

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF JULY 27, 2012

The meeting of the Board of Pension Trustees was called to order by S. Grant, at 9:00 a.m. in Conference Room 133 in the Haslet Armory.

Trustees Present

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

Trustees Absent

Others Present

Dave Craik, Pension Office
Cindy Collins, DAG
Terri Timmons, Pension Office
Wade Sallings, Pension Office
Rob Gooderham, Ashford Consulting Group
Joe Malloy, PAC
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 June 22, 2012 meeting.

MOTION made by N. Shevock and seconded by T. Shaw to approve the Public Minutes of the June 22, 2012 Board of Pension Trustees' meeting with noted changes.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the June 22, 2012 meeting.

MOTION made by T. Shaw and seconded by T. Cook to approve the Executive Minutes of the June 22, 2012 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. INVESTMENT COMMITTEE REPORT

Investment Committee Performance Report as of 6/30/12

<u>Fund</u>	<u>Jun-12</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	2.6%	2.0%	2.0%
S & P 500 Index	4.1%	5.4%	5.4%
60/35/5*	2.5%	6.8%	6.8%
Delaware	2.8%	1.8%	1.8%
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 June totaled \$7,513MM. The Fund's June return of 2.6% slightly lagged the Delaware Benchmark return. The calendar year-to-date return of 6.7% for the total Fund is 1.3 percentage points ahead of the Delaware Benchmark. For the fiscal year and one year period, the total Fund is up 2.0%, 0.2% ahead of the Delaware Benchmark.

Equity markets rebounded in the month of June. The S&P was up 4.1% while small cap stocks, as measured by the Russell 2000, gained 4.0%. International stocks also were strong with the MSCI EAFE international stock up 7.0%. The broader MSCI All-Country World ex-U.S. stock index (which includes emerging markets) gained 5.9% in June. Fixed income market returns were mixed in June with credit outperforming Treasury indices. The Barclays Universal Bond Index was

up 0.3%, while the JP Morgan Global High Yield index gained 2.0% for the month. The Barclays TIPS index declined 0.6% in June.

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

At the Investment Committee meeting on June 26th, the Investment Committee heard a presentation from Brown Brothers Harriman and also heard a presentation from existing manager Angelo Gordon.

The Investment Committee voted to recommend a poll vote of the Board approving an allocation of \$100 million to a new equity account managed by Brown Brothers Harriman to be managed in their Core Select strategy.

Following an asset allocation discussion, the Investment Committee unanimously voted to recommend a poll vote of the Board to approve the following actions:

- Withdraw \$100 million from the T. Rowe Price Global equity account
- Withdraw \$50 million from the Axiom Global equity account
- Withdraw \$100 million from the T. Rowe Price High Yield account using cross trading opportunities to minimize transaction costs'
- Invest an additional \$150 million in the Brown Brothers Harriman domestic equity account
- Invest an additional \$50 million in the T. Rowe Price Institutional Floating Rate (senior loan) account
- Invest an additional \$50 million in the Mellon Capital Aggregate Bond Index Fund account

The Investment Committee voted to recommend to the Board the redemption of the balance of the Fund's investment in the Oaktree Emerging Markets Absolute Return Fund.

The Investment Committee, under its authority to transfer securities for liquidation or write off to an investment manager, voted to approved transfer of shares in Converse Technology to the T. Rowe Price Distribution Management account.

At the Investment Committee meeting on July 17th, the Investment Committee heard a presentation from existing manager Oaktree and reviewed the Fund's international convertible account.

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. Cook and seconded by T. Shaw to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by H. Foster and seconded by A. Agra to ratify the poll vote approving an allocation of \$100 million to a new equity account managed by Brown Brothers Harriman to be managed in their Core Select strategy.

MOTION ADOPTED UNANIMOUSLY

4. **AUDIT COMMITTEE REPORT**

H. Foster and D. Craik met with Ashford Consulting Group for a briefing on non-traditional investments to better understand valuations and procedures with respect to limited partnerships and other alternative investments based on questions and conversation in the May Audit Committee meeting.

H. Foster stated that KPMG had mailed out the Conflict of Interest letters and requested they be signed and returned as soon as possible.

The next meeting of the Audit Committee will be held in August or September. The Audit Committee will meet with KPMG for an update on the First State Financials and the Pension Office General Ledger system. The Audit Committee plans to meet with other professionals to see if updates are needed for the General Ledger system to stay on the cutting edge of technology.

