, PAC
Joseph Seibert, KPMG
Sophia Smith, KPMG
Courtney Stewart, Controller General's Office

1. **OPENING COMMENTS**

The meeting of the Board of Pension Trustees was called to order by Suzanne Grant.

2. **APPROVAL OF THE MINUTES**

The Trustees reviewed the Public Minutes of the October 16, 2012 meeting.

MOTION made by T. Shaw and seconded by T. Cook to approve the Public Minutes of the October 16, 2012 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the October 16, 2012 meeting.

MOTION made by A. Agra and seconded by T. Cook to approve the Executive Minutes of the October 16, 2012 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. **AUDIT COMMITTEE REPORT**

S. Grant introduced Joseph Seibert, Lead Engagement Partner, and Sophia Smith, Senior Manager, of KPMG's Client Service Team.

J. Seibert reviewed the results of the Fiscal Year 2012 Audit. The audit primarily focuses on DPERS' financial and investment activities but includes an overview of other significant operational functions in order to confirm that activities are consistent. He thanked management and 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
- 137 Participating Employers
- New Retirement & Contribution requirements
- Funded status of Plans
- Schedule of Employer's Annual Required Contributions; 100% contribution helps plan stay financially stable

A discussion was held by the Board with questions to J. Seibert pertaining to the highlighted areas of the audit.

MOTION made by T. Shaw 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 H. Foster and seconded by N. Shevock to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

J. Seibert reported that the Governmental Accounting Standards Board (GASB) issued two new statements, in June of 2012, that will change how state and local governments report and account for the pension liabilities.

- Amendment of GASB Statement No. 67: relates to reporting by the pension plans that administer those benefits through qualified trusts, effective for fiscal year 2014.
- Amendment of GASB Statement No. 68: relates to reporting by governments (“employers”) that provide pension benefits effective for fiscal year 2015, and

4. INVESTMENT COMMITTEE REPORT

Investment Committee Performance Report as of 10/31/12

| <u>Fund</u> | <u>Oct-12</u> | <u>Fiscal Year To Date</u> | <u>12-Month</u> |
|----------------------------|---------------|----------------------------|-----------------|
| Total Fund | (0.2)% | 3.5% | 8.9% |
| S & P 500 Index | (1.8)% | 4.4% | 15.2% |
| 60/35/5* | (1.0)% | 3.4% | 11.9% |
| Delaware | (0.4)% | 4.2% | 9.1% |
| 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 at the end of October totaled \$7,681MM. The Fund's October return of -0.2% modestly outperformed the Delaware Benchmark return. The calendar year-to-date return of 10.4% for the total Fund is 0.6 percentage points ahead of the Delaware Benchmark. For the one year period, the total Fund is up 8.9%, 0.2% behind of the Delaware Benchmark.

With the quarter earnings reports indicated slightly negative revenue growth. Further as anxiety grew about the "Fiscal Cliff", equity markets experienced negative returns in the month of October. The S&P 500 was down 1.8%, while small cap stocks, as measured by the Russell 2000, declined 2.2%. Buoyed mainly by currency moves, international stocks experienced positive returns with the MSCI EAFE international stock index up 0.8%. The broader MSCI All-Country World ex-U.S. stock index (which includes emerging markets) gained 0.4% in October. Fixed income market returns were also modestly positive in October. The Barclays Universal Bond Index was up 0.3%, while the JP Morgan Global High Yield index gained 0.8% in October. The Barclays TIPS index gained 0.9% for the month.

The Investment Committee has met twice since the last Board meeting.

At the Investment Committee meeting held on November 2, 2012 (rescheduled from October 30th due to Hurricane Sandy), the Investment Committee received a presentation from existing manager Focused Investors.

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

At the Investment Committee meeting held on November 13, 2012, the Investment Committee met with manager Bares Capital, reviewing its small cap equity strategy. The Investment Committee also reviewed third quarter reporting for the Fund, the private equity program, derivative positions and the Volunteer Firefighters' Fund.

The Investment Committee recommended that the Board approve the following actions:

- Commit \$50 million to a new equity account with Bares Capital, funded with \$25 million from the Mellon Non-Securities Lending S&P 500 index fund, and \$25 million from the Oaktree Domestic Convertible account.
- Commit \$40 million to Lightstone Ventures, L.P/ subject to approval of documents by counsel.

The next meeting of the Investment Committee will be on December 11, 2012.

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

MOTION ADOPTED UNANIMOUSLY

MOTION made by S. Grant and seconded by A. Agra to commit \$50 million to a new equity account with Bares Capital, funded with \$25 million from the Mellon Non-Securities Lending S&P 500 index fund, and \$25 million from the Oaktree Domestic Convertible account.

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by T. Cook to commit \$40 million to Lightstone Ventures, L.P. subject to approval of documents by counsel.

MOTION ADOPTED UNANIMOUSLY

5. PENSION ADVISORY COUNCIL REPORT

J. Malloy reported that the annual election for PAC members was held in November. J. Malloy was nominated and approved to remain the Chair; Wayne Emsley was nominated and approved as the 1st Vice Chair; and Charlotte Lister was nominated and approved as the 2nd Vice Chair.

6. STATE PENSION ADMINISTRATOR'S REPORT

D. Craik announced that the Board Holiday Luncheon would be held after the Board meeting on December 14th at approximately 11:30. The Medical Committee will also be attending the Board meeting and then be dismissed for their regular committee meeting.

D. Craik announced the resignation of Joanna Adams, who is the current Strategic Information Systems Manager, on January 1, 2013. Ms. Adams has been hired by the Seaford School District as their Chief Operating Officer. D. Craik stated that Ms. Adams will be very much missed as part of the Pension Office Management team.

7. **DEPUTY ATTORNEY GENERAL REPORT**

QEBA

C. Collins has submitted a Private Letter Ruling Request to the IRS for the Qualified Excess Benefit Arrangement Trust (“QEBA Trust”).

MOTION ADOPTED UNANIMOUSLY

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

MOTION ADOPTED UNANIMOUSLY

8. **PENDING ITEMS**

There were no pending items.

9. **NEW BUSINESS**

There was no new business.

10. **ADJOURNMENT**

The next Pension Board meeting is scheduled to be held on December 14, 2012, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 11:44 p.m., there being no further business,
MOTION was made by S. Grant and
seconded by N. Shevock to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Suzanne B. Grant
Chair for the Board of Pension Trustees