5. **PENSION ADVISORY COUNCIL REPORT**

Joe Malloy was pleased with the recent legislation that was passed including the retirees receiving a 1% increase.

6. **STATE PENSION ADMINISTRATOR'S REPORT**

D. Craik announced that Nancy Shevock was reconfirmed as a Board of Pensions Trustee.

Legislation

- HB 164 - This bill permits employees who are employed in positions that are classified as Hazardous Duty Level A-1 to retire at 25 years without any reduction in pension benefits.

Those employees will pay a higher employee contribution rate. The bill is subject to a Private Letter Ruling by the Internal Revenue Service. If approved those employees would begin paying a higher contribution rate the first of the following year after the approval. Employees may begin to retire under this provision once they have been contributing under the new provisions for two years.

This bill was passed and signed by the Governor but is still awaiting a Private Letter Ruling from the IRS.

- HB 376 - This bill increases the percentage from $\frac{1}{4}$ to $\frac{1}{2}$ of one percent the premium tax on insurance policies and uses those proceeds to fund the pension and medical coverage pension plans for retired state, county and municipal police officers and firefighters, including a health insurance benefit for dependent survivors of plan members killed in the line of duty.

There has been no action on this bill.

- HB 387 - This Act relates to police and fire pension funds created under Title 18 of the Delaware Code. The General Assembly created a special fund in the hopes of ensuring adequate pensions for affected police officers and firefighters, and their surviving spouses. To address this, the Act would allow for an additional manner of providing distributions from the related special fund established for Police and Fire pensions. Specifically, disbursements from the fund to be made pursuant to this Act would be biennial and structured in three (3) categories. The three (3) categories are based upon length of retirement and whether the eligible individual is a surviving spouse.

This bill has passed but has not been signed by the Governor.

- HB 327 - This bill is the result of recommendations made by the Joint Sunset Committee and revises the definition of "Employee" under the State Pension Plan so that individuals appointed by the Governor to a board, council or commission after June 30, 2012, will no longer be considered "regular part-time" employees under the Plan.

This bill passed the House but not the Senate.

- SB 192 - This bill ensures that the surviving family of a County/Municipal Police/Firefighter member who has died in the line of duty receives a survivor's pension equal to three-quarters of the officer's compensation.

This bill passed both the House and the Senate.

- SB 279 – PRI was passed in both the House and Senate and signed by the Governor.

This bill passed both the House and the Senate and is waiting for the Governor to sign.

MOTION made by T. Cook and seconded by A. Agra to authorize the transfer of \$3.8 million to the City of Wilmington for payment to the police/firefighter pensioners as outlined in HB387, pending the Governor's signature.

MOTION ADOPTED UNANIMOUSLY

D. Craik also stated that the Return to Work language pertaining to casual seasonal employee's earnings limits was set for up to \$19,240. The break in service was also codified at six months.

Pension Office Activities

D. Craik stated that the FY12 quarterly statistics showed an increase in the incoming phone calls and refunds from the previous quarter.

The Disability 4th quarter statistics show the Pension Office has 5 new cases and 45 continuance cases at this time.

Port of Wilmington

D. Craik and C. Collins met with the Port of Wilmington in reference to changes to their pension plan. The meeting was very productive and it was found that the communication between the Port and their employees could be improved.

7. **DEPUTY ATTORNEY GENERAL REPORT**

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 H. Foster and seconded by T. Cook to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by H. Foster and seconded by T. Shaw to accept the decision of the Hearing Officers to deny the appeal of Robert A. Lewis, who was seeking a reversal of a determination of the Pension Office that pension benefits in the amount of \$25,610.58 are repaid to the Delaware State Employees' Pension Plan.

MOTION ADOPTED UNANIMOUSLY

MOTION made by H. Foster and seconded by T. Shaw to accept the decision of the Hearing Officers to deny the appeal of Shirley E. Roccia, who was seeking a reversal of a determination of the Pension Office that pension benefits in the amount of \$21,266.40 are repaid to the Delaware State Employees' Pension Plan.

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 September 28, 2012, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 11:16 a.m., there being no further business, MOTION was made by N. Shevock and seconded by S. Grant to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Suzanne B. Grant
Chair for the Board of Pension Trustees